Economic Effects of International Labor Mobility

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1 Introduction

In *The Wealth of Nations* (1776: Book IV, Chap. II), Adam Smith famously observed: “If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.” The principle underlying Smith’s observation is simple. To create more wealth, carry out production activity where it’s most productive: where it yields the most output for the least expense. This principle is called *comparative advantage*.

Today, comparative advantage’s importance for wealth creation is recognized by nearly all economists. It stands at the foundation of the case for free trade—a case that in second half of the 20th century largely won over policymakers in the developed world, who increasingly liberalized the movement of goods and services across borders (see, for instance, Shleifer 2009). There remains, however, a critical exception to the relatively free movement of goods and services internationally: the movement of labor.

Virtually every developed country in the world severely restricts the movement of people born outside its borders who desire to move inside them. Roughly 3 percent of the world’s current population—about 200 million people—live in countries in which they were not born. However, a dramatically larger percentage would like to but cannot. According to the World Gallup Poll, for instance, 40 percent of adults who currently inhabit the poorest quintile of the world’s nations would move permanently to another country if they could (Pelham and Torres 2008; Torres and Pelham 2008).

The desire to relocate these persons express is not cheap talk. In fiscal year 2013, 14.6 million persons applied for 50,000 visas granting permanent residency in the United States via the US Diversity Lottery (US Department of State 2014). High-skilled migrants often pay thousands
of dollars in legal expenses to expedite the process of immigration to destination countries. And many workers migrate illegally, risking imprisonment, deportation, or worse.

Some of these workers pay professional smugglers hefty fees to move them across national borders—$3,000 to be smuggled across the United States-Mexico border, for example, $16,000 to be smuggled to the United States from Brazil, and $50,000 to be smuggled to the United States from China (Mexican Migration Project 2010; Havocscope Global Black Market Information 2014). These figures reflect only a small part of the cost would-be migrants from the developing world are willing to bear to relocate to the developed one. They’re also willing to leave their homes, families, and jobs to move to countries with unfamiliar languages, customs, and cultures.

The reason migrants are happy to bear such costs is economic. Compared to the wage-earning opportunities available to them in the countries in which they were born, those available to them in popular destination countries, such as the United States, the United Kingdom, Canada, France, Germany, and Australia, are tremendous. Clemens, Montenegro, and Pritchett (2008) conservatively estimate the welfare gain available to a moderately skilled worker in a typical developing country who moves to the United States at $10,000 (PPP) per year. This is roughly double per capita income in the average developing country.

The enormous wage gains available to such migrants reflect the enormous productivity gains their labor enjoys in developed countries where capital is more abundant and institutional quality, such as private property protection, is much higher. By reallocating labor to regions where it’s more productive, international labor migration exploits the wealth increases possible via the principle of comparative advantage.

To get a sense of the magnitude of the increases that are available globally by permitting labor reallocation through unfettered international migration, consider the results of research that
empirically investigates the efficiency improvements of eliminating policy barriers to international labor mobility (Hamilton and Whalley 1984; Moses and Letnes 2004; Iregui 2005; Klein and Ventura 2007). This research suggests that eliminating such barriers would increase global wealth by between 50 and 150 percent of world GDP.

This improvement is an order of magnitude larger than the efficiency improvement that researchers estimate would be achieved by eliminating policy barriers to the movement of commercial merchandise and capital internationally (see, for instance, Dessus, Fukasaku, and Safadi 1999; World Bank 2001; Anderson and Martin 2005; Hertel and Keeney 2006). Indeed, even far more modest reductions of policy barriers to international labor mobility would add more to global wealth than completely eliminating policy barriers to the movement of “ordinary” goods and capital across countries. Current estimates suggest that the migration of less than 5 percent of poor countries’ populations to the developed world accomplish as much (Clemens 2011).

Although it is uncontroversial among economists that the free movement of labor across countries would dramatically enhance welfare globally, the economic effects of international labor mobility for various subpopulations of the world—in particular native workers in the countries migrants move to and citizens who stay behind in the countries migrants depart—are subjects of considerable controversy. This is unsurprising. That freer labor movement would improve global efficiency follows obviously from the principle of comparative advantage. The distributional consequences of such movements, however, do not.

This chapter, which surveys the state of knowledge about the economic effects of international labor mobility, is therefore especially concerned with considering labor mobility’s economic effects for potentially vulnerable subpopulations. In focusing on labor mobility’s influence on these subpopulations, we aim to come to some conclusions for thinking about policy
relating to international migration that take account of both the distributional impacts of migration and its more straightforward global impact discussed above.

2 Economic Effects of Immigration

2.1 Theory

Most research that investigates the economic effects of international labor mobility studies the economic effects of immigration: how migration from poor countries to wealthy ones influences wages and job opportunities in migrant-receiving nations.

