

GLOBALIZATION, MIGRATION AND DIVERSITY: THE 1990s Internet boom

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CIPS, ECON 3248 Migration and
Development, Fall 2018**

Migration can prolong booms and raise potential GDP via higher TFP

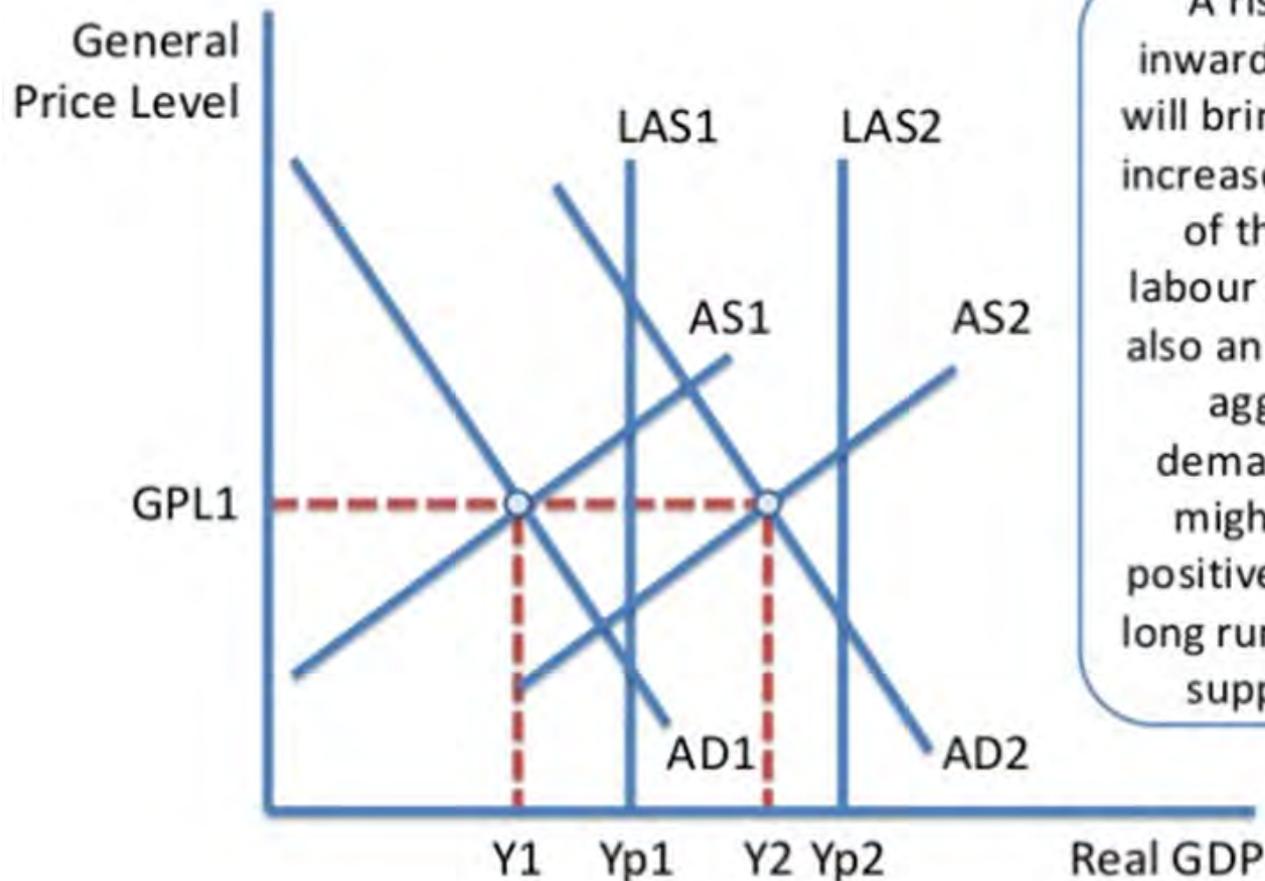
- Labor shortages created by booms raise wages & inflation prompting higher interest rate from the Federal Reserves.
- Migration, even of the [TPS variety](#), dampens wage increases making the boom last longer. If the boom is driven by investment (e.g. computers or fracking) the expansion last longer, driving demand for complementary domestic workers as well... see Clemens, M., & Pritchett, L. (2013). Time-bound labor access to the United States: [A four-way win for the middle class, low-skill workers](#), border security, and migrants. *Washington, DC: Center for Global Development.*
- **Migration of skilled workers** also shifts the PPF and LRAS curve (potential GDP) to the right via innovation: more inventions more patents due to diverse workers...

Migration can prolong booms and raise potential GDP via higher TFP

- **Migration of skilled workers** also shifts the PPF or LRAS curve (potential GDP) to the right via innovation: more inventions more patents due to diverse workers... see the CID “scrabble” or complexity theory of innovation and new technologies, it takes many different skills
- New empirical evidence that birthplace diversity leads to faster growth in U.S. States: see Docquier et al. 2018 Birthplace Diversity and [Economic Growth: Evidence from the US States](#) in the Post-World War II Period
- Strong empirical evidence birthplace diversity leads to faster growth across nations: see Alesina, A., Harnoss, J., & Rapoport, H. (2016). Birthplace diversity and economic prosperity. *Journal of Economic Growth*, 21(2), 101-138.

Migration can prolong booms and raise potential GDP via higher TFP (source: Econtutor w slideshare)

AD-AS Analysis & the Effects of Labour Migration



A rise in net inward migration will bring about an increase in the size of the active labour supply and also an increase in aggregate demand. There might also be positive effects on long run aggregate supply (LAS)

Longer Term Dynamic Effects of Migration

Waves of inward migration can have structural effects on a country's macroeconomic performance



Source: econututor2 migration and the economy

Long run growth: Complexity, diversity and development

- Ricardo Hausmann CID define technology as a complex of industries, or plans, programs and knowledge of how to use them:
- Advanced industry uses pools the knowledge of large numbers of his skilled but different workers to produce a complex goods: an iphone, or a 787 or a social media platform
- No single firm or person has the knowledge or knowhow to produce modern products, it takes many different people and firms working together (in a value chain...)

Immigration Macroeconomics Impacts

- Moderate wages during booms (e.g. late 1990s)
- Increase demand for housing, schools, services
homeowners revitalize cities (Buffalo, Utica, Lewiston)
- Fiscal Impacts: negative initially but positive in the long run (see [urban institute Table 3 p.11](#)).
- Evan's and Fitzgerald find net positive impact after 8 years... why is this a conservative estimate short-term and perhaps optimistic long term?

Research on refugee outcomes

TABLE 3

Key Research on Refugee Integration Outcomes in the United States

Authors	Title	Year	Group analyzed
Capps, Newland, Fratzke, Groves, Fix, McHugh, and Auclair	The Integration Outcomes of US Refugees: Successes and Challenges	2015	Refugees who arrived 1980–2011
Kallick and Mathema	Refugee Integration in the United States	2016	Somali, Burmese, Hmong, and Bosnian refugee communities who arrived 1982–2014
Fix, Hooper, and Zong	How are Refugees Faring? Integration at US and State Levels	2017	Burmese, Cuban, Iraqi, Russian, and Vietnamese refugees who arrived 1980–2013; analysis of the nation and 5 states (CA, FL, NY, TX)
Evans and Fitzgerald	The Economic and Social Outcomes of Refugees in the United States	2017	Refugees who arrived 1990–2014; separate analyses for arriving adults and arriving youth
New American Economy (NAE)	From Struggle to Resilience: The Economic Impact of Refugees in America	2017	Refugees who arrived 1975–2015

Complexity, diversity and Development

- This leads to the “scrabble” theory of technical change and productivity growth... [see his LSE slides](#), not just education, diversity & differences matter: team knowhow, as in JPL...
- See [the Albania video](#) and cities of Mexico... diversification of exports and ubiquity (competition).
- This theory applies to cities and to countries, even small countries like Chile, Cuba or Albania
- See Moretti, 2012, the Geography of Cities... but what about gentrification, you ask...

MEDA: a
CBO in SF
bought their
building so
their rent
would not go
up, see as
cities
gentrify
[WSJ, 2018](#)

