VOL. 5, NO. 5
JUNE 2010

EconomicLetter

Insights from the
FEDERAL RESERVE BANK OF DALLAS

by Mike Nicholson and Pia Orrenius

During the downturn, advanced economies as well as developing countries adopted policies ranging from keeping new migrants out to encouraging resident migrants to leave.

The Great Recession of 2008–09 brought steep declines in world output, employment and trade—all told, the worst falloff of global economic activity since the Great Depression. During the downturn, advanced economies from Australia and Western Europe to developing countries such as Thailand and Kazakhstan adopted policies ranging from keeping new migrants out to encouraging resident migrants to leave.

The most common policy changes included tightening numerical limits or imposing categorical limits on immigrant inflows, paring back lists of shortage occupations and changing eligible occupations for temporary migrants.

Nations also limited the opportunities for migrants to adjust their legal status or renew their work permits. They tightened employers' advertising requirements, or labor market tests, to give native-born workers an edge over their foreign-born competitors. Many countries also boosted immigration enforcement, stepping up efforts to round up unauthorized immigrants and prosecute their employers.

Through these initiatives, lawmakers sought to help domestic workers by limiting foreign competition during a severe economic downturn. While the intent of these measures is clear, their bite is somewhat uncertain. Recessions diminish employment opportunities, so cross-border labor flows decline on their own accord, reducing competition for jobs from foreigners.

In fact, the immigration backlash could have its greatest effect after the recession ends, when a growing demand for labor could run headlong into labor market restrictions that remain in place. These could impede countries' ability to recruit workers in sectors vital to their recovery and long-run economic growth.

From Economic Boom to Bust

In the years leading up to the Great Recession, economic expansion and housing booms in countries such as Spain, Italy and Ireland led to unprecedented levels of immigration and transformed what had traditionally been sending countries into prime destinations for migrants from within the European Union (EU) and around the world.[1]

From 2000 to 2007, Spain was Europe's leading destination for migrants by a large margin. Immigrant inflows averaged 642,000 per year, and the number of foreigners rose from less than 1 million to nearly 5 million. The foreign share of the Spanish population rose from 2 percent to 10.4 percent over this period.

Italian immigration also skyrocketed, with flows averaging 338,000 newcomers a year between 2000 and 2007, up from only about 50,000 in the late 1990s. The foreign share of Italy's population more than doubled, rising from 2.2 to 5 percent.

Annual inflows to Ireland rose sharply during this time as well—from 42,000 in 2000 to 89,000 in 2007. The foreign share of the population increased from 3.3 to 10.5 percent. Ireland was among the three EU countries to allow migration from the eight Eastern and Central European nations that joined the bloc in 2004, often referred to as the "accession eight," or A8.[2] Irish immigrants came mostly from Poland. Ireland also took in a significant number of immigrants from countries outside the EU, including the U.S., India and China.

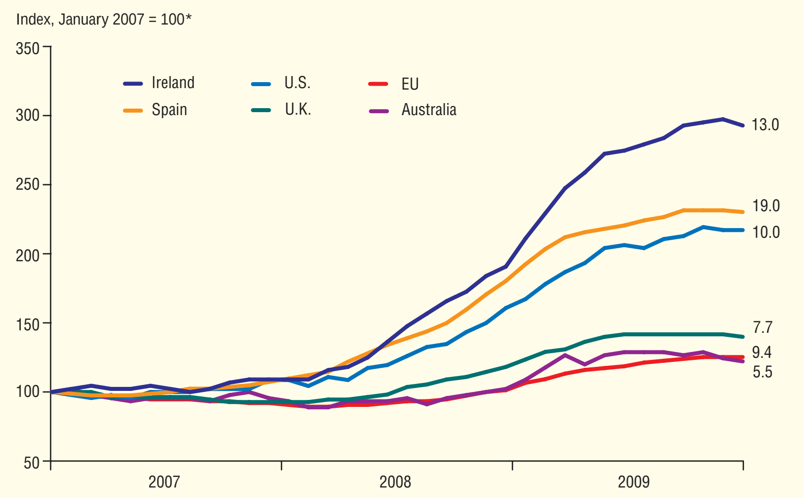
U.K. migration also rose in the period leading up to the recession, albeit to a lesser extent since the U.K. has long been a country of immigration. Inflows increased from 364,000 in 2000 to 527,000 in 2007. The foreign share of the population edged up from 4.5 percent in 2001 to 6 percent in 2007. As in the case of Ireland, many of these new immigrants came from the A8 countries.

