

MONEY AND MIGRATION: FIRM BEHAVIOR AND LABOR IMMIGRATION POLICY

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ABSTRACT

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Edward D. Mansfield

What shapes labor immigration policies? This dissertation explores in particular the macroeconomic environment and the influence of firms as key determinants. It argues that monetary policy plays a pivotal role in shaping labor immigration policy through its influence on the economic and political behavior of firms. Specifically, the expansion of monetary policy results in lower borrowing costs, motivating profit-seeking firms to expand, invest, and increase their demand for labor, including immigrant workers. This, in turn, drives firms to lobby for labor immigration liberalization. Notably, multinational corporations (MNCs) are expected to wield a stronger influence on the policymaking process due to their superior lobbying capabilities compared to their domestic counterparts. To empirically test this theory, I construct a novel labor immigration dataset to track changes in labor immigration across 25 high-income democracies over 50 years. This dataset is analyzed alongside monetary policy indicators and other economic and institutional factors through regression models. Case studies of Canada and Japan were also employed to provide detailed insight into the underlying causal processes. The empirical evidence uncovered emphasizes the significant impact of MNCs' borrowing costs on labor immigration policy changes, highlighting their size and favorable borrowing conditions that enable effective lobbying. This research not only contributes to the burgeoning field of labor immigration but also enhances our understanding of firm behavior and the outsized role of MNCs in policymaking.

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CHAPTER 1

INTRODUCTION

What shapes labor immigration policies? The form that labor immigration policies take can vary significantly among countries and evolve over time. Germany transformed from a country with an immigration ban in the 1970s to becoming one of the top immigrant destinations in the world, boasting a diverse population with immigrants contributing markedly to the country's social, cultural, and economic life. Canada's immigration priorities have shifted from primarily emphasizing permanent immigration, where foreign individuals immigrate to settle permanently, to adopting a more balanced approach that incorporates both permanent and temporary immigration that considers the changing needs of the economy. Traineeship opportunities in South Korea served as a means for attracting foreign workers with lower skill levels to address shortages in industries requiring labor for less skilled positions, and it was only in the 2000s that the government created a more formalized, structured, and regulated system governing the entry and employment of low-skilled immigrant labor.

Labor immigration is a politically salient issue in many advanced industrialized countries, eliciting strong emotions and debates among policymakers, political parties, and the general public. Labor immigration directly affects a country's economy, particularly in terms of workforce availability, skill gaps, and labor market dynamics. While labor immigrants are perceived as potential competitors to native workers, potentially resulting in native unemployment and wage pressures, there is also recognition of their role in filling crucial positions and supporting essential sectors of the economy. Governments grapple with the challenge of striking a delicate balance through carefully calibrating their labor immigration policies.

Labor immigration policy refers to the set of rules, encompassing laws, regulations, decisions, measures, and orders, that countries define and implement to regulate the entry and stay of foreigners who are in the country for the primary purpose of employed work. Governments utilize labor immigration policies to regulate their borders, controlling the influx and outflow of immigrant labor

and setting the standards and conditions for legal residence. There are instances when governments allow relatively unrestricted entry of labor immigrants, while other periods are characterized by tighter controls and limitations on the entry of foreign workers into the domestic labor market. Similarly, there are times when governments encourage longer stays for immigrants, alternating with periods of actively prohibiting prolonged residency. A mix of open and restrictive elements in labor immigration policies reflects the efforts of policymakers to balance labor market needs with broader societal and political considerations.

This dissertation seeks to examine the factors influencing changes in labor immigration policies across countries and over time. It endeavors to understand the conditions that prompt policymakers to facilitate the relatively smooth and unrestricted entry of labor immigrants and the circumstances under which policymakers impose stringent controls and barriers or maintain the existing status quo.

The scope of analysis is limited to high-income democracies. These countries have well-developed economies with industries that require a diverse and skilled labor force, engendering demand for immigrant labor to fill skill gaps and to support economic growth. Native workers also tend to avoid certain types of jobs that are perceived as low-paying, physically demanding, or lacking in benefits and prestige, contributing to labor shortages. Many high-income democracies are also experiencing aging populations and declining birth rates, leading to a shrinking workforce. Given these considerations, labor immigration policy becomes an important policy issue that governments need to carefully deliberate, especially in contrast to other lower-income countries that possess ample and appropriately skilled domestic labor capable of meeting their economic needs. Furthermore, high-income democracies share similarities in their economic structures, labor markets, and regulatory environments, and have relatively well-developed institutions and governance systems, providing a comparable baseline to test the proposed theory. High-income democracies also typically have more comprehensive and reliable data on labor immigration trends, making it easier to conduct quantitative analyses and draw robust conclusions from the available data.

1.1. Existing Explanations For Immigration Policymaking

In the extant literature, political economy models examine the dynamics of immigration policymaking in democracies by focusing on the contrasting stances of the general public and interest groups. The public's resistance to liberal immigration is grounded in economic and cultural factors driven by self-interest. Meanwhile, interest groups, particularly firms seeking both skilled and unskilled labor, actively engage in lobbying efforts to advocate for more liberal immigration.

1.1.1. Public Attitudes Driving Immigration Policy

The importance of public opinion in policy formation rests on the premise that in democratic societies, the attitudes of voters serve as a foundation of policymaking. Within this democratic framework, policy outcomes are closely tied to the preferences of the electorate as elected officials align their policies with prevailing public sentiments (Facchini and Mayda, 2008). Furthermore, considering the current landscape characterized by the prevalence of anti-immigration rhetoric in public discourse and media, alongside the rise of right-wing populism and the growing electoral support for such political parties, it seems reasonable to hypothesize that public opinion will wield a considerable influence on immigration policymaking (Meguid, 2005; Swank and Betz, 2003).

Several existing theories contend that individuals develop their views on labor immigration and immigration policy preferences based on their self-interest. In particular, it centers on their personal vulnerability to the impact of immigrants, encompassing factors related to labor market dynamics, fiscal implications, and cultural considerations.

According to this body of research, individuals are expected to shape their immigration policy preferences based on their economic circumstances, particularly their susceptibility to labor market competition. The labor market perspective delves into the interactions between native workers and immigrants, highlighting how competition for jobs between them leads to opposition towards immigration. This occurs as immigrants can adversely affect the employment and wages of native workers they compete with, causing a reduction in local wages and an increase in domestic unemployment (Borjas, 1999, 2003). Empirical studies have also found that natives are likely to

resist the entry of immigrants that are like them, such as those with similar skill profiles (Mayda, 2006; Scheve and Slaughter, 2001) or with expertise in the same industries (Malhotra et al., 2013; Dancygier and Donnelly, 2013) for fear of direct job competition. This worry is particularly acute for lower-skilled natives who are most opposed to immigration since employers can more easily substitute them for a migrant that demands lower pay and fewer rights (Hanson et al., 2007; Mayda, 2006; Scheve and Slaughter, 2001).

The veracity of the labor market competition hypothesis is challenged by the positive findings from the labor economics literature that has uncovered economic and welfare gains as a result of immigration. These benefits can potentially lead to overall increases in wages and employment. However, what appears to matter more is the perceived economic impact that drives opposition instead of the actual materialized effect on the economy (Gerber et al., 2017). Additionally, the reliance on education as a proxy for skill level makes labor market competition claims problematic. Among the studies that do purport to find support for the hypothesis, almost all use the level of education of respondents as a measure of the skill level of the native group under economic threat (Hanson et al., 2007; Mayda, 2006; Scheve and Slaughter, 2001). Although education is surely correlated with skills, it is a problematic proxy because highly educated and lower-educated individuals also differ along many other non-economic dimensions that shape their attitudes towards immigrants. In particular, education is correlated with cultural tolerance and cosmopolitan social attitudes, leading to a greater acceptance of immigrants among individuals with higher levels of education (Chandler and Tsai, 2001). Therefore, it could be that the strong negative relationship between education and opposition to immigration stems not from the labor market concerns of lower-educated individuals—as some of the studies cited above contend—but rather from the fact that lower-educated individuals are on average more nativist and culturally intolerant of foreigners.

Beyond labor market competition, the fiscal burden explanation also hinges on economic self-interest. This perspective studies the fiscal effects of immigrants in light of the rise of the welfare state after World War II. Such arguments contend that natives oppose immigration because immigrants, especially those with lower skills, are perceived, sometimes incorrectly, to consume more

government services and public resources than they provide in tax revenue (Hainmueller and Hiscox, 2010). Accordingly, rich taxpayers oppose immigration because of the perceived increased tax burden that is necessary to support the social welfare system, and there is evidence that richer natives show less support for immigration in countries where influxes are more strongly skewed toward low-skilled immigrants (Facchini and Mayda, 2009). Poor taxpayers, those likely to be recipients of the welfare state, also oppose immigration because immigrants are thought to reduce their access to resources and lead to lower levels of fiscal redistribution (Hanson et al., 2007).

As in the case of the labor market effect of immigration, there is no clear economic evidence that immigrants are in fact a fiscal burden (Auerbach and Oreopoulos, 1999; Dustmann et al., 2010). Some studies indicate that immigrants are a net fiscal gain, thereby not requiring the rich to bear an increased tax burden and the resources available to the less privileged are not diminished. The overall gains from immigration can even be redistributed, and recipients of the welfare system will get an even larger share of the pie. It is also unclear why concerns over the fiscal burden of immigrants should result in reducing immigration instead of simply limiting immigrants' access to government services (Peters, 2017).

Economic explanations aside, cultural explanations focus on one's individual or collective cultural and national identities, probing how these identities may be challenged or undermined by the presence of immigrants. As people naturally categorize themselves and others into different social groups, a division emerges between the in-groups to which a person belongs and the out-groups that encompass those to whom a person does not belong. The categorization leads to an in-group bias, where individuals or groups tend to view their own cultural norms, beliefs, and practices as superior when compared to those of other groups, including immigrants. This bias drives the inclination to evaluate others based on one's cultural standards. This assessment often results in the attribution of sometimes negative characteristics to people from vastly distinct traditions and cultures. This process can foster an environment of antagonism and disdain towards those from differing cultural backgrounds (Kinder and Kam, 2009; Kinder and Sears, 1981; Tajfel, 1981).

When in-group bias focuses on the safeguarding of the identity and interests of natives within a

nation, it gives rise to nativism. Nativism revolves around the idea that the native population's cultural traditions, practices, and identity are under threat from external influences, particularly from immigrants and the foreign cultures they bring in. Fears of changing the cultural fabric of society, or diluting or challenging the existing way of life often engender strong opposition to incoming immigrants. The level of discomfort towards immigrants can vary depending on how similar they are to one's own group. The bias often shows up as a preference for immigrants who share cultural similarities while generating hostility towards those who are considerably different. These cultural attributes include factors like race (Ford, 2011; Hainmueller and Hangartner, 2013), ethnicity (Chung, 2010; Surak, 2017), and linguistic capabilities (Chandler and Tsai, 2001; Newman et al., 2012; Sniderman et al., 2004), among others.

Cultural factors can shed light on the development of fear, prejudice, and xenophobia in response to immigrants and immigration. These cultural attitudes tend to be relatively fixed and resistant to change over time, making them less suitable for explaining shifts in immigration policy. While it appears that media coverage and elite discourse can occasionally make these cultural attitudes more salient and influential in the context of immigration policy (Abrajano and Singh, 2009; Schmidt-Catran and Czymara, 2023; Valentino et al., 2013), the overall effects of the countervailing anti-immigration and pro-immigration framing by these entities and actors on labor immigration policymaking remain unclear (Theorin and Strömbäck, 2020).

The shortcomings of each strand of literature notwithstanding, relying on public opinion to explain immigration policy also faces several limitations. Even though attitudes are recognized as being important drivers of public policy in democracies, the literature does not provide systematic evidence on the link between individual attitudes and actual immigration policies implemented. Furthermore, voters take numerous issues into consideration at the ballot box and immigration is just one among the many concerns that citizens have. Immigration policies also tend to be more open than the public appears to prefer, as governments maintain relatively open borders despite persistent unhappiness and opposition towards immigration (Citrin and Sides, 2008; Cornelius and Rosenblum, 2005; Cornelius et al., 2004; Freeman, 1995; Joppke, 1998; Sobolewska and Ford, 2020). Especially

in the case of liberal democracies, immigration policies are marked by a general expansionary bias in recent decades, with official policies tending to be more open and welcoming than public opinion permits. This disjuncture between hostile public attitudes and liberal labor immigration policy outcomes indicates that public opinion has relatively limited explanatory power in accounting for immigration policymaking.

1.1.2. Pro-immigration Interest Groups

The willingness of countries to maintain a relatively open stance on immigration suggests the importance of other pro-immigration interest groups in the policymaking process. Among these groups are immigrants themselves, seeking to bring family members or relatives into the country, individuals who value cultural diversity, and proponents of human rights. Firms also emerge as a prominent interest group favoring pro-immigration policies, given their reliance on immigrant labor as a crucial production input (Money, 1997). Firms desire an increase in low-skilled immigration when seeking an affordable pool of immigrant labor and push for high-skilled immigration in pursuit of specialized expertise (Amegashie, 2004; Caviedes, 2010). Unlike the aforementioned groups, firms have a significant stake in immigration policy and are more likely to possess the necessary financial and political resources to influence its outcomes.

Firms tend to lobby when confronted with unfavorable policy environments. Immigration policymaking in democracies also follows the pattern of client politics, in which the concentration of benefits and the dispersion of costs create stronger incentives for firms who anticipate gains from immigration to organize, while the broader population who expect to bear the burdens fail to mobilize (Freeman, 1995, 2003; Joppke, 1998). However, firms do not lobby for immigration at all times and their lobbying activities are dynamic and subject to change. An expanding body of scholarly work has endeavored to examine whether and how the preferences of firms and their lobbying strategies evolve in response to shifting circumstances.

One of the earliest studies focuses on U.S. border enforcement and shows that it relaxes when sectors using illegal immigrants expand or receive positive external shocks (Hanson and Spilimbergo, 2001). The authors argue that positive demand shocks raise demand for illegal labor as well as the returns to

lobbying for lower enforcement. Firms in sectors that benefit greatly from lower border enforcement, such as apparel and agriculture, thus lobby heavily on the issue while remaining sectors that benefit modestly or not at all are politically inactive.

Later studies leverage lobbying data and seek to establish an association between lobbying behavior and favorable immigration policy outcomes. Facchini et al. (2011) find that barriers to migration are lower in sectors in which business interest groups incur larger lobbying expenditures. In particular, they find that industries with very high lobbying expenditures on immigration are among those that receive the highest number of non-immigrant work visas. In a similar vein, Liao (2021) utilizes information on firm lobbying and finds that while H-1B work visa denial rates generally increased under the first year of the Trump administration, firms lobbying for immigration had lower rates of denial, even after controlling for the effect of firm- and industry-specific characteristics.

Recent studies pivot the focus to instances where firms depart from pro-immigration stances. This does not imply that firms adopt anti-immigration positions, but rather they become indifferent due to circumstances that diminish the motivations of certain firms to advocate for immigration liberalization. Using changes in the macroeconomic environment and technological advancements, Peters (2015, 2017) argues that trade openness and firm mobility have allowed larger, more productive firms to move overseas when production is no longer profitable at home, reducing demand for low-skilled labor and consequently their support for low-skilled immigration. This allows anti-immigration groups, such as nativist organizations or organized labor, or the anti-immigration mass public to undertake a more influential role in immigration policymaking, leading to greater restrictions. Similarly, Shin (2019) argues that high-value natural resource production crowds out labor-intensive firms in the tradable sector. When these pro-immigration business interests disappear due to deindustrialization, the pro-immigration coalition weakens in domestic politics. Without strong business pressure for increased immigration, policymakers close their doors to immigrants to accommodate anti-immigrant interests. Both studies move away from a static view of firm preferences and contend that the size of the pro-immigration coalition can be reduced and consequently affect the aggregate support for immigration.

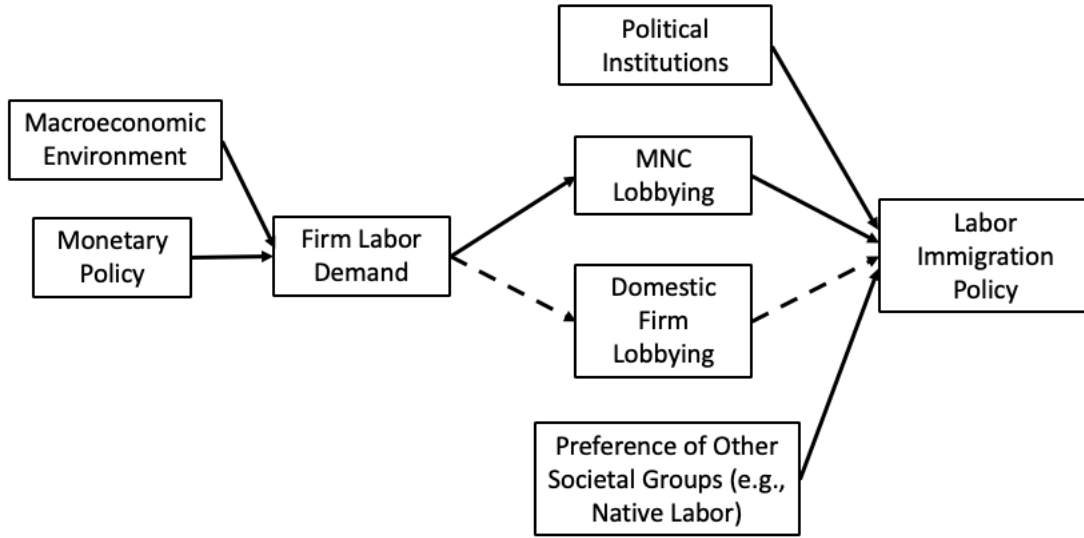
1.2. Central Argument of Firm Influence on Immigration Policy

This dissertation follows the growing literature that examines dynamic firm preferences and lobbying behavior and their subsequent influence on immigration policy. It argues that firm preferences regarding labor immigration are shaped by changes in the macroeconomic environment, which in turn influence their motivation and political behavior to lobby for more liberal labor immigration policies. Specifically, in a macroeconomic environment characterized by low interest rates stemming from an expansionary monetary policy, borrowing costs for firms decrease. As profit-maximizing entities operating in a competitive economic landscape, firms seize the opportunity to expand, invest, and hire additional workers. This heightened demand for labor serves as a driving force for firms to actively lobby for liberal labor immigration.

However, not all firms possess the capability to effectively lobby for the liberalization of labor immigration. Among them, multinational corporations (MNCs) stand out as a group that holds a greater advantage in lobbying for liberal labor immigration compared to domestic firms. This advantage stems from multiple factors. Firstly, MNCs are typically larger in size, have greater access to resources, and have more to gain from favorable policy outcomes. In particular, numerous studies demonstrate that large firms, which are more likely to be MNCs, spend more on lobbying (Drope and Hansen, 2006; Hansen et al., 2004; Kerr et al., 2014). They also tend to have more political connections (Agrawal and Knoeber, 2001; Faccio, 2006; Johnson and Mitton, 2003) and lobby alone, avoiding collective action problems that give rise to political inaction (Gilligan, 1997; Kim, 2017; Mizruchi, 2013; Olson, 1965).

Secondly, their multinational status grants them lower borrowing costs on average, enabling them to allocate more financial resources towards lobbying endeavors (Jang, 2017; Mansi and Reeb, 2002; Reeb et al., 2001). As a result, while firms in general respond to shifts in monetary policy by expanding production and increasing their workforce, MNCs are more likely to succeed in translating their preference for liberal labor immigration into tangible policies that facilitate the entry and stay of labor migrants.

Figure 1.1: Overview of Central Argument



On the other hand, in a macroeconomic environment characterized by high interest rates resulting from contractionary monetary policy, borrowing costs for firms rise. The increase in debt expenses¹ make firms more cautious about borrowing to pursue firm growth. In this scenario, there is little to no increase in labor demand, and firms forgo the need to actively lobby the government for greater openness in labor immigration. Instead, their lobbying efforts are directed towards other areas of concern.

Figure 1.1 offers a summary of the argument, illustrating the causal pathway from monetary policy to labor immigration policy through firm labor demand and firm lobbying. In addition to monetary policy, the broader macroeconomic environment also affects the incentive of firms to expand, invest, and hire more workers. Furthermore, political institutions and the preferences of other societal interest groups need to be taken into account when seeking to understand labor immigration policymaking.

1.3. Observable Implications

Several observable implications result from the argument presented above. First, changes in monetary policy are expected to correlate with changes in labor immigration policy. While MNCs tend

¹The terms "borrowing costs", "debt costs", "debt expense", and "interest expense" will be used interchangeably.

to exhibit distinct political behavior compared to domestic firms due to their increased capacity to influence politics and their greater motivation to do so (Kim and Milner, 2019), the impact of the lobbying efforts of MNCs should still remain evident when examining the relationship between monetary policy and labor immigration policy at the aggregate level. Thus, periods of expansionary monetary policy are expected to exhibit an association with the liberalization of labor immigration policy, while periods of contractionary monetary policy are expected to be associated with restrictions on labor immigration policy.

Second, when analyzing MNCs and domestic firms separately, the borrowing costs of MNCs are expected to be significantly associated with changes in labor immigration policy while the borrowing costs of domestic firms are not expected to exhibit a significant correlation with labor immigration policy shifts. The benchmark interest rate established by the central bank serves as a reference for determining the pricing of debt issued by commercial lending institutions in general, but borrowing costs differ between MNCs and domestic firms due to variations in creditworthiness arising from their multinational and domestic status. Considering that MNCs appear to have more effective lobbying capabilities (Kerr et al., 2014), changes in their borrowing costs are likely to align more closely with changes in labor immigration policy compared to domestic firms. Consequently, an association is expected between lower borrowing costs for MNCs and labor immigration policy liberalization, as well as an association between higher borrowing costs for MNCs and labor immigration policy restrictions. However, this correlation is not expected to be evident in the case of domestic firms.

Third, examining the causal process in greater detail, lower borrowing costs should increase the likelihood of firm lobbying, primarily for MNCs rather than domestic firms. While both MNCs and domestic firms require additional labor as they embark on expansion and investment, MNCs are better positioned to engage in effective lobbying efforts. This can be attributed to their significant scale and the lower costs of debt, which equips them with additional resources that can be allocated towards lobbying.

Lastly, when considering the relationship between monetary policy and labor immigration policy, it is expected that lower borrowing costs would be associated with the liberalization of labor immigration

policy through changes in firm labor demand. In other words, the connection between the cost of borrowing and immigration policy changes should be mediated by the changes in firm economic behavior, particularly the expansion and investment activities that necessitate the hiring of more workers. The superior lobbying capabilities of MNCs compared to domestic firms also imply that this causal pathway would apply to MNCs more so than domestic firms.

1.4. Alternative Arguments

Instead of being exclusively driven by monetary policy, firm expansion and their lobbying for liberal labor immigration may be influenced by broader macroeconomic factors or other economic policies. Changes in monetary policy do not occur in isolation but often coincide with overarching macroeconomic trends, such as economic growth and exchange rate movements, as well as other economic policies such as fiscal policy. For instance, the central bank may reduce interest rates to stimulate borrowing and spending, while concurrently, the government may implement expansionary fiscal measures that increase government spending and/or reduce taxes, both aimed at supporting economic growth. Monetary policy expansion is also associated with a depreciation in the country's currency, making the country's exports more competitively priced in international markets and potentially boosting its exports and economic activity. To analyze the specific impact of monetary policy and borrowing costs on firm behavior, it becomes crucial to control for other factors in the macroeconomy. This involves accounting for a country's fiscal spending and exchange rate movements, as well as taking into consideration other relevant macroeconomic features such as economic growth rates. Accounting for these factors is important when examining the relationship between monetary policy, firm expansion, and the labor immigration preferences of firms in the empirical chapters of this dissertation.

Contrary to the presented argument, monetary policy expansion may be associated with labor immigration restrictions while monetary policy contraction may be associated with labor immigration liberalization instead if we follow the logic behind the conventional Phillips curve. The Phillips curve suggests a trade-off between unemployment and inflation, proposing that when unemployment is low, inflation tends to be high, and vice versa. However, when inflation is high, central

banks tend to tighten monetary policy to combat rising prices. Under such circumstances, monetary policy contraction would be correlated with high employment rates and strong labor demand and prompt firms to lobby for more liberal labor immigration. Nonetheless, the empirical relationship between inflation and unemployment has proven to be less stable over time, leading to challenges and criticisms of the Phillips curve's validity (McLeay and Tenreyro, 2020; Ratner and Sim, 2022). For instance, the expectations-augmented Phillips curve incorporates the idea that inflation expectations can influence wage and price-setting behavior. Inflation expectations then become a key factor in determining actual inflation and it may not always originate solely from the level of unemployment. Furthermore, external economic shocks, such as increases in oil prices, can simultaneously drive up both inflation and unemployment, challenging the traditional Phillips curve trade-off. As a result, the relationship between unemployment and inflation is more complex than originally thought, and it is less likely to directly affect the argument presented in this study between monetary policy and labor immigration openness.

1.5. Outline of the Dissertation

This dissertation is organized into six chapters. Chapter 1 serves as an introduction, outlining the research question that motivates the study of labor immigration policy. It also provides an overview of prevailing arguments from existing scholarly works that have endeavored to elucidate the processes behind immigration policymaking and offers a preview of the central argument, positing that firms are instrumental in shaping labor immigration policy in response to shifts in monetary policy. The introductory chapter concludes by highlighting the novel insights and contributions that this study aims to provide to the academic and policy fields.

Chapter 2 provides a comprehensive exposition of the argument previewed above. It begins by examining the impact of changes in monetary policy on the economic behavior of firms. The chapter then goes on to explain how strategies adopted by firms to cope with rising interest rates, such as foreign borrowing or offshoring and outsourcing production, have limitations and cannot fully shield them from the effects of higher borrowing costs. Fluctuations in interest rates that firms experience will shape their preferences concerning labor immigration policies, particularly in

relation to their expansion plans and subsequent demand for labor. The chapter also acknowledges a common perception that the rise of international trade and investment may reduce the need for labor from firms in advanced industrialized countries. However, it counters this notion by highlighting the persistent demand for workers, especially in emerging industries and lower-skilled positions that native workers tend to avoid. The chapter then moves on to explore the political influence wielded by firms, demonstrating how they translate their preferences into policies through the process of lobbying. It also emphasizes that not all firms possess equal political influence on the policymaking process. MNCs, due to their substantial size and lower average borrowing costs, exert a disproportionately larger influence compared to smaller domestic firms. The role of public opinion on labor immigration is also considered, exploring how changes in monetary policy affect the intensity and salience of native opposition to immigration.

Chapter 3 introduces the original dataset that forms the empirical foundations of this research project and facilitates the examination of the hypotheses formulated in Chapter 1. An inherent challenge in the immigration literature has been the scarcity of quantitative data on immigration. This problem is addressed with the creation of a new dataset on labor immigration. The chapter commences by detailing the construction and scope of the novel labor immigration policy dataset that covers 25 countries from 1970 to 2019. Subsequently, it presents a descriptive analysis of labor immigration policy changes across countries and over time, drawing insights from the newly developed dataset. The chapter then proceeds to discuss the operationalization and selection of the independent and control variables. The primary independent variable of interest is measured in three distinct ways, reflecting aggregate interest rates in the economy as well as the borrowing costs for MNCs and domestic firms respectively. The chapter also considers various economic, social, and institutional control variables to account for potential confounding factors. The regression analyses demonstrate a robust and statistically significant relationship between the borrowing costs of MNCs and labor immigration policy changes, and vice versa. In particular, lower borrowing costs for MNCs exhibit a significant correlation with liberalizing labor immigration policy changes. This finding remains consistent across different model specifications, including analyses of trends in borrowing costs over several periods. Placebo tests are also conducted, further boosting the validity

of the empirical findings.

Chapter 4 explores the underlying causal processes that connect borrowing costs to labor immigration policy. It first examines the lobbying behavior of firms, which serves as a crucial intermediary in the process of shaping labor immigration policy. Using firm-level lobbying data, the analysis takes stock of the kinds of firms that engage in lobbying and determines whether the likelihood of firm lobbying is influenced by factors such as low borrowing costs and a firm's multinational status. The second causal mechanism involves firm labor demand, which is also a critical factor that compels firms to lobby for labor immigration liberalization. Causal mediation analysis is employed to ascertain whether the association between borrowing costs and labor immigration policy operates through changes in firm labor demand. This comprehensive approach seeks to understand how both the lobbying activities of firms and their labor demand serve as channels that connect monetary policy with labor immigration policy.

Chapter 5 presents two case studies on labor immigration policymaking. It examines in detail the impact of changes in monetary policy on labor immigration policy in Canada and Japan. Through a process tracing approach using within-case analysis, it aims to unravel the sequence of events that transpired and the underlying causal processes involved. Specifically, the cases trace the monetary expansion witnessed in Canada in the mid-to-late 1990s and in Japan in the late 1980s to low borrowing rates, firm growth, and investment. New pathways for the entry of both high-skilled and low-skilled immigrant labor were subsequently established, and Canadian and Japanese firms actively utilized these avenues to augment their workforce. The micro-level evidence provided by these case studies serves to complement the statistical findings and strengthen the credibility of the proposed relationship.

The final chapter, Chapter 6, concludes this dissertation. It provides a concise summary of the theoretical framework and empirical findings uncovered throughout the study. It also considers the potential directions for future research, such as broadening the scope of analysis to include non-democratic and middle-income countries, exploring the lobbying targets and specific lobbying issues of firms, and uncovering the distinctive features of multinational firms that contribute to their

substantial influence in policymaking.

1.6. Motivations and Contributions to Research

The research presented in this dissertation makes a valuable contribution to the literature on labor immigration policymaking by focusing on the impact of firms. Firms are important economic actors and research in the field of International Political Economy (IPE) has extensively explored the impact of firms on political outcomes related to trade and investment. Concerning trade, this body of research has provided valuable insights into the diverse preferences of firms arising from disparities in technology, resource endowments, consumer love for variety, and productivity, and how these have noteworthy implications for collective action and political influence on trade policy (Kim, 2017; Kim and Osgood, 2019; Melitz, 2003; Milner, 1987). In the context of foreign direct investment, studies have uncovered the institutional and political factors that motivate firms to invest, along with the effects of foreign direct investment on matters such as democratization, governance, human rights, and income equality (Büthe and Milner, 2008; Jensen, 2003; Pandya, 2016; Plouffe, 2017; Post, 2014). However, there has been a notable gap in the analysis of the dynamic preference of firms and whether or how they wield their influence within the realm of immigration (Peters, 2015, 2017). By delving deeper into the motivations and strategies employed by firms, this study aims to enhance our understanding of the role that firms play in immigration politics.

In addition to exploring the role and influence of firms, this dissertation also directs its focus toward MNCs as the primary driving forces behind labor immigration policymaking. MNCs hold a position of significant interest in the global economic landscape. Collectively, they bear responsibility for substantial shares of global production, employment, investment, international trade, and innovation. On the domestic front, MNCs disproportionately contribute to economic growth, job creation, and improvements in labor productivity, enhancing overall market and economic efficiency. Governments actively seek to attract their presence to bring in foreign direct investment which is thought to generate positive spillover effects for the broader economy (Büthe and Milner, 2008; Li, 2006). However, concerns regarding MNC activities are prevalent, as they are sometimes perceived as at-

tempting to monopolize markets, leverage their financial strength to crowd out smaller firms, exploit labor, engage in tax avoidance, and undermine state sovereignty (Sassen, 1996). More studies have begun to consider the substantial political influence wielded by MNCs on both the domestic and global level (Anderer et al., 2020; Kim and Milner, 2019; Levy and Prakash, 2003; Mikler, 2018). Their capacity to translate their market dominance into substantial political power raises concerns, as it has the potential to shape and influence policies in ways that may not necessarily align with the broader interests of society. The concentration of power in the hands of a select few powerful entities can also pose a potential threat to democratic principles by distorting decision-making processes in favor of corporate interests rather than those of the general populace. Given the enduring significance of multinational firms in the modern economy, gaining a deeper understanding of their motivations and behaviors will better equip governments to effectively navigate the complex challenge of balancing economic growth, corporate influence, and the safeguarding of democratic ideals.

This dissertation does so by taking an interdisciplinary approach, drawing on insights from the fields of political science alongside international business, finance, and economics to understand the distinctive characteristics of MNCs. By distinguishing the behavior and strategies of MNCs from those of domestic firms, this study enhances our understanding of their unique role in shaping immigration policies. Additionally, by incorporating scholarly literature from multiple disciplines, this research also underscores the value of integrating interdisciplinary theoretical perspectives to generate fresh insights and advance academic research.

Deriving theoretical insights from monetary policy, specifically emphasizing the control of money supply and interest rates, offers valuable perspectives into what is otherwise an underexplored aspect of the economy that shapes behavior and political outcomes. Within the domain of the international monetary system, political economy researchers have looked into the distributional effects of capital flows and exchange rate regimes as well as the roles of international financial institutions (Bernhard and Leblang, 1999; Bernhard et al., 2002; Broz and Frieden, 2001; Frieden, 2016). In contrast to the cross-border movement of capital and the status of a country's currency vis-à-vis

another, interest rates appear to be a primarily domestic affair, overseen by central banks that have increasingly gained political independence particularly in affluent democracies in recent decades. However, its apparent domestic characteristic does not necessarily imply a weak impact on outcomes within the international political economy, including those related to immigration. Monetary policy is one of two principal instruments, alongside fiscal policy, by which government authorities in market economies leverage to affect the pace and trajectory of overall economic activity, including the level of aggregate economic output, employment, and general price levels. Governments have also placed increasing emphasis on monetary policy and corresponding less on fiscal policy to achieve these economic goals. Furthermore, monetary policy decisions would affect broad segments of the population, industries, and firms just as significantly as fluctuations in exchange rates. Thus, it is crucial to examine the often underexplored aspect of monetary policy, which is that of the control of money supply and interest rates, to understand how it can influence the behavior of actors and shape political outcomes.

Finally, the novel dataset on labor immigration policy created not only allows the testing of the arguments presented here but also holds considerable potential as a valuable resource for future scholarship. It can serve as a foundation for empirical analyses that specifically pertain to labor immigration policies, and fosters a deeper understanding of the dynamics surrounding labor immigration in high-income democracies.

CHAPTER 2

A THEORY OF MONETARY POLICY AND LABOR IMMIGRATION POLICY

This chapter presents a theory of how a country's monetary policy influences its labor immigration policy. Why and how do changes in interest rates affect the entry and residence of labor immigrants in a country? What roles do firms play? Do MNCs and domestic firms differ in their response to changes in monetary policy and their subsequent effort in exerting influence over immigration policymaking? The theoretical framework presented in this chapter serves as the foundation of this dissertation.

This chapter begins by outlining the objectives of monetary policy and its impact on firms. Money supply and interest rates in an economy are managed by the authorities to promote stable inflation, economic growth, and full employment. Any changes in monetary policy and interest rate movements consequently have an impact on the borrowing costs of firms and their profitability. Section 2.2 outlines the multiple strategies that are available to firms to cope with elevated borrowing costs, but their limitations imply that firms are not entirely shielded from the effects of changes in monetary policy. Section 2.3 elaborates on how the exposure of firms to fluctuations in monetary policy informs their preferences for immigration policy. Specifically, lower interest rates and borrowing costs stimulate greater demand for an open labor immigration policy, while higher interest rates and borrowing costs diminish the intensity of this policy preference. Section 2.4 explains that, despite the widespread practice of offshoring and outsourcing, the demand for labor in high-income countries has not substantially decreased. Firms continue to rely on workers within their home country's borders and they retain a significant stake in labor immigration policy outcomes. Section 2.5 delineates the political influence of firms and establishes that MNCs exert greater influence over policymaking compared to domestic firms. This is attributed to their substantial size and ability to secure lower borrowing costs which frees up resources for effective lobbying, including in the policy area of labor immigration. Section 2.6 explores the impact of monetary policy on public opinion, contending that while there is a prevailing baseline opposition of natives towards immigration, its

intensity and salience vary alongside shifts in monetary policy. In particular, when borrowing costs rise and firms step back from lobbying, natives' intensified and more salient opposition to immigrants would be the primary driver of immigration policymaking.

2.1. Monetary Policy Objectives and Implications for Firms

2.1.1. Monetary Policy Transmission Mechanism

Maintaining price stability, promoting economic growth, and supporting full employment are desirable macroeconomic objectives. These aims are achieved in part by managing the country's monetary policy, which is typically the responsibility of a country's central bank.

Central banks utilize various tools to achieve these goals, such as regulating the interest rates within the economy. When inflation surpasses acceptable levels, central banks typically implement a contractionary monetary policy. This approach involves increasing interest rates to slow down the economy and reduce inflationary pressures. Conversely, when the unemployment rate is high and economic growth is sluggish, central banks tend to adopt an expansionary monetary policy. This approach entails a reduction in interest rates.

Changes in interest rates and the money supply influence the behavior of economic actors, consequently affecting inflation, economic growth, and employment. Specifically, these changes shape the borrowing, investment, and expansion decisions of firms, which then influence their level of economic activity, including production output and the hiring of employees.

When monetary policy is expansionary and interest rates are reduced, it creates a favorable environment for firms to borrow money for investment and growth purposes. Given the potential for high returns resulting from expanding into new consumer markets, procuring new assets and property, and investing in research and development, the costs associated with financing these activities through debt become comparatively low. The profit-driven nature of firms would prompt them to take advantage of affordable debt financing to pursue growth and innovation initiatives that were previously deemed too expensive or risky.

Moreover, reduced interest rates during such periods encourage consumer spending, as saving money in financial institutions offers little financial return. As consumer spending increases, there is a corresponding rise in the demand for goods and services, prompting firms to ramp up production and hire more workers to meet this demand. This also incentivizes firms to adapt their business strategies to better leverage the spending power of consumers, resulting in the development of new products and services that generate additional revenue streams, thus further expanding firm production and employment.

An expansionary monetary policy also impacts firm behavior through its effect on exchange rates. Lower interest rates make a country's currency less attractive to foreign investors seeking higher returns, resulting in a decrease in demand for the currency and a weaker exchange rate relative to other currencies. This depreciation of the currency can lower the cost of exports, making them more price competitive in international markets. Consequently, there is an increase in demand for the country's exports, leading to a boost in firm production. Additionally, the weakened currency raises import prices, which benefits firms in import-competing industries by making their products more affordable for domestic consumers compared to foreign imports. As consumers shift away from expensive imports, production in import-competing industries also rises.

Contractionary monetary policy, on the other hand, negatively affects firm growth and employment. The reduction in money supply and the increase in interest rates prompt firms to actively reduce borrowing. This is because the potential returns on investments may not be sufficient to offset the increased cost of debt. Firms become more cautious and delay planned business activities until cheaper financing options become available.

Besides the impact of higher interest rates, a contractionary monetary policy can lead to tighter credit conditions, where lenders who are reluctant to extend credit impose stricter non-price contract terms, such as shorter loan maturity durations or more stringent financial ratio requirements. Meeting these stringent criteria becomes more challenging for firms, further diminishing their borrowing capacity and growth prospects.

For firms that rely heavily on borrowing to finance their daily operations, a larger share of their resources must be allocated towards servicing their debt obligations when interest rates rise. This reduces the funds available for other activities, such as investment or research and development. In turn, this further constrains the firm's ability to pursue growth opportunities, expand operations, or undertake new projects.

Tightening monetary policy also impacts firm growth through its influence on consumer behavior. Heightened borrowing costs for individuals serve to increase the expense of financing consumption, and depositing savings with commercial banks becomes more attractive due to the higher returns. Consumers then tend to save more and reduce or delay their planned spending, much like how firms reduce or defer investments during periods of monetary contraction. This decrease in consumer spending adversely affects the demand for goods and services, ultimately impacting the production and employment levels of firms. Moreover, if higher borrowing costs for firms are passed on to consumers in the form of higher prices, it further reduces their demand for goods and services, exacerbating the decline in business activity.

The tightening of monetary policy can also affect demand for goods and services by exerting influence on exchange rates. Elevated interest rates tend to attract more foreign capital seeking higher returns. In an environment of relatively free capital flow, this influx of foreign capital strengthens the local currency and results in an increase in the prices of exports. Similarly, goods and services from import-competing firms face intensified price competition as they become more expensive than their imported counterparts. As a result of these developments, there is a potential decline in the demand for goods and services within export-oriented and import-competing industries, leading to reduced production levels and a decreased need for labor in these sectors.

2.1.2. Central Bank Independence Facilitating the Transmission Mechanism

The above outlines a typical monetary policy transmission mechanism. This mechanism pertains to the process by which adjustments in a central bank's monetary policy tools, such as interest rates or the money supply, impact the overall economy. This influence occurs through various channels, encompassing bank lending, financial markets, as well as the expectations and behavior

of economic actors. Ultimately, these factors collectively shape key economic variables, including inflation, output, and employment.

The independence of central banks plays a crucial role in shaping the effectiveness and reliability of the monetary policy transmission mechanism, including how interest rate fluctuations affect firm behavior. Central bank independence refers to the extent to which a central bank can make policy decisions without succumbing to short-term political pressures or interference. The management of monetary policy lies within the purview of the central bank, and an increasing number of countries have entrusted the authority over monetary policy to autonomous central bankers, thereby distancing it from direct governmental influence. This push for political independence is rooted in the aim of ensuring that monetary decisions are grounded in economic principles rather than short-term political considerations to successfully maintain low inflation levels (Alesina and Summers 1993, Crowe and Meade 2008, Cukierman, Webb, and Neyapti 1992, Grilli, Masciandaro, and Tabellini 1991). When inflation is both low and stable, alongside subdued expectations of inflation, businesses gain the ability to project costs more accurately. This predictability extends to planning for investment projects and capital expenditures, fostering stability in business operations and facilitating longer-term planning.

The autonomy of the central bank is crucial for achieving economic outcomes that benefit firms beyond simply maintaining low inflation (Franzese, 2002). This independence facilitates the response of firms to changes in monetary policy. For one, central bank independence promotes fiscal discipline and restrains budget deficits (Bodea, 2013; Broz, 2002; Keefer and Stasavage, 2003). A sound fiscal policy fosters confidence among investors and consumers. When these stakeholders trust that the government is managing its finances responsibly, they are more inclined to engage in long-term investments, spending, and saving, thereby contributing to economic growth and stability. Additionally, fiscal conservatism helps prevent crowding out in financial markets. Excessive government borrowing may compete with private sector borrowing, leading to higher interest rates and making it more challenging for businesses and individuals to access credit for productive investments.

