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Labor Economics

HW#2 *(Please type all answers)*

I.   Use Aggregate Labor Market diagrams to show the effect of immigration when (a) all workers have identical skills and (b) native and foreign workers have different skills.

With identical skills, ALS goes up and ALD stays the same, so wages fall. With different skills, both ALS and ALD go up, so wages could rise, fall, or stay the same.
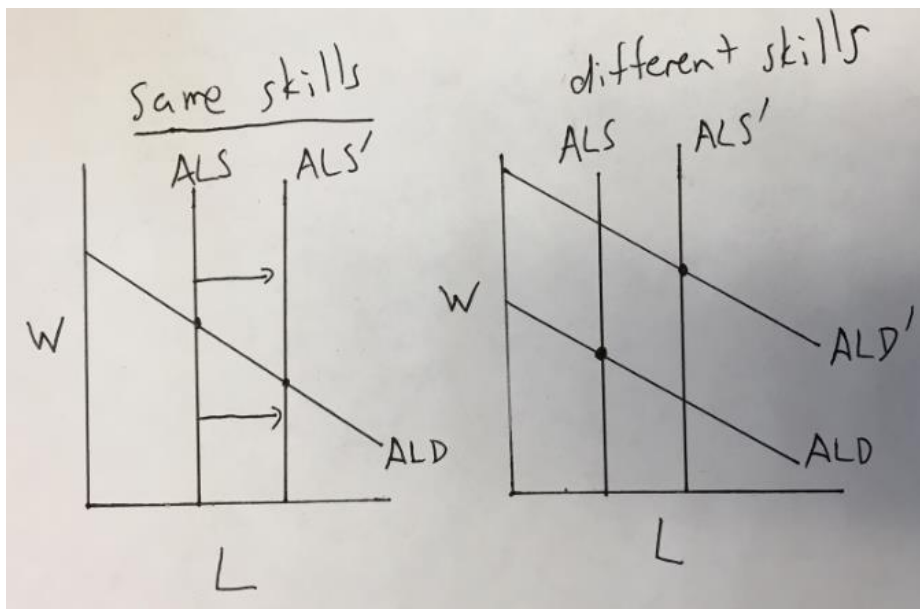
II.   Suppose that inside the United States, Americans and Mexicans workers can produce the following in a day.

	American Worker	Mexican Worker
Corn	4	2
Cars	4	1

Suppose that with immigration, one car sells for 1.5 bales of corn. Create a new table that shows how immigration effectively raises both Americans' and Mexicans' productivity.

With free immigration, Americans have a comparative advantage in cars, and Mexicans have a comparative advantage in corn. Both groups can therefore raise their effective productivity by specializing and trading. Like so:

	American Worker	Mexican Worker
Corn	6 (by trading 4 cars for 6 corn)	2
Cars	4	4/3 (by trading 2 corn for 4/3 cars)

III.   How would increased immigration from Mexico be likely to affect (a) U.S. workers in English-intensive jobs, (b) U.S. workers in non-English-intensive jobs, (c) U.S. capitalists and landowners, (d) Mexican immigrants, and (e) Mexicans who stay in Mexico? Why?

Everyone except for U.S. workers in non-English-intensive jobs benefits. U.S. workers in non-English-intensive jobs find that the S of competing labor increases, driving down wages. But for U.S. workers in English-intensive jobs, labor demand increases; for capitalists, the rate of return increases; and for landowners, demand for land and housing rises. Similarly, Mexicans who immigrate get higher U.S. wages; Mexicans who stay find that the S of labor in Mexico has fallen, raising wages. (You might also point out that Mexican capitalists and landowners, like U.S. unskilled labor, are worse off - though remittances immigrant workers mail home partly offset this).

IV.   Why are Clemens' estimates of the economic harm of immigration so enormous? Why are estimates of the economic harm of protectionism so much smaller? (1 paragraph)

Clemens estimates are enormous because (a) the international "price wedge" for labor is enormous – often over 1000%, and (b) labor is the most valuable economic input on Earth, earning 60-70% of global income. These two factors implies an astronomical deadweight cost. For ordinary protectionism, in contrast, the price wedge is much smaller for almost all goods. Furthermore, tradeable goods are a markedly smaller part of the global economy than labor. Multiplying these factors together implies that international restrictions on trade in labor have a much larger global cost than international restrictions on trade in goods.

