



Does immigration increase labour market flexibility?

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ARTICLE INFO

Article history:

Received 27 October 2011
Received in revised form 2 May 2012
Accepted 8 May 2012
Available online 24 May 2012

JEL classification:

J61
R23
R11

Keywords:

Immigrants
Regional mobility
Labour market efficiency

ABSTRACT

The question we investigate empirically in this article is whether immigration makes the labour supply in the receiving country more responsive to regional differences in economic opportunities. The main merit of the paper is that we examine three stages in the regional mobility of refugees and labour immigrants: First, the settlement pattern of newly arrived immigrants, second, their subsequent mobility between regions and, third, their eventual exit from the regional labour market to abroad. The analyses apply to immigrants who arrived in Norway from 1995 to 2004. In all three stages, mobility is investigated with regard to its responsiveness to regional differences in wages and unemployment. The main finding is that, in all three stages, the geographical mobility of immigrants is sensitive to regional economic opportunities. In that sense, immigrants do “grease the wheels” of the labour markets, through all the three stages of mobility. The most robust results are found for regional unemployment differences. With regard to natives, we generally do not find any strong evidence for “greasing the wheels” effects.

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1. Introduction

Within the traditional neoclassical model, workers respond to spatial disparities in labour market opportunities by moving in the direction of higher expected wages and, thus, contribute to the equalization of marginal productivity across regions. When wages do not adjust perfectly to shifts in demand and supply, geographical mobility contributes to restore the balance in the regional labour markets. Accordingly, if the geographical mobility of the labour force becomes more responsive to regional disparities in economic opportunities total productivity increases.

Along with the increase of immigration to many developed countries, there has been a growing interest in analysing economic consequences of immigration in the receiving countries. A large share of economic studies has analysed the effect of immigration on native wage and employment opportunities.² In this paper we build on a smaller literature analysing the effect of immigration on labour market efficiency. The main idea in this literature is the following: if the mobility of immigrants is more responsive to regional differences in labour market opportunities, they contribute more than natives to reduce inefficiency caused by a suboptimal regional distribution of

labour. When this mechanism is at work, the prediction of the neoclassical model is that regional convergence in wages and unemployment will be faster in periods of high immigration and among skill groups that receive a relatively high share of new workers from abroad. In this mechanism is at work this efficiency gain should be accounted for when costs and gains from higher immigration are summarised.

The question we ask in this paper is the one posed in Borjas (2001); whether immigration, in this manner, greases the wheels of the regional labour markets. Our empirical approach to answer this question is to investigate empirically whether immigrants make the Norwegian labour supply more responsive to regional differences in economic opportunities. In general, the mobility of workers between regions, as well as their mobility between participation and non-participation in the regional labour forces, affects this responsiveness.

The main merit of the paper is that we examine three stages in the regional mobility of immigrants with regard to variations in local economic opportunities: (1) the settlement patterns of newly arrived immigrants, (2) their subsequent mobility between regions, and (3) their eventual emigration out of the country. By this approach we, to some extent, choose broadness on the expense of deepness. That is, to assess the broad picture of how immigration affects geographical labour market flexibility, there is less space for a detailed documentation of each of these stages. The groups studied are refugees and labour immigrants who arrived in Norway during the period 1995–2004. In addition, the mobility pattern of a representative group of native Norwegians is analysed.

The paper is organized as follows: In the remainder of the introduction we take a brief look at arguments substantiating the hypothesis

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² See, e.g., Friedberg and Hunt (1995), Borjas (2003), Card (2001), Ottaviano and Peri (2011). Two recent studies from Norway are Bratsberg et al. (2010) and Bratsberg and Raam (2010).

that the mobility of immigrants is more responsive to regional differences in economic opportunities. Then, we give a presentation of earlier research and what we consider to be the contributions of this paper. The introduction ends with a short description of Norwegian immigration policy and the institutional setting. In [Section 2](#) the empirical method and data are presented. In [Section 3](#) we present the results, and in [Section 4](#) we end with some concluding remarks.

1.1. Why immigrants move more

The hypothesis that immigrants are more geographically mobile is substantiated by arguments that they belong to a group with lower mobility costs and higher preferences for income gains than the native population. Persons who have lived in a country for a long time have roots in specific regions. Thus, fixed moving costs are high. In contrast, newly arrived immigrants already have incurred the fixed costs related to uprooting. The cost of choosing one region over another in the new country may be insignificant. Income maximizing immigrants will choose a region that offers the best combination of employment probabilities and wage rates. Labour immigrants are a selected group of workers from the origin country with relatively low aversion for moving and relatively high preferences for income gain. They have shown this because they – in contrast to those staying behind – have chosen to bear the fixed cost of uprooting.

Immigrants to Norway may roughly be divided in two quite different groups: the forced movers – refugees and their families, and the voluntary movers – mainly labour immigrants and their families. This argument of self-selection based on low moving costs and high preferences for income obviously apply less strongly to the first group. However, the argument related to lack of roots in specific regional communities is equally valid for both groups.

