



**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

**EVALUATION REPORT**

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# **Economic Impact of Immigrants**

**MAY 2006**

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PROGRAM EVALUATION DIVISION  
Centennial Building – Suite 140  
658 Cedar Street – St. Paul, MN 55155  
Telephone: 651-296-4708 • Fax: 651-296-4712  
E-mail: [auditor@state.mn.us](mailto:auditor@state.mn.us) • Web site: <http://www.auditor.leg.state.mn.us>

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## Evaluation Staff

James Nobles, *Legislative Auditor*

Joel Alter  
Valerie Bombach  
David Chein  
Jody Hauer  
Adrienne Howard  
Daniel Jacobson  
Deborah Junod  
Carrie Meyerhoff  
John Patterson  
Judith Randall  
Jan Sandberg  
Jo Vos  
John Yunker

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

May 2006

Members of the Legislative Audit Commission:

Immigration is a topic of controversy across the nation. Although the federal government has primary responsibility for setting immigration policy and enforcing immigration laws, state and local government officials have considerable interest in the impact immigrants have on their economies and budgets.

In response to your request, the Office of the Legislative Auditor (OLA) examined the economic impact immigrants are having in Minnesota. With limited time and staff to devote to the study, our primary goal was to provide legislators with an accurate summary of existing economic research on the impact of immigrants. Although most of these studies focus on national impacts, we think they provide useful insights when interpreted carefully and in relation to the demographic characteristics of Minnesota's immigrant population.

This report was researched and written by Joel Alter, with assistance from Jan Sandberg and John Yunker.

Sincerely,

A handwritten signature in black ink that reads "Jim Nobles". The signature is fluid and cursive.

James Nobles  
Legislative Auditor



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# Summary

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**Studies show that immigration probably has positive economic impacts overall, although certain workers and levels of government might experience adverse impacts.**

In the 2000 census, immigrants comprised 5 percent of Minnesota's population and 11 percent of the nation's population.<sup>1</sup> But Minnesota's immigrant population grew more rapidly than the nation's in recent years, leading to questions about immigrants' financial impacts.

This study examined what previous research has shown about (1) the economic impact of immigrants on non-immigrants, and (2) the impact of immigrants on government costs and revenues. The study did not conduct original research on the impact of Minnesota's immigrants.

## **Immigration May Reduce The Wages Of Some U.S.-Born Workers, But Studies Suggest These Impacts Are Offset By Economic Benefits**

Immigration increases the supply of workers in the American economy. Some studies have estimated that this has adverse impacts on the wages of certain U.S.-born workers, particularly those who compete for the same jobs as immigrants.

However, there remains disagreement among reputable researchers about the size of these wage impacts. Some analyses suggest that immigration has reduced wages of non-immigrant men without high school diplomas by more than 7 percent in the short run, while

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<sup>1</sup> In this report, the term "immigrants" refers to people residing in the U.S. who were born in another country, including both U.S. citizens and noncitizens.

other analyses have concluded that the wage impacts have been negligible.

Meanwhile, most studies suggest that any adverse wage impacts are offset by the economic benefits of immigration—including more efficient use of labor, lower prices, and increased economic activity. Economists have usually concluded that, in aggregate, non-immigrants are slightly better off economically due to immigration. Individually, however, some workers probably experience net losses due to immigration, while others experience net gains.

## **Research Indicates That Immigrants Will Typically Benefit Taxpayers Over The Long Term, Although Costs Could Exceed Revenues For State And Local Governments**

Immigrants have impacts on government revenues and expenditures. They pay federal, state, and local taxes but also use a variety of publicly-funded services, such as roads, schools, and health care.

In 1997, the National Research Council conducted a comprehensive analysis of immigration's fiscal impacts, and this remains the best study of this topic to date. The council's analysis considered impacts on all levels of government, and it looked at immigrants' fiscal impacts over the long term, not just on an annual basis.

The council concluded that, in aggregate, new immigrants were likely

to have positive impacts on government budgets over the long term—that is, immigrants' tax revenues would typically exceed their public costs. However, the federal government was more likely to benefit from immigration than state and local governments. The council also found that immigrants with high school or college educations were more likely to have positive impacts on government finances, while less-educated immigrants would probably cost governments more over the long term than the taxes they paid.

