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Tradable immigration quotas

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ABSTRACT

International migration is maybe the single most effective way to alleviate global poverty. When a given host country allows more immigrants in, this creates costs and benefits for that particular country as well as a positive externality for individuals and governments who care about world poverty. Host countries quite often restrict immigration due to its important social and political costs, however these costs are never measured and made comparable across countries. In this paper we first show theoretically that tradable immigration quotas (TIQs) can reveal countries' comparative advantages in hosting immigrants and — once coupled with a matching mechanism taking migrants' preferences over destinations and countries' preferences over migrants' types into account — allow for exploiting them efficiently. We then discuss three potential applications: a market for the resettlement of international refugees, a market for the resettlement of migrants displaced by climate change, and the creation of an OECD poverty-reduction visa program adapted from the US green card lottery.

1. Introduction[1]

People care about poverty out of altruism (i.e., genuine concern for others' well-being) and self-interest, because they fear for their security, health, and property. To the same extent that domestic poverty alleviation has the dimension of a domestic public good, international poverty alleviation has the dimension of an international public good. Whenever a given country increases its foreign aid to one of the countries where many of the world's poor live, this generates a positive externality for all those in the world, individuals and governments, who care about international poverty reduction. Whenever a given country chooses to “let their people come” (Pritchett, 2006), increasing the number of immigration visas granted to nationals of one of the countries where many of the world's poor live, this generates a positive externality for all those who care about international poverty reduction. In both cases and given the public good nature of poverty alleviation, free riding is likely to prevail and result in global under-provision of foreign aid, debt relief programs, and immigration visas. While the international community has established international organizations and set up institutions to coordinate foreign aid and debt relief efforts, international mechanisms for migration coordination have so far been much more limited.[2]

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[2] The IOM, the UNHCR or WTO's GATS-Mode 4, among others, perform some coordination tasks on particular international migration areas but they are hardly comparable with the role of the World Bank, the IMF or the WTO for the globalization of trade and capital flows.

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In reality, high-income countries quite often restrict immigration of poor people from poor countries due to its actual and perceived costs in terms of wages, employment, net fiscal contribution (including to welfare systems), income distribution, and less quantifiable social and political costs (e.g., threats to national identity and social cohesion). Differences in the economic and non-economic costs of immigration across receiving countries may come from different demographic structures (e.g., dependency ratios), histories of previous immigration, or preferences for ethnic, religious and cultural diversity.[3] For example, using survey data from 21 European countries, Card et al. (2012) find that the non-economic costs (which they label "compositional concerns") are 2 to 5 times more important in explaining negative attitudes toward immigration than concerns about wages and net fiscal contributions.

In any event, these economic and non-economic costs explain why immigration from poor to rich countries is and will remain strongly restricted and why rich countries will resist greater integration of global labor markets if this means opening their borders to unrestricted immigration from the South. The fact that this prevents the realization of the potentially huge global welfare gains from a greater liberalization of the world labor markets (gains that would likely mostly accrue to the migrants themselves and to their home countries), while being an important background, is somewhat orthogonal to our paper. We focus instead on the gains accruing to receiving countries through the poverty-reducing effect of international migration. From this perspective, the relevant comparison is not between liberalizing trade v. migration (as in Pritchett, 2006, 2010; Rodrik, 2007; Clemens, 2011) but, rather, between different policies contributing to global poverty reduction (or to other international public goods such as refugee protection).

The system of tradable immigration quotas (TIQs) we propose builds on the differences in the actual and perceived costs of immigration across receiving countries to suggest that some countries have a comparative advantage in hospitality.[4] In turn, revealing and exploiting such comparative advantage thanks to a market mechanism goes part of the way toward internalizing the poverty-reduction externality outlined above while at the same time minimizing the cost of hosting additional immigrants. We first show this theoretically in Section 2 where we adapt a generic model of tradable quotas to the context of migration and supplement it with a matching mechanism taking migrants' and countries' preferences into account. The matching mechanism is essential because, in contrast for example to pollution particles — a well-known application of tradable quotas, migrants have preferences over their destinations and destination countries have preferences over the origin (and, possibly, other characteristics) of the immigrants they receive. Taking migrants' and countries' preferences into account creates opportunities for strategic behavior that may undermine the efficiency of the proposed system but that can also boost its attractiveness. We then focus in Section 3 on the contexts that best fit our theoretical assumptions, that is, on situations where there is a clear and well-recognized international public good element and/or an initial institutional framework already exists (or can be created at relatively low cost). We discuss three potential applications: a market for the resettlement of international refugees, a market for the resettlement of migrants displaced by climate change, and an OECD poverty-reduction visa program, the workings of which are inspired by the US diversity lottery.

