

# Southwest Economy



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

The immigration debate is heating up in 2004 after a three-year hiatus. President Bush's temporary worker proposal, announced in January, prompted both pro- and anti-immigration camps to make their case in the media. The focus is increasingly on the long-term effects of mass immigration. This interest is to be expected with the country emerging from a decade of record immigration levels. A similar discourse ensued after earlier waves of immigration, such as in the 1850s and the decade 1900–10. The questions go to the heart of the immigration debate: Is the United States still a melting pot? Will immigrants assimilate and achieve the American dream?

In an earlier article, I focused on the important role immigrants play in the U.S. economy.<sup>1</sup> Immigration is key to current economic growth, and immigrants contributed over 40 percent of labor force growth in the mid- to late 1990s. But immigration is also central to future growth, not only because immigration will continue, but also because the children of today's immigrants are tomorrow's workers and investors.

Concerns about the children of immigrants

*(Continued on page 2)*

## Monetary Policy Prospects

Federal Reserve Chairman Alan Greenspan and other Federal Reserve officials have publicly remarked that current monetary policy is highly accommodative and that short-term interest rates “will eventually need to rise toward a more neutral level.” However, Federal Reserve pronouncements have also emphasized that with inflation low and resource use slack, “policy accommodation can be removed at a pace that is likely to be measured.”<sup>1</sup>

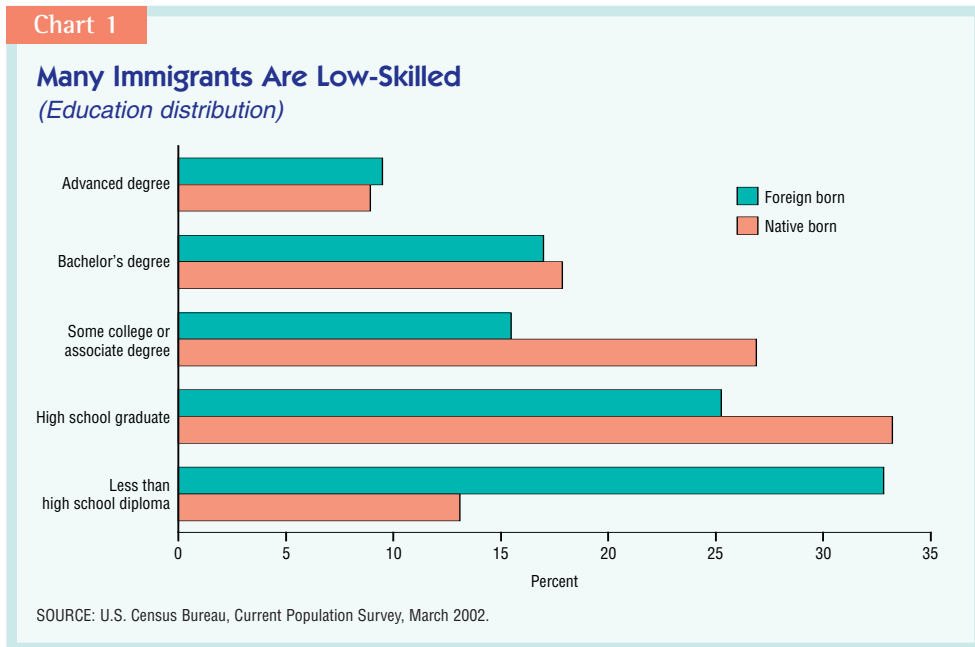
This article looks at the Federal Reserve's policy stance and discusses why short-term interest rates will almost certainly have to increase at some point. The article also examines the historical relationship between Federal Reserve policy, inflation and resource slack for insights on future rate changes. The

*(Continued on page 11)*

**INSIDE:**  
*Do Energy Prices  
Threaten the Recovery?*

*The ‘Curse’ of Venezuela*

*The native–immigrant education distribution confirms that many immigrants are relatively low-skilled.*



have arisen for many reasons. One factor is the rise of low-skilled immigration and the lack of full economic assimilation among low-skilled, first-generation immigrants. Researchers have long recognized the intergenerational links in measures such as education and income, so attention naturally falls on the second generation. If the parents cannot economically assimilate, will the children do so?

