

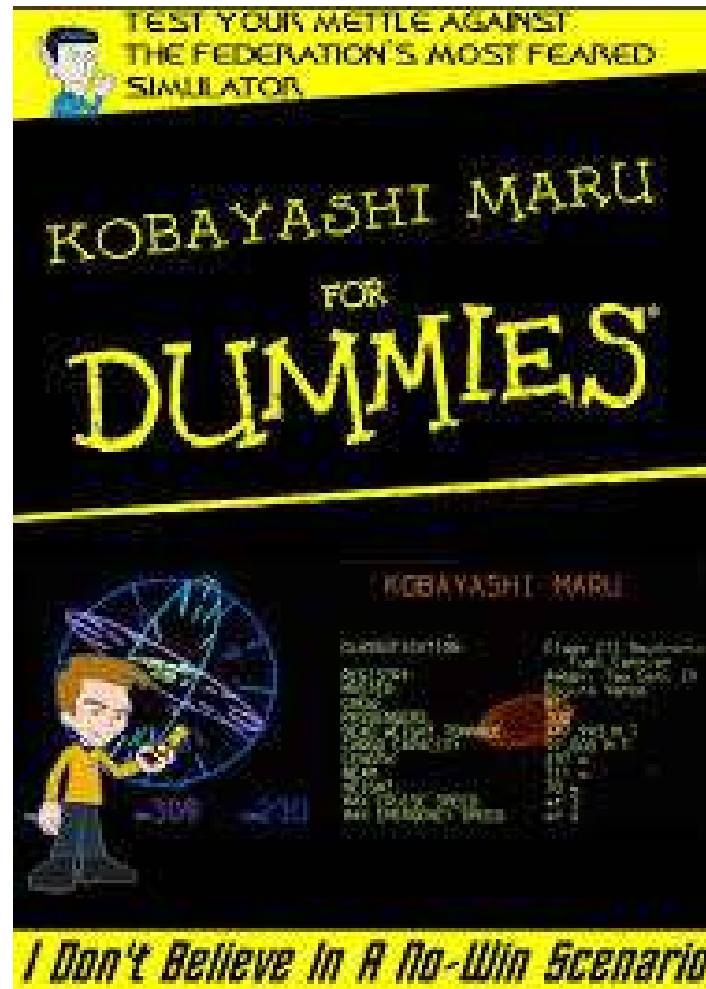
Immigration: Theory, Evidence and Policy

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Migration Policy – the Kobayashi Maru of Economic Policy?



Why Immigration Policy Is so Difficult

- Discussion tends to become very binary (are you pro-immigration or anti-immigration?):
 - ‘Immigration is good’ implying we want more
 - ‘Immigration is bad’ implying we want less
 - Even academic research (including me) is guilty of this
- This is not very helpful:
 - Much of migration is not about more or less migration but about what type of migrants under what conditions
 - Immigrants are very heterogeneous (like everyone else)
- Tendency to dehumanize migrants:
 - To demonize migrants and treat them as devils or
 - To lionize them and treat them as gods
 - As Rag’n’Bone Man (Ecta, 2019) said ‘they’re only human after all’

But, underlying this, migration policy is very difficult

- Some parts mostly uncontentious (work migration of doctors, nurses, researchers, professors, students)
- But some parts are more difficult (work migration of lower-skilled, family migration, asylum seekers, post-study work?)
- Basic problem is that the gains to the migrants are very clear, but the benefits to the existing residents much less clear
- Migration policy forces us to confront whose welfare we put weight on in our social welfare function – this is often very uncomfortable so people try to veer away from it.

The Underlying Tension

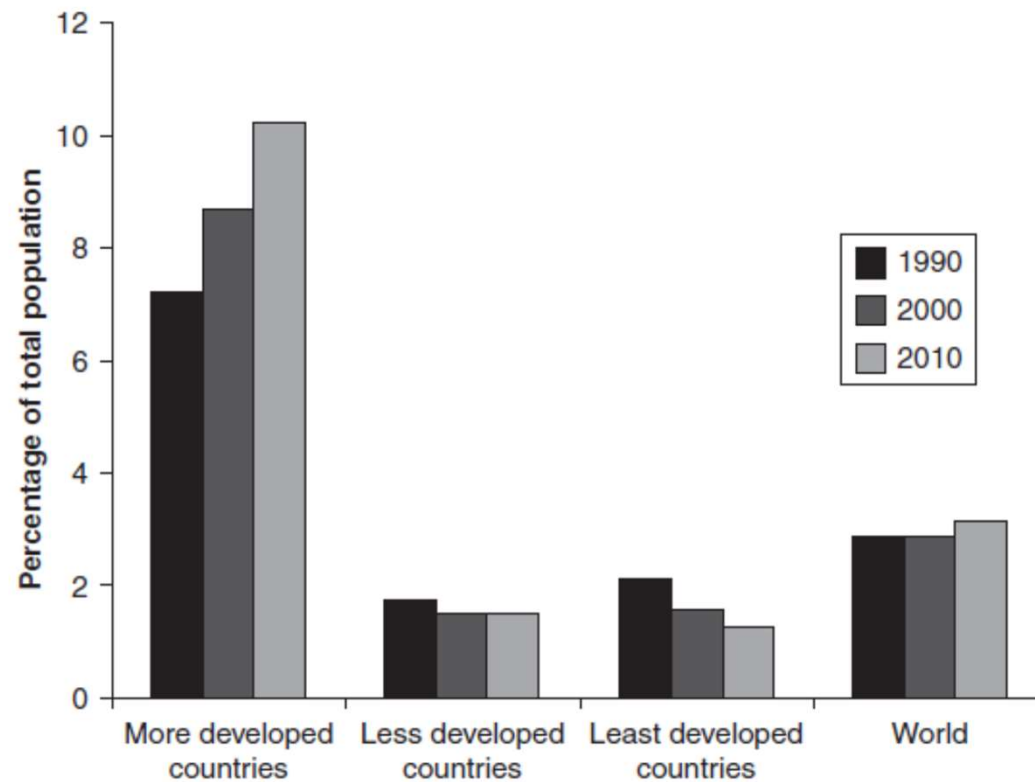
- The number of people who would like to move to the UK is much larger than the number existing residents feel (rightly or wrongly) comfortable with – market for migrants does not clear
- Leads to controls, attempts to evade controls, and (imperfect) attempts to stop evasion of those controls.
- A recipe for mess and injustice
- At end of talk, will discuss whether there is a better way

