

## Discussion comments on “Immigration: trends and macroeconomic implications”

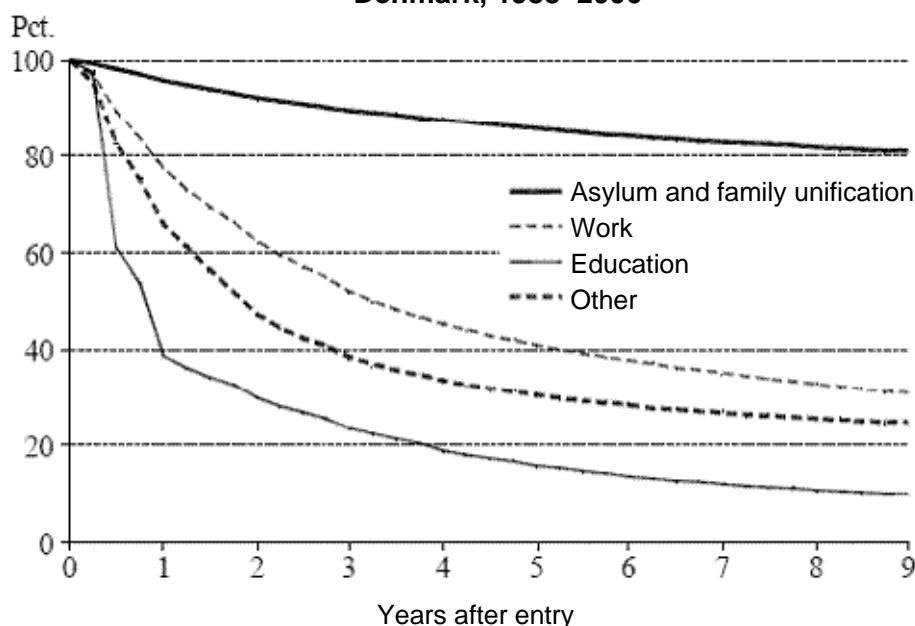
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Nickell’s paper gives a very clear and well-written discussion of some of the macroeconomic implications of immigration. I find few things on which to disagree, but would like to point to some additional aspects which are treated only marginally or not at all in the paper.

Considering the implications of immigration, it is important to distinguish between different types of migration. This is because different rules and regulations apply to different types of immigration, and because the economic effects can be rather different. Immigration rules usually distinguish between entry for humanitarian reasons (for example, as refugees or for family reunification), and as workers or students. The entry rules for refugees in most countries follow United Nations (UN) conventions, whereas countries have adopted their own rules for other types of immigration. In addition, from a labour market perspective, cross-border movers as well as foreign firms operating within the country (bringing labour with them) are important.

Graph 1

### Share of immigrants remaining in the country, Denmark, 1988–2006



Source: Danish Economic Council (2007).

The driving forces behind these types of immigration are clearly different. This is also reflected in two key characteristics concerning immigrants. The first is that they have, on average, lower labour market participation than natives, and the difference is, in general, larger for immigrants from low income countries than for those from high income countries (OECD (2007)). Secondly, the re-migration propensity differs significantly across groups. Graph 1 shows the results of a recent analysis of immigration in Denmark (Danish Economic Council (2007)). It is found that those entering to acquire education on average stay only for a few years (more than 50% leave after one year), while immigrants admitted as workers stay somewhat longer, but more than 50% leave after two years. Furthermore, graphs show that immigrants who come in as asylum seekers or to reunite with families are more

permanent, with about 80% remaining in the country after nine years. A similar pattern is seen between immigrants from high and low income countries. For the former group, about 50% leave after two years, while 70% of the latter remain after nine years.

These differences are important from both a labour market and a public finance perspective and indicate that the composition of immigrants may be more important than the volume.

One important issue is how immigration affects labour market performance. A number of countries have recently experienced a “flattening” of the Phillips-curve i.e. unemployment is reduced without releasing wage pressure. Several explanations have been offered for this. One class of explanation relates to immigration. Easier entry and exit conditions for workers due to lower explicit barriers to migration for workers (eg EU regulations) as well as lower implicit barriers (eg culture, language, travelling time etc) may create a “reserve pool of workers” or a more elastic labour supply. This implies that countries experiencing below average unemployment tend to attract workers and vice versa. A booming economy with increasing employment may therefore via immigration experience an increase in labour supply rather than increased wage pressure when firms are competing for labour. A further implication is that we should expect to see that unemployment becomes less sensitive to variations in activity (GDP). This mechanism tends to flatten the Phillips-curve via the actual flow of migrants. These mechanisms may be released by immigrants, but they may also be particularly important in countries (regions) where cross-border movement of labour is a possibility (shifting jobs between countries does not necessarily imply that one has to move).

