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Identifying the key issues focusing on the costs and benefits of immigration in developed countries

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Identifying the Key Issues Focusing on the Costs and Benefits of Immigration in Developed Countries.

Abstract

The present paper aims to acquaint concisely about the main issues surrounding the theme “immigration”, founded in the literature. This acquaintance is ensured through first (comprising the first part of the *corpus*), an overall focus on the question of assessing on the one hand the costs and on the other hand the benefits of immigration, through the exploitation of many theories and arguments each being illustrated with specific examples of various developed countries – thus giving a frame for intra and inter-continental comparisons and analysis. Second (comprising the second part of the *corpus*), this acquaintance is ensured through proceeding to the evaluation and comparison between costs and benefits – by presenting new arguments - 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 synthetic bibliography centred on the issues of immigration by assessing both the costs and benefits for a country of immigration. This paper has as aim a succinct, complete and original presentation 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 and more complete overview of the immigration’s process and the implied consequences in 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. The various aftermaths for the countries of immigration will be treated below.

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 Chojnicki (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.

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