

Free Immigration: Stimulator of International Trade and Diminisher of Global Poverty

Semayawit Kebede

Cornerstone University

Austrian Student Scholars Conference

February 1, 2023

Abstract

Exchange and movement are inherent features of all human life. As we specialize in order to trade, voluntary exchanges emerge as the peaceful path to higher living standards. The result of these actions is the "free market" which is best defined as the social array of voluntary exchanges of goods and services (Rothbard, 2009)¹. However, due to triangular intervention by state actors, genuinely free movement and exchange has been difficult to attain. With respect to the free movement of people, it is noted that as of 2020, "260 million people, or 3% of the global population, live outside the country of their birth" (Pugel, 2020)². Often, with the movement of goods, services, knowledge, skills, and experience, comes the movement of individuals and households. As state power has grown and free exchange has been challenged, immigration restrictions are also becoming more stringent. One key reason for this restriction is the fear of growing labor competition. This has been called the "competitive threat" theoretical model. Rothbard views such restrictions as an "attempt to gain restrictionist wage rates for the inhabitants of an area,". However, it is an inherent feature of free markets for businesses to migrate from high-wage to low-wage areas and workers to migrate from low-wage to high-wage areas (Rothbard, 2009)³. This research paper shows that immigration flows and increased international trade are positively correlated and that they aid in poverty reduction and stimulate economic growth. We will also observe the role that education levels play in immigration patterns as well as the impact of the free movement of people upon the labor market in the host country.

Introduction

The movement of people is the movement of goods, services, knowledge, skills and experience. In a world where information can travel freely, the movement of people is being limited and pushed against. Why is that? The first reason is the fear of growing competition. This is called the “competitive threat” theoretical model. According to Dr. Gorodzeisky and Dr. Semyonov, “The ‘competitive threat’ theoretical model is the theoretical framework most often used by social scientists for understanding emergence of negative attitudes toward out-group populations. According to the model, anti-immigrant sentiment (including prejudicial views and exclusionary attitudes) should be understood as a reaction to threat of competition (whether real or perceived) with immigrants either in the economic sphere (e.g., labor market, welfare system) or in the cultural sphere (e.g., cultural homogeneity of a society; social values)” (2019).

This research paper sees how the attitude people hold towards immigration impacts the international market as well as global poverty. We will be analyzing the impact of restriction on immigration according to Austrian School intellectuals, and how people’s attitude towards immigration is impacted by their level of education.

United States is claimed to be the country of immigrants (US Immigration trends, 2022). Clearly, this has impacted the foreign relation policy of the United States, which in turn has a direct impact in the international trade market environment of the country. With a growing negative attitude towards immigration, the beauty of freedom of exchange can be forgone. When people move to the States, they not only increase the market pool, but also get opportunities to get education and experience. This is also a form of exchange. However, the opportunity of education is also impacted by the attitude of immigration.

In this research paper we will dig deep into Austrian School understanding on free movement of capital and individuals. We will also analyze the relationship between international trade and immigration, as well as host country attitudes based on their own education level, and that of newcomers. The empirical model we will employ in the regression model will include 12 years of data collected on international trade volume, host country and immigrant education.

Free Immigration According to Austrian School Intellectuals

Austrian economists generally see immigration restrictions as a violation of individual freedom and property rights, as well as a barrier to economic growth and prosperity. They assert that people should have the freedom to move and associate with others as they see fit, free from state interference. Immigrants bring new expertise, ideas, and resources to the receiving country, and restrictions on immigration limit the potential for economic development and the advantages that come from cross-border trade. Austrian economists generally favor market-based alternatives, such as private property rights and contractual agreements, rather than government restrictions, to address any potential negative effects of immigration. Two prominent Austrian economists Ludwig von Mises and Murray Rothbard have similar view on immigration restriction as well.

Ludwig von Mises was a staunch supporter of the free movement, including immigration freedom. He contended that immigration restrictions harm both the immigrants and the host country. Mises believed that free migration results in more efficient resource allocation because individuals are free to move to where their skills and talents are most in demand. He also believed that immigration restrictions stifled cultural exchange and progress, as well as innovation and economic growth. Immigration restrictions, according to Mises, are a form of government intervention in the market and a violation of individual liberty. In his own words,

“The nations suffering from relative overpopulation in their homelands can no longer use those means of relief today that were usual at the time of national migrations. Full freedom of emigration and immigration and unlimited free mobility of capital must be their demand. Only in this way can they attain the most favorable economic conditions for their fellow nationals. Of course, the struggle of nationalities over the state and government cannot disappear completely from polyglot territories. But it will lose sharpness to the extent that the functions of the state are restricted, and the freedom of the individual is extended. Whoever wishes peace among peoples must fight statism” (Mises, 1983, 105).

