ABSTRACT WORKING PAPER 3.2

ON THE POTENTIAL INTERACTION BETWEEN LABOUR MARKET INSTITUTIONS AND IMMIGRATION POLICIES

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In this paper, we analyse the effect of labour market institutions as employment protection legislation, minimum wages, coverage of unemployment benefits and union power on immigration flows. We also study the interaction of such institutions with migration policies and discuss the implications of our finding for the European Neighborhood Policy. Our interpretation hypothesis is that migration decisions of individuals are also driven by some knowledge of the characteristics of the labour market of destination and by the interaction of such characteristics (labour institutions in particular) with migration policies. Moreover, the evidence that immigrants come in waves and tend to cluster in areas and occupations in which most of workers are from the same country (or even the same region), suggests that information on destination countries' characteristics is quite important in shaping migration decisions. We test our theoretical predictions by evaluating the quantitative effect of employment protection legislation, coverage of union bargaining agreements, the generosity of unemployment benefits and the presence of the minimum wage on bilateral migration flows in a set of European countries during the period 1990-2005. As expected we find that stricter migration policies have a negative effect on migration flows, while GDP per capita of destination countries has a large and statistically significant positive effect on migration flows. We do not find a statistically significant effect for GDP in origin countries. We also find that employment protection and minimum wages have a positive effect on migration flows while higher union power (proxied by coverage of bargaining agreements) and coverage of unemployment benefits have less relevant effects on flows. We also find that the effect of labour institutions is higher in countries in which tightness of migration policies is lower. Finally, we find some interesting differences when we split the sample according to the country of origin of migrants: the positive effect of GDP of destination on flows is much stronger for EU immigrants, while the negative effect of GDP of origin country is stronger for countries in the ENP group.

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