

THE NATIVE AND IMMIGRANT POPULATION IN THE LABOUR MARKET

Siim Krusell

The article analyses the labour market positions of the native and immigrant population in Estonia, and the impact of the ongoing recession on these positions. The main aim is to determine which labour group – natives or immigrants – has suffered more due to the economic crisis.

Introduction

To ensure the stable and sustainable development of society, it is important that the differences between social groups are not too large. This also applies to the relationships and cleavages in the labour market, where the positions of people from different ethnic groups are different and related to their place of birth and origin, among other things.

Ethnic stratification has been thoroughly studied. As a rule, ethnic stratification means that the native population has higher positions and the immigrant population has lower positions in the labour market and in the society in general. These lower positions have several possible causes. For example, Esser (2004) claims that the lower competitive ability of the assets of immigrants is partially caused by the fact that they do not have sufficient skills (incl. language skills) and knowledge to successfully cope in the new environment. Many authors tend to conclude that the cause of stratification is discrimination, which can be both direct and indirect. Discrimination, in turn, leads to inefficiency in the labour market, social exclusion and inequality (Heath and Cheung 2007). The labour market positions of natives and immigrants in Estonia have been analysed, but not extensively, mainly for the lack of suitable data sources. However, it has been found that good education and Estonian language skills give immigrants a better position in the labour market; thus, higher education and fluency in Estonian have been an advantage. Still, on average, natives have better labour market positions than immigrants (Krusell 2009).

Performance in the labour market is usually studied and measured through the level of wages and risk of unemployment. The present article determines the average wages and unemployment rates of natives and immigrants, tries to identify possible reasons for differences in the indicators for either group, and analyses whether the reasons have changed during the economic crisis. Particular attention is paid to human capital (education, language skills, citizenship) and its effect on the labour market positions of natives and immigrants.

The labour market positions of immigrants based on existing studies

The immigrant population and its labour market performance have been studied by many authors. In most countries, the research data and the underlying theoretical approaches tend to emphasise the greater success of natives in the labour market. Several explanations have been offered for this. These authors have also described the conditions which lead to the development of labour market cleavages.

According to Becker (1964) and Mincer (1974), human capital (i.e. people's education and work experience) serves as the main basis of economic success, because enterprises are guided by economic rationality, and social class origin or ethnic background do not determine these human capital components (as cited in Heath and Cheung 2007). The reason for the worse labour market position of immigrants may also be the fact that they lack knowledge about the functioning of the labour market in the destination country and do not know what employers value the most (Chiswick 1978). The education acquired may not be sufficient in the new country of residence, if

the immigrants are not fluent in the native language or are not sufficiently familiar with the organisation of everyday life (Friedberg 2000, as cited in Demireva 2007).

Priore (1979) has described the concept of a dual labour market divided into a primary and a secondary market. The primary labour market offers stable jobs with better salary and career opportunities. In the secondary labour market, the working conditions, opportunities and salaries offered are worse than in the primary market. The jobs in the primary labour market are usually occupied by members of the majority group, who also have the power in the society.

In connection with the dual labour market theory, Portes et al (1985) described processes and mechanisms determining the nature of the labour market in minority enclaves, where the functioning of the labour market is based on the co-ethnicity of employers and employees. Living and working in an ethnic enclave diminishes the need for contacts with people outside the enclave and for learning the host country's language.

The immigrant population can also concentrate into certain occupations, forming so-called occupational niches. The minorities often hold jobs in low-paying occupations with low educational requirements (Wilson 1999).

Esser (2004) has studied the integration of immigrants into the host population in their new home country and has identified three different, yet interconnected dimensions. The first is overall integration with the society. This concerns the immigrants' performance in the labour market as well as trans-national networks. The second dimension is related to the professional or social structure, and manifests as professional and income inequality. The third dimension measures structural divisions in the society and possible hidden or visible conflicts (Esser 2004). Kalter (2003) argues that immigrants (or any ethnic group) originally have inherent capital, such as language or social capital, which is generally less competitive than the similar capital of natives. The effectiveness of this original capital depends largely on whether there is a separate ethnic community in the host country or not.

