Second Generation Immigrants: Labour Market Performance

A commonly known phenomena of immigration are the known positive long-term economic effects that accompanies it. Among these, immigration helps in addressing skill shortages and thereby allows for a country to flourish and maintain a growth beneficial to every resident of the nation. However, a large amount of literature suggests the barriers and labor economic disadvantages upon arrival in lower wages and higher degree of unemployment. Several explanations of these are present such as the transferability of human capital as well as the inherent value of this in the new country, linguistic skills and general assimilation barriers. Analyses of cross-sectional data find suggests the achievement of parity, and even outperformance, with their respective counterparts in one generation whilst more recent analyses using series of cross-sections suggest the risk of these findings too optimistic even though they might minimize few of the barriers mentioned above.

With the use of Canadian ”Survey of Labour and Income Dynamics” (SLID) our 1st of 3 papers use data containing the first double waves of respondents with parental birthplace information to address this question (Hum & Simpson, 2011). The decades following the end of WW11 a massive amount of labor seen throughout Europe. As the largest economy in Europe, Germany is the country specifically looked at in our 2nd paper. As of 2007, 30% of former West German population under the age of 25 reports a ”migration background” – that is, at least one parent being born outside of the country (Reichl Luthra, 2010). Using the first dataset to allow for full disaggregation on different immigrant origin groups in Germany, Reich Luthra investigates the occupational status and labor force participation of 2nd generation immigrants in order to analyze the labor market outcomes. In addition to our 2nd paper, the 3rd paper will go into the situation of Germany as well, with the use of linked employer-employee-data (LSS) they further build upon the fact that first-generation immigrants typically earn a lower wage than that of natives. Melzer, Tomaskovic-Devey, Schunh and Jacobbinghaus acknowledges the fact of a high institutionalized status by first generation immigrants, enforced by cultural distance, linguistic distinctions. As opposed, Second generation assume a ”German” linguistic and cultural tools but still anticipate higher earning disadvantages in workplaces with a high degree of opportunity hoarding by native employees.

By the use of ”Enduring Inequality: Labor market outcomes of the immigrant second generation in Germany” by Renee Reichl Luthra and ”A Relational Inequality Approach To First- and Second- Generation Immigrant Earnings in German Workplaces” by Silvia Maja Melzer, Donald Tomaskovic-Devey, Reinhard Schunk and Peter Jacobebbinghaus we are to examine whether the children of immigrants, i.e. second generation immigrants, fail or succeed in achieving labor market parity with their native born counterparts looking into factors such as wage differences and participation-rates in Germany, with an additional look into Canada by the use of ” The legacy of immigration: labor market performance and education in the second generation” by Derek Hum and Wayne Simpson.

Theory

The theory underpinning the research paper of Melzer et al, named Relational Inequality Theory (RIT) makes assertions that resources such as money and jobs are generated in organizations whereas some people are denied access to organizational resources through factors such as social exclusion and closure. The relational power of organizations tend to be associated with categorical distinctions such as race, gender and class ((Sv.uio.no, 2020). For example, because of their German education, second-generation immigrants should have lower or no earning penalties relative to native Germans. RIT further argues that institutions develop their own locally salient categorical distinctions. Based on this the authors put forward the hypothesis that a higher share of immigrants in a workplace correlates to a lower immigrant-native wage gap (token/contact hypothesis) to a certain point and a second hypothesis built upon the same principle but with the presence of a higher share of immigrant managers (managerial integration hypothesis) instead.

Our second paper by Renee Reichl Luthra builds upon assimilation theories developed in the US, mainly the concepts of context of reception and boundary crossing applied to the case of second generation labor market performance in Germany. All because her data allows for the comparison of two major origin groups; positively received, highly educated repatriated ethnic Germans and negatively received labor migrant guest workers (Reichl Luthra, 2010). The paper allows her to test hypotheses of heterogeneity of second generation labor market performance across origin groups and labor market outcomes.

The last article Hum and Simpson is based on previous research in Intergenerational Integration which is divided into two approaches. Early literature principally finds that second generation workers receive higher hourly wages and earning that native born workers due to factors such as motivation and hours worked. Newer literature suggest a gap closing of 60% from first generation immigrant but that early literature had a significantly exaggerated optimistic result. Thus Hum and Simpson wants to reconcile the evidence from these two literatures" by showing why evidence of persistent ethnic differentials in education or earnings across generations is not incompatible with evidence of parity, as a group, between second generation and other native born workers."

Method

Our article by Hum and Simpson with focus on the Canadian labor market start the processing of their data by estimating a model of wages, earnings and hours worked using modern econometric techniques to corroborate earlier US results. On the side of Germany, Melzer et al. applies a 2x2 design by crossing the data from first- and second generation immigrants with primary and secondary sectors, thus utilizing the same inequality mechanisms with respective generation. Distinction of primary and secondary labor market is higher-service workers and lower-level workers respectively. Since Luthra in her paper focuses on participation and employment, which are both dichotomous variables, she uses a probit regression approach meaning the dependent variable only can assume 2 values. This results is an accurate assessment as its official data is not open to interpretation or bias from the writer. Additionally she uses a traditional OLS regression on the occupational attainment data which of course can assume any value. All of these methods have similarities in relation to what they are looking for with the data. Approaches however differ slightly as Melzer et al. for example also make a comparison towards 1st generation whereas Luthra only towards the rest of the population but also employment statistic from immigrants of different background.