There is little compelling evidence to suggest that the impacts of Minnesota's immigrants on taxpayers would be less positive than those suggested by such national analyses. Minnesota's immigrants tend to be somewhat younger and better educated than immigrants nationally, suggesting greater potential for earnings and tax revenues over time.

The long-term impact of immigrants on taxpayers depends considerably on the earnings of immigrants' children and grandchildren, and this may depend on their success in Minnesota's schools. Statewide data on students' educational performance do not identify which students were born outside the U.S., but there is room for improvement in the performance of Minnesota students in some racial and ethnic groups (such as Hispanics) that include substantial numbers of immigrants.

### **The Overall Economic Impacts Of Illegal Immigrants In Minnesota Are Largely Unknown**

There has been considerable speculation about the impact of illegal immigrants on Minnesota's economy and its taxpayers. However, firm conclusions cannot be drawn from existing information and research.

First, there have been several estimates of the number of illegal immigrants in Minnesota, but state

demographic officials do not view any of these as definitive. There is also a lack of good information on the age, education, and other characteristics of illegal immigrants. As a result, it is difficult to estimate the economic impact of these immigrants in Minnesota.

Second, previous studies have not provided a comprehensive accounting of the benefits and costs of illegal immigrants in Minnesota. For example, a 2005 study by the Minnesota Department of Administration estimated the additional public costs due to illegal immigrants but did not estimate the additional tax revenues they generate.

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# Economic Impact of Immigrants

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The United States has often been described as a “nation of immigrants,” partly reflecting the important roles played by immigrants in the early history of the nation. Immigrants today comprise a smaller share of the nation’s population than they did a century ago. Still, about one million people legally immigrate to the U.S. each year, in addition to people who enter the country without proper authorization.<sup>1</sup>

In April 2005, the Legislative Audit Commission directed the Office of the Legislative Auditor to evaluate eligibility determination of noncitizens for public assistance programs.<sup>2</sup> The commission also requested a companion study that would examine the economic impacts of immigrants, partly to provide a broader context for legislative discussions of immigration issues. This second immigrant-related study addresses the following questions:

- **What does existing research show about the economic impacts of immigrants?**
- **What does existing research show about the impact of immigration on government costs and revenues?**
- **Are there reasons to think that the economic or fiscal impacts of immigration in Minnesota might be significantly different from those estimated in previous studies?**

To address the first two questions, we collected and reviewed previous studies that have examined immigration’s economic and fiscal impacts. We did not conduct our own analysis of immigration’s economic and fiscal impacts, nor did we examine the social impacts associated with immigration and cultural diversity. To address the third research question, we examined demographic data regarding the characteristics of the immigrant populations in Minnesota and the nation as a whole.

Throughout this report, we use the term “immigrants” to mean people residing in the U.S. who were born in another country. Some immigrants are U.S. citizens,

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<sup>1</sup> According to data presented in U.S. Department of Homeland Security, Office of Immigration Statistics, *2004 Yearbook of Immigration Statistics* (Washington, D.C., January 2006), 5, the number of people granted “lawful permanent residence” in the U.S. between 2001 and 2004 averaged 945,000 per year.

<sup>2</sup> Our report on this topic (*Public Health Care Eligibility Determination for Noncitizens*) was issued in April 2006.

and some are not. One section of this report discusses immigrants who have not been lawfully authorized to reside in the United States, but much of the research and demographic data we reviewed did not distinguish between foreign-born residents who immigrated legally and those who did not.

## MINNESOTA'S IMMIGRANT POPULATION

Census data indicate that:

- **Immigrants comprise a smaller proportion of the total population in Minnesota than in the nation as a whole.**

According to the 2000 U.S. census, there were about 260,000 immigrants living in Minnesota. Immigrants comprised 5.3 percent of Minnesota's population and 11.1 percent of the nation's population.<sup>3</sup> In 2000, Minnesota's percentage of immigrants in its population ranked 24<sup>th</sup> highest among the 50 states.<sup>4</sup>

A growing number of people have immigrated to the United States in recent years. For example, the average annual number of people who legally immigrated to the U.S. between 1990 and 2004 was 127 percent higher than the average during the 1970s and 284 percent higher than the average during the 1950s.<sup>5</sup> Minnesota has also experienced growth in its immigrant population. In fact,

- **Minnesota's immigrant population grew more rapidly during the 1990s than the nation's.**

