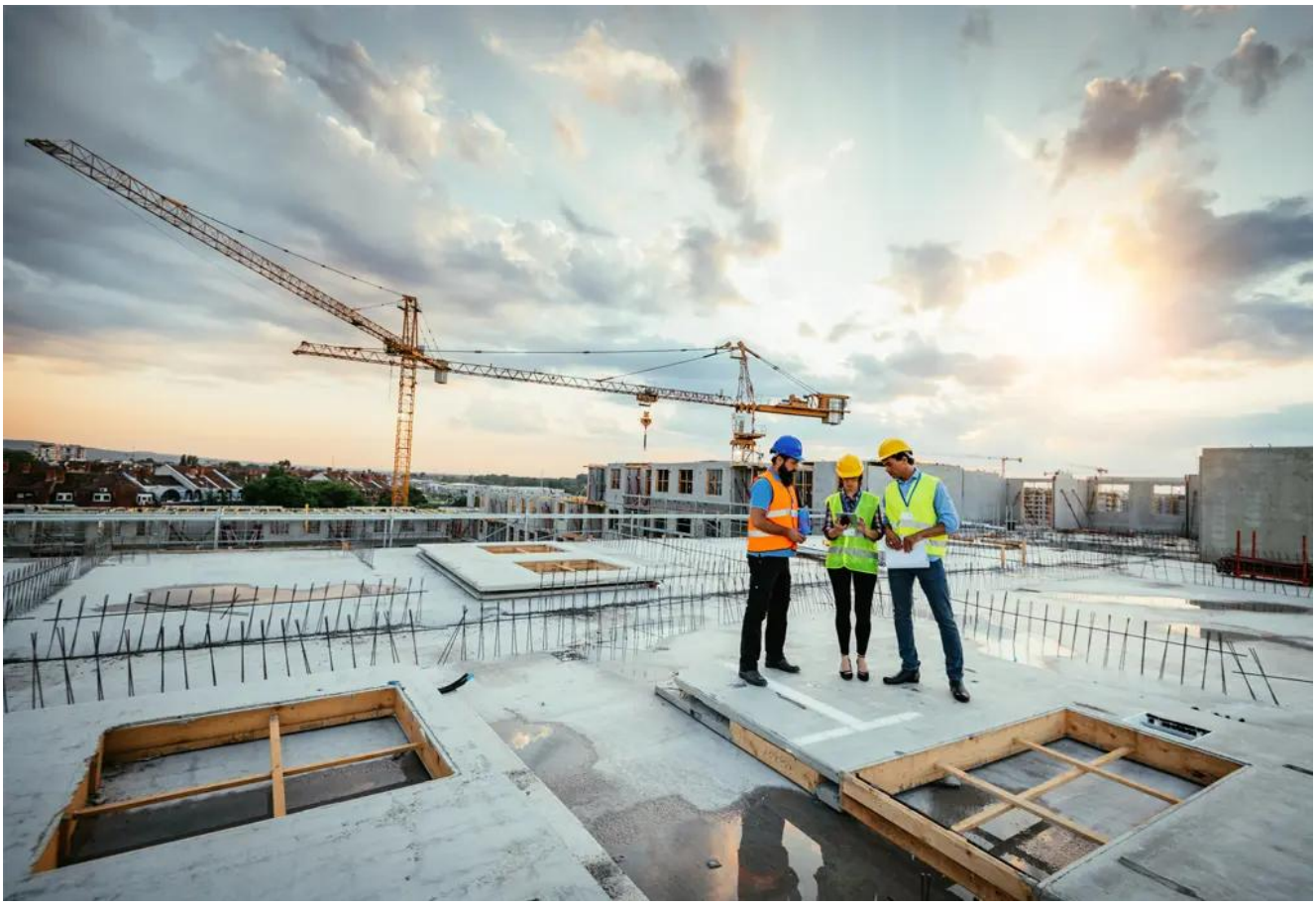
Can migration save the welfare state? The real economics of migration

Betting on migration to fund aging societies is not so simple. Economist Joan Monras explains why the story is more nuanced than the politics suggest.



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Migration is the subject of hot political debate on both sides of the Atlantic. Joan Monras,

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visiting professor of economics at IESE and an economics professor at Pompeu Fabra University, has studied the effects of migration on labor markets both in the United States and in Europe.

To what extent can migration help OECD countries face their four largest expenditures: pensions, healthcare, education and debt repayment? In theory, an influx of young migrant workers paying tax and contributing to social security might help redress societal imbalances caused by demographic changes — but that outcome is uncertain.