Murray Rothbard was also an outspoken opponent of immigration controls. Immigration restrictions, he believed, violated the principles of private property and free trade. Rothbard contended that an individual's property rights include their labor and the fruits of their labor, and that immigration restrictions limit an individual's capability to sell their labor in the market system. He also believed that immigration restrictions hampered economic growth and prosperity by limiting labor supply, which drives up wages and prices for goods and services. Immigration restrictions, according to Rothbard, may result in restrictionist wage rates for everyone in the restricted area, though the clear winners will be those who would have directly competed in the labor market with the potential immigrants. They benefit at the expense of those who are excluded and are forced to accept lower-paying jobs at home (Rothbard, 2009).

This study cannot agree more. Restriction on immigration restricts international markets, stifling development. The labor market, which is directly related to education, is one of the most affected markets. We will examine empirically how restrictions on people's movement have affected market outcomes.

International Trade and Immigration

Immigration has been increasing the past few years for a lot of reasons. The increase in immigration has also impacted the international market of the United States. To measure the relation between these two variables we will use a data source of US trade in goods and services - balance of payment (BOP) basis (ITBOP) and legal immigrants in the United States (USLIG) for year 2009-2020. The linear regression of these two variables gives us the following result:

Figure 1: Regression Result on Immigration on International Trade Volume				
Coefficients:				
	Estimate	Std. Error	t value	Pr(> t)
(Intercept)	-8.516e+05	1.479e+05	-5.756	0.000184 ***
USLIG	<i>3.248e-01</i>	1.420e-01	2.288	<i>0.045183 *</i>
Multiple R-squared: 0.3436, Adjusted R-squared: <i>0.2779</i>				

From the regression result, we see that international trade and legal immigration are positively related. For every 1 legal immigrant, there is a 0.03248% increase in imported goods in the US. The result is fairly significant, and we have 27.79% (this is from our adjusted R-squared) assurance that the two variables are related. From the residuals, we see that we have a min value of -83220, median of -10859, and a max of 96773. Our range is quite big, and this regression is loss fitting.

It is not surprising to see this positive relation between international trade and immigration because it is a movement that causes exposure to new things and a desire to exchange. Nonetheless, the reason behind this has been explained by different scholars in various ways. According to Dr. Lewer and Dr. Van den Berg, immigration stimulates bi-lateral trade between 16 Organization for Economic Cooperation and Development (OECD) countries. Out of these countries ‘the United States is still the OECD’s leading destination country, receiving about 20% of the global immigrant inflow, whereas Australia, New Zealand, and Canada have some of the highest proportions of foreign-born populations’ (Vézina, Bélanger, 2019). The article also brings forward three major reasons for this relationship between international trade

and immigration. These reasons are “increasing foreign direct investment flows back to the source countries, creating trade networks between immigrants in destination and native countries, and raising income in immigrant destination countries” (2009).

Mundell (1957) previously proposed the standard Heckscher-Ohlin trade model to demonstrate that international trade and international free movement are substitutes, not complements. Dr. Lewer and Dr. Van den Ber, on the other hand, conduct their research with the assumption that the relationship is far more complex than simply being a substitute. However, the authors argue that there may be other channels through which immigration influences trade. This is also emphasized by other scholars, such as Dr. Hatzigeorgiou. He writes,

