Commentary on Session IV
The Historical Relationship Between Migration, Trade, and Development

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The three papers in this session, by Jeffrey Williamson, Gustav Ranis, and James Hollifield, focus on the interconnections between migration, trade, and economic development, but they are quite distinct in terms of period covered, conceptual framework, and methodological approach. They are individually well argued and well written, but each also complements the others so that the whole of the three papers is greater than the sum of the individual parts.

Paper-by-Paper Comments

Jeffrey Williamson

Williamson, an economic historian, brings his skills in economic theory, data analysis, and historical insights to his study of the "Inequality and Schooling Responses to Globalization Forces: Lessons from History." Using a model with two countries (the New World and Europe) and three factors (unskilled labor, skilled labor, and land/capital), Williamson analyzes the effects of immigration during two periods, the period of mass migration pre-1914 and the period of minimal migration and immigration restrictions that followed.

While the two world wars and the Great Depression were exogenous to the trans-Oceanic migration flows, Williamson recognizes that the immigration restrictions in the countries of overseas settlement were endogenous to the supply of immigrants.

The period of mass migration was dominated by positively selected but largely unskilled flows from Europe's low-skilled labor surplus to the low-skilled, labor-scarce countries in the New World, in particular the U.S., Canada, and Australia. These flows raised low-skilled workers' wages in Europe and lowered them in the destinations, compared with what otherwise would have occurred. This tended to reduce the real wage gap between Europe and the New World but also reduced income inequality in Europe and raised it in the New World. The absence of significant migration after 1914 resulted in a change in labor supplies that increased relative wage differentials, and hence inequality, in Europe but reduced relative wage differentials in the U.S., since low-skilled labor became more scarce as native-born workers increased their levels of skill.

Williamson also argues that these changes in labor supply due to international migration were responsible for changes in rates of return from schooling that led to changes in the educational attainment of the labor force. This was one factor; other influences on the growth of schooling were the impacts of changes in technology and school policies. The late nineteenth century technological revolution in manufacturing played an important role in increasing the rate of return from schooling, particularly in the United States, and thereby increasing the demand for secondary and tertiary schooling. Enrollments were increased by the lobbying success of school teachers and others in propagating the idea of free (no charges for attending) public secondary schooling and its eventual spread across the country. In the United Kingdom, binding minimum-school-leaving-age laws raised schooling levels.

In reading Williamson's account of events in the age of mass migration, if you replace the New World with the advanced, high-technology OECD countries of today and replace Europe with the developing countries of Asia, Africa, and Latin America, and perhaps the transition countries of Russia and Eastern Europe, it strikes me that Williamson's text could be describing the current period. While there is much migration of high-skilled workers today, migration to the U.S. and Western Europe is now dominated by low-skilled workers from the less-developed countries. One consequence is increased inequality in the advanced economies as their native-born, lower-skilled workers pay the price of the large-scale influx of the low-skilled.

Gustav Ranis

In his paper, "Migration, Trade, Capital, and Development: Substitutes, Complements, and Policies," development economist Gustav Ranis brings the analysis explicitly into the contemporary period and models the incentives for migrating and the effects of legal barriers. As the potential supply of migrants exceeds the legal limits, incentives exist for illegal migration. These incentives are realized if the enforcement mechanisms are insufficient.

Liberal democracies have enacted provisions to enforce immigration law, including border enforcement and interior enforcement, typically in the form of penalties against employers who knowingly hire illegal aliens ("employer sanctions"). Yet, liberal democracies have difficulty enforcing these laws in the presence of employer groups, immigrant/ethnic constituencies, and civil libertarians who fundamentally endorse open borders.

The argument that free trade advocates should favor open borders misses an important point. Migrants are different from shirts. When migrants cross borders, they acquire, de facto even if not de jure, political and economic rights that neither shirts nor the shirtmakers in less-developed countries acquire from the destinations. My shirt was made by Bangladeshi workers. If they made it in the U.S., their children would be entitled to schooling here, and given their low skills, their low wages would entitle them to subsidized medical care, perhaps subsidized housing, the Food Stamp Program, the Earned Income Tax Credit, and so on. If they make the shirt in Bangladesh, they receive no such benefits from the U.S. taxpayer.

Ranis also correctly reminds us that the simple two-country, three-factor model does not tell the full story regarding the economic development of the country of origin. The developing countries benefit directly and indirectly from emigration. There are emigrant remittances—funds that go to families back home rather than to bureaucrats in the capital. Return migrants bring back skills (including entrepreneurial skills), technology, and connections acquired in the West. Because of the reduced supply of low-skilled workers, higher wages and employment for low-skilled workers reduce inequality and poverty. However, Ranis does not mention that if the emigration is positively selected, it may be the most able, the "best and the brightest," who leave and do not return.

