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IMMIGRATION, DEVELOPMENT AND THE LABOUR MARKET

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I. Introduction

Immigration is a contentious and emotional issue, and always has been. As such, for many and especially at the political level, it is often considered a taboo issue and attracts a relatively small number of economists who study it. This is regrettable, since without objective empirical analyses the migration debate is unlikely to advance, exposes itself to the risk of harbouring prejudices and inevitably impacts on the design and effectiveness of countries' migration policies. Moreover, an economist's perspective is important, not least because immigration has played in the past, and will continue to play in the future, an important function as a form of economic and humanitarian "safety valve" and because economic factors play a major role in the process of migration. From the outset, however, it should be stressed that migration is not a solution to fundamental economic problems in the host country or in the source country. Nor is it a cause of their problems. But immigration may have significantly positive economic consequences, and at the same time pose serious political challenges, especially when migrant flows are disorderly and concentrated in local areas. This is why it is important to have the facts straight and careful examinations and assessments of the impacts of migration. These should include the impacts on the native population as concerns the labour market, the pressures immigration might add on education, housing and health facilities, as well as its potential environmental impacts. This is not easy, since the statistical information is patchy, incomplete and not readily comparable across countries, and time series analyses are hampered by erratic data which can be difficult to interpret. Immigration may also have linkages with other policy issues, for example the potential role and impact which immigration could play in alleviating the economic and fiscal pressures associated with declining and ageing populations. Given the considerable resurgence of migration pressures over the past decade and the prospect of ageing and smaller populations, these questions are likely to be more deeply debated in the European context in coming years.

The OECD has in fact done quite extensive work on some of these issues.[2] This is not the place to discuss the primordial question of whether countries should have immigration and, if so, to what extent, nor to review all the detailed assessments and recommendations, which derive from the OECD studies and reports. Rather, my starting point takes as given that migration happens. In this context I would like, first, to briefly review immigration trends and some of the determinants of migration and then focus my remarks on four themes directly or indirectly linked to migration in OECD countries, with a particular emphasis on the European Union states. These themes are: *i)* what are the consequences of immigration for labour market performance? *ii)* to what extent is immigration able to reduce the economic and budgetary consequences of declining and ageing populations? *iii)* what are the main social and fiscal aspects of immigration? and *iv)* what are the consequences of migration on economic development in the source country? Against this background, I shall then briefly consider the main issues and challenges which migration policies need to explicitly address.

II. Trends in, and the composition of, immigration

In most OECD countries migration data collection is undertaken by the agency, or agencies, administering the migration policy.[3] The principal sources of data are population registers, residence or

2. See, for instance, the OECD annual publication, *Trends in International Migration*, and for analyses on specific migration topics OECD (1999b), OECD (1998a), OECD (1993a) and OECD (1991).

3. Of course, these sources provide official information based on legal entry and do not capture clandestine migration flows. However, when governments implement regularisation schemes, those illegal immigrants whose status changes are, of course, included in the official statistics.

work permits, censuses and in a few cases dedicated surveys. These sources generally do not have as their *raison d'être* the recording of migration and this makes it difficult to compile harmonised and comparable data. The analysis of migration trends over time for any given country is fraught with problems associated with breaks in series and the actual timing of migrant arrivals or departures.[4] Breaks in time series are also common since the main data sources are based on administrative formalities, which change frequently and do not apply to everyone.[5] Changes in status and governmental procedures can, therefore, lead to apparent large annual movements in recorded arrivals. International comparisons, notwithstanding great efforts by the United Nations to collect data based on a common approach, are even more difficult, given the diversity of sources, lack of common definitions and the different compilation methods used.[6]

Since available data is largely determined by the migration systems that countries have put in place, it is important to first review the main features of OECD country migration frameworks. These have historically developed alongside the evolution of nation-states and the concomitant desire to enumerate and sometimes influence the size and composition of the native population. As such, migration policies have been shaped by domestic considerations and consequently no two systems are alike. Nonetheless, it is possible to distinguish five features shared across OECD countries. These are: acceptance of foreigners to visit for a short period of time for business or tourism purposes (sometimes requiring a visa); rules which allow spouses and close relatives of citizens to enter the country on a permanent basis (family reunion); the possibility for individuals who claim social and political persecution in their country to apply for asylum (asylum seekers); mechanisms for individuals to enter largely for the purpose of employment and business ("skill-based" migration) and naturalisation rules which enable foreign citizens to acquire national citizenship. It is also convenient to distinguish between "temporary" permit systems, common in European countries, Japan and Korea and "permanent" resident or settlement systems as in Australia, Canada, New Zealand and the United States.[7] While there are common features found in all OECD countries' migration systems, the institutional arrangements used for their application and their relative importance vary widely. In European countries most entrants arrive via family reunification or as asylum seekers and different government bodies are often charged with administering requests for family reunion, asylum and "skill-based" migration.[8] In contrast, settlement systems are typically based on specific selection criteria and usually managed through a single government agency, which typically provides a more holistic -- and perhaps transparent -- policy.

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4. For example, in cases where data is based on the issuance of permits, arrivals data may not correspond with actual movements, since individuals may decide not to use the permit or to delay arrival. In other cases, illegal immigrants may already be in the country, but only counted when their status changes. In the United States, for instance, at least half the number of immigrants issued with a permanent residence permit in 1986 and 1995 were already physically in the country when their status was adjusted following "regularisation" schemes.

5. In this respect, a particular problem is identifying the level of intra European Union migration flows, since there are no restrictions on movement and reporting requirements are difficult to enforce.

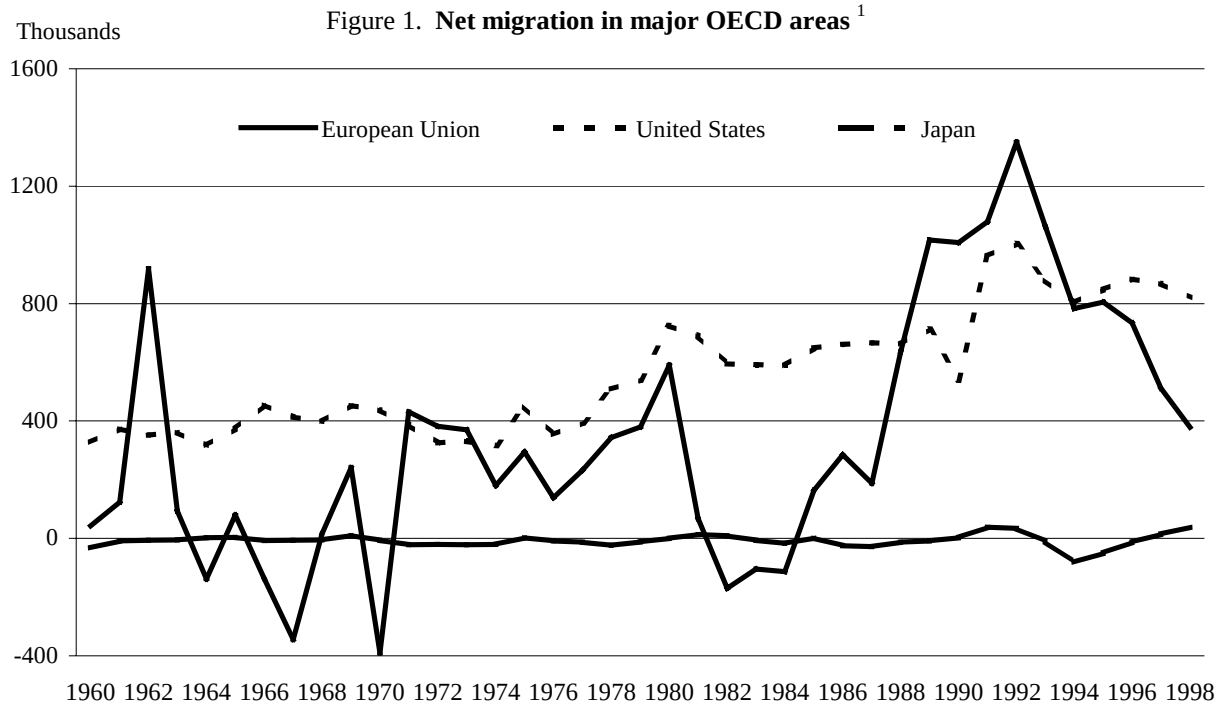
6. For example, some OECD countries define the immigrant population as those of foreign nationality, whereas others count the number of foreign-born persons. In the former case, the stock of migrants in the overall population tends to be lower because naturalised citizens are not considered to be immigrants. However, this is not always the case, as some countries have nationality laws which limit the scope for foreigners, even for their children who are born in the host country, to become naturalised citizens. For a more detailed discussion on migration statistics, see the statistical annex in OECD (1999a). And for further information on the efforts made by the United Nations to collect comparable data see United Nations (1998).

