

Osher Lifelong Learning Institute, Spring 2020
Contemporary Economic Policy

**Lecture 4: Economic Mobility &
 Immigration**

April 29, 2020

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 National Economic Education Delegation



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National Economic Education Delegation

• **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

• **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

• **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Course Outline

- **What Economists Know About Important Policy Issues**

- Week 1 (4/8): US Economy & Coronavirus Economics
- Week 2 (4/15): Coronavirus Economics
- Week 3 (4/22): Poverty and Economic Mobility
- **Week 4 (4/29): Economic Mobility & Economics of Immigration**



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Upcoming NEED Webinars

- **Coronavirus Economics**

- Scott Baier, Clemson University
- Thursday, 4/30, 3pm via Zoom

- **Autonomous Vehicles**

- Jon Haveman, NEED
- Monday, 5/4, 3pm via Zoom

More information/registration:

www.needelegation.org/upcoming_webinars.php



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Economic Mobility



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Outline

- I. What do we mean by economic mobility and why does it matter?**
- II. What are the facts? Empirical patterns and cultural context.**
- III. What can we make of these patterns?**
- IV. Exploring different barriers to upward mobility**
- V. Summary**



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Absolute vs Relative: Escalator Analogy

- **Absolute Mobility**

- You're moving up the escalator.

- **Relative Mobility**

- You're moving up the escalator and passing other people.



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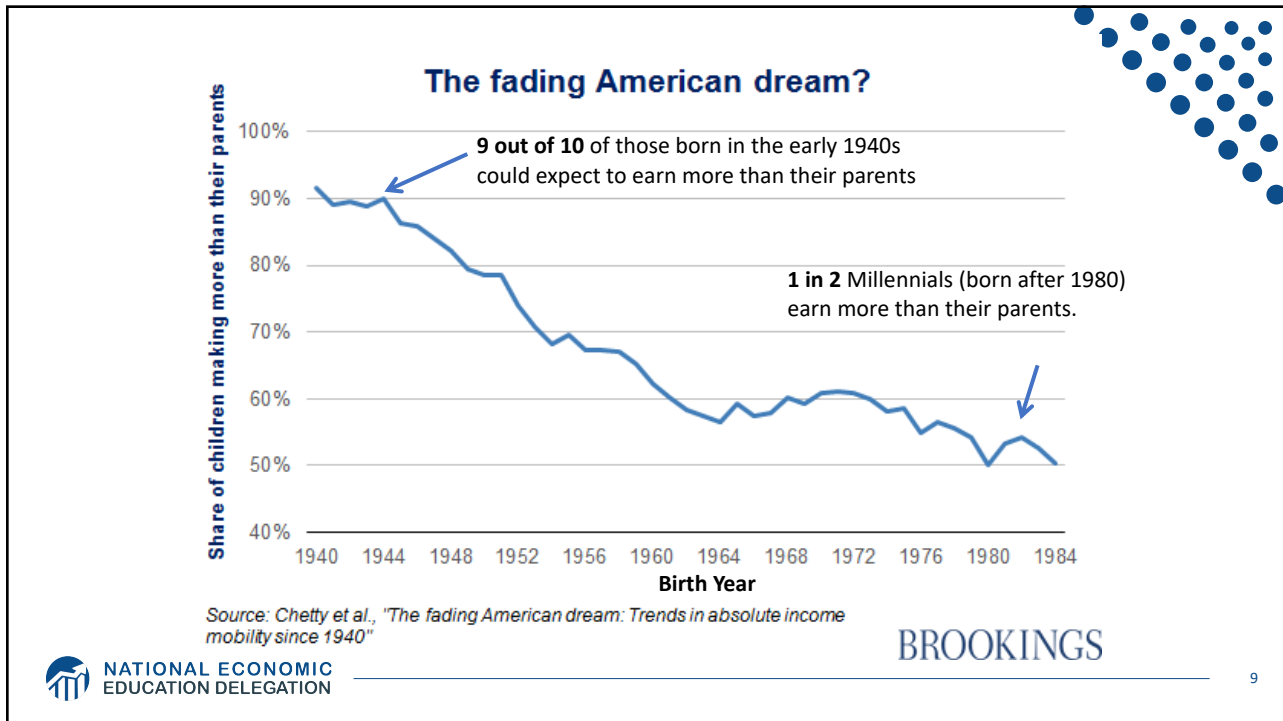
Mobility – Empirical Patterns

Decline in *absolute* mobility in the United States:

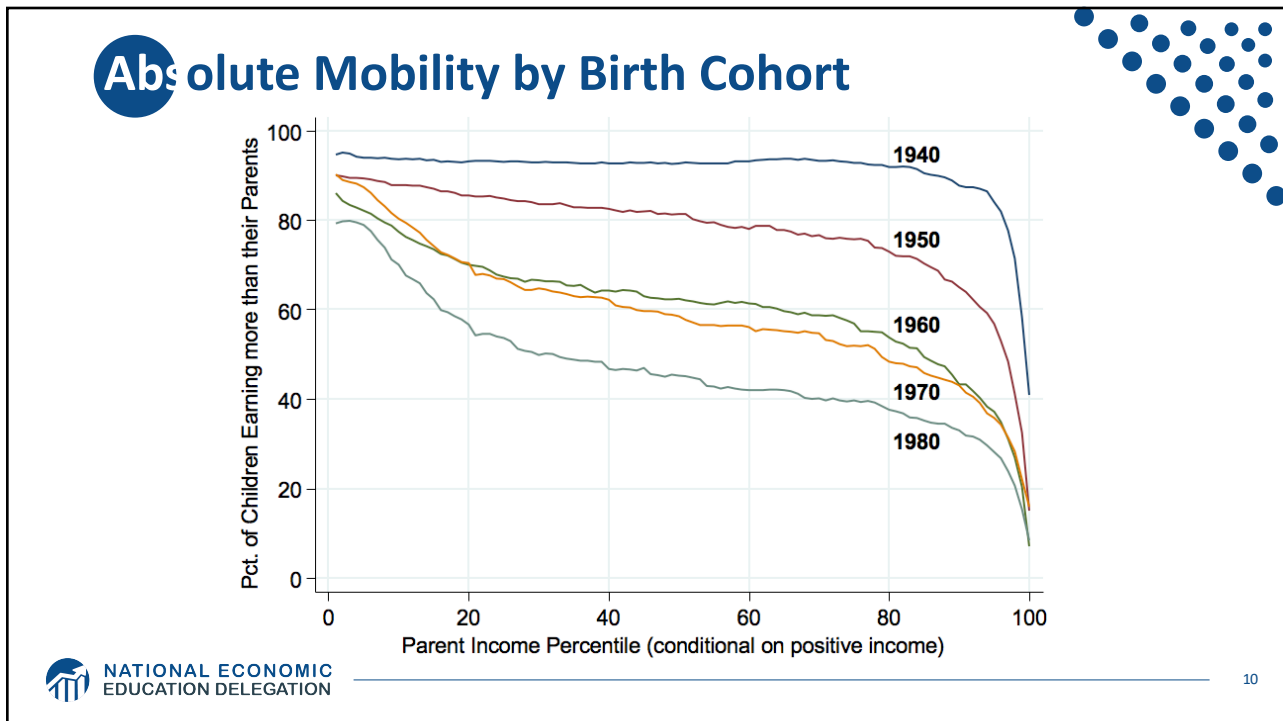
- 90% of those born in the early 1940s could expect to earn more than their parents in real terms.
- For millennials, the fraction is closer to 50%
- Below-median earnings have not increased in real terms since the 1970s.



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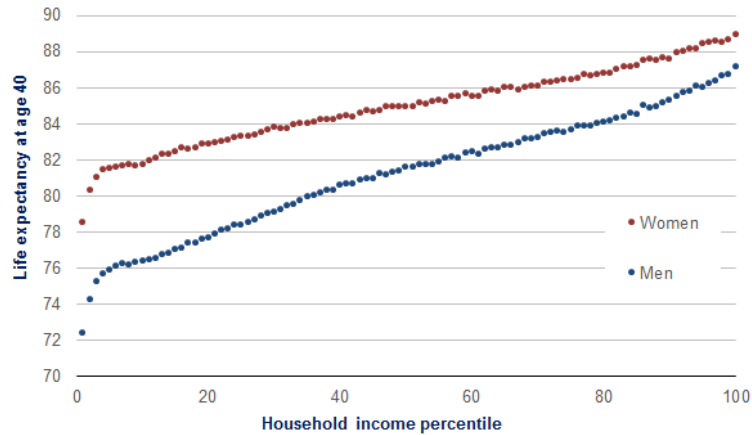
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Absolute Mobility Matters: Life Expectancy

Poor men die a decade earlier



Source: Chetty et al., "The Association between Income and Life Expectancy in the United States, 2001 - 2014," Online data table 1

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Relative Mobility

- Multiple ways to measure changes in relative mobility:

- Movement across quintiles in the income distribution.
- Rank correlation of parent and child's incomes.

