

Project Seminar

Migration and the Labour Market



Herbert Brücker

Professor of Economics,
Especially Integration of European Labour Markets
Department of Economics
Otto-Friedrich-University of Bamberg

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Part I

International Migration: Stylized Facts, Trends, Research Questions

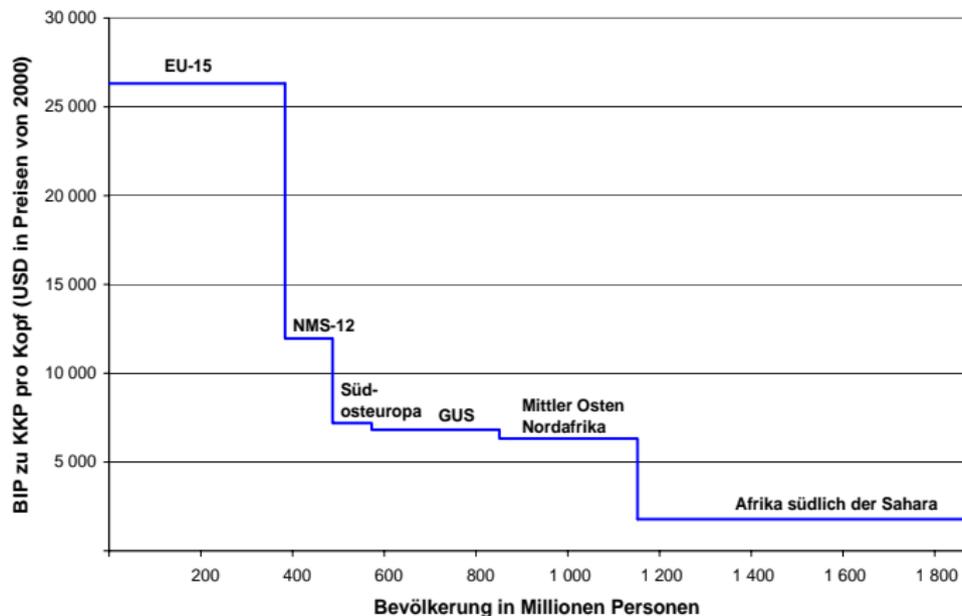
Globalization of labor markets

- Increasing incentives for migration (Freeman, 2006)
 - High and persistent income differences
 - Falling costs for transport and communication
 - Different speed of ageing and demographic change
- Increasing migration from countries with
 - middle and lower-middle per capita income
 - mixed picture with respect to human capital endowments
- Less migration since financial crisis
- At present, the share of migrants numbers
 - 3-4 per cent of world population
 - 10 per cent of developed country population
 - Weltbank (2013)

Changed migration conditions in Europe

- Fall of the 'Iron Curtain'
 - Removal of barriers to migration in an area with a population of 400 millions and a per-capita GDP at PPP of 30% of the EU-15
- EU Eastern enlargement
 - Integration of 12 countries with a population of 104 millions and GDP per capita of 40 % of EU-15 into the Common Market
- Institutional changes
 - Schengen, asylum policies, Frontex
 - EU Bluecard
 - Increasing skill-selectivity of national immigration policies
- Eurocrisis and its asymmetric impact on EU Member States

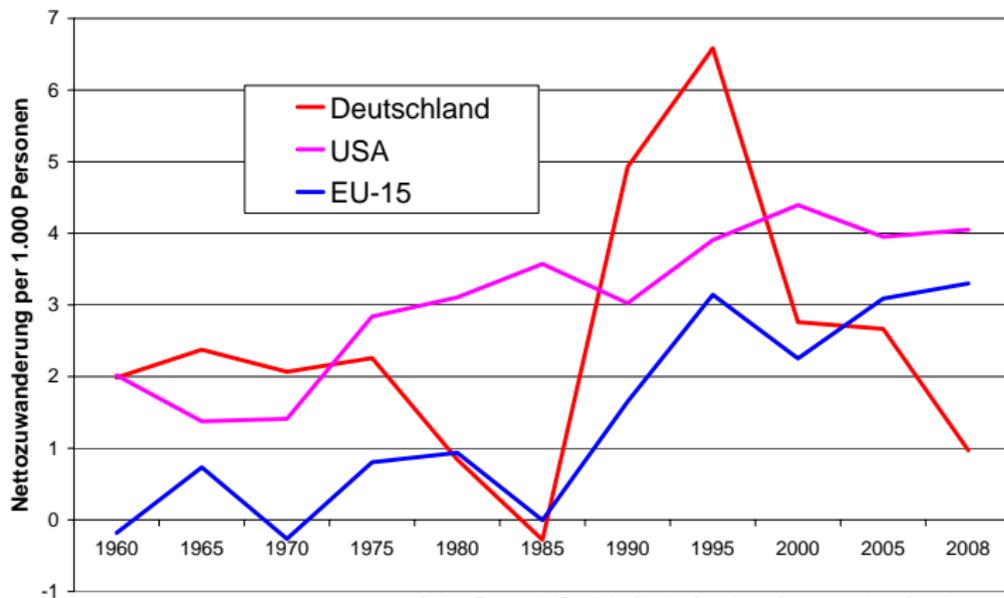
Income-gap in Europe (PPP-GDP per capita, 2011)



