

## 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

$$R_{ij} = \sum_{t=1}^N \frac{W_{jt} - W_{it}}{(1+r)^t} \quad C_{ij} = \sum_{t=1}^N \frac{C_{jt} - C_{it}}{(1+r)^t}$$

$$PV_{ij} = R_{ij} - C_{ij}$$

- Migrate if  $PV_{ij} > 0$

- 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:  $P_{ij} = A/B$ 
  - 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 idiosyncracies and factors which cause individuals to deviate from the representative person

$$U_{hin} = V_{in} + \varepsilon_{in}$$

- Can then work out the probability of moving to a certain location

$$P_{hij} = \frac{\exp(V_{ij})}{\sum_n \exp(V_{in})}$$

- ♦ 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:  $M_{ij} = A_i B_j f(D_{ij})$
- ♦ 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

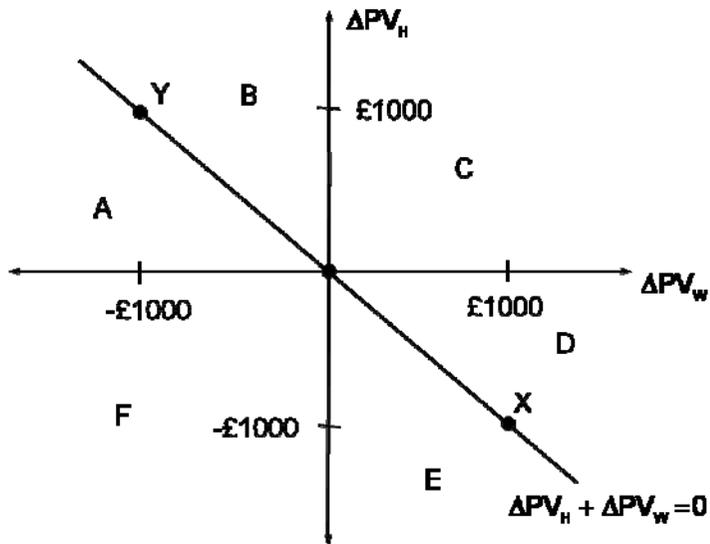
- **Family migration** (Mincer, 1978)

- 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

$$PV_H^j + PV_W^j > PV_H^i + PV_W^i \Rightarrow \Delta PV_H + \Delta PV_W > 0$$

- 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

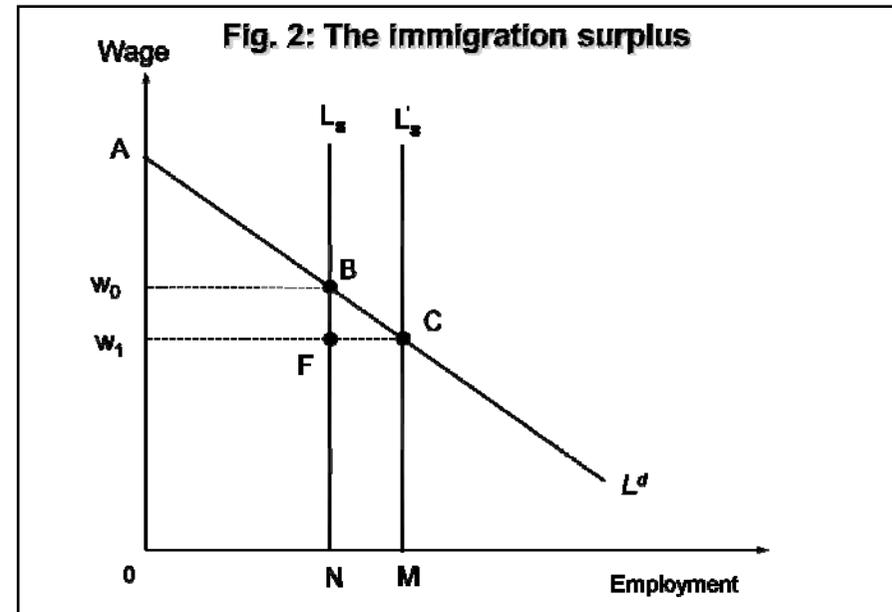
**Fig. 1: Tied movers and tied stayers**



