

CHAPTER 1
INTERNATIONAL MIGRATION AND THE ECONOMIC CRISIS:
UNDERSTANDING THE LINKS AND SHAPING POLICY RESPONSES

Introduction

While it is too early to have a clear view of the full impact of the unfolding economic crisis on net migration flows, the expected consequences on labour market outcomes of immigrants are unambiguous: past experience has shown that immigrants are among those hardest hit in the labour market during a downturn.

In most OECD countries, immigrants have made an important contribution to employment growth during the past decade. In some cases, relatively easy access to labour through international recruitment has contributed to limit wage increases and to fuel the expansion phase. The big rise in the construction sector in several OECD countries is illustrative of this phenomenon. This means that the deterioration in labour market conditions will probably be stronger in countries which have recently witnessed the most rapid increase in migration flows (e.g. Ireland, Spain, the United Kingdom or, to a lesser extent, the United States). More generally, given their characteristics and distribution across sectors, migrant workers are expected to be particularly vulnerable to changes in the labour market due to the economic downturn.

The crisis is also likely to have a significant impact on labour migration policies. Some countries have already taken action to curb inflows but the responsiveness varies according to the characteristics of the management system and the legislative framework. Some countries are thus better equipped than others to adjust their labour migration to short-term economic shocks. However, not all the needs for international recruitment will vanish with the economic slowdown and longer-term considerations also come into play (OECD, 2009a). The balance between these two objectives might be difficult to strike, especially under the pressure of public opinion to reduce controlled migration flows.

How are immigrants faring in the labour market? What are the likely short-term effects of the economic crisis on labour migration and other categories of migrants? What are the recent and expected changes in migration policies? How will migration flows change, quantitatively and qualitatively, in the medium term? What are the main long-term challenges in terms of integration of immigrants? Through which channels, and to what extent, will origin countries be affected by the impact of the economic crisis on migration?

These are the main questions that this paper attempts to answer by identifying the lessons to be learnt from comparable historical events, by analysing the most recent available data on migration trends and on labour market indicators and by reviewing current and possible policy responses in terms of labour migration and integration.

It begins with a review of the labour market outcomes of immigrants in the context of the current economic crisis (Section I). The next section analyses the sensitivity of migration flows to the business cycle and reviews the main changes already visible in migration trends. It also analyses recent changes in migration policy. Section III deals with the expected medium to long-term impacts on migration flows and on the integration of immigrants. The final section looks at the likely impacts on origin countries.

Summary and recommendations

The economic crisis is damaging labour market conditions in OECD countries more rapidly and severely than initially thought. It is likely to hit immigrants and their families particularly hard, threatening most of the progress accomplished in recent years in terms of labour market outcomes.

- Countries where the crisis started sooner show large increases in unemployment rates and decreases in employment rates of immigrants both in absolute and relative terms vis-à-vis the native-born.
- Immigrants are generally more vulnerable during an economic crisis because: i) they tend to be overrepresented in sectors which are more sensitive to the business cycle; ii) they have less secure contractual arrangements, with more temporary and part-time jobs; iii) they are overrepresented in less skilled occupations; iv) businesses owned by immigrants may be more at risk of bankruptcy; and v) they face potential discrimination in hiring and layoffs.
- In the medium to long-term, previous experience has shown that immigrants arriving during a recession face long-term handicaps in integrating into the labour market and fully utilising their skills. Immigrants displaced from declining industries are also at high risk of long-term exclusion from the labour market. Special attention should be paid to these two specific groups.
- ✓ **Delaying or cutting back on integration measures during an economic downturn may have negative long-term implications for integration of immigrants and social cohesion.**
- ✓ **OECD governments should consider: i) maintaining, if not strengthening, their integration programmes; ii) reinforcing their effort to fight discrimination; and iii) ensuring that active labour market policies reach new entrants into the labour market, including recent immigrants, and workers displaced from declining industries.**

Changes in the business cycle are likely to affect migration in- and out-flows and merit specific labour migration policy responses.

- Historical experience shows that the relationship between *net* migration and the business cycle is not straightforward. It depends both on the nature and the scope of the crises, as well as the actions taken by the different stakeholders involved, including the migrants themselves.
- In the current context, evidence is still limited but we observe declining flows in free-mobility areas and in some countries which have been hit first by the crisis. Declines in illegal migration are also visible in a few countries but in the medium-term there is a risk of increasing irregular migration through overstay. Several OECD countries have already adjusted their policies to reduce labour migration. They have done so by i) reducing numerical limits; ii) cutting back shortage occupation lists; or iii) reinforcing the role of labour market tests.
- These measures will be effective to some extent but, in most OECD countries, discretionary migration is only a small part of total flows and there are additional considerations – economic, geopolitical, etc. – which might affect the capacity to adjust migration flows through policy change.
- Past experience has shown that trying to “turn off the tap” of labour migration may dry up legal routes and induce more abuse of the system in the medium term during the recovery phase.
- ✓ **Management of labour migration should be sufficiently responsive to short-term labour market conditions, without denying the more structural needs.**

- ✓ While policy reform undertaken during a recession necessarily responds to public concerns about the impact of immigration, it is important to avoid making changes which leave a country unable to respond quickly to changing labour market needs in the recovery phase.
- ✓ During an economic downturn, trying to increase controls on non-discretionary migration, including family reunion, may induce unwanted effects on irregular migration or integration.
- ✓ Reducing hurdles to return migration, for example by ensuring portability of social rights or offering an option for re-entry, may lead to more returns than financial support through assisted voluntary return programmes.
- ✓ Special attention should be paid to the economic situation in less developed countries as remittances are falling during the economic crisis. More generally, efforts to prevent the crisis from spreading to less developed countries should be reinforced, in part to prevent the current economic downturn from adding to the push factors driving irregular migration.

I. Labour market outcomes of immigrants during the economic crisis

I.1. After a period of sustained employment growth ...

During the past five years, the OECD area has experienced a period of sustained employment growth, with the creation of more than 30 million jobs between 2003 and 2007 (20 million in OECD Europe). Over that period, annual employment growth reached 1.5% (2.5% in OECD Europe) and the unemployment rate decreased from 6.9% to 5.6% (from 9.1% to 6.9% in OECD Europe).

In this context, the contribution of immigrant labour to employment growth has been significant and largely exceeded its initial share in total employment (**Chart I.1**). In the United Kingdom for instance, employment has risen by more than 2 million since 1997, of which almost 1.5 million was accounted for by persons born abroad (71% of the total). In the United States, according to CPS data, employment increased by nearly 15 million between March 1997 and March 2007, while immigrant employment rose by 8.7 million (58% of the total). Immigrant employment has represented at least 40% of total employment growth in Austria, Denmark, Italy and Spain. In recent years, large labour migration flows were recorded in Ireland, Portugal, Spain and the United Kingdom and, in the case of Denmark, impressive progress has been accomplished in recent years in terms of labour market integration of immigrants, which contributed to explain the noteworthy impact of migration on employment growth.

Chart I.1. Immigrants' share in net job creation, 1997-2007 and 2003-2007

Source: European Labour Force Survey (Eurostat) for European countries, except Denmark (StatBank), Current Population Survey for the United States and Labour Force Survey for Australia.

Two factors explain the dynamics of immigrant employment: better integration into the labour market (reflected in higher employment rates) and the entry of new migrant workers to the market. OECD (2008a) analysed the relative contribution of the components of immigrant employment growth. It appeared that even if the dominant effect is generally that associated with the immigrant population trend, labour market outcomes of immigrants have also improved significantly both in absolute terms and vis-à-vis the native-born in most OECD countries¹.

I.2.... the economic downturn is damaging labour market conditions in most OECD countries ...

The recent economic downturn has put a halt to these trends and labour market conditions have been deteriorating rapidly in most OECD countries. Indeed, in the United States and Japan total employment has decreased between 2007 and 2008. The latest available labour market statistics (April 2009) show that the average unemployment rate reached 7.3% in the OECD area in February 2009 compared with 5.6% one year earlier (**Chart I.2**). In the United States, the unemployment rate increased by 3.3 percentage points in the past 12 months to reach 8.1% in February 2009. In total, the US economy shed 2.6 million jobs in 2008, the largest decline since 1945 (-2.45 million). In the United Kingdom, the unemployment rate in December 2008 was 6.4% compared with 5% one year earlier. By February 2009, the number of unemployed people exceeded 3.6 million in Spain and the unemployment rate reached 15.5%, up almost 6.2 percentage points from the previous year. Between February 2008 and 2009, unemployment also increased significantly for example in Ireland (+5.2 percentage points), New Zealand (+2.1), Canada (+1.8) and Denmark (+1.7).

¹ A notable exception is Austria where the employment-rate gap between the foreign-born and the native-born has increased by 7 percentage points between 2003 and 2007.

Chart I.2. Unemployment rates in selected OECD countries

Note: December 2007 and 2008 for New Zealand, Switzerland, Turkey and the United Kingdom, January 2008 and 2009 for Norway.

Source: OECD Key Economic Indicators, standardized unemployment rate.

Nonetheless, worsening labour market conditions are not yet identifiable in all countries because the labour market reacts with a lag to the short-term economic trend. In Germany, the Netherlands, Poland, the Slovak Republic and Austria, for example, there was no visible impact on employment and unemployment rates as of January 2009. In some of these countries however part time work has increased significantly. In Germany for instance, hours worked have declined by almost 11% in the last 12 months to January 2009.

The latest OECD projections available (March 2009) show that in the OECD area the unemployment rate will increase further until end 2010 to reach 10% compared to 6% in 2008. Overall, these projections suggest an increase in the number of unemployed persons in the OECD area from 34 million in 2008 to more than 56 million in 2010. This is the deepest and most wide-spread recession for more than 50 years in the OECD area.

The economic slowdown is affecting workers in certain industries disproportionately. Construction is among the most affected sectors in countries such as Ireland and Spain, where there had been a large boom in residential construction. In Ireland, for instance, the dramatic slowdown in the construction sector in 2008 (-25 000 jobs compared to 2007) explains most of the decline observed in total employment. In Canada also, employment in the construction sector decreased steeply between October 2008 and February 2009 (-6.4%). In February, alone 43 000 jobs were lost in that sector, corresponding to more than a third of all employment losses. In the United States, at the end of 2008, the impact of the economic crisis had already spread to most sectors but it was particularly noticeable in construction (-900 000 jobs lost since the peak in September 2006), in manufacturing (-790 000 in 2008), in retail trade (-522 000) and in financial services (-150 000). During the first two months of 2009 employment declined further by more than 3% in construction (-222 000 jobs) and manufacturing (-425 000 jobs); In the United Kingdom, the finance and business services industry has suffered the most (in the 12 months to December 2008, it lost 220 000 jobs), while in France food processing and manufacturing industries, particularly the car industry, have been the most affected so far.

1.3... and challenges the progress recently recorded in terms of labour market outcomes of immigrants

If the evidence remains too limited to draw a comprehensive overview of how immigrants are faring in the labour market in the current economic crisis, there is ample sign that immigrants and their families may be especially hard-hit. Up to the third quarter 2008, labour market outcomes of immigrants had deteriorated only in a few countries; yet, the foreign-born ceased to close the gap with the native-born in terms of employment almost everywhere. Annex 1, which presents the quarterly changes in immigrant employment and unemployment rates by place of birth over the past two years, provides a preliminary illustration of this trend reversal.

The impact on immigrant labour is much more visible in some countries where the crisis began earlier (e.g. Ireland, Spain, the United Kingdom and the United States), but also because immigrant labour has played a key role in the recent expansion period in these countries. **Chart I.3** shows the evolution over the past 15 years and the last quarters of 2008 of the employment and unemployment rates of the foreign-born, as well as the changes in the gap with the native-born. In the case of Spain

for example, after at least 10 years of continuous improvement, in 2007 the labour market situation of immigrants suddenly deteriorated, and more significantly than for the native-born. In the fourth quarter of 2008, the unemployment rate of immigrants reached 20.3%² and the gap with the native-born increased to 7.8 percentage points. The number of foreign workers registered in the social security system decreased by 13% between July 2008 and February 2009, falling back to its January 2007 level³. During the same period the total number of people registered in the social security system fell by 6.5%.

Chart I.3. Employment and unemployment rates of the foreign-born in Spain, the United Kingdom and the United States

Note: When the evolution follows the arrow, it indicates a progress for immigrants (increase in employment rate or decrease in unemployment rate) both in absolute terms and *vis-a-vis* the native-born. For the United States data refer to March from 1994 to 2007 and to various months for 2008 and 2009. For Spain and the United Kingdom data refer to the second quarter from 1992 to 2007 and to various quarters in 2008

Source: European Labour Force Survey data (Eurostat) for Spain and the United Kingdom, Current Population Survey data for the United States.

For the United States, since March 2008, the employment rate of the foreign-born decreased rapidly and their unemployment rate increased. In February 2009, the unemployment rate of immigrants increased to 10.5% (more than twice the unemployment rate recorded in March 2007). Differences by ethnic background and gender indicate that some groups of people with a foreign background may be disproportionately affected, suggesting that other factors beyond immigrant status, like educational deficits, language fluency or duration of stay are at play to explain labour market outcomes. In the past 12 months to February 2009, the unemployment rate of Blacks and African Americans rose from 8.4% to 13.8%, while that of Asian Americans increased from 3.0% to 6.9%. Corresponding figures for Hispanic workers were 6.9% and 12.1%, respectively.

In the case of Ireland, the crisis is proving to be particularly damaging to those sectors which had been responsible for the economic boom which begun in the 1990s, and where the labour supply of recently arrived EU-8 migrant workers has been concentrated. In this context, and given the high proportion of those working with temporary contracts, recent immigrants from new accession countries are more likely to experience redundancy and suffer from the growing shocks in the labour markets than native workers and previous waves of immigrants. The latest data available show that the number of foreign nationals signing onto the Live Register has more than doubled in 2008, from 26 500 to 54 500 (**Chart I.4**). As of March 2009, almost 75 600 foreigners were registered with the live register, accounting for 20.3% of all registrants (15.7% in February 2008 and less than 9% in December 2004). The increase in people coming from new EU member states is particularly noticeable as it increased from less than 500 people in April 2004 to more than 43 500 people in March 2009. This would suggest that not all EU nationals who lost their jobs have returned to their origin country to look for new employment opportunities. In the case of the United Kingdom, the fourth quarter 2008 shows a much smaller increase in foreign-born unemployment to 7.4%, compared to 6.9% one year earlier (1.3 percentage points more than for the native-born in the fourth quarter 2008).

² There are large differences in unemployment rates of immigrants by region of origin. Unemployment of African immigrants reached 32.8% in the fourth quarter 2008, while unemployment rate of Latin-Americans was close to 19% and that of people originating from new EU member States (A10) was equal to 12.6%.

³ Almost all the decrease is recorded in the general regime, while the number of foreign workers in the agricultural regime increased by about 3% between May and December 2008.

Chart I.4. Non-Irish people on the Live Register¹ by month and nationality 2004-2009

Note : The Live Register is an administrative count of people registering for unemployment assistance/benefit or for various other statutory entitlements at local offices of the Irish Department of Social and Family Affairs.

Source : Irish Live Register.

The fact that immigrant labour is more vulnerable to economic shocks is not specific to this crisis⁴ but results from a number of structural factors. These factors relate to the characteristics of immigrants who may be concentrated in sectors which are more sensitive to business-cycle fluctuations and have on average less secure contractual arrangements. Foreigners employed illegally, but also temporary migrants with a legal status, may be more exposed to tough labour market conditions. Finally, one cannot rule out the fact that selective layoffs and discrimination in the labour market will have a detrimental impact on migrant workers. The next sections explore the main factors which may explain the rapid setback of immigrant employment outcomes.

1.4. Immigrants tend to be overrepresented in sectors which are the most sensitive to the business cycle

If employment distribution by industry of immigrants tends to converge towards that of the native-born (OECD, 2000a), important differences, however, remain as illustrated in Annex 2 for selected OECD countries in 2007.

With very few exceptions, notably for Spain and the United States, immigrants are not overrepresented in agricultural employment but they traditionally play a key role in a number of *manufacturing industries* and *construction*. Manufacturing still accounts for 30% of immigrant employment in Germany and Turkey and for more than 20% in Italy and Austria. *Construction* accounts for about a third of immigrant employment in Greece and a fifth in Spain. In all other OECD countries, *services* account for at least 60% of immigrant employment (up to 80% in Norway, Sweden and the United Kingdom).

