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**ASSIMILATION OF IMMIGRANTS:
IMPLICATIONS FOR HUMAN CAPITAL ACCUMULATION OF THE
SECOND GENERATION***

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Abstract

Immigrants assimilate in various dimensions at different rates. Moreover, in each of these dimensions they assimilate at rates that may differ from those of their children. The purpose of this paper is to examine how the pace of assimilation of immigrants in various dimensions affects the rate of human capital accumulation of immigrant children. It is argued that rapid assimilation in certain dimensions serves to increase the rate of human capital accumulation of the second generation, while in other dimensions it may have the opposite effect.

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1. Introduction

Assimilation of immigrants is a multidimensional process of enormous complexity. Over time, this process makes immigrants more similar to the native population in terms of earnings, human capital, occupational status, consumption, housing, social customs, values and attitudes, language proficiency, family relations and fertility, educational attainment of children, and many other dimensions. The process is guided by an array of incentives and constraints facing the immigrant family. These may accelerate assimilation in some dimensions and retard it in other dimensions. In each of these dimensions, the pace of assimilation may influence the rate of human capital accumulation of immigrant children and their ability to make a significant contribution to the economy of the host country. One of the objectives of this paper is to identify the nature of this influence in an effort to stimulate further research on the mechanics of assimilation and its impact on the socioeconomic status of second generation immigrants.

It is also clear that individual members of an immigrant household may assimilate in certain dimensions at different rates. Children may pick up the language of the host country or assimilate in terms of consumption patterns and leisure activities more quickly than their parents do. In addition, there may be differences in the pattern of assimilation between sons and daughters of immigrants, particularly if female children are subject to tighter behavioral constraints within the immigrant household. As we shall see below, these various forms of asymmetry may also have important implications for the rates of human capital accumulation of second-generation immigrants.

The remainder of the paper is organized as follows. Section 2 looks at the role of transactions costs and expected gains from exchange in the assimilation process. This discussion provides a basis for some of the analysis in Section 3, where we examine how the pace of assimilation of an immigrant family in various dimensions affects the rate of human capital accumulation of immigrant children. Section 4 looks at the implications of asymmetries between the rates of assimilation of immigrant parents and children with respect to the economic performance of the second generation. Finally, Section 5 provides some concluding remarks on the role of public policy in the assimilation process.

2. Ethnicity, Expected Gains from Exchange and the Assimilation Process

Certain groups of immigrants tend to be more welcome than others. Residents of the host country typically extend much warmer hospitality to immigrants who share their ethnicity, religion, language, customs, experience, skin color, etc. There seems to be a perception that transactions costs, whether in the markets for goods, labor services, housing, business services, or in social interactions, are lower between individuals that have a number of these characteristics in common. If they speak the same language, there is less scope for a misunderstanding. If they are members of the same ethnic group, they perceive a high probability of meeting again in the course of further transactions, whether in the same market or in other markets and contexts. This provides both sides with an incentive, sometimes quite strong, to honor their explicit as well as implicit commitments. Such incentives play an important role in reducing expected transactions costs between agents and facilitating economic and social interaction.

Common culture and experience of a particular ethnic group also gives members confidence, when dealing with each other, in being able to distinguish between “good” and “potentially bad” trading partners. When dealing with someone of a very different culture, ethnicity and other characteristics, the perceived risk of not being able to predict with confidence a trading partner’s behavior serves to reduce the number of what are perceived to be potentially fruitful market and social transactions. In other words, it serves to reduce the value of the expected future gains from trade and hence the incentive to invest in a trading relationship. For immigrants who have little in common with the natives, this can significantly restrict trading opportunities and other types of interactions. Limitations on such opportunities make it more difficult to find appropriate work, legal protection, education and training, goods and services, housing, and everything else that involves personal contacts with the natives. This has important implications, as we shall see below, for the economic performance and the rates of human and physical capital accumulation of immigrants and their children.

