India Exim Bank
November 2023

RESEARCH BRIEF No. 142

Essays on Immigrants and their Impact on the Local Labour Market

Export-Import Bank of India (India Exim Bank) instituted the International Economic Research Annual (IERA) Citation in 1989. The objective of the Citation is to promote research in international economics, trade, development and related financing, by Indian nationals at universities and academic institutions in India and abroad. The study titled "Essays on Immigrants and their Impact on the Local Labour Market" is based on the IERA Citation 2022 winning thesis by Dr. Ronit Mukherji, *who received his doctorate from the University of British Columbia, Vancouver, Canada in 2022.*

Labour market and how it is influenced by immigrant entry has been a topic of intense discussion and analysis. In particular, the impact on differently skilled native-born workers is of particular importance to understand overall welfare implications. The first chapter of the study conducts a detailed empirical analysis aiming to establish a causal link between increased immigration and a decline in unionization rates, particularly in the U.S. labour market between 1970 and 2000. The chapter discusses the potential impacts of immigrant entry on the local labour market, highlighting how it alters the skill mix and influences wage differentials between native-born and immigrant workers.

The proposed empirical strategy involves examining correlations between immigrant entry and union membership across different geographical areas, industries, and occupations. The study is also extended to an international context, observing a consistent negative correlation between immigrant entry and unionization rates. To establish causality, the study addresses endogeneity concerns and potential spillover effects by employing an instrumental variable (IV) approach based on the 'ethnic enclaves' method. The IV estimates suggest that low-skilled immigrant entry can account for a significant portion (approximately 48%) of the observed decline in unionization rates between 1980 and 2000. Robustness checks rule out alternative explanations such as the right-to-work laws, sectoral shifts, and technological changes as sole reasons for the decline in union density, affirming the substantial impact of increased low-skilled immigration on union rates.

Furthermore, the study constructs a theoretical model grounded in a search-theoretic framework to formally represent the causal mechanism between immigrant entry and unionization decline. The model elucidates how immigrant inflows affect unionization across different skill levels, leading to a concentration of unionization in the middle of the skill distribution. High skilled native-born workers exit the union to get higher wages due to complementarity of skills once immigrants enter. Whereas low-skilled workers leave the union as they are not as profitable for firms. The model's predictions, including an inverted 'U' shape relationship in unionization rates across skill deciles and changes in wage gaps among native-born workers of varying skills, align with empirical observations. Finally, the calibrated model predicts that increased low-skilled immigrant entry can explain a significant proportion (around 48-55%) of the observed decline in unionization rates. This prediction remains consistent when applied to both the period between 1980 and 2000 and the subsequent period from 2000 to 2017, characterized by high-skilled immigrant entry. Overall, the analysis suggests a strong causal relationship between increased low-skilled immigrant entry and the decline in unionization rates in the U.S., substantiated through empirical correlations, instrumental variable estimation, and theoretical modeling.

To understand how immigrants impact the local labour market it is also important to understand what motivates their behaviour in the first place. The second chapter of the study focuses on how exchange rate fluctuations impact immigrants' labour market behaviour and earnings in Canada. The study utilizes data from the Survey of Labour Income and Dynamics (SLID) and the Longitudinal Immigration Database (IMDB) to explore how changes in the Canadian Dollar's value affect immigrant workers' labour earnings. The study finds that a 10% appreciation of the Canadian Dollar leads to a 0.36% decrease in labour earnings for an average immigrant worker. This decrease in earnings is mainly driven by a reduction in hours worked, affecting both the number of hours in a typical week and the total weeks worked.

Immigrants react to exchange rate changes by adjusting their labour supply, with most of the decrease in earnings attributed to reduced hours worked. Additionally, the likelihood of immigrants taking up part-time work increases in response to a relative appreciation of the Canadian Dollar. The study also finds the heterogeneous impact by immigrant sub-group where newer immigrants are more sensitive to exchange rate fluctuations, and the impact diminishes as immigrants spend more time in Canada, indicating that those with stronger ties to their home countries are more affected. Immigrants settled in ethnic enclaves, as well as those with family members in their source countries, demonstrate a higher susceptibility to exchange rate shocks.

Analysis of data on remittances shows that while exchange rate fluctuations affect those who send remittances, the total amount sent remains unchanged, suggesting that immigrants maintain a constant remittance amount in foreign currency. The significance of remittances as an important aspect of economic outflow from developed to developing countries is highlighted. Notably, immigrants' economic well-being and their connection to their home countries through remittances underscore the importance of understanding the impact of macroeconomic conditions in their home countries on their labour market outcomes in the host country, particularly in Canada. This study's relevance extends to policy implications concerning immigrant entry and duration of stay, especially in the context of the Canadian immigration policy, which emphasizes high-skilled labour and productivity but can vary depending on immigrants' family background and ties to their home countries.

To further extend the research agenda of looking at conditions in the destination economy and how it may impact immigrant behaviour, the third chapter of the study looks at the intersection of two strands of economic literature concerning immigrants: the economic assimilation of immigrants in developed economies, specifically focusing on their labour market earnings trajectories compared to native-born individuals, and how macroeconomic conditions on entry effect these earnings over years. The study aims to combine these two areas of research by examining the impact of initial labour market conditions at the time of entry on current earnings for immigrants. This study investigates how recessions or economic conditions at the point of entry influence immigrants' long-term labour market outcomes and economic integration.

The existing literature has primarily concentrated on the impact of economic downturns on college graduates, showing that such exposure to increased unemployment rates during economic crises can result in long-term earnings reductions. However, the study seeks to examine the effects on immigrants, a less advantaged group in the labour market and extends this analysis to encompass individuals with different skill levels and educational backgrounds. The research is based on a longitudinal dataset that matches immigrant tax returns to their initial conditions at the time of entry, providing insights into the long-term implications of initial labour market conditions on immigrant earnings, assimilation into the host country, and outmigration decisions. The study is significant as it provides a more in-depth understanding of how economic conditions at the time of entry can influence immigrant outcomes.

The study examines the impact of initial unemployment rates on immigrants' earnings in the first 15 years of the labour market. The primary result is that an increase in unemployment by 3% points leads to a 7% reduction in earnings. This effect only declines with time spent in the labour market, with the effect still significant ten years after entry. The study examines outmigration decisions based on unemployment rates at the time of labour market entry and earnings for immigrants who have not migrated out of the country. The results show that immigrants who stay in Canada perform better than those who out-migrate. The catch-up is faster, as earnings are not significantly impacted by the initial unemployment rate after year eight. The study examines the decision of outmigration and the share of immigrants who choose to leave Canada. It finds that a significant fraction of immigrants out-migrate in their first year, increasing in years 2 and 3. A 3-point rise in unemployment leads to 4% of all immigrants out-migrating by year 3, and which reduces to 1.5% by year 5. The results show that immigrants who choose to leave Canada are doing worse than those who stay. The study also uncovers that immigrants from developed countries perform better in Canada than those from developing economies in the long run. Initially, immigrants from developed economies face a similar reduction in earnings compared to those from developing economies, but the effect dissipates more quickly for immigrants from developed economies. The effect remains significant after year 10.

In conclusion, the study makes a contribution to understanding the labour market impact of immigrant entry and how immigrant behaviour itself differs based on both conditions at home and abroad, providing valuable policy insights. ❑

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