Outline of talk

- Some background facts on immigration into OECD economies and UK
- Quick review of economic theory and evidence on impact of immigration on labour market
- Implications for migration policy

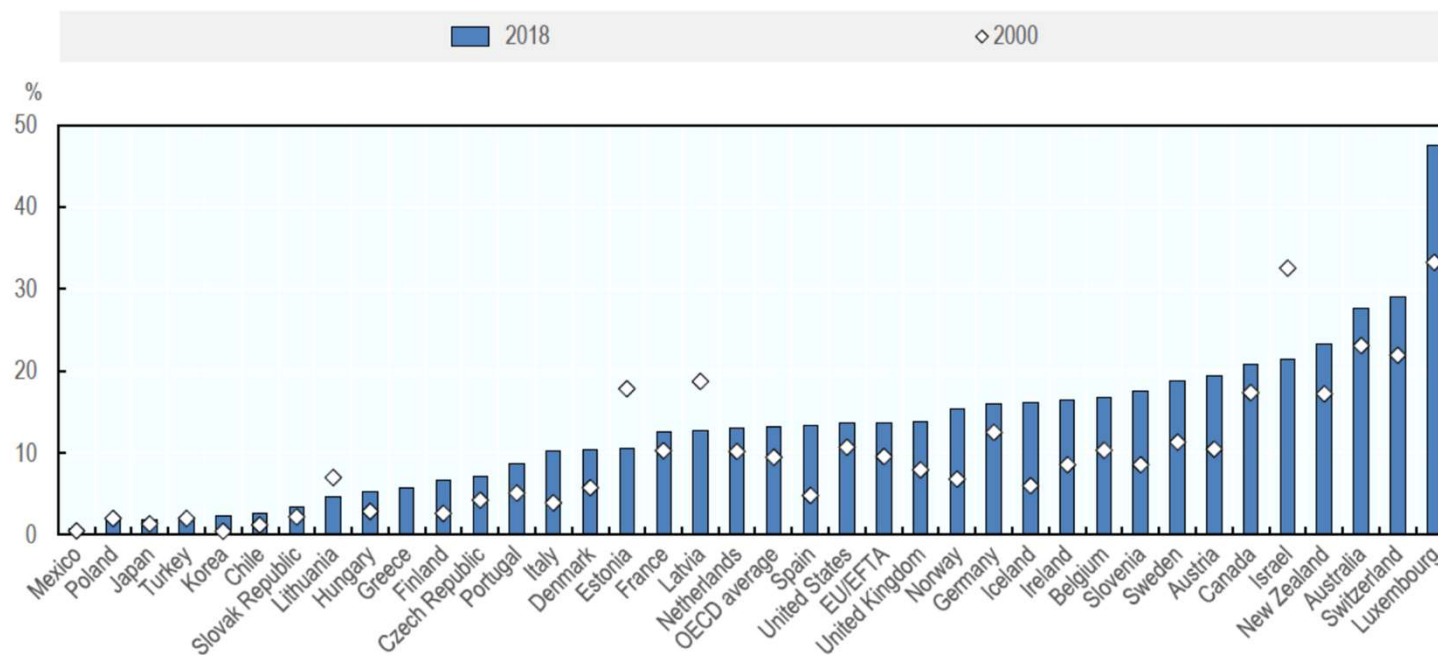
The Share of Immigrants in a Global Context (from Castles et al 'The Age of Migration')

Figure 1.2 *International immigrants as a percentage of total population, by level of development*

