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# Carl Snyder Memorial Lecture

## Immigration: Trends, Impacts, Policies

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## Background

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- there is wide debate about the effects of immigration on economic/social outcomes
- immigrants now make up 14% of US population (from low of 5% in 1970), and account for about 1/2 of population growth
- economic analysis can inform the debate and provide insights into some of the sources of controversy



## Goals for this lecture

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1. Highlight some of the main forces behind the supply and demand for immigrants in the US
2. Synthesize the evidence on labor market effects of immigration
3. Discuss the formation of attitudes toward immigration policy, and evidence on the importance of different factors in this process

# 1. Supply and Demand Factors

## a) Supply side

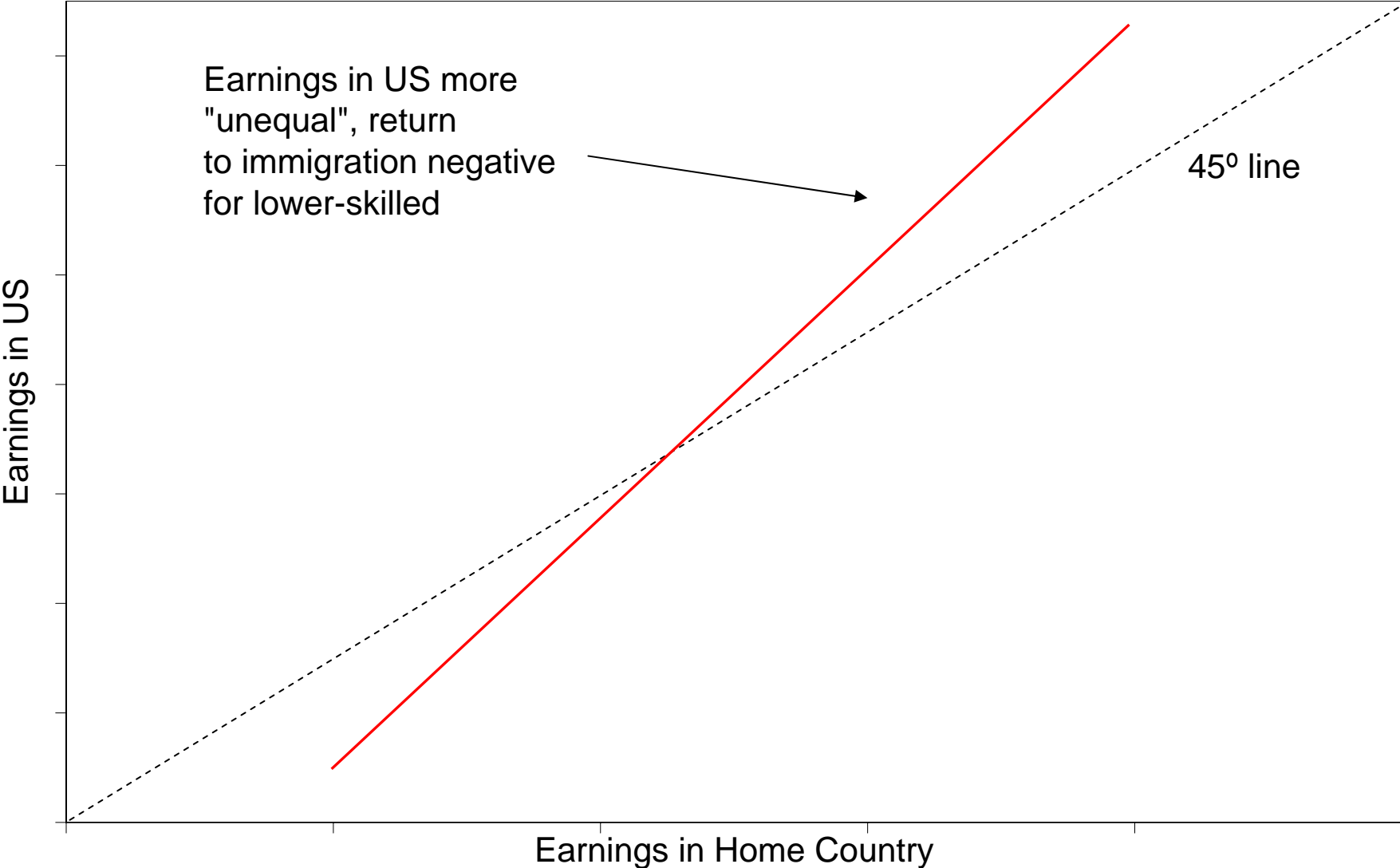
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Cost-benefit comparison for potential immigrants to the US:

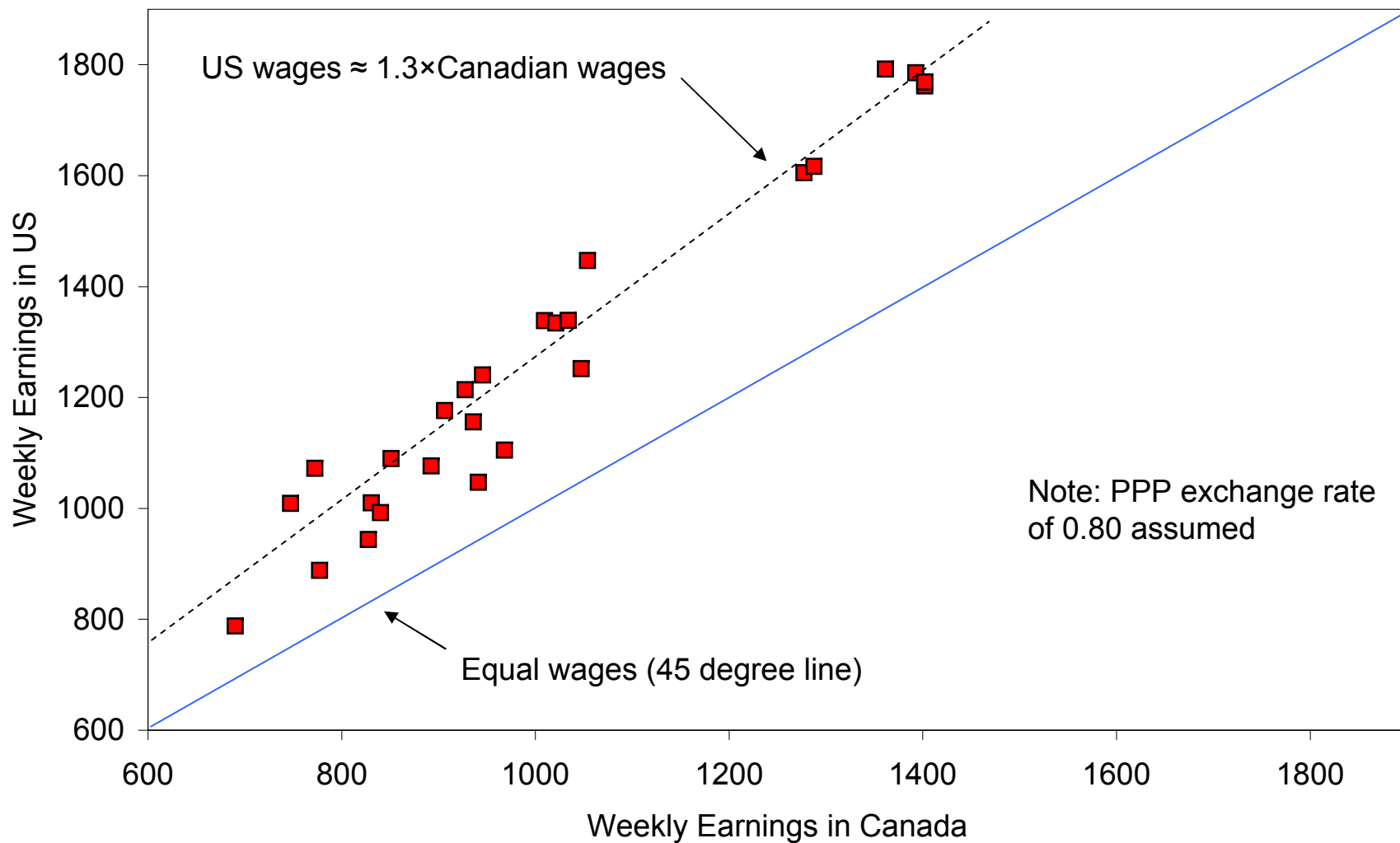
Benefits:  $(\text{net income})^{\text{US}} - (\text{net income})^{\text{home}}$

Costs: - friends/family, social network  
- culture/language  
- *relative* status in US/home

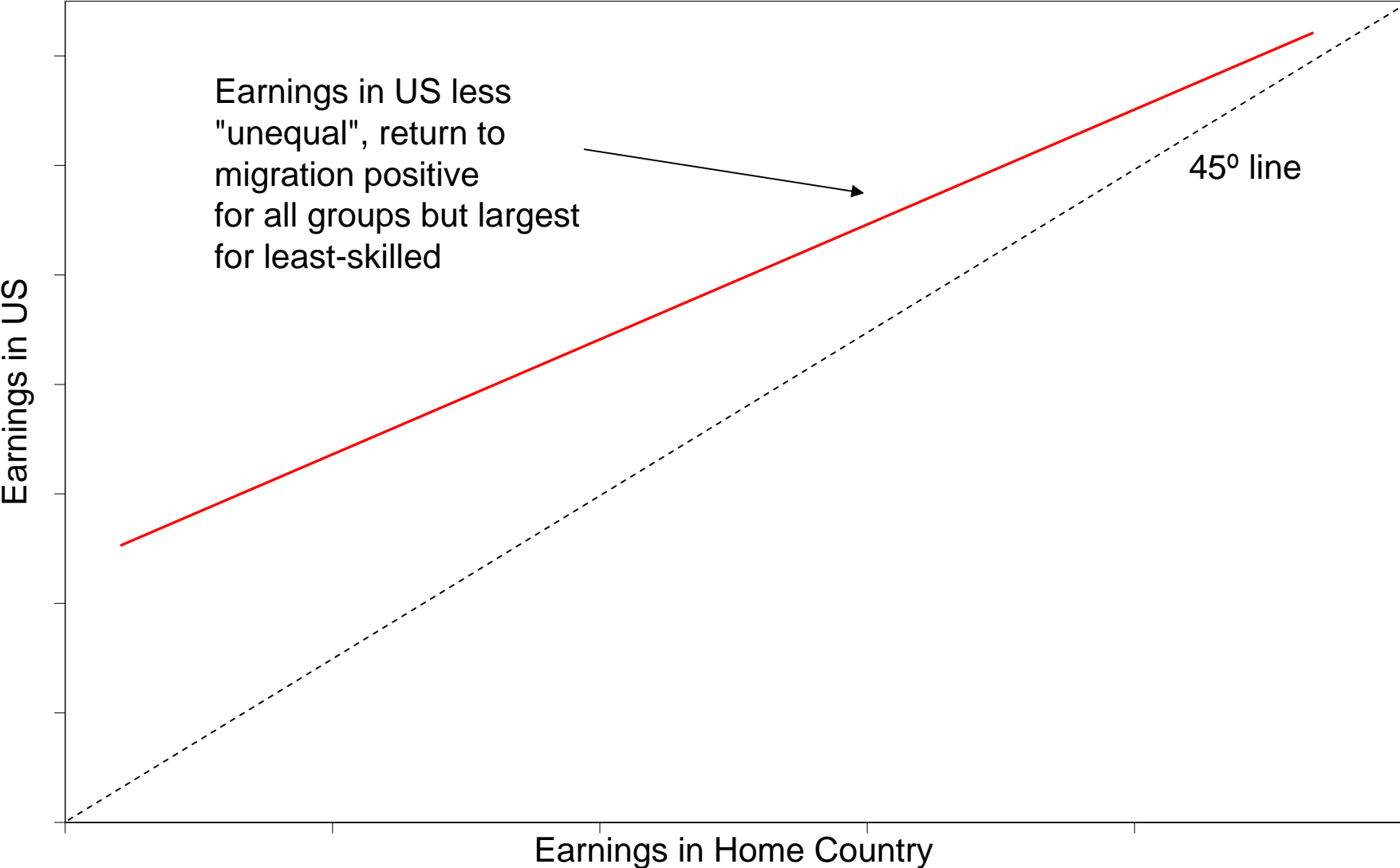
# Potential Gains From Immigration by "Skill" Level