A common belief is that immigrants are concentrated in sectors which are more sensitive to the business cycle. This is true if one considers the share of immigrants employed in *construction*, *wholesale* and *hotels and restaurants* (up to about 50% in Greece and Spain for instance), three industries which are subject to big swings in employment, but in many countries a large share of immigrants are also working in sectors such as *health and social work* or *education* where employment is much more stable (usually at least 30% of immigrant employment in Nordic countries for instance). In more than two thirds of the countries for which detailed data are available, immigrants are also overrepresented in “*food processing*”, “*security activities*”, “*industrial cleaning*” or “*private households*”. During a recession, employment in these sectors would also tend to be more resilient.

Preliminary calculations made by the Secretariat provide an evaluation of the business-cycle sensitivity of industries using the percent standard deviation of employment by sector (and country)⁵ (OECD, 2009 forthcoming). *Mining and quarrying* and *construction* followed by *Real estate and*

⁴ Dustmann, Glitz and Vogel (2006) show, in the context of the United Kingdom and of Germany (1981-2001), that “changes in the demand for labour over the economic cycle affect immigrant workers and in particular those from non-OECD countries more than natives”. In the case of Norway, Barth, Bratsberg and Raaum (2004) also find that assimilation rates of immigrants are sensitive to local unemployment conditions.

⁵ Data are from the KLEMS database and refer to the period 1970-2005. Results presented here refer to employment data which have been detrended using Hodrick-Prescott filters. See Annex 3 for detailed results by industry and OECD country.

business activities are on average the most sensitive sectors. A high sensitivity is also observed in “*Hotels and restaurants*” in Portugal and Ireland as well as in the *Financial intermediation* in the United Kingdom.

These results can be compared to the distribution of recent or older immigrants (i.e. less or more than 10 years of residence) in employment by industry. In the case of prior migration waves, the distribution of employment more or less mimics that of the native-born but this is not necessarily the case for recent immigrants⁶. **Chart I.5** shows the distribution of native-born and recent immigrant employment by sector sensitivity to the business cycle. It reveals a mixed picture: in some countries, but not in all, immigrants are concentrated in sectors which are more sensitive to the business cycle. This seems to be the case for instance in Southern European countries as well as in Luxembourg, Finland, France, the Netherlands and to a lesser extent the United States. However, even in these countries, except Luxembourg, less than a third of immigrants are employed in industries which are the most sensitive to the business cycle. In most Nordic countries (except Finland), however, as well as in Austria, Belgium and Germany, the distribution of immigrants employment by sector sensitivity to the business cycle is more comparable to that of the native-born.

In the case of the United States, for example, the relative concentration of immigrants in industries which are sensitive to the business-cycle can only partly account for the large drop in foreign-born employment (**Box I.1**). Other factors are at stake, which may be related to individual characteristics of immigrants in each sector and/or selective layoffs. Furthermore, the current recession in the United States appears to be different from previous ones in that employment losses are more widespread across industries.

Box I.1. The role of employment distribution by industry in immigrant employment changes in the United States (November 2007 – November 2008)

In the case of the United States, we have estimated the share of the observed variation in foreign-born employment which can be related to the initial distribution of immigrant employment by industry. In order to do that we apply the growth rate of employment by industry observed for the native-born between November 2007 and November 2008 to immigrant employment by industry at the beginning of the period. The estimates are then compared to the observed variations of immigrant employment by industry in the 12 months before November 2008 (Annex 4).

The difference between the observed and the counterfactual figures is highest in the *construction* sector: 548 000 jobs have been lost by immigrants in this sector, almost twice the counterfactual estimate (-286 000 jobs). The gap is also important in *transportation and warehousing* (-117 000) and to a lesser extent in *food manufacturing* (-54 000). The reverse is true in *Agriculture* where employment of immigrants has declined less rapidly than for the native-born. In *Education* and *Health* foreign-born employment grew over the last 12 months while native-born employment declined slightly.

If foreign-born employment in each sector had followed the same dynamics as for the native-born, total foreign-born employment would have decreased by 423 000 jobs instead of 940 000. This counterfactual estimate puts the drop in immigrant employment to 1.7%, a figure which is almost identical to the observed decline for the native-born (-1.6%) but which is significantly lower than what has been actually observed for immigrants (-3.6%).

Chart I.5. Distribution of native-born and recent immigrants (less than 10 years of residence) employment by sector sensitivity to the business cycle in selected OECD countries, 2007

Note 1: The sectors of industry used in this chart are the following: A: Agriculture and Fishing, B: Mining, C: Manufacturing non-durable - food products, D: Manufacturing non durable - other products, E: Manufacturing durable products, F: Electricity, gas and water supply, G: Construction, H: Sale, maintenance and repair of motor vehicles, I: Wholesale trade and commission trade

⁶ The difference between the two groups of immigrants can be explained by the fact that immigrants tend to leave entry sectors and 3D jobs (dirty, dangerous and difficult) as they settle in the receiving country.

except of motor vehicles, J: Retail trade, except of motor vehicles, K: Hotels and restaurants, L: Transport & communication, M: Financial intermediation, N: Real estate and renting, O: Computer, research and development, other business activities, P: Public administration and extra-territorial organizations, Q: Education, R: Health and social work, S: Other community services and private households.

Note 2: Industries which are more sensitive to the business-cycle have higher sensitivity indexes.

Note 3: Due to different levels of sector sensitivity to the business cycle in the different countries, the classification of the sensitivity varies among the countries. The most sensible sectors for each country are mentioned below: Austria (4-5: N, O), Belgium (5-6: G), Germany (4-5: A, B, E, G), Denmark (4-5: B, G, H,N), Spain (8/9: G, N), Finland (8/9: G, H), France (3-4: B, G, O), United Kingdom (5-6: G), Greece (5-6: B, N), Italy (4-5: B, N, O), Luxembourg (4-5: B, G, M, O), Netherlands (8/12: B, O), Portugal (12/13: N, O), Sweden (5-6: B, G, O), USA (4-6:E, G; 6-7: B, H). For further information see annex 3.

Source: European Labour Force Survey 2007, population aged 15-64. United States: Current Population Survey, March Supplement 2007.

1.5. More temporary and part-time workers among immigrants

Typically, during economic downturns employers initially try to avoid firing permanent workers when adjusting their workforce because of short-term and long-term financial costs. A recession is generally expected to be initially associated with a cutback in working hours while conversely employers increase the hours of their workers during recovery before hiring new employees (Rones, 1981). At the same time, temporary employment is expected to decline during the initial phase of the recession followed by a rise from the trough to the end of the recession (Holmlund and Storrie, 2002).

There is already ample evidence of increasing involuntary part-time work and decreasing temporary employment in OECD countries. Between early 2008 and 2009, involuntary part-time employment increased by 8.6% and temporary employment decreased by 4.4% in the United Kingdom. Employment in temporary work agencies decreased by 33.3% in France in the past 12 months to February 2009. Likewise, between January and September 2008, temporary employment fell by 8% in Spain. In most OECD countries immigrants are overrepresented in temporary jobs (**Table I. 1**). This is notably the case in Belgium, the Czech Republic, Greece, Finland, Hungary, the Netherlands, Norway, Portugal, Spain and the United Kingdom, where the share of immigrants in temporary employment exceeds that of the native-born by at least 50%. In all these countries, the short-term impact of the economic crisis on immigrant labour is likely to be significant. A decrease in temporary jobs and/or fixed-term contracts is also an additional hurdle for *new* entrants into the labour market, notably for the young and recent immigrants, as these have become a stepping stone to permanent employment.

Table I.1. Share of different types of employment in total employment by place of birth (15-64), 2007

Note: Self-employed excludes agriculture.

Source: European Labour Force Survey data (Eurostat) for European countries, Current Population Survey data for the United States, 2006 Census of Population for Canada and Australia (except for part-time full-time employment for Australia : Labour Force Survey).

In the United States, in February 2009, 8.6 million persons were employed part-time for economic reasons (6% of total employment), up 4.7 million from a recent low of 3.9 million in April 2006 (BLS, 2008). This phenomenon is accentuated in *retail trade*, *food services* and *construction*, three sectors which account for more than 30% of immigrant labour. In Germany, the number of people working short-time increased from February 2008 to February 2009 from less than 20 000 to 700 000⁷. Large manufacturing firms, notably in the *vehicle industry*, have announced their intention

⁷ A similar trend can also be seen for example in Austria. By the end of February 2009, the number of people working short-time was close to 24 000 and was expected to increase further to 30 000 in the coming months.

of reducing working hours. The rise in part-time employment could continue as the federal government has extended state subsidies for short-time work pay from 6 to 18 months. In Canada, the decline observed in December 2008 in full-time employment (-71 000) was partly offset by an increase in part-time employment (+36 000). The situation is comparable in the United Kingdom where in the 12 months to November-January 2009 part-time employment increased by +60 000 while full-time employment fell by 90 000. What the impact of this trend will be on immigrants remains uncertain, but their share in part-time work could increase notably in sectors such as *construction* where they represent an important share of the workforce.

1.6. Self-employment: a blessing or a curse for migrant workers

Another characteristic of immigrant workers is that, in some countries, they are overrepresented in self-employment (**Table I.1**). This is notably the case in Belgium and France as well as in most Nordic and Central and Eastern European countries. To some extent, this is also true in the United States and the United Kingdom. The relative importance of immigrants in self-employment could reflect a good integration in the host country or a willingness to take advantage of ethnic business opportunities, but it could also be an illustration of the fact that, to cope with difficulties in entering the labour market (insufficient social capital, language difficulties, problems with the recognition of qualifications, etc.), some categories of immigrants are using self-employment as a fall-back solution (Clark and Drinkwater, 1998; Fairlie and Meyer, 1996).

Evans and Leighton (1989) find that, in the case of the United States for males, entry into self-employment is positively correlated to working in a relatively low-wage job and having experienced relatively frequent and long spells of unemployment. This tends to support the hypothesis that self-employment may be a way to circumvent difficulties in the labour market. Constant and Zimmermann (2004) specifically test this hypothesis for native and immigrant workers in Germany. They also find that self-employment is an important channel to escape unemployment and that it is a relevant strategy especially for migrants. There is, however, little supporting evidence that this type of behaviour is likely to be successful during economic downturns. With restricted access to credit and adjustments in household consumption, business opportunities and the capacity to finance them are certainly reduced during a recession. It is therefore unlikely that immigrants, who have limited assets, would find here a way to mitigate the negative impact of the weak labour market situation.

In fact, it is possible that, on average, small businesses owned by immigrants may be more at risk of bankruptcy in the current context than those owned by the native-born. This is due *inter alia* i) to the fact that immigrants tend to have smaller businesses; ii) that they are largely overrepresented in *hotel, restaurants* and *wholesale* which are hit first during a crisis; and iii) those who provide services or trade products which are geared toward their communities may be adversely impacted by a decrease in their clients' income. In Spain, between June 2008 and February 2009, the number of self-employed immigrants declined by 24.4 000 (almost -10%)⁸. In Italy, the number of individual businesses owned by those born outside the EU rose by 15 079 in 2008, a smaller increase than in 2007.⁹

Furthermore, it is possible that false self-employment of migrants in subcontracting chains is non-negligible in specific sectors such as *construction*. In this case, the current economic outlook threatens this sort of employment, which is part of the wider phenomenon of illegal employment of foreigners (**Box I. 2**). In the context of the European Union, concerns were raised that this phenomenon may have

⁸ In December 2008, about 25% of the self-employed immigrants were in *construction* and 24% in *sale and repair of motor vehicles*.

⁹ Individual enterprises (*ditte individuali*) whose owners were born in the EU incl. Italy had a failure rate of 7.8% in 2008, compared to 9.6% for those by owners born outside the EU.

been exacerbated by the fact that restrictions on the free movement of workers under transitional arrangements only apply to people who want to take a job as a dependent employee but not as self-employed. Recent evidence provided by the European Commission, however, seems to contradict this hypothesis (European Commission, 2008).

Box I.2. Illegal employment of foreigners during an economic crisis

Previous work carried out by the OECD (OECD, 2000b, 2004) has shown that the relative importance of illegal employment of foreigners was related to the size of the underground economy in general, which may expand during a strong economic downturn. This could be due, for instance, to increasing unpaid overtime, as employees face rising pressure to increase their work effort, or to growing undeclared employment, in some service sectors notably.

The impact of business-cycle fluctuations on current illegal employment of foreigners is *a priori* ambiguous. On the one hand, immigrants employed illegally are less protected and thus easier to layoff when employers are trying to adjust their workforce. On the other hand, employers may prefer to cut back first on higher paid legal employment, everything else being equal. In any case, much will depend on the distribution by industry of unauthorized foreign workers.

In the case of the United States, for instance, Passel (2007) shows that unauthorized workers are not especially concentrated in specific sectors, except in *construction* (20% of illegal employment of foreigners) and in *the leisure & hospitality industry* (17%). In Southern European countries, recent regularization programmes have shown that unauthorized migrants were most likely to be in *private household services*. In Italy, for instance, half of the 700 000 applicants during the 2002 regularisation were domestic workers. In Spain during the last regularization of 2005, about 32% of the applicants were domestic helpers; 21% worked in *construction* and 15% in *agriculture*.

1.7. Fighting discrimination and selective layoffs

During a recession hiring tends to decline and job losses to increase. The timing and the relative importance of these two phenomena, however, varies between groups of workers¹⁰. In any case, even during a downturn job creation does not stop¹¹. One might hypothesise nevertheless that selective hirings are more common during a recession as protection of local employment gains importance. Evidence of hiring discrimination on racial and ethnic grounds is supported by numerous studies applied to a wide range of OECD countries (OECD, 2008b). Much less analysis has, however, been carried out on selective layoffs.

Gibbons and Katz (1994) provides a theoretical framework to illustrate the fact that if firms have discretion as to whom to layoff they will chose to fire low-productivity employees first. When re-employed, these workers will receive a lower wage, as their earlier layoff is used as a signal by future employers¹². Statistical discrimination occurs when employers use race, gender and other “external signals” as a predictor of productivity¹³.

¹⁰ There is a very large literature on the cyclicity of job loss and hiring, mainly applied to the United States, which can be split between two main hypotheses: i) the “separation-driven” model where employment adjustment is associated with initial waves of job loss, followed by increased hiring activity as the economy recovers, ii) “hiring-driven” model which ties employment adjustment to variation in job-finding rates with little role for job-loss rates.

¹¹ In the case of the recession of the early 1980s in Canada, Lemaitre, Picot and Murray (1992) show, for instance, that there was a reduction of hiring by 50% but that a significant portion of that was due to lower turnover.

¹² Further studies have discussed the robustness of these findings. Song (2007), for instance, shows that not taking into account recall rates significantly biased the estimation. Nakamura (2008) shows that “the

Experience in the job is generally a key determinant to explain dismissals. Recent entrants into the labour market, including recent immigrants, face *ceteris paribus* a higher risk of losing their job during an economic downturn. Countries with the highest share of recent immigrants among employed immigrants in 2007 are therefore more likely to witness a strong deterioration of immigrant labour market outcomes. Such countries include Ireland, Spain and the United Kingdom (**Table I.2**).

Two specific Swedish studies, however, identify a significant and strong effect of place of birth on unemployment risk. Controlling for education, seniority and sector, Arai and Vilhelmsson (2004) show that during the early 1990s economic crisis, non-European immigrants faced an unemployment risk twice as large as natives. This has occurred despite the fact that the Swedish Security of Employment Act stipulates that the order of dismissals in case of layoffs should be based on seniority¹⁴.

This calls for maintaining scrutiny as well as reinforcing prevention and sanctions against discrimination during an economic downturn because the risk of ethnic stereotyping or exclusion is higher, with a potential negative impact on the long-term integration of immigrants.

Further analysis is, however, required to better identify the relative importance of individual characteristics, including the place of birth, on the risk of unemployment in the current economic crisis¹⁵.

Table I.2. Distribution of employed immigrants by duration of stay in selected OECD countries, 2007

Source: European Labour Force Survey (Eurostat) for European countries and Current Population Survey for the United States.