This raises a question seldom asked. If we are concerned about the economic well-being of a developing country, how should we measure economic welfare? Conventional measures focus on those living in the country. But if we are concerned with people rather than countries, the emigrants should be considered as well. The positive effect of international migration on the economic welfare of Mexicans or Algerians, as distinct from Mexico and Algeria, must include the welfare of those who emigrated. If they move voluntarily, their welfare must have increased.

I am reminded of Harberger's triangles in reading Ranis' paper. Barriers to voluntary exchange reduce economic exchange and thereby reduce economic welfare. Ranis reminds us that the barriers to international capital flows have been virtually eliminated and the barriers to trade in goods and services have been sharply reduced. The social welfare gains from further reductions in these barriers, while positive, are likely to be relatively small. Yet, in contrast to the preceding century of largely open migration, the recent century of restrictions on international migration has, in principle, created opportunities for welfare gains by removing these barriers. The greatest contributions to economic development, though, have come from advances in technology. These productivity-enhancing changes may originate in one country, but in the modern world the knowledge is quickly available worldwide. Which international migration regimes foster technological advancement? The free flow of high-technology workers to technology centers (for example, Silicon Valley and its equivalents elsewhere) may be the answer.

James Hollifield

So, the next questions are, why were these barriers enacted? and, could an international regime be created to better manage international migration? Political scientist James Hollifield focuses on the latter question in his paper, "Trade, Migration, and Economic Development: The Risks and Rewards of Openness."

Part of the answer as to why barriers were enacted is that people are not like shirts. As mentioned above, migrants acquire political and economic rights in the destination that the shirtmakers in the country of origin do not obtain from the destination. These include economic benefits such as medical care, schooling for their children, and income transfers for the poor. They also include political rights, both explicit (voting) and implicit (people do matter even if they do not vote), which can be used to change the distribution of power, wealth, and property rights. Impacts on the culture also matter, and while some may view these as positive, others may not.

There are interconnections between immigration policy and domestic policy. As landless, lower-skilled workers in the New World grew in number and especially as they acquired political rights in the nineteenth century, the balance of power changed between owners of land and capital on the one hand and low-skilled workers on the other. The latter, fearing competition from low-skilled immigrants, favored restrictions and enacted them when they could in coalition with nativist elements and others.

Perhaps the most recent example was the 1996 welfare reform, which, among other provisions, barred recent immigrants from receiving certain federal income transfers. I believe that this welfare reform was legislated in part because of the 1986 Immigration Reform and Control Act, which established a process by which nearly 3 million low-skilled illegal aliens were the direct beneficiaries of an amnesty and perhaps several million more were indirect beneficiaries.

It might be argued that the gain in income to natives who benefit from immigration exceeds the loss in income to the low-skilled natives from low-skilled immigration and that natives as a whole are better off. Moreover, in principle, the gainers could compensate the losers so that everyone gains (Pareto optimality). In practice, however, the transfers might never take place. And if the income transfer system requires that low-skilled immigrants and natives be treated equally, the immigrants get these transfers as well. Then, it is easy to show that natives as a whole would lose as a result of equal treatment for low-skilled immigrants.

An interesting distinction arises between the direction of international trade and international migration. International trade is necessarily, over the long run, a two-way street. Imports must be paid for in some way. When comparing countries or regions with similar wage levels across skill groups, migration also tends to be a two-way street (for example, compare Canada and the U.S., the Nordic countries, or Illinois and Indiana). When this is the case, it is easier for countries to form international agreements on the free mobility of workers. Political concern arises most intensely when migration is a one-way street, especially when those using the street are low-skilled workers. It is under these circumstances that nation states have divergent interests regarding the number, characteristics, and expected length of stay of the migrants. Under these circumstances international agreements are more difficult to establish. As an example, consider the agreement on the free mobility of labor in the initial European Union, where the differences in incomes across countries were small, compared with the current anxiety over the admission of the much-lower-income Turkey and the transition economies of Eastern Europe.

There is perhaps an irony that liberal democracies, having learned the hard way that there is no such thing as a group of *temporary* workers from less-developed areas, have become much more reluctant to enter into international agreements regarding the acceptance of low-skilled guest workers. Autocratic regimes that can confine them in foreign worker enclaves, impose severe penalties on those who do not depart when their contract expires, and have severe visa restrictions would have less reluctance.

Hollifield would like to see a more ordered world in which international agreements help regulate the international flow of workers. A wide consensus can be reached on some issues, such as against the sex trade and forced (slavery) migration. On some matters, there can be bilateral and multilateral agreements, for example, across countries with similar income levels and income distribution. Yet, for much international migration from low-income to high-income countries, there is a wide divergence in interests. While issue-specific bilateral agreements might be negotiated, the prospects seem remote for nation states to turn over sovereignty to some international organization for regulating migration between low-income and high-income countries or even among countries at the same level of economic development. Moreover, if the international organization were to be captured by autocratic regimes, repression against potential emigrants and even immigrants might increase.