If central bank independence matters for outcomes like inflation and fiscal deficits in ways described

by the literature, investors also ought to appreciate the crucial role played by the bank to discipline and guide the actions of economic agents for better economic outcomes. This is particularly evident in non-OECD democracies, where the autonomy of central banks from the political process serves as an important signal to investors that has proven effective in attracting increased capital flows and lowering the cost of capital (Bodea and Hicks, 2015; Pastor and Maxfield, 1999). Credit rating agencies likewise recognize that with central bank independence, the government is committed to general macroeconomic stability of which debt repayment is a crucial component, resulting in better credit ratings (Bodea and Hicks 2018).

These evidence imply that economic agents, especially firms, are sensitive to their macroeconomic environment. Their responsiveness are, within the framework of monetary policymaking, affected by both the monetary policy outcome and the broader economic environment that facilitates or hinders the transmission of monetary mechanisms. The latter will be taken into account in the empirical models seeking to test the hypothesized relationship between monetary policy and labor immigration policy outcomes.

2.2. Firms' Coping Mechanisms for Elevated Borrowing Costs

Profit-driven firms view lower production levels and missed investment or expansion opportunities resulting from high interest rates as undesirable outcomes. As a result, they tend to employ strategies to mitigate the increased cost of debt. These strategies include seeking credit from foreign lending institutions, using equity financing, lobbying for favorable central bank policy decisions, relocating business operations to foreign countries, or enhancing workforce productivity to reduce costs. However, these strategies have their limitations and firms remain vulnerable to the adverse effects of high interest rates and heightened borrowing costs.

2.2.1. Foreign Borrowing

When interest rates rise in a country, firms may consider borrowing from foreign banks and overseas lending institutions where rates may be lower. However, foreign borrowing is often more costly than borrowing from domestic lenders. Studies indicate that firms that borrow from foreign lenders pay higher loan spreads than those that borrow domestically, and this effect holds for different loan

types and is robust to controlling for borrower and loan characteristics (Li et al., 2011). Lenders also appear to offer foreign borrowers smaller loans at higher interest rates and are more likely to require third-party guarantees. Repeated interactions between borrower and lender do not appear to diminish the foreign borrower premium (Giannetti and Yafeh, 2012).

Foreign loans typically come with higher interest rates due to the extra costs and risks associated with dealing with foreign entities. These costs may stem from difficulties in collecting information on borrowers, monitoring loan usage, enforcing contractual terms, and establishing long-term relationships (Petersen and Rajan, 2002; Degryse and Ongena, 2005; Bharath et al., 2011; Agarwal and Hauswald, 2010). Local lenders can more easily collect private information on local firms over time, especially those smaller in size or not publicly traded. This gives them an informational advantage over more remote competitors who might not enjoy the same access to local information (Berger et al., 2005; Petersen and Rajan, 1994; Presbitero et al., 2014). While "hard" information, such as financial statements and credit records, are more readily available for larger and publicly traded foreign firms, "soft" private information are more costly to obtain the larger the distance between borrowers and lenders. Foreign lenders need to compensate for their exposure to adverse selection and moral hazard risks because they face greater information asymmetry in screening and monitoring distant borrowers. This distance can be conceived in a broad sense to include not only the physical distance between borrowers and lenders, but also other economic, legal, and cultural factors that make it more difficult for lenders to evaluate a borrower's creditworthiness.

2.2.2. Equity Financing

Firms can choose to finance their operations and growth through equity instead of debt when borrowing costs are high, and while equity financing can be a valuable source of capital, there are several drawbacks (Marsh, 1982). Equity funding involves raising capital by selling shares, which can dilute the ownership stake of existing shareholders and lead to a loss of control over the firm's strategic direction and decision-making (Bancel and Mittoo, 2004). Equity investors also typically expect to receive a portion of the firm's profits, reducing the earnings available for reinvestment

and growth. Moreover, firms that have yet to raise equity capital through public markets will face increased regulatory requirements and disclosure obligations, which can be costly and time-consuming (Robb and Robinson, 2014). In comparison, debt financing may be preferred by firms due to its tax benefits, as interest payments are tax-deductible expenses and this can lead to higher after-tax returns and increased firm value (Desai et al., 2004; Myers, 2001). Debt financing can also be more cost-effective than equity financing as investors may require a higher return on their investment to compensate for the increased risk of investing in an organization without guaranteed repayment. During times of higher interest rates, the rate of return that investors require is likely to increase further due to the availability of attractive investment opportunities in alternative financial instruments. Debt financing thus remains an attractive option even when firms are confronted with elevated interest rates and borrowing costs.

2.2.3. Lobbying Central Bank

Firms may try to lobby and influence the central bank's decision to hike interest rates, but an independent central bank counteracts these efforts. The need for an independent central bank originates from the issue of policy time inconsistency, where a government's preferences for monetary policy are not consistent over time. Governments may promise low inflation to induce low wages, but they would later increase the money supply to reduce unemployment and improve their chances of re-election. Anticipating this, workers factor in higher inflation in wage bargaining, resulting in either higher inflation or unemployment than it would be if governments could credibly commit to low inflation in the first place. Due to the credibility issue highlighted, many countries choose to establish an autonomous central bank to ensure price stability without being subject to the influence of short-term political agendas (Fernández-Albertos, 2015).

Regaining credibility as an institution capable of delivering price stability requires insulating it from political pressures and government interference. Monetary policy decisions, such as setting interest rates or money supply targets, are to be made by unelected officials, and the government's influence on monetary policy is restricted. This allows the central bank to make decisions based on its own objectives, such as price stability, without being swayed by short-term political agendas.

This independence is achieved through means such as an appointment process for the central bank's leadership and staff that is separate from the political process, the freedom to set economic goals, and protection from attempts by other branches of government to reverse decisions (Blinder, 1999).

Over the post-war decades, the level of central bank independence has experienced a notable increase, as countries come to recognize the advantages of this governance approach (Crowe and Meade, 2007). Scholarly explanations have been provided for why governments opt to delegate monetary policy decisions to independent monetary authorities under various domestic political circumstances (Alesina et al., 1997; Bernhard et al., 2002; Goodman, 1991; Hallerberg, 2002). Furthermore, central bank independence serves as a signaling mechanism, demonstrating a country's commitment to economic openness and sound macroeconomic policymaking to international investors (Maxfield, 1998) and it is also influenced by international policy diffusion (Polillo and Guillén, 2005).

2.2.4. Offshore and Outsource Production

To mitigate the impact of rising borrowing costs, firms can implement cost-saving measures in other areas, such as labor expenses, by outsourcing or offshoring tasks or operations to countries with lower labor costs. Offshoring involves shifting some stages of production to a subsidiary located outside of the firm's home country, while outsourcing entails engaging external entities to perform tasks that were previously handled internally. Technological advancements, reductions in transportation costs, and lower trade barriers have made it easier for firms to move overseas. For instance, improved communications technologies allow businesses to effectively manage and coordinate their operations effortlessly in multiple countries. Furthermore, the significant reduction in the cost of shipping, air travel, and tariffs lowers the cost of producing goods and services outside of the target markets.

The feasibility of offshoring or outsourcing varies across different business functions and operations. Tasks that are routine, well-defined, and can easily be described by deductive rules are more suitable to offshore than nonroutine tasks, which require pattern recognition and inductive reasoning and are more prone to miscommunication (Autor et al., 2002; Levy and Murnane, 2007). Similarly, tasks that require codifiable information can be performed at a distance and monitored effectively from headquarters, while those requiring tacit knowledge and understanding necessitate physical

proximity and frequent contact (Leamer and Storper, 2001). Additionally, activities that require physical contact or geographic proximity cannot be relocated easily, while those that generate outputs that can be delivered remotely are better candidates for offshoring and outsourcing (Blinder, 2006).

Beyond the nature of the task involved, firms may find it challenging to offshore and outsource due to high financial and social costs. The costs of moving overseas may be prohibitively high, particularly for smaller firms with limited resources. For example, the costs of setting up operations in a foreign country, including hiring and training staff, complying with local regulations, and establishing supply chain networks, can be significant. Some firms may also lack the necessary expertise or knowledge to manage overseas operations effectively, including language barriers and cultural differences. Firms may also face opposition from local stakeholders, including labor unions and customers, who may view offshoring and outsourcing as harmful to the domestic economy and local employment.

2.2.5. Enhancing Workforce Productivity

In addition to relocating overseas, firms also have the option to enhance the productivity of their current workforce. Providing training and development opportunities to employees can improve their skills and efficiency, leading to increased firm output per unit of labor input. Moreover, investing in and adopting new technology and tools can further optimize work processes, thereby boosting worker productivity and overall firm output. This approach aims to increase output and revenue to offset the impact of higher borrowing costs. However, it is important to note that this strategy is a long-term solution and may not effectively address the immediate problem of elevated debt costs. Additionally, implementing new technology may require substantial financial resources, potentially leading to further debt for the firm.

Despite the potential benefits of these various approaches, they do have limitations, and firms remain susceptible to the adverse effects of increased borrowing costs during periods of monetary tightening. The subsequent section explores how high interest rates not only affect a firm's production and revenue but also influence its demand for labor and policy preferences regarding labor immigration.

2.3. How Monetary Policy Shapes Firms' Immigration Policy Preferences

The high costs of foreign borrowing, alongside the limitations of equity financing, central bank independence, and constraints on the effectiveness of relocation and productivity-enhancing measures suggest that firms cannot entirely mitigate the impact of high interest rates and remain vulnerable to significant debt costs. Their investment and expansion plans become highly dependent on the macroeconomic environment which then affects firm output and activity.

A further consequence that results from a high interest rate environment is a reduced firm demand for labor. Labor is an important input in the production process, and if production is scaled back when firms reduce investment and halt expansion, it would reduce their demand for workers. Additionally, a decline in consumer spending from high interest rates reduces demand for goods and services, prompting firms to adjust their production levels to match the lower demand. This further contributes to a decrease in the demand for labor. If firms are still taking on debt, higher interest rates would translate into higher interest expenses, which raises the overall cost for firms. This reduces the available funds for employee-related expenses such as salaries and benefits. Firms may then choose to either lay off a portion of their workforce or temporarily freeze hiring until they can manage their debt obligations or secure cheaper loans.

In a high interest rate environment that reduces firm labor demand, firms become indifferent to labor immigration policy. This indifference stems from the fact that they do not need additional labor. As a result, there is no incentive for them to demand more open borders or an increase in the number of labor immigrants. There is also likely a surplus of domestic workers who have been laid off from other firms or have faced challenges in finding employment, further diminishing the need for labor from abroad. As a result, firms have little vested interest in what the labor immigration policy is like since they currently do not have a demand for additional workers, whether they are native or foreign.

On the other hand, lower interest rates imply less costly debt, encouraging firms to expand and invest. In line with firm expansion and investment, they develop new products, enter new markets,

and engage in innovation, leading to the creation of new job positions. To sustain the increased levels of business activities, more workers are required to fill these newly generated roles. Consumer spending and their demand for goods and services produced by firms would likewise increase when interest rates are low. Firms are then compelled to hire additional workers to meet the augmented demand. Lower interest expenses also free up resources that can be allocated to salaries and benefits, providing firms with the capacity to hire even more workers.

Contrary to their indifference towards labor immigration in a tight monetary policy environment, firms exhibit a strong preference for liberal labor immigration policies during monetary policy expansion. This preference arises because the supply of labor within the domestic workforce is limited. Since all firms are confronted with the same macroeconomic conditions within an economy, lower borrowing costs encourage many firms to simultaneously expand their production. As firms collectively hire more workers, the demand for labor is likely to exceed the supply of domestic labor, making it challenging to find sufficient native workers to sustain business operations. To address the shortage of labor in the domestic labor market, firms turn to hiring immigrant labor as a solution. Liberal labor immigration policies become more appealing during this period of monetary policy expansion as they offer firms access to a larger pool of potential workers to meet their increased labor demand.

The preference of firms regarding labor immigration policy is thus contingent on changes in the macroeconomic environment, particularly concerning monetary policy and interest rates. When monetary policy is contractionary and interest rates are high, firms show little interest for labor immigration policy since they have minimal demand for additional labor. However, when monetary policy is expansionary and interest rates are low, firms strongly favor open and liberal immigration policies to facilitate the hiring of workers from abroad to meet their increased labor demand.

2.4. Persistence of Firm Demand for Labor

Firms' preference regarding labor immigration policy may be less influenced by changes in monetary policy and interest rates if, in the first place, firms have minimal demand for domestic labor as a factor of production. In the event that firms relocate a substantial portion of their production process

abroad, the importance of labor as a factor of production in their home country will diminish, as will the importance of immigration policy outcomes, particularly those relating to low-skilled labor immigration (Peters, 2015). This is particularly relevant in high-income countries where domestic labor costs are high, and firms have both the incentive and capability to move production to places with lower labor input costs. In such cases, it becomes less crucial to examine the policy preference of firms regarding labor immigration since they do not have a significant stake in its outcome. Investigating the role of firms, their preferences, and subsequent behavior concerning labor immigration would become less meaningful and of limited value.

Furthermore, opponents of globalization have contended that the sizeable growth in foreign direct investment and trade, coupled with the proliferation of global supply chains in recent decades, has had detrimental effects on domestic employment opportunities. The fact that governments worldwide have implemented policy interventions to address the negative consequences experienced by affected workers serves as evidence that the demand for domestic labor by firms may not be as strong as commonly assumed.

Despite the forces of globalization, the demand for labor in high-income countries has not significantly diminished. Many high-income countries have managed to maintain relatively low levels of unemployment, indicating that firms still require workers within their own borders. Contrary to what is commonly portrayed in the mass media, the top destinations for outsourcing have been advanced industrialized countries such as the United States, United Kingdom, Germany, France, and the Netherlands, rather than lower-income developing countries such as India and China (Amiti and Wei, 2005). This observation suggests that globalization has actually led to an increased demand for labor in high-income countries. Offshoring activities, especially for high-skilled production, have also taken place due to the shortage of skilled talent domestically and less so due to cost savings (Lewin et al., 2009). This skill mismatch has prompted firms to seek expertise and capabilities from abroad that are not readily available within their own countries.

Trade and the likes of offshoring and outsourcing may indeed lead to the relocation of some jobs overseas, but these practices also have the potential to contribute to the creation of new jobs domes-

tically that sustains firm labor demand. The impact of overseas relocation of production processes, whether partial or complete, on domestic labor demand depends on whether these activities complement or substitute for domestic production and operations. When offshore activities involve the parent firm performing upstream or downstream activities, domestic and foreign labor are complementary. In such cases, domestic employment will increase alongside foreign employment. However, if the offshored activities aim to replicate those conducted domestically, foreign activities will replace domestic ones, leading to foreign production replacing both domestic production and exports, and domestic and foreign labor becoming substitutes. Understanding how changes in foreign employment affect domestic employment is an empirical matter, and in practice, firms are likely to engage in both forms of production relocation with some involving complementary labor and others involving substitution.

Examining in detail the empirical evidence, contrary to adversely affecting domestic employment, offshoring and outsourcing appear to have a positive impact on local employment. One reason for this phenomenon is that these practices facilitate a more efficient allocation of activities across national borders. In such instances, firms transfer the least productive activities to overseas locations and focus on those they can carry out more efficiently (Amiti and Wei, 2006; Grossman and Rossi-Hansberg, 2008). As a result, firms experience an improvement in productivity, leading to a reduction in average costs and an increase in competitiveness as they pass on the cost savings to consumers through lower prices. This stimulates additional demand for the firms' products and, through a scale effect, leads to a rise in domestic employment.

The cost savings associated with international production and trade likewise have been found to have a positive effect on domestic employment opportunities. For example, cheaper inputs from China have allowed American manufacturing firms to reduce their prices and expand exports, resulting in job creation at both the industry and local labor market levels (Feenstra et al., 2019). Lower overseas production costs also make previously unfeasible projects viable for firms, creating jobs that would not exist otherwise (Bhagwati et al., 2002). The availability of cheaper inputs that reduce production costs and increase demand can also generate jobs outside the firm in downstream

industries (Wang et al., 2018). As a result, the scale effect of offshoring and outsourcing, where lower costs drive increased firm activity, has proven to be more significant than the substitution effect where firms shift activities to less costly offshore locations to substitute domestic production (Wang et al., 2018).

The demand for immigrant labor becomes particularly pronounced when there is a shortage of qualified and suitable workers domestically, especially considering the type of labor sought by firms in high-income countries in light of international trade and production. As firms reorganize domestic operations, moving away from lower-value and lower-skilled production towards tasks or industries in which they have a comparative advantage, there has been an increase in skill-intensive production and the creation of more high-skilled manufacturing jobs (Magyari et al., 2017). Firms have also leveraged falling production costs to expand employment in both high-skilled and high-tech intensive manufacturing sectors as well as complementary non-manufacturing activities such as R&D, design, engineering, retail-wholesale, information, professional services, administrative support, and headquarters services. For example, Ford's decision to relocate all its small car production from the US to Mexico may seem detrimental to the US manufacturing industry and its workers. However, during the same period, the company also announced a \$ 4.5 billion investment in the development of cutting-edge battery-powered vehicles and autonomous driving technology that is largely carried out within the US. The decision to transfer small car production to Mexico freed up resources that could be allocated to advancing innovative and forward-looking technologies in car manufacturing in the country (Gardner and Snavely, 2016). Globalization has thus not only sustained the demand for labor but has further boosted the need for immigrant labor.

The policy interventions introduced to mitigate the adverse effects of globalization also provide evidence of a skill shortage that has arisen from trade and international production, compelling firms to look for skilled workers beyond their home borders. The policy measures are designed to support the transition of domestic labor from declining to growing industries. For instance, in the United States, programs such as the Trade Adjustment Assistance (TAA) and similar wage insurance, income support schemes, and retraining initiatives in other countries aim to assist workers

in transitioning to alternative industries and occupations. These policy interventions acknowledge the changing demands of the labor market and aim to equip workers with the skills needed to thrive in emerging sectors.

Globalization aside, as discussed in the previous section, not all business activities can be relocated abroad and there continues to be demand from firms for labor to carry out various operations within the country. The non-tradable nature of certain industries prevents relocation, for they require the consumer and producer to be in close proximity or in the same location. Examples of such non-tradable sectors include healthcare, utilities, transport, food services, accommodation, hospitality, real estate, and construction. These industries necessitate the production or delivery of services to be conducted where consumers are situated and are not easily exported or imported. Additionally, many of these industries involve jobs that are considered "3D jobs", meaning they are dirty, dangerous, and difficult, and most native workers are unwilling to undertake such roles. This further highlights the need for low-skilled immigrant workers to fulfill the labor demand in these sectors.

In all, despite firms engaging in offshoring, outsourcing, trade, and foreign direct investment, labor remains a crucial factor of production. Accordingly, labor immigration policy remains a valuable policy tool for firms to augment their labor force when there is a need for additional workers.

2.5. Political Influence of Firms

2.5.1. Firm Influence and Lobbying Effectiveness

The ability of actors to transform their preferences into policies requires significant political influence. Periods of monetary policy expansion increase firm labor demand and intensify their preference for liberal labor immigration. However, the extent to which this preference for more open borders can be translated into tangible policies for liberal labor immigration depends on the political influence and power wielded by the firms.

The attempt by firms to exert influence over government policies across various institutional contexts is an undisputed phenomenon and their efforts have been reasonably successful. Lobbying

involves advocating for specific policies or positions and building relationships with elected officials or government agencies to influence decisions made by government officials, policymakers, or legislators.

Theories on lobbying can be categorized into three major groups: exchange, informational, and legislative subsidy. Exchange theories propose that lobbying involves a quid pro quo exchange, where campaign contributions or other politically valuable resources and financial incentives are offered in exchange for legislative favors (Snyder Jr, 1992; Besley and Coate, 2001; Bennesen and Feldmann, 2002; Bombardini and Trebbi, 2012).

The second group of studies examines how policy outcomes can be affected by the provision of relevant information to policymakers. Politicians often lack information about the positions they should take that will help them get elected, and groups with privileged access to such private information regarding constituency views can use this knowledge to persuade policymakers to adopt positions that are beneficial to the group in question (Hansen, 1991; Austen-Smith, 1995).

The last set of studies views lobbying as a legislative subsidy (Hall and Deardorff, 2006). This perspective emphasizes the information asymmetry faced by legislators as well as their budget constraints. Given the limited resources available to policymakers, they have to decide how best to allocate what they have between information acquisition and policy implementation. This creates opportunities for groups seeking to influence policy outcomes by subsidizing the legislative resources of strategically chosen legislators who already support the cause of the group. They may offer policy insights, political intelligence, pre-drafted bills, and legislative labor. In doing so, these groups increase the productivity of their natural allies, thereby enhancing the chances that policies aligned with their interests will be implemented. Unlike the exchange and informational theories, the aim of this approach is not to engage in a quid pro quo or to persuade policymakers but rather to assist those who are already inclined to support the group's objectives.

Lobbying can be undertaken by anyone, but businesses appear to comprise the major share of lobbying expenditures, eclipsing other groups such as citizen groups, unions, foundations, and think

tanks (Hill et al., 2013; Kerr et al., 2014; Naoi and Krauss, 2009; Richter et al., 2009). Research also indicates that business entities hold considerable influence over policy outcomes. Studies on international trade have shown that firm lobbying significantly affects a broad range of trade-related issues, including tariff and nontariff barriers, industry protection, customs classifications, and antidumping determinations in various countries (Baylis and Furtan, 2003; Drope and Hansen, 2004; Dür, 2008; Ehrlich, 2008; Gawande et al., 2006; Lee and Baik, 2010; Tavares, 2006). Furthermore, empirical evidence supports the Grossman and Helpman (1994) Protection For Sale model, wherein firms seeking protection from foreign competition contribute to politicians' campaigns in exchange for tariff protection (Goldberg and Maggi, 1999; Gawande and Bandyopadhyay, 2000; Mitra et al., 2006; Eicher and Osang, 2002; McCalman, 2004). This finding remains robust to extensions of the original model that incorporate firm size (Bombardini, 2008), foreign and domestic lobbies (Gawande et al., 2006), lobbying of both upstream and downstream producers (Gawande et al., 2012), and labor unions and labor immobility (Matschke and Sherlund, 2006).

Studies investigating the impact of lobbying on the legislative and regulatory environment have also demonstrated the ability of firms to influence financial regulation and legislation (Mian et al., 2010), discretionary enforcement and bureaucratic oversight (Gordon and Hafer, 2005), and in helping firms to avoid fraud detection (Yu and Yu, 2011).

Furthermore, lobbying has been observed to have a positive impact on the ability of firms to secure government funding as well as government procurement contracts (De Figueiredo and Silverman, 2006). These contracts are typically larger in value, extended in duration, and offer longer deadlines (Brogaard et al., 2015; Brown and Huang, 2020; Goldman et al., 2013). Lobbying can also yield other financial benefits such as higher revenues and increased profitability (Chalmers and Macedo, 2021; Huneeus and Kim, 2018). Higher stock market valuations that result are also an indication that the market is aware of the advantages enjoyed by politically active and well-connected firms, enabling them to have better stock market performance compared to firms that do not engage in lobbying (Hill et al., 2013; Hochberg et al., 2009).

Lobbying also appears to play a significant and economically relevant role in shaping immigration

policy. Facchini et al. (2011) find that the restrictiveness of immigration policies adopted by the government is contingent on the lobbying expenditures incurred by both firms and organized labor. When firms in a specific sector incur higher lobbying expenses, while holding all other factors constant, there is a corresponding increase in the number of visas issued and immigrants entering the country. On the other hand, when organized labor in a given sector contributes more towards lobbying, it results in higher levels of immigration protectionism, leading to a decline in the number of visas granted.

Peters (2014) notes a similar pattern concerning the impact of firm lobbying on immigration policy. Her research reveals that firms that exit the market or move overseas as a result of open trade policies experience a reduction in their demand for domestic labor, causing them to divert their attention and political capital away from immigration matters. Their diminished support for open immigration allows policymakers to implement more restrictive policies. Peters also observes that changes in the preferences of firms resulting from shifts in trade openness have a significant influence on senators' voting behavior, where greater trade openness leads to increased support for immigration restrictions. Employing data on firms' lobbying expenditures and their lobbying priorities, she demonstrates that firms with lower levels of trade protection and greater mobility engage in less lobbying related to low-skilled immigration policy than their more trade-protected or immobile counterparts.

In line with the findings of Facchini et al. (2011), this dissertation contends that firms exhibit a favorable inclination towards liberal labor immigration policies and actively lobby to have more labor immigrants in the country. However, concurring with Peters (2014), it also recognizes that the preferences and lobbying behavior of firms are not static. While firms stand to benefit from an increased labor supply resulting from more liberal immigration policies, expressing this preference to policymakers is not a costless endeavor. Like all business decisions, firms undertake a cost-benefit analysis when deciding whether to engage in lobbying efforts. The profit maximization motive of firms implies that they will partake in lobbying and other political activities if the expected benefits outweigh the expected costs (Hansen and Mitchell, 2000).

Lobbying resembles a marketplace exchange familiar to firms (Bonardi et al., 2005). Operating on the principles of demand and supply, interest groups seek and demand policies that align with their interests while political candidates and officeholders advocate and supply policies that maximize their likelihood of obtaining or retaining political power. These interactions involve financial and informational transfers that are viewed as investments in a political marketplace, with the expectation of a return on that investment (Ansolabehere et al., 2003).

In terms of lobbying for an open labor immigration policy, the return on investment is higher when firms face acute labor shortages during times of monetary policy expansion. When attractive opportunities present themselves in the form of low borrowing costs to invest, expand, and earn higher profits, firms are more inclined to advocate for liberal labor immigration policies as they require more workers to support their upcoming investment and expansion plans. The potential gains from the successful realization of these plans and capitalizing on growth opportunities can be substantial. In such cases, a relatively more open labor immigration policy can further enhance or become a necessary condition to achieve these gains.

However, when borrowing costs rise and investment opportunities become less attractive, firms are less inclined to advocate for liberal labor immigration policies and may shift their focus to other issues that better align with their current interests, such as trade or deregulation. Firms consistently and carefully calibrate their financial and political resources in line with their evolving priorities. This variation in the intensity of their policy preference over labor immigration and associated lobbying efforts ultimately shapes the openness of labor immigration policy.

2.5.2. Political Influence of MNCs

Firms appear to hold considerable political power compared to other interest groups, but not all firms possess equal levels of influence. Certain firms, in particular MNCs, exert greater political influence over policymaking owing to their superior lobbying capabilities. This advantage is attributed to their larger size as well as their ability to secure lower borrowing costs compared to smaller domestic firms.

Superior Political Influence of Larger Firms

Larger firms hold greater sway in policymaking due to their size and resources, allowing them to enter the political process, engage more extensively in lobbying, and sustain their influence over time (Bombardini, 2008; Dellis and Sondermann, 2017; Drope and Hansen, 2004; Kerr et al., 2014). Given that many large firms are multinational, it follows that MNCs generally hold more sway in policymaking relative to smaller domestic firms.

Engaging in political activities requires substantial upfront costs that are more feasible for larger firms. These costs include acquiring knowledge about the intricate laws governing lobbying, familiarizing newly recruited lobbyists with the firm's interests, developing a comprehensive lobbying agenda, conducting research on potential allies and opponents, and identifying policymakers who are worthy of investment (Kerr et al., 2014). Since lobbying can be seen as a legislative subsidy, politicians may require firms to make a sizeable initial investment in offering legislative assistance to demonstrate their commitment to supporting them over time. These considerable barriers to entry in the lobbying process pose a particular disadvantage to smaller firms with limited resources.

With greater resources at their disposal, larger firms are also better able to enhance the efficacy of the three primary mechanisms of lobbying, which are exchange, information, and legislative subsidy. This could entail offering more substantial campaign contributions in exchange for legislative favors, hiring highly knowledgeable and experienced lobbyists who can gain greater access to policymakers, and investing more in gathering political intelligence that could inform legislation (Bertrand et al., 2014; McKay, 2012).

The size of a firm also affects the costs associated with lobbying, as economies of scale considerations come into play (Macher et al., 2011). Larger firms have the advantage of spreading lobbying costs over a larger output, resulting in lower unit costs and sustained profitability. In contrast, smaller firms lack the scale necessary to cover the fixed costs involved in establishing a lobbying infrastructure and sustaining the cost of regular lobbying.

Larger firms are also more likely to engage in lobbying activities as they have more to gain from

favorable policy outcomes. Their interests are often diverse and complex, and their economic stake is substantial due to their size. Political participation to secure a public good is also likely as firms grow larger, as they receive such a significant proportion of the total benefit that they find it worthwhile to see that the collective good is provided, even if they have to pay the entire cost (Olson, 1965; Grier et al., 1994). Larger firms are therefore better positioned to overcome collective action problems as they internalize more of the benefits. They also typically lobby on their own and not in coalitions or industry associations, suggesting that the advantages of lobbying are sufficiently substantial that they outweigh the costs borne by a single large firm (De Figueiredo and Richter, 2014).

Lower Borrowing Costs for MNCs

Apart from their larger size, MNCs possess superior lobbying capabilities due to their ability to obtain lower borrowing costs. This advantage further enhances their political influence and allows them to play a more significant role in shaping policy outcomes.

The positive correlation between firm size and political participation is well supported by the existing body of literature, where larger firms are more likely to participate in lobbying activities, engage in more extensive lobbying efforts, and sustain their lobbying endeavors over time (Bombardini, 2008; Dellis and Sondermann, 2017; Drope and Hansen, 2004; Kerr et al., 2014).

What has yet to be examined in detail is the relationship between a firm's multinational status and its political participation and influence. This dissertation thus presents a novel argument in support of why MNCs tend to exert greater political influence that extends beyond their size advantage. Specifically, MNCs enjoy favorable treatment in international debt markets, allowing them to borrow at lower costs compared to domestic firms. MNCs thus pay lower interest expenses for every dollar of debt, leaving them with surplus resources that can be allocated towards lobbying efforts. This increased financial capacity enhances their likelihood of successfully advocating for preferred policies. This argument is distinct from the extant literature since it specifically addresses the multinational orientation of MNCs and is not solely contingent on their larger size.

The interest rate set by the central bank does not directly correspond to the borrowing rate that commercial financial institutions offer to borrowers. Instead, the central bank's interest rate serves as a benchmark for interest rates charged on loans issued in the broader economy. When the central bank reduces the benchmark rate, financial institutions can borrow from one another or from the central bank at lower costs, allowing them to offer loans to customers at lower interest rates. Conversely, an increase in the benchmark rate results in higher borrowing costs for these financial institutions, prompting them to raise lending rates to their customers.

The lending rates of financial institutions to their customers are likely to move in tandem with the central bank's benchmark rate, but the interest rates that they charge on loans tend to exhibit variability across different kinds of borrowers. Financial institutions often use a variety of criteria to determine the interest rates they offer, such as the borrower's creditworthiness, loan amount, loan duration, and type of loan. Borrowers with better credit ratings and credit history are typically perceived as lower risk and are therefore offered more favorable interest rates than those with a lower credit score and poor credit history. Similarly, loans with a shorter duration and smaller principal amounts are typically associated with lower interest rates, while loans with longer durations and higher principal amounts tend to incur higher interest rates due to the increased risk of default. When lending to firms in particular, commercial banks may also consider the firms' international presence or lack thereof as a criterion when determining the interest rates they offer. In other words, the interest rates extended to MNCs and domestic firms are likely to differ.

MNCs are able to enjoy lower borrowing costs compared to their domestic counterparts as they are globally diversified, able to engage in capital market arbitrage, and larger in size which is in large part a result of serving global markets.

The geographically diverse operations of MNCs contribute to their status as less risky borrowers, which provides them with a correspondingly lower cost of borrowing. Operating in multiple countries allows MNCs to spread their assets and income sources across numerous regulatory jurisdictions and economic environments. This strategic diversification lowers earnings volatility as cash flows are received from different markets that are imperfectly correlated (Hughes et al., 1975). With the

ability to offset potential contingencies in one market with sustained revenue from another, the risk of bankruptcy is minimized, allowing lending institutions to offer more favorable lending rates without the need to compensate for default risk (Shapiro, 1978).

The international activities of MNCs also enable them to take advantage of capital market inefficiencies to secure better loan rates. Differences in interest rates between countries may arise due to market imperfections such as barriers to international capital flows and credit restrictions in host countries. The physical presence of MNCs in foreign markets allows them to circumvent these barriers and access lower-cost debt. Additionally, having a global presence with foreign assets or sales helps to alleviate distance and information barriers across markets and improves recovery rates in the event of a default, granting such firms loans that have better pricing terms (Houston et al., 2017). However, these benefits may be limited to the regions and countries where MNCs have subsidiaries, and they may have fewer options if they lack a wide international presence (Jang, 2017).

Furthermore, their geographically diverse orientation allows MNCs to offer financial institutions an effective opportunity to diversify their lending portfolio by indirectly accessing countries that they are otherwise constrained from entering (Jang, 2017). Lower borrowing rates are offered in exchange for this benefit. In perfectly integrated capital markets, lenders would be able to diversify their portfolios by lending to firms operating in different markets. However, information asymmetry and legal constraints on cross-country capital flows limit their ability to do so. By extending credit to MNCs that operate in multiple countries, lending institutions can effectively gain exposure to the business cycles and risks of these markets without having to deal with firms located there directly. Therefore, MNCs are likely to be offered lower borrowing costs in exchange for the benefit of lending portfolio diversification.

Lower costs of debt are also enjoyed by MNCs due to their larger size, which is largely attributable to their global business operations (Anderson et al., 2004). Larger firms benefit from economies of scale as they have access to larger and more debt markets, enabling them to negotiate lower interest rates. Moreover, they can spread the cost of debt over a greater output, resulting in lower unit

costs and increased profitability. Additionally, firms that are larger in size tend to have a broader range of products and services and operate in diverse industries, reducing their vulnerability to market or sector-specific downturns. Coupled with their geographical diversification, larger firms are more financially resilient. Larger firms also possess a stronger reputation in financial markets due to their size, established track record, and financial history. These firms exhibit greater financial stability, owing to their larger assets, revenues, profits, and cash flows, resulting in lower default rates. Consequently, the perceived risk of lending to such firms is lower, which translates to a lower cost of debt financing.

Despite benefiting from lower borrowing costs due to the factors discussed earlier, studies note that MNCs face various risks that can raise their borrowing costs, including foreign exchange risks, political risks, and agency costs. However, these multinational firms can develop strategies to mitigate the risks associated with their international operations.

Foreign exchange risk is particularly acute for MNCs compared to their domestic counterparts. While both domestic and multinational firms are exposed to currency risk in a floating exchange rate environment, this risk tends to be larger for multinational firms because part of their cash flows and costs are in foreign currencies (Adler and Dumas, 1984; Dumas and Solnik, 1995). Furthermore, when MNCs receive revenues in a mix of currencies and have liabilities in a different mix of currencies, currency movements may result in a mismatch between the income the firm receives and the liabilities that it will have to repay, increasing the likelihood of default. However, MNCs with relatively small levels of international activity are less vulnerable to exchange rate risk. MNCs with highly diversified operations can also mitigate this risk by using financial instruments such as forward contracts. These contracts allow the firm to lock in a specific exchange rate at a future date to hedge against their foreign exchange exposure. This helps to protect them from adverse currency movements and reduces the impact of foreign exchange fluctuations.

MNCs are also exposed to a greater degree of political risk compared to domestic firms (He and Ng, 1998; Reeb et al., 1998). Political risk refers to the possibility that political events may have a negative impact on a firm's operations, and MNCs are at an increased risk of experiencing such

unfavorable events due to their operations in multiple countries. Examples of political risks include expropriation or nationalization of assets, institutional inefficiencies in protecting property rights, discriminatory policy changes, regulatory restrictions, social unrest, political violence, and creeping expropriation in which foreign firms face undue interference in their operations. MNCs can manage political risks in several ways, including establishing more local economic links through supply chains (Johns and Wellhausen, 2016). By doing so, MNCs become more closely connected to other firms in the host economy, making it less likely for the host government to violate their property rights. Other firms in the supply chain have a direct economic interest in enforcing the property rights of the targeted firm, and they can exert efforts to protect the rights of the foreign firm through a range of strategies including bribery, corruption, political contributions, and even tax revenue paid to the government. MNCs thus have ways to increase their resilience to political risks and safeguard their interests in the host country.

MNCs also face higher agency costs compared to their domestic counterparts, attributable to the challenges of monitoring managers across geographically dispersed operations (Lee and Kwok, 1988). Monitoring costs are higher for international firms due to difficulties in collecting and processing information about distant business operations, making them more susceptible to information asymmetries. As a result, lenders require higher interest rates on loans to international firms to compensate for these increased monitoring costs. The challenges of monitoring also increase with a firm's level of international activity, arising from cultural and linguistic differences as well as variations in legal systems (Burgman, 1996). Global diversification also necessitates a more complex organizational structure, leading to further agency costs due to information asymmetry between central and divisional managers (Harris et al., 1982). International firms have implemented strategies to mitigate agency costs, including adopting higher levels of voluntary information disclosure which has been found to be associated with a lower cost of debt (Francis et al., 2005). By increasing transparency through enhanced information sharing, MNCs hope to improve their standing in the lending market.

Empirical research provide strong support for the argument that MNCs typically enjoy lower bor-

rowing costs and more favorable non-price loan contract terms in comparison to domestic firms. Jang (2017) and Mansi and Reeb (2002) find that globally diversified firms receive more favorable credit valuations, resulting in lower costs of debt compared to domestic firms. Furthermore, firms with higher levels of international activity tend to have better credit ratings, which serve as a measure of the firm's default risk and a key factor in determining their cost of debt (Reeb et al., 2001). Alongside benefiting from lower loan rates, MNCs also receive more favorable non-price loan contract terms than domestic firms. These benefits include a reduced likelihood of needing collateral and having fewer restrictive debt covenants that limit the actions of the borrower (Li et al., 2011). The findings from these studies indicate that the advantages of geographic diversification tend to outweigh the risks associated with globally diversified operations.

Lower borrowing costs translate into lower interest payments for a firm, which frees up additional financial resources that can be allocated towards lobbying activities. This builds on the resource argument where larger firms have an inherent advantage in the lobbying process by virtue of their size. The lower cost of debt for MNCs also reinforces the upfront cost argument as lower borrowing costs can help MNCs better overcome the higher initial cost of setting up a lobbying infrastructure to enter the political process. MNCs are therefore expected to be more effective at lobbying and exert greater influence over policymaking, including policy decisions related to labor immigration.

2.6. Salience of Public Opinion on Labor Immigration

The focus thus far has centered on firms, specifically how monetary policy shapes their immigration policy preferences and how they exert political influence on immigration policymaking. During periods of monetary policy expansion, firms tend to advocate for more liberal labor immigration policies, but what happens to labor immigration policy when monetary policy contraction diminishes the incentive of firms to lobby? High interest rates reduce the incentive of firms to lobby. This occurs as firms do not require additional workers, causing them to prioritize other issues over labor immigration and allocate their limited lobbying resources accordingly. Policymakers then experience less pressure to promote labor immigration in times of monetary contraction. At the same time, the influence exerted by other interest groups seeking to restrict labor immigration

becomes more pronounced. In particular, this dissertation contends that opposition to immigration by the native population would gain prominence in such circumstances, resulting in an increase in labor immigration restrictions.

The literature discussed in the introductory chapter provides insight into some of the reasons behind natives' baseline opposition to immigration. To briefly summarize, this opposition is often rooted in concerns about the potential impact of immigration on their economic opportunities and overall well-being. Natives tend to harbor negative views towards immigration due to apprehensions about potential job competition and the perceived strain on public resources and taxes (Mayda, 2006; O'rourke and Sinnott, 2006; Scheve and Slaughter, 2001). Furthermore, resistance towards immigration can be driven by nativism and prejudices towards out-groups, including immigrants, perceiving them as a cultural or symbolic threat to national identity (Kinder and Kam, 2009; Sniderman et al., 2004).

2.6.1. Changing Intensity of Natives' Immigration Preferences

Similar to the policy preferences of firms, the intensity of natives' opposition towards labor immigration is not static and this dissertation argues that it varies in response to changing macroeconomic conditions. In other words, the preferences of natives regarding their opposition to labor immigration can strengthen or weaken depending on shifts in the external economic environment.

A fair share of scholarship have examined how the preferences of natives regarding labor immigration, including their attitudes towards high-skilled immigrants, appear to vary in intensity depending on the prevailing macroeconomic climate. Notably, adverse economic conditions tend to intensify opposition towards immigrants, even those with valuable skills. Lapinski et al. (1997) find that during the early 1980s economic downturn in the United States, restrictive attitudes toward immigration increased, and the proportion of Americans who believed that immigrants brought necessary skills and initiated new businesses that bolstered the economy declined. Similarly, Wilkes et al. (2008) find through public opinion surveys of Canadians that weaker national economic conditions corresponded to an increase in immigration restrictionism. Particularly, recessions in 1982 and 1991 coincided with sharp increases in the desire to reduce immigration. Goldstein and Peters (2014) es-

tablished that opposition to high-skilled immigrants rose considerably during the 2007-08 economic recession, and resistance towards the entry of low-skilled immigrants became even more severe. Once economic recovery ensued, respondents decreased their opposition towards all types of immigrants. These findings suggest that the preferences of natives towards immigration can change and vary in intensity based on the macroeconomic climate.

Research investigating the influence of sociotropic attitudes on immigration preferences have also revealed a connection between natives' view of the country's economic situation and their stance on immigration. Citrin et al. (1997) and Chandler and Tsai (2001) find that individuals with a pessimistic outlook on the national economy tend to hold more anti-immigrant attitudes, and this influence appears to be stronger than the impact of their personal economic circumstances. Other studies find that in addition to personal economic insecurity, economic pessimism at the national level likewise drives sentiments. Pantoja (2006) observes that respondents who expressed pessimism about the country's economic well-being and their personal financial situation favored numerical reductions in immigration. Similarly, Kehrberg (2007) employed metrics such as changes in the country's Gross National Product (GNP) and personal income and demonstrated their association with shifts in attitudes towards immigration.

