



Migration and Happiness Topical Research at IZA

How does the decision to migrate affect the well-being of migrants themselves, and that of natives in the receiving country? What is the role of ethnic identity and cultural assimilation in this context? These are increasingly important questions in a world that experiences growing migration flows, as well as rising populist tendencies that often result from a lack of understanding of the benefits of migration.

Until recently, the causes and consequences of migration have been traditionally studied using “objective” measures of welfare. For example, the principal determinants of migration have been identified in the existence of income differentials, migration costs, house prices, and institutional and political barriers. The study of the economic performance of immigrants in the new country has equally used standard objective measures such as human capital, demographics, and labor market characteristics.

Similarly, the impact of migration has been conventionally studied by exploring the effect on the wages and employment of native individuals. However, these objective measures can only partially capture the complex reasons behind the migration decisions, the accomplishments of immigrants, and the impacts that migration has on individuals in the region of destination.



“Subjective well-being is an important, often underestimated determinant of migration decisions and integration outcomes. At the same time, immigration can have a substantial impact on the happiness of natives. Research on the economics of happiness must therefore examine both the individual life satisfaction of migrants and the well-being implications for the population in receiving countries.”

Klaus F. Zimmermann
(IZA Director, University of Bonn)

Happiness in economics

As the Commission on the Measurement of Economic Performance and Social Progress, appointed by French President Sarkozy in 2008, stated in their report: “Quality of life is a broader concept than economic production and living standards. It includes the full range of factors that influences what we value in living, reaching beyond its material side.”

France and the UK have been at the forefront of actively investigating the extent to which happiness indices can be used by governments to more adequately measure the overall welfare of a country. They collect well-being and happiness data with the ultimate goal of evaluating policy. The German Parliament has also appointed a commission to discuss this new approach.

Positive impact of immigration?

Recently, a strand in the economics of migration literature has been shifting its attention towards analyzing the relationship between migration and subjective well-being (SWB) measures. Subjective measures (which include “happiness” and “life satisfaction”) can capture the “experienced utility” of individuals in a broad manner and can complement objective measures such as income, therefore providing a comprehensive picture of the causes and consequences of migration. Researchers at IZA and scholars within the IZA network have been pioneering this topical research.

An article entitled “The Impact of Immigration on the Well-Being of Natives,” published in the *Journal of Economic Behavior and Organization* by *Alpaslan Akay* (University of Gothenburg and IZA), *Amelie F. Constant* (George Washington University, Temple University and IZA) and *Corrado Giulietti* (IZA), analyzes the impact of immigration on the life satisfaction of natives using the German paradigm. For the first time in the literature, the authors used natives’ happiness directly to test the impact of immi-

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gration on the welfare of natives. The striking finding is that immigration positively affects natives' well-being. The analysis is based on national representative data from the German Socio-Economic Panel for 1998–2009, which were combined with detailed information about the local labor market (including immigration rates, unemployment rates, and income) from INKAR (*Indikatoren und Karten zur Raumentwicklung*). The IZA discussion paper version of this article already generated a lot of publicity in Germany. It appeared in the *Frankfurter Allgemeine Zeitung* and other European newspapers.

Immigration in Germany

Immigration increased substantially in Germany over the past 20 years. Estimates by Eurostat report that in 2010 there were 9.8 million foreign-born individuals residing in Germany (accounting for as much as 12 percent of total population). Furthermore, the share of immigrants differs substantially across regions and between the East and West of Germany (▶ see chart). In their panel data regression analysis, the authors exploit changes over time in the regional shares of immigrants to investigate whether migration influences natives' SWB. The SWB variable is derived from the question "How satisfied are you at present with your life as a whole?", which allows responses on a scale from 0 to 10, where 0 stands for "completely dissatisfied" and 10 for "completely satisfied".



"The impact of immigration is a function of the degree of economic and cultural assimilation of immigrants in the region. Our results show that immigration increases well-being up to a certain level of an 'assimilation threshold', beyond which its effect becomes essentially zero."

