The Wage Structure of Latino-Origin Groups across Generations

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We analyzed in detail the wages of Latinos of Mexican origin, Central/South Americans, and Puerto Ricans. The wage structure facing second and third- and higher-generation Latinos is very similar to the wage structure of third- and higher-generation White workers. Unlike African American workers, more than half of the native Latino/White wage gap can be accounted for by the lower educational attainment and potential experience of native Latino workers.

Introduction

A worker's wages are a gauge of his ability to succeed in the American economy; and minority workers often earn less than White workers. Policy makers are typically faced with two, often reinforcing, ways of achieving equitable wage outcomes—by assisting minorities reach educational parity, or by legislating equal employment opportunities. The balance of historical evidence on African Americans suggests that even though there remains a need for better education, they often face inequitable wage outcomes. For Latinos, as of the year 2000, the evidence is incomplete. And there are additional questions for Latinos tied up with differences by Latino origins and the degree of progress in the immigrant generation and beyond.

This research provides a detailed analysis of the wage structure facing Latino male workers and compares it with the male non-Hispanic Black and White wage structures. The analysis recognizes the diversity among Latino workers along generational and ethnic origin lines. It asks if wage gaps between minorities and White workers are primarily due to compositional differences

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between groups in terms of the amounts of skills they have, or if there are differences in wages due to differences in the amount that similarly skilled workers are paid.

Additionally, this research makes critical distinctions between Latino-origin groups by generation. Most research focuses on Mexicans and ignores the other 40 percent of Latinos who have notably different labor market experiences. The data permit us to consider Mexicans, Puerto Ricans, and Central/South Americans. Another obvious distinction is that of foreign- versus native-born Latinos for whom generational advancement is the key concern. Immigrants tend to be educated abroad, but natives are U.S. educated and all their labor market experience is gained in the United States.

In fact, the younger immigrants are when first exposed to the United States, the better they may fare. The literature on this observation raises interesting questions about school and labor market performance, especially for early childhood arrivals compared with teen arrivals. Immigrants exposed to the United States from early childhood have many of the same advantages as their second-generation counterparts. In fact, there is literature that claims that they have unique educational advantages over the second generation having to do, primarily, with the optimism and work ethic typical of economic immigrants. This research tests whether or not that optimistic possibility carries over into the children's labor market outcomes. In this respect, this paper explores earnings outcomes across several generations of Latinos.

Wages and Education, Origin, Generation, and Age at Arrival

Quantity of, and Returns to, Education. Latino workers are among the most poorly paid workers. Latino men earn wages that are about 60 percent of the wages earned by Whites and 90 percent of those earned by African Americans (Reimers 2000). Low average Hispanic wages are in part due to the particularly low wages earned by Latino immigrants. The fact remains, however, that native-born Latino wages are still much closer to those of African Americans than they are to non-Hispanic Whites.

Given the centrality of education to wage outcomes, Latino labor market progress would seem to hinge on educational progress. Most research on wages points out that Latinos are poorly educated. Latino immigrants average 3 years less education than Whites. But even native-born Latinos have 1.3 years less schooling than Whites and 0.2 years less schooling than Blacks (Smith 2001). Despite some improvement in recent decades, findings from eighth graders in 1988 shows lags in high school completion for

Latinos (85 percent) compared with Blacks (90 percent) 12 years after eighth grade (NCES, 2002). Even Latino postsecondary education lags that of African American by similar percentages.

But can educational improvement ameliorate wage gaps? Black educational improvement has raised the lot of Black workers, but it has not produced wage parity as measured with most data including those analyzed here. Sizable wage gaps between Whites and Blacks persist within education groups (Smith and Welch 1989). The male Black–White wage gap among both high school graduates and college graduates is relatively large and not much different today than in the early 1960s (Smith 2001). The Black experience should perhaps make us wary. Earnings reflect both the price of skills, as well as the quantity of skills. Even if Latinos could equalize the quantity of skills that they bring to the labor market, differences in the wage structure, the returns to skills, might persist.

Latino Origin and Generational Progress. Much of the available research analyzes a single lump of Latinos, making no distinction by origin group or generation. Certainly, detailed analyses of Mexican-origin workers cannot be generalized to all Latinos (Verdugo and Verdugo 1984; Trejo 1997; Padilla and Glick 2000; Grogger and Trejo 2002). Mexicans are estimated to be 58.5 percent of Hispanics, but they tend to have the least education and the lowest average wages of all Latinos. Furthermore, Latino-origin groups vary by where they live and by their legal status. We analyze the wages for Latinos of Mexican origin and Puerto Ricans and Central/South Americans.

Generational differences are equally stark. Over 55 percent of the Latino labor force is foreign born with less education and lower earnings than natives. The wages of Latino immigrants have been intensely scrutinized over the past 20 years—but it is not the purpose here to document the nature of wage growth experienced by immigrants (see Borjas 1995; Schoeni, McCarthy, and Vernez 1996). Rather, the goal here is to analyze the extent of labor market success across Latino generations. Research establishes that immigrants earn more with U.S. experience, but does this simple rubric hold across generational groups whose entire experience is more or less in the United States? Among Mexicans, for example, wage improvement appears to stall after the second generation (Grogger and Trejo 2002).

Near-Native Immigrant Generations. Along these lines, there is reason to anticipate that immigrants who arrive in the United States as children experience labor market outcomes that may be "near native." The issue here is

whether or not distinct "age-at-arrival generations" can be identified. For example, Friedberg (1991) demonstrated that immigrant earnings are inversely related to a continuously measured age at arrival. That is to say, same-age adult immigrants will earn different amounts with early arrivals earning a premium for each year of earlier arrival. There seems to be advantages of longer U.S. experience, language acquisition, U.S. education, and exposure to U.S. working culture that are conferred on child arrivals.

