

# A life-cycle model of outmigration and economic assimilation of immigrants in Germany

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## Abstract

This paper estimates a forward-looking life-cycle model of outmigration and labor force participation. The estimated model is used to evaluate the impact of enforcing a maximum stay duration for newly admitted immigrants on labor force participation and outmigration. Restricting the migration duration is found to have little effect on the labor force participation of skilled immigrants, and a negative effect on that of unskilled immigrants. Restricting the migration duration is also found to encourage the departure of unskilled and unsuccessful immigrants before the maximum duration is reached. These results are obtained by estimating the model with data that contain no information on outmigration decisions. It is shown that the assumption of a continuous state variable affecting attrition only through outmigration allows the probability of outmigration to be identified from the panel attrition. This probability can then be estimated using standard dynamic programming techniques. The migration durations so estimated are found to differ substantially from those estimated under the assumption that immigrants are myopic decision makers.

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## 1. Introduction

It is now well accepted that outmigration is a worldwide phenomenon. It has therefore become a central concern in the literature of immigration to characterize those immigrants

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who choose to leave their host country, to infer the rules determining their decision, and find out how their duration of stay and participation in the host labor market are affected by policy changes.

In this paper, I specify a forward-looking model of labor force participation and outmigration decision made by immigrants over their life cycle. The model parameters are estimated using the immigrant sample of the German Socio-Economic Panel (GSOEP), which mainly consists of “guest” workers admitted to overcome cyclical labor shortages who have no restrictions on their duration of stay. One attractive feature of the GSOEP is that immigrants are followed over a long period, which helps to identify various life-cycle effects. Another advantage of this data source is that it contains detailed information on potential determinants of outmigration, such as the performance of immigrants in the German labor market, their age on arrival, and the number of years since their migration to Germany. These determinants enter the model through both pecuniary and non-pecuniary benefits of working and outmigration. The model’s capacity to separately identify pecuniary and non-pecuniary benefits distinguishes it from more traditional migration models, which focus exclusively on differences in pecuniary benefits (e.g., [Harris and Todaro, 1970](#)). This model also distinguishes itself from other works (e.g. [Pessino, 1991](#)) by including explicitly uncertainty about future work and earnings in the host and home countries, which allows immigrants to revise the duration of stay over their lifetime. Another important feature of the model is it highlights differences in consumption preferences between the home and host countries, which is one of the reasons usually put forward to explain why outmigration occurs despite persistently higher expected earnings in the host country (see [Carrington et al., 1996](#), for related evidence).

This model is used to provide new insights to the recent debate about whether imposing a maximum duration of stay on visas should be an important component of Germany’s immigration policy.<sup>1</sup> One of the reasons that policy makers are attracted to the short-term visa solution is that it allows the host country to more easily adjust its stock of immigrants to fluctuations in the labor market. It also provides a means of preventing the immigration of (possibly unskilled) family members (see [Bauer and Zimmermann, 2000](#), for a discussion). One possible disadvantage of short-term visas is that they may lower incentives for immigrants to accumulate skills and experience. This aspect depends on the transferability of skills and experience acquired in the host country to the home country, as well as on the initial skill levels of the immigrants. Accordingly, policy analysis is performed in this paper for both highly skilled and unskilled immigrants. It is important to use a forward-looking model to measure the effects of this policy change, because a short-term visa affects behavior by restricting the horizon over which agents benefit from accumulating skills and experience, and thus affects the future benefits of remaining in the host country as perceived by immigrants. Imposing a maximum duration of stay is found to expedite the departure of skilled immigrants only if they experience spells of unemployment after their entry. Because skilled immigrants are unlikely to experience such spells, their accumulation of experience and integration into the German labor market are not likely to be strongly affected by such a policy change. The policy is found to

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<sup>1</sup>Some insights on German guest workers have already been obtained by modeling data on stated intentions of stay (e.g. [Dustmann, 1996, 2000](#)). There, the skill levels of immigrants declaring the intent to stay permanently are compared to the skill levels of immigrants declaring the intent to remain in Germany temporarily.

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