Choice between International Labor and Capital Mobilities

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Abstract

The purpose of this paper is to reexamine Ramaswami proposition (1968) within the framework of Stackelberg game in which capital-abundant (the leader) country and labor-abundant (the follower) country simultaneously impose specific taxes on factors of production moving across countries. Ramaswami argues that the active capital-abundant country prefers optimally importing foreign labor to optimally exporting her abundant capital. This paper provides conditions for countries to choose between capital mobility and repatriation policy (labor mobility). It indicates that Ramaswami proposition may not necessarily hold when the follower is allowed to impose tax on factors in response to the leader's strategy. Furthermore, factor flows and welfare under Nash, Stackelberg and Ramaswami (monopoly or monopsony) equilibria are systematically compared by means of the apparatus of iso-national-income curve. It also shows that a tax ceiling set around the neighborhood of Stackelberg equilibrium provides a mechanism for countries to improve their welfare.