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Useful Migrants

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Gazeta.ru published an important article by Yulia Latynina on Aug. 24 titled "How Slaves are Squeezing Out Citizens." Alexei Navalny, a corruption fighter and opposition leader who helps define the political agenda in Moscow and the country as a whole, praised the article on his Facebook page. Opposition leader Vladimir Milov made similar comments in a number of publications.

I would like to focus on an economic issue she raises in the opening lines. She suggests that migrant workers, and especially illegal immigrants, make it more difficult for Russian citizens to find well-paying jobs.

Latynina argues that businesses prefer to hire migrants, and especially illegal ones, because they can pay them wages that are significantly below the market rates.

Government officials also gain by demanding bribes or a share of monopolistic profits from firms allowed to hire illegal workers, thereby enabling them to produce their goods at a lower cost while raking in huge profits in noncompetitive environments. The less these companies pay their workers, the fatter their profits.

According to this logic, if the migrants are driven out of Russia, if their employers are fined for hiring illegal migrants and if corrupt immigration officials are jailed for taking bribes, the reduced labor supply would lead to higher wages for Russians who remain in the labor market.

There is a lot of truth in these arguments. Still, it seems to me that there is a crucial flaw in the logic and that Latynina has not captured the whole picture.

If her recommendations were implemented, the standard of living for Russian citizens would actually fall. Notably, Latynina does not cite any serious data in support of her thesis, and my arguments are also based on general considerations. There is a lot of work cut out for labor economists here.

The main weakness in her argument, however, is the implicit assumption that the standard of living is strictly a function of personal income. But in reality, it is just as much a function of the cost of living. The price of every product is dependent on both the costs of production and the level of competition in each particular market.

As Latynina rightly points out, Russia's housing market is highly uncompetitive. Prices have little connection to actual costs, and corruption is the main reason why prices are so high. But in other sectors, in which prices are more competitive, migrant workers help lower prices, leaving more money in the pockets of consumers.

In the end, driving migrants out of the work force would raise prices in many sectors. All the existing evidence points out to the fact that migrants are occupying the lowest-paying job in the job market.

Considering that unemployment in Russia is low — and practically nonexistent in Moscow, which is the main focus of Latynina's argument — consumers would be hit by higher prices, which would negate any gains made by an increase in jobs.

Increased competitiveness in all sectors would be a tremendous benefit to consumers, especially considering that prices in Moscow are obscenely high — and have remained high over the past decade despite the widespread use of cheap migrant labor.

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