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Book Review — Digitized Version


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The shortage of high-qualified labour, especially IT labour, has been on top of the agenda of innovation policy discussion in recent years in most advanced countries. The fact that this has bothered economic discussion too much is probably due to the idea that skilled labour and investment in knowledge capital are strategic complements. Hence, shortage of skilled labour will reduce the investment in innovation and new technology and so hamper productivity growth. Stephen Nickell and Daphne Nicolitsas in their *Human Capital, Investment and Innovation: What Are the Connections?* investigate whether this idea is empirically valid. To do this Nickell et al. introduce indicators of industry-level skilled labour shortage into firm-level investment and R&D spending equations which are estimated using dynamic panel data models. They find that human capital and R&D as well as investment in new equipment are strategic complements. Hence, human capital policy is an integral part of any modern innovation policy.

To sum up, the book is very useful to get a comprehensive overview about the current state of the art of productivity research. A common message throughout all contributions is that learning about the drivers of productivity growth is best done by employing disaggregated data either at the industry or the firm level. Aggregate productivity estimates are likely to result in invalid conclusions. The book also demonstrates that the measurement problems are severe. But the book offers various approaches to overcome such problems. Hence, the volume is highly recommended to anyone who is interested in productivity measurement especially with respect to the impact of new technology and innovation on productivity.

References


George Licht


It is well known that most economists advocate free trade and international capital mobility. Less known is that when it comes to international flows of labour, an increasing number of economists recommend tariffs and non-tariff barriers to migration. Even those who have repeatedly proposed to leave the allocation of immigration rights to the market mechanism are suspicious of laissez faire in this field; they seem to prefer some form of government intervention, be it a quota (to auction off a limited number of immigration slots to the highest bidder) or a tariff (to increase the price of
a slot until the demand for it is reduced), to manage the level, composition and direction of international labour flows. Three conferences on migration hitherto organized on behalf of the National Bureau of Economic Research (NBER) offer the opportunity to improve our understanding of why and how government intervention plays a role in the current debate on migration in academic and policy circles. While the first two conference proceedings address the labour market impact of migration, trade and capital flows in the U.S. and in the source countries, the latest volume, edited by George J. Borjas, Harvard University, focuses on the economic performance of immigrants in the U.S. and the effects of immigrants on the U.S. economy and society. It touches upon topics such as the wage structure and wage growth, human capital and the returns to schooling, diversity, employment rates, government programmes (public health, social security), and crime.

An introduction by the editor, himself one of the leading researchers in the field, gives the reader a well-structured overview of the book, the first two chapters of which analyze the economic performance of immigrants in the U.S. In Chapter 1, also written by the editor, a process known from neoclassical growth theory as convergence is modelled and applied to migration. Instead of the convergence of per capita incomes, Borjas studies the convergence of wages, i.e. the relationship between the initial wage earned in the host country at the date of arrival and the rate of wage growth experienced during the working life of immigrants. Not surprisingly and in analogy to growth research, absolute convergence does not obtain: regressing the rate of wage growth on the entry wage using U.S. census data yields only a weak positive correlation. Controlling for educational attainment of immigrants at the time of arrival in the regression yields the expected negative coefficient, the statistical significance of which can be further improved by resorting to a specification featuring fixed effects for the sending countries. Moreover, Borjas observes that over time the present value of earnings is fairly stable across different cohorts, although the wage gaps between immigrants from different countries of origin never converge. By regressing the entry wage and the rate of wage growth on several source-country characteristics as well as on the degree of geographical concentration of immigrants in the U.S., evidence for a complementarity between human capital acquired abroad and that acquired in the U.S. is revealed. The indication is that the same source-country characteristics that allow immigrants to start from a relatively strong position in the U.S. also lead to more human capital accumulation later and to faster wage growth. However, by the same token, over time, the assimilation process “may actually increase income inequality among ethnic groups in the immigrant population” (p. 47), i.e. the catching-up of low-skilled immigrants with their fellow immigrants endowed with higher skill turns out to be rather difficult, given the huge differences in the initial educational endowment of immigrants.

The second chapter of the book, prepared by Julian R. Betts, University of California, and Magnus Lofstrom, Institute for the Study of Labour, Bonn, presents a census-based picture of educational attainment of immigrants in the U.S. The authors conclude that the immigrants’ education level as compared to that of natives declined in the 1970s and 1980s and that the educational attainment of immigrants tends to converge over time to that of similarly aged natives. More than half of the wage gap between natives and immigrants can be explained by differences in schooling. Returns

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to schooling are found to be higher for natives than for immigrants, even in the case in which post-migration investments in human capital are undertaken, although for the immigrants themselves post-migration investments generally yield greater payoffs than pre-migration investments. In the spirit of the results presented by Borjas, Betts and Lofstrom also find differences in the returns to education prevailing among the different ethnic groups of the immigrant population. In addition, their evidence supports the hypothesis that immigrants may crowd natives, especially minorities, out of school.

