

Week 13: A Modest Proposal: Open Borders

- I. What's the Optimal Number of People?
 - A. People often worry about "overpopulation" or "underpopulation." What does this mean in economic terms?
 - B. It's tempting to say "optimal population"="population with maximum GDP per capita." But:
 1. Anyone who has a baby rejects this at the household level. When my wife and I had twins, our family's per-capita income fell by 50% as a matter of pure arithmetic.
 2. By this standard, the existence of life-loving but below-average people is "suboptimal."
 - C. Even by the "maximize per capita GDP" standard, though, the world still might be underpopulated. Consider: Over the last two centuries, both population and per capita GDP have massively increased.
 - D. Furthermore, over the last 150 years, the real prices of food, fuel, and minerals have fallen by about 1%/year. The main commodity that keeps getting more expensive: labor. If we're "running out" of anything, it's people.
 - E. In any case, economists' real standard for over- or underpopulation is whether *the marginal baby born has (on net) negative or positive externalities*.
 - F. Slogan: "You don't have to raise the average to pull your weight."
- II. Negative Externalities of Population
 - A. As Landsburg notes, many people think that each child born gets a 1/7 billion share of world resources - implying negative externalities.
 - B. This isn't how the world really works. Instead, when a family has one more child, each child in that family gets a *lot* less, with little effect on anyone else.
 - C. This is especially clear from bequests. Picture a simple agricultural economy where kids always divide their parents' landholdings equally. If everyone but you has lots of kids, your kid inherits just as much land – and his land will actually be worth more due to higher demand.
 - D. Lesson: With private property, parents who care about their kids automatically internalize any "poverty externality." Under old-school socialism, in contrast, the poverty externality is very real. You can have as many kids as you like without reducing your family's consumption at all.
 - E. Poverty aside, people also often worry about the negative *environmental* externalities of population.
 - F. Key economic point: Limiting population to reduce environmental externalities is using a sword to kill a mosquito. Why not just raise the price of environmental damage with e.g. pollution taxes?

- G. The same applies to congestion externalities. If the roads are crowded at rush hour, rush hour tolls are a much cheaper and more humane solution than preventing people from existing.
- III. Positive Externalities of Population
 - A. Does population have any *positive* externalities? Yes!
 - B. Existence externality: Most people are happy to be alive, but parents can't charge you for the privilege of existing.
 - 1. In Singapore, though, you are financially responsible for your elderly parents.
 - C. Idea externality: Progress depends largely on ideas, and ideas come from people.
 - 1. Historically, almost all progress comes from populous, connected regions of the world – especially Eurasia.
 - 2. Historically, isolated areas with low populations have low, zero, or negative progress. See Tasmania.
 - D. Notice: Technology has now connected the whole world. A great idea anywhere quickly becomes a great idea everywhere.
 - E. Population increases both the supply and demand for new ideas. This is most obvious for languages, but works in all areas of idea creation.
 - 1. Imagine deleting half the names in your music collection, or half the Nobel prize-winners.
 - F. Choice externality: More population means more choices. See NYC vs. Hays, Kansas. The fact that urban rents are higher than rural rents shows that people prefer (people + the indirect effects of people) to splendid isolation.
 - 1. Pointed question: Why don't people who complain about overpopulation move to the middle of nowhere?
 - G. Retirement externality: Government old-age programs are pyramid schemes. With lots of kids, low taxes can sustain high benefits. Low birth rates are a major reason why Social Security and Medicare are going to be in big trouble.
 - 1. What if government benefits for the elderly depended on your number of kids?
 - H. Even without government programs, the elderly benefit if other people have kids. Imagine: What would happen in seventy years if everyone stopped having kids today?
- IV. Immigration as Trade, I: Potential Gains
 - A. With identical workers, immigration raises the workforce without raising worker productivity, so labor supply rises, labor demand stays the same, and native workers are worse-off.
 - 1. Does this mean that immigration is bad for humanity, or for natives generally? Absolutely not: basic CBA of markets still holds!
 - 2. The secret of mass consumption is mass production.
 - B. In the real world, native workers and immigrant workers are *far* from identical.

