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Migration – Challenges and Policies

Immigration and Europe's Demographic Problems: Analysis and Policy Considerations

Giovanni Peri*

Introduction

A country's demographics have important bearings on its economy and society. In Europe the decline of birth rates and the increase in life expectancy have already produced two important consequences. First, in many European countries the total population has been growing very slowly in the last decade or it has been stagnant. Second, the proportion of people who are "old" (65 and older) is rapidly growing, while the proportion of young people (30 or younger) is shrinking. While these dynamics are at work in most developed countries, in Europe they are particularly stark. Table 1 shows the percentage of population 65 and older in some representative European and North American countries. It is clear that European countries have aged much faster than North American ones during the last 30 years. As of 2010 the percentage of population 65 and older was over 20 percent in Germany and Italy and only 12 percent in the US.

Table 1

Population aged 65 and older as share of total in %
Representative countries of Europe and North America

	1980	2010
US	11.2	12.4
Canada	9.5	14.1
France	14.1	16.8
Germany	15	20.7
Italy	13.4	20.2

Source: Author's calculations based on UN population data.

These changes have already had important effects on the labor markets of European countries, affecting the balance between young and old workers and on the public sector costs, by challenging the sustainability of the pension systems.

International migrations are also deeply affected by the evolution of world demographics. On one hand the migration pressures on Europe depend and will depend on the demographic dynamics of its neighbors (Africa), which are quite different from the demographics of Asian and Latin American countries. On the other hand immigration will affect the age structure and the population dynamics of Europe in ways that have important economic consequences. In this paper I analyze four important ways in which international migrations interact with demographic phenomena and affect their economic consequences. I will also point at important policy implications for Europe.

- First, the demographic transition in developing countries themselves, combined with the "life cycle" of migrants, (higher probability of migrating when young and low probability when old) will affect the emigration rates. In some developing countries (especially in Asia and Latin America) the transition from higher to lower fertility rates has already happened. In others (mainly in Africa) it is only at the beginning. These discrepancies will affect the composition of world migrants. In the coming decades, for geographical and historical proximity to Africa, immigration pressures are likely to be higher in Europe than in North America.

- Second, the inflow of immigrants, who are younger and have higher fertility relative to natives, affects the age composition and the rates of population growth of receiving European countries. If European countries let them in, young immigrants would increase the ratio of working to retired people and hence the sustainability of the pension systems. In the labor markets, they will provide the skills and the abilities for jobs to be performed by young workers, keeping high the demand for complementary jobs performed by

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older native workers. More open and work-oriented immigration policies would allow European countries to attenuate the economic consequences of ageing and their population decline.

- Third, the ageing of the citizens of European countries and the shift in their sources of income from labor (working) to capital (returns on pension funds) should change their attitudes towards immigrants. Older people living off investment income and public pension income (funded with taxes on active workers) should see working immigrants as less of a threat and more as an economic benefit for themselves. However, economic and sociological research also shows that older people fear immigrants and diversity more than younger people. As politicians may cater to these fears it will be even more important to bring solid economic consideration, rather than ideology, to the center of the debate. This will be needed in order to muster the political support for more open and work-oriented immigration policies which would significantly benefit the ageing native population.

- Finally the quality of life of ageing individuals in rich countries and the labor participation of women in the family (especially of those who attend the needs of elderly parents) can be positively affected by the presence of immigrants. In several countries, especially in southern Europe, large part of the home and health services directed to the elderly is performed by immigrants. They fill a large demand gap in those services. Lacking an appropriate inflow of immigrant workers, the services to older people would be performed mainly by stay-at-home women, affecting their labor force participation and their retirement decision.

In the rest of the paper I will develop each of these points in detail.

Focus on immigration from poor countries

As of 2009 the United Nations[1] estimated that 10 percent of the population residing in an OECD country (and 9 percent of those in European countries) were born abroad (immigrant). While a significant part of this mobility originated from other developed countries (up to 50 percent in some countries), more than half was coming from less developed countries. For Europe, immigration from other rich countries is mainly intra-European mobility and therefore not subject to immigration policy restrictions. Immigration from poor countries is in large part from Africa and, I will argue, it will be even greater in the future. Before analyzing how immigration may interact with the demographic pressures in Europe let us analyze how the composition of immigrants from poor countries will be affected by demographic transition in countries of emigration. Future European immigration policy should account for the shifting flows of world migrants.

