

Econ 196 Lecture

The Economics of Immigration

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Main Questions

1. What are the characteristics of immigrants (and “second generation” immigrants)?
2. Why do people immigrate? Does that help explain the characteristics of immigrants?
3. How does immigration affect the labor market?
4. Do immigrants “assimilate” once they arrive?
5. How does the second generation do?

Question 1

How many immigrants are there, where do they come from, where do they live....

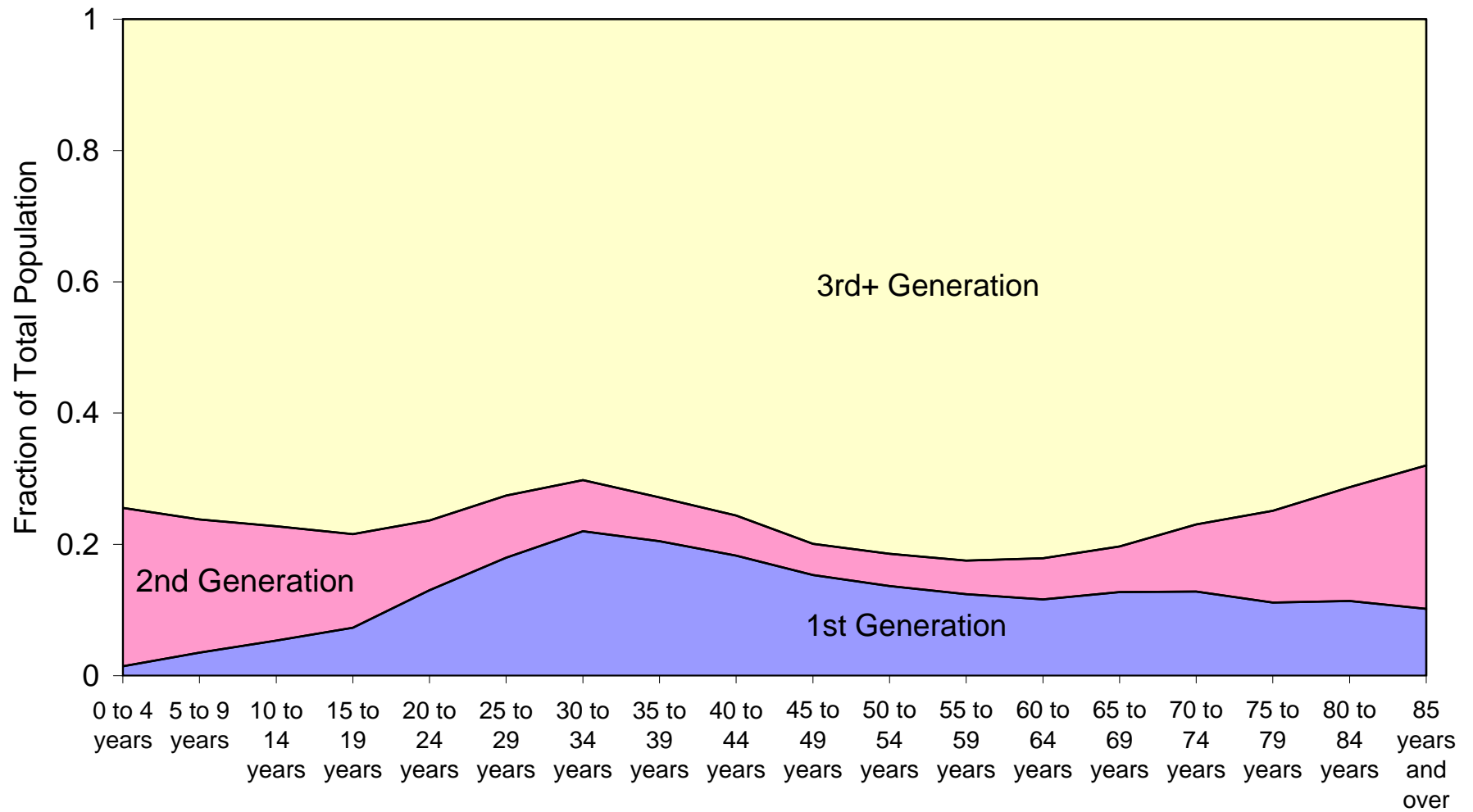
Currently, US has about 14% immigrants
11% “second generation”

The main sources:	Mexico	31%
	other Latin Am.	23%
	Asia	27%
	Europe	13%
	r.o.w.	6%

Fraction of Immigrants in Various Countries

	Today	10 Years Ago
United States	13.6	10.8
Australia	25.0	23.2
New Zealand	21.6	16.5
Canada	20.1	17.8
Ireland	15.7	7.8
Austria	14.2	11.2
Spain	13.4	3.2
Sweden	13.4	11.0
Netherlands	10.7	9.6
United Kingdom	10.2	7.4
France	8.5	7.3

Distribution of Population: 1st Gen, 2nd Gen, 3rd+ Gen



On average:

- immigrants are younger, less educated
- immigrants earn less
- immigrants are concentrated in a few states

BUT:

- immigrants are “more diverse” than natives
- immigrants are over-represented in the “tails” of the education and earnings distributions
- characteristics are very different for Latin Am. immigrants and other immigrants

Characteristics of Adults by Generation

	1st Generation		2nd Generation		3rd+ Generation	
	Men	Women	Men	Women	Men	Women
Years Education	12.2	12.4	14.0	14.1	13.6	13.8
BA Degree (%)	29.0	30.0	36.8	39.5	30.5	31.8
Advanced Degree (%)	12.2	10.0	13.1	13.7	10.2	10.5
Hispanic (%)	52.6	45.8	32.7	31.9	5.3	5.4
Black (%)	8.6	9.7	4.4	5.4	12.4	14.6
Asian (%)	21.6	25.6	10.5	10.4	1.0	1.0
Work Last Year (%)	83.2	61.8	82.2	74.5	79.4	71.9
Hourly Wage	22.28	18.54	27.91	22.23	26.88	20.26
Poor (%)	13.2	16.3	6.5	8.0	7.6	10.6

Source: 2007-2009 Current Population Survey. Includes people age 24-64 only.

