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REINVENTING THE MELTING POT

THE NEW IMMIGRANTS
AND WHAT IT MEANS
TO BE AMERICAN

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ECONOMIC ASSIMILATION: TROUBLE AHEAD

by George J. Borjas

ONE OF THE MOST IMPORTANT ASPECTS of assimilation is economic: the narrowing of what might be called the "opportunity gap" between immigrants and natives. Immigrants typically enter the United States with substantially lower skills than the native population and therefore face a significant disadvantage in economic opportunities. In the late 1990s, for example, a newly arrived worker earned about 34 percent less than the typical American-born worker. Over time, however, newcomers acquire skills, such as English language proficiency, that are valued by American employers and that allow them to approach parity with native-born workers. This is assimilation, but it isn't clear whether it is good for the country as a whole or whether our immigration laws should be designed to encourage it.

Most participants in the immigration debate assume that it is—that economic assimilation benefits both immigrants, who are clearly better off as their economic situation improves, and the native-born population. As a result, such thinkers argue, the United States should promote the assimilation process. But other scholars argue that in fact the

opposite is true, questioning whether, from an economic perspective, the well-being of natives improves when immigrants assimilate rapidly.

In this more skeptical view, the economic gains from immigration arise from the complementarities that exist between immigrants and natives—in other words, society benefits precisely because the two kinds of workers have different skills and are productive at different kinds of work. It is often argued, for example, that the current immigration of large numbers of low-skill workers benefits the native population because immigrants take jobs that natives do not want. And, in fact, less-skilled immigrants make up large parts of the low-paid service, manufacturing and agricultural industries. In this view, as the skills of immigrants become more like those of natives, it becomes less and less likely that immigrants will want those undesirable jobs. Hence the presumed economic gains to the host country from immigration will eventually vanish. Only a continuous replenishment of the low-skill immigrant population can halt the decline of native economic well-being. In short, the sooner immigrants become like American workers—in other words, the faster the rate of economic assimilation—the sooner the gains accruing to native workers disappear.

I myself do not believe this argument is correct. The economic gains from complementarities between immigrant and native workers are quite small to begin with, probably less than \$10 billion annually. On the other side of the equation, economic assimilation helps narrow the gap in opportunities between less skilled immigrants and natives, thus reducing the immigrants' drain on social services. The rapid assimilation of disadvantaged immigrants would also reduce the chances that this population, clustered in poor ethnic ghettos, could become a new underclass, the potential source of a great deal of social conflict. A simple cost-benefit calculation suggests, therefore, that the United States enjoys a net gain when immigrants undergo economic assimilation. It follows that the country should encourage the immigrants to acquire the "human capital"—the job skills and cultural fluency—that increases their marketability in their newly adopted country.

What's more, there is an important link between economic assimilation and the cultural issues that are traditionally emphasized in the immigration debate. In order to experience economic assimilation, an immigrant must acquire skills that are valuable in the American labor market. The immigrant has to learn the English language, adopt the norms of the American workplace and eventually move to economically vibrant areas outside of ethnic enclaves. Each of these acts helps weaken the link between the immigrant's foreign past and his or her American future.

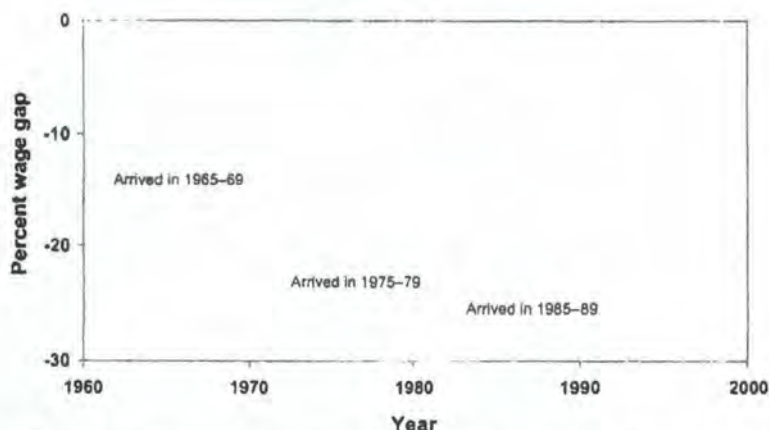
For many immigrants, this is a difficult trade-off. In order to achieve economic progress, they have to discard the habits and attitudes that reduce their chances for success in the American economy and adopt a lifestyle that increases those chances. In other words, economic assimilation and cultural assimilation go together: there will be more assimilation of one type when there is more of the other. And the important question facing the country is not whether we should encourage economic assimilation—obviously we should—but whether current social, political and economic conditions, some of them beyond our control, will help or hinder the assimilation of the huge influx of mostly non-European immigrants who have arrived in recent decades.

