

The Economics of Immigration

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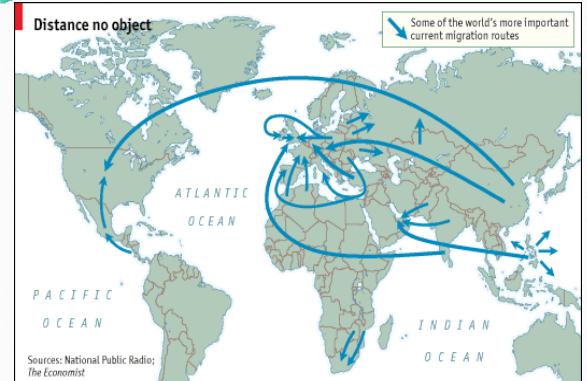
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Outline

- Immigration: a global overview
 - Globalization, an overview
 - Population dynamics
 - Causes and Consequences
- Issues on U.S. on immigration
 - Demographics
 - Labor market effects
 - Fiscal effects

Globalization, a catalyst

- Globalization: 'international economic integration'
 - Requires a reduction of barriers to international trade;
 - Need to lower barriers to international movement of factors of production;
 - Labor, Capital, and Technology
- Worldwide
 - Current world populations estimates: 6,65 billion
 - Developing world has young population with high growth rate
 - Between 190 to 200 million people (or 3%) were immigrants
 - Europe and North America accounted for around 52%



Causes of immigration

- The economic condition:
 - Push and pull factors
 - Better compensation for equal levels of skill
 - Better working conditions
 - Adverse shocks
 - Capacity to migrate
 - The paradox of higher income in developing countries
- Family reunification
- Social networks
 - Immigrant enclaves help smooth transition and facilitates integration

Global immigration: some consequences

- Consequences:
 - Redesign global production map
 - Enable production where there should be declining or none.
 - 13% of oil industry workers in Saudi Arabia are immigrants
 - 75% of construction workers in UAE are other Asian immigrants
- Source of targeted income
 - Remittances are estimated at 180 billion
 - 33% of it originates from the U.S.
 - Reduces drop out rates in schools and increase enrollment rates

U.S. Perspective

Demographics, wages, fiscal and socio-economic impacts

A primer on immigration debate

- U.S. Immigration policy rests on 3 basic principles
 - Family reunification
 - Protect refugees and asylum seekers
 - Protect native labor
- Immigration debate has been focused on:
 - The impact of immigrants on the labor market
 - Employment opportunities and wages of natives

Population dynamics

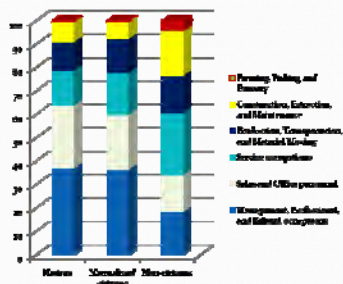
- The U.S. is once again becoming a country of immigrants.
 - It is estimated that about 1.25 million people arrive in the U.S. per year
 - Immigrants account for 40% of population growth nationally
- The effects of these inflows are controversial, because:
 - The size and composition
 - 35-40% of new arrivals are unauthorized immigrants
 - Most come with low education and limited English skills.
 - Critics often emphasize negative effects of lower-skilled ones

Labor market: work prevalence and Trends

- Less skilled workers differ on which sector to work
 - Foreign born: service and hospitality, construction, agriculture
 - Natives : manufacturing and mining jobs.
- Trends in the labor market of these selected industries:
 - Manufacturing
 - Manufacturing is at record level – doing very well
 - But jobs have been on the decline for 70 years
 - Factories have become more efficient over time
 - Mining
 - Better technology and depletion of reserves translates to lost jobs
 - New technology needs better trained personnel
 - Agriculture
 - Mechanization has improve efficiency of the sector

Where each group works...

