THE ECONOMIC EFFECTS OF LABOUR MIGRATION

Helena KAJANOVÁ

Abstract

According to recent ILO estimates, there are 150.3 million migrant workers in the world. Employment – or whether migrants are working or not – is the most important determinant of their fiscal impact. Immigrants account for much of the increase in the size of the workforce; they fill important niches both in fast-growing and rapidly declining sectors of the economy. The aim of this paper is to survey empirical studies on the economic effects in the areas of labour migration. The paper is based on the conceptual analysis and conclusions drawn from the literature on the general review of controlling-related papers. Secondary data sources were processed from ILO, OECD and content analysis of scientific papers which focus on economic effects of labour migration. There are many different ways to measure the fiscal impact of immigration and all methods and approaches rely heavily on debatable assumptions and modelling choices that can significantly change the results.

Key words

Labour migration, economic effects, remittance

JEL Classification: F22, F62, F61

Introduction

Migration is a feature of social and economic life across many countries, but the profile of migrant populations varies considerably. In part this is because of the variety of sources of migration. In much of Europe, for example, citizens enjoy extensive rights to free movement. In Australia, Canada and New Zealand, managed labour migration plays an important role. Other sources include family and humanitarian migration. Whatever its source, migration has important impacts on our societies, and these can be controversial. The economic impact of migration is no exception (OECD, 2014a). The aim of this paper is to assess economic effects in the areas of labour migration. The paper is based on the conceptual analysis and conclusions drawn from the literature on the general review of controlling-related papers. The outputs are listed based upon secondary research. Secondary data sources were processed from ILO, OECD and content analysis of scientific papers which focus on economic effects of labour migration.

The economic effects of labour migration

Immigrants have a broadly neutral impact on the public purse in OECD countries, receiving in state benefits around about as much as they pay in tax and social contributions. Employment – or whether migrants are working or not – is the most important determinant of their fiscal impact. Immigrants account for much of the increase in the size of the workforce; they fill important niches both in fast-growing and rapidly declining sectors of the economy. The share of highly educated immigrants is rising sharply in OECD countries; over the past decade it rose 70%, in part because of immigration from Asia. A lack of internationally comparable data makes it difficult to determine the overall impact of net migration on economic growth (OECD, 2014b).

Migration's impact is in three areas – the labour market, the public purse and economic growth:

Labour markets

- Migrants accounted for 47% of the increase in the workforce in the United States and 70% in Europe over the past ten years.
- Migrants fill important niches both in fast-growing and declining sectors of the economy.
- Like the native-born, young migrants are better educated than those nearing retirement.
- Migrants contribute significantly to labour-market flexibility, notably in Europe.

The public purse

- Migrants contribute more in taxes and social contributions than they receive in benefits.
- Labour migrants have the most positive impact on the public purse.
- Employment is the single biggest determinant of migrants' net fiscal contribution.