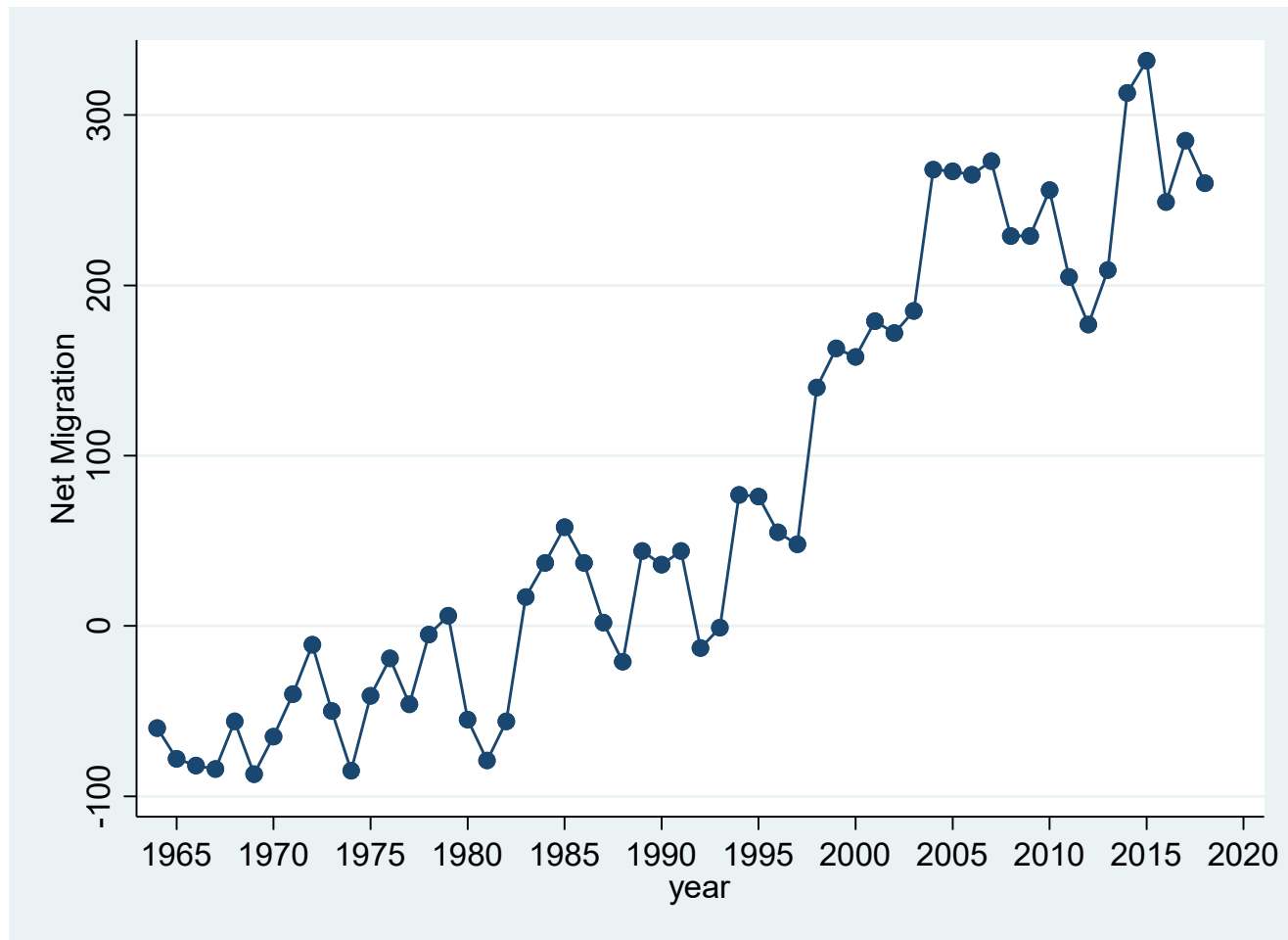


The share of immigrants in OECD countries

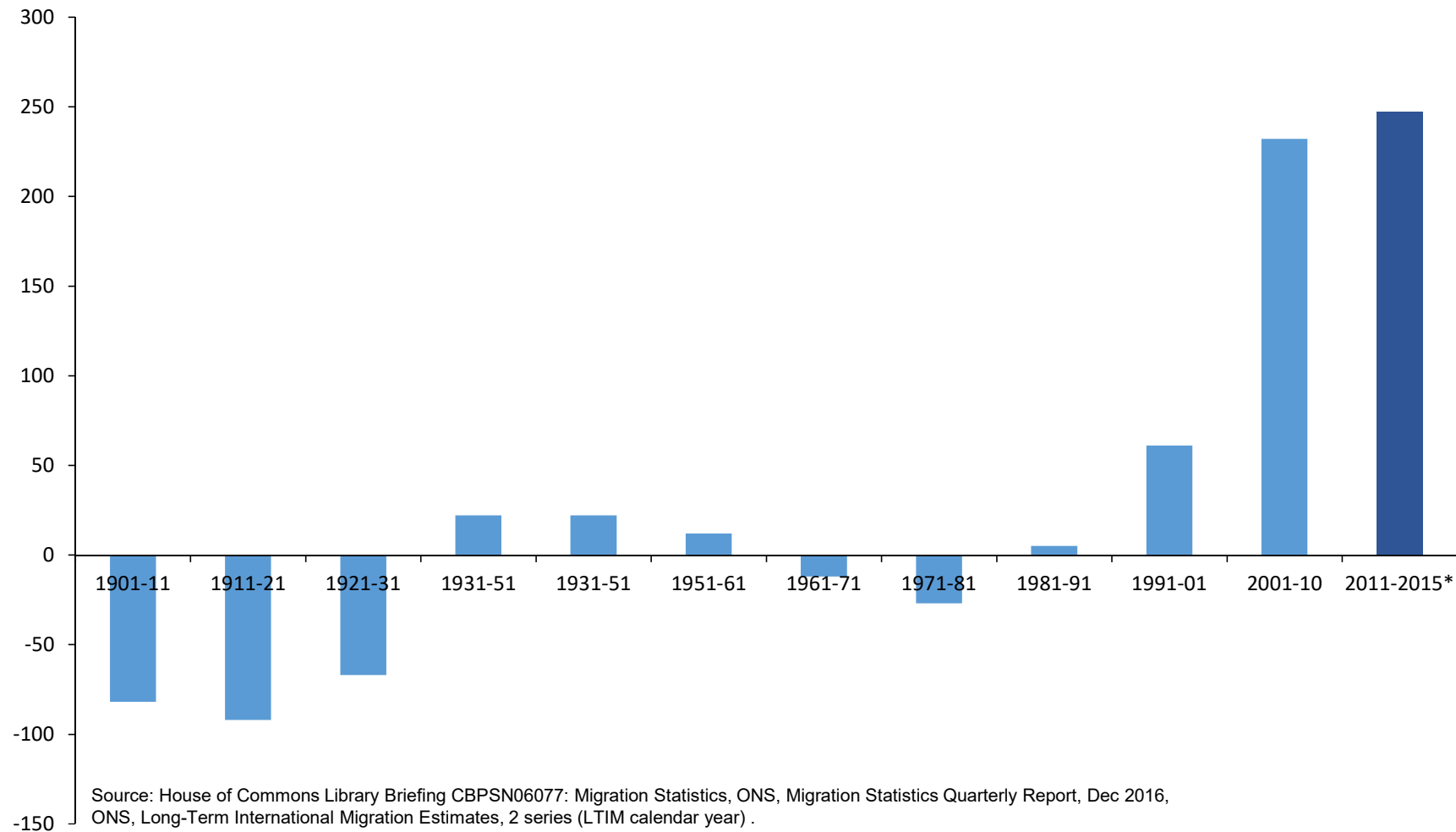
Figure 1.10. The foreign-born as a percentage of the total population in OECD countries, 2000 and 2018



