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## Mapping Global Inequalities

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International Migration as an Alternative to Development Assistance

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# BROOKINGS TRADE FORUM — 2006 —

## GLOBAL LABOR MARKETS?

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EDITORS

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## *What Is Wrong with Plan B? International Migration as an Alternative to Development Assistance*

The enormous differences in living standards across the world have, over the past half century, prompted, on the one hand, a large analytical effort to understand the key underlying causes of these differences and, on the other, efforts to address them.<sup>1</sup> In recent years analytical efforts have increasingly focused on differences in institutional quality as the most important determinant of these disparities in living standards.<sup>2</sup> However, these efforts have been more insightful with regard to how institutions matter than they have concerning the practical implications, that is, how to put institutions into place.<sup>3</sup>

Efforts at alleviating the vast differences in living standards have been a key driver behind foreign aid. While some believe that a large scaling up of investments in poor countries would help them break out of poverty traps, others are skeptical.<sup>4</sup> For decades the international community has striven to improve foreign aid as well as find additional mechanisms (such as greater trade access) to further the development prospects of the poor. A recent ambitious attempt to improve the lives of the world's poorest people is the Millennium Development Goals (MDGs), but if the past is any guide, the targets are unlikely to be

We thank the participants at the Brooking Trade Forum 2006 and especially Susan Collins, Carol Graham, and Gary Burtless for extremely valuable feedback.

1. For example, according to the *Human Development Report 2005*, Sierra Leone's GDP per capita (adjusted for purchasing power parity) in 2003 was just 1.5 percent of the United States' level (UNDP 2005).

2. Hall and Jones (1999); Rodrik, Subramanian, and Trebbi (2004); Acemoglu, Johnson, and Robinson (2005).

3. Fukuyama (2004); Rodrik (2006).

4. For a discussion of scaling up of investments, see, notably, Sachs (2005); for skepticism, see, notably, Easterly (2006).

met.<sup>5</sup> Those concerned with the well-being of the world's poor clearly need more arrows in their quiver, and it is in this spirit that Lant Pritchett has proposed a provocative Plan B: "My plan B is that we begin today to develop mechanisms for enhanced labor mobility so that, when in 2015 MDGs are not achieved (and in many countries there is no progress) . . . these can be scaled up and integrated into an international system that is truly globalized."<sup>6</sup> Accepting that "no one would embrace entirely free labor flows," he suggests as a starting point a more politically realistic plan with industry-specific quotas and explicitly temporary visas.<sup>7</sup>

This paper considers the broad case for a migration-based Plan B.<sup>8</sup> We stress that our focus is not specifically on Pritchett's carefully crafted proposal for significantly scaled-up temporary migration, but instead we look at the broader case for using migration as an additional tool to alleviate poverty. A (too) pithy statement of the broader migration-based Plan B might be: *If you cannot bring good institutions to the poor, allow the poor to move to the good institutions.* Or, as Pritchett asks, "How long must *only* Bolivia figure on the international agenda and *not* Bolivians?"<sup>9</sup>

The importance of institutions enters our discussion of Plan B in a number of ways. First, to the extent that differences in institutional quality are significant determinants of differences in living standards and institutional improvements are hard to "buy" with foreign assistance, it is worthwhile to examine increased migration as an alternative way to increase living standards of migrants. Second, again assuming that institutional differences are key determinants of income differences, there is potential for large income gains to migrants resulting from "institutional arbitrage," as economically debilitating institutional structures are left behind (at least temporarily). Third, there are

5. The Millennium Development Goals (MDGs) are a set of measurable goals agreed upon by world leaders at the United Nations Millennium Summit in 2000 to improve the welfare of the world's poor by 2015. These include halving extreme poverty and hunger; achieving universal primary education; empowering women and promoting equality between women and men; reducing under-five mortality by two-thirds; reducing maternal mortality by three-quarters; reversing the spread of diseases, especially HIV/AIDS and malaria; ensuring environmental sustainability; and creating a global partnership for development with targets for aid, trade, and debt relief. See [www.un.org/millenniumgoals/background.html](http://www.un.org/millenniumgoals/background.html).

6. Pritchett (2003a, p. 39).

7. Pritchett (2003b, p. 4). He also suggests that compensation could be paid to sending countries for tax losses and adverse development impacts and that sending countries could be allocated a quota for the stock of immigrants, with any failure of return leading to deductions from the allowed flow the following year.

8. We use the term "temporary migration" and "temporary labor flows" interchangeably. This focus of our paper should not be confused with immigration policies, which of course refer to the more permanent movement of people from one country to another.

9. Pritchett (2003a, p. 38, emphasis in original).

potential negative effects of increased migration in the destination countries, including the distributional harm of lowering the income of the less skilled, the fiscal harm from attracting individuals who impose net fiscal costs, and the harm to civic capital from less cohesive communities. Fourth, to the extent that rich countries disproportionately target the highly skilled, there is a risk that institutional development will be further harmed by the absence of institution builders in poor sending countries, suggesting a possible trade-off between the static gains to migrants (and their households in the country of origin) from institutional arbitrage and the dynamics of institutional reform (in the country of origin). And finally, given the weakness of institutions in sending countries, it is critical to pay attention to the design details of a large migration program to ensure that the benefits go to the intended beneficiaries rather than be dissipated in rent seeking.

Our argument is organized in six sections. In the next (or second) section, we trespass into political theory to consider the case for Plan B from a philosophical perspective. The debate between nationalists (who emphasize the priority of co-nationals) and cosmopolitans (who emphasize universal concern) has been an active one in political philosophy. We try to steer a middle course by suggesting a form of *partial cosmopolitanism* as a useful way for economists to think about Plan B. The approach we pursue is an application of Amartya Sen's idea of *consequence-based evaluation* (essentially consequentialism with evaluator relativity). This approach allows the evaluator (say a rich-country voter deciding on immigration policy) to give some priority to the interests of co-nationals, while also giving increasing weight to the interests of foreign-born individuals, the worse off their starting point is.

Our reading of the literature suggests that a significant Plan B would be challenged by a number of leading liberal philosophers. *Liberal egalitarian* philosophers, such as John Rawls and Thomas Nagel, would not extend the strong egalitarian demands for justice outside the boundaries of the state that Plan B requires. Although they might support expanded immigration on humanitarian grounds (such as for asylum), they would be averse to supporting substantially higher economically motivated migration, especially if it harmed the poor of the receiving countries. On the other hand, *liberal nationalist* philosophers, such as Michael Walzer and Will Kymlicka, would be likely to worry about the impact of Plan B on the domestic political community, though they might support the alternative of significantly expanded development assistance to meet the demands of global justice. The central motivation for thinking about a migration-based Plan B, however, is that standard development strategies have not worked in many countries precisely because even though the goal



is to help poor people, the focus of development assistance continues to be poor countries, so the alternative may well be continued high levels of global poverty.

If one accepts our partial cosmopolitanism, the case for Plan B is then largely empirical. We review the empirical evidence on three central questions: How much would the migrants (more precisely, temporary workers) benefit? (Our answer: A lot.) Would rich-country residents be harmed? (Our answer: Probably not, though there is uncertainty about the effects of less-skilled labor inflows on less-skilled natives.) Would those remaining behind be harmed? (Our answer: The migrant's household will typically gain through remittances. However, if the relaxation of immigration restrictions has a strong bias toward skills, those remaining behind are likely to lose. But the negative effects will vary significantly by country and sector, with the public sectors in smaller countries being especially vulnerable.) Quite obviously, the precise answers to these questions would vary considerably depending on the relative magnitude of international labor flows.

The next three sections review the evidence regarding these three questions. In the third section, we document the extreme divergence in income levels among countries and argue that significant portions are explained by differences in institutions and physical capital per worker. Income gaps across countries are due more significantly to differences in the *places* than to differences in the *people*. Although the average endowments of human capital are certainly lower in poorer countries, and although much domestically acquired human capital does not travel well, the available evidence strongly suggests that there are large income gains (adjusted for purchasing power parity) following migration.

In the fourth section, we turn to the impact of migration on rich receiving countries. There appears to be fairly widespread acceptance that skilled migration in reasonable numbers is good for the recipient economies. The theoretical case is further strengthened when we move beyond the standard competitive model to consider such factors as the generation of innovation, knowledge spillovers, specialized skills, scale economies, and fiscal effects. Probably the best evidence for the acceptance of benefits of skilled immigration is the efforts many rich countries are making to better compete for the world's mobile talent. There is a great deal more skepticism about the benefits of less-skilled immigration, skepticism that has been strongly influenced by George Borjas's empirical work documenting the adverse effects of immigration on native wages.<sup>10</sup> However, Borjas's empirical conclusions are disputed, and economic theory also points to several mechanisms that suggest any adverse wage effects will wane over time. We also

10. For example, Borjas (2003).

briefly review some recent findings on the fiscal effects of immigration, noting that the results are sensitive to the composition of the immigration flows and the nature of the fiscal systems. To ensure political support for a Plan B that is focused on less-skilled workers, we argue that the fiscal rights of migrants should not be such that they impose fiscal burdens on natives.

We reach the fifth section with the case for Plan B looking reasonably strong. We focus on the impacts of Plan B on those remaining behind in the home country. We argue that the impacts of increased labor inflows are likely to be sensitive to its skill composition, with skilled emigration posing the greatest risk of harm to those who stay in the home country. This is a concern because present trends suggest that any loosening of immigration restrictions is likely to have a strong skill bias. However, even for skilled emigration, we argue that the effects are not all unwelcome, and the balance of effects is likely to vary by sector and by country. Not surprisingly, given our opening emphasis on institutional failure as the primary cause of development failure, we pay particular attention to the impact of skilled emigration on domestic institutional development. Although here again we note that not all of the effects are negative, we do worry that the loss of a significant fraction of scarce human capital will further undermine institutional development.

In the sixth section we continue our discussion of the impact of emigration on sending countries, subjecting the plan to the stress test of implementation, which will critically determine the degree to which Plan B will increase the incomes of the intended beneficiaries, that is, temporary migrants and their households in the country of origin. The sharply increased incomes of the latter will be a form of rents and is likely to attract rent-seeking behavior. We examine some possible implementation mechanisms and find that there are reasons to worry. Although this does not in principle undermine the case for Plan B, it does point to the critical importance of implementation mechanisms if it is to provide the sorts of benefits envisaged.

In the last section we conclude with an endorsement of the general idea behind Plan B. If the main reason for continued gross poverty in the world is an enduring failure to put in place growth-supporting institutions, *and* if the rich countries have better institutions and the capacity to absorb more workers without inducing significant distributional, fiscal, or civic harm, then the normative and positive cases for expanded labor inflows from poor countries is strong. Our main reservations relate to how Plan B may be implemented and whether a possible skill-bias as well as rent-seeking behavior would vitiate the benefits envisaged. But the answer is not to abandon Plan B. Instead, we suggest strategies to minimize the negative effects on those remaining behind.

