



The Effects on the Welfare State of the Destination Country

**Economics of Migration in Europe
Lesson 7**

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The effect of migration in the destination country

This topic can be broken down into several issues:

- 1. The effect of immigrants on the aggregate economy;**
- 2. The effect of immigrants on the destination labour market competition or complementarity;**
- 3. The effect of immigrants on the welfare state;**
- 4. The assimilation pattern of foreigners in the labour market;**
- 5. The social assimilation of immigrants;**
- 6. The effects of immigrants in the competition of the goods market**



Immigration and the welfare state

"It is one thing to have free immigration for jobs, it is another thing to have free immigration to welfare. And you cannot have both." (Mielton Friedman)

"A generous welfare state would be under constant attack by the many immigrants yearning for its benefits. Under such a growing burden, sooner or later a political coalition would be formed which will either curtail the generosity of the state or restrict immigration, or both." (Assaf Razin)



Effects of immigration on the welfare state

- Immigrants increase the working-age population, contribute to the welfare
- Principle 'equal pay for equal work'

but...

- If concentrated in low-paid occupations?
- Higher risk of unemployment?
- Family members?
- Congestion of public services?
- Social cohesion → provision of public goods, tax contributions?



Immigration and the welfare state: another snapshot from the UK

- A politician's perspective:
[Video link 1](#), from November 2013
- A researcher's perspective:
[Video link 2](#), from January 2014

https://www.youtube.com/watch?v=PQ8I_IdJGNI

<https://www.youtube.com/watch?v=XoYdcS4HKSg&feature=youtu.be>



The effect of immigrants on the welfare state

Political issues

- Even if in the long run migrants finance the pay as you go pension system, migrants may be very costly for the destination economy because they use the welfare state more than natives or similar natives.
- If this is so, natives finance the welfare services received by the foreigners through the general fiscal system. This creates distributive conflicts, reducing the total migration surplus

Policies to implement

1. Restrict welfare eligibility;
2. Revise immigration policies, choosing characteristics (in general skills) to reduce the welfare cost of immigrants;
3. Implement policies which favour the assimilation out of welfare of foreigners (i.e. policies which encourage the non-take up of benefits by eligible migrants);
4. Implement policies to prevent immigrants from entering the welfare state and avoid state dependency.



Figure 1. The model of geographic sorting of immigrants (fixed costs of immigration assumed)

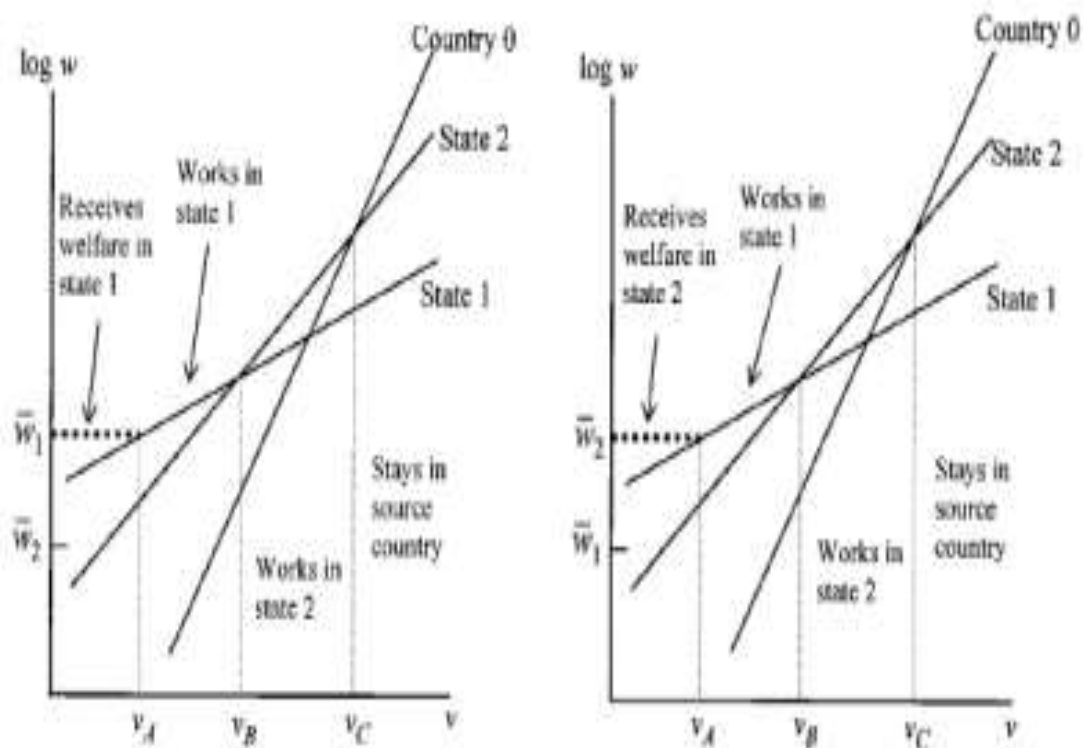
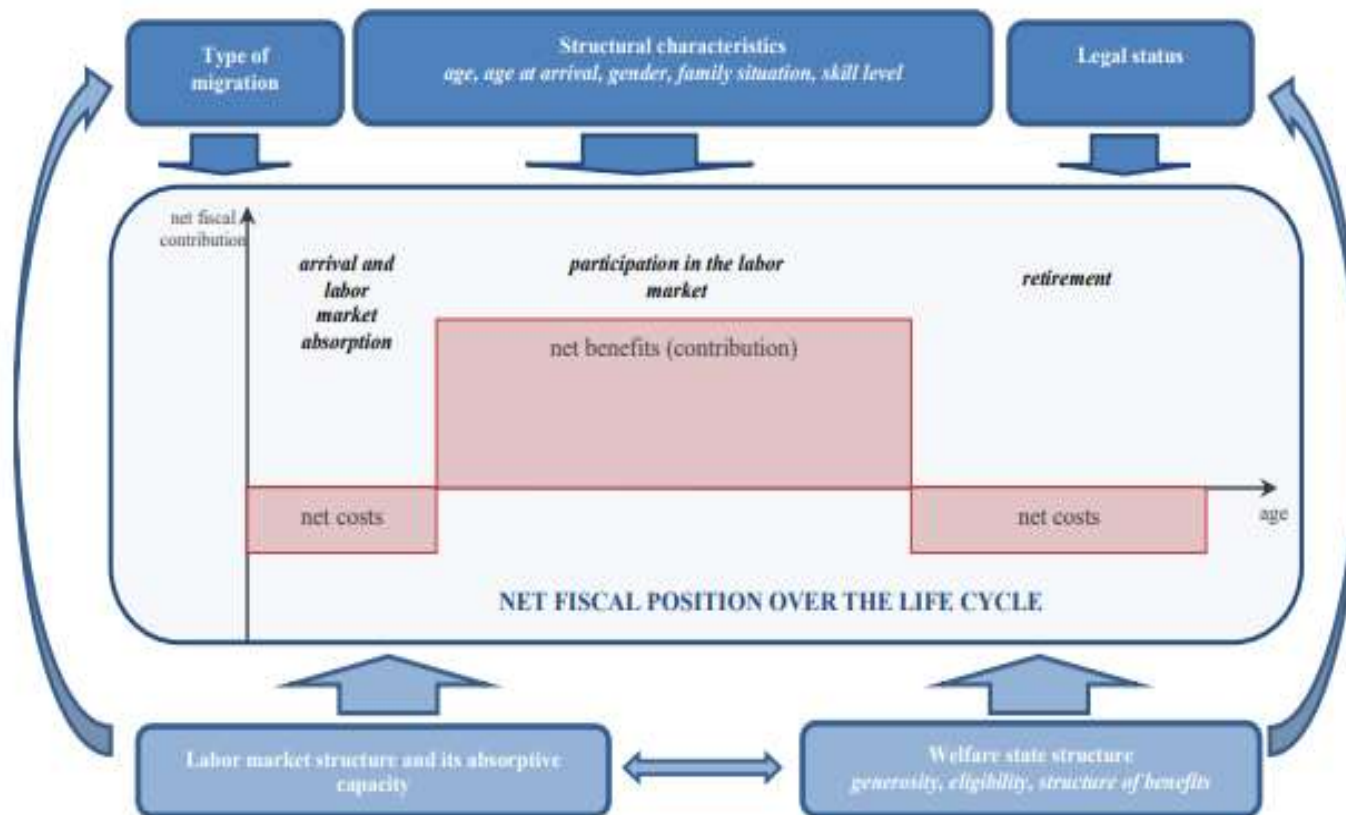




