

Comments on
“The Labor Market Impact of Immigration in
Western Germany in the 1990s”

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Framework and Results

- **Nested nested nested CES**
 - Nests on education, experience, nationality, vintage
- **IAB data**
 - Large samples, long time frame, not wholly representative
- **Find employment effects on new migrants on old migrants**
- **Relatively little effects on natives**

Empirical Specification (Employment)

$$\frac{\Delta M_{kjt-1}}{M_{kjt-1}} = D_k + D_j + D_t + \gamma \frac{\Delta M_{kjt-1}^{NEW}}{M_{kjt-1}} + u_{kjt}$$

where k indexes education level, j indexes potential experience, D are fixed effects, and M is migrant work hours, and $(1-\gamma)$ are the number of workers displaced by immigrants

Question: Why fixed effects in “first-difference” regression?

Results (Employment)

- In general, find that 10 new immigrants displace around 4 old immigrants.
- BUT... 10 new immigrants “displace” between 0 and -28 (!) natives (i.e. increase native employment)
- Can these be right? Magnitudes in both sets of results/directions seem implausible, especially in an annual-interval regression.
- Results for natives especially raise questions of endogeneity, even in the 2SLS regressions.
- West → East migration?
- We’ve known that biggest effects of new immigrants are on previous vintages of immigrants since Lalonde and Topel (1992).

Empirical Specification (Wages)

$$\log\left(\frac{w_{Mkjt}^{OLD}}{w_{Mkjt}^{NEW}}\right) = D_k + D_j + D_t - \frac{1}{\lambda} \log\left(\frac{M_{kjt}^{OLD}}{M_{kjt}^{NEW}}\right) + u_{kjt}$$

Where λ is the elasticity of substitution

Question: Why not run this regression in first differences (see Jaeger, 2000)?

Inference: Test directly the estimates of λ (e.g. delta method or bootstrapping).

Results (Wages)

- New immigrants and old immigrants are perfect substitutes
- Immigrants and natives are not perfect substitutes (in the sense that we can reject that $1/\lambda$ is equal to zero), but still have relatively large elasticities of substitution (e.g. between 16 and 28)
- Would we expect to see instantaneous effects (within one year) especially with wages?
- Additional robustness checks: 3 or longer year intervals

Overall

- Basic conclusions seem sensible, and in line with previous literature (maybe citing some of the pre-2004 literature would be good)
- Concerns, however
 - Point estimates in employment regressions seem implausible
 - Is a one-year time frame really right in the wage regressions?
 - If you do hypothesis tests on the elasticities of substitution directly, can you reject small values? Is there enough information in the data, given level of aggregation, to have precisely estimated infinities?