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## Migration Can Help the Developed World, But It Is No Panacea for Ageing

*Increased migration can boost labor-force growth and perhaps productivity growth in the developed world, helping it to limit the degree of slippage against the major emerging markets in decades ahead and possibly helping Europe and Japan to narrow the growth gap with the US. But migration on the scale needed to offset the developed world's demographic problems is likely to be politically unfeasible*

Last fall, in *Dreaming With BRICs: The Path to 2050*, we devised a model for 50-year growth patterns in the major emerging and developed markets. The results were striking, showing Brazil, Russia, India and China together overtaking today's G6 (the G7 less Canada) in less than 40 years.

In our analysis, productivity growth is more important for the BRICs—where 'catch-up' with the developed world was a major driver of economic growth—than for the G6. Demographics weigh heavily in the model for growth in the G6, explaining much of the gap between the 2.5% annual real GDP growth that we project for the US over the 50 years and the lower figures we anticipate for the rest of the G6 (nearly 2% in the UK and France, closer to 1% in Germany and Italy and just 1% in Japan). The US benefits from more migration and a higher birth rate, which largely reflects migrants' higher fertility rates.

For today's developed countries, migration potentially offers a way to boost both labor-force growth and productivity growth. While this will not be enough to maintain the G6's lead over the BRICs in decades ahead, it can help to limit the degree of slippage. For Europe and Japan, migration may also be a channel to narrow the growth gap with the US.

Migration has already played an important role in labor-force growth in many developed countries,

helping to fill empty positions and suppress wage pressures. The impact on productivity growth is more difficult to quantify, but efforts introduced or expanded in the late 1990s to attract skilled migrants—who should make the greatest contribution to productivity growth—appear to be the best way of maximizing the gains from migration. Unfortunately, the global downturn has led to a scaling back of many of these programs throughout the developed world.

Can migration be a solution to the developed world's demographic problems? If the native-born population is ageing too rapidly to maintain a desirable ratio of working-age to retired populations (one that allows for generous retirement benefits), why not bring in foreign workers?

While this seems sensible on the surface, we find that the increase in migration needed to maintain working-age population ratios at current levels in decades ahead would be very high—ranging from an increase of nearly 30% per year in the US to some 700% per year in Japan. Migration on this scale, particularly in Japan and much of Europe, is likely to be politically and socially difficult, requiring much political will from national leaders who have shown little enthusiasm for expanding immigration.

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Sandra Lawson  
Senior Global Economist  
sandra.lawson@gs.com  
+(1) 212 902 6821

Roopa Purushothaman  
Associate Global  
Economist  
roopa.purushothaman  
@gs.com  
+ (44) 20 7774 5061

Sabine Schels  
Research Assistant  
sabine.schels@gs.com  
+(44) 20 7774 6641

<http://www.gs.com/ceoconfidential>

Migration Profile of Major Labor-Receiving Countries

	Total Population (thousands) 2003	Migrant Stock		Net Migration		Major Sending Country	
		Number (thousands) 2000	% of Population	Number (thousands) 1995-2005*	Rate per 1000 pop.	Country	% of Total Inflows 2001
US	290,342	34,988	12.4	1225.0	4.3	Mexico	19.4
UK	60,094	4,029	6.8	129.0	2.2	US	16.3
Australia	19,731	4,705	24.6	93.0	4.9	New Zealand	17.7
Canada	32,207	5,826	18.9	153.5	5.0	China	16.6
Germany	82,398	7,349	9.0	213.5	2.6	Poland	11.6
France	60,180	6,277	10.6	57.0	1.0	Morocco	13.3

Source: United Nations Population Division, OECD, US Census Bureau  
\*as projected by the UNDP

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### Migrants and the Labor Force

Immigration has been a significant contributor to labor force growth in many countries over the past decade, and the large inflow of foreign workers has helped to restrain wage pressures in many countries. Standouts include the US, UK, Ireland, Canada and Australia. In the US, inflows of foreign workers grew by nearly 300% from 1991-2001. During this decade, the total foreign labor force nearly doubled, while the domestic labor force grew by only 10%.

