

## What Should a Cautious Immigration Policy Look Like?

By Jakob von Weizsäcker



Economic migration allows people to move from places where they are less productive to places where they are more productive.

Global economic output is thereby increased. Furthermore, migration helps to decouple economic opportunity from place of birth. Global equality of opportunity is improved as a result. These are powerful arguments in favour of migration in a world where geographic income differences are substantial.

Global income differences significant enough to trigger large-scale migration were already present 20 years ago. However, at the time there were three major barriers to migration: immigration restrictions in rich countries; emigration restrictions, especially in communist countries; and a lack of necessary funds and information for potential migrants.

With the fall of the Berlin Wall, emigration restrictions have largely disappeared. And as a result of globalisation, the proportion of the world population with access to the necessary funds and information to engage in economic migration is on the increase. As the principal remaining barrier, the immigration restrictions of rich countries are increasingly exposed to rising immigration pressures.

For the sake of global economic efficiency and equality of opportunity, these immigration restrictions should be relaxed, but public opinion in many rich countries is in favour of tightening them. In a recent FT/Harris poll on migration attitudes,<sup>1</sup> 40% of the respondents in France and

more than 60% in the other countries surveyed (United Kingdom, Italy, Spain, Germany) replied that there were too many immigrants in their country and that their country's immigration policy was making it too easy for migrants to enter legally.

Why is the call for more restrictive immigration so widespread? Clearly, there are concerns about failed integration and the risk of an ethnic underclass emerging in a number of European countries. Due to recent terrorist attacks and terrorist attempts involving Muslim immigrants, there are worries about Muslim fundamentalism among immigrant populations. Negative personal experiences with immigrants, sometimes too readily generalised when undercurrents of xenophobia are present, can also play a role. But I believe that the most important reason for the negative public response to immigration is widespread uncertainty about the future consequences of substantial further immigration. What will be the impact on employment and wages? What will be the impact on the budget and the welfare systems? What will be the impact on local communities, on public institutions, on the identity of the host country in the long run?

In many European countries, the core of society is profoundly uncertain what the answers to these legitimate questions are. This uncertainty leads to the understandable desire to err on the side of caution when it comes to immigration policy. It would be both unfair and counterproductive to accuse the average citizen of irrational fear or dislike of foreigners because of that caution.

Instead, the public discourse needs to embrace that caution. The real question is this: what does

<sup>1</sup> Financial Times, 20 October 2006.

a cautious immigration policy offering low risk and high returns look like? For far too long, it was assumed that a cautious immigration policy would essentially be passive or defensive. The present challenge for immigration policy makers is to become more systematic and proactive about being cautious. What we need is a risk management approach to immigration policy.

### **An impact matrix for migration policy**

In order to develop that approach, it is essential to better understand the risks and the opportunities involved. It turns out that they vary substantially with the skill level of the migrants. Hence, it is worth taking a closer look at the likely impact of high-skill and of low-skill migration on the three principal relevant actors in immigration policy: the rich host country, the poor source country, and the migrants themselves.

#### *The host country perspective*

Immigration will typically increase the economic output of a country. In that sense, immigration is a source of GDP growth. However, only part of that increased output will accrue to local workers and local owners of capital. A substantial portion of the increased output will go to the immigrants. Another portion of the gains will go to foreign owners of local capital.

Since locals may receive only a small part of the output gain due to migration, it is essential to carefully examine the potentially adverse effects that critics of immigration routinely point to: (a) the impact on wages and employment; (b) the fiscal impact; and (c) the impact on social capital.

#### *The impact on wages and employment*

The impact on wages and employment in the host country is likely to be negative for those local workers who have skills similar to those of the immigrants. By contrast, the impact on wages and employment is likely to be positive for the local workers who have skills that are

different and complementary to those of the immigrants.

Low-skill immigration may somewhat increase income inequality as the below-average wages of low-skilled locals come under downward pressure and the above-average wages of complementary highly skilled locals receive a small boost. By an analogous argument, high-skill immigration could be expected to have a benign distributional impact by somewhat reducing the above-average wages of high-skilled locals and somewhat increasing the below-average wages of the low skilled.

