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## **INTRODUCTION**

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### **1.1 Subject and Motivation**

After World War II, both international capital mobility and migration have increased dramatically. Integration of the world economy has proceeded via three channels: trade in goods, capital mobility and migration. In terms of the latter, the roles of many Western European states have switched from net emigration to net immigration countries in the period of post-war economic expansion. Policy considerations in industrialised countries vary across these forms of economic integration. While the developed countries design their policies to enlarge their exports and to utilise relatively cheap labour in developing countries through direct foreign investments, they also try to hinder migration from developing countries.

Since the economic recession that followed the two successive oil-crises in 1973 and 1979, the main purpose of restrictive immigration policy has been to effectively control the inflow of low-skilled workers who have little productive value in post-industrial economies. Earlier 'guest workers' and their family members could not survive the economic restructuring and skill upgrading required to find and maintain employment. Subsequently, over the post-war period this group has accounted for a disproportionately large share of the unemployed in many Western European countries. The disproportionate unemployment rate and low level of social integration among immigrants in industrialised countries provide a motor for restrictive immigration policies. From the view of the host countries an essential question is what is the (economic) impact of immigration on welfare of natives. In particular, the main concern of host countries has been what the effects of immigration are on the employment and earnings of the native population.

It is remarkable that the three channels of international economic integration are examined separately. On the one hand, trade theorists have focused on potential gains and losses from

trade in addition to the effects of trade restrictions while monetarists have tried to show potential returns to capital as a consequence of capital mobility. On the other hand, labour economists have tried to examine the effects of immigration on the basis of models concerning the human capital characteristics of immigrant workers. These models are based on the degree of complementarity versus substitutability between immigrants and natives. Economic theory predicts that the impact of immigration on the host country labour market manifests itself in two main forms: on wages and (un-)employment. In more flexible economies like the US, the adjustment in the labour market after immigration is thought to be through wages and regional mobility. On the other hand, immigration is thought to cause unemployment in labour markets where wages are less flexible, such as those found in Western European countries.

Up to now, only a few empirical studies have taken into account the link between trade in goods and factor mobility. The questions arise whether trade in goods and migration substitute each other and what are the effects of immigration on labour market outcomes in host countries, such as the earnings and employment of native workers. This study first examines international migration flows in a broad context and then provides a theoretical and empirical investigation of the effect of immigrants on earnings in host countries. Next, ethnic and gender related differences in wages and non-standard employment are examined using a Dutch data set. Additionally, the labour market in Amsterdam (a typical immigrant city in the Netherlands) is studied focussing on the participation and employment behaviour of immigrants.

The contribution to economic research on immigration is fivefold. First, up to now most labour market research on European immigration has focussed on the supply-side of immigrant labour in host countries. This study, however, addresses the demand-side of the market by assessing the capability of European labour markets to absorb immigrants and the adjustment of these immigrants to the labour markets of these host countries..

Secondly, those studies with a demand-side perspective have analysed the effects of immigration on the wages of natives decomposing native labour force into a limited number of groups within several dimensions (i.e. low versus high skill levels). This study

analyses the effects of immigration on earnings of native labour force broken out by three skill levels and gender.

Thirdly, the empirical analysis provides estimates on three countries, the Netherlands, United Kingdom and Norway in the same year (1997). The three countries clearly have different immigration histories since the 1960s, each with a distinct immigration policy, labour market regulation and welfare system. Furthermore, for all three countries this type of analysis has not been conducted before. Immigrants analysed in this book had specific observable reasons to immigrate to one of the three host countries: their country of origin is a former colony of the host country; employers in the host country recruited workers in the country of origin; a political situation in the country of origin led to legal admission into the host country). These reasons coupled with immigration policies of the host country imply that we only distinguish mass migration from certain origin countries or regions into the host countries. Although immigrant workers might have been temporary members of the host country when they entered, most of the analysed immigrant groups have become "permanent" members of the host country's society. The empirical analyses provide evidence on the effect of these "permanent" mass immigrant groups on wages in the host country. The review of literature demonstrates that more restrictive immigration policies are intended to prevent the deterioration of labour market position of less skilled natives. This study presents the first results from quantitative analyses on the effects of immigrant inflows on wages in host countries that feed the current heated debate on the restriction of immigration policy in Europe. However, the effect of new types of immigrants (refugees) on a host country's labour market is not as of yet known.

Fourthly, for the first time in the Netherlands, using a large data set gender and ethnicity are brought together to analyse wage differentials and segregation in non-standard employment. In addition to disadvantaged immigrant groups, 'successful' immigrant groups are studied separately.

The last contribution of this work is related to studying the Amsterdam labour market in a historical perspective. Both demand and supply of labour are analysed, considering labour by skill level, gender and ethnic background. Using the same data source, the impact of

favourable economic developments in the 1990s on the assimilation of immigrants in the labour market is examined distinguishing first- and second-generation immigrants.

