

Migration, Development, and the Global Economy

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Most European countries are now immigration countries...

- Canada 18.9
- Australia 24.3
- United States of America 12.9
- New Zealand 15.9
- Austria 14.1
- United Kingdom 9.1
- Belgium 12.1
- France 10.7
- Germany 12.3
- Greece 8.8
- Sweden 12.4
- Switzerland 22.9
- Spain 12.0

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, Trends in Total Migrant Stock International Migration Outlook: SOPEMI - 2008 Edition - OECD © 2008

Migration, Development and the Global Crisis

- I will address two (three) issues in this talk
 - The sending countries:
 - What are the mechanisms by which a Global Economic Downturn affects sending countries?
 - The receiving countries:
 - How does immigration affect receiving countries during economic downturn?
 - How did immigration complement the way European countries reacted to Global Challenges in the years since the mid-1990's?

Migration and Development

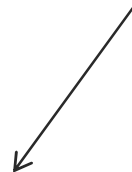
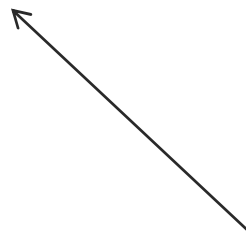
Surplus generation through migration



Re-distribution



Development



Global Economic Shocks

The way global economic shocks affect Development through Migration is via the process that generates Surplus