In contrast to the new destination countries of Europe, U.S. immigration did not accelerate in the 2000s. Green card issuances averaged about 1 million per year, the same as in the 1990s, and the foreign-born population share rose modestly from 11.1 percent in 2000 to 12.5 percent in 2008, a slower rate of increase than in the prior decade.

The expansion that spurred immigration throughout much of Europe came to an abrupt end with the 2008 financial crisis and slowdown in world economic growth. The next year, world output contracted 0.6 percent, and the volume of global trade declined 10.7 percent.[3] Unemployment rates skyrocketed in many countries, particularly in those that had experienced housing booms, such as Spain, the U.S., the U.K. and Ireland (*Chart 1*).

Between December 2007 and December 2009, unemployment rates rose from 5 percent to 10 percent in the U.S., from 8.8 percent to 19 percent in Spain and from 4.8 percent to 13 percent in Ireland. The EU area as a whole experienced a milder rise in

Chart 1
Unemployment Rates Rise During the Great Recession in Many Popular Destination Countries



* Seasonally adjusted.

SOURCES: Eurostat; U.S. Bureau of Labor Statistics; Australian Bureau of Statistics.

unemployment—from 6.9 percent to 9.4 percent.

Migration Policy Responses

The Great Recession caused great anxiety. Many governments, including in the U.S., passed stimulus packages aimed at promoting consumption and job growth through tax rebates, infrastructure projects and expanded social benefits. In addition, governments sought to help individuals directly with job-creation programs and by extending assistance to unemployed workers.

Countries also adopted protectionist trade and immigration policies. Protectionist trade policies often backfire when trading partners respond with similar measures. Restrictive immigration policies are typically not subject to the same tit for tat as trade, but reduced migration hurts migrants and poor sending countries, which often rely on remittances. Measures targeting resident migrants can slow their economic progress and hamper integration.

Countries responded to rising unemployment rates with policies designed to limit foreign-born workers' access to labor markets. Table 1 summarizes major policy changes in countries around the world from 2008 to the present.

In the U.S., the Troubled Asset Relief Program (TARP), implemented in 2008, discouraged banks and financial institutions receiving federal bailout funds from hiring foreign workers through the H-1B program for high-skilled specialty workers. In February 2010, an executive order imposed stricter rules for employers using foreign-born farmworkers.[4] Since May 2009, U.S. rules also require that government contractors run all new employees through E-Verify, a federally operated electronic program that checks for valid Social Security numbers that match workers' names.[5]

Measures aiming to protect native workers were also taken in other countries hit hard by the recession—notably Ireland, Spain and the U.K. The most frequent policy approach emphasized controlling worker inflows from outside the EU.

In 2009, Ireland stopped issuing work permits to foreigners for low-paid occupations in addition to household workers and truck drivers. Spain restricted the recruitment of certain categories of guest workers in 2008 and 2009.[6]

The U.K. upped salary and education requirements for high-skilled workers from outside the EU and suspended recruitment of low-skilled non-EU workers in 2009. Salary requirements were tightened further in early 2010.[7]

Like the U.S., these countries also adopted a number of policies targeting employers. Ireland extended its labor market tests, requiring prospective employers to advertise jobs for eight weeks within the EU prior to seeking workers from outside the bloc. Furthermore, individuals renewing work permits are now subject to labor market tests that weren't in force before the crisis.[8] The U.K. also doubled the job advertising period for employers seeking certain categories of skilled workers from outside the EU. And Spain curtailed labor market test exemptions for skilled "shortage" workers.[9]

These countries also adopted a variety of measures directed toward foreigners residing within their borders, legally and illegally. Ireland tightened requirements for work permit renewals and stands by naturalization prerequisites, which result in rejection of nearly half the applicants for Irish citizenship.[10] The U.K. Parliament voted in July 2009 to toughen citizenship requirements for status adjusters, effective in 2011.[11]

Seeking to curtail illegal immigration, Ireland passed new measures limiting unauthorized migrants' access to public services, and the U.K. raised fines for employers of unauthorized migrants.[12] A number of other countries have also stepped up immigration

Countries responded to rising unemployment rates with policies designed to limit foreign-born workers' access to labor markets.

enforcement. Italy has criminalized unlawful presence, authorized citizen patrols to combat illegal migration and barred illegal migrants' access to public services.[13] France has launched several high profile raids, and Greek police drew international attention when they bulldozed a migrant camp near the city of Patras. Israel created a new task force to combat illegal migration. A number of popular destinations for Asian migrants, notably Malaysia and Singapore, have cracked down on illegal migration as well.

