LABOR MOBILITY

THE DETERMINANTS OF LABOR MOBILITY

- is the mechanism labor markets use to improve the allocation of workers to firms

LABOR MOBILITY

- What are the determinants of migration?
- How do the migrants differ from the persons who choose to stay?
- What factors determine how migrants are self-selected?
- What are the consequences of migration, both for the migrants themselves and for the localities that they move to?
- How large are the efficiency gains from migration?

GEOGRAPHIC LABOR MIGRATION AS AN INVESTMENT IN HUMAN CAPITAL

Mobility decisions are guided by comparing present value of lifetime earnings among alternative employment opportunities in different locations

Psychic cost – the pain and suffering that inevitably occurs when one moves away from family, friends, and social networks

Present value of lifetime earnings in the alternative employment opportunities

$$PV^A = w_{20}^A + \frac{w_{21}^A}{(1+r)} + \frac{w_{22}^A}{(1+r)^2} + \ldots$$

$$PV^B = w_{20}^B + \frac{w_{21}^B}{(1+r)} + \frac{w_{22}^B}{(1+r)^2} + \ldots$$

$$Net\ \ gain\ \ to\ \ migration = PV^B \quad PV^A \quad M$$

The worker moves from A to B if the net gain is positive

1. An improvement in the economic opportunities available in the destination **increases** the net gains to migration
2. An improvement in the economic opportunities at the current region of residence **decreases** the net gains to migration and **lowers** the probability that the worker moves
3. An increase in migration costs **lowers** the net gains to migration and reduces the likelihood of a move

DETERMINANTS

The role of uncertainty:

- PV includes future job opportunities (depends on future possibility of unemployment and amount of new hiring in the destination)
- Cost includes psychic cost (assimilation) → create chain migration

Role of distance: Trip cost, information cost, and psychic cost

Role of income distribution and welfare programs

- A worker decides to move if the net gain from moving is positive

- Migration occurs when there is a good chance the worker will recoup his investment in the move

INTERNAL MIGRATION

- Impact of Worker Characteristics on Migration
- Return and Repeat Migration

IMPACT OF WORKER CHARACTERISTICS ON MIGRATION

The probability of migration is sensitive to the income differential between the destination and original locations

