



Immigrant wage profiles within and between establishments[☆]

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ABSTRACT

Life cycle wages of immigrants from developing countries fall short of catching up with wages of natives. Using linked employer–employee data, we show that 40% of the native–immigrant wage gap is explained by differential sorting across establishments. We find that returns to experience and seniority are similar for immigrant and native workers, but that differences in job mobility and intermittent spells of unemployment are major sources of disparity in lifetime wage growth. The inferior wage growth of immigrants primarily results from failure to advance to higher paying establishments over time. These empirical patterns are consistent with signaling disadvantages of immigrant job seekers, but not with the explanation that low wage growth follows from inferior information about employers and job opportunities.

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1. Introduction

Recent studies show that workplace segregation of immigrants and natives contributes significantly to the immigrant–native wage gap.¹ Immigrants from developing countries are more likely than natives to work in low-paying firms. Job-to-job transitions form a key source of individual wage growth, particularly during the first 10–15 years in the labor market (see, e.g., [Topel and Ward, 1992](#)). These observations raise two important questions: what is the contribution of job mobility versus within-job pay increases to the overall wage growth for immigrants, and how do these two sources of wage growth compare for immigrants and natives? In this paper, we separate the differential wage growth of natives and immigrants arising from seniority with the same employer, general experience in the labor market, and job-to-job transitions. This decomposition enables us to address the roles played by seniority and experience in the immigrant wage assimilation process, reflecting accumulation of specific and general skills in the host country. But perhaps as important, the decomposition permits assessment of the empirical relevance of two informational hurdles facing immigrants in the labor market.

Even more than natives, immigrants are likely to endure the adverse consequences of asymmetric information in job search. In general, their information about employers and job opportunities is expected to be inferior to that of natives. Immigrant job seekers also face a signaling disadvantage as employers are better able to judge the qualifications of job applicants from their own cultural group ([Cornell and Welch, 1996](#)). In this scenario, native employers will be poorly informed about immigrant skills and less likely to hire an immigrant applicant with equal observable skills to a native job seeker. The first hurdle creates additional frictions in the labor market for immigrant workers and the second may cause statistical discrimination—both of which are likely to result in lower pay. If newcomers' imperfect information about employers and jobs is a dominant factor, we expect entry jobs of immigrants to be of lower quality than the jobs held by natives early in their career. But as immigrants catch up and gain knowledge about the labor market, they will also have more favorable job transitions. On the other hand, if employers are less able to assess skills of immigrant job applicants, we expect that immigrants over time improve their relative position within jobs as the employer observes and learns about the actual skills of the immigrant worker. While the first informational hurdle suggests that immigrant wage growth primarily derives from job-to-job mobility, the signaling disadvantage scenario predicts that wage growth takes place within jobs.

To study immigrant wage growth and job mobility, we augment the standard wage assimilation regression framework with firm fixed effects.² If equally productive workers receive unequal pay in different firms ([Groschen, 1991](#); [Abowd et al., 1999](#)), for example due to rent sharing ([Card et al., 2010](#)), differential access to high-pay firms will generate

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¹ See [Aydemir and Skuterud \(2008\)](#) and [Pendakur and Woodcock \(2010\)](#).

² In our data, the employer unit is the establishment but we will use firm and establishment interchangeably in the text.

wage gaps between groups as well. In the empirical analysis, we track the development of the establishment wage effects over time in order to estimate the part of the difference in wage growth that follows from job changes. Our focus is on wages and job mobility of immigrants from developing countries, as immigrants from high-income source countries typically have earnings close to those of natives with similar education and experience (Barth et al., 2004).

While the empirical wage assimilation literature has examined the role of occupational transitions (Weiss et al., 2003; Eckstein and Weiss, 2004), the importance of job mobility and the distribution of workers across firms over the life cycle remains largely unexplored. Aydemir and Skuterud (2008) find workplace sorting to be a more significant source of immigrant–native wage differentials than differences in pay within establishments. The authors also point to workplace sorting as playing a role in immigrant wage assimilation, as, at least for male immigrants from developing countries, older immigrants work in better-paying establishments than recent immigrants. But because their evidence comes from comparing recent and non-recent immigrants in cross-sectional data, the study is unable to separate assimilation effects from cohort differences in establishment affiliation. Cohort heterogeneity may well result from secular change in immigrant productivity (Borjas, 1995), lasting impacts of entry conditions (Åslund and Rooth, 2007), or from selective outmigration (Lubotsky, 2007), and the cross-sectional evidence may reflect declining quality of job affiliations across immigrant entry cohorts rather than improvements with time in the host country. In the present study, we draw on data covering a 10-year period which allow us to separate assimilation and cohort effects. Our findings show that accounting for entry cohort heterogeneity is imperative for the assessment of developments of immigrant job quality with time and flips the conclusion about the role of workplace sorting in the assimilation process relative to what has been found earlier in the literature based on cross-sectional patterns.