Germany as a destination for migrants

- Germany is after the US and Russia the destination with most immigrants in the world (World Bank, 2012)
 - 8 % of the German population are foreign citizens
 - 13 % of the German population are foreign-born
 - 19.5 % of the German population have a 'migration background' (Mikrozensus, 2011)
- Net immigration decreased from 5 per 1,000 in the 1990s to 1 per 1,000 in 2000-2010 (75,000 persons p.a.)
- New migration surge Euro crisis: net migration of 278,000 in 2011 and approximately 370,000 persons (estimate) in 2012

Net immigration per 1,000, 1960 - 2008



Quellen: Eurostat; UN Population Division, Statistisches Bundesamt, eigene Berechnungen.

German immigration policies

- Labor market protection main objective of German immigration policies since 1973
- Family reunification, immigration of ethnic Germany ("Spätaussiedler") and humanitarian migration many channels of entry since 1973
- First steps to skill-selective immigration policies
 - "Greencard" of the Schröder-government
 - Reform proposal of the "Süssmuth-Kommission"
 - Reform of immigration act in 2005
 - About 100 permanent residency permits for high-qualified p.a. since then
 - About 10,000 residency permits for qualified workers p.a. since then
 - Amendment of immigration act in 2009
 - Amendment of immigration act in 2012
- Long transitional periods for free movement of workers

Two non-intended consequences

- 1 Relatively low skill-level of immigrants in Germany
 - Average skill level of migrant population in Germany is
 - Below that of native population in Germany
 - Below that of average foreign-born population in OECD countries
 - Similar to that of native population in sending countries
 - But: Skill levels of new arrivals have dramatically increased from 2000 to 2010
- 2 Labor supply will dramatically decline in Germany until 2050
 - Without migration potential labor force will decline from 44.5 millions (2005) to about 28 millions (2050)
 - A net immigration of 200,000 persons p.a. will reduce this decline to 36 millions (Fuchs/Söhnlein, 2008)

Why protecting the labor market?

A policy statement

"Der Staat ist verpflichtet, seine Bürger und Bürgerinnen zu schützen, er ist verpflichtet zu verhindern, daß Familienväter und Frauen arbeitslos werden, weil Fremdarbeiter zu niedrigen Löhnen ihnen die Arbeitsplätze wegnehmen."

"The state is obliged to protect its male and female citizens, it is obliged to prevent that family fathers and women become unemployed since low-wage foreign workers take away their jobs."

Oskar Lafontaine, Chemnitz, July 4, 2005

Why protecting the labor market?

A textbook case

" (...) after World War I, laws were passed severely limiting immigration. Only a trickle of immigrants has been admitted since then. ... By keeping labor supply down, immigration policies tends to keep wages high."

Paul A. Samuelson, *Economics*, 6th edition, New York: McGraw-Hill 1964.

What are the labor market effects of immigration?

- Does immigration reduce wages in receiving countries?
- Does immigration increase unemployment in receiving countries?
- Which groups benefit, which groups lose in the labor market?
- Does the labor market bear the whole brunt of adjustment or do other markets adjust as well? Goods markets, capital markets?
- Are there other gains, e.g. by a higher rate of technological progress and economic growth?

Labor market integration of immigrants

- Why are immigrants disproportionately affected by unemployment and receive lower wages?
 - Qualification?
 - Labor market discrimination?
- What are the causes for skill-downgrading ('brain waste')?
- Do immigrants assimilate into host countries labor markets over time?
- How do immigrants integrate into host countries educational systems?

Other questions

- Determinants of migration and self-selection of migrants
- Impact on welfare state
- Problems of social integration and cohesion
- Political issues

Part II

What will we investigate in the project seminar?