II. Impact of the economic crisis on migration flows and policy responses

Faced with a sharp slowdown in economic activity, employers have started to revise their plans in terms of recruitment and some governments have already taken action to adjust labour migration to the changing labour market needs. At the same time, immigrants, both in the receiving country and in the origin country, are reconsidering the “opportunity differential” associated to emigration and return. The overall impact of changes in the business cycle on net migration flows is indeed complex and depends on the nature and the severity of the crisis, on the scope of the actions taken by the main stakeholders involved as well as the economic and social conditions in origin countries. This section tries to get a sense of the very recent migration trends based on the latest data available and describes the changes in migration policy made by OECD countries in reaction to the crisis. To better

unemployment arises from a combination of selection and bad luck. During recessions, the proportion of workers who are laid off due to low productivity declines, diminishing the adverse signalling effect of an unemployment spell”.

¹³ One study by Hu and Taber (2005) looks at the impact of race on layoff in the US context. Their results do not support the hypothesis of selective layoffs but underlines heterogeneity in taste discrimination across firms.

¹⁴ See also Le Grand (2000) for similar results.

¹⁵ The data currently available, for the third quarter 2008, are not recent enough to capture a strong shift in labour market outcomes in most countries. When they become available the Secretariat will analyse second quarter 2009 LFS data and CPS 2009 March supplement to identify the impact of individual characteristics of persons employed in Q2 2008 on their probability to be unemployed in Q2 2009, controlling for gender, age, education, place of birth, local labour market growth, industry, as well as the interactions between the individual demographic characteristics and industry and the role of employment protection.

understand how the current economic crisis might affect migration flows it is, however, useful to turn quickly to history to estimate the potential correlation between net migration and the business cycle.

II.1 Business cycles and net migration are related, but the relationship is not universal...

In recent decades, migration flows in many OECD countries have been closely correlated with economic cycles (OECD, 2000a). **Chart I.6** shows the co-evolution of net migration rates and the growth of the employment-population ratio in selected OECD countries for which time-series data are available back to the 1960s. It indicates the extent to which migration flows have matched the economic cycle and fluctuations in labour demand. In most cases, there is a visible correlation between the business cycle and net migration, downturns being marked by a rapid reduction of migration and recoveries by an increase, the correlation being particularly noticeable during the most severe slumps. There are only a few cases (Germany and Switzerland) where net migration became negative during an economic downturn. This was also the case in the United States during the Great Depression (**Box I. 3**).

This relationship is, however, not universal, nor it is constant over time. For example, in the United States and Sweden, net migration rates appear much less connected to the economic cycle than in countries such as Australia, Germany and Switzerland. From the early 1980s – or the early 1990s in some countries – the correlation between the two series weakens. This is particularly striking when comparing the impact of the 1993 recession on net migration in European countries to that of 1975. For some countries, a lag appears between the business cycle and the change in migration flows (Australia, Canada and Switzerland after 1990), while for others, the correlation disappears almost entirely (France after 1980 or Germany after 1993).

A first factor explaining the positive correlation between the business cycle and net migration rates is the reaction of immigration flows to economic demand: when labour demand increases, part of the additional supply comes from abroad. While these “foreign recruits” might go through very different institutional arrangements from one country to another, potential migrants will usually manage to find an entry channel provided the pull effect is strong enough. In a downturn, demand for foreign labour drops and the incentive to migrate lessens. This is what drove migration flows in Western European countries before the mid-1970s crisis, through temporary labour migration programmes (*guestworker* programmes) aiming to supply labour to the economy during the post-war reconstruction and subsequent economic expansion.

A second important explanation is that net migration also includes *outmigration*, i.e. exits of nationals or foreigners. While immigration is subject to policies restricting inflows, there is no control on exits. A poor economic situation might therefore push residents to leave the country (not necessarily permanently) to seek a job abroad. Among OECD countries, this mobility is particularly strong between countries sharing a common language and/or within a free-circulation area. A typical example is the case of Australia and New Zealand, where relative geographical proximity is an additional factor.

Chart I.6. Net migration rate and the business cycle in selected OECD countries, 1960-2007

Source: Annual Labour Force Statistics (OECD), National Accounts Statistics (OECD).

Migration policy also contributes to shape the relationship between the business cycle and net migration. Governments have the possibility to reduce labour migration inflows in reaction to the labour market situation or the state of public opinion during a crisis. This occurred during the mid-1970s crisis in several Western European countries: labour immigration was suspended in Germany at

the end of 1973, and in France and Belgium in 1974. There was even a suspension of family migration in France from July 1974 to July 1975.¹⁶ These restrictions led to a significant drop in net migration rates (e.g. Belgium, France, Germany, Switzerland; see Chart I.6).

In most European countries, legal labour migration channels remained closed or limited for a long time after the 1980s. This led to an important change in the composition of migration inflows, with family and humanitarian migration channels becoming much more important. Since these non-discretionary inflows are much less sensitive to the business cycle, these policy changes led to the disconnection between net migration and the business cycle that can be observed for several countries in Chart I.6.

This disconnection has persisted in the past decade for several Western European countries where labour migration policies are still very restrictive. Nonetheless, for several other OECD countries, such as the United States and some European countries (e.g. Spain and Ireland), the positive relationship between employment growth and net migration has been very visible since the 1990s. As noted in Section I, immigration has been an important factor in the recent economic expansion of several OECD countries; if the same relationship holds during the current downturn, one can therefore expect a stronger decrease of net migration in these countries.

Box I.3. Immigration and the Great Depression in the United States

When the Great Depression started in 1929, the United States had been enacting restrictive immigration policies for more than ten years, and migration inflows before the crisis were much lower than they had been in earlier periods (Hatton and Williamson 2008). Despite this, the crisis had a very significant impact on migration flows to and from the United States.

Following more than 20 years of political debate, the first major restrictive immigration law was passed in 1917 (Immigration Act of 1917). The two main provisions were the exclusion of illiterate aliens from entry and the creation of the Asian “barred zone”, natives of which were declared inadmissible.¹⁷ The Emergency Quota Act of 1921, which was voted in reaction to rising concern over the economic impact of immigration, established national-origin quotas, with entries being limited based on the distribution of the foreign-born population in 1910.¹⁸ Under this Act, about 350 000 aliens were permitted to enter each year as quota immigrants, almost exclusively from Europe.¹⁹ The Immigration Act of 1924 made the quota system permanent and further reduced the national quotas, setting them to 2% of the total number of people of each nationality in the United States as of the 1890 national census. The Act of 1924 also extended the Asian migration restriction to Japan.

These anti-immigration policies resulted in a dramatic reduction of inflows to the United States in a relatively short time (**Chart I.7**): during the decade 1919-1929, an average of 400 000 new permanent immigrants were admitted each year, half the pre-war flow (on average 800 000 per year during the period 1900-1914). However, the United States was still viewed as a very attractive destination: between 1923 and 1929, immigration flows subject to national quotas reached an average of 93% of the overall authorised quota, with some major origin countries filling their quota almost every year. Immigration from Canada and Mexico was not constrained by

¹⁶ In fact, the idea of restricting immigration in France predated the first oil price shock: administrative decisions were taken in 1972 to make the issuance and renewal of residence permits conditional on employment. But these decisions were later overturned after hunger strikes led by migrant workers.

¹⁷ A law to exclude illiterates from entry was first discussed in 1897 in Congress and almost passed; it was debated again several times before 1917, but was either not supported by a majority or was vetoed by the President (Goldin, 1993). Chinese people were already excluded from immigration since the Chinese Exclusion Act of 1882. The “barred zone” extended the restriction to many other Asian countries, a notable exception being Japan (under the Gentlemen’s Agreement of 1907).

¹⁸ Entries were limited to three percent of the population of each national origin in the 1910 census.

¹⁹ No quota was established for immigrants from the Western Hemisphere.

quotas. While it represented only 13% of inflows in 1921, it rose to an average of 45% of inflows for the years 1925-1928.

As the economy contracted, unemployment rose sharply and earnings declined, which made immigration to the United States less profitable and more costly (including for immigrants already living there and considering family reunification). Starting in 1930, quotas were no longer filled and immigration subject to quota dropped by 62% between 1930 and 1931 and again by 76% the year after. As a result, there were less than 10 000 new immigrants admitted from quota countries in 1933, representing only about 5% of the total numerical limit. With the exception of Southern and Eastern European countries on the eve of World War II, no source region sent more than 40% of its annual quota in the 1930s.

Chart I.7. Immigration and economic growth in the United States, 1900-1988

Note: The number of immigrants corresponds to the number of immigrant aliens admitted for permanent residence. Immigration data are on a fiscal year basis.

Sources: GDP growth: A. Maddison (2008) Historical Statistics for the World Economy: 1-2006 AD for 1900-1929 and US Bureau of Economic Analysis for 1930 onwards. Immigration: US Immigration and Naturalization Service (2003) 2001 Statistical Yearbook of the Immigration and Naturalization Service.

Immigration from countries exempt from quotas (mainly Canada and Mexico) also decreased dramatically. Migration from Mexico was the first to decline, with inflows falling 69% between 1929 and 1930, and 76% the year after. Inflows from Canada declined by 64% between 1930 and 1931, and further by 62% between 1931 and 1932. As a result, total inflows from both countries were about 20 times smaller in 1932-1935 than in 1925-1928 (7 000 vs. 140 000).

The economic crisis also increased emigration from the United States, typically by foreign-born people returning to their countries of origin. The overall rate of net migration of aliens to the United States dropped sharply in 1931 and became negative for the years 1932-1935. Mexico experienced significant return migration flows from the United States. Meanwhile, emigration was also much more prevalent among US citizens themselves. In 1932 and 1933, for instance, there were almost as many native-born US citizens who departed permanently as immigrant aliens who arrived in the country (US Department of Commerce, *Statistical Abstract*, various years).

II.2 Impact of the current crisis on labour migration flows

It is still too early to see changes in flows...

Some limited evidence of declining labour migration flows can be found in some OECD countries when comparing entries during 2007 and 2008. However, in most countries, the time it takes for the economic shock to affect the labour market and the lag between application and authorisation of entry mean that the drop in labour demand will result in declines in entries only with some delay, probably in the course of 2009.

... but a few countries show signs of a decline in inflows...

Among the countries which were first affected by the economic downturn, some indication of diminishing flows are available.

In the United States, some decline occurred in Fiscal Year 2008. The number of H-1B visas, which are the main employment-related temporary visas issued, declined by 16%, from 154 000 to 129 000. In addition, in 2009, for the first time in years, the 65 000 cap for H-1B visas was not reached in the first week of filing applications. There is further evidence of changes in the inflows of undocumented migrants; according to the Pew Hispanic Center (Passel and Cohn, 2008), since 2007 annual inflows have dropped to about 500 000 rather than the 800 000 during the first half of the decade. While sectors employing undocumented immigrants – especially construction – began to suffer in 2007, it is however impossible to link the lower inflow of undocumented migrants

exclusively to changes in the labour market in a context of increased workplace and border enforcement.²⁰

According to the Mexican labour force survey, emigration (primarily to the United States) has been falling since 2006 (**Chart I.8**) while inflows – including returns from the United States – have been relatively constant. The net annual outflow of Mexicans declined by 55% to 204 000 people between August 2007 and August 2008. 127 000 Mexicans went abroad in the last quarter of 2008, down 12% from 2007 and 37% from 2006.

In Spain, total immigration flows continued at the same rate in 2008, according to the population registry data²¹. However, entries seem to be on the decline. New entries under the employer-nominated system (Regime General) fell from more than 200 000 in 2007 to 137 000 in 2008. In Catalonia, which leads Spain in terms of resident foreigners, applications for all categories of permits (first work permits, renewals, family reunification and residence) fell by 15% in 2008. New work permits in Catalonia declined from 58 800 to 42 300 in January-November 2008, compared with the same period of 2007. In the Balearic Islands, work permits issued in the first half of 2008 fell to about 8 000 compared to almost 14 300 for the first half of 2007. Family reunification fell significantly in 2008: less than 100 000 in 2008, compared to 128 200 for all of 2007.

In Italy, the downturn may have led some employers to abandon applications they had filed when the business outlook was better²². In 2008 about 10 000 employers (5.6% of processed applications) withdrew requests they had filed in December 2007.

Australia has witnessed a decline in the monthly number of lodgements for temporary skilled migrants. In the 12 months before February 2009, employer applications were down 11%. The declines were most pronounced in the construction, mining and manufacturing sectors. In parallel, Australia recorded an increase in working holiday makers (long-stay temporary migrants with working rights) from countries whose economic conditions have deteriorated more quickly (e.g. United Kingdom and Ireland).

Within the European free-movement area, some lessening of the rate of new entries has been seen in the United Kingdom and Ireland. Fourth-quarter 2008 Worker Registrations²³ in the United Kingdom were down 45% (from 53 000 to 29 000) compared to the corresponding quarter of 2007 (**Chart I.9**). Approvals and first permissions for other workers in the first three quarters of 2008 were down 3% compared with the previous year. Poland remains the main sending country to the United Kingdom but the number of new immigrants fell significantly. New Worker Registrations for Polish citizens in the United Kingdom declined from 36 000 to 16 000 between Q4 2007 and Q4 2008. According to Polish Labour Force Survey figures, emigration flows declined in the second quarter of 2008 for the first time since the early 1990s.

²⁰ Interceptions of border crossers by the United States Border Patrol have been declining. Arrests were down 24% in October 2008 through February of 2009 compared to the same period a year earlier, and the annual rate has dropped to the level of the mid-1970s.

²¹ The number of undocumented immigrants struck from the population registries because of non-renewal (and presumed to have left Spain) rose sharply from 2006 to 2007 (56 600 to 134 700).

²² In Italy, processing of applications can take more than a year.

²³ The Worker Registration Scheme (WRS) allows citizens of the EU-8 to access the United Kingdom labour market. This is not necessarily permanent migration: about 60% of those registering with the WRS stated that they planned to spend less than 3 months in the United Kingdom.

Iceland, perhaps the OECD country hardest hit by the economic downturn, saw almost a complete halt to free movement labour migration, which had significantly increased the Icelandic labour force. New entries to the labour market in the second half of 2008 were about 1/3 the level of the previous year, and dropped to almost nothing in early 2009. In December 2008, 1 270 (16%) of the unemployed were foreign workers. With unemployment continuing to rise in the sectors which employed most foreign workers – primarily construction – foreign workers have been leaving Iceland. The Icelandic Department of Labour estimates that about 1/3 of the 16 000 foreign workers in Iceland in August 2008 had left by the end of the year.

Chart I.8. International migration from Mexico, by quarter, 2006-2008

Source: Mexican Labour Force Survey, INEGI memorandum 55/09, 2009.

Chart I.9. First time applicants to the Worker Registration Scheme, United Kingdom, May 2004 to December 2008

Source: Border Agency, United Kingdom Home Office.

Chart I.10. New registrations of citizens from selected new EU member countries with the Irish social security system, 2006-2009

Source: Department of Social and Family Affairs, Ireland.

In Ireland, about 74 000 Personal Public Service (PPS) Numbers were issued to non-Irish workers in the second half of 2008, about 34 000 (31.4%) fewer than in the same period of 2007.²⁴ The decline is evident looking at figures for 2006-2008 (**Chart I.10**). New registrations in the last four months of 2008 were about half those for the same period of 2007. Ireland also saw the number of new work permits issued to non-EU workers fall by 30% in the twelve months through the end of February 2009, to 7 600, compared with 10 800 for the previous period.

In the Netherlands, the rate of increase of movement of workers from the EU also appears to have levelled off. Restrictions were lifted on 1 January 2007 on access to the labour market for citizens from the 2004 EU accession countries. The number of workers from these countries rose three-fold by September 2007, to almost 80 000, but rose less sharply over the following nine months.

Not all free-movement countries saw important declines in inflows. Norway and Sweden, neither of which impose restrictions on labour migration from A8 countries,²⁵ saw ongoing increases in free-movement inflows through 2007. In the first quarter of 2008, Sweden saw smaller free-movement inflows than the same periods in 2006 and 2007. Norway, where economic growth continued through 2008, saw a slight rise in A8 labour migration in 2008, but migration from all countries was also rising. The share of EEA citizens as a proportion of all immigrants (66%) was unchanged between 2007 and 2008. Norway, however, saw much more of a seasonal decline in the total foreign labour force in late 2008 than it had seen in the previous two years.