Corrado Giuliatti
(IZA Director of Research)

Various econometric specifications are explored to account for estimation issues, including the presence of unobservable factors that could influence, at the same time, the size of regional immigration and individuals' well-being. The results show that natives who live in regions with a high share of immigrants are substantially happier than those living in a region with a low concentration of immigrants. The magnitude of such effect is sizeable and comparable, in absolute terms, to the (negative) happiness effect of being unemployed. Further analysis reveals that the effect is stronger for those who are male, young, married, less educated and employed. Importantly, the authors carry out meticulous tests to ensure that the

positive effect is not driven by confounding factors. First, they thoroughly account for the role of local characteristics (e.g. for the fact that regions with more immigrants tend to be the wealthiest). Second, they confirm that the positive effect is not a consequence of less happy natives moving out from high-immigration regions. Third, they ascertain that immigrants themselves are not sorting in function of the regional level of well-being.

The paper also tested whether the impact of immigration has differential effects on natives and other immigrants. Interestingly, the paper finds evidence that the increase in the migration rate in a locality is strongly and negatively correlated with the happiness of other immigrants.

The role of economic assimilation

The authors thoroughly examined various channels that could explain the positive effect of immigration, exploring the impact that goes through the labor market, ethnic diversity or immigrant assimilation. While there is no evidence that the first two channels play a major role, the role of immigrant economic assimilation seems crucial. In particular, the effect of immigration on natives' SWB is essentially zero in regions where immigrants are the least assimilated, i.e. where their wages diverge substantially from those of natives'.

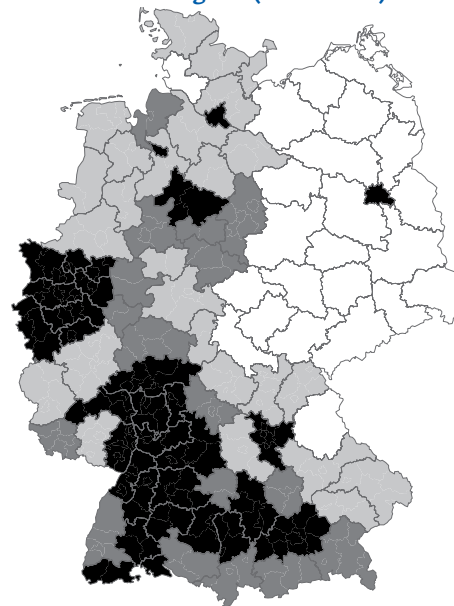
The effect peaks in regions where immigrants are intermediately assimilated, following an increasing function. Finally, and perhaps puzzlingly, the effect on natives' SWB decreases to zero in areas where immigrants are fully assimilated. Similar results were obtained when the authors tested the role of immigrants' cultural assimilation and German identity; the happiness of natives decreases when immigrants appear culturally assimilated to Germans and self-identify with Germany.

The authors provide a possible explanation for this last result: In fully assimilated regions, the increased socio-economic status of immigrants might imply that they enter into the reference group of natives, generating an "envy" effect. In other words, having more immigration in fully assimilated regions does not increase natives' SWB since the utility generated by assimilation is annihilated by the disutility of living with more immigrants who have an income or social status similar to them.

What aspects of life are affected by immigration?

Finally, further analysis reveals that satisfaction with dwelling and leisure appear to

Average shares of immigrants in German regions (1997–2007)



□ 1.6–4.0% ■ 4.0–6.5% ■ 6.5–9.0% ■ 9.0–14%

Source: Akay, Constant and Giuliatti, 2014.



be the most affected domains. The housing market seems not to be the explanation behind the positive effect on satisfaction with dwelling. The increased supply and lower price of housing services (e.g. children and elderly care, cooking, gardening and cleaning) as a consequence of migration appears to be the most likely explanation behind the positive effect on satisfaction with dwelling. On the other hand, it seems that immigration has a positive impact in increasing both the "quantity" and the "quality" of natives' leisure.

