Immigration pluses and minuses

By FREDDY LIEW
FOR THE STRAITS TIMES

THERE has been much recent discussion on the topic of population in Singapore. The population white paper released on Tuesday deals with the issue. Overall population is expected to rise to around six million by 2020 and seven million by 2030.

The paper established a key theme, which is to build a more sustainable population that better matches population needs with economic growth.

But is there such an optimal population figure, given the dynamic and ever-changing global economy? The question should focus on how Singapore gains from immigration and how these gains can be fairly distributed so as to reduce the income disparity.

Economic literature supports the economic benefits of immigration – it brings about higher quality and quality of labour that drives growth in economies.

A recent study by Professor Matthew Sanderson, a sociologist at Kansas State University, has shown that immigration brings about a “Matthew Effect” (a reference to the Biblical Book Of Matthew’s “The rich get richer”), where wealthy countries gain more in terms of real GDP per capita due to immigration.

Professor Sanderson’s 230-country study, published in 2012, includes Singapore, which it said benefited from immigration. Among the findings:

First, there is a positive correlation between international migration and the level of economic development – that is, countries with international migration tend to also have higher economic development levels.

Secondly, this broad correlation is qualified by income levels in the countries studied, whereby the higher the income the country, the more the country is expected to gain from an open immigration policy.

Thirdly, the study also suggests a disproportional effect from immigration, with income gains of US$29.40 (S$36.34) per person in high-income countries, but only US$1.99 per person in middle-income countries and just US$0.58 per person in low-income countries.

Thus, economic growth may be propelled by accepting a larger foreign population growth. In fact, Singapore needs it since productivity changes require developmental time. But some empirical studies have shown that the poor or low-skilled were worse off.

This is pertinent to the discussion in Singapore.

A paper last year by Singapore’s National Population and Talent Division recognizes the economic need for foreign immigrants, including in occupations that Singaporeans may be less willing to take up. Due to its ageing population, Singapore requires another 15,000 foreign health-care and domestic workers in the next few years.

To continually satisfy infrastructure and housing needs in Singapore, a projected increment of 30,000 construction workers is required for the next few years. These are needs of society and, thus, it is important not to fully turn off the immigration tap.

However, an important study put forth by Professor Pia Orrenius and Professor Madeline Zavodny, former economists at the federal banks of Dallas and Atlanta respectively, showed that immigration has differing effects on citizens with different skill levels.

In their model, professionals’ wages have risen due to immigration, while those of manual workers have fallen.

The study found that one key reason is due to differences in the “degree of substitutability” between immigrants and locals across skill levels.

Low-skilled local workers are more easily replaced or substituted by foreign workers, as it is easier for foreign workers to pick up the skills needed and cheaper for them to be trained; also, foreign workers have a tendency to accept below-market wages. This forces low-skilled residents to accept falling wages.

On the other hand, the influx of immigrants creates new investments leading to high-paying jobs. Local skilled workers who are able to upgrade easily benefit from taking on these new jobs higher on the value chain, thus increasing their earnings.

In Singapore, this has unfortunately become the case. According to the Ministry of Manpower’s surveys, the median basic wage of cleaners fell from $1,015 in 1999 to $900 in 2011. This is in comparison to professionals’ wages, which increased from $3,350 to $4,350 in the same period.

To be sure, immigration was probably not the only factor explaining these wage trends.

However, too loose an immigration policy, allowing an influx of less-skilled workers, might have been one factor that worsened income inequality. This is an important issue that needs thorough study.

The writer, an education officer, has a Master of Economics from Singapore Management University’s postgraduate economic research programme.