A Summary of Richard B. Freeman's "People Flows in Globalization"
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Immigration is a global phenomenon. The increasing level of immigration to various countries includes the United States, where immigration policy has become once again a key national issue. Richard Freeman's article, "People Flows in Globalization," provides a comprehensive and balanced analysis of several issues pertinent to the "economics" of immigration that are essential background for further discussions of policy proposals and the application of ethical considerations. The article has four major sections: patterns of immigration, emphasizing the global nature of immigration; why people migrate, and who are potential economic "winners" and "losers" from immigration; the economic issue of "complementarity" and its important role in the debate; and, finally, Freeman's positing of a "radical" economic policy proposal.

The title of this article – "People Flows in Globalization" – provides a very first glimpse of an economist's view of the subject. *Globalization* is the process by which the world becomes more "interconnected." We all become more interconnected through exchanges of information, cultures, goods, and ideas. Cell phones make students more connected today than a generation ago, as this new technology enhances the *flow* of ideas, information, and knowledge between individuals. In stark economic terms, immigration is simply the flow of people (or labor) around the world, and is just one facet of globalization.

Measuring globalization is no easy task, as the reader learns in the first section. However, economists – especially international economists – have long studied the process of globalization. To make issues manageable, economists have tended to focus on international *trade* and *factor* flows, a framework used by Freeman. Trade refers to international flows of *goods* (say, computers) or *services* (say, providing a warranty on your computer). Factor flows include *capital* flows (either the physical movement of a machine from one nation to another or financial savings across borders) and *labor* flows (immigration). Thus, people (or labor) flows are just one of four important channels – and not the only channels – through which globalization occurs, that is, through which the world becomes more interconnected.

Freeman points out that for the United States immigration per year – as a share of U.S. population – actually shrank from 1910 to 1970. But today, there are 35 million immigrants in the United States; this is 12 percent of the population, more than double the 4.7 percent in 1970. The recent rise in the level of debate over immigration reflects this proportional increase in the U.S. immigrant population.

Two other points are worth noting. First, Freeman states that the two other economic channels of globalization – trade and capital flows – have likely played more important roles than immigration for "globalizing" the world economy. While the entire stock of immigrants (defined as people living in a country other than the one where they were born) is 3 percent of the world's population, international trade in goods is around 13 percent of world sales of goods and the share of foreign-company equities ("common stocks") in investors' portfolios worldwide is around 15 percent. Hence, the volume of international goods and capital flows as a share of their overall activity tends to be larger than immigration's share. Second, these shares have grown since 1970 at least as much as immigration's share of populations, if not more.

In the second section of the article, Freeman deftly poses three key questions that are central to the immigration debate: Why do immigrants come? How do immigrants do? And most importantly, how do immigrants affect the native workers in the countries in which they arrive? Economically speaking, four important reasons exist for immigrants to leave their home country for another (host) country. Economic size and average incomes (specifically, per capita income) are two important determinants. In 2000, the United States was the largest recipient of immigrants. One reason is that it is an economically large country; a larger country has more jobs available and becomes attractive to a potential migrant. The other reason is that the United States has one of the highest per capita incomes in the world. Freeman notes that (after accounting for any differences in schooling) immigrants in the United States "earn five to eight times as much as those in the low-wage countries from which the immigrants come" (p. 155). However, if a country is remote, there will be fewer immigrants; distance matters. The United States' largest source of immigrants is Mexico; while U.S.-Mexico per capita incomes differ considerably, Mexico is very close to the United States. Fourth, immigration policies matter. In 1910, 8.8 million immigrants in a U.S. population of 92 million were proportionally much larger than the 9.1 million immigrants in 2000 in a U.S. population of 280 million; immigration laws were much less stringent in 1910 than in 2000.

How do immigrants do? They tend to earn more in their new host country than in their home country. As just noted, one study suggests that in the United States they earn 5 to 8 times more. The reason they earn more is that – like native workers – they tend to have access to better physical equipment, infrastructure, legal protections of property, and technology to work with in their new host (developed) countries than in their home (developing) countries. They earn more because – like native workers – they are more productive. Yet, they also tend to earn less than native-born counterparts in their host country, even when adjusted for schooling differences. However, such disparities tend to decline over time.

How do immigrants affect earnings of native workers in the countries in which they arrive? THIS is the "Million Dollar Question." Immigration increases the supply of labor, causes an excess supply, and drives down the price of labor (what economists call the "real wage rate"). For native workers (who retain their jobs), their real (after-inflation) take-home pay should *fall*. This is the major concern of native workers on the immigration issue; their real incomes decline (and potentially worse, they may lose their jobs – more on this below).