## Nationalism versus Cosmopolitanism

### *Partial Cosmopolitanism*

How should we assess the case for Plan B? We start in this section by outlining and briefly defending what we call partial cosmopolitanism as a useful evaluative framework. The debate between defenders of nationalism and defenders of cosmopolitanism has been an active and sophisticated one in political theory.<sup>11</sup> As noted in the introduction, our excuse for trespassing on the terrain of political theory is that this debate has centered on a theoretical question that is fundamental for the evaluation of Plan B: What relative weight should we place on the interests of poor foreigners? In pursuing a partial cosmopolitanism, we try to steer a pragmatic course that allows for priority weighting of co-nationals but also allows for increasing priority for the globally less well-off, the worse off their starting point is. This middle course follows Appiah, “We need take sides neither with the nationalist who abandons all foreigners nor with the hard-core cosmopolitan who regards her friends and fellow citizens with icy impartiality.”<sup>12</sup>

More specifically, the partial cosmopolitan approach we pursue is a form of the consequence-based evaluation explored by Sen.<sup>13</sup> Consequence-based evaluation is standard consequentialism extended to allow for evaluator relativity. Sen asks, “Must every person have the same outcome evaluation function  $G(x)$  irrespective of differences in their positions vis-à-vis actions, beneficiaries, and the like?”<sup>14</sup> His answer is no: “There is . . . no compelling reason why a morality that is sensitive to the differences in the position of people vis-à-vis states (including the actions that bring those states about) should not permit—indeed require—that different people evaluate the same state differently.”<sup>15</sup>

In the case of Plan B, we assume we are in the position of a rich-country voter deciding on immigration and other foreign assistance policies. The consequence-based approach allows for some priority to be given to co-nationals.<sup>16</sup> This is compatible, however, with increasing priority also granted to the globally less well-off.<sup>17</sup> A simple example of an additively separable

11. See Tan (2004) for an overview of the debate.

12. Appiah (2006, pp. xvi–xvii); Appiah continues, “The position worth defending might be called (in both senses) a partial cosmopolitanism” (ibid., p. xvii).

13. Sen (1982, 1983, 2000).

14. Sen (1982, p. 29).

15. Sen (1982, pp. 29–30). We leave open the interpretation of the outcome variable  $x$ . Outcomes could be measured, for example, as incomes, utilities, capabilities (see Sen 1992) or primary goods (see Rawls 1971).

16. See Miller (1995) for arguments for the “ethical significance” of national ties.

17. That is, the marginal social value of a unit increase in the situation (say, measured by income)

consequence-based evaluation function that allows for both forms of priority would be

$$(1) \quad G_i = \sum_{i=1}^N x_i^{1-\varepsilon} + \omega \sum_{j=1}^M x_j^{1-\varepsilon},$$

for which  $0 \leq \omega \leq 1$  and  $0 \leq \varepsilon < 1$ ,

where  $N$  is the number of nationals (before immigration) indexed  $i = 1, \dots, N$ ;  $M$  is the number of nonnationals (again before immigration) indexed  $j = 1, \dots, M$ ;  $x$  is the measure of individual outcomes;  $\omega$  is a priority discount given to nonnationals; and  $\varepsilon$  is a measure of inequality aversion. There is no priority given to co-nationals when  $\omega = 1$  (pure cosmopolitanism), and there is complete priority when  $\omega = 0$  (pure nationalism). There is partial cosmopolitanism (or partial nationalism if the reader prefers) when  $\omega$  lies strictly between 0 and 1. Similarly, there is no priority for the less well-off when  $\varepsilon = 0$  (pure aggregation), and there is increasing priority for the less well-off as  $\varepsilon$  converges toward 1.<sup>18</sup> It is important that the left-hand side is indexed by  $i$ , indicating that the evaluation is being done from the perspective of a national of the immigrant-receiving country.

The foregoing consequence-based approach allows—though it does not presuppose—a significant concern for nonnationals. This concern is not necessarily limited to humanitarianism or fulfillment of basic needs. Take, for example, a Filipino nurse who would experience a significant improvement in her living standard if given the opportunity to emigrate to a country within the Organization for Economic Cooperation and Development (OECD). We assume this nurse is neither living in poverty nor politically oppressed in the Philippines, and so the concern is not a humanitarian one as usually understood. Rather, the nurse would be a classic economic migrant, not a refugee fleeing a failed or oppressive state. The consequence-based approach could—though again need not—view this migration as leading to a social improvement.

Before proceeding to look at the empirical evidence on the effects of migration, in the remainder of this section we briefly examine some arguments of leading liberal egalitarians and liberal nationalists who have been skeptical about the claims of cosmopolitan justice and concomitantly have argued against eco-

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of an individual of a given nationality is decreasing in the income of that individual.

18. One feature of this evaluation function is that, assuming that one is away from the extremes, a unit transfer from a national to a nonnational will always lead to a social improvement provided the nonnational is sufficiently badly off relative to the national. However, the extent to which the nonnational must be relatively worse off is increasing in the priority given to co-nationals.

19. We focus on philosophers with more liberal leanings because they might reasonably be

nomically motivated labor inflows.<sup>19</sup> It is thus important to ask if the case for Plan B can withstand their objections.

In his *Theory of Justice*, Rawls provides a nonutilitarian-based theory of justice that does not leave individuals vulnerable to the “calculus of social interests,” of the kind inherent in equation 1.<sup>20</sup> As he argues: “Each person possesses an inviolability founded on justice that even the welfare of society as a whole cannot override.”<sup>21</sup> Focusing on what he calls the basic structure of society or “the way in which the major social institutions distribute fundamental rights and duties and determine the division of advantages from social cooperation,” he derives strongly egalitarian demands of justice for individuals *within* a given society.<sup>22</sup> However, in the extension of his theory to questions of global justice in his *The Law of Peoples*, he rejects a cosmopolitan view that focuses on the “well-being of individuals and not [on] the justice of societies.”<sup>23</sup> In contrast to the strongly egalitarian demands of justice within a given society, he argues that what states are required to do as a result of the demands of justice to help individuals in other states is much more limited. This does not mean that states are not required to help what he calls “burdened societies,” but what is required is that these societies be brought to some minimum level of development.

Burdened Societies, while they are not expansive or aggressive, lack the political and cultural traditions, the human capital and know-how, and, often, the material and technological resources needed to be well-ordered. The long-term goal of (relatively) well-ordered societies should be to bring burdened societies, like outlaw states, into the society of well-ordered peoples. Well-ordered peoples have a *duty* to assist burdened societies. It does not follow, however, that the only way, or the best way, to carry out this duty of assistance is by following the principle of distributive justice to regulate economic and social inequalities among societies. Most such principles do not have a defined goal, aim, or cut-off point, beyond which aid may cease.<sup>24</sup>

Rawls clearly recognizes the importance of good institutions for societal success and also the challenges of putting good institutions in place. But he ultimately assumes that development assistance efforts will be successful in bringing burdened societies to the cut-off level. In *The Law of Peoples*, he briefly discusses the causes of immigration from burdened societies but claims “they

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expected to support freedom of movement, all things equal. It is thus informative to explore their reasons for supporting extensive immigration restrictions—that is, what else they believe is given up with a more liberal international migration regime.

20. Rawls (1971, p. 4).

21. *Ibid.*, p. 3.

22. *Ibid.*, p. 7.

23. Rawls (1999, p. 119).

24. Rawls (1999, p. 106, emphasis in original).

25. Rawls (1999, p. 9).

would disappear in the Society of liberal and decent Peoples.”<sup>25</sup> He does not, however, address the question of what to do if the normal forms of development assistance fail to put the institutional prerequisites for a successful society in place. It seems unlikely that Rawls would support the sorts of immigration levels that would occur under Plan B.<sup>26</sup> But what if the result of relying on the normal forms of development assistance is continued egregious levels of global poverty? In this case, continuing to resist immigration as a means of allowing the poor to escape failing institutions seems troublingly at odds with Rawls’s focus on improving the situation of the least well-off within a given society as a central demand of justice. The partial cosmopolitan position we suggest allows a less sharp line to be drawn between the demands of justice *within* and *between* societies.

Plan B is also likely to be viewed with skepticism by those liberal theorists for whom the preservation of a vibrant political community is a matter of critical concern. As Michael Walzer eloquently states in his *Spheres of Justice*,

The distribution of membership is not pervasively subject to the constraints of justice. Across a considerable range of the decisions that are made, states are simply free to take in strangers (or not)—much as they are free, leaving aside the claims of the needy, to share their wealth with foreign friends, to honor the achievements of foreign artists, scholars, and scientists, to choose their trading partners, and to enter into collective security arrangements with foreign states. But the right to choose an admissions policy is more basic than any of these, for it is not merely a matter of acting in the world, exercising sovereignty, and pursuing national interests. At stake here is the shape of the community that acts in the world, exercises sovereignty, and so on. Admission and exclusions are at the core of communal independence. They suggest the deepest meaning of self-determination. Without them, there could not be *communities of character*, historically stable, ongoing associations of men and women with some special commitments to one another and some special sense of their common life.<sup>27</sup>

Indeed Walzer goes as far as to oppose even guest worker programs arguing that once communities choose to allow foreigners in, they cannot then reduce them to second-class citizens. This line of reasoning is a good example of how the best can be the enemy of the good. When a hypothetical guest worker is not allowed in, then his or her living standards in the country of origin may be worse than a third-class citizen’s by the standards of the receiving country. But arguments such as Walzer’s would appear to normatively prefer this state of

26. Regarding immigration, Rawls asserts that “an important role for government, however arbitrary a society’s boundaries may appear from a historical point of view, is to be the effective agent of a people as they take responsibility for their territory and the size of their population, as well as for maintaining the land’s environmental integrity” (Rawls 1999, p. 8).

27. Walzer (1983, pp. 61–62, emphasis in original).

affairs than one in which the guest worker (whose rights would be circumscribed relative to those of a citizen) would have a second-class status.

In the context of the U.S. debate over immigration, Samuel Huntington has argued that waves of generally less-skilled Hispanic immigrants on the one hand and globally mobile, skilled elites retaining dual loyalties—whom he disapprovingly calls “ampersands”—on the other are undermining the “Anglo-American culture that has been central to American identity for three centuries.”<sup>28</sup> In response, one can question if the danger to domestic societies is as great as Walzer and Huntington seem to suppose. For example, diversity can be a source of economic strength and cultural vibrancy.<sup>29</sup> Transnational networks have also been shown to play a central role in overcoming informational and contractual barriers to international economic exchange.<sup>30</sup> More fundamental, individuals are capable of maintaining multiple identities, which often help enrich human interaction rather than undermine it.<sup>31</sup>

Will Kymlicka offers a more nuanced liberal nationalist position on immigration.

For liberal nationalists . . . there is a tradeoff between the benefits of mobility and the desire to ensure the viability of one’s national culture. At the moment, immigrants are almost always a source of enrichment, both culturally and economically, to national societies. But that is because the numbers of immigrants are limited, and those that are admitted are encouraged to integrate into the national political culture. A policy of open borders, however, could lead to tens of millions of new immigrants entering a country, exceeding the capacity of existing national institutions to integrate them. . . . On the liberal nationalist view, states have a legitimate right to limit the number of immigrants, and to encourage their integration, in order to protect the viability of existing national cultures.<sup>32</sup>

Kymlicka allows that this right to limit immigrants can coexist with strong demands for global justice.<sup>33</sup> For example, closed borders could be combined with generous development assistance, allowing for both the protection of national cultures and global distributive justice. Recalling the motivation for Plan B, however, the problem is that existing development assistance strate-

28. Huntington (2005, p. xvi).

29. Ottaviano and Peri (2004).

30. Rauch (2001).

31. As Amartya Sen (2006, pp. 4–5) puts it: “In our normal lives, we see ourselves as a member of a variety of groups—we belong to all of them. A person’s citizenship, residence, geographic origin, gender, class, politics, profession, employment, food habits, sports interests, taste in music, social commitments, etc., makes us members of a variety of groups. Each of these collectivities, to all of which a person simultaneously belongs, gives her a particular identity. None of them can be the person’s only identity or singular membership category.”

32. Kymlicka (2001a, p. 219).

33. Kymlicka (2001b); see also Tamir (1993); Tan (2004).

gies are not working for a large number of poor countries. Consequently Kymlicka's solution does not square the circle, and Plan B would have to be entertained if the concerns of global poverty were to take precedence.

