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Can selective immigration policies reduce migrants' quality? ☆

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ABSTRACT

Destination countries can adopt selective immigration policies to improve migrants' quality. Screening potential migrants on the basis of observable characteristics also influences their self-selection on unobservables. We propose a model that analyzes the effects of selective immigration policies on migrants' quality, measured by their wages at destination. We show that the prevailing pattern of selection on unobservables influences the effect of an increase in selectivity, which can reduce migrants' quality when migrants are positively self-selected on unobservables. We also demonstrate that, in this case, the quality-maximizing share of educated migrants declines with the scale of migration.

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"Remarkably little is known about [...] whether the chosen policy, in fact, has the desired outcomes in terms of the size and composition of the immigrant flow." George J. Borjas (2014), *Immigration Economics* (p. 215).

1. Introduction

Destination countries are deeply concerned about the composition and scale of incoming migration flows as they contribute to shape both the overall economic impact of immigration and its distributional effects. The economic literature has traditionally relied on market prices to measure immigrants' quality through their earnings upon arrival at destination, and evidence of a fall in migrants' initial earnings in recent decades¹ has prompted debates around the need to reform immigration policies in order to reverse this declining trend.² Specifically, a growing

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¹ See, for instance, Borjas (1985, forthcoming) and Borjas and Friedberg (2009) for the United States, and Aydemir and Skuterud (2005) for Canada.

² "Most discussions of immigration policy 'run' with one of the facts about the economic impact of immigration – that immigrants reduce the wage of native workers, or that more recent immigrants tend to be relatively less skilled – to propose some type of reform in immigration policy" (Borjas, 1999a, p. 182).

number of countries are moving towards immigration policies that screen potential immigrants on the basis of their observable characteristics, such as education and language proficiency, granting better chances of admission at destination to applicants endowed with more desirable individual characteristics.³

While the (narrow sets of) characteristics upon which potential migrants are selected are related to their earnings at destination, it is important to acknowledge that some other relevant determinants of migrants' quality—such as ability, motivation, or soft skills (Heckman and Kautz, 2012), remain unobservable for the immigration officers. These unobservable characteristics can enter into the decision to self-select into migration (Borjas, 1987; Roy, 1951), so that the effectiveness of selective immigration policies in raising migrants' quality also depends on how they influence the pattern of self-selection on unobservables. The possible impact of the out-selection mechanisms adopted by the countries of destination on the prevailing pattern of selection on unobservables contributes to shape the ultimate effect of the immigration policy, as "education accounts for only a small portion of the variance in earnings across workers, suggesting that the nature of selection in educational attainment may not necessarily 'transfer over' to a more comprehensive measure of a worker's human capital" (Borjas, 2014, pp. 29–30).⁴ For instance, the analysis by Aydemir

³ "The main policy proposals on the agenda are increasing attempts to create a more attractive and favorable regime for highly skilled (or just plain wealthy) migrants" (Pritchett, 2006, pp. 106–107).

⁴ Along the same lines, Kaestner and Malamud (2014, p. 89) caution about the limits of "using individual components of skill such as education to assess migrant selection with respect to skill."

(2011) reveals that, as expected, the Canadian points system effectively increases the average level of migrants' education but that "immigrants admitted for their skills do not necessarily perform better in the labor market" (Aydemir, 2011, p. 451).^{5,6} This, in turn, suggests that a focus on observable skills can produce only a partial, and possibly misleading, account of the effects of selective immigration policies on migrants' quality.

This paper analyzes how selective immigration policies influence migrants' quality when migrants are self-selected on unobservables related to the earnings at destination. Specifically, we consider a two-country model, based on Borjas (1987), where potential migrants are heterogeneous with respect to both education and ability and where the destination country imposes higher policy-induced migration costs on uneducated potential migrants. We analyze the effect on migrants' quality of a scale-preserving increase in selectivity,⁷ which is defined as a reduction of migration costs for educated applicants, matched by a simultaneous increase in migration costs for uneducated ones, that leaves the total scale of incoming migration flows unchanged.

The analysis reveals that the response of migrants' quality to a scale-preserving increase in selectivity hinges on the prevailing pattern of selection on ability. When immigrants are positively selected on ability, so that migrants' average (log) wage at destination exceeds the corresponding (hypothetical) average wage of the non-migrants with identical observable characteristics, then a scale-preserving increase in selectivity can reduce migrants' quality when selectivity is pushed too far. This occurs because the direct beneficial effect of the policy change is thwarted by an opposite negative effect, due to the induced reduction in the average wage of the educated migrants. We demonstrate that there is an optimal degree of selectivity in immigration policies when migrants are positively selected on unobservables, and that further increases in selectivity are detrimental to migrants' quality. No such perverse effect arises when the opposite pattern of selection on unobservables prevails. We also demonstrate that the share of educated agents among the migrants that maximizes quality is negatively related to the scale of migration when migrants are positively selected on unobservables. If the share of educated migrants is kept unchanged while expanding the scale of migration, then the set of educated agents that are induced to migrate by the reduction in migration costs has a lower quality than the corresponding set of uneducated agents, and this difference in quality at the margin is inconsistent with the maximization of migrants' quality.

