Matthew Draper | Literature Review Essay #3 | POLI 245 | 11/5/19

Trade and immigration seem intuitively fungible. We might seek to lower consumer prices through increased trade or via higher levels of low-skill immigration. We also might seek to benefit workers in other countries by signing free trade deals, or by opening our borders to their citizens. However, this apparent fungibility seems to overshadow very different distributional impacts. Flows of cheap goods and floods of eager workers have differential impacts. Viewed from the standpoint of production, workers are more similar to an intermediate good (a production "input") that will allow for the production of a final good. However, the distributional impacts of immigration diverge sharply from the distributional impacts of imports, because immigrants access the social safety net, imposing costs that must be borne by the host population.[1] For example, Hanson et al. (2007) found that high exposure to immigrant fiscal pressures reduced support for freer immigration among US natives, with the highest changes occurring among the most skilled.

Perhaps as a result of these costs, researchers have found substantial opposition to immigration among low-skill host-country workers. Scheve and Slaughter (2001) find that less-skilled workers are significantly more likely to prefer limiting immigrant inflows into the United States than their more-skilled counterparts. They also report a negative finding: no evidence that the relationship between skills and immigration opinions is stronger in high-immigration communities. The authors interpret the initial finding as consistent with the Hecksher-Ohlin trade model, and with a labor model based on factor proportions analysis. However, this finding is also consistent with a sociotropic model of voting, whereby voters make their choices on the basis of national *economic* conditions (more on social conditions *infra*).

Sociotropic voting seems most likely to occur at the regional or national levels, particularly given the media mix to which most people are exposed. Borjas (1999) argues that by responding to changes in the domestic economic environment, native workers (and capitalists) effectively diffuse the adverse (or beneficial) effects of immigration to the country as a whole. This would mean that looking for the impact of immigration by examining the hardest-hit areas is a flawed research design. Borjas also reminds us that in conditions of relatively free trade the case for importing low-skill workers evaporates.

Mayda (2006) finds that individuals in occupations which experience a bigger increase in relative supply due to immigration (a higher ratio of immigrants to natives) are less likely to be

[1] Their contributions to the economy will, however, be counted in GDP (unlike intermediate goods).

pro-immigration. This finding is consistent with a Heckscher-Olin/factor endowments understanding of the labor market. Her paper expands on Scheve and Slaughter (2001) by incorporating a cross-country perspective as well as noneconomic determinants of immigration preferences. Higher per-capita GDP countries are on average less open to immigration. Crucially, Mayda (2006) finds an interesting threshold at a per-capita GDP of $4,480. Below this point, more years of education correlates with anti-immigration preferences, while above this threshold, more education correlates with increasingly pro-immigration positions. While she finds that noneconomic variables are significantly correlated with immigration policy preferences, these noneconomic determinants do not significantly alter the effects of the economic determinants. Despite this, she says that the analysis shows that the noneconomic determinants explain more variance than the economic variables. A fascinating result here is that perceptions matter enormously – 14% of the difference between Hungary and Canada, for instance, was attributable to perceptions of the link between immigrants and crime rates.

One of the least controversial findings in this literature is that low-skill natives tend to oppose immigration. Mayda et al. (2018) find that an increase in low-skill immigration pushes voters towards the Republican Party, while an increase in high-skill immigration decreases the Republican vote share. In non-urban, low-skill counties with high local public spending, low-skill immigration was associated with substantial increases in the Republican vote share. The authors argue that this finding is consistent with an explanation in which natives prefer high-skill immigrants, and their response to less-educated immigrants is negative, and stronger where the native population is less-educated. I conjecture two possible reasons why low education might induce hostile attitudes towards immigrants. First, poorly-educated natives might realize that their low levels of education make them particularly vulnerable to immigration. Second (and to me more plausible), education might have a moderating effect on nativist sentiment.

In an examination of the first of these propositions, Hainmueller et al. (2015) find no evidence that individuals are systematically more likely to oppose the immigration of workers possessing skills similar to their own. Instead, workers of all types express greater support for inflows of high-skill rather than low-skill immigrants, with the most skilled natives attaching the largest premium to high-skill immigration. Although support does seem to vary by industry, the

authors argue that this variation is mostly explained by individual characteristics of the respondents rather than by features of the industries in question. Notably, the authors found that only 21% of American workers favored expanding immigration, female and older workers opposed immigration increases more than male and younger workers, and native workers looked unfavorably on immigrants described as unfamiliar with American values and traditions. The authors describe these findings as consistent with the Hecksher-Olin model, but dramatically inconsistent with the factor-proportions and specific-factors models, because these models anticipate that highly skilled natives should oppose inflows of highly skilled immigrants but should exhibit less concern about the inflow of low-skilled immigrants. They argue that these results are broadly consistent with ethnocentric and sociotropic accounts of voter attitudes towards immigration.

