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Immigration and Society

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I believe that Europe can do without immigration. We do not need it to solve our problems. It does not help our national income. We should not push for immigration. The first step in my argument is the issue of migration and population size. There is a problem of declining birth rates and of shrinking populations in Europe, but I do not think that we need more population growth. Economic theory assumes that we produce under constant returns to scale at the aggregate level. All the evidence that I have seen is that if we double the population and we also double capital, the income per capita is constant. Thus, if we ignore for the time being all the differences between individuals, and we assume that labour is homogeneous, population size is irrelevant.

However, such analyses always ignore the third factor of production, which is land. This is mostly because farming has become negligible – it constitutes only about 2% of the national income and 2% of the labour force. However, land is very important for production itself and for some key consumption services such as housing: factories need to be built somewhere, people have to live somewhere. Land cannot be increased, so it is a constraining factor. Let me offer a simple illustration: in the year 1900 the population of the Netherlands was 5 million, in 1946 it was 9.6 million and now it is almost 16 million. In terms of square metres per head we have gone down from 6500 to just over 2000. There is a strong decline in open spaces – agriculture and recreation spaces per capita have declined from almost 6000 square metres in 1900 to under 2000 in the year 2000. Since 1946, the population has increased by 65%, and the available land per head

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has declined by 40%, just as the available land in nature and agriculture has decreased by 40%.

Economic theory states that if there is a constraining factor there is a price. If land is becoming scarce, there is a price to be paid, which means there is a loss. What is the loss? The elasticity of income per capita is equal to the land share in national income. If the land share in national income were known, it could be calculated what happens to income per head if the number of heads increases. However, the share of land in national income is not known, because national accounts do not report what share of national income is constituted by compensation for renting out land by farmers, in housing, in offices; although it must be a substantial share (it is enough to think of the increase in real estate prices, which have gone up because land is so scarce). Calculations based on the average price of land and assuming some rate of return on the investment suggest a result that might be as high as 20%, although it might also be as low as 5%. Given that the population has increased by 65% since 1946, with an elasticity of 20% we have lost 14% per capita. If the elasticity is only 5% we have lost less than 4%. In any case, we have lost as a result of the increasing population size.

The counterargument to this view refers to agglomeration effects which assume that higher population density produces positive effects. In such conditions people interact, which stimulates creativity and innovation, and dissemination of innovation is faster. There is barely any study in the literature trying to quantify the effect of population density. A rare example is the work of Antonio Ciccone and Robert E. Hall (1996)[1] on counties in the United States, in which they find that if population size in a county is doubled, and capital is doubled as well (keeping it constant per head), the income per capita increases by 5%. The same results were achieved for some countries in Europe. This would be an example of increasing returns to scale, but this benefit seems very small, especially if external effects from population growth are considered, such as air and water pollution, traffic congestion, and the pressure on the housing market. Thus, the balance of increasing population is negative. And that is why I am not in favour of immigration.

The second issue I would like to consider is what happens to the economy of a country if there is immigration. If the immigrants have the same characteristics of the natives there is only an increase in population, with homogenous labour conditions. But if immigrants differ from the native population in terms of skill and education levels, this produces distribution effects. Generally speaking, substitutes suffer loss, complements gain. If the native labour force is unskilled, and the migrants are unskilled, wages overall decrease. With complements, it is the other way round: if immigrants are unskilled, and skilled labour is needed to supervise them, there is more unskilled labour than skilled labour, and the wages of skilled labour go up. These are distribution problems, but they are mostly very small.

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Another aspect of immigration is wage pressure, which is downward if immigrants are substitutes. One way to look at this issue is to examine the situation in different regions in a country, and assess how many immigrants there are and what this does to the wages of the natives. Empirical results show that this effect is small (if the fraction of immigrants goes up by 10 percentage points, the native wage on average goes down by 1%). The effect is bigger on unskilled natives, because immigration is mostly unskilled. The strongest effects are on immigrants themselves. In the Netherlands, for example, where there is already a large Turkish population, with the inflow of more Turkish immigrants the wages in this group will decrease.

