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# Openness can pay off: the economic impact of migrants

Economic theory predicts that migration can lower native employment and wages in the short term, when migrant workers are good substitutes for native workers. If migrants complement natives well, then the latter's employment and wages may increase as a result of migration.

Existing evidence from large refugee migrations and the recent influx of Syrian migrants into Middle Eastern countries shows no adverse effects of migration on native workers. In some instances, the findings show beneficial effects due to worker complementarities.

As the EU's labour force shrinks as a share of the whole population in the coming decades, pressure on public entitlements will increase and demand for low-skilled services workers will grow. Migration from outside the EU could offset increasing dependency ratios and help to meet rising demand for nurses and carers.

**Public perceptions of migration**

The subject of migration is a controversial one in the current EU policy debate. In some Member States, notably the United Kingdom, intra-EU migration – particularly from East-Central Europe – is viewed with suspicion by a large segment of the population. This is despite studies' consistently finding EU migrants to be net contributors to the UK public purse (Dustmann and Frattini, 2014; Devlin et al., 2014). In others, such as France, the public debate focuses on non-EU migrants and their integration, economic as well as social.[i] Recently, former communist Member States whose populations became very homogeneous after World War II have opposed taking in refugees from the Middle East.[ii]

While much of the opposition to migration in the EU focuses on social integration and national security, the economic contribution of migrants is often hotly debated among non-economists. This briefing examines the theory and evidence of the economic impact of refugee and economic migrants on EU labour markets. It suggests that a more open migration policy could bring substantial benefits to EU economies as they cope with demographic decline in the coming decades.

**Refugee migrants versus economic migrants**

The economic literature distinguishes between two categories of migrants: refugees, those fleeing persecution in their home countries, and economic migrants, those seeking better economic opportunities abroad. From an analytical perspective, there are important differences between the two. Refugee migrants are primarily driven by 'push' factors – e.g. persecution, violence, instability – whereas economic migrants are led by both 'push' – poverty, recession – and 'pull' – higher incomes, better job prospects – factors. Refugees lack the ability to return to their home country in the short term, whereas non-refugee migrants can move back in reaction to changing economic circumstances.

Cortes (2004) found that these differing time horizons resulted in higher levels of human capital investment, and greater wage assimilation in the host country, by refugee migrants compared to economic migrants. The economic impact of migrants thus varies depending on their status in the host country. Below we consider evidence on the effects of both refugee and economic migrations.

**The impact of migrant workers – what the theory says**

Economic theory predicts that migration will affect average wages in several ways. It may lower average wages if the supply of capital is fixed, by making the average worker less productive. Even if capital can increase in response to a labour force increase, any change in the composition of the workforce – the skills of the average worker – will also affect average wages. Note, however, that the latter would not affect the welfare of any individual worker.

In the short term, migration may also have an impact on the employment of natives in the host country. Whether migration increases unemployment will depend on the extent to which migrants and natives are substitutes or complements. In general, migrants will tend to decrease employment of natives for whom they are close substitutes, and increase it for those whose work they complement (Kerr and Kerr, 2011).

It should be noted that migrants do not only supply labour in the host country, but they also consume goods and services, and they pay taxes there. Thus they may also affect native employment in these ways.

**The impact of migrant workers – what the evidence says**

There is an extensive empirical literature regarding the impact of migrant workers on host economies. However, it is difficult to extrapolate any results because the findings may be significantly affected by local conditions, such as the flexibility of local markets, the size of the informal economy and the economic and political circumstances in the host country, among others. Moreover, migrants may themselves influence the results by reacting to changing labour demand

and average wages following their arrival (Foged and Peri, 2015). Such endogenous effects make it difficult to isolate the impact of the increase in local labour supply produced by migrants.

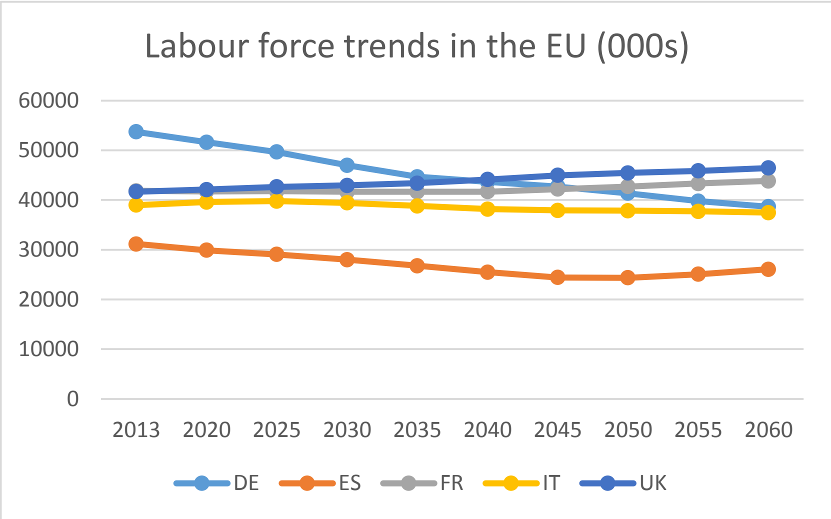
Two studies on the impact of refugees on local economies, however, manage to naturally control for these potentially confounding factors. The first once (Card, 1990) analysed the effects of a large influx of Cuban workers into the Miami labour market in the early 1980s. These migrants moved to Miami after the Cuban government allowed them to leave, rather than in reaction to changing labour demand. They thus constitute an exogenous labour supply shock to the Miami labour market. The second study (Foged and Peri, 2015) examines the impact of Yugoslav migrants into Denmark in the late 1990s. These migrants settled where their family sponsors – previous migrants from Yugoslavia – were located, rather than in response to local labour demand. Thus their effects are purely exogenous as well.

