

Immigrants' Income and Family Migration

by

Saman Rashid

To my late father Shawkat Rashid

and

my children

Lana, Lanja, André and Alize

Abstract

This thesis consists of three papers studying the economic situation of immigrants in Sweden in terms of wage earnings, labor participation and family internal migration.

Paper [I] (<http://www.econ.umu.se/ues/ues622.html>) studies the determinants of the wage earnings for immigrants from different countries, and secondly whether their wage earnings converge to those of comparable native-born Swedes. The study is based on a longitudinal dataset, and the data refers to 1991 and 1995, respectively. The empirical results indicate that immigrants in Sweden are heterogeneous, and different income determinants, such as education, cohort-specific factors and time of residence, affect different groups of immigrants in different ways. Even after 20 years of residence, almost none of the groups appear to reach the same level of earnings as natives. In particular, the earnings of immigrants from typical refugee-sending countries tend to be much lower.

Paper [II] (<http://www.econ.umu.se/ues/ues623.html>) examines whether the transition probability from employment to non-employment among married immigrant women is consistent with the Family Investment Hypothesis (FIH). A dynamic random effects model is used and the estimations are based on a longitudinal database covering the period 1990-1996. The results indicate that the relationship between the transition probability from employment to non-employment and the family's time of residence in Sweden, considered here as an indication of the husband's need for host country-specific human capital, does not seem to be consistent with the interpretation of the FIH. Further, when immigrant women married to native-born Swedes are used as a comparison group, the corresponding relationship is similar despite the fact that this group should not need to apply family investment strategy.

Paper [III] (<http://www.econ.umu.se/ues/ues624.html>) uses a longitudinal dataset from the years 1995 and 2000, respectively, this study examines whether migration within the host country of Sweden generates higher total annual income for (two-earner) immigrant families. The empirical findings indicate that internal migration generates a positive outcome in terms of higher family income for newly arrived refugee-immigrant families. Further, with the length of residence in the host country, the monetary gain accruing from internal migration decreases. On the other hand, I could not find similar results for immigrant families from the Nordic countries, Europe and Asia.

Keywords: Immigrant, wage earnings, labor participation, family income, family investments, internal migration, immigrant women, family migration

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This thesis consists of an introduction and the following three papers:

- [I] Rashid, S (2004) Immigrant earnings, assimilation and heterogeneity. Umeå Economic Studies No. 622, Umeå University.
- [II] Rashid, S (2004) Married immigrant women and employment: the role of family investments. Umeå Economic Studies No. 623, Umeå University.
- [III] Rashid, S (2004) Internal migration and income of immigrant families. Umeå Economic Studies No. 624, Umeå University.

INTRODUCTION

1 Background

International migration is not a new phenomenon. People have always moved in order to find better places to live. What is new is its magnitude; international migration has increased dramatically during the last few decades. At the end of the 1990's, nearly two percent of the world's population lived in countries other than the country of birth.¹ In the case of certain specific countries, the proportion of the foreign-born population can be considerably larger. For example, almost 17 percent of the Canadian, 10 percent of the US, and 9 percent of the British population are foreign-born. Low mobility costs in combination with increased access to relevant information about potential host countries are one set of possible explanations for these large population movements. War and political conflicts, particularly in countries in the "third" world, are another especially for the increase in immigration to North America and Europe in recent decades.

Sweden belongs to the group of countries that have a relatively large foreign-born population. Approximately 11 percent of the Swedish population is born outside the country. These immigrants are from different countries of origin and have immigrated for different reasons. The earliest immigrant groups were recruited to Sweden as labor immigrants, and they were, to a large extent, from the Nordic countries but also from Western Europe and Yugoslavia.² On the other hand, the immigrants that have arrived during the last few decades are, to a large extent, refugees and relatives of earlier immigrants originating from countries in Asia, South America, and Africa.

In the light of these facts, we may conclude that immigrants in Sweden are likely to be heterogeneous in several respects. This heterogeneity should be taken

¹ See Martin (1998).

into consideration when different aspects of their economic behavior are studied. The aim of this thesis is to study the economic situation of immigrants in terms of the development of their earnings and employment in the host country. The thesis

² See Statistics Sweden (1999).

consists of three papers. The first paper concerns the determinants of wage earnings for immigrants from different countries, and whether their wage earnings converge to those of comparable native-born Swedes. The second paper examines whether the transition probability from employment to non-employment among married immigrant women living in Sweden is consistent with the family investment hypothesis. Finally, paper three deals with the direct economic outcome, in terms of family income, of migration within the host country, in this case Sweden.