What are the effects on the immigrants themselves? The basic model applied here is what I call the 'dip and catch-up' model. Compared with similar natives, with the same education and the same experience, the immigrants earn less in the beginning but they may catch up. The effect of experience may be bigger for these immigrants than for the natives. Human capital theory suggests that they have good incentives to invest more than natives, because – as they earn less – time is less costly for them. In addition, the benefit from the investment is greater for the immigrants, because of the complementariness between the investment in skills and knowledge they had already made in their home countries and the education they earn in the receiving country.

Movement by workers originating from within the European Union, the OECD, and the Nordic labour market, basically produces no effects, no dips, no catch-ups. These workers are very similar, and their movement could be compared, in Dutch terms, to migration between Rotterdam and Amsterdam. With unskilled, non-OECD workers, there is clearly the dip, and then sometimes something like a catch-up, but never a full catch-up to similar natives. These immigrant labourers will always be at a disadvantage.

What are the effects on refugees (who make an interesting group in the Netherlands)? There is a good set of data available here from the immigration service on all the immigrants that have arrived since 1990, and these data have been linked to the data sets from CBS (income panel data). The educational level of refugees is very low: 36% have less than basic education, 62% have extended basic education. This means that almost two thirds of the refugees have barely any education at all. Strikingly, there are no returns to higher education for these refugees. After a stay of up to 5 years in the Netherlands, and in terms of probability of getting a job and similar indicators, those with secondary education (mostly secondary vocational education) do better than the unskilled with just basic or less than basic education. However, those with more than secondary education, or even with a university degree, do not do better. Actually, in some cases they even do worse. Clearly, even highly educated refugees have a very hard time entering the Dutch labour market and their education does not pay off.

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To conclude: I am not in favour of permanent immigration. We should not ignore the costs of the negative effects of population density. I am also against trying to maintain the present age composition with the help of immigration. In Europe, we are in a transition phase, and eventually we will reach a new equilibrium, although it may take 10, 20, 30 years to do so. Intra-European migration is mostly temporary. Migrants from new member states such as Poland will return home as soon as their countries of origin start to develop faster. This was the case with migrants from Italy and Spain in the past.

We should solve our problems internally, I believe this is possible. To solve the problem of the shortage of unskilled labour, we should innovate and change the way we produce. The wage structure could be changed and these workers could be paid more. In the 1960s we had a strong influx of unskilled immigrants. In retrospect, instead of encouraging and facilitating such unskilled immigration, we should have raised wages for native unskilled labour: if unskilled workers were in short supply, they should have been paid more. In this way we would have produced more capital intensively, and we might have stimulated innovation. These changes did actually take place 10 or 20 years later, so perhaps we did not gain much from this big spur of unskilled immigration. The same applies for labour in the markets of healthcare and dependence services for the elderly – here too wages should be raised and working conditions improved, so that native workers are willing to perform these tasks. Hence, while I remain in favour of open markets for the standard economic reasons, I definitely oppose using them for reasons of population growth.

Discussion

Pieter Emmer questioned the suggestion that immigration in the past brought more problems than solutions. In the 1960s, immigration from Turkey, Morocco and North Africa into Europe helped combat high unemployment rates. Many European countries experienced an economic boom and enjoyed almost full employment thanks to these migration flows. In the period concerned, capital intensive services and capital intensive industries were not yet an obvious option, while the old fashioned production industries were able to grow thanks to the inflow of migrants. Secondly, he stressed that the fact the Netherlands is a densely populated country does not constitute a problem, as pollution and transportation problems can be addressed precisely through economic growth. Thirdly, he argued that it is impossible to increase wages in a country without considering the international competition. Fourthly, he noticed that talent across the world economies is not so unequally distributed as to be all concentrated in the Netherlands, and thus the country should continue to profit from importing individuals with extra talents. Finally, he pointed out that while there are still

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about 450,000 people on the dole in the Netherlands, the country enjoys full employment in certain sectors and hence has a labour shortage problem, which can be partially countered with immigration.

