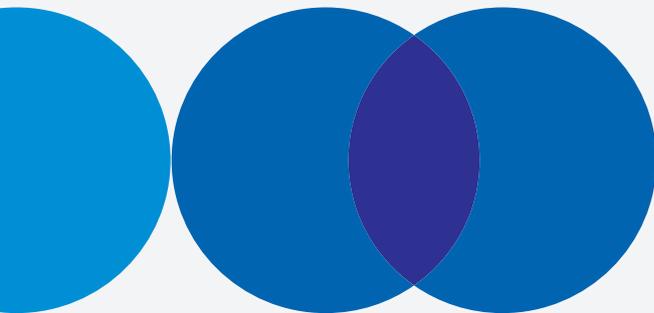




**FRANCE STRATÉGIE**  
ÉVALUER. ANTICIPER. DÉBATTRE. PROPOSER.

10 July 2019



# THE IMPACT OF IMMIGRATION ON THE LABOUR MARKET, PUBLIC FINANCES AND ECONOMIC GROWTH

## Literature review

PRESENTATION FILE

## INTRODUCTION

The National Assembly's Commission for Assessment and Monitoring has decided to work on the social and economic costs and benefits of immigration. To this effect, its president called upon the Prime Minister, who agreed, to instruct France Stratégie to carry out a study to determine the current state of knowledge in this area.

The impact of immigration is very wide-ranging, with a potential field of investigation that includes demographic, economic, social, and cultural effects on host countries and countries of origin alike. Following discussions with the commissioning entity, the chosen scope of analysis is, however, limited to three already broad areas: the labour market, public finances and economic growth. This definition of the scope is, in particular, consistent with two similar exercises conducted abroad. The first was carried out in 1997 by the United States National Academy of Sciences, at the request of a Congressional Commission in 1995 (bipartisan Commission on Immigration Reform)<sup>1</sup>. This exercise was recently renewed by the same Academy in 2017<sup>2</sup>. The second such exercise took place in 2008 in the United Kingdom for the House of Lords<sup>3</sup>. However, to our knowledge, no work covering simultaneously all these aspects has so far been carried out in France.

This report therefore seeks to decompartmentalise the analyses by summarising at once the often disjointed findings of academic or administrative literature relating to the labour market, public finances and economic growth. The report therefore proceeds to a literature review of the aforementioned effects of immigration and highlights the associated methodological challenges and limitations. The scope of the review includes academic research, traditionally a driving force behind methodological breakthroughs, as well as work of a more administrative nature, which is potentially more comprehensive in terms of contextualisation, hence a stronger link with public action. The overall approach enables at times to identify ways in which tools for monitoring immigration policy can be improved.

In addition, the scope of this literature review is not limited to work carried out in France. Indeed, there is not only one immigration, there are numerous ones, fluctuating in time and space under the combined effect of the public policies of potential host countries and the migrant self-selection mechanisms (depending in particular on geographical and historical factors and various crises). French immigration itself has fluctuated over time, changing with flows of new immigrants, which differ from the total immigrant population, including older waves.

The desire to put the issue into an international perspective serves to shed light on both the major invariant impact factors, which are robust to differences in context, and the specificities of France in terms of institutions and immigration profiles, as well as their implications in terms of the economic costs and benefits of immigration.

The first part of this report therefore describes the main immigration trends in France, complemented by international comparisons, before presenting the literature review concerning the impact of immigration on the labour market, public finances and economic growth respectively. This literature review endeavours, where appropriate, to document the degree of variability in the figures and conclusions, in particular according to the methodological choices made.

This literature review, which was completed within a tight timeframe, is not intended to be exhaustive. It is nevertheless relatively long, in order to reflect the complexity of analysing the multifaceted issue of immigration.

**Before moving to the analysis, it is important to remember that immigration issues are not limited to the economic field, which is the focus of this report.**

1. National Research Council (1997), *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*, Washington, DC, The National Academies Press.

2. National Academies of Sciences, Engineering, and Medicine (2017), *The Economic and Fiscal Consequences of Immigration*, Washington, DC, The National Academies Press.

