



The second generation. Impacts of immigration on destinations.

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Study Materials and Reading List

- Slides of the lectures
- All materials provided on: <http://home.cerge-ei.cz/pytlikova/LaborSpring16/>

Compulsory Readings:

- Borjas 6e, Chapter 8 labor mobility; and Chapter 4 (policy application 4-5).
- Sweetman and van Ours (2014): "[Immigration: What about the children and grandchildren?](#)" In Chiswick, and Miller (eds) *Handbook of the Economics of International Migration*.

Other Relevant Literature:

- CARD, D. (1990): "[The Impact of the Mariel Boatlift on the Miami Labor Market](#)" *Industrial and Labor Relation Review*, Vol. 43, No. 2., pp. 245-257
- BORJAS George J. (2006): Native internal migration and the labor market impact of immigration. *JHR*, 41:2, 221
- Borjas G. J. (2003): The labor demand curve is downward sloping: re-examining the impact of immigration on the labor market, *QJE*, vol. 118, pp. 1135–74
- Borjas, G. and K. Doran (2012): "The Collapse of the Soviet Union and the Productivity of American Mathematicians," *QJE*,
- Card, D. E. (2001). Immigrant inflows, native outflows and the local labor market impacts of higher immigration, *Journal of Labor Economics*, vol. 19, pp. 22–64.
- Card, D. (2005): Is the new immigration really so bad? *EJ*, 115:507, 300-323.
- PERI, G. (2014): [Do immigrant workers depress the wages of native workers?](#) IZA WoL42.
- Bansak, Simpson and Zavodny: *The Economics of Immigration, Part III Labor Market Effects of Immigration*

OUTLINE

- The second generations
- Impact of migration on destination countries
 - Employment and wages
 - General welfare

THE SECOND GENERATION

- Significant share of destination population (In the U.S. more than one in eight natives has at least one parent foreign-born)
- Intergenerational mobility:
 - Measuring: income, wealth, education, occupation, socioeconomic status, but also fertility behavior, language proficiency, marriage and ethnic identity,
 - Understanding mechanisms by which the outcomes came about
 - 1st gen, 1.5 gen, 2nd gen, 2.5 gen, 3rd gen, 4th gen...
- Absolute and relative mobility
 - *Absolute* - whether one generation does better or worse than another generation in levels, e.g. whether children earn more or less than their parents (adjusted for inflation). Data needed – average generational, or family members across generations.
 - *Relative* – compares generational relative position in the distribution, e.g. parents vs children's position in income distribution. Usage of *transition matrixes*.

THE SECOND GENERATION

transition matrix - shows probability of people in one generation being in a higher, lower or the same place in the distribution than people in another generation

p _{ij} ..probability i..parents' quintile j..child's quintile	Child's position in income distribution					
	Quintile	Botton	Second	Middle	Fourth	Top
Father's position in income distribution	Botton	p11	p12	p13	p14	p15
	Second	p21	p22	p23	p24	p25
	Middle	p31	p32	p33	p34	p35
	Fourth	p41	p42	p43	p44	p45
	Top	p51	p52	p53	p54	p55

Transition matrix for immigrants and natives in Switzerland

		Child's position in income distribution			
		Quartile	Botton	Second	Third
Immigrants	Botton	45	28	17	10
Father's position in income distribution	Second	30	29	26	15
	Third	12	29	25	34
	Top	13	14	32	41
Natives	Botton	37	25	20	17
Father's position in income distribution	Second	29	29	22	21
	Third	17	27	30	26
	Top	15	18	30	37

Source: Bansak, Simpson and Zavodny (2015) pp.131

SECOND GENERATIONS

- Inter-generational transmissions and intergenerational elasticities
- elasticities measure how closely related outcomes are across generations, the typical model economists use:

$$Outcome_{i_{-t+1}} = b_0 + b_1 Outcome_{i_{-t}} + \varepsilon$$

- i..indexes groups or families (e.g. ethnic group or father-son combinations)
- If $b_1=1$ there is a complete intergenerational transmission, i.e. children's outcomes are exactly as their parents (everyone is on the diagonal in the transition matrix)
- If $b_1=0$, there is no intergenerational transmission, i.e. children's outcomes are not related to their parents' outcomes.
- Longitudinal/panel data needed
 - Analyses based on cross-sections are biased - different compositions/cohorts etc.
 - repeated cross-sections are better (e.g. comparing first generation in 1950 and then second 20-30 years later) BUT risk capturing life-cycle differences due to age.
 - Data that enables connecting parents and children are ideal for tracking intergenerational mobility
 - Inclusion of ethnic capital-an indicator for persons i 's membership in ethnic group j :

$$Outcome_{i_{-t+1}} = b_0 + b_1 Outcome_{i_{-t}} + \sum_j b_{jt} E_{ij} + \varepsilon$$

SECOND GENERATIONS

- the extent of intergenerational mobility depends on a number of other outcomes (e.g. country-specific like labor market institutions- minimum wages, level of inequality, the structure of educational system),
- In the U.S. the second generation of immigrants tend to do better than the first generation. But the progress slows down with the third generation.
- Table - Average income gap relative to third-plus-generation, by year, U.S.

