

**A CRITICAL LITERATURE REVIEW ON THE IMPACT
OF IMMIGRATION ON THE ECONOMY OF THE HOST
COUNTRY**

KOMEN HARON CHEBET

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DECLARATION

This independent conceptual study paper is my original work and has not been presented for examination to any other college, institution or university

Sign. .....

Date. 23-06-2016.....

KOMEN HARON CHEBET

D80/93964/2014

This independent conceptual study paper has been presented for examination with my approval as the University supervisor.

Sign. .....

Date. 25-06-2016.....

DR. JOHN YABS

SENIOR LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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ABBREVIATIONS AND ACRONYMS

IOM	-	International Organisation for Migration
GDP	-	Gross Domestic Product
NEM	-	New Economic Theory of Migration
FDI	-	Foreign Direct Investments
SSI	-	Supplementary Security Income
IRCA	-	Immigration Reform and Control Act
NZIER	-	New Zealand Institute of Economic Research
OECD	-	Organization for Economic Cooperation and Development
US/A	-	United States of America

DEFINITION OF TERMS

- Migration** - The action of coming to live permanently in a foreign country
- Immigration** - The place where authorities check the documents of people entering or coming out of a country
- Emigration** - The act of leaving one's resident country with the intent to settle elsewhere.
- Mixed Migration** - A movement of various categories of people into a new country for permanent settlement because of varying push and pull factors
- Host Country** - The country where the immigrant resettles
- Home Country** - The country from which the immigrant originates
- Native** - The original inhabitants/citizens of a country or region.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Migration has intrigued researchers in the recent times. The print of electronic media is at present teaming with news of migrants swarming Europe.

Since knowledge at present travels faster in multiple ways through hand – held gadgets, the individual will likely make informed decisions to move faster than before.

Human migration has been a universal phenomenon since the commencement of humanity. A wide range of people perceive the opportunity to choose one's place to live in as a valuable tool for improving one's life. Migrants and policymakers would benefit from knowing whether migrants' outcomes reflect their aims and expectations. Migration to another country is one of the most impactful decisions in life as migration breaks the systematic patterns in which people live their lives. Changes can occur in the work sphere, in social life, and in the external environment, among others. Reflecting its importance, the decision to emigrate is typically a thoroughly evaluated choice that is driven by principal motivators in life (Hendricks 2015).

1.2 Overview of Immigration

Migration may be put in other smaller categories which are emigration, immigration or mixed migration depending on the direction and the push or pull factors that influence migration. The main focus for this study paper will be immigration and its impact on the receiving (host) country. The individual is the atomic ingredient of the market and the government's taxation decisions. In addition, the individual person is the procreator of any business; no business can start on its own.

Recent research has shown that migrants have little worry over guaranteeing basic survival needs; they move because they feel relatively unhappy compared to people with similar socio-economic characteristics and feel restricted in off-setting this gap when staying in their country of origin (Graham and Markowitz 2011; Otrachshenko and Popova 2014; Chindarkar 2014). This finding concurs with well-being studies that argue

that a satisfactory and joyful life becomes a powerful behavioural driver when the survival motive is satisfied (Diener 2000).

Correspondingly, the IOM (2013: 75) concluded in the 2013 World Migration Report that ‘The most fundamental questions they (migrants) must ask themselves, therefore, are whether they will be happier if they migrate. An interesting query is whether their presence will bring in any impact whether positive or negative to the host country. The individual is the basic unit for a market while at the same time the primary unit that contributes to a nation’s economy through consumption and taxation.

This query has become more prominent in recent decades as geographical mobility has increased. The number of people living outside of their home countries rose from 75million in 1975 (representing 2.2 per cent of the world population) to 150 million in 2000, reaching 214 million in 2010 (representing 3.1 per cent of the world population), and an estimated 405 million people will have migrated by 2050 (IOM 2010). This upward trend promotes the expectancy that migration is a viable strategy to improve one’s life. Millions of people would not have opted for emigration if they had not expected it to improve their life. However, people face difficulties in predicting the outcomes of choices and therefore frequently make sub-optimal decisions (Kahneman 2011). Even the most important and thoughtful choices in people’s lives are not immune to these forecasting biases (Frederick and Loewenstein 1999), to which the migration decision is no exception (Schkade and Kahneman 1998). The most prominent cause of the forecasting bias among migrants is the failure to anticipate that the improved circumstances lose their effect over time after the initial ‘migration honeymoon period’.

An interesting paradox conveyed by Bařlt,ařtescu (2007) is that immigrants who experience improved objective well-being do not by definition experience improved subjective well-being, and vice versa. This implies that migrants undervalue the negative effects of relinquishing intrinsic factors such as social capital and cultural identity (Portes 2000). A final issue is that following migration, a sizeable proportion of migrants conclude that they had been overly optimistic about their chances of obtaining their desired living conditions in their place of settlement (Benson and O’Reilly 2012; Mařhořnen, Leinonen and Jasinskaja-Lahti 2013). They mistakenly believed that the

grass is greener on the other side 'of the border', frequently combined with overconfidence in their abilities to exploit potential advantages. Taken together, the forecasting biases can result in fruitless, or even backfiring, attempts at migration.

There is great interest and concern about the economic impact of the large numbers of immigrants' both legal and undocumented to the host countries. The distribution of immigrants' education and skills, compared to those of native-born citizens, produces adverse effects on the incomes of low-skilled natives, positive effects on the incomes of skilled natives and overall gains in national income and Gross Domestic Product (GDP). Furthermore, legal changes which enable undocumented immigrants to secure legal status, and thus qualify for minimum wage, would increase the overall gains to GDP or national income, and generate positive wage effects for low-skilled native-natives (Shapiro and Vellucci 2010). Economists have long known that immigration redistributes income in the receiving society. Although immigration makes the aggregate economy larger, the actual net benefit accruing to natives is small, equal to an estimated two-tenths of 1 percent of GDP. There is little evidence indicating that immigration (legal and/or illegal) creates large net gains for native-born citizens (Borjas, 2013).

A number of recent studies have argued that an increase in trade generates external returns in the aggregate economy (Helpman and Krugman, 1985). Immigration expands the size of the market. It can introduce many new interactions among workers and firms, so that both workers and firms might "pick up" knowledge without paying for it. As a result, even though the production technology at the firm level has constant returns to scale, the external effects resulting from immigration might lead to increasing returns on the aggregate (Borjas, 1995).