To get a sense of how immigration might impact these economic variables theoretically, a natural starting place is a simple economic model of a labor market, such as that depicted in Figure 1. This model has several assumptions: wages are set competitively; labor is homogeneous, meaning that all workers are economically identical to employers and thus are perfectly substitutable for one another; and changes affecting this market do not affect others.

Analyzing immigration’s economic effects in this context is straightforward. Immigration increases the supply of labor, shifting supply rightward from $S_0$ to $S_1$. This leads competing native workers’ wage to fall by the amount $W_0 - W_1$ and their employment to fall by the amount $Q_0 - Q_2$. Immigration’s influence on native workers would appear to be unambiguously negative.

Using a model like that in Figure 1 to predict the immigration’s effect on native workers is problematic, however, for two reasons. First, while the assumption of homogeneous labor and thus perfect immigrant-native substitutability may make sense for certain subpopulations of native workers and certain subpopulations of immigrants, it is clearly violated for other subpopulations of these groups of labor. For example, unskilled immigrants who have little or no education are not perfectly substitutable for highly skilled native workers whose labor tasks are human-capital
intensive, such as professionals. Indeed, in many cases, unskilled immigrants may not be perfectly substitutable even for unskilled native workers. The latter typically have far better command over the language used in their country, for example, and such command is important for many unskilled tasks.

Some subpopulations of immigrant labor are in fact likely to be complementary to some subpopulations of native labor. Consider, for instance, immigrant manual laborers who perform physical tasks, such as hanging drywall on construction projects, and native “cognitive” workers who perform more complex, human-capital intensive tasks, such as engineering for construction projects. If one were to depict the economic effects of an influx of the former subpopulation of immigrants on the latter subpopulation of natives using a model similar to that in Figure 1, demand would shift rightward, raising native wages and employment rather than reducing them.

The second difficulty of using such a model to predict immigration’s economic effects is that, because it is a partial-equilibrium model, it ignores potentially important general-equilibrium effects of immigration. For example, in response to an immigration-induced fall in the relative price of unskilled labor in an economy, additional capital is likely to flow to that economy, restoring the capital-to-labor ratio, and with it, native wage rates and employment. Moreover, an influx of immigrants to an economy not only increases that economy’s supply of labor. It also increases its demand for labor—both through immigrants’ consumption and when some immigrants become employers themselves—putting upward pressure on native wages and employment.

Because of such factors, contrary to what some have suggested (see Borjas 2003), the fact that the “the labor demand curve is downward sloping” is not sufficient to permit one to know a priori that immigration hurts natives. As we discuss below, alternative appraisals of these factors’
importance in practice play an important role in the ongoing debate about immigration’s economic effects empirically.

2.2 Evidence

2.2.1 Native Wages

An extensive literature considers immigration’s effect on native wages empirically. As Card (2005) describes, this literature reflects two main approaches, which parallel a long-standing debate about immigration’s influence on natives in the United States in particular.

Grossman (1982) introduced the first approach, which examines the relationship between differences in the relative structure of wages and differences in the relative supply of immigrants across local labor markets. Studies using this regional-comparison method may rely on important immigration events, such as political changes that permitted an influx of new foreign labor, to identify exogenous changes in immigration. For example, in an influential study that applies this approach, Card (1990) compares labor market conditions in Miami and other cities before and after an influx of Cuban immigrants, the Marielitos, increased Miami’s workforce by 7 percent following the Cuban government’s decision to permit 125,000 citizens to emigrate in 1980. Despite the large influx of new foreign labor, Card finds no discernable effect on wages in Miami’s labor market.

The regional-comparison approach takes advantage of the many local labor markets that exist in countries such as the United States, which exhibit substantial variation in their proportions of immigrants. An important drawback of this method, however, is that goods and factors of

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1 For relatively recent reviews of this literature, see Kerr and Kerr (2011) and Card (2005). For somewhat older reviews, see Friedberg and Hunt (1995) and Borjas (1994).
production are mobile between cities. If their flows are highly sensitive to differences in local prices, the regional-comparison method may have difficulty finding effects from immigration. Borjas, for example, who has most vocally criticized results obtained via the regional-comparison method, and most vocally advocated the alternative method of estimating immigration’s effect on native wages discussed below, argues that the endogeneity of immigrants’ settlement choices and the response of native capital owners and workers to immigration-induced changes in relative prices across localities are likely to prevent the regional-comparison method from detecting immigration-caused reductions in native wages (see, for instance, Borjas 1994; Borjas, Freeman, and Katz 1992, 1996).

The second major approach to estimating immigration’s effect on native workers uses time-series data to examine the relationship between changes in immigrant densities over time and economy-wide measures of relative labor market outcomes. In an influential study that applies this method, Borjas (2003), for instance, uses time-series data on aggregate relative wages in the United States between 1960 and 2001 to estimate how immigration-driven increases in the labor supply of particular skill groups influence economic outcomes for native workers in those skill groups. In contrast to the implications of Card’s (1990) study, Borjas finds that an influx of immigrants that increases the supply of workers in particular skill group by 10 percent reduces the wages of natives in that skill group by between 3 and 4 percent.

