

Econ 340

Lecture 10 Migration

Left-over from last time:

WTO Critiques

- Trump
 - Oct 25, 2017, on Fox interview with Lou Dobbs:
 - “The WTO, World Trade Organization, was set up for the benefit for everybody but us.”
 - “we lose the lawsuits, almost all of the lawsuits ... within the WTO”
 - In fact, like other countries, US
 - Wins most of the cases it brings
 - Loses most the cases brought against it
 - Since 1995, in all cases complainant has won 90%
 - As complainant, US has won 91%
 - As respondent, US has lost 89%
 - But...Trump may be closer to right if we've been respondent much more than complainant

WTO Critiques

- Trump
 - Oct 30, 2018, FT:
 - **Donald Trump threatens to pull US out of the WTO**
 - “If they don’t shape up, I would withdraw from the WTO,” Mr Trump said in an interview.

WTO Critiques

- Rodrik
 - WTO extended GATT into “inside the border” policies that countries resist
 - It is not well suited to dealing with countries that are very different (China)
 - US would have had a hard time developing under WTO rules
 - WTO has been unable to adapt to change, and instead the Appellate Body has made new law

WTO Critiques

- The future of WTO?
 - May slip into irrelevance as US and others ignore its rules
 - Or maybe these issues will prompt it to restructure itself to work better

Clicker Question

How does the US do in WTO disputes as complainant and as respondent?

- a) It loses most as both
- b) It loses most as complainant but wins most as respondent
- ✓ c) It loses most as respondent but wins most as complainant
- d) It wins most as both

<u>Midterm No. 1:</u>	Monday, October 21	8:30-9:50 AM	1120 Weill Hall
<u>Midterm No. 2:</u>	Monday, November 18	8:30-9:50 AM	1120 Weill Hall
<u>Final Exam:</u>	Friday, December 13	1:30-3:30 PM	1120 Weill Hall

Office Hours for the First Midterm Exam

Prof Alan Deardorff

	Thu Oct 17, 10-11 AM Fri Oct 18, 1-2 PM
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GSI

	TBA
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GSI Review session:

	TBA
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What's Covered on the First Midterm Exam?

NOTE: You will get two points for correctly recording:

- your name and UMID number, both on the exam booklet and on the scantron sheet so that the computer can read it,
- **AND** your **FORM NUMBER** on the scantron so that the computer can read it.

(In other words, you will lose two points if you don't do all of this.)

The first midterm exam covers all of the material since the start of the course through that assigned for October 9, Migration. I intend to give roughly equal treatment to each lecture topic, including the outside readings and assigned news items. Thus, the exam covers:

- The assigned portions of Gerber (see syllabus on line),
- All of the online readings assigned from Sep 9 through Oct 9, (including the pieces marked as "Other Views" but not those marked as "Optional"),
- You should also be familiar with the **news** that we will have discussed in class, including those items identified on the Major News Items page for weeks: Sep 9 through Oct 13.

Regarding the emphasis that will be placed on lectures versus readings and on other particular parts of the material, you are responsible for lectures plus **all** of the reading. I intend to make studying all of that worth your while by including on the exam at least a few questions on material that was **not** covered in lecture, both from the text and from the readings.

Do bring something to write with, including #2 **pencils** for answering the multiple choice on computer-graded "scantron" sheets.

Do **Not** bring **books** or notes.

Do **Not** bring **blue books**.

You probably *should* bring a calculator, but **DO NOT** bring a **graphing calculator**. Graphing calculators will be confiscated.

You should also **NOT** bring any kind of **computer** (including palm computer) and you should **NOT** bring a **cell phone**, even if you only plan to use it as a clock. Those too will be confiscated. **Do** bring your U of M **ID number**, as it appears on your M-Card. You don't need the card itself, if you know the number.

Outline: Migration

- Why People Migrate
- Why Wages Differ across Countries
- Effects of Migration
 - On Payments to Factors
 - Labor
 - Other
 - Other Effects
- Policies to Affect Migration
- Facts about Migration

Why People Migrate

- Main Reason for Migration: Better Wages
- Other Reasons
 - Better living conditions
 - Freedom/Persecution
 - Climate

Outline: Migration

- Why People Migrate
- **Why Wages Differ across Countries**
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Why Wages Differ across Countries

(These are mostly the same reasons we've seen before, for why countries trade)

- Relative Factor Endowments
 - Of labor relative to other factors, such as land, capital, natural resources
 - Countries that have an abundance of these other factors tend to have
 - High demand for labor, and thus
 - High wage
 - They are likely to attract migration

Why Wages Differ across Countries

- Differences in Technology
 - Advanced technology makes labor more productive
 - Causes higher wages, and attracts migration

Why Wages Differ across Countries

- Other causes for a country to have high wages
 - Infrastructure
 - Competitive and efficient markets
 - Strong institutions (“Intangible wealth”)
 - trust among people in a society
 - an efficient judicial system
 - clear property rights
 - effective government

Why Wages Differ across Countries

- Labor Unions?

Do these contribute to high wages and thus attract migration?

– This cuts both ways:

- Labor unions do seek to increase wages and improve working conditions for their members
- But one way to do that is to keep out migrant labor

Clicker Question

Which of these would cause wages of unskilled workers to be higher in Country A than in Country B?

- a) A has a larger population than B
- b) B has stronger labor unions than A
- c) B has relatively more skilled workers than A
- ✓ d) A has relatively more capital than B
- e) A has a smaller population than B

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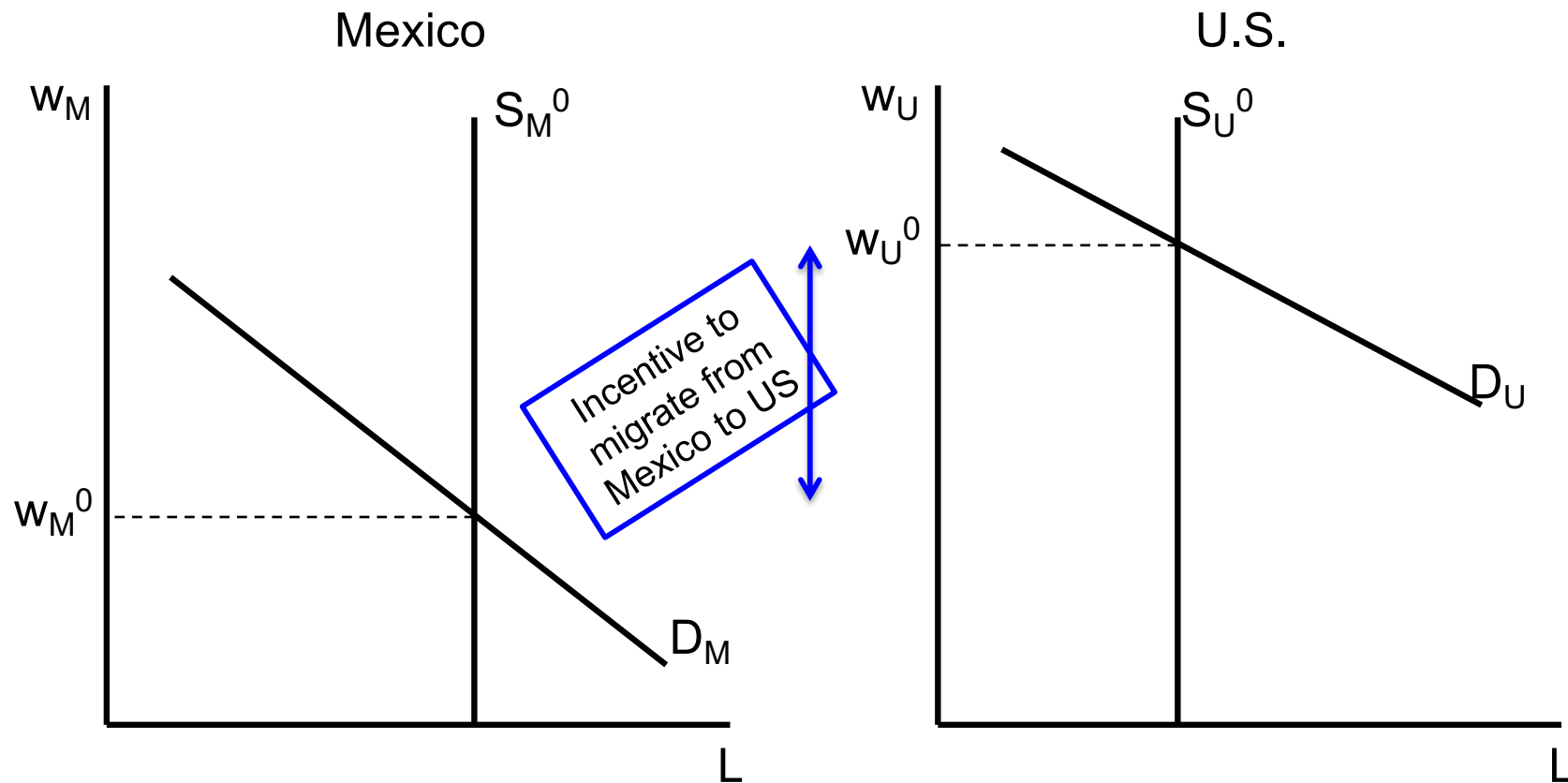
Effects of Migration

(See Deardorff “Migration”)

- Look at supply and demand
 - In two countries with different wages
 - What happens when labor migrates?

