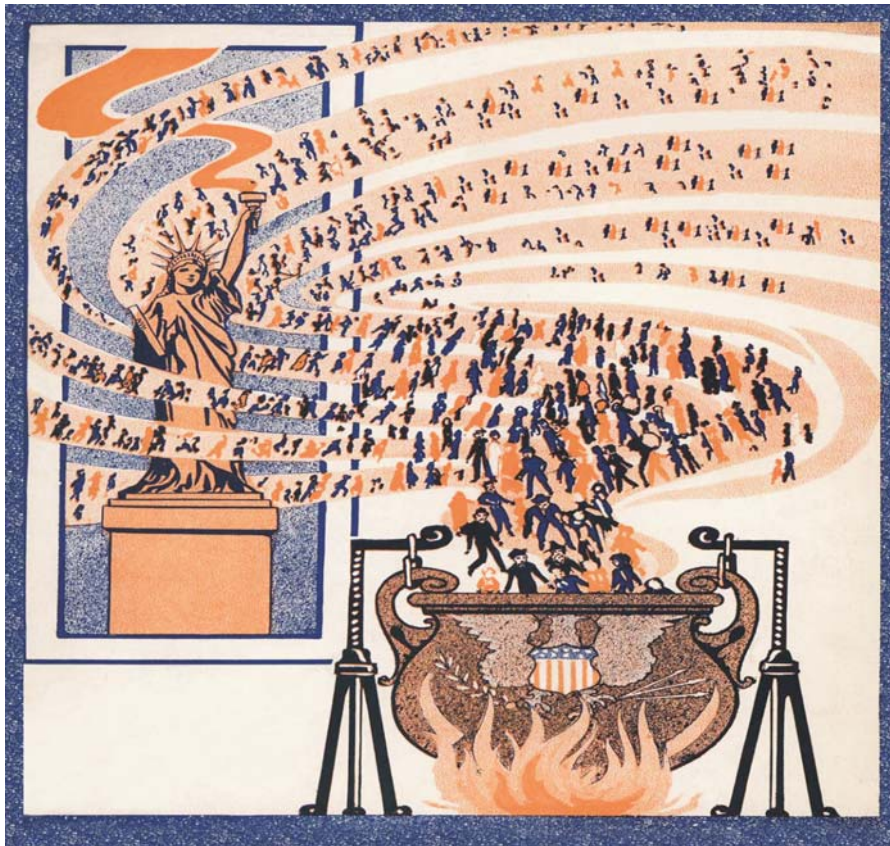


Immigrant Assimilation: Is the U.S. Still a Melting Pot?



Based on a presentation by Pia Orrenius,
Senior Economist, Research Department,
Federal Reserve Bank of Dallas

January 2004

The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

Immigrant Assimilation: Is the U.S. Still a Melting Pot?

What happens to immigrants after they come here? Do they achieve the American dream? When it comes to immigrant assimilation: is the United States still a melting pot?

In an earlier presentation, I focused on the important role immigrants play in the U.S. economy.¹ Immigration is key to current economic growth. But immigration is also central to future growth, not only because immigration will continue, but also because the children of immigrants today are the labor force of tomorrow.

Experts worry about the children of today's immigrants because many of them come from, what are by U.S. standards, poor households. Low-skilled immigrants in the United States are mostly Hispanic, and statistics suggest that although they are hard working and honest, many of them never finish the equivalent of high school. They typically speak limited English, and in their lifetimes, they will not reach average U.S. income levels.

The question then remains: If the first generation in this class of immigrants does not fully assimilate, will the second and third generations still be able to follow their European predecessors and move into the middle-income mainstream? Or will succeeding generations become part of a multiethnic underclass?

Immigrant Assimilation: Why Worry?

A confluence of factors has generated concerns about the assimilation of low-skilled immigrants and their children. First, immigration has reached record levels. The United States has surpassed the previous record inflows of immigrants at the turn of the 20th century, and the foreign-born now number more than 33 million. Twenty percent of schoolchildren today are the children of immigrants. In California, 55 percent of schoolchildren fall in this category, and in Texas, 25 percent do.

