

Task 5.5

Migration, labour market transition, and policies

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1. Task description

This task will study the effects of increased migration on receiving EU labour markets. First, we seek to understand which groups of workers are at risk of job loss or wage reduction due to increased migration. Second, we will identify which migrants are able to transition to gainful employment, and which groups will rely on welfare benefits. We focus on policies governing migration and labour market integration. These questions are studied in a context of refugee migration and working migration in light of EU eastern enlargements. Such labour supply shocks are likely to negatively affect the labour market opportunities of competing natives and 'old migrants', but positively affect those of complementary workers.

2. Background/ setting

Thanks to the free movement of workers within the European Union (EU) and several rounds of EU Enlargement, the mobility of workers within the EU has increased substantially over the past two decades. Immigrant workers contribute to the well-functioning of labour markets in host countries, however, they might potentially threaten employment or wages of some groups of natives. From simple theory one would expect domestic workers in similar jobs or education groups as the immigrants to be at risk of substitution, which may reduce jobs or employment (i.e. increase job loss). On the other hand, domestic workers in complementary jobs or education groups may benefit from complementarities with immigrants leading to higher wages or employment. Effects on employment and wages should be considered jointly because where effects show up depends on labour market regulation.

3. State-of-the-art

The general literature on labour market effects of migration is large but not conclusive, see Borjas (2014) as well as Card and Peri (2016). At the same time, labour market integration of migrants is highly dependent on the reason of migration (refugee vs. working migration) and the governance of migration flows

(Dustmann et al. ,2017a; de la Rica et al., 2015). Advancing upon the above stated simplistic model, the literature has pointed to more refined complementary relationships between domestic and immigrant workers. In Denmark, low-skilled native workers have benefitted from the arrival of refugees working in low-skilled jobs as the former have been “pushed” into more communication intense and less manual intense jobs which also pay higher wages (Foged, Peri, 2016). Turning to high-skilled immigrants, the opening of the Swiss border to foreign workers increased the number of high skilled cross-border commuters (Beerli et. al, 2021). In response, high skilled domestic workers saw career progressions towards more managerial positions and firms increased their innovations (ibid.). Studying the border openings from the Czech Republic to Germany after the fall of the Iron Curtain, Dustmann et al. (2017b) point to important dynamics especially among labour market entrants who then move more frequently to other regions and/ or obtain additional education.

Until now, there exists very little evidence on migration following EU eastern enlargement. Becker and Fetzer (2018) study EU migrants in the UK and find that migrants from the EU tend to settle in areas with little pre-existing migration. These areas experience smaller wage growth at the lower end of the wage distribution and increased pressure on the welfare state. Kuosmanen and Meriläinen (2020) study the case of the construction sector in Finland and find substantial wage effects but only small employment effects, which is in contrast to previous findings of border openings within the EU. Stiglbauer (2020) finds a slight increase in the unemployment risk for domestic workers in Austria following EU eastern enlargement, which, however, is higher for manual workers and service and sales occupations. We therefore need to gain a deeper understanding of how EU migration affects labour markets.

4. Advancement compared to the state of the art

The literature on migration within and into the EU is still inconclusive. Therefore, we provide additional evidence on the effects from EU enlargement on natives and “old” migrants in terms of wages and employment/ job loss. In order to shed more light on potential winners and losers from EU migration, this task will focus on distributional effects from EU immigration along the entire distribution of skills. To assure reliability of the lessons learned, causal evidence will be provided based on individual-level data joint with a causal empirical identification strategy based on instrumental variables

5. Research to be done

This task will first provide an overview of what is known from the literature about effects from border openings on different labour market outcomes focusing on employment and wage effects. The empirical analysis provides empirical evidence on the effect of increased immigration from Eastern European member states. Germany is taken as a case study for constituting the largest economy and the largest single-country labour market in the EU as well as receiving the largest share of within-EU immigration on the European main land. We will describe empirically to what extent EU immigration was predominantly into low-wage groups. This is why—as a novel contribution—the share of Eastern EU migrants will be measured separately by wage groups (of the native wage distribution). The empirical analysis starts by describing the development of domestic employment after EU Enlargement. This task then turns to measuring the causal impact on individual native workers. If data availability allows, we will put a special emphasis on former migrants who may be at special risk from immigration. This way, the analysis contributes to understanding which groups of employees face the highest risk of experiencing wage losses or gains from EU immigration.

6. Methodology

We start by describing empirically where Eastern European immigrants work in the native wage distribution and how this distribution has developed over time.

We then describe empirically the trends of domestic workers' employment rate after EU Enlargement to find hints for job losses or gains along the skill distribution.

In the regressions we take account of regional sorting of immigrants by employing a past settlement shift-share instrumental variable (IV) approach.

To measure the microeconomic effect of immigration along the wage distribution we will check the feasibility of employing either quantile or distributional regressions.

7. Data sources

- Integrated Labour Market Biographies, i.e. 100% full sample of the labour force to measure immigration in wage groups.
- Sample of Integrated Labour Market Biographies (SIAB), i.e. 2% random sample of the labour force for native wage response.

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