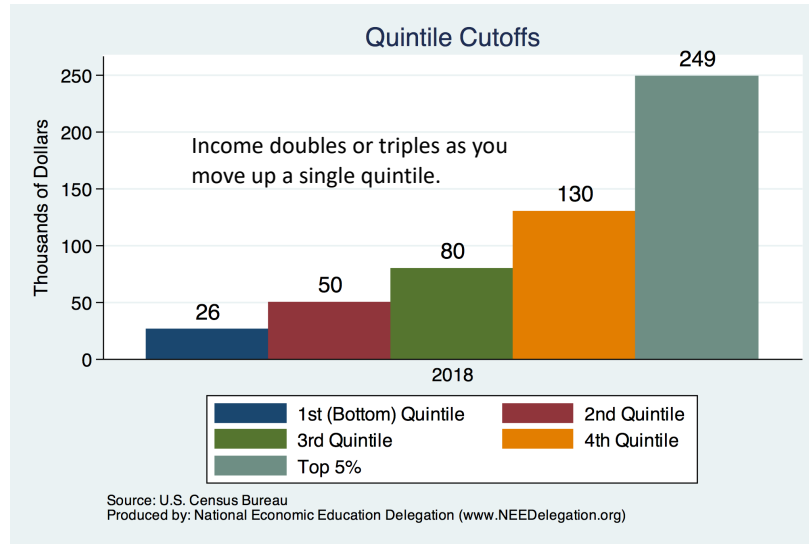


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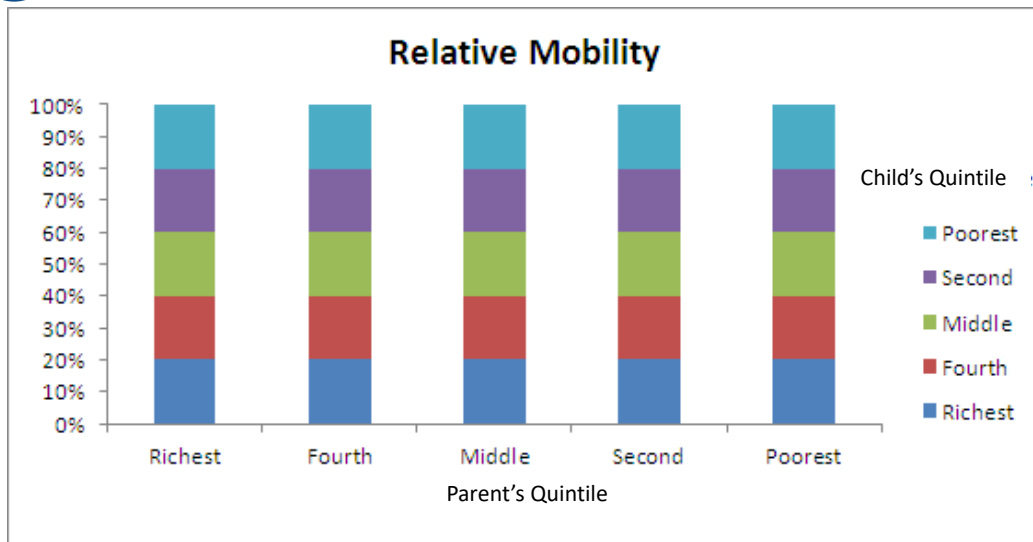
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Quintile Cutoffs



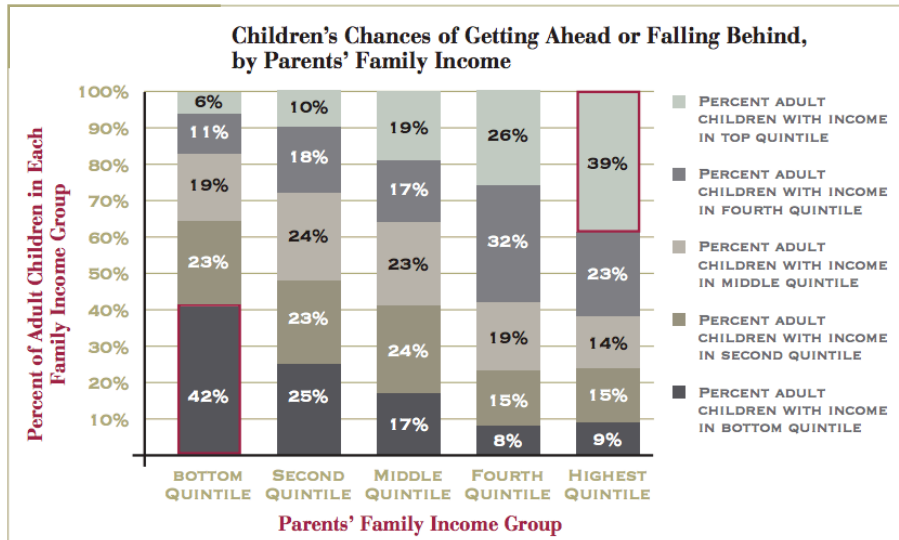
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Mobility Example: Perfect Mobility



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Transition Probabilities in the United States



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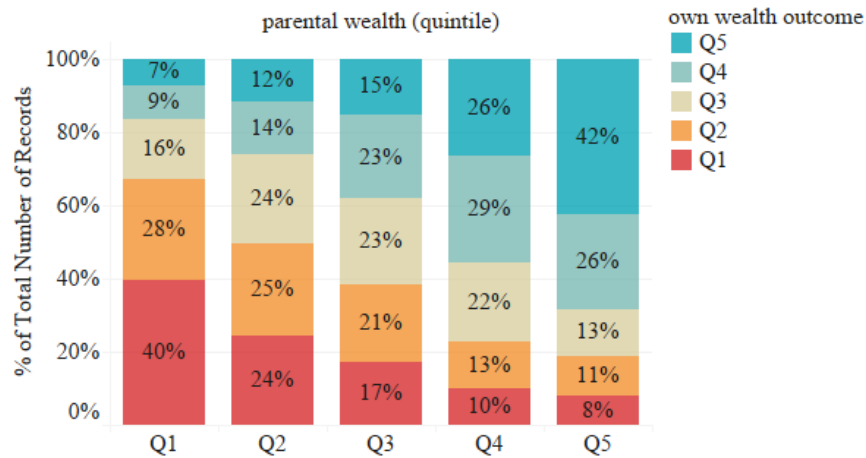
https://www.brookings.edu/wp-content/uploads/2016/06/11_generations_isaacs.pdf

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Wealth Mobility

Outcome quintile by parental quintile (wealth)



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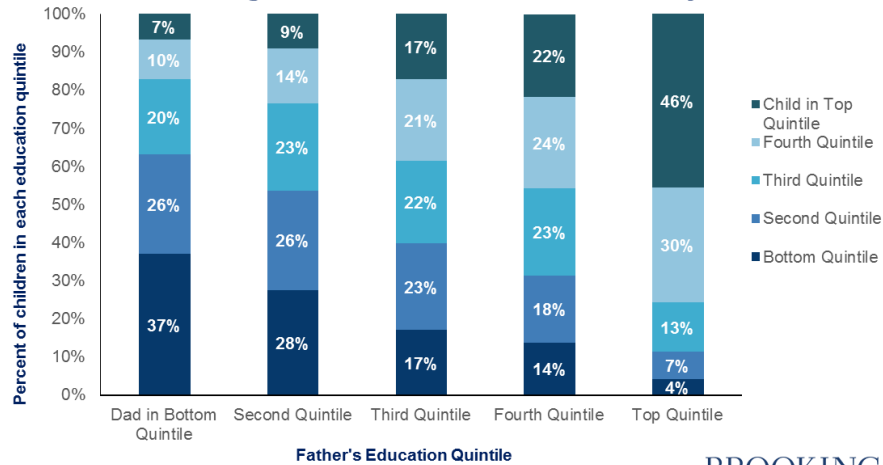
Oana Tocoian, Working Paper, "Entrepreneurship and the American Dream: How far Does the Upward Mobility Ladder reach?"

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Educational Mobility

Intergenerational Education Mobility



Source: Author's tabulations of PSID data.

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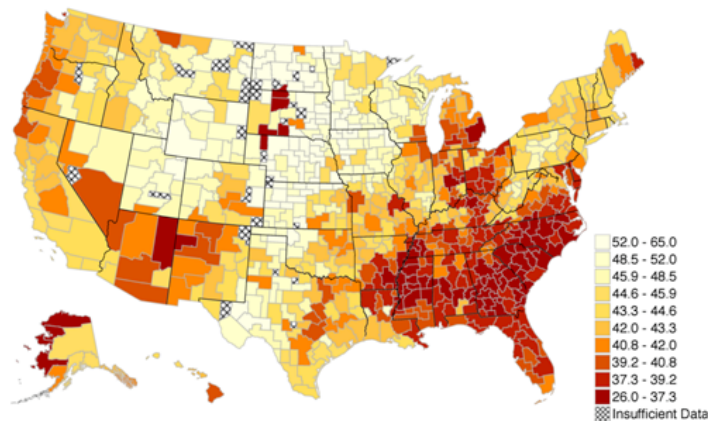
<https://www.brookings.edu/blog/social-mobility-memos/2014/10/27/the-inheritance-of-education/>

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American Dream: Geography Matters

The Geography of Upward Mobility in the United States Mean Child Percentile Rank for Parents at 25th Percentile (Y_{25})



Note: Lighter Color = More Absolute Upward Mobility



<https://www.brookings.edu/blog/social-mobility-memos/2018/01/11/raj-chetty-in-14-charts-big-findings-on-opportunity-and-mobility-we-should-know/>