It would be helpful to know how much voters are tracking the net burden on the welfare state. In a cross-national study examining this question, Facchini and Mayda (2009) examine welfare-state determinants of individual attitudes towards immigrants and the interaction of these factors with labor market drivers of preferences. They find that the probability that an individual is pro-immigration is a function of that person's skill. In countries where the relative skill composition of natives to immigrants is high, as skill increases so does pro-immigration bias, and where natives are less-skilled compared to immigrants, increases in skill correlate with anti-immigration sentiment. However, in a model where taxes are increased to maintain the present rate of transfer payments, pro-immigrant sentiment evaporates among high earners. The authors speculate that what matters to voters is the net burden on the welfare state, and they find that skill and income have opposite effects on individual attitudes (despite their positive correlation with one another). I speculate that whether immigrants are seen as a net benefit or burden has a lot to do with the time horizon people are using to evaluate the phenomenon, and further that media organizations play a large role in framing the timeframe on which the evaluation should take place. Young immigrants may, for example, be a drain for five years and a net benefit after fifteen. It may also be the case that while the first generation of immigrants is a drain on the social safety net, future generations confer net benefits.

If immigration is so important to voters, it might seem to make sense to allow them to shape immigration policy directly. Unfortunately, voters (at least in Switzerland) seem to care a great deal about the particular characteristics of immigrants. Hainmueller and Hangartner (2013) found significant variance in the naturalization success of immigrants to Switzerland during a period where cantons actually voted directly on naturalization applications.[2] National origin was by far the most significant predictor of immigration success, and observably similar applicants faced dramatically different rejection rates depending on the applicants' country of origin. Immigrants from the Balkans and Turkey faced the highest probability of rejection (nearly 40% higher than similarly situated applicants from northern and western Europe). Other immigrant attributes such as economic credentials and duration of residency also affect naturalization success, but to a much lesser degree, while language skills and successful assimilation play virtually no role. In general, the authors attribute about 40% of the measured differences in immigration opposition may be due to "statistical discrimination," while the remaining 60% is caused by "taste-based discrimination". Finally, the authors found that discrimination against specific immigrant groups responds dynamically to changes in the groups' relative size. Discrimination against applicants from Turkey and the Balkans increased when the size of those groups grew rapidly in the mid-1990s, while discrimination against southern Europeans abated as their relative size decreased during the same period. It seems clear (to me at least) that the national origins considered in this study are proxying for skill level, so it is unclear whether the ethnocentric conclusions drawn by the authors are in fact warranted. I would be interested to see a follow-up disaggregating these factors, for example a study that compared Swiss reactions to highly-skilled Turkish immigrants with reactions to unskilled Italians.

Despite the complications in the fungibility argument with which I began, there seem to be definite substitution effects between trade and immigration. Hatton and Williamson (2006) begin with a policy paradox – labor-scarce economies a century ago featured restricted trade but unrestricted immigration, while labor-scarce economies today exhibit precisely the reverse – restricted immigration but unrestricted trade. The authors argue that this paradox can be explained by sharp decreases in the costs of migration, changes in the immigrant mix towards

[2] This seems, to put it mildly, a bad idea.

poorer source countries, an increased wealth gap between source and destination countries, and an increase in absolute immigrant numbers (I question the accuracy of this last claim). The authors don't incorporate Borjas' conjecture about the substitutability of trade and immigration, but it seems to fit their argument perfectly. One of their findings is worth quoting in full: "The richer the country, the greater the immigration 'threat' from low income countries. For those well below the skills of the median voter, the threat is labor market competition. For the median voter, however, the threat is the fiscal implications of [to?] the welfare state." This appears, to me, to be the correct analysis. Hecksher-Olin tells us that apparently discordant positions on immigration may be explained by the same set of factors. The Hatton and Williamson finding may permit the reverse conclusion. Apparently monolithic opposition to immigration may actually be occurring for different reasons. The symmetry in both of these arguments seems to be traceable to the fact that trade and immigration are in some sense broadly fungible. In this way, it seems possible for both trade and immigration to feature similar distributional impacts while the policy environment favors emphasizing either one mechanism or the other, but not both.

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