7. For a more detailed classification, see OECD (1994) and Garson and Thoreau (1999).

8. Although European countries are often characterised as having temporary migration systems, immigrants often remain in the host country indefinitely or for long periods of time.

Even though there are major problems analysing migration data, it is possible to get a sense of the overall scale of immigration, the number of foreigners and some of their key characteristics. Considerable caution, however, is especially required when interpreting flows and stocks of migrants across countries. Bearing these caveats in mind, in most years over the past four decades, the European Union has been host to a net positive inflow of migrants. Moreover, over the past decade, following the fall of the "iron curtain" and due to a number of wars and ethnic conflicts in the region, with the civil population often the victims, the volume of asylum seekers increased. Overall, the average annual flow of immigrants more than doubled in the 1990s compared with the previous decade to reach on average close to 800,000 persons per year (Figure 1). This is broadly similar to the net inflow of immigrants to the United States and in both areas the vast majority of legal immigrants are admitted either as accompanying family members or for the purpose of family reunification. Net flows of migrants, however, mask the size of inward and outward movements in some countries. Germany, for instance, receives about 4 times as many arrivals than most other EU member states where data are available and at a comparable level to the United States, yet the net intake of migrants is similar to other major EU host countries (Figure 2).[9] Moreover, relative to population, the EU receives, at about 5 immigrants per thousand inhabitants (including intra-EU migration), almost double the rate of arrivals as in the United States and Japan (Figure 3). When compared over longer time horizons, some European countries have switched from emigration nations, when large numbers of people moved first to the territories and colonies and then to the "new world" countries. And in the United States, current immigration rates are about half the rate recorded between the middle of the 19th and the first two decades of the 20th century.

Figure 1. **Net migration in major OECD areas** [1]

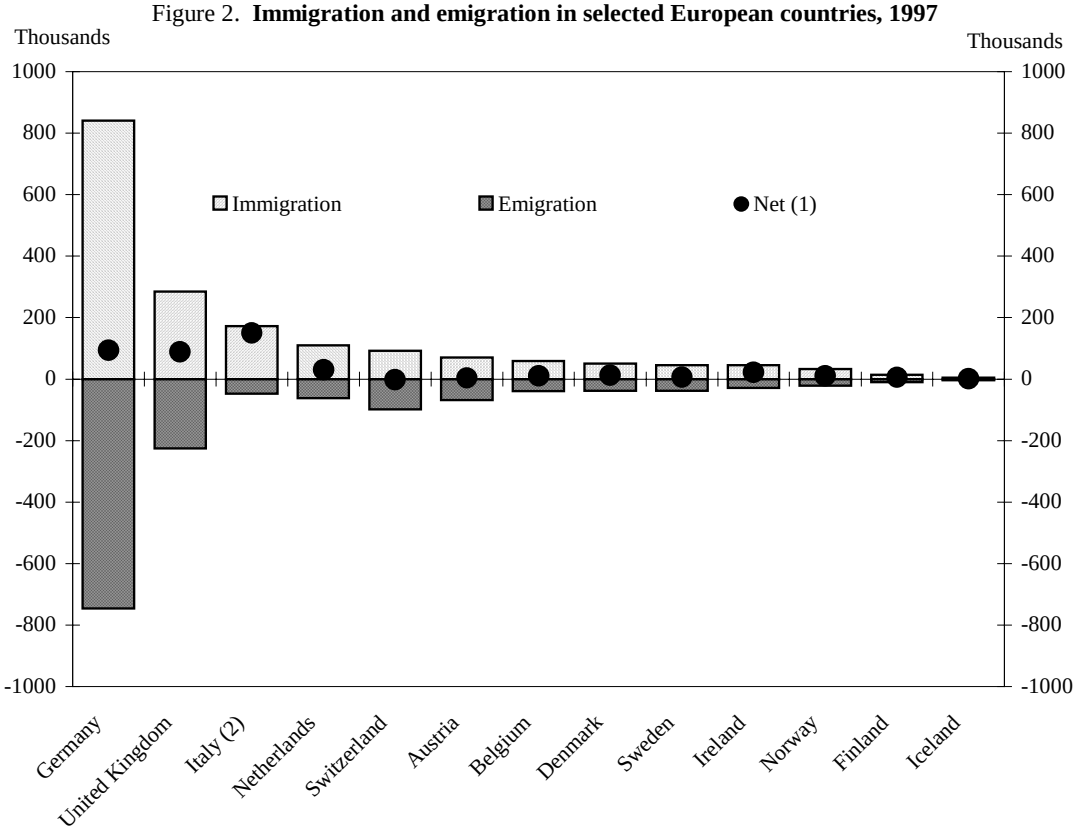


1. Net migration is measured as the difference between the total population on 1 January and 31 December for a given calendar year, minus the difference between births and deaths.
Source: OECD Labour Force Statistics; Eurostat (1999), Demographic Statistics.

9. Arrivals in Germany are higher than recorded, since many immigrants have German origins and thus are not considered as foreigners.

Both gross arrivals and net flows of immigrants may underestimate the level of migration due to the movements of illegal or clandestine immigrants. These are immigrants who enter unlawfully or overstay the expiration date of their visa. By definition it is impossible to know exactly how many illegal immigrants enter OECD countries. Efforts, however, have been made to estimate their importance based on the response to "regularisation" programmes. In the United States, a relatively recent estimate suggested the number of illegal immigrants entering in 1996 was approximately 300,000, equivalent to 1/3 of the number of legal immigrants that year (Warren, 1997). In Europe, estimates of clandestine immigration by the International Centre for Migration Policy Development have been put as high as half a million a year, implying an even larger proportion of illegal to legal immigrants. Moreover, annual gross flows of clandestine migrants are believed to be even higher, suggesting that many must enter and leave again after a short period of time. It is difficult to say for sure, but it is thought that illegal immigrants are more significant in size now compared with earlier periods. This probably reflects both fewer opportunities to legally enter recipient countries, especially in Europe and the improvements in transportation and communication, which have lowered the barriers of distance.

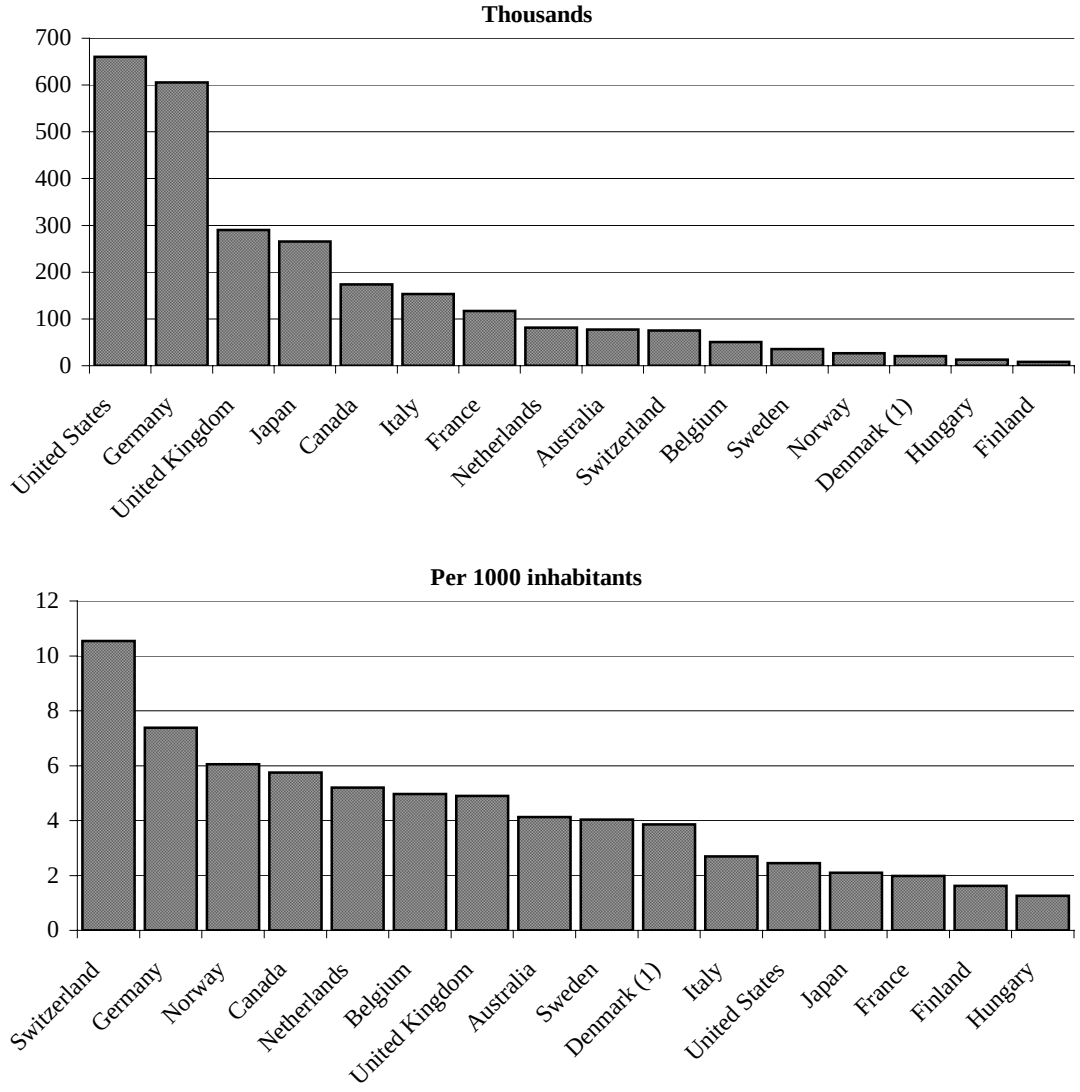
Figure 2. **Immigration and emigration in selected European countries, 1997**



