



Munich Personal RePEc Archive

Principal concerns concentrating on the costs and benefits of immigration in developed countries

Dobra, Alexandra

The University of York, United Kingdom

June 2009

Online at <http://mpra.ub.uni-muenchen.de/16817/>
MPRA Paper No. 16817, posted 16. August 2009 / 16:29

Principal Concerns Concentrating on the Costs and Benefits of Immigration in Developed Countries.

Abstract

The present paper aims to acquaint concisely about the principal concerns surrounding the theme *immigration*, founded in the literature. This acquaintance is ensured through first (comprising the first part of the *corpus*) a global view drawing the portrait of immigrants – by focusing on three main developed countries of immigration: the United Kingdom, Spain and France – and the reasons explaining the immigration phenomenon. Second, (comprising the second part of the *corpus*), an overall focus on the question of assessing, on the one hand the benefits and on the other hand the costs of immigration, through the exploitation of many theories and arguments – especially concentrated on the economic and fiscal aspects - each being illustrated with specific examples of various developed countries – thus giving a frame for intra and inter-continental comparisons and analysis. Lastly (comprising the third part of the *corpus*), this acquaintance is ensured through proceeding to the evaluation and comparison between costs and benefits – by presenting new arguments, more focused on the social and political aspects - in order to seize objectively whether costs overweight benefits or whether not.

Keywords: Immigration; Costs; Benefits; Country of Immigration; Developed Countries; Issues; Consequences; Comparison.

Introduction

This paper presents a bibliographic essay centred on the issues of immigration by assessing both the benefits and the costs for a country of immigration. The aim is the presentation in a succinct, complete and original way of the information in order to endow the reader with a wider knowledge on the subject and hence to allow him/her to have a larger overview of the actual immigration's process and the implied consequences for developed countries.

Each day, each hour, many people are leaving their country with the goal of going to live in another. To use a more plastic way of expression, each day, each hour, individuals are crossing the border of their country for going in another one. For instance, in 2004, the estimated number of immigrants in the world was 170 millions. Henceforth owing this ubiquity of the immigration process, immigration and the consequences surrounding it are taking a central position in today's issues. If expressed in a more scientific terminology, immigration corresponds to a unidirectional movement of a population sample, from a departure country

(usually the country of origin) to a country of arrival. This movement is characterized by the establishment of the population sample in the country of arrival for a period exceeding six months. Hence, immigration is a process in two stages: departure and arrival. This paper examines the various aftermaths of the second stage of this process in terms of benefits and costs for the countries of immigration.

Who immigrates in developed countries? What explains it?

The first point focuses on immigrants' skills. Migrants are heterogeneous, by differing across many dimensions. Labour Force Survey data for 2006 emphasizes that the three most popular sectors for immigrant workers in the UK are public administration, education and health (32%), distribution, hotels and restaurants (21%) and banking, finance and insurance (20%). In addition, although, measuring immigrants' skills and educational qualifications is difficult because of the potential incomparability between foreign and British diplomas, through analysing the age at which people left full-time education it appears that immigrants are generally more skilled than UK- born persons. Bank of England showed that immigrants are concentrated at the extremes of the occupation distribution. For Straubhaar (1998), this polarisation between high and low-skilled migration appears to be a general European-wide phenomenon, suggesting that it reflects general economic and market trends more than country-specific policies. Also, more foreign-born workers are in highly-skilled jobs than UK- born (49% vs. 42%). But EU states immigrants are more concentrated in low-skilled jobs, with 38% in elementary occupations and only 13% in higher skilled occupations. This stresses that for A8 immigrants, there is a significant mismatch between their education and skills and their UK employment. Indeed, Eurostat 2008, seemingly notices that in France in 2002, 42% of European immigrants were working in low-skilled sectors (as simple *workers*), whereas only 10% of them were working in high-skilled sectors.

