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# Explaining the labor market gaps between immigrants and natives in the OECD

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**Abstract**

In most OECD-countries immigrants have lower employment and higher unemployment than natives. The gap in labor market outcomes is larger in countries with more immigrant friendly attitudes. This paper suggests that in countries where labor market institutions are less competitive, native workers face less direct wage competition from immigration. As a result, the general population is more immigrant-friendly and income inequality is dampened. On the other hand, employment among immigrants suffers, thwarting the potential economic benefits from immigration. Empirical analysis of 19–28 OECD countries using Bayesian model averaging to cope with the model selection problem, provide support for the relevance of labor market institutions against other plausible explanations of immigrant labor market outcomes. In particular, the unemployment gap is bigger in countries where collective bargaining agreements cover a larger share of the labor market.

**Keywords**: Labor market segregation; immigration; inequality.

## Introduction

In many developed countries, immigrants have higher unemployment rates and lower employment rates than natives. The situation in 28 OECD countries in 2010 is illustrated in table 1. Several papers aim to explain these labor market gaps using individual data. The approach has benefits, but the number of countries compared is limited: 3 in Algan, et al. (2010), 8 in both Koopmans (2010) and Büchel and Frick (2005), 13 in Fleischmann and Dronkers (2010) and 14 in Kogan (2006). All studies suggest that institutions matter and there are several indications that native/immigrant labor market gaps are smaller in liberal welfare states with flexible labor markets than in universal or social democratic welfare states. For example, Kogan (2006) concludes that "Among men immigrants' employment disadvantages are found to be lower in liberal welfare states marked by their flexible labor markets" (p. 697). Koopmans (2010) conclude that "Countries that either had more restrictive or assimilationist integration policies (Germany, Austria, Switzerland, France) or a relatively lean welfare state (the United Kingdom) have achieved better integration" (p. 1). These conclusions, however, rest on

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comparisons of relatively few countries, and there is little agreement on exactly which institutions or policies that matter.

**Table 1**. Labour market outcomes for 28 OECD-countries.[1]

| Country | Employment | | Unemployment | |
|---|---|---|---|---|
| | Foreigners | Natives | Foreigners | Natives |
| Australia | 67.9 | 73.9 | 6.1 | 5.3 |
| Austria | 65.5 | 73 | 8.9 | 3.8 |
| Belgium | 52.6 | 63.4 | 16.7 | 6.8 |
| Canada | 68.6 | 72.4 | 10.1 | 7.8 |
| Czech Republic | 66.9 | 65.1 | 8.4 | 7 |
| Denmark | 65.6 | 75.6 | 11.8 | 6.3 |
| Finland | 62.1 | 68.7 | 18.7 | 15.2 |
| France | 57.8 | 64.9 | 16.3 | 8.1 |
| Germany | 63.8 | 72.5 | 12.2 | 6.6 |
| Greece | 65 | 59.8 | 14.1 | 10.8 |
| Hungary | 65.5 | 55.2 | 8.3 | 10.7 |
| Iceland | 75.9 | 78.5 | 12.6 | 7.1 |
| Ireland | 60.8 | 60.9 | 16.1 | 12.1 |
| Israel | 64.2 | 58 | 6.6 | 7.5 |
| Italy | 62.3 | 56.6 | 11.2 | 7.8 |
| Netherlands | 65.5 | 77.4 | 7.7 | 3.4 |
| New Zealand | 68.5 | 74.1 | 7.3 | 6.3 |
| Norway | 66.6 | 76.4 | 9.9 | 2.9 |
| Poland | 47.9 | 59.3 | 11.5 | 9 |
| Portugal | 69.5 | 65.6 | 14 | 10.4 |
| Slovakia | 58.8 | 59.5 | 12.5 | 13.3 |
| Slovenia | 65.6 | 67 | 8.5 | 6.5 |
| Spain | 57.4 | 59.5 | 28.1 | 17 |
| Sweden | 61.7 | 74.7 | 15.8 | 7.2 |
| Switzerland | 75.1 | 80.3 | 7.4 | 3.3 |
| Turkey | 48.4 | 45.2 | 13.9 | 11.8 |
| UK | 66.1 | 70.3 | 8.9 | 7.6 |
| USA | 67.3 | 65.2 | 9.9 | 10 |

