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## **The Economic Integration of Immigrants in the United States**

Lessons for Policy

George J. Borjas\*

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### **Abstract**

The most important *economic* feature of immigration to the United States in the post-1965 period has been a significant deterioration in the economic performance of successive immigrant waves. The policy reaction to this trend would obviously differ if the entry wage disadvantage disappeared quickly, as the immigrants assimilated in the American economy and acquired skills and information valuable in the American labour market. This paper examines the determinants of economic assimilation, and discusses how the experience of earlier immigrant waves can provide valuable information about the assimilation process the new immigrants will likely experience.

Keywords: immigration, assimilation, economic integration

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\* Robert W. Scrivner Professor of Economics and Social Policy, John F. Kennedy School of Government, Harvard University.

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UNU World Institute for Development Economics Research (UNU-WIDER)  
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

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Concerns over the assimilation prospects of new immigrants to the United States have dominated the debate over US immigration policy since colonial days. Benjamin Franklin, for example, doubting the wisdom of German immigration, called the incoming migrants ‘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’. But Franklin also appreciated the benefits of assimilation and even made specific policy 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 ...’.

The most important *economic* feature of immigration in the post-1965 period has been a significant deterioration in the economic performance of successive immigrant waves. Relative to natives, the ‘new’ immigrants are not as skilled or as economically successful as immigrants who came in earlier waves. The policy reaction to this trend would obviously differ if the entry wage disadvantage disappeared quickly, as the immigrants assimilated in the American economy and acquired skills and information valuable in the American labour market. As a result, there has been a great deal of interest in measuring and understanding the determinants of the rate of economic assimilation, the rate at which the disparities in economic opportunities between immigrants and natives narrow over time.

There is an important link between the notion of economic assimilation stressed in this essay and the cultural issues that are traditionally emphasized in the debate over assimilation in the United States. In order to experience economic assimilation, an immigrant will often have to acquire skills that are valued by American employers, such as learning the English language, adopting the norms of the American work place, and moving to economically vibrant areas that may lie outside ethnic enclaves. Each of these decisions helps weaken the link between the immigrant’s foreign past and his or her American future.

Many immigrants, therefore, face an important tradeoff: In order to achieve economic progress they may have to discard the attributes, habits, and characteristics that can hamper the chances of success in the American economy, and pick up the ones that enhance those chances. Put differently, economic assimilation and cultural assimilation will often complement each other: there will be more assimilation of one type when there is more assimilation of the other.

Before proceeding to a more conceptual discussion of the issues regarding economic assimilation, it is worth summarizing the extent to which this type of assimilation has actually occurred in the past – both within a single generation, as the immigrants acquire labour market experience in the US labour market, and across generations.

Economists often measure the rate of economic assimilation by calculating how the wage gap between natives and a specific wave of immigrants narrows over time (see Figure 1). Consider the group of immigrant men who arrived in the late 1960s at a relatively young age (they were 25-34 years old in 1970). These immigrants earned 13 per cent less than comparably aged native workers at the time of entry. This wage gap had narrowed to about 3 percentage points by 1998, when both immigrants and natives were 53-62 years old. Overall, the process of economic assimilation reduced the initial wage disadvantage of these immigrants by 10 percentage points over a thirty-year period, and allowed them to almost ‘catch up’ with native earnings.

