Mousten Hansen, Kristoffer J. 2026. "The Political Economy of Migration." *Quarterly Journal of Austrian Economics* 29 (3 (Papers and Proceedings)): 80–88. https://doi.org/10.35297/001c.173530.

ARTICLES

The Political Economy of Migration

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JEL Classifications: B53 Austrian, F66 Labor, P00 General

https://doi.org/10.35297/001c.173530

Quarterly Journal of Austrian Economics

Vol. 29, Issue 3 (Papers and Proceedings), 2026

Economists have long settled the issue of the economic determinants and consequences of migration (Mises [1919] 2006, [1949] 1998). Labor and capital will tend to move to the countries where wages and returns on investment, respectively, are highest, leading to an overall increase in productivity and the optimal use of natural resources. Although this analysis is correct, it must be extended in order to deal with the problems of migration in the actual world. Among Austrian economists, Hans-Hermann Hoppe (2001a, 2001b) has pointed the way to the correct solution, but although we agree with his overall argument, there are still important details missing. In the present article, we will attempt a thorough analysis of the drivers of migration, what we call the political economy of migration. We will first briefly restate the Misesian analysis of migration and show how, in a world of free trade and capital mobility, there is very little economic benefit to migration. We will then look at which factors in the interventionist economies of the developed world drive immigration. Capitalists with fixed investments are one group, and the state and its beneficiaries are another, but both are interested in the inflow of economically productive laborers. A third group within the state apparatus, what we may call the welfare bureaucracy, has a clear interest in unrestricted immigration of unproductive individuals, as this increases its own power and incomes. This bureaucracy has also been a clear driver in producing an "immigration ideology" justifying policies that increase their own position at the expense of other parts of the ruling class and at the general social cost of both more parasitic behavior in the form of increased welfare payments from taxpayers to newly arrived beneficiaries and more antisocial behavior.

Free migration, or "open borders," is generally taken to be the conclusion of economics or, more generally, of liberalism, with Bryan Caplan (2022) being perhaps the most famous proponent of this view. Walter Block (1998) has also argued in favor of free immigration under all circumstances. What is more, critics of modern mass migration often consider free immigration a result of modern capitalism, and immigration is a main point of criticism of liberalism. Economists and liberal politicians all favor immigration, and since immigration in the view of critics is clearly a bad thing, economists and liberals thus stand condemned.

Yet are the benefits of free immigration really a clear conclusion of economic analysis? In fact, economic analysis as developed in the Misesian tradition (Mises [1919] 2006, 46–50, [1927] 2005, 103–8, [1949] 1998, 622–24) reaches no such sweeping conclusion. International migration is beneficial

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only insofar as it leads to better use of scarce natural resources and hence higher global productivity. In terms of welfare theory (Rothbard 2011), immigration can be considered optimal only if migrants homestead previously unowned resources or arrive at the invitation of property owners. An international movement of labor is thus economically beneficial only if both the migrants themselves and the inhabitant-owners of the receiving country actively welcome it (Hoppe 2001b, 162). If the migration occurs against the will of any of the persons involved, then it reduces social utility even if productivity increases as a result. We can still call this "free migration," of course, since it is a situation free of all state intervention, but it is not usually what people understand by the term, and it is far removed from the reality of mass migration in Europe.

The migrations of the last decades have little footing in the correct liberal doctrine of migration by invitation, and they have not led to overall economic benefits. The only possible economic benefits to migration are a better use of scarce natural resources and a more intensive division of labor, and these benefits, we will argue, can in most cases be achieved through free trade and international capital movements without incurring any of the costs that imposing mass migration on unwilling societies necessarily brings. Thus, neither the economic interests of society as a whole nor broader liberal social philosophy can explain or defend the actual patterns of migration in recent European history. It is not for the common good. However, our point in this article is not simply to exculpate liberalism from the sins of migration; we will also attempt to explain the true drivers of modern migration. Economic thinking and historical understanding can lay bare the drivers of migration, specifically by looking at the particular interests of specific groups in society. As neither the market economy nor a liberal social order is the cause of modern mass migration, we must seek its cause in state intervention and in the special interests favoring immigration that will attempt to get the state to implement pro-immigration policies. Different parts of the ruling class have different reasons for favoring this policy, so a differentiated look at the parts of the ruling class and their interests is needed. The liberal doctrine of class conflict is essential for this purpose (Long 1998; Raico 2012).

