

The Economics of Migration

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Immigration: a personal perspective

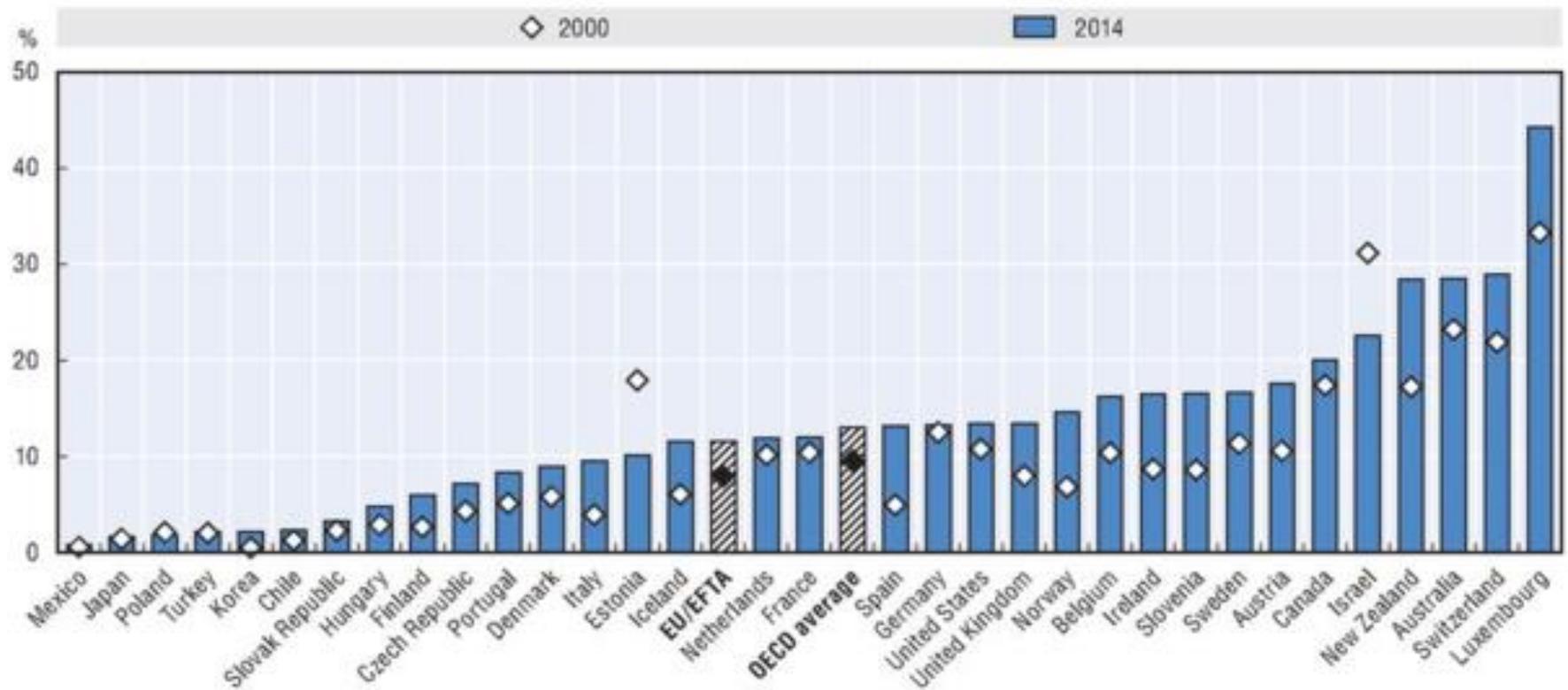
- A declaration: I have recently been appointed Chair of the UK's Migration Advisory Committee:
 - Appointed by but independent of government
 - Government asks selected migration-related questions, we try to answer
 - Any views here are mine, not MAC, not UK government
- My research does indicate that concern about immigration was not the only reason for Brexit vote but it was substantial enough to affect the outcome
- But concerns about immigration not unique to the UK

Outline of talk

- Context
- Quick review of theory and evidence of impact of immigration
 - Labour market
 - Net fiscal contribution
 - Impact on communities
- Conclusion:
 - fears about the costs of immigration are often not supported by the evidence
 - But there is also little evidence of large benefits for the resident population
 - Most of the benefits go to the migrants themselves
- This sets up the tension at the heart of migration policy:
 - Probably large numbers of people would like to migrate to Norway/UK
 - But little incentive for the resident population to allow this