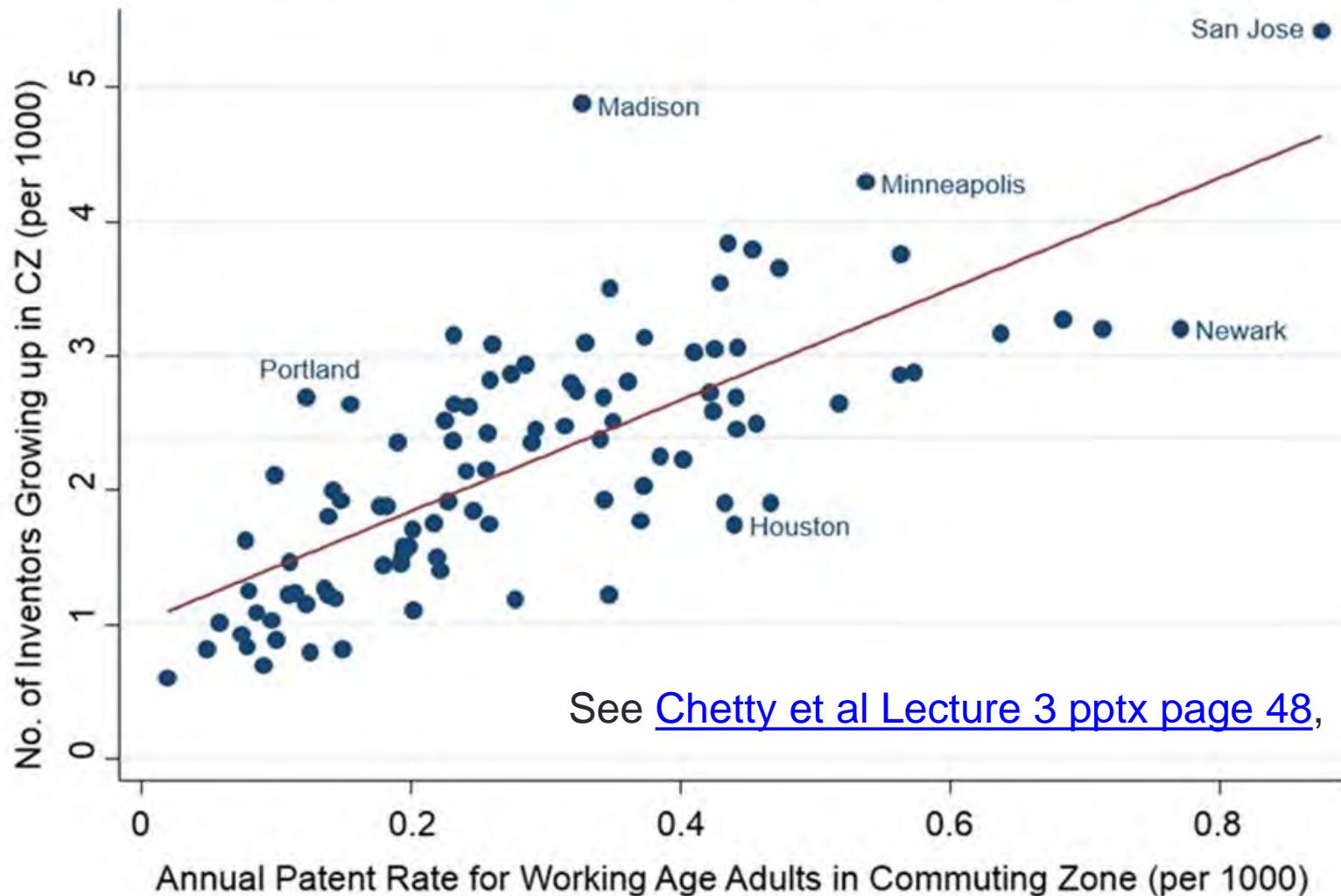


Complexity & diversity with Equity

- MEDA is the Mission Economic Development Agency used private funds to buy their building and keep their rent low
- **Sergio Martinez** (from Mexico 994) came to SF-CA in met **Ana Lopez** (from Peru- 1995) both crisis years in their countries they have a low income but have lived in the Mission
- Daughters **Ariana and Alyza** (pictured) are 17 in HS we hope
- Their son is Sergio just started at Princeton: 3 2nd Generation
- Some MEDA funding comes from Citi Foundation (\$500k) they sign agreements with other tenants to cross-subsidize low and high income families... compensation for redlining...
- The 2nd Generation Latino kids may not need MEDA funds, and may well be in the top quintile (social mobility...)
- *Lazo, Alejandro and Laura Kusisto (2018) [As Cities Gentrify, Public and Private Efforts Sprout to Help Families Stay WSJ May 1st 2008](#)*

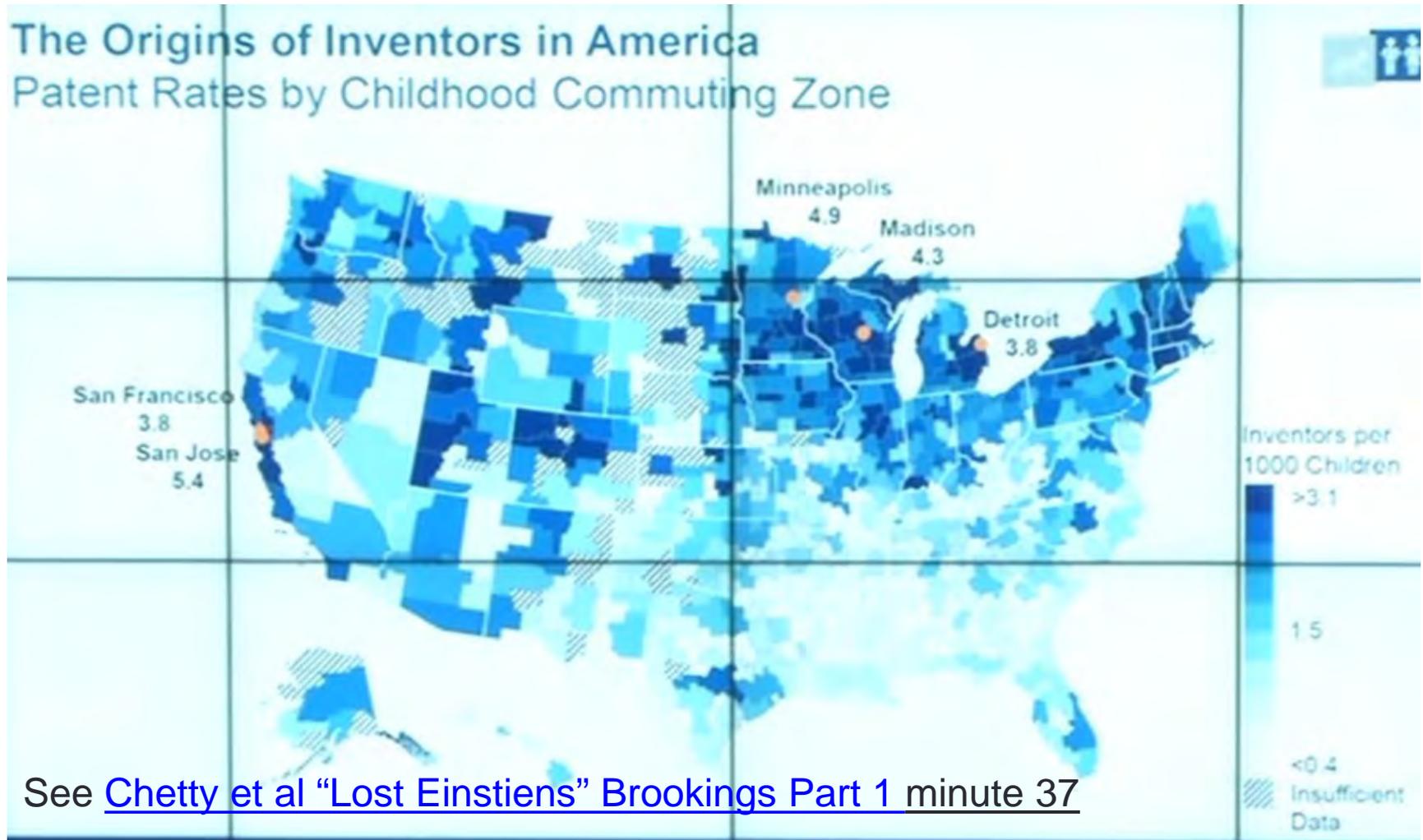
2nd Gen may work in high tech cities with large immigrant populations

Patent Rates of Children who Grow up in an Area vs. Patent Rates of Adults in that Area



See [Chetty et al Lecture 3 pptx page 48](#),

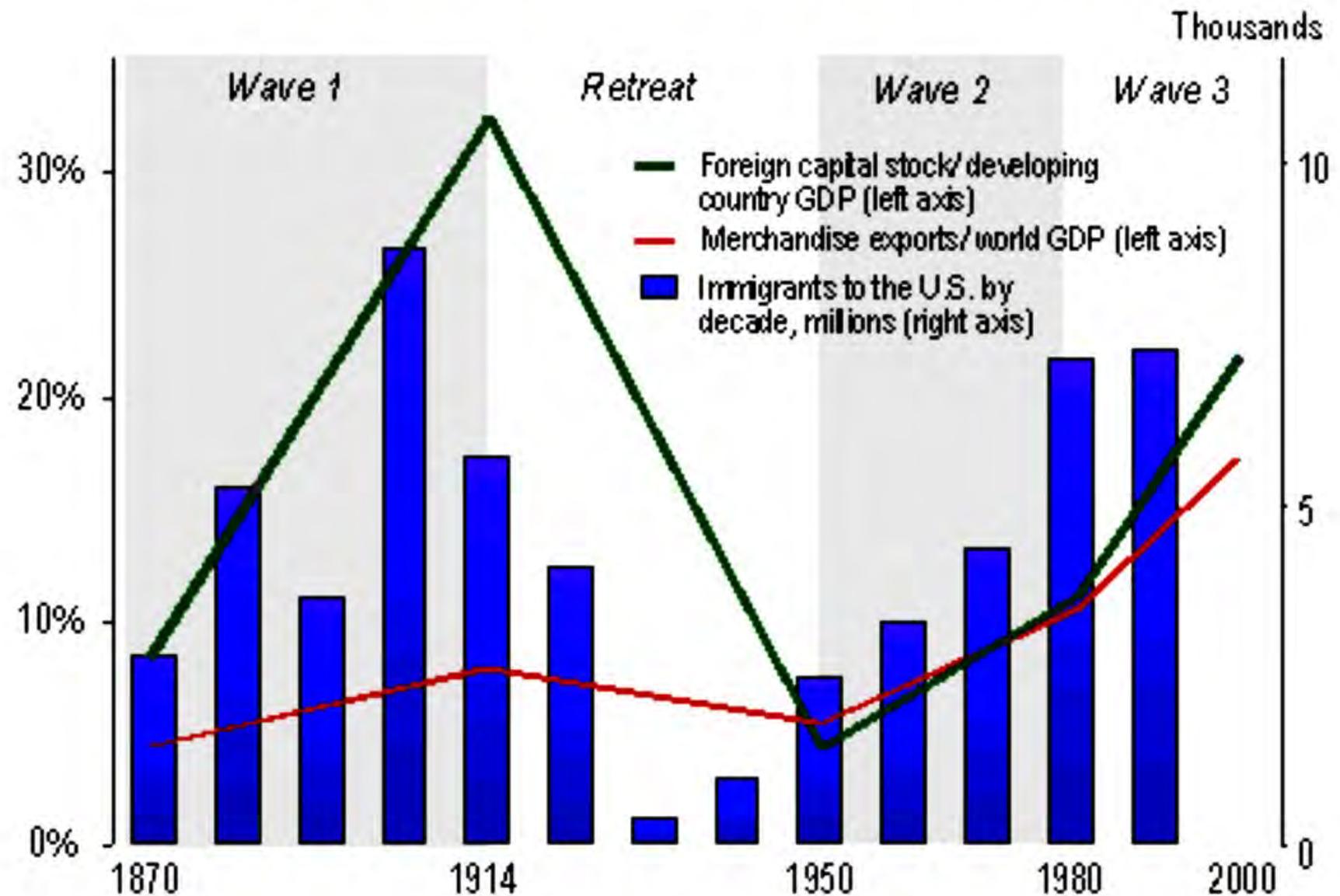
2nd Gen may work in innovation hub cities with large immigrant populations