# Earnings of Canadian Men in US vs. Canada (circa 2000-2001)



# Potential Gains From Immigration by "Skill" Level





## Insights

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From developed countries (typically “more equal” than the US), highly skilled workers are most likely to want to come to US

From under-developed countries most people would earn more in the US – though gains are largest for the least skilled

BUT: potential supply from most countries is heavily constrained (e.g. India/China)





## Supply and Demand Factors, con't

### b) Demand-side

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Demand for immigrants =  
Total Demand – Domestic Supply

Trends in demand and domestic supply  
have both contributed to demands for  
various types of immigrants

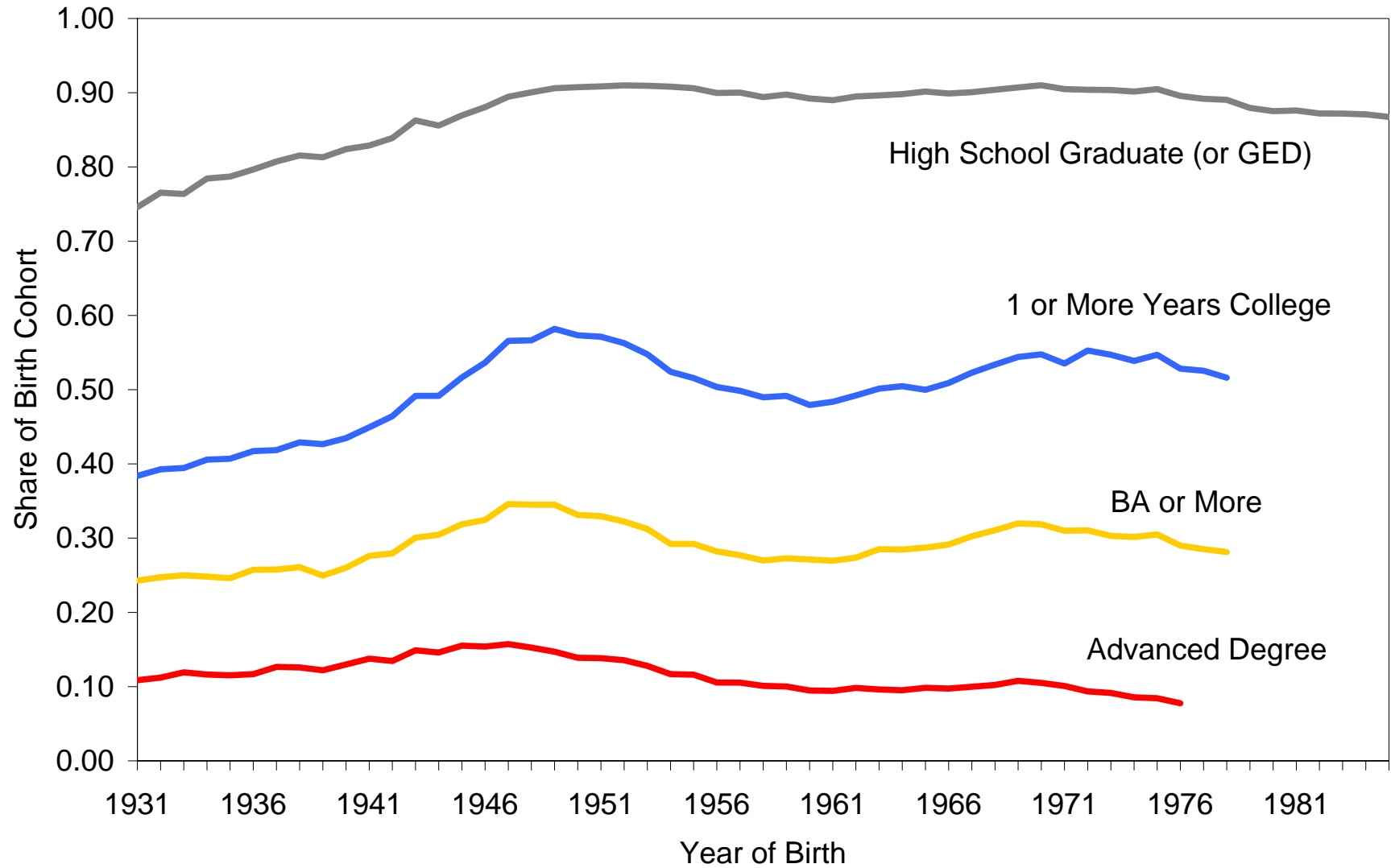


## Demand for High-Skilled Immigrants

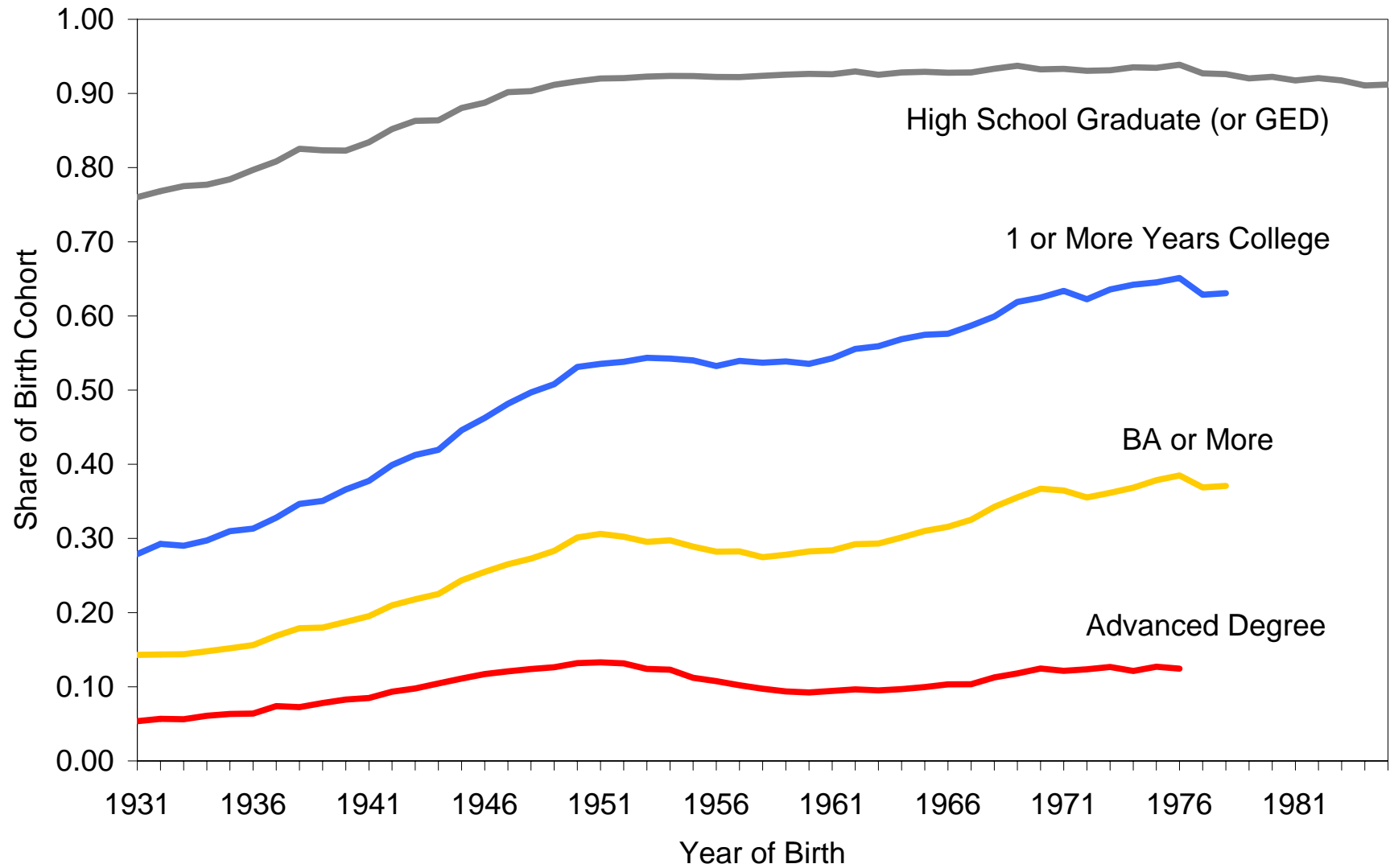
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- New technologies have steadily increased demand for highly-educated workers
- Until the late 1970s the trend in demand was matched by trend in supply
- Starting with cohorts born after 1950, there was a slowdown in educational progress (especially for men)
- Extreme case: advanced degree-holders

