

Labor Market Competition and the Assimilation of Immigrants*

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The wage gap between newly arriving immigrants and comparable natives in the United States has widened substantially over the last few decades while the subsequent speed of convergence has declined. These patterns have led to a pessimistic view regarding wage assimilation prospects of immigrants. This paper unravels an unexplored mechanism that can explain an important part of these regularities: labor market competition. Because immigrants and natives are imperfect substitutes in production, increasing immigrant inflows exert stronger labor market competition on previous cohorts of immigrants than on natives, contributing to a widening wage gap. We quantify the importance of this mechanism using a model that accounts for the main features of the literatures on the wage impact of immigration and immigrant wage assimilation. Our results suggest that, if competition and composition effects are netted out, immigrant cohorts are more positively selected in recent decades, with these differences disappearing after 10 years, implying a lower relative wage growth for recent cohorts.

Keywords: Immigrant Assimilation, Labor Market Competition, Cohort sizes, Imperfect Substitution, General and Specific Skills

JEL Codes: J21, J22, J31, J61

I. Introduction

The Syrian Refugee Crisis and the rise in xenophobic movements around the world have renewed the interest for understanding the process of assimilation of immigrants into the receiving society. The capacity of immigrants to acquire country-specific skills such as language and business culture is a crucial determinant of their productivity in

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