By shifting the unit of analysis to the national level, the aggregate time-series method circumvents the difficulties confronted by the regional-comparison approach in light of the movement of people and capital between localities in response to immigration-generated changes in relative prices. A potentially important problem for studies that rely on this method, however, is the absence of a counterfactual, which can render interpretations of estimates achieved via the
aggregate time-series approach sensitive to assumptions about how important economic variables move over time. Card (2005), for example, argues that without knowledge about the rate of growth of relative demand for high-school dropouts versus high-school graduates, Borjas’ (2003) aggregate time-series data on relative wages are uninformative about immigration’s effect on natives.

Perhaps surprisingly, given the intense methodological disagreement one finds in this literature, it may not matter greatly which approach to estimating immigration’s effect on native wages one finds most appealing. Consider Table 1, the third column of which summarizes the main findings of 10 representative studies that investigate immigration’s effect on native wages in the United States over the last 50 years.

Despite differences in the methods these studies use, the time periods they consider, and the subpopulations they consider, they display a clear pattern: immigration has a negative, but small, effect on native wages.\(^2\) This pattern is not limited to studies that consider the United States. It’s also found in the literature that considers immigration’s effect on native wages in Europe (see, for instance, Pischke and Velling 1994; De New and Zimmermann 1994a, 1994b; Gang and Rivera-Batiz 1994; Zorlu and Hartog 2005; Brücker and Jahn 2011).

Borjas (2003) and Borjas and Katz (2007), whose estimates are the largest in the literature, deserve special attention, since their findings are the two exceptions to the pattern of small effects found by others and reported in Table 1. For example, although Borjas and Katz (2007) find that Mexican immigration to the United States between 1980 and 2000 had zero effect on the typical

\(^2\) Because of the differences across these studies pointed to above, and because they measure changes in immigration differently (e.g., as a share of total population vs. as a share of the workforce), it is not possible to use their results to neatly summarize a lower- and upper-bound of immigration’s influence on native wages. In lieu of such a summary, to get a better sense of the range of these results, we discuss in greater detail the largest estimates in the literature below.
native’s wage in the long-run, they also find that it reduced the wage of American high-school dropouts by 8.2 percent in the short-run and 4.2 percent in the long-run.

Given that the literature’s two largest sets of estimates are found in studies that use the aggregate time-series approach, it’s tempting to attribute the results in Borjas (2003) and Borjas and Katz (2007) to their reliance on this method. But this would be a mistake. Recent work suggests that their larger estimates are, instead, the result of two important assumptions these studies make: first, that the labor market is defined by four education groups (high-school dropouts, high-school graduates, people with some college, college graduates), and second, that immigrants and natives in the same skill group are perfect substitutes.

Ottaviano and Peri (2008, 2012) use the same method as Borjas (2003) and Borjas and Katz (2007) to estimate immigration’s effect on native wages in the United States, but modify these two assumptions. Instead of defining the labor market using four education groups, they define it using two education groups (high-school equivalents and college equivalents). And, instead of treating immigrant labor of a given skill level as perfectly substitutable for native labor of the same skill level, they treat them as imperfectly substitutable. Doing so, they find that immigration’s large negative effects on native wages, per Borjas (2003) and Borjas and Katz (2007), disappear. Indeed, Ottaviano and Peri’s (2008, 2012) results suggest that immigration to the United States between 1990 and 2006 reduced the wages of natives without high-school degrees by only 0.7 percent in the short-run and increased their wages by between 0.6 and 1.7 percent in the long-run.

The case for modifying the two assumptions in Borjas (2003) and Borjas and Katz (2007) that appear to drive their larger estimates, per Ottaviano and Peri (2008, 2012), is persuasive. The

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3 For a more detailed analysis of why this is so than we provide below, see Card (2009).
conventional division of labor-market education groups in labor economics uses two groups: “high education” (college or more) and “low education” (high school or less), not four. Further, as Card (2012) points out, if high-school dropouts and high-school graduates are separate skill groups with the same degree of substitutability as between high-school graduates and college graduates, as Borjas (2003) and Borjas and Katz (2007) assume, we should observe a systematic negative relationship between the relative wage of dropouts versus high-school graduates and their relative supply. However, in the post-1960 American period that Borjas (2003) and Borjas and Katz (2007) consider, no such relationship exists.

There is equally strong reason to think that immigrant and native labor within the same skill group are imperfect substitutes for one another, rather than perfect substitutes, as Borjas (2003) and Borjas and Katz (2007) assume. The simple fact that, as alluded to above, immigrants’ language skills are often significantly inferior to those of natives points to imperfect substitutability, and the empirical evidence seems to support this claim (see, for instance, Ferrar, Green, and Riddell 2006; Peri 2007; Peri and Sparber 2009; Card 2009; Dustmann, Frattini, and Preston 2013).

