

The Real Economics of Migration

di Ian Goldin

Debates about immigration are roiling the world's democracies. In the run-up to the US midterm elections this year, President Donald Trump sought to rally his base by making an issue out of a "caravan" of impoverished Central Americans making its way on foot to the southern border. In the United Kingdom, warnings of imminent mass immigration of Turkish people contributed to the June 2016 vote in favor of leaving the European Union. In Italy, Hungary, Austria, and elsewhere, populists have tightened their grip on power by politicizing flows of migrants and asylum seekers from the Middle East and North Africa. And, in Germany, Friedrich Merz, a Christian Democrat who hopes to succeed Chancellor Angela Merkel, recently questioned whether the right to asylum should remain enshrined in Germany's post-war constitution.

Though the situation differs from country to country, refugees have increasingly become synonymous with economic migrants, and both have taken center stage in heated debates about national identity and personal values. But, even though migration has had significant macroeconomic effects across many OECD countries in recent years, nowhere has the political struggle proved amenable to cool-headed analysis of migrants' actual economic role in Western democracies.

The more immigration becomes central to a broader cultural politics, the more likely it is that policy responses will be driven by non-economic considerations. The results may be disruptive, threatening economic growth and, in turn, risking further political discontent.

A POLITICAL HEIST

The migration issue owes its current salience not to a sudden change in immigration patterns, nor even to changing societal attitudes toward migration, but rather to our current politics. Issues like immigration and treatment of national or religious minorities can easily be turned into a galvanizing hot-button issue. When new political parties and movements – from Trump's "America First" faction to Lega in Italy under Matteo Salvini – seize on immigration to carve out a constituency for themselves, mainstream parties feel forced to respond, moving the issue to the center of electoral politics.

In the context of today's debate, economic migration, in particular, has come to be seen as either an unalloyed good or an irreconcilable bad. And yet, without a more nuanced understanding of the economic and social impact of migration, we will be unable to formulate policies that support growth and safeguard the welfare of citizens and migrants alike.

In a recent study, we found that migration has made a substantial contribution to growth in OECD economies since the 2008 financial crisis, but that the aggregate benefits have not been distributed equally across regions and income groups. Our research also provides fresh evidence of the widening disconnect between perceptions about migration and the reality. It turns out that as the anti-immigrant tide has risen, overall migration has fallen, and this has translated into weaker growth, posing new fiscal and social risks.

To understand the implications of falling migration in advanced economies, consider that around two-thirds of US growth between 2011 and 2016 was due to the labor-supply effects of immigrant workers. In the UK, we estimate that if immigration had been frozen in 1990, the economy as of 2014 would have been 9% smaller, implying a real (inflation-adjusted) GDP loss of more than £175 billion (\$215 billion) in 2016 prices. In Germany under the same scenario, the loss would have been around 6%, or over €155 billion (\$206 billion) in 2010 prices.¹

HIGH RETURNS

These estimates likely understate the impact of freezing immigration, because they account only for newcomers' direct labor-supply effects. Yet migration also has wider long-term benefits. For example, there is evidence that it adds to the female labor supply, by increasing the workforce-participation rate of low-skilled women, and the hours worked among higher-skilled women.

Migration also drives innovation. In the US and the UK, migrants are 2-3 times more likely than native-born citizens to start their own business, lead a firm to "unicorn" status (a \$1 billion valuation), win a Nobel Prize or Academy Award, or register a patent.

Moreover, there are indications that migrants contribute to aggregate productivity growth. Efforts to measure this phenomenon have been frustrated by the fact that higher productivity growth can be both a cause and an effect of migration. But in our study, we overcame this endogeneity challenge econometrically and identified strong positive effects from migration. Our findings thus corroborate microeconomic and experiential evidence showing that policies designed to promote skilled migration can indeed boost domestic innovation.¹

Generally speaking, the productivity benefits from migration stem from high-skilled workers (though unskilled and semi-skilled workers can also make a positive net contribution). In successful global cities around the world, high-skilled migrants play an integral part in a virtuous cycle of innovation and growth, which, in turn, attracts more talent. Hence, most cutting-edge innovation has become increasingly concentrated in regional economic clusters with large migrant populations.

