



The impact of immigration on the well-being of natives[☆]



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ABSTRACT

Combining data from the German Socio-Economic Panel for 1998–2009 with local labor market information, this is the first paper to investigate how the spatial concentration of immigrants affects the life satisfaction of the native Germans. Our results show a positive and robust effect of immigration on natives' well-being, which is not driven by local labor market characteristics. Immigration has only a weak impact on the subjective well-being of immigrant groups, meanwhile. We also examine potential threats to causality and conclude that our findings are not driven by selectivity and reverse causality. Specifically, natives are not crowded out by immigrants and the sorting of immigrants to regions with higher native happiness is negligible. We further find that the positive effect of immigration on natives' life satisfaction is a function of the assimilation of immigrants in the region. Immigration's well-being effect is higher in regions with intermediate assimilation levels and is essentially zero in regions with no or complete assimilation.

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1. Introduction

There has been substantial concern about the impact of immigration on the welfare of natives (Borjas, 1994; Friedberg and Hunt, 1995; Card, 2005). Traditionally, studies analyzing the impact of migration on natives have employed “objective” measures of welfare such as wages and employment (Borjas, 1994, 2003; Card, 1990, 2001; Butcher and Card, 1991; Dustmann et al., 2005; Ottaviano and Peri, 2012). More recently, part of the migration literature has also focused on the impact of migration on public spending, fiscal effects and prices (Brücker et al., 2002; Dustmann et al., 2010; Dustmann and Frattini, 2013). The objective of this paper is to examine the effect of immigration directly on the welfare of natives using the overall experienced “utility”, as proxied by subjectively-reported well-being. To our knowledge, this is the first paper to examine such a nexus.¹

At a broader level, objective measures are only partially capable of capturing most of the aspects of life that generate welfare or – as more precisely expressed by *utilitarians* such as Jeremy Bentham – pleasure and pain after an experience

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¹ The literature exploring the relationship between migration and well-being is rather scant to date. Recent works exploring the relationship in this area is offered by Simpson (2013).

(Kahneman and Sugden, 2005). In recent years, economists have started to focus on using broader – rather than purely objective – measures of welfare to proxy the utility of individuals (Deaton, 2008; Fleurbaey, 2009). As Stiglitz et al. (2009, p.41) state: “Quality of life is a broader concept than economic production and living standards. It includes the full range of factors that influences what we value in living, reaching beyond its material side.” To capture the overall welfare of individuals, researchers now study subjective well-being measures (SWB, “happiness” or “life satisfaction”) that can complement objective income-based metrics and enhance our understanding.²

The number of economic studies investigating the determinants of SWB has increased substantially in recent years (for an overview, see Dolan et al., 2008; Frey and Stutzer, 2002). The use of alternative welfare measures has also stimulated policy debates. For instance, in 2009, the French government convened a group of Nobel laureates including Amartya Sen and Joseph Stiglitz to create an index for the country’s well-being that would replace the traditional GDP measure and include subjectively-reported well-being levels. Today, this new branch of the economic literature goes beyond exploring the determinants of well-being, and allows the testing of hypotheses and analysis of various issues that could not have otherwise been achieved using a standard neoclassic economic approach. Arising from these results are findings about the large disutilities from being unemployed (Winkelmann and Winkelmann, 1998; Clark and Oswald, 1994; Clark, 2003), the fact that age and subjective well-being have a U-shaped relationship with a minimum around the age of 40 (Frey and Stutzer, 2002), that married people have higher subjective well-being than singles (Clark and Oswald, 1994), and that both absolute and relative income affect subjective well-being (Easterlin, 1995; Clark et al., 2008; Senik, 2009).

Economists have long focused on the impact of immigration on natives’ labor market outcomes such as wages and employment, which are objective measures of “welfare”. The typical approach has been to correlate these measures with the share of immigrants in local labor markets. The empirical evidence to date is rather mixed. For instance, while Borjas (2003) finds negative effects of immigration on the wages of natives in the US, others find that the impact of immigration, if any, is negligible (Card, 1990, 2001). More recently, Ottaviano and Peri (2012) document immigration as having a positive effect on the wages of high-skilled natives, and a negative (but negligible) effect on low-skilled natives. A longitudinal study in the UK finds minor impacts on unemployment, participation and wages – both economically and statistically (Dustmann et al., 2005). Conversely, Manacorda et al. (2012) find that since immigrants and natives are complements in production, there is no negative wage effect on the latter. However, the authors also find evidence that newly-arrived immigrants are substitutes in production with immigrants already residing in the UK. Analyzing the impact of immigration on the employment rates of native Germans, Pischke and Velling (1997) find that immigration does not adversely impact natives’ employment. More recently, D’Amuri et al. (2010) analyze both the wage and employment effects of immigration in West Germany, finding that immigration has essentially no impact on natives’ labor market outcomes, but has an adverse effect on previous immigrants.

Another strand of the literature has explored the impact of immigration on other outcomes while still using objective measures of welfare. For example, Dustmann et al. (2010) analyze whether the immigration stemming from the EU enlargement toward Eastern European countries affected UK public finances. They find that immigrants from the accession countries positively contributed to public finances, since they were found relatively more likely to be in work than natives, and less likely to access social benefits.

Finally a branch of the literature has started to explore the relationship between immigration and natives’ attitudes. For example, Card (2005) analyze European Social Survey data and conclude that while attitudes towards immigrants are partially shaped by economic factors, other aspects such as culture, and natives’ social status are important in affecting the way in which immigration is perceived. Moreover, Boeri (2010) argues that the business cycle influences natives’ opinions towards immigrants. Other studies investigate the determinants of attitudes toward immigrants (Facchini and Mayda, 2009; Mayda, 2006; Rustenbach, 2010; Senik et al., 2009; Bauer et al., 2000).

This paper focuses on Germany for several reasons. First, Germany is a high immigration country. Estimates by Eurostat report that 9.8 million individuals residing in Germany in 2010 were foreign-born (accounting for as much as 12% of total population).³ Second, we base our study on the German Socio-Economic Panel (GSEOP), which has the unique feature of being a nationally representative dataset with longitudinal information on subjective well-being and identical questions posed to both natives and immigrants. Furthermore, GSOEP can be merged with data from the INKAR, a dataset containing local labor market characteristics such as GDP and unemployment rates.⁴ In addition, INKAR provides rich and reliable data on immigration stocks and flows at the local level, upon which our identification strategy hinges.

Utilizing panel data, we estimate several models where the well-being of natives is a function of the immigrant share in the region, controlling for natives’ socio-demographic traits and local labor market conditions. Exploiting the panel dimension of our data, we estimate various equations where well-being is expressed as a function of the proportion of the immigrant share in the local labor market, controlling for individual socio-demographic characteristics and local labor market attributes. Our estimations provide robust evidence that higher immigration generates a positive effect on natives’ SWB. In other words, natives experience welfare gains as immigration in the local labor market increases. For comparison purposes, we also

² Kahneman and Sugden (2005) provide a thorough discussion about how subjective and objective measures compare.

³ Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/population/data/main_tables.

⁴ INKAR is the acronym for Indikatoren und Karten zur Raumentwicklung.

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