Education of Natives and Immigrants

	Natives	Immigrants (1st Generation)		
		All	Hispanic	non-Hispanic
Avg. Years Education	13.7	12.3	10.2	14.3
Dropouts (%)	7.9	30.0	50.3	9.8
High School Grads (%)	31.1	24.6	26.8	22.4
Some College (%)	29.3	16.1	12.7	19.5
College or More (%)	31.6	29.5	10.2	48.2
Advanced Degree (%)	10.6	11.1	2.6	19.4

Source: 2007-2009 Current Population Survey. Includes people age 24-64 only.

Geographic Distribution of Natives and Immigrants

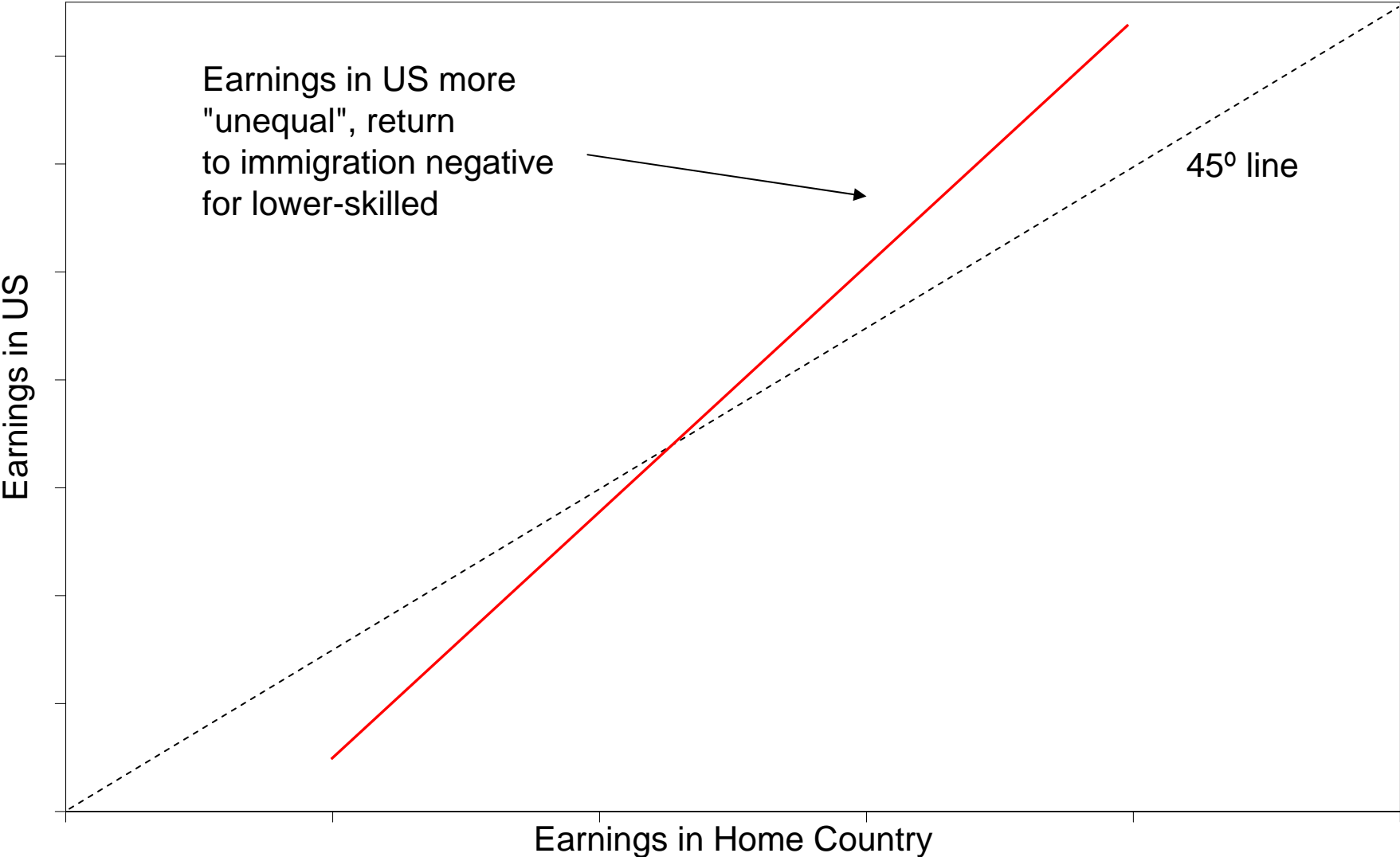
	Share of US Population	Share of Immigrants	<u>Composition of Population:</u>	
			1st Gen.	2nd Gen.
All US	100.0%	100.0%	12.1%	10.5%
California	9.5%	22.6%	28.8%	24.2%
Texas	5.7%	8.0%	16.9%	16.4%
New York	4.3%	7.8%	22.0%	15.8%
Florida	4.0%	7.1%	21.5%	12.9%
Illinois	3.1%	3.7%	14.4%	11.8%
Pennsylvania	2.9%	1.2%	5.1%	6.2%
Ohio	2.6%	0.8%	3.8%	4.5%
Michigan	2.4%	1.2%	6.3%	7.6%
Maryland	2.3%	2.9%	14.9%	9.5%
Minnesota	2.3%	1.5%	8.1%	7.3%
Georgia	2.2%	2.0%	10.9%	6.6%
New Jersey	2.2%	4.2%	23.2%	15.4%

Question 2 – Why do people immigrate?

