Volume 68

No. 271

August 2001

On the Economics of Immobility

A Review Article

By ODED STARK

Reprinted from

ECONOMICA

The conclusive chapter identifies some additional important areas for future economic investigation, for instance the need for a better understanding of the way the Internet works. At a more general level, we also need to understand the relationship between regulation and competition. Should we give up regulation, as it has already happened in New Zealand and as it may happen in UK telecoms, and rely on competition policy? Given the increasing level of globalization, what is the impact of multiple regulators? These are very challenging questions, both for theorists and for policy-makers. I am sure that Laffont and Tirole will contribute to the clarification of these issues as well.

Imperial College and CEPR, London TOMMASO M. VALLETTI

On the Economics of Immobility. By PETER A. FISCHER. Haupt, Bern. 1999. 327 pp., DM76.

The book makes three main claims. First, good migration theories need to explain 'why people stay'. Second, 'traditional theories of migration are ... unsatisfactory in explaining why people stay'. Third, there is a need for a fresh theory that could provide the badly missing but highly desirable explanation and this theory is 'the insider-advantages theory'.

In a world in which about 98% of the population lives in the country in which it was born (and only about 140 million persons live in a country where they were not born), the need to explain non-migration is pertinent. The book's first claim is well taken.

If we view labour migration as a response to wage differentials, we could attribute non-migration to the absence of wage differentials. But since we know that there is more to labour migration than a response to wage differentials (O. Stark, *The Migration of Labor*, Oxford and Cambridge, MA: Blackwell, 1991, 1993), we cannot necessarily attribute non-migration to a zero wage differential. What other causes underlie migration? The book refers to several such causes, including risk aversion and relative deprivation.

Suppose that a two-member family residing in country A faces two states of nature: good and bad. In a good year each of the two members produces 150 units, in a bad year, 50. Half the years are good and half are bad, and whether a year is good or bad is completely random. The probability that a year is good, or bad, is $\frac{1}{2}$. There are no capital markets, and output is perishable. In half the years (the good years) the family's total income (consumption) is 300, in the other half (the bad years) it is 100. Think of consumption of 100 per member being an adequate consumption level, of 50 being very inadequate. Aversion to risk implies that having 200 in each and every year is preferable, but the family cannot possibly achieve the interyear zero income variance sequence. Suppose next that an employment opportunity opens up in country B that provides an income of 150 in a good year and 50 in a bad year; and suppose that a bad year in country A coincides with a good year in country B, and vice versa. The family decides that one member will migrate to B, and that, regardless of which state of nature prevails, the two members will fully pool together and equally share their incomes. The family's income variance is thereby completely eliminated. The family's pooled income will always be 200, ensuring a per-member consumption of 100 each and every year. The key insight of this tale is that had both members migrated, nothing would have changed. The only way of securing the favorable zero income variance outcome is to have one of the members migrate while the other stays put. (It is also worth noting that migration takes place even though the wage differential that the migrant faces is $\frac{1}{2}\cdot 150+\frac{1}{2}\cdot 50-(\frac{1}{2}\cdot 50+\frac{1}{2}\cdot 150)=0$.) Thus, we have in hand a straightforward explanation of *both* migration and non-migration.

Consider now an equally simple example of aversion to relative deprivation. There are two individuals whose incomes are 150 and 50, both residing in region A. Either no other region exists, or another region, B, exists but is effectively inaccessible. Suppose that the region where people reside constitutes their exclusive reference group and that incomes are constant and independent of the region of residence. The individuals are engaged in intragroup comparisons and the outcome of these comparisons may give rise to a dismay which, without being defined formally, is referred to as relative deprivation. An individual prefers to be in the region where his relative deprivation is lower. While the individual whose income is 150 senses no relative deprivation, the individual whose income is 50 is relatively deprived. If migration to region B becomes possible (and, say, is costless), and if region B is empty (or is inhabited by people with whom comparisons will never be made–these people will not be members of the migrant's reference group), the individual whose income is 150 (and who is not relatively deprived) will not migrate, while the individual whose income is 50 will migrate. Again, we have in hand an explanation of *both* migration and non-migration (O. Stark and Y. Q. Wang, 'A Theory of Migration as a Response to Relative Deprivation', *German Economic Review*, 2000).

The surprising viewpoint of this book is that 'while these different traditional approaches are quite successful in explaining actual migration flows, they are somewhat unsatisfactory in explaining why people stay immobile'. I cannot but disagree.

The third main claim of the book is that escape from the unwarranted state of affairs is to be found in the 'insider-advantages theory ... [-] a new theoretical contribution to the explanation of immobility ... The insider-advantage approach stresses that many people stay immobile because they have accumulated work as well as leisure-oriented location-specific insider advantages (knowledge, abilities and contacts) that would be lost when moving away. The longer one stays in a certain place, the higher the accumulated insider-advantages and the more likely it will make perfect sense to stay even if there are considerable macroeconomic differences between regions.' This theory cannot however *explain* non-migration. The acquisition and accumulation of location-specific assets is not independent of migration intentions and plans; individuals contemplating migration acquire assets, skills, and tools that will enhance their earnings at destination. Intended mobility *explains* the acquisition of destination-specific assets, and expected immobility underlies the choice to accumulate '[origin] location-specific advantages'. It might be optimal to acquire *at home* the skills and assets that will enhance productivity at destination, because both the direct costs and the opportunity costs of the acquisition are lower than if the assets were to be acquired at destination. Thus, a long time span of staying at home *and* the acquisition of destination-specific or general assets rather than home-specific assets are not orthogonal, as the book maintains, but instead are compatible. In short, the 'insider-advantage theory' does not explain immobility; immobility explains the extent to which the 'insider advantages' are formed and accumulated. The logical flaw is that 'advantages' are not given exogenously and ex ante. They are chosen, formed, and acquired.

Finally, as is by now quite transparent, the 'insider-advantage theory' is anything but new. It is the received theory of human capital, merely relabelled.

University of Oslo and University of Vienna ODED STARK