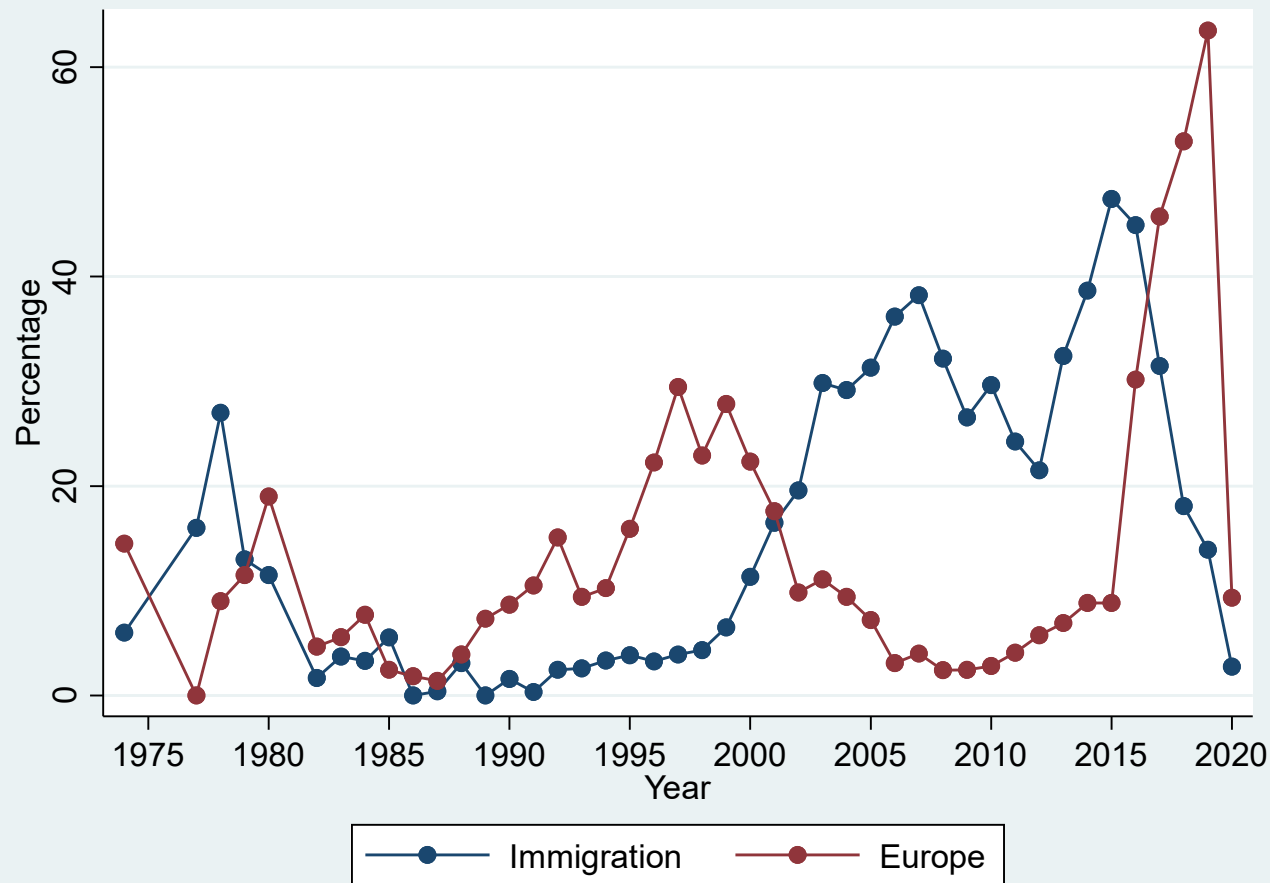
Net migration has been rising in the UK (and many other OECD countries)



Current levels of net migration are new in UK long-run historical experience



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



Public opinion in selected other EU countries - Most important two issues facing your country -% mentioning immigration (Eurobarometer)

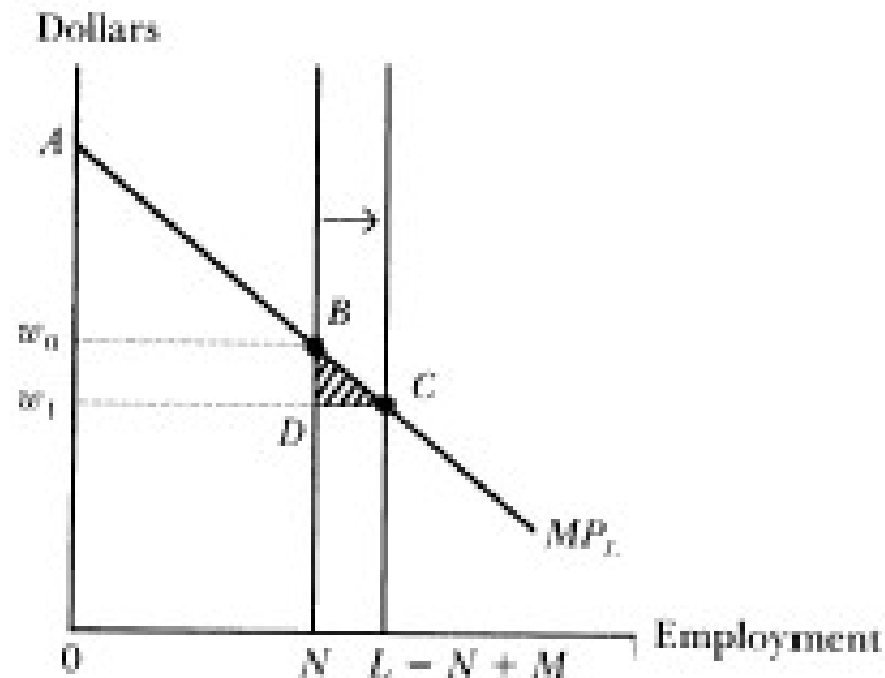
Year	Germany	Italy	Sweden	EU28	UK
2012	9	3	10	8	21
2013	14	4	13	10	32
2014	22	16	14	15	41
2015	46	31	28	23	35
2016	56	28	44	28	38
2017	37	36	29	22	19
2018	38	35	25	21	17
2019	26	22	22	17	13

The Impact of Immigration on Labour Markets: Some Embarrassingly Simple Theory

- Immigration is just one way of increasing population/labour force – changes the level and possibly the mix
- Simplest model
 - Two factors homogeneous labour and capital
 - Aggregate Production function $Y=F(K,N+M)$, has CRS
 - Perfectly competitive factor markets
 - Labour inelastically supplied
 - Capital treated as fixed (short-run?)
 - Immigration modelled as raising M

The Immigration Surplus (from Borjas, JEP, 1995) – fixed capital

Figure 1
The Immigration Surplus



Predictions

- Wages down, returns to capital up (simple supply/demand)
- But increase in returns to capital is larger than fall in return to workers – the immigration surplus
- Size of immigration surplus is small $-\frac{1}{2}sem^2$
- Where s is labour share in GDP, e is wage elasticity of labour demand curve and m the share of migrants in workforce
- Distributional likely to be much bigger

Is this simple model helpful?

- What this model might be able to explain?
 - Why business generally in favour of immigration but workers less enthusiastic
- But it does have problems:
 - In LR think of capital flexible not fixed so that $e=0$ and immigration surplus is zero - immigration only affects scale of the economy (GDP) not living standards (GDP per capita)
- Assumes natives and migrants are perfect substitutes – what happens if they are not?

