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Essays in Applied Labor Economics: Immigrant Earnings and Welfare Reform: Dissertation Summary

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Immigrant Earnings and Welfare Reform

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In this dissertation, I analyze two distinct issues. In the first part, I use a new data source to address an old and rather controversial topic in labor economics: how well immigrants fare in the U.S. labor market. The second part is motivated by the recent overhaul of the federal welfare system and examines whether increased labor market participation by welfare recipients will displace employment or reduce the earnings of other low-skilled workers in the labor market. This is investigated through a study of the 1991 elimination of the General Assistance program in Michigan.

Chapter 1
The Economic Performance of Immigrants in the U.S. Labor Market

The study of immigrant earnings has a long history in economics,[1] yet because of problems with existing data sources, many of the basic facts about the immigrant experience in the United States are still in dispute. Using longitudinal earnings histories from Social Security records matched to three cross-sectional household surveys, several of the difficulties encountered in previous work can be overcome.[2]

When immigrants arrive in the United States, they tend to have poor English skills, relatively little knowledge of local labor market institutions, and possibly an inability to apply all of the skills learned in their home country to a new job in the United States. Thus, the earnings of new immigrants are considerably lower than those of native-born workers. On the other hand, economic theory argues that immigrants may have a stronger incentive than natives to invest in human capital, in which case the earnings gap should decrease over an immigrant's lifetime. Empirical attempts to verify this have generally proceeded by following an entry cohort of immigrants from one decennial census to the next.[3] Indeed, it has been consistently found that the average earnings of an entry cohort rise quite rapidly across census cross sections.[4]

However, as many as one-third of immigrants to the United States eventually leave the country; thus, the composition of an entry cohort changes over time. If those who leave tend to have below-average earnings, then the average earnings among the remaining group of immigrants will rise over time. Since it is not possible to identify the same individuals in consecutive censuses, nor is it possible to identify which immigrants will subsequently emigrate from the United States, census data cannot be used disentangle the true earnings growth among immigrants who remain in the country from the earnings growth brought about by changes in the composition of the immigrant cohort.

The first contribution of this work is to clarify how selective outmigration by some immigrants influences measures of immigrant earnings growth in repeated cross-sectional and longitudinal data. In particular, the prospective earnings growth that a new immigrant would receive if he were to remain in the United States may be different from the retrospective earnings growth among immigrants who actually chose to stay. Because outmigrants cannot be identified in the census, neither the prospective or retrospective earnings growth can be identified from census data. By following the same sample of individuals over time, the longitudinal data introduced in this study accurately measures the earnings growth experienced by immigrants who chose to remain in the country. The results show that while immigrant earnings grow by 13–17 percent during their first 25 years in the United States relative to natives with similar labor market experience, this growth rate is only about half of that measured from repeated cross sections of the census. This demonstrates both the importance of selective migration out of the United States by low-earning immigrants and also the problems it may cause in making inferences about the progress of immigrants who remain in the United States.

One important stylized fact that previous research has uncovered is that the level of earnings of newly arrived immigrants steadily declined, relative to native-born workers, between the 1960s and the 1980s. (There is some disagreement in the literature over whether this trend continued into the 1990s.) The primary explanation for this decline is that as the national origin mix of immigrants has shifted away from the developed countries of western Europe and toward developing countries in Latin America and Asia, the labor market skills of immigrants has declined.[5] Furthermore, the perception that low-skilled immigrants tend to reduce the employment and earnings prospects of native-born workers, as well as increase the fiscal burden on natives, has led recent U.S. immigration policy to increase the number of high-skilled immigrants admitted into the country and to deny welfare benefits to newly arrived immigrants.

According to the analysis of the longitudinal earnings data in this study, the decline in the relative earnings of new immigrants over the past 30 years has been overstated. Many immigrants move back and forth between their home country and the United States; however, the census, the Current Population Survey, and the Survey of Income and Program Participation all ask immigrants when they arrived in the United States "to stay." Thus, immigrants who arrived more than once are likely to report their most recent date of arrival. If such immigrants tend to have below-average earnings, then immigrants who report themselves as new arrivals will also tend to have lower earnings than earlier arrivals who had remained in the United States. In fact, 14 percent of immigrants have U.S. earnings in the longitudinal data prior to their date of arrival reported in the household survey. Furthermore, the secular decline in earnings among new immigrants is approximately one-third smaller when these transient immigrants are classified by their initial year of earnings rather than by their reported date of arrival. This is strong evidence that such back-and-forth migration is important, particularly among low-wage immigrants, and that ignoring it has led previous studies to overestimate the secular earnings decline among new immigrants.