1. Most obvious difference: Current immigrants tend to be either low-skilled or high-skilled compared to Americans.
 2. Potential immigrants tend to be very low-skilled compared to Americans.
 3. Slightly less obvious difference: Holding overall skill constant, natives usually speak much better English.
- C. This implies that immigration can actually raise wages. Why?
Comparative advantage: People with different skills produce more *total* output if they specialize and trade.
- D. Suppose that in a day, American and Mexican women can produce:

	American Woman	Mexican Woman
Computer Programs Written	4	.1
Children Cared For	2	2

- E. Both sides can increase production by immigration and specialization! Have ten Mexican women switch from writing computer programs to childcare (-1 program, +20 childcares), and one American woman switch from childcare to computer programs (+4 programs, -2 childcares). The world is richer by 3 programs and 18 childcares.
- F. As usual, comparative advantage implies mutually beneficial trade even when one side is worse at *everything*.
- V. Immigration as Trade, II: The Regulatory Barriers
- A. Well-established fact: Immigrants to the First World earn vastly more than seemingly identical people who stayed in their home country.
- B. Question: What happens if we analyze *these* earnings gaps using the same method we use to measure discrimination?
1. Note: Since we're comparing immigrants to people from the same country who stayed home, we're measuring the effect of discriminatory government treatment (some people can migrate; the rest can't) rather than employer discrimination.
- C. Clemens, Montenegro, and Pritchett pursue this question in their paper on "The Place Premium." They use a Becker-type setup to estimate the effect of *mandatory segregation* on wages.
- D. Estimates are massive. Results by country:

Nigeria	16.308	Peru	4.153
Yemen	15.114	Guyana	4.067
Haiti	14.245	Jamaica	3.790
Egypt	13.526	Brazil	3.769
Cambodia	9.139	Nicaragua	3.643
Vietnam	8.395	Panama	3.635
Ghana	8.160	Chile	3.582
India	7.859	Guatemala	3.226
Sierra Leone	7.608	Uruguay	3.181
Cameroon	7.477	Colombia	3.068
Pakistan	7.433	South Africa	2.985
Indonesia	7.069	Paraguay	2.907
Nepal	6.692	Thailand	2.828
Sri Lanka	6.657	Turkey	2.735
Venezuela	6.532	Belize	2.633
Jordan	5.593	Mexico	2.589
Bangladesh	5.487	Argentina	2.486
Ecuador	5.368	Costa Rica	2.194
Uganda	5.286	Dominican	2.084
Bolivia	5.106	Republic	
Ethiopia	4.585	Morocco	2.026
Philippines	4.504		

- VI. Immigration and Wealth Creation, I: Migration and Labor Productivity
- A. If these place premium results are even close to correct, they imply that migration *massively* increases global wealth creation.
 - B. Key intuition: When a Nigerian who produces \$2000/year in Nigeria moves to the U.S., he starts producing 16x as much - \$32,000/year, enriching *the world* by \$30,000/year.
 1. If 15M Nigerians move, global wealth rises by $\$30,000 \times 15\text{M} = \450B per year.
 - C. Note: This is *not* the trivial point that increasing population increases the GDP of the receiving country. This is the deep point that moving population from low-productivity countries to high-productivity countries increases GWP – Gross World Product.
 - D. What exactly is going on? For starters, we have comparative advantage. Migration allows specialization and trade.
 - E. Why not just have trade in goods? Simple: Because 80% of a modern economy is services, most of which *must* be traded locally. Consider:
 1. Restaurant meals
 2. Childcare and eldercare

3. Construction
- VII. Immigration and Wealth Creation, II: Effect on GWP
 - A. Standard trade models estimate the cost of trade barriers.
 - B. What happens if we use standard trade models to estimate the deadweight cost of immigration restrictions?
 1. Michael Clemens famously does this in his “Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?”
 - C. The estimates are astronomical. From Clemens, with some relevant comparisons:

Table 1

Efficiency Gain from Elimination of International Barriers
(percent of world GDP)