Between 1990 and 2000, the number of immigrants grew 130 percent in Minnesota, compared with an increase of 57 percent nationally.<sup>6</sup> Minnesota's 1990-2000 rate of growth in its immigrant population was the 12<sup>th</sup> highest among the states. Minnesota's influx of immigrants has continued since 2000, with the U.S. Census Bureau estimating that about 71,000 of Minnesota's total population increase of 213,000 between 2000 and 2005 was due to "international migration."<sup>7</sup>

<sup>3</sup> U.S. Census Bureau, *The Foreign-Born Population: 2000* (Washington, D.C., December 2003), 3. The Census Bureau's American Community Survey estimated that foreign-born residents comprised 6.1 and 12.0 percent of Minnesota's and the nation's 2004 populations, respectively, although these estimates have wider margins of error than those from the decennial census. The Census Bureau's population estimates do not distinguish between legal and illegal immigrants.

<sup>4</sup> *Ibid.*

<sup>5</sup> Minnesota Office of the Legislative Auditor analysis of data from U.S. Department of Homeland Security, *2004 Yearbook of Immigration Statistics*, 5.

<sup>6</sup> *Ibid.*

<sup>7</sup> U.S. Census Bureau, "Table 4: Cumulative Estimates of the Components of Population Change for Counties of Minnesota: April 1, 2000 to July 1, 2005," <http://www.census.gov/popest/counties/CO-EST2005-04.html>, accessed April 6, 2006. About 161,000 of the increase was due to the natural increase in the population (births exceeding deaths), and there was a net outflow of nearly 17,000 due to domestic migration.

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**About 5 percent of Minnesota's residents in 2000 were born in countries other than the United States.**

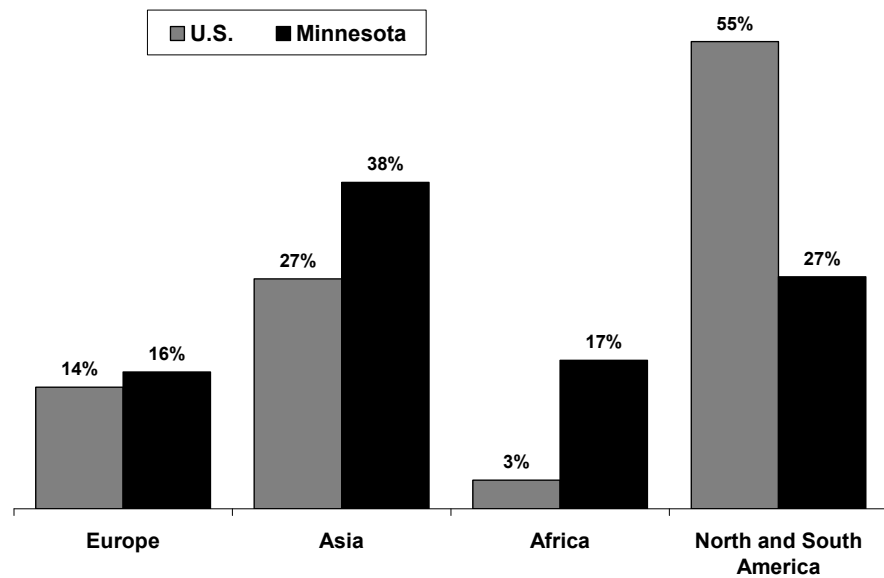
In the following sections, we highlight some key differences between the immigrant population in Minnesota and in the U.S. as a whole. These differences provide background for the later discussions of immigration’s economic and fiscal impacts.

## Country of Origin

Figure 1 shows that, to a large degree, Minnesota’s immigrants come from different parts of the world than immigrants in the nation as a whole. Specifically,

- **Minnesota’s immigrant population has a larger share of Asian and African residents and a smaller share of Latino residents than the immigrant population in the nation as a whole.**

**Figure 1: Continent of Birth for Immigrants in the U.S. and Minnesota, 2004**



The composition of Minnesota’s immigrant population is somewhat different from the nation’s.

SOURCE: U.S. Census Bureau, 2004 American Community Survey.