Edward P. Lazear, Stanford University, enquires into the impact of diversity (i.e. of a heterogeneous workforce) on the gains from immigration accruing to natives (Chapter 3). His model predicts that such gains are likely if individuals (natives and immigrants) possess very different (but complementary) information and if immigrants are, at the same time, fluent in English, i.e. able to communicate with natives. Armed with both criteria, the author takes a look at current U.S. immigration policy and concludes that it does not encourage diversity because it fosters the immigration of relatives of U.S. residents from a relatively small number of supplier countries. In addition, current immigration policy is shown to select immigrants with a rather low English language proficiency. Therefore, in Lazear’s view, immigrants characterized by regional clustering and a lack of language skills tend to reduce the welfare gains from immigration accruing to natives.

Using microlevel data from the 1980 and 1990 U.S. censuses, Edward Funkhouser, University of California, studies the causes and consequences of the differences that exist between the (initial) employment rates of immigrants and those of natives (Chapter 4). His regressions imply that differing employment rates converge relatively fast and that, somewhat surprisingly, controlling for immigrant characteristics, such as age, education, race, region of origin, and year of arrival, does not alter much the findings concerning the absolute convergence of employment rates. The way source-country labour markets function seems to explain part of the convergence behaviour. Another result is that the more skilled immigrants are, the larger the disadvantage experienced by them in the early years after migration is. The latter could be taken as an indication that human capital is largely country-specific and not easily transferable between countries.

Several authors exploit new data sets to revisit old hypotheses or study the empirical relevance of new ones. Guillermina Jasso, Mark R. Rosenzweig and James P. Smith, New York University, University of Pennsylvania and RAND Corporation, respectively, address recent trends in and determinants of the skill level of immigrants to the U.S. (Chapter 5). In contrast to the familiar perception, found among others in the work of Borjas, that the educational attainment of new immigrants is quite low and that it has been declining relative to that of natives, the authors conclude that the “labour market quality of male legal immigrants has been as high or higher than that of male native-born workers” (p. 222). They reach this conclusion by using a different data set that is said to avoid most of the flaws attributed to the data used by other researchers. Among the determinants studied is the evolution of the legal framework for immigration into the U.S. which is shown to have an influence on the skill composition of the immigrant population. David Card, University of California at Berkeley, John DiNardo, University of California at Irvine, and Eugena Estes, Princeton University, also take advantage of new data and enquire into the performance of the descendants of immigrants, a topic not very frequently addressed in migration research (Chapter 6). Their major findings are that the “rate of intergenerational “assimilation” in educational attainment has remained stable over the last 50 years and that the rate of intergenerational “assimilation” in earnings has also remained constant” (p. 264). Moreover, “children of immigrants tend to have noticeably higher education and wages than children of natives” (p. 264). Thus, “other things equal, being a child
of immigrants is associated with greater socioeconomic success in the United States” (p. 264).

The last three chapters of the book deal with health insurance (Chapter 7), social security benefits (Chapter 8) and crime (Chapter 9). Janet Currie, University of California at Los Angeles, presents a very thorough (empirical and institutional) analysis of the eligibility for and utilization of health insurance in relation to children of immigrants. She concludes that while this group of the population is more likely than other children to be eligible for Medicaid, immigrants turn out to have lower average utilization rates which is tantamount to say that “the marginal cost of extending Medicaid eligibility to the children of immigrants appears to have been small” (p. 299). Currie also notes that “reducing Medicaid eligibility for these children will not necessarily save money as long as children remain eligible for costly emergency care” (p. 299). And, “in fact”, she adds, “costs could increase if lack of preventive care eventually increases the number of emergency cases” (p. 299). The paper by Alan L. Gustman and Thomas L. Steinmeier, Dartmouth College and Texas Tech University, respectively, investigates whether the foreign-born population enjoy higher returns than natives under social security. After carefully scrutinizing the current American social security system they discover that it treats years of residence outside the U.S. as years of zero earnings and that this is why immigrants who did not spend their whole working lives in the U.S. might benefit from the system’s redistribution of income in favour of low lifetime earnings. However, the authors point out that the system’s bias is by no means a great disadvantage for natives, since the system itself has clearly benefited from the contributions of immigrants, thereby improving its capability to serve natives. Moreover, “most immigrants . . . who remain in the U.S. will pay more taxes than they will receive in benefits” and “taxes received from immigrants who subsequently emigrate without collecting benefits tip the balance” (p. 348) in favour of natives. Finally, Kristin F. Butcher, Boston College, and Anne Morrison Piehl, Kennedy School of Government, Harvard University, touch upon the risk of deportation in the incarceration of immigrants and the increasing share of the social cost of crime being borne by the States.

The NBER volume edited by Borjas includes several excellent papers and many new (and contestable) results concerning some of the most debated issues in immigration theory, research and policy. Readers will realize that the microeconomic evidence on the effects of immigration on the welfare of natives presented is rather mixed. However, this is precisely the main reason why the volume can be recommended to policymakers as a valuable guide for the design of balanced policies and to graduate students and academics as a starting point for future research.

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