Ottaviano and Peri’s (2008, 2012) work offers to reconcile the most divergent results in the literature that examines immigration’s effect on native wages. In doing so, it affirms the typical finding in this literature, according to which immigration has little effect on those wages.

### 2.2.2 Native Employment

The literature that considers immigration’s effect on native employment empirically is smaller than that which considers native wages, but finds similar results. Consider the fourth column of
Table 1, which presents the findings of a half-dozen influential studies that examine this relationship in the United States over the past 50 years.

Immigration’s effect on native employment in America is minimal. In four of the six studies in Table 1, immigration’s estimated effect native employment is zero or positive. In the other two, it is negative but modest. According to Borjas (2003), who finds the largest effect of immigration on native employment in this literature, an influx of immigrants that increases the supply of workers in a particular skill group by 10 percent reduces the weeks worked by native laborers by between 2 and 3 percent. This same pattern is found again in the literature that considers immigration’s effect on native employment in Europe, whose estimates cluster around zero (see, for instance, Winkelmann and Zimmermann 1993; Mühleisen and Zimmermann 1994; Winter-Ebmer and Zweimüller 1996; Winter-Ebmer and Zimmermann 1999; Gross 2002; Angrist and Kugler 2003).

The tone of contestation one finds in much of the empirical literature that studies immigration’s economic effects obscures the quite consistent, broader picture this literature seems to reflect. All but the most pessimistic estimates of immigration’s influence on native wages suggest a small effect, and the aberrations to this pattern fall cease to be so under the appropriate assumptions. Recent meta-analysis of the substantial literature that generates these estimates supports this conclusion (Longhi, Nijkamp, and Poot 2005, 2008a). Further, research agrees that most, if not all, of immigration’s negative effect on native wages is temporary. Over a longer-run period, in which capital is able to adjust to immigration-induced relative price changes, small native wage reductions become smaller still, and may become wage increases even for the most vulnerable subpopulations. Nearly all of the work that estimates immigration’s influence on native employment also finds small effects. This impression, too, is confirmed by recent meta-analysis.
of the literature that examines this question, which suggests that native employment is largely unaffected by immigration (Longhi, Nijkamp, and Poot 2008a, 2008b).

3 Economic Effects of Emigration

3.1 Theory

The economic effects of emigration refer to the consequences of migration for citizens who remain behind in countries from which migrants depart. In the most basic economic labor-market model, considered in Figure 1, emigration’s economic effects on such citizens move oppositely of their effects on natives in emigrants’ destination countries. Thus, when the migration of workers from one country to another reduces the wages of competing native workers in the latter country, it raises the wages of competing workers who remain behind in the former country—albeit at the expense of capital owners in that country, who must pay more for labor. Mishra (2007), for example, finds that Mexican emigration to the United States between 1970 and 2000 increased the wages of high-school educated workers who remained in Mexico by 15 percent, but harmed the welfare of Mexican owners of fixed factors of production more than it benefited Mexican workers.

Of particular interest is what happens to citizens who remain behind when their compatriots who emigrate are highly skilled, such as doctors and engineers: so-called “brain drain.” These emigrants have human capital that may make their labor complementary to the labor of many of their compatriots. Thus, a highly simplified partial-equilibrium model like that in Figure 1 suggests that such citizens who remain behind will be harmed by emigration.

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4 For a more comprehensive review of this literature than we provide below, see Docquier and Rapoport (2012).
For essentially the same reasons, this model can have difficulty predicting how an influx of immigrants affects economic outcomes for natives. However, it can also have difficulty predicting how an outflow of emigrants affects economic outcomes for non-emigrating citizens. For example, while the simplest labor-market model treats human-capital investments by citizens in migrant-origin countries as exogenous, in practice it seems likely that citizens’ investments in such capital are endogenous to the prospect of emigration.

Because the returns on human capital in migrant-origin countries are typically low, and in migrant-destination countries are typically high, citizens anticipating emigration have an incentive to invest in human capital that makes their labor more highly skilled. If some portion of would-be emigrants who invest in human capital for this purpose do not ultimately emigrate, emigration may operate to raise the average level of human capital among citizens that remain, rather than reduce it, creating the opposite effect of that predicted above for citizens with complementary labor skills who do not emigrate. This explains how the Philippines, for instance, which sends more nurses abroad than any other developing country, still manages to enjoy more nurses per capita at home than the United Kingdom (Clemens 2009).

The simple labor-market model in Figure 1 also ignores the possibility that high-skilled emigrants may remit part of the income they earn abroad to their origin countries; that they may develop or strengthen international networks that contribute to trade with origin countries; and that they may ultimately return to their origin countries not only wealthier, but also with additional human capital they acquired in residency abroad—each of which also stands to improve the economic situation of their compatriots who remain at home.

