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## America's Newcomers and the Dynamics of Diversity

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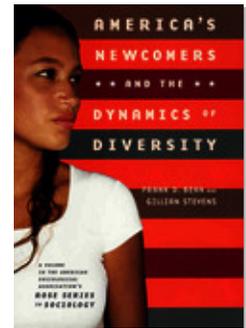
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## == Chapter 6 ==

# Immigrant Economic Incorporation

**T**HE EXTENT to which the new immigrant groups are experiencing successful economic incorporation is one of the central issues driving current debates about the need to reform U.S. immigration policy. Political controversy about whether existing admissions policies should be changed is likely to intensify to the degree that immigrants are not experiencing positive economic incorporation, or are undergoing slower or more difficult incorporation processes than immigrants in the past. In recent years, the question of successful incorporation has also been raised in the case of the second generation. Attention has focused on the offspring of immigrants because it is the second generation that experiences lifetime exposure to the opportunities and constraints of American society (see Zhou and Bankston 1998; Portes and Rumbaut 2001). Relative lack of success among the second generation is likely to be interpreted by many as an even stronger indictment of immigration policies than any difficulties experienced by the first generation.

In this chapter, we address the matter of economic incorporation by examining labor-market outcomes among immigrants and their descendants, focusing primarily on wages and earnings. We concentrate on four main topics. First, in order to ascertain whether major categories of immigrants have experienced the same trends in earnings as non-Hispanic whites, we examine the levels and changes in earnings among major racial and ethnic and immigrant groups over the past twenty years, paying special attention to differences between the native- and foreign-born. Second, in order to ascertain what happens to immigrants themselves after they arrive, we review the results of recent research on the extent to which any nativity gaps in wages and earnings diminish the longer immigrants reside in the country. Third, we examine whether the degree of self-employment

and an important contextual factor, the relative size of the ethnic market or economy, enhance earnings prospects among Mexican immigrants who are not self-employed. Fourth, in order to ascertain the degree to which convergence in economic well-being between immigrants and natives occurs across generations, we present research findings on the education and labor-market outcomes of first-, second-, and third- or later-generation Mexican-origin persons, the largest recent U.S. immigrant group, compared to natives.

## Earnings Trends

The work of social scientists seeking to describe, analyze, and explain immigrant economic well-being has often reflected the fact that until recently, literature on incorporation of immigrants into the labor market, particularly in urban contexts, has been dominated by studies of urban African Americans in the United States (Waldinger 2001). A resulting assumption has often been made that the research strategies and theoretical explanations applying to the African American case can be transferred to the immigrant case. One of the consequences of this is to treat immigrants and immigrant groups (by which we mean, in the case of the new immigrants, not only the immigrants themselves but also their descendants) as members of racial or ethnic minority groups that are disadvantaged because of persisting discrimination in the United States against people of color. While abundant evidence exists to document the enduring effects of racial discrimination in the case of blacks in this country, it has not been clear that immigrant groups are discriminated against to the same degree as are African Americans (Bean and Bell-Rose 1999; Perlmann and Waldinger 1999; Waters 1999), which calls into question tendencies to view the experience of immigrant groups as identical to that of African Americans.

Recent research also indicates that immigrants are more concentrated in lower-paying jobs than the native-born members of their ethnic groups, largely because of their lesser skills (Waldinger 2001). This implies that certain approaches to studying the economic situation of immigrant groups are not likely to be able to provide a full picture of immigrant incorporation. For example, an approach that treats immigrant groups as racial or ethnic minorities and lumps the foreign- and native-born together will understate economic progress by virtue of including the former with the latter. Also, an approach that focuses only on the immigrants instead of also on the second and later generations will cover too short a time span to reveal the effects of more complete incorporation experiences. A preferable strategy is

to take into account nativity differences, and one that is even better where possible is also to make comparisons across more than two generations. The present chapter is one of few research endeavors that adopt the latter strategy, although we also present and review results based on the other approaches.

Despite the limitations of the approach, observers often judge the labor-market prospects of new immigrants by gauging what appears to be happening to the labor-market outcomes of the racial or ethnic groups to which immigrant groups belong. This approach portrays immigrants more as members of a racial or ethnic minority than as newcomers just starting out in their societies of destination. The vast majority of new immigrants to the United States since 1965 are Asian and Hispanic in origin (we use the terms Hispanic and Latino interchangeably to refer to persons of Hispanic origin in the United States). Because over 90 percent of Asians and Latinos have either come to the United States during the twentieth century or are the descendants of persons who have come during that time (Edmonston and Passel 1994), it is useful to examine the earnings trajectories of these two major groups, although doing so risks attributing to discrimination earnings differences that are actually due to generational change. Examining earnings trends for racial and ethnic groups by nativity helps to clarify the meaning of statistics about the incorporation experiences of immigrants. For example, we would be inclined to interpret differently an earnings gap between immigrants and natives occurring at the end of a period of rising inequality that affected all sectors of the population equally than we would one occurring at the end of a period where inequality affected immigrants more than natives.

The 1990s were times of uneven income growth in the population of the United States, as persons at the top of the income distribution experienced much more favorable earnings growth than those at the bottom (Bernhardt et al. 2001; Welch 2001). Since some immigrant groups tend to be concentrated at the bottom of the socioeconomic ladder, an important question is the extent to which the racial or ethnic groups of which immigrants are members have experienced these same general trends. Here we examine changes in individual earnings for full-time workers using data from the 1980 and 1990 censuses, together with pooled data from the 1996, 1997, 1998, and 1999 Current Population Surveys. We examine data on annual earnings for full-time workers, focusing on earnings information for the year before the survey, with all figures converted to 1998 dollars.

By focusing on full-time workers, we limit our analyses in certain respects. For example, lower-skilled black men have experienced a

considerably harder time finding employment than lower-skilled men in other groups, even though the earnings gap between those blacks who are successfully employed and whites has narrowed to some extent (Bean and Bell-Rose 1999). By contrast, lower-skilled immigrant men have had little difficulty securing low-wage employment but have generally not managed to move from such employment to higher-paying jobs (Waldinger 2001). Our comparisons of immigrants and blacks thus tend to overstate the extent of an earnings gap between these groups. And because immigrants tend to work somewhat fewer hours than the members of other groups, our results also slightly overstate differences on account of this factor. We nonetheless focus on annual earnings because it indicates the general level of economic resources accruing to individuals on a yearly basis, thus providing a good reflection of overall economic incorporation.

