

Effects of Unskilled Migration on Advanced Countries

Uri Dadush

Carnegie Endowment for International Peace

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Key Messages

- The effect of unskilled migration on the wages of native unskilled workers is small, but higher on wages of recent immigrants.
- Investment picks up, and in the long run productivity accelerates as migrants integrate. Skilled natives benefit.
- In some countries achievements of the children of migrants are little different than that of the children of natives.
- Unskilled migration policies are broken but can be fixed.

Stock of Migrants

In millions, 2005

In developed regions: 115.4

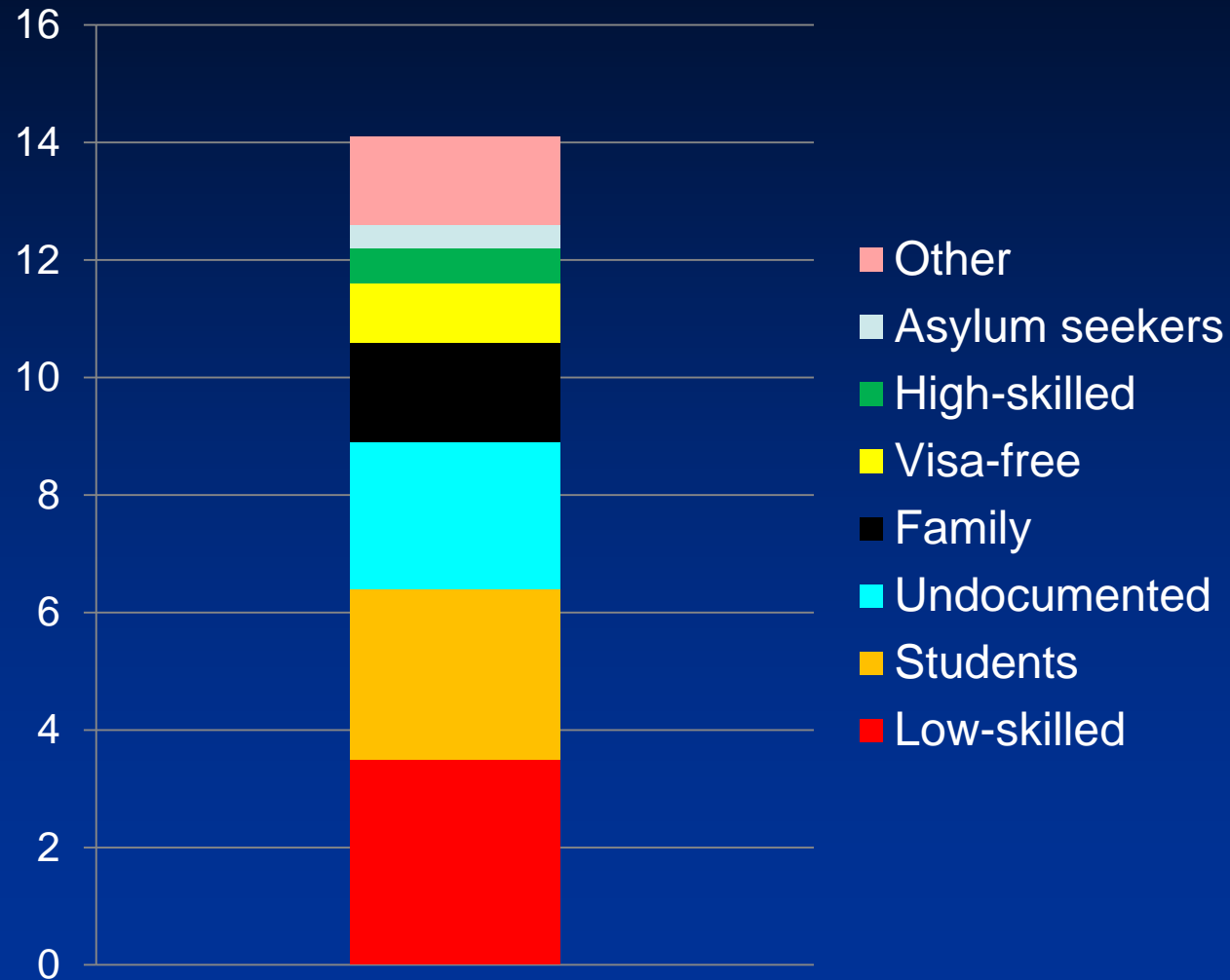
-- 88 million (76%) have no tertiary education

In developing regions: 85.7

--73 million (85%) have no tertiary education

Global Flows of Migrants

Millions p.a.