The baseline anti-immigrant sentiments among natives also appear to be less politically relevant during times of economic prosperity, which tends to coincide with times of monetary expansion. On the other hand, their opposition becomes more influential during times of economic hardship, which typically occurs during instances of monetary contraction. Scholarly studies have found that policymakers are more likely to heed public opinion during times of heightened issue salience, such as during economic hardship, and less so during times of reduced visibility (Givens and Luedtke, 2005; Butz and Kehrberg, 2019). Difficult economic times are likely to exacerbate the opposition of natives towards immigrants since the competition for jobs and resources will be more intense. Furthermore, economic difficulties brought about by monetary policy tightening are more likely to galvanize citizens who are eager to hold their elected officials accountable for the issues they deem most pressing. On the other hand, during times of reduced issue salience, such as during

improved economic conditions, the influence of anti-immigrant sentiment is likely to wane. In such circumstances, interest groups and policymakers who favor immigration policies are better able to promote more permissive policies.

Issue salience is likely to determine interest group mobilization and influence. The more salient issues are, the less successful individual interest groups should be in their lobbying. If a topic is of interest to a large proportion of the public, policymakers should be less likely to take the advice of a single advocate (Mahoney, 2007). Democratic governments who are held accountable for policy decisions will try to behave in a way considered favourably by their electorate, and this often includes not siding with special interest groups (Woll, 2013). On the other hand, studies commonly find that the influence of business groups is larger when issue salience is lower (Culpepper, 2010).

The limited impact of natives on immigration policy, especially during times of lower issue salience, can also be attributed to their general lack of awareness regarding specific immigration levels and policies. Policies generally contain many complex details and fine-grained rules, which can easily escape the eye of the public (Culpepper, 2010). Empirical evidence also suggests that the public tends to overestimate immigration population sizes and is resistant to updating their knowledge even after receiving corrective information (Hopkins et al., 2019). It also remains uncertain if the public possesses enough awareness regarding legislative votes to hold legislators accountable for policies that receive minimal media attention. Legislators are likely to be held accountable for legislation that the public becomes aware of, typically through the media, and are less responsive to mass opinion when issues have reduced visibility (Rogers, 2017). These findings support the contention that anti-immigrant sentiments have limited sway over policymakers concerning specific pieces of legislation or incremental changes to immigration policy, except when the bill or policy change is highly salient and visible to the public.

An important policy implication results from the changing intensity of preferences of firms and natives in response to fluctuations in the macroeconomic environment: policymakers can more easily implement open labor immigration policies during periods of monetary expansion and restrictive labor immigration policies during periods of monetary contraction.

During monetary policy expansion, when firms intensify their lobbying for liberal labor immigration and native opposition decreases, policymakers can more easily adopt a liberal stance on immigration. They can heed the demand of firms to bring in more immigrant labor without facing substantial public backlash. The reduced opposition from natives facilitates the implementation of such policies. On the other hand, in times of monetary policy contraction, firms reduce their lobbying for liberal labor immigration and native opposition and mobilization against immigration increases. Policymakers can then lean towards a more restrictive stance on immigration with relative ease. They can address the demands of natives to tighten borders temporarily, and firms are generally accepting of this decision since they do not require additional labor and can likely find workers domestically if necessary.

2.7. Theory in Summary

This chapter presents the argument that monetary policy plays a pivotal role in shaping labor immigration policy. This is achieved through the response of firms to shifts in interest rates, where they recalibrate their scale of production, workforce composition, and lobbying efforts. Monetary policy expansion that lowers interest rates and borrowing costs encourages firms to expand and invest, increasing their demand for more workers, including labor immigrants. Monetary policy contraction, on the other hand, raises interest rates and borrowing costs, hampering firm growth and their demand for labor. While all firms are at the mercy of a volatile monetary policy climate, MNCs are more likely to be able to lobby policymakers for liberal labor immigration policies. This is attributed to their considerable size and lower debt costs, the latter of which further frees up resources that can be allocated to lobbying activities. Firms typically do not actively lobby for restrictions on labor immigration during times of sluggish economic activity. However, in such circumstances, the opposition of the native population and electorate concerning immigrants comes to prominence, and policymakers will restrict labor immigration as a result.

CHAPTER 3

EMPIRICAL ANALYSIS

The theory expounded in chapter 2 is subjected to empirical analysis and testing in this chapter. It first explains the rationale and construction of a novel labor immigration dataset, followed by a descriptive analysis of the characteristics of labor immigration policies across different countries and time periods. The chapter then outlines the research methodology used to evaluate if monetary policy demonstrates a significant association with labor immigration policy. To this end, regression models are employed to test the relationship while taking into account other confounding economic and institutional factors. It also considers the effect of borrowing costs spanning multiple periods, as well as policy lags, representing the delayed effects of the proposed determinants on actual policy outcomes. The chapter concludes by conducting placebo tests to validate the robustness of the findings.

3.1. Creating a Labor Immigration Policy Dataset

One of the major obstacles to research on immigration has been the lack of longitudinal cross-national data. Immigration policy consists of the set of laws, regulations, and measures implemented by a country to manage the entry and stay of foreign individuals in its territory. The process of immigration policymaking involves navigating the conflicting interests of various stakeholders, including political parties, businesses, trade unions, human rights organizations, and the electorate. Each of these stakeholders holds distinct economic, social, and political considerations, which influence their perspective on which immigrant groups should be allowed to migrate and the conditions of their residency. As a result of differing priorities and levels of political influence in various political arenas, immigration policy becomes a blend of measures that vary depending on the specific categories of immigrants and the policy domains under consideration. The diversity of immigrant groups and policy components complicates the compilation of labor immigration policy data, making it an extensive and complex undertaking.

Additionally, countries often demonstrate substantial variation in how they define and implement

their immigration regulations, employing a wide range of policy tools creatively. This diversity hinders straightforward comparisons of immigration policy across countries. Moreover, governments may not readily provide accessible immigration policy data, and even when available, challenges persist when researchers and data collectors lack proficiency in the languages in which the data is published. Unlike trade and foreign direct investment, there is no international body or organization responsible for systematically and centrally gathering immigration information for many countries over extended periods. These factors collectively contribute to the difficulties researchers face in studying and comparing immigration policies across countries over extended periods.

Despite the significant time and resources required to collect accurate and reliable immigration policy data, an increasing number of studies have attempted to compile and generate quantitative immigration policy indices across different countries and time periods. Some of these studies have specifically focused on labor immigration, such as Cerna (2016) and Czaika and Parsons (2017) which focus on high-skilled labor immigration, Peters (2015, 2017) which examines low-skilled labor immigration, and Ruhs (2013) which explores policies affecting labor immigrants in general but limited the temporal scope to just a specific year.

This dissertation likewise endeavors to analyze policies affecting labor immigration across countries and over time, but it is difficult to leverage existing datasets for the specific research needs of this study. The various policy indices that have been constructed vary in their methodological design, conceptualization, measurement, and aggregation and weighting approaches. This variation poses difficulties in using specific indices or sub-indices, and it also complicates the process of combining data from different datasets to align with the specific requirements of a distinct research agenda.

Therefore, I construct a novel dataset that captures *de jure* labor immigration policy changes affecting the admission and residency of both high-skilled and low-skilled labor immigrants across multiple countries and time periods. The admission of labor immigrants can be regulated by governments through various means, including determining the number and type of eligible immigrants, and the ease of meeting the criteria for eligibility. Additionally, governments regulate the residency status of labor immigrants after entry by defining the duration of their stay and specifying the conditions

they must meet during their time in the country.

While immigration policy broadly encompasses a set of laws, regulations, and measures governing the entry and stay of foreign individuals within a country's borders, labor immigration policy in particular narrows the focus to foreign individuals who enter and reside in the country for the primary purpose of employed work. By focusing on immigrants that enter and stay for employment, the analysis excludes policies that regulate the movement of other non-citizen groups. These groups include migrants admitted for family reunification, humanitarian reasons, or investment, such as investors or self-employed migrant entrepreneurs. It also excludes channels that involve employment to some degree but where employment is not the primary motive for immigration, such as working holidaymakers and au pair programs.

The analysis likewise excludes undocumented migrant labor and only considers legal immigrants. While undocumented labor migrants have the potential to constitute a sizeable group that augments the domestic workforce, they are not expected to diminish the demand of firms for legal migrant labor. On one hand, it is argued that firms are drawn to undocumented migrant workers due to their affordability, allowing them to pay lower wages without the burden of employment taxes and social welfare payments (Motomura, 2014). Furthermore, firms may also be able to circumvent labor laws, imposing extended working hours or hazardous conditions without overtime or risk compensation as undocumented immigrants fear deportation and are hesitant to report issues to authorities.

On the other hand, empirical evidence presented by Peters (2017) contradicts the presumed preference of firms for employing undocumented immigrants, suggesting that the undocumented labor migrant population is unlikely to be a critical factor affecting immigration policy. She demonstrates that contrary to their supposed preference for low-cost undocumented workers, firms often advocate for more open immigration policies and favor legal labor immigrants. This preference is attributed to their desire for a stable workforce and the heightened scrutiny that larger firms face from the government, unions, and consumers. Larger firms, in particular, confront greater liability and reputational costs associated with the utilization of undocumented workers. Hence, while certain firms may hire undocumented migrant workers due to cost considerations or to address labor shortages,

this is unlikely to substantially reduce their demand for legal migrant labor.

In this study, a policy change is defined to include not only the laws passed by a country's legislature but also changes made by the executive or administrative bodies within the existing legislative framework. These modifications can be implemented without undergoing lengthy legislative processes or requiring formal legislative approval, providing governments with the flexibility to adjust existing immigration policies and programs in line with current needs and priorities. This adaptability allows for more responsive policy adjustments to address changing circumstances effectively.

The study also focuses on two critical policy domains related to labor immigration: the admission of labor immigrants into the country and their residency status after entry. These dimensions are fundamental to the objectives of labor immigration, which aim to bring in a sufficient number of labor immigrants and ensure their sustained presence to meet business needs effectively. For firms, the ability to hire additional workers and retain them for essential business functions is of primary concern and what prompts them to lobby for workforce expansion. Furthermore, these aspects of labor immigration, specifically the admission and residency of labor immigrants, have been commonly examined in other studies on labor immigration (Cerna, 2016; Czaika and Parsons, 2017; Peters, 2015, 2017; Shin, 2017). This highlights the significance of these policy areas concerning labor immigration irrespective of the specific research questions posed.

The analysis does not include other policy domains of immigration policy that are not directly related to the primary objective of boosting the size of the domestic workforce. These domains include integration, which involves assimilating immigrants into the political (e.g., voting rights) and social (e.g., access to social security benefits, community integration, etc.) systems of the host country, as well as access to citizenship. Although these aspects of immigration also impact labor immigrants and may contribute to making a host country more appealing as a working destination, they are not part of the analysis because they do not directly contribute to the augmentation of the domestic labor force. Business entities are typically less concerned with whether their workers are fully integrated into the host society or can eventually acquire citizenship. Governments also often consider social, political, and cultural factors rather than purely economic ones when formulating

policies regarding integration and citizenship. Thus, only the admission and residency policies of labor immigration will be examined.

Labor immigration policy change is examined across the period from 1970 to 2019 in 25 high-income democracies. The countries included are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovak Republic, South Korea, Spain, Sweden, Switzerland, United Kingdom, and the United States.

The selection of this time period and these countries is based on both theoretical and practical considerations. Most states began formally introducing labor immigration policies and experiencing frequent legislative changes in this domain starting in the 1970s. Moreover, information on labor immigration policy becomes less reliable further back in time. The data collection period ends in 2019 due to the implementation of severe immigration restrictions by governments in response to the COVID-19 pandemic in early 2020.

The choice of high-income democracies is driven the relevance of borrowing costs and their impact on firm behavior and labor immigration in these societies. These states have reached a level of economic development that makes them attractive destinations for emigrants, and their governments find it necessary to regulate the entry and stay of immigrants through labor immigration policies. At the same time, they are facing declining birth rates and aging populations, resulting in a shrinking workforce. This demographic shift creates labor shortages and skill gaps, driving the demand for immigrants to sustain the workforce and fill vacant job positions. An abundance of highly educated individuals in high-income democracies also tends to lead to a preference for higher-skilled and prestigious occupations among native labor. This situation leads to labor gaps and shortages in various sectors and positions across the economy. The shortage is particularly acute for physically demanding jobs in sectors such as agriculture, construction, and manufacturing, which struggle to attract native workers.

The countries are also selected as they represent a diverse range of immigration experiences, in-

cluding traditional settler states (e.g., Australia, Canada, United States), those that have recently transitioned from net emigration to net immigration (e.g., Ireland, Italy), and countries considered as "negative cases" of immigration (e.g., Korea, Japan). Additionally, these countries are chosen because information on their labor immigration policies and programs are widely and publicly available, ensuring ease of data collection and minimizing potential measurement errors resulting from missing legal texts or information.

Data on labor immigration policy changes were collected from a variety of sources, including government websites, government press releases, news articles, country reports produced by international or intergovernmental organizations, and relevant secondary literature encompassing case studies that analyze labor immigration policies. Despite efforts to collect data from a broad spectrum of sources and cross-verify them, certain limitations persist. These sources may primarily document policy changes that are particularly noteworthy or extensively publicized by authorities, media outlets, or societal groups with a vested interest in immigration matters. Moreover, historical data from more distant periods in the past may be limited or not readily available. While the incompleteness of the data has the potential to impact the empirical analysis, the collected data, though not exhaustive, provides valuable insights and contributes to our understanding of labor immigration policies.

3.2. Identifying Liberalizing or Restrictive Immigration Policy Change

Labor immigration policy change can manifest in three different forms: liberalizing change, restrictive change, or no change in the country's openness towards labor immigrants compared to the existing policy framework. A policy change is considered liberalizing when it facilitates the admission and residency of labor immigrants. There are several manners in which this can occur, such as increasing the number of labor immigrants eligible for entry, expanding the categories of immigrants eligible for admission, simplifying the process for immigrants to become eligible, extending the duration of their stay in the country, or easing the conditions of their residency.

Conversely, a policy change is deemed restrictive if it hinders the entry and residency of labor immigrants. This can occur through various means, including reducing the number of labor immigrants eligible for admission, limiting the categories of labor immigrants eligible for entry, imposing more

stringent criteria for eligibility, shortening the duration of their stay in the country, or imposing stricter conditions on their residency.

Some non-exhaustive examples are provided below to illustrate these concepts.

Governments typically determine the number of labor immigrants admitted into their country by setting quotas, which establish an upper numerical limit on the number of labor immigrants allowed to enter or reside in a country within a given period. A liberalizing change would involve increasing an existing quota. For instance, in the United States, a liberalizing change occurred when the annual quota for high-skilled H-1B visas was raised from 65,000 to 115,000 in 1999 and subsequently increased further to 195,000 in 2001. On the other hand, a restrictive change would entail reducing the quota on labor immigrants. Quotas can also be determined based on a stipulated maximum percentage of labor immigrants in the total domestic workforce. For example, in Austria, a restrictive policy change was implemented by establishing a maximum percentage of foreign employment relative to total employment. It began at 10% in 1990, and subsequently, it was reduced to 8% in 1994 and further to 7% in 2011.

Instead of setting numerical limits, governments tend to also expand or restrict the categories of labor immigrants eligible for entry based on their perceived desirability. This is achieved by adjusting the eligibility criteria, which typically take into account specific attributes related to employability, such as skill level, occupation, education level, work experience, and language proficiency. A liberalizing change involves broadening the opportunities for different types of labor immigrants to enter a country. For example, in 1996, Australia introduced the Temporary Work (Skilled) visa to address skilled labor shortages. Prior to this, Australia had already implemented a Skilled Independent Visa that admitted skilled immigrants based on a points-based system, considering broad human capital factors such as education level and work experience. The introduction of the Temporary Work (Skilled) visa created an additional pathway for skilled immigrants who did not meet the requirements of the points-based system but possessed specific skills that could help alleviate labor shortages in the country. This policy change effectively increased the number of skilled immigrants eligible to enter Australia.

Conversely, a restrictive change aims to reduce the categories of labor immigrants eligible for admission. For instance, in 2010, Australia implemented a restrictive change to its Skilled Independent Visa by imposing stricter requirements. These included higher English language proficiency, more extensive work experience in skilled occupations, and higher educational qualifications. As a result, labor immigrants who would have previously qualified under less stringent criteria, such as those with lower language proficiency or fewer years of work experience, were now excluded from admission under the revised policy.

Apart from the eligibility criteria that labor immigrants must meet, governments may impose specific requirements and obligations on employers, presenting various hurdles that firms must navigate when hiring labor immigrants. These conditions can encompass labor market testing, the necessity for a job offer, and limitations on wages and working conditions.

Labor market testing involves assessing whether there are suitable local candidates available to fill job vacancies before considering foreign workers for employment. Typically, employers are required to advertise the job opening through different channels to reach domestic job seekers, and then demonstrate that no suitable local candidates were found or that the foreign worker possesses specialized skills or qualifications not readily available in the local labor market. Implementing labor market testing represents a restrictive change as it increases the burden on employers to comply with testing requirements. For instance, Ireland required employers to prove that they could not source native workers in Ireland before applying for a work permit starting in 2002, where previously the requirement was voluntary. Conversely, a liberal change would involve exemptions from labor market testing. For example, in 2006, Belgium announced that foreigners seeking a work permit for occupations facing recruitment difficulties would no longer be subject to labor market testing, thereby easing the entry conditions for labor immigrants.

Another common condition involves the requirement of a job offer. Stricter policies demand that a labor migrant must secure a job offer from an employer before obtaining a work visa. In contrast, more lenient policies allow immigrants to obtain a job-search visa for the purpose of seeking employment. For instance, in 2012, Germany introduced a job-search visa for tertiary-educated jobseekers

from abroad, granting them entry into the country without first securing an employment offer. On the other hand, the EU Blue Card, implemented in several EU member states since 2012, requires immigrants to have a work contract or a job offer for highly qualified employment lasting at least one year.

Wages and working conditions also determine the relative ease or difficulty in admitting labor immigrants. Liberalization occurs when the conditions are relaxed, such as when Denmark reduced the salary requirement for the Job Card Pay Limit scheme in 2008 from 60,325 Euros to 50,270 Euros. Conversely, labor immigration becomes more restrictive when new conditions are introduced, such as when certain EU member states set minimum salary thresholds for eligibility for the EU Blue Card. As of 2022, Germany set the minimum salary threshold at 56,400 EUR per year, while Italy set it at 26,000 EUR per year.

Governments also exercise control over the post-entry residency status of labor immigrants to regulate their duration of stay in the country. Changes in this regard can either be liberalizing or restrictive. Liberalization occurs when governments lengthen or extend visa validity durations, allowing labor immigrants to stay for longer periods. For example, in Korea, the duration of stay for low-skilled immigrant labor has gradually increased over the years, from one year in 1991 to a maximum of three years in 1996, with the possibility of a further 22-month extension added in 2004. In 2008, multi-year contracts were introduced, replacing the previous one-year contracts that required annual renewal. These changes effectively extended the stay of labor immigrants and catered to the needs of firms.

Another avenue to regulate the stay of labor immigrants in the country lies in the criteria for permanent residency. Permanent residency allows labor immigrants to stay indefinitely, unaffected by the validity duration of their work visas. Spain implemented a liberalizing change in 1996 by introducing the possibility of permanent residency for foreigners after six years of temporary residence in Spanish territory. This condition was further liberalized in 2000, granting permanent residency to immigrants who could prove five years of temporary residence. This allowed them to reside in Spain indefinitely and work without the need for a work permit. On the other hand,

Italy implemented a restrictive change in 2011 by imposing a language test requirement to obtain a long-term residence permit, making it more difficult for immigrants to secure permanent residency status.

In addition to granting permanent residency, some governments also implement policies that allow existing immigrants to remain in the country even without active employment, but with the expectation that they will secure employment in the future. This change enables immigrants who have lost their jobs to stay for a limited period to search for new employment opportunities. A notable example of such a liberalizing policy change occurred in Denmark in 2007. Under the Job Card Pay Limit Scheme, if an immigrant becomes unemployed due to circumstances beyond their control, such as company downsizing during economic downturns, they have the option to apply for an additional 6-month residence permit. This permit grants them the opportunity to actively search for a new job without having to leave the country immediately.

These examples are not exhaustive, but they serve to illustrate how governments use various policy tools to regulate labor immigration, controlling both the inflow of labor immigrants and their presence within the country.

3.3. Coding Labor Immigration Policy Change at the Country-Year Level

Multiple restrictive and liberal policy changes across different policy areas and immigrant categories can occur in a country in a given year. These changes can result from legislative acts that incorporate a package of different reforms, employing a wide variety of policy instruments that address different policy areas and target different labor immigrant subgroups. Immigration programs may also be implemented, removed, or amended at different points throughout the year at the discretion of the executive or administrative bodies.

The country-year serves as the unit of analysis, and the various policy changes within a country in a specific year are aggregated to evaluate the overall trend of liberalization or restriction in labor immigration policy. If a country enacts more policy changes that promote liberal labor immigration than those that restrict it, the country's aggregate labor immigration policy is considered more

open, and the country-year observation is coded as +1. Conversely, if there are more policy changes that restrict labor immigration, the aggregate labor immigration policy is deemed more restrictive, and the country-year observation is coded as -1. When there is an equal number of liberalizing and restrictive policy changes, indicating no net change in labor immigration openness, the country-year observation is coded as 0. If there is no policy change in a particular country during a given year, the country-year observation is similarly coded as 0. The dependent variable will thus be an ordinal measure that takes on values of either -1, 0, or 1.

There is no differentiation made regarding the magnitude of policy changes, whether they represent a major departure from existing policies, moderate modifications, or minor adjustments. This lack of differentiation is due to the complex nature of immigration policies, making it challenging to neatly categorize policy changes neatly into major, moderate, or minor classifications. Aggregating numerous policy changes of varying magnitudes at the country-year level further complicates the issue, as it becomes unclear whether two minor policy changes are equivalent to one mid-level change or if three minor changes are equivalent to one major change, and so on. Since the scale of magnitude is ordinal, assuming proportional differences between the magnitudes of change is difficult. An analysis of the DEMIG dataset has revealed that major, mid-level, and minor changes are evenly distributed across both liberal and restrictive policy measures, and analyses using ordered data (major, mid-level, and minor) or unordered data (disregarding the extent of change) has led to similar findings (De Haas et al., 2016). This implies that not taking into account the magnitude of policy change is unlikely to drastically affect our understanding of labor immigration policy shifts.

Likewise, no attempt is made to distinguish between changes occurring in various policy areas, policy tools, and policies that affect different subcategories of labor immigrants. The complex nature of immigration policy indicates that states have adopted a diverse range of policy instruments to regulate labor immigration, with some tools being specific to particular countries, regions, or time periods. For example, countries like Australia, Canada, and New Zealand favor a points-based permanent immigration system whereas Germany and the United States primarily focus on temporary labor immigration to address specific employment needs.

Over time, the popularity of certain policy tools has also shifted. Recent policy changes increasingly target immigrants of all foreign nationalities rather than specific nationalities, indicating a decline in nationality-specific immigration policies. The criteria based on nationality has also evolved from being historically used to deny entry to certain groups to now being a tool to grant privileged access to particular nationalities. Examples include regional free mobility among EU member states and bilateral labor migration agreements for seasonal workers or specific professional occupations. The limited number of immigration policy changes in earlier decades also poses challenges for robust analyses that focus on specific policy areas and target groups.

Furthermore, the specific policy area or tool utilized to facilitate the admission or prolong the stay of labor immigrants is of minimal importance to firms. They prioritize the outcome of the policy rather than the specific area or tool used to achieve it, and their primary concern revolves around whether the policy enables them to expand their workforce by hiring more labor immigrants or allows them to retain these workers for an extended duration. As a result, firms are likely indifferent between different policy mechanisms, such as a points-based system of admission or the provision of a permanent work visa, as long as both options offer labor immigrants the opportunity for an indefinite stay in the country, contingent on fulfilling certain conditions.

The choice to focus on policy change rather than the absolute level of labor immigration openness is based on the expectation that policies generally remain relatively stable over time. The process of passing laws is often lengthy and time-consuming, involving multiple stages and stakeholders. Elected representatives, in collaboration with other lawmakers and government agencies, develop and refine bill proposals. Commissions or task forces composed of experts and professionals may also be involved in studying specific issues and making policy recommendations. These proposals undergo thorough review, debate, and amendment in the legislature, requiring multiple rounds of voting or approval. While the rules and regulations related to labor immigration that are derived from laws may not be as resource-intensive to introduce and implement, they still require time and resources for decision-making and the establishment of guidelines by the executive or administrative bodies.

Furthermore, there is a need to establish a clear criterion for defining the magnitude of policy change that would shift the absolute extent of labor immigration openness in a country. For example, determining the specific dollar amount of an increase or decrease in minimum wages required for work permits that would constitute a one-unit change in openness, or identifying the threshold for a decrease or increase in the number of days for labor market testing that qualifies as a one-unit change in liberalization or restrictiveness in labor immigration policy. Many existing studies that assess the absolute level of labor immigration openness have established the respective criteria used without providing sufficient explanations for how these standards were derived.

Additionally, datasets measuring absolute levels of immigration openness across countries are based on predetermined policy dimensions or tools, such as the existence of quotas or access to permanent residency, enabling cross-country comparisons but may overlook country-specific immigration policies and tools, leading to a potential misrepresentation of actual policy shifts. By focusing on policy change, we can gain a more nuanced understanding of the dynamic nature of labor immigration policies, taking into account the specific adjustments made by each country over time. This approach allows for a more detailed examination of the evolving landscape of labor immigration policies and provides insights into the unique strategies adopted by individual states to manage labor immigration.

3.4. Labor Immigration Policy Change Across Space and Time

Labor immigration policy changes were analyzed and coded for the 25 high-income democracies across a span of 50 years, and the data were aggregated into country-year units of observation. This section presents some descriptive statistics on the policy changes that were observed.

In over half of the country-year observations (57.5%), the countries in the sample experienced no aggregate change in their labor immigration policy. This lack of change was mainly due to the absence of any policy modifications, rather than an equal number of restrictive and liberalizing changes occurring within the same year.

In approximately one-third of the country-year observations (33.7%), labor immigration policies

Table 3.1: Number of Policy Changes that Restrict or Liberalize Labor Immigration

Restrict	No Aggregate Policy Change		Liberalize
	No Policy Introduced	Zero Net Change	
92	695	11	406
	706		

were made more open, while restrictive changes were observed in 7.6% of the country-year observations. This indicates that in a greater number of time periods, countries opted for a more inclusive approach towards labor immigration rather than implementing policies that would make it harder for labor immigrants to enter and reside. These findings align with numerous studies that find that liberal policy changes, particularly in the context of labor immigration, have consistently outweighed restrictive policy changes from 1945 until today (Beine et al., 2016; De Haas et al., 2016; Helbling and Kalkum, 2018).

The dataset contains a relatively high number of policy changes, despite the conventional belief that policymaking is a slow and infrequent process, often considered "sticky" and resistant to change. This is because a broader definition of policy change is adopted when constructing the dataset, encompassing not only legislative bills or packages but also incorporating modifications in standards or regulatory adjustments by the bureaucracy or executive that do not require lengthy legislative processes.

The degree to which countries in the sample implemented liberalizing and restrictive changes during the study period varied. Figure 3.1 illustrates the total number of years in which liberal and restrictive labor immigration policy changes occurred throughout the study period, and Figure 3.2 presents the aggregate change in immigration policy openness for each country. The aggregate change in openness for each country is calculated by subtracting the number of years with restrictive policy changes from the number of years with liberalizing policy changes. A positive score indicates that the country has a greater number of years with liberal policy changes, while a negative score indicates a prevalence of restrictive changes. All countries, on average, implemented more liberalizing changes than restrictive changes, indicating a greater emphasis on facilitating the entry and residence of labor immigrants rather than restricting them.

Figure 3.1: Number of Years of Liberal and Restrictive Labor Immigration Policy Changes by Country

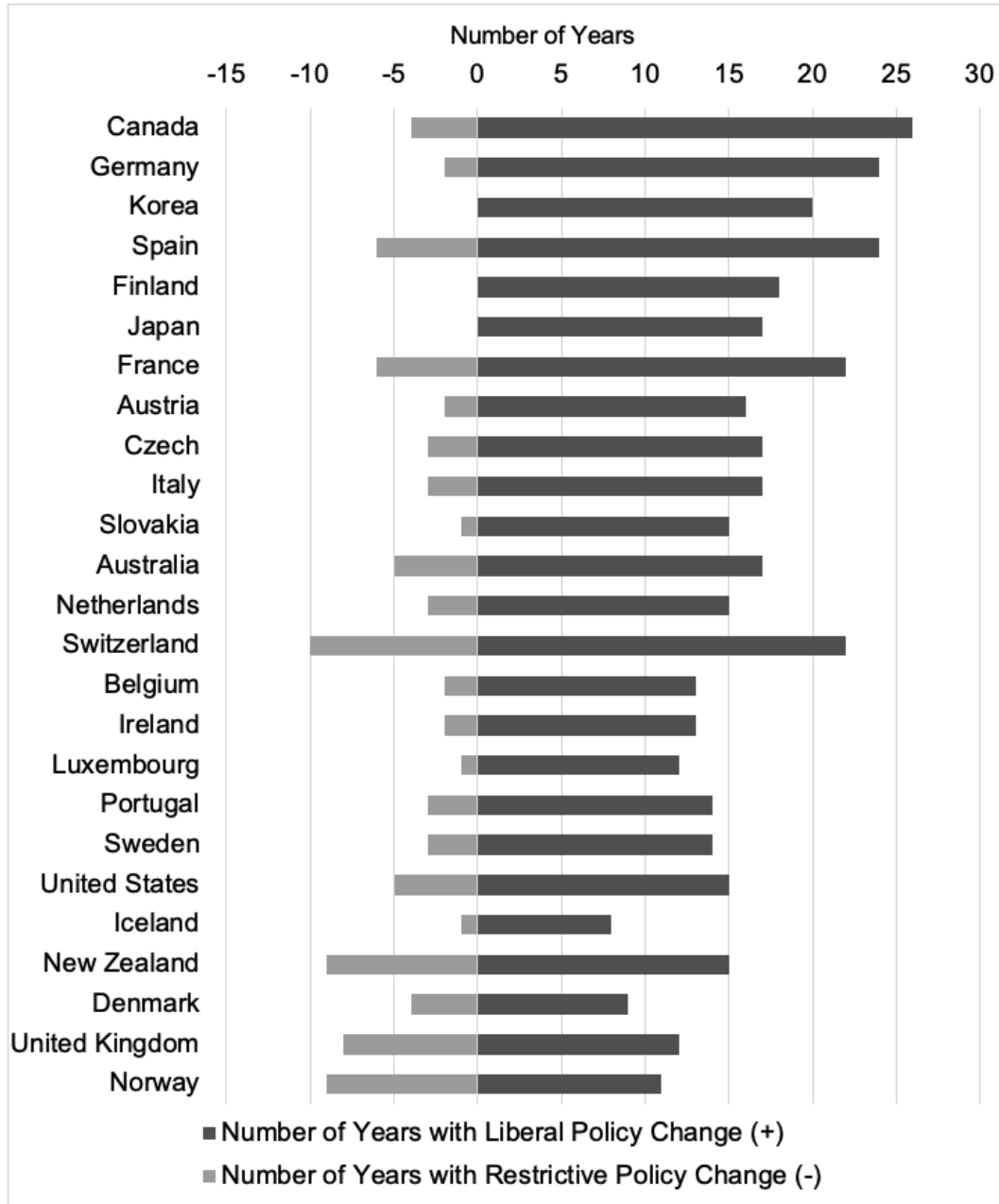
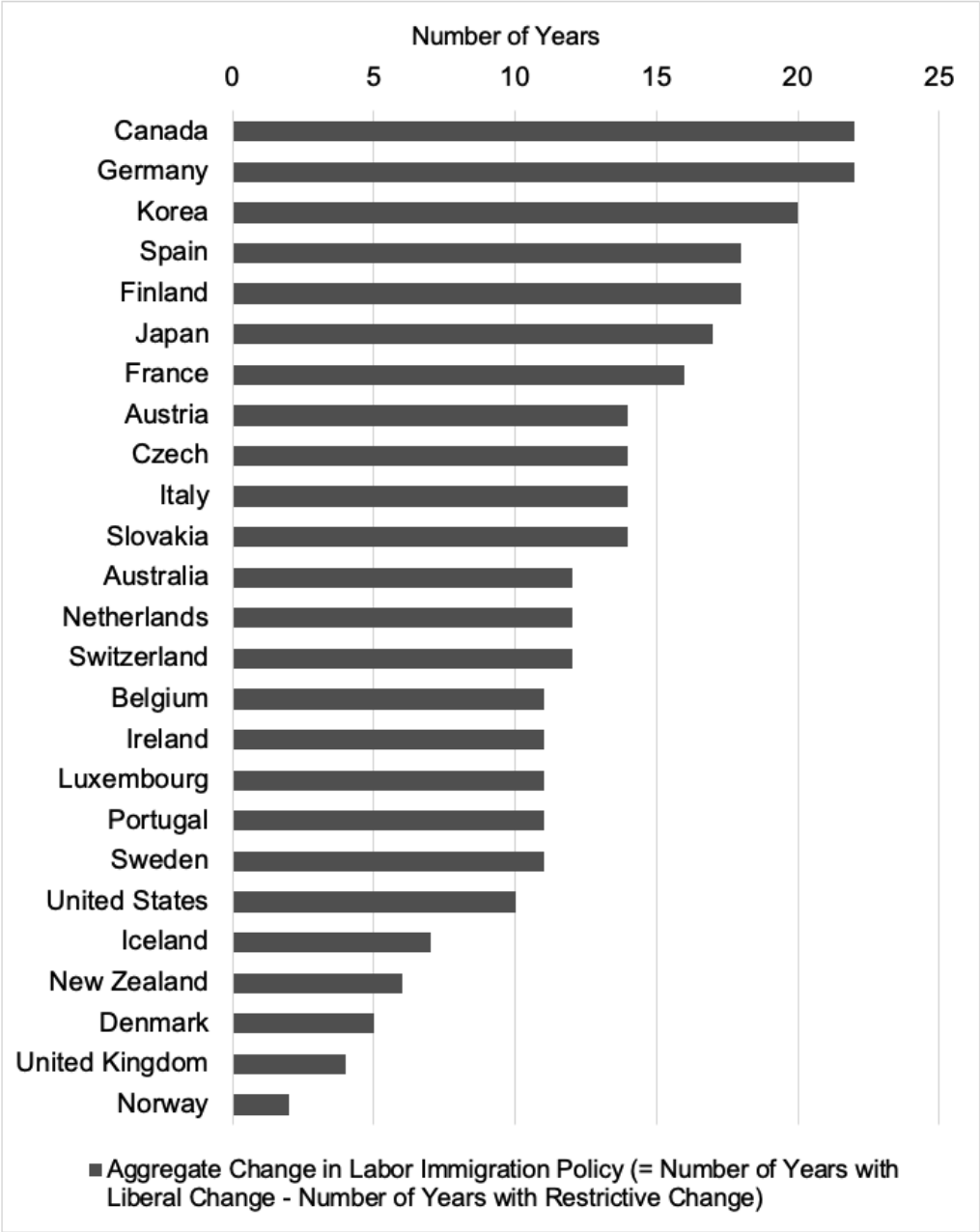


Figure 3.2: Aggregate Labor Immigration Policy Change by Country (= Number of Years of Liberal Change - Number of Years of Restrictive Change)



Canada and Germany particularly stand out as countries that, on aggregate, implemented more liberalizing policy changes compared to restrictive changes. Both countries also introduced liberalizing policy changes in approximately half of the study period (26 years for Canada and 24 years for Germany out of a total of 50 years). In the case of Canada, the introduction of the point-based immigration system in 1967 marked the beginning of numerous other immigration programs, such as the Federal Skilled Worker Program (FSWP), Federal Skilled Trades (FST) program, Canada Experience Class (CEC), Provincial Nominee Program (PNP), Seasonal Agricultural Workers Program (SAWP), and Live-in Caregiving Program (LCP), among others. These programs expanded the opportunities for various types of immigrants to enter Canada for work. Additionally, these programs were regularly updated and modified to better accommodate the needs of immigrant workers. For example, requirements for permanent residency for live-in caregiving immigrant workers were adjusted twice, making it easier for them to meet the residence requirements. Specifically, in 2010, overtime hours were allowed to be counted towards the two-year work requirement, and the time-frame for fulfilling this requirement was extended from three to four years. Further changes were made in 2014, removing the live-in requirement and making more caregivers eligible for permanent residency.

Germany, on the other hand, began signing Bilateral Labor Agreements (BLAs) with European, Latin American, and Asian countries as early as the 1960s. These agreements covered provisions such as equal treatment and non-discrimination of migrant workers, recognition of skills and qualifications across borders to facilitate job matching, and cooperation in employment facilitation. These measures contributed to better labor market outcomes and eased the entry and residence of labor immigrants. Germany also employed various other policy tools, including the introduction of a Green Card in 2000 to facilitate the entry of non-EU IT workers, the creation of a list of shortage occupations exempted from labor market tests in 2005, and offering a job-search visa for up to six months for tertiary-educated job-seekers from abroad in 2012.

All the countries in the sample have made at least some policy changes during the study period. However, it is noteworthy that Finland, Korea, and Japan did not implement any country-year-level

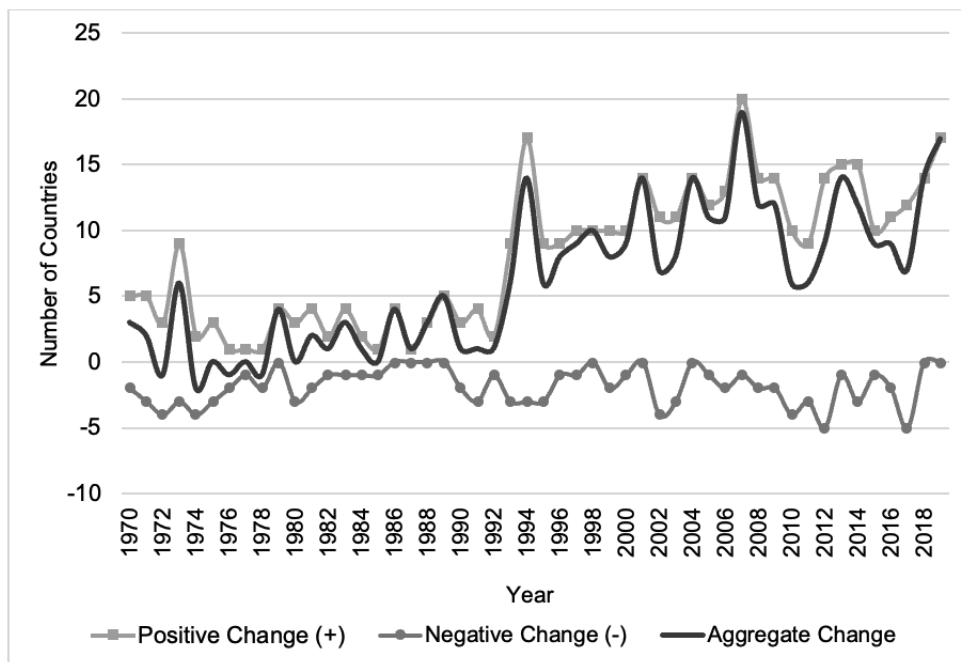
restrictive immigration policy change throughout the entire period examined. Finland has generally maintained a managed and open approach toward labor immigration. It adopted EU Directives in a manner that does not create additional barriers for labor immigrants seeking entry into the country. For example, it incorporated the EU Blue Card for highly skilled non-EU labor immigrants while also retaining its existing specialist permit, which covers labor immigrants with salaries below the Blue Card threshold and who would not otherwise qualify for entry.

The absence of negative policy changes in Korea and Japan may come as a surprise, given that both countries are typically perceived as having closed and restrictive immigration policies. However, the absence of negative policy changes can be attributed to the fact that both countries initially had highly restrictive immigration policies. Consequently, it is more likely for them to make incremental changes aimed at welcoming some groups of labor immigrants rather than implementing even more restrictive measures within an already restrictive system.

Examining the trends over time, Figure 3.3 presents the yearly count of countries implementing liberalizing and restrictive policy changes, along with the aggregate change, which represents the difference between the number of countries implementing liberalizing changes and those implementing restrictive changes. The number of countries implementing liberalizing changes in a year ranged from 1 to 20 while the number of countries implementing restrictive policy changes in any given year varied between 0 and 5 throughout the study period.

During the 1970s and 1980s, both liberalizing and restrictive policy changes were relatively uncommon among countries in the sample. However, starting in the 1990s, there was a noticeable increase in the number of countries implementing liberalizing policy changes, and this trend continued throughout the rest of the period under analysis. There were a few instances in the 1970s when more countries implemented restrictive policy changes compared to those implementing liberalizing changes. These occurrences were likely influenced by the 1973 Oil Crisis and the ensuing economic recession and rising structural unemployment in Europe and North America. Many European governments halted active recruitment efforts or adopted highly selective labor immigration policies during this time.

Figure 3.3: Aggregate Labor Immigration Policy Change Over Time (= Number of Countries with Liberal Change - Number of Countries with Restrictive Change)



From the mid-1980s onwards, an increasing number of countries opted to make labor immigration more open rather than closing their doors to labor immigrants. This trend further intensified in the 1990s, indicating a growing acceptance and welcoming attitude towards labor immigrants among a larger number of states. Importantly, this trend did not experience significant or persistent reversals even during the global financial crisis of 2007-2009 or the Eurozone sovereign debt crisis in the early 2010s.

The considerable number of countries implementing liberalizing policy changes in recent decades contrasts with the perceived public backlash against immigration. Immigration has become a prominent political issue in many advanced industrialized economies, and calls for border walls and the growth of anti-immigration protests seem to suggest an increase in xenophobic sentiments. These observations are further supported by public opinion surveys, often indicating a decreasing acceptance of migrants in many countries (Gallup, 2020). The tough rhetoric of politicians promising to curb immigration and strengthen border control would lead one to expect increasingly restrictive immigration policies. Nonetheless, the continued occurrence of liberalizing policy changes indicates

the existence of a possible "discursive gap" between the rhetoric surrounding immigration policies and their actual implementation, where in practice, the policies that are implemented appear to differ from the strong language used by politicians who promise to reduce immigration and safeguard the well-being of native populations (Czaika and De Haas, 2013).