Indeed, research on educational outcomes finds that child arrivals perform as well as, if not better than, their native-born peers. The education research follows outcomes during childhood and adolescence, finding that outcomes for child immigrants are so similar to native-born children that the child immigrants are referred to as "near-native" generations. Key research has used the National Education Longitudinal Survey (NELS) that began with a nationally representative sample of eighth graders in 1988. All of the immigrants in the NELS arrived in the United States during childhood and before age 15. Among Hispanic eighth graders, there are no significant generational differences in the probability of dropping out of high school (NCES 1998; Driscoll 1999). Kao (1999) found that there are few differences in the test scores and grades between the first-generation (childhood arrivals) and native-born-generation Hispanic eighth graders. There are no generational differences among Latino eighth graders in entry into postsecondary education (NCES 1998).

But how well do these childhood arrivals actually do in the labor market? Friedberg's (1991) research suggested that they experience a wage premium, but do they earn a near-native wage in parallel to their near-native educational performance? This research explicitly investigates whether Latino immigrant labor market outcomes diverge for those who arrived during childhood as opposed to adulthood. In the labor market, are Latino child immigrants as successful as native-born Latinos or is their experience much like adult immigrants? By fine-tuning the generational analysis, this research hopes to shed some light on the specific value of early childhood U.S. education and experience.

Data and Definitions

Our analysis is based on the Current Population Survey (CPS) collected by the U.S. Bureau of the Census. Each month the CPS asks the "outgoing rotation groups" of the sample about their earnings on their main job. One quarter of the sample housing units are in the outgoing rotation group. The Bureau of Labor Statistics has concatenated the monthly CPS outgoing

rotation group data into annual CPS merged outgoing rotation group (MORG) files. A MORG file is about the sample size of three monthly CPSs or roughly 280,000 persons 16 years of age or older.[1] In order to boost sample size to examine the wages of detailed Latino-origin groups, the 2000 and 1999 MORG files are pooled and treated as one cross section.

The primary analytic sample examines men between the ages of 18 to 61 years. All workers of non-Hispanic White origin are included. Hispanic workers of Mexican, Puerto Rican, and Central and South American origin are analyzed. These three major Latino-origin groups comprise about 90 percent of Latinos (U.S. Bureau of the Census 2001). Cuban workers and Latinos of "other Spanish" origin are omitted due to insufficient sample size. The sample sizes for non-Hispanic Black workers are insufficient to perform a detailed generational analysis, so only third-generation or higher non-Hispanic Blacks are included. Because our primary focus is to compare the earnings of Latino workers to White and Black workers, non-Hispanic workers whose reported race is Asian or Pacific Islander or American Indian were excluded.

Following convention, the first generation includes workers born abroad and is further broken into "decimal generations." Although persons born on the island of Puerto Rico have U.S. citizenship, those born on the island are grouped with the foreign born (see Tienda and Wilson 1991; Wojtkiewicz and Donato 1995; Reimers 2000). In line with the educational research noted above, the 1.0 generation refers to individuals who arrived in the United States after age thirteen. The 1.5 generation arrived in the United States between the ages of five and thirteen. The 1.75 generation arrived in the United States before age five. Ultimately, the validity of these decimal generations relative to wage outcomes is an empirical question to be tested here.[2]

Following Trejo's (1997) work on the intergenerational progress of Mexican-origin workers, second-generation workers are distinguished from third and higher generation.[3] By definition, second-generation individuals

[1] The National Bureau of Economic Research provides very convenient access to the MORG data in the CPS Labor Extract files (http://www.nber.org/data/morg.html).

[2] Furthermore, language surveys often query on languages learned before starting school in an effort to gauge first versus second language acquisition. Oropesa and Landale (1997) report that the odds of being bilingual versus Spanish monolingual differ substantially across decimal generations, with the odds of bilingualism declining with age—at arrival. Since English language proficiency is an important determinant of immigrant earnings (Chiswick and Miller 2002), it is reasonable to differentiate the first generation by their age at which they entered the United States.

[3] Trejo (1997, 2001) excludes immigrants who arrived in the United States before age sixteen, and thus his research does not speak to the characteristics of Mexican immigrants who arrived during childhood versus adulthood.

were born in the United States, but have at least one parent who was born outside the United States.[4] Members of the third and higher, or hereafter the third-plus generation, include all U.S.-born individuals with two U.S.-born parents. No generational definition is without issues, but note that the third-plus generation may include significant numbers of fourth, fifth, and higher generations.

Unfortunately, the CPS coding of the Hispanic origin categories combines Central Americans with South Americans and does not permit disaggregation. Yet South Americans generally have higher socioeconomic status than Central Americans (U.S. Bureau of the Census 2004), and generational comparisons within the broad Central/South American category are complicated by changing composition between these two origin groups across generations. Tabulations from the 2002 National Survey of Latinos indicate that about 60 percent of first-generation Central/South Americans are Central American, while third-plus–generation Central/South Americans are about 30 percent of Central American origin and so mostly reflective of South Americans. While not ideal, we evaluate this combination while reporting additional analysis that shed light on the compositional complications for the Central and South American-origin groups.

The dependent variable of interest is hourly earnings. Following convention, this is computed as usual weekly earnings (in $2000) divided by usual weekly hours of work. Self-employed workers are dropped from our analysis due to the absence of reliable earnings information.

Basic Skill and Wage Patterns

Before turning to wage outcomes, the labor market context and skill characteristics of Latinos in the 1990s tell us much about what to expect in the regression results. Job holding among Latinos expanded considerably between 1995 and 2000, especially for immigrant Latinos (Fry and Lowell 2002), but there were notable differences by Latino origin. The first data column of Table 1 reports the employment-to-population ratio for all men aged twenty-five to sixty-one (including the self-employed and persons lacking earnings information). By the end of the decade, about 89 percent of White men held jobs. Employment among Central/South Americans exceeds that of Whites, and native-born Mexicans do not trail far behind with

[4] Other researchers use alternative definitions of "second generation" (Oropesa and Landale 1997). For example, Card, DiNardo, and Estes (2000) restrict the second-generation to native-born persons whose mother and father were immigrants.

