



## The international transferability of immigrants' human capital

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### ABSTRACT

This paper uses the approach in the under/over education literature to analyze the extent of matching of educational level to occupational attainment among adult native born and foreign born men in the US, using the 2000 Census. Overeducation is found to be more common among recent labor market entrants, while undereducation is more likely among older workers. Among immigrants, greater pre-immigration labor market experience is associated with poorer job matches, presumably due to the less-than-perfect international transferability of foreign experience. A longer duration in the US, however, is associated with a lower probability of being overeducated and a greater probability of being undereducated. This is consistent with immigrants being favorably selected for occupational advancement but this effect becomes realized only after overcoming the disadvantages of the less-than-perfect international transferability of their pre-immigration skills.

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### 1. Introduction

An issue at the heart of the immigrant adjustment literature is the less-than-perfect international transferability of human capital. When immigrants arrive in a country they may find that the human capital they brought with them are not relevant to their adopted labor market. This may be obvious in the case of language skills, where many foreign languages have little value in the destination country (Chiswick & Miller, 1992). But it also appears to be the case that there is less-than-perfect international transferability of skills acquired on-the-job or through formal schooling in the country of origin. Where immigrants' skills are not fully transferable to the destination country, they would be expected to have more years of schooling than native born workers employed in the same occupation.

A second issue that arises in the immigrant economic adjustment literature is the more intense favorable selection in migration among immigrants, especially the less-well educated. Chiswick (1978, p. 912) hypothesized that "... among those with little schooling only the most able and most highly motivated migrate, while among those with high levels of schooling the immigrants are drawn more widely from the ability distribution". In this situation, immigrants, particularly the less-well educated, will be more likely to work in jobs where their level of schooling is higher than the usual level of schooling of the native born. Immigrants will be able to be competitive because their higher levels of ability and motivation (unmeasured dimensions of skill) can substitute for the limited transferability of their schooling.

The job placements under the less-than-perfect international transferability of human capital skills, and also under the selection in migration scenarios, have parallels with the descriptions of labor market processes contained in the recent overeducation/undereducation literature (see Hartog, 2000, and Kiker, Santos, & De Oliveira, 2000). This literature proposes that there is a reference level of educa-

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tion for each job. Some workers may, however, be employed in jobs where their actual level of education diverges from this reference level, either because they are overeducated (*i.e.*, have surplus education compared to the reference level), or undereducated (*i.e.*, have a measured education deficiency compared with the reference level). In this context, immigrants, predominantly the better educated, whose human capital skills have not been fully transferable to the labor market of the destination country, will be categorized as overeducated. Those immigrants, predominantly the less-well educated, who work in jobs where the usual level of schooling is greater than their particular level of schooling, will be categorized as undereducated.

In this paper the perspectives of the overeducation/undereducation literature are applied to offer a comparative assessment of the occupational distributions of immigrants and the native born. Section 2 provides a brief overview of the overeducation/undereducation literature, and outlines how the concepts can be modified for the study of immigrants' labor market outcomes. Section 3 presents descriptive statistics on the adult male labor market, based on the 2000 US Census. The central focus of Section 4 is a multinomial logit model of the determination of the distribution of workers across "overeducated", "undereducated" and "correctly matched" categories. This model is estimated separately for adult male immigrants and the native born. Differences across major birthplace groups among the foreign born are also discussed. Section 5 offers a summary and conclusion.

## 2. The overeducation/undereducation literature

The overeducation/undereducation literature suggests that each occupation in the labor market has a reference level of education that is "needed" for satisfactory job performance given the type of technology that is employed (see Hartog, 2000; Kiker et al., 2000; McGuinness, 2006). The over- and under-education literature seeks to account for discrepancies between workers' actual levels of education and these reference levels of education. This type of analysis has not, to our knowledge, been extended to a systematic comparative assessment of the foreign born and the native born.

### 2.1. Theory

Five main phenomena can be advanced to account for overeducation/undereducation, the educational "mismatch" by occupation of individuals. These are based on (i) search and match theory, (ii) human capital theory, (iii) assignment theory, (iv) technological change theory, and (v) a screening hypothesis.<sup>1</sup>

#### 2.1.1. Search and match theory

Search and match theory explains the "mismatch" as caused by imperfect information in the labor market. The

mismatch is viewed as a temporary phenomenon, as workers take up jobs for which they are overeducated when they first enter the labor market, and then move up the occupational ladder to jobs that are a match to their schooling level (Groot & Maassen van den Brink, 2000). This search and adjustment process is expected to be particularly relevant among immigrants, especially for those from countries with labor markets and institutions that differ appreciably from those of the destination country. The incidence of overeducation is expected to fall with destination country labor market experience, as job matches improve.

An alternative view on the search process has been outlined by Hartog (2000). He contends that mismatch could be due to all workers engaging in wealth maximizing behavior and searching for jobs with higher required levels of education. In this situation, a worker with a given level of education will only move if the move increases his/her job level. Consequently, the incidence of undereducation could rise with age or experience, for both immigrants and the native born.

#### 2.1.2. Human capital theory

Human capital theory recognizes the existence of several alternative forms of human capital, including formal schooling, job experience and skills acquired through formal on-the-job training, and these could be substitutes in many jobs (Sicherman, 1991). Thus, labor market entrants may take jobs that require less education than their actual schooling levels with the intention of gaining experience for the benefit of their future job mobility. This overeducation should be a transitory situation. In contrast, as undereducated workers may be able to substitute job experience for their insufficient educational attainments, their undereducated status may be a permanent situation that actually increases with labor market experience.

According to the immigration literature, immigrants have difficulty transferring both formal schooling and labor market experience from their country of origin to the destination country, though formal schooling may have a higher degree of international transferability than does labor market experience. This would suggest that immigrants may substitute schooling for (non-recognized) labor market experience, but they may not be able to as readily substitute experience for a lack of schooling. Overeducation should therefore be more prevalent among immigrants, particularly recent arrivals, than among the native born, and it should decrease with the duration of residence in the host country as they move to higher level occupations.

When focusing on the immigrant labor market, the degree to which ability/motivation can be used to substitute for a lack of schooling needs to be considered. This will be important if there is favorable or positive self-selection in migration on the basis of ability/motivation. In this situation, immigrants will be more likely to be undereducated than the native born, and this higher incidence of undereducation need not necessarily diminish with the duration of residence in the host country.

#### 2.1.3. Technological change theory

Technological change theory (Kiker et al., 2000) focuses on the tendency for school-provided skills to be improved

<sup>1</sup> Hartog (2000) provides an overview of the main features of the first three of these theories, while Kiker et al. (1997) contains an account of technological change theory. This paper adds the screening hypothesis.

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