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Why Do Mexican Americans Earn Low Wages?

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Using Current Population Survey data from November 1979 and 1989, I find that Mexican Americans earn low wages primarily because they possess less human capital than other workers, not because they receive smaller labor market rewards for their skills. Among third- and higher-generation men in 1989, Mexicans averaged 21 percent lower wages than non-Hispanic whites, which is roughly similar to the wage deficit for blacks. For Mexicans, more than three-quarters of the wage gap is attributable to their relative youth, English language deficiencies, and especially their lower educational attainment. By contrast, these variables explain less than a third of the black-white wage gap.

I. Introduction

Immigrants from Mexico and persons of Mexican descent constitute a sizable and rapidly growing segment of the U.S. labor force. They are also among the most economically disadvantaged workers in the nation: in 1989, Mexican-origin households earned, on average, 27

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percent less than non-Hispanic white households, 37 percent less than Asian households, and 3 percent more than black households.¹

Analysts disagree about the prospects for Mexican Americans joining the economic mainstream of American society. Chavez (1991) argues that the large inflows of recent immigrants from Mexico create a deceptively pessimistic picture of Mexican-origin workers in the U.S. labor market. In her view, U.S.-born, English-speaking Mexican Americans have enjoyed rapid progress over the last couple of decades and are approaching the labor market status of non-Hispanic whites. By this account, Mexican Americans are climbing the economic ladder across generations in the same way that earlier waves of European immigrants did. In contrast, Chapa (1990) sees little evidence that Mexican Americans are making steady progress toward economic parity with Anglos, and he worries about the emergence of a Chicano underclass with many of the same problems faced by inner-city blacks.

The current paper seeks to inform this debate by analyzing the hourly earnings of Mexican-American men using unique data from the Current Population Survey.² My goal is to identify the underlying reasons for the relatively low wages earned by Mexican-American workers. In particular, to what extent are their earnings depressed by low levels of observable skill measures such as education and English language proficiency, and to what extent does the wage disadvantage arise because Mexican Americans receive lower labor market rewards for their skills?

Similar research on Mexican-origin workers has been done in the past, although surprisingly little compared to the voluminous literature on the economic standing of blacks.³ My analysis distinguishes itself by focusing on third- and higher-generation Mexican Americans, a population composed of the grandchildren and later descendants of Mexican immigrants to the United States. In this way, I hope to isolate a group of Hispanic workers that has had ample time to adapt to the U.S. labor market. In addition, the availability of recent

¹ These statistics derive from published tabulations of 1990 census data (U.S. Bureau of the Census 1993). Households without any earned income have been excluded from the calculations.

² I concentrate on hourly earnings because previous research indicates that the income disadvantage suffered by Mexican-origin households stems primarily from low wages rather than from low rates of labor force participation, high rates of unemployment, or reduced workweeks. See Abowd and Killingsworth (1984), Borjas (1984), Reimers (1984), and Bean and Tienda (1987).

³ Some prominent examples of prior work on Mexican Americans and other Hispanic groups in the labor market are Chiswick (1977), McManus, Gould, and Welch (1983), Reimers (1983, 1994), Borjas (1984), Grenier (1984), Bean and Tienda (1987), DeFreitas (1991), and Smith (1991). Research on blacks is surveyed in Smith and Welch (1989) and Donohue and Heckman (1991).

data allows me to track changes over the 1980s, a particularly turbulent decade for minorities and other groups with substantial proportions of low-skill workers.⁴

I find that third-generation Mexican men face a wage structure remarkably similar to that of non-Hispanic whites. A few crude measures of human capital—completed years of schooling, potential work experience, and self-reported English proficiency—explain most of the wage gap between third-generation Mexicans and whites but a much smaller portion of the corresponding black-white gap. After I control for observable skill differences, the average wages of Mexican Americans lie near the middle of the relatively tight distribution of mean wages across white ethnic groups, whereas black average earnings remain conspicuously low.

The paper proceeds as follows. In the next two sections, I describe the data (Sec. II) and some of the labor market differences between white, black, and Mexican-origin men that are evident in these data (Sec. III). Section IV reports hourly earnings regressions that enable us to compare wage structures across ethnic groups, and in Section V these estimates are used to decompose minority-white wage gaps into portions attributable to differences in wage structures and portions attributable to mean differences in available measures of human capital. To provide perspective on the size of Mexican-white and black-white wage gaps, Section VI compares these wage differentials with the corresponding differentials between whites of various ancestries. Section VII discusses issues related to the robustness and interpretation of the empirical results, and Section VIII concludes with a brief summary.

II. Data

I analyze micro data from the November 1979 and November 1989 Current Population Survey (CPS). In addition to the demographic and labor force information routinely collected in the CPS, these months included supplemental questions about country of birth for the respondent and his parents and about the respondent's ability to speak English. As a result, these surveys provide the best available data for studying the labor market attainment of third- and higher-generation Mexican Americans.

Other large, nationally representative data sources lack at least one key piece of information. For example, micro data from the

⁴ Related work by Reimers (1994) uses 1980 and 1990 census data for California to explore how and why the relative wages of U.S.-born Mexican Americans changed over this decade.

decennial censuses of 1940–70 identify parents' birthplace, but no direct measure of Mexican ethnicity is available for U.S. natives with U.S.-born parents.⁵ Starting in 1980, the census added the Spanish-origin question currently used to identify people of Mexican descent, but at the same time the questions about parents' birthplace were dropped. Although the revised CPS basic questionnaire introduced in January 1994 now elicits the nativity of each individual and his parents, information on English language proficiency is absent. The 1976 Survey of Income and Education provides data similar to those analyzed here, but I prefer the November 1979 and 1989 CPS data because they are more recent and allow for comparisons across time.

I restrict the analysis to men aged 18–61. Women and the elderly are excluded to minimize biases arising from selective labor force participation.

From the information on the nativity of each person and his parents, I define three generation categories. The first generation consists of immigrants: foreign-born individuals whose parents were also born outside the United States. The second generation denotes U.S.-born individuals who have at least one foreign-born parent. The third generation identifies U.S. natives whose parents are also natives.⁶ I exclude from analysis foreign-born individuals who have

⁵ One version of the long form of the 1970 census introduced a Spanish-origin question similar to the one included in later censuses, but households asked this question were not asked about parents' birthplace. Several researchers, including Chiswick (1977) and Chapa (1990), have attempted to identify third- and higher-generation Mexican Americans from 1970 census data on respondent's birthplace, parents' birthplace, Spanish surname, and state of residence, but this approach generates considerable error (see Fernandez 1977; DeFreitas 1991, app. table 3A.1; Winkleby and Rockhill 1992). Bean and Tienda (1987, chap. 2) provide an informative discussion of the various census questions that can be used to identify Hispanics and how these questions have changed over time.

⁶ Therefore, strictly speaking, the group I shall refer to as the third generation actually includes the third and all higher-order generations. For Mexican Americans, this group consists primarily of individuals who are indeed third-generation, whereas among non-Hispanic whites, most people I refer to as third-generation actually belong to higher generations. Data from the General Social Surveys on the nativity of respondents' grandparents provide information on this issue. The General Social Surveys sample sizes by generation listed in tables 1 and 2 of Borjas (1994) indicate that about two-thirds of third- and higher-generation Mexican Americans are third-generation (in the sense of having at least one foreign-born grandparent). For non-Hispanic whites, the situation is reversed, with only 38 percent being third-generation and the rest belonging to fourth and higher generations. To the extent that labor market assimilation and progress continue beyond the third generation, the wage comparisons I make in this paper between so-called third-generation Mexicans and whites will be stacked against Mexicans, because on average their families have been in the United States for fewer generations than the corresponding white families. Most likely, many of the third-generation Mexican Americans in the November 1979 and 1989 CPS samples that I analyze are descended from the large