TABLE 1

CHARACTERISTICS OF MEN, BY SELECT ETHNICITIES, 1999–2000

	Men age 25–61		Employed workers for pay, age 18–61						
			Fraction in education range						
	Employment to population ratio	Mean real hourly wage	Less than 7th	7th–12th	High school completion	Some college	Bachelor's or higher	Experience (in years)	Sample size
Mexicans									
First	89.8	10.18	38.1	29.2	21.4	8.0	3.4	19.0	5,038
Gen 1.5	90.2	10.87	18.2	37.5	27.4	13.4	3.7	12.4	796
Gen 1.75	89.5	10.67	10.2	29.5	36.5	19.9	3.9	10.7	369
Second	85.7	13.74	4.3	21.1	35.1	29.6	9.9	14.7	1,613
Third and up	85.0	14.04	2.6	18.6	39.9	27.6	11.3	16.9	2,700
Central/South Americans									
First	89.8	12.64	17.7	21.9	30.2	14.8	15.4	20.06	1,805
Gen 1.5	91.6	13.31	7.3	18.0	33.3	30.8	10.7	10.33	261
Gen 1.75	87.1	14.61	3.5	15.5	29.2	37.6	14.2	8.02	96
Second	89.6	15.04	1.4	13.5	22.9	37.8	24.4	11.09	238
Third and up	88.9	14.89	4.3	11.7	26.3	36.9	20.8	15.46	123
Puerto Ricans									
First	75.6	12.88	12.0	27.5	30.1	18.5	11.9	24.4	339
Gen 1.5	73.2	13.63	4.5	29.4	35.9	18.7	11.4	22.1	147
Gen 1.75	75.9	13.93	1.2	36.7	28.6	26.5	7.0	17.8	99
Second	81.8	15.05	1.0	16.4	36.1	32.5	14.0	15.2	495
Third and up	79.5	14.53	2.9	19.5	38.4	27.9	11.4	12.6	189
Whites									
First	87.0	20.52	2.8	7.2	23.2	17.4	49.4	19.8	2,886
Gen 1.5	88.3	19.03	1.7	9.8	24.2	27.9	36.3	18.3	522
Gen 1.75	88.7	20.11	0.3	4.0	27.5	31.1	37.1	17.7	388
Second	87.8	20.98	0.2	4.6	24.2	30.0	41.1	19.3	5,273
Third and up	88.6	18.49	0.2	7.5	33.1	29.2	30.0	18.6	97,889
Third-gen and up Blacks	77.2	13.98	0.3	10.7	41.5	31.5	16.0	18.3	10,288

SOURCE: Current Population Survey MORG files.

employment rates over 85 percent. Puerto Rican employment lagged further behind, approaching the Black employment rate.

Clearly, the late 1990s had a very tight labor market, and for the time since the 1970s, the real wages of most Black and Hispanic men rose (Council of Economic Advisers 1999). About the only workers who did not appear to benefit from the 1990s expansion were less-educated young Black men (Holzer and Offner 2001). Yet Table 1 reveals large unadjusted wage gaps between the male White and native-born Latino workers in the wage sample. The typical White third- and higher-generation worker is paid about $18.50 per hour. The highest-paid native Latino worker is paid about $15.00 per hour, more than the typical wage paid third- and higher-generation African Americans but trailing Whites. Native-born Mexican workers are paid similar to African Americans.

There appears to be substantial intergenerational progress in the labor market among Mexicans, Puerto Ricans, and Central/South Americans.[5] There is a fairly smooth progression in the wages from the 1.0 generation to the 1.5 to the 1.75 generation and up to the second generation. While the wages of 1.0-generation Mexicans are the lowest, the wages for generation 1.0 Central/South Americans and Puerto Ricans also trail Black wages. The unadjusted wages suggest that there is little earnings growth between the second generation and the third-plus generation (a pattern also apparent for Whites).

The growth in wages between the immigrant generations and the second generation is accompanied by substantial improvements in educational attainment. For example, only 11 percent of 1.0-generation Mexicans complete at least some postsecondary education, but 24 percent of the 1.75 generation did so. However, fully 40 percent of the second generation has completed at least some college. Although better educated, Puerto Ricans evince a similar pattern. In contrast, the 1.75 generation for both Central/South Americans and Whites are just as likely as the second generation to complete some college, falling behind only in bachelor-level education. In fact, all second-generation Latino groups are more likely to complete 4-year college than their decimal generation counterparts. Clearly, Whites overall in any generation do much better than Latinos.

[5] Cross-sectional analysis will only generate adequate comparisons if there have not been significant changes in the characteristics of immigrants over time. Indeed, a substantial body of research found that there have been declines in the skill of immigrants, on average, relative to natives since the 1970s (Borjas 1999). However, much of the change appears to be due to the changing national origin composition of U.S. immigration, e.g., the increasing size of Latino or Asian immigrants with little education. Since the focus of this paper is to compare generations within just Hispanic-origin groups, this suggests that cross-sectional comparisons will not overstate the degree of intergenerational progress.

An additional important wage-relevant feature of importance is years of experience in the labor market. Variation here is as strong as educational variation, with all White generations, especially the baseline third-plus, having more experience than most all Latino-origin and generation groups. While the Latino 1.0 generations are as experienced as Whites, subsequent generational groupings are rather young on average and have notably less labor market experience. Indeed, the following analysis reveals that a large portion of the Latino/White wage gaps can be attributed to both differences in education and the substantially younger, less-experienced composition of the Latino labor force.

