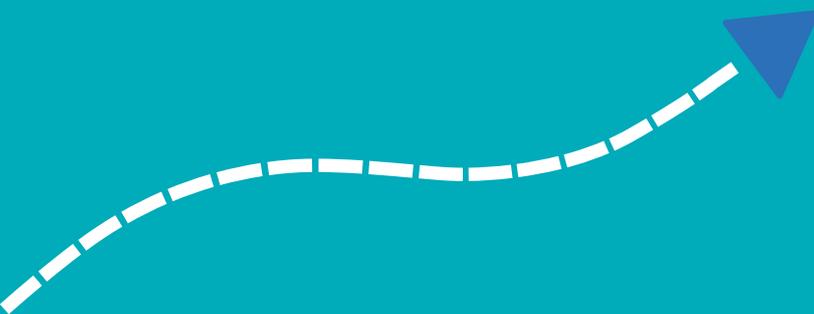


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9. THE ECONOMIC IMPACT OF MIGRATION

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In this chapter, you will learn about the economic costs and benefits of migration for destination countries and countries of origin: how migration affects state revenues and expenditure, the labour market and other markets, and how it affects the country's wider economic prospects.

The economic impact of migration is perhaps one of the most multifaceted and misunderstood issues in the field of migration in general. At one end are optimists who expect long-term economic benefits from immigrants, both as a workforce and as taxpayers. Pessimists fear that migrants will take away jobs from the main population or live at the state's expense. So, where lies the truth?

Migration as a positive-sum or negative-sum game?

In practice, a lot depends on who is migrating, from where and for what purpose. Also, whether we analyse the economic impact of migration from the point of view of the destination country, the country of origin or the migrant. Migration can easily be a positive-sum game, where all three win: the country of origin, the destination country and the migrant. For example, if there is a big demographic explosion in the country of origin and significantly more people reach adulthood than are needed in their labour market, but there is a shortage of labour in the destination country. The winners are the country of origin, whose social welfare burden is decreasing; the migrant, whose quality of life is improving; and the destination country, which receives a few more workers and taxpayers.

At the same time, migration can quite easily become a negative-sum game, for example, when a highly educated person from a country with a declining population goes abroad for a simple job. This is a great loss for the country of origin, which has probably invested in his/her education; it does not greatly benefit the destination country, because the economic added value of an immigrant is small (although an educated person generally integrates better); and the migrant may gain a little in wages or living standards, but not in self-realisation.

Next, we take a closer look at the impact of migration on the destination country and the country of origin.

The economic impact of immigration

Immigrants as taxpayers and consumers

If we look at the impact of migration as a simple cost-benefit calculation, then for the destination country the migrant as both a taxpayer and a consumer is on the revenue side. Almost all migrants are taxpayers and consumers in some way. This is also so for a study migrant, who often pays tuition and for accommodation. In 2016, 5.1 million international students worldwide accounted for an estimated [300 billion dollars](#) in economic impact. It has also been calculated that in Estonia the daily

expenses of international students in 2019/2020 amounted to 33 million euros and in 2020, they paid an additional 10 million euros in labour taxes to the state revenue (plus another [3 million](#) euros in labour taxes from foreign graduates). In 2020, 5,520 foreign students studied in Estonia. However, the positive effects of migration can also be more indirect. For example, as consumers, migrants help to create a scale effect: the more people there are, the larger the market and the cheaper the unit price.

But the migration equation also has a cost side. In the long run, low-income simple jobs may be automated, leaving some people unemployed. A meagre salary doesn't allow one to accumulate an economic buffer, which in turn increases the state's costs in the case of unemployment or retraining. This is also reflected, for example, in unemployment statistics. In new immigration countries that have experienced an influx of foreign labour in recent years, the employment of foreigners can sometimes be even [higher](#) than that of locals, but this effect may diminish over time.

The costs also include other public services for migrants. In general, the same rule applies to migrants as to all others: families with children, the elderly and people with health problems are more costly to the state than healthy people of working age.

Yet, most who have decided to migrate are usually healthy and of the best working age. And the well-being of the family is also a very important argument in attracting those who have a strong positive economic impact. Therefore, extensive international research suggests that, on average, migrants in their countries of destination are still [net payers](#) (i.e. they pay more to the treasury in different taxes than they receive as services) rather than net receivers.

The integration of newcomers and, for example, maintaining their competitiveness will certainly require separate resources from the host country. At the same time, a timely investment into integration and retraining will help to avoid even higher costs later on.

