

Discussion of

Federico S. Mandelman and Andrei Zlate

“Immigration and the Macroeconomy” Macroeconomy”

By

Maria Teresa Punzi

BSP International Research Conference on Remittances

Manila, Philippines

March 30, 2009

What does the paper do?

Broad Questions:

- Bridge the gap between modern international macroeconomic literature and immigration theory.
- Use a standard DSGE model, with two-countries, labor migration and remittance flows.
- There exists an incentive to emigrate depending on expectations of future earnings at the destination country, relative to the country of origin.

Intuition of the paper:

- Temporary economic expansion in the destination economy leads to leads to an increase in the immigration wage;
- However, the greater incentive for labor migration is partially offset offset by the sunk cost;
- During economic expansions, immigration labor becomes relatively relatively scarce, as the increase in the stock of immigration labor labor does not keep up with the increase in labor demand;
- Thus, immigration labor receives relatively higher wages and sends sends larger remittances to the foreign economy;
- During recessions, when immigration labor becomes relatively more more abundant and the immigrant wage declines.

Mechanism of the Model:

- Introduce heterogeneity of labor workers in the home country (skilled and unskilled)
- That means capital and skilled labor are relative complements complements (as in Krusell et al., 2000)
- Native unskilled and immigrant labor are perfect substitutes substitutes (as in Borjas et al., 2008)
- Explore the effects of sunk costs;
- Extend the model by allowing for financial integration between the two countries.

What I like a lot:

To consider labor mobility across-country which which can be offset by the sunk cost.

Sunk Cost represents cost of searching for employment, employment, the cost of adjusting to a new lifestyle (learning a new language, integration into a new community, housing arrangements, etc.)

—————> very realistic cost

Remittances carry a number of potential benefits, benefits, but each is matched with a potential cost.

Where I see room for improvement:
improvement:

“We do not allow for labor to flow from Home
Home to foreign”.

→ Why not ?

Wages in Mexico of those migrants who come back home after
after being abroad for some time will be crucial to learn
something

about the selection of non-returning migrants in terms of
unobserved productivity.

The paper assumes a probability δ that force force immigrants to return to their country, as in Ghironi & Melitz (2005).

Different:

Borjas & Bratsberg (1996) and Lacuesta (2006)

Estimate probability of returning or non-returning considering several individual migrate variables.

Model with Human Capital gains

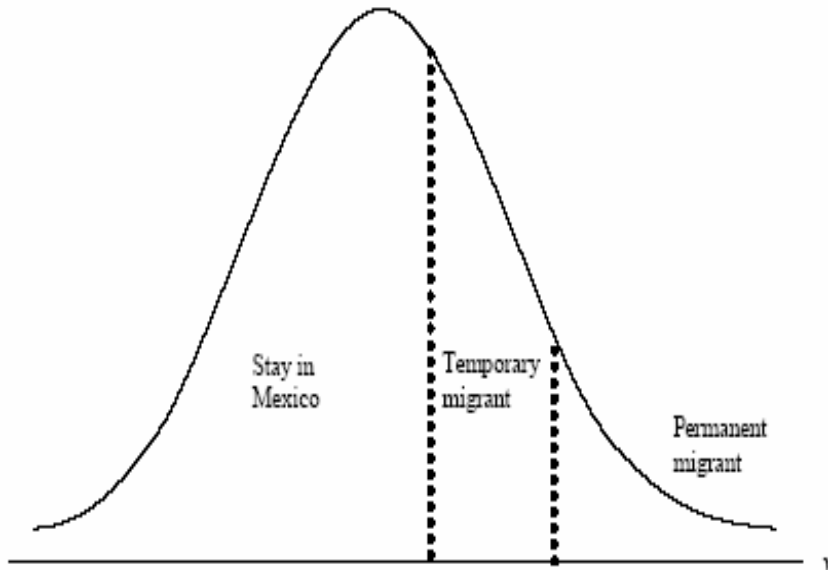


Figure 1 represents the selection when unobserved ability is better paid in the United States than in Mexico ($\rho > 1$). In that case only high skill individuals migrate.