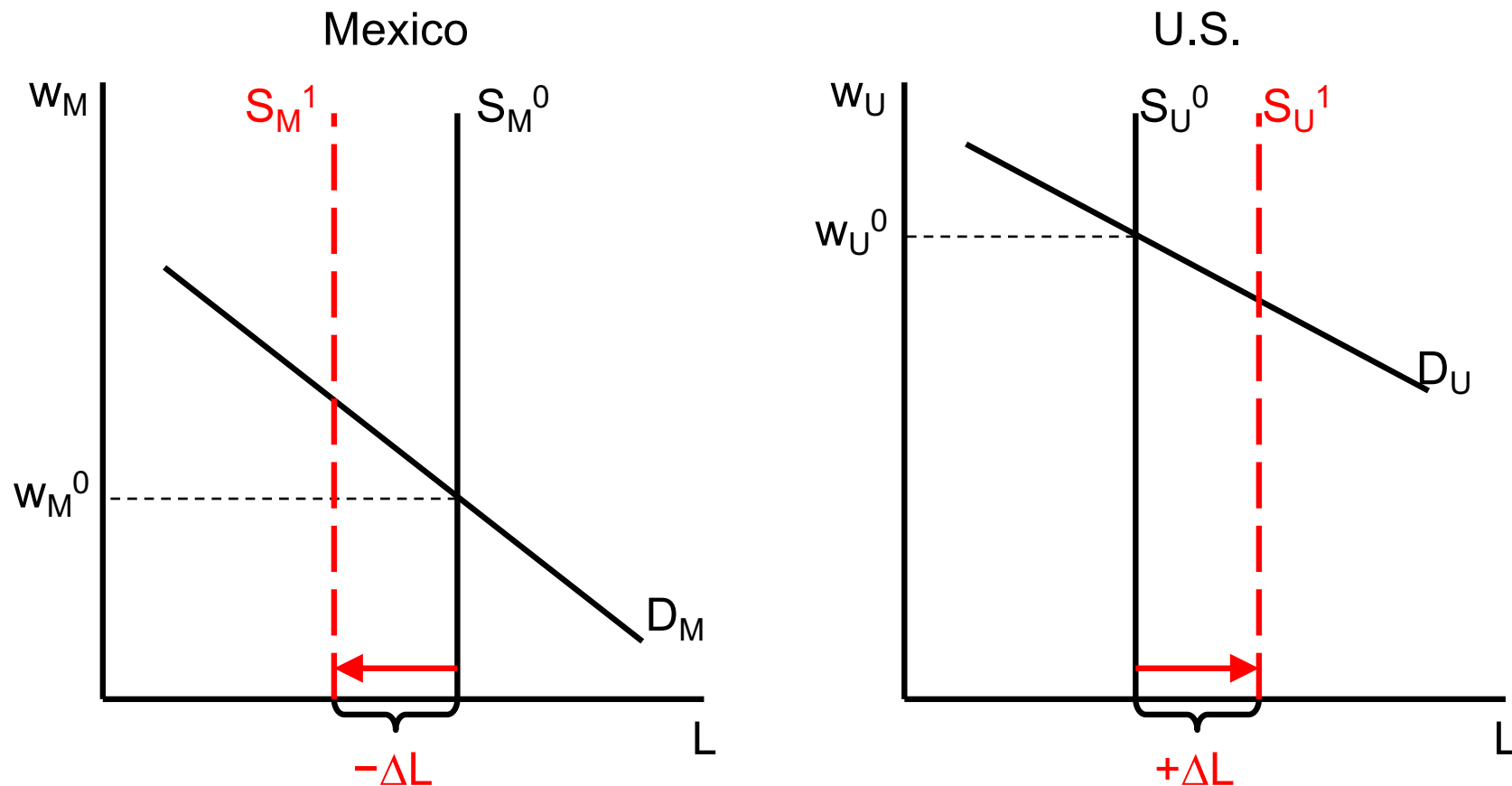
Effects of Migration

Labor markets in two countries
before migration



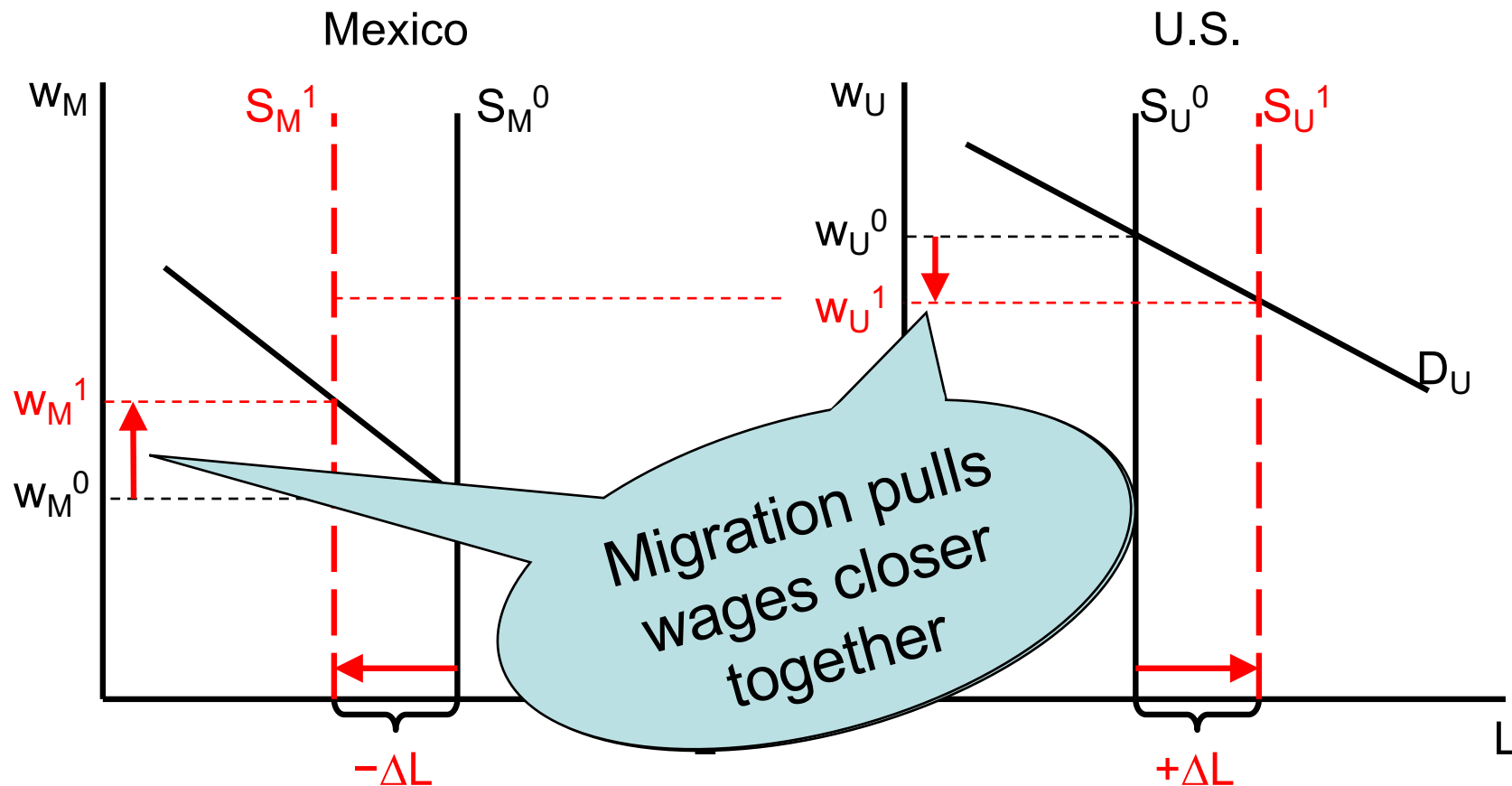
Effects of Migration

Effect of migration on labor supplies



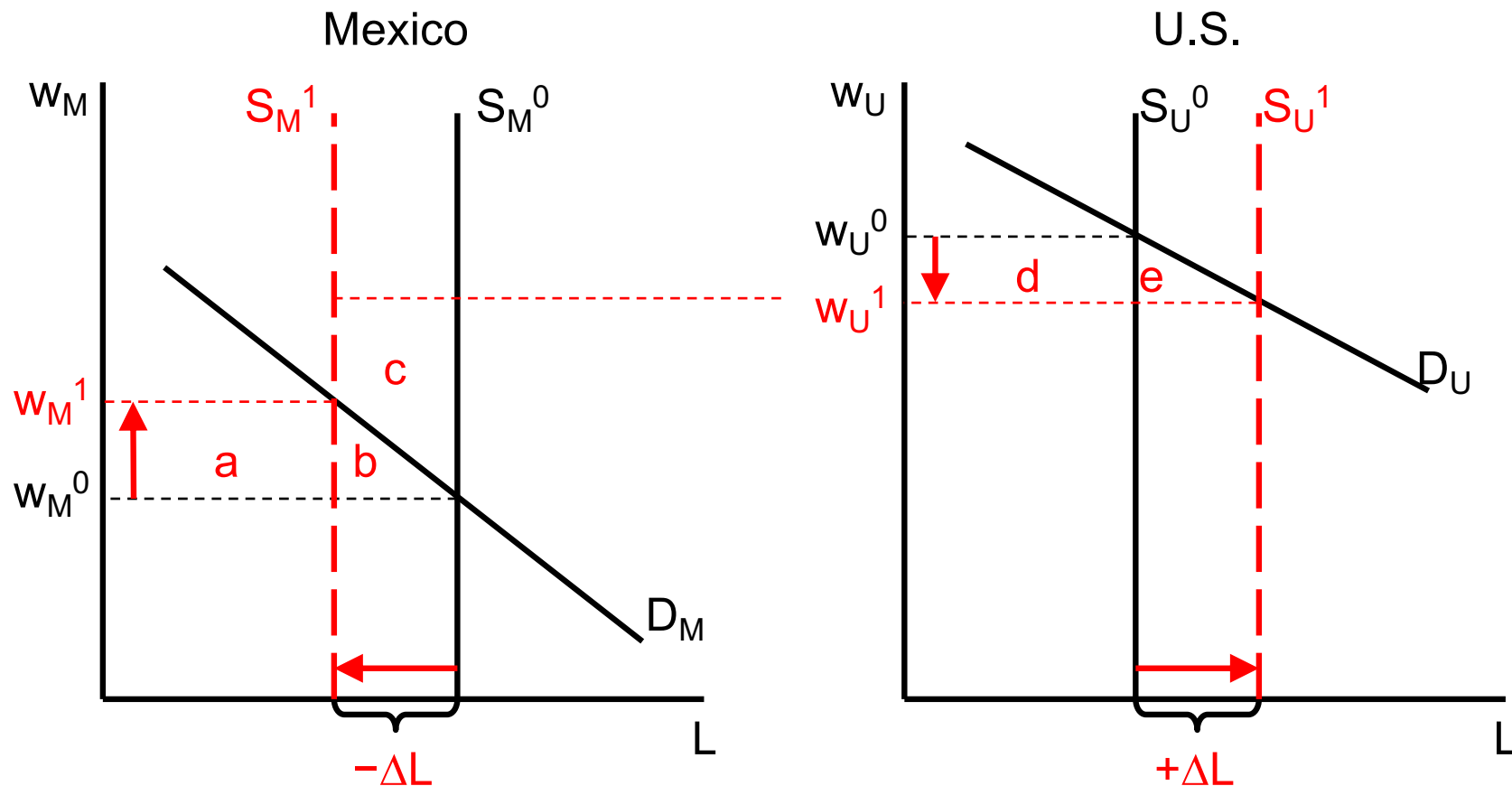
Effects of Migration

Effect of migration on wages

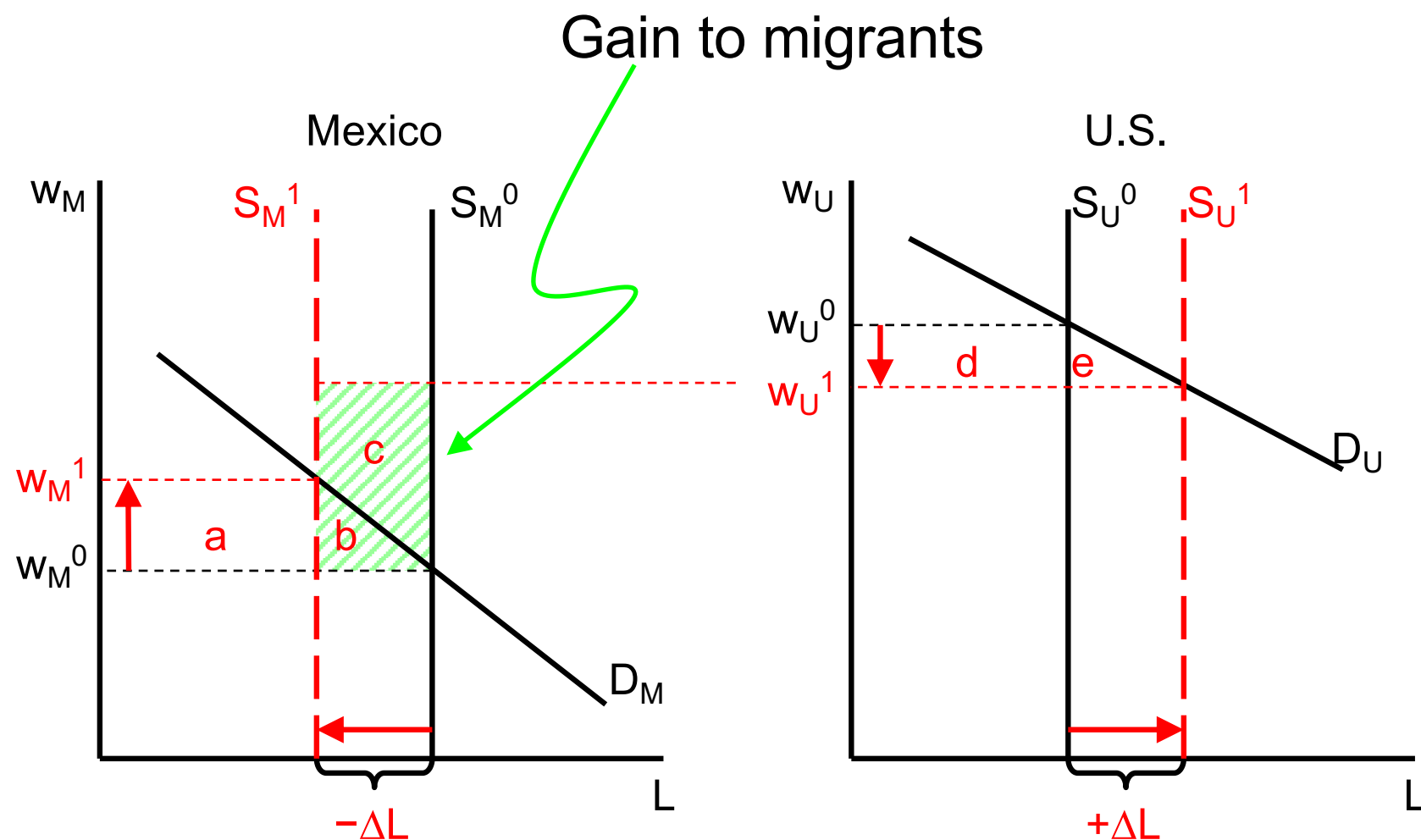


Effects of Migration

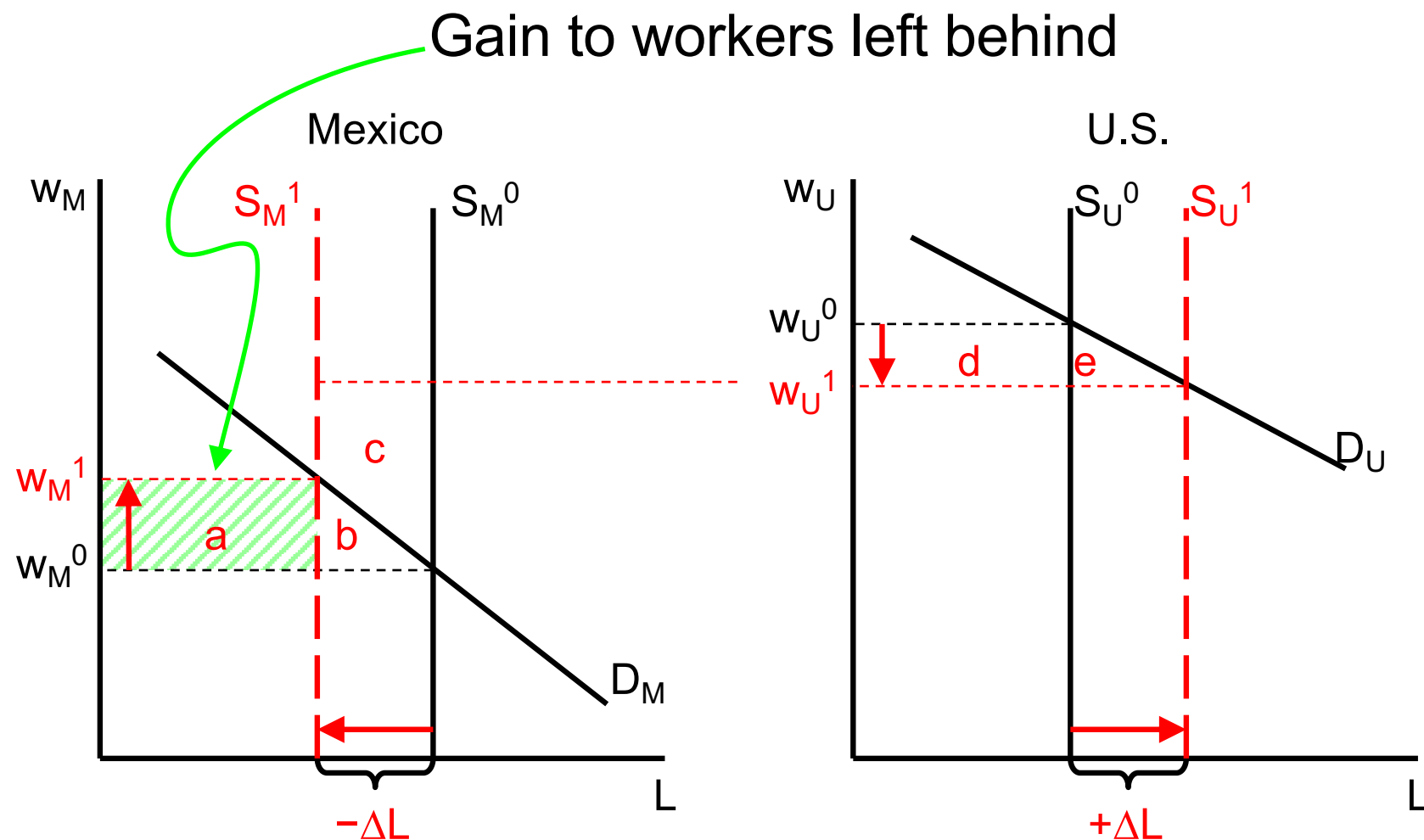
Effect of migration on welfare



Effects of Migration: Labor

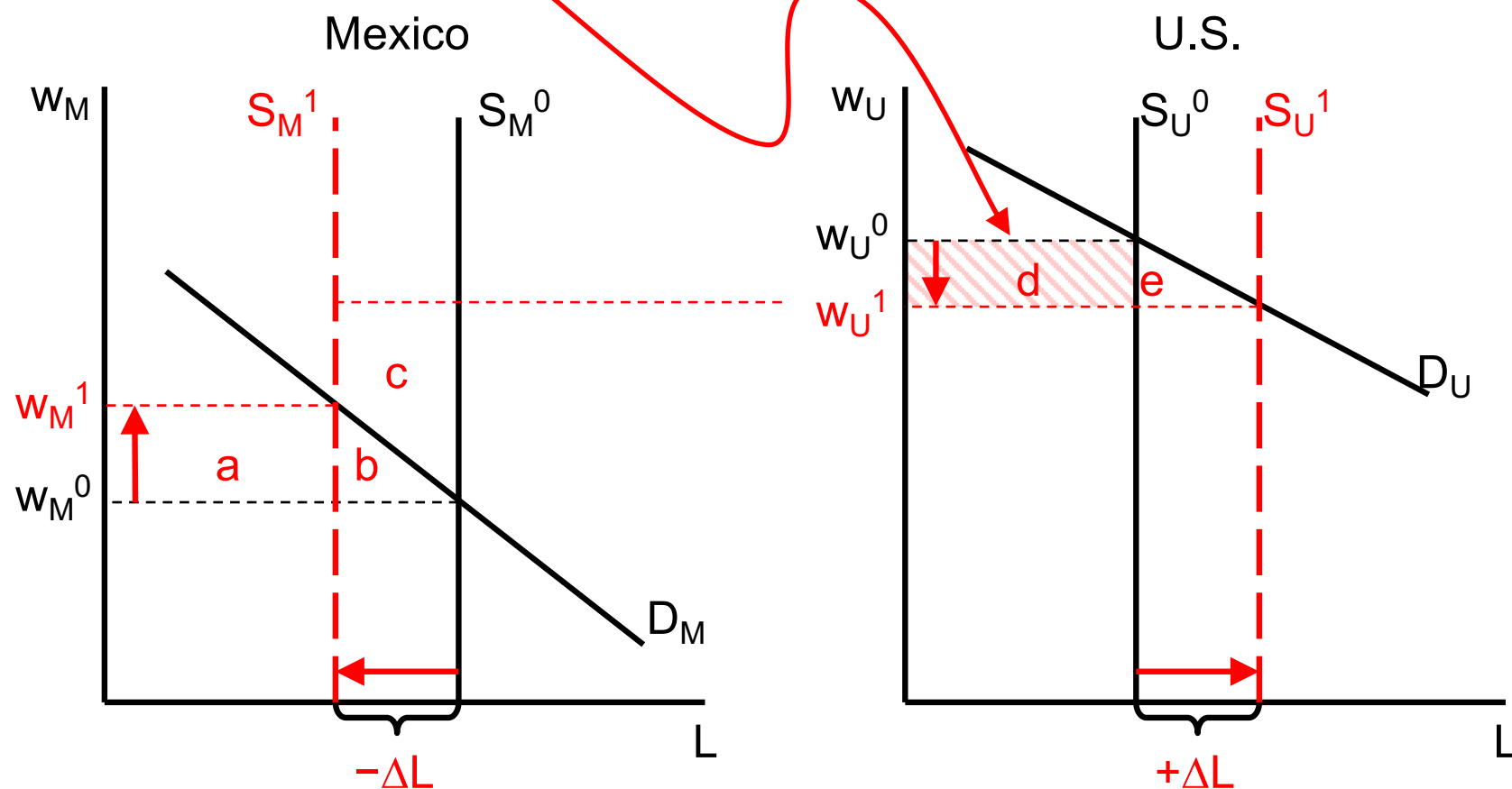


Effects of Migration: Labor



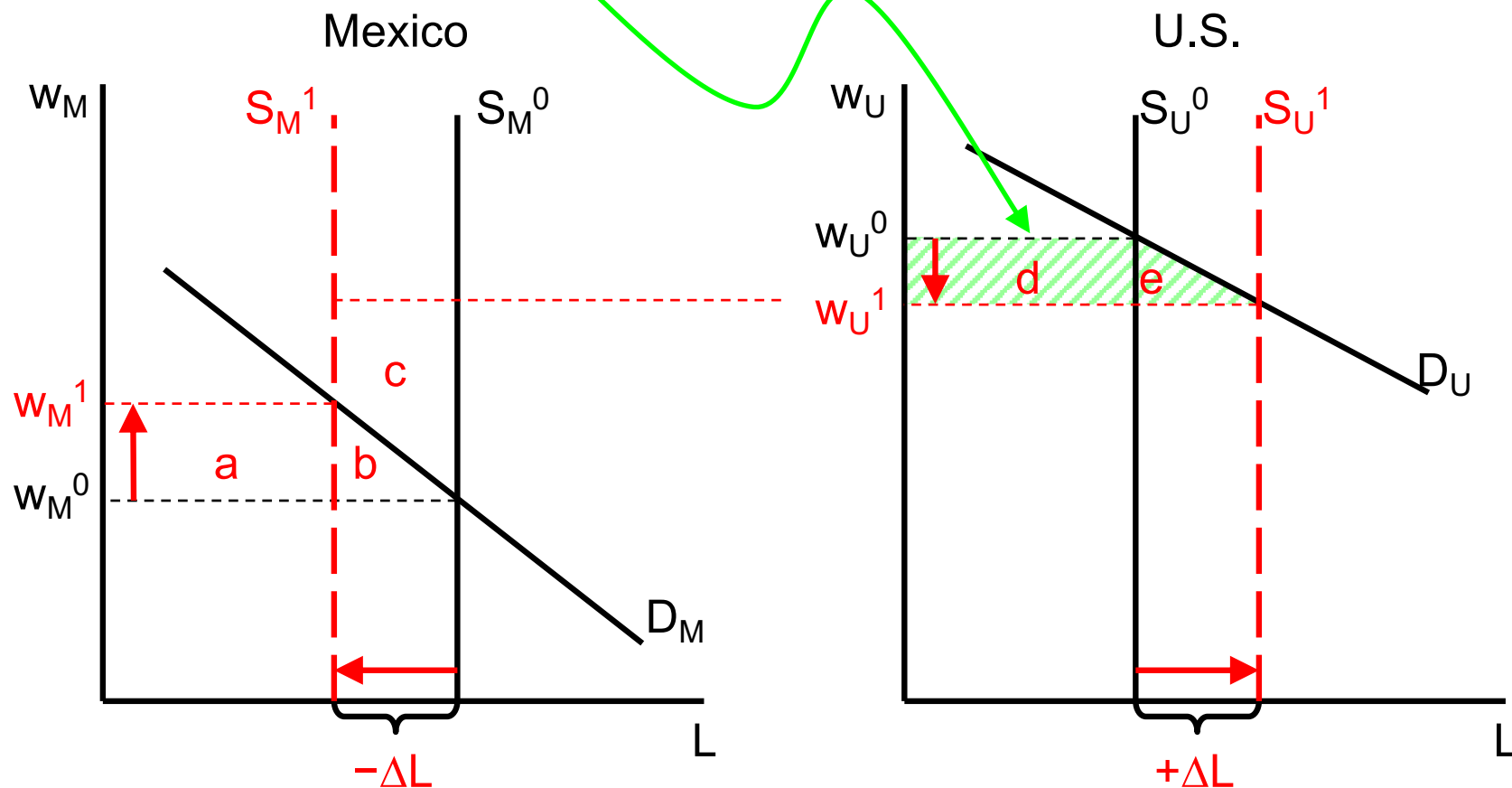
Effects of Migration: Labor

Loss to competing workers already in US

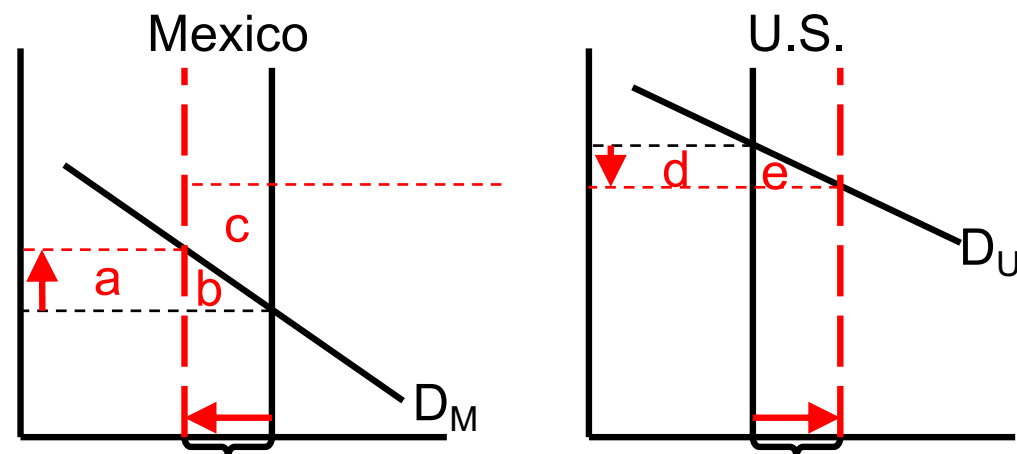


Effects of Migration: Other

Gain to factors other than labor in US



