**Senior Seminar in Economics**

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**Immigration**

**Introduction**

A description of the issue of immigration will be provided and how it is affecting various economies and social structures in the U.S. Statistics show that immigration is a never ending issue because the world has transformed into diversification. Due to the increased efficiency in transport from one region to another, people can easily migrate to new locations. It has been found that immigration affects an economy's productivity destroys property and affects the hard working citizens whose resources have been used by incoming immigrants. Are there impacts on a country's productivity of the economy and people? Does immigration motivate people or does it demoralize their morale in economic growth and development activities?

The effects of immigration on productivity, employment, and life skill balance have widely been studied. Despite the facts that studies have reported mixed results on the effect of immigration on native employment, most studies have tended to lean towards the side asserting that immigration scales down opportunities for employment to the native people. In fact, in certain countries like U.S, locals and even some politicians, such as Donald Trump argued that citizens of the country have lost jobs because of the unprecedented rise in undocumented immigrants.

**Background of the issue**

According to Card, (2005) most immigrants had an opportunity to enter in the United States due to requirements of the 1924 immigrant and nationality act. Some of the main immigrants who have settled in the United States due to the act include citizens from Mexico, Vietnam, and the Philippines with all of them having a low education as compared to the natives in the United States. This influx of immigrants is the main reason why there has a high competition in labor market. because immigrants make up 13% of the working age although most of them have had a low education level of high school. Card (2005) assesses the impacts immigration has on the native workers. He does this through the model analysis of economic growth of the local labor markets that tend to receive an influx of immigrants while comparing with those that tend to receive fewer numbers. The main argument put forward by Card is that industries located in cities receiving immigrants are able to incorporate them without lowering the wages. The major finding of Card’s evaluation is that internal immigration of workers is insignificant while that of the employers tend to minimal.

In the context of education, Card (2005) makes a striking conclusion. For instance, if a first generation immigrant has a schooling totaling 10.4 years, the child will surpass his/her peers in education. For example, in the case where the parent has 5.5 years of education, the child would reach at least 12.2 years of schooling. Despite the large proportion of immigrants streaming in the US who have low education levels, there is an implication in the children’s wage gap; however, Card considers this insignificant. Card arrives at this conclusion through an overview and update of the US immigration literature by focusing on whether immigration in the US harms the labor market of the low skilled natives. Secondly, he continues the review by assessing how the immigrants are performing in the labor market through ‘assimilation.’

**From problem to problem**

A key problem of migration into the U.S is that it hikes up rents and the value of housing for people. The urban areas in the United States have been major hubs where rent has increased immensely because of immigration. The research study by Saiz (2007) estimates that 1% of the escalation in rental charges within the United States is due to immigration of people. Saiz (2007) continues to argue that the immigration inflow of 1% equivalent to the population of the city provides a huge economic impact since the magnitude tends to be larger than that found in the labor market. The researcher employed instrumental variables which were based on a shift-share of the national levels of immigration into the metropolitan areas to arrive at this result. The researcher chooses to use annual data on legal immigration inflows coupled to Census decennial data that records the foreign-born and the housing rent within the metropolitan area. The data helps the researcher understand the association between immigration and residential decision for the locals. Besides, the research finds out that there are robust effects on both rents and the housing prices in a magnitude bigger than the estimates recorded in the wage literature. The dependent variable in the analysis in yearly change in the log of rent while the independent variable is the inflow of the immigrants in the population. This has significantly affected the labor market because most of the employees are forced to go after better pay to sustain the rental charges (Saiz, 2007).

**Curbing the immigration issue**

According to Mayda, (2006) one of the major remedies for the problem of immigration is to come up with an immigration policy to guide on immigration. Although some nations have tried to come up with some policies, they have not been effective because of their little scope. In coming up with such a policy, governments from various nations should consider analyzing the immigration determinants because they determine the migration flow internationally. The immigration policy should be considerate on demand for immigrants by a nation and the immigrants’ decision to move to a new location.Mayda (2006) reaches at this conclusion through an empirical analysis of two individual-level survey data sets. The researcher goes a step further to evaluate both economic and non-economic factors that contribute to preference formation. In arriving at the conclusion, she provides the evidence of how both economic and non-economic explanations play a robust role in determining the attitudes towards the immigrants. Her results are consistent with the predictions in standard economic models while at the same time rejecting the worldview on non-economic considerations that shape varied attitude towards immigrants.