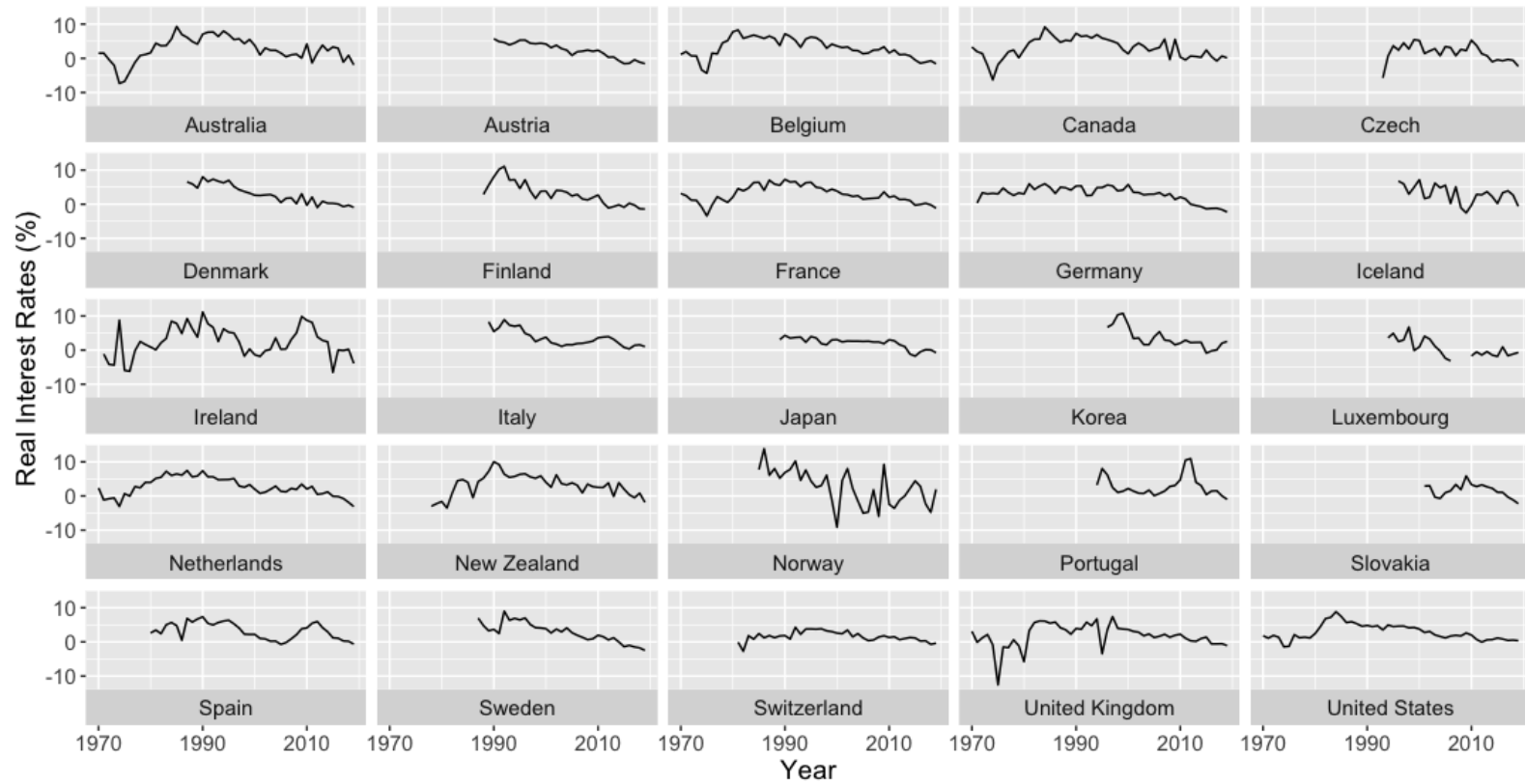
3.5. Measuring Monetary Policy and Borrowing Costs

The labor immigration data discussed above serves as the dependent variable for this study, while the primary independent variable of interest is borrowing costs. Three different measures are used to assess borrowing costs: economy-wide real interest rates, real borrowing rates of MNCs, and real borrowing rates of domestic firms.

In order to account for inflation and reflect the actual cost of borrowing, interest rates and borrowing rates are calculated in real terms. Lending institutions offer loans at nominal lending rates, representing the cost the borrower must repay in addition to the principal amount. However, inflation can influence the real cost of borrowing. Higher inflation reduces the value of money over time, diminishing the real value of debt as borrowers can repay their loans with money that has a lower real worth. Conversely, when inflation is low, the real value of money remains stable, resulting in a higher real cost of borrowing as borrowers have to repay the debt in full without the benefit of inflation eroding its value. To determine the real cost of borrowing, the nominal lending rate is adjusted for inflation using the GDP deflator. Data for each country and year are sourced from the OECD and the World Bank.

The plots in Figure 3.4 show the real interest rates (RIR) for the 25 countries within the sample, spanning the period from 1970 to 2019, or a shorter duration if data was not available. A visual examination reveals notable fluctuations in real interest rates, both across countries and over time. An analysis of variance (ANOVA) further supports the observation that real interest rates differ significantly between the various countries. Additionally, a linear mixed-effects model (LMM) indicates the existence of within-country over time variation, characterized by a discernible decreasing trend. The evident variability, both across countries and within countries over time, provides a solid foundation for testing pertinent hypotheses.

Figure 3.4: Plots for Real Interest Rates Across 25 Countries in Sample and Over Time (1970-2019)



While real interest rates provide a good measure of the overall real cost of borrowing in an economy, they do not capture variations in borrowing costs within the economy. Different borrowers may face individual loan terms, creditworthiness, and risks associated with financing. To overcome this limitation, I tap into Thomson Refinitiv Worldscope, a comprehensive database containing detailed financial information on public companies worldwide. This widely used database in the finance and international business literature provides firm-level financial information, allowing for a more nuanced analysis of borrowing costs (Chui et al., 2002; Mansi and Reeb, 2002; Faccio et al., 2010).

Firm-level financial information such as interest expense, short and long-term debt, equity value, and total assets are extracted. Using these information, I first calculate a firm's borrowing rate by dividing its interest expense on debt by its total debt, which includes short-term debt, the current portion of long-term debt, and long-term debt. Firms typically finance their operations through a mix of debt and equity, so I further adjust the borrowing rate by multiplying it by the ratio of total debt to total assets, which is the sum of total debt and total equity. This adjustment ensures a more accurate assessment of each firm's borrowing rate, accounting for their unique financial structure and providing insights into their exposure to changes in interest rates. For firms that rely entirely on debt for financing, their interest rate will be equivalent to their borrowing rate, representing the direct impact of loan terms and costs on their operations. However, for firms that use a mix of debt and equity, the adjusted borrowing rate will be smaller, reflecting the reduced sensitivity of their business to changes in loan terms and costs.

I also distinguish between multinational and domestic firms based on their reported foreign assets and foreign sales² in a given year. I define a firm as an MNC if it reports foreign assets as a percentage of total assets of at least 10% and foreign sales as a percentage of total sales of also at least 10%. On the other hand, a firm is considered domestic if it reports foreign assets as a percentage of total assets of less than 10% and foreign sales as a percentage of total sales of also less than 10%. I also verify that such firms have an actual geographic presence in a market that is not their home country and have non-zero operating income and assets, information available

²Firm sales and firm revenue are used interchangeably.

in the Thomson Refinitiv database as well. This classification method is consistent with previous research in finance and international business (Doukas and Pantzalis, 2003; Doukas and Kan, 2006; Mittoo and Zhang, 2008; Singh and Nejadmalayeri, 2004). In these studies, firms are classified as either domestic or multinational based on their foreign sales and foreign assets ratios, with a 10% threshold used as a guideline. This 10% threshold is derived from the Canadian CA Institute General Accounting Section 1701 and the U.S. Statement of Financial Accounting and Standard No. 14, which identify multinational corporations as those reporting foreign assets, foreign sales, or foreign income of at least 10%. Additionally, U.S. corporations with foreign sales exceeding 10% of their total sales or foreign assets exceeding 10% of their total assets are required to disclose this information.

In order to convert the firm-level borrowing cost into a country-level measure, I take into account the significance of each firm's presence in the country during a given year. This is achieved by weighing each firm's borrowing cost based on their share of revenue generated in the specific country and year. This results in a revenue-weighted cost of borrowing for all firms in the economy. It is important to distinguish between MNCs and domestic firms when calculating the revenue weights since MNCs tend to have higher revenues compared to their domestic counterparts. If the revenues of both MNCs and domestic firms were combined and the revenue of each firm was measured as a proportion of the total combined revenue, MNCs would end up with disproportionately larger weights, possibly outsize even the largest domestic firms. A positive correlation exists between real interest rates and the borrowing costs of both multinational corporations (MNCs) (0.489, $p < 0.001$) and domestic firms (0.326, $p < 0.001$). Additionally, there is a positive correlation (0.557, $p < 0.001$) between the borrowing costs of MNCs and domestic firms. This suggests that while the realized borrowing costs of firms generally follow the real interest rates of the economy, variations occur due to specific lending terms and conditions unique to each firm.

My sample consists of all firms available on Thomson Refinitiv that have incorporated their business in the 25 countries that I selected. The financial information for most of these firms spans from 1980 to the present, ensuring a substantial and robust dataset for the study.

One limitation of using the Thomson Refinitiv database is that it restricts the firms included in the sample to just the parent entity of MNCs, given that the database primarily focuses on just the parent firms and not their subsidiaries. As a result, the analysis is constrained to examining just the lobbying activities of these parent firms in their home countries, overlooking the potential influence of foreign subsidiaries of MNCs who may also engage in lobbying efforts in their host countries, motivated by similar considerations. This omission results in a failure to account for a substantial number of economic entities that could potentially impact immigration policymaking.

Nonetheless, this limitation does not critically undermine the core objectives of the study. In cases where subsidiaries require more labor due to expansive monetary policies and subsequently lobby for more liberal labor immigration policies, their exclusion from the analysis may lead to an underestimation of the influence of monetary policy changes and firm efforts on immigration policy. This implies that if significant findings emerge even when foreign subsidiaries are excluded, it provides strong evidence that firms indeed hold substantial power over immigration policymaking.

Furthermore, subsidiaries often rely on their parent firms for strategic directions and may have limited autonomy in adapting to changes in their external macroeconomic environment. Recent studies have also indicated that foreign subsidiaries tend to align their lobbying efforts with the preferences of the parent firm rather than pursuing their own independent objectives (Lee, 2022). Specifically, the parent firm's focus is often directed towards addressing policy externalities, which involve government policies in one country impacting entities beyond its borders. For instance, conventional tariff and non-tariff barriers can significantly influence the activities of MNCs engaged in trade with a specific country. The foreign subsidiaries of these firms then assume a political role, acting on behalf of their substantially larger foreign parent firm to navigate these policy challenges.

3.6. Economic and Institutional Controls

Labor immigration policy is influenced by a variety of macroeconomic and political institutional factors and it is crucial to consider their impacts to ensure the accuracy of the analysis and minimize the likelihood of omitted variable bias.

One essential macroeconomic factor that warrants attention is fiscal policy. Although monetary policy is determined by the central bank and fiscal policy is set by the government, they typically vary in tandem as they affect the economy in similar ways. For example, expansionary fiscal policy that increases government spending on infrastructure, education, healthcare, and social welfare programs boosts economic activity and aggregate demand in the economy. Similarly, tax reductions also influence spending, business investment, and overall economic growth. These economic changes are likely to lead to an increase in firm expansion, investment, and demand for labor, which then affects their inclination to lobby for liberal labor immigration. Changes in a country's fiscal policy position will have to be controlled for in the empirical models to isolate and accurately assess the impact of changes in monetary policy on labor immigration. One way to measure a country's fiscal policy is by considering the percentage change in government expenditure with each passing year. This information is available from the World Development Indicators (WDI) data compiled by the World Bank.

Fluctuations in real exchange rates also play a significant role in influencing labor immigration and likewise tend to vary alongside changes in monetary policy. Changes in interest rates can impact a country's exchange rate, which, in turn, affects the profitability of firms involved in international trade, subsequently influencing their demand for labor. When interest rates decrease, a country's currency tends to weaken, making its exports cheaper and benefitting firms in export-oriented industries. This increase in export demand leads to higher demand for labor to ramp up production. Furthermore, a weaker currency makes imports more expensive, favoring firms in import-competing industries by increasing demand for domestically produced goods and services. As a result, there is a corresponding increase in the demand for labor. Conversely, when interest rates rise and a country's currency strengthens, its exports become more expensive, leading to a reduction in demand for exports and subsequently decreasing the demand for labor in export-oriented industries. Import-competing industries also suffer as they become less price competitive, leading to a fall in the demand for domestically produced goods and services and, consequently, labor. The real effective exchange rates (REER) are used to measure the impact of exchange rates. The REER is calculated as the weighted average of the real value of a country's currency relative to a basket of trading

partners of the country.

Economic growth reflects the overall health and performance of an economy and is likewise a macroeconomic factor that needs to be taken into consideration. Higher economic growth rates indicate economic expansion, increased production of goods and services, and job creation. On the other hand, negative economic growth implies a contraction in the economy, affecting both production and employment. GDP growth, calculated as the percentage change in a country's GDP from year to year, is an appropriate measure of economic growth, and data is obtained from the United Nations Statistics. Additionally, the level of wealth of a country is taken into account, which is measured by its GDP per capita. This indicator is calculated by dividing a country's GDP by its total population and subjected to a natural log transformation for analysis and data is gathered from the World Bank.

The degree of trade openness significantly influences the decisions of firms to offshore or outsource their production, which in turn affects labor demand. Low trade barriers and tariff rates enable firms to move their production to locations with lower labor costs and import finished goods back to their home market at cheaper rates, leading to reduced labor demand in their home country. On the other hand, higher trade barriers and tariffs discourage firms from offshoring or outsourcing their production since importing the finished goods back to the home market will be more expensive. This sustains the demand for labor at home compared to when trade is more open. Trade openness is calculated using the ratio of the sum of exports and imports of a country to its GDP.

The overseas investment activities of firms are also an important factor that shapes firms' demand for labor in their home country. As firms set up overseas plants and move production or business functions to other countries, their demand for labor in their home country decreases, resulting in less incentive to lobby for liberal labor immigration changes. The level of overseas involvement of firms at the country level is measured using the value of FDI outflows as a percentage of GDP.

Beyond macroeconomic indicators, it is essential to consider economic indicators related to labor, including factors like unemployment rates. These rates provide insights into the current state of

the domestic labor market. High unemployment rates suggest a surplus of available labor, making it easier for firms to find workers locally. On the other hand, low unemployment rates indicate a tight labor market, prompting firms to explore labor immigration as a means to address their labor demand. High unemployment rates are also often associated with weak economic growth, a period during which issues related to immigration become more salient in the eyes of the native workforce. Any move towards liberalizing immigration policies is likely to encounter stronger opposition from native workers. Policymakers are inclined to factor these considerations into the development of labor immigration policies.

Labor unions affect a country's labor immigration policy through collective bargaining to safeguard the interests of native workers. While firms generally favor more open labor immigration policies, labor unions often advocate for more restrictive measures to prevent the displacement of native workers or a reduction in their wages caused by an influx of immigrant labor. These restrictive policies aim to protect domestic workers, particularly those in lower-wage or easily substitutable positions. I use union density as a measure of the influence of labor unions in shaping labor immigration policy, and it is calculated as the proportion of employees in union-covered workplaces relative to all employed wage and salary workers. Data for union density is obtained from the Data Base on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS), and covers all countries in my sample from 1960 to 2018 (Visser, 2015).

The ease of policy change within a political system influences the likelihood of observing a liberalizing or restricting change in labor immigration, making it an important political factor to be taken into account. The ease of policy change involves measuring the extent of political constraints that limits the ability of political actors to bring about policy modifications. The POLCON measure from Henisz (Henisz, 2002) provides a quantifiable indicator of political constraints, incorporating several elements such as the number of independent veto points and the alignment and heterogeneity of political actors within those institutions. When there are more actors with independent veto power, it becomes increasingly challenging for any one actor to initiate a change in government policy, as other actors may veto such changes. Likewise, a cohesive opposition bloc with similar

preferences can effectively oppose policy proposals put forward by the executive or other branches. In addition, when there is diversity in preferences within an aligned branch, it can lead to internal disagreements and conflicts among coalition members, making it difficult to reach a consensus and implement policy changes. As a result, additional veto points, homogeneity of preferences within an opposition branch, and heterogeneity of preferences within an aligned branch increase the challenges of reaching agreement and implementing policy changes. Higher values on the POLCON measure indicate higher levels of political constraints within a political system, making it more challenging to achieve agreement and implement policy changes related to labor immigration.

The government's ideological orientation regarding the conduct of economic affairs would shape their inclination for more liberal or restrictive labor immigration. Governments or parties that adopt right-wing economic orientations often prioritize policies that create a favorable environment for businesses, such as lower taxes and minimal regulations. In line with their pro-business approach, these governments are more likely to advocate for liberal labor immigration to foster a dynamic labor market with an ample workforce to support business operations and drive overall economic growth. On the other hand, left-wing governments might implement more liberal policies on issues regarding international migration than right-wing governments because of their ideological commitment to social justice, equality, and multiculturalism (Lahav, 2004) or because of their strategic assistance for foreigners hinges on the belief that these individuals will support left-wing parties in the future (Messina, 2007). Left-wing governments have also been found to be less likely than right-wing governments to formulate restrictive immigration policies that deal with immigrant integration (Givens and Luedtke, 2005). I utilize the Database of Political Institutions' (DPI) measure of the economic orientation of the largest political party in the legislature (Cruz et al., 2021). If the largest party is right-leaning in terms of economic policy, the variable is coded as 1; otherwise, it is coded as 0.

Beyond firms and trade unions, various competing interests exist in society regarding public policies, including labor immigration. Individuals and communities can play a role in decision-making processes and shaping public policies. Governments need to consider their interests when implementing

public policies. Political participation is a common form of engagement in the political process, typically involving periodic voting during elections to choose representatives. However, it can extend beyond electoral means and encompass civil society participation and expressing interests through non-electoral channels. I measure political participation using the participatory democracy index from Varieties of Democracy (V-Dem). The index combines items related to electoral participation, such as political contestation, suffrage, free and fair elections, and freedom of expression, as well as items related to non-electoral political participation including civil society participation, electing local or regional governments, and opportunities for direct popular vote outside of elections such as initiatives and referendums (Coppedge et al., 2022). The scale of the index ranges from 0 to 1, where lower values represent lower levels of democratic participation and higher values represent higher levels of participatory democracy.

It is also important to consider the institutional characteristics of central banks as they wield control over interest rates in the economy. Specifically, the focus is on their independence from political interference. The literature on central bank independence underscores its importance for economic outcomes that are helpful to firms beyond low inflation (Broz, 2002; Keefer and Stasavage, 2003), including better government credit ratings (Bodea and Hicks, 2015) and fiscal discipline (Bodea, 2013; Bodea and Higashijima, 2017). Better macroeconomic outcomes foster greater confidence among firms which facilitates the effective functioning of the monetary policy transmission mechanism, including encouraging firm investment and expansion. Data on the degree of central bank independence is sourced from Romelli (2022), covering the period from 1972 to 2017. While there are other publicly available datasets on central bank independence, they often cover shorter time periods or fewer countries. For instance, the dataset by Garriga (2016) covers 182 countries but is more restricted in time, spanning from 1970 to 2012. A correlation analysis reveals a high degree of correlation between both datasets, and the regression results in the subsequent sections remain robust regardless of which dataset is employed.

Finally, coordinated wage bargaining which involves the active coordination between trade unions and employer organizations in determining wage settlements across the economy is taken into ac-

count. Negotiated wages play a role in promoting labor market stability by minimizing the chances of abrupt and unpredictable wage fluctuations, thereby fostering a more predictable economic environment. However, if wage negotiations result in wages that are perceived to be rigid or unresponsive to market conditions, it can impede firms' capacity to adapt to changing market dynamics. This, in turn, may make firms more cautious in hiring, including labor migrants, influencing their inclination to advocate for more open immigration policies. Data on the extent of coordinated wage bargaining in a country is obtained from the OECD/AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS).

Table 3.2 and 3.3 present the summary statistics of the variables.

Table 3.2: Summary Statistics of Variables

Statistic	N	Mean	St. Dev.	Min	Max
Labor Immigration Policy	1,204	0.3	0.6	-1	1
MNC Borrowing Costs (MNC)	869	1.9	1.2	0.3	9.1
Domestic Firm Borrowing Costs (Domestic)	913	1.8	1.3	0.04	12.9
Real Interest Rates (RIR)	937	2.7	3.0	-12.6	13.8
Government Expenditure	1,188	2.6	2.5	-10.7	17.3
Real Effective Exchange Rates (REER)	980	101.3	15.8	47.7	164.4
GDP Growth	1,181	2.8	2.8	-8.1	25.2
GDP per capita	1,135	10.3	0.6	7.6	11.6
Trade Openness	1,193	54.7	60.3	0.1	377.8
FDI Outflow	1,102	2.7	7.5	-35.7	138.4
Union Membership	1,105	38.8	21.7	8.5	97.2
Political Constraints	1,024	0.5	0.08	0.2	0.7
Right Wing Legislature	1,031	0.5	0.5	0	1
Political Participation	1,127	0.6	0.08	0.02	0.8
Central Bank Independence	1,097	0.6	0.2	0.1	0.9
Coordinated Wage Bargaining	1,179	3.0	1.3	1.0	5.0

Table 3.3: Frequency of Categorical and Ordinal Variables

Statistic	N	-1	0	1
Labor Immigration Policy	1,204	92	706	406
Right Wing Legislature	1,031	-	521	510

3.7. Main Empirical Model

3.7.1. Model Specifications

In order to investigate the relationship between monetary policy shifts and labor immigration policy changes, multivariate ordinal regressions with robust standard errors clustered by country are employed. In addition to the primary explanatory and outcome variable, the empirical analyses include the abovementioned economic and institutional factors to provide a comprehensive and accurate understanding of the intricate relationships at play.

The main models in this study incorporate both country and year fixed effects to account for unit-level heterogeneity and temporal heterogeneity. Unit-level heterogeneity refers to unique characteristics or unobserved factors specific to each unit (country) that may influence the dependent variable, while temporal heterogeneity refers to unobserved factors that are specific to each time period but are constant across all units or countries. By including these fixed effects, the analysis aims to control for differences between countries that remain constant over time and differences between years that persist across all countries.

I conduct separate analyses without fixed effects due to the presence of institutional control variables that are relatively unchanging over time. Specifically, factors such as the level of political constraints, the presence of a right-wing government, the extent of political participation, central bank independence, and coordinated wage bargaining tend to demonstrate relatively stable patterns with little variation from year to year throughout the period examined. Some units also maintain temporally constant values throughout the study duration. Introducing country fixed effects is likely to yield odd coefficient estimates for these variables.

Studies have also recommended accounting for unit-level heterogeneity using substantive theoretical variables that explain unit differences rather than relying on country fixed effects (Beck and Katz, 2001; Green et al., 2001). These substantive theoretical variables provide meaningful explanations for the observed differences between units, offering insights into the underlying mechanisms or factors that contribute to variations and allowing for a more insightful interpretation of the results.

Understanding substantively why cross-unit variations exist likewise enriches the overall analysis and contributes to theory development. Furthermore, using unit fixed effects estimation can also present other issues, such as the loss of degrees of freedom and overfitting.

Theoretical motivations exist to examine the impact of political factors, in particular looking at how political constraints, right-wing legislatures, the democratic engagement of the electorate, central bank independence, and coordinated wage bargaining influence labor immigration policies. However, the use of country fixed effects poses limitations as it prevents the inclusion of any independent variables that lack significant temporal variation. Thus, a decision is made to also incorporate these political factors in order to identify any meaningful associations resulting from these distinctive political characteristics within countries.

The models without country fixed effects employ a linear time trend in place of time-fixed effects to capture overall trends and time-related patterns in the data. Instead of focusing on time-specific factors that uniformly influence the outcome variable across all units at each time point, the linear time trend accounts for general temporal shifts. This encompasses phenomena such as rising international immigration flows, changing governmental interest in regulating labor immigration, and an increasing liberal bias observed in high-income democracies. The inclusion of a time trend variable in the regressions enhances the models' ability to effectively capture trends that evolve over time.

Taking into account the temporal ordering of the independent variables and the dependent variable as well as the gradual nature of policymaking, the analysis involves regressing labor immigration policy changes in future period(s) (e.g., T+1, T+2, T+3) against the independent variables this period (e.g., time T). This approach accounts for the fact that changes in labor immigration policy might have occurred at the beginning of the calendar year, which would have been causally prior to the annual interest rates reported by the authorities or the cost of debt incurred by firms. Performing the regression with the outcome variable occurring in a future period(s) mitigates potential problems arising from instances where policy changes precede changes in interest rates and borrowing costs in temporal sequence.

Furthermore, using labor immigration policy changes in future periods also allows for the unfolding of the causal process. The ripple effects of monetary policy need time to work its way through the financial system and influence spending and investment decisions. The complex web of transmission mechanisms involves various stages and processes that take time to play out and impact different aspects of the economy. The existence of contractual and institutional arrangements, which are the foundation of numerous economic transactions, adds to the time required. As parties are locked into pre-determined economic terms agreed upon in prior periods, changes in monetary policy and borrowing costs may not have an immediate impact on existing economic interactions and transactions, leading to delays in making the necessary adjustments.

Additionally, adjustments to firm production and investment require time. When firms have plans to either expand or streamline their business, they require time to adjust their scale of production. This process involves evaluating various options, conducting market analyses to determine suitable target markets or products for investment, making decisions regarding facility and equipment acquisition or liquidation, and hiring and training new employees, among other considerations. Moreover, their initial increase in labor demand can often be met by drawing from the domestic labor pool, and it may take some time for firms in the economy to collectively exhaust the availability of domestic labor before they start lobbying the government for more liberal labor immigration policies.

Erratic fluctuations, such as alternating periods of monetary policy expansion and contraction, contribute to financial volatility and increase the degree of uncertainty and cautiousness among firms. This can affect decision-making and exacerbate delays in adjusting to existing interest rates and borrowing costs.

The significant barriers to entry in the lobbying process can likewise contribute to the delay in policy change (Kerr et al., 2014, 2015). In order to engage in lobbying, firms must bear initial expenses such as acquiring knowledge about the intricate laws surrounding lobbying, orienting newly recruited lobbyists on the firms' interests, crafting a lobbying plan, conducting research on the position and goals of potential allies and opponents, and devising effective strategies to influence the political process, including identifying key policymakers to target. Even for firms with established knowledge

and lobbying relationships, iterative negotiations with policymakers and other interest groups may still be required to achieve their preferred policy outcomes.

When firms eventually engage in lobbying, the decision-making processes in policymaking can be protracted as legislative meetings and debates stall progress. This results in policy lags and further delays the actual implementation of labor immigration policy changes.

Therefore, using future periods of the outcome variable in the regression models will help to capture these trends and provide a more accurate reflection of labor immigration policy changes.

3.7.2. Analysis and Findings

Tables 3.4, 3.5, and 3.6 present the empirical results of the ordinal regression models using MNC borrowing costs, domestic firm borrowing costs, and economy-wide real interest rates respectively. In each table, models (1) and (2) examine labor immigration policy change one period ahead, while models (3) and (4) consider changes two periods ahead, and models (5) and (6) assess change three periods ahead. These different future time frames are utilized to examine the speed at which firms respond to fluctuations in borrowing costs and how promptly policymakers address the requests of firms to liberalize labor immigration.

Focusing first on the MNCs sample in Table 3.4, the findings indicate a generally significant negative correlation between the borrowing costs of multinationals and labor immigration policy changes one, two, and three periods ahead, holding the other variables constant. This indicates that a decrease in borrowing costs for MNCs is associated with a higher likelihood of observing a liberalizing shift in labor immigration policy in the years following the change in their borrowing costs, and vice versa. These results support the central argument of this dissertation, which proposes that lower borrowing costs foster greater openness to labor immigration, with MNCs being a prominent driving force behind this phenomenon.

With the exception of model (1), the consistently significant statistical relationship also implies that changes in the borrowing costs of MNCs have a robust association with labor immigration policy changes across the different time periods. Initially, policymakers might respond to the requests of

Table 3.4: MNC Borrowing Costs and Future Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change					
	One Period Ahead		Two Periods Ahead		Three Periods Ahead	
	(1)	(2)	(3)	(4)	(5)	(6)
MNC Borrowing Costs	-0.122 (0.097)	-0.139** (0.060)	-0.229*** (0.079)	-0.193*** (0.066)	-0.151** (0.069)	-0.152** (0.072)
Gov Expenditure	-0.008 (0.048)	0.084 (0.054)	0.074 (0.062)	0.117*** (0.040)	-0.013 (0.036)	-0.002 (0.036)
REER	0.011 (0.011)	0.005 (0.006)	0.003 (0.008)	0.004 (0.005)	0.011 (0.008)	0.002 (0.005)
GDP Growth	-0.011 (0.036)	-0.041 (0.029)	-0.050 (0.035)	-0.057** (0.025)	-0.007 (0.044)	-0.005 (0.036)
GDP per capita	0.374 (0.965)	-0.668*** (0.246)	0.001 (1.028)	-0.693*** (0.261)	0.214 (0.948)	-0.651*** (0.211)
Trade Openness	0.016** (0.007)	0.001 (0.001)	0.016** (0.007)	0.001 (0.001)	0.017** (0.008)	-0.001 (0.001)
FDI Outflow	-0.020** (0.009)	-0.009 (0.007)	0.0005 (0.009)	-0.0001 (0.009)	0.002 (0.011)	0.003 (0.008)
Unemployment	-0.069 (0.048)	-0.056*** (0.020)	-0.072 (0.055)	-0.044* (0.023)	-0.068 (0.048)	-0.053** (0.021)
Union Membership	0.030** (0.012)	-0.004 (0.004)	0.030*** (0.008)	-0.004 (0.004)	0.029*** (0.011)	-0.006 (0.004)
Political Constraints		-0.311 (0.825)		-0.170 (1.089)		-1.559* (0.903)
Right Wing Legislature		0.122 (0.204)		0.197 (0.194)		0.077 (0.190)
Political Participation		2.249 (2.541)		2.200 (2.611)		1.840 (2.391)
Central Bank Independence		0.997** (0.405)		0.856*** (0.315)		0.853*** (0.330)
Coordinated Wage Bargaining		-0.107 (0.080)		-0.096 (0.088)		0.047 (0.083)
Country Fixed Effects	Yes	No	Yes	No	Yes	No
Year Fixed Effects	Yes	No	Yes	No	Yes	No
Observations	724	627	724	627	723	626
χ^2	140.533***	70.863***	136.011***	69.557***	152.668***	59.533***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 3.5: Domestic Firm Borrowing Costs and Future Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change					
	One Period Ahead		Two Periods Ahead		Three Periods Ahead	
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic Borrowing Costs	0.095 (0.087)	-0.068 (0.112)	0.071 (0.118)	-0.086 (0.104)	-0.109 (0.135)	-0.259** (0.102)
Gov Expenditure	-0.006 (0.053)	0.087 (0.059)	0.031 (0.058)	0.089** (0.036)	-0.013 (0.036)	0.024 (0.042)
REER	0.008 (0.011)	0.007 (0.006)	0.004 (0.009)	0.007 (0.005)	0.013* (0.007)	0.007 (0.005)
GDP Growth	0.001 (0.039)	-0.030 (0.030)	-0.028 (0.036)	-0.047* (0.026)	0.021 (0.044)	0.001 (0.040)
GDP per capita	1.098 (1.138)	-0.382 (0.261)	0.771 (1.282)	-0.305 (0.266)	0.934 (1.094)	-0.283 (0.293)
Trade Openness	0.014 (0.009)	0.002 (0.002)	0.013 (0.009)	0.002 (0.001)	0.009 (0.008)	0.0005 (0.002)
FDI Outflow	-0.037 (0.026)	-0.017 (0.019)	-0.007 (0.027)	0.002 (0.022)	-0.003 (0.023)	-0.003 (0.018)
Unemployment	-0.044 (0.047)	-0.053*** (0.019)	-0.058 (0.062)	-0.053** (0.023)	-0.056 (0.048)	-0.057*** (0.022)
Union Membership	0.026** (0.012)	-0.003 (0.005)	0.029*** (0.010)	-0.003 (0.004)	0.031*** (0.010)	-0.003 (0.004)
Political Constraints		-0.249 (0.780)		-0.405 (1.107)		-1.819* (0.983)
Right Wing Legislature		0.129 (0.212)		0.193 (0.199)		0.107 (0.188)
Political Participation		1.243 (2.587)		0.833 (2.438)		0.531 (2.378)
Central Bank Independence		1.156** (0.455)		1.021*** (0.364)		1.026*** (0.351)
Coordinated Wage Bargaining		-0.129 (0.082)		-0.123 (0.084)		-0.001 (0.086)
Country Fixed Effects	Yes	No	Yes	No	Yes	No
Year Fixed Effects	Yes	No	Yes	No	Yes	No
Observations	698	611	698	611	697	610
χ^2	136.018***	70.054***	130.365***	66.621***	149.463***	65.790***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 3.6: Real Interest Rates and Future Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change					
	One Period Ahead		Two Periods Ahead		Three Periods Ahead	
	(1)	(2)	(3)	(4)	(5)	(6)
Real Interest Rates	-0.058 (0.051)	-0.049 (0.044)	-0.057 (0.043)	-0.018 (0.031)	-0.045 (0.029)	-0.011 (0.019)
Gov Expenditure	0.018 (0.045)	0.078 (0.051)	0.026 (0.055)	0.068** (0.035)	-0.009 (0.037)	-0.012 (0.040)
REER	0.012 (0.012)	0.005 (0.007)	0.006 (0.010)	0.003 (0.006)	0.012 (0.008)	0.004 (0.006)
GDP Growth	0.006 (0.032)	-0.038 (0.026)	-0.025 (0.038)	-0.040* (0.023)	0.026 (0.039)	0.020 (0.036)
GDP per capita	-0.792 (1.242)	-0.529* (0.283)	-0.896 (1.326)	-0.545** (0.246)	-0.964 (1.089)	-0.581*** (0.219)
Trade Openness	0.020** (0.009)	0.001 (0.001)	0.018** (0.008)	0.00002 (0.001)	0.016** (0.007)	-0.001 (0.001)
FDI Outflow	-0.021* (0.012)	-0.010 (0.010)	0.004 (0.014)	0.002 (0.016)	0.008 (0.013)	0.005 (0.011)
Unemployment	-0.052 (0.055)	-0.039* (0.023)	-0.069 (0.064)	-0.056** (0.026)	-0.067 (0.055)	-0.058** (0.023)
Union Membership	0.028** (0.011)	-0.007 (0.005)	0.022** (0.010)	-0.005 (0.005)	0.020 (0.013)	-0.007 (0.004)
Political Constraints		-0.117 (0.874)		-0.209 (1.098)		-1.423 (0.912)
Right Wing Legislature		0.144 (0.198)		0.215 (0.192)		0.089 (0.184)
Political Participation		0.911 (2.924)		0.745 (2.787)		0.359 (2.543)
Central Bank Independence		1.012** (0.430)		1.081*** (0.344)		0.969*** (0.319)
Coordinated Wage Bargaining		-0.065 (0.088)		-0.075 (0.093)		0.055 (0.087)
Country Fixed Effects	Yes	No	Yes	No	Yes	No
Year Fixed Effects	Yes	No	Yes	No	Yes	No
Observations	724	618	723	617	722	616
χ^2	146.862***	67.425***	130.980***	58.825***	150.056***	56.193***

Note:

*p<0.1; **p<0.05; ***p<0.01

firms to liberalize labor immigration by making flexible adjustments to existing rules and regulations, a process that does not necessitate the introduction of new laws. This adjustment can happen quickly and potentially materialize in the immediate period right after borrowing costs fall. Following this, policymakers may opt for more extensive measures, such as legislating bills or drafting new immigration laws, involving prolonged discussions and bureaucratic processes. Consequently, these changes may materialize in immigration policies two, three, or even more periods later. These would suggest why we observe a persistent relationship between the borrowing costs of MNCs and labor immigration policy changes.

A negative correlation between the borrowing costs of domestic firms and labor immigration policy change is also observed in Table 3.5, although only model (6) without country and year fixed effects reaches statistical significance at the $p < 0.05$ level. The lack of a robust impact for domestic firms is consistent with expectations that these firms lack the lobbying capabilities necessary to successfully achieve their preferred labor immigration policy outcomes. The relationship between domestic firms' borrowing costs and labor immigration policy change is also positive in two of the six models, but the substantive effect is small and the results are not statistically significant.

Similarly, real interest rates exhibit a negative association with labor immigration policy changes but without statistical significance, as observed in Table 3.6. The absence of a perceptible effect for real interest rates also indicates that even though MNCs appear to have a role in shaping labor immigration policymaking, this influence does not become apparent when exploring the relationship between monetary policy and labor immigration policy at the aggregate level. This discrepancy could also stem from the loan pricing strategies of commercial lending institutions, where they consider not only the central bank's benchmark interest rates as a reference but also incorporate other factors when determining the loan pricing for MNCs and domestic firms. The borrowing costs of MNCs and domestic firms then deviate from the real interest rates, resulting in the lack of an effect in the models involving real interest rates.

Taking these results together, it suggests that labor immigration policy change is primarily driven by MNCs and less so by domestic firms or economy-wide real interest rates.

Examining the control variables, union membership is observed to exhibit a positive and statistically significant correlation with changes in labor immigration policies across all fixed effects models, while holding other variables constant. This suggests that higher union membership is linked to an increased likelihood of adopting a more liberal stance on labor immigration policy, contrary to the traditional belief that domestic labor typically opposes immigration. However, recent literature on labor unions supports this observation and highlights a shift in the political position of unions from a restrictive stance on immigration to a more open one. As industries once dominated by union labor move to developing countries, unions find themselves needing to organize low-wage immigrant workers to compensate for the loss of their traditional membership in factory-based jobs (Haus, 1995). The decline in union membership worldwide has prompted unions to see immigrant workers as a potential source of membership, necessary for sustaining bargaining power. There is also a recognition that even if unions perceive foreign workers as a threat to the interests of native members, they may acknowledge the inevitability of migration and choose to embrace migrants as a means of gaining new members. This shift in perspective has been increasingly adopted by union federations in settler societies and across Europe (Watts, 2002).

Trade openness is also found to have a positive and significant association with changes in labor immigration policies across the majority of fixed effects models, while holding other factors constant. This indicates that a higher degree of trade openness is correlated with an increased likelihood of adopting a more liberal stance on labor immigration policy. This finding challenges the notion that, with more open and cost-effective trade options, firms would relocate and outsource their operations, resulting in reduced demand for domestic labor (Peters, 2015, 2017). Nonetheless, the positive relationship aligns with the arguments outlined in section 2.4, where trade, along with practices like offshoring and outsourcing, generates new job opportunities domestically. A key factor is the cost savings associated with international production which enable firms to invest, expand, and hire more workers. With a greater demand for workers, firms then lobby for labor immigration liberalization.

3.7.3. Alternative Model Specifications

The ordinal regression models presented in the prior section can be structured in an alternative manner while preserving the temporal sequence of the variables. In particular, instead of regressing labor immigration policy changes in future period(s) against the independent variables this period, an alternative approach involves regressing labor immigration policy changes in the current period against borrowing costs in previous periods (e.g., T-1, T-2, T-3). This likewise ensures that labor immigration policy changes occur temporally after changes in borrowing costs. However, the control variables are measured in the same period as the outcome variable.

Tables 3.7, 3.8, and 3.9 present the results of the regression models for MNC borrowing costs, domestic firm borrowing costs, and economy-wide real interest rates respectively, using this modified model specification. Within each table, models (1) and (2) examine borrowing costs one period before, models (3) and (4) consider borrowing costs two periods before, and models (5) and (6) assess borrowing costs three periods before.

The results in Table 3.7 reveal that the borrowing costs of MNCs one and two periods before are significantly and inversely associated with labor immigration policy changes. This suggests that lower borrowing costs for multinationals in the past are linked to a higher likelihood of observing a liberalizing change in labor immigration policy in the present, and higher borrowing costs for multinationals in the past are associated with a lower likelihood of such a change in the current period. This significant statistical relationship is not observed in the case of the domestic firms in Table 3.8 and real interest rates in Table 3.9.

