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Migrants and the Global Financial Crisis

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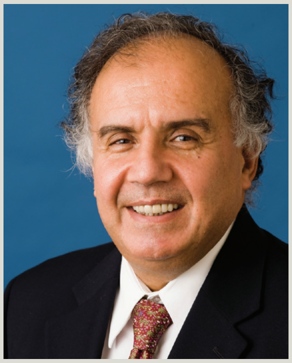
SUMMARY

- Migrants are economic assets for both their host and home countries, but the global financial crisis has disproportionately affected migrants, who are both economically and politically vulnerable.
- Migration responds to labor demand in the host country—it increases during economic booms and decreases during busts, thus minimizing competition with native-born workers.
- Policy makers in host countries should resist political pressures calling for measures against migrants and make sure that migrants' contribution to economic welfare is more broadly understood.
- Temporary migration programs and collaboration with migrant-sending countries can help maximize the economic benefits of migration, including in times of crisis.

More than 200 million people reside in a country that is not their birthplace. This "diaspora nation" of migrants outranks all but four of the world's countries in population. These migrants make an immense economic contribution both to their host country and to their home country, primarily through transfers of money they earn back to their home country, which are known as "remittances." About 82 percent of migrants originate in developing countries, and their remittances, which amounted to an estimated $305 billion in 2008, represent an essential source of foreign exchange for these countries, as well as a major instrument in the fight against poverty.

But migrants are also especially vulnerable to the financial crisis because—relative to native-born workers in their host countries—they are disproportionately young, unskilled, and employed in the worst-hit sectors, such as construction and manufacturing. Illegal migrants, who make up a significant minority of the overall migrant population in many countries, have little legal recourse and, at best, only precarious access to social safety nets. But even legal migrants are often subjected to discrimination and arbitrary treatment, and the



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A French citizen, Dadush previously served as the World Bank's director of international trade for six years and before that as director of economic policy for three years. He has also served concurrently as the director of the Bank's world economy group over the last eleven years, leading the preparation of the Bank's flagship reports on the international economy over that period.

Prior to joining the World Bank, he was president and CEO of the Economist Intelligence Unit and Business International, part of the Economist Group (1986–1992); group vice president, international, for Data Resources, Inc. (1982–1986), now Global Insight; and a consultant with McKinsey and Co. in Europe.

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risk of this is highest when their employers confront tough times.

Because migrants are politically stuck in the middle between their home and host countries, they lack voice in both. And this silence means that policy makers are dangerously insulated from migrants' concerns and insufficiently aware of their essential economic role.

Governments must recognize that migrants are an economic asset rather than a liability and thus shape their reaction to the global financial crisis, including migration and social policies, accordingly. Failure to do this would result in both short- and long-term economic welfare losses and could lead to a disastrous escalation of social tensions.

Migration Benefits Both Migrants and Those Remaining in Their Home Countries

It is widely accepted that migration has poverty-alleviating effects in migrants' countries of origin. Migrants typically triple their real earnings by working overseas, and World Bank research indicates that every 10 percent increase in per capita official remittances leads to a 3.5 percent decline in the share of people living in poverty in the remittances' destination country. Remittances arm the recipient with a steady flow of income in the face of unexpected events, such as floods or illnesses. They are also associated with increased investment in education, entrepreneurship, and health in the remittance recipient's surrounding community.

The macroeconomic benefits of remittances are also crucial. In 2007, twelve countries received in excess of 15 percent of their gross domestic product from remittances, which also serve as an invaluable source of scarce foreign exchange for most developing countries. Among other benefits, the availability of foreign exchange through remittances increases the food security of drought-prone countries and enables countries to import medicines and other technologies.

Migration Also Contributes to Economic Growth in Destination Countries

Less popularly understood are the economic benefits of migration for host countries, though research has consistently indicated that they are positive. According to the World Bank, if migration from developing countries were to increase enough to boost the labor force of high-income countries by 3 percent (thus doubling the migrant population in industrial countries), the annual welfare gains would be on the order of $356 billion, or 0.6 percent of the world's gross domestic product. These gains are greater than those that would accrue from the full liberalization of trade in goods.