An estimated 55 percent of the United States’ immigrant population in 2004 was originally from North or South America, compared with only 27 percent of Minnesota’s immigrant population. Mexico alone accounted for an estimated 30 percent of the nation’s immigrant population and 14 percent of Minnesota’s immigrant population. Other Latin American countries accounted for 22 percent of the U.S. immigrant population and 10 percent of Minnesota’s immigrant population. Meanwhile, the proportions of foreign-born Minnesota residents

who were from Asia (38 percent) and Africa (17 percent) were much larger than the proportions of immigrants from these continents in the nation as a whole.<sup>8</sup>

In the 2000 census, the countries of birth of the largest number of Minnesota's foreign-born residents were Mexico (41,592), Laos (25,968), and Vietnam (15,727).<sup>9</sup> But the countries that account for the largest number of *new* immigrants change somewhat from year to year. In the most recent year for which data were available (2004), the largest numbers of international immigrants to Minnesota came from Somalia (1,445), Ethiopia (798), India (707), Mexico (692), and the Philippines (569).<sup>10</sup>

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**In recent years, refugees have been a sizable part of Minnesota's immigrant population.**

People who are fleeing persecution in their home countries represent a significant share of Minnesota's immigrant population. In recent years, refugees and asylees have typically accounted for between one-fourth and one-half of the state's annual number of new immigrants.<sup>11</sup> In contrast, refugees are a much smaller part of the nation's new immigrant population (about 8 percent in 2004). Minnesota's number of new refugees jumped to 7,345 in 2004, well above the annual average of 2,833 from the previous five years.<sup>12</sup>

## Age

The age of immigrants can have important implications for their impact on taxpayers. For example, foreign-born children living in Minnesota are subject to the state's compulsory education laws, and public schools provide K-12 education to many foreign-born children (as well as the U.S.-born children of immigrants). Census data indicate that:

- **Children comprise a larger part of the immigrant population in Minnesota than in the nation as a whole.**

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<sup>8</sup> U.S. Census Bureau, 2004 American Community Survey, Table B05006, "Place of Birth for the Foreign-Born Population."

<sup>9</sup> U.S. Census Bureau, Census 2000 Summary File 3, Table PCT19, "Place of Birth for the Foreign-Born Population."

<sup>10</sup> U.S. Census Bureau, 2004 American Community Survey, Table B05006, "Place of Birth for the Foreign-Born Population."

<sup>11</sup> Barbara J. Ronningen, *Immigrants in Minnesota: An Increasingly Diverse Population* (St. Paul: Minnesota State Demographic Center, December 2000), 3, notes that the percentage ranged from 24 to 46 percent between 1987 and 1998. In 2004, the number of refugees entering Minnesota was 50 percent of the state's total number of new immigrants, according to data from the U.S. departments of Homeland Security and Health and Human Services.

<sup>12</sup> Minnesota Department of Health, "Refugee Health Program: Primary Refugee Arrivals to Minnesota (Notifications Received by MDH), 1979-2004," <http://www.health.state.mn.us/divs/idepc/refugee/states/refcummm.pdf>, accessed April 3, 2006. The 2004 refugees included 3,257 Hmong refugees from Laos and 2,322 refugees from Somalia. These refugees were not reported in the 2004 national data on the number of authorized international immigrants; most will probably be reported in the 2005 data.

As shown in Table 1, 17 percent of Minnesota’s 2000 immigrant population was under age 18, compared with 10 percent nationally.<sup>13</sup> In addition, Minnesota’s immigrant population had a higher percentage of large families than did immigrants nationally. In 2000, 10 percent of Minnesota’s immigrant households with children had at least five children, compared with 4 percent nationally.<sup>14</sup>

**Minnesota’s immigrant population is somewhat younger than the nation’s.**

**Table 1: Age Distribution of Minnesota and U.S. Immigrant Populations, 2000**

| Age Group    | Percentage of Immigrants per Age Group |        |
|--------------|--|--------|
|              | Minnesota                              | U.S.   |
| Under 12     | 8.8%                                   | 5.0%   |
| 12 to 17     | 8.3                                    | 5.3    |
| 18 to 24     | 14.2                                   | 11.4   |
| 25 to 34     | 25.2                                   | 22.5   |
| 35 to 44     | 18.2                                   | 21.5   |
| 45 to 64     | 17.3                                   | 23.7   |
| 65 and older | 8.0                                    | 10.7   |
|              | 100.0%                                 | 100.0% |

NOTE: “Immigrants” includes all people living in Minnesota or the U.S. who were born in a foreign country.

