

Lecture 14(i) **Announcements**

1. **Final Exam:** Fri, Dec. 14,
6:30 pm.-8:30 pm
 - Makeup final on Tues. Dec 18
10:00 a.m.-noon
 - **REGISTER** for makeup
headgrader@gmail.com by
Monday, Dec. 10, 4:00pm

Final OneStop Page (bottom of Canvas)

2. **Platform Debate** in discussion sections
this week about immigration

(Discuss in class today. See also link at
Canvas for reading to do before the debate.)

Inequality

0. Finish Immigration
1. Mention three policies to debate
about this week
2. Wage incentives and labor
migration
3. Capital Flows

Lecture 14(i) **Announcements**

1. **Final Exam:** Fri, Dec. 15,
6:30 pm.-8:30 pm
 - Makeup final on Tues. Dec 19
9:30 a.m.-11:30 a.m..
 - **REGISTER** for makeup
headgrader@gmail.com by
Monday, Dec. 11, 4:30pm

Final OneStop Page (bottom of Moodle)

2. **Platform Debate** in discussion sections
this week about immigration

(Discuss in class today. See also link at Moodle for reading to do before the debate.)

Inequality

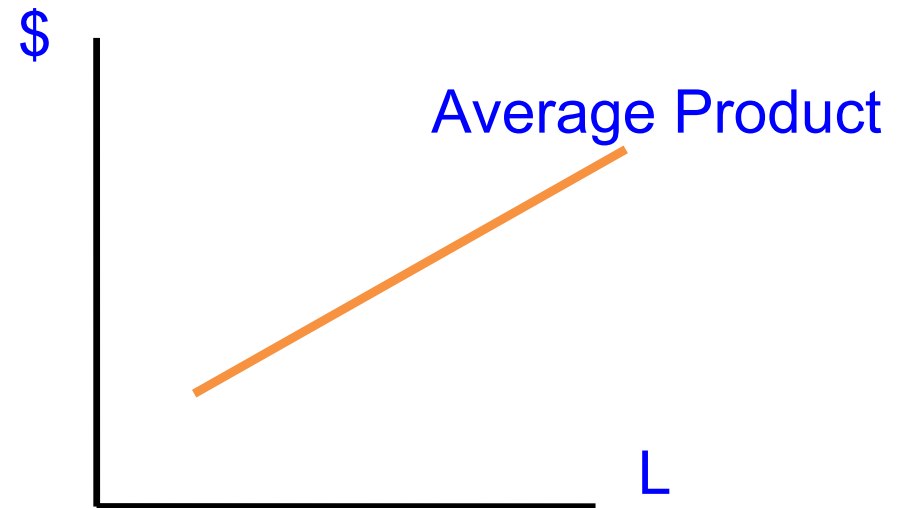
0. Finish Immigration
- 1 Discuss three policies to debate
about this week
2. Wage incentives and labor
migration
3. Capital Flows

Case 1: Agricultural Economy:
Double population, then lower
productivity because of diminishing
returns to fixed land.

Case 2: Manufacturing
or Innovation Economy
(No fixed factor like land)



Plot average product as a function
of the population:

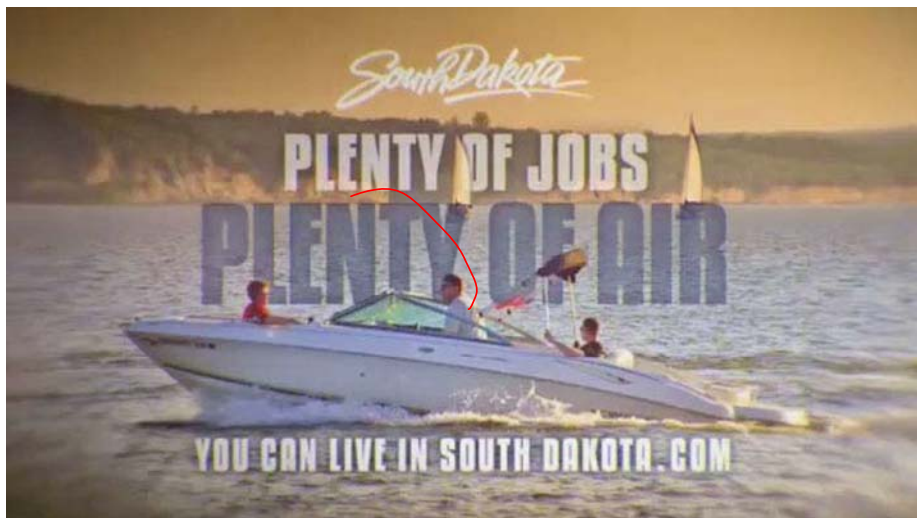


Case of increasing returns
Mechanisms:

- Scale economies
- Greater product variety
- Knowledge spillovers and information sharing (think Silicon Valley)

The theory explaining the existence of cities

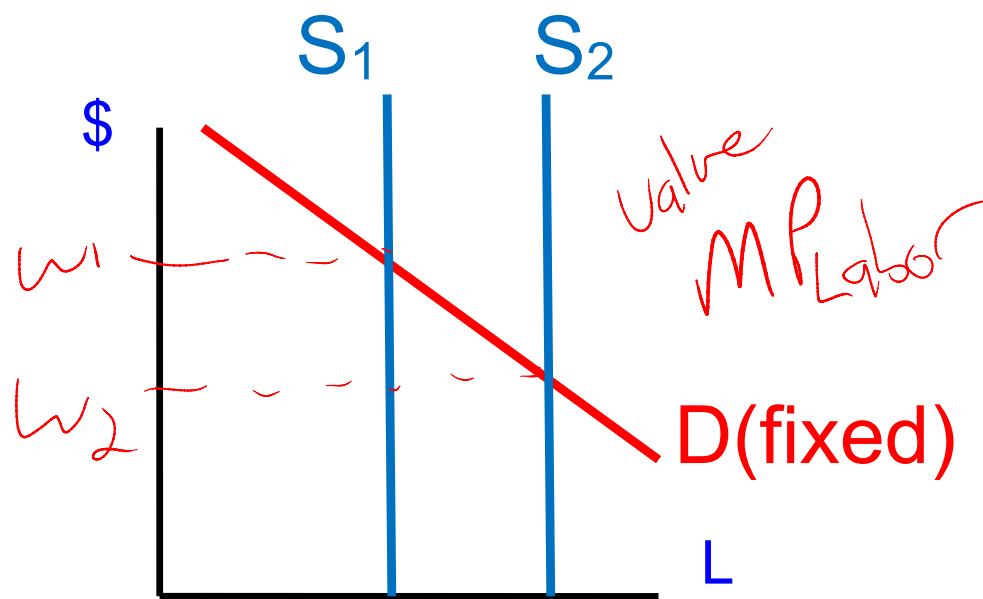
And why South Dakota is advertising to get people to move there.



Watch clip

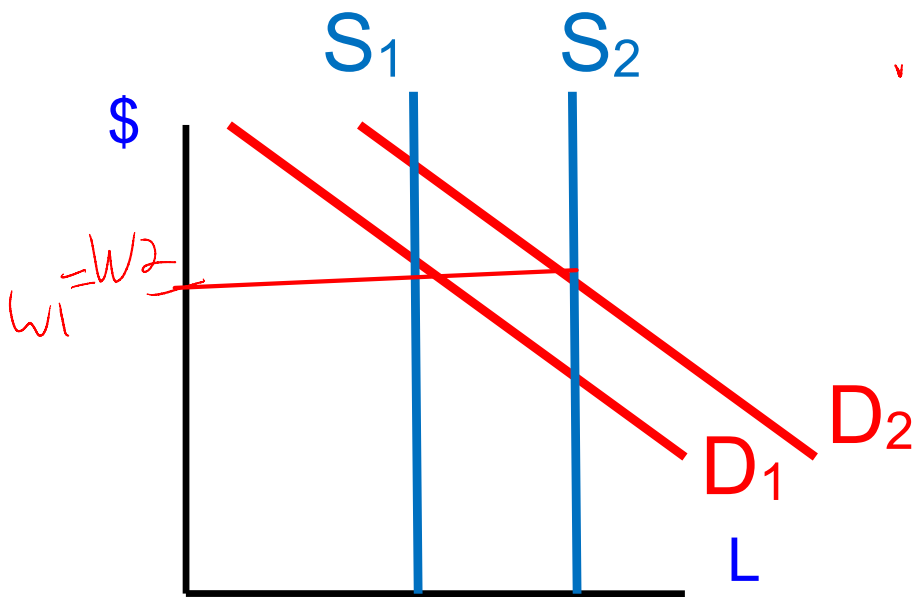
<https://youtu.be/HrX8OTFSFZI>

South Dakota is not thinking population inflows will do this:



If more people move to South Dakota and the capital stock stays the same, and everything else is the same, we will move along the value of the marginal product curve of labor and wages decline.

