The macroeconomic impact of migration.

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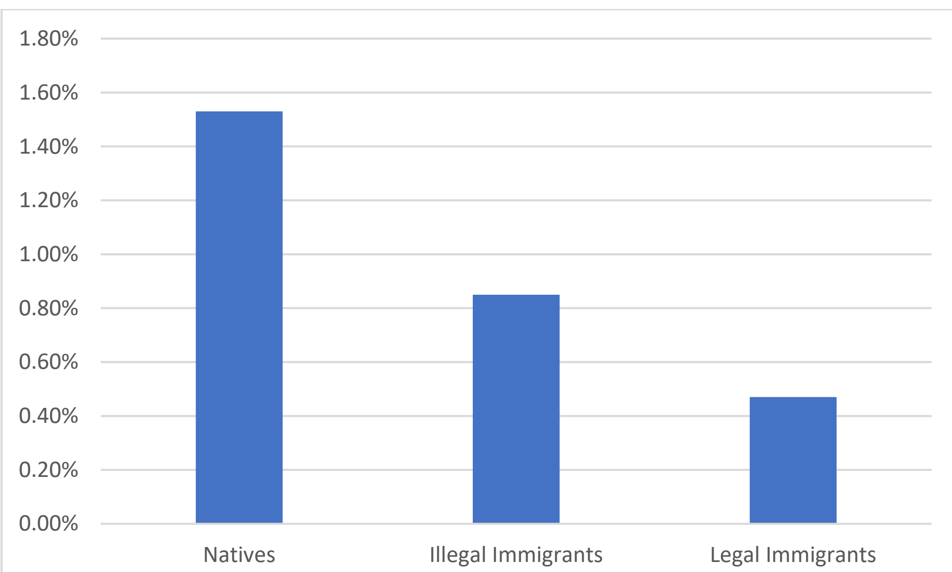
Immigration is one of the most important global political issues. Most economists agree that international migration is beneficial to host countries. We usually favor borders that would be much more open than they are today, especially in rich countries. But benefits do not come without costs, of course. Regardless of the long (and short) run benefits from an increase in labor supply, there are adjustment costs that makes any immigration policy reform difficult.

To understand the short and long run effects of the movement of people around the globe, we first need to divide the consequences in the home (net-receiving) and foreign (net-sending) countries. First, it is important to note that migrants are a self-selected group. They are usually younger, less risk averse and more willing to work than both the net-sending and net-receiving locations. Economic migrants increase the labor supply of net-receiving countries. Diversity also brings more productivity.

But self-selection does not change a fundamental truth of economics: there are always costs and benefits. Adjustments costs relate to welfare spending on migrants until they become net contributors (usually, 7 years). Other deleterious effects may happen, such as decrease in social trust and increase in the crime rate. That does not necessarily have to happen, of course. In the case of the United States, recent research shows the lack of a direct connection between immigration and increases in crime (Bernat, 2017). In fact, for the country: "illegal immigrants are 44 percent less likely to be incarcerated than natives. Legal immigrants are 69 percent less likely to be incarcerated than natives. Legal and illegal immigrants are underrepresented in the incarcerated population while natives are overrepresented" (Landgrave and Nowrasteh, 2017). Figure 1 shows that the incarceration rate of natives is almost double that of immigrants.

Figure 1 – Incarceration rates by immigrant status, ages 18-54



Source: Landgrave and Nowrasteh, 2017.

The size of long run effects (benefits and costs) depends on many factors, such as the number of migrants, their age, years of education, productivity, etc. The quicker immigrates integrate, the sooner they bring benefits to the host countries. Usually, there is a political backlash against waves of immigrants and refugees regardless of economic benefits. Tabellini (2018) shows that political opposition to immigration can arise even when immigrants bring significant economic prosperity to host countries. He provides evidence that political backlash increases as the cultural distance between immigrants and natives grows, and even if diversity is economically beneficial, it is politically hard to manage.

For the US, there is overwhelming evidence that immigrants give a slight boost to the average wages of Americans by increasing their productivity, even for the cohort of similar native workers. In other workers, the productivity benefit is higher than the cost (for native workers) of labor market competition (US Chamber of Commerce, 2016). For the UK, Dustmann and Frattini (2014) show that, overall, immigrants are net positive fiscal contributors. This means that immigrants, by and large, contribute to the economic wellbeing of natives. They write: "our findings indicate that, when considering the resident immigrant population in each year from 1995 to 2011, immigrants from the European Economic Area (EEA) have made a positive fiscal contribution, even during periods when the UK was running budget deficits, while Non-EEA immigrants, not dissimilar to natives, have made a negative contribution. For immigrants that arrived since 2000, contributions have been positive throughout, and particularly so for immigrants from EEA countries. Notable is the strong positive contribution made by immigrants from countries that joined the EU in 2004."

Questions for discussion.

1) Using the version of the Solow model from chapter 3, what should be the long-run effects of immigrants on net-receiving countries? Do you think that the model captures all the relevant long term outcomes related to refugee waves? Explain your answer.
2) Immigrants, legal or illegal, bring to the fore one important moral issue: how much more should public authorities care about foreigners relative to the national population? Evaluate the following statement: "The less one cares about nationalism, the harder it is to argue against barring immigrants".
3) The Spanish government was facilitating the immigration of Latin Americans in 2007, even marketing Spain to willing immigrants. Ten years later, the country changed its tune, making it difficult for immigrants that want to live in Spain. Do you think that the position of Spain in the business cycle explains the change in policy by Spanish authorities? Research GDP and unemployment for Spain in the years 2007 and 2017 to form the basis of your answer. In other words, does the position of a country in the business cycle change its response to economic immigrants? Explain your reasoning.

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