TABLE 1

PERCENTAGE DISTRIBUTION OF MALE POPULATION AND WORK FORCE, BY
ETHNICITY AND GENERATION

ETHNICITY/GENERATION	PERCENTAGE OF POPULATION		PERCENTAGE OF WORK FORCE	
	1979 (1)	1989 (2)	1979 (3)	1989 (4)
White (total)	83.2	78.0	84.8	79.9
First generation	2.7	2.4	2.7	2.4
Second generation	9.0	5.4	9.1	5.4
Third generation	71.6	70.2	73.0	72.1
Mexican (total)	3.2	5.2	3.2	5.0
First generation	1.2	2.5	1.2	2.5
Second generation	.8	1.0	.8	1.0
Third generation	1.2	1.7	1.2	1.6
Other Hispanic (total)	1.9	3.1	1.7	3.0
First generation	1.2	2.2	1.2	2.2
Second generation	.3	.4	.3	.3
Third generation	.3	.4	.3	.4
Black (total)	10.0	10.6	8.7	9.1
First generation	.5	.6	.4	.5
Second generation	.2	.2	.1	.2
Third generation	9.4	9.9	8.1	8.5
Other race (total)	1.7	3.2	1.6	3.0
First generation	.9	2.0	.8	1.8
Second generation	.3	.3	.3	.3
Third generation	.5	.9	.5	.8
All ethnic groups (total)	100.0	100.0	100.0	100.0
First generation	6.4	9.6	6.4	9.4
Second generation	10.6	7.2	10.6	7.2
Third generation	83.0	83.1	83.0	83.4
Sample size	38,343	38,507	32,843	32,875

NOTE.—Data are taken from the November 1979 and November 1989 CPS tapes. The sample includes men aged 18–61. Sampling weights were used in the calculations, and all percentages have been rounded independently.

at least one U.S.-born parent, as well as individuals for whom generation cannot be determined because birthplace data are missing for themselves or either parent.

Using the information on race and Spanish origin, I define the following mutually exclusive and exhaustive racial/ethnic groups: Mexicans, other Hispanics, non-Hispanic whites, non-Hispanic blacks, and non-Hispanics who report a race other than white or black.⁷ To give an idea of the demographic importance of these groups, table 1 reports how the men in my CPS samples are distrib-

wave of Mexican immigrants that came to the United States during the 1910s and 1920s.

⁷ The “other race” group is predominantly Asian, but Asians are separately identified only in the 1989 and not in the 1979 CPS data.

uted according to ethnicity and generation. Columns 1 and 2 present, separately by year, percentage distributions for all men (regardless of employment status), and columns 3 and 4 give the corresponding distributions for men who held jobs during the survey week. The CPS sampling weights were used in these calculations.

Mexicans grew from about 3 percent of the working-age male population in 1979 to 5 percent in 1989. While Mexicans of every generation increased their share of the U.S. male population, the growth of immigrants was particularly strong. By 1989, almost half of Mexican-origin men in the United States were foreign-born, with another fifth being the U.S.-born children of immigrants and the remaining third consisting of U.S. natives whose parents were also born in this country. Because the employment shares of each generation of Mexican-origin men are virtually identical to their population shares, the same patterns emerge in the last two columns of table 1 as in the first two.

As table 1 makes clear, the CPS data include small samples of second- and third-generation men from the other Hispanic and other race groups. Moreover, substantial ethnic heterogeneity exists within these groups. For these reasons, individuals from the other Hispanic and other race groups are excluded from further analysis. Because of small sample sizes, I also exclude first- and second-generation blacks. As a result, the final sample includes seven groups defined according to ethnicity and generation (three generations each of whites and Mexicans, plus third-generation blacks).

Each month, the CPS collects earnings data only for the quarter of the respondents who are in outgoing rotation groups. For the remainder of the sample, I merged earnings information from the CPS outgoing rotation group files with the November CPS data. In this way, I obtained earnings data for about 90 percent of the workers for whom such data are unavailable in the November surveys.⁸ Because the basic monthly CPS does not collect information on self-employment income, only wage and salary workers can be studied with these data.

The data on usual weekly earnings are top-coded at \$999 in the 1979 CPS and \$1,923 in the 1989 CPS. According to the gross na-

⁸ The merged earnings data come from the three months immediately following the November surveys. The match keys used to merge these data are rotation group, household identification number, person identification number (or line number), household number (which indicates whether the household occupying a residential unit has changed), sex, race, and age. Because a birthday can take place between survey months, age is allowed to increase by up to one year without invalidating a match. The CPS samples housing units rather than individuals or families, so non-matches typically occur when people change residences between survey dates.

tional product deflator for personal consumption expenditure, the price level rose by 63 percent between November 1979 and November 1989. Therefore, in order to impose the same top code (in real dollars) across years, I lower the weekly earnings ceiling in the 1989 data to \$1,625 (\$999 inflated from 1979 to 1989 dollars). Hourly earnings are then computed as the ratio of usual weekly earnings to usual weekly hours of work. For 1979, workers with computed hourly wages below \$1.00 or above \$100 are considered outliers and excluded. For 1989, corresponding wage thresholds of \$1.63 and \$163 are applied so as to be consistent in real terms.⁹

III. Basic Patterns

Table 2 reports summary statistics, by ethnicity and generation, for the key variables in my analysis. Sample means from the 1979 data occupy panel A of the table and the 1989 means are presented in panel B, with standard errors of the means shown in parentheses. The CPS sampling weights were used in these calculations.

Before I turn to the hourly earnings data that are the focus of my analysis, consider the employment rates presented in the first row of each panel. These numbers indicate the fraction of all men aged 25–61 who held jobs during the CPS survey week.¹⁰ Among U.S. natives (the second and third generations), the employment rate of Mexican-origin men lies squarely between those of blacks and non-Hispanic whites, although the situation for third-generation Mexicans did weaken over the 1980s. The employment rate of third-generation Mexicans fell almost five percentage points between 1979 and 1989 (from 88.9 percent to 84.1 percent), whereas the employment rate of third-generation whites was stable (at about 91 percent). The black employment rate declined by just over three percentage points (from 80.2 to 77 percent) during the same decade.¹¹

Even in 1989, however, the employment rate of third-generation

⁹ Few observations are affected by earnings top-coding or the deletion of wage outliers, so it matters little for the results whether I include or exclude these workers. I also obtain similar (though less precise) estimates when I exclude workers with merged earnings data.

¹⁰ Employment status is reported every month for each CPS respondent. This eliminates the need to use merged data from the outgoing rotation group files, and therefore the employment rates are computed directly from the November CPS data. Individuals younger than age 25 are excluded from these calculations because they may still be in school, but similar patterns emerge when the 18–24 age group is included. Self-employed workers remain in the sample used to compute employment rates, but by necessity they are excluded from the sample used to analyze wages.

¹¹ The changes in employment rates for third-generation men are statistically significant at the 1 percent level for blacks and at the 10 percent level for Mexicans.

TABLE 2

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	B. 1989									
Males aged 25–61:										
Employment rate	.902 (.002)	.874 (.011)	.880 (.007)	.905 (.002)	.856 (.011)	.878 (.015)	.830 (.026)	.841 (.018)	.770 (.009)	
Sample size	26,371	876	1,930	23,565	1,108	509	207	392	2,387	
Male wage and salary workers aged 18–61:										
Log hourly earnings	2.418 (.004)	2.538 (.024)	2.559 (.014)	2.404 (.004)	2.068 (.016)	1.932 (.021)	2.224 (.038)	2.165 (.028)	2.120 (.012)	
Experience	17.40 (.08)	21.82 (.52)	21.85 (.35)	16.96 (.08)	16.44 (.36)	18.00 (.53)	16.29 (.86)	14.37 (.54)	17.36 (.27)	
Education	13.40 (.02)	13.50 (.15)	13.75 (.07)	13.37 (.02)	10.20 (.12)	8.22 (.19)	11.88 (.21)	11.97 (.12)	12.39 (.06)	
Speaks English very well	.992 (.0006)	.757 (.018)	.995 (.002)	.999 (.0002)	.564 (.016)	.184 (.018)	.870 (.024)	.914 (.015)	.998 (.001)	
Sample size	20,791	543	1,400	18,848	971	440	189	342	1,844	

NOTE.—Standard errors are in parentheses. Data are taken from the November 1979 and November 1989 CPS tapes. Hourly earnings are computed as the ratio of usual weekly earnings to usual weekly hours of work. The 1979 earnings data are reported in 1989 dollars to make them comparable with the 1989 earnings data. In tabulations of English language proficiency, those who speak only English are presumed to speak English “very well.” Sampling weights were used in the calculations.