Rather, South Dakota thinking it looks like this or better:



Migrants increase the demand for labor (because they purchase things and can contribute to increasing returns)

In this example, the long run wage remains the same even after people migrate. Things will work like this if capital is mobile. So as more people move to SD, there is new construction in SD and new equipment, and this raise the value of the marginal product of labor.

In this example illustrated, all inputs rise proportionately and wage stays the same. (Note we are assuming land scarcity is not a limiting factor in SD).

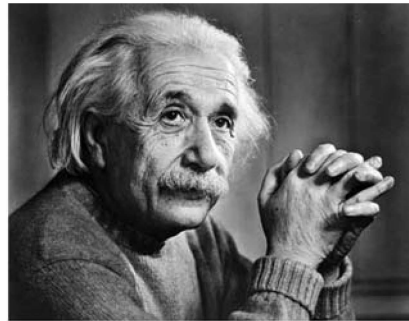
If we have increasing returns, then we get a different story. In the long run wages can increase with population expansion.

So far have assumed migrants have the same skill. Now contrast

high skill versus low skill.

Start with
high skill migrants

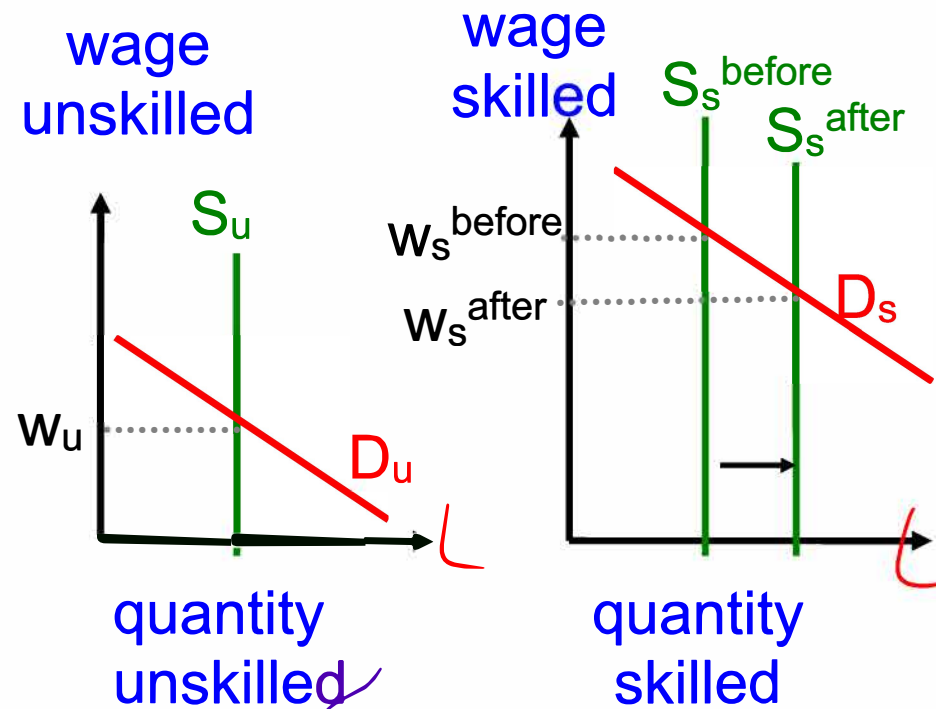
Examples:
Albert Einstein



Sergey Brin
(Russia)
cofounder
Google

Indra Nooyi
(India) at Pepsi
Ramon Laguarte
(Spain new CEO)

Effects of immigration by high skill?
Suppose there is no increasing returns, no knowledge spillovers, and not shift in labor demand



Above doesn't take into account shifts in labor demand.