Imperfect Substitutes..

- Assume:
 - Constant returns to scale production function, $Y=F(N,M)$
 - Two types of labour, native and migrant, in inelastic supply
 - Perfectly competitive factor markets
 - Behind the scenes perfectly elastic supply of capital and other inputs

The Immigration Surplus Result v2

- Average wage of natives is always raised by immigration if they are imperfect substitutes
- With perfect competition, wages equal marginal products

$$W_n = \frac{\partial F(N, M)}{\partial N}$$

- So that impact of increase in M on wages must be given by:

$$\frac{\partial W_n}{\partial M} = \frac{\partial^2 F(N, M)}{\partial N \partial M}$$

- With CRS and two factors of production, they must be complements so this is positive
- But might think this is special e.g. assumed N and M are homogeneous, no different skills

The Immigration Surplus Result v3

- Assume CRS production function with lots of types of labour (think of skills)

$$F(N_1 + M_1, N_2 + M_2, \dots, N_J + M_J)$$

- Assume:
 - total stock of natives/migrants is N/M
 - Share of migrants with skill j is μ_j
 - Share of natives with skill j is η_j
- Change in stock of migrants holding the skill composition of migrant flow fixed

A simple trick

- Write production function as:

$$F(\eta_1 N + \mu_1 M, \dots, \eta_J N + \mu_J M) = \tilde{F}(N, M)$$

- Where second line follows from if skill mix constant then (η, μ) are just parameters
- $\tilde{F}(N, M)$ is a CRS production function with two inputs and marginal products equal average wages

$$\tilde{F}_N(N, M) = \sum \eta_i F_i = \sum \eta_i W_i = \bar{W}_N$$

- Can then just apply earlier result to show average wage of natives must rise

What This Does Not Say

- Does not say wages of all natives must rise
- Does not say immigration always raises average native wages, only that it does so if skill mix of immigrants is constant
- Does not say the effect is big
- Can generalise it further to many goods (Amior and Manning, 2020)

Immigration Surplus Result v4 – Changing the Skill Mix

- Suppose write migrant skill mix as:

$$\mu' = \mu + \theta(\eta - \mu)$$

- Increase in θ means migrants and natives more similar
- This must reduce average wages of natives
- Implies want migrants different from residents

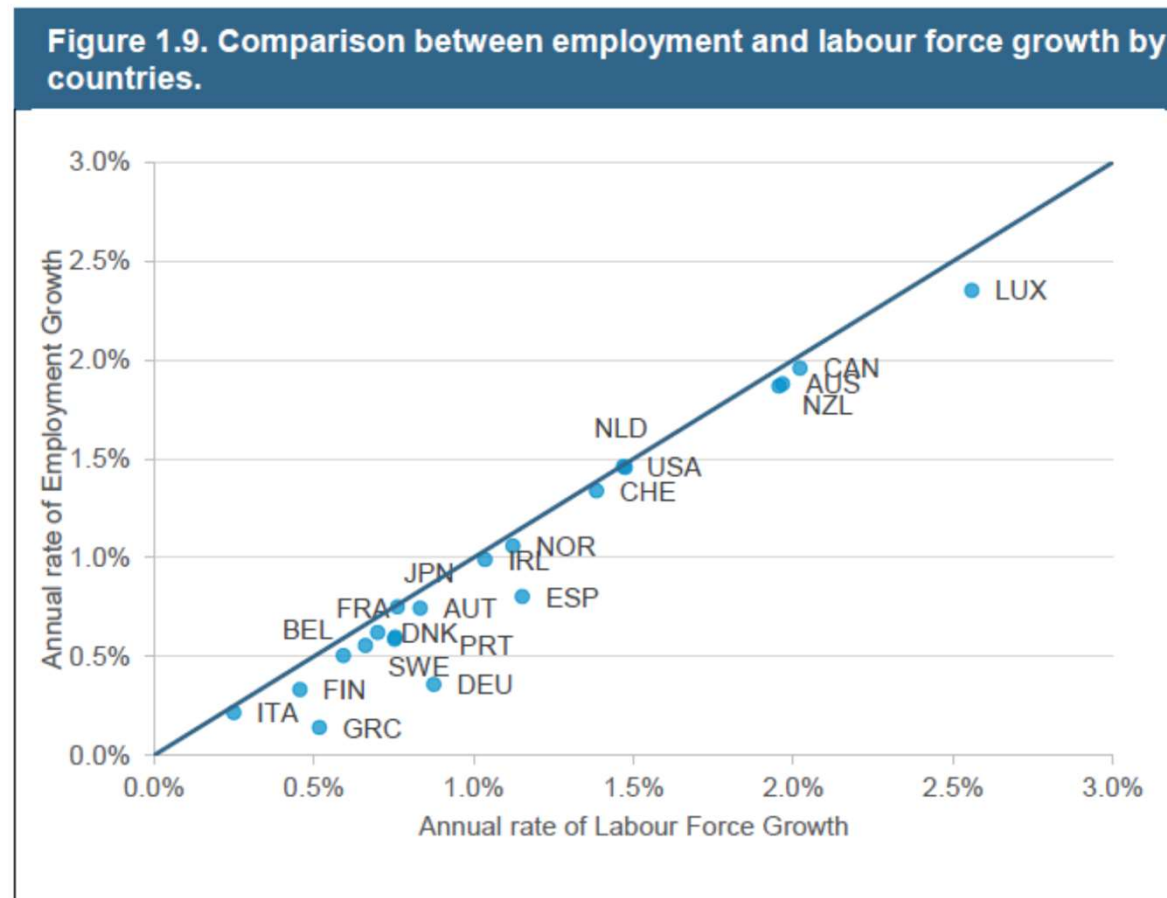
Conclusions from simple theory

- Generally gains to existing residents from more migration holding skill mix of migrants constant
- Intuition:
 - on average, residents must be in less migrant-intensive labour markets/sectors
 - an increase in migrants raises relative supply in migrant-intensive labour markets/sectors
 - This shifts prices/wages in a direction favourable to existing residents on average
- Want immigration of people with skills most different from existing residents
- All the impact is through prices/wages
- Distributional effects of those changes may be very large