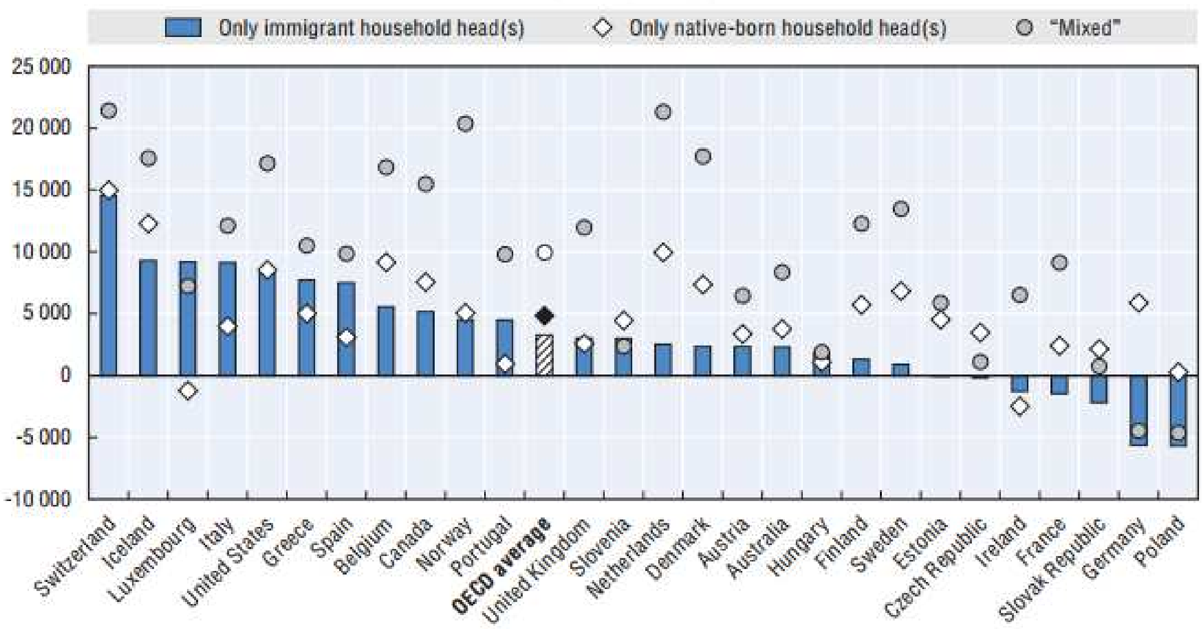
Economic growth

- Migration boosts the working-age population.

- Migrants arrive with skills and contribute to human capital development of receiving countries.
- Migrants also contribute to technological progress (OECD, 2014a).

Looking at the net direct fiscal position of immigrant households – that is, their taxes and social security contributions minus the social transfers they receive – several observations can be made (Figure 1). First, there is wide variation in migrants' fiscal position, but in most countries it is positive. Net contributions are only negative in a number of eastern European countries with small immigrant populations, as well as in Germany, France and Ireland. In these latter countries, with the exception of Ireland, immigrant populations are relatively old and thus overrepresented among the population receiving pensions (Liebig, Mo, 2013). In Ireland, the negative net contribution holds for both immigrant and native-born households and is partly driven by the early impact of the crisis. A second observation is that in most OECD countries, the net fiscal position of immigrant households is below that of the native-born. Nevertheless, the reverse holds in a number of countries, in particular in the Southern European countries of Italy, Greece, Spain and Portugal, as well as in Ireland. In all of these countries, a large part of the resident migrant population consists of recent labour migrants. Immigrant households also have a better fiscal position than the native-born in Luxembourg, the United Kingdom and Hungary. In all of these countries, with the exception of the United Kingdom, immigrants have an employment rate that is above that of the native-born. Finally, in virtually all countries, the "mixed" households have a highly positive net fiscal position, which in most cases is also well above that of the native-born. This result is at first sight surprising but is mainly due to the fact that, by definition, these households have at least two adults in the household. In addition, most of these households are working-age couples, which is the age at which individuals contribute most to the tax system.

Figure 1 Average net direct fiscal contribution of households by migration status of the household head, 2007 - 2009 average EUR (PPP adjusted)

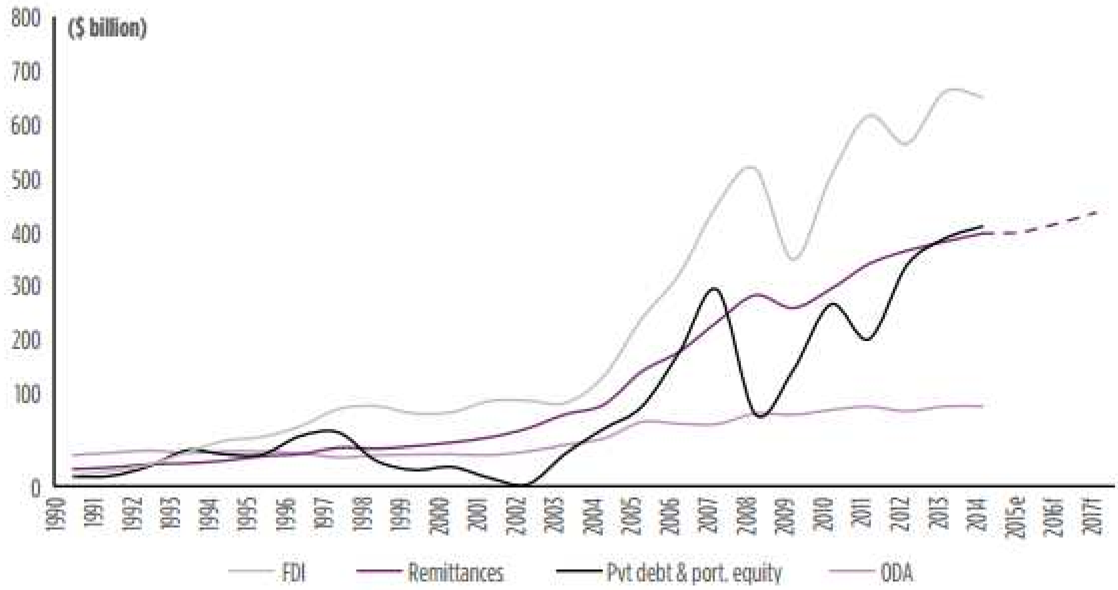


Source: Liebig, Mo (2013)