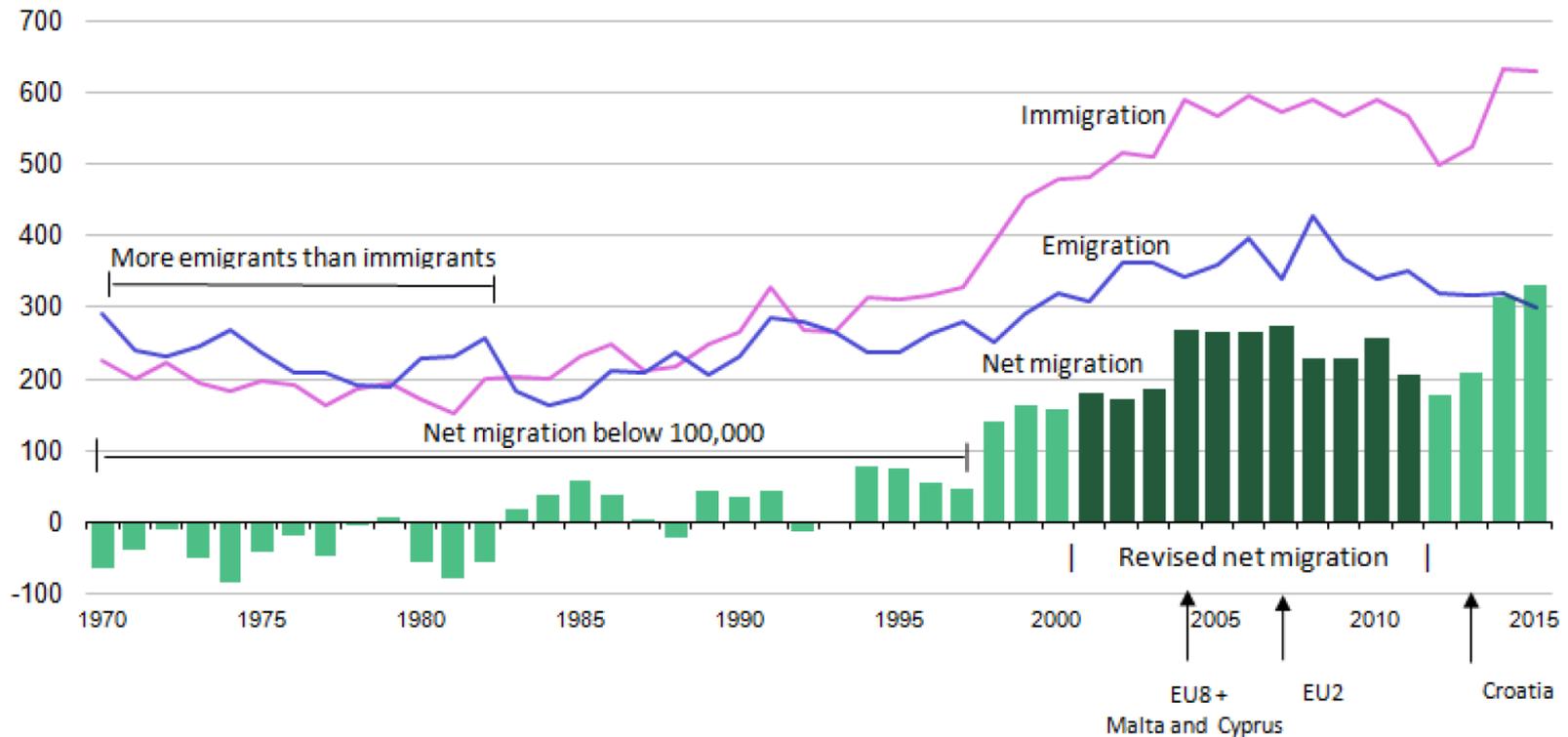
The rising share of immigrants in OECD countries

Figure 1.13. The foreign-born as a percentage of the total population in OECD countries, 2000 and 2014



