



**Centre for
Economic
Policy
Research**



*Centre for Research
and Analysis
of Migration*

Immigration, Jobs and Wages: Theory, Evidence and Opinion

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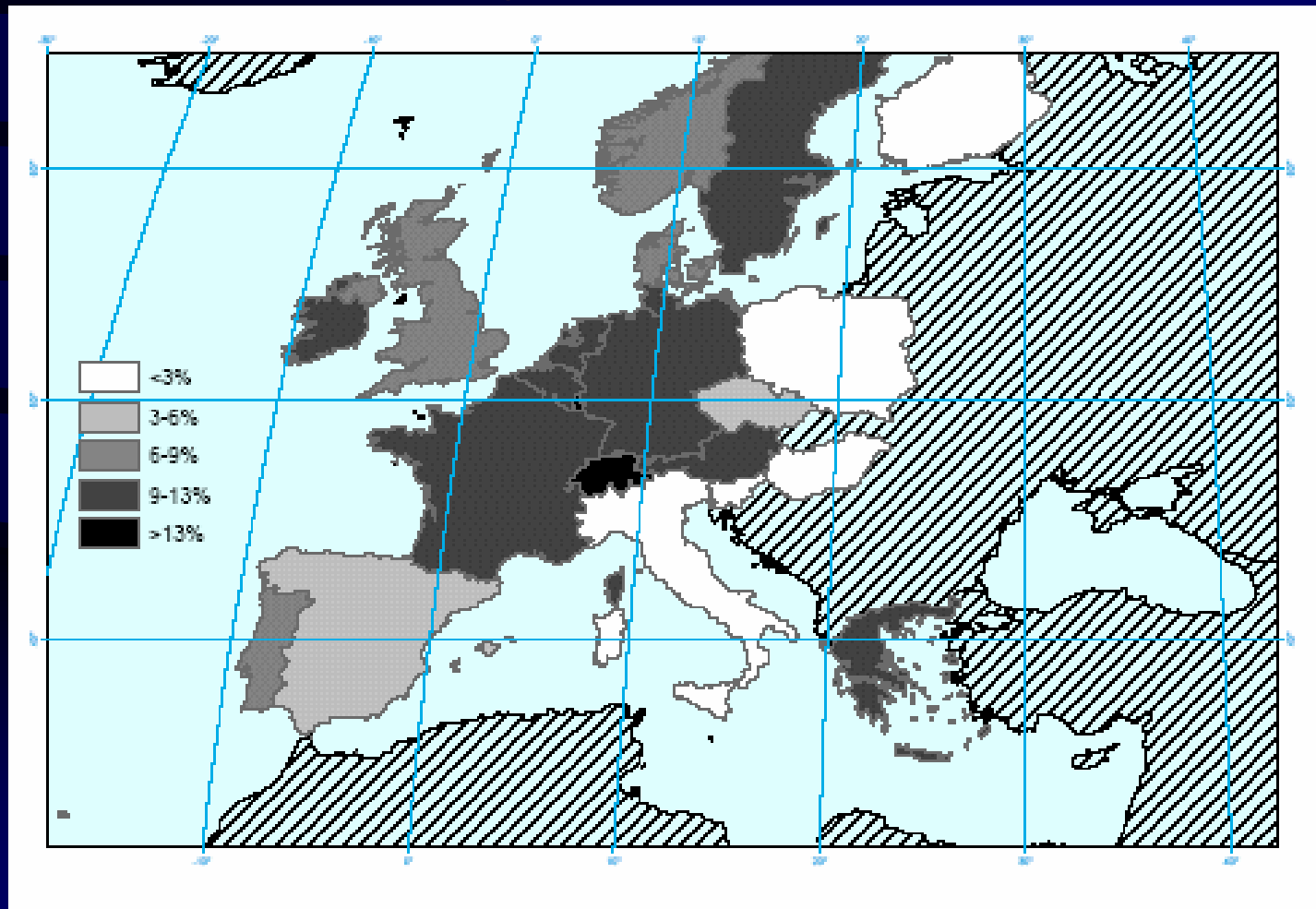
Structure of Talk

- Migration and Europe: Historical Perspective
- Labour Market Effects of Immigration
 - Theoretical Perspective
 - Empirical Measurement
 - Empirical Findings
- Migration and Public Opinion
- Conclusion