Adjusted Wage Gaps

Wage gaps between Latinos and Whites are estimated using a standard human capital wage equation. In the basic model specification, only the intercept is allowed to vary between ethnic/generation groups; the coefficients on the regressors are restricted to be the same for all groups. The log wage equation estimated is:

$$\log(w_i) = G_i\alpha + E_i\beta + P_i\chi + R_i\delta + T_i\phi + \varepsilon_i$$

where i refers to the worker and w_i is the real hourly wage. G_i is a vector of twenty ethnic/generation dummy variables (five for Mexicans, five for Central/South Americans, five for Puerto Ricans, four for non-Hispanic Whites, and one for third- and higher-generation non-Hispanic Blacks). Third-plus–generation non-Hispanic Whites are the omitted reference group. E_i is a vector of educational attainment categories: less than seventh-grade education, seventh-grade education or more and did not complete high school, some college, and bachelor's degree or more (high school completion being the omitted category). P_i is a quadratic in potential labor market experience. R_i is a vector of dummy variables that control for geographic residence: central city status, metro status, nonmetro status, eight dummy variables for the census regions, and six state dummy variables for residence in California, Texas, New York, Florida, Illinois, and Arizona.[6] Finally, again the MORG file combines survey data collected in different months, so T_i is a vector of interview month dummies and a dummy variable for survey year 1999. ε Is a random error term and the other vectors are coefficient vectors to be estimated.

[6] The CPS has a significant number of workers for which metropolitan and central city status is not identified. Thus, the four mutually exclusive categories of type of residence are central city, elsewhere in a metro, nonmetropolitan, and residence status unidentified. The six states are those with the greatest concentrations of Hispanics.

TABLE 2

Hourly Wage Differentials, by Ethnicity and Generation

	(1)	(2)	(3)
Mexicans			
First	−0.607 (−74.28)	−0.623 (−81.95)	−0.280 (−34.72)
Gen 1.5	−0.563 (−28.90)	−0.473 (−26.07)	−0.176 (−10.60)
Gen 1.75	−0.550 (−19.33)	−0.421 (−15.88)	−0.177 (−7.35)
Second	−0.359 (−25.86)	−0.256 (−19.82)	−0.101 (−8.62)
Third and up	−0.286 (−26.16)	−0.247 (−24.31)	−0.111 (−12.01)
Central/South Americans			
First	−0.432 (−33.14)	−0.470 (−38.73)	−0.263 (−23.50)
Gen 1.5	−0.404 (−12.00)	−0.263 (−8.38)	−0.093 (−3.27)
Gen 1.75	−0.325 (−5.87)	−0.116 (−2.26)	0.008 (0.17)
Second	−0.303 (−8.59)	−0.157 (4.77)	−0.088 (−2.96)
Third and up	−0.186 (−3.80)	−0.145 (−3.19)	−0.064 (−1.56)
Puerto Ricans			
First	−0.368 (−12.43)	−0.413 (−14.99)	−0.237 (−9.50)
Gen 1.5	−0.367 (−8.18)	−0.325 (−7.79)	−0.165 (4.38)
Gen 1.75	−0.312 (−5.72)	−0.314 (−6.19)	−0.108 (−2.35)
Second	−0.225 (−9.18)	−0.198 (−8.67)	−0.069 (−3.34)
Third and up	−0.258 (−6.54)	−0.153 (4.17)	−0.017 (−0.51)
Non-Hispanic Whites			
First	−0.003 (−0.33)	−0.025 (−2.58)	−0.072 (−8.21)
Gen 1.5	−0.032 (−1.33)	−0.007 (−0.32)	−0.016 (−0.78)
Gen 1.75	0.050 (1.79)	0.030 (1.17)	0.016 (0.66)
Second	0.073 (9.84)	0.070 (10.13)	0.024 (3.86)
Third-gen and up Blacks	−0.248 (−42.30)	−0.260 (−47.72)	−0.180 (−36.33)
Controls for			
Year/interview month	Y	Y	Y
Geography	Y	Y	Y
Potential experience	N	Y	Y
Educational attainment	N	N	Y

Notes: *t*-ratios in parentheses. Dependent variable is the natural logarithm of the hourly wage rate. The emitted ethnicity/generation group is third- and higher-generation non-Hispanic White workers. The dummy variable coefficients reputed above are derived from the baseline regression specification that constrains the coefficients on year/interview month, geographic indicators, potential experience, and education to be the same across all ethnicity/generation groups.

Column 1 of Table 2 reports the wage gaps between minority workers and third- and higher-generation Whites controlling for interview month and geographic residence. These baseline wage differentials account for differences in wages across regions due to the cost of living and reflect wage differences for workers residing in similar geographic areas.[7] Black workers appear to

[7] The percentage wage differentials in column 1 also differ from those implicit in Table 1 because those are sample weighted, whereas the regressions estimates in Table 2 were unweighted.

be paid about 25 percent less than third-plus–generation White workers. Native-born Latinos appear to be paid even less; second-generation Mexican, Central and South American, and Puerto Rican workers being paid 36 percent, 30 percent, and 23 percent less than White workers, respectively. The gaps between immigrant Hispanic workers and White workers are even greater.

Trejo (1997) demonstrated that a significant portion of the native Mexican–White wage gap can be accounted for by the lower human capital that Mexican Americans bring to the labor market. Indeed, the succeeding columns of Table 2 show that simple proxies for labor market skill can explain a substantial portion of the wage gaps between native-born Mexican, Central/South American, and Puerto Rican workers, and their White counterparts. For certain Latino group/generations, the lack of potential experience explains a sizable portion of the wage differential. Table 1 shows that the typical third-plus–generation White worker has nearly 19 years of potential labor market experience. Certain Latinos are much younger. Second-generation Central/South Americans have 11 years of potential experience. Third- and higher-generation Puerto Ricans have 13 years of potential experience. Adjusting for the youthfulness of these workers (column 2 of Table 2) substantially shrinks the measured wage gap.

