



JANUARY 2005

Temporary Immigration: A Viable Policy for Developed Countries

Paola Subacchi

Summary

- Despite what we read in the newspapers, world migration has not increased so dramatically: from 2.3% to 2.9% (as a proportion of the world population) in the 1990s. However, a breakdown by destination shows a rise in the proportion of immigrants over the total population in developed countries. In particular, during the 1990s EU immigration more than tripled.
- Economic theory sees migration as driven by the gap between income at home and abroad. But this is not entirely predictive and empirical evidence has shown that the very poor tend to remain in their home country because of the costs involved in moving.
- Trade plays a key role in driving relative factor price convergence, but what about non-tradable goods and services? For most developed countries that consume an increasingly large proportion of personal care services and have an ageing population, the question is whether the size of the domestic workforce can sustain the expansion of labour-intensive services.
- Do we need immigrants? Yes, we do. Changes in demographic patterns in most developed countries mean worker-scarcity in the labour-intensive sectors over the long term.
- The key issue is how to make immigration politically viable and overcome the hostility of a significant portion of public opinion.
- Temporary immigration should be encouraged. It would contribute to reducing tensions in the host countries while it would be economically and socially beneficial for the migrants' countries of origin.

Introduction

Just twenty years ago, entire regions – some not very far away from western Europe in terms of geographical distance – were physically and politically inaccessible. These days, we live in a much more integrated and open world. Technology has made communication faster and more widely available, while substantial reductions in transport costs have allowed a larger number of people to travel for business or pleasure. However, when it comes to cross-border mobility – that is, individuals relocating to another country – we see restrictions and controls. Even high-income countries, which, as we argue in this paper, face a structural shortage of workers to fill vacancies in the labour-intensive services sector, constrain the in-movement of people.

Migration, like trade, is certainly a highly sensitive political issue which requires careful management. Changes in demographic patterns in most developed countries, with a growing elderly population and an ever-declining number of people in the active age groups, will mean that more and more of the labour force will be coming from developing countries. Over the long term, this will result in the redistribution of most of the tradable sectors of the world economy towards these countries. Economic activity in the developed countries will increasingly be represented by non-tradable services, both in labour-intensive sectors, such as personal care, and in capital-intensive ones, such as advanced technology and research.

Rather than discussing alternatives to migration, which – so far – has proved the most cost-effective method of sustaining affordable services, this paper argues that changes in *patterns* of migration should be encouraged. In particular, temporary migration is proposed as a viable solution. It reduces the tension in the host country that arises from settlements of migrants competing for benefits and threatening local identity. Moreover, temporary migrants, who are less likely to cut links with home, can greatly contribute to the development of their own countries through remittances and, above all, by bringing back enhanced skills.

The size of the problem

Immigration is a 'hot' topic and almost every day stories about illegal immigrants and asylum seekers hit the headlines. Public opinion in developed countries, especially in Europe, is extremely sensitive to these issues, pushing policy-makers to respond with policies aimed at reducing immigration pressure. As a result, tough immigration policies have contributed to suppress a vast amount of potential migration that might otherwise have taken place, and labour mobility has become much tighter than it used to be (Hatton and Williamson, 2002; Chiswick and Hatton, 2002).

Despite what we read in the newspapers, however, world migration has not increased so dramatically. Table 1 shows hardly any change in migrants as a proportion of the world population between 1965 and 1990. The increase in the 1990s – from 2.3% to 2.9% – surely does not justify such concern.

Breaking down the figures, however, it appears that the number of foreign-born people in less developed countries fell while it increased in the developed countries from 3.1% to 4.5% between 1965 and 1990. In North America, western Europe and Australasia combined, the increase was even more pronounced, rising from 4.9% to 7.6% over the same period (Hatton and Williamson, 2002). Illegal immigration also increased, with about 300,000 illegal immigrants entering the US every year and about 400,000-500,000 entering Europe. These immigrants add an estimated 10–15%

to the foreign-born population in OECD countries. Asylum seekers also contribute to increased pressure on developed countries. According to the United Nations there were 500,000 asylum applications to 28 industrialized countries in 2000, with about a million awaiting decision. These figures have soared in the last twenty years and it seems clear that the demand for asylum has increased far faster than the supply of visas (Hatton and Williamson, 2002 and 2004a).