For example, migrants make up 45% of the population in Toronto and Vancouver, around 35% in London and Melbourne, and as much as 95% in Dubai. And skilled migration, in particular, is heavily concentrated in a handful of cities within a small set of "destination" economies. The US alone has historically hosted almost half of all high-skilled migrants in the OECD, and one-third of all high-skilled migrants worldwide (based on 2010 figures).

Migrants play a disproportionate and central role in the breakthrough innovations that have set some regional economies apart. And the higher the migrant's standing in the skill or "success" distribution, the more disproportionate his or her contribution becomes. Breakthroughs in scholarship, entrepreneurship, cultural industries, and business leadership are all strongly correlated with skilled migration.

Moreover, the global market for skilled migration is highly integrated, which means that the most productive workers tend to go wherever the rewards and opportunities are the greatest. This movement of talent then creates a growing global network for the diffusion of new ideas and technologies.

THE CIRCLE OF DISTRUST

Today's innovation hubs rebut the idea that high levels of immigration are inherently intolerable to host communities. When cities or regions enjoy the direct benefits of migration, they are understandably more tolerant. The problem is that many of those left outside such clusters of dynamism have come to associate their exclusion and alienation at least partly with the immigrants they see inside. While migrants from around the world appear to be thriving in the new centers of cosmopolitanism, a growing number of people from declining cities and towns cannot find jobs or sustain a decent standard of living. Such pronounced regional disparities have created fertile ground for politicians seeking to mobilize the disaffected.

Were national policymakers to limit the flow of immigrants, cities like London and New York would have the most to lose. A severe disruption to migration might also have negative spillover effects, given that regional innovation clusters tend to drive a higher proportion of aggregate productivity growth. And yet the benefits of that growth are not being felt across the entire economy. The challenge for policymakers, then, is to ensure that they are.

If the benefits of migration were shared more widely, the political salience of immigration would start to weaken, reducing the risk of growth-inhibiting restrictive policies. As matters stand, a laid-off blue-collar worker in Wisconsin is unlikely to be swayed by abstract arguments about the virtues of migration or the benefits of living in Palo Alto. For such workers, the new normal is stagnating income, increasingly scarce opportunities, and rising income and wealth inequality – all of which have been compounded by the 2008 financial crisis.

The first step in pushing back against anti-immigrant sentiment, then, is to acknowledge that migrants are not necessarily always beneficial to all groups. As with trade liberalization and other policy reforms, the "aggregate benefits" that may result do not mean that "everyone benefits." There will always be particular groups or regions in need of protection or compensation.

MIGRATION HAVES AND HAVE-NOTS

In our study, we found that while immigration boosts overall levels of income and growth, it has left native-born low-skill workers, in particular, at a disadvantage. Migrants across a number of

advanced economies have been competing with low-skill workers while complementing higher-skill workers, thus skewing the aggregate benefits toward higher earners. Still, it is worth noting that in many cases, the workers most at risk of being substituted for migrants are migrants themselves. In fact, this observation has been borne out in the UK, where wage growth among migrants has lagged that of natives since the increase in immigration that began in around 2004.

Nonetheless, even if low-skill native workers are not at a particularly high risk of losing out to low-skill migrants, sometimes they are replaced by higher-skill migrants entering occupations for which they are overqualified. Generally speaking, outcomes that boost inequality are often driven by poor skill recognition, the effect of which is to subject low-skilled workers to disproportionate labor-market competition from migrants.

Accordingly, measures that help migrants find employment that is appropriate to their skills would lead to higher incomes for low-skill native workers, improved outcomes for migrants themselves, and better aggregate economic performance. In our study, we found that a substantial part of the “migrant wage penalty” is tied to immigrants’ lack of access to higher-paying occupations (even after controlling for education). What is needed are policies to overcome informational barriers such as private work listings. To that end, Germany’s active labor market policies offer a serviceable model.

In the absence of policies that spread migrants’ contributions across the whole of society (and address a range of other social ills), populist proposals to curtail immigration will continue to gain steam and pose a threat to Western economies. Aging societies need immigrants to pay taxes and contribute to the economy, especially when they have high public-sector debt burdens and slowing productivity growth. And even if that were not the case, immigrants are ideal taxpayers. Because they typically are educated elsewhere and emigrate before retirement, they pay more in taxes to their new country than they take out in benefits.

