

Is Immigration Good For An Economy? How Is This Good For The Global Economy?

Immigration is topical in the wake of the UK EU Referendum. In fact, slowing growth has led to increasing unhappiness over immigration the world over. Yet economists insist that immigration is a good thing for an economy. Is this true? According to a 2014 OECD report, migrants account for 47% of the increase in the work force in the US, and 70% in Europe over the past 10 years, fill important niches in fast growing as well as declining sectors of the economy, are better educated than retiring cohorts, and contribute to labour market flexibility. They also contribute more in taxes and social security than they receive in benefits. Because they contribute to the growth of the labour force, immigrants contribute to the growth potential as well as the realized growth of an economy.

The fortunes of donor countries is less clear. Remittances are a substantial part of developing countries' GDP. Remittances reduce poverty and fund investment, counts as a credit in the balance of payments and increases the standard of living and reduce inequality between countries. On the other hand, emigration leads to a brain drain from developing countries. Over time, migrants accumulate skills which they can repatriate to their home countries increasing the knowledge base of these donor countries.

For the global economy, net immigration is of course absurd. When economists talk about immigration being good what they hopefully means is that a redistribution or relocation of labour is beneficial. Beneficial for whom is another matter. Let us take an optimistic view and assume that it is good for both destination and source countries for the above reasons.

Immigration is good because it moves the global economy towards a better geographical alignment between resources, capital and labour. The distribution of the benefits might not be equitable and it is reasonable to expect that in the short term, the macroeconomic benefits accrue to the destination countries. It is hoped that a reverse osmosis occurs at some stage which compensates for the initial asymmetry of benefits.

The state of the world is never static but hypothetically, if labour was optimally distributed geographically, then immigration could no longer improve growth or productivity. What is important for the immigration argument is not net immigration for any single country or region, but the minimization of friction in labour mobility. And then again the question of for whom this is beneficial emerges. It is remarkable that in most economic commentary and literature immigration is referred to instead of two way labour mobility.