|  |  |
| --- | --- |
|  |  |

|  |
| --- |
| **Transcript of IMF podcast:**  **Giovanni Peri: Immigrant Swan Song** |

Giovanni Peri:

An important demographic trend has taken place in the last four or five decades in rich countries, and this is a big decline in fertility. Fertility is the number of kids born to a woman and most rich countries now are below replacement, which means that the new generation are smaller than the older and so that their population has already or will soon start to decline.

Bruce Edwards:

In this program, why demographics are the Achilles heel of the global North and how forward-looking immigration policies are the answer.

Giovanni Peri:

This will have important economic consequences in terms of the size of the labor force, in terms of the age distribution and in terms of the number of people who are retired relative to the number of people who are working. I am in Giovanni Peri. I am Professor of Economics at the University of California Davis and I am the Director of the Global Migration Center at the UC Davis.

Bruce Edwards:

Welcome to this podcast produced by the International Monetary Fund. I'm Bruce Edwards. While the immigration debate tends to focus on culture, identity and potential economic benefits, Giovanni Peri says demographics in the aging advanced economies of the North make a strong case for immigration policies that allow larger numbers of immigrants to help stabilize population growth. Peri is Director of the Global Migration Center at the University of California Davis and author of Immigrant Swan Song published in the March, 2020 edition of Finance and Development Magazine. So how does this aging population translate into the economy?

Giovanni Peri:

So the age structure of the country is a very important determinant of its economic characteristics and of its economic growth. So there are three main effect of a population decline and a population aging on the economy. The first is that the labor force, which is the number of people who are of working age and are working or are looking for a job, starts shrinking, starts declining because the cohort who are entering it, the young cohort are smaller than the cohort that are exiting get them. This implies that firms will have problem replacing worker, finding workers for jobs which are around and so employment growth can slow down as a consequence of this.

Giovanni Peri:

The second big and important fact is that within the labor force, the age structure is going to change. There are going to be more older worker and fewer younger worker. And this is important because younger worker are those who bring in new technologies, they are the more entrepreneurial, they bring in innovation. So with a smaller a number of them, innovation, growth, even the number of firms which are created can decline and this can have an effect in slowing down economic growth of a country. And the third effect is that there will be a larger number of people who are retired relative to the number of people who are working. And in this respect we will have a pension system which is based on working people paying for people who are retired being in a much more difficult situation and potentially we will need to reduce the pension benefits of all the in economy.

Bruce Edwards:

And in this article that you've written for Finance and Development Magazine, you write about immigration and how immigration impacts these trends. So to what extent does immigration contribute to population growth at the moment?

Giovanni Peri:

So already immigration in the last two, three decades has been a very important factor for population growth in rich countries. In the US, about 35% of the growth of population in working age has come from immigration. In Europe, 80% of it has come from immigration given that the natural growth of European labor force has been even smaller than the US. So already in the last three decades, immigration has been a very important and sometimes a major component of the growth of population in the rich countries, and in particular of population in working age because most immigrant move to their destination country when they are young or when they are of working age.

Bruce Edwards:

And so do these countries with low fertility rates, do they generally have more accommodative immigration policies?

Giovanni Peri:

So interestingly, while there is this overall flow of migrant from a relatively poor country, which are also younger and with faster population growth, to richer country, which are older and have slower population growth, there is not a clear connection at the country level between demographic decline and inflow of the immigrant, meaning that it's not true that the country whose population is declining faster are those who are attracting or trying to have more immigrants. An example are several countries of Eastern Europe which are among those where population is declining the fastest, and some of them, notably recently Hungary and Poland, have had a government with extremely anti-immigration policies. And the in general in Europe that is not a association between a lower population growth and more immigrant, which means that just left to itself immigration will not solve the problem of a decline in population across rich countries.

Bruce Edwards:

So you look at the age dependency ratios in your article as an important factor in all this. How does the age dependency ratio work and what are in fact the current trends?