Perhaps the most innovative policies entailed creating incentives for foreign workers to return to their home countries. Spain launched the largest such program in November 2008, seeking to encourage unemployed migrants' departure by paying unemployment benefits in two lump sums—one given in Spain and the other delivered upon returning home. The Spanish government also paid for transportation back home. The program bars participating migrants from returning to Spain for three years.[14]

The U.K. and France adopted a similar program to encourage unauthorized migrants residing in camps in Calais, a French port on the English Channel, to return home.[15] The Czech Republic and Japan have launched programs giving foreigners greater incentives to return home and imposing restrictions on their reentry. Denmark, which has had a program operating for several years, has upped financial incentives for migrants to head back to their countries of origin.[16]

To date, the Spanish and Czech programs have attracted fewer participants than was initially projected. For example, Spain estimated that more than 100,000 migrants would return home under its program, but it received only about 8,700 applications.[17] This outcome shouldn't be surprising. For most migrants, a lifetime income in Spain exceeds the two lump-sum benefit payments and value of the ticket home. Their home countries don't typically offer much

Table 1
Select Migration Policy Changes by Country

	Policy Changes
Australia	Cut intake of skilled permanent migrants 14 percent for the 2009–10 fiscal year. Raised skilled migrants' salary requirements. Redesigned critical skills list for permanent migrants to emphasize health, engineering and IT occupations while removing many others. Required new language tests for foreign workers in certain occupations.
Austria	In 2008, voted to keep restrictions on accession eight (A8) country workers from Eastern and Central Europe in place through 2011.
Belgium	In 2008, voted to keep restrictions on A8 workers from Eastern and Central Europe in place through 2011.
Czech Republic	Implemented return program in February 2009. Government pays €500 and airfare home for foreign workers. About 2,000 migrants participated in the first phase of the program, which concluded in July 2009. Participants must give up Czech documents.
Denmark	In 2008, voted to keep restrictions on A8 workers from Eastern and Central Europe in place through 2011. In 2009, increased financial incentives for migrants to return home.
France	In July 2009, launched program to encourage illegal migrants in Calais to return home. Government pays plane fare and €2,000, plus resettlement assistance. Program implemented jointly with the U.K. Also launched several high-profile immigration raids in 2009.
Germany	In 2008, voted to keep restrictions on A8 workers from Eastern and Central Europe in place through 2011.
Greece	Stepped up enforcement. Police bulldozed large migrant camp in Patras in 2009.
India	In 2009, implemented new numerical quotas on hiring foreign workers.
Ireland	In 2009, stopped issuing new work permits to non-EU citizens for jobs with a salary under €30,000. Also stopped issuing work permits to household workers and truck drivers. Labor market tests extended; employers now must advertise for eight weeks within the EU before seeking non-EU workers. Individuals renewing work permits now subject to labor market tests. New rules for dependents seeking jobs. Restricted illegal migrants' access to public services.
Israel	Created task force in 2009 to crack down on illegal migrants. Stiffer penalties for employers hiring illegal aliens put in place in 2010.
Italy	Suspended nonseasonal, non-EU worker entries in 2009 after lowering them and accepting applications only from 2008 backlogs. Limited 2008 entries primarily to household workers. Issuance of most categories of residence permits to new immigrants now contingent on extent of integration, passing language tests. Income and eligibility requirements for family reunification strengthened in 2008. Unlawful presence criminalized in 2009. Approved unarmed citizen migration enforcement patrols. Access to public services blocked for illegal migrants.
Japan	Launched return program in April 2009 to encourage the departure of Latin Americans of Japanese descent. Pay for airfare plus a departure bonus. Reentry limited. About 11,000 approved as of October.
Kazakhstan	Imposed migration moratorium on less-skilled workers in 2009. Less-skilled-worker quotas remain low for 2010. Labor market tests strengthened.
Malaysia	Stopped issuing work permits for most manufacturing and service jobs in 2009. Permits for less-skilled foreign workers not renewed in 2009. Cut duration of short-term work permits. Employers must terminate foreign

Table 1

Select Migration Policy Changes by Country (cont.)

