



## PRESS RELEASE OF WORKING PAPER 3.2

### 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 countries. Finally, we explore the relevance of our results in relation to the European Neighborhood Policy framework.

#### MAIN RESULTS AND POLICY IMPLICATIONS

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 of many unobservable characteristics of countries that could influence migration flows.

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. Once controlling for country fixed effects, 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. We also find different patterns for migrants from African countries and migrants from East European and Middle East countries.

Our analysis confirms previous results in the literature. In particular, our results are in line with papers that study the relationship between migration policies and flows and

with studies that analyse the relation between flows and welfare. However, the two groups of studies do not jointly analyse the effect of labour institutions and migration policies, the latter being the main contribution of our paper. Our findings imply a series of 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 policy 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 techniques adopted in the existing literature. There are no reasons to think that the countries that we selected for our analysis are particularly different from other EU countries that were out of the sample.