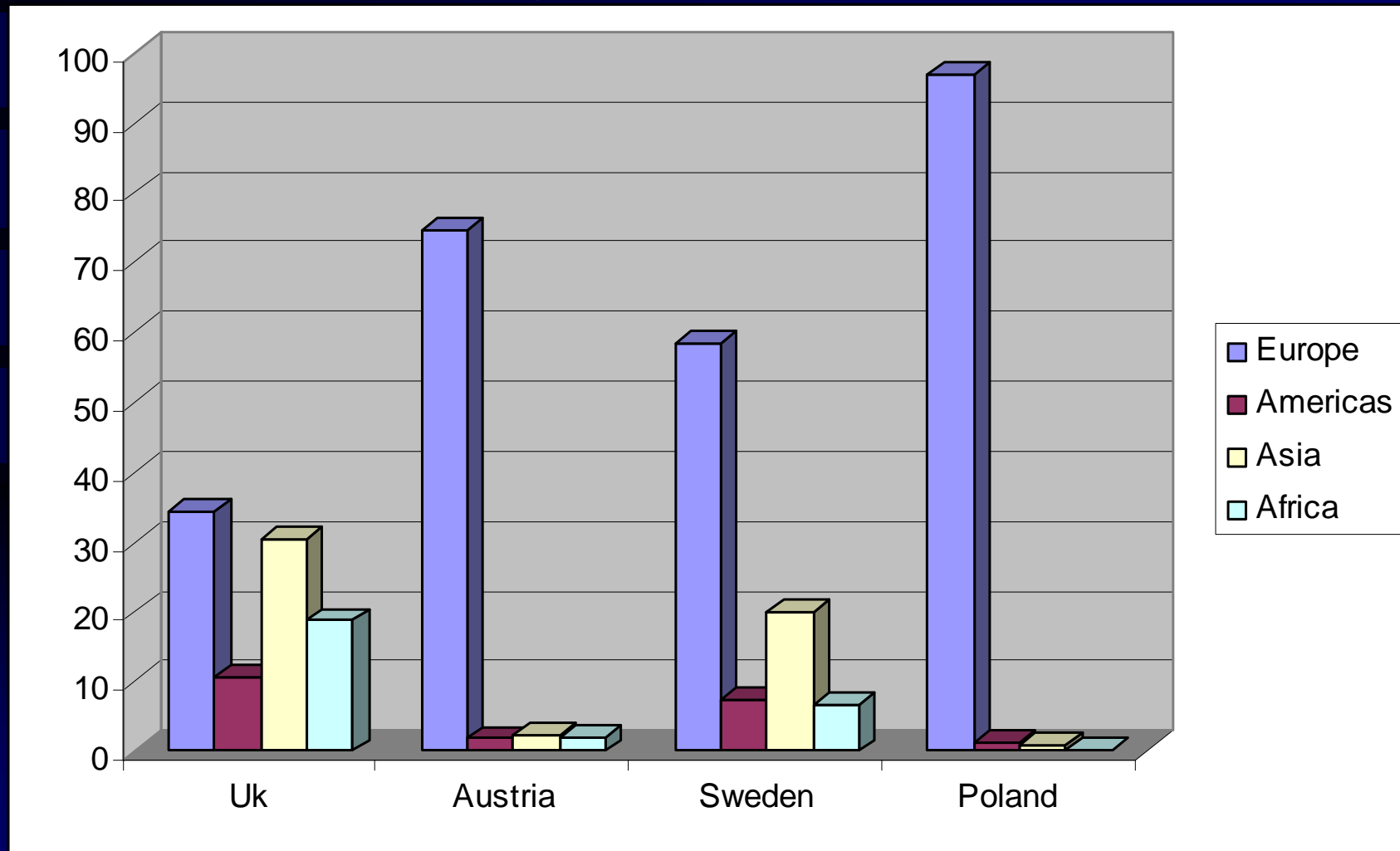
Historical Perspective

- Immigration experience diverse across European countries
- Composition and size of immigrant populations differs widely
- Very different from the US experience
- Results from one country study are unlikely to hold for another country.

Historical Perspective: Stock of Immigrant Population



Historical Perspective: Composition of Immigrant Population



Labour Market Effects of Immigration: Theory

- Models used to analyse effects of immigration on wages and employment: *equilibrium models*
- Question: *What happens if the number of workers of some type increases in an economy that is in full employment equilibrium*
- But: Full employment equilibrium often not the situation in which immigration occurs
- Europe's recent history: periods of large immigration often characterised by high number of vacancies in receiving economy

Labour Market Effects of Immigration: Base Model

- One industry, produces output using capital, skilled and unskilled workers.
- Assumption: price of capital (interest rate) is set on international market.
- Before immigration: Economy is in full employment equilibrium

Labour Market Effects of Immigration: Theory

- Immigration, Scenario 1: Immigrants resemble the native population in skill mix. -> Economy will adjust by increasing output, keeping wages on the pre-immigration level.
- Immigration, Scenario 2: All immigrants are unskilled. -> Immigration increases proportion of unskilled workers. This decreases wages of unskilled workers, but increase wages of skilled workers. Overall, the resident workforce will gain (*immigration surplus*); however, unskilled workers will loose (*re-distribution problem*).

