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ON THE POTENTIAL INTERACTION BETWEEN LABOUR MARKET INSTITUTIONS AND IMMIGRATION POLICIES

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OBJECTIVE

The aim of the paper is to analyse the effect of labour market institutions as employment protection legislation, coverage of unemployment benefits, minimum wages and union power on bilateral migration flows. We also study the interaction of such policies with migration policies of destination countries. Finally, we explore the relevance of our results in relation to the European Neighborhood Policy framework.

SCIENTIFIC METHODS

Our research design is based on two steps. Firstly we discuss the possible effects of labour market institutions in terms of wages and employment, focusing on the effects of such institutions on migration choices and thus on bilateral migration flows. Secondly, we run regressions on a database of 9 European countries during the period 1990-2005 to analyse the empirical correlations identified above. We finally separate migrants depending on the countries of origin, distinguishing between EU vs non-EU and ENP vs non-ENP migrants.

We identify possible channels through which labour market institutions as employment protection legislation, coverage of unemployment benefits, minimum wages and union power affect wages and employment. Based on this theoretical framework we use theoretical mechanisms that could drive the mobility choices of migrants and analyse different aspects of labour institutions trying to disentangle their relative effect on wages and employment, and their potential interactions with immigration policies and flows. 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 9 European countries during the period 1990-2005. We use longitudinal data methods that allow us to take into account unobservable characteristics of countries that could influence migration flows.

The research design we have selected is well suited to address the issues stated in the objective of the paper in terms of evidence hierarchy and policy relevance. On the one hand we directly analyse the effect of real policies on migration flows using longitudinal data methods. This allows to take into account most of the unobservable characteristics of countries of destination and origin that could influence both policies and migration flows. On the other hand, we believe our approach has a strong policy relevance because we provide a quantitative analysis of the effects of such policies and discuss possible interactions among labour institutions and migration policies, evaluating differences between European and non-European countries, as well as differences between ENP and non-ENP countries.

POLICY VALUE-ADDED

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. On the other hand, 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.

Our results are in line with those found in the previous literature. We confirm the importance of GDP per capita in destination countries as pull factor and the disincentive effects of stricter migration policies. In particular, Mayda (2010) and Ortega and Peri (2012) obtain similar results using different time periods, different specifications and different sets of countries.

Our paper is also associated to the literature on the so called welfare migration hypothesis (see Giulietti and Wahba (2012)). De Giorgi and Pellizzari (2009) study how the generosity of welfare, proxied by the net replacement rate of benefits over wages, affects the location decisions of migrants in 15 EU countries. Using unemployment benefits as a proxy for welfare generosity, Giulietti et al. (2011) explicitly study the correlation between immigration inflows and unemployment benefit spending as a fraction of the gross domestic product for a sample of European countries. They also separate flows from EU and non-EU origins to take into account possible different eligibility criteria and different restrictions to labour mobility of these two groups of workers. The two groups of studies however, do not jointly

analyse the effect of labour institutions and migration policies. Hence, our findings imply a series of new important policy implications.

The first one is that labour market institutions show an important degree of complementarity/substitutability among them (see Boeri and van Ours, 2008). For example, employment protection legislation and unemployment benefits coverage have the same aim of protecting workers against risk, hence they are imperfect substitutes. However, while higher employment protection reduces turnover in the labour market, making more difficult to exit unemployment (reduces mobility, given the lower possibility to enter the labour market), on the other hand, higher coverage of unemployment benefits can increase mobility. As long as migrants perceive such differences, this will have some important implications for the way in which immigrants will choose destination countries. In other words, national governments and EU authorities have to take into consideration such interactions.

The second important policy implication is that labour market institutions interact with migration policies. Hence the effect of possible reforms of such institutions should carefully take into account such interactions. For example the introduction of minimum wages in countries in which such institution is not in place could have both a positive employment effect on native and a positive effect on migration flows. If migration policy is not adequately coordinated, such large inflow of immigrants could crowd out native workers out of those jobs thus canceling out the potentially positive benefit effects of a minimum wage.

Finally, the last policy implication is that countries should coordinate their migration policies and design them in order to attract most skilled migrants. In fact we obtain quite different results for migrant with low and high skills depending from the area of origin, both for the role of migration policies and EPL. The negative effect of migration policies on flows is much stronger for migrants from the East of Europe and Middle East that on average have higher skills, while it is statistically significant but reduced in size for migrants from the North of Africa. Similarly, the potentially attractive role of employment protection is higher for the former group of migrants.

Those above are just a few examples of such interactions, and it is honest to say that we have just analyzed a set of policies and only one indicator of migration policies. However, we believe our results have a good degree to which can be generalized, as they are based on robust econometric techniques and existing literature, there are no reason to think that the countries that we selected for our analysis are particularly different from other EU countries that were out of the sample.