

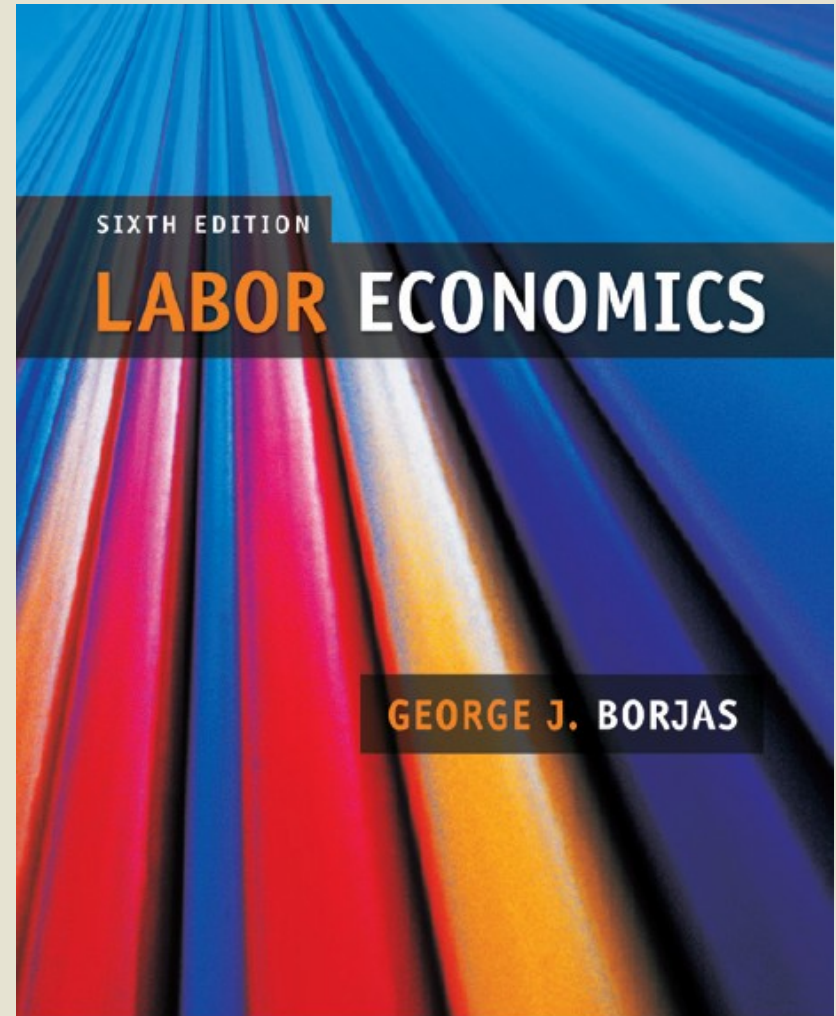
CHAPTER 8

“Immigration is the sincerest form of flattery.”

-Jack Paar

“Imitation is the sincerest form of flattery.”

(Copying someone is flattering because it shows you want to be like that person)



Introduction

- Labor mobility is the mechanism labor markets use to improve the allocation of workers to firms.

Geographic Labor Migration as an Investment in Human Capital

- Mobility decisions are guided by comparing present value of lifetime earnings among alternative employment opportunities in different locations.

Geographic Labor Migration as an Investment in Human Capital

- Improvements in economic opportunities available in a destination location increases the net gains to migration and raises the likelihood a worker moves.
- Improvements in economic opportunities available in the current location decreases the net gains to migration and lowers the likelihood a worker moves.
- An increase in migration costs lowers the net gains to migration, decreasing the probability a worker moves.

Geographic Labor Migration as an Investment in Human Capital

- A worker decides to move if the net gain from moving is positive.
- Migration occurs when there is a good chance the worker will recoup his investment in the move.

Internal Migration in the U.S.

- The probability of migration is sensitive to the income differential between the destination and original locations.
- There is a positive correlation between improved employment conditions and the probability of migration.
- There is a negative correlation between the probability of migration and distance.
 - Distance is taken as a proxy for migration costs.

Internal Migration in the U.S.

- There is a positive correlation between a worker's educational attainment and the probability of migration.
- Workers that have migrated are likely to return to the location of origin (return migration) and are more likely to migrate again (repeat migration).

Probability of Migrating across State Lines in 2005-2006, by Age and Educational Attainment

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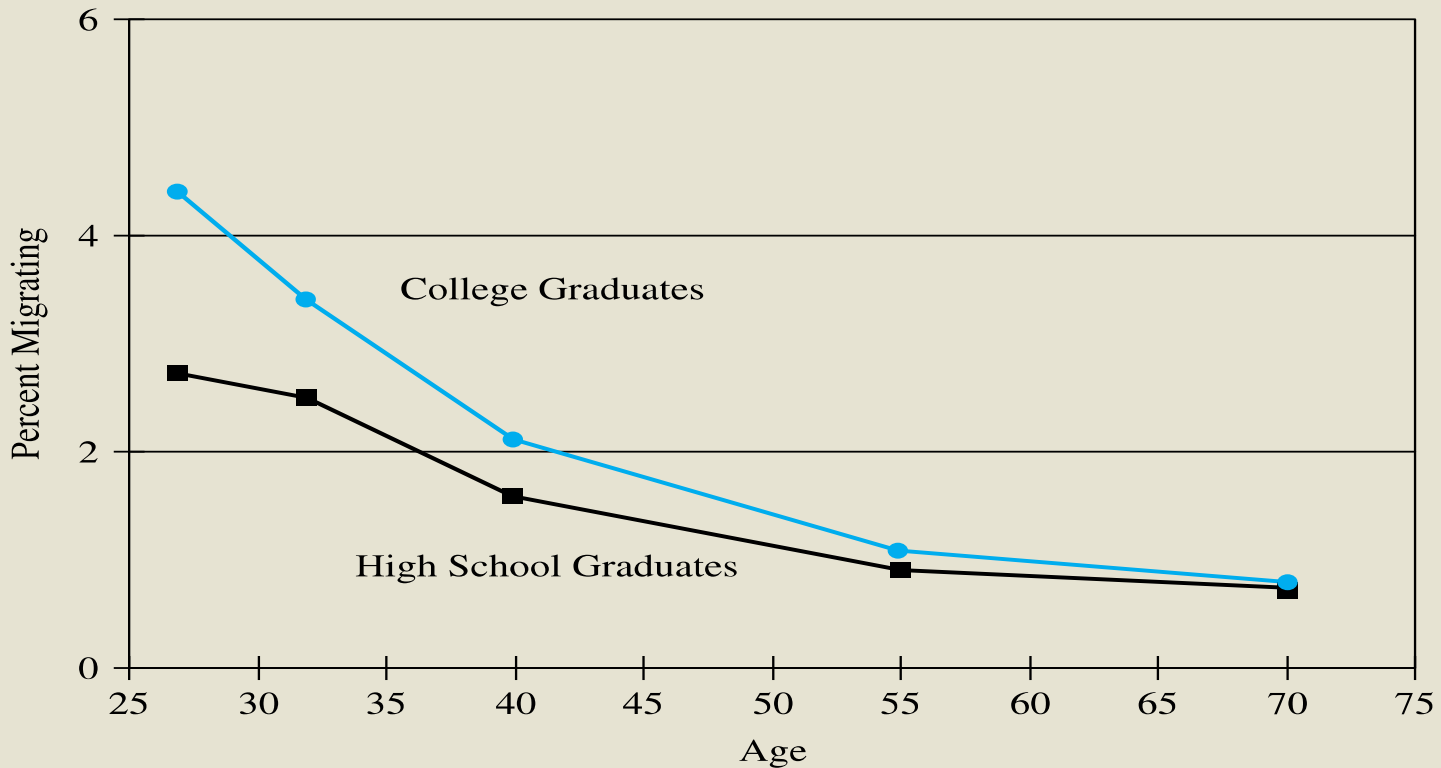
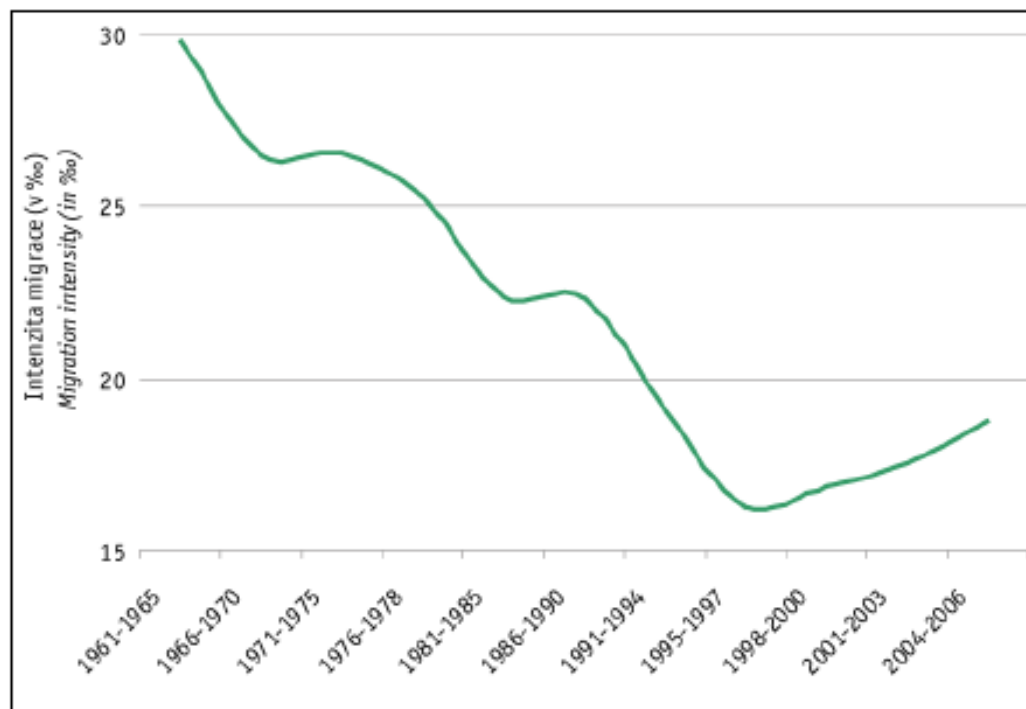


Figure 2.1 Internal migration intensity in the Czech Republic in 1961-2006

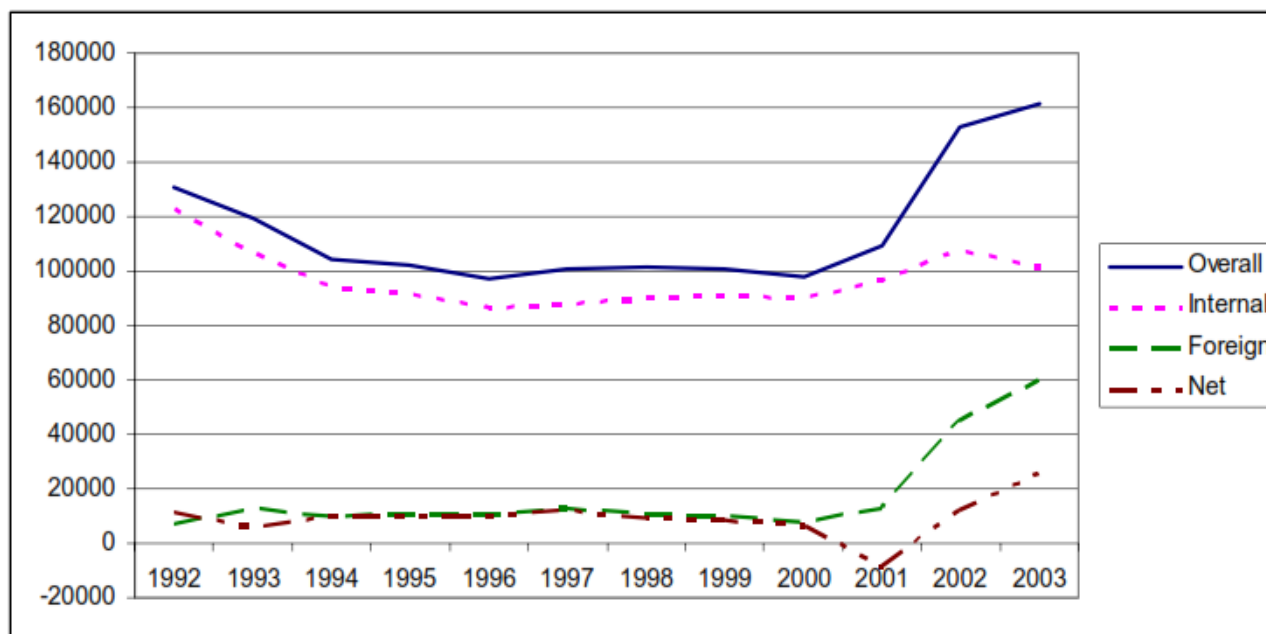


Data source: The Czech Statistical Office, 1961-2006 according to Novák, J., Čermák, Z., Ouředníček, M. (2011); central population register data

Note: Annual averages of migration between municipalities.

