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Economics focus

Displacement activity

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Do immigrants take our jobs? Only if we try too hard to preserve them

ON APRIL 20th 1980, Fidel Castro, Cuba's president, declared Mariel harbour an “open port”, inviting those Cubans who wished to leave his country to do so. Many accepted eagerly. Between May and September, about 125,000 of them were ferried to America by a flotilla of fishing vessels, yachts and shrimp boats, often chartered by Cuban exiles in Florida.

In 1992, Bosnia-Herzegovina declared its independence from Yugoslavia. A month later, the Bosnian Serbs laid siege to Sarajevo, Bosnia's capital. That year, almost 234,000 Yugoslavs applied for asylum in safer European countries.

The Mariel boatlift, as it was called, and the Balkan wars have provided two of the more interesting “natural experiments” in the economics of immigration. Both have allowed economists to cut the Gordian knot entangling immigration's impact on the economy and the economy's impact on immigration. Often, cities and countries that host the most immigrants also boast the best economic performance. That might be because immigrants bring prosperity; but it might be that they are attracted by it. Awkwardly, to the commonest question—do immigrants take our jobs?—the two experiments offer different answers.

The Marielitos who settled in Miami added about 45,000 workers to the city's labour force, an increase of 7%. In a seminal study published in 1990, David Card, now of the University of California, Berkeley, concluded that the city's economy took the new arrivals in its stride. The murder rate rose that year, he reported, and riots broke out in the summer. But Mr Card found no indication that the Marielitos cost the city's non-Cuban residents their jobs or depressed their wages.

His sanguine conclusion is not widely shared on the other side of the Atlantic. Europeans still incline to the view that immigrants usurp the jobs held by natives, according to a survey* of public attitudes by Christian Dustmann and Albrecht Glitz of the Centre for Economic Policy Research. These worries may be well founded. A 2003 paper† by Joshua Angrist, of the Massachusetts Institute of Technology, and Adriana Kugler, now at the University of Houston, uses the break-up of Yugoslavia to shed light on how Europe's labour markets respond to foreign arrivals. They show that a country's distances from Sarajevo and Pristina were good predictors of immigration during the Bosnian war and the Kosovan war (in 1999) respectively. Thus if native workers fared worst in the countries closest to these cities, this is evidence that immigration can hurt their fortunes. The authors estimate that in a country similar to Germany, 100 new arrivals from outside the EU could displace between 35 and 83 native men from their jobs.

Miami virtue

Why did Miami cope so well with its sudden influx of new workers, while Europe struggled so badly? In a paper†† last year, Ethan Lewis, of the Federal Reserve Bank of Philadelphia, looked at Miami's mix of industries before and after the boatlift. Perhaps some industries expanded to accommodate the kind of unskilled labour most of the Cuban boat-people could offer? The garment industry, for example, was used to hiring Cubans and might have taken up any slack. But Mr Lewis finds little evidence of such a shift. Miami's manufacturing complexion broadly resembled that of other cities in the south and mid-west in the 1980s, just as it had in the 1970s.

Mr Lewis offers a different, surprising explanation. As a result of the boatlift, Miami's firms were slower than rivals elsewhere to adopt technologies, such as computers, that have taken over some of the routine, codifiable tasks performed by unskilled workers. With so many willing, untrained workers available, the city's joiners, bakers and electrical-equipment makers felt under no great pressure to replace men with machines. By 1984, for example, 36% of people in Houston used computers at work. But in Miami only 23% did. The impact of the boat-people was visible not in the things Miami made, but in how it made them.

Many politicians now argue that they should pick the type of immigrants their economy “needs”. But as Mr Lewis shows, what an economy needs is not written in stone. Flexible economies take advantage of whatever labour lands on their shores.

Why did Europe's economies fail to adapt? Mr Angrist and Ms Kugler suspect that government efforts to preserve jobs backfired. In many parts of Europe, for example, governments try to protect workers by making it more costly to fire them. But workers that are expensive to fire are also dear to hire. Immigrants—often recruited on temporary visas, beyond the embrace of unions and sometimes outside the law altogether—become more attractive by comparison. Because they cannot become ensconced in a job, they are more likely to be offered one. In the short run, this kind of immigrant competition undercuts wages and raises profits. In the long run, however, higher profits should tempt new firms to enter the market, compete for workers and bid wages back up.

In Europe, sadly, the long run never arrives. The entry of new firms is inhibited by regulations to protect old ones. Mr Angrist and Ms Kugler show that the higher the barriers to entry in a country are, the worse is the impact of immigration on the job prospects of its citizens. Intended to shield small players from competition, these regulations instead provide for stagnation. Perhaps Europe's politicians should worry less about repelling immigrants, and more about unshackling the firms that might employ them.

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* “Immigration, Jobs and Wages: Theory, Evidence and Opinion”: May 2005.

† “Protective or Counter-Productive? Labour Market Institutions and the Effect of Immigration on EU Natives”. *Economic Journal*, June 2003.

†† "How Did the Miami Labour Market Absorb the Mariel Immigrants?": www.phil.frb.org/files/wps/2004/wp04-3.pdf