**Does Immigration Affects Employment and Productivity**

Peri (2012) conducted an extensive study to determine the immigration effect on the productivity, employment, and the skills bias. The study specifically employed the use of the existence of immigrant communities across the United States before the year 1960s, as well as the distance from the Mexican border as a tool for analyzing how immigration affected employment opportunities and U.S productivity.

Peri (2012) asserted that the remarkable immigration witnessed between 1990s and 2000s significantly escalated the number of immigrants in the America soil, impacting not only employment availability to the locals but also the productivity of the nation. The increase in immigrants differed from one state to the other with some states having more immigrants than the other.

The unprecedented rise in the immigrant’s number, especially the undocumented immigrants has triggered much research. Researchers in this area are interested in ascertaining how this rise could impact productivity and employment opportunities to the local citizens. The findings of many studies in this area have demonstrated that immigration significantly affects the labor market.

In an attempt to determine how immigration affected different facets of the United State’s economy, Peri (2012) employed the use of the so-called production-function representation of the U.S economies, a move that was geared towards analyzing or examining the effects that immigration had on the production inputs and productivity of the country at large. Peri (2012) was particularly interested in this area of research because he considered it limitedly researched. Peri contended that in spite a huge volume of research exploring the impact of immigration hours worked, native employment, and wages using the available labor market data, he was particularly interested in further contributing to this area by bridging the research gaps that have widely been left under or completely un-researched.

Therefore, Peri motivation was to explore immigration effects on skill bias of the aggregate productivity, as well as the total factor productivity using the national accounting data integrated with the census data. To address the difficulty regularly encountered while establishing the causal link between economic outcomes and immigration as a result of omitted variable and simultaneity biases, the study employed two prolonged approach to ensure that the results obtained was accurate and precise (Peri, 2012).

The research unearthed particular state characteristics that were highly likely to be related to the immigration and less to the other productivity determinants. The study further employed the use of two sets of variables, including the imputed number of the immigrants inferred from prior immigrant communities as shown by 1960s census and distance from Mexican border. The variables offered a stronger predictor of the inflow of immigrants over a given time frame by priori, less correlated with the other variables for productivity (Peri, 2012).

Additionally, the researchers introduced proxies for some factors that they considered as being critical causes of productivity growth over the past years. Treating the said factors as endogenous and making use of similar instruments, the researchers isolated the features of geography uncorrelated with those factors while at the same time correlated with immigration, and made use of them as influencers of the inflow of immigrant. Some of the factors that were explicitly controlled during the research study included computers adoption, research and development R&D, and the openness of the international among other factors. All these efforts were geared towards ascertaining the impact of immigration on productivity and employment (Peri, 2012).

Though many studies have reported negative relationship between immigration and employment, this study found otherwise. First, the study found no evidence linking immigration with the crowding out of employment or even hours worked by the natives. This means that the chances of locals getting employment opportunities in their respective countries are not affected at all with immigration. The second findings showed positive relationship between immigration and productivity implying that immigration leads to a remarkable rise in the total factor productivity (Peri, 201).

This could be attributed to the fact that immigration enables a country to acquire a pool of different talents that eventually play a pivotal role in the economic growth and development of the nation. Finally, the findings demonstrated that efficiency gains resulting from immigration were unskilled biased; higher for those who are less educated. Peri (2012) reported that the correlation was even more robust where factors, such as technological adoption, R&D spending, openness to international trade, and sector compositions were involved.

The results of this study is a warning to those who have always spearheaded inter-ethnic hatred claiming that immigration is reducing employment opportunities to the locals. The results indeed show that immigration is good for the economic growth and development of the economy. The United States is the global powerhouse, and based on this research, one would argue that unprecedented number of undocumented immigrants could partially have contributed to their economic prowess.

Friedberg and Hunt (1995) begins by appreciating that immigration has remained to be a contentious issue for the developed countries such as the US, Australia and Canada. There has been a huge tension when it comes to the adoption of the open-door philosophy with the economic and social ramifications becoming clear. However, most of the debate on economic policy remains to be economic. The work of the two appreciates the empirical work that has been done in understanding the impact of immigration on the economy. Freidberg and Hunt (1995) in their paper do a detailed empirical review of peer-reviewed journal articles on the same. They do so by evaluating theoretical and empirical research on the impact of immigration on both growth in income and labor market outcomes among the local citizens. After conducting the cross-sectional review of the empirical research, the theoretical framework suggests immigration affects the economic growth depending on capital levels of the people going to these countries. They appreciate that the empirical research yield conflicting results and more work needs to be done since there is no satisfying evidence of immigration leading to a significant reduction in employment among the natives.