- ♦ *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 singled 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
- ⇒ Host country should gain (see Fig.2)
- immigration surplus
  - but may lead to higher unemployment during recessions



- ♦ 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
  - EU nationals allowed to move freely (even following 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

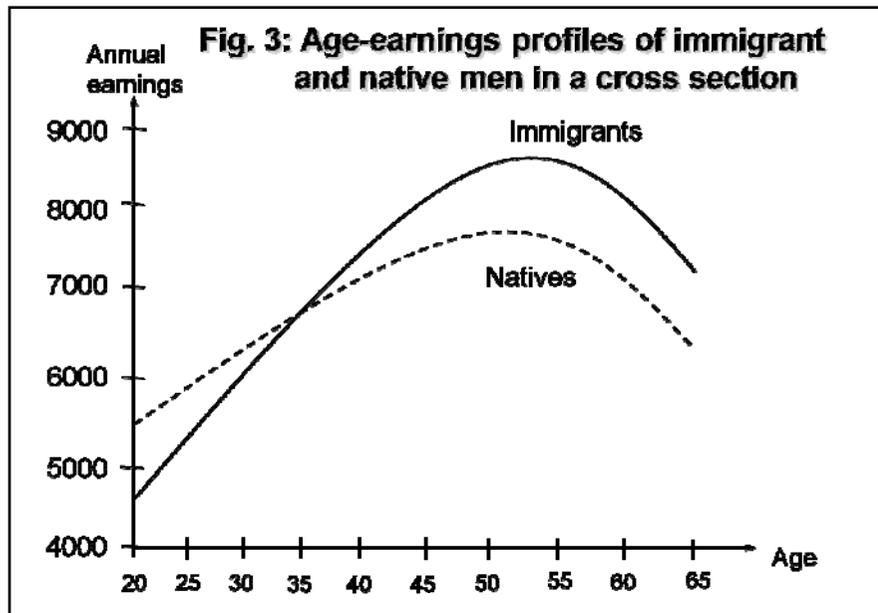
- some have bilateral and quota agreements with sending countries

⇒ Restrictions have led to a rise in illegal immigration

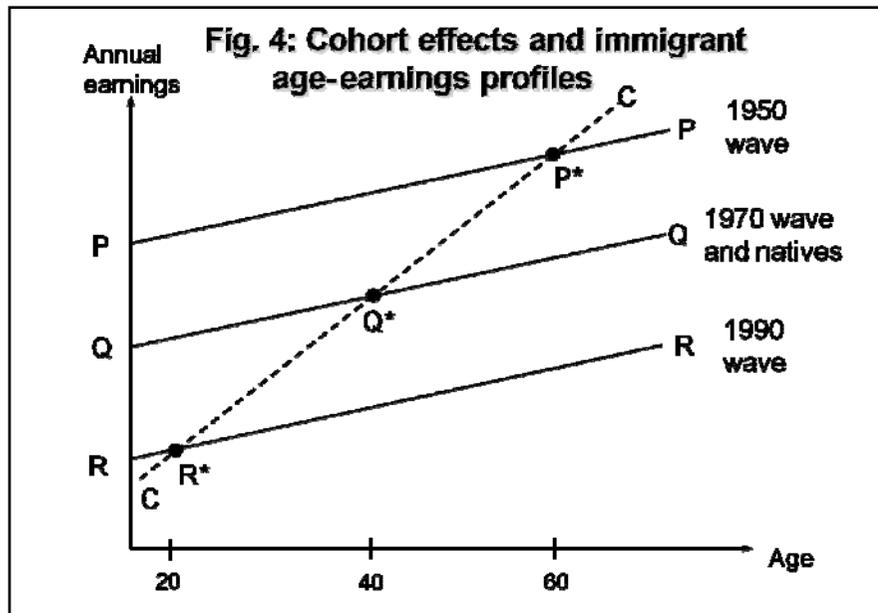
- **Labour Market Performance of Immigrants**

- *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