The earnings trends over the past twenty years for all of the major racial and ethnic groups reflect a pattern of uneven prosperity, a pattern that has characterized the country as a whole. Persons likely to be at the top of the income structure (those with college education) saw their earnings rise over the two decades, irrespective of whether they were white, black, Asian, or Latino or male or female (see table 6.1). By contrast, persons likely to be at the bottom of the income structure (those with less than a high school education) saw their real earnings drop, irrespective of racial-ethnic group or gender. However, for those in the middle (those with high school education), the trend depended on gender but not on racial or ethnic group. Men in all four racial or ethnic groups suffered declines in real earnings across both decades (except for blacks during the 1990s). By contrast, all women experienced increases during the 1980s. During the 1990s, however, whites and blacks continued their increases, but Latinos and Asians did not. Thus, even with data that encompass the boom years of the late 1990s, years that brought at least small wage and earnings gains to persons at the bottom parts of the earnings distribution (U.S. Department of Labor 2001), the overall earnings situations of non-college-educated Asians and Latinos did not improve, even when earnings were rising among comparably educated whites and blacks.

These results would thus seem to suggest that the relative labor-market situations of non-college-educated Latinos and Asians have worsened over the past two decades, especially for men, thus implying that the incorporation prospects of Latino and Asian immigrants, many of whom have high school education or less, may have deteriorated as well. Stated differently, the increased income inequality that has emerged in the United States over the past thirty years involving declines in real earnings among persons in the bottom parts of the

**Table 6.1 Average Earnings by Race-Ethnicity, Educational Attainment, and Gender, 1979 to 1998**

Group	Education	Male					Female				
		1979	1989	1998	Percentage Change (1979 to 1989)		1979	1989	1998	Percentage Change (1979 to 1989)	
					1989	1998				1989	1998
White non-Hispanics	College	59,776	63,349	68,599	6.0	8.3	26,127	32,783	37,134	25.5	13.3
	High school	41,433	38,090	37,999	-8.1	-0.2	18,475	20,367	21,854	10.2	7.3
	< High school	33,661	28,682	26,858	-14.8	-6.4	14,901	14,490	13,685	-2.8	-5.6
Blacks	College	41,613	44,040	47,635	5.8	8.2	30,183	34,430	34,826	14.1	1.2
	High school	29,786	27,645	28,995	-7.2	4.9	19,700	20,627	20,909	4.7	1.4
	< High school	24,338	20,946	20,434	-13.9	-2.4	14,262	14,319	13,337	0.4	-6.9
Latinos	College	48,361	49,557	55,386	2.5	11.8	26,229	31,981	35,126	21.9	9.8
	High school	33,517	30,204	29,736	-9.9	-1.5	18,219	19,584	19,488	7.5	-0.5
	< High school	25,096	20,481	19,706	-18.4	-3.8	12,956	12,732	11,584	-1.7	-9.0
Asians	College	54,196	55,532	58,475	2.5	5.3	29,844	35,185	37,291	17.9	6.0
	High school	34,513	32,171	31,258	-6.8	-2.8	20,234	22,434	22,304	10.9	-0.6
	< High school	26,820	21,261	23,705	-20.7	11.5	15,070	15,456	14,521	2.6	-6.0

Ratios to White

White non-	College	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Hispanics	High school	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	< High school	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Blacks	College	0.70	0.70	0.69	1.16	1.05	0.94	1.05	0.94
	High school	0.72	0.73	0.76	1.07	1.01	0.96	1.01	0.96
	< High school	0.72	0.73	0.76	0.96	0.99	0.97	0.99	0.97
Latinos	College	0.81	0.78	0.81	1.00	0.98	0.95	0.98	0.95
	High school	0.81	0.79	0.78	0.99	0.96	0.89	0.96	0.89
	< High school	0.75	0.71	0.73	0.87	0.88	0.85	0.88	0.85
Asians	College	0.91	0.88	0.85	1.14	1.07	1.00	1.07	1.00
	High school	0.83	0.84	0.82	1.10	1.10	1.02	1.10	1.02
	< High school	0.80	0.74	0.88	1.01	1.07	1.06	1.07	1.06

Sources: U.S. Bureau of the Census (1982, 1992b); Current Population Survey (1996, 1997, 1998, 1999).

income distribution seems to have hit the new immigrant groups harder than whites or blacks. If the cause of such inequality is predominantly technologically based changes in the economy that advantage high-skilled but disadvantage low-skilled workers, then this would imply that continued streams of low-skilled immigrants into the country would face diminished incorporation prospects. Before embracing this conclusion, however, we need to take into consideration that increasing numbers of immigrants have been entering the United States over the past two decades. If such immigrants are disproportionately low-skilled, the increasing proportions of Latino and Asian immigrants may account for the greater earnings declines observed among Latinos and Asians compared to whites and blacks. In other words, rising numbers of immigrants, who tend to start out in worse-paying jobs, may explain the worsening economic situations of Latinos and Asians, although it is not obvious why this should be more the case for men than women.

In order to assess this possibility, it is necessary to examine earnings trends separately by nativity. When we do this (see table 6.2), we find that although native-born Latinos and Asians tend to have higher earnings than the foreign-born members of these groups—and this is more marked for Latinos than Asians—trends in earnings between the foreign-born and the native-born within these groups are not discernibly different, especially in the case of Asians. Among Latinos, college-educated males have gained ground during the period examined, both absolutely and relative to comparable whites. Both Asians and Latinos with high school education have seen their earnings positions erode slightly. And the less-educated men of both groups appear not to have suffered as sharp a decline as their white counterparts, resulting in the striking pattern in the bottom panel of the table whereby the income positions of less well educated foreign-born Asians and Latinos relative to their white counterparts have actually improved somewhat over the two decades of the eighties and nineties. For example, Latino immigrants with less than a high school education moved from earning 70 percent as much as low-skilled whites in 1979 to 73 percent as much by 1998. Lower-skilled female immigrants, however, saw their earnings positions deteriorate somewhat relative to those of their white counterparts. However, none of these differences in trend compare in magnitude to the finding of a substantial difference in earnings between the foreign- and native-born Latinos at all time periods. This difference is all the more important because the earnings levels for Asians, both men and women, are quite close to those of whites over these decades. But the same cannot be said of Latinos, of whom even the native-born earned only about

77 to 88 percent as much as whites at the end of the 1990s, depending on level of education.