These children face a knowledge-based economy where the premium on education has been rising steadily. Human capital—more than ever before—drives wages and investment and determines future growth. U.S. workers also count on the next generations to pay for their retirement through programs such as Social Security and Medicare.

And lastly, while many first-generation immigrants are not citizens and are ineligible for most welfare programs, their citizen children are eligible. As a result, from a fiscal perspective, the economic success of immigrant children is even more important than that of their parents.

Low-Skilled Immigrants: How Do They Do?

A look at the native-immigrant education distribution shows that many immigrants are low-skilled (*Figure 1*). While natives are concentrated in the middle of the education distribution, with an average of about 13 years of schooling, immigrants are slightly more likely than natives to have an advanced degree, but much more likely to lack a high school degree. One-third of immigrants are classified as high school dropouts, compared with only 13 percent of natives.

Interestingly, despite lacking a high school diploma, low-skilled immigrants still outperform native dropouts in the labor market. Low-skilled male immigrants are more likely to work, as shown by their higher labor force participation rates, and less likely to be unemployed.

Because of this commitment to work and despite other disadvantages, immigrants assimilate and surpass income levels of like natives after about 16 to 20 years in the United States. However, because the relative earnings trajectory plotted in *Figure 2* controls statistically for differences in education, it means that a high school dropout immigrant reaches the average income level of a high school dropout native.² It does not mean that low-skilled immigrants eventually reach average American income levels.

Figure 3 shows the same earnings trajectory without statistically controlling for the education level. As you can see, low-skilled immigrants will not achieve average income levels of U.S. natives in their lifetimes.

What about Intergenerational Assimilation?

The evidence suggests that economic assimilation will require educational assimilation. While many first generation immigrants go back to school once they are established in the United States, educational assimilation of low-skilled immigrants is more likely to happen across generations.

So does it? Before tackling this question, let's first define the different generations. The first generation is made up of all foreign born. The second generation is simply the children of the first generation, who by having at least one foreign-born parent, are exposed to the ways of the old country through their parents' experiences. The third generation is made up of the grandchildren of the original immigrants. The people of this generation are native born of native parents and are, for all intents and purposes, natives.

