

Understanding Migrants' Choices*

Summary of Project's Papers

RETRUN MIGRANTS

G. E. Bijwaard, C. Schluter and J. Wahba (2013), The Impact of Labour Market Dynamics on the Return-Migration of Immigrants, Review of Economics & Statistics, forthcoming.

Using administrative panel data on the entire population of new labour immigrants to The Netherlands, we estimate the causal effects of labour dynamics on their return decisions. Specifically, the roles of unemployment and re-employment spells on immigration durations are examined. The endogeneity of labour market outcomes and the return migration decision, if ignored, confounds the causal effect. This empirical challenge is addressed using the "timing-of-events" method. We estimate the model separately for distinct immigrant groups, and find that, overall, unemployment spells shorten immigration durations, while re-employment spells delay returns for all but one group. The magnitude of the causal effect differs across groups.

G. E. Bijwaard and C. Schluter (2012) "Local Interactions, Social Networks, and the Return Decision of Recent Migrants," mimeo.

Much economic and social activity arises from and gives rise to local interactions at the level of the neighbourhood. Locally, social and geographic space coincides, and such interaction can lead to spatial patterns, endogenous neighbourhood effects, in which individual outcomes influence and are influenced by outcomes of members of the same social network. Focussing on recent immigrants from distinct immigrant groups, we seek to establish whether the individual decision to leave the host country influences and is influenced by the return decision of immigrants living in the same or nearby neighbourhood. In particular, we use data on migration durations to estimate locally interdependent return hazards.

J. Wahba and Y. Zenou (2012), "Out of Sight, out of mind: Migration, entrepreneurship and social capital", Regional Science & Urban Economics.

The aim of this paper is to investigate whether return migrants are more likely to become entrepreneurs than non-migrants. We develop a theoretical search model that puts forward the trade off faced by returnees since overseas migration provides an opportunity for human and physical capital accumulation but, at the same time, may lead to a loss of social capital back home. We test the predictions of the model using

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data from Egypt. We find that, even after controlling for the endogeneity of the temporary migration decision, an overseas returnee is more likely to become an entrepreneur than a non-migrant. Although migrants lose their original social networks whilst overseas, savings and human capital accumulation acquired abroad over compensate for this loss.

X. Mateos-Planas (2012) "Household Portfolios and Return migration," mimeo.

This paper studies the interactions between return migration, credit conditions, and individual portfolios of assets and debt - in both the home and host country. It has two main objectives. First, it lays out an explicit dynamic model of limited contract enforcement where asset portfolios in the home and host countries, debt, borrowing constraints and the return choice are all endogenous. Second, it performs a quantitative analysis in order to identify who returns and when, and the effects of certain factors on this profile. Specifically, it develops a quantitative theory to address these issues.

ILLEGAL MIGRANTS

C. Schluter and J. Wahba (2012), Illegal Migration, Wages, and Remittances - Semi-parametric Estimation of Illegality Effects. mimeo.

We consider the issue of illegal migration from Mexico to the US, and examine whether the lack of legal status causally impacts on outcomes, specifically wages and remitting behaviour. This question is formalised using a potential outcome framework with endogenous selection. The selection bias is captured by a control function, which is estimated non-parametrically. Using Mexican Migration Project data, we find considerable and robust negative illegality effects on wages in the 1980s, whereas for the 1990s the wage penalty is smaller and more variable. In contrast to these wage penalties, legal status appears to have mixed effects on remitting behaviour.

INCOME, CONSUMPTION, & ASSET ACCUMULATION

P. Nanos, and C. Schluter (2013) The Composition of Wage Differentials between Migrants and Natives, mimeo.

We consider the role of unobservables, such as differences in search frictions, reservation wages, and productivities for the explanation of wage differentials between migrants and natives. We disentangle these by estimating an empirical general equilibrium search model with on-the-job search due to Bontemps, Robin, and van den Berg (1999) on segments of the labour market defined by occupation, age, and nationality using a large scale German administrative dataset. The native-migrant wage differential is then decomposed into several parts, and we focus especially on the component that we label "migrant effect", being the difference in wage offers between natives and migrants in the same occupation-age segment in firms of the same productivity. Counterfactual decompositions of wage differentials allow us to identify

and quantify their drivers, thus explaining within a common framework what is often labelled the unexplained wage gap.

