

ECONOMIC ASPECTS OF IMMIGRATION

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Abstract

The analysis of literature provides a review of the influence of immigration on economy. The immigration has economic motives that influence the labour market in a country of business, employment, remuneration, GDP and social system.

The research aim is to analyse the influence of immigration on employment, remuneration, social system and GDP. The research applies general scientific research methods, including monographic and logical construction methods.

Having analysed issue-related researches of several authors, the author concluded that immigration can have whether positive or negative impact on remuneration of local labour force, employment, social system and GDP. The influence of immigration on labour market depends on skills and qualification of immigrants as compared to the local market.

The negative impact of immigration is noticed in the low-skilled labour segment, while the positive impact – in the high-skilled segment.

The economic influence of migration can change over time, whereas the immigrants acquire new skills and get experience in the local market. There are a number of differences in costs and revenues among different groups of immigrants that depend on age, education and length of residency.

The influence of immigration on employment and salaries in countries of business depends on the local labour market conditions, as well as on the number of immigrants, their skills and qualification level. Immigration can decrease salaries of the local labour force with similar qualification level, at the same time decreasing revenues of one employee on average. Immigration has more negative impact on remuneration in low-skilled industries, while remuneration of high-skilled labour force can even increase, since the amount of resources produced by the low-skilled labour increases.

Keywords: economic aspects of immigration, employment, remuneration, social system, GDP.

Introduction

The social mobility increases rapidly on the global scale and has already influenced economically developed countries. The majority of foreign citizens prefer to settle in the economically developed countries, e.g. Germany, France, Spain and the United Kingdom. The economic motivation and desire to improve standards of living is a vital reason for the migration flow.

Immigration carries economic motives and influences labour market, employment, remuneration, social system and GDP of a country of business. The immigration-driven influences cannot be assessed explicitly since they can be whether positive or negative. Positive attainment is in additional labour force, or deficit specialists, who come to the local market. Negative attainment can be reflected in racial and national conflicts caused by a large number of immigrants, as well as in dependence of local market on foreign specialists (Labour market analysis and summary of recommendations for promoting accessibility to high-skilled labour force in chemicals and pharmacy industry).

Borjas (2006), Card (2001), Friedberg (2001), Dustmann, Fabbi and Preston (2005) as well as other scientists analysed economic influence of immigration on labour market, employment, remuneration, social system and GDP, and suggested several assessments of this economic influence of immigration.

The research subject is the influence of immigration on employment, remuneration, social system and GDP.

The research object is immigration.

The research tasks are to analyse the most recent publications, which are focused on theoretical aspects of immigration and to analyse the influence of immigration on employment, remuneration, social system and GDP described in the literature.

Overview of the migration theory

Having overviewed the migration theory, the author concluded that theories are based on economic factors, for example, search for a better job, necessity to get a higher salary, to ensure better quality of living, etc. – these are the factors, which improve a life and social status of an immigrant.

In a Traditional Migration Model (Push and Pull) (Bijak, Kupiszewski, Kicinger, 2004) the factors that motivate people to leave their country (Push) and factors that acquire the people in another country (Pull) influence migration (See Table 1). The Push and Pull factor model emphasizes that a decision to migrate is based on the stimulating factors, such as unemployment, weak economy, politics, and such motivating factors as good working conditions, higher salary, political stability, effective defense of human rights. The level of economic development is vital for underdeveloped countries.

Table 1

Push and Pull factors influencing migration

<i>Push factors</i>	<i>Pull factors</i>
Unemployment	Good working conditions
Differences in remuneration	Higher salary
Differences in economic development of countries	High living standards
Low living standards	Wide education opportunities
Limited career options	Effective defense of human rights
Poor healthcare	Good healthcare
Political reasons	More developed economy
Religious reasons	Social security
Cultural reasons	Political stability

Source: adapted by the author

Neo-Classical Economic Theory (Bijak, Kupiszewski, Kicinger, 2004) overviews the immigration from poorest to richest countries. Net gain calculated out of immigration costs and provided income level in target country advances immigration. According to this theory, the vector of immigration commences from poor countries towards richer countries and the highest immigration volume has to be between the poorest and the richest country.

Network Theory (Bijak, Kupiszewski, Kicinger, 2004) overviews effects of links that unite immigrants, ex-immigrants and non-migrants to a country of origin and target regions. These links are made with family members, friends and acquaintances. The existence of the links advances immigration by reducing the immigration costs, increasing the income potential and decreasing risks. The immigration can take place even if it has no economic explanation.

New Economy Theory of Work Force Migration (Bijak, Kupiszewski, Kicinger, 2004) deals with the revenue making strategy. The theory states that international immigration stems from economic disadvantages. It explains that immigration is a way of differentiating household income in order to protect from possible risks in conditions of weakening economy.