In these alternative models, the control variables occur in the same time period as the outcome variable. On the one hand, the macroeconomic and institutional conditions may influence policymakers' capacity or inclination to introduce a liberalizing or restrictive policy change, allowing for the use of both the dependent variable and control variables in the same year. On the other hand, the gradual nature of policymaking may pose challenges for policymakers to promptly adjust or adapt policy changes to the evolving macroeconomic environment. This makes the main models, which involve

Table 3.7: Past MNC Borrowing Costs and Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change					
	(1)	(2)	(3)	(4)	(5)	(6)
MNC T-1	-0.244** (0.117)	-0.184*** (0.056)				
MNC T-2			-0.221* (0.126)	-0.145** (0.065)		
MNC T-3					-0.147 (0.155)	-0.082 (0.078)
Gov Expenditure	-0.049 (0.042)	0.015 (0.044)	-0.033 (0.042)	0.016 (0.043)	-0.019 (0.044)	0.018 (0.045)
REER	0.009 (0.009)	0.008 (0.006)	0.009 (0.009)	0.009 (0.007)	0.008 (0.009)	0.009 (0.007)
GDP Growth	-0.024 (0.036)	-0.001 (0.029)	-0.024 (0.037)	0.004 (0.028)	-0.021 (0.040)	0.006 (0.028)
GDP per capita	-0.065 (1.026)	-0.581* (0.304)	-0.040 (1.058)	-0.458 (0.313)	0.086 (1.102)	-0.439 (0.336)
Trade Openness	0.019** (0.008)	0.0003 (0.002)	0.022** (0.009)	-0.00000 (0.002)	0.021** (0.009)	-0.0001 (0.002)
FDI Outflow	-0.001 (0.013)	0.003 (0.015)	-0.001 (0.013)	0.003 (0.015)	-0.001 (0.013)	0.003 (0.015)
Unemployment	-0.096** (0.046)	-0.053*** (0.020)	-0.077* (0.045)	-0.042* (0.022)	-0.073 (0.046)	-0.044** (0.022)
Union Membership	0.012 (0.015)	-0.007 (0.005)	0.007 (0.018)	-0.008 (0.006)	0.007 (0.018)	-0.008 (0.006)
Political Constraints		0.816 (0.957)		0.822 (0.963)		0.980 (0.958)
Right Wing Legislature		0.048 (0.200)		0.016 (0.205)		0.045 (0.203)
Political Participation		1.560 (2.888)		1.250 (2.850)		1.256 (2.903)
Central Bank Independence		0.835* (0.500)		0.804 (0.523)		0.863* (0.508)
Coordinated Wage Bargaining		-0.110 (0.082)		-0.083 (0.088)		-0.094 (0.092)
Country Fixed Effects	Yes	No	Yes	No	Yes	No
Year Fixed Effects	Yes	No	Yes	No	Yes	No
Observations	716	619	706	609	697	600
χ^2	136.432***	61.546***	136.940***	58.836***	130.841***	54.374***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 3.8: Past Domestic Firm Borrowing Costs and Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change					
	(1)	(2)	(3)	(4)	(5)	(6)
Domestic T-1	0.093 (0.113)	-0.093 (0.121)				
Domestic T-2			-0.002 (0.094)	-0.145 (0.112)		
Domestic T-3					-0.063 (0.094)	-0.161 (0.103)
Gov Expenditure	-0.044 (0.042)	0.010 (0.041)	-0.042 (0.041)	0.011 (0.039)	-0.036 (0.042)	0.013 (0.041)
REER	0.007 (0.009)	0.009* (0.005)	0.006 (0.008)	0.010 (0.006)	0.005 (0.008)	0.010 (0.006)
GDP Growth	-0.021 (0.040)	0.007 (0.029)	-0.023 (0.047)	0.008 (0.027)	-0.024 (0.048)	0.011 (0.028)
GDP per capita	1.187 (0.955)	-0.373 (0.301)	0.979 (0.974)	-0.342 (0.292)	0.654 (1.034)	-0.400 (0.294)
Trade Openness	-0.001 (0.004)	-0.0002 (0.002)	-0.001 (0.004)	-0.0004 (0.002)	0.0001 (0.004)	-0.0004 (0.002)
FDI Outflow	0.003 (0.011)	0.001 (0.015)	0.002 (0.010)	0.001 (0.015)	0.003 (0.011)	0.002 (0.015)
Unemployment	-0.063 (0.047)	-0.057*** (0.020)	-0.062 (0.055)	-0.052** (0.021)	-0.068 (0.056)	-0.056** (0.022)
Union Membership	-0.003 (0.016)	-0.007 (0.005)	-0.006 (0.016)	-0.007 (0.006)	-0.003 (0.017)	-0.006 (0.005)
Political Constraints		0.920 (0.907)		0.798 (0.905)		0.864 (0.927)
Right Wing Legislature		0.087 (0.200)		0.058 (0.204)		0.073 (0.213)
Political Participation		0.784 (2.869)		0.427 (2.826)		0.299 (2.797)
Central Bank Independence		1.038* (0.530)		1.038* (0.540)		1.059* (0.546)
Coordinated Wage Bargaining		-0.117 (0.094)		-0.105 (0.094)		-0.121 (0.095)
Country Fixed Effects	Yes	No	Yes	No	Yes	No
Year Fixed Effects	Yes	No	Yes	No	Yes	No
Observations	723	626	716	619	708	611
χ^2	124.650***	61.464***	123.383***	62.104***	120.768***	60.406***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table 3.9: Past Real Interest Rates and Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change					
	(1)	(2)	(3)	(4)	(5)	(6)
RIR T-1	-0.010 (0.038)	-0.029 (0.040)				
RIR T-2			-0.032 (0.046)	0.005 (0.037)		
RIR T-3					0.058 (0.039)	0.048 (0.037)
Gov Expenditure	-0.050 (0.043)	0.005 (0.042)	-0.049 (0.043)	0.012 (0.042)	-0.049 (0.043)	0.010 (0.045)
REER	0.009 (0.011)	0.007 (0.006)	0.012 (0.011)	0.007 (0.007)	0.011 (0.011)	0.006 (0.007)
GDP Growth	0.022 (0.045)	0.026 (0.028)	0.015 (0.045)	0.016 (0.029)	0.025 (0.050)	0.019 (0.032)
GDP per capita	-0.950 (1.312)	-0.287 (0.307)	-0.417 (1.278)	-0.160 (0.312)	-0.231 (1.496)	-0.146 (0.306)
Trade Openness	0.020** (0.009)	0.0001 (0.002)	0.019** (0.009)	0.0002 (0.002)	0.019** (0.009)	0.0002 (0.002)
FDI Outflow	-0.001 (0.014)	0.0003 (0.016)	-0.001 (0.014)	0.001 (0.016)	-0.004 (0.014)	-0.001 (0.016)
Unemployment	-0.100* (0.053)	-0.051** (0.024)	-0.074 (0.057)	-0.047** (0.021)	-0.115** (0.058)	-0.056*** (0.019)
Union Membership	0.015 (0.014)	-0.008 (0.006)	0.013 (0.015)	-0.009 (0.005)	0.021 (0.017)	-0.008 (0.006)
Political Constraints		0.787 (0.901)		0.660 (0.857)		0.620 (0.887)
Right Wing Legislature		0.123 (0.210)		0.141 (0.212)		0.157 (0.215)
Political Participation		-0.134 (3.350)		0.133 (3.400)		0.003 (3.500)
Central Bank Independence		0.957* (0.542)		0.940* (0.540)		0.991* (0.529)
Coordinated Wage Bargaining		-0.076 (0.095)		-0.080 (0.092)		-0.079 (0.093)
Country Fixed Effects	Yes	No	Yes	No	Yes	No
Year Fixed Effects	Yes	No	Yes	No	Yes	No
Observations	716	611	705	601	695	592
χ^2	137.720***	57.714***	135.584***	55.025***	133.707***	54.523***

Note:

*p<0.1; **p<0.05; ***p<0.01

regressing labor immigration policy changes in future periods against both the independent and control variables of the current period, a more suitable choice. Nonetheless, the models presented here continue to offer valuable insights into the robust correlation between the borrowing costs of MNCs and changes in labor immigration policy.

3.8. Trends in Borrowing Costs

The regression models discussed in the previous section focus on examining changes in labor immigration policy as a result of borrowing costs that occurred in one of the years before. This is predicated on the expectation that firms respond to changes in their borrowing costs in a particular year and make decisions about firm expansion, investment, and lobbying for more labor immigration openness based on their borrowing costs of one particular period.

However, firms may not just react to their borrowing costs in a particular year, but they may also respond to sustained changes in borrowing costs spanning several periods. This tendency stems from the preference of firms to evaluate whether the changes in borrowing costs, be it an increase or decline, are temporary or persistent before initiating adjustments to ongoing operations and resource allocation. Abrupt and unexpected reversals, such as transitioning from low to high interest rates, can adversely affect the financial performance of firms, especially if they have already committed to investment and expansion plans. Changing operational strategies and altering production levels incur costs. If firms invest and expand production based on a one-period decline in interest rates but are later faced with a substantial increase in interest rates in subsequent periods, they find themselves grappling with the dilemma of whether to scale back investments and production or bear the brunt of escalated borrowing costs and debt obligations. Accordingly, decisions pertaining to capital investments, expansion plans, or major operational changes are likely to be based on longer time horizons and expectations about future economic conditions. Immediate changes in borrowing costs within a short time frame may not have a substantial influence on these longer-term decisions.

Similarly, if firms were to react to changes in real interest rates, if at all, they are also likely to want to act on the fluctuation of interest rates over a few periods. Changes in interest rates in a single year could be attributed to shorter-term market dynamics rather than indicative of a lasting trend that is

more relevant to economic agents. Persistently low interest rates are likelier to result in longer-term economic growth and a vibrant economy that fosters spending and investment. Under conditions of sustained and healthy economic expansion, firm profitability becomes more certain, boosting their confidence and their capacity for debt repayment. On the other hand, sustained high interest rates and borrowing costs exert a more pronounced negative impact on economic growth, spending, and investment in comparison to a single episode of increase that is followed by a subsequent decrease. Additionally, firms that take on loans with variable interest rates tied to benchmark interest rates will need to repay their debt in accordance with how interest rates shift in the upcoming periods. They then need some time for thorough and well-informed evaluations of the interest rate landscape to ensure that they will not incur debt costs beyond what they could repay.

To account for whether firms are concerned with how their borrowing costs changed over several periods, moving averages spanning two, three, four, and five years are used in the regression models. These moving averages are calculated by taking the mean of the borrowing costs at time "T" and the corresponding period(s) preceding it. For example, the two-year moving average (2MA) is determined by averaging the borrowing costs at time "T" and time "T-1", while the three-year moving average (3MA) involves averaging the borrowing costs at time "T", "T-1", and "T-2", and so on. This approach helps to capture the effects of an increasing or decreasing trend in borrowing costs and interest rates and provides a more holistic understanding of the reactions of firms to fluctuations across multiple time periods.

Table 3.10 presents the results of regressing the values of labor immigration policy change one period ahead against moving averages of borrowing costs and the host of control variables. Models (1) and (2) uses the two-year moving average, models (3) and (4) employs the three-year moving average, models (5) and (6) assess the four-year moving average, and models (7) and (8) considers the five-year moving average.

Consistent with the findings from before, the moving averages of the borrowing costs for MNCs are negatively and significantly associated with labor immigration policy change. This suggests that if borrowing costs are on average relatively low over multiple periods, there is an increased likelihood

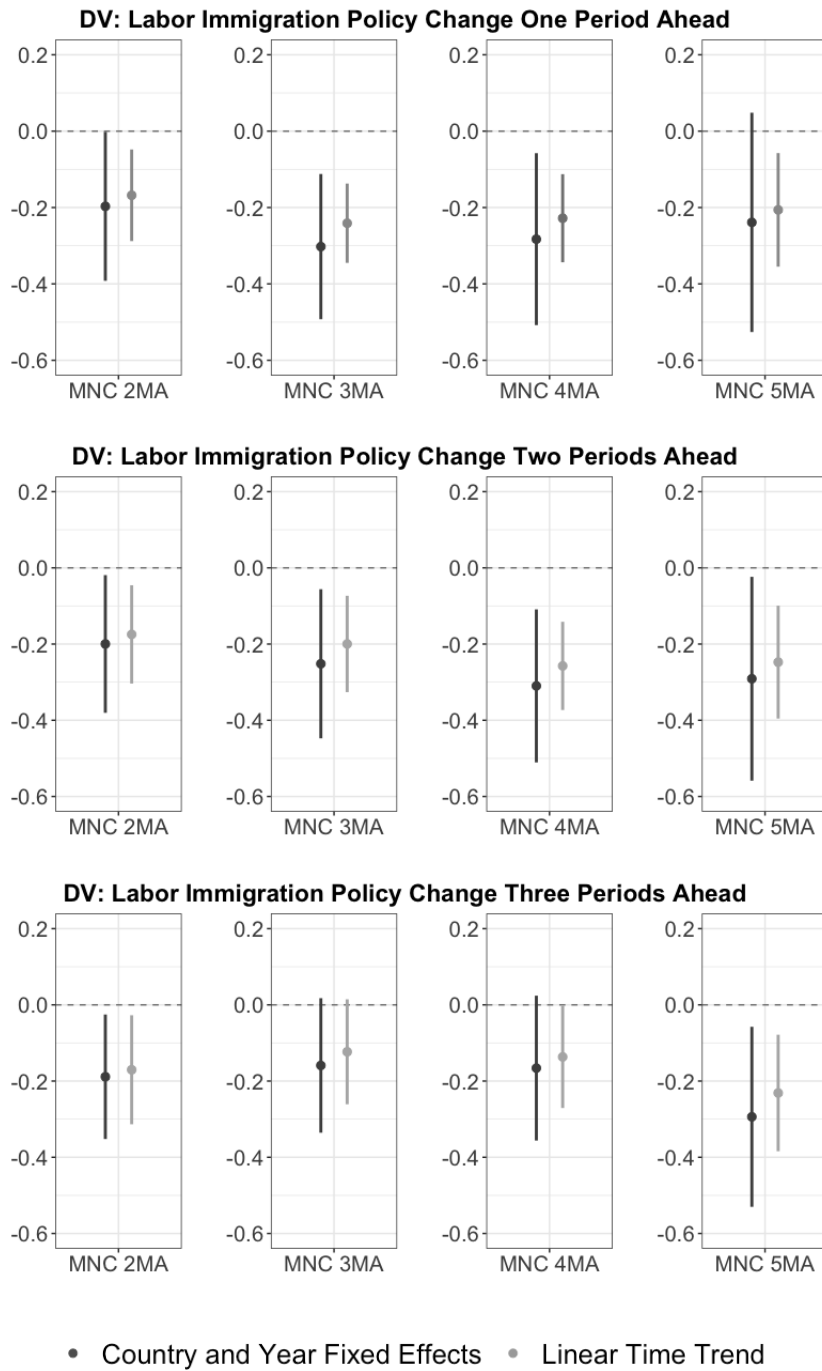
Table 3.10: Trends in MNC Borrowing Costs and Future Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change One Period Ahead							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MNC 2MA	-0.197** (0.099)	-0.168*** (0.061)						
MNC 3MA			-0.302*** (0.097)	-0.241*** (0.053)				
MNC 4MA					-0.283** (0.115)	-0.228*** (0.059)		
MNC 5MA							-0.239 (0.146)	-0.206*** (0.076)
Gov Expenditure	-0.009 (0.048)	0.085 (0.054)	-0.011 (0.049)	0.084 (0.055)	-0.004 (0.053)	0.078 (0.055)	0.004 (0.058)	0.080 (0.058)
REER	0.010 (0.011)	0.006 (0.006)	0.009 (0.011)	0.005 (0.006)	0.009 (0.011)	0.006 (0.007)	0.008 (0.012)	0.006 (0.008)
GDP Growth	-0.012 (0.036)	-0.043 (0.029)	-0.017 (0.034)	-0.046 (0.029)	-0.010 (0.033)	-0.040 (0.028)	-0.002 (0.032)	-0.034 (0.027)
GDP per capita	0.298 (0.976)	-0.648*** (0.248)	0.124 (0.948)	-0.735*** (0.230)	0.255 (0.985)	-0.618** (0.242)	0.071 (1.051)	-0.651*** (0.236)
Trade Openness	0.018** (0.007)	0.001 (0.001)	0.018*** (0.007)	0.001 (0.001)	0.020*** (0.007)	0.001 (0.001)	0.020*** (0.008)	0.001 (0.001)
FDI Outflow	-0.020** (0.008)	-0.009 (0.006)	-0.020** (0.008)	-0.008 (0.006)	-0.022*** (0.007)	-0.010 (0.006)	-0.021*** (0.008)	-0.009 (0.007)
Unemployment	-0.070 (0.048)	-0.048** (0.021)	-0.073 (0.048)	-0.052** (0.022)	-0.063 (0.050)	-0.050** (0.023)	-0.067 (0.052)	-0.053** (0.024)
Union Membership	0.028** (0.013)	-0.005 (0.005)	0.027* (0.014)	-0.004 (0.005)	0.024 (0.016)	-0.005 (0.005)	0.025 (0.019)	-0.004 (0.005)
Political Constraints		-0.316 (0.823)		-0.292 (0.852)		-0.393 (0.879)		-0.453 (0.919)
Right Wing Legislature		0.076 (0.204)		0.084 (0.211)		0.073 (0.218)		0.105 (0.223)
Political Participation		2.137 (2.516)		2.224 (2.468)		1.888 (2.402)		1.559 (2.545)
Central Bank Independence		0.935** (0.409)		0.970** (0.415)		1.005** (0.433)		1.056** (0.452)
Coordinated Wage Bargaining		-0.094 (0.081)		-0.117 (0.081)		-0.095 (0.086)		-0.102 (0.087)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	716	619	710	613	697	600	680	583
χ^2	140.004***	70.853***	137.706***	71.067***	136.033***	68.367***	129.632***	63.373***

Note:

*p<0.1; **p<0.05; ***p<0.01

Figure 3.5: Coefficient Plots for Labor Immigration Policy Change T Period(s) Ahead



of observing a shift towards more liberal labor immigration policy. Conversely, if borrowing costs are on average relatively high over several periods, the chances of observing liberalizing policy changes diminish.

The analysis is repeated for labor immigration policy change two and three periods ahead, and the main results are presented in the form of coefficients plots in Figure 3.5 while the full regression models are presented in Tables A.1 and A.2 in the Appendix. The four coefficient plots at the top of the figure represent the coefficient estimates as well as their corresponding 95% confidence intervals of the two-year, three-year, four-year, and five-year moving averages of MNC borrowing costs respectively when modeling labor immigration policy change one period ahead. The coefficient plots in the middle and bottom of the figure present the information for the same set of independent variables but for labor immigration policy change two and three periods ahead respectively. For both the fixed effects models and models without, the moving averages of the borrowing costs of MNCs are generally negatively related to liberalizing labor immigration policy change in future periods and significantly different from zero.

The association between trends in the borrowing costs of domestic firms and labor immigration policy change as well as between trends in real interest rates and labor immigration policy change remain statistically insignificant. The full regression models for domestic firms are presented in Tables A.3, A.4, and A.5, and that for real interest rates in Tables A.6, A.7, and A.8 in the Appendix.

Taking together the empirical findings here as well as in section 3.7, we observe that MNCs borrowing costs in a single period and over multiple periods are significant factors associated with labor immigration policy change. In other words, firms appear to utilize both their borrowing costs in a single year as well as over multiple years in making decisions about firm expansion and hiring, and eventually labor immigration lobbying.

This may be explained by their ability to anticipate their borrowing costs in future time periods. Firms, especially bigger ones and multinationals, often employ various financial instruments and

strategies to anticipate and manage their borrowing costs in future time periods. For example, firms can enter into fixed-rate contracts with lending institutions, where the interest rate is locked in and predetermined for a specified period. This provides certainty about borrowing costs and shields the firm from fluctuations in interest rates during that period. Other financial instruments include interest rate derivatives to hedge against interest rate risk and protect against adverse interest rate movements. Common types of interest rate derivatives are interest rate swaps, which are agreements between two parties to exchange one stream of interest payments for another, and interest rate futures or interest rate forwards, where a buyer and a seller agree to the future sale and purchase of an interest-bearing asset. With these instruments, firms have greater assurance to act upon their borrowing costs of a single period.

3.9. Robustness Checks

The regression models in the previous sections have demonstrated that borrowing costs of MNCs are consistently and significantly correlated to labor immigration policy changes, increasing our confidence in the findings. Placebo tests are further conducted to validate the robustness of the results and ensure their reliability. Specifically, two placebo tests are carried out. The first employs future periods of borrowing costs and real interest rates, and the second uses an alternative outcome variable that is related to labor immigration policy change but is not expected to share a significant relationship with firm borrowing costs and economy-wide interest rates.

3.9.1. Placebo Test Using Interest Rates and Borrowing Costs in Future Periods

The first placebo test involves using the borrowing costs of both multinational and domestic firms and real interest rates in a period that is after the observed change in labor immigration policy as the independent variable. While firms may be able to anticipate and estimate their cost of debt with the help of financial contracts, they will not be able to do so perfectly. Furthermore, not all firms may be able to gain access to these financial instruments and instead have to sign on to floating-rate contracts, where the interest rate is tied to a benchmark and adjusts periodically according to market movements. Firms also have no knowledge of future interest rates, which are under the purview of central banks. It is then highly improbable that they would lobby for changes

in immigration policy in advance. Therefore, future borrowing costs should not exert any significant influence on how labor immigration policy changes in the present.

Placebo tests leveraging the temporal interdependence between the proposed cause and effect are commonly employed in the literature to assess the validity of estimates and the hypothesized relationship. These tests typically involve using data of independent variables from future time periods or data of dependent variables from past periods. For example, Peters (2017) used randomly selected time periods as placebos to investigate if there were any significant differences in support for immigration in Congress beyond the hypothesized treatment, which was the completion of the transcontinental railroad in 1869-1870. Other studies on immigration have utilized pre-period data as placebos to determine if the primary explanatory variable would exert a significant influence on preceding periods of the outcome variable, despite the fact that such an effect should not materialize because the outcome had occurred prior to the explanatory variable adopting its current value (Dinas et al., 2019; Lonsky, 2021; White, 2016). These placebo tests offer insights into the veracity of estimates and the proposed relationships by probing scenarios where the proposed cause could not plausibly result in the expected effect.

The findings of the placebo tests using the borrowing costs of MNCs and domestic firms as well as real interest rates in future periods are presented in Tables 3.11, 3.12, and 3.13 respectively.³ In particular, labor immigration change one period ahead is regressed against the borrowing costs of firms and interest rates two and three periods ahead, while labor immigration change two periods ahead is regressed against the borrowing costs of firms and interest rates three and four periods ahead. The results reveal that the borrowing costs of firms and real interest rates in future placebo periods are not significantly linked to labor immigration policy changes in prior periods in any of the models. This implies that future costs of borrowing are uncorrelated with policy changes in the years before, which is in line with expectations. These are regression models with fixed effects, and the non-significant results are also observed when employing the full model without fixed effects but with institutional control variables.

³These models include country and year fixed effects along with economic control variables, but for the sake of brevity and space, only the main effects are displayed in the tables.

Table 3.11: Placebo Model Using MNC Borrowing Costs in Future Periods

	DV: Labor Immigration Policy Change			
	One Period Ahead (T+1)		Two Periods Ahead (T+2)	
	(1)	(2)	(3)	(4)
MNC T+2	-0.210 (0.135)			
MNC T+3		-0.012 (0.146)	-0.071 (0.148)	
MNC T+4				-0.245 (0.158)
Economic Controls	Yes	Yes	Yes	Yes
Institutional Controls	No	No	No	No
Country Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	711	691	690	669
χ^2	139.760***	140.970***	136.899***	134.274***

Note: *p<0.1; **p<0.05; ***p<0.01

Table 3.12: Placebo Model Using Domestic Firm Borrowing Costs in Future Periods

	DV: Labor Immigration Policy Change			
	One Period Ahead (T+1)		Two Periods Ahead (T+2)	
	(1)	(2)	(3)	(4)
Domestic T+2	-0.114 (0.142)			
Domestic T+3		-0.119 (0.147)	-0.062 (0.145)	
Domestic T+4				0.089 (0.152)
Economic Controls	Yes	Yes	Yes	Yes
Institutional Controls	No	No	No	No
Country Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	716	695	694	673
χ^2	133.472***	134.089***	128.631***	125.560***

Note: *p<0.1; **p<0.05; ***p<0.01

Table 3.13: Placebo Model Using Real Interest Rates in Future Periods

	DV: Labor Immigration Policy Change			
	One Period Ahead (T+1)		Two Periods Ahead (T+2)	
	(1)	(2)	(3)	(4)
RIR T+2	-0.027 (0.045)			
RIR T+3		-0.025 (0.045)	-0.028 (0.045)	
RIR T+4				0.013 (0.046)
Economic Controls	Yes	Yes	Yes	Yes
Institutional Controls	No	No	No	No
Country Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Observations	716	699	698	659
χ^2	136.605***	139.205***	131.744***	123.516***

Note:

*p<0.1; **p<0.05; ***p<0.01

3.9.2. Placebo Test Using Alternative Outcome: Family Immigration Policies

The second placebo test is conducted by replacing the original dependent variable with an alternative dependent variable that is conceptually related but should not have any real association with the primary independent variable of interest. This alternative variable should not be an outcome that we would expect to result from the proposed theory, and we should expect there to be no significant relationship.

This dissertation theorizes that a fall in borrowing costs and interest rates will engender greater openness to labor immigrants. However, I do not expect borrowing costs and interest rates to be related to other immigration policies targeting immigrant groups unrelated to the domestic labor pool. Firms are primarily interested in bringing in immigrant workers to meet their labor needs and are unlikely to be concerned with other immigration policies that do not substantially augment the workforce. This placebo test thus aims to explore the presence or absence of a significant relationship between borrowing costs and/or interest rates and an alternative dependent variable

related to immigration but not directly related to labor immigrants to scrutinize the theory's validity.

An appropriate placebo variable would be immigration policies concerning the family members of immigrants (Born, 2019). Such immigration policies predominantly deal with family reunification, focusing on the eligibility of family members, such as spouses and children, to join a citizen or an existing immigrant in the destination country. Other conditions may apply, such as age limits for dependent children or requirements for a minimum number of years of marriage for spousal entry or residency.

While a more attractive family reunification policy may be a factor that immigrants consider when deciding to relocate, it is not directly related to the borrowing costs or monetary policy that firms are primarily concerned about. Firms are inclined to allocate their limited lobbying resources towards labor immigration policies that can directly and substantially augment the labor force. This involves policies that ease entry or extended stay, providing them with more workers to run business operations. Therefore, this placebo variable is expected to be unrelated to the borrowing costs of firms or interest rates.

Data on family immigration policy is taken from Peters (2017), where family immigration refers to the special treatment granted to family members, enabling them to immigrate more easily than others based on familial connections. Given that the data reflects the absolute magnitude of family immigration policy openness, I transform the data to represent family immigration policy *change*. This step is taken to ensure consistency in the empirical models employed. In instances where there is an increase in the openness of family immigration policy, the corresponding change is coded as 1. When there is a decrease in the absolute openness of family immigration policy, the change is denoted as -1. Any periods that remain unchanged are assigned a value of 0.

The regression models in Table 3.14 employ changes in family immigration policy one period ahead as the dependent variable and the moving averages of borrowing costs and real interest rates as the main independent variables. The empirical findings indicate that the relationship between family immigration policy changes and borrowing costs or real interest rates in the economy is

not statistically significant. This result is also robust to alternative specifications, such as family immigration policies that are more than one period ahead as well as four- and five-year moving averages.

This suggests that the main results, which demonstrate a significant relationship between labor immigration policy changes and borrowing costs or real interest rates, are not influenced by spurious associations. The lack of statistical significance in the alternative models strengthens the validity and reliability of the main results and our confidence in the theorized relationship.

Table 3.14: Placebo Model Using Family Immigration Policy Change

	DV: Family Immigration Policy One Period Ahead					
	(1)	(2)	(3)	(4)	(5)	(6)
MNC 2MA	-0.302 (0.270)					
MNC 3MA		-0.374 (0.294)				
Domestic 2MA			-0.069 (0.323)			
Domestic 3MA				0.058 (0.333)		
RIR 2MA					-0.010 (0.121)	
RIR 3MA						0.010 (0.138)
Economic Controls	Yes	Yes	Yes	Yes	Yes	Yes
Institutional Controls	No	No	No	No	No	No
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	480	476	485	480	468	463
χ^2	57.765	57.978	57.099	56.885	57.962	57.750

Note:

*p<0.1; **p<0.05; ***p<0.01

3.10. Models in Summary

In this chapter, a series of regression analyses are conducted to empirically test the relationship between monetary policy and labor immigration policy. Notably, the borrowing costs of MNCs in particular appear to be significantly correlated with changes in labor immigration policy. This association is not only evident when examining MNCs' borrowing costs in each period, but also when considering the trends in borrowing costs over multiple periods. Policy lags are also apparent, whereby changes in labor immigration policy materialize a few periods after shifts in borrowing costs and interest rates. The placebo tests conducted serve to further increase our confidence that the established relationship is not a result of spuriousness or by chance. On the contrary, the borrowing costs of domestic firms and real interest rates do not exhibit a significant correlation with changes in labor immigration policy. This consistent result holds across various model specifications. These sets of results reinforce the argument that multinational firms play a more substantial role in driving labor immigration policy changes compared to domestic firms or broader fluctuations in economy-wide interest rates.

While we now have greater confidence in the connection between borrowing costs and labor immigration policy changes, it remains unclear if and how the causal process unfolds. Is it the case that liberalizing changes in labor immigration result from firms expanding and hiring more workers in the event of lower borrowing costs? And are MNCs indeed more inclined and capable of lobbying for labor immigration policy changes compared to their domestic counterparts? The next section examines these causal mechanisms in greater detail.

CHAPTER 4

CAUSAL PROCESS OF FIRM LOBBYING AND EMPLOYMENT

The empirical models presented in the previous chapter offer statistical evidence in support of the proposition that the borrowing costs of firms exert an influence on labor immigration policy. Specifically, a robust and significant relationship emerges between lower borrowing costs of MNCs and liberal labor immigration policy changes, and vice versa. However, the intricate causal processes that link borrowing costs to policy changes remain unexplored.

This chapter aims to empirically examine the proposed causal connections linking borrowing costs to labor immigration policy, while also analyzing why policy changes are sensitive to fluctuations in the borrowing costs of MNCs but not that of domestic firms. The first causal mechanism that will be examined pertains to firm lobbying. Firms are expected to capitalize on lower borrowing costs by expanding their business and hiring more workers, and with greater labor demand from firms and an increasingly tight domestic labor market, firms would want to bring in labor from abroad and have a strong preference for labor immigration liberalization. While this is a preference of all firms, MNCs are expected to act on this preference more so than domestic firms and lobby the government for labor immigration liberalization as they tend to have more resources to do so. Three observable implications at the firm-level results. First, lobbying is expected to be positively related to firm size. Second, lobbying is expected to be negatively related to borrowing costs. Third, MNCs are more likely to lobby than their domestic counterparts, and this is due to their larger size and average lower borrowing costs. Firm lobbying data and firm financial data are obtained to test the various hypotheses at the firm level.

The second causal mechanism that will be analyzed in greater detail involves firm labor demand. Profit-driven firms are likely to capitalize on declines in borrowing costs to expand and invest, thereby necessitating an increased workforce to support firm growth. Increasing firm labor demand is also a critical factor motivating firms to lobby. Causal mediation analysis is employed at the country level to test and understand whether firm employment mediates the relationship between

borrowing costs and labor immigration policy.

4.1. Firm Lobbying for Liberal Immigration

An important piece of the causal puzzle concerns firm lobbying. Without firms expressing their preference to policymakers, the status quo policy is likely to prevail or other interest groups and their countervailing preferences may dominate. Hence, it becomes imperative to examine whether firms have indeed allocated and expended resources to communicate their preferences to policymakers, eventually playing a role in shaping labor immigration policy.

However, lobbying data is hard to come by for several reasons. In many countries, there is no legal requirement for firms to disclose their lobbying activities or expenditures. Firms also may view their lobbying efforts as a strategic advantage and prefer to keep their activities confidential. Firms engage in lobbying to shape public policy or regulations in their favor and making their lobbying data public could invite scrutiny, criticism, or negative public perception. Furthermore, lobbying activities can be complex, involving diverse interactions, expenditures, and networks. Even in jurisdictions with a legal obligation to make lobbying data public, tracking and disclosing this information accurately and consistently can be challenging.

In the United States, lobbying data is generally more accessible than in many other countries. The primary legislation governing lobbying disclosure in the US is the Lobbying Disclosure Act of 1995. It requires registered lobbyists and lobbying firms to file regular reports with the federal government, providing details on their lobbying activities, including the issues they lobbied on, their clients, and expenditures. While there are certain limitations, such as monetary thresholds that determine whether an organization or lobbyist needs to register and report their lobbying expenditures, the mandatory reporting and availability of such reports facilitates access to information on lobbying efforts.

The multitude of lobbying reports and their information have been processed and made available on LobbyView, which I will leverage. LobbyView is a comprehensive lobbying database that is based on the universe of lobbying reports filed and made publicly available under the Lobbying Disclosure

Act of 1995 (Kim, 2017, 2018). These reports provide information on lobbying activities, including but not limited to the client(s)/firm(s) involved, the total amount of funds used, and a pre-specified set of general issues for which they lobbied for each client. LobbyView then disaggregated and organized the information by report, issue, and client.

I merged the report-level data with the issue-level data using unique report-level identifiers created by LobbyView, allowing me to match report-level information such as report year and lobbying expense together with the issue(s) that was lobbied for each report, and for the purpose of this dissertation, only the reports that pertain to immigration are selected. The report-level data also provides information on the client that is lobbying, such as its name and its unique client-level identifier. These unique client-level identifiers are then used to merge the client-level data that has other associated information of the client, such as its gvkey, which is Compustat's unique firm identifier of the client if it exists in its database. The gvkey is then used to match the relevant financial information from Compustat, such as the client's annual revenue, total assets, borrowing costs, and the number of employees.

To compare against the firms that lobby, I use the universe of firms headquartered in the United States from Compustat Capital IQ from the period 1998 to 2019 that have complete revenue, total assets, employment, and borrowing costs data for at least 10 observation years. A firm's revenue, total assets, and number of employees are typically used in the economics and business literature as a measure of firm size (Calof, 1994; Di Giovanni et al., 2011; Hall and Weiss, 1967). The period 1998 to 2019 matches the lobby information available in LobbyView, while ensuring complete financial data for at least 10 years allows us to get a better sense of the changing financial status and size of a firm. Due to the shorter time frame, this is a subset of the US-specific data used in the prior chapter. The growth in firm employment is calculated as the percentage change in the number of employees of a firm from one year to the next. The borrowing costs of firms and their multinational status are measured in the same way as before. This involves calculating the ratio of interest expense to total debt and adjusting by the debt-asset ratio of the firm in the former case. In the latter case, the measurement considers a firm with at least 10% of foreign assets as a percentage of total assets,

at least 10% of foreign sales as a percentage of total sales, and an actual geographic presence in at least one foreign market to be multinational (see Section 3.5 for more details).

This research design follows Kerr et al. (2014) where they investigate firm determinants of lobbying participation by publicly listed US firms. They likewise obtained financial information of firms from Compustat but differ in several other aspects. Instead of LobbyView which was not yet constructed at the time of publication, they gathered comprehensive data on lobbying behavior from the websites of the Center for Responsive Politics (CRP) and the Senate's Office of Public Records in Washington D.C. Their period of study covers a shorter period from 1998 to 2006. They examined a panel consisting of the universe of lobbying activities regardless of the issue lobbied as well as a smaller panel of firms to examine determinants of lobbying for high-skilled labor immigration, though it was not clear how the latter panel was derived.

The descriptive statistics for all firms, firms that lobbied and those that did not, as well as lobbying firms that are multinational or domestic are presented in Table 4.1. Some notable relationships were observed.

First, a strong correlation exists between firm size and lobbying activities. On average, firms have annual sales totaling \$3,037 million, while firms engaged in lobbying boast annual sales amounting to \$21,051 million and firms that do not lobby have annual sales of \$1,949 million. This implies that lobbying firms possess 6.9 times greater revenue than the average firm and a substantial 10.8 times more revenue than non-lobbying firms. Similar trends hold true for assets and employee count. The average firm's annual assets amount to \$8,846 million, while lobbying firms exhibit an annual asset value of \$72,654. On the other hand, non-lobbying firms have annual assets averaging \$4,980 million. In other words, lobbying firms have 8.2 times more assets than the average firm and an impressive 14.6 times more assets than firms not involved in lobbying. Furthermore, lobbying firms maintain 6.8 times more employees than the average firm and a substantial 10.5 times more employees than their non-lobbying counterparts. These outcomes are consistent with Kerr et al. (2014) and the extant lobbying literature which underscores the tendency of larger firms to engage in lobbying.

Second, firms involved in lobbying exhibit lower borrowing costs, with lobbying MNCs experiencing even lower borrowing costs compared to domestic lobbying firms. The average firm faces a borrowing cost of 7.85%, while non-lobbying firms encounter slightly elevated borrowing costs at 7.96%. Conversely, firms engaged in lobbying enjoy lower borrowing costs at 6.32%. Among these lobbying firms, MNCs engaged in lobbying enjoy an average borrowing cost of 5.90% while lobbying domestic firms have an average borrowing cost of 6.84%. This trend corresponds with expectations that MNCs generally have lower costs of debt compared to their domestic counterparts. Additionally, these reduced borrowing costs lower debt expenses, providing firms with extra resources that can be channeled towards other causes, such as lobbying for favorable policy outcomes. This explains why firms engaged in lobbying tend to have lower borrowing costs.

Third, MNCs spend more on lobbying than domestic firms. On average, firms expend \$2.94 million annually on lobbying in the years that they did lobby, with MNCs having an average lobbying expenditure of \$3.55 million and domestic firms spending an average of \$1.91 million on lobbying. This finding likewise comports with our understanding that MNCs have greater financial means to lobby policymakers and stronger incentive to allocate resources towards lobbying endeavors compared to domestic firms, as evidenced by their lobbying expenses which are nearly twice as much as those of domestic firms.

Fourth, firms lobby in the years when they have low borrowing costs. The average borrowing cost for lobbying firms during the years they lobby stands at 5.60%, a reduction from the 6.32% observed across the entire sample period for such lobbying firms. For MNCs, their borrowing cost in lobbying years is even lower, at 5.22%, compared to their overall period average of 5.90%. Similarly, domestic firms experience lower borrowing costs in lobbying years, at 6.25%, compared to their 6.84% average throughout the sample period. This finding aligns with the central thesis of this study, which posits that reduced borrowing costs, which stimulate firm growth and workforce expansion, create an impetus for firms to lobby for more liberal immigration policies as a means to access more immigrant labor.

Lastly, only a small fraction of firms lobby. Out of the 2,858 firms within the sample, only 223 firms

Table 4.1: Descriptive Statistics of Firms in Sample

	All Firms	Non-lobbying Firms	Lobbying Firms		
			All	MNC	Domestic
Firm-Year Observations					
Average Annual Sales (\$m)	3037 (13755)	1949 (7828)	21051 (44304)	26706 (54696)	14395 (25895)
Average Annual Assets (\$m)	8836 (78217)	4980 (37807)	72654 (281806)	76901 (262804)	67655 (302641)
Average Annual Employees ('000)	9.0 (43.4)	5.8 (20.5)	61.1 (152.2)	76.5 (195.3)	43.1 (70.1)
Borrowing Costs (%)	7.85 (9.53)	7.96 (9.69)	6.32 (6.54)	5.90 (5.49)	6.84 (7.62)
Lobbying Firm-Year Observations					
Average Lobbying Expenditure (\$m)	-	-	2.94 (8.90)	3.55 (10.49)	1.91 (4.98)
Borrowing Costs (%)	-	-	5.60 (5.20)	5.22 (4.90)	6.25 (5.64)
Number of Firms in Sample					
Number of Firms	2858	2635	223	183	40
Share of Firms that Lobby (%)	-	-	7.8	-	-
Share of MNCs Among Firms that Lobby (%)	-	-	-	82.1	-

Note: Standard deviations are presented within the brackets.

do so. This accounts for just 7.8% of all firms in the sample participating in lobbying activities in one or more years throughout the sample time frame. Among these lobbying firms, a sizeable proportion – 82.1% or 183 firms – are MNCs, where the remaining 40 firms are domestic firms. This observation potentially implies that the barriers to entry into lobbying are substantial, and not all firms have the ability to participate in lobbying as a means to translate their preferences into tangible policy outcomes.

This exercise provides an informative primer into the distinctive attributes of firms engaged in lobbying compared to those that are not. In particular, it offers empirical evidence supporting the notion that MNCs are more inclined to engage in lobbying activities and allocate more financial resources to such efforts compared to domestic firms. Additionally, it highlights that MNCs are indeed larger in size and are more prone to lobby during years when borrowing costs are lower.

The theory posited in this dissertation argues that MNCs are more likely to lobby policymakers for greater labor immigration openness not only due to their larger size, which provides them with more resources compared to their domestic counterparts, but they also tend to have lower borrowing costs on average compared to domestic firms which puts them in a better financial position to lobby

(see Section 2.5 for elaboration). Accordingly, the argument is not simply one of *large* firms driving labor immigration policy change but that of *multinational* firms that have an edge in terms of their borrowing costs.

A multivariate regression analysis is then carried out to determine if, all things being equal, firm size or borrowing cost or even a firm's multinational status predominantly influences the likelihood of engaging in lobbying activities. I regress an indicator variable of whether a firm lobbied for immigration in a particular year against several explanatory variables: firm borrowing costs⁴, an indicator representing whether the firm is multinational, the firm's revenue, number of employees, and change in firm employment. An interaction between the MNC indicator and borrowing costs is also included to determine if the influence of borrowing costs on lobbying is affected by whether a firm is an MNC or not. Firm fixed effects, year fixed effects, and industry-year fixed effects are also introduced into the analysis to account for the potential confounding effects and variations stemming from individual firm characteristics, time-specific influences, and industry-specific dynamics.

The regression results outlined in Table 4.2 underscore the importance of not just a firm's size but also its multinational status in contributing to its propensity to lobby for immigration. Firm revenue shows a positive and statistically significant association with the likelihood of lobbying, consistent with previous observations. Furthermore, when controlling for factors such as size and borrowing costs, being an MNC significantly raises the probability of a firm participating in lobbying. This implies that MNCs have additional motivations to lobby on immigration matters that are distinct from domestic firms of similar borrowing costs and revenue profiles. This implies that, beyond their advantages in terms of size and borrowing costs, MNCs exhibit an additional inclination and/or capability to participate in lobbying activities. This tendency could be linked to the fierce global competition among MNCs, compelling them to seek favorable immigration policies to maintain a competitive edge or to ensure the smooth operation of global supply chains, crucial for sustaining profitability. It is noteworthy that borrowing costs do not independently impact lobbying behavior, possibly due to the pooling of data from both MNCs and domestic firms in the same models.

⁴Alternative measurements of a firm's borrowing cost, as what was done in Chapter 3, were employed and the results were robust across specifications.

In summary, there is evidence indicating that MNCs are significantly more likely than domestic firms to lobby for immigration policy changes, a critical step in the causal pathway connecting borrowing costs to labor immigration policy. The next section looks into another important causal mechanism, specifically that of firm labor demand.