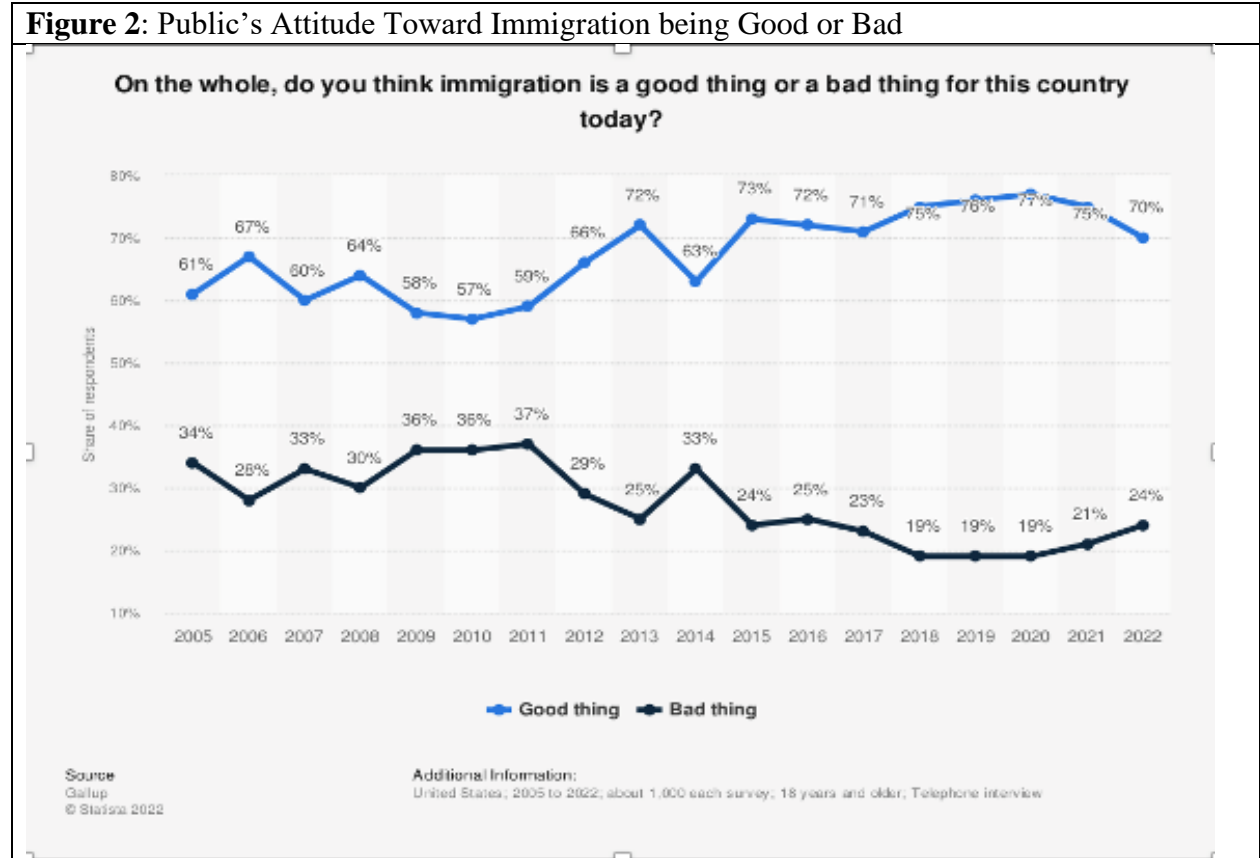
“Even if the significance of these factors in a traditional sense appears to have only a limited direct influence on trade, there are indirect channels that are important to take into account. For example, an advantageous business climate in the partner country has a positive influence on trade by reinforcing the effect that migration, in turn, has on trade” (2010).

This is a complex relationship. This reminds us that the subjective values of businesspeople and policy makers are formed by many variables. Some of these variables might be voters being hostile to immigration and other factors. Do businesspeople see imports as an opportunity to expand trading networks? To what degree are they committed to serving domestic customers? These brief questions point us to the individual subjective judgements of entrepreneurs and governing officials.

Immigrant Education and Public Attitude Towards Immigration

The market is a place where anything can be exchanged, including education. The more educated a community is, the better the lifestyle they will adopt. The same can be said for the immigrant population. Indeed, one of the reasons people move is for a better education for themselves or their children. It is one thing to educate people after they immigrate, but it is also

interesting to see how the public's attitude toward immigration changes when the immigrants are educated.