References:

- Alesina, Alberto, J Harnoss, and H. Rapoport.(2016) "[Birthplace diversity](#) and economic prosperity." *Journal of Economic Growth* 21, 101-38 ([cited by 233](#))
- Clemens, M., & Pritchett, L. (2013). Time-bound labor access to the United States: [A four-way win for the middle class, low-skill workers](#), border security, and migrants. *Washington, DC: Center for Global Development*.
- Docquier, Frédéric, Riccardo Turati, Jérôme Valette, and Chrysovalantis Vasilakis. (2018) "Birthplace Diversity and Economic Growth: Evidence from the US States in the Post-World War II Period." (2018).
- Ortega, Francesc, & Giovanni Peri (2014) "Openness and income: The roles of trade and migration." [Journal of International Economics](#) 92, 2: 231-251.
- Ottaviano, G.I.P., Peri, G., 2006. [The economic value of cultural diversity: evidence from US cities](#). *J. Econ. Geogr.* 6 (1), 9–44 (cited by 838)
- Peri, G., 2012. The effect of immigration on productivity: evidence from U.S. states. *Rev. Econ. Stat.* 94 (1), 348–358.
- Peri, G., Sparber, C., 2009. Task specialization, immigration, and wages. *Am. Econ. J. Appl. Econ.* 1 (3), 135–169

Three waves of globalization



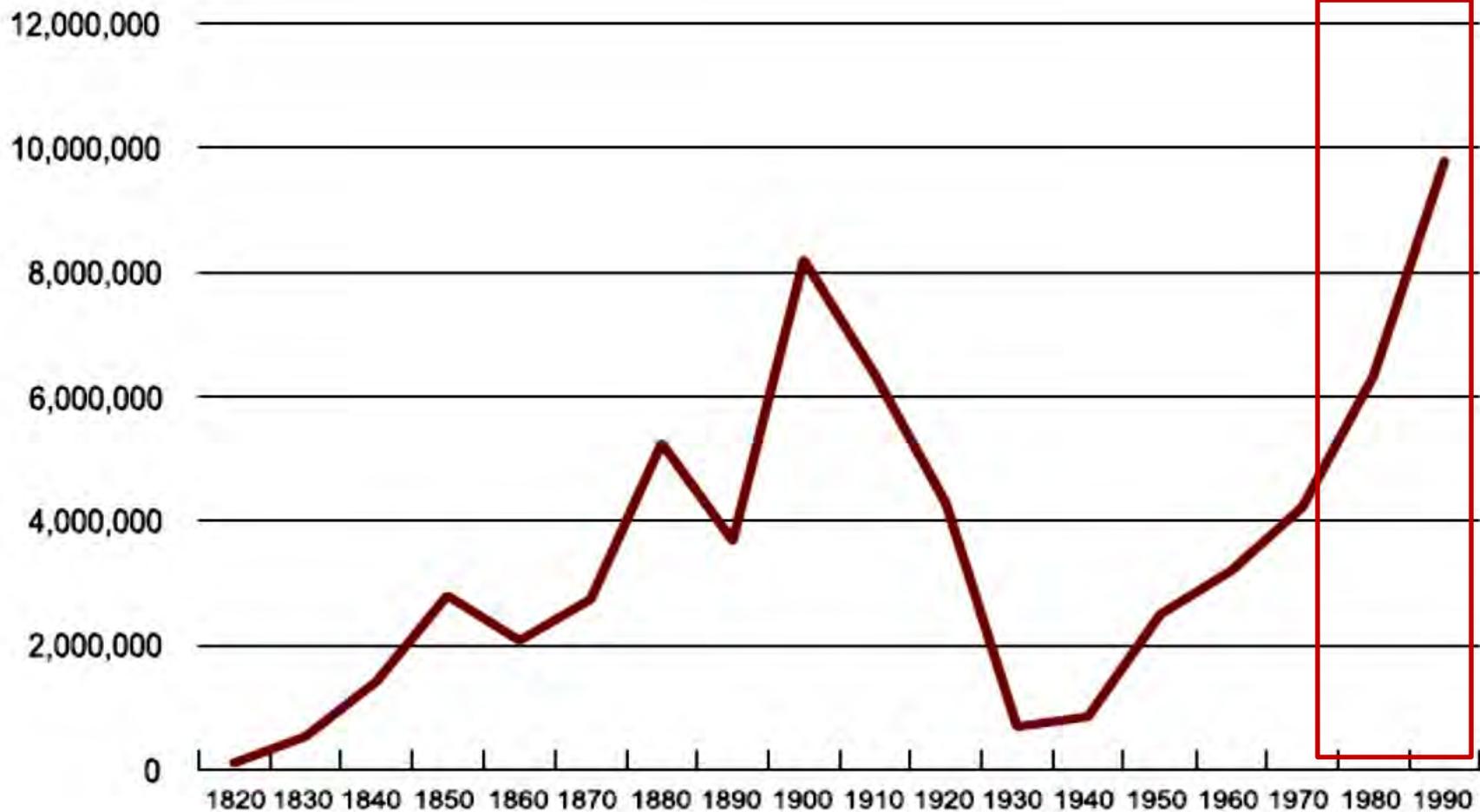
The 1990s Globalization experiment

- During the 1990s **trade, immigration and capital flows** rose dramatically partly due to trade agreements such as the WTO, NAFTA, CAFTA, AGOA and Caribbean Basin Initiative.
- Urban economy profoundly transformed by switch from manufacturing to services (see Fuentes, 2011)
- Many including WJ Wilson, 1998, *When Work Disappears...** predicted globalization would be hard on the U.S. workers and especially the poor, but it was not...

* William Julius Wilson, 1998, [When Work Disappears: New Implications for Race and Urban Poverty in the Global Economy](#), CASE Centre for Analysis of Social Exclusion CASE paper 17 London School of Economics November 1998 Houghton Street London WC2A 2AE

Immigrants in the U.S. by Decade

Saiz (2005) [immigration and U.S. Cities \(Phil reserve bank\)](#)

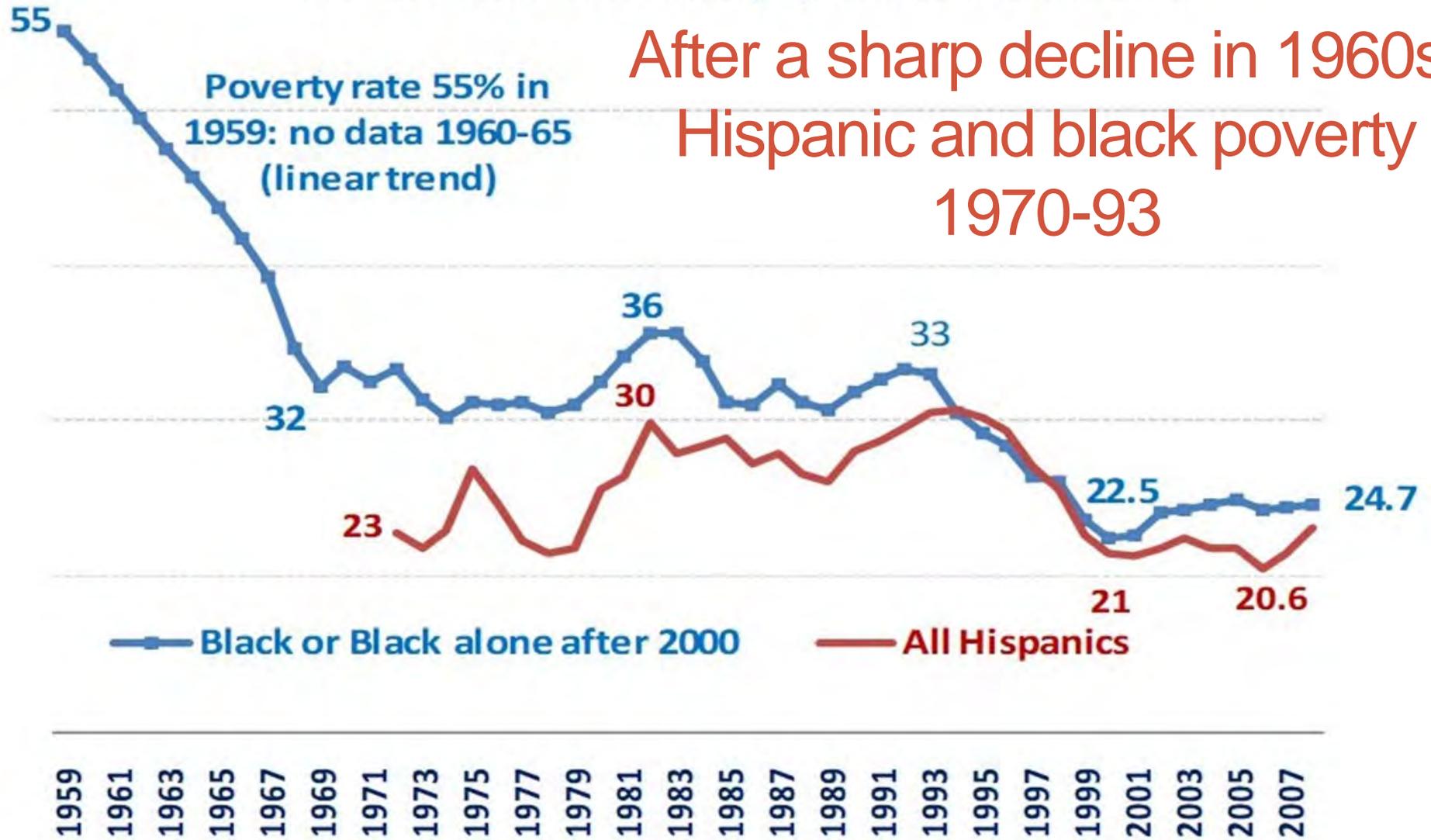


Immigration to major U.S. cities

- U.S. labor force expanding at both ends, but not in middle, what Autor (2011) calls polarization,
- High skilled immigrants increase U.S. competitiveness in key technology industry, Most hi-tech firms founded/run by immigrants (see Peri et al. 2015...)
- Rising skill gap in wages encourages more to stay in school by rewarding college degrees.
- Population increases in migrant center cities driving up rents, but not faster than wages (see David Card (2007) Immigration and U.S. Cities and Saiz (2005) Immigration and American cities)

Figure 8: Poverty rates for Hispanics and African Americans fell sharply in the 90s & 60s

After a sharp decline in 1960s, Hispanic and black poverty 1970-93



Source: U.S. Bureau of the Census, CPS, Annual Social and Econ Supplements

Evidence that neighborhoods “cause poverty” (or do people move to poor neighborhoods because they are poor?)