Labour Market Effects of Immigration: Theory

- Extension: Two industries, open economy with goods traded on international markets (->output prices are set on international markets)
- Immigration: All immigrants unskilled. Although immigration increases the proportion of unskilled workers, economy will now adjust by changing the output mix, keeping wages on the pre-immigration level. No wage effects in the longer run, but also no welfare effects.

Empirical Measurement

- Empirical research tries to measure the *causal* effect of immigration: wages of residents after immigration (observed) compared to wages if immigration had not occurred (*counterfactual situation*).
- Construction of counterfactual situation is difficult and at the core of academic research.

Empirical Approaches: Spatial Correlation Approach

- Thought experiment: Divide country into 2 spatial units (say R1 and R2). Only R1 experiences immigration.
- Compute average wages of residents in R1 and R2 before and after immigration, and relate changes in wages to changes in immigrants population.

Spatial Correlation Approach: Problems

- Immigrants tend to go where economic situation is more favourable
 - Solutions:
 - Analyse experimental situations (e.g. Miami Boat Lift)
 - Analyse situations where allocation is exogenous
 - Use region characteristics that are not correlated with economic shock, but affect location decisions of immigrants
- Out-migration of natives

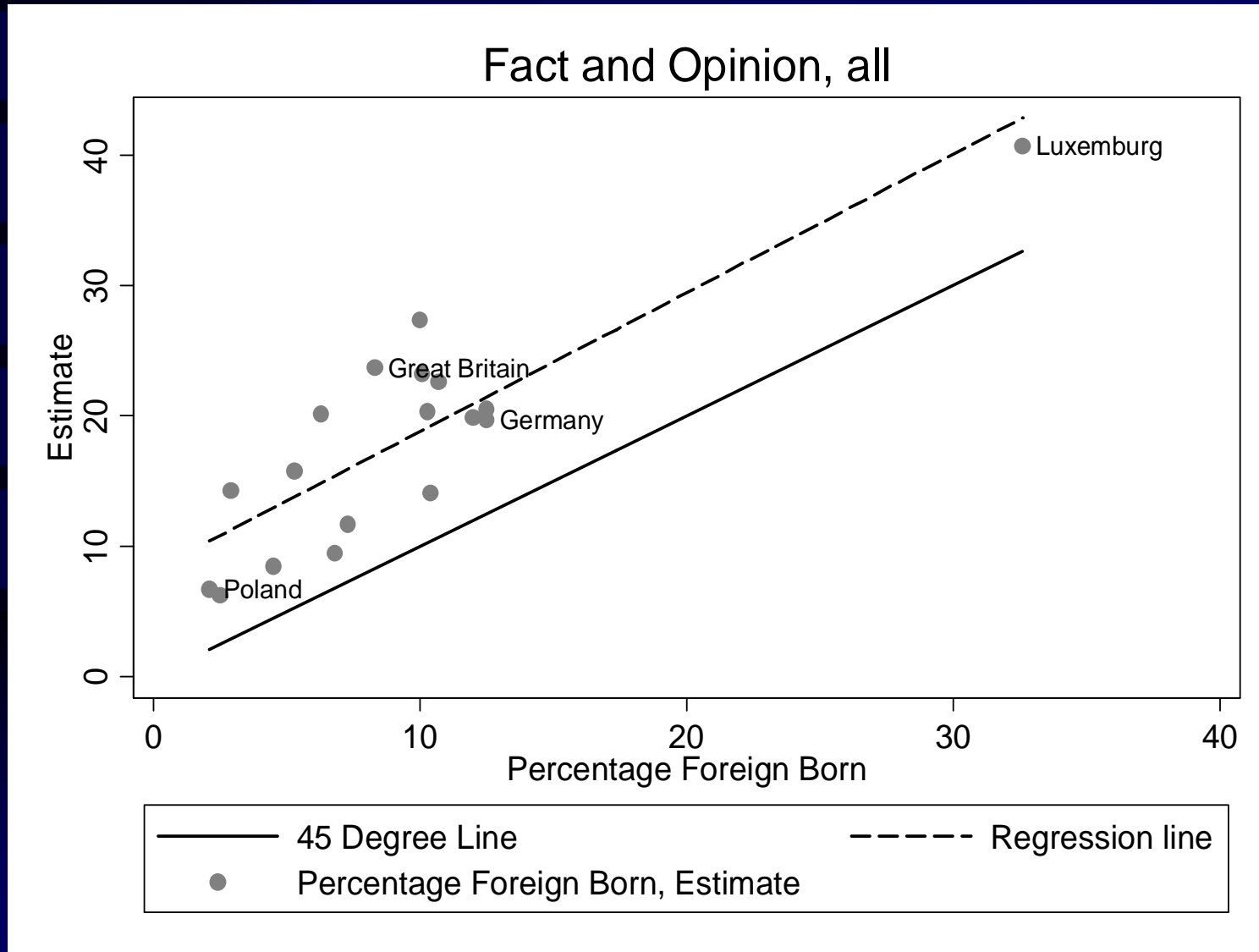
Alternative Approaches

- Simulation based approaches: Create *counterfactual situation* based on economic model and pre-estimated parameters rather than on direct estimation
- Skill cell correlation approach: Consider the entire national economy and distinguish between different age-education cells