1. The net migration figure is calculated as the difference between the total population on 1 January and 31 December, minus the difference between births and deaths. The figures therefore include corrections and may differ from the difference between immigration and emigration.
2. Data refers to 1996.

Source: Eurostat (1999), Demographic Statistics.

Figure 3. **Arrivals of foreigners into OECD countries in 1998**



1. Data for Denmark refer to 1997.

Source: OECD International Migration Database; ISTAT (1998), *Rapporto Annuale* .

Germany, France, Switzerland and the United Kingdom have historically been the major European recipient countries, including migrants from other EU member states. But in recent years Italy and Ireland have switched from traditionally negative net migration flows to, especially in the case of the former, quite sizeable net recipients of migrants. In 1998, Italy officially recorded over 150,000 arrivals of foreigners, almost double the figure compared with a decade ago. Moreover, if estimates of the number of illegal immigrants are included, Italy is now one of the European countries with the largest total number of immigrant arrivals. However, since this is quite a recent phenomenon, the overall number of foreigners and their share of the population remains quite small at less than 3 per cent, although the share is rising (Table 1). Between 1988 and 1998 the foreign population from OECD and non-OECD countries in the OECD area (where data are available) rose by over 13 million, to reach nearly 57 million persons, equivalent to 7 per cent of the total population. In Europe, the proportion is relatively low at about 5 per

cent in 1998, compared with around 20 per cent in Australia and Canada and nearly 10 per cent in the United States.[10] However, in a few small European countries, such as Switzerland, Austria and Belgium the proportion is similar to the "new world" countries.

Table 1. **Foreign or foreign born population in selected OECD countries**

	Thousands		% of total population	
	1988 [2]	1998 [3]	1988 [2]	1998 [3]
Australia [1]	3753	3908	22.3	21.1
Austria	344	737	4.5	9.1
Belgium	869	892	8.8	8.7
Canada [1]	4343	4971	16.1	17.4
Denmark	142	256	2.8	4.8
Finland	19	85	0.4	1.6
France	3714	3597	6.8	6.3
Germany	4489	7320	7.3	8.9
Ireland	82	111	2.4	3.0
Italy	645	1250	1.1	2.1
Japan	941	1512	0.8	1.2
Netherlands	624	662	4.2	4.4
Norway	136	165	3.2	3.7
Portugal	95	178	1.0	1.8
Spain	360	720	0.9	1.5
Sweden	421	500	5.0	5.6
Switzerland	1007	1348	15.2	19.0
United Kingdom	1821	2207	3.2	3.8
United States [1]	19767	26300	7.9	9.8
Total [4]	43571	56719	5.7	6.9

1. Data for the United States, Canada and Australia refer to foreign-born population. See Table I.5 in OECD (1999a) for details on sources and methods.
2. 1990 for the United States; 1991 for Canada and Australia; 1982 for France.
3. 1990 for France; 1996 for Canada and Australia.
4. For those countries shown in the table, and, where applicable, for the dates noted in the above footnotes.

Sources: OECD International Migration Database; OECD Labour Force Statistics.

The source countries for migrant arrivals have increased in number and thus become more diversified compared with the post-war migration period, but still differ considerably among EU countries. For example, the most significant group, in size, of foreigners in Germany are of Turkish origin or from East European countries. In Italy, the recent rise in inward flows is largely of Albanian, ex-Yugoslav and North African origin, and for France and the United Kingdom people from former territories and colonies remain an important source of arrivals. Cross-country differences in source countries, therefore still largely reflect geographical proximity and historical ties. Reliable data on the characteristics of migrants are

10. Caution is required when interpreting differences in the size of the foreign to total population across countries since for many countries data refer to persons with a foreign nationality as opposed to persons who were foreign born. Hence, the process of naturalisation would imply a reduction in the number of foreigners but not, obviously, the number of foreign born.

scarce. Although EU countries do not have explicit selective migration policies, the characteristics of arrivals tend to be different from the national profile. Typically, immigrants are relatively young (median age roughly 30 years), male and are either highly skilled or low skilled.

III. Some factors driving immigration

Understanding why some people move and what happens when they do are two central themes in the study of migration. A detailed understanding of the factors driving immigration and its impacts is especially important in any discussion of labour market equilibrium and the dynamics of adjustment. In this paper it is not possible to discuss all the factors, economic and non-economic, that explain why immigrants leave their country and how they choose their host country.[11] Rather, I would like to focus on what is perhaps the principal supply side factor and the main demand side determinant of migration.

On the supply side, the role of relative income disparities between host and source countries is widely considered to be an important factor influencing the incentive to migrate (OECD, 1997b). Of course, this need not correspond closely with actual migration movements, as this also depends on the immigration policy of the destination country as well as other factors that influence expected costs and benefits of moving, such as transportation and housing costs. Non-economic factors are likewise important. The psychological stress associated with moving to live in another country and the language and cultural differences impinge on the decision to move as well as the preferred destination country. The dynamics of migration also plays a role, with the source country of recent arrivals influenced, via family reunion programmes, by the settlement patterns of past immigrants. A reasonable summary indicator, however, of the incentive to move is the proportion of per capita income in the source countries (where the data are available) relative to the host country, measured in PPPs. On this measure, using country average statistics, the incentive can be quite sharp.[12] In all the G7 countries, except the United Kingdom, the average annual per capita income in 1997 in the source countries is less than half the level of the host country (Table 2). And the simple average of the countries shown is close to two thirds, although there is quite some variation. The United States is fairly unique in that its migratory flows come from primarily countries with very low per capita incomes.[13] In 1997, the weighted average GDP per capita of all source countries was $6,371, equivalent to some 22 per cent of the US figure. An implication of this dichotomy of per capita incomes between source and host countries is that it is likely that world output and income would rise when immigrants relocate to developed countries. But this is not automatic and depends on the institutional

11. There is quite an extensive literature on this aspect of migration, which emphasises the many and complex forces that operate in the host and the source countries and bear on the expected benefits and costs of immigrating. See, for instance, Borjas (1999a) and Faini (1998).

12. As with any summary indicator interpretation of the figures requires caution, as it ignores a number of other dimensions relevant to the decision to migrate, such as for instance disparities in income distribution in the source and host countries. Moreover, as we may gauge from Table 2, especially for a number of EU countries, the coverage of the immigrants included in the calculations is rather low, which may lead to a compositional bias. If the underestimation is particularly high for immigrants from other EU countries the relative income indicator is biased downwards, but if it underestimates immigrants from non-EU countries the indicator is biased upwards.

13. The calculations in Table 2, however, exclude "non-immigrants". These are people who have the right to remain and work in the United States for up to 6 years, although they often become permanent residents. In recent years the United States has admitted some 600,000 "non-immigrants" per year, of which about 80 per cent are skilled workers. It is probable, therefore, that a greater proportion of the "non-immigrants" are from richer countries and earn above average incomes within their own countries, compared with the average immigrant. See the special chapter "Report on temporary employment of foreigners in OECD countries" in OECD (1998d).

frameworks and policies in the host country which are able to harness the economic potential of new arrivals (see below).