1% of Czech change residence

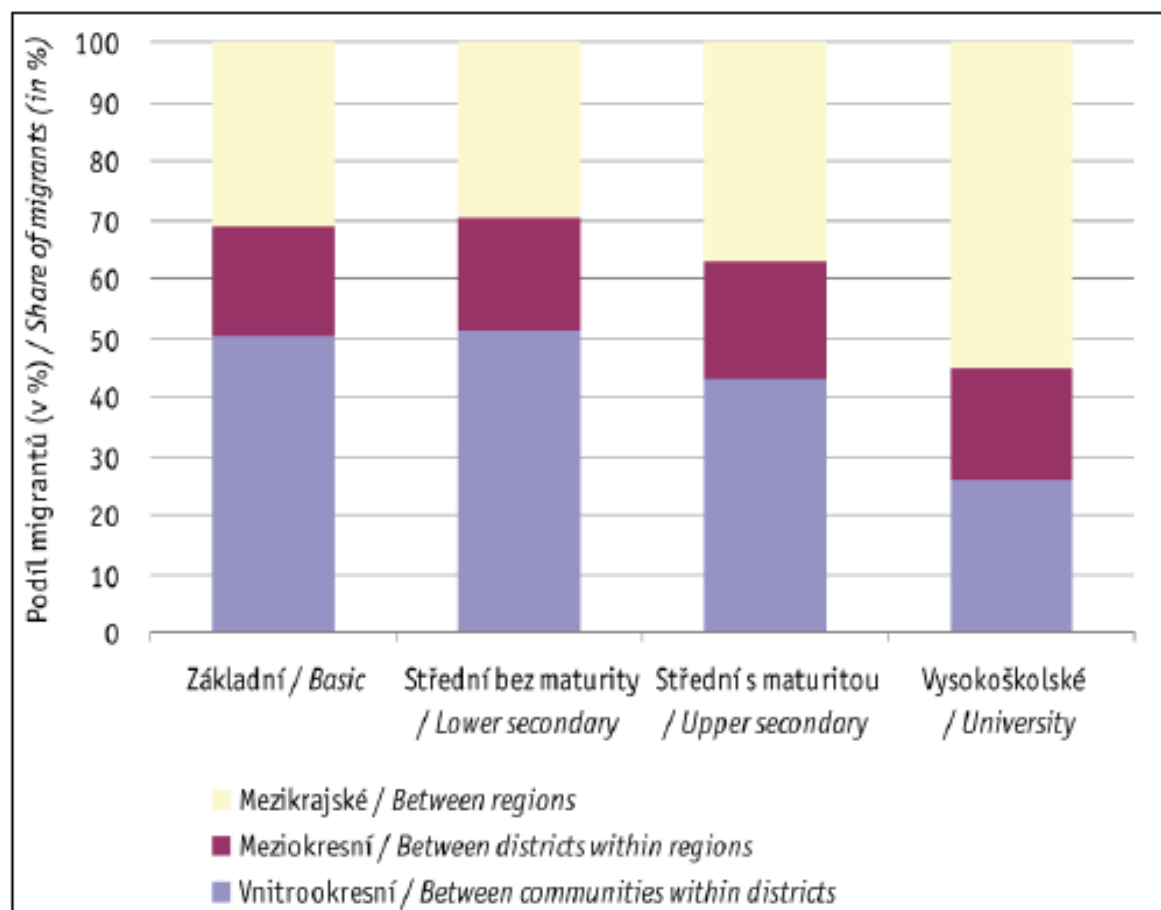
Figure 1 Inter-regional Migration in the Czech Republic: 1992-2000



Notes: Figures based on the Czech population registry, including both Czech nationals, foreigners with permanent residency rights in the Czech Republic, and, as of 2001, also foreigners with long-term residency rights (one year or longer). Overall migration is the total number of arrivals, whether from within Czech Republic or abroad. Internal migration is arrivals from within Czech Republic, foreign migration is arrivals from abroad. Net migration is the net immigration to the Czech Republic.

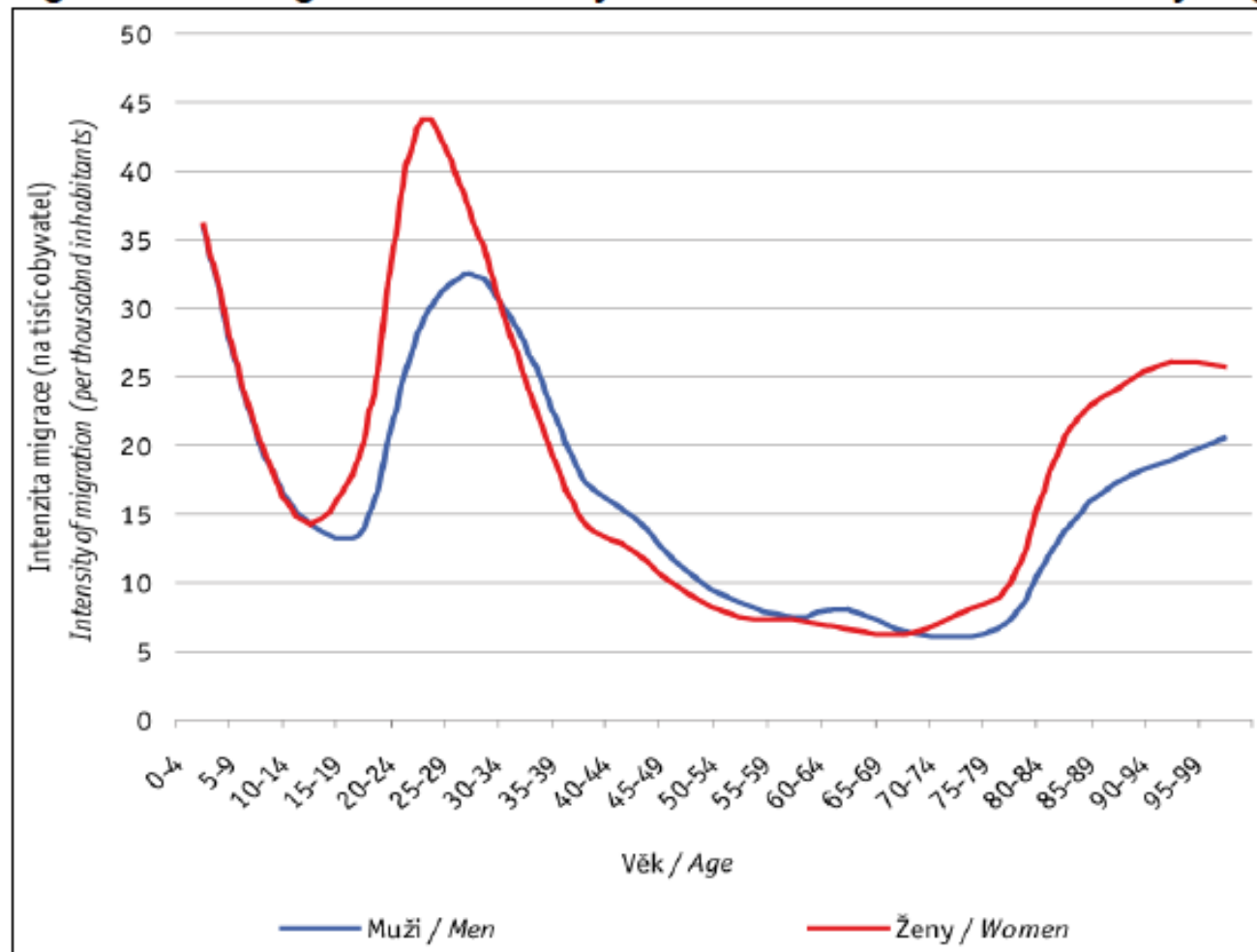
Source: Jan Fidrmuc (2005), Labor Mobility during Transition: Evidence from the Czech Republic

Figure 2.3 Structure of migration by education and type of moves in 1991-2004



Data source: Czech Statistical Office, 2005 according to Novák, J., Čermák, Z., Ouředníček, M. (2011)

Figure 2.4 Migration intensity of males and females by age in 2002-2006



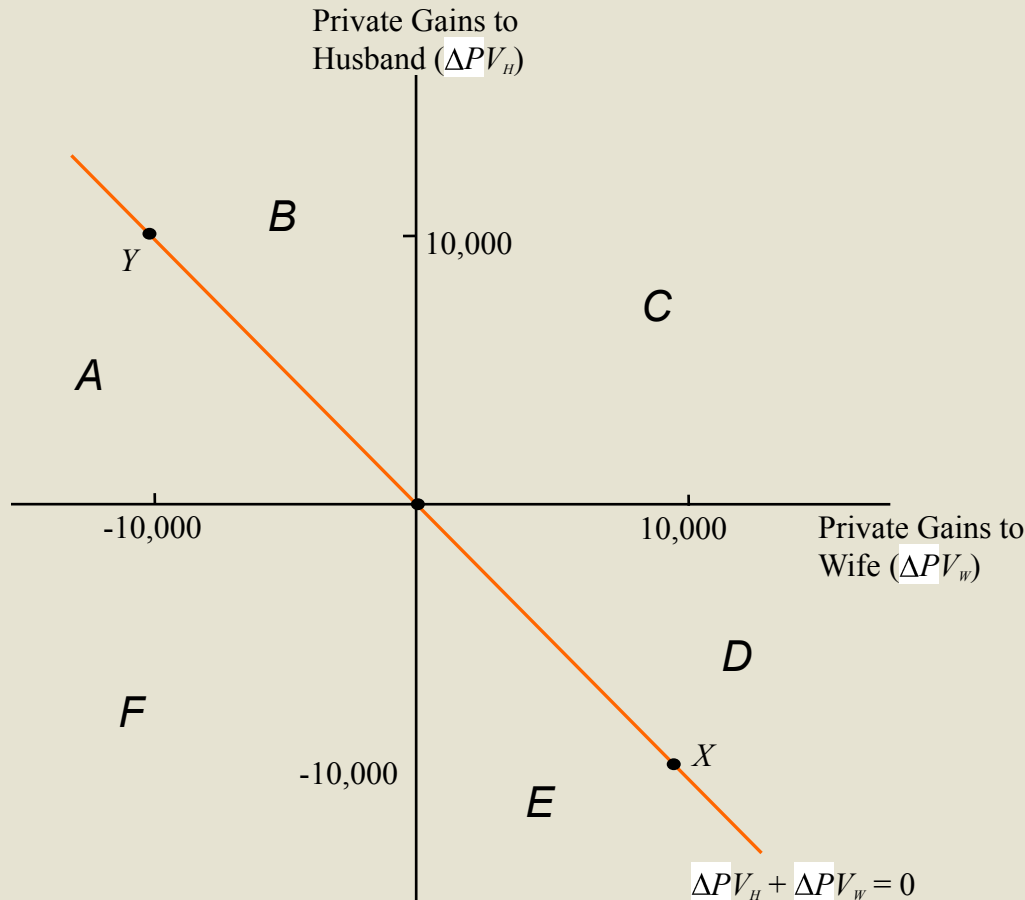
Data source: Czech Statistical Office, 2007 according to Novák, Čermák, Ouředníček 2011; central population register data

Note: Average annual numbers of people, which changed the place of residence in 2002-2006, per 1 000 of given age category are depicted in the graph.