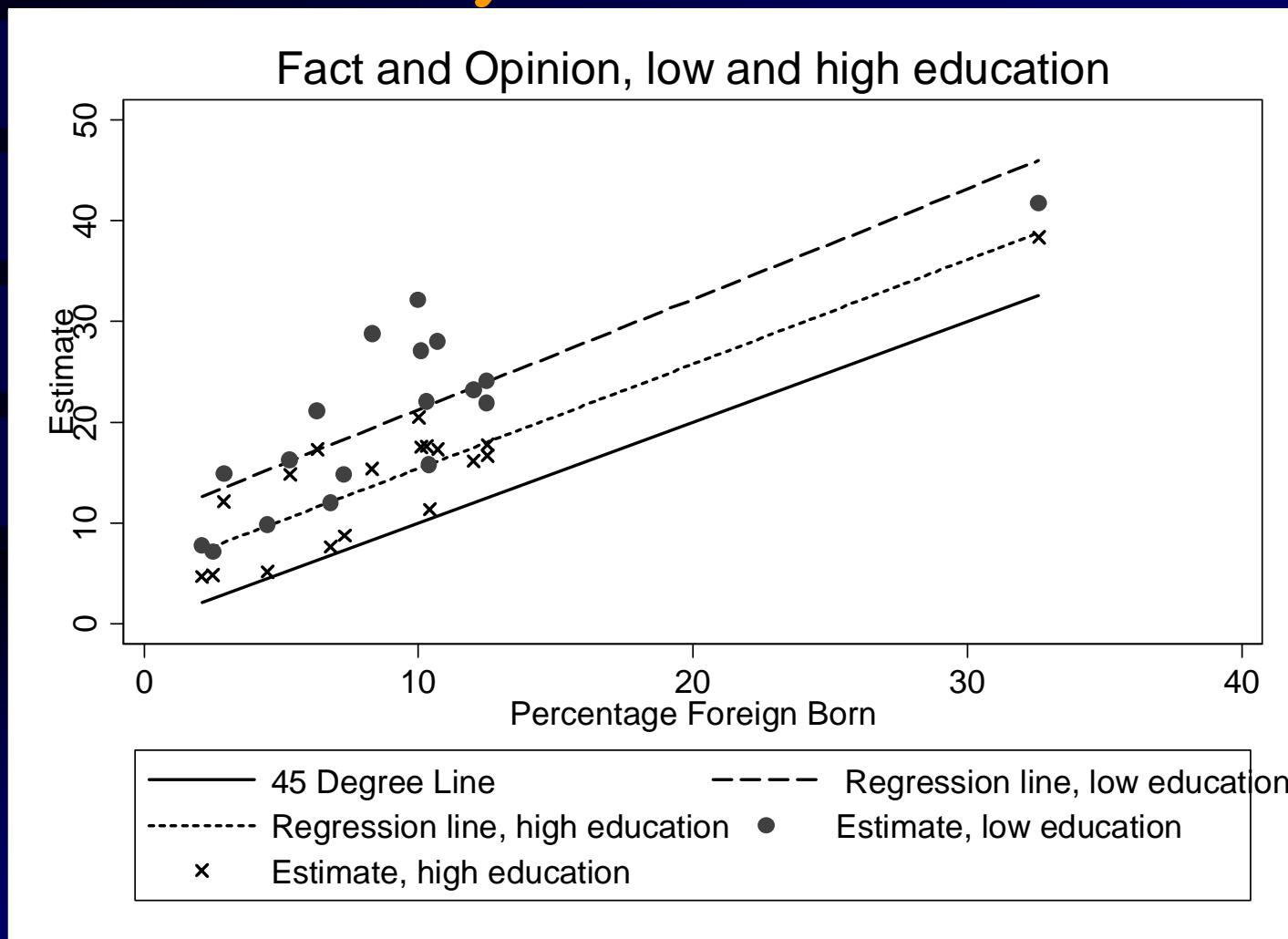
Summary of Findings

- US: Most studies find no, or small to moderate effects of immigration on wages and employment of native groups. Key question: Why?
- Still ongoing debate
- Europe: Again, majority of studies finds no, or small to moderate effects

Factual Knowledge about Immigration



Factual Knowledge about Immigration, by education

