



Recovering the counterfactual wage distribution with selective return migration



Costanza Biavaschi

Department of Economics, University of Reading, Whiteknights, Reading RG6 6AA, United Kingdom

HIGHLIGHTS

- Migrants self-select in the decision to return to their home country.
- I recover the distribution of wages that would occur if all migration was permanent.
- I use an estimator that also accounts for selection on unobservables.
- Focusing on Mexican migrants, returnees are middle- to high-wage earners.
- Owing to positive self-selection, the immigrant-native wage gap partially closes.

ARTICLE INFO

Article history:

Received 13 October 2013
 Received in revised form 7 December 2015
 Accepted 7 December 2015
 Available online 17 December 2015

JEL classification:

J61
 F22

Keywords:

Return migration
 Self-selection
 Assimilation
 U.S.–Mexico migration

ABSTRACT

This paper recovers the distribution of wages for Mexican-born workers living in the U.S. if no return migration of Mexican-born workers occurred. Because migrants self-select in the decision to return, the overarching problem addressed by this study is the use of an estimator that also accounts for selection on unobservables. I find that Mexican returnees are middle- to high-wage earners at all levels of educational attainment. Taking into account self-selection in return migration, wages would be approximately 7.7% higher at the median and 4.5% higher at the mean. Owing to positive self-selection, the immigrant-native wage gap would, therefore, partially close if there was no return migration.

© 2015 Elsevier B.V. All rights reserved.

1. Introduction

Migrants' self-selection is a core issue in labor economics. If migrants are rational actors optimally choosing their residence location, any observed outcome for this group will be endogenous to the original migration decision. Hence, to understand migrants' outcomes it is necessary to understand the nature of their selection. Yet, the literature has primarily viewed migration as permanent, when in fact individual migration is often of a temporary nature.

The recognition that migration is a dynamic process has more recently encouraged scholars to understand its drivers (Dustmann, 2003) and its consequences in terms of migrant selectivity (Borjas and Bratsberg, 1996; Dustmann and Weiss, 2007). How do returnees compare with those who permanently settle abroad? Answering this question is consequential for several lines of research. From the

destination country perspective, a vast literature has attempted to measure the economic assimilation of immigrants with natives (see seminal work by Chiswick (1978) and papers by Borjas (1985), LaLonde and Topel (1992), Borjas (1994) among others). If selectivity in return migration is not considered, however, the economic progress of immigrants will be over- or underestimated depending on the nature of this selection (Hu, 2000; Lubotsky, 2007). From the source country perspective, return migration may mitigate the brain drain through acquisition of skills used at home (Dustmann et al., 2011). Hence, return migration may help to foster growth in the source country through an expansion in its human capital stock (Dos Santos and Postel-Vinay, 2003). Taking into account selectivity in return migration urges scholars to reconsider how they measure the effects of migration on both immigrants and natives, as well as on both the sending and receiving regions.

Building on the previous literature that often analyzes how returnees' average earnings differ from those of stayers, this paper combines data derived from U.S. and Mexican censuses to estimate the

E-mail address: c.biavaschi@reading.ac.uk.

wage distribution of Mexican-born immigrants in the U.S. under two conditions, namely – with and without return migration. This approach enables answering two key questions: how do returnees compare with stayers and where does return migration have its largest impact on the wage distribution?¹ This paper highlights the consequences for the U.S. if no return migration of Mexican-born workers had occurred between 1995 and 2000, shedding light on a counterfactual scenario that could have occurred if incentives to return were altered based on exogenous variations in economic opportunities in the source or host countries.

The overarching problem of this study is to recover the counterfactual wage density in the presence of selective return migration, when pre-migration earnings are not known. Crucial to the approach adopted is the introduction of an estimation technique that can recover such distribution, taking into account not only the observable differences between stayers and returnees but also self-selection on unobservables. This paper proposes a semiparametric procedure that complements the estimator presented by DiNardo et al. (1996) applied in the migration literature (Butcher and DiNardo, 2002; Chiquiar and Hanson, 2005), which accounts for selection based on observable traits only. The presented estimation method is based on the observation that selection bias disappears for subgroups where nearly all individuals settle permanently in the U.S. This procedure provides an alternative to the use of pre-migration earnings to measure selectivity, as these are often unavailable to the researcher either due to the lack of longitudinal data following stayers and returnees or because the return flows in available surveys are often too small to allow suitable analysis.

Conditioning on observable characteristics, I find that Mexican returnees are middle to high wage earners, consistent with models in which the decision to return hinges on reaching target-earnings levels. Taking self-selection into account, the wages of Mexican born workers in the U.S. would be approximately 7.7% higher at the median and 4.5% higher at the mean. Furthermore, the return flow has a small effect on immigrant wage inequality: the outflow of immigrants increases dispersion in the lower part of the distribution and decreases it in the upper part. Moreover, selective return migration does not have a constant effect across educational levels: while it increases inequality at low levels of education, it decreases inequality for the highly skilled. These results suggest that when designing optimal migration policies policymakers should consider that selective outmigration might have a greater impact at high levels of human capital. Finally, because at all levels of education the immigrants who leave are the high-wage earners, the immigrant–native wage gap would close slightly if there was no return migration.