Effects of Migration: All



Mexico

Workers who migrate

$+(b+c)$

Workers who don't migrate

$+a$

Other factors in Mexico

$-(a+b)$

Mexico as a whole

$+c$

US

Workers

$-d$

Other factors in US

$+(d+e)$

US as a whole

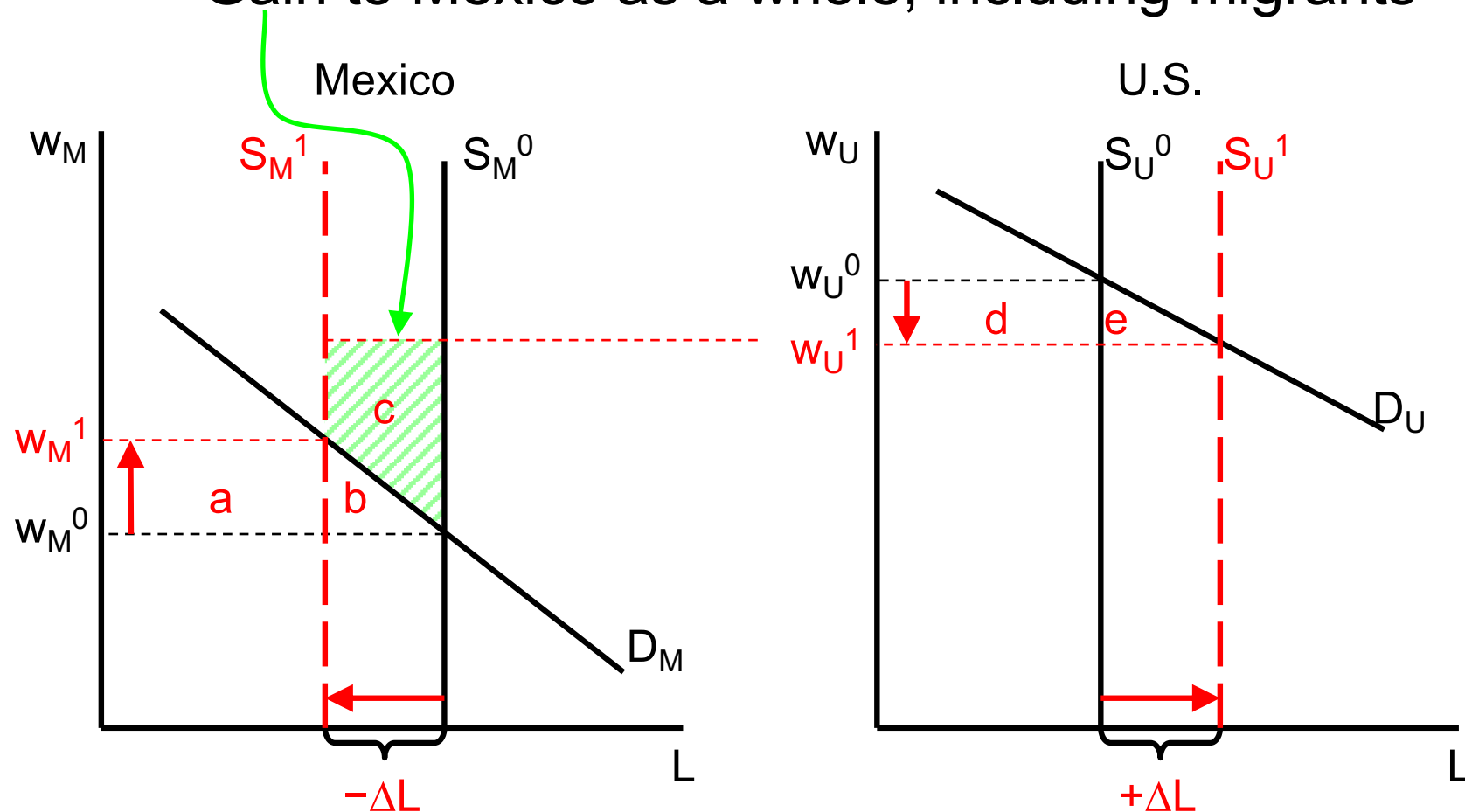
$+e$

World

$+(c+e)$

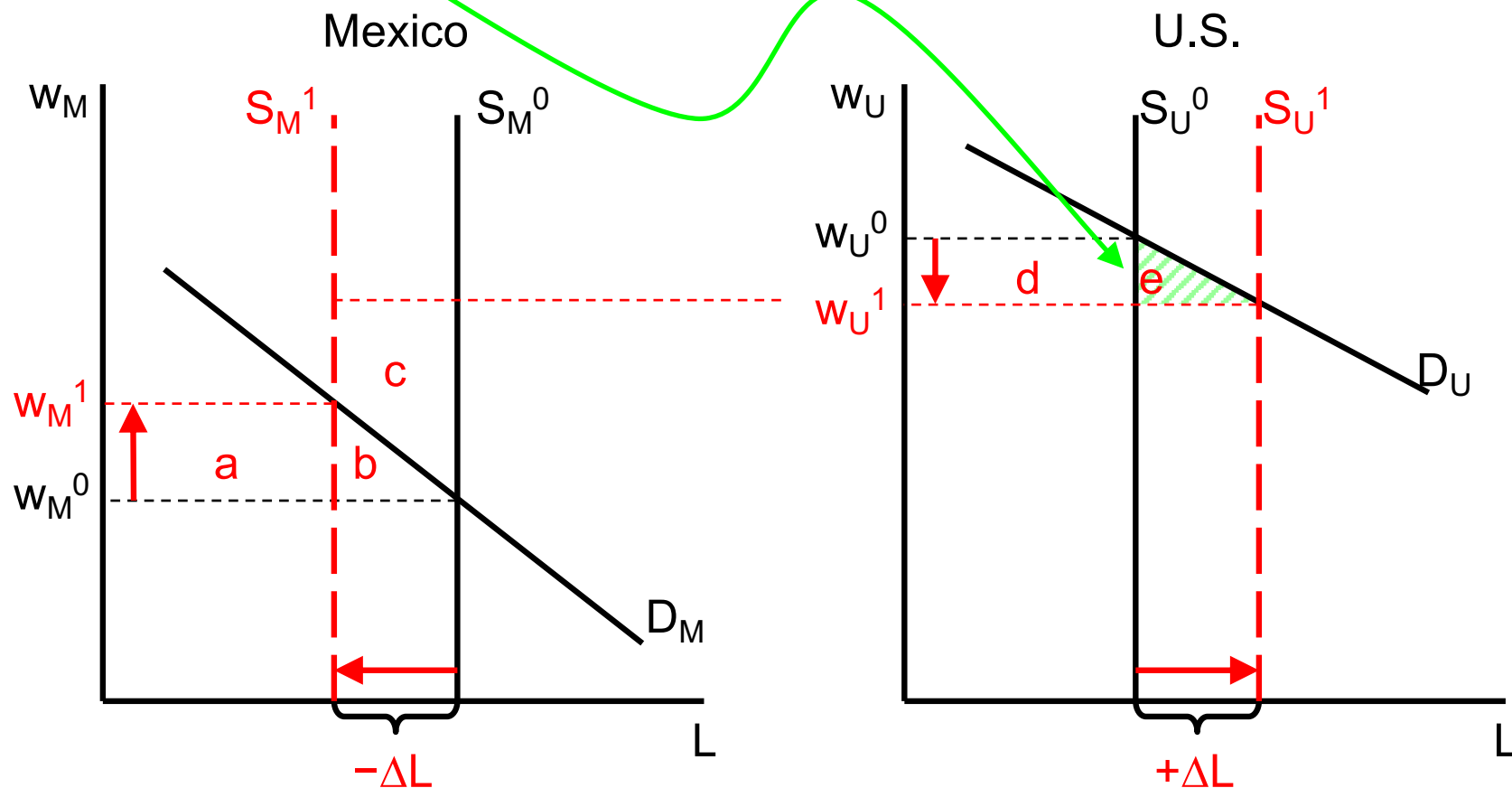
Effects of Migration: Mexico

Gain to Mexico as a whole, including migrants



Effects of Migration: US

Gain to US as a whole, excluding migrants



Effects of Migration

- Losers from migration
 - In country of emigration: owners of factors other than labor
 - Their productivity and incomes are reduced by having less labor to work with
 - In the country of immigration: workers
 - They compete with the incoming workers and their wage falls