Surplus and Distribution

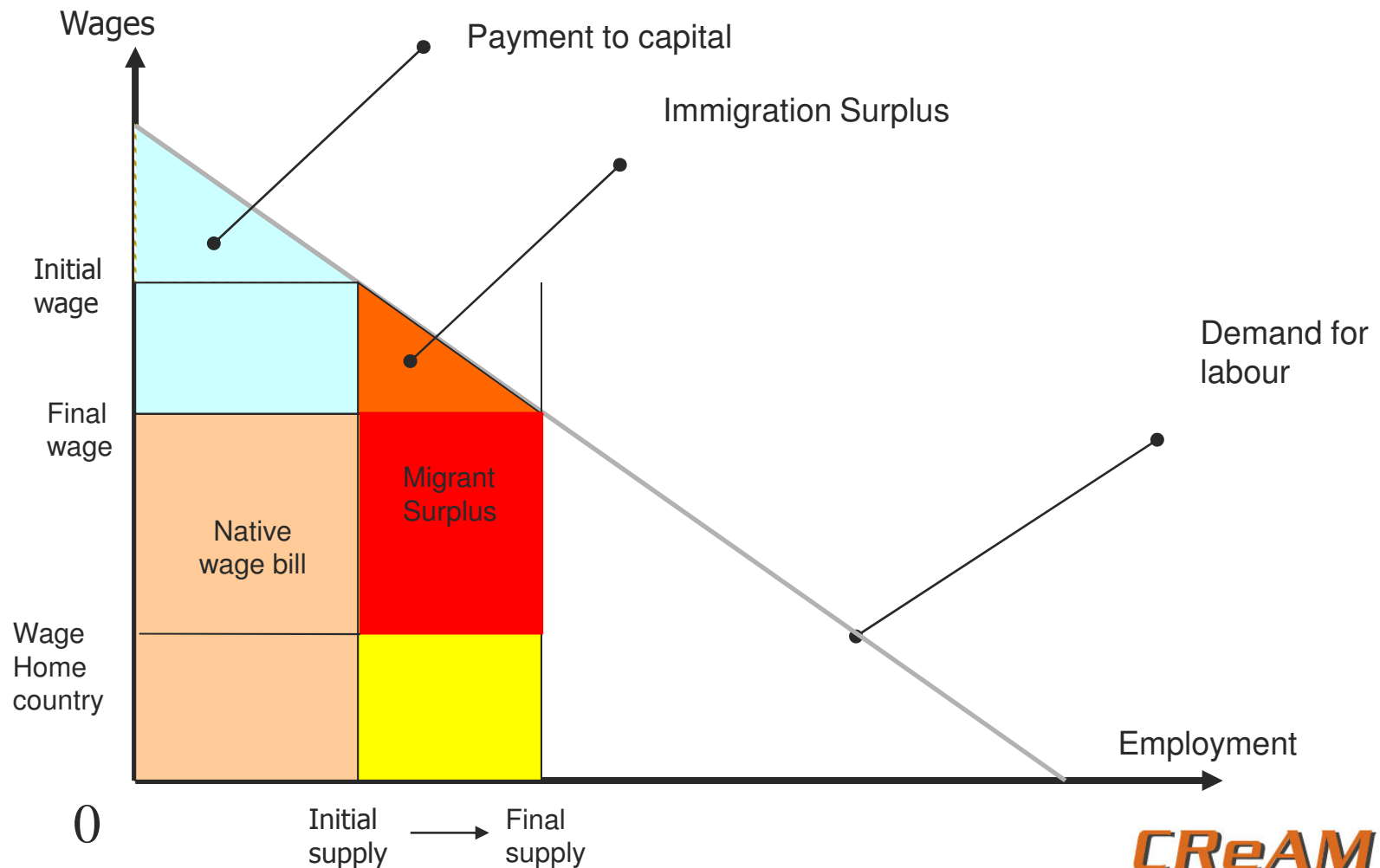
Migration creates a Surplus

- Most of the surplus goes to immigrants
- Re-distributed to those who stay behind.
- Some surplus goes to residents of the receiving country
- Not all the mechanisms that generate such surplus are well understood

Migration has distributional consequences

- While overall migration creates efficiency gains, these gains are not evenly distributed
- Some gain, but others may lose

Surplus generation in simple economy that produces one output using capital and labour



How does global recession affect the **overall surplus?**

- It affects the number of immigrants (in work)
 - US: foreign-born population decreased since late 2007, no growth in unauthorised population since 2006
 - UK: zero growth in immigrant population since late 2006
 - Employment of Immigrants
- It affects earnings in receiving- and sending country
- It affects future expectations and therefore economic behaviour of migrants

How does global recession affect **surplus distribution**?

- Reduction in surplus leads to reduction in what can be re-distributed
 - Remittances through formal channels to developing countries: \$305billion in 2008 (or 1.9% of GDP)– higher than official development aid, close to FDI and other capital inflows
 - World Bank: Remittance flows to developing countries will decrease by 5% (8.2% in their low case scenario) in 2009
- Share of remittances to support relatives may increase to counteract economic hardship at home

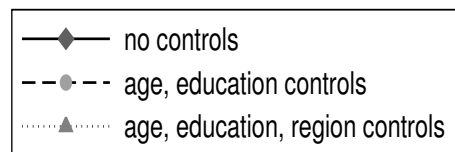
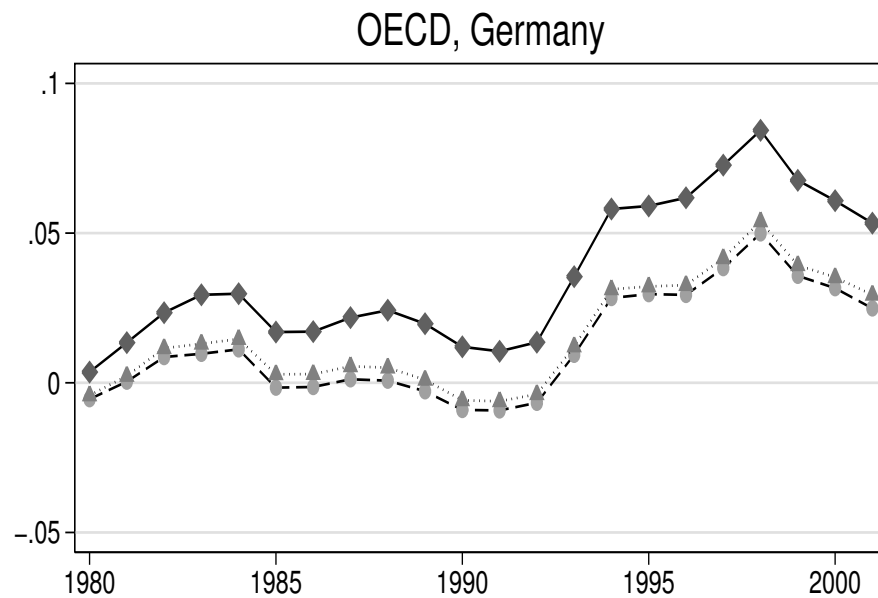
How does global recession affect **surplus distribution**?