These figures suggest that the most challenging problems in the extent and pace of incorporation appear to involve the experiences of Latinos. Although there are variations in the degree to which the earnings of different Asian groups match those of whites, the closeness of the results for Asians overall suggests that any likelihood of identifying substantial instances of incorporation problems among Asians is much less than it is among Latinos. Thus we focus our further analysis on Latinos, asking the question: How much of any apparent incorporation difficulties find their locus in the experience of the Mexican-origin population? We begin by separating the Mexican-origin group from the overall Latino group and disaggregate by nativity. The results, shown in table 6.3, indicate that most of the income deficiencies noted above are concentrated among foreign-born Mexican males and females. In 1998, Mexican-born persons earned 60 to 79 percent of their Anglo counterparts' earnings, levels substantially below those of other groups. Although native-born Mexican-origin persons display higher relative earnings, they still fall below Anglos of comparable education. Clearly some of the most challenging incorporation hurdles for U.S. immigrants are those facing Mexican-origin persons.

### **Earnings by Length of Time in the United States**

These results provide a way to understand the effects of nativity on relative immigrant group earnings. Latino immigrants in general and Mexican immigrants in particular suffer substantially lower earnings than other groups. Given that the fraction of Mexican immigrants in the Mexican-origin population grew from 0.23 in 1990 to 0.35 in 2000 (U.S. Bureau of the Census 1992b; U.S. Current Population Survey 2001), wage or earnings comparisons between immigrant groups and natives that failed to take nativity or national origin into account would be seriously misleading. Certainly this would be true for data from the 1980s, as indicated by the National Research Council's estimate that all of the decline then in relative immigrant wages among men and most of the decline among women was due to increases in the numbers of immigrants coming from low-education countries, especially Mexico and Central America (Smith and Edmonston 1997). In part for this reason, considerable attention has been focused on the issue of the growing gap between immigrants and natives in skills, a trend that has sometimes been described using the misleading and

**Table 6.2 Average Latino and Asian Earnings by Educational Attainment and Nativity and Gender, 1979 to 1998**

Group	Education	Male				Female					
		1979	1989	1998	(1979 to 1989) to (1989 to 1998)	1979	1989	1998	(1979 to 1989) to (1989 to 1998)		
<b>Latinos</b>											
Foreign-born	College	50,501	49,270	50,215	-2.4	1.9	25,432	29,106	32,571	14.4	11.9
	High school	31,395	28,352	27,519	-9.7	-2.9	18,391	18,815	16,957	2.3	-9.9
	< High school	23,619	19,860	19,484	-15.9	-1.9	13,274	12,385	11,465	-6.7	-7.4
Native-born	College	46,270	49,854	60,600	7.7	21.6	27,011	34,385	37,116	27.3	7.9
	High school	34,921	34,604	31,666	-0.9	-8.5	18,108	20,102	21,381	11.0	6.4
	< High school	27,333	22,287	20,707	-18.5	-7.1	12,529	13,541	11,961	8.1	-11.7
<b>Asians</b>											
Foreign-born	College	54,356	54,714	58,322	0.7	6.6	29,388	34,549	36,802	17.6	6.5
	High school	30,651	30,490	30,047	-0.5	-1.5	18,730	21,429	21,108	14.4	-1.5
	< High school	24,163	20,814	23,413	-13.9	12.5	14,080	15,178	14,498	7.8	-4.5
Native-born	College	53,619	59,250	59,181	10.5	-0.1	31,239	37,564	39,077	20.2	4.0
	High school	40,057	37,093	35,237	-7.4	-5.0	22,616	25,638	26,119	13.4	1.9
	< High school	34,494	25,896	26,540	-24.9	2.5	19,684	20,731	14,818	5.3	-28.5

Ratios to White

Latinos										
Foreign-born	College	0.84	0.78	0.73	0.97	0.89	0.88			
	High school	0.76	0.74	0.72	1.00	0.92	0.78			
	< High school	0.70	0.69	0.73	0.89	0.85	0.84			
Native-born	College	0.77	0.79	0.88	1.03	1.05	1.00			
	High school	0.84	0.91	0.83	0.98	0.99	0.98			
	< High school	0.81	0.78	0.77	0.84	0.93	0.87			
Asians										
Foreign-born	College	0.91	0.86	0.85	1.12	1.05	0.99			
	High school	0.74	0.80	0.79	1.01	1.05	0.97			
	< High school	0.72	0.73	0.87	0.94	1.05	1.06			
Native-born	College	0.90	0.94	0.86	1.20	1.15	1.05			
	High school	0.97	0.97	0.93	1.22	1.26	1.20			
	< High school	1.02	0.90	0.99	1.32	1.43	1.08			

Sources: U.S. Bureau of the Census (1982, 1992b); Current Population Survey (1996, 1997, 1998, 1999).



pejorative phrase “declining immigrant quality” (Borjas 1985). This education gap, substantially documented with data from the 1980s, appears to have increased during the 1990s, even though average immigrant education did *not* decline but in fact increased, rising from 10.2 years of schooling in 1990 to 10.9 years in 2000 (U.S. Current Population Survey 2001). The gap grew because average native non-Hispanic white education levels increased faster, rising from 11.9 years of schooling in 1990 to 13.2 years in 2000. Such changes indicate that nativity differences in skills undoubtedly continue to account for part of the earnings differential between immigrants and non-Hispanic white natives during the 1990s.