The research by Akay, Constant and Giuliatti has several policy implications. Most importantly, immigration is found to influence the welfare of natives beyond objective outcomes (e.g. wages and employment). Hence public interventions aiming at tempering (or amplifying) the effects of immigration should take this key aspect into account. Furthermore, the degree of the assimilation of immigrants is related to natives' well-being. Full assimilation appears to annihilate the positive effects of immigration, potentially due to natives' positional concerns. This does not mean that integration/assimilation policies are inefficient or undesirable. On the contrary, such policies should take into consideration the fact that there are complex trade-offs, also involving non-monetary dimensions of immigration.

Similar results in other countries

This research was followed up by an article by *William Betz* (Colgate University) and *Nicole Simpson* (Colgate University and IZA)

published in the IZA Journal of Migration (IZAJOM 2013, 2:12), who extended the research question to a panel of 26 European countries. They also found that immigration exhibits a positive impact on natives' well-being. The authors use data from the European Social Survey for the period 2002 to 2010 and merge them with immigration flow statistics from the international database of the OECD. The selected countries exhibit large variation in terms of immigration flows (which are highest in Germany and Spain and lowest in Finland and the Slovak Republic) and happiness (with the highest levels recorded in Denmark and Switzerland and the lowest in Russia and Bulgaria).

The analysis takes into account many of the factors that could affect both immigration and happiness, such as demographic characteristics, marital status, income, as well as the macroeconomic conditions of each country. While the results show a positive impact overall, the effect is found to be different over time. Immigrant flows pertaining to the year before the survey exhibit a larger positive effect on well-being than flows of less recent migrants. The authors provide possible explanations for this result. Recent immigrants might provide skills which are complementary to natives, or could lower the prices of goods and services, thereby increasing natives' well-being. Over time, however, immigration might produce more competition in the labor market, thereby lowering the positive impact of immigration.

An important lesson from these new papers that will form the scope of future research is the investigation and understanding of the channels behind this result, as well as its potential for policy implications. The field is growing fast, and scholars are becoming more and more confident that the knowledge generated by happiness research can directly be used to test various hypotheses, which are not easy to be tested by using standard approaches in economics. Happiness data will be used more and more to test important problems in economics and policy. Information obtained by using objective or subjective measures of welfare may fully converge in the future.

The decision to migrate

Happiness might also be a key factor in the migration decision. Objective outcomes such as income differentials between the region of origin and destination are certainly fundamental, but subjective factors, such as psychological costs, may also influence whether an individual migrates or not. More broadly, prospective migrants make decisions by comparing their overall utility

at home with the one they would achieve in the area of destination. Hence, understanding how happiness influences migration becomes an important question.

This is the core objective of a chapter by Nicole Simpson included in the recently published International Handbook on the Economics of Migration edited by Amelie F. Constant and Klaus F. Zimmermann (IZA and University of Bonn). The author argues that happiness and migration might not be necessarily positively related. For example, migrants might adapt quickly to the conditions in the country of destination, and their overall well-being could quickly fall from an initial higher level. Furthermore, after immigration the reference group of migrants might change (i.e. migrants might compare themselves to individuals in the destination area instead to those at the origin).

Happiness and emigration

Simpson provides an extensive review of empirical studies which seem to confirm her theoretical argument. Some studies indeed find that the highest emigration rates are observed in countries with the lowest level of happiness. However, there is also evidence that emigration is high in countries with the highest level of happiness. This suggests a sort of U-shaped relationship between happiness in the origin country and emigration.

Similar mixed evidence was also reported by the review contained in the IZA World of Labor article by Artjoms Ivlevs (University of the West England and IZA). The author reports that the majority of studies find that prospective migrants are in general less happy than those who do not want to migrate – although one study that attempts to address causality issues found that an increase in SWB might lead to stronger intentions to migrate.

