

## A Fresh Look at the “Huddled Masses”

BY HELEN FESSENDEN

### Economists are looking at past mass migration waves to understand Europe’s refugee surge

Throughout the past year, images of Europe’s refugee crisis have flooded the news and social media, feeding into heated disputes over crime, terrorism, and cultural identity. On one side, European Union governments are looking to enact tougher controls in coming months amid a growing political backlash. On the other side are those who argue a pro-refugee policy is not just the humanitarian thing to do, but economically advantageous as well. As German Chancellor Angela Merkel famously put it, taking in refugees will require “time, effort and money,” but countries have always “benefited from successful immigration, both economically and socially.”

Although 2015 saw a dramatic spike in arrivals, Europe has been evolving into a global migration destination for more than a decade. In 2013, the EU took in around 1 million permanent migrants, roughly as many as the United States did. Since then, the dramatic surge in refugee flows into Europe has tipped the balance even more. According to the European Union’s statistics office, Eurostat, the EU had recorded around 995,000 first-time asylum applicants from January to October 2015 — twice the total in 2014 — with most in Germany and Sweden (where policy is the most liberal) and Hungary (a key transit country). The actual total of refugees is higher, though, as there is generally a lag between arrival and application. For example, Germany, which has a population of 81 million and has taken in the lion’s share, reported a total of 1.1 million refugees in 2015. (As a point of comparison, the EU’s total population is around 510 million, while the U.S. total is around 320 million.)

There are also less dramatic but equally significant ways in which these immigrants are changing Europe’s demographic and economic future. Faced with a growing labor shortage — both for skilled and unskilled workers — some European governments are speeding up paperwork and making it easier for refugees and asylum seekers to enter the workforce rather than wait in bureaucratic limbo for years. The Organization of Economic Co-operation Development (OECD) has estimated that the volume of immigrants, combined with these policy changes, means that the otherwise stagnant European labor force will rise by 0.4 percent in 2016; in Germany, that increase is expected to be a full 1 percent. Many of these newcomers are young and of prime working age; under one Eurostat estimate, 82 percent of the asylum seekers who registered between from May to October in 2015 were younger than 34.

Amid the heated and unpredictable politics of immigration on both sides of the Atlantic, it is easy to forget just how much economics can drive policy — and just how much the forces shaping immigration often share common features across countries and populations. Policymakers today could find useful insights from one group of economists in particular: those who study migration flows of the past as one way to build on our understanding of immigration of the present. And one of the most important cases is close to home: the “Great Migration” of Europeans to the United States from the mid-1800s to the 1920s.

### An Ideal Case Study

Totaling around 33 million, this mass migration was not just one of the largest population movements of the modern era; it changed the fabric of U.S. society. By 1920, when the U.S. population was 106 million, 28 percent of all Americans had foreign parentage, while another 17 percent were foreign-born.

“If you want to address the basic question of why people move across borders, there’s actually no better subject than the Great Migration,” says Jeffrey Williamson, an emeritus professor of economics at Harvard University and one of the leading scholars of this period. “You don’t need to figure out who’s legal and who’s illegal. You don’t need to control for the effects of policy intervention.”

Among the most important of such policy interventions was a literacy test requirement in 1917 that was followed by far stricter quotas in the 1920s. Until that decade, however, Europeans faced no formal restrictions to U.S. entry except for health, which affected only a tiny minority. Such unfettered flows of labor, combined with the large sample size, make the Great Migration an ideal subject for economists.

“The Great Migration is one of the largest episodes in history, similar to today in terms of number of immigrants to the United States, but larger in terms of percentage of the sending and receiving populations,” notes economist Ran Abramitzky of Stanford University. “The U.S. borders were open to European immigrants, so this is a good setting to test the self-selection of immigrants in a world without policy restrictions. There were also no large U.S. welfare programs at the time, so we can test the assimilation of immigrants in a world without public immigrant support.”

What did these movements look like? With relatively cheap land and a relatively high demand for labor, the United States started to become a magnet for Europeans well before the Civil War. From the 1840s until the 1870s, it absorbed around 200,000 new arrivals a year, with most coming from the British Isles, Germany, and Scandinavia. Inflows increased dramatically in the mid-1870s, as more began streaming in from Southern and Eastern Europe, known as



the “new immigrants.” In 1907, the peak year of immigration, more than 1.2 million entered the United States, about 1 million of whom were the latter group. Taken together, these inflows produced a labor force that was 22 percent foreign-born in 1910, compared with only 17 percent today. There was, however, one very significant exception to this broad freedom of movement: The United States banned immigration from China in 1882, when it had a Chinese population of around 100,000.