S. Meyer & M. Trede (2012) "Eliciting earnings risk from earnings and capital income", mimeo.

Earnings risk is an inherently subjective concept. Individuals are likely to have more information about their earnings prospects than the observing econometrician. Since it is the subjectively perceived earnings risk that influences migration choices, we need to develop methods that allow us to elicit the perceived risk from observable variables. However, from a practical point of view, estimation methods that need earnings and consumption data are unattractive since there are hardly any panels providing information about both earnings and consumption on an individual level over long time spans. To overcome these problems, our paper suggests a method to measure perceived earnings risk from individual earnings and capital income data, while consumption data are not required. This method can also take into account the different sources of capital income, for instance divided into income from risk-free assets and from risky assets.

SOCIAL NETWORKS

E. Patacchini and Y. Zenou (2012), "Ethnic networks and employment outcomes", Regional Science and Urban Economics.

This paper explores the relationship between residential proximity of individuals from the same ethnic group and the probability of finding a job through social networks, relative to other search methods. Using individual-level data from the UK Labour Force survey and spatial statistics techniques, we find that (i) the higher is the percentage of a given ethnic group living nearby, the higher is the probability of finding a job through social contacts; (ii) this effect decays very rapidly with distance. The magnitude, statistical significance and spatial decay of such an effect differ depending on the ethnic group considered. We provide an interpretation of our findings using the network model of Calvó-Armengol and Jackson (2004).

A. Bisin, E. Patacchini, T. Verdier and Y. Zenou (2011), "Ethnic identity and labor-market outcomes of immigrants in Europe," Economic Policy, 26, 57-92.

We study the relationship between ethnic identity and labour market outcomes of non-EU immigrants in Europe. Using the European Social Survey, we find that there is a penalty to be paid for immigrants with a strong identity. Being a first generation immigrant leads to a penalty of about 17% while second generation immigrants have a probability of being employed that is not statistically different from that of natives. However, when they have a strong identity, second-generation immigrants have a lower chance of finding a job than natives. Our analysis also reveals that the relationship between ethnic identity and employment prospects may depend on the type of integration and labour market policies implemented in the country where the immigrant lives. More flexible labour markets help immigrants to access the labour market but do not protect those who have a strong ethnic identity.

H. Battu, P. Seaman and Y. Zenou (2011), "Job contact networks and the ethnic minorities," Labour Economics, 18, 48-56.

This paper examines the job finding methods of different ethnic groups in the UK. The theoretical framework shows that less assimilated ethnic unemployed workers are more likely to use their friends and family as their main method of search but they have less chance of finding a job using this method compared to whites and more assimilated ethnic unemployed workers that use formal job search methods (adverts, employment agencies etc.). Using data from the UK Quarterly Labour Force Survey (QLFS), we test these hypotheses. Our empirical findings are consistent with the theory since they suggest that, though networks are a popular method of finding a job for the ethnic minorities, they are not necessarily the most effective either in terms of gaining employment or in terms of the level of job achieved. However, there are important differences across ethnic groups with the Pakistani and Bangladeshi groups and those born outside the UK (the least assimilated), losing out disproportionately from using personal networks.

C. Giulietti, C. Schluter and J. Wahba, (2012) Migrants and Social Networks in the UK: The weakness of local ties, mimeo.

