

**Title:** The Real Immigrant-Native Wage Inequality

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**WP Number:** 12-16

### **Research Question:**

First, I examine what happens to measured immigrant-native wage inequality after explicitly accounting for spatial price variation in the measurement of real wages. Second, I use a theoretical model to examine why, despite their nominal wage disadvantage, we tend to observe immigrants living in relatively expensive urban areas.

### **Importance:**

Immigrants' integration into host-country labor markets is often studied through an analysis of immigrant-native relative wages at the time of entry and over the duration of stay. The common practice of deflating nominal wages by a common CPI, which represents average nationwide prices, underestimates the prices immigrants typically face. In turn, this overestimates immigrants' real wages (i.e. their purchasing power) and underestimates their relative wage shortfall.

A better understanding of why immigrants choose particular locations can help forecast regional needs for funding and social services for new immigrants.

### **Research Findings:**

Accounting for the spatial variation in prices, the U.S. immigrant-native real wage gap is much larger. Relative wage improvements are slower in real terms over 1980-1990. Over 1990-2000 the pattern reverses; relative wage improvements are faster in real terms for each cohort. The rate of assimilation is slightly slower over 1980-2000. The simple spatial equilibrium framework I consider allows for spatial differences in productivity and quality of life, which implicitly influence individuals' location choice. The data suggests both are important explanations of where immigrants choose to settle. However, calibration of the model suggests productivity differences are more important determinants of the relative concentration of immigrants.

### **Implications:**

The wider real wage disparity does not imply immigrants are worse off than we previously thought. Spatial differences in quality of life and productivity are important in determining where immigrants will choose to locate and the wage rates they will accept. Immigrants earn a higher nominal wage in urban centers. They also enjoy more amenities in these locations.

It appears immigrants' higher productivity in urban areas tends to be a more important explanation of their settlement patterns. Understanding why immigrants are more productive in particular locations may help social services and programs better accommodate newcomers – potentially in less expensive locations. This is an important area of future research.