A classical question

- What is the impact of immigration on wages and employment?
- Considering imperfect labor markets

Labor market effects of immigration

- Effects of immigration on specific groups in the labor market (qualification, work experience, natives and immigrants)
- Consideration of unemployment
- Comparative, cross-country approach
- Using data from Germany, Denmark and the UK

The traditional approach

"(...) the effect of immigration on the labour market outcomes of natives is small."

Rahel Friedberg and Jennifer Hunt, *Journal of Economic Perspectives*, Vol. 9, 1995

- A large econometric literature uses the regional (spatial) variance of the immigration share for identification of labor market effects
- These studies find on average that an immigration of 1 % of the labor force
 - increases the unemployment rate by less than 0.1 percentage points (Longhi et al., 2006),
 - and the wages reduces by less than 0.1 percent (Longhi et al., 2005)

Two approaches to measure the immigration effects

- **Simple regression models** which explain the wage or the (un-)employment rate in region by the foreigner share thereby controlling for covariates (e.g. production)
- Estimation of the parameters of **structural models** (so-called production function or factor proportion approach) and simulation of immigration effects
 - Estimation of parameters of CES- or Translog-production function

Criticism of the traditional studies ...

"(...) this framework has been troublesome because it ignores the strong currents that tend to equalize economic conditions across regions and cities."

George J. Borjas, *Quarterly Journal of Economics*, Vol. 118, 2003

- Endogeneity problem: migrants concentrate in prosperous regions with high wages and low unemployment
- Solution I: Natural experiments (*Mariel Boatlift*, Card, 1990)
- Solution II: Estimation with instrumental variables (e.g. Haisken-DeNew/Zimmermann, 1995)

... and the proposal of an alternative

- Exploiting the variance of the foreigner share across education and work experience groups at *national* level for identification of wage and employment effects (Borjas, 2003; Aydemir/Borjas, 2006)
- Result: Immigration of 1% of labor force reduces native
 - wages by 0.3 to 0.4 %
 - employment by 0.3 to 0.4 %-points
 - surprisingly similar results are found for Canada and Mexico (Aydemir/Borjas, 2006)

... whose criticism followed subsequently

- Two modifications ...
 - Foreigners and natives are treated as imperfect substitutes even if they have the same education and work experience levels
 - stepwise adjustment of capital stocks is considered
- ... change results completely:
 - wages of natives increase by 0.06 % at immigration of 1 % into the USA
 - while wage of foreigners fall by 1.2%
 - Ottaviano/Peri (2006; 2012)
 - Empirical criticism by Borjas/Grogger/Hanson (2008; 2012)

What can we learn from this?

- Three important conclusions from the US literature
 - The assumption, that labor markets are closed entities, is questionable
 - Immigrants and natives need not to be perfect substitutes in the labor market even if they have same education and work experience
 - The adjustment of capital and goods markets matters
- The US research is however not entirely transferable to Europe
 - Other institutions of wage-setting and welfare state request consideration of imperfect labor markets and (persistent) unemployment

European studies

- Estimation of the Borjas (2003) and Ottaviano/Peri (2006/2012) model in Germany and the UK (Bonin, 2005; D'Amuri et al., 2010; Felbermayr et al., 2008; Manacorda et al., 2006/2012)
- Consideration of unemployment in separate regressions (D'Amuri et al., 2010)
- Simultaneous estimation of wage and employment effects in structural model with wage rigidities (Brücker/Jahn, 2011; Brücker, Jahn, Upward, 2012)
- These studies have in common, that they find only moderate wage and employment effects

Part III

What are the tasks ahead of us?

Tasks

- 1 Review of the state of research
- 2 Outline of research question
- 3 Choice of research method
- 4 Getting familiar with software (STATA)
- 5 Data collection
- 6 Data description
- 7 Estimation of simple econometric regression model
- 8 Discussion of estimation results
- 9 Presentation in class
- 10 Draft of research paper

What kind of assistance will be provided?

- Provision of literature
- Provision of data
- (Brief) Introduction into STATA
- Advice in data description and estimation
- Discussion of estimation results

What has to be done by the class?

