



2017

## Refugee Versus Economic Immigrant Labor Market Assimilation in the United States: A Case Study of Vietnamese Refugees

Lily Chang

Illinois Wesleyan University, [hchang1@iwu.edu](mailto:hchang1@iwu.edu)

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### Recommended Citation

Chang, Lily (2017) "Refugee Versus Economic Immigrant Labor Market Assimilation in the United States: A Case Study of Vietnamese Refugees," *The Park Place Economist*: Vol. 25

Available at: <https://digitalcommons.iwu.edu/parkplace/vol25/iss1/19>

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## Refugee Versus Economic Immigrant Labor Market Assimilation in the United States: A Case Study of Vietnamese Refugees

### Abstract

The United States has long been the leading destination for immigration. In 2014, there were more than 42 million immigrants in the US, which constitutes 13.3% of the total population in the country (Zong & Batalova, 2016). Of these different immigrant groups, one group in particular has received increasing attention from labor economists: refugees. Unlike economic immigrants who moved to the United States for better economic opportunities, refugees fled to the United States to escape persecution in their home country. In other words, economic immigrants chose to come to the US under their free will, whereas refugees did not have much liberty to choose when and where they would be resettled for humanitarian purposes. Hence, economic immigrants and refugees differ primarily based on the length of time and variety of resources they have at their home country to prepare for settlement in the United States, namely acquiring English skills to increase the likelihood of employment. Refugees are likely to have less time and fewer resources to gain such US-specific skills prior to immigration and therefore be disadvantaged in the US labor market.

It is hence important for policymakers to understand how the refugees fare in the United States to formulate better humanitarian resettlement programs. This paper aims to investigate how refugees perform in the US labor market in relation to economic immigrants, while controlling for demographic and human capital variables. The paper is organized in the following order: literature review, theoretical model, data/ empirical model, empirical results, and conclusion.

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# **Refugee Versus Economic Immigrant Labor Market Assimilation in the United States: A Case Study of Vietnamese Refugees**

**Hsin-Jou (Lily) Chang**

## **I. Introduction**

The United States has long been the leading destination for immigration. In 2014, there were more than 42 million immigrants in the US, which constitutes 13.3% of the total population in the country (Zong & Batalova, 2016). Of these different immigrant groups, one group in particular has received increasing attention from labor economists: refugees. Unlike economic immigrants who moved to the United States for better economic opportunities, refugees fled to the United States to escape persecution in their home country. In other words, economic immigrants chose to come to the US under their free will, whereas refugees did not have much liberty to choose when and where they would be resettled for humanitarian purposes. Hence, economic immigrants and refugees differ primarily based on the length of time and variety of resources they have at their home country to prepare for settlement in the United States, namely acquiring English skills to increase the likelihood of employment. Refugees are likely to have less time and fewer resources to gain such US-specific skills prior to immigration and therefore be disadvantaged in the US labor market.

It is hence important for policymakers to understand how the refugees fare in the United States to formulate better humanitarian resettlement programs. This paper aims to investigate how refugees perform in the US labor market in relation to economic immigrants, while controlling for demographic and human capital variables. The paper is organized in the following order: literature review, theoretical model, data/ empirical model, empirical results, and conclusion.

## **II. Literature Review**

There has been limited existing literature on refugee labor market outcomes in relation to economic immigrants and natives. In this section, I examine four research articles which cover both cross-sectional and longitudinal studies on refugee labor market performance. In her article, Cortes (2004) analyzes the differences in accumulating Country-Specific Human Capital (CSHC) and earnings between refugees and economic immigrants. The paper points out that although refugees earn lower wages than economic immigrants do upon arrival to the United States, over time their earnings exceed those of economic immigrants due to having greater incentives to perform well in the United States. Economic immigrants come to the United States in search of better economic opportunities and can return to their home country under their free will. On the other hand, refugees flee from their home country to escape persecution, which suggests that they are highly unlikely to be able to return to their homeland. The latter would hence have more incentives to acquire US-specific human capital more quickly once they have arrived in the United States, and therefore their earnings increase at a higher rate over time.