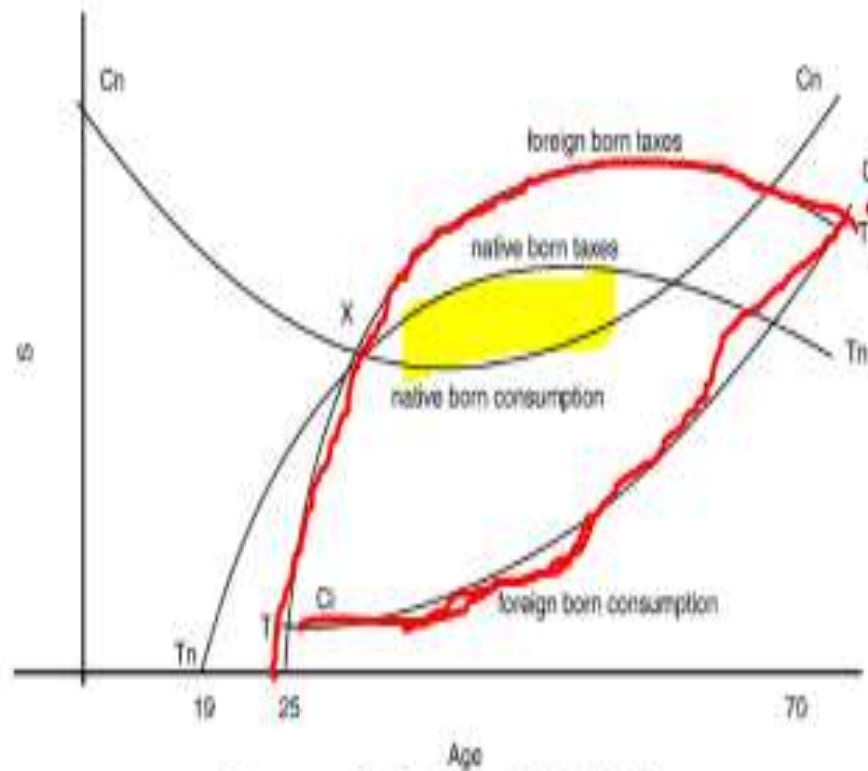
Figure 9. Factors influencing the net fiscal position of immigrants



Source: Own elaboration.



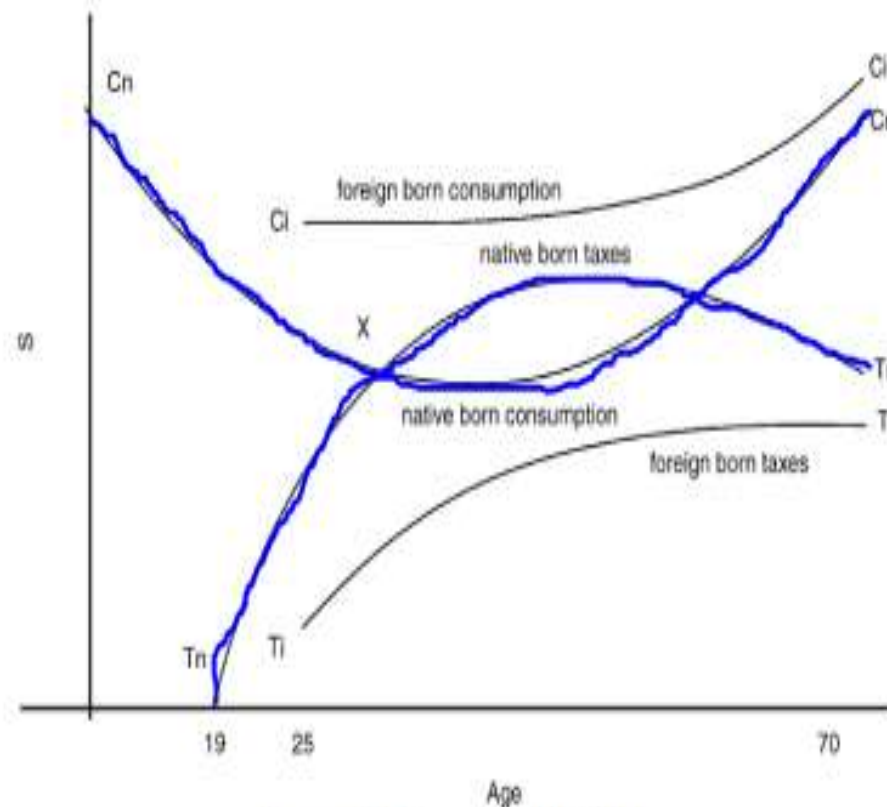
Figure 10. Tax-Consumption profiles by age and birth status - an optimistic case



Source: DeVoretz 2006: 393.



