

Dustmann, Christian; Ku, Hyejin; Surovtseva, Tanya

Working Paper

Real Exchange Rates and the Earnings of Immigrants

CRAM Discussion Paper Series, No. 10/21

Provided in Cooperation with:

Rockwool Foundation Berlin (RF Berlin)

Suggested Citation: Dustmann, Christian; Ku, Hyejin; Surovtseva, Tanya (2021) : Real Exchange Rates and the Earnings of Immigrants, CRAM Discussion Paper Series, No. 10/21, Centre for Research & Analysis of Migration (CRAM), Department of Economics, University College London, London

This Version is available at:

<https://hdl.handle.net/10419/295643>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



CREAM
Centre for Research &
Analysis of Migration

Discussion Paper Series

CDP 10/21

- ▶ **Real Exchange Rates and the Earnings of Immigrants**
- ▶ Christian Dustmann, Hyejin Ku and Tanya Surovtseva

Centre for Research and Analysis of Migration
Department of Economics, University College London
Drayton House, 30 Gordon Street, London WC1H 0AX

www.cream-migration.org

Real Exchange Rates and the Earnings of Immigrants^{*}

Christian Dustmann[†] Hyejin Ku[‡] Tanya Surovtseva[§]

March 2021

Abstract: Higher price levels in the destination relative to the origin increase the effective real wages of immigrants, thereby affecting immigrants' reservation and entry wages as well as their subsequent career trajectories. Based on micro-level longitudinal administrative data from Germany and exploiting within-country and across-cohort variations in the real exchange rate (RER) between Germany and countries that newly joined the European Union in the 2000s, we find that immigrants arriving with high RERs initially settle for lower paying jobs than comparable immigrants arriving with low RERs. In subsequent periods, however, wages of high RER arrivals catch up to that of their low RER counterparts, convergence achieved primarily through changes to better paying occupations and firms. Our findings thus point to the persistent regional price differences as one possible reason for immigrants' downgrading, with implications for immigrants' career profiles and the assessment of labor market impacts of immigration.

JEL codes: J24, J31, J61, O15, O24

Keywords: real exchange rate, reservation wage, immigrant downgrading, earnings assimilation

^{*} We thank Jerome Adda, Michael Amior, George Borjas, Kirill Borusyak, Courtney Brell, Bernd Fitzenberger, David Green, Attila Lindner, Kalina Manova, Suphanit Piyapromdee, Uta Schoenberg, Marco Tabellini, Dean Yang, and seminar/conference participants at UCL, IAB, and Barcelona GSE Summer Forum, for helpful discussions and comments. We acknowledge funding from the DFG grant DU 1024/1-2. Dustmann acknowledges funding from the ERC Advanced Grant 833861. Previous versions of this paper were circulated with the title "Why Do Immigrants Work for Less? The Role of Regional Price Differences".

[†] University College London, Department of Economics and CReAM, c.dustmann@ucl.ac.uk.

[‡] University College London, Department of Economics and CReAM, h.ku@ucl.ac.uk.

[§] Universitat Pompeu Fabra, Department of Economics and Business and CReAM, tetyana.surovtseva@upf.edu.

1 Introduction

Upon arrival in the host country, new immigrants often accept jobs or wages that are below their observed qualifications (see e.g. Eckstein and Weiss 2004; Dustmann et al. 2013). Such preparedness of immigrants to work for less could have consequences not only for the interpretation of their earnings profiles but also for the assessment of labor market impacts of immigration.¹ Moreover, lower wages accepted by immigrants may affect natives through channels beyond the labor market, e.g. changes in consumer prices for immigrant-intensive services (Cortes 2008).

While commonly invoked in the literature, the idea that some immigrants may have lower reservation wages than comparable natives or other immigrants has not been rigorously tested. To make progress, we propose real price differences between the host and source countries (or regions) as one possible driver of immigrants' reservation wages, and provide empirical evidence for that. Our argument stems from the observation that real price levels tend to be higher in rich countries than in poor countries (Balassa 1964; Samuelson 1964) and migration typically occurs from poorer to richer regions. If migrations are temporary and/or if immigrants (intend to) spend part of their earnings in their region of origin—either through transfers to family members or through consumption and investment upon return (see e.g. Yang 2008; Dustmann and Mestres 2010)—then their *effective* real wage derived from a given pay will be higher to the extent that the real price level in the origin is lower than that in the destination. All else equal, therefore, immigrants from low price regions/periods are likely to

¹ For instance, Amior (2017) and Amior and Manning (2020) provide a new insight that in a monopsonistic labor market, *if immigrants have lower reservation wages than natives*, immigration may affect native wages not just via the standard marginal product channel but also through the mark-downs imposed by firms, i.e. employers (who cannot perfectly wage discriminate) will exploit a larger migrant share by offering lower wages to natives and immigrants alike. Also see Green et al. (2019) who study a similar channel in the context of immigrants' origin communities.

have lower reservation wages than those from high price regions/periods, which may be reflected in their observed wages.

To test this hypothesis, ideally, we would like a situation in which potential migrants face minimal administrative barriers such as employer-specific work permits or visas that require job offers meeting a pre-specified wage threshold, since such restrictions would make it difficult for immigrants to act on their reservation wages.² To approximate that situation, we take advantage of the accession of eight Central and Eastern European countries (the A8) to the European Union (EU) in 2004, which greatly facilitated the access of A8 citizens to the labor markets of other EU countries.³ Our analysis is based on micro-level longitudinal administrative data from Germany (Social Security records in specific) that allows us to track immigrants over time from their first employment spell, and investigate the evolution of their wages in subsequent years with detailed information on their firms and occupations. In particular, focusing on A8 immigrants arriving in Germany over the period 2004-2012, we study the effect of time-of-arrival real exchange rate (RER) on their initial wages and subsequent career trajectories in the German labor market, conditioning on country of origin fixed effects and cohort fixed effects (hence exploiting within-country and across-cohort variations).

We find that immigrants' entry wages are indeed affected by the real exchange rate prevailing at the time of arrival. In particular, we estimate a wage elasticity of -0.3, implying that a 10 percent higher real exchange rate (about 1 SD of log RER) between the host and source countries leads to a 3 percent lower accepted wage in the first employment spell.

² In the case of immigrants entering without a visa, employment eligibility verification requirements (see e.g. Ayromloo et al. 2020) can similarly limit the scope for (ineligible) immigrants' acting on their reservation wages, at least in the formal sector.

³ A8 countries comprise Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

However, these effects decline over time and appear to dissipate by the third year after arrival, suggesting a catch up of those who arrive at high RERs (and accept lower entry wages) to those arriving with low RERs (and accept higher entry wages), convergence achieved primarily through occupational upgrading and not by compositional changes due to selective outmigration (Dustmann and Görlach 2016). In addition and consistent with the notion that (equally qualified) immigrants may initially settle for lower entry wages than otherwise because of a favorable RER, we find that those who arrive when the RER is high have a higher job mobility over time than their low RER counterparts.

We also investigate whether the effects of (time-of-arrival) RER on entry wages and wage adjustments found among immigrants in Germany can be detected elsewhere. Specifically, we analyze immigrants in the US based on the American Community Survey (ACS) data for cohorts arriving in 2004-2014. Unlike the data we use for Germany, the ACS data does not allow us to follow the same individuals over time, and therefore we can neither rule out the influence of selective outmigration nor examine the channels of wage adjustments. Nonetheless, similar to the pattern established in the German data, we find a negative association between the RER in the year of arrival and reported initial wages, as well as a pattern of decreasing influence of the (time-of-arrival) RER on wages across the initial three years in the US.

By investigating origin-destination real price differentials as a determinant of immigrants' entry wages (and consequently their career profiles), we provide concrete evidence that some immigrants may indeed have lower reservation wages than other comparable workers, a premise that is gaining ground in recent analyses of immigration in non-competitive settings such as Malchow-Møller et al. (2012), Naidu et al. (2016), Amior (2017), Amior and Manning (2020), and Wang (2020). Our findings thus suggest the persistent real

price differences between (typically rich and expensive) host and (typically poor and cheap) source countries or regions as one possible explanation for immigrant downgrading (Eckstein and Weiss 2004; Dustmann et al. 2013).⁴

Our analysis also offers a new insight for interpreting the well-known immigrant cohort effects in the literature. In his influential study, Borjas (1985) (also see Borjas 1995 and 2015) argues that in cross-sectional analysis, changes in entry wages of later arriving cohorts can lead to biased estimates of immigrants' assimilation profiles. Borjas goes on to provide evidence for a decline in the "quality" of newly admitted immigrants to the US (measured in terms of entry wages) over time, suggesting the changing cohort composition from mainly Europeans to Latin Americans after the Immigration and Nationality Act of 1965 as a possible explanation. Our analysis adds a different perspective to the interpretation of the observed decline in entry wages. In particular, using US census data, we show that the declining entry wages documented in Borjas (1985, 1995) may in part be driven by the higher purchasing power of the US dollar applicable for later arriving cohorts (who originate predominantly from lower price countries).⁵

Further, by focusing on the real exchange rate (RER) as a factor determining the reservation and entry wages of new immigrants, we also add to the literature exploiting RER variations to explain a variety of immigrant outcomes in the host country. A common proposition in this literature is that to the extent that immigrants spend (part of) their earnings in their country or region of origin, their behavior should be responsive to the prevailing price differences between the host and source regions. The outcomes so far examined in the literature

⁴ New immigrants' willingness to work for less should in turn have implications for the assessment of immigrants' labor market assimilation (see e.g. Chiswick 1978; LaLonde and Topel 1992; Bratsberg et al. 2002; Barth et al. 2004; Lubotsky 2007, 2011; Gathmann and Keller 2018; Albert et al. 2020; Dostie et al. 2020; Arellano-Bover and San 2020) and labor market impacts of immigration (see e.g. Altonji and Card 1991; Card 2001; Borjas 2003; Ottaviano and Peri 2012; Glitz 2012; Lull 2018; Prantl and Spitz-Oener 2020; Tabellini 2020).

⁵ See Section 6 for detailed discussion.

include return migration and remittances among Philippine migrants overseas (Yang 2006, 2008), long-run development in the migrant-origin communities within the Philippines (Khanna et al. 2020), labor supply (i.e. hours worked) of immigrants in the US (Nekoei 2013) and in Australia (Nguyen and Duncan 2017), and location choices of immigrants across US cities (Albert and Monras 2018).⁶ We add to this literature by focusing on new immigrants' *reservation wages*. Our key point of departure from the literature is that we study the impact of *time-of-arrival* RER on immigrants' entry wages and their subsequent career profiles whereas existing work focuses on the impact of *contemporaneous* RER on the current behavior of immigrants.⁷

The rest of this paper is organized as follows. In the next section, we provide some relevant background, and describe our data. In Section 3, we present a simple model that illustrates how real exchange rate fluctuations might be expected to impact the initial wages that immigrant workers accept upon arrival, and their subsequent wage growth in the host country. Section 4 discusses our empirical strategy, whereas the empirical results are presented in Section 5. In Section 6, we discuss the implication of our findings for the interpretation of the well-known cohort effects in the context of US immigrants. Some concluding comments are provided in Section 7.

⁶ In particular, Albert and Monras (2018) build a quantitative spatial equilibrium model in which immigrants who are more likely to spend their US earnings in their home country choose high price (and high nominal wage) cities over low price (and low nominal wage) cities within the US, with consequences for the aggregate productivity of the US economy. In contrast, our focus is on the effect of time-of-arrival RER for the entry wages of different immigrant cohorts and their earnings dynamics over time in the host country.

⁷ For instance, Nekoei (2013) and Nguyen and Duncan (2017), considering immigrants with substantial years of tenure (17 and 24 years, respectively) in the host country, find that *contemporaneous* RER has no effect on their current wages, which is consistent with our finding that the wages of immigrants arriving with high vs. low RER, while different initially, converge over time (by year three in our context).

2 Background, Data and Sample Description

2.1 The 2004 EU enlargement and migration flows

On May 1, 2004, eight Central and Eastern European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia), also referred to as the A8, and two Mediterranean countries (Malta and Cyprus) joined the EU, thus constituting the largest single enlargement of the European Union, both in terms of number of countries and people. While citizens of new accession countries could immediately move and live freely in any of the EU member states, a transitional period of up to seven years was agreed upon during which time countries could restrict access to their labor markets for citizens of the new member states.

