Salvatore Carrozzo (Université de Turin)

The Labor Market Effects of an Unexpected Amnesty for Undocumented Workers

RÉSUMÉ

This paper investigates the labor market effects of the 2002 Italian amnesty for undocumented workers which allowed employers to declare their undocumented employees. The amnesty granted a residence permit to around 700,000 foreign workers. Exploiting the variation in the share of amnesty workers within each labor market, I find a negative effect on the probability of being employed in the formal sector. Furthermore, I show an increase in the average wage due to a composition effect since amnesty tends to crowd out the lowest productive native workers. Indeed, using individual data, the employment effect persists while the wage effect fades away. This effect is higher within regions with a high fraction of low-skilled workers. To explain such mechanism, I develop a model showing firms’ hiring decision in the formal market.

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Salvatore Carrozzo
Université de Turin

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