



How do very open economies adjust to large immigration flows? Evidence from Spanish regions

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ABSTRACT

We study the labor market effects of the large immigration wave in Spain between 2001 and 2006. In this period the foreign-born share increased from 6% to 13%, with a total inflow exceeding three million immigrants. Our analysis exploits the large variation in the size of immigration flows across Spain's regions. To identify causal effects, we take advantage of the fact that immigrants' location choices were strongly driven by early migrant settlements that arrived during the 1980s. We find that the relatively unskilled migration inflows did not affect the wages or employment rates of unskilled workers in the receiving regions. The growth of the unskilled labor force was absorbed mostly through increases in total employment. This increase did not originate in changes in the composition of regional output, but was instead driven by changes in skill intensity at the industry level. Regions that received a large inflow of unskilled immigrants increased the intensity of use of the now more abundant (unskilled) labor, relative to other regions. The key industries responsible for this absorption were retail, construction, hotels and restaurants and domestic services. These results are inconsistent with standard open economy models but are in line with recent empirical studies for the United States and Germany.

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1. Introduction

In recent years Spain received a massive wave of immigration, with the foreign-born share of total population jumping from 6% in 2001 to 13% in 2006.¹ This paper studies how Spanish regional economies responded to the large changes to the size and skill composition of their labor force caused by immigration. Specifically, we adopt a spatial correlations approach and employ instrumental variables to provide causal estimates of the effects of immigration on employment rates, wages, and the structure of production for Spanish provinces in the period 2001–2006.

Rising international migration flows over the last decade have revived interest on the economic effects of immigration, particularly in Europe.² The recent eastward enlargement of the European Union has sharply increased migration flows across its member states. Moreover, for countries such as Spain or Ireland, large-scale immigration is a completely new phenomenon in modern times, with important macroeconomic implications.³

The long history of immigration in the U.S. gave rise to a vast literature on the economics of immigration.⁴ In contrast, relatively little is known about the effects of immigration in Europe and, in particular, regarding the new immigration countries. Given the large institutional differences between most European countries and the U.S. it is unclear how well the findings for the U.S. extrapolate to these countries.⁵

The Spanish immigration experience since year 2000 is particularly interesting for a number of reasons. First, the size of the inflows in absolute terms and relative to population has been spectacular. Except for Israel in the 1990s, no other OECD country has experienced such massive immigration flows in the postwar period. As noted earlier, the fraction of foreign-born individuals in the working-age population more than doubled in just 5 years, rising from 6% to 13% between 2001 and 2006 (see Fig. 1). During the same period, the foreign-born population in the U.S. went from 11 to 12.1%.⁶

Secondly, until recently Spain was a country of emigration. In modern times it is only during this period that immigrants started arriving in sizeable numbers. As a result, Spain's recent immigration

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¹ Local registry data at January 1st of each year. Population age 15–64.

² Chiswick and Hatton (2003).

³ Bentolila et al. (2008) argue that Spain's recent immigration boom had important macroeconomic consequences. In particular, they argue it is crucial to understand the large drop in unemployment in a context of stable inflation.

⁴ Important early contributions are Card (1990) and Borjas et al. (1996). Some recent important contributions include Borjas (2003), Ottaviano and Peri (2006), and Lewis (2003), among many others.

⁵ A few influential studies are Hunt (1992) for France, Pischke and Velling (1997) for Germany, Dustmann et al. (2005) and Manacorda et al. (2007) for the UK, and Carrasco et al. (2008) for Spain.

⁶ U.S. Current Population Survey.