- [The 1960s CHA-Gautreaux project](#) relocated 342 Chicago public housing residents all over the city and suburbs: those sent to suburbs found better jobs, schools and community services. Who was [Dorothy Gautreaux](#)? What famous leader lived in [Cabrini-Green](#), what happened to [Cabrini-Green](#) homes in 2005?
- Crane: high risk behavior: teenage pregnancy and high school dropout rates higher in poor neighborhoods even after controlling for income and other SES variables...
- MTO experiments in the 1990s: but studies at first find Section 9 vouchers did not work but in 2017 revisit and find larger long term benefits for children, see [EOP-Chetty big data course](#)

Neighborhood effects can be overcome with college recruitment (Morgan & Lang) and/or very low unemployment rates... the 1990s boom and educational mobility programs

- Sharp decline in urban Poverty and welfare caseloads during the late 1990s (see Jargowsky “[stunning progress, hidden problems...](#)”)
- Jargowsky and Bain: a few cities dominate urban poverty— the decline of cities leads to urban poverty.
- Osterman: In Boston's tight labor 1980s labor market urban poverty fell (nationwide in the 1990s)
- [Kathy Morgan](#) and [Eugene Lang](#)— it did not take much (counseling and scholarships) to get some out of the “culture of poverty” or bad neighborhood...

Changes in housing policy helped reduce concentrated urban poverty too...

- Welfare reform: TANF ended long term welfare commitment to single mothers.
- Housing policy shifts: large housing [projects torn down](#), replaced with Section 8 rent subsidies or lower density public housing; homeless shelters moved to the outer urban ring...([Angela Mooney Pictures](#))
- Housing subsidies switched to vouchers, section 8 rent subsidies can be used almost most everywhere but in the central cities...

Policies to reduce Urban Poverty & the underclass...

1. **Welfare reform:** reduced nonmarital births and welfare dramatically in the 1990s.
2. **Counseling/scholarships:** private sector efforts to help kids get access to college: [Kathy Morgan](#) and [Eugene Lang](#)
3. **Lower unemployment** and poverty in the 1990s especially among African and Hispanic Americans helped a lot.
4. **Reducing crime** reduces “Statistical discrimination”... [Wilson’s “new racism”](#): discrimination and social “profiling” by race diminishes, but zip code still matters...
5. **Changes in housing policy:** [large projects torn down](#), switch to rent vouchers (section 8) that can be used in suburbs or anywhere in city...where jobs and good schools available

Does Globalization hurt the Urban Poor most?

See Wilson: *Urban Poverty in a Global Economy...*)

- Immigration of unskilled workers creates competition for low wage jobs, as in Borjas but it also creates jobs (see Ottovani et al)
- Globalization brings cheap imports also reducing low wage manufacturing jobs (but cheap imports help the poor, “the Wal-Mart effect.”)
- Education premium increases due to skills bias of services, but language is a big advantage.
- Inequality increased in the 1990s, but urban poverty and non-white unemployment also fell sharply, and this increase ignores cheap imports...

Why globalization helped rather than hurt the poor in the 1990s...

1. Imports and of goods and workers alleviated shortages and sustained a record long boom so unemployment fell sharply from.
2. Welfare policy changed to encourage work and relocation out of high poverty urban areas...
3. Immigrant complements domestic workers competing at lowest and higher skill levels and tend to raise wages of native workers
4. Cheap imports of manufactures leave more to be spent on services: example cheap clothing...

1990s: the longest boom...

- ***The 1993-99 expansion was longest peacetime economic boom for U.S. economy ever, normally*** labor shortages and higher prices force the Fed to raise interest rates but this time shortages were met with more immigration (Mexican had Peso crisis) and cheap imports from Asia (also in crisis).
- In December 1996: Fed Chair Alan Greenspan complains of “irrational exuberance” propelling rising stock prices— ***(ex Fed governor Meyer says the Fed considered raising interest rates to cool the boom in 1997, but then currency crises hit Asia in 1997 and Russia, Brazil and Argentina in 1998.***
- Simultaneously, the internet/tech boom greatly increase demand for high skilled immigrants (including founder of Google)

What W.J. Wilson (and others) thought would happen...

- **Cheap imports from China reduce U.S. light manufacturing jobs reducing job opportunities for less skilled workers...**
- **New immigrants and outsourcing take service jobs from less skilled workers**
- **Result: poverty will increase among most vulnerable groups, young unskilled workers, urban poor, single mothers...**

What actually happened?

- Unemployment fell to lows not seen since the booming 1960s (under 4%)
- Urban concentrated poverty in high >40% poverty urban areas fell by one third (see Paul A. Jargowsky Stunning Progress **hidden problems** 2004)
- Poverty fell fastest among African and Hispanic groups – sharpest decline since 1960s driven by a sharp fall in unemployment (See 2000 CEA report pp. 187-98)

Unemployment fell from almost 8% in 1993 to under 4% in 2000

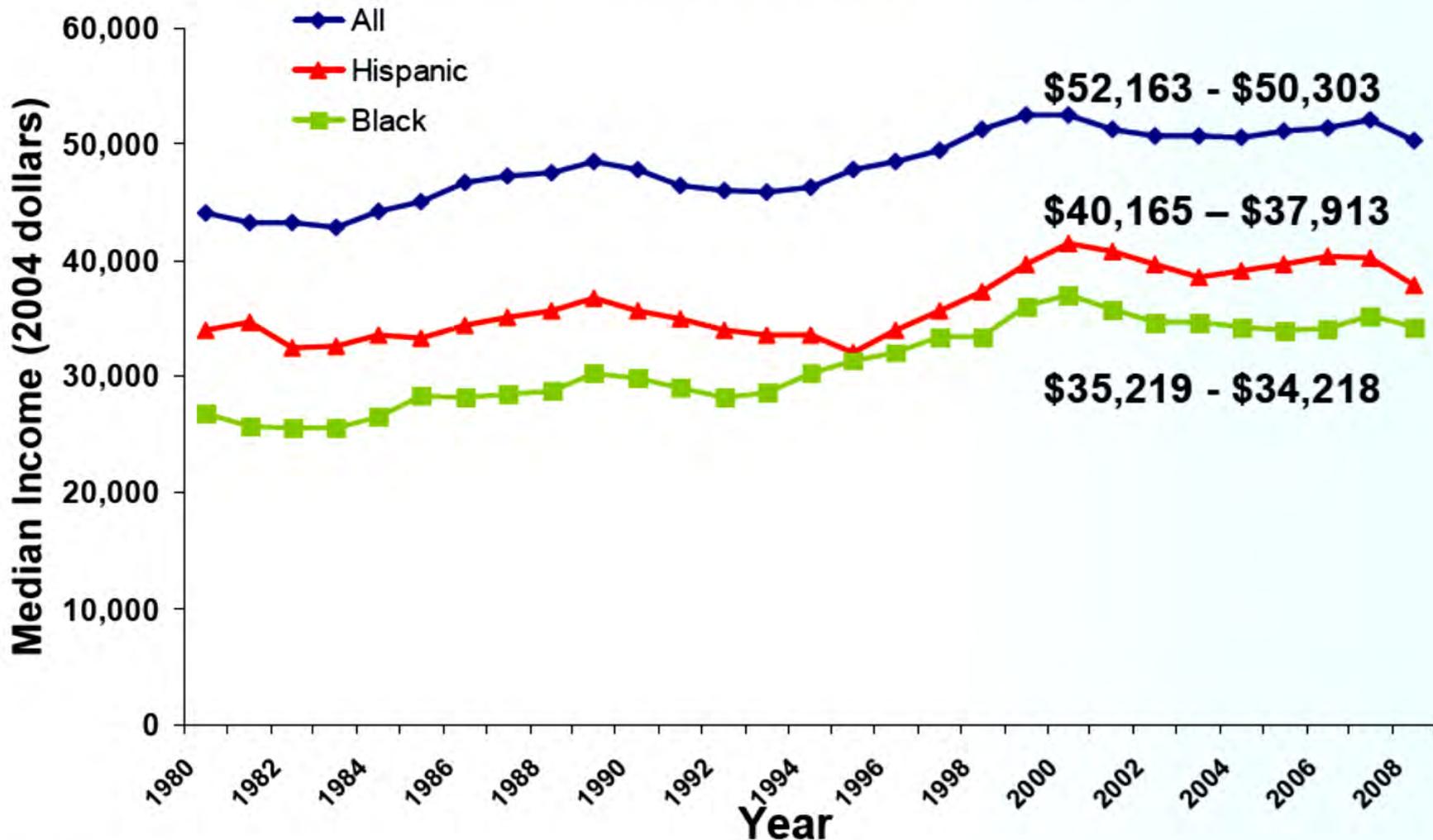
Unemployment rate - Seasonally Adjusted [?](#)



