

The Economic Performance of Immigrants: A Longitudinal Analysis of Earnings Mobility in Denmark and Germany

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Introduction

The international transferability of schooling and experience from immigrants' home country to host country is not perfect. The extent of transferability is influenced by contextual factors, such as the labour market situation at time of immigration, as well as by factors relating to the immigrant himself, such as country of origin. Due to this incomplete transferability, research has focused on the concept of earnings assimilation. The factor of interest is the time necessary to earn similar wages as natives, and to have a similar employment pattern. In order to narrow the wage gap between natives and immigrants, after they are employed, immigrants experience faster upward earnings mobility than natives. In this paper I analyze the factors that determine earnings mobility of first generation male immigrants and natives in Denmark and Germany.

In previous research, earnings or wages have been the dependent variable, assimilation being indicated by the coefficient of the independent variable "years since migration". If we consider upward earnings mobility as a sign of catching up and assimilation, then immigrants should be more mobile than comparable natives. The previous research on immigrants' employment and earnings assimilation has not been combined with the research on earnings mobility. One reason might be that earnings mobility can only be assessed with longitudinal data. These data have been scarce in the past. The availability of two longitudinal data sets from two European countries with a similar migration background provide conditions to assess which factors influence the earnings mobility of immigrants.

Background

In 1978, Chiswick investigated the concept of earnings assimilation of immigrants. He found that post-immigration earnings of foreign-born males is relatively steeper than native males. This conclusion has been explained by the impossibility of a complete transfer of human capital as well as lacking institutional and language knowledge at the time of arrival. As these skills are acquired, the human capital of immigrants grows relative to that of natives, and immigrants experience faster wage growth.¹ There are many studies on immigrants' assimilation, which have tried to prove this steeper rise in earnings experience profiles for immigrants in the host country. Most of these studies, however, have concluded that this is not the case for the (European) country under study, and that immigrants do not assimilate with time. But few have tried to ask why immigrants in Europe do not assimilate. The German Socio-Economic Panel (GSOEP) has been the primary source for most studies of immigrants' earnings dynamics in Germany. When studying the earnings assimilation of German immigrants, the key variables are occupational status, and to a lesser extent, level of education. In

¹ Another explanation would be that immigrants are favourable self-selected and only the most motivated emigrate (Chiswick 1978).

general, the existing empirical studies – using different empirical specifications and different immigrant samples - found mixed evidence regarding the magnitude of the initial earnings gap and its narrowing over time. Most studies use only one wave of the GSOEP. The year chosen depends mainly on the immigrant group under study: former so-called guest workers, ethnic Germans, or East Germans immigrating to West Germany before 1990. While there is no clear assimilation pattern for the guest worker generation (Pischke 1992, Dustmann 1993, Schmidt 1997, Constant 1997, Constant and Massey 2005), ethnic Germans are generally found to assimilate, but at a slow rate (Bauer und Zimmermann 1997, Dunn, Kreyenfeld and Lovely 1997). In contrast to the German studies, the studies based on Danish register data make full use of the longitudinal nature of the data (Husted et al. 2001, Blume 2003, Nielsen et al. 2004). The Danish register data does not include information on pre-migration education, experience, or on language proficiency. However, *a priori*, those variables can be expected to be correlated with observable explanatory variables, such as the possession of a degree acquired in the host country. Husted et al. (2001) find that male immigrants assimilate partially to native, but that the assimilation process depends on immigrant status. Refugees assimilate only at a very slow rate, and they never reach the same earnings levels as comparable native born or non-refugees.

Theoretical Framework

The structure of the labour market and the educational system are the two institutional factors that are looked at in detail in this paper. If home-country education and work experience are not fully transferable to the host country, then one way to increase the speed of integration into the labour market is to update one's education in the local educational system. The type of product market strategy adopted by a country has several implications for workers' entry into the labour market, and will thus affect both the entry-wages and the process of assimilation of immigrants. If it is initial educational attainment and vocational training that matters, and job mobility is low, then immigrants without such training could be expected to do worse and be trapped in low-paid unskilled jobs. The German educational system with its combination of early tracking and strict skill credentialism creates a rather rigid mobility space, not only in terms of career mobility but also in terms of educational second-chances. Also, compulsory schooling in Germany includes vocational training for those individuals who do not follow upper secondary education. We might expect skill barriers that have to be overcome before education is rewarded in the German labour market. Denmark, on the other hand, provides ample opportunities for second chances and boasts numerous bridges in its education system.

The close institutional linkage between the educational system and the labour market renders the structure of the labour especially decisive in determining entry into employment. The Danish labour market is flexible with respect to movements in and out of employment. However, due to the compressed earnings distribution and high minimum wages, getting into employment is the main barrier for immigrants' integration into the Danish labour market. Once in employment, earnings assimilation is expected to be achieved rather quickly. Participation rates of immigrants are slightly higher in Germany than in Denmark (both countries around 50% in 2002, Zimmermann and Hinte 2005). However, the participation rates of under qualified immigrants and natives is 60% in Denmark in contrast to only 45% in Germany (EU average is 50%). This shows that without some form of qualifications it is difficult for immigrants and natives to enter the labour market.. Those low-skilled immigrants who enter the labour

market in jobs where little or no qualification is needed experience problems in climbing the occupational ladder; the German labour market may result as a “low-skilled trap” for immigrants.

Data and Methodology

This research uses data from the German Socio-Economic Panel (GSOEP), a longitudinal study of a nationally representative sample of individuals and families in Germany from 1984-2004, with over-samples of guest worker families. The Danish data stem from national administrative records from 1986-2002. The data consist of 100 percent of the immigrants and a 10 percent representative sample of the Danish population.

Mobility matrices are used as a descriptive tool to assess earnings mobility over time. The variable of interest is the hourly wage rate. Several models are estimated to determine which factors affect immigrants’ and natives’ earnings. The main explanatory variables are the educational level of the individual, the time immigrants have been residing in the host country and the age at arrival. The Danish data allow us to assess the effect of host country schooling compared to home country schooling. By interacting the level of schooling with a measure of years since migration we can test whether it is time per se that influences immigrants’ earnings, or whether it is certain educational levels that are associated with raising earnings over time. Other independent variables are dummies for country of origin, the unemployment rate at time of arrival, industry of employment, work experience, age and marital status.

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