The majority of the old EU-15 countries applied some restrictions on access to their labor markets, with the exception of the UK, Ireland and Sweden. Germany delayed elimination of labor market restrictions for A8 workers until May 1, 2011. However, despite these restrictions, Germany nevertheless experienced a large increase in migrant inflows from the new EU member states after their accession in 2004.⁸ For instance, the share of foreigners migrating to Germany who were Polish citizens increased from about 12 percent in 2003 to 20 percent in 2004. Between 2000 and 2003, an average of 80,000 Poles migrated to Germany each year, while between 2004 and 2007 this number was 141,000, constituting a 75 percent increase in the four years after Poland joined the EU (OECD 2011). Migration flows from other A8 countries increased similarly, with for instance a 20 percent jump in inflows from Hungary, the second largest country in the A8 group after Poland. Indeed, migration flows from A8 countries to Germany increased faster even than those to countries like the UK that applied no

⁸ This is partly due to a new type of work permit Germany issued for A8 workers. In 2004 alone, 11,000 such permits were issued to workers from A8 countries (OECD 2006).

restrictions on labor mobility from the new accession countries.⁹ While Germany did not officially open its labor market to A8 immigrants, the ease with which work permits could be obtained therefore led to a situation that closely came to resemble free mobility of labor.

2.2 Data

For our empirical analyses, we use several data sources: individual-level data from German Social Security records, country-level macroeconomic variables, and data from the American Community Survey (ACS) and the US census. We describe the various data sources below.

Labor market biographies in Germany. We use the weakly anonymous version of the Sample of Integrated Labour Market Biographies (SIAB) 1975-2014. Data access was provided via on-site use at the Research Data Centre (FDZ) of the German Federal Employment Agency (BA) at the Institute for Employment Research (IAB) and subsequently remote data access. Detailed documentation of the SIAB data is available in Antoni et al. (2016). The SIAB is a 2 percent random sample drawn from the universe of employment biographies of workers who were liable to German Social Security at any point between 1975 and 2014. The data contain detailed information on the labor market outcomes of individuals such as occupation and gross (daily) wages reported by the employer. It also contains some rudimentary information on the demographic characteristics of workers including age, gender, and education. Most importantly, we also observe nationality. This, in conjunction with the

⁹ For instance, the inflow of Poles to the UK in 2004 and 2005 amounted to 16,000 and 49,000 respectively, considerably lower than the inflows registered to Germany where 125,000 and 148,000 Poles arrived in 2004 and 2005 respectively (OECD 2011). Here, statistics for Germany represent foreigners holding a residence permit and intending to stay in the country for at least one week. Statistics for the UK show non-British citizens admitted to the UK.

longitudinal nature of the data, allows us to identify workers with foreign nationality as they appear for the first time in the German labor market. In the SIAB data, an individual may have multiple employment spells within a year (or even hold multiple jobs concurrently). We focus on the main employment spell each year, which we define as the spell with the longest duration. In the case of ties, we use the spell that appears chronologically first. Our analysis focuses on immigrants from the four largest A8 accession countries: Poland, Hungary, Czech Republic and Slovakia, who enter Germany in the post-EU enlargement period between 2004 and 2012 and are observed in the German labor market data.^{10,11}

Real exchange rate (RER). We augment the individual employment data with aggregate yearly data on real exchange rates for each of the origin countries that we consider. We construct real exchange rates between Germany and each of these countries using data on purchasing power parity (PPP) conversion factors to the market exchange rate obtained from the World Bank's World Development Indicators database.¹² Panel (a) of Figure 1 illustrates the evolution of the real exchange rate between Germany and Poland, Hungary, Czech Republic and Slovakia between 2004 and 2012. The figure illustrates considerable changes over time, and substantial differences between origin countries. We also use data on each country's real GDP per capita relative to that in Germany (again obtained from the World Development Indicators). This is illustrated for our observation period in panel (b) of Figure 1.

¹⁰ In particular, we only use country-cohort cells that include at least 20 individuals in the 2% sample. This requirement is not met for other (smaller) A8 countries.

¹¹ The SIAB data runs until 2014. Therefore, we focus on 2004 to 2012 arrival cohorts to enable us to follow every cohort for three years after arrival.

¹² The database can be accessed at: <https://data.worldbank.org/indicator>.

Data for US analysis. To investigate whether our findings for Germany carry over to other settings, in particular the US, we supplement our analysis of immigrants in Germany with that in the US, using the 2005 to 2017 waves of the American Community Survey (ACS) obtained from IPUMS (Ruggles et al. 2017).¹³ We restrict our sample to individuals aged 16 to 65 in full-time employment, who arrived in the US between 2004 and 2014, and who have been in the country less than 3 years. We exclude individuals in self-employment and those in the armed forces. We also drop migrants from small countries with country-cohort cells containing fewer than 20 observed immigrants, leaving 53 different countries of origin in our sample. As well as this full sample containing all immigrants in full-time employment who are within three years of arrival to the US, we also consider a restricted sample enabling a more direct comparison with our analysis of Eastern European immigrants in Germany. In the German case, we find that the source countries' real price levels are considerably lower than those in the host country, and so using the US data, we construct a subsample of immigrants originating from countries with relatively low price levels (i.e. mean of US-origin country RER during the sample period is above unity). This subsample represents 88 percent of the full sample. Appendix Table A1 provides the descriptive statistics for the full sample (column 1) as well as that for the subsample (column 2).

Data for analysis of immigrant cohort effects. In the parts of our analysis where we revisit Borjas' (1985, 1995, and 2015) examination of immigrant cohort effects in the US (see Section 6), we draw on data from the US census for the years 1970, 1980, 1990 and 2000, as well as

¹³ The ACS contains information about income and employment, but the income data refers to individual wage and salary income in the year prior to the survey, therefore the information in the 2005 to 2017 waves of the survey corresponds to the years 2004 to 2016. Furthermore, because the respondents' wage income refers to the wages in the previous year, we exclude those who arrived in the year of the survey.

the 2009-2011 waves of the ACS—which for simplicity and following Borjas (2015) we denote as the 2010 census—provided by IPUMS (Ruggles et al. 2017).¹⁴ Following Borjas (2015), we restrict our sample to employed men aged 25 to 64, excluding those in self-employment or in the armed forces. We focus on natives and *recent* immigrants who arrived in the US during the 5 years prior to the census, excluding naturalized US citizens.¹⁵ The sample size is 7,969,464, of which 149,398 are immigrants. The description of the sample of natives and immigrants is provided in Table A2.

2.3 Sample and descriptives

For our main analysis, we restrict attention to the 2004 to 2012 entry cohorts who enter the German labor market as full-time employees (which is the case for 85 percent of workers) and who are between 16 and 65 years old at the start of their first employment spell.¹⁶ We follow these cohorts for up to three years post-entry. Our main sample consists of 16,360 full-time employment spells covering 8,085 unique individuals. For part of the analysis, we restrict our attention to “stayers”, i.e. individuals who stay in Germany for at least 3 years after their entry to the German labor market, to account for any selective return migration or other attrition. The stayers’ sample includes 4,323 unique individuals covering 11,491 employment spells.¹⁷

¹⁴ For this part of the analysis, we require data on the real exchange rate that goes back to the 1960s and 1970s, which is not available from the World Development Indicators. We therefore use data from the Penn World Table (Feenstra et al. 2015).

¹⁵ For census waves up until 2000, arrival cohorts are reported in 5-year intervals (i.e. whether a respondent arrived within the 5 years prior to the year of census). Hence, census year 1970 includes 1965-1970 arrival cohorts, census year 1980 includes 1975-1980 arrival cohorts, etc.

¹⁶ The SIAB data report daily wages and these are not reliable for part-time employees, hence we focus on full-time employees here.

¹⁷ We can also employ an alternative definition of stayers where an individual is required to be full-time employed in every year. Our results are robust to the stricter definition of stayers.

Table 1 presents some descriptive statistics for our sample. Column 1 reports characteristics of the full sample whereas column 2 focuses on stayers. Due to the nature of the data (i.e. employment records reported to the social security administration by employers) and the fact that the individuals are not German natives, education data are missing for many workers in our sample. Of those for whom we have information on education, 29 percent are low skilled (defined as no post-secondary education or apprenticeship), 56 percent are medium skilled (defined as some training or apprenticeship after secondary education), and 15 percent have some college education. The sample of stayers, in comparison, has slightly higher educational attainments. The average real exchange rate (RER) at arrival is 1.77 and it is the same across the two samples. Likewise, the average GDP per capita of the origin country relative to Germany in the year of arrival is identical for the two groups at 0.53.

3 Conceptual Framework

To motivate our empirical analysis, we present a simple and highly stylized model illustrating how the *time-of-arrival* RER might influence new immigrants' reservation (and hence accepted) entry wages in the host country as well as their subsequent career profiles. To focus on the role of time-of-arrival RER on immigrants' outcomes, the key research question at hand, we suppress here other standard sources of wage differences such as skills.¹⁸

¹⁸ Empirically, we achieve this by conditioning on observable labor market characteristics in all results, and additionally through the use of individual fixed effects when examining wage growth over time.

3.1 Setup

Price at origin and destination and real exchange rates. We denote an immigrant's host country by H and source country by S , with corresponding price levels p^H and p^S respectively. For expositional clarity and concreteness, in our discussion we will take the currency in the host country to be the euro and that in the source country to be the zloty. The nominal exchange rate between euro and zloty is denoted e , and the real exchange rate is $\frac{ep^H}{p^S} \equiv Q$. If $Q = 1$, purchasing power parity (PPP) holds between the two countries. If $Q > 1$, the real price in the host country is higher than that in the source country, such that the same basket of goods costs Q times as much in H as in S .¹⁹

Wage at origin and destination. The prevailing wage in the source country is W^S zlotys, which translates into a real wage of $w^S \equiv W^S/p^S$. This is the default option guaranteed in the home country. A worker has the opportunity to migrate to H , where the nominal and real wages are denoted by W^H and $w^H (\equiv W^H/p^H)$, respectively. Each worker contemplating migrating draws a wage from the following offer distribution

$$w^H \sim U[0,1], \quad (1)$$

which for expositional simplicity is assumed to be uniformly distributed.

Worker utility and costs of migration. The utility of each worker is

$$u = \gamma C_1^{1-\alpha} C_2^\alpha, \quad (2)$$

¹⁹ In the case of Germany (as H) and Poland (as S) for 2004-2012, Q ranged from 1.57 to 2.17, meaning that one unit of German earnings could buy between 1.57 and 2.17 times as much if it was spent in Poland rather than Germany.

where $\gamma \equiv (1 - \alpha)^{-(1-\alpha)} \alpha^{-\alpha}$ and $\alpha \in (0,1)$.²⁰ Here, C_1 is consumption in the worker's *current* location (i.e. H for migrants and S for non-migrants) whereas C_2 is consumption in the worker's *home* country. Hence, α captures the weight that a migrant worker attaches to consumption in her home country. This may represent family consumption (which she supports through remittances in case of migration) or her own anticipated consumption upon return.

If abroad, a worker also incurs migration costs of θ (denominated in units of utility). This can be interpreted as psychic costs associated with being in a foreign country such as homesickness, different tastes for food, etc.

3.2 Reservation wage

Let us consider the problem of a worker currently in S who is contemplating migrating to H . If she stays in S , she receives a real wage of w^S and maximizes her utility as given in (2), subject to the budget constraint: $C_1 + C_2 \leq w^S$. The optimal allocation is $(C_1^*, C_2^*) = ((1 - \alpha)w^S, \alpha w^S)$, which leads to an indirect utility equal to w^S . If she migrates to H , for each level of potential wage w^H , she will again maximize her utility as given in (2), subject to the budget constraint:

$$C_1 + \frac{C_2}{Q} \leq w^H,$$

where Q is the real exchange rate. The optimal allocation in this case is $(C_1^{**}, C_2^{**}) = ((1 - \alpha)w^H, \alpha Q w^H)$, which results in an indirect utility (net of migration costs θ) of $Q^\alpha w^H - \theta$.

²⁰ We normalize the utility by γ to make the resulting indirect utility as simple as possible.

A wage offer w^H is drawn from the distribution given in (1). She will accept the offer and migrate to H only if $Q^\alpha w^H - \theta \geq w^S$ or

$$w^H \geq \frac{w^S + \theta}{Q^\alpha} \equiv r(Q), \quad (3)$$

where $r(Q)$ denotes the reservation wage when the prevailing RER is Q . Otherwise, she will accept the outside option, which is to stay in the home country with the real wage w^S .

