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Introductory Chapter: Immigration and Economic Growth and Development

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1. Introduction

Recent anti-immigration policies coming out with the Donald Trump presidency as well as in some European Countries make the relationship between immigration and economic growth and development a crucial topic to be addressed. Moreover, climate change, poverty, and wars led to a huge number of refugees coming from Africa and Asia to Europe, leading to overwhelming and shocking loss of human lives.

The faster social sciences address this issue, the faster it can inform policy about the direction it should take to improve welfare in world populations.

The evidence on immigration flows is overwhelming. Focusing only on Sub-Saharan immigrants in the USA, the number of immigrants rose from 130,000 in the 1980s to almost 1.8 million in 2015 (see **Figure 1**, reproduced from Zong and Batalova [1]). The current flow of Sub-Saharan Africans consists of skilled professionals, individuals seeking reunification with relatives, and refugees from war-torn countries. However, this is still a small community of immigrants in the US, amounting to near 4%.

2. The effects of immigration on growth and development

Immigration should have an effect in growth and development through different channels: labor supply and unemployment, human capital, entrepreneurship, social security, public expenditures, and social integration. Those effects can also be different on the short and long run.

Labor supply increases with immigration. While this can lead to increases in the unemployment rate, it can also help the economy to fulfill job market vacancies in some low skilled jobs,

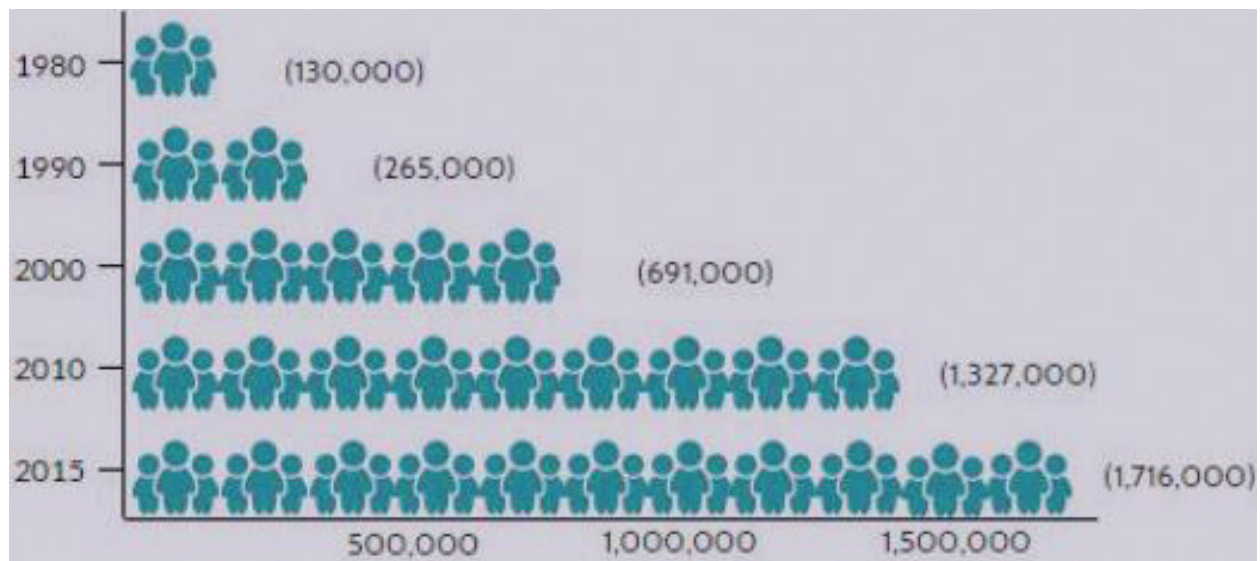


Figure 1. Sub-Saharan African immigrant population in the United States, 1980–2015. Source: Data from U.S. Census Bureau 2006, 2010, and 2015 American Community Surveys (ACS), and Gibson and Jung [2] (available online).

which most nationals in developed countries are not willing to fill. The overall effect on growth and unemployment rate is thus uncertain.

However, some of the emigrants are also highly skilled (examples are the immigrations flows from Eastern to Western Europe and of some highly skilled people in India and China to the USA). In this case, growth may benefit from immigration, through a human capital channel. High-skilled immigrants contribute to the added value and growth on developed economies.

The same positive effect can be obtained from the effect of entrepreneurship. International literature has discovered that immigrants show more entrepreneurial skills than natives in several countries, namely in the US. This may happen both because immigrants are idiosyncratically more adventurous and also because cross-cultural experiences increase entrepreneurial capabilities. This approach is linked to the idea that entrepreneurial features are determined by individual features [3, 4]. However, this approach has been seriously questioned recently [5]. The point is that the previous approach ignores the importance of the link between individual or social features and the environment in the reception country. More precisely, a successful entrepreneur in South Africa may not become so successful in Canada due to a worse fit between her/his own individual and social features and the market and social environment in Canada.

On the possible negative effects of immigration, people and politicians usually identify a pressure on the side of public expenditures and social integration. In fact, the increase in legal immigration may increase public expenditures linked to social integration expenditures (such as poverty relief, government-provided shelter, and medical assistance). This may divert resources from nationals to immigrants and even contribute to increase taxes to employed nationals. Even though the rise in expenditures due to immigration costs can be supported through public debt, through the Ricardian effect, future generations may be waived with more taxes. Besides this, it is important to consider the effects of immigration on the social cohesion of a given region or country. In fact, due

to different cultures and languages and even religions, without integration policies, immigrants may be segregated and if so, originate increases in social instability and crime.

Many of these effects can be different in the short and long run. Some of those effects are analyzed for Europe by a recent FMI staff research paper [6]. For example, while, firstly, immigrants may pose a pressure on the fiscal side, and thus put a pressure on the increase on taxes, which can deter growth, with the gradual integration of migrants on the labor markets of the receiving countries; they can contribute positively to production and productivity, depending on the tasks they can perform on the value chain of the receiving countries. Integration policies are thus crucial to emphasize the positive effects of immigration when compared to the negative effects. From those integration policies, training and apprenticeship programs on the language of the receiving countries are particularly useful for the integration of immigrants on the labor market. Thus, it is important to emphasize that the more successful are the integration policies, the more the positive effects overcome the negative effects of immigration.

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