

The Economic Benefits of Labor Migration

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According to the Economics of Migration

- A country needs immigrants because its native labor force is not large enough to meet demand or it is not specialized enough to handle rapid technological advances such as the knowledge economy.
- Labor demand usually dictates labor supply.
- Emphasis lies in diversity (admit workers who are different than the local labor force, and who can complement the locals (avoiding substitution effects)).

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1. Economic immigrants take the jobs of natives only if they can perfectly and directly substitute for them, only in the short run, and only if the receiving economy is at full employment. Therefore, natives are not easily displaced.
 - In reality, immigrants fill in labor shortages. They take jobs that natives do not want or cannot do and work in different sectors than natives.
2. Immigrants very often complement natives in production and therefore create more jobs than existed before their arrival. Low-skilled immigrants contribute to occupational mobility, specialization and human capital creation for natives. Highly-skilled immigrants contribute to technological adaptation; immigrants and foreign students in academia contribute to increased publications and patents in universities as well as to a higher number of Nobel prizes in the U.S.

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3. Immigrant innovators create jobs indirectly within a firm, which in turn drives economic growth. For example, STEM immigrants create new products and markets (Tesla, Google, eBay).
4. Immigrants in self-employment or entrepreneurs, create a job for themselves, and directly for their native employees.
5. Immigration has a very small effect on the average wages of natives and there is no evidence of significant negative effects.
6. There is little evidence that immigration has lowered the wages of less educated native workers.

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7. Higher immigration increases income per worker. Immigrants provide services to U.S. natives such as baby sitting, lawn mowing, etc., which free natives who then have more time to work and be productive.
 - Increase the average hours of work for women and the top quartile of the wage distribution; increase the fertility of native women; reduce the gender pay gap
8. Immigrants as consumers raise the demand for goods and services produced by natives (cars, pizza) and cause firms and production to expand, which results in new hiring.
9. Natives as consumers enjoy a variety of new goods and services and at a lower price.
10. Higher immigration rates in a locality and higher diversity increase the happiness of natives.

Early 20th Century Migration in the U.S. Finds

- Immigrants facilitated urban growth and industrialization
- Labor demand was strong and immigrants were essential
- Scale effects dominated substitution effects and all gained
 - Firms scale up when they hire cheaper immigrant workers, because their overall costs go down and are able to expand

(Boustan et al., 2018)

Labor Markets

- Immigration's positive effects far outweigh any negative impact.
- Economic migrants contribute to labor markets' efficient allocation of economic resources that generates high output and welfare; free mobility ensures a quick adjustment of labor markets, especially at the regional level.
- When recruiting foreign workers, one needs to consider complementarities with physical capital and resources (working together in the production process).
- Therefore, migration should not be viewed in isolation, but in context along with trade and the movement of goods and services.

Policy

- But immigrants also constitute a major component of demographic changes and are a central feature of the U.S. political economy

- Immigration policy should differentiate between **temporary immigrants**, who satisfy the short term labor market requirements, and **permanent immigrants**, who will be part of the receiving country for a very long time.
 - Often temporary migrants become permanent and stay, or the government is unable to send them back
- Temporary immigrants are needed when the labor market is not cleared in the short run. Because of cyclical or structural reasons, there is a mismatch between demand and supply. Then immigrants are needed for specific jobs. Firms that need these workers submit their criteria for admission to the governments.
- All countries have temporary work programs for low-skilled workers (guestworkers or bracero used in agriculture) as well as for high-skilled workers (H1B visas).
- Behavioral changes such as new trends of new personal preferences in education and choices of professions, demographic changes (decrease in birth rates, aging of the labor force), and rigid markets call for permanent migration. Points systems based on qualifications designed to maximize the well-being of the native population work well.

Lessons for the Policy Debate

- If policymakers care more about efficiency, then the right policy would be to allow for more immigrants (employers gain and consumers gain).
- If policymakers care about distributional issues (how the pie is split), then the right policy would be to let fewer immigrants in (less disturbance in the labor market; minimal loss suffered by natives in direct competition with immigrants).

Thank you

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