- Share of savings may increase (insurance motive)
- May lead to changes in return plans, which in turn affect work effort and remittances

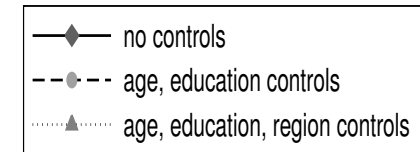
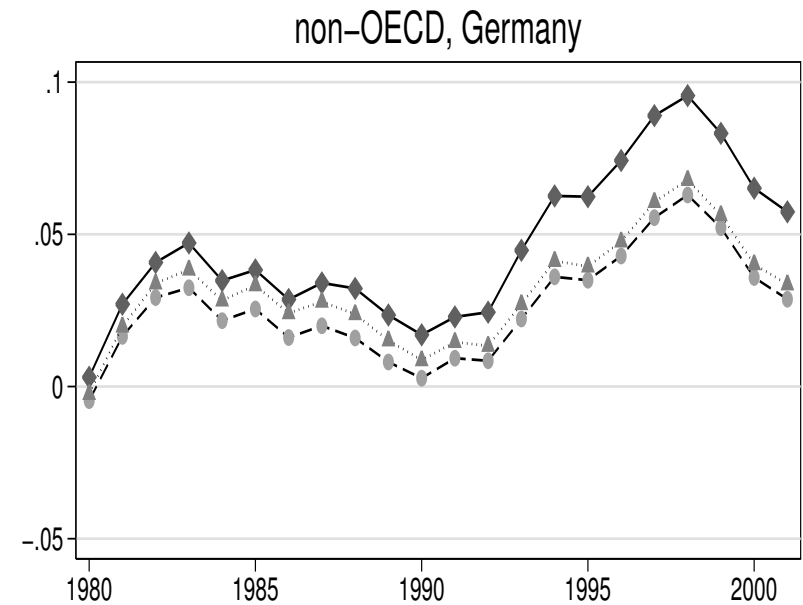
How does immigration affect receiving countries during economic downturn?

- Migrants have lower reservation wages; this may undercut native workers [Figure UK on employment immigrants/native from LFS]
- Migrants may be buffer, through increased return migration during downturns [Figure UK inflows/outflows]
- Social issues: Migrants may be targets of public anger
- Political reaction: Too restrictive immigration policies during downturn may restrict access to labour in following upturn

Previous Recessions: Unemployment over the economic cycle (Dustmann, Glitz and Vogel, EER 2009)



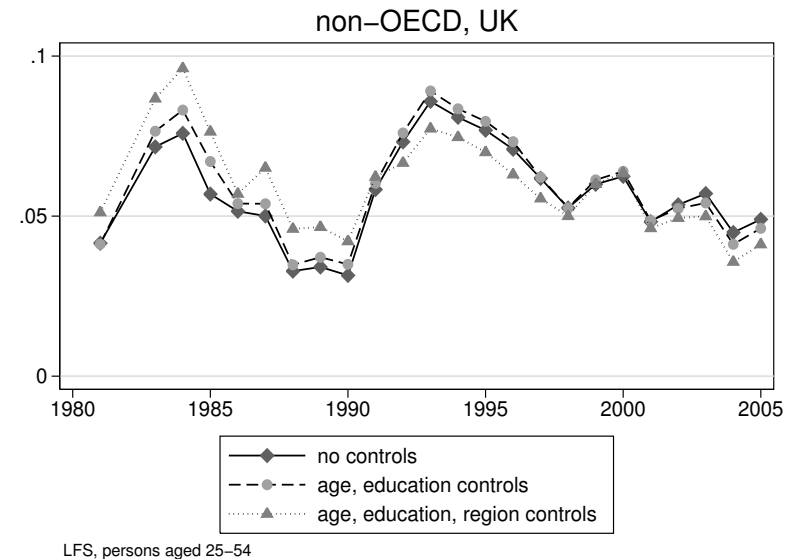
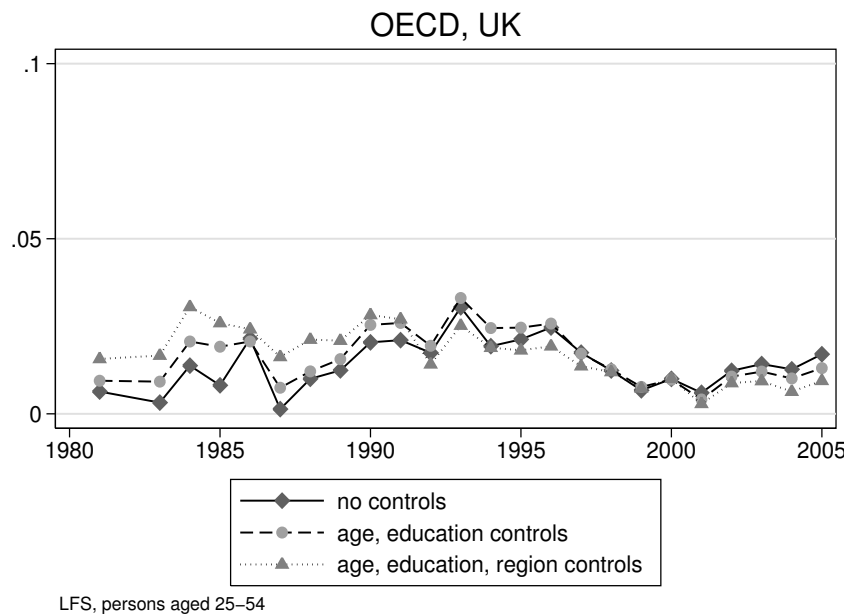
IABS, persons aged 25-54



