

## Immigration and Factor Mobility Christopher R. Bollinger

Factor mobility is a fancy economics term that expresses the very simple condition where things like labor move to where the goods are being made. It's a pretty simple concept, if you open a factory (or whatever) workers will come to get a job there. But it works the other way too, if there are workers, people with factories to open will move there and open their factories.

In fact, economics has a lot to say about all of this. One key principle of economics is that, in the absence of barriers, factors will move (geographically) so that the return to the factor is the same everywhere. That's basically a fancy way of saying that if you can get a higher wage in the US, workers will move there. This will lower the US wage, and raise the foreign wage. But, it works the other way too, if the rate of return on capital is higher somewhere else, factories will move there. What's really interesting is that you only need 1 factor to be mobile! We can keep all the labor in place, if the factories move, then both the rate of return to capital and the rate of return to labor will equalize.

What this means is this: factories will locate where labor is cheaper because the rate of return to the factory (capital) is higher there. Ultimately, economic forces will cause the wage rate throughout the whole world to equalize. Keep in mind, of course, that different people have different skills, and so there will still be different wages for different types of workers: but the wage differences will be because of skills, not location. Either labor will move or capital will move, or both.

The bottom line: you can stop labor from moving with "tougher immigration laws". And then we will see the capital move (more rapidly) toward the lower wage countries. (Remember Ross Perot's giant sucking sound? He had the right description, but the wrong reason). As the capital leaves, US wage will fall because of fewer jobs. Some capital moves quickly (witness the movement of IT call centers to India). Some capital moves slowly (witness the slow response of the Big 3 auto makers) but ultimately it will move.

You can try to stop the flow of both factors. It's really tough to prevent capital from moving, but what you can do is prevent goods from moving. Then, if you want to sell your good in the US, you pretty much have to produce it here. These strategies have been tried before. It largely didn't work. Perhaps the best example was the Smoot-Halley tariff act. It actually worked pretty well: it's largely credited for causing the great depression!

As I see it you have three choices: you can stop labor, but not capital; you can try to stop both; or you can be a market economist and let the markets work. What people really fail to understand is that they – no matter who they are – are better off over all with the last idea. If we let markets work, consumers (that's everyone) get lower priced goods. Yes you earn less money, but the price of goods is lower too (and one can

formally show that in the long run it's a net gain). If we let markets work, we get steady economic growth everywhere.

It's costly and difficult to stop markets. Intervening is like swimming upstream: you can do it, but it's tiring. So what I'm really saying here is that I think all this concern about immigration (illegal or otherwise) is misplaced. Let them in. Invite them in. The capital will follow. If you think it's going to lower wages to let them in, you are right. But, the US has one of the highest wage distributions in the world: one way or another wages will drop here. Rather than have the capital leave the US, let's have the workers come here; because ultimately, one or the other will happen. If we plan for it and work with the immigrants (language etc), the gains to all of us will come faster. It's your choice!