

***“Give Us Your Poor, Your Tired, Your
Huddled Masses Longing to be Free”***

The Economics and Policy of Immigration to the U.S.

The Steinhardt Lecture

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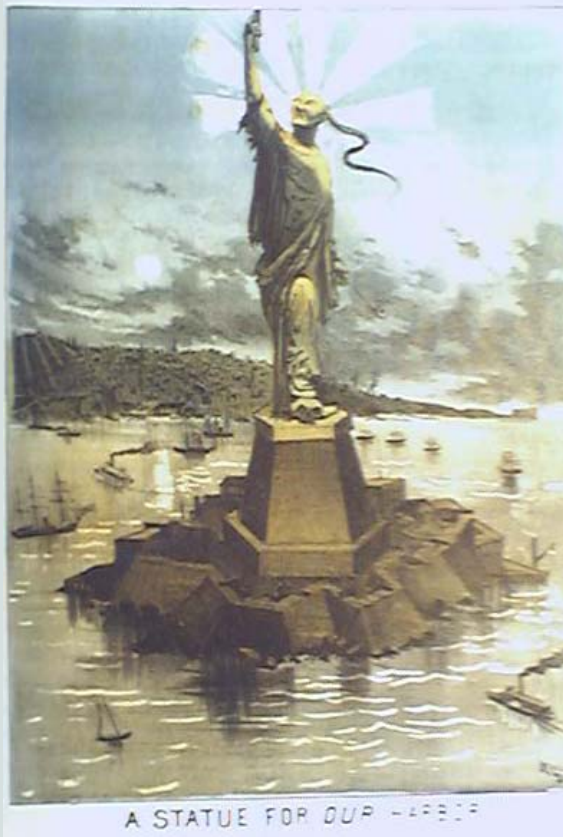
The Huddled Masses back then (circa 1895)...



And now (circa 2000).



The controversy back then...(circa 1905)



And now (circa 2007)



Tom Tancredo born of Adeline Lombardi and Gerald Tancredo



Protesters on May Day 2007

Migration to the U.S.

- A Global Issue: a bit of History and Geography
- Three Irresistible Forces for International migrations
- The US:
 - What type of immigrants?
 - Labor Market Impact
 - An Aside on the Brain Gain
 - Fiscal Impact
 - Impact on Public Opinion
- Some thoughts on policies and political feasibility

Is Labor Internationally Mobile in the Global Era?

Export as % of World GDP	27%	Goods' price ratio richest/poorest	1.9
Foreign Investment as % of total investments	15-20%	Cost of capital ratio richest/poorest	1.4
Migrants as % of world population	2.9%	Wage differentials richest/poorest	12
International tourism/business arrival per year as % of world population	14%		

Source: Richard Freeman (2006) "People Flows in Globalization" NBER WP 12315
 Period: early 2000's

“All but Labor” Globalization

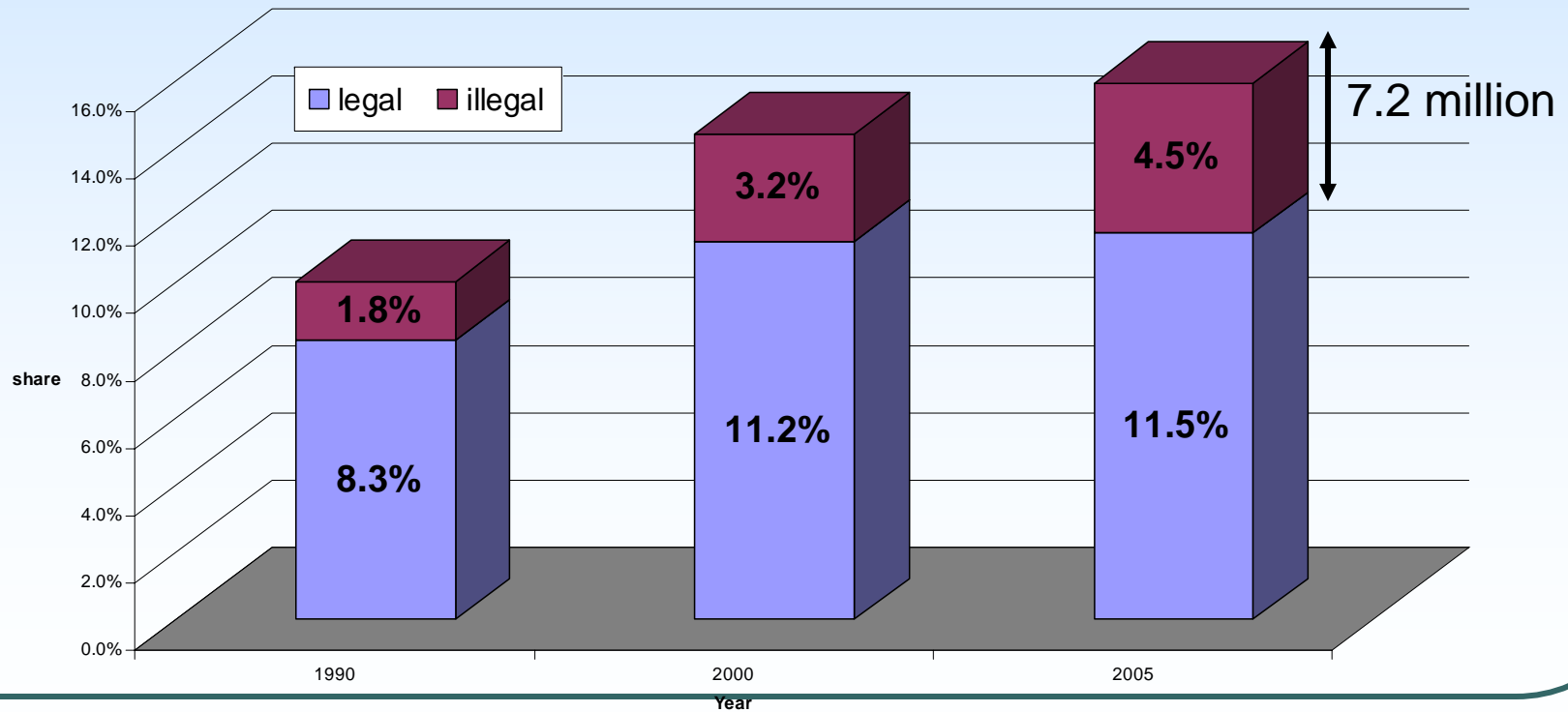
- Labor is much less mobile across countries than goods, capital and technology which are increasingly free to move.
- The notion that labor movements are not “necessary” or “desirable” to raise living standard of countries has dominated policy making across the world in the last decades.
- Relaxing only mildly immigration restrictions (allowing up to 3% of guest country labor force) would be by far the most effective poverty reduction measure for the world. Larger effects than fully liberalizing trade in all goods.