Family Migration

- The family unit will move if the net gains to the family are positive.
- The optimal choice for a member of the family may not be optimal for the family unit (and vice versa).
 - Tied stayer: someone who sacrifices better income opportunities elsewhere because the partner is better off in the current location
 - Tied mover: someone who moves with the partner even though his or her employment outlook is better in the current location.

Tied Movers and Tied Stayers



If the husband were single, he would migrate whenever $\Delta PV_H > 0$ (A, B, and C). If the wife were single, she would migrate whenever $\Delta PV_W > 0$ (C, D, and E). The family migrates when the sum of the private gains is positive (B, C, and D). In D, the husband would not move if he were single, but moves as part of the family, making him a tied mover. In E, the wife would move if she were single, but does not move as part of the family, making her a tied stayer.

Immigration in the United States

- There has been a resurgence of immigration to the United States in recent decades.
- The United States receives the largest immigrant flow in the world.
- The mix of countries of origin has changed substantially over time.
 - In the 1950s, 6% of immigrants came from Asia.
 - Presently, 31% of immigrants come from Asia.

Legal Immigration to the U.S. by Decade, 1820-2010

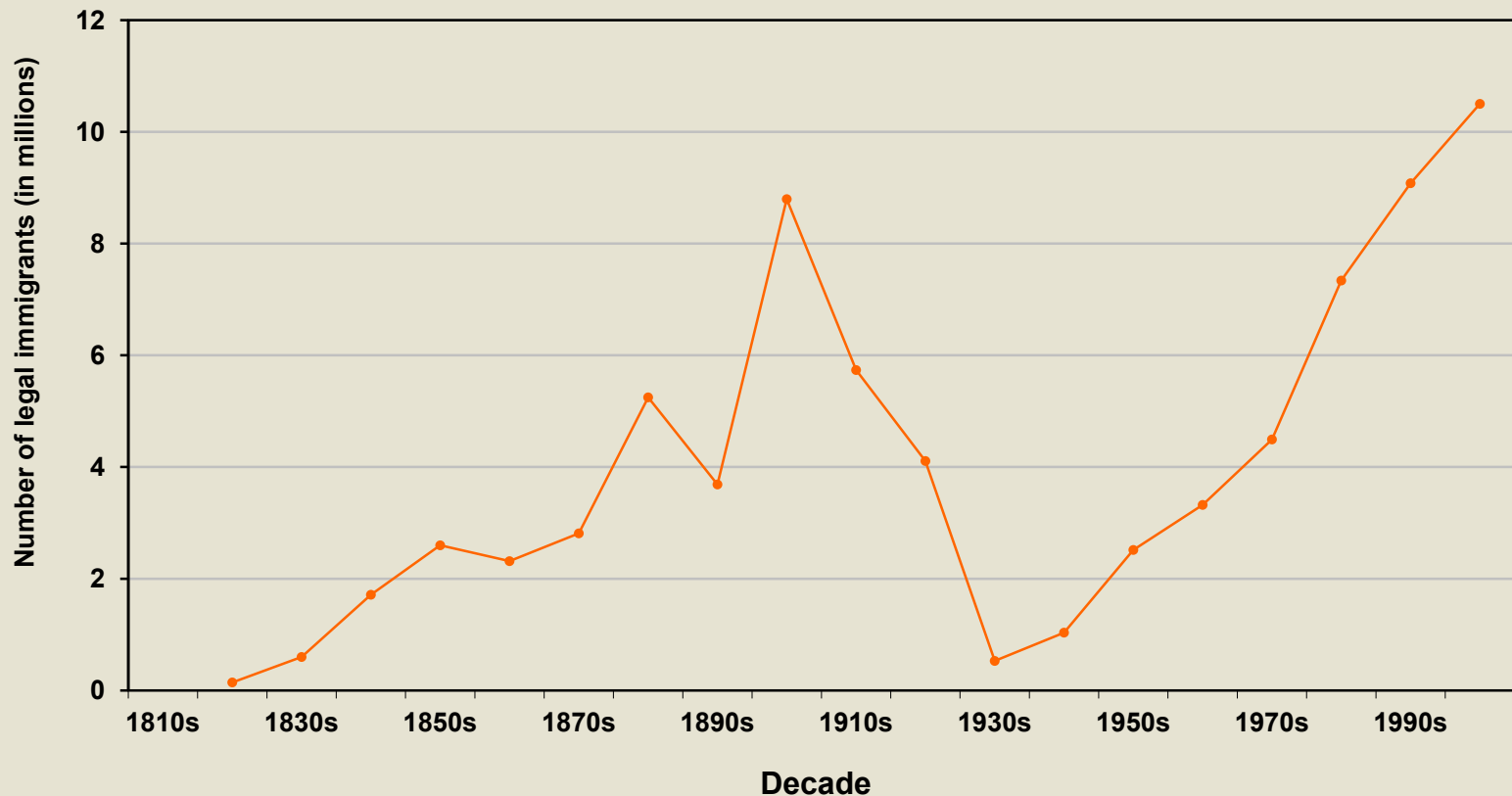
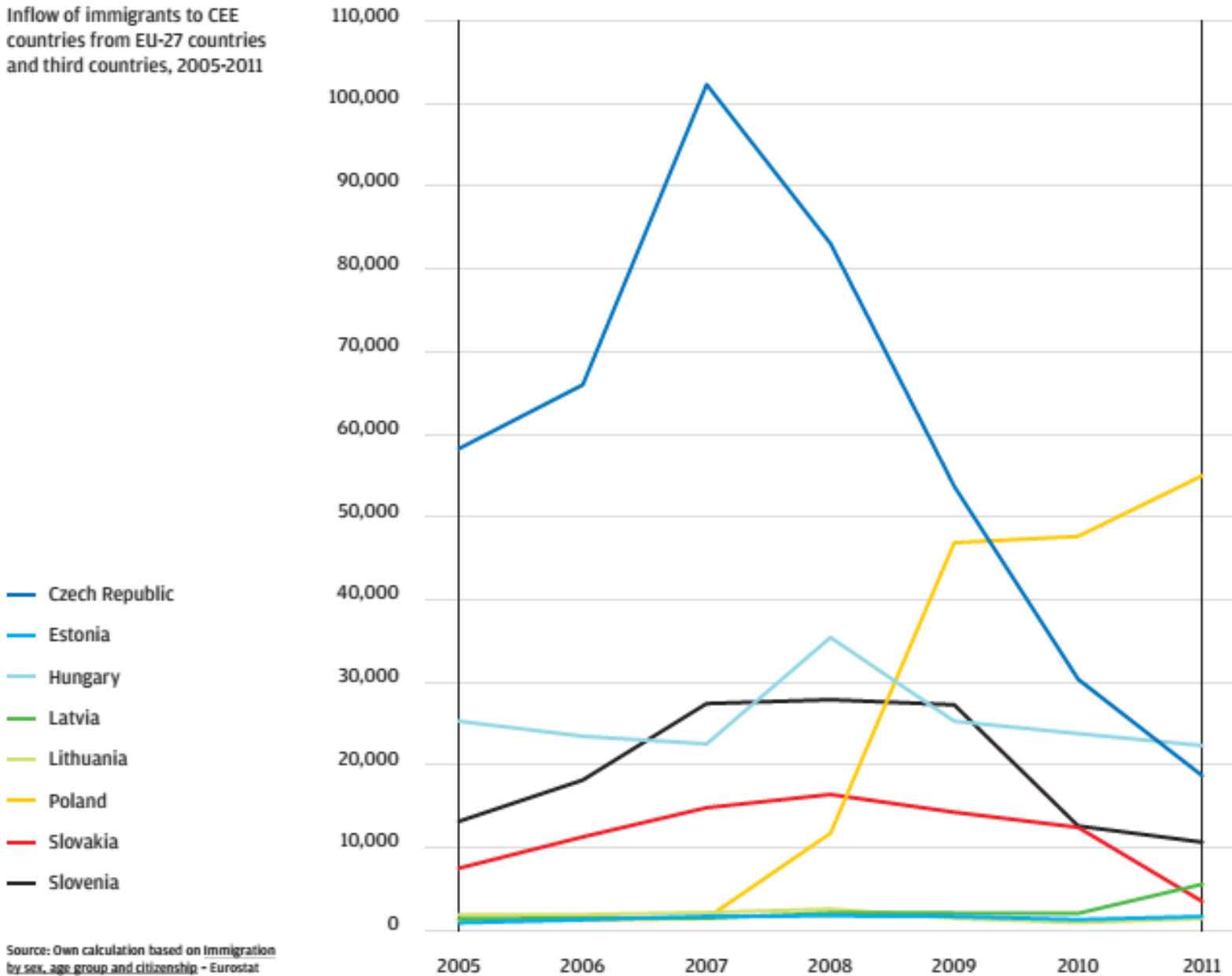


Chart 15

Inflow of immigrants to CEE countries from EU-27 countries and third countries, 2005-2011



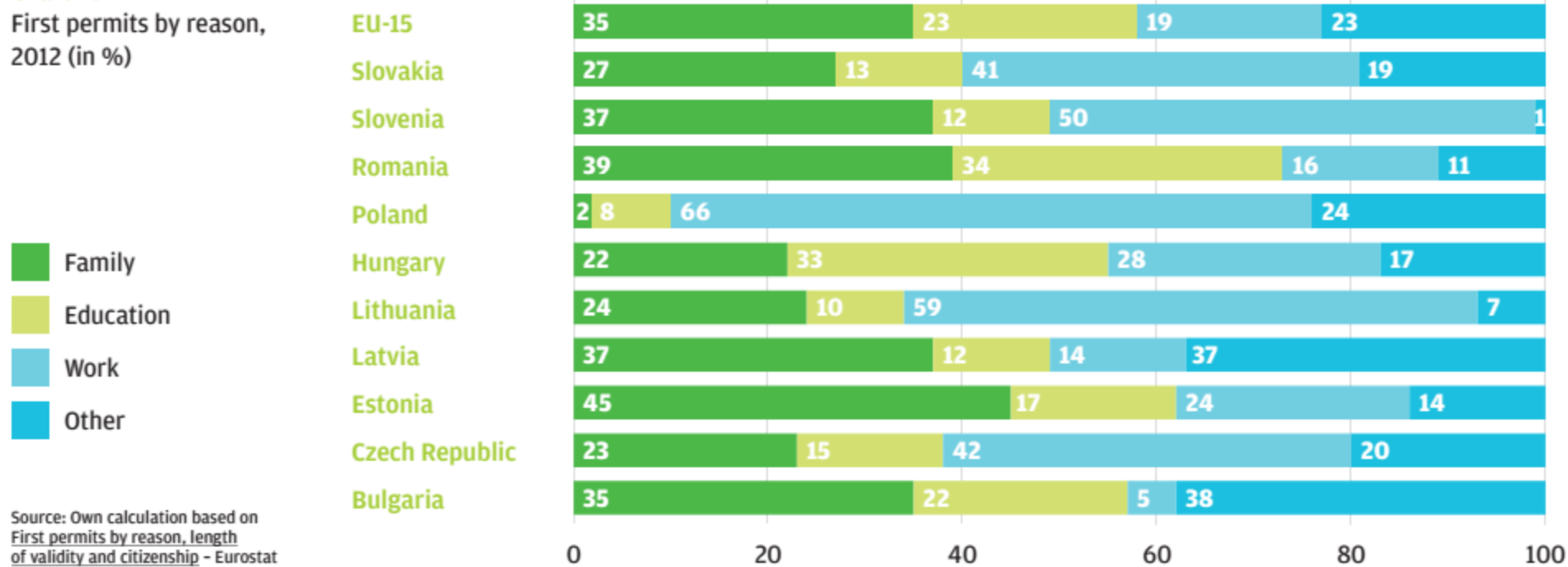
Source: Own calculation based on Immigration by sex, age group and citizenship - Eurostat

Source: CEED Institute 2014, Migration in the 21st century from the perspective of CEE countries – an opportunity or a threat?