Clearly, the reservation wage in (3) is decreasing in RER. Importantly, this is so because $\alpha > 0$, i.e. the immigrant spends a non-zero share of her foreign earnings in the home country. In contrast, if $\alpha = 0$ such that the immigrant spends all her foreign earnings in the host country, then there is no reason why her reservation wage in the host country should be responsive to the host-source country real price differentials.²¹

3.3 Implications

To guide our empirical analysis, we discuss two key predictions, for entry wages of immigrants who arrive at different RER's, and their subsequent wage growth. We provide detailed derivations in Appendix B.

Consider two identical workers, A and B , who migrate to the host country before remaining there for (at least) two time periods. The real exchange rate (RER) is assumed to take one of two values, either high (\bar{Q}) or low (\underline{Q}), where $\bar{Q} > \underline{Q}$. We maintain that $r(\underline{Q}) < 1$ (where 1 is the highest possible wage in the offer distribution of w^H , see (1)) such that these workers are inframarginal with respect to migration or the set of acceptable wage offers in the

²¹ According to our calculation based on the German Socio-Economic Panel (waves 2011 to 2016 including immigrant supplement), A8 immigrants who arrived in Germany between 2004 and 2012 saved or remitted about 16-18 percent of their monthly net income.

host country is never empty.²² Hence it is possible to observe these workers in the host country's labor market data under either high (\bar{Q}) or low (\underline{Q}) RER.

Worker A is assumed to arrive in the host country during a period of high RER, while worker B arrives when the RER is low. Assume that in period 2 there is a chance $q \in (0,1)$ for each worker to encounter a new wage offer, drawn from the distribution in (1).²³ We then obtain the following results regarding the entry wages as well as wage growth of workers who arrive with different RER's (see Appendix B for details).

Result 1 (Entry wages): *The mean initial wages accepted by workers arriving during high RER is lower than that of workers arriving at low RER.*

This implies that otherwise identical workers arriving at different RER's should on average have different entry wages, with the average entry wage of workers arriving at a high RER being lower than that of workers arriving at a low RER.

Result 2 (Wage adjustments): *The absolute wage growth experienced by workers arriving during high RER will on average be higher than that of workers arriving at low RER.*

²² From (3), we know that $r(\bar{Q}) < r(\underline{Q})$ when $\bar{Q} > \underline{Q}$. Therefore, the condition $r(\underline{Q}) < 1$, i.e. the reservation wage is below the highest possible wage in the offer distribution under the least favorable RER, ensures that the reservation wage will also be below unity under all other RERs such that $r(\bar{Q}) < 1$.

²³ This is for expositional simplicity and the period 2 offer distribution need not be the same as that in (1). What we maintain throughout is that all workers (with same skills and tenure) face a *common* wage offer distribution, both in period 1 and in period 2.

This result follows from the fact that worker A settled for a lower entry wage initially than worker B, and in period 2 both workers have non-zero chances to encounter a new wage offer. Upon encountering an offer, workers should accept it only if the new wage dominates their current wage. It is easy to see that for any given offer (drawn from a common distribution), worker A should on average be more likely to accept it than worker B (since worker A's current wage is on average lower than worker B's), and hence experience a steeper wage growth.²⁴ Since workers achieve wage growth through accepting new wage offers, the wage growth here can also be interpreted as worker mobility, through job changes either within or between firms. We test these implications in our analysis below.

4 Empirical Strategy

Our theoretical framework suggests that as long as immigrants (intend to) spend a non-zero share of their foreign earnings back in the home country, those who arrive at a higher RER should on average be observed accepting lower wages in their first job in the host country. However, over time, the initially low wages of high RER arrivals should catch up to those of lower RER arrivals, as workers encounter new wage offers. In contrast, if the initial difference in accepted wages between high and low RER arrivals reflected their *fixed* or *innate* differences such as productivity, then the initial difference should persist over time.

In the data, if high RER arrivals are observed to accept low wages due to their willingness to work for less (i.e. lower reservation wages), then this is precisely what we want to detect. Importantly, this effect should not be confused with the standard selection issue

²⁴ These results therefore speak to the literature focused on workers' on-the-job search and their gradual movement into better-paying jobs (see e.g. Goffries and Tuelings 2017). In particular, we provide time-of-arrival RER as a source of variation for where the job ladder begins for different cohorts of immigrant workers.

where high RER arrivals may receive low wages due to their possibly lower skill or productivity levels. When examining entry wages, we therefore control for the standard determinants of wages such as age, gender, and education, as well as country FE and year FE. Moreover, when examining the effect of RER on the wage growth, we also include *individual* FE, thereby accounting for all (observable and unobservable) differences between high versus low RER arrivals in terms of their fixed or innate labor market traits.²⁵

We start by examining the relationship between immigrants' time-of-arrival (or initial) RER and their first accepted wages. In particular, based on workers in their initial spell of employment, we estimate the following equation:

$$\ln w_{ijt} = \gamma_1 \ln Q_{jk(i)} + \gamma_2 \ln Y_{jk(i)} + \phi_j + \psi_t + \mathbf{X}_{ijt} \beta + e_{ijt}, \quad (4)$$

where $\ln w_{ijt}$ is the log wage that individual i from country j receives in Germany in year t . Denoting by k the year of arrival (cohort), we can assign each individual i to a unique country-by-cohort bin (jk) and thereby to $Q_{jk(i)}$, the time-of-arrival real exchange rate (RER) applicable for migrant i .²⁶ The higher $Q_{jk(i)}$, the greater is the purchasing power of one unit of German earnings when it is spent in country j (in year k).

The key parameter of interest in this regression is γ_1 , the effect of the initial or time-of-arrival RER on entry wages in Germany. As (4) controls for country-of-origin FE (ϕ_j) and calendar year FE (ψ_t), we exploit variation in RER among individuals from the same countries of origin but arriving in different years. The year FE account for labor market conditions in Germany that commonly affect all immigrants regardless of their countries of origin. To

²⁵ We also show that, conditional on country and year FE, cohorts arriving at different RER levels are balanced in their observed characteristics, see section 5.2.

²⁶ Since we are currently only looking at wages in the initial employment spell for each cohort, $k = t$ in this context. Later, when we follow the same cohorts over time, $k \neq t$ for years 2 and 3.

address concerns that the effect of fluctuations in the real exchange rate may be confounded with that of fluctuations in the income level of the home country relative to Germany, we also include the log of $Y_{jk(i)}$, the real GDP per capita of country j relative to that of Germany in the year of migrant i 's arrival. Further, we include a vector of individual characteristics \mathbf{X}_{ijt} , which contains gender, a quadratic in age, and dummies indicating four different education categories (with “missing” being one of the categories). For identification, we are thus exploiting the remaining variation in country-cohort real exchange rates, conditional on origin country FE, year FE, log GDP differences between Germany and individual-specific labor market characteristics.²⁷

The specification in (4) measures the effect of RER on the accepted wages of immigrants in Germany in the year of arrival. Our model in the previous section suggests that in subsequent periods wages of those who arrive at a high RER should grow faster than of those who arrive at a lower RER. These dynamics not only speak directly to the mechanisms through which the time-of-arrival RER impacts on immigrants' initial occupational downgrading and subsequent upgrading but may also provide an explanation as to why data on existing *stocks* of immigrants (as opposed to new immigrants in their initial employment spells) obscures measurable variation in reservation wages related to RER.

To examine the differential dynamics of wage adjustments by immigrants who arrived at different initial RER levels, we include observations of immigrants in the three years after migration (i.e. periods 1, 2, and 3), and estimate the following equation:

$$\ln w_{ijt} = \sum_{\tau=1}^3 \lambda_1^\tau \ln Q_{jk(i)} \times T_{\tau(it)} + \sum_{\tau=1}^3 \lambda_2^\tau \ln Y_{jk(i)} \times T_{\tau(it)} + \rho_{\tau(it)} + \xi_{jt} + \mathbf{X}_{ijt}\beta + v_{ijt}, \quad (5)$$

²⁷ For robustness, we also control for additional macro variables, which does not change our results (see section 5.2).

where $jk(i)$ again refers to person i 's country of origin and year of arrival (cohort), and $T_{\tau(it)}$ indicates whether an individual i in year t is in the τ -th year in her migration history, i.e. $\tau = t - k + 1$. We condition on years-since-migration (YSM) FE, $\rho_{\tau(it)}$, and interact the dummies indicating YSM ($T_{\tau(it)}$) with both $\ln Q_{jk(i)}$ and $\ln Y_{jk(i)}$, so that λ_1^τ captures the τ -specific effect of the year-of-arrival RER and λ_2^τ that for year-of-arrival real GDP per capita (relative to Germany). If those who arrived at a high RER (and thus accepted lower paying jobs) indeed subsequently catch up in wages to those who arrive at a lower RER, we should expect λ_1^1 to be negative, but λ_1^2 and λ_1^3 to become less negative and potentially even approach zero.

In addition, we also condition on country-by-year FE, ξ_{jt} , thereby eliminating all country-of-origin specific shocks that are also calendar year specific, which have a common effect on immigrants from the same country of origin who may have different migration histories.²⁸ For instance, the effects of contemporaneous (as opposed to year-of-arrival) RER or GDP per capita are accounted for by ξ_{jt} . Moreover, the country-by-year FE also absorb possible impacts of the prevailing stock or inflow of immigrants from the same country of origin. Our tight identification strategy therefore relies on within-country and across-cohort variation in the time-of-arrival RER while conditioning on the effects of all common shocks that vary at the country-by-year level (captured in ξ_{jt}).

Finally, in our most demanding specifications, we estimate:

$$\ln w_{ijt} = \sum_{\tau=2}^3 \delta_1^\tau \ln Q_{jk(i)} \times T_{\tau(it)} + \sum_{\tau=2}^3 \delta_2^\tau \ln Y_{jk(i)} \times T_{\tau(it)} + \alpha_i + \xi_{jt} + \mathbf{X}_{ijt} \beta + u_{ijt}, \quad (6)$$

²⁸ Thanks to the fact that each cohort arriving between 2004 and 2012 is followed for three years, in every calendar year (except for 2004 and 2014), we have at least two cohorts who originate from the same country but are in different YSM bins, which allows us to identify ξ_{jt} .

where α_i denotes individual fixed effects. Notice that here each worker's time-of-arrival RER and GDP ($Q_{jk(i)}$ and $Y_{jk(i)}$) are absorbed into α_i . In this specification, therefore, we fully account for possible *unobserved* differences between immigrants arriving with high versus low RER (as well as the associated GDP levels) and ask whether the within-person wage growth of higher RER arrivals is indeed faster, such that the initial wage gap between high and low RER arrivals (detected in (4) and (5)) becomes narrower in subsequent years after migration. We estimate these regressions on the full sample, and on the stayers only sample to account for any selective return migration or other attrition.

5 Real Exchange Rate, Entry Wages and Wage Dynamics

5.1 Entry wages

Estimates of the elasticity of wages in the initial spell with respect to the RER upon arrival (as in equation (4)) are displayed in the first three columns of Table 2, based on workers in their first year of migration only. While column 1 conditions only on demographic controls, column 2 adds country FE and year FE. Column 3 additionally controls for time-of-arrival real GDP per capita relative to Germany. Estimates in column 3 suggest a wage elasticity of -0.3 in the year of arrival, implying that a 10 percent higher real exchange rate at arrival (about 1 SD of log RER in the sample) leads to a 3.13 percent lower accepted wage in the first employment spell in the host country. This squares up with the magnitude of wage response we should expect for RER variations of this size, given that the share of net household earnings

immigrants expect to consume back in the home country (in terms of savings and remittances) is about 16-18 percent (see Appendix C for a detailed discussion).²⁹

In column 4 of Table 2, we also include workers who are in their 2nd or 3rd year after migration, and re-estimate equation (4), conditioning on country FE and year FE as well as year-since-migration FE. Column 4 thus shows the effect of time-of-arrival RER on the *average* wages during the first three years in the host country. In column 5, we further include country-by-year FE (like in equation (5)), using only variation in the time-of-arrival RER applicable to different cohorts from the same origin country for identification, while eliminating any country-by-year specific common shocks. This addresses potential concerns such as that a higher *contemporaneous* RER may induce more migration, leading to competition effects among immigrants from the same country of origin and lowering wages along the lines of Mishra and Spilimbergo (2011) and Albert et al. (2020), or that the size of the immigrant community of co-nationals may help in improving wages as in Munshi (2003) and Glitz (2017). Any such variation in inflows is absorbed by the country-by-year FE, as are variations in the stock of immigrants from the same country of origin, and movement in the contemporaneous RER. Estimates show that a higher real exchange rate at arrival leads to lower average wages of individuals over their first three years, with an elasticity of -0.24, smaller than that for the first year only, suggesting some catch up in wages in years 2 and 3 after arrival, which is what we turn to next.