Figure 11. Tax-Consumption profiles by age and birth status - a pessimistic case



Source: DeVoretz 2006: 394.



Welfare Magnet

- Migrants attracted by the higher welfare
- Migrants unable to secure employment are less likely to out migrate
- Migrants settlement follows welfare generosity and induce more welfare burden in the more generosuse regions



Borjas (1999)

- Regions with different welfare generosity and return to skill
- Natives have fixed cost of migration
- Foreigners do not have

→ **Prediction:**

Change in benefits level

Higher welfare participation among the migrants



- 37.6% of the migrants welfare recipients were in California
- 27.6% of migrants employed in California
- California is a high welfare state.
- Differential with native very limited



Enchautegui (1999)

- Women has moved to more generose welfare states
- Effect small

Levine Zimmermann (1999)

Women with small children



- **Giulietti (2011)** → Endogeneity
- Affect unemployment spending size and GDP
- Change in policy

- **Razin Wahba (2011)** → Welfare generosity
affect the selection



WELFARE MAGNET

The generosity of the welfare state was supposed to be a **magnet** in the localization of the foreigners. While **Borjas (1999)** for the USA and **Bruecker *et al.* (2002)**, using the EURO Panel (2001-2004), do not find any evidence, **De Giorgi and Pelizzari (2006)**, again using the EURO Panel find a propensity to settle where the welfare state is more generous.

However the wage effect plays a much larger role in attracting migrants, ten times larger than the benefit impact.



In receipt of Welfare payment

Borjas and Trejo (1991)

- More eligible
- Assimilation into welfare state

Kaestner and Kausal (2005)

- Effect of a reform reduce eligibility
- reduction of the use of welfare but not less take up benefits only reduced eligibility.
- Take up benefits conditional on eligibility remained high



ON AGGREGATE MIGRANTS ARE MAKING MORE USE OF THE WELFARE SYSTEM

- In Germany, Flick (1999) find that migrants are 3.7% more likely than natives to be in receipt of benefits.
- In Sweden, Hansen and Lofstrom (2003) reported that in the mid-1990s the expenditure on social assistance for immigrants in Sweden equaled that for natives, but the migrants were only 10% of the total population.
- Also in the United Kingdom, Barret and McCarthy (2008) show that 19% of immigrants, but only 12% of natives, receive welfare payments.



CONDITIONAL TO THE MIGRANTS CHARACTERISTICS, DO THEY USE THE WELFARE MORE THAN THE NATIVES?

- In Europe, **Sweden** is very interesting because its welfare system is the most generous.
- **Hansen and Lofstrom (2003,2006, forthcoming)** and **Andrén (2007)**, using administrative longitudinal data, find that migrants use welfare more intensively than natives, but as natives immigrants assimilate out of welfare – i.e. the longer they stay in the welfare system and in the destination country the less they use welfare benefits - even if at a lower pace than natives.
- In **Germany**, **Castronovo et al. (2001)** find that migrants, given their income and household structure, are more likely to be **eligible for welfare benefits**, but even if they are more likely to be eligible they do not **take up welfare benefits** more than similar natives. Thus immigrants' characteristics explain their relatively intense use of welfare, as also **Riphan (2004)** point out in her analyses, where she also find that in the Swedish case dropping out of the labour market is a much stronger predictor of welfare receipt among immigrants relative to natives.



Bruecker et al (2002)

G, UK, Sp, Greece similar DK, NL, Fr, Au, Fin higher

- Probability of employment
- Self-selection
- Migration specific effect language
- Discrimination
- Network effect
- Excluded by legislation portability of Benefit, no in public job
- In the first group of countries no residual effect.



ARE MIGRANTS MORE PRESENT IN THE FORM OF CONTRIBUTORY BENEFITS OR IN THE FORM OF NON-CONTRIBUTORY BENEFITS TO THE WELFARE STATE?

- The Fondazione Rodolfo DeBenedetti proposes in its study for “Labour Mobility within the EU in the context of enlargement and the functioning of the transitional arrangements” by the European Integration Consortium a distinction between contributory benefits and non-contributory benefits.
- The former are designed to cover against the risks of unemployment, longevity (pension), sickness, disability and survivor’s pension.
- The latter are household-related and include housing and family allowances as well as transfers targeted specifically on groups with higher risks of social exclusion.
- The dataset used is the European Survey on Income and Living Conditions (EU-SILC) between 2004-2006.



	Country	EU-25 immigrants	Extra EU-25 immigrants	All immigrants
EU-15	Austria	-0.10 [5.67]***	-0.14 [12.55]***	
	Belgium	-0.02 [2.37]**	-0.13 [9.10]***	
	Denmark	0.04 [1.91]*	0.05 [3.77]***	
	Finland	-0.03 [1.28]	0.08 [4.69]***	
	France	-0.01 [0.44]	-0.09 [8.69]***	
	Germany [†]			-0.08 [5.86]***
	Greece	-0.19 [7.50]***	-0.25 [22.71]***	
	Ireland	-0.14 [11.54]***	-0.25 [13.62]***	
	Italy	-0.17 [7.96]***	-0.19 [24.76]***	
	Luxembourg	-0.18 [34.54]***	-0.24 [18.95]***	
	Netherlands	-0.06 [1.63]	-0.17 [3.65]***	
	Portugal	-0.12 [3.24]***	-0.28 [15.24]***	
	Spain	-0.07 [2.00]**	-0.22 [14.38]***	
	Sweden	-0.08 [5.04]***	-0.17 [10.51]***	
United Kingdom	-0.01 [0.81]	-0.24 [23.39]***		
New Member States	Cyprus	-0.05 [3.92]***	-0.24 [19.39]***	
	Czech Republic	0.05 [1.05]	-0.37 [9.78]***	
	Estonia [†]			0.06 [8.91]***
	Hungary	-0.25 [6.35]***	-0.34 [5.71]***	
	Latvia [†]			0.11 [13.43]***
	Lithuania	0.06 [0.91]	0.08 [3.01]***	
	Poland	-0.03 [0.38]	-0.19 [3.78]***	
	Slovakia	0.18 [3.68]***	-0.06 [0.65]	
Slovenia ^{††}			0.10 [15.40]***	
Other Countries	Iceland	-0.09 [3.27]***	-0.04 [7.65]***	
	Norway	-0.07 [4.10]***	-0.13 [7.64]***	

Tab.1 Contributory benefits:
Percentage of **recipient immigrants** minus the corresponding percentage for natives $R_m/M - R_n/N$

Notes: averages over the available years; t statistics in brackets, ***,** and * denote significance at 1, 5 and 10 percent respectively; [†] the EU-SILC does not distinguish between EU-25 and extra-EU25; ^{††} migrants identified by country of birth; the EU-SILC does not distinguish between EU-25 and extra EU-25 migrants.