2 Earlier Research

Income among immigrants and assimilation

Economic research concerning immigrants' economic behavior was initiated by Chiswick (1978). According to Chiswick, income maximization encourages the most capable and motivated people among the population in a country to decide to move to another. The basic assumption is that the earnings in the potential host country are expected to be higher than the earnings in the country of origin when taking into account the costs associated with immigrating. However, newly arrived immigrants face difficulties in transferring their pre-immigration skills into skills that are useful in the new country. As a consequence, they have an initial disadvantage in the new labor market in comparison with the native population. With increasing time of residence in the host country, however, the earnings of immigrants improve, as "investments" in host country-specific human capital gradually generate returns.

Chiswick (1978), taking the human capital theory as a point of departure, used cross-sectional data for the year 1970 to study immigrant men living in the US. The results indicated, as he anticipated, that newly arrived immigrants received lower earnings than comparable natives, but that their earnings exceeded

those of natives after about 15 to 20 years of residence in the host country. He concluded that the relationship between immigrants' earnings and length of residence time is positive. Among the later studies that have used Chiswick's method, i.e. are based on cross-section data from one single year, Carliner (1980) and Chiswick (1986) can be mentioned. Their results confirm, in principle, the results in Chiswick (1978).

The cross-sectional analysis used in Chiswick (1978) was later criticized by Borjas (1985). He argued that the effect of residence time on the earnings as presented in Chiswick (1978) can have been overestimated, as Chiswick did not consider variations in unobservable "qualifications" between different cohorts of immigrants, i.e. immigrants arriving in different time periods. There are two possible reasons why cohorts that arrived earlier may obtain higher earnings than comparable cohorts that arrived later. Firstly, the relationship between the length of residence and earnings may be positive, as the investments in host country-specific human capital gradually generate returns. Secondly, earlier cohorts may have better unobserved qualifications, such as productivity and talent, than later cohorts with similar observable individual characteristics. Differences in cohort qualifications are, according to Borjas, a consequence of the selection process. Unlike Chiswick (1978) who only argued for positive selection, Borjas did not preclude the possibility of negative selection, i.e. people with poorer qualifications immigrate. Whether a cohort is positively or negatively selected depends, in turn, on the economic as well as the political conditions in both the host country and the country of origin during the period of migration.

Borjas argued that the time of residence and the cohort effects cannot be identified separately in studies that are based on cross-sectional data from one single year, i.e. the method used in Chiswick (1978). Instead, Borjas (1985) used repeated cross-sectional data from two different years: 1970 and 1980. The results show that cohorts that arrived earlier obtain higher initial earnings than

comparable cohorts arriving later. Moreover, the results also indicate that, when the effects of cohort differences are held constant, the effect of residence time tends to be much weaker than is the case in Chiswick (1978). Consequently, Borjas concluded that, if the cohort effects are ignored, the effect of residence time on immigrants' earnings could be overestimated. Among other studies, which are based on US data and use Borjas' method, we can mention Borjas (1987, 1989, 1991), LaLonde & Topel (1992), and Funkhouser & Trejo (1995). The results from these studies confirm, more or less, Borjas' (1985) results concerning residence time and cohort effects.

There are also several studies that are based on European data, see e.g. Blackaby *et al.* (1994) and Shields & Wheatly Price (1998) for UK, and Dustmann (1993) and Schmidt (1997) for Germany. The results from these studies are not in line with those presented in the US studies. The greater part of the European studies indicate that the earnings of immigrants develop relatively slowly as the length of residence time in the host country increases, and that the rate of convergence between the earnings of immigrants and natives is relatively slow.

The labor market situation of immigrants in Sweden has been examined in a number of studies.³ The results from these studies indicate that immigrants arriving during the 1950's, the 1960's, and in the beginning of the 1970's face similar labor market situations in terms of employment and the development of their earnings as comparable native-born Swedes. On the other hand, this is not the case for immigrants that arrived in Sweden after the late 1970's. Bantekas (1992) and Wadensjö (1994) show that immigrants and natives had similar hourly wage rates in 1974 and 1981, respectively, but not in 1991. Another example is Aguilar & Gustafsson (1991). They find that those immigrants who arrived in 1969 eventually reach the same earnings as comparable natives, whereas those

³ For a summary of Swedish studies, see Arai, *et al.* (1999).

