



With a little help from abroad: The effect of low-skilled immigration on the female labour supply[☆]

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ARTICLE INFO

Article history:

Received 7 June 2010

Received in revised form 21 January 2011

Accepted 31 January 2011

Available online 8 March 2011

JEL classification:

J22

J61

Keywords:

Immigration

Female labour supply

Household production

ABSTRACT

We examine whether and how the inflow of female immigrants who specialize in household production affects the labour supply of Italian women. To identify the causal effect, we exploit the family reunification motives and network effects (i.e., the tendency of newly arriving female immigrants to settle in places where males of the same country already live) which is used as an instrument for the geographical distribution of female foreign workers. We find that when the number of immigrants who provide household services is higher, native Italian women spend more time at work (intensive margin) without affecting their labour force participation (extensive margin). This impact is concentrated on highly skilled women whose time has a higher opportunity cost. These results also hold after a battery of robustness checks. We present some further evidence that is also consistent with the idea that the impact works through substitution in household work rather than complementarities in the production sector. Finally, we show that immigration arises as a substitute to publicly provided welfare services, although this phenomenon raises concerns regarding the fairness and sustainability of this private and informal welfare model.

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1. Introduction

In developed countries, female immigrants largely provide household services, such as housekeeping and caring for children and the elderly. At the same time, household responsibilities constrain the female labour supply, especially in those countries where women are more engaged in these activities because of cultural models and/or the inadequacy of welfare policies. Despite this, the connection between immigration and the female labour supply has received little attention. In the literature on the female labour supply, the focus is on the lack of and costs of care services, with almost no attention given to the role of female immigrants who largely provide those services. Alternatively, studies analyzing the impact of immigration on the host country focus on the degree of substitutability in the production sector. The potential substitutability in the household production, where most female immigrants are employed, is surprisingly under investigated. Moreover, the impact of immigration on the native labour supply is examined with respect to the extensive margin (i.e., employment or labour force participation) but never along the

intensive margin (i.e., hours worked). Two notable exceptions are Cortes and Tessada (forthcoming), who examine the impact of low-skilled immigration on the labour supply of U.S. women, and Farré et al. (2010), who study the Spanish case.

In this paper, we contribute to this emerging literature by examining the link between immigration and the female labour supply in the Italian context. Italy is an interesting case, as it has registered a recent and exceptional increase in low-skilled immigration. At the end of 2008, there were about 3.9 million resident foreigners (6.5% of the population), and it has become a prime destination of migration flows in the EU. At the same time, the proportion of immigrants who are low-skilled (and the proportion who are employed in domestic services) is much larger than in other European countries and in the U.S. The female component has gained increasing relevance and now exceeds that of men. Italy is peculiar in international comparisons also in terms of the female labour force participation and time use.¹ In 2008, the female activity rate was the second lowest in the EU-27. Even among employed women in Italy, their use of time is markedly different from their European counterparts because they spend more time performing household activities (from a minimum of one hour and a half per week with respect to French women to a maximum of nearly five hours compared to German ones). Alesina and Ichino (2009) document the

[☆] We thank David Card, Concetta Rondinelli, Alfonso Rosolia, Eliana Viviano, Roberta Zizza, two anonymous referees, participants at the AIEL conference (Sassari, 2009), SIEP conference (Pavia, 2010) and “Etta Chiuri” conference (Bari, 2010) and seminar participants at the Bank of Italy (Rome, 2010), the University of California (Berkeley, 2010) and the Aarhus Business School (Aarhus, 2010) for comments and suggestions. The views expressed herein are our own and do not necessarily reflect those of the Bank of Italy.

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¹ Traditional explanations include cultural reasons and the inadequacy of child and elder care services (Chiuri, 2000; Bettio and Plantenga, 2004; Del Boca and Vuri, 2007). Tensions on the female labour supply are particularly strong for the current generation that is sandwiched between caring for their aging parents and caring for their children (Marenzi and Pagani, 2008).

large amount of unpaid family work and its implications for female labour supply decisions.

To examine whether and how female immigrants has affected Italian women's labour supply, we combine micro-data drawn from the 2006 to 2008 waves of the Labour Force Survey (LFS) with aggregate data on the presence of immigrants at the local labour market (LLM) level. LLMs are clusters of municipalities that are grouped on the basis of commuting patterns; they can be interpreted as self-contained labour markets. In our opinion, they represent a more appropriate territorial configuration with respect to larger administrative areas (e.g., regions or provinces) and thus can be used to examine the labour market interactions between natives and immigrants, mainly because domestic services cannot be traded outside of a local market. To identify the household production substitution effect, we do not consider overall immigration but only female immigrants who are specialized in housekeeping, child care, and elder care (denoted as specialized immigrants, hereafter).

