

# **Immigration, policy-oriented evaluation of benefits and costs for developed countries**

**Abstract.** The present paper reviews the principal policy implications involved by the process of immigration for the developed countries. With this aim, it first draws a global view of the portrait of immigrants and the reasons explaining the immigration phenomenon - by focusing on three main developed countries of immigration: the United Kingdom, Spain and France. Secondly, it provides a frame for intra and inter-continental comparisons and analysis, by assessing the benefits and costs of immigration, through the exploitation of economic and fiscal centred aspects. Lastly, this paper proceeds to the comparison between costs and benefits - by presenting social and political centred arguments - in order to seize objectively whether the costs of immigration outweigh the benefits or not.

**Keywords.** Immigration; Costs; Benefits; Developed Countries; Comparison.

**JEL :** F22; O1; O15; Y40.

## **Introduction**

In 2009, according to the International Organization for Immigration the estimated number of immigrants in the world was higher than 300 millions. Moreover, since 2005 Europe hosts the largest number of immigrants estimated as attaining 71m people, while North America, the second immigration centre, hosts more than 45m immigrants. Owing the ubiquity of the immigration process and that the rate of the immigration depends on the overall economic development of the country of origin and of arrival, the consequences surrounding it are taking a central position in today's issues. If expressed in a scientific terminology, immigration corresponds to a unidirectional movement of a population sample from a departure country to a country of arrival. This movement is characterized by the establishment of the population sample in the country of arrival, in a habitat for a

period exceeding six months. Hence, immigration is a process in two stages: departure and arrival.

One leading theoretical explanation of immigration focuses on the so-called push and pull factors (Lee, 1966). The push factors refer to the motive for emigration from the country of origin. The pull factors are those factors which forcefully attract people to an area of destination. The push and pull factors argue that main motive for immigration is the prospect of economic advantage, of political freedom and enjoyment, and escape from conditions restraining the individual's developmental freedom. The main problem with push-and-pull explanation is three-fold: first, it states the obvious (i.e., people from poorer places will seek to go to richer ones); second, it is unable to explain the emergence of migrant flows; third, it is unable to explain the stability of the emerging patterns of migration. Hence the push and pull factors explanation is too simplistic for explaining the motives of emigration and does not constitute a tool for assessing the costs and benefits of immigration for the countries of arrival.

For palliating to the above-mentioned unilateral explanation this paper considers different factors (economic, social, fiscal, political), characteristics and needs, explaining immigration. It examines comparatively the various aftermaths of immigration in terms of benefits and costs for the countries of arrival, the developed countries, and sustains the need in assessing these costs and benefits to drive a line between different intervening variables – e.g.: immigrant's skills, demographic deficit etc...

### **Who immigrates in developed countries? What explains it?**

The first point focuses on immigrants' skills. Migrants are heterogeneous, by differing across many dimensions. Labour Force Survey data for 2006 emphasises that the three most popular sectors for immigrant workers in the UK are public administration, education and health (32%), distribution, hotels and restaurants (21%) and banking, finance and insurance (20%). In addition, although, measuring immigrants' skills and educational qualifications is difficult because of the potential incomparability between foreign and British diplomas, through analysing the age at which people left full-time

education it appears that immigrants are generally more skilled than UK- born persons. Bank of England showed that immigrants are concentrated at the extremes of the occupation distribution. For Straubhaar (1998), this polarisation between high and low-skilled migration appears to be a general European-wide phenomenon, suggesting that it reflects general economic and market trends more than country-specific policies. Also, more foreign-born workers are in highly-skilled jobs than UK- born (49% vs. 42%). But EU states immigrants are more concentrated in low-skilled jobs, with 38% in elementary occupations and only 13% in higher skilled occupations. This stresses that for A8 immigrants, there is a significant mismatch between their education and skills and their UK employment. Indeed, Eurostat 2008, seemingly notices that in France in 2002, 42% of European immigrants were working in low-skilled sectors (as simple *workers*), whereas only 10% of them were working in high-skilled sectors.

