

**Remarks of Michael Kremer on May 26, 2009 in Washington, DC at the conference  
*Beyond the Fence: Research Lessons on How Immigration and Remittances Shape Global  
Development***

Great. Well, it's fantastic to follow Patricia's exciting work in this area. I think what I'll talk about is picking up very much on themes Patricia's talked about. But it's also picking up on what Lant discussed earlier and what was discussed at lunch. Let me first start with – the link to Patricia's is obvious, so let me start with a link to that.

So Lant made this very strong case that immigration restrictions are really amoral, and they're a huge drain on the world economy. They really – they're the single biggest distortion of the world economy and they're the most costly for the world's poor. And I sort of agree with him on that, basically, even if I'm not – I'm not seriously wondering whether I should get involved in armed rebellion against the government on this issue, so I may not be quite as radical as Lant. But I'm – I think there's a big point to that.

Now, at lunch we sort of heard a pretty optimistic – from that point of view – pretty optimistic assessment of where are the chances for immigration reform in the U.S. But I think that, as some of the questions pointed out, there's a lot of people who are quite – in developed countries who are quite concerned about immigration, and there's a lot of public sentiment that's contra to migration.

So if we think of – if we think of migration restrictions as the equivalent of apartheid-era pass laws, there's not – there doesn't seem to be a – the chance of – Lant said the chance of real reform and – it might be sooner than we think. But it looks right now like it's pretty distant. So I'm going to ask a narrower question about, are there some reforms that we could get to slightly weaken the pass laws a little bit; slightly open this up a little bit, that would be politically acceptable in the rich countries? Or at least in some subset of rich countries. I don't think – when we talk about it, I don't think it would be at all politically acceptable in some rich countries. But I think there's another category of countries that are getting rich that we don't think about it as much where it might well be. Okay. Let me tell you where I'm going with this.

So if you think about what are the obstacles to immigration? There's, I think, three concerns about that are big obstacles. First, there's concern about this exacerbating income and equality among natives. So low-skilled workers in rich countries may feel that these people are taking their jobs and it's going to reduce their income.

There's concern about fiscal drain on the welfare state. Okay? And you see lots of tabloid articles making this point, but you also see quite respectable people making this argument as well. And there's a big academic debate about, are immigrants a fiscal boon or a net fiscal cost. You could argue that.

I think the other thing which I think is very important, but which economists tend to neglect but might in fact be the biggest – this again, picking up on a point that Lant made – is

the impact on culture and the impact on crime. And if you look at – if you look at the coverage in newspapers and in the media in Europe, for example; certainly in the U.K., there's a lot of attention to crimes committed by immigrants, even those this is tiny overall.

And then there's this more amorphous concern about culture, but which is, I think, very real. Okay? And in fact, if you look at the opposition to migration in the U.S., it's sometimes strongest in areas of very few migrants; just in the culture is a very important part of this, and that's it's not just – people just get very offended at hearing somebody speak Spanish in the street. At least some people in the U.S. do.

So what are – so if you think these are the obstacles, then what could be done about this? In the same time, if you think that migration could be very important for welfare, what do you do? Well, I want you to focus on a new form of migration, or at least something that's – I think our stereotype of migration, maybe at least for Americans may be 19th-century or early 20th-century migration to the U.S. But there's something else going on which is partly due to technology and the ease of travel – which is that women are increasingly crossing borders to work as foreign private household workers. I abbreviate that as FPHW. I should have said, by the way – this is joint work with Stanley Watt.

And this is – there's a couple of different – several different forms of this. The biggest form of this as a proportion of the host country population is in what I'll call the new rich countries. Not the France and Germany and the U.S., but in countries like Hong Kong or Singapore or the Gulf states or to some extent, Israel, Greece. Many of these countries have explicit programs where their visas, they're particularly targeted for people who want to work as household workers. So these are countries where there's a long tradition of people working as household workers. They haven't gone through some sort of egalitarian phase where they think that's a bad thing. It's much more like it's been through most of human history; of course rich people have household workers. But these countries have suddenly gotten rich quite recently. And they have very different – they may have very different political attitudes about this. So that's one form.

So in Singapore, in Hong Kong, about 7 percent of the labor force consists of nannies who are coming in from the Philippines and other countries. In Taiwan and Israel, it's more like 1 percent. The Gulf, it's much higher than 7 percent – or some Europe countries. It's also going on within the EU; people coming from poor, newer, poorer EU states to richer ones. There's – and to some extent it's happening in some old rich countries. So for example, in Italy, there it tends to take a very different form. Whereas the Far – Singapore has a very official program and many of the Gulf states do, in Italy or Spain, this might take the form of just not really cracking down on illegal immigration of that type; nearly as hard as the state would crack down on somebody employing illegal immigrants in a factory.

These are – okay. We know that remittances can be very important for GDP. I'll make a – these can generate lots of money for the sending country, and for citizens of the sending country.