The existence of a large ethnic community may lead to a situation where the immigrants are more likely to use their original capital, rather than develop the human capital similar to natives. This tendency contributes to ethnic consolidation, ethnic closure and the emergence of ethnic economy. In these conditions, the immigrants do not acquire the knowledge and skills needed to manage in the host society, and this causes their poorer competitiveness compared to natives. According to a simplified approach, the main choice for immigrants is between assimilation or segmentation. The first option requires targeted investments and efforts to acquire the human capital necessary in the host country; the second means the strengthening of the existing ethnic capital (Esser 2004).

It has also been stated that such assimilation can vary a great deal, depending on the contextual and historical conditions (Kalter and Granato 2002). Calvo-Armengol and Jackson (2004) say that the differences between ethnic groups in a segregated labour market originate from the different structure of social networks. Thus, for example, the higher unemployment rate of ethnic minorities could be due to some internal network processes, such as limited flow of information about job opportunities or fewer job opportunities in the network.

According to the research of several European authors (Duvander 2001, Delander et al. 2005, Sainsbury 2006), the success of immigrants in the labour market depends on many different factors, the most important of them being the economic situation of the host country. In the conditions of recession, it is the immigrants rather than the natives who end up in the losing position, since the former are mostly engaged in uncertain forms of employment (temporary employment contracts, seasonal work) and low-paid elementary jobs that are the first to disappear during an economic slump.

According to Seguíno (2010), Europe's immigrants are likely to bear a disproportionately large part of the impact of the crisis. In the World Values Survey, 72% of the respondents believed that employers should prefer natives over immigrants when jobs are scarce (Seguíno 2010).

Formation of the immigrant population and its labour market positions in Estonia

Most of the immigrant population currently residing in Estonia arrived here after World War II. After the restoration of independence in 1991, immigration flows decreased significantly. The majority of the immigrant population in Estonia has a different ethnic background than the native population. In other words, most non-Estonians (mainly Russians, but also Byelorussians, Ukrainians, other small ethnic groups) belong to the immigrant population and the majority of Estonians belong to the native population. Therefore, the results are quite similar when we compare Estonians and non-Estonians (in relevant literature also referred to as 'Russians' or 'Russian speakers') or natives and immigrants. This means that the results of comparing Estonians' and non-Estonians' labour market outcomes can be used as a background for studying immigrants' labour market positions and for identifying the reasons for their situation.

The formation of the immigrant population in Estonia can be divided into two periods. The first lasted from 1944 until 1991 when Estonia regained its independence. The second period started with the restoration of independence. The whole first period was characterised by a relatively high intensity of immigration, which exceeded emigration.

The second period began with a reverse process: immigration decreased significantly and emigration started to exceed immigration. This is still the case today. In the Soviet era (and also after the restoration of independence), the immigrant population lived in relative linguistic and cultural isolation – this has continued with the second generation of immigrants (i.e. people who were born in Estonia, but whose parents were born in another country). The new legislation enacted after the restoration of independence – such as the Aliens Act, the Citizenship Act, the Language Act and other acts – meant that many former citizens of the Soviet Union suddenly had immigrant status. They had to choose whether to fulfil the requirements for naturalisation applied in most European countries, or choose the citizenship of another country (primarily countries of the former Soviet Union).

This changed situation can be described using the concept of dominant ethnic group (Kaufmann 2004). The theory got empirical support after the collapse of the Soviet Bloc when national states were restored. The Soviet authorities had often oppressed indigenous populations in favour of immigrants who were seen to back the Soviet regime, but when the national states were restored, the indigenous ethnic groups obtained relatively better positions than the immigrant ethnic groups. The historical and cultural discourse changed, and the distribution of power was reversed (Kaufmann 2004).

The labour market position of the immigrant population has not been a very popular subject of research in Estonia. Still, it has been shown, for example, that one fifth of immigrants have jobs that actually require a lower level of education. Half of the immigrants in employment have tertiary education^a, but it should be remembered that the immigrant population's age structure is dominated by middle-aged and elderly persons who mostly received their education in the 1970s and 1980s. The education (incl. tertiary education) acquired in those decades does not meet the demands of today's labour market, and therefore many well-educated immigrants must accept simple low-paid work which does not match their level of education (Luuk 2009).