But even if we allow for increases in labor demand, if there are no increasing returns, then immigration of high skill labor, fixing the quantity of low skill workers, will reduce wages of skilled workers relative to unskilled.

But still we get a beneficial
Fiscal Impact

High skill workers tend to pay more taxes than they cost in public service, so collectively we make money on them when they come.

Now take into account knowledge spillovers.

High skill immigrants can increase the productivity of other high skill workers.

High skill workers are the drivers of the knowledge economy.

Bad idea to tell Sergey Brin and Indra Nooyi to go back home!

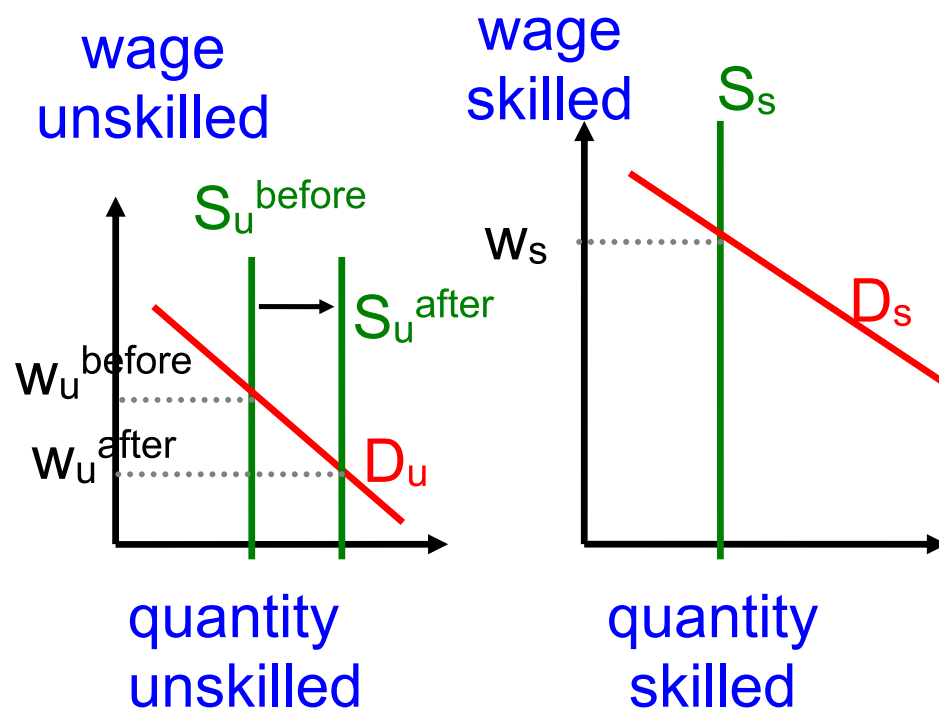
Immigration into the U.S. is limited, and preferences are mainly given to relatives.

There are some programs to allow skilled workers in, but it is a small percent of 1,000,000 immigrants a year.

H-1B program: 85,000 spots for highly-educated foreign professionals.

Excess demand for these slots filled by lottery. (In 2014, applications were considered April 1, by April 5, 124,000 application submitted, stopped collecting.

Next look at **low skill** immigration
Without changes in labor demand
we get



Effects of low skill immigration

low skill wage: will fall relative to high skill wage

- decline will be relatively small if demand for unskilled labor is elastic because it is possible to outsource to foreign workers overseas, or to robots here

fiscal impact: Negative. Very low skill workers generally ~~take out~~ more in public services (public schools, health care), then they pay in taxes

contribution to knowledge spillovers?: Probably not, but maybe children of low skill

immigrants will become educated and create knowledge spillovers.

Policy Discussion

Background: DACA
“Deferred Action Childhood Arrivals”

Program set up by Obama in 2012,
rescinded by Trump in Sept 2017

Program to “defer action” on
undocumented immigrants who
came here as children and didn’t
commit any crimes. Gives them a
quasi-official status

800,000 registered

President
Donald
Trump



Policy:

- Deportation force to expel existing unauthorized immigrants.
- Build wall+more barriers to unauthorized immigration
- Reduce existing legal immigration
 - Get rid of family based
 - Get rid of lottery for 50k



Nancy Pelosi (likely House Speaker come January)
Senate Minority Leader Chuck Schumer

Current Policy (gleaned from web sites)

- Reinstate DACA
- More generally go back to Obama policies

Back in the day presidential candidate Marco Rubio (not later Senate candidate who just wanted to talk about the wall).