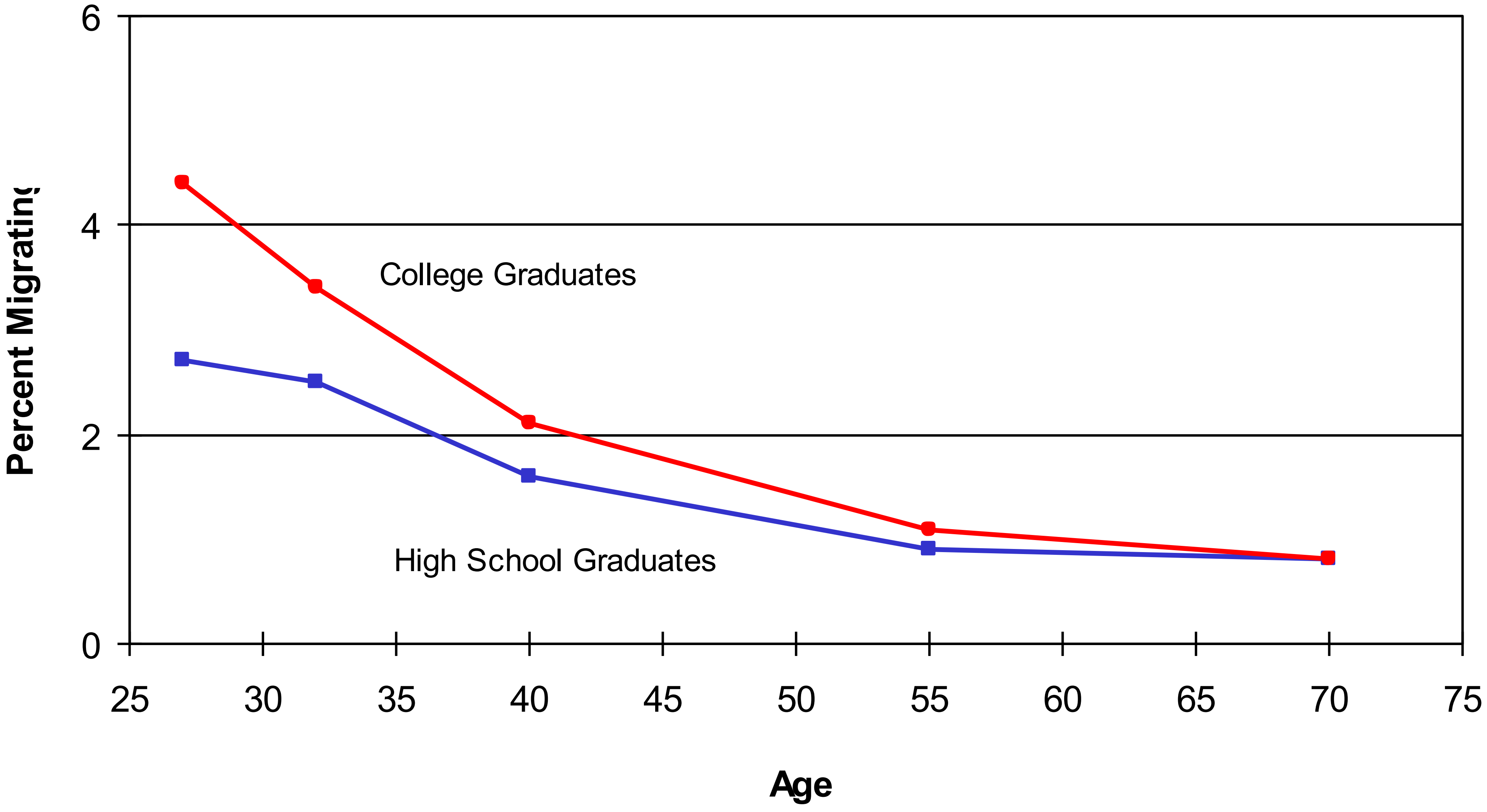
There is a positive correlation between improved employment conditions and the probability of migration

There is a negative correlation between the probability of migration and distance
- Distance is taken as a proxy for migration costs

There is a **positive correlation** between a worker's educational attainment and the probability of migration

Workers that have migrated are likely to return to the location of origin (return migration) and are more likely to migrate again (repeat migration)

PROBABILITY OF MIGRATING ACROSS STATE LINES IN 2005-2006, BY AGE AND EDUCATIONAL ATTAINMENT



RETURN AND REPEAT MIGRATION

Two factors can generate return and repeat migration flows:

- The worker has learned that **the initial migration decision was a mistake**

- The career path that **maximizes the present of lifetime earnings** in some occupations, even in the absence of any uncertainty about job opportunities

WHY IS THERE SO LITTLE MIGRATION?

Example

In 2003 average annual compensation per worker was approximately $22,000 in Puerto Rico and $51,000 in the United States. The large income gap has induced over a quarter of the Puerto Rican population to migrate to the United States in the past 50 years.

75% of Puerto Rican chose not to move.