Column 3 of Table 2 adjusts for the schooling differences between Latino workers and their White counterparts. The measured wage gap between third-plus–generation and higher Black workers has declined by a third and is estimated to be about 18 percent after adjusting for basic human capital measures.[8] Among native Latinos, the gap between their wages and White workers shrinks much further and the size of the estimated gap is substantially smaller. Among third-plus–generation Central/South Americans and Puerto Ricans, there is no statistically significant wage gap with White workers. For Mexican American workers, a significant wage gap does remain on the order of 10 to 11 percent for native-born workers. This estimate is virtually identical to estimates generated by alternative methodologies (Smith 2003), but potential experience and education have succeeded in explaining a much larger portion of the unadjusted gap for Mexican Americans than in the case of African Americans.

An important caveat to note about these results is that the CPS does not allow us to control for English language proficiency. A lack of English

[8] This is the same gap found by O'Neill and O'Neill (2005) using similar Census data. However, almost all wage differentials for Blacks and all for Latinos are eliminated when they introduce a test-based measure of cognitive skills (AFQT) using the National Longitudinal Survey of Youth. This suggests that wage discrimination may have attenuated in the 1990s (Census/CPS data omit such a variable; see also text discussion on omission of a language measure).

fluency seems not to be trivial for Central/South American and Mexican natives. About one in five native Mexican adults does not speak English "very well"; and one in ten native Central/South American adults does not speak English "very well" (Carliner 2000). It is likely that accounting for English language proficiency would further shrink the measured gaps between Latino workers and White workers. Still, the most basic proxies for the skills that workers bring to the labor market can account for a large share of the wage differences between White workers and native Latino workers.

Table 2 also demonstrates that there is labor market progress between the second generation and third-plus generation for some groups of Latino workers. Progress does seem to stall for Mexican Americans.[9] But Central/South Americans and Puerto Ricans display some improvement between the second and third-plus generations. Without accounting for education (column 2), the measured wage gaps between second and third-plus–generation Latinos and White workers are fairly similar. Once one accounts for education, third- and higher-generation Central/South Americans and Puerto Ricans are paid no differently than Whites, but their second-generation counterparts are.[10]

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[9] Our cross-sectional approach is not restricted to comparisons of parental outcomes with those of their children. One attempt to create a longitudinal analysis uses multiple cross sections of successive generations spaced 25 to 30 years apart (Smith 2003). This seeks to compare fathers at time t with their offspring at $t + 1$, or immigrant (grandfather), second (son), and third generations (grandson). This approach is argued to have generated more optimistic second- to third-generation outcomes than those reported here. However, there are at least three problems with that multiple–cross-section analysis. First, economic improvements over time have lifted the outcomes of all Hispanic generations producing overestimates of the gains across generations (Trejo 2001). Second, the third generation includes many others than son and grandson. Rather, the third-plus generation, particularly of Mexicans, includes many fourth-plus–generation individuals whose grandfathers were more likely to be rural, agricultural workers than succeeding generations (Bean and Tienda 1987). So the third-generation comparison is less than apt. Finally, and in any event, there is actually little difference between our cross-sectional results and those of the multiple cross sections of successive generations especially from the Mexican second to third-plus generations. Smith (2001) estimates adjusted wage gaps by the immigrant's year of birth. Consider immigrant birth cohorts whose grandsons are still active in the labor market, those born in 1900–1904 and thereafter. For all these immigrant birth cohorts, he finds no adjusted wage gains from the second generation to the third-plus generation for Mexican Americans.

[10] We attempted to get a handle on the difference between Central and South Americans given that the estimated wage gaps might simply reflect changing composition and not intergenerational change. It is possible to generate small samples of only the first and second generation using the individual's and parent's place of birth. We estimated wage regressions identical to Table 2 (column 3) and found that first-generation South American workers have an estimated wage gap of 22 percent and a statistically insignificant wage gap for second-generation workers. So second-generation, and very likely third-generation, South Americans attain wage parity with Whites. The statistically significant wage gaps for Central Americans are 29 percent for the first generation and 11 percent for the second generation. So whether third- and higher-generation Central Americans attain wage parity remains uncertain.

How similar are the wage outcomes of immigrants that arrived in the United States during their childhood and their second-generation counterparts? Comparing the wages of generation 1.75 and the second generation of Latinos, the wage gaps in column 3 of Table 2 do not provide strong evidence that the decimal generations are similar to the second generation. While among Central/South American workers, immigrants who arrived during childhood are paid in similar fashion to second-generation workers, for Mexicans and Puerto Ricans, the decimal generations appear to be distinct from the second generation in their success in the labor market. For Mexicans, workers who arrived in the United States before 5 years of age are paid 18 percent less than third- and higher-generation Whites, whereas their second-generation counterparts are paid 10 percent less than Whites, a statistically significant difference in the wage gaps.

Returns to Skill and Wage Decomposition

The regressions underlying Table 2 constrain the regression coefficients to be the same for all ethnic groups. We can more directly examine the wage structure facing Latino workers in comparison to White and Black workers by relaxing this restriction. In the extended regression specification, the returns to education and potential experience are allowed to vary by ethnicity/generation group as well as the intercept. Table 3 presents the returns to schooling and potential experience facing Mexican, Central/South American, and Puerto Rican workers in comparison to White and Black workers.

The omitted education group in Table 3 is workers that completed high school and not any college education. Table 3 indicates that for third-plus–generation non-Hispanic Whites, workers with a college degree earn about 48 percent more than otherwise similar high school graduates. The estimated returns to education for native-born Latinos are at least as high as the returns for third-plus–generation Whites.[11] Indeed, the only generation/ethnicity group with markedly different returns is the very compressed returns to education facing generation 1.0 Mexican workers. Other researchers have also found that Mexican immigrants face lower returns to education in

[11] Using the CPS, Bradbury (2002) did not distinguish between Hispanic generations and origin groups. For all Hispanic workers she estimated that Hispanics receive significantly higher returns to education than non-Hispanic Whites, whereas Blacks receive lower returns for all education diplomas except advanced degrees in comparison to non-Hispanic Whites.