Mexicans is only about 7 percent (6.4 percentage points) lower than that of third-generation whites, and the same differential is smaller among second-generation men.¹² As we shall see shortly, wage differentials between white and Mexican-American workers are much larger than the corresponding employment differentials. Indeed, Reimers' (1984) analysis of the 1976 Survey of Income and Education data indicates that the low hourly earnings of Mexican-origin household heads account for most of the income differential between white and Mexican families in the United States. In other words, Mexican-origin households are poor primarily because they earn low wages, not because they work less than other households.

The rest of the paper analyzes the hourly wages of white, black, and Mexican-origin workers using the sample described above: male wage and salary workers aged 18–61 for whom earnings data could be obtained, either directly from the November surveys or by merging information from outgoing rotation groups in subsequent months.¹³ For these workers, table 2 presents means of log wages and three human capital variables—experience, education, and English language proficiency—that are important determinants of wages. To facilitate comparisons across years, the 1979 wage data reported in table 2 were transformed into 1989 dollars using the GNP deflator. Education represents completed years of schooling, and potential labor market experience is computed as age minus education minus 6. The November CPS questions on English proficiency are the same as those in the 1980 and 1990 censuses. All respondents were asked whether they “speak a language other than English at home,” and only those who answered affirmatively were asked how well they speak English, with possible responses of “very well,” “well,” “not well,” and “not at all.” For the tabulations reported in table 2, English monolinguals are presumed to speak English “very well” and are grouped together with bilinguals who indicated the highest level of English proficiency.

Overall, Mexican-origin workers are the lowest-paid group, with average hourly earnings that trail even those of blacks. In 1979,

¹² Although my analysis focuses on U.S.-born Mexican Americans, it is interesting to note the high employment rate of immigrants from Mexico. In 1979, the employment rate of 89 percent for Mexican immigrants is very close to the rates for whites of all three generations. The employment rate of Mexican immigrants declined a bit over the decade (to 87.8 percent in 1989), but white immigrants experienced an even larger fall (from 90.3 percent in 1979 to 87.4 percent in 1989). Only for white immigrants is the employment reduction statistically significant (at the 10 percent level). See Fry (1996) for a detailed analysis of immigrant labor force participation.

¹³ The final sample contains 24,318 workers in 1979 and 23,606 in 1989. Sample sizes by ethnicity and generation are reported in table 2.

mean log wages of Mexicans are .261 below those of non-Hispanic whites and .023 below those of blacks; these log wage differences mean that Mexicans earn, on average, 23 percent less than whites and 2 percent less than blacks.¹⁴ By 1989, the Mexican wage disadvantage had widened to .35 log points (30 percent) relative to whites and .052 log points (5 percent) relative to blacks. As emphasized by Chavez (1991), the average wages of Mexican-origin workers are dragged down by the presence of large numbers of immigrants with very low levels of education and earnings.

The economic outlook is considerably better for U.S.-born Mexican Americans. In fact, after immigrants are excluded, Mexicans now earn more than blacks. Among third-generation workers in 1979, for example, mean log wages of Mexicans are .151 (14 percent) below those of whites and .07 (7 percent) above those of blacks. In 1989, the corresponding log wage differences are $-.239$ and $.045$, which imply a Mexican wage disadvantage relative to whites of 21 percent and an advantage relative to blacks of about 5 percent.

The data in table 2 strongly suggest that low levels of human capital have much to do with the relatively low wages earned by Mexican-American men. Educational attainment and English proficiency are substantially higher for whites than for Mexicans, even among U.S.-born workers. In both 1979 and 1989, third-generation Mexicans average 1.4 fewer years of schooling than whites, and in 1989 they also trail blacks by more than a third of a year. Moreover, a sizable fraction of U.S.-born Mexicans lack fluency in English. Finally, the relative youth of Mexican-origin workers, particularly the third generation, also contributes to their low earnings.

Mexican-origin workers display marked wage growth between the first and second generations, a phenomenon that is undoubtedly related to the substantial intergenerational improvements in human capital that take place.¹⁵ In both 1979 and 1989, mean wages increase

¹⁴ Let x represent the difference in mean log wages between Mexicans and another group. Then the implied percentage wage differential is $e^x - 1$. In 1979, e.g., the log wage difference between Mexicans and whites of all generations is $-.261$, so the percentage wage differential is $e^{-.261} - 1 = -.23$. For differences on the order of .25 or less in absolute value, log wage differences closely approximate percentage wage differentials; for larger differences, percentage wage differentials can be calculated using the formula above.

¹⁵ Borjas (1993) cautions that cross-sectional comparisons across generations like those described here can be misleading if there are important skill differences between immigrant cohorts and these differences are partially transmitted to the U.S.-born children of immigrants. This problem arises because intergenerational comparisons made at a given point in time do a very poor job of matching parents with their children who enter the labor market a couple of decades later. In particular, there is evidence that recent cohorts of Mexican immigrants came to the United States with fewer skills than preceding cohorts (Borjas 1995). This suggests that cross-sectional comparisons between first- and second-generation Mexicans over-

by more than a third between the first two generations of Mexicans, and this wage growth is accompanied by dramatic progress across generations in educational attainment and English proficiency. The much more modest gains in schooling and English fluency that occur between the second and third generations do not appear to raise the earnings of Mexican Americans any further, but the relative youth of third-generation workers may be masking whatever wage growth exists. Regressions that address this issue by controlling for labor market experience (as well as geographic location) also fail to show significant wage gains for Mexicans between the second and third generations.

White men widened their wage advantage during the 1980s, especially relative to Mexican Americans. Among third-generation workers, the wage gap between Mexicans and whites grew by seven percentage points (from 14 to 21 percent), and the black-white differential rose by five percentage points (from 20 to 25 percent).¹⁶ These changes partially reflect the fact that earnings inequality and the labor market returns to various dimensions of worker skill were increasing over this period (Murphy and Welch 1992; Juhn, Murphy, and Pierce 1993). As a result, relatively unskilled groups such as Mexican Americans and blacks that typically occupy places in the bottom half of the wage distribution fell further behind more skilled groups such as whites.¹⁷

More important, however, Mexican Americans and blacks slipped lower in the white wage distribution during the 1980s. Among third-generation men, in 1979 the median (or fiftieth percentile) Mexican-American worker earned about as much as workers occupying the thirty-seventh percentile of the white wage distribution. By 1989, the median Mexican American had slid to the thirty-fourth percentile of the white wage distribution. Over the same decade, the median black worker fell from the thirty-first percentile to the twenty-ninth percentile of the white wage distribution. Percentage wage differentials between the median white worker and whites in the thirty-

state the amount of intergenerational progress, because second-generation Mexicans currently in the labor market inherited their abilities and skills from earlier immigrant cohorts who were more successful than the immigrant cohorts now at work are likely to be. For the same reason, cross-sectional comparisons between second- and third-generation Mexican Americans may be biased in favor of the third generation. Because my paper focuses on analyzing wage differentials between third-generation whites, blacks, and Mexicans, I do not attempt to address here these difficulties in measuring intergenerational progress.

¹⁶ The increase in the Mexican-white wage differential is statistically significant at the 5 percent level, and the increase in the black-white differential is significant at the 1 percent level.