that arrived in 1974 never reach the same level as comparable natives. Similarly, for the period 1978-1990, Aguilar & Gustafsson (1994) find that, despite the economic boom during the 1980s, the earnings of immigrants in general, and of immigrants born outside Europe in particular, changed for the worse. The deterioration of the labor market situation, in particular for recent immigrant cohorts from countries outside Europe, is also confirmed in Ekberg & Andersson (1995), Rooth (1999), and Ekberg & Rooth (2000). Le Grand & Szulkin (1999) show that the differences in wages between immigrants and natives often decrease as the length of residence time increases. However, for immigrants from countries outside Europe, the rate of convergence is relatively slow. Edin *et al.* (2000) show that immigrants never reach the same earnings levels as natives, but that there are differences between different groups according to the world region of birth. Immigrants born in the Nordic countries tend to obtain relatively high levels of earnings, whereas immigrants born outside the OECD only show a very weak tendency of convergence towards the earnings of natives. These findings are also confirmed by Hammarstedt (2001). Vilhelmsson (2002) finds that the immigrant-native wage gap differs between the top and the bottom of the wage distribution. In addition, he shows that the wage gap differs between immigrants from different parts of the world, and that this cannot be explained by differences in observable characteristics.

Family investment strategy

The role of the family for immigrant women's economic situation was stressed for the first time in Long (1980). Using US data, Long finds that immigrant women with only a few years of residence worked more hours and earned more income than both comparable native-born women and immigrant women who had lived longer in the host-country. In order to explain this pattern, Long puts forward the so-called Family Investment Hypothesis. According to this hypothesis, an

immigrant wife's labor market activities are related to the need her husband has for investments in host country-specific "human capital", because his pre-immigration skills are difficult to transfer to the host country. However, the investments cannot be financed via credit markets as newly arrived immigrant families may be credit rationed during the first years after their arrival. As a consequence, this gives rise to specialization among family members, with the husband investing in human capital and the wife undertaking labor market activities in order to finance the family's current expenses.

Only a few studies have tried to explicitly test the implications of the family investment hypothesis (FIH), see Duleep & Sanders (1993) for US and Baker & Benjamin (1997) and Worswick (1996, 1999) for Canada. The results gathered in these studies are, in general, consistent with the implications of the FIH. Using US data from 1980, Duleep & Sanders (1993) find that an immigrant wife's probability to be employed declines the longer the length of her husband's residence in the host country, holding her own residence time constant. This result is interpreted to mean that the shorter the time the husband has resided in the host country, the more he needs to invest in host country-specific human capital and, consequently, the higher is the wife's propensity to participate in the labor market. It is interesting to observe that this pattern concerns families born in countries in Asia where the need for investments in host country-specific human capital is often assumed to be greater than that of other immigrants, i.e. European and Canadian immigrants. It is important to note that Duleep & Sanders (1993) treat immigrants as heterogeneous groups, since they separate immigrants according to country of birth. However, they do not control for potential cohort differences, i.e. differences in unobserved qualifications between immigrant cohorts. The reason is that Duleep & Sanders use cross-sectional data from one single year, where the cohort effect and the effect of residence time cannot be separately identified.

Baker & Benjamin (1997) use Canadian data from 1986 and 1991 to evaluate different explanations for immigrant families' labor market activities. A comparison of the wives' (and the husbands') labor supply and earnings across different family types (native-born, immigrant, and mixed) indicates that the husband's time of residence is negatively correlated with the wife's labor supply as well as with her earnings. This effect is more apparent in families where the spouses are immigrants, which can be interpreted as support for FIH. Note that Baker & Benjamin (1997) control for cohort differences, but ignore possible differences between immigrants from different countries of origin by treating immigrants as a homogenous group.

Worswick (1996) uses Canadian data from 1981 and 1991 but finds only weak evidence in favor of FIH. Note that he employs the same model as in the above-mentioned studies, i.e. a reduced-form model of labor supply. On the other hand, using the same data, but employing a structural model of intertemporal labor supply, Worswick (1999) finds support for FIH. His results indicate that during the first years after arrival, immigrant wives (married to immigrant husbands) work more hours than comparable non-immigrant wives (married to non-immigrant husbands) as well as immigrant wives with a longer time of residence in the host country. As an explanation, Worswick suggests that newly arrived families might face credit constraints.

Internal migration

Previous studies on internal migration among immigrants focus almost exclusively on the determinants of the choice of residence location, and the empirical evidence from these studies is mixed. Bartell (1989), Bartell & Koch (1991), Belanger & Rogers (1992), and Zavodny (1999) conclude that "ethnic concentration" is a significant determinant of the immigrants' location decision. That is, immigrants, in general, seem to choose to reside in regions with a large stock of people with similar ethnic background. In addition, Bartell (1989) and

Bartell & Koch (1991) find that there are differences between groups, i.e. some groups seem to be more inclined to concentrate in distinct geographical regions than others. The results presented by Bartell (1989) also imply that the migration behavior is not affected by the length of time spent in the host country.