Most immigrants come to Czech Republic for work (42%) and family reasons (23%)

Chart 16

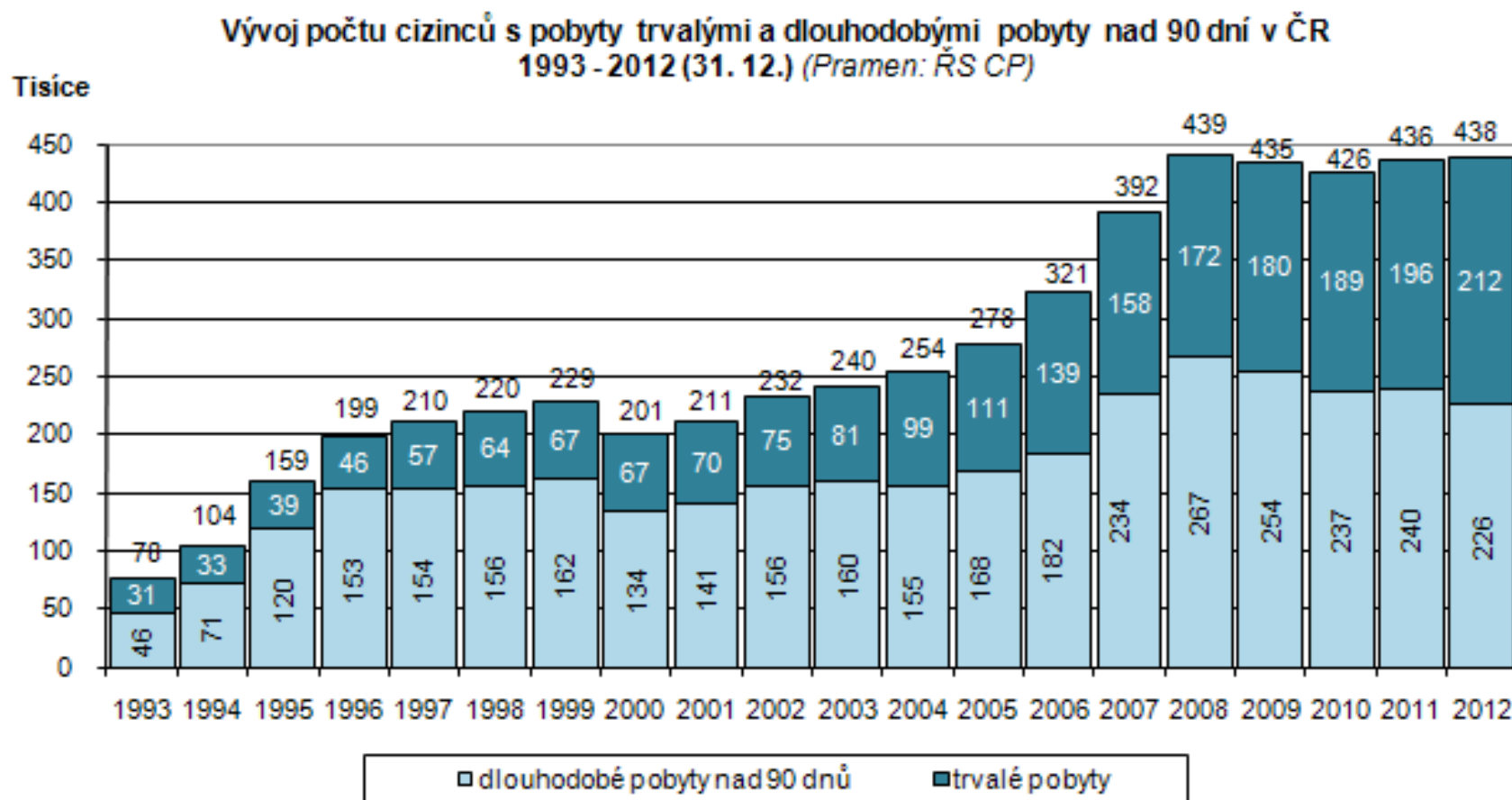
First permits by reason, 2012 (in %)



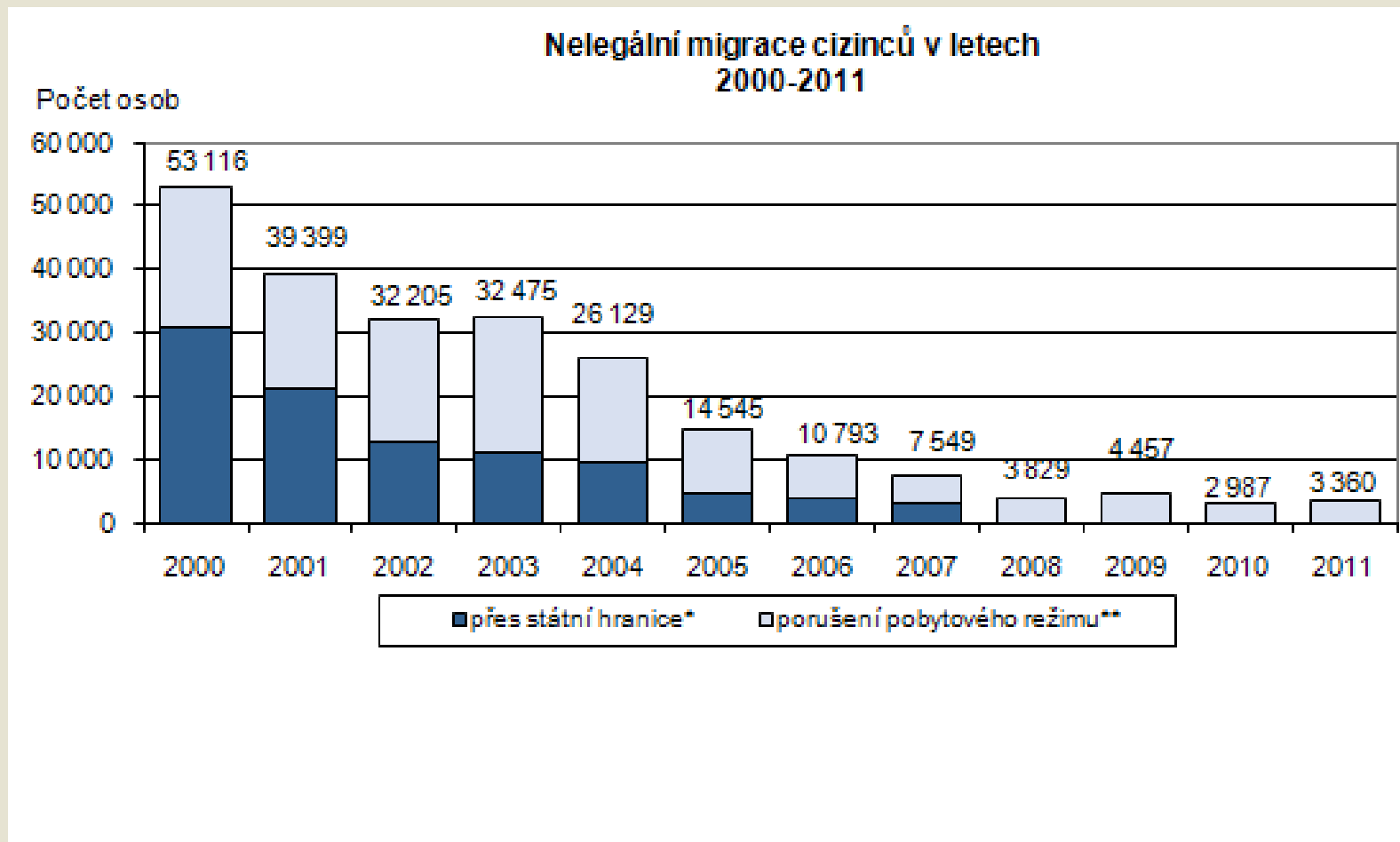
Source: Own calculation based on First permits by reason, length of validity and citizenship - Eurostat

Source: CEED Institute 2014, Migration in the 21st century from the perspective of CEE countries – an opportunity or a threat?

Podíl cizinců v populaci je přes 4 % od roku 2008.



Undocumented immigration is small



60% of immigrants in the Czech Republic is of non-EU origin.

	1995		2010	
1	Slovensko	25%	Ukrajina	29%
2	Ukrajina	18%	Slovensko	17%
3	Polsko	14%	Vietnam	14%
4	Vietnam	9%	Rusko	8%
5	Německo	3%	Polsko	4%
6	Jugoslávie	3%	Německo	3%
7	USA	3%	Moldavsko	2%
8	Rusko	3%	Bulharsko	2%
9	Bulharsko	3%	USA	1%
10	Čína	3%	Čína	1%
	Ostatni	17%	Ostatni	18%