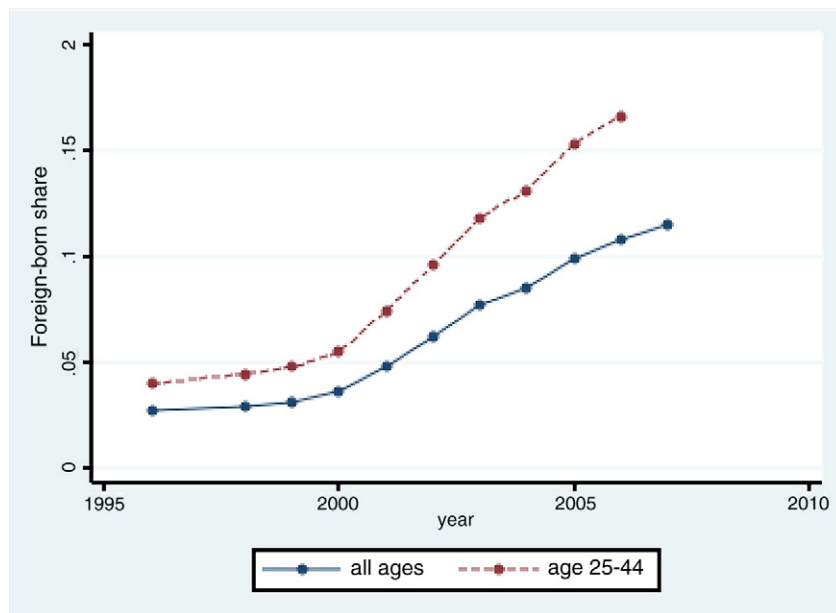


Fig. 1. Share of the foreign-born population relative to total population in Spain.
Source: Registry data at January 1st of each year ("Padrón").

surge was largely unexpected by economic agents. To the extent that the capital stock did not anticipate the immigration wave, we expect to observe negative short-run effects of immigration on wages. By the same argument, we also think it plausible to assume that the educational attainment of natives was not affected by the influx of immigrants in the short term.

Another feature of the Spanish experience is that a large fraction of recent immigrants are native Spanish speakers from Latin America. These special features make the Spanish immigration episode particularly interesting. Some researchers have already recognized this.⁷

We conduct a spatial correlations analysis focusing on regional economies.⁸ Relative to countries, regions are very open economies, tightly interconnected by flows of factors, goods, and ideas. Consequently, absorption of immigration flows can operate through a variety of channels. In addition, the size of immigration flows relative to population is often orders of magnitude larger than for national economies.

This methodological approach seems well suited to the Spanish case. First, there is very large regional variation regarding the size of immigration flows. Fig. 2 reports the foreign-born share in 2006 (age group 25–45) for the 52 Spanish regions. While the provinces in the South and West of Spain are mostly below 6%, those around Madrid and on the Mediterranean display foreign-born shares around 20% and higher. Secondly, despite their low numbers, there is a relatively long history of migration to Spain from Morocco and several South American countries. As we shall show, the location choices of early arrivals partially determined the geographical distribution of recent immigrants. This provides us with a valuable source of exogenous variation in the size of immigration flows by region, which allows us to construct a credible instrument for the identification of the effects of interest.

The exercise we carry out in this paper is challenging in terms of data requirements. Our period of interest (2001–2006, roughly the

period of the immigration surge) lies after the most recent Census year (2001), and thus we are restricted to the smaller samples available from the Labor Force Survey. In many countries these data are too sparse to accurately quantify changes in the foreign-born population at the regional level. However, this problem is much less serious in the case of Spain. The reason is that high-quality registry data exist that accurately track changes in the (both native and foreign-born) population at the local level. These data are an important input into the sampling design of the Spanish Labor Force Survey.⁹

Our main results are the following. First, we document that immigration flows were relatively unskilled and analyze their effect on aggregate labor market outcomes. We find that immigration did not have any significant impact on the structure of wages or on employment rates in Spanish regional labor markets. This finding is consistent with several prior studies using data for other countries.¹⁰

The recurrent finding of insensitivity of wages to immigration flows has led researchers to explore alternative mechanisms by which economies can absorb immigration flows. Recognizing that regional and local economies are highly interconnected by trade, empirical work has focused on the adjustment mechanism described by the Rybczynski theorem.¹¹ According to this celebrated result, in response to an inflow of a factor of production, a small open economy may not suffer any changes to equilibrium factor prices and absorb the inflow simply by changing its structure of production. Specifically, production (and employment) would expand in sectors that use that factor intensively. The pioneering empirical explorations of this result are Hanson and Slaughter (2002) and Gandal et al. (2005), who carry out accounting decompositions. We follow the more recent approach developed by Lewis (2003), which uses the spatial correlations methodology to provide a more formal econometric test of the Rybczynski theorem based on a between-within industry decomposition. In a study contemporaneous to ours, Dustmann and Glitz (2008) apply Lewis' approach using German data.

We find that immigration did not significantly change regional output mix (between-industry absorption). Instead, the main channel

⁷ See, for instance, Carrasco et al. (2008) and Amuedo-Dorantes and De la Rica (2007, 2008).

⁸ The spatial correlations approach was pioneered by Altonji and Card (1991), and has been widely used since then. See for example Ottaviano and Peri (2006), Dustmann and Glitz (2008) and Saiz (2007).

⁹ More details are provided in the data in Appendix A.

¹⁰ See the surveys in Borjas (1994), Friedberg and Hunt (1995) and Card (2005).

¹¹ Rybczynski (1955).

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