

Chapter 9: Mobility, Migration, and Efficiency

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1. Types of Labor Mobility

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Types of Labor Mobility

- Job change/no change in occupation or residence
 - ◆ A waiter switches working from Andrew's Capital Bar and Grill to the Governor's Club
- Occupational change/no change in residence
 - ◆ Much *occupational mobility* involves changes in closely related occupation.
 - ↳ Example: busboy to waiter.
 - ◆ Each year about 10% of workers change occupation.

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Types of Labor Mobility

- Geographic change/no change in occupation
 - ◆ *Geographic mobility* involves movements of workers from one location to one location.
 - ◆ About 16 to 18% of the population changes residence each year.
- Geographic change/change in occupation
 - ◆ About 30% of geographic job-related changes involve a changes in occupation.

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2. Migration as an Investment in Human Capital

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Net Present Value of Migration

- Workers will migrate if the net present value of migration (V_p) is greater than zero.

$$V_p = \sum_{n=1}^N \frac{E_2 - E_1}{(1+i)^n} - \sum_{n=1}^N \frac{C}{(1+i)^n} - Z$$

V_p = present value of net benefits
 E_2 = earnings from new job in year n
 E_1 = earnings from existing job in year n
 N = length of time expected on new job
 i = interest rate
 n = year in which benefits and costs accrue
 C = direct and indirect monetary costs resulting from move in the year n
 Z = net psychic costs (psychic costs - psychic gains)

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3. The Determinants of Migration: A Closer Look

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Determinants of Migration

- Age
 - ◆ Older individuals are less likely to migrate.
 - Older migrants have fewer years to recoup investment costs.
 - Older people have greater firm-specific human capital.
 - Older people have greater monetary and psychic costs of moving.
 - Younger people are more likely to have just completed a human capital investment and to “job shop.”

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Determinants of Migration

- Family factors
 - ◆ The costs of migration rise with family size.
 - Married people are less likely to move since spouse may hold high wage job.
 - Psychic costs rise as number of family members rises.

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Determinants of Migration

- Education
 - ◆ Migration is more likely as education levels rise.
 - The market for more highly educated workers is regional/national rather than local.
 - The gain from migration may be greater due to greater variability in workers and positions.
 - College educated workers are more likely to be transferred and have lower psychic costs to moving.

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Determinants of Migration

- Distance
 - ◆ The probability of moving falls with the distance the person must move.
 - Transportation costs will be higher.
 - Psychic costs will be higher.
- Unemployment rates
 - ◆ Families headed by unemployed persons are more likely to move.
 - ◆ The unemployment rate at the origin location positively affects the probability of out-migration.

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Determinants of Migration

- Other factors that lower migration.
 - ◆ Homeownership
 - ◆ Occupational licensing
 - ◆ High personal taxes at destination location.
 - ◆ Immigration quotas.
 - ◆ Union membership
 - ◆ Foreign language at destination location.

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Questions for Thought:

1. Use two variables in the present value of migration equation to cite at least two reasons why it may be rational for a family to migrate from one part of the country to another, even though the hypothetical move produces a decline family earnings in the first year of work following the move.

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4. The Consequences of Migration

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Personal Gains

- Empirical evidence suggests that the rate of return from migration is 10% to 15%.
- Caveats
 - ◆ Uncertainty and imperfect information
 - Migration decisions are based on *expected* net benefits and sometimes don't occur.
 - Costs at destination may be higher than expected and earnings may be lower.
 - Return migration is common and provides information to those at origin.

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Personal Gains

- ◆ Timing of earnings gains
 - Higher lifetime gains don't necessarily imply the gains occur immediately.
- ◆ Earnings disparities
 - Due to a lack of *skill transferability* across employers or locations, migrants may earn less than similar workers at the destination.
 - Migrants tend to be *self-selected* in favor of more motivated workers.
 - They would tend to have higher earnings than native workers.

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Personal Gains

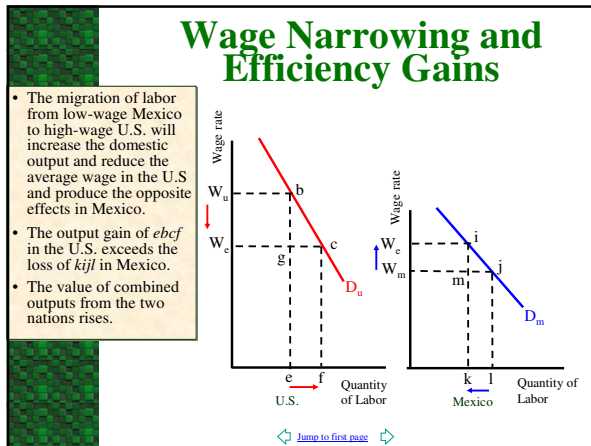
- The evidence suggests that newer immigrants to the U.S. not likely to ever achieve wage parity than native workers .
- ◆ Earnings of spouses
 - A gain in family income from migration does not necessarily imply a income gain for both spouses.