The spread of research over various disciplines has restricted researchers from reaching overall conclusions on the following issues: do migrants bring any impact to the host country? And do migrants become as happy as 'natives' in the host country? Do migrants affect the performance of an individual business entity? This paper integrates the interdisciplinary findings on these questions in a systematic review of the research findings. In this paper, a review of literature assessing the impact of different factors

which include economic restructuring and immigration—on the current patterns of immigration.

CHAPTER TWO

THEORITICAL CONCEPTUAL LITERATURE REVIEW

2.1 Introduction

This chapter discusses the various theories developed by researchers and organizations overtime. It also discusses the explanations regarding the theories that explain why and how people migrate from one point to another.

2.2 Economic Theories on the Effects of Immigration

Theories of migration have to account for very complex migration regimes which encompass migration flows from industrializing to mature economies, reduced costs of transportation, cheaper and more rapid communication – particularly social media, increasing governmental intervention and a greater circularity of movements in an era of trade interdependence and globalization (Arango 2000; Massey 1999). This review outlines the key theoretical models of economic growth that incorporates migration. They include neoclassical theory of Migration, New Economic Theory of Immigration and World Economic Theory.

2.1.1 Neoclassical Theory of Migration

The underlying assumption of this theory is that migration is stimulated primarily by rational economic considerations of relative benefits and costs, mostly financial but also psychological (Todaro and Smith 2006). The central argument of the neoclassical approach thus concentrates on wages. Under the assumption of full employment, it predicts a linear relationship between wage differentials and migration flows (Bauer and Zimmermann 1999; Massey et al. 1993; Borjas 2008). In the extended neoclassical models, migration is determined by expected rather than actual earnings and the key variable is earnings weighted by the probability of employment (Bauer and Zimmermann 1999; Massey et al. 1993).

The neoclassical theory of migration has been subject to a conceptual critique and rich empirical testing. While rigorous, it has been viewed as mechanically reducing migration determinants, ignoring market imperfections, homogenizing migrants and migrant societies and being ahistorical and static. It generally ignores the effects of home and host states and leaves out the importance of politics and policies, which are only considered as

distortion factors or additional migration costs. Human capital theory has been criticized for presenting an overly optimistic view of migration which is not always a voluntary process to maximize gains. In their review of migration research within Europe by different theoretical approaches Massey et al. (1998) found that a positive relationship between wage differentials and migration flows – while generally sustained – was by no means the strongest predictor of migration levels. Widespread dissatisfaction with neoclassical economic explanations and the push-pull framework led to the emergence of new theoretical perspectives which seek to analyze interplay of individuals, motivations and contexts” better than the neo-classical framework (Massey et al. 1998).

2.1.2 New Economics Theory of Migration (NEM)

The key argument in this theory is that migration decisions are not made by isolated individual actors but typically by families or households. Further, the decisions of migrants are influenced by a comprehensive set of factors which are shaped by conditions in the home country. As such, migrant decisions are not based purely on individual utility-maximizing calculations but are rather a household response to both income risk and to the failures of a variety of markets – labor market, credit market, or insurance market (Massey et al. 1993). Hence, migration in the absence of meaningful wage differentials or the absence of migration in the presence of wage differentials, does not imply irrationality but rather compels us to consider a set of other variables related to relative deprivation (a household performing relatively worse than other households will be readier to send a member abroad) and risk-aversion and risk-minimization of household income (Stark 1991; Stark 2003).

While being able to analyze in parallel the determinants and effects of migration, the NEM has been criticized for sending-side bias and for its limited applicability due to difficulties in isolating the effects of market imperfections and risks from other income and employment variables. Overall, the theory has not received much following or empirical testing. Essentially a social choice account, it has also been critiqued for overlooking dynamics within households (i.e. gender roles) and being too heavily future oriented (Faist 2000).

2.1.3 World System Theory

Building on Wallerstein (1974), the world system theory links the determinants of migration to structural change in world markets and views migration as a function of globalization, the increased interdependence of economies and the emergence of new forms of production (Massey et al. 1993; Sassen 1988; Skeldon 1997; Silver 2003). The expansion of export manufacturing and export agriculture linked strongly to Foreign Direct Investment (FDI) flows from advanced economies to semi-developed or emerging economies has led to a disruption in traditional work structures and has mobilized new population segments into regional as well as long distance migration. Capital mobility is hence a crucial factor for the world system theorists. The theory presents capital and labor mobility as interconnected and as two sides of one coin. While migration is a natural outgrowth of the disruptions and dislocations that inevitably occur in capitalist development and can be observed historically, the theory also brings in global political and economic inequalities.

Historical-structural approaches deny that individuals truly have free choice in making migration decisions and present them in more deterministic forms, as pressured into movement as an outcome of broader structural processes (de Haas 2008). The study of international migration in the recent years has lost a lot of the world systems or global development perspective that was present in the earlier works, perhaps also due to the fact that it is difficult to derive a set of testable hypotheses and the character of this framework is strongly descriptive because it emerged as *ex ante* formulation of empirical facts (Favell 2008a; Bijak 2006).

CHAPTER THREE

EMPIRICAL CONCEPTUAL LITERATURE REVIEW

3.1 Introduction

This chapter looks at the published empirical studies and findings by researchers on the subject of immigration, the effects of immigration on the overall wages of native workers whose skills the immigrants similarly possess, the effects on entrepreneurship, fiscal character of the host country and labour utilization. Further, the chapter views immigration as a manifestation of global connectedness as well as the difficulties or challenges encountered in attempts to measure the impact of immigration. To some extent, immigration has its positive or beneficial impact both to the immigrating individual and the host country.

3.2 Impact of Immigration on Wages

Borjas (1994) did a survey and the empirical evidence indicated that more recent immigrant waves remained economically disadvantaged throughout their working lives; that this disadvantage may be partly transmitted to their offspring; that recent immigrants are more likely to participate in welfare programs than natives; and that immigration may have contributed to the increase in wage inequality observed during the 1980s in the USA. Although models that incorporate external effects in the aggregate economy are used frequently in modern discussions of the gains from trade, there is little empirical evidence supporting the existence, let alone measuring the magnitude, of the external effects (Dekle and Eaton, 1994). As a result, the numerical exercise should not be interpreted as indicating that immigrants contribute substantially to the incomes of natives, but rather as giving a ball park estimate of what the gains would be if immigration indeed generated increasing returns in the aggregate economy. Despite the current popularity of external effect models in the theoretical international trade literature, it is difficult to imagine that immigrants entering an economy as large as that of the United States could generate any types of externalities. Most likely, immigration would lead to increased congestion and decreasing returns to scale because other factors of production remain fixed (Borjas, 1995).

