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PORTUGUESE 1974 EVIDENCE REVISITED

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THE EFFECT OF MASS INFLUX ON LABOR MARKETS: PORTUGUESE 1974 EVIDENCE REVISITED

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Abstract:

This paper provides a reappraisal of the evidence from the influx that has been unique in the recent European history, the flood of half a million returnees from Mozambique and Angola to Portugal in the mid-1970s. The objective of this paper is to study the impacts of a large supply shock on aggregate labor productivity, wages and unemployment. In contrast to the previous evidence, the synthetic control analyses find that the influx had a significant adverse effect on labor market outcomes. The results suggest that the Portuguese labor market responded precisely the same way as the standard textbook model predicts: an increase in the number of workers lowered average labor productivity and wages.

1. INTRODUCTION

More than a million migrants and refugees came to Europe in 2015 sparking a crisis as countries struggled to cope with the influx. Refugee crises of this extent constitute some of the sharpest immigration shocks in recent history and it is crucial to understand to what extent such refugee influxes impact host countries (Akgunduz, den Berg and Hassink, 2015). The possible negative effects of the immigration on wages and employment outcomes for native workers is one of the core concerns in the public debate on immigration. On the other hand, the prospects of rapid population ageing in Europe have given rise to a discussion of whether the immigration of young adults from outside of Europe could improve the European social and economic structure and global competitiveness (Lutz, O'Neill and Scherbov, 2003).

The textbook model of a competitive labor market suggests that, at least in the short run, high levels of immigration should lower the wages of competing workers and increase the wages of complementary workers (Borjas, 2013). Despite the common sense intuition behind these theoretical predictions, empirical literature offers contradictory evidence (e.g., Borjas, 2003; Card, 2005; Ottaviano and Peri, 2012).

This paper provides a reappraisal of the evidence on how the Portuguese labor market responded to the immigration of about half a million returnees, so called retornados, mainly from Mozambique and Angola to Portugal in the mid-1970's. This immigration episode was driven by political events

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