3. House of Lords (2008), *The Economic Impact of Immigration. Volume I: Report*, Select Committee on Economic Affairs, 1st Report of Session 2007-08, April.



## OVERVIEW

What is the impact of immigration on the labour market, public finances and economic growth?

We know a lot about the immigrant population, but we do not always know how to measure the economic impact of immigration. What are the consequences on the wages of residents already in the country and on employment? Does the presence of immigrants (overall population) or their arrival (flows) affect public finances and economic growth? The answers vary from one country to another and, for France, the few studies available sometimes produce divergent results. However, even though nearly one in ten French residents is an immigrant, all in all none of the impacts measured on the labour market, public finances and economic growth is large, regardless of its sign. It proves often difficult to separate the intrinsic effects of immigration and the mechanical impact of the immigrant population's socio-demographic characteristics at any given time. The need to contextualise the resulting evaluations, based upon the characteristics of the immigrants received and the public policies of the host country, is perhaps the main lesson to be drawn from the "literature review" presented in this report. Providing an international perspective underpins this assessment. Thus, there is little sense in making an absolute judgement that, from an economic point of view, immigration is intrinsically "good" or "bad".

This literature review focuses on permanent (i.e. stays exceeding one year) and legal immigration, despite some developments relating to temporary immigration or illegal immigration, which interrelate with permanent immigration (student visits which turn into long-term immigration, non-renewal of resident permits or rejected asylum applications preceding illegal residence, or conversely the impact of regularisations on permanent immigration).

### *1. Immigration in France, characteristics and specificities*

The immigrant population, defined as people born as foreigners and abroad, is measured based on the population census conducted by INSEE (French National Institute for Statistics and Economic Studies). In France, it made up 9.7% of the resident population in 2018

(with 37% of immigrants being French nationals). The proportion of immigrants has increased since the early 2000s, following twenty-five years of stabilisation at around 7.5%. This trend has been observed, often more markedly, in most OECD countries, the majority of which have a higher proportion of immigrants than in France, be it in the United States (one percentage point higher) or in European countries of comparable size (3 points higher in Germany, almost 2 points higher in the United Kingdom, a few tenths of a point higher in Spain, but about 2 points lower in Italy).

Regarding immigration flows, the publication of first-time residence permits issued in France by the Ministry of Home Affairs (265,000 in 2018, almost a third of which for students) is the most widely discussed data in the public debate. However, it is not exhaustive, as one should add the entry of minors<sup>4</sup> (nearly 30,000 according to the census) as well as new European immigrants, who settle in France under the freedom of movement principle (76,000 in 2017 according to the census). The OECD, for its part, publishes consolidated data, "permanent entries" (259,000 in 2016, the latest year published), which, however, exclude residence for study purposes, but include changes in the status of students extending their stay for work or family reasons.

Naturally, the medium-term increase in the number of immigrants is not equal to the cumulative inflows, due to mortality and outflow patterns among them (beyond the specific case of students), with these two factors being similar in proportion. According to INSEE, based on census data, growth in the immigrant population over the last decade corresponds to around half of annual cumulative inflows.

The immigrant population in France has several characteristics relevant to the analysis contained in the report:

- Immigration flows from Europe, which made up the vast majority until the 1970s, have steadily declined and in 2017 represented only a somewhat smaller proportion than flows from the Maghreb (North Africa) and Sub-Saharan Africa (35% and 37% respectively), which have increased. The proportion of immigrants of African origin in the immigrant population (46% in 2017) is higher

4. Minors are mostly not taken into account, as they are not required to have a residence permit.

than its proportion in the flows due to the longer duration of their residence.

- Family immigration still makes up a good third of flows from non-European countries, whereas proportions of humanitarian and economic immigration remain low (13% each), albeit rising. Finally, student arrivals, which are growing, are approaching the same level as entries for family reasons.
- As France is an old country of immigration, its immigrant population is relatively old: the proportion of those aged "55 and over" is now equivalent to that observed for non-immigrants.
- The level of education of the immigrant population is relatively polarised in France, with unqualified people being overrepresented (more than 20 points higher than non-immigrants), but also, to a lesser extent, people that are highly qualified (nearly 2 points higher for those holding a qualification at least equivalent to a bachelor's degree). Overall, the level of education of immigrants has risen sharply in recent decades, but the gap has not closed with that of non-immigrants, whose level of education has been rising in parallel.
- Mixed couples are slightly more numerous than couples with two immigrant spouses, and have a much higher standard of living, close to that of non-immigrants.

