



Do better pre-migration skills accelerate immigrants' wage assimilation? ☆



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HIGHLIGHTS

- Using administrative data we analyze wage assimilation of ethnic German immigrants.
- Our data comprise an estimate of immigrants' expected entry wage in Germany.
- Both entry wages and subsequent wage assimilation increase in the wage potential.
- In line with complementarities between pre-migration and country-specific skills.
- Our findings are consistent with a U-shaped pattern of migrants' job mobility.

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ABSTRACT

This paper analyzes wage assimilation of ethnic German immigrants to Germany using unique administrative data that include an administrative estimate of immigrants' expected wage in Germany at the time of migration. We find that a 10% higher wage potential translates into a 1.6% higher wage in Germany when also controlling for educational attainment, thus pointing at partial transferability of pre-migration skills to the host country's labor market. We also document that wage assimilation is significantly accelerated for immigrants with higher wage potentials. Our results are both in line with complementarities between pre-migration skills and host country-specific human capital and a U-shaped pattern of immigrants' job mobility with initial downgrading and subsequent upgrading.

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1. Introduction

Wage assimilation of immigrants has been extensively analyzed since the seminal paper by Chiswick (1978). The initial optimistic

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results according to which immigrants were closing the gap with natives in 10–15 years, though, have not proven to be robust to including cohort effects (Borjas, 1985, 1995; Antecol et al., 2006), using panel data (Hu, 2000; Lubotsky, 2007), or controlling for selective return migration (Edin et al., 2000; Constant and Massey, 2003). More recent research addressing such concerns generally suggests that the disparity between immigrants' and natives' wages decreases over time since migration. Yet, even after a long stay in the host country immigrants only partially catch up with natives (Dustmann and Glitz, 2011).

The extant literature stresses that a major factor behind incomplete wage assimilation is imperfect transferability of human capital acquired in the source country. In a large number of studies it is found that both education and work experience acquired in the source country are valued less than host country education and experience, pointing at

immigrants' limited ability to translate pre-migration skills into post-migration earnings (Schoeni, 1997; Friedberg, 2000; Eckstein and Weiss, 2004; Ferrer and Riddell, 2008; Basilio and Bauer, 2010). What is more, there is broad empirical evidence showing that human capital transferability is closely related to language skills with immigrants' fluency in the host country's language enhancing their returns to pre-migration human capital (Bratsberg and Ragan, 2002; Chiswick and Miller, 2002, 2003; Haley and Taengnoi, 2011).

This paper contributes to this strand of the literature by focusing on the impact of pre-migration skills on immigrants' wage assimilation. Using unique administrative data, we are able to identify a specific group of Germany's immigration population, so-called ethnic Germans or (*Spät-*) *Aussiedler*. For these immigrants, our data set includes an administrative estimate of the wage they are expected to earn in Germany based on pre-migration occupational category, industry, skill group, and the German wage distribution at the time of migration. Other than immigrants' pre-migration education or (potential) experience, this wage potential at migration provides a one-dimensional, cardinal measure of immigrants' skill sets when arriving in Germany, aggregating a number of skill dimensions in a systematic way. Since immigrants' skill sets are valued at the prices prevailing in the German labor market at migration, its impact on post-migration wages should be more informative on immigrants' ability to transfer their pre-migration skills to the host country's labor market than solely looking at pre-migration education or experience.

On top of that, our paper complements the existing literature in several ways. First, unlike all previous studies on wage assimilation of ethnic Germans (and many on other groups of immigrants), we use a high-quality administrative data set based on the German pension and unemployment insurances. Second, the size of our data set enables us to analyze differences in wage assimilation profiles of immigrants coming from three Eastern European countries: from Poland, Romania, and the former Soviet Union (FSU). We thus go beyond existing studies, like Bauer and Zimmermann (1997), Schmidt (1997), and Fertig and Schurer (2007), that treat ethnic Germans as a homogeneous group. Since ethnic Germans immigrating from these countries differ considerably in their German language proficiency and their knowledge on German culture, with those from Romania showing the largest average familiarity and those from the FSU the least, this allows us to investigate human capital transferability depending on prior exposure to the host country's language and culture. Third, the ethnic German population under investigation possesses two attractive properties: Existing evidence suggests that ethnic German migration showed little selectivity, with the vast majority of individuals relocating to Germany. Even more, only a negligible number of them have later left Germany, rendering the selection on return migration a non-issue.

