

The economic impact of migration has been intensively studied but is still often driven by ill-informed perceptions, which, in turn, can lead to public antagonism towards migration. These negative views risk jeopardising efforts to adapt migration policies to the new economic and demographic challenges facing many countries.

This edition of **Migration Policy Debates** looks at the evidence for how immigrants affect the economy in three main areas: The labour market, the public purse and economic growth.

Is migration good for the economy?

Migration is a feature of social and economic life across many countries, but the profile of migrant populations varies considerably. In part this is because of the variety of sources of migration. In much of Europe, for example, citizens enjoy extensive rights to free movement. In Australia, Canada and New Zealand, managed labour migration plays an important role. Other sources include family and humanitarian migration. Whatever its source, migration has important impacts on our societies, and these can be controversial. The economic impact of migration is no exception.

Benefit or burden – what’s the reality? To answer this question, it can be helpful to look at migration’s impact in three areas – the labour market, the public purse and economic growth.

Labour markets

- Migrants accounted for 47% of the increase in the workforce in the United States and 70% in Europe over the past ten years.
- Migrants fill important niches both in fast-growing and declining sectors of the economy.
- Like the native-born, young migrants are better educated than those nearing retirement.
- Migrants contribute significantly to labour-market flexibility, notably in Europe.

The public purse

- Migrants contribute more in taxes and social contributions than they receive in benefits.
- Labour migrants have the most positive impact on the public purse.
- Employment is the single biggest determinant of migrants’ net fiscal contribution.

Economic growth

- Migration boosts the working-age population.
- Migrants arrive with skills and contribute to human capital development of receiving countries.
- Migrants also contribute to technological progress.

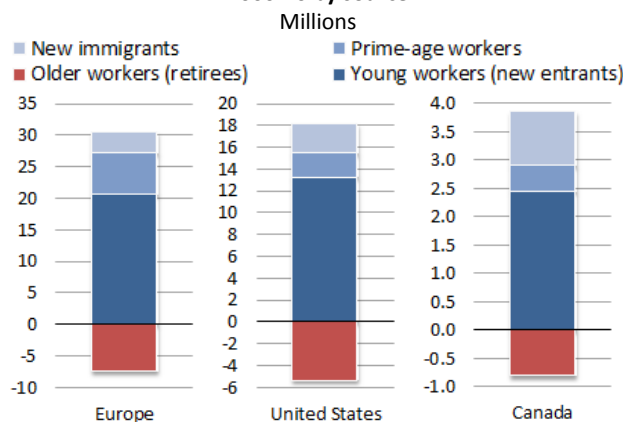
Understanding these impacts is important if our societies are to usefully debate the role of migration. Such debates, in turn, are essential to designing policies in areas like education and employment that maximise the benefits of migration, especially by improving migrants’ employment situation.

This policy mix will, of course, vary from country to country. But the fundamental question of how to maximise the benefits of migration, both for host countries and the migrants themselves, needs to be addressed by many OECD countries in coming decades, especially as rapid population ageing increases demand for migrants to make up shortfalls in the workforce.

Migrant workers make important contributions to the labour market in both high- and low-skilled occupations

Over the past ten years, immigrants represented 47% of the increase in the workforce in the United States, and 70% in Europe (OECD, 2012). Across OECD countries, only a relatively small part of these workforce entrants came through managed labour migration (which represents only a fraction of all movements to the OECD), and more came through other channels, including family, humanitarian and free-movement migration.

Changes in the tertiary-educated labour force, 2000-10 by source



Sources: European countries: European Labour Force Surveys (Eurostat), 2000 and 2010; United States: 2000 Census and American Community Survey 2010; Canada: Survey of Labour and Income Dynamics, 1998-2008.

The education status of immigrants varies considerably. Just like the relationship between younger and older native-born people, young immigrants are generally much more educated than immigrants nearing retirement. This is also true for immigrants entering the labour force: on average over a third are tertiary-educated. The same proportion, however, has not completed their upper-secondary education. Since 2000/01, immigrants have represented 31% of the increase in the highly educated labour force in Canada, 21% in the United States and 14% in Europe.