Another point focuses on the geographical origin. According to the Eurostat (2008), in Spain for instance in 2006, 62% of immigrants came from outside the European Union, embracing especially north Africa and Latin America. In France in 2006, the two principles groups of immigrants came from Algeria (counting 16%) and Morocco (counting 13%). For the UK, the proportion of immigrants originating from ex-colonies is around 50%. According to the Office for National Statistics, the largest single group of immigrants (in 2005) was 121,000 arrivals from "new commonwealth" nations (Pakistan, Bangladesh, India, Sri Lanka). The choice of immigration country therefore still largely reflects geographical proximity and historical ties. Research (Findlay and al 1996) points that a country's patterns of migration linkage will continue to be affected by its historically and geographically specific position in the global hierarchy of investment, trade and finance flows. Hence, it is predictable that countries with a strong colonial past will continue to have massive inflows of immigrants coming from former colonies. Furthermore, Docquier, Lohest and Marfouk (2006) analysed econometrically the determinants of choice of destination of migrants by skill level analysis. It reveals that the main determinants of location choice of migrants are the distance between countries of departure and destination, the colonial and linguistic ties, and the characteristics of countries host: GDP per capita, unemployment rate, social protection. Skilled migrants are more sensitive to geographical distance and the prospects of income whereas unskilled are more sensitive to colonial ties and

social programs. In each developed country, there are significant numbers of migrants from every region of the world. Recent skilled migration linkages show some convergence between the USA and the UK for example in accessing Indian skills in the IT sector, but differences also remain, reflecting Britain's different position and function within the contemporary world economy (Sassen, 1993). Research carried out by the Migration Research Unit has commissioned special tabulation. It divides the developing world into two categories (Indian subcontinent and other developing countries) and shows that in the last 20 years professional and managerial migration from other parts of the developing world was more than three times as great as that from the Indian subcontinent. This partly cancels stereotyping according to which highly skilled immigration to the UK is a phenomenon that centres only on India and its neighbouring states.

Fulfilling and personal cost-advantage calculation is also important in order to know who immigrates. For Detragiache (1998), the population which now presents a higher propensity to move internationally is likely to increase. If aspirations for self-development are not fulfilled within their country of origin as a result of state economic and social development, it is possible that higher pressure for skilled international migration opportunities could emerge. This latter is sustained by analysis of the immigration inflow which shows that many of the professional immigrants could be represented as professional transients (professionals with a migration history indicating a short duration of residence in their place of last residence and with a high probability of further mobility in the near future).

What are the key benefits and costs for a country of immigration ?

Immigration has impacts on wages and unemployment. Despite no obvious positive correlation between immigration and unemployment it is often expressed that immigration leads to higher unemployment and lower wages for the native population. In closed economy, increase in labour supply without compensatory influx of capital creates downward pressure on wages and upward pressure on returns to capital, leading to a reallocation of workers towards the holders of capital. When migrants are changing the average skill level of the workforce, it affects the skill premium. Thus, unskilled immigration contributes to increasing wage inequality between workers and non-qualified graduates, or to increase the unemployment rate for unskilled. In theory, the labour market impact of immigration depends on the comparison between immigrants' skills and native population's skills. Thus immigration can influence the wages of the host region. The argument used is as follows: when wages are flexible, immigration is likely to reduce the remuneration of production factors substitutable to immigrant workers, and increase that of the complementary factors. In this context, some work, mainly carried out on U.S. data, where wages are flexible, demonstrate a degree of substitutability between immigrants and indigenous unskilled workers. But in facts, the distributional impacts are more complex when other factors of production, such as capital, are included in the analysis (Borjas, 1999). However, empirical studies have failed to provide definitive conclusions about the effect of immigration on wages, but most of them conclude that the effect is low (Freidberg and Hunt, 1995).

Nonetheless, empirical studies from the United States fail to find that immigration has harmful effects in terms of raising unemployment in the receiving country (Friedberg and Hunt, 1995). In Europe the

results are less categorical, with a few studies reporting small negative effects of immigration on unemployment (Winkelman and Zimmerman, 1993). In the case of France, Garson et al. (1987) showed that immigration has a very small impact on nationals' wages. In addition, the analyse of the nature of adjustment following major one-off immigration shocks, by Hunt (1992) (return of the pied noir from Algeria to France in 1962) showed that even major one-off migrations had only small labour market effects, as adjustment was partially facilitated through internal migration of the native-born population and possibly through firm mobility.