The arrivals settled mainly outside the South and gravitated toward cities across the Northeast and Midwest. They also tended to be young and of working age, with relatively high labor force participation. More men than women made the transatlantic journey, too, so that by 1910, there were roughly 13 men for every 10 women among the foreign-born in the United States. Last, they tended to be unskilled, especially in the later waves. In 1900, for example, about 26 percent of “new” immigrant males were illiterate, compared with 2 percent of native men who lived outside the South. Some economists argue that these unskilled workers made up a large share of those who returned to their home countries, which may have amounted to 30 percent of all immigrants during the peak years.

The rising numbers of immigrants coincided with growing sentiment to curb immigration. In 1907, a government report concluded that new migrants lowered wages, worsened unemployment, and had not assimilated. After a long string of attempts to impose restrictions, Congress passed in 1917 a literacy test requirement, overriding a veto by President Woodrow Wilson. The literacy test then paved the way for subsequent legislation imposing much stricter quotas. In 1924, the United States set an annual cap of 150,000, with most allotted for migrants from Northern Europe. The Great Migration slowed to a trickle. It was not until the 1960s that the United States overhauled its policies, relaxed its country-of-origin restrictions, and became a nation of immigrants again, this time with a predominantly non-European influx.

### Push and Pull

At first glance, the history of mass migration contains many puzzles. Oftentimes the poorest populations do not migrate at all, even though they presumably have the most to gain. And the ebb and flow of immigration appears to occur at different times of a recipient nation’s income growth, along different patterns. Confronting these questions, scholars have looked to the wealth of data offered by the Great Migration.

In case the case of Europe today, a primary and obvious driver of migration is war. But throughout history, economics and demographics have been equally powerful forces. Williamson, joined by Timothy Hatton of the University of Essex in England, has constructed a model framing immigration as a “life cycle” that can explain flows across continents and centuries. They first analyzed data from the Great Migration to locate the main drivers of migration, and then they applied them to more recent examples. Among their most important findings was that a wage gap between rich and poor countries alone is not sufficient to induce an immigrant to leave; instead, he or she has to reach a certain threshold of income to afford the journey in the first place. In the European case, it took decades of slowly rising wages before some of the poorest populations could afford leaving the “poverty trap,” even though the United States was already known as a migrant destination; this finding also can explain why modern-day populations in the world’s poorest regions, such as sub-Saharan Africa, often stay in place.

This wage gap, however, is also tied to a strong “friends and relatives” effect, according to Hatton and Williamson. The bigger the immigrant network in the destination country, the more likely it is to help pay for the voyage and the initial costs of the job hunt. Because this network provides a de facto subsidy for relocation as well as a social safety net, it means that the home-country wage becomes less important to the decision to leave as the immigrant network becomes bigger, especially if transportation gets faster and cheaper (as was the case in the 19th century, with great advances in steam and rail travel). This network effect can also be seen in flows from Latin America to the United States since the 1970s.

Williamson and Hatton also stressed the role of demographics: The bigger a country’s “youth bulge,” the higher the emigration rate. In the case of 19th-century Europe, new pressures emerged as the death rate declined and more children survived infancy. Once these relatively larger cohorts of children became young adults, more and more looked abroad for work as their numbers at home outstripped the number of jobs available, especially in agriculture. This driver was reinforced by another trend: Rising literacy helped accelerate the flows, as the younger workers in the poorest populations in Europe were better able to learn about migration opportunities. This was especially the case in Southern and Eastern Europe, where primary schooling finally spread in the late 19th century.

When did this cycle ebb? Hatton and Williamson noted

that policy changes can have a significant impact, as was the case with the United States in 1920s. But economic factors also exert a powerful force. Rising home-country wages and rising labor demand created by European industrialization eventually contributed to a slowing of migration flows from Northern Europe, as more workers stayed home and found work in factories and cities. Wages in the poorer European countries converged with U.S. wages and with wealthier regions in Western Europe, such as Britain. Then, as now, immigration slowed once a relatively poor region had graduated to the middle-income tier.

This model is among the best known in the literature and is often cited in the context of more recent episodes, for example, the gradual ebb in migration from Latin American countries, where the youth population has fallen since it peaked in the 1980s. It also has a more surprising application to cases such as the flows of 1.5 million Russian Jews to the United States as part of the Great Migration, which is often assumed to be a case of migration driven mostly by persecution and violence. According to research by UCLA economist Leah Boustan, the anti-Jewish pogroms that started in the late 1800s did affect the timing of movements. But this particular case also shared economic and demographic drivers similar to contemporaneous cases of European out-migration, such as business cycles at home and in the destination, as well as the growing “network effect” as Jews settled in the United States.

