New arrivals in Germany who go to live among other immigrants from their home country are more likely to get a job – but they are also less likely to invest in acquiring skills, as a result of which their longer-term earnings are lower. These are the findings of research by Michele Battisti, Giovanni Peri and Agnese Romiti, to be presented at the annual congress of the European Economic Association in Geneva in August 2016.

Their study analyses new data on immigrants to Germany, which capture employment records and locations for immigrants to show the effect of living close to an existing social network of employed people from the same country of origin. The results are that the new immigrants are more likely to find work at first. The results show that an increase by one percentage point in the initial network translates into 5.94 percentage points higher employment probability.

But they are also less likely to invest in acquiring better skills: the same sample has a 1.61 percentage points lower probability of investing in human capital for every percentage point increase in the support network. In the long run, those immigrants who initially relied on a social network are more likely to complain of being overqualified for their jobs and to earn less.

The authors conclude: ‘In the short run, employment probability may be increased by the presence of co-ethnic networks, but over a longer period the latter may reduce human capital accumulation and lower the quality of job matches and wages.’

More…

‘Dynamic Effects of Co-Ethnic Networks on Immigrants' Economic Success’

The authors summarise their work: we investigate how the presence of immigrants from the same origin in the district of first arrival affected employment opportunities, wage and human capital investment of recent immigrants to Germany. For example, how do labour market outcomes of Turkish citizens differ over time, depending on how many other Turkish citizens are in the same district at the time of arrival?

We present a simple search model whose main prediction is that immigrants arriving in locations where people from their same country of origin represent a larger share of the employed (we refer to this as ‘larger co-ethnic networks’) are more likely to be employed soon after arrival. Their social networks can help them to find a job. But this positive effect dissipates over time, as those immigrants invest less in acquiring human capital relative to those in locations with smaller co-ethnic networks.

We empirically investigate whether the mechanisms we describe are indeed confirmed by the data. Simply comparing outcomes for different immigrants that have different initial networks is unlikely to be very useful. This is because immigrants with different co-ethnic networks typically differ along other dimensions as well.

We match information from a new large survey of immigrants to Germany that contains pre-migration information with individual administrative records that contain
employment and earnings profiles in Germany. Thereby, we can isolate the impact of initial network size on the post-migration outcomes of individual immigrants.

We analyse short- and long-run effects as we are able to follow new immigrants since their arrival and up to the present, and include a series of controls that help us isolate the association between initial network size and long-run immigrant outcomes.

We find support for the main predictions of our model. While immigrants arriving in districts with larger co-ethnic networks are more likely to be employed at first, they also have lower probability of investing in human capital. The latter dissipates the initial employment advantage and, as a consequence, immigrants experience lower wages in the long run.

The employment effect of an increase by one percentage point in the initial network translates into 5.94 percentage points higher employment probability, and a 1.61 percentage points lower probability of investing in human capital. Both effects fade after around five years since migration and are driven by the least skilled. Focusing on a group of refugees and ‘ethnic Germans’, whose initial location was determined exogenously by the Federal State, confirms our main results.

Our analysis also shows that in the long run immigrants arriving in areas with larger co-ethnic networks are more likely to report that they are overqualified for their job, and tend to earn lower wages. These results are again driven by the least skilled, persist in the long term and correspond to a 5.22 percentage reduction in wages for one percentage point increase in the initial network size after six or more years since arrival.

It is possible that social networks, while providing employment quickly, do not give access to the full labour market. We believe that our findings are informative for other researchers and policy-makers.

Previous empirical estimations of network effects for immigrants lacked a dynamic analysis. As they found a positive impact of networks on earnings, they argued that dispersal policies have high costs for immigrants, worsening their labour market outcomes.

The implications from our results suggest that, while in the short run employment probability may be increased by the presence of co-ethnic networks, over a longer period the latter may reduce human capital accumulation, lower the quality of job matches and wages. Ignoring those effects may result in overestimating the negative effects of dispersal policies.

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