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Migration and Economic Impacts: Pros & Cons

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Abstract

Economic integration GLOBALLY has proceeded rapidly over the last two decades. But the situation has been very different across this dimensions – immigration, trade, capital movements. The barriers to immigration have always remained higher[i]. Part as a result, much less is known about the impacts of illegal or legal migration than the other dimensions, and specifically about the impact, both on receiving and sending countries, of lowering barriers to the movement of people, particularly those moving from very poor to rich countries. The aim of this short discussion paper is to review the recent studies, and gaps in knowledge, concerning the economic impact of migration liberalisation, and to suggest some potential implications for policy and some solutions – decisions in the near future.

Globalisation, Migration and TRADE

Classical economic theory shows that international trade labour movements can substitute each other rather than being complements[ii]. Under perfect conditions labour could either export labour-intensive manufactured goods or migrate and produce the goods in the destination country. When trade flows freely, prices of identical factors are equalised and there is no incentive for labour (or capital) to move across borders.

However, this result is sensitive to certain assumptions and in some circumstances lowering barriers to labour migration could lead to an increase in trade[iii]. Empirical work is inconclusive, but it seems likely that an expansion of migration flows between countries is likely to lead to an expansion of trade flows, and vice versa, if only for political economy reasons (e.g. the EU, NAFTA).

Migration Liberalisation – POTENTIAL GAINS

In the cases where productivity between countries differs, barriers to labour movements lead to differences in the marginal product of labour, creating an incentive for workers to move from low to high productivity locations. It follows that the removal of migration barriers could generate long run efficiency gains[iv]. A number of studies have tried to estimate the potential gains from the liberalisation of international migration[v], but more work is needed.

Given the theoretical similarities between trade and migration, and given that barriers to migration are significantly larger than those to trade, the potential gains are extremely large, and much larger than those from further trade liberalisation. One study estimated that by removing all the barriers to migration world GDP could more than double[vi]. Others have shown that even a partial decrease in labour barriers can still yield high gains in terms of GDP[vii].

For example, the opening of EU labour markets to new member states over the last decade shows small, but positive, overall impacts on GDP per capita in the long run for receiving countries[viii].

Even these studies tend to assume that the gains from migration accrue solely from factor price equalisation arising from movements of labour between countries. If there are additional impacts on productivity resulting from other associated benefits (see below), then the impacts could be even larger. Cross-country analysis confirms this: a recent study of the effect of openness to immigration found that an increase in the foreign-born share of a population is associated with an increase in income per person[ix]. However, the association between openness to migration and growth is much stronger, especially in the long run, than the association with openness to trade[x].

There is clearly a strong case for re-examining the attention given to migration as a driver of economic growth.

The political economy of migration policy

Over the last century, liberalisation of trade has proceeded much faster than liberalisation of migration[xi]. Indeed, in recent decades, while average trade tariffs have continued to fall, migration policies have become more restrictive[xii]. Immigration policies used to be more liberal at the beginning of the 20th century, while over the last decade public policies seem to be more oriented towards restricting migration.

Economic theory can help explain why trade liberalisation is preferred to migration liberalisation: there may have been a belief among public and policymakers that reducing trade barriers is a substitute for international migration. However, given the persistent large differences in average income between countries, both the incentive for and the potential gains from greater migration remain large. While the difference is often explained by concerns over the distributional implications of migration, in particular the potential impact on inequality and employment (see below), it remains something of a puzzle that while trade liberalisation should have similar effects, both policy makers and public opinion are generally far more positive about trade liberalisation[xiii].

This policy divergence seems to reflect public attitudes, as reflected by cross-country analysis and differences in perception of trade and migration. This might be because of visibility or salience effects: one study found that a higher percentage of foreign nationals in the population has a negative effect on opinions towards migration, while a high percentage of imports in GNP has no significant impact on the attitudes towards limiting imports[xiv]. A 2008 study of in-country variation of individual attitudes explains why some people are more pro-trade than pro-migration[xv]. A divide exists between the views of individuals working in service sectors (i.e. non-traded sectors) and traded sectors: working in a service sector increases the probability of being pro-trade but this difference does not impact attitudes towards migration. Thus workers in service sectors appear to feel shielded from foreign competition in trade but not from foreign competition in labour.

Impact on Labour Markets

The last two decades much empirical research has focused on the effect of immigration on labour markets, and in particular the impact of immigration on the wages and employment opportunities of native workers. Perhaps surprisingly, there is no consensus on even the most basic prediction: with a competitive labour market, immigration of workers should reduce wages for similar native workers of a particular skill level[xvi].

However, to the extent that there is a theme to the recent literature, it is that immigration does not have a negative impact wages[xvii]. For example, a 2012 study found that 10% rise in the population share of immigrants is estimated to increase native workers' wages by around 2% over wages of migrants[xviii].