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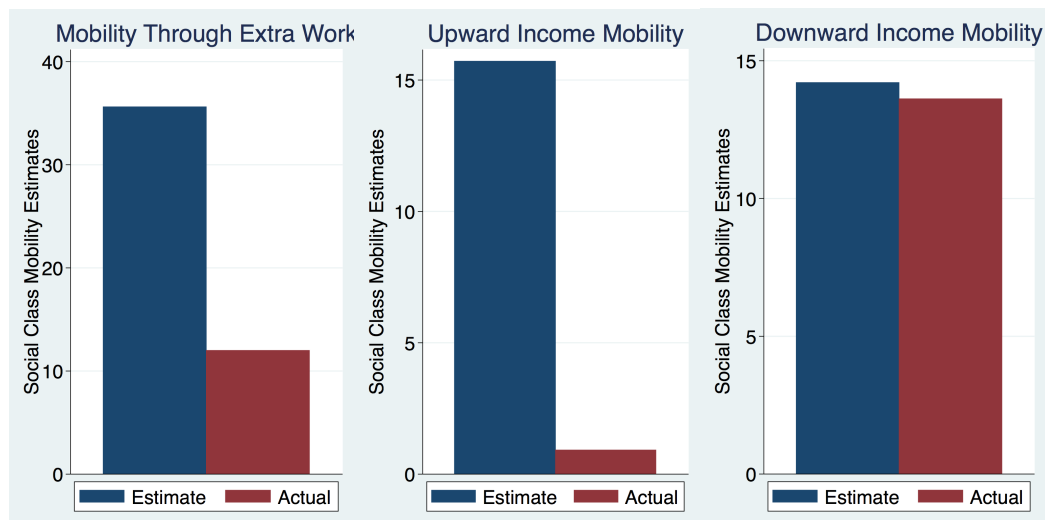
Public Perception and Sentiment

- **Relative: “American Dream” vs “Old World”**
 - General belief is that the U.S. has *greater mobility* than elsewhere.
 - Fewer explicit barriers – no nobility titles.
 - More meritocratic – “rags to riches”, Heratio Alger
- **Absolute: Overestimate of actual mobility**
 - The American Dream plays a significant part in national identity.
 - Common perception is incorrect.



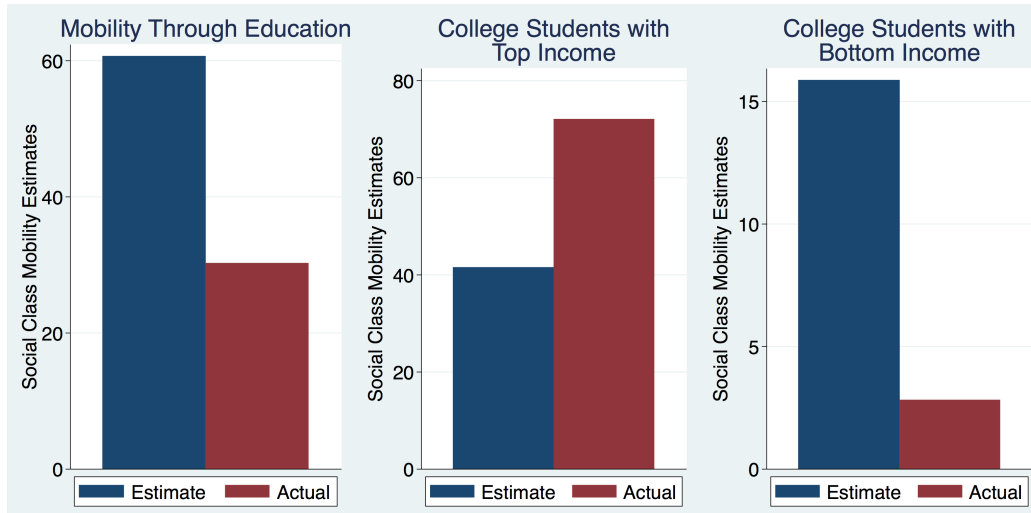
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Most Americans Overestimate Mobility



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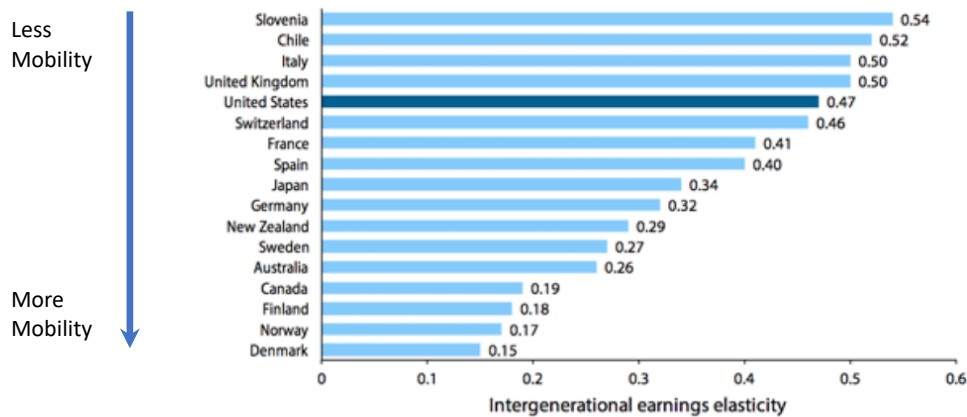
Most Americans Overestimate Mobility



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IGE: U.S. in International Comparison

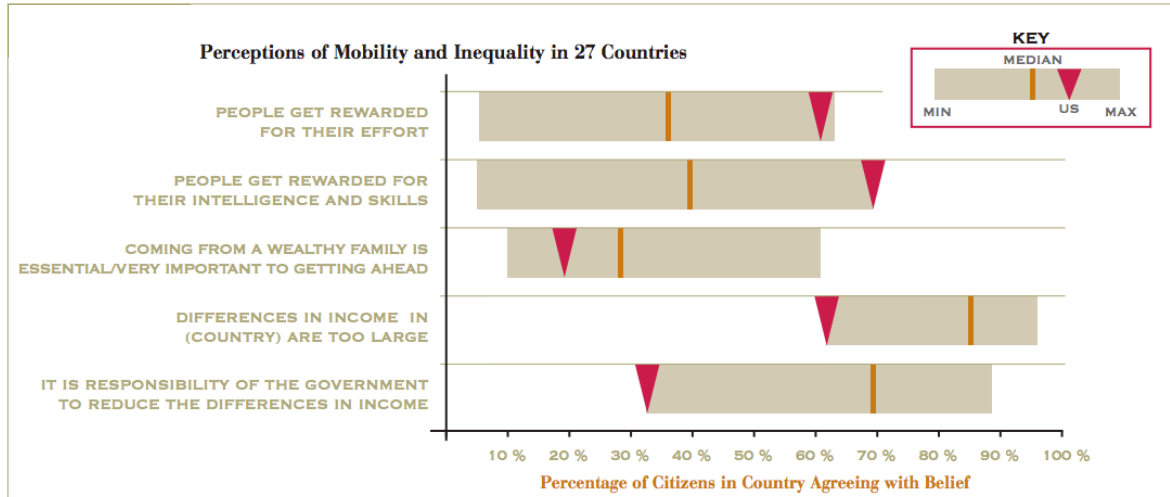
Figure 3H Intergenerational correlations between the earnings of fathers and sons in OECD countries



Note: The higher the intergenerational elasticity, the lower the extent of mobility.

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The "American Dream" Shapes Perceptions



Source: Brookings tabulation of data from the International Social Survey Program, 1998-2001.



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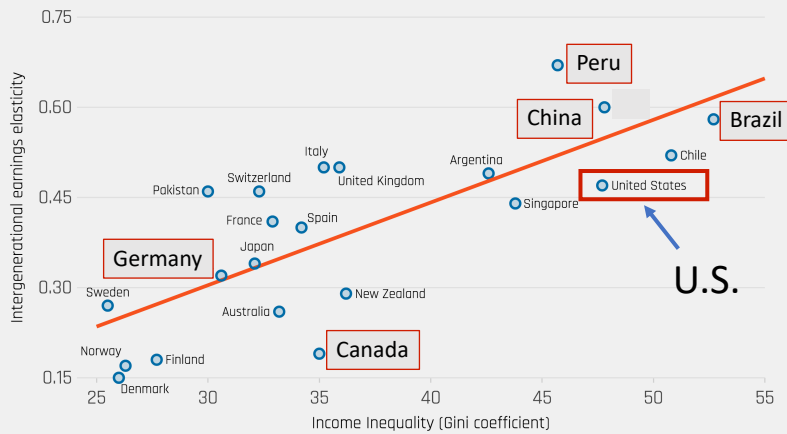
https://www.brookings.edu/wp-content/uploads/2016/06/02_economic_mobility_sawhill.pdf

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The Great Gatsby Curve: high inequality tends to mean low mobility

More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> (last accessed 9/28/2018)

