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Economic Progress of Immigrants

The famous U.S. "melting pot" that turns immigrants and their children into cultural and prosperous native "Americans" may not be working so well with the new arrivals of recent years. That's a thesis raised by NBER researcher **George Borjas** in **Making it in America: Social Mobility in the Immigrant Population** (NBER Working Paper No. 12088). "The social mobility of the immigrants who arrived a century ago may not be a good predictor of the assimilation prospects of current immigrants," he writes. It may be too early, he adds, to determine if a number of factors will prove important and slow down the rate of economic assimilation of the new immigrants. "Nevertheless, the dramatic shifts in the social, political, and economic climate suggest that ethnic differences could easily be incubated for much longer periods in the future."

In recent decades, a resurgence in large-scale immigration has raised the foreign-born share of the U.S. population—from 4.7 percent in 1970 to 12.7 percent in 2003. And, the share of second-generation Americans with at least one foreign-born parent is expected to grow rapidly, from 10.5 percent in 2004 to nearly 14 percent by 2050. The grandchildren of current immigrants will make up another 9 percent of the population by mid-century.

Borjas suggests that, "the economic, social, and political consequences of delaying assimilation could be disastrous. The ethnic conflicts in many regions of the modern world, for instance, often originated centuries ago, and their consequences still fester." So, it is probably advantageous for the United States "to pursue intergenerational progress by immigrant households" in order to reduce the importance of ethnicity in determining socioeconomic outcomes in future generations and thus to encourage a cohesive social fabric.

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Certain factors concern Borjas, though. First, in much of the twentieth century, the children of immigrants typically enjoyed wages somewhere between 5 and 10 percent higher than those of their parents. The second generation has the advantage of knowing English, graduating from American schools, and knowing the job market better. But the current generation of immigrants started out with relatively low wages compared to native Americans. So this suggests that the next generation of second-generation workers, who will make up an important part of the workforce in 2030, may suffer from a sizable wage disadvantage of around 10 percent.

Second, about half of the differences in relative economic status across ethnic groups observed in one generation persist into the next. There is a great deal of dispersion in socioeconomic status and earnings across the many national origin groups that make up the first generation of immigrants. It takes time for an immigrant and his children to acquire skills valued by an American employer, such as learning English, adopting the norms of the American workplace, and sometimes moving to an economically vibrant place outside an ethnic enclave. Since such a large proportion of current immigrants are Mexicans with poor education, it may take longer for them to catch up with natives. If the historical pattern holds up, the grandchildren of today's Canadian immigrants will earn about 17 percent more than the descendants of today's Mexican immigrants towards the end of the present century.

In contrast, the low-skilled immigrants of the early twentieth century were put to work building a rapidly expanding manufacturing sector. Three-quarters of Ford Motor Company workers in 1914 were foreign-born and came from less-developed areas of southern and eastern Europe. Their jobs evolved into stable and well-paid opportunities for immigrants and their descendants. It is "far from clear" that the employment sectors of immigrants today will have the same growth prospects, Borjas writes.

Third, the relative lack of ethnic diversity in post-1965 immigration may greatly reduce the incentives for assimilation. It allows the largest ethnic groups to essentially develop separate enclave economies and social structures, interacting little with the economic mainstream. In 2000, for example, Mexicans made up almost 30 percent of the immigrant population. In 1920, Germans and Italians, added together, comprised only 24 percent of the foreign-born population.

Fourth, political reaction to the social and economic dislocations associated with the First Great Migration prompted in 1924 strict limitations on the number and types of persons who could enter the country. In the 1920s, 4.1 million immigrants arrived in the United States. In the 1930s, only half a million persons entered. This "breathing period" during the Great Depression and World War II may have fueled immigrant social mobility by cutting off the supply of new workers to ethnic enclaves and reduced contacts with countries of origin.