2. Theoretical considerations

Individual wage growth related to productivity gains occurs along three paths: experience in the labor market yields general skills, seniority with a given employer offers firm specific skills, and job mobility may give access to better paying firms. Estimated wage profiles are as such reflections of the returns to individual accumulation of skills, in addition to any development of firm-specific wage effects over time if the individual gains access to better jobs. Estimates of the returns to experience and seniority are often seen as measures of accumulation of general and specific skills (Becker, 1975).³ In labor markets with frictions and wage differences across firms, part of the estimated experience-wage profile may capture job mobility into better jobs. At the same time, estimates of the seniority premium may reflect lower job-search intensity in high paying firms, creating a positive correlation between seniority and firm specific pay, and a positive bias in the estimated returns. Controlling for firm wage effects may thus be necessary in order to separate the individual skills component of the wage profile from placement of workers across the distribution of firms.

Limited access to high paying firms might hamper immigrant wage growth. Two mechanisms may be of importance. One relates to signaling disadvantages of minority workers which in turn may lead to statistical discrimination in hiring. Such information asymmetries and even self-fulfilling expectations imply that immigrants reap smaller gains from job mobility than natives, while returns to seniority might be higher for immigrants as the employer has the advantage of observing individual skills more precisely on the job (see, e.g., Oettinger, 1996; Farmer and Terrell, 1996). Consistent with these predictions, Bratsberg and Terrell (1998) document that young black men in the United States earn lower returns to general experience but at least as high returns to firm-

specific seniority as do young white men. If statistical discrimination were important, we would expect wage growth of immigrants primarily to take place within firms. As employers have little incentive to reveal their knowledge to other firms, immigrants will have smaller expected gains from wage increments related to job mobility.

Moreover, wage gains from job change depend on the nature of the separation. An involuntary job shift is likely to lead to a less favorable new job than a voluntary move, simply because the floor provided by the current wage disappears when the separation is involuntary. While many displaced workers must accept a wage cut in order to obtain a new job, see Gibbons and Katz (1991) and Ruhm (1991) as well as Huttunen et al. (2011) for a Norwegian study of income loss following displacement, direct job-to-job movements are more likely to involve wage gains. Group differences in gains from mobility will thus depend on the relative intensity of job losses and job options. The negative effect of limited outside options will be amplified in a situation where immigrants face a higher probability of job loss than native workers. Examples of mechanisms that could provide exactly such a situation are employment under “last in, first out” (LIFO) rules and immigrants being more likely to take on high-risk jobs in the first place. The combination of statistical discrimination, LIFO, and uncertain jobs may create a regime where immigrants are trapped in bad jobs.

The second mechanism is limited access to good jobs because workers, in particular newcomers in the labor market, have limited information about alternative employers. When immigrants are less informed about outside job opportunities, they are less likely to find the well-paid jobs. Furthermore, limited information of alternative jobs provides employers with incentives for monopsonistic discrimination.⁴ However, this informational disadvantage is likely to fade over time following improvements in language proficiency, extended social networks, and accumulation of cultural knowledge. New job opportunities will emerge and wage assimilation arises as a result of immigrants catching up with natives in terms of information about jobs. According to this scenario, we would expect relative immigrant wage growth to primarily occur between employers rather than within jobs.⁵ Consequently, empirical evidence on immigrants' relative wage growth between jobs can be used to sort out the relevance of statistical discrimination versus informational disadvantage of newcomers. With statistical discrimination immigrants may be trapped in bad jobs relative to natives; with informational disadvantage about jobs we expect the contrary: that immigrants over time catch up with natives in terms of job quality.

Implications for within-job wage growth are, on the other hand, less clear-cut. The reason is that the existence of statistical discrimination may also provide incentives for monopsonistic discrimination: Even if the current employer over time gains additional information about the productivity of their own workers, workers may not be able to cash in on the improved perceptions simply because the outside option lags behind. In the case of statistical discrimination, within-firm wage growth is subject to two countervailing forces: increased information works towards a steeper wage profile, whereas lack of information on part of other employers will tend to keep wages down.

It is of course possible that estimates of firm fixed wage effects reflect aggregates of individual unobserved characteristics, or are strongly contaminated by such, rather than true underlying firm wage premiums. In

⁴ An example of how monopsonistic discrimination may prevail in the labor market is given by Bowlus and Eckstein (2002), who consider a situation where some employers have discriminatory tastes. Barth and Dale-Olsen (2009) develop a model of monopsonistic discrimination to explain the gender wage gap.

⁵ Many job matches are facilitated by information from family, friends, or colleagues. Some studies indicate that social networks are particularly important for ethnic minorities; see, e.g., the discussion in Patacchini and Zenou (2012). Thus, smaller and less favorable networks may account for lower hiring rates among ethnic minorities (Reingold, 1999) even if the evidence is mixed. In a study that “delineates the various mechanisms by which minorities can be isolated from good job opportunities,” Fernandez and Fernandez-Mateo (2006) find only scant evidence that network factors serve to limit employment opportunities of minorities.

³ Incentive problems may also lie behind the observed seniority effect on wages; see, e.g., Lazear (1981).

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