²⁴ Figures for January-August 2008 showed that compared with the same period of 2007 (111 000 compared to 152 000) there was a 55% drop in PPS numbers issued to Romanians, 43% to Polish, 40% to Lithuanians and 36% to Slovaks.

²⁵ Norway does not cap or condition hiring, but does require a full-time job offer and compliance with the same salary and working condition standards in force for Norwegian nationals.

II.3 Migration policy in response to the crisis

Rising unemployment generally leads to pressure on policy makers to limit inflows of foreign labour. Depending on the main characteristics of labour migration programmes, the levers that policy makers can use to adjust inflows to the changing conditions in the labour market include: i) adjusting numerical limits; ii) strengthening the labour market test; iii) limiting possibilities to change status and to renew permits; iv) applying supplementary conditions to non-discretionary flows; and v) promoting return migration. The following section reviews the changes taken by OECD countries in the management of labour migration in response to the economic slowdown, and in conclusion raises the issue of policy responsiveness.

Demand-driven migration policy is already reducing flows.

The principal brake on labour migration is a fall in demand. With the exception of permanent migration programmes in the so-called settlement countries and, in a few other countries, the very highest qualified workers, most OECD countries require labour migrants to have a job offer prior to immigration. As demand for immigrant labour declines, job offers also fall, reducing the number of entrants (**Box I.4**). This has already been seen in the United States and in Ireland, as noted above.

How quickly do flows reflect demand? There is a *processing lag*, which varies significantly among countries and between categories. Processing times for authorisation of immigrant workers can be long in some countries, and the job for which they were originally hired may disappear in the meanwhile. The United States Employment-Based Permanent migration programme, for example, has backlogs of 4-8 years, and the job offer may well disappear during the waiting period. Many OECD countries require confirmation that the job for which the foreigner was originally hired still exists after visa issuance and arrival. Korea requires a valid contract to be signed before a visa is granted to the foreign worker.

Even with such a check in place, there is an inevitable lag between a fall in demand and a fall in entries. Nonetheless, a prior job-offer requirement provides the most effective link between managed labour migration and demand. Australia has reinforced this link by ensuring employer-sponsored immigration is given priority placement in the queue for permanent skilled migrants as of 1 January 2009.

Box I.4. Demand for H-1B visas and the burst of the IT bubble in 2001

The bursting of the IT bubble in the United States highlights the very strong responsiveness of sector-specific labour migration flows during a sector-level crisis, especially in the context of a demand-driven labour migration system. Following the crash of the NASDAQ in March 2000, the flow of capital to the computer industry diminished markedly and many companies reduced their labour force; a non-negligible number of start-up companies failed. As shown in **Chart I.11**, employment in the sector declined significantly (total employment in 'Computer systems design and related services' peaked at 1.33 million in May 2001 and fell to 1.1 million in 2003).

During the previous years, as the IT bubble developed, US-based computer services companies increased their recruitment of temporary foreign workers through the H-1B visa programme. To accommodate this rising demand, the H-1B quota was raised twice, from 65 000 to 115 000 in 1999, and then to 195 000 in 2001. In 2002, however, just over 100 000 initial employment petitions were approved, about half the number of the previous year. Almost 90% of the decline was due to computer-related occupations. While these occupations represented more than 55% of all new H-1B visas issued between 1999 and 2001, that share fell to less than 30% in 2002 and 2003.

Chart I.11. The IT bubble in the United States: H-1B initial employment petitions approved and quota, employment growth in computer services and the NASDAQ Index, 1995-2006

Note: Starting in 2001, H-1B visas for workers employed at universities, non-profit and governmental research organisations are exempted from the numeric restriction. In 2005, the 65 000 cap was supplemented with 20 000 visas reserved for foreign students having attained at least a Master's degree from a US educational institution.

Sources: H-1B applications approved: US Department of Homeland Security, Characteristics of Specialty Occupation Workers (H-1B), various years. Employment in Computer systems design and related services: Current Employment Statistics, US Bureau of Labor Statistics.

Many countries have lowered their numerical limits for temporary migration, but permanent targets remain unchanged...

Quotas, targets and caps determine the total number of entries for labour migration in a number of OECD countries. Some changes have been made in these levels in response to the current economic slowdown.

Spain sharply reduced its ceiling for non-seasonal workers to be recruited anonymously from abroad (*Contingente*) in 2009. In mid-December 2008, the *Contingente*, which sets annual regional caps by occupation for workers was set at 901 for 2009, compared to 15 731 in 2008.²⁶ This drop was justified on the basis of unemployment figures by occupation. Madrid saw its *Contingente* reduced to zero, while Catalonia was negotiated down from 1 439 to 388 potential recruits.

Italy chose to lower its quota for entries as well. It had imposed a ceiling of 170 000 in 2007, and received more than 700 000 applications. In December 2008, noting the rise in unemployment and the forecasts of lower demand, it set a ceiling for 2008 of 150 000, limiting entry principally to domestic work and only taking applications from the backlog.²⁷ Significantly, with reference to the economic crisis, the government justified the quota by only taking applications from the backlog, claiming that most of these applicants were already in Italy without documents. The government has announced its intention to set a quota of zero for non-seasonal work in 2009 (the seasonal quota for 2009 is 80 000, the same as in 2008).

Korea froze recruitment under its Employment Permit System (EPS), which involves temporary employment of foreign workers recruited under bilateral schemes, in December 2008. The quota of 72 000 had been reached for the first time since the EPS was introduced in 2004, largely because of a rise in the renewal rate among workers already in Korea. In March 2009, the quota was set at 17 000, and an quota of 17 000 was also set, for the first time, on entries of ethnic Koreans (Korea had previously allowed ethnic Koreans to come to work in Korea with family sponsorship, without a quota). In December 2008, because of concern over competition with citizens, the Korean Ministry of Labour announced plans to impose a quota on the employment of foreigners on construction sites, aimed at the non-discretionary migrants who work in the sector. Ethnic Koreans are also excluded from construction work under the 2009 quota.

In contrast to the countries cited above, the traditional settlement countries of the OECD set economic migration objectives (targets) for permanent inflows. Entries do not necessarily require a job offer and reflect long-term planning objectives largely unaffected by economic growth. Most of these

²⁶ Seasonal work and nominal recruitment (general regime) are uncapped, although they are subject to a labour market test and are expected to decline in 2009, as already seen in 2008.

²⁷ Within the backlog, only citizens from countries with which Italy has signed bilateral agreements on migration are eligible for non-domestic work, subject to national quotas. These national quotas represent 44 600 of the total; the 105 400 other entries are open only to domestic workers from other sending countries.

countries have not so far changed their permanent migration targets in response to the economic situation.

Canada sets a target for permanent economic migrants, comprising different categories of workers (skilled, provincial nominees, care workers, etc.). The 2007 target of 141-158 000 was reduced slightly for 2008, to 139-154 000, and maintained at approximately that level for 2009²⁸. Australia admitted almost 160 000 migrants under its programme in 2007, a rise of about 10 000 over 2006. The target for 2008 is 190 000, reflecting confidence in long-term growth, although this target may be reduced in 2009. Within this total, the target for skilled (permanent) migration has become a cap. The cap was first set at 133 500 in December 2008 but lowered to 115 000 in 2009 in response to increasing concern over the impact of the economic crisis. The ceiling and composition for permanent entries to New Zealand is set annually by the Cabinet under its New Zealand Residence Programme (NZRP). It has been largely unchanged for the past few years, at 45-50 000, of which about 60% is intended to be economic. New Zealand admitted about 25 000 skilled migrants under its programme in 2007.

Finally, the United States admits labour migrants (with a few exceptions) according to caps set by Congress which can only be changed through Congressional legislation. The permanent migration cap of 140 000 was set in 1990 and comprises different economic categories; family members are included in the calculation of the cap. Caps are also applied to temporary migration programmes: those for the H-1B and H-2B programmes, 65 000 and 66 000 respectively, have not been changed over the past 5 years. The possibility to extend the H-2B visa, granted in 2006-2007, was allowed to expire in 2008, although it is not clear if this was linked to the economic downturn.

Shortage lists have been reduced...

In a number of countries, a shortage list is used as one criterion for admission, to provide points under a point-based system, or to exempt immigrants from a labour market test. Such lists aim to facilitate or accelerate international recruitment in occupations judged to be in shortage. Shortage lists in OECD countries have already evolved in response to the crisis.

The sharpest reduction in shortage lists can be seen in Spain, where the list for both the *Regime Generale*, which exempts nominal requests from a labour market test, and the *Contingente*, used as criteria for anonymous recruitment from abroad, were curtailed significantly. In October 2008, the quarterly *Regime Generale* “catalogue of difficult-to-cover occupations” contained 32% fewer occupations than the previous list. The occupations which were eliminated, however, represented almost all hiring from abroad. Some occupations (painters, care assistants, waiters, bricklayers, welders, electricians, carpenters, locksmiths, cooks, gardeners, agricultural labourers) disappeared altogether. Only very specific occupations (sports, trainers, doctors, neurosurgeons, dentists, optician, nurses or physiotherapists; specialised mechanics) – mostly qualified – remained. These cutbacks continued in the first list for 2009.

²⁸ However, in November 2008 Canada changed the procedures for reviewing applications in the Federal Skilled Worker category in order to be more responsive to labour market pressures and to reduce a backlog of approximately 600 000. Instead of reviewing all applications, the Minister of Citizenship, Immigration and Multiculturalism establishes criteria for pre-screening applications for skilled permanent migrants (currently, a job offer, status as a foreign national who has been living legally in Canada for one year as a Temporary Foreign Worker or an international student, or one year of continuous full-time or equivalent paid work experience in the last ten years in one of 38 occupations on a shortage list drawn up in consultation with provinces, territories and stakeholders).

Italy's annual quota contains reserved quotas for a number of occupations, which reflect a sort of shortage list. Most (at least two-thirds) of the 2008 quota – to be used for entries in 2009 – was set aside for domestic and personal care workers, the only sector where demand was considered to be significant.

In the United Kingdom, the Migration Advisory Committee, charged with establishing the shortage list, uses 12 indicators of shortage, including vacancy rates, wages, and employment and unemployment data; it currently reviews its shortage list about twice annually. The current list contains 19 occupation categories and focuses on specific job categories, most of which require a high degree of specialisation.

Shortage lists may be based on old data, making them slow to reflect changes due to an economic crisis. As noted, many indicators used in the United Kingdom are 12-18 months old. In France, the shortage lists are based on job vacancy data: if the ratio of job offers to available workers is greater than 0.9 for more than one year (a relaxation of the original 1.0 requirement), the job is included on an annual regional shortage list. Because of the one-year lag, the list cannot respond in real time.²⁹ Furthermore, job vacancies, although widely used, are only an imperfect indicator of tensions in the labour market, and not all job offers are recorded. Lists which imperfectly reflect the labour market changes are less of an issue in settlement countries, where longer-term human resource needs underlie the contents of the list.³⁰

Australia, however, has recently noted that its Migration Occupations in Demand List (MODL) has permitted many entries under its skilled migration programme of those with certain qualifications and too few of others. As of January 1 2009, it has been supplemented with a Critical Skills List (CSL), which identifies those occupations (mostly in health and engineering) for which priority will be granted to applicants who are neither employer- nor region- sponsored.

Social partners and other stakeholders can play a role in making sure that shortage lists reflect real-time changes in the labour market. In the United Kingdom, the Migration Advisory Committee also uses “bottom-up” evidence from social partners and experts, which allows for more rapid response to changes in demand. In Finland, too, regional shortage lists are based on vacancy data but include consultation with social partners. In Spain, the shortage lists are based on job vacancy rates, but subject to revision every quarter after consultation with social partners and regional governments. In Italy, occupations with reserved quotas are decided by the Ministry of Labour after consultation with the social partners. The involvement of social partners in the process helps to mirror the real situation but may lead to divergent views during an economic slowdown.

Canada eliminated its shortage list for temporary foreign workers (“Regional Lists of Occupations under Pressure”) on 1 January 2009, replacing it with more stringent job advertising requirements, especially for unskilled and low-skilled occupations.

²⁹ France has also included shortage lists in bilateral agreements with sending countries. Its 2007 bilateral agreement with Gabon, for instance, includes 9 occupations on the list. This list is binding regardless of the future evolution of the French labour market.

³⁰ New Zealand has two lists, an “Immediate Skills Shortage List” of 133 occupations and a “Long-Term Skills Shortage List” of 75 occupations, in order to reflect short-term and long-term human resource objectives and react quickly to changes in demand. Canada has only 38 occupations on its current permanent skilled migration list, but the list is only one route of access to permanent migration.

... and labour market tests reinforced.

Prior to authorising temporary labour migration, most OECD countries apply a labour market test, verifying that no local worker can fill the position.

The United Kingdom imposes a labour market test on its Tier 2 skilled migration applications, and plans to make the test more strict as of 1 April 2009, requiring advertisement through the PES, in order to “give domestic workers a greater chance of applying first for United Kingdom jobs”³¹.

The Canadian choice to eliminate the shortage list for its temporary programme highlights the margin of discretion in labour market tests and the flexibility it provides during a downturn. A number of OECD countries (United Kingdom, Canada, United States, and New Zealand) require employers to have advertised the job locally and to have used other customary recruitment channels. Employers must provide proof of advertisement. Public authorities exercise a significant degree of discretion in judging the good faith of employers in properly advertising their job offers. The definition of a so-called “good-faith attempt” to recruit locally is often rather fluid.

In some countries, the labour market test also requires employers to demonstrate that recruitment from abroad will not have an adverse impact. In countries with negotiated contractual wage standards, these conditions must apply. In the United States, “adverse impact” uses wages as a parameter, and is benchmarked with reference to indicators. In Canada, the Labour Market Opinion considers possible “adverse impact on the Canadian economy”, which leaves substantial margin of discretion. Similarly, in France, the labour market test, rather than look at potential adverse effects, considers the “technological and commercial added value” represented by the applicant.

In the United States, for the H-1B programme, a number of specific efforts must be made by employers. Employers considered “dependent” on H-1B employees are subject to additional requirements, including that they cannot lay off (similar) workers in the 3 months before and after hiring the H-1B. The recent mass layoffs by such employers, which include large software and financial services companies, therefore affect the likelihood of approval of applications for new H-1B workers. The H-2B programme is subject to required demonstration of the temporary nature of the position, attempts to recruit nationally, and respect for prevailing wage; it may be more difficult to make a convincing case during a downturn.

In the United States, some authorization procedures for the H-1B and H-2B programmes were changed at the end of 2008. The main changes concerned the centralization of calculation of the prevailing wage threshold. It is not clear whether these changes will lead to a more restrictive treatment of employer applications³². In addition, there is a deliberate reinforcement of controls on employers. During Fiscal Year 2008, about one out of every eight hires in the United States went through the electronic E-Verify system to check the legal status of new hires. Several states, such as

³¹ <http://www.bia.homeoffice.gov.uk/sitecontent/newsarticles/migrantworkerstoughertest>. The education and prior salary requirements for Tier 1 will also be raised; the government expects these changes to halve entries under the programme.

³² Australia is also imposing stricter “prevailing wage” criteria on employer applications for temporary workers since September 2008, although this policy change was not directly related to the current economic downturn.

Arizona, Colorado, Mississippi, Oklahoma and Tennessee, have already passed legislation requiring some or all employers to participate in E-Verify.³³

Where trade unions are granted a role in the labour market test, they may even be able to contest employer applications for workers from abroad. Unions are granted such a role in Denmark, for example. Until 2009, unions also held a right of veto over applications in Sweden.

In fact, in marked contrast to the general trend towards restriction, and despite the current economic crisis, for 2009 Sweden significantly relaxed its labour market test (**Box I.5**).

Box I.5. The New Swedish Labour Migration Policy

On 15 December, 2008, Sweden introduced reforms to its labour migration policy which significantly opened possibilities to recruit from abroad.