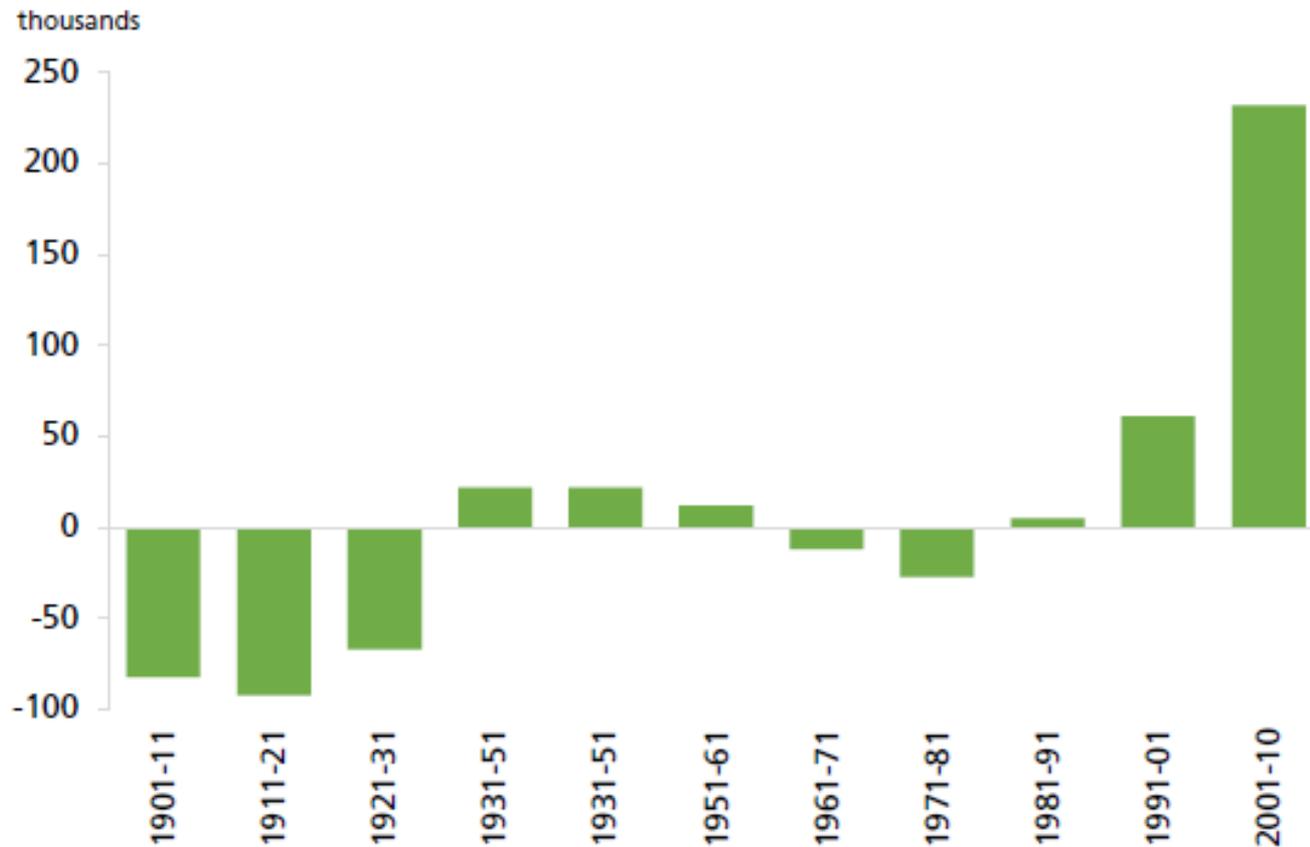
Level also rising relatively fast as high rate of net migration - UK

Migration (thousands)