The final section of this part of the dissertation assesses the extent to which rising wage inequality in the United States during the past two decades has reduced the relative earnings of immigrants. The earnings gap between immigrants and natives is determined by both the skill gap between the groups and the rate at which skills are rewarded in the economy. Over time, the earnings gap can increase or decrease either because the skill gap changes or because the return to skill changes. However, despite the historic rise in the price of skills over the past two decades, this source of rising earnings disparity between immigrants and natives has been largely ignored.[6]

A simple model is developed that relates earnings, skills, and the price of skills. The change in the price of skills can be identified from differences across groups of workers (defined by their educational attainment and labor market experience) in the change in the variance of their earnings over time. The price of skills is estimated to have increased by 40 percent between 1980 and 1997, which decreased the relative earnings of recent immigrants by 10–15 percentage points. Thus, during this time period, changes in the return on skills had a larger impact on the relative earnings of immigrant cohorts than had changes in the level of skills.

Chapter 2
The Labor Market Effects of Welfare Reform

Part 2 of this dissertation analyzes how increased labor supply by former welfare recipients may affect the labor market outcomes of other low-skilled workers. The 1996 reform of the federal welfare system was meant to encourage self-sufficiency among recipients by providing strong incentives for them to leave welfare and enter the workforce. This increased labor market participation may, however, exert downward pressure on wages or displace employment of others already in the labor market. Since there have been limited changes in eligibility for federal welfare programs from which to draw inferences, the magnitude of these effects are uncertain.

This study therefore analyzes an earlier, state-level welfare reform, the elimination of the General Assistance program in Michigan in 1991, that may provide useful evidence on the effect of the 1996 federal reform. General Assistance (GA) provided cash benefits to people who fell through the cracks in federal antipoverty programs. About 82,000 people—22 percent of the state labor force—lost benefits. To identify the effect of increased labor force participation by these new workers, changes in labor market outcomes in Michigan between 1989 and 1993 are compared to changes in two groups of comparison states. This quasi-experimental, or "treatment- and control-group" model, assumes that the change in outcomes that occurred in the comparison states would have occurred in Michigan if the GA program had not been eliminated. The difference between the actual change in outcomes in Michigan and this counterfactual change is the estimate of the effect of the elimination of the GA program.

Since this research design relies on the difference in outcomes between Michigan and the comparison states, it is vitally important to control for other shocks that may also influence the relative labor market outcomes in the two groups. To this end, a series of more complex models are introduced that attempt to control in various ways for changes in latent labor market conditions in Michigan relative to those in the comparison states. The first extension adds controls for the observed state-level unemployment rate. The next series of models allows for unobserved shocks that differentially affect people in different states and times and who have different observable characteristics.

The estimation results reveal that employment increased by 0.9 to 2.4 percentage points among high school dropouts in Michigan after the GA program was eliminated, with larger gains among women than men. In addition, there is evidence that hourly earnings among low-educated women may have declined by as much as 5.6 percent and that a moderate amount of employment displacement may have occurred. There is no systematic evidence of wage declines or displacement among low-educated men. Overall, the results from the various specifications are consistent with the view that the elimination of the GA program led to an increase of about 25,000 in the supply of low-skilled workers in Michigan, with a net gain of 10,000–15,000 new jobs. In evaluating the success of welfare reform, therefore, it is crucial to include the costs borne by other low-skilled workers in the labor markets in addition to the benefits of increased self-sufficiency among former recipients.

Notes

1. For example, in 1919, Paul Douglas argued that in order to properly compare the relative labor market skills of then-new immigrants from southeastern Europe with the skills of old immigrants from northwestern Europe, it is necessary to evaluate both groups when they first arrived in the United States. In contrast, earlier analyses compared the groups at a fixed date, at which time the older cohort had been in the United States longer than the more recent cohort. This distinction between cohort and experience effects was revisited by Borjas (1985) in comparing the skills of the new group of "old" immigrants from Europe and the "new" immigrants from Latin America and Asia.
2. The three surveys are the 1990 and 1991 Survey of Income and Program Participation, and the 1994 March Current Population Survey. The Social Security data are confidential and are used through an agreement with the Center for Economic Studies of the U.S. Census Bureau.
3. An immigrant entry cohort is a group of workers who entered the United States at the same time. For example, immigrants who arrived between 1965 and 1969 can be identified in the 1970, 1980, and 1990 census.
4. Surveys of the literature are given in Borjas (1994), LaLonde and Topel (1997), and Borjas (1999).
5. The argument that new immigrants are not as skilled as earlier waves has been a common theme throughout American history; witness the title of Douglas's (1919) study.
6. A notable exception is the work of LaLonde and Topel (1992), who examined the effect of changes in the wage structure during the 1970s on immigrant earnings.

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