Note that there are different kinds of labor. Only those most similar to the immigrants lose.

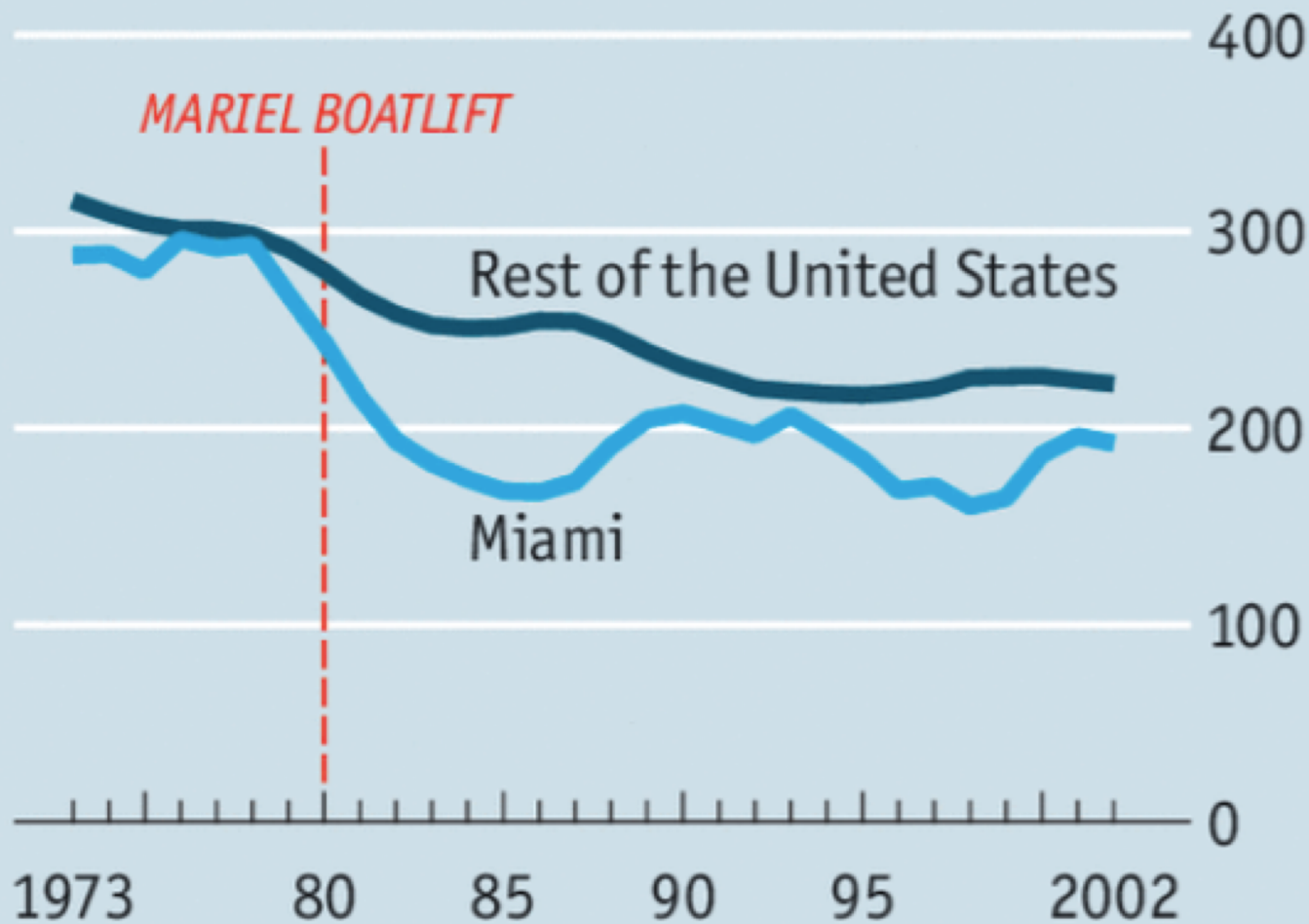
- These tend to be unskilled workers in the most common cases

Effects of Migration

- Example: The Mariel boatlift of April 1980
 - See Economist, “Immigration Economics: The Wages of Mariel”
 - 125,000 Cubans migrated to Miami, adding 8% to its workforce
 - Economists have studied this as a “natural experiment”
 - David Card in 1990 found no effect for bottom quarter of workers
 - George Borjas in 2016 found substantial lowering of wage of unskilled workers (high-school dropouts)

Sinking

Weekly earnings* of high-school dropouts
United States, men aged 25-59, 2014 \$



Source: George Borjas

*Three-year moving average

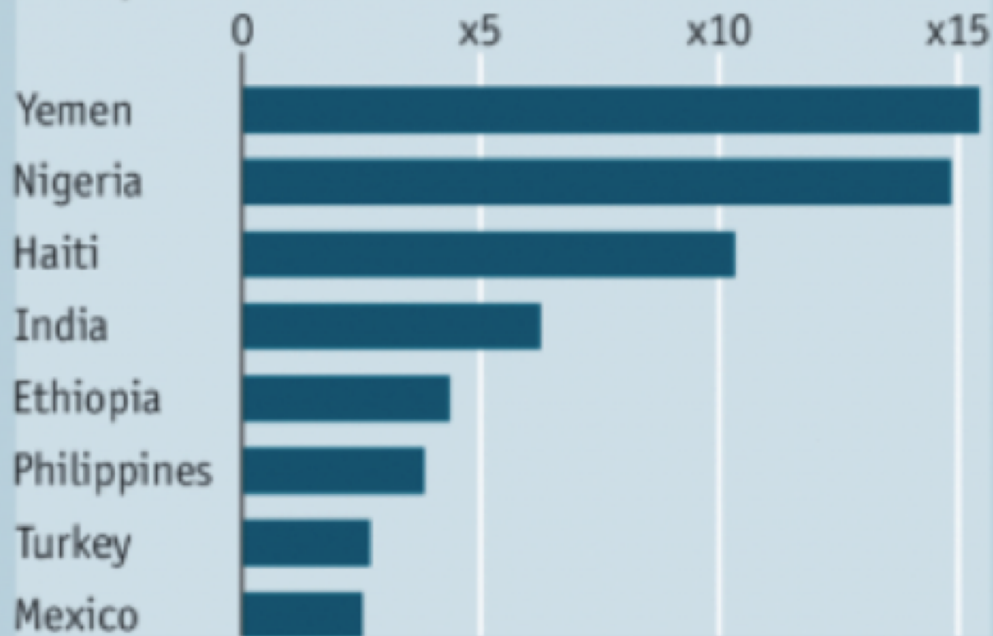