I'm going to argue that this type – if you think about this type of migration, it has a lot of potential to get around a lot of these obstacles to migration – political obstacles to migration in rich countries. Now, it may, for some countries, there's going to be – it's going to generate some new concerns. Let me sort of go through these three things.

Let me start with the culture and crime ones, and thinking about the explicit programs that are restricted to visas particularly for that purpose. Well, if you think about – if you think about the long-run impact – so, these – the people who get these visas are overwhelmingly women. So concerns about crime are just much less. I'm not talking about reality here, necessarily; just perceptions, okay? Yeah. There may be something in reality as well, but certainly the perceptions of crime are much less.

Changing culture. Well, there is – if people – if women – single women are coming and they have a visa that says they have to go back when they no longer have a job and they're not allowed to bring their husbands, they're not allowed to bring their children – and they'd be a big human cost of these things, so I'll come to that later – but you're not – people don't necessarily worry that the character of the country's going to change because they don't see this as, well, now we're going to be 80 percent European and 20 percent from some non-European place. They say, well, you know, we're bringing in these – we're from the Gulf; we're bringing in these workers from the Philippines but we'll send them back; we're not really worried that we're going to cease to have our Arab culture. By the way, some countries in the Gulf used to bring in Egyptian workers or Palestinians. They're now, in some ways, it's precisely because of this greater distance. It's easier to bring in people from the Philippines. So these bottom-level concerns are less.

What I would like – what Stanley and I are arguing in this paper is that these two things are going to be quite different, and in fact, you're going to generate exactly the opposite of the concerns that, if people are concerned about, that are arguably quite legitimate concerns about the economic impact on low-wage workers, of low-skilled migration – low-wage native workers, and about the fiscal impact. And in fact, it's going to be – it's actually equalizing for native workers and that it generates a huge fiscal gain for the receiving state.

I'm not going to go through the details of the model, but let me sort of give you a sketch of the flavor of it. In the model there's two types of goods that you can produce – the two ways you can spend your time. You can either be producing regular goods – TV sets or economics papers or something like that, or you could be doing Activity C, which is childcare. Those high-skill/no-skill workers in the economy? They work together to produce the TV sets – you need engineers and you need production line workers. Childcare, assume there's three different production technologies you can use. So this is a paper based in part on introspection. So you can do this yourself; you can take care of the children – you can think of C as broader than childcare; childcare, cleaning, cooking. You could do that yourself. You could send your kid to a day care center. Or you could have a private household worker.

So what are the characteristics of these technologies? Well, if you do it yourself, it gets done exactly the way that you want it done, and so there's some advantages to that. But there's – you could go send your child to day care, but there's limits on that. So that might work if you have a 40-hour week job. But if you're trying to work 60 hours a week, it's a little bit tough to rely on day care because you get caught. You have to make an overnight trip. You have to stay late at the office unexpectedly. Your kid's sick or it's some annoying holiday that you don't pay any attention to but the day care center pays attention to. Sorry. (Laughter.) Am I getting too personal here? (Laughing.) So there's some limits to that. Okay?

So the final assumption that we're making on this is that there's some imperfect substitutable – substitutability of private household workers for home care. This isn't a particularly pleasant job to do, and maybe the parents don't feel great about it completely, either. The main result – we've developed a model with these characteristics.

What's the result of the model? Well, if you think about Patricia's findings and presents some other evidence on that – if you think about a low-skilled worker coming in, our stereotype from the 19th century or early 20th century is the low-skilled worker comes and works in the factory and they take the job of some American native-born worker who would have been working in that factory. And that hurts low-skilled American workers; native-born workers.

It's a very – I'd like for you to sort of replace in your minds, sort of think of a different stereotype. Think of – I don't know if anybody remembers Zoe Baird, the – okay. See, the women are particularly nodding their heads? So Zoe, she was nominated to be attorney general by Clinton. There was a scandal about an illegal nanny and she didn't get the job. But she had been a partner at a law firm, and that requires working 60-hour weeks or more. Part of the reason she was able to do that was because of the nanny.

So the way the model gets these results is when the nanny comes, that frees up the high-skill women – so it's the high-skilled women who are disproportionately high in the nannies – to work more hours. So what you've done is you've increased the labor supply of high-skill women. And when you increase the labor supply of high-skill women, you have two – you have two impacts. First, if high-skill and low-skill workers are complements, you actually drive down the price of high-skill people – of high-skill workers, relative to that of low-skill workers. This is good for low-skill workers and bad for high-skill workers in terms of the impact on wages.

But even that effect is swamped by this tax effect. If you're in – high-skill women usually face a very high marginal tax rate. They're usually in – they're already working. It's not like they're not working. It's just, are they working 40 hours or 60 hours? They're probably married to a high-skill guy. That means their – if you add up different marginal tax rates, most developed countries, they'd be facing a 40 percent marginal tax rate, at least. When they work, when they're generating – when they work more hours, they're generating – 60 cents of that goes to their household. Maybe they use 20 cents of that or 10 cents of that to pay the nanny. But the other 40 cents goes to the public budget. That's a fiscal benefit for the state. And it

also turns out to be an externality. This is a pure – this is a welfare gain for those of – I'm happy to go into that more for people who are into the technicalities.