²⁹ We obtain these figures from the German Socio-Economic Panel (GSOEP), focusing on immigrants from the same countries of origin and for the same periods as considered in our main analysis.

5.2 Robustness: Selection and inflows

The results above are consistent with the interpretation that immigrants arriving with high RER accept lower wages than others because of their lower reservation wages. However, if those arriving during high RER periods have worse labor market traits than others, then this may bias our estimates. To address this concern, we examine whether immigrants arriving at high vs. low RER differ in their labor market traits. As shown in Table A3, once we condition on country FE and year FE, cohorts arriving at different RER levels are balanced in their observed characteristics. The coefficients on gender, age, and different education categories are very small and not statistically significant. Moreover, the p-values on the test of their joint significance are large, with the smallest p-value being equal to 0.64. Thus, the composition of new immigrants seems unrelated to the RER.

Relatedly, we next examine whether more immigrants arrive during high RER periods than during low RER periods. As Table A4 shows, conditional on country FE and year FE, there is a positive (negative) correlation between RER (GDP per capita) and the size of inflows from a given country of origin. In the table, the estimates in columns 1 and 2 are unweighted, while they are weighted by each country's population size in the 2001 census in columns 3 and 4. The elasticity of inflows with respect to RER is between 0.4 and 0.6, far smaller (in absolute terms) than the elasticity of inflows with respect to GDP, which is around 4. The low sensitivity of the migration flow to the RER is not surprising given that the wage (and income) differential between Germany and the source countries is order of magnitude larger than the variation in RER. For instance, among occupations commonly held by immigrants in Germany, wages paid in 2004 are roughly twice as high as in Poland, which must dwarf any effect of the RER on the decision to migrate (Table A5). Nonetheless and as discussed in Section 3, for inframarginal

migrants, the prevailing RER can still influence their reservation and hence accepted wages, which is the focus of the present study.

5.3 Wage adjustments

We next explore wage adjustments over time since migration, based on regressions specified in (5). Panel A of Table 3 reports results for the full sample, while Panel B uses only individuals who stay in Germany for at least 3 years (stayers). Estimates in column 1 show an interesting pattern: while the RER effect for the first year is larger than the three-year average (Cf. column 5 in Table 2), it decreases in the second year by nearly 50 percent and disappears by year three. This suggests that immigrants arriving with a high RER, while initially settling for lower wages, catch up to those arriving with a low RER in subsequent periods. This relationship is further confirmed by estimates of equation (6) reported in column 2, where we additionally condition on individual fixed effects and therefore account for (observable and unobservable) differences between high vs. low RER arrivals. In particular, column 2 focuses on the *within-individual* changes in the effect of time-of-arrival RER on the wages in the second and third years after arrival, relative to those in the initial year. Overall, the results in columns 1 and 2 of Table 3 together suggest that those who arrive at high RER initially settle for lower wages (due to their lower reservation wages), but over time their wages catch up to the wages of those who arrive at low RER.

To ensure that the results on wage growth are not driven by compositional changes in the sample over time (due to selective return migration), we re-estimate the specifications in Panel A but using only the sample of stayers, i.e. individuals who remain in Germany for at least 3 years. The estimates are presented in Panel B. Despite the smaller sample size, the pattern of parameter estimates is remarkably similar to that in Panel A.

Moreover, our main findings in Table 3 are robust to the inclusion of additional variables at the origin country-year of arrival level (beyond GDP per capita relative to Germany) that may co-vary with RER (Table A6). Column 1 of Table A6 replicates column 1 of Table 3. In columns 2-4, we additionally include origin country-cohort specific unemployment rate, employment rate, and labor force participation rate, respectively. As shown adding these additional controls make little difference to our main results. Panel B presents the corresponding analysis based on the stayers sample.

Next, we investigate whether the wage responses to RER differs by demographic groups (Table 4). The first two columns in Panel A suggest that the wage response to RER is concentrated among men, while being smaller and statistically insignificant among women.³⁰ In terms of age groups, we find the same pattern among younger and older workers. Given the large share of individuals with missing education information, column 5 excludes those for whom this information is not recorded. The estimates in column 6 are based on a sample in which observations with missing education information are retained, but those individuals with college education are excluded. In the subsamples represented by columns 5 and 6, we find negative responses of initial wages to the time-of-arrival real exchange rate, and a similar convergence pattern to what we observed in the baseline results. Very similar patterns are also found for the sample of stayers (Panel B).

³⁰ Based on the 2011-2016 waves of the German Socio-Economic Panel (GSOEP), we find that among immigrants from Poland, the Czech Republic, Slovakia and Hungary, males have 6-7 percentage point higher likelihood of reporting to have a child or spouse abroad than females, in line with the typical migration pattern, where the husband arrives first, and the wife follows (Table A7). This may partly explain the gender difference in the responsiveness of entry wages to the RER.

5.4 Mechanisms of wage adjustments

Estimates in Table 3 show that immigrants arriving in Germany at a high RER initially settle for lower wages than those arriving at a low RER, but that their wages converge in subsequent years. We now examine what drives this convergence, by investigating firm and occupational mobility of immigrant workers in the 2nd or 3rd year after migration. To isolate the patterns of mobility without convolution with compositional changes, we focus on the sample of stayers for this analysis. In particular, we estimate a variant of equation (5), where the dependent variable is a dummy indicating a worker's mobility status along various dimensions. Estimates are presented in Table 5. Defining "job change" as a change in firm and/or occupation (as compared to the previous year), results in column 1 show that those who arrive at a higher RER (and thus accept on average a lower wage) exhibit overall more job mobility than those who arrive at a lower RER. Breaking these job changes down into their various components, columns 2 and 3 show that high RER arrivals are not only more likely to change firms but are also more likely to move to a better paying firm than their initial employer. Those arriving with a 10 percent higher RER (about 1 SD of log RER in the sample) have a 2.8 percentage point higher probability of moving to a better paying firm in both year two and three after their arrival, which amounts to 20 percent ($0.028/0.14$) of the mean probability for moves of this type. Thus, mobility across firms contributes to explaining the wage catch up we illustrate in Table 3.

We also examine the role of occupational mobility and upgrading in the wage trajectories of immigrants. To this end, we rank three-digit occupations by their average wages (after accounting for calendar year FE), and then construct an indicator variable that equals one if an individual has changed from a lower to a higher paying occupation in the previous year. Estimates in column 4 show that high RER arrivals are significantly more likely than low RER

arrivals to change occupations in the second year after arrival. Moreover, they are also more likely to move to occupations that pay higher wages than their initial occupation, with those arriving at a one SD higher RER having a 2.2 percentage point (or 28 percent of the mean) higher probability of changing to a better paying occupation in year 2 (as shown in column 5). Results in columns 6 and 7 suggest that most of the occupational upgrading occurs when individuals change firms, although there is some evidence of within-firm occupational upgrading in the second year after arrival. Thus, changing to better paying firms and occupations seem an important mechanism that explains the catching up of high RER arrivals to the wages of low RER arrivals.

5.5 Evidence for the US

Our analysis has thus far focused on Eastern European immigrants in Germany, allowing us to use longitudinal administrative data to precisely determine immigrants' first spells in the German labor market as well as follow individuals over time. To investigate whether the pattern we find in the German data also hold elsewhere, we conduct a similar analysis for the US, drawing on data from the American Community Survey (ACS).³¹

Results in Table 6 are based on regressions as in equation (5), where RER and real GDP per capita are all relative to the US. We first report estimates for the full sample (columns 1 and 2). After that, to bring this analysis closer to the setting we have in the German analysis, we also report results based on a sub-sample of countries where the average RER (over the

³¹ Unlike our data on Germany, the ACS data does not allow us to follow the same workers over time. Therefore, when studying the dynamic effect of the time-of-arrival RER on immigrant wages over time, we cannot eliminate composition effects arising due to attrition or selective out-migration, or account for unobserved compositional differences in migration cohorts.

period considered in the analysis) is greater than 1 (columns 3 and 4). The first column reports—similar to our estimates in column 5 of Table 2—the average effect of the time-of-arrival RER on log wages during the first three years in the US, while column 2 allows the effect of (time-of-arrival) RER to vary over time after arrival. The elasticity of wages over the first three years with respect to the time-of-arrival RER is -0.096, smaller than the corresponding elasticity for Germany. However, the variation in RER relevant for immigrants in the US is greater than that for immigrants in Germany. In particular, the estimates in column 1 imply that a one SD increase in the log RER (0.45) leads to a 4.3 percent reduction in the wage level accepted by immigrants in their first three years after migration to the US (Cf. 2.4 percent reduction for immigrants in Germany, column 5 of Table 2). Column 2 shows that, when allowing for the effect of the initial RER to vary across the three years, point estimates are slightly larger in the first year after migration but decline by year 3.

In columns 3 and 4, we focus on the subsample of immigrants from countries with a lower price level than the US, which constitutes about 88% of the sample on which estimates in the first two columns are based. For this sample, the effect of the RER on initial wages is larger, with an elasticity of wages over the first three years with respect to the time-of-arrival RER being equal to -0.125, and the elasticity for the first year alone being -0.167. Moreover, the estimate for year three is only half the size of the year 1 estimate, suggesting a narrowing in the initial wage gap by the third year.

Overall, our findings for the US are qualitatively in line with those for Germany, suggesting that the time-of-arrival RER matters in determining new immigrants' reservation wages and thereby their observed wages in their first employment spells. Moreover, there is some evidence that these differentials tend to shrink over time in the US as well, although these

results need to be interpreted with care, as we are not able to control for changes in composition and selective outmigration with the ACS data.

6 Interpretation of Immigrant Cohort Effects

One implication of our findings is that immigrants from countries in which the real price is lower (relative to the host country) will on average accept lower entry wages than immigrants from high price countries. Therefore, if the composition—in terms of countries of origin—of entry cohorts changes over time, with an increasing proportion of new arrivals coming from countries with relatively low real price levels, then average entry wages of immigrants should decrease over time, which will be picked up as cohort effects when estimating immigrants' wage equations.

Following this line of argument, we add a new perspective to the debate surrounding some of the most influential studies in the literature on immigrant assimilation. In his response to Chiswick's (1978) paper on the assimilation of immigrants, Borjas (1985) shows that the entry wages of immigrants arriving in the US declined between the 1960s/1970s and the 1980s/1990s (see also Borjas 1995, 2015). He attributes this to a decline in the "quality" of immigrant cohorts arriving in the US following the Immigration and Naturalization Act of 1965 that abolished the quota system based on national origin, shifting the composition of new arrivals from mainly European countries and Canada to South America and Asia.

However, this compositional change also led to changes in the RER between origin countries and the US. Figure 2, where we plot the mean RERs applicable for different arrival cohorts, illustrates a sharp increase in the RER from the 1970 to the 1990 censuses, and a small

decrease in the subsequent decades.³² Hence, the decline in immigrants' entry wages for cohorts arriving in the 1980s and 1990s as illustrated in Borjas (1985, 1995) may in part be driven by the higher purchasing power of the US dollar applicable for these cohorts (who originate predominantly from lower price countries) and their correspondingly lower reservation wages. To investigate this conjecture, we plot in Figure 3 the residual entry wages (after controlling for demographic characteristics) of immigrants relative to natives in the 1970-2010 censuses against the RER prevailing upon their entry. In line with our analysis above, the figure suggests that immigrants arriving when the RER between the US and their country of origin is high earn lower entry wages upon their arrival, even after controlling for key socio-demographic characteristics.

We then present, in Table 7, estimates of immigrant cohort effects based on the 1970-2010 censuses and simple regression models following Borjas (1985). Specifically, we pool immigrants and natives, and report immigrant cohort effects relative to the 1965-1970 arrival cohorts (i.e. those from the 1970 census).³³ All regressions include census year FE (common to both immigrants and natives). Demographic controls include years of schooling (education), a quadratic in potential labor market experience (i.e. age – education – 6), a disability indicator, and marital status, whose effects are all allowed to differ between immigrants and natives. Columns 1 and 2, measuring the change in cohort effects between the 1970 and subsequent arrival cohorts, illustrate a strong deterioration in entry wages for those arriving in 1980 and 1990. After controlling for demographic characteristics (column 2), entry wages for the 1980

³² Also see Table A8, where we display the US-origin country RER for the five largest arrival cohorts in the 1970-2010 censuses, with weighted averages of RER presented in the last row.