Demographic transition in developing countries and future immigrants to Europe

In an interesting recent article Hatton and Williamson (2009) argue that for most "third world" countries the emigration rates (net emigrants relative to the initial population) reached a peak during the late 1980s and early 1990s. They have been stable or even declining since then. Dividing the world into three large areas of emigration, Africa, Asia and Latin America they show that for the last two regions emigration rates have been declining during the 2000s. The reason, they argue, was mainly demographical. Many Asian and Latin American countries have experienced a rapid decline in the size of their birth cohorts beginning in the 1980s.[2] The smaller cohorts reached their early working age, which is typically the time of emigration, during the 1990s and the 2000s. As smaller cohorts reached their working age and larger cohorts got older, net emigration rates declined. In contrast many African countries have not experienced the demographic decline yet (Table 2) and hence their emigration rates have not peaked. Migration rates exhibit some inertia. As previous migrants attract new migrants via network and family effects the inversion of migration rates (from growing to declining) may be slowed when fundamentals changes. However Hatton and Williamson (2009) argue that there is strong evidence that the cycle of migration from Latin America and Asia has peaked: the young cohorts are smaller and the income of those countries has been growing, thereby reducing the income gap. In contrast the cycle of emigration from Africa is only at the beginning as those coun-

[1] United Nations (2009).

[2] See Table 2 for some comparisons in the size of the birth cohorts in 1970 and 2000 across some representative emigration countries. Notice the much smaller size, in 2000 of the birth cohorts in Asian and Latin American countries, relative to African countries.

Table 2

Birth cohort (age 0–4) as percentage of the population
Representative countries of origin

	1970	2000
China	10	5.6
India	14.4	10.7
Philippines	16.4	12.6
Mexico	17.6	9.6
Senegal	18.4	16.5
Nigeria	17.1	16.1

Source: Author's calculation based on UN population data.

Table 3

Percentage abroad and emigration rates of the Mexican male population

	Share of Mexicans abroad	Net emigration rate of Mexicans during the following decade
1970	1.0	1.9
1980	2.6	5.4
1990	7.6	2.0
2000	8.4	2.2
2005	10.2	–

Source: Author's calculations based on Mexican census data.

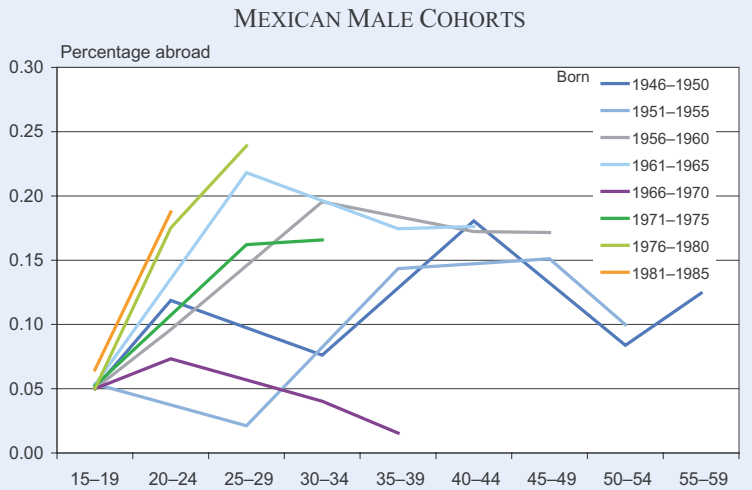
tries are escaping dire poverty (which traps people into the country) and still have high fertility rates.

This simple difference in the demographic profile of world regions will change the composition of world migrant flows. Fewer Asians and Latin Americans will emigrate and more Africans will. Why is this important for European countries? Because for geographic and historical (colonial) reasons this means that Europe will be more likely than North America to be on the receiving end of the future migration flows. Similarly, this means that the economic future of Africa will affect migratory flows. In the early phases of economic development, growth in income per person is associated with larger migration rates. Fast economic growth in Africa may imply larger migration of young people from that region to Europe.

In order to illustrate the relationship between demographics in sending countries and emigration rates it is instructive to consider, briefly, the case of emigration from Mexico. During the last four decades Mexico-US has been the largest migration corridor in the world. It involves short-distance migration between a middle income and a high income country. This situation is similar to that between Europe and North Africa and hence this case may contain a lesson concerning the effect of demography on emigration, which can be useful for Europe. Mexico in the 1970s was not very different in terms of demographics and development level to present day North Africa.

