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An incentive mechanism to break the low-skill immigration deadlock [☆]

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ABSTRACT

The international mobility of low-skilled workers is constrained by immigration restrictions set by rich countries, preventing extreme poverty from declining in the developing world. Under aversion to extreme poverty, one country's immigration policy affects the welfare of other countries: "nationalist" political decisions are subject to a prisoner's dilemma. Taking advantage of efficiency gains from coordination, we propose an alternative allocation of labor, which minimizes extreme poverty while keeping rich countries as well off as in the nationalist situation. This allocation can be decentralized through international taxes and subsidies. Numerical simulations show that the role of aversion to poverty is negligible when considering each country separately, but becomes important for the design of a coordinated migration policy.

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1. Introduction

It is commonly admitted that low-skilled migration from poor to rich countries should be seen as an explicit component of the development policy of the rich world. By relaxing labor market constraints in developing countries and inducing large amounts of remittances, low-skilled migration generates gains for migrants, their families and, most importantly, the sending countries (see Pritchett, 2006; Clemens, 2011; Winters, 2001; Walmsley and Winters, 2003). These migration flows are currently restrained by highly restrictive, immovable immigration policies voted by the citizens of rich countries. Such regulations carry considerable economic costs for developing countries and prevent global inequality from declining (see Pritchett, 2006). Breaking the gridlock on labor migration requires solutions that are politically acceptable in rich countries.

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Accounting for endogenous immigration restrictions (as in [Facchini and Mayda, 2008](#)), this paper proposes an incentive-compatible mechanism that could raise the number of South–North, low-skilled migrants, characterizes its properties, and quantifies its effectiveness.

We develop a political economy model describing an economy with a set of heterogeneous rich countries and one poor emigration country (representing the group of developing countries). The model formalizes natives' economic incentives to host low-skilled immigrants, i.e. the effects on wages ([Borjas et al., 1997; Borjas, 2009](#)), taxation ([Facchini and Mayda, 2009](#)), return to capital, as well as non-economic costs. In addition, it assumes that citizens from all rich countries are averse to extreme poverty, albeit to a small extent, and have internalized that welcoming low-skilled migrants from the South reduces global inequality. The key implication of altruism is that each developed country benefits from other states welcoming poor immigrants. Altruism confers a public good nature to immigration, implying that non-coordinated immigration policies are subject to a prisoner's dilemma problem: although households in rich countries suffer from the idea that people in developing countries are really poor, voting to welcome additional migrants is not optimal for them since they would be alone in bearing the cost, while the benefits would accrue to everybody in the world who cares about extreme poverty. We exploit the efficiency gains underlying this prisoner's dilemma to minimize extreme poverty subject to implementation constraints in rich countries.

Our theoretical and numerical analyses follow three steps. First, we construct an allocation of labor in which each rich country decides on its immigration level by voting so as to maximize the welfare of its citizens, taking the choices of other countries as given. This Nash equilibrium is labeled as the nationalist (or "Nashionalist") allocation. At that allocation, the resulting demand for low-skilled immigrants can reasonably be assumed to be lower than the supply. Assuming the nationalist allocation is the one observed, the model can be calibrated using statistics on bilateral migration, working-age population, skill premia, income shares, output, redistributive transfers, and before- and after-tax Gini coefficients. Second, we design an alternative allocation which leaves host countries indifferent compared with the nationalist scenario and maximizes the volume of South–North, low-skilled migration (or equivalently, maximizes the utility of the worst-off in the South). This allocation is labeled the no-regret allocation. Because there are positive externalities across rich countries when they jointly lower barriers to immigration, it is possible to increase global labor movements without any utility cost for the rich. Third, we show that the no-regret allocation can be decentralized through a tax-subsidy scheme which makes people internalize the social gains and costs of migration. For different degrees of aversion to extreme poverty, we can compute the global increase in low-skilled migration, and the country-specific tax and subsidy rates which allow the no-regret allocation to be decentralized. Our numerical simulations show that, even with small degrees of aversion, the coordination of immigration policies induces substantial increases in migration.

Clearly, aversion to extreme poverty is the key ingredient in our incentive-compatible mechanism. We use maximin altruistic preferences and consider that the utility of citizens in the rich world depends on their own level of consumption and the consumption of the worst-off in the world (i.e. low-skilled workers living in developing countries). Behavioral and experimental studies have revealed that individual choices are influenced by social preferences, including altruism, fairness, reciprocity and aversion to inequality ([Fehr and Schmidt, 2006](#)). The (quasi-)maximin model is related to the ideas presented by [Yaari and Bar-Hillel \(1984\)](#), according to which players want to help all other players, but are particularly keen to help someone who is worse off. It has been tested by [Charness and Rabin \(2002, 2005\)](#). Laboratory experiments reveal that this model does significantly better than altruism or pure self-interest, indicating that there is indeed much concern for those who are getting the lowest payoffs.

Is aversion to extreme poverty likely to affect development and immigration policies? [Fehr and Schmidt \(2006\)](#) examined the conditions under which the maximin motive plays a role in naturally occurring environments. In a competitive environment, or in an environment where the players view each other as agents behaving strategically, the maximin motive is not likely to be important. However, the maximin motive is highly relevant in the context of charitable giving or in the context of elections with a large number of people, in which strategic voting is unlikely to occur. Development assistance, donation to charities and NGOs, or the international community's efforts to reach the Millennium Development Goals are evidence of the rich world's concern for extreme poverty. It could be argued that altruism does not govern immigration policies, which are determined by the interests of the host populations only, except asylum policies which are adopted for humanitarian motives ([Hatton and Williamson, 2006](#)). We believe this view is changing as international organizations and scholars (through web sites, press releases, or academic studies among others) work on increasing public awareness of the link between migration and the development of poor countries.³ Interestingly, our simulations show that the role of altruism is small when considering rich countries separately. However, when it comes to designing a coordinated migration policy, it becomes important.

As far as the existing literature is concerned, the benefits from coordinating immigration policies have been investigated in a few other studies. Based on humanitarian motives, hosting refugees raises the welfare of all potential host states. Hence, individuals might be expected to obtain some benefit from the knowledge that refugees also find safety in another country.

³ In 2006, the International Organization for Migration initiated debates on EU immigration policy towards development-friendly measures. More recently, President Barack Obama announced that he would forbid the deportation of upstanding young people who are in the United States illegally, an attitude referred to as "an altruistic immigration policy" in the media. Commenting on this decision, David McKenzie, a lead economist for the World Bank, declared that "improved labor mobility is by far the greatest way to give a leg up to low-income people around the globe. High-skilled immigration is going to be useful for the high-skilled migrants, but allowing lower-skilled workers in is directly going to improve poverty in poor countries".

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