Selling the Right to Immigrate

By Gary Becker

Rich nations are facing enormous pressure to increase the number of immigrants. This pressure stems in major part from the very large gap between the earnings of workers at all skill levels in the USA, Western Europe and Japan compared with the rest of the world. In addition, low birth rates in the developed world create excellent opportunities for young persons from poorer nations and travel between nations has become much cheaper.

The USA uses quotas that give preference to family members of persons already here legally; to applicants with greater skills; to persons who applied earlier; and also uses some other criteria. Since I am a free-trader, readers might expect my preferred alternative to the present system to be nineteenth-century-style unlimited immigration. I would support that if we lived in the nineteenth-century world where government spending was tiny. But governments now spend huge amounts on medical care, retirement, education and other benefits and entitlements. Experience demonstrates that, in our political system, it is impossible to prevent immigrants gaining access to these benefits.

Given these realities of free immigration, the best alternative to the present system is an ancient way of allocating a scarce and popular good: namely, charging a price that clears the market. That is why I believe countries should sell the right to immigrate. To illustrate how a price system would work, suppose the USA charges $50,000 for the right to immigrate, and agrees to accept all applicants willing to pay that price (with exceptions for those with criminal records and so on).

Immigrants who are willing to pay a sizeable entrance fee would automatically have various characteristics that countries seek in their entrants. They would be younger since young adults would gain more from migrating because they would receive higher earnings over a relatively long time period. Skilled persons would generally be more willing to pay high entrance fees since they would increase their earnings more than unskilled immigrants would. More ambitious and hard-working individuals would also be more eager to pay. Payment by immigrants themselves would be a far more effective way of discovering those immigrants who would benefit most – and who would benefit the country most – than centralised government bureaucracies determining where there were skill shortages and giving out permits.

The pay-back period for most immigrants of a $50,000 entrance fee would generally be short: less than the usual pay-back period of a typical university education. For example, if skilled individuals could earn $10 an hour in a country such as India or China, and $40 an hour in the USA, by moving they would gain $60,000 a year before taxes. The higher earnings from immigrating would cover a fee of $50,000 in about a year!

Many potential immigrants may have great difficulty paying a fee from their own resources. One way to overcome this difficulty would be to adopt a loan programme that followed the present policy towards student loans for tuition fees in higher education.

Countries that charge a sizeable fee would have an incentive to raise the number of immigrants accepted because they would bring in revenue that cuts the tax burden on natives. For example, one million immigrants per year who each paid $50,000 would contribute government revenue of $50 billion per year. Moreover, immigrants who would enter under a fee system would generally make little use of welfare or unemployment benefits, would pay taxes on their earnings and would tend to be young and healthy. So the overall direct economic benefits from larger numbers of immigrants would be much greater than under the present admission system. This would help reduce anti-immigration rhetoric and induce countries to take more immigrants.

In addition, since anyone willing to pay the entry price could then legally immigrate, this approach should also cut the number who enter illegally – a particular problem in the USA. Some persons will continue to try to enter illegally. However, illegal immigrants who were willing and able to work would be able to – and would have strong incentives to – regularise their status.

In summary, charging a fee to immigrate would raise tax revenue, increase the number of immigrants accepted and also raise the quality of those accepted. It is a win-win situation for countries accepting immigrants, and for the vast majority of persons who would like to immigrate.

Gary Becker won the Nobel Prize in Economics in 1992 and is Professor of Economics at Chicago University.

1. This is adapted from an article that appeared on http://www.becker-posner-blog.com/.
Immediate causes of the euro crisis
The initial phase of the euro crisis was triggered by the Greek government almost defaulting on its debt. It culminated in a €750 billion rescue package by euro area countries, the EU and the IMF. One reason for the euro crisis has been the huge public deficits and sharply rising public debt levels in many EU countries. However, public debt does not explain the euro crisis entirely and the rescue package alone will not solve the crisis.

The euro crisis is also a symptom of rapid economic development within some countries during the last decade which led to capital flows from countries such as Germany to others in the south and west of Europe. The structural rigidities within the EU are such that it is difficult for a country to adjust to changes in capital flows.

Spending in Spain, Italy, Greece and Portugal increased as formerly high interest rates declined towards the low German interest rates from the mid-1990s. As a result, wage increases exceeded productivity gains in a number of countries and inflation was far above the euro area average. Germany, on the other hand, faced high unemployment because of the legacy of its unification and as response to low wage competition from the Central and Eastern Europe and East Asia. As a result, wage growth slowed: see Figure 1.

During the financial crisis, the process reversed. Housing booms in the southern states came to an end and unemployment surged. High prices and wages relative to the rest of Europe further accelerated the downswing in southern Europe. What was needed was a reduction of real wage levels in the now relatively depressed countries. But, whereas wages responded to the boom period by increasing rapidly, the reductions in real wages were not forthcoming.

