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Why Mass Migration Is Good for Long-Term Economic Growth

by Vincenzo Bove and Leandro Elia

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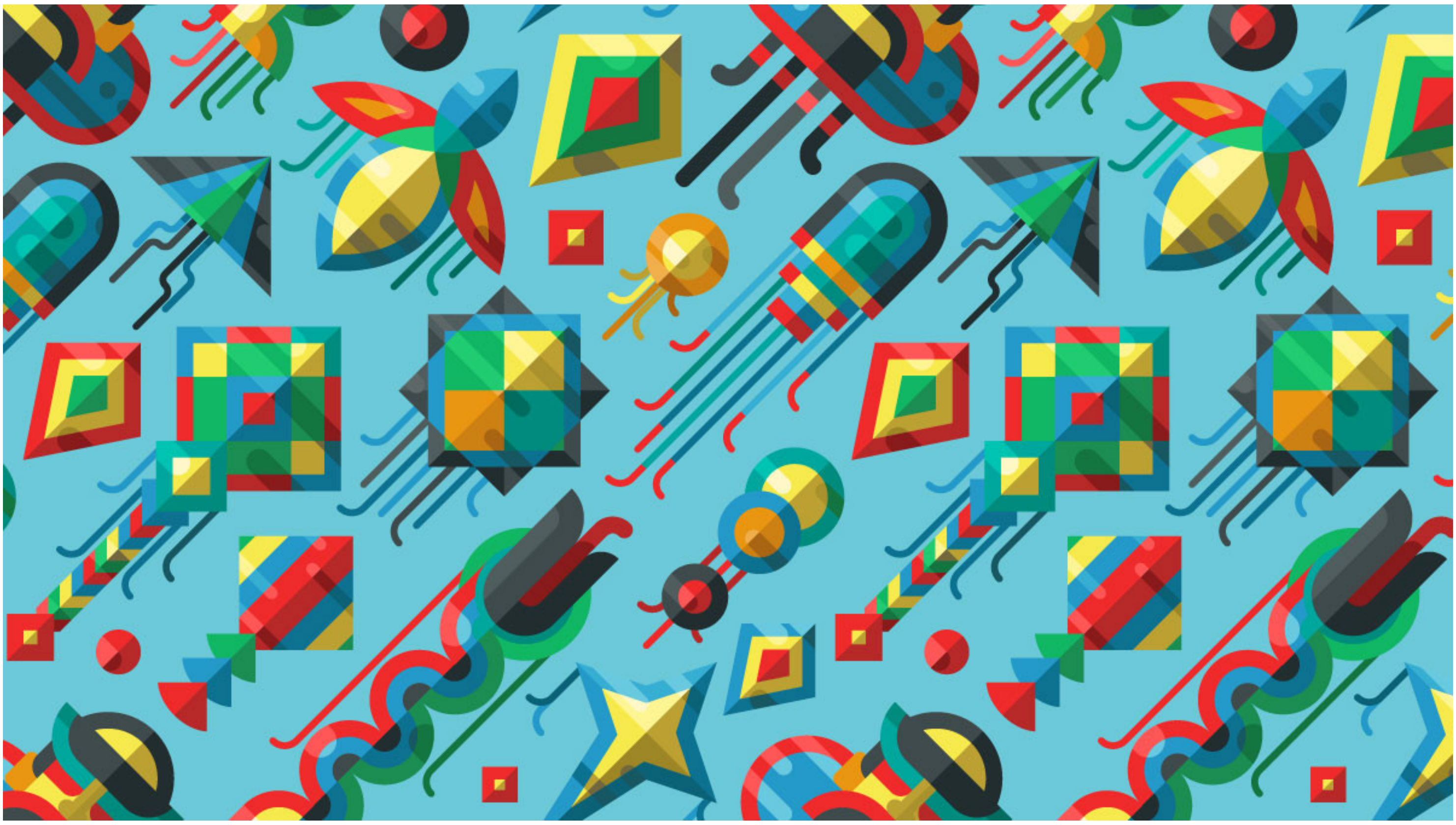

International migration is on the rise. By one estimate, the number of international migrants worldwide reached 244 million in 2015, up from 222 million in 2010, and 173 million in 2000. Immigration does not merely increase the size of the population in the destination country; it also increases demographic and cultural diversity, particularly when immigrants have come from very distant countries.

Given the increase in migration and subsequent increase in cultural diversity, it's not surprising that the economic consequences of both have become an active area of debate in political circles. In fact, whether cultural diversity carries more economic benefits than costs is still a hotly disputed question among scholars.

Some studies have found that diversity can erode trust among individuals and social cohesion within societies. Moreover, workplace heterogeneity may give rise to coordination problems, as language and cultural barriers increase transaction costs. Higher diversity is therefore associated with lower productivity, which inhibits the capacity of the economy to operate efficiently. At the same time, diversity in societal norms, customs, and ethics can nurture technological innovation and the diffusion of new ideas, and thus the production of a greater variety of goods and services. At the team level, a wider spectrum of traits is more likely to contain those that are complementary. Hence, a richer pool of expertise, experiences, and perspectives can create positive outcomes for the organization.

