Intergenerational mobility and the political economy of immigration

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A R T I C L E   I N F O

A B S T R A C T

Flows of US immigrants are concentrated at the extremes of the skill distribution. We develop a dynamic political economy model consistent with this observation. Individuals care about wages and the welfare of their children. Skill types are complementary in production. Voter support for immigration requires that the children of median-voter natives and of immigrants have sufficiently dissimilar skills. We estimate intergenerational transition matrices for skills, as measured by education, and find support for immigration at high and low skills, but not in the middle. In a version with guest worker programs, voters prefer high-skilled immigrants but low-skilled guest workers.

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1. Introduction

Stylized facts of international migration are that immigrants tend to be concentrated at the extremes of the skill distribution (high and low) and that high- and low-skilled immigrants are treated very differently. Many countries allow or even encourage immigration of high-skilled workers but accept low-skilled foreigners only temporarily (e.g., as guest workers) or under severe restrictions (e.g., as unauthorized/illegal immigrants subject to instant deportation).

We examine the political economy of immigration in a dynamic model in which natives care about their children and recognize that immigration influences the labor market for current and future generations. Skill types are complementary and the majority of natives is medium-skilled. Hence from a static perspective, the native majority benefits from foreign workers with skills far from the middle, both high and low.

The challenge is to explain the differential treatment of high and low skilled foreigners. A common argument is that natives worry about low-skilled migrants relying on welfare, whereas the high-skilled pay more taxes. Our model includes a simple tax-transfer system to account for this, but we find the welfare argument incomplete, at least for a country with modest welfare benefits like the US (modest compared to other developed countries). Our main contribution is to provide an alternative explanation: Using U.S. data on generational mobility, we show that children of low-skilled workers tend to

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compete in the labor market with the children of medium-skilled natives. In contrast, children of high-skilled workers have a skill distribution more complementary to the children of medium-skilled natives.

Children are a relevant concern because legal immigration generally includes children whereas guest worker programs exclude them. Unauthorized immigrants are typically confined to low skilled work and cannot easily settle down as families, being under a constant threat of deportation. De facto tolerance of unauthorized immigrants is therefore analogous to a guest worker program for unskilled workers; the analogy is not perfect, however, because many such immigrants may attempt to stay. In the model, we use "immigrant" and "guest worker" to distinguish foreigners who may, or may not, enter with their children. (For unauthorized immigrants either label may apply empirically, depending on immigration enforcement.)

For our data analysis, we define skills in terms of education levels. Those with a BA degree and above (e.g., Master or Ph.D.) are classified as "high-skilled", those with a high-school diploma or some college are "medium-skilled", and people without a high-school diploma are "low-skilled". Since 1970, about 60% of immigrants were either high- or low-skilled and only 40% medium-skilled. In the U.S. population, more than 50% are medium-skilled. Hence the ratio of immigrants to natives is greater at the high and low skill levels than for the middle group. For the period 1980–2013, we estimate that average annual net immigration into the U.S. was 6.08 low-skilled immigrants per 1000 low-skilled natives, 2.48 medium-skilled immigrants per 1000 medium-skilled natives, and 4.44 high-skilled immigrants per 1000 high-skilled US natives.[1] Thus immigration to the US is more prominently concentrated at the extremes of the skill distribution, as measured by education.

A difficulty in interpreting these flow data is that control over immigration is highly imperfect. Observed immigration is a combination of legal and illegal flows, and of job-related and other flows (e.g., non-working family members of earlier immigrants). To interpret the data, we set up a political-economy model to derive predictions about equilibrium immigration under alternative assumptions, and we examine under what conditions the model provides a positive theory.

The model has three types of labor inputs, low-, medium- and high-skilled; and two types of migrants, permanent immigrants and temporary guest workers. Each worker supplies one unit of their work-type to the production process, earns a wage, pays proportional taxes that are then redistributed via lump-sum. The number of children per worker and their skill/education levels are exogenous and determined by fertility and mobility profiles that depends on the parent's skill and place of birth.[2]

We calibrate the model to match the transition matrices of intergenerational skill transmission and fertility rates for natives and immigrants in the US. The calibrated demographic process is such that with or without immigration, the medium-skilled type are the absolute majority in each generation. Thus the medium-skill always determine policy outcomes. Our paper has therefore a quite different focus than the literature on the political economy of immigration, which examines under what conditions immigration might change voting majorities (such as Ortega, 2010).[3]

Immigration policy is defined by a set of quotas indexed by skill level and type of immigration permit (permanent vs guest-worker). Votes over immigration policy occur before the skill type of children is revealed. Immigrants do not have the right to vote, but the children of immigrants (a.k.a. 2nd generation immigrants) are modeled as identical to natives, i.e., as citizens with voting rights. We use the concept of Markov perfect equilibrium (MPE), as it is common in the literature on dynamic political economy.

Our analysis initially sets aside guest workers and focuses on the problem of modelling permanent immigration. We show that the medium-skilled majority chooses a positive level of low-skilled immigration, zero medium-skilled migration, and substantial high-skilled immigration. Thereafter, we add the possibility of guest workers, which is straightforward in our setting because guest workers do not raise intertemporal issues.

Two important objects in the model and of independent interest in this paper are the matrices of intergenerational mobility for natives and for immigrants, which we estimate from the General Social Survey (GSS). This survey collects information on education data on the respondents and their parents, and it also identifies whether the parents are foreign born, among other variables. The data required for our purposes is available since 1977. We find that on average the children of low-skilled and medium-skilled parents do better than their native counterparts, while there is no statistical difference for children of high-skilled parents. This is consistent with Card et al. (2000) who find that 2nd generation immigrants have higher average schooling and wages than children of natives parents with comparable education.

We obtain additional results about the relationship between intergenerational mobility and the political support for immigration by considering hypothetical changes in the mobility matrices. First, support for low-skilled immigration would be much reduced if a greater share of the children of low-skilled immigrants were medium-skilled rather than low-skilled. A shift by five percentage points would reduce low-skilled immigration by more than 50%. Second, support for low-skilled

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[1] See appendix for details on these numbers.

[2] Endogenous schooling and fertility choices would complicate the analysis significantly and are left as an area for future research. Both margins have implications for the true mobility opportunities of children, as well as the role of policy in shaping mobility (e.g., education spending). For example, Tamura (2001) has shown that public education can induce convergence in income in the US due to convergence in human capital as measured by education even in the presence of local school districts. Similarly, Tamura et al. (2016) have shown that black and white parent fertility converged over the last 200 years, together with convergence of human capital.

[3] The model predicts that voter preferences over immigration differ by education level. An empirical analysis of voting patterns by education is beyond the scope of this paper but may be an interesting issue for future research.