On the demand side, the importance of the need for migrant workers in many host countries has also been stressed (Faini, 1998). A number of European countries have traditionally filled positions in the service sector and in import-competing industries through recourse to foreign labour. This was especially the case between the mid 1950s and the early 1970s when there were widespread labour shortages and countries like Germany, France and the United Kingdom actively promoted immigration. The importance of this demand side force declined in the aftermath of the first oil shock in 1973, which led to a recession and rising unemployment. Later on, host country demand for unskilled foreign labour fell as the pattern of technological progress shifted demand in favour of skilled labour. In today's labour market, there still appears to be demand side forces driving immigration. In Canada, for instance, where some data on the skill composition of immigrants is available, skilled workers accounted for about half the total number of immigrants in 1997, compared with about 1/5 at the beginning of the decade (Table 3).[14] These are typically low paid jobs in sectors which the native population does not seem interested in, such as farm labourers, household help, certain occupations in the hospitality industry and also more recently very skilled people in sectors where labour shortages are evident, such as technicians and engineers in the information, communication and technology producing and using industries.

Table 2. **Per capita income in source relative to host countries in current PPP $, 1997** [1]

Host country	Average number of immigrants [1] (thousands)	Per cent of immigrants counted	Weighted source country GDP per capita in 1997, PPP$	Ratio of source country GDP per capita to host country GDP per capita in 1997
Australia	87.4	66.6	12265	60.7
Belgium	51.2	74.1	17688	77.7
Canada	207.3	48.6	9900	44.0
Denmark [2]	26.1	33.4	16679	70.4
Finland	7.8	61.2	8744	43.4
France	77.5	55.3	6231	28.3
Germany	679.3	49.9	10016	47.1
Italy [3]	111.0	67.4	8279	40.8
Japan	243.9	67.3	10387	43.2
Netherlands	75.6	43.2	15497	73.4
Norway	18.0	61.7	17565	71.8
Sweden	33.6	32.6	17835	90.1
Switzerland	77.5	50.4	19262	76.3
United Kingdom [2]	219.8	89.4	14832	71.5
United States	773.8	77.8	6371	22.0

1. Based on immigration flows between 1995-98.
2. Immigration data refer to average 1995-97.
3. Immigration data refer to 1998 only.

Source: OECD International Migration Database; World Bank Development Indicators, 1999.

14. This in part may reflect Canada's immigration policy and its increased focus on attracting skilled and business migrants.

Table 3. **Immigration in Canada by type** [1]

Thousands

	1992	1993	1994	1995	1996	1997
Family	96.2	110.6	93.7	77.1	68.3	60.0
Skilled workers [2]	54.3	62.9	69.1	81.4	97.8	105.6
Business [2]	28.1	32.6	27.4	19.4	22.5	19.9
Refugees	36.6	24.8	19.7	27.7	28.4	24.1
Live-in caregivers [2]	..	3.0	5.0	5.4	4.8	2.7
Other [3]	37.6	21.9	9.0	4.2	4.2	3.7
Total	252.8	255.8	223.9	215.2	226.1	216.0

1. Data refer to persons obtaining the right of permanent residence.
2. Including accompanying dependents.
3. Includes retirees, Deferred Removal Order Class, and processing of the backlog of asylum requests built up between 1986 and 1988.

Source: OECD (1999a).

IV. Some economic effects of immigration

All countries, even those where a large proportion of the citizens are themselves descendants of immigrants, manifest tensions between new arrivals and parts of the native population. Such tensions are partly invoked by the perception of unchecked flows of new immigrants and the fear of undesirable economic and social impacts from the next generation of immigrants. To be sure, some of these fears are perpetuated by overtly anti-immigrant political parties. However, a larger proportion of the population than those who vote for these parties are also concerned by immigration issues. A survey regularly conducted by the European Commission that scrutinises public opinion of EU citizens on foreigners reported that 45 per cent of the EU population considered that there are too many foreigners in their country in late 1997 (the last survey). In Austria, Belgium, Denmark, Italy and Greece, more than half the population surveyed believed there were too many. The vast majority of the people interviewed (83 per cent), however, accepted the presence of people of another nationality in their country. The key issues in the migration debate centre on potential adverse effects on the host country labour market, exacerbation of social problems, such as poor housing conditions, and criminal activity and concerns about the added fiscal burden because of, for instance, higher welfare outlays. Recently, the debate has also focussed on more positive issues, including the role that immigration may play easing the economic impacts of declining and ageing populations and as a mechanism which facilitates economic development in the source countries of immigrants. The following sub-sections discuss these issues and their implications.

- ***Labour markets and immigration***

Qualms are often expressed that immigration will lead to lower wages and higher unemployment for the native population. These concerns are especially evident in many European countries, where unemployment rates are higher and the proportion of long-term unemployment is greater than in many non-EU OECD countries. In theory, the labour market impact of immigration depends on how the skills of immigrants compare with those of native born citizens in the host country. One should expect that the wage and income of the migrating factor -- traditionally thought to be unskilled labour -- and of others with which it competes will rise in the source country and fall in the destination country (or, if wages in the destination country are inflexible, unemployment will increase), while the wage and income of complementary factors will move in the opposite direction, as production adjusts to the new factor

intensities. The distributional impacts are more complex when other factors of production are included in the analysis, such as between skilled labour and capital.[15]

It is difficult, however, to evaluate empirically with precision the size and nature of these effects, since, apart from differences in skill, they also depend on the level of immigrants, their timing, their settlement patterns, as well as the characteristics of migrants, such as sex, age, country of origin and legal status. Moreover, the effects are likely to vary over time as immigrants acquire new skills and experience in the local labour market. And, as rates of return to skills change, decisions on human capital investment by the native population are also likely to adjust. Nonetheless, casual empiricism, plotting the rates of unemployment and immigration, as proxied by the share of the foreign population in the total, suggests that there is no obvious relationship between immigration and unemployment (Figure 4). The coefficient on the regression line is not significant and, if anything, is of the opposite sign from what such fears imply.[16] More sophisticated empirical studies based on the US experience also fail to find immigration has harmful effects in terms of raising unemployment in the receiving country (Simon, 1989, Borjas, 1990 and 1993 and 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). This finding may reflect lower labour market flexibility and the slow speed of adjustment in EU economies compared with the United States. Likewise, studies which examine the effect of immigration on wages support the predictions of standard production theory, although the magnitudes are small. For the United States, Freidberg and Hunt (1995) report that a 10 per cent increase in the fraction of immigrants in the population -- a large increase -- reduces native wages by at most 1 per cent (for a review of the literature see Zimmerman, 1994).[17]

Although much attention has been paid to the potential adverse effects of immigration on the labour market, it may in fact confer a number of economic benefits to the host country. First, immigration creates demand for goods and services produced by the host population and thus induces a multiplier effect with favourable consequences for labour demand. Second, immigrants in the EU, especially those from non-EU countries, tend to serve as a flexible reserve and in part compensate for the low mobility of the native born population.[18] Immigration may hence speed up adjustment, for example, in response to an asymmetric shock and thereby help soften the cost of adjustment on the native population. Nonetheless, immigration is not a substitute for flexible markets. Indeed, the potential benefits are only likely to be harnessed if market institutions and policies provide the right framework for both migrants and the native population to look and find work and the ability to adjust swiftly to structural shocks. To this end, more open product markets, better regulatory frameworks and labour market policies consistent with the OECD Jobs Strategy are needed. Moreover, special care is required to avoid undesirable impacts as a result of interactions with other labour and product market policies. For example, minimum wages set too high, or excessively restrictive employment protection legislation could increase the level of structural unemployment and make it especially difficult for new entrants in the labour market to find work. As it is, immigrants in EU countries tend to have a considerably higher rate of unemployment than the native

15. See Borjas (1999a) for a formal discussion and extensions to this basic model, including the inclusion of other factors of production, such as capital.

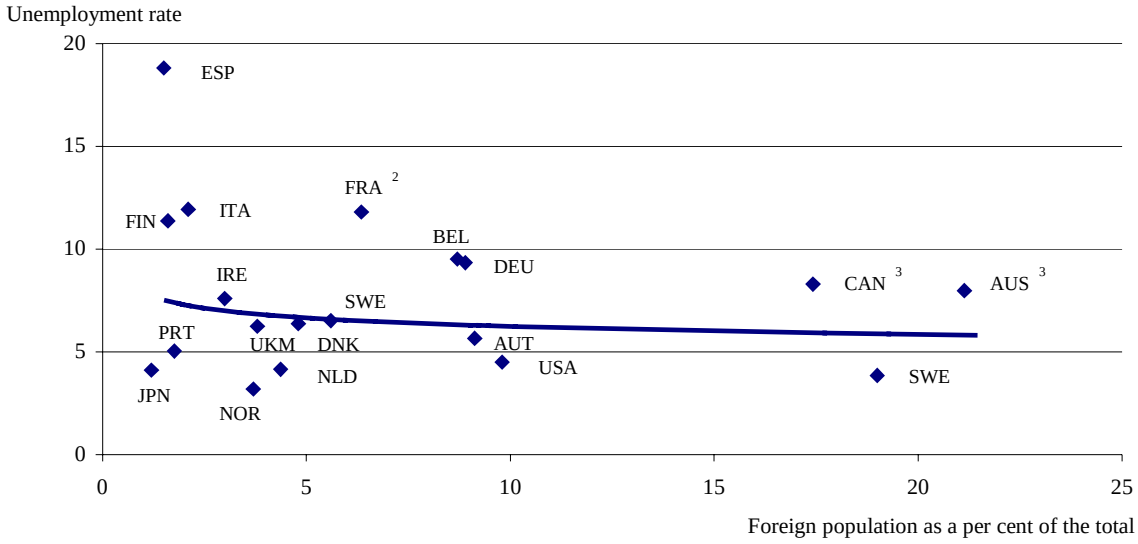
16. Not too much attention should be given to the regression line as there could be several reasons for the lack of a significant statistical relationship. For instance, simultaneity is likely to be a problem to the extent that unemployment is linked to immigration, but arrivals are attracted by host countries with low unemployment rates.