The ethnic composition of the immigrant population in Estonia is quite homogeneous. According to the Estonian Labour Force Survey, in 2009, the immigrant population constituted 24.9% of the population aged 15–74, whereas the share of first generation immigrants (i.e. persons who themselves and whose parents were born abroad) was 13.7% and the share of second generation immigrants was 11.2%. 94% of the immigrant population in this age group were non-

^a Below upper secondary education – less than primary education, primary education, basic education, vocational education for youngsters without basic education. Upper secondary education – vocational training based on basic education, general secondary education, vocational secondary education based on basic education, professional secondary education based on basic education. Post-secondary non-tertiary education – vocational secondary education based on secondary education. Tertiary education – professional secondary education based on secondary education, higher education, Master's and Doctoral degree.

Estonians, who have also made up the majority of the immigrant population in previous decades. Thus, the ethnic composition of the immigrant population allows us to rely on the results of comparing Estonians and non-Estonians in the labour market when analysing the labour market positions of immigrants. During the Soviet era, the Estonian labour market became ethnically segregated, with distinct areas of activity dominated by Estonians or non-Estonians. In particular, non-Estonians were overrepresented in transport and industry, and Estonians in agriculture, culture and education (Kala 1992).

Ethnic segregation was also found in case of occupations: for example, most industry workers were non-Estonians, while agricultural workers and professionals were predominantly ethnic Estonians (Helemäe et al 2000). In the 1990s, ethnic segregation between economic sectors decreased, but segregation by occupational area increased (ibid.). The data of the Labour Force Survey show that in 2008–2010 there were still differences between the labour market positions of natives and immigrants, as there are more immigrants in blue-collar jobs and more natives in white-collar jobs. Additionally, Estonian language skills were very important and determined the type of occupations that immigrants had (Table 1, p. 80). The 2008 immigrant population survey conducted by Statistics Estonia showed that only 20% of immigrants used Estonian as the main language to communicate at their workplace.

If we disregard the de facto occupation of Estonia by the Soviet Union, the majority of those who migrated to Estonia during the Soviet era were internal migrants. Skeldon and King (2010) have studied the connections and possible differences between international and internal migration. Among other things, they pose this question: does it matter, conceptually, whether migration is internal or international, in terms of explaining the movement or predicting outcomes? This question is even more important when we must decide whether we should or could rely on the experience of developed countries and on established and widely discussed theories or results about the labour market positions of immigrants, when we try to predict the results in Estonia. In the current analysis, the author has – motivated primarily by the questions posed by Skeldon and King – decided not to consider the different formation of the immigrant population in Estonia, and has instead decided to take into account the similarities with other countries or the main reasons for the labour market outcomes in other countries.

If we were to predict the results of this analysis, it is likely that the labour market situation of the immigrant population in Estonia corresponds to an extent to the dual market theory and also to the occupational niche, ethnic economy and enclave theory. Both of these approaches describe the mechanism but also try to identify the reasons for the differences between natives and immigrants. Language skills, citizenship, good education acquired in the host country (human capital) – these are important factors that can improve the labour market performance of immigrants. In the relevant literature, immigrants are usually considered to have suffered bigger losses during the recession than natives.

Data and methods

The data source for this analysis is the Estonian Labour Force Survey (LFS), which provides an extensive overview of labour market indicators. Estonia and other countries who conduct the labour force survey use the methodology of the International Labour Organisation – this guarantees comparability between countries. The LFS is a sample survey, with data collected from individuals. In this article, the data for 2008 and 2010 are analysed. The size of the samples (over 10,000 native respondents and over 3,000 immigrant respondents) allows a fairly thorough comparison of the two groups. This article uses a specific, internationally recognised definition of 'immigrant population', which is also used in scientific publications.

The immigrant population includes all residents whose parents were born abroad. The immigrant population can be divided into the first and the second generation. First generation immigrants are those who themselves and whose parents were born abroad. Second generation immigrants are those who themselves were born in Estonia, but whose both parents were born abroad. The share of immigrants in the Estonian population is constantly decreasing. One of the reasons is

that the third generation of the immigrant population (i.e. persons who themselves and whose parents were born in Estonia) usually belongs to the native population. Secondly, the number of immigrants arriving in Estonia has fallen sharply since the restoration of independence.