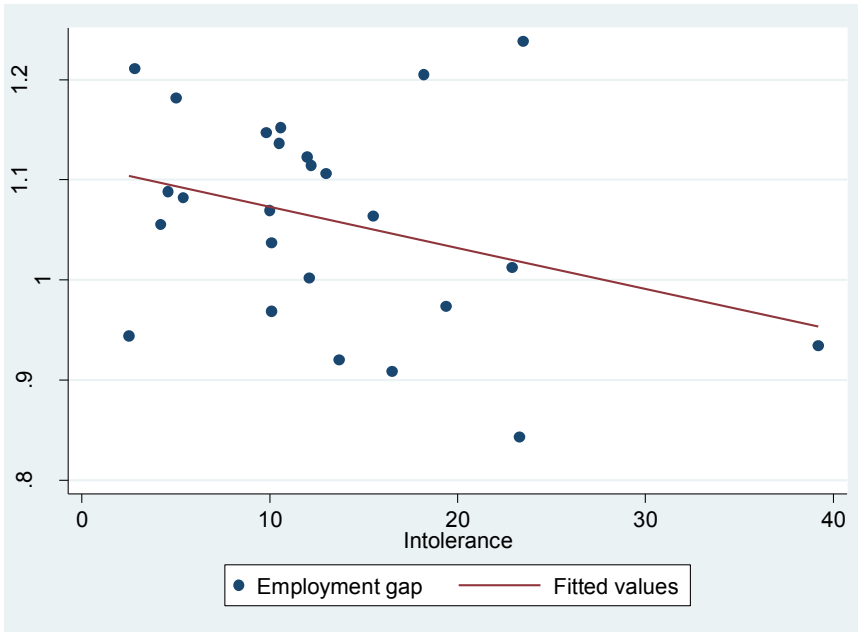
A fact not noted in previous studies is that labor market gaps between immigrants and natives tend to be larger in countries where the population express more immigrant friendly attitudes. The pattern is illustrated in Figure 1, which plot the employment rate for natives over the employment rate for immigrants in OECD

[1] Source: OECD. Data are for 2010 or closest year available. The countries analysed are all OECD countries for which data are available.

countries against the share of the population who state that they would rather not have foreigners as neighbours (from the World Values Survey).[2]

This paper investigates a possible explanation of the variation in labor market gaps across countries, that also explains why gaps are bigger in countries with more friendly attitudes towards immigration. The idea is that countries differ in the extent to which they allow immigrants to compete for jobs with natives by offering to work for lower wages, at less convenient hours or by competing with natives in other dimensions. When institutions are more competitive, immigrants will be more successful in findings jobs, but natives will also be less protected from competition from immigrants and thus tolerance towards immigrants may be lower. In countries with more protective institutions, the opposite is true.

**Figure 1**. The employment gap and intolerance towards foreigners (see text for definitions)




To maximize the number of country-level factors that are examined, the study does not use microdata. To cope with a small sample and a high number of potential explanatory variables, results are obtained using Bayesian model averaging which limits the freedom of the researcher to present only a few regressions that 'look nice'. Instead, all possible model specifications (given the set of explanatory variables) are run, and the results are based on averages over all estimated models.

[2] The pattern can be reproduced using unemployment rates rather than employment rates, and also using other measures of immigrant friendly attitudes.

The analysis (described further below) suggests that the share of the labor market covered by collective bargaining agreements is robustly and significantly positively correlated with immigrant unemployment (see table 3 and 4). For employment, results are less robust but suggest that immigrant employment is lower where collective bargaining agreements are more frequent, intolerance is higher and where social safety nets are more generous. The analysis thus suggests that previous studies were right in suggesting that labor market institutions matter, and it highlights one such institution – collective bargaining agreements – as particularly important.

**Protective versus competitive labor market institutions**

Borjas (1995) provides a useful framework for analyzing the economic and distributional impact of immigration. In the simplest scenario, increased labor supply from immigrants lead to lower wages, and thus capital owners will see higher profits whereas workers have selfish reasons to oppose immigration. In versions with different types of labor, high-skilled workers benefit from low-skill immigration, whereas low-skilled natives face wage competition.

