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Econ 895

Homework #3

4.) Of the ways migration could increase sending-country, brain drain is by far the most discussed. On this theory, exceptionally-productive people will migrate depriving the sending country of its most-productive workers.

This theory has a few holes, however. For one, it assumes that the sending country's economy is constrained by the total population or the high-skill population. However, this doesn't bear much scrutiny. The biggest benefits of high population and high skilled populations both come in the form of innovation, which is non-rival. It doesn't matter to the sending country whether the innovation was made domestically or internationally (there may be *some* effect, where domestic innovations are already tailor-made for the domestic market, but this is likely a trivial portion of overall value). Another objection to the brain drain hypothesis is that it is unclear if it would happen under a truly open-borders regime. Current migration rules dramatically favor high-skilled migration. Given this, it should be no surprise that a disproportionate number of migrants are high-skilled.

Another possible way sending countries might be impoverished is if, somehow, there was totally free movement of people but no movement of ideas, capital, products, and money. Under such a regime, the receiving country would massively prosper (relative to total autarky) but without remittances, cheaper goods produced by the receiving country, or exported innovations, the sending country would quickly become a nation-sized ghost town. With less than totally-free migration, whatever individuals remained in the sending country would be quite immiserated by the departures of their countrymen.

The final possibility is that the world economy works off a system where the world is as rich as its richest country but the individual countries work on something like an O-ring model, where total productivity is constrained by the least-productive workers (such as an economy mainly driven by easily-exported innovation but where the innovation economy is O-ringish). On such assumptions, migrants would flow to whichever country was richest, wreck that country's economy and therefore wreck the world economy. The sending country, by virtue of being part of the world economy, would also be impoverished.

While possible in theory, these latter two stories rely on assumptions which are, to say the least, extremely heroic.

5.) The obvious way to do so would be to beg and borrow as much leverage as possible and invest in real-estate and other sectors which stand to grow due to immigration. It may also be possible to make money by investing in or shorting foreign currency. As a first order effect, it seems that lower demand for sending-country currencies will lower the relative price, but I don't know enough about currency markets and migration to be confident in that. Of course, by the efficient market hypothesis, this will only work if you have *unique* knowledge about future immigration. If the knowledge is common, then there will be no proverbial money on the sidewalk aside from the general gains from growth. The same also applies to strategies such as attending college in an attempt to signal higher skill than you actually possess, or attempting to start a business which will benefit from migrant labor or demand. If the knowledge is unique, then there are profit opportunities but you will not be able to profit in these ways if the knowledge is common (give or take a brief profit opportunity after everyone learns but before the market fully equilibrates).

What *will* allow you to benefit, even if everyone knows, will be retraining into skills which are language intensive or otherwise offer native workers a comparative advantage. For example, food service workers, or very early childcare workers will likely be replaced, so those workers will benefit from transitioning to retail work or later childcare (i.e. elementary education). As these tasks require more language skills, they are less likely to find themselves in direct competition with the new migrants. Once they're situated in their new roles, they are in a good position to benefit from the increased demand from both migrants and high-skilled people who stand to gain from the influx of cheap labor. Since this increased demand will lead to a real increase in marginal revenue product for the workers who retrain, the profit opportunity will not go away even if the migration increase is common knowledge. For the workers to be better off then they would be with closed borders, we require the further assumption that the increased demand in low-skill professions where native workers nonetheless have a comparative advantage more than offsets the opportunity cost of retraining. This assumption isn't implied by theory, but it does seem reasonable.

10.) For current migration, I personally lose quite a bit economically. As PhD's face essentially no migration restrictions, I (will) directly compete with essentially every economics PhD on earth. This *may* be to my benefit if I, myself, decide to migrate later in life, but I have no immediate plans to do so and the base rate is against me. This has made it significantly harder to find funding, internships, etc. and will continue to make my life harder as I continue into the job market. As a first-pass, I believe that I was one of the marginal students to receive Mercatus funding. In my cohort, there were at least two Mercatus students studying on immigrant visas and several more in more advanced cohorts. Therefore, if student visas for graduate students were more restrictive, I would likely have received Mercatus funding in my first year.