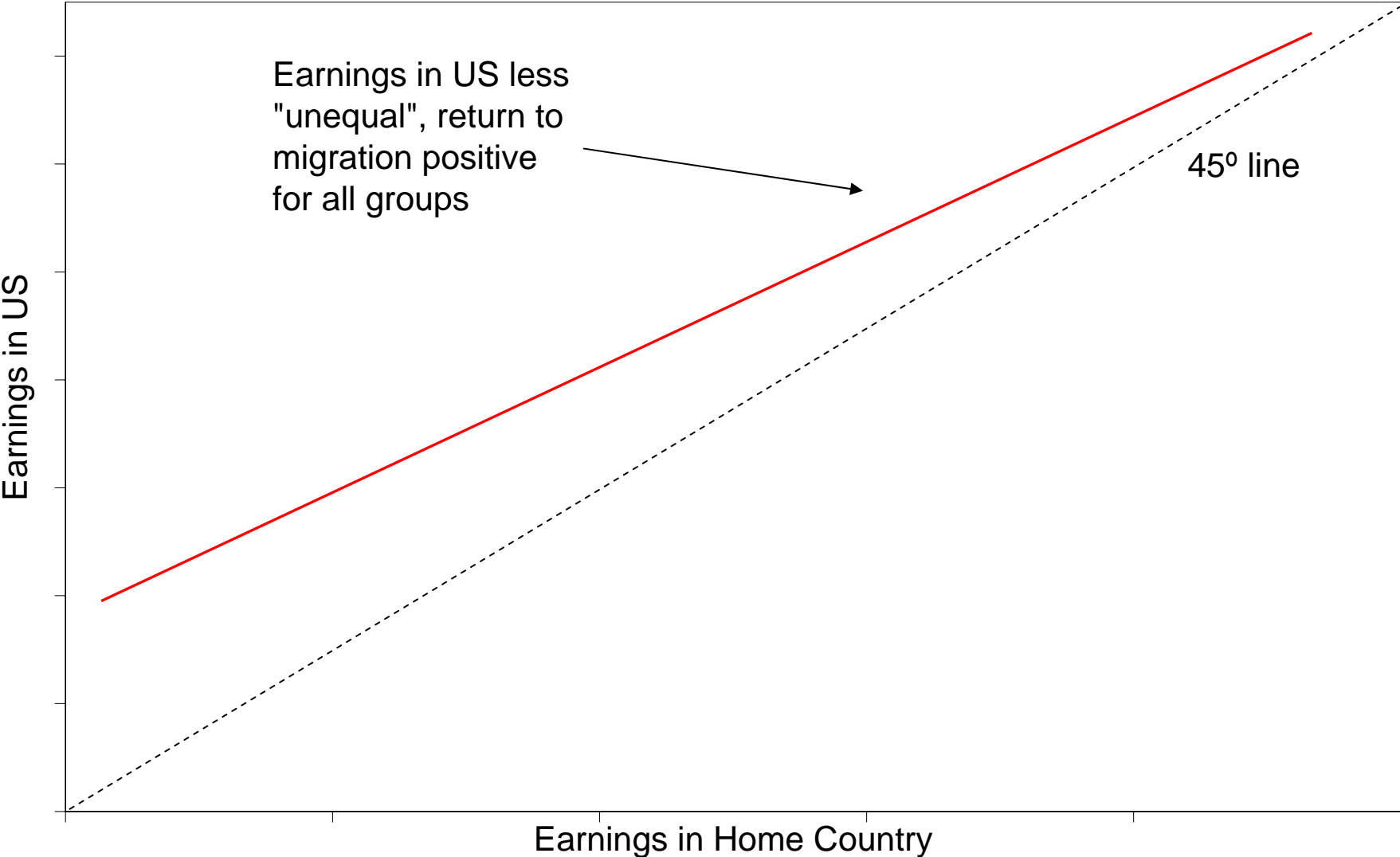
Economic model:

- compare potential income in destination country to income in home country. $\text{Gain} = G$
- compare G to the “costs”:
 - loss of family/cultural connections
 - cost of visa or illegal entry (coyote)
- gains G to entering the US vary depending on source country and “skill” level of person