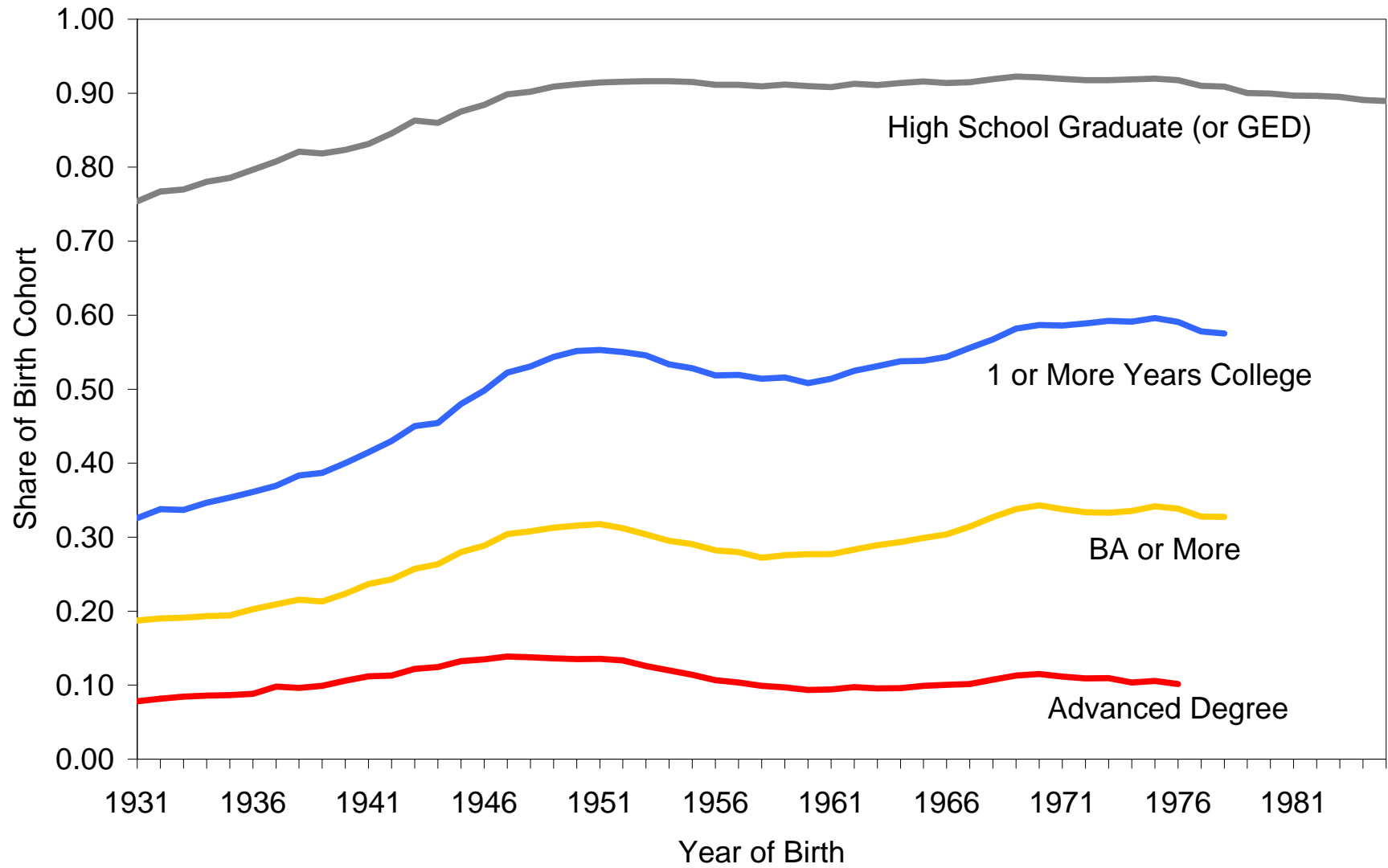
Education Attainment by Cohort - Native Men



Education Attainment by Cohort - Native Women



Education Attainment by Cohort - Native Men and Women





## Demand for Low-Skilled Immigrants

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- Relative fraction of natives without high school has been stable ( $\sim 10\%$ ) since 1950 birth cohort. Domestic supply of dropouts has been declining throughout 20<sup>th</sup> C, but will stabilize soon
- Native dropouts have relatively low LF participation (crime, social program participation....) so their effective supply is less than their population count



## Low-Skilled Demand (continued)

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- US has few regulations that squeeze out the “low wage” sector (low min. wages, payroll taxes, unionization, cost of living)
- US employers (in agric, trade, services) continue to offer “low productivity” jobs (in contrast to Germany, for example)
- high LF participation of women creates demand for low cost services
- tolerance for untaxed/undocumented workers to fill low-productivity jobs



## Insights from S-D perspective

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Rising demand and slowdown in domestic supply have contributed to strong demand for highly-educated immigrants

Relatively stable demand and falling domestic supply have contributed to steady demand for low-educated immigrants