Also, the market does not always work in favour of the consumer. In the case of limited benefits, prices rise instead. A good example is real estate. The promised land of the ICT sector in Silicon Valley, USA, is both a blessing and a curse for locals. The highly skilled immigrants are a real economic asset and, of course, they also create jobs for locals, pay taxes and enable locals to use services that would otherwise not be available so close to home. But at the same time, highly paid specialists are also raising prices in the local housing market. For those who are already property owners, it is a blessing, but for those who live in a rented space or are planning to buy a home, it is a curse.

Immigrants in the labour market

Perhaps the role of migrants in the labour market is even more important. Foreign labour can compensate for labour shortages. Sometimes migrants themselves can also be job creators or innovators. In the United States, for example, [one in five](#) entrepreneurs is a foreigner, while people of foreign origin make up about one tenth of the total population. And they also own almost half of all registered patents. In other words, in the United States, an immigrant is twice as likely to be a job creator as a local, and ten times more likely to be an inventor, which indirectly also facilitates new production.

But the issue of migration and the labour market also raises questions. Can migrants come and take away local jobs? Or maybe they're pushing the wages down? Practice, however, shows the opposite. In most cases, countries protect their labour markets, for example through labour market tests or salary requirements (discussed in more detail in **Chapter 4, "Migration Policy: Why and How Do**

Countries Regulate Migration?"). The labour market test means that a person can only be hired from abroad if it's not possible to find an employee locally. Immigrants often work in jobs that locals do not want – such as so-called 3D jobs: where work is dangerous, dirty and demeaning. The situation whereby immigrants work in some sectors of the labour market and locals in others is called a segmented labour market. In other words, they are not directly competing for the same jobs. In a way, the society of the host country even benefits from this: lower wage costs for immigrants make it possible to obtain cheaper products and services.

In some places, migrants can also help to preserve local jobs. For example, in areas where production would otherwise be relocated due to labour shortages, foreign labour may help to retain jobs in the manufacturing sector, and this is also the case for various white-collar workers like production managers, HR specialists, payroll clerks and many others.

With the wage criterion, countries can set a minimum wage limit for migrants. It can also protect local wage levels to a certain extent. Larger statistical [studies](#) show that labour migration has a small negative effect on the level of wages in lower-paid jobs. At the same time, in middle- and higher-wage jobs, labour migration will increase wages further.

The economic impact of emigration

Migrants can also boost the economy of the country of origin. One of the most important economic effects of migration comes through remittances. Many migrants are abroad for a short time and, having earned some extra money there, actually invest it in their homeland economy: buying or improving real estate or buying goods. Many also send regular remittances to relatives. In 2020, foreign remittances accounted for more than a tenth of [Ukraine's](#) economy and more than a quarter in [Kyrgyzstan](#) and [Tajikistan](#).

However, migrants can also act as a bridgehead and help domestic businesses succeed in their destination country. As described in **Chapter 8, "Emigration and Foreign Communities"**, migrants can play an important role in some countries' export and foreign trade policies.

However, another burning issue for countries of origin is the brain drain: a situation whereby highly educated professionals are leaving. This has a negative impact on the economies of the countries of origin, as it also reduces local opportunities to set up added value businesses or to experiment with more innovative business models. This shifts the focus of the whole economy towards lower added value work, which also limits economic prosperity. It would be much more beneficial for the country of origin if the brain drain became a brain circulation: people with both higher and lower qualifications go abroad, encounter new ideas and experiences, and return to their home country to implement them. On the one hand, return and circular migration depend on the pull and push factors of the country of origin and the destination country (discussed in **the chapter on migration processes**): people must have a reason to return. This reason can be given by applying transnationalism policies: keeping communities abroad informed about opportunities in the homeland, supporting their return with support services and developing a more open attitude towards migrants in the domestic society.

Examples

In essence, we can carry out a cost-benefit analysis for each migrant individually or summarise the costs and benefits of all the migrants from all three perspectives. However, to better understand the impact of each factor, let's look at the next four examples to recognise the economic impact of migration.

The story of Ishani

Ishani is a programmer from Mumbai who has already received a good education in her home country; however, to make a career for herself, she first goes to the United States to obtain another master's degree. After graduating, she goes to the Silicon Valley, where she can break through the glass ceiling that haunts female programmers in Mumbai and land her dream job. In a few years, she receives the first major investment to properly launch her own start-up. She is in her prime working age, in good health and no social burden on the host country. Ishani herself feels that she has won the jackpot – she is living her American dream. But the US has won at least as much: Ishani's parents have supported the university with a hefty tuition fee. Later she became a lucrative taxpayer for the country and the state of California as well as a valuable consumer because it is not only important to be successful but to appear successful. When her start-up gets its feet off the ground, she also becomes a job creator.

