The economic impact of immigration

What is the impact of immigration? There are many different economic and social effects of immigration in the host country and tackling all their dimensions is like opening up Pandora's box. That is why, rather than providing an exhaustive review of all the areas where immigration might have a significant impact, this article focuses its analysis on one of the most important aspects: its effects on the labour market. It also takes a brief look at the impact migration flows might have on two other dimensions: the use of public resources and social cohesion.

From the point of view of the labour market, the effect of immigrants entering an economy is often simplified as an increase in the labour supply and therefore as a shock that pushes down the wages of native workers. However, a country's productive structure is actually much more complex, with the result that this conclusion is not valid in most cases.

Firstly, not all workers in a country are equal, and neither are immigrants. In this respect the effects of a wave of immigration on the host country's workers will depend both on the qualities and skills of these workers and also on those of the immigrants. In particular, workers with similar characteristics to the immigrants (substitutes) are more likely to see their wages fall.[1] Hence, for this segment of workers the arrival of immigrants does actually mean an increase in the labour supply. On the other hand, if the native workers' characteristics are very different from those of the immigrants, the situation of such workers might actually improve with their arrival (the complementarity effect). Such is the case of many skilled female workers in developed countries who have been able to increase their hours of paid employment and thrive in their professional careers thanks to a larger supply of domestic services (particularly for looking after children and the elderly) resulting from migratory flows.[2] The overall effect of workers arriving from other countries on the host country's workers will therefore be positive if the benefits of the workers who gain from this arrival are greater than the costs suffered by those who lose out.[3]

Although numerous studies have attempted to estimate the impact of foreign workers entering a host country's labour market, the foremost experts in the field still find it hard to establish any common ground. One of the reasons for this lies in the difficulty of isolating the effect of immigration from other factors that could also be affecting the labour market at the same time, such as technology, globalisation and even the economic cycle itself.

Most of these studies focus on the US and, in this case, two positions have been found: those who believe that immigration has reduced the wages of US workers and those who claim that the impact has been negligible. For instance, David Card, a Berkeley professor and one of the leading experts in the field, concludes that immigration has not significantly affected US workers of any type. George Borjas, however, a Harvard professor and leading exponent of the opposing position, believes that the wages of unskilled US workers have fallen substantially as a consequence of migratory flows.[4] According to Borjas, immigration is actually increasing the mobility of US workers (within and outside the country) and its impact on the wages of these workers is significant and must be taken into account. However, other more recent studies, which do take into account this effect noted by Borjas, seem to confirm Card's thesis of a modest effect on wages.[5]

Specifically, David Card argues that the arrival of unskilled foreign workers in the US has been absorbed without any fluctuations in wages thanks to an adjustment in production techniques. The idea behind this mechanism is simple: an agricultural good, for example, can be produced using various combinations of the labour factor and capital factor and each country chooses its appropriate mix depending on the availability of each of these factors. This can be seen when we compare how an agricultural good is produced in an advanced country and in an emerging country: in relative terms, agricultural production is more machine-intensive in advanced countries than in emerging economies. Similarly, when a country such as the US receives a wave of unskilled immigrants, they can be absorbed via a slight change in the intensity of the production factors, in this case by increasing the intensity of the «unskilled worker» factor compared with the «machinery» factor. The downward pressure on wages resulting

1. The employment rate may also be affected if the downward pressure on wages places it within a range at which natives prefer not to work.
2. For the case of Spain, see Farré, L., González, L. and Ortega, F. (2011), «Immigration, family responsibilities and the labor supply of skilled native women». The BE Journal of Economic Analysis & Policy, 11(1).
3. If immigrants had the same skills as the native workers, wages could be affected in the short term but, in the long run, this effect would tend to be diluted by the country increasing its production capacity.
4. See Card, D. (2005), «Is the new immigration really so bad?». The Economic Journal, 115(507), F300-F323. And Borjas, G. J. (2006), «Native internal migration and the labor market impact of immigration». Journal of Human resources, 41(2), 221-258.
5. See Ottaviano, G. I. and Peri, G. (2012), «Rethinking the effect of immigration on wages». Journal of the European economic association, 10(1), 152-197.

from a larger supply of unskilled workers is offset by the upward pressure resulting from a higher unskilled worker demand from those sectors wishing to take advantage of the larger supply of these workers.[6]

The economists who claim that immigration's impact on wages has been insubstantial argue that there is another mechanism in play, namely a «change in the production mix». Specifically, it has been observed that countries receiving large migration flows change the composition of the goods they produce, increasing the production of those with a more intensive use of the kind of worker entering the country. In this way, and as in the previous case, labour supply and demand adjust, leaving wages essentially untouched.

Whatever the perimeter of the labour market, another area that tends to attract attention whenever the impact of immigration is analysed is the use made by immigrants of public services. However, as is also the case in the sphere of labour, all the factors need to be appropriately assessed. Some natives may be at a disadvantage by the arrival of immigrants, a case in point being the crowding-out effect which poorer natives can suffer when accessing subsidised housing. However, the arrival of immigrants is also normally accompanied by an increase in economic activity and therefore in revenue. In fact, a recent OECD study shows that, when all factors are considered, the total effect of immigration on host countries' public accounts is broadly neutral.[7]

Our analysis of the impact of immigration would not be complete without mentioning one of the issues causing most controversy: the effect of immigration on social cohesion. According to Paul Collier, an Oxford professor and expert in the field, trust and cooperation are two aspects that characterise modern, prosperous economies. A prosperity that is reinforced, in turn, by this combination of trust and cooperation: two closely linked attributes since, without trust, there cannot be any cooperation. However, the virtuous circle established between prosperity-modernity and trust-cooperation is fragile as it is built on trust between individuals from the same society. As pointed out in the next article in the Dossier, «Immigration policies: not only enter but also integrate», any migratory policy must focus on the orderly management of migratory flows and, above all, on successfully integrating immigrants.

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6. There are different studies by Gordon H. Hanson and Matthew Slaughter that reveal the importance of this mechanism in various economies. There is also evidence for the Spanish case in the article by González, L. and Ortega, F. (2011), «How do very open economies adjust to large immigration flows? Evidence from Spanish regions». Labour Economics, 18(1), 57-70.
7. See Liebig, T. and J. Mo (2013), «The fiscal impact of immigration in OECD countries». International Migration Outlook 2013, OECD Publishing.