### Who Wins, Who Loses?

Broadly speaking, macroeconomic theory is fairly sanguine about the effects of migration. In the short run, it holds, migration tends to boost growth in the recipient nation by increasing the labor supply, domestic demand, and net fiscal outlays. A larger labor supply also boosts growth prospects in the long run. In addition, capital will tend to chase labor to yield higher returns, adding to the economic gains. However, such disruptions inevitably come with winners and losers, particularly in the short run. In this context, labor markets, especially wages, have dominated economic research. It is relatively easy to quantify such gains and losses in these studies, and, in the case of historical movements such as the Great Migration, there also are abundant data.

Economists tend to agree that the effects of immigration on native and migrant wages alike depend crucially on the skills of immigrants relative to the skills of the recipient population. If the new supply of labor complements native factors of production, both groups should become more productive. If they're substitutes, however, native labor that is more expensive than migrant labor is likely to be displaced. This theory builds on a long-established economic model — known as the “Roy model” — that maintains that migration is driven by the return on an immigrant's skill level, and these returns, by extension, are shaped by the relative income equalities of the sending and receiving nations.

Measurement is hard, however, because migration, especially on a mass scale, shifts economic activity across industries and regions over time. Moreover, these effects will naturally

differ across regions, industries, and nationalities. In short, the wage impact is only one part of a much bigger picture. But most work still focuses on wages rather than broader macroeconomic effects. Along with the availability of data, another reason for this concentration is that, at the time of rising anti-immigrant sentiment before World War I, one of the most common arguments for imposing curbs was that these inflows of Europeans drove down Americans' wages. Looking back at this legacy, economists have tried to use modern tools and richer data to answer this debate objectively.

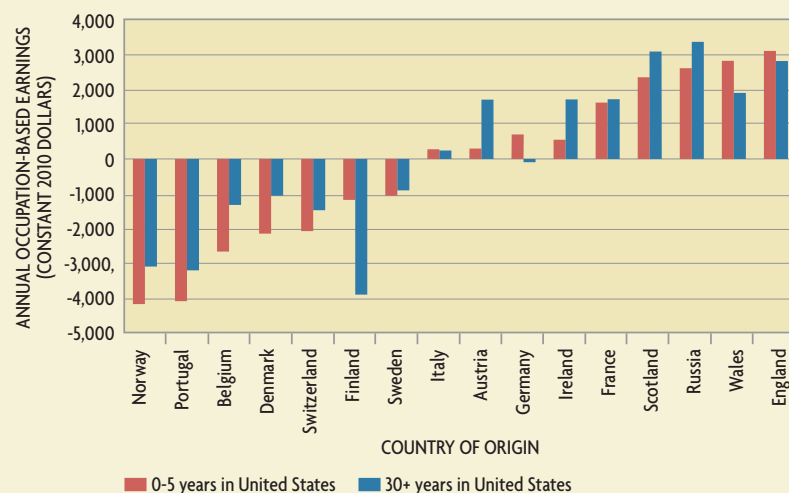
One of the most famous studies was conducted by economist Claudia Goldin of Harvard University, who did research in the 1990s that looked to the Great Migration to analyze immigration's wage impact from the 1890s until the imposition of the literacy test in 1917. Looking across professions and their percentage of foreign-born workers, Goldin found a persistent, though slight, negative effect. Noting that the “new” immigrants from Southern and Eastern Europe tended to be low-skilled, she concluded that, starting in 1890, each 1 percentage point rise in the immigrant population in a particular city corresponded with a drop in wages of 1 to 1.5 percent for all workers. The wage effect was especially pronounced in sectors dominated by immigrants, such as men's clothing and foundries, while sectors that were dominated by native-born and highly skilled workers did not see this effect. Moreover, wages tended not to suffer as much if a growing immigrant population translated into higher local demand for a product made by immigrants; bakers and bread are one good example.

As other economists have noted, however, wage effects alone don't capture the entire picture of immigration's impact, especially on a national level. In the case of the Great Migration, they have found that capital flows tended to follow labor flows from the Old World to the New as they were pulled by the latter's natural resource endowment; over time, the infusion of capital lifted the return on labor. These forces helped offset the negative pressure on wages among lower-skilled workers, and, more broadly, fueled the rapid pace of industrialization and urbanization in the United States during the late 19th century.