It's complicated, as Monras explains in this interview.

Let's start with a few facts. What does your research tell you about migrants and what are the implications for governments seeking fiscal gains from migration?

Most migrants move to destination countries when they're between 20 and 30 years old, and a fraction of those end up returning to their home countries within 10-15 years. How big of a fraction go back? It depends.

Historically, the return rates for northern Europeans who moved to the United States in the early 1900s were quite substantial. But we can't say what fraction of Mexicans who moved to the U.S. in the '90s, or what fraction of Moroccans and Latin Americans who are moving to Spain, will eventually go back, because these more recent migration episodes have not yet concluded. However, I think it's safe to say that a fraction of these young migrants are going to leave.

If migrants tend to be disproportionately young, and some of them don't stay, then we can say they don't typically consume education (because they move to the host economy after they've been educated) and they don't consume much healthcare (because healthcare is disproportionately consumed by older people after retirement). Regarding debt, if you add more working people and make the economy larger, then GDP is going to grow mechanically, lowering the debt-to-GDP ratio.

What happens with pensions is less certain. On the one hand, young migrant workers may pay into the host country's system but not stay long enough to claim the pension. On the other hand, there may be agreements between host economies and origin economies, so that the migrants will eventually receive some of those pension payments.

On top of that, we need to think of the composition of migrants. If migrants are less educated and have worse jobs than the native population, they are going to have a labor market

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penalty and thereby contribute less: the taxes they pay are going to be relatively small in a progressive tax system. So, if we have a lot of migrants concentrated at the lower ends of the income distribution, it's not going to contribute much to the sustainability of the system, despite all the positive things that we mentioned before about them not consuming much education or healthcare.

"Migrants are both producers and consumers, which influences how the economy develops"

This seems to be a throughline of your research: there are both positives and negatives, or policy-relevant counterfactuals. You explore these differential impacts in a paper on migration induced by EU expansion. Whereas a lot of research treats migration as a supply-side issue, you highlight how migrant workers are not just producers, they are also consumers, and this has demand-side implications. Can you unpack this for us?

Yes, indeed, migrants are both producers *and* consumers. And as consumers, we observe they tend to consume differently than natives, some of it related to their different income levels, the kinds of places they live in, their different tastes for different goods, and so on. This generates differences in what migrants consume relative to what natives consume. This relative consumption sees the economy develop in sectors or types of goods that migrants disproportionately like.

Yet most past research has considered migrants just as workers. And there we see two economic forces at play: a competition effect and a scale effect. Can you elaborate on these?

Think of computers. As computers have become cheaper and better, firms use more of them, which improves firm productivity but also substitutes some workers doing certain tasks, resulting in some types of jobs disappearing because of competition with computers. But the predominant force with computers has been the productivity effect: the cheaper it gets to produce, the more firms are able to expand production, increasing demand for many other types of workers.

We can think about the exact same thing in terms of migrants. The more they bring certain skills, there's going to be a competition effect with workers who do similar things. But at the same time, there's going to be a cost advantage for firms, enabling them to expand

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production, which increases demand for all other production inputs, including native labor. When we think about migrants, we always have to bear these two effects in mind.

“If you have more cheap labor, you can have more construction”

Talk us through these effects in a sector where there is a high concentration of migrants, such as construction.

Like any sector, construction will have multiple inputs in production, and they won’t all be the same. Some will design the building, some will organize the team of builders, some will deal with the financing of the project. Migrants bring a disproportionate increase in some of these inputs more than others, resulting in more competition for the exact inputs competing the most with migrants. In some cases, the competition effect might dominate the scale effect; in other cases, the scale effect might dominate. If you have more cheap labor, you can have more construction, and the demand for architects will go up, assuming it’s low-skilled labor that migrants bring to construction.

Let’s look at a specific case you studied. In 2005, Spain granted amnesty to around 600,000 migrants already resident in the country, legalizing their work status. What was the effect of doing that?

Basically three things. First, you might think that an amnesty would encourage more migrants to move to Spain, but we didn’t find any such change — not in the overall number of migrants moving to Spain nor in the number of migrants coming from the same country of origin as those who benefited from the amnesty.

Second, as you would expect when moving someone who was working without a legal contract to then having a legal contract and contributing part of their salary to paying tax and social security, payroll tax revenues increased significantly — by more than 4,000 euros per legalized migrant per year — with no evidence of increased public expenditures.

