

New Insights on the Economics of Migration

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«Engelberg Dialogues 2018»

Engelberg, October 16, 2018

Theses

- Immigration has gained new and added importance as a result of the Euro.
- The labor market impact of immigration depends on whether immigration is endogenous or exogenous.
- Return migration is an important and often neglected aspect of migration.

Free Movement of Labor in the Euro Area

- The free movement of labor serves to allocate labor to those regions where it is most valued resulting in improved economic growth.
- In the Euro Area it has gained added importance.
- As currency deflation is no longer an option, countries needing to regain competitiveness must fear having to undergo a painful wage and price deflation to achieve that.
- In this case, emigration provides an outlet to avoid internal deflation.

Exogenous versus Endogenous Immigration

- Immigration is typically modelled as being exogenous or immigrant-driven, which the host labor market must absorb.
- The free movement of labor views immigration instead as being endogenous or employer-driven, serving to fill vacancies.
- Thus, endogenous immigration is less disruptive and more welfare enhancing.

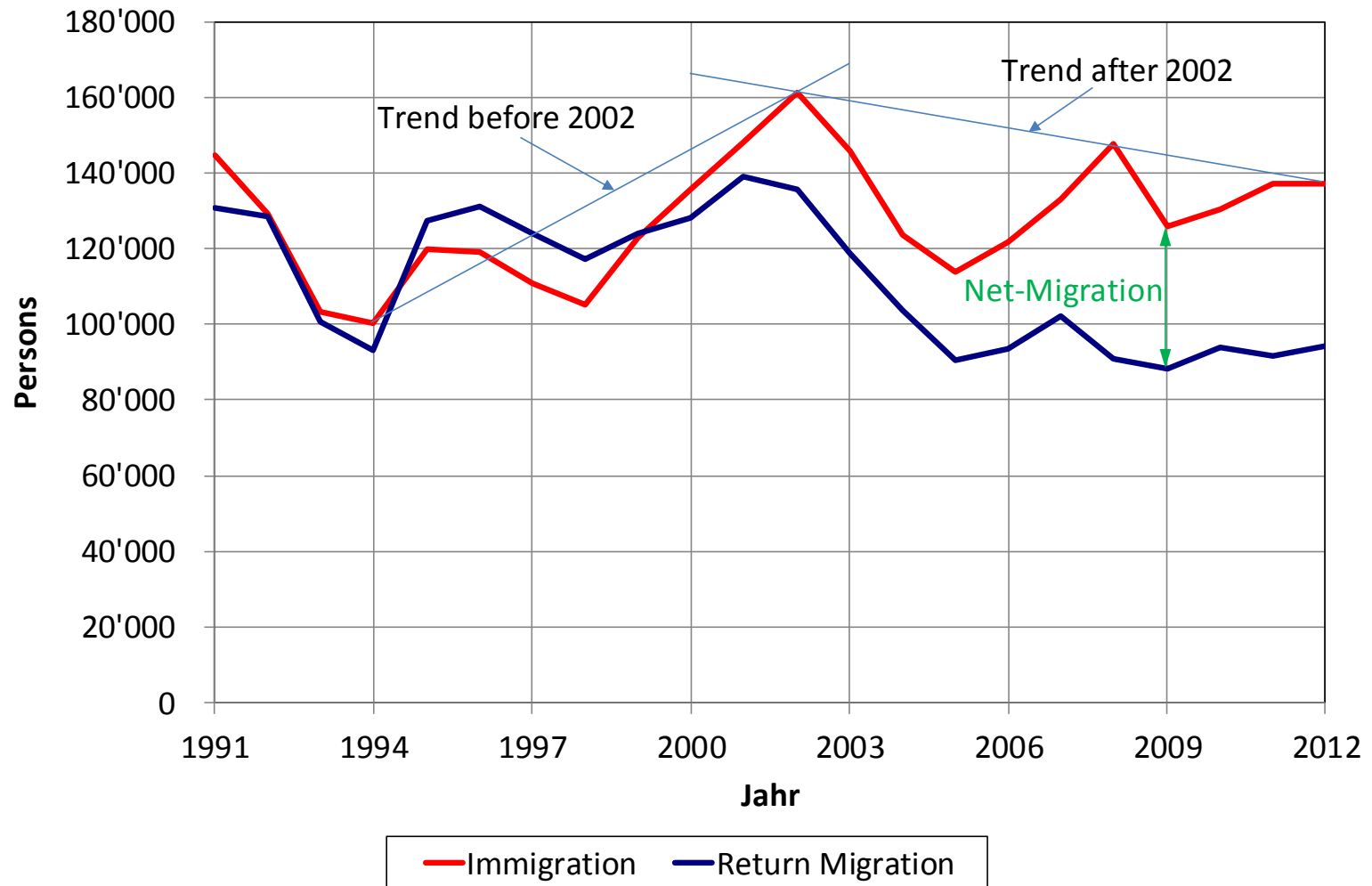
Is Employer-Driven Immigration Socially Optimal?

