

Labour market effects of foreign service providers

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Abstract:

Little is known about the impact of foreign service providers (FSP) on the host labour market outcomes, because FSP are not included in standard statistical databases and therefore hard to observe. As a proxy for the amount of FSP in a host country, I use the number of granted Portable Documents A1, which is a formal statement on the applicable social security legislation. Using this measure, I estimate the impact of FSP on gross wages, compensation and hours worked in the host LM on a sectoral level. From the host country's view, FSP are a phenomenon between immigrants and offshoring, but according to the GATS, they are classified as service trade mode 4. Following the GATS argumentation, I rely on instrumental variable strategies from the trade literature in order to address the inherent endogeneity. The results are skill biased, similar to the findings from the offshoring and immigration studies. High skilled workers in the old MS experience a reduction of total hours worked and no effect on total compensation, resulting in a higher gross wage for the remaining high skilled workers. The opposite is true for the low skilled workers, who do only experience a negative effect on their compensation, but not on hours. For the new MS, there is no significant effect on hourly gross wages, because the effects on compensation and hours cancel each other out. However, there seems to be a shift from the middle to the low skilled workers, suggesting that FSP from the old MS are complements to the low skilled workers in the new MS.