These gains are driven in part by lower prices of construction and services, including hospitality, retail, health care, and domestic help. Unlike manufactures, these labor-intensive activities cannot be undertaken with cheaper labor overseas and imported; either cheaper labor must be imported, or people must travel overseas to consume the services they need, as is beginning to happen with health care and retirement homes.

Migrants also indirectly raise the economic returns from other factors of production—including land, capital, and the many types of labor that are their complements in production (for example, a large swath of agriculture in Spain and in the United States would not be internationally competitive without immigrant labor). Further, migrants are consumers as well as producers; by expanding demand in their host countries, they boost returns to all sectors. Migrants can also directly induce higher investment. For example, because migrants need shelter, they have a direct and immediate impact on residential investment.

Does Migration Increase Competition for Jobs?

The greatest concern about migration is that it leads to increased job competition for native-born unskilled workers. However, this fear is premised on the assumption that migrant workers are adequate substitutes for native workers, and that native workers want to do the same jobs. Both logic and empirical research suggest that this fear is exaggerated. Though the average low-skilled American worker has a high school diploma and speaks English, the average low-skilled Mexican migrant has six years of education and does not speak English. The two types of workers are clearly not exact substitutes. *(Refer to box.)*

Migration Responds to Labor Demand

Even given the inconclusive findings explained above, it is still reasonable to ask: Does the competition for jobs between migrants and native-born workers intensify during recessions? Though there has been very little research on this issue, one might expect competition to intensify as native workers become more willing to take lower-paying jobs. Migrants' willingness to accept even lower wages during a recession—as limited support networks and exclusion from unemployment benefits leave them with no recourse in the face of potential unemployment—might further depress wages for native-born workers.

But there are also reasons to expect that migrants compete *less* with native-born workers during recessions. When deciding whether or not to migrate, individuals take economic conditions into account. As a result, the number of new migrants entering a country increases during economic booms and decreases during busts, thereby minimizing

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BOX Does Migration Increase Competition for Jobs?

In the end, the extent of job competition between native-born and migrant workers is an empirical question. Because of its importance, it has attracted much attention from labor economists. Cross-sectional studies indicate that migrants have had a minimal impact on native workers' employment and wages. However, these studies may be susceptible to methodological pitfalls because migrants may be attracted to regions or sectors where wages are high, thus blurring any wage-depressing impact of migrants in the data. Of course, insofar as migrants are disproportionately attracted to regions and industries where wages are high, they may have a countercyclical effect on labor markets (more on this below).

Studies employing techniques that can correct for the reverse effect of wages on migration choices—so-called panel studies—may be better suited to discern the impact of migration; however, conclusions from such studies generate contradictory results. Some studies do find significant effects of migration on native-born workers' wages and employment. Immigration into the United States throughout the 1980s decreased the real wages of high school dropouts by 3.6 percent. In Europe, where wages are relatively inflexible, increased immigration has been associated with rising unemployment among native-born workers, particularly unskilled ones. However, immigration has had little impact on native workers' wages and employment in the United Kingdom, including unskilled ones. Some studies even show that immigration reduces native workers' unemployment in the long run.

What can we conclude? The evidence showing that migrants reduce the wages and employment of native-born workers is at best mixed and inconclusive; the vast majority of studies find that the effects are small either way.

labor competition during downturns. In addition, migrants are among the first to lose their jobs in a recession, further diminishing the threat they pose to native workers. From 2002 to 2006, a period of rapid economic expansion in the United States and the United Kingdom, these countries saw their foreign-born populations increase by 11 and 21 percent, respectively. Conversely, the current global financial crisis has coincided with a slowing in the rate of new migrants entering countries. Though tighter immigration controls have undoubtedly played a role, a more important cause of the slowdown appears to be anticipation that jobs would become scarcer, as well as actual declines in available jobs.

Policy makers should consider the crucial economic contribution of migrants, as well as the need to alleviate their heightened vulnerability to the recession, and step up efforts to better explain and communicate migrants' contribution.

