

Immigrant Wage Adjustment in Australia: Cross Section and Time-Series Estimates*

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Cross-sectional estimates of the comparative wage performance of natives and immigrants can be distorted if there are changes in labour market quality between immigrant cohorts. This question is investigated with a study of 1973 and 1981 cross-sections of Australian migrants. We find that migrants from non-English-speaking countries entering Australia about 1965 perform significantly better between 1973 and 1981 than predicted from the 1973 cross-section. Migrants from English-speaking countries time-series wage performance is consistent with the 1973 cross-section prediction. The paper interprets the analytic importance of these results.

1 Introduction

The question of how long it takes for immigrants to adjust to the Australian labour market is of considerable interest to policy makers. It is also an issue of importance for both economic theory and applied economics, since implicit in it is the potential for examining the processes of and constraints on human capital transference and investment. These latter points are pertinent to understanding the operation of the labour market generally, given the prevalence of the human capital explanation of wage structures.

In the immigrant context the usual story is that newcomers are initially disadvantaged but as a consequence of investments in country-specific skills their wages 'catch-up' with those of natives. Typically, cross-sectional estimation is used to

study these adjustment processes. A basic theme exploited in this paper is that there are important dangers inherent in such an approach, a point first developed by Borjas (1985). The major problem is that cross-sectional data may provide false conclusions concerning the underlying wage change mechanisms, because of the potential to confuse variations in the (unmeasured) ability of immigrant cohorts entering in different years with returns to length of residency. Section II develops this issue with reference to the existing literature.

A third section examines the matter empirically using both cross-sectional and time-series approaches. The latter method, which involves a comparison of wage estimates for like persons in 1973 and 1981, avoids the unobserved ability problem and is consequently a more valid way of measuring relative wage changes. The technique thus allows insight into both the true extent of immigrant wage catch-up, and the statistical significance of the problems associated with the use of cross-sectional data in this area.

The results are of considerable interest since, at least in part, they throw some doubt on orthodoxy. From our data there is no evidence of catch-up for immigrants from non-English-speaking countries (NESM), and only a very slow

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wage catch-up for immigrants from English-speaking countries (ESM). In 1973 the cross-sectional estimates adequately represent the experience of ESM, but they give a misleading impression for the wage adjustment processes of NESM. For the latter group, the data imply that the average unobserved ability of entering cohorts increased from 1965 to 1973.

II Conceptual Issues

The notion of immigrant wage catch-up and the problems associated with cross-section estimations are most easily explained through consideration of the following, simplified but conventional, wage model (Mincer, 1964):

$$\ln W_i^N = \alpha_0 + \alpha_1 YOS_i + \alpha_2 GEXP_i + \varepsilon_i^N \quad (1)$$

and

$$\begin{aligned} \ln W_i^I = & \beta_0 + \beta_1 YOS_i + \beta_2 GEXP_i \\ & + \beta_3 PER_i + \varepsilon_i^I \end{aligned} \quad (2)$$

where, for individual i , $\ln W$ is the log of hourly wages, YOS is years of schooling, $GEXP$ is years in the labour force, PER is, for immigrants, years in Australia, and N and I are native and immigrant superscripts respectively. Immigrant wages are said to 'catch-up' to native wages if immigrant wages are relatively low initially and $(\beta_2 + \beta_3) > \alpha_2$. The underlying theoretical perspective implicit in this prediction is that immigrants are initially disadvantaged in terms of country-specific skills (e.g. language, culture and understanding local processes of job search) and it is thus in their interests to invest in acquisition of these skills. This implies that, with all else equal, the average immigrant wage is initially lower than the average native wage, and the average immigrant wage increases more rapidly than the average native wage as the Australian labour market experience of both increases.

It is important to set out these conditions explicitly, for two reasons. The first concerns Chiswick and Miller's (1985) analysis of the 1981 Census. On the basis of the findings of cross-section earnings (income) functions they argue that 'at the end of the first year of residence the overseas-born's income is about 10.5 per cent less than that of the native-born, and the gap narrows by 0.2 percentage points per year' (p. 545) which seems to imply (very slow) catch-up in the sense explained above. However, their conclusion is based on the

positive $PER(\beta_3)$ coefficient, and pays little explicit attention to the relative sizes of α_2 and β_2 . Since in their data, $\alpha_2 > (\beta_2 + \beta_3)$ ¹, immigrant wages increase *less* quickly than native wages as Australian labour market experience increases. Indeed, some of their estimations imply cross-over of the immigrant and native wage streams, but with the former wage starting higher but finishing lower than that of like natives. We seek to clarify the point.