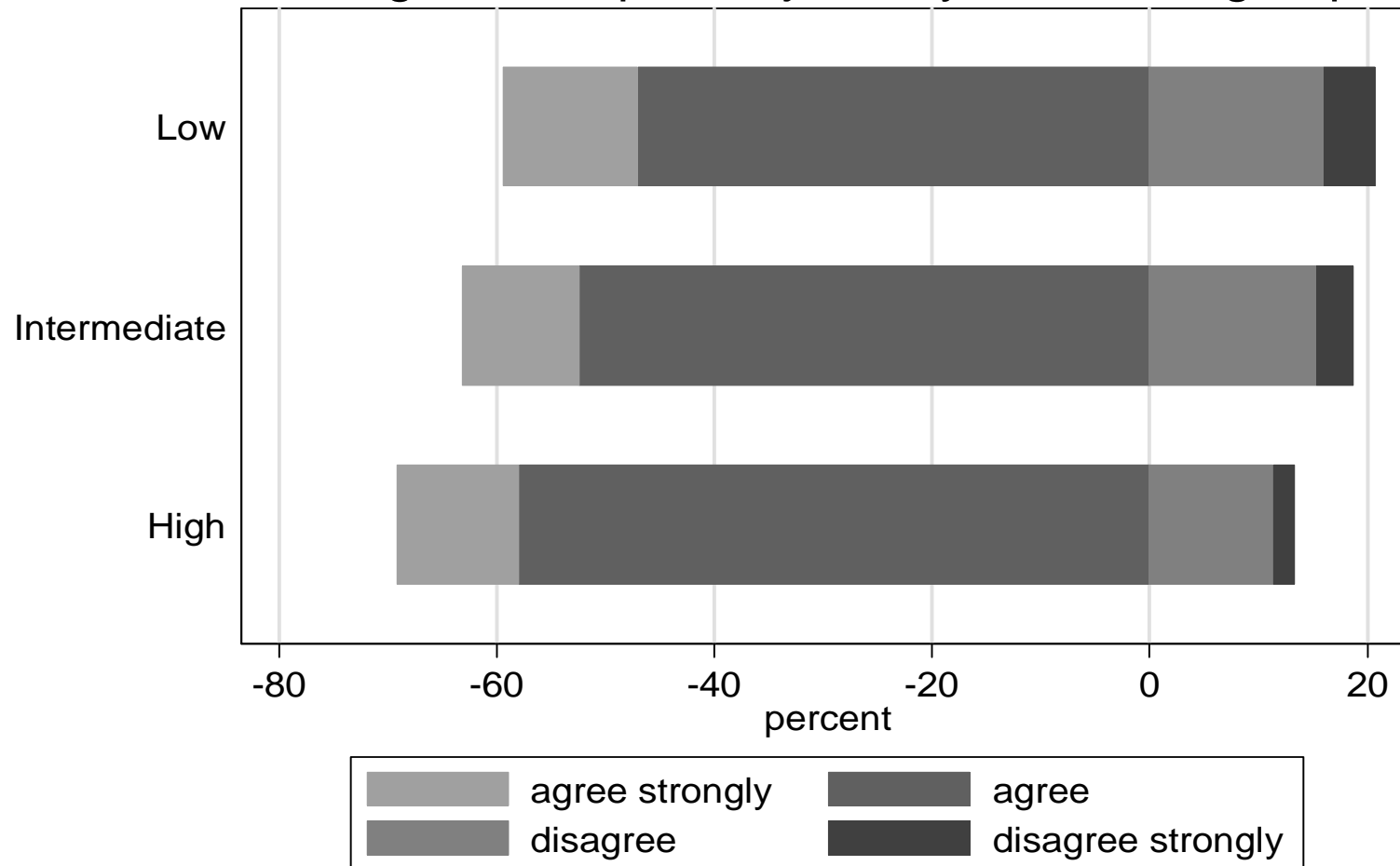


Opinion About Effects of Immigration

- Responses to the following questions are analysed:
 - Average wages are generally brought down by immigrants
 - Immigrants harm economic prospects of the poor more than the rich
 - Immigrants help fill jobs where there are shortages of workers
 - Immigrants take jobs away in country or create new jobs