Relative wage of immigrants who arrived  
when they were 25-34 years old

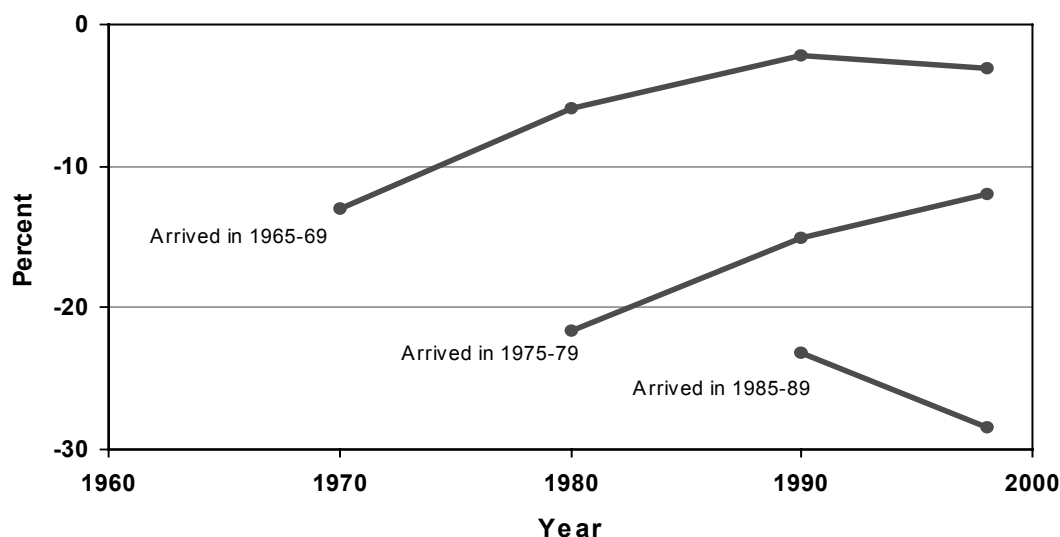


Figure 1. Economic assimilation within a generation

However, the young immigrants who arrived after 1970 face a much bleaker future – simply because they start out with a much greater disadvantage. Consider those who arrived in the late 1970s. By the late 1990s, twenty years after arrival, those immigrants were still earning 12 per cent less than natives. The situation is even gloomier for those who arrived in the late 1980s. They started out with a 23 per cent wage disadvantage, but the wage gap actually grew, rather than narrowed, during the 1990s. If the historical experience is used to extrapolate into the future, these cohorts should be able to eventually narrow the gap by about 10 percentage points, so that these immigrants will earn much less than natives throughout their working lives.

*What factors determine the rate of economic assimilation?*

The acquisition of English language skills plays a crucial role in economic assimilation simply because it opens up many more job opportunities. In other words, immigrants earn substantially more if they understand and speak English. For example, Hispanic immigrants who speak English earn 17 per cent more than those who do not, even after adjusting for differences in education and other socioeconomic characteristics between the two groups. And as much as half of the wage narrowing that occurs between immigrants and natives in the first twenty years after arrival can be attributed to the gains from learning the English language.

The rate of economic assimilation also depends on whether immigrants reside in an ethnic enclave. It is well known that immigrants tend to cluster in a small number of geographic areas. In 1990, a third of the immigrant population lived in only three metropolitan areas (Los Angeles, New York, and Miami). This clustering gave rise to the large ethnic enclaves that are a distinct feature of many American cities. As a result, a disproportionately large number of Mexican immigrants reside in Los Angeles;

a disproportionately large number of Cuban immigrants reside in Miami, and a disproportionately large number of immigrants from the Dominican Republic reside in New York.

Although it is reasonable to suspect that this clustering affects the economic performance of immigrants, it is far from clear how this influence works. Some observers of the immigrant experience, particularly those from a sociological perspective, argue that the geographic clustering of immigrants, and the ‘warm embrace’ of the enclave, helps immigrants escape the discrimination that they would otherwise encounter in the labour market. One could also argue, however, 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, obstructing the move to better-paying jobs. The existing evidence tends to suggest that ethnic clustering impedes economic assimilation. In other words, the rate of economic assimilation of an immigrant group that is clustered in a small region of the country would rise substantially if that group were randomly dispersed over the United States.

In sum, it seems that immigrants who choose to enter the economic mainstream – by becoming proficient in the English language and by avoiding the warm embrace of the ethnic enclave – are likely to become more fully integrated into American economic life.

It is well known that there is substantial dispersion in the relative wage of different ethnic groups in the first (that is, immigrant) generation. In 1998, for instance, immigrants from the United Kingdom earned 20 per cent more than the typical native worker in the United States, while immigrants from the Dominican Republic earned 40 per cent 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 immigrants who arrived in the United States a century ago. Nearly 24 million persons entered the country between 1880 and 1924. Not surprisingly, there were sizeable ethnic differences in economic achievement among the ethnic groups that made up the Great Migration. In 1910, for instance, English immigrants earned 13 per cent more than the typical worker in the labour market at that time, Portuguese immigrants earned 13 per cent less, and Mexican immigrants earned 23 per cent less.