#### *Attitudes toward Immigration*

Thus far in this section, we have argued that a voter who places *some* weight on the well-being of poor foreigners *should* be interested in a migration-based Plan B. But what are the actual attitudes of voters in richer countries to immigration, and to less-skilled in particular? Unsurprisingly, voters attitudes are not very positive on this issue. Table 1, adapted from O'Rourke and Sinnott, reports responses from a cross section of countries from the 1995 International Social Survey Programme (ISSP) module on national identity.<sup>34</sup> Respondents were asked if the number of immigrants to their economy should (1) be increased a lot, (2) be increased a little, (3) remain the same, (4) be reduced a little, or (5) be reduced a lot. Each response was given a score corresponding to the number. The mean response exceeded 3 for every country, indicating a widespread preference for more restrictive immigration by a majority of the respondents. Since then, if anything, attitudes have hardened further that ranged from fears of the eponymous "Polish plumber" that contributed to the rejection of the European Union constitution in France to heightened security fears in the aftermath of bombings in London and Madrid.

A number of recent studies have probed the factors that predict an individual's attitude to immigrants. Not surprisingly, having to compete directly with immigrants in the labor market leads to more negative attitudes to immigration.<sup>35</sup> There is also evidence that attitudes are affected by how immigrants affect natives through public finance channels. Where immigrants impose a net fiscal cost, and that cost is primarily borne by higher-income tax payers, the support by higher-earning natives for immigration is tempered.<sup>36</sup> This may go some way to explaining the "dual policy paradox" identified by Hatton and Williamson, whereby the "median voter" in rich countries supports free trade but opposes immigration, since imports typically do not impose net fiscal burdens.<sup>37</sup>

34. O'Rourke and Sinnott (2004).

35. See, for example, Scheve and Slaughter (2001); O'Rourke and Sinnott (2004); Dustmann and Preston (2004); Mayda (2006). For example, Mayda (2006) finds a positive correlation in cross-country data between individual skill and pro-immigration attitudes where immigrants are relatively unskilled compared with natives.

36. Hanson, Scheve, and Slaughter (2005); Facchini and Mayda (2006).

37. Hatton and Williamson (2005). The other contributing factor identified by Hatton and Williamson is the reduced selectivity of immigrants because of the secular decline in the costs of migration.



**Table 1. Average Sentiment Regarding Immigrants<sup>a</sup>**

Hungary	4.402
East Germany	4.338
West Germany	4.226
Bulgaria	4.219
Latvia	4.182
Czech Republic	4.158
Italy	4.151
Britain	4.052
Slovak Republic	4.004
Sweden	3.961
Slovenia	3.939
Poland	3.888
United States	3.873
Norway	3.847
Netherlands	3.826
Austria	3.804
Philippines	3.796
Australia	3.768
New Zealand	3.742
Russia	3.717
Spain	3.401
Japan	3.391
Canada	3.317
Ireland	3.071
Mean	3.878

Source: Adapted from O'Rourke and Sinnott (2004). Original data from the International Social Survey Programme (ISSP) National Identity Survey 1995.

a. See text for explanation of scoring.

Although this research clearly establishes that self-interested concerns about labor market competition and fiscal burdens shape attitudes to immigration, there is evidence that noneconomic factors matter as well. Of particular interest given our discussion of partial cosmopolitanism are the findings of O'Rourke and Sinnott relating to the influence of nationalist sentiment.<sup>38</sup> Drawing on various questions relating to nationalist sentiment in the ISSP data set, they use factor analysis to construct variables that measure the extent of nationalist feelings. The first, which they label "patriotism," captures the strength of preference for and sense of superiority of one's own country. The second, which they label "chauvinism," captures the extent to which people hold an exclusive view of nationality and the extent to which they take an attitude of "my country right or wrong." This latter measure is of particular interest since it strikes us as being a good indicator of nationalist partiality in our partial cosmopolitan social wel-

38. O'Rourke and Sinnott (2004).

fare function. O'Rourke and Sinnott find that these measures of nationalism are strong and consistent predictors of anti-immigration attitudes, with the influence of the "chauvinism" variable being particularly strong.

This would all be discouraging to a supporter of freer immigration for the less skilled if nationalist sentiment were impervious to change. One reason for optimism comes from Hainmueller and Hiscox's findings relating to the importance of education for attitudes towards immigration.<sup>39</sup> Using European data, they find that more-educated individuals are more supportive of immigration regardless of the skill composition of immigration, which is not consistent with the explanations of pure labor market competition and fiscal burden. Their work also supports the intuitive view that education affects cultural values and beliefs, with more-educated respondents displaying lower propensities toward racism and placing more value on cultural diversity. In a related vein, Dustmann and Preston find evidence of a significant link between education and more positive attitudes toward immigration, with the effect coming in part through a more positive overall assessment of the effects of immigration and not just more benign assessments about the impact on labor market competition.<sup>40</sup>

To sum up this section, we stress that our goal has not been to adjudicate between the arguments of nationalist and cosmopolitan philosophers. Our goals were more modest. The first was to lay out an evaluative approach useful to someone who gives some degree of priority to the interests of co-nationals, but whose concern does not stop at national borders. This consequence-based approach should appeal to economists trained to think in terms of trade-offs. The second was to question a key assumption used by liberal theorists in their defense of restrictions on immigration and labor inflows—that development assistance strategies are sufficient to bring "burdened societies" to a threshold level of development, to meet the demands of global justice, or both, which would reasonably imply that a Plan B is not needed. The third was to argue that rich-country voters are capable of looking beyond their narrow interests concerning labor market and fiscal issues in forming their attitudes about immigration, notwithstanding their importance. We assume in the rest of the paper that the partial cosmopolitan evaluation approach captured by equation 1 is adopted by a voter, noting that the equation is general enough to encompass a wide range of value judgments about the relative priority to be given to nationals and foreigners and also the priority to be given to the less well-off. The case for Plan B will then depend on how the migrants, the receiving-country resi-

39. See Hainmueller and Hiscox (2006).

40. Dustmann and Preston (2004).

dents, and those remaining behind in origin countries are affected. We now turn to examine the evidence on each.

### Benefits to Migrants

How large are the income gains that migrants experience when they migrate from poor to rich countries? On their face, the enormous gaps in average living standards suggest that these gains would be very large. However, if the observed gaps are mainly due to differences in human capital between countries, the gains would be modest. At the other extreme, if the differences in incomes are mainly due to differences in institutions and physical capital per worker, then the gains would be large. Using the terminology of Jasso, Rosenzweig, and Smith, it matters how much of the difference in incomes across countries is due to skill *differences* and how much is due to skill *prices*.<sup>41</sup> One further complication is that the human capital that migrants do have may “travel poorly,” because it is poorly suited to or poorly rewarded in the labor market of the receiving country (for example, because credentials are not recognized). In this section we review the evidence on these questions to get a sense of how large the gains are likely to be.

#### *Explaining Living Standard Differences across Countries*

A strong consensus has formed in the literature on economic growth and development that differences in institutional quality explain a large part of the observed differences in living standards across countries. The evidence takes two main forms: accounting exercises that attempt to apportion the differences in living standards to differences in resources, treating the residual as a measure of total factor productivity (which in turn can be interpreted as a broad measure of institutional quality) and econometric exercises that attempt to identify the causal determinants of living standards.

Hall and Jones provided both forms of evidence.<sup>42</sup> Using an accounting exercise, they found that low total factor productivity played the most important role in explaining differences in living standards (for which output per worker serves as a proxy) between rich and poor countries. For example, when compared with output per worker in the United States, Kenya’s relative output per worker was 0.056, which Hall and Jones showed can be decomposed as the

41. Jasso, Rosenzweig, and Smith (2002).

42. Hall and Jones (1999).

product of the relative (weighted) capital to output ratio (0.747), the relative human capital per worker (0.457), and the relative total factor productivity (0.165).<sup>43</sup> Clearly, low total factor productivity was the most important factor explaining Kenya's relative impoverishment. Similar results were found for other poor countries. The reason this is relevant to gains from migration is that poor total factor productivity can be "left behind" by moving to a rich country in a way that a lack of human capital cannot.

This accounting exercise leaves open the reason for the low total factor productivity. Hall and Jones went on to use instrumental variable techniques to establish that total factor productivity was causally related to measures of institutional quality, or what they call "social infrastructure." They further found that the two other components of output per worker (relative capital to output per worker ratio and relative human capital per worker) were also strongly influenced by the social infrastructure.<sup>44</sup>

Other authors have also highlighted the importance of institutions in explaining differences in living standards. Acemoglu, Johnson, and Robinson used settler mortality as an instrument to predict institutional quality.<sup>45</sup> The idea is that settlers are more likely to establish good institutions in the colonies if they have to live under those institutions themselves, and they are more likely to live under them in colonies where settler mortality is low. Rodrik, Subramanian, and Trebbi used instrumental variables (including the settler mortality variable from Acemoglu, Johnson, and Robinson) to disentangle the effects of institutions, geography, and integration into international markets and found that "the quality of institutions trumps everything else."<sup>46</sup>

#### *The Transferability of Human Capital*

The cross-country evidence points to large institutional differences across countries. One reasonable implication is that a worker with given skills would experience significant income gains as the worker moves from a weak institutional environment to a stronger one, since skill prices will be higher in better institutional environments. As noted above, however, a possible complication is that skills acquired in one country might transfer badly to other countries, weakening or perhaps even reversing the income gain.

43. Hendricks (2002) used an alternative measure of human capital based on the observed wages of immigrants to the United States and found similar results.

44. Hall and Jones (1999).

45. Acemoglu, Johnson, and Robinson (2001).

46. Rodrik, Subramanian, and Trebbi (2004, p. 135).

The literature on the earnings of immigrants does suggest less-than-perfect transferability. In a study of immigrant earnings in Israel, Friedberg found that education and experience acquired abroad were significantly less valued than such human capital acquired in Israel.<sup>47</sup> Indeed, the return to foreign experience was generally found to be negligible. However, foreign human capital was found to interact positively with domestic human capital, suggesting that the older investments can be made more valuable with additional investments in the receiving country.

Various studies of immigrant earnings in Canada also suggested significant discounting for foreign-acquired human capital. For example, Alboim, Finnie, and Meng reported substantial discounting of foreign education and experience, even after controlling for language skills.<sup>48</sup> Ferrer and Riddell also found evidence of discounting, although they showed the return to credentials—what they termed the “sheepskin effect”—was actually higher for immigrants than it was for nonimmigrants.<sup>49</sup> This suggests that foreign degrees are well-recognized in the Canadian labor market, contrary to often-heard complaints about the nonrecognition of foreign credentials.

One important question is whether the generally low return to foreign human capital reflects a general low quality of skills or poor transferability of those skills. The former should have a more limited negative effect on the gains from migration, since low-quality human capital should be poorly rewarded everywhere. Again using evidence from Canada, Sweetman found evidence of significant differences in how foreign human capital is rewarded on the basis of quality measures of source-country education systems.<sup>50</sup> This suggests that at least part of the discount observed simply reflects poor-quality human capital; an implication is that real skills will be rewarded in receiving-country labor markets.<sup>51</sup>

47. Friedberg (2000).

48. Alboim, Finnie, and Meng (2005).

49. Ferrer and Riddell (2004).

50. Sweetman (2004).

51. Using U.S. Census data, Özden (2005) also documented substantial variation across countries in the share of tertiary-educated immigrants that have a “skilled job.” The share ranged from a low of 21 percent for Guatemala to a high of 76 percent for India. The differences across countries could be due to differences in immigrant selection or to differences in the quality of the underlying human capital. Özden found that both are important. His measures of quality are source-country education expenditures per student (adjusted for purchasing power parity) and a dummy variable for English being a commonly spoken language.

