The Economics of Immigration
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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
  - 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.
    - 15% 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 $80 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
  - Agriculture
    - New technology needs better trained personnel

- 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%.

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’
    - 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