Segmented Labour Market Theory (Bijak, Kupiszewski, Kicinger, 2004) divides the labour market in two levels, whereas migration is demand-driven. The state creates shortage of employees, who are ready to undertake a second-level work since the economic benefit is low in relation to their experience or education. The labour market, according to this theory, is divided into two levels, whereas immigration is not supply-, but demand-driven. The theory forecasts that people will migrate from poor to richest countries, the underlying motive being to increase the level of life and social security.

Nowadays the European immigration model differs from immigration models introduced 50 years ago. However, the main immigration motive rests the same – to improve welfare, income level, education and security. Personal, family and political reasons also affect immigration increasingly. Social reasons linked to changes in a mode of life and education level also apply.

Immigration influences remuneration and employment

Due to the widespread opinion that immigration affects local employment and remuneration negatively, the issue is studied a lot. Borjas (2006) analyses how the influence of immigration on labour market depends on skills and qualification of immigrants as compared to local labour force. Bojar concludes that employees loose in terms of remuneration, while employers gain in terms of profit due to immigration. Dustmann, Fabbi, Preston (2005) conclude that negative influence of immigration is present in the low-skilled segment,

but positive influence – in the high-skilled segment. Rowthorn R. (2004) thinks that high-skilled immigrants and successful entrepreneurs increase economic effectiveness of their country of business. On the other hand, immigrants from poor countries, with low education level, are economically ineffective. Low-skilled immigrants are a risk for the local low-skilled labour.

Most of researches find out that high inflow of immigrants decrease remuneration of local labour market participants. It is partly connected with immigrant quality, when the volume of immigrants increases in low-skilled labour segment.

Friedberg and Hunt (1995) state that immigration has a weaker impact on remuneration. 10% increase in immigration decrease local remuneration by 1%. However, this impact can be applied to certain professional groups. The US researchers found out that 7% increase in immigration can influence local remuneration by 1-3%.

According to Friedberg and Hunt, the main factor that influences remuneration is the employment substitution factor of immigrants and local citizens. Substitution can differ among various qualification groups. It is limited for high-skilled professional groups, e.g. doctors, because education and/or qualification level of immigrants can fail to meet the level and required licenses of a target country. Accordingly, substitution is simpler for low-skilled industries. Therefore, when studying elasticity among low- and high-skilled employers, it was concluded that the impact of immigration on remuneration is stronger in low-skilled jobs as compared to high-skilled ones. Strong influence of remuneration is directly connected to qualification level of immigrants. This influence becomes negative, if the qualification level decreases.

Capital is another factor that influences remuneration. If immigrants add capital that used to be their reserves, remuneration can increase, especially in high-skilled industries. The capital can also move among industries influenced by immigration flow.

Due to immigration, remuneration evens across different countries, thus the world production increases owing to more effective use of labour resources as a result of labour immigration. New immigrants contribute to economic growth and increase in employment, but influence on remuneration and employment level as such. In addition, immigrants help to overcome shortage of labour and skills, being employed in industries with higher demand for labour.

Labour supply elasticity influence remuneration. Due to unfavourable changes in remuneration, local citizens and immigrants change employers, moving to regions with higher salaries. These changes can lessen the negative impact on remuneration. Orrenius un Zavodny (2006) suggest increasing demand for labour in manufacturing industry, which can result in decreasing the negative impact on remuneration. When the demand of immigrants grows in relation to goods that increase demand in factor markets, the pressure on remuneration level lessens.

Substitution factor, capital of an immigrant, elasticity of labour supply and qualification level of an immigrant are the core factors, which influence remuneration in a country of business (see Figure 1).

Differences in income are present in every country, region and immigration group, for instance, a high-skilled immigrant can earn more than a local citizen. Salary has a greater impact in regions with high density of immigrants, while i.e. in the regions, where the relative weight of immigrants is low, the impact of remuneration is unnoticeable. Some US researches concluded that immigrants in the US earn less than local citizens. 30 years later the immigrants start to earn by 11% more than the locals of a particular age group and education level. As a result of these studies, authors concluded that immigration influences the US economy positively.

Freidberg (2001) in his research on consequences of immigration to the Israeli labour market from 1990 to 1994, when immigration of Russian Jews to Israel rocketed by 12%, has found no negative impact on the local labour market. Bauer and Zimmermann (1999) found out that if the number of EU immigrants augments by 1%, remuneration volume could dwindle by 0.8%. It was therefore concluded that immigration volume has a negligent impact on remuneration volume, while uneven distribution of income is in direct ratio to education level of immigrants, i.e. the higher is the latter – the higher is their income that can compete with income of local citizens. Zimmermann (2009) thinks that immigration can alter economic rhythms by changing mobility of labour, however, it does not always influence the income volume per citizen. Adding the required skills to labour market can foster positive economic tendencies.