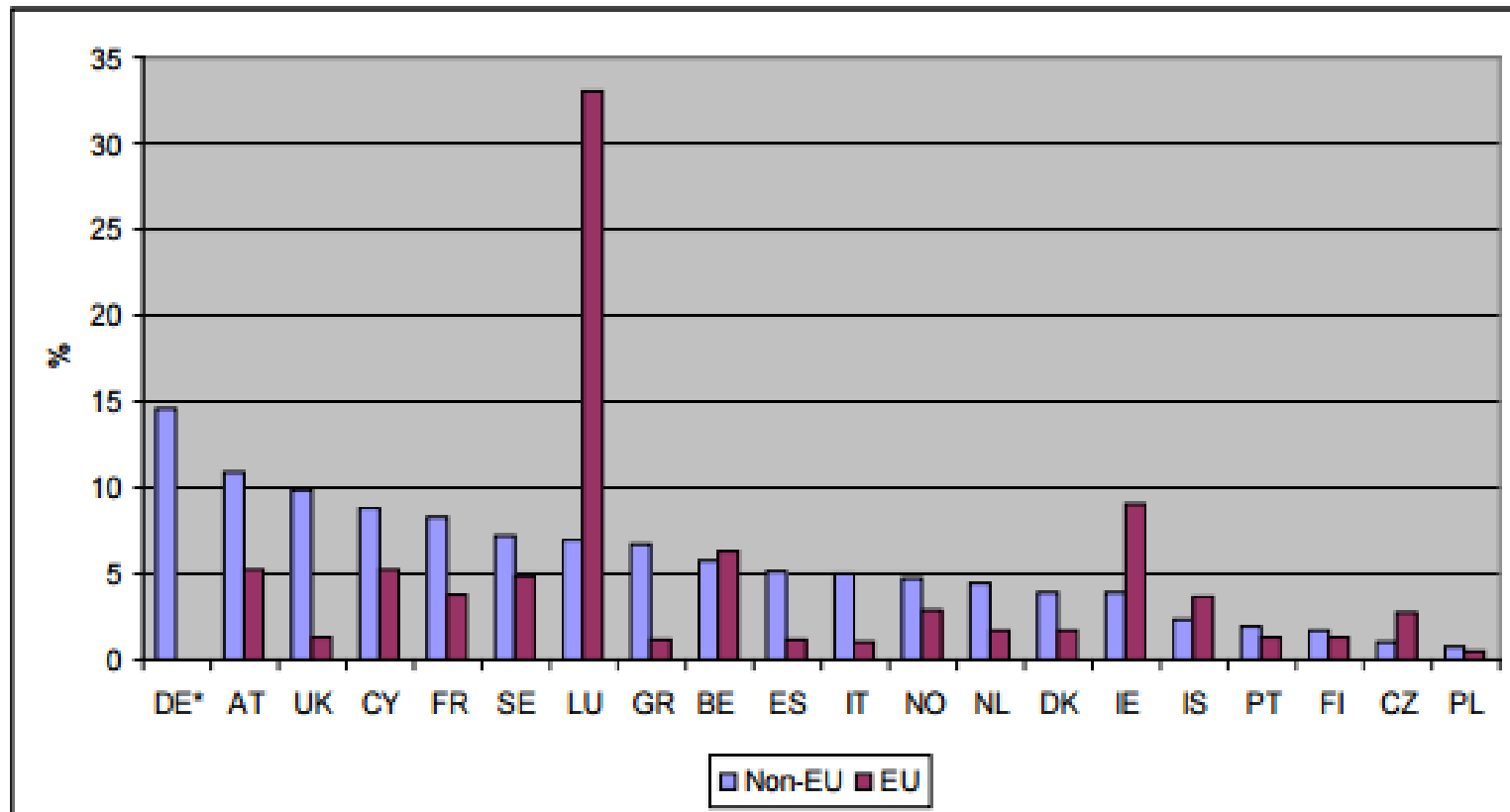
	Country	EU-25 immigrants	Extra EU-25 immigrants	All immigrants
EU-15	Austria	-2,152 [197.29]***	-3,288 [522.39]***	
	Belgium	-520 [105.21]***	-1,833 [279.64]***	
	Denmark	-195 [10.09]***	-1,182 [91.48]***	
	Finland	-1,424 [63.97]***	-1,919 [117.02]***	
	France	-1,040 [278.06]***	-2,274 [720.17]***	
	Germany [†]			-1,675 [679.30]***
	Greece	-163 [19.94]***	-1,844 [524.54]***	
	Ireland	-1,426 [173.19]***	-1,922 [165.71]***	
	Italy	-1,967 [245.00]***	-3,254 [1317.72]***	
	Luxembourg	-4,901 [230.47]***	-6,074 [118.46]***	
	Netherlands	-1,831 [65.18]***	-3,723 [123.12]***	
	Portugal	-548 [54.89]***	-1,469 [352.86]***	
	Spain	-304 [31.49]***	-1,865 [457.92]***	
	Sweden	-1,197 [158.50]***	-2,214 [292.27]***	
United Kingdom	-402 [85.88]***	-2,636 [1026.91]***		
New Member States	Cyprus	-86 [7.19]***	-1,592 [123.65]***	
	Czech Republic	37 [8.83]***	-877 [285.47]***	
	Estonia [†]			92 [89.95]***
	Hungary	-588 [128.04]***	-884 [123.39]***	
	Latvia [†]			141 [199.44]***
	Lithuania	39 [6.30]***	315 [121.18]***	
	Poland	350 [50.43]***	-628 [150.41]***	
	Slovakia	347 [60.44]***	-40 [4.28]***	
Slovenia ^{††}			434 [89.41]***	
Other Countries	Iceland	-2,455 [33.53]***	-1,366 [74.14]***	
	Norway	-402 [85.88]***	-2,636 [1026.91]***	

Tab.2 Contributory benefits:
Average transfer per immigrants
minus average transfer per native
Bm/M-Bn/N

Notes: figures are in euros, averages over the available years; t statistics in brackets, ***, ** and * denote significance at 1, 5 and 10 percent respectively; [†] the EU-SILC does not distinguish between EU-25 and extra-EU25; ^{††} migrants identified by country of birth; the EU-SILC does not distinguish between EU-25 and extra EU-25 migrants.