Equitable Growth



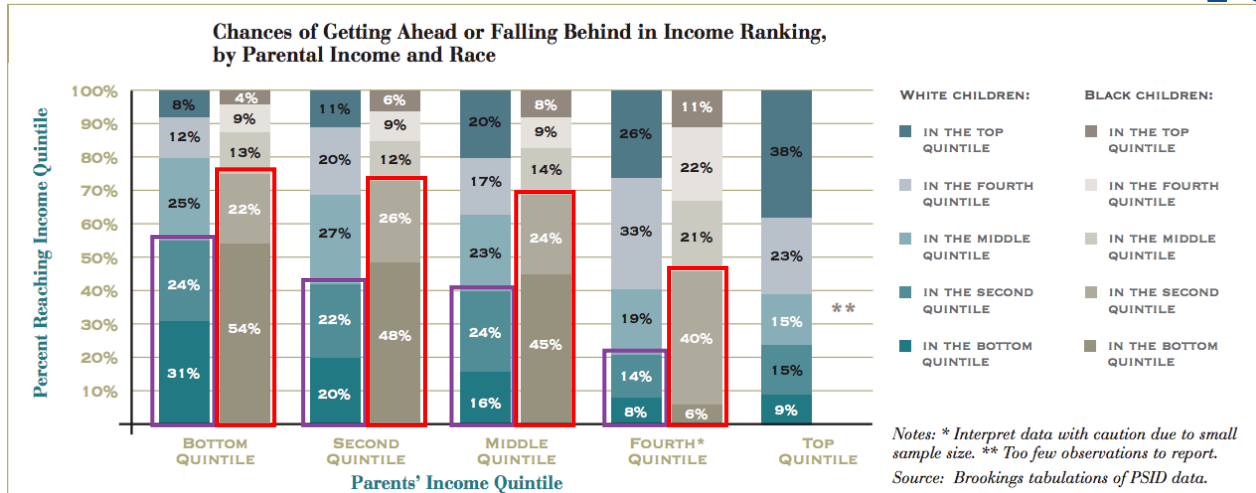
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<https://equitablegrowth.org/research-paper/are-todays-inequalities-limiting-tomorrows-opportunities>

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Relative Mobility: Race



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III. What can we make of this?

What does the data tell us, and what is to be done?

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Why Should We Care?

- **Efficiency**

- Does mobility affect economic growth?

- **Equity**

- Is there a sense of fairness that is in play here?
- Would greater equity provide societal benefits?

- **Is there a tradeoff or are these concerns reinforcing?**



Private Issue with Public Consequences?

The “left-behind” and low-to-middle-class malaise

- Evidence that absolute mobility has dropped the most in the Industrial Midwest, and for men relative to their fathers
 - These are the groups which revolted against traditional political candidates in 2016 and voted for Trump.
- Not a uniquely American phenomenon
 - See Brexit and the rise of populist candidates throughout developed countries.
- Decreased economic mobility is likely to be seen as increasingly important in the future.



Absolute or Relative Mobility?

- Upward *absolute* mobility of the whole population is unambiguously desirable (it's hard to defend *not* wanting everyone to be better off!)
The fact that half the population is treading water should worry us.
- But, *relative* mobility is a *zero-sum game*: for some people to rank higher than their parents did, others have to rank *lower*.
Why is social churn desirable? (Is it?!)
Are people not merely being petty when, after getting a raise, they are displeased to find out that a coworker got a bigger raise?

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Is PERFECT Relative Mobility Desirable?

There are persuasive arguments why perfect relative mobility is sub-optimal: (i.e. we shouldn't expect children's outcomes to be entirely uncorrelated with their parents')

- *Fairness argument*: highly skilled parents earn higher incomes, and they also have--on average--more highly-skilled children, who thus deserve higher earnings.
- What's more, it is better for everyone if talent is recognized, so that resources can be put to the most efficient use (instrumental argument).
 - [A related argument is that we want to encourage parents to invest more in their children – but, these investments are not always productive and can decrease overall wellbeing (e.g. SAT prep arms race)]

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Is ZERO Relative Mobility Desirable?

Similarly, there are arguments why zero relative mobility is sub-optimal:

- *Fairness*: it is highly unlikely that *zero* relative mobility is ever *fair*, since two extreme conditions would have to be met:
 - Parental generation outcomes would have had to be perfectly fair
 - Abilities, traits, and effort would have to be perfectly correlated across generations
- *Instrumental*: a perfectly rigid society is one where people feel powerless. They think the game is “rigged”, and from this follows civic disengagement, slow economic growth, social unrest, etc.

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How Much Relative Mobility is Desirable?

If perfect mobility is too much and zero is too little, it seems reasonable to ask:

What is the *optimal* level of relative mobility?

This is a hard question, one which we may not be able to answer.

Luckily, it’s almost as useful to ask a less ambitious question:

Is current relative mobility too low (or too high)?

The answer would suggest the best incremental steps to take towards a better outcome, and policy changes are best done in incremental steps in any case.

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Barriers to Upward Mobility

- **Key Question:**

What are the factors that might prevent someone born in a low-income household from doing as well as their richer counterpart?

- **Answers:**

- Birth Lottery
- Structural barriers



Barriers to Upward Mobility – Birth Lottery

- **Early advantages**

- *Innate (genetic) advantages:*
 - o Inherited ability, medical conditions, psychological traits
- *Environmental factors:*
 - o **In utero:** pre-natal care, mother's nutrition, exposure to abuse or stress.
 - o **Home environment** which promotes healthy development, transmission of family values
 - o Availability of **role models**, mentors, neighborhood effects.
 - o Availability of **good educators**, facilities, peers



Structural Barriers to Upward Mobility

- **Selective access to quality higher education**
 - Preferential admission for legacy and donor families.
 - Expectation of extra-curricular activities, AP classes, etc.
- **Effective access to family planning (sex ed, contraceptives, abortion)**
 - Teen births reduce outcomes for both mother and child.
- **Access to lucrative employment:**
 - Reliance on personal connections, homophily, racism, sexism...



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Structural Barriers to Upward Mobility (2)

- **Exposure and access to avenues of wealth creation:**
 - e.g. tax-deferred education accounts (529), investment strategies, also tax avoidance loopholes, etc.
- **Access to entrepreneurship:**
 - initial capital and insurance against negative shocks, social networks.
- **Direct transmission of income-earning assets.**



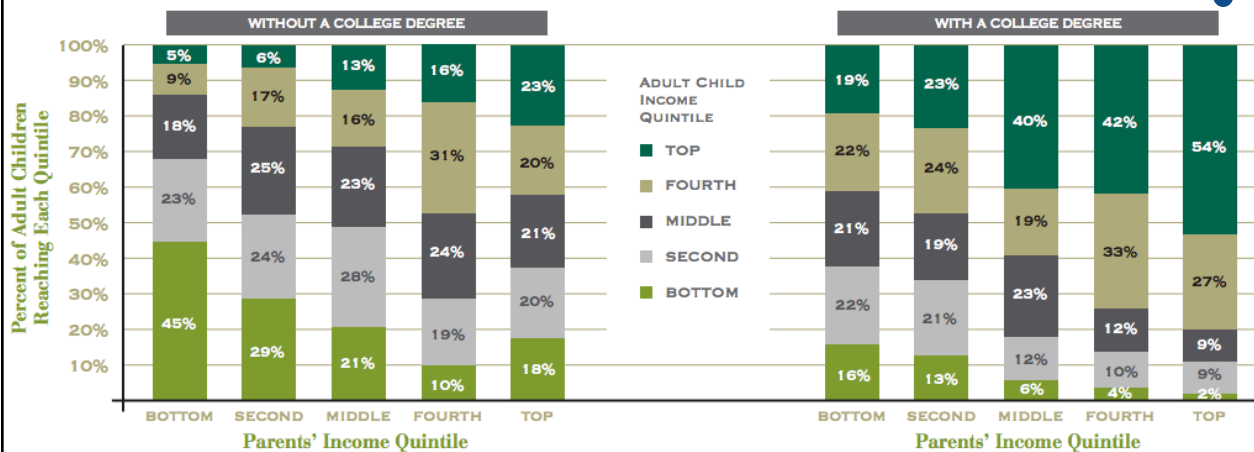
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Policy Options

- **Housing vouchers, public housing, zoning laws**
 - Help underprivileged children grow up in neighborhoods conducive to mobility.
- **Investments in education**
 - Make preparedness for college more universally available.
- **Entrepreneurship**
 - Introduce children to it at an early age.
- **Implement policies to reduce inequality.**

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Education Does Matter – at All Income Levels



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Summary

- **Absolute vs Relative mobility**
- **Mobility has declined relative to the past**
- **Evidence that mobility in the U.S. is lower than elsewhere**
 - No evidence that it is higher, so American dream is in question.
- **There are many sources of mobility.**
 - Policy responses should correspond to weaknesses in access to these sources among low-income households.



The Economics of Immigration



Outline

- Why do people migrate?
- Economics of immigration
- Other implications of immigration



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Why do People Migrate?

- **Push factors:**
 - Economic dislocation, domestic violence, population pressures, religious persecution, or denial of political rights.
- **Pull factors:**
 - Potential for higher wages, job opportunities, and political or religious liberty.
- **Uneven Development:**
 - Disparities in income, standards of living, and the availability of jobs within and across societies.



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Source: Gilder Lehrman Institute of American History

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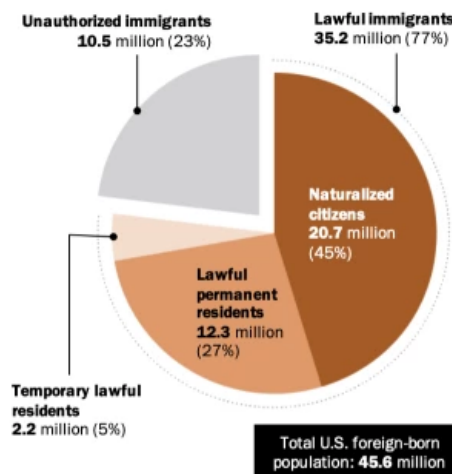
Why do People Migrate?