- In the case of employer-driven immigration, the recruiting firms essentially determine who immigrates and in what numbers.
- The private net benefits accruing to firms may differ, however, from the social net benefits as firms typically ignore agglomeration and integration costs.
- Thus employer-driven immigration is probably not socially optimal.
- On the other hand, the socially optimal level of immigration is hard to determine.

Net versus Gross Migration

- Immigration policy often focuses solely on net migration, i.e., on the difference between gross immigration and return migration.
- Net migration merely records the change in the size of the foreign population.
- Yet net migration can increase although immigration has fallen. Return migration need only to fall by more.
- Ignoring this fact can lead to false conclusions as the following example shows.

Gross EFTA/EU-17 Migration Flows in Switzerland

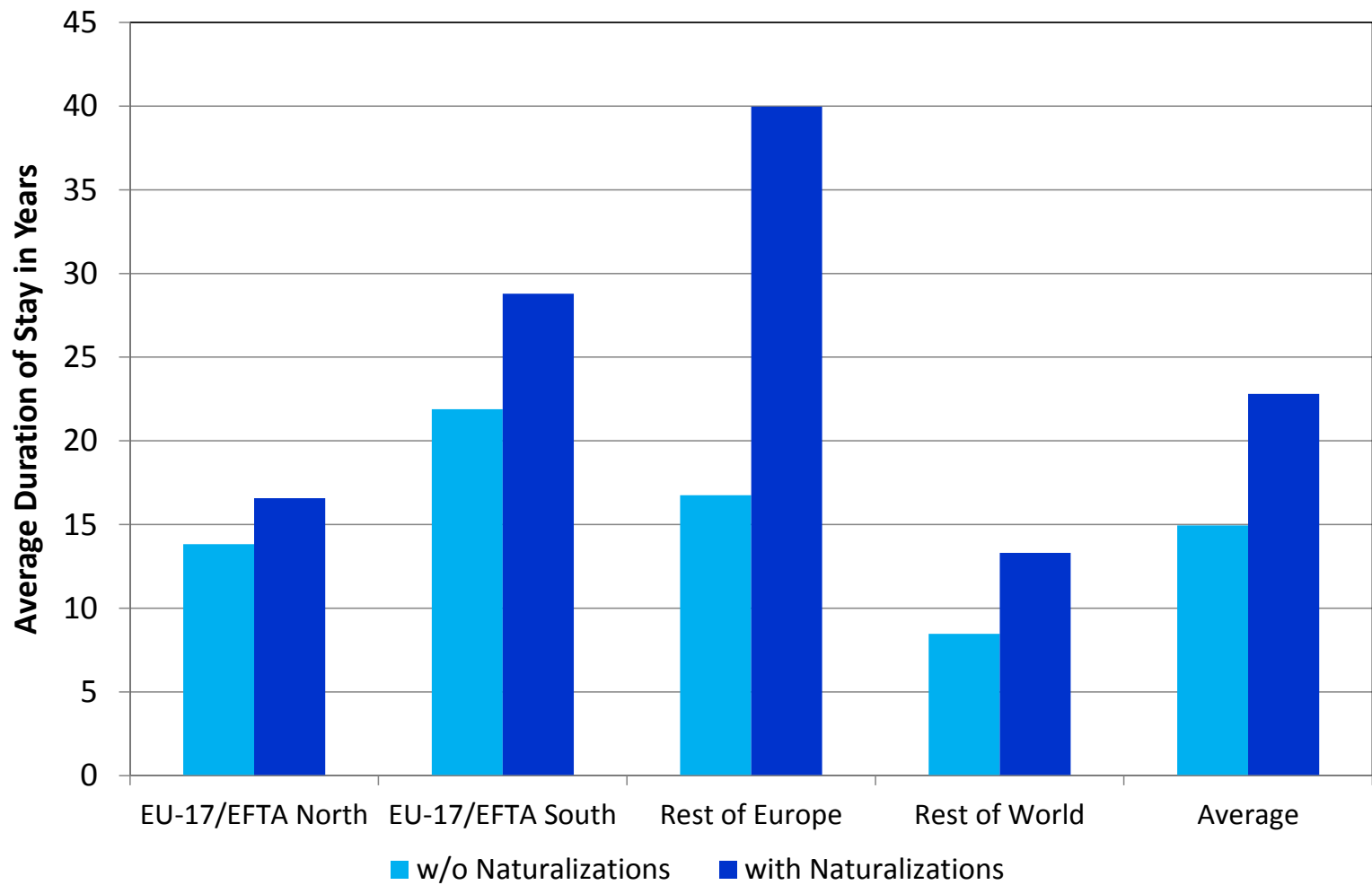


After 2002 net-migration increased although gross immigration fell.