In choosing a destination, immigrants obviously take these factors into consideration. They are aware that unfavorable social and/or government forces reduce the set of opportunities available to them and lower the valuation of their human capital. By contrast, if they arrive in the proximity of their own ethnic communities that control and are willing to share valuable economic and social assets, their prospects are considerably more favorable. This gives rise to a tendency for immigrants to concentrate in areas already populated by individuals with similar ethnic and cultural backgrounds. Those

helped by the members of their ethnic group are likely to assimilate more quickly in certain dimensions, including occupational advancement, earnings, housing, and education of their children, but less rapidly in other dimensions such as host-country language proficiency, consumption, attitudes, customs, and family values.

3. Assimilation of Immigrants and the Prospects for their Children

The environment that immigrants encounter at destination plays a crucial role in determining their path of assimilation and the pace of human capital accumulation of their children. Portes and Zhou (1994) emphasize the role of political relations between the sending and receiving countries, the degree to which the immigrant group meets discrimination, and the availability of valuable social capital within the pre-existing ethnic community.¹ Also important are the circumstances under which migration occurs and the motives behind the move. To the extent that economic migrants may have a wider range of choice in selecting a destination than do refugees, they are more likely to choose a country where they expect the assimilation process to be smooth and highly rewarding. Economic migrants are also more likely to arrive with a larger endowment of resources, including human capital. In consequence, they tend to exhibit more rapid assimilation than do the refugees. As noted by Bauer, Loftstrom and Zimmermann (2000), it is also important to distinguish between temporary and permanent immigrants. Those who intend to stay temporarily in the host country have much less incentive to assimilate and to invest in human capital specific to the host country (Dustmann 1993). They are therefore likely to exhibit a slower pace of assimilation than do permanent immigrants, holding other characteristics of the two groups constant.

The rate of assimilation of immigrants is thus a process guided by the environment at destination, the various characteristics of the immigrant family that define the household's resources and constraints, and finally the set of preferences that shape the objectives of various family members along the path of assimilation. In the discussion below, we will not attempt to identify in a systematic fashion all of the individual factors influencing the rates of assimilation in various dimensions. That would require a much broader study that is beyond the scope of this paper. Instead, our focus is on the pace of assimilation in a number of dimensions, whatever the determinants may be, and the implications for human capital accumulation of immigrant children. What we argue in the following subsections is that rapid assimilation of immigrants in certain dimensions serves to accelerate the process of human capital accumulation of their children, while in other dimensions it may have the opposite effect.

3.1. Social Customs, Attitudes and Family Values

Social customs, attitudes and values of immigrants may differ drastically from those of the native population. More importantly, they are not likely to change very quickly. In many cases this can give rise to a lack of trust and confidence between the natives and newcomers, contributing to high expected transactions costs and low expected gains from commercial and social interactions between members of the two groups. Immigrants may be shunned by the natives and even discriminated against in various forms. They are likely to respond by avoiding contacts with the natives. Both the behaviors of

immigrants and of natives in such situations slow down the pace of assimilation in many dimensions and have important economic implications for immigrants and their children.

There are two basic elements here. First, to the extent that differences in attitudes and values impose limitations on economic and social opportunities, they prevent immigrants and their children from realizing their economic potential and enjoying the full return on their human capital investments. This tightens their budget constraint and sets the immigrant family on a lower time path of consumption and human capital accumulation than the one attainable in the absence of discrimination. Second, to the extent that immigrants do not see themselves as having access to opportunities similar to those of the natives, their incentives for human capital formation are affected. The perception that differences in attitudes and values eventually translate into lower rates of return on human capital serves to discourage immigrants from making such investments and to favor consumption instead.