Beenstock (1997) and Borjas (2001) have found support for the idea that economic motives play a significant role in immigrant's locational choices. Beenstock finds a strong correlation between migration decision and job-seeking. Correspondingly, Borjas finds that newly arrived immigrants tend to live in states where the wages for the skills they have to offer are highest.

Evidence from other studies suggests that the extent of welfare programs is a key motivation for immigrants' locational choice. Buckley (1996), Borjas (1999), and Dodson (2001) find that newly arrived immigrants, in general, and refugee-immigrants, in particular, tend to live in regions with "generous" welfare programs.

Research on internal migration among immigrants in Sweden is fairly scarce. Rephann & Vencatasawmy (2000) show that immigrants tend to migrate to regions with a large proportion of foreign-born population. Åslund (2001) finds, however, that both the presence of other immigrants and ethnic concentration are key factors for immigrants' locational choice. Edin *et al.* (2003) suggest that newly arrived immigrants in Sweden tend to live in "ethnic enclaves" in metropolitan regions, and that these ethnic enclaves generate higher income (up to 4-5 percent), but only for immigrants with relatively low incomes.

3 Summary of the papers

Paper [I] Immigrant earnings, assimilation and heterogeneity

This paper examines the determinants of wage earnings among immigrant men from different countries of origin, and whether their earnings converge towards the earnings of comparable natives, as the length of residence time increases. The contribution of the paper is to address observable heterogeneity in a more systematic way than in previous studies. To be more specific, cohort-effects, the effect of residence time, and the effects of individual characteristics on earnings are allowed to vary between immigrants from different countries of origin. In addition, contrary to most previous studies on earnings among immigrants and assimilations, I do not assume that period-specific effects affect natives and immigrants in a similar way. In this study, I follow the approach used in LaLonde & Topel (1992) where a restriction is imposed on the effect of residence time on earnings for those who have lived in the host country for a long time. The approach allows the period effects to vary between different groups (natives included). This is in line with the objective of this paper, where the importance of immigrants' observable heterogeneity is emphasized.

The analysis is based on the LINDA-database, which contains longitudinal individual information on demographic characteristics, earnings, and education. Data are observed at two different points in time, 1991 and 1995, and we utilize the panel characteristics of the data. This study is limited to a sub-sample of native Swedish men (50 819 observations) and a sub-sample of foreign-born men from 16 different countries of origin (16 210 observations). Immigrant men are defined as foreign-born men living in Sweden on the 31st December 1991 and 1995, respectively. In order to control for potential unobservable individual-specific characteristics, a linear random-effects model is used. The model is

estimated separately for different groups of immigrants according to their country of origin as well as for natives.

The empirical findings indicate that immigrants in Sweden are heterogeneous. Different determinants of earnings, such as education, cohort-specific factors, and time of residence, affect different groups of immigrants in

different ways. In general, immigrants originating from refugee-sending countries are distinguished from other type of immigrants. The cohort-specific effects for immigrants from typical “refugee” countries are also negative, indicating that later cohorts within these groups obtain lower initial earnings than comparable cohorts that arrived earlier. The correlation between the time of residence and earnings is positive for immigrants from typical refugee-sending countries, showing that investments in Swedish-specific human capital generate returns.

The results also indicate that after 20 years of residence, almost none of the immigrant groups reach the same earnings level as comparable natives. However, immigrants’ earnings, relative to those of natives, vary depending on the country of origin. Immigrants from typical refugee countries tend to obtain considerably lower earnings than natives, while immigrants from other countries may obtain relatively high earnings. Furthermore, some of the immigrant groups show relatively high initial earnings, although their earnings decrease with increasing time of residence in Sweden. Finally, there are at least weak indications that the period-specific effect affects immigrants’ earnings differently than that of natives.

Paper [II] Married immigrant women and employment: the role of family investments

The aim of this study is to examine whether the labor market behavior of married immigrant women in Sweden is consistent with the family investments hypothesis (FHI). The hypothesis implies that a married immigrant woman adjusts her labor market activity according to how much her husband needs to invest in host country-specific human capital. More specifically, I examine whether the transition probability from employment to non-employment among married immigrant women varies with the length of residence time in a way that is consistent with the strategy suggested by the FHI. Time of residence is used as an

indicator of the family's (husband's) need for investments in host country-specific human capital; the longer the time of residence, the less the need for investments.