¹⁷ Juhn, Murphy, and Pierce (1991) and Bound and Freeman (1992) provide detailed analyses of the relative wage erosion suffered by blacks.

first to thirty-seventh percentiles rose only slightly between 1979 and 1989. Therefore, most of the decline in the relative wages of the median Mexican-American and black workers is attributable to minorities' losing ground *within* the white wage distribution rather than to the increased dispersion of the white distribution.¹⁸

IV. Wage Regressions

To compare the wage structures of white, black, and Mexican-origin men, I report estimates of two ordinary least squares regressions, one for 1979 and another for 1989. The dependent variable is the natural logarithm of hourly earnings, with hourly earnings measured in nominal dollars for each year. The independent variables include potential labor market experience and its square, completed years of schooling, dummy variables indicating English language proficiency, dummy variables identifying the month in which the earn-

¹⁸ The question arises whether changes in ethnic wage differentials between 1979 and 1989 primarily reflect cyclical fluctuations. Because some evidence suggests that the cyclical sensitivities of wages and employment differ across skill and ethnic groups (Clark and Summers 1981; Bils 1985; DeFreitas 1986; Rayack 1991), relative wages may vary systematically over the business cycle both because of changes in the composition of the employed labor force and because of wage changes among workers with stable employment. In particular, Bils and Rayack find that wages move more procyclically for low-skill workers than for high-skill workers, which could cause minority-white wage gaps to shrink during economic expansions and widen during recessions. The remainder of my paper focuses on ethnic wage comparisons within a given year rather than changes over time, but I nonetheless believe that comparisons between 1979 and 1989 are not greatly contaminated by cyclical influences. First, the two surveys analyzed here were conducted at very similar phases of the business cycle. According to the business cycle reference dates established by the National Bureau of Economic Research, both November 1979 and November 1989 fall just before cyclical peaks that marked the end of extended periods of economic expansion. Moreover, national labor market indicators also suggest that the pace of economic activity was similar in November 1979 and November 1989. For example, employment rates for third-generation white men (aged 25–61) were virtually identical in these months (see table 2), and the corresponding unemployment rates were similar (2.8 percent in November 1979 and 3.1 percent in November 1989). Finally, I found no evidence that the changes in ethnic wage differentials were driven by regional business cycles specific to California and Texas, the states that house the bulk of the Mexican-origin population in the United States. The California economy was stronger in 1989 than in 1979, as indicated by a decline in the unemployment rate for third-generation white men from 3 percent in November 1979 to 1.9 percent in November 1989. Texas experienced the reverse situation, with the unemployment rate for third-generation white men rising from 1.7 to 3.7 percent. If 1979–89 changes in ethnic wage differentials were driven by the greater sensitivity of minority workers to the business cycle, minority wage gaps should have increased more in Texas than in California. The data do not fit this story. Among third-generation men, the Mexican-white wage differential widened between 1979 and 1989 in both states, but the California increase was larger. Furthermore, despite the opposite economic trends in the two states over this period, the black-white wage gap remained roughly constant in both California and Texas.

ings data were collected (November, December, January, or February), and a set of geographic dummies. The geographic variables, introduced to control for regional variation in the cost of living and labor market conditions, include indicators for metropolitan status, the nine census divisions, and the states of California and Texas.¹⁹

These regressions allow the intercept and the returns to experience and education to vary by ethnicity and generation. For first-generation workers of each ethnicity (white or Mexican), the intercept is also permitted to vary across immigrant cohorts defined by year of arrival in the United States.²⁰ The returns to English language proficiency are restricted to be the same for whites and blacks as well as across generations within ethnic groups, but the returns for Mexicans can differ from the returns for other workers. Finally, the coefficients of the survey month and geographic dummies are constrained to be identical for all ethnicity/generation groups.²¹

Tables 3 and 4 present estimates from these log wage regressions, with standard errors shown in parentheses. Table 3 reports the intercepts and the experience and education coefficients. To facilitate interpretation of the quadratic in experience, table 3 also provides the implied cumulative returns to the first 10 and 20 years of experience. For first-generation whites and Mexicans, the intercepts reported in table 3 are weighted averages of the separate intercepts estimated for each immigrant arrival cohort within each of these ethnic groups, with the weights reflecting the distribution of immigrants across arrival cohorts. Table 4 presents the coefficients of the English proficiency dummies. The coefficients of the survey month and geographic dummies are not reported.

From an economic perspective, the intergenerational patterns of returns in table 3 make sense. For both whites and Mexicans, returns to experience and education are generally much higher for U.S. natives than for immigrants.²² These results are well known and are

¹⁹ The categories for metropolitan status are as follows: central city, elsewhere in a metropolitan statistical area (MSA), not in an MSA, and metropolitan status not identified. I include separate indicators for California and Texas because the Mexican-origin population is heavily concentrated in these two states. In my sample, over two-thirds of U.S.-born Mexicans and an even larger share of Mexican immigrants reside in either California or Texas.

²⁰ The immigrant arrival categories identify individuals who entered the United States prior to 1960 and in each of the 5-year intervals from 1960–64 through 1985–89.

²¹ The relatively small sample of Mexican-origin workers and their regional concentration make it impossible to estimate group-specific coefficients for these variables with any precision. Moreover, these variables are included to control for geographic differences in the price level and economic conditions, factors that may affect all groups to a similar extent.

²² In 1970 and later census data, Smith (1991) and Borjas (1995) find this same pattern for Mexicans. Among whites, Borjas also reports lower returns to education

usually interpreted as evidence that the human capital immigrants acquire in their home country—schooling, job training, and work experience—transfers imperfectly to the U.S. labor market (Chiswick 1978).²³ The exception to this pattern occurs for Mexicans in 1979, when returns to experience and education are similar for first- and second-generation workers. Among whites, returns to schooling are essentially the same for second- and third-generation workers, but the analogous comparison for Mexicans reveals that the third generation earns considerably higher returns in both years (although the difference is not statistically significant in 1989). This finding points up the analytical value of data sources that distinguish between second- and third-generation Mexicans.

For every ethnicity/generation group, returns to schooling rose between 1979 and 1989, a pattern consistent with the numerous U.S. studies documenting a steep climb during this decade in the earnings premium associated with formal education (e.g., Levy and Murnane 1992; Murphy and Welch 1992). Only for first-generation Mexicans was the rise in the returns to schooling negligible, and this anomaly probably is explained by the large cohort of Mexican immigrants who arrived during the 1980s with substantially lower skills (even after one controls for education) than earlier cohorts of Mexican immigrants (Borjas 1995, table 10). Among U.S.-born workers, returns to experience also increased between 1979 and 1989, particularly for Mexicans and blacks.

Table 4 reports the estimated coefficients for the set of dummy variables indicating English language proficiency, with English monolinguals—presumably the most proficient group—as the reference category. For Mexicans, the language dummies show the expected pattern of more negative coefficients for dummies representing lower levels of proficiency in speaking English, and the same pattern holds for other workers (whites and blacks combined) except for the comparison between those who speak no English and those who speak English “not well.” Although the estimated wage penalties for those who speak English worse than “well” are quite different for Mexicans and others, especially in 1979, in neither year can we reject at the 10 percent level the joint hypothesis that all the English proficiency coefficients are identical across ethnic groups. In fact, the

for immigrants than for natives. In their analysis of the November 1979 CPS data, Neidert and Farley (1985) show that the returns to education in terms of occupational status rise across generations for Mexicans.

²³ In regressions such as those estimated here that control for year of arrival in the United States, the experience coefficients for first-generation workers measure the returns to labor market experience acquired *before* immigrating. See Chiswick (1978) for a detailed discussion of this point.