Effects of Migration

- Wages versus other effects
 - So far I have stressed effects only on wages
 - Economist “Progressive Case for Immigration”
 - Notes that focus on wage effects misses much that is more important
 - See below for some additional effects
 - But the effect on wages of the migrants themselves is huge:

Coming to America

Multiple by which a worker's income* could increase by moving to America

January 2009



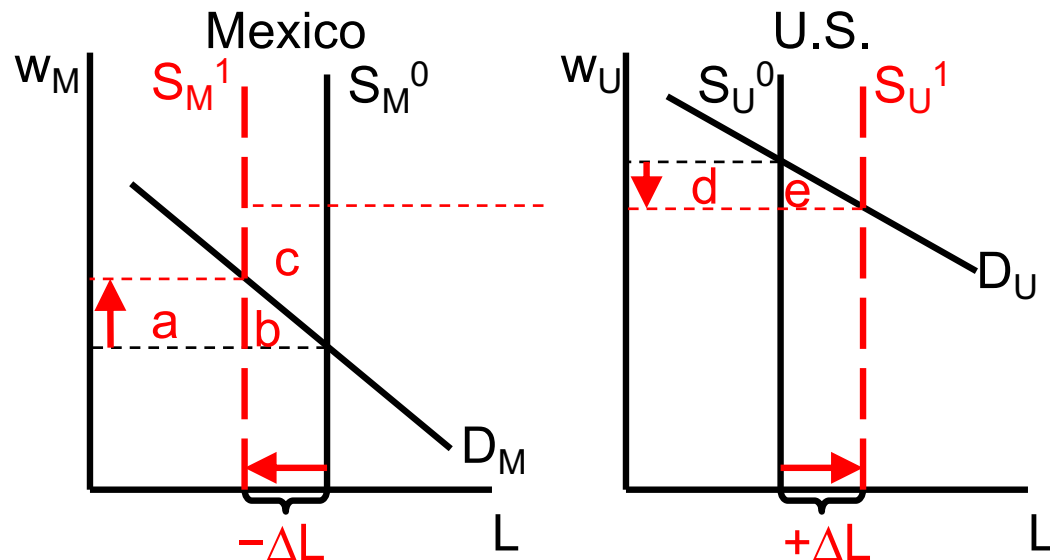
Sources: "The place premium: wage differences for identical workers across the US border", Harvard Kennedy School; IMF

Source: Economist (2017)

Clicker Question

In the graph below, showing migration from Mexico to the U.S., which area shows the gain to Mexican workers who don't migrate?