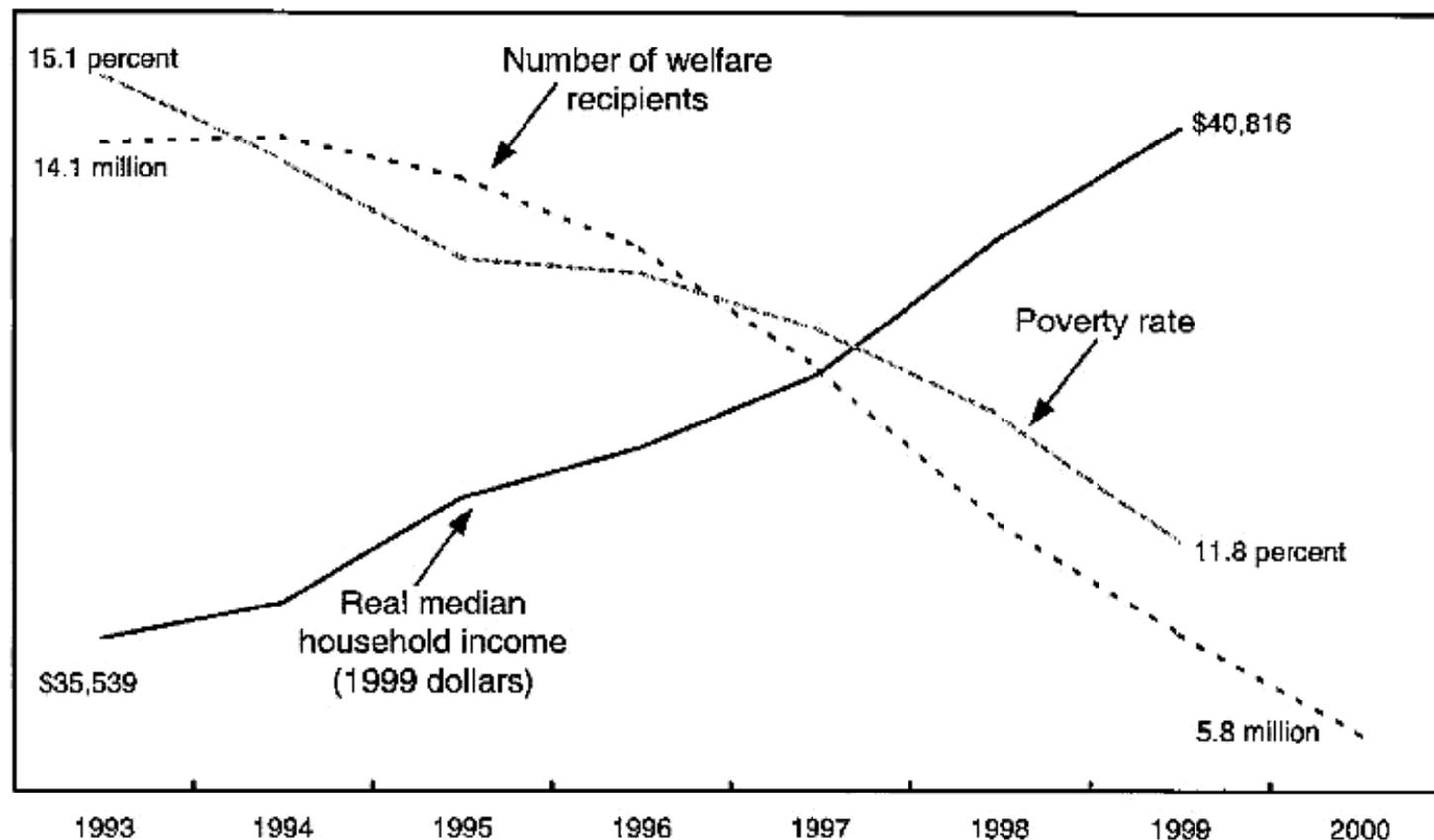
Data from U.S. Bureau of Labor Statistics Last updated: Jun 15, 2012

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Median Income for All, Hispanic and Black Households, 1980 – 2008



Improvements in Income, Poverty, and Welfare Reciprocity



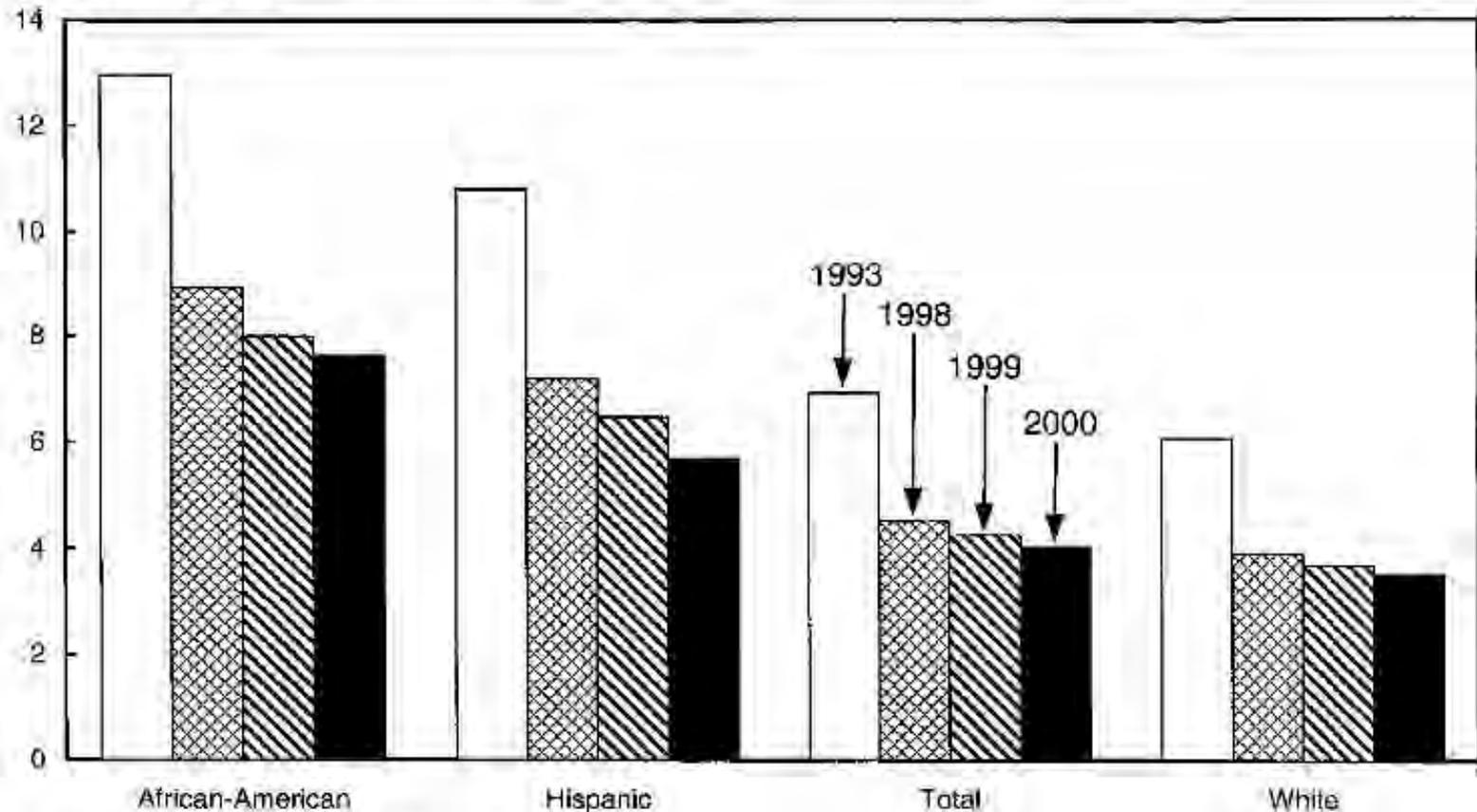
Note: Annual figure for welfare recipients is the average monthly number, except for 2000 which is the June number. Real income is computed using the CPI-U-RS.

Sources: Department of Commerce (Bureau of the Census) and Department of Health and Human Services.

Strong economic growth since 1993 has raised incomes, lowered poverty, and helped reduce welfare rolls.

Job opportunities grew after 1993, and the African-American and Hispanic unemployment rates reached record lows in 2000.