Persistence of differences in customs, values and attitudes between immigrants and natives may also have *positive* implications for the pace of human capital accumulation of immigrant children. Second generation children are more likely to live in households with both parents than are their native counterparts. As reported by Jensen and Chitose (1996), US household heads with second generation children are more likely to be married (87% vs. 78% for the native households with children) and are correspondingly less likely to be divorced, separated or never married. This observed tendency of immigrant families to stick together reflects incomplete assimilation. In this case,

however, it has a positive impact on the pace of assimilation of immigrant children into the mainstream of the host country society. It serves as a stabilizing element that contributes to a better academic performance and economic success of the second generation.

As noted by Waters (1996), second-generation West-Indian teens in New York often attribute their academic success to family values. In contrast with black Americans, they feel that they have close-knit family values that emphasize educational achievement. Similarly, a survey of Vietnamese immigrants in the Versailles neighborhood of New Orleans reveals that "...adherence to traditional family values, commitment to work ethic, and ethnic involvement all have significant effects on academic orientation..." [Zhou and Bankston III (1996), p. 216]. Portes and Zhou (1994) observe a similar pattern in the case of Punjabi Sikhs in the state of California.

A study by Matute-Bianchi (1991) examined the drop-out rates at a high school in a small community in central California, known for its agricultural activity and immigrant participation in the labor force. While more than half of the U.S.-born Spanish-surname students were found to have dropped out of high school by their senior year, the drop-out rate was only 40% for native white students and 35% for Spanish-surname students originally classified by the school as having Limited English Proficiency (LEP). LEP status is usually assigned to recently arrived immigrants.

Adherence to traditional family values and emphasis on educational achievement, however, has been observed to diminish over time as immigrant children move along the path of assimilation. In a recent investigation, Portes and Rumbaut (2001) examine the relationship between school engagement and effort of immigrant children and their length of U.S. residence. They find that the longer an immigrant child has lived in the U.S., "the lower the importance he or she attributes to school grades and the more his or her schoolwork habits approach the (low) average of the general student population. The achievement drive common among many immigrant children, especially those of Asian origin, declines steadily over time." These findings suggest that a *slow* pace of assimilation in terms of family values and traditions may help strengthen the process of human capital accumulation of immigrant children.

In relation to native households, immigrant households are also more likely to include one or more grandparents. This reflects different family values and relations as well as cultural differences between the two groups. To the extent that grandparents can play a useful monitoring role within the household, they can help improve the performance of immigrant children in school. Grandparents can encourage children to spend more time doing homework, to develop strong work habits, and to appreciate more fully the role of their scholastic achievement in the family's struggle to attain its social and economic objectives. Thus, once again, a slow pace of assimilation in one dimension (family values and relations) may serve to accelerate the pace of assimilation of immigrant children in terms of human capital formation and eventually earnings.

It is also the case that immigrant households have, on the average, a larger number of children than do native households. On the basis of US Census data, Jensen and Chitose (1996) report the average size of households with second-generation children to be 5.2 persons and only 4.4 for native families with children. This may imply that scarce immigrant family resources have to be spread over a larger number of individuals, placing each of the children at a disadvantage relative to its native counterparts. It can result in slower assimilation of immigrant children in terms of human capital accumulation and economic performance.

3.2. Consumption

Consumption of immigrants covers a wide range of goods and services. The pace of assimilation will not be identical over the entire spectrum because some habits and preferences are more difficult to change than others. There are, however, strong incentives to assimilate. The sheer availability of goods and services that are typically consumed by the natives provides immigrants with a push to adopt the local consumption patterns. The fact that prices of goods traditionally consumed by immigrants are sometimes high in relation to other types of goods in the host country provides another incentive towards assimilation in consumption. Moreover, continuous contact with the native community and shared exposure to commercial advertising of products supports rapid assimilation of consumption patterns, particularly those of immigrant children. The tendency of children to assimilate host-country consumption patterns more quickly than their parents do is a potential source of friction within the

immigrant household. As we shall see below in Section 4, this may impede assimilation of immigrant children in other dimensions.