Of course, introducing complications to the most basic labor-market model can also generate welfare-reducing effects of brain drain for citizens who remain behind. For example,
Bhagwati and Hamada (1974) develop a model in which internationally integrated labor markets can increase unemployment in countries from which skilled workers emigrate. The particular assumptions one makes about a wide range of factors that may influence how brain drain operates thus strongly influence its theoretical effect on remaining citizens. Much like in the case of establishing immigration’s economic effects, then, establishing emigration’s economic effects in practice—including brain drain’s—requires empirical investigation.

3.2 Evidence

3.2.1 Human Capital

In a series of recent cross-country studies, Beine, Docquier, and Oden-Defoort (2011), Beine, Docquier, and Rapoport (2001, 2008, 2010), Easterly and Nyarko (2009), and Docquier, Faye, and Pestieau (2008) study how the emigration of highly skilled individuals affects human capital formation in their home countries. Their results suggest that the prospect of brain drain may in fact generate “brain gain”: the emigration of highly skilled persons is associated with higher levels of gross human capital formation in origin countries rather than less.

Recent micro studies of brain drain’s effect on human capital formation in origin countries corroborate this finding. For example, Batista, Lacuesta and Vicente (2012) find that brain drain drives most of Cape Verde’s human capital formation. Gibson and McKenzie (2011), who study New Guinea and Tonga, find that the overwhelming majority of top high-school students in these countries consider emigration, which leads them to invest more in their schooling. Similarly, Chand and Clemens (2003) find evidence that brain drain enhances human capital investment among those with Indian ancestries in Fiji.
These studies furnish evidence for the importance of emigration’s incentive effects on human capital investment and lend credence to the idea that such investment in migrant-origin countries is indeed endogenous to the prospect of emigration. They suggest that rather than depleting migrant-origin countries of human capital, emigration is likely to enhance it.

3.2.2 Remittances

In 2014, estimated global flows of remittances to developing countries were $404 billion (World Bank 2014). To put the size of these flows in perspective, consider the fact that, in 2011, official development assistance to the developing world was approximately a third of this amount—$133 billion. In 2012, remittances to Tajikistan equaled more than 50 percent of this country’s GDP, and in eight other developing nations, they equaled between 20 and 30 percent of their respective nations’ GDP.

As Clemens and McKenzie (2014) point out, remittances are generally unimportant contributors to economic growth in migrant-origin countries. Nevertheless, their importance to the welfare of citizens who remain behind in such countries is substantial. Much of the money that emigrants return is sent to alleviate the poverty of family members and friends who rely on emigrants’ assistance for their support.

How brain drain, in particular, may affect remittances remains unclear. Faini (2007), Niimi, Ozden, and Schiff (2010), and Dustmann and Mestres (2010) provide evidence that suggests high-skilled emigrants may remit less than their low-skilled counterparts. On the other hand, Bollard et al. (2011) find that, conditional on remitting, more educated emigrants in fact remit more. Although a dearth of empirical work that focuses on high-skilled emigrants’ remittance practices, in particular, makes it difficult to draw strong conclusions about brain drain, in this regard,
anecdotal evidence seems to comport better with the finding of Bollard et al. (2011). According to Kangasniemi, Winters, and Commander (2007), for instance, nearly half of Indian medical doctors in the United Kingdom send remittances to India, and among the half that remits, the average remitter sends 16 percent of his income.

While the emigrant-specific source of the tremendous flow of remittances going to citizens who remain behind in migrant-origin countries is an important question for the literature that considers brain drain, in terms of evaluating emigrations’ effect on poverty reduction for citizens who remain behind in migrant-origin countries, what seems more important is the volume of remittances, which is assuredly positive related to the number of emigrants regardless of skill level.

3.2.3 Trade

Indeed, because many emigrants are low-skilled workers, it’s important not to ignore how emigration more generally affects citizens who remain at home. Perhaps the best-documented such effect is that of improving trade between migrant-destination and migrant-origin countries. A large empirical literature finds that emigration facilitates such trade (see, for instance, Gould 1994; Head and Ries 1998; Rauch and Trindade 2002; Rauch and Casella 2003; Combes, Lafourcade, and Mayer 2005). Emigrant-created diasporas in migrant-destination countries create and strengthen trade networks with migrant-origin nations, contributing to larger commercial flows between such countries that benefit origin-country traders and consumers.

Additional evidence suggests that such diasporas may also facilitate the intentional transfer of knowledge, and thus technology and innovation, from emigrant-destination countries to emigrant-origin countries. Using data on patent citations, Kerr (2008), for instance, finds that emigrant-created ethnic diasporas in the United States enhance the international transfer of
knowledge between the United States and emigrants’ origin countries. In contrast, in a related study focusing on “innovator emigrants” from India, Agrawal et al. (2011) find that emigration may reduce origin-country access to knowledge on net. However, these authors express some skepticism about what their finding may ultimately mean for the welfare of citizens who do not migrate.