It turns out that about 60 per cent of the wage gap observed between any two ethnic groups in 1910 persisted into the second generation, and that about a quarter of the initial wage gap persisted into the third. In rough terms, ethnic wage differences have a ‘half-life’ of one generation, so that roughly half of the wage gap between any two immigrant groups disappears between the first and second generations, and half of what remains in the second generation disappears between the second and the third.

The intergenerational ‘stickiness’ of ethnic wage differentials has important implications for any assessment of the long-run consequences of current immigration. In 1998, for instance, Canadian immigrants earned 120 per cent more than Mexican immigrants and 90 per cent more than Haitian immigrants. If the historical pattern holds, the third-generation descendants of today’s Canadian immigrants will earn about 25 per cent more than the descendants of today’s Mexican or Haitian immigrants around

the year 2100. Put simply, ethnicity matters in economic life, and it seems to matter for a very long time.

Many participants in the immigration debate typically assume that economic integration benefits not only immigrants, who are clearly better off as their economic situation improves, but also benefits the native-born population. As a result, the United States should pursue policies that encourage and nurture the assimilation process.

Ironically, from a purely economic perspective, it is unclear that the native population is better off when the immigrants assimilate rapidly. On the one hand, economic assimilation helps narrow the economic gap between less skilled immigrants and natives, reducing the drain on many social services. The rapid assimilation of disadvantaged immigrants would also reduce the chances that this population, clustered in poor ethnic ghettos, becomes a new underclass, the potential source of a great deal of social conflict. On the other hand, the economic gains from immigration arise from the *complementarities* that exist between immigrants and natives. For example, the immigration of less-skilled workers makes skilled native workers more productive, increases the profits of employers who use a less-skilled workforce, and reduces the prices of the goods and services produced by immigrants. In fact, economic theory implies that the economic gains from immigration are largest when the resources that immigrants bring into the United States, in terms of human and physical capital, most complement the resources that natives already own. An obvious implication of this approach is that the quicker the immigrants become like American workers – in other words, the faster the rate of economic assimilation – the quicker that those gains vanish.

It is often argued, for example, that the current immigration of large numbers of less-skilled workers benefits the native population because the immigrants do jobs that natives do not want to do. And, in fact, less-skilled immigrants populate large parts of the low-paid service, manufacturing, and agricultural industries. However, as economic assimilation takes place, and the skills of immigrants become more like those of natives, it becomes less and less likely that the immigrants will want to do those jobs. After all, the assimilation process should open up better paying opportunities for the immigrants. Hence the presumed gains from immigration vanish, and only a continuous replenishment of the low-skill immigrant population can halt the deterioration of native economic well-being.

Although the theory may be ambiguous as to whether the United States benefits from assimilation, I suspect that the cost of addressing the social and economic problems created by a large underclass of immigrants (and their descendants) greatly exceeds the economic gains that arise from production complementarities between immigrant and native workers. After all, those productivity gains are quite small to begin with (probably less than US\$10 billion annually). A simple cost-benefit calculation would then suggest that the United States would be better off by encouraging rapid economic assimilation, making it easier for immigrants to acquire the skills and human capital that increase their marketability in their newly adopted country.

One key message of the historical evidence on economic assimilation is simple. The vivid metaphor of the melting pot – where all the economic differences across ethnic groups melt away in a relatively short time – is not entirely right. A better metaphor is one of a ‘simmering pot’, where the ethnic differences dissolve slowly.

The post-1965 resurgence of immigration has introduced many new ethnic groups into the American mosaic, and also introduced substantial ethnic differences in skills and economic outcomes. How will the simmering pot transform these differences over the course of the twenty-first century? As much as we would like to use the historical experience of earlier waves of immigrants to predict the future performance of current immigrants, I have come to believe that the historical record provides very little guidance. The assimilation of immigrant groups during the past century was influenced by unique historical events and by social and economic circumstances that are difficult to replicate. Consider:

1. The different waves of immigrants who entered the United States at the beginning and end of the twentieth century faced dramatically different economic conditions. The large immigrant flow in the early 1900s, composed mainly of less-skilled workers, helped build the manufacturing sector. For example, three-quarters of the workers at the Ford Motor Company in 1914 were foreign-born and over half of these immigrants came from the undeveloped areas of southern and eastern Europe. These manufacturing jobs evolved and eventually provided stable and well-paying economic opportunities to many immigrants and their descendants. The US manufacturing sector, however, stopped thriving long ago. As a result, the post-1965 immigrants, many of whom are again relatively low-skill, have few well-paid job opportunities in that sector. In fact, the historic rise in the wage of high-skill workers relative to that of low-skill workers during the 1980s and 1990s indicates that the relative demand for low-skill workers fell dramatically in recent decades. It is unclear, therefore, that the economic conditions facing the current flow of less-skilled immigrants will provide the same assimilation opportunities that the growing manufacturing sector offered to their counterparts a century ago.
2. The expansion of the welfare state in recent decades has radically altered the set of economic incentives facing disadvantaged groups, and will likely slow down the rate of economic assimilation. Welfare programmes 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 TANF household residing in California received around US\$12,600 worth of assistance, including cash assistance, food stamps, Medicaid, and other benefits. At the same time, per-capita income in China and the Philippines was around US\$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 in the United States from returning to their source countries. In short, the welfare state creates a magnet that influences the migration decisions of persons in the source countries, potentially changing the composition of the immigrant population in the United States in ways that may not be economically desirable. Although little is known about the intergenerational transmission of welfare dependency, the income opportunities provided by the welfare state will obviously influence the immigrant's decision to acquire human capital in the United States, and affect the rate of economic assimilation of immigrants both within and across generations.
3. Remarkably, there is less ethnic diversity among post-1965 immigrants than there was among early twentieth century immigrants. In particular, current immigration is much more dominated by a few ethnic groups than the Great Migration ever was. In 1990, for example, Mexicans made up almost 30 per cent of the immigrant

population. In contrast, Germans and Russians – the two largest groups of the First Great Migration – accounted for only 15 and 12 per cent of the immigrant population, respectively. The relative lack of ethnic diversity in post-1965 immigration may greatly reduce the incentives for assimilation by allowing the largest ethnic groups to essentially develop separate enclave economies and societies, interacting little with the economic mainstream. The available empirical evidence suggests that these ethnic enclaves impede the assimilation process. The lack of diversity among current immigrants, therefore, creates one additional obstacle on the road to economic assimilation.

4. The political reaction to the social and economic dislocations associated with the Great Migration was swift and severe. In 1924, the United States adopted strict limitations on the number and type of persons who could enter the country in any given year. This policy shift, combined with the poor economic opportunities available during the Great Depression, effectively imposed a moratorium on immigration. In the 1920s, for example, 4.1 million persons entered the United States. In the 1930s, only half a million persons entered the country. The moratorium provided a ‘breathing period’ that may have fueled the assimilation process by cutting off the supply of new workers to ethnic enclaves, and by reducing the economic and social contacts between the immigrants and the various countries of origin.
5. 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, and by the fact that some large ethnic groups originated in countries that were on the wrong side of these armed conflicts. Consider, in particular, the circumstances faced by German-Americans and Italian-Americans. The American reaction against German language and culture during the first World War was swift. For example, the *Harvard Encyclopedia of American Ethnic Groups* reports that ‘by summer 1918 about half of the [U.S.] states had restricted or eliminated German-language instruction, and several had curtailed freedom to speak German in public ... The total number of German language publications declined from 554 in 1910 to 234 in 1920’. Similarly, it is hard to ignore General George Patton’s colourful exhortation to his troops on the eve of the American invasion of Sicily on 9 July 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 these social circumstances and attitudes had a distinctive effect on the assimilation process experienced by Germans and Italians in the United States.
6. Finally, the favourable ideological climate that boosted social pressures for assimilation and acculturation throughout much of the twentieth century has all but disappeared. Put differently, the consensus summarized by the motto of the United States seal, ‘*E pluribus, Unum*’ (From Many, One), no longer exists. It has now been replaced by such multicultural sound bites as ‘Death by English’ and ‘Cultural assimilation, cultural acculturation ... or cultural assassination!’ The adverse impact of these attitudinal shifts on economic assimilation is compounded by government policies that encourage some immigrants to retain their ethnic and racial identities in



order to qualify for particular benefits. For instance, affirmative action programmes effectively require that members of a particular group (for example, a young black immigrant trying to gain admission into an elite college or a Cuban entrepreneur who wishes to apply for minority set-asides) refrain from joining the economic mainstream in order to boost their chances of receiving the government-mandated assistance. Putting aside the obvious fact that these are not the grievances that the original framers of affirmative action programmes wished to redress, the programmes may exact a cost on the immigrant population by slowing down the economic assimilation of many qualifying ethnic groups.

