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Impact of importing foreign talent on performance levels of local co-workers

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ABSTRACT

When skilled labour is imported to work in a creative industry, local workers may benefit, in terms of their own level of skill, through contact with new techniques and practices. European basketball offers an opportunity to investigate the reality of this general claim. For a panel of 47 European countries observed over more than twenty years, we model probability of qualification for, and subsequent performance in, Olympic Tournaments and World and European Championships. We demonstrate that, consistent with the spillover hypothesis, an increase in the number of foreigners in a domestic league tends to generate a subsequent improvement in the performance of the national team (which has to be comprised only of local players).
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1. Motivation

In an era of globalisation of labour markets there are few developed countries where the issue of whether immigration brings net benefits to the host economy does not lie at the heart of political debate. In this paper we focus on skilled immigrants. On the one hand, they may boost national output but, on the other, labour representatives argue that they depress wages and/or reduce employment for union members.

Unions are perhaps particularly vocal in the creative industries where employees work together in teams to produce a co-operative output. Examples are scientific research teams, architectural practices and symphony orchestras. In such settings, unions tend to be very active in promoting the case for restrictions on recruitment of foreign labour, probably because the domestic workers they represent have highly specialised skills, acquired through lengthy investment in training, and face a substantial reduction in wages if they are displaced by migrants and compelled to work in another sector. To be sure, unions in this situation may concede that using foreign workers will bring levels of skill into the productive process that will increase quality of output in the short-run. But they argue that an open labour market is likely to have negative longer-run consequences by impeding the development of a vigorous indigenous industry. The potential mechanism is that it may prevent young local workers gaining positions that allow them to accumulate the early experience necessary for subsequent success.

The union argument for protectionism is often successful (for example, American restrictions on foreign actors are notoriously inflexible) as it accords with the aspiration of most countries to acquire an internationally respected creative sector in which its own citizens reach world levels of achievement. However, like any other case for protectionism, this particular justification should not be accepted uncritically. There is an equally plausible argument that domestic workers engaged in team production learn new approaches and techniques from face-to-face contact with colleagues trained in another tradition and that this will permanently raise the value of their human capital (Battu et al., 2003). This is the 'spillover hypothesis'.[1] On this view, the local creative sector will develop more, not less, vigorously than otherwise if labour markets are open and domestic workers have the opportunity to learn from foreign colleagues.

The matter can plainly be settled only empirically. Sport offers a unique environment to test whether there are productivity spillovers from foreign employees participating in production in a creative sector and whether these are strong enough to generate an enhanced level of achievement from nationals in that sector. This is because of two features which, amongst the creative industries, are perhaps present together only in sport. First, a country's stature can be measured objectively by its record in international tournaments. Second, sport is

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[1] 'Spillover' is a word commonly employed interchangeably with 'externality'; but the 'spillover hypothesis' is a specific term used in the literature, and here, to refer to one specific externality, that associated with transfer of skills between co-workers.

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organised such that there is domestic competition where local and foreign workers engage together in teams; but at the same time indigenous workers are also formed into their own representative team that competes in inter-country events. It is therefore possible to test whether raised levels of contact with foreign workers enhance or diminish subsequent levels of achievement by indigenous performers.

In this paper, we test for the existence and strength of productivity spillovers from migrant to indigenous workers, employing a large panel of data we assembled for European basketball from 1986 to 2007 and which we used to account for countries' performance levels at international tournaments held up to 2008 (the Beijing Olympics). The advantage of the data set is that countries in Europe varied considerably in how permissive they were to the employment of foreign players; and additional variation appears in the data as a result of both the judicial ruling in the Bosman case of 1995 (described by Primault, 2006, p. 532, as a "traumatic exogenous shock" to basketball) and the opening up of formerly communist states in the early 1990 s, which each introduced exogenous liberalisation of labour markets in European sport. We test whether different levels of employment of imported players in a domestic league are associated with greater or lesser success in Olympic, World and European championships.

The remainder of the paper is structured as follows. Section 2 reviews relevant literature on migrant labour in general and sports labour markets in particular. We emphasise here the relationship between our work and existing sports studies. Section 3 describes the data we have assembled for use in empirical analysis. The evidence from this analysis, presented in Section 4, is that a lower degree of restriction on foreign players in domestic club competition appears to have had a significant payoff in some dimensions of the performance of national basketball teams. Finally, our most important conclusions are briefly outlined in Section 5.