Empirical work on the economic effects of immigration has focused largely on wages. Consistent with the theoretical work, these studies have generally found a small, net impact on the overall wages of native-born workers and much larger distributional effects. A literature review in 2005 examined 344 estimates from 18 studies covering the United States and other advanced nations, and found that when immigrants increase their share of the labor force by one percent (roughly 1.5 million people in the American case), it affects overall wages by just 0.119 percent (Longhi et al 2005). This modest, even ambiguous result points to the basic fact that immigrants and most native-born Americans do not compete for the same jobs (Friedberg and Hunt, 1995). Other empirical studies also have found significant effects on the wages of low-skilled Americans. Immigrants with very few skills are often close substitutes for other workers with few skills; and the rising numbers of new immigrants without high-school diplomas (Shapiro and Vellucci, 2010), have clearly affected the wages of low-skilled workers. The study suggests, however, that the greatest losers are not native-born Americans but other immigrants who arrived earlier, with one study estimating that a 10 percent increase in immigration depresses the wage of other immigrants by 2 percent (Cortes, 2008). These results are supported by studies on the impact of new immigrants on wages in particular cities, such as the influx of Cubans to Miami in 1980, and studies comparing cities with and without large numbers of recent immigrants. This research almost uniformly has found very modest or insignificant effects on the jobs and wages of native-born workers) Bodvarsson and Van den Berg (2009), including young African-Americans and Hispanics (Altonji and Card, 1991). Another study done in Miami also found no evidence that the influx of Cubans drove down the wages of low-skilled Miamians, although the Miami economy had an unusually strong demand for unskilled workers, and that the well-publicized influx of new Cuban immigrants may have discouraged immigration there by other groups (Card, 1990).

There is some evidence that such small effects on low-skilled native workers may reflect not only immigrants favoring cities with high demand for their labor, but shortcomings of the studies themselves (Borjas, 2003). For example, an adverse effect on wages could be statistically obscured if the places where the new immigrants settled started out with higher wages and just moved closer to the average, or if the competition from new

immigrants drove some native, low-skilled workers to move to other places. These critiques are supported by certain domestic migration patterns. One study found that an increase of 10 immigrants in a metropolitan area is associated with an emigration of three-to-six native born Americans (Borjas, 2006). Another study estimated that a one percent increase in the labor force in certain areas derived from immigration between 1975 and 1980 resulted in a 1.2 percent reduction in net migration to those places by native-born Americans, especially by low-skilled and less educated workers (Filer, 1992).

On balance, most of the empirical research finds indicate that immigration produces some modest overall wage gains and modest adverse effects on the wages of low-skilled workers, including earlier immigrants. One leading study by Ottaviano and Peri (2006) found that the waves of new immigrants from 1990 to 2004 increased the average wage of native-born Americans by 0.7 percent in the short-run and 1.8 percent over the long-term, as capital investment increased to take account of the larger number of workers. However, it also estimated that this wave of immigration cost Americans without high school diplomas 2.2 percent of their real wage in the short-run and 1.1 percent over the long-term. Other empirical work has further found that immigration is also associated with widening wage gaps based on skills: The wage gap between the lowest-skilled natives and middle-level skilled natives was 3 percent to 5 percent higher in cities with large numbers of recent immigrants than in places with less immigration (Card, 2007). Other studies also have found that immigrants have taken the place of low-skilled Americans in agriculture and certain services (Smith and Edmonston 1997), but it is not clear whether American workers already were leaving those sectors, perhaps for higher-paying jobs. It is also possible that without low-wage immigrant labor, imports might have displaced some of U.S. domestic agriculture, reducing jobs for Americans and raising the price of food for everyone.

A number of studies have also examined the economic effects of immigration by people with advanced skills. Most of these studies have found no negative income effects for highly skilled natives, in part because many high-skill professions have labor shortages. For example, one recent analysis (Orrenius and Zavodny 2006), found that immigration from 1994 to 2000 led to modest increases in the wages of professionals and service

workers. It also found certain negative income effects tied not to new high-skilled immigrants, but to those who had arrived some time earlier. This suggests that high-skilled jobs require great proficiency in English and sophisticated institutional knowledge, which makes new, skilled immigrants less than perfect substitutes for Americans; but over time, assimilation makes those immigrants more competitive with native-born workers. Similar results have been found in studies of highly-skilled immigrants in other societies, such as the large influx of well-educated Russians to Israel from 1990 to 1994 (Friedberg 2001). However, one analysis which focused on new immigrants to the United States with doctorates in science did estimate that a substantial increase in such immigrants led to lower earnings by American and resident, foreign-born scientists and engineers with the same degrees (Borjas 2005).

3.1.1 Other Economic Effects of Immigration

Immigration has numerous other economic effects, although many of them have not yet been analyzed carefully. One study found that immigration to an urban area equal to one percent of its population is associated with a one percent increase in rents and housing values; (Saiz, 2006) but other research suggests that such increases in the gross rents of Americans are accompanied by increases in their incomes, leaving the economic burden of their rents unchanged (Greulich et al. 2004). The impact of immigration on entrepreneurship and innovation is clearer. Immigrants are generally people who plan and choose to uproot themselves to another nation and culture, and therefore are commonly considered to be on average more aggressive and entrepreneurial than others in their home countries. One often-cited study found that the average share value of Silicon Valley start-ups run by immigrants from China and India increased from 12 percent in the 1980-1984 period to 29 percent in the 1995-1998 period, following large increases in immigration from those countries (Saxenian, 1999). Other research has found similar results nationwide: Immigrants helped to establish one-quarter of all startups in the engineering and technology sectors from 1995 to 2005; and by 2005, these startups recorded \$52 billion in sales and employed some 450,000 workers (Wadhwa et al. 2008). Other analyses have found that across all industries and sectors, immigrants are 30 percent more likely to start their own businesses than native-born Americans and account for 12.5 percent of all business owners (Fairlie, 2008). Most of these new businesses are

not in technology or science, but in services, construction, wholesale trade, recreation, and arts and entertainment. This entrepreneurial phenomenon is not limited to highly-skilled immigrants: Immigrants without high school diplomas, who account for about 31 percent of all immigrants, comprise an estimated 27 percent of all immigrant business owners.