This paper provides an explanation for the reasons behind the negative relationship between social network and the labour market outcomes of migrants in the UK. We show that the adverse effects found in the UK, is due to the importance of locality effects which confound social network effects. Not controlling for the endogeneity of networks, overestimates the impact of networks. However, when proxying networks by geography, ignoring local labour market effects confound the networks effects. We make use of a unique data set where we observe social network use and success, i.e. unemployed respondents report on whether they use social networks to search for jobs, and recently employed respondents are asked whether obtaining this job was the result of having used the social network. We find that proxying social networks by local geographical space is uninformative about the actual true social network.

POLICY

A. Razin and J. Wahba (2011) Welfare Magnet Hypothesis, Fiscal Burden and Immigration Skill Selectivity, 2011, NBER 17515.

This paper revisits the magnet hypothesis and investigates the impact of the welfare generosity on the difference between skilled and unskilled migration rates. The main purpose of the paper is to assess the role of mobility restriction on shaping the effect of the welfare state generosity. In a free migration regime, the impact is expected to be negative on the skill composition of migrants while in a restricted mobility

regime, the impact will be the opposite, as voters will prefer selective migration policies, favouring skilled migrants who tend to be net contributors to the fiscal system. We utilize the free labour movement within EUR (the EU, Norway and Switzerland) and the restricted movement from outside of the EUR to compare the free migration regime to the restricted migration regime. We find strong support for the "magnet hypothesis" under the free-migration regime, and the fiscal burden hypothesis" under the restricted-migration regime even after controlling for differences in educational quality and returns to skills in source and host countries.

C. Giulietti and J. Wahba, (2013) Welfare Migration, the International Handbook on the Economics of Migration, Edward Elgar Publishing Ltd. .

This chapter reviews and discusses major theories and empirical studies about the welfare magnet hypothesis, i.e. whether immigrants are more likely to move to countries with generous welfare systems. Although economic theory predicts that welfare generosity affects the number, composition and location of immigrants, the empirical evidence is rather mixed. We offer possible explanations for the existence of such mixed evidence and highlight that the literature so far has overlooked the presence of different migration regimes, as well as the possibility of reverse causality between welfare spending and immigration.

V. Dequiedt and Y. Zenou (2013), "International Migration, Imperfect Information, and Brain Drain" Journal of Development Economics 101 : 117–132.

We consider a model of international migration where skills of workers are imperfectly observed by firms in the host country and where information asymmetries are more severe for immigrants than for natives. There are two stages. In the first one, workers in the South decide whether to move and pay the migration costs. These costs are assumed to be sunk. In the second stage, firms offer wages to the immigrant and native workers who are in the country. Because of imperfect information, firms statistically discriminate high-skilled migrants by paying them at their expected productivity. The decision of whether to migrate or not depends on the proportion of high-skilled workers among the migrants. The migration game exhibits strategic complementarities, which, because of standard coordination problems, lead to multiple equilibria. We characterize them and examine how international migration affects the income of individuals in sending and receiving countries, and of migrants themselves. We also analyze under which conditions there is positive or negative self-selection of migrants.

H. Calvo-Pardo, M. Testaverde, T. Verdier and J. Wahba (2012) Emigration, Redistribution and Political Institutions in Origin Countries, mimeo.

Does migration lead to institutional gains in origin countries? So far this question has found little space in the economic literature, whose main focus has been on the economic implications of migration for source countries. This paper focuses on another crucial aspect, namely institutional quality. It provides a framework to explain the link between emigration and political institutions in origin countries. The

main prediction is that an improvement in the quality of political institutions takes place whenever there is a positive net migration outflow. Empirically, using a dynamic panel estimation for a sample of 105 countries in the period 1975 -2005, provides support for such hypothesis.

POLICY BRIEFS:

G. Bijwaard, C. Schluter and J. Wahba (2011) Does Unemployment cause return migration?, CPC Policy Briefing, June.

A. Razin and J. Wahba (2011) Migration Policy and Welfare State in Europe, CESifo DICE Report, Winter 4/2011.

A. Razin and J. Wahba (2011) Capturing differences between free and controlled immigration: Country bilateral data, Voxeu, March.