A factor not fully explored in previous studies is that there are substantial differences between countries in the extent to which immigrants (regardless of skill level) are allowed to compete for jobs with natives, for example by offering to work for lower wages. For example, if a large part of the labor market is covered by collective bargaining agreements, the insider-outsider theory (Lindbeck and Snower, 1988) suggest that unions will have more power to block competition from immigrants, resulting in immigrant unemployment. Protective labor market institutions thus mean that natives are protected against competition, and immigrants are more likely to end up unemployed, resulting in a smaller immigration surplus as defined by Borjas (1995). Because protective institutions mean more job security for natives, they are less likely to perceive immigrants as a threat. Lacking jobs, however, immigrants are more likely to be a strain on public finances, especially in the presence of generous social safety nets. Case studies confirm that immigration is a net cost for public finances in countries with generous welfare states such as Denmark (Nannestad, 2004) and Sweden (Storesletten, 2003), but not in Australia (Borooah and Mangan, 2007).

Competitive institutions expose native workers to direct competition from immigrants, suggesting that tolerance towards immigration will be lower. Benefits from immigration are dispersed among capital owners (due to lower costs) and among consumers nationwide if lower costs lead to lower prices (as demonstrated empirically in the US by Cortes, 2008). Countries with more competitive institutions are also likely to have higher income inequality as a result of immigrants being allowed to compete for jobs by offering to work for lower wages. The importance of labor market institutions does not rule out other explanations, and the relative merit of different explanations of immigrant labor market outcomes must be examined empirically.

**Data and empirical strategy**

To test the explanatory value of competitive versus protective labor market institutions against other factors, cross-country regressions are run with labor market outcomes measured 2010 and explanatory variables measured 2005 (or closest year with available data). **Unemployment** is the number of unemployed divided by the labor force. The **employment rate** is the employed divided by the adult population. Factors that keep immigrants away from the labor force are likely to affect the employment rate. Factors that prevent immigrants from having a job once they are in the labor force are likely to affect unemployment. The independent variables include indicators of protective labor market institutions and a range of other potential explanations. Unless otherwise states, data are from OECD (available at www.oecd-ilibrary.org ). The variables are described in the following.

As a first indicator of protective labor market institutions, we use **employment protection laws (EPL).** As discussed by Skedinger (2010), such rules may induce employers to go for safe options when hiring, at the expense of marginal groups such as young and immigrants. The OECD index on employment protection (version 3, updated 2013) ranges from 0 to 6, with higher values indicating stricter laws. Average values for fixed and temporary contracts are used. As a second indicator of competitive labor market institutions, the share of the labor market covered by **collective bargaining agreements** is used**.**

The **social safety net level** is measured relative to the average full-time wage in each country using the OECD Benefits and Wages database. The calculation uses the average for two types of households (uneligible for unemployment benefits): A single person with no income and no children, and a household with two adults without income and two children. Welfare state size in general is measured using **social expenditure as a share of GDP**. Political efforts to improve the situation for immigrants are captured by two policy indices. The **Multiculturalism Policy Index** (MCP) quantifies the recognition to cultural practices of immigrant groups (see further Wright and Bloemraad (2012) and ranges from 0 to 7, with higher values indicating stronger multiculturalism. The **Migrant integration policy index** (Mipex) which ranges from 0 to 100 is based on laws, policies and research to capture the quality of integration and anti-discrimination policies.[3] The measure of **intolerance** (used in Figure 1) is the share stating in the World Values Survey that they prefer not to have foreigners as neighbors. **The education of immigrants** is captured using the share of immigrants with at least tertiary (or only primary) education. Finally, some might argue that labor market segregation is a result of having too many immigrants – or that demand for immigrant labor is higher when there are more immigrants in the population, as observed by Fleischmann and Dronkers, 2010. To capture the volume of different types of immigration, the **total number of asylum**

[3] The indices are available at www.mipex.eu and www.queensu.ca/mcp/ .

**seekers** 2000–2009 divided by population size, and the **share of immigrants in the population,** are included. Descriptive statistics are shown in Table 2.

