Migration, Demography and Labour Mobility

Prof. Panu Poutvaara, PhD

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WELFARE GAINS FROM FREE MOBILITY

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INSIGHTS FROM ECONOMICS 1/3

- **General insight: immigration improves overall welfare, provided that migration is based on productivity differences**

- **If migration is based on differences in taxes and social transfers, it may reduce efficiency**

- **A country like Germany needs immigrants and immigration can ease the demographic burden – provided that immigrants work**
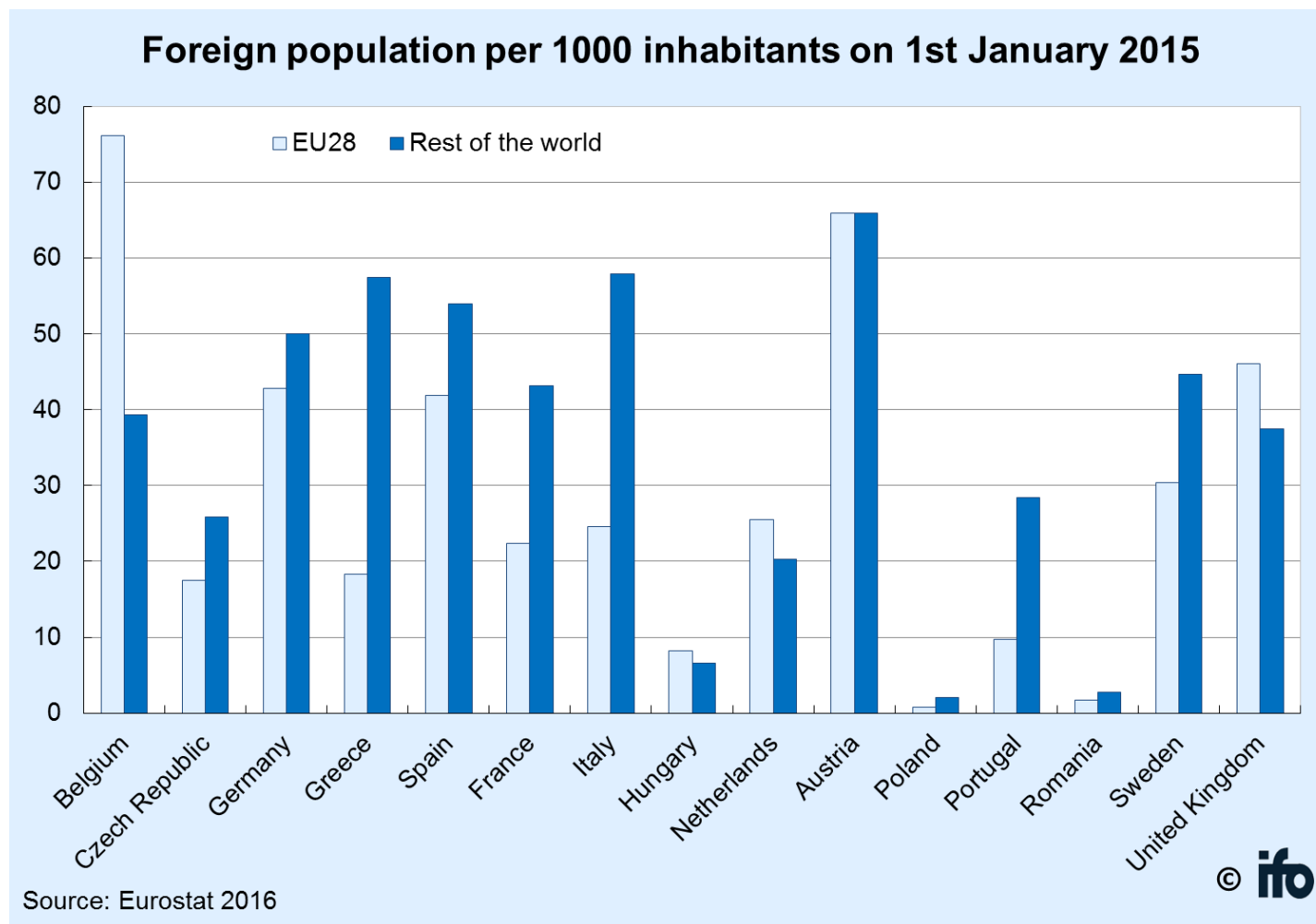
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INSIGHTS FROM ECONOMICS 2/3

- **Even migration which is based on productivity differences generates winners and losers in the labor market**

  - Winners: (1) migrants, (2) non-migrants with similar skills as migrants in the country of origin and (3) natives with different skills in the destination

  - Losers: (1) natives with similar skills as migrants in the destination and (2) those with different skills compared with migrants in the origin

- **Minimum wage & other regulations which stop wage adjustment can destroy efficiency gains**

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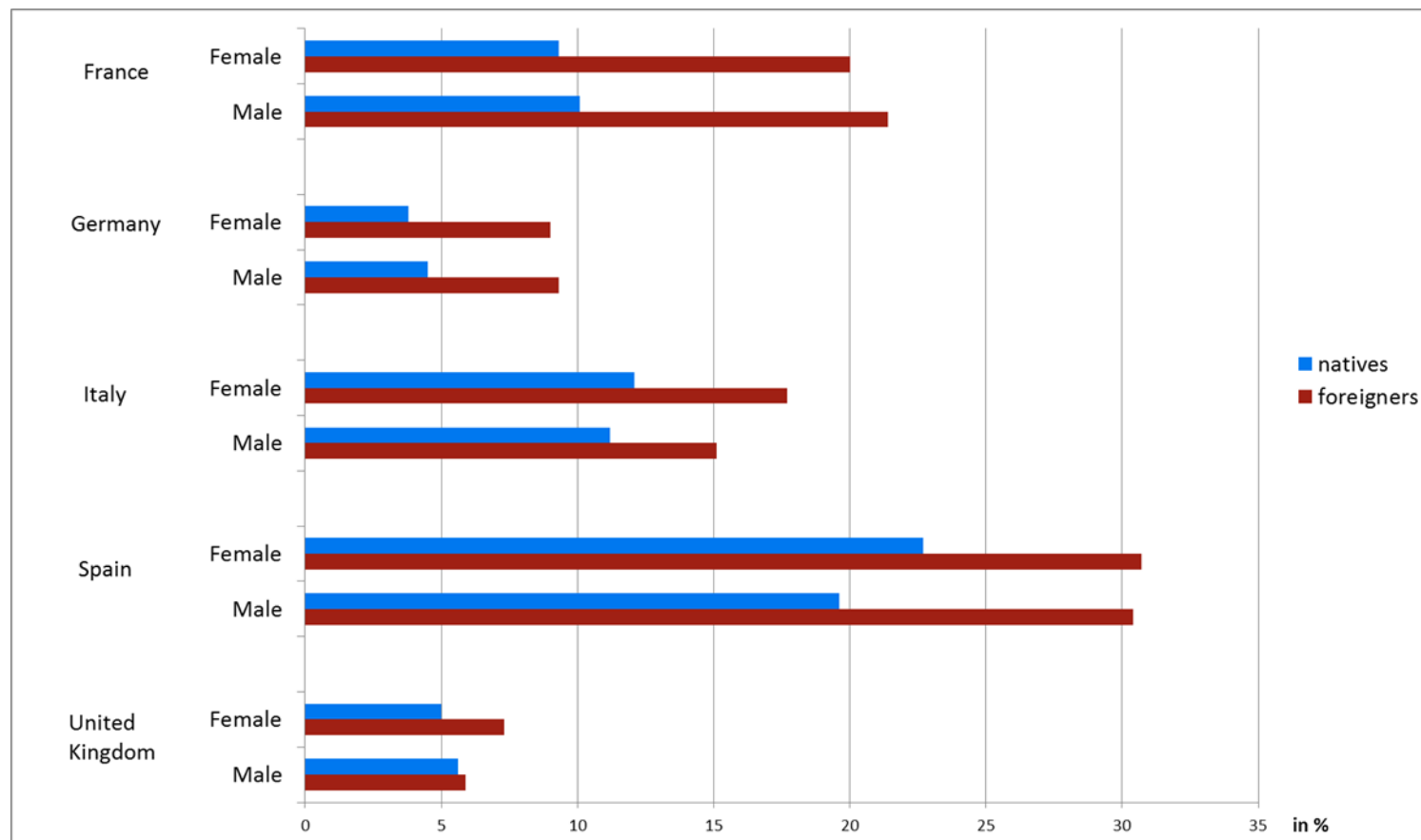an der Universität München e.V.

INSIGHTS FROM ECONOMICS 3/3

- **An important question for natives in the country of destination: Are migrants net payers or net recipients from income redistribution & funding of public goods and services?**

  – **If migrants pay more in taxes than they receive in taxes and transfers, natives gain**

  – **If migrants pay less in taxes than they receive in taxes and transfers, natives lose in terms of public finances**

- **Harder to measure gains from entrepreneurship and innovations ("Steve Jobs – a son of Syrian migrant")**

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Immigration in the EU

Foreign population per 1000 inhabitants on 1st January 2015

Source: Eurostat 2016

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Unemployment rates in selected EU Member States 2015 by sex and citizenship, age 15-64

Source: Eurostat (2016)