Immigrants in the US, 1990-2005

USA,

Bureau of Census Data

Foreign-born as share of employment

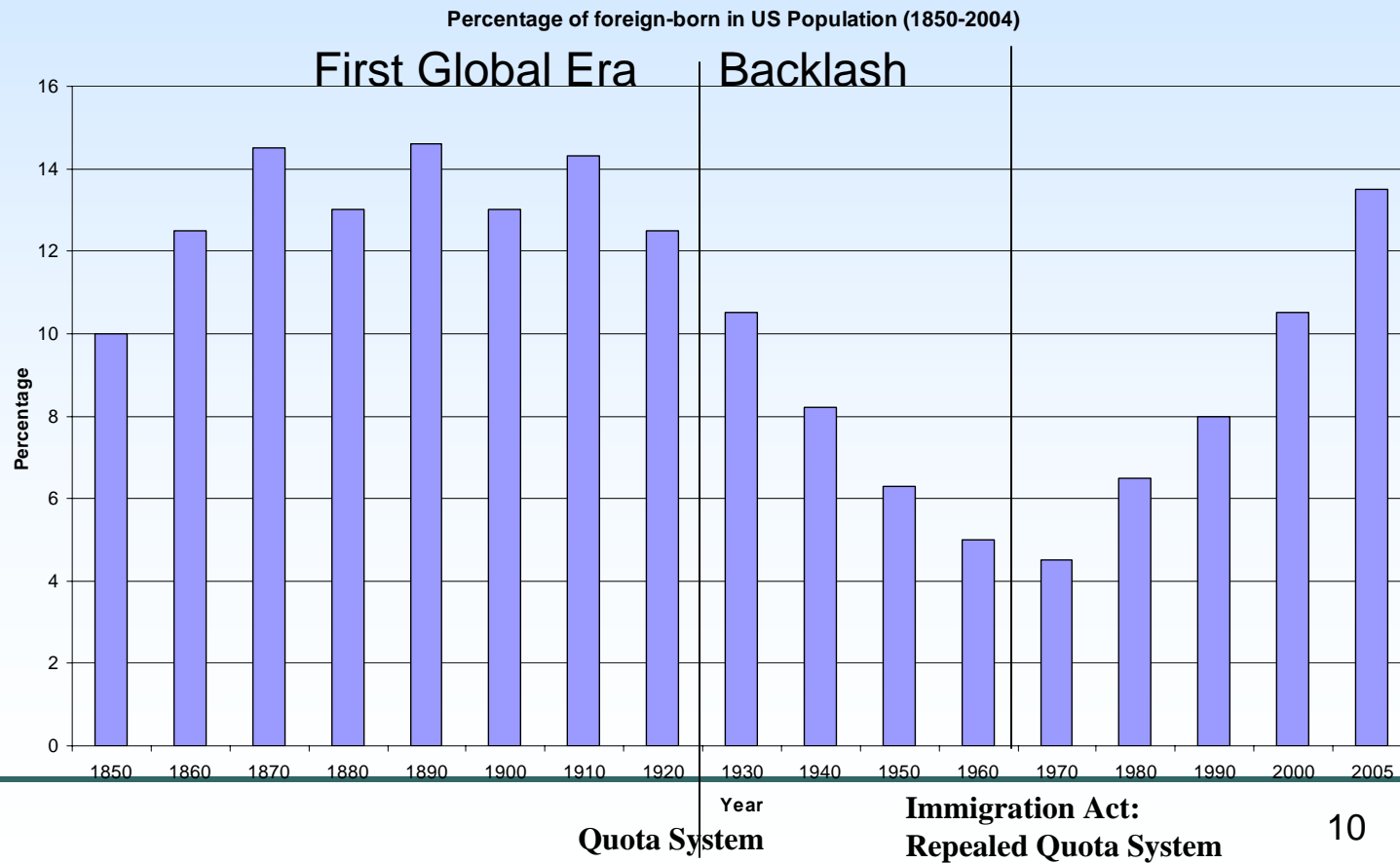


INS report, 2004

J. Passel, 2005⁹

In Historical perspectives as % of population

USA Bureau of Census



Still the public opinion is much more adverse to immigration than trade

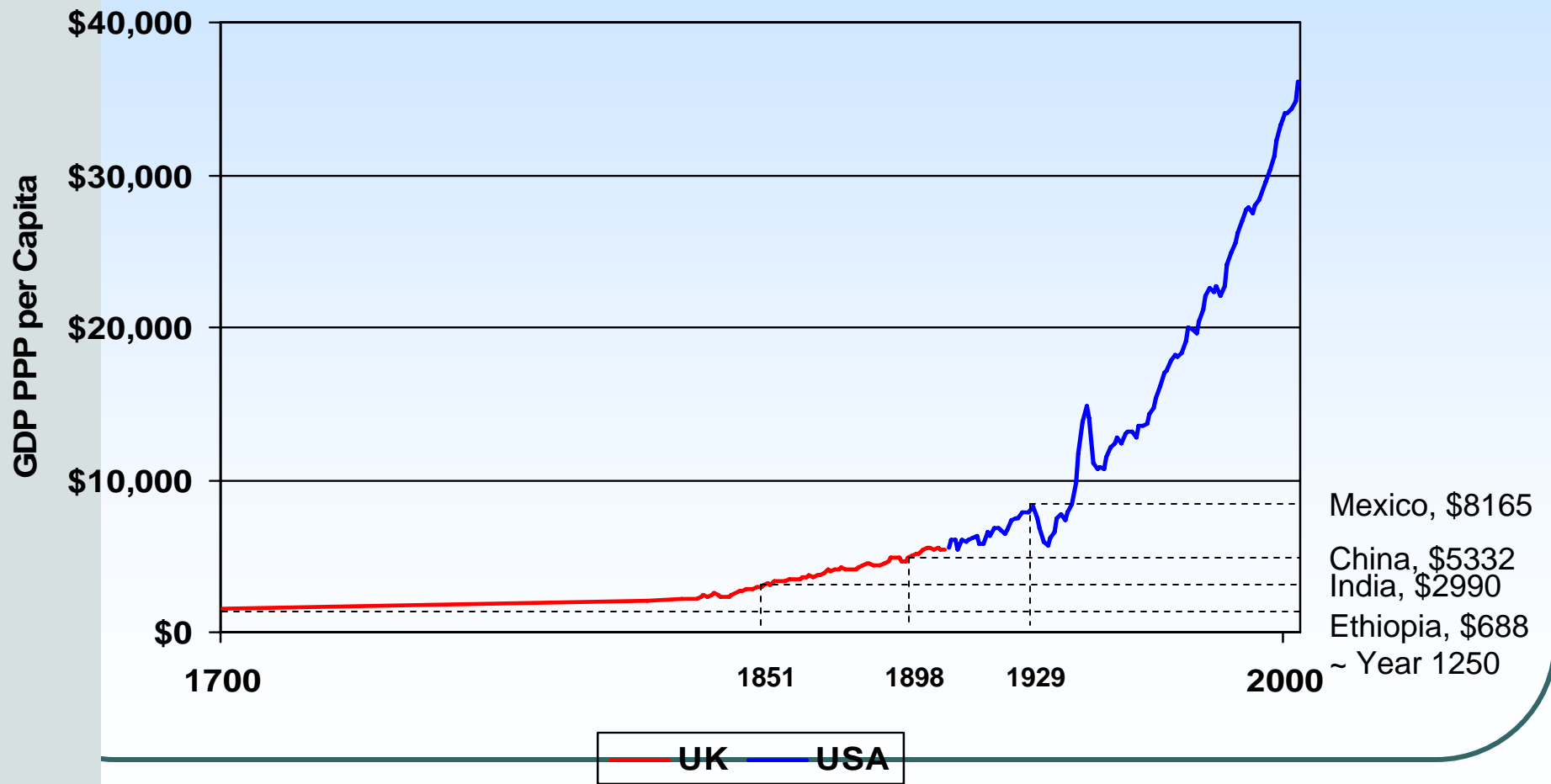
- PEW global attitude report (2007)