Perhaps because the phrase “declining immigrant quality” has captured the imagination of immigration alarmists, changes in relative immigrant skills have often received the lion’s share of attention as an explanation of declines in relative immigrant wages and earnings (Ellis 2001). As important as such changes are for explaining nativity gaps in economic well-being, however, other factors are also important. The information on educational level and earnings shown in tables 6.1 to 6.3 demonstrate the importance of nativity and national-origin composition for nativity differences in earnings. However, they also show the importance of changes in wage structure in accounting for relative declines in immigrant earnings. The earnings figures in those tables depict changes *within* racial-ethnic and skill categories, thus controlling roughly for the effects of nativity, race or ethnicity, and education on earnings differences and trends across the period. The figures thus more nearly reflect the influence of shifts in earnings structures *per se*.

But the earnings patterns of the immigrants may also reflect the influence of varying durations of time spent in the United States. Even if immigrants’ earnings “caught up” with natives after they had worked in the country a certain length of time, nativity comparisons would still indicate differences in earnings to the degree that some immigrants were recent arrivals. Hence, the nativity differences shown above could still hide substantial incorporation. What are the results of research on the wage and earnings progress immigrants make the longer they are in the United States? Again, the findings are complex. Early analyses indicated that immigrants started out at lower wages when compared to natives but after twenty or so years caught up and then even surpassed native wage levels (Chiswick 1978, 1977). But because this research relied upon the examination of cross-sectional wage profiles by age, the results were subject to bias because the different age groups being compared varied in national-origin composition. Because the new immigrants were increasingly coming from

countries with lower average levels of education, the younger immigrants had lower wages and earnings in part because of this factor rather than because they had not been in the country very long.

The best remedy for this problem would be longitudinal data, so that changes in the earnings of particular individuals could be examined over time. Since such data did not exist during the 1970s, alternative approaches were devised that involved following national-origin and age cohorts over time in order to remove the effects of varying national-origin composition by age. The results of these attempts to control for cross-sectional bias by examining synthetic age cohorts across different census periods tended to show that immigrants' earnings in fact fell considerably short of natives' even after they had been in the country for twenty to thirty years (Borjas 1987a, 1990). Still more recent research has argued that even comparisons involving synthetic age cohorts are subject to bias because they do not control for varying ages at arrival among immigrants. The examination of a given cohort at later periods tends to magnify immigrant-native wage differentials because the later period is more likely to include recent arrivals whose wages are lower. When this factor is taken into account, investigators find that as immigrants' length of time in the country increases, the wage deficit with natives is reduced further, but not eliminated (Myers 1998).

The most recent contribution to this line of research uses longitudinal data obtained by matching Social Security earnings records to cross-sectional panels of the Survey of Income and Program Participation (SIPP) and the Current Population Survey (Lubotsky 2000). Analyses of these data reveal still an additional source of bias in estimates of changes in relative immigrant earnings with length of time spent in the United States. This bias results from selective return migration by persons with low earnings. That is, immigrants with the lowest earnings are the ones most likely to return the soonest to their countries of origin. Taking this into account results in an increase in the nativity earnings gap over time. More specifically, previous analyses of census data generated results that implied that immigrant earnings relative to natives' earnings grew by about 25 percent during their first twenty years in the country. But when allowance is made for the portion of this that is attributable to selective return migration, this figure is cut roughly in half. In short, research on the labor-market experience of immigrants over the past twenty-five years does not provide much convincing evidence that the first generation achieves earnings parity with comparable natives by the end of the immigrants' employment careers. Thus the possibility of more complete incorporation with respect to economic well-being is deferred

to the second- or even later-generation members of the immigrant group. And as the evidence above indicated, much of this tendency in the data is attributable to the experience of Mexican immigrants.

## Self-Employment

On balance, the results of research on the labor-market incorporation of immigrant groups suggest a decline, if not elimination, of nativity differentials in earnings both with increasing duration of individual time spent in the United States and with rising generational status. Such results reflect the operation of the labor market in terms of its capacity to provide opportunities and rewards for immigrants who find jobs in the areas in which they live. They thus provide an important insight into the labor-market experiences of immigrants. But they do not constitute a complete picture of incorporation processes, because they reveal little about the implications for immigrant incorporation of the business activities initiated by immigrants themselves.

Self-employment can both directly and indirectly positively affect the dynamics of immigrant incorporation (Portes and Zhou 1996; Sanders and Nee 1996). To investigate this issue it is necessary to examine the extent to which entrepreneurship fosters socioeconomic well-being among immigrants. Self-employment is important in two regards. First, self-employment may enhance the economic prospects of self-employed immigrants themselves. Sociologists have gathered a considerable volume of evidence on this issue (Portes and Bach 1985; Sanders and Nee 1987; Zhou and Logan 1989; Bailey and Waldinger 1991; Nee, Sanders, and Sernau 1994), but their inquiries have yielded mixed results. Some studies have found positive effects of self-employment on income (Wilson and Portes 1980; Light 1984; Waldinger 1986; Portes and Zhou 1996), whereas others have found that self-employment is not associated with any benefits aside from the fact that self-employed immigrants often have higher levels of human capital than other immigrants (Bates and Dunham 1992; Bates 1994). Whatever the case, researchers have found that taking immigrant self-employment into account (as all of the studies of immigrant earnings discussed above do *not*) narrows the earnings gap between immigrants and natives even further (Lofstrom and Bean 2002).

Second, the presence in immigrant groups of high-income entrepreneurs may raise the prospects for economic success among other co-ethnic immigrant workers. Because their enterprises are already thriving, successful entrepreneurs are in a better position both to invest more in the ethnic economy and to meet their businesses' rising demand for co-ethnic workers (Bailey and Waldinger 1991). In order

to assess how self-employment affects the incomes of co-ethnic immigrant workers, not just those of entrepreneurs themselves, David Spener and Frank D. Bean (1999) examined the extent to which the concentration of Mexican immigrant self-employment in U.S. metropolitan areas influences the earnings of non-self-employed Mexican immigrants. Previous sociological studies had concentrated on highly entrepreneurial immigrant groups such as Koreans (Light and Bonacich 1988), Chinese (Waldinger 1986), and Cubans (Portes and Bach 1985), whose populations were not sufficiently large or geographically dispersed to permit statistical examination of the effects of the concentration of self-employment on economic well-being. The one immigrant group large enough to constitute an exception, Mexican immigrants, had not been the focus of much research attention because the prevalence of self-employment in the Mexican origin population had been so low (Waldinger, McEvoy, and Aldrich 1990). However, recent case studies of Mexican immigrant entrepreneurs, in the context of a growing Mexican-origin population, suggest that both the degree and diversity of types of self-employment in this population have recently increased (Hansen and Cárdenas 1988; Alvarez 1983; Chapa and Cárdenas 1991; Villar 1994; Guarnizo 1995; Spener 1995). As a result, it has become possible to examine the impact of intercity variation in the impact of self-employment on immigrant economic well-being.

