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The Role of Migration in Unemployment: Search, Matching & Structural Differences

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Abstract

Search models have been used extensively to explain differences in employment rates and unemployment rate volatility, and are often used to compare the US and European labor markets in the post-war world. However, much of what we know about labor markets in developed economies ignores who is moving for what reasons, and is largely limited to within-country studies. In particular, treating Europe as one completely integrated labor market glosses over variation at the national level in both policies and outcomes. I build a theoretical model to follow workers' employment status and location, and utilize differences in labor market institutions to show that capturing these worker flows across borders is an important aspect of search that has been largely ignored. This sheds light on the considerations workers take when moving and highlights the role labor market structures play in equilibrium unemployment across countries. An application of the model shows that perhaps the most important factor in generating migration and differential unemployment rates under costless migration is in fact productivity differentials within the EU, not the lack of labor mobility as is often thought. I find that migration between European countries is not sufficient to equalize labor market conditions despite the legislative unification of many labor market characteristics.

1 Introduction

Despite decades of e orts from European Union (EU) legislative bodies, labor market conditions across member states remain disparate.[1] Di erences range from the role of unions and

with mobility in the US, more people move abroad for work every year. Almost twice as many (17%) anticipated working abroad in the future. Increasing migration over time makes understanding this process more important.

(Figure 2 here)

Most Europeans prefer to work abroad for long periods of time, and would rather live abroad than commute across borders for work. Fully 70% of ever-movers in the EU have moved more than once, with 17.5% choosing to move upwards of 4 times. Movement back and forth, as well as permanent moves are common among workers willing to move across borders for work. I will capture this exibility of location in the model below.

While workers move for a variety of reasons, respondents report that unemployment at home is the single most in uential factor in deciding to move abroad for work. Fully 28% of people would move regardless of how the expected wage abroad compared to expected wages at home, and only 3% required at least a matched salary to move abroad. The perception of the probability of nding a job abroad varies by country, and is strongly linked with moving intention, with those viewing the probability highest also having the most serious intentions to move as measured by preparations taken for such a move.

Sending and receiving countries are not uniformly distributed. Bonin et al. (2008) report that Cyprus, Malta, Romania, Bulgaria, Slovakia, and Belgium have the most out-migration into other EU countries with 2.6% to 13.3% of the sending country population living and working abroad in 2007/8.[3] The most popular destination countries from 2000 to 2009 were Germany, the United Kingdom, Spain, Austria, Italy, and the Netherlands due to expected wages, smaller language barriers and a higher perceived probability of nding a job according to the Eurobarometer survey.

In the theoretical model presented here I emphasize the role that even small di erences in productivity, job posting and maintenance costs to rms, unemployment bene ts, and workers' bargaining power play in determining variation in unemployment across countries. I will incorporate workers' willingness to move more than once, the role unemployment plays in encouraging a move, and the legislative similarities across countries. Using two competitive

[3]Based on a labor force survey conducted from 2007-2008 in the EU.

equilibrium cases and a planner's problem, I distinguish between two types of rm behavior, and the rst-best outcome to compare model predictions under the three characterizations as well as with data from the EU.

I nd that productivity, job posting costs, and worker's bargaining power di erentials can be more important in driving the di erences in labor market conditions than previous work has found.[4]

European models focusing primarily on within-country and between-country comparisons miss the millions of EU citizens moving across European borders each year.[5]

Focusing instead on segmented labor markets, as seen in Albrecht and Vroman (2002) and Blázquez and Jansen (2003) and others, can be helpful as an additional intermediate step between a truly single labor market and a model of multiple countries with migration without the complication that multiple markets entails. Stavrunova (2007), Gautier (2002) and Lazear (1990) analyze the impact of job heterogeneity on labor market outcomes through search externalities and unemployment rates within a single labor market. Lkhagvasuren (2012) uti-

Empirically, Borjas (1985), Card (1990), Borjas (2003), and Card et al. (2012) captures part of an on-going discussion on the impact of migrants on wages in the receiving countries,