A member of the audience noticed that the analysis presented by the speaker was very static as it did not consider the main source of growth, which is technology. It could be argued that bringing in the greatest minds to speed innovation in the national (Dutch) economy could be a source of growth that, in the long run, is much greater than any loss from land scarcity in the short term. Empirically, if land scarcity is such an issue, why do people in land-rich countries such as Canada or Australia voluntarily move into cities? Clearly, there must be economic gains in concentration. Another member of the audience pointed out that the latest figures from CBS indicate that the Dutch are emigrating rather than immigrating. He also stressed that both immigration and emigration in fact allow people to reshuffle themselves between different countries, and that the implicit assumption made by the speaker that people born in a country are ideal for that country was false, because to be born in a country is a matter of accident rather than purpose. Thus, general welfare can indeed be increased thanks to migration, which does not mean that reshuffling will take place on a large scale. Indeed, the numbers for those who are reshuffling are small, only 3 or 4% of the world population.

Jelle Visser noticed that an aspect that was missing in the presentations by Joop Hartog, and in part also by Piet Emmer, is the benefit that immigration brings to immigrants themselves. Even if we ignore the obvious and immediate advantages of social benefits and the welfare state, immigrants, although they also incur costs, in the long term do benefit, as do their families. Clearly, there is a distributional aspect here. On the one hand, there may be losses to the country that receives them or at least to parts of the population of the receiving country. And there may be benefits for the sending countries because of remittances. Perhaps a pricing system should be developed. A very radical idea is that entry should be auctioned. Those willing to enter should pay for it. If they do not have money, there should be a world bank with a good loan system. Radical economists argue that this would be much less cumbersome than selection systems, and that pricing systems work very well most of the time. Joop Hartog commented that economically this makes sense, because the places would be auctioned off to those willing to pay most, but that this would also immediately trigger a distribution problem as well as the classical economic problem between equity and efficiency. This system would probably be very efficient, but equity might be a serious problem. However, some countries have already developed similar schemes: in Canada, the 'admission fee' is 5000 dollars, for instance.

Pieter Emmer further commented that such a system has in fact been in existence for hundreds of years already. Usually, those that were able to emigrate

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were those that already had some money. According to him, during times of depression in European history there was little migration. The 19th century migrants to North America were not the very poor but those who were already able to pay for the trip and for bridging the first years in the new country when they would earn less. Thus, in many ways, selection actually takes place in the sending rather than the receiving country.

Grete Brochmann noticed that the speaker assumed that it was possible to control what kind of immigration was coming in. This assumption was also made by Scandinavian governments during the 1970s. However, the rate of immigration has increased tremendously since the very restrictive labour migration policy instituted in that decade. What would then be the policy implications of the speaker's suggestions? This question was complemented by a member of the audience who asked about policy implications in the market and in the government sector.

In his reply, Joop Hartog stressed the distinction between the market and the government sector. The market sector may take some time but it will eventually take its course. That was the experience in the 1960s. In the post-war period there was a long period of controlled wages, followed by an explosion caused by the labour market shortage. The employers then calculated that importing and housing unskilled labour was cheaper than paying higher wages to unskilled natives. However, at that time, there was still a big labour reserve in the Netherlands: women, both unskilled and skilled. This reserve was not used. If unskilled labour had not been massively imported then, the labour market undoubtedly would have found a native solution by pushing up wages and substitutions. Perhaps there would have been delays, but it would have happened. The government sector is different in that there is really a policy implication here. If there is a strong demand for care workers for the elderly, then the government sector should react by making such jobs more attractive.

Reference

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About the Author

Joop Hartog has been Professor of Economics at the University of Amsterdam since 1981. He studied economics in Rotterdam (The Netherlands) and Kingston (Ontario, Canada) and obtained his PhD in 1978 at Erasmus University Rotterdam. He has published ten books and some 150 articles on issues in labour economics and economics of education.

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