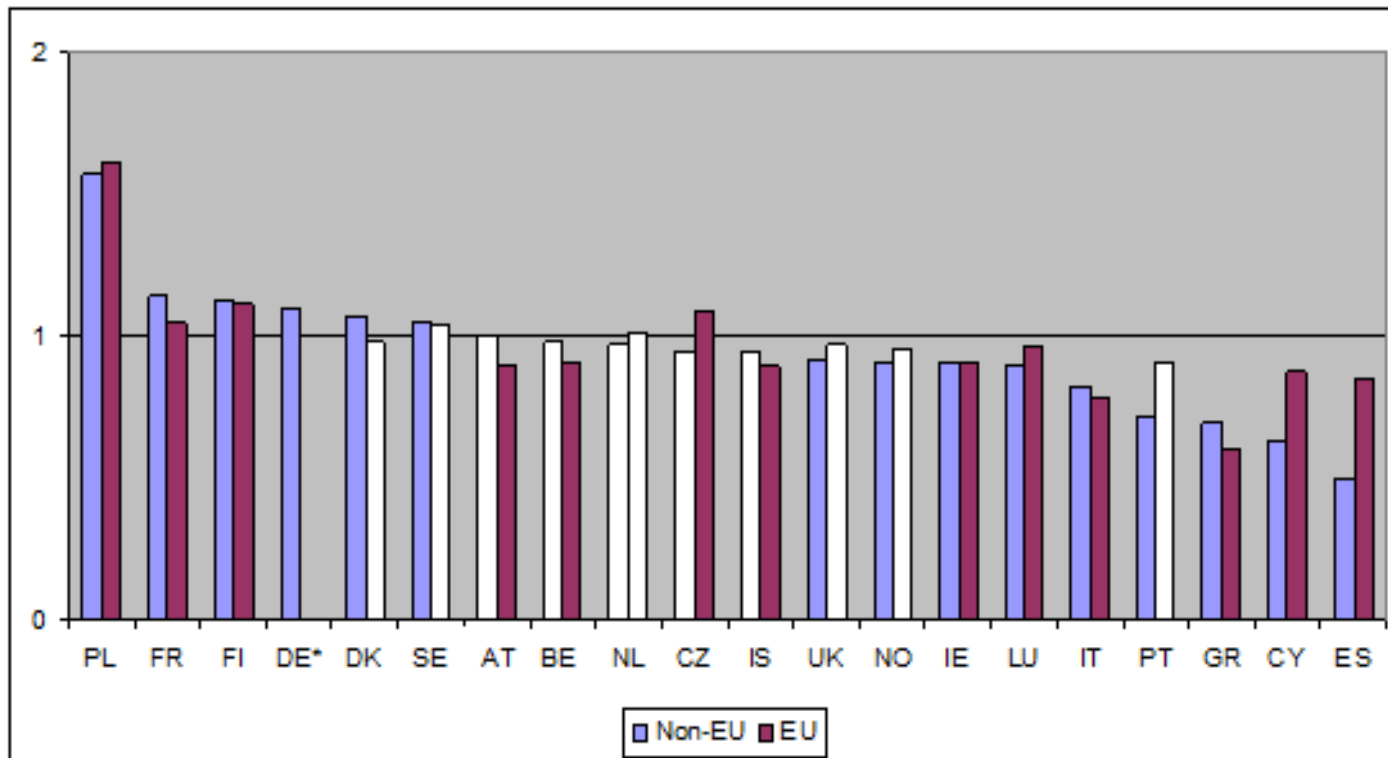
Figure 1: Percentage of immigrants across countries



* Notes: EU SILC 2007. *All immigrants for Germany.



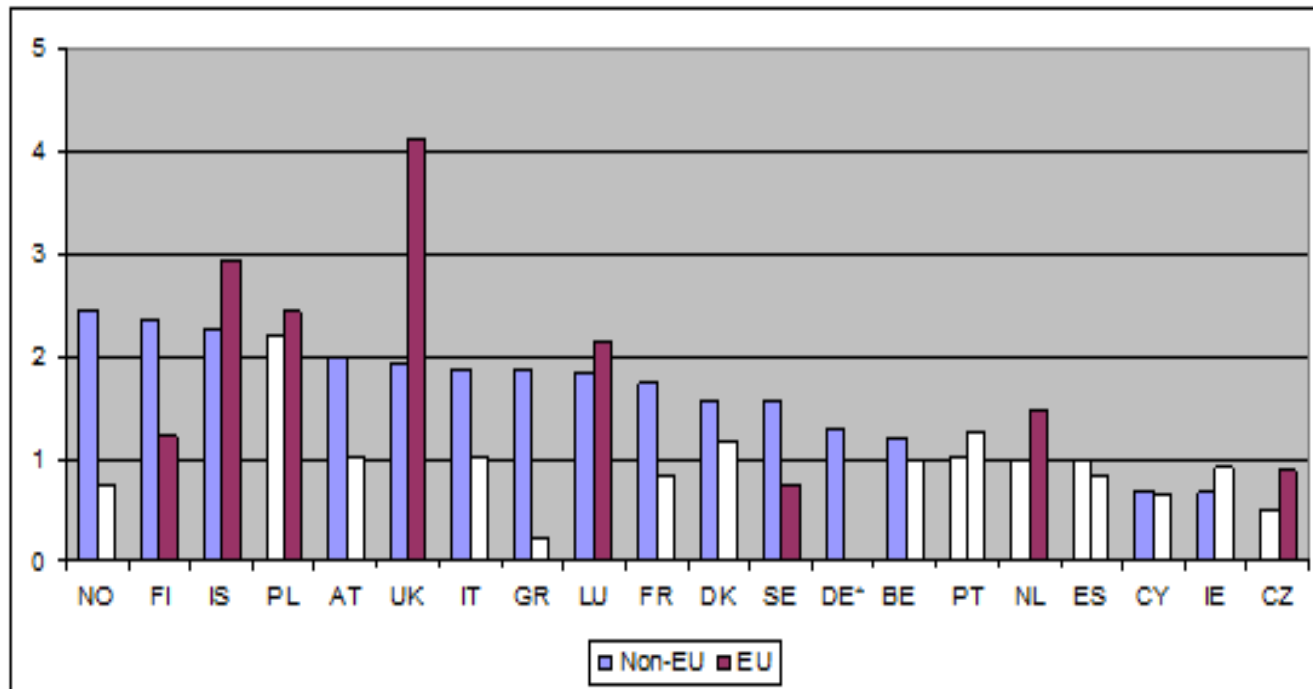
Figure 1: Ratio of proportions of immigrants and natives: All types of support



Source: Barrett and Maitre (2011), based on calculations using EU-SILC 2007; note: white bars imply statistically insignificant differences; * implies all immigrants for Germany