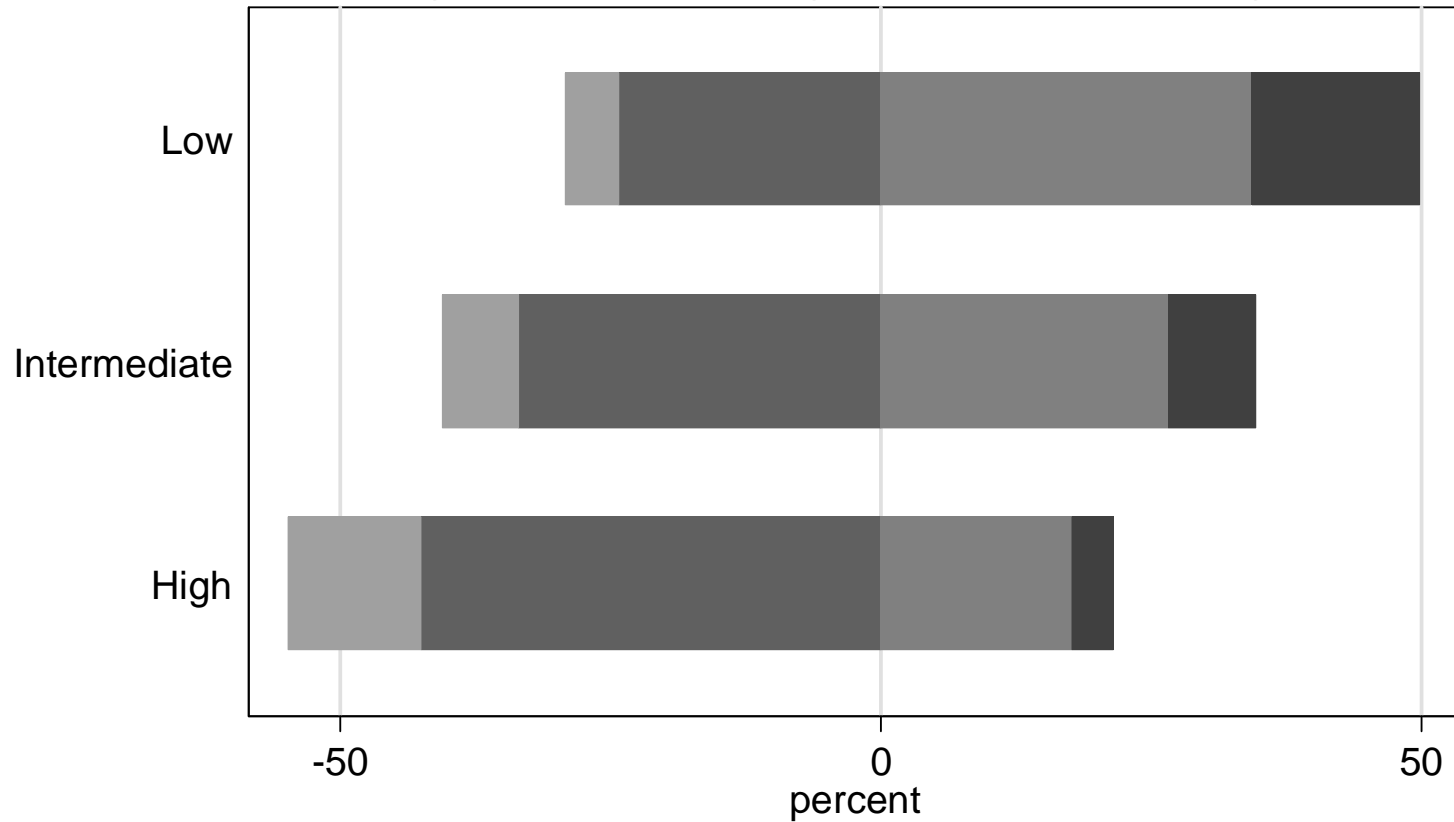
Jobs and Immigration, by Education

Immigrants help to fill jobs, by education groups



Wages and Distribution, by Education

Immigrants lower wages, by education groups



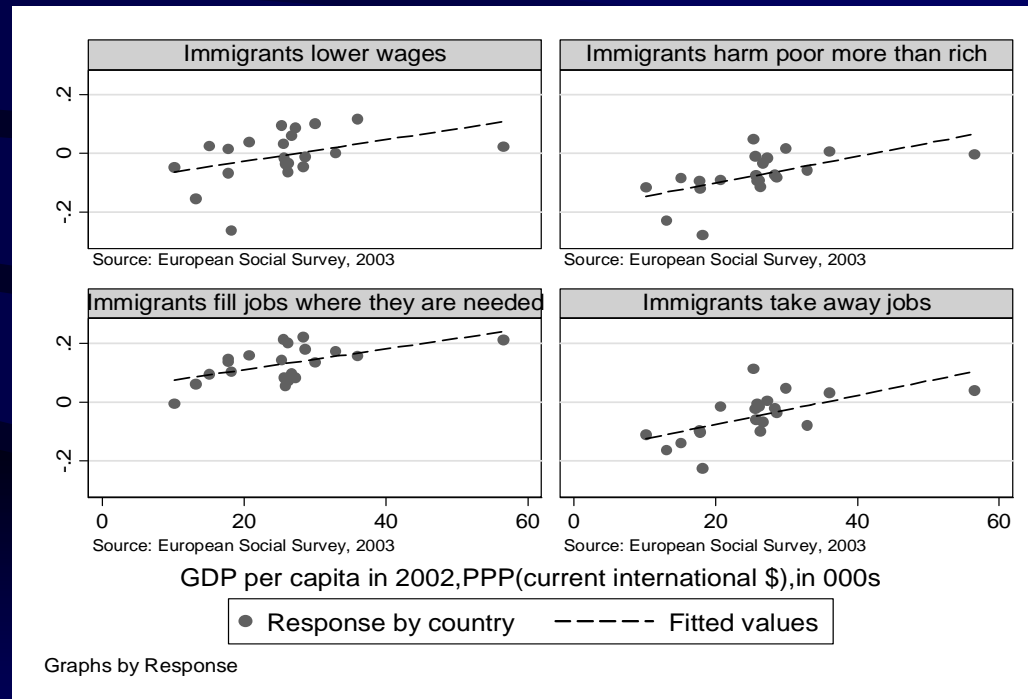
Country Variation in Opinion

Table 6.4 Normalized coefficients of country dummies

Wage		Distribution		Fill		Jobs	
Coef.	Country	Coef.	Country	Coef.	Country	Coef.	Country
0.1	DK	0.01	DK	0.21	IT	0.04	DK
0.09	SE	0	NO	0.21	LU	0.04	LU
0.08	NL	0	LU	0.2	FR	0.03	NO
0.06	BE	0	IT	0.18	AT	0	NL
0.03	ES	-0.01	NL	0.17	IE	0	FI
0.03	IT	-0.03	BE	0.15	ES	-0.01	FR
0.02	CZ	-0.05	IE	0.15	NO	-0.01	ES
0.02	LU	-0.07	CH	0.14	PT	-0.02	CH
0.01	SI	-0.07	GB	0.14	SE	-0.02	IT
0	IE	-0.08	AT	0.13	SI	-0.03	AT
-0.01	AT	-0.08	CZ	0.13	DK	-0.05	GB
-0.01	GB	-0.09	ES	0.1	GR	-0.06	BE
-0.03	DE	-0.09	FR	0.09	BE	-0.07	IE
-0.03	FI	-0.09	SI	0.09	CZ	-0.09	SI
-0.04	CH	-0.09	FI	0.08	NL	-0.09	DE
-0.04	PL	-0.11	DE	0.08	GB	-0.1	PT
-0.06	FR	-0.11	PL	0.07	DE	-0.11	PL
-0.06	PT	-0.12	PT	0.06	HU	-0.14	CZ
-0.15	HU	-0.23	HU	0.05	FI	-0.16	HU
-0.26	GR	-0.28	GR	-0.01	PL	-0.22	GR