Migration within Europe, including Turkey, grew rapidly in the early postwar years through guestworker arrangements, particularly in Germany where by 1973 one out of nine workers was foreign-born. Foreign nationals increased from 1.3% of the west European population in 1950 to 3.6% in 1965 and 10.3% in 1990 (Stalker 1994: 189–90).

More recently, western and southern Europe have become destinations for migrants from Asia, the Middle East and Africa. After the collapse of the Soviet Union western Europe also absorbed immigrants from the east. As a result, annual net immigration into the European Union (EU) rose from 200,000 in the 1980s to over a million in 1989–93. During the 1990s, EU immigration more than tripled. Figures for EU immigration now surpass those of the US and would exceed them by even more if estimates of illegal immigrants were included (Hatton and Williamson, 2002).

What drives migration?

Several factors explain people's decision to leave their home country. These range from demographic pressures and widening income gaps to the need to flee violent and undemocratic regimes. Demographic pressures that increase the young adult proportion of the labour force are indirectly responsible for worsening employment conditions in the home labour market, hence forcing people to leave.

The choice of where to go, in its turn, is the result of several 'pull' factors such as the presence of friends and family or of expatriates from the same area, job opportunities and democratic institutions. It has been calculated that for every 1,000 previous emigrants, 20 more are 'pulled' abroad every year (Hatton and Williamson, 2002). Often migrants, especially the young and unskilled, move among several host countries before settling down.

In economic theory, migration is seen as being driven largely by differences in the relative endowments of skilled and unskilled labour in various countries and the consequent relative factor prices. Countries have different factor endowments, of which labour is one. These differences are reflected in relative factor prices. Thus, in a hypothetical two-factor world in which countries are distinguished only by their relative endowments of skilled and unskilled workers, the relative wages of skilled workers will be lower, other things being equal, in skill-abundant countries than in countries that may be labour-abundant, but where the

TABLE 1: MIGRANTS AS A PERCENTAGE OF POPULATION, 1965–2000

	1965	1975	1985	1990a	1990b	2000
World	2.3	2.1	2.2	2.3	2.9	2.9
Emigrant regions						
Africa	2.5	2.7	2.3	2.5	2.6	2.1
Asia	1.7	1.3	1.4	1.4	1.6	1.4
Latin America and Caribbean	2.4		1.8		1.6	
Immigrant regions						
North America	6.0	6.3	7.8	8.6	9.8	13.0
Europe	2.2	2.7	3.0	3.2	6.7	7.7
W. Europe	3.6	4.9	5.8	6.1	8.6	10.3
Oceania	14.4	15.6	16.9	17.8	18.0	19.1

Source: Hatton and Williamson, 2004b, Table 1. There are differences of definition in the figures for 1965-90a and 1990b-2000. The most important difference is due to the break-up of the Soviet Union.

workers are unskilled. In the absence of restrictions on labour movement, skilled workers will tend to move to countries where skills are scarce; unskilled workers will move to skill-abundant countries where they can provide the back-up to the skilled workers and perhaps acquire some expertise along the way. This shift, it is said, will continue until the relative factor prices converge.

Things are rather different in the real world. Here, wage differentials reflect differences in living standards, as well as differences in factor endowments. As a result, both skilled and unskilled workers from poor countries tend to flow to countries with higher wages and higher living standards. For instance, in the case of migration from Africa, Hatton and Williamson (2002) have estimated that a 10% rise in the foreign to home wage ratio increases net out-migration by about one per thousand of the population.¹

The theory that migration is driven by the gap between income at home and abroad, however, is not entirely predictive. Empirical evidence has shown that the very poor tend to remain in their home country because of the costs involved in moving. 'Investing' in a long-distance move is expensive and people from the very poor countries cannot afford it. As a result emigration from poor countries can only increase as economic development takes place in the source country. Thus, the narrowing of the income gap between home and abroad, which helps to relax the poverty constraint on emigration, results in an increase in emigration.

Trade and migration

Trade plays a key role in driving relative factor price convergence. Assuming no restrictions to trade, skill-abundant countries will export skill-intensive goods, while countries with unskilled workers will export low-skill, labour-intensive goods, which are the best that those unskilled workers can produce. In theory, the relative price of skilled labour rises in rich countries and falls in poor countries.

Again, the real world works in a different way. Rather than importing the bulk of skill-intensive goods and specializing where they enjoy comparative advantages, poor-skill countries will continue to produce some of these skill-intensive goods domestically. Some skilled workers, therefore, will continue to move in.