Empirical Evidence

- Large literature on wage/unemployment impacts of migration
- Overall the conclusion is that the impacts are small
- Academics pour lot of energy (rightly) into trying to correct negative public opinion on impacts of migration
- This is often packaged as ‘immigration does not depress wages or cause unemployment’
- But if there are no wage/price effects it also means there are no benefits to existing residents either so they are not making a strong positive case for migration
- The slogan “Vote for X because it makes no difference to you” has won few elections

Employment Growth driven 1-for-1 by Labour Force Growth



Similar ideas about balance between demand/supply in non-market contexts

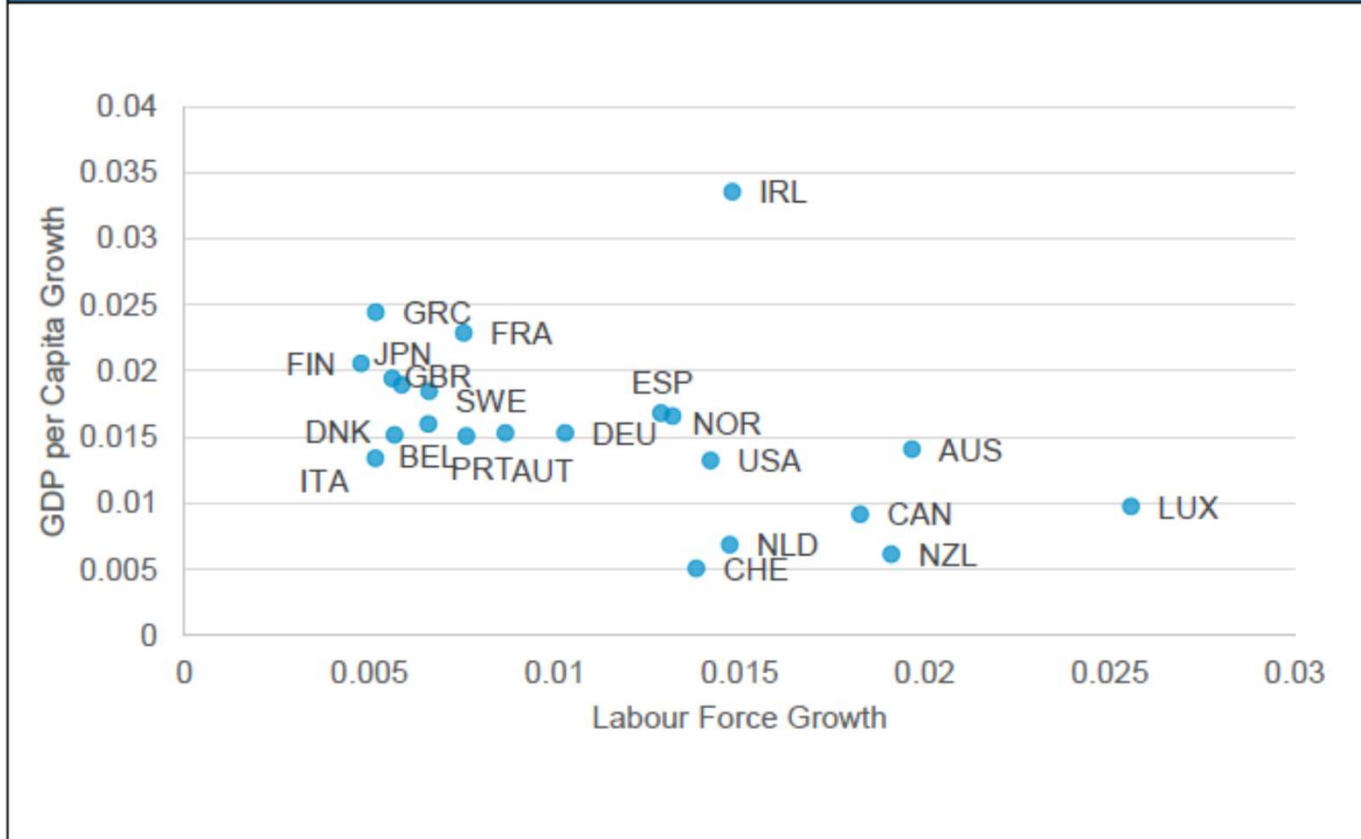
- How does immigration affect balance of demand and supply:
 - If more migrant children than migrant teachers (this is the case in UK) then more mix-constant migration will raise pressures on education
 - If more migrant healthcare workers than migrant patients (this is the case in UK) then more mix-constant migration will reduce pressures on NHS
 - If migration raises demand for housing more than migrant construction workers build houses then this will increase housing prices
- Impacts may well depend on interaction with other policies e.g. many Eastern European migrants in UK post-2004 were construction workers so could have built houses but they built other stuff

Other Effects – Externalities(?) pt1

- Impacts on productivity/innovation
 - Migrants over-represented among innovators
 - But a small proportion of migrants are innovators and they are in the non-contentious parts of immigration
 - Some claim wider productivity benefits from general migration – I am not sure this is very convincing
- Impacts on public finances
 - Taking into account all taxes, approx. 50p of every extra £ in earnings goes to the state
 - Huge heterogeneity in net fiscal contribution of migrants – how much you earn, how many dependants, how much public services are consumed

Rapid Labour Force Growth Not Necessary for Growth in GDP per capita

- **Figure 1.10. Growth in output per worker compared to the growth in the labour force by countries.**



Externalities pt 2

- Imperfect Competition
 - Most models assume wages are equal to marginal products
 - this implies individual employer does not care about whether they have access to a migrant or not
 - One minute with an employer convinces you they care a lot (and they often spend money hiring them)
 - Models with $MPL > w$ can explain this (Amior and Manning 2020)
- Impact on society/culture
 - Public often concerned about non-economic impacts e.g. crime/character of neighbourhoods etc
 - A lot of this is racism/prejudice but is it all? Hard to know
 - Economics says we want migrants who are different from us, but does this mean we want those who are more similar

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
- Idea of 'citizenship rent' is very important (Branko Milanovic)
- But many of these potential migrants are not so poor that they could not afford to migrate
 - Paying a people smuggler often costs more than a business class airfare to your destination
 - And flying business does not risk your life – 2.3% chance of dying if take a boat in the Med
 - But still increase your life expectancy by getting in the boat

How Big is the Supply of Potential Migrants?

