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Immigration and the host country economy: some reflections

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1. International migration: stylized facts on Japan and the international economy

Human migration is deeply embedded in the history of humanity. In fact, migration represents one of the most important engine for change of economies and society and has contributed to shape the world we live in today. But what distinguish modern from ancient migration is the fact that the former is more and more strongly motivated by economic factors: by large disparities in economic conditions accompanied by a substantial reduction in the costs of migration.

According to the latest estimates, international migrants represented 3.2% of the global population in 2010, 214 millions people. A large share of migrants resides in developed countries (57%), 40 millions only in the US which is the largest destination country.

Contrarily to what many people believe, migration across borders is not always permanent but a large percentage of individuals return to their home countries —between 12-37% of total flows according to IPPR/GDN 2010— and more often move across several countries, a relatively new phenomena known as circular migration. Return flows, together with the large flows of financial transfers from diaspora communities (known as remittances[1]), represent one of the main channel through which migration contributes to the development of origin countries.

Although migration flows are directed mainly to rich countries the immigration phenomena is highly heterogeneous across them. While migration inflows are very large in absolute and relative terms in countries such as the US, Canada, Australia, and several European countries, immigration in Japan is of modest size (permanent inflows accounted for 65.5 thousand individuals in 2009, significantly less than 0.1% of the Japanese population, OECD-SOPEMI 2011)[2].

1 Remittance flows in 2009 reached a peak of 414 billions US dollar according to the World Bank. After foreign direct investment (FDI) these flows represent the largest source of capital for less developed countries.
2 As a reference figure, the number of permanent migrants in Korea in 2009 was 140 thousand.

Japan is also lagging behind other rich countries in the 'battle' for attracting highly skilled and talented individuals[3]; a fundamental ingredient for future prosperity.

A particularly important type of migrant are international students. According to a recent OECD report (2011), the number of international students is large —3.3 million in 2008— and growing thanks to the "globalisation" of educational systems. International students might play an important role in the destination countries by (i) boosting the innovation capacity and R&D potential; (ii) facilitate trade and investments relationships; (iii) improve the quality of national university system. The number of international student in Japan represented 1.7% of the population in the age cohort 20-24 in 2008 against the OECD average of 3.3%. A gap that signals the importance of opening the Japanese tertiary education system to international students.

The rigidities of immigration policies in rich countries are often justified by policymakers by the negative economic and social consequences that migration might have in destination countries. In particular one of the main argument used by the advocates of 'closed door policies' is the negative impact of immigration on the wages of domestic workers. In the following paragraph I will briefly discuss the empirical evidence on the relationship between immigration and wages.

2. Immigration and wages of domestic workers: what do we know?

The prediction of a negative effect of immigration on the wages of natives is based on the simple fact that the ***labour demand curve is downward sloping:*** if the supply of labour increases than wages have to decrease (or/and unemployment should go up). This story is simple.... but also simplistic since it is based on a set of very strong —and often not realistic— assumptions. Firstly, this story is based on the assumption that immigration is exogenous; on the contrary the empirical evidence shows that migrants go where opportunities are available. Typically migrants move when a job is already waiting for them and less frequently they migrate before the job search is concluded. Hence the simple story misses the fact that the expansion of labour supply is often triggered by an expansion in labour demand.

Second, the effect on wages is negative if native and immigrants are perfect substitutes in the labour market. Also on this aspect the evidence seems to be more reassuring. Immigrants are often employed in particular segments of the labour market; generally segments that are left 'open' by natives (for example in those job occupations defined a ***DDD: D***ifficult, ***D***irty and ***D***angerous). Immigrants are, on the contrary, often complements of native in the labour market. For instance, the large inflows of foreign domestic workers in many rich countries is having a tremendous impact

3　Several countries have introduced immigration schemes which give preferences to skilled migrants.

on the productivity of highly skilled natives by increasing their labour supply.

Third, in the simple story the labour supply is assumed to be perfectly inelastic. This assumption is also likely to be violated since natives (or other immigrants) might decrease their labour supply as a consequence of the inflows of migrants; for instance through the out-migration of natives toward other local labour markets less interested by immigration inflows.

Fourth, the capital stock should be fixed. This is probably the weakest assumption since the increase in labour is often the cause (or the consequence) of an increase in the capital stock. The expansion of cities across the world is the typical demonstration of this effects: urban area attracts at the same time capital and labour.