2. Literature review

The tendency to gradual opening up of international markets, with more capital mobility and increasing free trade in goods and services, has been accompanied by growing concern over movements of people (World Bank, 1995). This is despite evidence at the macro level showing that immigration has an overall positive effect on growth through three channels. First, immigration speeds up convergence to the long-run steady state growth path through enhancing openness of the host economy and increasing the demand for new investment (Barro and Sala-i-Martin, 1995). Second, immigration brings new ideas, which promotes innovation, entrepreneurship, and increasing total factor productivity (Borjas, 1986). Third, immigration improves economic efficiency because immigrants are more responsive to economic signals and changes, further enhancing total factor productivity.

The most relevant of these channels for our study is the innovation that immigration may stimulate. This is likely to be more intense in the case of skilled immigrants. Thus, a positive net inflow of skilled migrants is claimed to provide new ideas and technologies and hence foster an area's competitiveness (Porter, 1990). Mobility of skilled labour offers efficiency gains by allowing organisations that need talent to draw from a wider base. It also contributes to the diffusion of knowledge, enhancing the productivity of individuals' human capital (Battu et al., 2003). Knowledge can flow tacitly, as a result of the contact of individual workers within a firm, or through movement of embodied human capital, due to the local mobility of labour between firms. Channels, in particular the tacit flows, are highly contextual and difficult to codify and therefore mediated by face-to-face contact. In fact, spillovers are more important when workers produce in teams, causing a worker's productivity to differ across different teams. Krugman (1991) suggests that localised knowledge and technology spillovers can foster growth of localised economies of agglomeration, giving rise to further attraction of skilled workers. Further, Kremer (1993) argues that the extent to which knowledge spillovers affect a worker's productivity depends on his ability: the more skill a worker already has, the more he will benefit from these spillovers.

International labour mobility can also have negative effects, if immigration tends to reduce domestic workers' wages. Concern over this, together with cultural and social barriers, explains why international mobility of labour is significantly lower than that of goods, services and capital. Nevertheless, Longhi et al. (2005) show that the mean estimate in the empirical literature is that an increase by 1 percentage point in the proportion of migrants in the workforce reduces wages by only a modest 0.1%.

Given that spillovers within the workplace generally occur in groups working as teams to produce goods or services (Idson and Kahane, 2004), benefits appear particularly likely to be found in team sports as well as in other creative activities, such as scientific research, music and management consultancy. A distinction has to be made here between transitory and permanent effects. It is well documented in the sports literature that playing with higher quality team-mates improves a player's statistics. For example, for the present case of basketball, Zak et al. (1979) argue that his team's ability to acquire the ball via rebounds and turnovers influences the shooting skills of a player. Kendall (2003) contends that a high quality player tends to draw more attention from the opposing defence, opening up clearer paths for his team-mates. Using a sample of National Basketball Association (NBA) players from season 1988–1989 to 2000–2001, Kendall finds that a 10% increase in team-mates' productivity –measured as points per shoot attempt– leads to a 4.5% increase in own productivity. He also shows evidence, consistent with Kremer (1993), that benefits from spillovers are higher for better players. Idson and Kahane (2004) find that individual players' pay increases with their own and team productivity – measured by minutes played, points, assist, rebounds, steals and blocks– using data for NBA players who switched teams between seasons 1994–1995 and 1996–1997. Similar results are reported for other team sports. Idson and Kahane (2000) find that team attributes affect individual player performance and pay in the National Hockey League. And Torgler and Schmidt (2007) report that team-mate characteristics, such as mean age, affected the number of goals scored by individual football players in the German league between 1995–1996 and 2003–2004.

The spillovers referred to in these studies are externality effects, produced during a game from the general performance of the rest of the team. The results could reflect merely a positive effect on an individual's productivity when he works with higher quality complementary inputs, i.e. a transitory effect. In contrast, what we seek to identify and measure here is a more *permanent* concept of spillovers, where working with foreign co-workers raises the value of an individual's human capital. In other words, we investigate whether playing with foreigners not only improves an athlete's statistics but also makes him a better player.

Except in sports leagues where players are imported simply because they are cheaper than journeyman domestic players,[2] it appears likely that foreign players will, on average, be more skilled, since clubs can draw talent from a wider base,[3] and they may in addition bring with them different approaches and techniques (perhaps this is especially plausible in European basketball, where the largest source of foreign players is the United States, far the greatest power in the sport: for example, those who have played at the top college level but are not quite good enough to be drafted by American professional clubs are still likely to be high quality by international standards). Consequently, national players will learn from training, and playing, with foreign players of their own team

[2] This practice is in fact quite commonly ruled out by immigration laws that require migrants to be better qualified than potential domestic employees, for example they must have worked (played) at a certain level.

[3] If it is not in fact the case that foreign players are more skilled, then it is less likely that we will find a positive effect on national team performance from their presence in the domestic league.

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