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The Effect of Ethnic Residential Segregation on Wages of Immigrant Workers in Australia

Abstract

This paper investigates the effects of ethnic residential segregation on wages of migrant workers in Australia. The empirical analysis uses data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey in combination with regional information from Australian Census data. We account for the non-random sorting of individuals into neighborhoods by instrumenting for neighborhood attributes and considering regional fixed effects. Post code areas in which immigrants can gain additional points when entering Australia through the point system are used as an instrument for endogenous location choices. Our findings reveal that ethnic residential segregation is beneficial for highly educated migrant workers, while the effects on wages of less educated migrant workers are insignificant. This result is in line with recent empirical evidence on the effects of segregation on migrants' outcomes in the US.