The principal change is in the process for authorisation of employer requests. Swedish employers – as before – can request authorisation to bring in a foreign worker. As before, they must have advertised the job in Sweden and on EURES, the EEA public employment service clearinghouse, prior to approval of the application. The difference is that the Swedish trade unions no longer have veto power over the application and the Swedish Labour Market Board does not have to find a “shortage”. This has opened recruitment possibilities for low skilled jobs. The relevant union is given the opportunity to review the offer and provide an opinion of whether wages, insurance protection and other terms of employment are equivalent to the collective agreement or what is customary for the occupation or the industry. The trade unions, however, cannot reject the application. Verification of job listing is now done by the Swedish Immigration Board rather than the public employment service, accelerating the process.

Sweden has also created a shortage list of critical occupations for which foreign workers visiting Sweden on a visa can receive a work permit without having to return home first. This list is meant to make it more practical for foreign workers to come for job interviews, and if a job is offered, start work as soon as possible and without additional expense.

Migrants admitted to Sweden are given equal rights and full access to social benefits. Family reunification is permitted immediately (family members may accompany the worker and, if the work permit is for at least 6 months, are also granted labour market access).

Sweden grants permanent residency after 4 years, but work permits are valid for no longer than the job offer or two years, whichever is shorter, and require continuing employment for renewal. Unemployed immigrants with a work permit have three months (from the date they are unemployed, not the expiration of the work permit) to find a new job (which must meet the normal conditions) before they have to leave Sweden. International students are also allowed to change status to a work permit. Under the previous rules, students were eligible for a change of status after 6 months, regardless of whether they had actually completed any courses. They now must complete 30 credits (about 1 semester of study).

Temporary permits have become more difficult to renew.

Immigrants with temporary status where permit renewal is conditional on employment are faced with difficulty when they lose their job, since most temporary programmes do not allow for stay while unemployed. In fact, temporary programmes are based on the assumption that workers will depart when there is no more need. While no changes have been made in these rules in light of the rise of unemployment, this section reviews the rules in a number of OECD countries where temporary permits are frequently issued.

³³ A rule requiring federal contractors and subcontractors to use E-Verify is currently suspended due to legal challenges from employers. While the requirement to use E-Verify was dropped from the Stimulus Package passed in February 2009, additional states continue to mandate its use.

The H-1B programme in the United States does not allow stay for the unemployed, although workers may change employers. Employers are required to notify the authorities when laying off an H-1B worker. Employers are also required to pay for travel costs back to the home country unless the worker can find another authorised H-1B employer. In the United Kingdom, both high-skilled migrants (Tier 1) and sponsored immigrants (Tier 2) have to demonstrate employment when renewing their permit after their initial stay; wage criteria are applied to the first group and the standard points calculation to the second. Canada requires temporary workers to demonstrate continued employment in order to renew their permits. For lower-skilled jobs, there is a limit to the duration, and renewal requires employers to submit to a new labour market test.

Most European countries allow all unemployed immigrants with valid work permits to enrol in the public employment offices service until the expiration of their permits. Sweden grants three months to find a new job before the permit is withdrawn. The two European countries with the most significant recent rise in renewable temporary permits, Spain and Italy, require proof of employment during the prior permit period for renewal. Spain generally does not allow immigrants without a job offer to renew their permits **except in some cases when immigrants are entitled to unemployment benefits**. Italian law grants a 6-month “grace period” extension for a job search; during the current slowdown, trade unions, immigrant associations and the opposition parties are pushing to grant a 12-month extension. For those who cannot prove employment and whose permit expires, the only options are to return home or overstay as an unauthorized immigrant.

Korea allows foreign workers to change workplace if they are laid off because their employer goes out of business, but requires applications for change of workplace to be made at least one month before losing the job and grants two months to find a new employer in the same sector; the new employer must have pre-approval for hiring foreign workers. The number of workers applying to change workplace almost doubled during 2008.

The need to demonstrate employment weakens the contractual power of employees, but it also may mean that employers may be reluctant to fire workers for whom a layoff means returning to the home country.

Non-discretionary flows have been subject to some limits ...

Some categories of immigration are not tied directly to the labour market, but have an important impact on flows and on the size of the labour force. Family reunification is one such category; it is generally considered non-discretionary. This is certainly the case for family members of citizens. Family reunification for immigrants who have not been naturalised, however, may be guaranteed in principle and regulated in practice, through quotas or conditions. Restrictive measures may be introduced during an economic downturn.

Italy introduced more restrictive criteria for family reunification in October 2008. Income requirements are raised to the minimum social benefit (EUR 5 317 in 2009) plus 50% for each family member. Spouses must be at least aged 18. Adult children or parents over 65 can only be brought in if they have serious health problems that make them dependent, and insurance must be purchased, a rule which was already in place but is now subject to additional proof. The requirements for EU citizens to enrol in the population registry, which entitles them to social benefits, were also changed, with a higher income threshold imposed, based on the social benefit plus 50% for each family member. This decision was made in response to concern that unemployed Romanian and Bulgarian citizens would use social benefits.

Within free-movement areas, transitional procedures may be applied or extended. This is the case within the European Union, where labour market access for citizens of countries which joined the EU in 2004 and 2007 can be restricted (**Box I.6**). Some European countries have maintained restrictions, in light of the economic downturn. Belgium, Denmark, Germany and Austria chose to continue to impose restrictions on citizens from the 2004 enlargement in 2009. For Romanians and Bulgarians, restrictions are applied in 11 countries of the pre-2004 EU, although many allow unrestricted access for certain occupations (France, Italy and the United Kingdom) or grant facilitations such as quota or labour market test exemption in authorization of employment. In some countries with a large informal economy, eliminating restrictions on access to the labour market was decided not necessarily to meet employer demand but as a means of combating illegal employment of new EU citizens. Access to the labour market does not mean that return is not encouraged: the Spanish public employment service has started to actively collaborate with its Romanian counterpart to recruit Romanians to return home.

Box I.6. Free movement: EU enlargement and the priority given to EU citizens

The last two enlargements of the EU to Central and Eastern European countries in 2004 and 2007 have significantly expanded the coverage of the free-movement area. Nationals from these countries, on becoming citizens of the European Union, have been accorded rights of movement through the European Union and partner states³⁴ that are broader than those available to other groups of migrants.

In light of concerns of a massive influx of workers from Central and Eastern European countries into the EU-15 labour markets, negatively affecting local wages and employment, the Accession treaties allow for transitional arrangements restricting the free movement of wage and salary workers from most of the new Member States³⁵. The transitional arrangements could be applied for up to seven years, with the policy reviewed after two and five years.

Only three Member States - Ireland, Sweden and the United Kingdom – opened their labour markets to EU-8 workers from the date of accession. At the end of the first two-year period, four more other Member States – Spain, Finland, Greece and Portugal – opened their labour markets, later followed by Italy, the Netherlands, Luxembourg, and France. Belgium and Denmark still apply some restrictions, while in Austria and Germany the inflows of workers from EU-8 countries are currently regulated by national law (mainly through seasonal work-permit schemes operating under bilateral agreements), although a number of exemptions have opened for high skilled workers and specific categories in these countries. Despite its restrictions, in fact, Austria saw a significant increase in the number of EU-8 workers between 2003 and 2007.

Transitional arrangements for the EU-2 countries are at the start of their second phase (begun on 1 January 2009 and ending on 31 December 2011). In the first phase, all EU-15 countries except for Finland and Sweden opted to restrict access to their labour markets for Bulgarian and Romanian

³⁴ The Swiss labour market opened to citizens from the EU-15, Cyprus and Malta in June 2007. A transition phase applies to the EU-8 until 2011 with the following restrictions: preference of nationals, control of payment and work conditions, and progressive quotas. Labour market access for Bulgaria and Romania (EU-2) nationals is restricted for 7 years, from 1 January 2009. Transitional regulations also apply for short-term cross-border services in some sectors. Iceland, Lichtenstein, and Norway, members of the European Economic Area, have adopted transitional arrangements concerning the free movement of workers from the EU-8 and EU-2 countries in their labour markets, under the same scheme applying for the European Union Member Countries. Iceland and Norway have opened to the EU-8 and applied some restrictive criteria to the EU-2.

³⁵ Transitional measures can be applied to the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia (EU-8) and to Bulgaria and Romania (EU-2). Cyprus and Malta were granted full access.

workers³⁶. At the beginning of the second phase, Greece, Spain, Hungary and Portugal lifted restrictions. Denmark has announced that it will stop applying restrictions for EU-2 workers from 1 May 2009, when it will also end all restrictions for workers from EU-8 Member States. Notwithstanding these restrictions, a Member State must always give preference to EU-10 and EU-2 workers over those who are nationals of a non-EU country with regards to access to the labour market.

The decisions regarding the extension of the transitional period in 2009 were taken in the context of a broadening economic downturn and rising unemployment in the EU. Some countries which had earlier hinted at eliminating restrictions chose to maintain them. Nonetheless, for most EU countries, free movement is largely realised and the flows unrestricted.

... and some countries are encouraging immigrants to return home.

Specific incentives for return may be targeted at unemployed immigrants to encourage them to return home.³⁷ Spain adopted a new regulation at the end of 2008 to support voluntary return of unemployment third country nationals who receive on advance and accumulated payment of their unemployment benefits in two lump sums on the condition they return home and do not come back to Spain for at least three years. The proposal provides 40% of the benefit in Spain and 60% upon return, and became active in November. Only the 19 countries with bilateral social security agreements are eligible³⁸, and the offer is not valid for EU citizens. While the government originally expected many unemployed to apply, uptake has not reached targets. 3 926 unemployed immigrants signed up for the programme by the mid-March 2009, while the government calculated that more than 80 000 were eligible. **It is however difficult to evaluate, at this stage, the full impact of this programme even if past experience have shown that financial incentives are usually insufficient to drive large return migration flows.**

The Czech Republic launched a policy on 9 February 2009 to pay EUR 500 and airfare home for unemployed workers. The policy is targeted largely at Vietnamese and Mongolian contract workers who have lost their jobs. This is a sharp contrast to the Spanish programme, which is targeted at settled immigrants. The Czech government has allowed 2 000 seats for the first phase of the project. End of March 2009, almost 1 100 took opportunity of the programme, mainly Mongolians (70%) and Uzbeks (16%), and 900 people returned to their country of origin. A second phase for this project is in preparation with 3 000 additional seats and a lump sum reduced to EUR 400.

Immigrants in one OECD country whose status is threatened by the crisis may look elsewhere rather than consider a return to their country of origin. In some cases, the crisis may represent a competitive opportunity for skilled migration policy in a third country. The Canadian province of Alberta, which forecasts long-term skill shortages, funded in early 2008 an information campaign actively targeted at holders of H-1B and E-3 visas in the United States, offering support and a faster and more certain track to permanent residency than the one offered in the United States.

³⁶ Most of EU-15 countries (i.e. Austria, Belgium, Denmark, Germany, France, Italy, Luxembourg, the Netherlands), however, had introduced sector-specific quotas for Bulgarian and Romanian workers during the first phase of the transitional arrangements.

³⁷ The Japanese Cabinet Office announced on 31 January 2009 that it will assist unemployed foreign workers to return home.

³⁸ The list includes USA, Canada and Australia, but also Morocco, Ecuador, Peru, Columbia, Venezuela; the Mercosur countries and Chile; Philippines; Dominican Republic; Mexico, Tunisia and Russia and Ukraine. This excludes important sending countries such as Bolivia and countries in sub-Saharan Africa and almost all of Asia.

What do these reactions tell us about the capacity of policy to respond to the crisis?

Policy responsiveness depends not only on political pressure to make changes but also largely on the migration management system in place in the country. In fact, migration policy may be more or less directly linked to labour market indicators (for example, vacancy rates), be subject to periodic review or planning (quotas or targets), or may be governed by *ad hoc* legislative measures (with a wide variation in delay before entering into force). Depending on the adjustment mechanisms and constraints, the management of the migration system might be more or less efficient in responding to short-term changes in the labour market. The discussion above highlights the strength and weaknesses of some of the most common features of labour migration programmes.

Backlogs of labour migration authorisations (due to administrative delay or to low caps) make flows less responsive to changes in the real economic situation. Shortage lists and numerical limits, if they reflect changing demand and are revised frequently based on current indicators, can allow a rapid policy response to changing demand and have a rapid impact on labour migration flows. The criteria applied in labour market tests can also be quickly tightened in a crisis to favour local recruitment. Rules regarding non-discretionary categories of flows can be modified through administrative decisions as well. All of these changes can be made quickly.

But policy responsiveness does not guarantee an impact on policy or on total flows, because other constraining factors are at work.

It should be noted, however, that in many OECD countries, most of the flows are *non-discretionary*; that is, movements cannot be restricted directly. Governments can effect reductions only over discretionary categories, so restrictions in these categories may not mean significant declines in total flows. This applies to family reunification in many countries, to humanitarian flows (with the exception of resettled refugees), and to free-movement zones (such as the EEA). Public opinion may pressure governments to restrict non-discretionary immigration as well, as the unemployed are more hostile to immigration (O'Rourke and Sinnott, 2006). As noted above, there is some margin for restrictive measures on free-movement, and on some family reunification, either by setting quotas or changing eligibility criteria. Resettlement quotas for refugees may also be lowered, and asylum procedures may be changed. Such changes, however, often must address national constraints. Civil society may react strongly to limits in acquired rights. International commitments may also play a role. In the European Union, for example, a directive limits the extent to which member countries can curtail family reunification, and resettlement quotas may be part of international commitments.

Furthermore, governments may have made commitments in bilateral or multilateral agreements to accept quotas of immigrants in certain categories or from certain countries; this represents an additional constraint.

In fact, many other considerations come into play when adjusting migration policy to the economic crisis. While rising unemployment in the local labour market may push governments to reduce inflows and encourage the greatest rate of return of unemployed migrants, geopolitical considerations may take an upper hand over those exclusively referring to the labour market. Commercial ties, or dependency on these countries for commodities or energy, may also affect migration policy decisions, as host countries consider the impact of a stricter migration policy on their broader bilateral relations. Further, there may be a concern that restrictions exacerbate the crisis in the country of origin – already affected by a decline in remittances and potential increase in poverty – leading to more irregular migration.

Finally, and perhaps most importantly, migration policy is intricately linked with questions of human rights and legal rights acquired by immigrants. This may affect policy response in countries where stakeholders in the decision making process include representatives of civil society for whom changing labour market conditions may not justify imposing restrictions on entry or revoking the residence status of immigrants.

III. Medium and long-term consequences of the economic crisis

III.1. "It will get worse before it gets better"

The OECD composite leading indicator signalled a severe slowdown in the OECD area and major non-OECD member economies as it fell in February 2009 to its lowest level since January 1975 (**Chart I.12**). In March 2009, the OECD was forecasting that real GDP growth of the OECD area would be strongly negative in 2009 (-4.3%) and close to zero in 2010 (OECD, 2009b). Reflecting the rapidly worsening economic outlook, the IMF revised its forecasts in March 2009, predicting a negative growth rate for the world economy in 2009 (IMF, 2009b).

Chart I.12. Composite Leading Indicator (amplitude adjusted), OECD and 6 major non-member countries

Note: The 6 major non-member countries are Brazil, China, India, Indonesia, South Africa and Russian Federation.

Source: OECD Monthly Economic Indicators.

Employment usually follows the changes in GDP growth with a time lag of 2-3 quarters. In most OECD countries, the impact on the labour market is just starting to become visible (see section I) but demand for labour is expected to decline significantly in the near future. For instance, in the last 12 months, vacancy rates have decreased by about 25% in the United Kingdom and by 20% in Japan and the United States. In many OECD countries, labour market conditions will deteriorate significantly in 2009 and probably even further in 2010. The latest available OECD projections (March 2009) forecast that the unemployment rate will peak in end late 2010 or early 2011.

Against this backdrop, the need for labour migration will certainly fade as employers find it much easier to recruit the labour force and the skills they need from the larger unemployment pool. Furthermore, policy makers will probably face increasing pressure from public opinion to reduce the scope of migration programmes. However, the main structural changes which OECD countries are currently facing, population ageing, rapid technological change and a decline in manufacturing industry, will contribute to exacerbate tensions in some segments of the labour market.