	USA	France	UK
Percentage saying “trade is good for the country”	59%	78%	78%
Percentage saying “we <u>should not</u> further restrict immigration”	23%	31%	22%

First Irresistible force for Migrations

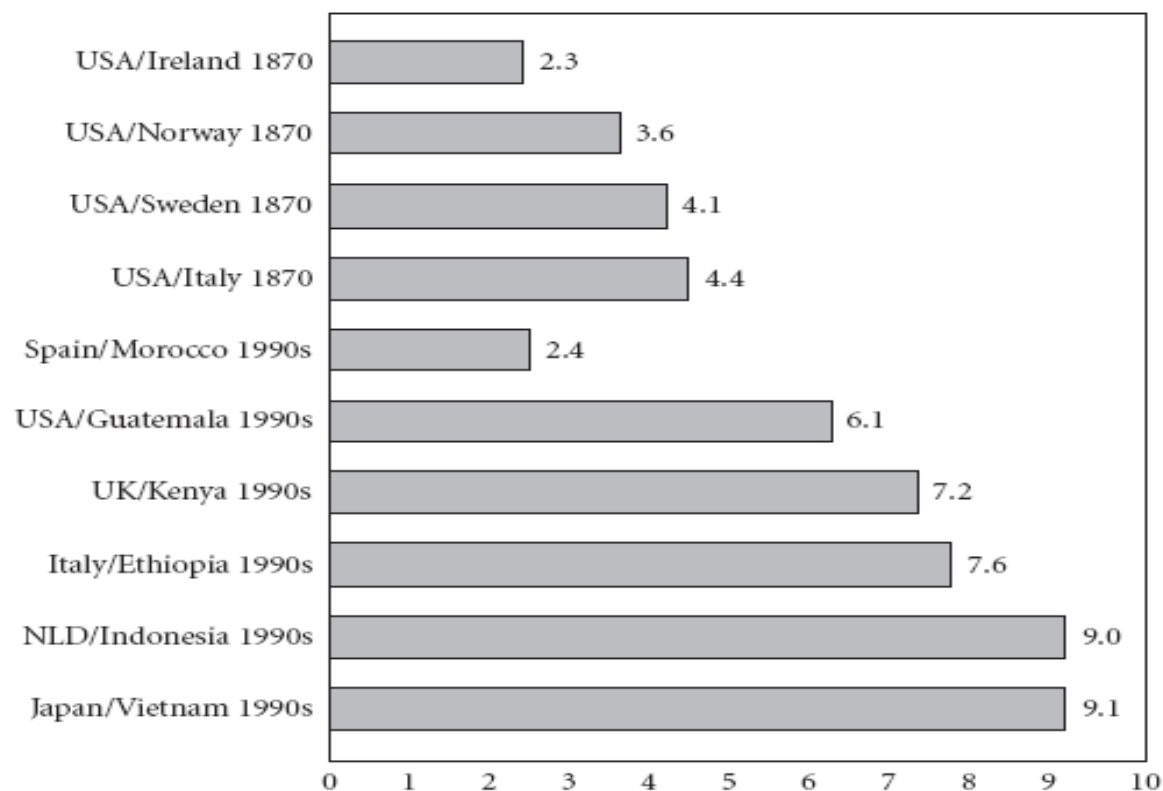
- The **real wage gaps** between potential sending and receiving countries are in the order of 8 to 1.
- This is much higher than the gap between sending and receiving countries in the first global era (which was closer to 2-3 to 1) and likely to increase further.

Steady growth of the economic leaders have left the followers countries far behind...



And wage Gaps between immigration and emigration countries are now much larger

Ratio of wages in PPP



Sources: O'Rourke and Williamson 1999 (wages in 1870); Rama and Arcetona 2002 (wages in 1990s).

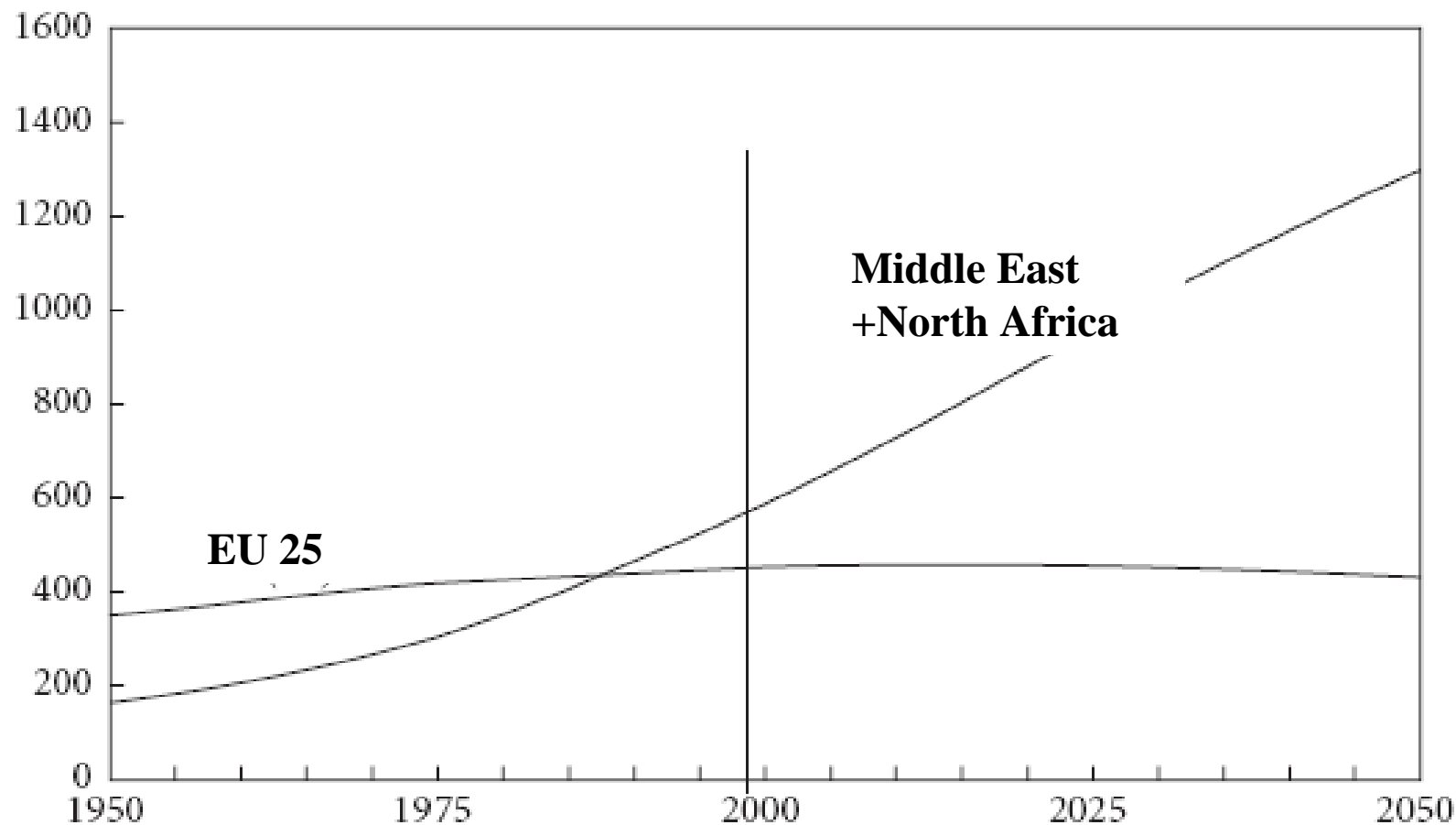
a. Ratios of wages adjusted for purchasing power parity, or PPP, of the United States and its migration partners in 1870 and pairs of countries in the 1990s.

