the economics of migration

by jonathan portes

The essence of the economic case for migration is very simple: it is the same as the case for markets in general. If people make decisions on the basis of their own economic self-interest, this will maximize efficiency, overall output, and, at least on some measures, welfare. This applies to where people live and work just as much, if not more, than it applies to buying and selling goods and services. Of course markets fail here, as elsewhere, and "more market" is not always better. But the view that, as a general proposition, markets are good at allocating resources—including human resources—is widely shared among economists.

And this analogy holds in a narrower, more technical sense as well. The classic argument for free trade, as advanced by David Ricardo and Adam Smith, is not just analogous to, but formally identical to, the argument for free movement. It is easy to see this. In economic terms, allowing somebody to come to your country and trade with you (or work for you or employ you) is identical to removing trade barriers with their country. It allows greater specialization—the principle of comparative advantage—and hence greater overall efficiency.

So what is the impact if a country reduces barriers to trade or migration? Theory suggests that, for both trade and migration, the impact of reducing barriers will be positive, but there will be distributional consequences. That is, GDP—and more importantly, GDP per capita—will increase, but some individuals and households will lose out, at least in the short run. In particular, trade will hurt those working in sectors where the country does not have a comparative advantage, while immigration will hurt those working in direct competition with immigrant workers.

The main beneficiaries of immigration are likely to be the immigrants—since, by definition, they are taking advantage of the opportunity to move believing that they will be better off (economically or more broadly) in a different country and by a sufficient amount to justify the costs (again, economic or broader) of moving. While individuals may be wrong about this (as with anyone who makes a decision when there is uncertainty about the future), in general the majority of gains from immigration can be expected to accrue to those who take up the opportunities it presents.

immigration's (non)impact on jobs and wages

Public and policy concern in the United States and other developed countries tends, for obvious reasons, to focus on the impacts on existing residents and especially the distributional impacts of immigration—the potential negative impacts on employment and wages for low-skilled workers. Many non-economists (and even some economists) simply assert as an article of faith that such effects *must* exist—usually suggesting that it's a matter of "supply and demand."

But this is very bad economics. It's entirely true that immigrants add to labor supply. Indeed, it's even true to say that immigrants "take our jobs" (I work and live in London, and I'm sure that I, like many UK-born economists, have at some point failed to get a job because my prospective employer preferred to hire an immigrant). But the point is that immigrants (directly or indirectly) add to labor demand as well as labor supply; they earn money and spend it.

Ignoring this effect, as many do, is what economists call the "lump of labor fallacy"—the idea that there are only a certain number of jobs to go around, so that if an immigrant to the United States (or an old person or a woman) takes one, then an American (or a young person or a man) must lose out. But while an immigrant may "take" one job from an American worker directly, they may also "create" one job for American workers. Similarly, wages for American workers might rise or fall. So the only way to find out what immigration does to jobs and wages is to look at the data.

The most famous research evidence on this in the developed world comes from David Card's 1990 study of the Mariel boatlift. The 1980 movement of Cuban refugees to the United States represented a huge "supply shock" of mostly low-skilled immigrants into Miami, Florida's labor market. Card found, surprisingly, that the impact on native wages was very small. This result was so controversial that economists are still arguing about it, nearly 30 years after it was published, with the leading U.S. immigration economist George Borjas disputing his conclusions (although the consensus, as outlined by development economist Michael A. Clemens for Vox in 2017, remains that Card's original result stands). More broadly, a huge body of subsequent research, both in the United States and elsewhere, has largely supported Card's conclusions (reviewed, for example, in a 2011 NBER working paper by economists Sari Pekkala Kerr and William R. Kerr). The consensus is that negative impacts of migration for native workers in developed countries are, if they exist at all, relatively small and short-lived.

> The economic impacts of immigration go beyond the direct impact on the jobs and wages of natives, just as the economic impacts of trade aren't only about reduced prices for cheap consumer good imports.

