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Efficiency Gains from the Elimination of Global Restrictions on Labour Mobility: An Analysis Using a Multiregional CGE Model*

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Introduction

The classic economic argument in favour of labour migration is that people move in search of higher wages, thus increasing their own productivity. However, as indicated by Layard et al. (1992), the decision to migrate also depends on other economic, social and political considerations. Among the economic aspects, migrants may take into account comparative wage levels (actual and expected); comparative unemployment rates and unemployment benefits; the availability of housing; and the cost of migration, which includes travel expenses, information costs, and the psychological cost of leaving friends and family. Weyerbrock (1995) also indicates that political instability and civil war may cause larger emigration flows than economic or demographic pressures.

Recent empirical studies on international migration have focused mainly on Mexico–United States migration patterns (Hill and Méndez, 1984; Robinson, et al. 1993; Levy and van Wijnbergen, 1994), and migration flows from Eastern Europe and the former Soviet Union into Western Europe (Layard et al., 1992; Weyerbrock, 1995).

Hamilton and Whalley (1984) has to date been the only attempt to quantify the efficiency gains from the removal of global restrictions on labour mobility. They use a partial equilibrium framework, in which the parameters of a CES production function are estimated for a seven-region country classification. Then the estimated parameters are used to calculate the changes in labour allocation across regions after the removal of immigration controls. They assume that the worldwide labour supply is fixed, that full employment occurs in all regions, and that differences in labour’s marginal product across regions arise from barriers to inward mobility of labour in high-wage countries. Hamilton and Whalley find large efficiency gains from the removal
of immigration controls; in most cases, these gains exceed worldwide GNP generated in the presence of the controls. In addition, in labour-exporting regions, wage rates rise and capital owners become worse off; but on the other hand, in labour-receiving regions wage rates fall and capital owners become better off.

In this chapter I compute the worldwide efficiency gains from the elimination of restrictions on labour mobility. In contrast to Hamilton and Whalley (1984), I use a multi-regional general equilibrium model instead of a partial equilibrium approach, since the former provides an ideal framework to analyse the effects of policy changes on resource allocation and the structure of distribution, and thus on economic welfare. A distinctive feature of the analysis is that I consider a segmented labour market (that is, skilled and unskilled labour), which can be justified on the grounds that this factor is not homogeneous. The segmentation of the labour market jointly with the general equilibrium framework allows us to examine the distributional effects of migration between skilled and unskilled labour in each region, and between these two and capital.

According to the results, the elimination of global restrictions on labour mobility generates worldwide efficiency gains that could be of considerable magnitude, reaching 67 per cent of world GDP. With the introduction of a segmented labour market, welfare gains reduce to 59 per cent of world GDP, since the benefits and losses of migration are not evenly distributed within each country. And when only skilled labour migrates, worldwide efficiency gains are even smaller (11 per cent of world GDP), as skilled labour represents a small fraction of the labour force in developing regions.

**The model**

In a world economy characterized by countries with different levels of income, individuals have incentives to migrate to countries with higher wage rates. If labour were to be allowed to move from one country to another without restriction, it would do so until relative wages in the low-income country had risen sufficiently. Migration reduces the labour force in the low-income country (source region), leading to an increase in wages and a reduction in the demand for labour. In addition, migration leads to a process of factor reallocation within the poor country: the remaining workers gain through higher wages, but capital owners lose, since labour is now scarce relative to capital. Conversely, in the high-income country (destination region) the labour force increases, which leads to a reduction in the wage rate (assuming no rigidities). This lower wage will increase the demand for labour and aggregate employment. During the transition, workers will lose through lower wages, and capital owners will gain, since labour is now less scarce relative to capital (see, for example, Layard *et al.*, 1992; Bhagwati *et al.*, 1998). This analysis is based on the assumption that labour is a homogeneous...