The remainder of this paper is organized as follows. Section 2 reviews the literature. Section 3 describes the data. Section 4 presents the estimation technique and Sections 5 and 6 the results, while Sections 7 and 8 show the sensitivity of the results to different specifications and to the assumptions made. Section 9 concludes the paper.

2. Immigration, return migration and self-selection across the Mexican–U.S. border

Several contributions to the immigration literature have empirically assessed the selection of immigrants from Mexico to the U.S., while the literature on the selection of Mexican return migrants is relatively less developed.

The current debate on immigrant selection has developed from the results of Chiquiar and Hanson's (2005) which contradict the theoretical predictions proposed in Borjas (1987), showing intermediate to positive selection based on the observable characteristics of Mexican immigrants to the U.S. compared with Mexican stayers in Mexico. Yet the finding of positive selection was challenged by a few authors

(Ibarraran and Lubotsky, 2007; Fernandez-Huertas Moraga, 2011; McKenzie and Rapoport, 2010; Ambrosini and Peri, 2012; Kaestner and Malamud, 2014), who have drawn scholarly attention to the importance of two key elements in the analysis of the selectivity of migrants. First, it is crucial to use nationally representative data sources that have a longitudinal component capable of capturing the pre-migration earnings of migrants and non-migrants (Fernandez-Huertas Moraga, 2011; Ambrosini and Peri, 2012; McKenzie and Rapoport, 2010; Kaestner and Malamud, 2014). Second, researchers must aim to control for the unobservable differences between migrants and non-migrants (Fernandez-Huertas Moraga, 2011; Ambrosini and Peri, 2012).

Turning to the selection of returnees, the overall evidence for the U.S. economy suggests that returnees have below average skills. By comparing longitudinal and cross-sectional data, Lubotsky (2007) finds that return migration by low-wage immigrants from the U.S. has systematically led past researchers to overestimate the wage progress of stayers by 10% to 15%. Likewise, Hu (2000) shows a decline in immigrant wage growth once return migration has been taken into account, with such results being weaker for Hispanic workers. Hu (2000) and Lubotsky (2007) both provide interesting insights into the nature of return migration and its impact on the host economy; however, in their longitudinal datasets returnees are not directly identified and return migration cannot be separated from other sources of panel attrition.² Furthermore, their estimation technique is based on the assumption of time invariant unobserved selection.³

The previous discussion confirms that self-selection and data availability have limited our understanding of return migration and its consequences. Therefore, in order to fill this gap in the literature, this paper advances an analysis that uses representative data and examines the actual return choices of Mexican migrants based on a dataset that combines data from both U.S. and Mexican censuses. While combining census data to study return migration is not novel and was used in Lacuesta (2010), this study adds to that contribution by controlling for selection on unobservables. The use of two censuses together with the econometric technique proposed allows researchers to distinguish return migration from panel attrition and to treat all those forms of sample selection and heterogeneity that are not simply eliminated by fixed effects estimators in panel data analyses. Furthermore, it provides a full picture of what the U.S. could expect if return migration was zero, owing to changes in either migration policies or migration incentives.

On the methodological side, this paper introduces an estimator for a counterfactual distribution that accounts for sample selection. This technique complements the analysis based on selection on observables (Chiquiar and Hanson, 2005; Ibarraran and Lubotsky, 2007)⁴ in order to account for selection on unobservables as well. The proposed estimator is based on the model presented by Heckman (1990), and it extends the estimator proposed by Andrews and Schafgans (1998) to its density equivalent. This method could also be applied to other contexts in order to recover a distribution of outcomes that are truncated and/or when panel data are unavailable.

² In particular, these authors identify non-employment, outmigration, employment in the informal sector, and nonmatch as possible causes of panel attrition.

³ Further analyses from the Mexican perspective include Lacuesta (2010), Ambrosini and Peri (2012) and Reinhold and Thom (2013). Lacuesta (2010) and Reinhold and Thom (2013) both provide evidence of selection and skill upgrading for Mexican returnees in Mexico. Lacuesta (2010) argues that return migrants are similar to stayers, suggesting that the 7% wage premium found upon return might actually be caused by the selection of return migrants that were unaccounted for in the analysis. Meanwhile, Reinhold and Thom (2013), using the Mexican Migration Project (which is not a representative sample), estimate the experiences of returnees to the U.S. labor market by correcting for the endogeneity of migration decisions. They find that returnees are negatively selected in terms of unobservable traits, although selection is not significant in their analysis. Finally, Ambrosini and Peri (2012) find preliminary evidence that returnees are positively selected compared with non-migrants and permanent migrants. However, the results on returnees' self-selectivity are based on a very small sample.

⁴ Chiquiar and Hanson (2005)'s estimation is in turn based on DiNardo et al. (1996).

¹ I assume throughout that the supply effects of the absence of return migration are negligible. Given the negative yet often small impact of migration on the overall economy, this assumption seems to be reasonable.

Download English Version:

<https://daneshyari.com/en/article/971676>

Download Persian Version:

<https://daneshyari.com/article/971676>

[Daneshyari.com](https://daneshyari.com)