Immigrant entrepreneurship is most likely to foster economic gains for the entire immigrant group when it is beneficial for the entrepreneurs themselves. As noted, the results of research on the extent to which entrepreneurship exerts positive or negative effects on immigrant economic well-being have often been equivocal. The reasons are likely to be both theoretical and empirical. The theoretical *raison d'être* for immigrant entrepreneurship has often been the necessity for self-employment rather than the opportunity offered by such employment. Many analysts note that a major factor leading immigrants to seek self-employment and establish entrepreneurial niches is economic disadvantage, which may be due to lack of resources such as language, skills, and contacts necessary to compete for better employment or to more general labor-market barriers caused by exclusiveness and discrimination in the receiving society (Light 1979; Light and Rosenstein 1995). This view leads to the expectation that immigrant entrepreneurs will earn less than other workers, all else being equal.

Other theoretical formulations see immigrant entrepreneurship in a more optimistic light, emphasizing instead how the social and economic resources entailed in such activities can lead to income advances (Light and Karageorgis 1994). Immigrant enclaves—spatial

zones with high concentrations of ethnic employers, co-ethnic workers, and co-ethnic consumers (Logan, Alba, and McNulty 1994)—provide economic opportunities for both entrepreneurs and their employees, because such enclaves reduce enterprise transaction costs (assuming hiring, production, and market interactions among co-ethnics proceed more smoothly and involve fewer errors) for all participants and provide jobs not otherwise available (Portes and Jensen 1989). Similarly, sizable ethnic economies often provide immigrant and ethnic entrepreneurs opportunities to expand their service or product markets to nonethnic group members and firms. Larger, more diverse communities potentially generate greater opportunities for ethnic entrepreneurs, because they may include businesses that have broken the barriers of ethnically self-contained enterprises (Waldinger, McEvoy, and Aldrich 1990). Moreover, larger immigrant businesses may be more prevalent in enclaves and broader ethnic economies, and these business may be more likely to enjoy greater access to capital resources and to generate economic success, thus leading to the hypothesis that entrepreneurs, at least on average, will earn more than other workers, all else being equal.

Which of these views provides a more accurate portrayal of the role of immigrant self-employment in fostering economic advances? Both are likely to operate to varying degrees in different settings, which helps to explain the apparently conflicting findings of previous research about whether entrepreneurship leads to economic gain. And there is another factor that also influences research findings, namely the mediating effects of the size of the ethnic group on self-employment outcomes. Drawing on the tenets of organizational ecology (Freeman and Hannan 1983; Hawley 1984), M. D. R. Evans (1989) has hypothesized that “the larger the immigrant group, the more favorable the [economic opportunity] for ethnic entrepreneurs since their potential market is larger” (951). Taking this idea further, Spener and Bean (1999) theorized that the relative size of the ethnic group may also affect the kind of entrepreneurship opportunities available. Ethnic-group size affects entrepreneurial outcomes because the wider benefits of opportunity-induced entrepreneurship are more likely to be greater when ethnic groups are relatively larger because such entrepreneurship is likely to be more capitalized and thus resource-based. This means that on the one hand, disadvantage-caused self-employment is likely to be relatively more prevalent in areas with relatively smaller ethnic groups. On the other hand, more substantial resource-based self-employment should be relatively more prevalent in areas with relatively larger ethnic groups, ethnic enclaves, and ethnic economies. To the extent that this is the case, small-market entre-

preneurship is more likely to be associated with below-average earnings and large-market entrepreneurship with above-average earnings.

Testing these ideas in the Mexican immigrant case, Spener and Bean (1999) find that the concentration of Mexican self-employment across all metropolitan areas, regardless of city size, is negatively related to Mexican immigrant economic well-being, undoubtedly because Mexican self-employment does not generate enough special employment opportunities in the ethnic community overall to offset the effects of disadvantage-based self-employment. They also find, however, that in relatively larger Mexican-origin markets, Mexican entrepreneurship creates special job opportunities for co-ethnic workers that are not available to non-Mexicans. Given these dynamics, and excluding other factors, higher concentrations of Mexican immigrant self-employment lead to lower immigrant unemployment rates, which in turn boost wages not only for Mexican immigrants but also for other workers. Mexican immigrant-worker earnings are thus higher in cities where immigrant self-employment rates are higher and where the relative size of the ethnic group is larger. Thus, increasing levels of self-employment act to increase the pace of economic incorporation among Mexican immigrants.

## Generational Differences

Up to this point, this chapter has focused on investigating trends in earnings among immigrant groups and on surveying the findings of research about the extent to which immigrant earnings improve the longer the immigrants reside in the country. We have learned that the greatest incorporation challenge confronting U.S. immigration policy involves the Mexican-origin immigrant group. In saying this we do not intend to ignore the arduous incorporation experiences of other immigrant groups, especially Dominicans, West Indians, Puerto Ricans, Salvadorans, Filipinos, and others. However, the sizes of these groups pale in comparison to the Mexican-origin group, either individually or collectively. Moreover, the Mexican-origin population is now becoming widely dispersed throughout the country, whereas these other groups tend to be concentrated in specific locales, many in New York City. Thus, the *major*, though not only, incorporation challenge the United States faces involves that of Mexican immigrants and their descendants.