A further complication is that services, the largest sector of developed economies, are mostly labour-intensive and non-tradable. Especially in industries such as health and personal care, services cannot be replaced by imports and it is hard to replace labour with capital. For countries that consume an increasingly large portion of personal care services but are averse to opening up to immigration, the question is whether the size of the domestic workforce can sustain such an expansion of labour-intensive services.

This is a particularly crucial problem in most developed countries, notably those in western Europe and Japan, which are faced with ageing populations. Moreover, despite relatively high wage offers, the sheer availability of low-skilled workers for labour-intensive services is shrinking owing to the larger number of well-educated people than in the past. As a result, a country's decision on whether or not to restrict immigration flows should not be merely a response to immigration pressures but should take into account the current and future demographic patterns in the active age group as well as the composition of their skills.

As populations age, the demand for services, particularly in the caring and other personal services, is due to grow strongly. Wages are, therefore, expected to rise, with the risk that the provision of such services will become increasingly unaffordable for the bulk of the elderly, given that an increasing proportion is also likely to face insufficient pension provisions. This is a long-term structural problem.

Do we need immigrants?

Whether we like it or not, we need immigrants. Long-term scenarios for developed countries are not at all reassuring. Changes in demographic patterns in most developed countries, with a growing elderly population and an ever-declining number of people in the active age groups, will mean that more and more of the world's labour force will be mainly composed of people from developing countries. Over the long term, this will result in the redistribution of most of the tradable sectors of the world economy towards these countries. Economic activity in the developed countries will increasingly be represented by non-tradable services, both in labour-intensive sectors, such as personal care, and in capital-intensive ones, such as advanced technology and research.

In the face of long-term imbalances, policy-makers in developed countries need to think of viable solutions to worker-scarcity in the labour-intensive sectors. Expanding domestic labour supply through immigration, though a controversial policy,² has, so far, proved to be the most cost-effective method of sustaining affordable services.

Alternatives to migration, such as substituting imports for domestically produced goods in tradable sectors and replacing capital for labour, are, to some extent, feasible. In the first case, however, the impact on consumer prices is unclear. With regard to the second, core services cannot but be labour-intensive and can hardly be automated.

Expanding the domestic labour force by raising the retirement age and encouraging more women to join the labour force is another approach. This, in principle, could reduce the need for immigrants. However, thus far it has not delivered the expected results.

The role of policy

If economic and demographic factors are at the base of people's wish to emigrate, the current and expected future immigrant flow is largely influenced by immigration policies. Tough policy regimes can considerably reduce inflows even if immigration pressure is strong. We might then expect an adverse impact in terms of increases in illegal migration and perhaps a further escalation of policies to counter them.

From current trends we can infer that the growing imbalance between shrinking young population in the developed countries and the rising young population in less developed countries will continue to drive world migration. Moreover, successful development and poverty eradication in the Third World should relax the poverty constraint on potential emigrants from the poorest countries of the world. Finally, as foreign-born migrants increase as a proportion of total residents in high-wage countries, the 'pull' factor will contribute to increase pressure on annual immigration flows. As a result, immigration flows into developed countries are due to increase (Hatton and Williamson, 2002) even if migration towards newly industrialized countries should ease the pressure on migration policies.

A sensitive political issue

Free movement of labour remains a highly sensitive political issue, with a significant portion of public opinion in developed countries showing anti-immigrant attitudes. Despite a much more integrated global economy, all high-income countries operate controls on immigration. Voters in rich countries may be hostile towards immigrants and immigration for both economic and non-economic reasons. Racism, xenophobia and nationalist sentiment can push

citizens to vote for immigration restriction. Anti-immigrant sentiment and protectionism – two sides of the same coin – are strongly associated with nationalism, patriotism and prejudice. They are normally expressed by those with lower skill levels (O'Rourke, 2003). Skilled workers, indeed, are less likely to support restrictionist immigration policies. They are also less likely to support restrictions on imports.

Attitudes towards immigration are affected by changing economic conditions and the changing quality of immigrants³ as well as by a country's level of inequality. Where income is unevenly distributed, where low-skilled immigrants crowd out native unskilled workers and where competition for benefits is strong, anti-immigrant sentiments breed well. It is certainly the case that hostility to immigrants is greater when outsiders settle in a country where they are competing with locals for resources and benefits, and where they are perceived as a threat to the local identity.

