
Brains: How to Attract Talent

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This study examines the causes and consequences of highly skilled migration from a receiving country perspective, and it contributes to a better understanding of skill-selective immigration policies. About 20 million highly skilled immigrants resided in OECD countries at the beginning of this decade, corresponding to 11 per cent of the highly skilled population there. Only few English speaking OECD countries (i.e. the US, Canada and Australia) absorb the overwhelming share of these highly skilled migrants at present, while most other OECD countries are net senders of highly educated individuals. Political economy forces can explain why only few OECD countries are currently adopting immigration policies which systematically select highly skilled immigrants. At the same time, OECD governments are increasingly realizing the desirability of skill selective immigration policies from the point of view of aggregate welfare, so that relevant policy changes towards the mobility of talented workers may occur in the near future.

Our empirical analysis of the determinants of highly skilled immigration shows that the wage premium for highly skilled workers and skill-selective immigration policies are the main forces which determine the immigration of foreign talents. Increasing the wage premium for education by US \$ 10,000 increases the share of the highly skilled in the immigrant population between 20 and 40 per cent relative to its initial value. The generosity of the welfare benefits and a high level of labour market protection tend to reduce the share of highly skilled in the immigrant population, while high R&D spending tends to increase it.

Based on a cross-country analysis in 14 OECD countries we find that total immigration, on average, is associated with increasing employment of natives and increasing investment in the short- and in the long-run, thereby broadening the productive base of the receiving country. However, it leaves total factor productivity and average wages unchanged. Increasing the share of highly skilled workers in the immigrant workforce is associated with additional beneficial effects on employment and capital, but does not affect productivity. Moreover, we find that total immigration can have negative effects on native employment in the short-run if immigrants come to the receiving countries during an economic downturn. However, the positive effects of increasing the share of the highly skilled among foreign workers are not affected, even in the short-run, by the ups and downs of the business cycle.

Next we address the puzzle that only a few countries currently opt for a skill-selective immigration policy, notwithstanding the large overall gains from highly skilled immigration. We start by examining the drivers of individual attitudes towards highly skilled immigration. We find that more educated natives are less likely to favour highly skilled immigration, while richer people are more likely to do so. While the former finding can be explained by the labour market effects of highly skilled immigration, the latter is consistent with the impact of migration on the welfare state under the tax adjustment model. Moreover, our analysis of how individual attitudes translate into immigration policies suggests that a pressure group framework can better explain actual policy outcomes than a median voter model.

Finally, by analyzing the potential outcomes of an intensified contest for talent we find that the competition for highly skilled labour may undermine the incentives of sending country governments to invest in education, which in turn reduces the global pool of talent. As a consequence, coordination among destination counties is desirable in order to limit adverse unintended side effects that might reduce the otherwise large welfare gains from an increased international mobility of talented workers.