Figure 1

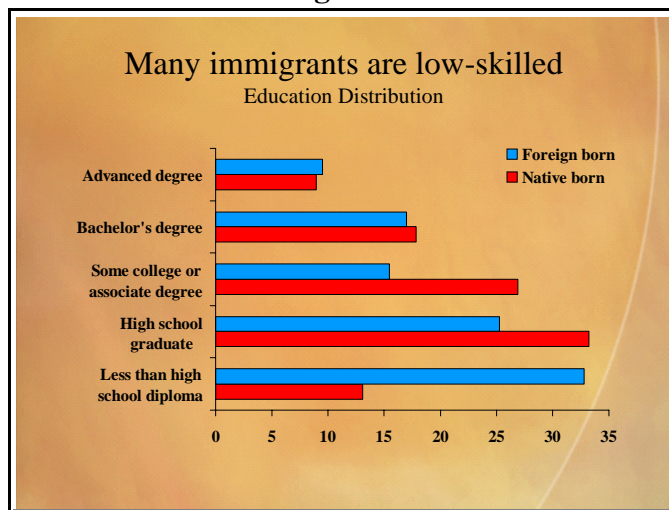


Figure 2

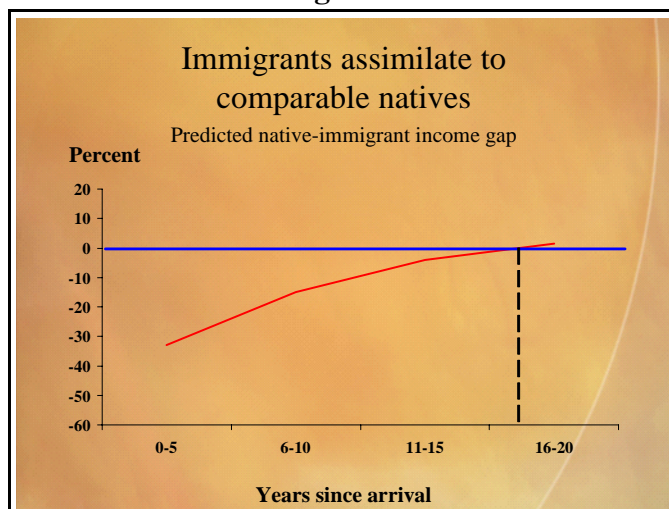
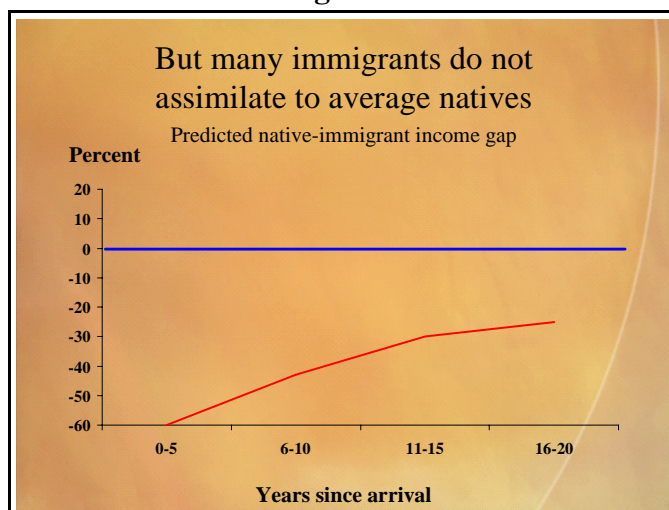


Figure 3



Turning to the data, educational assimilation appears alive and well. *Figure 4* shows that high school dropout rates for immigrants improve across generations, dropping from 27 percent in the first generation to below the native average of 8.9 percent (represented by the black line) in the third generation.

There are, however, large differences among groups of immigrants. Non-Hispanic groups do the best. The first generation comes in at below native dropout rates, and then their dropout rates fall even lower in the second generation and continue below the native average in the third generation.³

Hispanic immigrants do much worse in general, but also improve the most. In the first generation, about 44 percent lack a high school diploma, this rate improves to 15 and 16 percent, respectively, in the second and third generations.

The discrepancy in dropout rates in the third generation warrants some concern and possible action by policymakers. By the time the immigrant population reaches the third generation, it should be no different from the native population in educational attainment; yet, the dropout rate among Hispanics is almost twice as high as the native average rate.

Hispanic wages show a similar pattern. Mexican immigrants are both the largest group of Hispanic immigrants and the least educated. As shown in *Figure 5*, first-generation Mexican immigrants make about 60 percent less than white (non-Hispanic) natives, and this improves to a 29 percent deficit by the third generation.

The education gap explains most of the wage deficit of Mexican-Americans in the third generation. Research has shown that two-thirds of the wage discrepancy is accounted for by lower education levels among Mexicans. Once education is statistically controlled for, the wage gap between white natives and third-generation Mexican-Americans narrows to 11 percent (see blue bars in *Figure 5*).⁴

What Explains the Education Gap?

The education gap explains the wage gap, but what explains the education gap? The determinants of educational outcomes among Hispanic immigrants and their children may sound familiar. Limited English proficiency, lower parental education, lower household income and larger family