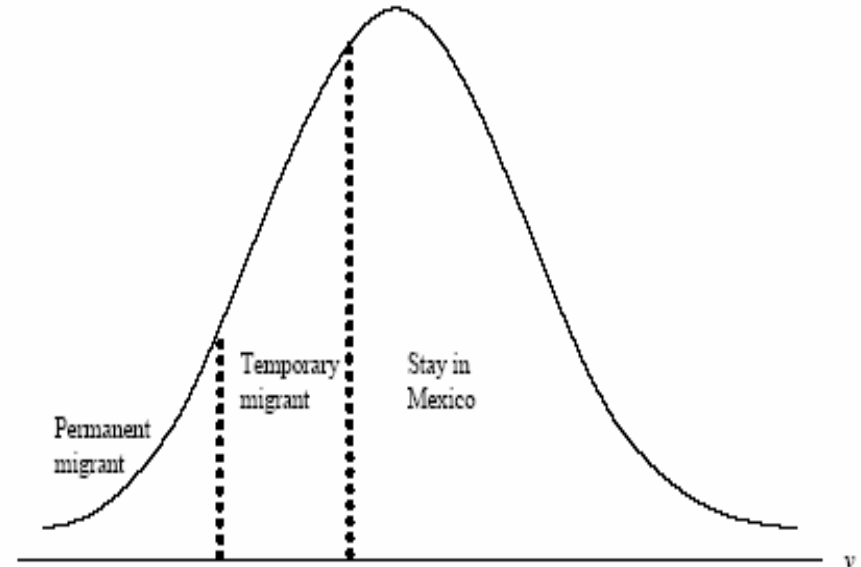


Figure 2 represents the opposite selection when unobserved ability is better paid in Mexico ($\rho < 1$). In that case, only low skilled ability migrants migrate.

Model with Human Capital gains and uncertainty

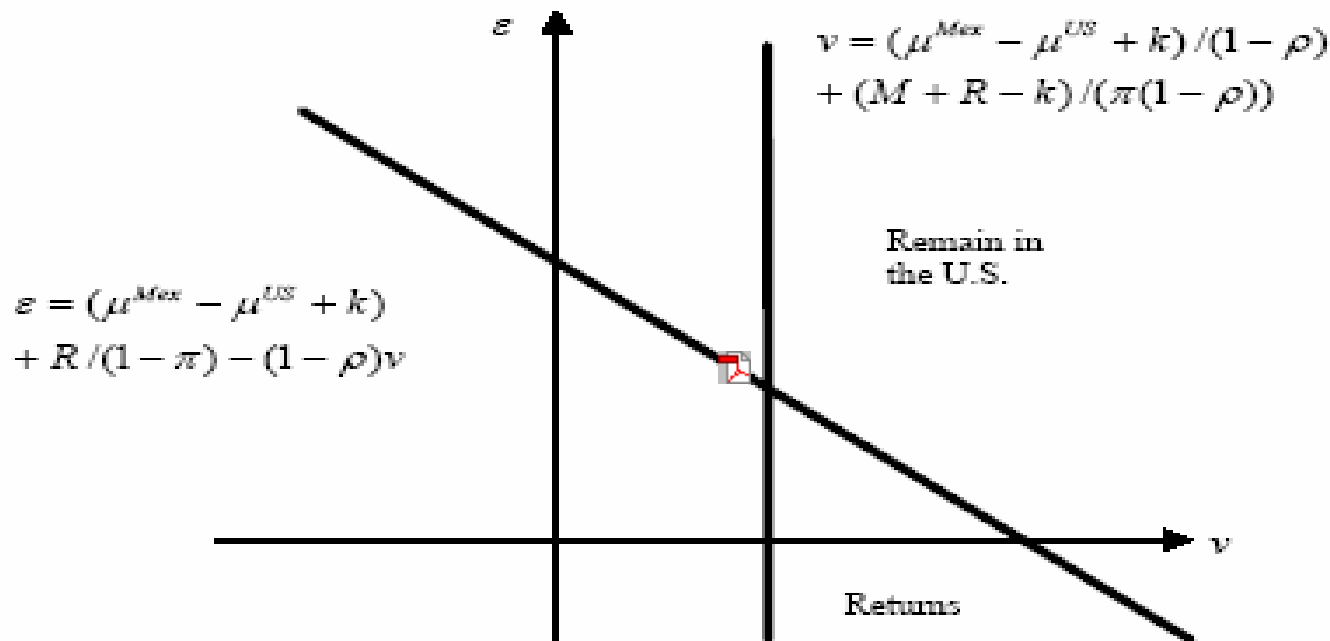


FIGURE 3

Figure 3 shows the decision of moving when returns to ability are higher in the United States than in Mexico. The first equation sets the cutoff above which high ability individuals migrate to the United States. When the actual wage in the United States is realized, people whose productivity is high enough decide to stay.