Results about fiscal contribution of immigrants depend on the methodology adopted, the period concerned etc... Generally foreign born individuals are less likely to receive public assistance and, when they do, receive lower levels of such transfers than the native-born population with similar characteristics. Recent analytical work in the United States (Gustman and Steinmeier, 2000), however, finds the likelihood that an immigrant receives social welfare payments and the average amount vis-à-vis the native born population has increased between the 1970s and the 1990s. For the UK, it is estimated that migrants in 1999 and 2000 contributed to £2,7 billion fiscal incomes.

Contracting or slower growing populations and labour forces will impact material living standards and generate fiscal pressures. Immigration rejuvenates the population and changes the ratio between active and inactive. Debuissou and al. (2004) established a projection of "economic" dependency ratios of Belgian regions showing that improving the employment rate (through immigration) would reduce or completely solve the costs of aging in many regions and countries. Likewise the United Nations 2000 reported that increased immigration would have an immediate impact on the working-age population, assuming the relatively young age structure of net migration to apply also in the future. In addition, fertility rates among immigrant women are often relatively high which can help boost overall fertility and hence long-term population growth. On average, almost a million net immigrants per year would be required to keep the EU population constant over the period and more than 1,5 million to maintain a constant working-age population.

For the United States, Borjas (1999a) estimated that one third of the increase in wage inequality since 1970 is due to the relatively low qualification of immigrants. If they are old enough in age, for paying taxes and social contributions, migrants contribute to increase government revenues. However, they also benefit from social transfers. These transfers are especially important as their skills are low and their integration into the host society is difficult.

Do the costs outweigh the benefits ?

For Chiswick (1980) economic impacts of immigration depend on immigrants' characteristics and on the economy of the migrant-receiving country. Immigration's impacts depend on: the skills mix of migrants and the native population; the capital structure of the receiving economy; and how quickly the economy adjusts to immigration (e.g. change in technology). Hence, most economic analyses of immigration distinguish between low-skilled and high-skilled impacts, and between short-run and long-run effects and find that while unemployment may initially increase, in the long run the overall rate of unemployment falls permanently (Gross, 1999).

For the economy overall, it is harder to determine whether immigration induces net benefits or costs. However, some studies found aggregate net benefits for the native population. Borjas (1999) for instance reported a small net gain, equivalent to \$10 billion per annum for the US. The benefits, however, are not necessarily evenly distributed and groups (e.g. substitutability with immigrants) could lose from immigration. Concerning welfare recipient rates among immigrants, they fall with length of settlement in the immigration country towards the level for the native-born population (Borjas, 1999). These findings are also corroborated by data based on the Australian experience (Birrell and Jupp, 2000).

European countries face two major problems: shortages of manpower in some sectors, and the prospect of aging. Immigration is seen as a partial cure to both problems. OECD countries have put into place specific selection mechanisms to attract professions: the UK established lists of skills shortages. In a less natural way, using replacement immigration in order to fight against the cost of aging also requires selection. On average, unskilled migrants contribute less to the state's budget than natives and create more transfers (contribution to public finances is negative). This is shown by the works done by Auerbach and Oreopoulos (2000) on the U.S., by Chojnický (2004) on France, founded on techniques of generational accounting. Hence, several nations engaged in an increased immigrant's selection. Canada, New Zealand led selective immigration policies based on points systems. Clearly, a selection would maximize gains and minimize immigration's costs. So, in a "nationalist" view, it is legitimate for the host country to take disposals to limit the influx of unskilled and encourage those of skilled migrants. The problem is that while policies may have control over the level of immigration, they have not on emigration. In addition, free circulation agreements, persistence and difficulty of tackling illegal immigration limit the control over the demographic composition of immigration.

In conclusion, providing an answer to whether immigration raises more costs or more benefits to and for a country of immigration, cannot be straightforward, because of the very nature of the question. Indeed, the structure of the former *corpus*, through providing for each theory, driven from literature, specific examples of countries, contributes to highlight the complexity of the immigration process.

