

Will Open Borders make Everyone Richer? Exploring the Potential Effects of Mass Immigration on Productivity and Institutions

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1 Introduction

Whether to allow more immigration has long been a politically and economically controversial topic. In this paper, we will assess if the wholesale lifting of immigration restrictions (open borders) would benefit the destination country and the world. First, we look at the "classical" economic case, which states that large migration can be very beneficial globally and have some benefits from an individual country's perspective. We then assess whether those predictions will not be undermined by immigrants destroying the things which made their destinations well-off in the first place: their productivity. We find that immigrants' effect on institutions is an essential mechanism for this possible deterioration. We assess some theoretical mechanisms, empirical data for today's migration level and case studies of mass migrant influxes from the past. Finally, we assess the case for open borders and the optimal level of immigration restrictions in light of our findings.

2 The "Classical" Case for Migration

In order to assess whether migration is beneficial, let us first discuss the classical case in favour of lifting migration restrictions. We will first discuss the issue from a global perspective and then see what the economic benefits and costs look like from the perspective of an individual host country.

2.1 Global Perspective

It can be shown from economic first principles that allowing migration, i.e. opening up the global market of labour, has tremendous positive effects on the world economy. In a literature survey, (Clemens; 2011) has put the possible rise of global GDP for lifting all cross-country labour market barriers at 50-150% relative to today's level. This is a staggering number, many times greater than the effect of lifting all cross-country trade barriers (a traditional area of focus for economists). Lifting all restrictions would lead to billions of people moving. Clemens proposes that migrants emigrating from low-productivity labour markets to high-productivity affect productivity in three ways: (1) Their productivity rises, (2) Productivity in the origin country rises and (3) Productivity (and thus, wages) in the host country diminishes slightly (both 2 and 3 due to the diminishing marginal product of labour). Crucially, this mechanism assumes that immigration does not affect labour productivity in the destination country - an assumption we shall discuss in the next section. However, if the model generally holds, lifting migration restrictions can have massive economic benefits for the world.

2.2 Perspective of the Destination Country

We now turn to the costs and benefits for an individual country – even if migration has positive effects overall, the willingness to open borders ultimately depends on what effects immigration has on the individual country. We will mainly focus on labour market effects. As was shown in the preceding subsection, economic first principles might give us the instinct that migrants tend to reduce wages. However, this may be oversimplifying the case. In (Dustmann et al.; 2013), an analysis of the UK labour market showed that while immigrants (mainly low-skilled) did depress wages of low-skilled workers by competing with them, they increased the wages of every other group more. The authors speculate that this is due to immigrants improving labour market flexibility. They might have settled

where new labour was the most productive (e.g. in the growing service economy around London). (Docquier et al.; 2010) echo these findings upon analysis of labour markets in Western Europe. Immigrants might also have second-order effects on the job market. As (Collier; 2013) discusses, inviting immigrant workers might prove an easy solution for labour disputes. He cites the example of the NHS: the trade organisation of doctors has been reducing the number of new certifications since the 70s. The NHS solved the shortage of doctors by inviting already-trained doctors from poorer EU countries. Although this did alleviate the shortage, it reduced incentives to address the core issue: inadequate training of new British medical staff due to labour relations. While these second-order effects might be beneficial in the short term, they may prove pernicious in the medium term. In the longer term, we expect these effects of an influx of immigrants to disappear as the newcomers integrate and merge with society.

Therefore, lifting immigration restrictions may bring significant economic benefits to the world. Seeing that immigration can also be economically beneficial to destination countries (at least in the short- and medium-term), the case for open borders seems to be quite strong. However, this is the case only if we accept the premise at the core of Clemens' model: that immigrants do not lower productivity in the destination country. We will now turn to this issue.

3 Immigrants and Productivity

The economic gains predicted by Clemens' model might not materialise if the worker's productivity does not improve upon migration. Workers in poor countries have, by definition, low productivity. It is a question of to what extent this is because of *the work* (for example, unproductive capital or decrepit infrastructure) and to what extent because of *the worker* (poor work ethic, cultural norms). Suppose the issue rested with the immigrant worker and did not improve upon migration. In that case, the predicted productivity gain might not be realised, or worse, these bad traits could spread to the destination population.