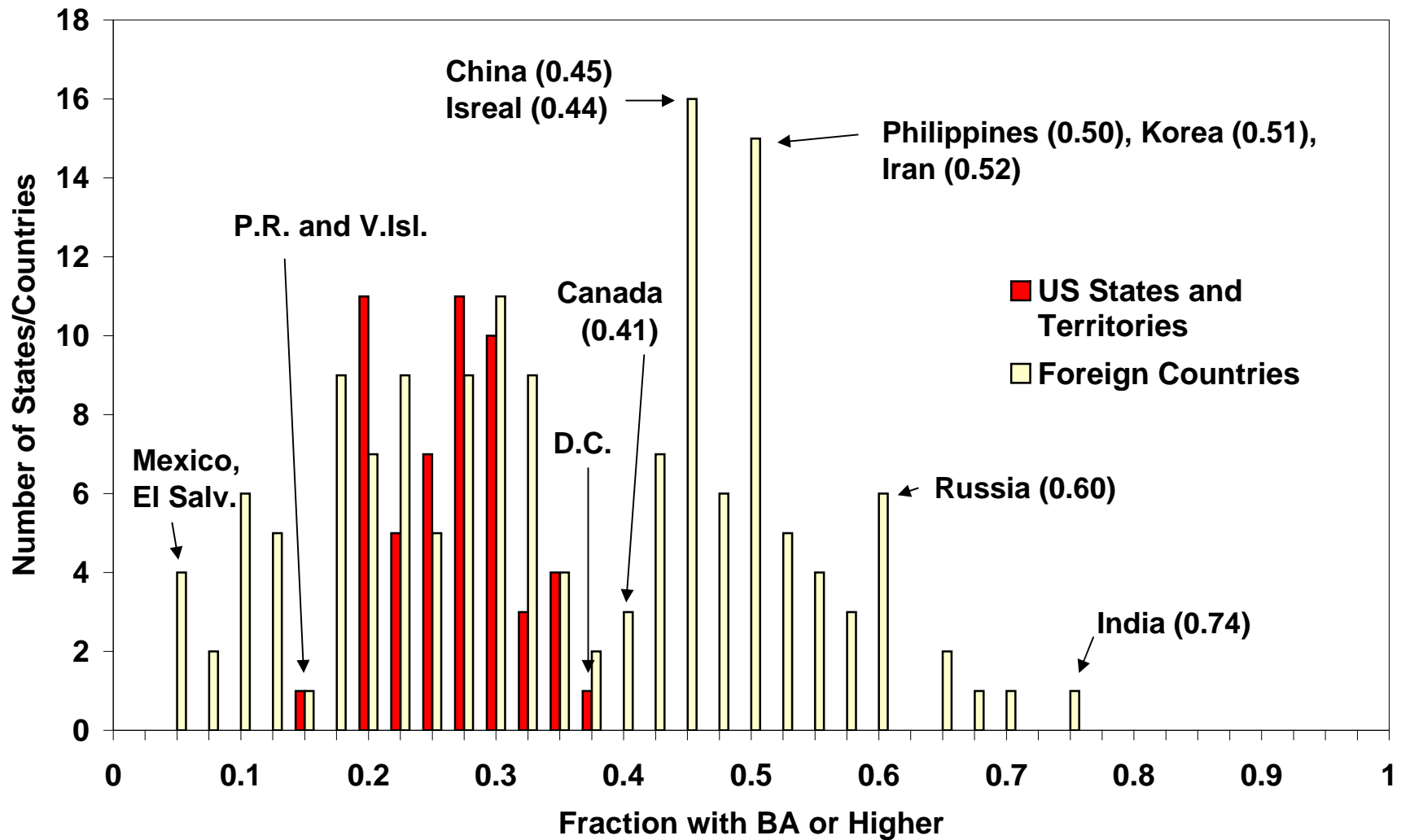




## Immigrant presence at Each Level of Education

	Population (percent imm's)	Total Hours worked (percent imm's)
Dropouts	37.1	44.5
High School Graduates (<1 year college)	12.9	13.0
Some College (1-3 years, Including AA etc.)	10.8	10.4
Bachelors Degree	14.7	13.6
Advanced Degree (MA, LLD, MD, PhD, etc)	18.2	17.9

## Fraction of People with College or More, By Place of Birth





## 2. Impacts of immigrant inflows?

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The basic economic model:

- firms use labor  $L$  and capital  $K$
- labor and capital productivity depend on  $K/L$
- “perfect” capital markets

What happens when  $L$  rises (e.g. immigration)?

- $L/K$  rises and capital productivity rises
- firms invest more, raising  $K$
- eventually  $L/K$  falls back to equilibrium which only depends on the cost of capital
- *supply of jobs adjusts to the supply of workers*



# What about different skill groups?

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Baseline: higher-skilled worker is equivalent to  $1+h$  low-skilled workers ( $h$  depends on technology)

→  $\text{wage}(\text{skilled})/\text{wage}(\text{unskilled}) = 1 + h$

*no effect of immigration*

General case: different groups are “imperfect substitutes”. Relative wage depends on technology and on relative size of each group

Key question: how many separate skill groups?