Even though most migration is not directly driven by workforce needs, immigrants are playing a significant role in the most dynamic sectors of the economy. New immigrants represented 22% of entries into strongly growing occupations in the United States and 15% in Europe. These include notably health-care occupations and STEM occupations (Science, Technology, Engineering and Mathematics).

At the same time, immigrants represented about a quarter of entries into the most strongly declining occupations in Europe (24%) and the United States (28%). In Europe, these occupations include craft and related trades workers as well as machine operators and assemblers; in the United States, they concern mostly jobs in production, installation, maintenance and repair. In all these areas, immigrants are filling labour needs by taking up jobs regarded by domestic workers as unattractive or lacking career prospects.

In Europe free movement migration helps address labour market imbalances

In Europe, the scope of labour mobility greatly increased within the EU/EFTA zones following the EU enlargements of 2004 and 2007. This added to labour markets' adjustment capacity. Recent estimates suggest that as much as a quarter of the asymmetric labour market shock – that is occurring at different times and with different intensities across countries – may have been absorbed by migration within a year (Jauer et al., 2014).

Migrants contribute more in taxes and social contributions than they receive in individual benefits

Recent work on the fiscal impact of migration for all European OECD countries, as well as Australia, Canada and the United States, has provided new and internationally comparative evidence (Liebig and Mo, 2013). The study suggests the impact of the cumulative waves of migration that arrived over the past 50 years in OECD countries is on average close to zero, rarely exceeding 0.5% of GDP in either positive or negative terms. The impact is highest in Switzerland and Luxembourg, where immigrants provide an estimated net benefit of about 2% of GDP to the public purse.

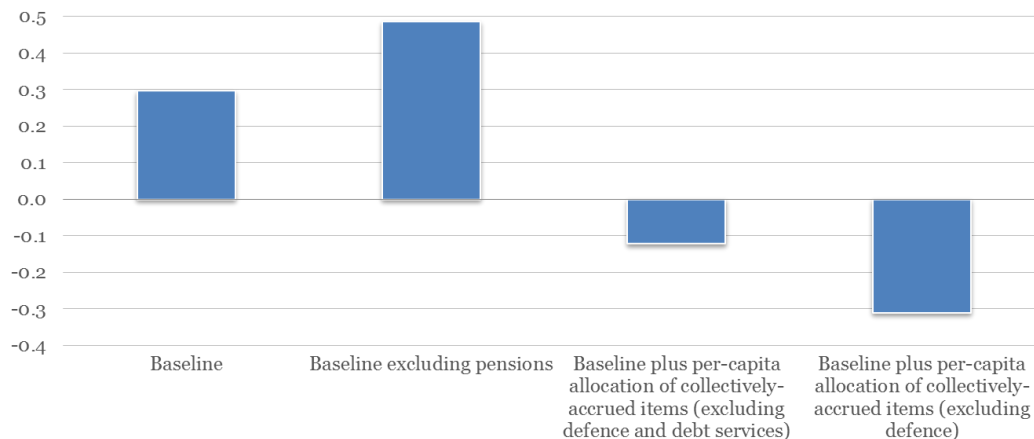
Immigrants are thus neither a burden to the public purse nor are they a panacea for addressing fiscal challenges. In most countries, except in those with a large share of older migrants, migrants contribute more in taxes and social contributions than they receive in individual benefits.

This means that they contribute to the financing of public infrastructure, although admittedly to a lesser extent than the native-born. Contrary to

widespread public belief, low-educated immigrants have a better fiscal position – the difference between their contributions and the benefits they receive – than their native-born peers. And where immigrants have a less favourable fiscal position, this is not driven by a greater dependence on social benefits but rather by the fact that they often have lower wages and thus tend to contribute less.

fiscal gains in many European OECD countries, in particular in Belgium, France and Sweden, which would see a budget impact of more than 0.5% of GDP. It would also help immigrants meet their own goals: Most immigrants, after all, do not come for social benefits, but to find work and to improve their lives and those of their families. Efforts to better integrate immigrants should thus be seen as an investment rather than a cost.