## 2. The impact on the labour market

**Concerning immigrants themselves**, they are, in France, less likely to be in employment than non-immigrants of a given age. The employment rate gap in relation to non-immigrants is around 18 percentage points for 25-54 years old. This is due in part to lower rates of activity, especially for women (with a differential of 20 points in relation to non-immigrants for 25-54 year olds), and also to a higher risk of unemployment among immigrants (more than twice as high and nearly three times higher for immigrants from outside the EU who are foreign nationals). These differentials are more or less marked depending on the level of qualification and the country of origin.

These observations are far from being unique to France, although some immigration countries stand out: in Southern Europe, immigrants are more likely to

be active than non-immigrants, as a result of low domestic activity rates and the importance of work-related immigration, at least until recently. In English-speaking countries, there is almost no unemployment gap, owing to highly selective points-based immigration systems (Australia) or very flexible labour markets (United States, United Kingdom).

When in employment, immigrants are also, with given observable characteristics, at greater risk of being downgraded, i.e. in a less favourable professional situation than their level of education would suggest. This contributes to a further widening of the wage differentials observed towards non-immigrants, around 10% on average in France.

Barriers to employment and downgrading factors are well identified in the literature. Taking stock of the situation in this respect boils down to summing up the main levers for integration likely to speed up and improve the professional integration of immigrants. Barriers include in particular language, the recognition of professional qualifications, their intrinsic value (depending on the quality of the education systems concerned), the relevance of experience acquired, as well as legal obstacles or social fragility on arrival (lack of network or financial means, ignorance of institutions and codes). In the case of humanitarian immigration, vulnerabilities may also be associated with past trauma. Discrimination, which has been highlighted by a number of French and foreign studies, can also be added to this list.

However, some of these difficulties diminish with the length of stay, as data show a gradual improvement in the employment status of immigrants a few years after their arrival, with a particularly strong catch-up effect in France: according to the OECD, the employment rate among settled immigrants would be 50% higher than that of recent immigrants.

**Turning now to the impact of immigration on the labour market**, academic articles tend to focus on the marginal effects of the arrival of a large influx of new immigrants.

The impact of an immigration shock on employment and/or on wages depends on how the host country's labour market works, and on the degree to which the qualifications of immigrants and non-immigrants complement each other.



According to economic theory, an influx of new immigrants should imply a decrease in residents' wages in the short-term. However, in countries with a minimum wage and strong employment protection, such as France, wage adjustment is reduced, particularly for the less qualified, making it more likely that adjustment occurs through employment, with unclear modalities of return to equilibrium. Immigration can nevertheless facilitate the adjustment of labour supply to demand, in particular in shortage occupations. However, the existence of such effects has not been clearly established, particularly owing to the lack of a satisfactory list of these occupations, even though immigrants are overrepresented in occupations reportedly experiencing recruitment difficulties (such as personal care services or hospitality and catering).

Apart from so-called "structural" studies, which consist in carrying out simulations on the basis of predefined interactions within a theoretical reference model, a number of researchers have sought to test whether the facts are consistent with the theory. However, the number of available studies is relatively limited (a recent literature review by CEPII – the leading French centre for research and expertise on the world economy – documents less than a dozen studies specific to France<sup>5</sup>). Furthermore, there are many methodological obstacles to determining the effects of immigration on the labour market. For example, if immigrants move, on average, to the most dynamic regions, wage increases in the regions they choose are not necessarily due to their presence there.