Assessing the costs and benefits cannot be reduced to a basic mathematical equation, because it involves to take into account three principal variables: first the nature of those who immigrates and the heteroclite character of the immigration's process, second the countries' of immigration structures which shapes the need for specific types of immigrants and third the countries' of immigration response to this phenomenon.

Bibliography.

Auerbach, A. and Oreopoulos, P., 2000. "The Fiscal Impact of U.S. Immigration: A Generational Accounting Perspective", *Tax Policy and the Economy*, Vol. 14, pp. 123 – 156.

Birell, R., and Jupp, J., 2000. http://www.immi.gov.au/media/publications/statistics/popflows/c5_2.pdf

- Borjas, G.J., 1993. "The impact of immigrants on employment opportunities of natives in OECD", *The Changing Course of International Migration*, Paris.
- Borjas, G.J., 1999a. "The economic analysis of immigration", in *Handbook of Labour Economics*, Vol. 3A, O. Ashenfelter and D. Card (eds.), North Holland.
- Chiswick, B.R., 1980. "The earnings of white and coloured male immigrants in Britain", *Economica*, 47, pp81-87.
- Chojnicki, X., 2004. "The Economic Impact of Immigration for the Host Countries", *Brussels Economic Review*, n° 47.
- Debuissson, M., Docquier, F., Noury, A. and Nantcho, M., 2004. "Immigration and aging in the Belgian regions", *Brussels Economic Review*, vol. 47, n° 1, p. 139-158.
- Detriagache, E., 1998. <http://econpapers.repec.org/RAS/pde227.htm>
- Docquier, F., Lohest and Marfouk, A., 2006. The international mobility of skilled workers, in *International Migration, Remittances and Development*, C. OZDEN C. and M. SCHIFFS M. (eds.), McMillan and Pargrave : New York.
- Eurostat, 2008. L'Immigration dans l'UE des 27 en 2006, *Eurostat communiqué de presse*, STAT/08/162, Eurostat.
- Findlay, A.M., Li, F.L.N., Jowett, A.J. and Skeldon, R., 1996. "Skilled international migration and the global city: a study of expatriates in Hong Kong", *Transactions of the Institute of British Geographers*, 21(1): 49-61.
- Freidberg, R. and Hunt, J., 1995. "The impact of immigration on host country wages, employment and growth", *Journal of Economic Perspectives*, Vol. 9, No. 2.
- Garson, J.P., Moulier-Boutang, Y., Silberman, R., and Magnac, T., 1987. "La substitution des autotcones aux étrangers sur le marché du travail dans la CEE", *Commission of the European Communities and GRAMI*, Paris.
- Glover, S., Gott, C., Loizillon, A., Portes, J., Price, R., Spencer, S., Srinivasan, V. and Willis, C., "Migration: an economic and social analysis", in *RDS Occasional Paper*, N° 67
- Gross, D.M., 1999. "Three million foreigners, three million unemployed? Immigration and the French labour market", *IMF Working Paper*.
- Gustman, A. and Steinmeier T., 2000. "Social Security Benefits of immigrants and US Born", in G. Borjas (ed.), *Issues in the Economics of Immigration*, The University of Chicago Press.
- Home Office, 2001. International Migration and the United Kingdom: Recent Patterns and Trends, *RDS Occasional Paper*, Home Office
- Hunt, J. 1992. "The impact of the 1962 repatriates from Algeria on the French labour market", *Industrial and Labor Relations Review*, Vol. 45, No. 3.
- Layard, R. and Nickell S., 1991. "Unemployment", Oxford University Press.
- Sassen, S., 1993. Economic internationalization: the new migration in Japan and the United States. *International Migration*, 31(1): 73-102.
- Storesletten, K., 2000. "Sustaining Fiscal Policy through Immigration", *Journal of Political Economy*, vol. 108, n° 2, p. 300-324.

Straubhaar, T., 1998. Migrations als Herausforderung liberaler Regeln, in *Liberale Grundrisse einer zukunftsfähigen Gesellschaft*

Winkelman, R. and Zimmerman, K.F., 1993. "Ageing, migration and labour mobility", in Johnson and Zimmerman (eds.), *Labour Markets in an Ageing Europe*, Cambridge University Press.