FAMILY MIGRATION

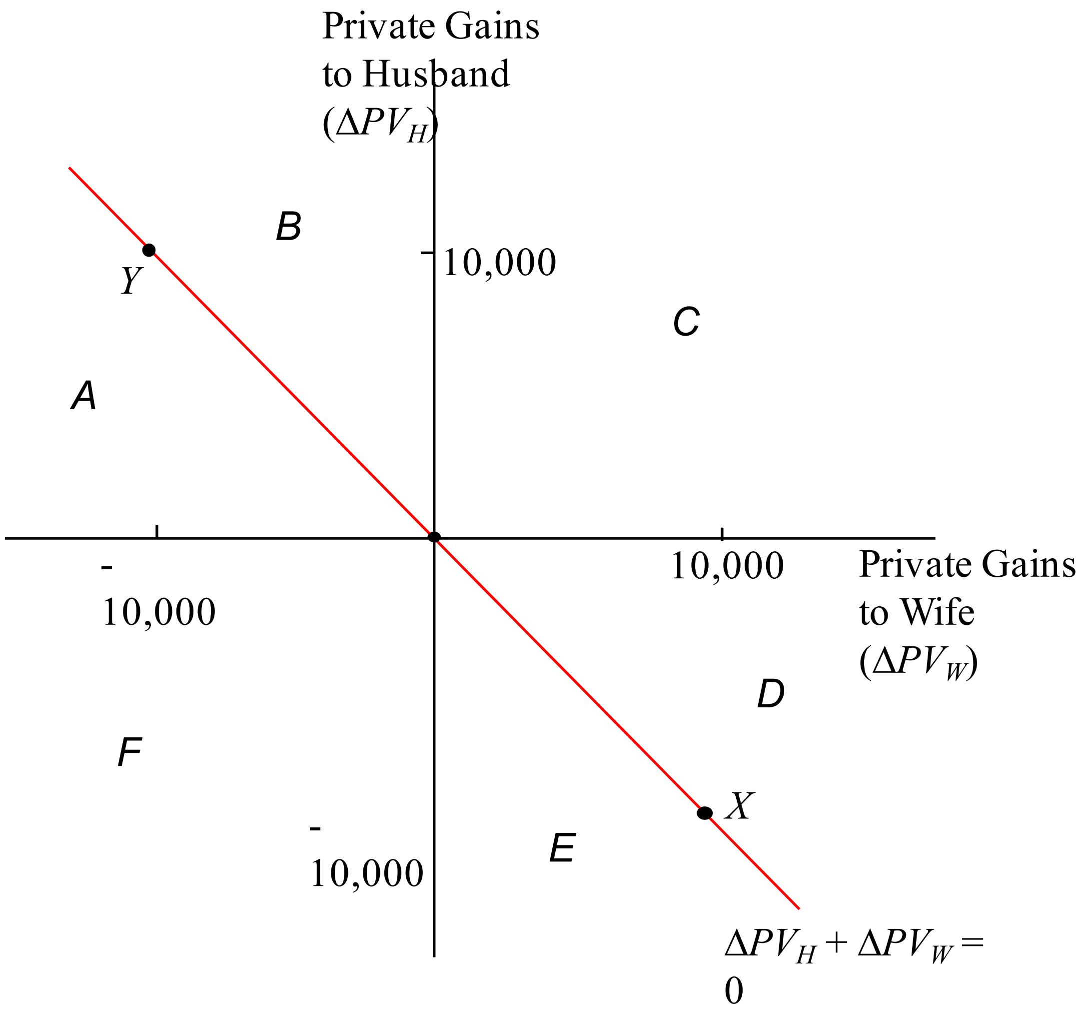
The family unit will move if the family's net gain are positive

$$PV_H + PV_W > 0$$

The family migrates if the sum of the private gains to the husband and to the wife is positive

The optimal decision for the family is not necessarily the same as the optimal choice for a single person

