INT-AR Paper 7 – Macroeconomic effects of labour migration – Ronald Dekker (UvT)

Introduction: what are the relevant effects of labour migration?

In this paper we summarise the macroeconomic outcomes of labour migration as found in the relevant economics literature. The focus is predominantly on the (macro) economic effects for the 'destination' country. The economic effects of interest are on growth, on labour market outcomes and on the use of and contributions to the social security system. In surveying the literature it has proven difficult to make a clear distinction between the effects in general and the effects of labour, asylum, family or student migration in particular. The economics literature with respect to migration is indebted to the work of George Borjas and Barry Chiswick on the effects of migration to the US. However, migration patterns for European countries differ substantially from 'traditional' immigration countries such as the US and Canada. Therefore, we specifically include research on European countries in this paper.

Growth effects

Theoretically and partly in practice, immigration means additional labour supply, which could result in economic growth in the long run. In the short run however, due to decreasing returns to scale, mainstream economists expect a lower growth rate from population growth, thus also from immigration (Dolado et al, 1994). The exact size of these effects is, among other things, determined by the degree of substitution that can take place between migrant workers and the local workforce and the level of (physical or human) capital the migrants bring to the host country (see e.g. Kemnitz, 2001). In a local economy characterised by labour shortages, immigration could boost economic growth, when the new entrants have the required qualifications. On the other hand, in a local economy characterised by a relatively large labour reserve, immigration only leads to more competition for scarce jobs, potentially at the detriment of the labour market perspective of local workers with comparable qualifications. Economic growth is then not a likely result. Not much empirical evidence is found for (positive or negative) effects on economic growth in the literature. Besides, most of the empirical literature focuses on the growth effect of migration in the country of origin; with some evidence that labour migration has positive effects on economic growth in the country of origin (e.g. Dos Santos & Postel-Vinay, 2003). In studies with a focus on the host country the causality of the effect runs the other way: economic growth leads to immigration and not the other way round (Morley, 2006; Islam et al, 2012) but the effects of migration on economic growth in the receiving country are at best ambiguous.

(Un)employment effects and wages

The effects of labour immigration on the labour market are related to the impact on economic growth. For labour market effects a comparison between the relative levels of human capital of local and migrant workers is relevant, next to what extent migrants are complements or substitutes to the local labour force. The theoretical literature does not establish definitive conclusions on labour market outcomes because of the heterogeneity of features of migration and the specificity of the host country (Danette & Fromentin, 2013). Furthermore, related to labour market outcomes, it's crucial to think about distributional effects: who gains and who loses from immigration, and this depends critically on the skill mix of migrants relative to local workers (Dustmann, 2008). Also, theoretical predictions of the impact of immigration on the wages of local workers depend upon the assumptions used. The most important assumptions are whether the host economy is open or closed to international trade and the degree of substitutability between migrants and local workers (Friedberg & Hunt, 1995). Another important question in the migration literature is about assimilation: the extent to which labour market success becomes comparable with that of local workers as migrants spend time in their new country (Kerr & Kerr, 2011, Bart et al, 2004, referring to Chiswick, 1978, Borjas, 1999 and Bauer, Lofstrom and Zimmerman, 2000).

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In a study for 18 OECD countries no significant long-term impact was found on unemployment, but it was found that 'immigration may have a temporary impact on natives' unemployment, depending upon the policy framework. In particular, a temporary increase in unemployment may be observed in a context of stringent anticompetitive product market regulation, or of high replacement rates of unemployment benefits' (Jean & Jimenez, 2011). A panel study including 14 OECD countries concluded that an increase of migrants is likely to decrease wages in the destination countries in the long term although this impact seems to reverse in the case of Anglo-Saxon countries (Damette & Fromentin, 2013). Moreover, there is no evidence of adverse effects on unemployment in the long run, as yet outlined by Gross (2004) in the Canada case and Ghatak and Moore's (2007) study of European countries. The findings of Damette & Fromentin (2013) are largely consistent with recent studies that used different methodologies (Ortega and Verdugo (2009) for France and Card (2009) for the United States and in particular with Okkerse's conclusion (2008): the probability that migrants increase unemployment is low in the short term and zero in the long term.
Despite institutional differences, the results in Damette & Fromentin (2013) confirm that migration flows have no substantive adverse impact on the labour market of developed countries. Immigration is not the cause of higher unemployment rates in developed countries since the nineteen eighties. With respect to wage assimilation, Lehmer & Ludsteck (2015) conclude on the basis of German data that 'the raw wage gap of migrants compared to native Germans decreases by 14 log percentage points in the first eight years.' Furthermore they conclude that there are large differences between different immigrant groups.