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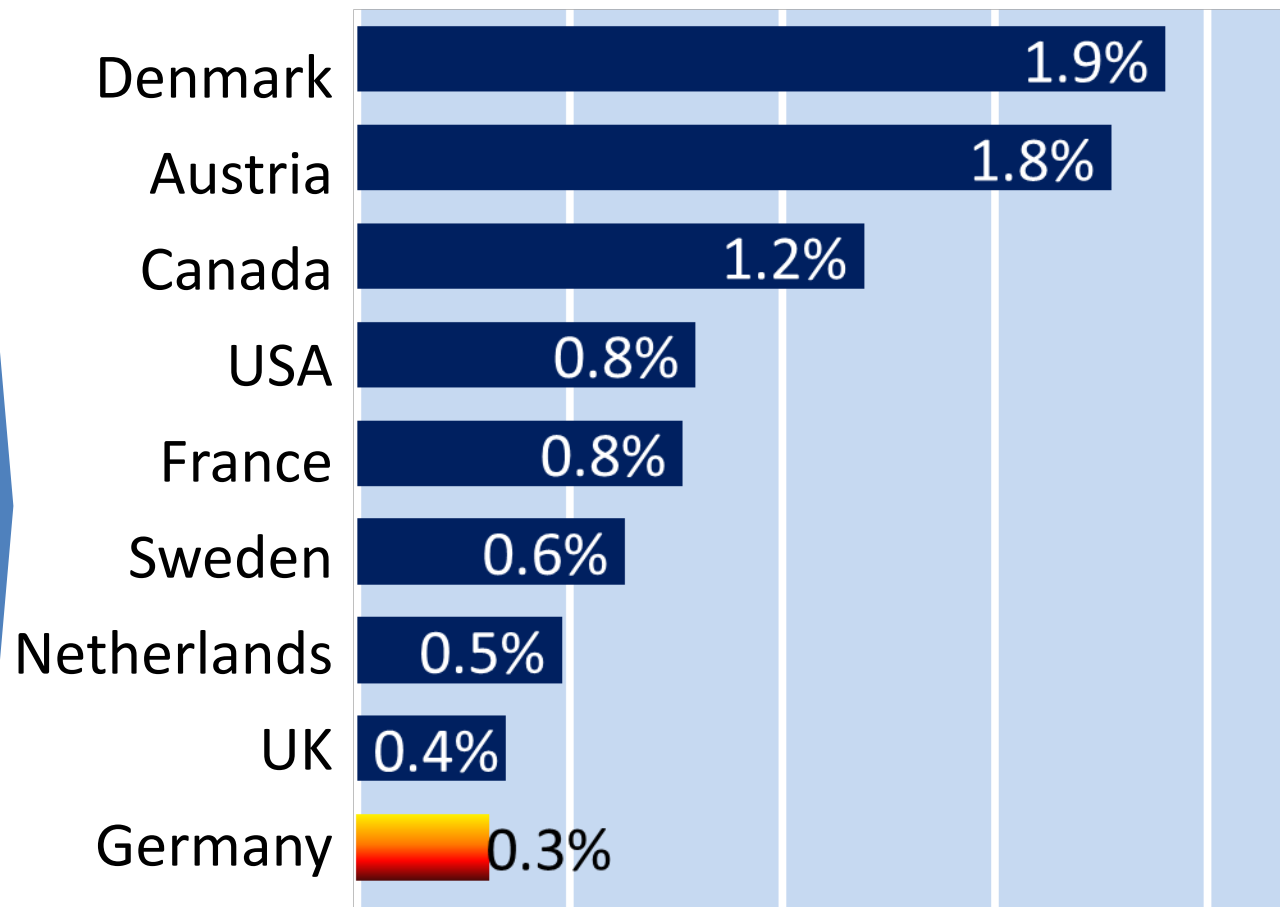an der Universität München e.V.

OVERALL ASSESSMENT OF IMMIGRATION

- Battisti, Felbermayr, Peri, & Poutvaara (2014): "Immigration, Search, and Redistribution: A Quantitative Assessment of Native Welfare", NBER Working Paper No. 20131.

- Takes into account both labor market effects in the presence of search unemployment and redistribution (unemployment benefits and other public expenditures)

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Ifo migration model

Integrated approach

- Immigration surplus

- **Labor market imperfections**
  -Unemployment
  -Wage bargaining

- **Welfare state:**
  - Redistribution through transfers and public goods
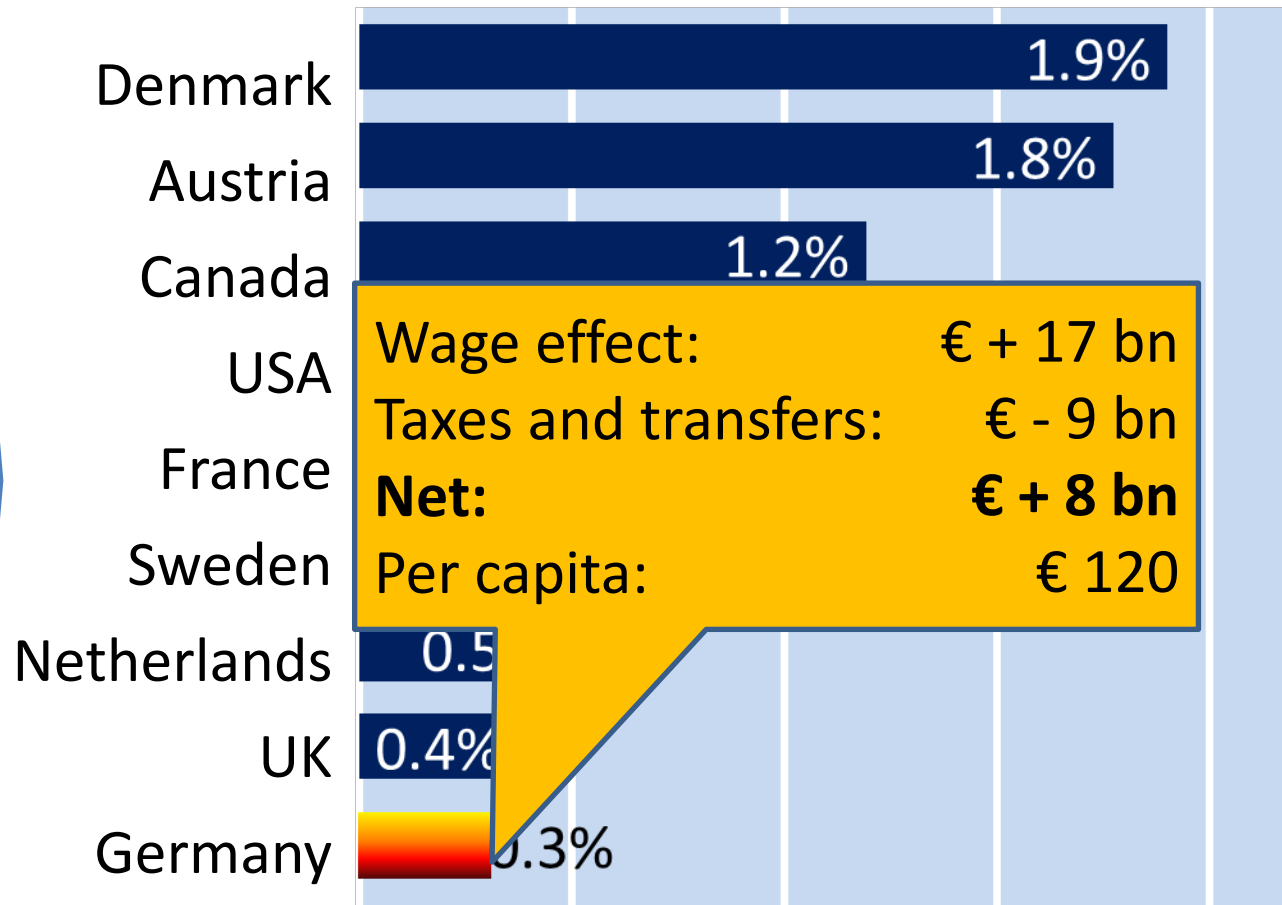
Native income, status quo vs. autarky, 2012

Country	Value
Denmark	1.9%
Austria	1.8%
Canada	1.2%
USA	0.8%
France	0.8%
Sweden	0.6%
Netherlands	0.5%
UK	0.4%
Germany	0.3%

Source: Battisti, Felbermayr, Peri and Poutvaara, 2014.

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Ifo migration model

Integrated approach

- Immigration surplus

- **Labor market imperfections**
  -Unemployment
  -Wage bargaining

- **Welfare state:** redistribution through transfers and public goods

Native income, status quo vs. autarky, 2012

Denmark	1.9%
Austria	1.8%
Canada	1.2%
USA	
France	
Sweden	
Netherlands	0.5
UK	0.4%
Germany	0.3%

Wage effect:	€ + 17 bn
Taxes and transfers:	€ - 9 bn
Net:	**€ + 8 bn**
Per capita:	€ 120

Source: Battisti, Felbermayr, Peri and Poutvaara, 2014.

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What factors favor aggregate gains ?

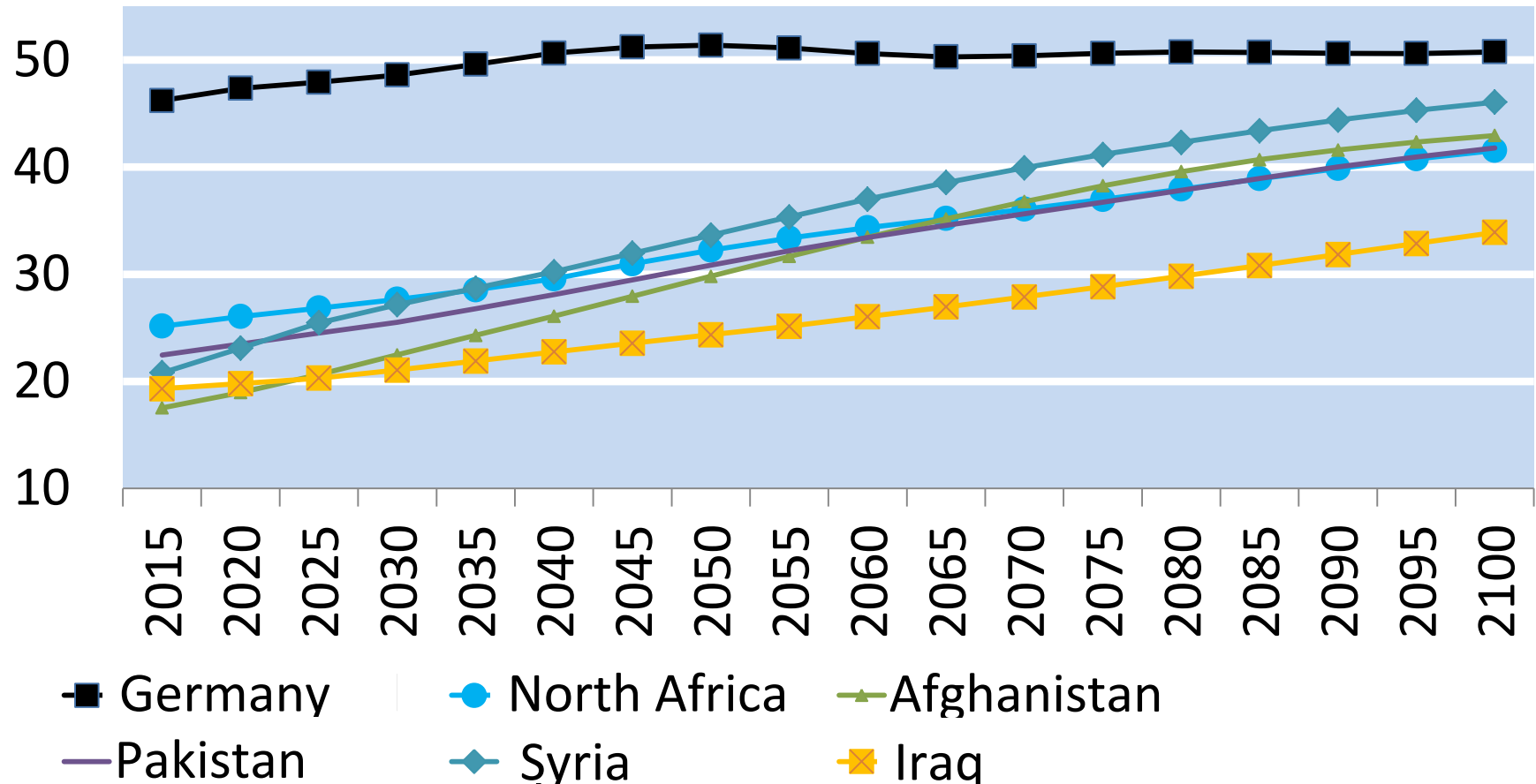| Requirements	Germany	∅ OECD
• Share of high-skilled immigrants relative to natives: **HIGH**	0.7	1.0
• Unemployment rate of low-skilled immigrants relative to natives: **LOW**	1.8	1.6
• Government spending as a share of GDP:* **LOW**	46%	45%
• Labor force share of immigrants:** **MEDIUM**	15%	17%

