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Comment on Gabriel Felbermayr and Wilhelm Kohler

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Felbermayr and Kohler's paper is an excellent presentation of a central issue of immigration within the context of the second globalization wave, particularly in OECD countries: its effects on wages and domestic welfare. As noted by the authors, the issue analyzed in the paper is of great interest, not only for theoretical and empirical reasons, but also for policy purposes. They have also methodologically privileged a theoretical perspective under the framework of the general equilibrium, where price adjustment mechanisms play a pivotal role. In my view, the emphasis on theory is quite necessary because, since the time of classical economics, theoretical approaches to immigration have not been developed or have been dismissed in the name of the immobility of factors so convincingly expounded by Adam Smith and David Ricardo. As is well known, the basic assumptions underlying this theory have remained, through various ways, widely accepted up to recent decades.

The present paper is a very substantial enhancement of the earlier version. It is more focused on the central point, using theoretical representative cases, for example, of the levels of skilled labor (high, medium, and low) or of small and large economies. In spite of the theoretical emphasis, empirical foundations and historical trends have not been forgotten. In addition, an effort has been made to link the theoretical approach to immigration to the major theorems of international economics, particularly those concerning trade and specialization as they relate to factors (specific-factors theory of the Ricardo–Viner type versus the Heckscher–Ohlin model). Indeed, even if we could accept that we are dealing with a phenomenon that is rather different from trade, the in-depth study of immigration requires that it must be compared with other international flows in a comprehensive way. Other improvements could also be mentioned here but the paper has mainly gained in clarity and precision, and I am sure it will be a useful instrument for researchers.

On the basis of the theoretical achievements in Felbermayr and Kohler's paper, its central issue must now be expanded in several directions. I will refer to some of them below, those that seem to have more theoretical and empirical potential, in order to increase our knowledge about immigration flows.

Firstly, the main theoretical assumptions now have to be empirically tested. As is natural in a theoretical paper like this, it must be followed by empirical findings. The authors themselves stress this necessity in the conclusions. Indeed, empirical investigation is justified not only in order to sustain and to adjust the theoretical assumptions but also to improve policies. In this regard, Felbermayr and Kohler (p. 54) are clear from the beginning:

Controversy in policy formation is aggravated by a shortage of solid knowledge about the effects of immigration on the domestic economy. This holds true with respect to both a principal understanding of the effects to be expected and the empirical magnitudes involved. All too often, policy formation is based on vague anxieties and concerns focusing only on alleged directly observable effects, and less on economy-wide implications.

The previous considerations mean that we still know too little on the subject, and that the policies implemented are based more on superficial effects and feelings than on economic thinking. So, testing the theoretical assumptions, in a solid way, is a necessary step to the following up of the paper.

Secondly, as far as concerns the domestic welfare effects of immigration, a key issue of the paper, the references throughout the text show a very wide range of situations. According to the views presented, with the likely exception of the low-skilled domestic workers that can be easily replaced, there is no clear line about who benefits or not, and to what extent, from immigration. Nevertheless, even if, as a result of immigration, welfare decreases for some categories of wage earners, why is there such a continuous flow of foreign workers into OECD countries? Moreover, restrictive laws are often circumvented, and despite generalized quotas, new waves of legalization are sometimes allowed in the most diverse countries. Is it only the consequence of the pressure of external flows and migrant people? My answer is clearly "no." It seems to me that a major dimension of the process has not been sufficiently highlighted in the paper. Putting it straightforwardly: even in countries in which xenophobia is popular, what has really counted is the role of employers, for example, through political lobbying, in making a larger workforce available at a relatively lower cost. Under these circumstances, which are decisive for the economic process and for firms, capital is expected to have higher returns from immigration, notwithstanding the level of the employed immigrant skilled labor. Among other consequences, this may lead to an increase in domestic investment. Therefore, we may even assume that the capital owners contribute more than any other agent to the liberalization of international labor movements, and their role and implications cannot be ignored as far as national welfare effects are concerned.

Thirdly, the similarity of effects of restrictions on immigration and trade should be further explored. In Felbermayr and Kohler's paper, the different poli-

cies towards the three levels of skilled immigrant labor are apparently neutral in this respect. However, this does not seem to be the case. When the OECD countries favor the entry of high-skilled workers (some countries even subsidize the "import" of scientists and engineers (Romer 2000)), and discourage the coming of low-skilled workers, no matter whether these policies are successful or not, this may have similar effects as some arguments on protection and, consequently, cause distortions in welfare. In fact, the practices of attempting to attract the workers of high productivity call to mind the Manoilescu argument for protection (Irwin 1996), leading to a result that may not be a positive sum for the partners in the game. Moreover, opportunely, Felbermayr and Kohler start their paper by reminding us that international inequality between countries (particularly the richest and the poorest countries) has increased over the three last decades.¹ Probably, immigration policies are not a significant determinant of this evolution, but they should not contribute to the aggravation of the inequalities either.

Still concerning the same point, despite the specificity of immigration, as with other international flows, it should also be analyzed in the light of free trade and transparency concerns. This is all the more important, since we know the institutional weakness of immigration from this point of view well. As was stressed by Hufbauer (2003: 256): "The world economy is within sight of achieving the free movement of goods and capital. The free movement of services is more distant, but the real laggard is the free movement of people." In conclusion, if, say, a WTO for migration is not foreseeable in the medium term, we should not let pass, without criticism, the old protectionist arguments in their new clothes (immigration policies).

Fourthly, for the sake of simplicity, the paper is focused on the effects on wages in host countries. However, in the future, it will be highly necessary to take into account the feedback of immigration in the country of origin, and to relate the whole impact of the movement. Indeed, we must not forget that we are in an increasingly interdependent and integrated world. For instance, in Europe and the neighboring area (Western Europe/Eastern Europe; Europe/Northern Africa), many of the immigration flows have simultaneously significant effects in both the host and the home countries. Perhaps immigration flows will still have more impact in the sending country (as was the case with Southern European

¹ It must be added, however, that the countries sending more immigrants are often not those whose economy is in stagnation or is totally backward, but, rather, those that are growing, sometimes at high growth rates, like China and India during the two last decades. This is perhaps due to the fact that, in an economy in motion, large parts of the population raise their expectations of rapid improvement in welfare that, in spite of the favorable trends, cannot be satisfied in the national context in a short period of time, perhaps because of local rigidities or other reasons.

countries— Portugal, Greece, and Spain—in the 1960s), but that is not the most interesting point here. In this perspective, what really matters is the fact that, in the integration and globalization era, home and host countries involved in the immigration process are more and more connected, particularly through trade and foreign direct investment. So, in the economic analysis of immigration we cannot ignore these reciprocal effects. Of course, in the public judgement it is not easy to separate the levels just mentioned (national, international, or regional), and national governments (even in closely integrated areas like the European Union, where there is a parliament and other common political structures), given their electoral basis, are above all responsible of their own territory and resident population. However, from the point of view of economic theory, including the welfare dimension, in order to assess the advantages or disadvantages of the immigration phenomenon, it is critically necessary to investigate all its domestic and external linkages in a dynamic way. So, even if governments are more geographically circumscribed in their concerns, economic theorists have the possibility of contributing to overcoming the limited perspective of national frontiers, in favor of a more global approach.

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