Further, the earlier immigrants were "encouraged" to assimilate. For example, by 1918, half of the U.S. states restricted or eliminated German-language instruction. Several had curtailed freedom to speak German in public. German language publications declined from 554 in 1910 to 234 in 1920. Finally, the ideological climate that boosted social pressures for assimilation and acculturation throughout much of the 20th century has all but disappeared, writes Borjas.

— David R. Francis

Unhappiness After Hurricane Katrina

The University of Michigan Monthly Survey of Consumers is widely regarded as a valuable tool for gauging Americans' sense of personal well-being. A team of researchers has now examined the data collected in recent surveys to determine if the respondents' feelings of happiness or unhappiness may be affected by external events that have no direct bearing on their lives.

In **Unhappiness after Hurricane Katrina (NBER Working Paper No.** 12062), researchers **Miles Kimball, Helen Levy, Fumio Ohtake,** and **Yoshiro Tsutsui** note that the Michigan Surveys showed a distinct and significant dip in reported happiness in the first week of September 2005. The researchers speculate that this occurred because it was in this week that the extent of Hurricane Katrina's devastation of the Gulf Coast became known. Indeed, the fall in national happiness was most pronounced in the South Central region of the United States—that is, in the portion of the country closest to the destruction, and the unhappiness lingered longer there than it did elsewhere in the nation. But why, the researchers ask, should Americans who had not lost their homes or livelihoods to the hurricane exhibit a decline in their sense of personal happiness?

Even though Hurricane Katrina may not have directly affected an individual's material well-being, Kimball and his colleagues theorize that the disasters' dominance of the news media saddened Americans because it stimulated their feelings of altruistic concern or because of a more generalized emotional response to disaster images. The researchers do not discount people being concerned about the storms' impact on their material well-being as manifested by a possible rise in fuel prices or challenges to government budgets. But the altruistic factor is indeed measurable, given that charitable donations to help the hurricane victims are estimated at $2.65 billion, an outpouring of aid that surpasses that of the donations to the South Asian tsunami relief ($1.55 billion) and that almost matches the money donated for victims of the September 11 terror attacks ($2.8 billion). Indeed, by comparing the results of consumer confidence surveys, which in the post-hurricane weeks showed their lowest results in 12 years, and those of the overall happiness surveys in the same weeks, the evidence suggests concerns based on self-interest were less a factor than altruistic emotional responses to the hurricanes and their aftermath.

> "Hurricane Katrina reduced the reported happiness of a nationally representative sample of Americans, and that happiness is correlated with but distinct from consumer sentiment."

Kimball and his colleagues believe that those emotional responses were triggered by the media coverage of the disasters. A detailed analysis of major newspapers during the period shows the hurricanes having a near-monopoly on front pages, and of course television delivered real-time pictures of the havoc into millions of American homes. Survey respondents' estimates of their personal level of happiness, sadness, enjoyment of life, and depression correspond to a measurable degree with the intensity of graphic news coverage of the disasters. Interestingly, while women's reported happiness index over the entire period from August through October 2006 is significantly lower than men's, the movements in happiness during the hurricane period are similar for men and women. By contrast, while the South Central states do not normally show a happiness index significantly different from the rest of the United States, in the first week of September 2005 that index was much lower than that of the rest of the nation.

At the same time, feelings of unhappiness wore off even before the intense coverage of the hurricanes abated, suggesting people became inured to the graphic images of the devastation and suffering. This is evidence of "hedonic adaptation," that is, the tendency of measured happiness to revert to its previous value after responding to a shock. Indeed, by the end of September 2005, a more or less complete "hedonic adaptation" had taken place throughout the United States—although unsurprisingly, this was most marked in the regions of the country unaffected directly by the hurricanes.