## **1.2 Positioning in the Scientific Field**

The analysis of the impact of immigrants on host country labour markets in Europe is in the field of economics of migration. The analytical analysis in this study builds on the model suggested by Altonji and Card (1991). The analysis takes a demand perspective and connects the effects of immigration with the demand for goods in the host country. Although a number of studies with a demand perspective on the effects of migration have appeared in the last two decades, after the study by Grosman (1982), most concerned traditional immigration countries like the United States, Canada and Australia (see surveys by Friedberg and Hunt, 1995 and Borjas, 1994). In Europe, the number of studies in the field of economics of migration is still limited but has increased over the last few years (Winkelmann and Zimmermann, 1993; De New and Zimmermann, 1994; Gang and Rivera-Batiz, 1994; Hatzius, 1994; Pischke and Velling, 1997; Venturini, 1999).

Alternative estimation techniques in this study are employed in order to verify and compare results of the effects of immigrants within the host country. Two main approaches are presented to estimate wage elasticities among different types of labour inputs: a simple regression analysis to determine reduced-form effects of immigrants on wages, and a labour demand model to take into account simultaneous interaction among labour inputs. Both methods correlate regional distribution of immigrants and wages in these areas. The first model estimates the effect of immigration on wages using a reduced form, where the reaction coefficient is a complex formula of supply and demand elasticities that cannot be distinguished. In the second approach one of the most flexible forms of the production function, the translog form, is applied. In this approach we assume supply to be exogenous and identify production technology parameters from factor value shares, from which the partial elasticities of complementarity and corresponding wage elasticities are derived. Each model has its own advantages and disadvantages, suggesting that they are complementary to each other.

Although the theoretical framework provides an important tool from which we can construct an empirical study, it is not without restrictions. One restriction is imposed by

data problems (i.e. absence of data on capital, to few observations on immigrants, etc.). Yet another restriction follows from the lack of a comprehensive theoretical model in which relevant avenues of an adjustment process are integrated, such as the domestic and international mobility of capital, labour and goods as well as unemployment. Moreover, an increase in the number of immigrants does not necessarily mean an extension of labour supply since the unemployment rate is 4 to 5 times higher among ethnic minorities than natives. Concerning all these unmanageable difficulties, the theoretical framework is a modest attempt to investigate the impact of immigration on wages.

### **1.3 Data**

In Europe the share of immigrants in the entire labour force varies between 2% and 7%. Analysing the socio-economic behaviour of immigrants using representative samples of national populations is therefore limited, simply because the number of observations is too small, especially if immigrants are distinguished by (groups of) origin countries or regions. In addition, a lack of information on immigration history limits research opportunities.

However, in the Netherlands the first large representative micro data set including sufficient numbers of observations on different ethnic groups to perform statistical analyses has recently become available. This is the "Loon Structuur Onderzoek" (LSO) or "Wage Structure Survey", collected in 1997 by the Dutch Central Bureau of Statistics (CBS). In order to estimate employment probabilities the Dutch Labour Force Survey (EBB) of 1999 is used. A third Dutch data set employed is called the "Geassocieerde Pers Diensten" (GPD) or "Associated Press Services" collected in 1998 in Dutch by the Foundation for Economic Research (SEO) in Amsterdam. A fourth data set provides information on characteristics of immigrants in the Amsterdam labour market, called the "ArbeidsKrachten Telling" (AKT) or --Amsterdam Labour Force Survey. Additionally, we used administrative population statistics and national level data sets from the CBS and time series from the SEO.

For the United Kingdom, we pool four waves of the "Quarterly Labour Force Survey" (LFS) (Spring, Summer, and Autumn 1997, and Winter 1998). The panel aspect of these surveys is eliminated by allowing each respondent to enter only once in the data used.

For the study on Norway the individual administrative panel KIRUT is used. From KIRUT, we use two cross-sections: the first wave from 1989 and the latest available wave, collected in 1996. All micro data sets are used with the permission of data-holders who are briefly mentioned in the sections where the respective data sets are used.

Included in our wish list for improving the econom(etr)ic analyses of immigration is the better availability and accessibility of data sets. In addition future research requires data on capital in addition to that used to analyse the effect of immigration on unemployment in the host country. Furthermore, although we make use of cross sections, more robust analyses necessitates data with a panel character across all countries that exhibit large waves of migration. Finally, there is a need for data on some 'new' immigrant groups like refugees.

## **1.4 Outline**

The following is a brief-outline of the contents of the book: Chapter 2 gives a broad picture in which international migration is regarded a part of international economic integration. Chapter 3 presents the underlying theoretical framework that will be applied to the empirical analyses of the Netherlands, United Kingdom and Norway found in Chapters 4 through 6, respectively. The empirical findings for the three countries are summarised and discussed from a comparative perspective in Chapter 7. Chapter 8 tries to identify the components of gender and ethnic wage gap, and the probabilities of being employed in part-time and flexible jobs across gender and ethnic categories. In Chapter 9 an analysis of the developments in labour supply and demand by skill and ethnic background, focussing on unemployment is presented. Chapter 10 concludes by presenting the outcomes of this study and discusses direction of further research.