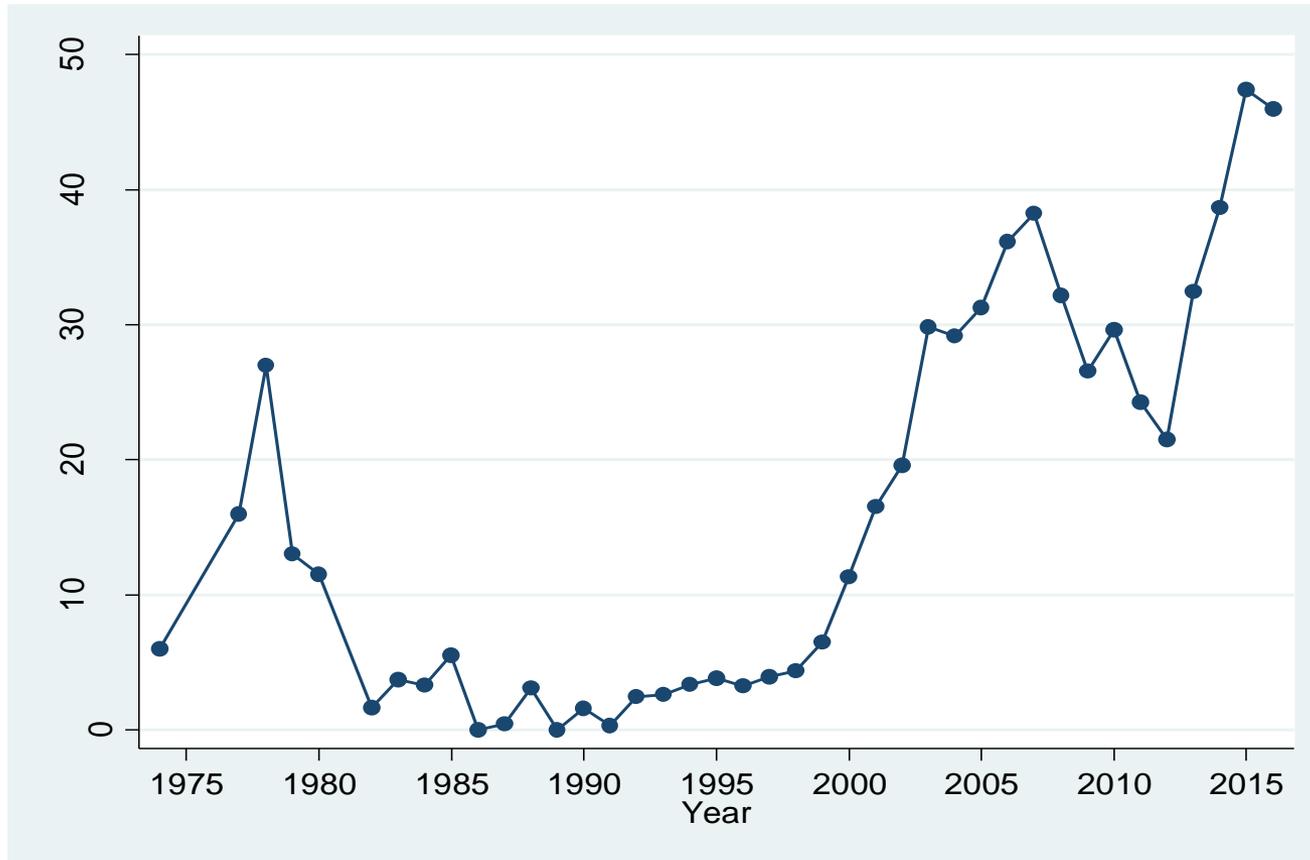


High levels of net migration new in long-run historical experience

Chart 5: Estimated average annual net migration, UK, 1901-2010

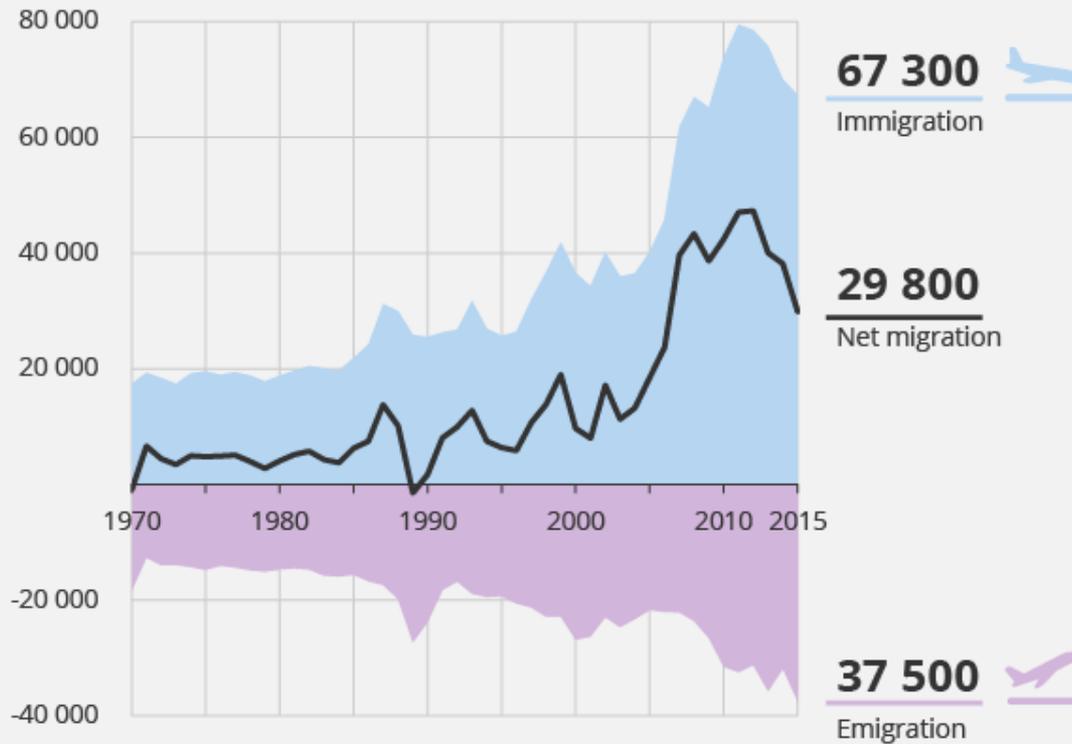


And high levels of public concern:
Percentage of Respondents thinking Immigration/Immigrants
/Race Relations an Important Issue Facing Britain (Ipsos-Mori)



Perhaps remarkably similar to Norway

Figure 1. All citizenships, migration to/from Norway



Kilde. Statistisk sentralbyrå.

The Labour Market Impact of Immigration: Theory

- The simplest view of immigration is:
 - it increases the number of people in the country
 - It increases the labour force (to the extent the immigrants want to work)
 - It alters the mix of skills in the labour market
- Very important to realize there is no such thing as **the** impact of immigration
- Impact on different parts of resident population likely to be different
- Immigrants are people too:
 - mix of skills, strengths/weaknesses, just like everyone else
- So different types of immigrants are likely to have different effects:
 - Highly educated refugees from Nazi Germany led to increased innovation
 - Influx of young low-educated men in UK in late 1990s led to small increase in crime
- This is why free movement has been so problematic in the UK:
 - UK residents no say about who comes to the UK from other EEA countries

If you are a worker how are your labour market prospects affected by entry of a migrant?

- Key idea is that it depends on whether the immigrant is a substitute for you or a complement to you