A few weeks later, on October 8, a major earthquake struck Pakistan and parts of neighboring India just a few weeks after the Gulf states' hurricanes, and this disaster was widely covered by the American news media. The researchers therefore looked at day-by-day happiness surveys in the second and third weeks of October to see if Americans' subjective sense of well-being could be affected by such a far-away disaster. The survey shows a dip in national happiness, and the researchers believe that at least some of this decline was related to the earthquake. But they note that the statistical significance is not as marked in this instance as it was for the dip in happiness because of Katrina.

Kimball, Levy, Ohtake, and Tsutsui conclude that Hurricane Katrina reduced the reported happiness of a nationally representative sample of Americans, and that happiness is correlated with but distinct from consumer sentiment. This, they say, raises doubts about explaining these movements solely in terms of self-interest. Instead, the researchers say altruism or a more general emotional response to images of new disasters likely explains this response to bad news. Finally, they believe their methodology can help determine what kinds of events strike the average respondent as noteworthy good news or noteworthy bad news.

— Matt Nesvisky

Teachers and the Gender Gaps in Student Achievement

In kindergarten, boys and girls do equally as well on tests of reading, general knowledge, and mathematics. By third grade, boys have slightly higher mathematics scores and slightly lower reading scores. As children grow older, these gaps widen. Between 9 and 13 years of age, the gender gaps approximately double in science and reading. Between 13 and 17, the gap in science continues to expand but there is little growth in the math or reading gap. The size of the gaps is not trivial. The underperformance of 17-year-old boys in reading is equivalent to 1.5 years of schooling, and though men continue to be over-represented in college level science and engineering, girls are now more likely to go to college and persist in earning a degree.

The source of these gender differences has long been a topic of heated debate. Though tests of general intelligence suggest no overall differences between men and women, there are large gender differences in scores on specific cognitive tasks. Men perform better at certain spatial visual tasks; women excel verbally. While these differences may someday be traced back to known differences in hormonal exposure and male and female brain structures, it is also possible that differences in academic development arise from the fact that male and female teachers have a tendency to treat boys and girls differently in the classroom.

In **Teachers and the Gender Gaps in Student Achievement** (NBER Working Paper No. 11660), author **Thomas Dee** uses data from the nationally representative National Education Longitudinal Study of 1988 to examine the consequences of gender interactions within classrooms. The outcome measures include test scores, teacher perceptions of student performance, and measures of students' intellectual engagement (for example, whether a student was afraid to ask questions in a particular class, looked forward to the class, and saw the class as useful for the future).

Dee finds that gender interactions between teachers and students have significant effects on these important educational outcomes. Assignment to a teacher of the opposite sex lowers student achievement by about 0.04 standard deviations. Other results imply that just "one year with a male English teacher would eliminate nearly a third of the gender gap in reading performance among 13 year olds…and would do so by improving the performance of boys and simultaneously harming that of girls. Similarly, a year with a female teacher would close the gender gap in science achievement among 13 year olds by half and eliminate entirely the smaller achievement gap in mathematics."

Female science teachers appeared to reduce the probability that a girl would be seen as inattentive in science, though this had no discernable effect on girls' science achievement. However, female history teachers significantly raised girls' history achievement. And, boys were more likely to report that they did not look forward to a particular academic subject when it was taught by a female.

Overall, the data suggest that, "a large fraction of boys' dramatic underperformance in reading reflects the classroom dynamics associated with the fact that their reading teachers are overwhelmingly female." According to the U.S. Department of Education's 1999–2000 Schools and Staffing Survey, 91 percent of the nation's sixth grade reading teachers, and 83 percent of eighth grade reading teachers are female. This depresses boys' achievement. The fact that most middle school teachers of math, science, and history are also female may raise girls' achievement. In short, the current gender imbalance in middle school staffing may be reducing the gender gap in science by helping girls but exacerbating the gender gap in reading by handicapping boys.

— Linda Gorman

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Matching Incentives Raise Saving

Considerable attention has been paid recently to the fact that American consumers on average currently have a negative savings rate—they spend more than their income—or a savings rate close to that. As a result, policymakers, economists, researchers, and others have been debating the merits of various plans or suggestions to encourage people to set aside more money, thereby creating the savings that can provide capital for business and for building homes.

