Labor Market Competition and the Assimilation of Immigrant

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Résumé The gap between wages of immigrants at arrival and of comparable natives has widened substantially over the last decades, and the subsequent speed of convergence has slowed down. These facts lead to a pessimistic view regarding wage assimilation prospects of immigrants. This paper unravels an unexplored mechanism that can explain an important portion of these regularities: labor market competition. Because natives and immigrants may be imperfect substitutes in production, increasing immigrant inflows may exert stronger labor market competition on previous cohorts of immigrants than on natives, contributing to widening the gap. We quantify the importance of this mechanism by using a simple model that accounts for the main features of the literatures of wage impacts of immigration and wage assimilation. Our simulations suggest that, if competition and (education and national origin) composition effects are netted out, immigrant cohorts are more positively selected in recent decades, and that these differences are wiped out after 10 years, which implies a lower relative wage growth for recent cohorts. We speculate that this could be the result of more selective immigration policies and/or increasing globalization among other factors.