**Immigrant Assimilation: Why Worry Now?**

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. Immigrants are a rising share of the population, currently 11.5 percent, although this is still below the record set in 1890 (14.8 percent). More important for the discussion in this article, 20 percent of schoolchildren today are the children of immigrants. In California, over 50 percent of schoolchildren fall into this category, and in Texas, about 25 percent do.<sup>2</sup>

U.S. history is one of immigration, and all those original immigrants are now “Americans.” Immigrants and their descendants have been assimilating for hundreds of years. Why then should we worry now? Mass immigration of low-skilled,

non-English-speaking workers is hardly a new phenomenon. In the 19th and early 20th centuries, the shores teemed with German, Chinese, Irish, Italian and Polish immigrants. Natives worried aloud that most newcomers did not speak English and many could not read or write.

More compelling perhaps than the arguments about the volume and low-skilled nature of current immigration is the nature of the U.S. economy into which immigrants are expected to assimilate. Rapid rates of technological change and growing international trade have hurried the transition from a manufacturing-based to a service-based economy, and the wage premium on education has been rising steadily as a result. Immigrants and their children thus face a knowledge-based economy, where human capital—more than ever before—drives wages and job opportunities. Real wages of blue-collar work, a traditional gateway job for medium- and low-skilled immigrants, have been in decline since the 1970s.

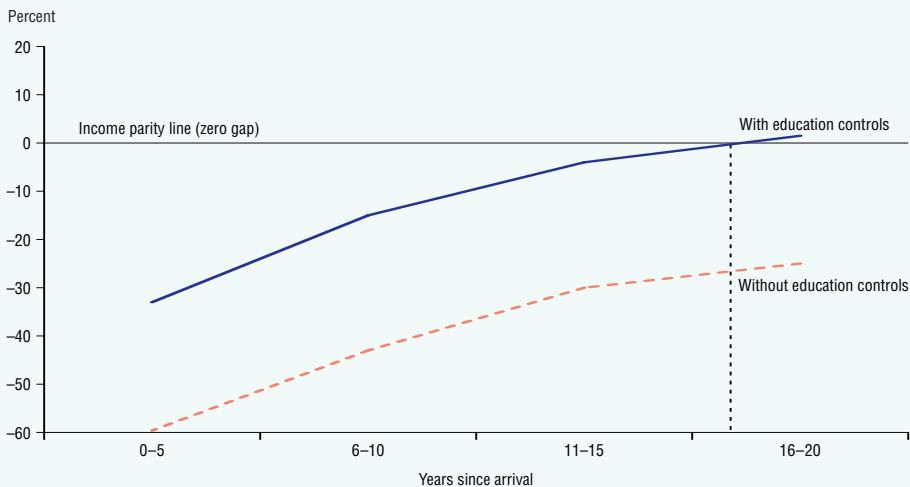
**Low-Skilled Immigrants: How Do They Do?**

The native–immigrant education distribution confirms that many immigrants are relatively low-skilled (*Chart 1*). 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

Chart 2

## Immigrants Assimilate to Comparable Natives

(Predicted native-immigrant earnings gap)



SOURCE: "Immigration Policy and the Skills of Immigrants to Australia, Canada and the United States," by Heather Antecol, Deborah Cobb-Clarke and Stephen Trejo, *Journal of Human Resources*, vol. 38, Winter 2003, pp. 192-218.

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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 seen in their higher labor force participation rates, and are less likely to be unemployed.