- A substitute is a worker who does a job like you so supply of people like you increases
 - We might expect this to be to your disadvantage
- A complement is a worker who is the type of worker you work alongside e.g. managers and production workers
 - We might expect this to be to your advantage

Direct/Indirect Substitutes/Complements

- Easiest to think of substitutes/complements within the workplace – this is the direct effect
- But also indirect substitutes/complements
- E.g. if immigration means some goods/services become cheaper this is:
 - to the advantage of consumers who consume these goods
 - to the disadvantage of workers who produce competing goods whose demand falls
 - To the advantage of workers who produce complementary goods whose demand rises

Indirect Complements may be particularly important

- If immigration leads to some goods becoming cheaper:
 - consumers have more money to spend on other things
 - As they buy other things the demand for the labour of a wide range of workers goes up
- As is the fact that immigrants spend money as well as work so increase the demand for labour even as they increase the supply
- But indirect complements may be largely invisible

Summary of theory

- There are likely to be some workers who gain from immigration, others who lose
- None of this says that any of these effects will be particularly large
- What does the evidence suggest?

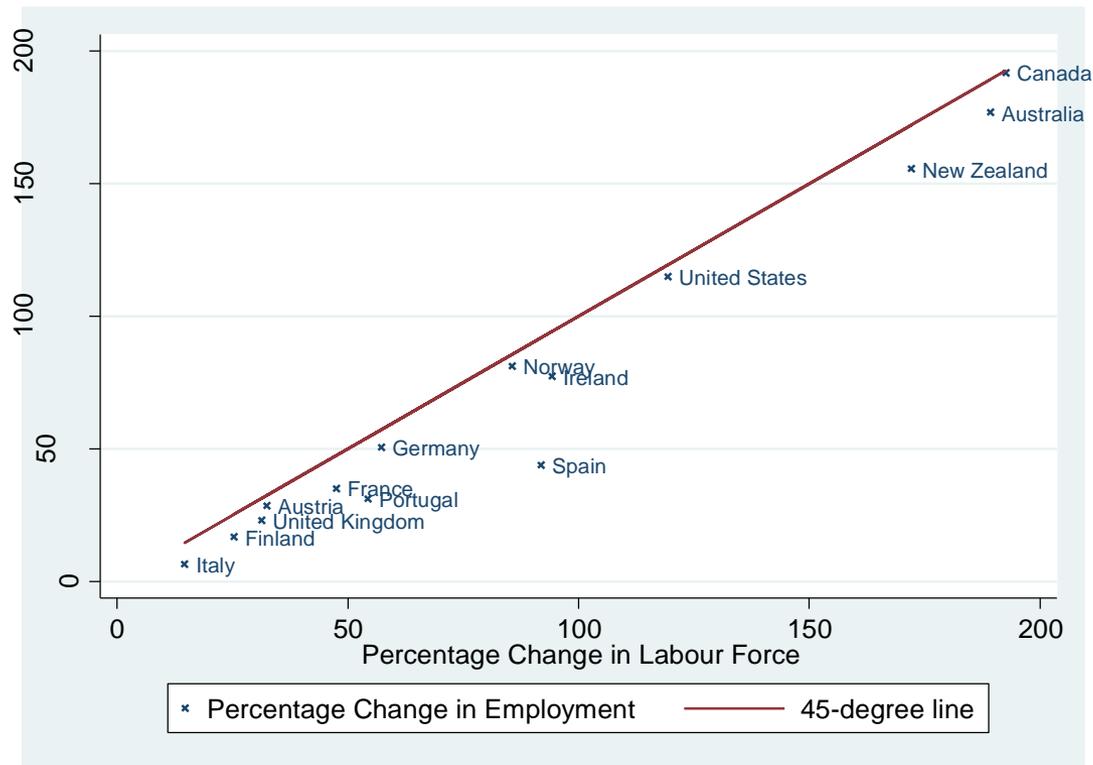
Empirical Evidence on the Labour Market Impact of Immigration

