

Firms, sorting, and the immigrant–native earnings gap

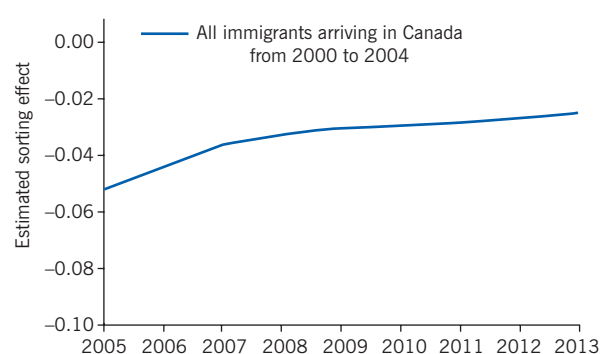
The immigrant–native earnings gap is due in part to firm-specific factors resulting from differential sorting of workers into firms

Keywords: immigrants, earnings, workers, firms, sorting, human capital

ELEVATOR PITCH

Recent research has tried to quantify how firms contribute to the immigrant–native earnings gap. Findings from several countries show that around 20% of the gap is due to firm policies that lead to a systematic underrepresentation of immigrants at higher-paying firms. Results also show that some of the closing of the gap over time is attributable to the reallocation of immigrants toward higher-paying employers. This pattern is especially pronounced for immigrants coming from disadvantaged countries, who face several barriers at initial entry, including language difficulties and lack of recognition of their educational credentials.

Immigrant–native gap in (log)earnings growth due to moves into higher paying firms



Source: Based on Figure 1.

IZA
World of Labor

KEY FINDINGS

Pros

- ⊕ The immigrant–native earnings gap is due in part to firm-specific factors.
- ⊕ Most firm-specific factors stem from immigrants sorting into low-pay firms rather than high-pay firms.
- ⊕ Immigrants with higher levels of education can assimilate more quickly through mobility from low- to high-pay employers.
- ⊕ Immigrants who remain in the host country longer have greater success finding jobs with high-pay employers.

Cons

- ⊖ Some immigrants are stuck in low-pay firms, particularly those with low levels of education, poor literacy, and poor language skills.
- ⊖ Even with high education levels, unfavorable sorting is also due to poorly recognized education credentials.
- ⊖ Poor recognition of education credentials of immigrants could be due to lower educational quality or unequal treatment of similarly productive workers.
- ⊖ There is a lack of research on the role of firms explaining the native–immigrants earnings gap due to the non-availability of suitable data.

AUTHOR'S MAIN MESSAGE

Firms' hiring policies tend to magnify earnings differences between natives and immigrants. At initial arrival many immigrants—especially those from disadvantaged home countries—face difficulties in obtaining jobs at higher-paying firms. As they remain in the country longer some immigrants are able to climb the career ladder to high-pay firms, with most of the gains for highly educated immigrants from disadvantaged home countries. Policies that favor labor market mobility by removing search frictions, promoting language skills, or acquiring additional education in the home country could help assimilation.