ECONOMIC ASSIMILATION WITHIN A GENERATION

The most important economic feature of immigration since 1965 has been a significant decline in the performance of successive immigrant waves. From one decade to the next, each new group of immigrants is less skilled than the one before. What's unknown is whether this economic disadvantage is permanent or will disappear as assimilation takes place.

Economists often measure the rate of economic assimilation by calculating how the wage gap between natives and immigrants narrows over time (see Figure 1). Consider the young men who arrived

Figure 1. Economic assimilation
(Immigrants arrived when they were 25–34 years old)



in the late 1960s, and were from twenty-five to thirty-four years old in 1970. At the time of entry, they earned 13 percent less than native workers of the same age. But this wage gap had narrowed to about 3 percentage points by 1998, when the immigrants were from fifty-three to sixty-two years old. Over a thirty-year period, the process of economic assimilation had significantly reduced their disadvantage, allowing them to almost “catch up” with the earnings of natives.

But the young immigrants who arrived after 1970 face a bleaker future, primarily because they started out at a greater disadvantage. Consider those who arrived in the late 1970s: by the late 1990s, twenty years after arrival, they were still earning 12 percent less than natives. The situation is even gloomier for those who arrived in the late 1980s. They started out with a 23 percent wage disadvantage, and their gap actually grew, rather than narrowed, during the 1990s. Based on historical trends, these newer immigrants should eventually narrow the gap by about 10 percentage points; but even so, they will still earn much less than natives throughout their working lives.

A great deal of evidence indicates that immigrants earn substantially more if they understand and speak English. Hispanic immi-

grants who speak English earn 17 percent more than those who do not, even after adjusting for differences in education and other socioeconomic characteristics between the two groups. Indeed, as much as half of the narrowing of the wage gap between immigrants and natives in the first twenty years after arrival can be attributed to gains from learning the English language.

The rate of economic assimilation also depends on whether immigrants reside in an ethnic enclave. Immigrants tend to cluster in a small number of areas. Thus in 1990 a third of the immigrant population lived in only three metropolitan regions (Los Angeles, New York and Miami), a geographic clustering that gave rise to the large ethnic communities that are a distinctive feature of many American cities. And while it is reasonable to suspect that this clustering influences the economic performance of immigrants, it is not clear how this influence works.

Some observers, particularly sociologists, argue that geographic clustering and the "warm embrace" of the enclave help immigrants escape the discrimination they would otherwise encounter in the labor market. But there is also a more pessimistic view. It is possible that the ethnic enclave creates incentives for immigrants *not* to leave and *not* to acquire the skills that might be useful in the larger national market, thus obstructing their move to better-paying jobs. The existing evidence suggests that immigrants who live in ethnic enclaves are less prosperous than those who move into the economic mainstream. Consider, for example, the typical newly arrived Mexican immigrant living in Los Angeles, where 11 percent of the population is of Mexican origin. If he had moved to New York instead, where only 0.1 percent of the population is Mexican, the wage gap between his earnings and those of a typical native worker would have narrowed by an additional 4 percentage points during his first ten years in the United States.

In sum, it seems that immigrants who choose to enter the economic mainstream—by becoming proficient in the English language and avoiding the warm embrace of the ethnic enclave—are likely to assimilate more rapidly and successfully to American economic life.

ETHNIC DIFFERENCES ACROSS GENERATIONS

This is not the only non-economic factor that affects economic assimilation. Among first-generation immigrants—those who actually made the trip from the old country to the new—different ethnic groups vary significantly in economic status. In 1998, for instance, immigrants from India earned 22 percent more than the typical native worker in the United States, while immigrants from Colombia earned 24 percent less. How much of these ethnic differences persist into the second and third generations?

To answer this crucial question, one can track the economic performance of the children and grandchildren of the European immigrants who arrived in the United States a century ago, a wave known as the First Great Migration. Nearly 24 million people entered the country between 1880 and 1924, and, not surprisingly, there were sizable ethnic differences in economic achievement among the ethnic groups that made up that migration. In 1910, for example, English immigrants earned 13 percent more than the typical American worker, but Portuguese immigrants earned 13 percent less and Mexican immigrants 23 percent less.

What happened over time? It turns out that about 60 percent of this wage differential persisted into the second generation, and a quarter of the difference remained even with the immigrants' grandchildren. In rough terms, the relative wage gaps between ethnic groups have a half-life of one generation, so that half of the "wage distance" between any two groups disappears between the first and second generations, and half of what remains in the second generation disappears between the second and the third.