In relation to human capital accumulation and economic performance of the second generation, a relatively rapid rate of assimilation in consumption may have positive as well as negative consequences. The pattern of consumption of commodities and leisure enjoyed by the natives corresponds not only to their preferences, but also to their income and wealth. An immigrant family or some of its members may try to mimic, consciously or otherwise, the consumption pattern of natives in advance of having accumulated the corresponding endowment of capital or having attained the corresponding level of earnings. This behavioral pattern may reflect a desire to signal successful adjustment to other members of the immigrant community or to the native population. Any such effort to emulate the consumption of “wealthier” natives is likely to set the immigrant family on a path of capital accumulation that is lower than the one attainable in the absence of such behavior. It will tend to weaken the economic performance of the second generation and lengthen the period of time needed to catch up with natives in terms of income and wealth. In this case, rapid assimilation in one dimension, namely consumption, may give rise to slower assimilation in terms of economic performance and human and physical capital accumulation.

In some cases, however, what appear to be high consumption expenditures relative to income of an immigrant household, may in fact be investment expenditures designed to enhance the valuation of the family's human capital endowment. Rapid assimilation in

terms of consumption patterns (clothing in particular) makes the immigrants appear to be more “like” the natives. This may help reduce transaction costs and increase expected gains from trade from the perspective of the natives. If so, it opens up a wider range of social and market opportunities for immigrants and their children. It may result in greater prospects for professional advancement, wider range of housing availability, more educational opportunities, and lower prices paid for goods and services. All this has both direct and indirect effects on human and physical capital accumulation of immigrants and their children. On the one hand, it serves to relax the budget constraint of the household, enabling it to allocate more resources to human and physical capital accumulation. On the other hand, by widening the range of potential opportunities and increasing the expected return on human capital investments, it encourages the immigrant household to allocate more resources to human capital formation. This is particularly true in the case of immigrant children, where the payoff is likely to have the greatest impact on the family’s future income stream.

3.3. Housing

The quality of housing and the neighborhood in which immigrants settle are often very different from those of an average citizen of the destination country. There are many reasons for this. Differences between natives and immigrants in terms of earnings and wealth imply different choices. In addition, as noted above, immigrants tend to concentrate in geographic locations within the host country where they can enjoy the benefits of the already established ethnic networks. On the negative side, however,

housing choices of immigrants may be affected by discriminatory practices of the natives.²

The choice of housing affects not only the quality and quantity of living space available to the immigrant family, but also access to business, educational, consumption and recreational opportunities, as well as opportunities for social contacts with natives.

Discrimination in housing, as subtle as it may be in some communities, imposes what is essentially a tax on a key household consumption and investment good. It can serve to separate immigrant communities from those of the native population, hampering the acquisition of host-country language skills by immigrants and their children. This slows down the process of assimilation and serves to maintain a barrier between immigrants and the opportunities for employment, human capital accumulation, and professional advancement in the host country.

Distorted choice of housing can also interfere in a number of ways with the progress of children in school. Inadequate space, noise and pollution, distorted choice of community, school and social environment can all have a significant impact on the scholastic performance of immigrant children and their economic prospects [Matute-Bianchi (1991)]. Moreover, especially in the case of children, it is social contacts that shape aspirations and perceptions of obstacles that stand in the way of achieving major lifetime goals and objectives. The neighborhood and the socioeconomic environment in which immigrant children are brought up have an important influence in this respect. They form the second generation's attitudes towards the host-country society, its laws and

customs, but also with respect to accumulation of human capital and other vehicles essential to upward economic and social mobility (see Jencks and Meyer, 1990; Crane, 1991; and Corcoran *et al*, 1992).