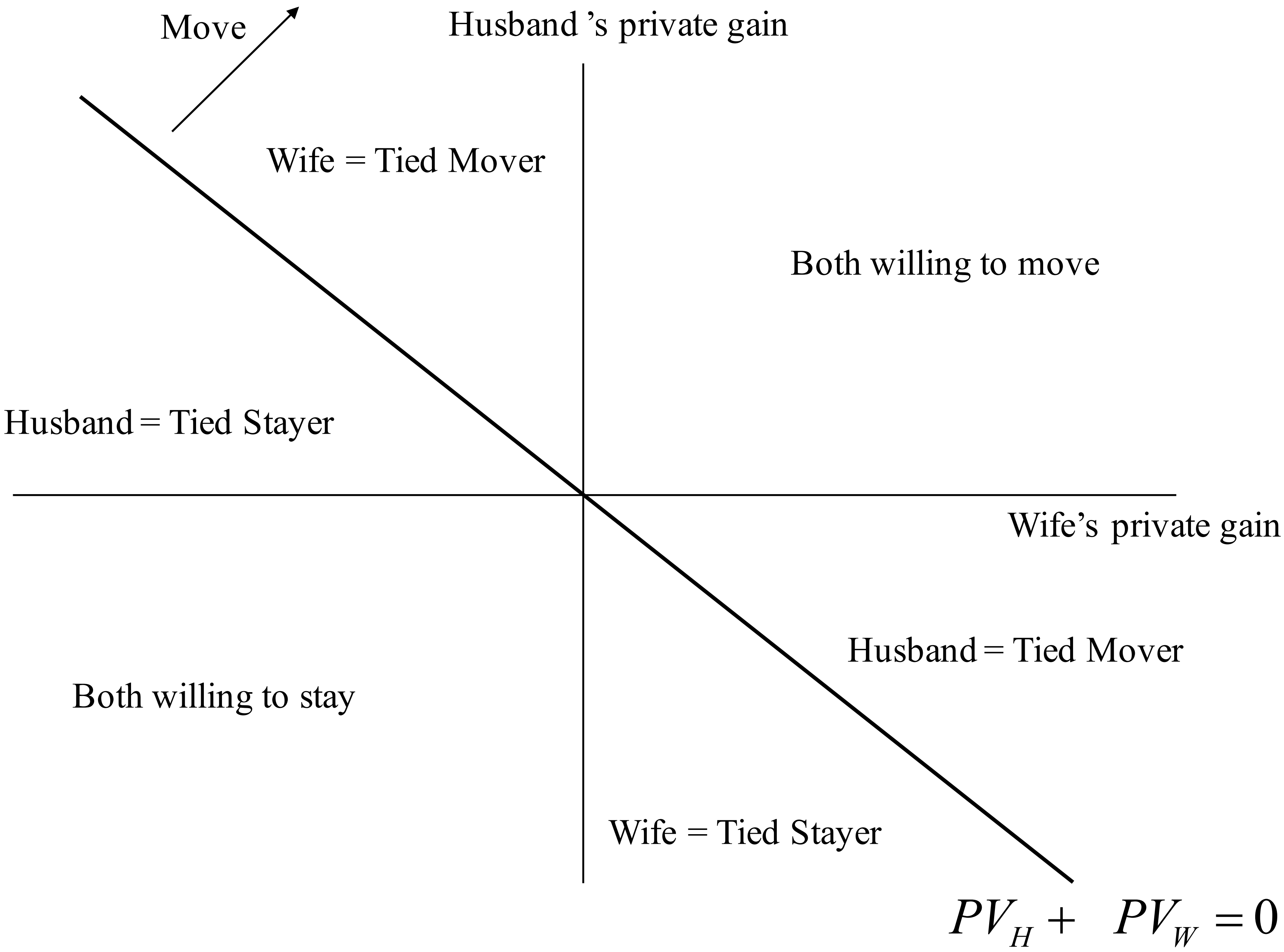
TIED MOVERS AND TIED STAYERS



The family unit will move if the net gains to the family are positive

The optimal choice for a member of the family may not be optimal for the family unit (and vice versa)

- **Tied stayer**: someone who sacrifices better income opportunities elsewhere because the partner is better off in the current location
- **Tied mover**: someone who moves with the partner even though his or her employment outlook is better in the current location


Move
Husband 's private gain
Wife = Tied Mover
Both willing to move
Husband = Tied Stayer
Wife's private gain
Husband = Tied Mover
Both willing to stay
Wife = Tied Stayer
$PV_H + PV_W = 0$