Table 4.2: Likelihood of Firm Lobbying

	DV: Firm Lobbying			
	(1)	(2)	(3)	(4)
Borrowing Costs 2MA	0.00003 (0.0001)	0.00004 (0.0001)	0.00000 (0.0001)	-0.00000 (0.0001)
MNC	0.007** (0.003)	0.006* (0.003)	0.007** (0.003)	0.006* (0.003)
Revenue	0.003*** (0.001)	0.003*** (0.001)	0.003*** (0.001)	0.003*** (0.001)
Employment	0.002 (0.001)	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)
Employment Growth		-0.00002 (0.00003)		-0.00002 (0.00003)
Borrowing Costs 2MA * MNC	-0.0003* (0.0002)	-0.0003 (0.0002)	-0.0002 (0.0002)	-0.0002 (0.0002)
Firm Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	No	No
Industry-Year Fixed Effects	No	No	Yes	Yes
Observations	55,871	54,188	54,251	52,641

Note: *p<0.1; **p<0.05; ***p<0.01

4.2. Causal Mediation Analysis

We have thus far gained insights into the kinds of firms that lobby for changes in immigration policy, but what motivates these firms to undertake such lobbying efforts in the first place? This section employs causal mediation analysis to examine the role of firm labor demand in mediating the relationship between borrowing costs and labor immigration policy.

Causal mediation analysis is a technique used to explore and quantify the underlying mechanisms through which a treatment affects an outcome through one or more intermediary variables, referred to as mediators. It aims to assess the extent and manner in which the effect of the treatment on the outcome is mediated or explained by changes in the mediator(s) of interest. This method facilitates our understanding of the fundamental processes and mediating pathways that causally link the explanatory variable and eventual outcome. In the context of this study, it enables us to better comprehend how and why monetary policy exerts an influence on labor immigration policy and whether these policies are interconnected as suggested by the proposed mechanisms, such as changes in firm labor demand.

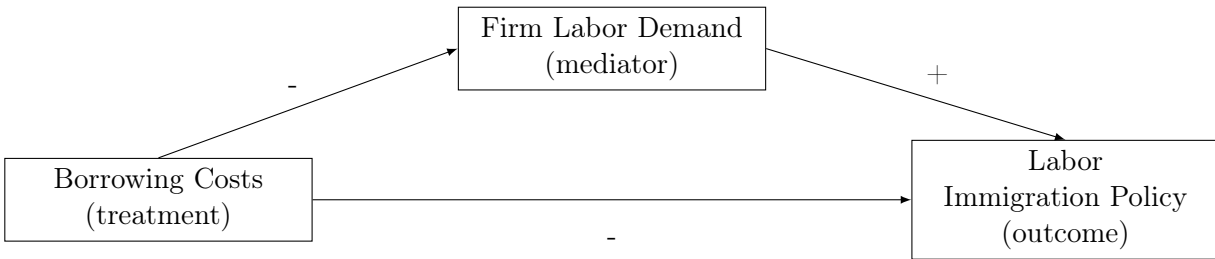
Illustrated in Figure 4.1 is a simple causal mediation diagram that graphically represents the relationships between the treatment, outcome, and mediator – specifically, the borrowing costs of firms, labor immigration policy, and firm labor demand respectively. In the diagram, the causal effect of borrowing costs on labor immigration policy is transmitted partially through firm labor demand. The arrows represent the causal pathways connecting them together. The arrow from borrowing costs to firm labor demand indicates the direct effect of the treatment on the mediator, while the arrow from firm labor demand to labor immigration policy denotes the effect of the mediator on the outcome, controlling for borrowing costs. The diagram also incorporates a direct causal effect of borrowing costs on labor immigration policy without considering firm labor demand. The connecting arrow represents the unmediated effect that might exist.

In the context of causal mediation statistical analysis, it is imperative to acknowledge the relevance of other potential confounding variables or alternative explanations. However, for the sake of simplicity, the causal mediation diagram narrows its emphasis exclusively to the core elements of the primary treatment, outcome, and mediator.

4.2.1. The Mediator: Changes in Firm Employment

Two key factors in the causal link between monetary policy and labor immigration policy are the change in firm labor demand and the lobbying behavior of firms. The causal mediation analysis here focuses only on the change in firm labor demand as the mediator and does not include firm lobbying

Figure 4.1: Causal Mediation Diagram



behavior due to the research design and data constraints. Labor immigration policy changes are identified at the country-year level, and the corresponding independent variables and mediators must also be aggregated at the same level of abstraction. Thus, finding a feasible and logical way to aggregate firm employment and/or firm lobbying at the country-year level becomes crucial.

Aggregating firm lobbying at the country-year level presents challenges due to the scarcity of information on firm lobbying in multiple countries. The lack of publicly available and comprehensive lobbying data outside of the United States also prevents cross-country analysis. Restricting the country-year samples solely to the United States would result in a sample size that is too small for meaningful analysis. Furthermore, firms often lobby on a wide range of issues and not just immigration, making it difficult to isolate the specific lobbying efforts related to labor immigration policy and its eventual impact on labor immigration policy outcomes.

On the other hand, aggregating firm labor demand, operationalized as firm employment, at the country-year level is relatively easier as information is readily available. Alongside reporting firm financial information such as revenue, assets, and debt, firms are likely to also provide data on the number of employees they have, and this data can be retrieved from the Thomson Refinitiv database.

The number of employees is a direct reflection of the extent to which firms demand workers. An increase in firm labor demand would imply an increase in the number of employees hired, while a decrease in firm labor demand would imply a decrease in the number of employees that are on the firm's payroll. A firm that has a sustained demand for labor would have a steady and stable number

of employees by simply replacing each headcount when a worker quits. The number of employees in a firm at any time is a good reflection of firm labor demand at that point because labor is costly. Labor costs in the form of wages and employee benefits are sizeable expenses for firms, and profit-maximizing firms will want to manage labor expenses effectively to ensure that they have the optimal workforce size to meet current production demands without overstaffing or understaffing. Accordingly, it is only when firms seek to increase output that there would be a corresponding need to increase the number of workers, an important production input. Conversely, when firms aim to scale back production and their output, they are likely to swiftly reduce their stock of labor within the firm. Studies in economics have also typically used firm employment to examine how exogenous changes have affected firm labor demand (Amiti and Wei, 2009; Buch and Lipponer, 2010). This measure is widely used as it is a straightforward and easily measurable indicator as data is readily available from firm records and databases.

Data on employment typically encompass only full-time employees, and the growing popularity of alternative employment arrangements may be a limitation of this particular form of measurement. These alternative employment arrangements, such as part-time employment or temporary contracts, can be used by employers to complement or supplement their full-time workforce. When firms experience fluctuations in demand or want to maintain workforce flexibility, they may hire part-time employees or temporary workers rather than additional full-time staff. Firms can also adjust the working hours of their existing employees to augment the man-hours available for production. For instance, during periods of high demand, they might increase overtime or extend working hours for full-time employees instead of hiring more workers. Information on alternative employment arrangements such as the number of part-time and temporary employees, as well as the working hours of employees, are often not tracked carefully by firms or not made available to the public.

Nonetheless, firms are likely to vary the number of full-time employees they have according to economic changes. During economic downturns, for example, full-time positions may decrease, and temporary and part-time jobs may increase as firms seek more cost-effective solutions. On the other hand, during periods of economic growth and labor shortages, firms are likely to offer more full-time

positions with better pay and benefits to attract workers in a tight labor market. Therefore, while alternative employment arrangements are also a reflection of firm labor demand, their omission from the analysis will not significantly detract from the objective of understanding the role of firm labor in labor immigration policymaking. Using information on the number of full-time employees, which is commonly reported by firms, serves as an appropriate proxy for this purpose.

4.2.2. Measuring Country-Year Firm Labor Demand

Information concerning the number of employees that a firm has is reported at the firm level, and a process of aggregation is required to derive a country-year metric to ascertain its impact on country-level labor immigration policy. In particular, changes in firm employment at the firm level can be weighted based on a firm's characteristics. Similar to the country-level measure of firm borrowing costs, a country-level measure of firm employment can be derived by taking the sum of the percentage change in the employee count of each firm weighted by the firm's proportionate revenue share out of the total revenue of all firms in the sample.

The equation used to calculate is as follows:

$$\Delta Y_{ct} = \sum_{i=1}^n \left[\frac{\alpha_{cit} - \alpha_{cit-1}}{\alpha_{cit-1}} \times 100 \times \frac{\beta_{cit}}{\sum_{cit=1}^n \beta_{cit}} \times \frac{\gamma_{cit}}{\sum_{cit=1}^n \gamma_{cit} + \lambda_{cit}} \right] \quad (4.1)$$

Where c = country, i = firm, t = year, α = the number of employees in a firm, β = the firm revenue, γ = domestic assets of the firm, λ = foreign assets of the firm.

The weighting process is necessary because firms with higher incomes tend to be larger and hire more employees. A unit percentage change in employment for these larger firms has a considerable absolute impact compared to a similar shift in smaller firms. For example, a 1% increase in employment for a firm with 10,000 employees would result in the hiring of 100 workers, whereas a 1% increase in employment for a firm with 100 employees would only result in the hiring of 1 worker. Simply summing up the percentage change in employee count for all firms would obscure this disparity in firm size and employment. Weighting the changes by the revenue share of each

firm proportionately scales the increase or decrease in firm employment and firm demand for labor without altering the direction of change.

The measure is further adjusted by scaling the percentage change in firm employment using domestic assets as a ratio of the total assets of the firm. This adjustment is necessary because firms seldom distinguish between their domestic and foreign employees when reporting employment data. Many countries mandate the disclosure of total employee figures without regard for their origin, and firms generally do not voluntarily differentiate the number of employees hired by region or country. Since this study focuses on the demand for workers within a country and its impact on firms' inclination to lobby for liberal immigration policies, using employment data in its original form would not accurately reflect changes in domestic labor demand. Therefore, scaling is used to ensure that the employment measure aligns with the study's purposes.

A firm's foreign assets rather than its foreign income are used because they more accurately represent the extent of its foreign presence. A firm's assets consist of both current and fixed assets, with the latter comprising land, buildings, factories, furniture and fixtures, vehicles, and equipment, among other items intended for long-term use and unlikely to be quickly converted into cash. The possession of foreign assets indicates that the firm has a tangible and enduring presence in foreign markets and will likely require local employees to oversee business operations. A higher proportion of foreign assets to total assets indicates that the firm has a substantial international footprint and correspondingly requires fewer domestic workers. In contrast, a lower proportion of foreign assets to total assets suggests that the majority of the firm's assets and employees are based domestically. The use of foreign income as a proportion of total income is an unsuitable metric as firms can generate foreign income without establishing foreign subsidiaries or hiring local personnel to manage their overseas operations. This stands in contrast to fixed assets, which are durable and relatively more permanent.

To ensure the validity of the analysis, firm-year observations that have an annual change in the number of employees of 100% or more are omitted. Such a drastic surge in the number of employees is not typically associated with a change in domestic demand for labor but rather occurs under

specific circumstances. Firstly, it may result from a merger or acquisition, where the employees of the acquired firm are now considered part of the workforce of the acquiring firm. This does not reflect an actual increase in the firm's demand for labor but rather a formal transfer of employees from one entity to another.

Secondly, when firms establish overseas subsidiaries, they may need to hire a large number of workers to staff the new entities. For instance, regional headquarters may require multiple business functions to be duplicated locally to serve the domestic market, leading to the need for new marketing teams, sales teams, finance, and human resource personnel. Moreover, setting up factories for labor-intensive production may also require the hiring of many workers, resulting in a substantial increase in the number of employees hired by the firm. However, doubling the number of employees within the home country through domestic subsidiaries is relatively uncommon since having an additional headquarter in the same country is unnecessary, and labor-intensive production requiring such a significant workforce is unlikely in high-income countries. Similarly, firm employment may decrease dramatically when firms close down foreign factories or opt to outsource or subcontract production.

Thirdly, it is worth considering that while a drastic percentage increase in employment may occur in very small firms due to genuine labor demand domestically, their weighted contribution to the country-year measure is negligible. For instance, a firm with only 10 employees may hire an additional 10 employees within a year to fulfill various roles and support its business growth. Although this represents a 100% increase in firm employment, it is acceptable to exclude such observations from the dataset. This is because the absolute increase in demand for workers in the overall economy is minimal, given the small scale of the firm. Moreover, when the increase in employment is weighted by the firm's revenue as a proportion of the aggregated revenue of all firms in the economy, it would have only a marginal effect on the percentage change in firm demand for labor at the country-year level. Hence, for the sake of maintaining the robustness of the analysis, instances with exceptionally high percentage increases in employment from very small firms are excluded from the dataset, even if they genuinely represent actual firm labor demand.

In addition to omitting firm-level changes in employment that are too large, the analysis also

excludes country-year observations for Iceland, Luxembourg, Portugal, and the Slovak Republic, as well as earlier time periods. This decision is driven by the lack of adequate firm employment data, which hinders the ability to generate a reliable proxy for firm labor. The disclosure of firm employment data varies depending on local regulations and reporting standards. While certain countries mandate firms to report employment-related information in their financial statements, others do not impose such obligations on firms.

Despite the absence of mandatory employment data disclosure in certain countries or industries or for certain types of firms, some firms may still voluntarily provide such information in their financial statements to mitigate information asymmetry and enhance their financial performance. Given the fundamental importance of the number of employees to a company's operations, this data can provide valuable insights into a firm's growth potential and its ability to effectively manage labor costs. Investors and creditors may use this information to evaluate a firm's financial health, profitability, and productivity, resulting in more investment and better credit terms.

4.2.3. Alternative Firm Labor Demand Measures

Alternative measures of firm labor demand, such as the country's unemployment rate or the overall change in the number of workers hired within the country, present notable drawbacks and are less appropriate to be used as a proxy of firm labor demand for the purpose of this study.

The unemployment rate of a country appears to be an intuitive, accessible, and straightforward measure to approximate firm employment and labor demand as it measures the number of individuals who are unemployed but actively seeking employment within the country. A low unemployment rate implies that firms are actively hiring and demanding more workers, while a high unemployment rate suggests slower hiring or possible layoffs. However, when labor migration is taken into consideration, the unemployment rate may not fully capture the dynamics of firm employment and their demand for labor.

Labor migration can affect the relationship between firm employment and the unemployment rate. For instance, an increase in labor migrants entering a country to address labor shortages may lead

to firms hiring a greater number of workers. However, if firms increase their workforce through labor immigration and not hiring from the domestic pool, the unemployment rate will not decline further. Thus, even though firms are hiring more workers, the overall unemployment rate remains stable.

This occurs especially when there is a mismatch between the skills demanded by firms and those possessed by the domestic labor pool. In such cases, firms may struggle to find suitable domestic candidates and instead opt to hire labor immigrants. Consequently, firm employment would increase, but domestic unemployment rates may remain high. Therefore, the national unemployment rate is not an appropriate measure especially when considering the inflow of labor migrants.

Using the annual total change in the number of employees hired by all firms seems to be a potential alternative to overcome the limitations posed by unemployment rates. By taking the sum of all employees hired by all firms annually, it becomes possible to calculate the year-on-year percentage change in the total number of workers hired in the country, providing insight into changes in firm labor demand. Nonetheless, the effectiveness of this measure hinges on two conditions that may not be met: a comprehensive list of firms operating within an economy and data on the number of employees hired domestically.

Obtaining a comprehensive and exhaustive list of firms in a country along with their corresponding financial data can be challenging. Financial databases like Thomson Refinitiv typically include publicly listed firms and larger private firms that publish annual financial statements containing information such as their employee count. Smaller private firms, on the other hand, may only be required to report their revenue, total expenses, and profits for tax purposes, and information on employee numbers might not be publicly available.

Firms also do not differentiate between domestic and foreign employees when reporting their employment data. The total employee count includes personnel from both domestic headquarters, domestic subsidiaries, as well as foreign subsidiaries. Therefore, the total number of employees hired by all firms is not an accurate representation of the demand for labor within the country.

Similar to the approach used in the preceding section, the number of employees can be adjusted by weighting it based on domestic assets as a fraction of total assets. However, even with this method, the challenge of not possessing a comprehensive roster of firms remains unaddressed.

Overall, a more appropriate measure for representing domestic demand for labor by firms is a weighted approach of firm-level employment that is presented in the previous section.

4.2.4. Causal Mediation of Firm Employment

Following the distinction used in the previous chapter, causal mediation analysis is conducted separately for MNCs and domestic firms. This analytical approach aims to determine potential divergences in the influence of borrowing costs on immigration policy between these two distinct firm types. The model specifications, including control variables and methods of measuring borrowing costs, are consistent with those presented in Chapter 3.

Causal mediation analysis involving nonparametric bootstrap confidence intervals is employed. This method entails generating numerous simulated datasets through repeated resampling of the original dataset with replacement. For each simulated dataset, regression models were executed, and mediation effects were computed. The confidence intervals for these mediation effects were constructed based on the distributions obtained from the bootstrap resampling procedure.

The outcomes of the causal mediation analysis are presented as coefficient plots depicted in Figure 4.2 for the MNCs sample and Figure 4.3 for the domestic firms sample. The lower and upper bounds of these coefficient plots represent the 2.5% and 97.5% confidence intervals, which are the range of plausible values for the effects derived from the resampling process. The Average Causal Mediation Effect (ACME) represents the effect of borrowing costs on labor immigration policy that are mediated through changes in firm labor demand. The Average Direct Effect (ADE) captures the effect of borrowing costs on labor immigration policy that is not mediated through the mediator. The Total Effect encompasses the overall effect of borrowing costs on labor immigration policy, calculated as the sum of the ACME and ADE. The individual plots for $\Pr(Y=-1)$, $\Pr(Y=0)$, and $\Pr(Y=1)$ represent the estimated ACME, ADE, and total effect for each outcome category.

In the MNC sample, the ACME for $\Pr(Y=-1)$, $\Pr(Y=0)$, and $\Pr(Y=1)$ are statistically significant, indicating that firm employment plays a significant role in transmitting the effect of borrowing costs to labor immigration policy. In particular, the negative ACME in instances of a liberalizing labor immigration policy change ($Y=1$) indicates that firm labor demand has a mediating effect that amplifies the negative impact of borrowing costs on liberalizing policy change. On the other hand, the positive ACME in cases when there is no policy change ($Y=0$) or a restrictive policy change ($Y=-1$) indicates that firm labor demand has a mediating effect that amplifies the positive impact of borrowing costs on restrictive or no policy labor immigration policy change.

In terms of the total effects in the MNC sample, the likewise statistically significant results provide evidence that borrowing costs exert a significant overall impact on labor immigration policy, consistent with the findings uncovered in the previous chapter. In contrast, the ADE in the MNC sample appears to be statistically insignificant. This implies insufficient evidence to suggest that borrowing costs have a direct impact on labor immigration policy after accounting for firm employment. In other words, the mediator variable fully mediates the treatment's effect on the outcome, serving as the primary conduit through which monetary policy influences labor immigration.

Collectively, these results suggest that for MNCs, the influence of borrowing costs on labor immigration policy is primarily channeled through its impact on firm employment. This interpretation aligns with the theory that firms are inclined to advocate for heightened labor immigration liberalization because they have a demand for workers. Should they not need to hire more workers even as borrowing costs fall, there is little incentive for firms to utilize their limited resources to lobby for more liberal labor immigration.

Contrary to the MNCs sample, the ACME, ADE, and total effect observed in the analysis of the domestic firms sample do not hold statistical significance (see Figure 4.3). These results align with the earlier findings, indicating that the impact of borrowing costs on labor immigration policy is not discernible when considering domestic firms exclusively.

Figure 4.2: Causal Mediation Analysis Coefficient Plot for MNCs

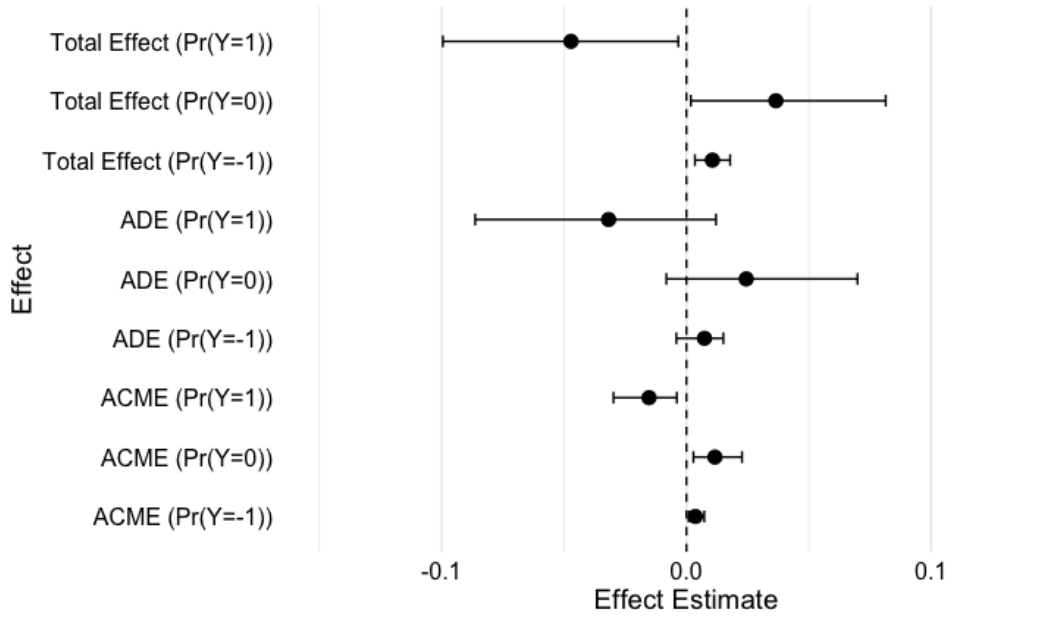
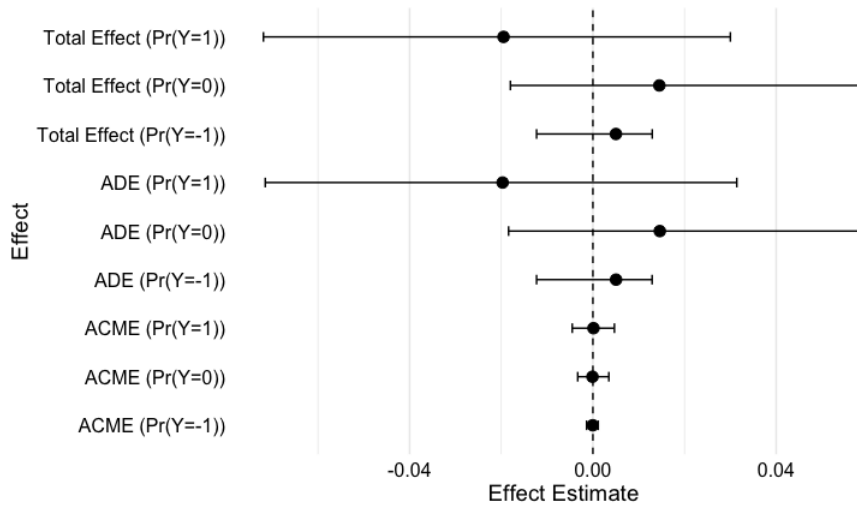


Figure 4.3: Causal Mediation Analysis Coefficient Plot for Domestic Firms



4.3. Causal Process in Summary

This chapter explores the causal processes that connect borrowing costs to labor immigration policy. The first causal mechanism examined is the lobbying behavior of firms. Using firm-level lobbying data, we find strong associations between factors such as firm size and lobbying activities. MNCs also tend to spend more on lobbying than domestic firms, firms tend to engage in lobbying during periods of reduced borrowing costs, and the proportion of firms that participate in lobbying remains relatively small, primarily consisting of MNCs. Furthermore, regression analyses reveal that firms with more revenue and are multinational actively engage in lobbying to advocate for the liberalization of labor immigration policy.

The second causal mechanism examined involves firm labor demand. Causal mediation analysis is employed to ascertain if the connection between borrowing costs and labor immigration policy indeed works through changes in the demand for labor by firms. The findings indicate that in the MNC sample, firm employment indeed mediates the observed relationship. This suggests that borrowing costs influence the demand for labor within MNCs, affecting their hiring practices and subsequently influencing the probability of lobbying for labor immigration policy changes. A comparable mediation effect is not evident among domestic firms. This difference might be attributed to their comparatively limited lobbying capability, which hinders their ability to effectively advocate for their desired policy outcomes.

CHAPTER 5

CASE STUDIES OF LABOR IMMIGRATION POLICYMAKING

This chapter delves into the case studies of Canada and Japan, exploring the impact of changes in their monetary policy on labor immigration policy and firm labor demand. A process tracing within-case analysis is employed to provide a clearer understanding of the sequence of events and causal mechanisms involved. The micro-level evidence in the cases complements the statistical findings in prior chapters and adds credibility to the proposed relationship.

Both case studies reveal that as the central banks of Canada and Japan adopted monetary expansion, firms expanded their production capacity and their respective economies grew, leading to a shortage of labor. This shortage prompted firms to express their demand for more immigrant labor, which, in turn, led to a liberalization of labor immigration policy to facilitate their entry into the country. Taking advantage of the immigration programs, firms successfully brought in the necessary immigrant labor to meet their needs. The labor immigration policies in both countries remained responsive to the needs of firms in the years following their implementation, with the government adjusting and improving the relevant programs or introducing new initiatives to suit their needs.

The organization of this chapter is as follows. The initial section provides a detailed account of the case selection process, emphasizing the rationale behind choosing Canada and Japan as the most different case studies. Subsequently, the following section offers a brief overview of the process tracing technique, outlining its methodology and highlighting the specific evidence that will be presented within the case studies. The two sections that follow then examine the case of Canada and Japan, tracing the transition in their monetary policy to labor immigration policy.

5.1. Selecting the Most Different Cases of Canada and Japan

The case selection process follows the most different case method, leading to the choice of Canada and Japan as relevant cases. Most different cases are dissimilar in many aspects other than the main independent and dependent variable of interest (Seawright and Gerring, 2008). This approach is

suitable for hypothesis testing and helps to corroborate whether the hypothesized relationship holds true even in distinct contexts and circumstances.

Canada and Japan possess distinct identities that differentiate them from each other. Migration scholars commonly classify Canada as a settler state or a country of immigration, "founded, populated, and built by immigrants in modern times; as a result, immigration is a fundamental part of the founding myth, historical consciousness, and national identity" (Hollifield et al., 2014, 10). On the other hand, Japan is often referred to as an ethnically homogeneous non-immigrant country or a negative case of immigration (Bartram, 2000; Meyers, 2000). This perception arises from the relatively low proportion of immigrants residing in Japan, especially when compared to other advanced industrialized countries that have witnessed significant increases in immigration in recent decades. Specifically, in 2019, the foreign-born population in Canada constituted approximately 22% of the total population (OECD, 2019), while in Japan, the foreign-born population accounted for just 2.7% of the total population (e-Stat Japan, 2022).

Relatedly, Canada's multicultural identity starkly contrasts with Japan's emphasis on ethnic and cultural homogeneity. Canada is known for its embrace of multiculturalism, placing value on and celebrating the cultural, ethnic, and religious diversity within its population. It has actively promoted policies and programs to promote inclusivity and accommodate a wide range of cultural practices. On the other hand, Japan has traditionally emphasized its ethnic and cultural homogeneity, constructing a national identity around shared language, history, and cultural traditions.

Both Canada and Japan likewise demonstrate distinctive approaches to immigration that are influenced by their unique historical backgrounds and national priorities. Canada adopts a proactive stance towards immigration, characterized by a longstanding tradition of welcoming immigrants and implementing policies to attract skilled workers, facilitate family reunification, and offer asylum to refugees. Notably, Canada introduced the pioneering points-based system in 1967, which welcomes immigrants based on their human capital endowment. Furthermore, Canada places considerable emphasis on immigrant integration, offering a range of programs and services to support newcomers during their settlement process. In contrast, Japan adopts a more passive approach to immigration

and has historically maintained a more restrictive immigration policy. The processes of integration and acquiring citizenship in Japan are also known to be more challenging and demanding compared to Canada.

Canada and Japan also exhibit notable differences in terms of their political institutions and electoral systems. Canada is a federal state in which power is divided between the central government and the provinces and territories. This includes the jurisdiction over matters related to immigration. In contrast, Japan functions as a unitary state with power concentrated in the central government. The electoral systems in the two countries also differ. Canada employs a single-member plurality system (first-past-the-post) whereas Japan utilizes a mixed-member proportional representation system, and this likely affects the responsiveness of politicians to voters and/or interest groups (Bearce and Hart, 2017). Furthermore, the political party dynamics in Canada and Japan vary. In Canada, the Liberal Party and the Conservative Party have traditionally been the two major parties while in Japan, the Liberal Democratic Party (LDP) has been the dominant party throughout much of the post-World War II period.

Lastly, demographic challenges are more pronounced in Japan than in Canada. Japan is confronted with a rapidly aging population, with one of the highest proportions of elderly citizens relative to the working-age population worldwide. This demographic trend has significant implications for labor force participation. While Canada is also experiencing a demographic shift and facing an aging population, the situation in Japan is more pronounced. In Japan, the age dependency ratio, which measures the proportion of dependents (individuals younger than 15 or older than 64) to the working-age population (those between 15 and 64), stands at 71%, whereas in Canada, it is 52%.

5.2. Process Tracing and Case Strategy

The case studies in this chapter employ process tracing, which is defined as “a systematic examination of evidence selected and analyzed in light of the research questions and hypotheses posed by the investigator” (Collier, 2011, 823). It serves as an analytical tool for drawing descriptive and causal inferences from diagnostic pieces of evidence based on qualitative data. Process tracing is particularly well-suited for measuring and testing hypothesized causal mechanisms, seeking to

determine whether and how a potential cause or causes influence specific changes. In the context of this dissertation, it aims to trace the causal mechanisms within each case, establishing the extent to which monetary policy influences outcomes in labor immigration policy through firm labor demand. Furthermore, it seeks to examine the degree to which the policy preferences of firms are achieved in this process.

In process tracing, the sequence and timing of observations and events are crucial in determining the influence of a potential cause on a specified change. Careful attention will be given to when key statements, events, legislation, and policy changes took place. By understanding the temporal ordering of these elements, it becomes possible to establish the direction of the relationship between the variables under study, distinguishing between causes and effects.

The extent to which the policy preferences of actors are attained is also important in determining their influence on a particular political outcome or process. When the stated preferences of actors align closely with the final outcomes of the decision-making process, it indicates a greater level of policy influence or lobbying success. Existing studies have employed this method of comparing interest groups' objectives with the final policy outcomes to assess lobbying success or the influence of interest groups (Mahoney, 2007; McKay, 2012). This dissertation follows likewise, adopting a similar framework where the preference attainment of firms serves as the criterion for determining policy success.

The case studies focus on specific time periods characterized by significant changes in both monetary policy and immigration policy. In the case of Canada, it encompasses the period between 1991 to the early 2000s. During this time, the Bank of Canada, which serves as the country's central bank, gradually shifted from a tightening to an easing stance. Subsequently, the federal government responded by adopting a more liberal labor immigration policy, exemplified by the introduction of the Low-Skilled Pilot Program. The Canada case study also looks into the period around the mid-2000s, when improvements were made to the Low-Skilled Pilot Program, demonstrating the government's responsiveness to the needs of firms in facilitating the admission of low-skilled immigrant workers.

In the case of Japan, the period between 1985 to the early 1990s is of particular importance. During this period, the Bank of Japan, which serves as its central bank, switched from monetary policy tightening to expansion. Subsequently, the Japanese government implemented measures to liberalize labor immigration. This included the expansion of high-skilled visa categories, the implementation of measures to facilitate the entry of Nikkeijin (who are Japanese emigrants or their descendants living in foreign countries), as well as the introduction of a side-door policy to facilitate the entry of low-skilled immigrant labor. This side-door policy admit low-skilled workers under the guise of other programs in order to tackle labor shortages (Oishi, 2021). The further opening of labor immigration in the early to mid-2000s is also examined, where Japan's zero or near-zero interest rate environment coupled with economic recovery coincided with a more vocal Japan Business Federation, commonly known as Keidanren, that attempts to shape labor immigration policymaking.

The presentation of various pieces of evidence is crucial in building the case for the influence of monetary policy on labor immigration policy through firm labor demand. The following pieces of evidence will be provided in the cases to support this argument:

First, it is important to establish that the central banks of Canada and Japan did indeed implement a change in monetary policy. This serves as the catalyst for the subsequent processes.

Second, the shift towards expansionary monetary policy should result in economic growth and increased investment or expansion by firms. This in turn leads to a higher demand for labor and the emergence of labor shortages. Economic indicators and public statements from firms expressing their need for additional labor will help illustrate this point.

Third, the response of the respective governments in terms of liberalizing labor immigration policy will be critical. The policies and programs implemented should not only open the country's borders but also address the specific needs of firms, making it easier for them to admit the desired labor immigrants.

Fourth, and related to the point from before, firms are likely to take advantage of the new policies or programs to bring in immigrant labor if there is a genuine demand and if the policies are designed

to accommodate their needs. An increase in the number of labor immigrants in the country would serve as evidence in this regard.

Fifth, observing the influence of firms in shaping immigration policy would further support the connection between firm labor demand and the resulting immigration policy. It would lend credibility to the notion that firms actively lobby for policies that align with their interests. This is evident in the deliberate actions taken by firms to influence the process of immigration policymaking and/or in the acknowledgment by public officials that they considered the perspectives of firms when formulating policies.

Lastly, the temporal ordering of events is important, and a chronological tracing of events and policy changes will be undertaken. This approach ensures that the independent variable of interest, the causal mechanisms, and the outcome variable are presented in a logical sequence, strengthening the overall argument.

The significant influence of MNCs compared to that of domestic firms with respect to labor immigration policies is part of the posited relationship of this dissertation, and the case studies attempt to demonstrate, albeit in a limited way, the significant role of MNCs in driving policy change. Both MNCs and domestic firms, in the aftermath of significant and prolonged monetary easing in both countries, exhibited similar behavior in terms of firm growth and experiencing labor shortages. As a result, they both shared a similar and strong preference for the liberalization of labor immigration. It then becomes challenging to distinguish the relative preference attainment and policy success of MNCs and domestic firms.

However, the relatively stronger influence of MNCs can be inferred from indirect evidence. For example, if MNCs stand to benefit more from labor immigration liberalization, they are more likely to have stronger incentives to influence policy in their favor. If specific aspects of the resulting labor immigration policies are explicitly designed to cater to MNCs, such as dedicated immigration channels for them, it becomes more probable that MNCs have actively lobbied for such outcomes and have succeeded in influencing the policy process.

These indirect evidence are uncovered and presented in the Japan case study and less so in the Canada case study. There are several factors that could explain the relative lack of informative data for the latter. The first concerns the time period that was selected. The period for Canada's case study, spanning 1991 to the early 2000s, was chosen as it was a time of significant monetary policy change. These changes not only involved substantial reductions in benchmark central bank rates but also a shift in the central bank's philosophy on monetary policy conduct. These changes acted as strong catalysts influencing firm behavior and, eventually, labor immigration policy. As the case study on Canada will show, there is a range of evidence supporting the argument that firms, *in general*, play a pivotal role in the connection between monetary policy and labor immigration policy. These pieces of evidence may have been observable precisely because of the magnitude of the monetary policy change. However, at the same time, the substantial shift in monetary policy may have had a substantial impact on both types of firms. As a result, the stronger influence of MNCs over domestic firms are not as pronounced or evident, at least based on the qualitative data collected.

The second pertains to the presence and openness of existing labor immigration policies. It is possible that, aside from advocating for greater liberalization of lower-skilled immigrant labor which is where the preferences of domestic firms and MNCs coincided, the existing labor immigration policies in Canada may have adequately addressed the other labor needs of MNCs. In comparison, while the time period examined for Japan was also a time of significant monetary policy change, there existed a relatively limited labor immigration system then. This allowed researchers ample opportunity to observe the influence of MNCs as they actively sought to shape labor immigration policymaking in the country.

A diverse range of resources is used, encompassing secondary sources such as scholarly accounts of monetary and immigration policy changes, as well as primary sources including newspaper articles, government reports, and press releases. In the case of Canada, transcripts from the Standing Committee on Citizenship and Immigration (CIMM) from February to April 2008 prove valuable. During this period, the CIMM embarked on a cross-country tour to conduct a comprehensive study

on immigrant workers, holding seventeen meetings and gathering input from representatives representing various interests. These meetings offer valuable insights into a wide array of perspectives on labor immigration programs. Although the meetings occurred several years after the period of focus of the Canada case study, some participants provided comments that remained relevant to earlier time periods.

5.3. Canada: Monetary Expansion and the Low-Skilled Pilot Program

5.3.1. 1990s Canada Monetary Policy: Inflation Targeting and Monetary Easing

This first subsection on the Canada case study traces the progression of Canada's monetary policy in the 1990s, from one of tightening in the early 1990s to a steady and gradual easing that began in the mid-to-late 1990s.

From the 1970s to the early 1990s, Canada faced tight monetary conditions due to high inflation rates. The primary monetary policy instrument used by the Bank of Canada until 1994 was the bank rate, which represented the minimum rate at which financial institutions could borrow overnight from the central bank. This was accompanied by statutory reserve requirements, which mandated a minimum amount of reserves that banks and other financial institutions were obligated to hold against their deposits (Carter et al., 2018). In 1994, the Bank of Canada introduced the practice of communicating monetary policy in terms of an explicit operating band for the overnight rate. These instruments aimed to influence the money supply and other short-term interest rates within the economy.

In the early 1990s, the central bank of Canada shifted its focus to inflation targeting as the primary objective of monetary policy (Ragan, 2006). This came after previous attempts at monetary targeting using a narrowly defined monetary aggregate (M1) in 1975 and a period from 1982 to 1991 when the bank aimed for price stability without employing intermediate targets or specifying a path to the long-term objective.

Under the new approach in 1991, the central bank set a target path for reducing the 12-month increase in the consumer price index (CPI). The initial target was to achieve a 3% inflation rate by

the end of 1992, followed by further reductions to 2.5% by mid-1994 and 2% by the end of 1995. The announcements also indicated that there would be continued efforts to reduce inflation until price stability was attained. These targets had a band of plus and minus one percentage point. At the time of the announcement, the inflation rate in Canada stood at 6.7% (Ragan, 2006).

By 1992, Canada had successfully contained inflation, with the CPI inflation rate dropping from nearly 7% at the beginning of the decade to 1% by mid-1992. Throughout much of the 1990s, the inflation rate remained below the lower limit of the target range (Beaudry and Ruge-Murcia, 2017).

Despite successfully containing inflation, monetary policy in Canada continued to tighten. This was because policymakers believe that the decrease in inflation is attributed to a confluence of exogenous factors (Gonzalez-Hermosillo and Ito, 1997). Firstly, the decline in inflation was seen to be a delayed response to the economic recession in 1990-1991, which was triggered by lower-than-expected growth in the United States and a significant decline in raw materials prices. The recession led to a contraction in spending and output, resulting in a fall in inflation. Second, market participants had the belief that a further depreciation of the currency was unlikely due to improvements in the current account balance, contributing to lower inflation expectations driven by costly imports. Third, the impact of the Goods and Services Tax (GST) on the inflation rate diminished after its introduction on January 1, 1991, as its impact was no longer factored in the 12-month measure after a year (Laidler et al., 2004). The then-Governor of the Bank of Canada also acknowledged that it is “unlikely that the 1991 announcement of the path for inflation reduction had a significant immediate impact on the expectations of individuals, businesses, or financial market participants” (Thiessen, 1998b, 418).

In addition, high interest rate premiums resulting from political and economic uncertainties, associated with the rapid growth in government debt and Quebec’s role in the Confederation, persisted during the first half of the 1990s (Clinton and Zelmer, 1997). It undermined consumer and investor confidence, leading to higher borrowing rates as lenders and investors demanded a higher return to compensate for the perceived risks.

Furthermore, the previous decades of chronic inflation had created a credibility problem for monetary policy (Dodge, 2002). As a result, attempts by the Bank of Canada to ease monetary conditions were sometimes misinterpreted by the market as a weakening commitment to controlling inflation. These misinterpretations occasionally resulted in sharp increases in interest rates.

Thus, instead of implementing immediate monetary expansion in response to low inflation, the Bank of Canada chose to focus on reducing interest rate risk premiums and building credibility (Clinton and Zelmer, 1997). It employed strategies such as the introduction of clear inflation targets in collaboration with the government to improve communication with the public and increased accountability. The Bank also communicated monetary policy through an explicit operating band for the overnight interest rate, issued press releases for rate changes, and published the Monetary Policy Report to provide insights into its economic outlook and policy decisions. These measures aimed to reduce uncertainty, enhance transparency, and improve the effectiveness of monetary policy.

A steady and significant easing in monetary conditions started in 1995, characterized by the repeated lowering of the operating band for the overnight interest rate by the Bank of Canada. Policymakers believe that market expectations had begun to fall in line with the inflation targets, where the achievement of durable low inflation within the target range and the various initiatives undertaken by the Bank of Canada contributed to a decrease in inflation expectations (Thiessen, 1998b). Factors such as improvements in budget deficits and a resolution to Quebec's relationship with the rest of Canada further enhanced market confidence in price stability. These factors instilled greater confidence in the central bank, allowing it to implement a sustained easing of monetary policy without significant concerns about deviating from the inflation targets.

These developments also led to a significant decline in the Canadian interest rate risk premium, resulting in lower borrowing costs and a more favorable environment for easing monetary conditions (Clinton and Zelmer, 1997). By the fourth quarter of 1996, short-term interest rates had decreased to around 3%. This, in turn, stimulated domestic demand, and Canada experienced a robust economic expansion from mid-1996 through 1997.

Monetary easing in the late 1990s was accompanied by occasional upward adjustments to interest rates in response to market conditions. For example, due to the decline in the Canadian dollar and the rise in medium- and long-term interest rates, the Bank of Canada raised interest rates in the fourth quarter of 1997 until the fall of 1998 (Thiessen, 1998a). This was aimed at supporting the currency and countering the negative pressures that undermined the confidence of holders of Canadian dollar financial instruments.

5.3.2. Labor Shortage with Monetary Easing

Monetary policy expansion in Canada, especially in a more stable macroeconomic environment in the mid to late 1990s, was followed by a growing economy and subsequent labor shortage. Firms initially sought to fulfill their increasing labor demands by tapping into the domestic workforce, given its accessibility and availability. However, as the economy continued to expand, firms faced the need to explore alternative avenues for labor, including outsourcing certain tasks or actively recruiting immigrant workers to address specific labor market gaps. Clint Dunford, the Minister of Human Resources and Employment at that time, acknowledged in 2002 that the demand for immigrant labor arose not as a replacement for domestic workers, but rather as a result of firms exhausting the domestic labor pool: "... 25 of 53 occupational categories are experiencing skill shortages.... While all of this is happening, of course, our unemployment rate is really the lowest in Canada, and that is very good news" (Alberta, 2002, 1001-2).