Much empirical work remains to be done to evaluate emigration’s economic effects for citizens in migrant-origin countries who do not migrate. Considered together, however, the literature on emigration’s economic effects is optimistic. The evidence this literature adduces points to a highly probable welfare-enhancing effect of emigration on citizens who remain behind.

4 Additional Economic Effects of International Labor Mobility

4.1 Institutional Reform

Political economists have long recognized the potential importance of “voting with one’s feet” as a means through which citizens may be able to improve public officials’ accountability to their wishes (Tiebout 1956). So-called “Tiebout competition” acts as a feedback mechanism in political markets akin to the profit-and-loss feedback mechanism in actual markets, which both informs producers (political officials) about how well they are satisfying consumers’ (citizens’) demands and incentivizes producers (political officials) to respond to what they learn. If citizens are mobile and political authorities are concerned with enlarging, or at least preserving, their tax bases, the prospect of inter-jurisdictional migration may improve their incentive to follow those policies that their citizens demand.

Traditionally, inter-jurisdictional competition is considered in domestic contexts with reference to the movement of a country’s citizens between federal jurisdictions, such as states, or
within states, between municipalities. However, the mobility of citizens internationally may also be useful to citizens for improving the quality of their countries’ governments.

International labor mobility is nowhere near as great as labor mobility domestically—both because of the much more substantial policy barriers to international movement and because of the considerably larger cost of moving to another country for many citizens. Thus, Tiebout competition’s potential to improve governmental quality at the national level is surely much weaker than its potential to do so at the local level. Still, since some citizens in developing countries do in fact migrate internationally, and many more desire to do so, there is reason to think that inter-jurisdictional competition at the international level may be able to affect national governmental quality to some degree and that reducing policy impediments to international migration could strengthen this effect.

We are unaware of any empirical research that examines the effect of international Tiebout competition on governmental quality. However, a handful of studies consider how international labor mobility may affect governmental quality in migrant-origin countries through alternative mechanisms. Mahmoud et al. (2013), for example, argue that emigration creates political spillovers from migrants’ destination countries to their countries of origin. Emigrants’ exposure to alternative political institutions in destination countries provides them with new information about these institutions, which they may share with contacts in their countries of origin. This information diffusion has the power to alter the political tastes of citizens in migrant-origin countries who do not emigrate, strengthening their support for institutional reform. To examine this hypothesis, Mahmoud et al. (2013) examine emigration from Moldova to Western Europe, which began in the late 1990s. They find that this emigration was pivotal in bringing about the end of Communist government in Moldova in 2009 through the political spillover channel described above.
Emigration’s potential influence on democracy in migrant-origin countries has been the subject of interest in the small literature that considers migration’s effect on institutional quality and reform. Spilimbergo (2009), for instance, examines the influence of foreign education on democracy and finds that migrants who are educated in democratic countries and return home promote democracy in their origin countries. Using experimental evidence, Batista and Vicente (2011) similarly find support for the possibility that emigrants promote democratic institutions in their origin countries. Their results suggest that migrants who temporarily live abroad in nations with high-quality governance institutions increase the demand for political accountability in their origin countries when they return. In a still more recent study, Docquier et al. (2014) find that greater emigration leads to stronger democracy and more economic freedom in migrant-origin countries.

In principle, at least, it is also possible for emigration to affect institutions in migrant-origin countries negatively. Hansen (1988) and Ferguson (2003), for example, speculate that emigration from Mexico and Haiti may contribute to the delay of institutional reform in these countries by, for instance, facilitating large remittance flows that prop up dysfunctional economies, or by creating “safety valves” through which such economies can unburden themselves of unemployed workers. Thus far, however, the literature that considers migration’s influence on institutions empirically unanimously finds evidence for the opposite effect: in practice, greater emigration appears to contribute to institutional reform in poor countries rather than contributing to reform’s delay.
4.2 Environment

Although not a concern in the scholarly literature, some environmental advocates have expressed concern that the movement of people from poor countries to wealthy ones may have significant negative environmental effects. According to those who harbor such fears, because wealthy people produce and consume many more goods than poor people, the ecological footprint of wealthy people is much larger. The movement of people from poorer countries to wealthier ones, which enriches those who move, may therefore contribute to accelerated environmental degradation.

The relationship between income and environmental impact may be more subtle than that described by those who express this concern, however. According to one hypothesis, for example, the relationship between economic development and environmental impact is hump-shaped—a relationship known as the “environmental Kuznets curve.”

The logic underlying this curve is straightforward. At subsistence levels of development, because production is nearly non-existent, so too is the environmental impact of a country’s economic activity. As an economy grows, production increases, contributing to a rise in environmental degradation. With still further economic growth, however, environmental degradation declines: production again increases, but now tends to be undertaken in more environmentally friendly ways. For example, clean-burning fuels are substituted for dirty ones, renewable resources are relied on more heavily than non-renewable ones, and investments in pollution-reducing technologies are undertaken. Unlike economies just beginning to experience economic growth, which are not yet rich enough to afford more environmentally friendly production processes, those that have grown more substantially, and thus are wealthier, are able to adopt them, leading to improved environmental quality.
A large literature debates the evidence for an environmental Kuznets curve. Much of the controversy surrounds the level of development a country needs to reach before it exhibits production activity that reduces its environmental footprint, as well as how this relationship may vary depending upon the particular pollutant one considers. Still, even the possibility of a Kuznets-curve type relationship between development and environmental impact suggests that fears according to which migration from poor countries to wealthy ones will wreak havoc on the environment are, at the very least, premature.