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PUSH AND PULL FACTORS

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Youth bulge

UN forecasts, median age in years, some migration included

Germany · **North Africa** · **Afghanistan**
Pakistan · **Syria** · **Iraq**

Source: UN World Population Prospects, Medium Variant, Oct. 2015

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Demographic divergence

UN forecasts, million persons, some migration included

North Africa

Middle East

Afghanistan and Pakistan

Germany

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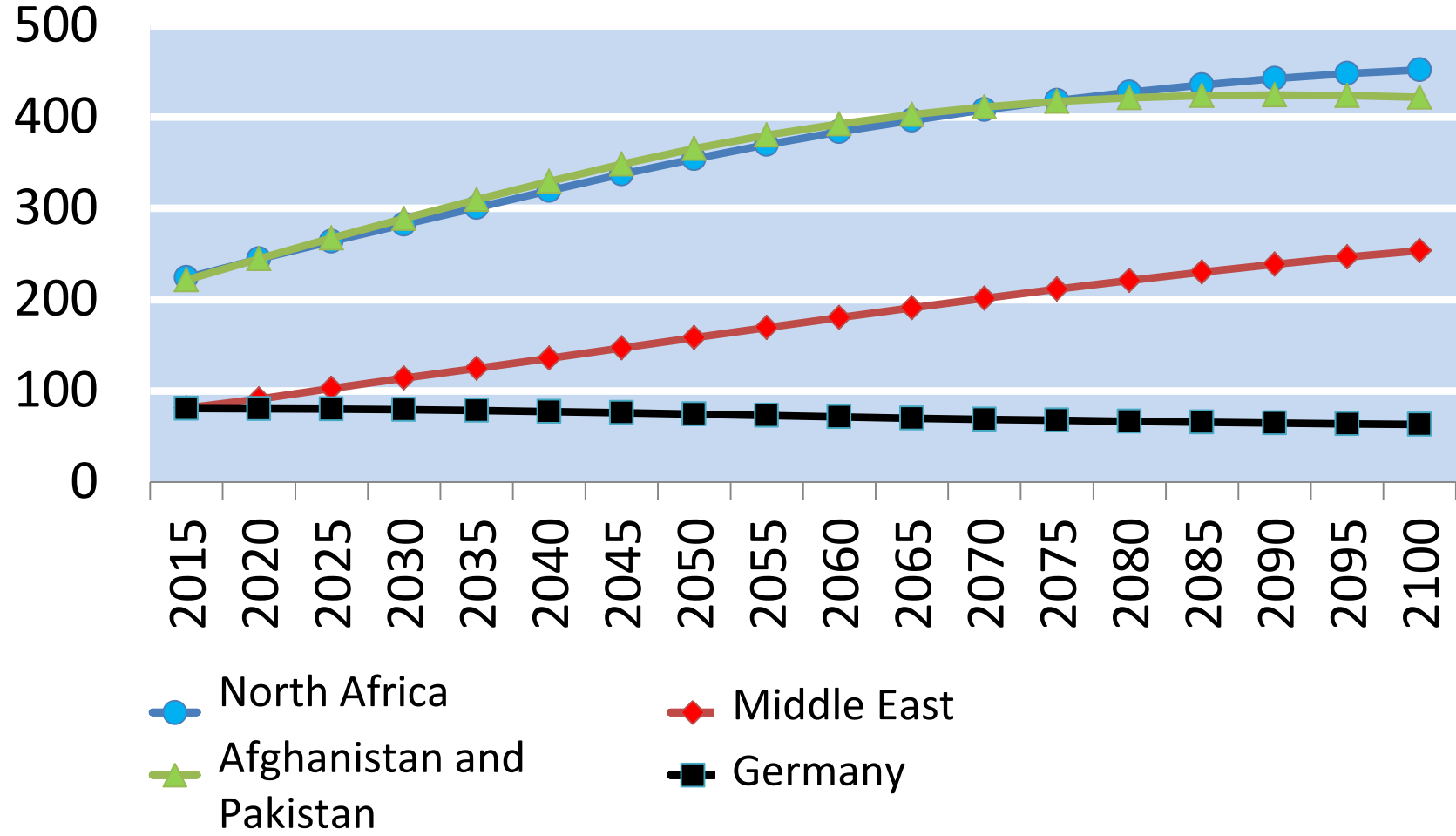
Development gaps

Per capita incomes in PPPs (USD, 2005 prices), Germany = 100%, 2014

Chart showing per capita incomes as percentage of Germany (= 100%):
- Germany: **35 000 USD** (100%)
- Serbia: 28%
- Bosnia&H.: 22%
- Albania: 21%
- Egypt: 17%
- Syria: 14%
- Iraq: 13%
- Nigeria: 9%
- Pakistan: 8%
- Ethiopia: 3%
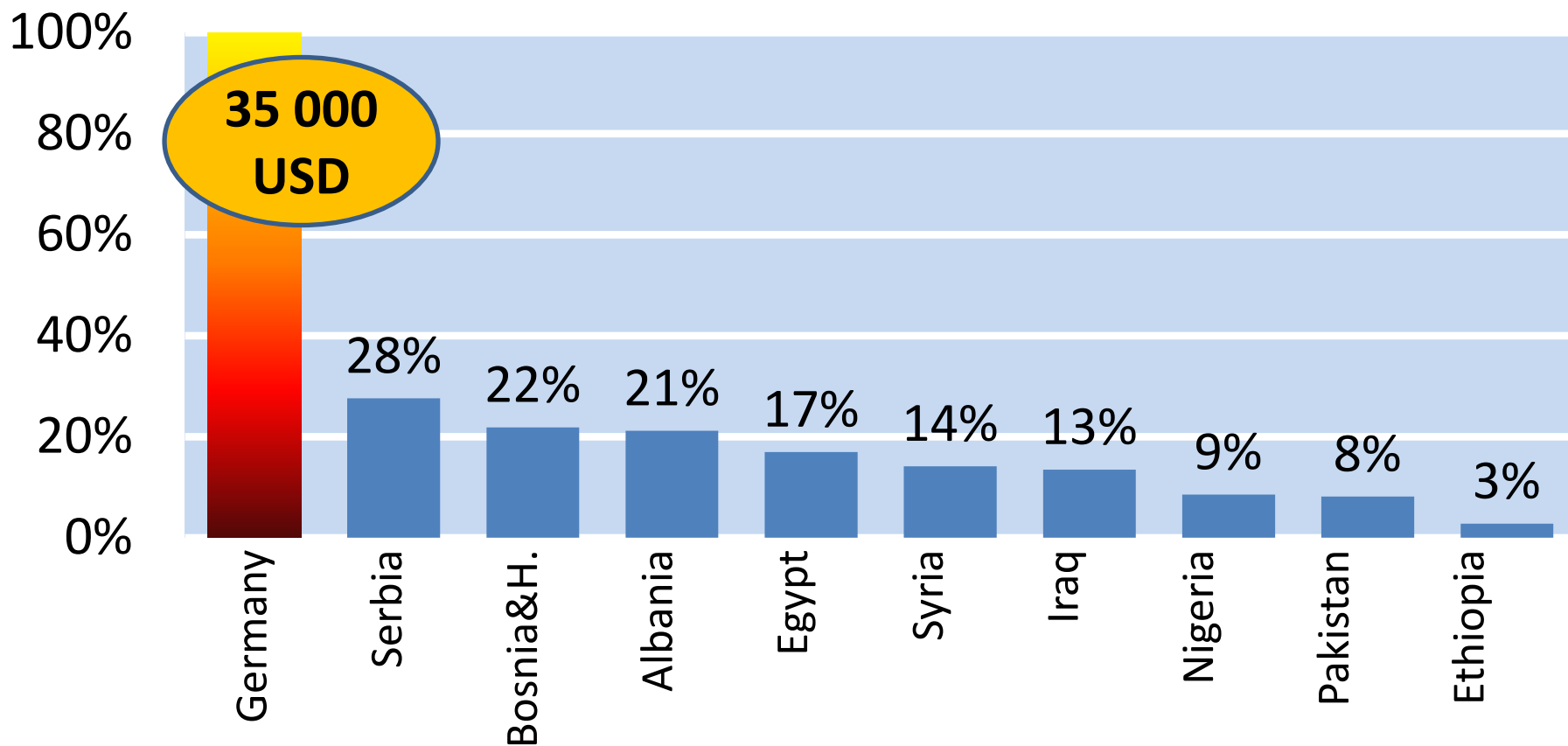
Source: Penn World Tables 8.1.
Expenditure-side real GDP at current PPPs (in mil. 2005US$).

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Conflicts and climate change

- Since March 2011, over a quarter of a million people have been killed in Syria. As of 2016, there are 4.8 million Syrian refugees, and 6.5 million are internally displaced

- Religious conflicts also in other countries

- Climate change a huge global threat; may leash migration flows that are much bigger than anything seen so far

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SELF-SELECTION OF MIGRANTS

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Roy-Borjas model

- Borjas, G.J. (1987). Self-Selection and the Earnings of Immigrants. American Economic Review 77: 531-553.

- Theoretical result on the conditional expectations of earnings distributions among migrants and stayers (average earnings)

- Results tested by comparing immigrants from different countries in the US

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What drives selection ?