	Policy Changes
Malaysia (cont.)	workers first. Higher levy on employers bringing in foreign workers was approved in 2010. New crackdown on illegal migrants launched in February 2010.
New Zealand	Reduced duration of permits for lower-skilled workers. Removed occupations from skill shortage lists in the 2008–09 fiscal year. Harder to get work permits renewed.
Oman	Banned certain categories of foreign workers in 2008; some bans were lifted in 2009 and 2010; stepping up immigration enforcement; deporting thousands of Asian migrants.
Portugal	Cut 2009 immigration targets for non-EU workers by half.
Russia	Reduced work permit quotas by half in 2009. Further cuts occurred in 2010. Employers seeking to hire foreign workers now face greater bureaucratic hurdles.
Saudi Arabia	Stopped issuing work permits to Bangladeshi workers in certain sectors in 2008.
Singapore	Implemented policy requiring employers to terminate foreign workers prior to native-born workers. Levies on employers of foreign workers increased in 2010.
South Korea	Reduced total foreign-worker permit quotas under the Employment Permit System from 100,000 to 34,000 in March 2009. Quotas reduced further to 24,000 in 2010. Recruitment under this system also halted temporarily in early 2009.
Spain	Restricted recruitment of guest workers via the "contingente" anonymous recruitment system in 2008–09. Curtailed exemptions from labor market test for "shortage" workers. Made it harder for individuals with residence permits to bring relatives to Spain. Program to encourage return of unemployed immigrants launched in November 2008: airfare paid, unemployment benefits paid in two lump-sum payments, migrant barred from returning to Spain for three years. About 8,700 approved as of November.
Switzerland	Cut work permit quotas by half in 2010 for non-EU citizens (although some additional allotments made in May 2010 to meet labor demand rise).
Taiwan	Cut permits for less-skilled workers in 2009. Limited foreign workers to a maximum of 20 percent of a manufacturer's workforce, with exact limits varying by industry.
Thailand	Stopped issuing new work permits in 2009. Curtailed renewals of work permits. Stepped up immigration enforcement.
United Kingdom	Imposed stricter education and salary requirements on high-skilled non-EU guest workers (Tier 1). Raised minimum salaries for Tier 2 skilled workers. Suspended recruiting of less-skilled workers (Tier 3). Strengthened labor market test for skilled migrants (Tier 2). Employers must advertise for four weeks rather than two weeks. New law approved in July 2009 will extend foreigners' required residency period in U.K. prior to earning citizenship, effective in 2011. Joined with France in 2009 to encourage illegal migrants in Calais, France, to return home: pays plane fare and €2,000 plus resettlement assistance. Higher fines instituted for employers of illegal migrants. New language tests for many foreign workers.
United States	Imposed tougher H-1B hiring rules on recipients of TARP funds. Required documented recruitment, higher wages and tougher safety standards for employers seeking foreign farmworkers under the H-2A program. New H-2A rules also allowed for longer referral periods for U.S. workers and created an electronic job registry. A number of states passed laws targeting unauthorized immigrants, most notably Arizona and Oklahoma.

SOURCES: Return migration program statistics from the Migration Policy Institute (MPI), www.migrationinformation.org/Feature/display.cfm?ID=749. Other information from Organization for Economic Cooperation and Development; MPI; FRAGOMEN; University of California, Davis' *Migration News*; and national immigration bureaus. For specific sources, see the text or contact the authors.

employment or investment opportunity. What's more, after migrants have lived in a new country for a substantial period, they begin to integrate and are reluctant to leave. As a general rule, voluntary return programs aren't very effective at getting settled migrants to depart.

Recession's Impact on Migration

Under normal circumstances, immigration policy supports more immigration in good economic times and less in bad times. During the 1990s high-tech boom, for instance, U.S. policy accommodated the rise in demand for IT workers. In 2000, the American Competitiveness in the 21st Century Act temporarily tripled the cap on H-1B visas and eased H-1B employment restrictions permanently.

In hard times, labor protectionism has limited impact because migration naturally falls off. An extreme example was the Great Depression, when deteriorating economic conditions led to an 85 percent decline in the immigrant inflow between 1930 and 1932.[18]

During the Great Recession, rising unemployment rates across many advanced economies have deterred would-be migrants, leading to steep declines in flows along the major global migration corridors. The falloff in migration has been particularly noticeable in those countries where a large proportion of foreign workers were employed in the hard-hit, business-cycle-sensitive construction sector.