Another study done on refugees in Australia also identifies the pattern of assimilation in refugee labor market outcomes towards those of economic immigrants. Hugo (2013) concludes that although refugees have lower labor force participation rate compared to other migrant groups and natives in Australia, assimilation is present over time. He argues that there is a phenomenon of “brain-waste” in refugees where large stocks of human capital are not realized in refugees due

due to factors such as language skills, education, structural disadvantage, and discrimination. However, Bratsberg et al. (2014) propose a different trend of refugee labor market performance when focusing on immigrants in Norway. They argue that the national origin of an immigrant was the determining factor of wages. Those who migrated from high-income countries assimilate quickly and receive similar wages to the natives, whereas those who migrated from low-income countries have unfavorable employment outcomes. They also argue that refugees assimilated during the initial period upon their arrival to Norway yet never fully caught up with the natives. However, this trend of converging to native earnings stopped after a decade and is accompanied by a rise in social insurance rates.

Capps et al. (2015) emphasize the importance of human capital in determining income. They find out that although in 2009-2011, refugee labor force participation rate in the United States was higher or equal to that of US natives, refugees still received lower income than natives did. This is most likely due to the limited English skills refugees possessed. However, refugee income increases substantially along with their years of US residence. Moreover, the higher the refugees' education attainment in their home country, the higher their income is; lower education attainment/literacy level leads to lower earnings. They also argue that besides human capital, discrimination might play a significant role in determining refugee earnings. This is seen in the significant difference between Cuban and Vietnamese income when controlling for human capital and years of US residence, as up to 56 percent of the former group received household income twice below the poverty line in FY2009-11, whereas only 35 percent of the latter group did so.

### **III. Theoretical Model**

The two main theories dealt with in my paper are the human capital theory and the discrimination theory. The human capital theory states that human capital, the income-generating worth of an individual, is a function of his or her productive skills and knowledge (Rosen, 2008). By investing in human capital, labor productivity can be improved, and therefore, earnings may increase. Traditionally, human capital has been measured by the education attainment level of an individual. In this paper, I will also analyze how English skills, which is a US-specific human capital, impact the wages of refugees in addition to their education attainment.

As current literature points out, most refugees have limited English skills upon their arrival in the United States, and this might result in various degrees of discrimination from employers. I analyze the effect of discrimination on hiring decisions from two aspects—statistical and taste-based. Statistical discrimination addresses the inequality between demographic groups caused by non-prejudiced stereotypes that are unrelated to racial and gender bias (Moro, 2009). On the other hand, taste-based discrimination refers to how unjustified prejudicial feelings of individual members of a majority group could lead to negative employment outcomes for members of a discriminated-against group (Charles & Guryan, 2009). Moreover, previous literature suggests that certain groups of refugees may experience greater degrees of discrimination from employers, due to both statistical and taste-based reasons, causing them to perform more poorly economically than other groups (Capps et al., 2015). This can be attributed to common discriminatory factors in the labor market such as national origin, race, gender, and religion.

Drawing from conclusions based on existing literature and economic theories, I hypothesize that compared to economic immigrants, refugees would experience lower levels of labor market assimilation in the United States due to having less time and fewer resources to

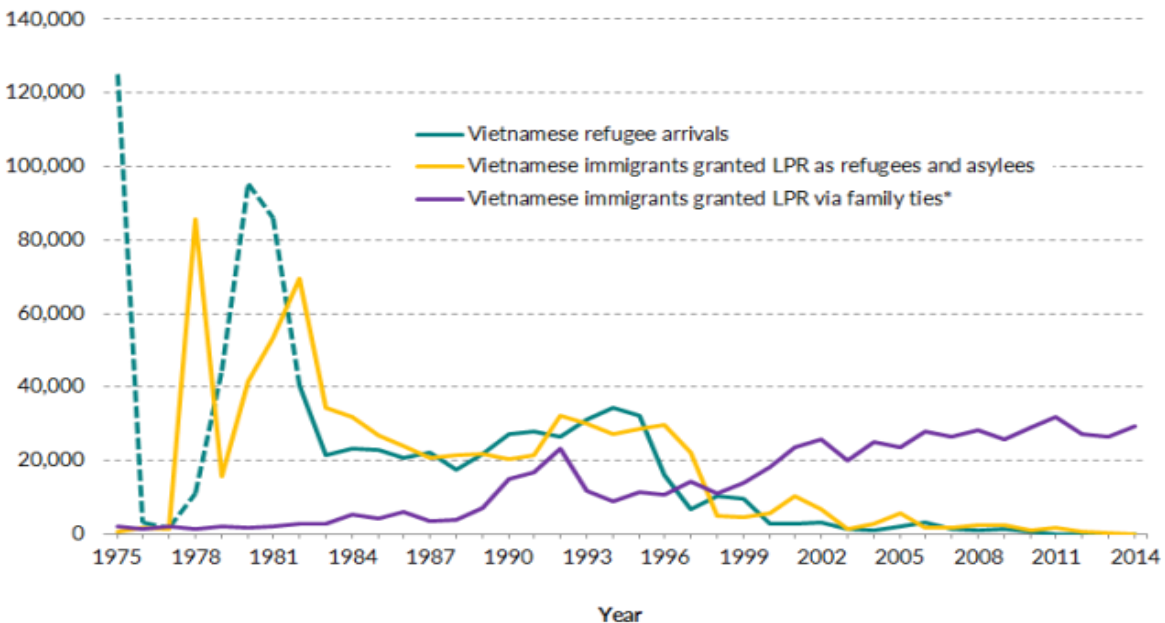
acquire desirable US-specific labor skills prior to their entry into the country as well as discrimination.

