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IMMIGRANT-NATIVE WAGE GAPS AND THE RETURNS TO HUMAN CAPITAL

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OBJECTIVE

The relative situation of immigrants in the labour market of the host country has played a central role in the numerous studies carried out in recent decades on the subject of international migration and its consequences. Both academics and policy makers have placed particular attention on the wage gap between immigrants and native-born workers. The key empirical findings of this literature are twofold: first, immigrants typically face a significant wage gap when arriving to the host country and, second, this gap tends to diminish the longer they remain in their host country. Recent contributions have argued that the wage disadvantage experienced by immigrants when they arrive in a new country can generally be attributed to the limited transferability of the human capital they have acquired in their home country. The reason may lie in the lower quality of the educational system there or in a different cultural background, but whatever the case may be, the relevant fact is that newly arrived immigrants lack sufficient human capital for their host country's labour market. However, the main explanatory factor behind the rapid growth over time in immigrant wage levels is related to their accumulation of different types of human capital in the host country, which is particularly significant in the first years of residence in the host country. This process could be facilitated by a favourable legislation to labour mobility in the host country.

The aim of this paper is to quantify immigrant-native wage gaps in the European Union countries putting special attention to the role of favourable or unfavourable policies supporting the labour market integration of recently arrived immigrants.

MAIN RESULTS AND POLICY IMPLICATIONS

To find a job, not all foreign residents with the right to work have equal access to the full labour market, education system or employment services. For instance, only nationals and EU nationals in Europe enjoy equal opportunities in the public sector and better procedures to recognise their non-EU degrees.

Analysing data from MIPEX for the period 2007-2010, we identify that nearly all new EU member states (EU-12) have unfavourable policies while in the old EU member states (EU-15) there are two clear groups of countries: one formed by Austria, Belgium, Greece, Ireland, Italy, Luxemburg and the United Kingdom with less favourable policies and a second one formed by Germany, Denmark, Spain, Finland, France, Netherlands, Portugal and Sweden where policies are more favourable.

| MIPEX 1.3. TARGETED SUPPORT FOR LABOR MARKET MOBILITY (average value 2007-2010) | EU15 | EU12 |
|---|--|---|
| Critically unfavourable (0) Unfavourable (1-20) Slightly Unfavourable (21-40) | AT (25), BE (37.5), GR (0), IE (18.8), IT (25.0), LU (6.3), UK (25) | BG (25), CY (12.5), CZ (12.5), HU (12.5), LT (25), LV (12.5), MT (12.5), PL (12.5), RO (37.5), SI (18.8), SK (0) |
| Halfway favourable (41-59) Slightly favourable (60-79) Favourable (80-100) | DE (87.5), DK (68.8), ES (50), FI (62.5) FR (62.5), NL (75), PT (56.3), SE (100) | EE (62.5) |

To conduct our analysis, we use the most recent wave of the EU Statistics on Income and Living Conditions (EU-SILC) which provides comparable microdata for the member states of the European Union. In particular, using microdata from the EU-SILC 2010 wave, we estimate separate Mincer equations for the three groups of countries.

Our results show that wage differentials between immigrant and natives are lower in those countries with more favourable policies, but this is the result of a better relative situation of medium-skilled workers and not of highly-qualified ones. In any case, the wage gap for immigrants in EU-15 countries is clearly lower than for those arriving at EU-12 countries.

However, although our results suggests that these policies do have some effects on immigrants' labour market integration, it is not possible to disentangle which part of the effect is due to this particular measure, to other migration policy or even to 'non-migration policies'.