Sources: Goldin et al, Reinert, Docquier and Marfouk, others.

Unskilled Official Flows

Source:

- Philippines
- India
- Poland
- Indonesia
- Bangladesh

Destination:

- Saudi Arabia
- Thailand
- UAE
- Malaysia
- Kuwait

Sources: Goldin et al, Reinert, Docquier and Marfouk, others.

Undocumented

Source:

- Mexico
- El Salvador
- Guatemala
- Philippines
- Honduras

Destination:

- U.S.
- Canada
- France
- Italy
- UK

Sources: Goldin et al, Reinert, Docquier and Marfouk, others.

Simple Theory: If Migrants and Natives are Perfect Substitutes

- The capital-labor ratio declines initially, wages fall, and the rate of return to capital increases.
- Investment picks up until the economy returns to a steady state with the same wage and capital-labor ratio.
- This is identical to a one-time increase in the population in a Solow model.

.....If Migrants and Natives are Imperfect Substitutes

- The depressing effect on native wages will depend on the degree of substitutability; if natives are “complements,” their wages can increase.
- Investment will increase in response to the falling capital-labor ratio.
- The effect on wages of unskilled natives is indeterminate while that of skilled natives is likely to rise.

For unskilled immigration to have a big effect on wages of unskilled natives...

....they must be close substitutes
and/or the investment response
must be weak,

yet both conditions are refuted by
numerous studies

Five Families of Studies

1. Traditional Area Studies
2. The Mariel Boatlift Studies
3. The Borjas Critique
4. General Equilibrium Approach
5. Dynamic and Broader Effects

Traditional Area Studies

- Exploit the variation of migrants across regions of the U.S.
- Find very small effects on wages of natives.
- But since migrants can choose to go where wages are highest and growing, subject to endogeneity bias. Also, natives can move in response.
-e.g. Altonji and Card (1991)