- **Policy**: Canada, Australia, …

- **Relative scarcity**: distribution of gross wages

- **Welfare state**: distribution of net incomes

  - Individuals with high earnings potential: prefer low redistribution (low taxes, low transfers)
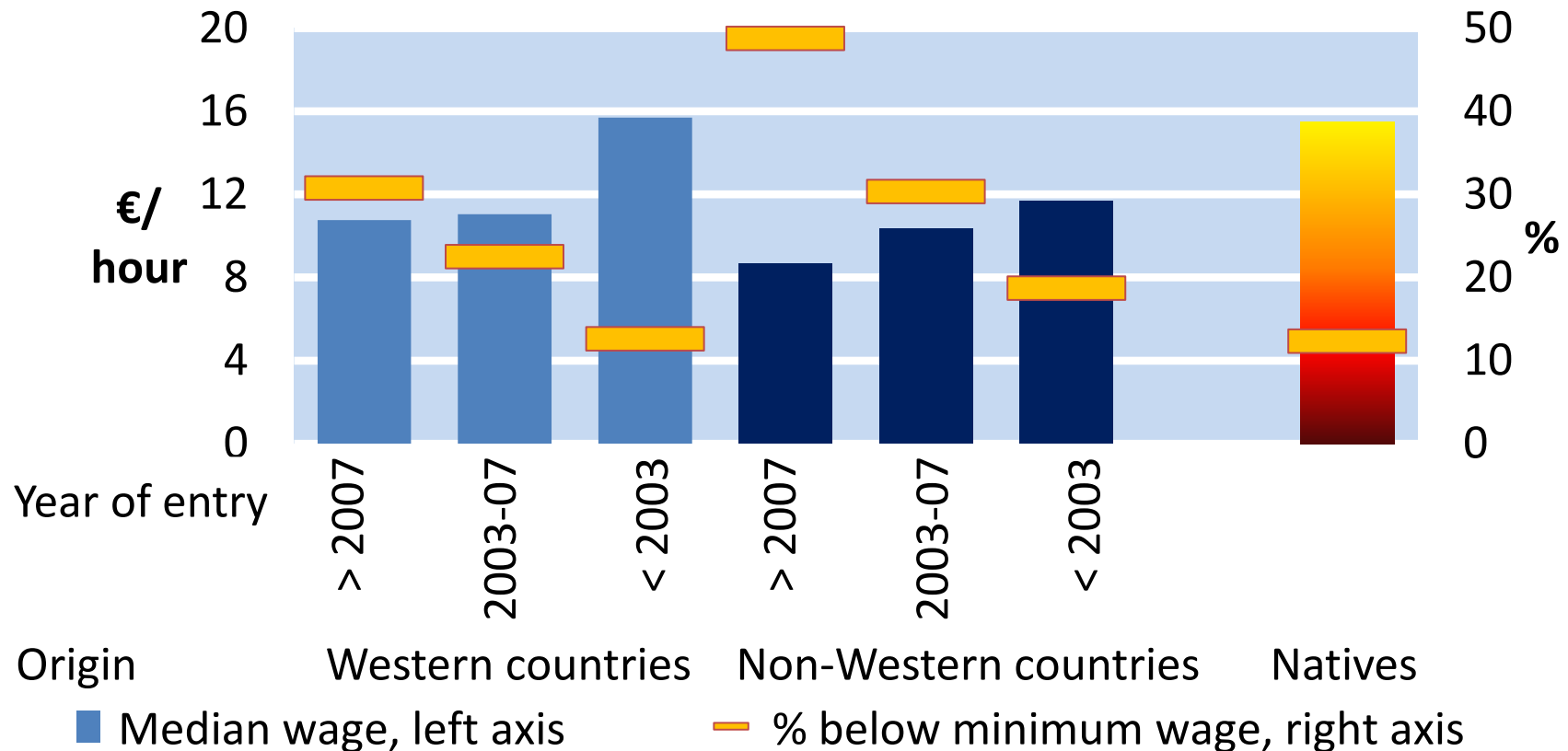
  - Opposite for low earnings potentials

  ➢ **A problem for host countries with generous welfare states and regional / global efficiency**

GER

Source

US

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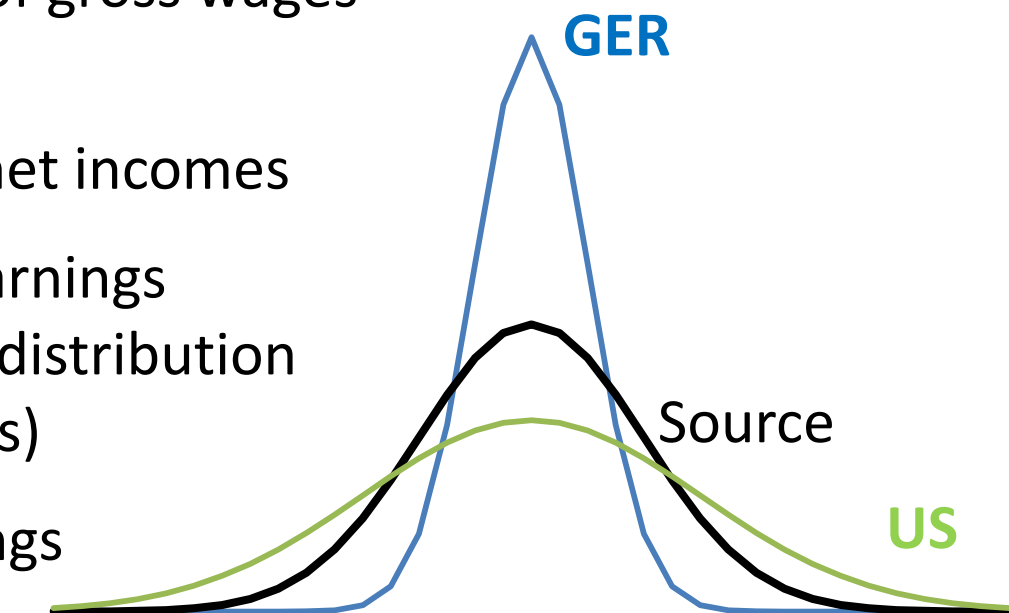
Immigrants to EU negatively selected

Germany, 2013, gross wages

Source: Battisti et al., 2015. Data from SOEP.

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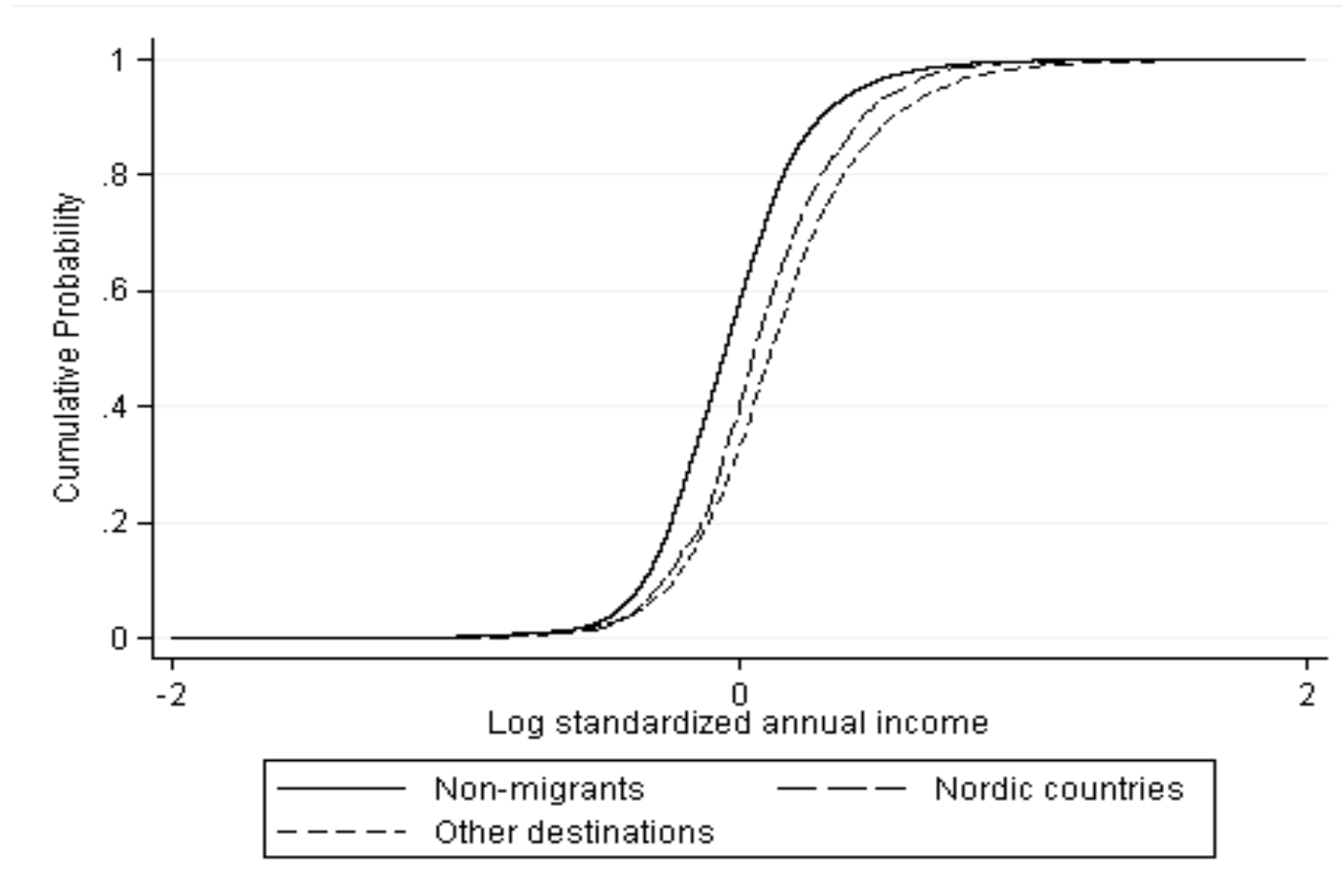Leibniz-Institut für Wirtschaftsforschung
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New result on self-selection: theory

- Borjas, Kauppinen, Poutvaara (2015): Self-Selection of Emigrants: Theory and Evidence on Stochastic Dominance in Observable and Unobservable Characteristics. NBER WP 21649.