Second Irresistible force for Migrations

- Different demographic Future.
 - The current rich countries of Europe, north America and Japan have an ageing (and some a shrinking) labor force.
 - Labor force of Latin American and Middle-East, South East Asia and North African countries are younger and growing faster.
 - This is more dramatic for Europe and Japan than for the US. Moreover this is a transition: as countries undergo demographic revolutions the imbalance will decrease (China has already experienced it, Mexico as well).

Figure 1-4. *The Relative Populations of the European Union (25 Members) and Its “Muslim Tier,” 1950–2050*

Population (millions)



Source: United Nations Department of Economic and Social Affairs 2002 (Paul Demeny seminar slides)

Third Irresistible force for Migrations

- Increasing demand for basic non-traded services and decreasing share of workers with low education in rich countries.
 - Women labor force participation, aging population, rising income and education has increased demand for some services
 - At the same time, the share of US workers with no high school degree has decreased (see below)
 - Technology has been better at substituting “routine production tasks” (bookkeeping, clerical work, manual routine tasks) than “manual non-routine tasks”

Share of US-born workers with no high school degree (US census)

1960	1980	2000	2005
0.50	0.22	0.14	0.11

At the same time the employment share of “service occupations” has increased between 1980-2005 (Autor and Dorn 2007)

US Department of Labor in 2005 forecasted large employment increases in occupations such as

- Food preparation and service
- Waiters
- Vehicle Drivers
- Nurses Aids
- Building and Ground Cleaning jobs
- Home health aides
- Landscapers

- Total of 5 million jobs by 2010.

- Typically manual, Non Tradable, associated with low education

However...

- Technology could solve the problem (substituting for labor). But so far most technology (IT) has not substituted for manual “non-routine tasks”.
- And there are plenty of workers in the world that would increase their wages 4-5 times providing those services at lower cost than technology currently does.

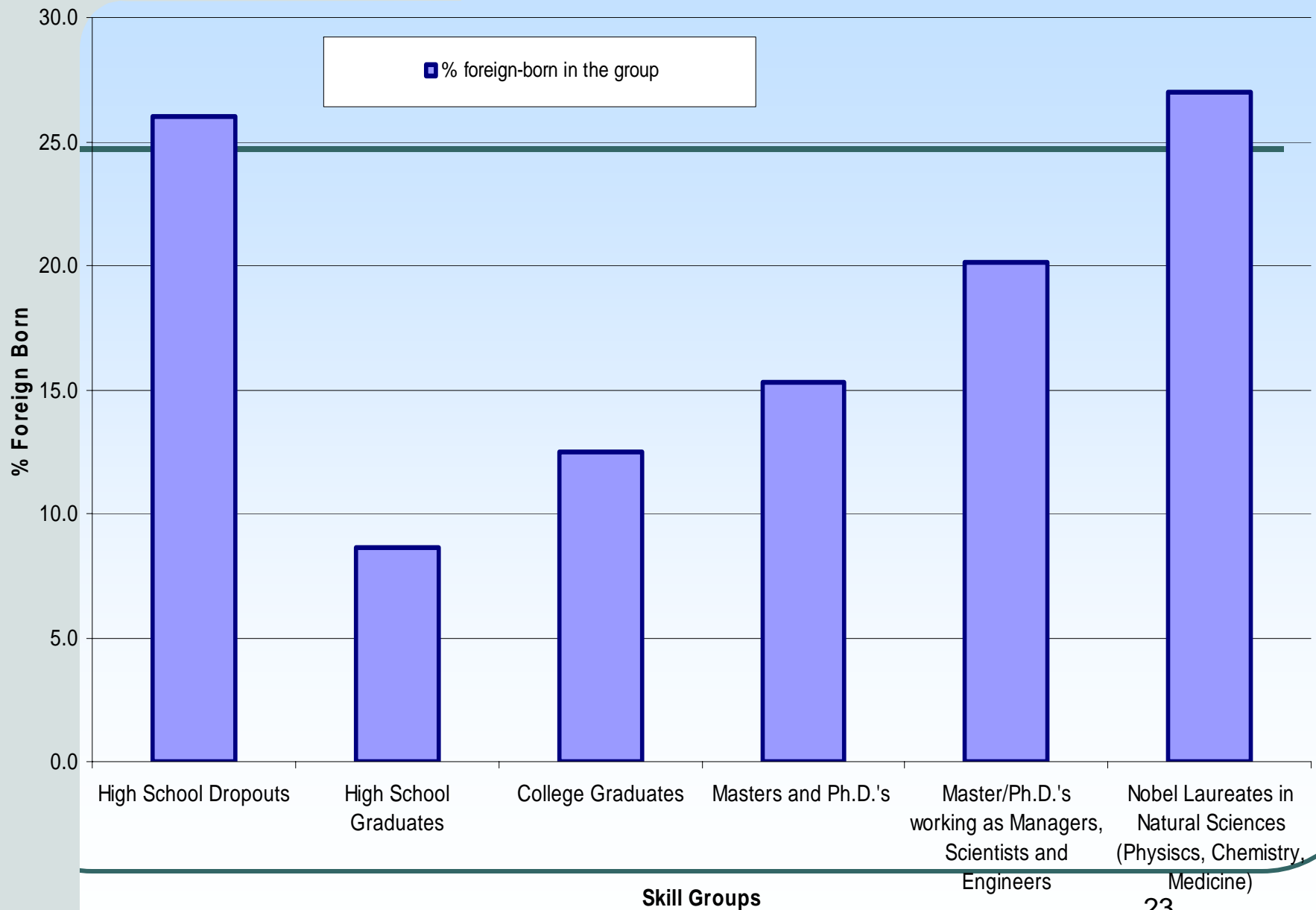
Are the nurses of the future Robots or Rosalie?
It is pretty clear that Rosalie is a way better than Robot