SOURCE: Office of the Legislative Auditor analysis of data from U.S. Census Bureau, Census 2000 Sample Data File.

Adults who are in their prime working years are important revenue generators for federal, state, and local governments, particularly through earnings-related taxes and sales taxes related to consumer purchases. One analyst observed that the concentration of immigrants in “youthful labor-force ages” has consistently been the immigrant characteristic that is most directly related to immigration’s economic effects.<sup>15</sup> Data indicate that:

- **The immigrant population consists mostly of working-age people, and Minnesota’s population of adult immigrants is somewhat younger than the population of adult immigrants nationally.**

In 2000, 75 percent of Minnesota’s immigrant population was between the ages of 18 and 64.<sup>16</sup> As shown in Table 1, Minnesota exceeded the nation as a whole

<sup>13</sup> This partly reflects the fact that, compared with the nation as a whole, a larger portion of Minnesota’s immigrant population arrived in the U.S. during the 1990s. However, even among foreign-born residents who entered the U.S. between 1990 and 2000, children under 18 comprised 26 percent of Minnesota’s immigrant population, compared with 21 percent for the U.S.

<sup>14</sup> U.S. Census Bureau, Census 2000 Sample Data File.

<sup>15</sup> Julian L. Simon, *Immigration: The Demographic and Economic Facts* (Washington, D.C.: Cato Institute and National Immigration Forum, December 1995), 3.

<sup>16</sup> Minnesota’s foreign-born population included a higher proportion of working-age persons than the native-born population. In 2000, 62 percent of Minnesota’s native-born population was between the ages of 18 and 64.

in its shares of the immigrant population that were in the 18 to 24 and 25 to 34 age groups. Meanwhile, Minnesota's percentage of the immigrant population in the 35 to 64 age range was smaller than that of the U.S.

Public costs for programs such as Social Security and Medicare are affected by the number of elderly people in the population. In 2000, people age 65 and older comprised 8 percent of Minnesota's immigrant population, compared with 11 percent of the nation's immigrant population.

## Employment, Income, and Poverty Status

Most adult immigrants are in the labor force—that is, they are employed or actively seeking employment. Nationally, 71 percent of immigrants ages 25 to 54 were in the labor force in 2000, compared with 75 percent in Minnesota.<sup>17</sup>

In both the nation as a whole and in Minnesota, most immigrants who were in the labor force were employed. According to the 2000 census, 94.3 percent of Minnesota immigrants in the labor force were employed, compared with 93.2 percent nationally.<sup>18</sup> The manufacturing industry employed the largest proportion of immigrant workers, accounting for 25 percent of the immigrant workers in Minnesota and 17 percent nationally.

The 2000 census also indicated that:

- **Minnesota's immigrant population had higher median earnings than the immigrant population nationally, but it also had a higher poverty rate.**

For our analysis of earnings, we focused on immigrants who were employed in full-time work. Minnesota's immigrants who were full-time workers had median earnings that were higher than comparable immigrant workers in the nation as a whole—about 7 percent higher for males and 5 percent higher for females. This may reflect opportunities for higher earnings that Minnesota workers, in general, appear to have. For example, full-time workers in Minnesota's general population had annual earnings in 2000 that were higher than comparable workers in the U.S.—about 7 percent higher for males and 5 percent higher for females.