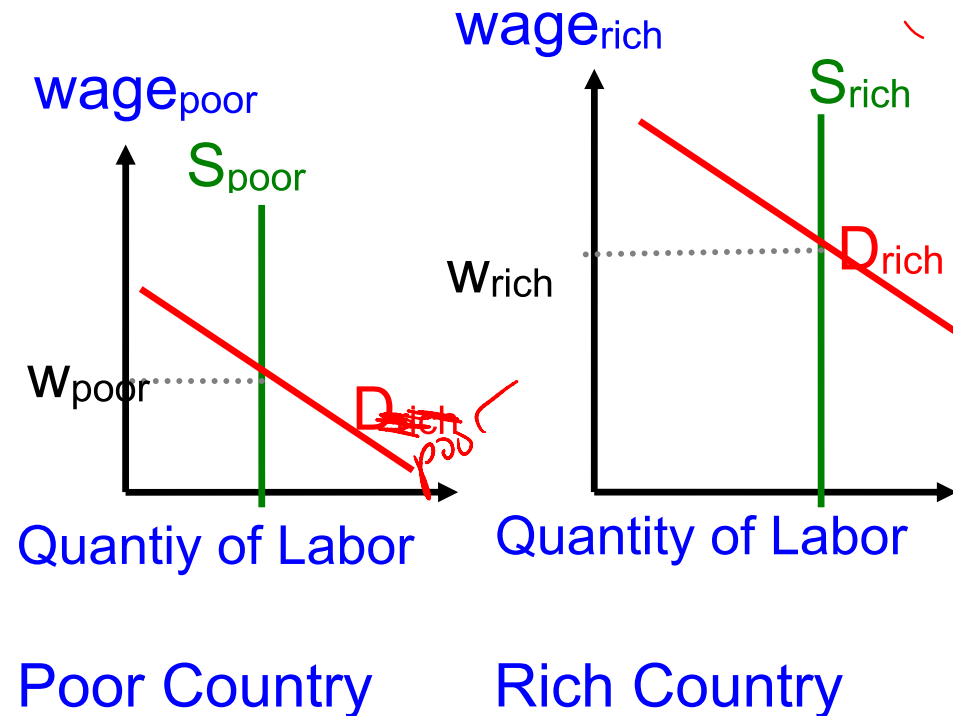
Platform

- Move away from immigration preferences based on relatives to preferences based on skill
- Somehow lock the door to new illegal immigration. Then integrate the 12 million undocumented immigrants already here with a drawn-out process that doesn't use the word amnesty.

“Gang of Eight plan” from 2013, which included Rubio and Schumer, was similar.

- For example, it proposed that we take away the 50,000 slots a year that U.S. gives away for the diversity lottery, and instead gives them out on a merit-based system.