However, most empirical studies find that the wage and employment effects of immigration are very small, and many find no effects at all (Longhi et al., 2005, 2006). At the upper end of the range, Borjas (2003) estimates that an immigration influx of 1% reduces the wages of local workers who are similar to the immigrants with respect to the labour market by 0.3 to 0.4%.

But when are immigrants similar to locals with respect to the labour market? In pursuing that question further, Ottaviano and Peri (2006) find that the labour market treats locals and immigrants as near substitutes only for the lowest skill groups. In contrast, higher-skilled immigrants and locals appear to be sufficiently different that they generally do not hurt each other's employment and wage prospects. In other words, the wage and employment impact of high-skill immigration appears to be fairly unproblematic. However, the empirical literature has not been able to comprehensively dispel the distributional concerns regarding low-skill immigration. This message is reinforced by the fact that European labour markets for low-skilled workers are generally less flexible than the labour markets for high-skilled workers.

#### *The fiscal impact*

The fiscal policies currently in place tend to redistribute from the rich to the poor and from

the working-age population to the inactive population and pensioners in particular. Hence, the net fiscal impact of a high-skilled immigrant tends to be substantially more favourable than the net fiscal impact of low-skilled immigrants.

Because immigrants are overwhelmingly young adults, even relatively low-skilled immigrants may have a positive net fiscal impact. Bonin (2002), for example, found that the average immigrant in Germany has a positive net fiscal impact across his or her lifespan despite the high proportion of low-skilled immigrants. However, a similar study by Roodenburg et al. (2003) found that immigration had a negative net impact on public finances.

*The impact on social capital*

Unfortunately, the impact of immigration on social capital is much more difficult to estimate and quantify. However, there are some indications that high levels of immigration may alter the dynamics of local communities in problematic ways.

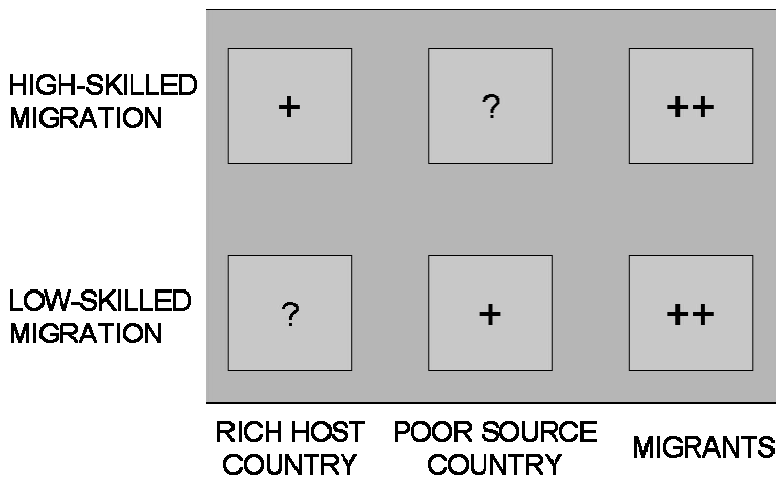
Alesina and La Ferrara (2000), for example, found that participation in social activities is significantly lower in more ethnically fragmented US communities. Entorf and Lauk (2006)

identify significant negative peer effects on the school performance of immigrants in Germany and Austria with their non-comprehensive school systems. Furthermore, there are worrying signs that certain immigrant communities in Europe are developing into an ethnic underclass. Again, those dangers would appear to be less pronounced for high-skilled than for low-skilled migrants.

However, it should not be forgotten that communities can also benefit greatly from cultural and ethnic diversity. This goes far beyond the clichéd observation that the local restaurant scene will benefit from such diversity. For many of the most successful companies in the world it is essential to operate in places where they can pull together the best experts from all over the world. Locations unable to accommodate such diversity are therefore at risk of falling behind.

