

## **Ethnic Enclaves and the Earnings of Immigrants\***

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## **Ethnic Enclaves and the Earnings of Immigrants**

There is a large literature in sociology concerning the implications of immigrants' participation in ethnic enclaves for their economic and social well being. In this paper, we examine the economic outcomes of immigrants working in ethnic enclaves as compared to those working in the mainstream economy. The study utilizes the newly available data from the New Immigrant Survey (NIS) to provide empirical answers to some of the most pressing questions in the literature on ethnic enclaves. The NIS is particularly attractive for our research aims. First, it provides adequate coverage of even smaller immigrant groups. Second, it offers a wide range of variables, including characteristics of respondents' employers, job characteristics, educational attainment, and language ability. Third, it provides detailed geographic locations for the immigrants themselves.

### **Theoretical Issues**

Immigration to the United States has changed dramatically since the passage of the landmark 1965 Immigration Act. This, and subsequent legal changes, have dramatically increased Asian and Latin American (primarily Mexican) immigration to the United States. These groups are often referred to as "new immigrants." There are noteworthy differences between this wave of immigration and past waves, both in terms of the composition of immigrant groups and the context of their reception in the United States. This makes any single, uniform model of immigrant assimilation less appropriate than it might have been for earlier, more homogeneous groups.

"Economic assimilation" refers to the pattern of immigrants experiencing lower initial earnings but faster growth (although perhaps not immediately) so that they eventually narrow the earnings gap with native workers. The theory behind economic assimilation is strong, as summarized by Duleep and Regets (1999). To see this, we first need to recognize that immigrants come to America with a distinct disadvantage: human capital (both formal education and experience) that they acquired in their home countries is often discounted in America (e.g., Friedberg 2000; Zeng and Xie 2004). It is thus rational for immigrants to invest in human capital upon their arrival in order to reap higher earnings returns in the future. During immigrants' initial acquisition of human capital in the American labor market (additional education, improved language skills, and U.S. work experience), they earn less than native-born workers. As they gain more U.S. human capital, immigrant workers improve their earnings capacity and thus their earnings increase faster over time than those of native workers. Thus, with time, the earnings gap between immigrant workers and native-born workers narrows or even disappears.

Because most recent immigrants are labor immigrants lacking competitive skills in the American labor market, it is thought that when they enter the mainstream American economy, they tend to be concentrated in the secondary sector and thus suffer serious disadvantages. Besides the upwardly mobile primary sector, which is not available to most new labor immigrants, and the disadvantaged secondary sector, Portes and his associates point to a third option: ethnic enclaves. They argue that ethnic enclaves, consisting of business entities with both employers and employees from the same immigrant ethnicity, allow enclave workers to "share with those in the primary sector a significant economic return to past human capital investments" (Wilson and Portes 1980, p.302). Certain human capital skills, such as ethnic languages, are important and marketable only in the internal labor market defined by an ethnic enclave. For this reason, Portes and his associates have generally associated ethnic enclaves with positive outcomes for immigrants. Sanders and Nee argue in contrast that workers in ethnic enclaves are disadvantaged because, due to residential segregation, they are limited to receiving "undesirable jobs and poor wages" (Sanders and Nee 1987, p.747). Other research (e.g., Wilson and Martin 1982) suggests that the relative benefit from ethnic enclaves may vary by ethnicity.

In the past literature, an ethnic enclave has been defined by either residential characteristics or employer characteristics. If defined by residential characteristics, an ethnic enclave consists of a high concentration of co-ethnic immigrants. If defined by employer characteristics, an enclave consists of economic establishments in close proximity that are owned by, and employ, co-ethnic immigrants. Using either criterion, however, an ethnic enclave has no sharp boundaries, as an arbitrary threshold would need to be set before such a boundary could be drawn. A major source of debate in the past has been the operationalization of ethnic enclaves. Therefore, the first obstacle in the assimilation/ethnic enclave literature is simply defining the enclave.

## **Hypotheses**

Different measures of the ethnic enclave will produce different estimates of immigrants' economic outcomes. Based on Wilson and Portes' (1980) hypothesis, we expect that compared to mainstream workers as a group, enclave workers will have higher returns to pre-immigration education and work experience.

Given the lower returns to foreign-acquired human capital than to U.S.-acquired human capital (Friedberg 2000; Zeng and Xie 2004), immigrants with U.S.-acquired human capital will have better economic outcomes than those without.

## **Research Design and Methods**

### **Data**

This project makes use of the restricted version of the adult sample of the New Immigrant Survey (NIS), which is a nationally representative longitudinal study of new legal immigrants to the United States (Princeton University 2005). The data set includes background, family, economic and health measures, including detailed information on demographics, pre-immigrant experiences, employment, income, assets, transfers, social variables, and migration history. The baseline round was collected between June 2003 and June 2004. A total of 8,573 interviews were completed, reflecting a response rate of nearly 70 percent. The geographic sampling design includes all top 85 MSAs and all top 38 counties along with a random sample of other MSAs and counties.

### **Analytic Strategy**

The analytic strategy consists of three main steps:

#### **Step 1: Measuring Ethnic Enclaves**

We construct and evaluate different empirical measures of the ethnic enclave. The literature is deeply divided as to whether ethnic enclaves should be defined by residence or by business establishment and the consequences thereof (Portes and Jensen 1992). It is therefore essential that we contrast measures based on residence information with those based on establishment information. Both residence and establishment-related data come from NIS and the 2000 Census.

The restricted version of the NIS includes the zip code of each respondent at the time of the interview as well as the zip code of the respondent's employer. For all zip codes in the data set, we have a set of contextual variables obtained from the 2000 Census: percent foreign-born, percent Asian, percent Hispanic, percent foreign-born and Asian, and percent foreign-born and Hispanic. We will import this data into the NIS microdata and set thresholds to define various operationalizations of the ethnic enclave, including:

1. A residential location-based measure
2. An employer location-based measure
3. A measure defined by the interaction between language spoken at work (as a proxy for the ethnic composition of the workplace) and location of employer

4. A measure defined by the interaction between language spoken at work (again, as a proxy) and location of residence

For Asians, we define the low threshold for the ethnic enclave as a zip code that is both 20 percent Asian and 20 percent foreign-born. The high threshold is 30 percent Asian and 30 percent foreign-born. Because Hispanics are more highly represented in the United States, the low threshold for the ethnic enclave for Hispanics is a zip code that is both 30 percent Hispanic and 30 percent foreign-born. The high threshold is 50 percent Hispanic and 50 percent foreign-born. These operationalizations of the enclave allow us to test two different specifications of residential location-based definitions of ethnic enclave and two different specifications of employer location-based definitions of ethnic enclave.

#### Step 2: Measuring Economic Outcomes

To estimate the impact of participation in ethnic enclaves on economic outcomes, we regress annual earnings adjusted for labor supply on our key independent variable—a measure of ethnic enclave—and a set of covariates, including U.S.-obtained education, pre-migration education, U.S. work experience, pre-migration work experience, gender, English-language ability and race. We will also consider modeling the interaction between U.S. education and pre-migration education.

#### Step 3: Replications with Different Measures of the Ethnic Enclave

One of the research goals is to adjudicate between different alternative measures of the ethnic enclave. To achieve this goal, we repeat the analyses with different measures. This serves two key purposes. First, we want to know whether, and how, our substantive conclusions depend on particular definitions of the ethnic enclave. Second, through repetitions we are able to understand the properties of the different measures and the NIS data and thus make sensible choices as to what measures we should implement for our final results. In our replications we rotate through operationalizations of the enclave, ethnic groups, and threshold levels.

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