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Mark C. Regets
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Human Capital Investment

A History of Asian
Immigrants and
Their Family Ties

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Human Capital Investment

“The authors attack forcefully an established myth in the USbased immigration literature, namely that post-1965 immigrants were of low quality since they came at a time with a policy focus on family unification. They make us aware of the huge impact family investments have had among their studied Asian immigrants on high school attendance rates and other human capital improvements generating the most upwardly mobile among American workers. It seems that the migration history of that period has to be re-written.”

—Klaus F. Zimmermann, President Global Labor Organization, *Bonn University and UNU-MERIT, Maastricht*.

“Overturning received wisdom on an important policy issue is a rare feat. This book, by leading scholars, manages just that beautifully and convincingly on immigration policy. It will become an instant classic.”

—Jagdish Bhagwati, University Professor, *Columbia University*, Author of *In Defense of Globalization* (Oxford)

“*Human Capital Investment* exposes the substantial upward mobility of U.S. immigrants from Asia. Through meticulous data analysis, the authors reveal robust earnings growth for Asian immigrants and refugees by including initial earnings and those who are not working, in school and self-employed. These findings— together with those presented in a new volume of the *Annals of the American Academy of Political and Social Science: Refugee and Immigrant Integration: The Promise of Local Action* (July 2020)—have much to offer to scholars and policy makers seriously concerned about immigrant and refugee integration.”

—Katharine M. Donato, Donald G. Herzberg Professor of International Migration, and Director of the Institute for the Study of International Migration, at *Georgetown University’s Walsh School of Foreign Service*.

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*We dedicate this book to
Aarthi and Pooja
Matt, Nick, and David
Jenne, and in memory of Rayleona
In memory of Sri Venkateswararo and Ranganayakamma Wunnava*

FOREWORD

This book criticizes the existing literature on the earnings of immigrants and demonstrates a fundamental flaw in the conventional model. It proposes a richer model that incorporates investments in human capital by immigrants and their families. It challenges the conventional model in three ways:

First, it views the decline in immigrants' entry earnings after 1965 as due to investment in human capital, not to permanently lower "quality."

Second, it adds human capital investment and earnings growth after entry to the model.

Third, by taking investments by family members into account, it challenges the policy recommendation that immigrants should be selected for their occupational qualifications rather than family connections.

It contains a convincing critique of the standard methodology and proposes a better one; that is, analyze each entry cohort separately, include their earnings growth as well as entry earnings, and include only those cohorts that can be followed from entry. The results provide convincing evidence in support of the proposed theory of immigrants' earnings.

The earlier interpretation of the decline in U.S. immigrants' entry earnings since 1965 (as due to a decline in "quality" when Asia and Latin

America replaced Europe as the main source of immigrants) has been controversial. This book should help settle that controversy by providing convincing evidence for a different interpretation.

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noted the similarity between our work and his intergenerational work with Mary Waters, and the greatly missed Robert LaLonde.

As documented in this book, the role of family cannot be overemphasized in the journey of immigrants to realize their full potential to be productive and contributing members of our society. One of the authors (Phanindra V. Wunnava) came to the U.S. from India through a *Family Preference* visa. He is immensely grateful to his brother (Professor Subbarao Wunnava) and sister-in-law (Sunanda Wunnava) for sponsoring him to immigrate to the U.S. and giving him adequate timely support to have a chance at the “American Dream.” Furthermore, Wunnava would like to thank his spiritual guru, Bhagawan Sri Sathya Baba for giving him strength while working on this book.

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ABBREVIATIONS

IHCI Model Immigrant Human Capital Investment Model
PUMS Public Use Microdata Sample

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Introduction: Background and Overview

In 1965, a family-reunification policy for admitting immigrants to the United States replaced a system that chose immigrants based on their national origin. With this change, a 40-year hiatus in Asian immigration ended. Today, over three-quarters of U.S. immigrants originate from Asia and Latin America. Two issues that dominate discussions of U.S. immigration policy are, how have the post-reform immigrants fared in the U.S. economy and how do they contribute to the U.S. economy?

Notable comparisons by economists of the post-reform immigrants with those who entered in 1940–1960—a period when most U.S. immigrants came from Western Europe—conclude that with the family-based immigration reform, the “quality” of U.S. immigrants fell. A precipitous decline in the initial earnings of immigrant men and estimates of low earnings growth support this conclusion. Yet, the estimates of low earnings growth rest on a flawed methodology. By using a less constrained methodology, a different reality emerges for an important component of the post-reform immigrants—Asian immigrants. Though the book’s title is *Human Capital Investment: A History of Asian Immigrants and Their Family Ties*, it is more broadly focused on comparing the earnings profiles, human capital investment, and family-aided assimilation of immigrants from economically developing versus economically developed countries.

