The Labor Market Effects of an Unexpected Amnesty for Undocumented Workers [*]

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Extended Abstract

This paper investigates the effects of the 2002 Italian amnesty for undocumented workers on the labor market outcomes of natives. Around 630,000 foreign workers get a residence permit between September and November 2002. To perform the analysis, I use a 1% random sample of monthly employee-employer data from social security archives. Using monthly observations, I focus on the short-run effects of the policy because general equilibrium effects may bias the effect towards zero in the long run. The identification strategy exploits the variation in the share of amnesty workers within each labor market after controlling for a full set of fixed effects. I find a negative effect on the probability of being employed in the formal sector and a positive effect on the average wage at cell (labor market) level. The positive effect on wages is 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 how labor demand for native workers changes after the policy implementation.