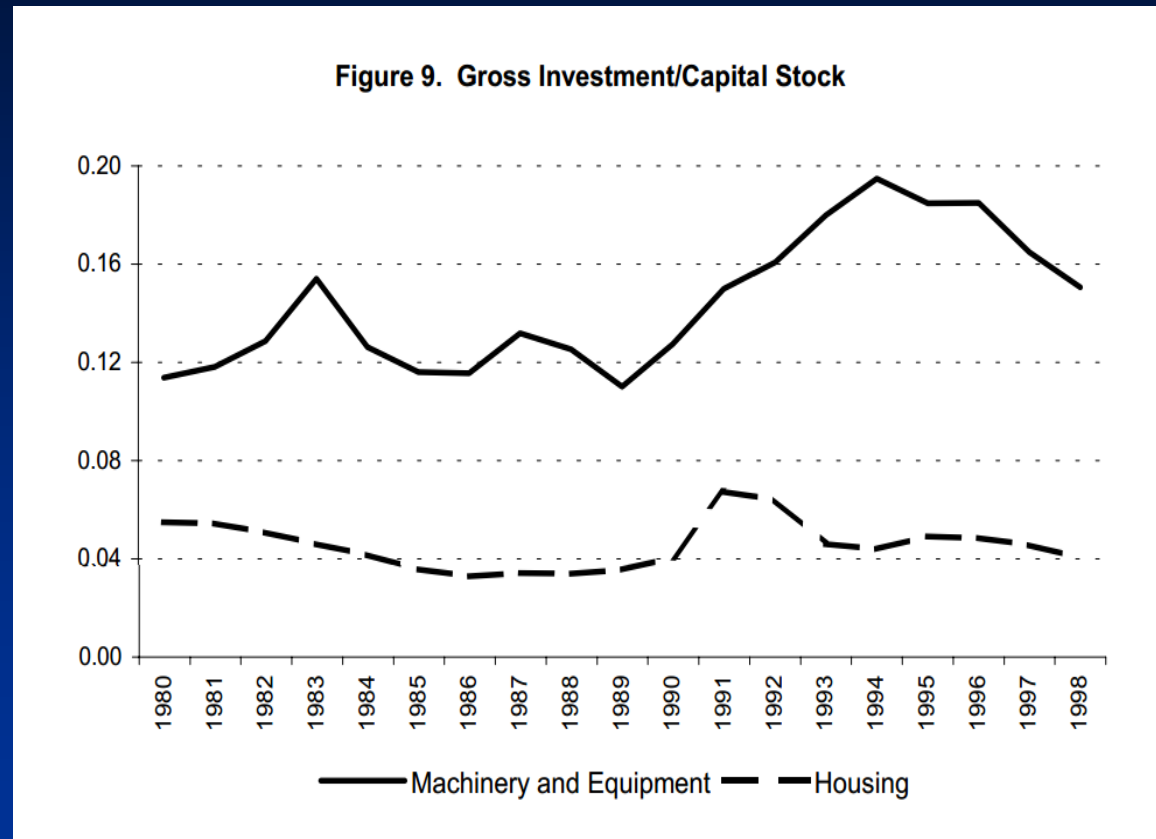
Marcel Boatlift (Card, 1990)

- Exploits variation in wages over time in the wake of an exogenous migration shock.
- Finds very small effects on Miami wages; garment industry expanded.
- Gets around the endogeneity problem but is subject to the critique that Miami is a small part of the U.S. labor market, and there may have been offsetting migratory responses by natives or other migrants.

Soviet Jews in Israel

- Friedberg (2003) and Cohen and Hsieh (2000).
- Israel, unlike Miami, is a self-contained labor market.
- The immigrants are predominantly skilled.
- Use variation over time and across professions.
- Find very small effects on the skill premium; skilled migrants complemented skilled natives.

Investment Response in Israel



Source: Cohen and Hsieh 2001

Borjas Critique (2003 and onwards)

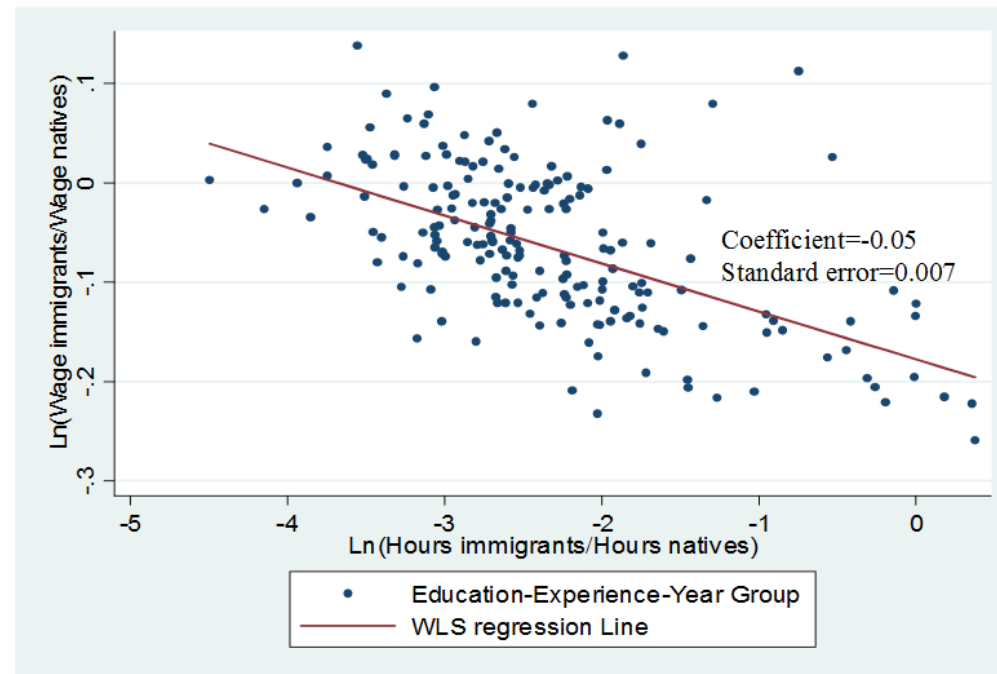
- To deal with the endogeneity of area studies and compensatory migration in Mariel-type studies, uses variation in migrants across education/experience groups.
- Finds large negative effects on wages of unskilled natives reflecting the high intensity of immigration (as much as 8% in the short-run and 5% in the long-run)

