Labour Mobility

- Interregional Migration
- Theoretical Models
  - Competitive
  - Human Capital
  - Search
  - Others
- Family migration
- Empirical evidence

International migration
- History and policy
- Labour market performance of immigrants

- Consider inter-regional migration first:

❖ Theories

- Competitive model
  - Very restrictive set of assumptions
    - no barriers to migration
    - perfectly flexible wages
    - perfect information about wages
  - Allocates workers to firms to maximise VMP_L
  - Mobility is simply a response to current wage differentials
    - continues until wages are equalised
• Doesn’t explain actual job movements very well
  ➢ Actual flows are far more complex
    – can be seen from gross and net migration figures
  • Neither has migration brought about convergence in UK wage levels
  • Could relax some of the assumptions
  • Migrants incur costs when migrating
    – pecuniary
    – non-pecuniary

➢ Both types increase with distance
  – most moves are short distance

➢ Higher income households will be better able to meet the financial costs

➢ Repeat and educated migrants may be better able to deal with the psychic costs

• Migration is selective
  – highest amongst younger workers

➢ Migrants respond to higher lifetime earnings rather than current earnings
- **Human Capital Model**

- Incorporates these features:
  - Includes costs
  - Allows for the longer time that younger workers have to recoup any losses
  - Potential migrants are assumed to weigh up all of the costs and benefits of migration

\[
R_y = \sum_{i=1}^{N} \frac{w_i - w_u}{(1+r)^t} \quad C_y = \sum_{i=1}^{N} \frac{C_i - C_u}{(1+r)^t}
\]

\[
P_V y = R_y - C_y
\]

- Migrate if \( PV_y > 0 \)

- Discount rate incorporates the influence of the migrant’s time preference

- This model can also explain perverse migration
  - But it maybe too successful in predicting migration because it includes all costs and benefits

- Can be extended by introducing other non-labour market variables
  - uncertainty and attitudes towards risk

- **Main defect**
  - doesn’t deal with the process whereby individuals acquire information

- Fundamental to understanding migration behaviour
• **Search Models**
  
  • Treats the migration process as a series of sequential decisions from a given set of opportunities
  
  • Migration viewed as the outcome of a series of search decisions
  
  • Very complex because of the number of destinations to choose from
  
  • Probability an individual migrates: \( P_{mnj} = A/B \)
    
    – \( A \) is the pull of region \( j \)
    
    – \( B \) is the countervailing pull of all other regions

• **Optimal stopping rules**
  
  – formulated in terms of *reservation wages*
  
  – an individual can either accept or reject an offer
  
  • Migrant chooses region with the highest reservation wage net of costs
  
  • Distinction between speculative and contracted migration is important
• Can incorporate certain important features of migration:

• Hiring behaviour of employers

• Unemployment

• Time lags

  ➢ The latter may be important in explaining why regional differentials have not been reduced because:
    – information has to get from the prosperous region to the potential migrant
    – of the response of the potential migrant to the information received and forming expectations of elsewhere
    – of the adjustment in the reaction to the expectations they have formed

• Others

• Random utility models

  • Utility function is partitioned into two components:
    – the behaviour of rational individuals
    – a random variable representing individual idiosyncrasies and factors which cause individuals to deviate from the representative person
    \[ U_{iw} = V_{iw} + \varepsilon_{iw} \]

  ➢ Can then work out the probability of moving to a certain location
    \[ P_{ij} = \frac{\exp (V_{ij})}{\sum \exp (V_{mj})} \]
• Integrates an explicit formulation of the error term into the individual’s decision making

• Main advantage:
  - Recognises heterogeneity is a part of life
  - explains the complexity of observed migration behaviour

• Gravity (spatial interaction) models
  - typically used in the geographical literature

• Based on Newtonian physics
  - push and pull of areas: $M = A_i B_j f(D_{ij})$

• Only explains aggregate flows rather than individual decisions

• Can be extended to include economic variables

• Psychological models

• Include variables such as stress which economic models ignore
• **Characteristics of migrants**
  - Migrants tend to:
    - be young
    - have qualifications
    - have no dependant children
  - Housing tenure is important
    - private renters most likely to move
    - owner occupiers could become locked-in
    - council tenants are least likely to be long distance movers
  - Migration for job reasons is highest for the unemployed