Labour market inflexibility
In general, such a real wage adjustment is not necessarily a problem within a monetary union. For example, in the USA consumer price and wage inflation differ significantly between states. For example, inflation rates have been, at various times, much higher in California or Florida than in Michigan. Such adjustments are not, however, happening in the euro area.

If countries are not part of a monetary union and had national currencies, diverging price and wage levels could be balanced by nominal exchange rates. A country with a high price level would experience a depreciation against the country with lower price rises. Relative prices between both countries would be readjusted. However, in a monetary union, such as the euro area, all countries have a common currency, thus nominal exchange rates do not exist. Therefore, diverged price and wage levels need to rebalance directly by changing prices and wages – falls in the southern European countries, and increases in countries such as Germany.

According to the trade theories of factor price equalisation (Ohlin, 1933), trade and/or labour migration act as transmission channels for relative price and wage adjustments. In the country characterised by a high price level, exports tend to decline, which might encourage decreasing wages. In contrast, in the country with low prices, exports tend to rise and labour demand is boosted. This, in turn, encourages wage increases.

Additionally, or alternatively, parts of the labour force might migrate from the high price and stagnating country to the low price and booming country. Labour movement will continue until relative wages and relative prices are re-balanced. Both mechanisms work efficiently if wages are flexible and/or labour mobility is high (Mundell, 1961).

However, adjustment of price and wage levels takes longer, if labour markets are inflexible. Given downward wage rigidity and low labour mobility, unemployment will increase. Only in the longer run, as unemployment grows, does the pressure for wage cuts increase. Both, the speed of this adjustment process and the level of unemployment during the adjustment process depend on the degree of wage and price flexibility in the monetary union. If the process is slow, so that unemployment remains high for long, people’s skills can deteriorate so that it becomes harder for the necessary adjustments to take place.

In the USA where different price and wage developments have not ended in a crisis, labour markets are quite flexible and allow a continual adjustment to differences in consumer price and wage inflation. Labour market regulations are low and labour mobility is very high in the USA. In contrast,
the euro area is relatively low compared with the UK and in

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labour market flexibility in the euro area, either measured by

wage flexibility or labour mobility, has been low.

This can be shown by data on labour market regulation. For instance, the sub-indices of the Economic Freedom of the World Index on labour market freedom include an evaluation of minimum wages, hiring and firing regulation as well as centralised wage bargaining. The index ranges between 1 and 10 with higher figures indicating a higher level of freedom. Figure 2 shows the overall index for labour market regulation and Figure 3 its sub-index for hiring and firing regulation for euro area countries, the UK and the USA (both are highlighted grey). The horizontal line is the euro area average.

Overall, both figures confirm that labour market freedom in

the euro area is relatively low compared with the UK and in

particular with the USA – the more relevant comparator as a single currency 'zone'.

Reasons for that poor performance of the euro area can be found in national and European labour market regulations. Many euro area countries have generous unemployment benefits. These constitute a wage floor, below which wages cannot fall. In addition to such implicit minimum wages, explicit minimum wages also limit downward wage adjustment in many euro area countries. Regulations related to releasing workers are especially strict in the EU, which poses high costs to companies taking on labour. Knowing these costs, companies may hesitate before creating new jobs and might use varying overtime working instead.

Although the EU provides the freedom to move and work, labour mobility has remained low. That can be mainly attributed to cultural and language barriers between European countries but also to national labour market regulations and the welfare system. People will have a low incentive to move abroad even if unemployed if the national welfare system provides generous unemployment benefits.

The opportunity costs of moving are raised by the welfare system.

Therefore, labour market regulations constrain wage flexibility and labour mobility in the euro area. That limits the adjustment capability of the euro area to respond to structural changes. The consequences of low labour market flexibility in the euro area will be high unemployment in today's high price and wage countries. High unemployment is then a contributor to increased government deficits. The current unemployment rate of 20% in Spain should be interpreted as a wake-up call.

What must be done?

As well as reducing government deficits in the euro area, the other reform that is necessary to solve the euro crisis is the deregulation of labour markets in the euro area. This requires a reduction of employment protection legislation, reduction or elimination of minimum wages (explicit and implicit) and a decentralised wage bargaining process.

Then, market forces would lead to a quicker adjustment of wage and price levels in response to economic shocks. The adjustment process might be painful for some in the short term, but it is a necessary prerequisite for a sustained economic recovery, less long-term unemployment and the survival of the euro. Other complementary measures would also help. For example, Greece has many exemptions from value-added-tax (VAT) and a very high employers' payroll tax. The latter harms producers of tradable goods. The elimination of the payroll tax – financed by a flatter VAT – would have the same effect as a devaluation. The supply side of the economy needs vital attention if the euro is to survive.

