Discussion of Basso et al “Immigrants, Labour Market Dynamics and Adjustment in the Euro Area”

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Synopsis of Paper

- Regress employment on population
- Coefficient of unity implies proportionate reaction of group population to group employment changes
- Labour mobility between EU member states far lower than between US states...
- Shock absorber is lower for EU than for US.
Identification assumption

• Uses Bartik style instrument...

• \[ BARTIK\ IV = \sum_j \frac{E_{a,j,2006}}{E_{a,2006}} \ast E_{A,j,t} \]

• Take initial shares of each industry \( j \) in area \( A \) in 2006 and multiply by aggregate growth in sector \( J \)'s employment

• Does this really isolate demand changes?

• Imagine supply shock (e.g. Citizens of new member states acquire FoM rights)
  – Number of foreign born workers rises sharply
  – IV variable rises a little, because \( E_{A,j,T} \) does
  – Regression therefore records high responsiveness of migrant employment to small increase in labour demand
  – But this a supply shock not a demand shock!
Panel data considerations

• Paper uses standard OLS with country fixed effects. Two recent-ish panel data considerations could be incorporated

• **Common correlated Effects:** Errors might be correlated across cross-sectional units
  – Use CCE estimator of Pesaran and Smith: include time-specific averages of regressors and dependent variable: mop up common effects

• **Mean group estimator:** Coefficients may differ across cross-sectional groups. MG estimator runs separate regression for each group, and then averages up these: more efficient means of estimation
Interpreting results

• High labour mobility may be a shock absorber...
  – But depends crucially on what the counterfactual is
  – Does outmigration in the face of a negative demand shock cushion the blow for natives?
  – Or are labour markets segmented?

• Aggregate measures of labour mobility only tell us about “average” / all round labour mobility...
  – Cyclical: out migration in response to recession (people leave recession hit country)
  – Sectoral/secular: out migration because permanent shock (people leave “rust belt”)
  – Long term: out migration because can earn much higher income elsewhere (people leave in “brain drain” as wages higher elsewhere for same work)

• ...different types of migration might have different elasticities

• Labour mobility important criterion in traditional *Optimal Currency Area* framework but many modern economists don’t think this is a viable response to localised cyclical fluctuations.