- A lot of studies – will not review them all in detail here
- Some find positive overall effects of immigration, some find negative effects.
- Some find positive effects for some groups, negative effects for others
- But few of the estimated effects for residents are very large
- Lets look at some high-level evidence by comparing countries over long periods of time

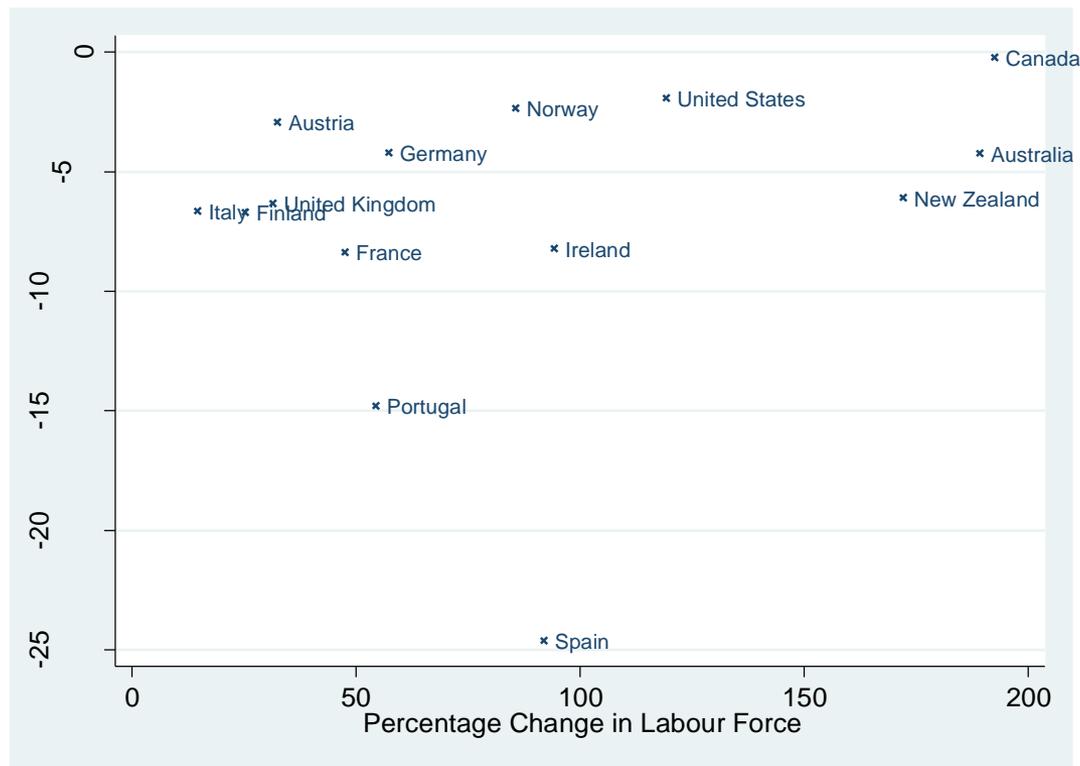
An international perspective

- Countries differ a lot in the rate at which their labour forces have increased over long periods of time because of:
 - Net Immigration
 - Natural population growth
 - Entry of women into the labour force
- But employment strongly follows increase in labour force
- No relationship between change in employment rates and growth in labour force