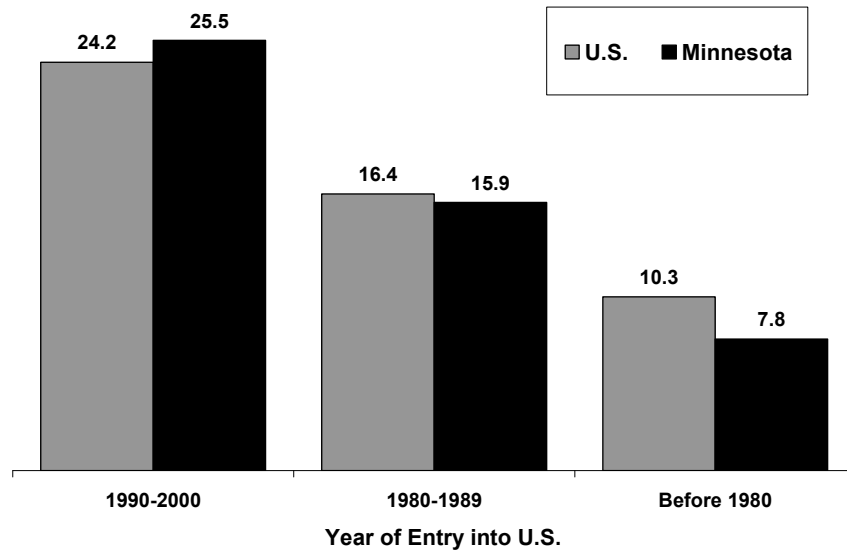
Although Minnesota immigrants had higher median earnings than their counterparts nationally, Minnesota immigrants were more likely to live in households with incomes below the federal poverty line. The poverty rate for Minnesota's immigrants was 19.5 percent, compared with 17.9 percent for the U.S. Minnesota's higher poverty rate appears to have partly reflected the relatively high percentage of recent arrivals among the state's immigrant population. As shown in Figure 2, at both the national and state levels, immigrants who came to the U.S. during the 1990s were much more likely to live in poverty than people who came to the U.S. in earlier years.

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<sup>17</sup> Among immigrants ages 25 to 54, Minnesota had higher labor force participation rates for men (82 percent vs. 80 percent) and women (66 percent vs. 61 percent) than the nation as a whole.

<sup>18</sup> These percentages are based only on people age 16 and older.

**Figure 2: Percentage of Immigrants Living in Households with Incomes Below the Federal Poverty Line in 1999, by Year of Immigration**



**Immigrants who have lived in the U.S. for a long time are less likely to be poor than recent immigrants.**

SOURCE: Office of the Legislative Auditor analysis of data from U.S. Census Bureau, Census 2000 Sample Data File.

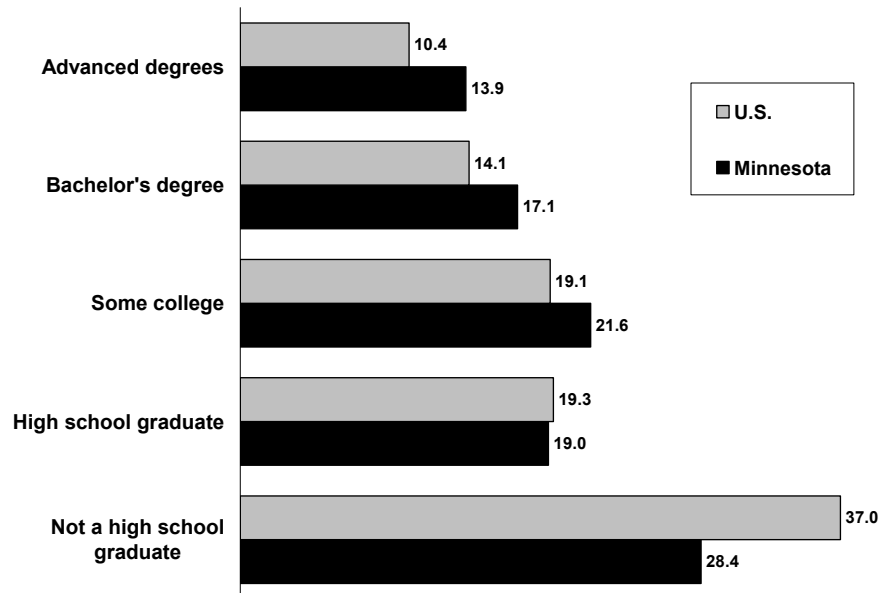
## Education

Later in this report, we note that national research has found a relationship between immigrants’ levels of educational achievement and their long-term fiscal impacts. On average, better-educated immigrants (and their descendants) have been more likely than other immigrants to produce public revenues that exceed their public costs. Our review of census data indicated that:

- **Minnesota’s immigrant population in 2000 was better educated, on average, than the nation’s immigrant population.**

Figure 3 shows that 28 percent of Minnesota’s immigrant population over age 24 did not have a high school diploma, compared with 37 percent nationally. Meanwhile, 53 percent of Minnesota’s immigrant adults had completed at least some college, compared with 44 percent nationally.

