Immigration and Firm Investment

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Abstract

Standard models of immigration predict that native earnings recover as firms expand their capital stocks in response to the labor supply shock. I show that this adjustment depends on firms' access to credit. I embed a costly state verification friction into a neoclassical model of the labor market effects of immigration: more indebted firms face a higher external finance premium, so they expand their capital stocks by less, and their capital-labor ratios fall by more. I test this prediction in the context of Germany during the 2010s, combining a shift-share instrument for regional immigration shocks with firm-level variation in pre-shock leverage. Higher-leverage firms hired immigrants at the same rate as lower-leverage firms but increased their capital stocks and borrowing by less. Consistent with the resulting decline in their capital-labor ratios, the earnings of their native workers fell by more.