

Migration and the European Job Market

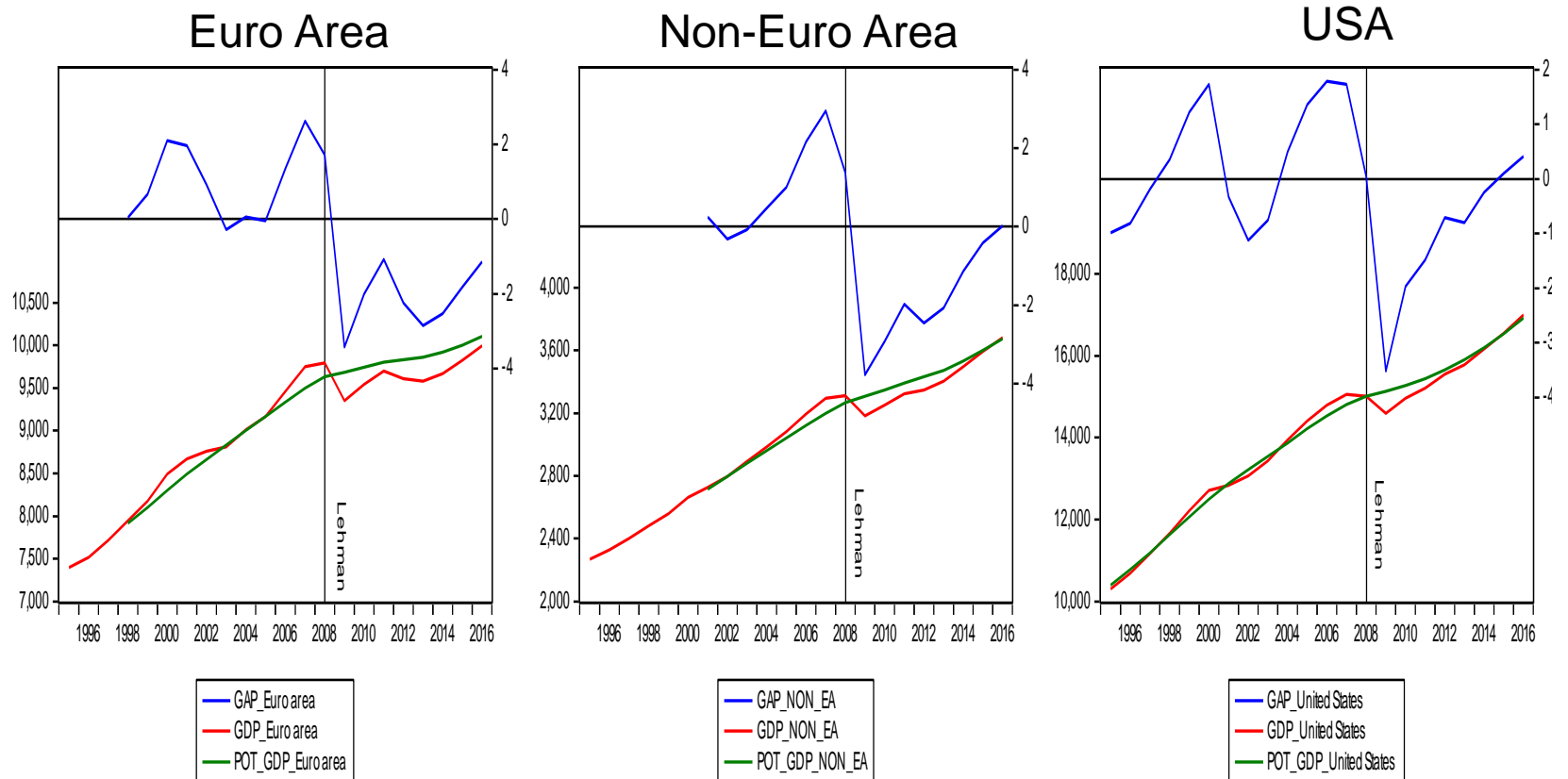
Rapporto Europa 2016

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I. Output

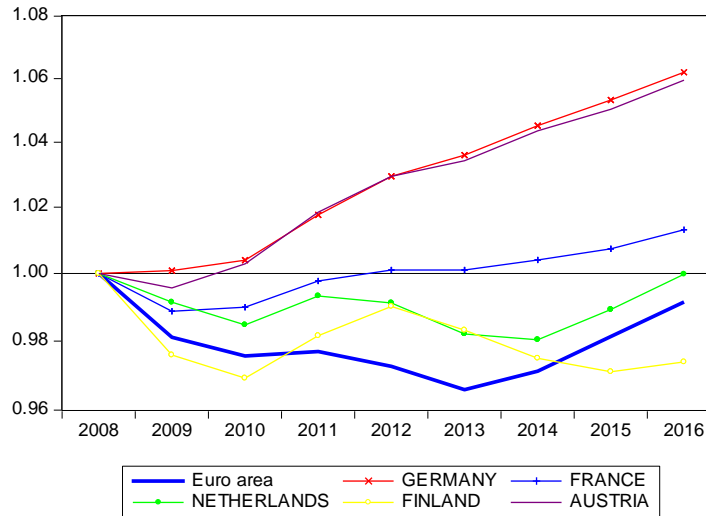
Figure 1. Real and potential output and output gaps