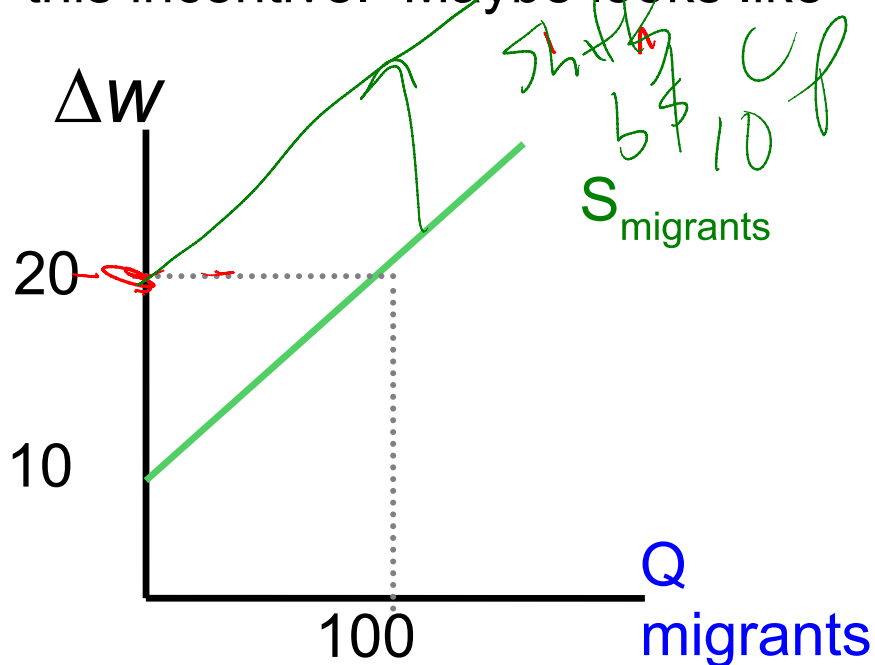
Migration and Wages



Wage incentive to move

$$\Delta W = W_{rich} - W_{poor}$$

Supply of migrants will depend upon this incentive. Maybe looks like



At $\Delta w = 0$, no one moves because of attachment to family.

Need the differential to get to

10 in this example before inducing migration.

Suppose the wage difference is \$20, then equilibrium migration is 100.

Now suppose the rich country imposes costs, making it harder to get in. (Trump's wall.)

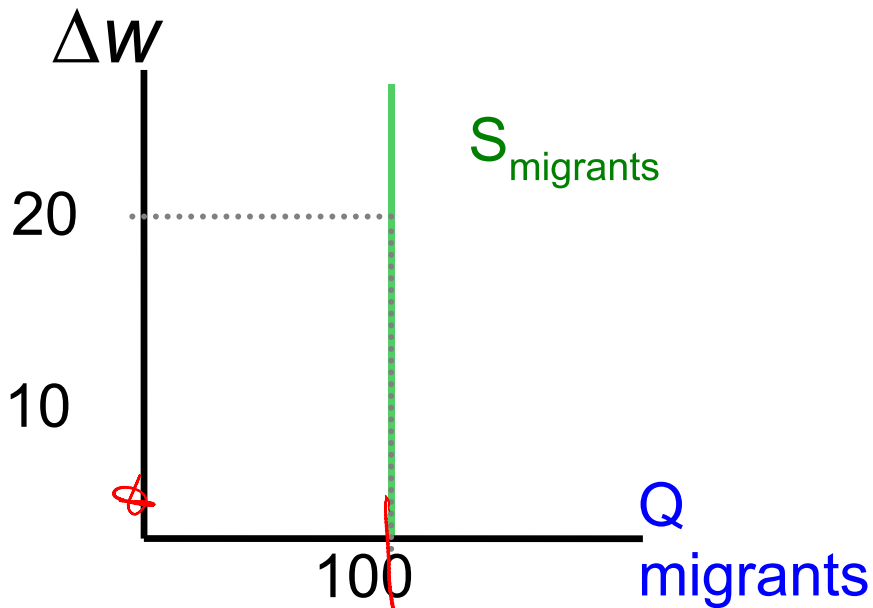
Suppose have to pay \$10 to a smuggler to get in. What happens to immigration?

Like a \$10 tax

But then what happens if the wage difference goes above \$20?

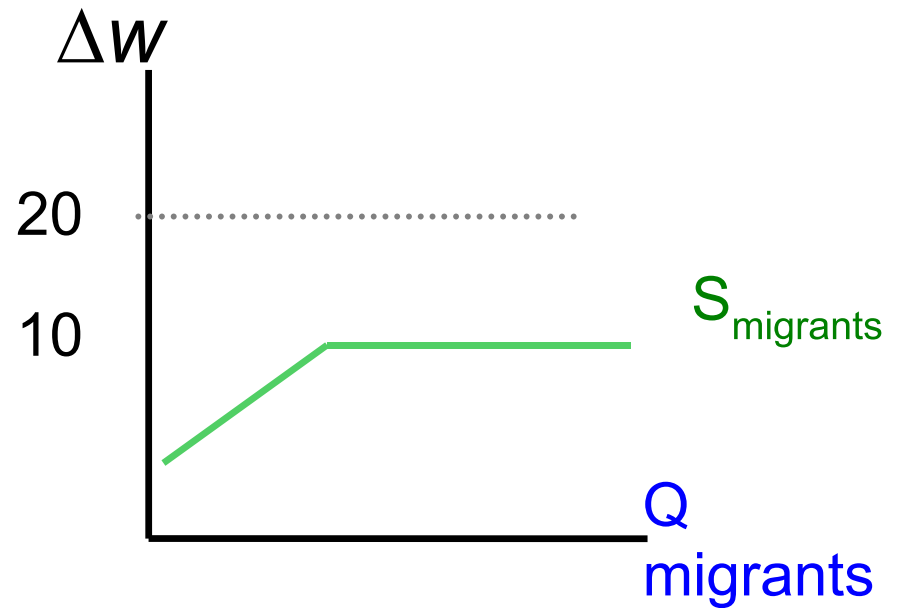
If wage difference is greater than \$20, there will be immigration, even if have to pay \$10 to smugglers.