Table 3 shows the net emigration rates of Mexicans (including documented and undocumented emigrants). It is the percentage of people born in Mexico who moved abroad during each decade between 1970 and 2000 and between 2000 and 2005. This rate peaked in the 1980s with more than 5 percent of the Mexican population moving abroad during that decade alone. In the following decades (1990s and 2000s) the net emigration rates were much lower (around 2 percent). The size of the birth cohorts in Mexico between 1950 and 2000 peaked before 1970 and has declined since then. Hence, as also pointed out by Hanson and McIntosh (2010), the decline of immigration rates corresponds to the year when smaller birth cohorts were reaching working age (16–20 years of age). Therefore the lower emigration rates during the 1990s and the 2000s (and even more in the future decades) have a simple explanation: fewer Mexicans, were in the age bracket with a high risk of net emigration. The Figure shows the percentage of emigrants in each male five-year cohort born in Mexico between 1946 and 2000. It is clear that for each cohort the largest emigration rates (increase in emigrants as percentage of the group) was observed

Figure



Source: Author's calculations on data from the Mexican census 1960, 1970, 1990 and 2000.

between the age of 15 and 35. After 40 the percentage of residents abroad does not increase, and sometimes it decreases (return migration). Hanson and McIntosh (2010) show that the simple demographics described above explain more than 40 percent of the increase in emigration rates from Mexico to the US in the period 1970–2000.

Countries like Senegal, Nigeria and Congo (Table 2) have only recently reached the peak of their birth cohort size. The existing network of migrants from these countries in Europe and the recent growth in the African economies may generate in the coming decades a flow of migration to Europe similar to the one from Mexico to the US during the 1980s and 1990s. European policy makers should therefore be prepared to plan for these increasing pressures. Immigrants from these countries can be absorbed much better if they are allowed to enter on working visas. This would reduce the incentive to undocumented immigration. Increasing the inflows of documented, productive, young immigrant workers would also increase their contribution to the economy and to the pension system. An important step will be to involve African countries in negotiations about number of visas, type and enforcement of immigrant laws. More work visas can be negotiated with African countries in exchange for common action to keep immigration legal. Demographic pressures are slow and predictable and hence European countries should begin planning accounting for these changes.

Immigrants and age structure in Europe

The increased immigration pressure from Africa, with its young population, and the low fertility in Europe have two interesting consequences on the population structure of European countries. First, a large share of the population growth in European countries could be driven by immigrants. Already during the 1990s, immigrants represented around 35 percent of the net population growth in Germany and the UK and about 40 percent of net population growth in the Sweden and Ireland.[3] For some countries, whose native population is already in decline (e.g., Italy) immigration was the only component, during the last decade, that partially offset this decline. Second, the inflow of immigrants will slow down the relative growth of the dependency ratio (number of people retired relative to working population). Young immigrants will eventually age making this a transitional effect. However, delaying the increase in the dependency ratio can be important to allow a less drastic reduction in pension benefits and increase in pension age during the transition period.

Most recent estimates find small positive fiscal effects[4] of immigrants in countries with small welfare systems such as the US (Smith and Edmonton 1997) and small negative effects in countries with more generous welfare systems (Rowthorn 2008). However in countries that are rapidly ageing, the contribution of immigrants, who pay into the social security system but will not draw from it for a while, is much larger than their cost. Moreover, for European countries such as Spain, Italy and Greece in which the burden of public debt per capita is high the growth of total GDP (not just per capita) is crucial to maintain the sustainability of the debt. Total GDP growth is helped by immigrants. One interesting policy would be to add on an extra fee for immigrants' contributions to the public pension system. This would make more transparent their subsidization of the older citizens (currently they subsidize pensions in a pay-as-you-go systems just as a virtue of their age distribution). Also, in order to make politically feasible the increase in the number of temporary and permanent immigrant work visas, governments could charge significantly higher fees. More immigrants will be able to enter Europe and work legally, thereby generating larger inflows of tax revenues for the public pension system and for the receiving government. We think that a significant increase in the quota of work visas together with an increase in the immigration fees would bring those beneficial effects and be politically more feasible.

Younger immigrants can also help productivity and the wages of natives in the labor markets. The difference in age profile between immigrants and natives is a dimension of skill complementarities[5] that may help native workers. As the labor supply of older relative to younger workers increases in European countries, this will depress the wages and employment opportunities of older workers. Card and Lemieux (2001) show how the large size of young cohorts depressed wages for young workers in the 1970s in the US. The same effect may happen for older cohorts in Europe in the 2000s. Immigrants could attenuate this effect by filling jobs and occupations that need youn-

[3] See Docquier et al. (2010).

[4] The net fiscal effect of immigrants is the difference between what they pay in taxes and what they receive in public benefits.

[5] These complementarities are emphasized in Ottaviano and Peri (2012) and in Peri and Sparber (2009).

ger workers and complement the productivity of older workers who would retain more supervisory and organizational roles. Increasing the number of work visas for young immigrants would, therefore, also help alleviate the age imbalance on the labor market.