The fact that most migrants are of working age means that the share of foreigners in the labor force is typically higher than the share of foreigners in the overall population. In the US and Australia the share is notably higher, and in Korea it is twice as high (although still less than 0.5%). In Switzerland and the UK,

foreigners are slightly overrepresented in the labor force. But in Japan, where migration is tiny, the share is negligible, just 0.16% on average over the 1990s.

Participation rates for migrant men tend to be higher than those for native-born workers in many OECD countries, although for women they are typically lower. In the US the participation rate for foreign men is a full 4.5 percentage points higher than for native-born men; for women the rate is nearly 10 percentage points lower. On the other end of the scale, somewhat surprisingly, Australia and Canada both show lower participation rates for male and female migrants.

Despite fears that migrants 'take jobs' from native-born workers, most empirical work finds that migration has no obvious impact on the employment of native-born workers, particularly in the US. In some cases migrants are more likely to be self-employed than are native-born workers. The same is true for wages, with most studies showing that migration has a small negative effect on native wage levels, on average (although the average conceals much variation).

### Impact on Productivity Growth

While the addition of migrants into the labor force will boost overall GDP, the impact on productivity growth and on GDP per capita is difficult to quantify. It should depend on migrants' skills relative to those of native workers, as well as on migrants' abilities to obtain jobs commensurate with their skills. If migrants on the whole are more skilled than the domestic labor force, they may boost overall productivity growth. If they are largely unskilled, they may have no impact or a negative impact on the national figure—the answer is not clear-cut.

The majority of legal migrants to the OECD are in fact relatively well-educated. Close to two-thirds of the foreign-born population in the US has a high-school diploma or higher education; more than one-quarter has a university degree or higher. In several countries, the share of foreigners with tertiary-level degrees is higher than the share of natives with that level of education; the figure is notably

higher for migrants in the UK, Australia, Canada, Spain and much of Central and Eastern Europe.

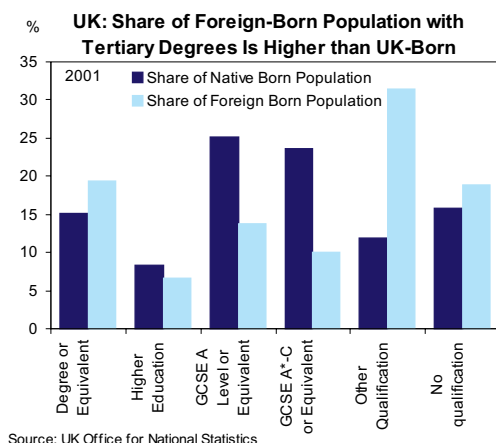
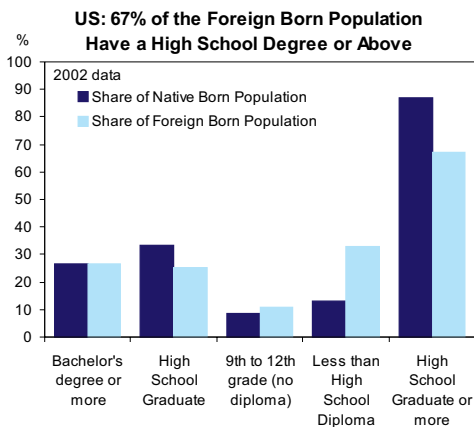
However, education levels among the foreign-born are typically polarized, with migrants overrepresented at both the highest and lowest educational levels. In many countries, foreign-born workers are more likely to have less than a high-school diploma than are the native-born. In the US, the concentration at the lower end is largely attributable to share of migrants coming from Latin America. About 51% of the Latin American-born US population had less than a high school education in 2002, while just 11% had college degrees or higher.

Outsourcing or offshoring offers an interesting new twist on migration and productivity. By sending jobs abroad, countries may be able to capture the productivity gains of skilled foreign labor without taking in actual people.

