

Barbados - A Cost-Benefit Analysis of Immigration

Background

At the outset, readers must recognize that there is no one general statement that can be made about the benefits and costs of immigration for a host country. As we stated in the first instalment of our article, titled 'Immigration Blues in CARICOM', that was published in the Barbados Advocate Newspaper of Sunday, 14th June 2009, "The potential of countries to derive significant benefits from immigration depends on the economic fundamentals of those countries. If we accept that the upper limit to the number of immigrants that a country can sustain depends on the geographical size of the country, its resources, and the use that is made of those resources, then, given the culture and expectations of its citizens, the country can realize significant long-term benefits through the use of immigration policies that are well formulated and implemented."

As we will demonstrate, the central issue hinges on the numbers of the immigrants. We believe that the points we made in the quoted statement are self explanatory, but we still think that the phrase, "given the culture and expectations of its citizens", should be amplified.

Let us suppose, even though unlikely, that over a sufficiently long period the Barbadian economy expanded to the point where it could support a population of 500,000. If that were the case, then the values and expectations of Barbadians would have to change to accommodate changes in living habits. That is, the expectation of the average individual that some day he would own a fairly spacious home with its own backyard would no longer be realized since most residents would have to live in high-rise housing. Current or earlier generations experiencing the changes in society are likely to feel more aggrieved for not realizing their expectations, but future or later generations are likely to accept the then living arrangements as the norm.

Note, however, that current generations, given their perceptions of the likely outcomes, do have some power to determine actual outcomes through their participation in national elections. That is, if current generations perceive that the changes will impact negatively on their ability to fulfil their expectations, then they are likely to vote against the political party that forms the government. Thus, apart from the economics of immigration, the culture and expectations of citizens of the host country can have a significant impact on final outcomes.

Benefits and Costs of Immigration – The CARICOM Scenario

This evaluation of the benefits and costs of immigration takes as its point of departure some statements made by Mr. Clyde Mascoll in his Nation Newspaper column of 26th June 2009 titled, ‘Money or Labour?’ The significant statement made by Mr. Mascoll was as follows, “The question is: Would an equal number of non-CARICOM immigrants with wealth create the same concerns for the economy and society as the CARICOM immigrants? If the answer is no, then the issue has nothing to do with the illegality of the immigrants but rather with the country’s capacity to absorb poor immigrants.”

Let us assume that there were 30,000 CARICOM immigrants in Barbados in 2007. That figure of 30,000 excluded residents with permanent residence, or citizenship, or with permission to reside and work, or those in possession of the CARICOM skilled certificates. It therefore would have comprised immigrants with short-term work permits and undocumented immigrants. Furthermore, to provide greater clarity to the issue, we have assumed that the composition of the 30,000 immigrants was 25,000 adults of working age and 5,000 children of school age.

Data published by the Central Bank of Barbados for the second quarter of 2007 indicated that the total labour force was 145,000 of which 8.1% was unemployed. Of that 8.1% we have assumed that 4.0% could be considered as the natural rate of unemployment. The natural rate of unemployment can be defined as the level of unemployment at which the inflation rate in an economy stays stable. If the unemployment level falls below that rate due to an expanding economy, the inflation rate starts to accelerate. When this definition is used, the natural rate of unemployment is also called the non-accelerating inflation rate of unemployment (NAIRU).

The natural rate of unemployment can also be defined as the rate of unemployment when the labour market is in equilibrium. It is the difference between those who would like a job at the current wage rate and those who are willing and able to take a job. The natural rate of unemployment will therefore include frictional unemployment and structural unemployment. Frictional unemployment is unemployment that is always present in an economy, and occurs when people are between jobs, e.g., a craftsman has just finished one job and is currently searching for another. Structural unemployment is unemployment related to the structure of the economy, e.g., due to lack of demand, or changes in demand patterns or obsolescence of

technology, or the inadequate skills mix of individuals. Thus, a worker can be said to be structurally unemployed because he doesn't have the right skills.

Note therefore that the following statement made by Mr. Mascoll is not true, "So without the illegal immigrants, assuming that all Barbadians wanted to work, the unemployment rate would have been virtually zero at the end of 2007 and the beginning of 2008."