In the UK, we had our own recent "experiment" with a large increase in migration when eight central and Eastern European countries, all with incomes much lower than the UK, joined the European Union (EU) in 2004. Unlike most of the other existing member states, the UK chose not to impose any transitional restrictions on the right of these new European citizens to take up work within its borders. As a result, the number of immigrants from elsewhere in the EU working in the UK has more than tripled to about 2.4 million, or about 7% of the

Contexts, Vol. 18, Issue 2, pp. 12-17. ISSN 1536-5042. © American Sociological Association.
http://contexts.sagepub.com. DOI 10.1177/1536504219854712.

workforce. But to the considerable surprise of many economists, including me, there is now a clear consensus that even in the short-term this increase does not appear to have had a negative impact on the employment outcomes of UK natives. Indeed, despite recent years seeing the highest levels of immigration in recorded British history, the employment rate is at its highest level since records began. Higher immigration has been accompanied by an expansion of jobs for native workers.

The logical corollary is that, if you're worried about the jobs and incomes of low-skilled workers, restricting immigration isn't the place to start. In their 2018 *American Economic Review* paper, Clemens, Ethan G. Lewis, and Hannah M. Postel illustrate what is likely to happen instead. In 1965, the United States abruptly ended the "bracero" program, which allowed Mexican workers to come into the country for seasonal agricultural work; the rationale was that cutting off access to cheap foreign workers would improve employment prospects and push up wages for Americans. But that didn't happen—instead farmers simply reduced the number of workers they employed by switching crops or investing in new, more expensive technology.

immigration and innovation

The impacts of immigration on the economy go beyond the direct impacts on the jobs and wages of natives, just as the economic impacts of trade aren't only about reduced prices for consumers for cheap imports—they also include increased competition, technology transfer, the development of multinational supply chains, and so on. Increasing interest in the other ways in which immigration affects the economy has led to a considerable body of evidence that suggests that immigration is associated with increased innovation (for example, that immigrants are more likely to register patents, and that this, in turn, leads to an increase in patent activity on the part of natives). Immigration is also associated with international trade and knowledge transfer, particularly in high-tech industries.

In particular, scholars have asked whether immigration could push up productivity and (per capita) growth? That is, does adding to the population through immigration not only increase the size of the economy, but also average incomes and living standards? That might seem counterintuitive, particularly if immigrants are less skilled than natives or more likely to work in lower productivity jobs. But there are several mechanisms by which migration *could* increase productivity. Immigrants' skills or the jobs that they are prepared to do may complement those of natives, improving the functioning of the economy across the board. For example, in both the United States and Italy, it appears that low-skilled migration increased the labor force participation of highly skilled native women, presumably because the migrants performed services (childcare or domestic labor) that allowed women who would otherwise have had to remain at home to go out to work (see, for examples, 2011 articles by Patricia Cortés and José Tessada's in the *American Economic Journal: Applied Economics* and Guglielmo Baron and Sauro Mocetti in *Labour Economics*). Alternatively, if low-skilled migrants increase the incentives for natives to move jobs or acquire more skills, this may improve rather than reduce their employment opportunities and wages; researchers have found these effects in both the United States and Europe. My own recent research in the UK, reported in September 2018 in VoxEU, suggests that the overall impact of migration on productivity is indeed positive.

And it does appear that countries with higher levels of immigration do, other things being equal, see faster growth as a result (supporting studies include Ekrama Boubtane, Jean-Christophe Dumont, and Christophe Rault's 2016 piece in *Oxford Economic Papers* and Francesc Ortega and Giovanni Peri's 2014 *Journal of International Economics* paper). A 2016 analysis by researchers at the International Monetary Fund found that a 1% increase in the migrant share of the adult population results in an increase in GDP per capita and productivity of approximately 2%. (Perhaps surprisingly, the estimated aggregate impacts of high- and low-skilled migration are not significantly different. The distributional implications, however, are quite different—people with higher incomes gain more from low-skilled migration.)