General Equilibrium Approaches

- Ottaviano and Peri (2008)
- Like Borjas, examine effects across education/experience cohorts, but find very small effects except on recent immigrants.
- Three reasons: high-school and less than high-school are close substitutes; migrants are imperfect substitutes; investment responds.

Imperfect Substitutability

Figure 5
Correlation between relative Immigrant-Native wages and hours worked.
Education-Experience-Year Groups, Males only, 1960-2006



Note: Each observation corresponds to an education-experience group in one of the considered years (1960, 1970, 1980, 1990, 2000, 2006) The horizontal axis measures the logarithm of the relative hours worked in the group by male immigrants/natives and the vertical axis measure the logarithm of the relative weekly wage paid to male immigrants/natives.

Dynamic and Broader Effects

- Effects of Migration on TFP; Orefice (2010).
- Long-Term Generational Effects of Migration; Aleksynska and Tritah (2009).

Relative Performance of Children of Migrants and Natives

In non-European OECD countries - Australia, Canada, the U.S., and New Zealand - there is no significant difference in educational attainment and labor market outcomes, *controlling for socioeconomic status, family background, and school quality*. In Europe (except UK and Switzerland) children of migrants do significantly worse.

Effects of Unskilled Migration on Prices; Cortes (2009)

During 1980-2000 immigration may have reduced the price of non-tradeables/services in the US by 10%, boosting the real incomes of skilled workers by 0.32 %; recent immigrants were net losers, by 4.2%.