Asian immigration has received less attention than Hispanic immigration even though as a percentage of U.S. legal immigration it has surpassed Hispanic immigration (Fig. 1.1). We provide basic information on

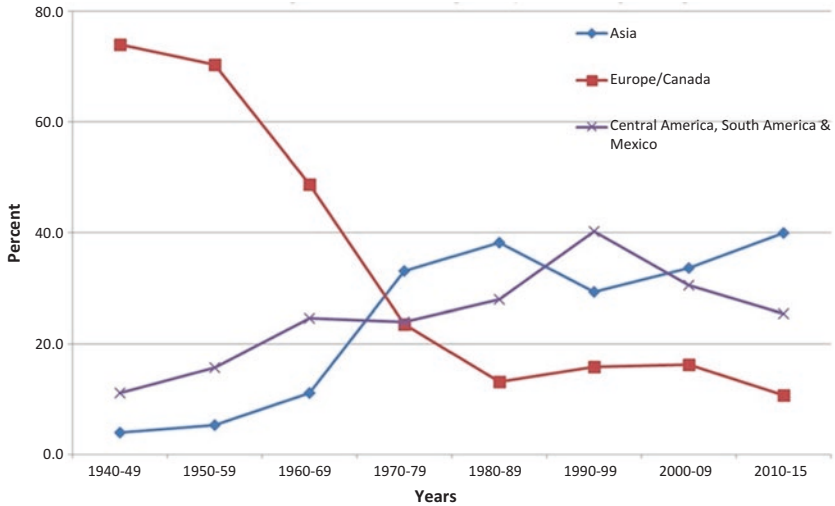


Fig. 1.1 National origin composition of legal immigrants. (Source: Authors' creation based on "Table 2. Persons Obtaining Lawful Permanent Resident Status By Region and Selected Country Of Last Residence: Fiscal Years 1820 To 2015" in U.S. Department of Homeland Security, *2015 Yearbook of Immigration Statistics, Office of Immigration Statistics*, December 2016; <https://www.dhs.gov/immigration-statistics/yearbook>)

the earnings trajectories and human capital investment of this vital segment of post-reform U.S. immigration.¹ In particular, we:

- test the conclusion of Borjas (1985, 1987, 1992a, b, 1994, 1995, 2015) that due to an increase in the income inequality of the countries contributing to U.S. immigration the quality of U.S. immigrants declined;
- introduce a new model of immigrant human capital investment;
- show how the methodology most economists use understates the earnings growth of immigrants who start with low initial earnings;

¹Several studies offer an historical perspective into the economic characteristics, including educational attainment, of Asian immigrants: Hirschman and Wong 1984, 1986; Model 1988; Barringer et al. 1990; Fernandez and Kim 1998; Nee and Sanders 2001; Sanders et al. 2002; Zhen and Yu 2004.

- explain and illustrate an assumption-free methodology;
- highlight the important connection between immigrant permanence and the propensity to invest in human capital;
- describe the earnings patterns and human capital investment of Asian immigrant men in the groups that dominated the post-1965 reform;
- consider the role of family, particularly women, in human capital investment and earnings patterns;
- describe the economic assimilation of Asian refugee groups, and
- document the intergenerational progress of Asian immigrants who entered the United States before immigration from Asian countries was banned.

HUMAN CAPITAL

Adam Smith described human capital as:

... the acquired and useful abilities of all the inhabitants or members of the society. The acquisition of such talents, by the maintenance of the acquirer during his education, study, or apprenticeship, always costs a real expense, which is a capital fixed and realized, as it were, in his person. Those talents, as they make a part of his fortune, so do they likewise of that of the society to which he belongs. (*An Inquiry into the Nature and Causes of the Wealth of Nations*, London: W. Strahan and T. Cadell, 1776.)

In their study of immigrant earnings, economists commonly make three errors: a conceptual error equating earnings with level of human capital, a statistical design error assuming that earnings growth rates are constant across year-of-entry cohorts, and an analytical and policy error of assuming that differences in entry earnings measure differences in immigrant quality. The emphasis on the low entry earnings of the post-1965 immigrants ignores human capital investment and minimizes the depth of immigrant contributions to the U.S. economy. A perspective that permeates our book, echoing an intergenerational theme of sociologists Lieberson and Waters,² is that the economic success of immigrants cannot be measured by their initial ability to market their skills.