Levels of Decision-Making

- **Individual level:**
 - Economic opportunity, escape social turmoil.
- **Family level:**
 - Desire of the family to improve its security or level of economic well-being.
 - “Remittances”
- **Structural or Institutional:**
 - War, better information about opportunities, easier transportation, income differentials between countries.
 - Changes in immigration policies.

Immigrant Population in 2017

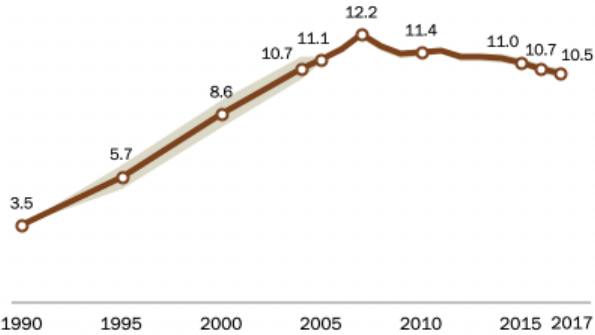
Foreign-born population estimates, 2017



U.S. Unauthorized Immigration Totals

U.S. unauthorized immigrant total rises, then falls

In millions



Note: Shading shows range of estimated 90% confidence interval.
 Source: Pew Research Center estimates based on augmented U.S. Census Bureau data.

PEW RESEARCH CENTER



Pew Research Center, 5 facts about illegal immigration in the U.S., June 12, 2019

Unauthorized Population: Source Countries

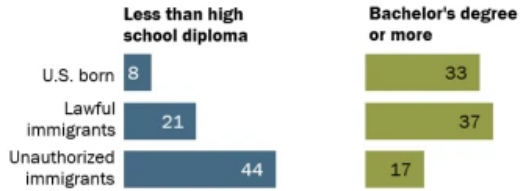
In thousands

	2017	2007	Change
Latin America			
Mexico	4,950	6,950	-2,000
Central America	1,900	1,500	+400
South America	775	900	-130
Caribbean	475	475	—
Other regions			
Asia	1,450	1,300	+130
Europe, Canada	500	650	-150
Middle East	130	140	—
Africa	250	250	—
U.S. total	10,500	12,200	-1,750

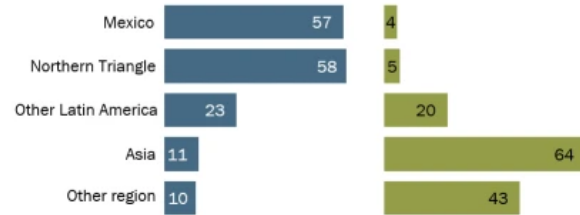


Unauthorized Immigration: Education

% in 2016 among those ages 25-64 with ...



Among unauthorized immigrants from ...



Note: Northern Triangle includes El Salvador, Guatemala and Honduras.



Pew Research Center, U.S. unauthorized immigrants are more proficient in English, more educated than a decade ago, May 23, 2019

Why Do We Care? Economic Implications

- GDP
- Labor Markets
- Prices
- Government revenue and spending



Two Sets of Implications

- **Aggregate effects: The size of the pie**
- **Income distribution: The slices of the pie**



GDP: How Does This Work?

- **What determines the size of an economy?**
 - Technology/productivity
 - Physical capital
 - The number of workers
 - Immigration adds to the number of workers.
- **Number of immigrants in the labor force is large**
 - 28.2 million foreign-born persons ages 16+ in the labor force in 2018.
 - 17.4% of the total U.S. Workforce.
- **Evidence**
 - Immigrants added 11% to GDP (\$2 Trillion) in 2016.



Labor Market Implications

- **Provides net benefits to the receiving economy.**
 - Larger labor supply.
 - Changes in labor prices increase production of goods and services that use the type of labor offered by immigrants.
- **Short run: there are winners and losers.**
 - Changes in wage structure and returns to capital affect native-born workers differently.
- **Long run: could be no winners, but also no losers.**
 - The economy might adjust to pre-immigration wage structure and returns to capital. No change for native-born individuals.



Labor Market Implications: Basic Case

- **Suppose the immigrants have the same skills as the native-born population in a city**
 - Short run: ***workers lose owners of capital win***
 - Higher ratio of labor to capital.
 - Wages decline and returns to capital rise.
 - Long run: ***there are no losers or winners***
 - Capital flows into the city
 - Because the returns are now higher here than elsewhere
 - The original ratio of labor to capital is restored.



Labor Market Implications: Low Skilled Immigrants

- **Suppose the immigrants are less skilled than the native-born population in a city**
 - Short run: **low-skilled** workers are losers
 - Supply of low skilled workers goes up, so their wages go down.
 - Long run: there need not be any losers, but there may still be.
 - Prices adjust
 - Purchasing power of low skilled workers need not be lower.
 - Purchasing power of all other workers will be **HIGHER**.
 - **Subtlety:** Opportunities for low skilled native-born workers expand as the economy expands.
 - Greater demand for English proficient workers.



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Labor Market Implications: General Principles

- **Short run**
 - Harm likely to native-born workers that are similar to the immigrants.
 - Benefit likely for other workers and owners of capital.
- **Long run**
 - **Lower prices** will restore some of the purchasing power of those harmed.
 - **Expanded opportunities** may restore wages of harmed native-born workers.
 - Inflows of other types of labor and capital may **return the economy to its pre-immigration wage structure and production patterns.**



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Pathway of Wage and Employment Effects

Inflows of Low Skilled Immigrants



Previous Immigrants



Disadvantaged Minorities



Native HS Dropouts

Order of Impact

Impact is negative,
But is smaller
at each step.

Positive influence on wages and employment of other workers.



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Labor Market Implications: The Surplus

• The Surplus

- Immigration CAN make all native-born workers and capital more productive.
- This increases incomes of the native-born.

- In other words, the economy might not just get bigger, it might become more productive as well!

- This will, on average, increase the living standards of all native-born workers and owners of capital.

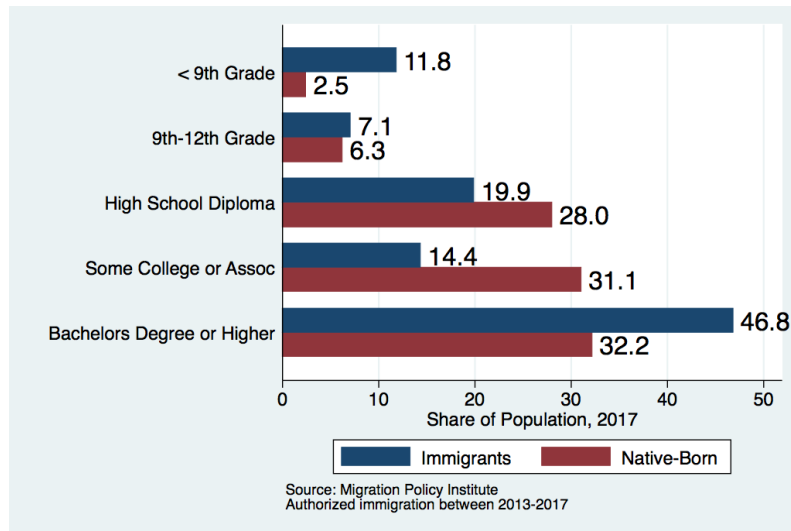


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Recent Immigrants: Less and More Educated



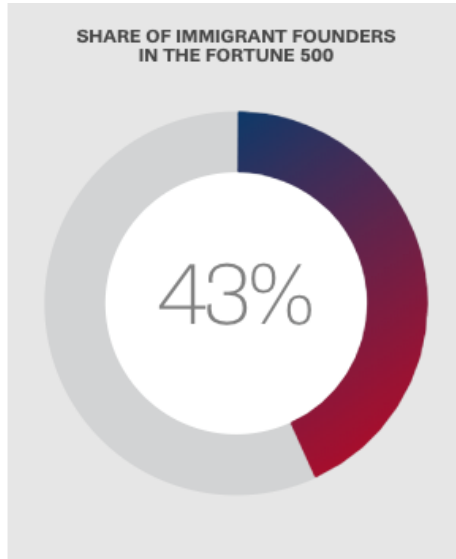
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Skilled Immigrants and Innovation

- **1% increase in immigrant college graduates' population share**
 - 9-18% increase in patenting per capita
 - May not all be due to immigrant patenting.
 - Increased immigration may increase patenting by native population.
 - Nonetheless, the effect is positive.
- **In the 1990s**
 - Increased skilled immigration can account for 1/3 of increased patenting in that decade.
 - This translates into a 1.4-2.5% increase in GDP per capita by the end of the decade.

