

Immigrant Earnings Assimilation: The Role of the Workplace

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The inflow of new immigrants into the United States has been a largely debated policy issue for many decades. This has generated much research on the labor market outcomes of the foreign-born population. A great deal of work has been done to investigate the earnings differences of non-natives and the native-born. Studies such as Borjas (1985) and Lubotsky (2007) have found that though immigrants start at an earnings disadvantage compared to natives, the gap in earnings diminishes with time in the United States.

While much has been done to document earnings assimilation, less has been established on the process by which assimilation occurs. The literature has been limited by the availability of data sources with sufficient representation of the immigrant population. However, with the use of more recently available employer-employee linked data, economists have begun to investigate the nature of the workplaces of immigrants and natives which may be important in the assimilation process. Using the same data source as this paper, Andersson et al. (2011) find that immigrants are much more likely than natives to have immigrant coworkers and are particularly likely to work with their compatriots. The workplace concentration of immigrants varies substantially across industries and is particularly high among immigrants with limited English skills. Aydemir and Skuterud (2008) consider the relative importance of immigrant wage differentials within and across establishments using Canadian matched employer-employee data. They find that non-random sorting across establishments affects wage differentials more than differences in how immigrant and native men are paid within establishments. While these papers consider a cross-section, we exploit an earnings panel to examine the role of firms in the earnings growth of immigrants.

Our panel is composed of earnings from the Longitudinal Employer-Household Dynamics (LEHD) database which contains unemployment insurance (UI) records for 47 states from the early nineties to 2008. The LEHD contains quarterly earnings data for workers and these have been matched to characteristics of the employer. Basic demographic information such as sex, age, and place of birth is available for all workers as well as the year of application for a Social Security number (SSN) which we take to be the year of immigration for the foreign-born. For this analysis we consider immigrants who entered the U.S. in 1997-1999 after the age of 21 and natives of the same age. We only consider males as we do not have information on the reason for not being in our sample for a given year and the labor force participation of women is less consistent than that of men.

We consider immigrants who arrive in the late 1990s and their native counterparts because we are interested in the labor market progress of recent immigrants but also because the vast majority of LEHD participant states have data available starting in the late 1990s. We also match to the 1-in-6 2000 Census which provides education and language proficiency information for a subset of approximately 1-in-

10 workers. For our immigrant cohort, language and education information from 2000 are accurate measures of those variables upon entry in the U.S.

These data provide a large sample of immigrant workers for whom we can observe the place of employment as well as characteristics of their coworkers. However, because the data is from UI records, information is not available for the self-employed and for those who work in the informal sector. Coverage of undocumented immigrants is likely very poor. We also exclude earnings observations in agriculture since coverage is incomplete. Due to the nature of the administrative data, our analysis is limited to immigrants who work in the covered sector. Major differences can be seen between the immigrants in our sample and the overall foreign-born population. The immigrants in our sample have higher educational attainment and are less likely to have been born in a Latin American country. This will lead to very different relative earnings patterns than what has been documented in previous research.

Our empirical approach is to estimate earnings regressions in the spirit of those that are found in the immigrant assimilation literature. We consider the earnings of immigrants relative to natives by regressing log annual earnings on a quartic in calendar year, a quartic in potential labor market experience, indicators for age of immigration for immigrants, and indicators for U.S. work experience for the foreign-born. We estimate such earnings regressions for the whole sample and separately by educational attainment. We are in the process of including various workplace characteristics as covariates to consider their role in accounting for difference in earnings between natives and immigrants.

Preliminary results indicate that there is a great deal of heterogeneity in the relative earnings of immigrants who arrived in the U.S. in the late 1990s. Those who immigrated at younger ages start with higher relative earnings and some arrival age cohorts start at an earnings advantage compared to natives of the same educational attainment. The analysis of high school dropouts shows a dramatic advantage for those who immigrated at the beginning of their labor force experience. High school graduates most closely resemble the patterns found in the assimilation literature with immigrants starting at an earnings disadvantage upon arrival and a diminishing of the earnings gap with time spent in the U.S. College graduate immigrants who arrived in the U.S. at the beginning of their careers start at an earnings advantage while those who arrived later are at a disadvantage. The earnings growth of immigrants is faster than that of natives across education groups.

We seek to examine the role of firm characteristics in the labor market experience of immigrants. Firm characteristics such as industry, location, establishment size, whether the firm is made up of multiple establishments, and the immigrant concentration of coworkers will be included as covariates in the earnings regressions. We are interested in how controlling for firm characteristics affects both the initial earnings differences between immigrants and natives and the

subsequent relative earnings growth of immigrants. We are also interested in how these firm characteristics change for immigrants with time in the U.S. Preliminary evidence suggests that examining the differences in firm characteristics between immigrants and natives would provide a clearer understanding of the labor market experience of the foreign-born population.

References

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