²See, for instance, Lieberson (1980), Lieberson and Waters (1988), and Waters and Lieberson (1992).

Earnings growth is a better indicator of the value of the migration both to the immigrants and to their host country. Family-based immigrants and refugees do not enjoy the immediate high-demand for their skills that, by definition, employment-based immigrants do. But, they experience much higher earnings growth. Human capital that is not immediately valued in the host country's labor market *is* useful for learning new skills. Thus, immigrants who do not initially earn on a par with similarly educated natives provide a flexible source of human capital that supports the ever-changing needs of the U.S. economy.

Part I, which includes Chaps. 3, 4 and 5, presents our theory and methodology. Chapter 3 asks, what caused the large post-reform decline in immigrant entry earnings? Building on a theoretical foundation of Chiswick (1978, 1979), Chap. 4 presents the Immigrant Human Capital Investment (IHCI) model. The IHCI model's most important prediction is that the higher incentive to invest in human capital, by immigrants who lack immediately transferable skills, extends beyond U.S.-specific human capital that restores the value of source country human capital (such as English proficiency), to new human capital in general. Informed by a human capital investment perspective, Part I ends with Chap. 5 describing a straightforward methodology to measure the earnings trajectories of immigrants.

THE CHANGING NATURE OF IMMIGRATION, IMMIGRATION POLICY, AND IMMIGRATION RESEARCH

The Immigration and Nationality Act of 1965 was a bellwether of demographic change. In the 40 years before the Immigration Act, visas were allocated based on the national-origin composition of the U.S. population that existed in 1920, a system favoring West European immigration while discriminating against immigrants from Eastern Europe and, with the help of other laws, excluding almost all Asian immigration.

The 1965 Immigration Act swept away the country-specific quotas and replaced them with a system favoring applicants with U.S. family members. Spouses, minor children, and parents of U.S. citizens were admitted without numerical limitations. Of the numerically restricted visas, 80% were reserved for the adult children and siblings of U.S. citizens (as well as their spouses and children), and for the spouses and children of legal permanent resident aliens. The remaining 20% were allocated based on

Table 1.1 National origin composition of immigrant flow

<i>Percent of immigrants originating in</i>				
<i>Period</i>	<i>Europe</i>	<i>Asia</i>	<i>Canada</i>	<i>Central America, South America, & Mexico</i>
1940–49	55.2	4.0	18.8	11.2
1950–59	56.2	5.4	14.1	15.7
1960–69	35.3	11.2	13.5	24.6
1970–79	19.4	33.1	4.2	23.9
1980–89	10.7	38.3	2.5	28.0
1990–99	13.8	29.3	2.0	40.3
2000–09	13.9	33.7	2.3	30.6
2010–15	8.8	40.0	1.9	25.5

Source: US Department of Homeland Security, 2015 Yearbook of Immigration Statistics, Office of Immigration Statistics, December 2015. <http://www.dhs.gov/immigration-statistics/yearbook>

Notes: The numbers in the chart are calculated from “Table 2 Persons Obtaining Lawful Permanent Resident Status by Region and Selected Country of Last Residence: Fiscal Years 1820–2015” in US Department of Homeland Security

Immigrants are defined as lawful permanent residents. Also known as green card holders, these are persons who have been granted permanent residents in the United States

National origin is defined as a country of last residents as opposed to country of birth

occupational skills.³ This system, which remains largely intact, is the topic of much policy debate.

The new legislation transformed U.S. immigration. With a foothold in the United States, Asian immigration quickly grew. In marked contrast to earlier, European-dominated immigration, recent U.S. immigrants are predominantly Asian and Hispanic (Table 1.1), most come from countries that are less economically developed than the United States, and most are admitted via kinship ties. There has also been a pronounced post-1960 growth in refugee admissions.⁴

³This taxonomy is approximate and leaves out several categories. For a more comprehensive and detailed description of the various types of U.S. immigrants, refer to Immigration and Naturalization Service (1993). For a longer and broader view of the history of U.S. immigration policy, refer to Bernard (1980), Hutchinson (1981), and Reimers (2005).

⁴Borjas (1990, p. 33) notes, “The fraction of total immigration attributable to refugee admissions increased from 6 to 19% between the 1960s and the 1980s and is rapidly approaching the level reached immediately after World War II (25%), when a large flow of displaced persons entered the United States.” The increase in refugee admissions affected the country-of-origin composition of immigrants as well (Reimers 1996). Unlike other legal immigrants, refugees do not need to have U.S. relatives or specific occupational skills to