Given the above we can now try to determine the possible employment status of the 25,000 adult immigrants from other CARICOM countries, and for 2007 we have assumed that the composition of employment was as follows:

- ◆ Approximately 5,114 individuals with short-term work permits that were employed in the construction and agricultural sectors, the sectors with labour shortages, where the figure of 5,114 is the average number of work permits issued for the two sectors for 2007 and 2008;
- ◆ Approximately another 1,500 individuals without work permits that were employed in the construction and agricultural sectors;
- ◆ Approximately 2,000 individuals without work permits that were employed in non-agricultural jobs that Barbadians considered undesirable;
- ◆ Approximately 5,945 individuals without work permits that were employed in jobs that Barbadians would have performed if given the opportunity (the 5,945 was estimated by multiplying the labour force of 145,000 by 0.041, where the latter is the rate of unemployment other than the natural rate of unemployment); and
- ◆ The remaining 10,441 immigrants would therefore be unemployed; or some of them employed in the underground economy for which no official statistics are available; or some of them under-employed, i.e., working one or two days a week; or some of them engaged in unlawful activities. For simplicity, we have assumed that 2,000 of these individuals performed worthwhile activities in the underground economy.

With regard to the school age children, we have assumed that 1,500 of the assumed total of 5,000 attended private schools since there are no provisions for children of immigrants with short-term work permits or of undocumented immigrants to attend public schools. The remaining 3,500 would have not attended school. Note that one of the difficulties being encountered by providers

of education, including public schools, to children of CARICOM immigrants is the tardiness of some parents in paying the tuition and other applicable fees.

With regard to health services, there are also no provisions, except in cases of emergency, for undocumented immigrants to access the free health services provided by public institutions. Note, however, that despite the lack of provisions except in emergency cases, some of the immigrants, with or without work permits, and their dependents have been able to access public health services. The best example of this occurrence is that of access to the Highly Active Anti-Retroviral Therapy (HAART) provided by the Government of Barbados for HIV positive individuals. In 2007 there were approximately 1,000 individuals who were benefitting from HAART treatment, and about 20% of those individuals were CARICOM immigrants of dubious status. The annual cost of HAART drugs per individual averaged \$8,640 in 2007.

Assuming that nothing was done about the 24,886 undocumented immigrants (30,000 minus 5,114, the latter being the number of immigrants with short-term work permits), we can now tally the benefits associated with the presence of the 30,000 immigrants. The benefits would have been as follows:

- ◆ Performance of 6,614 jobs in sectors where there were labour shortages;
- ◆ Performance of 2,000 jobs that Barbadians considered undesirable;
- ◆ Performance of 2,000 worthwhile jobs in the underground economy;
- ◆ Rental incomes that accrued to providers of housing accommodation;
- ◆ Increased revenues realized by private providers of education and health services; and
- ◆ Increased sales made by suppliers of other goods and services.

The costs would have been as follows:

- ◆ Performance of 5,945 jobs that under normal circumstances would have gone to Barbadians;
- ◆ The social fall-out associated with 3,500 children not benefitting from an education;
- ◆ The social fall-out associated with 8,441 undocumented immigrants being unemployed, or under-employed, or engaged in unlawful activities;

- ◆ The indirect costs associated with the excess demand for housing accommodation, i.e., unavailability of housing for some Barbadians desirous of renting and the above average escalation in rental charges;
- ◆ Increased costs incurred by the Government for the provision of health services; and
- ◆ Increased demand on public health services leading to longer waiting times or a decrease in the quality of service for Barbadians.

Thus, given the above analysis, we have estimated that the direct contribution of the immigrants would have been the performance 10,614 jobs that would have made a significant contribution to the economy in 2007. Of those 10,614 jobs, we have estimated that 5,114 would have been performed by immigrants with legal status, i.e., with work permits, and the remaining 5,500 by undocumented immigrants. Note that the performance of the assumed 5,945 jobs that Barbadians would have performed if given the opportunity cannot be treated as a benefit. That is, the unemployment of the 5,945 Barbadians would have generated significant net economic and social costs that must be taken into account in the analysis.

Based on our analysis, we have therefore concluded that the costs, or the burdens, or the potential problems associated with the 19,386 undocumented immigrants (24,886 minus 5,500) being resident in the island are not acceptable.

The costs that we have identified were not the only ones. There is an overall indirect cost associated with the presence and employment of large numbers of undocumented immigrants in any country. This indirect cost has been recognised by the United Nations in its preamble to the ‘International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families’, also known as the ‘Migrant Workers’ Convention’. Part of the preamble states that:

“Considering that workers who are non-documented or in an irregular situation are frequently employed under less favourable conditions of work than other workers and that certain employers find this an inducement to seek such labour in order to reap the benefits of unfair competition;”

Unfair competition puts firms that adhere to the accepted norms for terms and conditions of employees at a disadvantage, and they may be forced to make adjustments to their operations so that they can compete successfully. Those adjustments may include the severance of employees, and if that occurred, then the potential job losses for nationals would be greater than the assumed figure of 5,945 that we have used.

