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LOW-SKILLED LABOR MIGRATION: BENEFITS OUTWEIGH COSTS IN HOST ECONOMIES

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While low-skilled labor migration is not without cost, the list of benefits in host economies is long: low-skilled migrants enable natives to specialize in more highly paid jobs, reduce the cost of non-traded services, lower the cost of production, and increase firms' global competitiveness.

Migration is an important issue for many host economies, especially advanced economies. Aging populations and increasing demand for non-tradable services (e.g., health care services) in these countries are strong magnets for foreign labor. Welfare gains from easing a small fraction of the barriers to global labor mobility can be far greater than free trade of goods, and net gains for permanent residents in advanced economies could exceed $7 billion per year.

Yet, a public perception prevails in many advanced host economies that the presence of migrants, especially low-skilled migrants, causes wage stagnation and high unemployment. Dramatic events, such as the drowning of hundreds of African migrants in the Mediterranean last year, have tended to color debates, making it difficult for authorities in advanced host countries to manage labor mobility effectively.

However, careful review of the voluminous recent literature on the effects of low-skilled migration on economic growth, employment, and the government budget in advanced economies yields a different, much more nuanced picture, as outlined in the discussion below.

Small net effects on wages and unemployment

The initial net effect of low-skilled labor migration on the wages of native workers is small in the short run. For instance, a 1 percent increase in the immigrant share in the population causes a decline in wages by only 0.1 percent. Meanwhile, newcomers can negatively affect wages of existing low-skilled migrants in the host economies, as they tend to directly compete; but in the long run even these effects become positive for all workers.

Two factors explain this small wage effect. First, native and migrant low-skilled workers are often imperfect substitutes. In the U.S., for example, less-educated natives tend to have jobs in retail services and manufacturing, while migrants tend to have jobs in personal services and agriculture. Second, increased migration tends to stimulate investment and growth relatively quickly, which restores the capital-labor ratio to its prior level within a few years. As a result, native unskilled wages are unlikely to be significantly affected in the medium term even when migrants are close substitutes. The investment response is likely to be most vigorous in economies with a strong investment climate and open trade and capital regimes.

Migration can increase unemployment in rigid sectors, although to a small extent. In inflexible labor markets—for example, where collective labor bargaining predominates—migration can raise unemployment. In Germany, for instance, a 1 percent increase in the German labor force through migration increases unemployment by 0.32 percent in the short run. However, in the long run these effects dissipate as investment responds. Also, it appears in Germany that foreign workers in the 20s age group have lower risk of being unemployed than Germans, but the risk rises as they age.

Fiscal impact of low-skilled migration depends on the characteristics of migrant workers. While small in aggregate, the fiscal impact of low-skilled immigration may be significantly negative at the local or state level, which often carry more of the burden of providing public services and welfare support. The fiscal profile of migrants is generally less favorable than that of natives but may be positive or negative depending on the characteristics of migrants; younger migrants are more likely to be employed and they tend to be net fiscal contributors. Over the very long run, however, as first generation immigrants and then their offspring accumulate human capital and become more like native workers, any gap in net fiscal contribution is eased.

Benefits

Low-skilled migrants can enable natives to specialize in more highly paid jobs, since they tend to complement the functions of native workers. In the U. S., less-educated workers born in the U.S. tend to have jobs in manufacturing or mining, while immigrants tend to have jobs in personal services and agriculture; providing an explanation for why low-skilled migration has a limited impact on unemployment. Skilled natives tend to gain from low-skilled immigration, as do many types of businesses that generate jobs for which natives are not easily found, as in agriculture, janitorial, and other services.

Migrants contribute to improving firms' competitiveness, thus generating employment opportunities for natives. Low-skilled foreign workers contribute to job-creation for natives because

the newcomers reduce the cost of production and help to make firms more competitive in the global market, which in turn helps them to expand and subsequently increase demand for native workers. In Malaysia, every 1,000 new foreigners who enter a given sector in a given state create 836 new full-time jobs and 169 part-time jobs for natives.

Costs

New migrants may compete with existing migrants and contribute to increased inequality. Low-skilled migration is not without cost. They compete directly with recently arrived low-skilled immigrants, who are already among the most disadvantaged groups in the population, and who typically have less access to social safety nets and services than natives. In this way, low-skilled migration can contribute to increased inequality. In the Chicago region of the U.S., income distribution appears to deteriorate with higher migration, suggesting the welfare optimizing level of migrants is equivalent to the U.S. national average.

Offspring—the accumulation of human capital

Low-skilled immigrants and their descendants need not form a permanent underclass. In countries with a long tradition of immigration, such as the United States and Canada, the scholastic achievement of the children of migrants and their labor market outcomes are not significantly different from those of the children of natives, after controlling for socio-economic characteristics. This is not true in many European countries, however, where differences persist for generations.

Self-regulation in people mobility

With opportunity costs in place, people mobility is somewhat self-regulating. Migrants, especially temporary labor migrants, respond to economic cycles in host countries—going back home during downturns and returning to host economies during upturns. Tighter border controls would interrupt theses natural flows as migrants may fear that they would not be able to return during economic upturns. Also, increased opportunities in home countries encourage return migration. This has been observed in India, Cambodia, Vietnam, and Myanmar to some extent, to name a few. A recent survey in Spain supports this: an agriculture migrant worker would return home if she could earn €500-€800 per month (about half of what she earned in Spain). In addition, labor migrants tend to plan to go back home after achieving a certain level of savings. These suggest that open borders do not necessarily bring an inrush of people.

Policy recommendations

Migration policy in advanced countries is complex; yet it needs to begin with the understanding that advanced countries need large numbers of unskilled migrants, and that there is a considerable amount of self-regulation in migration inflows.

Migrants respond not only to the lack of prospects in their home country but also to the availability of job opportunities in host countries.

Thus, increasing the number of regular migrants and migrants' skill upgrades help further expand migrants' contribution. Expanding the number of migrants who can enter legally, and enforcing migration, safety, and social regulations for employers can lead to a reduction in undocumented migration as well as an adequate supply of low-skilled workers. The provision of training of migrant workers can not only help migrants to build career paths but also facilitate their return to home countries.

Thus, increasing the number of regular migrants and migrants' skill upgrades help further expand migrants' contribution. Expanding the number of migrants who can enter legally, and enforcing migration, safety, and social regulations for employers can lead to a reduction in undocumented migration as well as an adequate supply of low-skilled workers. The provision of training of migrant workers can not only help migrants to build career paths but also facilitate their return to home countries. These measures would also increase the likelihood of migrants becoming net contributors to the budget, moving back and forth in response to the business cycle, thereby mitigating negative effects of the cycle on native workers.

Policies to better integrate migrants and their offspring rapidly into the mainstream would boost productivity and reduce social disparities in the long run. Such measures could include equal treatment of migrants and natives (including setting equal minimum wage levels), and providing language training opportunities as well as social and cultural services.

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