Chapter 21
The Labor Market Effects of Immigration

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ABSTRACT

This chapter discusses the effects of immigration on the labor market of receiving countries, focusing on employment. The effect of immigration on the welfare of native population is an important issue in public debate. The common perception is, at least in the short run, because of immigration, unemployment rates would increase in the host countries, or that immigrants would depress wages of native workers. However, these perceptions do not find confirmation in the previous research on this literature. According to Jean and Jimenez (2011), the evidence is, at best, mixed. Although the magnitude of the impact depends on time and space, in general, results of the previous literature indicate that immigration has only very small or no effect on employment and wages of resident workers. The aim of this chapter is to provide an overview of immigration-labor market relation for different countries and time intervals with some significant policy implications with regards to state officials.

INTRODUCTION

Though the immigration phenomenon is regarded as a demographic one, reasons for both its emergence and consequences are intimately linked with the economy. Especially the possible unfavorable effects of immigration on the employment and wage rates of the native population are one of the much-debated subjects on economic theory. Research on the area is divided into three main areas: Concerns of the domestic residents that immigrant workers would increase competition for jobs, and therefore wages will fall and unemployment will rise, concern that immigrants would affect the social security system of the receiving country negatively, and finally the prospect of rising migration would affect wealth distribution (Dustmann & Glitz, 2005).

This chapter is about an analysis of the relation between the immigration and the labor market of receiving countries, specifically focusing on employment and wages.
There is vast empirical literature for the US and the other traditionally immigrant-receiving countries. There is a common perception that, at least in the short run, immigrants would substitute the native workers and increase unemployment in the host country, or that immigrant would accept lower wages than the natives, and therefore may create downward pressure on the wage rates of the native workers. These perceptions are one of the reasons for more conservative migration policies enforced by governments. However, these perceptions do not find confirmation in the previous research on this literature. According to Jean and Jimenez (2011), the evidence is, at best, mixed.

The effect of the immigrants on the welfare of the native population is a fundamental issue in the public debate. There is a vast empirical literature for the US and the other traditional countries of immigration. However, most European countries experienced large-scale immigration more recently than for countries like Australia, the US, or Canada. Moreover, the US and European experience are very different from each other since the composition and size of the immigrants are specific to the each receiving country. Therefore results of one empirical analysis are unlikely to hold for another one (Dustmann & Frattini, 2011).

Immigration can affect the host countries’ economy, through different channels, such as changes in output structure, technology and competitiveness, and complementarities and additions to the skill base (Dustmann, Frattini, & Glitz, 2007). For instance, immigration may affect the composition of goods and services produced in the economy and the structure of the labor market. Or immigration may alter the technology in a specific sector. (Gaston & Nelson, 2000; Hanson & Slaughter, 2002; Lewis, 2004; Gonzales & Ortega, 2007; Dustmann & Glitz, 2008). In addition to these, the impacts of immigration on the wage rates and employment levels of the native workers also depend on to what extent migrant’s skills are complements or substitutes to the skills of native workers (Borjas, 1995). If the skills of migrants and native workers are substitutes, in the short-run, immigration may increase competition and decrease the wages in the labor market. Should, on the other hand, the skills of migrants be complementary to native workers, productivity in the economy shall increase, and this, in turn, may lead a rise in the wages of all workers. All of these cases shall have different impacts on the labor market.

Immigration affects the economy from both demand and supply sides. Therefore, in the medium-run and/or long-run, immigration may increase labor demand as well as labor supply. Migrants increase demand for goods and services, and immigration may lead higher level of investment in the long-run. Both of these effects create higher demand for labor and thus higher level of wages and employment. In other words, immigration may increase competition for existing jobs in the short-run, but it can also create new job opportunities for all workers in the entire economic system of the host country. Besides, immigrants fill vacancies for jobs that could not otherwise be filled by native workers. (Dustmann & Glitz, 2005). The speed to which investment and labor demand respond to immigration depends on the characteristics of the economy. For instance, during an economic recession, labor demand may respond to immigration more slowly.

However, although the effect of immigration on wages and unemployment is the most intensive research area on this phenomenon, measuring, testing and quantifying of these impacts are not easy tasks. Although there are some common trends in the empirical findings, still there is no consensus on the type and the size of the effect of immigration on the labor market. According to Dustmann and Glitz (2005), different empirical analysis technique requires different (and most of the time strong and debatable) assumptions, all methods may have some problems, and they may provide different results. Besides, unavailability of sufficient quality data would lead to imprecise and ambiguous empirical find-