*Longitudinal Evidence*

Of course, the best evidence on migrant gains comes from directly observing a migrant's pre- and postmigration incomes. Unfortunately, such longitudinal evidence is very scarce. One important exception is data from the New Immigrant Survey, which surveys legal permanent residents in the United States. Using a pilot version of this survey, Jasso, Rosenzweig, and Smith reported measures of the average earnings gain to new permanent immigrants.<sup>52</sup> The reported gains were large, even after adjusting for purchasing power parity to account for lower costs of living in the source countries. For the 230 immigrants in their sample who had worked in the source country and in the United States, the average income gain was more than \$20,000 (from \$17,080 to \$37,989). It is noteworthy that these gains occurred despite evidence of weak transferability of skills across countries. They measured this transferability by regressing log earnings in the United States on log earnings in the source country. The coefficient of source-country earnings ranged from 0.17 to 0.34 in their regressions, suggesting a weak correlation between how their skills were rewarded in the source country and how they were rewarded in the United States. Although care should be taken not to push these findings too far, given the small size of the sample, taken together they suggest that the income gains from moving to a stronger institutional environment are large even when skills do not travel well. Put another way, skill-price differences appear to trump weak skill transferability, thereby allowing substantial gains to migrants.

**Harm to Natives**

The results in the previous section provide our partial cosmopolitan voter with a reason to support a substantial increase in immigration from poorer countries, recalling that this voter is assumed to value income increases for foreigners—especially less well-off foreigners. But in making the cosmopolitanism *partial*, we assume that voters care relatively more about the income effects on co-nationals. If co-nationals are significantly harmed by immigration—especially less well-off co-nationals—then our voters may have good reasons to view increased labor inflows unfavorably.

52. Jasso, Rosenzweig, and Smith (2002).

*Distributional Harm*

We first look to the impact of less-skilled immigrants on competing natives in the labor market. The recent debate over U.S. immigration reform reveals that the nature of the effects remains highly disputed. Both proponents and opponents of increases in legal immigration are able to point to econometric studies by well-known researchers to support their case. Somewhat surprising given the disagreement in the literature, the view that less-skilled natives have been significantly harmed by immigration flows over the last few decades has become close to conventional wisdom. For example, writing in the *New York Times*, Paul Krugman notes: “While immigration may have raised overall income slightly, many of the worst-off native-born Americans are hurt by immigration—especially immigration from Mexico. Because Mexican immigrants have much less education than the average U.S. worker, they increase the supply of less-skilled labor, driving down the wages of the worst-paid Americans.”<sup>53</sup> In a similar vein, Martin Wolf writing in the *Financial Times* concludes: “Low-skilled immigration also has adverse distributional effects. If a dominant concern were with the welfare of the more disadvantaged of the native-born, the case for control over the current influx of illegal immigrants would be strong.”<sup>54</sup> There is now overwhelming evidence that the lowest deciles of the native born in the United States have seen relatively little gains from the economic expansion over the last quarter century. But to what extent is that explained by inflows of less-skilled foreign-born workers as distinct from other important factors, be it changes in fiscal policies, skill-biased technical change, or increases in labor-intensive imports?

The most influential findings of harm to less-skilled natives come from George Borjas.<sup>55</sup> Borjas’s method was to divide the U.S. workforce into skill classes based on education level and experience. He then measured the immigrant share in each skill class and showed that higher immigration in a particular skill class was associated with lower wages in that class; that is, he found the labor demand curve sloped downwards.<sup>56</sup> Cross-elasticities were also found to be negative within education branches (that is, the wages of classes with the

53. Paul Krugman, “North of the Border,” *New York Times*, March 27, 2006, p. 19.

54. Martin Wolf, “How to Harvest the Disputed Fruits of Unskilled Migration,” *Financial Times*, April 5, 2006, p. 17. Wolf goes on to suggest a solution that should appeal to a partial cosmopolitan worried about the harm to native-born, low-skilled workers: “If a desire to offer opportunity to poor foreigners tempered that concern, a case would exist for formal relaxation of controls, combined with wage-subsidies for native-born low skilled workers” (Ibid., p. 17).

55. See, for example, Borjas (2003).

56. Aydemir and Borjas (2006) applied the Borjas (2003) methodology to datasets for Canada, Mexico, and the United States, finding broadly similar elasticities.

same education but with different experience decline when immigration within a given skill class increases) but positive within experience branches (that is, the wages of classes with the same experience but different education increase when immigration within a given skill class increases). Overall, he found that immigration to the United States between 1980 and 2000 led to wage declines of 8.9 percent for high school dropouts, 2.6 percent for high school graduates, 4.9 percent for college graduates, and no significant change for those with some college. Borjas and Katz extended the empirical model to allow for long-run adjustments in the capital stock.<sup>57</sup> Looking just at Mexican immigration to the United States, they found that there was no change in the wage of the typical worker once they allowed for induced increases in the capital stock. However, the least-skilled workers continued to be negatively affected even after the long-run adjustment of the capital stock, although the extent of the negative effects was significantly reduced.<sup>58</sup>

An important assumption in Borjas's analysis was that immigrants and natives were perfect substitutes within a given skill class. Ottaviano and Peri showed that relaxing this assumption can lead to significantly different results.<sup>59</sup> It is widely agreed that immigrants of a given skill are substitutes for some workers while complements for others. Allowing for imperfect substitutability within skill classes allows for more extensive complementary effects.<sup>60</sup> Looking at the period from 1990 to 2000, Ottaviano and Peri found that immigration (8 percent of the labor force in 1990) actually led to an increase in the average wage of 2.0 to 2.5 percent. They did find the wages of high school dropouts were driven down, but only marginally (1 percent), while the wages of workers with more than a high school education rose by 3 to 4 percent.

The empirical challenge in identifying the wage effects of immigration is to find a plausibly exogenous source of variation in the level of immigration. The source of this variation for the previous two studies was differences in the immigrant share by narrowly defined skill class. A different approach is to use variation in immigration level by geographic area (usually in addition to broad skill level). Using this approach Card argued that the evidence suggests that "the new immigration" may not really be so bad. On the question of how less-skilled immigration has affected less-skilled wages, his empirical work pointed

57. Borjas and Katz (2005).

58. Looking only at Mexican immigration to the United States between 1980 and 2000, they estimated that the wages of high school dropouts were reduced by 8.2 percent assuming no induced changes in the capital stock. The fall in the dropout wage was 4.8 percent after long-run adjustments of the capital stock implied by their model.

59. Ottaviano and Peri (2005).

60. See also World Bank (2006a, chapter 2, box 2.4).



to “a surprisingly weak relationship between immigration and less-skilled native wages.”<sup>61</sup>

Borjas pointed to two possible problems with an approach based on geographical areas.<sup>62</sup> The first is that immigrants may be drawn to regions experiencing positive labor demand shocks, which could mask the wage-reducing effect of increasing labor supplies. One solution is to instrument for low-skilled immigration using historical immigration patterns, on the assumption that the latter is correlated with current immigration but uncorrelated with demand shocks. The second is that the arrival of immigrants to a particular area may lead natives to move out, businesses to move in, or both, either of which would mitigate the local wage decline. The concern is that this mobility just spreads the wage decline around in a way that the area studies are unable to pick up.<sup>63</sup>

Card discussed two alternative explanations of the absence of wage impacts in the area studies.<sup>64</sup> The first applies the Heckscher-Ohlin model from trade theory to argue that the industry structure adjusts (and with it relative skill demands) to neutralize the relative supply shocks so that there is no change in relative wages. Intuitively, if there is an expansion in relative supply of less-skilled workers, industries that use less-skilled workers intensively will expand and in doing so will raise the demand for those workers. Looking at changes in industry composition in response to immigration, however, Card concluded that this was not the main adjustment mechanism. His preferred explanation is that technology adoption responds endogenously at the area level to changes in available factor supplies. So, for example, if the local supplies of less-skilled workers expand, local businesses adopt technologies that are more intensive in the use of less-skilled workers.<sup>65</sup>

What should we conclude about the impacts of increased immigration on natives? Although Borjas’s findings certainly cannot be dismissed, there does seem to be reasonable grounds for believing that, once one allows for the less-than-perfect substitutability between immigrants and natives within skill classes, immigration has positive or more or less neutral effects. The results of the national studies that allow for this imperfect substitutability are generally rein-

61. Card (2005, p. 11).

62. Borjas (2003).

63. See Card (2001) for evidence against this explanation for why the impacts of wages in the area studies were so small.

64. Card (2005).

65. The question is why they do this without a decline in the relative cost of less-skilled workers. Here Card points to Acemoglu’s (1998) model of endogenous technological change, which showed how firms innovated in a way that took advantage of locally available factors.

forced by the finding of immigration neutrality from the area studies. *It should be emphasized, however, that these results are based on limited increases in labor inflows.* These results, together with the results from the previous section, lead us to conclude that modest increases in temporary labor flows under Plan B are likely to lead to large gains for the migrants without undue harm to individuals in the receiving countries, at least over the longer run.

Even if it were true that less-skilled natives are harmed, the best way to respond is unlikely to be to block migration. Rodrik and Pritchett both point out that economists generally oppose blocking imports of less-skilled intensive goods, even though the distributional implications are similar to less-skilled immigration.<sup>66</sup> With earnings differences exceeding price differences across countries, the increase in global efficiency would be significantly greater with reduced migration barriers than it would be with reduced trade barriers.<sup>67</sup> When it comes to trade, most economists advocate direct policies to deal with the harm to certain workers (for example, wage subsidies or worker retraining). While it is fair to be skeptical that such compensation policies would actually be put in place, it is also fair to ask why they are an appropriate response to trade-induced distributional harm but not to migration-induced distributional harm.

#### *Fiscal Harm*

A second possible source of harm comes through the fiscal system and the fiscal burdens migrants might impose. Again, the concern is mainly focused on less-skilled migrants. Indeed, increased immigration of skilled migrants is often proposed as a way to deal with the looming fiscal imbalances caused by aging populations.<sup>68</sup> For the less skilled, there is a considerable debate about the extent of fiscal burdens and benefits, with estimates varying depending on the nature of the fiscal systems. For the United States, Borjas and Hilton found that immigrants are disproportionate users of welfare benefits, although the use of welfare declined after the 1996 reforms of the welfare system.<sup>69</sup> In the most widely cited analysis, the National Research Council provided both static (that is, annual) and dynamic (that is, long-horizon) estimates of the fiscal effects of immigration.<sup>70</sup> For the static estimates, detailed analyses of the effects for

66. Rodrik (2001); Pritchett (2003a).

67. Rodrik (2001).

68. See, for example, Storesletten (2000).

69. Borjas and Hilton (1996). See Bojas (2002) for a discussion of the decline in the use of welfare by immigrants. This drop is largely explained by a large drop in the welfare use by immigrant relatives of natives in California.

70. Smith and Edmonston (1997).

1989–90 in New Jersey and for 1994–95 in California pointed to per capita fiscal burdens of \$232 and \$1,178, respectively (both in 1996 dollars). In contrast, an analysis over a long horizon (300 years) that also allows for the fiscal contributions of the immigrants' descendants results in an estimate that the average net present value (NPV) of the fiscal impact of immigrants would be \$80,000. The size of this NPV depends on the skill level of the immigrant. Immigrants with less than a high school education would impose a burden of \$13,000 under the baseline scenario. However, immigrants with more than a high school education would yield a benefit of \$198,000. Such estimates unavoidably require a large number of assumptions. Borjas pointed, for example, to the implications of the assumption that the debt to GDP ratio would be stabilized after 2016, requiring tax increases that would fall in part on the immigrants, thus increasing their fiscal contribution.<sup>71</sup> He noted that less optimistic assumptions about closing the fiscal imbalance—concerns that seem to have been borne out in the intervening years—can easily change the sign of the average immigrant contribution.