Let us now consider two models analysing this. (Borjas; 2015) tries to model global economic gains similarly to Clemens, but with the addition of the λ parameter ($0 \leq \lambda \leq 1$), showing how much migrant workers spread their unproductive traits to the destination population. While he

gives no model for the actual parameter value, he finds that at around $\lambda = 0,5$, the global effect of unrestricted migration becomes negative. (Clemens and Pritchett; 2019) elaborate on this with an epidemiological¹ model which tries to empirically model the impact of immigrants on TFP. They propose three factors for this: (1) Transmission - how much low-productivity traits get transferred to the migrant from his home country, estimated by the difference of income between origin and destination country (2) Assimilation - how quickly the immigrant integrates, estimated by how quickly immigrant and native incomes converge (3) Congestion - how much assimilation slows with large influxes of immigrants, estimated by comparisons between high- and low-immigration areas within a destination country. The authors used data from Bangladesh and Canada for their calculations. The authors found that while there is, in fact, a turning point where global effects become harmful, it is much higher than today's level of migration - according to their results, destination countries could let in around 3-5% of its population *per year* before the global gain disappears, about an order of magnitude higher than today's levels of migration in developed countries. While this is a more founded estimate than Borjas, (Nowrasteh and Powell; 2020) point out that using income differences for estimating transmission and assimilation is quite limiting. They argue that in order to find the true values of these parameters, the effect of the migrants on the destination country's institutions needs to be considered. We will turn to this in the next section.

4 Immigrants and Institutions

To assess immigrants' possible effect on a country's productivity, we explore their effect on institutions: the "rules of the game" members of society play by. A growing body of literature (exemplified by (Robinson and Acemoglu; 2012)) explores the effect of institutions on a country's development: it posits that countries are well-off since they have "good" institutions which promote productive cooperation (secure property rights, rule of law, social trust) and poor because they possess "bad" institutions. Within this view, immigrants seeking a better life leave countries with bad institutions in favour of countries with good institutions. The factor determining if immigrants may decrease the destination country's productivity is whether a sufficient number of them might not spread the

¹showing how low productivity "infects" the destination society

bad institutions from their origin country to their host society. In the extreme case, were the entire population of the least developed countries to relocate into the developed world, we could scarcely expect the developed world's institutions to survive. The question lies in determining the point at which this deterioration becomes significant. We first explore some theoretical concerns, their mechanisms and implications and then turn to empirical results.

Let us first assess theoretical concerns about how immigrants affect mutual regard and trust, important facets of institutions. (Putnam; 2007) has found a negative effect of immigration – or, more precisely, diversity – on mutual regard (willingness of people to aid, trust and cooperate with others within a society). According to his results, in diverse societies, not only do migrant groups and natives have low mutual regard, but high levels of diversity also lower mutual regard *between* the natives. Putnam dubs this phenomenon the *hankering down effect*. His results do not bode well for a diverse society. As (Collier; 2013) explores, many good institutions in well-off societies rest on fragile cooperative games - people with high mutual regard are willing to forgo some possible advantage to preserve public well-being and punish people who do not comply. As an example, he cites the fact that British police are traditionally unarmed - a fact possible only by an unspoken cooperation between the police and criminals, who agree not to carry firearms. This balance has been undermined by a sizeable Caribbean diaspora who are not willing to "bargain" their carrying weapons away, sparking widespread discussions about arming the police. Attempts to punish these groups for non-compliance are also easy to perceive as discrimination, further driving a wedge between them and the natives. Collier also stresses the importance of integration: people who view themselves as members of the broader society – rather than members of a diaspora – are more willing to cooperate with it - especially if they adopt the local language. There are many factors which shape the willingness to integrate, among them the mindset of the immigrant (escaping their former society vs. trying to form an enclave of their old society within the destination country), their role models, the societal stereotypes of immigrants and how willing the host society is to consider them as its member. Another important factor is the composition of people the immigrant interacts with - newcomers living in tight-knit, isolated diaspora communities are much less likely to integrate than those with many relations with the broader society. The larger the diaspora community, the more isolated it tends to be. For this reason, Collier warns against large single-culture influxes and

cautions against immigration policy that results in multiculturalism (in the sense of many culturally distinct groups living in a single society).