- Gallup World Poll from 146 countries
 - 630 million adults would like to move permanently (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'
 - $(\text{number of adults who would like to come} - \text{number of adults who would like to leave}) / \text{adult population}$

Gallup Potential Net Migrant Index
(% change to adult population based on expressed desire)

	2010-2012	2015-2017
UK	53	37
Italy	10	-8
Germany	23	45
France	37	44
Australia		179
Spain	43	36
Sweden	60	98
Denmark	31	91
Netherlands	17	29
Switzerland	136	187
United States	45	46

Applications to US Diversity Visa

- Gallup data is what people say they would like to do not necessarily what they actually do
- US offers 50k green cards a year in a lottery – if win, can move to the US with limited conditions
- 25m applications a year – 6+% of population of countries like Ghana, Uzbekistan
- This suggests number of people who would like to move is large
- But probably not the majority (evidence from free movement PR-US, Ireland-UK historically)

Policy Options for Closing the Gap – in very broad terms

- Let the residents decide (in practice this is what mostly happens as they have the votes)
- Let the potential migrants decide ('free movement'; open borders)
- Try to close the gap between the numbers who want to migrate and the numbers residents want to admit
 - Make the residents more accepting of migration
 - Make fewer migrants want to come
 - Try to redistribute gains from migration from migrants to residents ('market-clearing' approach)

What happens if....

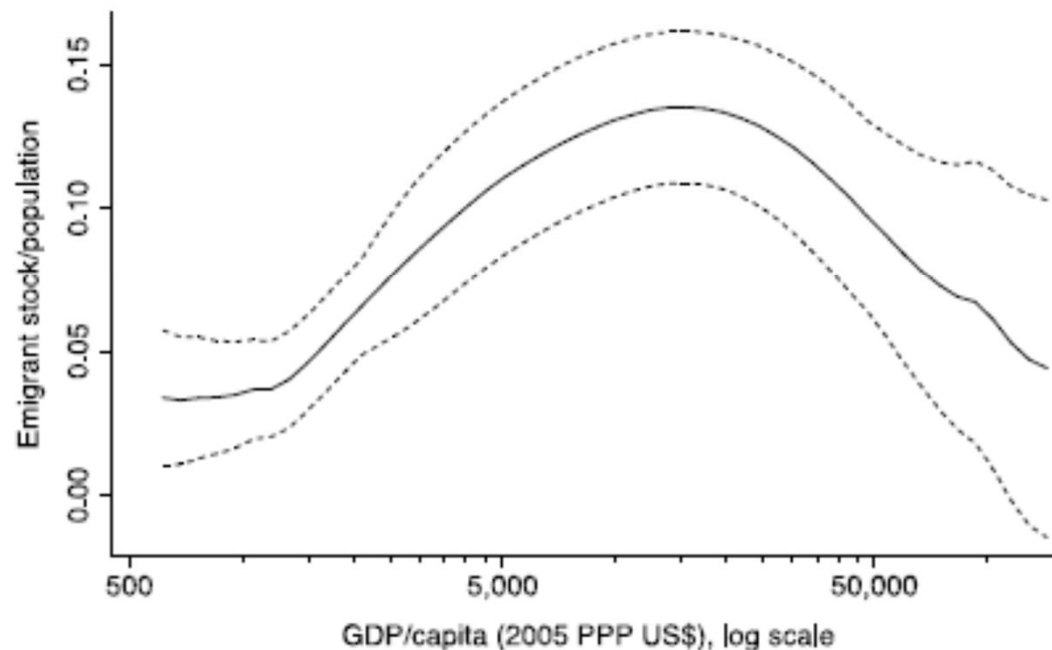
- The residents decide...
 - Will be a lot of frustrated would-be migrants
 - They will spend resources and take risks to try to evade controls e.g. people-smuggling becomes a thing
 - It will be costly to try to prevent this in both money and morality. And perhaps not very effective
 - E.g. Windrush scandal comes from trying to enforce in a cheap way
- The migrants decide....
 - Potential for a lot of grumpy residents
 - Politically very difficult
 - May be a desirable long-run aspiration that anyone can live where they want but it may be hard to get from here to there

Closing the Gap pt 1

- Educate the residents about the benefits of migration so they tolerate higher levels:
 - Some scope for this because people's views often seem ill-informed
 - But I have explained why there may be limits to this for the contentious parts of migration
- Make fewer people want to migrate:
 - Development in origin countries (but seems non-monotonic relationship between income and migration so may be very LR policy)
 - 'Hostile environment': Be beastly to migrants in destination country by demonizing them – this is horrible and may reduce demand for migration from residents more than it discourages migration

The relationship between emigration and economic development (Clemens - <https://www.un.org/en/development/desa/population/migration/publications/technicalpapers/docs/TP2017-8.pdf>)

Figure 1: Level of emigrant stock vs. level of real income, all countries 2013



Closing the Gap – the economists approach?

- Find ways to redistribute gains from migration from migrants to residents:
 - Explicit fees and taxes on migrants (UK NHS surcharge, apprenticeship levy; Singapore uses this approach the most)
 - Lower wages/poorer working conditions for migrants than residents so wage/price effect more positive (Singapore, UAE for lower-skill migrants; cost of FT maid £5-6k in UAE, SG, £25k+ in UK)
 - less eligibility for welfare benefits for migrants than residents so net fiscal position more positive
 - Temporary work migration put forward by Michael Clemens, UN Global Compact as one possible solution
 - Can numbers be large enough?
 - Past temporary programmes have a history of becoming permanent

Don't get too depressed...

- There is no 'solution' to immigration but we can make things better
- Public opinion is often more nuanced than given credit for
- Though there are areas where seem very ill-informed
- Some data on beliefs, mostly from European Social Survey 2018

Most people over-estimate share of migrants...