TABLE 3
HOURLY EARNINGS REGRESSIONS

VARIABLE	WHITES, BY GENERATION			MEXICANS, BY GENERATION			THIRD- GENERATION BLACKS
	First	Second	Third	First	Second	Third	
A. 1979							
Coefficients:							
Intercept	1.301 (.095)	1.010 (.057)	.918 (.023)	1.193 (.157)	1.432 (.156)	.885 (.129)	.881 (.054)
Experience	.034 (.005)	.043 (.003)	.045 (.001)	.034 (.009)	.033 (.008)	.036 (.006)	.029 (.003)
Experience ² /100	-.050 (.011)	-.074 (.006)	-.077 (.002)	-.064 (.017)	-.054 (.018)	-.051 (.015)	-.043 (.006)
Education	.037 (.005)	.055 (.004)	.058 (.001)	.024 (.009)	.018 (.011)	.061 (.009)	.059 (.004)
Cumulative returns to experience:							
10 years	.289 (.041)	.353 (.021)	.373 (.007)	.273 (.074)	.271 (.061)	.309 (.048)	.244 (.021)
20 years	.480 (.063)	.558 (.032)	.593 (.010)	.417 (.118)	.434 (.092)	.515 (.072)	.403 (.032)

	B. 1989					
Coefficients:						
Intercept	1.414 (.112)	.856 (.074)	.777 (.024)	1.442 (.133)	.978 (.170)	.661 (.149)
Experience	.025 (.006)	.045 (.004)	.052 (.001)	.027 (.007)	.055 (.009)	.052 (.007)
Experience ² /100	-.030 (.013)	-.073 (.008)	-.086 (.002)	-.035 (.015)	-.094 (.022)	-.070 (.019)
Education	.054 (.006)	.080 (.005)	.079 (.001)	.028 (.008)	.062 (.013)	.080 (.011)
Cumulative returns to experience:						
10 years	.225 (.048)	.377 (.028)	.433 (.007)	.237 (.057)	.454 (.073)	.449 (.056)
20 years	.389 (.074)	.609 (.041)	.693 (.011)	.406 (.089)	.720 (.106)	.758 (.079)
						.556 (.033)

NOTE.—Dependent variable is the natural logarithm of hourly earnings, where hourly earnings are computed as the ratio of usual weekly earnings to usual weekly hours of work. Standard errors are in parentheses. Data are taken from the November 1979 and November 1989 CPS tapes. The sample includes male wage and salary workers aged 18–61 for whom earnings data are available. The sample size is 24,318 in 1979 and 23,606 in 1989. The coefficients reported above are taken from two regressions, one for 1979 and another for 1989, that allow the intercept and the returns to experience and education to vary by ethnicity and generation. For first-generation workers, separate intercepts are estimated for cohorts defined according to year of arrival in the United States and ethnicity (white or Mexican). The first-generation intercepts reported above are weighted averages of the cohort-specific intercepts, with the weights reflecting the distribution of immigrants (of each ethnicity) across arrival cohorts. In these regressions, the returns to English language proficiency vary by ethnicity, but not by generation within ethnicity (table 4 reports the language coefficients). The coefficients of the other independent variables are constrained to be the same across ethnicity/generation groups. These other variables, the coefficients of which are not reported, include dummy variables identifying the month in which the earnings data were collected (November, December, January, or February) and geographic controls for metropolitan status (central city, elsewhere in an MSA, not in an MSA, and metropolitan status not identified), the nine census divisions, and the states of California and Texas.

TABLE 4

RETURNS TO ENGLISH LANGUAGE PROFICIENCY

LANGUAGE CATEGORY*	MEXICANS		WHITES AND BLACKS	
	1979	1989	1979	1989
Speaks English very well	-.032 (.042)	-.088 (.040)	-.043 (.017)	-.081 (.020)
Speaks English well	-.078 (.056)	-.138 (.055)	-.116 (.040)	-.121 (.046)
Speaks English not well	-.096 (.069)	-.270 (.065)	-.253 (.059)	-.293 (.071)
Speaks English not at all	-.277 (.085)	-.365 (.087)	-.121 (.110)	-.251 (.144)

NOTE.—Standard errors are in parentheses. See table 3 for a description of the hourly earnings regressions from which these estimates derive.

* The reference group is those who speak only English.

only instance in which we reject that a particular coefficient is the same for Mexicans and others occurs with the variable “speaks English not well” in 1979. Of course, the large standard errors of these estimates suggest that such tests are not very powerful.

An interesting implication of these estimates is that wage penalties for English deficiencies may have stiffened over the 1980s. For both Mexicans and others, wage gaps between English monolinguals and bilinguals widened between 1979 and 1989 at every level of English proficiency, although the estimates are too imprecise to draw firm conclusions. This apparent increase in the labor market reward for English proficiency may be yet another manifestation of the rising skill returns observed during the 1980s.

I now turn to my main focus in this paper. These regressions indicate that the wage structure is remarkably similar for third-generation white and Mexican-American men. In both years, the education coefficients of the two groups are almost identical, whereas returns to experience are moderately higher for whites in 1979 and slightly higher for Mexicans in 1989. In 1979, the data do not come close to rejecting the joint hypothesis that the intercepts and the experience and education coefficients are the same for third-generation whites and Mexicans; in 1989, the data do not reject (at the 5 percent level) joint equality of the experience and education coefficients but do reject when intercepts are considered as well.²⁴ Although black

²⁴ This discussion ignores ethnic differences in the estimated returns to English proficiency reported in table 4, but similar conclusions are reached if the English proficiency coefficients are incorporated into the wage structure comparisons. For one thing, including the English proficiency coefficients in the joint tests just described only strengthens the statistical case for the hypothesis that third-generation whites and Mexicans have the same wage structure (including intercepts): now this

men earn the same returns to education as third-generation whites and Mexicans, they receive much lower returns to experience, and as a result the black wage structure is significantly different in both years from that of whites or Mexicans.²⁵

To illustrate this point, figure 1 displays representative wage profiles for third-generation whites, blacks, and Mexicans. With the estimated regressions, log wages are predicted for each ethnic group at every integer level of work experience from zero to 40 years. These simulations, done separately for 1979 and 1989, assign each ethnic group the same values of the independent variables. In particular, the wage profiles pictured in figure 1 represent third-generation men with 12 years of schooling who speak English as their only language and for whom the survey month and geographic variables take on their overall mean values in each year. The top panel of figure 1 presents the predicted wage profiles for 1979 and the bottom panel presents the corresponding profiles for 1989.

Because these simulations hold constant worker characteristics other than ethnicity, differences in the predicted wage profiles reflect ethnic variation in wage structures. In both years, the Mexican wage profile is much closer to the white profile in shape and position than the black profile is. Although the predicted wages of third-generation Mexican and black men are similar when they first enter the labor market, the flatter slope of the black profile generates a predicted wage advantage for Mexican Americans over blacks that widens with experience and reaches .20 log points or more by the end of the work life. At almost every experience level, predicted wage

hypothesis is accepted in 1989 as well as in 1979. Moreover, table 4 indicates that language penalties differ substantially between whites and Mexicans only at the lowest two levels of English proficiency, and very few third-generation workers speak English "not well" or "not at all," even among Mexicans.

²⁵ The relatively low employment rate of black men implies that potential work experience overstates actual work experience more severely for blacks than for whites or Mexicans, and this measurement problem at least partially explains the lower estimated returns to experience for blacks. See Filer (1993) for a recent discussion of this issue in the context of estimating returns to experience for women. Even ignoring this problem, we cannot tell to what extent the cross-sectional estimates presented here indicate slower career wage growth for blacks as opposed to shifts in wage profiles favoring younger cohorts of black workers (perhaps because of convergence in school quality and lessening labor market discrimination). Tracking birth cohorts across the 1940–80 censuses, Smith and Welch (1989) find that black-white wage gaps tend to narrow over the life cycle. Wolpin (1992), however, reports substantially lower returns to work experience for blacks than for whites in his analysis of early employment careers using data from the National Longitudinal Survey of Youth (NLSY). Boozer, Krueger, and Wolkon (1992) update the Smith and Welch analysis through 1990 and discover a potential explanation for why Wolpin's results conflict with those of Smith and Welch: as birth cohorts age across censuses, black-white wage gaps narrow for cohorts born before 1940 and widen for later cohorts.