- The conditions shown to result in positive or negative selection in terms of expected earnings also imply a **stochastic dominance relationship** between the earnings distributions of migrants and non-migrants
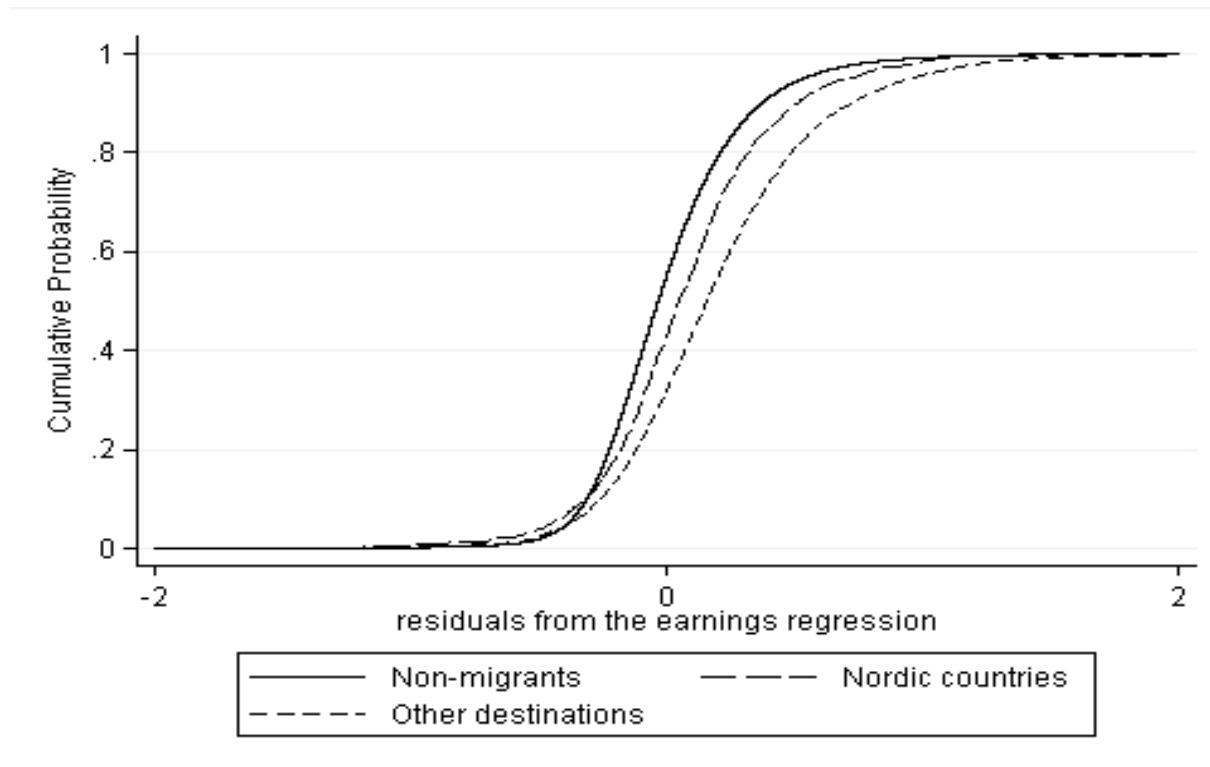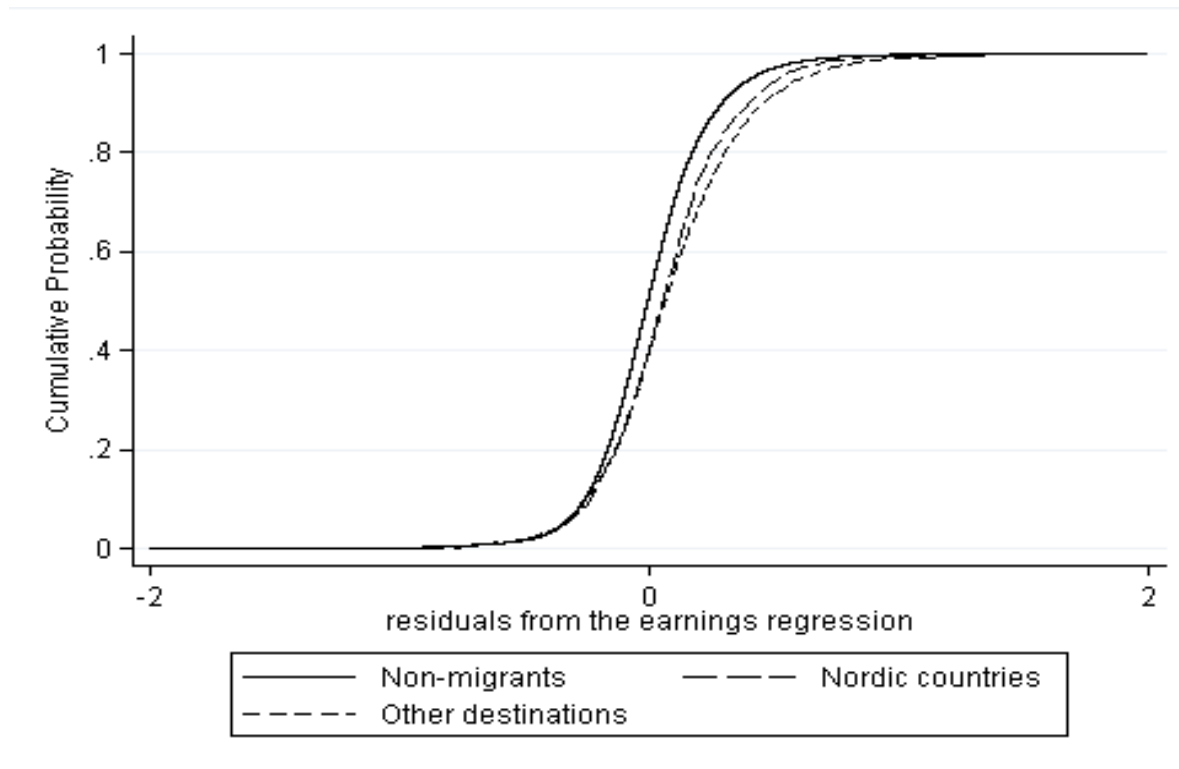
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Evidence from Denmark: men
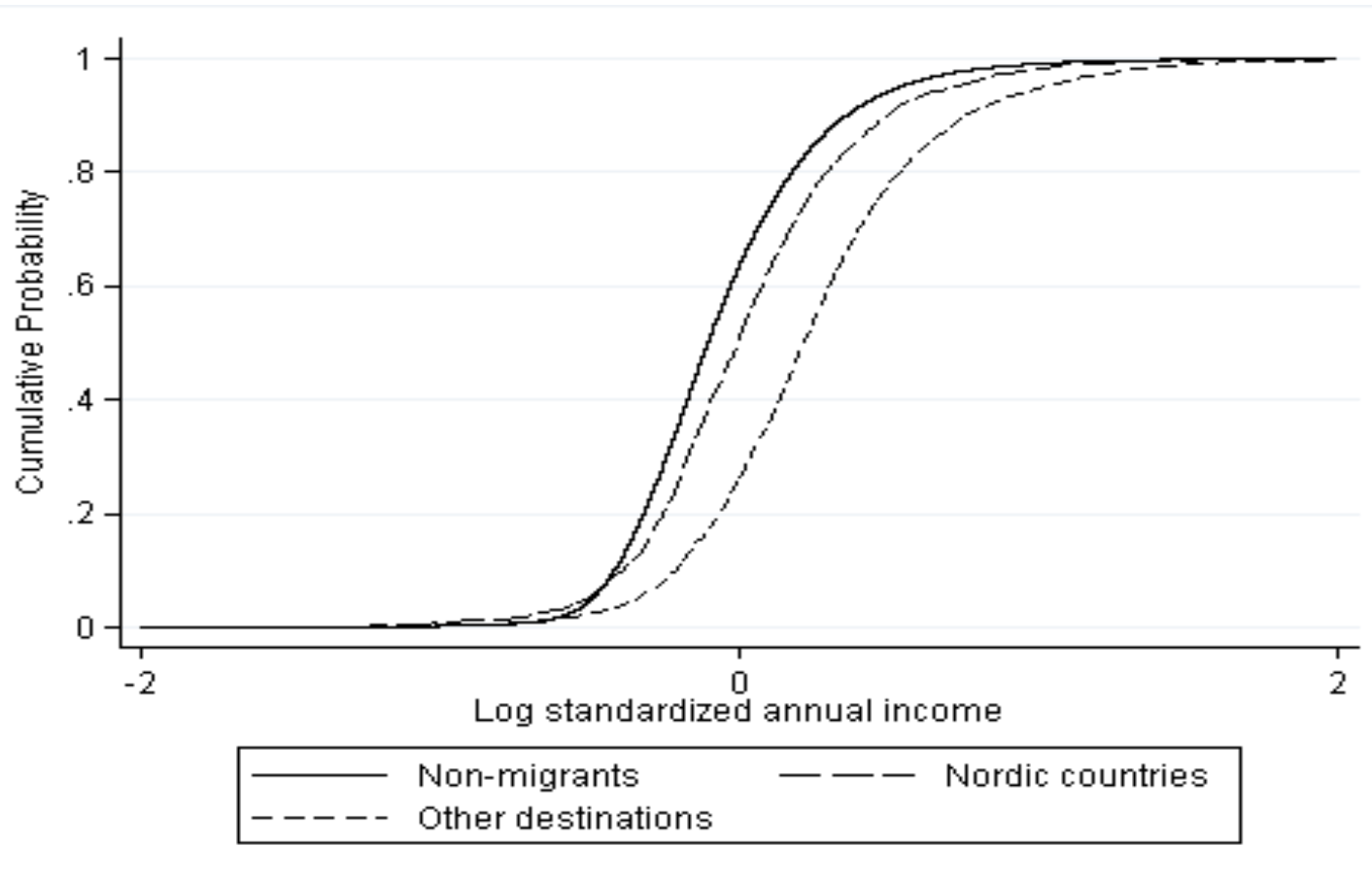
Evidence from Denmark: Women