One study by the economists Williamson, Hatton, and Kevin O'Rourke illustrates this effect dramatically. They found that if immigration had stopped in 1870, the resulting labor scarcity would have been so profound that it would have raised the 1910 wages by 24.7 percent. That model assumes, however, that capital flows would have been unchanged, when in fact they closely responded to the surge in labor supply. In a second simulation that realistically adjusts capital flows to take into account labor-force growth, the wage effect would have been far less, around 9 percent. As capital chased labor in a tightly integrated international capital market, then, capital flows from Europe significantly countered the downward pressure on U.S. wages. As the study put it, much of the capital headed to the United States “would have stayed home had international migration been suppressed.” Moreover, without the acceleration of capital



## Earnings Gap Between Native- and Foreign-Born Workers in the U.S.



**NOTE:** This chart shows the changes in annual occupation-based earnings among immigrants who arrived in the United States between 1880-1900 in both the short and long run. In general, immigrants from poorer sending countries, such as Norway and Portugal, started in lower-paying jobs, saw modest gains, but did not catch up to U.S. median wages after 30 years. By contrast, immigrants from wealthier sending regions, such as England and Wales, started out and stayed in higher-paying jobs. "Russia" refers to the Russian Empire. The researchers believe Finland may be an outlier because the country experienced a severe famine in 1868-1869, so the "negative selection effect" of early Finnish migrants may have been especially strong — that is, they were low-skilled workers who left for the United States only to escape starvation.

**SOURCE:** Abramitzky, Ran, Leah Boustan, and Katherine Eriksson, "A Nation of Immigrants: Assimilation and Economic Outcomes in the Age of Mass Migration," *Journal of Political Economy*, 2014, vol. 122, no. 3, Figure 3, p. 490. Data provided by authors.

## Getting Personal

The studies noted above look at immigration's effects on the native population and the economy. But what about the immigrants themselves? Did their wages converge with natives' over time? And were they better off after arriving in the New World, compared with those who stayed at home? These questions are getting a closer look these days as economists gain access to much more personalized data on this era from the U.S. Census. Under Census rules, information on individuals can be released after 72 years. This means that, rather than looking at a group of immigrants in a given year, economists can assemble and study data sets that follow the same individuals across decades, including the decades of peak immigration and the years thereafter.

"We can look at whether people stayed or left their country of birth, compare siblings who move or stay, and follow immigrants and their children in the United States over time," explains Abramitzky. "This improves our understanding of the immigrant population, their motives for migrating, and how they fared in the United States."

In one example of this approach, Abramitzky, joined with Boustan and Katherine Eriksson of the

flows that followed the surge in labor supply, the rise in U.S. output likely would have been far more muted.

More recently, some economists have been trying to take on even more ambitious questions of immigration's macro-economic impact over the long term. Two scholars at the London School of Economics — Andrés Rodríguez-Pose, a professor of economic geography, and researcher Viola von Berlepsch — conducted a study with a very wide lens, looking at how the impact of immigrant flows into U.S. counties during the Great Migration was reflected in GDP growth more than a century later. To do this, they gathered Census data from 1880, 1900, and 1910 to see how migrants settled at the county level throughout the United States; then, they compared those data with county GDP data in 2005. In addition, they controlled for factors that may have influenced migrants' decisions to move to particular counties, such as mean income, education levels, and urbanization. The conclusion: The most durable factor positively affecting GDP in 2005 — more so than any other "pull" forces — was the extent a county was settled by immigrants a century or more earlier. That is, whether or not migrants' descendants remained present in a particular county, some institutional imprint established by the original immigrants had a much more powerful economic impact over the long run than the socio-economic advantages offered by the county at the time.

"Regardless of the training and origin of migrants, migration waves leave a big and very long-lasting legacy of economic dynamism and growth," says Rodríguez-Pose. As for today, he adds, "this is something that Europe, with its aging population and structural economic problems, cannot do without."

University of California, Davis, created a dataset of 21,000 individuals to measure wage convergence between immigrants and natives. Two key questions they addressed: Whether the immigrants who left for the United States had higher or lower skills relative to the native population, and whether the wages of immigrants and natives converged over time. This study also tried to correct a selection effect that has long concerned economists: How does one control for the fact that, over time, a growing percentage of new arrivals in the Great Migration were lower-skilled, and that it was likely that the lower-skilled predominated among the many migrants who returned to Europe? If an economist is studying a cohort that arrived in 1890 and stayed, the finding that this group's average wages were higher than those who arrived in 1900 may not mean that there was actual wage convergence — it could just mean that the 1890 group was higher-skilled to begin with, and those who stayed were the higher earners.