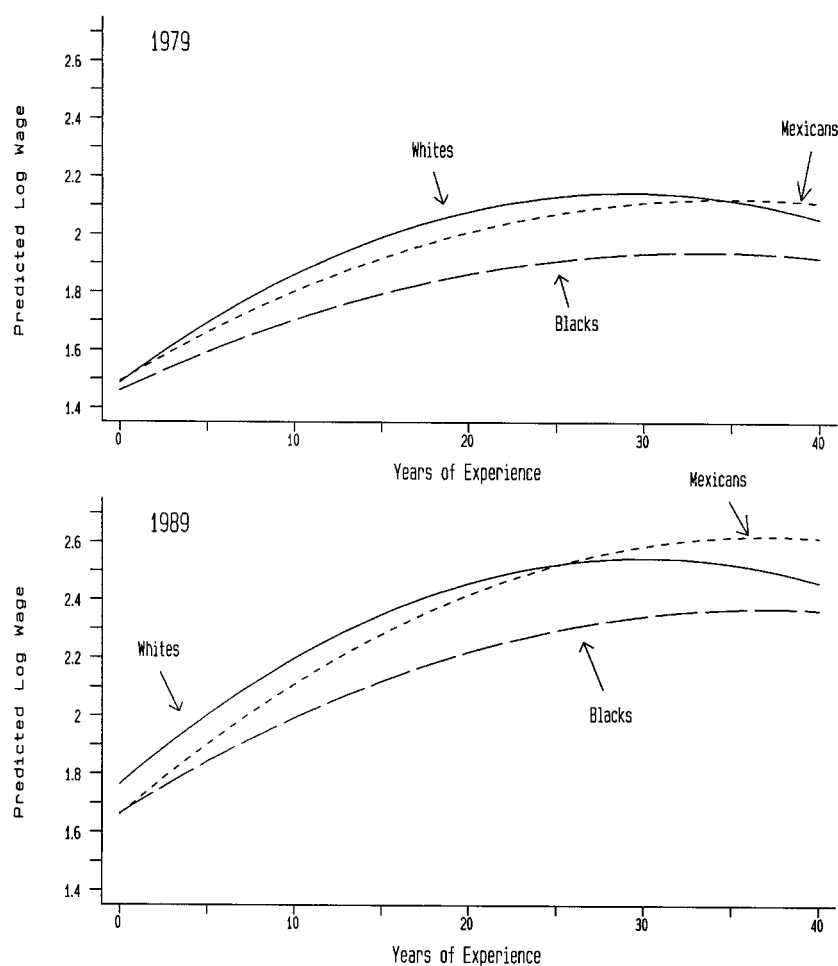


FIG. 1.—Estimated wage profiles for third-generation men

differentials between blacks and whites exceed those between Mexicans and whites.²⁶

V. Decomposition of Wage Differentials

Well-known techniques exist for decomposing the wage differential between two groups of workers into portions attributable to differ-

²⁶ This statement remains true even when one does not control for English proficiency. To be specific, black-white wage gaps continue to exceed Mexican-white gaps at almost every experience level when each group of third-generation men is assigned its own mean values of the English proficiency dummies.

ences in average characteristics of the groups and portions attributable to intergroup differences in labor market returns to these characteristics (Oaxaca and Ransom 1994). I now apply this approach to wage differentials among third-generation men.

On the basis of the regressions estimated in the preceding section, we can write the mean log wages of third-generation whites and Mexicans as

$$\overline{\log(y_w)} = \hat{\alpha}_w + \overline{\mathbf{X}_w} \hat{\beta}_w + \overline{\mathbf{Z}_w} \hat{\gamma} \quad (1)$$

and

$$\overline{\log(y_m)} = \hat{\alpha}_m + \overline{\mathbf{X}_m} \hat{\beta}_m + \overline{\mathbf{Z}_m} \hat{\gamma}, \quad (2)$$

where y represents hourly earnings, \mathbf{X} is a vector containing the variables (experience, education, and English proficiency) with group-specific coefficients, \mathbf{Z} is a vector containing the variables (survey month and geographic dummies) with coefficients that are constrained to be the same for all groups, and subscripts distinguish between white (w) and Mexican (m). Overbars indicate group-specific means, and hats above parameters refer to least-squares estimates. The equalities in equations (1) and (2) hold because the regressions include group-specific intercepts. Therefore, the estimated coefficients, evaluated at group means, perfectly predict the mean log wage of each group.

After some minor manipulation, the log wage differential between whites and Mexicans can be written as

$$\begin{aligned} \overline{\log(y_w)} - \overline{\log(y_m)} &= (\hat{\alpha}_w - \hat{\alpha}_m) + \overline{\mathbf{X}_m}(\hat{\beta}_w - \hat{\beta}_m) \\ &\quad + (\overline{\mathbf{X}_w} - \overline{\mathbf{X}_m})\hat{\beta}_w + (\overline{\mathbf{Z}_w} - \overline{\mathbf{Z}_m})\hat{\gamma}. \end{aligned} \quad (3)$$

The first two terms on the right-hand side of equation (3) represent the portion of the wage gap that is due to differences in the wage structure, whereas the remaining two terms measure the portion of the wage gap that arises from differences in human capital endowments and geographic location. Because the coefficients of the variables in \mathbf{Z} are not allowed to vary across groups, these variables contribute only to the part of the wage gap attributable to differing characteristics. With appropriate relabeling, equation (3) also applies to wage differences between whites and blacks.²⁷

²⁷ Because the returns to English language proficiency are constrained to be the same for whites and blacks, the portion of the white-black wage gap attributable to differences in the language coefficients will be zero by construction.

TABLE 5

DECOMPOSITION OF LOG WAGE DIFFERENCES BETWEEN THIRD-GENERATION MEN

	WHITE-MEXICAN		WHITE-BLACK	
	1979	1989	1979	1989
Total log wage differential	.152 (.027)	.250 (.029)	.225 (.012)	.272 (.013)
Attributable to differences in average characteristics:				
Experience	.035 (.0006)	.053 (.0008)	-.025 (.0007)	-.002 (.0004)
Education	.084 (.002)	.110 (.002)	.085 (.002)	.080 (.001)
English language proficiency	.040 (.010)	.048 (.010)	-.0001 (.0001)	-.0003 (.0001)
Geographic location	-.032 (.005)	-.021 (.006)	.010 (.003)	.006 (.003)
Total attributable to dif- fering characteristics	.127 (.012)	.191 (.012)	.070 (.003)	.084 (.003)
Attributable to differences in coefficients:				
Intercept	.032 (.130)	.116 (.150)	.037 (.055)	.097 (.065)
Experience	.043 (.046)	-.051 (.054)	.127 (.024)	.087 (.026)
Education	-.037 (.106)	-.011 (.132)	-.009 (.044)	.004 (.058)
English language proficiency	-.013 (.028)	.005 (.024)	0	0
Total attributable to dif- fering coefficients	.025 (.026)	.059 (.026)	.155 (.010)	.188 (.011)

NOTE.—These decompositions use the regression estimates reported in tables 3 and 4. Standard errors are in parentheses. Because the returns to English language proficiency are constrained to be the same for whites and blacks, the portion of the white-black wage gap attributable to differences in the language coefficients is zero by construction.

For third-generation men, table 5 presents decompositions of the white-Mexican and white-black wage differentials. The first row of the table displays the relevant mean log wage differences for each year.²⁸ The remaining rows break down the total log wage differentials into components representing the impact of mean differences in particular characteristics and the impact of differences in the estimated returns to these characteristics. Standard errors are shown in parentheses.²⁹

²⁸ These unadjusted wage differentials are similar but not identical to the corresponding differentials in table 2. Slight discrepancies arise because the means presented in table 2 reflect the CPS sampling weights, whereas the decompositions in table 5 are based on unweighted regressions.

²⁹ The reported wage decompositions follow eq. (3) in using the white regression coefficients to weight the differences in average characteristics, but weighting instead by the minority coefficients produces similar results. In table 5, the survey

The decompositions reveal striking differences between Mexican Americans and blacks in the portion of their respective hourly earnings deficits (relative to whites) that can be attributed to lower stocks of the crude human capital measures available in CPS data. For third-generation Mexicans, more than three-quarters of the log wage gap in each year is accounted for by observable characteristics, whereas the same characteristics explain less than a third of the white-black differential.

Relatively low levels of educational attainment are an important factor depressing earnings for both Mexican Americans and blacks. By itself, insufficient schooling accounts for roughly half of the white-Mexican wage gap in each year. Mexican Americans are also hurt by English language deficiencies, which may explain as much as 20–25 percent of their wage disadvantage. The other characteristic contributing to the low wages of third-generation Mexicans—their youthfulness—is not a cause for concern, because these workers appear to enjoy wage growth over their careers similar to that of whites.³⁰ For blacks, however, a low payoff to labor market experience is the single most important factor generating their relative wage disadvantage.³¹

Similar wage decompositions comparing first- or second-generation Mexicans to third-generation whites generally yield the same conclusion: most of the wage deficit suffered by Mexican-origin workers can be attributed to low levels of human capital.³² This conclusion was also reached by previous studies that calculated wage decompositions for Mexican-origin workers (Gwartney and Long 1978; Reimers 1983; Cotton 1985; Carlson and Swartz 1988; Carnoy, Daley, and Hinojosa-Ojeda 1993; Darity, Guilkey, and Winfrey

month dummies have been grouped together with the geographic variables. The reported standard errors account for the variances and covariances of the estimated regression coefficients, but they do not account for sampling error in the group-specific mean characteristics.