Focus on the USA 1980-2005

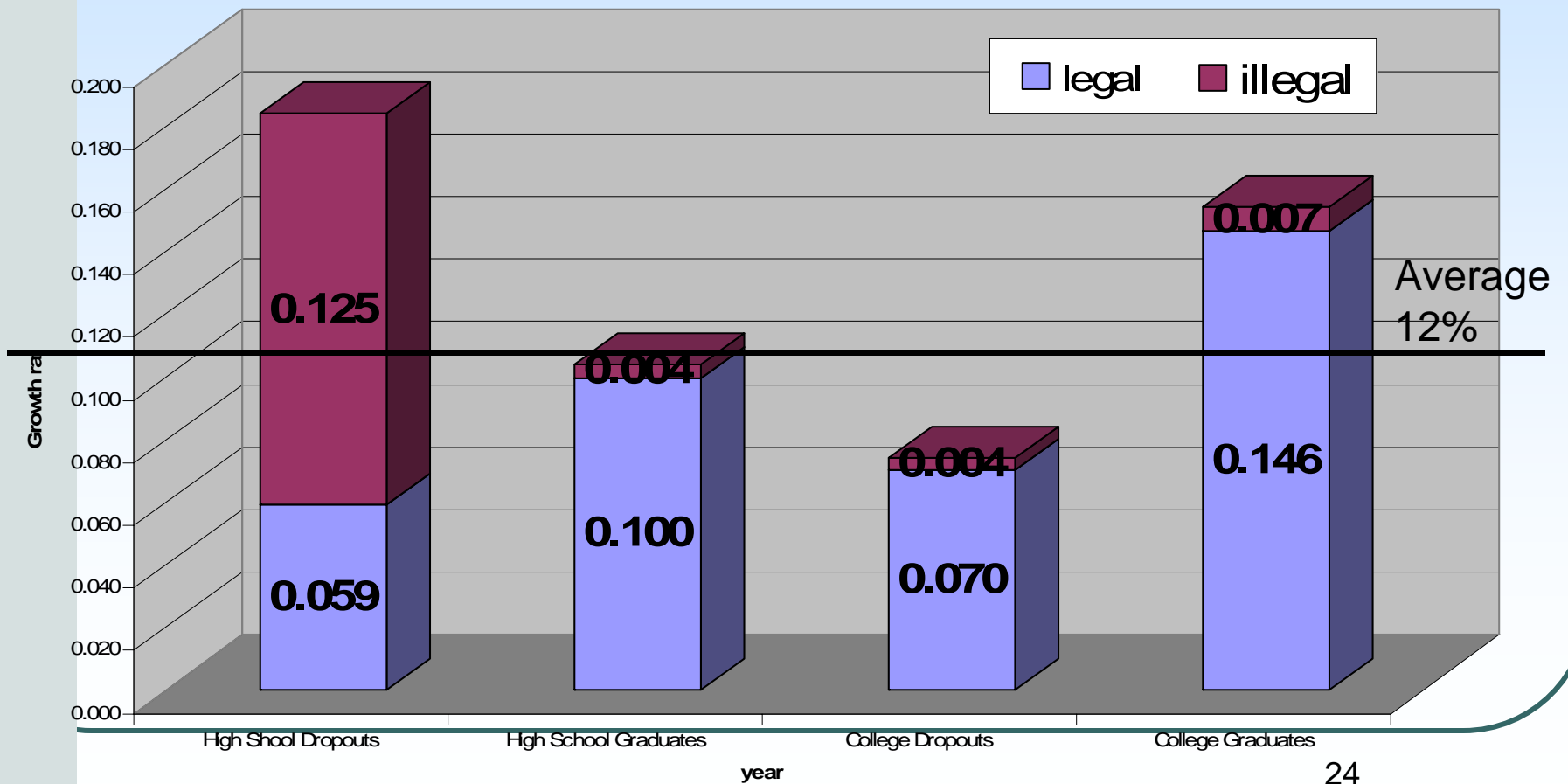
- What type of Immigrants?
- Wages and Inequality
- The Labor Market Effects
- The Fiscal Effects
- The Effects on Public Opinion