The findings of a case study to some extent counteract these fears: (Charnysh; 2019) studied a natural experiment from post-WW2 Europe: the reconstituted Polish state gained territories west of the Oder-Neiße line while ceding its former eastern territories to the Soviet Union. The change of borders resulted in a massive migration from these eastern areas to western Poland (because most of the German population was expelled, the new arrivals massively outnumbered Polish area natives). Since this movement was quite chaotic, it resulted in large variations in community diversity, with some of the new settlements receiving only migrants from a single area and others a diverse mix of different ethnic groups. Charnysh examined the effect of diversity on the productivity in these communities. He found that although no effect was apparent under central planning, after the fall of communism, the heterogeneous communities performed better – the Income tax in the most heterogeneous communities is 85 ZŁ higher than in the most homogeneous ones (a quarter of a standard deviation). The author posits that this is due to heterogeneous communities relying on more formal institutions because of a lack of community bonds (i.e. trust), leading to the improvement of these institutions, which improves productivity in the long run. The results show that diversity may raise productivity. The generalisability of this is limited since the migrants were more culturally similar and had a lower variation in human capital than the migration that we would expect to happen upon lifting developed-country migration restrictions. However, it still serves as a case study that large migrations and the resulting diversity may be beneficial and not harmful.

(Nowrasteh and Powell; 2020) take a different approach to this issue. Upon review of the literature, they point to the unrobustness of the empirical link between trust and economic growth. They add that as long as a country has good formal institutions (the rule of law, policing), these can serve as a substitute for trust². They analyse real-world data to find a possible link between immigration and economic institutions (for this, they use the EFW Index³). Comparing differences between US states, they find a slightly positive-to-no relation. They analyse a natural experiment for immigration's effect on corruption - the influx of Cuban refugees into Miami following the Mariel

²the second-order issue of how trust influences the creating of formal institutions is, however, still open

³A (libertarian-perspective) index tracking the size of government, legal structure and property rights, access to sound money, freedom to trade internationally and regulation of credit, labour and business

Boat Lift⁴. Using the synthetic control method, they found no significant increase in corruption arrests in Miami after the influx. However, they note that their results might not scale to address the influxes consistent with lifting immigration restrictions.

To explore the effects of such an influx, (Powell et al.; 2017) look into the large migration of Jews from FSU⁵ states after the breakup of the Soviet Union. During this exogenous migration wave, Israel's population increased by 20% within a few years. Since the surge of immigration was mainly composed of economic migrants (when polled, they did not express Zionist sentiments) who wished to retain their Russian language and culture, came from a country with very poor economic institutions and acquired the right to vote almost immediately due to their Jewish identity⁶, one could fear that such a large number of these immigrants would deteriorate the country's economic institutions. The opposite was the case: using a synthetic control, the authors found that the influx significantly increased the country's EFW. They find that the change was neither due to the immigrants decreasing public trust nor through changing the native's view of how the state should be run. They mainly influenced the country's policy by integrating themselves into the political system, creating Russian-Israeli parties and getting appealed to by the two largest parties at the time: Likud and Labour. This case study bodes well for the possible effect of significant immigration. However, it is important to note that these immigrants had much higher human capital (being mainly educated Russian Jews) than the immigrants we would expect to come into developed countries upon opening their borders.

In conclusion, a sufficiently large influx of immigrants could bring their poor institutions with them and destroy the institutions which made their destination country well-off in the first place. Long before that, large diasporas can strain relationships in their host society and complicate societal cooperation. We do not know when the harms start to become significant. However, we can state that limiting the size of any individual diaspora and better integrative policy can increase the number of immigrants a society can accommodate. We have also found that today's levels of immigration and some large influxes in the past have not caused institutions to deteriorate - in fact, they sometimes even caused them to improve. These results cannot, however, be generalised to every large immigrant

⁴A large wave of migration from Cuba to the United States following an economic downturn in 1980

⁵Former Soviet Union

⁶The Israeli Law of Return, passed in 1950, grants any Jew the right to quickly acquire Israeli citizenship upon immigrating

influx.

5 Conclusion

While there appears to be a strong case that both the world and individual countries may benefit from lifting restrictions on immigration, further analysis reveals some weaknesses. There is a possibility that a large influx of migrants may destroy the very thing that made their destination countries well-off in the first place - their large productivity - by bringing the bad institutions they were escaping from into the destination country. While there is a number of immigrants at which this institutional and productivity deterioration becomes significant, the empirical research we have reviewed shows today's level of immigration has no-to-slightly positive effects. Large influxes benefited institutions in the case of 1940s Poland, 1980s Miami and 1990s Israel. We can conclude that while an open borders policy would not be advisable, a significant increase in immigration is likely to prove beneficial. The danger of institutional deterioration can further be addressed by preventing large insular diasporas in destination countries from forming via better integrative policy and nationality-based immigration restrictions.

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