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Immigration is not a tool for growth

Governments increasingly present immigration as an unavoidable economic remedy: a way to offset demographic decline, sustain GDP growth, and finance future pensions. That argument is often wrapped in the language of solidarity, modernisation, and labour-market necessity.

But the Spanish case shows a more uncomfortable reality. Mass immigration, regularisation, and accelerated naturalisation can raise aggregate GDP and employment while doing nothing to improve productivity, real net wages, or the long-term health of public finances.

The official case for large-scale immigration rests on three claims. First, advanced economies with low birth rates need more workers to support pension systems and maintain the tax base.

Second, immigration is said to raise growth by expanding the labour supply and preventing demographic contraction. Third, governments present regularisation as a humane and efficient way to bring informal workers into the formal economy.

Spain's government is constantly repeating this. In January 2026 it launched an extraordinary regularisation scheme for undocumented immigrants, initially presented as a measure that could benefit around 500,000 people who could prove residence before the end of 2025 and meet other conditions.

By the end of June 2026, applications had reportedly exceeded one and a half million.

This policy is defended as both compassionate and economically necessary. The political message is that Spain needs immigration to sustain output, keep businesses operating, and preserve the welfare state in the face of ageing and low fertility.

Larger headline economy vs stronger one

The first problem with the official narrative is that it confuses a larger headline economy with a stronger one. Adding people increases aggregate GDP because there are more subsidies to new citizens, more consumers, and more transactions.

But that does not mean higher productivity, rising real net wages, or higher prosperity per person.

Spain offers a clear example. BBVA Research notes that since the end of 2019, foreign employment has increased by 53 per cent and explains almost two-thirds of net job creation since the pandemic.

Yet this labour-market expansion has not translated into a broad productivity improvement. Hours worked fell by 0.3 per cent at the start of 2026; average working time has dropped by 2.6 per cent since 2019, and the report describes the positive macroeconomic impact of the ongoing regularisation as limited at best.

> A labour market that absorbs large numbers of workers into lower-productivity, more precarious segments may grow in size without becoming more prosperous in quality

The productivity data is particularly important. GDP per hour worked by the foreign-born population is 19 per cent lower than that of Spanish-born workers.

That does not justify hostility towards immigrants; it simply shows that a growth model based on expanding a low-productivity labour supply is not the same as a model based on capital deepening, innovation, and efficiency gains.

This distinction matters because governments often celebrate employment growth while ignoring the composition of it. Foreign-born workers remain overrepresented in temporary contracts and discontinuous permanent contracts and are more likely to work atypical schedules.

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The effect on wages

A second weakness in the pro-immigration growth argument is the effect on wages. Even institutions favourable to immigration acknowledge that the massive regularisation process has downward pressure on pay statistics through a composition effect, because it formalises and expands lower-paid employment.

One estimate cited in coverage of the Spanish regularisation suggested that the measure could lift GDP by 0.6 per cent and hours worked by 0.7 per cent, while reducing real wages per hour worked by as much as 0.6 per cent.

When growth comes from expanding the supply of low-wage labour, aggregate output may rise but real wage growth remains stagnant.

> Weak wage pressure can help contain some business costs in labour-intensive sectors while keeping headline employment growth strong

Spain is not a high-growth economy; it is a low-cost economy.

In its fiscal and macroeconomic assessments, AIReF, the Spanish independent fiscal responsibility authority, has explicitly noted that the inflow of foreign population supports private consumption and labour-market performance without wage tensions.

Weak wage pressure can help contain some business costs in labour-intensive sectors while keeping headline employment growth strong. But it is difficult to describe that outcome as an unequivocal social success when it coexists with housing stress, strained public services, and stagnating real net earnings.

Will immigration pay for future pensions?

The third major claim is that immigration will pay for future pensions. This is politically attractive because it offers a painless answer to ageing: rather than reform spending, reduce taxation on families, or improve conditions for childbearing, governments can import workers and postpone adjustment. Evidence from Spain suggests that this claim is misleading.

Since 2019, the debt of Spain's Social Security system has quadrupled. The system needs to be bailed out every year through government transfers. AIReF's own estimates of the extraordinary regularisation are revealing.

The regularisation would add just 0.03 percentage points to average annual GDP over 2022–2050. In the first year it could increase social security contributions by about 1.074 billion euros, equivalent to 0.067 percentage points of GDP.

> Immigration does not solve the pension problem; it marginally delays it while the core imbalance remains

Most importantly, even under those assumptions the macroeconomic effect is irrelevant relative to the scale of Spain's structural fiscal challenges and the net contribution of most immigrants is negative.

AIReF projects Spain's general government deficit at 2.7 per cent of GDP in 2025, 2026, and 2027 under unchanged policies, with debt still close to 100 per cent of GDP in 2029 and ageing-related spending rising over time. In that context, immigration does not solve the pension problem; it marginally delays it while the core imbalance remains.

The same analysis also undercuts the idea that regularisation is a transformative fiscal fix. Of those expected to benefit, only a portion are projected to end up working and contributing to the Social Security system.

The underlying burden on public accounts

A frequent rhetorical move in this debate is to equate more contributors with healthier public finances. That is incomplete.

New residents and new citizens not only pay taxes; they also consume public services, use infrastructure, draw on healthcare, education, housing support, local services, and, eventually, pension and welfare systems. The relevant metric is not gross contributions, but net fiscal contributions over time.

The evidence gathered around Spain's current regularisation debate does not support triumphalist claims. Even supportive analyses describe the impact as modest, uncertain, or macroeconomically limited.

> A policy can increase GDP while worsening fiscal pressure per unit of prosperity created

AIReF's broader fiscal outlook remains dominated by structural deficits, ageing-related pressures, higher interest costs, and future spending commitments, despite the continued contribution of immigration to short-term growth.

This matters because a policy can increase GDP while worsening fiscal pressure per unit of prosperity created. If the model relies on adding large numbers of relatively low-productivity workers whose tax contributions are modest relative to the public spending they require, the state registers more output and more affiliates while failing to improve the fiscal balance.

The political advantage is immediate, because headline GDP and employment look artificially stronger. The underlying burden on public accounts, however, does not disappear.

Immigration so often becomes a substitute for reform

This is why immigration so often becomes a substitute for reform. Rather than lowering taxes on work and family formation, liberalising housing, improving wages through productivity-enhancing investment, or supporting households that want to have children, governments choose the faster route of importing labour and declaring victory through headline growth.

Immigration can increase the size of an economy, but it is not a substitute for growth - Daniel Lacalle

The attraction is obvious. Immigration can quickly boost the labor supply, ease wage pressures, increase consumption, and make GDP statistics look stronger in the near term.

Regularisation can also turn part of the informal economy into measured employment and contributions, which further improves headline indicators without addressing the underlying weaknesses of the economic model.

Politically, this approach can foster dependence. When a growing share of the economy is tied to public transfers, subsidised services, and administrative regularisation, the state expands its role as allocator, gatekeeper, and patron.

That dynamic does not prove a deliberate vote-buying strategy in every case, but it clearly aligns with a system in which governments gain influence by enlarging groups that are economically dependent on political discretion.

Spain is a useful case because the policy is unusually explicit. The government has defended regularisation on economic, demographic, and moral grounds, while independent analyses admit that the gains in productivity and fiscal terms are negligible or negative.

Immigration can increase the size of an economy, but it is not a substitute for growth. It cannot replace productivity reform, family support, tax relief, or fiscal discipline. When governments use immigration as a shortcut to avoid those responsibilities, they are not solving decline. They are changing its statistical appearance.