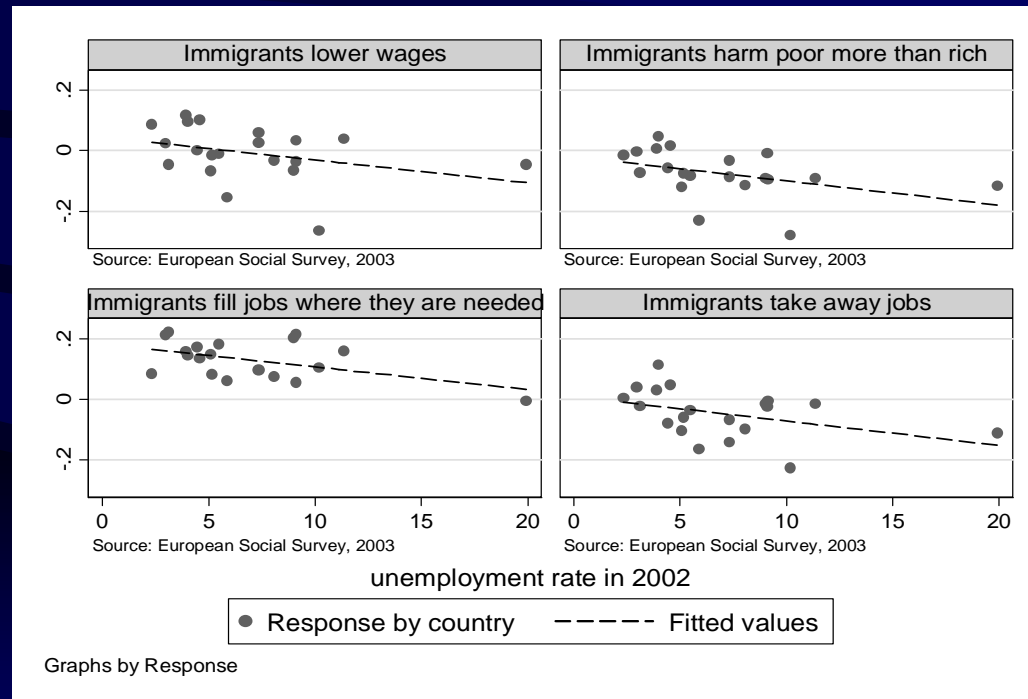
Source: European Social Survey, 2003.

Differences Across Countries GDP



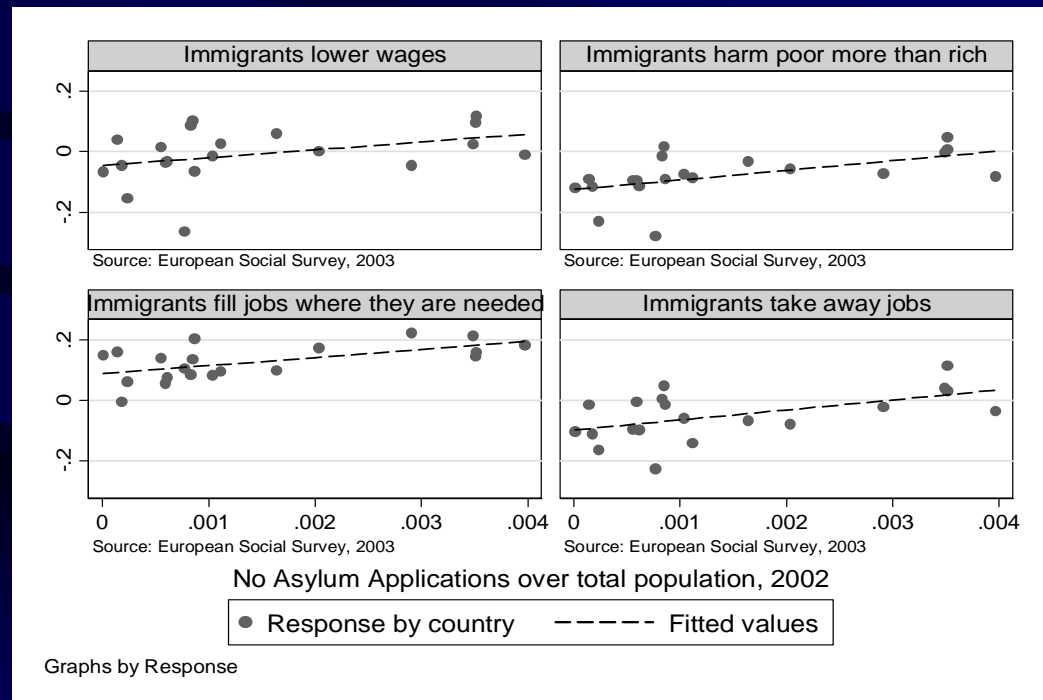
Differences Across Countries

Unemployment Rate



Differences Across Countries

Asylum Applications



Conclusions

- Factual knowledge about immigration is low.
- Policy may react to ill-informed beliefs
- Important to bring factual information based on good research to the attention of the electorate.

CReAM Website:

www.econ.ucl.ac.uk/cream/