



## POLICY NOTE OF WORKING PAPER 3.8

### SKILL MISMATCHES IN THE EU: IMMIGRANTS VS. NATIVES

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#### OBJECTIVE

The aim of this paper is to analyze whether there are differences in the probability of having skill mismatch between immigrants from EU countries, immigrants from non-EU countries and natives. We also focus our interest on the role of immigrants' process assimilation, i.e., we look at whether immigrants manage to reduce the probability of having skill mismatch by year of residence in their host country. Using a decomposition method, we finally try to explain the differences in the probability of having skill mismatch between both types of immigrants and natives.

#### SCIENTIFIC METHODS

In order to carry out the objectives of this paper we use microdata from the Adult Education Survey (AES) as it allows us to measure both types of skill mismatch for a set of EU countries. AES is referred to 2007. It is worth noting that using this database, we find that immigrants have a higher percentage of vertical and horizontal mismatch than natives, being these percentage higher for immigrants from non-EU countries than for immigrants from EU-countries.

Our research methods plan is based in two steps. First, we estimate probabilistic models in order to look at the difference in the probability of having vertical and horizontal mismatch between immigrants and natives once we control for personal and labour characteristics. We also include in the models interactions between years of residence in the host country and immigrants provenience dummies in order to check whether a process of assimilation exists. In other words, we aim at looking whether immigrants reduce their probability of having skill mismatch throughout years of residence in the host country.

Secondly, we use the Yun decomposition method in order to explain differences in the probability of having skill mismatch between both types of immigrants and natives. In particular, the method allows us to decompose the differences into two components: the first one shows which part of the difference in the probability of being overeducated is due to differences in observable characteristics, while the second one shows which part is due to differences in the returns to these characteristics.

## POLICY VALUE-ADDED

We find that immigrants are more likely to be overeducated than natives, being this probability higher for immigrants from non-EU countries. Nonetheless, through years of residence in host countries' the probability of being overeducated slightly decreases for both kinds of immigrants, but the extent of the reduction is higher for immigrants from non-EU countries. This means that although immigrants from countries outside EU have a higher probability to be overeducated, their process of assimilation is faster than the one for immigrants from EU countries. It is worth noting that these differences are not obtained concerning horizontal mismatch.

The outcomes of the decomposition show that differences in the probability of being overeducated between immigrants from EU-countries and natives are due to differences in observable characteristics. This means that immigrants from EU-countries are characterized by worst personal and labour characteristics than natives. As for the difference in the probability of being overeducated between immigrants from non-EU countries and natives, we find that it is mainly explained by differences in coefficients, i.e., immigrants from non-EU countries are not remunerated at the same way than natives. Personal variables as gender or education and age, are important to explain this difference. In the case of immigrants from non-EU countries, the part due to differences in observable characteristics is not statistically significant.

To sum up, our results confirm that immigrants experience a higher overeducation penalty than natives due to the imperfect transferability of the human capital acquired in their origin countries. However, immigrants accumulate knowledge and experience in the host country that adapt to the local labour market, thus facilitating an assimilation process that reduces the intensity of overeducation. The pace of assimilation however is notably slow for immigrants. Therefore there is a certain risk that immigrants from outside the European Union remain permanently trapped in bad jobs, regardless of their levels of education. Taking into account the wage consequences of overeducation, this last result implies that the wage gap between native and immigrants will not disappear after several years of residence in the host country. Policy actions should focus on three different aspects: first, incorporating in the migration policy formal criteria related to educational levels and to the match with the current needs in the labour market (i.e, like the Australian points system); second, trying to design a system of assessment and recognition of foreign-acquired educational degrees in order to give an appropriate signal to the labour market and, third, providing publicly-provided informal training to recently arrived immigrants with appropriate skills in order to improve the transferability of their skills to the new labour market.