Both studies found no adverse impact on the employment and wages of natives as a result of migration. Even when the analysis was limited to low-skilled workers, for whom the migrant workers were close substitutes, no negative effects on their employment or wages were found. In the case of Yugoslav migrants in Denmark, there was even evidence of complementarity with and upgrading by native low-skilled workers, whose labour market outcomes improved (Ibid.).[iii]

Most other studies, while more liable to endogenous effects, tend to come to similar conclusions. A 2013 econometric analysis of OECD countries found no causal link between immigration inflows and unemployment (Boubtane et al., 2013). Recent work on the impact of Syrian refugees in two of the main host countries – Jordan and Lebanon – finds no adverse effects on local economies and labour markets, despite the fact that Syrians account for 20 and 25 per cent of the Jordanian and Lebanese populations, respectively. A World Bank study of Syrian refugees in Turkey, 86 per cent of whom have left temporary camps, finds no net adverse impact on wages or employment outcomes (del Carpio and Wagner, 2015).[iv]

**The EU's demographic decline and its labour market implications**

Between 2013 and 2060, the EU labour force – the population aged 15 to 64, given current retirement patterns – will enter into decline. The trends will vary substantially across Member States. Germany, Italy, Poland and Spain will see their labour forces contract in absolute terms, while France's and the UK's will grow (see Fig. 1, source: European Commission).[v] However, both the former and the latter will experience a drop in the share of their populations in work. Whilst increases in labour force participation – the share of the working-age population who are either employed or looking for employment – and increases in the statutory retirement age will offset some of this decline, they will not be sufficient to stem it fully.




Together with a reduction in those of working age, EU countries will see a growth in the share of retirees in their populations. Thus the old-age dependency ratio – people aged 65 or over relative to those aged 15 to 64 – will increase from the current EU average 27.8 per cent – four working-age people per old-age person – to 50.1 per cent – just two (European Commission, 2015).

The above has important implications for EU welfare states and for expected labour demand. Firstly, the ageing of the population implies an increase in those entitled to state pensions and a reduction in those financing them. Some Member States – Denmark and the Netherlands most prominently – have introduced reforms of varying ambition to their pension systems. However, in many other countries, governments have made promises to current and future retirees which successor generations will struggle to meet. For instance, it has been estimated that taxes in the UK would have to rise by 14 per cent of GDP in order to meet the British government's commitments in pensions and healthcare provision, given existing population trends (Bourne and Booth, 2015).

Secondly, an ageing population will increase its demand for non-tradable services such as personal carers and nurses. With the share of the EU labour force with a university education predicted to almost double by 2050 (European Commission, 2009), it is unlikely that native workforces will be able to fully meet demand for such low-skilled jobs.[vi]

**Conclusion**

In the context of ageing populations and increasing dependency ratios, a more open migration policy could bring significant economic and fiscal benefits to EU economies. Furthermore, the existing empirical evidence shows no adverse effects on the employment and wages of native workers, even low-skilled ones. While much would depend on the extent to which migrants are allowed to take up productive work and engage with the formal economy, there is reason to believe that welcoming refugees and economic migrants into Europe can be a win-win proposition.

[i] Jade Grandin de l'Eprevier, "La France peine toujours à intégrer ses immigrés sure le marché du travail," *Le Figaro*, Friday 3 July 2015.
[ii] Henry Foy and Neil Buckley, "Tensions over migration barbed rhetoric," *Financial Times*, Thursday 26th November 2015.
[iii] A recent follow-up study of the Mariel boatlift from Cuba by Borjas (2015) does finds adverse effects on the wages of Miami high-school dropouts, also close substitutes for Mariel migrants. However, he finds that their wages had fully recovered by 1990.
[iv] The negative impact found in the study was limited to part-time workers, primarily women, many of whom reacted by returning to school.
[v] Note that the European Commission's estimates already incorporate significant migration inflows into the EU between 2013 and 2060.
[vi] The alternative would be to replace many of the tasks currently undertaken by human carers with machines, as is being attempted in Japan. However, to most people machines are far from perfect substitutes for human nurses.

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