Focusing on Germany may be of particular interest as Germany is the third most popular destination for immigrants in the world after the U.S. and Russia (Freeman, 2006). Since the 1950s, about 10.7 million people have settled in Germany. Although the net immigration rate has declined since the beginning of the millennium, in 2011 the share of individuals with foreign citizenship was still about 8.8% while the share with a migration background amounted to ca. 19.5% (Statistisches Bundesamt, 2012). Among the groups of immigrants arriving in Germany, ethnic Germans stand out as one of the largest with roughly 4.5 million entrants since the 1950s.

Our results show that ethnic German immigrants experience a substantial initial wage penalty when entering the German labor market with significant, though incomplete subsequent wage assimilation relative to natives. Generally, immigrants from Romania show the most favorable assimilation pattern and those from the FSU the least. Immigrants' wage potential at migration is related to both the initial wage in Germany and the speed of wage assimilation thereafter: A higher wage potential is associated with a better initial wage for immigrants from Poland and Romania only, but with faster wage assimilation for immigrants from all source countries. Interestingly, subsequent wage

assimilation is accelerated most for those from the FSU for whom initial wages are not affected by pre-migration skills.

Our results suggest that immigrants are able to transfer part of their pre-migration skills, that transferability increases with the time spent in the host country, and that transferability is lagged for those with the lowest average endowment of host country-specific human capital upon arrival in Germany. These findings are in line with Chiswick and Miller's (2003) conclusion that host country-specific human capital and pre-migration skills are complements. Further, our results are consistent with Chiswick et al.'s (2005) finding of a U-shaped profile of immigrants' occupational mobility, with the U-profile being shallower for immigrants proficient in the host country's language upon arrival.

The paper proceeds as follows: In Section 2, we give an overview of the historical background of ethnic German immigration to Germany. Section 3 describes the administrative data set used, while Section 4 develops our hypotheses and exposes our econometric approach. Our results are presented and discussed in Sections 5 and 6 concludes.

2. Historical background

The immigration of ethnic Germans to Germany goes back to the first years of the young Federal Republic of Germany. As a result of World War II, ethnic Germans, who were of German ancestry but did neither live in pre-war German territory nor necessarily hold German citizenship, were subject to repressive government measures in their home countries, such as deportation, suppression of German language, or political and economic discrimination (Münz, 2003). For this reason, since the 1950s Germany allowed ethnic Germans, the vast majority of them being citizens of the Soviet Union, Poland, and Romania, to immigrate to the Federal Republic as German citizens.¹ After proving their German origin they could enter Germany and receive both a German passport and full citizenship rights. In case they did not find a job or another source of income immediately upon arrival, which applied to the vast majority of them, they were also eligible for free vocational training, language courses, social assistance, and unemployment benefits. Moreover, they were eligible for payments from the German public pension system based on their employment career in the source country (for details, see Münz and Ohlinger, 1998 or Münz, 2003).

Most ethnic Germans who immigrated to Germany up to the beginning of the 1990s had maintained their German culture and possessed relatively good proficiency in German. This holds particularly for ethnic Germans coming from Romania and, to a somewhat lesser degree, for those from Poland (Roll, 2003; Wolff and Cordell, 2003), who form the vast majority of ethnic German immigrants before the fall of the Iron Curtain. As one may expect, existing studies find that these early cohorts of ethnic German immigrants achieved virtual parity with native-borns in terms of wages (Schmidt, 1997). However, the link to German culture and German language proficiency of those entering Germany later, the bulk of them emigrating from the FSU, is considerably more limited (Roll, 2003; Ihrig, 2005). Consequently, they often face similar integration problems as foreign immigrants and are confronted with a lack of acceptance in the host society. Although most ethnic Germans are well educated and possess a long employment history in their source country, they often seem to be unable to transfer all their skills to the new labor market and are more likely to be unemployed than comparable native Germans (Bauer and Zimmermann, 1997).

Between 1950 and 2010 about 4.5 million ethnic Germans immigrated to Germany. As Fig. 1 shows, the surge of immigrants came in two waves. The first wave, during the period 1950–1987, comprised 1.4 million ethnic Germans, most of them emigrating from Poland (60%), Romania (15%), and the Soviet Union (8%). After the construction of the Berlin Wall this influx dropped markedly. At the end of the Cold War when travel restrictions were relaxed, immigration swelled again.

¹ Other source countries with very small numbers of ethnic Germans are former Czechoslovakia, Hungary, and former Yugoslavia.

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