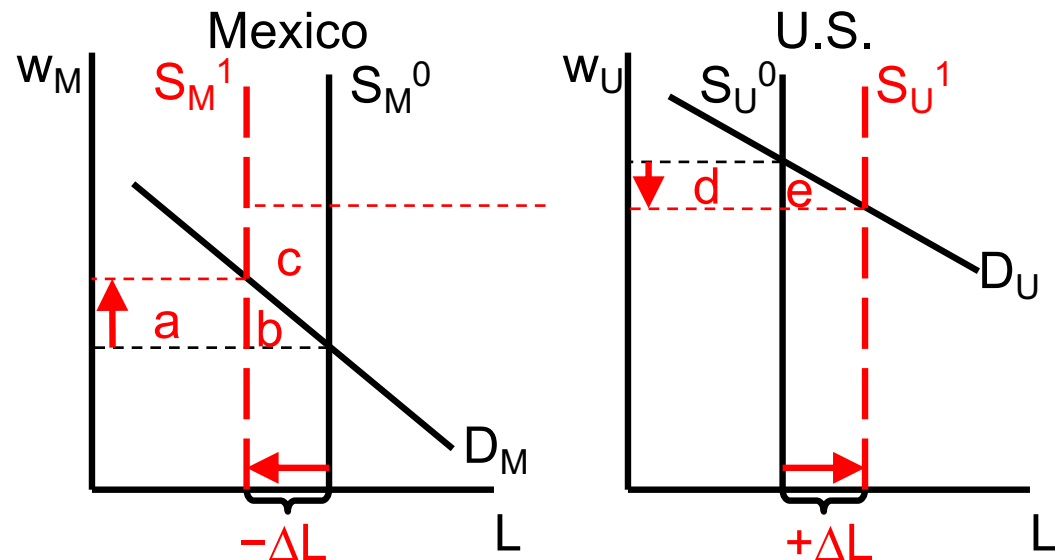
- ✓ a) a
- b) b
- c) c
- d) d
- e) e



Clicker Question

Same graph. Which area shows the gain to US factors other than labor?

- a) $a+b$
- b) $b+c$
- c) $c+d$
- ✓ d) $d+e$
- e) $e+a$



Clicker Question

In the model of migration that we looked at, why does the US as a whole gain from immigration from Mexico?

- a) Immigration raises the wages of US workers
- b) Immigration causes the US demand for labor to increase for any given wage
- c) Migrant workers pay more in taxes than they use in benefits from government
- d) The gain to the migrants themselves is larger than the loss to US residents
- ✓ e) Factors other than US labor gain more than US labor loses

Clicker Question

Who in Miami was hurt by the Mariel Boatlift of 1980?

- ✓ a) High-school drop-outs
- b) Owners of manufacturing firms
- c) Owners of restaurants
- d) Workers in the bottom quarter of the wage distribution
- e) Landlords

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Effects of Migration

- Other effects, not in this simple model
 - Migrants
 - Pay taxes
 - Use government services
 - Which is larger? There is debate on this
 - Griswold cites study saying
 - Typical immigrants and their offspring will pay \$80,000 more in taxes than they will collect in government services during their lifetimes

Effects of Migration

- Other effects, not in this simple model
 - Migration changes population density; may cause congestion
 - Eldredge blames immigration for “overcrowded schools, congested highways, deteriorating ecology and lagging infrastructure”
 - Diversity: presence of immigrants adds
 - Cultural enrichment
 - Cultural (ethnic) frictions
 - Xenophobia (fear or dislike of “others”)

Effects of Migration

- Other effects, not in this simple model
 - Many migrants carry wealth with them out of their country of origin
 - Financial
 - Human capital
 - Raising concern about a “brain drain”
 - But see Economics Focus
 - » Possibility of emigration provides incentive to acquire more education
 - » Leads to more education even at home

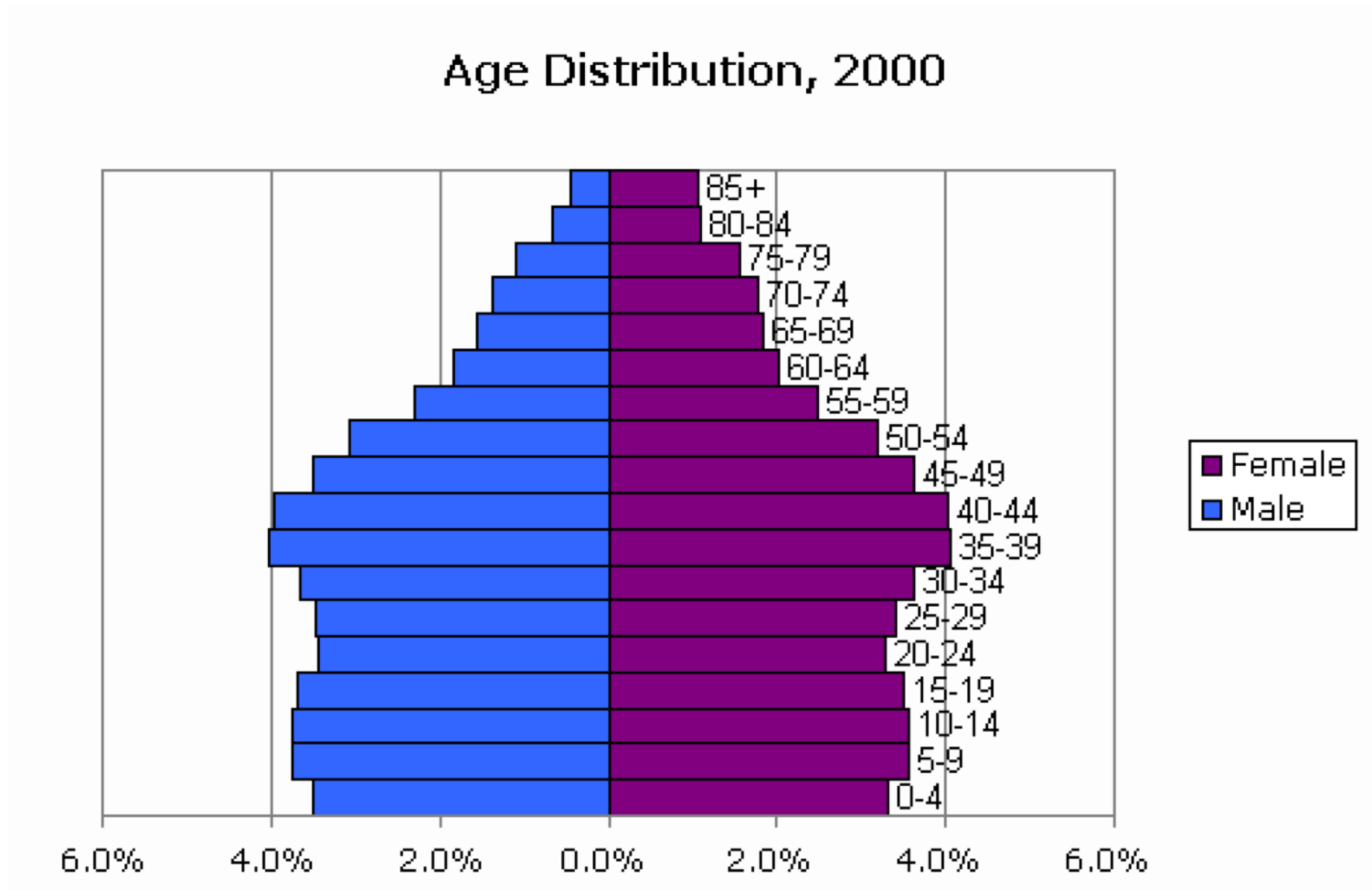
Effects of Migration

- Other effects, not in this simple model
 - Many migrants send money back to their country of origin
 - Such “remittances” provide important income for poor countries