The second reason for setting out conditions explicitly, and the main motivation of this paper, is that if (unobserved) immigrant average ability differs between cohorts depending on their year of arrival, the parameter β_3 , estimated on cross-section data, is biased. It will reflect both ability differences between cohorts and returns to years of residency. Moreover, the bias cannot be signed *a priori*. The coefficient will tend to be lower (higher) if recent immigrants are more (less) able than immigrants with greater Australian length of residency. A solution is presented below.

III The Empirical Analysis

An approach to the problem explained above suggested by Borjas (1985) (and implemented with US Census data) is to examine two cross-sections including average representations of the same individuals. Survey data from 1973 and the Australian Census of 1981 allow a replication of his method, which is now examined.

Consider the following four (simplified) estimating equations:

$$\ln W_{i,1973}^N = \Theta_{1973}^N X_{i,1973}^N \quad (3)$$

$$\ln W_{i,1973}^I = \Theta_{1973}^I X_{i,1973}^I \quad (4)$$

$$\ln W_{i,1981}^N = \Theta_{1981}^N X_{i,1981}^N \quad (5)$$

$$\ln W_{i,1981}^I = \Theta_{1981}^I X_{i,1981}^I \quad (6)$$

where Θ are parameters and X is a vector of productivity characteristics for the relevant periods.

The predicted average hourly wages of individuals entering the Australian labour market is given by $\bar{W}_{i,1973}^N$ and $\bar{W}_{i,1973}^I$ for natives and immigrants respectively in 1973, and by $\bar{W}_{i,1981}^N$ and $\bar{W}_{i,1981}^I$ for natives and immigrants respectively in 1981. Thus the extent of wage increase over

¹ This is a simplification of their analysis since it excludes the influence of quadratic terms. Conclusions are the same with the more complex form.

the eight-year period for like individuals on average is given by $(\bar{W}_{i,1981}^N - \bar{W}_{i,1973}^N)$ and $(\bar{W}_{i,1981}^I - \bar{W}_{i,1973}^I)$ for natives and immigrants respectively. If immigrant wages are initially lower than native wages, catch-up occurs if $(W_{i,1981}^N - W_{i,1973}^N) < (W_{i,1981}^I - W_{i,1973}^I)$.

This method has a distinct advantage over cross-sectional analysis because we are able to observe directly estimated wage changes for like individuals. It also provides insight into the question of unobserved ability differences in the immigrant pool by year of arrival. By way of explanation, if the wage catch-up predicted from the 1973 cross-section for a length of residency increasing by eight years exceeds that directly observed in comparing the same cohort after eight years, the implication is that immigrants who entered in 1965 (1973 minus eight years) had greater (unobserved) ability than immigrants who entered in 1973. The converse is true if the 1973 cross-section prediction is less than directly observed.

The data are drawn from two cross-sections, the (ANU) 1973 Social Sciences Mobility survey of Australian residents aged 30-64, which includes a sample of about 2000 wage or salary-earning males, and the 1981 1/100 Census tapes. Neither data set is ideal, problems being the availability of income instead of wage information and, for the 1981 Census, very broad hours categories. The former problem is of little concern because of the comparison method employed. For the latter problem we have erred on the side of simplicity and used the midpoint of the hours category. This may not be of major concern since the great majority of individuals fell into the highest hours category. An important point encouraging the use of the data sets for this exercise is the general similarity of questions and survey methodology.

Several forms of the usual earnings function were estimated. They were, for the Australian-born:

$$\ln W_i^N = \alpha_0 + \alpha_1 YOS_i + \alpha_2 GEXP_i + \alpha_3 GEXP_i^2 + \alpha_4 MAR_i + \epsilon_i^N \quad (7)$$

and, for immigrants:

$$\ln W_i^I = \beta_0 + \beta_1 YOS_i + \beta_2 AYOS_i + \beta_3 GEXP_i + \beta_4 GEXP_i^2 + \beta_5 PER_i + \beta_6 PER_i^2 + \beta_7 MAR_i + \epsilon_i^I \quad (8)$$

where $\ln W_i$ is log of hourly income, $AYOS$ is years

of Australian schooling², and MAR is a dummy variable = 1 if the person is currently married with spouse present, = 0 if not. Table 1 presents the statistical characteristics of the data and Table 2 the OLS estimations.