During the CIMM meetings, MNCs and domestic firms alike expressed their concerns regarding the labor challenges they faced starting in the early 2000s, especially when they were embarking on firm investment and expansion. The labor shortage situation at Tim Hortons and Maple Leaf Foods, both headquartered in Canada and have overseas subsidiaries in places like the United States, were made known. In particular, the Vice-President of Government and Industry Relations of Maple Leaf Foods stated that they were "facing significant plant shortages in labor" and "facing serious questions about the viability of plant operations" (CIMM, 2008a). The General Manager of Sunterra Meats, a domestic meat processing firm, noted: "We found, when we embarked on that [firm] expansion [in the early 2000s], that the ensuing labor challenges that we had in Alberta and in our sector were a

huge stumbling block to our being able to deliver on the strategy we'd embarked on."

The Canadian federal government acknowledged the labor shortage situation and recognized the need to address it promptly. In 2001, the then-Minister of Learning and Minister Responsible for Immigration Lyle Oberg expressed the government's intention to facilitate the recruitment of foreign workers to alleviate the growing labor shortage crisis. "We want to fill the shortage as quickly as we can... When projects are being delayed, it is critical... The whole (idea) is, we don't want business to slow down... We can get (foreign workers) through faster" (Hagan, 2001).

The Committee Report presented following the conclusion of the cross-country meetings emphasized the close relationship between firm growth, expansion, and the increasing demand for labor: "Some of the employers and employer associations... underlined that labor shortages restrict business opportunities and explained how access to temporary foreign workers has been essential to stabilizing and growing business" (CIMM, 2009, 3).

The labor shortage was particularly acute in lower-skilled jobs, but existing labor immigration policies were unable to meet the demand for low-skilled labor immigrants. Prior to the implementation of the 2002 Immigration and Refugee Protection Act (IRPA), which will be discussed in the next subsection, it was challenging for firms to bring in low-skilled labor immigrants to perform work across a range of industries. The available avenues for immigration then included three temporary foreign workers streams: the Seasonal Agricultural Workers Program (SAWP), Live-in Caregiver Program (LCP), and Non-Immigrant Employment Authorization Program (NIEAP), as well as a points-based system for permanent economic migration.

However, the temporary foreign worker streams had limitations in addressing the need for low-skilled labor immigrants. The SAWP and the LCP targeted specific occupations, specifically seasonal agricultural jobs and caregiving jobs respectively. The NIEAP, introduced in 1973 as Canada's first temporary foreign migrant worker program, targeted individuals with highly specialized skills, including academics, business executives, and engineers, rather than specifically addressing the shortage of low-skilled labor immigrants. Although the NIEAP later included some lower-skilled

labor immigrants, it did so to a limited extent.

The points-based system in place for skilled labor migration was not suitable for bringing in an adequate number of low-skilled labor immigrants. This system assigns points to various immigrant attributes and grants entry to immigrants who reach a minimum threshold of points. Over time, the criteria for selection have been adjusted, with an increasing emphasis on general human capital. In 1967, human capital attributes accounted for 30% of the total points, which rose to 35% in 1986 and reached 68% in 2002. Conversely, points awarded for labor market demand decreased from 40% in 1967 and 35% in 1986 to only 10% in 2002. There were occasional revisions to this trend, such as in the early 1990s when additional points were given to immigrants with occupations listed as in demand, resulting in their prioritized processing. However, this approach to addressing short-term economic demand was later reversed in the late 1990s (OECD, 2019). The system's primary focus on human capital, fluctuating standards, and lengthy processing times created challenges for firms in bringing in low-skilled immigrant labor when needed.

5.3.3. Response to Firm Labor Demand: the Low-Skilled Pilot Project

The IRPA, introduced by the Canadian federal government in February 2001 and enforced from June 2002 onwards, replaced the previous 1978 Immigration Act and serves as the governing legislation for Canada's interactions with foreign nationals who wish to live, work, or travel in Canada. Using this legislation, the government is given the scope to create new programs such as the Pilot Project for Occupations Requiring Lower Levels of Formal Training, hereafter referred to as the Low-Skilled Pilot Project.

The liberalization of labor immigration through the IRPA and Low-Skilled Pilot Program did not occur immediately after the initial easing of monetary policy in 1995. Instead, it happened after monetary policy has expanded considerably. This may suggest that either some time is required before the impact of monetary policy on immigration policy is apparent, or that a sustained expansion of monetary policy is needed for the immigration policy change to happen, or both.

Firms may have gradually increased investment and expansion and do not immediately require a lot

more labor. Firms may not be able to undertake fast strategic decision-making, and time may be required to evaluate their financial position, assess their cash flow, strategize their expansion into new markets or products, negotiate with lending institutions for borrowing, and subsequently hire the right people to augment their workforce (Robert Baum and Wally, 2003). Organizational theory attributes this cautious approach to various factors, including the predictability of the exogenous business environment. The careful sentiment surrounding the easing of monetary policy in Canada, coupled with worries about potential abrupt changes or reversals in borrowing rates, which did occur with occasional increases in interest rates in between, have led firms to be more risk-averse and adopt a more prudent approach to expanding their operations.

Firms may have also initially addressed their labor needs by hiring from the available pool of domestic workers and only later found the need for immigrant labor. Canada's unemployment rate fell from a peak of 11.4% in 1993 to 6.8% in 2000 (ILO, 2023), suggesting that a sizeable share of the Canadian labor force that is without work but available for and seeking employment has successfully secured work in the interim years.

The slow pace of policymaking may have also contributed to the delay in the formal introduction and implementation of the IRPA. In democracies, the process of formulating comprehensive immigration policies requires careful consideration and the involvement of various stakeholders, leading to a potential lag between monetary policy and immigration policy change. Furthermore, Canada is a federal country with multiple layers of government, including federal, provincial, and territorial governments. The division of powers and responsibilities among these levels of government can lead to lengthy deliberation and coordination efforts when developing and implementing immigration policies. For instance, the Provincial Nominee Program (PNP) allows each provincial and territorial government to design and manage its own eligibility criteria and immigration streams, selecting candidates who possess the skills, work experience, and qualifications that align with their specific labor market and economic needs. This allows provinces and territories to play a more direct role in shaping their local labor markets and demographics while contributing to Canada's overall economic growth and development, but on the national level, the federal government has to be

mindful of balancing the short-term labor market needs of each province or territory and the long-term economic and demographic objectives of the country as a whole.

Lastly, firms need time to organize their lobbying activities to effectively express their preferences to the relevant stakeholders. This process involves coordinating efforts, building alliances, and engaging in strategic communication to effectively convey their perspectives and influence policymaking. Furthermore, the tendency of firms in Canada to engage in collective lobbying efforts through trade associations, rather than pursuing individual lobbying, adds an extra layer of complexity that demands careful coordination and negotiation (Lee and Stuckatz, 2023). Canadian lobbyists are also valued for their expertise on specific matters rather than for their connections to individual members of parliament. This implies that a substantial amount of time and effort is needed to acquire in-depth technical knowledge of the policy issues of concern before the lobbying process can commence (Boucher and Cooper, 2019).

The Low-Skilled Pilot Project implemented in 2002 was designed to facilitate the entry of foreign workers with lower skill and education levels who would not qualify under the points-based system or as skilled workers under existing temporary foreign worker programs. In Canada, the skill level of occupations is determined by the National Occupation Classification (NOC) system, which categorizes each occupation into one of five skill levels. Skill Level 0 comprises managerial positions, Skill Level A includes professional jobs typically requiring a degree, Skill Level B covers technical and skilled trade jobs usually requiring a college diploma, Skill Level C encompasses intermediate and clerical jobs often requiring high school or specific training, and Skill Level D consists of labor jobs typically involving on-the-job training. "Low-skilled" occupations fall under Skill Levels C and D, and the Low-Skilled Pilot Project is applicable to NOC C and D occupations. It should be noted that this initiative did not replace the live-in-caregiver or seasonal agricultural workers program but operated alongside them.

Scholars have widely recognized that the implementation of the Low-Skilled Pilot Project was a direct response to the demand for temporary low-skilled labor expressed by employers (Foster, 2012; Foster and Barnetson, 2015; Fudge and MacPhail, 2009; OECD, 2019). Additionally, the

significance of the Low-Skilled Pilot Project for firms was emphasized by various representatives at the CIMM meetings. For instance, at one meeting, the Executive Vice-President of Government Affairs of the Canadian Restaurant and Foodservices Association stated that: "There are restaurant operators in western Canada... who would have been forced to close their doors if not for the temporary foreign worker program" (CIMM, 2008b).

The effectiveness of the Low-Skilled Pilot Project in meeting the demand of firms for immigrant labor is evident in the growth of low-skilled temporary foreign workers in Canada since 2002 (see Figure 5.1). Prior to 2002, there were slightly more high-skilled than low-skilled temporary foreign workers (TFW). However, since 2002, the number of low-skilled temporary foreign workers has exceeded that of high-skilled workers, and the rate of growth for low-skilled workers has outpaced that of high-skilled workers. The annual increase in low-skilled temporary foreign workers remained below 10% before the IRPA revision but rose to 11.4%, 14.7%, and 20.0% in the immediate years following the IRPA in 2002, 2003, and 2004. In contrast, the number of permanent economic migrants increased from 1999 to 2001, but then decreased and remained relatively stable over the years.

Following the implementation of the Low-Skilled Pilot Program, the Canadian government recognized the need for improvements to enhance the hiring process for labor immigrants that can better serve the needs of firms. These efforts were preceded by a period of low overnight interest rates ranging from 2% to 3% between early 2002 and late 2005 (Bank of Canada, 2002, 2003, 2004, 2005), suggesting that the low borrowing costs may have further facilitated firm growth and labor shortages, creating the impetus to make positive changes to the program.

To streamline the process and facilitate the hiring of foreign immigrants, the government introduced changes that aimed to simplify employer procedures. One significant change was the establishment of Temporary Foreign Worker Units (TFWUs) in major cities across the regions. These units were dedicated to assisting employers in obtaining labor market opinions (LMOs) and employment authorizations. When assessing a foreign worker application, the Human Resources and Skills Development Canada (HRSDC) evaluates local labor market conditions related to the specific occupation

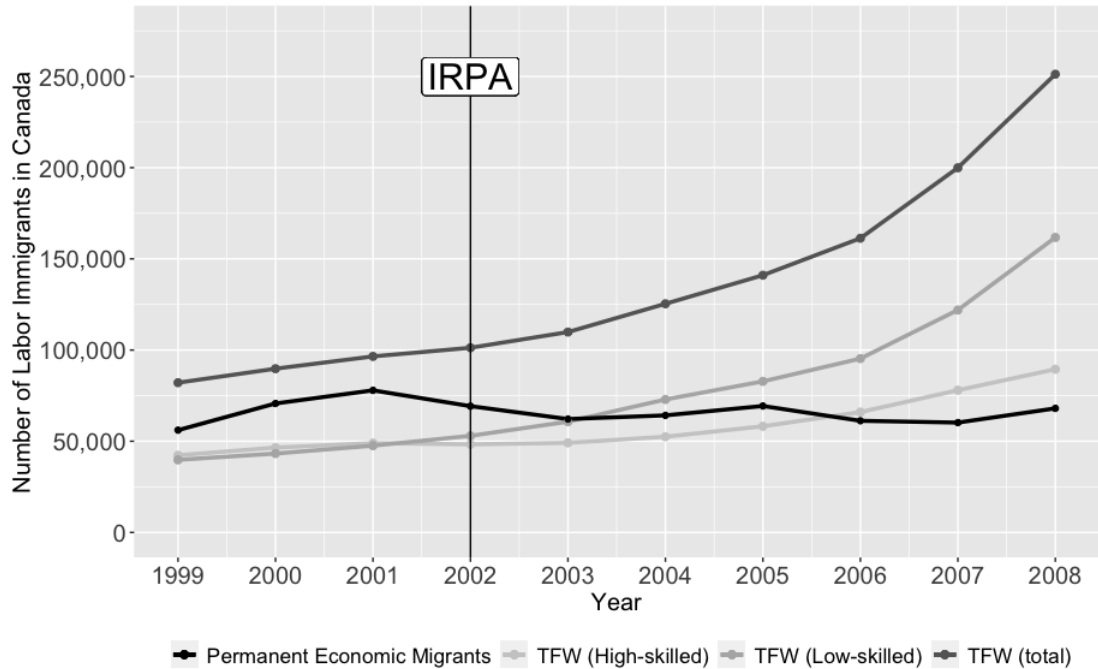


Figure 5.1: Labor Immigrants in Canada

to determine the impact of hiring a foreign worker on the Canadian economy. Employers must have a positive or neutral LMO, a legal document required for obtaining a work permit, in order to hire workers. The first TFWU was established in Montreal in 2003, followed by the opening of two additional offices in Calgary and Vancouver in September 2006. These units played a crucial role in supporting employers by providing guidance and facilitating the necessary documentation for hiring foreign workers. These changes aimed to enhance the efficiency of the hiring process while maintaining the integrity of the program.

In November 2006, the Canadian government took further steps to address the urgent and ongoing labor market needs of employers by establishing federal-provincial working groups on temporary workers in Alberta and British Columbia. These working groups were created “speed the identification of existing and emerging skill shortages and determine the best ways the foreign worker program can help address these shortages” (Citizenship and Immigration Canada, 2010). One of the key benefits of these working groups was the accelerated issuance of LMOs, which played a crucial role in facilitating the entry of immigrant labor.

As part of their mandate, the working groups compiled regional lists of Occupations under Pressure. These lists aimed to "cut the recruitment wait time for employers, [allowing] employers in certain regions who face critical labor shortages [to] be eligible to follow shorter, simpler and less costly advertising requirements to recruit the workers they need" (Citizenship and Immigration Canada, 2010). This meant that employers seeking to hire temporary foreign workers in occupations listed regionally were only required to fulfill minimal advertising efforts, rather than the more extensive requirements typically mandated. The lists of eligible occupations were periodically updated and encompassed hundreds of professions, including nurses, managers, hotel clerks, food and beverage servers, light-duty cleaners, and gas attendants (Foster, 2012).

Following the implementation of the changes in November 2006 aimed at facilitating the hiring of foreign workers, there was a sharper increase in the number of temporary low-skilled foreign workers as depicted in Figure 5.1. The growth rate was 13.6% from 2004 to 2005 and 15.1% from 2005 to 2006, which then further increased to 27.9% from 2006 to 2007 and rose even higher to 32.6% from 2007 to 2008. These figures indicate that the changes have helped firms to hire more temporary low-skilled foreign workers.

The influence of firms on the Low-Skilled Pilot Program is clearly evident, as highlighted during the CIMM meetings. A representative from Westcan Bulk Transport Ltd testified that they actively engaged in lobbying efforts shortly after the program's inception: "We started in 2004. We sat at the lobbying table to get truck drivers allowed to come through the program. We did so diligently in Saskatchewan, Alberta, and then most recently with the B.C. Trucking Association. We are a carrier member that lobbied that government to a successful end result" (CIMM, 2008c). As a result, transport truck drivers have been on the Occupations under Pressure list in Alberta ever since.

5.3.4. Sidelining Labor Unions in Immigration Policymaking

The preceding subsections have presented the essential evidence required to support the argument regarding the impact of monetary policy on labor immigration policy. These evidence encompass factors such as changes in monetary policy, subsequent economic and firm growth, labor shortages,

the liberalization of labor immigration, the fulfillment of firm preferences, and the observable increase in immigrant labor within the country. This subsection introduces additional evidence that shed light on the limited involvement of labor unions in immigration policymaking. This stands in contrast to the relatively more influential role played by firms in shaping labor immigration policies.

Labor unions were also actively involved in the CIMM meetings, expressing their concerns regarding their limited involvement in the policymaking process concerning labor immigration. They emphasized that labor unions had not been sufficiently included in decision-making processes, despite the importance of consulting them regarding the labor market situation. Various labor unions were present at different meetings held in different regions, and they shared similar perspectives on this matter.

In one of the meetings, a representative from the Fish, Food and Allied Workers union informed the Committee that their group had previously been consulted by HRSDC on matters pertaining to labor shortages. However, they expressed their disappointment that such consultations had been discontinued by the government agency:

“Not too long ago, HRSDC would call the union, because we represent the fish plant workers, particularly net menders. If companies wanted to bring a temporary foreign worker into Newfoundland to work, for example, on fishing nets, we’d probably get a call from Ottawa and they’d ask us whether there really was a work shortage here on this issue. We’d identify the problem and we’d said yes, there is, because those skills are gone, for example, on cod trawls and shrimp trawls. That’s a specialty. We’d say yes, there is a real shortage and that’s a real job opportunity for somebody from the outside. They don’t call any more.” (CIMM, 2008d)

As the labor unions raised concerns during the meetings about their limited role in labor immigration policymaking, it also prompted them to advocate for increased consultation with government agencies regarding labor immigration. Specifically, they expressed a desire for agencies like HRSDC, which issue LMOs, to consult with labor unions on the state of the domestic labor market to collec-

tively determine labor market needs. The following are some statements made by representatives of different labor unions on this matter.

A representative of Waterloo Wellington Dufferin Grey Building and Construction Trades Council noted:

“So our resolution says that we would like HRSDC to consult with local building trades councils to more accurately determine the availability of skilled tradespeople in the local marketplace, prior to granting permits to foreign workers. We think there’s some improvement in communication that could be made.” (CIMM, 2008e)

The President of Nova Scotia Federation of Labor made a similar proposal:

“We do have some recommendations. . . Labor unions must be consulted and given the opportunity to fully participate in determining labor market needs, as well as finding solutions to meeting labor market shortages.” (CIMM, 2008f)

The Assistant to the President of Canadian Auto Workers Union echo similar sentiments:

“The temporary foreign worker program, however, itself, has moved from the sidelines to the fast lane of labor market programs. . . We’re calling for. . . broad consultations on long-term labor market planning with labor market partners.” (CIMM, 2008g)

In all, the Canadian case reinforces the main argument that monetary policy affects labor immigration policymaking through the economic and political conduct of firms. The next section examines the case of Japan to determine if a comparable causal process is at play.

5.4. Japan: the Emerging Bubble Economy and Labor Immigration Liberalization

5.4.1. 1980s Japan Monetary Policy: Expansion and Emerging Bubble Economy

Japan’s central bank adopted monetary expansionary starting in the mid-1980s which persisted until 1989, followed by gradual increases in its discount rates in response to escalating asset prices. Monetary easing was initially promoted to counter the recession caused by the rapid appreciation of

the yen after the Plaza Agreement of 1985. Signed by the G5 countries United States, Japan, West Germany, France, and the United Kingdom, the Plaza Agreement aimed to adjust the exchange rates of these countries to correct trade imbalances and reduce the US trade deficit. Specifically, countries with a current account surplus such as Japan were requested to boost domestic demand and appreciate their currency. The rapid appreciation of the Japanese yen badly affected exports and GDP growth, contributing to recessionary pressures.

To counter the negative effects, the Bank of Japan implemented a series of monetary easing measures. Between January 1986 and February 1987, the Bank of Japan lowered the official discount rate five times, resulting in a total reduction of 2.5 percentage points. The discount rate, which remained at 2.5%, the lowest at the time, was maintained for approximately two years and three months from February 1987 to May 1989 (Itoh et al., 2015).

The official discount rate serves as a key tool for implementing monetary policy in Japan. It determines the interest rate at which financial institutions borrow funds from the central bank, thereby influencing the money supply and affecting the cost of borrowing for commercial banks. These actions will then impact the interest rates charged by banks to their customers for loans, shaping overall economic activity by lowering borrowing costs across the board.

Monetary easing measures continued for an extended period During the late 1980s in Japan due to the absence of significant inflationary concerns despite the ongoing economic expansion. The combination of low interest rates, financial deregulation, and a robust export-focused manufacturing sector contributed to a period of rapid economic growth known as Japan's "bubble economy". There were indications that the economy might be growing too quickly, such as tight labor market conditions. The Ministry of Labor, which monitors labor supply and demand, observed that the ratio of new job offers to new applicants and the ratio of total job offers to applicants increased from an average of 0.5 for both indicators in the mid-1980s to 1 and 1.2 respectively in the late 1980s (Statistics Bureau of Japan, 1996). This means that there was now one job opening for every one worker or even fewer, compared to the previous ratio of one job opening for every two workers. Another concern was the potential risk of excess capacity in the future due to a substantial increase

in business fixed investment, which could lead to an economic slowdown. However, despite the easing of monetary policy, inflation in Japan remained remarkably stable during that time.

More fundamentally, there was a prevailing recognition among policymakers and central bank representatives that the country's productivity and economic growth potential had increased, further dampening concerns over inflation. Bank of Japan representatives indicated that "bullish expectations intensified so much... that a small rise in interest rates would have had little impact on such expectations" (Okina et al., 2001, 430). The then Bank of Japan Deputy Governor Yamaguchi also questioned the practical validity of raising interest rates sufficiently to slow down the economy, saying "I don't see how a central bank can increase the interest rate... when we don't have inflation at all" (Yamaguchi, 1999, 173). Major newspaper articles on monetary policy also reflected this ongoing expansionary stance. The articles emphasized that "Japan, the world's largest creditor, should maintain low interest rates to the extent possible and strive to restore the framework of policy coordination among industrial countries" (Asahi Shimbun, 1989), and that "[t]here is still a large discrepancy between inflationary concern in financial markets and actual price developments" (Nihon Keizai Shimbun, 1989).

The persistence of monetary policy expansion drove market expectations that the current low interest rate environment would continue. This positive economic sentiment was reflected in the movement of financial instruments. For example, the forward rates, which are estimated future interest rates from present market conditions, for different time-to-maturity remained flat at around 5 percent since late 1987. This indicated a widespread belief that despite signs of economic expansion, the prevailing low interest rates would persist for an extended period.

With soaring real estate and stock market prices in the late 1980s, the Bank of Japan began tightening monetary policy through interest rate hikes. In May 1989 the official discount rate was raising from 2.5 percent to 3.25 percent. Despite this initial rate hike, the economy continued to expand rapidly, further inflating the asset bubble. The official discount rate was raised again in October and December 1989, with increases of 0.5 percentage points each time. Two additional hikes followed in March and August 1990, with relatively significant increases of one percentage

point in March and 0.75 percentage points in August. Nonetheless, it took considerable time for these rate hikes to visibly impact asset prices, including stock and land prices. In fact, the growth of money supply continued to accelerate even after the official discount rate was raised, reaching a peak in the second quarter of 1990 and maintaining double-digit growth until the fourth quarter. Meanwhile, the economy continued to expand and reached its peak in February 1991. Around the summer of 1991, the growth of domestic demand began to slow down.

5.4.2. Increased Firm Investment and Labor Demand

The persistent monetary easing during that period had a positive impact on firm investment and expansion through various channels. Firstly, the growth in money supply and credit was significant. At its slowest, the growth of money supply was 8.3% in 1986, and it gradually accelerated afterwards and exceeded 10% in April-June 1987 (Okina et al., 2001). This encouraged corporate fixed investment and personal consumption, fuelling robust economic activity and growth.

Secondly, the increase in land prices and stock prices had a profound effect on firms' borrowing capacity. The Bank of Japan attributed the rise in land prices in Tokyo and neighboring areas to "monetary accommodation" (Bank of Japan Archives, 1986a) and "greater demand for office buildings" (Bank of Japan Archives, 1986b). Speculative fund investment among firms also contributed to the increase in land prices, as excess funds obtained by firms during prolonged periods of monetary easing were directed towards speculative transactions in assets such as land to seek capital gains (Bank of Japan Archives, 1986c). This speculative behavior extended to the financial markets, where monetary policy expansion reduced funding costs and facilitated the funding of speculators, leading to a rise in stock prices (Iwamoto et al., 1999). The appreciation in land and stock prices improved the collateral value of these assets held by firms, enhancing their borrowing capacity. This allowed firms to access cheaper credit, while also enabling them to borrow more or obtain more favorable borrowing terms based on the increased collateral value of assets such as land and stocks.

As firms borrow and grow, it resulted in an increase in labor demand across various sectors. The tightness of the supply and demand in the labor market, as mentioned earlier, was characterized

by a growing number of job openings with insufficient workers to fill them. This situation persisted despite the increasing number of native Japanese entering the labor market, including the younger generation of baby boomers, which helped expand the overall size of the labor force. Furthermore, there was significant mobilization of economically inactive groups, such as women and retirees, who joined the labor force during this period. However, despite these factors, the labor shortage continued to persist.

The growing presence of illegal migrant workers also highlights the challenges faced by firms in meeting their labor demand, which has surpassed the growth of the domestic labor force and the capacity of existing labor immigration policies. These illegal foreign workers originate from Asian countries with excess labor supply and lower incomes, such as the Philippines, Thailand, Malaysia, and Indonesia. They primarily found employment in sectors including construction and factory work as well as “3K” jobs – dirty (*kitanai*), dangerous (*kiken*), and demanding (*kitsui*) – shunned by the natives (Sellek, 1994), where their contributions have helped meet the labor demands of Japanese firms. According to official estimates, there were about 20,000 illegal migrant workers in Japan in 1986, and increased to approximately 100,000 in 1988 (Sellek and Weiner, 1992).

The increased demand for labor among Japanese firms led to a strong desire for immigrant labor within the country. A Ministry of Justice study in 1989 found that most of the firms surveyed wanted an increase in the number of foreign workers in Japan (Tsuda, 1999). Various opinion polls taken in the late 1980s also revealed that firms were overwhelmingly in favor of introducing foreign labor in order to alleviate the existing labor shortage (Herbert, 2010). Business associations representing both large enterprises and small and medium enterprises (SMEs) publicly advocated for a more liberal labor immigration policy. In particular, major organizations such as the Tokyo Chamber of Commerce and Industry, Japan Chamber of Commerce and Industry, Japan Association of Corporate Executives, and Kansai Association of Corporate Executives called on the government to adopt a more flexible stance on accepting unskilled foreign labor (Shimada, 1994).

5.4.3. Response to Firm Labor Demand: High-skilled Labor, Nikkeijin, and Trainees

The extended period of monetary policy expansion in Japan was followed by a revision of the Immigration Control and Refugee Recognition Act (ICRRA) in 1989, which came into effect in 1990. These revisions included changes related to high-skilled labor immigration, the entry of Nikkeijin, and a side-door policy for foreign trainees to engage in low-skilled work.

In a manner similar to Canada, the liberalization of labor immigration in Japan did not take place immediately following the initial easing of monetary policy. Instead, it occurred during a period when the lowest discount rates had been reached and coincided with the start of an upward trajectory in discount rates after a prolonged phase of monetary expansion. This similarity suggests the involvement of similar factors at play. For instance, Japanese firms, like their Canadian counterparts, may have needed time to expand their operations and may have initially relied on the domestic labor force to meet their labor needs. The government may have needed time to develop and finalize the specific details of the various programs related to labor immigration. Additionally, firms may have required time to express their preferences and priorities to policymakers.

Regarding high-skilled labor immigration, the 1990 revision of the ICRRA expanded and clarified the scope of work that skilled foreigners could undertake in Japan. The Japanese government made it clear that “[t]he official policy of the Japanese government is to allow entry to foreigners with technological expertise, skills or knowledge or who engage in businesses which require a knowledge of foreign culture not possessed by Japanese” (OECD, 1995). The number of work visa categories for specialists doubled, where there were 12 categories of high-skilled specialists eligible to work in Japan, compared to only 6 categories prior to 1990. A list of the designations is found in Table 5.1.

The revised categories retained designations for "professor", "press service" and "skilled labor" while introducing new designations such as "intra-company transferee" which especially benefited MNCs. This visa class was designed for employees transferring from overseas subsidiaries to work within Japan for the same firm. The creation of this visa category provides evidence that the government recognizes the needs of MNCs and dedicated a special channel and visa category to

Table 5.1: High-Skilled Visa Categories in Japan

Before 1990	1990 onwards
Professor	Professor
Press service	Press service
Skilled labor	Skilled labor
Scientific and cultural activities	Investor/business manager
Providing technique	Legal/accounting service
Business	Researcher
	Specialist in humanities/international service
	Intra-company transfers
	Engineer
	Artist
	Instructor
	Medical services

facilitate entry of their employees. Other new designations include "engineer", investor/business manager", "legal/accounting service", and "specialist in humanities/international services". The length of residence remained unchanged, with either a duration of 6 months, 1 year, or 3 years (Yamanaka, 1993).

Prior to the 1990 revision of the ICRRA, firms in Japan were already allowed to bring in skilled workers through designations such as "business" or "scientific and cultural activities". However, the guidelines for these designations were vague, leading to uncertainty regarding their applicability to different professions and qualifications. For example, it was unclear whether the designation of "business" could encompass both an accountant, who required special qualifications to practice in Japan, and a manager who did not need a special license. Similarly, certain "scientific and cultural activities" might require specific licensing, such as in the field of medicine, while others did not. Decisions by the Immigration Bureau, a government agency under the Ministry of Justice, to grant or withhold work visas also appeared to be arbitrary, due in part to the lack of clarity in the visa categories' guidelines (Fuess Jr, 2003).

5.4.4. Nikkeijin Policy

While Japan maintained its official stance of not liberalizing its labor immigration policy for low-skilled labor, it implemented two programs that allowed entry to lower-skilled foreigners who took

on low-skilled jobs in the economy. One of these policies was the introduction of a long-term residence permit for descendants of Japanese emigrants, including second-generation (Nisei) and third-generation (Sansei) people of Japanese ancestry (Yamanaka, 1996).

While the visa status of Nikkeijin was initially limited to three years, it could be renewed indefinitely, effectively granting them de facto quasi-permanent resident status (Kondo, 2001). These visa categories imposed no restrictions on the economic activities of Nikkeijin, enabling them to work at various skill levels. In practice, however, Nikkeijin predominantly found employment in low-end unskilled jobs, particularly in construction, manufacturing, assembly, machinery operations, automobile assembly plants, auto parts companies, and the electrical appliance industries.

While the government officially cited historical and cultural reasons for offering residence and work status to Nikkeijin, the underlying intention of policymakers was to address labor shortages faced by Japanese firms. The government's position was that the eased entry regulations for Nikkeijin aimed to allow them to explore their ethnic heritage, visit Japanese relatives, learn the Japanese language and culture (Tsuda and Cornelius, 2004). However, many scholars believed that the primary motivation behind admitting Nikkeijin was to address labor shortages in specific industries without explicitly contradicting Japan's fundamental immigration policy principle of not accepting unskilled or low-skilled foreign workers (Chung, 2010; Oka, 1994; Tsuda and Cornelius, 2004; Yamanaka, 1996).

Furthermore, it was the LDP policy committee on foreign workers that advocated for the creation of a special visa category for Nikkeijin, responding to pressure from LDP Diet members representing industrial areas with severe labor shortages. The descendants of ethnic Japanese emigrants are estimated to number 670,000 in the United States, 530,000 in Brazil, and 50,000 in Peru, providing a substantial pool of labor to satisfy firm labor demand (Tsuda, 1999). At the same time, it maintains Japan's racial and ethnic identity by granting entry to culturally and ethnically similar migrants. The proposed change is an acceptable compromise between the labor needs of firms and the nation's identity hinged on ethnic homogeneity.

The government's intent to address labor shortages through the Nikkeijin policy was further evident during the global recession of 2007-2008 when Japan's economy entered a downturn (Kalicki, 2015). In April 2009, the Ministry of Health, Labor, and Welfare initiated a voluntary repatriation program for unemployed Nikkeijin workers and their families, encouraging them to return to their countries of origin in Latin America. Participants in the program received a one-time payment (300,000 JPY for Nikkeijin and 200,000 JPY for each dependent) and were asked to relinquish their right to return to Japan for an unspecified period with the same visa type (later specified as three years) (OECD, 2009b). This repatriation policy was discontinued in 2010 as the economy began to recover.

It was observed that Japanese MNCs benefitted more from the Nikkeijin policy compared to smaller domestic firms, suggesting that they had a strong incentive to advocate for a more liberal labor immigration policy. Prior to the 1990 reform, there were already illegal low-skilled migrants working in factories and construction across the country. However, MNCs with a reputation to keep were hesitant to employ illegal migrants to fulfill additional labor needs (Mori, 1996). With the legalization of Nikkeijin foreign workers, the reform provided a legal pathway for large businesses to hire these foreign workers.

Japanese MNCs took advantage of the Nikkeijin policy and actively recruited them for low-skilled work. This is clear from the settlement patterns of many Nikkeijin, as they often settled in manufacturing centers such as Toyota City, Hamamatsu, and Ota, which are home to MNCs like Toyota, Yamaha, and Subaru, respectively. Nikkeijin also found employment in second- and third-tier firms associated with larger Japanese firms and MNCs (Ortloff and Frey, 2007). Small enterprises, on the other hand, continued to rely on illegal Asian migrant workers. One reason for this was the increased labor demand from Japanese employers, which led to a surge in the wage rates of Nikkeijin. While MNCs with greater financial resources could afford to hire Nikkeijin at higher wages, small businesses often struggled to meet the cost of hiring them (Mori, 1996). The willingness of MNCs to pay higher wages also further illustrates the strong labor demand that Japan faced.

5.4.5. Trainee Program

The 1990 Act also brought revisions to an existing foreign trainee program, making it easier for firms to bring in foreign trainees to assist in low-skilled work. Over the subsequent years, the program underwent multiple modifications with the aim of facilitating the entry of foreign trainees.

Japan has a relatively long history of accepting foreign trainees, starting in 1954 when Japan joined the Colombo Plan to promote social and economic development in Asia (Oishi, 1995). It became part of Japan's official development assistance (ODA) program, and its stated objectives were to provide opportunities for workers from neighboring Asian countries to come to Japan to learn technical skills and knowledge that they could apply to aid in their home countries' development. It also aimed to enhance bilateral relations and promote economic cooperation between Japan and other Asian countries. The admission of foreign trainees started on a small scale in the 1960s when Japanese MNCs invited workers from their foreign subsidiaries for in-country training (Iguchi, 2002). While this provision is not a result of the expansion of monetary policy in the late 1980s, it serves as evidence that the Japanese government had previously established an immigration pathway that benefitted MNCs. By creating a channel for foreign employees to enter the country to receive training, it helps to enhance the productivity of MNCs in their overseas subsidiaries and boost their overall profitability and growth. Over time, the program became highly institutionalized and now functions as a temporary labor migration program (Komine, 2018).

During the period of high economic growth and monetary easing that began in 1986, Japanese firms that expanded and established overseas manufacturing plants would bring their overseas staff to their headquarters or main offices in Japan for skill- or management-training purposes. However, as labor shortages became more severe, an increasing number of firms started relying on the trainee program to supplement their unskilled labor pool. The trainee status was advantageous for firms because it did not entitle trainees to a regular salary but only to a training allowance. Additionally, the content and quality of the training were entirely at the discretion of the receiving firms, as there was no official control over the training process. Trainees did not receive a salary but rather a training allowance, as training was officially defined as a non-employment activity. The monthly allowance

typically ranged between 50,000 yen and 80,000 yen (US\$500 - US\$800), which was relatively low (Oishi, 1995).

The changes to the trainee program introduced in the 1990 reform had two primary objectives. First, it aimed to create a new channel through which firms could receive trainees. Previously, trainees could only be brought in by government agencies, international organizations, or firms with overseas subsidiaries or joint ventures. However, the 1990 reform introduced the acceptance of trainees through intermediary organizations, such as business organizations like the Japan Chambers of Commerce and Industry and the Societies of Commerce and Industry. These intermediary organizations could accept trainees and then channel them to the firms. Additionally, firms could benefit from advisory services and receive guidance on legal and technical matters related to receiving trainees (JITCO, 2010).

The second objective of the 1990 reform was to prevent illegal employment disguised as training. The reform established the basic conditions that applicants and receiving organizations had to meet. It also determined the types of receiving companies and intermediary organizations that would be eligible and set limits on the number of trainees per company. Strict guidelines were put in place to ensure the quality of on-the-job training and protect trainees from potential abuses. However, some firms found these regulations too stringent and exerted pressure on the government to relax them. As a result, the government eased the conditions for the acceptance of trainees and the implementation of training in 1992. For instance, agricultural farms were allowed to become receiving organizations. The proportion of time that trainees spent on the job was also increased by reducing the amount of off-the-job training required, from one-third to one-fourth or one-fifth of the total training period, depending on the conditions met by the firms (Oishi, 1995).

At the same time, the government liberalized restrictions on the ratio of foreign trainees to regular employees. As a result, firms of all sizes became eligible to receive foreign trainees as long as their recruitment programs were managed by designated intermediary organizations, such as chambers of commerce or business cooperatives, with the support of state authorities. This change opened up opportunities for small and medium-sized businesses facing labor shortages, and they “expressed

enormous interest in accepting [foreign] trainees" (Shimada, 1994, 71).

In September 1991, Japan International Training Cooperation Organization (JITCO) was established with the purpose of expanding the trainee program and facilitating the acceptance of trainees (Mori, 1996). JITCO was jointly established by several government ministries, including the Ministry of Labor, Ministry of International Trade and Industry, Ministry of Justice, Ministry of Foreign Affairs, and later the Ministry of Construction. It received support from prominent economic organizations such as the Keidanren, Japan Chamber of Commerce and Industry, Japan Federation of Employers' Association, and Japan Association of Corporate Executives. JITCO plays a central role in administering the stay of foreign trainees in Japan and promoting and facilitating their recruitment. It also provides an additional avenue for firms to receive trainees under less restrictive conditions compared to existing channels.

The trainee program underwent a revision in April 1993, leading to the formalization of trainees' status as employees and an extension of their stay in the country. The program was renamed the Industrial Training Program (ITP) and the Technical Intern Training Program (TITP). Trainees were required to complete a period of conventional training, which included off-the-job and on-the-job training. After successfully passing a skill evaluation examination, they could proceed to the TITP. Under the TITP, trainees were engaged in formal employment contracts and were officially classified as "technical interns". As workers, they were protected by the same labor-related laws applicable to Japanese workers.

The introduction of the TITP and the recognition of trainees as employees reflected a significant shift in the program. The government sought to gradually introduce the concept of low-skilled immigrant labor into the country's immigration system. By formalizing trainees' status as workers and providing labor protections, the government may have been testing the response of key opponents, such as labor unions and conservative segments of society, to the idea of accepting low-skilled immigrant labor in Japan.

The 1993 revision of the trainee program also extended the maximum total period of training to

two years for the combined duration of the ITP and TITP. Previously, trainees were allowed to stay for up to one year, depending on the training program. However, in exceptional circumstances where the need for further training was officially recognized, the period of stay could be extended for an additional year. This revision normalized and ensured that firms could train and employ labor immigrants for a longer duration of two years. In subsequent years, there were further adjustments made to the foreign trainee/intern program, including an extension of the maximum combined stay to three years (Hayakawa, 2010; Watanabe, 2010).

Domestic firms had limited success in further extending the duration of stay of interns and trainees (Haig, 2011). The Japan Chamber of Commerce and Industry representing small domestic firms had lobbied for trainees and industrial interns to be able to stay on longer and work as regular employees under longer-term work visas. However, it could not overcome opposition from the Ministry of Justice and the Ministry of Health, Labor, and Welfare to this idea.

5.4.6. Policy Outcome of the 1990 Act

The 1990 revised ICRRA includes three programs that aim to assist in the recruitment of immigrant labor to meet the labor demands of firms. By monitoring the number of labor immigrants that belong to these visa categories, we can determine the effectiveness of these policies and whether firms truly required more labor. To illustrate, Figure 5.2 presents the number of labor immigrants in Japan categorized by their residency status. This includes individuals with a high-skilled visa, Nikkeijin from Brazil and Peru, as well as trainees. The Nikkeijin group is limited to those from Brazil and Peru, as these are the two groups identified by the scholarship as the primary targets of the 1990 revision, and they mainly migrated to Japan for low-skilled jobs (Goto, 2007; Sharpe, 2010; Yamanaka, 1993). Official records for the number of trainees were only available from 1994 and beyond. The data used in this analysis was collected from e-Stat Japan (2022) and was only accessible every two years prior to 1994.

Figure 5.2 shows that following the implementation of the revised ICRRA in 1990, there was a sizeable increase in the number of skilled immigrant labor as well as the number of Nikkeijin from Brazil and Peru, indicating the genuine need for such labor by firms. Prior to 1990, the number

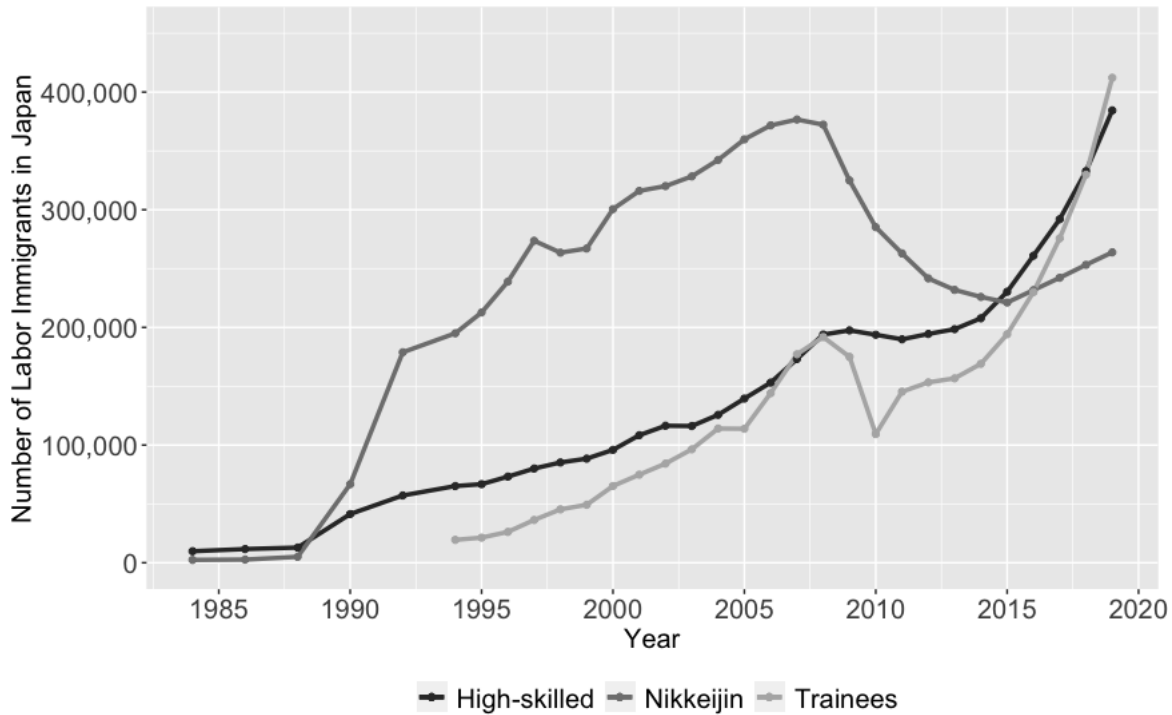


Figure 5.2: Labor Immigrants in Japan

of high-skilled immigrant labor in Japan averaged around 10,000 a year. The number of foreign nationals holding high-skilled visas in Japan then rose from 12,894 in 1988 to 41,369 by the end of 1990, more than tripling in numbers. This inflow continued to expand throughout the 1990s, despite Japan's economic downturn, with an average year-on-year increment of 12%. The trend persisted into the 2000s until the global economic recession in 2008. The temporary decline observed during the 2008 recession provides further evidence to support the notion that the program is influenced by firms' needs. When firms encounter economic pressures, such as those experienced during the recession, their demand for labor tends to decrease accordingly. The substantial and swift rise in skilled migrant labor within the country subsequent to the revision of the ICRRA also suggests that the revision was more than a mere restructuring of visa categories and the establishment of entry criteria. It entailed an expansion of the range of skilled labor that Japan was willing to welcome and facilitated a process for firms to recruit skilled workers more effectively.