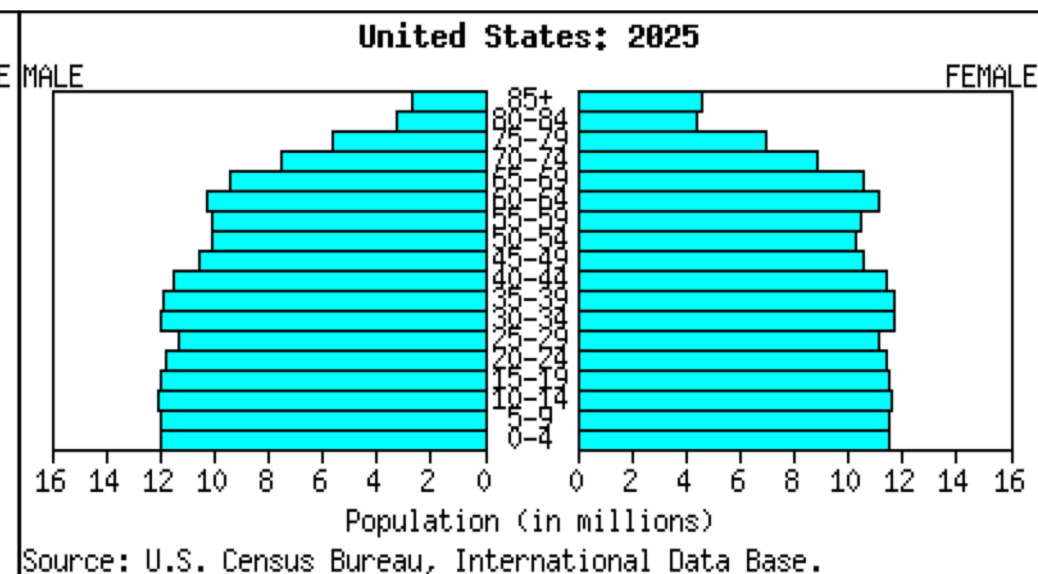
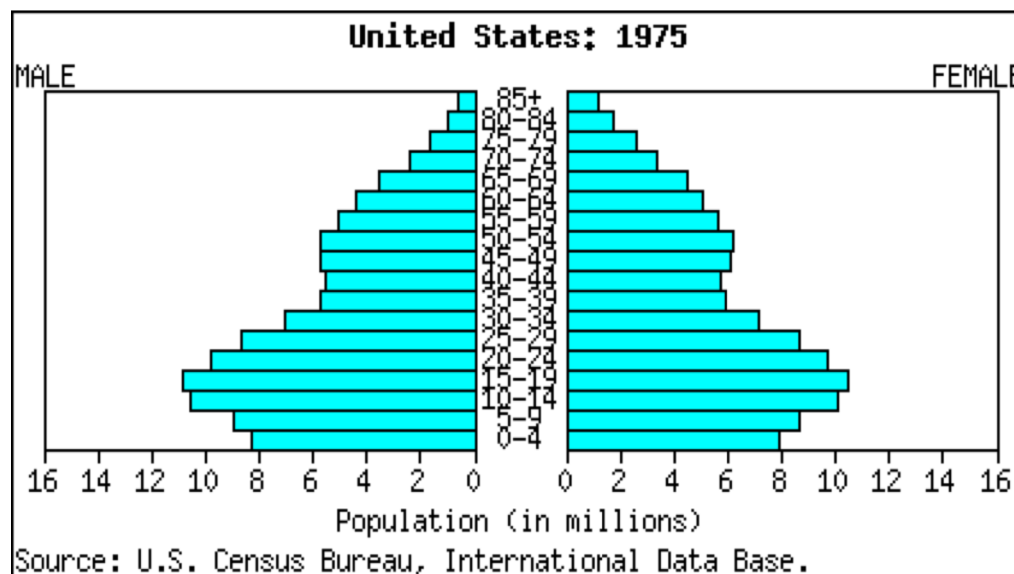
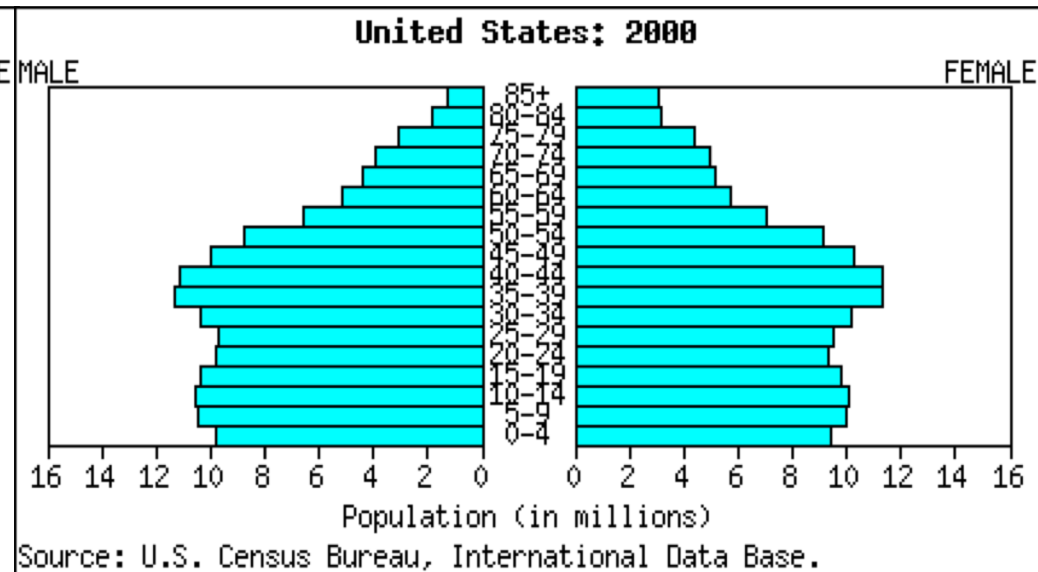
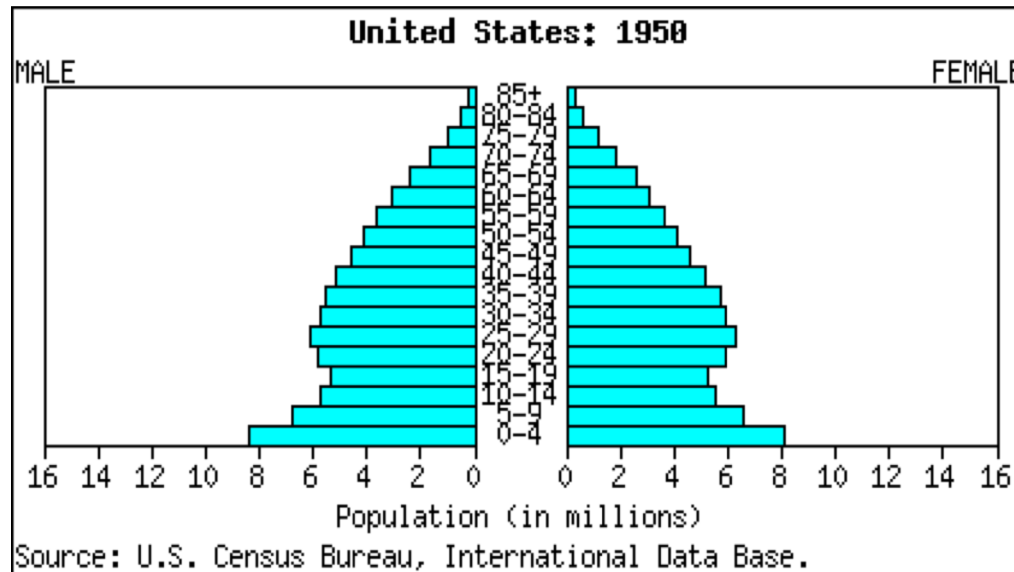
Effects of Migration

- Other effects, not in this simple model
 - Demographic effects
 - Immigrants tend to be young and have large families
 - This provides a larger young generation, whose earnings can support the elderly
 - Aging population is less of a problem for the US than for Europe and Japan, because of immigration

Population Pyramid: US

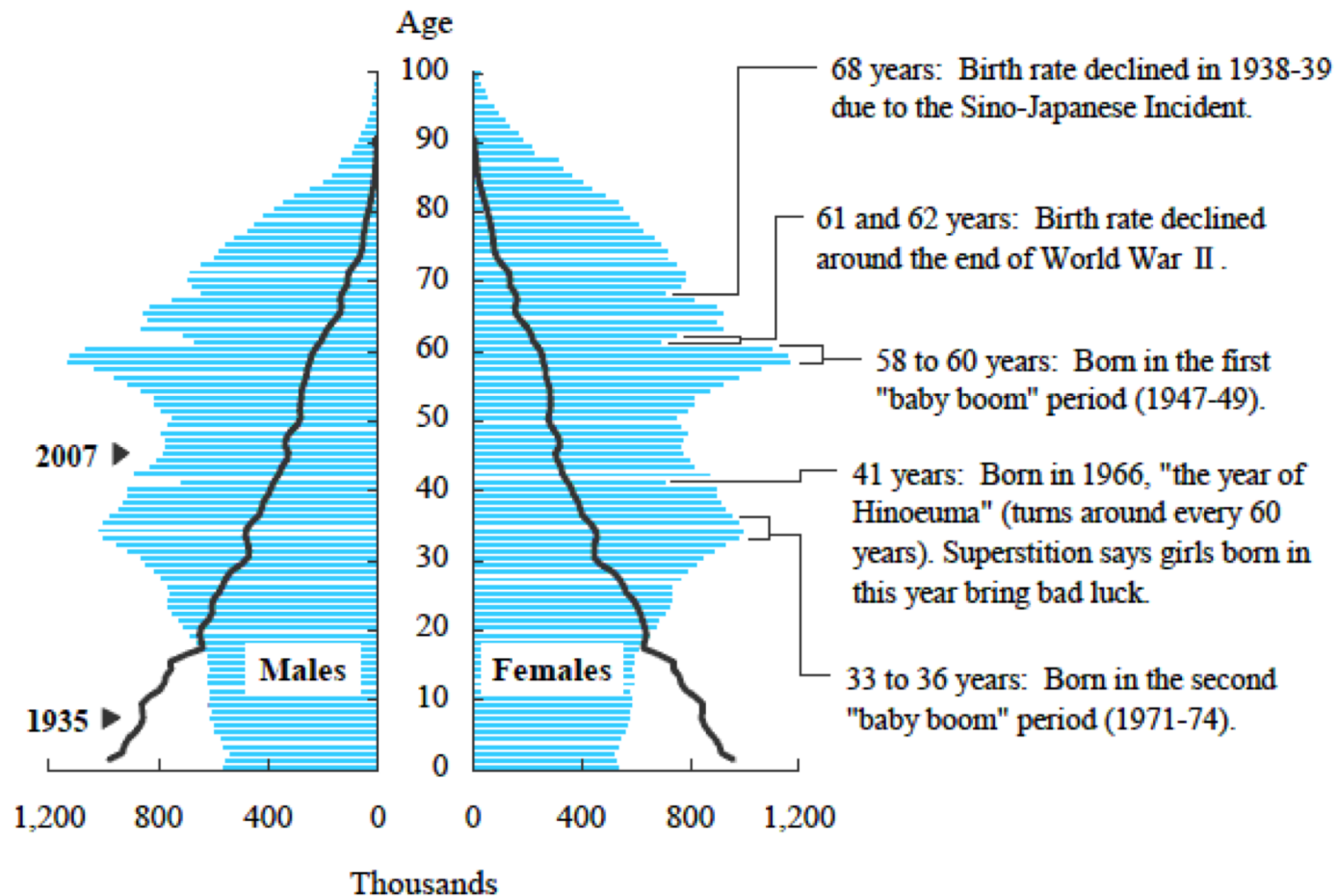


Population Pyramid: US



Population Pyramid: Japan

Figure 2.1
Population Pyramid



Source: Statistics Bureau, MIC.

Clicker Question

What are remittances, and how big are they for some countries, according to the assigned article from *The Economist*?

- a) Payments to migrants from relatives at home, often larger than their wages
- b) Payments to migrants from relatives at home, usually only a fraction of their wages
- c) Payments from migrants to relatives at home, seldom very important for their countries
- ✓ d) Payments from migrants to relatives at home, more than 20% of GDP in some countries

Clicker Question

“Immigrants are young and tend to have large families.” Is that good or bad for the country of immigration, and why?

- a) Bad because they compete for places in schools
- ✓ b) Good because their earnings can support the elderly
- c) Bad because young people are more likely to commit crimes
- d) Good because today's young are smarter than old people
- e) Bad because they take food from the native population

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Policies to Affect Migration

- Immigration Quotas, based on
 1. Race
 2. Country of origin
 - US used to limit or ban immigrants from most of Asia, eastern & southern Europe, and Africa (see Porter)
 3. Income, wealth, skill
 4. Family connections
- US has recently debated switch from #4 to #3

Policies to Affect Migration

- “Guest worker” Programs
 - Permit workers to enter temporarily to fill a labor-market need
 - Hard to enforce “temporary”

Policies to Affect Migration

- Trade Policies
 - Recall Factor Price Equalization
 - If this works, it reduces the incentive for migration
 - This was one motive for NAFTA: raise wages in Mexico so that fewer will try to enter the US
 - As we'll see later, Mexican wages did not rise
 - Mexico-US migration fell anyway, for other reasons

Policies to Affect Migration

- Encourage high-income immigration
 - Provide larger quotas for workers likely to earn high incomes
 - Deny welfare benefits to recent immigrants, so poor won't be tempted to come

Policies to Affect Migration

- Control the border
 - Make it hard for illegal immigrants to enter
 - But note the costs of doing this (See Skerry and Rockwell)
 - Encourages organized crime to smuggle migrants
 - These make life worse for the migrants

Clicker Question

According to the assigned article by Skerry and Rockwell, what is a “cost of a tighter border”?