#### IV. Data & Empirical Model

The data used in this research are obtained from the American Community Survey (ACS) conducted by the U.S. Census Bureau. To better capture the assimilation process of refugees and economic immigrants, two samples are extracted from the ACS dataset: the 1990 5% and the 2010-2014 5% sample. When extracting my data, I limited my data selection to working-age immigrants by identifying those whose birthplace is outside of US-territory and was between age 18 and 65. I also limited my sample to include only those who are considered to be full-time employed, which is defined as having worked at least 48 weeks and at least 36 hours per week in the past year. Due to the lack of immigration status information in the census data, I focused on Vietnamese refugees in my research. Data from the Migration Policy Institute are used to identify inflows of Vietnamese refugees to the United States. It can be seen in Graph 1 that the arrival of Vietnamese refugees peaked between 1978 and 1983, so the refugees are defined as those whose birthplace is Vietnam and immigrated to the United States between 1978 and 1983. However, it is important to note that due to the limitations of using this method to identify Vietnamese refugee flows to the United States, some Vietnamese immigrants who are defined as refugees might have been economic immigrants, and hence the results might be biased.

It is important to note that for the purpose of this study, I followed the same cohort of Vietnamese refugees and reference group of immigrants who had arrived in the United States between 1978 and 1983. This is to better capture the effects of US-specific human capital acquired by the refugees and the reference groups by controlling the other factors such as the innate abilities of these individuals.

**Figure 1: Vietnamese Refugee Arrivals and Vietnamese Immigrants Granted Lawful Permanent Residence (LPR) as Refugees and Asylees or through Family Ties, 1975-2014 (Zong & Batalova, 2016)**



**Table 1: Variables and Descriptions**

Variable Name	Description	Expected Sign
<b>Dependent</b>		
Wages	Nominal annual wages	
<b>Independent</b>		
<i>Primary</i>	<i>Regression 1</i>	
Refugee	1 = birthplace is at Vietnam and year of immigrant is between 1978 and 1983, 0 = not born in Vietnam/ year of immigrant not between 1978 and 1983	Negative
<i>Demographics</i>	<i>Regression 2</i>	
Male	1 = male, 0 = female	Positive
Age	Age of respondent	Positive
Age Squared	Age * Age of respondent	Negative
Married	1 = married, 0 = not married	Positive
<i>Human Capital</i>	<i>Regression 3</i>	
English	1 = speaks English, 0 = doesn't speak English	Positive
High School	1 = graduated from high school; 0 = didn't graduate from high school	Positive
Some College	1 = attended some college but didn't receive a degree; 0 = didn't attend college at all	Positive
Bachelor's Degree	1 = received a Bachelor's degree; 0 = didn't receive a Bachelor's degree	Positive
Master's Degree	1 = received a Master's degree; 0 = didn't receive a Master's degree	Positive
Professional Degree	1 = received a professional degree; 0 = didn't receive a professional degree	Positive
Doctorate Degree	1 = received a Doctorate degree; 0 = didn't receive a Doctorate degree	Positive

The relevant data obtained from ACS are then analyzed using a multiple regression to determine whether refugees perform more poorly in the US labor market than economic immigrants do. Table 1 below presents the variables taken into account in this empirical analysis. A brief description of each independent variable is included, along with an expected sign of relationship between it and the dependent variable.