Settling vs. temporary immigration

The key issue for policy-makers and opinion-makers, therefore, is how to make immigration politically viable and overcome the hostility of a significant portion of public opinion. Temporary immigration is one way to deal with the question. Not all migrants, however, intend to settle in the host country. Many – e.g. Latin Americans in Italy – harbour dreams of making some money and going 'back home'. Others are using the first country they arrive in as a 'stepping stone' to another – e.g. North Africans in Italy.

The propensity to settle tends to be correlated to the level of the immigrant's skill. The higher the level of skill, the greater the tendency to settle – normally through forming a family. Lower-skilled migrants tend to work abroad on a temporary basis or as seasonal workers. They leave their families behind in order to remit to them a larger proportion of their earnings in the host country.

The decision to settle in the host country depends on migration controls as well as on costs and distance. The tighter the controls and the higher the costs of reaching the destination, the greater the incentive to settle, making the temporary migrant into a permanent immigrant. There is a

direct correlation between migration costs and positive selection. For instance, immigrants from countries close to Europe tend to be poorer and less skilled than people coming from a greater distance as migration costs are lower. Greater distances, lower source country inequality, weaker networks of friends and relatives all imply that US and EU migrants coming from farther away should be more positively selected. Hatton and Williamson (2004b) show that in 1990 the proportion of US immigrants with tertiary-level schooling was more than three times higher for Asians and Africans than for Mexicans and Central Americans. While bringing better skills, however, people travelling long distances tend to settle permanently in the host country.

The case for making migration temporary is certainly significant and may even allow for a reconciliation of the divergent interests at stake. It would be politically more viable for the host country, since immigrants would have only a limited entitlement to social security and other benefits that are increasingly a burden on public finances. Moreover, immigrants would feel less compelled to establish their own communities in the host country, and thus avoid some of the potential conflicts that such living arrangements can create.

Temporary migration would be economically and socially beneficial for the migrants' countries of origin. These could rely on remittance flows – increasingly significant in the external earnings of many developing countries. Returning migrants would bring back enhanced skills that would otherwise be lost. This knowledge base might increase the ability of developing countries to compete in a number of fields, perhaps including advanced technology. In the long run, therefore, this may be of greater economic significance than remittance payments.

The continued decline in transport costs makes travel easier, thus providing a favourable background to encourage temporary migration. Policies to reduce or end migration controls should also provide favourable conditions. Countries of origin should strengthen their efforts to attract emigrants to return home and to provide a hospitable environment for work. On the whole, people will be more willing to move if they feel that migration is not forever and that they are welcomed in both host and home countries.

¹ An impact similar to that of European emigration a century ago (0.7 per thousand).

² In the UK, the National Health Service (NHS) regularly recruits workers from developing countries to fill the employment gap.

³ The real wage of urban workers in the source countries is a measure of the quality of immigrants.

References

- Chiswick, B.R. and Hatton, T.J. (2002), 'International Migration and the Integration of Labor Markets', in M. Bordo, A.M. Taylor and J.G. Williamson (eds), *Globalization in Historical Perspective* (Chicago: University of Chicago Press).
- Hatton, T. J. and Williamson, J. G. (2004a), 'Refugees, Asylum Seekers and Policy in Europe', Working Paper 10680, National Bureau of Economic Research, Cambridge, MA.
- Hatton, T. J. and Williamson, J. G. (2004b), 'International Migration in the Long-Run: Positive Selection, Negative Selection and Policy', Working Paper 10529, National Bureau of Economic Research, Cambridge MA.
- Hatton, T. J. and Williamson, J. G. (2002), 'What Fundamentals Drive World Migration?', Working Paper 9159, National Bureau of Economic Research.
- O'Rourke, K. H. (2003), 'Heckscher-Ohlin Theory and Individual Attitudes Towards Globalization', Working Paper 9872, National Bureau of Economic Research.
- Scheve, K. F. and Slaughter, M. J. (2001), 'Labour Market Competition and Individual Preferences Over Immigration Policy', *Review of Economics and Statistics*, 83, 133–45.
- Stalker, P. (1994), *The Work of Strangers: A Survey of International Labor Migration*, Geneva.

Paola Subacchi is Head of the International Economics Programme at Chatham House.