In terms of the migrants' happiness in the destination, the majority of the studies analyzed by Simpson find that migrants are less happy than comparable natives. The principal reason seems to be that migrants "bring with them" the lower happiness that characterizes their country of origin. In fact, their level of happiness does not seem to converge to that of natives, neither over time, nor across generations.

One of the potential problems in these studies has to do with the timing of happiness measurement. It is likely that migrants' happiness is highest right after migration, but after a few years it decreases to initial levels or adapts depending on the new reference group. It is therefore crucial to

"Our key finding, that native Germans' happiness increases as immigration in their region of residence increases, is the first in the literature."



Amelie F. Constant
(IZA Program Director, George Washington University and Temple University)

take into account that the effect depends on the length of stay of migrants in the country.

Language also plays an important role in this respect, as *Viola Angelini* (University of Groningen), *Laura Casi* (Bocconi University) and *Luca Corazzini* (University of Padua) point out in a study that is forthcoming in the next issue of the Journal of Population Economics. They show that cultural identification and the level of language acquisition have a significant impact on the well-being of immigrants.

Life satisfaction of immigrants

Another challenge in studying the relationship between happiness and migration is that one would need to compare the well-being of migrants before and after migration, but this is rarely possible even with modern data. An idea to overcome this hurdle is offered in a recent study by *Milena Nikolova* (IZA) and *Carol Graham* (Brookings Institution, University of Maryland and IZA) using Gallup World Poll data on migration from transition economies.

Their analysis compares migrants who live in developed countries with similar individuals who live in transition economies but who have expressed the intention to migrate. Comparing individuals with more similar characteristics allows a better understanding of whether migrants are happier or not after having migrated. Indeed the authors find that once in the country of destination, migrants report higher SWB than (comparable individuals) before migration. This result is in contrast with the empirical evidence reporting that happiness decreases after migration.

The authors offer some explanation by highlighting several channels which characterize migration from transition countries. Migrants from these countries enjoy higher satisfaction with freedom when compared to individuals in the sending countries, which is likely to increase their overall well-being. Moreover, transition economies are not culturally distant from the receiving regions, which might ease the process of migrants' assimilation and thus their happi-

ness. Last but not least, since migrants from transition countries face virtually no barrier in returning home, they might be relatively happier when compared to individuals from developing countries, who have more financial or psychological obstacles to move back.

In an article published in the *Review of the Economics of the Household*, Alpaslan Akay, Corrado Giuliatti, Juan David Robalino (Cornell University) and Klaus F. Zimmermann hypothesize that remitting money back home is an important factor affecting migrants' happiness. To test this, the authors use a sample of migrants living in urban areas using data from the Rural-to-Urban Migration in China (RUMiC). The authors find that more remittances are associated with higher SWB. Interestingly, the magnitude of this relationship is weaker for those migrants who have migrated outside the province. This suggests that those who migrate far

away from home may feel less attached to their hometown and the family left behind.

Moreover, the effect is found to be stronger for migrants who have fewer family responsibilities (e.g., migrants who are single or migrate with their spouses but have no children). This indicates that remittances might be perceived as a strong, implicit obligation by migrants with family responsibilities, making them less satisfied when compared to those migrants who remit yet have fewer or no responsibilities. Finally, the authors use SWB measures to elicit the motivations behind remittances, finding that both altruistic and non-altruistic motivations are at work.

The future of happiness research

The studies above show a growing interest in learning more about the relationship between happiness and migration. There are

many fascinating questions that this emerging literature could investigate in the future. In particular, the understanding of the exact channels through which migration affects well-being seems a promising avenue for future work.

Other important and unexplored questions are: What is the role of the ethnic identity and cultural assimilation of immigrants with regard to their own happiness in the new country? And how does this affect the happiness of natives? Answers to these questions may provide the missing information on the persistent and unexplained wage and occupational gaps between natives and immigrants. They may also help understand the negligibly negative – and instead often positive – impact of immigration on the jobs of natives.



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