Chart 5-1 Unemployment Rates by Race and Hispanic Origin
Percent of labor force

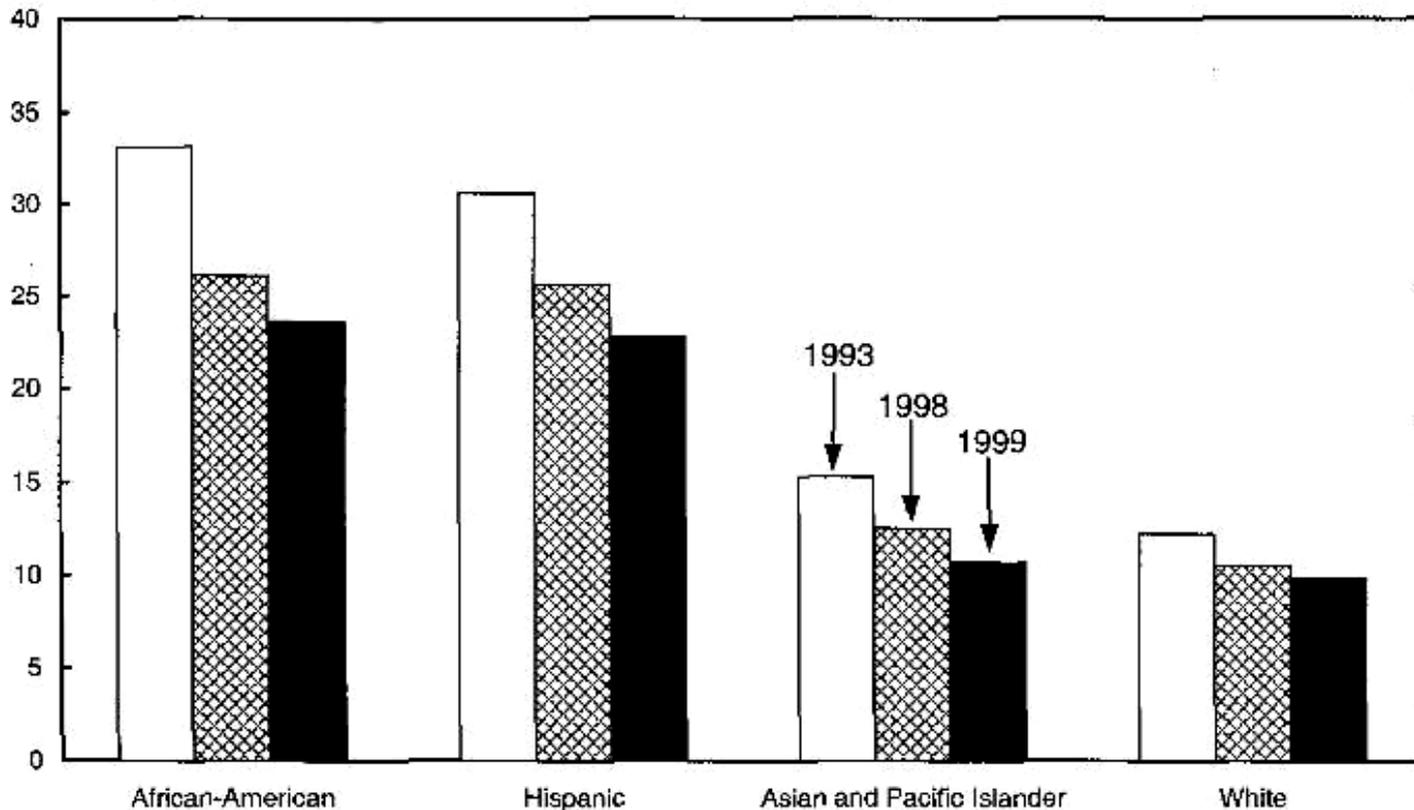


Note: Figures for 2000 are 11-month averages.

Source: Department of Labor (Bureau of Labor Statistics).

Poverty rates fell for all measured racial and ethnic groups after 1993, with the largest declines for African Americans and Hispanics.

Chart 5-2 Poverty Rates by Race and Hispanic Origin
Percent of population

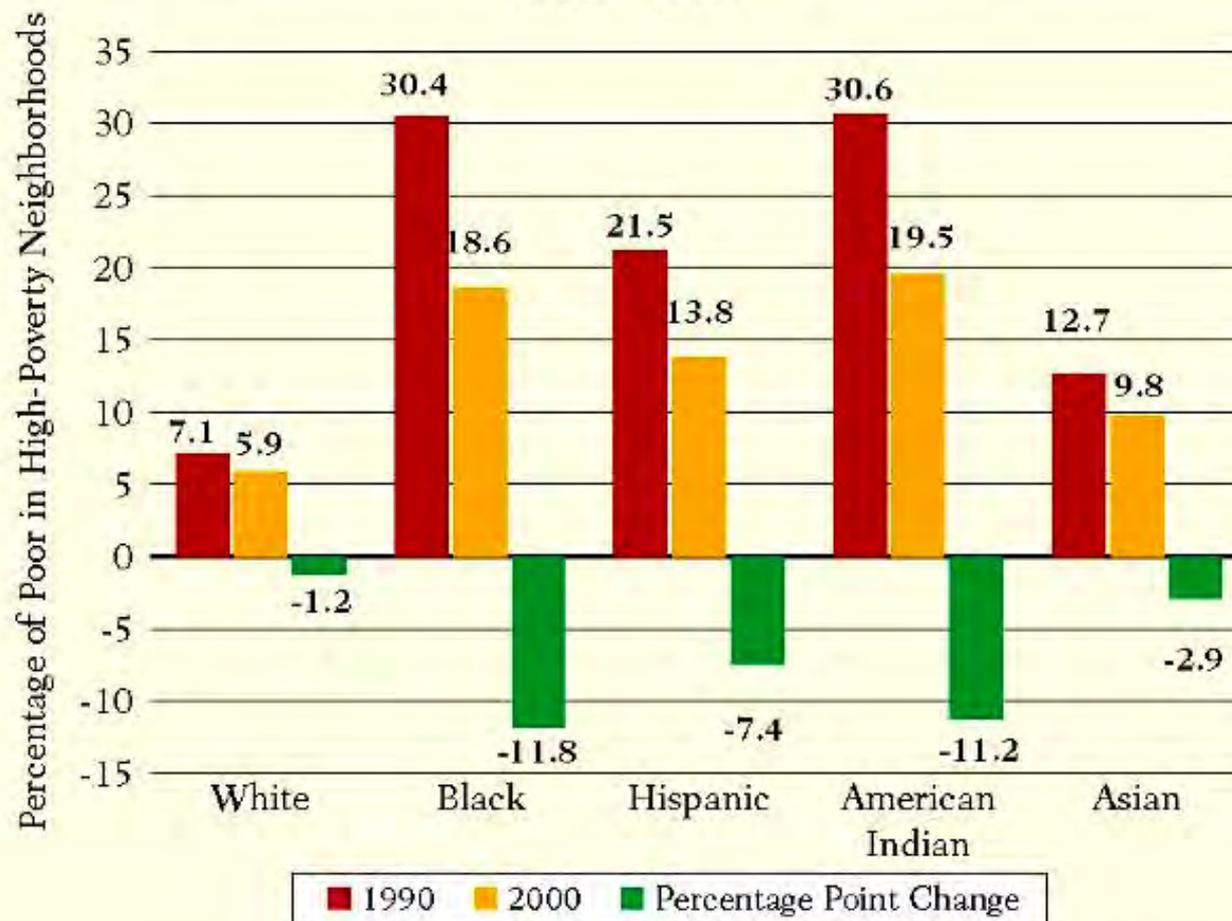


Source: Department of Commerce (Bureau of the Census).

Source: U.S. CEA Economic [Report of the President 2000 Chapter 5](#).

Poverty became less concentrated in urban high poverty areas...

Figure 8. Concentration of U.S. Poor by Race/Ethnicity, 1990–2000



Source: P. Jargowsky (2004) "[Stunning Progress, Hidden Problems](#)"

But what about the U.S. trade deficit?

- Some gains from 1990s have eroded: poverty is now 12.3% in 2006 up from 11.3% in 2000 but has not risen to over 14% as in the early 1990s.
- Unemployment and inflation remain low: job creation has slowed since 2001, but unemployment just reached 5%.
- Big trade deficit finance by China's accumulation of U.S. debt (> \$1 trillion reserves): helped keep interest rates low fueling long housing boom— now over but this is not China's fault...
- Employment continues to expand in services as manufactures get cheaper

Welfare reform and demographic change also help reduce poverty

- 1996 welfare reform (TANF) & employment boom **reduced families on welfare by half...** reduced access of immigrants
- Pre and post-transfer child poverty fell...as did poverty in female headed households.
- **Birth rates to single and teenage mothers** slow— and marriage rates stopped falling
- **Crime rates fell dramatically** in major cities

What about immigration?

- Cities that receive immigrants have higher average wages for natives (not foreign born) but more wage inequality (see Card and Saiz below)
- Skilled wage gap encourages more to stay in school by rewarding college degrees.
- Population increases in migrant center cities driving up rents, but not faster than wages (see David Card (2007) [Immigration and U.S. Cities](#) and Saiz (2003) [Immigration and American cities](#))

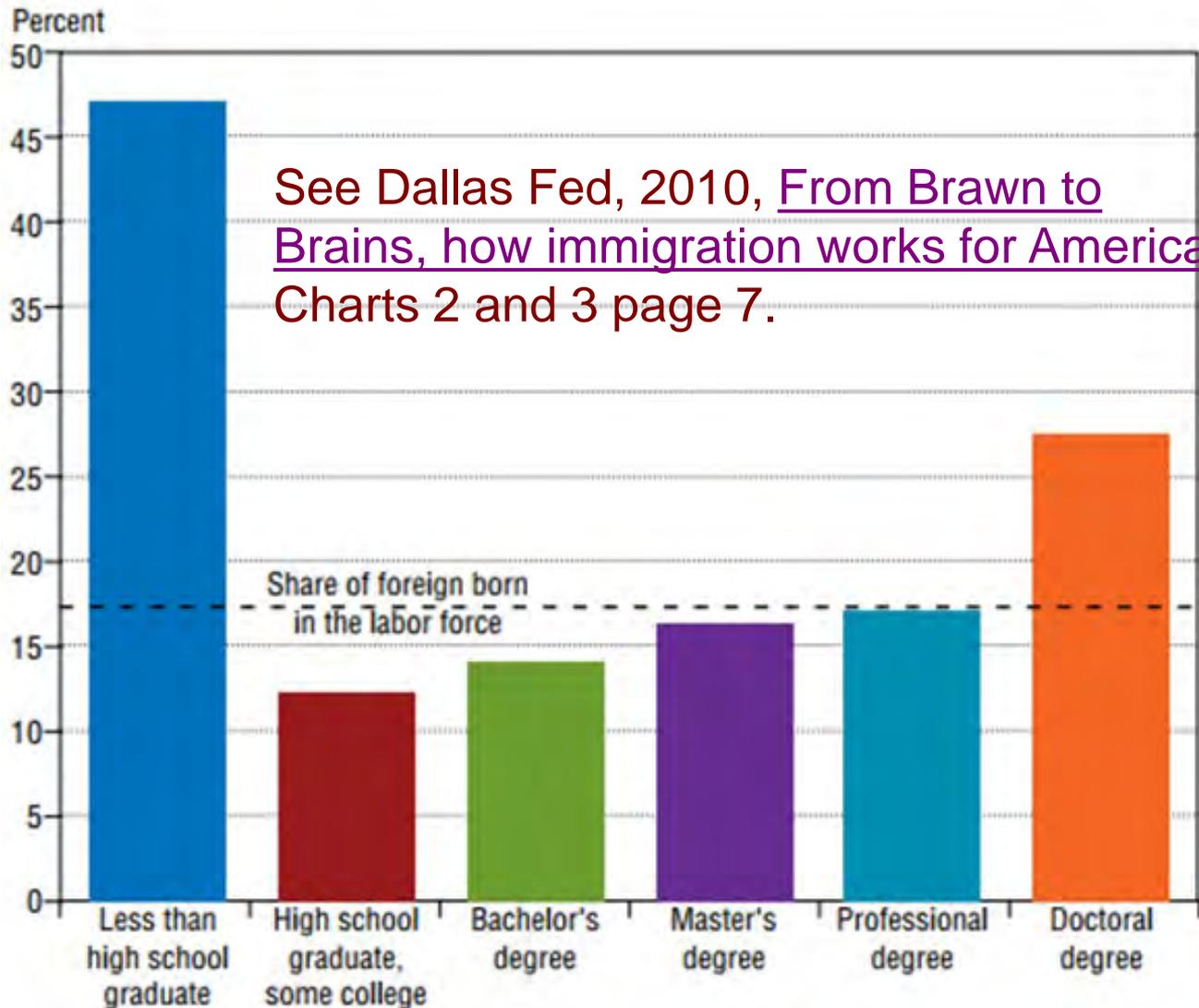
Economics of immigration (cont)?