The age distribution of the immigrant population is significantly different compared to the native population. Among the native population, the share of younger age groups is much higher than in the immigrant population. In the given period, the share of 15–24-year-olds in the age group 15–74 was 22% among the native population and just 6% among the immigrant population. At the same time, the share of the elderly was much larger among the immigrant population. The share of 25–49-year-olds in the age group 15–74 was 47% among natives and 40% among immigrants. The main reason for the different age distribution is that a large share of third generation immigrants are already part of the native population (Figure 1, p. 81).

To eliminate or diminish the impact of differences in age distribution, the age group 25–49 is used for analysis – that is, people in the prime working age in the labour market context. The dependent variables in this analysis are current employment status (unemployed / not unemployed) and a salary level indicator (net monthly wages). The independent variables analysed include age, sex, citizenship, Estonian language skills, current or previous job by occupation, level of education, and origin.

The chosen methods of analysis should offer a descriptive overall picture of the labour market positions of natives and immigrants, and of the factors influencing these positions (primarily wages and unemployment risk). Linear regression was used to analyse the impact of variables affecting wages, and logistic regression was used to analyse the variables influencing risk of unemployment. The article examines whether, and to what extent, salaries and unemployment probability are influenced by origin, sex, Estonian language skills, level of education, occupation, and age. It is also analysed whether the above-mentioned factors have a different impact on the salaries and unemployment risk of natives and immigrants

Results

Estonian language skills and level of education of natives and immigrants

Before analysing empirical data in the labour market context, it is necessary to give an overview of the profile of the native and immigrant population by level of education, citizenship status and Estonian language skills – these indicators reflect the essential part of human capital and therefore deserve the main attention. This overview will give a clear idea of the situation before the recession began and the implications of the fast economic downturn became evident.

Only a small portion of 25–49-year-old natives did not have Estonian citizenship or did not have proficiency in the Estonian language. Among the immigrant population, the situation was quite different: 70% (i.e. more than half) of 25–49-year-old immigrants were able to speak and write in Estonian, but less than a half had Estonian citizenship (Figure 2, p. 82). One explanation why the share of Estonian citizens among immigrants is so low is that citizenship candidates are required to demonstrate a specific level of fluency in Estonian and pass an exam. The second reason has more to do with practical considerations. Estonian citizenship allows a person to vote in parliamentary elections and work in public service. On the other hand, by taking Russian citizenship the immigrants can travel freely in the former Soviet Republics (CIS countries); and alien's passport holders can travel without a visa in the Schengen Area as well as in the CIS countries.

Different opportunities in the labour market are often caused by the different level of education of the persons in the reference groups. However, this is not the case when we compare natives and immigrants in Estonia. Most of the population aged 25–49 had upper secondary or post-secondary non-tertiary education, one third had tertiary education and only one tenth had below upper secondary education. In the comparison of natives and immigrants, the share of those with tertiary education was equal, but the share of those with below upper secondary education was higher among natives. The immigrant population is certainly not homogeneous and fluency in

Estonian was one of the most important variables to influence the probability of having higher education. Only 17% of the immigrants who did not have Estonian language skills had completed tertiary education, and 75% of this group had upper secondary or post-secondary non-tertiary education. It is important to emphasise that most of this 75% had chosen vocational education. At the same time, immigrants who were fluent in Estonian had even better education than the natives: more than 40% of them had acquired tertiary education and only 5% had below upper secondary education (Figure 3, p. 83).

Unemployment and employment indicators for immigrants and natives

To analyse labour market positions and performance, we should establish whether a person is employed, is looking for work or is not active in the labour market for some reason. In other words, it is important to determine the employment status of the economically active population or of the members of the groups being studied. In 2008, the main labour market indicators – unemployment and employment rate – still reflected the boom period of the economy. Unemployment rate was only 4.7% and the unemployment gap between immigrants and natives was significant but relatively low (3.2 percentage points). The employment gap between these two groups was even smaller, only 2.4 percentage points. 2009 was a year characterised by a fast rise in unemployment and a fall in the employment rate. The number of the unemployed was growing and the number of employed persons decreased regardless of origin, sex or level of education. In 2010 the indicators deteriorated further despite a recovery in the last quarter of the year. The average unemployment rate in 2010 was 15.4%. During the crisis, unemployment among immigrants increased significantly faster than among natives. In 2010, the unemployment gap between natives and immigrants was nearly 12 percentage points, while the employment gap rose to 7.4 percentage points (Figure 4, p. 84).