## Research designs

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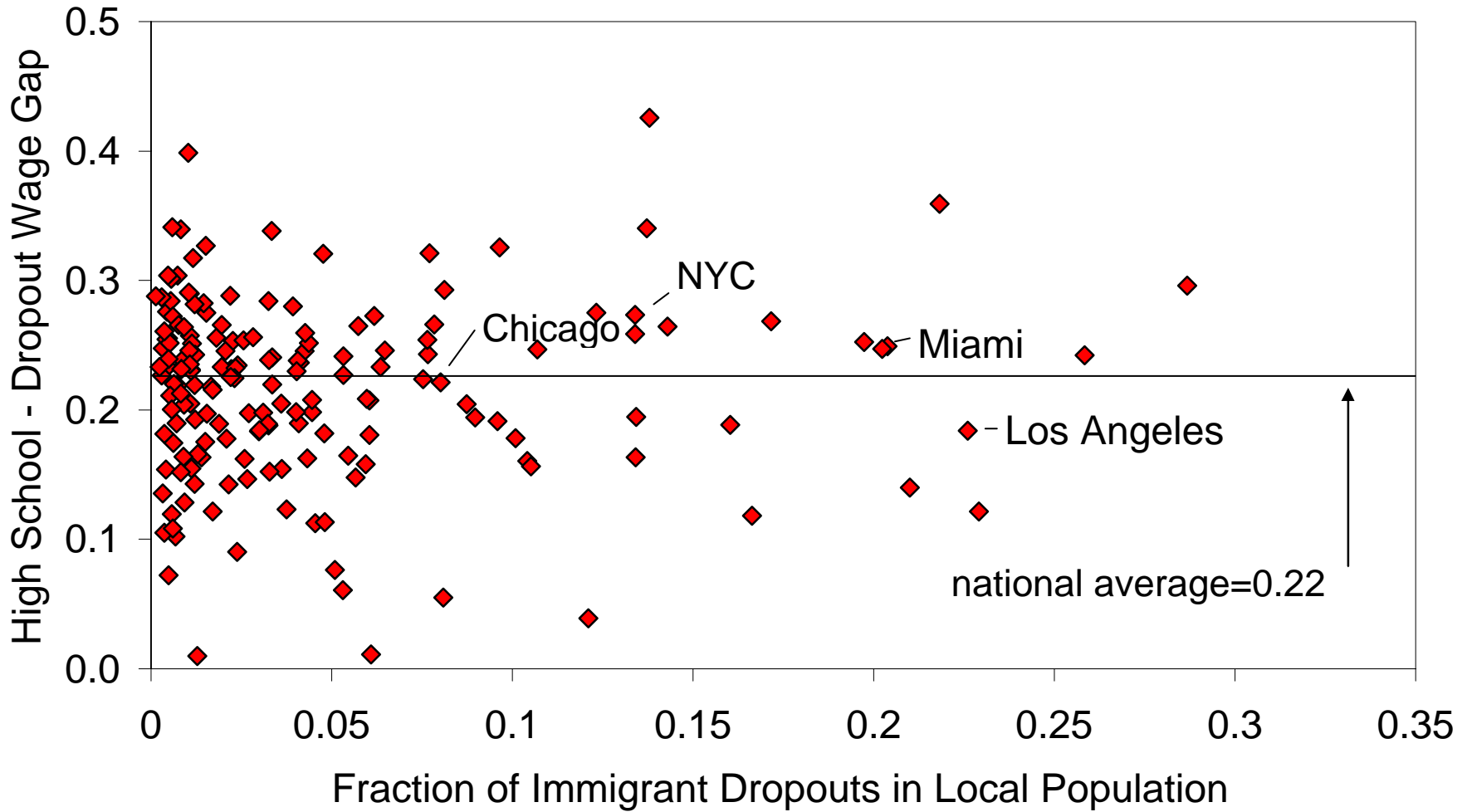
a) Cross-city comparisons. Immigrants are clustered in selected cities:

Los Angeles=48% Atlanta=12% Pittsburgh=3%

On average: more immigrants → more low-education workers in city. But relative wages of lowest-education natives are very stable across cities

Design can be enhanced using 'supply push' component of immigrant inflow to different cities

# High School Wage Premium for Native Men vs. Fraction of Low Education Immigrants





## Research designs (2)

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### b) Big shocks.

Marinel Boatlift (1980) added about 75,000 very low skill workers to Miami labor market in 3-4 months.

What happened to wages/employment rates of low-skilled natives in Miami? - nothing detectable

Similar studies in Portugal (end of Angola colonial war); France (end of Algerian war); Israel (lifting of emigration restrictions from Russia)



## Research designs (3)

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### c) National trends.

-consistent finding: “as if” there are only 2 skill groups – HS and below, college and above  
(as in cross-city analysis, HS/dropout = 1.2)

-immigrants on average have about the same share of “college and above” workers as natives

→surprisingly, immigration over past 3 decades has probably not affected relative wages





### 3. Understanding Attitudes to Immigration

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- dozens of studies show that the wage/employment effects of immigration on natives are small
- many firms and households use immigrant services, both at the “high end” (doctors, nurses, professors) and the “low end” (day care, home health and elderly care, agriculture and construction...)
- nevertheless, many natives are opposed to (or deeply ambivalent about) immigration



## understanding attitudes (2)

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- people care about the direct effects of immigration on their wages and taxes, and on the indirect or “compositional” effects on their neighbors, co-workers, schoolmates, etc.
  - composition concerns are the major driver in choices over where to live, what school to choose,....
  - how do people respond when asked about increasing immigration?
    - expected *change* in net wages  $\Delta(w-t)$
    - expected *change* in composition  $\Delta a$
- net evaluation depends on some function of both



# Card-Dustmann-Preston survey questions

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Indicator questions for net wage effect:

1. *Do you agree/disagree that immigrants **lower wages?***
2. *Do you agree/disagree that immigrants **harm the poor?***
3. *Do you agree/disagree that immigrants **fill shortages?***
4. *Do you think that immigrants **take away jobs from natives or create new jobs?***
5. *Do you think that immigrants **take out more (in social benefits) than they put in (in taxes)?***



## CDP questions (2)

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### Indicator questions for compositional effects