Relationship between change in employment and labour force, 1960-2013



And there is no relationship with change in employment rates



How to interpret this

- Increase in labour supply naturally leads to an increase in labour demand
- But it seems very hard to persuade people of this fact – many have the strong belief that there is a fixed number of jobs to go round
- Perhaps this is one's experience if one applies for a job and does not get it – if only the successful candidate had not applied, the job would have been mine!
- But labour economists call this the 'lump of labour fallacy' – the number of jobs in an economy is not fixed and the evidence is very clear on this point

“would you say that people who come to live here generally take jobs away from workers or generally help to create new jobs?” (ESS, 2014)

Country	Take Jobs Away	Neutral	Create Jobs	Net
Hungary	65%	22%	13%	-52%
Austria	43%	31%	26%	-18%
Belgium	40%	37%	23%	-18%
UK	38%	33%	29%	-10%
Netherlands	31%	41%	28%	-3%
France	32%	36%	32%	1%
Denmark	23%	36%	41%	19%
Germany	20%	37%	43%	23%
Norway	14%	29%	56%	42%
Sweden	11%	28%	61%	50%

Summary of theory and evidence

- Labour market impact of immigration has probably been positive for some workers, negative for others
- Overall, probably very small gain or loss for native workers
- Public opinion in many countries seems to think the impact is very negative
- Academics pour lot of energy (rightly) into trying to correct this misapprehension
- But often fail to recognize that they are not making a strong positive case for migration

Net Fiscal Contributions

- Particularly important for countries like Norway with relatively generous welfare states
- In the UK the effects are again not large
 - One influential study found A8 migrants had net contribution of £5bn over 10 years – but this is 20p per person per week
- Effects vary hugely with migrant:
 - Net fiscal contribution will be higher for higher-skilled, higher-earning migrant
- This again suggests that countries will want to control the type of migrant who comes

“do you think people who come here take out more than they put in or put in more than they take out? “ (ESS, 2014)

Country	Take Out More	Neutral	Put in More	Net
Austria	60%	25%	15%	-45%
Hungary	57%	29%	15%	-42%
Belgium	52%	28%	20%	-33%
Netherlands	49%	28%	23%	-26%
France	44%	36%	20%	-24%
UK	45%	26%	29%	-17%
Denmark	43%	29%	28%	-15%
Germany	35%	38%	27%	-7%
Norway	35%	32%	33%	-2%
Sweden	26%	31%	42%	16%

Impact on Communities

- Migrants have to live somewhere so inevitably alter some communities
- People care about their communities but have limited control over the way they change – this is a source of stress
- Many dimensions of concern about effects of migration on communities:
 - Increased population, more pressure on housing
 - More pressure on public services
 - Fear of crime
 - Fear of the ‘other’
- Again, there is often a lot of inaccurate information
 - Fears often seem worse than the reality
 - But again, often hard to make the case for a strong upside on many dimensions

Example: UK Citizenship Survey, 2010-11 – asked about 11 responsibilities

To obey and respect the law	To behave morally and ethically
To help and protect your family	To raise children properly
To work to provide for yourself	To behave responsibly
To vote	To respect and preserve the environment
To help others	To treat others with fairness and respect
To treat all races equally	

Presumably they thought there would be some interesting variation but...

Religion	Average Number of Positive Responses
Christian	10.3
Muslim	10.1
Hindu	10.2
Sikh	10.2
Buddhist	9.8
Other	10.4
None	10.1

“would you say that country’s cultural life is generally undermined or enriched by people coming to live here from other countries(ESS, 2014)

Country	Undermined	Neutral	Enriched	Net
Austria	43%	23%	34%	-9%
UK	43%	19%	38%	-5%
Hungary	38%	27%	35%	-2%
France	34%	18%	48%	14%
Denmark	28%	18%	53%	25%
Norway	27%	17%	56%	29%
Belgium	26%	19%	55%	29%
Germany	21%	19%	60%	40%
Netherlands	20%	16%	64%	44%
Sweden	10%	11%	79%	69%

“Are country’s crime problems made worse or better by people coming to live here from other countries? (ESS, 2014)