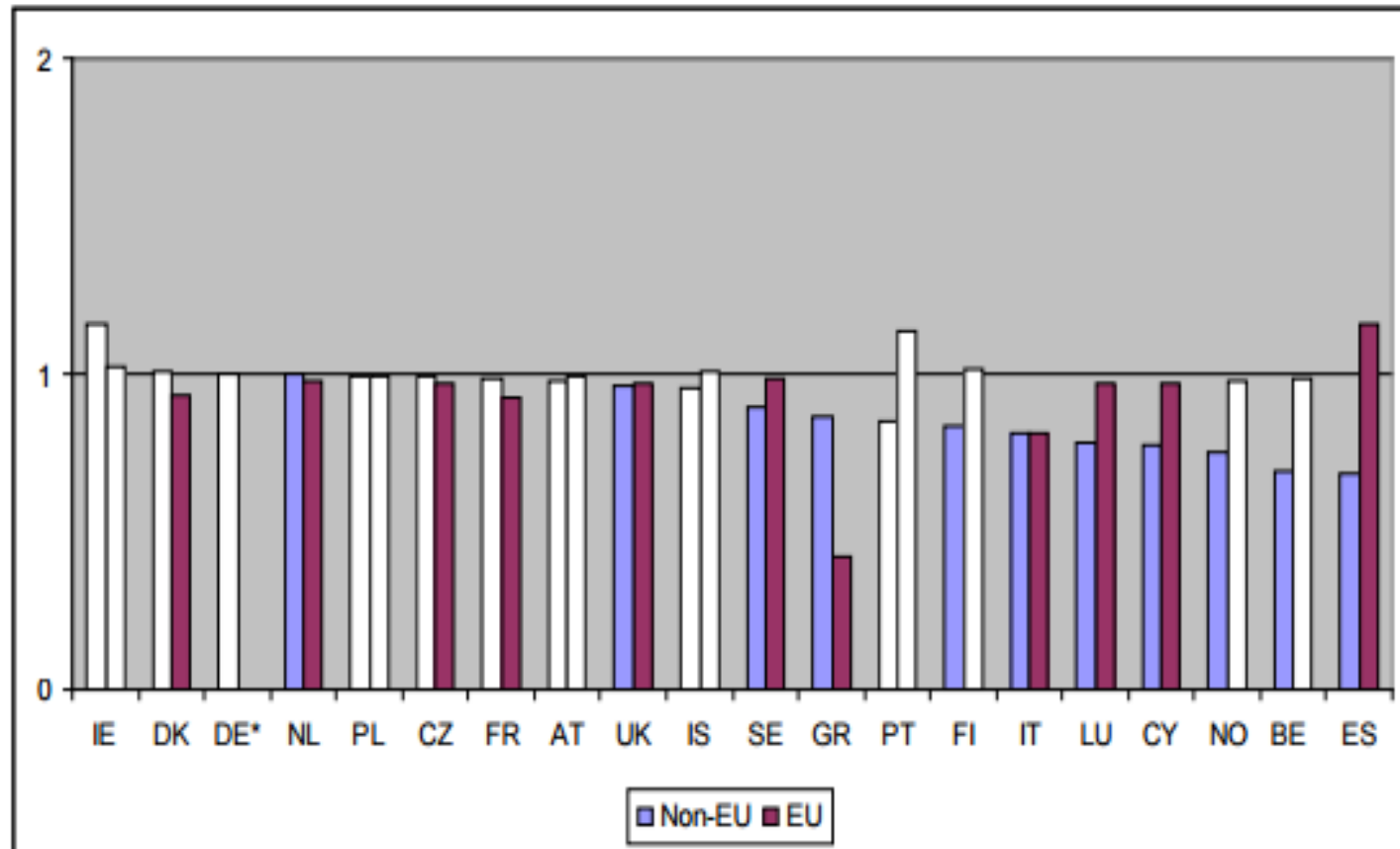
Figure 2: Ratio of proportions of immigrants and natives: Unemployment supports



Source: Barrett and Maitre (2011), based on calculations using EU-SILC 2007; note: white bars imply statistically insignificant differences; * implies all immigrants for Germany



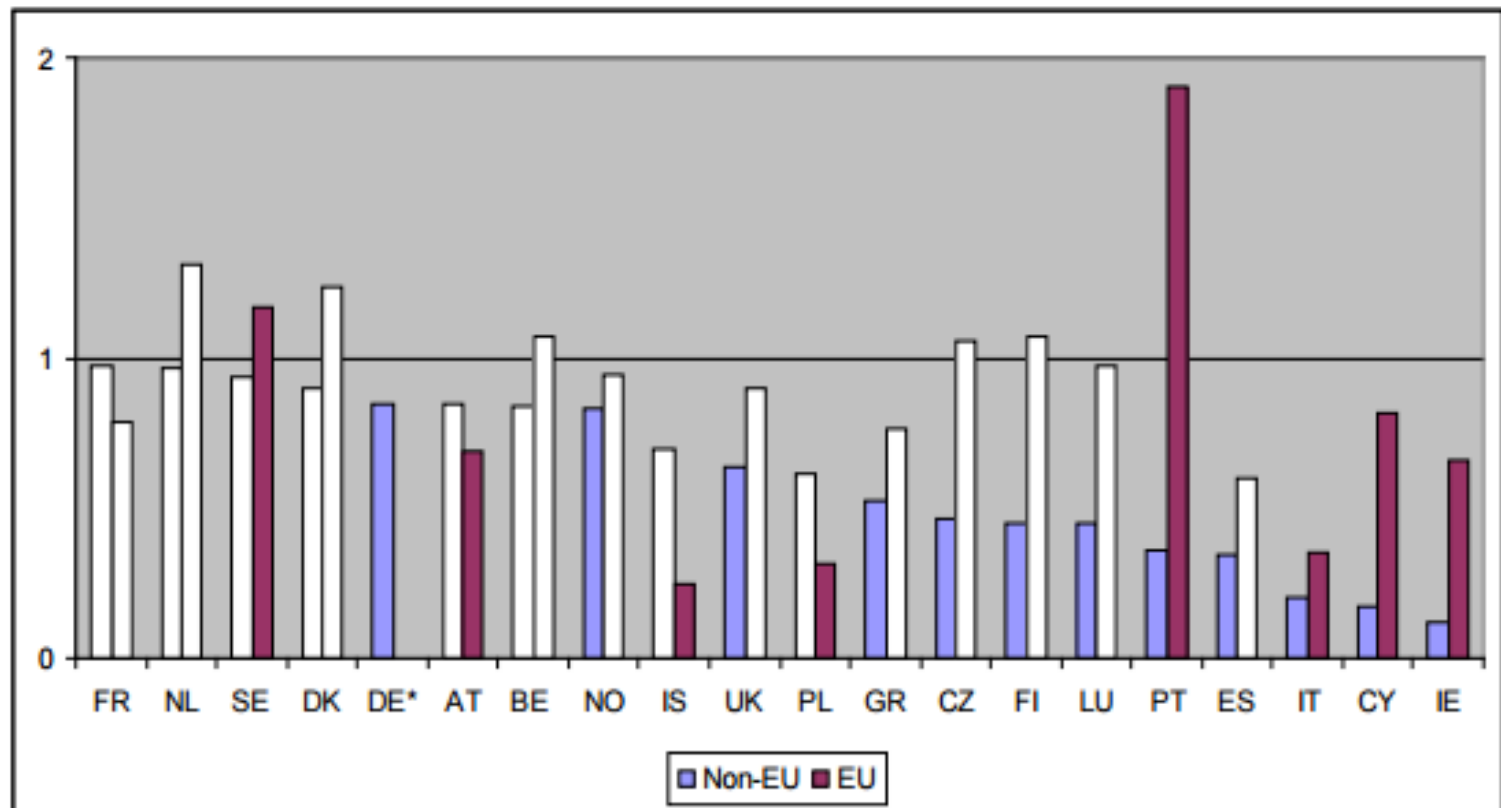
Figure 4: Ratio of proportions of immigrants and natives: Old-age support