Lastly, the simple story does not consider what happens to product demand. In fact immigrants are at the same time workers and consumers; their demand of housing, food and other goods and services will generate indirect effects that positively affect labour demand (and native workers).

Hence, ***the simple story might be able to predict only a short run, partial equilibrium effect of immigration on wages.*** The overall general equilibrium effects might give a completely different picture.

What does the empirical evidence tells us? We can distinguish between two main approaches used in the economic literature. The first approach tries to estimate the factor price elasticity of the native-born wage in a particular skill class with respect to the supply of immigrant labour in that class. In other words, the researcher measures the percentage change in the wage due to a 1% change in the supply of workers (for instance Card 2001 on US immigration). The second approach is based on the use of "exogenous shocks" to the labour supply in a specific area in order establish a ***causal link*** between immigration and native-born wages or employment. A famous study using this second approach is the analysis of the "Mariel Boatlift" event by Card (1990). In April 1980, a large number of Cubans left their country and migrated to the US, a large majority in Miami. The population of Miami increased by 7% almost overnight. Card investigated the effects of this exogenous shock comparing the labour market evolution of Miami with that of a "benchmark" group of US cities which did not experienced the immigration shock. The results show little support to significative effects of the shock on native wages and employment.

Using an alternative empirical approach which focus on 'age/education level' segments of the population rather than geographical units like cities or local labour markets, Borjas (2003) finds evidence of negative effect of immigrants on wages in the US, in particular for unskilled and poorly educated native workers. This finding has been recently challenged by a series of studies by Ottaviano and Peri (2010) which extends in several directions the study of Borjas. Their findings show that American workers, on average, benefits from immigration with a factor price elasticity for all native-born of approximately +0.16. Only high-school dropouts seems to experience a negative but small effect on their wages (−0.1%).

The empirical research on this important topic is still ongoing but what is fair to conclude is that immigration does not generate strong negative effects on native-born wages and might actually lead to positive effects due to the complementarities between foreign and native workers in the labour market.

3. Beyond wages: on the pro and cons- of immigration

The analysis of the consequences of immigration cannot be limited to consideration on the short term labour market impacts. In fact, immigration might lead to a substantial process of social and economic structural change in the host society. A good design of immigration policies should take into account potential impacts on the following aspects:

— ***fiscal impact and welfare state sustainability.*** According to Milton Friedman, a well-known free-market advocate, "***you cannot simultaneously have free immigration and a welfare state***". Existing studies on the fiscal contribution of migrants show that on average their contribution is positive, in particular in the initial phase of the immigration spell when migrants are health and young. But the fiscal impacts are likely to be very heterogeneous across countries of destinations and also across migrants according to their skills, household characteristics, intended length of stay etc.

— ***Social consequences.*** Immigrants are not only workers but residents, consumers and active contributors to social life in the host countries. A large immigration inflows might have important effects on issues such has social identity, social values, cultural heritage. In general immigration brings 'novelty' and it is a bridge to distant cultures and allows the host society to evolve over time. Opposition to migration is often rooted in the hostility to 'social changes' by some organized and conservative components of the host country society.

— ***Other external effects.*** The history of the US is the perfect example of the strong impacts that immigrants have in generating an 'innovative society and economy'. Immigrants have contributed to the leadership of the US economy in many sectors from IT to more traditional industries (see for instance Saxenian 2006). The cultural mix produced by immigration is also an important resource. Recent evidence has emphasized that immigration boosts international trade and investments. On the other side, immigration might be accompanied by some negative effects under certain circumstances —in particular in case of illegal migration — such as crime, poverty, insecurity. Often these negative outcomes are not the direct consequences of immigration but rather the results of wrong and ineffective policies and the inability of the host society to design a set of rules and institutions which enable to maximize the gains from immigration.

To conclude, the existing economic literature suggests that the benefits from immigration largely outweighs the potential costs. Immigration is an engine of economic growth but also of important social changes. Several rich countries, like Japan, have maintained a 'close door' policy to immigrants. I believe that this approach might be very costly in the long-term, not only as a consequences of the issue of an increasingly 'aging society' as often argued by several observers.

Immigration might represent a positive 'shock therapy' in a society that after a spectacular growth during the second half of last century is now trapped in a economic and social 'suspended state' (limbo).

Japan should experiment a gradual process of opening up to immigrants; one possibility that policymakers should seriously consider is the use of a temporary migration scheme carefully designed on the basis of previous experiences —success as well as failures— of other countries (see Coniglio 2008 on Europe for a proposal of a new-generation temporary immigration scheme).

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