Among the contributions of foreign workers include increase the economic welfare of the importing countries, major source of workforce, increase the domestic innovation activities, increasing the expected returns on education, complementing domestic human capital and increasing the productivity in manufacturing sectors. Besides, migration will also decrease the unemployment rate and poverty cases in the exporting countries. Migration process is also associated with money transfer issue, or also known as remittance, which actually means the outflow of money from one country to another (Fauzi, Rawi, 2016).

Foreign workers are a major source of work force in the development of the economy, whether it is for the country that imports or exports foreign workers. Migration process is usually associated with the money transfer issue, or also known as remittance, which actually means the outflow of money from one country to another. Remittance flows are broadly affected by three factors: the migrant stocks in different destination countries, incomes of migrants in the different destination countries, and, to some extent, incomes in the source country. Remittances sent home by international migrants from developing countries are estimated to have risen to $432 billion in 2015, an increase of only 0.4 percent over the previous year (Figure 2). (World bank, 2016).

Figure 2 Remittance Flows Are Larger than Official Development Assistance (ODA), and More Stable than Private Capital Flows



Sources: World Bank Staff calculations, World Development Indicators, OECD. Private debt includes international bonds and borrowing through commercial banks. World Bank (2016)

The outflow of money by foreign workers usually brings benefits to the exporting countries compared to the importing countries. Remittances received have positive and negative effects on economic growth and economic development. Directly, remittances will reduce the rate of poverty and also tend to improve the welfare of poorer rural households. However, there are also studies which found negative effect of remittances i.e., increase of the real exchange rate which then produce so called "Dutch Disease Effect". The common consequences of the remittances flows are on the exchange rate of the local currency and on the rise of domestic price level. The exchange rate is being defined as the price in terms of the local currency; the foreign currencies of the countries where the migrant people live. Any increase or rise of foreign currencies on average the central bank reserves therefore, obliges the bank to issue new local money entailing mechanically inflation (Fauzi, Rawi, 2016). Empirical results support the existence of a significant positive relationship between migrant workers remittances and economic growth. The other control variables such as foreign direct investment, openness to trade and infrastructure are also found to be statistically significant with expected signs (Azam, 2015).

At macroeconomic level, increasing the total capacity of financing of the investments that brings this saving coming from abroad, plays a pro-cyclic role if the migrant workers abroad trust the local economic situation and if the financial system of the country encourages them to invest. But one could also observe that remittances, for certain countries and in certain circumstances, play a counter-cyclic role: it is the case if, when the country of origin of the migrant workers is a poor country which knows a period of economic crisis, these workers send more remittances to help their families to overcome these difficulties more easily (Yaseen, 2012).