THE ROY MODEL

Describes how workers sort themselves among employment opportunities

Positive Selection

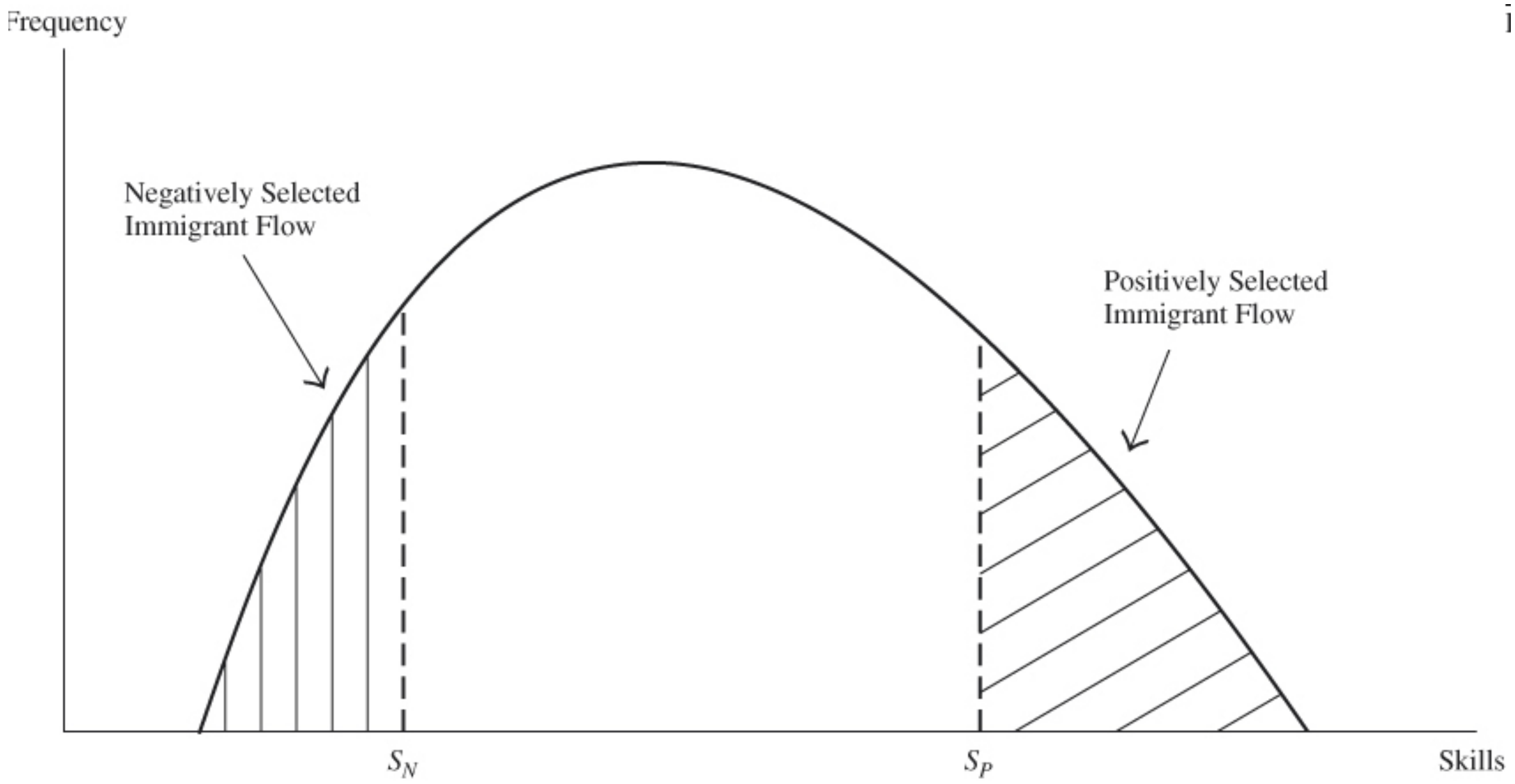
- The migration flow is composed of workers in the upper tail of the skill distribution

Negative Selection

- The migration flow is composed of workers in the least-skilled workers in the source country

The relative payoff for skills across countries determines the skill composition of the immigrant flow