In Europe, the fiscal consequences of immigration are likely to be more significant given the relative generosity of its welfare states and higher tax levels, though care must be taken in generalizing, given the heterogeneity in fiscal systems. In a detailed review, Boeri, Hanson, and McCormick found that increased migration would increase fiscal costs in countries with more generous fiscal systems, but they concluded that the effects were generally moderate.<sup>72</sup>

Clearly, any generalization must be made with due caution, given the available evidence. However, it does seem reasonable to suppose that less-skilled immigrants entering into countries offering generous welfare benefits would impose fiscal burdens. Although Plan B envisions temporary increases in less-skilled labor flows, concerns about fiscal harm cannot be dismissed. But given that less-skilled workers will likely see income gains from access to rich-country labor markets, it would be a shame if increased access is blocked because of concern about fiscal burden under a regime where migrants receive the *same fiscal treatment* as natives. Although there are understandable reasons to worry about creating different classes of residents with different entitlements to benefits—a fear clearly captured in the earlier quote from Michael Walzer—insisting on equal access makes it likely that the *best* (that is, increased access on equal terms) will indeed be made the enemy of the *good* (that is, increased access on terms that avoid fiscal burdens). It is thus worth considering what

71. Borjas (1999).

72. Boeri, Hanson, and McCormick (2002).

Gordon Hanson calls a “rights-based approach,” involving limited and phased eligibility for fiscal benefits.<sup>73</sup>

### **Impacts on Those Remaining Behind**

This leaves one last group to worry about: those people who remain behind in the developing countries. While there is uncertainty about the extents of the gains to migrants and the impacts of immigration on receiving countries, the implications of emigration for developing countries are probably least understood of all. We first outline a simple framework that draws attention to the channels through which emigration affects development.<sup>74</sup> We then discuss what we see as an increasing trend towards skilled-focused legal immigration reform in rich countries and the likely impacts for institutional development in poorer countries.

#### *Emigration and Development*

We see emigration as affecting development through four main channels: prospect, absence, diaspora, and return. We briefly discuss each in turn.

The *prospect* channel captures how the simple prospect of emigration can affect the decisions of forward-looking individuals and governments in ways that impact a country’s development. Most attention has been given to how a prospect of emigration affects decisions to acquire human capital. The typical story is that the return to skills is greater abroad than at home, so that the expected return to investments in human capital is greater the higher the probability of emigration. Suppose, for example, that rich countries relax their immigration restrictions. The increased probability of getting a visa would then increase the expected return on human capital, which would (provided the substitution effect outweighs the income effect) lead to increased investment. However, not all the human capital-enhanced individuals will actually get a visa—and indeed not all will end up choosing to go even if they do get a visa—so it is at least possible that the country will end up with a greater stock of human capital.<sup>75</sup> This has been referred to in the literature as “brain gain.” The prospect of emi-

73. Hanson (2005).

74. This section draws heavily on Kapur and McHale (2005a).

75. Another mechanism might be that individuals invest in additional credentials so as to meet the admission criteria of receiving countries (especially those countries using skills-based points systems). The additional credentials might give these individuals the option of emigrating, but not all of these options will be exercised. The overall result *could* again be a large domestic stock of human capital.

grating is likely to also change the mix of human capital investments in the direction of more internationally marketable skills. This could bias the human capital stock away from the needs of the domestic economy given its industrial structure and also possibly bias investments away from skills with greater domestic social returns. On the other hand, the more forward-looking investment choices—for example, investments in programming skills—might help the country break out of less-dynamic patterns of comparative advantage.

Although the basic “brain gain” story has some plausibility given the clearly forward-looking nature of the demand for skills, it has come in for some strong criticism. Commander, Kangasniemi, and Winters as well as Schiff have argued, for example, that the highest-ability individuals will invest in skills regardless of the prospect of emigrating, but these individuals will be particularly prone to being recruited away when the prospect of emigration is opened up.<sup>76</sup> This is pure brain loss, and it may be very hard to recover through increased investments by more moderate-ability individuals. Another possible criticism is that the prospect of emigration is likely to affect the publicly funded supply of human capital as well as the private demand. Governments may be understandably less willing to invest scarce revenues in education if there is a high probability that the recipients will ply their skills elsewhere. We return to the possible impacts of the prospect of emigration on institutional development below.<sup>77</sup>

The *absence* channel measures the direct effects when some fraction of compatriots have emigrated. In most ways, these effects mirror the impacts of immigration with the sign reversed. For example, emigration with a given skill composition changes the size and composition of the domestic labor supply and with it the distribution of incomes among the people remaining behind. The standard competitive labor market model typically points to small changes in average incomes (although those changes are usually shown to increase with the square of the rate of emigration). But the model points to potentially larger changes in the distribution of incomes when that emigration is biased toward a particular skill level. For example, a relatively high rate of emigration of the highly skilled will lead to a relatively modest reduction in average incomes, but a significant increase in the skill premium. However, relaxing the assumptions of the competitive model to allow for such features as fiscal effects, specialized skills, knowledge spillovers, and scale economies allows for considerably larger effects on the average incomes as a result of significant

76. Commander, Kangasniemi, and Winters (2004); Schiff (2005).

77. The empirical results on the “brain gain” story have been mixed. Beine, Docquier, and Rapoport (2001) found evidence of a positive effect on growth for countries with low rates of emigration of tertiary-educated workers. Schiff (2005) discussed evidence that skilled emigration lowers investments in tertiary education.

high-skilled emigration.<sup>78</sup> We pay particular attention to the implications of the loss of individuals who would have played key roles as institution builders below.

The *diaspora* channel captures the role emigrants play in development from afar. The central idea is that an emigrant retains certain connections to the home country and so should not be viewed as “just another foreigner” from the perspective of the home country. If we focus first on more-skilled emigrants, members of the diaspora are likely to show disproportionate willingness to transact with those back home, including information exchange, purchase of products, and investment in home-country businesses. Well-connected emigrants are also in a good position to act as “reputational intermediaries.” The reputational function can take a number of forms: leveraging knowledge of the individuals and businesses in both countries to help match trading partners, using long-term relationships in both countries to support third party-based and reputation-based mechanisms of contract enforcement, and altering the “profile” or perception of compatriots in the country of origin through demonstration of capabilities in their new homes. A good (if sometimes exaggerated) example of the positive development role played by a skilled diaspora is the part played by India’s Silicon Valley-resident diaspora in the development of India’s information technology sector.<sup>79</sup>

Less-skilled emigrants can also play a critical role in home-country development from afar. The most important (though certainly not the only) mechanism is the sending of remittances. Burgeoning microeconomic research is establishing that remittances are helpful in reducing poverty.<sup>80</sup> There is also growing evidence that remittances respond positively to adverse shocks such as droughts and hurricanes, which is especially important when poor households have few other ways of managing risk.<sup>81</sup> The old conventional wisdom that remittances are “frittered away” on consumption is also changing, as evidence accumulates of a relatively high propensity to invest remittance income in assets such as education and working capital for small businesses.<sup>82</sup> However, the evidence in other contexts (for example, Afghanistan, Democratic Republic of the Congo, and Somalia) is less sanguine. It should be emphasized that no country has developed on the basis of remittances—hardly surprising given the reality that remittances result from migration, and the exit of substantial numbers of a population is a strong signal that there are serious problems in the country.<sup>83</sup>

78. See Kapur and McHale (2005a, chapter 6).

79. See Kapur and McHale (2005b); Saxenian (2002).

80. For a survey, see World Bank (2006a, chapter 5).

81. See, for example, Clarke and Wallsten (2004); Yang (2005).

82. See, for example, Cox and Ureta (2003); Woodruff and Zenteno (2001); Yang (2004).

83. Kapur (2005).

The final channel through which emigration affects development is the *return* channel. The focus here is on how emigrants might return with enhanced skills, savings, connections, and entrepreneurial ideas. In other words, emigrants may return “better” than they left. If the improvement in their economic assets is sufficiently great, it may more than compensate for any absence-related losses. The chances of this are even greater if the emigration occurs during depressed periods in the home country’s economy, times when it may be hard to get an opportunity to make an economic contribution. Emigrants might then be seen as at least partly engaged in a form of intertemporal substitution: investing in various forms of capital when work opportunities at home are limited. One example of a country that appears to have prospered from such round-tripping is Ireland during the so-called Celtic Tiger boom years of the later 1990s. Surveys show that the emigration rate for male tertiary-level graduates peaked at around 25 percent in the late 1980s. This was a time of substantial job loss—with employment actually falling by 5 percent between 1982 and 1989—which led to unemployment rates that hovered in the mid-teens. With the dramatic turnaround in the economy in the 1990s, many of these emigrants were drawn back to the Irish economy. There is evidence that these returnees did come back with enhanced human capital relative to what they would have had if they had not left.<sup>84</sup>

#### *The Skill Bias of Recent Immigration Reforms*

Immigration reforms in many OECD countries are moving admission priorities in an ever-more skill-focused direction (embodied, for instance, in the “chosen immigration” legislation advocated by France’s interior minister Nicolas Sarkozy). There is growing interest (for example, in the United Kingdom) in points-based systems for selecting immigrants on the basis of human capital characteristics of the kind pioneered by Australia and Canada in the 1960s and 1970s. Canada and Australia have at the same time been increasing the share of immigrants who qualify on the basis of skills in their overall immigrant intakes and reforming their temporary worker visa and student visa programs to better access the world’s mobile talent. Although the United States has pursued some skills-focused reforms, such as increasing the number of green cards allocated on the basis of skills and temporarily tripling the number of H-1B temporary worker visas for highly skilled workers, the influx of less-skilled illegal immigrants have dominated recent debates in the United States.

84. Barrett and O’Connell (2001) found that returnees earned a 5 percent premium over observationally equivalent individuals who never left.

Various forces are driving the trend towards more skill-focused systems—forces from which the United States is unlikely to be immune. Such forces include the perceived importance of the access to international talent in the competitiveness of knowledge-based industries, the looming costs of paying the promised health and pension benefits of rapidly aging populations, and the belief that more-skilled elites will more easily integrate into host societies.<sup>85</sup>

The increasing skill bias in migration flows from poor to rich countries is evident when we look at emigration rates by skill level across countries. Table 2 draws from the database of Docquier and Marfouk on emigration rates to show the emigration rate for tertiary-educated individuals by region. This rate measures the ratio of the stock of tertiary-educated emigrants to total tertiary-educated stock (emigrants and domestic residents). Both numerator and denominator are restricted to those aged 25 years or older. Looking at the emigration rates for 2000, we see that 41 percent of the tertiary-educated individuals born in the Caribbean region were living in an OECD country—a startling number. The corresponding rates were 27 percent for West Africa, 18 percent for East Africa, 16 percent for Central America, and 13 percent for Central Africa. In four of these five regions, the tertiary emigration rate rose significantly between 1990 and 2000. Table 3 records emigration rates for countries facing the largest absence of their tertiary-educated stock. The table makes clear that it is small, poor countries that face the greatest risk of absence. For example, the tertiary emigration rate in 2000 was more than 80 percent for Guyana, Grenada, Jamaica, St. Vincent and the Grenadines, and Haiti. For these five countries, the average population was just 2.3 million, and the average GDP per capita in 2000 as a share of the U.S. level was just 13 percent. We next turn to the possible implications of skilled emigration for institutional development in the origin countries.