Percentage of Foreign-Born by Skill Group in the USA, 2005



What kind of recent immigration? 1990-2004. Attempting to count illegal aliens

Growth of employment due to immigrants, 1990-2004

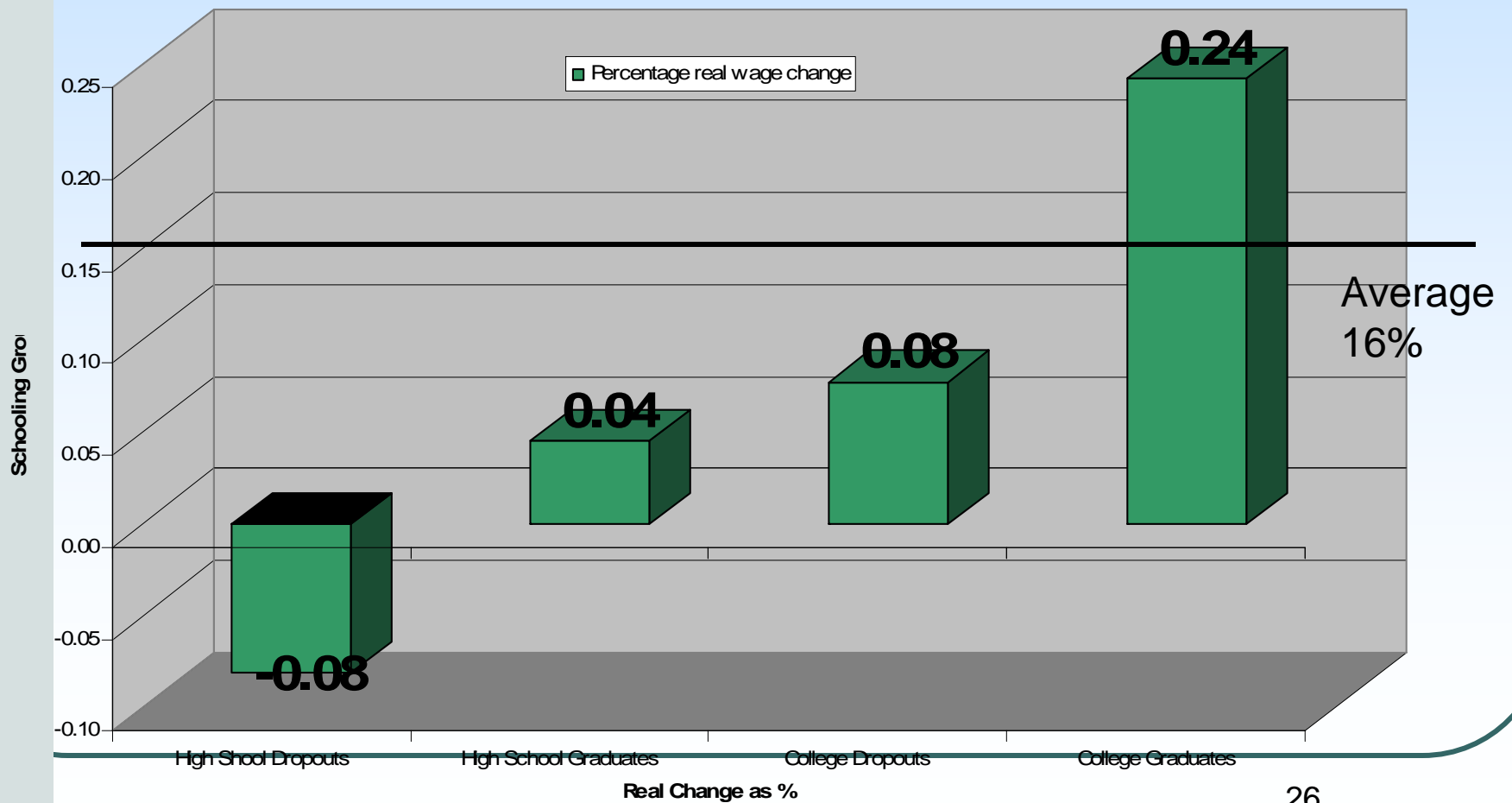


Underlying issue

- US workers with an high school degree or less have experienced much smaller increases in their real wage than workers with a college degree or more, during the period 1990-2005.

Growth of real wages, 1990-2004

Real wage change in %terms, 1990-2004



But is it Immigration?

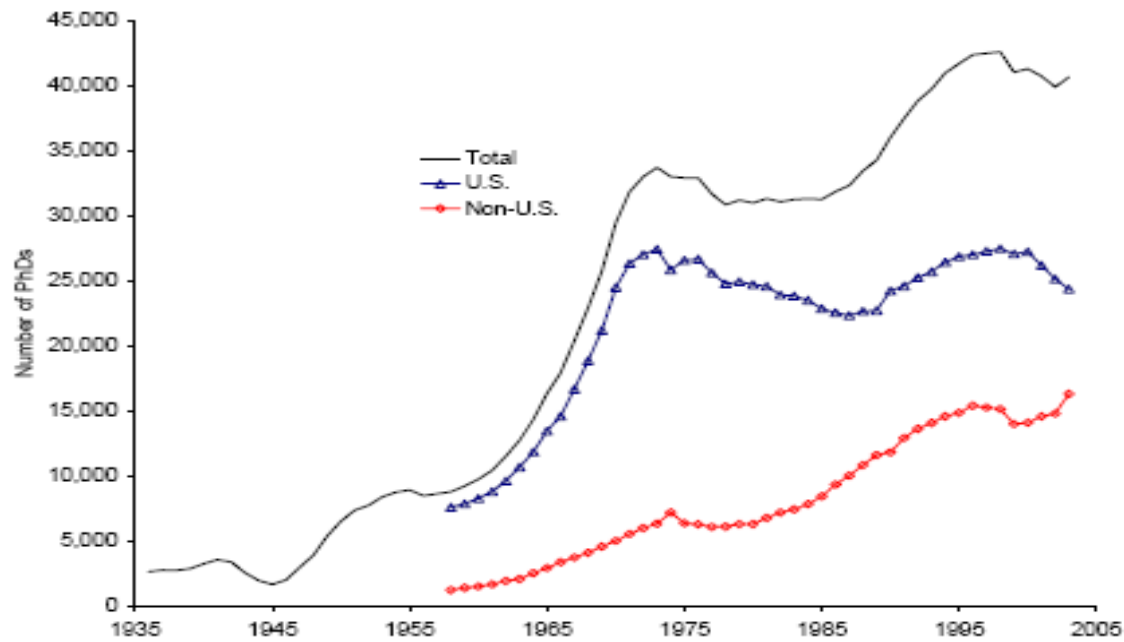
- The large relative inflow of less educated immigrants can only explain 1-4% of the 24% underperformance of wages of less educated relative to the average.
- Moreover immigration is likely to have a positive long-run effect on the average U.S. wages by:
 - Promoting investments
 - Inducing specialization in “complementary jobs”
- Economists believe that most of the worsening of inequality is due to technology, trade and possibly institutional features

An Aside: Brain Gain

- As science and technology become increasingly international, access to the best brains in the world is a huge advantage. A country would not want to be restricted to national pools
- Leadership in science and technology and related innovation and advancement are the acknowledged engines of US economic leadership.

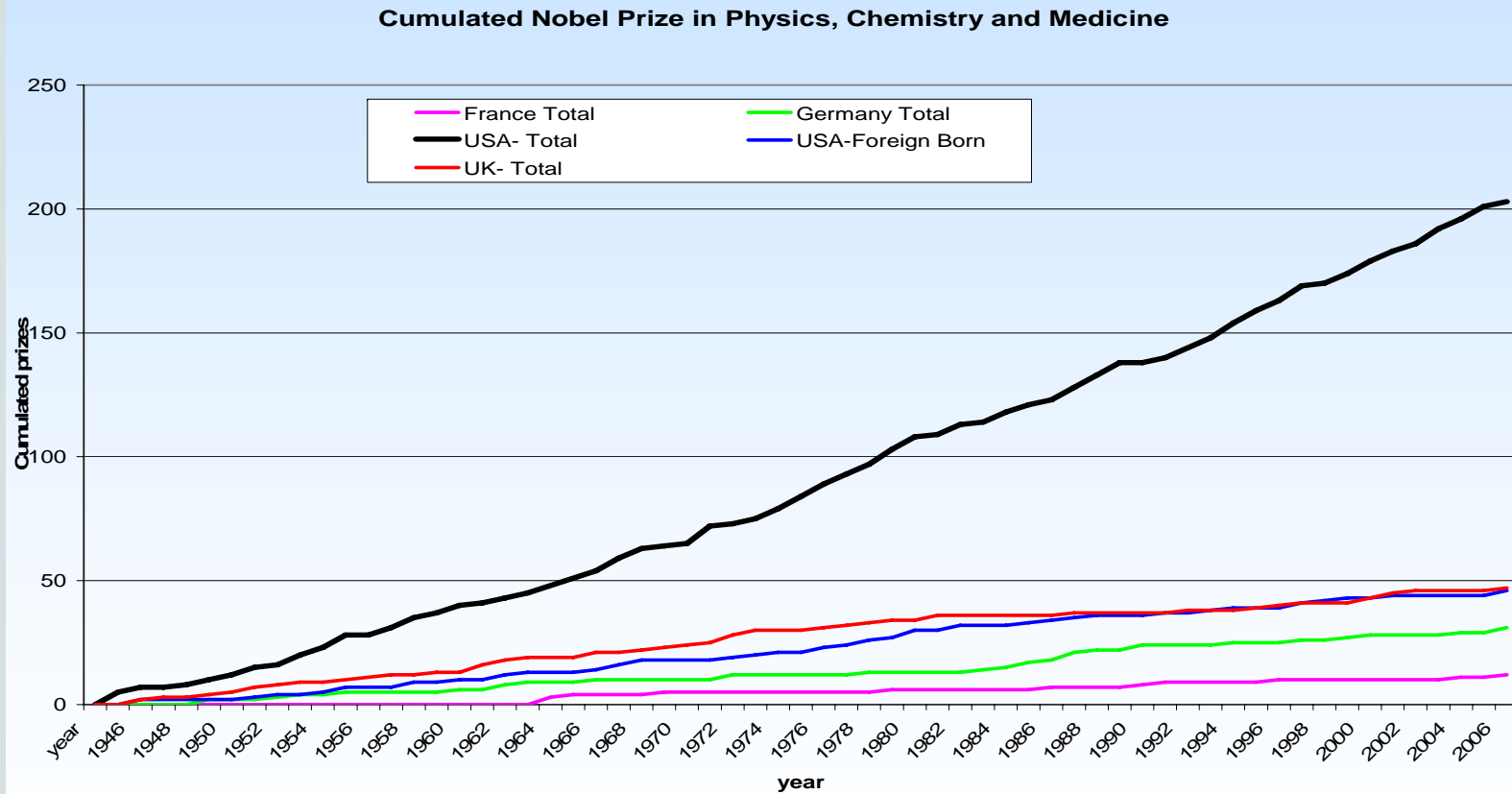
PhD's in Science and Technology 1935-2005