The costs that we have identified can be considered, in some cases, to be the immediate or easily recognizable costs. If, however, we considered the medium-term (next ten years or so) costs or analysed some of the costs in an explicit fashion, then the magnitude of the problem would become more evident. For example, if the Government did nothing then the problems would be as follows.

Firstly, we would need to grapple with the medium-term economic and social implications of having approximately 6,000 jobs being performed by undocumented immigrants, jobs that Barbadians would perform if given the opportunity to do so. Secondly, there would also be the medium-term economic and social implications of having 3,500 children becoming illiterate adults. Thirdly, there would also be the medium-term economic and social implications of having approximately 8,500 undocumented immigrants being unemployed, or under-employed, or engaged in unlawful activities. Fourthly, there would also be the medium-term economic and social implications associated with the decreased availability of rental housing or above average increases in rental rates for Barbadians. Lastly, there would be the incremental increases in pressure placed on public educational and health services.

If the Government chose to legalize the status of the 19,386 undocumented immigrants that could be considered to be the problem, then the difficulties that would have to be confronted would be just as formidable. For example, significant capital and recurrent costs would have to be incurred to provide education and health services for those individuals and the children that some of them would produce. Formal and now legalized competition for jobs and housing could pose problems for bona fide Barbadians, and the competition for housing could result in increases in the price of land.

In contrast, let us assume that there were 15,000 CARICOM immigrants in Barbados in 2007. That figure would also have excluded residents with permanent residence, or citizenship, or with permission to reside and work, or those in possession of CARICOM skilled certificates. It therefore would have comprised immigrants with short-term work permits and undocumented immigrants. Furthermore, we have assumed that the composition of the 15,000 immigrants was 12,500 adults of working age and 2,500 children of school age.

For simplicity, and to the advantage of the immigrants, let us assume that our assumptions regarding employment for the 30,000 were, for the better part, applicable to the 15,000. We would therefore have had:

- ◆ Approximately 5,114 individuals with short-term work permits that were employed in the construction and agricultural sectors, the sectors with labour shortages, where the figure of 5,114 is the average number of work permits issued for the two sectors for 2007 and 2008;
- ◆ Approximately another 1,500 without work permits that were employed in the construction and agricultural sectors;
- ◆ Approximately 2,000 without work permits that were employed in non-agricultural jobs that Barbadians considered undesirable;
- ◆ Approximately 2,000 without work permits that performed worthwhile activities in the underground economy.

Thus, we would have had a total of 10,614 of the overall total of 12,500 adult immigrants that would have been gainfully employed in 2007. Of that figure of 10,614, approximately half or 5,114 would have been documented. Note that under this favourable scenario from the perspective of the immigrants, the unemployment of 5,945 Barbadians in 2007 could no longer be attributed solely to the presence of undocumented immigrants. Also, note that the number of undocumented immigrants who would have been unemployed, or under-employed, or engaged in unlawful activities would be significantly lower.

With regard to the school age children, we have assumed that 750 of the assumed total of 2,500 attended private schools since there are no provisions for children immigrants with short-term work permits or of undocumented immigrants to attend public schools. The remaining 1,750

would not have attended school.

On par, therefore, this second scenario would be more manageable, and therefore one could make a case for the regularization of the status of the bulk of the 12,500 immigrants and their children.

However, data provided recently by the Minister of Foreign Affairs, Senator Maxine McClean, on the 'The People's Business' broadcast of Sunday, 5th July 2009, clearly indicated that the number of CARICOM immigrants who entered Barbados in the last eight years or so and did not leave exceeded 30,000. That figure of 30,000 represented an addition to those who entered the island before 2000 and did not leave, with some of the latter being undocumented up to today. Given the data available on the number of annual short-term work permits issued as well as on the total number of CARICOM skilled certificates approved (approximately 1,000), we can therefore conclude that the bulk of those individuals still resident in the island are undocumented. Thus, given our analysis based on the figure of 30,000, and in light of what we know about the fundamentals of the Barbadian economy, we have demonstrated that both the short-term and the potential long-term costs associated with that overall number of immigrants are unacceptable.

Benefits and Costs of Immigration – The Non-CARICOM Scenario

Let us assume that there were 30,000 non-CARICOM wealthy immigrants in Barbados in 2007. We have assumed that the figure of 30,000 would represent an addition to the number of wealthy non-CARICOM immigrants who would have taken up residence in the island over several years. So as to take into account what we know about the composition of wealthy non-CARICOM expatriates who have settled in Barbados, as well as make the analysis more realistic, we have assumed that half or 15,000 of the immigrants were retired individuals with grown children, if any, and that the remaining 15,000 comprised 12,500 adults of working age and 2,500 children of school age.

