

Firm Heterogeneity, Exports and the Impact of Immigration: Evidence from German Establishments*

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Abstract

How does an economy absorb an immigration influx? We study the role of firm heterogeneity as a determinant of this adjustment process. Using administrative employer-employee matched data from Germany, we document that migrants are more likely to select into larger firms, implying that firms are differently exposed to immigration. Using an instrumental variable strategy, we show that larger firms benefit more from immigration: if there is an increase of migrants in a local labor market, large firms will expand domestic and export revenues more than small firms. We set up a quantitative model where heterogeneous firms choose whether to export their products, and whether to hire immigrants. We estimate the key elasticities of the model using a combination of instrumental variables and a Simulated Method of Moments approach. Our main counterfactual exercise quantifies how production, prices and native employment adjust in response to an influx of immigration into Germany. We find that native workers benefit from increased immigration, both through higher wages and lower prices. We discuss the quantitative differences between the results of our model and a model not accounting for heterogeneous immigrant intensity across firms.

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