Notes: EU SILC 2007. *All immigrants for Germany



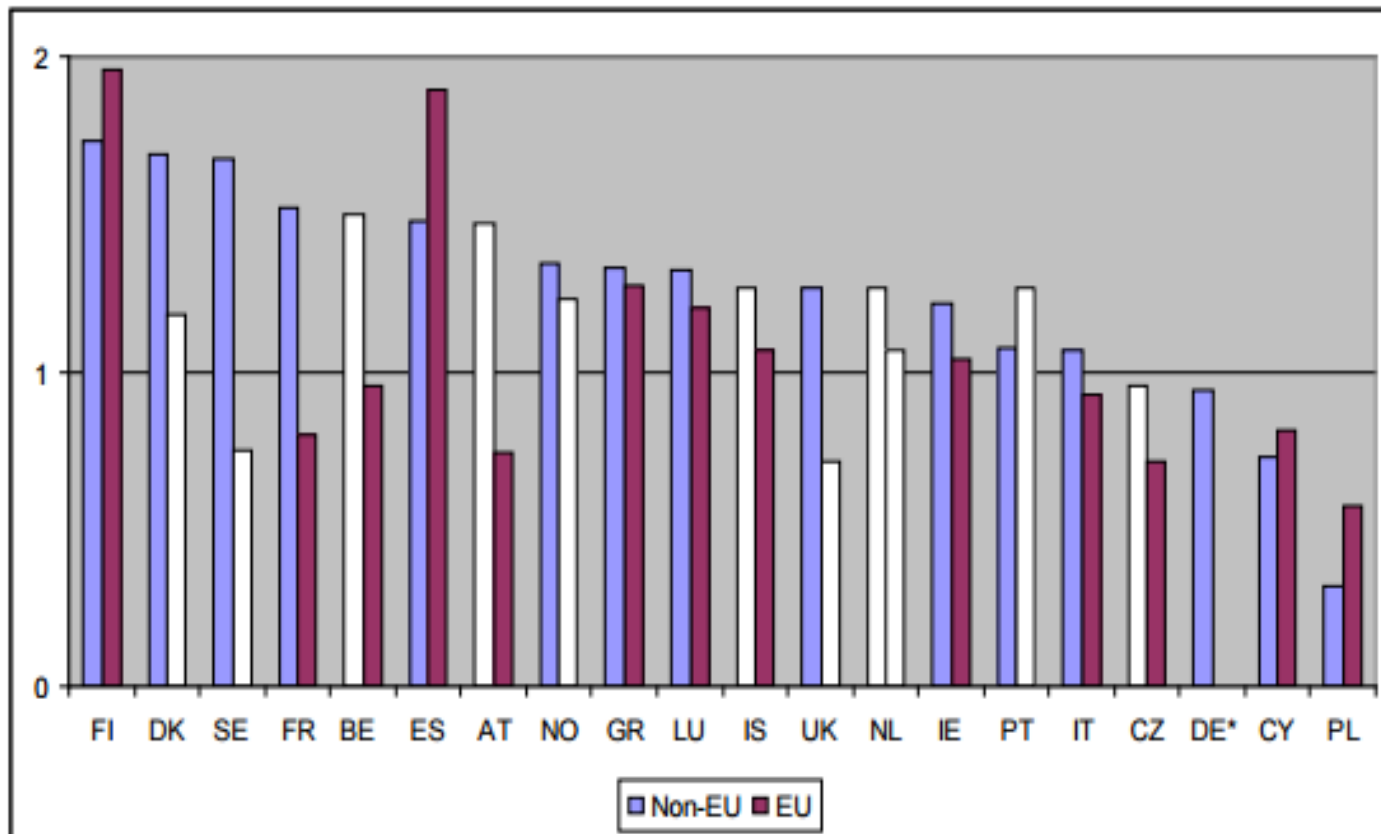
Figure 5: Ratio of proportions of immigrants and natives: Sickness/disability support



Notes: EU SILC 2007. *All immigrants for Germany.



