

New evidence on wage discrimination against immigrants on the Belgium labour market

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Context

The recent surge in immigration from Africa and the Middle East into the European Union has renewed controversies about the impact of a more diverse workforce on labour market outcomes. So far the Belgian labour market has weathered the inflow comparatively well. Unlike other European countries that have done away with collective bargaining institutions and labour market regulations, collective bargaining in Belgium still works in a relatively centralised and coordinated way. Moreover, the Belgian legislation has adopted a series of laws and regulations that go further than other countries in protecting workers against discriminating practices, including paying exceedingly low wages based on personal characteristics. Although they were not intended to prepare Belgium for new waves in immigration, the existence of such institutions might have helped to prevent new arrivals against abusive and discriminatory practices.

This being said, many of the recent arrivals into Europe did not conceive of Belgium as their final destination – most of them head for Germany, the UK and Sweden: immigrants into Belgium hence do not intent to stay but move on to these countries. Except in the country's metropolitan agglomerations in which immigrants are concentrated, the overall quantitative impact has been relatively low; and since only few new arrivals enter immediately formal work, the impact on the labour market has been even smaller. But in the long run, large-scale immigration from Africa and Asia into Europe might affect Belgium much more than is currently the case: climate change, armed conflicts, persisting underdevelopment and demographic growth are potential causes for this. Also intra-European migration can change the composition of the labour force significantly, as the surge in mobility of Eastern Europeans after 2005 has shown.

Future immigration could add of course to an already relatively high stock of foreign population in Belgium: only 62.3 % of the population between 18 and 64 years is of Belgian origin (Vanthuyne & Charlier, 2017). Their integration in the labour market has not been smooth and existing studies have pointed out a series of problems: the employment rate of foreigners is very low in Belgium; there are entry barriers into the labour market, partly due to discriminatory hiring; there is some evidence for labour market segregation, with foreigners concentrated in low-paying occupations, non-standard jobs (like part-time or interim work) and sectors and other forms of discrimination (Baert, Cockx, Gheyle, & Vandamme, 2015; Martens et al., 2005; Vanthuyne & Charlier, 2017). Through these different channels, some groups of foreigners are more likely to be exposed to the risk of poverty – even if they work.

Our research has focused on two outcomes that are closely linked: labour productivity and wages. Analysing both of these variables together sheds light on the incidence of wage discrimination against foreigners and the factors that explain potential discrimination.

A central contribution of our research is that we go much further than previous studies in acknowledging not only the relevance of diversity in the Belgian labour force, but also *the diversity among foreign labour market participants*. The starting point of our investigation was the observation that “being foreign” confounds a range of contrasting realities with rather different economic consequences for both firms and individual workers: the category “foreigner” can refer to a high-skilled corporate expat from a neighbouring EU country, but also to a minimum wage earner from Sub-Saharan Africa without formal education. Even within the EU there are still considerable differences in terms of education and productivity, so that it is worthwhile to distinguish between immigrants from countries whose overall development is closer to Belgium – like France, Germany and the Netherlands – from those that are still more apart – like Romania, Bulgaria or Poland. Finally, we also explore to what extent wage discrimination against women is affected when we account for the origin of female workers.

Strong segregation of foreigners, but relatively low wage discrimination – and no ‘double discrimination’ against women

One way to account for some of the diversity among foreigners is to consider two groups: those that are born within the European Union (or outside of the EU but with a European nationality); and those of non-EU origin. This essentially boils down to assimilating EU citizens to Belgian workers. The figure below compares the wages of workers from the EU and those from outside of the EU. The latter earn on average lower wages than “native” Europeans (of which 94% are Belgians and the rest originates mostly from France, Italy, Germany and The Netherlands). During the 2010s, the average hourly wage gap between these two groups was around 11%. The figure further distinguishes between male and female workers with EU and non-EU origin. The average hourly wage is the highest for EU men (16.3 euros) and lowest for non-EU women (13.4 euros). On average, EU women and non-EU men earn roughly the same (around 14.25 euros).