Much of the challenge facing Mexican immigrants results from their low education levels—the declines in real earnings for low-skilled workers in the United States over time—and the fact that the Mexican immigrant group is so large. We have also found that the

economic standing of native-born Mexican-origin persons is appreciably higher than that of those born in Mexico. Even beyond this, native-born Mexican-origin persons themselves are not homogeneous, particularly in regard to the length of time their ancestral families have lived in the United States. An important question thus concerns whether Mexican-origin natives whose families have resided here longer have achieved greater economic well-being in comparison to those whose families have arrived more recently. If the answer to this question is yes—if we find that such persons are reasonably close to achieving economic parity with non-Hispanic whites—it would imply a more positive prognosis about the likelihood of successful economic incorporation of newer Mexican immigrants than the evidence so far appears to indicate.

To assess the degree to which Mexican origin persons who have been in the United States longer have become more fully integrated into the economic mainstream, we focus on patterns of intergenerational progress, comparing data on labor-market outcomes among Latino immigrants, their U.S.-born children, and their later descendants. To differentiate the three groups, we use information about respondents' and also their parents' place of birth from the Current Population Survey data pooled for the years 1996, 1997, 1998, and 1999. Because the intergenerational comparisons utilize data from a single time period (1996 to 1999), they cannot link actual immigrant parents who entered the country quite some time ago with their actual U.S.-born children who entered the labor market a couple of decades later. An alternative approach would be to use data from successive time periods and compare immigrant adults in some initial period with their grown-up descendants twenty or more years later. Each approach has advantages and disadvantages. One benefit of the approach here is that using data from a single time period holds constant the social and economic environment, whereas the alternative approach can give misleading results because economic conditions change over time. For example, the civil rights movement may have generated economic gains for *all* generations of Mexican-origin persons in the 1970s and 1980s. If so, then the improvements in education and earnings observed between Mexican immigrants in the 1960s and their U.S.-born children in the 1990s would overstate the amount of progress that is solely due to being a second-generation Mexican-origin person who grew up in the United States rather than a Mexican-born person who grew up in Mexico.

Mexican-origin persons are the dominant subgroup of Latinos in the United States, being over 60 percent of the Latino population. We define the first generation as persons born in Mexico, the second as

**Table 6.4** Generational Distribution of Persons of Mexican Origin, Ages Fifteen and Above (Percentage), 1996 to 1998

Recent immigrant <sup>a</sup>	21.2
Earlier immigrant	27.9
Second generation	22.4
Third or later generation	28.6
Total	100.0%
Sample size	33,072

*Sources:* Current Population Survey (1996 to 1998).

<sup>a</sup>Recent immigrants are defined as those who arrived in the United States within approximately ten years of the survey date.

Mexican-origin persons with at least one Mexican-born parent, and the third or later generations as Mexican origin-persons with two native-born parents. In many of our analyses, we split the first generation into "recent immigrants," those who have been in the United States for ten years or less, and "earlier immigrants," those who have spent more than ten years here. The overwhelming majority of Mexican-origin persons have been in this country for two generations or less (table 6.4). In particular, about half of Mexican-origin persons are foreign-born and slightly more than another fifth have at least one immigrant parent. By contrast, only 13 percent of Anglos and 9 percent of blacks were first or second generation in 1999 (Bean et al. 2001).

We focus first on educational attainment, which is a key determinant of how workers fare in the U.S. labor market. For both men and women, Mexican-origin persons average about three years less schooling than whites and two years less schooling than blacks; Mexican origin-men average 9.9 years of schooling, Mexican-origin women, 10.0; and immigrants, even fewer (see table 6.5). The educational disadvantage of Mexican immigrants is statistically driven by a disproportionate number of individuals without any secondary schooling. Fully half of Mexican-born persons have completed eight or fewer years of education. Moreover, more than 10 percent of native-born Mexican-origin persons are in this same category, whereas less than 5 percent of whites and blacks are. But an enormous educational improvement takes place between the first and the second generation: the second generation has on average about three and a half years more schooling than immigrants. Thus, a majority of the overall Mexican-origin educational disadvantage is due to the presence of large numbers of Mexican immigrants with very low education levels. Al-

though the U.S.-born children of Mexican immigrants close most of the education gap, average schooling levels of all U.S.-born Mexican origin persons still trail those of whites by about a year and a half, mostly because U.S.-born Mexican-origin persons are about a third as likely to earn a bachelor's degree as Anglos and about five to six times more likely not to complete high school. One positive sign is that the average schooling of Mexicans rises somewhat between the second and third generations; this improvement is attributable largely to a substantial reduction in the fraction of individuals completing fewer than nine years of education.

We gain a better sense of how schooling levels have changed over time for U.S.-born Hispanics, including Mexicans, by comparing different age cohorts. Among men, the youngest cohort of U.S.-born Mexicans has on average over two years more schooling than the oldest cohort (table 6.6). This pattern suggests that substantial educational gains were made by U.S.-born Mexican-origin men over the thirty years that separate these cohorts. Moreover, the fact that these gains are much larger than those observed for non-Hispanic whites indicates that over this period Mexican-origin persons managed to erase a substantial portion of their educational deficit relative to whites. The progress for Mexican-origin men has primarily taken the form of a large reduction in the high school dropout rate, with relatively little improvement in college completion. For the most part, similar patterns emerge for women. In fact, educational progress has been even stronger for Mexican origin women than it has been for men. The sizable schooling deficit of women relative to men observed in the oldest cohort steadily shrinks across cohorts until it becomes a slight female advantage in the youngest cohort, and Mexican-origin women show much more improvement between the oldest and youngest age cohorts in the rate of college completion.

How do labor-market outcomes for Mexican-origin persons and blacks compare with those for whites, when we do not distinguish by generation? To answer this question we analyze important labor-market outcomes such as hourly wages, employment rates, and annual hours of work. Our results are derived from regression analyses that standardize for differences in age and geographic location within the United States and include only individuals who worked during the calendar year preceding the survey. On average, Mexican-origin men's hourly wages are 39.5 percent lower than those of non-Hispanic white men—a gap wider than the 25.9 percent wage gap of black men (table 6.7). Wage patterns are similar for women, although the magnitudes of the minority-white wage gaps are smaller among women than men.