An important assumption that must be spelt out explicitly is that the 30,000 immigrants would have settled in the island over the same period, fifteen years or so, during which the CARICOM

immigrants relocated to Barbados. This assumption is important since it has major implications for the pattern of development that would have occurred in the wake of the relocation to Barbados of those wealthy individuals.

Both the wealthy retirees and the individuals of working age would have sought to purchase homes in Barbados. In addition, there would have been considerable investment in ancillary facilities such as golf courses, tennis courts, and other recreational facilities so as to satisfy the desires of those individuals. Generally, there would also have been the establishment of specialised medical facilities to cater to those individuals. Furthermore, if some of those immigrants with children sought to duplicate their lifestyles in Barbados, then there also would have been the establishment of more private schools to cater to the educational needs of the children.

On the employment front, the general pattern of wealthy non-CARICOM immigrants who have relocated to Barbados is that they have created their own employment opportunities through investing in both general and niche areas. Such investments also create jobs for locals. On balance, therefore, there would have been little or no competition for jobs with nationals.

The greatest downside associated with the 30,000 wealthy non-CARICOM immigrants taking up residence in Barbados would have been the astronomical escalation in the price of residential land and housing. A situation could therefore have developed where the price of land would have forever become out of the reach of the average Barbadian. In addition, the demand for land, if met, could have led to the virtual destruction of the island's agricultural sector.

The demand for labour by the construction sector would have been considerably greater, with consequent increases in the number of CARICOM immigrants needed to meet the shortages as well as increases in wage rates. The increase in the number of documented CARICOM immigrants would then have fuelled a further increase in the number of undocumented immigrants, and the increase in the latter would have exacerbated the problems we are currently facing.

Thus, despite the increase in construction activity that would have been experienced, and despite the creation of long-term jobs in some areas, one must still ask whether the absorption of the 30,000 wealthy immigrants would have been in the public interest. Depending on which side of the fence one was sitting, the answer could have been ‘Yes’ or ‘No’. However, given a careful analysis of the situation, my bet is that the answer for the average Barbadian would have been ‘No’.

If we were to relax our assumptions and instead assumed that the 30,000 immigrants did not become year round residents of Barbados, but still purchased second homes in the island and made annual visits of three months or so, then the overall outcomes would not be much different. The most significant additional benefit would have been that if the construction of homes had attracted duty-free concessions under the Tourism Development Act or the Duties, Taxes and Other Payments (Exemption) Act, then the properties would have been placed in the rental pools available for short-stay visitors. The difficulty, there, however, would have been the capacity to attract sufficient visitors to the island to generate the long-term benefits associated with that large stock of rooms.

Lastly, if for our second scenario we assumed that the number of wealthy non-CARICOM immigrants was 15,000, then the potential problems would have been mitigated but would nevertheless have been severe.

As a corollary, one could therefore question the long-term sustainability or viability of any economic strategy that has as its primary plank the offering of incentives to wealthy expatriates to take up residence in the island.

Summary

The issue of the high number of undocumented CARICOM immigrants in Barbados is a real problem. It is not best addressed by asking rhetorical questions as to whether what the final outcomes would have been had the immigrants been wealthy non-CARICOM immigrants. Had that been the case, the costs, although of a different nature, for Barbadians would be no less

severe. Also, had that been the case, there would have been greater incentives for more undocumented immigrants to take up permanent residence in the island.

Nor is the issue of the high number of undocumented immigrants in the island best addressed by stating, “It was known by the founding fathers of the regional integration movement that a community is not created from a platform of equality and that in the short-term there are losers and winners.” In light of what we know about the conditions in some CARICOM member states, the short-term could be very long, possibly as much as fifty years or longer. Given such a projection, one must consider the appropriateness of the statement made by that great and influential economist, John Maynard Keynes, that the “Long run is a misleading guide to current affairs. In the long run we are all dead.”

Attempts to absorb the high number of undocumented immigrants in the island would, *ceteris paribus*, be associated with a long-term diminution in the benefits that bona fide Barbadians currently enjoy. If Barbadians are not willing to accept decreases in their welfare, then they should urge the Government to proceed with haste to implement its managed migration policy regardless of the comments emanating out of Guyana, St. Vincent and the Grenadines, or any other CARICOM member state. That policy should include, *inter alia*:

- ◆ A contract labour programme for immigrants to work in the construction and agriculture sectors, as well as in some specific sub-sectors. The rights of those immigrants to move freely among jobs should be restricted;
- ◆ Removal of the undocumented immigrants who are not contributing to the society or who are competing for jobs with bona fide Barbadians; and
- ◆ Implementation of a system with clear guidelines that prohibits entry of immigrants who are likely to overstay, and that tracks and removes those who have overstayed.

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