In the short term, it might not be so easy to find the skills which were chronically in shortage among displaced workers. The medical sector is one example where retraining of displaced workers will not be a realistic option. The need for health professionals will indeed continue to be addressed partly through international recruitment until the new cohorts of young graduates enter the labour market (OECD 2008c). In the low-skilled segment of the labour market, such as seasonal employment in agriculture, domestic services and more generally 3D jobs (dirty, dangerous and difficult), it is also likely that immigrant workers will continue to play a key role. Despite increasing unemployment and declines in reservation wages, segmentation in the labour market by skill level and geographical areas³⁹ as well as social protection, will prevent low-skilled labour demand from being fully met by the resident workforce where it was not the case before the economic crisis.

³⁹ In the current context, geographical mobility could be negatively affected by the depressed housing market.

Policy responses in terms of labour migration will thus have to face a tension between adapting the rules to the changes occurring in the labour market and maintaining routes for labour migration where recruitment difficulties are structural. As a result, the medium and long-term consequences of the economic slowdown might imply smaller and more targeted inflows, with a more radical rescaling in countries which have received large migration waves in recent years, but labour migration will certainly not dry up (OECD, 2009a).

In general, temporary labour migration programmes where entries are contingent on a job offer decline during a downturn unless caps are set very low and the quota is truly constraining. The United States is one example of caps set far below demand. Oversubscription is an issue for the H-1B programme in the United States, for example, where almost 750 000 applications for certification were filed in 2007, compared to a quota of 85 000. Even if demand falls substantially, the low quota ensures that flows under the programme will remain at the same level.⁴⁰ The H-2B programme, which covers temporary non-agricultural work, has a cap set far below the demand for such workers (66 000 compared with 360 000 applications in 2007), leaving ample margin for a decline in demand before flows are affected. Italy is another example of oversubscription for capped entries; labour migration applications have always far exceeded available places.

Some temporary programmes, especially seasonal agricultural work programmes, are less likely to be affected. Indeed, several OECD countries recently introduced new programmes or have increased their use of seasonal work programmes. This is the case for instance through bilateral agreements in New Zealand, Australia (the PSW, which started only in 2008 and is currently a pilot scheme only) and Canada (CSAWP). The United Kingdom increased the quota for its Seasonal Work Programme, which is open only to Romanian and Bulgarian citizens, to 21 250 in 2009 from 16 250 for the previous two years⁴¹. The H-2A programme in the United States remains uncapped and all draft reforms leave the programme uncapped (the programme is relatively small, with only 80 000 workers sought and fewer entering). Germany has maintained a seasonal work programme for citizens of the EU-8, involving about 300 000 annually, although participation declined somewhat in recent years as more lucrative employment opportunities opened elsewhere. Even in an economic downturn, these programmes remain politically sustainable because they are directed at a low-wage sector where natives have long been reluctant to work, and because they grant no access to other jobs in the labour market.

III.2. Expected medium-term impact on the composition of migration flows

In 2006, discretionary labour migration was less than 20% of total flows in most OECD countries and no more than a third of all flows in the leading countries (OECD, 2008a). As noted above, family reunification and humanitarian flows are often major components of total migration, and have little direct connection with the labour market situation. Free movement, largely for work, is not subject to control. A reduction in discretionary labour migration flows can have spillover or other effects on the composition of flows, with significant implications for outcomes over time. Irregular migration, too, may be resistant to economic changes and policies meant to restrict migration. This means that restrictions on economic migration may not have a large effect on net migration.

⁴⁰ Variation may appear in H-1B visas exempt from the cap, e.g. those working in universities.

⁴¹ It is possible that this decision was related to the fact that Polish workers, who have free access to the UK labour market were not responding to the labour demand in this sector.

Family reunification

Pull-factor immigration can be driven by employers, but also by networks of family members in the host country who can bring their relatives. These flows are determined by the choice of the family and by the policy in place: whether immigrants have the right to family reunification, and whether they choose to exercise it. A number of OECD countries however apply a quota or a cap to family reunification, and have a backlog of applications. Unless caps are changed, such backlogs ensure that flows will remain constant regardless of the economic situation.

Where family reunification is subject to income limits, family reunification may be delayed during periods of high unemployment among potential sponsors, reducing total flows. Similarly, family reunification is often conditional on the duration of stay of the sponsor, increasing the stock of potential sponsors over time. This may have an adverse impact on family flows but when policy becomes more restrictive, immigrants who have delayed reunification may also hasten to bring in their family members while their status is still valid. Some such reunification was observed following the restrictions placed on labour migration in the early 1970's (**Box I.7**). Conversely, when labour migration opportunities are closed or restricted, legal residents of the host country may try to use family reunification as an alternative solution.

When family members are granted access to the labour market, they may represent a significant and continuous inflow of potential workers even during a downturn. In the case of France for instance in 2006 approximately 88 000 immigrants entered the labour market, but only 10 000 through labour migration (Léger, 2007). Further, family members are generally exempt from criteria applied to labour migrants. In OECD countries where labour migration is contingent on point-based or professional criteria, family migrants tend to have lower educational attainment than labour migrants, and increase the supply of less educated workers. However, where there are restrictions on labour market access for family members entering a country, their long-term integration prospects are generally worse off than they would have been if they had entered the country and been able to work immediately.

Box I. 7. The Mid-70s crisis

The economic crises which followed the two oil shocks of the 1970s in most OECD countries are good examples of the various channels through which migration flows can be affected by a recession. The rapid rise of unemployment in many OECD countries during these crises⁴² led to a drastic restriction in immigration policies, especially in European countries, which had made extensive use of foreign labour during post-war reconstruction and economic expansion (in particular through bilateral agreements with origin countries).

Several European countries set up voluntary return policies to encourage unemployed immigrants to leave. In France, for example, a programme was launched in 1975, which involved financial support and educational programmes. The scheme had little success and the financial incentive was substantially increased in 1977. Since returnees had to renounce claims on social insurance and give up residence and work permits, the scheme never achieved its ambitious quantitative objective. Moreover, while Algerian workers were the main targets of the programme, more than 60% of returnees were Spanish and Portuguese immigrants (Dustmann, 1996). It is believed that a large fraction of those who took advantage of the scheme might have returned anyway.

Instead of returning home, many migrants, who had initially come to destination countries alone to work temporarily, brought their spouses and children. The share of family migration increased and often surpassed labour immigration. This was, for instance, the case in France from 1975 onwards (**Chart I.13**).⁴³ The dramatic

⁴² Out of 19 OECD countries with unemployment data for the period, at least 14 had an unemployment rate lower than 4% during 1970-1974, but only 7 in 1977-1980.

⁴³ The rise of labour migration in 1982 is an artefact due to the 1981-1982 regularisation, and did not correspond to higher entries this year.

change in the composition of migration flows to European countries following the closure to labour migration probably explains why net migration became much less sensitive to economic conditions after the 1970s.

Chart I.13. Entries under family reunion and permanent labour immigration in France, 1963-1999

Source: OMI/ANAEM.

Humanitarian flows

Humanitarian flows comprise asylum seekers and resettled refugees. Asylum seeking, while largely dependent on crises and events occurring independently, can also be affected through a spillover effect. When opportunities for legal labour migration exist, and barriers are relatively low, some potential humanitarian migrants may choose such channels over the more unreliable channel of applying for asylum. Conversely, when legal labour migration channels are closed, asylum application may be the only opportunity for economic migrants. This is especially true if the asylum procedure is long and the risk of expulsion remains low. Such opportunistic applicants represent a long-term problem, since rejected asylum seekers who remain in the host country, even when tolerated and granted access to the labour market, tend to have very poor economic outcomes compared with labour migrants and other categories.

A number of OECD countries with many asylum applications have attempted to accelerate processing in recent years and to reinforce their detention and readmission systems. OECD countries now have far more readmission agreements with sending and transit countries, reinforcing their ability to send back potential asylum seekers to “safe third countries”. Within Europe, most countries are party to the Dublin Convention; asylum applications are meant to be processed in the first country of arrival, which is often not the intended or traditional destination. Any rise in asylum applications will face these new conditions, as well as strong public pressure to verify the legitimacy of asylum claims.

OECD countries which accept resettled refugees (United States, Canada, Denmark, Australia, Sweden, France, Netherlands etc.) usually do so on the basis of an annual quota or target. These quotas are set without specific reference to the labour market, but may be subject to change in reaction to labour market conditions, especially if resettled refugees are seen to compete with locals or to have particularly poor outcomes, or if public opinion raises concerns about budget priorities.

Free Movement

In monetary union areas, mobility of the workforce can be a powerful tool to absorb asymmetric shocks. If mobility between the EU-15 countries remains relatively low, at least compared with interregional mobility within the United States, the last two phases of enlargement have had an unexpected impact on intra-EU migration. The experience in the EU has shown that, broadly speaking, free-movement inflows did not substitute or sharply reduce flows from outside the EU.

Free circulation for employment has expanded in Europe since 2004. A number of countries fully opened their labour markets to citizens of the new European Union countries, while others imposed only nominal restrictions. Significant increases in the number of citizens from the new EU countries occurred in the labour markets in Ireland, the United Kingdom, Austria, Norway, Switzerland, and, to a lesser extent, Sweden. The scale of increase of labour migrants from within the free movement area was significantly higher than that of non-EU labour migrants, but no decline in the latter can be noted (OECD, 2008a). Most of these countries received far more labour migrants than they would have if they had not instituted a free-movement regime, but this does not appear to have affected entries of labour migrants from other countries.

Why didn't the flow of non-EU labour migrants decline? Labour migration from outside the EU is regulated and requires a job offer, generally limited to highly skilled workers. Employers may not have been able to recruit such workers from the new EU countries in sufficient numbers, or the recruitment channels in place remained attractive. Workers from the free-movement area generally took up temporary and lesser skilled jobs, for which recruitment from outside the EU was not allowed in any case. This suggests that reliance on free-movement areas for all international labour migration needs may not be realistic.

A second question is whether workers granted free-movement access changed their choice of country of destination. Flows from the EU-8 countries towards non-EU destinations in the OECD did not decline after 2004, but maintained their trend. Migration to the United States, Canada and Australia, for example, rose slowly but steadily between 2000 and 2006. Some of this migration was family migration, while labour migration to these countries was essentially limited to highly qualified occupations. These two channels were unlikely to be affected by the opening of alternative destinations. The boom in migration to free-movement destinations appears to have involved another group, those meeting neither the family nor the professional criteria for non-EU migration, and those who wished to migrate temporarily.

Irregular migration

In the context of the current economic crisis, one of the first risks is of a rise in overstayers. Overstaying is a phenomenon in all OECD countries, although its relationship with the labour market varies among countries. Overstaying, as noted above, is a risk when unemployed immigrants with temporary permits lack the means to renew their permits. Returning home may be very costly for such workers, making them willing to accept illegal employment in the informal economy rather than return home (**Box I.8**). Even in times of normal growth, a number of OECD countries have seen immigrants fall back into irregular status after obtaining an initial work permit through recruitment or regularisation. The regularisations in Italy, Spain and Greece benefited a number of repeaters, while the renewal rate for permits issued was generally not as high as the rate of stay in the country among these beneficiaries.

Overstaying also occurs when immigrants without work authorisation, such as tourists or students, stay on beyond the expiration of their visa, contributing to the growth of the irregular population. Overstaying, fraudulent entry and illegal border crossing are all irregular flows which may emerge when other channels are closed to labour migrants and their families, especially if demand picks up. Push factors are often stronger than policy changes, and even poor opportunities in illegal employment during a severe downturn may be attractive enough to draw unauthorized migrants. Illegal border crossing is one indicator of irregular flows, although it tends to represent only a fraction of irregular migration in most OECD countries. In 2008, boat landings in Spain declined (from 18 to 13 000) while they increased in Italy (from 20 to 37 000). Along the US-Mexico border, interceptions declined (from more than 1 million in 2006, to 860 000 in 2007 and 700 000 in 2008). In Spain and in the United States, this decline has been attributed in part to falling demand. However, these declines also occurred in a context of increased workplace and border enforcement, and, in the case of Spain, international cooperation.

Irregular migration is less likely to be tolerated during an economic downturn (Wilkes et al., 2008). Public support for enforcement measures against illegal employment of foreigners has been stronger during times of economic crisis as concern over competition for jobs rises (Simon and Lynch, 1999; Citrin et al., 1997). Regularisation programmes are less likely to occur during an economic downturn, since public support for such measures is limited at the best of times. Continuous and case-

by-case regularizations based on employment, which exist in some OECD countries, are also less effective during a downturn as jobs disappear.

Box I.8. The 1997 Asian financial crisis

The 1997 financial crisis that hit a number of Asian countries, after unparalleled growth through and since the 1980s, had a major impact on their labour markets. Unemployment more than doubled in Korea and Thailand between 1997 and 1998, and increased by more than 50% in Malaysia. The Philippines was less affected by the crisis and unemployment only rose modestly there. Indonesia was one of the hardest hit countries, but the labour market response mostly involved a decline in real wages (more than 40% between 1997 and 1998) (OECD, 1999; Betcherman and Islam, 2001).

Labour migration had been increasing significantly in the 1980s and 1990s within the region, the main net labour-importing countries being Malaysia, Thailand and Korea (as well as Singapore and Hong Kong, China), the main labour exporters being Indonesia and the Philippines.

In response to the financial crisis and the subsequent recession, governments of labour-importing countries tried to cut back on migrant worker inflows and reduce the stock of illegal migrants. For example, Malaysia, which was heavily dependent on foreign contract workers (more than 20% of the total labour force), imposed a ban on the intake of migrant workers, and started deporting foreign workers (Manning, 2002).

As noted by Hugo (2002), despite efforts by the governments to alter migration movements to alleviate labour market difficulties, the crisis did not have a large impact on labour migration in the region, for four main reasons. First, the effect of the crisis in the origin countries, like Indonesia, only served to increase pressure to migrate illegally as formal-sector workers lost their jobs. Second, in many destination countries, the crisis did not affect the segments of the labour market in which many immigrant workers were employed. For example, many Indonesians in Malaysia work in plantation, forestry and agricultural sectors and the depreciation of the local currency made their exports more competitive internationally, creating increased demand for labour in those areas. As a result, broad measures to restrict immigration were opposed by employers in the sectors with labour shortages. Third, some migrant workers displaced from sectors like construction moved readily into the informal sector in destination countries. Fourth, some important Asian destination countries, such as Chinese Taipei, were not heavily affected by the crisis and remained attractive destinations for migrants.

III.3. Expected medium-term impact on the integration of immigrants

Beyond the immediate impact of the downturn on immigrant employment, the issue of its medium and long-term consequences on the integration of immigrants appears key. Historical experiences have shown that a severe economic crisis could have a long-lasting impact on immigrants, both recent arrivals and those already settled in the receiving country. What are the risks and the adequate policy responses that OECD countries should consider in this context?

The impact of economic conditions upon arrival on the labour market outcomes of immigrants

As a consequence of the economic downturn, the entry of new arrivals into the labour market will be delayed. Employers will tend to be more selective at the hiring stage and characteristics such as language difficulties, which tend to hamper productivity, may be used to screen out applicants. With a relative abundance of candidates, employers have little incentive to search beyond the familiar and relatively predictable. There is evidence as well that personal or informal networks are more commonly used for job seeking during economic downturns than formal methods (Behtoui, 2004). Here again, recent arrivals tend to have less access to such networks and are therefore disadvantaged vis-à-vis the native-born.

More importantly, past experience has also shown that arrival during an economic downturn can have longer term consequences on immigrants' labour market outcomes⁴⁴. Sweden provides an example (OECD 2007a). It underwent a severe crisis in the early to mid-1990s which saw a 12% drop in employment levels in less than three years, followed by a rapid recovery. During this period, labour market outcomes of immigrants were negatively affected and more particularly for the most recent arrivals. Aslund and Rooth (2003) show that about six years after arrival, migrant cohorts who had entered before the recession were 7-9 percentage points more likely to be employed, and had about 12-18% higher earnings than migrants who had arrived during the deterioration phase of the labour market.⁴⁵

In Canada, labour market conditions were relatively poor throughout the 1980s, but the situation worsened during the early 1990s recession. In 1993, the unemployment rate was more than 11%, against 7.5% in 1989. The labour market fate of immigrants who entered during this period was significantly worse than those who arrived before. Immigrants arriving in the early 1990s not only had lower starting earnings and employment rates, but also appeared to catch up more slowly than previous cohorts (**Chart I.14**). This is not true, however, for skilled worker principal applicants, who despite persisting low earnings relative to domestic workers one year after landing, did catch up eventually faster than previous cohorts. Changes in the composition of migration, by skill level and by countries of origin, in fact largely contribute to explain the observed decline in earnings at entry for recent immigrants (Picot and Sweetman, 2005). Nonetheless, Aydemir (2003) shows that controlling for macro conditions at entry reduces significantly the cohort effect on labour market outcomes of immigrants. Macro economic conditions at entry explain more than 50% of the decline in the participation rate of immigrants who entered during the recession of the 1990s and about a fifth of the decline in the employment rate.