TABLE 3

ESTIMATED RETURNS TO EDUCATION AND EXPERIENCE, BY SELECTED ETHNICITIES, 1999–2000

	Education						Cumulative returns to experience		
	Less than 7th	7th–12th	Some college	Bachelor's or higher	Experience	Experience^2	10 years	20 years	30 years
Mexicans									
First	−0.22	−0.13	0.07	0.32	0.03	−0.0004	0.23	0.37	0.42
Gen 1.5	−0.26	−0.15	0.09	0.53	0.04	−0.0006	0.29	0.46	0.49
Gen 1.75	−0.40	−0.19	0.17	0.51	0.04	−0.0007	0.33	0.52	0.56
Second	−0.42	−0.21	0.12	0.60	0.04	−0.0007	0.36	0.58	0.66
Third and up	−0.38	−0.18	0.12	0.48	0.05	−0.0008	0.38	0.59	0.65
Central/South Americans									
First	−0.28	−0.14	0.13	0.45	0.03	−0.0004	0.21	0.33	0.36
Gen 1.5	−0.44	−0.10	0.11	0.45	0.05	−0.0005	0.43	0.76	0.98
Gen 1.75	−0.68	−0.22	0.07	0.61	0.01	0.0006	0.15	0.43	0.83
Second	−0.30	−0.33	−0.03	0.35	0.03	−0.0005	0.25	0.40	0.46
Third and up	−0.44	−0.46	0.05	0.38	0.03	−0.0005	0.26	0.42	0.48
Puerto Ricans									
First	−0.34	−0.15	0.22	0.59	0.02	−0.0002	0.20	0.36	0.47
Gen 1.5	−0.39	−0.29	0.24	0.55	0.05	−0.0008	0.38	0.60	0.66
Gen 1.75	−0.85	−0.17	0.22	0.35	0.03	−0.0003	0.23	0.39	0.49
Second	−0.30	−0.18	0.25	0.56	0.04	−0.0008	0.36	0.55	0.57
Third and up	0.03	−0.01	0.22	0.44	0.07	−0.0017	0.51	0.68	0.52
Whites									
First	−0.29	−0.24	0.13	0.56	0.04	−0.0006	0.31	0.50	0.57
Gen 1.5	−0.34	−0.23	0.19	0.54	0.04	−0.0005	0.31	0.52	0.62
Gen 1.75	−0.51	−0.32	0.06	0.36	0.07	−0.0015	0.54	0.77	0.70
Second	−0.41	−0.25	0.06	0.45	0.05	−0.0009	0.42	0.65	0.71
Third and up	−0.45	−0.21	0.10	0.48	0.05	−0.0008	0.39	0.62	0.68
Third-gen and up Blacks	−0.07	−0.21	0.13	0.50	0.03	−0.0005	0.27	0.45	0.52

NOTES: The omitted reference category for the returns to education is high school completion, no college. These estimates are derived from an extended regression specification. The dependent variable is the natural logarithm of the hourly wage rate. Regressors include year/interview month dummies and geographic indicators. The coefficients on these regressors are restricted to be the same across all ethnicity/generation groups. Standard errors are available from the authors upon request.

comparison to Mexican natives. For example, Padilla and Glick (2000), using the panel study on income dynamics, found that education does not affect the earnings of Mexican immigrants at all.

Where the wage structure diverges between native Latinos and third-plus–generation Whites is in regard to the returns to potential experience. The experience coefficients suggest that after 30 years, wages have risen by about 68 percent for third-plus–generation Whites. Native-born Mexicans experience similar wage growth. However, returns to experience for native Central/South Americans and Puerto Ricans are lower, approximating the lower returns to experience found among Black workers.

How much of the wage gap between minority workers and White workers can be attributed to a differing wage structure versus differences in the levels of human capital that workers bring to the labor market? Using standard decomposition analysis, it can be shown that the difference in the mean hourly wage differential can be split between the differences in the characteristics of workers and differences in the returns to those characteristics. Formally,

$$\overline{\log(w^{w})} - \overline{\log(w^{lg})} = (\hat{\alpha}^{w} - \hat{\alpha}^{lg}) + \bar{E}^{lg}(\hat{\beta}^{w} - \hat{\beta}^{lg}) + \bar{P}^{lg}(\hat{\chi}^{w} - \hat{\chi}^{lg}) + (\bar{E}^{w} - \bar{E}^{lg})\hat{\beta}^{w} + (\bar{P}^{w} - \bar{P}^{lg})\hat{\chi}^{w} + (\bar{R}^{w} - \bar{R}^{lg})\hat{\delta} + (\bar{T}^{w} - \bar{T}^{lg})\hat{\phi}$$

where the *w* superscript refers to third- and higher-generation Whites and *l* refers to the particular Latino-origin subgroup and *g* refers to the generation. Overbars denote group specific means. The last four terms on the right-hand side are the differences in the mean characteristics between third- and higher-generation Whites and the Latino generation group. This decomposition weights the difference in the average characteristics using the White coefficients. The first three terms refer to the difference in the estimated returns, weighted by the Latino generation's average characteristic. This form of the normalization is what is reported in column 1 of each of the reported decompositions (Tables 4–7). Alternatively we can use the Latino generation's estimated coefficients to weight the difference in the average characteristics. This alternative form is reported under column 2.

Tables 4–7 report the wage decomposition analysis for each minority group in comparison to third- and higher-generation Whites. The first row reports the total unadjusted log wage differential to be explained. The total wage differential is then split into the pieces due to the differences in the average characteristics and the total difference due to differences in returns.