Potential Gains From Immigration by "Skill" Level



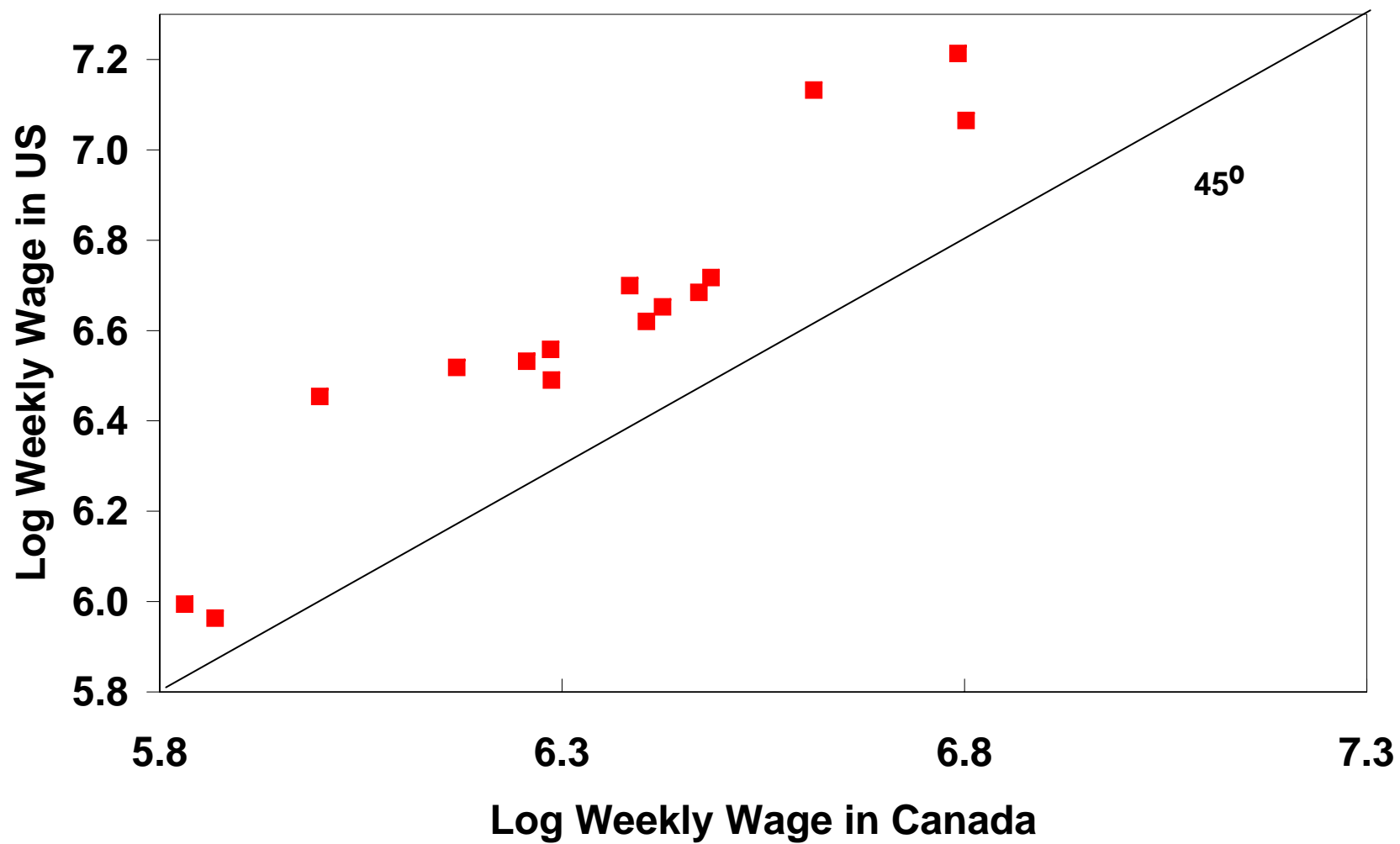
Potential Gains From Immigration by "Skill" Level



Insights:

- immigrants from Europe, Canada (who can enter relatively easily) are highly educated. Lower skilled are better off “at home”
- most people in developing countries (e.g. India) have large potential gains. BUT visas are highly restricted (need MA for H1-B)
- immigrants from Mexico and Latin Am are much lower skilled. Many are undocumented and can avoid the cost of a visa.

Gains from Immigration for Canadian Men - 2000



Question 3. Labor market impacts?

Most people assume a “fixed supply of jobs” model:

- N jobs available, each immigrant steals 1 job

This is a TERRIBLE model!

A basic “economic” model

- $y = f(L, K) = \theta L^\alpha K^{1-\alpha}$ Cobb Douglas production

2 (or more) types of labor, perfect substitutes:

- $L = a_1 L_1 + a_2 L_2$ a_1, a_2 = “efficiency units”

- $w_1 = a_1 \partial f / \partial L$, $w_2 = a_2 \partial f / \partial L \Rightarrow w_1 / w_2 = a_1 / a_2$

- $MP_L = \partial f / \partial L = \theta \alpha [K/L]^{1-\alpha}$ depends on K/L
- $MP_K = \partial f / \partial K = \theta(1-\alpha) [K/L]^{-\alpha}$
- if capital cost = r is fixed (perfectly elastic)
then $\partial f / \partial K = r \Rightarrow K/L$ is constant

Implications

- assuming K can adjust, wages do not vary with supply of labor (demand curve is flat)
- relative wages determined by “technology” and do not depend on L_1/L_2
- in the short run (K fixed) wages may fall if L is increased

More general models

If different types of labor are “imperfect” substitutes then:

- wages of different groups depend on the relative size of each group and on K/L
e.g. w_1/w_2 varies (inversely) with L_1/L_2
- how many “skill types”?
2 groups (< BA, BA+)?
many groups?

What do we know?