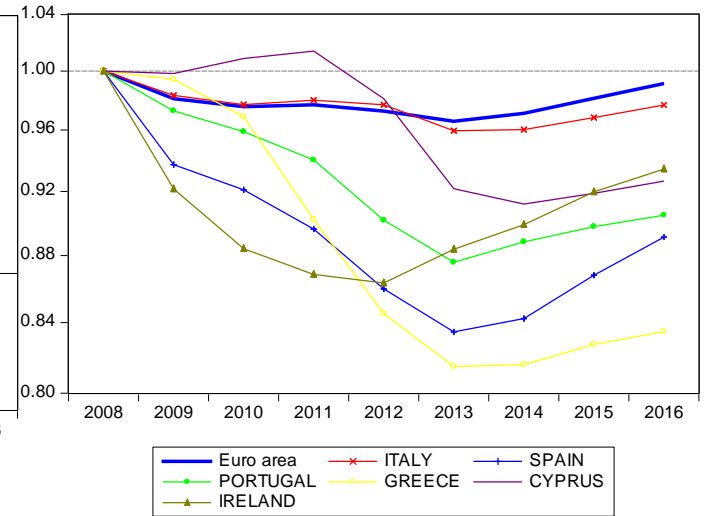
II. Employment

Employment Growth since Financial Crisis

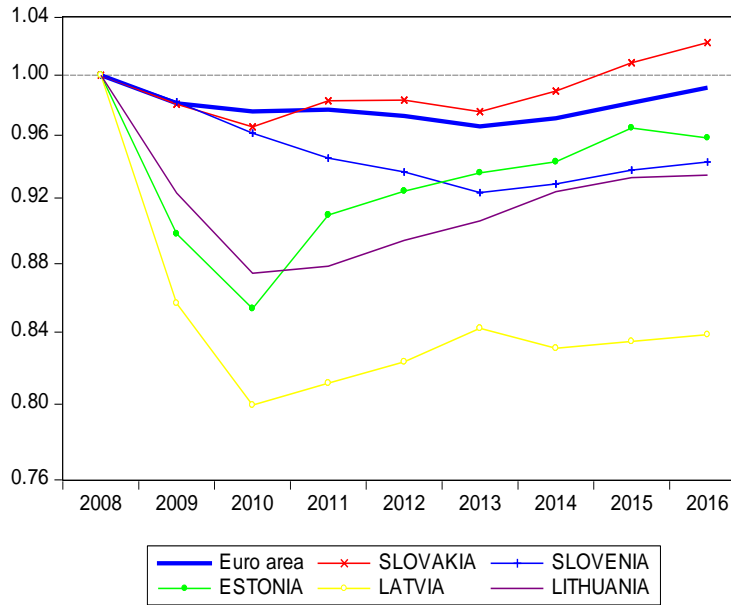
Core Euro Area



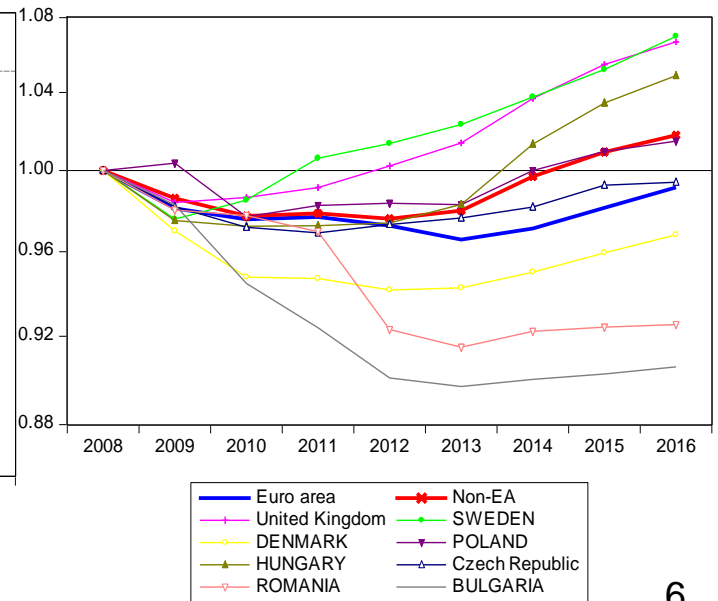
South



Euro Area New Member States

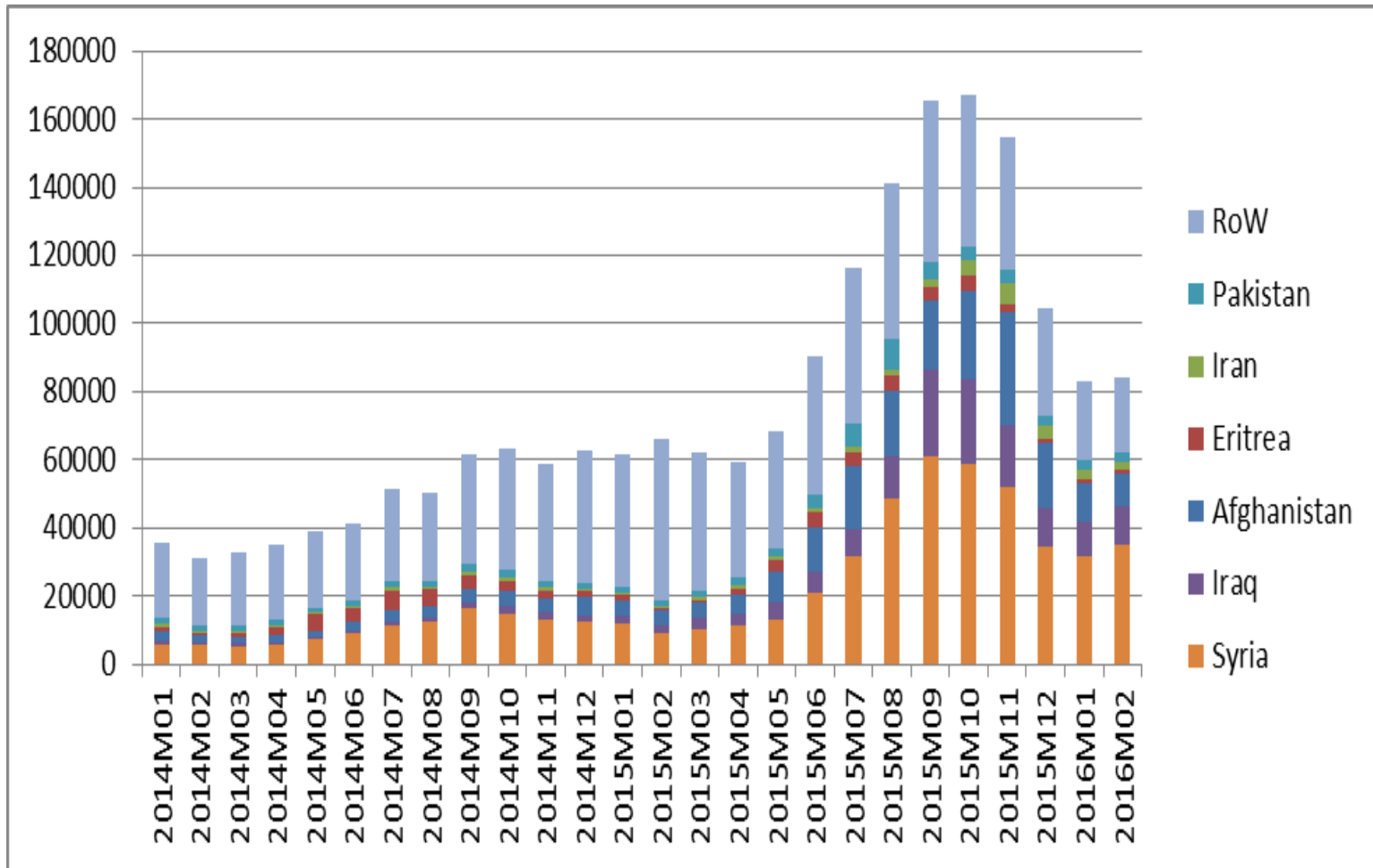


Non-Euro Area



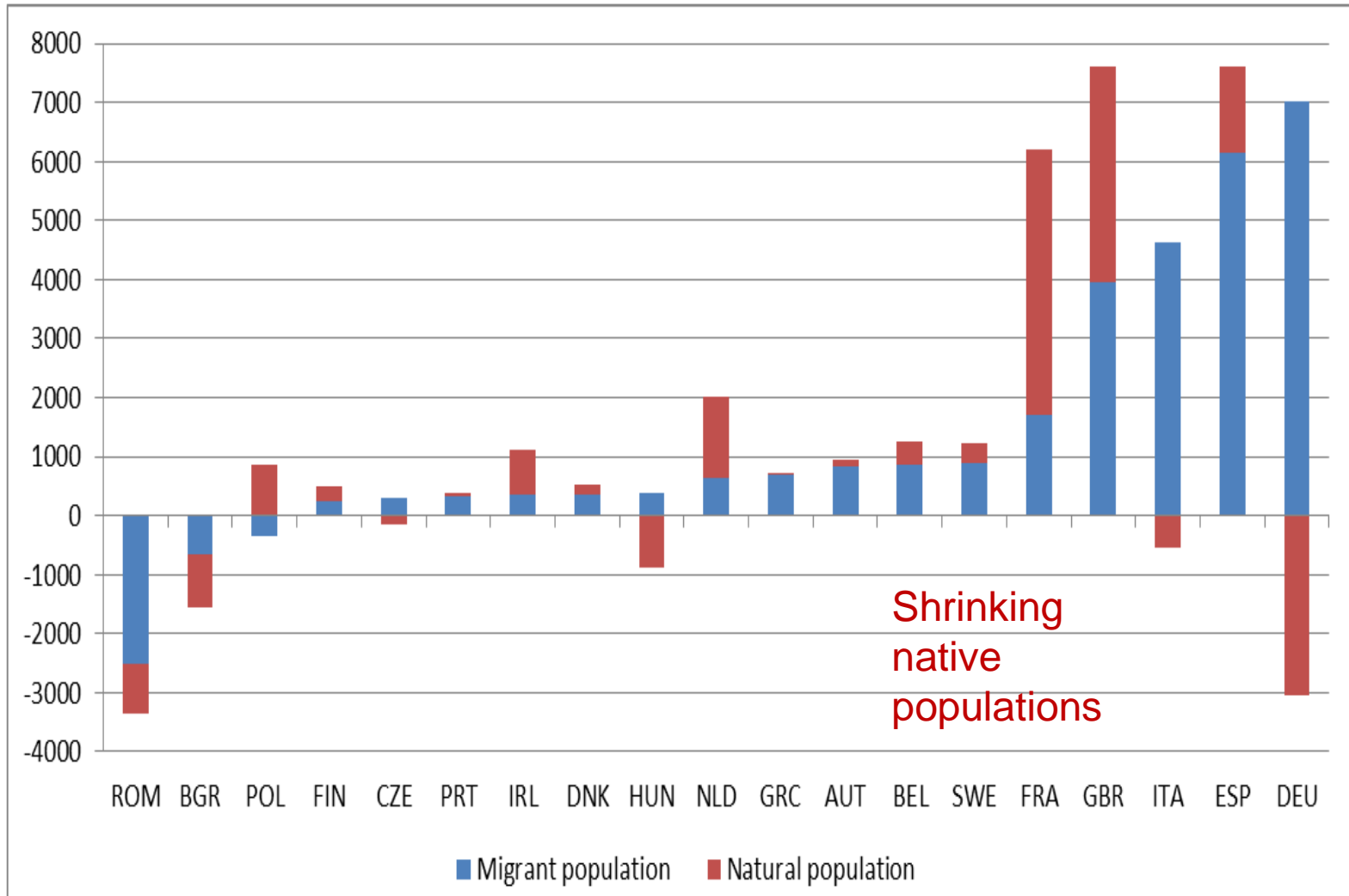
III. Migration

Figure 3.1. First time asylum applicants in the EU28 by main country of origin



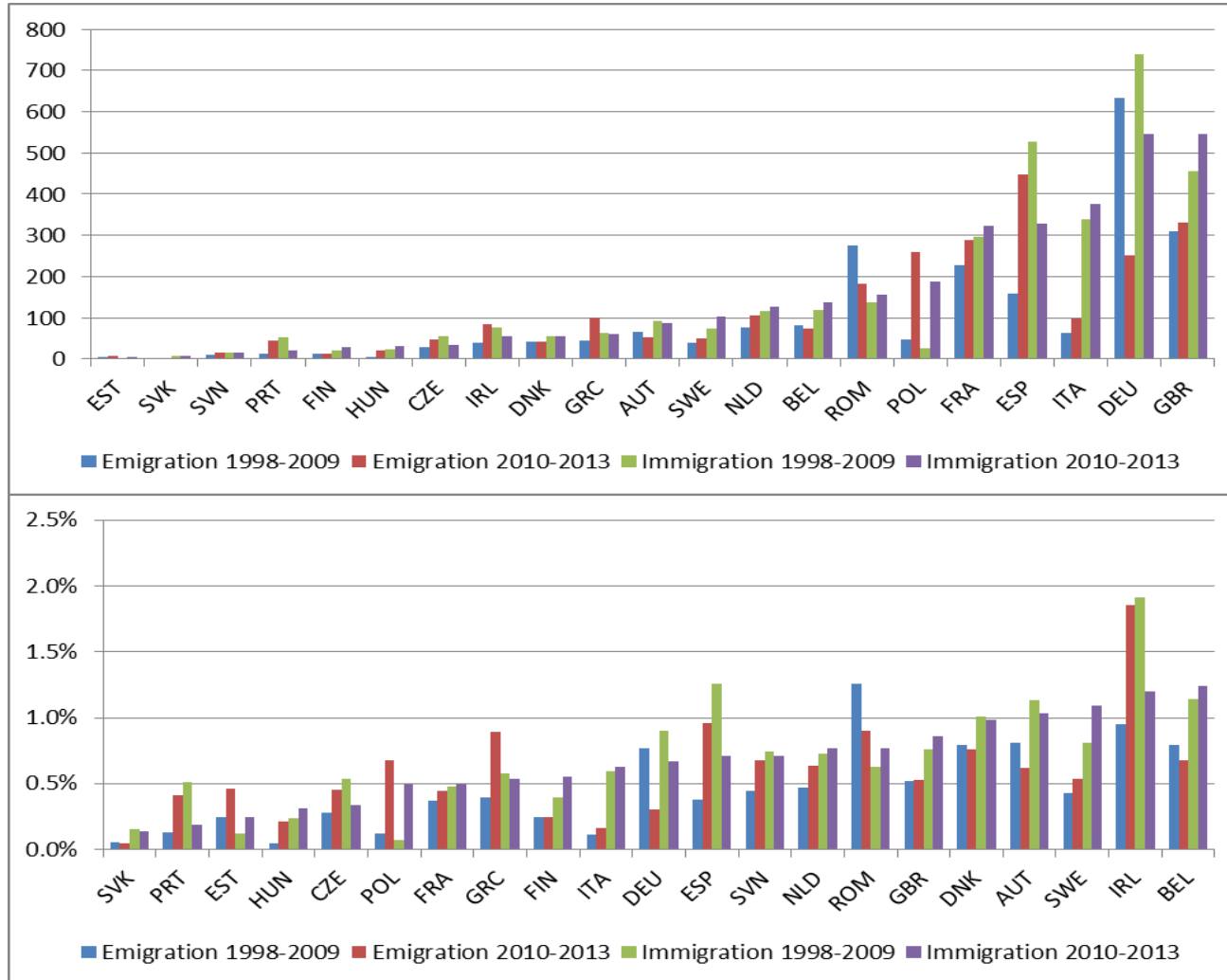
Source: own elaboration on Eurostat.

Cumulative change in migrant and native population 1990-2014 (1000)

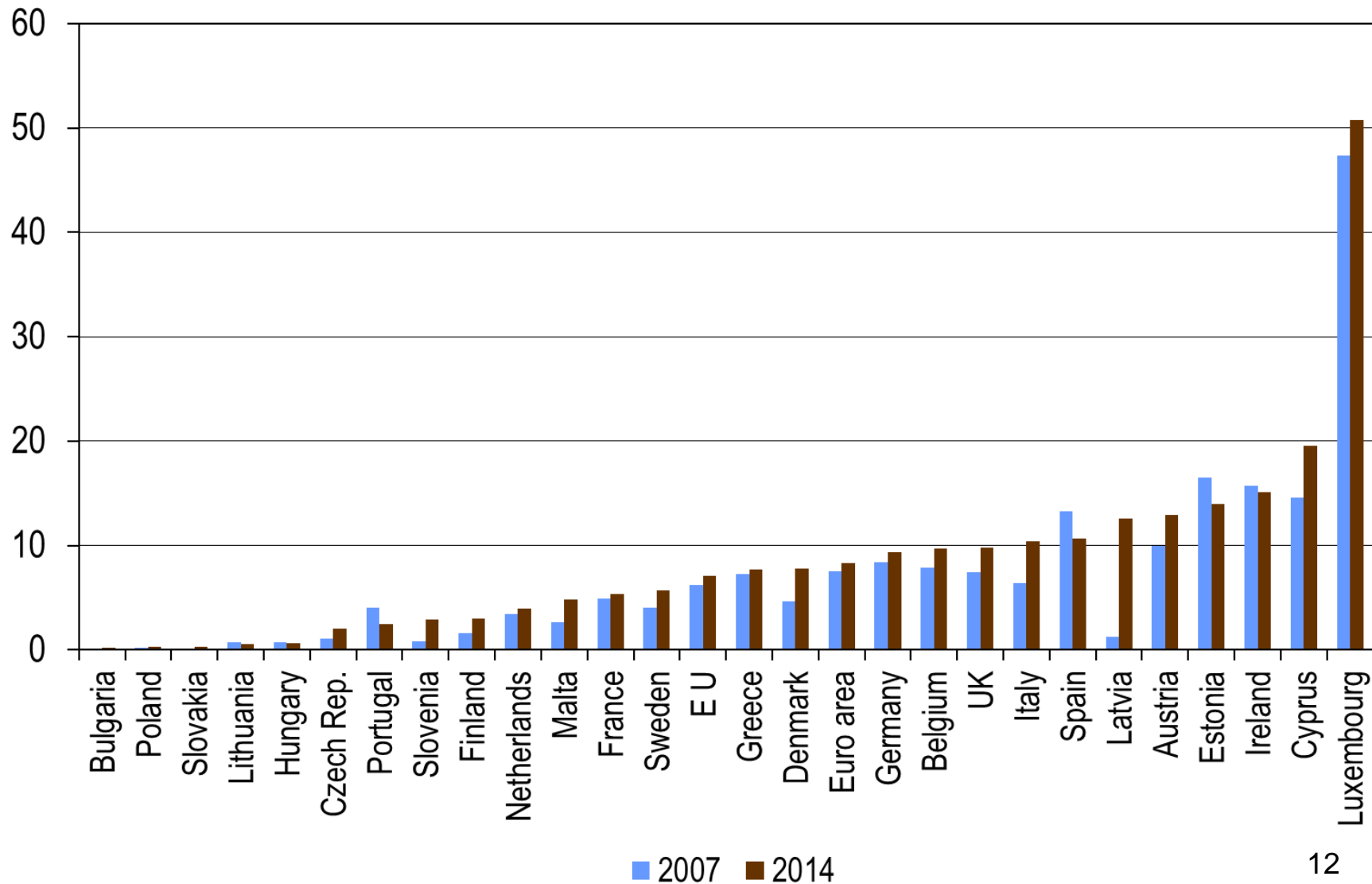


Cumulative change in migrant and native populations in the last quarter of a century.

- Total population in Europe has increased by 34.3 million, of which nearly three quarters were migrants.
 - Most of the population increase is concentrated in the Euro Area (29.1 million).
 - The highest increases were recorded in the five most populous countries of the EU, with some eastern European countries recording negative numbers.
- After EU enlargement, immigration has
 - increased in Italy and the UK, Belgium, Sweden, Austria and the Czech Republic,
 - but fallen in Germany and Spain.
- Poor and crisis countries like Portugal and Greece, but also Romania, Poland and Bulgaria are net emigration countries.