**Immigration Impact on Wage**

In addition, some researchers have investigated how immigration affects native wage structure. One important scholar who extensively investigated this area is (Longhi, Nijkamp, & Poot, 2005). They argued that the increasingly open and interconnected world because of globalization has significantly impacted international migration. The well developed air and road transport systems continues to facilitate the movement of people from one nation to the other.

Moreover, the constant search for jobs and issues of terrorism has also considerably promoted international immigration. According to Longhi, Nijkamp, and Poot (2005), the major driving forces of immigration included regional economic integration, economic globalization, and the rising economic stability across the globe. They estimated that over one hundred and sixty million people and about 20 million refugees have converted to be long-term residents of their asylum countries. This is clear justification that immigration is real and likely to affect different nations differently.

Longhi, Nijkamp and Poot (2005) posit many studies have been conducted in an attempt to find out how immigration affects the country’s labor market. Borjas (2003) as cited in Longhi, Nijkamp and Poot reported varying impacts of immigration on the wages of the natives. This could be interpreted to mean that studies are yet to strike a consensus into the effect of immigration on the wages of native.

Therefore, in an attempt to further contribute to the existing knowledge and research studies in this area, Longhi, Nijkamp and Poot employed the use of meta-analytic techniques that sampled a total of eighteen papers, all of which generated approximately 348 estimates about changes in wages as a result of international immigration. Though several studies analyzed here made use of the United States data, others analyzed data from different nations, including Netherlands, Germany, Norway, France, Israel, Austria, and Australia.

Huge differences in the standards of living, political turmoil, and the labor market tension have all contributed significantly to the international movement of people. In fact, Longhi, Nijkamp and Poot highlights that the political turmoil coupled with labor market tension arising from ageing labor forces in developed economies and youths in less developed economies all encompasses the push and pull factors stimulating an escalation in the international movement and stronger political pressure geared towards strengthening barriers to the inward flows (Longhi, Nijkamp & Poot, 2005).

The perceived threat and promise to some have stimulated vast research into this area of practices with the sole objective being to investigate the social, economic and environmental impact of international migration of people or immigration. The researchers have been very much interested in finding out whether immigration is injurious to the economy and labor market or beneficial. This is in an attempt to reconcile the different findings that have been reported with respect to how immigration affects the labor market. In particular, the economies that have majorly been targeted are developed economies like that of the United States.

Borjas (2003, p.1335) as cited in Longhi, Nijkamp and Poot (2005) reported a wider variation of the effects immigration on native’s wages. However, his findings demonstrated that this impact fluctuated from one study to another, a clear indication there lacks consensus on the effect of immigration on wages of the native people. However, this finding seems to be against the view point of the standard economic analysis demonstrating that an escalation in labor supply results in a downward pressure in wages, particularly in labor market deemed competitive.

Therefore, based on the perspectives of the standard economic analysis, one would find it awkward that an increase in the supply of labor could result in an increase in labor cost or not have any effects at all. The law of supply states that an increase in supply results in a reduction on the cost of goods and services being supplied. Therefore, if one argues from this point of view, then he or she would expect that an increase in the supply of labor as a result of international movement of people affects wages of the natives negatively. This is principally because when the supply of labor is high; their bargaining power reduces, resulting in a reduced wage.

Longhi, Nijkamp and Poot (2005) highlighted there is a general consensus in empirical literature that the immigration effect on native’s is statistically significant, though smaller than expected. Longhi, Nijkamp and Poot contend there are different explanations that have been put forward to justify the effect of immigration on native’s wages. These arguments include difficulty in designing the right hypothesis empirical test, the openness of the labor market, finally the institutions coupled with other pertinent factors hampering competitive forces of labor.

Some argue that the immigration shock escalates the return to capital that attracts capital inflow in an open economy. Besides, natives may decide to move away from the areas occupied by immigrant settlement, hence offsetting the initial decline in wages. Concisely, this study conducted a meta-analysis to examine the impact of immigration on native’s wages. Using meta-analysis techniques, the study summarized statistically 344 estimates that had been collected from a total of eighteen studies examining the percentage change in wage structures following immigration.