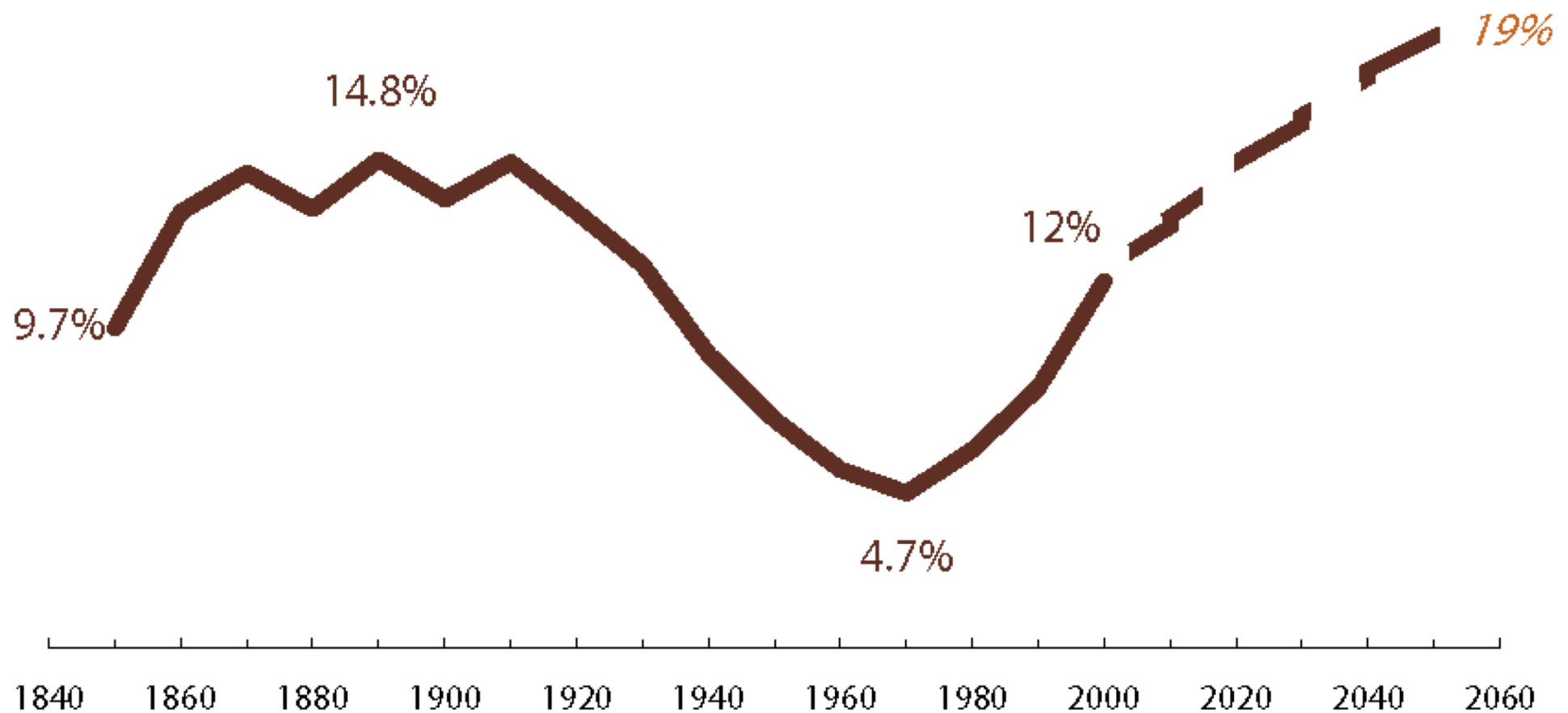
- a) It undermines the business model of people smugglers
- b) It reduces the cost illegal entry
- c) The agents that patrol the border are likely to shoot people who are not migrants
- ✓ d) Migrants that succeed in entering are more likely forced into prostitution
- e) It makes it harder for tourists to enter the country

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- **Facts about Migration**

Figure 2

Foreign-Born Share of U.S. Population,
Actual and Projected: 1850–2050
(% of total)



Note: Projections for 2005–2050 indicated by broken line.

Source: Pew Research Center, 2008; Gibson and Jung (2006)

Facts about US Immigration

- Hostility toward immigrant groups often exists, but it fades over time
- Recall the hostility once felt in the U.S. toward
 - Irish
 - Southern Europeans (Italians, Greeks)
 - Asians (“coolie labor”)
- Hispanics are likely to follow the same path

Facts about US Immigration

- But see also Borjas:
 - Compared to 1970, today's immigration is much higher
 - Foreign-born share of US population
 - 1970: 4.7%
 - 2003: 12.7%
 - And he argues that today's immigrants will take longer to assimilate than earlier ones
 - lower incomes and levels of education
 - the decline of manufacturing to employ them
 - the fact that they are less diverse ethnically
 - policies and attitudes of society

Facts about US Immigration

- Borjas is also cited among others by Porter (“Can Immigration Hurt the Economy?: An Old Prejudice Returns”)
 - Immigrants from other cultures “bring their culture with them”
 - They are less productive than earlier immigrants
- Porter argues against these views
 - Many studies show they increase productivity and output
 - The critics’ arguments lack empirical support

Facts about US Immigration

- 2007 US Immigration Bill
 - Pushed by Bush, McCain, favored by many Democrats
 - Defeated in Congress June 2007
 - Would have
 - Provided legal status (& eventually citizenship) for illegal immigrants
 - Increased border enforcement to reduce future illegal immigration

Facts about US Immigration

- The Wall
 - We had, before Trump, built a wall along parts of the US-Mexico the border
 - Problems:
 - Rivers, etc.
 - Wall is often not on actual border, but inside it, cutting properties in two
 - Wildlife movement







DHS chief marks first section of Trump's border wall. (But it kinda looks like a fence.)

At an event in southern California, Kirstjen Nielsen put up a plaque with the president's name.



Screenshot

Facts about World Migration

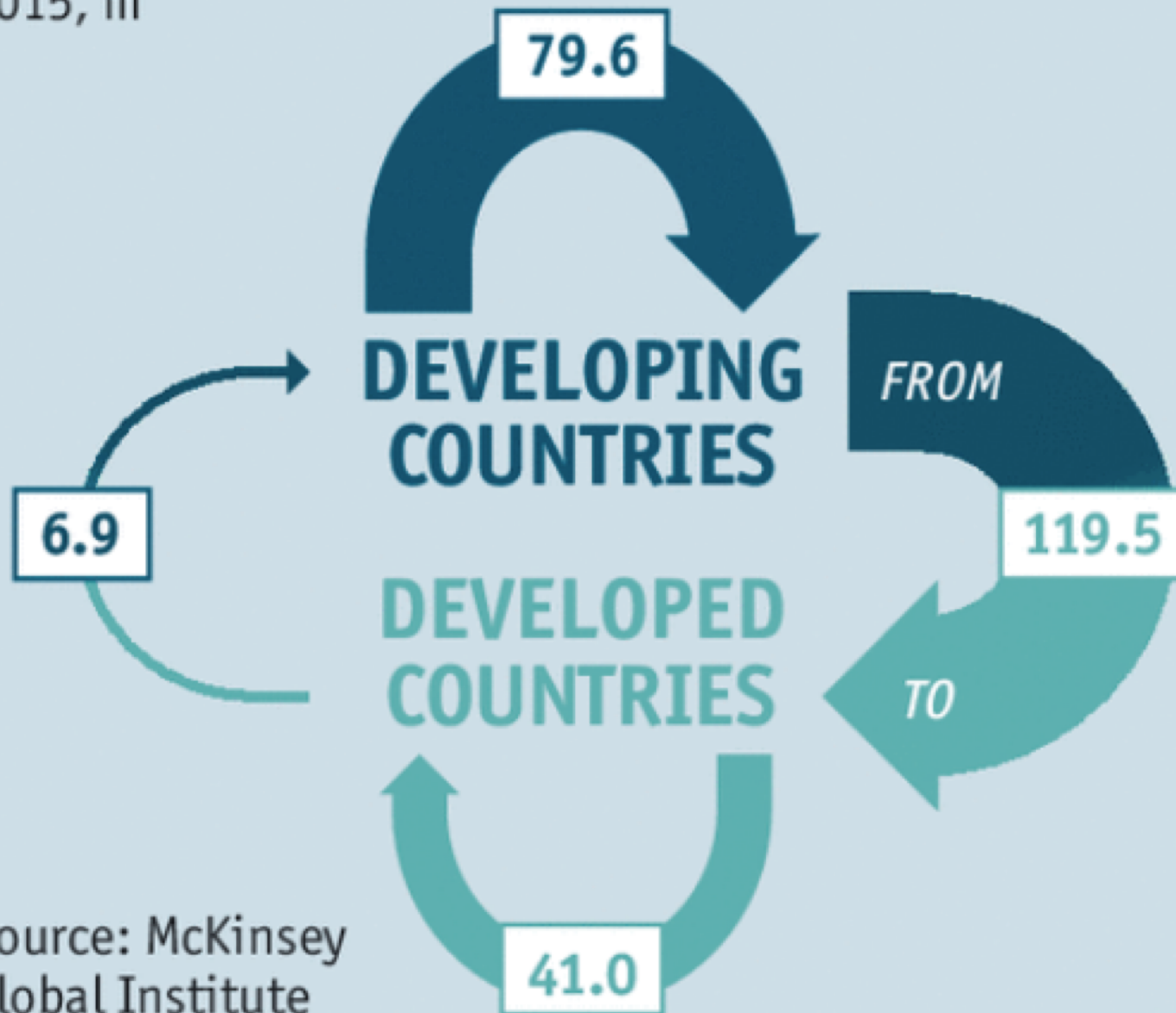
- See Donnan (from 2014, before the surge of refugees from Syria)
 - Number of migrants was higher than ever, but not as share of population
 - About 3% of global population lived outside their country of birth
 - Greatest migrations today are inside countries (China)
 - Budgetary cost of new migrants, while probably positive, is generally small

Facts about World Migration

- See Economist “From South to South”
 - Not all migration is from developing to developed countries
 - Much migration takes place from very poor developing countries to others that are just somewhat less poor
 - Why don't they go to developed countries?
 - Often they can't afford the trip
 - Less poor neighbors may be ones they can reach by bus or by walking

Merry-go-round

Migrant population by destination and origin
2015, m



Source: McKinsey
Global Institute

Facts about US Immigration

- The Future?
 - President Trump has already tried to take several actions
 - To build the wall
 - To stop immigration from certain countries

Clicker Question

Which of the following is not one of the reasons that Borjas gives for today's immigrants to take longer to assimilate than earlier ones?

- a) Lower incomes and levels of education
- ✓ b) Greater difficulty learning English
- c) The decline of manufacturing to employ them
- d) They are less diverse ethnically
- e) Policies and attitudes of society

Clicker Question

In 2015, which of the following flows of migration was the largest?

- a) From developing countries to other developing countries
- b) From developed countries to other developed countries
- ✓ c) From developing countries to developed countries
- d) From developed countries to developing countries

Next Time (Oct 16, after break)

- International Movements of Capital
 - Multinational Corporations
 - Foreign Direct Investment