Although this might be appealing for some countries, we doubt it will seriously stem the tide of global migration. Family reunification is a major driver of migration, as are opportunities for the less-skilled who will not make good offshored employees. Moreover, offshoring prevents the developed world from capturing the beneficial demographic impact of migration, which we discuss below.

### Focus on Skilled Migration: The Way of the Future?

As part of the 'war for talent' that prevailed during the late 1990s, many countries took steps to admit more highly skilled workers. These migrants are well placed to find work in higher-productivity service industries and should stand to make the greatest contribution to productivity growth in the host countries. The technology boom in the US, which clearly benefited from inflows of foreign workers, is perhaps the best example of this. And more than 70% of all foreign employment was in services in 2001-2002 in Australia, Finland, Luxembourg, the Netherlands, Norway, Sweden, the UK and the US.



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In the US, annual quotas for H-1B visas (for skilled workers) soared to 195,000 in 2001 from 65,000 in 1999, while the number of intracompany transfers (typically highly skilled workers) rose sharply, more than doubling between 1996 and 2001 and significantly outstripping the number of H-1B visas granted each year. The UK and Ireland have sharply increased their issuance of quota-free work permits since the late 1990s. The UK in 2001 also

introduced a 'points' system to admit skilled workers without job offers. Germany introduced a similar program in 2000, and Switzerland, Japan and Korea also liberalized their entry schemes for skilled workers.

Unfortunately, many of the programs to attract skilled workers have been abandoned or scaled back since the global economic downturn took hold. The US Congress recently allowed the annual H-1B visa quota to revert to its previous level of 65,000; the UK has taken IT professionals off an accelerated

universities to enroll and retain foreign students, whose contribution to research could ultimately allow significant productivity gains throughout the economy.

### No Panacea for the Developed World's Demographic Problems

The demographic problems facing the developed world are well-known, as are the challenges of funding generous pay-as-you-go pension schemes in the face of declining working-age populations. With fewer workers to support more retirees in the years ahead across the OECD, pension benefits will need to be cut and/or retirement ages raised. Can increased migration allow developed countries to forestall, if not eliminate, these unpleasant decisions?

We think greater migration is unlikely to be a real solution. In many developed countries, the additional migration that would be needed to maintain current support ratios is significantly higher than current and projected levels—so much so that it may be politically impossible.

US H-1B Visa Recipients

Country of birth	Number of initial and continuing visas issued	Median age	Median income (\$)	Bachelor's degree or higher (%)	Master's degree or higher (%)	Computer-related occupation (%)
<b>All</b>	<b>197,537</b>	<b>30</b>	<b>53,000</b>	<b>98</b>	<b>48</b>	<b>38</b>
India	64,980	29	60,000	99	43	73
China	18,841	32	48,000	100	85	28
Canada	11,760	34	70,000	94	39	24
Philippines	9,295	32	38,000	99	15	17
UK	7,171	33	68,000	92	36	17
Korea	5,941	34	42,000	98	59	14
Japan	4,937	31	38,000	97	37	9
Taiwan	4,025	31	42,000	99	71	24
Pakistan	3,810	31	50,000	99	50	39
Colombia	3,320	32	38,000	98	29	9

Figures for both initial and continuing visas, FY2002

Source: US Department of Homeland Security, 2002 Yearbook of Immigration Statistics

recruitment list; Germany abandoned its fledgling points system before it could have much impact; and other countries are likely to reduce their entry quotas or their issuance of work permits. Moreover, the security clampdown in the wake of September 11<sup>th</sup> has made it more difficult for US

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Drawing on work by the UN Population Division, we have estimated how much additional migration would be needed by 2050 to maintain the ratio of working-age population to the total population at the level that prevailed in 2000. The table below shows the results.