1. immigrants are clustered in selected cities

Average MSA = 18% immigrant workers

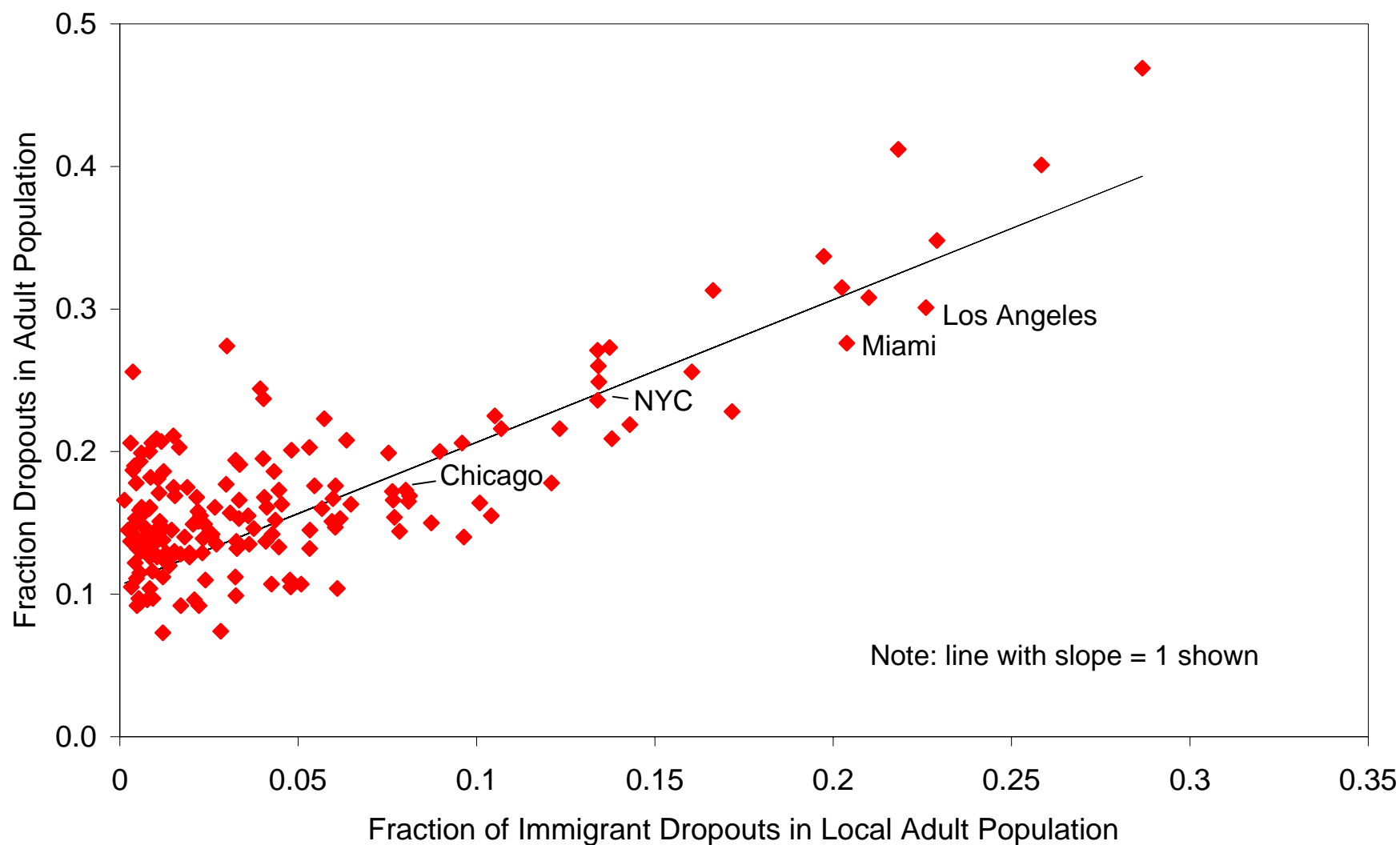
Los Angeles = 48% Miami = 62%

Atlanta = 12% Pittsburgh = 3%

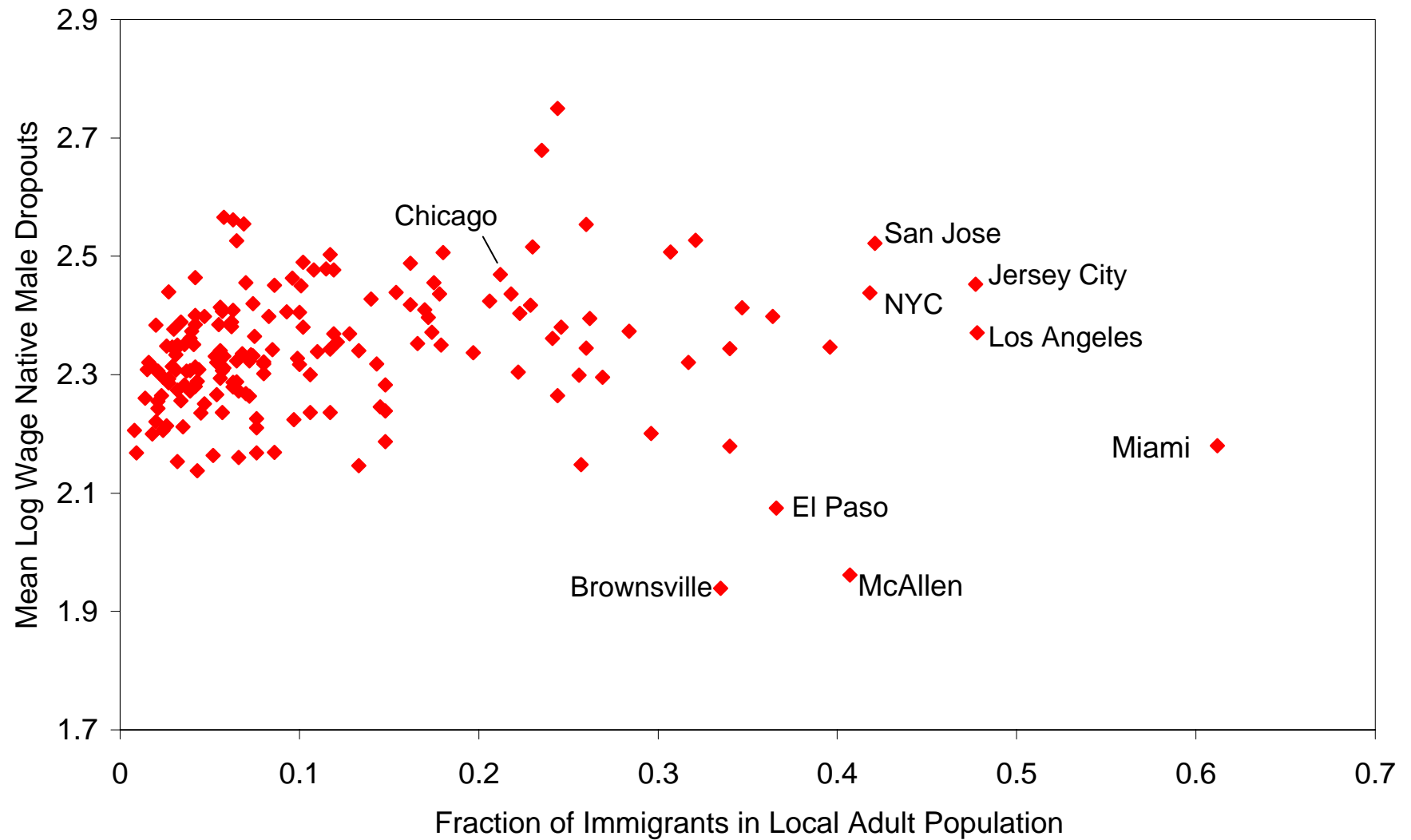
2. higher presence of immigrants is associated with a greater share of low-education workers. (the “skating rink” model is wrong)

3. wages of lowest-skilled natives are not much lower in high-immigrant cities

Is there a "Skating Rink" Effect? Fraction of Immigrant Dropouts vs Overall Fraction Dropouts



Does More Immigration Cause Lower Wages for Low Skilled Natives?