We hope to see a positive relation between the two because it is easy to say that if people have a positive attitude towards immigration they might have a good attitude towards contributing taxes towards their education, which results in increased education level of immigrants. However, the regression model tells us another story. According to a 12-year data collected, we see that education level of immigrants and public's attitude towards them are negatively related. The result are as follows:

Figure 3: Regression Results on the Impact of Immigrant Education on Host Country Attitudes

Coefficients:

	Estimate	Std Error	t value	Pr(> t)
(Intercept)	124.2854	12.3550	10.060	1.51e-06 ***

IEL	-3.2977	0.4183	-7.883	1.34e-05 ***
Multiple R-squared: 0.8614, Adjusted R-squared: 0.8475				

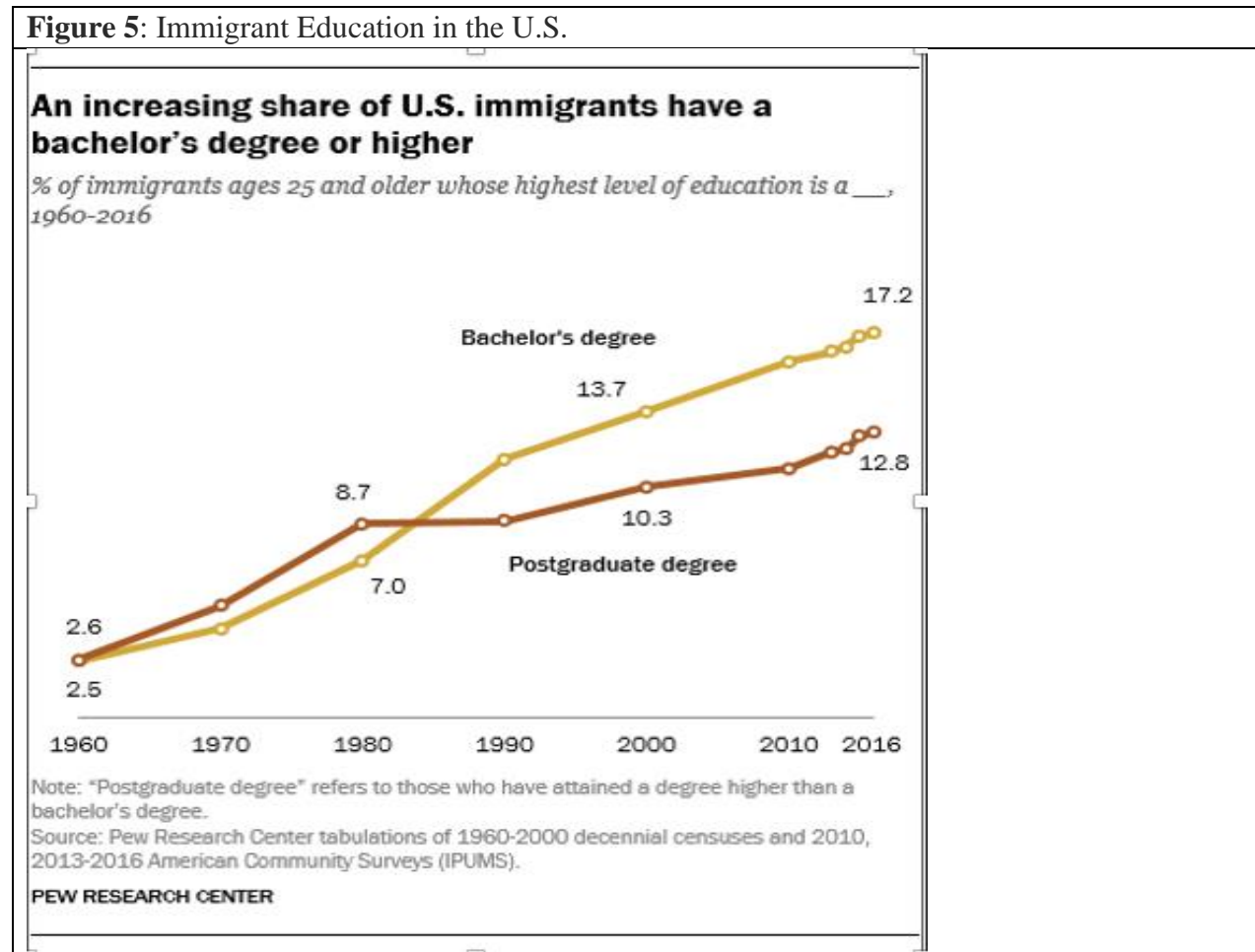
We see that for every 1% increase in legal immigrants with a bachelor’s degree, the percentage of those viewing immigration positively falls by 3.29%. This result is also a tight fit because the median is close to zero. In addition, the P-value indicates statistical significance. According to the adjusted R-squared, we can be 84.75% certain that the two variables are correlated. There might be a lot of explanations for why we have a negative relationship. One explanation might be people's attitude toward immigration is not only impacted by legal immigrants but also illegal ones. The other explanation might be the perceived threat and competition (“competitive threat” theoretical model) in labor markets is heightened because of more highly qualified new labor competition.