Because of this commitment to work—and despite other disadvantages such as lack of English fluency and familiarity with U.S. laws and institutions—immigrants assimilate and surpass earnings levels of like natives after about 16 to 20 years in the United States.<sup>3</sup> This is illustrated in Chart 2 by the solid line.

The earnings trajectory represents the wage gap between natives and immigrants by year of entry while controlling statistically for differences in education levels. This means that a high school dropout immigrant reaches the average earnings of a high school dropout native. It does not mean that low-skilled immigrants eventually reach average American income levels, which is what is typically meant by economic assimilation.

The dotted line shows the same earnings trajectory without statistically controlling for differences in the education level. As shown, low-skilled immi-

grants will not achieve average earnings levels of U.S. natives in their lifetimes. Their wages grow faster, but the growth tapers off before they reach income parity with average natives.

### What About Intergenerational Assimilation?

The evidence from Chart 2 suggests that full economic assimilation will require educational assimilation. Although many first-generation immigrants go back to school once they are established in the United States, it is often to learn English and not to pursue degrees such as a GED. As a result, educational assimilation of low-skilled immigrants is more likely to happen not within generations but across generations.

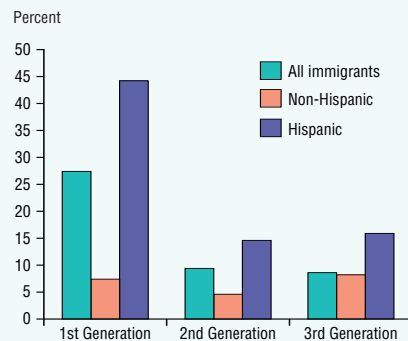
Turning to the data in Chart 3, educational assimilation appears alive and well. High school dropout rates for immigrants improve across generations, dropping from 27 percent in the first generation to 8.6 percent in the third generation.<sup>4</sup> The first generation is made up of the foreign-born (the immigrant generation), while the second generation is made up of U.S.-born children of immigrants. The third (and higher) generation—or “native” generation—is composed of all U.S.-born individuals of U.S.-born parents.<sup>5</sup>

There are, however, large differences

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Chart 3

### Immigrant Dropout Rates Fall Across Generations (16- to 24-year-olds)



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

among groups of immigrants. Non-Hispanic groups do the best. The first generation comes in at a 7.4 percent dropout rate, and then their dropout rates fall even lower in the second generation and continue below 10 percent in the third generation.

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 non-Hispanic rate.

Hispanic wages show a similar pattern. Mexican immigrants are both the largest group of Hispanic immigrants and the least educated. As shown in Chart 4, first-generation Mexican male immigrants make about 60 percent less than white (non-Hispanic) natives, and this improves to a 29 percent deficit by the third generation.<sup>6</sup>

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 *Chart 4*).

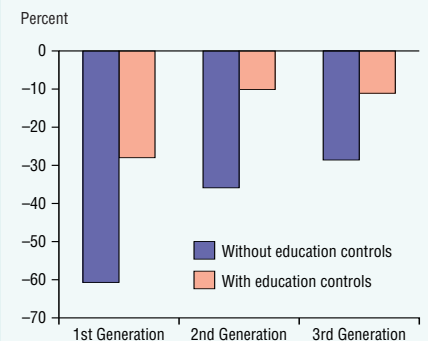
### What Explains the Education Gap?

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. Lower household income, limited English proficiency, lower parental education and larger family size negatively influence educational attainment of immigrant children.<sup>7</sup> How should these statistics translate to policymaking? Among other things, 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 some 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 is statistically significant in a regression framework explaining the determinants of educational outcomes. Why ethnicity matters (in addition to economic and social variables) is not well understood.

Chart 4

### Mexican Immigrant Wage Gap Improves But Persists (Hourly wage differentials of Mexican immigrants)



SOURCE: "The Wage Structure of Latino Origin Groups Across Generations," by Richard Fry and Lindsay Lowell (2003).