Despite the study reporting a negative influence of immigration on the wages of native, the effect was very negligible. For instance, the study showed that a percentage increase of immigrants in labor market only reduced wages by 0.119%. The study found that negative impact of immigration on wage was relatively high in the European countries compared to the United State’s market. Nonetheless, the study noted that such difference ought not to be attributed to the difference in geography. The research further found that holding other factors constant, the immigrants were highly in competition with the other immigrants compared to the natives. Therefore, based on this study, the impact of immigration on native’s wages is negligible.

Rivera-Batiz (1990) made invaluable contributions into this study by exploring how proficiency in the English language impacted the wages of second-generation persons and immigrants in the United States. The study employed data set with test-based measures of the English reading proficiency. The findings of this study demonstrated English reading proficiency was a critical factor constraining wages rates that immigrants receive in the United States.

**Labor Market Competition and Preferences over Immigration Policy**

With the economic integration and globalization, competition within the employment sector is increasingly becoming stiff. People are moving across the globe in search for jobs making the 21st labor market characterized by stiff competition than witnessed before. The study by Scheve and Slaughter (2001) employed the use of a three year individual-level data in the analysis of the determinants of the individual’s preference over the immigration policy in the U.S. Scheve and Slaughter contend that individual preferences over the immigration policy remain a pertinent factor in any model of immigration policy.

Undeniably, preferences is dependent on many host factors, including racial and ethnic, identity, political ideology, and the government anticipations regarding the likely new immigrants economic impact on economic growth and development of the nation. Among the pertinent economic considerations, Scheve and Slaughter highlight that the likely impact of immigration on wages is predicted to play an incredible role in the determination of the individual’s economic welfare.

Nonetheless, it is imperative to note that different economic models have made different contrasting predictions regarding the link asserted above. According to Scheve and Slaughter (2001), Heckscher- Ohlin model of international trade maintains that immigrants sometimes do not affect whatsoever on the wages of the natives. Additionally, the Factor-proportion analysis, the model widely used by the labor economists maintains that immigrants do put under pressure in the labor market similar skilled natives.

The prediction of this model could be true in an economy that embraces equality and justice in employment practices and in which recruitment is solely based on merit an no any other factor. In such economy or a government, the immigrants who are highly qualified for the job than the natives are likely to enjoy an upper hand in the job market. In fact, with the economic integration and globalization, countries are moving towards a liberalized labor market where the only determining factor is qualification and nothing else.

Moreover, companies are increasingly implementing ways on how they can remain competitive in this turbulent environment. Part of this strategy has been attracting highly qualified human resource, as well as nurturing a pool of professional human resource because of their role in the competitiveness and productivity of the firm. Therefore, with the dynamics of the 21st century marketing environment, individual preference based on immigration policy is increasingly being washed out as company’s beginning to realize the significance of basing their recruitment on job qualification and merit to attain a higher competitive advantage.

Another critical analysis framework examining the effect of immigration on wages of the native have predicted that immigrants put under pressure wages of similar skilled natives, more so those residing in gateway communities hugely occupied by the immigrants (Scheve & Slaughter, 2001). Against these theoretical models, it is undeniable that there exist theoretical uncertainties regarding the wages mediated link between skills, as well as the preferences with respect to the empirical uncertainty on whether individuals do take into consideration competition within the labor market while analyzing immigration policies.

The study especially demonstrated a clear linkage between skills in the labor market and preferences. For instance, less skilled (more skilled) individuals highly prefer more-restrictionist (less-restrictionist) immigration policy. The linkage documented clearly show that individual’s position within the labor force significantly influence or affects their policy opinions. The findings here are in line with a Heckscher- Ohlin and the factor-proportions analysis model and inconsistent with the area analysis model. This is due to the absence of evidence demonstrating stronger skill preference link in the high immigration labor markets.To arrive at these findings the two researchers choose to use three years of individual-level data. The data helps in understanding the determinants of personal preferences towards policies shaping immigration in the US. The two researchers tried to test for the link between the individual skill levels and the associated immigration-policy preferences.

**Immigrants Earnings**

Besides the above studies, Borjas (1989), also contributed to the knowledge and information in this area of practice by critically and comprehensively exploring the relationship between immigrant’s earnings and the degree of cohort quality change assimilation, and return migration as experienced by the so-called foreign born population. The study employed longitudinal data acquired from the Survey of Natural and Social Scientists and Engineers.