Figure 1. PhD Degrees Awarded by US Universities and National Origin, 1958-2003



Source: NSF, *Survey of Earned Doctorates* microdata and, before 1958, National Academy of Sciences (1958). National origin is defined by the country in which an individual went to high school.

Cumulated Nobel Laureates 1945-2006



Foreign-Born in US: the second largest group of all

Summing up

- Even using the most pessimistic estimates one can attribute to total immigration only a seventh of the difference between low skill and high skill wages performance in the 1990-2004 period.
- Due to differences in overall skills, “complementarities” and benefits from specialization there was likely a positive effect of immigrants on average US wages (1 to 2 %) over last 10 years.
- Very highly Educated immigrants are likely to have a large impact on science and technology, although a clear quantification is a bit harder

Fiscal Impact

There are large differences in “Snapshot” calculations (current impact of immigrants) and “forward looking” projections (immigrants over the whole lifetime).

Each person as young is a net beneficiary, as adult a net contributor and as old a net beneficiary

- Many assumptions are needed to obtain estimates: use of welfare by immigrants, how we consider education costs, how we treat U.S.-born children, etc.

Estimates

- A National Research Council study of 1997 that finds a negative snapshot impact but a positive lifetime contribution of immigrants is still the most recent, serious cited study.
 - In general highly educated produce a net fiscal surplus while less educated are a net fiscal cost.
 - Young immigrants have a positive lifetime fiscal net contribution even if they have low education

Age profiles of welfare benefits

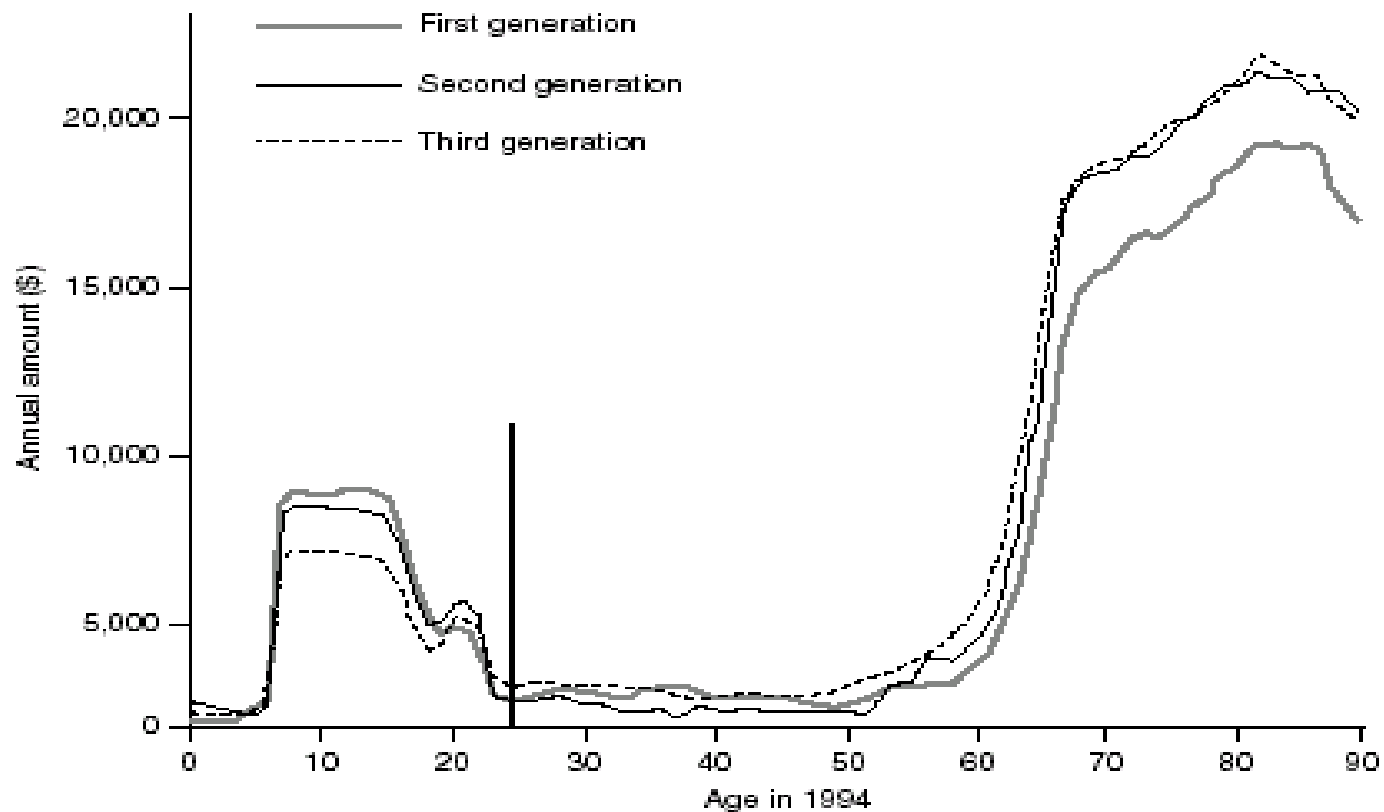


FIGURE 7.7 Combined estimated age profiles of benefits from all programs by immigrant generation. Note: Data are from the March Current Population Survey, 1994 and 1995. Data have been smoothed on a moving window of 1,000 observations using a local regression smoother.