Figure 4

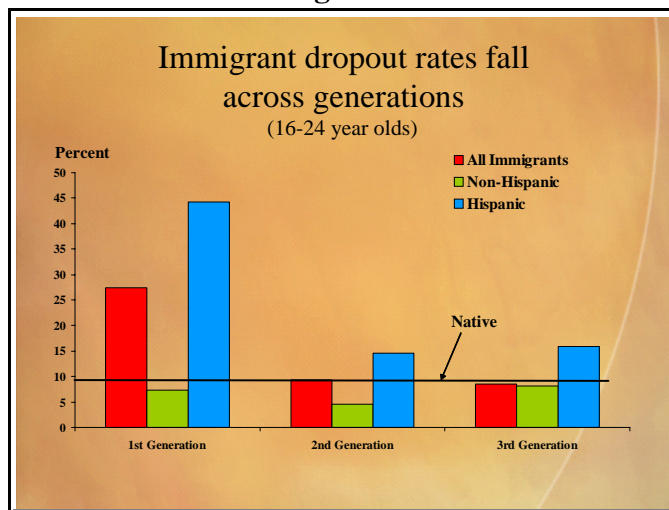
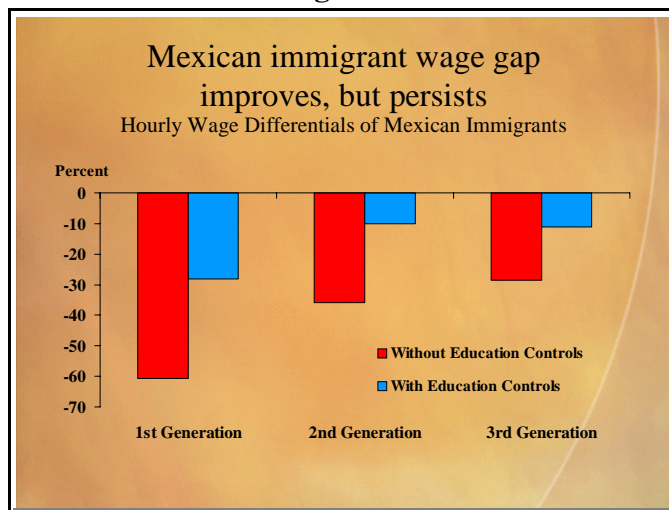


Figure 5



size negatively influence educational attainment of immigrant children.⁵ How should these statistics translate to policymakers? Well, immigrant children have limited resources, face more family obligations, contend with less informed parents and move between schools more often.

Surveys also suggest that Hispanics have lower educational aspirations than other ethnic groups. This could reflect a discouraged youth to whom economic opportunity may not seem within reach. In addition, ethnicity does matter. Even when researchers account for all measurable factors that determine education levels, the fact that an individual is Hispanic or Black or Asian matters in and of itself.

Policy Implications

Policy alternatives that are likely to help in dealing with the immigrant education gap are wide ranging. Implementing an amnesty for illegal immigrants, for example, would address the role that parents play in their children's educational outcomes. Legal status could open many doors, both lowering the costs of education and increasing avenues for financing a higher education through access to student loans.

On a similar note—and Texas has already taken this step—states can allow undocumented children to attend public colleges at in-state rates.

Educational outcomes can be impacted more directly by targeting spending on education and at-risk kids. Despite the large number of immigrant schoolchildren, California and Texas spend below the national average on K-12 education.

Another change California has taken to help deal with the greater problem of immigrant assimilation is switching to English-only instruction in public schools.

Conclusion

Worrying about immigrant assimilation boils down to worrying about Mexican immigration. Non-Hispanic immigrants consistently outperform natives, even after three generations.

Meanwhile, Mexican immigrants make up the largest and least educated immigrant group. While they make the biggest gains after coming to the United States, they still lag behind in education and wage outcomes after three generations.

So what of the melting pot? It continues to simmer successfully, much as it did 100 years ago. The problem we have uncovered is not one of immigrant assimilation, but rather what immigrants are assimilating to. We need to better understand the ethnic and racial differences in the education levels of natives if we are to ensure the full economic assimilation of our immigrants.

Pia Orrenius, Senior Economist
Federal Reserve Bank of Dallas
January 2004

1. Pia M. Orrenius (2003), "U.S. Immigration and Economic Growth: Putting Policy on Hold," Federal Reserve Bank of Dallas *Southwest Economy*, Issue 6 (November/December).

2. Predicted native-immigrant earnings gap since year of arrival (*Figure 2*) is based on Heather Antecol, Deborah Cobb-Clarke, and Stephen Trejo (2000), "Immigration Policy and the Skills of Immigrants to Australia, Canada, and the United States," Claremont Colleges Working Papers No. 2001-26.

3. National Center for Education Statistics (2001), "Dropout Rates in the United States: 2000."

4. This analysis and the data in *Figure 5* are based on Richard Fry and Lindsay Lowell (2003), "The Wage Structure of Latino Origin Groups Across Generations."

5. Georges Vernez and Allan Abrahamse (1996), *How Immigrants Fare in U.S. Education* (RAND).