Immigrant earnings: Language skills, linguistic concentrations and the business cycle

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Abstract. This study of the determinants of earnings among adult foreign-born men using the 1990 Census of Population focuses on the effects of the respondent’s own English language skills, the effects of living in a linguistic concentration area, and the effects of the stage of the business cycle at entry into the U.S. labor market. The analysis demonstrates the importance of English language fluency among the foreign born from non-English speaking countries. There is also strong evidence for the complementarity between language skills and other forms of human capital. Furthermore, there is strong evidence using selectivity correction techniques for the endogeneity between language and earnings.

JEL classification: J31, J61, J24, J15

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1. Introduction

This paper is concerned with the analysis of the earnings of immigrants. In particular, it focuses on several inter-related and unresolved issues using data from the 1990 Census of Population of the United States.

One set of issues relates to the individual’s own language skills. To what extent are the earnings of immigrants in the United States influenced by the respondent’s proficiency in English? Has there been a change over time in the effect of language proficiency on earnings? Are different forms of human capital complementary to language capital (language proficiency)? That is, is language capital more productive in the labor market among those with more schooling and other forms of human capital? Moreover, does it appear that investments in language capital are greater among those who expect to receive a greater economic return from English-language proficiency? That is, is language proficiency endogenous to the labor market?

A second and inter-related set of issues has to do with the linguistic characteristics of the area in which the respondent lives. Among those who speak a language other than English, does it matter whether they live in an area in which many others speak their origin language (to be referred to as linguistic concentration), as distinct from an area in which few speak this language? While linguistic concentrations have been shown to lower language proficiency (see Chiswick and Miller 1992, 1995, 1998), are they also associated with lower earnings, other things being the same? Controlling for the individual’s own characteristics, the cost of “ethnic goods,” broadly defined to include social networks, would be lower the greater the extent to which others speak the same origin language. Then, larger linguistic concentrations would be associated with lower reservation wages, and hence lower observed earnings.

Finally, one of the issues discussed in the literature is whether the stage of the business cycle at entry into the labor market affects the earnings of immigrants. It has been shown by Nakamura and Nakamura (1992) and Stewart and Hyclak (1984) that immigrant earnings are lower among those who enter in a period of high unemployment. Unresolved, however, is whether this is a permanent effect, perhaps due to a lower “quality” immigrant cohort in a recession, or whether this is a temporary disadvantage due to the difficulties new immigrants have in finding a high wage job or a good job match during a recession.

Section 2 presents the model of the earnings of immigrants in the labor market. Particular attention is given to the variables that are of primary focus in this study, namely, the individual’s own English language proficiency, the linguistic concentration of the area, and the stage of the business cycle at entry into the labor market. This permits a separation of the effects of the immigrant’s own language skills from linguistic concentration effects.

Section 3 describes the data from the 1990 Census of Population of the United States used for this study, as well as the estimating equations. The empirical estimation is presented in Section 4. Various specifications of the variable for the respondent’s English language fluency are considered, as are the concentration and business cycle effects, among others. A summary and conclusion, with implications for both immigration policy and assimilation (post-migration) policy closes the paper (Sect. 5).