F+H

Part 1

FRIEDBERG + HUNT (JEP 1995)

discussion the theoretical + empirical research on immigration's impact on labor mkt outcomes of natives + income growth

NOTE that source country composition of immigrants into US shifted toward countries whose immigrants have less education BUT educational distribution of immigrants is rel. bimodal

	• immigrants to US	natives
NO HS diploma	41%	23%
College grads	24%	20%

THEORY

closed economy – immigrants lower the price of factors w/ which they're perf. sub.

immigrants raise the price of factors w/ which they're complements

NOTE that if immigrants are prepared to work for less than natives, an influx of immigrants shifts out labor supply and makes it more elastic

open economy HO w/ FPE

results quite different from closed economy case

→ technology same, so trade driven by factor endow

→ immigration causes production of labor-intensive good to increase, but factor prices remain unchanged

→ if FPE occurs, then no reason for migration

- unless tariffs in futile attempt to keep domestic wage above world level
- if labor mobile however, immigration will occur until wage returns to world level

→ FPE can also occur in presence of tariffs and restrictions on labor mobility if capital is mobile because capital mobility equalizes K/L ratios in each industry

open economy HO w/out FPE

→ when countries have very different endowments each will be completely specialized + FPE will not occur

→ cross-country differences in wages generate migration + reduce wage differential

- capital abundant countries receive immigrants and begin producing more labor-intensive good, (labor-abund countries the opposite)

theoretical effects on unemployment

closed economy case – lower wage will cause some natives to leave labor force or reduce their hours

open economy models do NOT predict that immigration will cause unemployment, but

→ when factors move betw/n sectors the move is not instantaneous, so SR unemployment due to "job matching"

closed economy case – if wage is made rigid by institutional arrangements, unemployment could result

EMPIRICAL RESEARCH

most popular approach – cross-sectional – variations of immigrant density across cities used to identify effect of immigration

difficulties – FPE holds within a country so even if immigratn reduces wage at national level, uneven distribution of immigrants will not result in cross-sectional wage difference

Problem #1

so even if you find an effect it may be biased toward zero

Problem #2

ENDOGENEITY BIAS

Immigrants (the most mobile of workers) will move to regions where demand shocks have led to higher wages so [redacted] estimated effect may be biased upward show positive correlation between immigration & wages

[redacted]

LaLonde + Topel (1991) use individual-level census data to examine effect of different immigration cohorts on each other (since immigrants will affect each other more than they affect natives, measured effect an upper bound on impact of immigration on natives) largest effect: impact of male immigrants in US under 5 years on themselves

$$-0,03 = \frac{\%\Delta \text{ wage of male immigrant in US under 5 yrs}}{\%\Delta\left(\frac{\text{male immigrants in US under 5 yrs}}{\text{[redacted] labor force}}\right)}$$

Altonji + Card (1991) to overcome endogeneity bias they use 1970 stock of immigrants as instrument for the change in the fraction of foreign born individuals from 1970 to 1980

$$-1,2 = \frac{\%\Delta \text{ wage unskilled natives}}{\Delta \frac{\text{foreign born}}{\text{population}}}$$

↑ not percentage change!

[redacted]

To compare their estimates with others, need to convert to an elasticity:

$$\Delta \frac{\text{Foreign Born}}{\text{pop}} = 8\% \text{ to } 7\% \Rightarrow \%\Delta \frac{\text{Foreign Born}}{\text{pop}} = 14\%$$

$$\frac{-1,2}{1,4} = -0,86 = \frac{\%\Delta \text{ wage unskilled natives}}{10\%\Delta \frac{FB}{pop}}$$

Factor Price Equalization

Lalonde + Topel and Altonji + Card's estimates of the impact of immigration were small

- Altonji + Card tackled endogeneity bias problem Lalonde + Topel didn't
- so A+C found larger effect than L+T

but their estimates may also have been biased toward zero if FPE spreads the effects of immigration evenly across an economy

BUT maybe bias due to FPE is small

Blanchard + Katz 1992 find that wage differentials caused by demand shock of 1% to employment growth linger for 10 yrs, while unemployment + labor force participation differentials linger for 6 yrs

FPE mechanism present in other research

Filer (1992) White + Hunter (1993)

→ say 100 American plan to move to Los Angeles but because of immigration from Mexico only 50 American actually go to LA

→ in such a case wages in LA remain higher than they would have been if all 100 had gone to LA

→ so the observed decrease in wages (due to Mexican immigration) is smaller than it would have been if immigration hadn't kept the Americans away

NOTE: ceteris paribus assumption violated

we underestimate the effect of immigration

→ why didn't the Americans go? Factor Price Equalization

migration is the major labor mkt response to state-specific shocks to employment growth

acc to Blanchard + Katz (1992)

Friedberg + Hunt conclude that the effect of immigration on labor market outcomes is small, at most:

$$-0.1 = \frac{\%\Delta\, w_{NATIVE}}{\%\Delta\, \frac{immigrants}{population}}$$

Even natives who are closest substitutes with immigrant labor have not been found to suffer significantly as a result of increased immigration