Chart I.14. Average annual employment earnings by immigrant class, by landing year and tax year, Canada, 1981-2004

Source: Longitudinal Immigration Database (IMDB); Canada Customs and Revenue Agency (CCRA).

With large numbers of new arrivals of humanitarian immigrants from the mid-1980s to the early 1990s occurring at the same time as an economic downturn, Denmark also saw a drop in the employment-population ratio of its foreign-born population of almost 15 percentage points. In the Netherlands, the severe economic crisis of the early 1980s appears to coincide with the onset of low employment of immigrants, many of whom had arrived in the second half of the 1970s (OECD, 2008d). Other studies concerning the United Kingdom (Clark and Lindley, 2006)⁴⁶ or the United States (Chiswick and Miller, 2002) confirm the negative impact of labour market conditions at entry. In the latter case,

⁴⁴ In the case of Norway, Raaum and Roed (2006) show that this effect more generally affects young people entering the labour market as early unemployment may turn into slow accumulation of capital and depreciation of skills. The authors found that "a business slump occurring at ages 16 and 19 may raise adult (prime-age) rates of unemployment by as much as 1-2 percentage points, ceteris paribus." Oreopoulos et al. (2006) show, in the Canadian context, that an increase in unemployment rate of 5 percentage points leads to 9% lower earnings for young college graduates which takes 8 to 10 years to fade out.

⁴⁵ Note, however, that the cohorts mainly concerned refugees and their family members.

⁴⁶ In this study the authors find an impact of unemployment or growth at entry only on non-white immigrant earnings.

however, the authors show that the adverse initial effect diminishes with duration of stay in the United States⁴⁷.

One possible reason for the long-term negative impact is so-called “scarring effects”. Immigrants who have not managed to get employed quickly after arrival may be stigmatised in the labour market. Furthermore, they get in direct competition with new entry cohorts when the economy is recovering.

This is, however, not specific to immigrants, as native-born youths entering the labour market during a recession also face potential long-lasting consequences in terms of employment outcomes. This calls for policies supporting all individuals entering the labour market during the economic crisis to help them obtain a first work experience, for example through traineeships or subsidised jobs.

In addition, participation in programmes which are being developed by OECD countries in response to the crisis, should not be conditioned on nationality or duration of residence criteria, in order to avoid exacerbating the negative impact of macro economic conditions at entry for recent immigrants. Lastly, during the recovery phase, when job opportunities develop, special attention should be paid to those immigrants who have recently acquired the right to settle in order to help them acquire a first experience in the labour market as soon as possible.

Retraining and employment reintegration of displaced migrant workers

Economic crises generally magnify on-going structural changes in the labour market, such as a decline in tradable industries with competitive weaknesses. In the 1970s, the oil shocks aggravated the restructuring processes in industries such as iron and steel, metallurgy, chemicals or manufacturing. Immigrants, concentrated in these sectors, were hit hard by the crises and faced difficulties in reintegrating the labour market. In France, between 1974 and 1982, the number of unemployed foreigners increased from 40 000 to about 220 000 and the unemployment rate of foreigners reached 14% (Schor, 1996; Tripier, 1990). Policy responses were usually limited to providing support for return migration – with very limited success – and standard reintegration packages. This proved to be inefficient at a time when many immigrants were low-educated and lacked the basic skills to adapt to new employment opportunities, notably in the service sector. In several EU countries, this has had a long-lasting impact on the integration of immigrants, which is still apparent in the educational and labour market outcomes of their children.

The current economic crisis also occurs in the context of increasing competition and on-going restructuring in manufacturing industries, which is impacting the demand for labour, notably for low-skilled workers, in these sectors (OECD, 2007b). The macroeconomic shock may contribute to exacerbate this evolution. Sectors such as the automobile industry have already announced downsizing or massive temporary layoffs in several OECD countries, including the United States. The general context is, however, quite different today from what it was in the 1970s, as migrant employment has started to diffuse to service sectors and plays a much smaller role in manufacturing industries (excluding *food processing*). Furthermore, immigrants who arrived over the past 20 years tend to be more qualified than in previous migration waves (OECD, 2008e).

Retraining and reintegration schemes, however, may be an efficient tool to avoid negative long-term consequences for displaced workers, both migrants and natives. Several OECD countries have indeed included such schemes in their fiscal stimulus packages. The United Kingdom for instance is planning to spend up to GBP 100 million in retraining displaced workers. Japan has announced in a

⁴⁷ In the case of the United States, using CPS survey data from 1979 to 1988, Chiswick, Cohen and Zach (1997) do not find supporting evidence of a “scarring effect” due to delay in entering the labour market.

“comprehensive immediate policy package to ease public anxiety” extensive training for the newly unemployed in areas facing particularly severe employment situations⁴⁸.

Retraining and reintegration programmes should be generalised and open to all workers with a special focus on those who have been displaced from declining industries.

IV. Impact of the crisis on migration: the perspective of origin countries

As seen above, the crisis in the OECD countries affects labour market outcomes of immigrants and has the potential to change incentives for international migration to the OECD area. The spread of the economic crisis to emerging and developing countries will, however, also modify emigration incentives. Slowing per capita income growth and reduced job opportunities might indeed push more people, especially the young, to migrate. Yet, the impact on migration flows will depend to a large extent on the relative magnitude and timing of the economic crisis in origin countries.

Should origin countries be only marginally affected, while destination countries bear the bulk of the impact, this would limit the push factors. On the contrary, if origin countries are deeply impacted, incentives to emigrate will be stronger. If emerging and developing countries reach their cyclical trough while OECD destination countries are already in a recovery period, the rising differential in economic opportunities would create significant migration incentives. On the other hand, if the crisis occurs in a more synchronised fashion, the impact on migration should be more limited.

In addition, migration will play a role in shaping the impact of the crisis in countries having a significant proportion of their populations living abroad, mainly through changes in remittance flows. The labour market situation of immigrants in OECD countries, as well as the changes in migration policies, will therefore have an indirect impact on how the crisis affects those origin countries.

This section looks at the possible consequences of the crisis on international migration from the perspectives of origin countries by considering the economic prospects in emerging and developing countries, and analysing two connected issues: migration flows, including returns, and remittances.

IV.1. Global and regional outlook

While the crisis started earlier, and is currently more severe, in the more advanced economies than in most emerging and developing economies – in part because the two groups followed diverging trends in the past ten years – **Chart I.15** shows that both groups are likely to follow parallel paths in the near future.

Under the current forecasts, emerging and developing economies are projected to be significantly affected by the crisis: the most recent IMF projections available (IMF, 2009b)⁴⁹ put GDP growth for this broad group of countries at 6.1% in 2008 and between 1.5 and 2.5% in 2009, against about 8% in 2006 and 2007; earlier and more detailed projections released in January 2009 were significantly more optimistic, indicating an ongoing worsening of the economic outlook for those countries (**Table I.3**). The January projections show that there are of course large differences across regions and countries within this group. For example, the African continent was expected to lose “only” 1 percentage point of GDP growth in 2008 compared with its 2006-2007 average and 2.8 points in 2009, while regions

⁴⁸ The Japanese authorities also plan to provide native-language-based counselling, information and job search services at Hello Work in locations where many foreign citizens of Japanese descent live.

⁴⁹ Those projections were not disaggregated by country.

more integrated into the world economy will tend to lose more: China and India will lose respectively 3.3 and 2.3 growth points in 2008 and respectively 5.6 and 4.5 points in 2009, and Mexico is projected to lose 2.3 points in 2008 and 4.4 points in 2009. Due to its large dependence on commodity exports during its recent period of high growth, Russia is likely to be very affected by the end of the commodities boom, and is predicted to lose more than 8 points in 2009.⁵⁰ Even for the developing countries where the impact of the crisis is expected to be somewhat moderate because of their weaker integration in the world economy, the social impact of the crisis will probably be significant. Moreover, this negative cycle comes after an inflationary episode that has resulted in a food crisis in a number of developing and emerging countries.

Chart I.15. Real GDP growth, 1970-2008 and projections 2009-2010

Source: IMF (2009a, 2009b).

Table I.3. Percent change in real GDP in emerging and developing economies, by major regions or countries, 2006-2008 and projections for 2009

Source: IMF (2009a, 2009b).

As all the major global forecasters note, there is a great deal of uncertainty regarding the future state of the world economy (IMF, 2008; OECD, 2008f). The uncertainty pertains not only to the magnitude of the crisis, but also to the timing of its spread across the regions of the globe. While all the major financial markets in emerging and developing countries have been affected rapidly (and significantly), the transmission of the negative shock of the global credit crisis to the real economy of developing and emerging countries can be driven by many different factors, both direct and indirect, and both international and domestic. The complexity and diversity of the transmission channels and of their interaction with pre-crisis national situations make it particularly difficult to forecast what it is going to happen in those countries.

Similarly, the duration of the crisis in emerging and developing countries will very much depend on its local nature (origin, sectors affected, extent of monetary and fiscal troubles), the pre-crisis local situation, the degree of integration into the world economy, and the magnitude of the slowdown. National and international policy responses will also have an impact on the relative gravity and duration of the crisis across countries.

These uncertainties on the magnitude and timing of the crisis have strong implications for the possible evolution of emigration flows, return migration and remittances in the short and medium term. It should be noted that, when making migration and remittance decisions, individuals not only consider the current conditions in origin and destination countries, but they also form expectations regarding those conditions for the future. In the current context of general uncertainty about the economy, the range of expectations regarding the evolution of particular economies is likely to be much broader than usual, which implies that the discrepancy in migration plans for the future, and current migration behaviours, will probably be unusually large, even for individuals in apparently similar situations.

Moreover, medium-term prospects are complicated by the possibility of a change in the economic growth pattern of the major emerging economies in the post-recovery period, especially China, which has been a key engine for the growth of many developing countries in the recent years (in particular

⁵⁰ Overall, OECD projections for individual non-member countries (in particular Enhanced Engagement Economies) are in line with those of the IMF, but they tend to be slightly more pessimistic (OECD, 2008f).

through a strong demand for commodities). Post-recovery migration flows from African countries, for example, will likely vary according to whether GDP growth returns to its pre-crisis average of 6%, or if it stabilises around 3%, as it was at the beginning of the 2000s. Such a difference would not only affect the magnitude of migration flows but probably also their composition.

IV.2. Changes in flows: emigration and return migration

The advent of the crisis in destination countries is associated with both lower and more uncertain employment and earnings for migrants and prospective migrants. It is therefore likely to put a hold on outmigration projects and to encourage or advance the return of some categories of immigrants.

It is, however, unlikely that the motivations for emigration will disappear because of this crisis: post-crisis, per capita income gaps between the OECD destination countries and most developing and emerging countries will remain of the same order of magnitude as before the crisis. People will continue to try their luck abroad, and individuals already living and working abroad will still wish to reunite with their families and offer their children better opportunities. Once the situation has stabilised, barring exceptional circumstances, those individuals who had delayed their move will therefore go back to the pool of prospective migrants.

Temporary migrants represent a large share of international migration flows to OECD countries. These migrants are, by definition, required to return to their home country when their permit expires, but they might choose to do so sooner if economic conditions in the destination country deteriorate (for instance, in the event of a job loss, as they are often not entitled to collect unemployment or welfare benefits). Regarding permanent migrants, the category of entry is a key determinant of the propensity to return (OECD, 2008a). Typically, labour migrants or students have a relatively higher propensity to return than family migrants or those coming on humanitarian grounds. Depending on the country of destination and the time period considered, it has been estimated that between 20% and 50% of migrants leave within five years after their arrival, and that the probability to return decreases rapidly with the duration of stay. These facts imply that one cannot expect a durable deviation from usual return migration flows because of the crisis. Return migration might increase in the short term, but these excess outflows will mainly concern individuals who would have returned at a later date, as well as some recent migrants who arrived just before the crisis and who anticipate that they will have a hard time on the labour market (and therefore might not be able to achieve their savings objective). Long-settled Immigrants are unlikely to return because of the crisis, especially those living in the destination countries with their families.

Overall, one can therefore expect a short-term drop in net emigration from developing and emerging countries, more or less pronounced depending on the economic situation in the main destination countries. This drop is likely to be followed by a rebound when OECD destination countries start to recover, corresponding to delayed outflows and a reduction of return flows.

Restrictive migration policies in destination countries might also have an impact. In particular, if governments of destination countries choose to restrict labour migration on the ground of the labour market situation (or to satisfy public opinion), or if entry conditions are tightened for family or humanitarian migration categories, this would make it more difficult and more costly to migrate, and force prospective migrants to delay their moves even longer. Governments might also try to encourage migrants to leave through voluntary return programmes, accompanied by financial incentives. However, as highlighted in OECD (2008a), past experiences show that these schemes generally have little impact. Migrants can be reluctant to return home if they lose their right to come back to the destination country again. Indeed, the possibility to emigrate again acts as an insurance against the failure of the return project in the origin country. To sum up, OECD countries wishing to encourage

return migration during a downturn should therefore reduce obstacles to return, for example by improving the portability of social rights or by offering re-entry options.

Return migration decisions are also strongly conditioned by the economic, social and political situation in origin countries (OECD, 2008a). As we have noted, uncertainties regarding the medium-term outlook in emerging and developing economies are huge. Since those economies are on average much more volatile than OECD countries, small-probability events might carry sufficient hazards to deter risk-adverse migrants to go back to their origin countries, whatever the situation in the destination country.

Furthermore, notably in Spain and the United States, immigrants have invested in the housing market but cannot sell their assets without the risk of facing a large financial penalty. This clearly imposes an additional impediment for return migration in the present context (**Box I.9**).

Box I.9. The housing bubble and immigrants: home ownership and negative equity

Immigrants, as noted, are disproportionately employed in the construction sector in many OECD countries and therefore vulnerable to a collapse of housing prices. But immigrants are also homeowners, and in many OECD countries, especially those where the housing bubble has been most severe, they have represented a growing share of home purchasers and mortgage takers in recent years. This means that immigrants are heavily exposed to the decline in home values, and, because of their higher vulnerability, at greater risk of mortgage default.

In the United States, the homeownership gap between immigrant and native-born households was growing at the start of the 2000s. While home ownership rates among prior immigrants were rising, significant new immigration lowered overall home ownership rates among immigrants. Many of the new immigrants were less educated and had lower income than the native-born, in addition to lacking equity from a previous home. In 1996, 33.1% of non-citizen immigrants were homeowners (Census Bureau, 1997); this rose to 35.8% in 2002 (HUD, US Housing Market Conditions, 2002). In 2005, 17.5% of first-time homebuyers were foreign born (6.4 % naturalized citizens and 11.1% noncitizens), while 11.4 % of other recent homebuyers and 8.6 % of other homeowners were foreign born (HUD, US Housing Market Conditions, 1/2007). Many also settled in high-growth areas where housing costs had risen the most; in fact, the price of houses bought by immigrants was higher than that of the native born (Ray *et al.* 2004). The housing boom in the United States corresponded with an expansion in mortgage loans – often at higher interest rates – to buyers with limited or poor credit history, a group which included a disproportionate number of immigrants. The current downturn has struck this group hard. According to 2007 Census bureau data, just under a third of Hispanic homeowners spend at least 38% of their income on housing expenses, compared with about a quarter among Asian and black households and nearly 16% of white households. In November 2008, the Pew Hispanic Centre found that more than half of foreign-born Hispanic homeowners in the US were worried about foreclosure of their homes in the next year (Hugo Lopez *et al.* 2009).