Holger Zemanek, University of Leipzig, Institute for Economic Policy
zemanek@wifa.uni-leipzig.de

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Should We Sacrifice Economic Growth for Equality?

By Chris Snowdon

In their influential book *The Spirit Level: Why More Equal Societies Almost Always Do Better*, social epidemiologists Richard Wilkinson and Kate Pickett argue that the success of whole societies depends on the gap between the highest and lowest earners. ‘Less equal’ countries, they say, suffer most severely from health and social problems, while ‘more equal’ countries – particularly the Nordic states – are happier, healthier, more trusting, slimmer, more charitable and more socially cohesive.

Wilkinson and Pickett insist that this phenomenon is not due to higher levels of poverty in less equal countries, but is the result of the ‘psychosocial’ stress of living under an ‘unfair’ economic system. They argue that inequality acts like a ‘pollutant spread throughout society’ with the rich no less susceptible to its toxic effects than the poor. Although they are not able to show that free-market capitalism leads to more inequality than alternative economic systems, the lesson the authors draw from their work is clear – if you want to mend the broken society, reject free-market capitalism.

What raises *The Spirit Level* above the average left-wing polemic is what *The Guardian* described as its ‘inarguable battery of evidence’. This takes the form of a series of scatter graphs which, while crude, are consistent in their message: nearly all undesirable outcomes are more common in less equal countries. According to *The Spirit Level*’s legion of supporters, the case for greater equality of incomes is now underpinned by hard science.

This is a challenge to economists because they have generally assumed that if everybody in a society becomes richer, then that society will be ‘better off’. However, the argument of *The Spirit Level* is that this might not be so if that society also becomes more unequal in terms of the distribution of income.

Things are rarely so simple, however. *The Spirit Level*’s ‘inarguable battery of evidence’ has been taking an inarguable battering from critics, including myself, who have identified serious flaws in the selection and use of data. When arguing that inequality ‘causes’ homicide, for example, they ignore statistical best practice by allowing their correlation to be driven by a lone outlier (the USA). Wilkinson and Pickett exclude several wealthy societies from their analysis and focus selectively on particular types of crime. Had they been included, many of the statistical associations with inequality would have disappeared.

The criteria for what makes a country ‘better’ seems hand-chosen to support the *a priori* hypothesis. The authors discuss imprisonment but not crime, drug use not alcoholism, obesity not smoking, murder not suicide, teen births not divorce, and so on. They even use compulsory tax-financed foreign aid as the measure of generosity of society rather than private voluntary charity. In every case, the excluded criteria would have weakened their case.

Remarkably few of *The Spirit Level*’s claims stand up to scrutiny. If the book demonstrates anything, it is how easily statistics can be transformed into the proverbial ‘damned lies’. The only real difference between ‘less equal’ and ‘more equal’ countries is the size of the state and the amount it takes in tax, rising from less than 15% of gross domestic product in Singapore to almost 50% in Denmark. The fact that Singapore outperforms Denmark under almost every measure of what makes a country ‘do better’ only serves to underline the folly of *The Spirit Level* and, by association, the futility of its political agenda.

Nevertheless, the book represents a milestone for those who view the wealth gap as more important than wealth itself. The original aim of the left was to improve living standards for the poor but, paradoxically, free-market economics proved to be the most effective way of doing so. Today, few socialists would argue that their policies would maximise economic growth. Since the fall of the Berlin Wall they have instead drifted towards a position of denigrating growth and fighting for income equality. This agenda is crystallised in *The Spirit Level*, with Wilkinson and Pickett arguing that economic growth has ‘largely finished its work’ while putting the blame for social problems on the psychological effects of income inequality, rather than the material effects of low incomes.

The two epidemiologists seem indifferent to how inequality is reduced, so long as it does not involve the richer getting richer. Since inequality can be alleviated by narrowing the gap without making anyone richer, their logic dictates that society would improve if the poor got 5% poorer so long as the rich got 20% poorer. A doubling of everyone’s income, on the other hand, would make everyone’s life worse. There are, as George Orwell once said, some ideas so absurd that only intellectuals could believe them.

Such thinking poses real dangers and students of economics should be aware of the important issues involved. If we are persuaded that infant mortality, educational standards and so on are driven predominantly by inequality, the real causes of these problems could go unaddressed. There is a serious risk that the political class will promote policies to achieve equality and not policies that provide greater prospects of employment and prosperity for all. For this reason, although easily dismissed as a work of social science, *The Spirit Level* should not be ignored as a political manifesto. Students of economics should review both sides of the argument and, as they have over recent centuries, apply rigorous theoretical and empirical techniques to separate fact from fiction.

Chris Snowdon is author of *The Spirit Level Delusion*. 

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