³³ As we explain above, for census waves up until 2000, arrival cohorts are reported in 5-year intervals (i.e. whether a respondent arrived within the 5 years prior to the year of census), so that census year 1970 includes 1965-1970 arrival cohorts, census year 1980 includes 1975-1980 arrival cohorts, etc.

and 1990 immigrant cohorts are 11 percent lower than for the 1970 cohort. The difference in cohort effects declines (and nearly disappears) for arrival cohorts 2000 and 2010 after controlling for demographic characteristics. This pattern broadly follows the evolution of the average RER applicable for the different arrival cohorts (Figure 2), which increases sharply for the 1980 and 1990 cohorts in comparison to the 1970 cohort while declining thereafter.

Once we account for the RER (columns 3 and 4), the decline in immigrant wages of each subsequent cohort with respect to the 1970 cohort is far less pronounced. We visualize these effects in Figure 4, where we plot the cohort effects from both columns 2 (without RER) and 3 (with RER) of Table 7. The graphs illustrate that the increase in the conditional entry wage gaps between natives and immigrants in 1975-1980 arrivals (relative to 1965-1970 arrivals) becomes more nuanced (-0.107 to -0.072) once we condition on the RER, and similarly for the 1985-1990 arrivals. That the time-of-arrival RER is negatively associated with the entry wages of immigrant cohorts in the US does not imply that the RER-driven reservation wage channel alone is at work. However, together with the evidence in Section 5.5 that high RER arrivals—who accepted lower entry wages—experience a steeper wage growth over time than low RER arrivals, it suggests that the RER-reservation wage link accounts for at least some part of the cohort effect.³⁴

Overall, this analysis suggests that the observed decline in the entry wages of the 1980 and 1990 cohorts as documented in the influential studies of Borjas (1985, 1995) may at least in part be driven by these cohorts' *behavioral responses* (i.e. reservation wages) to the favorable RER applicable for them, and not be entirely due to their lower *innate quality*

³⁴ As pointed out earlier, the wage growth analysis for the US is less conclusive than that for Germany due to absence of individual-level longitudinal data.

(i.e. fixed labor market traits). These findings do not change the fundamental insight of Borjas' (1985, 1995) work, but they provide an additional new angle to the *interpretation* of the well-known immigrant cohort effects.

7 Conclusions

The premise that some immigrants may have lower reservation wages than comparable natives or other immigrants is commonly invoked in analyses of immigration yet there is scant evidence on that. To fill this gap, we propose the real price differences between the host and source regions as one possible driver of their *reservation wages* and find evidence consistent with the hypothesis. In particular, exploiting the accession of eight Central and Eastern European countries (A8) to the EU in 2004 together with longitudinal administrative data from Germany, we find an elasticity of entry wages with respect to the real exchange rate (RER) of about -0.3 in the year of arrival, meaning that a 10 percent increase in the RER (roughly 1 SD of log RER in the sample) leads to a decrease in the accepted wages of around 3 percent in the first year in Germany. In subsequent periods, however, wages of high RER arrivals catch up to that of their low RER counterparts. We establish similar pattern based on US data for comparable periods, although the cross-sectional nature of the data available does not allow us to control for compositional changes in the same way as we do for the German data.

While the implications of the *contemporaneous* real exchange rate (RER) for immigrants' behavior in the host country (e.g. remittances or labor supply) have been explored in prior work such as Yang (2008) and Nekoei (2013), the impact of *time-of-arrival* RER on the type of jobs or wages that immigrants are willing to accept upon arrival is a new finding that we add to the literature. Our findings thus suggest an important source of immigrant

downgrading (Eckstein and Weiss 2004; Dustmann et al. 2013), with implications for policy debates over issues such as immigrants' undercutting of native wages (Edo and Rapoport 2019) and immigration restrictions as active labor market policy for natives (Clemens et al. 2018).

Further, our analysis also adds a new perspective for interpreting immigrant cohort effects. Using US census data, we show that the declining cohort quality documented in Borjas (1985, 1995)'s influential studies may reflect, at least in part, the *behavioral responses* of later arrival cohorts to the prevailing real price differences between the US and their home countries, rather than their *innate* labor market characteristics alone. While not affecting the key insights of Borjas, our results add an additional interpretation of the observed decline in entry wages, with further implications for immigrant wage growth in the first years after arrival.

References

- Albert, Christoph, Albrecht Glitz, and Joan Llull (2020). "Labor market competition and the assimilation of immigrants," working paper, Universitat Pompeu Fabra.
- Albert, Christoph and Joan Monras (2018). "Immigration and spatial equilibrium: The role of expenditures in the country of origin," CEPR Discussion Paper No. DP12842.
- Altonji, Joseph G. and David Card (1991). "The effects of immigration on the labor market outcomes of less-skilled natives," in (Abowd, John. M., Freeman, Richard B., eds) *Immigration, trade, and the labor market*, pp. 201-234, Chicago: University of Chicago Press.
- Amior, Michael (2017). "The impact of migration in a monopsonistic labor market: Theoretical insights," working paper, Hebrew University.
- Amior, Michael and Alan Manning (2020). "Monopsony and the wage effects of migration," working paper, Hebrew University.
- Antoni, Manfred, Ganzer, Andreas, and vom Berge, Philipp (2016). Sample of integrated labour market biographies (SIAB) 1975-2014. FDZ-Datenreport, 04/2016 (en), Nuremberg.
- Arellano-Bover, Jaime and Shmuel San (2020). "The role of firms in the assimilation of immigrants," working paper.
- Ayromloo, Shalise, Benjamin Feigenberg and Darren Lubotsky (2020). "States taking the reins? Employment verification requirements and immigrants' outcomes," working paper, University of Illinois at Chicago.
- Balassa, Bela (1964). "The purchasing-power parity doctrine: a reappraisal," *Journal of Political Economy*, 72(6): 584-596.
- Barth, Erling, Bernt Bratsberg, and Oddbjørn Raaum (2004). "Identifying earnings assimilation of immigrants under changing macroeconomic conditions," *Scandinavian Journal of Economics*, 106(1): 1-22.
- Borjas, George J. (1985). "Assimilation, changes in cohort quality, and the earnings of immigrants," *Journal of Labor Economics*, 3(4): 463-489.
- Borjas, George J. (1995). "Assimilation and changes in cohort quality revisited: what happened to immigrant earnings in the 1980s?," *Journal of Labor Economics*, 13(2): 201-245.
- Borjas, George J. (2003). "The labor demand curve is downward sloping: Reexamining the impact of immigration on the labor market," *Quarterly Journal of Economics*, 118(4): 1335-1374.

- Borjas, George J. (2015). "The slowdown in the economic assimilation of immigrants: Aging and cohort effects revisited again," *Journal of Human Capital*, 9(4): 483-517.
- Bratsberg, Bernt, James F. Ragan, Jr, and Zafar M. Nasir (2002). "The effect of naturalization on wage growth: A panel study of young male immigrants," *Journal of Labor Economics*, 20(3): 568-597.
- Card, David (2001). "Immigrant inflows, native outflows, and the local labor market impacts of higher immigration," *Journal of Labor Economics*, 19(1): 22-64.
- Chiswick, Barry R. (1978). "The effect of Americanization on the earnings of foreign-born men," *Journal of Political Economy*, 86(5): 897-921.
- Clemens, Michael A., Ethan G. Lewis, and Hannah M. Postel (2018). "Immigration restrictions as active labor market policy: Evidence from the Mexican Bracero exclusion," *American Economic Review*, 108(6): 1468-87.
- Cortes, Patricia (2008). "The effect of low-skilled immigration on US prices: Evidence from CPI data," *Journal of Political Economy*, 116(3): 381-422.
- Dostie, Benoit, Jiang Li, David Card, and Daniel Parent (2020). "Employer policies and the immigrant-native earnings gap," No. w27096. National Bureau of Economic Research.
- Dustmann, Christian and Josep Mestres (2010). "Remittances and temporary migration," *Journal of Development Economics*, 92(1): 62-70.
- Dustmann, Christian, Tommaso Frattini, and Ian P. Preston (2013). "The effect of immigration along the distribution of wages," *Review of Economic Studies*, 80(1): 145-173.
- Dustmann, Christian and Joseph-Simon Görlach (2016). "The economics of temporary migrations," *Journal of Economic Literature*, 54(1): 98-136.
- Eckstein, Zvi and Yoram Weiss (2004). "On the wage growth of immigrants: Israel, 1990-2000," *Journal of the European Economic Association*, 2(4): 665-695.
- Edo, Anthony and Hillel Rapoport (2019). "Minimum wages and the labor market effects of immigration," *Labour Economics*, 61: 101753.
- Feenstra, Robert C., Robert Inklaar, and Marcel P. Timmer (2015). "The next generation of the Penn World Table," *American Economic Review*, 105(10): 3150-3182, available for download at www.ggdc.net/pwt.
- Gathmann, Christina and Nicolas Keller (2018). "Access to citizenship and the economic assimilation of immigrants," *Economic Journal*, 128(616): 3141-3181.
- Glitz, Albrecht (2012). "The labor market impact of immigration: A quasi-experiment exploiting immigrant location rules in Germany," *Journal of Labor Economics*, 30(1): 175-213.

- Glitz, Albrecht (2017). “Coworker networks in the labour market,” *Labour Economics*, 44: 218–230.
- Gottfries, Axel and Coen Teulings (2017). “Returns to on-the-job search and the dispersion of wages,” IZA DP No. 20668.
- Green, David A., Rene Morissette, Ben M. Sand, and Iain Snoddy (2019). Economy-wide spillovers from booms: Long-distance commuting and the spread of wage effects,” *Journal of Labor Economics*, 37(S2): S643-S687.
- Khanna, Gaurav, Caroline Theoharides, and Dean Yang (2020). “Abundance from abroad: Migrant income and long-run economic development,” working paper, University of Michigan.
- LaLonde, Robert J., and Robert H. Topel (1992). “The assimilation of immigrants in the US labor market,” in (Borjas, George J., Freeman, Richard B., eds) *Immigration and the workforce: Economic consequences for the United States and source areas*, pp. 67-92, Chicago: University of Chicago Press.
- Lubotsky, Darren (2007). “Chutes or ladders? A longitudinal analysis of immigrant earnings,” *Journal of Political Economy*, 115(5): 820-867.
- Lubotsky, Darren (2011). “The effect of changes in the US wage structure on recent immigrants’ earnings,” *Review of Economics and Statistics*, 93(1): 59-71.
- Llull, Joan (2018). “Immigration, wages, and education: A labour market equilibrium structural model,” *Review of Economic Studies*, 85(3): 1852-1896.
- Malchow-Møller, Nikolaj, Jakob R. Munch, and Jan Rose Skaksen (2012). “Do immigrants affect firm-specific wages?,” *Scandinavian Journal of Economics*, 114(4): 1267-1295.
- Mishra, Prachi and Antonio Spilimbergo (2011). “Exchange rates and wages in an integrated world,” *American Economic Journal: Macroeconomics*, 3(4): 53-84.
- Munshi, Kaivan (2003). “Networks in the modern economy: Mexican migrants in the US labor market,” *Quarterly Journal of Economics*, 118(2): 549-599.
- Naidu, Suresh, Yaw Nyarko, and Shing-Yi Wang (2016). “Monopsony power in migrant labor markets: Evidence from the United Arab Emirates,” *Journal of Political Economy*, 124(6): 1735-1792.
- Nekoei, Arash (2013). “Immigrants’ labor supply and exchange rate volatility,” *American Economic Journal: Applied Economics*, 5(4): 144-164.
- Nguyen, Ha Trong and Alan S. Duncan (2017). “Exchange rate fluctuations and immigrants’ labour market outcomes: New evidence from Australian household panel data,” *Journal of International Economics*, 105: 174-186.

- OECD (2006). *International Migration Outlook: SOPEMI 2006*, Paris, OECD Publishing.
- OECD (2011). *International Migration Outlook: SOPEMI 2011*, Paris, OECD Publishing.
- Ottaviano, Gianmarco I.P. and Giovanni Peri (2012). “Rethinking the effect of immigration on wages,” *Journal of the European Economic Association*, 10(1): 152-197.
- Prantl, Susanne and Alexandra Spitz-Oener (2020). “The impact of immigration on competing natives’ wages: Evidence from German reunification,” *Review of Economics and Statistics*, 102(1): 79-97.
- Ruggles, Steven, Katie Genadek, Ronald Goeken, Josiah Grover, and Matthew Sobek (2017). “Integrated Public Use Microdata Series: Version 7.0,” Minneapolis, University of Minnesota, <https://doi.org/10.18128/D010.V7.0>.
- Samuelson, Paul A. (1964). “Theoretical notes on trade problems,” *Review of Economics and Statistics*, 46(2): 145-154.
- Tabellini, Marco (2020). “Gifts of the immigrants, woes of the natives: Lessons from the age of mass migration,” *Review of Economic Studies*, 87(1): 454-486.
- Wang, Xuening (2020). “US permanent residency, job mobility, and earnings,” *Journal of Labor Economics*, forthcoming.
- Yang, Dean (2006). “Why do migrants return to poor countries? Evidence from Philippine migrants’ responses to exchange rate shocks,” *Review of Economics and Statistics*, 88(4): 715-735.
- Yang, Dean (2008). “International migration, remittances and household investment: Evidence from Philippine migrants’ exchange rate shocks,” *Economic Journal*, 118(528): 591-630.