These theoretical results are robust with respect to several extensions of the basic version of the model. Specifically, we analyze the implications of (i) allowing for a greater dispersion in the quality of educated agents, (ii) introducing unobserved heterogeneity in the preferences for migration, (iii) considering that wages are only locally observable, and (iv) allowing for a change in the informational structure of the migration–decision problem for educated agents.

The forces at play in our theoretical model are related to the ones analyzed by Bertoli and Rapoport (2015). In that paper, the effect of an expansion of the size of migration networks on migrants' selection on education depends on the endogeneity of the distribution of education at origin with respect to variations in the prospect to migrate.

The emphasis put on the potentially perverse effect of selectivity on observables is reminiscent of results in the moral-hazard multitasking literature (Holmstrom and Milgrom, 1991). There, it is a well-known result that designing high-powered incentive schemes on easily observable tasks may lead the agent to divert effort from tasks that are more difficult to monitor and may *in fine* hurt the principal. The same logic applies here to the different dimensions of migrants' quality.

This paper is mainly related to two strands of literature. First, it is related to the literature on migrants' selection (Ambrosini and Peri, 2012; Antecol et al., 2003; Borjas, 1987; Chiquiar and Hanson, 2005; Dequiedt and Zenou, 2013; Fernández-Huertas Moraga, 2011, 2013; Jasso and Rosenzweig, 2009; Kaestner and Malamud, 2014), including the papers that analyze the determinants of selection on education (Beine et al., 2011; Bertoli, 2010a; McKenzie and Rapoport, 2010). Second, it is also related to the papers that analyze the influence of immigration policies on migrants' selection on education, both from a theoretical (Belletini and Berti Ceroni, 2007; Bertoli and Brücker, 2011; Bertoli and Rapoport, 2015; Bianchi, 2013; Docquier et al., 2008) and an empirical perspective (Antecol et al., 2003; Aydemir, 2011; Belot and Hatton, 2012; Jasso and Rosenzweig, 2009).

The rest of the paper unfolds as follows. Section 2 introduces our model. Section 3 analyzes the effects of selective immigration policies on migrants' quality in a basic version of our theoretical model and discusses its relationship with the empirical literature. Section 4 describes the robustness of our theoretical predictions with respect to various extensions of the model. Finally, Section 5 concludes.

2. The model

We develop a random utility maximization model to describe the location–decision problem that potential migrants face. We consider an origin country, which is denoted by the subscript 0, with a population of mass one of agents, which are indexed by i . We assume that the origin country's population can be either educated (e) or uneducated (u), with α denoting the exogenous share of educated agents. Agents can choose between a domestic job in country 0 and a foreign job in country 1. Education is an observable characteristic in both countries, and it influences the agents' wage. Individuals are heterogeneous in other characteristics that also influence their wages, which are exogenous with respect to migration. Specifically, we assume that

$$\ln w_{ij}^l = \mu_j^l + \epsilon_{ij},$$

with $j = 0, 1$ and $l \in \{e, u\}$, and

$$\left(\ln w_{i0}^l, \ln w_{i1}^l \right)' \sim \mathcal{N}(\boldsymbol{\mu}^l, \boldsymbol{\Sigma}^l). \quad (1)$$

We also assume that $\mu_j^e > \mu_j^u$ for $j = 0, 1$, and $\boldsymbol{\Sigma}^e = \boldsymbol{\Sigma}^u$.⁸ The wage equation above implies that individual earnings in both countries and for both education levels can be decomposed into a part due to *observable* characteristics (μ_j^l) and a part due to *unobserved* characteristics (ϵ_{ij}). For the individual i , opting for a foreign job requires paying a migration cost whose monetary equivalent stands at C_i , which may include both pecuniary and non-pecuniary costs, such as the psychological costs of being away from home. We assume that the time-equivalent migration costs, defined as the ratio between C_i and the individual-specific wage at origin w_{i0}^l , do *not* vary across individuals with the same level of education. This implies that self-selection into migration is driven exclusively by observable and unobservable factors that influence the wages in the two countries, while agents are not heterogeneous in their preferences for migration due to non-wage factors.⁹

⁵ Antecol et al. (2003) question the ability of the Canadian immigration policy to improve migrants' observable characteristics, as compared to the United States, using data from the 1991 Canadian population census.

⁶ Ambrosini and Peri (2012) find that the lower earnings of Mexican migrants to the United States with respect to stayers are "mostly due to [selection] on unobserved wage-earning characteristics and not on observed ones" (p. 147), while Fernández-Huertas Moraga (2011) and Kaestner and Malamud (2014) find that a larger role is played by observables, with this latter paper also including measures of cognitive ability among the observable characteristics.

⁷ This is similar in spirit to Biavaschi and Elsner (2013) who analyze the welfare implications for the sending and the receiving countries of a change in the pattern of migrants' selection for a constant scale of migration flows; keeping the scale of migration constant allows not to blur the effects due to a variation in selectivity with the effects produced by a change in the openness of immigration policies.

⁸ The assumption of identical covariance matrices for educated and uneducated agents is relaxed in Section 4.1 below.

⁹ Unobserved heterogeneity in the preferences for migration is introduced in Section 4.2.

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