Within the EU, where international labor migration is unrestricted, we can safely say that any declines have been due to market factors, not restrictions imposed by lawmakers. Immigrant inflows into Ireland from recent accession countries in Eastern and Central Europe—by far Ireland's largest source of foreign labor—fell by 74 percent from 2007 to 2009.[19] Irish social security registrations (Personal Public Service numbers) from foreign nationals fell 63 percent from 2007 to 2009, further evidence of a drastic slowing of Ireland's worker inflows.[20]

The number of registered foreign workers in Spain fell in 2008, the last available year of data.[21] Spain saw a two-thirds decline in the inflow of immigrants from Romania, its largest provider of foreign workers in recent years.[22] Inflows into the U.K. from the A8 countries declined 21 percent in 2008.[23] Applications for the U.K.'s Worker Registration Scheme, which covers migrants from countries that joined the EU in 2004, fell 32 percent from 2008 to 2009.[24]

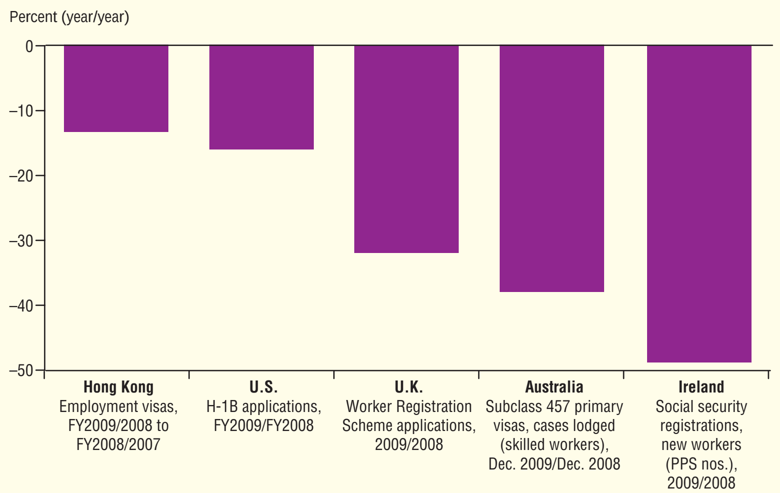
The recent recession brought with it broad-based declines in illegal immigration.

Outside the EU, the decline in applications for work permits or employment-based visas suggests that fewer people sought work abroad during the recession. In the U.S., applications for H-1B temporary skilled-employment visas fell by 16.1 percent from 2008 to 2009.[25] The H-1B cap of 65,000 for the 2010 fiscal year was not reached until December 2009, a drastic change over previous years, when quotas were filled within a few days of the opening for applications. And the H-1B cap for fiscal year 2011 had not been reached as of June 11, 2010. Applications for similar temporary, skilled-worker visas also fell in a number of other countries, such as Australia (*Chart 2*).

Some signs of stabilization appeared in late 2009 as the world economy improved. For example, applications to Australia's temporary Subclass 457 skilled visa program, similar to the H-1B program, and the U.K.'s Worker Registration Scheme increased over the second half of the year. More recent Australian data show that 2010 applications for Subclass 457 visas are up significantly over last year's levels.[26]

Chart 2

Visa Demand Declines Across the Globe in 2009



SOURCES: Hong Kong Department of Immigration; U.S. Department of State; UK Home Office; Australian Department of Immigration and Citizenship; Irish Department of Social Protection.

Undocumented migration falls. Illegal migration is highly correlated with the business cycle—often more so than legal migration. One reason is that workers dominate illegal flows, while legal migration also includes family-based and humanitarian migrants.

Like legal workers, unauthorized migrants are better tolerated by authorities during economic expansions and subject to greater enforcement actions during downturns. History provides some examples, such as the 1953–54 U.S. recession, which coincided with a major Border Patrol initiative that removed thousands of Mexicans.

The recent recession brought with it broad-based declines in illegal immigration. In Europe, the EU's border agency, FRONTEX, estimates that undocumented migration fell 33 percent in 2009 relative to 2008. Illegal sea landings in Spain, one of the most common entry points for would-be migrants, fell 46 percent from 2008 to 2009.[27] Landings in Italy have also fallen significantly. Some of these declines can be attributed to the recession and some to the increased immigration enforcement in the Mediterranean Sea.

Along the U.S.–Mexico border, annual apprehensions of undocumented migrants fell 33 percent from 2007 to 2009 (*Chart 3*). Apprehensions in 2009 were down 55 percent from 2005, when the housing boom was nearing its peak. According to the