

# Is there a Premium on Experience in the U.S.?

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Extended Abstract

The well-developed literature on immigration in the U.S. has largely focused on the well-being of immigrants and the effect of immigrants on U.S. natives. While interesting and important, these lines of inquiry ignore the fact that many immigrants return home. Jasso and Rosenzweig (1982) estimate that possibly 50% of immigrants to the U.S. remigrated within eight years of their arrival. Borjas and Bratsberg (1996) estimated that between 25% and 40% of Mexican immigrants remigrated. A long run look at economic well-being of migrants necessitates the study not just of how immigrants do in the destination country, but also how immigrants fare when they return home. Do return migrants benefit from a premium granted to U.S. experience in their home country?

Largely because of data constraints, research on remigration generally uses indirect evidence of remigration from sample attrition (in panel datasets) and differences in counts of immigrants in repeated cross sections of data (such as the Census). The error inherent in such indirect measures is evident – deaths, migration to other countries, and other reasons for attrition are a few problems. And even if the rate of outmigration is estimated precisely, the data does not allow the researcher to follow a person *after* remigration. A few studies have used panel data sets to analyze remigration questions, such as the Immigrant Absorption Survey (IAS) in Israel (Beenstock (1996)), the German Socio-Economic Panel (Bellemare (2004)), and the Hungarian Household Panel Survey (Co et. al. (2000)). However, these track immigrants within the destination country but are not able to follow immigrants once they remigrate. The main objective of this work is to analyze the impact that the sequence migration-remigration has on welfare variables, to do so we will exploit the panel structure and unique point of view of the Mexican Health and Aging Study (MHAS). To examine the impacts of migration and return migration we will rely on a descriptive and multivariate analysis, within which we will correct for selectivity.

## Data

The Mexican Health and Aging Study (MHAS) 2001 and 2003, is a nationally representative survey, with urban/rural representation, that collects information of 50 year old and older Mexicans, in their home country, and their spouses or partners. The MHAS is a panel survey that contains detailed information on individual migration behavior, such as years in the U.S., age and date at first migration and first remigration, coverage of costs of first migration, date of final remigration, migration history of the spouse, etc.

It is not unreasonable to believe that the probabilities of migration to the U.S. after the age of 50 are rather slim, however the MHAS provides us with a full migration history of the individual, which can be linked to survey migration variables of their parents and their children. In addition, the MHAS is a rich source of data of the demographic and socioeconomic characteristics of the interviewees, one of the particularities of the sample is that it registers not only information on income and its sources, but on the total wealth of the couple, which could be a better proxy of their well-being. Some other useful information includes labor history, quality of health, access to medical services, pensions, and transfers (in money or in kind) from children.

## Research Strategy

The experience of living and working in the U.S. does not reflect exclusively in labor income back home. It is almost always the case that the migrant acquires durables and other assets in the U.S. that might position them in a different wealth quintile than their co-nationals without the same international experience. Taking this point into account we will analyze the impact of migration-return migration not only on earnings but on a broader proxy of welfare, total wealth.

First, we examine the value of U.S. experience to immigrants who return to Mexico. Human capital literature suggests that returns to experience are significant, and we investigate additionally whether there is a premium on returns to experience in the U.S. We test this by comparing return migrants to Mexicans who never migrated:

$$Y_i = X_i\beta + \alpha \text{Migrant}_i + \varepsilon_i \quad (1)$$

where  $Y$  is the well-being measure, either log-earnings or the measure of wealth,  $X$  is a vector of personal characteristics, and  $\text{Migrant}$  a dummy variable indicating whether the individual ever migrated to the U.S. If the experience in the U.S. constitutes an increase in general skill beyond what experience in Mexico could generate, then we expect  $\alpha > 0$ . However if the experience in the U.S. labor market develops specific skills that are not directly or immediately transferable to the Mexican market, a return migrant may not benefit, or may even be harmed by, experience gained in the U.S.

In this cross-sectional analysis, however, we face a potential problem of selectivity at two different points: the first one being when an individual migrates to the U.S., those who never migrate might have, on average, different abilities, and resources. Secondly, migrants in the host country that take the optimal decision of retuning to their home country might be facing a different set of personal assets and opportunities, than those who stay in the U.S. In addition, selection may be present in the decision to work. This may be less likely a source of selection bias when we use a measure of total wealth as the dependent variable.

Starting from the assumption that migrants decide where to live by maximizing their economic well-being, theory and empirics support the conclusion that the more skilled prefer the country where there is more income inequality (return to skill is high) and the less skilled prefer the country where there is more equality (Borjas (1987), Borjas and Bratsberg (1994), Ramey (1992)). In Mexico, this implies that immigrants who return to Mexico are *higher* skilled than the average Mexican immigrant (since there is more income inequality in Mexico). We consider that selection would materialize not only in observable characteristics, such as the socio-economic status before migration, or education, but on unobservable characteristics, such as ability. To account for these, we use a fixed effects strategy that exploits the copious controls for observable selection available in the MHAS, as well as the control for unobservable person characteristics given in the panel structure of the data. We thus estimate the model:

$$Y_{it} = X_{it}\beta + \gamma \text{Migrant}_i + \lambda \text{Person}_i + \varepsilon_{it} \quad (2)$$

where  $\text{Person}$  is an individual fixed effect controlling for unobservable differences.

## **Expected results**

Given the assumption that our proxy for welfare is good (we will account for alternatives and potential measurement error), if the individual planned his stay in the U.S. as only a temporary one, we would expect to find some gains, with respect to those with the same characteristics that stayed in Mexico. On the other hand if the individual returned to their home country as a response to a negative experience in the U.S. (it could be that their expected returns were not materialized), then the correlation between our proxy of welfare, controlling for other factors, is not expected to be significant and positive with the migration dummy.

## References

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