



By: Raghuram G. Rajan

How to convince politicians that competent migrants make local firms competitive?



For an enterprising politician, perhaps the easiest political strategy nowadays is to tell unhappy voters that they are victims – of the biased policies of incumbent elites, of the schemes of other groups, of cunning foreigners.

This is especially true when the unhappy group is a distinctive and (usually) large segment of the voting population, and when those being blamed either don't vote or constitute a small share of the electorate.

As long as someone else can be blamed, the enterprising politician need not demand anything from unhappy voters; simply promising an end to their victimization will be enough.

Yet, as the American essayist H.L. Mencken famously quipped, “for every complex problem, there is an answer that is clear, simple, and wrong.”

In most cases, the victimhood argument fits this description, which helps to explain why supposed fixes often make things worse.

For example, in many growing Indian cities today, local politicians are proposing minimum employment **quotas** for the locally born, arguing that too many of the new, high-quality private-sector jobs are going to migrants from other parts of the country.

What they fail to see is the vibrant local conditions that have attracted the best and the brightest from elsewhere.

The fact that immigrants fill more of the quality jobs need not be (and is most likely not) the result of discrimination; it may simply reflect their greater merit.

Politicians are rarely satisfied with moderate measures

Nonetheless, say the politician institutes a minimum quota for locals in higher positions.

If the policy is not too onerous, it might well do some good, because locals in higher job positions will offer guidance, mentorship, and networks to their fellow locals who are starting out (as every affinity group does).

But ambitious politicians are rarely satisfied with moderate measures. They want large quotas.

This is where problems emerge. Filling a firm's upper echelons with sub-par locals affects productivity and competitiveness.

Very competent migrants make local firms competitive

This might not matter much if a firm's competition is confined to the local area, where other firms are subject to the same quota.

But it certainly does matter if the firm is competing with firms in other vibrant Indian cities that have refrained from establishing quotas, or with foreign producers.

Ultimately, the firm's growth will suffer, it will hire fewer workers across the board (including local ones), and it may even shift operations to more business-friendly cities.

The upshot is that very competent migrants make local firms competitive, thereby ensuring more jobs (even if not at the highest level) for locals. Vilifying them might seem like an easy political strategy; but acting on it could make conditions significantly worse for one's constituents.

Native-born students

Similarly, in the United States, some politicians claim that deserving native-born students are being kept out of top universities.

For his part, US President Donald Trump **thinks** top universities “should have a cap of maybe around 15%, not 31%” of foreign students.

But if foreign students are being selected purely on the basis of merit (and there is little reason to dispute this), a cap would almost certainly reduce the average quality of the student body.

This would make US universities less attractive to top students from around the world, who would make it despite the cap, reducing quality further.

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And with fewer top foreign students staying on to teach and conduct research, the quality of US universities will deteriorate further.

Such a policy therefore could do lasting harm. America's universities have long produced the fundamental research that has allowed US firms to lead the world in innovation.

Keeping out the best and the brightest is a surefire way to ensure that other countries bridge the innovation gap.

The victimhood narrative

Indian and US politicians could learn something from Singapore. A minister there told me that after launching a program to attract smart mainland Chinese school students, he heard from angry constituents. "These Chinese students start at the bottom of the class [because they have to learn English], but by the third year they are at the top. Our children have no chance at the top positions. Why did you start such a terrible program?"

The minister replied that Singapore has no choice but to be globally competitive. "In 15 years, when your kids get jobs, would you rather these Chinese kids competed on their side because they grew up here, or against them?" Parents understood, and the

complaints died down.



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The argument that manufacturing left the US because other countries used unfair practices to attract production is another version of the victimhood narrative.

Apple has not had significant US-based manufacturing since 2004, so the Trump administration proposes to reshore production of iPhones (which has always been outsourced largely to Asia) by levying high tariffs on iPhone imports.

But analysts **note** that the cost of an iPhone would soar if it had to be manufactured in the US. It is manufactured elsewhere not because other countries cheat, but because they are more cost efficient.

If Apple complies with the government's wishes and brings iPhone manufacturing to the US, the high price would cause iPhone sales to plummet worldwide.

Apple generates a lot of revenue from high-margin services that it sells to iPhone users through the App Store, iCloud, and Apple Music, but these would drop significantly as the number of users declines.

The value that might be created by bringing manufacturing back to the US would likely be more than offset by the loss of service revenues – revealing yet another hidden cost of acting on the victimhood refrain.

Rather than blaming others and leveling the economy down, it is better to level the economy up by focusing on improving the capabilities, and thus the opportunities, of those falling behind. But try telling that to politicians.

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