



# Labor market penalties for foreign degrees among college educated immigrants

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## ABSTRACT

Are college degrees earned abroad worth less in the American economy than degrees earned in the United States? Do the labor market penalties associated with holding a foreign degree vary as a function of the country or region in which it was earned? Do these processes differ for men and women? We use data on 18,361 college-educated immigrants from the National Survey of College Graduates (NSCG) to address these questions. Female immigrants with foreign degrees are less likely to be employed than immigrant women who earned their degrees in the US. When employed, both female and male immigrants with foreign degrees are less likely to work in a job related to their highest college degree. Among employed female immigrants, the wage returns to foreign degrees are about 17% less than for US degrees; among male immigrants, this figure is about 11%. For both female and male immigrants, the labor market penalties associated with holding a foreign degree vary as a function of the region from which the foreign degree was obtained.

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## 1. Introduction

In the United States, we often meet immigrants who work in jobs that do not seem to match their level of formal schooling. We are driven to the airport by the cab driver who earned his engineering degree in Pakistan. We get to know the Honduran custodial worker at the office, and find that she earned a bachelor's degree in accounting before moving to the United States. The Thai nanny that we meet in the park turns out to hold a degree in child psychology from her native country. Such anecdotes may be exceptional, or they may represent broader patterns. In contrast, in other parts of the economy—in Silicon Valley, for example—foreign-educated immigrant workers are holding jobs and earning incomes that seem more in line with their education and training.

Do immigrants experience poorer labor market outcomes when they hold degrees from their native countries? Do employers place less value on foreign degrees? These questions are related to concerns about the social and economic prospects of immigrants in American society. At the individual level, are some well-educated immigrants systematically disadvantaged with respect to their ability to capitalize on their skills and knowledge? At a broader level, does the US economy fail to make use of all of the skills and talents of its workers?

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In this article, we ask three empirical questions that speak to these issues. First, among immigrants,<sup>1</sup> are degrees earned abroad worth less in the American economy than degrees earned domestically? Here we compare the labor market outcomes of college-educated immigrants who earned their degrees abroad to the same outcomes among otherwise similar college-educated immigrants who earned their degrees in the United States. Second, among immigrants, does the relative worth of a foreign degree depend on the place where it was earned? Are degrees from universities in such disparate places as Mexico, Southeast Asia, or Africa all regarded equally relative to US degrees? Third, do answers to the first two questions differ for men and women? Given sharp gender differences in the experience and context of immigration and in labor market opportunities, we wonder whether the relative value of foreign degrees for college-educated workers differs for men and women.

### 1.1. Theoretical background

Why might an immigrant who earned a college degree abroad experience different labor market outcomes than an immigrant with an American degree? To think about this question, we find it useful to draw on human capital theory and credential theory to consider the processes through which educational attainment translates into labor market outcomes. As we discuss below, these two very different perspectives lead to similar empirical expectations.

Human capital theory (Becker, 1962; Frazis, 2002) suggests that additional schooling is rewarded in the labor market because employers value the skills, training, and knowledge that come from additional education. In a competitive market, employers prefer to employ and must pay higher wages to employees who are more skilled; educational credentials are simply an indicator (however imperfect) of the skills that employees bring to the labor market.

From this perspective, the relative labor market values of US and foreign degrees are a function of employers' assessments of whether foreign educational institutions impart the same quantity and quality of skills and knowledge as American educational institutions. For example: American hospitals may believe, rightly or wrongly, that American nursing schools provide more and better training than nursing schools in other countries. As a result, we might expect two immigrants with nursing degrees—one earned in the US, one earned abroad—to fare differently in the labor market, all else being equal. Additionally, employers may assess the value of US and foreign degrees on a continuum, such that the quantity and quality of skills and knowledge imparted by foreign educational institutions may vary from country to country. To continue with the same example: American hospitals may believe, again rightly or wrongly, that American nursing programs provide the world's best training, that Canadian nursing programs are a close second, that Western European nursing programs are also good, and that nursing programs elsewhere in the world are much less effective. In this case, all else constant we would expect American-educated immigrant nurses to fare best in the labor market, Canadian-educated immigrant nurses to fare somewhat worse, and so forth.

Some researchers have suggested that human capital may not transfer perfectly across countries (e.g. Akresh, 2007; Friedberg, 2000; Zheng and Xie, 2004). From this perspective, skills acquired in college in one country may translate into greater productivity in the labor market in that country—but not in the labor market in other countries. For example, an accountant trained in a French university may acquire skills that facilitate greater productivity in the context of the French economy and in the bureaucratic environment of that country; those same skills may not be as useful in the American economy and bureaucratic environment. Again, however, the empirical expectation is the same: American employers will more richly reward American college degrees.

Credential theory (Collins, 1971), in contrast, suggests that additional schooling is rewarded in the labor market because employers use educational credentials as markers for workers' status cultures. From this perspective, the skills and knowledge associated with additional schooling are much less relevant; most people become productive workers through experience and on the job training. What employers seek to maximize is the extent to which their employees respect particular value orientations and norms. Will potential new employees challenge status hierarchies? Will they threaten taken-for-granted assumptions about workplace rules and behavior? Will they come to work on time, work hard, and behave appropriately?

From this perspective, the relative labor market values of US and foreign degrees are a function of employers' assessments of what those degrees say about potential employees' status cultures. Employers have a great deal of experience with US educational institutions. They assume that someone who earned a bachelor's degree from a prestigious US 4-year college has a different set of background experiences and value orientations than a second person who earned a 2-year degree from a community college or a third person who earned no degree at all. However, employers are much less familiar with foreign educational institutions. Employers might be comfortable making comparative assessments of the status cultures of graduates from Yale and from the University of New Haven; they may be less comfortable making such assessments of the status cultures of graduates from the University of São Paulo or the Auckland University of Technology. If employers are ultimately seeking to hire employees who are "like them" with respect to status cultures, then—all else constant—they will likely place a premium on US degrees. What is more, they may also place a relative premium on degrees earned in countries that are culturally, linguistically, racially/ethnically or economically more like the United States.

<sup>1</sup> We compare the labor market outcomes of immigrants who obtained their college degrees in the US to those who obtained their college degrees abroad. This narrow focus on *immigrants* who have earned *college degrees* is useful for isolating the relative value of US and foreign post-secondary degrees among a group of people who are equivalent with respect to immigration status and educational attainment. Including native-born individuals in our analysis would unnecessarily complicate them, since almost no native-born Americans earn their degrees abroad. We would also risk conflating "country of degree" effects with "native-born versus foreign-born" effects.

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