This explanation of the liberal doctrine and the political economy of mass migration allows us to understand the history of immigration in Europe since the Second World War. Far from being a necessary consequence of liberalism, immigration flows arose and changed as a consequence of policies implemented to serve the interests of various parts of the ruling class. Correspondingly, effective opposition to mass immigration is only likely when some politically influential individuals turn against pro-immigration policies; popular opposition alone is not enough.

The Economics of Migration

On the Misesian account of migration, laborers will move internationally in pursuit of higher wages, until, other things being equal, wage levels are equal globally. Attachment to a given location yields "psychic profit" for an individual and may result in a permanent deviation from the global wage level in preferred locations, as some laborers may prefer working in some locations at a lower wage than what they could earn elsewhere. Differences in the cost of living in different regions will also cause premia to emerge above the global wage level (Mises [1949] 1998, 622–24). The wage differentials that set off international migrations are due to differences in the endowment of producer goods in different regions. Wages are higher in some countries because there are more natural resources and capital goods available there, which raises the discounted marginal value product (DMVP) of labor and hence the wage rate. When laborers migrate to such destinations, this raises wages in their home country, as the supply of labor falls and the DMVP of labor there rises. It also suppresses wages in the destination country, as the supply of labor there increases and the DMVP of labor therefore falls. Overall, global productivity increases, as labor and nonhuman producer goods are better employed.

At the same time, capital will move internationally to where returns are highest—that is, to where it is most productively invested. A movement of capital in the opposite direction of the movement of labor discussed above will, with the exception of the improved use of fixed natural resources discussed below, lead to the same result as the movement of labor. If one country is relatively overpopulated, the DMVP of labor is lower there than in other countries, which implies that the DMVP of the various capital goods is higher there than elsewhere (Rothbard 2009, chap. 7). Capitalists therefore profit from investing capital in the relatively overpopulated countries, as the formation of capital goods in them leads to supramarginal returns until the relatively overpopulated country is as well supplied with capital goods as other countries—that is, until it is no longer relatively overpopulated. The movement of labor and capital therefore results in their optimal allocation and most productive use. This is a clear conclusion of economic theory.

Although this account is true, it is also incomplete (Hoppe 2001a). For one thing, we cannot really conclude from it that free immigration will result in optimal productivity. This is the case only when immigration leads to the better utilization of fixed natural resources or, what is really a special case of the former, to the extension of ownership and hence of productive use to new, hitherto unowned land. Yet this is mostly not what happens with modern immigration. Although there are still vast unsettled areas, the economic use of such land has mostly been preempted by government interventions that make the use of virgin land too costly or outright outlaw it. Also, the importance of fixed natural resources should not be overemphasized: although there are fixed natural resources all over the world, the different kinds of natural resources are pretty widely distributed. For instance, it would be wrong to argue that the

immigration of Indian miners to Great Britain would lead to the better use of coal mines (it would certainly lead to their more intensive use in Britain) and raise global productivity, since there are plenty of coal mines in India which would then be less intensively used. Natural resources such as coal are so widely distributed that migration is not necessary in order to exploit them. Some natural resources, such as diamonds or the nowadays highly desired rare earths, are much scarcer. When deposits of such resources are discovered, it is perfectly correct to assert that labor shifting there would raise productivity. This might take the form of an international movement of labor, and such a movement would then be economically beneficial. But this is really the only case where we can reach this conclusion, and such cases are rather rare.

In order to see the economic futility of migration, consider the case of a country with no particular natural resources. If there is immigration into such a country, the first consequence will be a general fall in the wage rate and larger returns to the various capital goods employed. In response to this rise in returns, domestic and likely foreign capitalists will invest more, and capital will flow in, raising wage rates and eliminating profit opportunities. Ultimately, production will be greater in the country after the immigration, but the productivity per worker, the wages of the workers, and the return on investment will not have changed, nor will there be a more intensive division of labor. Productivity has thus not increased globally; labor and capital have simply shifted from one location to another. There is therefore, in most cases, really no economic benefit to immigration; thus, capitalism or free markets are not driving modern mass migration. The classic argument shows not that mass migration is economically beneficial but that free trade and capital mobility are in most cases adequate means to maximize global productivity and incomes (cf. Heilperin [1947] 1952, 18–20).