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Personal Gains

- ◆ Wage reductions from job losses
 - A positive return to migration does not necessarily imply higher earnings than would have occurred if past wage rates had continued to be earned.
 - Example: those moving due to a job loss or political repression.

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External Effects

- Though migration has positive efficiency gains, it has positive and negative third-party effects called *externalities*.
- Real negative externalities
 - ◆ These are private actions spilling over to third parties that cause misallocations of resources.
 - ◆ Example: migration to a “boom town” creates congestion and crime.

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External Effects

- Pecuniary externalities
 - ◆ *Pecuniary externalities* are actions that redistribute income among individuals and groups.
 - ◆ Losses in the origin nation
 - Output *increases* in the U.S., but it *decreases* in Mexico
 - Exceptions:
 - Labor is unemployable in Mexico and so output is shared by fewer people in Mexico
 - Workers send income back to Mexico

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External Effects

- ◆ Reduced wage income for native workers
 - Immigration increases the supply of labor and decreases the wages of native U.S. workers overall.
 - Immigration decreases the supply of labor in the foreign country and raises wages abroad.
 - The wages of labor market groups that are *gross complements* to immigrants will rise, while the wages of while *gross substitutes* will be lower.

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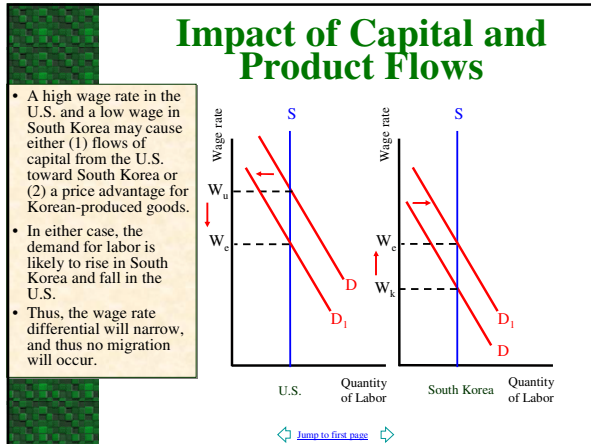
External Effects

- ◆ Gains to owners of capital
 - The lower wage costs cause owners of capital to gain area *cbg*.
 - Feedback effects may eliminate the lower wage costs for labor.
- ◆ Fiscal impacts
 - Immigrants may utilize transfer programs than native workers and redistribute income away from native workers.
 - Recent evidence indicates this is case.

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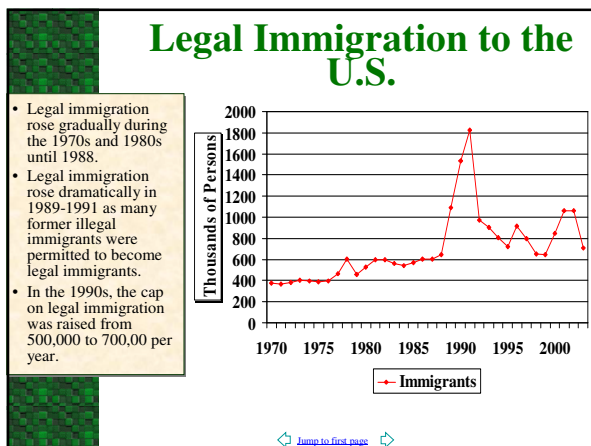
5. Capital and Product Flows

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6. U.S. Immigration Policy and Issues

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Effect of Illegal Aliens

- The presence of illegal aliens in this low-wage labor market shifts the supply curve to S_d and reduces the market wage from W_d to W_t .
- At W_t , all workers hired are illegal aliens.
- If the illegal aliens were deported, however, Q_d domestic workers would be employed.
- Thus, it is misleading to conclude that illegal aliens accept jobs that domestic workers would not take.
- It is also misleading to conclude that the deportation of illegal aliens would create employment for native workers on a one-for-one basis.

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Wage Effects of Illegal Aliens

- Illegal aliens depress wages in some low skill labor markets.
- The impact of illegal immigration on the average wage rate has little *net* impact since there are offsetting effects.
 - ◆ Illegal immigrants and some types of native labor are gross complements, and so the wage of these native workers will rise.

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Fiscal Effects of Illegal Aliens

- Illegal aliens are not eligible for public assistance, but some obtain assistance with forged documents.
- Most likely illegal aliens are young and don't meet requirements for assistance and do pay taxes.
- Most likely illegal aliens are net taxpayers.

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Questions for Thought:

1. Analyze this statement: "U.S. tariffs on imported products from low-wage foreign nations create an incentive for migration of low-skilled immigrants into the United States." Relate this idea to the North American Free Trade Agreement, discussed in "World of Work" 6-6.

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Chapter 9**

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