Ageing and immigration policies

Demographics may also play a role in shaping the opinion of natives about immigration. From an economic and fiscal point of view immigration is likely to benefit mostly older workers and retirees. Immigrants help pay for their pensions and provide labor that increases the productivity of capital (mostly owned by older people). They rent their houses and complement their skills on the labor market. Based on economic calculations the elderly should be particularly well disposed towards immigrants. On the contrary, most surveys and studies (e.g., Card, Dustmann and Preston 2009; Hanson, Scheve and Slaughter 2007; United Nations 2009) find that older people maintain less favorable attitudes towards immigrants than young people, other things being equal.

Probably older people feel more vulnerable and less inclined to changes and immigrants often may represent a change in the opportunities and customs of the local communities. As older workers and retirees become an increasingly important constituency, politicians will cater more to their preferences. They will also play to their fears. In this respect it will be even more important to offset these ideological tendencies with more informed and fact-based considerations. If an ageing population encourages a shift towards more demagogic anti-immigration platforms, the elderly themselves will be paying the higher economic price as they will have to forego the important benefits described above. It will be very important that the public discourse on immigration brings more information and analysis of the economic benefits and less ideology to inform and empower this vulnerable group. The elderly would benefit from more open immigration policies and therefore should support them.

Immigrants, the home-care sector and the retirement decisions of natives

One of the challenges of the demographic evolution in Europe is the pressure it creates to reform the pension systems. The shift towards less generous benefits, fully-funded systems and higher retirement age is inevitable. The question is how drastic and rapid the change must be in order to ensure sustainability. I have already mentioned how the younger age of immigrants and a system based on larger immigration fees and a larger quota for working visas can help the transition. There is an additional effect of immigration that could be quite relevant, especially for southern European countries.

The ageing of the population is increasing the needs for services to assist elderly and grant them personal and health care. In many countries people over 80 years of age need these services in southern European countries, because of cultural values and lack of available public care, most of the assistance is done at home. Immigrants have become the overwhelming majority of workers who assist elderly people in their homes. In Italy 70 percent of home-care jobs were taken by immigrants in 2008. Similarly a large part of home care in Spain, Greece and Portugal is performed by immigrants. Without immigrant workers, the assistance of elderly people is usually performed by the family, most likely by a woman. Such involvement in the care of elderly parents is likely to result in earlier retirement (typically in the age range between 50 and 65). An interesting recent study (Romiti and Rossi, 2011) shows that in Italy the presence of immigrants significantly increased the retirement age of women with a living elderly parent. An increase in immigrants by 4 percent of the population in a region increased the average retirement age by one year.

As a consequence immigrants, by providing affordable care for ageing parents, allow women in their fifties and sixties to delay retirement age. This is another way immigration will complement native needs and smooth the transition towards higher retirement ages, reducing the costs of those decisions for native families. In the elderly care sector there should be a significant increase in the number of visas for foreign workers. These jobs are in high demand because of the ageing population. The availability of affordable immigrant services in the sector will encourage women to stay in the labor force and retire later. A larger number of permits, together with a larger visa-processing fee, and increased speed and efficiency in granting them, will generate jobs, encourage later retirement and produce valuable public revenues.

Conclusions

Demographic trends are slow and are overlooked during periods of economic turmoil and rapid change as in the years since the financial crisis. Nevertheless they have a deep and important long-term effect. The ageing of the population in Europe, the low fertility and the increasing share of older people are deeply changing our economies and societies. Immigration that typically brings younger people represents an opportunity to reduce the adverse consequences of those demographic changes in Europe. Immigrants will slow the growth of the ageing population, they provide jobs and services needed by an ageing population, they complement the skills of natives and represent an important contribution to population growth. Encouraging larger immigration flows for working purposes, by increasing the number of temporary and permanent working visas would help Europe cope with the consequences of ageing. At the same time ageing societies may become more hostile to changes and, therefore, to immigrants. Raising the fees for working visas and using the revenues to fund the pension system and local government services would help to increase further the benefits to the receiving countries. It would also raise the political support for a larger number of working immigrants.

While it would be very profitable from an economic and demographic perspective to encourage the immigration of young working people from poor countries to Europe, ideological and cultural attitudes often prevail. We economists should continue to point out the advantages of migrations and the economic costs of the ideological positions that restrict the inflow of working immigrants. Europe needs to have immigration policies that take into account these long-term trends and are based on factual information and economic considerations that move beyond the ideological and "emergency" approach it has taken so far.

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