Overall, the various types of empirical studies carried out find little impact of immigration on the labour market, both in terms of employment and wages of non-immigrants. In France, a 1% increase in the labour force due to immigration would, according to the studies, result in a variation in the employment of non-immigrants of between -0.3% and +0.3%, and a variation in wages of between -0.8% and +0.5%. Assuming a negligible impact of immigration on the employment (or unemployment) rate of non-immigrants, then trends in national labour market indicators depend exclusively on the professional integration of immigrants themselves.

### 3. The impact on public finances

The impact of immigration on public finances is a more recent subject of study than the effects on the labour market. The overall underlying philosophy is also

different: analyses focus on immigrants' contributions to public finances, while overlooking the potential impacts on non-immigrants.

Measuring the contribution to public finances made by a given sub-population poses formidable methodological problems:

- Immigrants' contribution to public finances cannot be interpreted independently of the country's overall fiscal position. For example, this contribution can hardly be positive if public finances are in deficit at national level: rather than focusing solely on its sign, it is therefore worthwhile comparing the net contribution of immigrants with that of non-immigrants.
- While the tax and benefit system is largely based on household living standards (and not just that of individuals), should mixed couples be taken into account in the same way as couples with two immigrant spouses?
- The literature is divided in terms of including the children of immigrants born in France in the analysis. On one hand, the cost of educating the children of immigrants is indeed the direct – and short-term – consequence of immigration. On the other hand, it is odd to include the impact on public finances of a sub-population over a certain time period – childhood – during which it is by nature only a cost driver.
- Finally, immigration generates a demographic dividend in the short term, since recently arrived immigrants are younger than the resident population and more often of working age.
- Certain so-called "dynamic" models thus consider the impact of immigration over the life cycle (unlike "static" methods), which in particular enables the cost of pension entitlements to be taken into account, with a longer-term perspective. Indeed, immigrants themselves are ageing, unless ever-increasing cohorts are envisaged: thus, in France, the proportion of those aged 55 and over is now the same as among non-immigrants.

As for France, only two static studies are available on this issue (OECD 2013, as part of a study concerning

5. Edo A., Ragot L., Rapoport H., Sardoschau S. and Steinmayr A. (2018), "The effects of immigration in developed countries: insights from recent economic research", CEPII Policy Brief, no. 2018-22, April.

27 countries, and CEPII 2018)<sup>6</sup>. Although these studies are based on different reference scenarios, they both pinpoint a gap in net contribution to public finances relative to non-immigrants amounting to around -0.3 GDP points. None of these studies explicitly includes the costs of public policies pertaining to immigration (including those under the “Immigration, Asylum and Integration” budget heading), which amount to around 0.1 GDP point.

The CEPII study provides a detailed breakdown of this differential between immigrants and non-immigrants: the contribution immigrants make to compulsory contributions is about 15% lower, due to an unfavourable gap in living standards, hence lower revenues of around 0.6 GDP points. On the expenditure side, social benefits are of the same order of magnitude, with lower pension payments offsetting higher amounts observed for other social benefits (particularly in the areas of housing and combating social exclusion).

Finally, education expenditure is estimated to be lower, amounting to savings of around 0.35 GDP points, only taking into account the children of immigrants born outside France.

Compared to CEPII, the OECD does not take into account pensions paid to immigrants who have left France (0.2 GDP points) and assumes that defence expenditure would be unchanged without immigration (resulting in a decrease of 0.2 GDP points in public spending attributed to immigrants). Conversely, the OECD includes education expenditure for the children of immigrants born in France (0.4 to 0.5 GDP points, with the children of mixed couples half taken into account<sup>7</sup>).

All in all, the differential impact of immigration on public finances is slightly more negative in France than on average in the OECD, for three reasons: the professional integration of immigrants is relatively more unfavourable in France; the demographic dividend is now low in France, considering the longstanding presence of immigration; finally, the redistributive system is more substantial in France than on average in the OECD, further pooling disparities in living standards, thereby making them more costly for society, regardless of whether low-income households are immigrants.