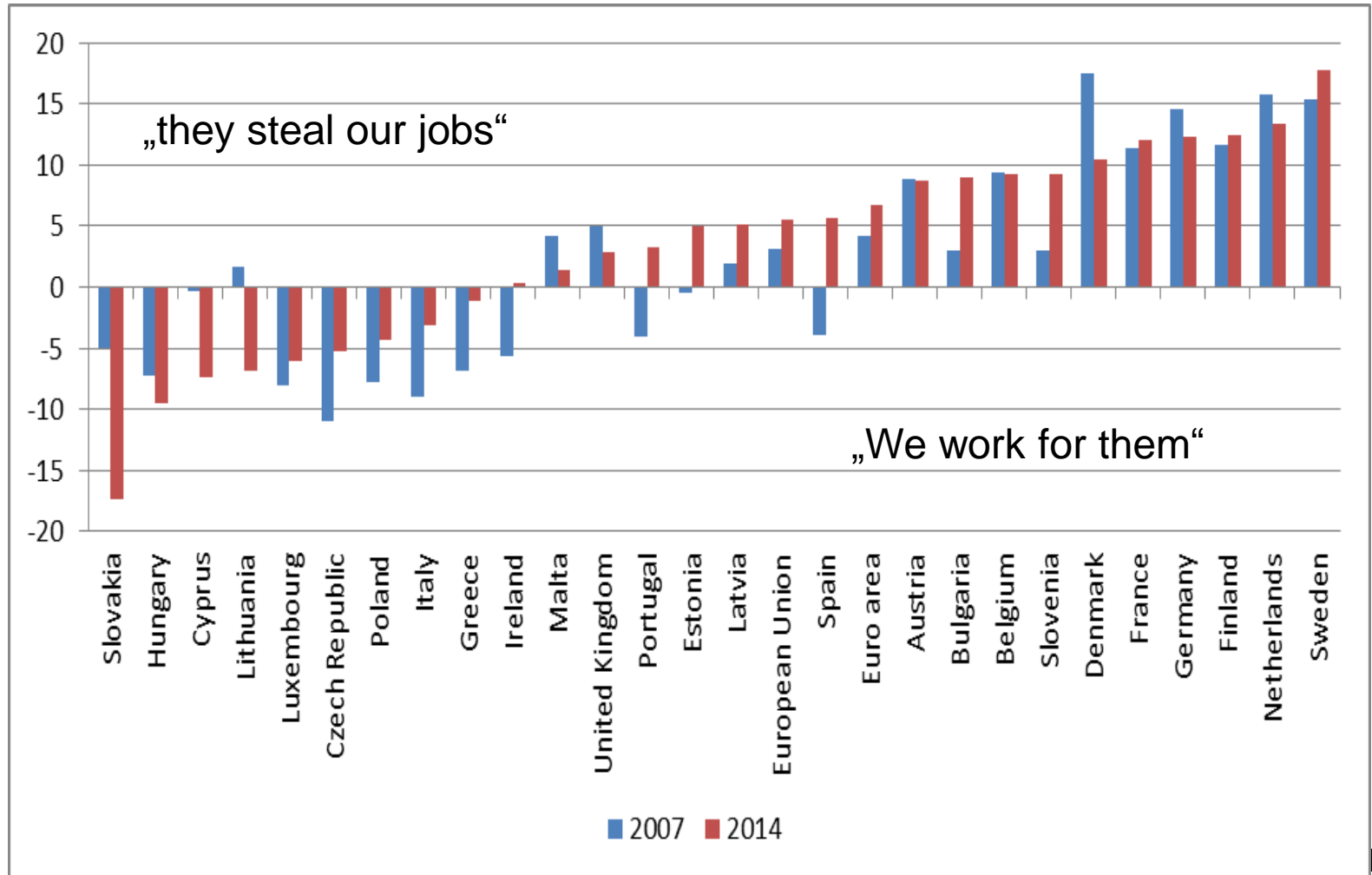


Share of immigrants in total employment

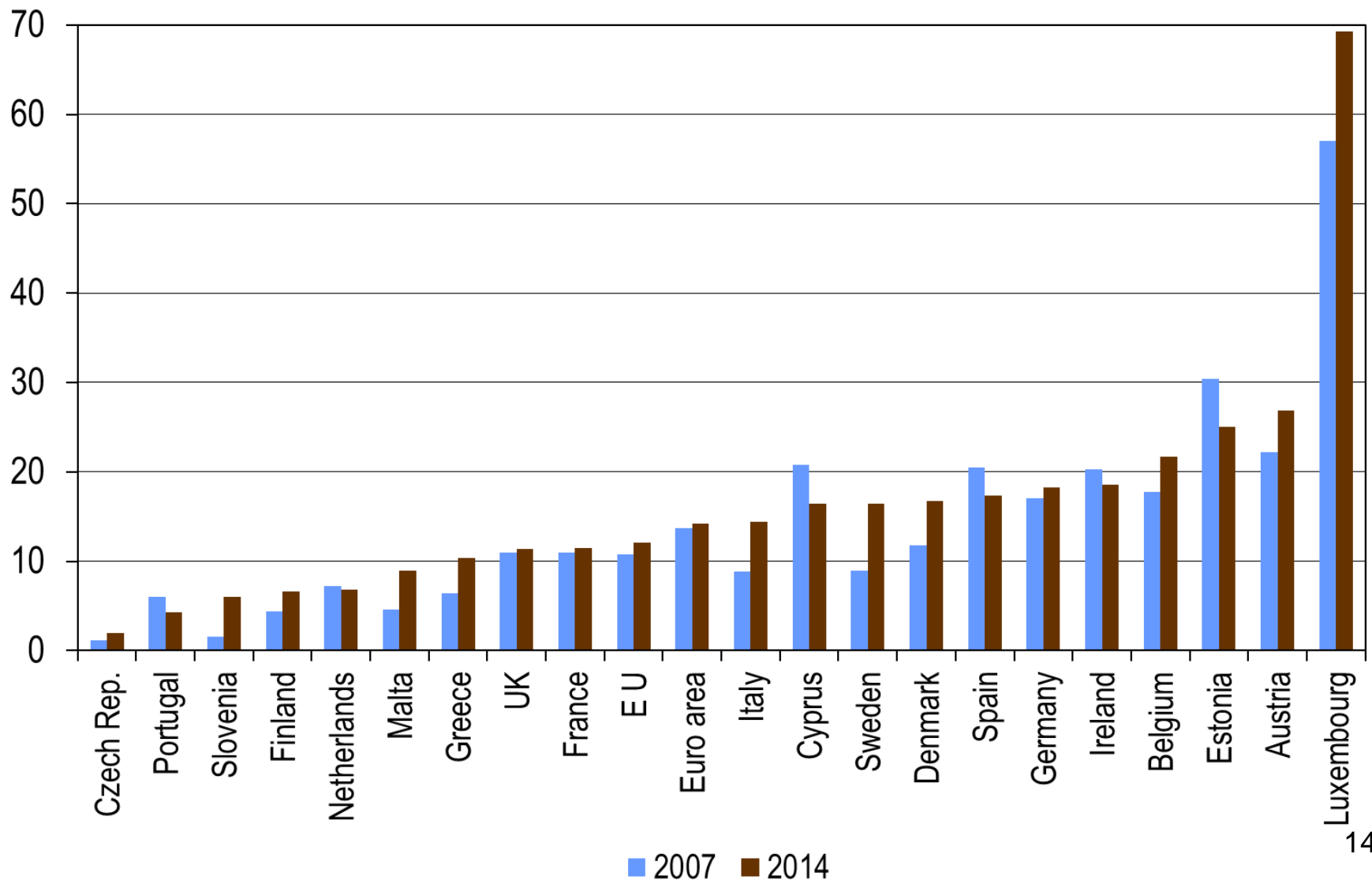


Gap between nationals' and migrants' employment rates

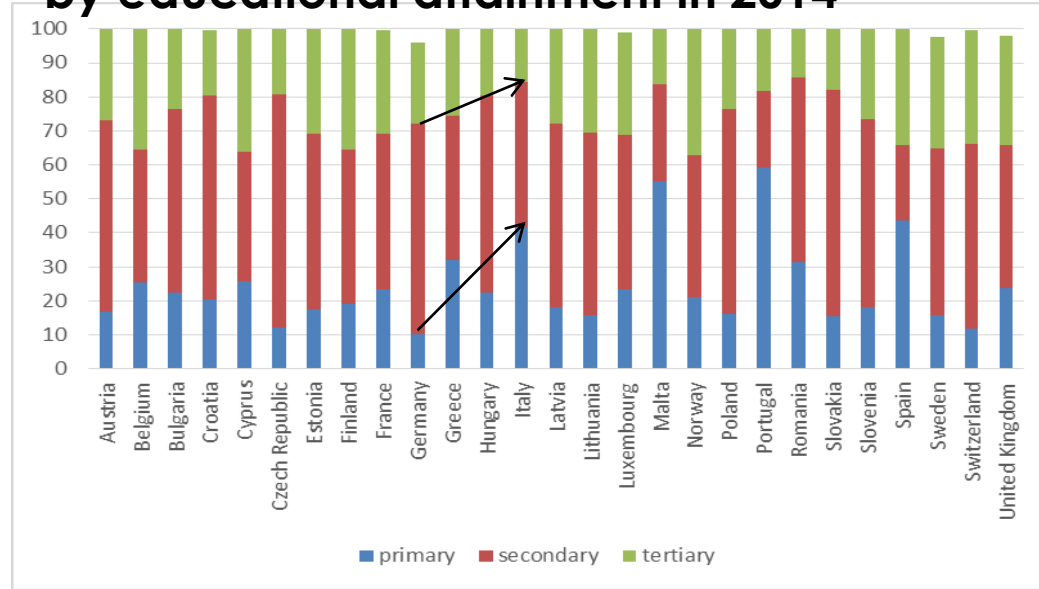
- A negative gap means immigrants work more than natives
- A positive gap means immigrants are disproportionately using the welfare system



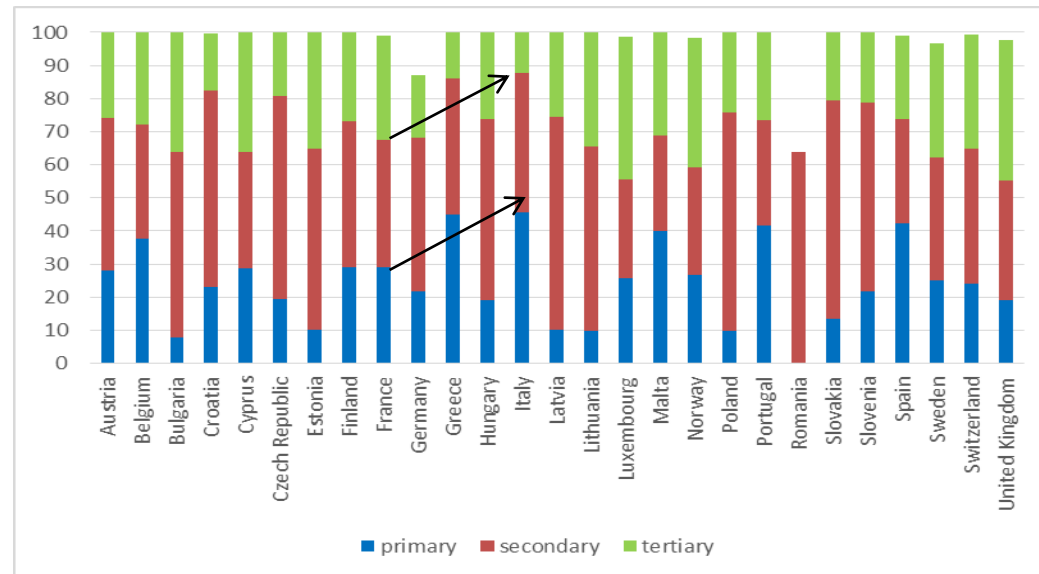
However, the share of immigrants in total unemployment is very different across EU



Distribution of native population by educational attainment in 2014



Distribution of migrant population by educational attainment in 2014



What is the impact of migration on wages and employment?