As noted above, geographic concentration of immigrants in specific locations of the host country is often voluntary and not necessarily an outcome of discriminatory practices of the natives. Whatever the fundamental causes of segregation may be in a particular case, a strong receiving co-ethnic community often provides newcomers with a wide range of economic and social resources, serving to accelerate their assimilation in terms of earnings, professional growth, and human capital accumulation (Borjas, 1992, 1995). At the same time, it may give rise to slower assimilation of immigrants in terms of host country language proficiency, consumption, social attitudes, customs, family values and other dimensions.³ This reflects the fact that the benefits of assimilating in some of these dimensions are reduced in tightly knit ethnic communities, removing to a significant extent the incentives for assimilation. In the case of consumption, social attitudes and family values, the ethnic community may not only fail to encourage assimilation relative to the natives, but may actually penalize members who assimilate too rapidly.

3.4. Language Proficiency

Destination language skills of immigrants have an important influence on the speed of assimilation in many other dimensions, but especially in terms of earnings, professional growth, and accumulation of human capital specific to the host country [see, e.g., Chiswick (1978, 1991), Chiswick and Miller (1992, 1995, 1999), Dustmann (1994),

Rivera-Batiz (1996)]. Language skills are not only a productive form of human capital, but they also increase the productivity of other forms of human capital. Immigrant parents and children therefore invest time and other resources to acquire language skills at a rate that equates, from their perspective, the marginal cost with the marginal benefit of destination language acquisition.

Numerous empirical studies examine some of the factors that influence immigrant acquisition of language skills. The most important variable in many of these studies is the age at immigration. Younger immigrants acquire destination language skills more quickly than do older immigrants [see the recent studies by Chiswick and Miller (1998, 2001), Stevens (1999), and the references therein]. Language skills are also found to increase with immigrant exposure to destination language. Exposure depends on the number of years spent in the host country and the degree to which the dominant language is used within the immigrant household and in the community where the immigrant lives and works. Marriage to a person proficient in the immigrant's origin language obviously reduces exposure. Presence of children within the household can have a positive effect as children learn the destination language very quickly and may be able to transfer language skills to their parents.⁴

As noted earlier, host country language proficiency and literacy is an important determinant of earnings of immigrants as it enables them to market and utilize more fully their human capital endowments. It also facilitates and encourages accumulation of human capital, particularly that specific to the host country. All this serves to expand the

budget constraint of an immigrant family, enabling it to allocate more resources to the process of human capital accumulation of the second generation.

By contrast, immigrants with a low level of language proficiency will not do as well in the labor market. They have a higher cost and lower efficiency of job search. They are likely to obtain most of the information on employment opportunities from members of their own ethnic group. This provides them with a rather restricted information set, which may be relatively complete with respect to information on opportunities in the industries with a large presence of members from the same ethnic group, but contains too little information on other, perhaps more attractive employment opportunities. What is true with respect to the information set is also true with respect to privileged contacts with potential employers. Moreover, immigrants with low language proficiency may not have access to occupations where language skills have a significant effect on productivity. The employment pattern that emerges is likely to result in earnings and occupational advancement prospects that are inferior in relation to those available to the natives [see Chiswick and Miller (1992, 1995, 2001)].

In addition to the link between an immigrant's language proficiency and his or her earnings, which affects the performance of the second generation via the household's budget constraint, there are other channels of influence. Parents with poor language skills are less able to help their children in school or assist them in getting the full benefits that may be available from other formal and informal institutions of the host country. They are also less able to identify areas of academic and professional

opportunity for their children. Inability to identify such opportunities normally entails a waste of scarce family resources, suboptimal investments in human capital and poor economic performance of the second generation. Thus a slow pace of assimilation of immigrants in terms of language proficiency may have far reaching implications for the success of their children. To the extent that public policy actively promotes host-country language acquisition of immigrants, as it does in a number of host countries, it also serves to facilitate human capital accumulation of the second generation.

Language proficiency is even more important for the children of immigrants as there is a strong positive relationship linking it to scholarly performance. There is also evidence of a positive relationship between language ability of immigrant children and their academic and professional aspirations [Portes and Schauffler (1996)]. Aspirations, in turn, tend to be reliable predictors of subsequent performance [Sewell and Hauser (1972) and Haller and Portes (1973)].