Age profiles of taxes

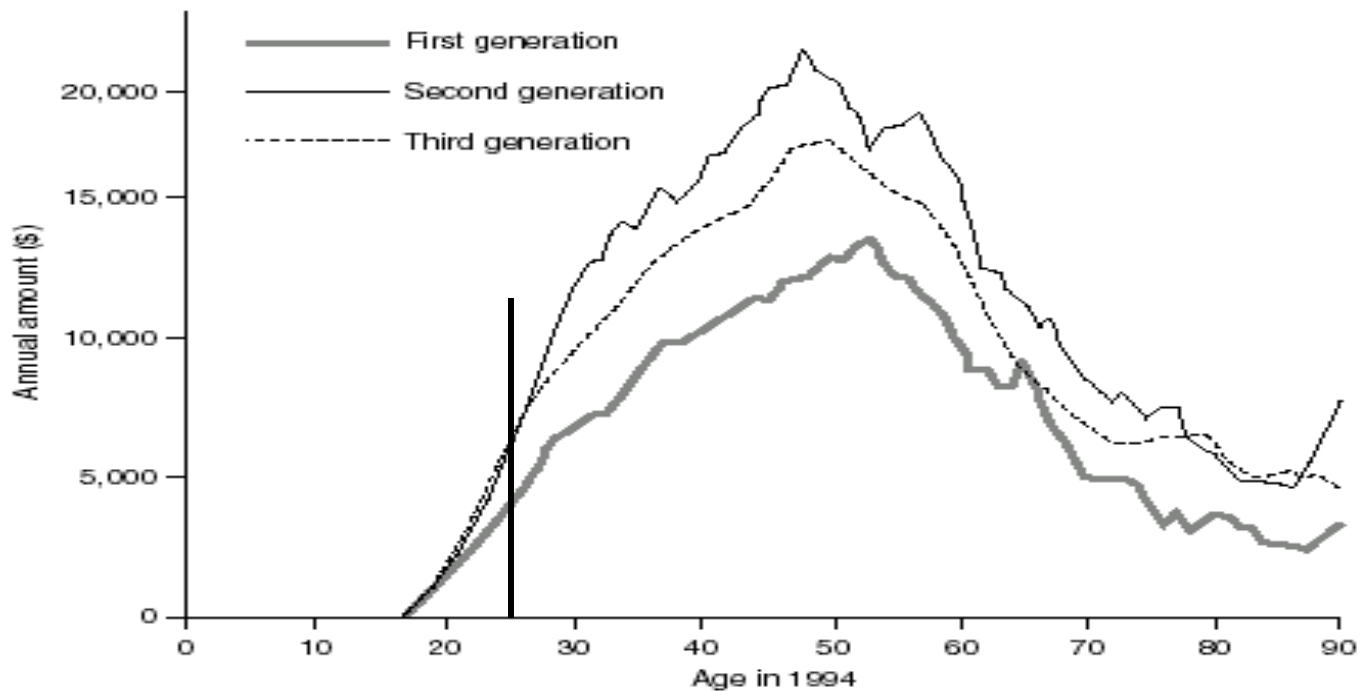


FIGURE 7.8 Estimated age profiles of taxes paid by immigrant generation. Note: Data are from the March Current Population Survey, 1994 and 1995. Data have been smoothed on a moving window of 1,000 observations using a local regression smoother.

Fiscal Impact: Opinions

- More than the actual impact what matter for politics is the “perceived one”
- Citizens of states (countries) with large redistributive policies (unemployment benefits, welfare transfers, public provision of health and education) fear more the fiscal Cost of immigration (Hanson, Scheve and Slaughter 2006).
- This is not true of Trade, which has similar wage implications but little fiscal implications.
- This is different from the first globalization 1890-1910 (non-existent welfare state)

Example of Texas and California 1990's

- Texas: low safety net and low taxation, a Republican governor (George W. Bush) embraced pro-immigration policies.
- California: progressive income taxes and generous public benefits implied that high income voters induced the republican governor (Pete Wilson) to restrict benefits to immigrants (prop. 187).
- The same type of perception may explain the stronger anti-immigration feelings of most Europeans

Some Policy Considerations (If Time Allows)

- The gridlock in the debate about freer labor mobility is common to all rich countries.
- European and Japanese are even tougher on immigrants than Americans are.

Policy Gridlock: The all or nothing trap

- Nationality is a legitimate base for discrimination.
 - A Haitian in Haiti is no concern for US government
- However presence on the national territory is base for moral concern
 - If the same Haitian arrives to the US the concern increase infinitely.
- This costs political feasibility and traps immigration in the all or nothing debate.
- Access to the country labor market need not imply access to all privileges. We need a more pragmatic approach.

Labor Market Access

- Gulf countries have very large flows of immigrants from India, Bangladesh and Pakistan because they allow a bare-bone access to labor market.
 - The result is political feasibility and very large benefits for immigrants (wages larger by a factor 2-3)
- Economists estimate that allowing immigration equal to 3% of rich country labor force would produce gains to workers in poor countries 7 times larger than those from all international aid.

Some ideas to break the gridlock

- 1) Consider the possibility of bilateral arrangements that tackle specific relations (Mexico-US). Same way we started in trade negotiations.
- 2) Put on the table restricted but feasible labor market access measures such as temporary visa, or auctioned guest-worker visas at reasonable cost. Or temporary visa with “tenure” system.
- 3) Involve the sending country in enforcement and managing the temporary visa system.

Conclusions: What have we learned?

- Allowing some International migrations would certainly be the most effective measure of world poverty reduction.
- This would be reached with average economic benefits in the host country, due to efficiency and productivity gains but some “adverse redistribution”.
- The inflow of highly educated is becoming an important competitive edge in the global economy
- Smaller government size imply lower aversion in the public opinion to immigration and still most of the market-mediated gains.

Conclusions: what else should we study?

Where does the vastly negative reaction to immigration come from?

- First, perceived fiscal cost of immigrants at the local level if they use public goods (such as hospitals and schools) more than natives do.
- Second, people seem to attribute positive value to living in ethnically homogeneous neighborhoods and to sending children to school with better-educated high-income families. There may be important peer effects in education and learning.
- Third, opinion polls suggest that people care significantly about the “threat to local culture” argument (culture-differences)

Main Sources

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- Why Do Immigration divide America? Gordon Hanson, 2005
- People Flows in Globalization, NBER Working Paper, Richard Freeman, 2006
- Immigration's Economic Impact "Council of Economic Advisers, Washington DC, 2007
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- Rethinking the effect of Immigration on wages, NBER working Paper, Ottaviano and Peri 2006
- Heaven's Door, Jorge Borjas, 1999
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