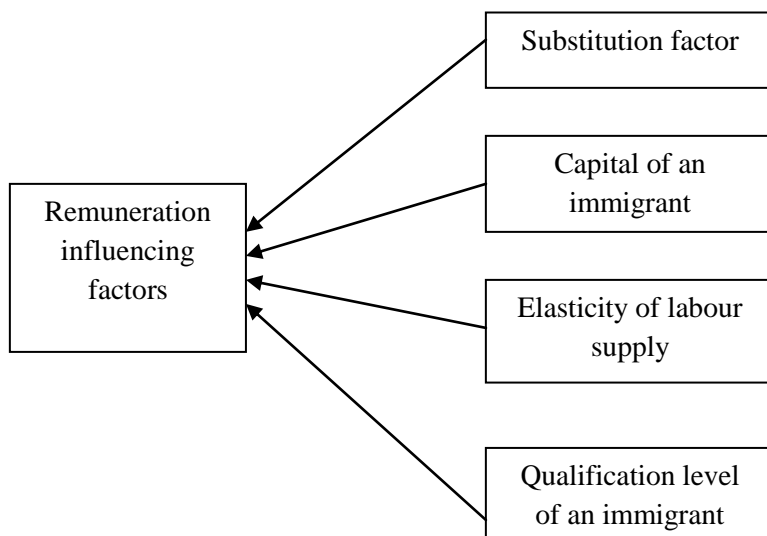


Figure 1. Factors influencing remuneration
 Source: adapted by the author

Impact of immigration on employment differs across manufacturing industries. It is assumed that immigration is able to influence the economic development; however, it is not possible to clearly define its role in lowering the local unemployment level. Carraro, Soubeyran (2005) did not find a correlation between unemployment and increase in the number of immigrants. In the countries with high immigration rate, unemployment whether stayed constant or decreased. Several studies prove that immigration positively contribute to the employment level along with manufacturing. For example, employing low-skilled labour can augment manufacturing output and thus export volume, which results in increased employment level.

It is accepted that immigration boosts employment, which is usually low-paid and low-skilled as compared to local citizens. EU studies on impact of immigration do not provide enough evidence of this impact being negative. Altonji and Card (1991) state that 1% increase in immigration decreases unemployment by 0.23%. Dustmann, Fabbri and Preston acknowledge that negative labour market influence can appear only if there are salient differences between immigrants and local citizens. The researchers conclude that new immigrants have weaker influence on employment as compared to immigrants, who reside in a country of business for a long time. The longer an immigrant stays in a country, the easier it becomes for him/her to replace a local citizen in the market.

The US studies (Borjas, 2005) found out that immigration has an important meaning in decreasing the lack of elasticity on a labour market. The US observations show that improvement of effectiveness in the labour market brings about USD 10 billion per annum (Holzer, 2005). Immigration can improve effectiveness of the labour market, if this market is competitive.

An observation of economic influence of immigration in low-skilled labour groups is shown below – Table 2.

Table 2

Appraisal of economic influence of immigration in low-skilled labour groups

<i>Researchers</i>	<i>Country</i>	<i>Influence</i>
Borjas (2006)	USA	Negative impact on employment in groups with low proficiency level
Card (2001)	USA	Negative impact on employment in groups with low proficiency level
Orrenius, Zavodny (2007)	USA	Negative impact on employment in groups with low proficiency level

Source: adapted by the author

Impact of immigration on employment can change over time, while immigrants acquire new skills and experience in the local labour market. The US studies revealed that the influence of employability was noticed in various education groups.

Borjas (2006), Card (2001) and Orrenius, Zavodny (2007) researched economic influence of immigration in low-skilled labour groups. They proved that this impact is negative. The negative appraisal is related to involvement of immigrants into low-skilled jobs, which do not benefit the economy. These scientists carried out the scientific research in the USA, where immigration reached 13.8% in 2010.

Appraisal of economic influence of immigration in all groups of immigration labour is summarised in Table 3.

Table 3 is compiled from works of the leading researchers. Most of them conclude that the economic influence of immigration on employment and remuneration is whether negative or weak. The authors, who state that immigration has a positive impact, used incomplete data for their research, and the resulting appraisal cannot be considered as complete either. Positive economic influence is noticed in Great Britain and Israel. Parasnis, Fabbi and Smyth (2006) also mention Australia, while Zorlu and Harton (2005) detected slight influence on employment in Norway.

Analysing the research results, it can be concluded that the influence of immigration on a local labour market is whether minimal or negative, and it serves as “a substitute” for the local market.

The studies reveal that inflow of immigration differs in various regions (Borjas, 2005) and its concentration is noticed in a number of low-skilled industries, e.g. construction and agriculture.