3.1.2 Fiscal Effects of Immigration

Immigration has some significant effects on the national budget, both positive and negative. Low-skilled immigrants, both legal and undocumented, impose a net burden on government budgets, receiving benefits that exceed the taxes they pay. However, the same holds true for many Americans, especially in a period when federal spending far exceeds federal revenues. Moreover, the tax payments of highly-skilled immigrants exceed the benefits they claim, especially since most immigrants are relatively young; and empirical research generally suggests that their contributions offset the net costs of other immigrants. One recent analysis that reviewed empirical studies of the fiscal effects of immigration in Europe and the United States found that the net fiscal burden or contribution of immigration is equal to a negative one percent to a positive one percent of GDP (Rowthorn, 2008). Many of these studies use a static model to estimate these net costs or contributions, taking a snapshot that usually covers one year and therefore does not take account of how the economic status of immigrants changes over time. More dynamic models attempt to consider the net fiscal effects of immigrants and their descendants over a lifetime (Hill et al 2010). For example, the waves of young, payroll-tax-paying immigrants in recent years, with higher labor participation rates than native-born Americans, may relieve some of the long-term fiscal stresses associated with the aging of the American population and the rising attendant costs of Social Security and Medicare. The static estimates also do not take account of the taxes paid by U.S.-born children of immigrants who no longer live in immigrant-headed households (Smith and Edmonston 1997).

A landmark study by the National Research Council employed both static and dynamic analyses of the fiscal effects of immigration (Hill et al 2010). The static analysis measured the fiscal impact of immigrants on states and localities, based on estimated

costs in New Jersey and California; and the analysis found that immigrants generate a net state and local fiscal burden equivalent to between \$166 and \$226 per-native household, or less than one-half of one percent of average household income. Furthermore, the analysis found that immigration also produced a net fiscal contribution or surplus at the federal level, when national defense is treated as a pure “public good” that does not increase as the number of immigrants rises (Auerbach and Oreopoulos, 2000). This part of the analysis concluded that the average immigrant household in New Jersey and California made an estimated net annual contribution to the federal budget of \$520 and \$127, respectively. The study also analyzed the dynamic, long-term fiscal effects of immigration and found that the average net present value of the lifetime fiscal effect of immigrants and their descendent was equal to \$80,000 per immigrant (Smith and Edmonston, 1997). On an individual basis, the dimensions of this contribution depend on the immigrant’s age arriving in the United States and education: Unsurprisingly, young and highly-educated immigrants generate the largest fiscal contributions. An immigrant who arrives as a young adult typically does not attend American schools, the largest fiscal burden for local and state governments, and works in ways that generate tax revenues. Those who arrive as children do not only take advantage of taxpayer-financed education but also face a lifetime of paying taxes equivalent to the taxes paid by Americans with the same education and skills. Furthermore, the second generation of immigrants, on average, is better educated and earns higher incomes than their immigrant parents, producing net fiscal benefits (Card 2005); and within two generations, the educational and income characteristics of the descendents of immigrants are indistinguishable from native-born Americans.

The educational level of immigrants when they arrive also, naturally, has powerful fiscal implications. One study estimated that if the share of immigrants who are highly-skilled and are 40 to 44 years old increased from 0.44 percent to 0.62 percent (1.6 million immigrants), the fiscal effects could largely eliminate future budget deficits (Storesletten 2000). And the largest fiscal burdens are associated with new, elderly immigrants, who have paid no taxes but may be eligible for Medical aid and Supplemental Security Income (SSI). As a general proposition, therefore, the fiscal effect of immigration is generally positive at the federal or national level, where benefits are highly concentrated

on older recipients, and generally negative for the relative handful of states and localities with large shares of recent immigrants, especially those with school-age children (Smith and Edmonston 1997).

3.1.3 The Impact of Undocumented Immigrants

The prevailing image of undocumented workers almost in every host country is that of a population with low levels of educational attainment, employed in sectors supplying low-skilled jobs. This stereotypical view is reinforced by the frequent images portrayed in the media of millions of unskilled Mexican and African immigrants who illegally cross the border into Europe and the U.S. every year. It is a perception that is shared by most migration scholars. For example, in an analysis of a sample of illegal immigrants in Chicago, Illinois, Chiswick (1988: 143) concludes that “most illegal aliens have low levels of schooling.” Similarly, a recent report from the National Academy of Sciences (1997: 7) observes that, compared to legal immigrants: “illegal immigrants who are generally more poorly educated.” And in a recent book, Borjas (1999:206) refers to the employers of illegal immigrants in the U.S. as “large agricultural enterprises, sweatshops, and native households that hire illegal aliens as maids or nannies”. Since most undocumented workers remain in host country’s economy largely undetected, existing profiles of illegal immigrants emerge mostly from the accounts of journalists or from particular case studies carried out by social scientists. The fact is that the views displayed in public discussions of illegal immigration are subject to the limited data utilized to describe this population.

Undocumented immigrants also are the fastest-growing segment of the labor force, growing from 6.3 million out of a total labor force of 146.5 million in 2003 to 8.3 million in a labor force of 154.3 million in 2008. This increase of 2 million represented a 31 percent increase in absolute numbers in just five years, and their share of the labor force rose from 4.3 percent to 5.4 percent (U.S. Census Bureau, Statistical Abstract, 2009 and 2010). Further, undocumented workers are much more likely than legal immigrants to work in service jobs, construction and farming, and, to a lesser degree, more likely than legal immigrants or native-born to hold jobs in production, installation and repair job, and in transportation and the moving materials (U.S Census Bureau, 2010). At just 5.4

percent of the labor force, undocumented immigrants account for 25 percent of agricultural workers, 19 percent of building and grounds-keeping maintenance personnel, 17 percent of construction workers, as well as disproportionate shares of workers in food preparation and service, production, and transportation and moving materials (Passel and Cohn 2009).