Third, we traced the labor market trajectories of these newly legalized migrants after they entered the system. A big chunk started in home services, but with short-term contracts. And when those contracts expired, we noticed a switch. A lot of them moved into hotels, restaurants, bigger firms with higher pay. So it does appear that migrants’ labor market opportunities were, in part, restricted because of the informal nature of their work status, and

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once you removed that, the types of jobs they had access to got better — and consequently better from a tax revenue perspective.

But there are some caveats.

Yes, not all the newly regularized migrants entered the labor market with formal contracts; some stayed working without contracts, even if they had legal permission to work. Then, you have to consider the effects on native low-skilled workers who were also working informally, and there we saw a decline in the employment rate of those workers. That's probably a consequence of the policy itself because it wasn't just an amnesty; it also represented increased enforcement against informality.

"Do you allow undocumented people to access education and healthcare without paying into the system?"

So, for countries considering an amnesty program, what's the best way to construct a policy that maximizes the benefits while minimizing the negative effects?

It depends very much on the situation and context. In the case of Spain, even the undocumented workers already had access to education and healthcare — two of the biggest government expenditures — so first there is a policy choice of whether you allow undocumented people to have that access without paying into the system. Which points to the bigger question: Is it bad to have undocumented workers, because workers who could be contributing into the system don't? The whole discussion hinges on how you answer that.

Earlier you said migrants may end up returning to their country of origin. What are the net gains for the host economy if migrants' contribution is only temporary? Also, many migrants remit a significant portion of their income back to their home country, so the money they're earning isn't even staying in the country. What does your research say about these issues?

It's not black-or-white. With remittances, while it does mean some money is leaving the country, it also means that migrants have disproportionate incentives to locate in big cities that sustain higher nominal wages, so they can earn more money to remit. The fact they may consume less in the host country is relative, because by disproportionately concentrating in

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big cities, it generates a “general equilibrium effect” of moving economic activity to the locations within the host economy that are the most productive, hence expanding the production in those places, which for the aggregate economy is good overall.

Policies that tax remittances, apart from discouraging migrants from sending money abroad, discourage the incentives of migrants to locate to those very productive places, which is a bad thing for the economy as a whole.

Another policy we see are attempts to redistribute productivity to places with fewer resources and lower productivity in an attempt to revive struggling local economies. Spain has been experimenting with relocating migrants to depopulated rural villages to help stem those towns’ decline and extinction. Is this a solution?

My research suggests that isn’t going to work for some of the reasons already discussed. One reason why workers migrate is to generate extra income and opportunities, and those are mostly found in big cities. Especially if migrants cannot bring their families with them — very often they have parents or children that were left behind — this reinforces that migrants are going to be predominantly urban to sustain the highest wages for the time they’re here. Perhaps if they brought all their family with them, they would feel less restricted to an urban area and would consider moving to a rural village — but there they would encounter issues related to the availability of essential public services like schooling and healthcare. It really depends on what the government is trying to achieve with these policies.

“Restricting family reunification is short-term thinking”

Family reunification is another hot topic. Some countries want to restrict this, but in doing so, are they disincentivizing a long-term work commitment, reinforcing migrants remitting their money back home or leaving after a few years?

Again, it depends on your stance toward migration. If your view of migrants is that they are temporary workers who come, bring whatever skills they have, work for a few years and don’t stay, so they don’t consume education for their kids, healthcare or pensions, but simply represent tax revenue to pay for these things in the host country right now, then you are essentially opting for the lowest skilled migrants who won’t integrate much; and by likely paying them wages that are much lower than equivalent natives’, their contributions through taxes will also be lower. When migrants don’t bring their families, their incentives to invest in

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the host economy are likely much lower. So, in that sense, restricting family reunification is short-term thinking.

You've studied major migrant inflows at different periods of history: Cubans into Miami (1980); Algerians into France (1962); Jews into Israel after the fall of the Soviet Union (1990s); and Balkan war refugees (1991-2001). What have been the labor market impacts of these exogenous supply shocks?

It's always the same two forces at play: competition versus scale. Migrants may bring some pressure in some parts of the economy. For those who were using those parts of the economy — the workers who used to do the same jobs as the newly arrived migrants or the workers who used to live in the same housing as the newly arrived migrants — they may lose from migration. Yet, at the same time, those are not the only people in the economy. There are other factors of production, other neighborhoods, other types of housing. And for those, there is going to be a scale effect: more workers in other types of jobs, more demand for other factors of production.