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The figures show unemployment rates of respective immigrant group (OECD-non-OECD) **relative** to native individuals, conditional/unconditional on individual characteristics

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■ Key findings:

- Larger cyclical response of unemployment for immigrants (in particular Non-OECD)
- Holds conditional on personal characteristics; not driven by selective in- and out- migration

■ Explanations:

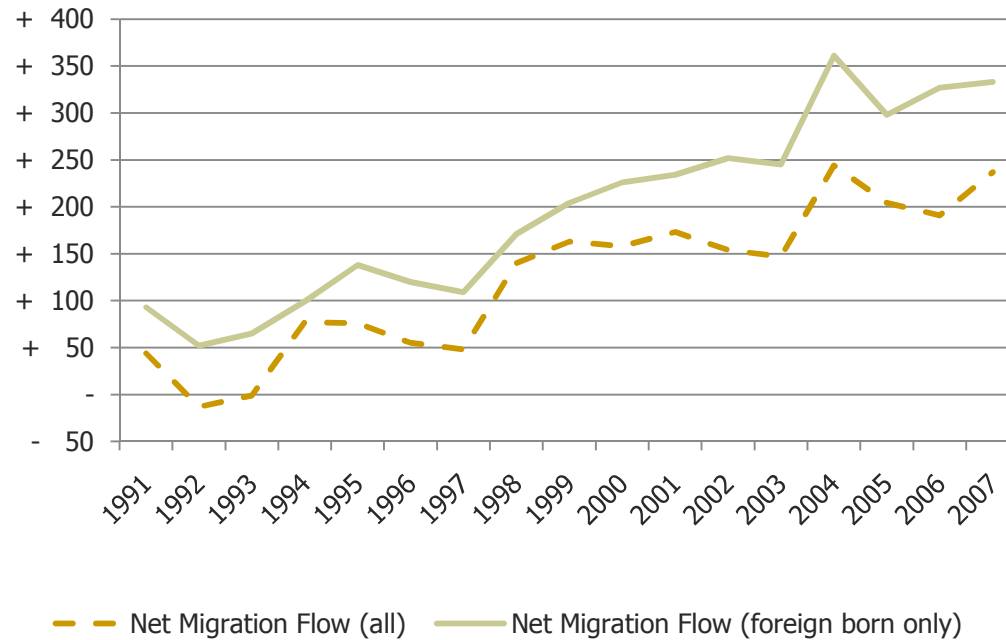
- Search: If immigrants have higher separation rates than natives; leads to pro-cyclical hiring
- Dual Labour Markets: If immigrants have higher separation rates, then they are more likely to work in the secondary sector
- Capital-Skill complementarity: Firms reduce demand in downturn for labour types that are more substitutable to capital

This recession: The UK



The figure reports the share of A8 migrants in the total (solid line) and working age (dotted line) population for each quarter since the second quarter 2004.

This Recession: The UK



The Graph reports the overall (UK and foreign born) net migration flow – blue dotted line – and the net flow of international migrants – red solid line – to the UK for years 1991-2007.