The Immigration Reform and Control Act (IRCA) of 1986, which granted legal status to 1.7 million long-term undocumented immigrants, provides a natural setting to examine the effects of legalization on wages and jobs. The Pew Hispanic Center has estimated that undocumented immigrants currently account for 30 percent of the country's total foreign-born population and five percent of the workforce (Passel and Cohn 2009). Much of the relevant research has focused on the impact on the wages of the newly documented immigrants themselves. These studies have found wage gains after four years of 6 percent (Kossoudji and Cobb-Clark 2002), 9.3 percent (Amuedo-Dorantes et al. 2007) and 15 percent (Rivera-Batiz 1999) for men, and 21 percent for women (Amuedo-Dorantes et al. 2007). One study focused on manufacturing workers found positive but negligible effects, with every one percent increase in the proportion of legal immigrants associated with a one-hundredth of one percent increase in the average manufacturing wage (Cobb-Clark et al. 1995).

Other research tends to confirm that while the new immigrants experience the largest wage increases, the wages of native-born workers also increase. For example, one new study estimates that immigration reforms that create a path to permanent status increase the annual wages of newly-documented immigrants by \$4,405 for less-skilled jobs and \$6,185 for highly skilled positions, and also push up the annual wage of Americans by \$162 for less skilled jobs and \$74 for the more highly skilled ones (Hinojosa-Ojeda 2010). Another recent study has questioned these positive effects, finding that reforms have neither positive nor negative wage effects unless the previously-undocumented workers are highly-skilled (Hitt et al 2010). That study, however, examined only the short-term wage effects, four to thirteen months following legalization; and its authors acknowledge that wages effects could emerge with more time. Other research supports this view, especially if legal status enables newly-documented immigrants to “move more

freely within the US to areas with low unemployment rates and pent-up demand for low-skill workers (Orrenius and Zavodny 2004).”The wage effects of immigration reform are also linked to its impact on workplace violations in labor markets with large numbers of low-wage immigrant workers. A recent landmark study of more than 4,000 workers in low-wage industries in Chicago, Los Angeles and New York City found widespread violations of minimum wages and overtime laws as well as “off the clock” and meal-break regulations, affecting both immigrant and American workers (Bernhardt et al. 2009).

Some 26 percent of the workers surveyed were paid less than the minimum wage, including 16 percent of the native-born workers, 26 percent of legal immigrants and 38 percent of undocumented immigrants. The study found that the violations cost an average worker \$2,634 annually or about 15 percent of their earnings. Since the violations are significantly more common among undocumented workers, the research strongly supports the view that immigration reform could significantly increase the wages of formerly undocumented immigrants, which in turn would limit the ability of employers to exploit the undocumented status of some workers and thereby reduce downward pressures on the wages of Americans working in the same occupations and industries. This conclusion is supported by other research which finds that newly-legalized workers invest more in education and efforts to improve their English speaking skills, further raising their wages; and greater competition from these workers can induce some lower-skilled native workers to acquire more skills and education as well, raising their wages. A recent study estimates that these effects could generate gains of \$180 billion over time, equal to nearly 1.3 percent of GDP (Dixon and Rimmer 2009).

3.1.4 Labor Utilization

Migration clearly affects labor utilization through the labor force participation rate and the unemployment rate. The extent to which migration affects these rates has a direct effect upon labor utilization and thus on output. Differing groups of migrants, with different labor market characteristics, will have varying effects on participation. The literature provides solid data on the participation of various groups of migrants. Migrants

can affect labor utilization through three channels: the unemployment rate, participation rate and average hours worked (Moody, 2006).

Poot et al (1988) and Winkelmann (1999) did a study and found out that male immigrants from UK and Australia had higher unemployment rate at the onset of their residency but that they converged to New Zealand-born levels and then fell below native rates within three years of residence. These findings suggest that male immigrants to New Zealand from UK and Australia face lower barriers to employment than other migrant groups. Analysis of the 2001 census compared to 1996 census demonstrated that the employment rates of recent working age migrants had improved from 46 percent in 1996 to 50.4 percent in 2001 (Boyd 2003). The remainder were either unemployed (8.7 percent) or not in the labor force (40.9 percent). The employment rate gap between recent prime working age migrants and the New Zealand born had narrowed between census, although the gap was still significant at 17.8 percent in 2001. From 1996 to 2001 there was also an increase in employment rates for the native population which sit at around 80 percent. For example, the 45-49 year-old age group had the highest rate of employment at 82.4 percent (Boyd 2003). Analysis of the 2001 census data carried out by the Department of Labor showed that employment rates were lower for migrants from non-English speaking countries. Prime working age migrants from non-English speaking countries had consistently lower employment rates than similar migrants from English speaking countries or the New Zealand born (New Zealand Department of Labour 2004).

Analysis of the 2001 census data showed that North East Asian migrants had the highest non-participation rates at 51.5 percent, compared to South East Asian migrants at 33.6 percent and migrants from the Pacific at 30.4 percent. These results show that a large section of the migrant population is not achieving native rates of participation and therefore may be having a negative impact on GDP per capita growth. While this would give policy makers cause for concern, conclusions cannot be drawn in isolation from other factors (Moody, 2006). The United States has never had immigration flows that are focused on skills whereas this has been the focus of immigration flows to New Zealand since the 1970s. In analyzing the economic benefits from immigration experienced by the United States, Borjas (1995) suggests that the current small economic benefits could be

increased considerably if the United States were to attract a more skilled immigration flow. However, the extent to which greater economic benefits would be experienced from a shift towards a more skilled immigration flow might not be as significant as is often assumed.

Jasso and Rosenzweig (1995) examine changes in occupation status after entry for US male immigrants selected under two different groups in the United States; family based migrants (marriage to a US citizen) and employment-based migrants (having an occupation or skill deemed to be in scarce supply in the United States). As expected, they found out that initially the employment-based migrants had significantly higher skills and earnings levels than the family-based migrants, even when age, employment experience and country of origin are controlled for. Their work indicated that employment-based migrants suffered substantial down-ward mobility in terms of change in post-immigration occupational status, and the family-based migrants experienced substantial upward occupational mobility particularly in the first five years after immigration (Jasso and Rosenzweig (1995). They suggest that for the employment-based immigrants this is partly because they have limited opportunity for upward mobility due to their high skills and so it is not surprising that they experience a 'regression to the mean'. Similarly, the family-based migrants are usually in lower-paying occupations initially so their upward mobility reflects a natural movement towards the mean.