Giovanni Peri:

The age dependency ratio is the number of people who are 65 years and older divided by the number of people who are between 15 and 65 so intuitively is the number of people who are retired relative to the number of people who work. This is an important number because any type of pension system in a country depends on this. And so this number in the US in the '50s, around the '50s, was close to one 10th, so there was one retired person for every 10 people who were working. However, now in 2020 this number is closer to one fourth, for each one person who is retired there are four people working. And in a country like Japan, this number in 2020 is closer to one half, so for each retire person there are only two people who are working.

Giovanni Peri:

So clearly this is a very important determinant of how we can pay for our pay-as-you-go system, which mean a pension system in which the working people are paying for the retired people, just as is social security in the US. With fewer people working per retired, either they will have to pay more or the benefits in pension terms are going to be reduced for people who are retired. So these are big and dramatic changes in how countries pay for their pension system. And of course eventually even having immigrants, immigrants will age as well and so they will become retired as well, but in a period in which this demographic transition is so strong in some country and these dependency ratio are changing so fast, immigration could certainly adjust and allow for a smoother transition rather than an abrupt either reduction in benefits or increase in taxes as it will have to happen if immigration continues to decline.

Bruce Edwards:

And you just mentioned there, some fiscal consequences of this aging population. How much does your average immigrant contribute to an economy over, say the course of a decade or so?

Giovanni Peri:

So let me premise that immigrant can be very important contributors to the economy where they go. Of course this is depending on them integrating in the labor market, working. But in most a destination country, notably in the US, in Canada, in Australia, immigrants do work, are integrated in the society. And given that they arrive, as I said, when they are relatively young, they have a longer contributive life ahead of them as worker, and estimates say that for immigrant who arrived in the US in the last 10 years, who are on average are relatively well educated and have a long contributive life ahead of them, over their lifetime, they could be contributing more than $170,000 per average immigrant, per immigrant over the course of their lifetime. So this is a real big fiscal contribution, meaning that these will be the difference between what they pay in taxes and what they receive in benefits. So net positive fiscal contribution for the United States from recent immigrant. And as I said, the working immigrant will come in as younger in several country could have potentially similar contributions.

Bruce Edwards:

And so what about the impact of migration in the countries from where these young migrants are coming from? I mean, does losing these people create problems for those countries?

Giovanni Peri:

So large flows of emigrant, people who leave countries, is always a potential concern, even because a lot of these people who move out are relatively highly educated, they're young, they could be a highly productive. One interesting fact is that most emigration in the world, so most of the migrant moving out, they move out of country which are not the most extremely poor countries in the world, they move out of intermediate income country. If a country are very poor, even knowing about the opportunity abroad and having a minimum budget to migrate is a problem. These subsistence economies don't have very large migration. But in country with intermediate income such as Mexico and Latin America, some country in Asia, the Philippines, those are countries where migrants... Where there is a large outflow.

Giovanni Peri:

So on its face there could be a risk of what is called brain drain, so of draining some productive forces from these countries. However, a lot of recent research has shown that there are also potential benefits from what is called more brain circulation rather than brain drain. Let me explain. So migrants that go in destination country have immediately one potential benefits for their origin, which are the remittances that they send back, so the money they earn and send back. And remittances over time have become a very important source of foreign money, foreign capital and they have helped the families, they have helped children to get educated in those family, sometimes they've also allowed this family to invest. Those are important flows.

Giovanni Peri:

But then in the medium and long run, there could be other potential impact. Many migrants are not permanent migrants, they work in the destination for a while and then they go back, and if that happens, they go back having accumulated their skills and abilities and they can bring them back to their countries, start companies, and there is a lot of evidence that they do this. And interestingly there is also an incentive effect, which is if people know that they can migrate to a richer country and earn at least for a while, they're more incentivized to get an education, to get some skills, to get some abilities which are useful to migrate, but then many of them who study and get an education don't end up migrating.