Not surprisingly, the cross-sectional results, noted as follows, are similar in many respects to those reported in other research (Chiswick and Miller, 1985; Stromback, 1984; BLMR, 1986). First, for both samples, ESM (principally from the UK and Eire) receive returns to pre-migration experience and schooling of similar magnitude to Australian returns to experience and schooling. This implies that skills are easily transferred between like countries. Secondly, NESM (principally from Italy and Greece) receive lower returns to pre-migration experience and schooling than the Australian-born receive from experience and schooling, a finding consistent with the hypothesis that skills acquired overseas are only imperfectly transferable to dissimilar countries. Thirdly, ESM receive lower returns to Australian schooling than do NESM. Again, the implication is that immigrants from countries more dissimilar to Australia benefit more from country-specific education investments than do immigrants from countries more similar to Australia.

As far as returns to residency are concerned, the PER coefficients are generally both small in size, have large standard errors and, at least for the 1981 sample, are less significant for NESM than they are for ESM. These results do not square easily with a perspective implying greater initial investments and higher eventual returns to immigrants from countries relatively unlike Australia. As has been stressed, however, cross-sectional estimates impose potentially important restrictions which need to be relaxed as far as is possible before any firm conclusions are established.

The question of ability differences in cohorts as an explanation of relative wage change may now be examined for a particular cohort, those entering Australia in 1965. A comparison of 1973 and 1981 results serves to illuminate the concept of catch-up from both cross-section and time-series

² $AYOS$ was computed using the technique adopted by Chiswick and Miller (1985). That is, it is given by years of education minus age at migration plus 5 (and equal to zero if negative).

TABLE 1
Statistical Characteristics of the Data⁺

Variable	Australian-Born		English-speaking Country Born		Non-English-speaking Country Born	
	1973	1981	1973	1981	1973	1981
<i>YOS</i> (years)	10.16 (2.29)	11.05 (2.31)	10.48 (2.33)	10.99 (2.31)	10.03 (3.41)	10.80 (3.04)
<i>GEXP</i> (years)	30.05 (10.49)	24.29 (11.56)	29.31 (10.55)	25.93 (11.25)	29.16 (9.97)	25.57 (11.23)
<i>MAR</i>	0.90 (0.30)	0.803 (0.39)	0.91 (0.29)	0.83 (0.37)	0.93 (0.25)	0.83 (0.37)
<i>PER</i> (years)			16.30 (13.04)	16.38 (9.53)	16.07 (8.13)	16.57 (9.35)
<i>AYOS</i> (years)			1.05 (3.15)	2.13 (4.52)	0.54 (2.36)	1.97 (4.44)
<i>INCOME</i> *	2.95 (1.55)	7.94 (5.10)	2.85 (1.30)	8.00 (5.78)	2.41 (1.16)	7.86 (7.11)
Number of Observations	1234	8380	248	1284	1284	2330

+ Means, standard deviations in parentheses.

* Hourly nominal dollars.

TABLE 2
*OLS Wage Estimations**
(dependent variable is log of hourly income)