Hence, despite some challenges that immigration poses for the social cohesion of society, large immigrant cities like London and New York are thriving. This suggests that the negative effects of migration on social capital can be dwarfed by the attractions of international cities, including those directly related to migration such as cultural diversity and entrepreneurial spirit.

**Figure 1: A simple impact matrix of migration by skill level**



Bringing the various effects together, it seems likely that high-skilled immigrants would tend to have a net positive impact on the locals in the host country, as indicated by a '+' in the impact matrix (Figure 1). The case appears to be somewhat less clear-cut for low-skill immigration, as indicated by a '?'.

### ***The source country perspective***

By moving a factor of production abroad, emigration is likely to decrease the economic output of the source country. In that sense, emigration may slow GDP growth. However, that decrease in output will, to a large extent, be borne by the emigrants who expect to be better off abroad and may send remittances back home. Some of the decrease in output will likely be borne by local and foreign owners of capital. The net impact on those remaining behind in the source country is not entirely clear. To explore this question further, we will briefly reflect on the impact on wages and employment, public finances, and the importance of altruistic family links between the migrants and those who remain in the source country.

### ***The impact on wages and employment***

Low-skill emigration or 'brawn drain' would tend to increase the wages and employment of low-skilled workers in the source country by making them relatively more scarce. By contrast, the wages of skilled workers would likely be reduced since they are becoming relatively more abundant. Taken together, the effects of these two would be to reduce inequality.

High-skill emigration or 'brain drain' would tend to increase the wages of the high skilled and reduce the wages of the low skilled, thereby increasing inequality in the source country. To the extent that wage inequality is undesirable, the effect of low-skill emigration would appear to be somewhat preferable to that of high-skill emigration. Moreover, brain drain could have a negative impact on the growth potential of the source country's economy by depriving it of its innovation potential.

### ***Public finances***

To the extent that the high skilled are more important net contributors to public finances during their life cycle, their emigration tends to hurt public finances more. If education is provided by the state, this negative effect is reinforced because high-skilled emigrants would tend to have received greater government subsidies for their education before they leave.

But brain drain may not be entirely negative for the source country. The option to emigrate may substantially increase the expected returns on education, thereby improving private education incentives. Also, if migrants return to their country of origin, and many of them do, the skills and savings that they have acquired abroad become a powerful force for development. Moderate levels of brain drain, therefore, may actually be beneficial for the source country as is argued by Beine et al. (2003), for example.

### ***Altruistic links***

Finally, there are altruistic links between migrants and locals in the source country. Migrants feel altruistic towards their families back home and help them by sending back remittances on a grand scale that easily exceeds development aid budgets. But altruism is also relevant in the other direction. Many parents in poor countries would welcome it if their children found a better life abroad, even in the total absence of remittances. This last aspect is often overlooked, but may offer an important explanation why so few attempts are made by source countries to impose at least some financial restrictions on emigration, such as asking high-skilled emigrants to pay back their education subsidies.

When the various effects are considered together, it seems plausible that low-skill emigration would tend to have a positive impact on the locals in the source country, as indicated by a '+' in the impact matrix (Figure 1). The case appears to be somewhat less clear-cut for high-skill emigration, as indicated by a '?'.

### *The migrant perspective*

Migrants migrate because they expect to be better off as a result of the move. And despite some disappointments because of exaggerated expectations or plain bad luck, the overwhelming majority of migrants can be regarded as the winners in the migration process. Therefore, the impact of migration on both high-skilled and low-skilled migrants would appear to be overwhelmingly positive, as indicated by a ‘++’ in the impact matrix.

The key problem for migrants lies elsewhere, on the border between economic, social, and psychological consequences. Migrants and their families will initially compare their lives abroad to the lives they would have led in their countries of origin. The large majority of migrants will see themselves as winners in that comparison. But with time, the migrants and especially their children may begin an identity transition. Increasingly, success and failure, justice and injustice will be defined in comparison to the lives of others in their new home country.

