## Lecture 17 Migration

## I. A Framework for examining Immigration.

Motivation: we saw that we can predict what types of goods will be successfully exported by specific countries or regions based on natural resources, labor endowments, and technological edge. An alternative way to achieve similar ends is to allow labor to move across countries. Here we present a simple model to predict the pattern of labor movement. Although we will focus on the US, this analysis could also be applied to other regions, such as Europe.

Demand for labor is like demand for any other good. We can show that the demand for labor (L) is a decreasing function of the real wage W, equal to w/P. This differs from our previous demand curves presented in the context of the specific factor model which were equal to the nominal wage and consequently we had w = the value of the marginal product (ie the marginal product x the price P):



Let's assume that Mexico has more unskilled labor (or less of other factors) but that technology is equal across countries. So real wage differences are driven by endowment differences. Let's also assume that trade is not allowed. Where will wages settle? What will happen if migration is allowed?



Labor Supply in Mexico Labor Supply in USA If migration is allowed, workers move from the low wage to the high wage country. The international allocation of labor moves from L0 to L1. Wages are equalized (for unskilled labor) across the two countries. If differences in wages reflect the fact that workers are less productive in Mexico, then the movement from the low productivity to the high productivity environment will mean a global increase in output. (Need to show that area under labor demand curve measures output change in output) First question: is evidence consistent with this model? Yes. The evidence does suggest that wage differentials give rise to migration into the US of unskilled labor. For example, immigration into the USA from Mexico is at its highest peak when the wage differences are biggest. "Peaks" in Mexican immigration occurred when there were large depreciations of the Mexican peso, in 1986-87 and again in 1995. (Hint—what is a good proxy for illegal immigration?) In principle, this should mean that in the USA we gain a comparative advantage in producing goods which use unskilled labor, substituting the movement of labor for the movement of goods.

The second question: do US wages fall when migration rises (do Mexican wages rise?)

The surprising answer is no. Only in the Mexican border towns do we see the expected adjustment....

Bottom line: It is important to understand the factors that could motivate the movement of labor (primarily differences in wages). Although evidence suggests that these movements of labor may not affect host country wages as much as is popularly believed, there is no doubt that in-migration can help local businesses. One third of agricultural labor in California is estimated to be illegal, the other two-thirds is also migrant, but legal. In addition, rapidly growing manufacturing industries tend to use more immigrant labor. Clearly, business in the labor scarce country has an incentive to promote freer movement of labor, while interests in the labor abundant country may have an interest in restricting it.

For political reasons, labor movements are frequently limited. Some politicians in France have built their entire political careers on restricting immigration.

II. The Evidence on Immigration and Labor Market Outcomes in the United States.