- Aggregate EU data hide the opposite dynamics in the South and the core

- Wage levels in the core (periphery) attract (deter) workers
- Wage increases attract foreign and domestic workers
- Growth increases employment
 - Immigration to core
- Migration increases wages in the periphery and reduces employment

Migration
Employment

Wage level

Migration
Employment

Wage level

Migration
Employment

Wage level

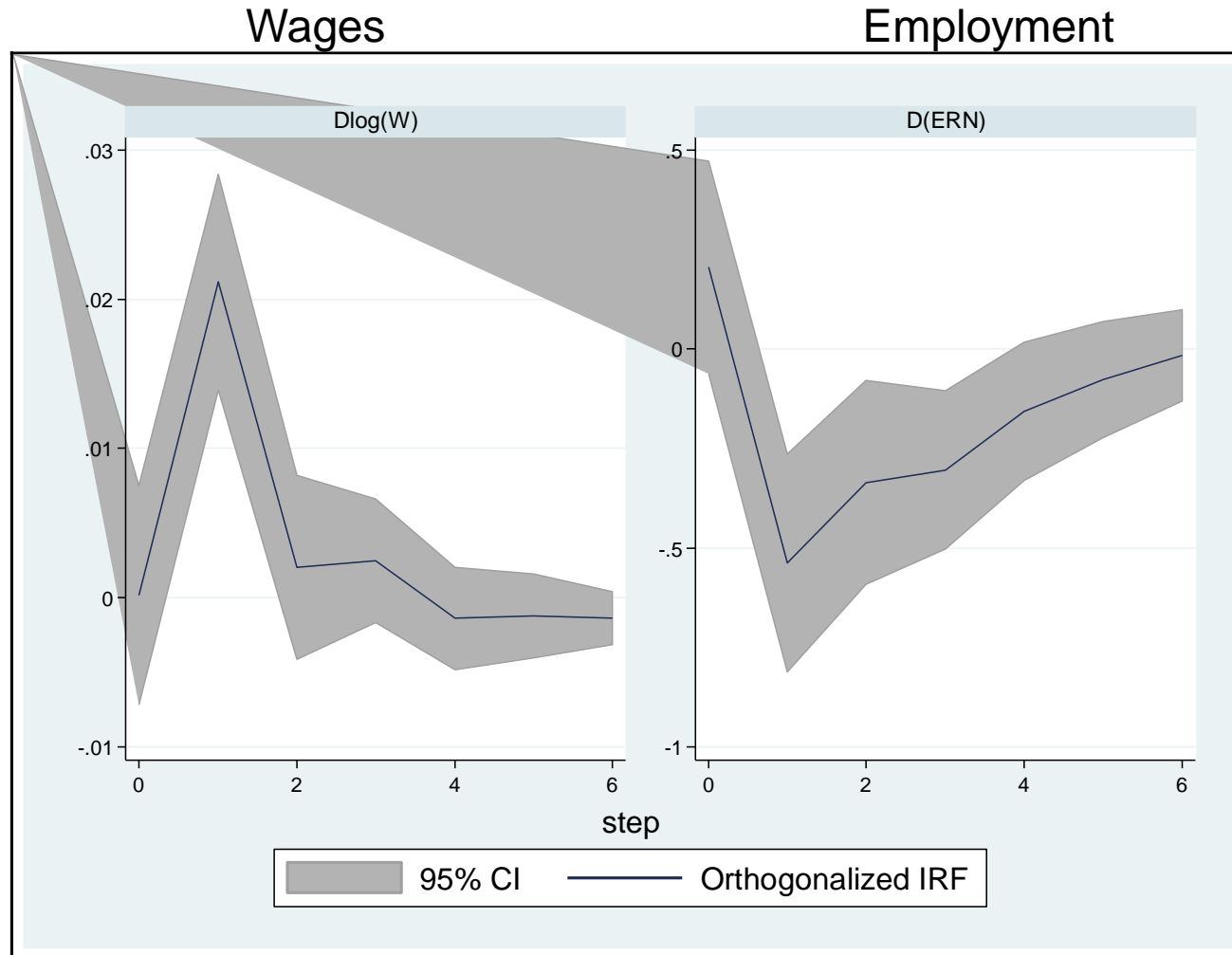
	All	Periphery	Core
Migration			
	$\Delta \log(\text{AMP})$		
$\Delta \log(\text{AMP})_{t-1}$	0.277** [0.099]	0.093 [0.094]	-0.296** [0.092]
ΔERN_{t-1}	0.006 [0.008]	0.006 [0.011]	0.006 [0.006]
$\Delta \log(\text{W})_{t-1}$	1.215** [0.390]	1.300*** [0.352]	0.578*** [0.160]
$\text{Log}(\text{PWAN})_t$	0.122 [0.419]	-3.662** [1.544]	0.756** [0.288]
$\Delta \log(\text{GDP})_t$	0.323 [0.304]	0.419 [0.432]	0.448** [0.204]
Native employment			
	ΔERN		
$\Delta \log(\text{AMP})$	-1063,000 [0.796]	-6.064*** [1.123]	-1646,000 [1.042]
ΔERN_{t-1}	0.398*** [0.091]	0.445*** [0.118]	0.357** [0.161]
$\Delta \log(\text{W})_{t-1}$	7.602* [3.975]	-1309,000 [4.115]	30.318** [9.469]
$\text{Log}(\text{PWAN})_t$	4481,000 [4.804]	-17481,000 [13.235]	-6136,000 [4.043]
$\Delta \log(\text{GDP})_t$	20.425*** [3.908]	33.429*** [6.173]	21.972*** [4.294]
Wages			
	$\Delta \log(\text{W})$		
$\Delta \log(\text{AMP})$	0.013 [0.019]	0.188*** [0.031]	-0.03 [0.023]
ΔERN_{t-1}	0.005** [0.002]	0.008** [0.003]	0.006** [0.002]
$\Delta \log(\text{W})_{t-1}$	0.159* [0.094]	0.199** [0.095]	0.307*** [0.092]
$\text{Log}(\text{PWAN})_t$	-0.076 [0.108]	1.061** [0.340]	0.036 [0.093]
$\Delta \log(\text{GDP})_t$	0.291** [0.090]	0.071 [0.162]	0.276** [0.095]
Q	0.14	0.42	0.18
J	27.4	27.8	23.9

Periphery

Impulse response function to a migration shock

- The effect on **wages** is significant only in the second period and then fading to zero.
 - The elasticity of wage is 0.18,
 - **wages will grow** by 0.18% to a 1% acceleration in migrant active population growth.
- the effect on natives' **employment rate is negative** and significant from the first period after the shock to the fourth
 - the initial positive impact is significant only at 10% level.
 - These estimates imply an elasticity of -4.5% for the employment rate,
 - a 1% acceleration in migrant active population **reduces** the employment rate by 4.5%.

Impulse response functions to a migration shock in the periphery



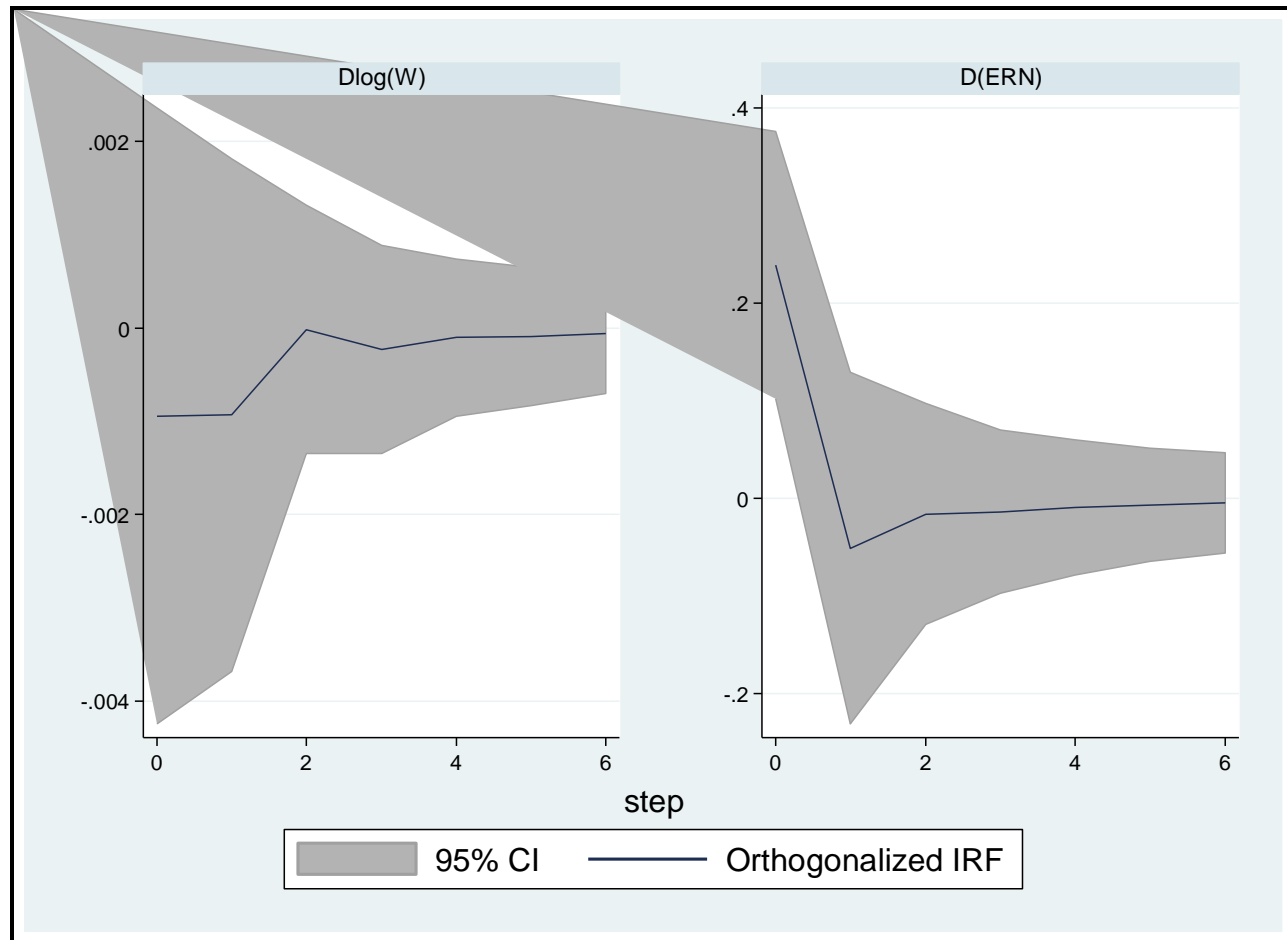
Impulse response function to a migration shock