Over the course of the twentieth century, the United States developed a highly nuanced immigration policy, making the immigration statutes almost as complicated and as long as the federal tax code. To a large extent, current policy awards most entry visas to persons who have relatives already residing in the United States, with differential degrees of preference depending on whether the sponsor is a US citizen or a permanent resident; and on whether the family connection is a close one (such as a parent, spouse, or child) or a more distant one (a sibling). Generally, these nuances help determine the speed with which the visa is granted, with closer family connections typically leading to speedier entry.

Remarkably, the immigration statutes have nothing to say about assimilation. Not only are the assimilation prospects of a potential migrant ignored when awarding the entry visas, but the statutes do not contain any regulations that would either encourage or discourage economic assimilation after the immigrant enters the United States. Except for issues relating to the naturalization process, the reach of immigration policy over most immigrants ends once the immigrant enters the country.

The nonexistence of an assimilation policy is quite unique among immigrant-receiving nations, where assimilation incentives are often built directly into the system that awards entry visas. An extreme example of this linkage is provided by New Zealand. In the late 1990s, New Zealand required that the 'principal' immigrant in the household be proficient in the English language, but allowed this principal immigrant to bring in family members who were not. However, a family member who could not pass the 'English standard' at the time of entry had to post a bond of US\$20,000 in the local currency (US\$11,000). If this family member passed an English test within three months after arrival, the entire bond was refunded. If the family member failed this test at the three-month point but passed it within a year after arrival, the government refunded 80 per cent of the bond. If the family member failed to meet the English standard within a year after arrival, the family forfeited the entire bond.

As I have argued, it is unlikely that the social and economic conditions likely to face immigrants and their descendants in the next century will replicate those that boosted incentives for assimilation in the last century. As long as economic assimilation is perceived to be a desirable outcome of the immigrant experience, therefore, it seems prudent to reform entry policies so that preference is given to those immigrants who are more likely to have a successful assimilation experience, and to adopt policies that directly encourage economic assimilation.

Although it would be valuable to extend the reach of immigration policy to assimilation issues, it is unlikely that a political consensus can be created to design such policies, particularly since there is so much disagreement on whether assimilation itself is a goal

that the United States should pursue. Consider, for example, the political implications of some of the policies that could easily increase the rate of economic assimilation. These policies include toughening the requirements for the civics and English language examination that immigrants take when they wish to become naturalized citizens; testing Benjamin Franklin's 250-year-old insights on assimilation by providing financial incentives for particular immigrant groups to resettle in non-immigrant areas; and overhauling the defective system of bilingual education that physically isolates the children of immigrant families in classrooms taught in their native language for years. All of these policy proposals are politically charged and highly contentious, and are unlikely to ever be implemented in the current social climate that values multiculturalism and derides the assimilationist ideology that dominated the political debate for much of the twentieth century.

As a result, it would seem that the best chances for adopting policies that speed up economic assimilation lie in reforming the entry criteria so as to favour the entry of persons who are most likely to be economically successful in the long run. I have often argued that the native-born population of the United States would be better off if the country adopted a point system, similar to that used by Australia and Canada, which filtered the applicant pool on the basis of various socioeconomic characteristics. A point system would 'grade' the economic potential of potential migrants, using such variables as age, educational attainment, occupation, and English language proficiency, and award entry visas to those applicants who most closely match the country's economic needs. The adoption of a point system that favoured the entry of skilled workers would likely also boost the chances for economic assimilation in the immigrant population.

In sum, the historical experience of past waves of immigrants provides little guidance for predicting the future assimilation prospects of current waves. The economic assimilation of the immigrants who arrived at the beginning of the twentieth century occurred under a unique set of historical, social, and economic circumstances, and it is unlikely that these circumstances will be replicated in the next century. As a result, I suspect that the rate of economic integration of the current immigrants may not be as rapid as that experienced by their counterparts a century ago.

The post-1965 resurgence of immigration has already set the stage for ethnic differences in economic outcomes that are likely to be a distinctive feature of the American economy throughout the twenty-first century. These ethnic differences will almost surely be a dominant feature of the social and political landscape in the United States, and will play a central role in the debate over social policy for many decades to come.