- Review of complementary literature
- Other data sources?
- Learning STATA
- Descriptive statistics and graphs
- Estimation of simple regression model
- Presentation in class
- Draft of research paper

Literature: Classical contributions

- Friedberg, R., J. Hunt (1995), The impact of immigration on host country wages, employment and growth, *Journal of Economic Perspectives*, Vol. 9, pp. 23-44.
- Card, D. (1990), The Impact of the Mariel Boatlift on the Miami Labor Market, *Industrial and Labor Relations Review*, Vol. 43(2), pp. 245-257.
- Hunt, J. (1992), The Impact of the 1962 Repatriates from Algeria on the French Labor Market, *Industrial and Labor Relations Review*, Vol. 45, pp. 556-572.
- Borjas, G.J., R. Freeman, L. Katz (1997), Searching for the Effect of Immigration on the Labor Market, *American Economic Review*, Vol. 86(2), pp. 246-251.
- Pischke, J.S., J. Velling (1997), Employment effects of immigration to Germany: an analysis based on local labor markets, *Review of Economics and Statistics*, Vol. 79, pp. 594-604.

Literature: The Borjas vs. Ottaviano-Peri Controversy

- Borjas, G.J. (2003), The Labor Demand Curve is Downward Sloping: Reexamining the impact of immigration on the labor market, *Quarterly Journal of Economics*, 2003, pp. 1335 - 1374.
- Aydemir, A., G.J. Borjas (2006), Cross-country variation in the impact of international migration: Canada, Mexico, and the United States, *Journal of the European Economic Association (JEEA)*, Vol. 5(4), pp. 663-708.
- Ottaviano, G., G. Peri (2006/2012), Rethinking the Gains from Immigration: Theory and Evidence from the U.S., NBER WP 12497, published in *Journal of the European Economic Association (JEEA)*, Vol. 10(1), 2012

Literature: The Borjas vs. Ottaviano-Peri Controversy (II/II)

- Borjas, G.J., J. Grogger and G.H. Hanson (2008), Imperfect Substitution between Immigrants and Natives: A Reappraisal, NBER WP 13887, published in *Journal of the European Economic Association* (JEEA), Vol. 10(1), 2012
- Ottaviano, G., G. Peri (2008), Immigration and National Wages: Clarifying the Theory and the Empirics, NBER WP 14188
- Dustmann, C., I. Preston (2012), Comment: Estimating the Effect of Immigration on Wages, *Journal of the European Economic Association* JEEA, Vol. 10(1), 2012, 216-222.

Literature: Recent German and European Studies

- D'Amuri, F., Ottaviano, G., G. Peri (2008), The Labor Market Effect of Immigration in Western Germany in the 1990s, NBER WP 13181, published in *European Economic Review* 2010
- Felbermayr, G., Geis, W., Kohler, W. (2008), Restrictive Immigration Policies in Germany: Pains and Gains Forgone?, CESifo Working Paper 2316, published in *Weltwirtschaftliches Archiv* 2010
- Manacorda, M., Manning, A., Wadsworth, J. (2006/2012), The Impact of Immigration on the Structure of Male Wages: Theory and Evidence from Britain, IZA DP 2352, publ. in *Journal of the European Economic Association* (JEEA), Vol. 10(1), 2012
- Brücker, H., E. Jahn (2011), Migration and Wage-Setting: Reassessing the Labor Market Effects of Migration, *Scandinavian Journal of Economics*, 2011

Time schedule

- May 16: Discussion of state of research and outline of estimation approach
- May 30: Introduction into STATA I
- June 13: Introduction into STATA II
- June 27: Estimation and descriptive statistics
- July 4: Preparation of final presentation
- July 11: Preparation of final presentation (reserve date)
- July 18: Presentation of papers in class
- August 15: Submission of research paper

May 3: Reading List (obligatory for all!)

- Friedberg, R., J. Hunt (1995), The impact of immigration on host country wages, employment and growth, *Journal of Economic Perspectives*, Vol. 9, pp. 23-44.
- Pischke, J.S., J. Velling (1997), Employment effects of immigration to Germany: an analysis based on local labor markets, *Review of Economics and Statistics*, Vol. 79, pp. 594-604.
- Borjas, G.J. (2003), The Labor Demand Curve is Downward Sloping: Reexamining the impact if immigration on the labor market, *Quarterly Journal of Economics*, 2003, pp. 1335 - 1374.

May 16: Presentation of groups

- Group I: Classical contributions
- Group II: The Borjas approach
- Group III: The Borjas-Ottaviano-Peri controversy

Contact

- Email: herbert.bruecker@iab.de
- Fon: 0911-179-3807
- Sekretary at IAB: Claudia Münzer
- Email: claudia.muenzer@iab.de
- Fon: 0911-179-3238
- Sekretary at Bamberg University: Petra Koch
- Email: sekretariat.wirtschaftspolitik@uni-bamberg.de
- Fon: 0951/863-2633