Three Other Concerns

- Effects on Structural Unemployment
- Migration in Recession
- Fiscal Effects

Migration and Unemployment

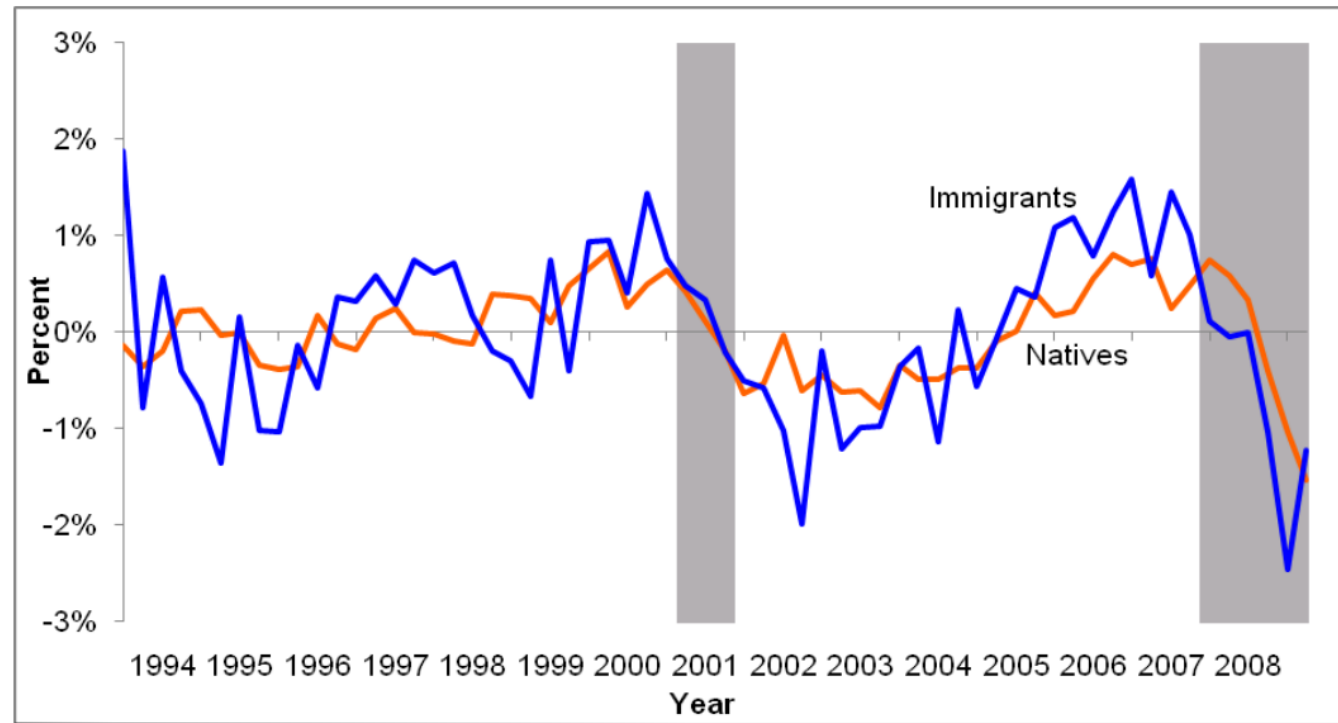
- Brucker and Jahn (2011)
- Unemployment due to presence of rigid sectors (wages set by collective bargaining in function of unemployment and employment set by firms)
- Find small effects, especially in the long run. Migration increases unemployment marginally in rigid sectors but has no effect on wages, while it reduces wages by more than in perfect labor markets case in the flexible sector.

Migrants and the Business Cycle

- Orrenius and Zavodny (2010) and Dustmann et al (2010).
- Employment of migrants much more cyclical than that of natives, especially among the unskilled.
- The shock-absorbing effect of migrants operates best if they can return (Papademetriou et al 2009).

Migrant Employment is More Cyclical Than That of Natives

Figure 5. Cyclical Fluctuations in Employment Rates by Nativity, Age 16 and Older, First Quarter 1994 to Second Quarter 2009



Note: Data are seasonally adjusted. Recessions are shown as shaded areas.

Source: Authors' calculations from US Census Bureau, Current Population Survey, January 1994 to June 2009.

