

Reframing the debate on ageing and immigration

Research shows immigration boosts growth

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Earlier this month, Monetary Authority of Singapore managing director Ravi Menon made an insightful presentation on the links between three critical issues facing Singapore: ageing, immigration and productivity.

Speaking at the Institute of Policy Studies' Singapore Perspectives conference, he noted that Singapore's working age population - residents aged 15-64 - will start to decline from 2020. Since economic growth is the sum of the growth of the labour force and productivity, if Singapore freezes immigration and is not able to increase fertility beyond the replacement rate, productivity will be the only source of growth.

So if productivity grows at 1.5 per cent - the average of the last seven years - the economy will also grow at 1.5 per cent. That would be a problem; it would seriously limit increases in wages and improvements in living standards.

If we don't want immigration, we can, in theory, mitigate the problem by raising the total fertility rate and the labour force participation rate - the percentage of workers in the workforce.

But even if we succeed in raising the fertility rate from the current level of 1.2 (children per woman, on average) to the replacement rate of 2.1 over the next 15 years - a challenging target - it won't have much of an impact on the growth of the workforce or gross domestic product (GDP) until 2040 because, as Mr Menon noted, "it will take time for the extra babies born in the next 15 years to start entering the labour force".

The key to raising the labour force participation rate is to encourage more women to work. World Bank data shows that while Singapore's overall labour force participation rate, at 68 per cent, is higher than the average for high-income countries (60 per cent), there is a 17 percentage point gap between the participation rates of men (77 per cent) and women (60 per cent). In most other high-income countries, the gap ranges from 9 to 12 percentage points. If Singapore can narrow the gap to 11 percentage points by 2035, it will help, but not by much. The labour force would expand by only 2 per cent by 2035.

Given these constraints to expanding our workforce, Mr Menon pointed out that Singapore must "allow a certain rate of net immigration". It must also be flexible in its immigration policies, responding to economic cycles, changing circumstances and opportunities.

He concluded that Singapore needs to reframe the question on foreign workers. "It is not about how many foreign workers industry wants or society can afford to have," he said, "but what number and kind of foreign workers we need to maximise the job and wage opportunities for Singaporeans. Foreign workers must be a complement to the local workforce."

Many of the issues raised by Mr Menon are worth exploring further. Here are some interesting findings from economic research.

As ageing increases, productivity could fall

A 2016 International Monetary Fund (IMF) study on the link between ageing and productivity in Europe found that the ageing of the workforce "is likely to be a significant drag" on productivity growth.

Several studies note that skills are likely to become increasingly dated as ageing proceeds. As job requirements change, older workers find it more difficult to adapt. The result is lower levels of innovation, technology adoption and dissemination across the economy. But the impact of ageing on productivity can differ across different occupations. While productivity will be negatively affected in many occupations, there are some where productivity can, in fact, increase with age, such as lawyers, professors and doctors.

The IMF study estimates that overall, the ageing of the workforce in the euro area could lower productivity growth by about 0.2 percentage point each year between 2014 and 2035.

If a similar trend were to hold for Singapore, which is plausible, productivity growth 20 years from now will not be 1.5 per cent, but close to zero. Thus, in the absence of workforce growth, economic growth would also be close to zero. But this also means that policies which counteract the negative impact of ageing can result in significant increases in the growth of productivity and GDP.

Trying to counteract ageing by raising fertility rates is difficult and expensive

A few countries such as France, Finland, Norway and Sweden have managed to raise fertility rates through generous, family-friendly policies as well as liberal social norms, which include greater acceptance of single parenthood and births outside marriage.

But most countries in Europe, as well as East Asia (where social norms are more conservative), have found it difficult to boost fertility rates, which also entails high fiscal costs. In any event, as Mr Menon noted, even if Singapore succeeds in raising its birth rate to the replacement rate of 2.1 over the next 15 years, it would have no perceptible increase in the workforce until 2040.

Some low-skilled foreign workers can help raise female labour force participation

There is evidence that certain types of low-skilled immigration (or non-immigrant foreign workers) can improve female labour force participation rates. Researchers Patricia Cortes of the Boston School of Management and Jose Tessada of the Catholic University of Chile found that higher numbers of low-skilled immigrants into the United States during the 1980s and 1990s led to cheaper prices for labour-intensive services related to home management, such as housekeeping, childcare and gardening.

As a result, there was an increase in the participation of educated women in the workforce. The most significant impact was felt in cities which had the largest influx of immigrants.

This may well hold for Singapore too. While much emphasis has been placed on the importance of high-skilled foreign workers as complements to the domestic workforce, increasing quotas for certain categories of low-skilled foreign workers - such as domestic maids, healthcare and childcare workers - could help raise female labour force participation rates, especially for high-skilled jobs.

Well-designed immigration policies can help create jobs and boost economic growth

According to research from the IMF and others, the commonly expressed view that immigrants take over jobs of domestic workers, depress their wages and negatively affect the domestic economy is closer to the opposite of the truth, provided immigration policies are properly designed.

The common view is based on the assumption that the skill sets of immigrants and local workers are identical and that the economy does not adjust to immigration flows.

Well-designed policies can ensure that this is not the case: Immigrants and native workers can also complement and benefit each other. In Singapore's case, there are several areas where there is limited overlap between the skill sets of immigrants and local workers, including artificial intelligence and data scientists, cyber-security experts, fintech and software engineers, R&D scientists and speciality chefs - and at lower-skilled levels, domestic workers, construction workers, health-and childcare workers.

Several studies also show that companies do not lay off domestic workers because of the increased supply of cheaper foreign workers - in fact, quite the reverse.

The greater availability of workers enables companies to earn higher returns on capital and increase investments. Thus, existing companies expand and new ones emerge, contributing to higher economic growth and more job creation. Younger immigrants also broaden the tax base and add dynamism to entrepreneurship. The IMF study concludes that "all in all, the overall effect of immigrant workers on the domestic economy is likely to be positive".

These findings are consistent with Singapore's experience.

Singapore's economic growth during the years of surging immigration (2004-2010) - which included the low-growth years of the global financial crisis of 2008/09 - averaged 7.3 per cent. The increased flow of foreign workers was not accompanied by higher layoffs of domestic workers. Immigrants have also played an important part in Singapore's entrepreneurial renaissance.

Immigration can help promote internationalisation and competitiveness

Several studies - for example, by Professor Gordon Hanson of the University of California at San Diego - show that immigrants to the US brought with them knowledge about market conditions and opportunities in foreign countries, which helped reduce the costs of US companies doing business abroad.

Immigrants also helped to boost trade and investment flows between the US and their countries of origin. In particular, many immigrants helped US companies invest in countries like China, India and Taiwan.

Singapore can also tap into the knowledge and connections of its pool of immigrants to increase trade and investment overseas, especially with large Asian markets.

Since 2011, and particularly after the publication of the much-maligned White Paper on Population in 2013, Singapore's immigration policies - at least as articulated - have remained largely tight almost across the board, prompting complaints from business groups, which have still not abated.

Such policies may also have contributed to lower economic growth as well as low productivity. The debate on immigration has also stalled, which makes Mr Menon's fresh perspective on the issue especially welcome.

With the tipping point when ageing starts leading to a decline in the working population just two years away, it is time to revisit policies on the interrelated issues of ageing, productivity and immigration and reframe the debate. Hopefully, some of the research cited in this article will help in this process.