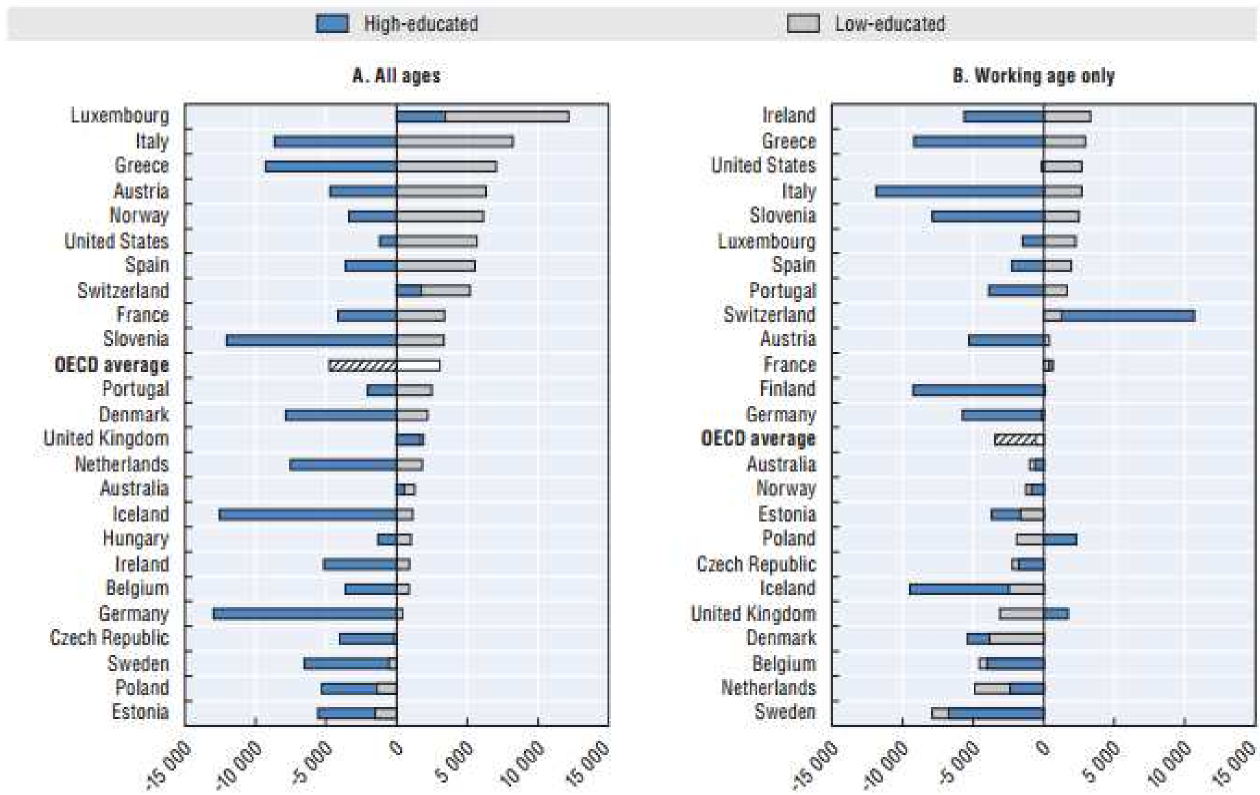
The external migration causes divers effects at macroeconomic level. The most important impacts are connected with severe disequilibrium and dysfunctions on the labor market, such as: ƒ

- potential employment capacity of the labor force; ƒ
- unemployment rate and its characteristics; ƒ

- emigration of high qualified labor force, – the loss of “brains”, capable of creating a high level of added value; ƒ
- wage distortions and the segmentation of the labor force;
- increasing of underground economy (black labor); ƒ
- diminished potential of local labor force – use immigrants in order to complete the lack of local labor force (Roman, Voicu, 2010).

By themselves, differences in age and education of the household head thus explain relatively little of the differences between the contributions of immigrant and native-born households in most countries, in spite of the fact that immigrants tend to have a lower educational attainment on average. In all countries except the United Kingdom, net contributions compare more favourably for the low-educated than for the high-educated immigrant households (Figure 3).

Figure 3 Difference in the net direct fiscal contribution between immigrant and native-born households, by education status of the household head, 2007 - 2009 average EUR (PPP adjusted)



Note: “High-educated” refers to ISCED-Level 5 and above; “low-educated” to ISCED-Level 2 and below.

Source: Liebig, Mo (2013)

The consequences of migration are in the table 1.

Table 1 Consequences Of Migration

Consequences Of Migration On The Country Of Origin	
Economic Impacts	
Positive	**Negative**
The area benefits from remittances sent home.	Loss of young workforce; those with skills and those with entrepreneurial talents move, slowing economic development.