*(Text continues on p. 138.)*



Women

	Mexicans					Third + Generation Whites	Third + Generation Blacks
	Recent Immigrant	Earlier Immigrant	Second Generation	Third + Generation			
Average years of education	8.3	8.3	11.6	11.9	13.4	12.7	
Percentage							
Zero to eight years	49.8	50.5	14.9	9.4	1.8	3.0	
Nine to eleven years	16.5	14.7	13.4	14.8	5.8	12.9	
Twelve years	21.1	21.2	34.2	37.6	36.6	38.9	
Some college	7.8	10.0	25.7	27.4	28.7	29.7	
Bachelor's degree and above	4.8	3.7	11.8	10.7	27.1	15.6	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Sources: Current Population Survey (1996 to 1998).

**Table 6.6 Educational Attainment by Generation and Age**

	Men					
	All Hispanics		Mexicans		Third + Generation Whites	Third + Generation Blacks
	Second Generation	Third + Generation	Second Generation	Third + Generation		
<b>Average years of education</b>						
Ages 25 to 34	12.7	12.5	12.5	12.4	13.5	12.6
Ages 35 to 44	12.2	12.4	11.9	12.3	13.5	12.5
Ages 45 to 54	12.2	12.2	11.9	12.1	13.8	12.5
Ages 55 to 64	11.1	10.8	10.5	10.4	13.0	11.2
<b>High school dropout (percentage)</b>						
Ages 25 to 34	16.3	17.6	17.9	18.6	7.3	11.3
Ages 35 to 44	21.9	16.3	22.2	18.0	7.7	15.3
Ages 45 to 54	23.9	22.4	25.7	24.9	8.1	19.8
Ages 55 to 64	34.9	41.6	40.1	45.5	15.2	37.1
<b>College graduate (percentage)</b>						
Ages 25 to 34	17.9	13.0	13.4	11.4	30.0	11.8
Ages 35 to 44	12.9	11.6	10.7	9.6	28.4	13.0
Ages 45 to 54	15.4	17.5	12.6	16.8	34.1	15.7
Ages 55 to 64	14.1	12.6	9.9	11.4	26.6	10.9

Women

	All Hispanics		Mexicans		Third + Generation Whites	Third + Generation Blacks
	Second Generation	Third + Generation	Second Generation	Third + Generation		
Average years of education						
Ages 25 to 34	12.8	12.6	12.6	12.6	13.7	12.8
Ages 35 to 44	12.2	12.3	11.7	12.2	13.6	12.9
Ages 45 to 54	11.7	11.8	11.3	11.4	13.5	12.7
Ages 55 to 64	9.8	10.5	9.2	10.0	12.7	11.9
High school dropout (percentage)						
Ages 25 to 34	14.6	16.8	16.6	17.5	5.8	11.9
Ages 35 to 44	23.0	18.1	28.5	19.6	5.8	11.6
Ages 45 to 54	26.6	27.5	29.8	31.4	7.3	17.3
Ages 55 to 64	49.0	43.0	53.9	50.0	14.8	32.1
College graduate (percentage)						
Ages 25 to 34	17.5	14.1	14.5	13.4	31.7	14.7
Ages 35 to 44	15.2	11.3	12.5	9.9	28.1	16.4
Ages 45 to 54	14.2	11.7	11.9	9.3	27.2	17.4
Ages 55 to 64	7.5	8.1	3.9	6.8	17.5	12.8

Sources: Current Population Survey (1996 to 1998).

**Table 6.7 Labor-Market Outcomes by Ethnicity, Ages Twenty-Five to Sixty-Four**

	Differential Relative to Whites			
	Hourly Wage (Percentage Differential)	Employment Rate	Annual Hours of Work	Self- Employment Rate
<b>Men</b>				
Blacks	-25.9	-12.2	-222	-8.0
All Hispanics	-36.4	-3.9	-169	-7.3
Mexicans	-39.5	-2.5	-188	-8.5
<b>Women</b>				
Blacks	-14.0	-3.0	19	-5.2
All Hispanics	-28.5	-14.3	-54	-4.8
Mexicans	-32.7	-16.4	-93	-5.8

Sources: Current Population Survey (1996 to 1998).

Note: These comparisons control for age and geographic location. The calculations of hourly wages, annual hours of work, and self-employment rates are for samples that include only individuals who worked during the calendar year preceding the survey.

The share of Mexican-origin men who worked during the calendar year preceding the survey is 2.5 percentage points below the 91 percent employment rate of Anglo men. By contrast, black men are 12.2 percentage points less likely to be employed than white men. Employed white men average 2,226 hours of work per year, and Mexican-origin men annually work about 188 fewer hours than this. The employment rate of non-Hispanic white women is 78 percent; the corresponding rate for black women is just 3 percentage points lower; but the rate for Mexican-origin women is 16.4 percentage points lower. Thus the latter are significantly less likely to be employed than white or black women. Employed white women average 1,789 hours of work annually. Black women work slightly more hours than this, whereas Mexican women work somewhat fewer hours. Finally, among non-Hispanic whites the self-employment rate is 15 percent for men and 9 percent for women. For both men and women, Mexican-origin self-employment rates are less than the black rates and less than half the corresponding white rate.

To obtain results broken down by generation, we present in the first column of table 6.8 hourly wage differentials between the generation group and third-generation whites, when persons from all education levels are included. The next four columns report outcome differentials for persons in selected education categories: nine to eleven years of schooling, exactly twelve years of schooling, some college but no bachelor's degree, and a bachelor's degree but no postgraduate or professional degrees. By comparing the differentials among all

**Table 6.8 Hourly Wage Differentials by Ethnicity and Generation, Ages Twenty-Five to Sixty-Four**

	Percentage Differential, Relative to Third- and Later- Generation Whites				
	Selected Education Groups				
	All Workers	Nine to Eleven Years	Twelve Years	Some College	Bachelor's Degree
<b>Men</b>					
Third + generation blacks	-25.5	-16.4	-19.3	-17.1	-18.9
<b>Mexicans</b>					
Recent immigrant	-51.6	-27.2	-39.4	-33.4	-49.8
Earlier immigrant	-44.7	-15.3	-22.3	-27.5	-35.5
Second generation	-24.5	-14.6	-12.7	-13.0	-10.5
Third + generation	-26.1	-16.6	-15.2	-13.2	-11.9
<b>Women</b>					
Third + generation blacks	-13.7	-8.6	-9.2	-6.3	-6.5
<b>Mexicans</b>					
Recent immigrant	-51.1	-23.0	-34.1	-30.9	-34.8
Earlier immigrant	-43.8	-18.0	-19.6	-25.2	-25.2
Second generation	-20.4	-2.7	-11.8	-9.6	3.0
Third + generation	-20.0	-11.3	-9.9	-8.5	0.8

Sources: Current Population Survey (1996 to 1998).