This can be seen if we again consider the problem of a relatively overpopulated country. Workers in such a country will earn lower wages than elsewhere, since labor is relatively more plentiful. Emigration is one possible solution to the problem: letting the workers go elsewhere. This will drive wages up in the home country and down abroad, until they equalize when there is no longer any relative overpopulation. Yet emigration is not the only solution: The overpopulated country can trade with the outside world, its relative abundance of labor ensuring that it has a comparative advantage in some labor-intensive industries (cf. Ohlin 1933). Trade will lead to large profits in export industries, and this will spur domestic saving and attract foreign investment. As we saw above, the relative abundance of labor implies a relative scarcity of capital goods in general, and therefore there will be large returns on investment. Capital will thus flow into the country until the relative overpopulation has been eliminated by capital accumulation.

One final economic cause of immigration may be the availability of free resources provided by the state in the receiving country. Roads, social services, transfer payments—when these are freely available to all, they function economically in the same way as virgin land in attracting migrants. The consequences of such immigration for the receiving country are, of course, very different, since the migrants in this case constitute an economic burden on society. If the state did not intervene to provide such services, they would be privatized in the natural course of things, as the actual scarcity of roads, for instance, became apparent. The natural evolution of migration would thus be in the direction of immigration by invitation only (Hoppe 2001b, 162)—that is, a situation where immigrants or those who invite them bear the full costs of immigration. Only under this condition could we say that immigration is optimal.

Liberal ideology and capitalism are thus not the causes of modern immigration, so some other cause must be behind it. One possibility is that an erroneous ideology at odds with liberalism is dominating; it is also possible that special interests that benefit from state-directed, quasi-unlimited immigration directly encourage and implement policies that enable such immigration.

The Political Economy of Migration

As shown above, immigration can be justified economically in only a few cases: when migrants are invited or when there are free resources that can be appropriated. Although these cases were historically important, nowadays they are rarely the key drivers of migration. Modern mass immigration cannot be explained on the grounds that it is economically beneficial for everybody involved, but this does not mean that there are no economic explanations. We just need to change our focus from the dynamics of the free market economy to the costs and benefits to specific groups within society. We then see that there are indeed good economic explanations for modern migration flows. In the following we will examine three of the key groups (the list is not necessarily exhaustive) that benefit from immigration.

Capitalists and Migration

The first group is the capitalists with fixed investments. As we saw above, it is an error to believe that capitalists as such benefit from immigration, or that the system of capitalism necessarily goes hand in hand with free migration, but this does not mean that specific capitalists may not have a key interest in welcoming immigrants and enlarging the domestic labor supply. Capital can be invested anywhere, but once capitalists have invested in fixed capital goods in a given location, their economic interest is to exploit this fixed investment most profitably. They want to increase the net income and the capital value from their investment.

Even under optimal circumstances in which these fixed investments are also profitable in the absence of immigration, such capitalists would still have an interest in immigration. If immigration brings an increase in the supply of labor, the marginal value productivity of all capital goods increases, and this in turn leads to a proportional increase in their capital value. Given the nature of fixed investments, this particular group of capitalists will benefit. It is true that the inflow of capital will quickly dilute the extra profits to be made by other capitalists, but the process will be slower in the case of fixed investments, since such capital goods (large machines, factory buildings, forests and plantations, and so on) are produced slowly. Therefore, the owners of such fixed capital may be interested in immigration at all times.

This interest becomes much stronger if fixed investments are not, in fact, profitable—that is, if they are the result of malinvestments made in the boom phase of the business cycle, or if a sudden, unforeseen change in market data makes otherwise good investments less profitable or even unprofitable. Then the return on investment falls, and the capitalists will have to write down their investments, incurring large capital losses. However, a sudden increase in the supply of available labor will increase the income from capital goods and mitigate the fall in capital value. Large plants built during a boom can then be made profitable despite their really being malinvestments. The owners then avoid large capital losses and can more or less maintain their stream of income. Given their large potential losses, such capitalists can become an important political force arguing for immigration.

The State and Migration

The second main group with an interest in immigration is the state in general and the groups living off state income. Here, the case is straightforward: More immigrants mean more laborers, and more laborers mean a larger inflow of capital. Both together mean more productive activity within the state's borders and hence a higher GDP, although GDP per capita will tend to remain at the same level. That productivity, however, is not the concern of the state: To it, higher GDP means more potential tax revenue, and hence higher potential incomes for the ruling class living off taxes. It also means that the state in question is strengthened in competition against other states.[1]

Conceiving of the state in this fashion is not, however, particularly helpful. There are different groups competing for control of the state, each with its own interests, clients, and ideology. Any given group is, of course, interested

1 Hoppe (2001a, 142) argues that a low-time-preference monarch-owner will tend to focus on attracting above-average individuals in order to maximize his potential income. It is true that a more productive individual will be favored over a less productive individual, but any productive person will be a benefit to the state interest, understood in terms of higher (potential) tax income.

in increasing state income, but it is also much more narrowly focused on increasing its own income even if this means lower overall state revenues. Any kind of bureaucracy will be this way.