Pramen: Ředitelství služby cizinecké a pohraniční policie Ministerstva vnitra ČR

Source: CZSO

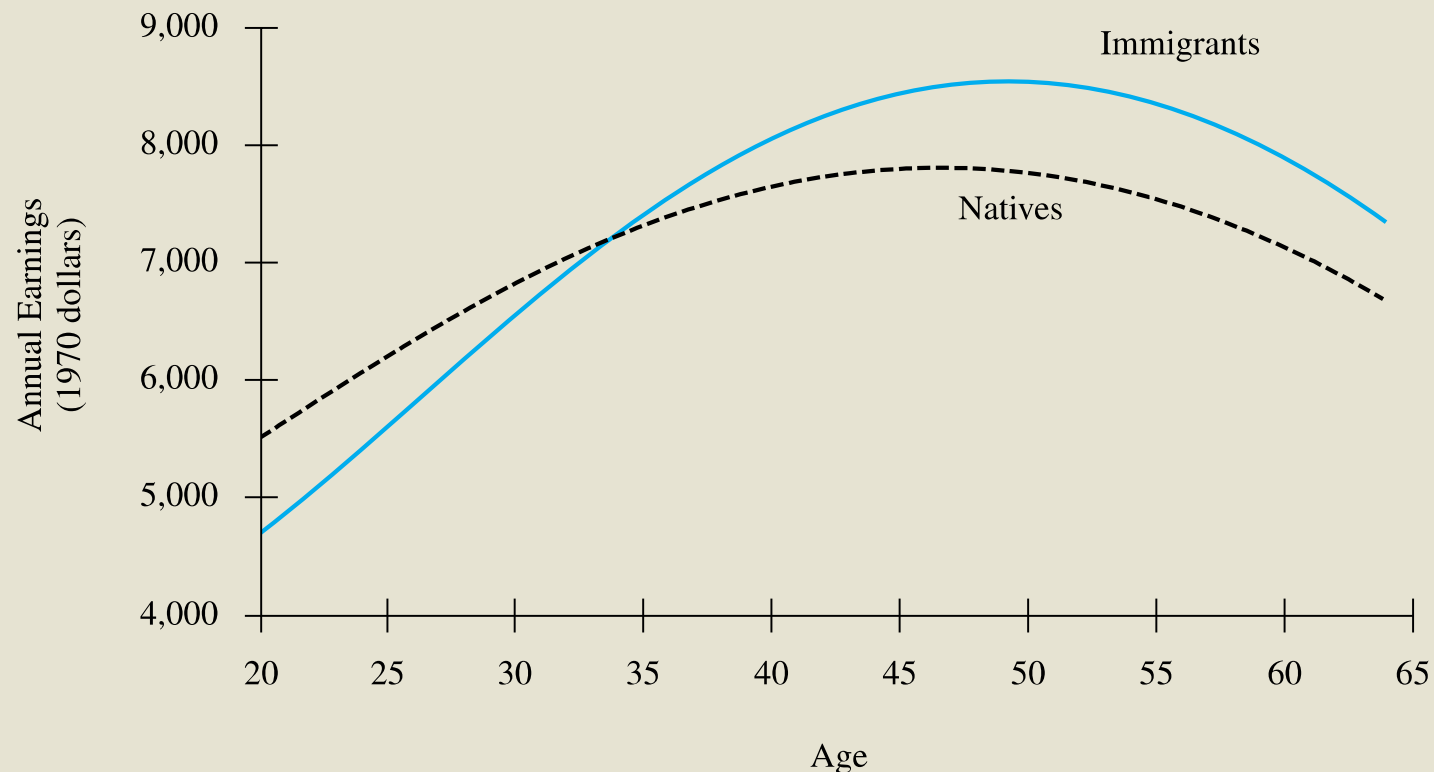
Note: Interestingly the relative size of dominant ethnic groups is approximately the same in both years but the ranking has changed. The pool of immigrants is very vivid and changing.

Immigrant Performance in the U.S. Labor Market

- Immigrants who can adapt well and are successful in new jobs make a significant contribution to economic growth.
- The economic impact of immigration depends on the skill composition of the immigrant flow.

The Age-Earnings Profiles of Immigrant and Native Men in the Cross Section

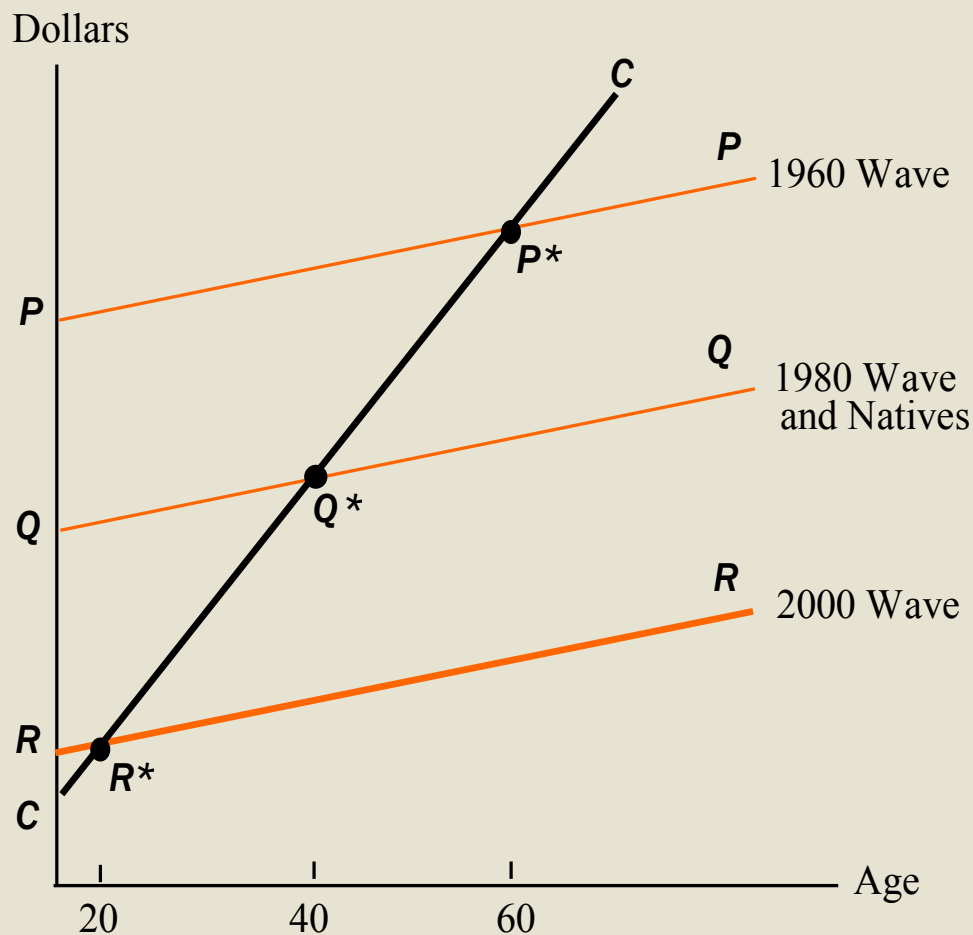
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The Decision to Immigrate

- Skills vary across country-of-origin (or source country) immigrant groups.
- The general rule: Workers decide to immigrate if U.S. earnings exceed earnings in the source country.
 - The decision ultimately depends on individual skills and the returns to those skills in the source and destination countries.

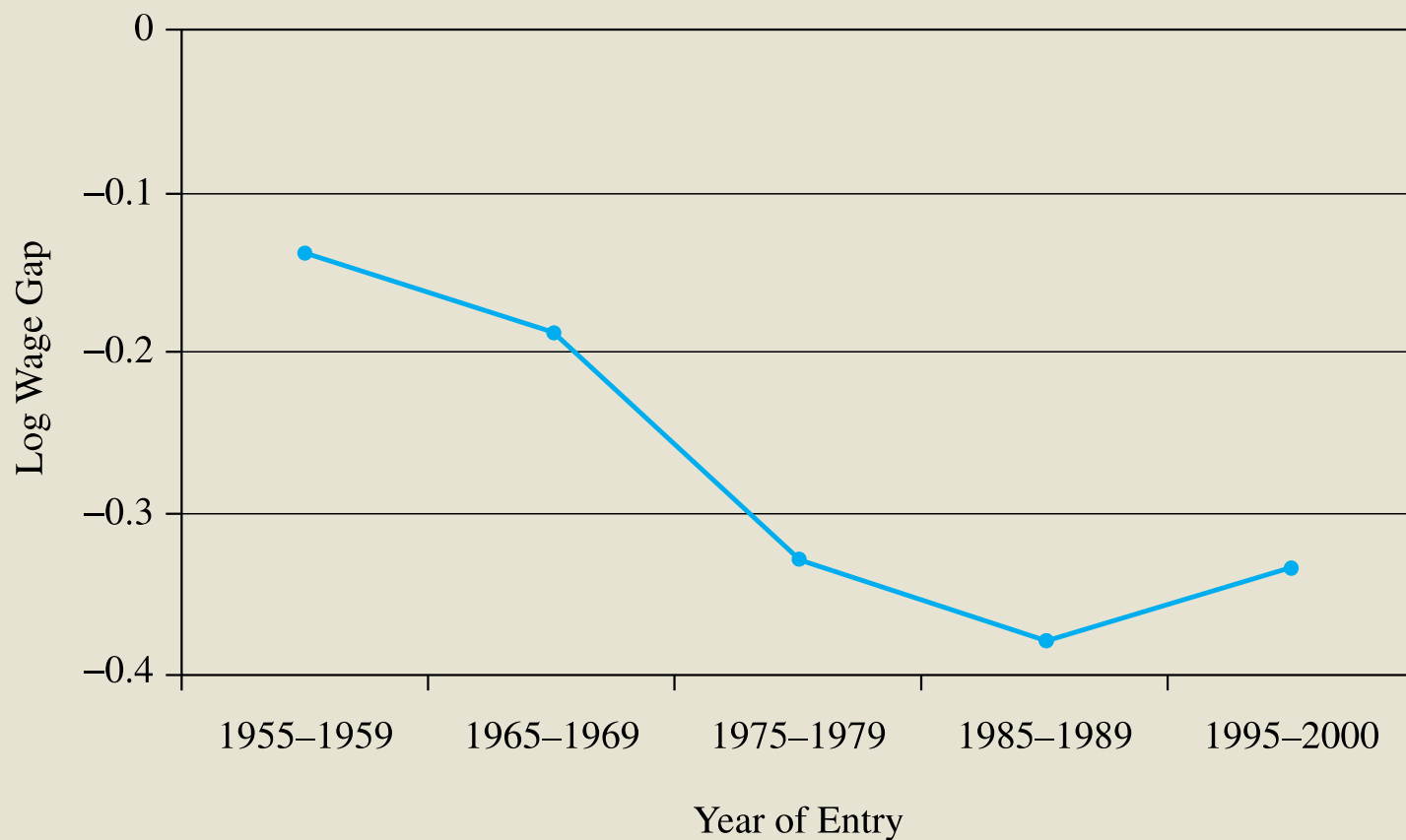
Cohort Effects and the Immigrant Age-Earnings Profile



The cross-sectional age-earnings profile erroneously suggests that immigrant earnings grow faster than those of natives.

The Wage Differential between Immigrants and Native Men at Time of Entry

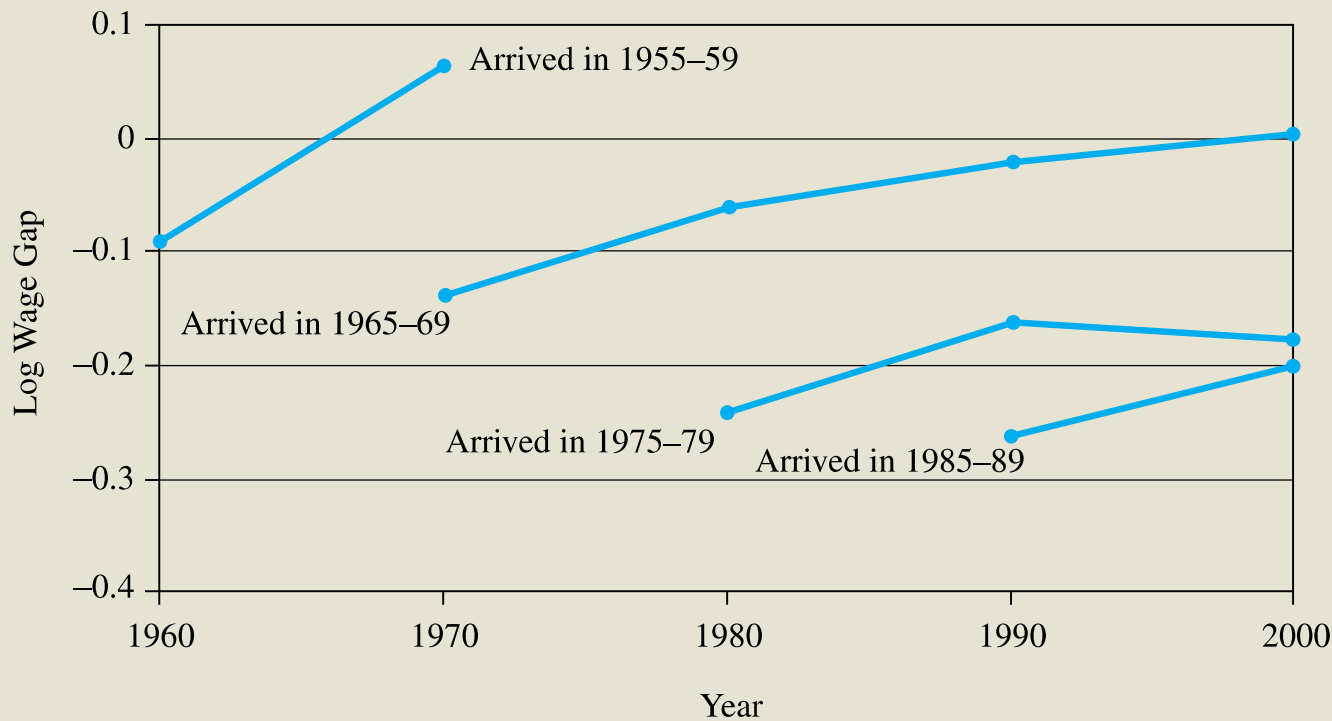
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Evolution of Wages for Specific Immigrant Cohorts over the Life Cycle