**Table 2**. Variables and descriptive statistics

| Variable | N | Mean | Sd | Explanation |
|---|---|---|---|---|
| Employment (immigrants) | 28 | 63.7 | 6.5 | % of population |
| Employment (natives) | 28 | 66.9 | 8.5 | % of population |
| Unemployment (immigrants) | 28 | 11.9 | 4.7 | % of labor force |
| Unemployment (natives) | 28 | 8.3 | 3.5 | % of labor force |
| Labor market gap (empl.) | 28 | 1.1 | 0.1 | Employment rate for natives over employment rate for immigrants. |
| Labort market gap (unempl.) | 28 | 1.6 | 0.6 | Unemployment rate for immigrants over unemployment rate for natives. |
| Employment protection laws (EPL) | 28 | 2.1 | 0.8 | Strictness of employment protection legislation. index 0-6. Average for fixed and temporary contracts |
| Coverage of collective bargaining agreements | 28 | 62.5 | 26.6 | Coverage rate of collective bargaining agreements. |
| Relative safety net level | 27 | 34.8 | 13.7 | Disposable income for households with no earnings relative to average wage in. |
| Social expenditure | 28 | 21.2 | 4.9 | Social expenditure (as defined by the OECD) as a share of GDP |
| Intolerance of foreigners | 25 | 13.1 | 8.2 | World values survey share who prefers not to have immigrant neighbors. |
| Multiculturalism Policy Index (MCP) | 20 | 3.3 | 2.1 | Multiculturalism Policy Index, http://www.queensu.ca/mcp/ |
| Mipex | 24 | 57.8 | 13.1 | Migrant integration policy index (www.mipex.eu) |
| Immigrants with high education | 22 | 25.3 | 10.0 | Share of immigrant population with tertiary education (2005). |
| Immigrants with low education | 22 | 36.7 | 11.8 | Share of immigrant population with primary education or less (2005). |
| Recent asylum seekers per capita | 28 | 9.3 | 8.6 | Asylum applications 2000-2009 per capita |
| Immigrant share | 25 | 10.3 | 6.5 | Share of population born in another country 2005. |

## Empirical analysis

Because there are 11 explanatory variables that are potentially correlated with labor market outcomes for immigrants, there are $2^{11}$=2048 possible regressions to run. Typically, a researcher would run some of all possible regressions and present the results of a few. This paper instead uses Bayesian model averaging, which runs all possible models and calculates coefficients on the explanatory variables based on a weighted average using weights derived from the statistical rule called Bayes' theorem. The approach generates posterior inclusion probabilities, which can be interpreted as the probability that a certain variable belongs in the model, based on the extent to which it helps to explain the variation in the data.

This paper uses the stata implementation of the Bayesian model averaging estimator introduced by Magnus, Powell and Prüfer (2010) that allows two types of explanatory variables: So-called focus regressors are explanatory variables that belong in the model with certainty. A second set of auxiliary regressors may or may not belong in the model. The estimator is useful because we can use the (un)employment of immigrants as dependent variable and include the (un)employment of natives as a focus regressor, capturing the effect of anything that improves the functioning of the labor market in general. For the remaining 11 variables we are uncertain about their explanatory value, and by including them as auxiliary regressors, the algorithm will inform us about robust patterns in the data.

Some explanatory variables are available only for a limited set of countries, but all 11 potential explanations are available for 19 countries. After running the algorithm for all 11 variables, the variables that cause binding data restrictions are removed, and the algorithm is applied to a larger sample. The procedure is repeated until the algorithm is applied to at least 27 countries. Before running any regressions, all 11 possible explanations are considered equally likely to belong in the model. A variable is considered a robust explanation of immigrant (un)employment if it increases its inclusion probability according to the Bayesian algorithm in all instances where the variable is included. Simply put, the algorithm tells us what variables do a good job in explaining the cross-country variation observed in the data.

**Results**

Table 3 summarizes the results of applying Bayesian model averaging to all 11 potential explanations of immigrant unemployment, in addition to native unemployment and a constant term. Three variables do a reasonably good job explaining the data: Collective bargaining, employment protection laws and asylum seekers per capita. Among these, collective bargaining is most likely to belong in the model, with a posterior inclusion probability of 0.71.