All policy barriers to merchandise trade

1.8	Goldin, Knudsen, and van der Mensbrugghe (1993)
4.1	Dessus, Fukasaku, and Safadi (1999) ^a
0.9	Anderson, Francois, Hertel, Hoekman, and Martin (2000)
1.2	World Bank (2001)
2.8	World Bank (2001) ^a
0.7	Anderson and Martin (2005)
0.3	Hertel and Keeney (2006, table 2.9)

All barriers to capital flows

1.7	Gourinchas and Jeanne (2006) ^b
0.1	Caselli and Feyrer (2007)

All barriers to labor mobility

147.3	Hamilton and Whalley (1984, table 4, row 2) ^c
96.5	Moses and Letnes (2004, table 5, row 4) ^c
67	Iregui (2005, table 10.3) ^{c,d}
122	Klein and Ventura (2007, table 3) ^e

- D. In 2019, estimated GWP was \$142T. So if open borders doubled global production, it would increase GWP by another \$142,000,000,000,000 per year.
 1. Present value with 4% discounting: \$3.6 quadrillion.
 2. Present value with 4% discounting and 2% continued global growth: \$6.8 quadrillion.
- E. Intuitively, the annual deadweight cost is huge because you are multiplying a huge loss to the world per worker times a very large number of workers.
 1. The NPV is mind-bogglingly huge because the world gets this annual gain forever.
- F. Disclosure: To capture the full gain, billions of people have to move.
- VIII. CBA and the Downsides of Immigration
 - A. The modest proposal: open borders. Welcome the world to live and work here.

- B. If these GWP numbers are even remotely correct, open borders could have hellish downsides and *still* pass a cost-benefit test with flying colors.
 - C. Why? Because the downsides would have to cause many trillions of dollars of losses, year after year.
 - 1. $\$1T - \$1B \approx \$1T$
 - D. The vast majority of complaints about immigration are just SDB: vague worries, vivid horror stories, and hyperbolic predictions.
 - 1. “London’s not England anymore!”
 - E. CBA, however, insists on seeing price tags, which the most thoughtful critics of immigration sometimes provide.
 - 1. Distributional effects
 - 2. Fiscal effects
 - 3. Cultural effects
 - 4. Political effects
 - F. There are chapters on each of these concerns in my *Open Borders*. Curious? Do the reading.
- IX. Keyhole Solutions
- A. Even if my estimates of fiscal, cultural, and political harm are optimistic, none seem remotely close to trillions of dollars of annual harm. The CBA case for radical deregulation is very strong.
 - 1. But can we do even better?
 - B. A major innovation in medicine: “keyhole surgery.” The idea: Surgeons try to minimize side effects by carefully crafting the least invasive approach required to fix the patient’s problem.
 - C. Keyhole surgery has inspired some policy analysts to develop “keyhole solutions” for social ills. The idea, again, is to minimize side effects by carefully crafting the least invasive approach required to fix society’s problems.
 - 1. Pollution regulations versus pollution taxes
 - 2. Government provision versus vouchers
 - D. When people criticize immigration, however, the proposed remedies have little to do with the specific complaints.
 - E. Instead, the focus is on (a) exclusion, and (b) removal/deportation, despite severe side effects.
 - F. What would keyhole solutions for immigration problems look like? Let’s take the soundness of the main complaints about immigration for granted, then consider how you could craft a cheap, humane remedy.
 - G. Immigration and American poverty: If immigrants are reducing the living standards of low-skilled Americans, there’s no need to reduce immigration. We could simply charge immigrants an admission fee or extra taxes, then use the revenue to compensate low-skilled Americans.
 - H. Immigration and American taxpayers: If immigrants aren’t paying their way, we could restrict immigrants’ eligibility for various government benefits.

- I. Immigration and American culture: If immigrants aren't learning our language and/or culture, we could make passing grades on language or "cultural literacy" tests a condition of entry.
- J. Immigration and American liberty: If immigrants are bad voters, we could restrict their right to vote.
- K. If any of these alternatives to immigration restrictions seem unfair, they're clearly *less* unfair than preventing people from coming at all.
- L. The Gulf monarchies, the countries with the world's most open immigration, all make heavy use of keyhole solutions.
- M. Are keyhole solutions impossible in Western democracies? Hardly. Many are already in use, even in the U.S.