The Welfare Bureaucracy and Migration

This brings us to the third group: the bureaucrats administering the welfare state. Bureaucratic success is measured, at the end of the day, by the size of the budget the bureaucrats administer (Mises 1944). Any bureaucracy is therefore interested in maximizing its own budget. In the case of welfare, this means the bureaucrats want to increase both the number of recipients they serve and the size of the payments they distribute. There is also an interest in creating new kinds of welfare payments—partly to attract new clients, partly to make more work for bureaucrats (and hence increase the budget).

The welfare bureaucracy's easiest source of clients and power is domestic residents, but it may be that these are not willing to become clients. The internal struggle between state groups limits how far each can expand its own power, and there is an ultimate limit, determined by the ideology of the population, to how many clients the welfare bureaucrats can acquire. Even if welfare payments promise a higher income, at least in the short term, it may be that there is a hard limit on how many people are willing to forgo productive employment and become welfare clients.

Hence, the welfare bureaucracy may turn to other sources of clients. Foreigners may be a source if their income in their home country is significantly lower than the subsidies they might receive if they migrate. Welfare bureaucrats wanting to expand their bureaucratic power beyond what domestic "demand" would enable will thus look for clients in countries that are significantly less developed—that is, where the capital stock is much lower. They will also tend to favor migrants who are less productive or even completely unproductive, since immigrants cease to be clients of the welfare bureaucracy once they become employed. Finally, the welfare bureaucracy will have an interest in stimulating immigration from countries very unlike the host country. Such immigrants will find it much harder to adjust to life in their new country, since language and the wider culture will be strange to them, and there will be large costs for companies trying to hire them for productive work. It is much more likely in this situation that the immigrants will remain clients, supported by the bureaucrats and creating work for the bureaucrats in the form of the myriad integration projects set up to help the immigrants adjust to their new life (Hoppe 2001a, 145).

This is obviously a very strange situation for the general public, and it is likely to generate hostility toward the immigrants and the welfare bureaucrats. An enterprising bureaucrat may have hit on immigration as a means to increase his power and income, but he is likely to soon run into the ultimate check on state power: unfavorable public opinion. In order to enable further welfare

migration, the bureaucrats will have to engage in ideological work: They must convince the public that this kind of immigration is actually good. The bureaucracy must become a key producer of migration ideology, generating arguments that immigration is beneficial, that it is morally good, or at least that only bad people can be against immigration. The bureaucrats are helped in this business if they themselves have some moral standing. It is thus often the case that they will not, or at least not initially, be part of the formal government apparatus. They may work in some nongovernmental organization, voluntary or religious association, or trade union. Their formally independent position grants them the necessary moral authority to make migration ideology believable for a sizeable part of the public, enabling further expansion of the welfare-migration bureaucracy. Ultimately, however, their income and power come from administering state welfare and state migration programs.

If the welfare bureaucrats are successful, increasing immigration will lead to greater state predation on the economy and expand the power of the welfare-migration bureaucracy within the state. It is therefore likely that other elements in the state will eventually turn against the idea of free immigration, since it reduces their own power, hurts the economy and hence the potential income of the ruling class, and is contrary to other political goals they may have.

Conclusion

We have in this article recalled the economic analysis of migration as developed by Ludwig von Mises and sketched the liberal position of migration by invitation. Modern mass immigration into Western countries cannot be explained by liberalism or capitalism, and so we have essayed a brief explanation of its true causes.

The political economy of mass immigration points to certain special interest groups as the key drivers. Two groups in particular are important: capitalists who can salvage their investments by importing cheap labor, and bureaucrats who can increase their power by importing welfare clients. How mass immigration developed in different countries is a question in need of a thorough historical study, but any such study must be based on a proper understanding of the economics of migration and of the various particular interests that benefit from mass immigration in its various stages. This article is intended as a help to such future historical work.

Submitted: May 08, 2026 CST. Accepted: June 08, 2026 CST. Published: November 20, 2026 CST.

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