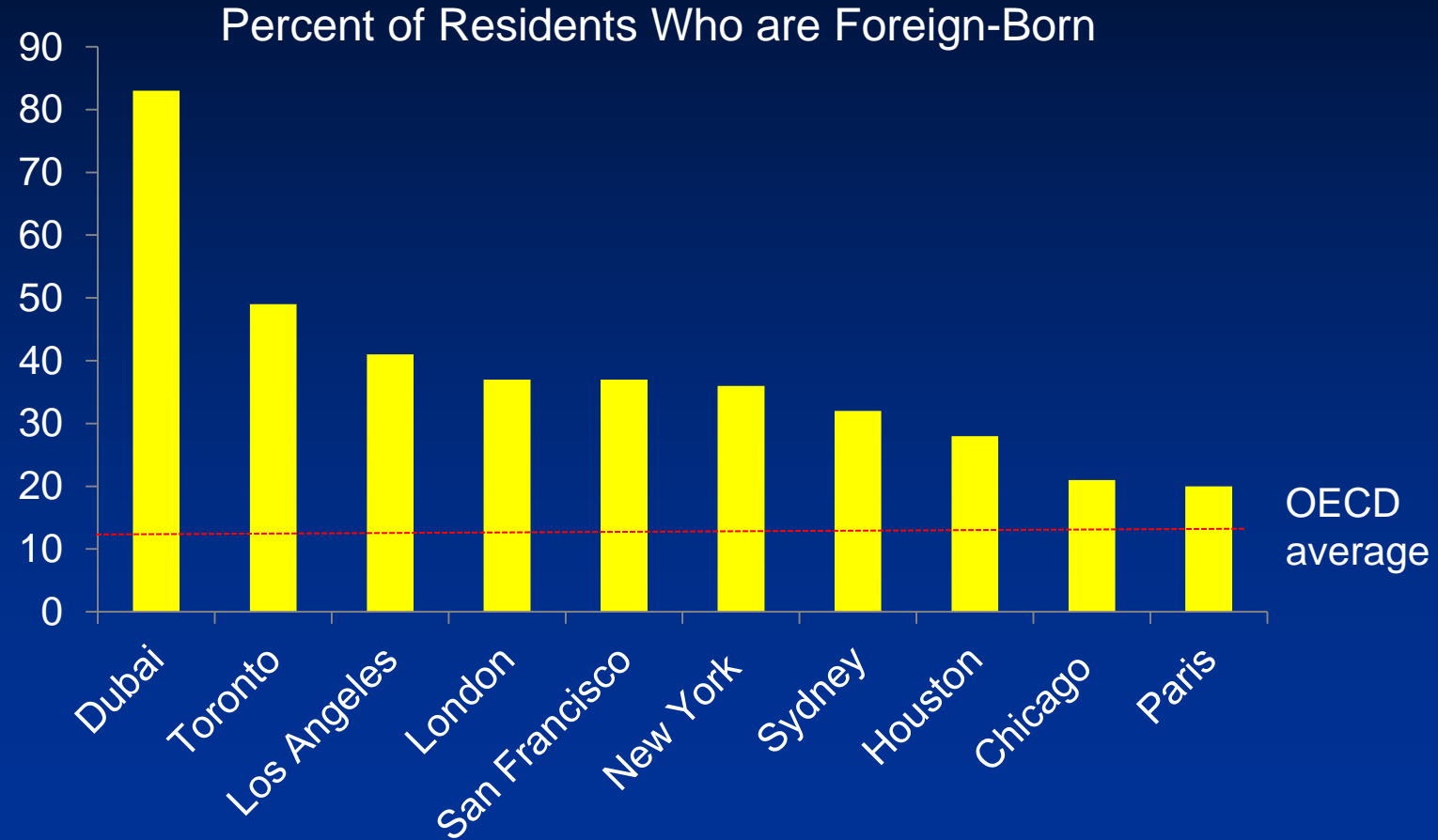
Fiscal Impact

- OECD and National Academy of Sciences
- New immigrants tend to have an unfavorable fiscal profile relative to natives, mainly because they have lower labor force participation rates – not a higher use of services.
- Fiscal impact is minimal over time, though it can be higher at the local level.
- Young working immigrants are budget-positive, as are U.S. immigrants on average.

Policy Assumptions

- Unskilled migrants stimulate investment and growth of TFP and boost skilled purchasing power but have only a small impact on native unskilled wages.
- Immigration responds to job availability as well as income differences
- The need for unskilled migrants will grow (aging, education, rising incomes, sectoral effects) and so will their supply (networks, threshold incomes).

The World's Economic Centers are Hubs for Foreigners



Policy Pointers

- Legalization of existing undocumented migrants.
- Expand legal immigration for both skilled and unskilled – both temporary and permanent.
- Penalize employers who hire undocumented migrants.
- Insist on equal treatment and application of the minimum wage.

Key Provisions of the U.S. Immigration Reform Bill, S.744

- Regularize the status of up to 11 million people living in the U.S. illegally, subject to several conditions, including doubling the length of security fence on the U.S.-Mexico border.
- Lift the cap on the H-1B visa program for high-skilled workers from 65,000 to 110,000 a year (potentially as high as 180,000 a year).
- Create a new W visa allowing up to 200,000 low-skilled workers a year into the country for jobs in construction, long-term care, hospitality, and other industries.
- Improve enforcement of rules for employers, including obligatory use of the E-Verify system.