- The impact is similar to the overall one
- **wages** show no significant response to migration,
- **employment** reacts positively but the response last one period only.
 - The implied increase in natives' employment rate responding to a 1% acceleration of active migrant population is 3.5%.

Impulse response functions to a migration shock in the core

Wages

Employment



To sum up

- Strong evidence for complementarity between national and foreign workers in core countries,
- **periphery crowding out effect** of employment is strong.
 - This might be due to the low activity rate of native populations, due to their **high share of low skilled workers** which face the competition of immigrants with the same skill level.
- **positive wage effect** might be due to local human capital.
 - In the periphery, low skilled workers are less willing to accept the kind of low skilled occupation that are usually filled by migrants. This explains the negative effect on employment and the positive effect on wages.
 - In core countries, there is no crowding out effect of employment, because these countries have a low share of low skilled non-immigrant workers. Hence, there are stronger **complementarities** with high skilled workers, and this results in higher wages but unchanged employment rates for the non-migrant population.

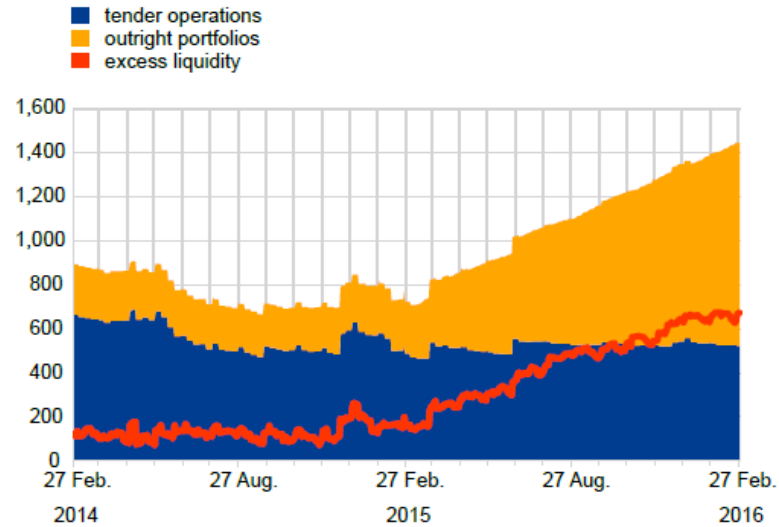
IV. Investing for job creation

How to handle the fallout from the migration crisis?

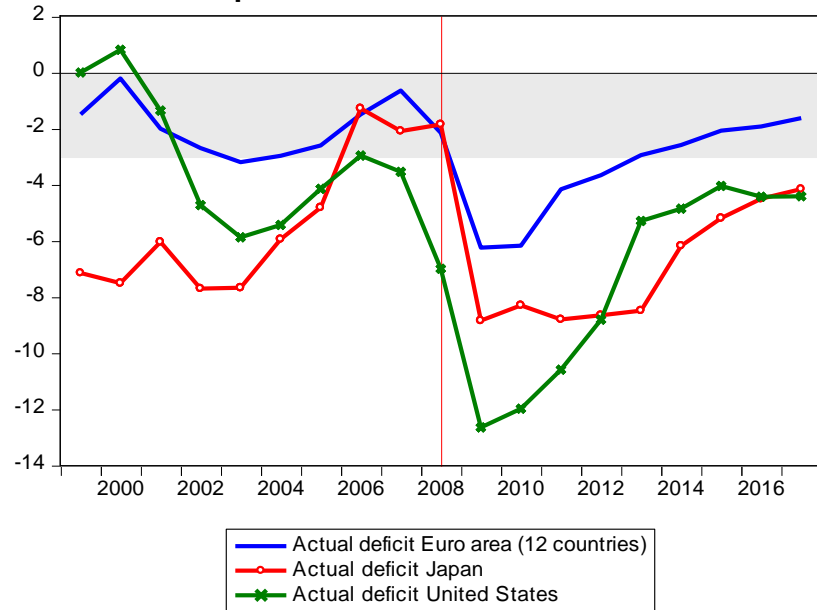
- In the periphery: increase skills (structural reforms)
- Increase employment:
 - Increase demand
 - reduce output gap (short term)
- How to increase demand?
 - Monetary policy is at the limit
 - Fiscal policy is seriously restrained by debt dynamics, especially in the South
 - One of the main shortcomings in the Euro Area is low **investment**

ECB: high liquidity

(EUR billions)

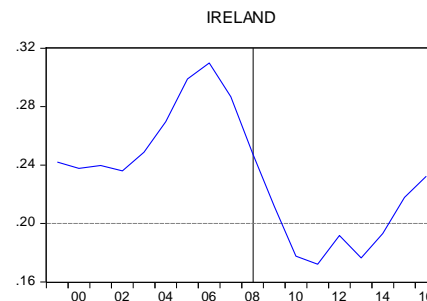
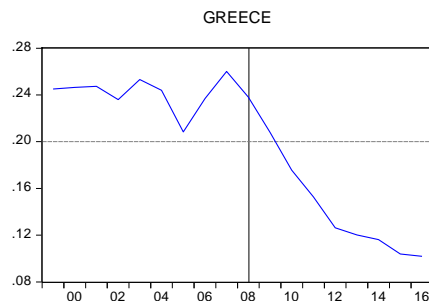
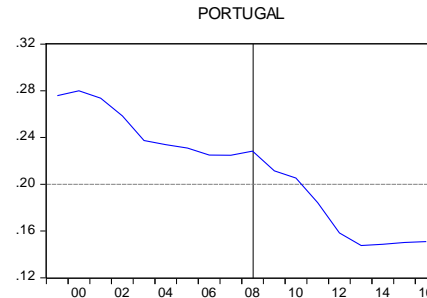
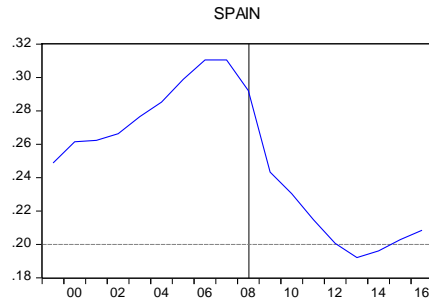
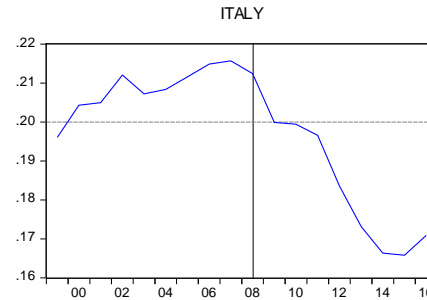
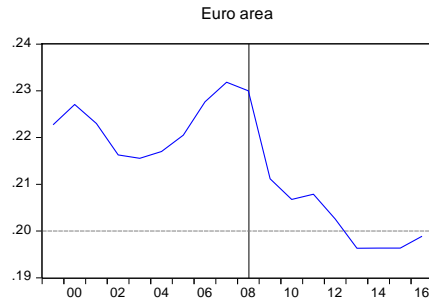


Fiscal position still restrictive



- **The investment ratio has fallen substantially in all Southern European crisis countries.**

Gross fixed capital formation as ratio to GDP



If private investment is deterred by insecurity during the crisis, could public investment compensate for it?

Our VAR estimates show

- **public investment has a significant and strong effect** on economic growth in Europe.
- the aggregate direct and indirect impact on public investment is stronger than for private investment
- this impact can even be leveraged by shifting public spending from consumption to investment,
 - the negative effect from budget deficits remains neutralized.
 - countries without fiscal space, economic growth needs to be re-ignited by the **re-composition of public spending** in favour of investment.