Though there is little evidence of existing migrants returning in large numbers to their countries of origin, their unemployment rates have risen at a faster rate than those of native-born workers. Why? First, they are more concentrated in the sectors that have faced the greatest contractions, such as construction, manufacturing, and hospitality services. Second, they tend to share human capital characteristics that make them most susceptible to layoffs. They tend to be younger, have less formal education and host-country work experience, and often face language barriers. Employers find it less costly to fire and later rehire these workers, because they typically fill jobs that require little specialized training. Migrants are therefore more likely to lose their jobs during downturns and are more likely to regain them on the upswing, serving (albeit to a limited extent) to smooth the employment cycle of native workers.

(Migration outflows in Dubai have been capturing much media attention, but this phenomenon is in many ways an exception, given the emirate's extraordinary dependence on imported labor, the size of its hard-hit construction sector, and the paucity of its reserve accumulations. Notable return migration has not occurred among most other major migrant populations, including the large Mexican immigrant community in the United States.)

Resilient Remittances—So Far

Fortunately, the remittances sent back by migrants to their home countries have remained relatively resilient throughout the current global financial crisis; their estimated value is only expected to drop from $305 billion in 2008 to $280 billion in 2009. However, this is not a sign that migrants are faring well during today's crisis but a confirmation of the stability of remittances—which depend on the stock rather than the flow of migrants, and which migrants historically continue sending home even when they themselves have been hit by income shocks.

In the face of collapsing private capital flows and demand for export goods, remittances are now relatively more important to many developing countries. Still, significant risks remain. Given the income and employment losses faced by migrants in today's downturn—and the emerging signs that the employment effects of the crisis will persist even when recovery takes hold—the flow of remittances to developing nations will likely face further downward pressure in the future, a particularly worrying possibility in light of remittances' historic and now increasingly significant role in poverty alleviation.

Increasing Anti-Immigration Sentiment and Policies

Why, then, if migrants face the difficulties outlined above, are they overwhelmingly choosing to remain in their host countries during the current global financial crisis? For illegal migrants, the answer lies in part in the tight border controls and strict immigration regulations that would restrict their ability to return once recovery takes hold. Migrants are often more willing to wait out unemployment or low wages in their host country than to return home (where times are perhaps just as tough) and risk being denied reentry when the recession fades and their jobs return.

Increasingly tighter immigration restrictions, driven by calls from host-country native-born workers who fear that migrants are occupying already-scarce jobs, exacerbate migrants' unwillingness to return home during the downturn. This year, South Korea, Malaysia, and Thailand have all put some form of moratorium on incoming foreign workers. Australia, Kazakhstan, and Russia have reduced their quotas for new entrants. And the United Kingdom has increased the academic and financial requirements for migrants attempting to enter the country as skilled workers.

Perhaps the most salient example of burgeoning anti-immigration policies came in the spring of 2009, when Italy's Parliament voted to criminalize illegal immigration, opening the door to heavy fines and, under some circumstances, prison sentences for the estimated 650,000 migrants who reside and work in the country without authorization. These people include nurses, babysitters, retirement home employees, farmhands, and manual workers in manufacturing and construction. Soccer fans need not fret, however; Italy's many star players from Africa, Latin America, and Eastern Europe will not be affected, because work permits can quickly be arranged for them.

Policy Implications

The situation described above has a number of policy implications. These include both policies to mitigate the impact of the current global financial crisis and those concerned with longer-term migration management.

POLICIES TO MITIGATE THE IMPACT OF THE CURRENT CRISIS

Policy makers in host countries have reason to reject the political pressures calling for taking punitive measures against migrants, not only on moral grounds but also because such measures constitute unsound economic and social policy. Thus, policy makers should consider the crucial economic contribution of migrants, as well as the need to alleviate their heightened vulnerability to the recession, and step up efforts to better explain and communicate migrants' contribution. To complement these increased efforts, grassroots aid organizations and religious institutions can and do play an important role in supporting migrants. And the role of the mass media in shaping perceptions of migrants is especially critical. Moreover, policy makers should ensure that at least the minimum social safety net—shelter, food aid, and emergency health care—is available to migrants who lose their jobs.

Enacting new immigration restrictions may be superfluous or even counterproductive, because immigration can be expected to slow on its own in response to dampened labor demand.