That said, I still significantly benefit from immigration in non-pecuniary ways. These benefits are significant enough that I wouldn't reverse US migration policy even if I could. I have several close friends who are immigrants, and yet more friends who live elsewhere and are thinking of/hoping to immigrate.

I also consume quite a few goods and services produced by migrant labor. I occasionally consume meat and meat packing would be expensive enough with only-native labor that I likely wouldn't be able to do so if not for migrant workers. I have also learned a lot in and enjoyed classes taught by immigrants, Alex's Law and Econ and John's Economics of Institutions in particular.

I also enjoy fusion cuisine and other products directly produced by the specific experience of immigration. Since these products were produced by the close proximity of migrants with other migrants and native groups, I would have chosen to keep migration policy as it was even if I knew the raw prosperity they brought would come through different means.

Finally, I would not exist if not for the permissive migration policies of the late 1800's and early 1900's, since my maternal great great grandparents immigrated to America at that time.

Grad student question:

Perhaps the biggest single mistake Caplan makes in his estimates of the national benefits of immigration come from his invalid extrapolation of the effects of marginal current migrants to the effects of the inframarginal migrants who would come if his preferred policy were enacted. Indeed, nearly every empirical claim Caplan makes, both about why the benefits of migration will be large and about why the costs will be modest, rests on this unfounded assumption. As such, when this assumption is relaxed, Caplan's estimates turn out to be wildly exaggerated at best and completely wrong at worst.

To begin with, let's examine Caplan's assumption with respect to the purported benefits of migration. It is clearly true that *present* migrants are highly productive. This is clearly because the current regime of serious migration restrictions and harsh enforcement makes the implicit cost of migration very high. As such, only those individuals who believe that they stand to gain a great deal from migrating will attempt it. The benefits of migrating to gain access to American/European welfare and healthcare are currently far too modest for it to be worth the trouble for most people. However, in the world Caplan's preferred policies would create, there would be a massive influx of the old, the sick, and the lazy from the third world looking to collect government benefits. As such, the large number of migrants should be multiplied, not by the marginal benefit of a migrant under current policies as Caplan and Michael Clemens do, but by the average benefit of all migrants. While Caplan's and Clemens' decisions are reasonable in the interests of producing a publication with a reasonable amount of work, actual marginal effects are after all much easier to come by than speculative average effects, it should give pause to anyone who wants to make actual policy based on their analysis.

However, we can at the very least expect the benefits to be *positive* under open borders. After all, there will be *some* costs to moving so we should still expect this average benefit to be greater than zero. However, this is an extremely weak claim. Responsible cost-benefit analysis requires us to do double-entry bookkeeping and assess the costs of migrants as well as their benefits.

In doing so, Caplan repeats his earlier mistake. While it is true that *current marginal* migrants do not commit many crimes, impose much fiscal burden, or otherwise impose costs on the receiving country, Caplan is proposing an inframarginal policy, so we must bear in mind that it will have inframarginal effects. Again, there is excellent reason to believe that this will cut against Caplan's estimates.

Caplan suggests that open borders will have a zero-to-negative effect on crime rates since current marginal migrants are less criminal than native born Americans. However, this is clearly a result of the presently high costs of migration. An immigrant who successfully makes it into America from, say, México-legally or illegally-will hardly want to endanger their position by committing crimes and drawing attention from the authorities. However, when the cost of crossing the border is no higher than the cost of gasoline for the car trip from Juarez to El Paso, it will be much more attractive to cross the border to rob or mug rich Americans. Even assuming that the border isn't so open that wanted criminals can enter the country, it will still be far less costly for a prospective criminal to commit their crimes in rich American cities than in poor Mexican ones.

A similar argument applies to migration by the sick and infirm. For a household to profit under *current* migration regimes, they need to use their limited resources to send their most productive (read: youngest and healthiest) members to America to work. But under Caplan's not-so-modest proposal, it very well may be more profitable for a household to "export" its sick and elderly members so that the cost of their care falls on the more generous socialized medicine and public pensions of developed countries, rather than on the household itself.

Caplan certainly marshalls an impressive body of evidence that the *marginal* migrant under *current* policies is a boon to the receiving country and the world. However, he makes the serious mistake of using marginal information to propose inframarginal changes which simply aren’t warranted by the data he supplies.