More broadly, some have argued in general terms that immigration, particularly from less developed countries to advanced economies, has the potential to undermine the institutions of the destination country, especially if the immigrants have lower social capital than the natives. However, analytic approaches to the issue, like that reported in Benjamin Powell, J.R. Clark, and Alex Nowrasteh's paper in the *Journal of Economic Behaviour and Organization*, do not find such impacts.

It is, however, uncontroversial to note that immigrants are not homogeneous—it matters who they are, where they come from, and what skills and other attributes they have. Common sense would appear to suggest that skilled immigrants would be more beneficial than unskilled ones, and that immigrants who were selected or chosen by the country of immigration would

be more beneficial than others, like refugees or those who move for family reasons. But the empirical evidence is less clear on this than might be expected. As the discussion above shows, there are circumstances in which unskilled immigration can also be positive—because it fills specific gaps in the labor market or is complementary to higher-skilled natives' work, enabling the economy overall to function more efficiently.

Moreover, while it may appear attractive for governments to say that they want to manage immigration policy so that a country only gets the immigrants it "needs" (usually skilled immigrants), in practice that it is harder than it sounds. No system can select perfectly or even close to perfectly (see, for example, Powell in the *Review of Austrian Economics*, 2016). It's surprisingly hard to work out just from someone's educational background or on-paper qualifications how well they will do in a new country. Governments are not very good at economic planning in general and certainly not when it comes to labor markets. And—a point that is often missed in domestic political debates—migration isn't just a matter of a country choosing its immigrants, the immigrants have to choose the country.

Nevertheless, most countries do give highly skilled migrants preferential treatment. Australia, Canada, and New Zealand are often singled out as high immigration countries with strong preferences for more skilled or educated immigrants. These systems seem to work reasonably well—certainly better than that of the United States—and, crucially, command a reasonable degree of political consensus. But even these systems are somewhat hit and miss, with the labor market performance of recent immigrants to all these countries not matching the educational qualifications of those migrants. By contrast, in the UK, migration from the rest of the EU—which, under the current free movement rules, is not planned, managed, or selected by the UK government—has resulted in a mix of migrants which is nevertheless relatively highly skilled, even compared to the aforementioned countries.

Nor does the success or otherwise of immigrants depend only on the immigrants themselves: the policies of destination countries, both on the operation of labor markets and more broadly, matter at least as much. This is particularly obvious in Europe—and particularly important, given the arrival of large numbers of refugees and irregular migrants in recent years. Some European economies and societies are far more successful than others in integrating immigrants into their labor markets. While in the UK, immigrants are only marginally more likely to be unemployed than natives, in Spain, Greece, Belgium and Sweden there is a gap of 10 percentage points or more. Similar divergences appear on other indicators: for example, France, Germany, and Finland all have worrying gaps between the educational performance of children of natives and the children of immigrants.

The reasons for these divergences are complex and varied, ranging from the cultural and religious backgrounds of immigrants, to racial and religious discrimination and exclusion, to the different labor market institutions of different European countries. But if the destination countries are to realize the very large potential gains from this new wave of immigration, policy must not just be about where to put the new arrivals and how to deal with their resettlement in the short term, but how to ensure that they integrate successfully, both economically and socially. This will not be painless or cost-free, for the migrants or for the host countries.

> If destination countries are to realize the very large potential gains from this new wave of immigration, policy must consider how to ensure that new arrivals integrate successfully, both economically and socially.

If immigration is generally a benefit to the country to which an immigrant moves, then one intuitive response is that it must therefore be a cost to the country from which they move. This is no more true than the Trumpian view that exports are good for a country's economy, therefore imports must be bad. Neither trade nor migration represents a zero-sum game.

