Diversity and '*Economic Assimilation*' of Immigrant Workers: Evidence from cities in the USA

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Motivation

- Is diversity good for economic growth? Do settler societies experience productivity gains (or losses) from diversity?

- What are the economic consequence of increasing diversity on native workers in settler societies?

- Do foreign-born workers assimilate economically i.e. the wages of foreign-born workers approach those of 'observationally equivalent' native workers?

- What should policies opt for: cultural or economic assimilation? Does the rate of economic assimilation depend on social identities?

Diversity and economic outcomes

- Conflict of preferences and provision of public goods (*Easterly and Levine 1997, Alesina et. al. 1999*)

- Diversity, and interpersonal trust (*Knack and Keefer 1997, Zak and Knack 2001, Collier and Gunning 1999, Alesina and Ferrera 2002, Putnam 2000*)

- Diversity and social divergence (*Grafton, Knowles and Owen 2004, Grafton, Kompas and Owen 2007, Ratna, Grafton and Kompas 2009*)

Immigration and labour market outcomes

- Impact of immigrantion on competing native workers: Borjas (1994, 1995, 1999, 2001, 2003), Card (1990, 2001)

- Economic value of cultural diversity

  (Ottaviano & Peri 2003)

- Linguistic diversity, wages and employment diversity on native workers (Ottaviano & Peri 2005)

Diversity, Knowledge interactions & Barriers to communication

Barriers to communication created through differences in language, ethnicity or religion, deter the 'cross-fertilization' of ideas and knowledge due to lower social interactions across the groups and, hence, have negative impact on productivity (*Grafton, Kompas and Owen 2007*)

Diversity and Wages: City level analysis

- Empirical model

$$\ln(\overline{w}_{c,t}) = \chi_c + \beta_t + \underline{\delta}_c(\underline{c}_{c,t}) + \underline{\alpha}_d(\underline{d}_{c,t}) + e_{c,t}$$

- Measuring Diversity

$$\text{FRACi} = 1 - \sum_{j}^{n} f_{ji}^2$$

Diversity and Labour Productivity

ln (average wage of all workers: 15 -64 yrs)				
	(i)	**(ii)**	**(iii)**	**(iv)**
Race	-.358***	-.409***	-.513***	-.210***
Language	.735***	-.041	.165	-.233
Culture	2.138***	2.137***	2.186***	1.912***
Education	.612**	.725**	.767***	.728**
LI		-.532**	-0.876**	-.891***
*Language*LI*		2.216**	3.573***	1.909***
Years FE	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes

	ln (Wage of white workers: 15 -64)		IVE	
Dependent Variable				
	(i)	(ii)	change in ln (Wage)	change in ln (Wage_WW)
Race	-.446***	-.656***	-1.81***	.743
Language	.914***	.103		
Culture	2.209***	2.311***	9.529***	9.623***
Education	.408*	.758**		
LI		-1.445***		
Lang*LI		5.149***		
Years FE	Yes	Yes		
City FE	Yes	Yes		

Endogeniety and IVE

- Instruments for diversity index

- Shift-share technology (Card 2001, *Ottaviano and Peri 2003, 2005)*

$$(x_i^c)_{2000} = (x_i^c)_{1980}[1 + (g_i)_{80-00}]$$

Shift –Share Diversity= 1- $\sum_i (x_i^c)_{2000}$

Economic Assimilation of non-native workers

- Non-native/foreign-born/ immigrant workers

- Wage convergence from below toward the higher native mean (Kim 2009)

- The rate at which the gap between earnings of native and immigrants narrows, is interpreted as a measure of economic assimilation (Meng & Gregory 2002)

Concluding Remarks

- Diversity by itself is *not* the problem, but barriers to communication across social groups (racial in our estimates) and the consequent social isolation have negative social & economic outcomes. Thus policies that promote 'bridging' likely to have not only social or political, but substantial economic payoffs as well.

Concluding Remarks

- Policy Implications : Economic *Assimilation* and Cultural *Integration*
  - Language and skill training
  - Education policy

- When barriers to communication are non-existent /less prevalent, immigration enhances economic growth