Revealed preference of each group



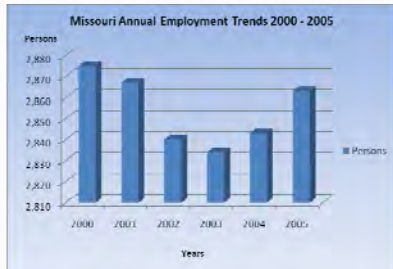
Source: Census Bureau, 2007

Labor market effect: labor demand

- Between 1996 and 2000, 14.3 million new jobs were created.
 - By comparison, population growth during the same period, including immigration, was only 12.3 million people.
- The native labor force is having a skill transition
 - In 1960 around 50% were high school drop outs.
 - In 2006, only 12 % were high school drop outs
- There is high demand for low skilled workers
 - Native population is growing slowly and is aging.
 - Immigrants are not just doing jobs that U.S. citizens *won't do*;
 - They are doing jobs that U.S. citizens *aren't available to do*.

Annual Employment Growth in low skilled jobs

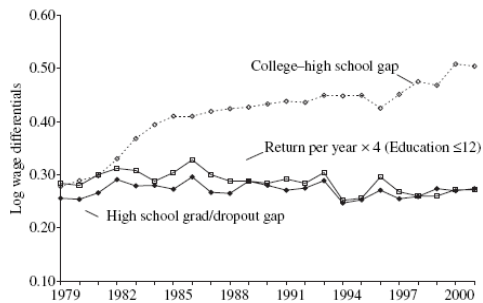
On the Question of Creating excess labor Supply...



Source: ERS/USDA

Labor market effects: impact on wage

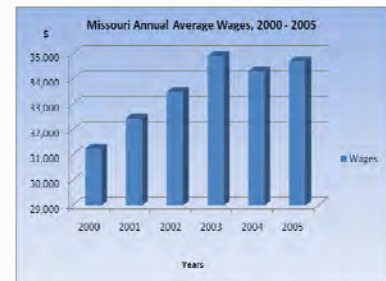
- **Relative wage**
 - Is the ratio of low-skilled wages to wages in the middle of the skill distribution
 - There is 3-5% wage gap between the lowest-skilled natives and natives at the middle of the skill.
 - The trend has remained constant since the 1980s
- **Average wage**
 - Immigrants have a positive effect on average wages.
 - In large immigrant cities, an increase in the fraction of foreign-born workers raises average wages of natives up to 10%.



Source: Card, David (2005) Is new immigration so bad? *The economic journal*, 115 (November), F300 - F323

Missouri wage dynamics in low skilled jobs

On the question of Depressing natives' wages...



Source: ERS/USDA

Fiscal impacts

- There are two types of effects
 - The size of total production (GDP) – ‘economic pie’
 - What and how much gets produced
 - How that GDP gets distributed – ‘how that pie gets sliced’
- There are 3 types of impacts
 - Direct impacts
 - Taxes paid by and services used by immigrants
 - Indirect impacts
 - Taxes originating from a larger economic sector as a larger ‘ripple effect’
 - Taxes originating from other wage impacts
 - Higher wages of complementary workers
 - Induced impacts
 - Business taxes as induced by immigrants and other workers

Fiscal transfers: examples

- A comparison of the transfer and tax amounts for natives and immigrants suggests that
 - Immigrants pay about \$80 per person less than natives in taxes, but receive about \$600 less in cash transfers.
 - Immigrants are less likely to participate in Medicare or Medicaid
 - They are not even eligible
 - Naturalized citizens need to pay taxes for at least 10 years before being eligible
 - Immigrants are less likely to be enrolled in school.
 - Only 6% of immigrants are under the age of 16, versus 23% of natives.
 - Children are eligible for transfers and government benefits, but do not work or pay taxes
 - The smaller fraction of immigrant children helps create a favorable fiscal balance for immigrants relative to natives.

Summary and Concluding remarks

- Immigration cannot be seen as a local issue
 - There are much larger global forces at play
 - Pull and push factors
- There is a clear separation of industries
 - Less skilled native and immigrants work mostly in different industries.
- Wage impacts
 - We need to separate the effects: relative vs. average
- Immigrants have a net positive fiscal impact
 - They pay, although less than natives
 - They do not benefit from it as much as natives

Thank you

Question/comments?