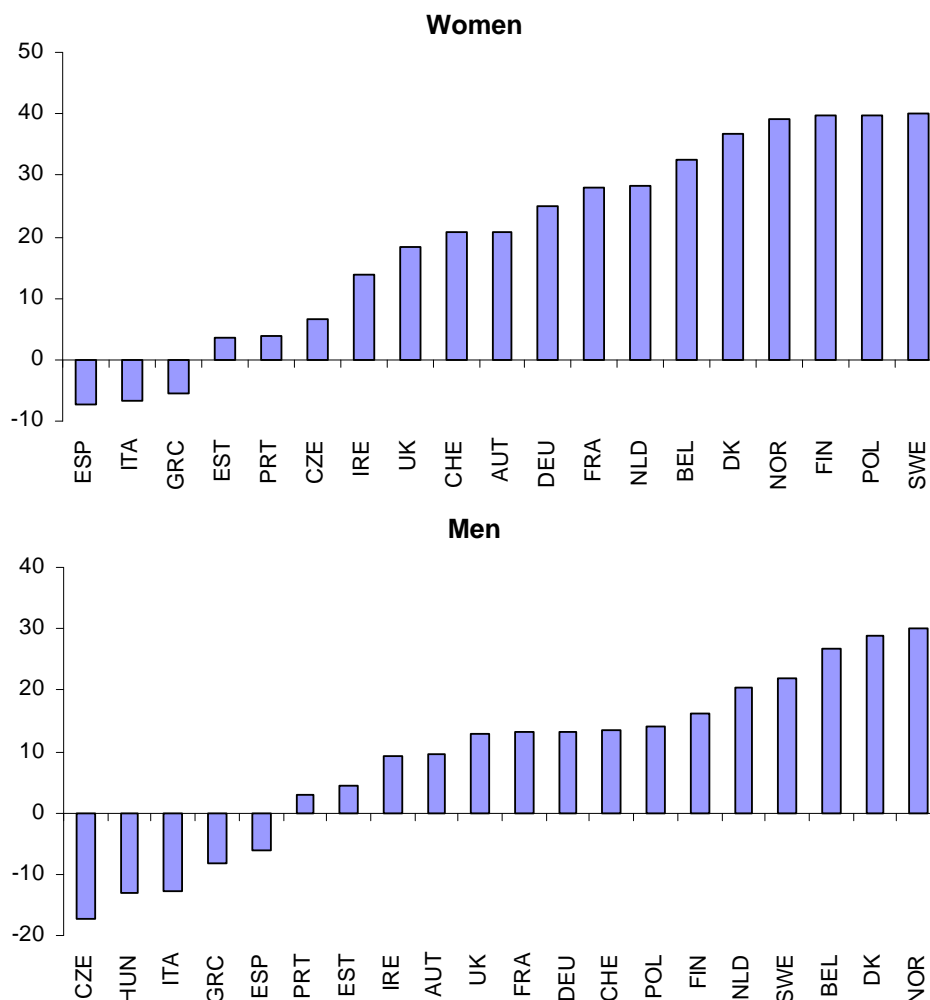
A further effect arises via the effects migration may have on wage setting. In short, the scope of migration changes the outside option. In a boom period, immigration makes the outside option of firms better in the sense that they have a possibility of fulfilling the need for labour via foreign labour. Conversely, in a recession, the outside option of workers is better since there is a possibility of working elsewhere. In short, this channel implies that the potential for migration is sufficient to change wage setting and makes it less sensitive to demand pressure in the labour market. Obviously, the strength of this mechanism also depends on the extent to which bargaining outcomes are extended to all workers (unionised versus non-unionised workers). In particular, in countries with relatively centralised labour markets, there has been concern that migrant workers may underbid domestic (unionised) workers and thereby undermine the power of unions (EU regulation).

Another important aspect is how migration affects structural unemployment. The mechanisms outlined above may work to reduce market power and thereby reduce structural unemployment. However, there are other effects which work in the other direction, and which are intimately related to the point made above on the type of immigration. This is because the effects of immigration are influenced by the institutional structure of labour markets in general, and the welfare arrangements in particular. It may be useful to think of this in terms of the triangle between qualification, wages and the social safety net. In countries with ambitious distributional objectives, the social safety net is relatively generous, which, in turn, implies that the wage level is bounded by either explicit minimum wages or the compensation offered by the social safety net. This, in turn, implies that qualifications of the work force must be sufficiently high to make these characteristics consistent with a high employment level (or, phrased differently, the supply of unskilled labour has to be low to avoid excess supply and systematic unemployment for groups with low qualifications). In countries where the distributional ambitions are smaller, the social safety net implies a lower bound under wage setting and thus on the qualification levels needed to ensure high employment. In the former case, immigrants from low income countries (on average with less qualification than natives) would have a high unemployment risk. This means that the consequences of immigration from low income countries may differ significantly between countries, depending on the labour market institutions and welfare arrangements. Graph 2 shows for a number of countries the difference between the employment frequency of the population and that of immigrants from low income countries. It is seen that the gap is largest for some North

European and the Scandinavian countries, which underlines the point that the consequence of immigration from low income countries depends critically on institutional arrangements.