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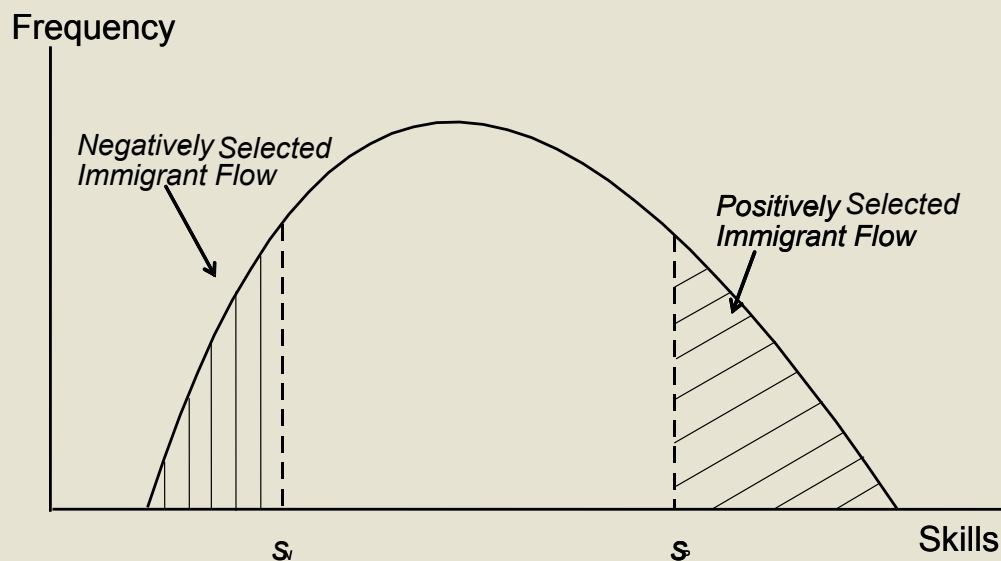
Relative Wage of Immigrants Who Arrived
When They Were 25–34 Years Old



The Roy Model

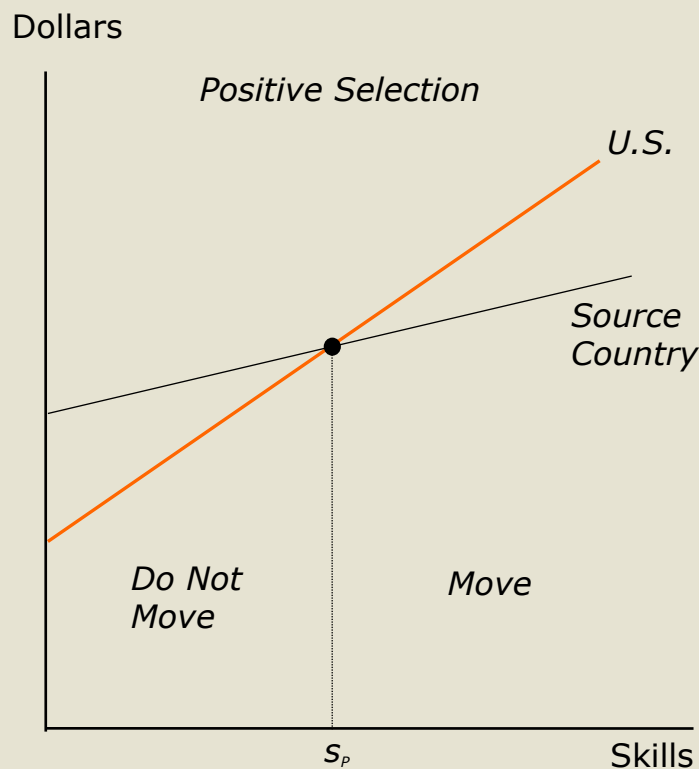
- The Roy model considers the skill composition of workers in the source country.
 - Positive selection: immigrants who are very skilled do relatively well in the U.S.
 - Negative selection: immigrants who are unskilled do relatively well in the U.S.
 - The relative return to skills determines the skill composition of the immigrants from different source countries.

The Distribution of Skills in the Source Country

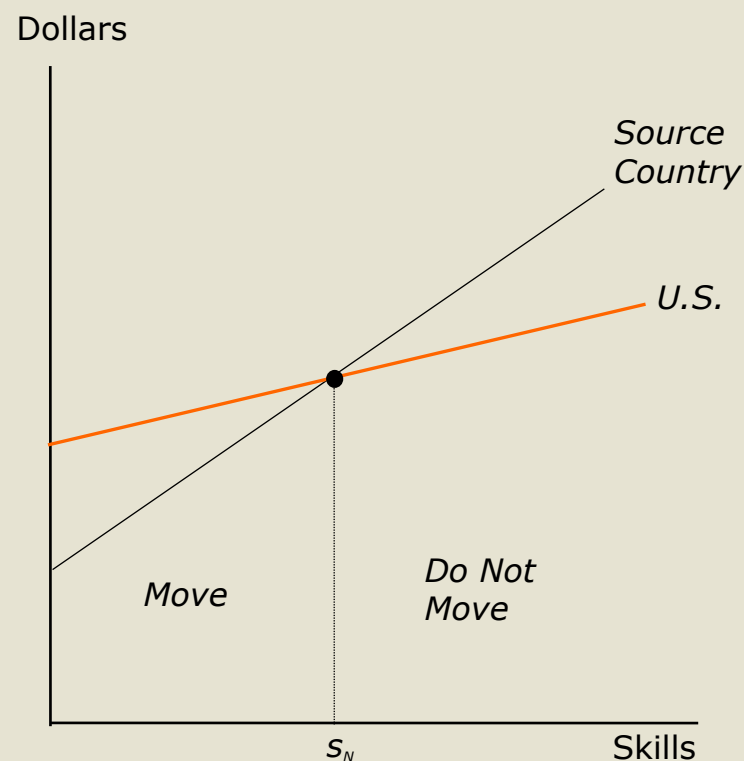


The distribution of skills in the source country gives the frequency of workers in each skill level. If immigrants have above-average skills, the immigrant flow is positively selected. If immigrants have below-average skills, the immigrant flow is negatively selected.

The Self-Selection of the Immigrant Flow



(a) Positive selection

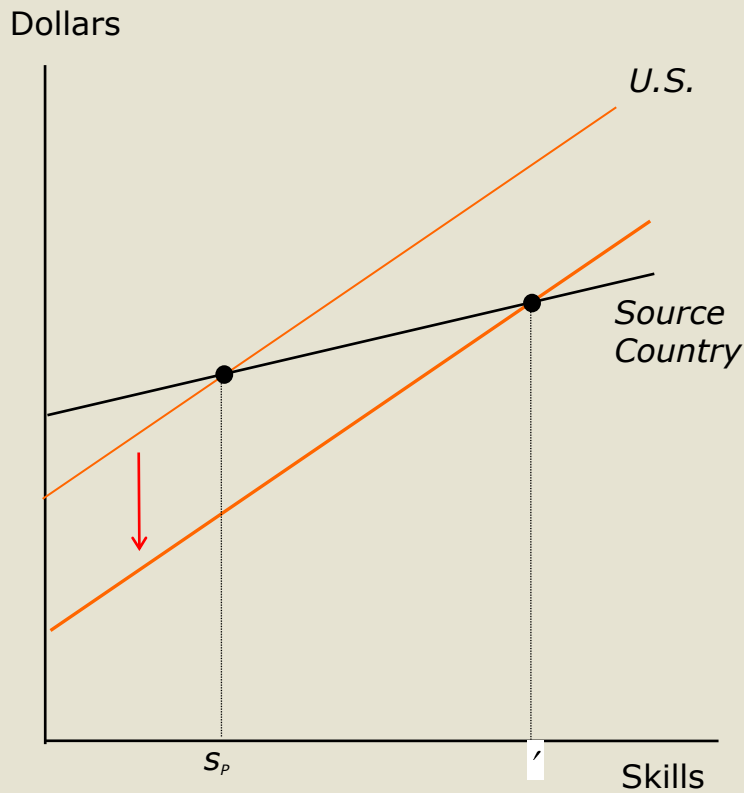


(b) Negative selection

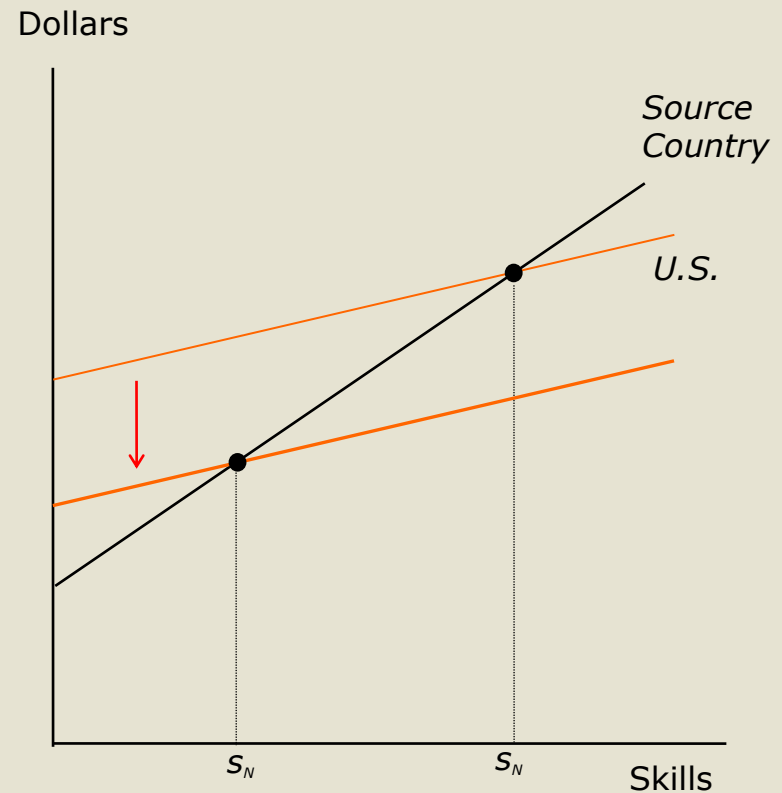
Policy Application: Economic Benefits of Migration

- The immigrant surplus is a measure of the increase in national income that occurs as a result of immigration. (The surplus accrues to natives.)
- Immigration raises national income by more than it costs to employ immigrants.