Other research designs

- observational comparisons across cities may be confounded

a) Mariel Boatlift

- provided a large “shock” to Miami labor market (approximately 60-70,000 new residents, a 7% increase in labor force)
- no measurable effect on wages for black or Hispanic workers in Miami relative to 4 comparison cities (Atlanta-Houston-LA-Tampa)
- similar results: Portugal, France

b) Enclave strategy

- new immigrants go to the same cities as earlier immigrants from the same country

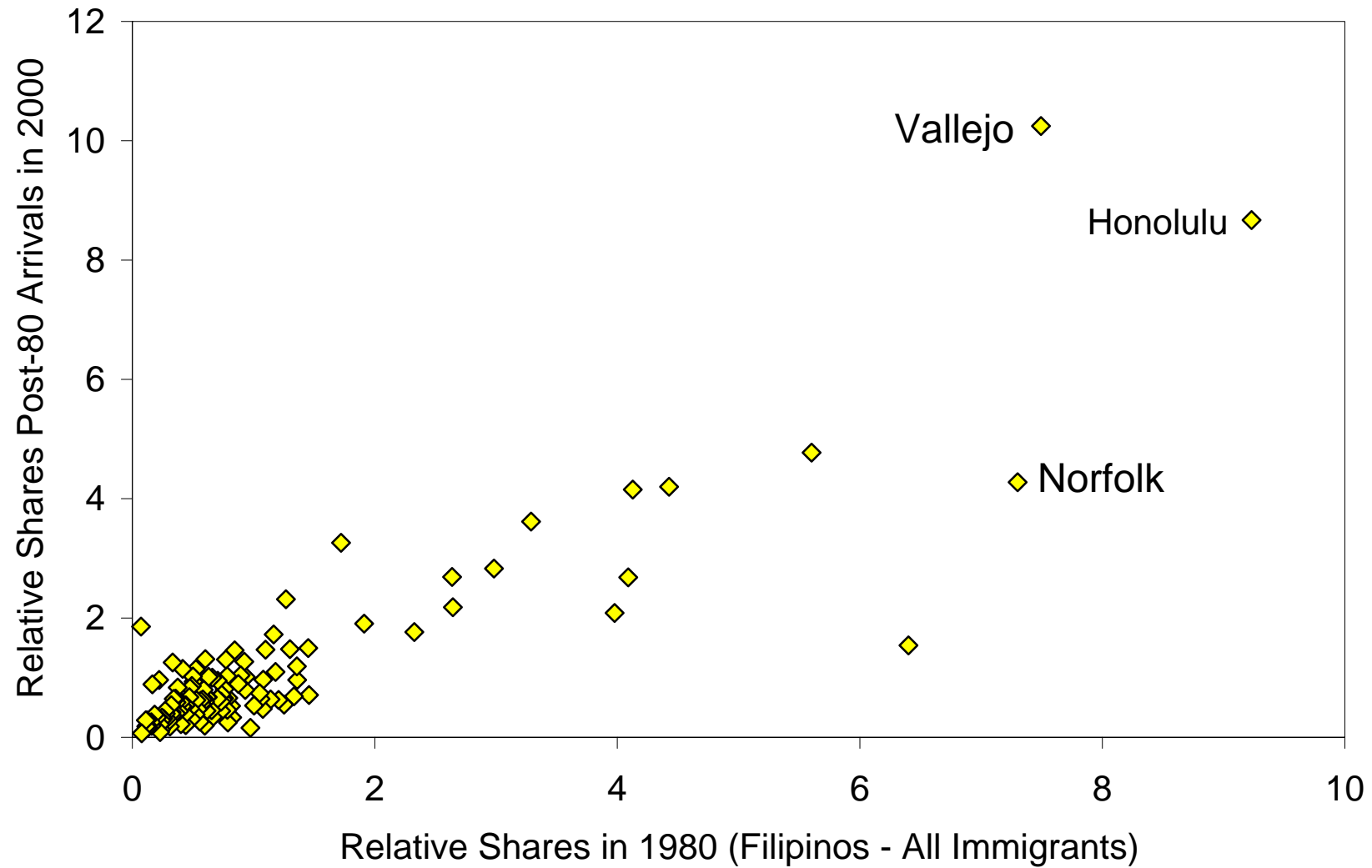
⇒ predicted inflow = total US arrivals × earlier share