Let's talk about the refugee crises throughout the world. Suppose the supply of migrants looks like this:



Imposing barriers obviously a bad idea. Get humanitarian disaster, and number of migrants is unchanged.

But suppose it looks like this, and there are no barriers....



Immigrants keep coming and coming, as long as the wage difference is above 10.

Capital Flows

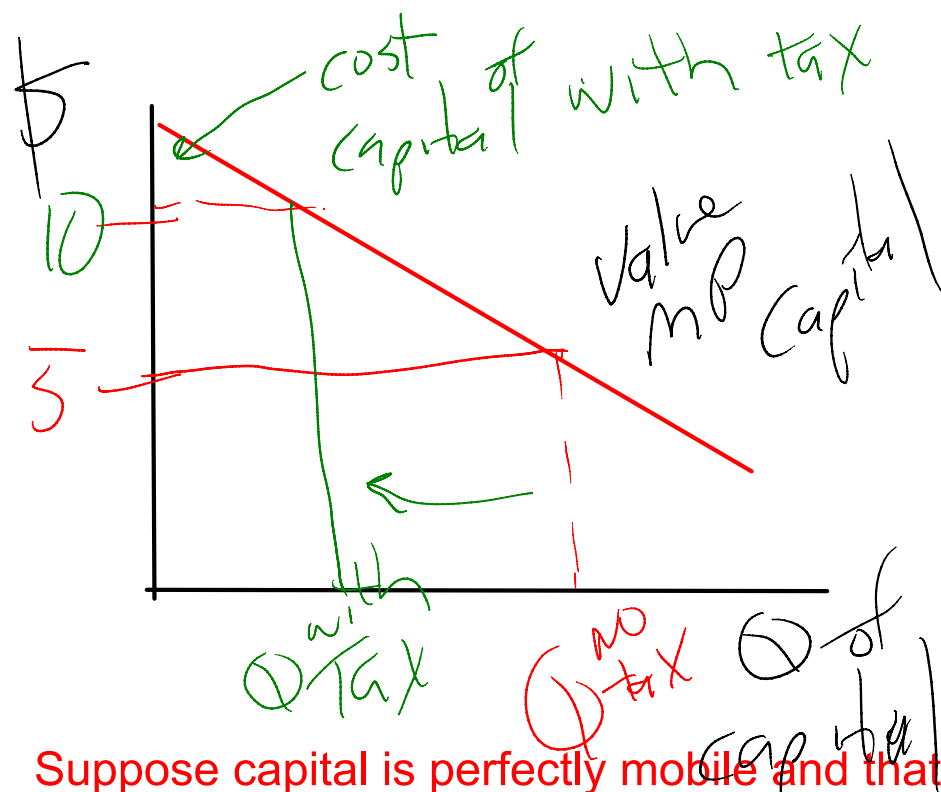
Like people, capital will try to move to seek the highest returns.

Usually easier to move capital than people.

Suppose a small open economy. Takes a given a fixed global rate of return on capital.

What happens when the country taxes capital?

In particular, what happens to the marginal product of capital?



Suppose capital is perfectly mobile and that the world return on capital is 5. If a small country has open borders, it will have to pay the world price of capital of 5. If the country puts a tax on capital of 5, it raises the cost of capital to 10. This lowers the equilibrium quantity of capital in the country.

Next look at labor markets. A reduction in capital, lowers marginal product of labor, lowering wages.

In equilibrium, what happens to the marginal product of labor?

lower
so wages lower

Compare all of these answers with a closed economy.

In the economy is closed, in the short run the supply of capital is relatively fixed. So effect on quantity is less. However, in the long run, there will be less investment and existing capital will depreciate.