



Full length article

Language skills and labor market performance of immigrants in the Netherlands [☆]

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HIGHLIGHTS

- Language problems can affect immigrants' labor market performance.
- We investigate the casual effects of Dutch problems by gender.
- Males' labor market performance is not significantly affected by language.
- Language problems only reduce females' hourly wage.

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ABSTRACT

Many immigrants in the Netherlands have poor Dutch language skills. They face problems in speaking and reading Dutch. Our paper investigates how these problems affect their labor market performance in terms of employment, hours of work and wages. We find that for female immigrants language problems have significantly negative effects on hourly wages but not on employment probability and hours of work. For male immigrants language problems do not affect employment probability, hours of work or hourly wages.

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1. Introduction

Language skills are considered to be extremely important for the social and economic integration of immigrants. Proficiency in the host language may have positive effects on immigrants' job search and their labor productivity at the workplace. Therefore, lack of language skills can be a severe obstacle to career success. Quite a few empirical studies investigate the effects of language skills on labor market performance of male immigrants with a focus on their earnings. Summarizing previous studies (Chiswick and Miller, 2014) conclude that language proficiency can increase earnings of adult male immigrants in the range from 5% to 35%.

Empirical studies are predominantly about language effects on earnings of male immigrants.¹ They cover a range of languages, such as English in the UK (Dustmann and Fabbri, 2003; Miranda and Zhu, 2013a,b), the US (Bleakley and Chin, 2004) and Australia (Chiswick and Miller, 1995), German in Germany (Dustmann, 1994; Dustmann and van Soest, 2001, 2002), Hebrew in Israel (Chiswick, 1998) and Spanish and Catalan in Spain (Budra and Swedberg, 2012; Di Paolo and Raymond, 2012). Studies about language effects on labor market performance have to deal with several threats to identification. Biases could come from three sources. First, language skills and labor market performance may be correlated through unobserved characteristics, which may lead to an upward bias in the estimated effects of language

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¹ Bleakley and Chin (2004), Dustmann and Fabbri (2003) and Di Paolo and Raymond (2012) have female immigrants in their sample but they do not analyze language effects separately for males and females. Dustmann and van Soest (2002) study wage effects of language skills for women but they have difficulties in finding suitable instrumental variables for female language skills. Miranda and Zhu (2013a) study the immigrant-native wage gap for female employees in the UK with a focus on sample selection bias.

skills. Second, the experience of employment could reversely cause the improvement in language skills. Third, self-reported language measures from survey data may be subject to measurement errors that lead to an underestimation of the language effects. Most empirical studies rely on an instrumental variables (IV) approach to account for these potential sources of bias. Instrumental variables which are frequently used include age at arrival in host countries, minority concentration in the area where the immigrant lives, linguistic distance between the immigrant's mother tongue and the language of the host country, language spoken at home, number of children, overseas marriage and parental education.² IV parameter estimates are usually larger than OLS parameter estimates, which indicates that the potential upward bias from unobserved heterogeneity and reverse causality is dominated by the downward bias from measurement errors (Dustmann and van Soest, 2002; Dustmann and Fabbri, 2003; Bleakley and Chin, 2004).

Our study focuses on language skills and labor market performance of immigrants in the Netherlands. Here, the labor market position of immigrants is weak, as it is in many European countries (Boeri and van Ours, 2013). Employment rate of immigrants is lower and unemployment rate is higher than those of native workers. Immigrants in the Netherlands are predominantly from the former Dutch colonies and from Turkey and Morocco (see Van Ours and Veenman (2005) for an overview of recent immigration history). Many immigrants in the Netherlands have poor Dutch language skills and face problems in speaking and reading Dutch. We study how these Dutch language problems affect their labor market performance in terms of employment, hours of work and wage.

To account for potential endogeneity problems, we use an instrumental variables approach based on the interaction of two variables: the language spoken during childhood and age at arrival in the Netherlands. The first variable is a dummy for whether one grew up speaking Dutch or other languages.³ Speaking other languages during childhood is associated with a worse command of Dutch at adulthood. The second variable is age at arrival in the host country, a well-established determinant of language skills of immigrants in earlier studies by Bleakley and Chin (2004, 2010) and Miranda and Zhu (2013b). Children who are exposed to a new language early are likely to have good language skills at adulthood. Immigrants arriving at a later age have much more problems in obtaining language skills (Sweetman and van Ours, 2014). We use the interaction of the two variables because age at arrival only affects language skills of immigrants who spoke non-Dutch languages during childhood. As we discuss in more detail below, our identifying assumption is that the non-language effects of age at arrival on labor market performance are the same for two types of immigrants, those who spoke Dutch during childhood and those who did not. Our main findings are language problems for male immigrants have no significant effect on their labor market performance. Language problems for female immigrants have a significant negative effect on their hourly wages but do not affect their employment and hours of work.