Moreover, we might want to see how long it would take before we see the effect of this relation. The optimum lag for the POIG (Public’s Opinion on Immigration as a Good Thing) and IEL (Percentage of Immigrants Education Level) is 1 year according to R-studio. Therefore, the linear regression lagging one-year results in a median that is closer to zero, so the data is more tightly fitted. The P-value has increased but it is still statistically significant. The adjusted R-squared has decreased, however.

Figure 4: Lagged Regression on the Impact of Immigrant Education on Host Country Attitudes				
	Estimate	Std. Error	t value	Pr(> t)
(Intercept)	122.777	14.314	8.577	1.26e-05 ***
IEL	-3.249	0.481	-6.754	8.33e-05 ***
Multiple R-squared: 0.8352, Adjusted R-squared: 0.8169				

Even though the two variables are negatively related, we still see that more educated immigrants are coming to the States from year to year. According to Pew Research Center, “the estimated 44 million immigrants in the United States are better educated than ever, due in part to

rising levels of schooling in many of the countries they came from and an influx of high-skilled workers to the U.S. in recent years, especially from Asia” (2018).



On the other hand, education of the public would also have an impact on their attitude towards immigration. Dr. Margaryan, & Dr. Siedler in their article *Does education affect attitudes towards immigration?* conclude that even though there has been a hypostasis provided in previous research claiming that education and pro-immigration attitude are positively related, this association cannot be interpreted as causal. This article puts forward how a person's attitude towards incoming immigrants is increasingly tolerant with each additional year of education. Furthermore, the study used compulsory schooling reforms in western Germany as a source of exogenous variation to estimate the consistent effect of schooling on immigration attitude (2018). They write, "Our results show that schooling has a sizeable impact on attitudes towards

immigration. An additional year of schooling reduces the likelihood of being very concerned about immigration by around 20 percent” (2018). This is an economically significant change for just of additional year of schooling.

International Trade, Education, and Global Poverty

Both trade and education are crucial for development. Without the freedom of movement education and trade can be limited as well. This in turn impacts the development of a country. Singh (2010) assesses the factors that catalyze world trade like GATT/WTO, and the effect of PTAs (Preferential Trade Agreements) on multilateral cooperation and trade. As hypothesized, the surveyed literature suggests that the relationship between international trade and economic growth is positive. According to the evidence of the article, compared to the effect of trade on productivity, it supports the notion of exogenous and positive effects of trade upon national productivity. As a result, Singh is highly supportive of the free international movement of people and economic goods in order to spur the economic growth of a country.