Country	Worse	Neutral	Better	Net
Norway	77%	13%	9%	-68%
Austria	74%	19%	7%	-68%
Netherlands	71%	20%	9%	-62%
Belgium	68%	22%	10%	-59%
Hungary	65%	26%	9%	-56%
Germany	64%	26%	10%	-55%
Denmark	60%	29%	11%	-49%
Sweden	57%	30%	12%	-45%
UK	54%	33%	13%	-42%
France	47%	36%	16%	-31%

Overall: “Is country made a worse or a better place to live by people coming to live here from other countries? “ (ESS, 2014)

Country	Worse	Neutral	Better	Net
Hungary	50%	32%	18%	-33%
Austria	47%	32%	20%	-27%
UK	45%	23%	32%	-12%
Belgium	40%	30%	30%	-10%
France	34%	37%	29%	-6%
Germany	29%	30%	40%	11%
Netherlands	28%	33%	40%	12%
Norway	25%	33%	42%	17%
Denmark	24%	27%	49%	24%
Sweden	13%	21%	66%	53%

But UK no longer has higher than average level of concern about immigration - Most important two issues facing your country -% mentioning immigration (Eurobarometer)

	Autumn 2014	Autumn 2015	Autumn 2016
UK	38	44	25
EU28	18	36	28
Germany	37	76	45
France	11	22	19
Italy	18	30	42
Spain	3	9	8
Sweden	24	53	35
Denmark	34	60	41
Netherlands	8	56	34

What about the migrants' perspective?

- There typically are clear gains for immigrants from poorer countries:
 - E.g. annual wages in Poland about 56% of UK levels at purchasing power parity
 - Gap even larger for workers from developing countries
 - In Norway some welfare benefits may be higher than earnings in some other countries
 - But most of these potential migrants are not so poor that they could not afford to migrate

This disparity between the gains to migrants themselves and to natives is what leads to the policy 'problem'

- Natives have little/no incentive to want to allow large numbers of migrants into the country
- There are many potential migrants who would like to enter the country
- So the demand for migrants by host country almost inevitably much smaller than the supply of potential migrants

How Big is the Supply of Potential Migrants?

- Our best evidence comes from the Gallup World Poll from 146 countries
 - 630 million adults would like to move (14% of world population)
 - 48 million plan to move in next 12 months
 - 19 million making preparations to move
- Gallup also computes 'potential net migration index'
 - $(\text{number of adults who would like to come} - \text{number of adults who would like to leave}) / \text{adult population}$

Potential Net Migrant Index

	2007-2009	2010-2012
UK	62	53
Norway	36	65
Germany	14	23
France	60	38
Italy	23	8
Spain	74	43
Sweden	78	68
Denmark	28	32
Netherlands	17	17
Switzerland	150	136
United States	60	45

High-Level Summary

- High net migration into the UK/Norway reflects the relative success of the economy and wider society.
- Little evidence of large adverse effects of immigration on the native population
- Little evidence of large benefits either
- Likely that the supply of potential migrants will exceed the number the native population are comfortable with for the foreseeable future

Implications for Policy

- Need for better management of consequences of immigration
 - E.g. ensuring funding of local public services reflects increased demand
 - If population is increasing because of immigration, need a house-building policy
- Make sure the benefits are widely shared and the costs not unfairly burdensome on some groups
- But also likely to be strong demand to manage level and type of immigration
- This has been the sticking-point in UK/EU relations because it is not compatible with free movement

Free Movement

- Countries that control their own migration policies never choose to give unilateral free access to citizens of other countries
- Even bi/multilateral arrangements are rare (UK/RoI, Australia/NZ, Mercosur)
- no intrinsic link between free movement of goods/services/capital and free movement of people
 - most free trade agreements have almost nothing on free movement of labour
- Saying the ‘four freedoms’ are indivisible is a political decision of the EU not an economic necessity.
- Freedom of movement originated in the Maastricht treaty
 - Not controversial in UK before A8 accession because it seemed to be a system for mutual benefit
 - But after A8 accession it seemed one-sided – most of the benefits went to the migrants themselves if coming from lower-income A8 countries

Conclusion

- Migration is unlikely to go away as a major political issue in the near future
 - Crises may come and go but underlying fundamentals are persistent
- Migration is a tricky issue because public opinion on many aspects of migration does not always seem well-informed
- But I think it a mistake to dismiss all concerns about migration as based on wrong thinking
- There is a large gap between the supply of people who would like to migrate to Norway/UK etc and the demand from residents
- How to manage this imbalance between the demand for and supply of migrants is the central question for migration policy