Abramitzky and his co-authors found backing for this intuition. They also discovered that rather than converging with native workers' wages, immigrants in the Great Migration followed parallel professional trajectories. Migrants from higher-wage countries in Europe, and with higher skills, took better paid jobs upon arriving in the United States; subsequently, their wage growth tracked that of higher-earning natives. In contrast, migrants from poorer sending countries took lower-paying jobs than their U.S. peers and stayed in those jobs. Over the course of 30 years, in fact, there was very little movement on wages either way, suggesting that the skill level upon arrival was a key factor in long-term earnings (see chart).

The analysis of micro data leads to other important findings as well, especially regarding migration's impact on earnings of

individuals. The same researchers conducted another study, this time on 50,000 Norwegian men from 1850 to 1913, to see who was most inclined to emigrate, and whether they were better off. Indeed, poorer men were more likely to migrate to the United States than better-off members of their family. And notably, everything else being equal, a typical immigrant from urban areas saw a net gain of 70 percent more in earnings compared with brothers who stayed in Norway.

### The New Wave

In some respects, drawing lessons from the Great Migration to modern day Europe has limits. One key difference is that immigration policy in Europe (and around the world) is tightly regulated and restricted, as is asylum policy. Clear definitions divide legal from illegal groups. European economies also have well-established safety nets, including laws on minimum wage and provisions for unemployment insurance, in contrast to the United States before the New Deal. The current environment, in short, is far from the “pure” observation that the Great Migration has offered to scholars.

That said, as the refugee surge into Europe has prompted economists to analyze the impact of these flows, some factors stand out today as they did in the past. For example, a recent International Monetary Fund (IMF) report highlighted the importance of refugees’ skill levels — and their subsequent development through integration — as one key determinant in how much a European economy gained from immigration. On the one hand, its authors noted, the existing community of immigrants in Europe who came from the “surge” countries (Syria, Afghanistan, etc.) have, on average, a smaller percentage of college-educated workers than do native European workers. On the other hand, incomplete data on very recent arrivals from Syria suggest that the share of college-educated is roughly the same as native levels, slightly above 20 percent. To underscore why this matters so much, and why more current data are needed: An IMF economist who analyzed long-established immigrant communities in Germany found that education, as well as language and job-skill development, were the most critical factors in reducing the otherwise significant gaps over 20 years between Germans and immigrants in earnings, unemployment rates, and labor force participation.

The question of labor market integration also plays out in how much this new mass migration will lift European GDP. The IMF researchers estimated that immigration is providing a modest boost to growth, but in the medium run,

these projections diverge substantially depending on whether there is anticipated to be significant labor market integration. For example, by the year 2020, this roughly came to an 0.18 percent increase in annual GDP without strong integration versus about 0.22 percent with. The boosts to GDP come mainly through the increase in aggregate demand and government spending, but given that the inflows vary considerably by country, the GDP effects vary as well, with the major receiving nations of Germany, Sweden, and Austria seeing far greater effects. Finally, these inflows are also important in the demographic context at a time when declining birth rates across Europe are translating into an aging workforce and a shrinking population. In fact, according to a preliminary estimate by the OECD, migration accounted for the entirety of EU population growth in 2015.

Hatton, whose recent work includes an analysis of refugee flows into the OECD countries, notes that the current crisis requires a recasting of sorts of his well-known model. For example, networks still exert a “friends and relatives” effect in determining where migrants try to settle. But the extent of welfare support in the receiving countries, or their unemployment rates, matter relatively little to asylum seekers, because their primary goal is to flee violence and resettle, not seek economic gains. Economic drivers do influence refugee flows, he has found, but the effect is far weaker than, say, war or oppression.

To Hatton, these findings suggest, among other things, that refugee migrations to Europe will continue unabated unless Europe ramps up its financial support to transit countries such as Turkey and Lebanon so that they are better able to manage resettlement and repatriation strategies in the long run; while not sufficient by itself, he sees this as one way to reduce the flows of refugees who see no other choice but a risky trip to Europe. A harmonized EU policy on accepting asylum seekers, rather than one relying on a small number of recipient countries (as is now the case), is also part of this proposal. Above all, he argues, Europe’s leaders need to distinguish between asylum policy and immigration policy — that is, separate humanitarian imperatives from economic needs.

“Refugee policy is about helping the individuals who are in danger, and there is public support in Europe to come to their aid,” he says. “Immigration policy is primarily about helping the economy, and deciding how the economy is best served by a certain group of workers. If we don’t solve the two issues on separate tracks, we risk losing public support for both.” **EF**

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