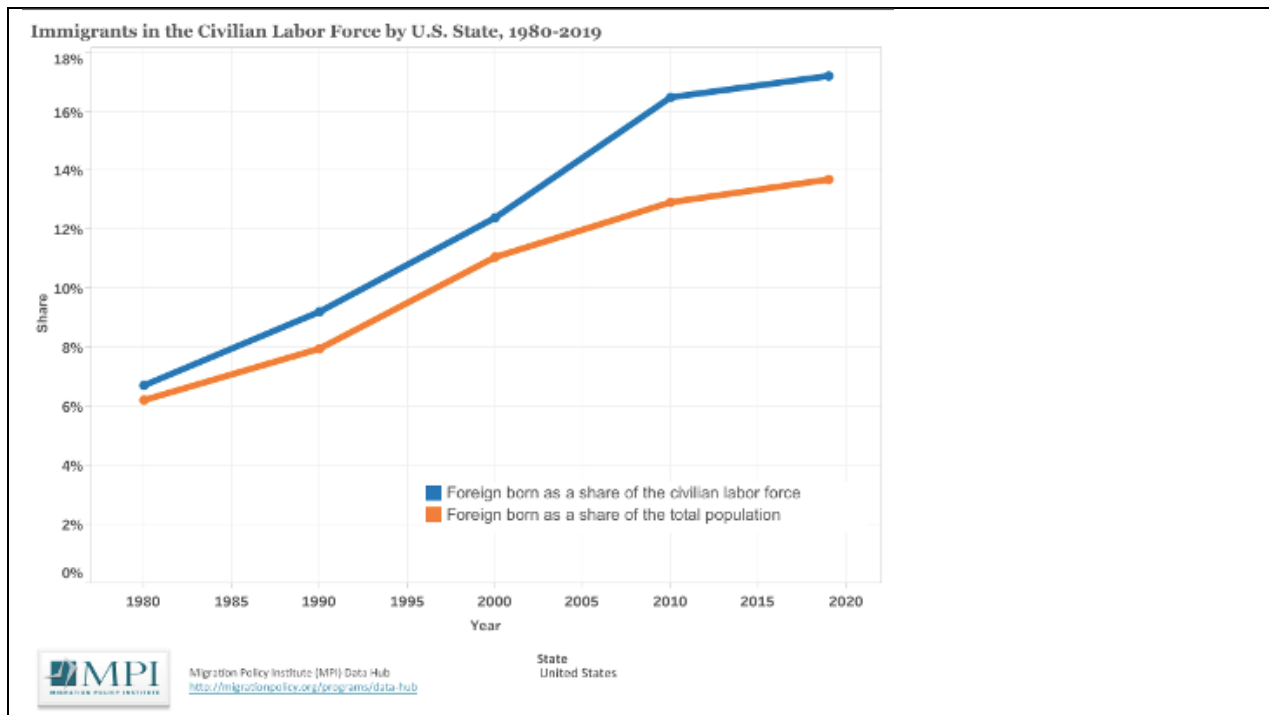
In addition to this article, the article Dr. Ulasan wrote also discusses the positive relationship between international trade and development. Over the period of 1960-2000, Ulasan assesses the relationship between trade openness and long-lasting economic growth. Revisiting empirical evidence, the article concludes that the ratio of trade volume to GDP is positively and significantly associated with economic growth. The same conclusion was reached for the relationship between growth and trade ratios at nominal prices. However, it suggests that it is also dependent on geography, foreign policy, and the political stability of a country, which are variables that the standard literature on economic development acknowledges as having an impact on trade and development.

It is also evident that the average education level impacts the development of a nation. An educated community is one that strives for improved living standards. Psacharopoulos argues, “Of course, it is not easy to establish cause and effect in development economies-too many factors change at the same time. Yet...the evidence provides grounds for confidence that investment in education is a major contributor to development” (1988). However, because of limitations in the movement of people, the education, skill, and knowledge shared is limited. Better education means broad work opportunity and better income. This then contributes to the development of a country.

Immigration and Labor Market

One of the reasons for immigration is the desire for a better paying job. Immigrants would need to work to survive. This means there will be more people competing for job opportunities. This is, however, not what happens. Most of the job’s immigrants end up working are jobs not preferred by other residents. The less desirable jobs are the ones most immigrants' work. This either because they are not educated or the education, they have received is not accepted