The growth rate of Nikkeijin immigrants from Brazil and Peru has been even faster than that of

high-skilled labor since 1990. Prior to 1990, Nikkeijin who came into Japan either were holders of Japanese or dual citizenship (Yamanaka, 1996). The population of Brazilian and Peruvian Nikkeijin residing in Japan was recorded at 5,023 in 1988. However, since the introduction of the Nikkeijin policy, there was a notable surge in their numbers, reaching 66,708 in 1990 and further skyrocketing to 145,614 in 1991. This upward trend continued until it reached its peak in 2007, followed by a decline in 2008 due to voluntary repatriation. Although the repatriation program ceased in 2010, the number of Nikkeijin immigrants continued to decrease, potentially influenced by alternative avenues, such as the trainee and internship programs, through which firms could recruit low-skilled labor.

While official estimates for the number of trainees were unavailable before 1994 and estimates from various migration scholars differed, the latter unanimously concurred that there is a clear upward trend in the number of foreign trainees in the country since 1990. For example, according to Okunishi and Sano (1995), the number of trainees increased from 4,270 in 1984 to 8,727 in 1988 and further to 19,237 in 1992. Similarly, Oishi (1995) reported a rise in the number of foreign trainees from 13,262 in 1984 to 23,432 in 1988, reaching 43,649 in 1992.⁵ Despite being smaller in magnitude compared to the other two immigrant groups, the number of trainees and interns likewise consistently increased each year, with the exception of the 2008 economic recession. This reinforces the argument that the program is also driven by demand and reliant on the labor needs of firms.

5.4.7. Influence of the Keidanren

The influence of Japanese MNCs was more evident starting in the 2000s as the Keidanren, one of the most influential business federations in the country, started to publicly discuss and support the liberalization of the country's labor immigration. This development occurred against the backdrop of Japan's "lost decade", a period of economic stagnation and deflation from the early 1990s to 2001. However, the Japanese economy started to recover in the early 2000s, driven by strong exports to the United States and other Asian economies.

⁵The recorded number of trainees from e-Stat Japan (2022) for 1994 was 19,443, suggesting that the estimate from Okunishi and Sano (1995) may be more reliable.

The Keidanren's main objective is to promote the interests of large firms, including Japanese MNCs, in a wide range of issue areas, including labor (Keidanren, 2023). The federation was established in May 2002 through the merger of the Japan Federation of Economic Organizations and the Japan Federation of Employers' Associations. As of April 2022, Keidanren's membership consists of 1,494 leading enterprises and 108 industrial associations. While the Keidanren does not exclusively represent MNCs, top positions within the organization, such as the Chairmanship and Vice Chairs, are typically held by the top leadership from various Japanese MNCs, including Sumitomo Chemical, Panasonic, MUFG Bank, Hitachi, Nippon Steel, and Asahi.

The Keidanren has made several policy recommendations that were met with success. One notable recommendation concerned the extension of stay for foreign students after graduation. In August 2003, the Keidanren announced its intention to present a report proposing measures to encourage the acceptance of foreign residents in Japan and promote sustainable economic growth. An interim report was released in November 2003, which included a proposal to allow foreign graduates from Japanese universities and postgraduate programs to remain in the country after graduation. At the time, foreigners studying in Japan were not permitted to stay after completing their studies unless they secured employment before graduation (Yomiuri Shimbun, 2003).

Legislative changes were introduced in 2004 to ease the employment prospects for certain categories of immigrants. One of these changes specifically affected foreign graduates. Under the new regulations, foreign nationals who held a residence status as "college students" were eligible to receive a "temporary visitor" residence status after their graduation. This temporary visitor status allowed them to remain in Japan for up to 180 days with the purpose of seeking employment opportunities (OECD, 2009a). This type of visa, commonly referred to as a job search visa, is similar to programs found in many other OECD countries and is designed to retain highly skilled workers. Apart from facilitating the transition of foreign graduates into the workforce, it also allows Japanese firms to hire skilled workers who already have some familiarity with Japan and the Japanese language.

Another policy recommendation put forth by the Keidanren was to extend the authorized period of stay for labor immigrants. As early as November 2003, the Keidanren expressed strong support

for extending the duration of stay for foreign workers in the country. Hiroshi Inoue, the manager of Nippon Keidanren's Planning and Coordination Group, highlighted the significant obstacles faced by foreign workers, including the limited authorized period of stay. Apart from specific categories such as government officials and diplomats, the general authorized period of stay for a single visa was limited to six months to three years. Inoue emphasized that "[i]f the government wishes to attract competent foreigners, it is essential to take measures to make the nation a more attractive place where they will be willing to work, by improving these crucial shortcomings" (Tsukahara, 2003).

In March 2007, the Keidanren released a series of recommendations through their Second Set of Recommendations on Accepting Non-Japanese Workers report. One of the recommendations called for an extension of the maximum term of residence granted for each relevant residence status from three to five years.

There were indications that the government was receptive to this proposal in early 2008. In March 2008, sources revealed that the Ministry of Justice intended to extend the current period of stay for foreigners from a maximum of three years to up to five years, adding that it is aimed at enhancing the convenience for foreign residents living in the country. The ministry planned to present related bills to the Diet in 2009 to revise the Immigration Control and Refugee Recognition Law (Yomiuri Shimbun, 2008). The ICRRA was revised in July 2009, and as part of the reform, visas that were previously issued for three years were extended to five years for holders of work-based residence status and spouses of Japanese nationals. The success of the Keidanren in extending the duration of residence for certain categories of immigrants contrasts with the Japan Chamber of Commerce and Industry's unsuccessful efforts to extend the length of stay for trainees and technical interns.

The Keidanren was also in favor of the government concluding Economic Partnership Agreements (EPAs) with other countries that would facilitate the movement of labor immigrants. As early as 2004, the Keidanren urged the Japanese government to conclude bilateral trade agreements with Asian neighbors, acknowledging the country's need to open its doors to skilled foreign workers. It

specifically advocated for EPAs with the Philippines, Malaysia, Thailand, as well as South Korea. "The movement of [people] is important from the perspective of revitalizing Japan's economic dynamism", said Kiyooki Shimagami, head of a Keidanren taskforce at a symposium on economic partnership agreements (EPA) in Tokyo in July 2004 (Sanchanta, 2004).

An EPA was eventually signed between Japan and the Philippines in September 2006 and ratified in October 2008. A similar agreement was also reached between Japan and Indonesia in 2007 and ratified in May 2008. These agreements allowed nurses and care workers from the Philippines and Indonesia to enter Japan, and after taking a compulsory six-month Japanese language course, become eligible for employment as assistant care workers.

Keidanren's Second Set of Recommendations on Accepting Non-Japanese Workers in 2007 further emphasized the need for nursing and care workers in Japan. It stated that "in the future, Japan will not have enough skilled personnel in such sectors as nursing, care giving...", adding that "now that an agreement has been reached on [the] admission of nurses and caregivers under the Japan-Philippines EPA, the admission of such human resources from Indonesia, Thailand, and other countries should be achieved as soon as possible through EPAs with those countries" (Keidanren, 2007).

The Japanese case has also provided evidence supporting the main argument that monetary policy influences labor immigration policymaking through the economic and political behavior of firms. In this instance, big businesses appear to play a significant role in shaping this relationship.

5.5. Cases in Summary

By examining the changes in monetary and labor immigration policies in Canada and Japan, this chapter provides a comprehensive understanding of the causal mechanism that connects these two areas of interest. Monetary expansion during the mid-to-late 1990s in Canada and from 1985 to 1989 in Japan engendered low borrowing rates and encouraged firm growth and investment. In the case of Canada, the liberalization of labor immigration policy occurred in 2002 through the implementation of the IRPA. This created a new avenue for the entry of low-skilled labor immigrants that were in demand by firms. On the other hand, Japan's labor immigration policy experienced changes with

the 1990 revision of the Immigration Control and Refugee Recognition ICRRA, which expanded visa categories for high-skilled immigrants and facilitated the entry of Nikkeijin and low-skilled trainees. Both Canadian and Japanese firms capitalized on the policies and programs and publicly acknowledged their utility. Policymakers also acknowledged the demand for additional labor from firms as a key driving factor behind the implementation of these policies and programs.

This chapter also provides limited evidence supporting the argument that MNCs have a stronger influence on labor immigration policies compared to domestic firms. It highlights specific instances where MNCs stand to benefit more from labor immigration liberalization and therefore possess stronger incentives to shape policies in their favor. Furthermore, it showcases labor immigration policies and programs that cater to the needs of MNCs.

Instead of viewing this limitation as an impediment to the research, it underscores the value of employing a mixed methods approach. By combining quantitative statistical models and qualitative case studies, this approach seeks to address the same question and offer complementary insights that enhance our overall understanding of the relationship between monetary and labor immigration policies.

CHAPTER 6

CONCLUSION

Labor immigration policies exhibit significant variation across countries and time periods, and scholars have made efforts to explain this diversity through different approaches. These include examining domestic institutions (Bearce and Hart, 2017), public opinion (Hainmueller and Hopkins, 2014), as well as international factors related to trade and the human rights regime (Peters, 2014; Ruhs and Chang, 2004). This dissertation introduces a previously unexplored factor, which is that of monetary policy. While both labor immigration policy and monetary policy are recognized as crucial issues within the field of international political economy, they have seldom been discussed in conjunction or subjected to systematic joint analysis.

This dissertation argues that monetary policy influences labor immigration policy through changes in firm labor demand and firm lobbying for labor immigration liberalization. Chapter 2 advances this core argument by outlining the reasons for and the mechanisms through which monetary policy and labor immigration policy are interconnected. Monetary expansion or contraction involves adjustments in interest rates and borrowing costs within an economy, which subsequently affect the cost of borrowing for firms and their investment and expansion plans. When borrowing becomes cheaper, firms are incentivized and enabled to grow, resulting in a greater need for labor to handle increased production or other organizational functions. As firms exhaust available domestic labor, firms have the option of addressing their labor needs by employing immigrant workers. They proceed to lobby policymakers to liberalize labor immigration. While this narrative is generally applicable to all firms, MNCs are expected to have a more pronounced influence in this process. This is attributed to their lower borrowing costs and substantial resources, which enable them to actively participate in the political arena and effectively communicate their preferences.

The validity of the argument is examined in the three subsequent chapters. Chapter 3 presents the main research design and elaborates on the methodology for measuring monetary policy and labor immigration policy. To measure firm borrowing costs, the study draws upon insights from

the international business literature and utilizes information derived from financial statements, including debt and revenue data. A novel labor immigration policy dataset that measures changes to country's openness to labor immigrants is constructed. This can serve as a valuable resource for other researchers exploring labor immigration in a similar manner. The relationship between the variables is examined through regression models, incorporating various economic and institutional control variables. The findings offer support for the hypothesis that lower borrowing costs for MNCs are significantly linked to labor immigration policy liberalization.

In Chapter 4, further statistical evidence is presented through a detailed examination of the causal processes. Analyses on firm lobbying reveal that larger enterprises and MNCs exhibit a higher propensity for engaging in lobbying activities. Causal mediation analysis is also employed to uncover the integral role of firm employment within the causal pathway. Leveraging firm-level data on annual employee counts for both MNCs and domestic firms, the results illustrate that the relationship identified in Chapter 3, concerning the influence of monetary policy on the liberalization of labor immigration, is mediated by changes in firm employment.

Chapter 5 shifts the focus to case studies involving Canada and Japan, offering further insights into the process through which monetary expansion has prompted both governments to adopt more lenient labor immigration policies. In the case of Canada, the Bank of Canada adopted a gradual and cautious approach, easing monetary policy while keeping prices stable. This led to firms to gradually expand their productive capacity, resulting in a growing demand for labor immigrants. In response, the Low-Skilled Pilot Program was established. Similarly, a comparable narrative emerges in Japan, where the Bank of Japan implemented an expansionary monetary policy to counter a recession, maintaining its accommodative stance since there was limited inflationary pressure. As Japanese firms grew, their demand for labor increased, prompting the government to broaden its high-skilled visa categories and facilitate the entry of overseas Japanese descendants and foreign trainees.

6.1. Avenues for Future Research

The research undertaken in this dissertation paves the way for several unexplored opportunities that could further enrich our understanding of the design of labor immigration policy.

This dissertation has provided theoretical and empirical support for the argument that shifts in monetary policy, specifically reflected in the borrowing costs of firms, have had a significant impact on the labor immigration policies of high-income democracies over the past half a century. While the current examination is limited to this context, there is reason to believe that the applicability of this theory extends to non-democratic regimes and middle-income nations alike, albeit with nuances that could be uncovered to enhance our understanding of the dynamics governing labor immigration.

The proposed relationship between monetary policy and labor immigration policy relies, to a certain extent, on the presence of a limited domestic labor pool and the reluctance of domestic workers to undertake specific job roles. This situation is prevalent in affluent advanced industrialized countries but is not exclusive to democratic systems. Notably, there are wealthy non-democracies such as Brunei and Gulf States like Saudi Arabia, Qatar, and Kuwait that host substantial immigrant labor. While non-democratic regimes may be less responsive to the needs and demands of the mass public and interest groups, they remain concerned about maintaining regime support and stability. Authoritarian power-sharing theories highlight the significance of satisfying a core group of elites, often including upper-class individuals like business owners and employers (Blaydes, 2010; Svulik, 2012; Truex, 2016). Autocratic leaders might also take into account the demands and preferences of the wider population, as expanding the support base for the regime is likely to extend their tenure (Gandhi and Przeworski, 2007). They may choose strategies such as cooptation by making policy concessions concerning labor immigration, or they may adopt alternative approaches such as distributing rents (Shin, 2017).

Beyond non-democratic contexts, the causal process is also expected to unfold accordingly in middle-income countries. Aspiring to expand their economy and broaden their industrial base, they confront mounting pressures to fill positions across various sectors and address workforce shortages. Further-

more, as highlighted by the United Nations (2020), middle-income countries served as the destination for one-third of all international migrants. The form and degree by which labor immigration policies are adopted in middle-income countries may differ from their higher-income counterparts, possibly owing to the diverse job opportunities in a rapidly growing economy and to accommodate a broad spectrum of skill sets. These countries may also exhibit comparatively lower entry barriers, facilitating immigrant entry for employment purposes. Consequently, labor immigration policies in middle-income countries could be more inclusive, accommodating diverse educational and skill backgrounds to meet the growing labor demand.

Expanding the scope of the analysis to encompass a more diverse set of countries beyond high-income democracies holds the potential not only to augment the generalizability of the proposed theory but also to potentially yield fresh insights into the intricate interplay between political and economic factors that influence labor immigration.

This dissertation has also highlighted the significant lobbying capabilities of MNCs and their proactive lobbying of the government to achieve their preferred policy outcomes. The analysis focused on whether firms engaged in lobbying and provided a straightforward measure to model against the outcomes of interest, but it overlooked crucial aspects such as who the targeted lobbying parties are, the strategies employed, and the specific policy objectives sought by the firms. By delving into the lobbying reports in greater detail, there is an opportunity to identify the specific entities targeted by the lobbying firms (e.g., the United States Citizenship and Immigration Services (USCIS), the Department of Homeland Security (DHS)) and the particular policies advocated for (e.g., H-1B visas) (Haeder and Yackee, 2015). This detailed examination will not only elucidate the varying influence and significance of different political institutions in the lobbying process but also provide insights into the specific labor immigration policies that firms find beneficial. This could further inform our understanding of the potential trajectory of labor immigration policies in the future.

Lastly, future studies can also more comprehensively examine the specific elements that contribute to MNCs being more inclined and capable of influencing policymakers, in immigration and other policy domains, when compared to their domestic counterparts. This dissertation posits that the

larger size and lower borrowing costs of MNCs augment their willingness and ability to engage in lobbying activities. However, preliminary analysis suggests that even after factoring in these firm characteristics, there is something unique about multinational firms that amplifies their propensity to lobby, potentially also leading to a higher allocation of resources for lobbying efforts. This distinctive attribute might be associated with the multinational nature of these firms, possibly stemming from heightened global competition compelling them to pursue favorable policy outcomes, or the ability to mobilize capital from a more extensive array of sources. An in-depth exploration will provide valuable insights into the unique features of such firms and their consequential influence on various political outcomes.

In conclusion, this dissertation makes a valuable contribution to our understanding of the interplay between two seemingly disparate policies by illustrating their association through the preferences and behavior of firms, with a particular emphasis on MNCs. By examining the relationship between monetary policy and labor immigration policy, the study delves into the intricate dynamics that connect these domains and highlights the interconnectedness of various policy areas. The research also underscores the significant role that multinationals play in shaping national policies. As they continue to expand their global reach and power in the international economy, they are poised to exert considerable and sustained influence in policymaking. It remains to be seen how labor immigration policies will develop in response to the changing preferences of various economic agents and their relative ability to influence the political and policymaking processes.

APPENDIX A

ADDITIONAL REGRESSION TABLES

Table A.1: Trends in MNC Borrowing Costs and Future (T+2) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change Two Periods Ahead (T+2)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MNC 2MA	-0.200** (0.092)	-0.175*** (0.066)						
MNC 3MA			-0.252** (0.100)	-0.200*** (0.064)				
MNC 4MA					-0.310*** (0.102)	-0.257*** (0.059)		
MNC 5MA							-0.291** (0.136)	-0.247*** (0.076)
Gov Expenditure	0.077 (0.060)	0.121*** (0.040)	0.081 (0.061)	0.120*** (0.039)	0.110* (0.063)	0.129*** (0.041)	0.120* (0.061)	0.133*** (0.041)
REER	0.005 (0.009)	0.004 (0.005)	0.004 (0.009)	0.004 (0.006)	0.004 (0.009)	0.004 (0.005)	0.003 (0.009)	0.005 (0.007)
GDP Growth	-0.051 (0.034)	-0.063** (0.026)	-0.051 (0.033)	-0.062** (0.025)	-0.060* (0.035)	-0.070*** (0.025)	-0.056 (0.036)	-0.066** (0.026)
GDP per capita	0.079 (1.043)	-0.638** (0.261)	0.026 (1.052)	-0.599** (0.252)	0.062 (0.974)	-0.647** (0.258)	0.052 (1.118)	-0.549* (0.293)
Trade Openness	0.017** (0.007)	0.001 (0.001)	0.018** (0.007)	0.0005 (0.001)	0.019*** (0.007)	0.001 (0.001)	0.022*** (0.007)	0.001 (0.001)
FDI Outflow	-0.0002 (0.009)	-0.0002 (0.009)	-0.0001 (0.009)	0.0003 (0.009)	0.001 (0.009)	0.001 (0.009)	-0.003 (0.012)	-0.002 (0.011)
Unemployment	-0.065 (0.054)	-0.043** (0.021)	-0.062 (0.054)	-0.035 (0.023)	-0.049 (0.052)	-0.042* (0.024)	-0.041 (0.052)	-0.041 (0.026)
Union Membership	0.032*** (0.009)	-0.004 (0.004)	0.031*** (0.011)	-0.005 (0.004)	0.028** (0.012)	-0.003 (0.004)	0.023 (0.017)	-0.003 (0.005)
Political Constraints		-0.446 (1.074)		-0.530 (1.066)		-0.471 (1.143)		-0.564 (1.116)
Right Wing Legislature		0.206 (0.192)		0.158 (0.191)		0.201 (0.200)		0.204 (0.201)
Political Participation		2.011 (2.620)		1.753 (2.526)		1.825 (2.508)		1.499 (2.668)
Central Bank Independence		0.870*** (0.334)		0.827** (0.335)		0.898** (0.358)		0.953** (0.399)
Coordinated Wage Bargaining		-0.086 (0.088)		-0.063 (0.093)		-0.095 (0.094)		-0.105 (0.096)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	716	619	710	613	697	600	680	583
χ^2	130.377***	65.791***	130.484***	66.086***	128.790***	66.297***	128.802***	63.196***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.2: Trends in MNC Borrowing Costs and Future (T+3) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change Three Periods Ahead (T+3)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MNC 2MA	-0.189** (0.083)	-0.170** (0.073)						
MNC 3MA			-0.159* (0.090)	-0.123* (0.070)				
MNC 4MA					-0.166* (0.097)	-0.137** (0.068)		
MNC 5MA							-0.294** (0.121)	-0.231*** (0.078)
Gov Expenditure	-0.013 (0.036)	0.0003 (0.036)	-0.013 (0.034)	-0.001 (0.036)	0.001 (0.036)	-0.008 (0.038)	0.004 (0.035)	-0.007 (0.037)
REER	0.010 (0.008)	0.003 (0.006)	0.012 (0.008)	0.003 (0.006)	0.011 (0.008)	0.004 (0.006)	0.014* (0.008)	0.006 (0.006)
GDP Growth	-0.006 (0.044)	-0.005 (0.037)	-0.002 (0.043)	-0.001 (0.036)	0.004 (0.044)	0.008 (0.036)	0.015 (0.043)	0.013 (0.035)
GDP per capita	0.070 (0.973)	-0.656*** (0.210)	0.217 (0.985)	-0.551** (0.225)	0.367 (0.969)	-0.506** (0.226)	0.110 (0.936)	-0.544** (0.232)
Trade Openness	0.017** (0.008)	-0.001 (0.001)	0.018** (0.008)	-0.001 (0.001)	0.021*** (0.007)	-0.001 (0.001)	0.021*** (0.007)	-0.0004 (0.001)
FDI Outflow	0.002 (0.011)	0.003 (0.008)	0.002 (0.011)	0.002 (0.007)	0.0003 (0.010)	0.001 (0.007)	-0.00004 (0.010)	0.001 (0.008)
Unemployment	-0.064 (0.048)	-0.049** (0.022)	-0.056 (0.047)	-0.047** (0.022)	-0.053 (0.046)	-0.040* (0.024)	-0.041 (0.049)	-0.042* (0.025)
Union Membership	0.023** (0.010)	-0.006 (0.004)	0.026** (0.011)	-0.006 (0.004)	0.023* (0.013)	-0.007* (0.004)	0.026* (0.015)	-0.006 (0.004)
Political Constraints		-1.450 (0.895)		-1.693* (0.895)		-1.820** (0.889)		-2.103** (0.976)
Right Wing Legislature		0.059 (0.194)		0.075 (0.190)		0.021 (0.193)		0.085 (0.194)
Political Participation		1.889 (2.362)		1.551 (2.407)		1.320 (2.350)		1.265 (2.290)
Central Bank Independence		0.806** (0.333)		0.857** (0.350)		0.835** (0.364)		0.865** (0.403)
Coordinated Wage Bargaining		0.048 (0.084)		0.061 (0.088)		0.091 (0.093)		0.071 (0.093)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	716	619	710	613	697	600	680	583
χ^2	151.100***	59.278***	146.650***	55.724***	144.224***	55.301***	133.034***	52.163***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.3: Trends in Domestic Firm Borrowing Costs and Future (T+1) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change One Period Ahead (T+1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Domestic 2MA	0.025 (0.115)	-0.133 (0.099)						
Domestic 3MA			0.069 (0.120)	-0.141 (0.107)				
Domestic 4MA					0.048 (0.140)	-0.167 (0.112)		
Domestic 5MA							0.006 (0.129)	-0.162* (0.094)
Gov Expenditure	0.003 (0.048)	0.088* (0.052)	-0.0002 (0.048)	0.086 (0.053)	0.003 (0.050)	0.086 (0.054)	0.001 (0.054)	0.088 (0.056)
REER	0.007 (0.009)	0.008 (0.006)	0.006 (0.010)	0.008 (0.006)	0.005 (0.010)	0.008 (0.007)	0.005 (0.011)	0.008 (0.007)
GDP Growth	-0.013 (0.035)	-0.037 (0.026)	-0.012 (0.036)	-0.037 (0.026)	-0.009 (0.037)	-0.033 (0.026)	-0.011 (0.038)	-0.030 (0.026)
GDP per capita	1.365 (0.899)	-0.455** (0.215)	1.388 (0.938)	-0.461** (0.213)	1.331 (1.011)	-0.418* (0.225)	1.062 (1.071)	-0.464** (0.217)
Trade Openness	0.0005 (0.004)	0.001 (0.001)	0.00003 (0.004)	0.001 (0.001)	-0.0001 (0.004)	0.001 (0.001)	0.001 (0.004)	0.0005 (0.001)
FDI Outflow	-0.017** (0.009)	-0.010 (0.006)	-0.017** (0.009)	-0.011 (0.006)	-0.018** (0.008)	-0.011* (0.007)	-0.017* (0.009)	-0.010 (0.007)
Unemployment	-0.031 (0.050)	-0.047** (0.020)	-0.029 (0.050)	-0.050** (0.021)	-0.026 (0.051)	-0.045** (0.022)	-0.031 (0.052)	-0.048** (0.022)
Union Membership	0.007 (0.016)	-0.005 (0.005)	0.005 (0.016)	-0.004 (0.005)	0.002 (0.018)	-0.005 (0.005)	0.003 (0.019)	-0.003 (0.005)
Political Constraints		-0.272 (0.795)		-0.250 (0.814)		-0.349 (0.810)		-0.476 (0.832)
Right Wing Legislature		0.103 (0.201)		0.133 (0.210)		0.104 (0.215)		0.129 (0.219)
Political Participation		1.391 (2.395)		1.378 (2.387)		1.075 (2.334)		0.875 (2.335)
Central Bank Independence		1.078** (0.420)		1.169*** (0.420)		1.178*** (0.430)		1.175*** (0.434)
Coordinated Wage Bargaining		-0.102 (0.083)		-0.118 (0.087)		-0.101 (0.091)		-0.111 (0.090)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	723	626	716	619	708	611	695	598
χ^2	128.197***	70.923***	123.616***	68.458***	122.559***	67.960***	118.251***	65.275***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.4: Trends in Domestic Firm Borrowing Costs and Future (T+2) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change Two Periods Ahead (T+2)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Domestic 2MA	0.031 (0.119)	-0.090 (0.099)						
Domestic 3MA			-0.012 (0.118)	-0.146 (0.101)				
Domestic 4MA					0.015 (0.117)	-0.141 (0.098)		
Domestic 5MA							-0.023 (0.106)	-0.141* (0.080)
Gov Expenditure	0.066 (0.060)	0.099*** (0.032)	0.067 (0.060)	0.102*** (0.031)	0.076 (0.060)	0.106*** (0.032)	0.079 (0.061)	0.108*** (0.031)
REER	0.003 (0.008)	0.006 (0.005)	0.002 (0.008)	0.006 (0.006)	0.002 (0.008)	0.006 (0.006)	0.0004 (0.009)	0.007 (0.006)
GDP Growth	-0.043 (0.035)	-0.054** (0.025)	-0.044 (0.034)	-0.055** (0.023)	-0.052 (0.036)	-0.061*** (0.023)	-0.054 (0.038)	-0.058** (0.025)
GDP per capita	1.051 (0.915)	-0.426* (0.253)	0.979 (0.933)	-0.373 (0.247)	0.923 (0.955)	-0.406 (0.252)	0.761 (1.006)	-0.361 (0.273)
Trade Openness	0.001 (0.003)	0.0003 (0.001)	0.001 (0.003)	0.0001 (0.001)	0.0004 (0.003)	0.0001 (0.001)	0.0002 (0.004)	-0.00001 (0.001)
FDI Outflow	0.001 (0.008)	-0.002 (0.010)	0.001 (0.008)	-0.002 (0.009)	0.002 (0.008)	-0.001 (0.009)	-0.001 (0.010)	-0.003 (0.011)
Unemployment	-0.044 (0.061)	-0.049** (0.024)	-0.042 (0.062)	-0.043* (0.026)	-0.037 (0.062)	-0.046* (0.026)	-0.043 (0.063)	-0.047* (0.026)
Union Membership	0.020* (0.011)	-0.004 (0.004)	0.018 (0.012)	-0.004 (0.004)	0.017 (0.012)	-0.004 (0.004)	0.012 (0.015)	-0.003 (0.004)
Political Constraints		-0.422 (1.071)		-0.557 (1.040)		-0.492 (1.077)		-0.691 (1.004)
Right Wing Legislature		0.227 (0.191)		0.197 (0.190)		0.232 (0.202)		0.212 (0.204)
Political Participation		1.175 (2.517)		0.811 (2.381)		0.779 (2.401)		0.459 (2.412)
Central Bank Independence		1.043*** (0.353)		1.033*** (0.356)		1.119*** (0.362)		1.168*** (0.379)
Coordinated Wage Bargaining		-0.084 (0.088)		-0.068 (0.096)		-0.088 (0.097)		-0.096 (0.096)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	723	626	716	619	708	611	695	598
χ^2	122.144***	63.987***	119.293***	64.299***	114.477***	62.599***	111.478***	61.291***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.5: Trends in Domestic Firm Borrowing Costs and Future (T+3) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change Three Periods Ahead (T+3)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Domestic 2MA	0.069 (0.110)	-0.122 (0.098)						
Domestic 3MA			0.074 (0.100)	-0.102 (0.097)				
Domestic 4MA					0.064 (0.093)	-0.121 (0.095)		
Domestic 5MA							0.061 (0.076)	-0.097 (0.073)
Gov Expenditure	-0.0001 (0.036)	0.004 (0.038)	-0.003 (0.035)	0.005 (0.038)	-0.003 (0.036)	0.003 (0.038)	0.003 (0.035)	0.006 (0.038)
REER	0.006 (0.007)	0.005 (0.006)	0.008 (0.007)	0.005 (0.006)	0.007 (0.008)	0.006 (0.006)	0.009 (0.008)	0.007 (0.006)
GDP Growth	-0.004 (0.048)	-0.0005 (0.037)	-0.002 (0.047)	0.001 (0.036)	0.001 (0.048)	0.008 (0.036)	0.004 (0.048)	0.010 (0.035)
GDP per capita	1.183 (1.034)	-0.467* (0.242)	1.301 (1.000)	-0.413* (0.236)	1.314 (0.995)	-0.343 (0.238)	1.265 (1.018)	-0.315 (0.236)
Trade Openness	-0.001 (0.004)	-0.001 (0.001)	-0.001 (0.004)	-0.001 (0.001)	-0.001 (0.004)	-0.001 (0.001)	-0.001 (0.004)	-0.001 (0.001)
FDI Outflow	0.004 (0.012)	0.002 (0.007)	0.003 (0.012)	0.001 (0.007)	0.003 (0.012)	0.00004 (0.007)	0.003 (0.012)	0.001 (0.008)
Unemployment	-0.035 (0.053)	-0.051** (0.024)	-0.032 (0.052)	-0.048** (0.023)	-0.031 (0.052)	-0.042* (0.024)	-0.017 (0.053)	-0.038 (0.024)
Union Membership	0.009 (0.013)	-0.006 (0.004)	0.012 (0.015)	-0.006 (0.004)	0.009 (0.017)	-0.007 (0.005)	0.010 (0.017)	-0.007 (0.004)
Political Constraints		-1.423 (0.902)		-1.691* (0.890)		-1.830** (0.886)		-2.080** (0.931)
Right Wing Legislature		0.090 (0.194)		0.105 (0.192)		0.063 (0.194)		0.117 (0.199)
Political Participation		1.111 (2.484)		1.022 (2.519)		0.730 (2.458)		0.593 (2.488)
Central Bank Independence		0.960*** (0.319)		0.966*** (0.339)		0.949*** (0.347)		0.971*** (0.358)
Coordinated Wage Bargaining		0.041 (0.088)		0.054 (0.091)		0.083 (0.098)		0.079 (0.101)
time_trend		0.047*** (0.015)		0.047*** (0.015)		0.047*** (0.015)		0.043*** (0.015)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	723	626	716	619	708	611	695	598
χ^2	142.273***	59.473***	137.800***	56.546***	134.117***	57.510***	121.974***	51.513***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.6: Trends in Real Interest Rates and Future (T+1) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change One Period Ahead (T+1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
RIR 2MA	-0.088** (0.042)	-0.059 (0.042)						
RIR 3MA			-0.087 (0.054)	-0.086 (0.053)				
RIR 4MA					-0.095 (0.072)	-0.074 (0.061)		
RIR 5MA							-0.049 (0.083)	-0.048 (0.063)
Gov Expenditure	0.014 (0.045)	0.077 (0.051)	0.018 (0.045)	0.075 (0.053)	0.004 (0.044)	0.070 (0.054)	0.001 (0.045)	0.074 (0.055)
REER	0.015 (0.012)	0.007 (0.007)	0.014 (0.012)	0.006 (0.007)	0.016 (0.012)	0.006 (0.007)	0.015 (0.012)	0.005 (0.007)
GDP Growth	0.016 (0.031)	-0.033 (0.025)	0.021 (0.030)	-0.035 (0.025)	0.035 (0.032)	-0.027 (0.026)	0.024 (0.030)	-0.034 (0.029)
GDP per capita	-1.292 (1.278)	-0.553** (0.270)	-1.230 (1.321)	-0.505** (0.253)	-0.775 (1.364)	-0.488* (0.266)	-0.865 (1.493)	-0.468* (0.261)
Trade Openness	0.020** (0.009)	0.001 (0.001)	0.020** (0.008)	0.002 (0.001)	0.019** (0.008)	0.001 (0.001)	0.020** (0.008)	0.001 (0.001)
FDI Outflow	-0.018** (0.008)	-0.010 (0.007)	-0.018** (0.008)	-0.011 (0.007)	-0.016** (0.008)	-0.010 (0.008)	-0.014* (0.008)	-0.006 (0.008)
Unemployment	-0.053 (0.053)	-0.040* (0.024)	-0.050 (0.057)	-0.036 (0.024)	-0.048 (0.060)	-0.036 (0.025)	-0.074 (0.065)	-0.041* (0.024)
Union Membership	0.025** (0.011)	-0.007 (0.005)	0.025** (0.010)	-0.006 (0.005)	0.027** (0.011)	-0.006 (0.005)	0.025* (0.013)	-0.005 (0.005)
Political Constraints		-0.084 (0.915)		-0.174 (0.931)		-0.149 (0.916)		-0.284 (0.906)
Right Wing Legislature		0.143 (0.202)		0.158 (0.209)		0.169 (0.215)		0.183 (0.218)
Political Participation		0.889 (2.898)		1.052 (2.793)		1.254 (2.815)		1.127 (2.811)
Central Bank Independence		0.976** (0.425)		0.932** (0.440)		0.916** (0.418)		0.899** (0.417)
Coordinated Wage Bargaining		-0.073 (0.089)		-0.081 (0.090)		-0.081 (0.089)		-0.076 (0.087)
time_trend		0.038*** (0.014)		0.033** (0.013)		0.035** (0.014)		0.038*** (0.014)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	716	611	705	601	695	592	683	581
χ^2	146.436***	66.564***	136.404***	63.468***	134.866***	59.174***	131.431***	55.600***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.7: Trends in Real Interest Rates and Future (T+2) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change Two Periods Ahead (T+2)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
RIR 2MA	-0.088** (0.042)	-0.059 (0.042)						
RIR 3MA			-0.087 (0.054)	-0.086 (0.053)				
RIR 4MA					-0.095 (0.072)	-0.074 (0.061)		
RIR 5MA							-0.049 (0.083)	-0.048 (0.063)
Gov Expenditure	0.014 (0.045)	0.077 (0.051)	0.018 (0.045)	0.075 (0.053)	0.004 (0.044)	0.070 (0.054)	0.001 (0.045)	0.074 (0.055)
REER	0.015 (0.012)	0.007 (0.007)	0.014 (0.012)	0.006 (0.007)	0.016 (0.012)	0.006 (0.007)	0.015 (0.012)	0.005 (0.007)
GDP Growth	0.016 (0.031)	-0.033 (0.025)	0.021 (0.030)	-0.035 (0.025)	0.035 (0.032)	-0.027 (0.026)	0.024 (0.030)	-0.034 (0.029)
GDP per capita	-1.292 (1.278)	-0.553** (0.270)	-1.230 (1.321)	-0.505** (0.253)	-0.775 (1.364)	-0.488* (0.266)	-0.865 (1.493)	-0.468* (0.261)
Trade Openness	0.020** (0.009)	0.001 (0.001)	0.020** (0.008)	0.002 (0.001)	0.019** (0.008)	0.001 (0.001)	0.020** (0.008)	0.001 (0.001)
FDI Outflow	-0.018** (0.008)	-0.010 (0.007)	-0.018** (0.008)	-0.011 (0.007)	-0.016** (0.008)	-0.010 (0.008)	-0.014* (0.008)	-0.006 (0.008)
Unemployment	-0.053 (0.053)	-0.040* (0.024)	-0.050 (0.057)	-0.036 (0.024)	-0.048 (0.060)	-0.036 (0.025)	-0.074 (0.065)	-0.041* (0.024)
Union Membership	0.025** (0.011)	-0.007 (0.005)	0.025** (0.010)	-0.006 (0.005)	0.027** (0.011)	-0.006 (0.005)	0.025* (0.013)	-0.005 (0.005)
Political Constraints		-0.084 (0.915)		-0.174 (0.931)		-0.149 (0.916)		-0.284 (0.906)
Right Wing Legislature		0.143 (0.202)		0.158 (0.209)		0.169 (0.215)		0.183 (0.218)
Political Participation		0.889 (2.898)		1.052 (2.793)		1.254 (2.815)		1.127 (2.811)
Central Bank Independence		0.976** (0.425)		0.932** (0.440)		0.916** (0.418)		0.899** (0.417)
Coordinated Wage Bargaining		-0.073 (0.089)		-0.081 (0.090)		-0.081 (0.089)		-0.076 (0.087)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	716	611	705	601	695	592	683	581
χ^2	146.436***	66.564***	136.404***	63.468***	134.866***	59.174***	131.431***	55.600***

Note:

*p<0.1; **p<0.05; ***p<0.01

Table A.8: Trends in Real Interest Rates and Future (T+3) Labor Immigration Policy Changes

	DV: Labor Immigration Policy Change Three Periods Ahead (T+3)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
RIR 2MA	-0.079 (0.053)	-0.008 (0.027)						
RIR 3MA			-0.110* (0.056)	-0.028 (0.025)				
RIR 4MA					-0.137** (0.056)	-0.021 (0.042)		
RIR 5MA							-0.150** (0.067)	-0.057 (0.046)
Gov Expenditure	-0.009 (0.035)	-0.010 (0.040)	-0.023 (0.038)	-0.017 (0.039)	-0.015 (0.038)	-0.010 (0.039)	-0.020 (0.037)	-0.009 (0.039)
REER	0.014 (0.009)	0.002 (0.006)	0.018* (0.010)	0.001 (0.006)	0.018* (0.009)	0.003 (0.007)	0.018* (0.010)	0.003 (0.007)
GDP Growth	0.029 (0.040)	0.020 (0.036)	0.043 (0.040)	0.025 (0.037)	0.044 (0.041)	0.024 (0.036)	0.046 (0.044)	0.018 (0.035)
GDP per capita	-0.686 (1.111)	-0.543** (0.216)	-0.838 (1.270)	-0.616*** (0.233)	-1.242 (1.242)	-0.593** (0.260)	-1.070 (1.227)	-0.602** (0.257)
Trade Openness	0.016** (0.008)	-0.001* (0.001)	0.015* (0.008)	-0.002** (0.001)	0.016** (0.008)	-0.002 (0.001)	0.016* (0.008)	-0.001 (0.001)
FDI Outflow	-0.001 (0.011)	-0.0001 (0.007)	-0.001 (0.011)	0.001 (0.008)	-0.002 (0.013)	-0.001 (0.008)	-0.001 (0.014)	-0.001 (0.009)
Unemployment	-0.052 (0.057)	-0.057** (0.024)	-0.048 (0.065)	-0.055** (0.025)	-0.041 (0.065)	-0.053* (0.027)	-0.048 (0.067)	-0.053* (0.027)
Union Membership	0.021* (0.011)	-0.007 (0.004)	0.018 (0.011)	-0.007* (0.004)	0.010 (0.011)	-0.008* (0.005)	0.013 (0.011)	-0.007 (0.005)
Political Constraints		-1.374 (0.894)		-1.284 (0.901)		-1.206 (0.915)		-1.235 (0.924)
Right Wing Legislature		0.097 (0.191)		0.079 (0.196)		0.060 (0.199)		0.062 (0.198)
Political Participation		0.173 (2.576)		-0.160 (2.630)		-0.139 (2.667)		-0.095 (2.556)
Central Bank Independence		1.073*** (0.320)		1.074*** (0.318)		1.028*** (0.332)		0.993*** (0.341)
Coordinated Wage Bargaining		0.064 (0.088)		0.079 (0.090)		0.080 (0.090)		0.073 (0.091)
Country Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Time Fixed Effects	Yes	No	Yes	No	Yes	No	Yes	No
Observations	714	609	703	599	693	590	681	579
χ^2	149.196***	56.026***	152.263***	57.629***	151.163***	56.803***	146.259***	53.423***

Note:

*p<0.1; **p<0.05; ***p<0.01

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