Unfortunately, the outcome of that new comparison is often much less favourable. In many countries, migrants suffer from professional and educational underachievement compared to otherwise similar locals. Migrants are over-represented in jobs with low social prestige, typically are at a higher risk of unemployment, and suffer from subtle and sometimes not-so-subtle forms of discrimination. Ironically, it may be precisely during this process of integration—this transition from migrant to native identity—that migrants come to regard themselves as victims in a hostile host society, as losers. Their sense of injustice is due not to an objective worsening of their situation but to raised ambitions and expectations.

These aspirations of integrating migrants are bound to clash with those of established locals if the latter continue to think, “Couldn’t these migrants just go back home if they don’t like it here?” Positively managing the expectations

of migrants and locals alike to avoid this clash is perhaps the most important challenge for integration policy.

Specifically, the host society should only try to tax the financial gains of immigrants during the early years of the immigration experience. This is often done through delayed integration of immigrants into the welfare state, but even some form of explicit entry fee for immigrants to be reimbursed with time can make sense under certain conditions. After this initial period, any discrimination of that sort needs to be phased out. In addition, positive programmes of integration may often be required. Hence, the host society is unable to impose a heavy net tax on the large migration gains of immigrants.

### **Policy implications**

After this detailed discussion of the impact of migration, two key uncertainties remain: the impact of low-skilled immigration on the host country and the impact of high-skilled emigration on the source country. What, then, should a cautious immigration policy look like that addresses these uncertainties?

#### *Universal migration restrictions*

The traditional approach has been to try to impose universal legal restrictions to reduce the migration inflow. However, such restrictions are much more effective at reducing the inflow of high-skilled immigrants than that of low-skilled immigrants. High-skilled migrants will be more readily diverted to other countries that welcome them with open arms. By contrast, low-skilled migrants typically have less choice, and irregular employment for low-skilled workers is more easily arranged. Thus, universal migration restrictions bias the influx of immigrants towards low-skilled and irregular migration. According to the impact matrix, this would tend to be unattractive for the host country.

This seems to be particularly true for the EU. Family reunification, which typically accounts

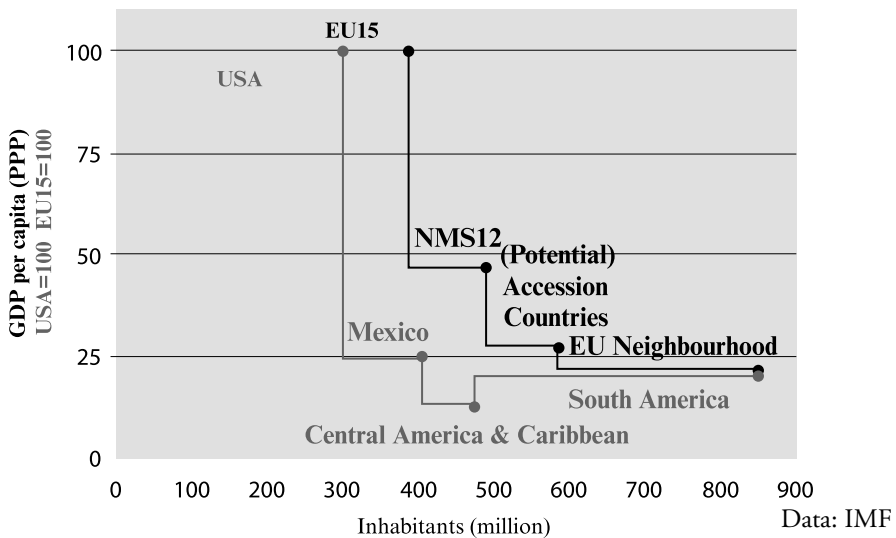
for more than 50% of total immigration, will continue to attract significant numbers of low-skilled immigrants in any case. In addition, irregular immigration flows to the EU are set to increase even more over the coming years.