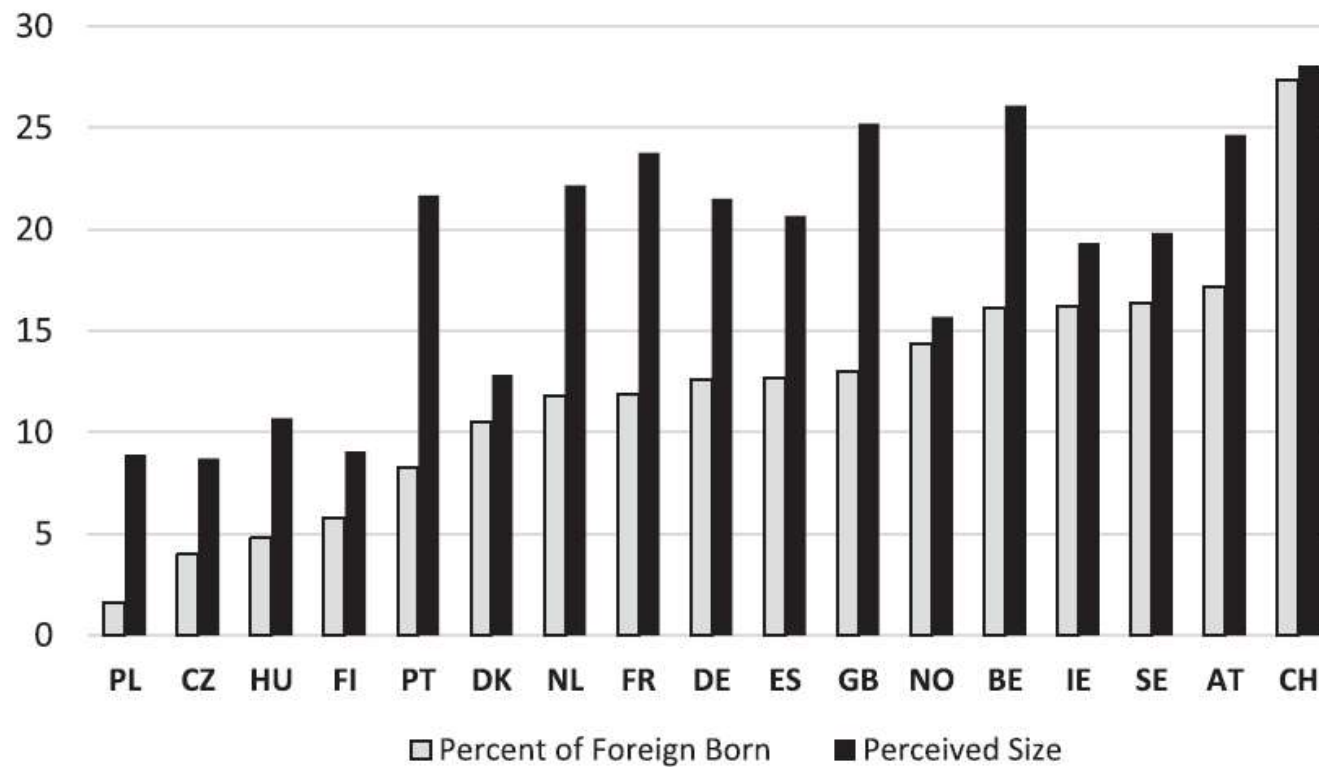


Figure 1. Actual and (averaged) perceived size of foreign-born population (%).

Overall attitudes to immigration – “Immigrants contribute a lot to the country”
(Eurobarometer Spring 2018)

	Agree	Disagree	Agree- Disagree
EU28	48	45	+3
Italy	34	59	-25
UK	72	22	+50
Germany	52	41	+9
France	42	49	-7
Sweden	82	16	+66
Hungary	15	81	-66
Spain	61	29	+32

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

Country	Take Jobs Away	Neutral	Create Jobs	Net
Hungary	65%	22%	13%	-52%
Austria	43%	31%	26%	-18%
Belgium	40%	37%	23%	-18%
Spain	43%	30%	26%	-17%
UK	38%	33%	29%	-10%
Netherlands	31%	41%	28%	-3%
France	32%	36%	32%	1%
Switzerland	26%	34%	38%	12%
Denmark	23%	36%	41%	19%
Germany	20%	37%	43%	23%
Norway	14%	29%	56%	42%
Sweden	11%	28%	61%	50%

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

Country	Undermined	Neutral	Enriched	Net
Hungary	59%	20%	21%	-38%
Austria	48%	21%	30%	-18%
Italy	49%	16%	35%	-14%
France	36%	18%	45%	12%
UK	31%	19%	50%	19%
Norway	25%	18%	57%	32%
Switzerland	25%	18%	57%	32%
Germany	24%	18%	57%	33%
Belgium	24%	17%	59%	35%
Spain	20%	19%	61%	41%
Netherlands	21%	15%	64%	43%
Sweden	13%	13%	74%	61%

“Are country’s crime problems made worse or better by people coming to live here from other countries?”

Country	Worse	Neutral	Better	Net
Norway	77%	13%	9%	-68%
Austria	74%	19%	7%	-68%
Netherlands	71%	20%	9%	-62%
Spain	66%	27%	6%	-60%
Belgium	68%	22%	10%	-59%
Hungary	65%	26%	9%	-56%
Switzerland	67%	21%	12%	-55%
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%

“do you think people who come here take out more than they put in or put in more than they take out? “

Country	Take Out More	Neutral	Put in More	Net
Austria	60%	25%	15%	-45%
Hungary	57%	29%	15%	-42%
Spain	56%	28%	15%	-41%
Belgium	52%	28%	20%	-33%
Netherlands	49%	28%	23%	-26%
France	44%	36%	20%	-24%
Switzerland	42%	36%	21%	-21%
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%

Overall: “Is country made a worse or a better place to live by people coming to live here from other countries?”

Country	Worse	Neutral	Better	Net
Hungary	59%	28%	13%	-46%
Italy	62%	18%	20%	-42%
Austria	48%	31%	21%	-27%
France	34%	36%	30%	-4%
Belgium	33%	32%	36%	3%
Germany	30%	31%	38%	8%
UK	32%	25%	43%	11%
Spain	27%	33%	40%	13%
Switzerland	24%	38%	37%	13%
Netherlands	24%	31%	44%	20%
Norway	20%	36%	44%	24%
Sweden	18%	22%	60%	42%

Conclusions

- Migration is a tricky issue because public opinion on many aspects of migration does not always seem well-informed
- But there is an underlying fundamental reason that makes migration policy hard.
- There is a large gap between the supply of people who would like to migrate to OECD and the demand from residents
- Crises may come and go but these underlying fundamentals are persistent
- How to manage this imbalance between the demand for and supply of migrants is the central question for migration policy