The regression model is as follows. Three regression equations are used to estimate the effects of refugee status on wages.

$$\text{Regression 1: } Wages = \beta_0 + \beta_1 \text{Refugee}$$

$$\begin{aligned} \text{Regression 2: } Wages \\ = \beta_0 + \beta_1 \text{Refugee} + \beta_2 \text{Male} + \beta_3 \text{Age} + \beta_4 \text{AgeSQ} + \beta_5 \text{Married} \end{aligned}$$

*Regression 3: Wages*

$$= \beta_0 + \beta_1 \text{Refugee} + \beta_2 \text{Male} + \beta_3 \text{Age} + \beta_4 \text{AgeSQ} + \beta_5 \text{Married} \\ + \beta_6 \text{English} + \beta_7 \text{HighSchool} + \beta_8 \text{SomeCollege} + \beta_9 \text{Bachelors} \\ + \beta_{10} \text{Masters} + \beta_{11} \text{Professional} + \beta_{12} \text{Doctorate}$$

Regression 1 investigates whether a direct relationship exists between being a Vietnamese refugee status and wages in the absence of any control variables. Regression 2 adds demographic factors such as sex, age, age squared, and marital status into the equation. Race is not taken into consideration in my research since the refugee group is composed of only one race. I would like to investigate whether these factors, which are largely associated with workplace discrimination, would decrease the magnitude of the refugee status effect. If the coefficient of being a Vietnamese refugee in the United States,  $\beta_1$ , in Regression 2 is lower than that in Regression 1, then we can confirm that the demographic variables may account for some of the effect of refugee status on income. The same analysis is done for Regression 3, which focuses on the effects of human capital on wages. It is known that a positive relationship exists between investing in human capital (higher education attainment and English skills) and wages, so a refugee with a higher degree and more fluent English should earn more.

## V. Empirical Results

The regression results are presented in Table 2, 3, and 4 below; the t-statistics values are in parentheses, written below the coefficients of the variables. Table 2 presents the regression results of the 1990 sample. Regression 1 analyzes the direct relationship between being a Vietnamese refugee and wages, and the result shows a statistically significant negative relationship between these two variables. The resulting coefficient supports my hypothesis; Vietnamese refugees receive almost \$2,000 less income than other immigrant groups, and this reduction in income due to refugee status is both significant in dollar terms and statistically. In Regression 2, the coefficient for refugee status becomes less significant when demographic variables such as sex and age are controlled. Vietnamese refugees only earn around \$1,400 less on average than economic immigrants when we include demographic variables. As we can see from the results, being male, married, and older increase wages. Moreover, the relationship between refugee status and wages is weakened furthermore when human capital factors are added into the equation. Now the income disparity between Vietnamese refugees and economic immigrants is less than \$1,400. Both the highest degree the respondent completed and his/her English skills have significant effects on wages as indicated by their coefficients.

However, a surprising result is presented in Table 3, which examines the 2010-2014 sample. After residing in the United States for 30 years, wages earned by the Vietnamese refugees actually exceed those of economic immigrants by more than \$7,000. Although this refugee advantage decreases when demographic and human capital variables are included into the equation, this positive relationship between refugee status and wages is not expected. When comparing the regression results of the 1990 and 2010-2014 samples side by side in Table 4, we can see that Vietnamese refugees receive lower income than economic immigrants do upon arrival in the United States, but over time their earnings exceed those of economic immigrants. Moreover, other than the sign of refugees, the signs of the variables are as expected in Table 1. Being male, married, older, more educated, and more fluent in English all result in higher wages for an individual.

**Table 2: 1990 Regression Results**

Variable Name	Regression 1	Regression 2	Regression 3
Constant	25618.601*** (577.379)	-27378.564*** (-52.933)	-21527.498*** (-42.980)
Refugee	-1953.651*** (-5.907)	-1426.567*** (-4.489)	-1392.923*** (-4.791)
Male		8822.308*** (99.800)	8043.534*** (98.821)
Age		2026.827*** (75.619)	1104.601*** (44.511)
Age Squared		-20.271*** (-62.864)	-9.815*** (-32.904)
Married		2651.980*** (27.236)	2368.719*** (26.610)
English			4946.563*** (25.952)
High School			4461.444*** (39.535)
Some College			8939.711*** (81.989)
Bachelor's Degree			16924.750*** (135.900)
Master's Degree			25097.687*** (144.759)
Professional Degree			39958.429*** (166.819)
Doctorate Degree			31270.175*** (112.913)
Adjusted R-Square	.000	.078	.230
Sample Size	319832	319832	319832

\*Significant at the 0.10 level; \*\*Significant at the 0.05 level; \*\*\*Significant at the 0.01 level