There are legitimate concerns about the impact, particularly on developing countries, if a significant proportion of the most highly skilled or highly educated segments of the population leaves—the so-called "brain drain"—although many would argue that we should worry about people rather than countries and it is likely to be those who emigrate from developing to developed countries who gain most from immigration. In any case, teasing out the impacts on those who do not move is not simple. Clearly, losing qualified doctors, particularly if they've

been educated at state expense, isn't likely to be good news for developing countries. But there are also countervailing impacts that may be more positive. Remittances from family members who have emigrated are a vital source of income in many countries. And emigration, sometimes combined with return migration, can, over time, result in networks that lead to increases in trade. The current consensus is that while there may be specific concerns—particularly in the health sector—overall the evidence doesn't suggest that emigration is bad for development (as seen in Clemens' 2015 *Journal of Economic Perspectives* paper). One possible exception may be not in developing countries, but in the EU, where some countries including Latvia and Lithuania have high levels of emigration, especially of young people, combined with low birth rates; the risk is a demographic downward spiral.

> For advanced economies, neither completely open nor fully closed borders are a viable immigration strategy.

It is worth noting that none of this analysis provides much of a guide to the question of how many immigrants a country should admit. Economists would generally argue that this isn't a terribly useful question. Just as there is no optimal level of exports or imports, from an economic perspective, the key is to get the policy right on who should be allowed entry, then allow the market—the individual decisions of migrants—rather than quotas determine who comes and how many. Of course, that doesn't necessarily address broader political and social concerns around the "speed of change"—in practice, the overall level of immigration in any country at any time tends to be driven by a balance of political and economic pressures. For advanced economies, neither completely open nor fully closed borders are a viable strategy.

the politics of immigration

If the economic benefits of immigration are well established and, for the most part, broadly spread, what explains the recent political backlash across much of the developed world? It seems intuitive that there must be a connection between the election of Trump, the UK's vote to leave the European Union, and the rise of far-right populists in much of continental Europe. A decade on from the financial crisis, the political foundations of the post-war (and post-Cold War) liberal order appear to be crumbling—and one common factor appears to be the salience of immigration as an issue that dissolves previous electoral coalitions.

But while anti-immigrant rhetoric and sentiment is a common theme, the circumstances of individual countries are very different. In the United States, Trump focused on irregular migration from Mexico and Central America and its supposed impacts on crime and security—although there is little or no evidence, in the United States or elsewhere, to substantiate his dire claims (here, Brian Bell and Stephen Machin's 2013 entry on immigration and crime in the *International Handbook on the Economics of Migration* is instructive). In the UK, the ostensible focus of the Brexit campaign was on free movement within the EU, predominantly by white Eastern Europeans—although the potential for future migration from Turkey and points farther east was also a strong theme. In Western European countries like Sweden, Germany, France, and Italy, right-wing populists were boosted by public reaction to refugee and migrant flows from Syria and Africa. And in Poland and Hungary, despite the fact that immigrant flows are extremely small, parties in power have successfully appealed to nationalist sentiments by specifically focusing on the threat of Muslim immigration overrunning "Christian" Europe.

A considerable body of research connects anti-immigration views to broader "cultural" issues—in particular, those that divide social "liberals" from "conservatives"—yet it is unclear why immigration, in particular, has become such a focus. Neither economics nor politics can, in themselves, provide a common thread linking these disparate phenomena. Economic trends flowing from globalization are clearly relevant; the electoral strength of Trump, Brexit, and the French far-right in areas that were most affected by deindustrialisation in the 1980s and 1990s is well established. But the direct link with immigration is far from clear. For example, in the Brexit vote, areas with lower levels of immigration (although, in some cases, significant recent increases from a low base) were more likely to vote "Leave." In Eastern Europe, which has seen some of the most virulent anti-immigrant rhetoric from parties in power, economic performance in the 2010s has been quite good, and immigration levels are relatively low.

There is no question that those with negative attitudes toward immigration are more likely to vote for right-wing populists; but those attitudes are also strongly correlated with

authoritarian and socially conservative views across the board. And there are also strong differences across countries, with racist attitudes toward ethnic minorities being both stronger and a better predictor of voting patterns in some countries than others. Overall, the patterns of causation between economic conditions, attitudes toward immigration, and political outcomes is complex and multi-dimensional.

where do we go from here?