Borjas posits that many empirical research studies conducted in the past decade has found a remarkable growth in the immigrant’s earnings. Most of these studies employed cross-section study to demonstrate the years that have gone since immigration has not only independent and positive but also numerically significant impact on immigrant’s earnings. A significant number of these cross-sectional studies have shown unprecedented rise in the relative earnings of the immigrants that after between ten and fifteen years, their earnings overtake native worker’s earnings. Based on these studies, one would argue that the relative earnings of the immigrants have grown rapidly in the last decade (Borjas, 1989).

There are different reasons that have been given to explain the steepness of immigrant’s earnings profile. For instance, some have explained it in the context of human capital framework, arguing that the immigrants hold stronger incentives compared to the native workers, hence robustly invest in the human capital. Borjas (1989) posited that assertion that immigrants earn more in the long-run compared to the natives rests on the assertion that they are a select group of individuals with an extremely average quality surpassing that of the archetypal native worker.

Therefore, Borjas findings demonstrates that the payoff in the United States labor market experiences to the immigrants is extremely large to an extent that many immigrants groups does outperform the natives in earnings. However, many literatures have based their findings on cross-sectional analysis of data sets whose results have been criticized due to systematic change or nonrandom immigration propensities in quality or the productivity of immigrant cohort. The study thus reported a sizable decline in the immigrant’s scientist’s skills and engineering cohorts in the last twenty years. Borjas (1989) posits that while the average earning capacity of 1970s cohort is 7 times lower compared to that of 1960s. Borjas (1989) is in a position to find a solution to the problems through the normalization of the structural parameters. The normalization used in the study looks at period effect in immigrant earning which is identical to that of natives earning. The assumption does not indicate that these labor markets remained unchanged over a sample period. The researcher finds out that immigrants tends to have higher earnings compared to the natives with the wage difference never changing much over a span. Secondly Borjas (1989) finds out that immigrants are educated, older, and higher likelihood of residing in the Northeastern sides. Finally, they are not likely of leaving the scientific labor market.

Borjas (1985) was interested in examining two major facts that was found following extensive analysis of many cross-sectional research studies. The first finding evidence in many cross-sectional studies rested on the assertion that the immigrant’s earnings grew rapidly as they assimilated into United States, and that the rapid growth contributed to many immigrants overtaking the earnings of the locals or the natives. The many cross-sectional studies analyzed demonstrated a remarkable rise in the earnings of the immigrants compared to that of the natives. However, the subsequent studies conducted like this done by Borjas (1985) demonstrate inconsistent results showing a decrease in the quality of immigrants in the U.S. The findings in this study emphasized the differences between cohort and cross-section analysis of earnings of the immigrants. The analysis of eighteenimmigrant’s cohorts in 1970s and 1980s of the U.S censures led to three major results. To arrive at the results, the researcher makes use of regression analysis by looking at coefficient R where the coefficient of COHORT that is negative has statistical significance. The first results demonstrated that earnings of cohort immigrants grew at a relatively slower rate compared to the cross-sectional studies prediction. Moreover, the growth earnings of immigrants to native cohort analysis have also been greatly overestimated by the many cross-sectional studies conducted. The study concluded that the cross-sectional studies provided not only useless but also misleading information about immigrant’s assimilation into the United States’ labor market.

**Conclusion**

In conclusion, the paper has discussed pertinent issues with respect to immigration. Some of the issues discussed include the reason for unprecedented rise in immigration, the effect of immigration on productivity, employment, and skill bias. Further, the study explored the effect of immigrants on native wages and the impact of English language proficiency on immigrant’s wages. In respect to employment, the research demonstrated that immigrant have no significant effect on unemployment rate of the natives. Moreover, the study demonstrated that immigrants play a pivotal role in the productivity of a country.

The study also explored the relationship between immigrants earning and the degree of cohort quality change assimilation and return migration. Many empirical cross-sectional research studies conducted found a remarkable growth in the immigrant’s earnings. Most of these studies indicated that as immigrants stay increased their earning increased significantly than the earnings of the natives. However, the subsequent research conducted disqualified this finding. Further research studies conducted to ascertain the effect of English proficiency on immigrant of the immigrants found that English reading proficiency was a critical factor constraining wages rates that immigrants receive in the United States.

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