The fact that the unemployment gap between natives and immigrants has expanded does not help to answer which variables influence the probability of becoming unemployed. Using the regression model, it is possible to estimate whether origin causes these differences or whether the main reason lies in human capital resources or something else. In 2008, the risk of unemployment was influenced the most by previously acquired resources (education, Estonian language skills) and several other factors, such as previous or current job and sex. Origin also remained significant in the model and is thus an important variable that influences unemployment risk. It is important to note that in 2008 citizenship status had no significant impact on unemployment risk. Among males fluent in Estonian, natives had a smaller probability to become unemployed, but the most important factors reducing risk of unemployment in 2008 were level of education (higher education) and previous or current job (reference group: managers and professionals).

In 2010, the residents who had tertiary education, were fluent in Estonian, worked as managers or professionals and were natives had an advantage in terms of avoiding unemployment.

There are two main differences compared to 2008. The first is related to a significant change in the reference group and the second is related to a change in probability strength. In 2008 women were more likely to become unemployed than men, while in 2010 the situation was the opposite. The only variable with no statistical significance in 2008 was citizenship status, but in 2010 the residents with Estonian citizenship were in a better position than those without Estonian citizenship. In 2010, skilled workers and shop and market sales workers had fewer opportunities to avoid unemployment than managers and professionals. Also, tertiary education and Estonian language skills had a bigger role in avoiding unemployment (Table 2, p. 85).

The regression model with the variable 'origin' allows us to compare groups with different origin, but does not help to determine the changes that have occurred within a group. It is possible that those determinants that ensure a slightly better position have changed during the economic crisis. The results of the analysis show that in 2010 there were no longer any differences between the labour market opportunities of men and women. During the crisis, there were changes by occupational status, language skills, education and citizenship. Although the importance of Estonian language skills slightly increased, the biggest attention should be paid to unemployment

risk by occupational status. Those who worked as a manager or professional in 2010 had a much smaller probability of becoming unemployed than those with any other occupational status.

Wages of the immigrant and native population

In 2008 the average wages of immigrants constituted 83% of the average wages of natives, but this figure dropped to 76% in 2010.

Regression models were also implemented to analyse the variables that might influence wages. As in case of unemployment risk, 'origin' remained a significant variable in the model – in both 2008 and 2010, natives had better salary opportunities than immigrants. In addition, Table 3 (p. 86) shows that males, managers and professionals, well-educated natives and those with sufficient Estonian language skills and Estonian citizenship had better opportunities for higher wages.

In the model considering only immigrants, all the independent variables in the model were significant in both 2008 and 2010. As in the regression model with the 'origin' variable, the main winners were males, managers and professionals, people with tertiary education, people fluent in Estonian and people with Estonian citizenship. The impact of higher education was bigger in 2010 (Table 3, p. 86).

Conclusion

The results of the analysis show that, according to unemployment and salary indicators, the labour market positions of immigrants were worse than the natives' positions. It was also revealed that during the economic crisis the cleavages between natives and immigrants became even bigger. The impact of citizenship and Estonian language skills was also clear – these human capital resources reduced the risk of becoming unemployed, especially during the crisis. Higher education gave a clear advantage in the labour market among the immigrant population, especially in comparison with immigrants with other levels of education, but the labour market indicators were still better for natives with higher education. The main focus of the analysis was how the components of human capital influence the labour market figures for immigrants. But as an additional variable, 'current job' had a much greater influence on the immigrants' risk of unemployment and salary opportunities. Therefore, the deterioration of the immigrants' situation during the economic crisis could be explained by the fact that before the crisis immigrants (rather than natives) held most of the blue-collar jobs in the industries that suffered the most in the recession (e.g. manufacturing, construction, transport). Being employed in the "wrong" economic sector or having the "wrong" job before the crisis is probably not the reason for a higher unemployment risk, but rather the consequence – for example, lack of important human capital (Estonian language skills) made it very difficult for immigrants to find a better job and advance to a position with a smaller risk of unemployment. However, we cannot say that the differences between the labour market opportunities of natives and immigrants are caused by direct discrimination. Rather, it has been a combination of several reasons, such as the need to learn new skills after the collapse of the Soviet Union as well as the fact that some duality in the labour market and ethnic economy are characteristic of the economic environment.