Note: These comparisons control for age and geographic location. The sample includes only individuals who worked during the calendar year preceding the survey.

persons with the differentials for specific education groups, we can assess the role that education plays in maintaining the observed outcome differences between Latinos and whites. For example, suppose that within each education category average wages were the same for Latinos and whites, even though Latinos earn substantially less than whites when we compare workers from all education categories combined. This would indicate that the overall Latino wage disadvantage

is entirely due to Latinos' having less education than whites. Conversely, if the wage deficits within education categories were similar to the overall wage deficit, this would indicate that education differences between Latinos and whites contribute little to the overall wage deficit.

Mexican-origin workers display marked wage growth between the first and second generations. For both men and women, U.S.-born Mexicans' wages are about 25 percent higher than those of recent Mexican immigrants and about 20 percent higher than those of earlier immigrants. Note that wage differences between foreign-born and U.S.-born Mexicans are generally much smaller within particular education categories than for workers from all education categories combined. For example, among men, the overall wage growth of 20 percent observed between earlier immigrants and the second generation shrinks to just 10 percent when we restrict the comparison to those with exactly twelve years of schooling, indicating that much of the wage progress across generations for Mexican-origin persons is driven by the intergenerational improvements in schooling already discussed. Intergenerational progress appears to stall after the second generation, however, as no further wage growth is evident between the second and third generations.

Within education categories, wage gaps relative to whites for U.S.-born Mexican-origin men generally are smaller than the corresponding wage gaps for black men. In particular, among the education categories representing men with at least twelve years of schooling, wage gaps for second- and third-generation Mexican-origin men range from 10 to 15 percent, whereas the analogous wage gaps for blacks range from 17 to 19 percent. Moreover, controlling for education leads to a bigger reduction in the wage gap for U.S.-born Mexican-origin men than it does for black men. These results highlight the prominent role that educational improvements can play in raising the economic status of Mexican Americans. Among women, minority-white wage gaps within education categories are relatively small for both blacks and U.S.-born Mexican-origin persons. As we saw for men, controlling for education dramatically shrinks the wage disadvantage of second- and third-generation Mexican-origin women. Women who possess a college degree do particularly well, with U.S.-born Mexican origin women of this group achieving wage parity with Anglo women.

## Summary and Conclusions

The results presented here document the improvement in wages and earnings among the new immigrants the longer they reside in the

country. Asian Americans have achieved substantially the same earnings levels as comparable native-born whites, but Latinos lag behind, in substantial measure because lower earnings in the Mexican-origin population "drag down" statistics for Latinos in general. Moreover, the data sources that constitute the basis on which such comparisons are made contain significant proportions of unauthorized Mexicans, which is a major contributing factor to the low earnings levels of the Mexican-born. Were it not for the presence of persons in the data whose migration status consigns them to lesser-paying jobs, the statistics for Latinos in general and Mexican-born persons in particular would look more favorable. But even native-born Mexican-origin men of high education do not achieve full earnings parity with non-Hispanic white males, suggesting that economic incorporation among Mexican-origin persons, while substantial, is nonetheless still incomplete. Taking self-employment into account, however, improves slightly the overall assessment because Mexican immigrant self-employment leads not only to higher earnings among the self-employed but also among the non-self-employed, at least in locales with substantial concentrations of Mexican-origin persons. By the third or later generations, the earnings picture suggests even further progress, particularly among college-educated women, whose earnings levels slightly exceed those of comparable non-Hispanic whites, even though college-educated males of Mexican origin still lag behind somewhat.

The fact that immigrants themselves (as opposed to the native-born later-generation members of immigrant groups) make earnings progress the longer they are here but do not achieve parity with natives implies that structural mechanisms may be at work limiting their mobility. Included among these are structures of labor-market segmentation and mechanisms of immigrant labor recruitment (Sassen 1995). Immigrants are drawn to areas containing other immigrants because their previous contacts with such persons, often through family relationships, become crucial factors in labor recruitment into low-wage work. The attraction of low-wage work is the availability of the jobs themselves, not comparisons of the wages of those jobs with wages paid in other jobs, at least in the country of destination. Such recruitment is replicated many times over, leading to cumulative causation in the tendency of immigrants of a certain national origin to become predominant in certain industries in certain locales, thus creating a tendency toward ethnic closure in those industries, and reinforcing segmentation in the labor market. Over time, some immigrants find pathways to partial upward earnings mobility, as research documenting the upward life course trajectory of immigrant earnings indicates. And the research evidence suggests this process is abetted by immi-

grant entrepreneurship in areas containing the greatest concentration of co-ethnics. But the fact that this trajectory is not steep enough to eventually lead to full earnings parity with comparable natives provides a telling clue that labor-market segmentation involving the partition of employment possibilities into better and worse jobs—with the latter being viewed by employers as the appropriate preserve for immigrants—continues to operate as a structural barrier that dampens first generation earnings, especially among Mexican-origin persons, many of whom are unauthorized. This further reinforces the idea introduced earlier in chapter 5 that a four- or five-generation model of immigrant incorporation provides an appropriate standard against which to gauge the “success” of immigrant group incorporation in the case of Mexicans. Applying such a model, we find in this chapter that Mexican immigrants have moved far enough along the path of economic incorporation for us to think that they will experience some degree of participation in the economic mainstream, as other immigrant groups have.