Estimating the impact of specialized immigration using standard OLS might lead to biased results for several reasons. Local omitted variables (e.g., local amenities) might affect both the location choices of immigrants and the native labour supply. Moreover, reverse causality might be at work if a higher intensity of work of native females leads to a higher demand of specialized immigrants. Finally, there might be some concerns about the measure of our key explanatory variable due to undocumented immigrants. To address these issues, we adopt an instrumental variable strategy that, in our opinion, represents an improvement with respect to the prevailing approach. We exploit the tendency of newly arriving *female* immigrants to settle in places where *males* of the same country already live to build an instrument for the current geographical distribution of female foreign workers. The use of previous settlements is widely accepted in the migration literature, and the exogeneity of the instrument relies on the fact that the *historical* distribution across geographical areas is unrelated to the *current* economic conditions of the same areas (Card, 2001). However, local shocks that are sufficiently persistent across time might threaten its validity. To strengthen the exogeneity of the instrument, we exploit the fact that pull (i.e., labour market) factors differ substantially between male and female foreign workers.

We find that a higher concentration of immigrants who provide household services has a positive and significant impact on hours worked by native women. In contrast, the effect on the extensive margin (i.e., labour force participation) is positive but not significantly different from zero. Our finding on the intensity of work is fully driven by highly skilled women, whereas a similar effect is not found for low-skilled women whose time has a lower opportunity cost. These results hold also after a battery of robustness checks. We present some further evidence that is consistent with the idea that the impact is due to substitution in household work rather than complementarities in the production sector. Indeed, specialized immigration leads to higher quantities and lower prices of domestic services. The impact of specialized immigration is also larger for women with more care responsibilities (i.e., with children under three years old or permanently disabled persons at home). Other groups of immigrants who are not specialized in domestic services do not exert a similar impact on hours worked by highly skilled Italian women; alternatively, specialized immigrants do not affect hours worked by men who are much less engaged in domestic work. Finally, we find that immigration arises as a substitute for welfare services provided at the local level because its impact is stronger in those municipalities where social and family policies are less developed.

The rest of the paper is organized as follows. In Section 2, we review the literature on immigration and female labour supply. The empirical approach, the identification strategy and the data are discussed in Section 3, whereas in Section 4 we present our main findings and provide some robustness checks. In Section 5, we focus on hours worked by highly skilled natives, and we provide further evidence on the household production channel and the interaction between specialized

immigration and the welfare services publicly provided at the local level. Section 6 presents some concluding remarks.

2. Literature and theoretical background

This paper is at the crossing of two strands of literature. The first is related to the impact of immigration on host countries. The second concerns the incentives and constraints that affect the female labour supply.

The effects of immigration are traditionally viewed in terms of complementarity or substitutability with natives in the production sector (Card, 2001; Borjas, 2003; Ottaviano and Peri, forthcoming).² In addition, the empirical evidence on Italian data is mostly focused on these issues. Venturini and Villosio (2006) and D'Amuri and Pinotti (2010) examine the impact of immigration on labour market opportunities for natives. Accetturo et al. (2009) assess the impact of low-skilled immigration on firm investment decisions.³ However, another channel might be at work: immigrants may substitute natives in the production of household services, which, in turn, may affect the native labour supply by removing a pre-existing rationing and/or by reducing the market price of those services. Although female immigrants represent a significant fraction of the labour employed in household services, the effect of their inflows on the native labour supply through the household production channel is poorly investigated. Moreover, the studies on the impact of immigration on the native labour supply focus on the extensive margin (i.e., employment rate or labour force participation) but very seldom on the intensive margin (i.e., hours worked).

The second strand of the literature on which we draw deals with incentives and constraints on the female labour supply. Connelly (1992), Powell (1998), Anderson and Levine (1999), Gelbach (2002), and Baker et al. (2008), among others, have highlighted the importance of the supply and prices of child care and other family services. As in the other strand of literature, the role of the female immigrants, who largely provide (informal) household services ranging from housekeeping to child and elder care, has been nearly ignored.

Recently, some papers have attempted to bridge the gap. Cortes and Tessada (forthcoming) examine the impact of low-skilled immigration on the labour supply of highly skilled U.S. women. They find no effect on the extensive margin and significant effects on the intensive margin. Farré et al. (2010) use a similar approach for Spain. They find that female immigration increases the availability of household services and reduces their price. However, the effect on female labour supply is mixed and depends crucially on the education of natives and their family responsibilities.⁴

While our paper relates to these two studies, it differs from them in a number of relevant features. First, besides analyzing the effect of specialized immigration on high-skilled native labour supply, we also study the relevant case of low-skilled native outcomes. On a *priori* grounds, this is the most controversial case because the expansive effects connected to the increase in household services are more likely contrasted by the restrictive effect grounded on the productive sector interactions. Second, we focus on a subset of immigrants (namely, female immigrants specialized in the production of domestic services) instead of overall low-skilled immigration, as in Cortes and Tessada (forthcoming), or overall female immigration, as in Farré et al. (2010),

² See Okker (2008) and the works cited therein for a review of the literature.

³ Brandolini et al. (2005) find that there is a statistically significant wage differential between natives and immigrants mostly because immigrants usually work in less-productive firms.

⁴ Furtado and Hock (2010) use a slightly different perspective and examine how immigration affects the work-fertility trade-off in the U.S. They find that immigrant-led declines in the costs of household services increase the joint likelihood of childbearing and employment, indicating a substantial reduction in role incompatibility between the two.

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