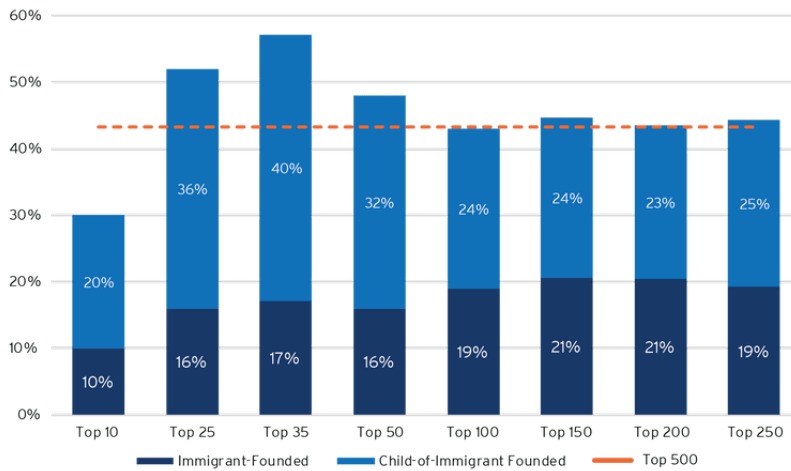
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Fortune 500: 1st and 2nd Generation Founders



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Share of fortune 500 companies founded by Immigrants or the children of immigrants, by ranking group 2017



Source: Center for American Entrepreneurship Fortune Magazine data

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Prices: Distributional Consequences

- **A 10% increase in the share of low-skilled immigrants in a city:**
 - Lowers prices of immigrant-intensive sectors by 2%.
 - E.g., housekeeping, gardening, babysitting, dry cleaning
- **Immigration between 1980 and 2000 affected the cost of living:**
 - -0.32% for high-skilled workers
- **...but not for everybody:**
 - +1% for native high school dropouts
 - +4.2% for Hispanic low-skilled natives
- **Conclusion:**
 - Positive net benefits for the nation as a whole.
 - But not all benefit.



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Prices and Economic Expansion

- **Increases the labor supply.**
 - Lowers the prices of immigration-intensive products.
- **Frees up high skilled labor to provide more market services.**
 - Primarily through provision of household services.
 - Evidence of an expansion of labor provided by *high-skilled women*.
 - Particularly where long hours are required: law, medicine, and women with PhDs



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Government Revenues and Expenditures



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What Do We Know?

- **Immigrants arriving while of working age:**
 - Are, on average, **net contributors**.
 - 21-year-old with a high school diploma: +\$126,000 over lifetime
 - Though this value gradually declines with age at arrival.
 - Turns negative for arrivals of age 35+
- **Net contribution depends crucially on characteristics**
 - Age distribution, family composition, health status, fertility patterns
 - Temporary or permanent relocation
 - Employment on the legal labor market
 - Documented or undocumented



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Bottom Line/Consensus of Estimates

- **Federal level: fiscal impact is generally positive.**
- **State and local level: typically negative fiscal impact.**



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Implications for Major Federal Programs

- **Documented immigrants are less likely to use Social Security and Medicare.**
 - Undocumented immigrants are ineligible.
 - They will pay into the system, but will not receive benefits.
- **Medicaid: not available to legal residents for first 5 years.**
- **Provide a source of revenue for an aging population.**



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NON-Economic Implications

Patterns of Integration

- Education
- Employment and Earnings
- Occupations
- Poverty
- Residential Integration
- Language
- Health
- Family Patterns

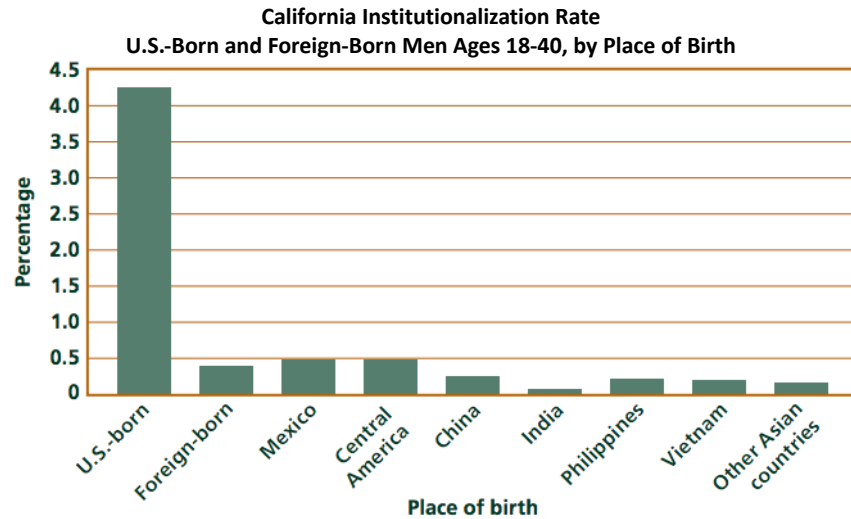
The Big Misconception: Crime

Immigrants and Crime Rates

- **Conventional wisdom:**
 - Immigrants commit crimes more frequently than do native-born.
 - Rising immigration leads to rising crime.

Let's Have A Look!

Crime: Incarceration Rates in California



Immigrants and Crime Rates

- **Conventional wisdom:**

- Immigrants commit crimes more frequently than do native-born.
- Rising immigration leads to rising crime.

- **What does the data say?**

- Rates of incarceration are lower for foreign-born than U.S.-born.
- Neighborhoods with more immigrants have lower crime rates.

Summary

- **Immigration should be thought of as increasing the population of the United States.**
- **Brings with it economic growth and opportunity, just as increasing the native-born population.**
 - Just as trade and technology do.
- **Including unauthorized immigrants, the supply of low-skilled workers is increased.**
 - This lowers the wages of low-skilled workers.
 - But also increases labor force participation among skilled workers.



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At the Same Time....

- **Immigrants are often a select group:**
 - Willing to incur an enormous personal or familial cost to better their lives.
- **As a result:**
 - Immigrants tend to commit crimes at low rates.
 - Immigrants tend to be entrepreneurial and to add significantly to economic growth.
- **Although there are distributional issues:**
 - Immigration is an important contributor to economic growth.
 - Immigration helps to sustain vital government programs.



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About Conventional Wisdom

- **Native-born unskilled workers**
 - There is some negative impact on their wages.
 - But much less than is commonly thought.
- **Crime**
 - Immigrants, both authorized and unauthorized commit crimes at much lower rates than do native-born individuals.
- **Government programs**
 - Federal: immigrants are a source of revenue and stability for some important programs.
 - State and local: because education is funded at the local level, this can be a drain on local government coffers.



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Thank you!

Any Questions?

www.NEEDelegation.org

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Jon@NEEDelegation.org

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Available NEED Topics Include:

- Coronavirus Economics
- US Economy
- Economic Inequality
- Climate Change
- US Social Policy
- Trade and Globalization
- Economic Mobility
- Trade Wars
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles




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History of U.S. Immigration

Source Country	Pre-1790	Source Country	1790-1820
African	300,000	African	85,000
English	300,000	Scots-Irish	50,000
Scots-Irish	100,000	English	45,000
German	100,000	French	40,000
Scottish	75,000	German	25,000



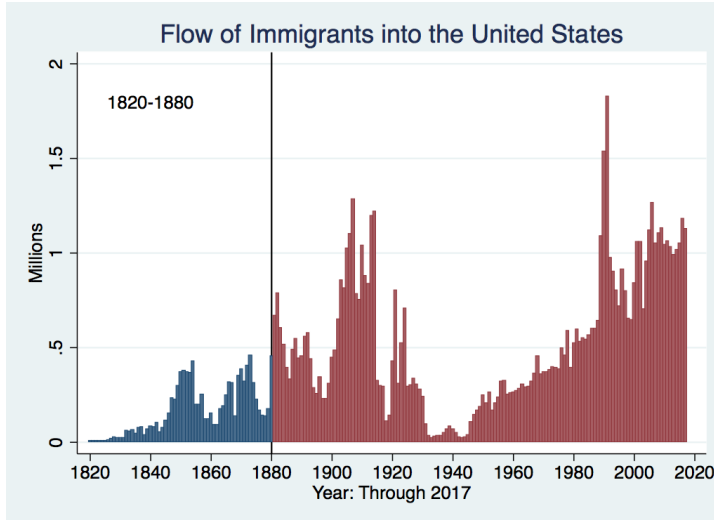
NATIONAL ECONOMIC EDUCATION DELEGATION

<https://www.libertyellisfoundation.org/immigration-timeline>

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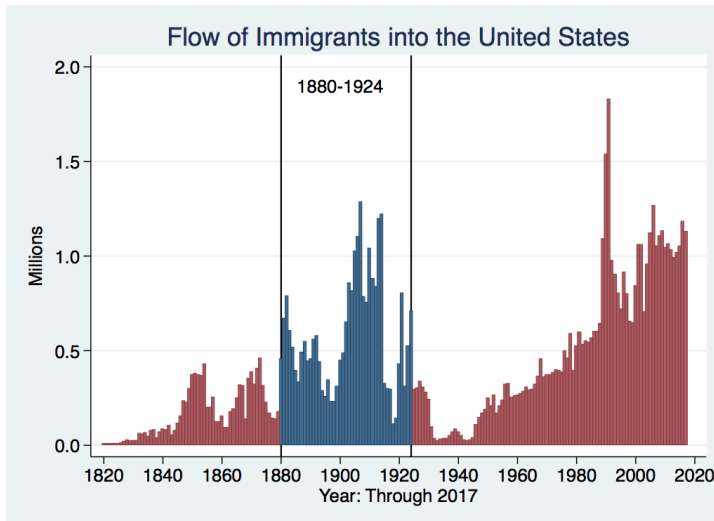
History of U.S. Immigration



Source Country	1820-1880
Germany	3,000,000
Ireland	2,800,000
Britain	2,000,000
Austro-Hungarian Empire	1,000,000
Canada	750,000
China	230,000
Africa	50,000