Migrants have a tendency to choose destinations where there are large communities of fellow citizens ([Massey et al., 1993](#); [Hatton and Williamson, 2005](#); [Pedersen et al., 2008](#)). This so called network effect may hamper the responsiveness of immigrants' geographical mobility to regional differences in economic conditions, i.e., if they move in the direction of fellow citizens instead of towards favourable labour market opportunities.

1.2. The literature comparing regional mobility of immigrants and natives

The empirical economic literature analysing efficiency aspects of regional mobility is huge (see e.g., [Greenwood, 1997](#); [Blanchard and Katz, 1992](#); [Barro and Sala-i-Martin, 1992](#); [Topel, 1986](#); [Keane and Wolpin, 1997](#); [Ostrovsky et al., 2011](#); [Kennan and Walker, 2011](#)). The majority of these studies have been concerned with the responsiveness of migration flows to local labour market conditions, often measured by local income differentials.

We contribute to a smaller part of this literature comparing the spatial mobility of immigrants and natives, with regard to its responsiveness to regional economic variations. An important contribution in this respect is [Borjas \(2001\)](#). He uses U.S census data from 1950 to 1990 and analyses the link between interstate wage differences for particular skill groups and the geographical sorting of natives and immigrants. The results show that relatively new immigrants are more likely to live in states that offer the highest wage for the skills they hold. He also discovers that immigration speed up the convergence of wages across regional labour markets. Concretely, we draw on this study by using a similar approach when constructing regional wages and unemployment rates.

European evidence is found by [Schündeln \(2007\)](#). He analyses the between-state mobility of natives and immigrants, using yearly German survey data from 1996 to 2003. The independent variables are state specific expected wages and unemployment risks, which are estimated conditional on education and year. His concludes that

the mobility of immigrants is significantly more responsive to differences in labour market opportunities. We draw on this study by exploiting the same methodological (conditional approach) approach and also by using both wages and unemployment as explanatory variables.

Using the Spanish Labour Force Survey from 1999 to 2004, [Amuedo-Dorantes and de la Rica \(2010\)](#) study the relative labour supply of immigrants to Spanish administrative regions with regard to variations in the regional employment probabilities. Labour supply is defined according to education and experience. Their results suggest that immigrants, to a greater extent than natives, choose to reside in regions where their employment probabilities are higher. When distinguishing according to immigrant origin, they find that African and Latino immigrants appear more responsive than their native counterparts to higher employment rates. We compare to this study by also presenting results for different immigrant groups.

Finally, [Åslund \(2005\)](#) is a Scandinavian study. He presents evidence on the initial and subsequent locations of refugees to Sweden during the 1980s. His findings indicate that refugees and labour immigrants from OECD countries tend to move to regions where the average earnings – and employment rates – are higher. The mobility of both immigrant groups tends to be more sensitive with regard to regional differences in unemployment than the mobility of natives. We draw on this study by also analysing initial and subsequent mobility patterns for both refugees and labour immigrants, and compare them with natives.

In summary, we draw and add to the above studies in several ways: First, we investigate all three stages in regional mobility of immigrants; from their initial settlement in the new country, to subsequent mobility between regions within the country, and, finally, the eventual emigration out of the country. This approach gives a more coherent analysis of how immigrants may influence the geographical flexibility of the labour force, i.e., both by moving between participation and non-participation in the regional labour markets and by moving between them. A recent paper – although not focussing on immigrants – is interesting in this respect. In a dynamic setting, [Kennan and Walker \(2011\)](#) develop an econometric model of optimal migration, focusing on expected income as the main economic influence on migration. One key point in their model is to capture that migration decisions are reversible, and that many alternative locations must be considered. Repeat migration is a prominent feature in their data, and in many cases individuals choose to return to a location that they had previously chosen to leave. Their main conclusion is that interstate migration decisions are influenced to a substantial extent by income prospects. Second, we distinguish between two groups of immigrants who have very different motives for leaving their home country, and who also migrate within very different institutional settings; refugees and labour immigrants. Third, we exploit rich individual register panel data to follow individuals over time between geographical regions and labour market statuses.

1.3. Immigration to Norway and the institutional setting

The share of immigrants in the Norwegian population has increased considerably during the last few decades; from approximately 2% of the population in 1980 to approximately 12% in 2011 ([Statistics Norway, 2011a](#)). In the same period the composition of the immigrant inflow has changed, from a majority being Nordic and other western labour immigrants to a majority of refugees and family immigrants from geographically and culturally more distant parts of the world. In the 10 year period we study, 1995–2004, growth in the Norwegian immigrant population was due to an increased inflow of the last type. However, from 2006, labour immigrants from Eastern and Central European countries have constituted the majority in yearly migration inflows ([Statistics Norway, 2011b](#)).

With regard to the immigration of refugees and labour immigrants, the institutional context is very different. Refugees and their

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