As it is, low- and middle-income families in particular appear to be saving little either for retirement or for any other purpose. Moreover, only a small percentage of families with income below $40,000 are covered under employer provided pensions. Further, these families are extremely unlikely to contribute to tax-advantaged Individual Retirement Accounts (IRAs). Indeed, in 2001 this income group had median financial wealth (half more, half less) outside of retirement accounts of a mere $2,200.

In **Saving Incentives for Low- and Middle-Income Families: Evidence from a Field Experiment with H&R Block** (NBER Working Paper No. 11680), co-authors **Esther Duflo**, **William Gale**, **Jeffrey Liebman**, **Peter Orszag**, and **Emmanuel Saez** analyze the effect of offering matching incentives to taxpayers if they decide to make contributions to an IRA at the time of tax preparation. This was done in a large, randomized field experiment carried out with the help of H&R Block, the nation's largest tax preparation firm. About 14,000 H&R Block clients, seeking tax help at 60 offices in predominantly low- and middle-income neighborhoods in the St. Louis metro area, were randomly offered either a 20 percent match on a contribution to an IRA, a 50 percent match, or no match at all.

These researchers find that the higher match rates do significantly raise both the probability that the taxpayers will participate in an IRA and the size of their contribution. Take-up rates were 3 percent for the control group getting no matching contribution, 8 percent for those getting a 20 percent match, and 14 percent for the 50 percent match group. Average IRA contributions (including for those who decided not to put money in the IRA, but excluding the "matches") for the 20 percent and 50 percent match groups were 4 and 7 times higher than in the control group, respectively. With matches included, IRA deposits were 4.5 and 10 times higher than with no match.

The authors also note that the help of H&R Block tax professionals, employing a computerized program, played a key role in the savings decisions of their clients. Those tax preparers who had been successful in steering clients in an IRA program prior to the start of the match experiment generated much higher take-up rates during the experiment.

"Higher match rates do significantly raise both the probability that the taxpayers will participate in an IRA and the size of their contribution."

What is also intriguing is that those tax filers who took advantage of the incentives were not gaming the system by contributing to an IRA, getting a match, and withdrawing the money very quickly afterwards. Even four months after the end of the experiment, about 90 percent of the differential effects of match rates on contributions were still present.

Another finding is that the experimental program stimulated proportionately far more savings than the existing Saver's Credit, a federal government program first implemented in tax year 2002 for tax returns filed in 2003, and scheduled to expire after 2006 (tax returns filed in 2007). This program also provides matching incentives for low- and middle-income tax filers. It is a non-refundable tax credit on the first $2,000 (for each spouse) contributed to various IRAs or voluntary pension plans (Keogh, 401k, 403b, SIMPLE IRA, and the like) of as much as 50 percent for those with the lowest "adjusted gross income" and 20 or 10 percent for those with higher incomes. For example, a low-income tax filer contributing $1,000 to a savings or pension plan would receive a $500 tax credit. Thus the out-of-pocket cost would be only $500, effectively a 100 percent match rate. However, many low-income tax filers would benefit little or not at all because they have little or no tax liability because of standard or itemized deductions, personal exemptions, and use of other non-refundable tax credits, such as the child tax credit.

Use of the Savings Credit is so modest that analysts might conclude that matching incentives are unlikely to represent an effective policy option to improve the financial security of future retirees. But the five authors suspect that the modest take-up and amounts contributed by taxpayers through the Saver's Credit may reflect the program's complexity and the hard-to-decipher way in which its effective match is presented.

They conclude that a savings program combining a significant, clear, and understandable match for saving, easily accessible savings vehicles, the opportunity to use part of an income tax refund to save, and professional assistance "could generate a significant increase in contributions to retirement accounts, including among middle- and low-income households."

— David R. Francis

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