Tables and Figures

Table 1: Descriptive statistics

	<i>All</i>	<i>Stayers</i>
	(1)	(2)
Log daily wage	3.90 (0.46)	3.96 (0.46)
Age	34.10 (10.34)	34.34 (10.11)
Female	0.33	0.34
Education:		
Low	0.14	0.13
Middle	0.27	0.32
High	0.07	0.09
Missing	0.52	0.45
Real exchange rate (RER) between Germany and origin country	1.77 (0.14)	1.77 (0.14)
Real GDP per capita of origin country relative to Germany	0.53 (0.05)	0.53 (0.05)
Obs.	16,360	11,491
Unique persons	8,085	4,323

Notes: Mean is reported with standard deviation in parentheses. Sample includes full-time employees aged 16 to 65, entering the German labor market between 2004 and 2012. "Stayers" are individuals with a total migration duration of at least 3 years. Skill level in the table refers to the maximum educational attainment observed in the data. Data sources: Sample of Integrated Labor Market Biographies (SIAB) provided by the German Federal Employment Agency (IAB). Data on real exchange rates and real GDP per capita relative to Germany come from the World Bank's World Development Indicators database.

Table 2: Real exchange rates and the entry wage of immigrants

	Log daily wage				
	(1)	(2)	(3)	(4)	(5)
Log RER at Arrival	-0.431** (0.187)	-0.301* (0.164)	-0.313* (0.176)	-0.273*** (0.089)	-0.241** (0.091)
Log GDP pc at Arrival			0.563*** (0.180)	0.449*** (0.123)	0.281 (0.198)
Demographic controls	Y	Y	Y	Y	Y
Country FE		Y	Y	Y	
Year FE		Y	Y	Y	
YSM FE				Y	Y
Country*Year FE					Y
R2	0.12	0.15	0.16	0.22	0.22
Number of unique individuals	8,085	8,085	8,085	8,085	8,085
Obs.	8,085	8,085	8,085	16,361	16,361

Notes: Sample includes individuals in the first year since migration in columns 1 through 3, and those in year 1, 2 or 3 since migration in columns 4 and 5. YSM is a year-since-migration indicator variable. Demographic controls include a gender indicator, a quadratic in age, and a dummy for each education category, with missing education as one of the categories. Standard errors clustered by country-cohort in parentheses. * p<0.10, ** p<0.05, *** p<0.01

Table 3: Real exchange rates and wage dynamics over time

	Log daily wage			
	A. All		B. Stayers	
	(1)	(2)	(3)	(4)
YSM 1 * Log RER at Arrival	-0.339*** (0.087)		-0.335*** (0.097)	
YSM 2 * Log RER at Arrival	-0.172* (0.101)	0.126* (0.072)	-0.260** (0.100)	0.220*** (0.078)
YSM 3 * Log RER at Arrival	0.082 (0.148)	0.263* (0.143)	-0.022 (0.141)	0.411*** (0.149)
Demographic controls	Y	Y	Y	Y
Country*Year FE	Y	Y	Y	Y
YSM FE	Y	Y	Y	Y
Log GDP pc at Arrival*YSM FE	Y	Y	Y	Y
Individual FE		Y		Y
R2	0.22	0.91	0.24	0.89
Number individuals	8,085	8,085	4,323	4,323
Obs.	16,361	16,361	11,491	11,491

Notes: Sample includes individuals in year 1, 2, or 3 since migration. Columns 3 and 4 restrict the sample to individuals with a migration duration of at least 3 years. YSM is a year-since-migration indicator variable. Demographic controls include a gender indicator, a quadratic in age, and a dummy for each education category, with missing education as one of the categories. Standard errors clustered by country-cohort in parentheses. * p<0.10, ** p<0.05, *** p<0.01

Table 4: Heterogeneity and robustness

	Log daily wage					
	Male	Female	Age<=35	Age>35	No missing educ.	No college educ.
	(1)	(2)	(3)	(4)	(5)	(6)
<i>A. All</i>						
YSM 1 * Log RER at arrival	-0.526*** (0.090)	-0.048 (0.183)	-0.374*** (0.116)	-0.418* (0.210)	-0.603*** (0.162)	-0.328*** (0.061)
YSM 2 * Log RER at Arrival	-0.218** (0.088)	-0.035 (0.185)	-0.173 (0.134)	-0.251 (0.171)	-0.183 (0.143)	-0.192*** (0.066)
YSM 3 * Log RER at Arrival	0.200 (0.158)	-0.081 (0.224)	0.010 (0.157)	0.160 (0.196)	0.122 (0.188)	0.092 (0.102)
Mean of D.V.	3.95	3.81	3.90	3.91	3.84	3.86
R2	0.19	0.24	0.24	0.19	0.12	0.13
Number individuals	5,417	2,668	5,093	3,217	4,588	7,616
Obs.	10,989	5,372	9,974	6,387	8,536	15,160
<i>B. Stayers</i>						
YSM 1 * Log RER at Arrival	-0.512*** (0.106)	-0.074 (0.212)	-0.476*** (0.125)	-0.285 (0.244)	-0.564*** (0.163)	-0.275*** (0.073)
YSM 2 * Log RER at Arrival	-0.277*** (0.084)	-0.153 (0.182)	-0.291* (0.146)	-0.330 (0.208)	-0.256* (0.144)	-0.268*** (0.083)
YSM 3 * Log RER at Arrival	0.174 (0.167)	-0.236 (0.221)	-0.146 (0.200)	0.086 (0.248)	0.016 (0.144)	-0.011 (0.099)
Mean of D.V.	4.01	3.85	3.96	3.95	3.90	3.91
R2	0.20	0.26	0.26	0.21	0.13	0.14
Number individuals	2,802	1,521	2,733	1,590	1,949	3,934
Obs.	7,599	3,892	6,934	4,557	5,200	10,422
Log GDP pc at Arrival*YSM FE	Y	Y	Y	Y	Y	Y
YSM FE	Y	Y	Y	Y	Y	Y
Country*Year FE	Y	Y	Y	Y	Y	Y
Demographic controls	Y	Y	Y	Y	Y	Y

Notes: Sample includes individuals in year 1, 2, or 3 since migration. In panel B, the sample is restricted to those with total migration duration of at least 3 years. YSM is a year-since-migration indicator variable. Demographic controls include a gender indicator, a quadratic in age, and a dummy for each education category, with missing education as one of the categories. Standard errors clustered by country-cohort in parentheses. * p<0.10, ** p<0.05, *** p<0.01

Table 5: Mechanisms of wage adjustments

D.V.	Job change	Firm change	Move to a better paying firm	Change occupation	Occ. upgrading	Occ. upgrading & firm change	Occ. upgrading within firm
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
YSM 2 * Log RER at Arrival	0.310*** (0.072)	0.227** (0.084)	0.288*** (0.066)	0.143* (0.074)	0.223*** (0.058)	0.139** (0.053)	0.084** (0.037)
YSM 3 * Log RER at Arrival	0.156 (0.098)	0.146 (0.109)	0.281*** (0.096)	0.068 (0.078)	0.194** (0.077)	0.128* (0.070)	0.066 (0.053)
Mean of D.V.	0.25	0.22	0.14	0.16	0.08	0.07	0.01
Number individuals	3,900	3,900	3,797	3,742	3,742	3,742	3,742
Obs.	7,168	7,168	6,956	6,528	6,528	6,528	6,528
Log GDP pc at Arrival *							
YSM FE	Y	Y	Y	Y	Y	Y	Y
YSM FE	Y	Y	Y	Y	Y	Y	Y
Country * Year FE	Y	Y	Y	Y	Y	Y	Y

Notes: Sample includes individuals in year 2 or 3 since arrival to Germany, among those with a migration duration of at least 3 years (stayers). In column 1, job change is defined as a change in firm and/or occupation (as compared to the previous year). All regressions include the following demographic controls: gender, quadratic in age, and dummy for each education category with missing education as one of the categories. Standard errors clustered by country-cohort in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

Table 6: Real exchange rates and accepted wages among immigrants in the US

	Log hourly wage			
	<i>All Countries</i>		<i>Countries with RER>1</i>	
	(1)	(2)	(3)	(4)
Log RER at Arrival	-0.096*		-0.125**	
	(0.055)		(0.060)	
YSM 1 * Log RER at Arrival		-0.110**		-0.167***
		(0.055)		(0.057)
YSM 2 * Log RER at Arrival		-0.100*		-0.124**
		(0.055)		(0.058)
YSM 3 * Log RER at Arrival		-0.083		-0.084
		(0.058)		(0.062)
Demographic controls	Y	Y	Y	Y
Country * Year FE	Y	Y	Y	Y
YSM FE	Y	Y	Y	Y
Log GDP pc at Arrival	Y		Y	
Log GDP pc at Arrival * YSM FE		Y		Y
R2	0.31	0.31	0.27	0.27
Obs.	81,957	81,957	72,326	72,326
Std.dev. Log RER	0.45	0.45	0.35	0.35
Mean of D.V.	2.31	2.31	2.24	2.24

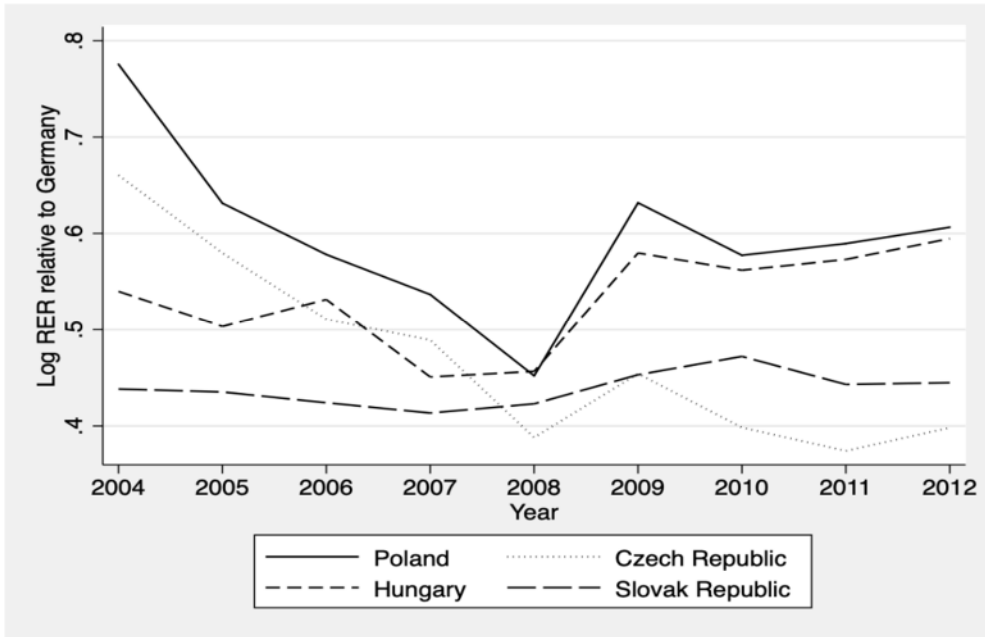
Notes: Sample consists of immigrants arriving in the US between 2004 and 2014. We restrict the sample to all immigrants aged 16-65 in full-time employment in year 1, 2 or 3 in the US. In columns 3 and 4, we focus on those from countries with lower price levels than the US. We drop immigrants from small countries, with country-cohort cells containing fewer than 20 observed immigrants. Demographic controls include a gender indicator, a quadratic in age, and years of education. Standard errors clustered by country-cohort in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 7: Cohort effects among immigrants in US censuses 1970-2010