Figure 6: Foreign-Born Immigrants as Share of Labor Force and Total Population

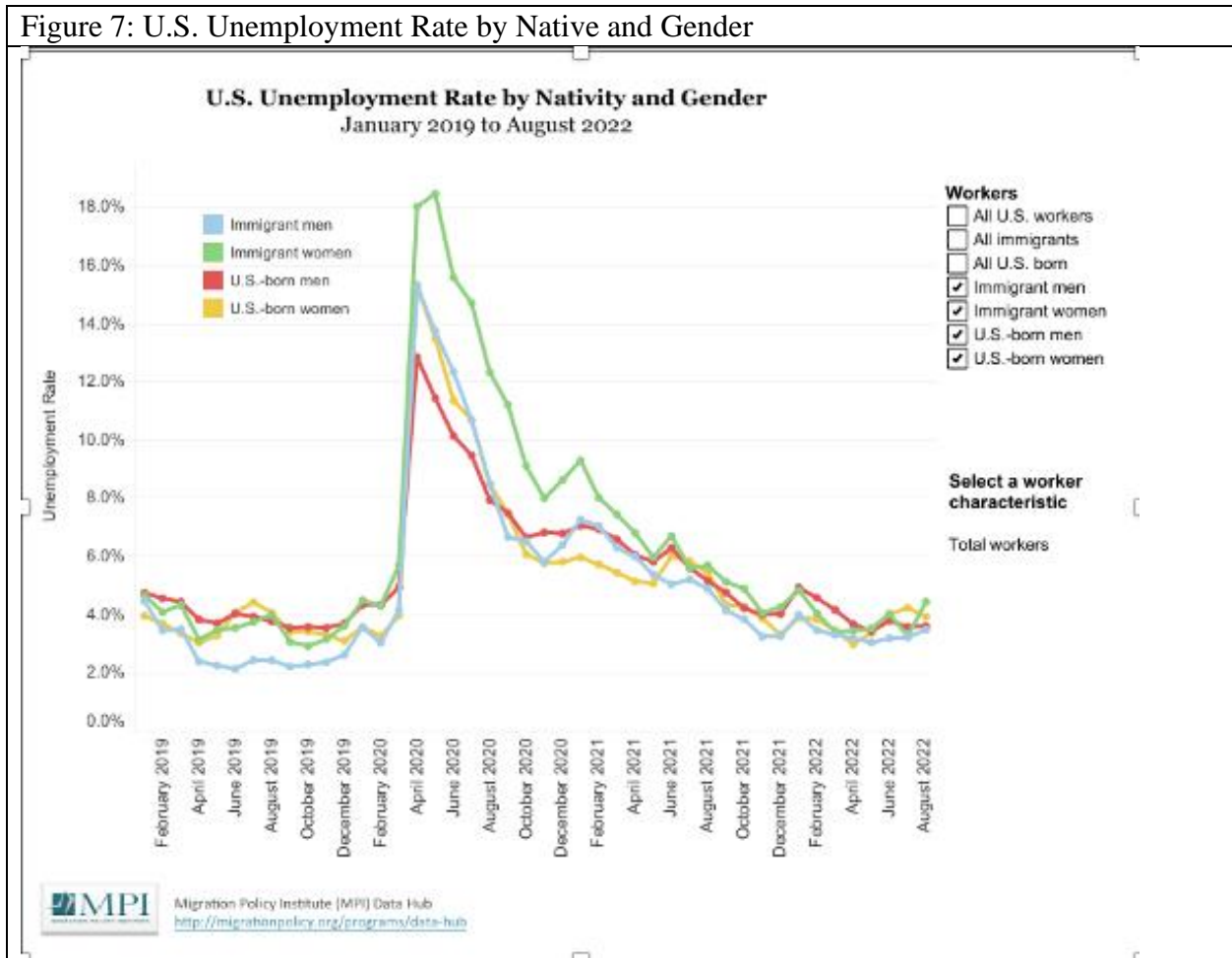


by the standard of the United States. Nonetheless, one way or another, there will be an increased labor with increased immigration. According to research done by Migration Policy Institute, “Immigrants tend to be in the labor force at rates higher than the U.S. population, as most who enter the United States are of working age. This line chart displays the immigrant share of the U.S. civilian labor force and immigrant share of the total population. The term "immigrants" (or "foreign born") refers to people residing in the United States who were not U.S. citizens at birth. This population includes MPI naturalized citizens, lawful permanent residents (LPRs), certain legal nonimmigrants (e.g., persons on student or work visas), those admitted under refugee or asylee status, and persons illegally residing in the United States. The civilian labor force includes all civilian person’s aged 16 and older who were either employed or unemployed in the week prior to participation in the American Community Survey or Decennial Census.” (2020).

The question one might want to ask is, what kind of the labor market is usually occupied by the immigrant population. According to New American Economy, “Immigrants supply a large

number of workers in industries with a more mixed or primarily low-skilled workforce. These industries include construction, food service, and agriculture where they represent approximately one-fifth of all workers. The highest shares of immigrant workers are found in private households (49 percent of all workers) and in the accommodation sector (31 percent)” (2010). This is because of the lack of education.

Figure 7: U.S. Unemployment Rate by Native and Gender



Since immigrants hold jobs that are not necessarily at a high skill level, these low-productivity positions tend to be cut in the event of an economic downturn. In short, it is the immigrants who will be unemployed first. This was visibly seen in the COVID-19 pandemic. The first people to be led off were immigrant women. The following figure from the Migration Policy Institute illustrates this very well.