17. The size of wage effects of immigration are a function of the wage elasticities of labour demand and native labour supply. In general, the lower the elasticities the larger the wage impact of any given amount of immigration.

18. See OECD (1999c) for a detailed discussion on geographic labour mobility within the euro area.

population, which is less evident in non-EU OECD countries (Figure 5). The social costs of unemployment among immigrants may well be higher than for the population at large, as it is likely to be concentrated in local ethnic communities. High ethnic unemployment could also heighten tensions with the native population.[19]

Figure 4. **Immigration and unemployment rates in OECD countries** [1]

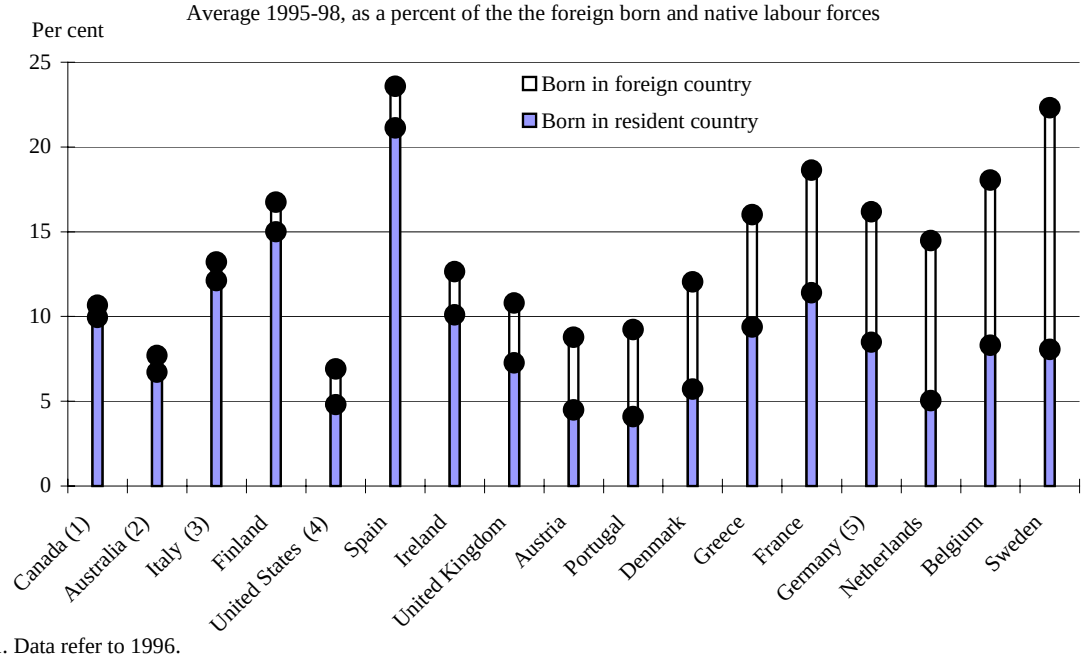


1. The equation of the regression line is: ln(UNR) = -0.0836*ln(RFPOP) + 2.0697, where UNR refers to the unemployment rate, and RFPOP to the ratio of the foreign population to the total population.
2. Population data refer to 1990.
3. Population data refer to 1996.

Source: OECD Economic Outlook no. 67, June 2000; OECD International Migration Database.

19. A survey of European attitudes towards immigrants in 1997 found that 43 per cent of those interviewed said that "legally established immigrants from outside the European Union should be sent to their country of origin if they are unemployed" (Eurobarometer Opinion Poll, 1997).

Figure 5. **Foreign-born and native unemployment rates**
Average 1995-98, as a percent of the the foreign born and native labour forces



1. Data refer to 1996.
2. Data refer to 1998.
3. Data refer to 1995-97.
4. Data refer to 1997.
5. Data refer to foreigners and nationals, instead of foreign-born and native.

Source: OECD Labour Force Statistics; OECD International Migration Database.

- ***Could immigration ease the economic and budgetary impacts of declining and ageing populations?***

For the economy overall, it is harder still to determine with precision whether immigration induces net benefits or costs. A few studies, however, have attempted to do so and these typically find aggregate net benefits for the native population. Borjas (1999b) for instance reported, based on the US experience, a small net gain, equivalent to 0.1 per cent of GDP or $10 billion per annum. The benefits, however, are not necessarily evenly distributed and some groups (e.g. those whose labour is substitutable with immigrants) could lose from immigration. Moreover, the transfers of wealth could be many multiples the size of the net benefits.[20] And even though in principle, the gains from immigration are more than sufficient to compensate the losers, in practice it is not straightforward to implement. Thus, if society decides to continue to allow inflows of what is to a substantial extent unskilled labour, there is a strong case to put in place programmes which indirectly help those who may lose from immigration. For instance, through improving the quality of education and increased emphasis on retraining programmes, which boost the human capital of the unskilled.

20. A study of German workers, for example, found that immigration depressed the wage rate of blue collar workers and increased that of white collar workers in the 1980s (De New and Zimmerman, 1994). These wage depressing effects, however, dissipate over time as the immigrants assimilate into the host country (LaLonde and Topel, 1992).

One of the major structural changes facing OECD economies is the adjustment to an older and slower growing population.[21] Ageing and lower fertility rates will result in a smaller proportion of the population of working age, particularly in the years after 2010, when the baby boom generation begins to retire. OECD estimates, based on constant participation rates, suggest that by 2030 there could be a marked increase in old-age dependency ratios (the proportion of the population above 65 years of age relative to the working age population, defined as the number of people between 15 and 65 years of age), with only two people in employment for every elderly person, compared with the current proportion of 3 and about 5 in 1960. Moreover, under current United Nation population projections, which are based on low or zero net migration flows, the EU population will fall by about 44 million between year 2000 and 2050, equivalent to a decline of 12 per cent. Eurostat projections, which assume higher migration flows, also imply a decline in the population, but by 12 million people over the same period. In some EU countries, the expected fall in the population is particularly high. In Germany, Italy and Spain, for example, their combined population is projected by the UN to decline by 19 per cent over the next fifty years and by 11 per cent according to Eurostat. On the other hand, Eurostat, and in contrast with the UN, expects relatively high increases in the population of France, the Netherlands, Portugal and the United Kingdom.

The impacts of a contracting or slower growing population and labour force will be to reduce growth in material living standards and added fiscal pressures. OECD estimates based on a dynamic general equilibrium macroeconomic model suggest the cumulative effect by mid-century could be to reduce the European Union's living standards -- measured by GNP per capita adjusted for terms of trade effects -- by 18 per cent, the United States' by 10 per cent and Japan's by 23 per cent below the level they might have reached extrapolating current productivity trends with unchanged dependency ratios.[22] These results also depend on conservative assumptions made concerning migration. Obviously, if net migration rates are assumed to be higher in OECD countries, the decline in per capita GDP would be less. Welfare systems in OECD countries will also come under increasing pressure as public pension payments absorb a growing share of total welfare outlays. Thus, unless other government expenditures are reduced or taxes raised, the government budgetary position will substantially deteriorate (see Turner *et al.*, 1998, for further details).

The main force behind these trends is demographics. Fertility rates have declined and people are living longer in all OECD countries. These processes have been going on for some time and have now reached quite an advanced stage in EU countries and Japan. The problem is also exacerbated by the trend towards early retirement.[23] Today, less than half the population aged between 55 and 64 in the OECD are employed, and in a number of countries, the figure is less than a third. The OECD has extensively analysed the demographic forces behind falling and ageing populations and the factors driving the trend towards early retirement. The single most important implication of this work for policy is to ensure an adequate retirement income provision for the aged and at the same time to limit the taxation burden on the active population. There are no simple solutions towards achieving these goals and the OECD perspective stresses the need for action on many fronts. Most of these have focussed on reversing the trend towards early retirement and social policies, because directly influencing demographics is difficult to accomplish and because even if the long-term decline in fertility rates could be reversed, the effect would only be gradual on the total population and do little to offset the rapid growth in elderly populations. If fertility were to increase sharply from now onwards, for example, only the population aged under 20 would be affected by the year 2020, with a minimal impact on the working-age population.