Giovanni Peri:

So all these facts, that there is a return migration, there are remittances, there are positive incentive, make people say that some of the negative effect of subtracting this group of people can be actually attenuated in the country of origin, so they may not have such negative consequences from a migration too, with the result that migration seems to be beneficial to the destination and not so hurtful to the origin, so overall have a positive impact on the economy.

Bruce Edwards:

Wow. So you're making a pretty convincing argument for increasing immigration flows and if the benefits are so obvious, why isn't it happening to the extent that it should be happening?

Giovanni Peri:

In rich countries, and the US and Europe are an example, there is a real sentiment of the population which is, in large part of it, in large segment of it, fears immigration. There is a some anti-immigration sentiment. So what is the interesting about this are a few things. First of all, this sentiment is mostly based not on economic consideration, it's based on the idea that immigrants are different, they can bring different culture, different values, they can put at risk society and the work of the local culture as we know it. But also it's very interesting to notice that there are some group which are more skeptical or more nervous about immigration than other, usually the older people, people who live in more rural area, people who have a lower education tend to have a higher skepticism and have more anti-immigrant sentiments.

Giovanni Peri:

So two consideration about this. So one is that there is a lot of research, though, that shows that being exposed to immigrant themselves may reduce this anti-immigrant sentiment. So if you think of the United States, the big cities, in California, New York, which are attracting a lot of immigrants, they actually have quite a pro-immigrant attitude and opinion. The more anti-immigrant attitudes are in the part of the South and the central United States were actually immigrant, there are not yet very many of them. So people fear what they don't know. Exposure to some immigrant, especially highly educated immigrant, seems to have an impact. So in a sense here, more open policies towards immigration could generate a more sympathetic and a more positive attitude towards the immigrant.

Giovanni Peri:

The other point is that, I said at the beginning, older people seem to fear immigration more than younger people. And in this sense that demographic dynamic is a little bit paradoxical because the generation, we just said, are people who are on a pension and they are people who would benefit the most from immigrant who help to pay their pension. Moreover, a lot of immigrant work in services which are assistance to the elderly, home assistants, home services, which are particularly beneficial to them. So from an economic point of view, this group is benefiting, but they're the one who are more worried about immigrant.

Bruce Edwards:

And so do you think that the younger generations of today who are perhaps more exposed to immigrants generally will be more amenable to immigration policy and in turn help stabilize population growth?

Giovanni Peri:

I am cautiously optimistic, just the looking at how the recent decades have evolved. Certainly the younger generation have been more exposed to immigrant. Moreover, I would say a lot of European larger urban areas which have been very economically successful are a area where immigrants have grown significantly and a new generation have create strong contact with them, and those are also the city which to show a more open, pro-immigrant attitude and therefore these dynamics that I'm saying, where exposure to immigrants and the economic success, which is in part brought by them, are going to be two strong forces counteracting that origin fear.

Giovanni Peri:

I do see though, this counter tendency which is strongly in place in the US and in Europe of some populist government which, to the contrary, come to power by promising to limit immigration as a real force and that is going to affect for years immigration policy. I hope that over decades these more progressive but slower type of forces of being exposed to immigrant, economic growth happening in the places where immigrants are, will slowly also change opinions and generate some more openness in rich countries.

Giovanni Peri:

I have to say overall, the history of the United States, for instance, has been a history of swinging from pro- to anti- to pro-immigration attitude with important back and forth, so I'm not sure that the progress will be linear, but certainly there will hopefully be in the longer run, these forces will become more important and opening to immigration will be considered as a way of reducing these issues created by population decline.

Bruce Edwards:

Thank you so much Giovanni.

Giovanni Peri:

My pleasure, thank you for having me.

Bruce Edwards:

Giovanni Peri is Professor of Economics and Director of the Global Migration Center at the University of California Davis, his article, Immigrant Swan Song is published in the March, 2020 edition of Finance and Development Magazine. You can read the article online at imf.org/fnd or download the Finance and Development app to read it on your mobile device. Look for other IMF podcasts wherever you get your podcasts, subscribe if you like what you're hearing and follow us on Twitter @IMF\_podcast. Thanks for listening.