Even though these are the facts clearly visible, the major reason people are against immigration is the thought that immigrants take jobs from Americans. However, immigrants are working the jobs Americans might not want to be hired for. In fact, a lot of manufacturing companies are finding it hard to find employees nowadays because not a lot of people want to work there. With the increased immigration, there was less labor force shortage, however. How can this be a reason for that limitation of movement then? The other thing is that how expensive and inaccessible education is for immigrants. Especially immigrants who are in their 40s would have a lower chance of education therefore have the low-skilled workforce.

Conclusion

In conclusion we see that the movement of people is a part of a complex picture, involving international trade, host country attitudes, and education. We have also seen that with the increase of immigration, international trade also increases. This relationship is much more complex than just being a substitute and it is impacted by indirect channels that create an advantageous business climate. The public's attitude towards immigration that is good decreases with the education level of immigrants. Moreover, the more educated the public is, the less concerned they are about immigration. We also saw that labor markets that are mostly occupied by the immigrant population are those with low-skilled jobs, and these forms of employment are not desired by most Americans. Due to the unstable nature of low-skilled employment, it is immigrants that are laid off most quickly in a recession. As this is a complex picture, there is always further research that can be done on the connections between global poverty, immigration, and international trade.

As the Austrian intellectuals have asserted, the empirical result suggests that individuals should have freedom of movement for economic development and prosperity. That way the free market itself can regulate immigration without state interference.

Reference

- Gorodzeisky, A., & Semyonov, M. (1AD, January 1). *Unwelcome immigrants: Sources of opposition to different immigrant groups among Europeans*. *Frontiers*. Retrieved November 15, 2022, from <https://www.frontiersin.org/articles/10.3389/fsoc.2019.00024/full>
- Hatzigeorgiou, A. (2010). Does immigration stimulate foreign trade? evidence from Sweden. *Journal of Economic Integration*, 25(2), 376–402. <https://doi.org/10.11130/jei.2010.25.2.376>
- International Trade as an engine for development / financing for ...* (n.d.). Retrieved September 13, 2022, from <https://www.un.org/development/desa/financing/topics/international-trade-engine-development>
- Immigrant Workers in the U.S. Labor Force - New American economy*. (2010). Retrieved November 16, 2022, from [https://www.newamericaneconomy.org/sites/all/themes/pnae/img/Immigrant Workers Brookings.pdf](https://www.newamericaneconomy.org/sites/all/themes/pnae/img/Immigrant_Workers_Brookings.pdf)
- Krogstad, J. M., & Radford, J. (2020, July 31). *Education levels of U.S. immigrants are on the rise*. Pew Research Center. Retrieved November 15, 2022, from <https://www.pewresearch.org/fact-tank/2018/09/14/education-levels-of-u-s-immigrants-are-on-the-rise/>
- Lewer, J. J., & Van den Berg, H. (2009). Does immigration stimulate international trade? measuring the channels of influence. *The International Trade Journal*, 23(2), 187–230. <https://doi.org/10.1080/08853900902779422>

- Margaryan, S., Paul, A., & Siedler, T. (2018). Does education affect attitudes towards immigration? evidence from Germany. *SSRN Electronic Journal*.
<https://doi.org/10.2139/ssrn.3301739>
- Psacharopoulos, G. (1988). EDUCATION AND DEVELOPMENT A Review. *The World Bank Research Observer*. <https://doi.org/https://www.jstor.org/stable/3986525>
- Pugel, T. A. (2012). *International Economics / Thomas A. Pugel*. McGraw-Hill/Irwin.
- Rothbard, M. N. (2009). *Man, economy, and state with power and market*. Ludwig von Mises Institute 518 West Magnolia Avenue Auburn, AL 36832 USA.
- Singh, T. (2010). Does International Trade Cause Economic Growth? A survey. *The World Economy*, 33(11), 1517–1564. <https://doi.org/10.1111/j.1467-9701.2010.01243.x>
- Ulasan, B. (2012). Openness to international trade and economic growth: A cross-country empirical investigation. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2087930>
- U.S. immigration trends*. migrationpolicy.org. (2022, November 13). Retrieved November 15, 2022, from <https://www.migrationpolicy.org/programs/data-hub/us-immigration-trends#labor>
- Vézina, S., & Bélanger, A. (2019). Impacts of education and immigration on the size and skills of the future workforce. *Demographic Research*, 41, 331–366.
<https://doi.org/10.4054/demres.2019.41.12>
- Mises, L. V. E. (1983). *Nation, state, and Economy: Contributions to the politics and history of Our time*. New York University.