4. Intergenerational Differences

Immigrant children and their parents face different assimilation incentives and constraints in the host country. In consequence, they adjust at different rates in the various dimensions of the assimilation process. The purpose of this section is to examine the implications of such intergenerational differences in relation to the process of human capital accumulation of the second generation.

4.1. Pace of Assimilation and Parent-Child Conflict

Intergenerational differences in the pace of assimilation in consumption, language proficiency, and customs can have an impact on the ability of immigrant parents to influence the behavior of their children. It is often the case that children of immigrants prefer not to have their parents seen or heard by their classmates at school functions and other social occasions. Being eager to fit into their host-country environment, they prefer if their friends did not see how their parents dress, set their hair, act, or speak the host-country language. They may feel a sense of shame, which in itself reflects a situation in which the authority of the parents is being eroded. Any such erosion puts into question parental judgment and values, including emphasis on education, strict discipline for children and a strong work ethic. The ultimate effect on the pace of human capital accumulation of the second generation can in such cases be strong and negative.⁵

Portes and Rumbaut (2001) find a positive correlation between a child's embarrassment with parents' cultural ways and parent-child conflict. They also find that academic aspirations of immigrant children are positively correlated with a measure of family cohesion and negatively correlated with parent-child conflict. The degree of family cohesion is "transported" to some extent by the immigrant household to the host country. It may also be influenced, however, by the environment facing the immigrant family at destination. A supportive environment, characterized by a well established and resourceful co-ethnic community can have a stabilizing influence. Existence of private schools geared to immigrant community values can serve to reinforce the authority of the parents and enhance family coherence. Problems such as discrimination and lack of resources can also provide incentives for the family to stick together, while at the same

time making the household much more vulnerable to external factors that can destabilize the family unit.

4.2. Gender and Cultural Traditions

Immigrant families often impose different restrictions on their children, depending on gender. Female children may be responsible for performing services in the household, including care for their younger brothers and sisters, while boys may be exempted from such duties. Social contacts -- and in particular dating -- are often found to be significantly more restricted for girls than they are for boys in immigrant households. Such constraints reduce the pace of assimilation of some members of the immigrant family relative to others and can become a potential source of friction. This often takes the form of an intergenerational conflict between parents and their female offspring. All such frictions tend to reduce cooperation and increase transaction costs within the household, resulting in a loss of efficiency in the utilization of household resources and a setback in relation to the household's social, economic and capital accumulation objectives.

Intergenerational asymmetries in the pace of assimilation often entail parental pressure on immigrant children to retain the cultural traditions of the source country. Such pressure can also generate frictions within the immigrant household. As noted by Portes and Rumbaut (2001), immigrant children are sometimes obliged to develop a dual personality as they try to meet the expectations of their parents by staying close to home and

retaining certain cultural traditions, while at the same time trying to meet their own aspirations at school and wider society.

4.3. Discrimination

Discrimination by natives and the way it is perceived by immigrant parents and children may also have an influence over intergenerational relations within the immigrant household. Findings of Rumbaut (1996) suggest that the more discrimination is experienced by an immigrant youth and the more the youth perceives that people will discriminate against other people regardless of their educational achievements, the less credible is the view of immigrant parents that education is a key to success. This difference in attitude can be a significant source of friction between immigrant parents and children, particularly in relation to the process of human capital accumulation.

First generation immigrants tend to accept and live with discriminatory practices of the natives, particularly if they consider themselves better off *with discrimination* in the destination country, relative to what they had in their country of origin. By contrast, the children of immigrants do not consider the conditions in the country of origin of their parents as the benchmark, but rather the conditions facing their native counterparts. They may refuse the low-pay jobs of the first-generation immigrants and could actually experience socioeconomic decline relative to the position of their parents. Their reactions to discriminatory practices of the natives can therefore be quite different from the reactions of their parents.