example: Filipinos (2nd largest US immigrant group)
still go to the “navel base” cities

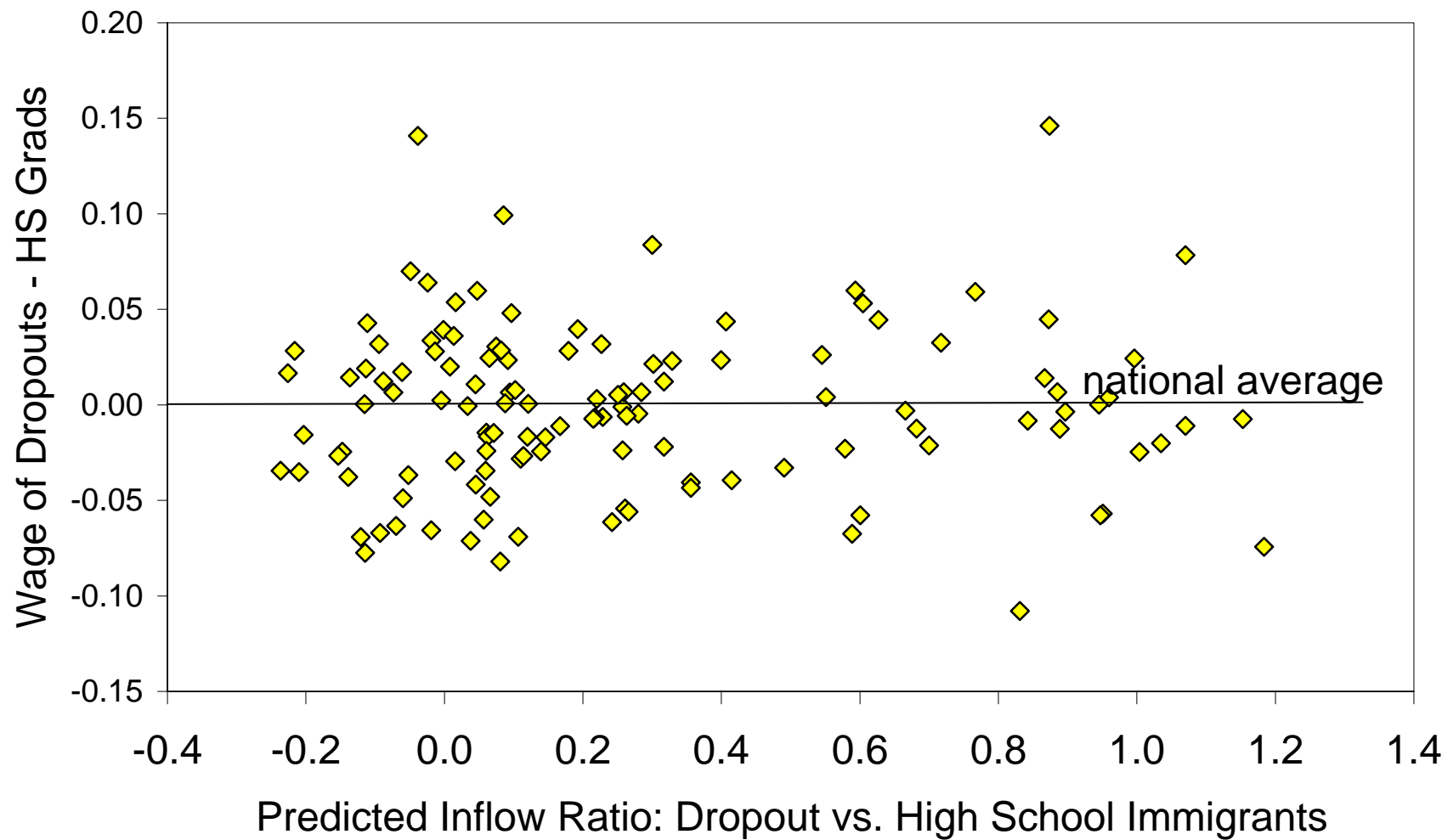
- provides an “exogenous” supply shock (?)