Policies that exclude immigrants from social safety nets, such as the 1996 U.S. welfare law that excludes recently arrived legal immigrants from major federal public benefit programs, exacerbate the social tensions that result from large-scale migrant unemployment. The increase in both pro-immigration and anti-immigration demonstrations since the outbreak of the current global financial crisis points to this dangerous trend. For example, in Madrid, there have been a number of protests against increased police raids on illegal immigrants. Other demonstrations have been more violent; both pro-immigration and anti-immigration groups staged counterrallies in Athens, hurling bricks and gasoline bombs at each other. In the port city of Calais, France, riot police used tear gas to control 2,000 protesters who gathered to advocate for illegal migrants to be allowed into Britain.

Moreover, enacting new immigration restrictions may be superfluous or even counterproductive, because immigration can be expected to slow on its own in response to dampened labor demand. Additional restrictions may only serve to deter migrants who are contemplating returning home temporarily. Further, new immigration restrictions often take time to implement and, once implemented, are difficult to reverse. After recovery takes hold, such restrictions would limit the supply of migrants when they will be most needed to support and sustain economic growth.

Policies that promote the integration of migrants hold the greatest promise for maximizing the economic benefits of migration and minimizing tensions during an economic crisis.

Still, it can be difficult to resist heavy political pressure for stricter immigration regulations. In that case, tightening controls only on new migrants and creating incentives to induce migrants to return to their home country are better policies than those that mandate the compulsory return or punishment of existing migrants. Here, migrant-sending countries have a role to play in facilitating the social reintegration of their returning migrants. Yet even these policies of restricting new migration and incentivizing voluntary return can be expected to inflict economic damage in the long run, because the costs of enticing migrants to return after the crisis may be large.

Host-country policy makers should eschew policies that punish migrants, for—beyond their effects on migrants and their dependents in countries of origin—they would impose large costs on the firms and individuals that depend on migrants in countries of destination. Such draconian policies would thus cause suffering among a wide range of constituents, from old people to working mothers. If implemented, measures that criminalize illegal migration are bound to have severe social repercussions, given the crucial economic role migrants play and the potential for fear and recrimination.

POLICIES CONCERNED WITH LONGER-TERM MIGRATION MANAGEMENT

The adoption of rules to make temporary migration easier (whether established autonomously by the country of destination or as part of a treaty with a country of origin) would help alleviate some of the issues arising during future economic crises. Under temporary migration programs, migrants who lose their job are expected to return to their home country if they do not find another job within a reasonable period of time, but they can also return once a new job materializes, providing greater flexibility in filling labor demand. As legal residents, they can rely on the social safety net, and because temporary migrants are less likely to bring dependents, such policies can reduce the cost of providing migrants with public services.

Temporary migration programs are often criticized for leading to permanent migration. However, given the strong demand for migrant labor and the abundant supply of migrants, the answer is not to avoid temporary efforts, because such an avoidance would usually only shift legal immigrants into a situation of being illegal and more permanent. Instead, temporary programs can be better designed and executed—and include such important elements as tighter cooperation with migrant-sending countries and stronger incentives to induce migrants to return, such as portable pensions.

In the long run, an initiative to enforce migration regulations is much more likely to be effective if it targets employers through fines and licenses than if it criminalizes migrants. Employers are easier to identify, and they will respond to large fines or the threat of withdrawing licenses. Provided they are given enough notice that restrictions are tightening, they can usually adjust their business strategies and employment practices without major trauma.

Policies that promote the integration of migrants hold the greatest promise for maximizing the economic benefits of migration and minimizing tensions during an economic crisis. These policies range from the promotion of diversity in the workplace and in schools to education and urban planning.

In light of the importance of migration as a phenomenon, its large economic benefits, and the many restrictions imposed by nation-states on the movement of people, the weakness of international frameworks governing migration is remarkable. For example, no major migrant-receiving country has adopted the code on the human rights of migrants sponsored by the United Nations. And in contrast to the elaborate efforts that are made to govern the flow of goods and capital, flows of people across borders follow the law of the jungle. Adopting frameworks to protect migrants' rights in both sending and receiving countries would help alleviate the worst excesses, give reciprocal protection to the citizens of all countries, and provide countries with restraint mechanisms to reduce the risk of backtracking from economically sensible migration policies in times of crisis. ■

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RESOURCES

Visit **www.CarnegieEndowment.org/pubs** for these and other publications.

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