Year	1st gen	2nd gen
1950	0,30%	3,60%
1970	-6,70%	7,30%
1994-1996	-25,30%	2%
2011-2013	-23,70%	-2,40%

Source: Bansak, Simpson and Zavodny (2015), Table 6.1., pg 133,, calculations based on men 25-64 years, controlling for age, education, state of residence, using 1950 and 1970 census, and 1994-96, and 2011-13 March CPS.

SECOND GENERATIONS

- Reasons why 2nd generations in the US do better:
 - Tend to be better educated
 - Receive their education in the U.S. – likely to be fluent in English
 - Better informed about opportunities on the U.S. labor market
 - Broader social networks
 - Less likely to live in ethnic enclaves
 - Origins tend to matter too:
 - more developed countries, with the same language spoken, less inequality, (Borjas 1993;)
 - Teens with immigrant parents spend their time differently than native teens – e.g. Asian students tend to study much more. E.g. Asian mother spend more time engaged in educational activities with their children than other mothers (tiger mothers. Ramey, 2011)
- A bit different pattern in Sweden (Hammerstedt, 2009) – compares 1,2,3 and 4th gen. The first earns more than 4th, 2nd the same as 4th, and 3rd less than 4th. Possible mechanisms: Selectivity and macroeconomic cycle.

SECOND GENERATIONS

- Other outcomes than incomes – educational attainment, labor supply, language proficiency, marriage, fertility, see e.g. Blau et al, (2013)
- EDUCATION:
- In most countries 2nd gen is more educated than 1st.
 - In the US (but also evidence from a few other countries show that) the 3rd generation is not much more educated than the 2nd => it seems as the educational progress is made mostly in the 2nd generation and then it stops.
 - Several factors affect how the 2nd generation fares in terms of education:
 - Parental education (intergenerational transmission strong)
 - The educational structure – having open, inclusive systems that integrate better
 - Granting citizenship – better involvement of parents

LANGUAGE PROFICIENCY

Most 2nd and higher gen immigrants are proficient in language by the time they finish school.

Bilingualism is associated with cognitive advantages, bilinguals tend to complete more education than monolinguals, when parental education and income are controlled for, but they do not earn more (e.g. Fry and Lowell, 2003 – but, a study of Kalist, 2005 indicates nurses in the US who speak Spanish earn 7% more).

SECOND GENERATIONS

MARRIAGE and FERTILITY:

- as discussed in previous lecture – an indicator of assimilation too.
- In the US, 1st gen immigrants more likely to be married to another 1st gen immigrant than to native, while natives more likely to be married to a native. 2nd gen - 3 out of 5 marry a native, 1 in 5 another 2nd gen, and 1 in 5 a 1st gen immigrant (for 1994-96, Card, DiNardo and Estes, 2000).
- Age matters – younger have higher probability to marry within their ethnic group.
- “assortative mating” stronger than inter-ethnic mating (Furtado and Theodoropoulos, 2011)
- Fertility rates of 2nd gen are positively related to fertility of 1st gen (intergenerational elasticity of 0,4 from 1st to 2nd gen immigrants, Blau et al, 2013). Partly explained by intergenerational transmission of gender roles and cultural attitudes (Blau et al, 2013).
- Fertility rates of 2nd gen are also positively related to fertility rates in country of origin of 1st generations (Fernandez and Fogli, 2009).

SECOND GENERATIONS

LABOR MARKET OUTCOMES:

- as discussed in previous lecture – an indicator of assimilation too.
- Differences across countries in performance in labor market outcomes of 2nd gen and 3+gen.
- Not much research - idea for future research?...

Check out the New York Times “Immigration Explorer” Interactive Map:

- http://www.nytimes.com/interactive/2009/03/10/us/20090310-immigration-explorer.html?_r=0

Impact of migration on destinations - Employment and wages

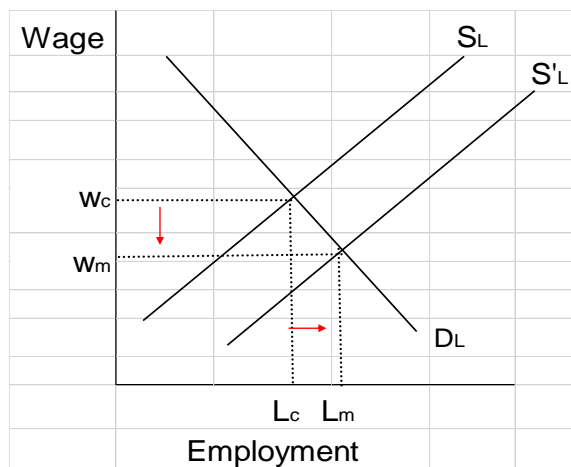
IMPACT OF IMMIGRATION - on employment and wages of natives and on general welfare