**Figure 3: Educational Achievement of Immigrants Over Age 24, 2000**



**High school drop-outs are a smaller share of the adult immigrant population in Minnesota than in the nation.**

SOURCE: Office of the Legislative Auditor analysis of data from U.S. Census Bureau, Census 2000 Sample Data File.

## Citizenship Status

Many immigrants eventually apply to become “naturalized” U.S. citizens. In 2000, 37 percent of Minnesota’s foreign-born residents were U.S. citizens, which was slightly lower than the nation as a whole (40 percent). This difference mainly reflected the fact that Minnesota’s foreign-born population included a larger proportion of recent immigrants than the foreign-born population nationally.<sup>19</sup>

## ECONOMIC IMPACT ON IMMIGRANTS

It is reasonable to assume that immigrants generally move to the United States because they believe they will be better off by doing so. Some seek opportunities to improve the financial well-being of themselves and their families, while others seek refuge from persecution in their home countries.

<sup>19</sup> Among people who entered the U.S. between 1990 and 2000, the percentage that were citizens in 2000 was 16 percent for Minnesota and 13 percent for the U.S. Among people who entered the U.S. between 1980 and 1989, the percentage that were citizens in 2000 was 51 percent for Minnesota and 45 percent for the U.S. Among people who entered the U.S. before 1980, the percentage that were citizens in 2000 was 78 percent for Minnesota and 74 percent for the U.S.

A study of immigration's economic impacts by the National Research Council noted that immigration's most direct effects are on "the immigrants themselves."<sup>20</sup> There has been little research on the specific economic gains that individual immigrants experience in the U.S., compared with their economic status prior to immigrating.<sup>21</sup> However, aggregate information about the living standards of immigrants' home countries can be used to draw reasonable conclusions about the likely impact of immigration. Recent data indicate that:

- **Most immigrants come to Minnesota from countries with much lower living standards than the United States.**

For example, Table 2 shows the estimated 2005 "gross domestic product" (GDP) per capita for individual countries from which Minnesota received at least 200 legal immigrants in 2004.<sup>22</sup> The United States' estimated GDP per capita was \$41,800, while the GDP per capita of all countries shown in Table 2 was \$10,700 or less. This suggests that, for many immigrants, the U.S. provides opportunities for higher earnings than the immigrants could receive in their home countries.

Census data indicate that the 1999 earnings of immigrants who lived in Minnesota totaled about \$5 billion. This represented 5.4 percent of Minnesotans' total earnings in 1999, as self-reported by individuals in the 2000 census.<sup>23</sup>

**Immigrants typically have opportunities for higher earnings in the U.S. than in their home countries.**

**Table 2: Gross Domestic Product per Capita for Select Countries from which Minnesota's 2004 Immigrants Came**

| Country                    | Number of Immigrants to Minnesota in 2004 | Gross Domestic Product (\$) per Capita |
|----------------------------|---|--|
| United States              | NA  | \$41,800                               |
| Somalia                    | 1,445                                     | 600                                    |
| Ethiopia                   | 798                                       | 800                                    |
| India                      | 707                                       | 3,400                                  |
| Mexico                     | 692                                       | 10,000                                 |
| Philippines                | 569                                       | 5,100                                  |
| Vietnam                    | 503                                       | 3,000                                  |
| Kenya                      | 488                                       | 1,200                                  |
| People's Republic of China | 489                                       | 6,200                                  |
| Liberia                    | 468                                       | 700                                    |
| Russia                     | 303                                       | 10,700                                 |

SOURCE: Minnesota State Demographic Center (number of immigrants); U.S. Central Intelligence Agency, *The World Factbook*, <http://www.cia.gov/cia/publications/factbook/rankorder/2004rank.html>, accessed March 27, 2006.

<sup>20</sup> National Research Council, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, ed. James P. Smith and Barry Edmonston (Washington, D.C.: National Academy Press, 1997), 7.

<sup>21</sup> *Ibid.*, 174.

<sup>22</sup> Gross domestic product is the value of all final goods and services produced within a nation in a given year. Economists often use this measure to compare nations' living conditions.

<sup>23</sup> R. Thomas Gillaspay, Minnesota State Demographic Center, E-mail to Joel Alter, Minnesota Office of the Legislative Auditor, May 4, 2006.































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## Government Operations (cont.)

*State Employee Health Insurance*, February 2002  
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