FIH may be of interest to examine in Sweden. One possibility is, of course, that the transfer system is sufficiently extensive to offset the family investment strategy. Another is that different immigrant groups are not covered by the system to the same extent. For example, when refugees are granted a residence permit, they also are granted study loans and allowances. This may imply that refugees do not need to apply the family investment strategy. However, other types of immigrant families, who do not receive such allowances, may need to act according to the strategy suggested by FIH.

Unlike earlier studies, this paper takes both cohort effects and observable heterogeneity into consideration. Considering potential cohort effects is essential in order to be able to identify the effect of residence time. It is also important to take in account observable heterogeneity, because it is likely that immigrants from certain countries need to invest in host country-specific human capital to a greater extent than others.

In this paper, FIH is interpreted such that a newly arrived immigrant woman married to an immigrant man is expected to have a relatively low transition probability from employment to non-employment. However, as the time of residence in the host country increases, the transition probability is expected to increase. I also examine the corresponding transition probability for immigrant women married to native-born Swedes, for whom the family investment strategy should not apply. The aim is to see whether these women show similar transition probabilities over time as the subject group.

In the empirical analysis, I use a dynamic random effects logit model where a lagged dependent variable is included among the explanatory variables. This construction seems reasonable, since the labor market state (here employment or not) in one period of time is likely to be correlated with the state in the previous

period. The estimations are based on the LOUISE-database, containing longitudinal individual information, and where it is possible to link together individuals who belong to the same household. The data are observed during the period 1990-1996.

The empirical results indicate that the labor market behavior of immigrant women married to immigrant men in Sweden is *not* consistent with the FIH as it is interpreted in this paper. The relationship between the transition probability from employment to non-employment, on the one hand, and the time of residence in Sweden, on the other, does not seem to correspond to the profile predicted by the hypothesis. In addition, immigrant women married to native-born Swedes, where the strategy should not be needed, show similar profiles as immigrant women married to immigrant men.

Paper [III] Internal migration and income of immigrant families

In this paper, I examine whether internal migration among newly arrived immigrant families affects their total annual disposable income. I have chosen the family as the unit of analysis because the rate of labor market participation among men as well as women is fairly high, which implies that migration decisions are likely to take two earners into consideration. The paper contributes to the literature by both considering the migration of the family as a whole and by examining the direct monetary outcome of internal migration for immigrant families.

The theoretical framework implies that newly arrived immigrants lack relevant knowledge about institutional and other characteristics in the host country. Thus, with respect to the probability of finding a reasonably good match between their skills and the demand for these skills, the new immigrants' initial location of residence in the host country may be not optimal. However, when they learn more about the host country, they may choose to migrate internally in order

to find a better match. We expect that families who migrate internally a relatively short time after arrival gain in terms of higher income. As the probability of finding a good skills match increases with the time of residence, the gain from internal migration is expected to decrease with increasing residence time. In addition, the paper allows for the possibility that the potential gains from internal migration vary between immigrant families from different origins. The reason is that variation in geographical and cultural distances between Sweden and the country of origin may mean that knowledge, upon arrival, about the host country varies between different immigrant groups.

The analysis is based on the longitudinal database LOUISE, which is supplemented by data on internal migration from the Swedish national statistics office. The data refers to the years 1995 and 2000. Based on information provided in the dataset, four groups of immigrant families are identified: Nordic, European, Asian, and “Refugee” immigrants. Further, in order to be able to consider mobility related to the labor market, I analyze movements between labor market areas (LA-regions). Thus, migrants are defined as families who migrated from one LA-region to another during the period 1996-1999. The econometric model is formulated in terms of the first-difference between two income equations, one for each year of observation. This formulation makes it possible to capture potential income changes and, at the same time, control for unobserved time-invariant family-specific fixed effects as well as cohort-specific ones. In order to avoid possible correlation between the error term in the income change equation and the indicator of migration, I use the instrumental variables method. For purposes of comparison, I also estimate a model where the indicator of migration is treated as exogenous.

The empirical findings imply that refugee-immigrant families who migrate internally a relatively short time after their arrival in the host country achieve a higher family income in comparison both with otherwise comparable families

who do not migrate and with families who move after having lived in the host country for a longer time. Thus, we may conclude that internal migration generates a positive outcome in terms of higher income for newly arrived refugee-immigrant families. On the other hand, I could not find similar results for immigrant families from the Nordic countries, Europe and Asia.

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