

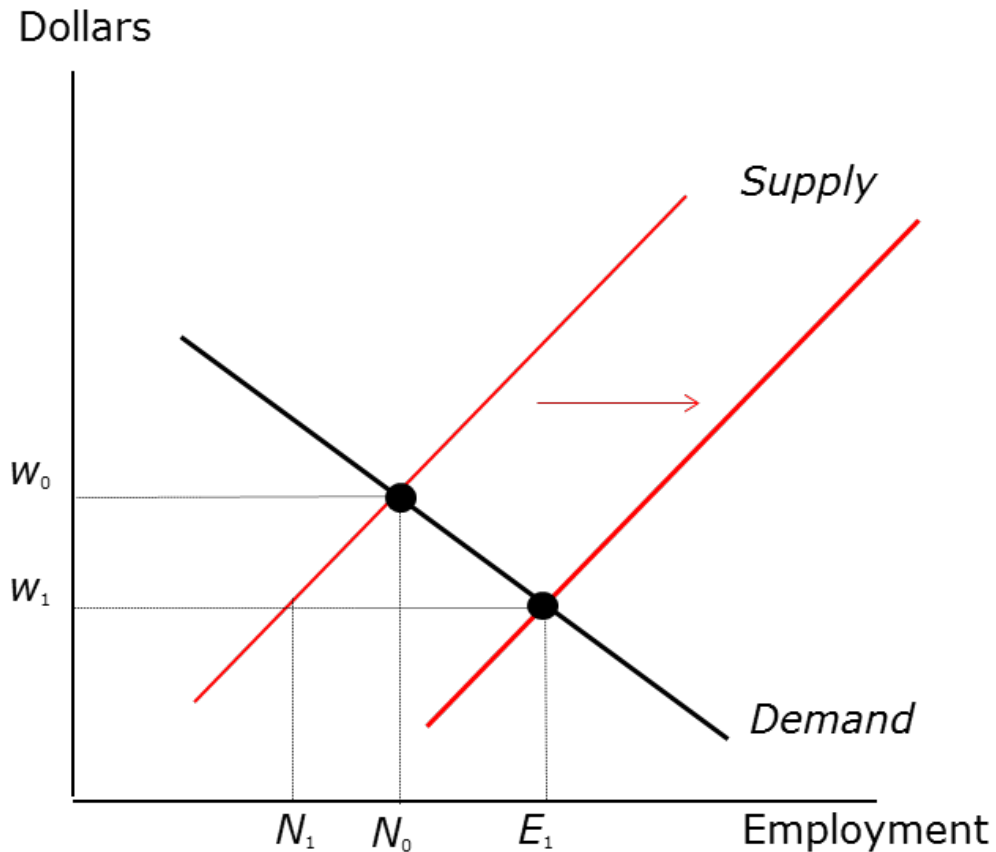
Labor Market Equilibrium: Second Lecture

LABOR ECONOMICS (ECON 385)