Table 6.1. VAR coefficients

	$\Delta \log(\text{PUBinv})$	$\Delta \log(\text{PVTinv})$	$\Delta \log(\text{PGDP})$
$\Delta \log(\text{PUBinv})$	0.2415 (0.03471)	0.06111 (0.02733)	0.0407 (0.0213)
$\Delta \log(\text{PVTinv})$	0.0393 (0.04991)	0.048911 (0.02263)	0.069111 (0.0173)
$\Delta \log(\text{PGDP})$	-0.117 (0.04433)	-0.02 (0.00883)	0.064711 (0.0483)
$\Delta \log(\text{PBAL})$	-0.06911 (0.03973)	0.039111 (0.03283)	0.04711 (0.0193)
N	298		
Countries	15		
J	12.8		

Fiscal consolidation improves LT growth

Standard errors in brackets. *significant at 10%; significant at 5%; significant at 1%. PUBinv=public investment at constant prices; PVTinv= private investment at constant prices; PGDP=potential GDP; PBAL=primary balance in percentage of GDP. J=Hansen test of over-identifying restrictions

- A 10% increase in public investment has the effect of increasing potential output directly by 2% and indirectly by an additional 3% due to its effect on private investment.

What kind of public spending could increase economic growth?

- R&D expenditure
- Tertiary education expenditure.
- Welfare expenditure (pension and health transfers)

Results are consistent with the growth literature:

- **innovations** and **education** are good for growth.
- **Welfare** expenditure is negatively correlated with potential output growth
- Welfare expenditure consists of pensions and health expenditure; increases in expenditure therefore capture the impact of **aging population** with lower potential employment and output.
- We test whether this is a valid interpretation, by introducing the net migration variable.
 - **net inflow of migrants fully compensates the negative impact of aging on growth**, probably because it fills a lack of domestic labour supply.

V. Wage developments

Investments flows to the highest rates of return,
which depends on wage developments

- We update the CER Index of competitiveness
 - Derived from national rates of return relative to Euro Area average
 - Calculated equilibrium wage levels
 - CCI: ratio of actual over equilibrium wages

Return on capital in major economies

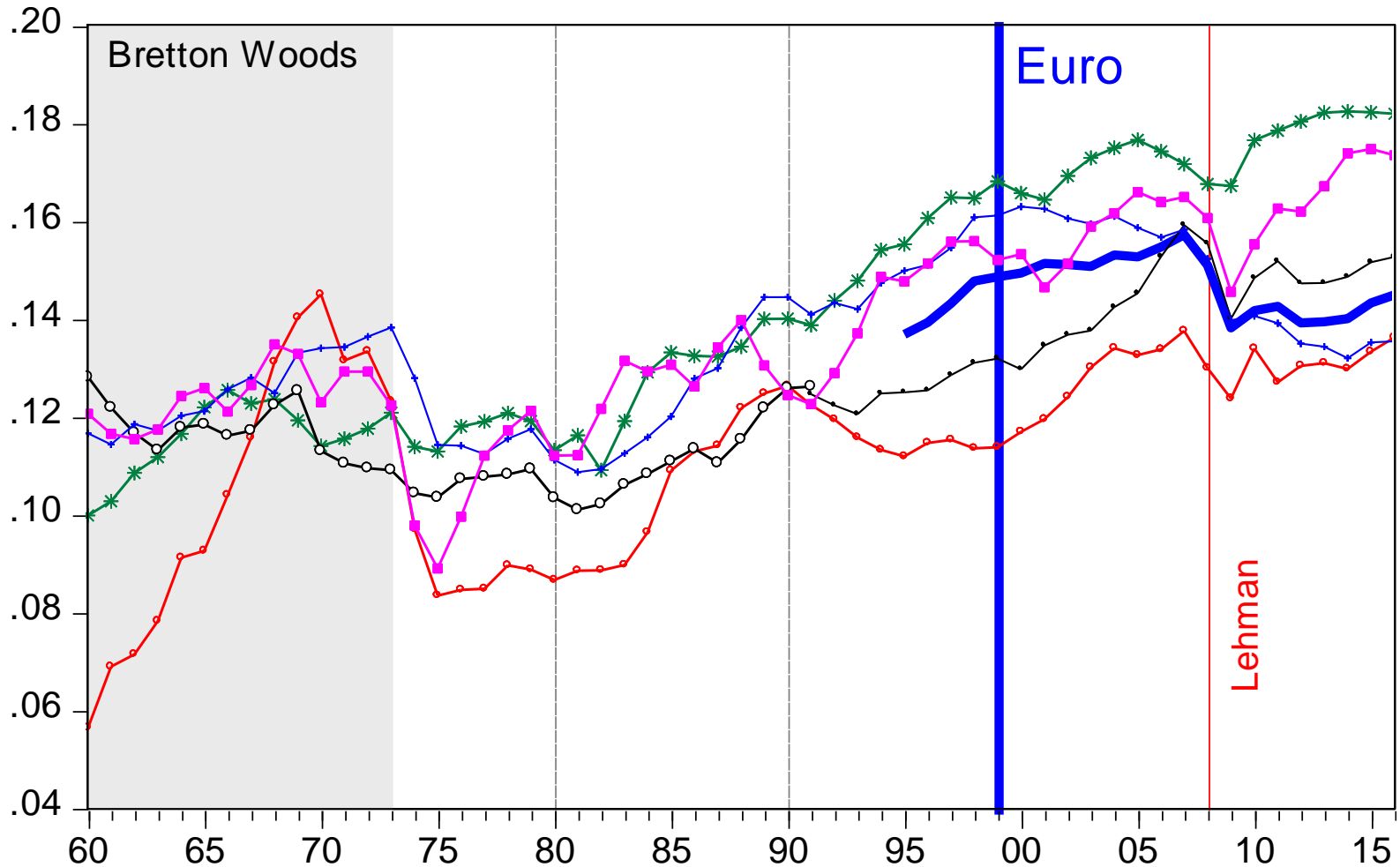
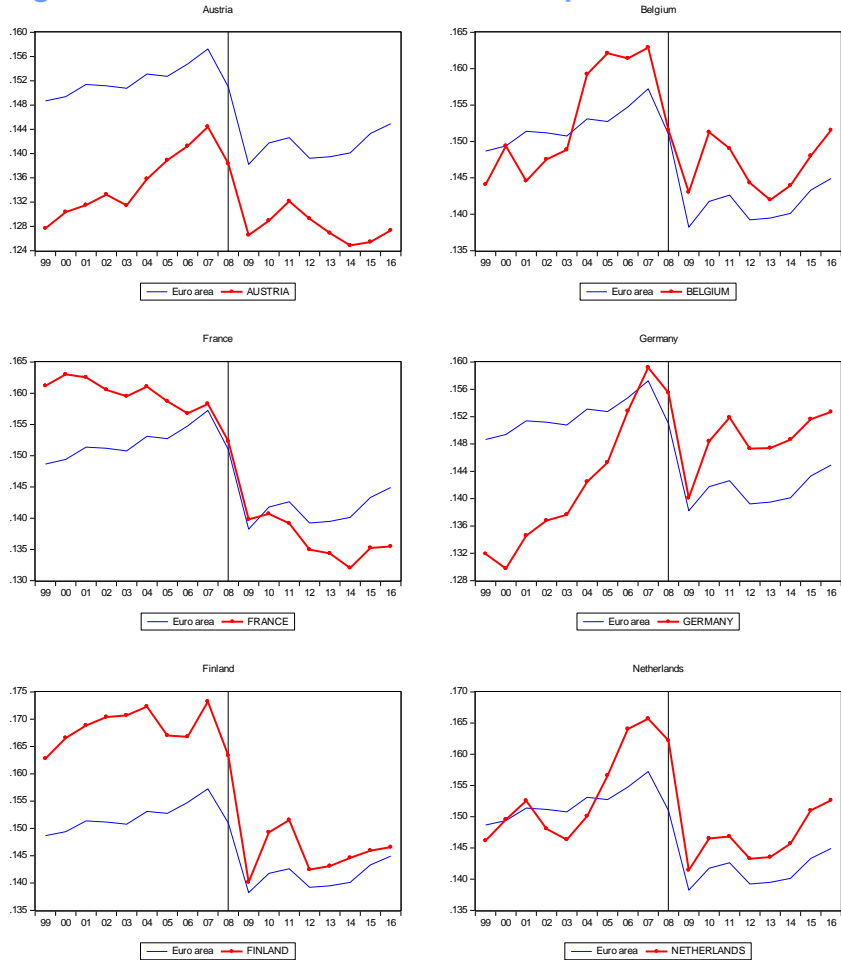