This Recession: The UK

Year	Quarter	Employment rate		Unemployment rate	
		Natives	Immigrants	Natives	Immigrants
2004	2	74.8	65.3	4.5	7.4
	3	75.3	66.2	4.8	7.0
	4	75.4	66.2	4.5	6.9
2005	1	75.0	66.4	4.6	6.5
	2	75.0	65.1	4.5	7.1
	3	75.6	66.3	4.9	6.8
2006	4	75.0	66.5	4.8	7.8
	1	74.8	66.9	5.0	8.2
	2	74.7	67.4	5.2	7.7
2007	3	75.2	67.9	5.5	8.4
	4	74.9	67.9	5.2	7.8
	1	74.4	66.7	5.3	8.3
2008	2	74.5	67.6	5.0	7.8
	3	75.0	68.7	5.5	7.0
	4	75.2	68.4	4.9	6.9
2009	1	74.7	69.0	5.1	7.2
	2	74.7	68.8	5.2	6.7
	3	74.9	68.9	6.1	7.3
2009	4	74.5	68.6	6.2	7.4
	1	73.4	68.2	7.2	7.8

The table reports the **employment rate** (employed/working age population) and **unemployment rate** (unemployed/active population) for natives and immigrants for each quarter between Q2 2004 and Q1 2009.

Source: LFS, various quarters

How has migration interacted with developments before the economic crises?

- I will argue that for some countries
 - Immigration was a means to react to external labour market pressures, avoiding restrictions imposed by existing labour market institutions
 - Immigration was an alternative to structural labour market reforms

Immigration and European Response to Global Challenges

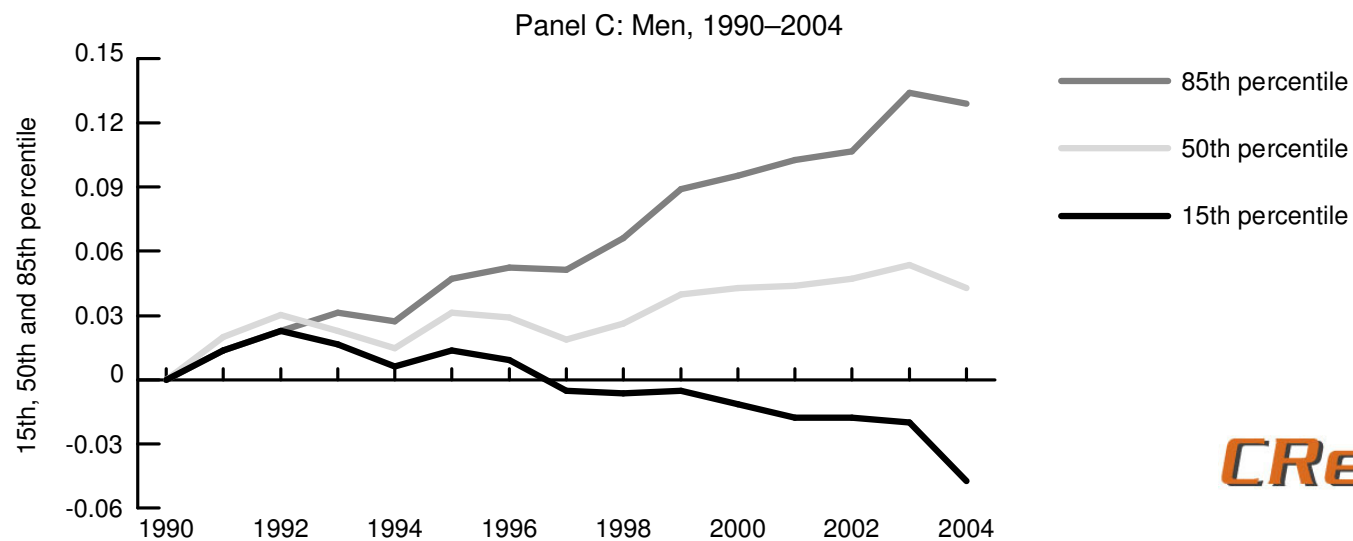
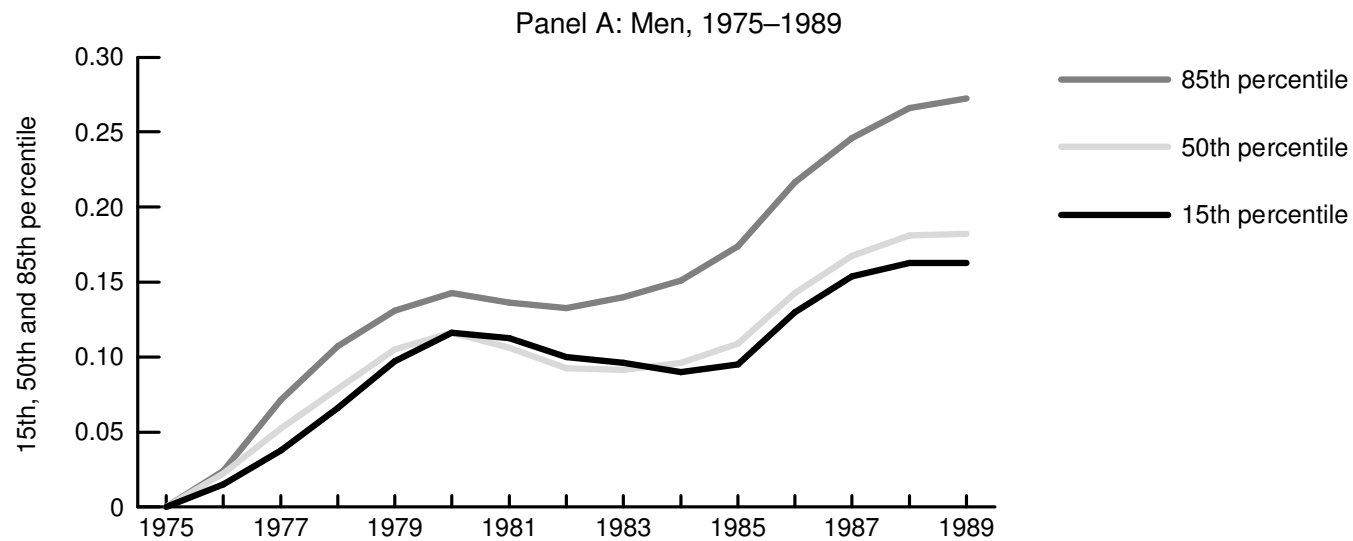
- Since the early 1990's, interesting trends in inequality:
 - US, UK, Canada: Earnings compression below the Median
 - Germany: Earnings inequality increased dramatically below the Median; main reason: supply shocks, change in labour market institutions (triggered to global pressures)
 - Italy, Spain: Most studies suggest no dramatic change below the median
- What happened?