21. For more detailed discussion on ageing see OECD (1998b) and Visco (2000).

22. For details on the model, the underlying assumptions used and the simulated scenarios see Turner *et.al.* (1998).

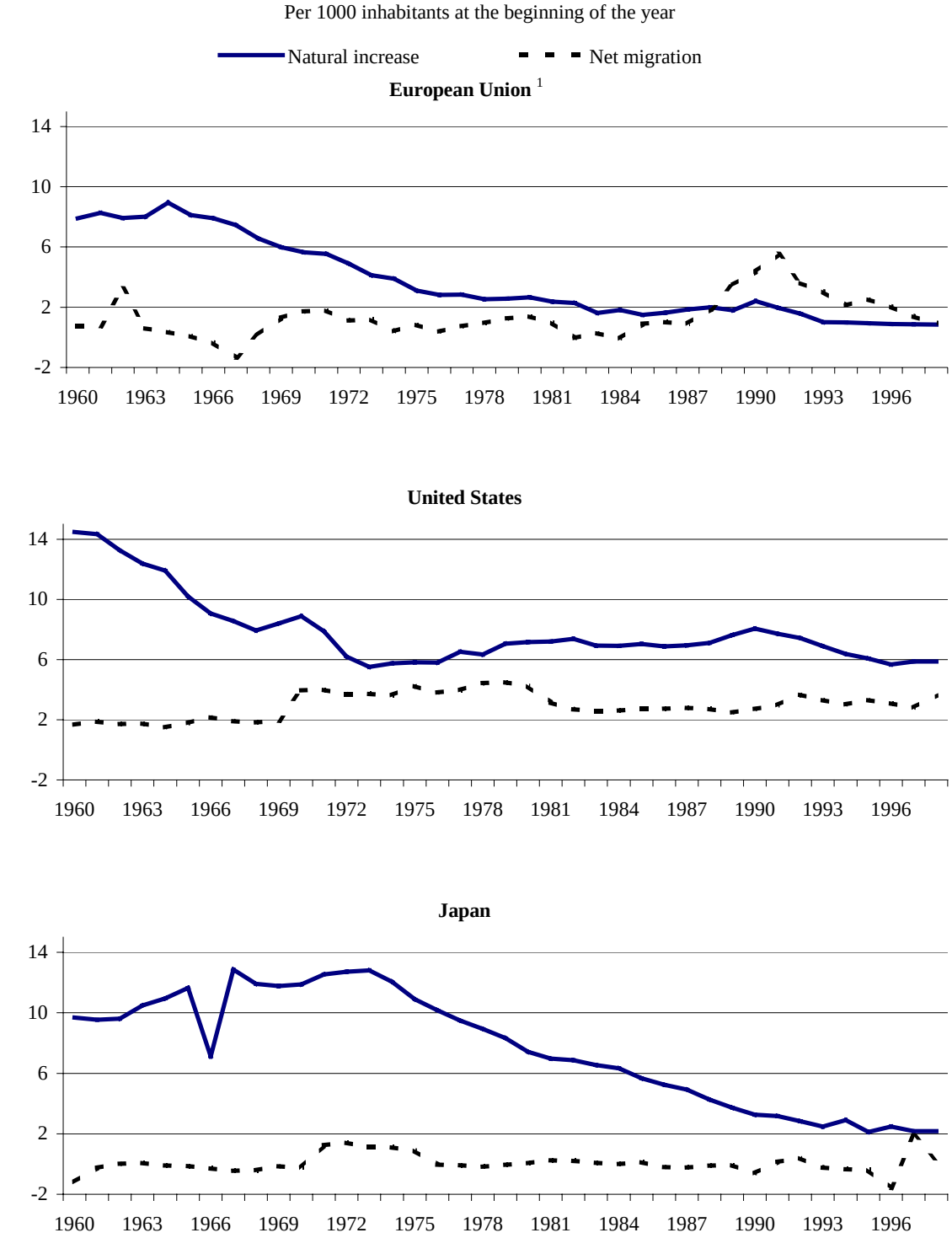
23. See Blondal and Scarpetta (1999) for an analysis on the incentives favouring early retirement in OECD countries.

Another option, which has been suggested, but rarely analysed in depth is the scope to increase and change the population age structure through immigration. Migration policies between countries affected by demographic decline and those experiencing high population growth could smooth trends in population growth and ease regional ageing pressures. Increased immigration possesses the advantage of having an immediate and relatively strong impact on the working age population due to the young age structure of net migration. In addition, fertility rates among immigrant women are often relatively high which can help boost overall fertility and hence long-term population growth. Immigration has already played an important role in influencing overall population growth in the main OECD areas, but has not been sufficient to offset ageing populations. In fact, for the EU as a whole, net migration has been a more important source of population growth over the past decade than through natural increase, with a number of European countries virtually, or entirely reliant on immigration for population growth. Looking forward, however, maintenance of these past trends will not be sufficient to offset the prospect of a decline in the EU population. And in the United States and Japan the relative importance of net migration in overall population growth and therefore economic growth has increased over the same period (Figure 6).

A recent report by the United Nations (United Nations, 2000) has investigated the level of migration required to achieve population objectives.[24] The UN study examined in selected countries as well as for the EU as a region between 1995 and the year 2050 the migration flows required to maintain the size of the total population, the working-age population (15 to 64 years), and the old-age dependency ratio at the highest level they would have reached respectively in the absence of migration after 1995. The report also evaluates the sensitivity of the UN third revision population projections assuming zero migration after 1995. For the first scenario and somewhat less so for the second scenario, the results imply migration flows for the EU that are not too different than those recorded over the past decade. On average, almost a million net immigrants per year would be required to keep the EU population constant over the period and slightly more than 1½ million to maintain a constant working-age population (Figure 7). In contrast, the same scenarios would imply lower net-migration for the United States, compared with recent experience. The impact on the old-age dependency ratio, however, would be minimal until about 2030. Assuming zero migration makes very little difference to the baseline population projections since the immigration rates in the baseline are quite low. On the other hand, the level of net-migration required in order to maintain the old-age dependency ratio constant entails enormous increases in all countries and regions studied; for the EU equivalent to about 13 million per year and more than 15 times current net migration rates. Not surprisingly, this would result in a very sharp increase in the total population. The report acknowledges that these levels are not realistic from a policy perspective and also stresses the need for a multifaceted response to ageing populations.

24. This issue has also been recently examined at the OECD, reaching conclusions similar to the UN study (see Tapinos, 2000, forthcoming).