BEN VAN KAMMEN, PHD



Immigration



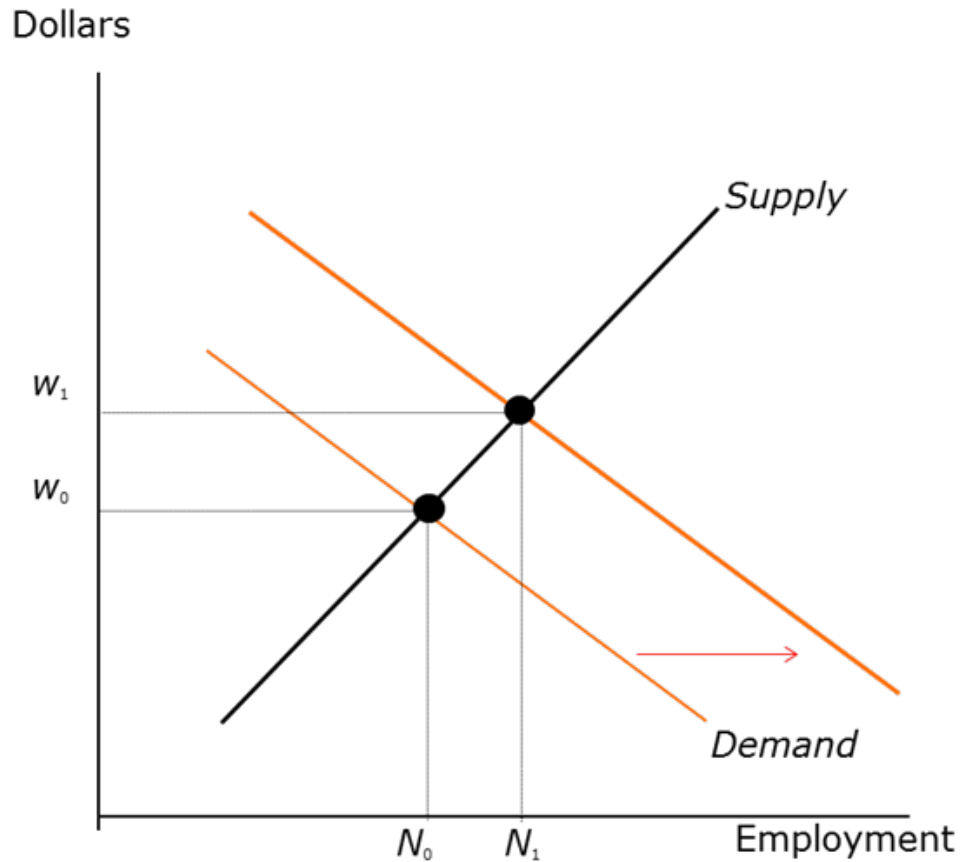
A more general discussion of migration and immigration considers the substitutability and complementarity of migrants and native workers.

- If native and immigrant workers are perfect substitutes, an in migration of workers shifts labor supply outward, increasing overall employment from N_0 to E_1 . Wage decreases from w_0 to w_1 .
 - Finally fewer native workers are willing to work for the new lower wage, so immigrant labor displaces native workers according to this model (fewer native workers employed). $N_0 - N_1$ is the quantity of native workers that are “disemployed”.

Relationships between groups of workers

- Immigrants are surely substitutes for some subsets of native workers, but certainly not for native workers as a whole. For example consider a group of immigrants comprised of “unskilled” workers. In the destination country, there are unskilled and skilled workers, and output is produced using both types as complements.
 - Most production requires several types of labor. For example a manufacturer requires a skilled machinist and a (comparatively) unskilled clerk to complement the machinist by packing the parts and loading them on a truck.
 - Native and immigrant unskilled workers are substitutes, and the effect of immigration will resemble the scenario in part a.
 - However for workers that are complementary to unskilled labor, the wage change in the unskilled labor market affects the demand for skilled labor.