Another point focuses on the geographical origin. According to the Eurostat (2008), in Spain for instance in 2006, 62% of immigrants came from outside the European Union, embracing especially North Africa and Latin America. In France in 2006, the two principles groups of immigrants came from Algeria (counting 16%) and Morocco (counting 13%). Moreover, since 2000 an increase in permanent migration from non-European Economic Area was registered (*confere* below table 1).

For the UK, the proportion of immigrants originating from ex-colonies is around 50%. According to the Office for National Statistics, the largest single group of immigrants (in 2005) was 121,000 arrivals from "new commonwealth" nations (Pakistan, Bangladesh, India, Sri Lanka). The choice of immigration country therefore still largely reflects geographical proximity and historical ties. Research (Findlay and al 1996) points that a country's patterns of migration linkage will continue to be affected by its historically and geographically specific position in the global hierarchy of investment, trade and finance flows. Hence, it is predictable that countries with a strong colonial past will continue to have massive inflows of immigrants coming from former colonies. Furthermore, Docquier, Lohest and Marfouk (2006) analysed econometrically the determinants of choice of destination of migrants by skill level analysis. It reveals that the main determinants of

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

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

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

Immigration has impacts on wages and unemployment. Despite no obvious positive correlation between immigration and unemployment it is often expressed that immigration

leads to higher unemployment and lower wages for the native population. In closed economy, increase in labour supply without compensatory influx of capital creates downward pressure on wages and upward pressure on returns to capital, leading to a reallocation of workers towards the holders of capital. When migrants are changing the average skill level of the workforce, it affects the skill premium. Thus, unskilled immigration contributes to increasing wage inequality between workers and non-qualified graduates, or to increase the unemployment rate for unskilled. In theory, the labour market impact of immigration depends on the comparison between immigrants' skills and native population's skills. Thus immigration can influence the wages of the host region. The argument used is as follows: when wages are flexible, immigration is likely to reduce the remuneration of production factors substitutable to immigrant workers, and increase that of the complementary factors. In this context, some work, mainly carried out on U.S. data, where wages are flexible, demonstrate a degree of substitutability between immigrants and indigenous unskilled workers. But in facts, the distributional impacts are more complex when other factors of production, such as capital, are included in the analysis (Borjas, 1999). However, empirical studies have failed to provide definitive conclusions about the effect of immigration on wages, but most of them conclude that the effect is low (Freidberg and Hunt, 1995).

Nonetheless, empirical studies from the United States fail to find that immigration has harmful effects in terms of raising unemployment in the receiving country (Friedberg and Hunt, 1995). In Europe the results are less categorical, with a few studies reporting small negative effects of immigration on unemployment (Winkelman and Zimmerman, 1993). In the case of France, Garson et al. (1987) showed that immigration has a very small impact on nationals' wages. In addition, the analyse of the nature of adjustment following major one-off immigration shocks, by Hunt (1992) (return of the pied noir from Algeria to France in 1962) showed that even major one-off migrations had only small labour market effects, as adjustment was partially facilitated through internal migration of the native-born population and possibly through firm mobility.

Results about fiscal contribution of immigrants depend on the methodology

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

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

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

### **Do the costs overweight the benefits ?**

For Chiswick (1980) economic impacts of immigration depend on immigrants’ characteristics and on the economy of the migrant-receiving country. Immigration’s

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

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

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

emigration. In addition, free circulation agreements, persistence and difficulty of tackling illegal immigration limit the control over the demographic composition of immigration.

## **Conclusion**

In conclusion, providing an answer to whether immigration raises more costs or more benefits to and for a country of immigration, cannot be straightforward, because of the very nature of the question. Indeed, the structure of the former *corpus*, through providing for each theory, driven from literature, specific examples of countries, contributes to highlight the complexity of the immigration process. Assessing the costs and benefits cannot be reduced to a basic mathematical equation, because it involves to take into account three principal variables: first the nature of those who immigrates and the heteroclitite character of the immigration's process, second the countries' of immigration structure and needs which shapes the need for specific types of immigrants and third the countries' of immigration response to this phenomenon.

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