The Impact of a Decline in U.S. Incomes



(a) Positive selection



(b) Negative selection

Decline in U.S. Incomes

- The previous graphs shows that when U.S. incomes decrease (shift down in the returns-to-skills curve):
 - Fewer workers migrate to the U.S.
 - The type of selection (positive vs. negative) doesn't change.

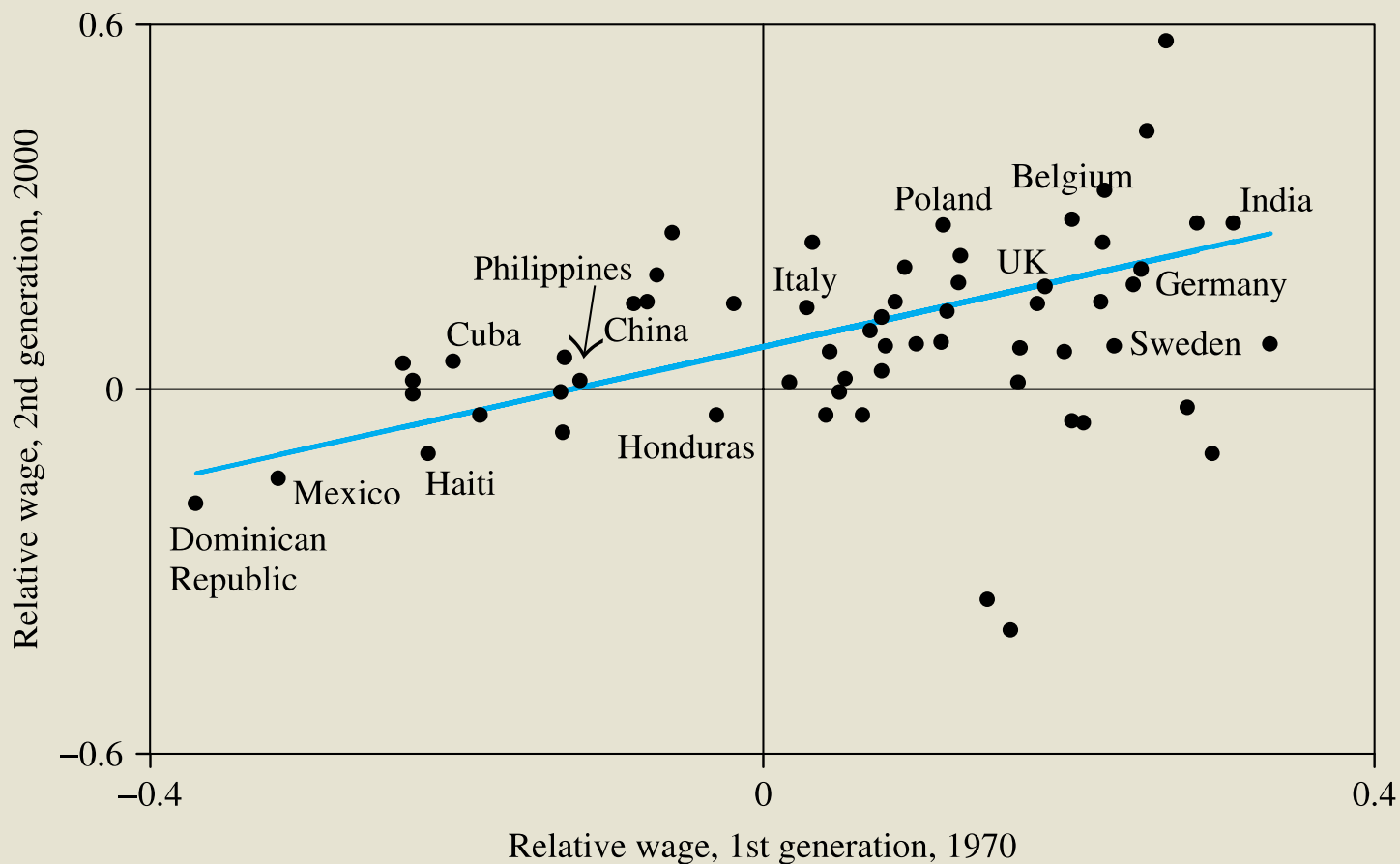
Policy Application:

Labor Flows in Puerto Rico

- The case study of Puerto Rico confirms an important insight of the Roy model: skills flow to where they receive their highest return.
 - The rate of return to skills is much higher in Puerto Rico than in the United States, so the Roy model predicts that a relatively higher fraction of the least-educated Puerto Ricans would leave the island.
 - As of 2000, nearly 45 percent of Puerto Rican-born working age men who lacked a high school diploma had moved to the United States. In contrast, only 30 percent of working age men with at least a college education had moved to the United States.

Earnings Mobility between 1st and 2nd Generations of Americans, 1970-2000

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Job Turnover: Stylized Facts

- Newly hired workers tend to leave their jobs within 24 months of being hired, while workers with more seniority rarely leave their jobs.
- The rate of job loss is highest among the least educated workers

Job Turnover: Stylized Facts

- There is a strong negative correlation between a worker's age and the probability of job separation.
 - This fits with the hypothesis that labor turnover can be an investment in human capital.
 - Older workers have a smaller payoff period to recoup the costs associated with job search. Thus, they are less likely to search (or move).

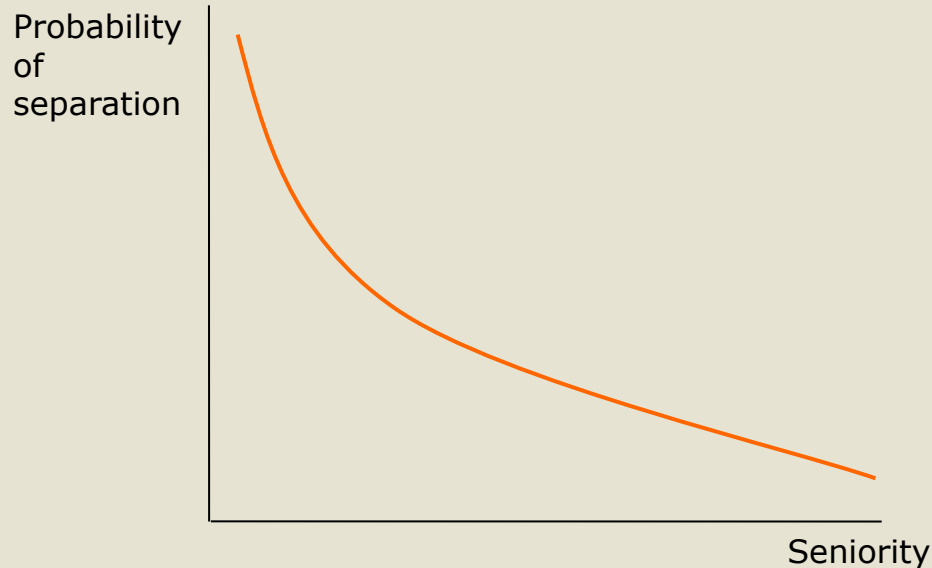
The Job Match

- Each particular pairing of a worker and employer has its own unique value.
- Workers and firms might improve their situation by shopping for a better job match.
- Efficient turnover is the mechanism by which workers and firms correct matching errors and obtain a better and more efficient allocation of resources.

Specific Training and Turnover

- When a worker receives specific training, his productivity improves only at the current firm.
- This implies there should be a negative correlation between the probability of job separation and job seniority.
 - As age increases, the probability of job separation decreases.

Specific Training and the Probability of Job Separation



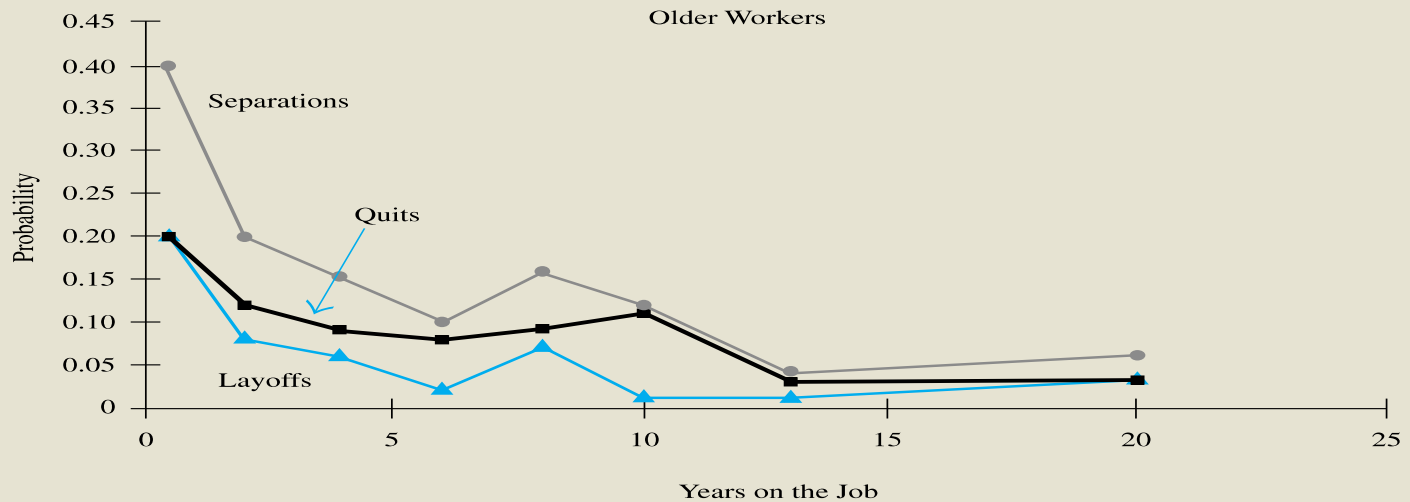
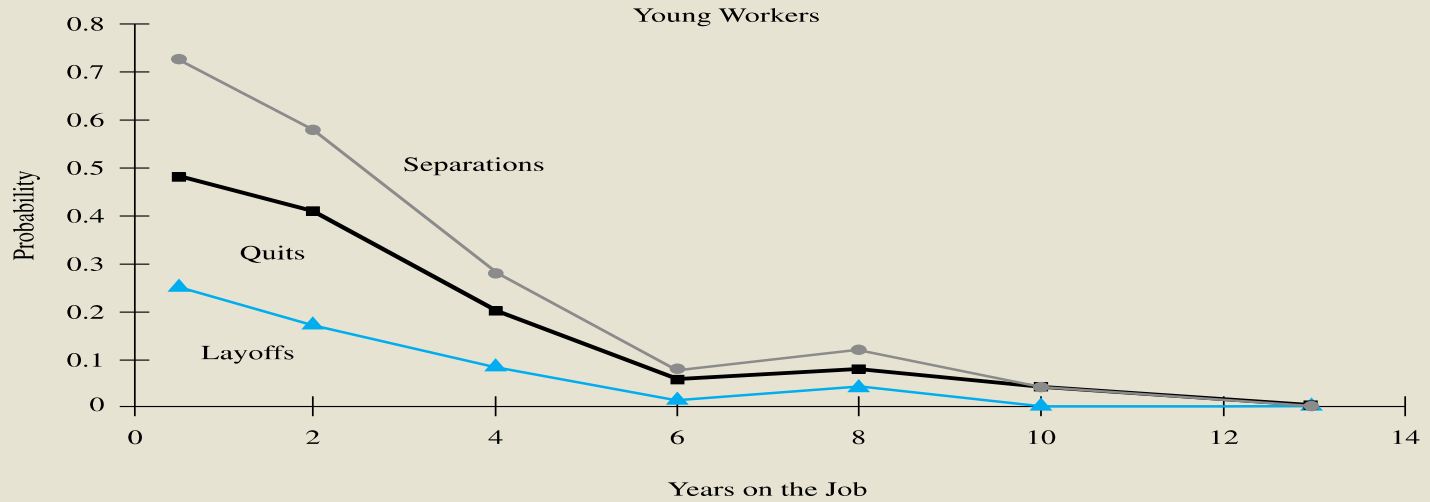
If a worker acquires specific training as he accumulates more seniority, the probability that the worker will separate from the job declines over time. The probability of job separation then exhibits negative state dependence; it is lower the longer the worker has been in a particular employment state.

