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EXTENDED ABSTRACT

Title: On the Heterogeneous Impact of Immigrants on the Distribution of Native Wages. Evidence from Recent Immigrants in Italian Provinces

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Abstract: *(minimum 1500 words)*

In the last few decades, many developed economies have experienced the resurgence of the migratory phenomenon. Despite the large amount of studies carried out, there still is no consensus on whether immigrants represent a benefit or a disadvantage for the labor market outcomes of the native population in the destination countries.

To this extent, a crucial aspect to understand is whether immigration equally affects all native workers, or rather the effect varies depending on their position in the skill distribution. Economic theory predicts that immigration may exert downward pressure on both wages and employment opportunities of native workers that are closer substitutes to immigrants themselves, only if the immigration-induced labor supply shift alters the pre-existing local skill distribution. In order to identify the potential “winners and losers” from immigration, earlier studies distinguish between the wage impact on skilled and unskilled workers. Skills are typically defined based on educational attainments, or a combination of experience and education. The wage effects can differ depending on the extent of substitutability/complementarity between immigrants and natives skills. In this respect, there is evidence of the fact that immigrants, irrespective on their skills, tend to be employed in occupations different from the ones undertaken by natives. This occurs because immigrants have a comparative advantage in more simple and physical type of tasks, due to their often limited knowledge of the language spoken in the destination countries and to their different social norms. In turn, this implies that immigrants tend to specialize in sectors that make a prevalent use of low-skilled labor, like construction or agriculture. In reaction to this, natives that have a comparative advantage in communication-intensive type of tasks, tend to specialize in sectors or occupations that require such skills. This mechanism ultimately implies that natives experience a sort of task-upgrade and move to occupations that are complementary with respect to the ones undertaken by immigrants and that are

characterized by both higher wages and better working conditions vis-à-vis the foreign-born workers.

Another element that plays a key role in the way in which local labor markets are able to absorb an immigration-induced supply shock is the extent of wage flexibility. Indeed, in an economy characterized by wage rigidities deriving from the presence of labor market institutions, such as minimum wage, unemployment benefit or unions (as is the case for Italy), immigration may depress the employment opportunities of the native workers, without any significant effect on the wage structure.

With these premises, the objective of the present paper is to provide empirical evidence on the impact that recent immigration inflows to Italy exert on the wage structure of native workers, also allowing for heterogeneous responses over the distribution of native skills. Indeed, an important limitation of the skill-based approaches performed in the previous literature is that they allocate workers to different skill-groups depending on their observable characteristics. However, this procedure may be problematic for different reasons, such as (i) the tendency of some natives to be over-educated; and (ii) the phenomenon of skill-downgrading suffered by immigrants. To deal with these issues, this study approximates the skill of each individual with the position that he occupies along the wage distribution, that is, it considers as high-skilled those individuals located at the upper tail of the wage distribution and as low-skilled those located at the lower tail. It then estimates the impact of immigration at different points of the wage distribution. Specifically, based on a theoretical model they indicate that the parameter capturing the wage impact of immigration “is proportional to the density of immigrants along the native wage distribution”. To this extent, they show that immigration exerts downward pressure on the wages in the lower end of the wage distribution (i.e. below the 20th percentile) and has a positive impact in the upper end (i.e. above the 40th percentile).

In addition, the empirical analysis of the present chapter also accounts for changes (over time and across provinces) in the composition of the native workforce, which is something that the literature on the impact of immigration on local labor market only marginally takes into consideration. This is because, on the one hand, regions specialized in high-skilled industries tend to attract high-qualified workers, and are therefore characterized by higher average (nominal) wages. However on the other, the same regions may also attract low-skilled immigrants that complement high-skilled natives in some type of activities, such as household production services. At the same time, the extant literature indicates that immigrants tend to cluster in more expensive cities or regions where nominal wages are also higher. This implies that local wages may correlate with this composition effect, and failing to consider this phenomenon can be problematic when estimating the wage impact of immigration. Indeed, the estimate of the parameter would somehow internalize the potential changes (over time and across local labor markets) in the composition of native population and therefore confound the estimates of the effect of interest.

To the best of our knowledge, this is the first paper that combines the evaluation of the impact of immigration along the native wage distribution with a methodology that allows to account for changes in the composition of the native population.