- laws of supply and demand -> a significant increase in the supply of any commodity, including labor, should directly reduce its price => the effect of immigration on the wages of native-born workers should be negative.
- Evidence mixed:
 - **Borjas** – calculated for the U.S. the **negative impact** of immigration between 1979 and 1995 **on the relative wages** of high school drop-outs at about 5 percentage points (Borjas, 1999) and a reduction of 4.0% in the level of real wages of all native-born men between 1980 and 2000 (Borjas, 2004)
 - But Borjas's calculations have long been **challenged** by economists using different methodologies and data, and **many studies continue to find no effect or only weak negative effects of immigration on low-skilled workers or workers in general** (e.g. Card, 2005; Ottaviano and Peri, 2005)
 - One of the explanations - It depends if immigrants and native workers are **complements or substitutes**.

What effect do immigrants have on natives?

- Effect of immigration on native wages and employment
- Start with homogenous labor: natives and immigrants do not differ in skills or education
- $L = N$ (natives) + M (migrants)
- Short term effect of demand (K fixed)
- Entry of M migrants shifts the supply curve and lowers the market wage
- Higher employment => higher output
- Immigrants increase the national income that accumulates to the native population
- Part of the increase in national income redistributed to immigrants via wages

FIGURE 1 Effect of Immigration – Homogenous Workers



What effect do immigrants have on natives?

- Assumption of homogenous workers *not realistic*
- Theory implies that gains from immigration will be bigger for natives the greater the differences in productive endowments between immigrants and natives
- Bigger difference between immigrants and natives => less substitutability
- Gainers from immigration: native workers whose labor is complementary in production with immigrants
- Use cross wage elasticities

Effect of immigrants will depend on

- Size of immigration flows
- Substitutability between natives and immigrants
- Relative abundance of natives in different skills, education, occupation and or experience groups
- Integration of the host labor market with other markets.
- In the extreme case, perfect integration with other labor or product markets can mean that there are no local effects of local immigration since these effects are entirely mediated through general equilibrium impact of the larger market (law of one "world" price)

Evaluate the Effect of immigrants

- Not a standard program evaluation problem
- Correlation btw immigration and wages of natives will not tell you much about the causality
- If migrants have lower skills than natives => understate effect on low skilled native workers
- Location decisions depend also on labor market opportunities
- Immigrants may move to cities where growth in demand for labor can accommodate their supply
- Even if new immigrants cluster in a few cities (U.S.), inter-city migration of natives (out-migration) may offset negative effects of immigration
- Card VS Borjas debate

IMPACT OF MIGRATION - on employment and wages of natives Empirical Evidence – Card (ILRR1990)

- Very influential paper
- Natural experiment: impact of arrival of 125,000 Cubans to Miami btw May and September 1980 on the labor market (*Mariel boatlift-Marielitos*)
- Size of Miami labor force increased by 7%
- Idea of the paper: compare wages and unemployment rates of ethnic groups btw Miami and 4 other cities with high % immigration (Atlanta, Houston, LA and Tampa)
- Whether the Mariel immigration reduced the earnings of less-skilled natives in Miami
- Based on education and occupation, Cubans are more likely to compete with Hispanics and Blacks than whites
- Finds no negative effect on American workers
- Real wage of Miami Cubans falls by 9 log points btw 1979 and 1985. But 6 log points due to composition of workforce, only a 3 log points effect due to Mariel = small effect

Card (1990) - Interpretations

- Striking and unexpected results- wrt effect of Cubans on labor market competition (Miami black residents rioted in 1980 for that reason)
- Why no effect of immigration in the Mariel experiment?
- One possibility is the reduction in native inflows to Miami: natives and older immigrants were deterred from migrating to Miami (national impact but undetectable)
- Another explanation: Miami was set up to absorb Cuban immigrants (growth of industries that utilize low skilled, social networks, high demand for their skills)
- Complements VS substitutes

Critique of Card (1990)

- The Mariel experiment is not the ideal test- difficult to understand the yearly variations, what about shocks in the comparison cities we do not know about?
- It may not be realistic to treat Miami as an autarkic labor market (i.e. that Mariel only affected Miami and not the other cities)
- Lead to criticisms about how to evaluate the effects of immigration
- Since then, other studies have taken a broader approach (general equilibrium approach – we can not look at the effects of immigration in isolation)