The rest of this introduction discusses the idea that visas can substitute for aid, and the related literature.

1.1. Visas or aid? Alternative strategies for international poverty reduction

How much is a visa worth? The question is generally asked from the viewpoint of a prospective migrant. The main difficulty then is to measure the income gains accruing to migrants, which requires producing sensible counterfactuals of domestic earnings, accounting not just for the migrants' observable characteristics but also for unobservable characteristics such as motivation at work, attitudes toward risk, cognitive ability, etc. McKenzie et al. (2010) use the New Zealand migration lottery program to "clean" income gains estimates from such self-selection effects. Comparing lottery-winning migrants to lottery-losing non-migrants, they find that migration increases migrants' earnings by a factor of four. This is consistent with the non-experimental results of Clemens et al. (2008) who compare workers in developing countries to workers from the same countries working in the United States. These income gains would seem to exceed the potential gains of any in situ development policy by orders of magnitude. For example, they calculate that the total present value of access to a lifetime of micro-credit is equivalent to the wage difference of just four work weeks of the same worker in the US versus in Bangladesh, or that the present value of a lifetime wage increment of one additional year of schooling (obtained at no cost) is equivalent to 11 work weeks of the same worker in the US versus in Bolivia.

The effects of migration on poverty reduction through the direct extraction of migrants out of poverty are maybe best illustrated by figures put together by Clemens and Pritchett (2008) using three poverty standards at US$1, 2 and 10 per day (in PPP). Respectively 50, 75 and 93% of all Haitian "naturals" (people born in Haiti) live below the $1, 2 and 10 poverty lines. Out of the 25% of all Haitians between the first two lines, 26% are US immigrants. Out of the 18% between the last two lines, 82% are US immigrants. By the latter measure, among the 56% of all Mexicans between the last two lines, 43% are US immigrants. While it would be an abuse of language to interpret these figures as indicative of the share of people escaping poverty thanks to migration, they are clearly suggestive of large direct effects of migration on poverty reduction.[5] In addition, we know that while migrants initially come from the middle of the income and wealth distributions, network and other dynamic effects act to reduce migration costs, making migration affordable to households down the income ladder. This generates poverty and inequality reducing effects both directly, through migrants' self-selection patterns, and indirectly, through general equilibrium effects and distributional effects of remittances gradually reaching poorer households (McKenzie and Rapoport, 2007, 2010; Shen et al., 2010).

The idea that visas can be used as part of an aid relief strategy first materialized when the US Temporary Protected Status (TPS) mechanism, enacted in 1990, was applied to thousands of Hondurans and Nicaraguans in the aftermath of Hurricane Mitch in 1998 (UNHCR, 2009).[6] TPS was also granted to illegal Salvadorian immigrants following the earthquakes that devastated El Salvador in 2001. The decision was made by then President George W. Bush at the request of the Salvadorian President, Francisco Flores, during a White House meeting. The status allowed 150,000 undocumented Salvadorians to legally remain in the United States for eighteen months.[7] More recently, TPS was also

[3] Clearly, negative attitudes toward immigration constitute a strong political barrier to greater labor mobility. See for example O'Rourke and Sinnott (2006), Dustmann and Preston (2007), Hanson et al. (2007), Mayda (2008), Facchini and Mayda (2008), or Hainmueller and Hiscox (2010). Harnoss (2013) also adds the diversity dimension of immigration on the formation of attitudes.

[4] In our model, the other good is a composite good which also serves as numeraire (countries trade quotas for money), hence the distinction between comparative and absolute advantage is not clear. However, since the rationale for trade is comparative advantage, this is the concept we find most appropriate in our context.

[5] They may even be seen as conservative. In the case of Mexico, they neglect the induced effects of migration on poverty through increased wages for low-skill workers (Mishra, 2007), consumption of remittance income, and the fact that there is evidence of negative selection into migration both on observables and unobservables, meaning that migrants would on average earn less in Mexico if they had not migrated than those who did not migrate (Fernández-Huertas Moraga, 2011).

[6] Note that Temporary Protected Status in the United States is not strictly speaking a "visa" but a temporary exemption from deportation.

[7] President Bush was quoted saying: "This will allow them to continue to work here and to remit some of their wages back home to support El Salvador's recovery efforts." The New York Times, March 3, 2001.