3.1.5 Labor Productivity

Migration is also likely to affect productivity. In particular, the human capital of migrants is expected to affect the productivity of the labor force. The emigration of highly skilled workers (a "brain drain") could be expected to reduce labor force productivity and *vice versa* (Glass and Choy 2001). Migration can affect capital flows, either through migrants bringing with them investment capital or through remittances abroad. Migrants can also affect multi-factor productivity, for example there can be spillover effects by having migrants share their knowledge and skills within the firm which can encourage innovation. Blattner and Sheldon (1989) use a growth accounting framework to identify the contribution of immigration to economic growth in Switzerland between 1961 and 1982. They found that while foreign workers accounted for 0.3 percentage points of the

2.7 percent average growth rates during this period, immigrants reduced per capita growth over this period, due to their lower productivity.

3.1.6 Income Convergence

Income convergence is affected by labor utilization, as well as by labor productivity. Income differential is measured in the literature by comparing the incomes of different migrant cohorts with the income of natives (Moody, 2006). An earlier study (Poot, 1993) looked at the median annual incomes of immigrants using 1986 census data. The effects of age, occupation, country of origin and years since migration were controlled for. Pacific Islanders had a large income disadvantage upon arrival and a relatively steep 'years since migration-income profile'. Their income did not reach parity with New Zealand born workers until 35 or 40 years in New Zealand. UK born immigrants did not face an initial entry disadvantage, typically out-performing New Zealand born workers from the start. Australians had similar outcomes to New Zealand born workers. The Winkelmann study (Winkelmann and Winkelmann 1998) showed that on average, new skilled migrants (those who had been in New Zealand less than five years) in the labor force had an income 20 percent below that of New Zealand born residents with similar characteristics and qualifications. An NZIER report (2003) notes the differential noted in the Winkelmann study may in fact be more marked today because that study focused on migrants who were in employment, and since the report was published migration flows from non-Anglophone countries had increased.

This lower productivity and slow convergence can be explained, at least in the short term, because migrants must adjust to a new country and its culture, workplace routines, language, and other factors. This adjustment period will vary depending on the nature of the migrants (such as their country of origin) but it is sensible to expect that it would partly explain the findings of lower productivity and slow convergence.

3.1.7 Emigration

Highly skilled New Zealand workers may experience pull factors such as better-paying jobs and the attraction of larger labor markets with a greater variety of job opportunities. The phenomenon of skilled workers departing the country is often referred to as a "braindrain". Much of the literature argues that emigration has negative effects on the

sourcecountry – the “brain drain” effect. The argument is that the propensity to emigrate increases with skills, so higher skilled workers leave while less-skilled workers remain.

However, the source country may also benefit from emigration. The “brain drain” has two principal negative effects on the well-being of those who remain in the source country as discussed by Domingues Dos Santos and Postel-Vinay (2003). First, emigration reduces per capita income in the source country as the economy loses skilled workers who contribute more to GDP than do the unskilled. The economy loses income that could be taxed and redistributed especially if the emigrating persons were already in employment in the source country. The source country also loses the returns on its public investment in the human capital of the departing workers which is enjoyed by the host country. Secondly, the source economy suffers a decumulation of human capital, reducing productivity and economic growth. Having an on average lower-skilled labor force would reduce average labor productivity, and consequently would render physical capital less productive. Overall this can lead to lower wages and incomes.

Emigration can also have positive consequences for the source country. First, remittances from emigrants can play an important part in the income of the source country. Secondly, the “brain drain” can also increase the potential returns to skilled workers who do not emigrate and can induce individuals to up-skill, leading to an accumulation of human capital and contributing to economic growth. The source country can benefit from the spill-over effects of knowledge diffusion and imitation from the skilled emigrants who contribute to growth-inducing innovation in the host country.

3.1.8 Global Connectedness

Sustained productivity growth may come from increased access to, and incentive to develop, new technology, knowledge and ideas. Migration facilitates international contacts and is a way to access larger and more varied stocks of capital and labor. Larger markets can increase productivity through large scale production which permits specialization, economies of scale and learning by doing, and through stronger incentives to innovate, for example through allowing the recovery of the fixed costs of innovation and competition that provides incentives to maximize efficiency and innovation (Moody, 2006). There is evidence that the productivity of the native population may be improved

by the presence of migrant workers. Some of the literature suggests that expatriate workers employed by foreign multinationals transfer labor market skills to native employees (Lloyd 1996). There does not seem to be a quantitative estimate of the extent of skills transfer from temporary residents to local workers but if a significant relationship exists then this adds weight to the argument that the presence of skilled migrant workers can increase the productivity of native firms.

The literature suggests there are significant links between past immigration and the growth of exports (Lloyd 1996). A study suggested that the employment of East Asian workers by Australian firms increased the East Asian export orientation of firms. This was attributed to assets of the East Asian employees such as knowledge of appropriate business ethics and practices, personal contacts with other East Asian peoples and specific cultural knowledge. In addition to export orientation being improved when native people from the export markets were employed, there was evidence of an increase in outward foreign direct investment towards that country as well (Lloyd 1996). Lloyd accepts that more research is required to separate the various effects that may be involved in increasing exports and improvement in other global links. He concludes that immigration may have a “strong positive effect” on trade and direct foreign investment patterns.

3.1.9 Measuring the Impact of Immigration

Borjas (2013) notes that although the theory-based approach seems to have become a preferred way of measuring the wage impact of immigration in the past decade, there exists an alternative literature in economics that is much more descriptive and that focuses entirely on comparing economic conditions across cities. It seems sensible to presume that we should be able to measure the wage impact of immigration by comparing how wages evolve in cities that are affected differentially by immigration. The wages of substitutable workers, for instance, should decline more in those metropolitan areas that received a larger immigrant influx. Although there is a great deal of dispersion in results across the hundreds of studies in the academic literature, the cross-city studies generally found that immigration has only a weak effect on wages.