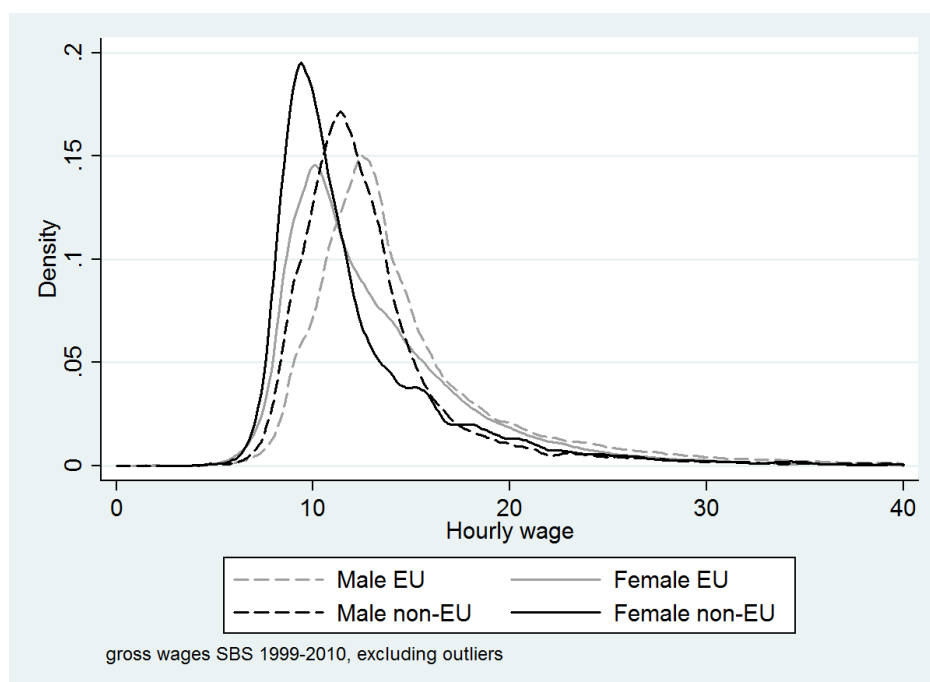


Figure 1: Distribution of hourly wages by immigrant status and gender

The majority of the observed wage differentials are due to the segregation of foreigners into occupations and sectors with relatively low wages. Part of the wage gap might of course be due to

differences in labour productivity, for instance when foreigners have lower language skills. Our research has shown that not all of the overserved wage differences between EU and non-EU workers can be explained in this way (Kampelmann & Rycx, 2017). Despite Belgium's strong anti-discrimination legislation, this means that – in addition to strong and persistent segregation – there is some wage discrimination against immigrants.

The wage gap between women and men can also not be reduced to productivity differences – and compared to the native-immigrant gap there is arguably a lower theoretical case for productivity differences between men and women to begin with. Interestingly, foreign women do not cumulate the two wage penalties associated to gender and origin and receive roughly the same wage penalty as native women. A possible explanation for this phenomenon might be that origin is of lesser importance among women than among men; indeed, the educational profile of women with foreign origin resembles closely the one of native women.

Certain institutional factors such as firm-level collective bargaining and smaller firm sizes appear to attenuate wage discrimination against foreigners, but not against women. Overall, our research suggests that wage discrimination against immigrants remains a problematic issue on the Belgian labor market, just as the discrimination against (native and foreign) women.

Wage discrimination against foreigners very pronounced in high-diversity firms

One of the factors that might influence the productivity and wages of foreigners is the immediate work environment: being the only non-Belgian employee corresponds to a completely different reality than being employed in a firm with hardly any Belgians at all. What is more, a more accurate understanding of the diversity within firms should account for similarities and differences in terms of economic development in a more nuanced way than the EU/non-EU distinction.

To address these issues, we have developed an entirely novel approach based on the conversion of the qualitative information on individuals' countries of origin into an aggregate firm-level diversity indicator based on UNDP's Human Development Index. The latter is a standard harmonized measure of cross-country variations that is available for virtually all countries in the world. We have used this new aggregate measure of firm-level diversity in state-of-the-art wage equations that control for a range of observable and time-invariant unobservable factors, including differences in labour productivity between firms and within firms over time. (Kampelmann & Rycx, 2018).

Our results suggest that foreigners are strongly segregated into low-paying jobs and that there is also some wage discrimination. The discrimination against foreigners is particularly high in firms that are very diverse in terms of countries of origin.

We interpret this finding that it is not diversity *per se* that sparks a mechanism of discriminatory wage setting, but levels of diversity that lie far above the composition of the average firm. This observation can be accounted for by the hypothesis that group dynamics linked to diversity appear only in high-diversity firms that are characterized by a sizable and recognizable share of individuals with sub-standard human development indices.

The following policy recommendations are derived from our research results

1. Diversity should be approached as a multi-faceted labour market issue; “foreigners” are a very mixed group and policy interventions need to be targeted at those groups that are most likely

to suffer from discrimination (such as craft and machine operator occupations, the construction sector, retail and service industries).

2. Foreigners are subject to wage discrimination and this should be tackled; the labour market is strongly segregated, with non-Belgian workers, especially from outside the EU, being employed in low-paying jobs, occupations and sectors. Efforts to curb wage discrimination should therefore not divert the attention from the more structural and very substantial issue of segregation.
3. The discrimination in these parts of the economy should be alleviated through stronger presence of collective bargaining and/or interventions aimed at avoiding or reducing the clustering of foreigners from countries with low economic development. For instance, our research suggests that collective bargaining at the firm-level – like wage renegotiation in addition to national and sectoral wages – should be strengthened as it has the effect of curbing discriminatory wages.

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