

Dr. Michael Fertig  
RWI Essen

## **Labor Market Performance of Immigrants in Germany Revisited: The Importance of Omitted Variable and Attrition Bias**

Abstract:

We use longitudinal data for 21 years to investigate the labor market performance in terms of wages and unemployment of immigrants relative to comparable German natives. In this endeavor, we distinguish between four different foreign-born immigrant cohorts and ethnic Germans to control for the possibility of a change in 'quality' among immigrants. Both pooled and fixed-effects panel data specifications are considered, the latter to control for unobserved heterogeneity. Furthermore, we account for selection bias caused by panel attrition. Specifically, the decision to participate in the interview by both foreigners and German natives and the decision to stay in Germany by foreigners only. To this end, selectivity correction terms are estimated from uni- and bivariate reduced form probit models.

In general, we find evidence for the assimilation hypothesis only for ethnic Germans and the youngest first generation cohort with respect to earnings. By contrast, we find a convex assimilation profile in unemployment probabilities only for ethnic Germans. These results are robust along a variety of model specifications and sample definitions. Correcting for selection bias in the earnings equation decreases initial disadvantages of all foreigner subgroups, but also lowers the speed of assimilation.