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Anti-immigration Policy in Developed Countries: Welfare and Distributional Implications for Developing Economies

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ABSTRACT

This paper develops a 3×4 full-employment small open economy model for examining the consequences of anti-immigration policy adopted in the host country on both national income and wage inequality in a source developing economy that is plagued with multiple distortions. The country exports a primary agricultural commodity while it imports one low-skilled manufacturing commodity and one high-skilled commodity. The low-skilled manufacturing sector faces a unionized labour market. Both the import-competing sectors are protected by import tariffs. All skilled workers of the economy are equally desirous of migrating to a developed country because of high skilled wage differential. However, how many skilled workers would be allowed to migrate is a policy variable of the host country. The analysis finds that the outcomes of a restrictive immigration policy adopted in the host country on the major economic variables in the source economy crucially hinge on both technological factors and the bargaining power of the trade unions in the low-skilled sector. Most interestingly, both national income and wage inequality are very likely to deteriorate when, given other things, the degree of distortion in the unskilled labour market is sufficiently high. Besides, we have also carried out a systematic quantitative analysis of our results using the simulation techniques to show that our results are valid for a wide range of parameter values. Finally, some policy recommendations have been made for improving both economic growth and relative wage distribution.

KEYWORDS Anti-immigration policy; Source economy; National income; Skilled labour; Unskilled labour; Wage inequality; Trade unionism; General equilibrium model

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