This persistence of ethnic difference has important implications for the long-term consequences of today's immigrant influx, often called the Second Great Migration. In 1990, for instance, British immigrants earned 40 percent more than the typical native worker, while Mexican immigrants earned 40 percent less. If the historical pattern holds, a century from now the third-generation descendants

of today's British immigrants will earn about 10 percent more than the typical native worker, the descendants of today's Mexican immigrants about 10 percent less.

The lesson from history is straightforward: ethnicity matters in economic life, and it seems to matter for a very long time. The metaphor of the melting pot does not apply to economic assimilation; a better metaphor would be the "simmering pot," where ethnic differences dissolve slowly—sometimes painfully so.

DO CURRENT CONDITIONS PROMOTE ECONOMIC ASSIMILATION?

The post-1965 resurgence of immigration has introduced many new ethnic groups into the American mosaic, with substantial differences in skills and economic outcomes. But it seems unlikely that these groups will achieve even the slow rate of assimilation of their predecessors a century ago. The assimilation of immigrant groups during the past century was influenced by unique historical events, and by social and economic circumstances, that cannot be replicated today.

First, the immigrants who entered the United States at the beginning of the twentieth century faced dramatically different economic conditions. That large influx of less-skilled workers coincided exactly with the emergence of the American manufacturing sector. Three-quarters of the workers at the Ford Motor Company in 1914 were foreign-born, and over half came from the less-developed areas of Southern and Eastern Europe. These manufacturing jobs provided stable and well-paying economic opportunities for many immigrants and their descendants.

But the American manufacturing sector has been in decline for many years now, and as a result the post-1965 immigrants, many of whom are again relatively unskilled, have far fewer well-paid job opportunities. During the 1980s and 1990s, the wages of low-skill workers fell to a historic low relative to high-skill workers, indicating

that the demand for low-skill labor has declined dramatically in recent decades. This makes it unlikely that today's less-skilled immigrants will find the same opportunities for economic assimilation that their counterparts enjoyed a century ago.

Second, the expansion of the welfare state has radically altered the economic incentives facing disadvantaged groups and will likely slow the rate of economic assimilation. In 1998, immigrant households were much more likely than native households to receive public assistance in the form of cash payments, food stamps or Medicaid: twenty-two percent of immigrant households received benefits of some type, compared to 15 percent of native households. Welfare programs in the United States, though not generous by Western European standards, stack up pretty well when compared to the standard of living in many less-developed countries. In 1997, for example, the typical two-child welfare household in California received around \$12,600 worth of assistance, while per-capita income in China and the Philippines was around \$3,500.

These welfare opportunities may attract immigrants who otherwise would not have migrated to the United States; and the safety net may discourage immigrants who fail here from returning to their home countries. In short, the welfare state may change the immigrant population in ways that are not economically desirable. Little is known about the persistence of welfare dependency from one generation to the next. But the income provided by welfare removes an important incentive for immigrants to acquire job skills and cultural fluency, and could thus affect the rate of economic assimilation of the second generation and beyond.

Third, and contrary to popular perception, there is significantly less ethnic diversity among post-1965 immigrants than there was among early twentieth-century immigrants. In 1990, for example, Mexicans made up almost 30 percent of the immigrant population. In contrast, Germans and Russians—the two largest groups of the First Great Migration—accounted for only 15 and 12 percent of the influx. The relative lack of ethnic diversity in post-1965 immigration may greatly reduce the incentives for assimilation by allowing the largest

ethnic groups to develop separate enclave economies with few links to the economic mainstream.

Fourth, the socioeconomic climate is much less encouraging of assimilation today than it was in the past. Reaction to the dislocations caused by the First Great Migration was relatively swift and severe. By 1924, the United States had adopted strict limitations on the number and type of foreigners who could enter the country. This policy shift, combined with the poor economic opportunities available during the Great Depression, effectively imposed a moratorium on immigration. In the 1920s, 4.1 million people entered the United States; in the 1930s, only half a million did. This provided a "breathing period" that may have fueled the assimilation process by cutting off the supply of new workers to ethnic enclaves and reducing the economic and social contacts between immigrants and their countries of origin.

Fifth, there is an important sense in which some of the large immigrant groups that arrived in the United States before 1924 were forcibly assimilated by the changes in social attitudes that occurred as a result of the two world wars. After all, many immigrants came from countries such as Germany and Italy, which were America's enemies in these wars. During World War I, Americans cracked down hard on the German language and culture in immigrant enclaves: by the summer of 1918, about half the states had restricted or eliminated German-language instruction in the schools. The total number of German-language publications declined from 554 in 1910 to 234 in 1920. The dominant American attitude towards these groups was expressed in General George Patton's colorful exhortation to his troops on the eve of the American invasion of Sicily on July 9, 1943: "When we land, we will meet German and Italian soldiers whom it is our honor and privilege to attack and destroy. Many of you have in your veins German and Italian blood, but remember that these ancestors of yours so loved freedom that they gave up home and country to cross the ocean in search of liberty. The ancestors of the people we shall kill lacked the courage to make such a sacrifice and continued as

slaves." Surely such attitudes hastened the assimilation of Germans and Italians in the United States.