Where does this leave economists and other social scientists who share the view that the evidence strongly supports immigration as, overall, a clear benefit to destination countries; that any negative consequences for specific groups of workers are relatively small; that the political backlash against immigration in many countries is not economically rational; and that, most of all, liberalization of immigration policy would lead to very large welfare gains to those, particularly from poorer countries, who might benefit from the opportunities it offered?

At one extreme, scholars like Clemens argue that both theory and evidence suggest that the economic benefits from ending all restrictions on migration—an open borders policy—are extremely large. The gains from such policy could, with not implausible assumptions, amount to a doubling of world GDP, with even larger welfare gains to those who currently live in poorer countries. This implies that, at least in economic terms, the case for open borders is very strong indeed. Others, often lawyers or political philosophers, make the same argument from a rights-based or libertarian perspective (as opposed to the utilitarian or consequentialist perspective generally assumed, implicitly, by economists). In my view, whatever the principled arguments, this is not an argument an economist can reasonably hope to win in a developed country in the foreseeable future.

At the other extreme, there are economists who argue that right-wing populism represents a backlash against globalization that is, at least in part, justified by objective economic impacts, even if its political manifestation is often deeply unpleasant; and that economists, like me, who claim that those impacts are, at least when it comes to immigration, relatively minor, are wilfully ignoring the negative political consequences. As one such scholar, Rodrik, wrote in the Journal of International Business Policy in 2017, "In Europe, the backlash to immigrants and refugees has been relatively sudden and could produce dramatic consequences not just for the process of European integration but for European democracies as well. Many economists believe that the backlash is fuelled by nativists who do not understand the benefits of free flows of labor and people. But that does little to ameliorate the consequences." From this perspective, the answer is to concentrate on improving domestic policies while accommodating the political pressure to reduce immigration and restraining other aspects of globalization.

While this perspective may appear attractive to politicians who find it increasingly difficult to sustain a broadly "liberal" approach, I don't think economists or social scientists should endorse it. There is little or no evidence that retreating from support for relatively liberal immigration policies—as opposed to trying to explain the benefits and directly address any genuine negative impacts—will, over the long run, either improve actual outcomes for those most vulnerable to the lure of right-wing populism or improve public perceptions of the impact of immigration. To the extent that we have positive examples of countries that have combined relatively open policies with public consent, they are those, like Ireland, Canada, and Spain, that have followed the latter approach. Immigration is a rare example of a topic where economists and other social scientists across the political spectrum broadly agree, and we should stand our ground.

recommended resources

Michael A. Clemens. 2011."Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?" *Journal of Economic Perspectives* 25(3). A compelling argument that liberalizing migration rules would yield huge economic benefits.

Michael A. Clemens. 2015. "Why it's time to drop the brain drain refrain," Center for Global Development blog. A counter to the common argument that emigration hurts developing countries

Florence Jaumotte, Ksenia Koloskova, and Sweta C. Saxena. 2016. "Impact of Migration on Income Levels in Advanced Economies." Spillover Task Force, International Monetary Fund. Recent IMF research on whether immigration is good for growth and incomes.

Sari Pekkala Kerr and William R. Kerr. 2011. "Economic Impacts of Immigration: A Survey," NBER Working Papers 16736. A review of the research evidence on the economic impacts of immigration.

Jonathan Portes. 2018. "The Economic Impacts of Immigration to the UK" and "New Evidence on the Economics of Immigration to the UK," VoxEU (April and October, respectively). News summaries of the research evidence on the economic impacts of migration to the UK on jobs, wages, productivity, and more.

Jonathan Portes is in the department of Political Economy at King's College London. A senior fellow of the Economic and Social Research Council's "UK in a Changing Europe" initiative, he is the author of *Capitalism: 50 Ideas You Really Need to Know.*