Excluding the Multiculturalism Policy Index (MPC) increases the sample to 21 countries but changes very little.[4] Excluding also immigrant education and Mipex (none of which is likely to belong in the model), allows a sample of 25 countries and 7 potential explanatory variables, analyzed as model 2 in table 1. Collective bargaining now has a posterior inclusion probability of 0.97, which means that it almost certainly belongs in the model. It is also the only variable where the one-standard error confidence interval is entirely on the positive side.

Excluding intolerance and immigrant share and in a second step social safety net level, allows collective bargaining to compete with EPL, social expenditures and asylum seekers per capita in the full sample of 28 countries. The results are clear:

[4] BMA-output for sample sizes not shown are available from the author.

The posterieror inclusion probability for collective bargaining is 0.96, with the others at 0.33 or less.

**Table 3.** Bayesian model averaging for immigrant unemployment. (Constant and native unemployment always included).

| Model 1 (11 auxiliary variables, 19 countries) | | | Prior inclusion probability: 0,09 | | | |
|---|---|---|---|---|---|---|
| *Always included* | *Coefficient* | *Std error* | *t-value* | *Posterior incl. prob.* | *One std-error band* | |
| Constant | -4.672 | 4.723 | -0.99 | 1 | -9.39 | 0.05 |
| Native unemp. | 1.133 | 0.158 | 7.19 | 1 | 0.98 | 1.29 |
| *Auxiliary regressors* | | | | | | |
| **Collective bargaining** | 0.062 | 0.046 | 1.34 | 0.71 | 0.02 | 0.11 |
| **Emp. protection laws (EPL)** | 0.948 | 1.305 | 0.73 | 0.43 | -0.36 | 2.25 |
| **Asylum seekers per capita** | 0.040 | 0.074 | 0.55 | 0.31 | -0.03 | 0.11 |
| Immigrant share | 0.026 | 0.077 | 0.33 | 0.18 | -0.05 | 0.10 |
| Immigrant w high education | 0,016 | 0.049 | 0.33 | 0.18 | -0.03 | 0.07 |
| Social safety net level | 0.007 | 0.025 | 0.27 | 0.16 | -0.02 | 0.03 |
| Social expenditure | 0.032 | 0.109 | 0.29 | 0.16 | -0.08 | 0.14 |
| Integration policy (Mipex) | 0.005 | 0.026 | 0.2 | 0.12 | -0.02 | 0.03 |
| Immigrants w low eduation | -0.006 | 0.032 | -0.18 | 0.12 | -0.04 | 0.03 |
| Multiculturalism Policy (MCP) | -0,010 | 0.157 | -0.06 | 0.11 | -0.17 | 0.15 |
| Intolerance | 0.000 | 0.039 | 0 | 0.09 | -0.04 | 0.04 |

| Model 2 (7 auxiliary variables, 25 countries) | | | Prior inclusion probability: 0,14 | | | |
|---|---|---|---|---|---|---|
| *Always included* | *Coefficient* | *Std error* | *t-value* | *Posterior incl. prob.* | *One std-error band* | |
| Constant | -3.566 | 3.194 | -1.12 | 1 | -6.76 | -0.37 |
| Native unemployment | 1.047 | 0.140 | 7.46 | 1 | 0.91 | 1.19 |
| *Auxiliary regressors* | | | | | | |
| **Collective bargaining** | **0.090** | **0.026** | **3.44** | **0.97** | **0.06** | **0.12** |
| **Immigrant share** | **0.056** | **0.092** | **0.61** | **0.38** | **-0.04** | **0.15** |
| **Emp. protection laws (EPL)** | **0.361** | **0.763** | **0.47** | **0.29** | **-0.40** | **1.12** |
| Social safety net level | 0.005 | 0.019 | 0.26 | 0.17 | -0.01 | 0.02 |
| Intolerance | -0.008 | 0.042 | -0.19 | 0.17 | -0.05 | 0.03 |
| Asylum seekers per capita | 0.007 | 0.034 | 0.22 | 0.16 | -0.03 | 0.04 |
| Social expenditure | 0.004 | 0.067 | 0.06 | 0.14 | -0.06 | 0.07 |

Table 4 shows two models that repeat the analysis for employment. In the 19 country sample, collective bargaining reaches 92 percent inclusion probability. Multiculturalism policies and better educated immigrants unexpectedly associate with *lower* immigrant employment. The negative sign on intolerance is the expected one, suggesting that xenophobic attitudes are a problem for immigrant employment, confirming the suspicion that the correlation in Figure 1 is spurious.

