



# Education, reputation or network? Evidence on migrant workers employability

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## ABSTRACT

The strong adverse selection that immigrants face in hosting labour markets may induce them to adopt some behaviours or signals to modify employers' beliefs. Relevant mechanisms for reaching this purpose are personal reputation; exploiting ethnic networks deeply rooted in the hosting country; and high educational levels used as an indirect signal of productivity. On this last point, the immigrant status needs a stronger signal compared to that necessary for a native worker, and this may lead the immigrant to accept job qualifications which are lower than those achievable through the embodied educational level.

The aim of the paper is to investigate whether the above mentioned mechanisms are adopted by immigrants in Italy, a crucial country for EU immigration flows, and if they are useful in increasing immigrants' likelihood of employment. The empirical analysis has been conducted using the dataset from a national Labour Force Survey which provides information on thousands of documented immigrants. We estimate a logit model for immigrants' likelihood of being employed, focusing on the above mentioned mechanisms: reputation, ethnic networks and educational level. Moreover we concentrate on the interaction effects of the mechanisms and investigate whether one of them wins on the others. Results show that each of the three mechanisms is statistically and economically significant and exerts positive influence: all factors contribute to increase the immigrant's probability of being employed. Anyway, a high level of education increases the probability of being employed more than the belonging to ethnic networks deeply rooted in Italy. The specific embodied capital of workers matter relatively more. This is relevant for labour public policies in this specific realm since the human capital lever is a possible direct target in various public policies and private human capital investments.

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## 1. Introduction

In the last 20 years international migrations have been characterised by sustained increase and deep changes, that have especially involved the countries of Southern Europe, modifying their role from emigration areas to hosting countries mostly for people coming from the less developed areas of the world. This phenomenon has regarded also Italy, where the migration phenomenon has reached a considerable weight. Actually, in 2008 the foreign presence in Italy has been evaluated<sup>1</sup> in more than 4 million people, with a percentage of undocumented people evaluated<sup>2</sup> of about 8.7%. Documented workers are 1.5 million and, including the moonlighting, migrant workforce sums up at 2 million units.<sup>3</sup> Foreign people in Italy are, moreover, characterised by an average age of 32 years (versus 44 years of Italians).<sup>4</sup> For what con-

cerns education level,<sup>5</sup> 49% of foreigners holds at least a college degree.<sup>6</sup>

The high education level of migrants is a phenomenon already exploited in many recent works about migration (Barringer et al., 1990; Borjas, 2003; Battu and Sloane, 2002; Devillanova and Frattini, 2006; Gross and Schmitt, 2006; Green et al., 2007; Kler, 2007). What in some cases emerges is a situation in which migrant workers holds higher education levels than local workers for same job positions.

Usually the inclusion of foreign people in the host country comes with an attitude of native population often not in favour of immigration, although the socio-economic benefits of the phenomenon are very often visible and clear even at first sight. This negative attitude exerts its effects in the labour market, where adverse selection factors undermine the proper matching between supply and demand.

The adverse selection that can be met by migrants in hosting labour markets may induce them to adopt some behaviours or sig-

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<sup>1</sup> Caritas/Migrantes (2008).

<sup>2</sup> Ismu (2009).

<sup>3</sup> Caritas/Migrantes (2008).

<sup>4</sup> Caritas/Migrantes (2008).

<sup>5</sup> Caritas/Migrantes (2007).

<sup>6</sup> We note that in data from Italy's General Census of Population the percentage of Italians with at least a college degree was 33%.

nals to modify employers' beliefs. Relevant mechanisms at reaching this purpose are: personal reputation, belonging to ethnic networks deeply rooted in the hosting country, and high education levels as an indirect signal of productivity. On this last point, the immigrant status needs a "stronger" signal than that necessary for a local worker, and this may lead the immigrant to accept lower job positions.

The main aim of the paper is to investigate whether the mentioned mechanisms are adopted by immigrants in Italy, and if they are useful levers in increasing migrants' likelihood of employment.

The empirical analysis has been conducted using an official dataset provided by the National Institute of Statistics (ISTAT), collecting information about 6860 documented immigrants in Italy. We estimate a *logit* model for immigrants' likelihood of being employed, focusing on the above mentioned mechanisms: reputation, ethnic networks and education level. Moreover we concentrate on the interaction effects and the marginal effects of the mechanisms and investigate whether one of them wins on the others.

The paper is organized as follows. Section 2 is devoted to the conceptual framework that will constitute the basis for the empirical analysis. In Section 3 the database and the social context are presented. Section 4 comments on and presents the empirical framework, focusing on the drivers of employability for migrants in our sample and on the interaction effects and marginal effects of reputation, migrant networks and education level as levers of migrants' employability. The last section concludes the paper by summarising results and offering some insights for policy making.