Variable	Australian-born		NESM		ESM	
	1973	1981	1973	1981	1973	1981
<i>GEXP</i>	.025 71 (0.006 33)	0.020 77 (0.002 35)	0.005 55 (0.011 22)	0.010 70 (0.005 49)	0.033 71 (0.014 38)	0.008 68 (0.006 65)
<i>GEXP</i> ²	-0.000 35 (0.000 10)	-0.000 320 (0.000 04)	-0.000 16 (0.000 17)	-0.000 21 (0.000 09)	-0.000 50 (0.000 22)	-0.000 19 (0.000 14)
<i>YOS</i>	0.104 66 (0.005 03)	0.090 00 (0.002 60)	0.024 79 (0.006 33)	0.049 33 (0.004 14)	0.088 7 (0.011 62)	0.083 82 (0.006 58)
<i>AYOS</i>			0.024 25 (0.010 29)	0.007 91 (0.002 88)	0.008 84 (0.011 23)	-0.009 29 (0.003 32)
<i>PER</i>			0.005 35 (0.006 10)	-0.002 86 (0.004 49)	0.001 15 (0.005 38)	0.009 16 (0.005 02)
<i>PER</i> ²			0.000 12 (0.000 16)	0.000 11 (0.000 11)	-0.000 01 (0.000 10)	-0.000 10 (0.000 11)
<i>MAR</i>	0.072 72 (0.034 65)	0.113 95 (0.046 28)	0.113 61 (0.075 01)	0.083 30 (0.030 26)	0.273 61 (0.082 39)	0.064 29 (0.033 72)
Intercept	-0.565 02 (0.120 57)	0.572 08 (0.046 28)	0.193 83 (0.202 17)	1.155 4 (0.083 19)	-0.729 13 (0.288 76)	0.814 21 (0.115 16)
<i>R</i> ²	0.276	0.138	0.247	0.089	0.236	0.152

*Standard errors in parentheses.

approaches. Tables 3 and 4 present the wage increments attributable to additional Australian labour market experience for the following male ($YOS = 10$, $AYOS = 0$, $MAR = 1$, $GEXP = 10$ initially and $PER = 0$ in 1965).

The cross-sectional results of Table 3 suggest the following. ESM wages start slightly below native wages, but after this they increase slowly. The two points of interest are: that the 1973 profiles support weakly a simple human capital model of initial country-specific investments for ESM; and that the wage structures of the two groups are very similar. Neither point is true for NESM.

NESM have a slightly lower earlier wage than natives, but because the profile is flat, indeed, declining, there is no catch-up, at least as reflected in the cross-section. For the individual considered the comparison of native to NESM wage profiles does not support the human capital model. Interestingly, varying the characteristics of the individual considered changes the interpretation somewhat: assuming that $GEXP = 0$ when $PER = 0$ results in NESM and native profile cross-over, *but from above*, a result confirmed for the 1981 Census by Chiswick and Miller (1985) and Stromback (1984).

Table 4 presents calculations of immigrant wage convergence or divergence to native wages over the course of eight years (1973 to 1981) for the standardized individual entering in 1965. That is, 1981 predicted wages are compared with 1973 predicted wages for individuals who have aged eight years, holding constant education and marital status.

The data of Table 4 provide additional evidence on the relative wage structures of the different groups. They reveal that for NESM there is a significant difference in the story using actual wage change 1973-81 compared to using the 1973 predictions. There is increased divergence using the 1973 cross-section (of about 7.23 percentage points), but very slow catch-up revealed by the time of the 1981 cross-section (of 2.22 percentage points). The combined difference between the cohort and within cohort estimates is then 9.45 percentage points with a standard error of 2.72. This difference is statistically significant at conventional levels which suggests that the 1973 cross-section provides an inaccurate picture of NESM and native relative wage structures for the 1965 entering cohort. One interpretation of the results is that the unobserved ability of entering NESM cohorts changed from 1965 to 1973; the data being consistent with the view that NESM immigrating before 1965 were of lower (labour market) quality than those entering around 1965 and after.

The above is not the case for ESM. The 1973 cross-section predicts slow convergence between ESM and native wage structures, with the 1981 sample showing slightly faster ESM wage growth and take-over after around 12 years of residency. However, the differences are not statistically significant. Tentatively, this could suggest that ESM who arrived before 1965 were of about the same ability as those entering around 1965. Thus the 1973 cross-section seems to provide a reasonably accurate description of the adjustment process for this group. Catch-up exists, but it is

TABLE 3
Predicted Wages Using 1973 Regression Estimates
(\$/hour)*

Australian Residency (years)	Australian-Born		ESM		NESM	
	Wage	Percentage increase	Wage	Percentage increase	Wage	Percentage increase
8	2.47 (0.05)		2.41 (0.11)		2.28 (0.08)	
16	2.68 (0.04)	8.50 (1.71)	2.63 (0.10)	9.12 (3.94)	2.28 (0.06)	0.01 (3.23)
24	2.78 (0.04)	3.73 (0.89)	2.74 (0.12)	4.18 (2.32)	2.21 (0.07)	-3.18 (2.22)

*Standard errors in parentheses.