For third- and higher-generation African Americans (Table 7), the total log wage differential to be explained is 24 percentage points. The returns to

TABLE 4

Decomposition of Hourly Wage Differentials between Third-Generation Non-Hispanic Whites and Mexicans

	First		Gen 1.5		Gen 1.75		Second		Third and up	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Total log wage differential	0.55		0.50		0.48		0.31		0.26	
Attributable to differences in mean characteristics										
Education	0.37	0.21	0.29	0.25	0.23	0.23	0.15	0.17	0.12	0.12
Potential experience	−0.01	0.00	0.10	0.07	0.14	0.11	0.10	0.10	0.04	0.04
Geographic location	−0.03	−0.03	−0.04	−0.04	−0.04	−0.04	−0.03	−0.03	−0.01	−0.01
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total attributable to differing characteristics	0.32	0.17	0.35	0.28	0.32	0.30	0.21	0.23	0.15	0.14
Total attributable to differing returns	0.23	0.38	0.15	0.22	0.16	0.18	0.09	0.07	0.11	0.11

Notes: Results of a standard Oaxaca decomposition of the hourly wage gap. The first column reports the results of using the third- and higher-generation non-Hispanic White coefficients to weigh the difference in average characteristics and the Mexican generations average characteristics to weigh the difference in coefficients. Alternatively, the second column reports the results of using the Mexican generation's coefficients to weigh the difference in average characteristics and higher-generation non-Hispanic White average characteristics to weight the difference in coefficients.

TABLE 5

Decomposition of Hourly Wage Differentials between Third-Generation Non-Hispanic Whites and Central/South Americans

	First		Gen 1.5		Gen 1.75		Second		Third and up	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Total log wage differential	0.37		0.34		0.26		0.24		0.15	
Attributable to differences in mean characteristics										
Education	0.20	0.16	0.15	0.13	0.11	0.14	0.05	0.05	0.07	0.07
Potential experience	−0.03	−0.02	0.15	0.26	0.21	0.33	0.15	0.11	0.05	0.04
Geographic location	−0.04	−0.04	−0.04	−0.04	−0.04	−0.04	−0.04	−0.04	−0.02	−0.02
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total attributable to differing characteristics	0.14	0.11	0.26	0.35	0.28	0.43	0.16	0.13	0.10	0.09
Total attributable to differing returns	0.24	0.27	0.08	−0.01	−0.02	−0.17	0.08	0.12	0.06	0.06

Notes: Results of a standard Oaxaca decomposition of the hourly wage gap. The first column reports the results of using the third- and higher-generation non-Hispanic White coefficients to weight the difference in average characteristics and the Central/South American generations average characteristics to weight the difference in coefficients. Alternatively, the second column reports the results of using the Central/South American generation's coefficients to weight the difference in average characteristics and higher-generation non-Hispanic White average characteristics to weight the difference in coefficients.

TABLE 6

DECOMPOSITION OF HOURLY WAGE DIFFERENTIALS BETWEEN THIRD-GENERATION NON-HISPANIC WHITES AND PUERTO RICANS

	First		Gen 1.5		Gen 1.75		Second		Third and up	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Total log wage differential	0.33		0.33		0.26		0.18		0.21	
Attributable to differences in mean characteristics										
Education	0.19	0.20	0.17	0.21	0.18	0.15	0.10	0.10	0.12	0.08
Potential experience	−0.06	−0.07	0.03	0.02	0.01	0.01	0.04	0.03	0.11	0.04
Geographic location	−0.02	−0.02	−0.03	−0.03	−0.04	−0.04	−0.03	−0.03	−0.03	−0.03
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total attributable to differing characteristics	0.11	0.11	0.17	0.21	0.15	0.12	0.11	0.10	0.20	0.09
Total attributable to differing returns	0.22	0.22	0.16	0.12	0.11	0.14	0.07	0.08	0.01	0.12

NOTES: Results of a standard Oaxaca decomposition of the hourly wage gap The first column reports the results of using the third- and higher-generation non-Hispanic White coefficients to weight the difference in average characteristics and the Puerto Rican generations average characteristics to weight the difference in coefficients. Alternatively, the second column reports the results of using the Puerto Rican generation's coefficients to weight the difference in average characteristics and the higher-generation non-Hispanic White average characteristics to weight the difference in coefficients.

TABLE 7

DECOMPOSITION OF HOURLY WAGE DIFFERENTIALS BETWEEN THIRD AND HIGHER GENERATION NON-HISPANIC WHITES AND THIRD- AND HIGHER-GENERATION BLACKS

	(1)	(2)
Total log wage differential	0.24	
Attributable to differences in mean characteristics		
Education	0.07	0.07
Potential experience	−0.01	−0.01
Geographic location	−0.01	−0.01
Other	0.00	0.00
Total attributable to differing characteristics	0.05	0.06
Total attributable to differing returns	0.18	0.18

NOTES: Results of a standard Oaxaca decomposition of the hourly wage gap The first column reports the results of using the third- and higher-generation non-Hispanic White coefficients to weight the difference in average characteristics and the third- and higher-generation Black average characteristics to weight the difference in coefficients. Alternatively, the second column reports the results of using the third- and higher-generation Black coefficients to weight the difference in average characteristics and higher-generation non-Hispanic White average characteristics to weight the difference in coefficients.

characteristics are very similar for African Americans and Whites, so it makes little difference whether we weight the differences in the mean characteristics using the White coefficients or the Black coefficients. Differences in the mean characteristics altogether explain about 6 percentage points of the 24 percentage point differential, so differences in the stocks of productive skills that White and Black workers bring to the labor market explains at most a quarter of the Black–White wage gap.

The situation is much different for second- and third-plus–generation Latino workers. Differences in the mean characteristics between native-born Latinos and third-plus–generation Whites explain nearly half the wage gap and typically well over half of the wage gap. Consider, for instance, third-plus–generation Puerto Ricans (Table 6). Using the White coefficients to weight the differences in characteristics, 20 percentage points of the total 21 percentage-point wage gap can be attributed to differences in education and experience. Since third-plus generation Puerto Ricans seem to have a lower return to experience, if we use the third-plus generation Puerto Rican returns to weight the mean differences in characteristics, about 9 percentage points of the 21 percentage point differential can be attributed to differing characteristics. Even in this instance, basic proxies for productive skills account for much more of the wage gap than in the case of African American workers. The wage structure facing native-born Latino workers is much closer to the structure facing White workers than in the case for Black workers, so a majority of the wage gaps can be explained by differences in basic characteristics rather than differences in returns.