Our contribution to the literature is threefold. First, we extend the existing literature by not only considering the language effects on earnings, but also on employment and hours of work. This provides a deeper understanding of the language effects on labor market performance.

² According to Dustmann and van Soest (2002) parental education can serve as an instrument variable for language skills of children. The problem with this instrument is that parental education is correlated with family networks which can benefit children's labor market performance. In this sense, parental education may have a direct effect on children's earnings and thus it is not a valid instrument. However, as Dustmann and van Soest (2002) argue immigrant parents do not have much access to these family networks. Therefore, it is likely that parental educational attainment does not have a direct effect on children's earnings.

³ The reason why many immigrants spoke Dutch at childhood is that they may come from former Dutch colonies. Based on our sample, 12% of Dutch speakers at childhood originate from Turkey/Morocco, 49% from former Dutch colonies, 11% from other non-western countries and 28% from other western countries.

Second, whereas most previous studies are only on males, we examine possible heterogeneous effects between males and females. This is important because the labor market is different for males and females in terms of employment, wages and working time. Therefore, the mechanism through which language skills affect labor market performance may be gender-specific. Third, it is interesting to study the effects of a small language in a small country. Dutch is the official language of only a few countries including the Netherlands, Belgium and Suriname covering a population of 28 million worldwide. Within the Netherlands almost 90% population claim to be able to converse in English (European Commission, 2005). Since for immigrants English is an option to communicate to Dutch natives, it is of particular interest to investigate to what extent Dutch language skills still matter in terms of immigrants' labor market performance.

Our paper is set up as follows. Section 2 summarizes previous studies on the topic. Section 3 discusses our data and presents some stylized facts. Section 4 presents the set-up of our analysis and discusses our parameter estimates. Section 5 confirms the robustness of our main findings through an extensive sensitivity analysis. Section 6 concludes.

2. Literature review

Table 1 presents an overview of previous studies on language skills and labor market performance. In an early study, Dustmann (1994) uses data on immigrants in Germany and finds a positive correlation between speaking and writing proficiency and earnings. Chiswick and Miller (1995) are the first to use an IV approach to account for potential endogeneity of English fluency finding that the language premium on male immigrants' earnings is more than 20%. Similarly, Chiswick (1998) relies on an IV approach finding that using Hebrew as the primary language increases male immigrants' earnings in Israel by 35%. Among later studies, age at arrival in host countries is a commonly used instrument for language skills. Bleakley and Chin (2004, 2010) instrument language skills by the interaction of a dummy for arriving in the US before age 11 and a dummy for being born in a non-English speaking country. Their approach is based on the assumption that non-language effects of age at arrival are the same irrespective of country of origin. They find that English proficiency increases earnings of children immigrants by 33%. Motivated by this identification strategy, Miranda and Zhu (2013b) study the language effects on immigrant-native wage gap in the UK by including male immigrants and male natives in one sample. Budra and Swedberg (2012) and Di Paolo and Raymond (2012) use age at arrival together with other exogenous variables as instruments and find positive effects of Spanish proficiency and Catalan proficiency on earnings in Spain.

There are also a few studies on the effect of language skills but with a focus on measurement errors. Dustmann and van Soest (2001, 2002) distinguish two types of measurement errors related to the self-reporting of language skills. First, there are unsystematic measurement errors which are independent over time. Second, there are time-persistent measurement errors because individuals underestimate or overestimate their language skills. Both types of errors lead to an underestimation of the effect of language skills on labor market outcomes. The two papers rely on father's education as an exogenous variable in identification and find modest return of German skills on immigrants' earnings. Dustmann and Fabbri (2003) deal with unobserved heterogeneity by using a propensity matching estimator and use instruments to account for measurement errors. They find that English skills increase both employment and earnings of immigrants. All in all, the parameter estimates obtained from the IV approach are usually larger than OLS parameter estimates, which indicates that upward biases from other sources of endogeneity are dominated by the downward bias from measurement errors (Dustmann and van Soest, 2002; Dustmann and Fabbri, 2003; Bleakley and Chin, 2004).

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