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# The value of host-country language: The effect of Dutch language proficiency on immigrants' income, savings and financial wealth in the Netherlands

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## Abstract

We study the effect of Dutch proficiency on immigrants' labour market performance, savings and financial wealth in the Netherlands. Different from past research, we had participants (N=659) take a language proficiency test apart from self-reported assessments, and measured participants' IQ, patience, saving intention, risk aversion, self-control, temporal focus, etc. to better control for individual characteristics. Immigrants' labour market performance and financial wealth were initially surveyed in 2016, and then again in 2020-2021. We find that Dutch proficiency affects immigrants' earnings (employment probabilities; income; hourly wages) in 2016 and predicts participants' earnings in 2021 even after controlling for the baseline in 2016, individual characteristics and demographic information. Furthermore, the results for the first time reveal that language proficiency can also predict immigrants' current and future savings and financial wealth. Importantly, using an instrumental variables approach we show that language proficiency has a causal effect. Our findings have important theoretical and policy implications.