In each case the additional migration needed is sizeable. The US fares the best, but even it would need to increase its average annual inflow of migrants by roughly 28%. The UK, Australia, Canada and New Zealand would need to boost their inflows by a sizeable, although still potentially manageable, 40%-50%. Elsewhere, however, the necessary increase is much higher—possibly too high to be politically feasible. Germany would need to increase its annual inflows by roughly 84%, Sweden by 115%, France by 130%, and Japan by a whopping seven times.

In fact Japan would have to boost its share of migrants in the total population from just 1.3% today to 20% in 2050, bringing it into line with other developed economies. Germany, Canada, the UK and even the US would also need to increase the share of migrants in their total populations quite significantly. And the actual numbers are likely to be higher, because for simplicity's sake we have assumed that all migrants would be of working age in 2050, which is unlikely to be true.

If migration is not a permanent solution, can it be used to 'buy time' to implement other steps? Pension reforms will be difficult enough, and higher migration in the meantime would carry its own social, economic and political difficulties. It may be unrealistic to expect developed country voters to welcome these challenges simultaneously. It would certainly require a robust educational campaign by politicians who have shown little leadership on the pensions problem and who have shied away from publicly embracing immigration.

### Making the Most of Migration

The developed world can take several steps—some in conjunction with the private sector—to maximize the positive impact of migration for all sides. These include:

- Focusing immigration programs to attract skilled workers across a range of industries. Targeting specific sectors does not seem to be particularly successful, but encouraging highly educated or highly skilled workers generally can attract the human capital that boosts innovation and job creation.
- Introducing a demand-driven work permits system that meets market needs in real time or a points system that admits skilled migrants who do not have binding job offers but who can support themselves and contribute to the local economy.

- Encouraging younger migrants. They may lack the highest qualifications but have the most favorable demographics.
- Attracting more foreign students and making it easy for them to remain in the country after receiving their degrees. Security concerns in the US already appear to be complicating this. Immigration and domestic-security authorities need to work together to ensure that visa restrictions do not become too onerous.
- Easing entry restrictions on short stays and re-entry criteria, so that migration can be a series of moves back and forth between the home and host countries rather than a one-time choice.
- Making pension benefits portable, at least among developed countries, to encourage skilled migration.
- Better integrating migrants by familiarizing them with local labor markets and access to social services, and by offering language training when appropriate.
- Encouraging local licensing bodies and employers to recognize foreign qualifications.
- Improving the flexibility of domestic labor markets so that migrants do not displace native workers or so that any transition is as short as possible. ■

The Developed World Must Increase Migration Sharply to Maintain Today's Working-Age Population Ratios in 2050

	Working Age Population* as a % of Total Population		Net Annual Migration**	Expected Net Annual Migration**	50-Year Total Expected Net Migration	Additional Migration Required ***	Additional Migration Required as % of Total Expected Migration	Current Stock of Migrants as a % of Total Population	Total Migration**** Relative to Total Population (%)
	2000	2050					2050	2000	2050
US	65.9	62.1	1,225,000	1,115,000	55,750,000	15,507,138	28	12.4	17.4
Australia	67.2	59.9	93,000	82,900	4,145,000	1,862,884	45	24.6	23.5
Canada	68.4	58.9	153,500	172,500	8,625,000	3,710,798	43	18.9	31.6
New Zealand	65.3	60.8	6,500	5,000	250,000	201,871	81	22.5	10.0
Japan	68.2	50.4	55,000	54,000	2,700,000	19,425,190	719	1.3	20.2
Germany	68.1	56.9	213,500	211,000	10,550,000	8,843,296	84	9.0	24.5
France	65.2	57.7	57,000	75,000	3,750,000	4,844,036	129	10.6	13.4
UK	65.1	60.6	129,000	135,800	6,790,000	2,935,717	43	6.8	14.7
Sweden	64.3	57.8	9,500	10,000	500,000	568,634	114	11.2	12.3

\*Working Age Population: 15-64 age cohort

\*\*Projected by United Nations Population Division

\*\*\*Additional migration needed in order to keep working age population/total population ratio in 2050 at 2000 level

\*\*\*\*Total Expected Net Migration plus Additional Migration Required