#### *Skilled Emigration and Institutional Development*

The role of human capital in institutional development has been a topic of interest in recent empirical and theoretical research. In two separate studies, Glaeser and colleagues and Glaeser, Ponzetto, and Shleifer presented evidence that improvement in economic and political institutions was strongly influenced by initial human capital endowments.<sup>86</sup> Acemoglu and Robinson developed a theory of institutional change in which the de facto political power to change institutions depends, in part, on the distribution of endowments, including the

85. See Kapur and McHale (2005a, chapters 3 and 4).

86. Glaeser and colleagues (2004); Glaeser, Ponzetto, and Shleifer (2006).



**Table 2. Tertiary-Educated Emigration Rates to OECD Countries, by Region<sup>a</sup>**

Region	Tertiary Emigration Rates			
	1990	2000	Difference	2000/1990
Caribbean	41.4	40.9	-0.5	0.99
Western Africa	20.7	26.7	6.0	1.29
Eastern Africa	15.5	18.4	2.9	1.19
Central America	12.9	16.1	3.2	1.25
Central Africa	9.8	13.3	3.5	1.36
Southeastern Asia	10.3	9.8	-0.5	0.95
Northern Africa	6.8	6.2	-0.6	0.91
Western Asia	6.9	5.8	-1.1	0.84
South America	4.7	5.7	1.0	1.21
Southern Africa	6.9	5.3	-1.6	0.77
South-central Asia	4.0	5.1	1.1	1.28
Eastern Europe	2.3	4.5	2.2	1.96
Eastern Asia	4.1	4.3	0.2	1.05

Source: Docquier and Marfouk (2004).

a. The emigration rate measures the ratio of the stock of tertiary-educated emigrants to total tertiary-educated stock (emigrants and domestic residents) for the population aged 25 and older.

distribution of human capital.<sup>87</sup> Rodrik stressed the importance of “local knowledge” in the search for institutions that are effective under local conditions.<sup>88</sup> Fukuyama and separately Pritchett and Woolcock focused on the importance of human and social capital in providing public services, particularly those services that are transaction intensive and that require discretion on the part of providers (for example, judges) to properly respond to specific circumstances.<sup>89</sup> Easterly emphasized the importance of properly motivated “searchers” to finding the best way to organize activities given the local conditions.<sup>90</sup>

It is easy to imagine that skilled emigration could directly undermine the *effectiveness* of institutions by thinning the ranks of those qualified to design and staff key institutional functions. Skilled emigration could also indirectly change the *politics* of institutional reform. One useful way to think about the latter effects is in terms of the “exit” and “voice” mechanisms for institutional improvement explored by Hirschman.<sup>91</sup>

Returning to our four-channel framework, skilled emigration could affect institutional change through all four channels. On the one hand, the prospect of emigration may give more productive members of society an exit option that improves their threat point in bargaining with predatory rulers, leading to insti-

87. Acemoglu and Robinson (2006).

88. Rodrik (2000).

89. Fukuyama (2004); Pritchett and Woolcock (2004).

90. Easterly (2006).

91. Hirschman (1970).

**Table 3. Emigration Rates, 1990 and 2000<sup>a</sup>**

Country	2000	2000	1990	1990	2000	2000
	Population (000s)	Share of U.S. GDP per capita <sup>b</sup>	Emigration rate total	Emigration rate tertiary	Emigration rate total	Emigration rate tertiary
Guyana	744	0.120	0.33	0.91	0.42	0.89
Grenada	101	0.222	0.46	0.78	0.54	0.85
Jamaica	2,589	0.107	0.30	0.85	0.35	0.85
St. Vincent and the Grenadines	116	0.157	0.29	0.81	0.37	0.85
Haiti	7,939	0.053	0.07	0.79	0.12	0.84
Trinidad and Tobago	1,285	0.264	0.20	0.78	0.25	0.79
St. Kitts and Nevis	44	0.330	0.45	0.78	0.49	0.78
Samoa	177	0.143	0.46	0.97	0.51	0.76
Tonga	100	0.193	0.38	0.96	0.47	0.75
St. Lucia	156	0.165	0.19	0.68	0.23	0.71
Cape Verde	451	0.143	0.25	0.57	0.25	0.67
Antigua and Barbuda	77	0.295	0.33	0.65	0.38	0.67
Belize	250	0.173	0.28	0.67	0.29	0.65
Dominica	71	0.175	0.45	0.69	0.41	0.64
The Gambia	1,316	0.051	0.02	0.80	0.03	0.63
Fiji	811	0.146	0.16	0.66	0.21	0.62
The Bahamas	301	0.500	0.11	0.57	0.12	0.61
Malta	390	0.537	0.31	0.69	0.27	0.58
Mauritius	1,187	0.283	0.11	0.65	0.11	0.56
Seychelles	81	0.529	0.20	0.66	0.20	0.56
Sierra Leone	4,509	0.014	0.01	0.34	0.02	0.53
Ghana	19,867	0.056	0.01	0.38	0.02	0.47
Mozambique	17,911	0.026	0.01	0.27	0.01	0.45
Lebanon	3,398	0.124	0.17	0.44	0.15	0.39
Kenya	30,689	0.030	0.02	0.43	0.02	0.38
Lao PDR	5,279	0.046	0.08	0.30	0.10	0.37
Uganda	24,309	0.037	0.01	0.44	0.01	0.36
Cyprus	786	0.598	0.21	0.32	0.17	0.31
El Salvador	6,280	0.135	0.14	0.33	0.20	0.31
Sri Lanka	19,359	0.107	0.02	0.29	0.03	0.30
Nicaragua	4,959	0.096	0.08	0.30	0.09	0.30
Ireland	3,813	0.899	0.28	0.36	0.23	0.29
Hong Kong, China	6,665	0.759	0.08	0.32	0.09	0.29
Papua New Guinea	5,299	0.068	0.01	0.39	0.01	0.28
Vietnam	78,523	0.059	0.02	0.25	0.03	0.27
Rwanda	8,025	0.031	0	0.17	0	0.26
Honduras	6,424	0.074	0.04	0.22	0.08	0.24
Guinea-Bissau	1,366	0.023	0.01	0.09	0.02	0.24
Guatemala	11,166	0.117	0.06	0.20	0.09	0.24

Sources: World Bank (2006b); Docquier and Marfouk (2004).

a. Countries are ranked by their tertiary emigration rate in 2000.

b. Share of U.S. GDP per capita based on 2000 purchasing power parity dollars.

tutional and policy concessions such as less extortionary taxation. As Douglas North puts it,

The ruler always has rivals: competing states or potential rulers within his own state. . . . The closer the substitutes, the fewer the degrees of freedom the ruler possesses, and the greater the incremental income that will be retained by the constituents. The opportunity cost of each of the various constituents will be different and will dictate the bargaining power each group has in the specification of property rights, and well as the tax burden it will incur. Opportunity costs will also dictate the allocation of services provided by the ruler to the degree they are not pure public goods, since the ruler will provide greater services to those with closer alternatives than to those with none.<sup>92</sup>

On the other hand, having an option to emigrate could also make younger people less willing to invest in skills that are most relevant to local institutions, preferring instead to invest in private-sector skills that are more internationally marketable—such as becoming programmers rather than lawyers.

The absence of talented individuals affects the *supply* of institution builders. As Fukuyama notes, “Public agencies with poorly trained staff and inadequate infrastructure will have difficulty delivering services.”<sup>93</sup> But for Fukuyama the implications of the loss of educated individuals, scarce in number, may go beyond the loss of their narrowly defined human capital: “The kinds of internalized norms that motivate workers to do more than the minimum in exchange for their wages do not come naturally in any society; they are the result of education, training, and a socialization process that is partly specific to a particular profession and partly absorbed from the surrounding society.”<sup>94</sup> This suggests that the loss of scarce talent does more than thin the available supply of human capital; it also undermines social capital and with it the more informal parts of the country’s institutional infrastructure. In addition, absence can also impact the *demand* for better institutions. Although it is certainly possible that highly talented individuals have a stake in the continuation of bad institutions that allow them to extract rents, in general we would expect talented individuals to have a relatively strong interest in productivity-supporting institutions. Emigration can thus rob the country of influential voices for reform, especially those with internationally marketable talents and those who are not in the business of rent extraction at home.

Finally, looking at the diaspora and return channels, we must not forget that emigrants are not necessarily lost to the country from the point of view of institution building. Many skilled emigrants will remain connected to their former

92. North (1981, p. 27).

93. Fukuyama (2004, p. 66).

94. Fukuyama (2004, p. 66).

homes and can be a source of ideas on best practices and possibly even a source of funding for improved public services at the local level. (However, they can also be a source of funding for opponents of the government, thereby perpetuating civil strife that weakens a country's institutions.) Their fortunes made and their skills acquired, some returning emigrants will come back highly motivated to move their home-country institutions toward the norms that allowed them to achieve their success.

### **Implementation—the Achilles Heel of Plan B?**

The possibility that Plan B could be undermined by skill bias in labor flows from poor countries points to the need to examine implementation mechanisms more closely. The history of development is replete with good ideas floundering on the shoals of implementation, and the degree to which Plan B will increase the incomes of the poor will depend on the manner of implementation. In this section we look at some examples of possible implementation mechanisms and find that there are more devils in the details than may be first apparent.

At the outset it must be recognized that labor mobility is one of the few global issues over which poorer countries have some bargaining power. After all, illegal migration is an issue that is of far greater concern to richer countries. The status quo favors poor countries in that all they have to do is do what they do well—simply do nothing. This is especially true of geographically contiguous countries who have limited incentives to reach bilateral deals, since any feasible negotiated number is likely to be swamped by illegal workers.

How will Plan B work in practice? Ideally one might envisage a lottery-like arrangement—a random drawing from a poor country's population that gives the winners an opportunity to work in sector X in country Y (or where skills are more specialized, such as in the health care field, in a specified subset). In practice, of course, the selection and matching problems in labor markets require specific institutional mechanisms.

*Will the gains accrue to poor countries or poor people?* The many contentious issues surrounding migration notwithstanding, on one issue the evidence is unambiguous. International migration from poor countries (even from Mexico) is positively selected compared with those workers remaining behind. Those migrants who are more likely to avail of the opportunities of Plan B will not be the illiterate but those with some schooling. Indeed the greater the economic travails of the country, the greater the likelihood that those try-

ing to avail of Plan B will be the more educated and skilled. Although many of the latter may also be close to the poverty line and this would still be helpful to the poor country, one should not expect significant gains accruing to the poorest groups.

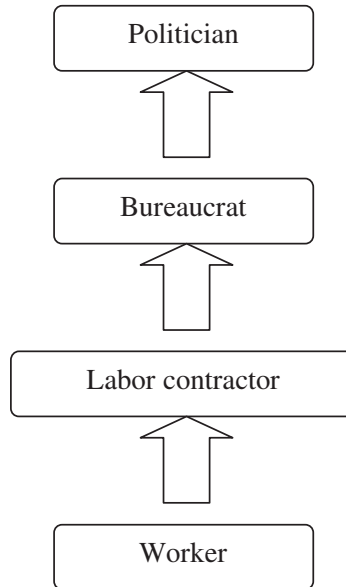
*Political economy consequences.* The biggest weakness in implementation is likely to occur at the sending country end, a consequence of two realities in the scheme: most gains accrue to migrants; and rationing will inevitably occur concerning who gets to go—and where. If there is one truism about countries with weak institutions, it is that where there are rents there is rent-seeking behavior. How much of the hypothesized income gains will actually reach the poor?

One possible implementation mechanism is similar to what prevails in labor flows to the Persian Gulf countries. A certified labor contractor recruits labor in the developing country and then supplies the labor to an employer in the industrialized country, relieving the latter of search costs and any legal obligations save those to protect the basic rights of workers. The rent-seeking hierarchy works as follows: the worker pays the labor contractor for the privilege of being hired; the labor contractor in turn has to pay the bureaucracy to obtain and maintain his certification; and the bureaucrats have to share these spoils with the politicians to remain in these lucrative posts (figure 1). This increases the fixed costs of going abroad, which are met either through debt obligations or by selling land (and whose recovery often necessitates a longer stint abroad).<sup>95</sup>

Although it is easy to construct hypothetical obstacles, it is not too hard to foresee the emergence of a political economy of rent seeking through labor exports of the sort we have schematically outlined. And if that occurs, there is a possibility of moral hazard. The very weakness of the institutions that prompted this scheme will also result in rent seeking, undermining the incentives to improve the institutions. Of course, one can design alternative institutional mechanisms ranging from labor contractors being certified by the labor-receiving country, to forced savings schemes for migrant workers, and so forth. Although space does not permit us to discuss them in detail here, our point is principally to highlight the reality that all mechanisms will have some unintended behavioral implications that must be carefully understood.