Similarly, there is little evidence of a negative impact of immigration on employment opportunities for native workers. An influential study of the arrival of Cuban immigrants in the early 1980s showed that the Miami labour market adjusted very quickly[xix]. Similarly, a study in the UK concluded that immigration had no significant effect on the overall employment outcomes of UK-born workers[xx]. The study did, however, find some effects on specific groups of native workers. An increase in immigration would lead to a decrease in employment for workers with secondary school qualifications, but to an increase in employment for those with higher education. Recent empirical evidence investigating the effect of immigration on unemployment of UK-born workers found little or no impact[xxi]. All this suggests that flexible labour markets can adjust quickly to large immigrant inflows, and that concerns about the impact of immigration are not reflected in empirical evidence.

More generally, the impacts of immigration on the labour market will depend on the skills of migrants, the skills of existing workers, and the characteristics of the host economy[xxii]. An investigation into the effect of immigration on relative wages in Canada, Mexico and the US found that the impact differs significantly across the three countries, confirming the fact that different migration policies attract immigrants with different skills, having different effects on the wage structure[xxiii].

These results also have implications for wage inequality. The results suggest that migration reduced wage inequality in Canada, while it contributed to increased wage inequality in the US, although a study of cities within the US, found evidence that the impact on inequality is small and not causal[xxiv]. In similar vein, a long term comparison of the US and the UK of the impact of immigration on wage inequality, found that the increasing share of immigrants does not meaningfully contribute to the increase in wage inequality[xxv]. However, differences in methodology may explain these contrasting results and more work is needed. Meanwhile, migrant-sending countries may experience a positive impact on the wages of those remaining. Although data on emigration is generally poor[xxvi], studies have shown positive impacts on Mexican wages resulting from emigration, and that emigration from Poland contributed to a 10% increase in Polish wages[xxvii].

Based on this recent evidence suggesting that the impact of migration on wages, unemployment and inequality are negligible, previous concerns expressed about migration liberalisation should now be revisited and re-evaluated.

Impact on Prices

We can say that if immigration increases the supply of a particular type of labour, it might be expected to reduce prices for goods produced by such workers. A few studies support this hypothesis, although the effects, as with wages, are not large.A study in the US found that low-skilled immigration benefits the native population by decreasing the cost of living, and concluded that, through lower prices, low-skilled immigration brings positive net benefits to the US economy as a whole[xxviii]. Similarly, immigration in regions of the UK has been found to slightly reduce the average price growth of some non-traded goods and services, and that this occurs through a reduction in prices of services dependent on low-paid labour[xxix].

Impact on Innovation and Productivity

More recently, attention has been given to the interplay between immigration, innovation and productivity. Migrants may contribute to growth in output and productivity through different channels. Immigrants could bring different skills and aptitudes and transmit those to non-immigrant colleagues (and vice versa); immigrants could increase the incentive for natives to acquire certain skills by boosting competition; and workplace diversity could increase (or decrease) productivity and innovation.

Evidence on productivity overall is mixed. In the US, estimates tend to find positive productivity impacts, both on labour and other areas[xxx]. However, a study in Israel found no evidence that immigrant share is correlated with productivity[xxxi]. Meanwhile a cross-country comparison found a very large positive impact from openness to migration on productivity[xxxii]. These results strongly suggest that further study is needed to attempt to understand the mechanism by which migration improves productivity.

There is a considerable body of evidence from the US suggesting that immigration is associated with increased innovation and with international trade and knowledge transfer, particularly in high-tech industries[xxxiii]. For example, immigrants are more likely to register patents, and this in turn leads to an increase in patent activity on the part of natives. Similar effects have been found in the UK[xxxiv], and other European countries, showing that a culturally diverse setting, including diversity among foreigners, contributes to the innovativeness of the regions in Europe[xxxv].

It is often hypothesised that immigration reduces the incentive for employees to train native workers. However, in the US immigration has been shown to increase the educational attainment of the native population, possibly as a result of increased competition in the labour market[xxxvi]. Similarly, other studies have found evidence of complementarity, rather than substitution, resulting from labour migration[xxxvii] and that immigrants - particularly highly-skilled immigrants - play a positive role in boosting productivity in skill-intensive industries[xxxviii].

There is also considerable concern in some countries that migrants may flow to countries with generous welfare states, increasing costs and decreasing the political sustainability of welfare. However, there is almost no empirical evidence suggesting that this is the case.

Conclusion

Economic impacts of migration go far beyond the traditional focus on fiscal impacts and labour markets. Both from a policy and an economic perspective, migration and migration policy needs to be examined through a similar analytical lens to policies on trade, capital movements, intellectual property and other aspects of global economic integration. This raises a number of challenges, both practical and conceptual. While much more analysis is needed, many different studies have suggested significant potential gains from migration liberalisation and have provided evidence to counter many of the perceived negative effects of labour migration.

The potential impact of migration liberalisation on growth is considerable and has been unduly overlooked in recent decades. It is therefore puzzling that policymakers and publics see migration and trade liberalisation very differently. There is a compelling case for examining the impact of migration policy as a tool for stimulating economic growth.

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