#### 4. The impact on economic growth

Economic literature tends to focus on the impact of immigration on per capita growth. Academic studies generally take a supply-based approach, revealing three main channels through which immigration can influence per capita growth in the long term:

- The proportion of people in employment, which is ambiguous: immigrants are more likely to be of working age, but their employment rate is generally lower, notably in France. The effects of this channel therefore differ according to the employability of immigration flows and the characteristics of the host country’s labour market.
- The human capital of employed workers: more highly skilled immigration will be more conducive to per capita growth, which again relates back to the composition of immigration flows.
- Total factor productivity, which reflects the level of efficiency in the use of labour and capital factors: in this respect, the widening of the pool of profiles resulting from immigration – but also the higher professional and geographical mobility often observed among immigrants – suggest a positive effect on per capita growth.

Empirical studies analysing the impact of immigration on growth mainly face the methodological challenge of so-called “endogeneity”, namely the risk to confuse correlations with causalities. Most of these studies, which are often not very specific to France, conclude that immigration has a positive effect on per capita growth, although this is less marked in more developed countries than in emerging or developing countries. They tend to show that the positive effects of immigration mainly relate to total factor productivity.

#### 5. Recommendations

The literature review conducted for this report has highlighted the wealth of data available on immigration as well as the large number of academic studies, albeit rarely specific to France, that attempt to overcome the numerous methodological challenges to assessing the impact of immigration on the economy of the host country. It turns out there is room for improvement in the provision of both data and impact studies:

6. OECD (2013), *International Migration Outlook 2013*, OECD Publishing; Chojnicki X., Ragot L. and Sokhna N. P. (2018), “*The fiscal impact of 30 years of immigration in France: an accounting approach*”, CEPII working paper, no. 2018-04, April.

7. The CEPII estimates the cost of education expenditure for the children of immigrants to be 0.7 GDP points, as it makes no distinction based on whether the parents are a mixed couple.



- Publish on a regular basis a consolidated document detailing the differences between the inflow data published by the Ministry of the Interior and by the OECD, and explaining how these compare with the flows estimated by INSEE using the census.
- Improve the monitoring of immigrant population trajectories, which would in particular ensure better monitoring of professional integration according to length of stay.
- Carry out further studies that look jointly at the effects of immigration on the employment of immigrants and non-immigrants, allowing for an objective analysis of potential substitution or complementarity effects. In particular, commission a study to assess the contribution made by the immigrant population to shortage occupations, incorporating general equilibrium effects.
- As far as public finances are concerned, update the impact assessment on a regular basis, in particular by applying the methodology used in the CEPII and OECD studies, and by taking advantage of the latest available surveys.
- Regularly assess integration policies. The impact of immigration is by no means cast in stone: it depends on the existence and quality of integration policies, which are aimed at heterogeneous populations.



DOWNLOAD THE *IMPACT OF IMMIGRATION ON THE LABOUR MARKET, PUBLIC FINANCES AND ECONOMIC GROWTH* REPORT  
ON STRATEGIE.GOUV.FR (PUBLICATIONS SECTION)



[www.strategie.gouv.fr](http://www.strategie.gouv.fr)



[@strategie\\_Gouv](https://twitter.com/strategie_Gouv)



[france-strategie](https://www.linkedin.com/company/france-strategie)



[francestrategie](https://www.facebook.com/francestrategie)



[@FranceStrategie\\_](https://www.instagram.com/FranceStrategie_)



[StrategieGouv](https://www.youtube.com/StrategieGouv)

Press contacts:

Flavio Leoni,  
Communications Officer,  
Publishing-Communications-Events Department  
[flavio.leoni@strategie.gouv.fr](mailto:flavio.leoni@strategie.gouv.fr)  
+33 (0)1 42 75 63 20

Charlotte Cougny, Press Relations Officer  
[charlotte.cougny@francestrategie.eu](mailto:charlotte.cougny@francestrategie.eu)  
+33 (0)1 42 75 60 39 - +33 (0)6 72 31 33 14



**FRANCE STRATÉGIE**

---

France Stratégie is a body under the aegis of the Prime Minister, dedicated to studies and forward planning, assessment of public policies and proposals. A forum for discussion and consultation, France Stratégie focuses on dialogue with social partners and civil society to improve its analyses and refine its proposals. It gives the work it does a European and international perspective, taking full account of its territorial aspects.