*Ethnic bias redux?* In practice it is pretty obvious that a Plan B will not be negotiated through the World Trade Organization (with attendant most favored nation [MFN] obligations). Labor-importing countries will insist on negotiating agreements with poor countries on a bilateral basis, given the fact that if

95. For an example from Bangladesh see Rahman (2001).

**Figure 1. The Dissipation of Worker's Rents**

the richer countries cannot control *who* gets in (as distinct from *how many*), they will in all probability reject Plan B.

But bilateral deals are likely to result in one disturbing consequence: they will reverse hard-earned successes of reducing ethnic bias in immigration policies and by implication restrict the international mobility of different peoples. Until the 1960s immigration policies in most industrialized countries had strong ethnic biases, the result of blatant racism in the past. These policies were largely dismantled, but a Plan B would risk a de facto ethnic bias in international labor mobility. Imagine two of the most impoverished countries in South Asia—Afghanistan and Nepal. How many industrialized countries would prefer sourcing labor from the former compared with the latter? While we are likely to see Japan reaching agreements with the Association of Southeast Asian Nations, and the European Union with East Europe and Latin America, we are skeptical that there will be any takers for labor from Chad and Sudan—countries whose peoples are perhaps most in need of access to global labor markets.

Furthermore, on the source-country side, governments might also simply favor certain ethnic groups or areas that are politically important. Ethnic conflict and bias are fairly common in precisely those countries for whom Plan B is most intended—which may be amplified when rents are substantial.

## Conclusion

Imagine a situation in which the global community is faced with helping the population of an impoverished and ravaged country—an Armenia or an East Timor, for example. It could either pour billions of dollars over the next few decades into these countries (which it has already done and will continue to do). Alternatively, it could give a significant number of residents one-way tickets out of the country. Which of the two alternatives is likely to have greater welfare implications if our numeraire is people rather than countries?

Although Lant Pritchett's Plan B is different, focusing on temporary (rather than on permanent) labor mobility, the underlying idea is similar: *If you cannot bring good institutions to the poor, allow the poor to move to the good institutions.* Since permanent moves of any significance will be politically unacceptable, Plan B proposes a pragmatic middle ground: allow labor circulation from poor to rich countries that will modestly increase the labor supply in industrialized countries without the attendant concerns of permanent settlement.

But if all parties gain (albeit to varying degrees), what explains the opposition to expanded labor inflows into rich countries? Pritchett critically discusses what he calls four “immovable ideas”: (1) nations exist and nation states are a reasonable and just foundation of an international system, (2) all that matters for moral obligations is proximity, (3) labor mobility is bad for the poor in rich recipient countries, and (4) labor movements are not necessary to raise living standards.<sup>96</sup>

In considering the case for Plan B, we pragmatically accepted the first. We did not accept the second in its strong form, though we accepted that rich-country voters will typically give substantially greater priority to co-nationals. We found normative arguments by liberal philosophers against labor inflows wanting, a case of the best being the enemy of the good. In immigration policy, the insistence on multiculturalism in Western Europe may have contributed in the long run to increasing the resistance of the native born to further immigrant inflows (through the creation of unassimilated ghettoized immigrant communities). Similarly, setting standards that are too high for guest workers, for instance, thus making it hard to enforce the return requirements, simply means that the programs do not expand, thereby shutting out newer beneficiaries from poor countries.

We recognized that the evidence is mixed on the third point, with careful econometric studies on both sides. We argued, however, that the case for the

96. Pritchett (2003a).

poor in rich countries being harmed is less well established than the conventional wisdom supposes. And even if there is some harm, better ways to deal with that harm are available than to block efficiency and welfare-enhancing international labor flows. In casting doubt on the universal applicability of the last point, we drew on recent work that stresses the importance of the quality of institutions to development and the difficulties that many countries have putting those institutions in place.

We thus come down broadly in agreement with Pritchett on the importance of thinking now about a Plan B. (Or, to answer the question in the paper's title: not a lot.) In closing, however, we further discuss one lingering concern about the effects of Plan B—the effects on poor people remaining behind—and how Plan B might be designed to deal with it.

As discussed above in the section discussing the impact on the poor people remaining behind, immigration policies of rich countries are increasingly focusing on skills. There is a danger that any politically acceptable scaling up of immigration flows will have a significant skill bias. We also drew attention to the possibility that the loss of scarce talent—and especially potential institution builders in the upper tail of the talent distribution—could undermine domestic institutional reform. This is a particular concern for public institutions in small, poor countries. This means development advocates will have to work hard to ensure that a development perspective gets heard along with more nationally focused concerns (such as competitiveness in innovation-intensive sectors, paying the fiscal costs of an aging society, among others). In practical terms, the development voice must be heard to ensure that the less skilled are not shut out of rich countries.

Being realistic, however, we have to accept that governments in rich countries will continue to target the more skilled. It is thus important to enhance mechanisms that allow the poor remaining behind to share in the gains, a point also emphasized by Pritchett. These include mechanisms that help compensate poor sending countries as well as mechanisms that enhance home-country connections with the diaspora. On the compensation side, rich countries could help fund essential institutional capacity-building in such sectors as education and health care. On the connections side, receiving countries could make it easier for emigrants to engage in beneficial interactions with family members remaining behind (that is, reduced regulatory policies and barriers to the sending of remittances, cooperation with sending countries that wish to impose a Bhagwati tax on emigrants that retain citizenship, and removing obstacles to back-and-forth movements).<sup>97</sup>

97. Concerning reduced regulatory policies and barriers regarding remittances, see the World



Finally in all plans, the “rubber hits the road” only during implementation. In examining possible implementation mechanisms, our analysis raised concerns about the political economy, in particular distributional conflicts and rent-seeking behavior arising from the rents that will accrue to those lucky enough to work outside the country. This means that we need to subject possible implementation mechanisms to much greater scrutiny to ensure that the benefits of Plan B indeed accrue to those for whom it is intended.

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Bank’s *Global Economic Prospects 2006* (chapter 6) for a detailed discussion of the options. The required cooperation with sending countries (wishing to impose a tax on emigrants) could simply be the validation of the emigrant’s tax return by the tax authorities in the receiving country. This would occur at the request of the emigrant seeking to stay in good standing for the retention of his or her home-country citizenship. See McHale (2005).

## *Comment and Discussion*

**Gary Burtless:** The papers in this volume emphasize cross-border movement of people rather than goods and services. The essay by Devesh Kapur and John McHale asks whether cross-border migration can and should be an alternative route to raising the incomes of people who now reside in poor countries.

Lant Pritchett's paper in this volume suggests that the elimination of cross-border barriers to migration can contribute to the equalization of regional incomes in the barrier-free zone. I think his evidence is persuasive in showing that cross-regional differences in average income are much narrower where the legal impediments to migration flows are small. Inward and outward migration makes it possible for regional income differences to shrink in a way that is harder to achieve solely with free cross-border movements of tradable goods and services.

Comparing the Dakotas in the 1920s or 1930s with the Dakotas today, one would not claim free migration has been an engine of economic growth or development. On the other hand, it is hard to disagree with Pritchett that free migration has prevented Dakotans' relative incomes from falling as fast as would have been the case if all of them had been fenced in on the short-grass prairie.

It may have been a mistake for nineteenth-century Europeans to try to make a living in semiarid grasslands, but given the technology and agricultural prices of the time, the settlers probably enjoyed levels of real income that compared favorably with incomes obtainable elsewhere in the North Atlantic economy. Unfortunately for residents in Divide, Burke, and Mountrail Counties, North Dakota, those days are past. Laborers can now make a better living in places that in the late nineteenth century had much worse prospects than did the northern prairies—places like the Carolinas, Georgia, and south Florida.

The message of Pritchett's paper is that, while cross-border mobility may not be an engine of development in lagging areas, it is a driver of cross-region

income equalization. Cross-border mobility has been good for Dakotans, whether they left or stayed in the Great Plains.

The paper by Kapur and McHale makes another point. Cross-regional income differences are not only a by-product of economic shocks, like the ones that drained comparative advantage out of the northern prairies. Persistent income differences are also produced by regional and national differences in institutions. I would add they are also the result of differences in social norms, including trust and honest dealing in the market place. Unlike tradable goods and services, which in theory can flow freely across national boundaries, institutions and social norms are pretty much stuck in place. If you want to change institutions or norms, you essentially have two options. You can make revolution where you live. Or you can move someplace else. From the perspective of an individual, the second option is much easier to accomplish than the first.

We come now to the modern nation-state, which regards cross-border mobility with deep suspicion. Some countries make it hard for their own citizens to leave, and almost all countries place restrictions on the entry of strangers. I cannot think of a single democracy that prevents its free citizens from leaving, but every modern democracy with the power to do so polices its border to keep the door closed on undesired aliens. "Undesired" for many countries simply means that the entrant wants to stay awhile and make a living. Most countries are happy to entertain well-heeled tourists, the idle rich, and carefully vetted students. They are less happy accepting foreigners who want to dig ditches, pick up garbage, build cars, or compete with their own professors, accountants, and plumbers. Rich democracies do not make a big distinction between migrants who want to work for a few years and those who want to stay indefinitely. Both kinds of immigrants are unwelcome.

The wide adoption of barriers to free entry raises the question of their moral legitimacy. Kapur and McHale summarize the debate between political philosophers who argue for different weighting schemes to take account of the interests of citizens and foreigners. Some theorists argue that a state's policy ought to be determined solely by the interests of its own citizens. The other view is that the welfare of other countries' citizens also deserves some weight in a nation's decisionmaking process. The authors favor a position somewhere between extreme nationalism and extreme cosmopolitanism.

The authors' discussion of political philosophy leads them to a straightforward conclusion. It would be a good idea to take account of the interests of people in other countries as well as the interests of one's own fellow citizens. The authors are particularly interested in helping poor people, especially poor residents of poor countries. For employees of universities, international organ-

izations, and philanthropic nongovernment organizations (NGOs), these views do not seem particularly unusual or radical. The median rich-country voter is not at a university and is not the employee of an international organization or NGO, however. The median voter has never heard of John Rawls, Michael Walzer, or Amartya Sen. The conclusions of these important scholars would probably not matter much to the average voter, even if their names and opinions were widely familiar. In thinking about the practicality of Plan B as a development strategy, it is vital to learn what the median voter thinks—in particular, about weighing the welfare gains to immigrants against the possible losses and the distribution of gains and losses among one's fellow citizens. As long as rich democracies have the power to keep out unwanted foreigners, the views of the median voter will matter more than those of Rawls, Walzer, or Sen. Even if it were true that cross-border mobility is an alternative route out of poverty for many Third World workers, the conclusion is not very interesting if voters in rich countries reject the idea of accepting more immigrants.

Ignoring for a moment the issue of political acceptability, is Plan B an alternative route to better Third World incomes? The authors consider the likely economic gains to people who leave poor countries and the gains or losses to the people in poor countries who remain behind. They also consider possible impacts on native people in the countries to which immigrants move. These countries are for the most part rich. The authors conclude along with everyone else that the people who leave poor countries and find jobs in rich countries enjoy big economic gains from the move. Of course, the gains may be diluted by the bribes migrants have to pay to intermediaries to find and keep a job in a rich country.