TABLE 4
*Immigrant Wages Relative to Native Wages for the
 1965 Entering Cohort (per cent)**

	ESM	NESM
Predicted Percentage Difference from Native Wage in 1973	-2.43 (4.87)	-7.69 (3.73)
Predicted Percentage Difference from Native Wage After 16 Years Residency from the 1973 Cross-Section	-1.86 (4.00)	-14.92 (2.57)
Predicted Percentage Difference from Native Wage After 16 Years Residency from the 1981 Cross-Section	1.92 (0.95)	-5.47 (0.88)
Predicted Wage Catch-Up Cross-Section ⁺	0.57	-7.23
Predicted Wage Catch-Up Time Series ⁺	4.35	2.22
Difference Between Cross-Sectional and Time-Series Predicted Wage Catch-Up	3.78 (4.23)	9.45 (2.72)

*Standard errors in parentheses.

+Standard errors for these numbers are complex to compute. The relevant difference between the time series and cross-section is accorded a standard error in the line below.

very slow, the empirical magnitudes confirming the view that ESM and natives have very similar wage profiles.

Cautionary notes on the above are in order. There are several possible explanations of the differences between or similarities of the static and dynamic results.³ One of the most important of these is that the Australian labour market changed substantially between 1973 and 1981. Most commentators acknowledge that the first period was one of excess labour demand and that the second was one of excess labour supply, it being unlikely that the movement into recession had neutral effects on the relative wage changes of the groups. A possibility is that immigrants, NESM in particular, were more likely than natives to be unemployed in 1981 relative to 1973. This could have two, opposite, effects. One is that the higher unemployment experience of immigrants in 1981 resulted in decreased relative wages for the group at this time, which would tend to understate catch-up from the time-series approach. On the other hand, the average quality of immigrants observed

as full-time workers in 1981 would have been relatively high at this time compared to 1973, if low quality workers are more likely to be unemployed in recessions. If this is the case, the time-series approach tends to overstate that part of wage change attributable purely to catch-up. It is not obvious which effect dominates, but it is relevant to note that the implications may not be substantial given that immigrant unemployment rates — at least as estimated from the 1981 Census (Beggs and Chapman, 1987) — were not markedly different to those of natives.

Another interpretation of the results is that the wage changes for immigrants between 1973 and 1981 reflect, in part, differences in the treatment accorded non-natives by employers. That is, the relative wage increases of NESM in this period may be a manifestation of diminished statistical discrimination given greater information on the work characteristics of the group. We have no data as to the likely extent of this phenomenon, but note the possibility as a caveat to the more straightforward interpretation.

³ These include the distortions introduced from re-migration and changes in government policy towards new immigrants. For a full account of the possibilities, and some statistical tests, see Beggs and Chapman (1986).

IV Conclusions

Until now the data employed to study immigrant relative wage performance were cross-sectional

and, as such, the usual tests imposed potentially important restrictions. As a contribution we have addressed empirically the possibility that differences in the average ability levels of entering immigrant cohorts contaminate cross-sectional analysis. In so doing insights are forthcoming into the process of immigrant wage catch-up, a phenomenon alleged to be the result of country-specific human capital investments.

The wage changes of cohorts of like individuals were examined over an eight-year period, employing the 1973 ANU Social Mobility Survey and the 1981 Census. Three points emerged. The first is that wage structures of ESM were quite similar to natives, no matter what technique is employed. This implies that unobserved ability differences within this group have not dominated relative wage structures.

Secondly, for NESM the 1973 cross-section analysis revealed low starting wages and a rapid wage divergence, compared to natives. This result changed using the more valid time-series technique, in that NESM wages apparently caught up to native wages, but at an extremely slow rate. Importantly, the rate of convergence is so sluggish as to suggest that catch-up does not characterize the NESM wage adjustment process in Australia, which implies that the country-specific human capital investment model may not be useful as an explanation of NESM wage experience.

Finally, with some caveats, the results from the different techniques can be interpreted to mean that there have been changes over time in the unmeasured ability of Australian immigrants from non-English-speaking countries. In particular, the data are consistent with the view that NESM males entering the country after 1965 were more talented

(in a labour market sense) than was the case for earlier cohorts.

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