Gans (1992) and Portes and Zhou (1993, 1994) describe the possibility that the children of immigrants might react to perceived discrimination against them by assimilating into subcultures with limited socioeconomic mobility. When the dominant society frustrates their desire for full acceptance, they may develop an adversarial stance toward the dominant society, and assimilate into the oppositional identities of native racial minorities as a means of preserving their sense of pride and self-worth. This is the case where children of immigrants achieve a high degree of assimilation in many dimensions, but fail to assimilate into the socioeconomic mainstream of the host country.

Those who avoid assimilation by maintaining close ties to their ethnic community and subculture may in some cases have a better chance of achieving social, educational and economic mobility. As noted earlier, strong ethnic networks can provide access to economic opportunities, but also reinforce parental authority and values. These factors serve to strengthen the process of human capital accumulation of immigrant children.

4.4. Return Migration

Asymmetric assimilation of immigrant parents and children may also give rise to intergenerational differences in attitude with respect to return migration. Immigrant children carry less historical baggage with them from the source country along the path of assimilation. They are therefore able to adjust more quickly to their new environment. The process is even smoother in the case of immigrant children born in the host country. Their parents, however, assimilate more slowly in most dimensions, and continue in many cases to cherish the thought of retiring in their country of origin. For obvious

reasons they would like to see their children come along. This would enable the returning immigrants to benefit from the care, companionship, and support that children normally offer to their elderly parents.

In light of such considerations, immigrant parents who anticipate a high probability of return migration have an incentive to encourage their children to concentrate their educational training in those areas that would be particularly useful in their country of origin. At the same time the children face other incentives which may pull in different directions. This may result in frictions between immigrant parents and children that can entail a loss of efficiency in the process of human capital accumulation. In particular, it is likely to reduce the second generation's rate of accumulation of human capital that is specific to the host country [Djajić (2000)]. Should the immigrant children decide to remain in the destination country, their prospects for assimilation in terms of both human capital and earnings are impaired.

5. Concluding Remarks

Due to large immigration flows over the last couple of decades and a somewhat lower fertility rate of the natives relative to that of the newcomers, second-generation immigrants are destined to play a significant role in the labor force of many industrial countries.

Whether or not that role is highly productive, depends to a considerable extent on the amount of human capital accumulated in the host country by immigrant children. This paper takes some initial steps in the analysis of the links between the process of assimilation and human capital accumulation of the second generation. A more complete understanding of

these links is essential to an informed debate on the optimal public policies aimed to achieve positive assimilation outcomes.

Public policy can play a major role in helping immigrants overcome assimilation hurdles and avoid the potential economic and social costs of suboptimal investment in human capital of the second generation. Measures to promote immigrant acquisition of host-country language skills are one such policy adopted by a large number of host countries. The analysis of this paper suggests that other measures may also be helpful in promoting efficient use of resources available in the economy as a result of immigration. Stronger anti-discrimination legislation and enforcement measures, but also effective information campaigns designed to protect immigrants from discriminatory practices in various markets, can have far reaching effects on the capacity of second generation immigrants to make a strong positive contribution to the economy of the host country. Knowing that the authorities are on their side when it comes to having access to market opportunities serves to encourage immigrants to accumulate human capital and attain higher levels of productivity and earnings.

Special counseling to help the second generation identify academic, training and career opportunities may also be efficient from the perspective of maximizing the economy's productive potential. Further research might even suggest that, on the grounds of economic efficiency, it may be desirable to support certain steps in the process of human capital accumulation of immigrant children to a greater extent than in the case of natives. This would be appropriate if particular market failures have a greater impact on the process of human capital accumulation of immigrant children than they do on that of the natives.

There are also implications for the design of immigration policy. Immigrant adjustment and economic performance of the second generation are likely to be more favorable if immigration policy gives preference to younger immigrants who intend to stay permanently in the host country, have knowledge or at least significant exposure to destination language and have a relatively high level of education and training.