The problem is that many voters in advanced economies don’t realize this. In the ongoing debate over immigration, misconceptions abound. Migration is widely seen as more extensive and less productive than it really is. Across the US, the UK, and Germany, survey respondents overestimate the unemployment rate among migrants by a factor of five, and the proportion of low-income migrant households by a factor of two. Still, insofar as there has been a recent change in attitudes, it has been concentrated among specific subgroups.

THREATS, REAL AND IMAGINED

Two factors drive attitudes toward migration. The first is the degree of national solidarity, which describes the extent to which people empathize with those of a different nationality and reflects the extent to which people define themselves in a nationalist manner. The second factor is the perception of scarcity: the degree to which key economic resources – public services, jobs, and so forth – are believed to be under strain.

In our study, we found a close association between the perceived impact of migrants on such resources and attitudes toward migration. Yet people's views are not set in stone. Japan's experience suggests that by correcting the widespread misperception that migrants consume more resources than they actually do, policymakers can begin to build public support for more accommodative immigration policies.

To correct misperceptions, however, substantive action will also be required. For example, when public services are under pressure, support for migration tends to decline across all cohorts. The idea that there is only a given quantity of some service to go around – also known as the “fixed quantity” fallacy or the “lump of labor” fallacy in the case of jobs – becomes more acute. Anti-migrant attitudes typically intensify when concerns about public services and jobs grow.

Against this background, the austerity policies enacted across Western democracies over the past decade may have had an impact, particularly among poorer communities that felt the tightest squeeze. Moreover, those with lower levels of educational attainment are more likely to have felt the effects of economic stagnation and to identify more strongly with their national identity.

IT'S THE POLITICS, STUPID

Though economic and demographic conditions factor into attitudes toward migrants, they do not explain why migration has become such a mobilizing political issue. In fact, in the UK, attitudes toward immigrants have actually become more accepting over the long term. At the same time, however, policymaking has become much more sensitive to anti-immigrant attitudes than in the past.

One reason for this, at least in the case of Europe, is that as traditional center-left- and center-right parties have converged on matters of economic and social policy, new identity-based parties have steadily occupied the space left behind. Unlike mainstream “big tent” parties, these political newcomers have built coalitions on the basis of narrow cultural issues.

Migration is one such issue, because it can be framed in such a way as to tap into deeply held, value-based dispositions. This strategic use of the issue should be familiar to anyone who has watched the rise of right-wing nationalist parties across Europe in recent years. Moreover, nationalist movements have enjoyed a notable boost since the financial crisis, which ushered in a new era of anti-elitism and skepticism toward the establishment and specialized expertise.

This combination with anti-elitism has served right-wing anti-immigrant candidates disproportionately well in both the US and Europe. By framing migration as a threat to national identity, today's populists have altered the terms of debate. For example, because the debate is now focused squarely on the supposed threat to cultural integrity, the widespread failure to distinguish between refugee and immigration policies no longer matters. Mainstream politicians either move to the right on immigration, as Hillary Clinton recently showed by calling for Europe to “get a handle

on migration,” or avoid the topic altogether. In the European Parliament elections next May, the issue could prove decisive.

Whatever happens, it is clear that nationalist and populist politics have reached the point that migration will remain a central issue in the contest between big-tent and identity-based parties. This fact alone has dangerous implications for economic policymaking, particularly in Europe, where freedom of movement – internal migration – is one of the pillars on which the EU stands.

One way or another, citizens’ concerns about immigration need to be addressed, as do the root causes of their economic anxiety. As our research shows, the economic impact of migration depends on the policies that are in place to manage it. Migrants need to be able to access jobs that match their skills, and their contributions to growth need to be widely shared.

In the current era, however, public attitudes toward migration in too many countries are at odds with such objectives; rather than being recognized as an engine of growth, migration is now seen as an economic and cultural threat. Countries in desperate need of migration to offset collapsing fertility rates are lining up against it.

The politicians vying to prove their toughness on immigration are not just polarizing electorates across the Western world. They are also engaging in a strategy that threatens to derail their countries’ economies.