Table 3

Appraisal of economic influence of immigration in all groups of immigration labour

<i>Researchers</i>	<i>Country</i>	<i>Influence</i>
Chiswick, Miller (2002)	Australia	Negative impact on remuneration
Grady (2006)	Canada	Negative impact on remuneration
Winkelmann, Zimmermann (1993)	Germany	Slightly negative impact on employment
Zorlu, Harton (2005)	Norway	Slight impact on employment
Friedberg (2001)	Israel	Negative impact on employment and remuneration not noticed
Parasnis, Fausten, Smyth (2006)	Australia	Positive impact on employment
Dustmann, Fabbi, Preston (2005)	UK	Positive impact on employment

Source: adapted by the author

Influence of immigrants on GDP

Several researches (Taylor, 2006; Rowthorn, 2004; Borjas, 2005) suggest that growth of immigration can foster economic growth. As a result, the demand for goods increases, shortage of professional knowledge lessens and GDP raises. Immigration has a positive impact on financial industry as the social system burden lessens. Influence on inflation is rarely analysed and is not clear, because immigrants are both consumers and manufacturers, i.e. impact on total supply and demand.

Other foreign researches (The economics of migration, 2007) acknowledge that inflow of foreign labour can improve economic development and GDP, increasing supply and compensating soft spots in competencies and skills of the national economy. The study accomplished by International Trade Union admits that migrating employers spend 87% of their income (The economics of migration, 2007) in a country of business, which is an evident contribution to the economic development of this country.

The US studies (The economics of migration, 2007) revealed that immigrants augment manufacturing capacity of an economy, fostering investments. This leads to higher effectiveness and income per one employer. The World Bank forecasted the economic gain from migration until 2025, where 3% growth in labour force earnings is expected. On the global scale, the total growth of 0.63% or USD 356 billion forecasted (The economics of migration, 2007).

Therefore, it is concluded that labour force immigration influence GDP level and depends on qualification level of immigrants, because low-skilled immigration furthers uneven distribution of income considerably. Increase in high-skilled labour contributes to GDP growth.

Influence of immigrants on social system

The important political question is how immigration influences social system of a country, its welfare, education system and healthcare. Several researches admit that economic influence is comparatively low. Auerbach and Kotlikoff (1987) compared tax disbursements of immigrants with consumption of goods and services, and term of residency of immigrants in a country. The key economic conclusion is a difference between the tax disbursements and expenditures in the country during employment of an immigrant.

Immigration has a direct impact on fiscal system of a country, which is connected with influence and dynamics of labour market. Immigrants contribute to revenues of the countries through tax disbursements (including social insurance), augment healthcare, education and social security expenditures of a government.

According to Storesletten (2000), there are significant differences among groups of immigrants. High-skilled immigrants pay more taxes, but consume less goods and services. Low-skilled and older immigrants make the economy to spend more for social allowances. For this reason, immigration is considered to be a big tax burden in the EU countries, especially, in France, Germany and Italy. The British research revealed that young immigrants bring positive impact, because this kind of immigration generates more economic benefits related to tax disbursements. The CGE research states that influence of tax systems differs across regions, however, the strongest, negative influence, is noticed in the least developed regions. Rowthorn R. (2004) believes that economically inactive immigrants are a burden for every tax system. All immigration groups in total carry low fiscal effect. Qualified labour contributes positively as opposed to low-quality labor, which gets more of government allowances as compared to its tax disbursements. Therefore, net impact is close to zero.

Economic calculations (The economics of migration, 2007) prove that differences between expenditures and revenues are present within various groups of immigrants depending on age, education and residence term. As a result of the analysis of the undertaken studies about immigration and social systems, the author concluded that the time factor brings an impact on the research results. The newest researches acknowledge that immigration positively influences on the social system. Countries attract high-quality labour actively in order to foster development of the national economy.

Conclusions

1. Immigration has economic motives and it influences labour market, employment, remuneration, social system, and GDP.
2. Immigration can have whether positive or negative influence on the local remuneration, employment, social system or GDP. The impact of immigration on labour market depends on skills and qualification of immigrants, particularly when comparing these skills to the local labour.
3. Young immigrants bring weaker impact on employment in comparison to immigrants who stay in a country of business for a long time. The longer an immigrant resides in the country, the easier he/she can replace a local citizen.
4. Influence of immigration on employment can change over time, while immigrants acquire new skills and experience on the local market. Differences between expenditures and revenues exist in various groups of immigrants depending on their age, education and residence term.
5. Inflow of immigrants differs in various regions; its concentration is higher in low-skilled industries, e.g. construction and agriculture.
6. Immigration influences fiscal system of a country, which is connected with influence and dynamics of labour market. Immigrants contribute to revenues of the countries through tax disbursements (including social insurance), augment healthcare, education and social security expenditures of a government.
7. The time factor determines impact of immigrants on social system. The newest researches acknowledge that immigration positively influences on the social system. Countries attract high-quality labour actively in order to foster development of the national economy.

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