1. *Do you agree/disagree it's better if everyone shares the same customs and traditions?*
2. *Do you agree/disagree it's better if everyone shares the same religion?*
3. *Do you agree/disagree it's better if everyone shares the same language?*
4. *Do you think that immigrants undermine or enrich the culture of the country?*
5. *Do you think a country should stop immigration to reduce social tensions?*

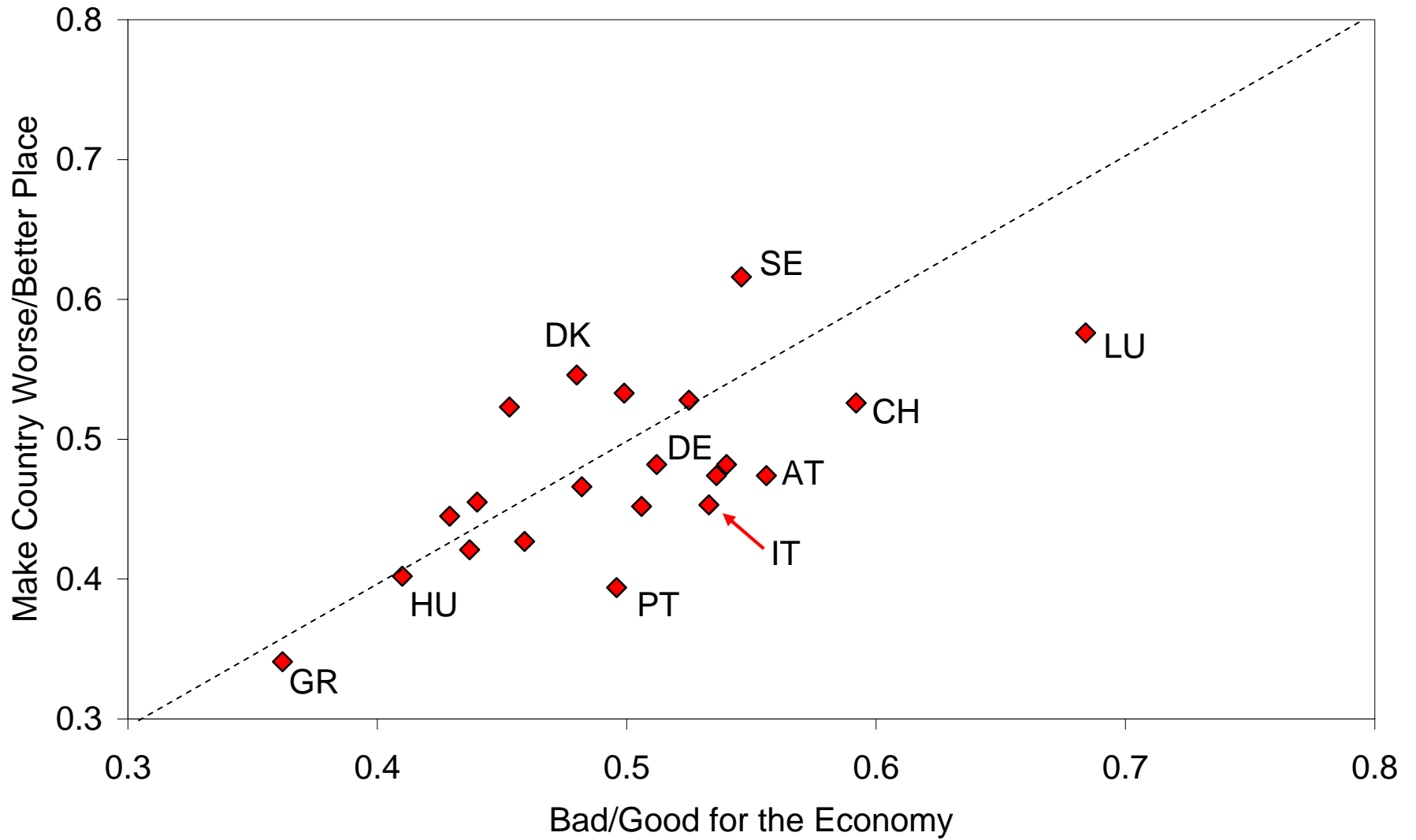


## Using the 10 questions

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- combine 5 economic indicators into one “factor”
  - combine 5 composition indicators into second “factor”
  - relate policy views and overall assessments about the effect of immigration to the two factors (or channels)
  
  - can also decompose effects of education/age/etc.
    - e.g.* highly-educated people are more favorable to immigration. Why?
      - smaller economic concerns?
      - smaller composition concerns?
- which channel is more important?

# Effects of Immigration on the Economy and the Quality of Life





## Our findings

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1. European views on immigration-related issues reflect concerns over wages/taxes and over compositional effects on neighborhoods, schools, etc.
2. views on whether immigration is “good or bad for the economy” are largely driven by concerns over wages/taxes
3. But: views about immigration policy (restrict or increase immigrant flows) are mainly driven by compositional concerns
4. older and less-educated people have much stronger compositional concerns, and these concerns drive their more negative policy views



## Conclusions

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1. US immigrants are a combination of very low-skilled and very high skilled groups
2. D/S framework is helpful in understanding why we “demand” these 2 groups, and which countries they come from
3. immigration over past 3 decades has not shifted the balance between “high school and below” and “college and above” workers, and therefore had little net effect on wages
4. ‘wage concerns’ that have attracted so much attention from economists are only part of the story