Return Migration and Selection

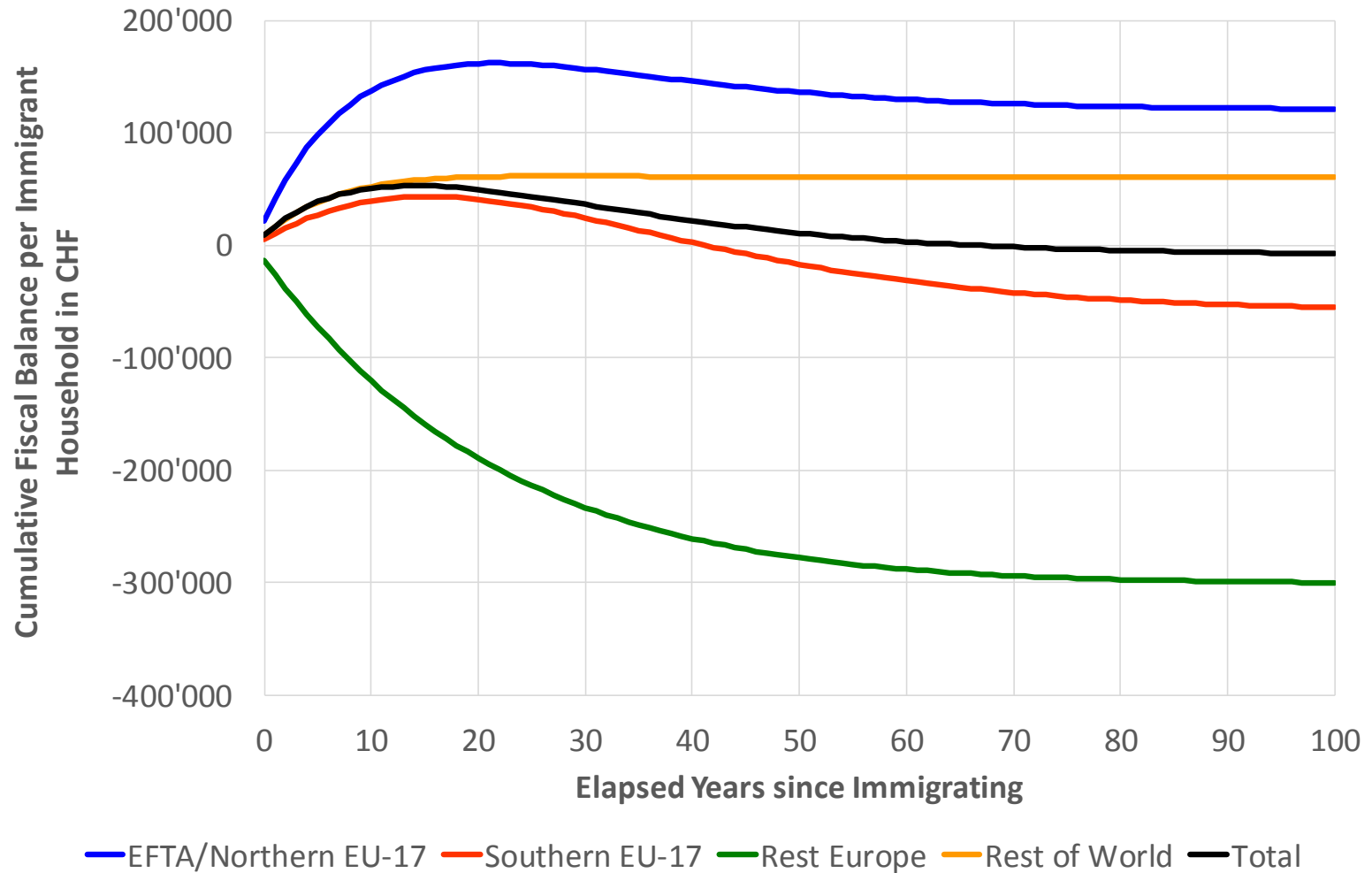
- In the past, economics has concentrated on the skill mix of immigrants and its causes.
- Yet our studies show that return migration has a greater effect on the skill composition of the foreign labor force than immigration.
- We find that the high skilled come and go while the low skilled come and stay, leading to a lower skill composition of the foreign population than the one the skill mix of immigrants would lead one to expect.

