Foreign Labor: Tax and Quota

Yen-huang Chen

Abstract

This paper examines the impacts of tax and quota upon international labor-migration. In a two-country model, following Ramaswami (1968), in which America is active and capital-abundant, whereas Mexico is passive and labor-abundant, Stackelberg equilibria under tax and quota are established. In the presence of quota, Stackelberg equilibrium, for both countries, is superior to Nash equilibrium in which Cheng and Wong (1990) claim that factor movement no longer exists. It is also shown that when the passive labor-abundant country imposes a specific tax on its outflow labor, the active capital-abundant country prefers tax to quota.