Graph 2

**Difference in employment ratios, native to immigrants from low income countries, 2004**



Note: The graphs give the difference in average employment rate for natives and immigrants from low income countries. Data for Denmark, Norway and Germany applies to 2003.

Source: Eurostat and Statistic Denmark.

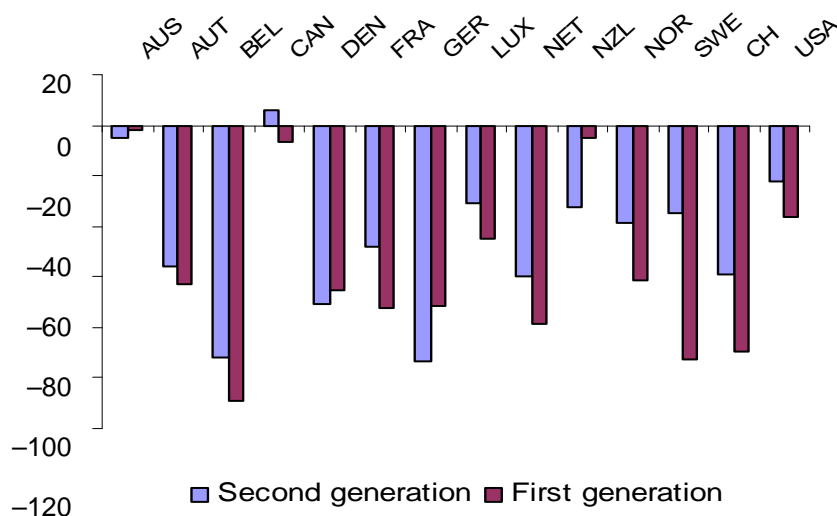
For a long time, it has been taken for granted that such gaps would not arise for second generation immigrants since they will receive the same education as natives and therefore will be equally well prepared for entry into the labour market. This perception has turned out to be too optimistic. In many countries, the performance in the educational system is on average lower for those who have an immigrant background, as illustrated in Graph 3 for mathematics performance. In addition, labour market entry may be impeded by norms and discrimination. Hence, the challenge of ensuring labour market integration of immigrants from low income countries is significant.

In debates on future demographic shifts, it is sometimes argued that immigration may be the solution. The argument is straightforward. An ageing problem arising from an increase in the number of old people relative to the prime age group can be resolved by encouraging immigration among the young. Immigration may thus seem an easy fix for the demographic challenge. The discussion above on the labour market implications indicates that the effects

may be more complicated than such simple reasoning suggests. The reason is that, although such immigration contributes to lowering the demographic dependency ratio, it solves the public finance problem only if immigrants become employed. This points to a very difficult policy problem in countries with an extended welfare system since the triangle between qualifications, wages and the social safety net in these countries makes it very difficult for immigrants from low income countries to have as high an employment ratio as natives. Hence, immigration from low income countries will not solve the ageing problem. The potential for solving the problem via immigration may also be seen in light of the fact that in a medium term perspective there is no “population surplus” in Eastern Europe. These countries are among the significant ageing countries, and, therefore, large migration flows from these regions should arguably not be expected, cf Carone (2005).

Graph 3

**Difference in mathematics performance by immigrant status, 2003**



However, by attracting immigrants who are well-qualified, the situation will be different. They would find employment more easily, and therefore be potential contributors not only to the labour market but also to public finances. Accordingly, many countries are discussing how immigration rules can be made more flexible in selecting the highly qualified. Various forms of green card or blue card arrangements are being discussed. Many countries have either implemented, or are discussing the implementation of, point systems inspired by the Canadian model where potential immigrants are awarded points based on education, language skills, experience etc. in an effort to select better qualified immigrants. Many countries also offer some form of tax rebate to attract highly qualified workers (although this may help solve some labour market problems, the tax rebate makes it less likely that it contributes to solving public finance problems), or to attract foreign students in the hope that they will also pursue a labour market career in the country after obtaining education. These initiatives show both that countries are changing their immigration policies to be more selective of labour market prospects and that countries are in fierce competition for the qualified and mobile work force.

**References**

Carone, G (2005): “Long-term labour force projections for the EU 25: a set of data for assessing the economic impact of ageing”, European Commission, *Economic Paper*, no 235.  
 Danish Economic Council (2007): *The Danish Economy—Autumn 2007*, Copenhagen.  
 OECD (2007): *International Migration Outlook*, Paris.