It is widely recognized, however, that the cross-city estimates suffer from two potentially serious flaws. First, immigrants may not be randomly distributed across metropolitan areas. If the areas where immigrants cluster have done well over some time periods, this would create a positive spurious correlation. A positive correlation between wages and immigration may simply indicate that immigrants choose to reside in areas that are doing relatively well, and the spurious correlation could easily swamp the presumed negative effect of immigration on the wage of competing workers. A second difficulty is that natives may respond to the entry of immigrants in a particular locality by moving their labor or capital to other places until native wages and returns to capital are again equalized across regions. A comparison of the wages of native workers across cities or states might show little or no difference because the internal flows have diffused the effects of immigration throughout the national economy.

Card's (1990) study of the impact of the Mariel influx on Miami's labor market, was not affected by these flaws and that also concludes that immigration had little effect on the employment opportunities of native workers. In 1980, Fidel Castro the then President of Cuba declared that Cuban nationals wishing to move to the United States could leave freely from the port of Mariel. By September 1980, about 125,000 Cubans, mostly unskilled workers, accepted Castro's offer and Miami's labor force grew by 7 percent. Card (1990) used a very simple methodology to determine if this "natural experiment" affected labor market opportunities for Miami's pre-existing workforce. In 1979, prior to the Mariel flow, the black unemployment rate in Miami was 8.3 percent. This unemployment rate rose to 9.6 percent by 1981, after the Mariel flow. Of course, this fact by itself does not imply anything about the labor market impact of immigration. In order to isolate this impact, we need to compare what happened in Miami with what happened in a "control group", a set of cities that were untouched by the Mariel influx. It was found that black unemployment was rising even faster in the other cities that form the control group (as the aggregate economy was entering a recession), from 10.3 to 12.6 percent. If anything, therefore, it seems that the Mariel flow actually attenuated the rise in black unemployment in Miami.

Subsequent research, however, raises questions about whether the Mariel data justifies any inference about the impact of immigration. In 1994, economic and political conditions in Cuba were ripe for the onset of a new refugee influx into the Miami area, and thousands of Cubans began the journey. To prevent a “new” Mariel from occurring, however, the then Bill Clinton administration in the US ordered the Navy to redirect all the refugees toward the American military base in Guantanamo. As a result, few of the potential migrants reached Miami. Angrist and Krueger (1999) replicated the methodological design of the Mariel study by comparing Miami’s labor market conditions — relative to those in the same control group — before and after “the Mariel boat-lift that didn’t happen”. This non-event had a remarkable adverse impact on the unemployment rate of Miami’s black workforce. The conflicting evidence is probably best interpreted as indicating that local labor markets are continually affected by many shocks, and it is impossible to draw specific conclusions about the wage impact of immigration unless we have a much better understanding of the many other factors that are shifting supply and demand in these labor markets at a particular point in time. Put simply, cross-city comparisons do not seem to measure the labor market impact resulting from an immigration-induced supply shift.

3.1.10 The Benefits from Immigration

The debate over the measurement of the wage effects of immigration is often motivated by the intrinsic interest in determining how immigrants alter labor market opportunities for native workers. There exists, however, another equally important reason for measuring the wage effects: the gains to the economy directly depend on the impact of immigration on native wages. Natives benefit from immigration in many ways. For example, immigrants buy goods and services produced by the hosts’ firms, increasing the demand for native workers; they can lower the price of services in many industries, such as construction, benefiting consumers; and immigrant entrepreneurs open up firms, create jobs, and possibly make a large contribution to economic growth.

To measure the economic gains from immigration, list all the possible channels through which immigrants transform the economy, then use this exhaustive list to estimate what the gross domestic product (GDP) of the host country would have been if the country had

not admitted any immigrants. The difference between the counter-factual GDP and actual GDP yields the increase in national wealth attributable to immigration. The calculation could also be used to determine how much of the increase in GDP accrues to natives as opposed to being paid directly to immigrants in return for their services or products.

Obviously, this computation is an extremely difficult task. As a result, we can only estimate the economic benefits from immigration if we have a model of the economy detailing how the various sectors operate and are linked together. One could then simulate the model to figure out what happens when the labor market is flooded by millions of new workers. Existing estimates of the economic benefits from immigration often use the simplest “textbook model” of a free-market economy to calculate the benefits. In this framework, wages and employment are set by the interplay between the supply of and the demand for workers. When wages are high, many persons want to work, but few firms are looking to hire. When wages are low, few persons want to work, but many firms are competing for their services. The labor market balances out the conflicting interests of workers and firms, and sets employment and wages so that persons who want to work at the going wage can find jobs.

So what happens in this idealized model when immigrants enter the labor market? And, equally important, what happens to the income that accrues to the native population? Suppose that all workers, whether immigrants or natives, are equally skilled? Because immigrants increase the size of the workforce, there is additional competition in the labor market and the wages of native workers fall towards what the immigrants earn. At the same time, native-owned firms gain because they can now hire workers at lower wages, and many native consumers gain because the lower labor costs lead to cheaper goods and services. The difference between what the winners win and what the losers lose is called the immigration surplus, and it gives the gain in national income accruing to natives as a result of immigration. The textbook model of a competitive labor market implies a very simple (and widely used) formula for calculating the immigration surplus as a fraction of GDP.

CHAPTER FOUR

KNOWLEDGE GAPS FROM THE LITERATURE

4.1 Introduction

This chapter examines the knowledge gaps exposed by the literature. It is evident that migration and its sub-sets including causes and effects are still not fully studied and understood by scholars. The empirical measurement of the effects of migration on individual businesses as well as the aggregate national economy – of the host country and of the country of origin – is still a work-in-progress for scholars.

4.2 Knowledge Gaps

It is clear that further work remains to be done on the question of migration and economic growth. The subject would benefit from strong empirical work that aims to provide policy advice to government on realistic and achievable policy adjustments to improve the returns to growth, while still balancing social policy aims. Overall, it is equivocal whether there is enough robust evidence to support the claim that immigration is always positive for per capita growth. This paper concurs with the observations of the OECD, which stated “there is not sufficient or detailed enough data on the behavior of the New Zealand economy to give clear answers on the overall effects on per capita incomes of existing residents”. While the evidence suggests small positive net gains from migration, these do not necessarily stack up as an improvement in per capita growth rates. Whether immigration is positive is also dependent on which particular groups of people governments are concerned about increasing their welfare. If it is overall national welfare then the evidence does suggest immigration is positive. But if this is achieved through a lowering of the wages of native workers, albeit while potentially increasing returns to the owners of capital, this distribution of benefits may not be seen as desirable.