V.   "Strict regulation of compensation has the same effect as legal restrictions on immigration." Explain the logic of this statement. Is there any important difference? (1 paragraph)

Strict regulation of wages, benefits, and working conditions lead to unemployment. High unemployment, in turn, discourages migration. What's the point of moving to a high-wage country if you can't actually get a job when you arrive. Furthermore, since immigrants usually have language difficulties or other disadvantages, they are likely to be far down the hiring queue when jobs are rationed. One important difference, however, is that labor regulations are easier to evade than migration restrictions. Sneaking into a country costs many thousands of dollars, and involves serious risks. Working in the gray or black market is cheap and easy by comparison.

VI.   Find an opinion piece in a newspaper or magazine that discusses immigration policy. Summarize what the author says. Which of the author's claims would Caplan be likely to dispute? To accept? (1 paragraph)

I read an op-ed by Reihan Salam in the *Washington Post*, entitled "Democrats Will Have to Contend With Poverty Eventually." Salam argues that Democrats are foolishly promoting both low-skilled immigration and a major expansion of the welfare state. Caplan would argue that Salam is correct to point out the problem, but overstates his case. According to current NAS numbers, even low-skilled immigrants are a net fiscal positive as long as they arrive young; it would take a *major* expansion of the welfare state to reverse this conclusion. Caplan's main objection, however, is that Salam casually accepts the idea that countries either have to (a) exclude an immigrant altogether, or (b) make him fully eligible for all government benefits. This ignores a far superior approach: welcome immigrants, but restrict their access to benefits. While many will denounce this path as "hard-hearted," it is far kinder than forbidding immigrants from coming in the first place. Caplan would particularly object to Salam's claim that, "once we welcome these newcomers into our society, many if not most will need refundable tax credits, food stamps, Medicaid and other government programs to stay out of poverty." On the contrary, most would-be immigrants are in severe poverty right now; migration is their path *out* of poverty, even if no government benefits are waiting for them in their new country.

VII.   What is the single best argument against open borders? What are the main weaknesses with this argument? Describe a cheaper, more humane way to address this problem without restricting immigration. (1 paragraph)

The single best argument is that immigrants bring their dysfunctional political culture with them. So when they vote, policies move in a dysfunctional direction. Key weaknesses: (a) Immigrants have low turnout; (b) When immigrants vote, they tend to support their new country's status quo out of inertia; (c) Immigration reduces *natives'* support for dysfunctional policies, because people don't like financially supporting outgroups. A cheaper, more humane way to address this problem is to admit immigrants as guest workers – eligible to live and work, but not to vote.

VIII.   Pick one real government redistributive program. Which rationale would proponents most likely use to justify it - return on investment, insurance, egalitarian, or externalities? How well does this rationale actually fit the facts about the program? (1 paragraph)

I picked subsidized student loans, where the government gives students educational loans at below-market interest rates. The main rationale is probably egalitarian - subsidized educational loans make it possible for lower-income people to go to college. There are several problems with the egalitarian rationale, however. For one thing, they are usually restricted to U.S. citizens; if the goal were really to help "poor students," the benefits would go to absolutely poor students in India or Zaire, not relatively poor students in the U.S. Moreover, on egalitarian terms, low-income people who *can't* succeed in college are needier than those who can, and are therefore more deserving of support.

IX.   Propose a change in immigration policy that would admit more immigrants without - on net - hurting *any* Americans. (Make a case that might persuade an "intelligent tribalist.") Your policies may involve redistribution to anyone you like as long as you specify tax changes to pay for it. (1 paragraph)

A simple idea: Auction off citizenship to the U.S. Then use the money raised in the auction to make lump-sum compensatory payments to adversely affected Americans. (If immigrants have trouble raising money to buy citizenship, they could consent to automatic payroll deductions instead). For example, you could charge $20,000 for U.S. citizenship, then use the revenue raised to create a "high school drop-out" fund that takes care of U.S. citizens without high school

degrees. This way, all Americans could enjoy the benefits of immigration, even those Americans competing most directly with the new immigrants.

X.   Find an opinion piece in a newspaper or magazine that relies on the "standard view of the welfare state." What aspects of the opinion piece would Caplan agree with? What precisely would he disagree with? (1 paragraph)

I read a 2017 book review by Chris Mullins' in *The Guardian* entitled "Bread for All." Most of the piece simply describes the historical development of the British welfare state. There, Caplan is unlikely to object. Caplan would however criticize Mullins for writing as if the welfare state was *the* crucial factor that brought material comfort to ordinary Britons: "During the first four decades of the 20th century, governments of all persuasions had begun to turn their attention to improving the education, housing and welfare of all citizens." Mullin never mentions economic growth or technological progress. Nor does he mention the extreme wastefulness of taxing everyone to help everyone via universal programs. Caplan would also object to Mullin's functionalism – the idea that the welfare state arose naturally as a "response to social problems." Why couldn't people have responded to these same problems by renewing their commitment to economic growth?