Response to Global Challenges

- Workers at the low end of the wage distribution came under immense pressure through global competition in particular from China and India
- The three groups of countries reacted in different ways to this challenge

Response to global challenges, Germany

Dustmann, Ludsteck and Schoenberg, Revisiting the German Wage Structure, QJE 2009



Response to Global Challenges

Spain, Italy:

Absorption of global challenge through dual or illegal economy, fuelled by illegal immigration

	2002/03
Greece	28.2
Italy	25.7
Spain	22.0
Portugal	21.9
Belgium	21.0
Norway	18.4
Sweden	18.3
Finland	17.4
Denmark	17.3
Germany	16.8
Ireland	15.3
Canada	15.2
France	14.5
Australia	13.5
Netherlands	12.6
New Zealand	12.3
United Kingdom	12.2
Austria	10.9
Japan	10.8
Switzerland	9.4
United States	8.4

Response to Global Challenges, Italy and Spain

Italy:

- Fuelled its shadow economy with immigrants to respond to low wage pressure, while maintaining a regulated “regular” labour market

Spain:

- In the nineties: More than 10% of immigrant workers had no written contracts
- At present, most immigrants are employed under temporary contracts (more than 70%) – They are employed in low-skilled and low wage occupations (basically construction, domestic service, restaurants and hotels and agriculture)

What happened?

Why did immigration create little resistance in Spain and Italy despite unprecedented inflows?

- Immigrants contributed in largely segregated labour markets – a bit like rural immigrants in China

Why was there no dramatic increase in wage inequality?

- Existing surveys capture only large firms (Spain) or only the regular economy (Italy)

Response to Global Challenges, US and UK

- US, UK:
 - Exposure of workers at low end of the labour market to global competition, partly compensated through immigration
 - Compensation through increases in housing assets, partly translated into consumption – funded through surpluses generated in countries like China
- UK, US, Australia and Spain absorbed 63% of world's current account surpluses!
- Capital moved from emerging economies to rich countries (partly compensating losers of globalisation)

Response to Global Challenges – the next decade

- Who are the long-term losers?
 - Young workers who entered the labour market since the mid-late 1990's?
- Spain, Italy, (Greece): How will immigrants be absorbed in the economy-society?
 - Delayed labour market reforms will have to be implemented
- UK: What will – in the future- drive economic development?
- Germany: Can it capitalise on the gains through de-regulation?



More Information:

Centre for Research and Analysis of Migration
(CReAM) – website:

<http://www.econ.ucl.ac.uk/cream/>