³⁰ In table 5, the negative contribution of geographic location to the white-Mexican wage gap indicates that Mexican Americans tend to live in states such as California with relatively high wages.

³¹ Because the portion of a wage gap attributed to group differences in particular coefficients depends on how the relevant variables are normalized (Jones 1983), this statement about the role of returns to experience in accounting for the white-black wage gap is meaningful only to the extent that the “natural” normalization for potential labor market experience occurs at zero years. Such normalization decisions, whether arbitrary or not, do not affect the portion of a wage gap attributed to mean differences in particular characteristics or the overall share of the wage gap ascribed to differing coefficients vs. differing characteristics.

³² These particular decompositions, however, are sometimes sensitive to whether the white or Mexican coefficients are used to weight the differences in average characteristics, which is not surprising in light of the much lower returns to education (and sometimes also experience) for first- and second-generation Mexicans.

1995), but none of these earlier studies isolated U.S.-born Mexican Americans whose parents were also born in the United States. My analysis shows that such third-generation Mexicans face a wage structure much closer to that of whites than blacks. According to the last row of numbers in table 5, third-generation Mexicans earn only slightly less than whites once we control for observable skill differences (standardized wage gaps of less than 3 percent in 1979 and about 6 percent in 1989), whereas the analogous wage deficits for blacks are substantially larger (14 percent in 1979 and 17 percent in 1989).

VI. Wage Differences among White Ethnic Groups

The decompositions just presented indicate that differences in hourly earnings between third-generation Mexican and white men shrink dramatically when one controls for a few observable determinants of earnings, in sharp contrast to the situation for blacks. But without a meaningful standard of comparison, it is difficult to gauge precisely the size and importance of the wage differentials that remain. In this section I use differences in hourly earnings among white ethnic groups to provide a context for assessing the significance of minority wage gaps.

In November 1979 (but not 1989), the CPS included open-ended ancestry questions similar to those asked in the 1980 and 1990 censuses.³³ Table 6 reports the coefficients of ethnicity dummy variables from log wage regressions for third-generation men in the 1979 CPS sample. Mexicans and blacks are identified as before from information on race and Spanish origin, with the ancestry data used to define ethnicity only for whites.³⁴ Also included in the regressions are dummy variables representing whites from less populous ethnic groups, whites whose multiple ancestry responses were coded by the Census Bureau into combination ancestry groups, and whites with missing ancestry data (the coefficients of these variables are not reported in table 6).

The regressions in table 6 successively add control variables, and the reported ethnic coefficients represent wage differentials relative to whites of English ancestry.³⁵ Results in columns 1–3 show that,

³³ See Neidert and Farley (1985) and Lieberman and Waters (1988, pp. 19–21) for detailed discussions of the 1979 CPS ancestry data.

³⁴ Whites who report multiple ancestries are classified by their first response.

³⁵ In my sample, the average wage for workers of English ancestry is close to the average wage for all white workers, and this relationship holds either before or after I condition on the other independent variables used in these regressions. Consequently, the ethnic wage differentials reported in table 6 are almost identical to differentials that instead normalize on the average white worker. For example, after

among third-generation men, Mexicans and blacks earn substantially less than any of the white ethnic groups, even after one accounts for differences in geographic location and potential labor market experience. Adjusting for educational attainment (col. 4), however, reduces the wage gap much more for Mexican Americans than for blacks, and adding controls for English proficiency (col. 5) essentially eliminates wage differences between third-generation Mexicans and all but the highest-paid white ancestry groups (e.g., Russians). In contrast, the sizable wage disadvantage suffered by blacks is largely unrelated to the human capital measures available in CPS data. After one adjusts for observable skill differences, the average wages of Mexican Americans lie near the middle of the relatively tight distribution of mean wages across white ethnic groups, whereas the very low average earnings of blacks remain a conspicuous outlier.

VII. Discussion

The empirical analysis reported here suggests that a few relatively coarse measures of human capital—completed years of schooling, potential work experience, and self-reported English proficiency—explain most of the wage gap between third-generation Mexicans and whites but a much smaller portion of the corresponding black-white gap. In this section, I discuss issues related to the robustness and interpretation of this finding.

For simplicity, the reported regressions employ a parsimonious specification of the independent variables, but this is not driving the results. Generalizing the wage equation to include a quartic in experience, a quadratic in education, and an interaction term between experience and education produces similar estimates of the adjusted wage gaps between U.S.-born whites, blacks, and Mexicans. Along the same lines, I estimated specifications in which the returns to English proficiency could vary across generations within each of the three ethnic groups, and this change had only minor effects on the wage decompositions.³⁶

I control for the regressors used in col. 5, the mean log wage of workers of English ancestry is .007 below that of all whites. Therefore, subtracting .007 from the coefficients in col. 5 yields ethnic wage differentials relative to the typical white worker.

³⁶ Because few second- and third-generation bilinguals report speaking English “not well” or “not at all,” for these regressions I collapsed the three lowest categories of English proficiency into a single group representing those who speak English worse than “very well.”

TABLE 6
HOURLY EARNINGS REGRESSIONS FOR THIRD-GENERATION MEN, 1979

REGRESSOR	REGRESSION				
	(1)	(2)	(3)	(4)	(5)
Mexican	-.181 (.028)	-.233 (.028)	-.196 (.026)	-.064 (.025)	-.018 (.028)
Black	-.254 (.014)	-.243 (.015)	-.244 (.013)	-.149 (.013)	-.149 (.013)
White ethnic groups:*					
Canadian	-.074 (.051)	-.063 (.050)	-.006 (.046)	.040 (.043)	.044 (.043)
Czech	.034 (.047)	.016 (.046)	.077 (.043)	.061 (.041)	.064 (.041)
Danish	-.037 (.043)	-.062 (.042)	-.039 (.039)	-.034 (.037)	-.034 (.037)
Dutch	-.040 (.025)	-.051 (.025)	-.043 (.023)	-.016 (.022)	-.017 (.022)
French	-.062 (.019)	-.029 (.019)	-.032 (.017)	.004 (.016)	.007 (.016)
German	-.007 (.012)	-.019 (.012)	-.006 (.011)	.011 (.011)	.011 (.010)
Hungarian	.000 (.055)	-.027 (.054)	.022 (.050)	.040 (.047)	.040 (.047)
Irish	-.031 (.014)	-.028 (.014)	-.019 (.012)	.007 (.012)	.007 (.012)

Italian	-.063 (.021)	-.073 (.021)	-.010 (.019)	.022 (.018)	.025 (.018)
Norwegian	-.026 (.027)	-.027 (.027)	-.009 (.025)	.011 (.023)	.011 (.023)
Polish	.018 (.023)	-.010 (.023)	.032 (.021)	.051 (.020)	.053 (.020)
Russian	.103 (.036)	.061 (.035)	.139 (.033)	.088 (.031)	.089 (.031)
Scottish	.047 (.019)	.037 (.018)	.032 (.017)	.006 (.016)	.006 (.016)
Swedish	-.023 (.027)	-.038 (.027)	-.024 (.025)	-.022 (.023)	-.021 (.023)
Swiss	-.071 (.054)	-.083 (.053)	-.037 (.049)	-.050 (.046)	-.050 (.046)
Welsh	.096 (.036)	.063 (.036)	.057 (.033)	.041 (.031)	.041 (.031)

ADDITIONAL REGRESSORS

	CPS Survey Month Dummies	Add to Col. 1 Regressors: Geographic Controls	Add to Col. 2 Regressors: Quadratic in Experience	Add to Col. 3 Regressors: Education	Add to Col. 4 Regressors: English Proficiency Dummies
R^2	.029	.072	.211	.294	.294

NOTE.—Dependent variable is the natural logarithm of hourly earnings, where hourly earnings are computed as the ratio of usual weekly earnings to usual weekly hours of work. Standard errors are in parentheses. Data are taken from the November 1979 CPS tape. The sample includes third-generation male wage and salary workers aged 18–61 for whom earnings data are available. The sample size is 20,950. Not reported above but included in the regressions are dummy variables representing whites from less populous ethnic groups, whites whose multiple ancestry responses were coded by the Census Bureau into combination ancestry groups, and whites with missing ancestry data.