Finally, the ideological climate that encouraged assimilation and acculturation through much of the twentieth century has all but disappeared. The consensus summarized by the motto on the United States seal, *e pluribus unum*, no longer exists; it has been replaced by such multicultural sound bites as "Death by English." The effect of this shift in attitudes is compounded by government policies that encourage some immigrants to retain their ethnic and racial identities in order to qualify for public benefits. Affirmative action programs effectively require that a Cuban entrepreneur who wishes to apply for minority set-asides in government contracts refrain from joining the economic mainstream. Not only are these grievances not the issues that the original framers of affirmative action programs wished to redress but such programs may also exact a toll on immigrants themselves by slowing down their economic assimilation.

In sum, given all the ways in which the country has changed, the experience of the immigrants who arrived a century ago may not be a good predictor of the prospects of current immigrants. It is still too early to determine whether these changes will prove decisive in slowing the economic assimilation of post-1965 immigrants, most of whose children have yet to enter the labor market. Nevertheless, the dramatic shifts in the social and economic climate suggest that ethnic differences will remain significant far longer than in the past.

POLICY IMPLICATIONS

Concerns over the assimilation of new immigrants have dominated the policy debate since colonial days. In 1753, Benjamin Franklin, doubting the wisdom of German immigration, called the new arrivals "the most stupid of their own nation" and warned that "through their indiscretion, or ours, or both, great disorders may one day arise among us." Still, Franklin appreciated the benefits of assimilation and even made specific recommendations about how to speed up the

process: "All that seems necessary is, to distribute them more equally, mix them with the English, establish English schools where they are now too thick settled."

Over the course of the twentieth century, the United States developed a highly nuanced immigration policy, resulting in immigration statutes almost as long and complicated as the federal tax code. Current policy awards most entry visas to people who have relatives already residing in the United States; generally, those with closer family connections—a parent, spouse or child who is a U.S. citizen—are granted speedier entry. Incredibly, however, our immigration law has nothing to say about assimilation. Not only are a potential immigrant's assimilation prospects ignored when awarding him an entry visa, but there are no regulations to encourage his economic assimilation once he arrives. The reach of immigration policy largely ends once the immigrant enters the country.

This omission makes the United States unique among immigrant-receiving nations, most of which build incentives directly into the system that awards entry visas. In the late 1990s, New Zealand required that the "principal" immigrant in the household be proficient in the English language; a family member who could not pass the "English standard" at the time of entry had to post a bond of \$11,000. If this family member passed an English test within three months of arrival, the entire bond was refunded. If he or she failed the test at the three-month point but passed it within a year of arrival, the government refunded 80 percent of the bond. If he or she failed to meet the standard within a year, the family forfeited the entire bond.

Because the social and economic conditions facing immigrants are not as favorable today as they were a century ago, it would be prudent for the United States to reform its entry standards to give preference to those immigrants who are most likely to assimilate successfully. One such measure would be to discard the family preference system used to award entry visas and instead adopt a point system, similar to that used by Australia and Canada, that filters the applicant pool on the basis of socioeconomic characteristics. A point system would "grade" the economic potential of visa applicants, using such

variables as age, educational attainment, occupation and English language proficiency, and award entry visas to applicants who most closely match the country's economic needs. A system that favored the entry of skilled workers would boost the immigrant population's chances for successful economic assimilation.

It would also be valuable to extend the reach of immigration policy to promote the assimilation of immigrants already residing in the United States. We could toughen the civics and English-language examinations that immigrants must take to become citizens; provide financial incentives for particular immigrant groups to resettle in nonimmigrant areas; and overhaul the defective system of bilingual education, which physically and culturally isolates the children of immigrant families. The problem, of course, is that any such changes would be highly contentious, particularly in a political climate that values multiculturalism and doubts whether assimilation is a goal worth pursuing. As a result, it seems that the best chance for accelerating economic assimilation lies in reforming entry criteria to favor immigrants who are most likely to be successful in the long run.

The United States has a clear stake in ensuring that the immigrants who make up the Second Great Migration join the economic mainstream—and the country will benefit more if this occurs sooner rather than later. It took a century to erase the differences in economic opportunities among the ethnic groups that made up the First Great Migration. But the assimilation of those immigrants occurred under highly favorable conditions that are unlikely to be replicated in the next century; and even so, it was a long and arduous process. There is reason to be concerned that, unless we take deliberate action, the process will be even more difficult for today's immigrants.