Given the simple proxies for skill available in the CPS, it is more difficult to explain the wage gap between generation 1.0 Latino workers and Whites. Take for example Mexican immigrants and Whites. Mexican immigrants are vastly less educated than Whites. Using the White coefficients to weight the mean differences, skills can account for 32 percentage points of the 55 percentage-point total wage gap. But if we use the Mexican generation 1.0 coefficients to weight the mean differences, the portion explained falls to 17 percentage points. But while it can be readily surmised that English fluency differences between Latino 1.0 immigrants and White workers explains much of these gap differences, the CPS data cannot test that likelihood.

What seems very clear is that the wage structure of native Latino workers is similar to that for Whites. The Latino–White wage gap, unlike the Black–White wage gap, is primarily a gap composed of skill differences between the groups. Indeed, most of the Latino wage gap is due to differences in just a few basic skill characteristics, not differences in the returns that employers pay these groups for those skills.

Conclusions

Latinos of all generations earn substantially less than Whites and a little less than African American workers. Because Latinos are projected to be the fastest growing segment of the labor force over the next 50 years (Toossi 2002), the United States faces the prospect of a vigorously growing low-wage labor market. The degree to which this scenario will play out depends upon the degree to which their relative youth, low education, differential price that employers pay for their labor, or progress across generations drives the average earnings of Latinos. At the least, tomorrow's Latino workforce will be older on average and will be comprised of more native-born workers (Toosi 2002; Passel 2004).

Their educational achievements will depend largely on how well Latino youths do in school. Substantial resources and attention are devoted to improving the educational achievement of Latino youth. But can we expect Latino educational gains to move Latinos toward wage parity with White workers? The estimated returns to education for second-generation and third-plus–generation Mexican, Puerto Rican, and Central/South American workers are similar to the returns for third- and higher-generation White workers. Improvements in the quantity and quality of schooling received by native Latino workers would likely move Latino workers toward the level of wages paid to White workers.

Hence, the labor market returns to education received by native Latinos suggest that significant resources devoted to equalizing educational opportunities for Latinos will go a long way toward equalizing labor market outcomes. With some reservation for Mexican workers, this research indicates that labor market intervention per se is not the primary response to low earnings. Given the widespread benefits of education in terms of literacy, political engagement, and health improvements, the merits of this public policy emphasis go far beyond an evaluation of the returns to education in the labor market.

As for generational progress, the findings of this study indicate that not all Latino-origin groups fare the same. True, all native Latinos earn better wages than immigrants. But the analyses here mirror research on Mexicans finding that their progress appears to stall after the second generation. That is, with or without controlling for human capital attributes, third-plus–generation Mexican workers trail their White counterparts to about the same extent as second-generation Mexicans (Grogger and Trejo 2002). However, this characterization does not seem to characterize the labor market progress of other Latino-origin groups. Controlling for basic human capital characteristics, there is no statistically significant wage gap between

third-plus–generation Puerto Rican and Central/South American workers and their White counterparts.[12] This third-plus–generation wage convergence with Whites marks a significant improvement over the second generation and, combined with a growing proportion of native second and third-plus–generation workers, suggests that future generational progress will ameliorate somewhat earnings differences with Whites.

Finally, this analysis of the wage outcomes of immigrant decimal generations finds little support for the expectation that arrival in childhood confers a clear advantage, at least as far as the labor market is concerned.[13] Wage outcomes for Latino immigrants who arrived early in childhood significantly trail their native counterparts. This is somewhat surprising because a substantive body of research indicates that child immigrants (generations 1.50 and 1.75) actually do as well, or even better, than native-born Latinos in terms of educational performance and grade completion. It is a mystery why these child immigrants should perform equally well in school, but fall behind natives in their earnings as adults.

As this discrepancy has not been noted previously, and because this research finds little evidence of differentials in returns to skills by generation, there is now a question as to how these different strands of research can be reconciled.[14] On the one hand, the CPS data shown here suggest that the decimal generations have lower school completion rates than the second generation, which suggests survey bias in either the CPS or the educational samples. On the other hand, it may be that, even if they achieve good marks in school, the decimal generations still lack the cultural skills and experience intrinsic to native birth with the result that they earn less when they reach adulthood. It would be valuable to have a handle on what is driving these

[12] The findings here indicate that the lower average earnings of first- and second-generation Central/South Americans in particular have much to do with their young average age. As these populations age, therefore, their relative earnings will improve without any change in policy (third-generation Central Americans may be an exception; see footnote 10). Of course, lower average education will still translate into a lower earnings profile for these Latinos 10, 20, or even 30 years from now.

[13] These findings do not, strictly speaking, contradict Friedberg's (1991) findings. These findings, like hers, suggest a linear decrease in wages by age of arrival. Yet, the decimal generations created here, in parallel to the educational literature, shows that there is no near-native outcome in terms of wages.

[14] This also undermines the inference that there is a unique immigrant study *and* work ethic that erodes by the second generation. Certainly, the findings here indicate that the immigrant parents of second generation do not face barriers to success over and above their disadvantageous lack of education. So, there appears to be little basis for the claim that the second generation perceives widespread discrimination against their parents and therefore has cause to "give up" in school. And if Latino child immigrants are in fact not doing as well in the labor market as the second generation, there is no inferential basis for the claim that immigrant youth forge ahead confidently oblivious of barriers to progress. Rather, it appears that child arrivals face special labor market challenges that their native counterparts are better able to surmount, perhaps because the second generation has not "given up" at least on the labor market.

results as it would help us understand Latino progress across the entire range of generations.

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