**Table 3: 2010-2014 Regression Results**

Variable Name	Regression 1	Regression 2	Regression 3
Constant	55155.878*** (751.662)	-51102.271*** (-49.826)	-64038.980*** (-68.074)
Refugee	7253.970*** (9.533)	2416.252*** (3.234)	2809.451*** (4.282)
Male		11391.166*** (77.152)	14651.419*** (112.227)
Age		3961.254*** (79.678)	2946.452*** (67.394)
Age Squared		-39.825*** (-69.851)	-28.414*** (-56.676)
Married		10987.484*** (68.278)	5770.140*** (40.697)
English			8062.916*** (26.705)
High School			7506.666*** (37.790)
Some College			18778.571*** (94.455)
Bachelor's Degree			44499.697*** (220.867)
Master's Degree			68642.082*** (284.295)
Professional Degree			116162.765*** (294.376)
Doctorate Degree			82689.766*** (218.476)
Adjusted R-Square	.000	.038	.259
Sample Size	709917	709917	709917

\*Significant at the 0.10 level; \*\*Significant at the 0.05 level; \*\*\*Significant at the 0.01 level

**Table 4: Comparison between 1990 and 2010-2014 Samples**

Variable Name	1990	2010-2014
Constant	-21527.498*** (-42.980)	-64038.980*** (-68.074)
Refugee	-1392.923*** (-4.791)	2809.451*** (4.282)
Male	8043.534*** (98.821)	14651.419*** (112.227)
Age	1104.601*** (44.511)	2946.452*** (67.394)
Age Squared	-9.815*** (-32.904)	-28.414*** (-56.676)
Married	2368.719*** (26.610)	5770.140*** (40.697)
English	4946.563*** (25.952)	8062.916*** (26.705)
High School	4461.444*** (39.535)	7506.666*** (37.790)
Some College	8939.711*** (81.989)	18778.571*** (94.455)
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Professional Degree	39958.429*** (166.819)	116162.765*** (294.376)
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## VI. Conclusion

The empirical results confirm and reject my hypothesis at the same time. Although it is shown in the 1990 census data that Vietnamese refugees received lower wages in the first decade upon their arrival in the United States, over time their earnings exceed those of economic immigrants as shown in the 2010-2014 data. The results also suggest that when controlled for, demographic and human capital variables weaken the relationship, whether negative or positive, between wages and refugee status. It is worthwhile to note that older, married males are the most favored immigrant group. Moreover, wages increase with an individual's highest degree earned and fluency of English. This indicates that as my theoretical model suggests, human capital plays a key role in determining an individual's labor market outcome. When refugees first arrive in the United States, they have fewer US-specific human capital, namely fluency in English, compared to economic immigrants. However, once they arrive in the country, they have more incentives to

assimilate quickly as they are less likely to return to their home country. Hence their earnings eventually exceed those of economic immigrants. Another possible explanation of this change in sign of the refugee coefficient is that many economic immigrants might have migrated to the United States due to negative selection. They have lower human capital and could not find better jobs in their home countries, and therefore they move to the United States in search for employment opportunities while earning lower wages.

Although I present several findings in this paper regarding how refugees perform in the US labor market compared to economic immigrants, there are a few areas on which future research could further improve. First of all, it is important to include more refugee groups when comparing the earnings of refugees and economic immigrants. As existing literature points out, there is a varying degree of discrimination against refugees of different origins in the US labor market. A suggested way to improve this is to identify Cuban refugees and compare how they perform in the labor market compared to Vietnamese refugees and economic immigrants. In addition, since the two samples used in this research are 25 years apart from each other, we need to take into consideration inflation. Future research may use natural log of wages instead of nominal wages like I did in this paper to better capture the effect of inflation in the data. Another variable I did not include in my research is the years of residence in the United States. It is indicated by my results that over time the Vietnamese refugees perform better than economic immigrants do, and therefore we should investigate how an additional year of residing in the United States may impact refugee and immigrant wages.

As human capital plays an important role in determining the wages received by refugees, policymakers need to integrate more job training resources that focus on developing refugees' English fluency and general education attainment when designing humanitarian resettlement programs. It is irresponsible for the government to accept refugees into the country and not help them better assimilate to the country, both socially and economically. In conclusion, this paper supports the assertions of existing literature on the labor market performance of refugees versus economic immigrants while shedding light on relevant issues that should be further investigated to help better estimate the relationship between refugee status and employment.

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