When we look at natural experiments — unexpected inflows of migrants moving to the U.S., Israel or various European countries — we see that the natives with similar education levels doing similar jobs as migrant workers might lose out in the short run, but the factors available in the economy adjust and change, and in the long run there is a favorable impact on complementary workers.

But even in the short run, there's evidence the economy will be better off — that even the initial negative consequences of a migration shock to a particular group of native workers will dissipate. Why? Because if you're a low-educated native worker, for example, the arrival of a lot of low-educated migrants might incentivize you to get more education for yourself. Or the fact that you know the native language better than the migrants will give you an advantage, so instead of doing the manual labor, you can do other types of tasks, like managing groups of migrants. Or maybe you will pivot to other work where there's less of a direct migrant impact.

You mention housing: do you see these short-term and long-term effects there, too?

As with everything, there are two aspects: migrants consume housing, but they also produce housing. And it depends on the type of migrant. From the demand side, low-skilled migrants go for cheaper housing, usually rentals, in certain neighborhoods, and that puts pressure on

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that type of housing. But those same migrants might also be working in the construction sector, lowering the cost of construction and helping to increase the supply of housing. So, while we might see pressure on rental markets in some neighborhoods because of migrants, overall we see a release of pressure in housing markets because they enter construction, creating a downward longer run trend in housing prices.

“It’s hard to deny that migration has been a net positive for Spain”

Spain is hailed as an example of an economy that is currently outperforming its peers, and it credits migration, which it says has raised productivity and growth, representing 25% of Spain’s per capita GDP, 10% of its social security revenues and only 1% of public expenditures. Considering the different effects you’ve described, how has Spain seemingly managed to strike the right balance?

For Spain, it’s hard to deny that migration has been a net positive. Having a lot of migrant workers ready to work in, say, hotels and restaurants is something that business owners and managers of hotels and restaurants really, really like. Perhaps individual native waiters don’t perceive the benefits, but the economy as a whole benefits. The boom we’re experiencing in Spain creates more jobs for more workers. And a bigger economy enables Spain to pay the interest on the debt generated today when there are more workers contributing to the system. From a government perspective, having workers who pay tax and social security is a good thing for public finances.

We’ve talked mainly about low-skilled migration, but what about high-skilled labor? Are the dynamics similar?

Consider star soccer players. On the one hand, bringing Messi to Barcelona creates competition with a native soccer player. But by raising the profile of the club and winning more championships, that translates into selling more tickets, it brings more commercial activity to the city, it creates more ancillary companies and services because Messi is here and not somewhere else. There are reasons to believe that these scale effects are potentially larger for very high-skilled migrants.

Likewise, if you recruit a star scientist from abroad, they attract resources, grants and teams of other high-skilled workers for important research projects. And with the new knowledge they generate, they create new businesses. Again, the scale effect occurs, even though there

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may be a competition effect for the native-born scientist.

Either way, the scale effects, on average, dominate, and the negative competition effects dissipate among many workers, even though they may dominate for one particular type of worker. Also, we must not discount the ways in which people adapt to this supply shock. Returning to the Messi example, the native worker who can't be Messi still acquires a different set of skills and benefits in the longer run from these scale economies.

This is purely on the labor market side. From the side of public finances, whether they are net positive or net negative is going to depend on which of these forces dominate. The high-skilled worker may not even consume public resources if they send their kids to private schools, have private healthcare and rely on a private pension, not the state one. And in progressive tax systems, they can be a large contributor to tax as well. On the consumption side, they may compete for housing if it's the same housing the natives want, but for natives who produce housing, it can be good.

Ultimately, whether this kind of migration makes sense or not comes down to political choices, which are very context specific, and depend on which factors you care about the most.

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MORE INFO:

"Understanding the effects of granting work permits to undocumented immigrants" by Ferran Elias, Joan Monras and Javier Vazquez-Grenno. *Journal of Labor Economics* (2025).

"The labor supply curve is upward sloping: the effects of immigrant-induced demand shocks" by Sigurd Galaasen, Andreas R. Kostøl, Joan Monras and Jonathan Vogel. National Bureau of Economic Research (2025).

"Immigration and spatial equilibrium: the role of expenditures in the country of origin" by Christoph Albert and Joan Monras. *American Economic Review* (2022).

"Immigration and wage dynamics: evidence from the Mexican peso crisis" by Joan Monras. *Journal of Political Economy* (2020).

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“The labour market consequences of refugee supply shocks” by George J. Borjas and Joan Monras. *Economic Policy* (2017).

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