Critique of Card (1990)

- Immigrants may not be randomly distributed across labor markets. If immigrants cluster in cities with thriving economies, there would be a spurious positive correlation between immigration and local employment conditions (Borjas, 2001).
- Local labor markets are not closed. Natives may respond to the immigrant supply shock by moving their labor or moving firms to other cities, thereby re-equilibrating the national economy. Card argues those internal natives&firm flows are negligible.
 - There is an unresolved debate over whether these equilibrating flows exist.
- Measurement error

An alternative approach (Borjas, QJE, 2003)

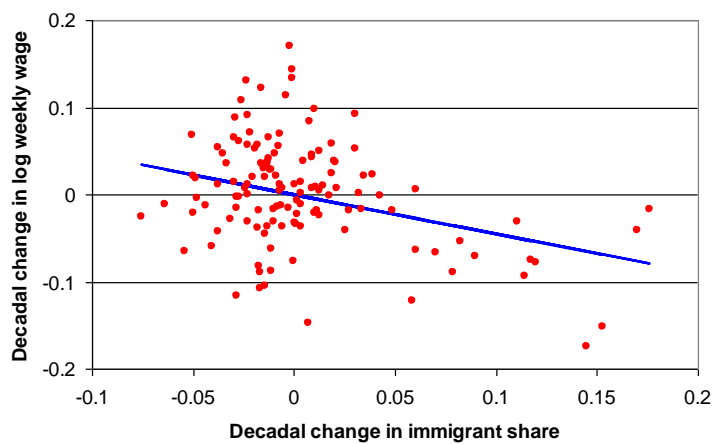
- Borjas' focus on the national economy as a whole, studying changes in wages and employment over time
- Borjas pays more attention to the definition of a skill group and argues that occupation may not be the right measure to look at.
- Both schooling *and* work experience determine a person's stock of acquired skills.
 - Immigration is not balanced evenly across all experience cells in a particular schooling group. The immigrant influx will tend to affect some native workers more than others. And the nature of the supply "imbalance" changes over time.
- Impact of immigration on natives earnings in cells defined by decade (1960-2000), education (4 groups) and 5-years experience groups for the U.S.
- Over 1980-2000, immigrants became an increasingly share of U.S. labor supply

An alternative approach (Borjas, QJE, 2003)

- Focus on effects of immigration on high school dropouts (low educ.)
- Immigrants tend to be younger
- Borjas argues that local labor market may not be the right unit of observation -Look at national labor market instead
- Results reconfirms that the labor demand curve is indeed downward sloping: An influx of immigrants into a particular skill group lowers the wage of that skill group

Borjas' view with national data

Scatter diagram relating wages and immigration (removing decade effects)



IMPACT OF MIGRATION - on employment and wages of natives

- summary:
- Migrant workers often complement rather than substitute domestic ones. Immigrants then do not decrease but increase the wages of complementary domestic workers. It appears that migrants are substitutes for low-skilled natives or other immigrants in certain low-skilled sectors (Roy 1997).
- It has been empirically documented that, on aggregate, migrants do not take natives' jobs nor decrease their wages (Card 1990; Roy 1997; Kahanec and Zimmermann 2010; Peri 2014; Constant 2014; also see the meta-analysis by Longhi, Nijkamp, and Poot 2005).
- some studies have found moderate negative effects of immigration (Borjas 2003).

IMPACT OF IMMIGRATION - on employment and wages of natives and on general welfare – evidence from Denmark

- Gerdes, Schultz-Nielsen and Wadensjö (2011) find:
 - A **net transfers from Western first- and second-generation immigrants to state** funds are **positive**, while those **from non-Western first- and second-generation immigrants** are **negative**.
 - The net transfers from non-Western first- and second-generation immigrants **fell** from DKK -12.8 billion in 2004 to DKK -9.1 billion in 2008, largely due to the improved employment situation in Denmark.
 - The **composition** chosen of the group of non-Western immigrants has a significant effect on the calculation of net transfers, in that these **transfers are reduced** to DKK -2.2 billion **if refugees are excluded** from this group. The negative outcome of -2.2 billion is mostly due to demographic composition of the second generation of immigrants (children at schools/daycare = expensive).
- Rose-Skaksen (2011):
 - **high-skilled specialists contribute positively** to the state budget.
 - **On average 1 high-skilled immigrant with his/her family brings over 8 years of living in Denmark about 1,9 mil DKK.**

OUR NEXT LECTURE – Tuesday 16.2.2016, 9.00-10.30

- *Wider effects of immigration, International migration and globalization. Immigration policy.*

THE NEXT LECTURES on economics of migration

- *Diversity - Impacts of workforce diversity on firms and economies*
- *Emigration and source countries; Brain drain and brain gain; Remittances*