## Policy Implications of the Education Gap

Policy alternatives that are likely to help in dealing with the immigrant education gap are wide ranging. Implementing a legalization program 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. This would help prevent the education gap from being passed down from parents to children.

Some states, including Texas, California and New York, have taken a step in this direction by allowing undocumented children who graduate from state high schools to attend public colleges at in-state rates. Without this type of legislation, undocumented immigrants pay the much higher nonresident rate, putting a college education out of reach. A college education is not much help, however, if the graduate does not have legal permission to work. The Dream Act, complementary legislation pending in Congress, also provides a mechanism for certain undocumented immigrant students to apply for permanent residency.<sup>8</sup>

Educational outcomes can be impacted at an earlier stage by increasing spending on education and targeting at-risk kids in elementary and secondary schools. For example, despite a large number of immigrant schoolchildren, California and Texas spend below the national average on K–12 education. With state and local budgets under considerable strain, however, increased funding may not be forthcoming. Moreover, experience suggests that where and how funds are allocated can be more meaningful than the quantity allotted.

Other reforms may be more cost effective. For example, incentive pay for the best teachers would reward effort and reduce social promotion, which feeds low educational aspirations among immigrant children. Ending outmoded bilingual programs in favor of an English-only or dual-language approach might also help. California implemented English-only instruction after 1998. School districts across Texas have adopted innovative dual-language programs.

School districts could also do much more to accommodate immigrant students' special needs by translating information to parents, educating parents and keeping students at the same school when they move within districts.

## Immigrants Assimilate: But to What?

The children of immigrants, including Mexican-Americans, outperform the first generation. Their progress is encouraging and indicative of the melting pot at work. But ethnic discrepancies emerge in the third generation, where Hispanic immigrants assimilate to an ethnic educational outcome below the national average.

Mexican immigrants are a good example of this. They make up the largest and least-educated immigrant group. While they make the biggest gains after coming to the United States, they lag behind the national average in education and wage outcomes after several generations because they assimilate not to the national schooling average but to the Hispanic average. In sum, worrying about immigrant assimilation boils down to worrying about ethnic differences in educational outcomes in the United States. When it comes to the economic melting pot, we need to make sure there is only one pot.

—Pia Orrenius

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## Notes

- <sup>1</sup> "U.S. Immigration and Economic Growth: Putting Policy on Hold," by Pia M. Orrenius, Federal Reserve Bank of Dallas *Southwest Economy*, November/December 2003.
- <sup>2</sup> "Commentary 5," in "Five Commentaries: Looking to the Future," by Layla P. Suleiman Gonzalez, *Children, Families, and Foster Care*, vol. 14, Winter 2004, pp. 184–89.
- <sup>3</sup> Predicted native–immigrant earnings gap since year of arrival (Chart 2) is based on "Immigration Policy and the Skills of Immigrants to Australia, Canada and the United States," by Heather Antecol, Deborah Cobb-Clarke and Stephen Trejo, *Journal of Human Resources*, vol. 38, Winter 2003, pp. 192–218.
- <sup>4</sup> "Dropout Rates in the United States: 2000," National Center for Education Statistics, 2001, [www.nces.ed.gov](http://www.nces.ed.gov).
- <sup>5</sup> Ideally this would be the grandchildren of immigrants, but such separate identification cannot be made in the data.
- <sup>6</sup> This analysis and the data in Chart 4 are based on "The Wage Structure of Latino Origin Groups Across Generations," by Richard Fry and Lindsay Lowell, paper presented at Population Association of America Annual Meeting, Minneapolis, May 2, 2003.
- <sup>7</sup> *How Immigrants Fare in U.S. Education*, by Georges Vernez and Allan Abrahamse, RAND, 1996.
- <sup>8</sup> The Development, Relief and Education for Alien Minors (DREAM) Act (S. 1545) also repeals a federal law that attempts to prevent states from granting in-state tuition to undocumented immigrants.