THE DISTRIBUTION OF SKILLS IN THE SOURCE COUNTRY

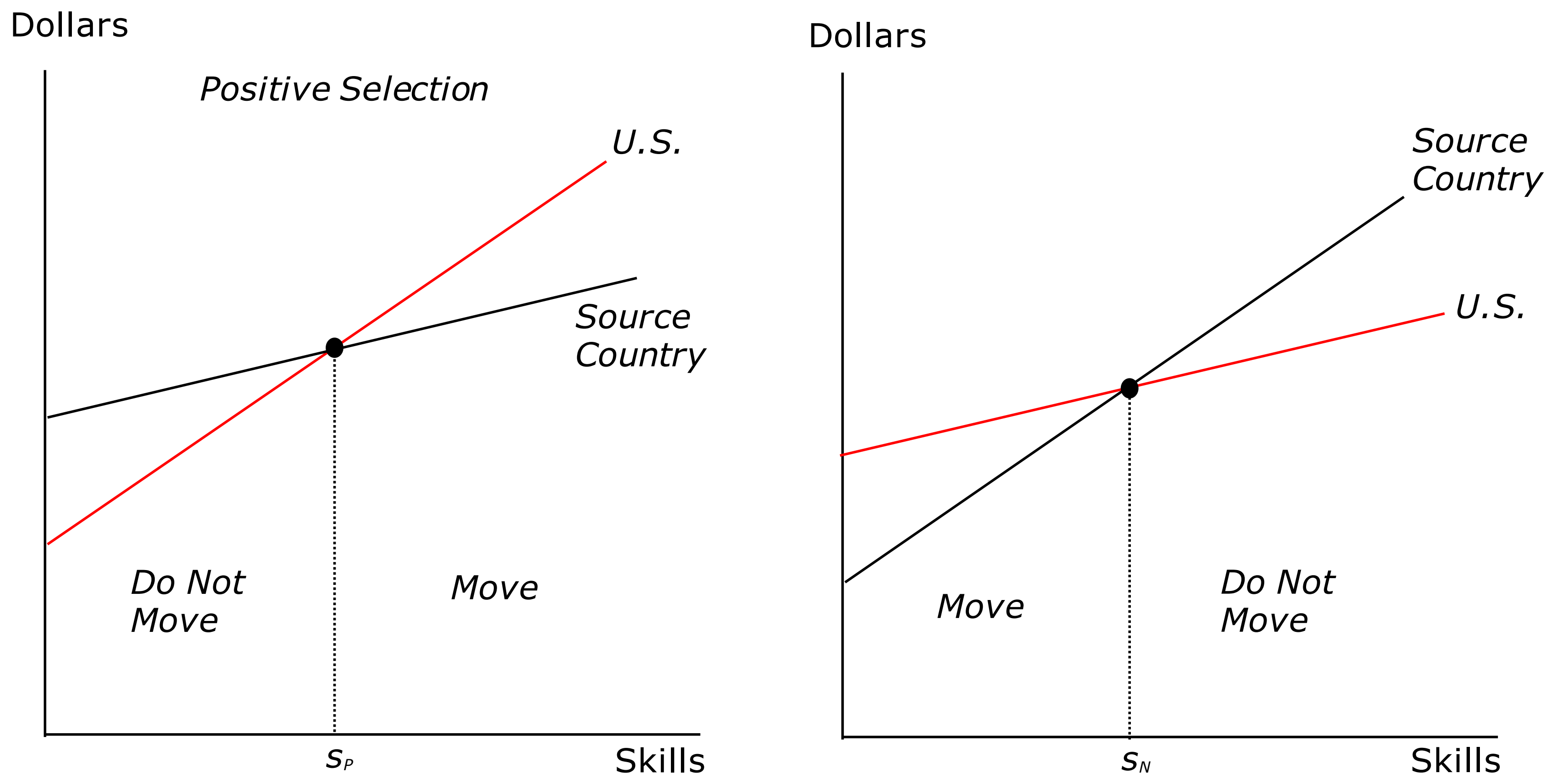


The distribution of skills in the source country gives the frequency of workers in each skill level

If immigrants have above-average skills, the immigrant flow in positively selected

If immigrants have below-average skills, the immigrant flow is negatively selected

THE SELF-SELECTION OF THE IMMIGRANT FLOW



(a) Positive selection

(b) Negative selection

Positive selection

If the payoff for skills in the United States exceeds the payoff in the source country

Fewer workers now find it optimal to migrate to the United States

Negative selection

If the payoff for skills is higher in the source country

Only workers who have skill levels below the threshold level want to move, the drop in the U.S. incomes again reduces the number of immigrants

SOURCE

Bojas, G. (2016). Labor Economics. 5th ed. McGraw-Hill, USA.