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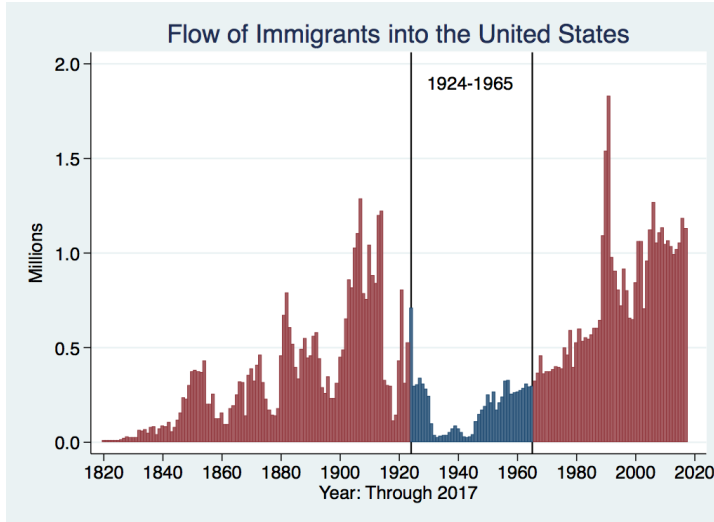
History of U.S. Immigration



Source Country	1880-1930
Italy	4,600,000
Austro-Hungarian Empire	4,000,000
Russian Empire	3,300,000
German Empire	2,800,000
Britain	2,300,000
Canada	2,300,000
Ireland	1,700,000

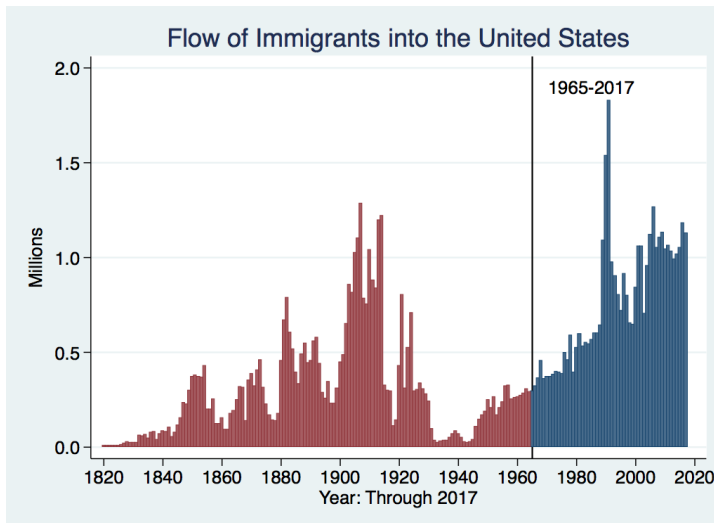
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History of U.S. Immigration

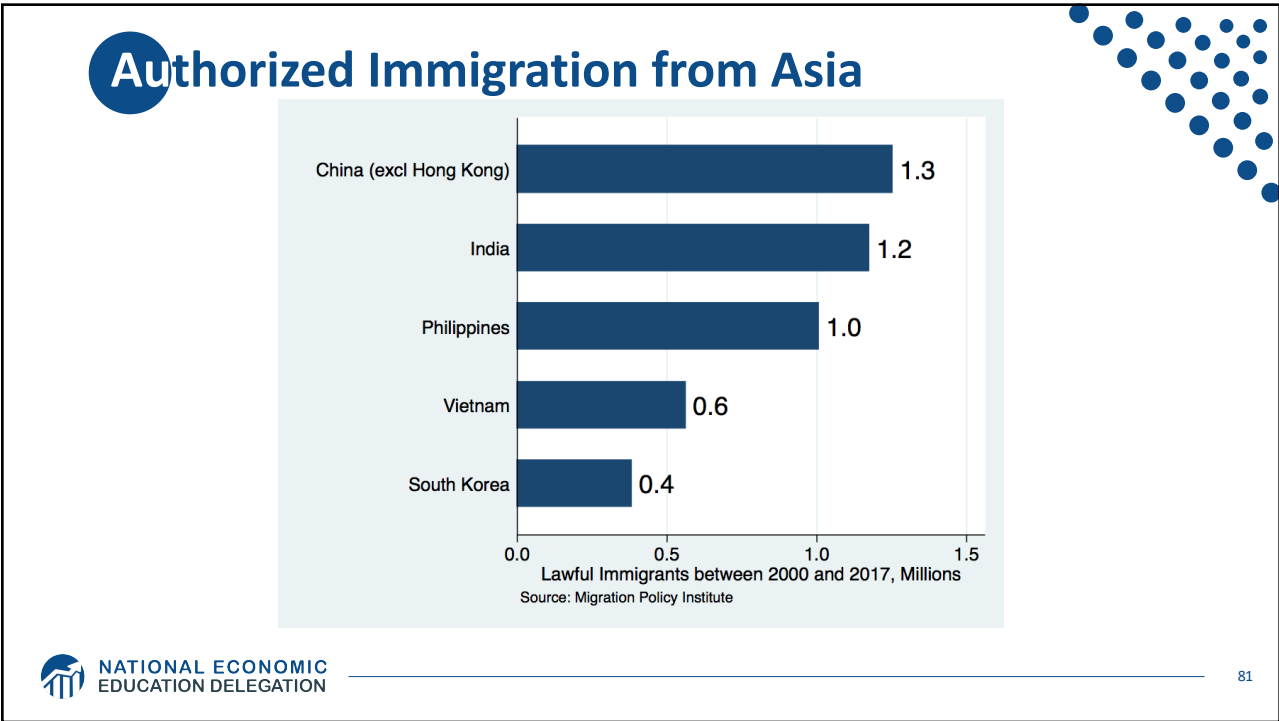


Source Country	1930-1965
Germany	940,000
Canada	900,000
Mexico	610,000
Britain	480,000
Italy	390,000
Caribbean/ West Indies	310,000

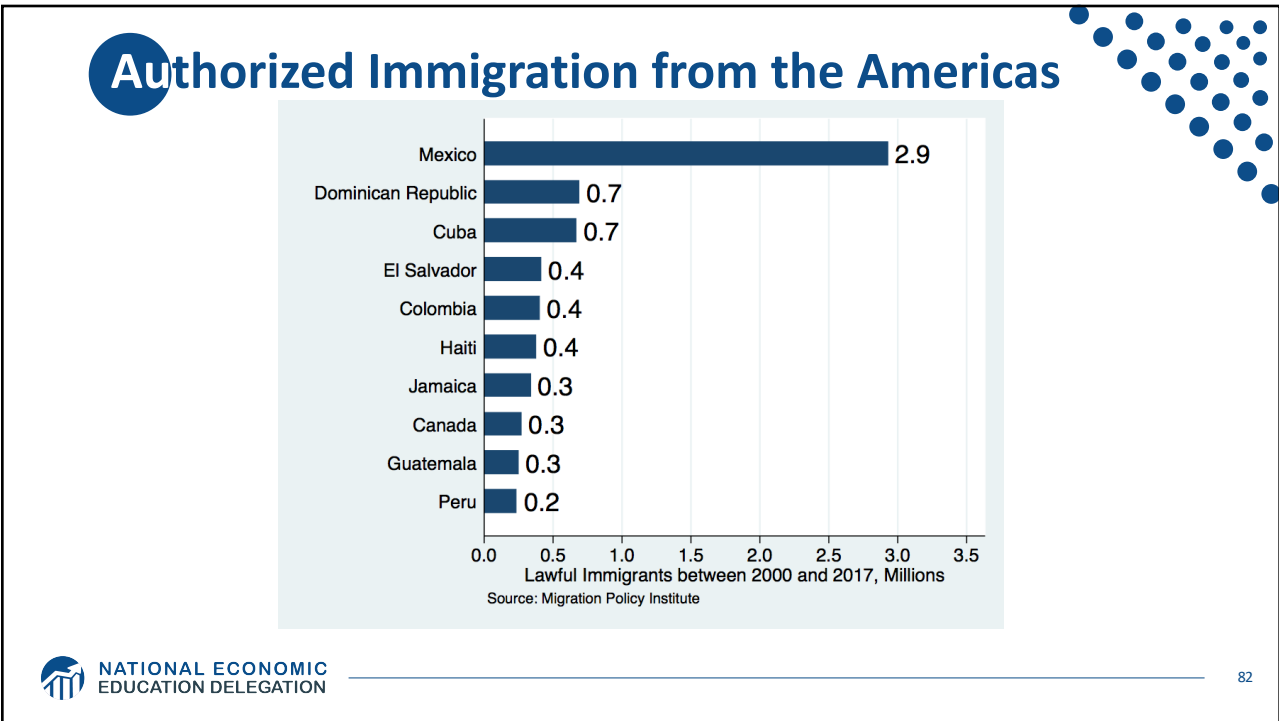
History of U.S. Immigration: 1965-Today



Source Country	1965-2017
Mexico	4,300,000
Philippines	1,400,000
Korea	760,000
Dominican Republic	750,000
India	740,000
Cuba	700,000
Vietnam	700,000
Canada	650,000