But what about at the national level? In a recent study we asked the following question: Is the diversity created by mass migration a good thing for economic growth? To find out, we mobilized a large-scale data set on international migration from 1960 to 2010, using information on the nationality of the immigrants to construct indexes of birthplace diversity.

For each country at every census round, we measured its fractionalization level, the likelihood that two individuals randomly selected from the population were born in different countries. Higher degrees of fractionalization indicate more diversity. We also computed a "polarization index," or the extent to which a country's population was made up of two groups of equal size. To give some context, among the most fractionalized countries in 2010 were Kuwait, Saudi Arabia, and Singapore, whereas the least fractionalized were China, Indonesia, the Philippines, and Somalia. In the same year, the most polarized economies were Luxembourg, Singapore, and most of the nations in the Arabian Peninsula, such as Bahrain, Oman, and Saudi Arabia. The least polarized were China, Indonesia, Lesotho, and Somalia.

Because countries with higher economic growth attract higher numbers of immigrants, as well as immigrants from many different cultures, we faced a challenge in figuring out whether immigrants and diversity were causing economic growth, or were a consequence of it. Our model did not account for important issues that are difficult to observe or quantify, such as specific immigration policies; open-door policies toward immigrants are likely to correlate with both good economic performances and high levels of diversity. Excluding factors like these could lead to the wrong inference.

To circumvent some of these issues, we constructed predicted indexes of diversity using variables such as the geographic distance, colonial history, or existence of a common language between origin and destination countries. This method allowed us to create indexes of diversity based on exogenous characteristics that are uncorrelated with economic growth, as well as with other unobservable country-specific characteristics, such as the existence of particular immigration policies. In doing this, we isolated the portion of the correlation between diversity and economic growth that was due to the causal effect of diversity and removed the portion of the variability of diversity correlated with other relevant variables omitted from the model.

Our empirical findings suggest that cultural heterogeneity, measured by either fractionalization or polarization, has a discernible positive impact on the growth rate of GDP over long time periods. For, example, from 1960 to 2010, when the growth rate of fractionalization increased by 10 percentage points, the growth rate of per capita GDP increased by about 2.1 percentage points. (This is the average effect across all countries in the world.)

But we suspected that diversity might play a different role at different stages of development. Richer countries are closer to the technological frontier than poorer countries, so the adoption of new technologies should be faster in developing economies, and the labor force's skills and knowledge should increase at a faster rate. In other words, the more developed the destination country is, the less economic impact we are likely to see from migration.

To test this expectation, we split countries into subgroups of developing and developed economies, and then replicated our previous models. We found that developing economies are indeed more likely to experience a sharper increase in GDP growth rate after their populations become more diverse. Our estimates suggest that, from 1960 to 2010, a 10-percentage-point increase in the growth rate of fractionalization (or polarization) boosts per capita output by about 2.8 percentage points in developing countries. (That is 0.7 percentage points higher than the global average described above.) The same models suggest that the effect of diversity in the developed economies is much weaker. This all implies that developing economies benefit the most from diversity.

Of course, there are some limitations to our methods. We looked only at immigrants' nationality, not other markers of diversity such as race, language, gender, education, or religion. In addition, we confined our study to country-level effects, rather than examining the impact of immigrants on organizations.

And yet overall our evidence suggests that immigration-fueled diversity is good for economic growth. The main recommendation that political leaders and organizational practitioners can take away from these findings is to increase openness to workers from as many origins as possible, to reap the large benefits of having an increased range of skills, ideas, and innovative solutions.

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ISAAC HWANG 24 days ago

Is it really because of diversity or because there is essentially more people now? More people means more labor and more demand for goods and services regardless of diversity. It leads to a cycle of self-fulfilling prosperity. Also developing countries have much lower GDP than developed countries and thus a small change in real numbers means a higher percentage change. So 1 million migrants to the US (population 320 million) or China (population 1.36 billion) would have less impact than say 1 million migrants to Norway where the population is about 5 million.

Lastly some countries have experienced fast paced growth despite being highly homogeneous and not experiencing much migration, for example China and South Korea. In fact those countries have been losing very high skilled workers migrating to the US or other developed countries.

For me there is no doubt that diversity would lead to greater innovation and thus indirectly contribute to the economy but I think only a few countries are able to "capitalise" on that like for example the US, where migrant workers have contributed greatly to the economy. On the other hand diversity in a developing country without the infrastructure to take advantage of the diversity would only lead to stratification of society due to a lack of a unifying political agenda that could steer the country into the right direction.

Even the US with a bipartisan government comes into deadlock many times as to how the country should be steered. How would a country that is multipartisan be like? How would a country where the diversity reaches a point where partisanship freezes the advancement of the country for a lack of focused national level development goals?

In the end diversity is a double-edged sword that cuts both ways and should really be championed as an answer to increase GDP or economic growth.

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