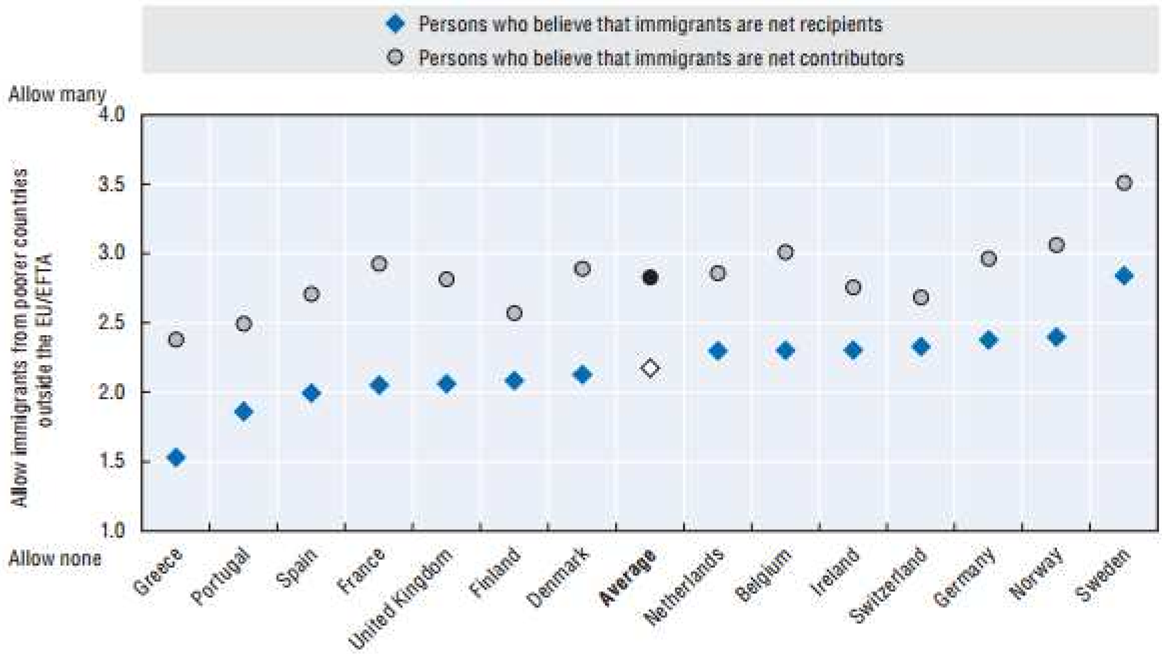
Upon return, migrants bring new skills to the country such as the ability to speak foreign languages. These new skills can help to improve the economy in the country of origin.	Loss of labour may reduce inward investment by private companies, increasing dependencies on government initiatives.
There is less pressure on resources such as food and social services such as health care.	
Consequences Of Migration On The Host Country	
Economic Impacts	
Positive	**Negative**
Migrants take up less desirable, menial jobs which natives would not take but need filling.	Migrants and their children must be educated, they won't necessarily speak the native language of the host country.
The host country can gain skilled labour for cheap.	There is an over dependency in some industries on migrant labour, leading to a lack of jobs for people native to the host country.
There is a labour surplus; those with skills and education fuel the economy.	Much of the money earned by the migrants isn't spent in the host country and is instead sent back to the country of origin.
The skill gap in many host countries can be filled by migrants.	More people increase the pressure on resources and services such as health care systems.
Costs of retirement can be transferred to the country of origin.	

Sources: Katseli – Lucas – Xenogiani (2006), ILO (2008), Stöhr (2014), Bailey (2015), Masárová (2015), Tupá (2016), Vojtovič – Krajňáková – Tupá (2016)

Discussion

Migration can be a contentious issue, with public debate sometimes informed by perceptions that do not stand up to analysis. This is especially true in discussions of the fiscal and economic impacts of migration – complex issues with many strands. These include immigrants' employment rates, the extent to which they pay taxes and receive benefits and their contribution to an economy's capacity for innovation. How are these issues debated? As with so much else in migration, the answer varies greatly around the world, and views are likely to reflect each country's historical and current experience of immigration. However, throughout the economic slowdown in recent years, there have been signs, perhaps especially in Europe, of rising public anxiety about migration. Developing an accurate understanding of the fiscal and economic impacts of migration is essential to informing public debate. It is also vital if governments are to design effective policies that maximise the contribution of immigrants to their new homes (OECD, 2014b). In many countries, there is widespread public concern over immigrants' use of the welfare system. Opinion surveys show a strong association between the public's view about the desirability of further migration and their perceptions of immigrants' fiscal contribution. In European OECD countries, people who believe that the fiscal impact of immigration is positive are also more inclined to welcome additional migration (Figure 4). Although this association does not necessarily mean that the fiscal impact is the main determinant of views on migration, there clearly is a link between the perceptions of the fiscal impact and public acceptance of additional migration.

Figure 4 The association between views on migration and the perception of migrants' fiscal impact, selected European OECD



Notes: In the survey, respondents were asked to provide their views on the net fiscal position of migrants on a scale from 0 ("immigrants receive more than they contribute") to 10 ("immigrants contribute more than they receive"); respondents with a score of up to 3 were categorised as having the view that immigrants are net recipients, and respondents with a score of 7 or more as having the view that immigrants are net recipients contributors. The y-axis shows the average score (on a scale 1-4) for openness for additional immigration from poorer countries outside of the EU/EFTA.