Selection in residuals: men

Selection in residuals: women

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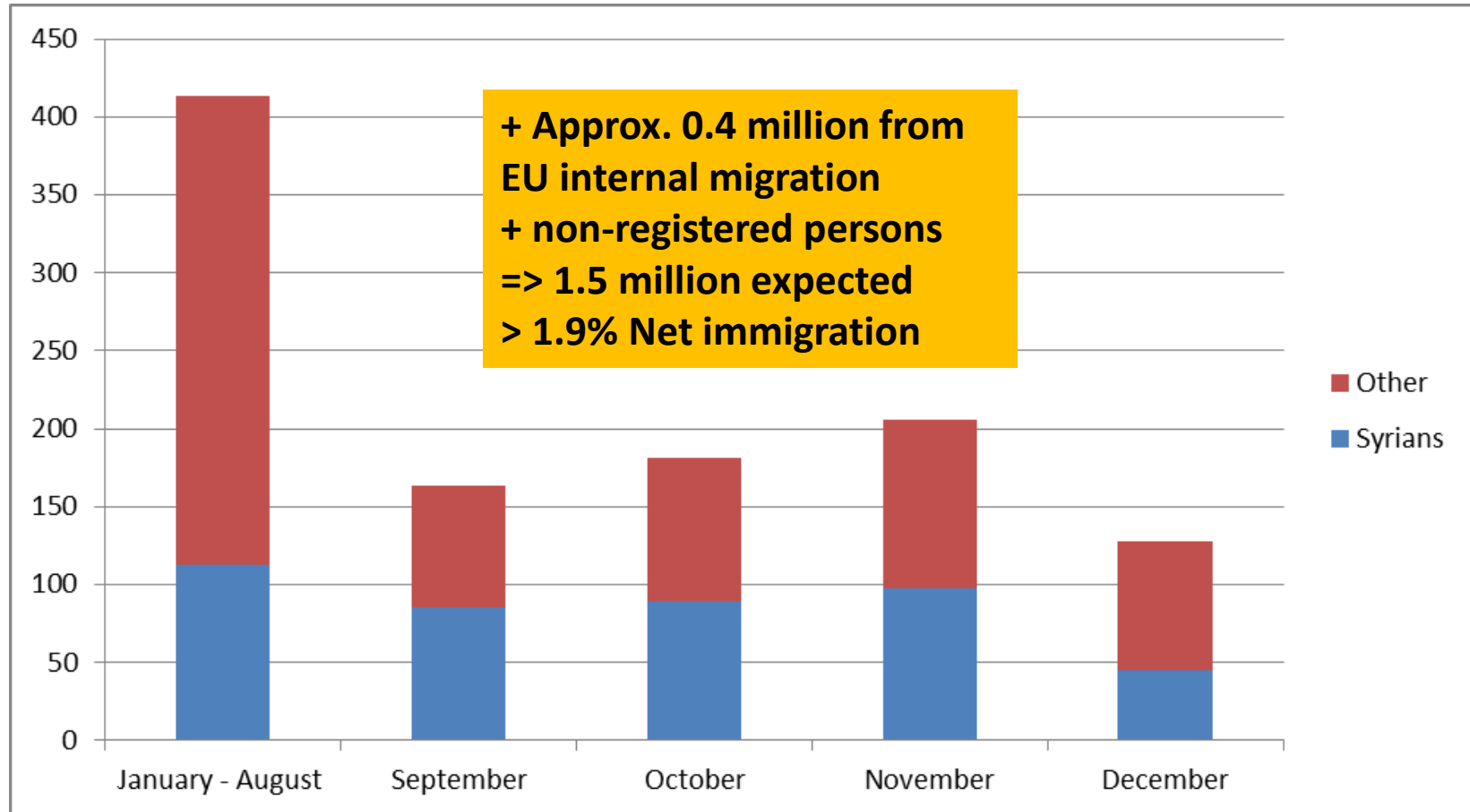an der Universität München e.V.

Strong positive selection in observables and unobservables

- Emigrants from Denmark earn more, are better educated and have higher unobserved abilities than non-migrants

- A challenge to financing welfare states

- Results can be expected to hold also for other EU countries; emigrants typically much better educated also in other countries

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2015: DRAMATIC SITUATION

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REGISTERED ASYLUM-SEEKERS

Numbers in 2015, in thousand

+ Approx. 0.4 million from EU internal migration
+ non-registered persons
=> 1.5 million expected
> 1.9% Net immigration

Legend: ■ Other ■ Syrians

X-axis: January - August, September, October, November, December

Source: BAMF (EASY Data).

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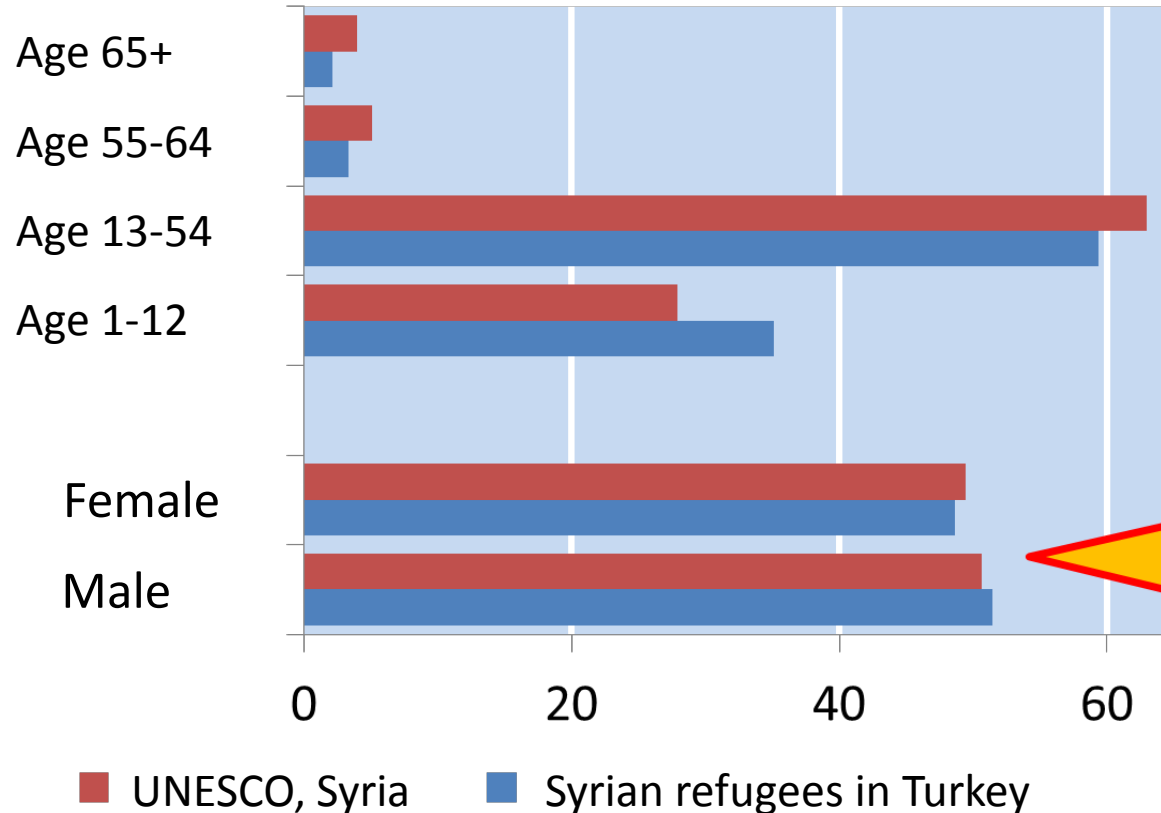an der Universität München e.V.

Historical comparison

- Immigration to the United States peaked in 1907, with immigration rate of 1.5%

- 1910, 15.5% of American population born abroad

- In January 2014, 12,1% of German population born abroad

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WHAT DO WE KNOW ABOUT ASYLUM SEEKERS?

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VERY YOUNG…

… AND RELATIVELY UNTRAINED

Share, %

University diploma

High School

Secondary School

Primary school

No completed schooling

Analphabet

0   10   20   30

60%: Less than 8 years of schooling

■ UNESCO, Syria   ■ Syrian refugees in Turkey
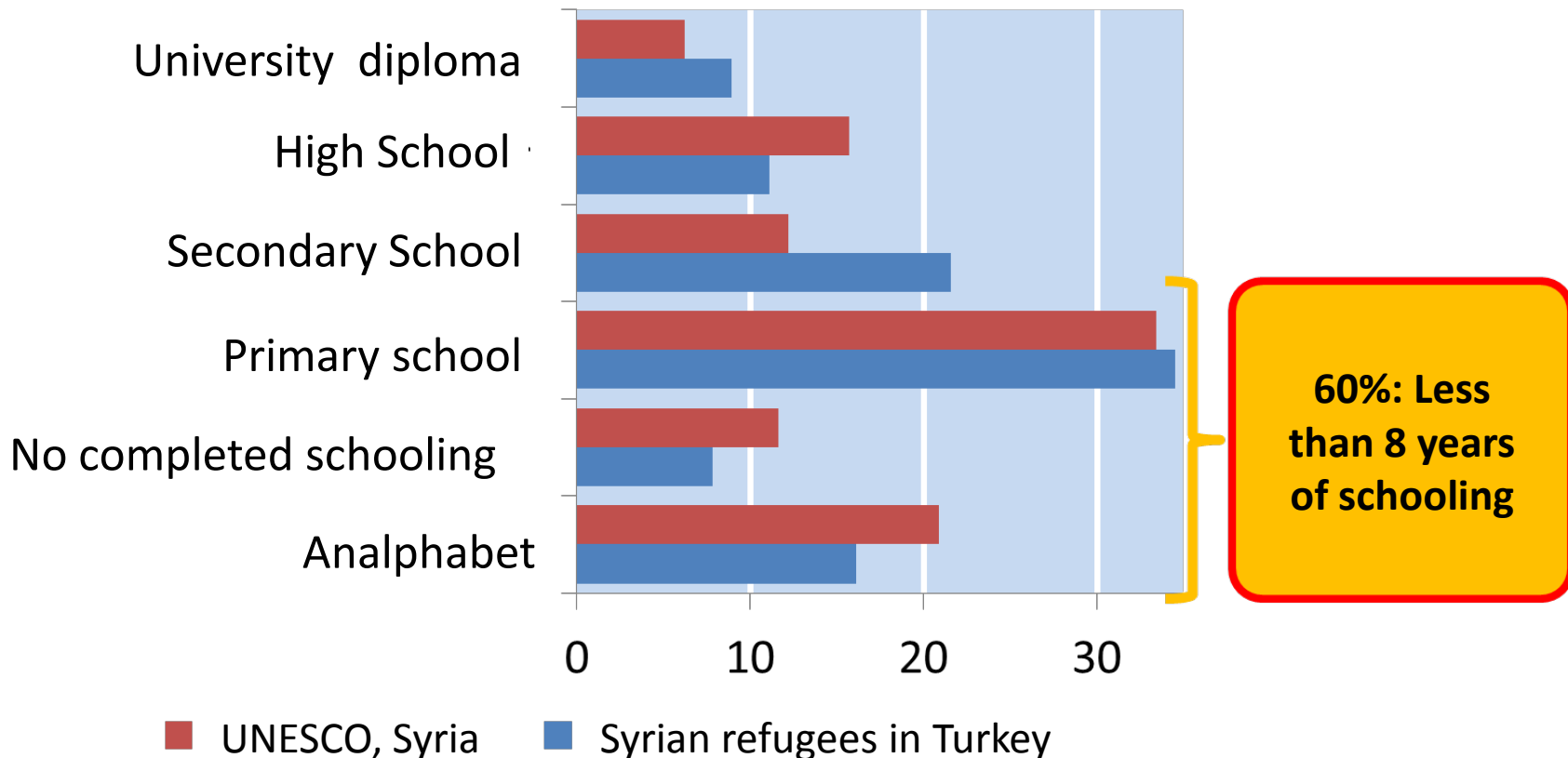
Source: Battisti and Felbermayr, 2015.