Excluding multiculturalism poolicy (MCP) increases sample size to 21 countries and actually lowers the posterior inclusion probability for collective bargaining to 0.28, while increasing that of social safety net level and social expenditrure to 0.40 and 0.41 respectively. Excluding also immigrant education and Mipex increases sample

size to 25 countries (model 4), with collective bargaining, social safety net level and intolerance being the three variables that more than double their inclusion probability. Increasing the sample beyond 25 countries would require excluding Intolerance, which is problematic when there are signs that it belongs in the model. Overall, the model explaining immigrant employment is less robust than the model explaining immigrant unemployment, in the sense that results vary more depending on sample size. Collective bargaining and social safety net level, however, always have the expected sign, in contrast to the immigrant education variables, multiculturalism policies and integration policies.

**Table 4.** Bayesian model averaging for immigrant employment.
(Always included: constant, Native employment).

| Model 3 (11 auxiliary variables, 19 countries) | | | Prior inclusion probability: | | | 0.09 |
|---|---|---|---|---|---|---|
| *Always included* | *Coefficient* | *Std error* | *t-value* | *Posterior incl. prob.* | *One std-error band* | |
| Constant | 47.334 | 10.947 | 4.32 | 1 | 36.39 | 58,28 |
| Native employment | 0.454 | 0.129 | 3.52 | 1 | 0.32 | 0,58 |
| *Auxiliary regressors* | | | | | | |
| **Collective bargaining** | -0,130 | 0.056 | -2.31 | **0.92** | -0.19 | -0.07 |
| **Immigrants w high education** | -0,082 | 0.116 | -0.71 | **0.42** | -0.20 | 0.03 |
| **Multiculturalism Policy (MCP)** | -0,185 | 0.364 | -0.51 | **0.28** | -0.55 | 0.18 |
| **Social safety net level** | -0,021 | 0.050 | -0.42 | **0.23** | -0.07 | 0.03 |
| **Intolerance** | -0.060 | 0.145 | -0.41 | **0.22** | -0.21 | 0.09 |
| Social expenditure | -0.064 | 0.183 | -0.35 | 0.18 | -0.25 | 0,12 |
| EPL | 0.258 | 0.920 | 0.28 | 0.16 | -0.66 | 1,18 |
| Integration policy (Mipex) | -0,009 | 0.037 | -0.25 | 0.14 | -0.05 | 0.03 |
| Immigrants w low education | 0,004 | 0.040 | 0.11 | 0.11 | -0.04 | 0.04 |
| Immigrant share | -0.008 | 0.058 | -0.13 | 0.1 | -0.07 | 0.05 |
| Asylum seekers per capita | -0,002 | 0.033 | -0.05 | 0.09 | -0.03 | 0.03 |

| Model 4 (7 auxiliary variables, 25 countries) | | | Prior inclusion probability | | | 0.14 |
|---|---|---|---|---|---|---|
| *Always included* | *Coefficient* | *Std error* | *t-value* | *Posterior incl. prob.* | *One std-error band* | |
| Constant | 36.856 | 14.651 | 2.52 | 1 | 22.21 | 51.51 |
| Native employment | 0.496 | 0.203 | 2.45 | 1 | 0.29 | 0.70 |
| *Auxiliary regressors* | | | | | | |
| **Collective bargaining** | -0,040 | 0.050 | -0.8 | **0.49** | -0.09 | 0.01 |
| **Social safety net level** | -0,050 | 0.082 | -0.61 | **0.37** | -0.13 | 0.03 |
| **Intolerance** | -0.113 | 0.184 | -0.61 | **0.37** | -0.30 | 0.07 |
| EPL | -0.247 | 1.011 | -0.24 | 0.2 | -1.26 | 0.76 |
| Social expenditure | -0.038 | 0.148 | -0.25 | 0.2 | -0.19 | 0.11 |
| Asylum seekers per capita | -0,011 | 0.065 | -0.17 | 0.16 | -0.08 | 0.05 |
| Immigrant share | 0.010 | 0.088 | 0.12 | 0.14 | -0.08 | 0.10 |