* The reference group is whites of English ancestry.

Nor are the results attributable to something peculiar about the small samples of Mexican-origin men available in the CPS. In another study (Trejo 1996), I use 1990 census data to conduct a similar analysis of much larger samples of U.S.-born men aged 25–59 who live in California or Texas. The huge census samples improve the precision of the estimates and permit separate analyses of geographic and demographic subgroups, but the absence of information on parents' birthplace makes it impossible to distinguish the second generation from higher generations. Despite this inability to discriminate among U.S.-born workers, the census results closely resemble those reported here for CPS data. In particular, controlling for observable human capital leads to a much larger reduction in the wage gap (relative to whites) for Mexican Americans than for blacks, and the remaining wage deficit not attributable to human capital is substantially smaller for Mexican Americans. This pattern holds in both California and Texas, as well as within 5-year age cohorts.

It is not straightforward to interpret the estimated impact of English proficiency on the relative wages of Mexican Americans. Under a human capital interpretation, the coefficients on the English proficiency dummies measure the increase in productivity that accompanies learning to communicate in the dominant language, but other factors probably also contribute to the observed correlation between wages and ability to speak English. For example, the English proficiency coefficients may capture labor market discrimination against workers with foreign accents (Dávila, Bohara, and Saenz 1993), an interpretation especially relevant to the wage differential between workers who speak only English and those bilinguals who speak English “very well.” Particularly among U.S.-born workers, the English proficiency coefficients may reflect factors such as cognitive ability, student motivation, family background, and school quality, because those who attended U.S. schools and failed to acquire fluency in English are likely to have encountered unusual circumstances.

For illustrative purposes, suppose that in table 5 we exclude entirely the contribution of English proficiency from the portion of the Mexican-white wage gap attributed to observable characteristics. Under this extreme assumption that none of the wage penalty for English deficiencies measures skill differences, the other observables—in particular, potential work experience and years of schooling—still account for 57 percent of the wage deficit for third-generation Mexicans in each year, as compared with the corresponding shares of 84 percent in 1979 and 76 percent in 1989 that pertain when the contribution of English proficiency is added to the contri-

bution of the other observables.³⁷ Even when the effects of language are ignored, the portion of the wage gap explained by the other human capital measures is nearly twice as large for third-generation Mexicans as for blacks.

Do my results imply that labor market discrimination is more severe for blacks than for Mexicans? Not necessarily. The skill measures available in CPS data may be more informative for Mexican Americans than for other groups. This is certainly true of the data on English proficiency, because the CPS collects this information only for those individuals who speak a language other than English at home. Among the third-generation men in my sample, 99 percent of whites and blacks but less than half of Mexicans speak English as their sole language, and so these data provide almost no information on the English ability of whites and blacks.

Recent studies indicate that more precise skill measures than those used here can explain most of the black-white wage gap among young workers. The NLSY provides respondent scores on the Armed Forces Qualification Test (AFQT), which is an exam measuring basic verbal and math skills that the military uses to screen enlistees. O'Neill (1990), Farkas and Vicknair (1996), and Neal and Johnson (1996) show that racial differences in AFQT score account for a large portion of the black-white wage gap.³⁸ In particular, Neal and Johnson find that controlling only for AFQT score shrinks the wage differential between black and white men to less than a third of its unadjusted magnitude. They also report that AFQT score explains *all* of the wage gap between Hispanic and white men.³⁹

Such evidence suggests that the limited human capital measures available in CPS data understate the skill gap between minority and white workers, with the extent of this understatement probably

³⁷ English proficiency plays a somewhat larger role in accounting for the wage disadvantage of second-generation Mexicans.

³⁸ Using different data that include each respondent's score on a basic math test taken in the final year of high school, Murnane, Willett, and Levy (1995) report a similar result for this measure of cognitive skills. It is interesting that these authors find that the wage premium associated with a higher test score increased over their sample period (1978–86). This finding may help to explain the rising adjusted wage gaps for third-generation Mexican and black men that we observe in the 1979 and 1989 CPS data (see the last row of table 5), because the CPS does not provide a measure of cognitive skills.

³⁹ Neal and Johnson do not disaggregate Hispanics by nativity or detailed ethnicity. Mexicans account for 60 percent of Hispanic men in the NLSY, with about 70 percent of these Mexicans born in the United States (Santos 1985, p. 175). To be included in the NLSY sample, individuals had to be aged 14–21 and living in the United States on January 1, 1979. These restrictions create a sample of Hispanics in the NLSY that has a higher fraction of U.S.-born individuals than the overall U.S. Hispanic population, and even the Hispanic immigrants represented in these data are likely to have attended U.S. schools.

larger for blacks than for Hispanics. To take education as an example, Neal and Johnson report higher mean AFQT scores for Hispanics than for blacks, despite the fact that blacks complete, on average, more years of schooling. Another indication that skills may be harder to observe for blacks is Neal and Johnson's finding that 60 percent of the AFQT differential between black and white men is explained by family background and school quality variables, whereas the same variables account for all of the AFQT deficit for Hispanic men.

I conclude from this discussion that skill differences do indeed account for the lion's share of the wage differential between U.S.-born Mexican and white men. It is less clear, however, that skills explain a substantially greater share of the wage gap for Mexican Americans than for blacks. On the one hand, when one uses the human capital controls available to researchers—including the limited measures in CPS or census data and the more detailed information on cognitive ability, family background, and school quality provided in other data sets—the unexplained wage deficit is typically much larger for blacks than for Mexicans or Hispanics. On the other hand, there are indications that unobserved skill differences play a larger role for blacks than for other minorities.

VIII. Conclusion

There is a straightforward answer to the question posed by the title of this paper: Mexican Americans earn low wages primarily because they possess less human capital than other workers, not because they receive smaller labor market rewards for their skills.

Using Current Population Survey data from November 1979 and 1989, I find that more than three-quarters of the Mexican-white wage gap among third- and higher-generation men is attributable to the relative youth, English language deficiencies, and especially the lower educational attainment of Mexican Americans. By itself, insufficient schooling accounts for roughly half of the wage gap. Conversely, these same human capital variables explain less than a third of the black-white wage deficit. In other words, third-generation Mexican men face a wage structure much closer to that of whites than that of blacks. Indeed, after one adjusts for the crude skill measures available in CPS data, the average earnings of Mexican Americans are almost indistinguishable from those of non-Hispanic white ethnic groups such as Germans, Italians, Swedes, and the French, whereas black average earnings remain conspicuously low. These findings echo previous empirical research that could not distinguish the second generation from higher generations of U.S.-born Mexicans.

Consequently, any war on Mexican-American poverty will need to attack the disturbingly low levels of human capital possessed by Mexican-American workers. Among U.S.-born men in 1989, Mexicans averaged almost a year and a half less schooling than whites and over a third of a year less than blacks. Furthermore, even among men born and presumably educated in the United States, substantial numbers of Mexicans are not completely fluent in English.

What do these findings mean for the ongoing debate about the economic progress of Mexican Americans that was mentioned in the Introduction of the paper? Both sides in this debate can find some support in the evidence presented here. On the one hand, as stressed by Chavez (1991), large improvements in human capital and earnings take place between the first and second generations. Moreover, given their skills, Mexican-American workers face labor market opportunities similar to those of non-Hispanic whites. On the other hand, intergenerational progress stalls after the second generation, leaving third- and higher-generation Mexicans trailing the education and earnings of the average American to an extent that justifiably concerns Chapa (1990). Finding a way to somehow eliminate the educational disadvantage of Mexican Americans would go a long way toward bringing this group into the economic mainstream.

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