• **Family migration** (Mincer, 1978)
  - Most migration decisions are not made by single workers but by families or households
  - Migration occurs only if the whole of the household is better off (Fig.1)
  - Family will migrate if
    \[ PV^j_H + PV^j_w > PV^i_H + PV^i_w \implies \Delta PV^i_H + \Delta PV^i_w > 0 \]
  - Not all family members need positive private returns to move
    - explains why some migrants have moved even though they wouldn’t have done had they been single
  - Produces tied movers and tied stayers
Tied mover
- an individual moves even though they would personally suffer an income loss

Tied stayer
- person stays even though they would personally be better off moving

Rise in MFPR has had several effects:
- Migration rate of families with two wages is lower than single waged families
- Prospective employers can help with spouse’s job search
- Could have increased marital instability

For international migration, remittances are important (Stark, 1991)
- the household might decide which members should migrate e.g. those with the highest earnings potential
- **International migration**
  
  - Previously assumed no government barriers to migration but the government may want to restrict the flow of migrants from overseas
  
  - Fairly free flow of immigrants early last century
    
    $\Rightarrow$ Host country should gain (see Fig.2)
    
    – immigration surplus
    
    – but may lead to higher unemployment during recessions

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**Fig. 2: The immigration surplus**

- $L_d$
- $L_e$
- $L_s$
- $L_n$
- $A$
- $B$
- $C$
- $F$
- $N$
- $M$
- $w_0$
- $w_1$

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• UK:
  – open immigration policy until 1905 but emigration was much more important
  – influx of Caribbean migrants in 1950s in response to labour shortages
  – followed by an inflow of Asian groups
  – huge influx of migrants from Central and Eastern Europe (especially Poles) following EU enlargement in 2004

• US:
  – mass movement of European migrants between 1900 and 1920
  – declined in the 1930s to very small levels
  – increased steadily in the second half of the century

• Europe
  – experienced considerable migration in the post-war period
  – guestworker system was operated by some countries e.g. Germany
  – Immigration controls have got increasingly strict in recent years (for non-EU nationals)

• UK
  – British Nationality Act of 1948
  – Commonwealth Immigration Act of 1962
  – Immigration Act of 1971
  – Asylum and Immigration Act of 1993 => further tightened since 2004 enlargement but restrictions imposed on Bulgarians and Romanians in 2007
• US:
  – national-origins quota system in 1920s
  – introduced IRCA in 1986

• European countries have generally followed suit
  – some have bilateral and quota agreements with sending countries

⇒ Restrictions have led to a rise in illegal immigration

• Labour Market Performance of Immigrants
  • Early literature (Chiswick, 1978)
    – used cross sectional data
    – optimistic view => earnings of immigrants would eventually overtake those of natives since they are self-selecting
    – overtake after 14 years in the US and would earn 10% more than natives after 30 years
    – lower initial wages since they lack country specific skills
    – steeper age-earnings profile as they become assimilated (see Fig.3)
Later studies (Borjas, 1985)

- Stress importance of cohort effects
  - later groups of immigrants may be very different from earlier groups
  - may have lower age-earnings profiles (see Fig.4)

- Cross section data only shows one point on the age earnings profile
  - makes inferences about how an immigrant’s earnings evolve over time from a single snapshot
  - makes immigrants’ age-earnings profiles steeper than they should be
More recent cohorts typically earn less

- Schaafsma and Sweetman (2001) find a negative correlation between age at immigration and earnings in Canada:
  - work experience in home country yields virtually no return in the Canadian labour market
  - younger immigrants get a much higher return to education
- **UK evidence**
  - Chiswick (1980) reports that white immigrants had similar earnings to white natives
    - non-white immigrants earned considerably less => low returns to education and experience
  - Bell (1996) reports that the initial earnings of non-white immigrants are lower than non-white natives
    - assimilation takes place even after controlling for cohort effects
    - white immigrants have higher earnings than white natives but this declines with time in the UK

- But Drinkwater *et al.* (2006) report that recent Polish migrants have low earnings
  - tend to have poorer English language skills and stay for shorter periods
- Shields and Wheatley Price (1998) find that most immigrant groups have lower returns to schooling obtained in the UK
  - education attained abroad is less valuable for all immigrant groups than that obtained in the UK
  - labour market experience obtained in the UK is much more valuable for all groups than that obtained in the country of origin
  - no significant reward for labour market experience from own country
  - non-whites are less well rewarded for their schooling and experience
- Clark and Lindley (2006) report some evidence that non-white immigrants entering the UK at times of high unemployment have lower earnings