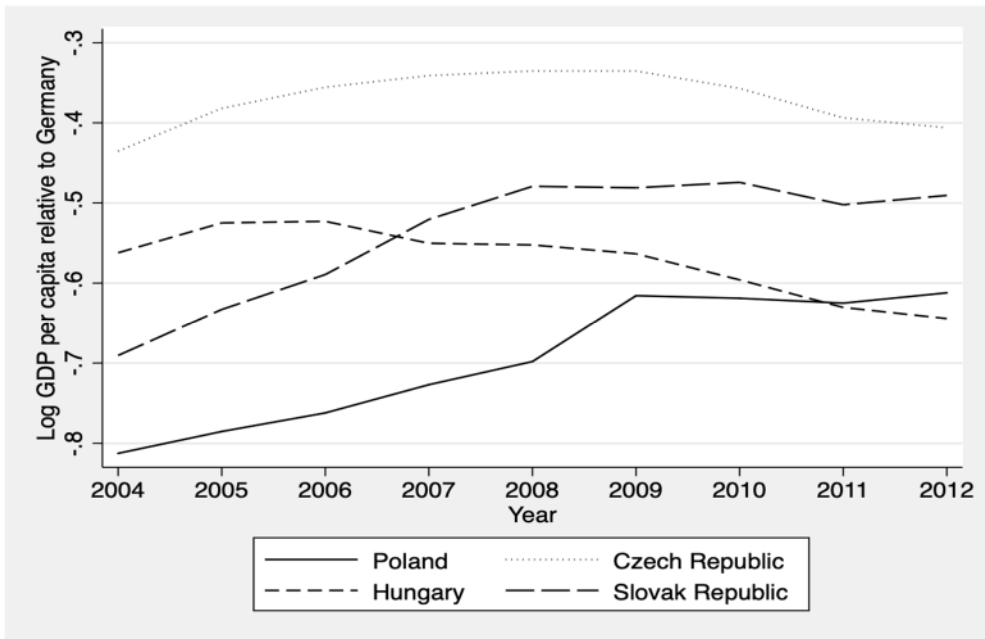
	Log weekly wage			
	(1)	(2)	(3)	(4)
Log RER			-0.298***	-0.232***
			(0.101)	(0.081)
Immigrant * census year 1980	-0.171***	-0.107***	-0.072**	-0.065*
	(0.043)	(0.026)	(0.033)	(0.034)
Immigrant * census year 1990	-0.224***	-0.111***	-0.032	-0.032
	(0.072)	(0.039)	(0.044)	(0.045)
Immigrant * census year 2000	-0.163	-0.008	0.056	0.058
	(0.106)	(0.054)	(0.072)	(0.073)
Immigrant * census year 2010	-0.172*	-0.058	0.004	0.004
	(0.090)	(0.054)	(0.076)	(0.073)
Census year FE	Y	Y	Y	Y
Demographic controls		Y	Y	Y
Log GDP per capita				Y
R2	0.007	0.190	0.191	0.191
Obs.	7,969,464	7,969,464	7,968,719	7,968,719

Notes: Reference category is census year 1970. For each census year, we include immigrants who arrived in the US in the last five years such that census year 1970 includes 1965-1970 arrival cohorts, census year 1980 includes 1975-1980 arrival cohorts, etc. We also include US natives from each census. Demographic controls include years of schooling (education), a quadratic in potential labor market experience (age - education - 6), a disability indicator, and marital status. Controls are interacted with an immigrant indicator. Standard errors clustered by country in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Figure 1: Real exchange rates (RER) and GDP per capita relative to Germany



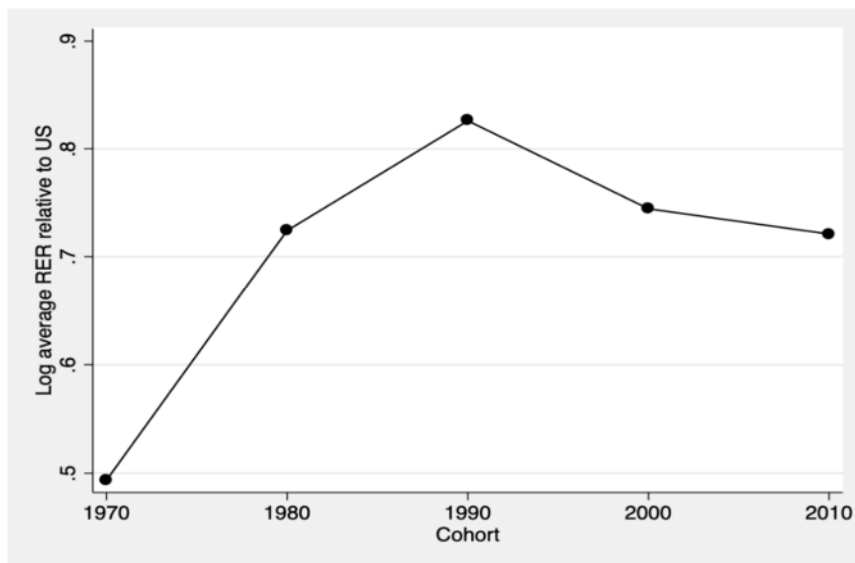
(a) RER relative to Germany



(b) GDP per capita relative to Germany

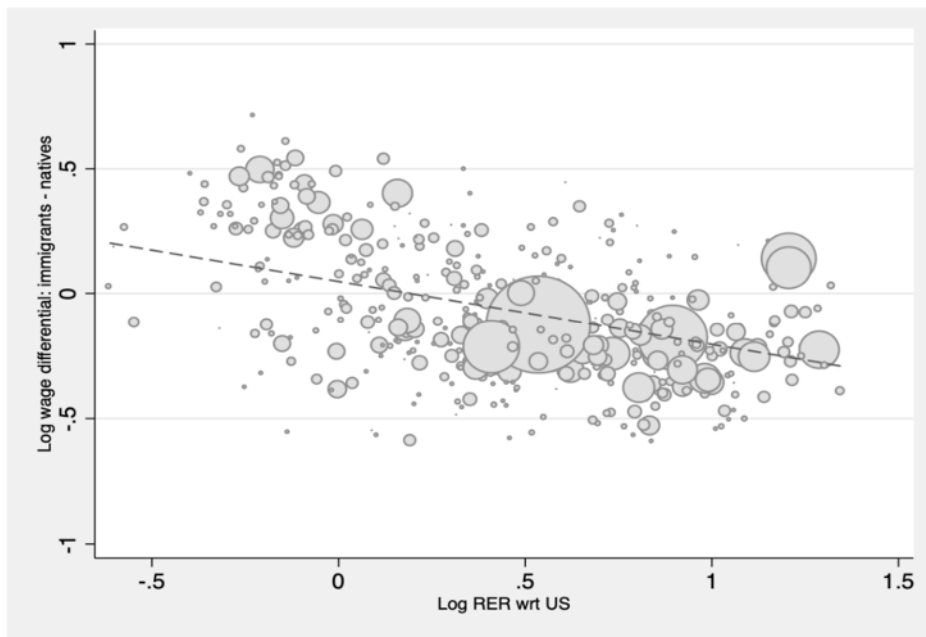
Notes: Log real exchange rates (RER) between Germany and the origin country, and log real GDP per capita of each country relative to Germany are plotted. Data sources: The World Bank's World Development Indicators database.

Figure 2: Average real exchange rates for different arrival cohorts in the US



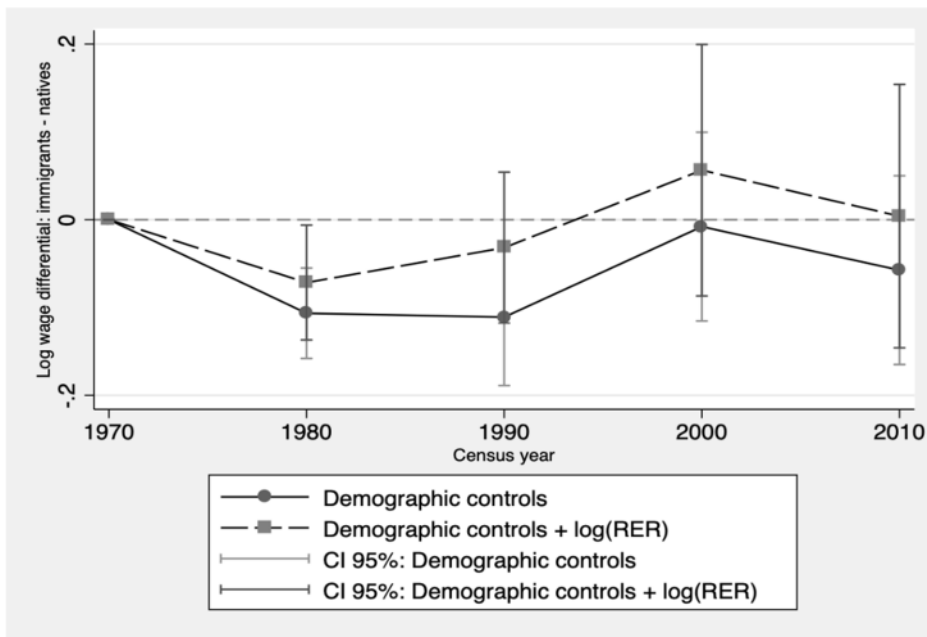
Notes: RER data comes from the Penn World Tables. The weights are computed using 1970 to 2000 waves of the US Population Census and 2009 to 2011 waves of the American Community Survey. Cohort refers to immigrants arriving in the 5 years prior to each census year. Average RER is computed by first taking the average over the arrival years for each country of origin and then taking the average across countries of origin for each census year.

Figure 3: Residual wage and real exchange rate, 1965-2010 arrival cohorts



Notes: The figure represents 452 country-by-cohort combinations. The underlying sample consists of men aged 25-64, observed in 1970-2000 census years and the 2009-2011 waves of the American Community Survey. The wage differential is calculated between immigrants who arrived in the 5 years prior to each census year and native workers after controlling for a quadratic in labor market experience, education, marital status and disability status, all interacted with an immigrant indicator. The regression coefficient (standard error) is -0.251 (0.080).

Figure 4: Cohort effects among immigrants in US censuses 1970-2010



Notes: The underlying sample consists of men aged 25-64, observed in 1970-2000 census years and 2009-2011 American Community Survey waves. The wage differential is calculated between immigrants who arrived in the 5 years prior to each census year and native workers after controlling for a quadratic in labor market experience, education, marital status and disability status, all interacted with an immigrant indicator. The dashed line also includes log RER as an additional control.

Appendix A: Additional Tables

Table A1: Descriptive statistics, US sample

	All Countries (1)	Countries with RER>1 (2)
Log hourly wage	2.31 (0.79)	2.24 (0.76)
Age	32.94 (9.97)	32.62 (10.01)
Female	0.34	0.34
Years of Education	12.93 (4.41)	12.55 (4.48)
Real exchange rate (RER) between the US and origin country	2.16 (0.93)	2.34 (0.85)
Real GDP per capita of origin country relative to the US	0.30 (0.23)	0.23 (0.15)
Number of countries	53	43
Obs.	81,957	72,326

Notes: Mean is reported with standard deviation in parentheses. We restrict the sample to individuals aged 16-65 in full-time employment who have migrated to the US less than 3 years ago. We exclude the self-employed and those in armed forces. We focus on country (of origin)-year cells with at least 20 immigrants. In column 2, we further restrict the sample to immigrants from countries with lower price levels than the US. Data sources: 2005-2017 waves of the American Community Survey from IPUMS.

Table A2: Sample for analysis of cohort effects in the US

	Immigrants (1)	Natives (2)
Log weekly wage	6.17 (0.83)	6.56 (0.71)
Age	35.36 (8.90)	41.73 (10.85)
Married	0.56 (0.50)	0.71 (0.45)
Years of education	12.17 (4.95)	13.18 (2.77)
Real exchange rate (RER) between the US and origin country	2.15 (1.21)	
Real GDP per capita of origin country relative to the US	0.27 (0.22)	
Obs.	149,398	7,820,066

Notes: Mean is reported with standard deviation in parentheses. Sample includes employed men aged 25 to 65. Sample includes immigrant entry cohorts 1965-1970, 1975-1980, 1985-1990, 1995-2000, and 2005-2010. Data sources: US census 1970, 1980, 1990 and 2000, and 2009-2011 waves of the American Community Survey provided by IPUMS. Real exchange rates and real GDP per capita relative to the US come from the Penn World Table.