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THE EDUCATION SYSTEMS IN THE ORIGIN COUNTRIES PERFORM POORLY
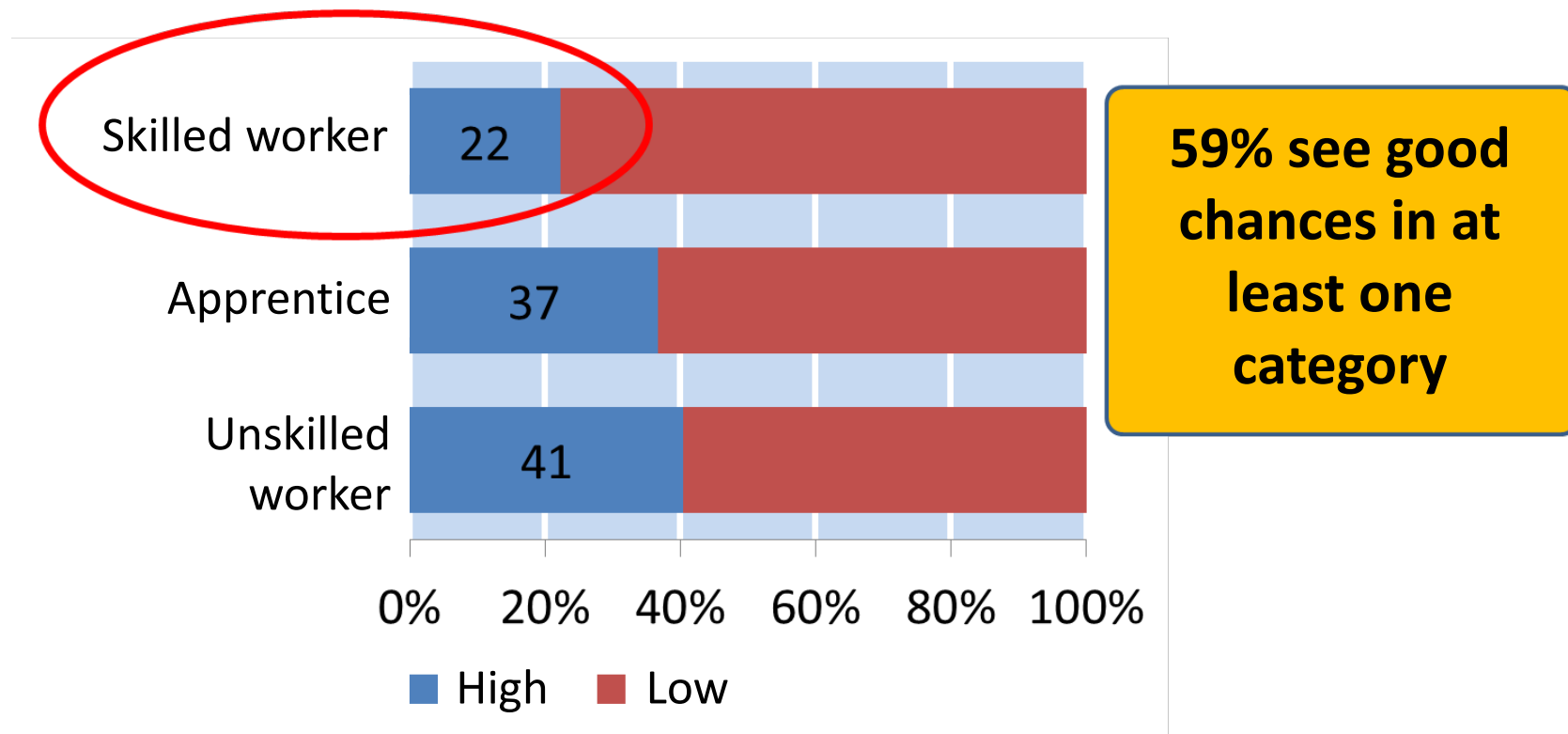
% of 8-graders without basic knowledge (PISA Level 1)*
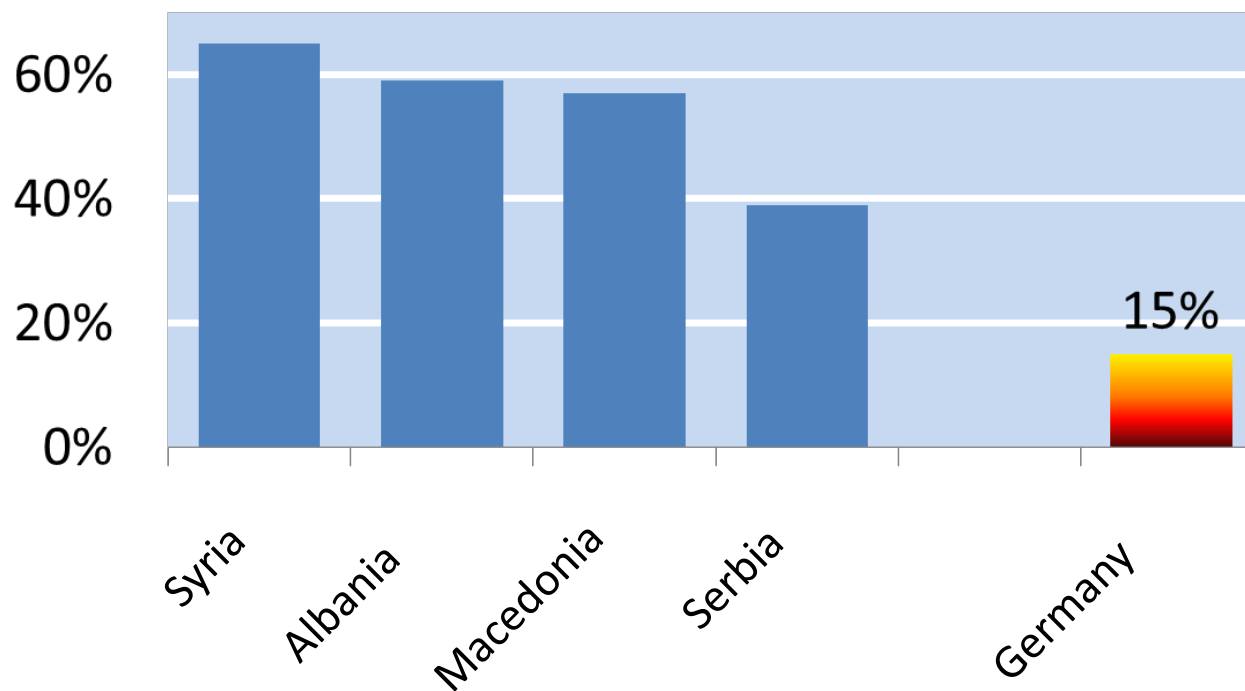
Source: Hanushek and Wössmann, 2015.

*Impediment to participate in the social and professional life through deficient education

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Ifo COMPANY SURVEY

How high is the potential to hire refugees as…
% of companies, that indicated "high"

59% see good chances in at least one category

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Ifo COMPANY SURVEY

How strongly does the minimum wage hamper hiring possibilities?
% of companies, that indicated „high"
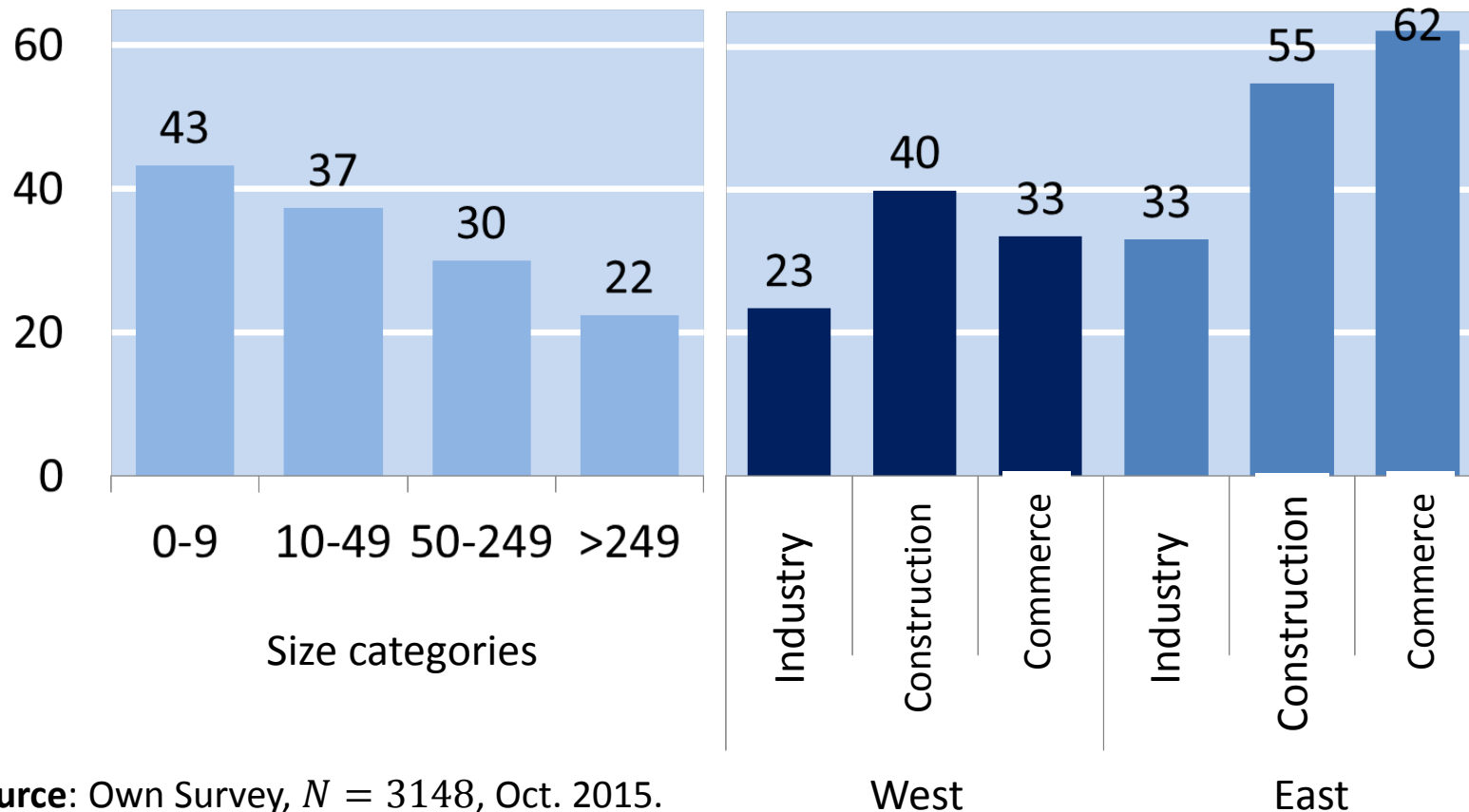
Source: Own Survey, $N = 3148$, Oct. 2015.