- U.S. labor force expanding at both ends, but not in middle, what Autor (2011) calls polarization,
- Skilled immigrants increase U.S. competitiveness in key technology industry, Steve Jobs aside, many hi-tech firms founded/run by immigrants.
- Skilled wage gap encourages more to stay in school by rewarding college degrees (see Hunt (2007))
- Population increases in migrant center cities driving up rents, but not faster than wages (see David Card (2007) Immigration and U.S. Cities and Saiz (2005) Immigration and American cities)

Fiscal impact of Immigration reform

- Immigrants work and pay taxes, especially if given TPS (as with DACA) this increases tax revenues and reduces the Federal Deficit (See the [2015 CBO report](#) summarized [here](#) or skim the full report accessed here.

Immigrant Workers Overrepresented at Extremes of the Education Distribution



NOTE: Percentage of foreign workers age 25 and over in the U.S. labor force by education.

Table 1: Immigrant and Minority Presence in Top U.S. Cities

	Population (in thousands)	Share of US Pop. (percent)	Immigrant Presence		Overall Minority Share (percent)
			Immigrants (percent)	Second Gen. (percent)	
All US	299,398	100.0	12.1	10.6	33.1
Outside Top Cities	194,311	64.9	6.8	7.5	26.1
Top Cities	105,087	35.1	26.9	19.8	45.9
By City (CBSA):					
New York	18,819	6.3	26.9	18.8	47.2
Los Angeles	12,950	4.3	35.0	24.7	63.7
Chicago	9,506	3.2	15.0	14.4	40.1
Dallas	6,004	2.0	17.4	12.0	45.9
Philadelphia	5,827	1.9	7.9	8.2	31.0
Houston	5,540	1.9	19.8	13.3	57.2
Miami	5,464	1.8	36.0	21.3	59.5
Washington DC	5,290	1.8	21.3	12.2	46.6
Atlanta	5,138	1.7	13.5	8.0	44.1
Detroit	4,469	1.5	8.5	9.3	30.6
Boston	4,455	1.5	15.3	15.7	20.9
San Francisco	4,180	1.4	29.9	22.6	55.4
Phoenix	4,039	1.3	16.1	14.0	40.4
Riverside	4,026	1.3	20.7	21.5	59.6
Seattle	3,263	1.1	12.4	10.9	26.5
Minneapolis	3,175	1.1	9.7	8.0	19.0
San Diego	2,941	1.0	23.8	20.4	48.8

Notes: population counts are Census Bureau estimates for July 1, 2006. Immigrant, second generation, and minority fractions based on tabulations of 2005 and 2006 March CPS. Second generation are native-born individuals with at least one immigrant parent. Minorities include non-whites and Hispanics of any race.

Figure 6: Immigrant Presence and Average Native Wages

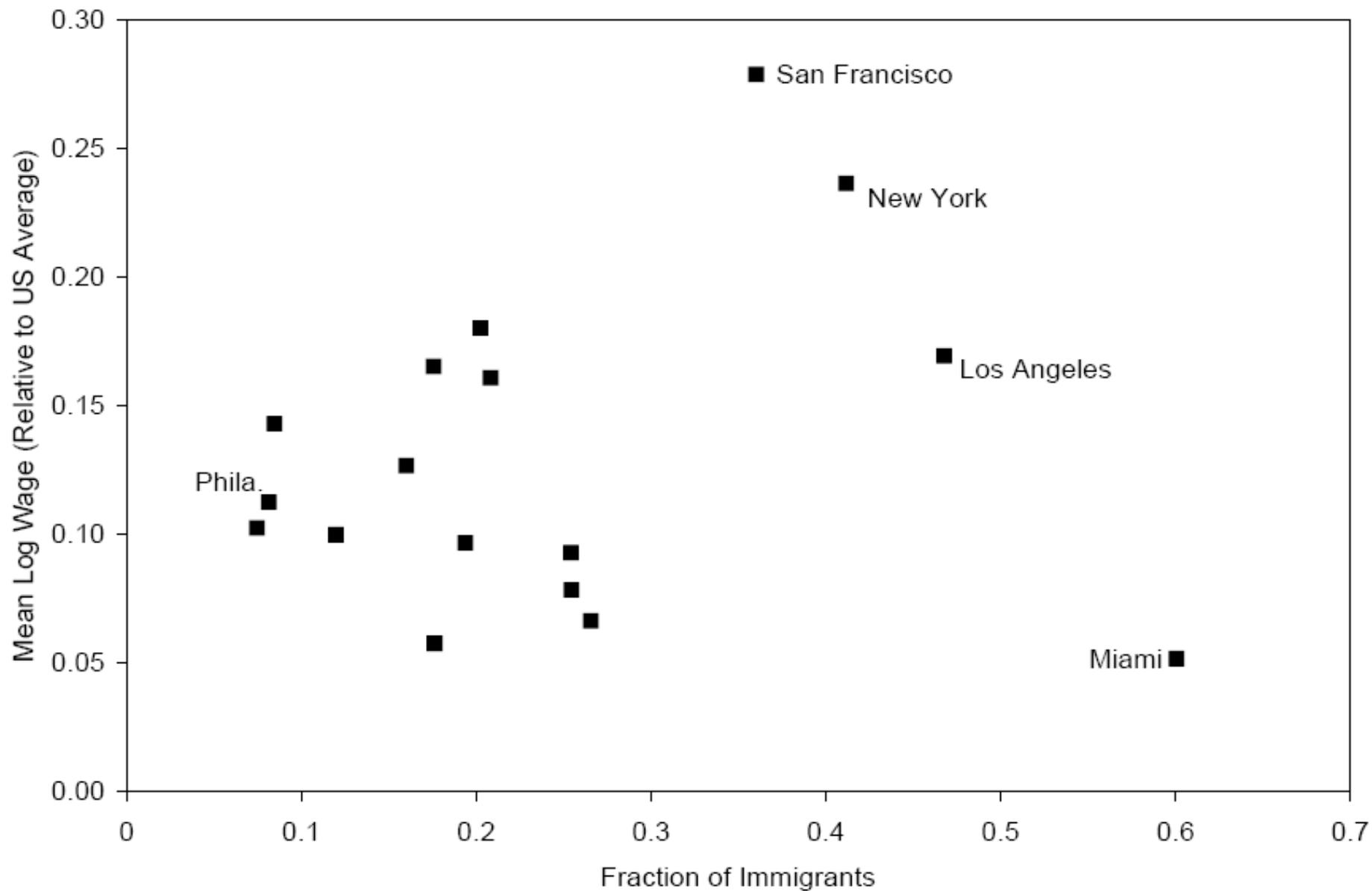


Table 4: Immigrant Characteristics by Country of Birth

	Number of Adults (16-65)	Mean Years of Education	Mean Wage (geometric)	Distribution Across Skill Quartiles:			
				Quartile 1	Quartile 2	Quartile 3	Quartile 4
All	23,400,000	11.4	12.00	38.4	25.9	18.8	16.9
<u>Country of Birth:</u>							
Mexico	7,478,180	8.4	9.09	53.1	26.2	13.8	6.9
Philippines	1,077,560	13.9	14.63	24.9	25.8	23.8	25.4
Vietnam	806,100	11.5	12.24	36.9	27.4	19.9	15.8
India	801,260	15.4	18.30	18.5	22.7	24.3	34.5
El Salvador	695,180	8.8	9.66	51.7	26.5	14.4	7.4
China	687,140	13.3	13.32	33.5	26.2	20.8	19.5
Cuba	583,400	12.1	12.43	37.4	26.8	19.5	16.2
Korea	542,120	13.8	13.69	31.1	26.7	21.8	20.4
Canada	524,880	14.1	17.03	16.2	22.1	24.8	36.9
Dominican Rep.	511,020	10.6	10.40	46.2	27.1	16.5	10.2
Germany	462,800	13.7	15.10	20.0	24.1	24.4	31.5
Jamaica	407,300	12.5	13.41	28.0	27.1	23.0	21.9
Guatemala	395,060	8.7	9.37	53.5	25.8	13.7	7.0
Columbia	391,300	12.4	11.44	40.8	27.0	18.5	13.7
Haiti	319,920	11.6	11.07	40.9	27.3	18.4	13.3
Poland	297,080	13.2	13.85	28.2	26.5	22.5	22.8
England	291,900	14.2	17.53	14.8	21.5	24.8	39.0
Taiwan	279,360	15.3	17.67	21.7	23.6	23.8	30.9
Italy	267,900	11.7	16.28	18.4	24.5	25.3	31.9
Japan	251,140	14.3	17.55	21.2	24.8	24.5	29.5

Notes: based on tabulations from 2000 Census. Sample includes individuals 16-65 only.

