

## The Fiscal and Economic Impact of Migration

- ▶ **Immigrants have a broadly neutral impact** on the public purse in OECD countries, receiving in state benefits around about as much as they pay in tax and social contributions.
- ▶ **Employment – or whether migrants are working or not – is the most important determinant** of their fiscal impact.
- ▶ **Immigrants account for much of the increase** in the size of the workforce; they fill important niches both in fast-growing and rapidly declining sectors of the economy.
- ▶ **The share of highly educated immigrants is rising sharply** in OECD countries; over the past decade it rose 70%, in part because of immigration from Asia.
- ▶ **A lack of internationally comparable data** makes it difficult to determine the overall impact of net migration on economic growth.

### What's the issue?

Migration can be a contentious issue, with public debate sometimes informed by perceptions that do not stand up to analysis. This is especially true in discussions of the fiscal and economic impacts of migration – complex issues with many strands. These include immigrants' employment rates, the extent to which they pay taxes and receive benefits and their contribution to an economy's capacity for innovation.

How are these issues debated? As with so much else in migration, the answer varies greatly around the world, and views are likely to reflect each country's historical and current experience of immigration. However, throughout the economic slowdown in recent years, there have been signs, perhaps especially in Europe, of rising public anxiety about migration.

Developing an accurate understanding of the fiscal and economic impacts of migration is essential to informing public debate. It is also vital if governments are to design effective policies that maximise the contribution of immigrants to their new homes.

### Why is this important?

**A neutral fiscal impact.** Measuring the impact of migration on the public purse is a complex task. Nevertheless, over the past 50 years migrants appear to have had a broadly neutral impact in OECD countries. In other words, the cost of whatever state benefits they received was largely covered by the taxes they paid. Where migrants did have a fiscal impact, it rarely exceeded plus or minus 0.5% of GDP. But while the impact of immigrants on the public purse is, broadly speaking, neutral, it is less favourable than that of native-born people. In short, migrants are not a major burden on state spending, but nor are they a panacea for improving public finances.

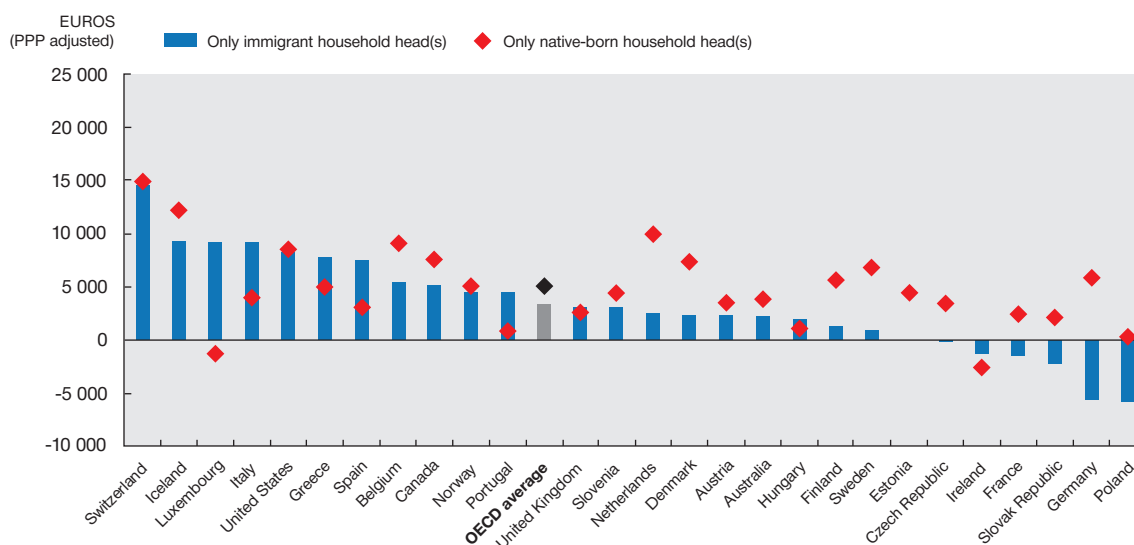
**Labour migration brings greatest benefits.** The rate of employment among migrants is the key factor in determining migration's impact on the public purse. The biggest positive impact is found where an immigrant population includes large numbers of people who have arrived relatively recently to work. By contrast, the least positive impact is seen in countries where there is a longstanding migrant population and relatively little recent labour migration. But even where the impact is less favourable, the reasons have usually less to do with a greater dependence on social benefits and more to do with the fact that immigrants may be earning lower wages and thus paying lower taxes. Raising migrants' employment rates to match those of locals is, where appropriate, an important consideration for public policy both for economic reasons and – in many cases – to help migrants meet their own goals.

**Positive showing for low-educated migrants.** The fiscal situation of low-educated migrants – in other words, the difference between the contributions they make and the benefits they receive – is stronger than that of their native-born peers, a finding that may run contrary to popular perceptions.

**A boost to the labour force.** Over the past 10 years, immigrants represented 47% of the increase in the workforce in the United States, and 70% in Europe. They play a major role in sectors of the economy witnessing great change. In Europe, new immigrants represented 15% of new hires in strongly growing occupations, such as in healthcare and in science and technology, and 22% in the United States. But migrants were also strongly present in declining occupations, taking up jobs that local workers may regard as unattractive. In Europe, migrants represented 24% of new hires in areas like machine

## The fiscal impact of migration

Average net direct fiscal contribution of households by migration status of head of household



Source: Liebig and Mo (2013)

The fiscal impact of immigrants is broadly neutral or slightly positive in most OECD countries, although often lower than the impact of natives.

operating and assembly; in the US, they represented about 28% of hires in production, installation and maintenance.

**Migrants address labour market imbalances.** Labour markets in EU countries went through very different experiences during the Great Recession, with some enduring much higher rates of unemployment than others. Increased labour mobility in Europe following the 2004 and 2007 EU enlargements, which added 13 new members to the Union, played a significant role in redressing such imbalances, absorbing up to a quarter of the asymmetric shocks to Europe's labour markets.

**Immigrants are increasingly well-educated.** In OECD countries, the proportion of highly-educated immigrants is rising sharply. In the past decade, the number of tertiary-educated immigrants in OECD countries rose by 70%, a trend driven mostly by Asian migration. Over the past five years, over 2 million Asian migrants with tertiary education have arrived in the OECD. Overall, over a third of new migrants entering the labour market are tertiary-educated; on the other hand, around the same proportion have not completed secondary education.

**A wider economic impact?** Migration can affect economic growth in a number of ways. First, it increases the size of the population and, especially, the working-age population. Second, migrants arrive with skills and abilities. Evidence from the US suggests skilled immigrants contribute to research and innovation, as well as technological progress. Nevertheless, an absence of internationally comparable data has made it difficult to estimate the overall impact of net migration –

outflows vs. inflows – on economic growth. One study of 22 OECD countries that did examine these issues found that the human capital brought by migrants had a positive but only very small impact on growth.

For further information see [www.oecd.org/migration](http://www.oecd.org/migration).



### Sources

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