It is possible, and indeed likely, that migration from poor counties to rich ones improves global environmental quality on at least some dimensions because of environmental Kuznets curve relationships. Migration from middling developing countries to developed countries may move people from the top of the environmental Kuznets curve, where environmental degradation is greatest, to its “wealthy tail,” where degradation is less severe. Similarly, migration from countries that are so undeveloped that they are located at the “impoverished tail” of the environmental Kuznets curve may move people who, with the eventual growth of their economies would have otherwise have contributed more to global environmental damage, at least temporarily, directly to the “wealthy tail” of the curve where environmental degradation is lower, bypassing the curve’s middle portion where degradation is greatest. More empirical work is required to understand how migration from poor countries to rich ones may affect environmental quality. However, at this stage, we see little theoretical reason to expect a negative impact, let alone a large one, and even less evidence for such an effect.
4.3 Urban Renewal

An underappreciated, and understudied, economic effect of international labor mobility is migrants’ influence on urban centers. The “Chinatown’s,” “Little Italy’s,” and other ethnic-enclave communities that populate major metropolitan areas in the United States, in particular, are among the most popular city destinations for tourists and residents. Such communities contribute to the diversity and cosmopolitan dynamics that give major urban areas their particular “feel” and are partly responsible for making such areas vibrant centers of commercial and social activity.

Recent research suggests that immigrants may benefit the economies of urban areas in another way as well: by facilitating declining cities’ revival. According to Vigdor (2014), the population and financial decline of New York City in the 1970s was ultimately reversed by immigrants who moved there in the 1980s and 1990s. While native-born citizens continued to exit the city during these decades, immigrants entered in still greater numbers. Vigdor (2014) contends that this immigrant-fueled reversal in city population growth played an important role in supporting the tax base required for the city’s operation, stabilizing housing prices in the metropolitan area, and generating the density required for the city to thrive economically.

Vigdor’s (2014) study is the only work we are aware of that considers immigrants’ effect on urban renewal, so it is unclear to what extent immigrants may have also played a role in revitalizing other major metropolitan areas in the United States or elsewhere. Nevertheless, his study points to the potential importance of immigration for such revitalization and will hopefully spur additional research in this area that sheds light on the generalizability of his findings.
5 Concluding Remarks

Our analysis of the economic effects of international labor mobility leads to several conclusions. First, if creating additional wealth is the goal, it’s hard to argue with the principle of comparative advantage. The implication of this principle for immigration policy interested in maximizing global wealth is straightforward: eliminate policy barriers to the international movement of labor.

Getting the most of out the world’s labor force requires permitting labor to move to those areas where it’s most productive. At the moment, the developing world is very much overpopulated relative to this benchmark, and the developed world is very much underpopulated. The unsurprising result is substantial economic inefficiency relative to what is achievable with even moderately more liberal immigration policy. There is no great mystery here. Adam Smith pointed to the logic underlying the necessity of international labor mobility for realizing the world’s wealth-creating potential in 1776, and the point has been reiterated by various economists over the course of the subsequent 230 years.

Since it seems unreasonable at this point to believe that the message has not been heard, the most sensible inference to draw from the continuation of severe restrictions on the international movement of people by developed countries is that policymakers in such countries are not in fact interested in maximizing global wealth. This should not come as any great surprise since, as James Buchanan and Gordon Tullock pointed out some decades ago, policymakers, like everyone else, aim to serve their own interests rather than society’s (see, for instance, Buchanan 1979). How much more true this must be when society refers to the world’s population instead of a nation’s.

The tremendous increases in wealth that freer international migration policy would generate would not accrue equally to every subpopulation. Indeed, in the short-run, some individuals are likely to lose from freer migration policy, albeit in most cases minimally. In our
view, these distributional considerations—or rather popular perceptions of them—are the major reason countries such as the United States have not done more to liberalize their immigration policies. This observation brings us to the second conclusion of our analysis of the literature that considers the economic effects of international labor mobility.

To the extent that policymakers are reluctant to liberalize international migration policy despite its clear global welfare-enhancing effect because they believe that potentially vulnerable native subpopulations in their countries would suffer significantly, they are mistaken. Our examination of the research that investigates immigration’s effects on native wages and employment suggests that, while perhaps negative, these effects are (a) small and (b) temporary. This is little solace to an American worker, for instance, whose wage falls for some time, or whose work hours diminish, in light of increased immigration. However, the considered policymaker will take note that other American workers will experience a rise in their wages and increased employment opportunities because of increased immigration, and, in the long-run, it seems that the American-worker beneficiaries of increased immigration gain more, or at least not less, than American-worker losers suffer.