## 2. Conceptual framework

A fundamental element for the inclusion of foreign people in the host country is the attitude of the native population, which is often not in favour of immigration, mainly because the social costs of immigration are generally over weighted, although the socio-economic *net positive* benefits of the phenomenon are very often visible and clear even at anecdotal level, if not from specific micro and macro analyses. As in other contexts, then, a problem that undermines a correct accounting of costs and benefits in a dynamic setting is that part of the provided benefits are public goods/positive spillovers and exert their effects on economic growth in the long run (the effects on economic growth through human capital and population increases, the higher stability of fiscal and pension systems provided by the flows of regular immigrant workers). This somewhat myopic and quite natural 'negative attitude' exerts its effects in the labour market, where adverse selection factors undermine the proper matching between supply and demand from the very beginning, even influencing migrant's likelihood of entering the labour market.

In such a situation migrants may aim at modifying native employers beliefs by adopting mechanisms that can mitigate or tackle such adverse selection effects.

Reputation is definitely the major factor migrants may use when entering the labour market. A migrant may then base his reputation and competitive advantage on two distinct mechanisms. The first one structures "personal reputation" on the specific experience and curriculum vitae the worker accumulates over time if staying in the same labour market.<sup>7</sup> The second one relies on the so called 'migrant networks', or complex webs of interpersonal links that join migrants with 'older' migrants and non-migrants in the locations of origin and arrival, through family, friendship and ethnic connections (Massey, 1988). From the employer point of view, the

link with other employees that have provided a good effort and behaviour is a criterion of selection and valuation. We may refer to the theory of 'statistical discrimination' (Arrow, 1972, 1973, 1998; Phelps, 1972; Heckman, 1998), by which one applies to a single individual the characteristics of the network the worker belongs to.

A further mechanism aimed at modifying employer's beliefs that we want to explore is the use by migrants of the education level as an indirect signal of workers productivity (Spence, 1973; Riley, 1979).

Actually, the mismatch between education level and job position in migrant workers has been pointed out by many authors,<sup>8</sup> who, for different countries and situations, have verified a higher education level in migrant workers compared with the qualifications required for the job position they occupy.

In the human capital theory higher levels of education have positive impacts on the advancement of minorities, increasing their likelihood of more satisfying jobs, higher incomes and career prospects.<sup>9</sup> Nevertheless in presence of a mismatch between migrants' qualifications and their job positions, the predictions of the human capital theory do not fit well. In the structural critique<sup>10</sup> to the human capital theory, the existence of structural barriers prevents migrants from obtaining a job coherent with their education level.

In this adverse situation we wonder if education may play a role as a signal of migrant's productivity and hence if higher education implies higher probability to be employed in the hosting job market. The migrant status makes necessary a stronger signal compared to the native competitor. This often induces or forces the migrant to step down from the proper segment of labour markets, descending to a lower market in terms of education levels. More in detail, the education signal sent to the market should be even stronger for newcomers,<sup>11</sup> migrants without a solid reputation and networks as embodied assets, or migrants belonging to communities for which the social attitude is specifically negative.<sup>12</sup>

On the basis of the considerations made above, our aim is to analyse the behaviour of migrants in the Italian job market. We particularly want to verify the extent to which the highlighted mechanisms are exploited by migrants and the way they affect the likelihood of being employed.

## 3. Data and description of the socio-economic context

In order to fulfil the aims of this work the analysis is carried out by examining an official dataset provided by the National Institute of Statistics (ISTAT)<sup>13</sup> of 6860 migrant units, regularly living in Italy. More specifically, in order to empirically analyse the determinants of employability for the sample, we only consider potential

<sup>8</sup> Barringer et al. (1990) for Asian migrants in US, Borjas (2003) for the US, Battu and Sloane (2002) for UK, Devillanova and Frattini (2006) for irregular migrants in Italy, Gross and Schmitt (2006) for France, Green et al. (2007), Kler (2007) and Kifle (2009) for Australia.

<sup>9</sup> See Berg (1969), Parsons (1968). See Peterson (1971), Sklare (1971) and Sung (1967) for the economic achievements of high educated minorities as Jews and Asian Americans.

<sup>10</sup> See, among others, Barringer et al. (1990).

<sup>11</sup> Which is in line with the idea that the first international migrants usually do not come from the bottom of the community hierarchy, but from the middle ranges (Massey, 1988).

<sup>12</sup> E.g. Africans and Romanian in Italy, compared to southern Americans, who are more easily accepted for cultural and apparently crime-related reasons.

<sup>13</sup> Data are not publicly free. We bought a sufficient amount of data for the analysis in 2006. Data stem from the Labour workforce survey ISTAT carries out every 3 months on employed and unemployed people. We got the first semester of 2006. Future analyses may further exploit panel based structure of the data. One problem is the unbalanced nature of labour force workers survey due to the partial rotation (turnover) of the panel semester by semester.

<sup>7</sup> Moreover, the longer is the period a migrant spends in the same labor market, the deeper ought to be his knowledge of the hosting country language.

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