West   East

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ATTITUDES TOWARDS IMMIGRATION

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Immigration fears and BREXIT

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Who is against immigration?

- Studies highlight that attitudes on immigration are shaped through

o labor market interests (e.g. Ortega and Polavieja 2012)

o the welfare state channel (e.g. Facchini and Mayda 2009)

o concerns about negative effects of immigration on local amenities and perceived threats to existing culture (e.g. Card et al. 2012)

o Education: those with less educated are more negative

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Bitterness in Life and Attitudes towards Immigration

• Poutvaara and Steinhardt, SOEP Paper 800, 2015

• How personal bitterness matters for the formation of attitudes on immigration?

• Focus on the German case which is characterized

　　o by substantial immigration in recent years

　　o by the availability of longitudinal information on bitterness in the SOEP

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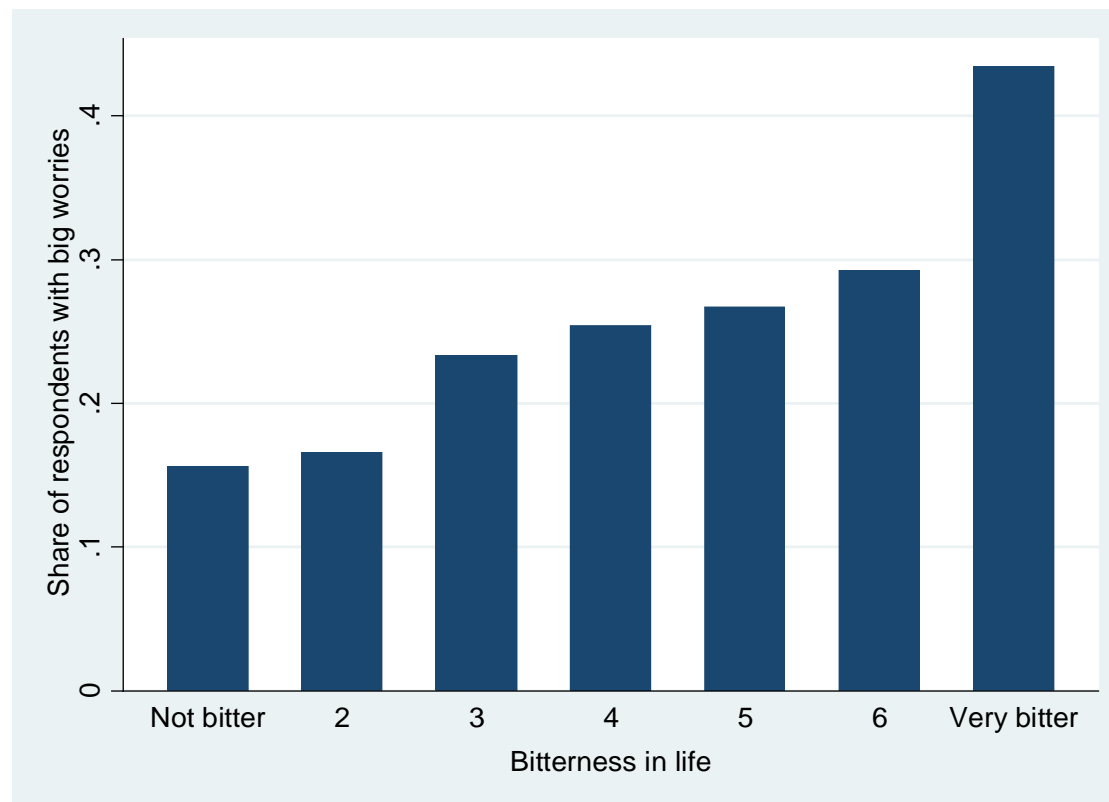an der Universität München e.V.

Data

- We use data from the German Socio-Economic Panel (SOEP)

- Representative micro data set on persons, families and households in Germany

- We restricted our analysis to natives aged at least 18 and at most 65.

- Question on immigration:

o "How is it with the following topic – immigration to Germany – do you have worries about it?"

- The possible answers are:

o "Big worries", "some worries", or "no worries".

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How do we define bitterness?

- Bitterness is a complex emotion, comprising a sense of having been let down and a feeling of being a loser, a desire to fight back and, at the same time, feeling helpless.

- Psychologists interpret bitterness (embitterment) as a mixture of anger and hopelessness, arising from feeling unjustly treated by other people or fate.

- Information on bitterness is based on the question (2005, 2010):

  o **"Compared to other people, I have not achieved what I deserve."**

- Answers are on a 7-point scale, 1 being the lowest value, and 7 denoting total agreement with the statement.

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Relationship between bitterness and having big worries about immigration

Distribution of changes in bitterness between 2005 and 2010

for persons who were in the SOEP data in both years. n=8,291.
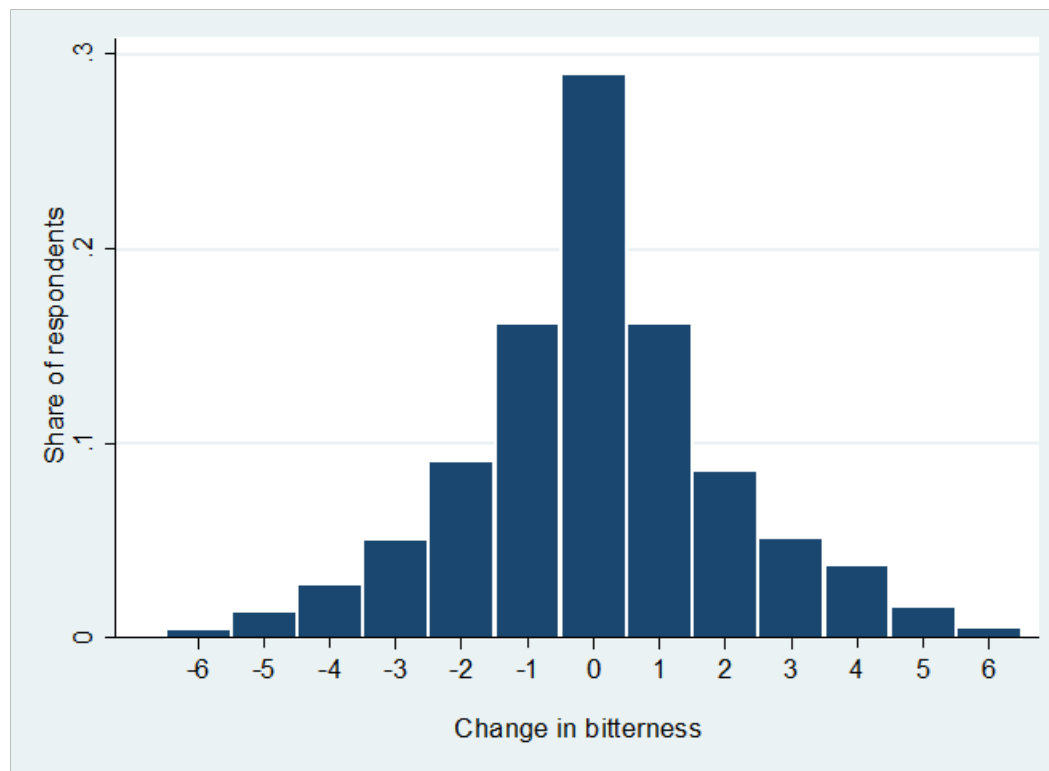
Panel estimates, 2005 and 2010

The effect of changes in bitterness on changes in worries about immigration. The table reports estimates from a linear probability model with individual fixed effects and different levels of bitterness in panel regressions using data from 2005 and 2010. Standard errors, clustered at the individual level, are reported in parentheses. Control variables for household, education, income and labor market characteristics are included in all specifications. *** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level.

	(1) More worries about immigration	(2) Fewer worries about immigration
Bitter_2	0.016*	-0.008
	(0.008)	(0.013)
Bitter_3	0.017*	-0.035**
	(0.010)	(0.016)
Bitter_4	0.023**	-0.026*
	(0.010)	(0.016)
Bitter_5	0.027***	-0.036**
	(0.010)	(0.016)
Bitter_6	0.035***	-0.049***
	(0.012)	(0.018)
Bitter_7	0.065***	-0.006
	(0.019)	(0.025)
Observations	23,653	23,653
R-squared	0.111	0.375
Number of persons	16,258	16,258

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CONCLUSIONS

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What to do in Europe?

- There is a good economic case to restrict new immigrants' access to welfare benefits during a transition period

- Work migration improves efficiency, migration based on differences in welfare benefits does not

- Important to remember: total effects of immigration in EU clearly positive. Opposition reflects distributional conflict.

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Europe needs immigration policy

- With aging populations in Europe and youth bulge in developing countries, huge potential gains from migration

- Need to ensure that migrants are net contributors to receiving countries

- New visa category: work visa without access to social benefits, and requirement to buy private health insurance

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High-skilled immigrants

- Rely on market forces: those with a job offer paying high enough wage so that they become net payers to the welfare state should be given at least a temporary work permit.

- Family members should be allowed to come, as long as they are supported by the work-based migrant

- Can be complemented by a point system for migrants without a job offer

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Low-skilled immigrants

- Consider a system of temporary work visas which come with no access to welfare benefits and requirement to buy one's health insurance

- Use price mechanism to allocate these; revenues could be used to help refugees in poor countries

- Ask migrants to post a bond which is given back when they return, according to rules

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