The Mighty Difference Between Immigration and Trade

What's so great about international trade? Economist's standard answer boils down to two words: *comparative advantage*. Specialization and trade increases total production, even if one side is more productive across the board. A textbook example starts with a table that shows hourly productivity in two countries, such as the U.S. and Mexico.

Table 1: Trade and Productivity

	U.S. Productivity	Mexican Productivity
Cars/Hour	4	.1
Wheat/Hour	2	1

To see how specialization and trade raise TOTAL productivity, just imagine switching five U.S. hours from wheat to cars, and twenty Mexican hours from cars to wheat. Total wheat production rises by (-5*2+20*1)=10, and total car production rises by (5*4-20*.1)=18.

When I teach the economics of immigration, I routinely tell students that immigration is trade in labor, so the same logic applies. In fact, I just relabel the preceding table:

Table 2: Immigration and Productivity (simple version)

	U.S. Productivity	Mexican Productivity
Programs/Hour	4	.1
Childcares/Hour	2	1

When asked, "Sure, but what's the point of moving the labor?," my standard reply is: "You can't export most services easily. A Mexican nanny normally can't perform childcare services for U.S. families unless she lives in the U.S."

It's a fine answer. But on reflection, it deeply underestimates the economic benefits of immigration. Why? Well, international trade is a wonderful thing, but merely trading goods across borders has no blatant effect on the productivity of the workers who produced the goods.* When a worker migrates from a low-productivity country to a high-productivity country, however, he becomes vastly more productive almost overnight. To really show the economic effect of migration, then, you should imagine moving from the world of Table 2 to the world of Table 3.

Table 3: Immigration and Productivity (improved version)

	U.S. Productivity	Mexican Productivity

Programs/Hour	4	1
Childcares/Hour	2	2

Table 3 implies that migration raises productivity even if workers continue to use their time exactly as they did before. Suppose you move twenty Mexican hours from Mexico to the U.S. The workers continue to split their time evenly between programming and childcare. Production still rises by (10*(1-.1))=9 programs and (10*(2-1))=10 childcares. The mechanism can't be comparative advantage, because the division of labor remains unchanged. The world is richer, rather, because Mexican talent has moved from a production desert to a production oasis. Once the immigrants arrive, of course, it makes great sense to specialize and trade; but immigration would have great economic benefits even if *no one* reconsidered his occupation.

Yes, I am well-aware that some researchers fear that immigration will transform production oases into production deserts. My forthcoming book has a whole chapter on this topic. The key point for now: Almost everyone – including me – has hitherto underestimated the *gross* economic benefits of immigration. And until we accurately measure immigration's gross benefits, we can't accurately measure its net benefits, either.

* Though there could be a big non-blatant effect; see Bloom and van Reenen on the managerial benefits of multinationals.