Data

Beginning with Luthra, she retrieved her data from Mikrozensus which is a national statistics bureau in Germany. Legit restrictions are made so as to strengthen the validity, such as exclude workers over 40 and younger than 27 as well as adjust to ensure comparability between 2nd generations and native Germans, but also restrict the sample to respondents from former West Germany. By doing all of this she decreases heterogeneity in parental time of migration and reduce biases in estimation arising from different school leaving rates. Um and Simpson retrieved their data using Canadian Survey of Labour and Income Dynamics to, after adjustments, have a sample of 1808 second generation and 10,716 native men, and 2032 second generation and 11,917 native women. The samples are decent for relative performance of groups which is the main point but fall short in analyzing specific groups due to a relatively small sample or the ethnic groups. The linked employer-employee data (LEE) is the source of the Melzer et al. data comprising of 5,097 employees in 97 large workplaces which is precise employee history composed by workplace administrative.

Result and Analysis

“The legacy of immigration: labor market performance and education in the second generation” by Derek Hum &Wayne Simpson:

By design of their model using modern econometric techniques they found that both men and women of second-generation immigrant roughly are about 10% above in terms of hourly wages compared to other native born, as can be seen in Appendix 1A. This even though the labor supply of either group differ by a small margin. The authors bring forward one explanation such as age composition since wages and earnings vary predictably over the life cycle. But perhaps an even more telling explanation is the fact that second generation men in this sample acquired 8% more schooling than native born counterparts, whilst 5% differed among the women to the benefit of the immigrants. Additional findings as Appendix 1B shows us that immigrants benefit of higher wages at every age for men that only completed high school whilst on university level shows a steady hourly wage for native born but a quick decrease for immigrants after the age of around 50.

“A relational Inequality Approach to First- and Second-Generation Immigrant Earnings in German Workplaces” by Melzer et al.

Their first hypothesis suggested a lower wage gap associated to higher concentration of immigrants in a workplace and when looking at Appendix 2A we can see that marginally growing increase in wage gap in terms of percent immigrants employed, compared to natives. This begins to take place on the primary market after a concentration of 37%. With proportions above 60% the second-generation earnings fall below first generation, but due to the confidence overlapping this is not statistically significant. Interesting is the secondary market where we can see a more concave pattern. With immigrants earning more than natives between 18-39% and peaking at a concentration of 31% (11,3% above natives). Even though the second-generation decrease the wage gap with higher concentration of immigrants they are rejecting their first hypothesis for one reason. The primary labor market find no significant wage differences which supports the token/contact hypothesis but the results of the secondary labor market showed an initially “correct” behavior up until an immigrant workforce of 31% followed by a decrease.

Additionally, no support where found in favor of their second hypothesis regarding managerial concentration and must thus me rejected as well. This missing effect in immigrant earnings by immigrant managers may very well reflect the low representation of immigrants in managerial jobs in all samples.

“Enduring Inequality: Labour market outcomes of the immigrant second generation in Germany” by Renee Reichl Luthra

Luthra’s focus was to investigate second generation immigrant in labor market in terms of actual participation rates. From table can we quickly see initial support for the hypothesis that ethnic differences are shown the greatest in employment. Among men for example, drastic ethnic differences in unemployment presents itself such that one in four Turkish man are unemployed, only one in 10 native German and one in eight ethnic German men. Inequality in unemployment in terms of ethnicity is high and follows the expected hierarchy from a context of reception. This however is difficult to objectively evaluate due to the samples are of a young age of the concerned demographic group. In contrast to the US, Luthra’s findings suggest though that the second generation in Germany faces barriers to employment, and surprisingly also the ethnic Germans with a probability of unemployment as high as 10 percentage points greater than native German men. She finally suggests that the reason behind this is the institutional structure of the German Labor market and with very much protected and unionized job thus diminishing turnover in employment.

Summary

Beginning with the case of Canada, the writers could not find any withstanding sign that would suggest barriers for second-generation immigrants whilst in the labor market. This holds even when correcting for selection biases arising from nonparticipation and therefor stands consistent with the earlier literature and results from United States but with fresh samples. Even though the elasticity of wage in terms of years in school are not calculated, the higher degree of hourly wage for both second immigration men and women probably are attributed to the fact that they in general spend more time in education.

The two cases of Germany differ quite substantially in what they are looking for, which is good in that it makes the central question of this essay more well-rounded. Melzer et al. investigated the sample who has penetrated the market whereas Luthra investigated the barriers and statistics for labor participation and employment. Melzer et al. found that the earnings of second-generation immigrants are much more relative to organizational characteristics with stands much in align to the Relational Inequality Theory underpinning this paper. Especially on the secondary market education level holds a central role in their collective status and wage, which works both ways around. The notion of token/contact hypothesis, that interpersonal contact diminish prejudice seems present in some context because of their cultural similarities as opposed to first generation immigrants presents itself to a certain point for the second-generation. Meaning the earning gap reduces up until a tipping point, after which ethnic competition reappear and widens the gap. The second paper by Renee Reichl Luthra found more suggesting discrimination in terms of entering the labor market with significant differences between immigrants and natives. The paper shows that reception impacts the second generation substantially, as for example Germany where Ethnic German men/women generally performed better than West European descendants who performed better than Turkish and

Yugoslavian people and so on. However actual discrimination does not appear to be a sole factor in this, and possibly even a minor one. As the study suggested a high unemployment of ethnic Germans among others, Luthra rather puts her focus onto the institutional structure of the German labor market and high degree of unionization and job protection.

Therefor we can make a conclusion that barriers exist even for second generation immigrants to a very low degree, and that without any significant systematic discrimination found in any of our three articles but general circumstantial parity issues.