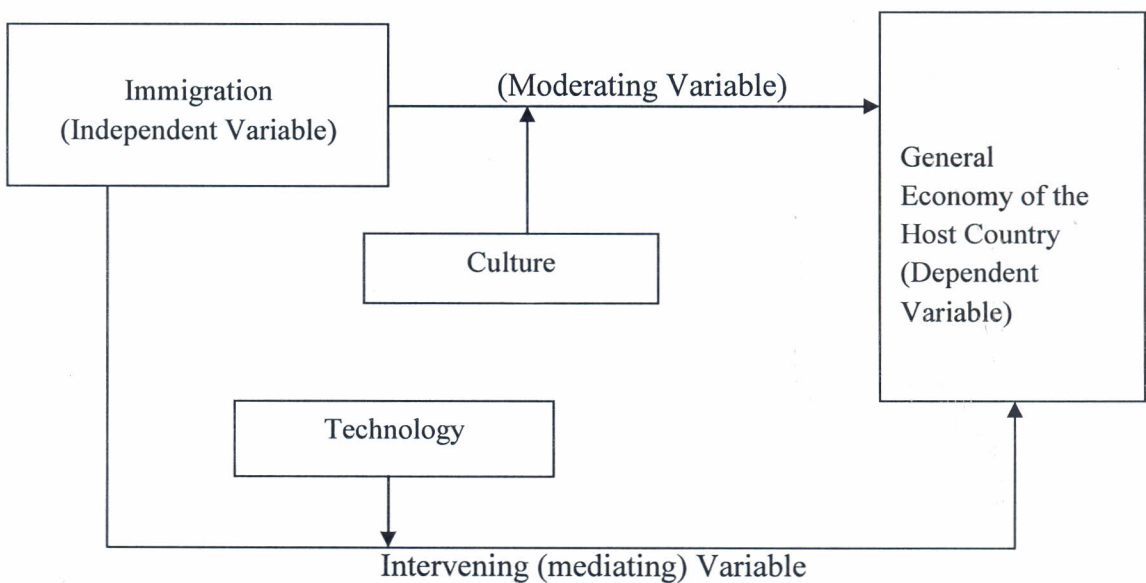
Questions do remain, such as the expected increase in growth vis-a -vis the government investment required to increase participation and employment rates, or the extent to which the benefits would accrue to natives or to which subset of natives; but the available evidence indicates where policy efforts should be focused. The current debate about immigrants and their human capital skills revolves around the argument of Borjas (1990, 1991) that the average skill levels or "quality" of immigrants has declined over time. This is important for understanding the assimilation process of immigrants because of the

frequently used assumption that convergence between foreign-born and native-born wages and earnings equals assimilation.

Qualitatively superior data (preferably longitudinal) are of great importance to overcome most of the methodological limitations this field currently faces. These data do not always have to come from data sets. Studies using self-collected samples can have a sizeable role in advancing the field because they can reveal specific contingent mechanisms that are addressed by contemporarily available data sets. These studies can incorporate factors associated with (1) specific migration streams (for example cultural distance between the countries), (2) the country of origin (for example internalized culture), (3) the host country (for example immigration policies), and (4) the individual migrant (for example expectations and aspirations, personality, and migration motives).

4.3 Conceptual Model

Based on the literature reviewed above the following conceptual model was established:



Source: own (author's) development

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the overall view of immigration and the population group mostly prone to immigration. It identifies males as the most prevalent group of immigrants.

The chapter also gives an overview of the effects of immigration on the aggregate economy as well as the real wages and earning by immigrants and the native/host country workers.

5.2 Conclusion

The evidence and analysis show that the immigrant population is varied and less different than often assumed. It is less-widely recognized that undocumented male immigrants have the highest labor participation rates of any group principally because, compared to the native born, undocumented immigrants are twice as likely to be in households with spouses and children. The evidence and analysis also show that high levels of immigration have had no adverse effect on the average wages of native-born. In fact, studies indicate that the recent waves of immigration have positive long-term effects on average wages as capital investment rises to take account of the larger numbers of workers.

Immigration does have distributional wage effects, generally raising the average wage of highly-skilled natives and reducing the wages or wage gains of some low-skilled natives, who compete for jobs in places with large numbers of recent immigrants, including undocumented immigrants. The evidence and analysis further show that immigration reform could reverse these adverse effects. Reforms which create a path to legal status for undocumented immigrants would allow immigrants to move more freely to labor markets with unmet demand for lower skilled workers, reducing their competition with native-borns with the same skills. This was noted in the case of the USA.

Legal status would confer protection which is currently unavailable to undocumented immigrants, especially minimum wage protection. Ending the ability of unscrupulous companies to recruit recent immigrants to work for less than the minimum wage would reduce the downward pressures on the wages of low-skilled natives currently coming

from below-minimum wage immigrant workers. Finally, the evidence and analysis show that taking into account both spending and revenues, immigrants are not a net drain on most state, local and federal budgets. In any year, a handful of states with large numbers of recent immigrants with children incur significant net budget costs, largely from the educational and medical costs associated with the children. At the federal level, however, revenues from immigrants equal or exceed spending on immigrants.

Moreover, on a longer-term basis, the lifetime earnings of immigrants, most of whom arrive at post school-age and without elderly parents eligible for Social Security and Medicare, are likely to exceed the lifetime government spending they claim. These net fiscal gains also would be enhanced by immigration reform, which would indirectly increase the taxable incomes of both immigrants and native-born.

5.3 Recommendations

As this paper reflects, firstly, it may be more helpful to think about migration as an opportunity to increase GDP per capita growth, rather than as a threat that needs to be managed. Ensuring that the settings of the migration system support the improvement of migrant participation and productivity, while balancing social cohesion concerns, is the first step towards improving the contribution of migration towards economic growth per capita. Continuing to analyze, evaluate and refine the system must be the second.

Secondly, the current global trend of migration towards Europe and within the continents needs to be examined to establish its impact on the world markets for more future commodity markets. This is critical because the individual forms the primary unit market for business as well as the basis for any country's consumption and taxation.

Thirdly, reliable instruments for the measurement of the impact of migration across sectors and national economies need to be developed and refined.

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