This is true, by the way – so one question people ask is, well, what about native low-skill workers who are working in childcare? Turns out these results go through, even if you have a small number of native childcare workers doing private household work. But in fact, that's not really what we have. What we have is day care centers. Day care centers are actually higher skill in terms of the proportion of people who are college-educated than the general economy. Now, even if you don't want to believe that, there's still not that – there's still not that far off from the – if you look at the raw statistics, they're actually a skill-intensive industry. If you want to adjust for a while, it'd still be pretty average. So that's not going to really change things.

Okay. So what we do in this paper is we try and – first, we lay out the theory of that. Then we try and quantify it. So we looked at – so we've done this work to quantify it recently with the assistance of – from this project. So we have Israeli labor force participation data. And we get – if we – obviously, people with and without childcare workers differ in lots of ways, but we're fixed effects as one attempt to deal with that. And you get gains of about 5 hours. Argentina, you get about the same thing. In Argentina, unlike Israel and the U.S., it's not just going to from 40 to 60 hours a week; it's also, are you in the labor force or not?

And then Cortes and Tessada have very nice work on this, some of which you just heard. Okay? And also generates this result, and the result that it's primarily among high-skill workers. Okay.

So I'm going to skip over the regressions. What's the welfare benefit of this? Well, the externality from working – what's the benefit to the larger society? Not to the woman who hires the private household worker, who we assume is better off; not to the private household worker themselves, who, using Lant's reasoning, we think is better off because they chose to do this. What's the benefit to the rest of society? What's the externality benefit?

Well, it's the number of people who come in times the extra hours that the lawyer is working – I'm assuming that lawyers have positive productivity, but I guess you could otherwise, but this isn't – this is doctors, too. So we can say that the doctor's working – times the wage that they're getting, times the marginal cost of funds – leave that part out – times the – that's the extra cost of raising revenue – times the marginal tax rate.

So if you – welfare approximation is that if you're thinking about a program like Singapore or Hong Kong's, this amounts to about 1.5 percent of total wages earned in this economy. So that's a huge effect. For comparison, standard estimate of the welfare benefits of getting rid of all monopolies is about 1 percent of GDP. So we're talking about an effect that's roughly similar in magnitude from this. And it's even higher if in fact these programs are taxed, as is often the case, because even more comes in.

What's the impact on wages? Well, if you assume that high- and low-skill workers have a – (inaudible) – production function with an elasticity of 1 – which is a reasonably standard assumption in the literature – you would get that this program would lead to a 4.4 percent increase in the wage of low-skill workers relative to high-skill workers, and slightly less with another elasticity assumption. So, huge – these are very substantial gains economically in terms of the overall, and in particular for the low-wage native workers in Hong Kong and Singapore from these programs.

Okay. Is that robust? Well, you can plug in different values. There's obviously a lot of noise around some of these estimates. It doesn't really change the conclusion very much. And what would change the conclusion is if you thought some of these foreign private household workers were going to enter the general economy; they were going to stop working as nannies, they were going to go underground and then start showing up working in some job where they would be competing with native low-skill workers rather than freeing up the time of native high-skill workers.

So first, let me point out that the evidence that David mentioned earlier suggests that this could be restricted to some extent. Certainly that's – in Singapore, the government's in good control; maybe some other places that they wouldn't be so much. But if for every foreign private household worker that remained in the sector, half left, you would – wages wouldn't change because you'd have a counteracting effect of greater supply of low-skilled workers. But the fiscal benefits would remain. Okay. You could have – okay. Let me leave it at that.

So if you look at – so I've argued that this addresses most of the – most of the concerns or most of the chief concerns with immigration. But we still don't think – I don't hear this being pushed yet very heavily in the public debate in the U.S. Why? I think it's worth – this is an interesting paradox, I think, of our ethical systems. If you take the example that Lant put up initially, he made the point that when somebody moves from Haiti, they could be lowering GDP per capita in Haiti and in the U.S. But we should think that everybody's better off as a result.

If we look at this from an ex ante point of view, in this situation, everybody is better off, according to conventional welfare criteria. Ex poste, there are a lot of people who wouldn't be happy with the class of people who are living in the U.S. who have a visa that doesn't allow them to bring their kids here or their husband here, and that says the minute they lose their job they have to go home. One possible – that's because once people have lived in – and certain societies have a norm that once people have lived there long enough they become a member of that society. And that might be very different in the Gulf, for example. And that might be why this much more acceptable in some societies than others. One possible solution to that might be temporary non-renewable visas. So this would – people who are coming for two or three years, then people wouldn't – might not feel as bad about it. There are downsides of that as well.

Okay. Let me skip this, just making the point. The amount of money that could come out of this for developing countries would dwarf official development assistance. Thanks.