Model with Human Capital gains and uncertainty

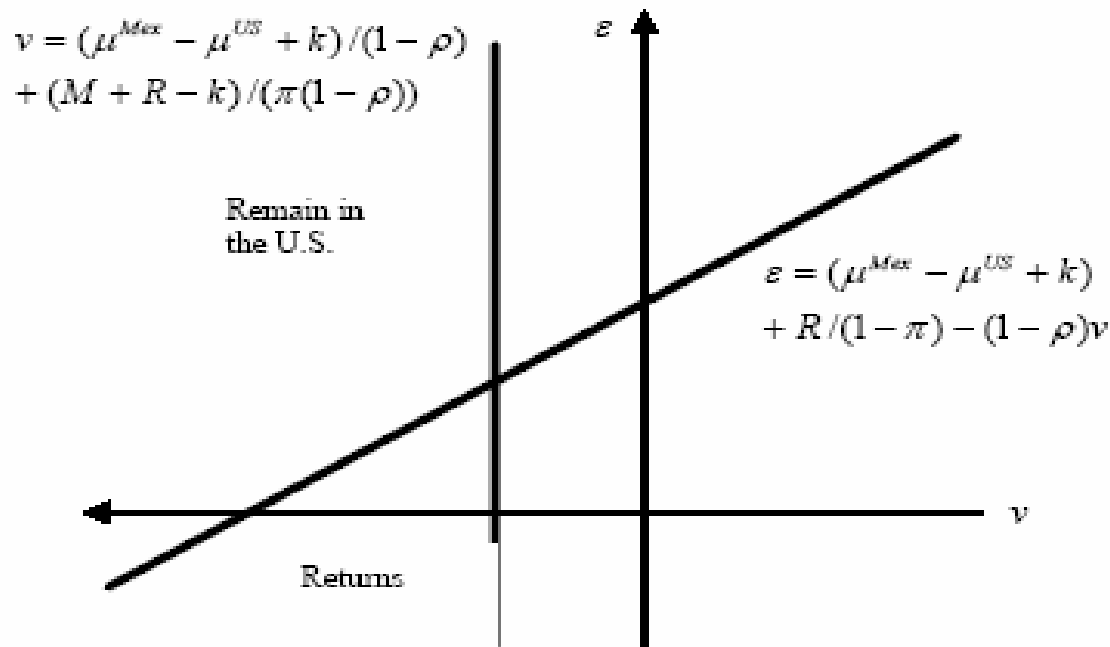


FIGURE 4

Figure 4 shows the decision of migrating and returning when returns to ability are higher in Mexico than in the United States. In this case, only low skilled individuals migrate and again, those who are more willing to migrate will be less likely to go back.

Insurance Role of workers' remittances

Importance of financial development, liberalization and deregulation making more easy and simply to send money back home.

Example: Western Union

Sector Analysis

You show the gain of wage due to increasing increasing migrant flow, but such a gain goes goes only to specific productivity sector. Like Like manual, construction, ect.!!!

Does it make a difference in terms of Business Business Cycle?

Policy Experiments

- The paper proposes a counter-cyclical tax on the the immigration wage as an alternative immigration immigration policy.
- Do results change if we consider another policy like like Consumption taxation?
- Part of the immigration is illegal, we can't observe all observe all the data, so part of the tax wage is underestimated.

What about consumption Taxation?

- The presence of remittances under consumption consumption taxation still leads to a reduction in in steady-state labor supply as the household spreads the additional resources across consumption and leisure. As in the labor tax case, case, the overall level of household disposable disposable income still increases, since the drop drop in domestic output is not enough to fully offset the increase in remittance income.

Investment/Consumption Impact Impact

Unskilled and immigrant only have impact on on the consumption side of the business cycle, cycle, especially in their country.

Remittance sent back home from the Foreign, Foreign, only have impact on consumption.

Is there really a business cycle?

Problems with Theoretical and Empirical Moments

- Data:

$$\sigma(\text{cons})_{\text{US}} = 0.75;$$

$$\sigma(\text{Inv})_{\text{US}} = 3.36;$$

$$\sigma(\text{cons})_{\text{Mex}} = 1.23$$

$$\sigma(\text{Inv})_{\text{Mex}} = 4.00$$

- Model:

$$\sigma(\text{cons})_{\text{US}} = 0.47;$$

$$\sigma(\text{Inv})_{\text{US}} = 2.97;$$

$$\sigma(\text{cons})_{\text{Mex}} = 0.83$$

$$\sigma(\text{Inv})_{\text{Mex}} = 5.59$$

Problems with Theoretical and Empirical Moments

- The insurance role of remittance, as an incentive to migrate, primarily fund consumption and accumulation of housing and real estate assets, rather than investment in business capital.
- May be some sort of borrowing constraint for the Foreign economy to match the real volatility in the data

Concluding comments:

Great and well-executed paper