Immigration – a fraught issue that deserves closer study

Empirical data and research needed on immigration’s pros and cons in Singapore

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Immigration should not be a body debated issue in the recent general election. This focus is perhaps unsurprising, given Singapore’s sensible use of foreign manpower.

Last year, the number of foreign workers – including foreign domestic workers – stood at 1.4 million, making up 37.7 per cent of Singapore’s total workforce. A reading of the contents made both online and offline on the issue suggests that views on immigration tend to be polarised.

“GOOD” AND “BAD” DICHOTOMY

Those who believe immigration is “good” often argue that it brings down costs and makes Singapore more attractive to multinational companies, which then leads to job creation for locals. Various industry associations, for instance, have tried to push for the claim that, with reduced immigration, Singaporeans would be at the losing end and would have to pay higher prices. They also contend that restrictions on foreign manpower would make companies less competitive.

Those who believe immigration is “bad” often argue that Singaporeans would be harmed as immigrants compete with them for jobs. They contend that Singapore’s immigration policy has been too liberal – that quotas for work pass holders and the employment pass holders are too generous (despite efforts by the Government to reduce them over the past decade) and that there is no quota or levy imposed on Employment Pass holders.

Immigration draws strong opinions from people because people believe it will affect them. What is more, though, is how they would be affected. The above claims suggest that it could go either way.

Why is immigration such a contentious issue? And how can we best address it going forward?

WHAT THEORY TELLS US

In fact, economic theory predicts that immigration will not affect every native worker in the same way. Some native workers will gain while others will lose.

Whether a native worker benefits or loses from immigration is likely to depend on his skill level and on the skill composition of the immigrants. Traditional models of immigration predict that, generally, low-skilled immigration benefits high-skilled natives but hurts low-skilled ones. The logic is that while low-skilled immigrants are likely complements to high-skilled natives, they are likely to be substitutes for low-skilled natives. The converse applies for high-skilled immigration.

Of course, conclusions from theory are not definitive and may be open to question. So it is important to study the impact of immigration empirically, using data.

Exactly which native groups gain and which groups lose? How large are the gains and losses? What happens to native employment and wages after all adjustment has been made to the economy? Have we found any evidence of these effects in Singapore?

In fact, many empirical studies have found that immigration to Singapore has only small and insignificant effects on wages and employment of native workers.

Professor Rachel Friedman and Jennifer Hunt from Brown University and Rutgers University, respectively note this in their essay study titled “The Impact Of Immigration On Host Country Wages, Employment And Growth,” published in the Journal of Economic Perspectives in 1995.

However, this conclusion has also been challenged by the likes of recent work by Professor Christian Dustmann from University College London and his colleagues, published in the Quarterly Journal of Economics in 2017. Using German data, Prof. Dustmann and his colleagues show that a sharp and unexpected inflow of Czech workers to areas along the German-Czech border led to a sharp decline in local native employment in the German border municipalities.

The lack of consensus from empirical studies arises partly from the use of different methodologies. Another factor is that studies have used different data from different countries.

The impact of immigration is likely to be country-specific, which means that it is difficult to generalize the results found in one country to Singapore.

Empirically, what do we know about the labour market impact of immigration in Singapore? Not much. One reason for this is the lack of high-quality peer-reviewed Singapore-based empirical research addressing this, owing possibly to the lack of publicly available data.

SIMPLE ASSOCIATIONS NOT ENOUGH

It is worth noting that simple associations between immigration and labour market outcomes should not be taken as convincing evidence of such impacts. Indeed, proponents of immigration have often tried to argue that immigration has been beneficial, by pointing to statistics which show a positive relationship between the incomes and employment of natives and immigration over time.

Similarly, opponents have tried to argue that immigration has had a negative relationship between immigration and the wages of natives belonging to certain occupations, by pointing to statistics which show a negative relationship between immigration and the wages of natives in these occupations. However, such associations, by themselves, do not constitute convincing evidence of cause and effect since they may be spuriously driven by other factors such as macroeconomic conditions, independent of immigration.

To establish causality, we need to know “what would have happened?”

Would native employment and wages have been higher if there were less migration? If so, this would be indicative that natives were hurt by immigration. The converse would be true if native employment and wages would have been lower with less immigration.

Estimating causal effects requires more elaborate statistical methods, which go beyond simple associations.

What makes immigration so contentious is that we know little about the impact. This leaves a lot of room for the speculation and fear of different groups to make different claims about its effects, sometimes based on vested interests.

Empirical research can also be a source of uncertainty and insecurity, who are unsure if immigration will benefit them.

MORE DATA AND RESEARCH NEEDED

In principle, there is much to be said about both costs and benefits. It triggers many complex and unique economic – not just the labour market, but also the housing market – and social and political effects.

Some of these changes occur immediately others take time to occur. A comprehensive assessment would need to consider all these effects and assess how different groups in society are impacted by immigration – both in the short and in the long-run.

This requires that we know the magnitude of the costs and benefits associated with immigration.

Yet, our current understanding of the impact of immigration is not only imperfect, but also woefully inadequate. This is troubling not only because we lack empirical data and a comprehensive assessment about these issues, but also because our decisions are made in the absence of a comprehensive understanding rather than in the collective interest of Singaporeans.

Not only immigration, but also other social and economic policies need more data and research so that the public can make informed decisions about how these policies should be designed.