- results confirm simpler cross-city comparisons

The Enclave Effect: Relative Shares of Filipino Immigrants in Major Cities



The Enclave Strategy: Wage of Native Dropouts vs Predicted Relative Inflow of Immigrant Dropouts



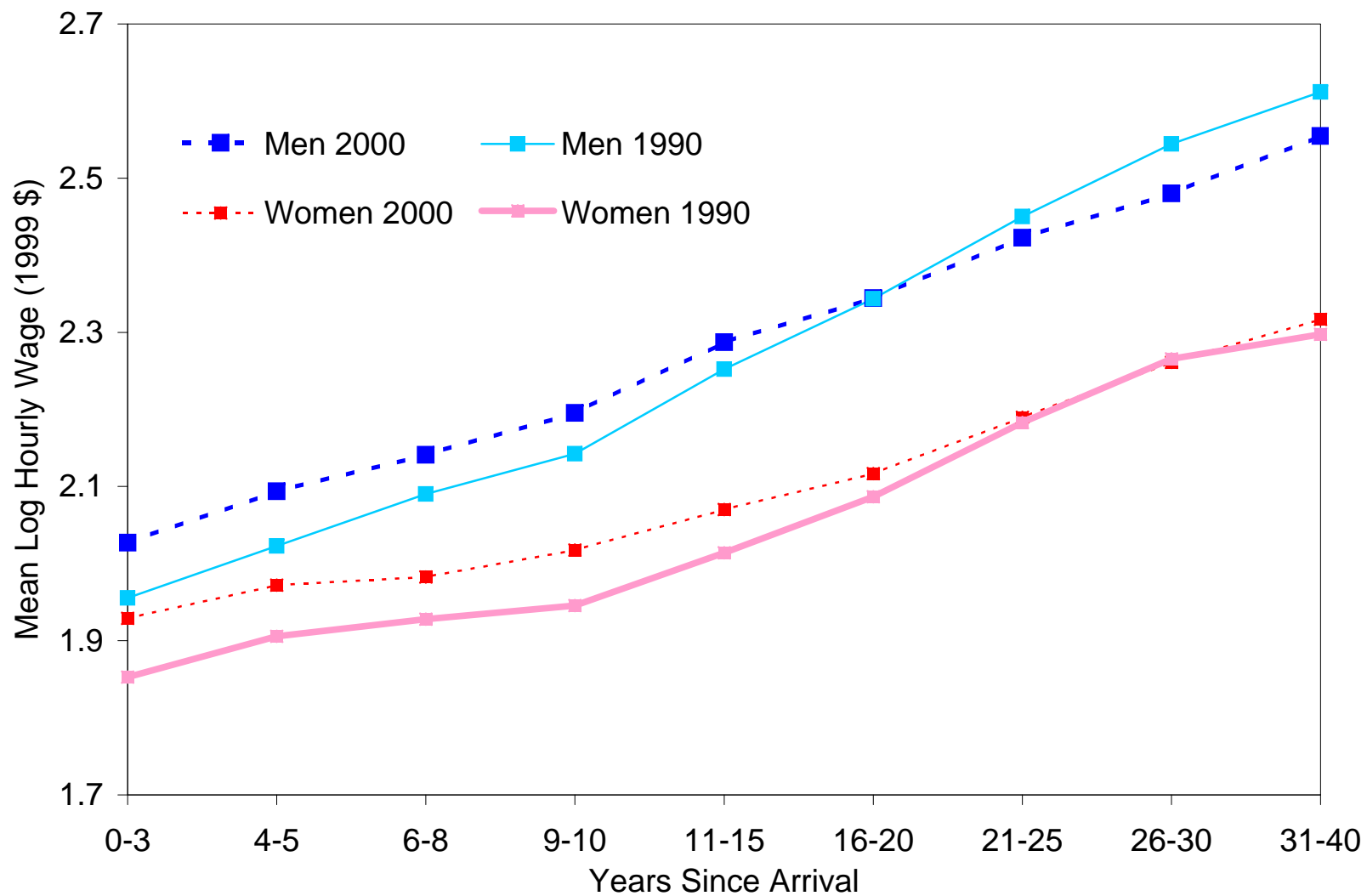
Conclusions

- selective immigration flows create “skill imbalances” in different cities
- this imbalance has little/no effect on relative wages (or average wage levels)
- immigrants are successfully absorbed in the local industry structure with (at most) small spillovers on native wages

Question 4. Wage assimilation?

- at arrival, immigrants may have poor language skills, lack of “connections” to good jobs
- measured average wages rise with time in the country
- but some of the apparent rise may be due to return migration of less successful immigrants
- “refugee” immigrants appear to spend more time in school when they arrive, and have faster growth than “economic” immigrants

Is There "Wage Assimilation"? Wage Profiles of Mexican Immigrants



Question 5. What about the second generation?

- 20% of US children under 5 are 2nd generation
- in California – 50%
- 2nd generation are important part of the costs and benefits of immigration
 - 2nd gen go to school in US, commit crimes...
 - 2nd gen pay taxes...
- on average 2nd generation do pretty well. But what about the children of Latin American immigrants?

Useful framework

$$Y_{\text{child}} = \alpha + \beta Y_{\text{parent}} + e$$

β = intergenerational correlation

when $\beta = 1$, children “replicate” their parents

Height: $\beta = 0.4$ Galton’s original “regression”

BMI: $\beta = 0.4$

Among native families, $\beta = 0.4$ for education

How does this compare for immigrant families?

Father-Son Intergenerational Correlation in Education