Estimated net fiscal impact of immigrants, with and without the pension system and per-capita allocation of collectively accrued revenue and expenditure items



Note : The “baseline” calculations include estimates for indirect taxes as well as expenditure on education, health and active labour market policy.

Source: Liebig and Mo (2013).

Cross-country differences in the fiscal position of immigrant households are shaped by the design of tax and benefit systems and, even more so, by differences in the composition of the migrant population in terms of age and migrant-entry category.

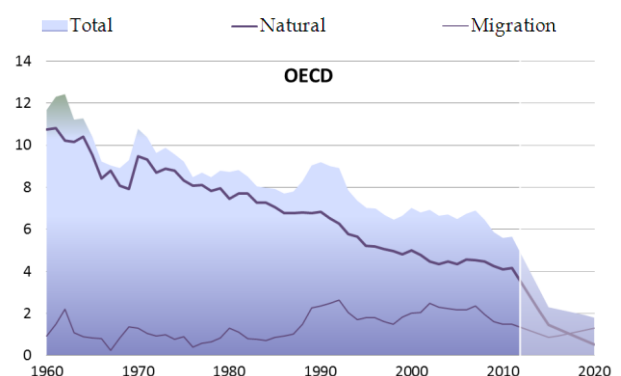
In countries where recent labour migrants make up a large part of the immigrant population, immigrants have a much more favourable fiscal position than in countries where humanitarian migrants account for a significant part of the immigrant population. Labour migrants tend to have a much more favourable impact than other migrant groups, although there is some convergence over time. On the other hand, the fiscal position of immigrants is generally less favourable in countries with longstanding immigrant populations and little recent labour immigration.

Employment is the single most important determinant of migrants’ net fiscal contribution, particularly in countries with generous welfare states. Raising immigrants’ employment rate to that of the native-born would entail substantial

Migration contributes to spur innovation and economic growth

International migration has both direct and indirect effects on economic growth. There is little doubt that where migration expands the workforce, aggregate GDP can be expected to grow. However, the situation is less clear when it comes to per capita GDP growth.

Components of total population growth in OECD countries, 1960-2020, per thousand inhabitants



Source: OECD Population and Vital Statistics database.

First, migration has a demographic impact, not only by increasing the size of the population but also by

changing the age pyramid of receiving countries. Migrants tend to be more concentrated in the younger and economically active age groups compared with natives and therefore contribute to reduce dependency ratios (Gagnon, 2014).

Second, migrants arrive with skills and abilities, and so supplement the stock of human capital of the host country. More specifically, evidence from the United States suggests that skilled immigrants contribute to boosting research and innovation, as well as technological progress (Hunt, 2010).

The proportion of highly educated immigrants in OECD countries is rising sharply. The number of tertiary-educated immigrants in OECD countries showed an unprecedented increase in the past decade (up by 70%), reaching a total of almost 30 million in 2010/11. Of these, about 5 million, or 17%, arrived in the past five years. This trend is mostly driven by Asian migration – more than 2 million tertiary educated migrants originating from this region arrived in the OECD in the past five years (OECD-UNDESA, 2013).

Few empirical studies have tried, however, to estimate the overall impact of net migration on economic growth, in part because of a shortage of harmonised comparative data on international migration by skills levels.

One study that looks at the impact of migration on economic growth for 22 OECD countries between 1986 and 2006 demonstrates a positive but fairly small impact of the human capital brought by migrants on economic growth. The contribution of immigrants to human capital accumulation tends to counteract the mechanical dilution effect (i.e. the impact of population increase on capital per worker), but the net effect is fairly small, including in countries which have highly selective migration policies. An increase of 50% in net migration of the foreign-born generates less than one tenth of a percentage-point variation in productivity growth (Boubtane and Dumont, 2013).

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