Table 9: Average Per Capita Transfers and Taxes, 2004-2005

	All	Immigrants	Natives	Second Generation	Immigrants & Second Generation
Percent Age 16-65	66.5	83.0	64.2	43.5	64.2
Percent Working	52.8	63.1	51.4	33.6	48.9
Mean Annual Hours	979	1,211	947	595	915
Mean Annual Earnings	20,390	22,486	20,101	13,161	17,757
<u>Value of:</u>					
Food Stamps	53	38	55	51	47
Unemploy. Insurance	82	83	82	51	67
Workers Compens.	44	43	44	22	33
Social Security	1,512	970	1,586	1,820	1,266
Supplemental Sec.	107	132	104	58	97
Welfare	21	30	20	12	22
Total Transfers	1,820	1,295	1,892	2,014	1,532
Federal Taxes	2,617	2,275	2,664	1,885	2,007
State Taxes	708	688	711	471	564
FICA Taxes	2,203	2,434	2,171	1,408	1,920
Medicare Taxes	588	650	580	380	514
Total Taxes	6,117	6,047	6,127	4,145	5,005

Table 9: Average Per Capita Transfers and Taxes, 2004-2005

	All	Immigrants	Natives	Second Generation	Immigrants & Second Generation
Supplemental Sec. Welfare	107	132	104	58	97
Total Transfers	1,820	1,295	1,892	2,014	1,532
Federal Taxes	2,617	2,275	2,664	1,885	2,007
State Taxes	708	688	711	471	564
FICA Taxes	2,203	2,434	2,171	1,408	1,920
Medicare Taxes	588	650	580	380	514
Total Taxes	6,117	6,047	6,127	4,145	5,005
<u>In Kind Benefits:</u>					
Public Housing ¹ (%)	3.7	3.5	3.7	3.6	3.6
Medicare (%)	13.6	10.9	14.0	16.7	12.8
Medicaid (%)	11.3	10.3	11.5	16.0	13.7
Enrolled in K-12 ² (%)	17.7	8.0	19.0	27.9	18.0
Enrolled in College ² (%)	3.4	2.5	3.5	4.0	3.2

Notes: based on tabulations of March 2005 and 2006 CPS. Federal and state taxes are imputed by Census Bureau. FICA and Medicare taxes are imputed using total reported earnings. Dollar amounts in 2005 dollars. Sample of immigrants and second generation (column 5) reweights second generation to be 48% Hispanic.

Figure 7a: Father-Son Intergenerational Correlation in Education

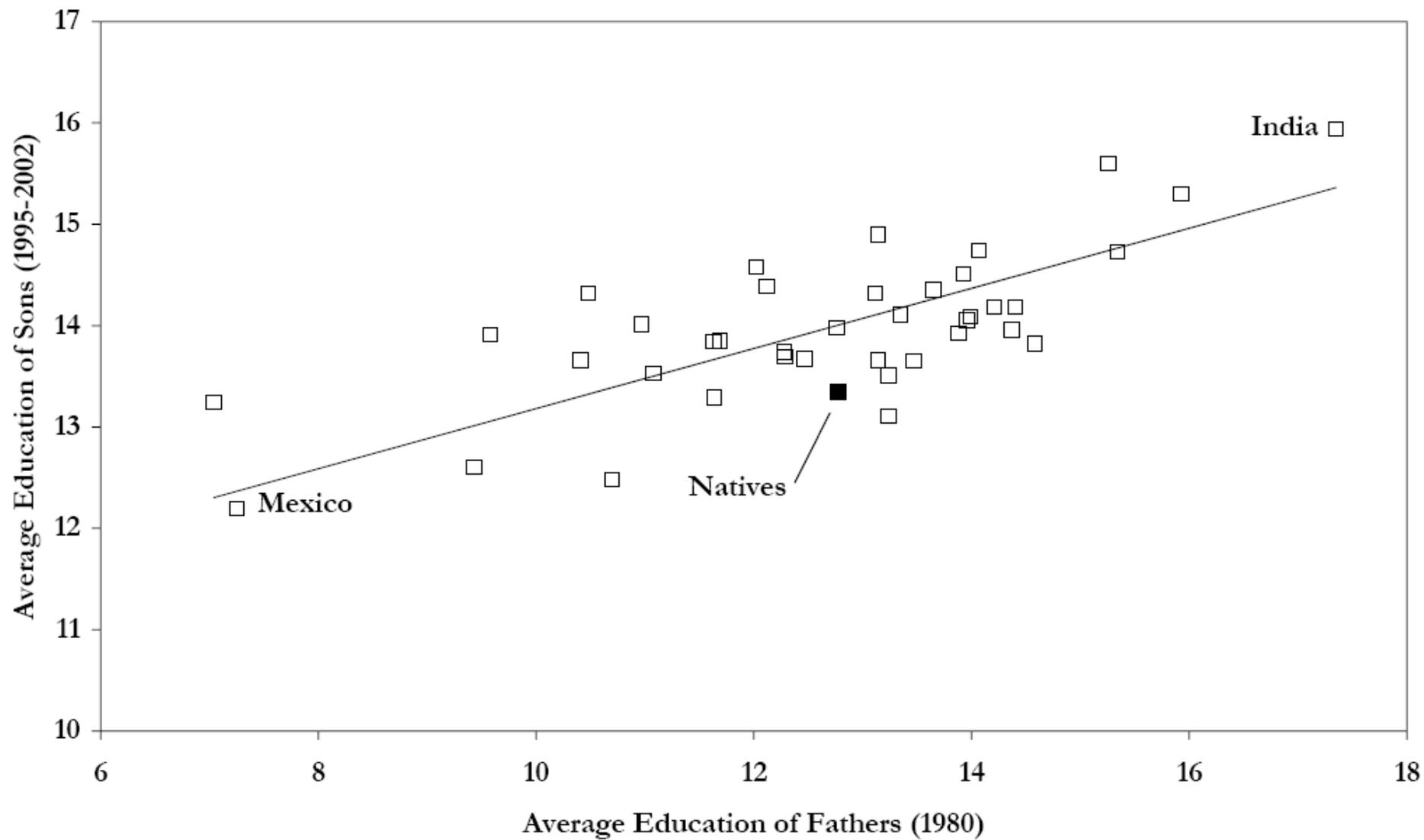
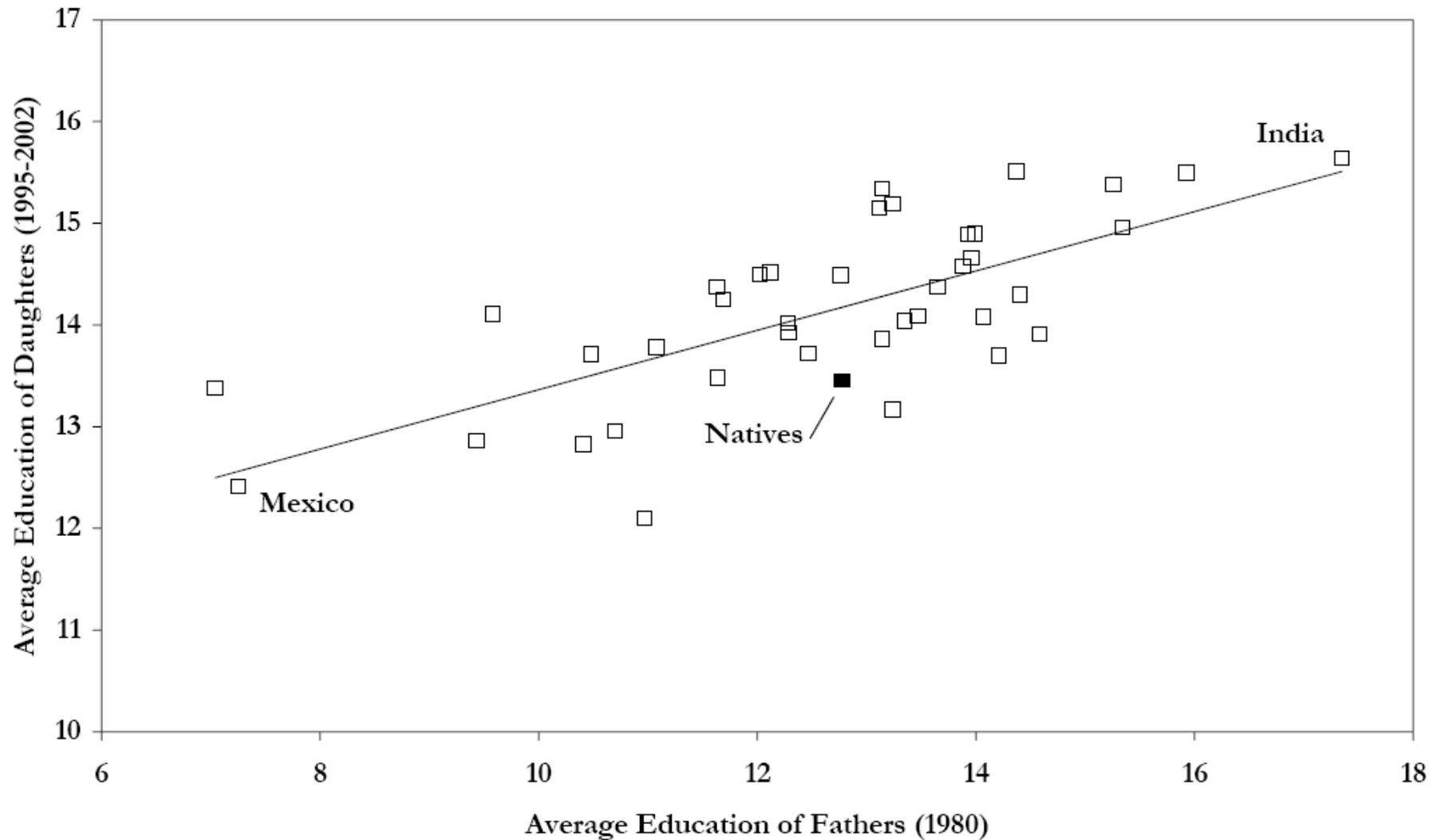


Figure 7b: Father-Daughter Intergenerational Correlation in Education



Do immigrants crowd out native jobs?

Further reading...

LA Times American Apparel [Fights Made in America Fight](#) how long?

WSJ (2007) [Jobs Americans won't do](#)

LA Times (2008) [Crackdown on Illegal Immigrants Spurs Backlash in LA](#)

*Card, David (2005) [Is the new immigration really so bad?](#)

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