Social security effects

Related labour migration effects on social security, the economics literature distinguishes between 'pension systems' on the one hand and social benefit systems for risks such as unemployment, sickness, disability and social assistance on the other hand. In the policy debate this is the distinction between 'we need migrants to increase the workforce to pay for pensions' and 'migrants just come to our country to claim benefits'. Given the effects on labour market outcomes, the effects for both these claims are likely to be limited. Besides, migrants cannot 'claim benefits' and 'steal our jobs' at the same time. Nor is it possible that they are a solution for labour market shortages and a burden to the social security system at the same time.
Research on migration and (the financial sustainability of) pension systems suggests that the effects on the contribution rates of the social security system are quite small (Felderer, 1994; Börsch-Supan, 2000, based on German data).
With respect to the question whether migrants disproportional use social security benefits and/or welfare programs the primary source is the work by Borjas (1999). According to him, an important economic issue in the historical debate on immigration policy in the United States is whether migrants find their way in the welfare system. He argues that in the US, migrants receive a disproportionately large share of the welfare benefits distributed. Nannestad (2007) states that the effect on welfare state dependency depends on three factors: (i) the age and gender composition of the immigrant group, (ii) the migrants' degree of labour market absorption, and (iii) the entitlement structure of the welfare system. Since migrants tend to be less well-integrated into the labour markets of welfare states offering generous benefit levels, and since these welfare states also tend to have quite lenient eligibility criteria for many welfare programs, migrants should be expected to be a heavier burden on welfare programs, especially unemployment benefits and social transfers, in the more than in the less generous welfare states.
Boeri (2010) finds no evidence that legal migrants, notably skilled migrants, are net recipients of transfers from the state. However, there is evidence of 'residual dependency' on non-contributory transfers and self-selection of unskilled migrants in the countries with the most generous welfare states. In a more recent study Barrett & Maitre (2012) find very little evidence that migrants are more likely to receive welfare payments when all payments are considered together. Neither do they find evidence of higher rates of poverty among migrants. It seems fair to conclude that immigration is neither the solution for social security problems (demographic problems for old age pensions) nor, on aggregate level, a major problem for welfare state arrangements (unemployment benefits, social assistance, etc.).

Summary and conclusions

All in all, it seems fair to state that immigration has a relatively small and mild impact on the economies of 'receiving' countries. Very little evidence suggests that migration is detrimental to economic success, whereas

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economic success seems to elicit immigration. Translated to labour market outcomes this means that immigration has limited effects there also: migrants themselves do experience higher unemployment incidence, but immigration itself does not influence the unemployment level in a country a great deal. There is some evidence however that immigration causes higher levels of unemployment (and lower wages) for 'native' workers with similar levels of human capital as migrant workers. For the effects of immigration equity (inequality between higher and lower skilled, between immigrants and 'natives') seems to be a bigger issue than efficiency (macro levels of employment and unemployment).
Finally, the findings on labour market outcomes translate into rather limited effects on social security, either positive or negative. Current levels of immigration are not sufficient to counter the demographic problems that some European countries have with their old age pensions. And there is very little evidence that migrants are substantially overrepresented in welfare arrangements such as unemployment benefits and social assistance schemes. However, in the INT-AR paper number 2, we concluded from another angle that the cross-border mobility of workers has a serious impact on the flexibilisation of the (Dutch) labour market especially through temporary work agencies. If the result is less contributions to the social security schemes, the impact on the financial sustainability of the welfare state will increase in the long run.

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