What about India, the country of origin, which paid for her first education? And also the parents who paid her tuition at an American university? Ishani is still young, and if her success continues, she will undoubtedly support her parents financially in the future, and thus also the Indian economy. And who knows – maybe she will return to Mumbai one day with her Silicon Valley experience and help boost a few Mumbai unicorns.

The story of Ihor

Ihor is from near Lugansk in Ukraine. He first arrived in Estonia for an extended period in 2014, when his hometown became a war zone and he fled to his distant relatives in Estonia. Here he applied for asylum and received subsidiary protection status and a one-year residence permit. A year later, the hostilities had subsided, he returned to his homeland and began to rebuild his household. During his time in Estonia, he had found a job in a production plant, where he still works from time to time. He pays his taxes in Estonia, but spends modestly here, to take as much as possible of his earned income back to his hometown. We can say that the economic impact of Ihor's migration is also positive: Estonia will occasionally get an additional taxpayer, who will not cost much in terms of public services, but who will help alleviate labour shortages. The guest workforce also helps maintain the Estonian production plant, which does not have to move production abroad due to a lack of labour, and therefore several well-paid jobs are preserved in Estonia. However, Ukraine maintains its population, does not spend significantly on public services and Ihor stimulates the local economy as a consumer because the earnings he brings from Estonia are several times higher than the income that a citizen working in Ukraine could direct into the economy.

The story of Husain

Husain is a qualified engineer but was forced to flee his homeland. He took refuge in Germany, but because he did not speak the local language, his labour market prospects were narrow. In the end, however, he managed to get a job on a farm. Husain's work could also be called a 3D job, where working is dangerous, dirty and demeaning. The locals no longer wanted this work because it is a dead-end job – it is almost impossible to make a career from this position, the days are long and the salary is low. In a way, the German economy wins from the situation: Husain's willingness to work for less than the locals allows others to acquire cheaper products and services. Husain paid all the taxes from his payroll so all in all, his contribution was modest but varied.

But ten years later, the company reorganised its production processes and Husain was laid off. He still doesn't speak the local language because he worked alone and it was not possible to take language courses because of long working hours. While he holds an engineering degree from decades ago, those skills no longer meet current demands for another job. As a result, the costs involved with him are higher: he must at least initially rely on unemployment benefits, and he requires an investment for retraining and language studies. Understandably, however, his motivation to retrain before retirement is rather modest.

The story of Nina

Nina wants to move to Estonia with her husband. Nina has a degree in chemistry but has not worked in the field. Instead, she has worked as a beautician for the past seven years. Nina had decided to move to Estonia only after finding a suitable job. She has sent her resume to several Estonian companies but has not yet received a suitable offer. But then she finds out that she is pregnant and therefore wants to go to her husband regardless. Nina receives a residence permit, and for the first year and a half, she is a cost rather than revenue for Estonia. At the same time, her husband continues to work in Estonia and, in economic terms, contributes for his entire family. During her parental leave, Nina diligently studies Estonian, and when the child goes to kindergarten, she also finds a professional job. Of course, the wages in beauty services are not very large and her taxes will probably not set off all the costs of public services that her family has received.

Thus, the economic impact of migration in individual cases can be both highly positive or highly negative and can change significantly over time. Certainly, this also varies from country to country: where a country's welfare expenditure is lower and the destination country is still attractive to highly skilled migrants, the economic impact is also higher than average. However, a generous welfare state tends to stay on the negative side, although on average the economic impact of migration is usually somewhere close to equilibrium.

Discussion points

- Based on [Estonian migration statistics](#), create a migrant persona (for both immigrants and emigrants) and analyse their economic impact: how they contribute to the Estonian economy as participants of the labour market, taxpayers and consumers, and what costs are related to the public services they need.
- Based on a cost-benefit calculation, could countries allow only high added-value economic migration and completely ban family migration and receiving refugees? Discuss how important you think economic arguments should be in shaping national migration policy, and whether and which arguments should be taken into account.

Further reading

The Oxford University Migration Observatory has compiled a brief overview of key facts about the [impact of immigration on the British labour market](#).

A short overview of immigrant participation in the Estonian labour market in 2000–2017 can be found in [the summary of RITA RÄNNE](#).

World Bank statistics on foreign remittances can be found [here](#).



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