Job Turnover and the Age-Earnings Profile

- Young people who quit often experience substantial increases in their wages.
- Workers who are laid off often experience wage cuts.
- A worker's earnings depend on total labor market experience and seniority on the current job. (Workers experiencing a good job match will have low probabilities of job separation, and these workers will tend to have seniority on the job.)

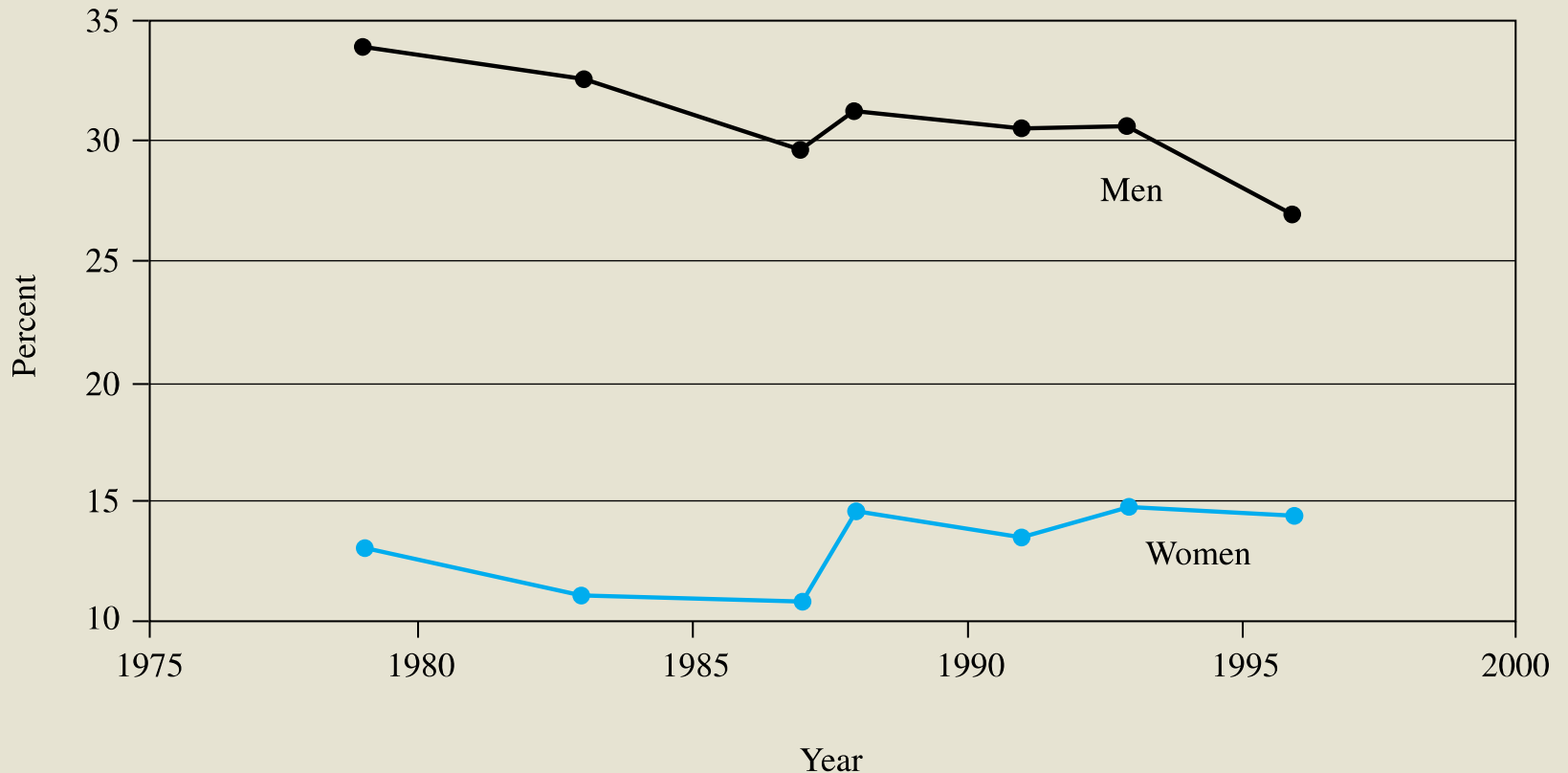
Probability of Job Turnover over a 2-Year Period

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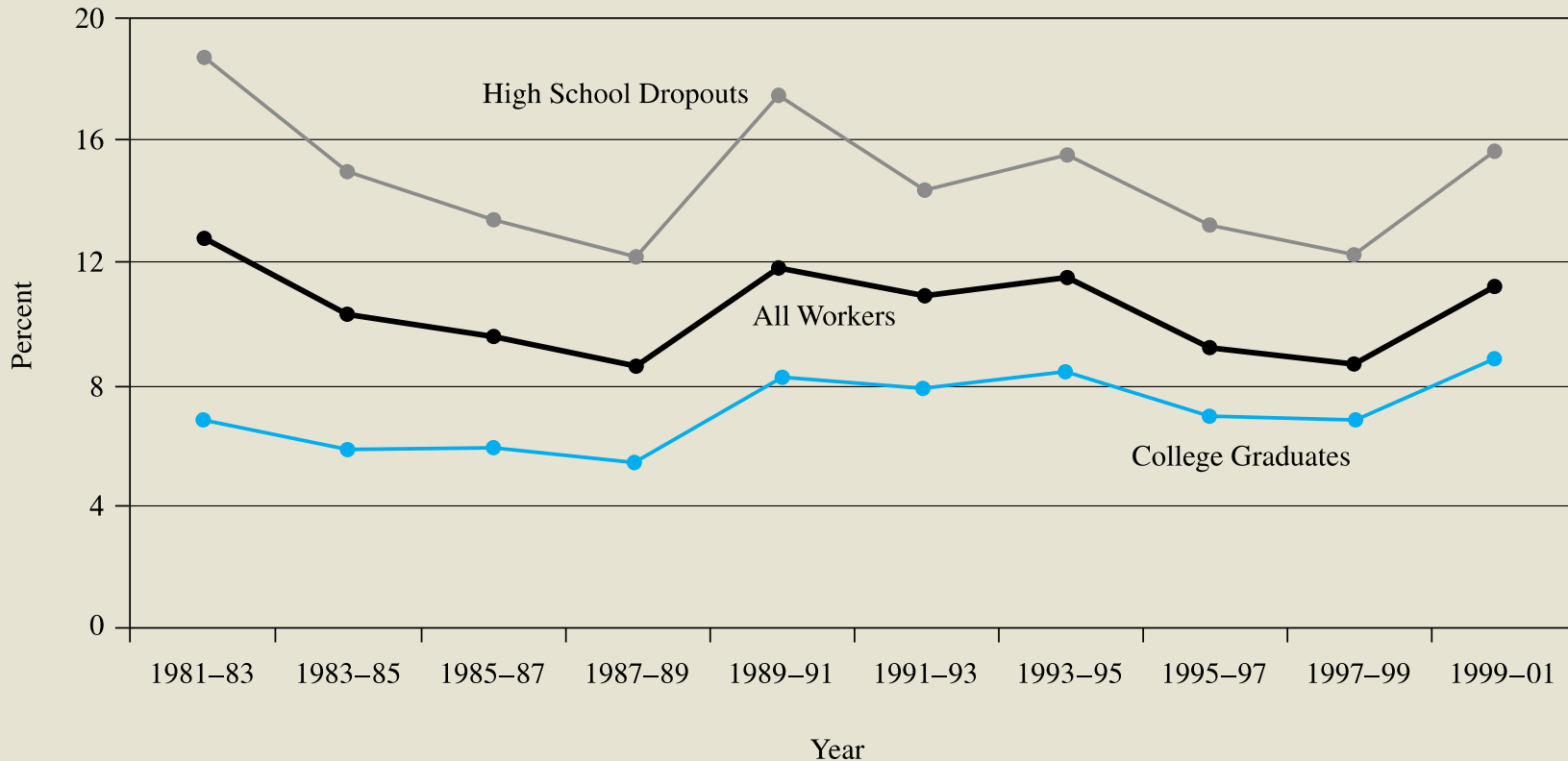
Incidence of Long-Term Employment Relationships: 1979-1996

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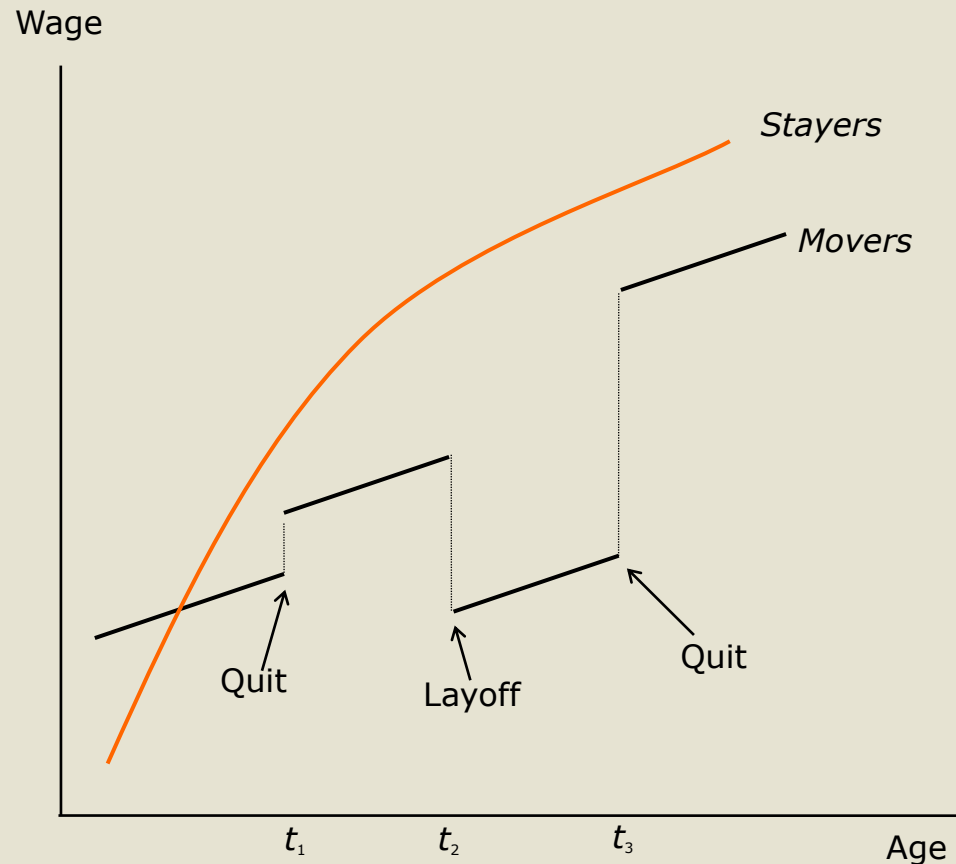


The Rate of Job Loss in the United States, 1981-2001

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Impact of Job Mobility on the Age-Earnings Profile



The age-earnings profile of movers is discontinuous, shifting up when they quit and shifting down when they are laid off. Long job matches encourage firms and workers to invest in specific training, and steepen the age-earnings profile. As a result, stayers have a steeper age-earnings profile within any given job.