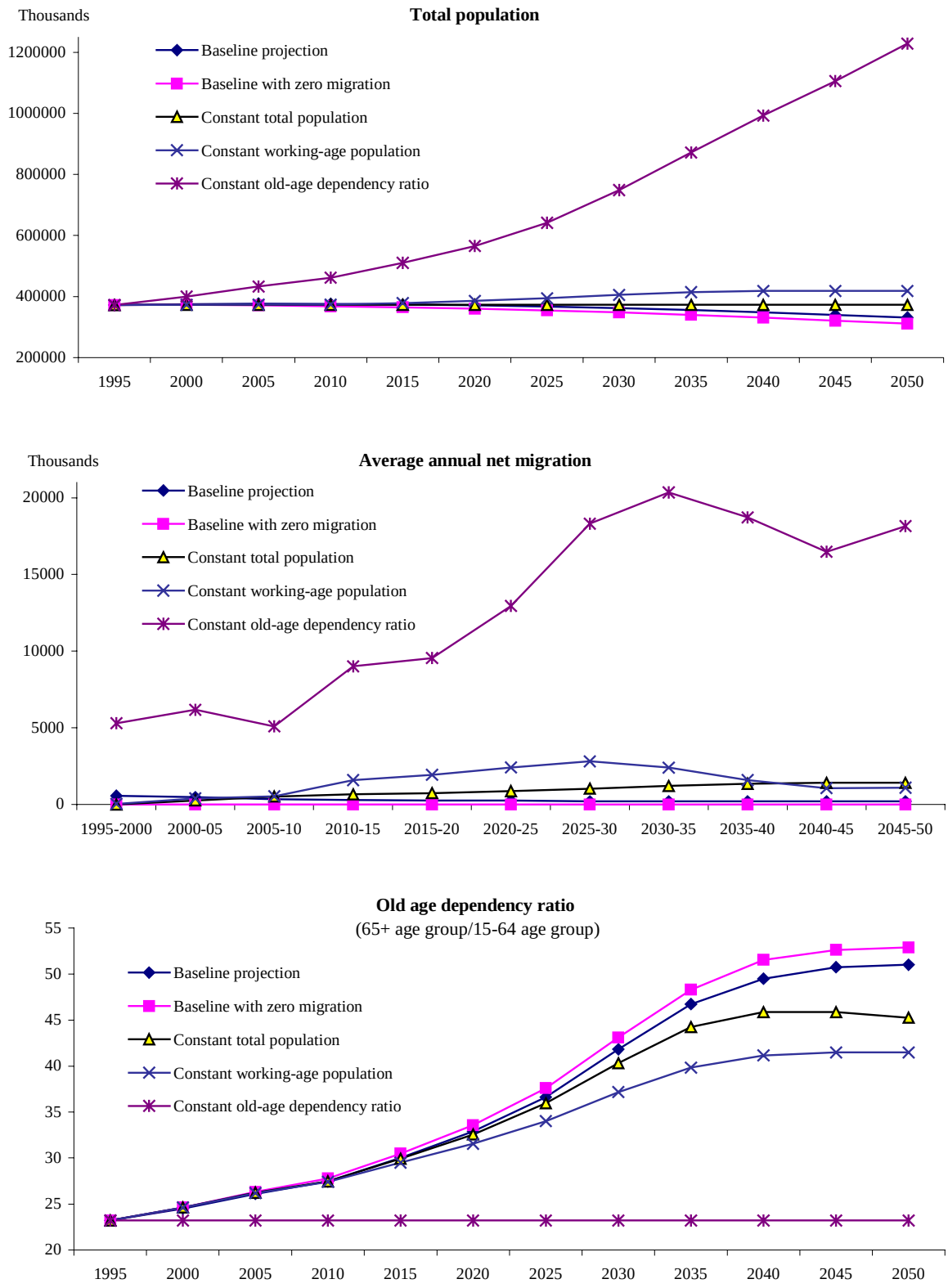
Figure 6. **Contribution from net migration and natural increase to population growth in the major OECD areas**



1. Excluding Greece and Ireland from 1997 on, and Spain and Luxembourg in 1998.

Source: OECD International Migration Database.

Figure 7. **European Union replacement migration scenarios**



Source: United Nations Population Division (2000), *Replacement Migration* .

Even if these very large increases in migrants could be attracted to countries with ageing populations, there exist a number of practical and political constraints in formulating an immigration policy aimed at achieving demographic change. For instance, while policy may have control over the level of immigrants, it has little or no control over emigration and hence net migration is difficult to influence. In addition, a number of factors limit and complicate the ability to control immigration. These include the existence of free circulation agreements, the persistence and difficulty tackling illegal immigration, humanitarian commitments and other obligations such as the admission for residence on the basis of family ties. Moreover, the ease with which countries can shift the focus of immigration policy towards demographic objectives varies widely. In general, immigration policy cannot easily be fine tuned to reach precise demographic objectives due to difficulties in controlling the volume and composition of net migration. Even those countries which have already a long tradition of selective immigration seem unable to make a large difference to the overall composition of immigrants (Cobb-Clark, 2000, for Australia and Duleep and Regets, 1992, for Canada). Realistically, therefore, increased immigration cannot on its own limit the adverse impact on living standards and government budgetary positions due to declining and ageing populations, but it could ease and delay the scale of such problems.[25]

- ***Some social and fiscal aspects of immigration***

One explanation for why public opinion is often hostile towards immigration is the perception that immigrants do not "assimilate" fast enough into the community, contribute disproportionately to crime and add to social problems. Moreover, social problems tend to be concentrated in communities with high immigrant density. In a number of OECD countries a relatively high proportion of foreigners tend to live in disadvantaged areas with above average unemployment rates, a larger proportion of lone parent families and a lower educational attainment level compared with the average (Table 4). On the one hand, this tends to make it more difficult to resolve these problems with policies framed at the national level. And on the other hand, local communities do not have, or receive, sufficient resources from the central government to address the specific problems of deprived areas. The result can be entrenched and concentrated pockets of poverty, which are difficult for their residents to exit from (OECD, 1998c).

Table 4. **Disparities between disadvantaged areas and the urban average in selected OECD countries** [1]

	Ratio of rates of unemployment	Population under 15	Over 65	Lone parent families	Non-national population	Education attainment	Rental housing
Canada	1.9	0.81	0.84	1.72	1.40	0.80	1.1
Finland	1.4	0.89	0.88	1.23	1.67	0.67	2.2
France	1.9	1.27	0.81	2.35	2.11	0.52	3.8 [2]
Sweden	1.4	1.10	0.63	1.55	2.71	..	1.8
United States	1.6	1.13	1.14	2.44	1.57	0.44	1.3

1. Data are expressed as a ratio of disadvantaged areas to the urban average.
2. For France, rental housing includes only HLM (habitation loyer modéré) units.

Source: OECD (1998c).

25. For a more in-depth discussion on the limitations of migration policy as a response to the adverse economic impacts of demographic decline and ageing populations see Tapinos (2000, forthcoming).

The origins of a number of these problems are historical and can be traced back to the era of high immigration flows into EU countries in the 1960s and early 1970s. Coupled with relatively fast native population growth, the public infrastructure, such as schools, hospitals and low cost housing had difficulty keeping up with the rising demand, resulting in a dilution of these public and social services, often among the least well off. Nonetheless, such problems are not directly associated with immigration *per se*. Rather, they reflect inadequate financing of public infrastructures and poor social planning and these weaknesses were magnified by the existence of high immigrant inflows. This message, however, is not straightforward to convey. It is still too easy to point the finger at immigrants, with little regard to the evidence or underlying causes. The perception of a relationship between crime and migration, for instance, is not necessarily supported by the facts. Indeed, evidence based on the US experience shows that changes in local crime rates are independent of changes in immigrant shares in the community and imprisonment rates are also typically lower for foreigners (Butcher and Piehl, 1996).

In addition to the social implications, a good part of the public debate regarding the costs and benefits of immigration, as well as policy makers attention, has centred on the impact that immigrants have on the budget. To characterise, some argue that immigration places an additional load on social welfare, education and health systems, which is not compensated by higher tax payments. Others argue the opposite and conclude that new arrivals make relatively less recourse to social safety nets and a net positive contribution to government budgets when examined over time.[26] Whether the net contribution to the budget is positive or negative is not just important from a public finance angle, as it may also be a factor encouraging immigration. This has led some governments to put in place policies, such as waiting periods which restrict access of new arrivals to some social protection payments, including unemployment benefits. Its importance, however, should not be exaggerated, for even if immigrants fail to "pay their way" in budgetary terms, their overall effect on the nation can still be positive. In principle, therefore, any undesired negative impact on the public purse could be offset by taxing some of the native gains to offset the budgetary loss.

Efforts to compute the net fiscal contribution of immigrants are very complicated.[27] The results depend very much on the methodology adopted, the time period concerned, the assumptions about what should be considered and what excluded, what public services are pure public goods, the technology of public service provision, the appropriate discount rate and the demographic unit of analysis. The scope of various studies also differs, with most serious attempts to quantify immigration effects on government outlays focussed on welfare spending. Research results that report an additional burden often lack an economic framework and are more of an accounting exercise, comparing payments made to government with payments received in a mechanical manner. Often the analysis is static and the focus is only on cities with a high migrant density. This approach is of limited interest because it mixes together immigrants of different generations, assumes that fiscal policy is unchanged and it ignores life-cycle effects on demands for public services and the payment of taxes.

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26. Inevitably, underlying any discussion of distributional impacts is some concept of equity. The supposition by those concerned that immigrants receive more than they give is linked to a static notion of unfairness. This is certainly too superficial. The issue of immigration and equity cannot be evaluated in a static framework and it does not easily fit into the standard concept of intergenerational equity. In the ageing debate, for example, pay as you go (PAYG) systems are favoured by some on the principle that the working-age population gives back to the older generation for what they received from them during their childhood. In the context of immigration, however, this principle could be used to argue that PAYG systems are unfair to immigrants, since the contributions are used to pay the pensions of older, almost all, native born retired workers. Fairness considerations, therefore, may justify social spending on immigrants as a *quid pro quo* for their contributions in PAYG systems.

27. For a review of the literature see OECD (1997a).

Intertemporal studies are more supportive of immigration in the sense that immigrants tend to contribute more in terms of tax revenues than they absorb via higher government outlays. These studies also reveal a more complex picture than those which use a static approach and typically find that the net fiscal impact of immigrants is more negative than that of natives during youth, less positive during working lifetimes and similar in retirement (OECD, 1997a and OECD, 1997b). These findings, however, may be sensitive to the composition of new immigrants and the year of the analysis. Recent analytical work in the United States (Borjas, 1999a) claims the likelihood that an immigrant receives social welfare payments has increased substantially between the beginning of the 1970s and the late 1990s in line with the reduced human capital possessed by the average immigrant.