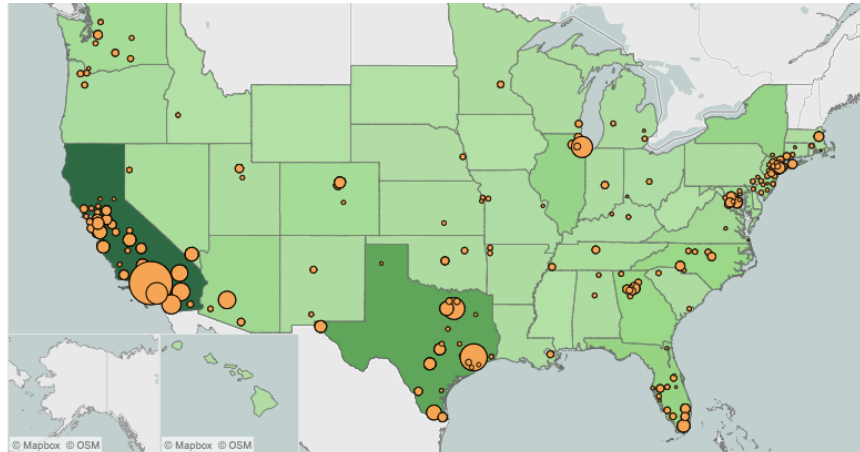


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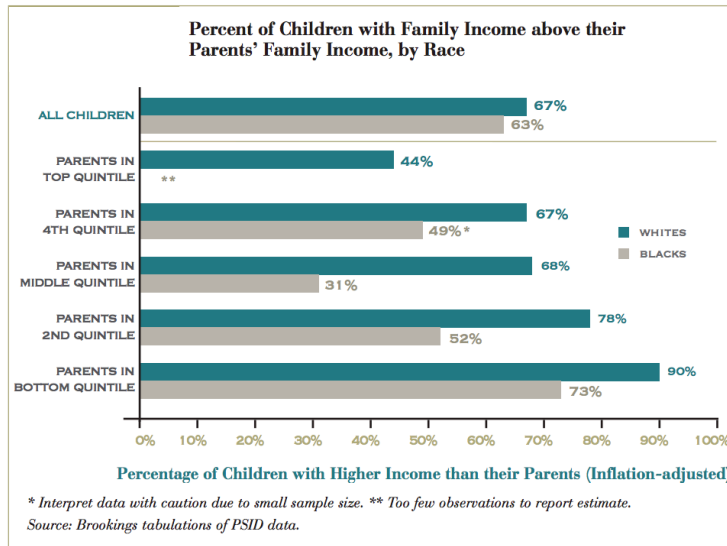
82

Unauthorized Immigration: 2012-2016



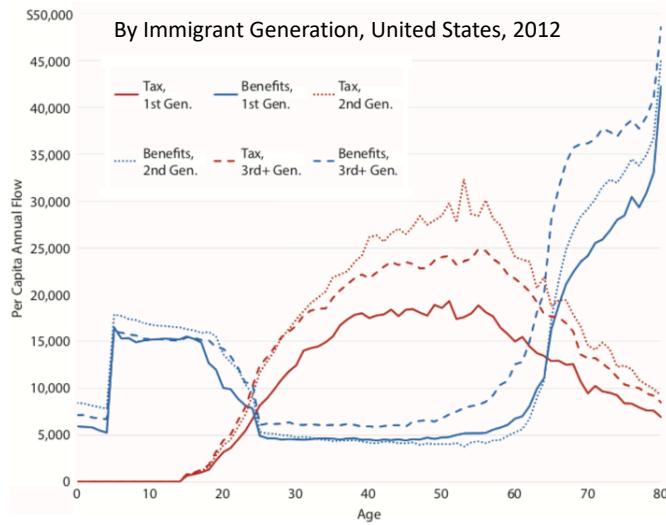
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Absolute Mobility: Race



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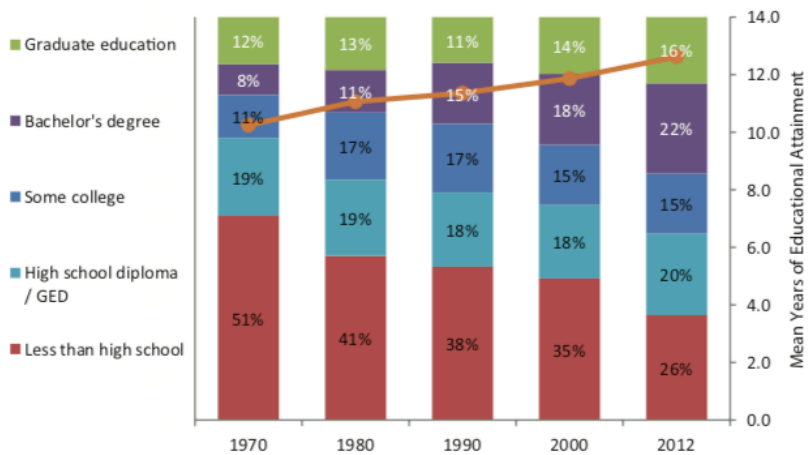
Age-Specific Taxes and Benefits



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Pattern of Immigration

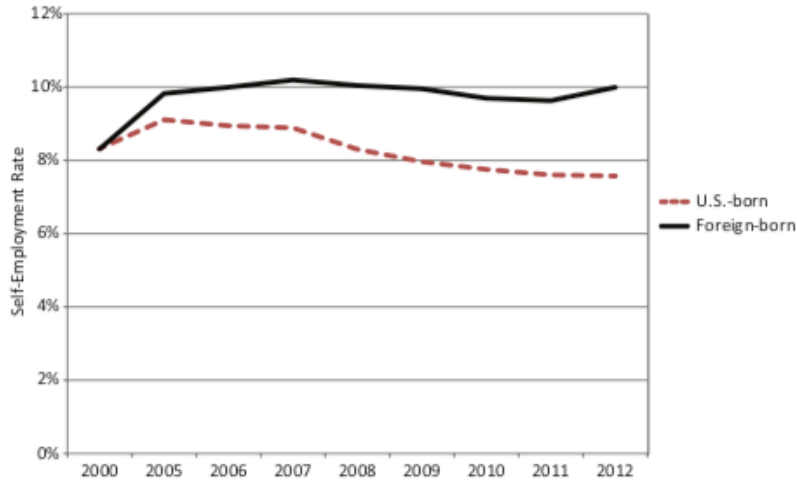
Educational Attainment of Recent Immigrants – Last 5 Years



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Immigrants and Entrepreneurship

Self-Employment Rates by Nativity



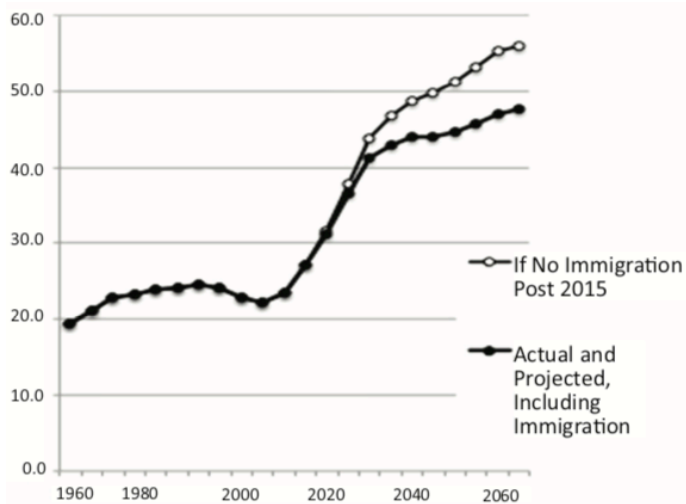
Source: Magnus Lofstrom from Current Population Survey Data

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Implications for Social Security

Population Age 65+ per 100 Working Age (25-64)



Source: Blau and Mackie, "The Economic and Fiscal Consequences of Immigration (2017)".

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Unauthorized Immigration: Mode of Entry

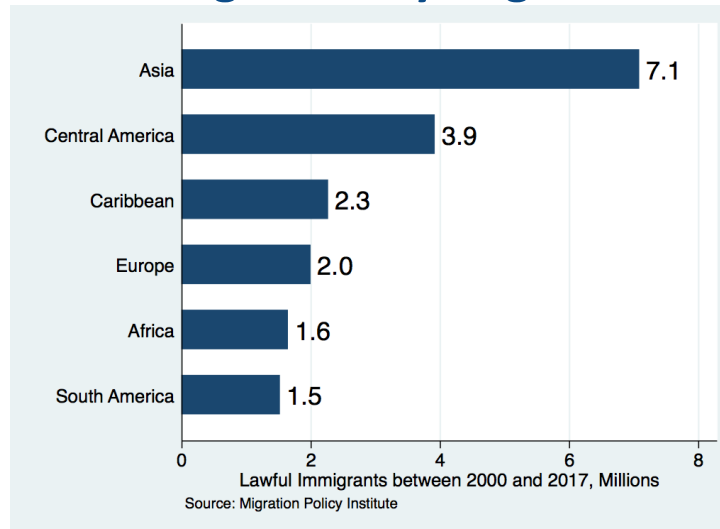
Table 3. Arrivals of Undocumented Migrants in 2016, by Mode of Arrival and Country of Origin: Top Five Countries (thousands)

Country	Total arrivals	Country	Overstays	Country	EWIs
All countries	515	All countries	320	All countries	190
Mexico	145	Mexico	50	Mexico	95
El Salvador	35	India	25	El Salvador	35
Guatemala	30	China	25	Honduras	25
Honduras	30	Venezuela	20	Guatemala	20
India	25	Philippines	15	Dom Rep.	10
All other	245	All other	185	All other	5

Note: Except for "All countries" and Mexico, overstays and EWIs do not sum to total arrivals because different countries are included in the columns that show overstays and EWIs.

Source: Center for Migration Studies.

Authorized Immigration by Region



Unauthorized Immigrants: Where They Live