Duration of Stay of the Permanent Resident Foreign Population 18 Years or Older in Switzerland



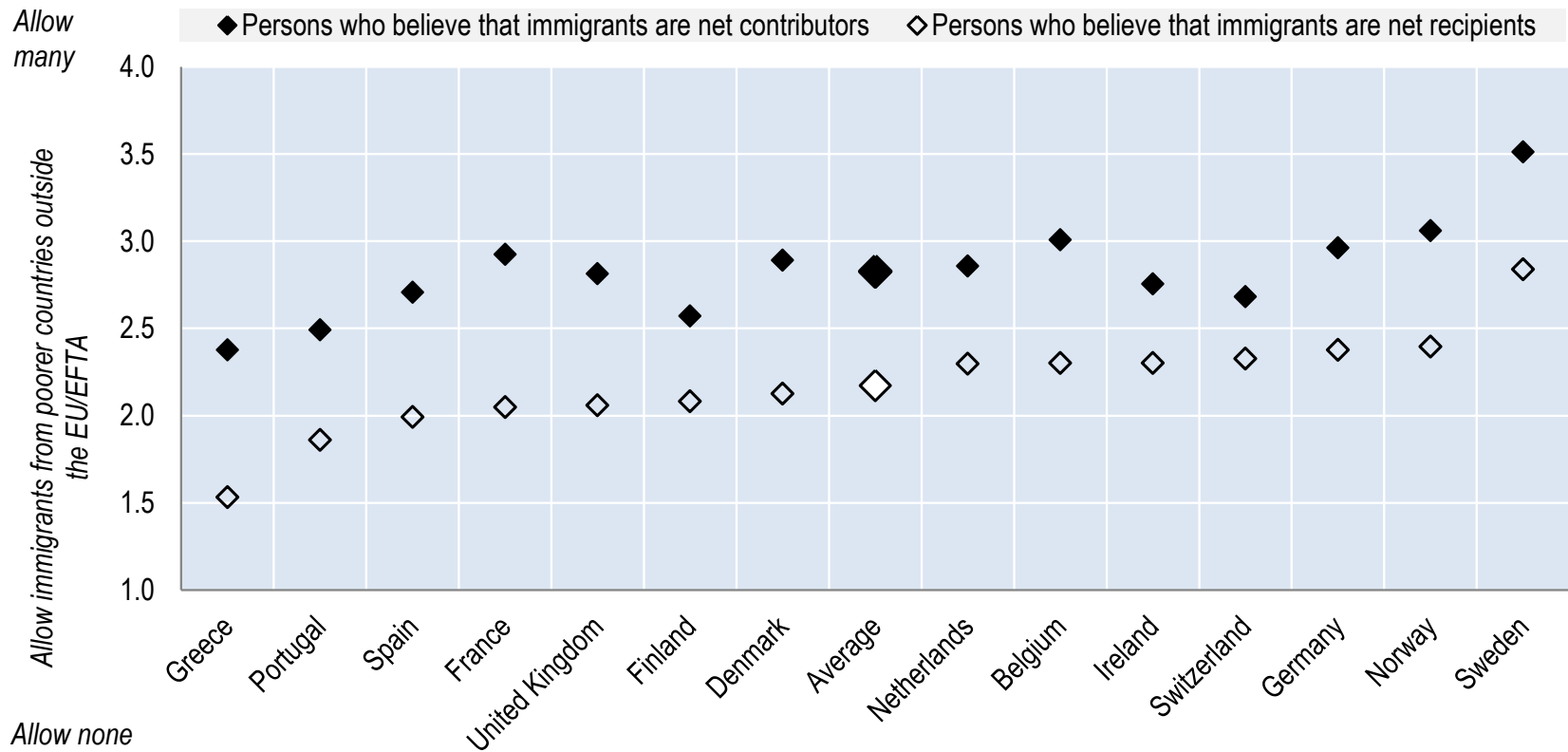
Duration of stay decreases with skill level.

Fiscal Contribution of Immigrant Cohorts



The fiscal contribution of immigrants decreases with the duration of stay.

Perception of Migrants' Fiscal Impact and Views on Migration, Selected European OECD Countries, 2008



Acceptance of immigrants increases with their perceived fiscal contribution.

Conclusions

- Policymakers need to appreciate the greater role that the free movement of labor has assumed as a result of the introduction of the Euro.
- One needs to distinguish between exogenous and endogenous immigration when assessing immigration's labor market impact.
- Migration policymakers need to focus more on return migration and its causes and impacts in developing sound migration policies.

Thank you