Finally, once the Bayesian algorithm has indicated which variables are robust, an ordinary linear model can be run to explain cross-country variation in the dependent variable. Because collective bargaining is by far the most robust

variable, we are left with a simple yet surprisingly powerful relationship that explains immigrant unemployment in OECD-countries:

$$Immig.ue. = 1.04 \underbrace{Nat.ue.}_{\substack{t=7.66 \\ p=0.000}} + 0.09 \underbrace{Collective\ bargaining}_{\substack{t=4.91 \\ p=0.000}} - 2.1$$

*Adj. R2 = 0.73. F(2,25) = 37.2.*

Using only native unemployment and the coverage of collective bargaining agreements, 73 percent of the variation in immigrant unemployment among OECD-countries is explained.

As noted, the pattern for employment is more sensitive to the countries included and explains less variation. The implied model for N=25 is as follows:

$$Immig.empl. =$$

$$0.46 \underbrace{Nat.emp.}_{\substack{t=2.54 \\ p=0.02}} - 0.09 \underbrace{Collective\ bargaining}_{\substack{t=-2.61 \\ p=0.017}} - 0.12 \underbrace{Social\ safetynet}_{\substack{t=-1.6 \\ p=0.12}}$$
$$- 0.3 \underbrace{Intolerance}_{\substack{t=-1.84 \\ p=0.08}} + 46$$

*Adj R2 = 0.59. F(4, 20) = 9.47.*

**Concluding discussion**

Migration is rapidly becoming one of the most debated issues of our time. As a recent example, Bernhard and Leblang (2016) argues that the prospect of a massive inflow of migrants from Southern Europe into Germany, was a deciding factor in the German government's decision to support a Greek bailout. Apparently the possibility of a massive migration inflow was seen as something highly problematic for Germany. The labor market gaps analyzed in the present paper are likely to contribute to this perception.

To explain the pattern that labor market gaps between immigrants and natives are bigger in countries with higher tolerance towards foreigners, this paper suggested that labor market institutions matter. Where labor markets are more competitive, immigrants are allowed to compete for jobs in several ways, including by changing the wage structure, and therefore immigrants are perceived as more of a threat by natives. The tendency is reinforced if the social safety net is less generous, because the safety net dampens the willingness of migrants to compete for jobs by accepting less attractive jobs. Another mechanism is that social safety nets may make natives less worried about losing their jobs.

Quantitative analysis of a cross section of OECD countries support the suggested explanation and reveals a strong association between collective bargaining agreements and immigrant unemployment. Controlling for the native

unemployment level, one standard deviation higher coverage of collective bargaining agreements associates with 0.5 standard deviation higher immigrant unemployment (based on model 2). Other plausible explanations of immigrant labor market outcomes are found to matter less or not at all. For example, the two policy indexes of multiculturalism and integration policies do not correlate with better labor market outcomes for immigrants. If anything, multiculturalism policies are associated with lower immigrant employment (model 3).

The theory and the results presented here are interesting in relation to the findings in Boräng (2015), that countries with more generous welfare state institutions admit more forced migrants. Boräng suggests the explanation that welfare state institutions promote large-scale solidarity, but the present paper suggests the alternative explanation that political support for admitting forced migrants is larger in countries where natives are protected from low-wage competition through collective bargaining agreements and social safety nets.

Finally, it is worth noting that both collective bargaining agreements and social safety nets tend to lower income inequality (se e.g. Bradley, et al., 2003). In particular, Kahn (2000) studies 15 OECD-countries from 1985 to 1994, and show that collective bargaining lead to higher relative pay but lower relative employment for less-skilled men (with similar but weaker effects for women). These findings, together with the results presented here, suggest that policy makers face a difficult trade-off: The goal of providing immigrants with labor market opportunities may be difficult to combine with the goal of fostering tolerance towards foreigners and also with the goal of minimizing income inequality.

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