

Unequal pay or unequal employment? What drives the Self-Selection of Internal Migrants in Germany?*

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Abstract

This paper examines the determinants of internal migration in a context where wages tend to be rather inflexible at a regional scale so that regional labour demand shocks have a prolonged impact on employment rates. Regional income differentials then reflect both regional pay and employment differentials. In such a context, migrants tend to move to regions that best reward their skills in terms of both of these dimensions. As an extension to the Borjas framework, the paper thus hypothesizes that regions with a low employment inequality should attract more unskilled workers compared to regions with unequal employment chances. By estimating a migration model for gross labor flows between 27 German regions, we find evidence in favor of this hypothesis. More precisely, we identify an asymmetric reaction in that skilled workers are only affected by wage inequality whereas unskilled workers only respond to employment inequality. A higher employment inequality in eastern as compared to western Germany may thus be the missing link to explain why East-West migrants tend to be rather unskilled.

Keywords: internal migration, self-selection, employment chances, Borjas model

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