Of course, self-interested policymakers are unlikely to be moved by these facts, since the losses experienced by American workers of the former group in the face of increased immigration are readily seen, and thus complained of, while those experienced by American workers of the latter group in the absence of increased immigration go unseen and thus undiscussed. Ultimately, then, it seems that immigration liberalization in a country such as the United States would require policymakers to put more weight on the welfare gains of the immigrants, which dwarfs any net welfare gain or loss to natives. As would-be immigrants do not have the ability to vote or contribute to political officials’ campaigns, however, we are not optimistic about this prospect.
Third, although we doubt seriously that the economic effects of emigration play any role in policymakers’ thinking about international migration policy, it bears noting that, here too, evidence that more liberal policy would negatively affect citizens who do not migrate in migrant-origin countries is scant, and evidence that more emigration, which a more liberal migration policy would of course achieve, would improve the welfare of citizens who do not move is substantial.

It does not seem insane to think that in a well-functioning democracy governed by sensible, informed policymakers, we should expect the implementation of a policy reform that would almost certainly improve the long-run welfare of its average citizen and, in the worst case, leave him no worse off, and perhaps double the income of some of the poorest people in the world, while almost certainly leaving none of them worse off—particularly when the losses experienced by any losing subpopulations as a result of the reform are likely to be small and transitory. This is precisely the situation the United States confronts with respect to the liberalization of policy relating to international labor mobility. Yet no reasonable person expects dramatic change to this policy in the direction of liberalization anytime soon. As noted above, this situation should not puzzle students of political economy. That does not mean, however, that it should not frustrate them.
References


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W. Strahan and T. Cadell.


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**Figure 1. A Simple Model of the Labor Market**

![Diagram of the labor market model](image)
<table>
<thead>
<tr>
<th>Study</th>
<th>Year</th>
<th>Finding for Native Wages</th>
<th>Finding for Native Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grossman (1982)</td>
<td>1970</td>
<td>10 percent increase in the number of immigrants reduces wages of natives by 1 percent</td>
<td>No discernable effect</td>
</tr>
<tr>
<td>Card (1990)</td>
<td>1980</td>
<td>No discernable effect</td>
<td>No discernable effect</td>
</tr>
<tr>
<td>Altonji and Card (1991)</td>
<td>1970, 1980</td>
<td>1 percentage point increase in immigrant population share reduces wage of less-skilled natives by 1.2 percent</td>
<td>1 percentage point increase in immigrant population share reduces unemployment rate of less-skilled natives by 0.23 percent</td>
</tr>
<tr>
<td>Borjas, Freeman, and Katz (1992)</td>
<td>1967-1987</td>
<td>1 percentage point increase in immigrant share of labor force reduces wage of native high-school dropouts by 1.2 percent</td>
<td>Immigrant inflows between 1985 and 1990 reduce wage of low-skilled natives by 1 to 3 percentage points</td>
</tr>
<tr>
<td>Borjas and Ramey (1995)</td>
<td>1977-1991</td>
<td>1 percentage point increase in immigration share of labor force reduces wage of native high-school dropouts relative to college grads by 0.7 percent</td>
<td>Immigrant inflows between 1985 and 1990 reduce employment of low-skilled natives by 1 to 3 percentage points</td>
</tr>
<tr>
<td>Card (2001)</td>
<td>1990</td>
<td>Immigrant inflows between 1985 and 1990 reduce wage of low-skilled natives by 1 to 3 percentage points</td>
<td>Immigrant inflows between 1985 and 1990 reduce employment of low-skilled natives by 1 to 3 percentage points</td>
</tr>
<tr>
<td>Borjas (2003)</td>
<td>1960-2001</td>
<td>Immigrant inflows that increase the supply of workers in a particular skill group by 10 percent reduce wages for natives in that group by 3 to 4 percent</td>
<td>Immigrant inflows that increase the supply of workers in a particular skill group by 10 percent reduce weeks worked by natives in that group by 2 to 3 percent</td>
</tr>
<tr>
<td>Borjas and Katz (2007)</td>
<td>1980-2000</td>
<td>Immigrant inflows between 1980 and 2000 reduce wages of native high-school dropouts by 8.2 percent in the short-run and 4.2 percent in the long-run; and reduce wage of typical native 3.4 percent in the short-run and 0.0 percent in the long-run</td>
<td></td>
</tr>
<tr>
<td>Ottaviano and Peri (2008, 2012)</td>
<td>1990-2006</td>
<td>Immigrant inflows between 1990 and 2006 reduce wages of natives without high-school degrees by 0.7 percent in the short-run and increase their wages by 0.6 to 1.7 percent in the long-run</td>
<td></td>
</tr>
</tbody>
</table>