Source: Liebig, Mo (2013)

Given these challenges, and the availability of better data, there has been an increasing amount of research on the fiscal impact of immigration in recent years. Yet, the question of how to reliably evaluate the fiscal impact of immigrants is complex (Liebig, Mo, 2013). Should one simply compare immigrants' current tax/benefit balance (including social security contributions), or are forward-looking projections of future cash flows the approach that should be taken to account for a potential demographic impact and economic assimilation over time? If so, how sure can one be about the assumptions and forecasts underlying these approaches? And what about the descendents of immigrants and the indirect effects of immigration on the public finances through the labour and capital markets? There are many different ways to measure the fiscal impact of immigration and all methods and approaches rely heavily on debatable assumptions and modelling choices that can significantly change the results. Understanding these impacts is important if our societies are to usefully debate the role of migration. Such debates, in turn, are essential to designing policies in areas like education and employment that maximise the benefits of migration, especially by improving migrants' employment situation. This policy mix will, of course, vary from country to country. But the fundamental question of how to maximise the benefits of migration, both for host countries and the migrants themselves, needs to be addressed by many OECD countries in coming decades, especially as rapid population ageing increases demand for migrants to make up shortfalls in the workforce (OECD, 2014a). With the right approach to migration policy and the management of immigration, it is possible to some extent to minimize losses and maximize the benefits of immigration workforce (Tupá, 2017). Filling of vacant posts that cannot be filled by the domestic workforce is to sustain economic development necessary. The starting point can be support for immigrants to study at Slovak universities.

Conclusion

But the fundamental question of how to maximise the benefits of migration, both for host countries and the migrants themselves, needs to be addressed by many OECD countries in coming decades, especially as rapid population ageing increases demand for migrants to make up shortfalls in the workforce (OECD, 2014a). Almost 20% of residents of OECD countries will be 65 or older by 2020 (BNP Paribas Cardif, 2015). Communication, home and transport sectors will receive the biggest silver boost, while sectors such as e-autonomy, nutrition, health and security will also reap the opportunities offered by the silver economy. The population above 65 is the fastest growing demographic. The global spending power of the silver generation will reach 12 $ trillion in 2020, which would be 54% larger than the GDP of Latin America. The global average gross income of the silver consumer is around 14 500 $ annually, compared to the global average of 12 300 $ (Hodgson, 2013). The silver economy will impact jobs in two ways. One is that the effect of increased demand from the elderly will generate 2.6 – 4.4 million new jobs across the EU until 2025. The other results from changes in demand in younger households, resulting in approximately 0.5 – 4.5 million jobs. The change of consumption on employment will either lead to 1.9 million jobs lost in the tough scenario or 3.9 million jobs created in the optimistic scenario. The silver economy has a potential to create jobs especially in the service oriented sectors focusing on wealthy silver consumers in the more advanced countries (Schulz, Radvansky 2014). Europe's societies are aging, placing their pay-as-you-go social security systems under considerable demographic pressure. It becomes increasingly well understood that a regulation of future immigration that is tailored to attract young and economically successful migrants can alleviate some of the demographic burden associated with an aging population (Roman, Voicu, 2010).

Acknowledgements

This publication was created within the frame of the project funded by VEGA agency „Balance of economic gains and losses from labor migration" (č.1/0679/17).

References

Azam, M. (2015). The role of migrant workers remittances in fostering economic growth: The four Asian developing countries' experiences. *International Journal of Social Economics*; Bradford 42.8 (2015): 690 - 705

Bailey, T. (2015). The impact of migration on sender countries. [on-line] [acc.: 2017-15-02]. Available at: https://www.worldfinance.com/infrastructure-investment/government-policy/the-impact-of-migration-on-sender-countries

BNP Paribas Cardif. (2015). *The Silver Economy seen by BNP Paribas* Cardif. [on-line] [acc.: 2017-15-03]. Available at: http://www.silvereco.eu/the-silver-economy-seen-by-bnp-paribas-cardif/?utm_source=Bruegel+Updates&utm_campaign=c0b1d3d7c8-Blogs+review+08%2F04%2F2017&utm_medium=email&utm_term=0_eb026b984a-c0b1d3d7c8-278510293

