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The Economic Costs to International Labor Restrictions: Revisiting the Empirical Discussion

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Summary. — In a 1984 article, Hamilton and Whalley calculated the annual efficiency gains from free international migration. We update that study to compare developments over time, with the aim of producing more reasonable and politically-relevant scenarios. Our results suggest that the estimated gains from the liberalization of global immigration controls have increased substantially. Indeed, we find that even a small liberalization of international migration restrictions can still yield substantial gains. In particular, we estimate that a 10% increase in international migration corresponds to an efficiency gain of about US$774 billion (1998) dollars.

Key words — international migration, development, CGE models

> If we consider both the sending and the receiving countries as part of the same world, then—and on this every economist agrees—the overall effect of the migration on the average standard of living of the world's people is positive. The reason for this is that the migrant goes from a place where he or she is less productive to a place where he or she is more productive. This increased production benefits the standard of living of the community as a whole, as well as that of the migrating individual. (Simon, 1999, p. 299)

1. INTRODUCTION

While borders dissolve for goods, services and finance (not to mention disease, justice and culture), people remain landlocked. The pace and scope of globalization in recent decades has exceeded the expectations of all but the most enthusiastic supporters. Under the twin banners of freedom and efficiency, consumers and firms have broken out of their parochial, national, contexts to mingle in increasingly global markets. This nexus has brought both opportunity and hardship—unequally distributed across the globe.

Of course, the opportunities offered by globalization are not spread equally across markets. In contrast to earlier periods of globalization (e.g., late 19th century)—and the openness of other factors, goods and services markets—labor markets remain remarkably protected. Whereas governments claim impotence in the face of other globalizing forces, they remain remarkably potent in shielding domestic economies from international labor flows.

With this article we examine the global costs of this potency. In particular, we ask: What might be the expected economic gains from liberalizing national labor market regulations? In light of contemporary attitudes toward

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international immigration, it may be more reasonable to ask: What costs are associated with a complete closure of national labor markets?

Answering these sorts of questions is not common fare in contemporary development studies. There have been remarkably few economic studies of the *international* effects of migration. Indeed, for much of international economics, labor mobility is seen as an integral part of international trade theory. Standard trade models, resting on the work of Hecksher, Ohlin and Samuelson, begin by assuming that labor is immobile across countries, and hold that labor-abundant countries will export those goods that are relatively intensive in the production of labor. In a sense, these countries are seen to export labor: the trading of goods substitutes for the trading of people.

A notable and early exception to this lack of interest in the systemic effects of free labor mobility is Hamilton and Whalley's (H&W's) remarkable study from 1984, using 1977 data. Since that time, however, surprisingly little has been written on the subject. [1] For this reason, we start where H&W left off and construct an applied equilibrium model to generate a number of estimates (contingent on varying parameters) of the potential gains from liberalizing international labor markets.

Our research suggests that the estimated efficiency gains from liberalizing immigration controls have only increased over time. While these gains were substantial in 1977, they have—in most cases—only grown over the subsequent two decades. Using 1998 data, we find that the estimated gains from free migration may be as high as US$55.04 trillion—exceeding the world's GDP in that year. Even when several adjustments are made to make the analysis more realistic, the potential gains remain enormous. Indeed, our smallest estimate yielded a gain of 1.97 trillion dollars a year (or 5.6% of the world's GDP in 1998). More significantly, a substantial proportion of these gains can be reaped without allowing for full migration. Even small initial changes in international migration controls could produce significant economic gains, and these gains dwarf those generated by traditional development policies.

Like Hamilton and Whalley, we do not intend to minimize the potential obstacles to globalizing labor markets: they are enormous, and probably insurmountable. Nor do we wish to exaggerate the reliability of our empirical claims. Given the simplicity of the model, and the paucity of the data, we hasten to emphasize that the results, like the questions that motivate them, are highly speculative. Rather, our intent is modest: to provide an explicit and straightforward estimate of the costs of continued immigration controls. Only when these costs are known and made explicit can the global community make informed decisions about the utility (both economic and otherwise) of maintaining stringent migration controls.

Our argument is presented in three parts. The first part provides our motivation for the study. Given the very speculative nature of the project itself, we think it is useful to begin by emphasizing its political and economic relevance. The second part of the article provides the main thrust of our argument. This part is divided into three subsections, providing: (a) our replication of the original model; (b) an update of the analysis using 1998 data and a comparison over time; and (c) an examination of the effects from a partial liberalization of migration flows. The article concludes by noting the limitations of this approach and by sketching out some paths for future research.

2. BACKGROUND

We are motivated by the fact that there are remarkably few analyses, conducted at the global level, which examine the potential gains from freer migration. While there is an extensive literature examining the potential costs and benefits of migration into the developed world, and fewer studies on the effects of migration to and from the developing world, the issue of international gains from free labor mobility has not received much attention by political economists.

This lacuna is all the more curious when we realize that international migration—though relatively small compared to the transnational flow of other factors, goods and services—is growing rapidly, if unequally, across different legal and skills' categories. The UN estimates that on average, over the last decade, over 2.3 million people a year immigrated from less developed to more developed regions of the globe (UN Population Division, 2001, p. 139). Indeed, in the year 2000, about 175 million people—roughly 3% of the world's population—resided in a country other than where they were born (UN Population Division, 2002). While these numbers remain low compared to earlier