In this volume the most powerful evidence about the size of potential gains available to migrants is provided in figure 4 of Mark Rosenzweig's paper (see p. 74). The numbers in that chart show skill prices, measured in dollars, of high school and college graduates in six poor and rich countries. The rank of the countries from lowest to highest income is Nigeria, India, Indonesia, Mexico, Korea, and the United States. Rosenzweig's data show that Mexican high school graduates can increase their real earnings about sevenfold by leaving Mexico and finding a job in the United States. For a Mexican college graduate, real earnings can rise by a factor of nine as a result of crossing the Rio Grande. For Nigerians, Indians, and Indonesians, the earnings gains are bigger still. Whether these earnings gains last only two or three years, as they would in a temporary visa program, or indefinitely, as would be the case under the current immigration policies of most rich democracies, the potential welfare gains accruing to immigrant workers are very large.

The essential fact is that most Third World workers would enjoy tremendous income gains if they could cross the border unmolested and work in the United States. The actual income gains have been large for the immigrants who have made the move. The gains and losses for almost everyone else are doubtful. What is more, these gains and losses are very hard to estimate reliably. This is true whether you think “everyone else” includes only the residents of the immigrants’ home country who do not emigrate or also includes residents of the destination country.

Some residents of the immigrants’ home country enjoy sizeable consumption gains because they receive remittances from their migrant relatives. Others derive a benefit because even though they do not receive remittances themselves their luckier neighbors enjoy income gains, giving a boost to the local economy. Of course, other unlucky neighbors may feel worse off because their situation has declined in comparison with that of their fortunate neighbors who have a rich, out-of-country relative. No one knows whether outward migration helps or hurts local governance, entrepreneurship, education, or public health in developing countries. This paper does not shed much light on those questions. It might be useful for researchers to consider the effects of heavy outward migration in the nineteenth and early twentieth centuries, when international barriers to immigration were much lower. What happened in Britain, Norway, and Sweden, three countries that experienced a big population exodus?

Let me return to the political feasibility of Plan B as a route to better Third World incomes. Feasibility depends on the acceptability of immigration to voters in high-income countries. If rich-country voters do not want to accept more immigrants from poor countries, it is not easy to see how international immigration can be a key policy that promotes income improvement. The political feasibility of Plan B depends on two things: the *actual* effects of immigration on rich-country citizens and the *perceived* effects on them. I optimistically assume these two effects are correlated.

The authors offer an overview of the empirical debate on whether and on how much unskilled immigrants hurt native-born workers who have below-average skills. They also describe evidence on whether immigrants improve or hurt the balance of government services and tax payments faced by rich-country citizens. They pay less attention to whether high-skilled immigrants help or hurt the incomes of high-skilled natives.

Their conclusion about the effects of unskilled immigrants on unskilled native-born workers is based on a wide reading of the relevant literature. Their conclusion from this literature, while well supported, is not terribly precise: “The case for the poor in rich countries being harmed is less well established

than the conventional wisdom supposes. And even if there is some harm, better ways to deal with that harm are available than to block efficiency and welfare-enhancing international labor flows.” The authors suggest that the immigration-induced losses of native-born unskilled workers are analogous to the trade-induced losses of workers in import-competing industries. Since economists typically recommend that compensation be offered to workers who are hurt by trade liberalization, the authors ask why rich countries ought not to adopt the same kind of measures to compensate workers who are hurt by immigration.

There is a crucial difference between the efficiency gains occurring from freer migration, on the one hand, and the gains from eliminating trade barriers, on the other. Economists have argued for more than two centuries that trade liberalization almost always improves the welfare of *both* trading partners. When Canada eliminates trade barriers with the United States or Mexico, we can be fairly confident that Canada and its trading partner will both derive welfare-improving efficiency gains through the miracle of comparative advantage. I do not believe the same reasoning applies when migration barriers are removed. Migration barriers between Europe and the New World fell dramatically in the sixteenth and seventeenth centuries, but original inhabitants of the New World would be astounded to learn that the elimination of these barriers improved the well-being of residents on their side of the Atlantic.

It is certainly true that big efficiency gains can be achieved when migration barriers are eliminated. But often the only group that can reliably be identified as “beneficiaries” consists of the fortunate migrants who enjoy real income gains because they have moved to a place where their skills command a higher price. Their move may have reduced the wages earned by people with similar skills in the destination country, however. It may have increased tax burdens on destination-country natives if the migrants receive expensive government services that cost more than the taxes immigrants pay. When migration occurs on a large scale, it can be socially and politically disruptive, undermining the very institutions and social norms that originally gave an income advantage to the destination country.

It is also true that rich countries can establish transfer programs to compensate native citizens who suffer economic harm as a result of higher migration. But how can we reliably identify the destination-country losers? What specific transfer mechanisms would fairly compensate them for their losses? How can the government persuade voters that it makes sense to allow more immigration when the same voters will be asked to shoulder heavier tax burdens to compensate the citizens who are hurt as a result of higher immigration? Europe

famously offers more generous compensation arrangements than does the United States, in the form of social assistance, subsidized housing, and long-term unemployment benefits. Many European voters believe migrants derive outside benefits under the social protection programs, which is an important reason why many of them oppose more immigration.

On balance I think it is likely that immigration has improved the welfare, not only of migrants to the United States, but also of people who are born in the United States. Whether rich-country citizens actually derive positive economic benefits from higher immigration is an empirical question, however. Unfortunately, it is one that current evidence does not conclusively answer. Theory and evidence are persuasive in showing that migrants derive big economic benefits from migration. In the long run, the political feasibility of Plan B depends crucially on persuading rich-country voters either that they *ought* to accept more poor migrants for moral reasons or that they are *very likely* to derive economic benefits from doing so. Judging by the current state of the debate over immigration in the United States and western Europe, advocates of higher immigration are a long way from persuading voters of either proposition.

**Discussion:** This paper and the remarks of the discussants generated an extremely lively general discussion. A large number of points and perspectives were raised. However, as Devesh Kapur noted at the end of the session, many of these address broad issues related to migration. This is not in fact the topic of the paper, which focuses on Plan B that proposes temporary migration.

Beth Anne Wilson asked the authors whether their analysis presumes that institutions are static and unchanging, as their presentation had suggested to her. To the contrary, she believes that large influxes of people who come with different social norms, different cultures and familiarity with different institutions often have important impacts on the institutions of both the sending and the receiving countries. She noted two examples: the political systems in 1880 in Ames, Iowa, and Chicago, Illinois, were quite different from each other; and in her experience, U.S. graduate schools had been less likely to enforce U.S. norms against cheating when their student bodies included a substantial mix from diverse cultures and responded instead by increasing supervision during exams. For any type of Plan B to work, she argued that it would be important to have some system in place to bring large groups of immigrants up to speed in terms of U.S. institutions. In her view, this is a difficult issue, but one that should receive much more attention than it seems to have had to date.

Doug Irwin agreed that Wilson had raised a challenging issue that warrants additional study. Irwin noted that work by Douglas North and others associ-

ates institutions with past dependence and great resistance to change in terms of fundamental norms. There is both conceptual and empirical work to be done to better understand incremental changes in institutions and how migration flows matter.

Johannes Linn raised three points. First, he agreed with the authors that institutions are extremely important. He found very illuminating their distinction between taking better institutions to people and taking people to better institutions. However, he would like to see this discussion extended to recognize the heterogeneity of institutions, particularly in large receiving countries. Are the migrants going to places where they reinforce weaker institutions in poorer areas? If so, the benefits to them are much smaller. Furthermore, such flows may exacerbate the perception or reality that immigrants are the reason that areas with concentrated populations have low institutional social capital, which in turn weakens institutions in host countries. Second, Linn thought it important to recognize that nationals do not always see all nationals as equals. In particular, people who have been citizens for generations may not see recent naturalized citizens as “equals,” especially if they are a different color, religion, or culture.

Finally, Linn encouraged the authors to look more closely at the large and growing European literature on migration. He characterized it as extremely rich and focused directly on many of the issues the authors are addressing. In particular, it includes some quantitative estimates of costs and benefits to particular groups, as well as some specific proposals for temporary migration.

Gary Burtless followed up on the issue of how additional low-skilled immigrants would affect low-skilled American workers. He noted that there is a large literature studying the effects of both trade and migration on wages. In his view, there is a presumption that increasing the supply of those available to do low-skill jobs would adversely affect those already here doing those jobs. He saw abundant empirical support for this view in work by a number of economists, including George Borjas, Richard Freeman, and Larry Katz.

Mark Rosenzweig focused on the issue raised by Burtless about efficiency versus distribution. In his view, there is no question that there is a big gain in global efficiency associated with movements of people from places where their marginal productivity is currently very low to places where it is substantially higher. However, most of the gains seem to accrue to the people who are moving, with much more complex distributional implications for other groups. So the real problem is quite similar to that arising with trade—how do we redistribute some of those gains to those who lose? Finally, Rosenzweig noted that he would like to see more attention to the migration of high-skilled groups as



well. He pointed out that there is a scarcity in the United States at both ends of the skill distribution and that the migration flow to the United States is also thick at both ends.

Susan Collins also commented on the issue of winners versus losers. As many have already noted, the actual migrants are clear winners. While their gains are often substantial, the much muddier implications for groups in the receiving country make it unsurprising that these countries often act to block entry. She noted that negotiating some type of bargain may provide a way to achieve an outcome enabling more migration. This perspective raises questions of what kinds of bargains may be effective and what their implications would be. She noted that, historically, part of the reason those in wealthy countries such as the United States have supported policies involving the transfer of resources to those in poorer countries related to other objectives—national security especially during the cold war and the war on terrorism more recently. She also noted that she was struck by the fact that, although the title of the paper is “Migration as the Alternative to Development,” the discussants and many of the participants had frequently referred to migration as a route to development.

Many participants commented on the median voter framework raised in Burtless’ discussion. Irwin noted that there is a tremendous demand in the United States for low-skilled workers. He thought that the median voter would be much more supportive of immigration if she or he were aware that preventing migration may imply making ones own bed in a hotel or being served by a robot in a restaurant. Collins highlighted the recent demonstrations that erupted in response to concerns that Mexican immigrants were being characterized as criminals. These demonstrations were much larger than many would have anticipated and were a testament to the effects of a changing U.S. population. She believes that these events are making many Americans rethink their views on immigration and that the position of the median voter may be evolving.

There was some discussion of the gains from immigration versus the gains from trade. Jeffrey Williamson stressed that his reading of the literature is that the gains from increased migration are likely to be very large, while the gains from trade are relatively trivial. The burning question this raises for him is why we are moving towards free trade, but migration flows remain so restricted. He was struck by the fact that it was the other way around 100 years ago, with much more restriction on trade than migration. Williamson strongly encouraged the authors to take a more historical perspective, which he argued would greatly inform the discussion. He stated that before 1913, 80 percent of the convergence of real wage across the Atlantic was driven by unrestricted migration (allowing for the interaction between global markets for capital and labor).

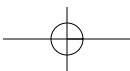
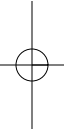


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He discussed the long debate that took place in the United States, culminating in a revolution in attitudes around the time of World War I, after which U.S. immigration policy got tougher and tougher. He wondered what had changed and why—the median voter? The economic environment? In his view, Plan B is a nonstarter if we are not able to answer such questions.

Arvind Panagariya took issue with Williamson's claim that migration is clearly more beneficial than trade. In terms of the historical convergence of wages across the Atlantic, it was not clear to him that trade had been unimportant. More important, he pointed to the many recent examples of countries that had seen dramatic income expansions related to trade not migration—such as in China, India, Hong Kong, Korea, Malaysia, Taiwan, and Singapore. This has resulted in improved living standards for more than 2 billion people. Furthermore, in his view, there is no contest between Plan A (an available option through trade with proven success) and option B (which is only available at the margins).



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