Table A3: Real exchange rate at arrival and labor market characteristics of individuals

	Log RER			
	<i>A. All</i>		<i>B. Stayers</i>	
	(1)	(2)	(3)	(4)
Female	0.0007 (0.0006)	0.0007 (0.0005)	0.0008 (0.0011)	0.0008 (0.0011)
Age<=35	-0.0004 (0.0006)	-0.0005 (0.0006)	-0.0002 (0.0008)	-0.0001 (0.0007)
Low skilled	0.0013 (0.0009)	0.0014 (0.0009)	0.0006 (0.0009)	0.0006 (0.0009)
High skilled	0.0011 (0.0019)	0.0010 (0.0016)	-0.0011 (0.0020)	-0.0011 (0.0017)
Missing education	0.0003 (0.0006)	0.0004 (0.0006)	-0.0007 (0.0007)	-0.0007 (0.0008)
F-stat	0.69	0.60	0.46	0.47
P-value	0.637	0.702	0.800	0.799
Country FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Log GDP		Y		Y
R2	0.89	0.89	0.89	0.89
Obs.	8,085	8,085	4,323	4,323

Notes: Sample includes individuals in the year of their arrival to Germany. In columns 3 and 4, the sample is restricted to individuals with migration duration of at least 3 years. Standard errors clustered by country-cohort in parentheses. F-statistic and p-value refers to the testing of the joint significance of gender, age, and education variables reported in the regressions. * p<0.10, ** p<0.05, *** p<0.01.

Table A4: Real exchange rates and immigrant inflows

	Log inflow of immigrants			
	(1)	(2)	(3)	(4)
Log RER	0.461 (1.238)	0.622 (0.672)	0.527 (1.278)	0.472 (0.705)
Log GDP per capita		-4.741*** (0.590)		-4.424*** (0.575)
Year FE	Y	Y	Y	Y
Country FE	Y	Y	Y	Y
R2	0.964	0.991	0.974	0.993
Obs.	36	36	36	36

Notes: The outcome variable is a number of workers from Poland, Hungary, Czech Republic and Slovak Republic for the period 2004-2012 in their initial year in Germany in the SIAB 2% sample. Columns 3 and 4 are weighted by the population size of each country in the 2001 census. Robust standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A5: Average wages by select occupations in Germany and Poland, 2004

Occupation	Wage Germany	Wage Poland	Relative. Wage (Pol/Ger)
Land workers	1491.6	764.27	0.51
Gardeners, garden workers	1776	1046.74	0.59
Cooks	1656.9	891.73	0.54
Waiters, stewards and other attendants	1438.5	847.46	0.59
Office specialist	2657.1	1179.52	0.44
Stores, transport workers	2188.2	1112.82	0.51
Salespersons	1863.3	861.99	0.46
Motor vehicle drivers	2136	1281.29	0.60
Landlords, agents, auctioneers	2513.7	937.75	0.37
Other housekeeping attendants	1338	770.9	0.58
Nurses, midwives	2609.4	1107.49	0.42
Builders	1943.1	945.64	0.49
Household cleaners	1285.8	852.7	0.66
Electrical fitters, mechanics	2594.7	1328.54	0.51
Data processing specialists	3795.3	1202.37	0.32
Packagers, goods receivers, despatchers	2028.3	904.79	0.45
Metal workers	2467.2	1277.1	0.52

The reported wages are gross monthly earnings (in Euros) of native workers in year 2004. The source of wage information is SIAB data for Germany and the labor force survey for Poland.

Table A6: Real exchange rates and wage dynamics over time: with additional controls

	Log daily wage			
	(1)	(2)	(3)	(4)
<i>A. All</i>				
YSM 1 * Log RER at Arrival	-0.339*** (0.087)	-0.426*** (0.140)	-0.465*** (0.119)	-0.293** (0.112)
YSM 2 * Log RER at Arrival	-0.172* (0.101)	-0.265** (0.121)	-0.233** (0.103)	-0.156 (0.108)
YSM 3 * Log RER at Arrival	0.082 (0.148)	0.017 (0.164)	0.046 (0.143)	0.105 (0.160)
R2	0.22	0.22	0.22	0.22
Number individuals	8,085	8,085	8,085	8,085
Obs.	16,361	16,361	16,361	16,361
<i>B. Stayers</i>				
YSM 1 * Log RER at Arrival	-0.335*** (0.097)	-0.553*** (0.149)	-0.546*** (0.116)	-0.326** (0.128)
YSM 2 * Log RER at Arrival	-0.260** (0.100)	-0.434*** (0.129)	-0.371*** (0.094)	-0.267** (0.118)
YSM 3 * Log RER at Arrival	-0.022 (0.141)	-0.131 (0.146)	-0.073 (0.128)	-0.028 (0.147)
R2	0.24	0.24	0.24	0.24
Number individuals	4,323	4,323	4,323	4,323
Obs.	11,491	11,491	11,491	11,491
Demographic controls	Y	Y	Y	Y
Country*Year FE	Y	Y	Y	Y
YSM FE	Y	Y	Y	Y
Log GDP pc at Arr.*YSM FE	Y	Y	Y	Y
Unempl. at Arr.*YSM FE		Y		
Empl. at Arr.*YSM FE			Y	
LFP at Arr.*YSM FE				Y

Notes: Sample includes individuals in year 1, 2, or 3 since migration. In panel B, the sample is restricted to those with total migration duration of at least 3 years. YSM is a year-since-migration indicator variable. Demographic controls include a gender indicator, a quadratic in age, and a dummy for each education category, with missing education as one of the categories. In columns 2, 3 and 4, we control respectively for the unemployment, employment and labor force participation rates in the country of origin prevalent at arrival interacted with years-since-migration fixed effect. Standard errors clustered by country-cohort in parentheses. * p<0.10, ** p<0.05, *** p<0.01

Table A8: Countries of origin of immigrants in the US, 1970-2010

1970		1980		1990		2000		2010	
Country	RER	Country	RER	Country	RER	Country	RER	Country	RER
Cuba	1.67	Mexico	1.72	Mexico	2.45	Mexico	1.71	India	3.35
Mexico	1.97	Vietnam	9.22	China	4.71	India	3.36	Guatemala	2.26
UK	1.30	Korea	1.59	El Salvador	1.56	Russia	3.05	Philippines	2.70
Italy	1.25	Russia	-	Nicaragua	2.52	Cuba	2.24	China	2.52
Canada	1.04	India	2.36	Guatemala	2.44	Honduras	2.63	El Salvador	1.99
Avg RER	1.64		2.12		2.30		2.13		2.07

Notes: In 1970, the table records the 5 countries with the largest share in recent immigrant population in the US (those arriving in the 5 years before the census). For years 1980 to 2010, the table shows the 5 countries with the largest *increase* in the recent immigration share with respect to the previous census year, i.e. for 1980, the change is from 1970 to 1980, for 1990 the change is from 1980 to 1990, etc. The bottom row shows the average RER across all countries of origin in our sample, weighted by the size of the immigrant cohort from each country. Data sources: US census 1970, 1980, 1990 and 2000, and 2009-2011 waves of American Community Survey provided by IPUMS.

Appendix B: Implications of the Stylized Model

In Section 3.3, we discuss two key implications (Results 1 and 2) of our stylized model. Below, we explain how we derive the results. Recall that worker A is assumed to arrive in the host country during a time of high RER, while worker B arrives when the RER is low.

Denote by $r_{i,\tau}$ the reservation wage of worker $i \in \{A, B\}$ in period $\tau \in \{1, 2\}$ after their migration. Also denote by $y_{i,\tau}$ the wage offer received by worker i in period τ . From (3) in Section 3.2, we know that $r_{A,1} = \frac{\theta+w^s}{(\bar{Q})^\alpha} \equiv r_L$ and $r_{B,1} = \frac{\theta+w^s}{(\underline{Q})^\alpha} \equiv r_H$, with $r_L < r_H$ as expected.

Since the two workers arrive at different RER, the expected value of accepted wages for workers A and B in period 1 also differs, such that

$$\bar{y}_{A,1} \equiv E(y_{A,1} | y_{A,1} \geq r_L) = \frac{r_L + 1}{2}, \quad (B.1)$$

and

$$\bar{y}_{B,1} \equiv E(y_{B,1} | y_{B,1} \geq r_H) = \frac{r_H + 1}{2}, \quad (B.2)$$

using the fact that the mean of a uniform distribution over $[c, d]$ is $\frac{c+d}{2}$.

Result 1 (Entry wages): *The mean initial wages accepted by workers arriving during high RER is lower than that of workers arriving at low RER. That is, $\bar{y}_{A,1} < \bar{y}_{B,1}$.*

Result 1 easily obtains from (B.1) and (B.2) and the fact that $r_L < r_H$ when $\bar{Q} > \underline{Q}$. In period 2, there is a chance $q \in (0, 1)$ for each worker to encounter a new wage offer (drawn from the distribution (1)), for example due to workers engaging in on-the-job search. With probability $(1 - q)$, workers remain employed at their previous wage. Workers accept a new offer only if the new wage exceeds their current wage.

For each wage $y_{A,1}$ that worker A would accept in period 1, the expected value of her period 2 wage is

$$E(y_{A,2}|y_{A,1}) = q \left(\frac{y_{A,1} + 1}{2} \right) + (1 - q)y_{A,1} \quad \text{for } y_{A,1} \geq r_L$$

Similarly, for each $y_{B,1}$ that worker B would accept in period 1, the expected period 2 wage for worker B is

$$E(y_{B,2}|y_{B,1}) = q \left(\frac{y_{B,1} + 1}{2} \right) + (1 - q)y_{B,1} \quad \text{for } y_{B,1} \geq r_H.$$

Conditional on their initial wages, the expected change in worker A 's wage between period 1 and period 2 is $E(y_{A,2}|y_{A,1}) - y_{A,1}$. Aggregating this over the range of wages that worker A would accept in period 1, we obtain the expected growth (from period 1 to period 2) in the wages of worker A as

$$\bar{y}_{A,2} - \bar{y}_{A,1} = q \left(\frac{\bar{y}_{A,1} + 1}{2} \right) + (1 - q)\bar{y}_{A,1} - \bar{y}_{A,1} = \frac{q}{4}(1 - r_L).$$

Similarly, for worker B , we obtain

$$\bar{y}_{B,2} - \bar{y}_{B,1} = \left(\frac{\bar{y}_{B,1} + 1}{2} \right) + (1 - q)\bar{y}_{B,1} - \bar{y}_{B,1} = \frac{q}{4}(1 - r_H).$$

Result 2 (Wage adjustments): *The absolute wage growth experienced by workers arriving during high RER will on average be higher than that of workers arriving at low RER. That is,*

$$\bar{y}_{A,2} - \bar{y}_{A,1} > \bar{y}_{B,2} - \bar{y}_{B,1}.$$

Result 2 holds since $q > 0$ and $r_L < r_H < 1$ (recall that the maximum wage offer is 1). Moreover, the difference in wage growth between high and low RER arrivals can also be expressed as

$$(\bar{y}_{A,2} - \bar{y}_{A,1}) - (\bar{y}_{B,2} - \bar{y}_{B,1}) = \frac{q}{4}(r_H - r_L),$$

which is increasing in q , the rate at which workers encounter a new wage offer in period 2. The magnitude of q reflects both the characteristics of the host country labor market and the intensity of migrant workers' on-the-job search. As an extreme example, if $q = 0$ (i.e. all workers remain at their initial wage level forever), then there will obviously be no possibility for wage convergence between high and low RER arrivals.

Appendix C: Putting the Estimated Wage Elasticity in Perspective

According to our calculation based on the German Socio-Economic Panel (waves 2011 to 2016 including immigrant supplement), immigrants from A8 countries who arrived in Germany between 2004 and 2012 saved or remitted about 16-18 percent of their monthly net income. This means that the effective consumption that immigrants can derive from a wage w is roughly equal to:

$$0.83w + 0.17w \times RER.$$

Consider a 10% increase in the RER. Then, the effective consumption achievable from the same wage w would increase to:

$$0.83w + 0.17w \times 1.1RER.$$

Denote by w' the wage level required to maintain the same level of consumption as before under the higher RER such that

$$0.83w' + 0.17w' \times 1.1RER = 0.83w + 0.17w \times RER$$

or

$$\frac{w'}{w} = \frac{0.83 + 0.17 \times RER}{0.83 + 0.17 \times 1.1RER}. \quad (C.1)$$

Evaluating (C.1) at the mean RER between Germany and the origin countries for the years considered in our analysis, i.e. 1.77, we obtain

$$\frac{w'}{w} - 1 = -0.0259,$$

which means that for a 10% increase in RER, the wage can decrease by 2.6% in order to keep the effective consumption level constant. This is not too far from what we estimate in our analysis (Table 2), which is reassuring.