Complements

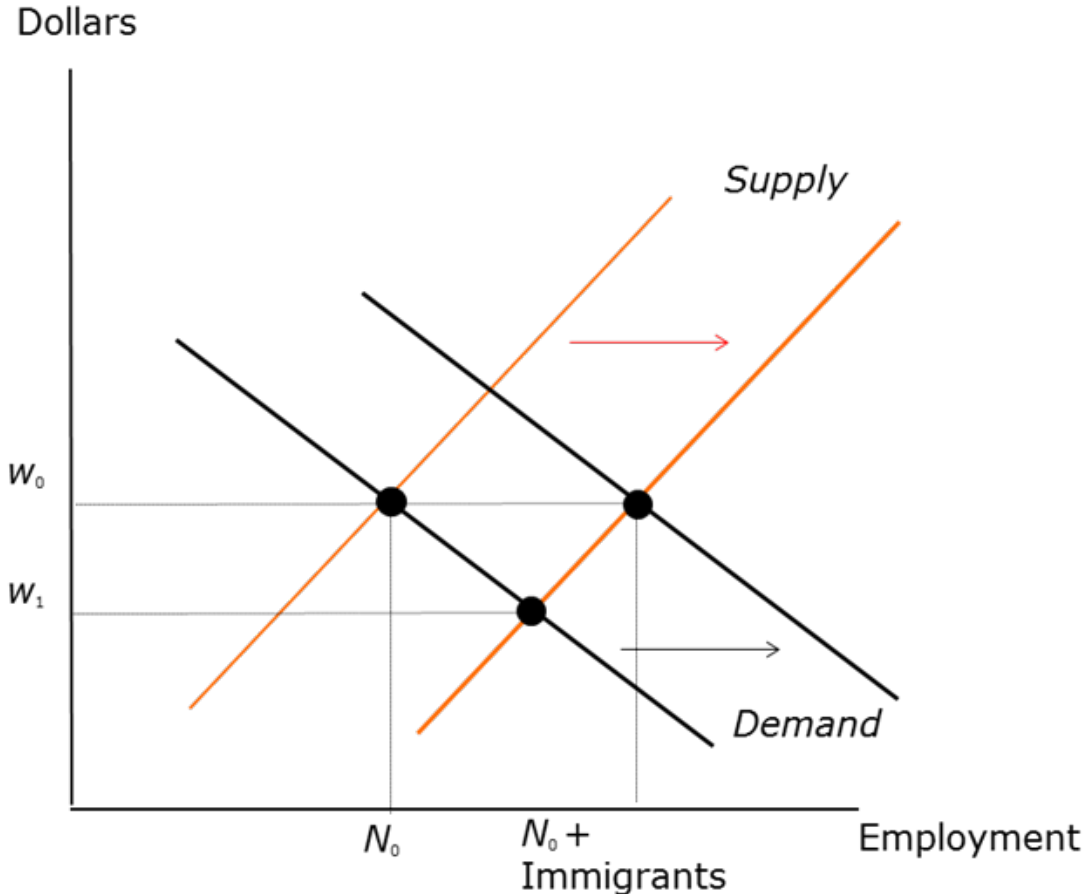


- Think back to Principles of Micro about this. When two goods are complements and the price of one goes down, buyers buy more of both goods! In this case the demand for skilled labor increases.

Long run effects

- It is equally true that physical capital is a complement to (both types of) labor.
- By that token, immigration's effect is to increase the demand for capital also. As complementary inputs are induced into the market, the productivity of and demand for labor also increases (sort of a "boomerang" effect).
 - Unskilled labor supply shifts out.
 - Wage of unskilled labor goes down; demands for complementary inputs increase.
 - Supply responds to higher prices of skilled labor and capital, and prices come back down.
 - Then demand for unskilled increases, bringing wages back up.
- The process just described plays out over a period of time, the long run. What length of time is required to observe all of the dynamics is not obvious theoretically.

Long run effects (continued)



Substitutable native and immigrant workers

- However the effect of immigration is [adverse](#) for substitutable native workers over the short run, yet positive for workers that complement the immigrant workers. All of these effects dissipate in the long run.
 - Studies comparing native wages among cities (“spatial correlations”) depending on the concentration of immigrants have found evidence of a small negative relationship between immigrants and native workers' wages. This conclusion extends to specific groups of native workers, like African Americans.

Measurement of effects of immigration

- George Borjas (your textbook author) is one of the foremost experts on the economics of immigration: Borjas and Katz (2007).*
- A recent NBER paper** using Danish data that concludes that inflows of immigrants, resulting from conflicts in Asia and SE Europe, caused native workers to take on “more complex” jobs without increasing the probability of unemployment!
- There is a large literature on the subject of income distribution, immigration and responses by native workers. See the footnotes in the textbook on pages 175-179 for a sample.

*“The Evolution of the Mexican-Born Workforce in the U.S. Labor Market,” in Mexican Immigration to the United States, ed. Borjas.

**Foged, Mette and Giovanni Peri. 2013. “Immigrants and Native Workers: New Analysis using Longitudinal Employer-Employee Data.” NBER Working Paper. Accessed from: <http://www.nber.org/papers/w19315>.

Conclusion

- Historically immigration has been a popular subject for research papers in ECON 385. There is plenty of room for multiple studies on the subject. Consider the following (small) sample of ideas if you are considering this subject.
 - Effects on natives' wages.
 - Which native workers?
 - Over what span of time?
 - Measurement issues? Complicated by immigrants choosing where to locate.
 - Immigrants' wages.
 - Immigrant "enclaves", concentration of immigrants.
 - Consequences of self-selection? Migrants are not randomly chosen from their home country.
 - Policy design.
 - What is the objective?
 - Return migration.
 - Remittances?