Comments on International Migration and Labour Markets
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What the paper does

- Asks does immigration reduce the wage of domestic labour?
- Because expects yes but finds opposite then asks
- Do foreign worker inflows cause Japanese workers to exit markets?
Does immigration reduce wages?

- Author’s theory: “according to standard economic textbooks, increasing inflows of foreign workers harm the opportunities in the local labor market”
- Either a simple outward shift of supply causes wages to fall or
- additional shifts in demand or supply mask the effect – prediction not clear.
Effect on individuals’ wages – simple regression

- Cross-section regression: log wage on individual’s age plus characteristics of the firm and region where located.
  - Take log of hourly wages of individuals in 4 groups (i.e. don’t use individual characteristics to explain wage growth) in particular years.
- A kind of reduced form for the differences in entry wage between, for example, university-educated males in 1991 as a result of different proportions of foreign workers in the region where they are employed,
  - after accounting for unemployment rates in region and characteristics of the firm where employed.
  - Implicitly takes account only of individuals’ gender, education and entry age as affecting their starting wage.
Results

- Coefficient of foreign is positive
  - i.e. an increase in the proportion of foreign workers in a region raises the entry wage, after other factors accounted for, in each group.
  - the size of effect is larger for less educated workers and for women
  - the size of effect has reduced over time
Minor comments

How good is the model – no test statistics are presented.
How big is the sample etc?
How economically significant is the effect
- we don’t know the scale of the “foreign” variable and the wage
  Do wages go up by 3 yen an hour or 3000 and in response to what rise in the proportion of foreigners?
Recall the number of foreigners is small in Japan
  UN estimates would need 600,000 immigrants per year to keep workforce at level of 1995
Panel data

- Next a panel of cities (or “regions”?) over 4 time periods
- Estimate effect of “foreign” on log of average wage in different cities
  - after accounting for characteristics of the average worker and the average firm in that region
Features

- Dummies for fixed effects across years and (apparently) across regions
  - (plus specific regional factors e.g. ratio of manufacturing industries)
  - only the effect of time dummies and foreigners share reported (none of the region dummies are reported - are there significant regional differences in the results?)

- Estimated by groups (gender and education)
Results

- Results are mixed –
  - a positive effect on high-school males, no effect on high school females and university males and a negative effect on university females.
  - What to conclude? Is the most important result really the positive effect of immigration on wages?
More minor comments

- Again no info on the economic significance
  - what is the scale?
- With 8000 to 9000 observations per group did you really include 3000 dummies?
  - Might be better to pool all results for 4 groups and add dummies for education level and gender?
- Is fixed effects the right method?
  - Although we have the population of all regions should not presume – show test results
What to conclude: Crowding out?

- Author concludes that an important explanation for positive effects on wages is reduced labour supply by locals.

- So try to estimate the impact of foreign share on location decision i.e. effect of ratio of foreigners in area on decision whether to change location (0/1)
  - (controlling for a few individual characteristics (age, age^2, household size) plus regional fixed effects and year fixed effects)
Results on location

- A positive effect (i.e. more likely to move) for less well-educated
  - But size of effect?
- Even if you find some location effect – there must be *inflows* to other regions so what is the overall effect on wage?
- Do wages go down in areas with few foreigners because locals move there? Is this plausible?
- More importantly: Is this the right way to solve the identification problem?
But what do we really expect?

Author offers 3 simple scenarios

A. Supply shifts out → Wages fall
B. Supply shifts out, local labour leaves, supply shifts back → Wages could rise (but indeterminate)
C. Supply shifts out, demand also rises → wages could rise (but indeterminate)

But these are just classic identification problems – with shifting demand and supply curves the price effects are not clear.

Start with the simplest test: does quantity go up or down? This will immediately distinguish B from the rest.
We also have prior information

The number of foreign workers is very small (by OECD standards)
They are concentrated in certain skill groups and industries – neither evenly, nor randomly, distributed
The supply of local labour is dropping
There is probably an exogenous increase in demand for foreign labour by domestic firms (replacement for local)
So causality, as well as identification is an issue.
So lots of scenarios are possible

- For Example:
  - Local labour supply contracts, then foreign comes in →
    - wages return to original level,
    - Or, if only partial replacement, rise but not as much as would have with labour shortage
    - i.e. B but in reverse order
  - Note foreign supply of labour may be in response to higher wage (from lower labour supply) so need to worry about causality.
So it’s not clear what question has been answered

- Is immigration good for local labour?
  - Wages go up but we don’t know why.
  - Some people move – but they may go to locations with higher wages than they would have had at home.
  - And most moves don’t have anything to do with foreign entry.
What the paper doesn’t say is even more important than what it does.

Need to ask a lot of difficult questions about immigration – so far the debate is not analytical but political. Even if these questions cannot be answered in exactly the way they are posed here ones like them need to be asked.

Need more data on foreign workers’ wages (and conditions) before you can really do the estimation needed.
What other questions should we ask: partial equilibrium questions

- What is the effect of immigration on productivity?
- What is the effect on domestic work *conditions* such as part-time vs full time?
- Causality: which comes first – immigration or productivity and wage changes?
- Need structural studies of supply and demand responses to add to reduced form
General equilibrium questions

- What is the relationship between immigration and growth (we know the standard theory)?
- Depends on returns to capital, savings behaviour and, thus, growth of capital stock
- And on:
  - Demographics, participation rates and retirement ages
  - Relative price effects
  - Openess in trade (goods movement are substitutes for factor movements)
- Should be measured by consumption effects and welfare – could preserve consumption per capita with lower savings, smaller workforce (and no immigration)