The US experience with very substantial irregular (low-skill) immigration from Mexico might serve as an interesting benchmark. In 2004, there were an estimated 10.5 million Mexican immigrants residing in the US, roughly 60% of them illegally. The illegal inflow from

countries, namely Turkey and the Balkan countries, are more comparable to the US-Mexico situation. And the income differentials between the EU-15 and the EU neighbourhood countries are, on average, greater than that between the US and Mexico.

Against this background, the traditional cautious approach to immigration policy would appear to be an ill-suited response to Europe's future migration challenges. Instead, future migration policies need to focus more on adequately

**Figure 2: Income differences between the EU and the US and neighbouring countries**



Mexico may exceed 400,000 migrants per year. Geographic proximity and a GDP per capita in Mexico at roughly one quarter of the US level (compared at purchasing power parity) appear to be key drivers of that development (Figure 2).

By contrast, the average GDP per capita in the 12 new EU Member States stands at roughly one half of the average GDP per capita level in EU-15. This much smaller income difference might explain why the predicted and so far observed legal and irregular migration rate from the new Member States to the EU-15 has remained well below migration from Mexico to the US. However, the income differentials between the EU-15 and the (potential) EU accession

rewarding the host countries for accepting their inevitable share of uncertainty due to the likely and perhaps inevitable inflow of low-skilled workers.

*Skill-mixing*

When we look at the impact matrix, it is clear that the host country could benefit in one of three ways: the gains for migrants, the gains for the source countries of low-skilled migrants, or the gains from attracting high-skilled migrants to the host country.

However, as explained in the previous section, it would be difficult to tax heavily the gains of migrants. And transfers from poor source

countries to rich host countries are difficult to justify from a development perspective. Therefore, it would not be advisable to base a cautious immigration strategy on these two uncertain sources of compensation.

Instead, a cautious immigration strategy will need to rely heavily on attracting high-skilled immigrants to balance the overall skill mix of immigration. Reassuringly, the resulting mix of low-skilled and high-skilled immigration would also help to accommodate the interests of poor source countries.

Classic immigration countries like Canada, Australia and the US have demonstrated for decades that it is possible to attract highly skilled migrants to improve the skill mix of immigration. Canada and Australia in particular have very successful skill-based points systems to that effect.

But what if other countries followed suit? Would those other countries simply be competing for the same scarce international supply of skilled labour? Fortunately, the number of students in tertiary education has increased dramatically over the last 15 years. For example, the number of students in the EU neighbourhood countries and Russia has increased from 9 million to 16 million during that period. In the 10 most populous countries outside the US and Europe, the increase has been even more striking. There, the number of students has increased from 16 million to 42 million. As a result, these countries now have more students than the enlarged EU and the US combined.

### *The Role of the EU*

Now is a good time for the EU to join the global competition for talent. Member States can do so individually by introducing point systems that are tailored to their specific needs. In addition, an EU-wide 'Blue Card' (von Weizsäcker, 2006) could be introduced for those highly skilled workers who would be welcome all over the EU, granting them access to the entire EU labour market. This European version of the US

Green Card could be allocated through a points system.

This Blue Card would help to attract more highly skilled migrants to the EU than purely national schemes because of its greater value for subsequent employment. Accepting a first job in Amsterdam is more attractive if the option for the next job is the whole of the EU, not only the Netherlands.

But how would this net increase in high-skill immigration through a Blue Card system be distributed over individual Member States? Small Member States stand to benefit most since the difference in value of any national scheme compared to an EU-wide scheme would be greatest. But large Member States are also likely to benefit significantly as they would gain in attractiveness compared to key competitors like the US, Canada and Australia.

In conclusion, it seems clear that a cautious immigration policy will require decisive action to better balance the skill mix of immigration inflows. The EU Commission is currently preparing a draft directive on high-skilled immigration for September 2007. If we do not make the best use of this opportunity, we risk falling behind in the global competition for talent. Furthermore, we risk forgoing adequate compensation for the uncertainty surrounding the effects of the increased inflow of low-skilled migrants which the EU should expect to take place over the coming decades.

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