- ***Some thoughts on development***

Immigration affects economic opportunities not only in the host country, but in the source country as well. Little, however, is known about the impact of emigration on those who stay or the nature of the economic links between the immigrants in the recipient country and those who stay behind. Nonetheless, concerns are often raised that the source country will lose its most qualified workers (the "brain drain") and as a result its economic development will suffer. The extent to which this is an issue depends on whether emigrants remain permanently in another country or whether they eventually return to their country of origin. But again, it is extremely difficult to obtain data on the level of and motivation for remigration, although for the United States it has been estimated that approximately 25 per cent of immigrants eventually return to their country of origin. To the extent that a sizeable fraction of emigrants ultimately return, they may actually serve economic development well, as the experience gained in another country is transferred and applied in the source country.

For many countries, such potential is large. As it is, more than 4 per cent of the Turkish, Portuguese, Greek and former Yugoslav populations live in other European countries. In Ireland, the proportion is over 13 per cent. And judging by the size of workers' remittances in major emigration countries, similar if not higher proportions are probably the case in a number of non-OECD countries (Table 5). In Albania, for instance, remittances are one and half the level of its exports of goods and services and equivalent to about 20 per cent in Egypt, India, Morocco and Greece. Remittances are also an important source of finance for investment. Overall, workers remittances in the 30 countries shown in the table totalled some US$50 billion in 1998, which is close to the net level of official foreign aid from OECD countries.

Even if these positive aspects of emigration were outweighed by negative ones, it would be hard for policy to directly respond, since democratic governments cannot easily control the outflow of their population. But nor can governments ignore high permanent emigration. Indeed, it is a signal that something is wrong in the source country economy, if the ultimate recourse of the people is to move away and seek a better life elsewhere. But this in no way represents a solution to development problems. Ireland, for example, is a country which until quite recently had continuously and relatively large net outflows of its population during most of the past couple of hundred years. This did not markedly help or retard Ireland's development. Rather, Ireland's recently found prosperity essentially reflects putting in place the right framework conditions for economic growth and development to thrive. This includes investment in physical infrastructure, increased and wider access by the public to education, better public health and the sound operation of legal and regulatory institutions which support the development and proper functioning of markets. To be sure, there is no magic economic code to development and possibly a different combination of specific policies may work better in individual country contexts, but there is little doubt that increased investment in physical and human capital are universal drivers of development, especially when supported by well functioning markets. Realising these goals will ultimately lower emigration as

sustained and well distributed economic development will reduce the incentive to migrate in the first instance.

Table 5. **Workers' remittances in selected emigration countries, 1998**

	Workers' remittances, million US$	Workers' remittances as a percent of exports of goods and services
Albania	452	153.53
Jordan	1543	42.53
Bangladesh	1600	27.27
Egypt	3370	26.87
Nicaragua	200	26.27
India	9453	20.65
Morocco	2011	20.17
Jamaica	659	19.48
Greece [1]	2816	18.95
Dominican Republic	1326	17.72
Sri Lanka	999	17.69
Pakistan [1]	1738	17.07
Ecuador	840	16.78
Nigeria	1574	15.97
Guatemala	457	13.09
Turkey	5356	9.82
Honduras	220	9.22
Tunisia	718	8.46
Peru	400	5.34
Mexico	5627	4.34
Colombia	483	3.58
Ethiopia	27	2.73
Philippines [1]	1057	2.62
Poland	938	2.16
China [1]	4423	2.13
Brazil	963	1.64
Ghana	30	1.48
Indonesia	710	1.29
Cambodia	10	1.23
Slovenia	19	0.17
Total of above	50018	6.46

1. Data refer to 1997.

Source: IMF (1999), Balance of Payments Statistics Yearbook, Part 1.

Host countries can also play a role. Often the domestic market of the source countries of immigrants are small and access to foreign markets in the sectors where they arguably have a comparative advantage is restricted. This is notably the case for agricultural products, textiles and clothing. To a certain, albeit small, degree free trade and capital mobility substitute for labour migration. Thus if less developed countries had greater market access to developed country markets, work opportunities at home would be enhanced and thereby also lower the incentive to move. Likewise, similar effects may happen with foreign investment. Nonetheless, such options are unlikely to make a big impact on migration pressures, especially in the short-term, as the benefits from more open markets and foreign investment take time to materialise.

The foreign aid policies in immigrant host countries can also make a contribution and accelerate the development process. Foreign aid is not just an important source of capital, but also a potential conduit for the transmission of technical know-how. On its own, however, foreign aid may not be sufficient. For it to be effective, it also requires a minimum coherence of development programmes. Large flows of foreign aid, for example, are unlikely to be helpful if they finance unproductive investments or delay needed structural reform. On the other hand, when foreign aid complements domestic policy reforms in the recipient country it can ease the costs of adjustment, provide a catalyst for change and thereby drive a sustainable improvement in the growth prospects of the country.[28]

V. Summing-up

Given the nature of the subject, it is perhaps inevitable that a discussion of immigration sparks emotional questions and conclusions with strong policy implications, albeit not always founded on fact. Yet the basis for a sound policy must be inspired by reliable data and analyses so that decisions can be made in a more objective context. In this paper I have tried to synthesise what we know about the impacts of immigration on labour markets, social conditions, public finances in the host and, in a limited way, the source country of the immigrant. It is clear that our knowledge, especially in the context of the European Union, is very limited and many outstanding questions remain. But there is still a fairly wide body of empirical research which does not appear to have filtered through to the policy community. A better understanding of this work would help expose a number of misplaced shibboleths and possibly put migration policy formulation into a more holistic and transparent framework. The main findings and policy implications of this work include:

- The economic impact of immigration varies by time and place. It is perfectly feasible for some kinds of immigration at some points in time to be beneficial to some host countries, while others at different historical moments may prove harmful, depending on the composition and nature of immigration policies and the host countries' economic and social policies. The majority of studies, however, suggest that immigration confers small net gains to the host country.

- But the benefits are not necessarily evenly distributed. Some groups, for example, those whose labour is substitutable with immigrants could lose, while those whose labour is complementary gain. This can be a source of social tension and an explanation for anti-immigrant feelings. While in principle it may be feasible for those who benefit to compensate the losers and still be better off, in practice it is not straightforward. But indirect methods could be used, via for instance increased emphasis on education and training so that the level of human capital can be raised and thereby labour income.

- The presence of unemployment is not an argument *per se* against immigration. Past immigration experience has had no obvious impact on native unemployment. In fact, migration might even be beneficial for the economy and for employment in the European Union, to the extent that it acts as a surrogate for more flexibility. But it is not a substitute, and if net gains are to be realised, it is also important to ensure that labour and product markets work smoothly and do not make it more difficult for those searching for work to secure employment.

- Over the past few months a lot of press attention has been focussed on the potential for increased immigration in OECD countries, especially in the EU and Japan, as a means to ease the economic and fiscal pressure of declining and ageing populations. It has the advantage of having an immediate and relatively strong impact on the working-age population due to the young age structure of migrants. But

28. See OECD (1999d) for a detailed discussion on the importance of policy coherence.

although migration can help partially offset slower growing or declining populations, it cannot on its own provide a solution to the economic effects of ageing populations. The OECD perspective stresses the need for action on many fronts.

- Whether desirable or not, immigration is largely unavoidable and it cannot be ignored. While there are nuances in the tone of the debate and the policy framework in different European countries, the emphasis everywhere has been on reducing the flow. This has led to tougher criteria to enter legally, made it more difficult to enforce immigration laws and, since the economic incentive to migrate remains large, accentuated the problem of illegal immigration. Combating the problem itself is not easy either. There is no such thing as an illegal immigrant tight border. Part of the solution, however, may lie with other policies. In particular, development policies which grant poor countries better market access for their products, the transfer of expertise and technological know-how, and in some cases debt relief.

- As the European Union becomes a more closely integrated economic area and expands its membership, pressure may mount to develop a common migration policy, or at least to expand and strengthen existing co-operation agreements such as the Schengen Agreement. The Treaties of Maastricht and Amsterdam already provide a framework for co-operation, notably regarding shared criteria for the issuance of visas, length of stay and movement across EU countries. In this context, perhaps the key issue is whether to maintain the current system, which is heavily based on the principle of family reunification or move more towards an overtly selective based policy. With evidence of skill-based technical change and complementarities between skilled labour and capital, it is possible that national gains would be higher with a more skilled labour focus to immigration. A response to this question, however, cannot simply be based on economic reasoning. It is also an issue of social and political choice.

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