However, Freeman and other economists draw attention to two major considerations. First, how much real incomes of native workers drops depends upon *how flat or steep* is the labor demand curve. Freeman cites one representative study of the United States that found a 10 percent increase in the fraction of immigrants lowered native workers real incomes by at most *1 percent*. Even George Borjas – who has found stronger real wage erosion than most researchers – finds a response of at most 3 percent. And several studies suggest no effect. Thus, representative labor demand curves are fairly flat, dampening the decline in real wages of workers. The second major consideration is that the demand curve itself *may shift*. If it shifts up (for reasons to be discussed shortly), real wages of native workers *may actually rise*. That is, an increase in immigrants may actually *help* earnings of native workers.

One reason the demand for native workers would increase is that immigrants and native workers *complement* one another in producing goods and services in the host country. Firms may actually hire more immigrants *and* native workers – if they complement one another. Also, even if immigrants and native workers are not notably strong complements, if some of the immigrants complement strongly the host countries' technology and capital stock, this may encourage firms to invest more in new plant and equipment – which would *also* make native workers more productive. Hence, the effects of immigration on real wages are ambiguous – and potentially positive. But convincing measurement of the potential "substitutability" of immigrants for – or "complementarity"of immigrants with – native workers and domestic plant and equipment remain elusive and the issue of how immigrants affect the wages of native workers hotly debated.

It is also possible for native workers to lose their jobs. However, over long time periods, fired workers tend to become re-employed. The unemployment rate is constant in the long run, and consequently independent of the on-going process of globalization.

Finally, all consumers in host countries on average gain from immigration as such workers help specialization in production and raise overall efficiency of the market. Nevertheless, it is the case that *some* native workers will be worse off unambiguously because immigrants will substitute for such workers, lowering their real wages. And such native workers tend to be the least skilled and educated in the United States. Policies to address this will be discussed shortly.

The third section of Freeman's article uses the rationale of "complementarity" to argue that immigration is good, as it complements trade. The post World War II period has been characterized by roughly an 80 percent decline in barriers to trade, and many economists argue that this increased openness has made the world economy more productive and richer. If trade and immigration are complements, then immigration should be liberalized as well. The theory of international trade suggests that trade in goods and services tend to *substitute* for factor flows of capital and labor. As Freeman states: "Restrict immigration, and trade should increase. Restrict trade, and immigration should increase" (p. 160). According to classical trade theory, even if immigrants (and capital flows) were entirely prohibited into the United States, as long as free trade is allowed, the relative earnings of unskilled and uneducated workers would still be diminished – just as if immigration were fully allowed!

However, evidence suggests that migration and trade flows tend to complement one another. Between 1870 and 1940, when immigration increased, trade increased. Between 1980 and 2000, the same pattern occurred. One possible reason is that immigration tends to complement a developed country's comparative advantage in technologically sophisticated goods. Many multinational firms argue that they cannot maintain their competitive advantage without skilled immigrants who bring needed skills in science and engineering. On the other hand, to the extent that this lowers real wages of native workers that are potential substitutes, than fewer young people will choose careers in the host country in science and engineering.

One of the notable economic events, however, of the last 15 years has been the rapid growth and development of China and India, raising per capita incomes and opportunities in those countries. This development will likely reduce the potential supply of emigrants from these countries to developed countries, perhaps causing a reduced supply of immigrants to the United States and other mature economies.

Freeman's final substantive section addresses potential policies. First, he argues that the international economy – and its consumers – would likely benefit from expanding programs for more temporary migrants. Such programs should provide greater protections of rights to migrants using international laws. But Freeman notes that more "radical" economic policy changes would likely have more impact.

As discussed earlier, many international economists view people flows as part of the process of globalization, much like free trade. Most international economists are in favor of free trade, arguing that the efficiency gains from increased specialization as well as the increased varieties available at home from numerous foreign suppliers enhances standards of living. Even though some workers' real incomes lose from free trade – and immigration – economists argue that tax policies could be used to redistribute some of the gains (real income) of the skilled and educated workers who benefit most from globalization to unskilled and uneducated workers who lose income from globalization – and the skilled and educated workers would *still be better off*.

In the context of immigration, Freeman notes that – since immigrants benefit the most from immigration and native workers have the most to lose – a "radical" economic policy would be to have a "pricing system" equilibrate the market. That is, if immigrants stand to benefit the most, host countries should charge "prices" for admission, from which the losers from immigration (say, unskilled workers) would be compensated. Auctioning immigrant visas would assure that those admitted would be the ones who potentially stand to gain the most. While this may seem radical, American firms using H-1B visas already pay the Immigration and Naturalization Service a fee, of which the bulk goes to a government fund to retrain native workers. This system may have other costs. However, Freeman argues that the key is to introduce policies where the costs of immigration are covered and billed to the potential beneficiaries.

The Freeman article provides a rich and balanced discussion of significant economic issues related to immigration. Knowing these issues and the scholarly debate about them is essential information for any conversation about policy debate applications of ethical principles like those embodied in Catholic Social Teaching.