Figure 7.2 Core countries: return on capital



Crisis countries: return on capital

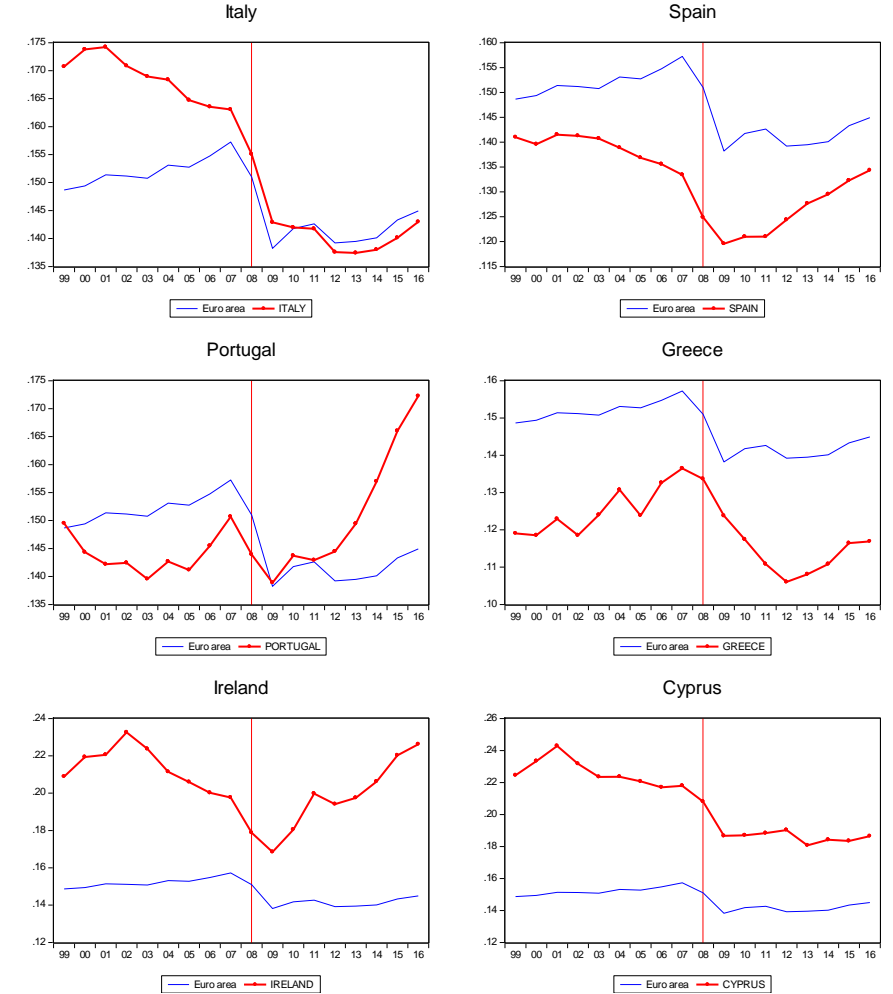
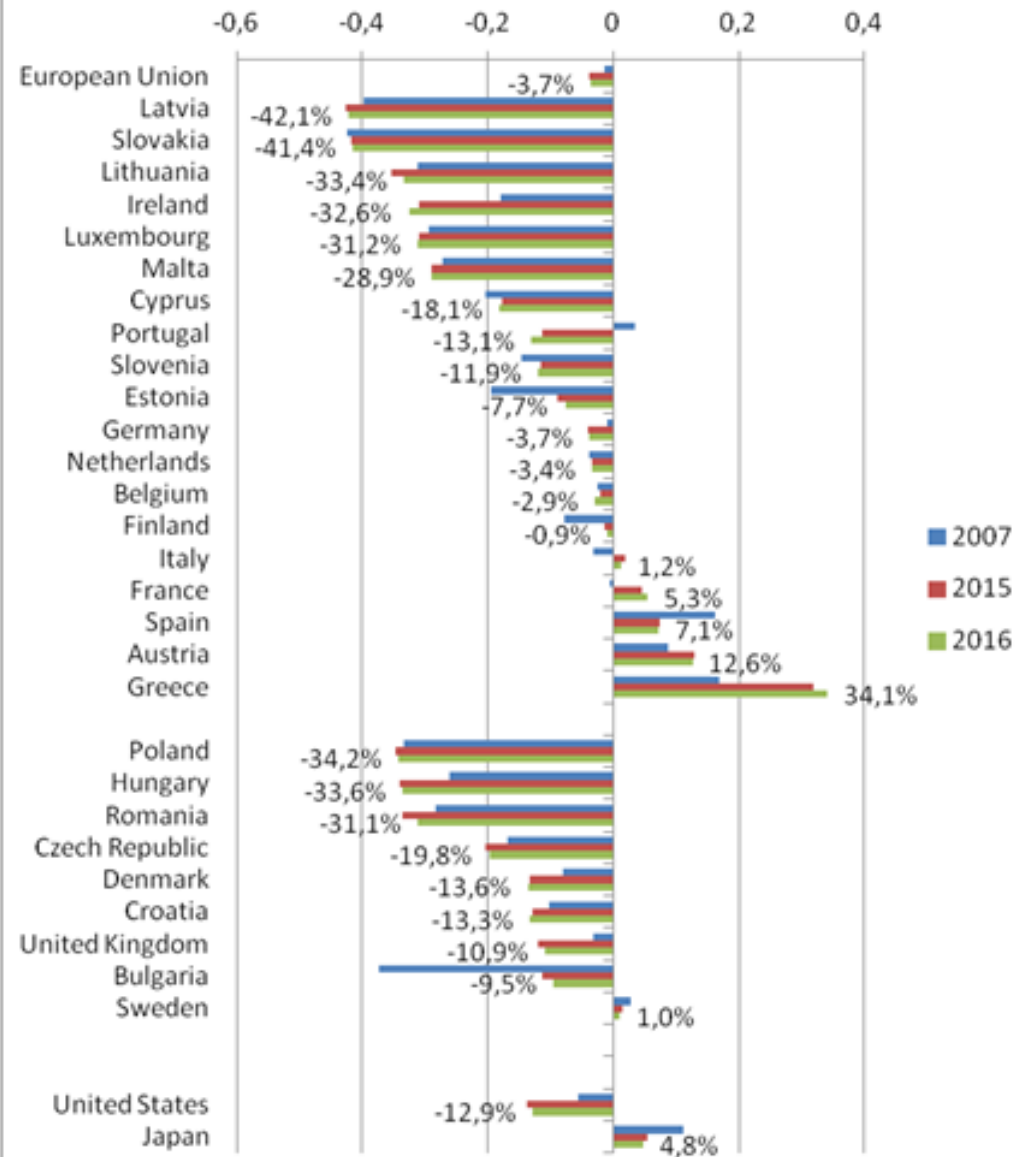


Figure 7.4
CER Wage Competitiveness Index

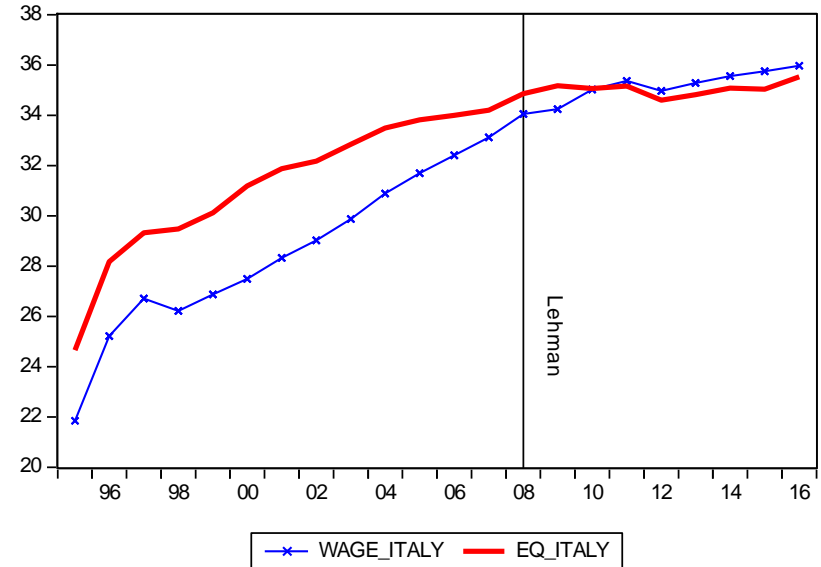
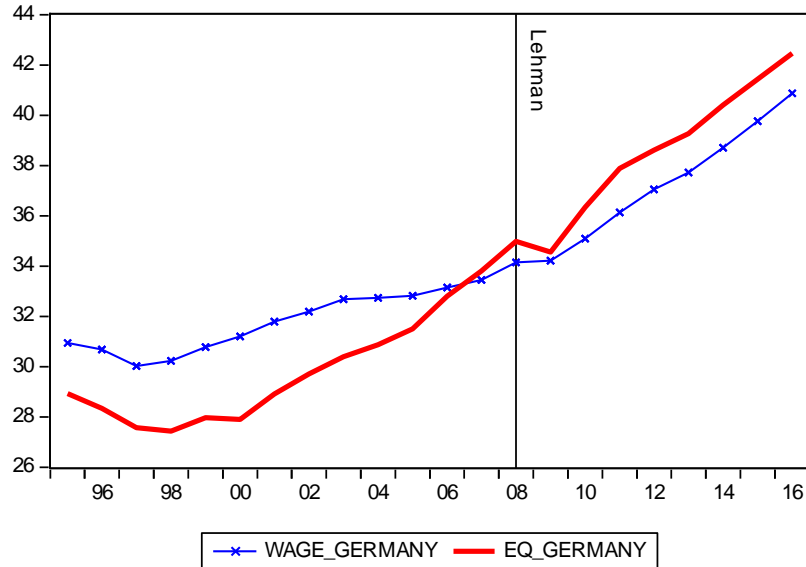
Euro Area = 1



- The improvement in German competitiveness was driven by increases of capital productivity, while this has been a problem in France, Italy and Greece.
 - Structural improvements in productivity are the only way to improve the equilibrium wage and therefore the living standards in a country.
 - The cost of capital equipment had a negative effect in Germany, but a positive effect in France and Greece, while above average inflation for output improved profits in Germany, but hardly in the other countries.

- the major difference between Italy and Germany is the rapid increase in equilibrium wages, while they have been stagnant in Italy.

Figure 33. Wage dynamics in Italy and Germany



Conclusion

- Economic and labour market dynamics reflect important structural variations within Europe
- This is also reflected in the ways the labour market responds to immigration
 - Improving employment and wages in the core
 - Substituting employment between low skilled labour, thereby preventing wage reductions in the periphery

Conclusion

- Investment needs to be stimulated, but classic macroeconomics has reached its limits
 - Monetary policy
 - Fiscal policy
- Wage increases and higher consumption require improvements in productivity