It is worth noting that successful assimilation does not necessarily require acculturation. Host countries may therefore wish to pursue policies designed to protect the cultural identity of immigrants. Such policies, however, should be accompanied by measures supporting tolerance through the dissemination of information designed to help the natives reject racism, social exclusion and discrimination on ethnic and racial grounds. Public programs should also help the natives identify more clearly the current and potential future benefits of hosting immigrants with diverse ethnic, cultural, occupational, educational and socioeconomic backgrounds. In addition to bringing labor and skills to the host country, which generates obvious economic benefits for the local owners of complementary factors of production, immigrants often bring with them strong motivation for economic achievement and provide useful examples of cooperative interpersonal and intra-family behavior. They bring information on foreign culture, traditions, food and consumption patterns and other elements that can serve to enrich the lives of natives. They can also play a major role in facilitating trade and international factor movements that are beneficial to the host country. Ability of natives to identify the benefits of immigration helps create a cooperative atmosphere in which the economy's potential, including that of the immigrants, is fully utilized.

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ENDNOTES

¹ On the role of social capital in ethnic neighborhoods, see Borjas (1992, 1995 and 1999).

² Tests to detect the presence of discrimination in housing have been developed over the last couple of decades by public and private fair housing agencies. If a member of a minority group is denied housing, it can be determined whether the housing unit was in fact available by sending a comparable white person to inquire about the availability of that same unit. In the U.S., the Department of Housing and Urban Development (HUD) sponsored the Housing Market Practices Survey to conduct such tests for a sample of housing agents or of advertised housing units. After conducting 3,264 tests in 40 metropolitan areas in 1977, it found evidence of significant discrimination against blacks in sales and rental markets [Yinger (1998), p. 28]. A 1989 "...HUD-sponsored fair housing study of the number of listings shown to prospective buyers and renters found that in over 40% of the audits, blacks were shown fewer listings than whites. Similarly, agents showed Hispanic buyers fewer units than whites in 35% of the audits. George Galster (1990), using data from 29 fair housing audits, found that ... in 47% of the housing searches, people of color encountered discrimination"[Engel (1999), p. 1155]. Thus, objective discrimination in housing on the basis of race or ethnicity seems to be well documented as an important factor explaining segregation. But even in the absence of formal discrimination by home sellers, rental agencies and landlords, intolerance on the part of other members of the community can contribute to segregation. Racial or ethnic insults may pose a sufficient threat to immigrant families to cause them to move from one neighborhood to another [Portes and Rumbaut (2001)]. It can be argued that segregation is an outcome of a very complex dynamic process in which the market mechanism serves to strengthen and magnify what in some cases might be a very subtle discriminatory process [Westin (2000)].

³ For example, Chiswick and Miller (2000) find a statistically significant inverse relationship between host-country language proficiency of immigrants in the U.S. and a measure of the degree of minority language concentration in their community. See also Guindon and Poulin (1998) and Chiswick and Miller (2001) for the case of Canada. A low level of destination language proficiency has, in turn, an adverse effect on earnings, reducing the net labor-market advantages of residing in an ethnic enclave.

⁴ The presence of children in an immigrant household has two opposing effects on the rate of parental acquisition of destination language. While communication between children within the household increases parental exposure to destination language, the tendency for children to serve as translators for their parents reduces to some extent parental incentives to acquire language skills. This is particularly significant in the case of immigrant mothers who tend to be less involved in labor market activities and more involved with children than are immigrant fathers [Chiswick and Miller (2001)].

⁵ How is this different from what one might observe within a native household? A child in a native household might be embarrassed by the behavior of its parents for reasons that have to do with *intergenerational* differences in attitudes, consumption patterns, etc. For an immigrant child there are, in addition, *international* differences in language, customs, attitudes and consumption patterns that make the situation more complex.