Hodgson, A. (2013). *The Spending Power of the Older Consumer*. [acc.: 2017-15-02]. Available at: http://blog.euromonitor.com/2013/11/the-spending-power-of-the-older-consumer.html?utm_source=Bruegel+Updates&utm_campaign=c0b1d3d7c8-Blogs+review+08%2F04%2F2017&utm_medium=email&utm_term=0_eb026b984a-c0b1d3d7c8-278510293

Fauzi, Rawi, (2016). IMPACT OF REMITTANCES BY FOREIGN WORKERS ON ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT. *JCSSR* 2016 (eISSN 0128-2697) 1 (1), November 2016, 16 – 27

ILO. (2008). *Skills for improved productivity, employment growth and development.* [on-line] [acc.: 2017-15-03]. Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_092054.pdf

Katseli, L, T. - Lucas, R. E. B. - Xenogiani, T. (2006) EFFECTS OF MIGRATION ON SENDING COUNTRIES: WHAT DO WE KNOW? [on-line] [acc.: 2017-26-03]. Available at: http://www.un.org/esa/population/migration/turin/Symposium_Turin_files/P11_Katseli.pdf

Masárová, T. (2015). INTEGRÁCIA MIGRANTOV NA TRHU PRÁCE V SLOVENSKEJ REPUBLIKE. *Sociálno-ekonomická reuve,* 13(2), 100-106

Liebig, T. - J. Mo, J. (2013). The Fiscal Impact of Immigration in OECD Countries. *International Migration Outlook 2013*, OECD Publishing, Paris,. [on-line] [acc.: 2017-18-02]. http://dx.doi.org/10.1787/migr_outlook-2013-6-en.

OECD (2014a). Is migration good for the economy? *Migration Policy Debates.* May 2014. [on-line] [acc.: 2017-15-03]. Available at: https://www.oecd.org/migration/OECD%20Migration%20Policy%20Debates%20Numero%202.pdf

OECD (2014b). The Fiscal and Economic Impact of Migration. *Policy Brief.* May 2014. [on-line] [acc.: 2017-15-03]. Available at: https://www.oecd.org/policy-briefs/PB-Fiscal-Economic-Impact-Migration-May-2014.pdf

Roman, M. - Voicu, C. (2010). Some Socio-Economic Effects of Labor Migration on Sending Countries. Available at: *Theoretical and Applied Economics* Volume XVII (2010), No. 7(548), 61-76

Schulz, E. - Radvansky, M. (2014) : Impact of Ageing Populations on Silver Economy, Health and Long-Term Care Workforce, *NEUJOBS Policy Brief*, No. D12.4

Stöhr, T. (2014). The effect of migration on the countries of origin. [on-line] [acc.: 2017-17-03]. Available at: https://sites.uclouvain.be/aiece/publications/regular/medium/MIGRATION-EFFECT-COUNTRIES-IFW-11-2014.pdf

Tupá, M. (2016). REMITENCIE ŠTUDENTOV VYSOKÝCH ŠKÔL Z PRACOVNEJ MIGRÁCIE A ICH SPOTREBA. *Sociálno-ekonomická reuve,* 14(2), 77-83

Tupá, M. (2017). CONSEQUENCES OF LABOUR IMIGRATION AND MIGRATION MANAGEMENT. *Sociálno-ekonomická reuve,* 15(2), 79-85

Vojtovič, S. – Krajňáková, E. – Tupá, M. (2016). Calcultaion of economic losses and gains caused by labour force emigration. *Actual Problems of Economics*. - ISSN 1993-6788. - Vol.177, No.3(2016), 276-283.

World Bank (2016), *Migration and Remittances, Recent Developments and Outlook*, World Bank, Washington, DC, April 2016. [on-line] [acc.: 2017-15-03]. Available at: http://pubdocs.worldbank.org/en/661301460400427908/MigrationandDevelopmentBrief26.pdf

Yaseen, H. S., (2012). The Positive and Negative Impact of Remittances on Economic Growth in MENA Countries. *The Journal of International Management Studies*, Volume 7 Number 1, April, 2012 (7 – 14).

Contact

Ing. Helena Kajanová, PhD.
Department of Management and Human Resource Development,
Faculty of Social and Economic Relations,
University of Alexander Dubchek in Trencin,
Študentská 3, 911 50 Trencin,
Slovakia
e-mail: helena.kajanova@tnuni.sk