By using data drawn from the Italian Labor Force Survey (LFS) provided by the Italian National Office for Statistics (ISTAT), we conduct the analysis for the Italian provinces in the aftermath of the Great Recession (i.e. over the period 2009-2017). The rationale behind the choice of the country depends of the fact that, for different reasons, Italy represents an interesting case study. First, it has only recently changed its role from being an immigrant-sending to an immigrant-receiving country. Although the first migratory waves started in the 1970s, the peaks were reached in the 1990s, with inflows from the Balkans and eastern Europe, and in the 2000s with inflows from the Arab

Spring countries and with the subsequent refugee crisis. This implies that, over the period under analysis, the presence of immigrants in the Italian territory has experienced a significant increase both in terms of stocks and as share of the total population. In addition, despite its relatively poor colonial history, Italy is characterized by a consistent variation in the countries of origin composition of its immigrant population, which is an almost unique case among the western economies. This aspect plays a crucial role in terms of the potential economic effects of immigration, as there seems to be a positive relation between the ethnic composition of the immigrant population and native wages, or productivity. Second, Italy is also characterized by a peculiar institutional framework, sufficiently different from the one of the Northern European countries or the U.S. In particular, due to the relatively strong presence of labor market institutions that hinder downward wage adjustments, the Italian labor markets are sufficiently rigid. Third, in terms of the immigrant population, Italy mostly host low-skilled individuals, which is something that is not valid for countries with a longer tradition of immigration, as the U.K., or the U.S. Fourth, another important peculiarity of the Italian economy is its well-known socio-economic divide between a more advanced and productive North and a still struggling South. Finally, in Italy the issue of immigration has recently reached the center of the public debate and the top of the political agenda.

Against this background, the hypothesis to test is that the higher density of recent immigrants in Italy in the lowest end of the skill distribution, together with the constraints to downward wage adjustments due to the Italian institutional setting, should imply a non-negative effect on both average wages and on the whole distribution of native wages. Conversely, we might expect a positive effect in the upper part of the wage distribution, due to a complementarity effect between low-skilled immigrants and high-skilled natives.

In order to test the hypotheses, we implement a two-steps procedure. In a first step, we estimate a native provincial mincerian equation that allows us to obtain a conditional native wage distribution, that is a native wage distribution net of the effect of observable individual characteristics. In addition, we include a set of workplace characteristics that supposedly capture workers unobserved heterogeneity. This procedure is assumed to thoroughly control for changes in the composition of the native workforce. In the second step we apply a spatial correlation approach that allows us to estimate the impact of immigration along the conditional native wage distribution previously obtained. We additionally control for endogeneity by including a set of local controls, and by applying an IV methodology using an instrument based on the settlement patterns of older immigrants.

We initially conduct the analysis considering all native workers together. Then, we perform an heterogeneity analysis along two lines. In the first, we distinguish by gender, to verify whether the overall results are confirmed also when considering men and women separately. The rationale behind this choice is that the wage elasticity to immigrant shocks is assumed to be quite gender-specific. If, on the one hand, men typically supply their labor, irrespective of the wage dynamics, the same is not valid for women. Immigrant workers, especially if women, may indeed substitute native women in the household production services, with a positive impact on their participation rates and wages. This is particularly valid in the Italian context, whose peculiar cultural norms imply that females are often disadvantaged in terms of economic opportunities.

In the second, we distinguish between Northern and Southern provinces, to verify whether the wage response to immigration is similar in these two portions of the Italian territory, which is something that is not possible to argue *ex-ante*, given their consistent disparities in economic performance. Gender differences within Northern and Southern provinces are also considered. Two main elements emerge from the empirical analysis.

First, in line with a strand of the extant literature, the results contradict the idea of an inverse relationship between immigrants shocks and native wages. By contrast, they present a scenario in which immigrants do not exert any significant impact on the average wages of their native counterparts. Second, we estimate a positive wage response in the upper part of the native wage distribution, especially in the case of female workers residing in the Northern part of the country. However, it is important to highlight that, in the more demanding specification (that is, the one that includes a comprehensive list of local labor market controls and region-specific trends), this positive effect is only marginally significant

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