Spain also saw a rapid rise in home purchases by immigrants during the 2000s, in correspondence to rapid increase in the foreign population. In 2006, the government estimated that 40 000 homes were being bought annually by immigrants, or 5% of the total (Oficina Economica del Presidente, 2006); the same year, only 9% of immigrants were homeowners, with this projected to rise to 22% by 2010 at current purchase rates. In 2007, 15% of home purchases were by immigrants (68 000 units), although this comprised only 7.4% of total mortgage value that year⁵¹. By 2008, 38% of immigrant households were homeowners, although they paid a premium (average of 3-5%, and as much as 8% more) compared with Spaniards for their mortgages (Oxfam 2007). Most of the defaults are now attributed to immigrants.

In the United Kingdom, research by the Council of Mortgage Lenders (Holmans, 2005) found low homeownership rates among recent migrants (20% after five years). Rising prices throughout the 2000s excluded many first-time buyers from the UK market, reducing the exposure of immigrants to the collapse of the real estate market. Home ownership rates were even lower among immigrants in Ireland. According to the 2006 census, while Irish homeownership rates were 78%, the rate was 5.4% among foreigners from the EU10, and 21.7% for

⁵¹ Data presented at seminar *Productos y servicios financieros para inmigrantes*, Madrid, 31/1/2008

those from third countries. Rates paid by immigrants are 2% higher than those paid by Irish, according to the Professional Insurance Brokers Association (PIBA).

Immigrants buying into the housing market during a rapidly rising market generally do so without equity. In Italy, for example, immigrants made up 17% of home purchasers in 2007, and their purchases were generally much more heavily mortgaged than native Italians (half of whom did not use mortgages at all). With prices falling, immigrants are much more exposed. Immigrants who have purchased homes where the mortgage is worth more than the current market value, or those who are unable to sell their homes, cannot withdraw equity for a return home.

As mentioned in section II, there is some evidence since 2007 of a significant reduction in inflows of undocumented migrants to the United States. It is, however, too soon to tell if this trend will last. Large number of Poles have also returned from the United Kingdom in the past two years (**Box I.10**), but this was associated with higher demand for labour and rising wages in Poland, and not necessarily with the slowdown in the United Kingdom.

Overall, for all the reasons mentioned above, it seems unlikely that we will witness large return migration flows from OECD countries in the medium-term. Significant flows might be recorded in some cases, where there is a sufficiently strong and persistent decoupling between the destination and origin countries, and if migration costs are not too high, but this will likely be the exception rather than the rule.

Box I.10. Returns to enlargement countries in the wake of the economic crisis

Post-enlargement migration flows from Central and Eastern European to EU15 countries have tended to be more temporary than permanent, with many immigrant workers returning to their home countries. Can one expect this to continue with the current economic downturn? Some developments will likely encourage returns, others will favour a continuing presence in the host countries. What the balance will be is as yet unclear.

The current downturn is affecting some of the largest EU-15 national labour markets, resulting in a rapid contraction of labour demand and a reduction in earnings. At the same time, many of the new accession countries have experienced in recent years both labour shortages and rising wages. Poland, in particular, is experiencing a boom in construction and hospitality which has been fuelled by major construction projects in preparation for the 2012 European Football Championship.⁵² So far, the impact of the crisis in EU-8 and EU-2 countries is much more limited than in most of the EU-15 countries, even if growth has already slowed in 2008 and is expected to slow more in 2009. The change to the balance of economic push and pull factors may therefore encourage, in the short term, the return migration of workers from enlargement countries.

The predominantly temporary pattern of post-enlargement migration flows may be another factor that will encourage returns. The deterioration of labour market conditions in host countries may lead those Central and Eastern European workers with return intentions to bring them forward.

On the other hand, in the medium to long term, the contraction of both FDI and migrants' remittances as a result of the current economic crisis is likely to reverse the growth trends of EU-8 and EU-2 economies. This will contribute to spreading the crisis to those countries and, subsequently, to reducing the propensity to return.

Already in 2007, the Polish Government had introduced a package of measures aimed at attracting Poles back home to fill in the growing labour shortages in the national labour market. With the contraction of foreign direct investment, the savings which migrants would bring back with them is another reason for encouraging returns.

Exchange-rate developments may also affect returns, in particular in the case of Polish immigration to the United Kingdom. The narrowing of the earnings gap as a result of sterling's depreciation in recent years gave

⁵² The jobs which Poles have been taking up abroad are not necessarily jobs which they would take on in Poland, so that the return of persons working in specific occupations abroad may not result in the filling of labour shortages in the same occupations back home.

Polish immigrants in the United Kingdom yet another reason to return home, to invest their savings in the growing home economy before further depreciation. However, since mid-summer 2008, the pound, despite its drop relative to the euro, has appreciated relative to the zloty. This reversal may reduce the incentive to return.

Some recent Polish population register data suggest that a growing number of Poles have returned from abroad in the last two years. Data from a survey of returned Poles who have lived in the United Kingdom for at least three months since 1998 confirms that the pace of return to Poland among migrants in the United Kingdom has accelerated during early 2008 (Latorre, Pollard and Sriskandarajah, 2008).

Bulgarian and Romanian workers who have emigrated to find work in EU15 countries in recent years seem less likely, even in the short term, to return to their home countries. Restrictions on their movements are still in place, wage gaps remain high and migration has shown signs of being more permanent for workers from these countries. Even those workers experiencing job losses and difficulties in finding new employment in host countries are more likely to remain there, claiming unemployment benefits if they have entitlements, or searching for employment (either legal or illegal) in sectors or regions less hit by the crisis.

IV.3. Remittances

According to estimates by the World Bank, remittance flows to developing countries began to slow down in the second half of 2008 (World Bank, 2008 and 2009). Overall remittances to developing countries are expected to reach about 305 billion USD in 2008, “only” 8.8% more than in 2007 when the growth rate of remittances to these countries between 2006 and 2007 was 16%.. So far, since they are the most dependent on the economic situation of the United States, Latin American and Caribbean countries are the most affected, with remittance flows slowing to zero growth in 2008. On the other hand, labour migration from South Asian countries is mostly directed to other countries in the region or to the Gulf countries, and remittances have therefore been much less sensitive to the early developments of the crisis. Remittances to developing countries are projected to decrease significantly in 2009 by 5 to 8% and before growth resumes in 2010 (World Bank, 2009), but the numerous uncertainties surrounding the state of the world economy make it premature to predict its scale.

Several factors must be considered to understand how the crisis might affect remittance flows: i) the number of immigrants in the destination country, and their labour market participation; ii) their propensity to remit money, which depends on their duration of stay and family situation; and iii) the average amount transferred by those who remit. All of these factors can be affected by the crisis, possibly in opposing directions, which makes the overall impact uncertain.

Regarding the first factor, it is likely that the overall earnings of immigrants in OECD destination countries will decrease as a result of the crisis, because net flows will be affected in the short term, and because of the worsening employment situation. However, remittances are sent by the cumulated flows of migrants over the years, and not only by the new migrants of the last year or two, which makes them relatively persistent over time.

Whether the share of immigrants who remit money will increase or decrease as a result of the crisis is not clear. On the one hand, if migration slows down, this means that the share of recent migrants in the overall foreign-born population will decrease, and recent migrants are generally more likely to remit, while those established for a long time (especially those living in the host country with their family) have a lower propensity to remit. On the other hand, depending on the extent of the crisis in origin countries, immigrants might be under increased pressure to provide financial resources to

their extended family or communities back home. Indeed, there is some evidence showing the counter-cyclical effect of remittances (Chami, Fullenkamp and Jahjah, 2005; Fajnzylber and López, 2007)⁵³.

Finally, average amounts transferred depend on both the evolution of individual earnings or savings of immigrants, and the real exchange rate between the host and origin countries. An appreciation of the real exchange rate of the destination country's currency relative to that of the origin country implies that the value of remittances in the origin country's currency increases. On the other hand, when the origin country's currency appreciates, this implies that migrants need to send a larger share of their income to guarantee the same resources for their relatives in the origin country.

As shown in **Chart I.16**, the Mexican peso has rapidly depreciated in real terms against the US dollar since September 2008, after a period where the trend had been opposite. According to research by the Pew Hispanic Center, among Hispanic immigrants who sent remittances in the last two years, about 70% say they sent less in 2008 than in 2007. However, data from the Bank of Mexico do not show a decline in the average amount of remittances, which has remained around 350 USD per month.

While there is some evidence of the relative resilience of remittances from the United States to Latin American countries (Roache and Gradzka, 2007), the current crisis is likely to have a non-trivial impact on remittances. Overall, as shown in **Chart I.17**, remittances from the United States to Mexico have markedly slowed in the past two years, and were particularly low during the summer of 2008 compared with previous years. The very large fluctuations in remittances flows at the end of 2008 are unusual, and can probably be attributed partly to the dramatic change in the real exchange rate of the peso against the dollar.

Chart I.16. Real exchange rate of the Mexican peso per unit US dollar, January 2003 to February 2009

Source: Consumer price index data from OECD Monthly Economic Indicators; nominal exchange rate from IMF exchange rate database.

Chart I.17. Workers remittances to Mexico, January 2004 to February 2009

Source: Banco de Mexico.

Similarly, balance-of-payments data from the Spanish Central Bank show that the growth of remittances sent abroad by migrants living in Spain has slowed down since mid-2006, and has been negative since the beginning of 2008 (**Chart I.18**).

In countries where a large share of households relies on remittances as a key source of income to finance current expenditures or investment, and where remittances constitute an important source of foreign currency, the impact of the crisis on the labour market situation of immigrants in OECD countries will therefore be an additional transmission channel of the international crisis to the national economy.

Chart I.18. Growth of remittance flows from Spain, 2003-2008

Source: Banco de España.

⁵³ Other studies by Giuliano and Ruiz-Arranz (2005) and Sayan (2006), however, show that the cyclicity of remittances varies across countries. Several country studies indeed support the pro-cyclical hypothesis in the case of Sri Lanka (Lueth and Ruiz-Arranz 2007), Uganda (Apa-Okello and Anguyo 2006) and Turkey (Sayan and Tekin-Koru 2007).

Conclusion

Severe recessions have historically had a negative impact on net migration flows, although they have not generally affected long-term migration trends. Labour migration flows have been more sensitive to economic changes, while family and humanitarian migration were generally less affected in the short run. While return migration is hampered by the economic conditions in the origin country and possibilities to re-enter the receiving country, immigrants, however, tend to exercise their right to family reunification. Indeed, past programmes to blunt the effect of the crisis by providing incentives for migrants to return voluntarily have not generally been successful. Furthermore, historical experience shows that, if opportunities for legal labour migration remain limited during the recovery phase, an increase in irregular migration may occur in response to labour shortages in some occupations, provided that the migrants are still able to finance the costs associated with such migration.

The current economic crisis seems to have affected flows in a number of countries, particularly those where the downturn started earlier and is most extensive. Evidence of declines in labour migration flows comes from the United Kingdom, Ireland and Spain. In other countries, the impacts of the economic slowdown on migration trends are not yet visible. Irregular migration flows seem to have fallen in some countries, notably in the United States.

Even if it is still too early to identify the full impact of the economic crisis, the latest available data confirm that labour market conditions are rapidly deteriorating in all OECD countries. This situation is already challenging the progress made in recent years in terms of labour market outcomes of immigrants in several OECD countries, notably in Ireland, Spain, the United Kingdom and the United States, countries where immigrant labour played a key role during the last expansion period.

In many OECD countries, immigrants are among those at the forefront of the worsening of labour market conditions, because they are often concentrated in industries which are more sensitive to business-cycle fluctuations and they have, on average, less secure contractual arrangements. In addition, even if evidence is not yet available, one cannot rule out the risk of selective layoffs.

A strong macroeconomic shock may also jeopardise the medium and long-term integration of immigrants. The measures geared toward the labour market within “stimulus packages” should thus not discriminate against regular immigrant workers, as it is doubtful that significant return migration will be observed, at least for permanent migrants. Special attention should be paid to retraining and reintegration programmes for workers in declining sectors, where immigrants are overrepresented in some countries. More generally, it is important not to reduce the efforts to facilitate the integration of immigrants into the labour market during an economic crisis.

The policy response, in terms of management of labour migration, to the downturn in OECD countries has been mixed so far. In a number of countries, shortage lists have become more restrictive and caps for immigration lowered. Labour-market tests are also being applied more broadly, for example in Canada. Incentives for return migration have been introduced in Spain. In some EU-15 countries, temporary restrictions on free movement of workers from the new EU members have been extended, although they still have priority to access the labour market over third-country nationals. Nonetheless, many OECD countries have not yet moved to limit labour migration and those with long-term immigration targets (New Zealand, Canada) have maintained their objectives despite recessionary forecasts.

The economic downturn reveals the capacity of current migration management systems to react quickly to changing economic conditions. Where migration is contingent on a job offer, a decline in

demand usually translates rapidly into a fall in migration. If quota caps had been set far below demand, however, a decrease in the latter may not automatically produce a decline in flows. Other policy instruments, such as shortage lists or a labour-market test, can be used to some extent to adjust international recruitment to labour market needs. Some of these instruments can be changed within the framework of the migration management system already in place, without recourse to new legislation.

The economic outlook for OECD countries is worsening and the demand for labour is expected to fall drastically in the next quarters. This means that in the medium term recourse to foreign labour will probably diminish in many OECD countries, although certainly not to a point where labour migration flows would vanish, as employers in some segments of the labour market will still find it difficult to rely on the resident workforce to meet their needs. This will be the case for instance for those 3D jobs which are less sensitive to the business cycle (e.g; seasonal agricultural work, domestic work), as well as for highly skilled professional occupations where training is long and costly (e.g. health occupations).

Historically, public opinion has been more sensitive to issues of migration during periods of economic crisis and higher unemployment. A functioning labour migration management system can react quickly to short-term economic and labour market changes. Further, while economic crises may justify restrictions in labour migration in the short-term, it is important to consider the longer term consequences of policy changes made during a crisis. Eventually, other concerns, such as population ageing and labour shortages in some sectors, may reappear with a new urgency, and migration flows will be one of the potential responses (OECD, 2009a). In addition, public opinion may pressure governments to restrict non-discretionary immigration as labour market conditions weaken and perceived competition with the foreign-born increases. However, the margin for restrictive measures on non-discretionary migration may be limited by international commitments and in some cases it may induce perverse unexpected effects on irregular migration or integration.

To sum up, taking into account the challenges associated with international migration in the context of the current economic crisis, a strategic response to “build a stronger, safer and fairer world economy”, as called for by the OECD, should consider the following key points:

- Delaying or cutting back on integration measures during a downturn may have negative long-term implications for integration of immigrants. OECD governments should therefore consider i) maintaining, if not strengthening, their integration programmes; ii) reinforcing their effort to fight discrimination; and iii) ensuring that active labour market policies reach new entrants into the labour market, including recent immigrants, and workers displaced from declining industries.
- Management of labour migration should be sufficiently responsive to short-term labour market conditions, without denying the more structural needs or hampering return. It is important to avoid making policy changes which would leave a country unable to respond quickly to labour market needs in the recovery phase, or which would induce unwanted effects on irregular migration or integration.
- Special attention should be paid to the economic situation in less developed countries as remittances are falling during the economic crisis. More generally, efforts to prevent the crisis from spreading to less developed countries should be reinforced, in part to prevent the current economic downturn from adding to the push factors driving irregular migration.

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Annexes

Annex I.1. Quarterly employment and unemployment rate (15-64) by place of birth in selected OECD countries, 2007-2008

Note: Data are not corrected for seasonal variations. Comparisons should therefore be made for the same quarters of 2007 and 2008, and not for successive quarters within a given year.

Source: LFS data for European countries, CPS data for the United States (averages of monthly rates).

Annex I.2. Sectoral distribution of foreign-born employment (15-64), 2007

Note: The numbers in bold indicate the sectors where foreign-born are over-represented (i.e. the share of foreign-born employment in the sector is larger than the share of foreign-born employment in total employment). “..” indicates that the estimate is not reliable enough for publication.

Source: European Labour Force Survey data (Eurostat) for European countries, Current Population Survey data for the United States.

Annex I.3. Sensitivity index to the business cycle

Notes: Data are from the KLEMS database and refer to the period 1970-2005.

Source: OECD Employment Outlook (2009 forthcoming).

Annex I.4. Distribution of foreign-born and native-born employment by industry in November 2007, observed value and counterfactual variation of foreign-born employment between November 2007 and November 2008, United States

Source: Current Population Survey.