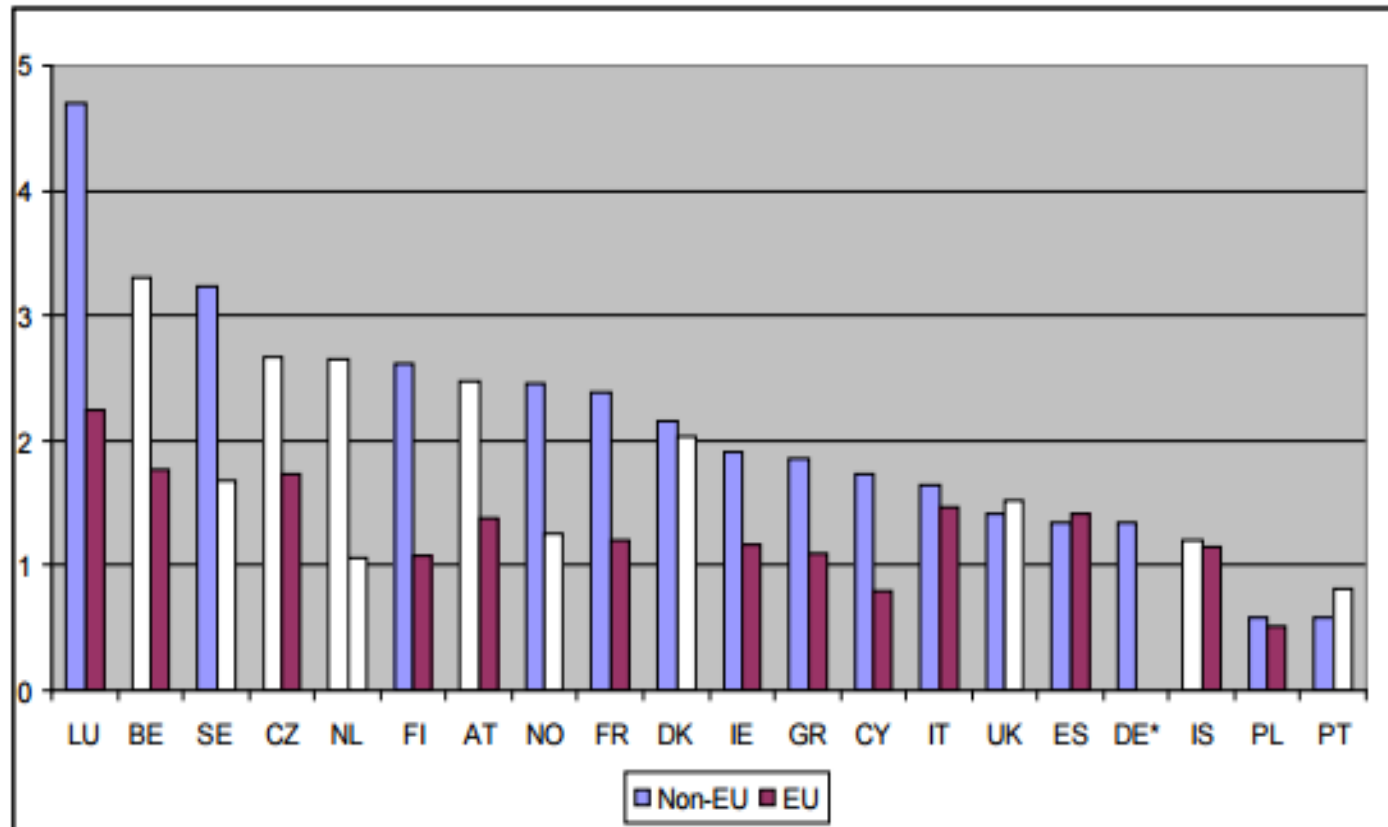
Figure 6: Ratio of proportions of immigrants and natives: Family/child support



Notes: EU SILC 2007. *All immigrants for Germany.



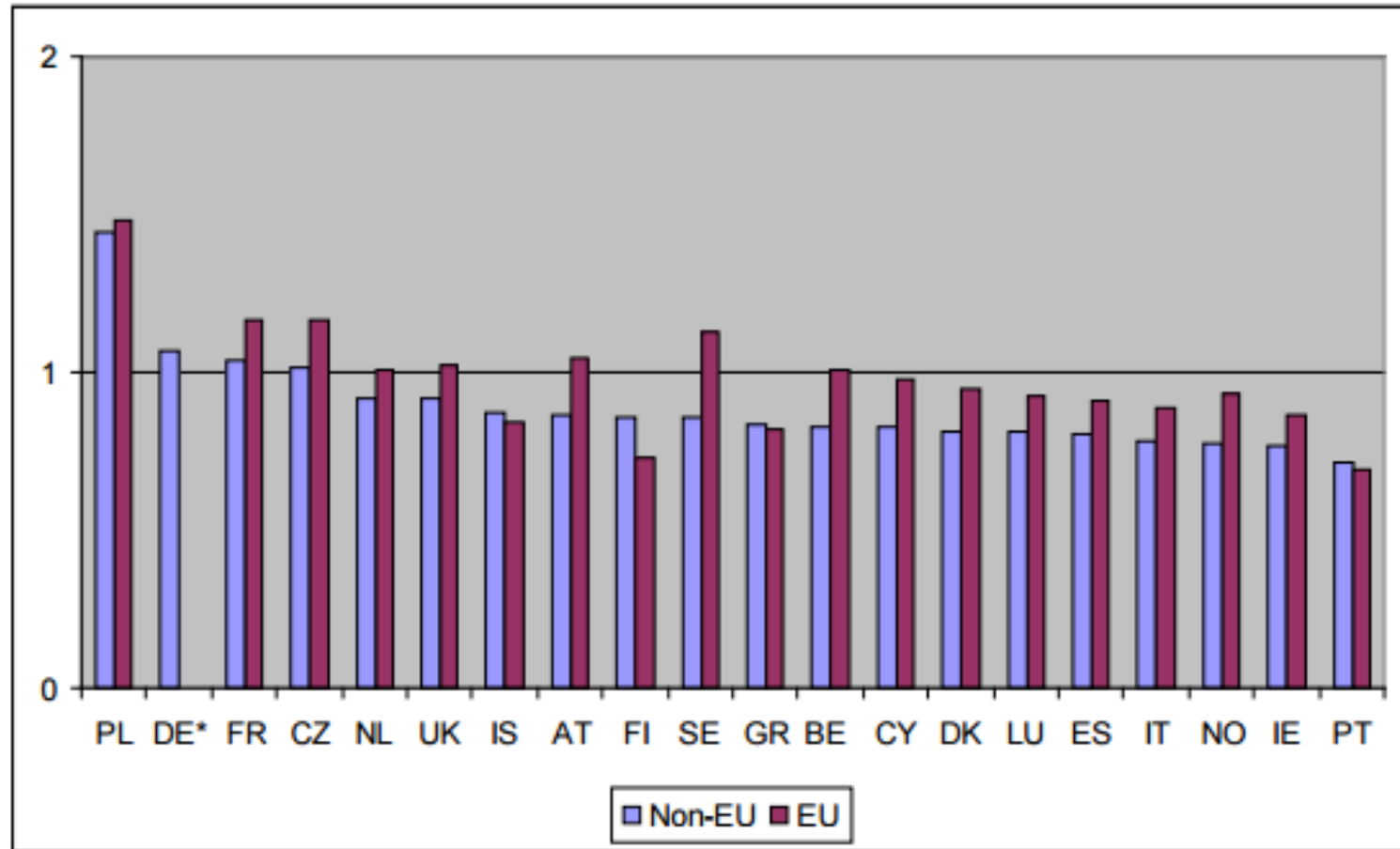
Figure 7: Ratio of proportions of immigrants and natives at risk of poverty



Notes: EU SILC 2007. *All immigrants for Germany.



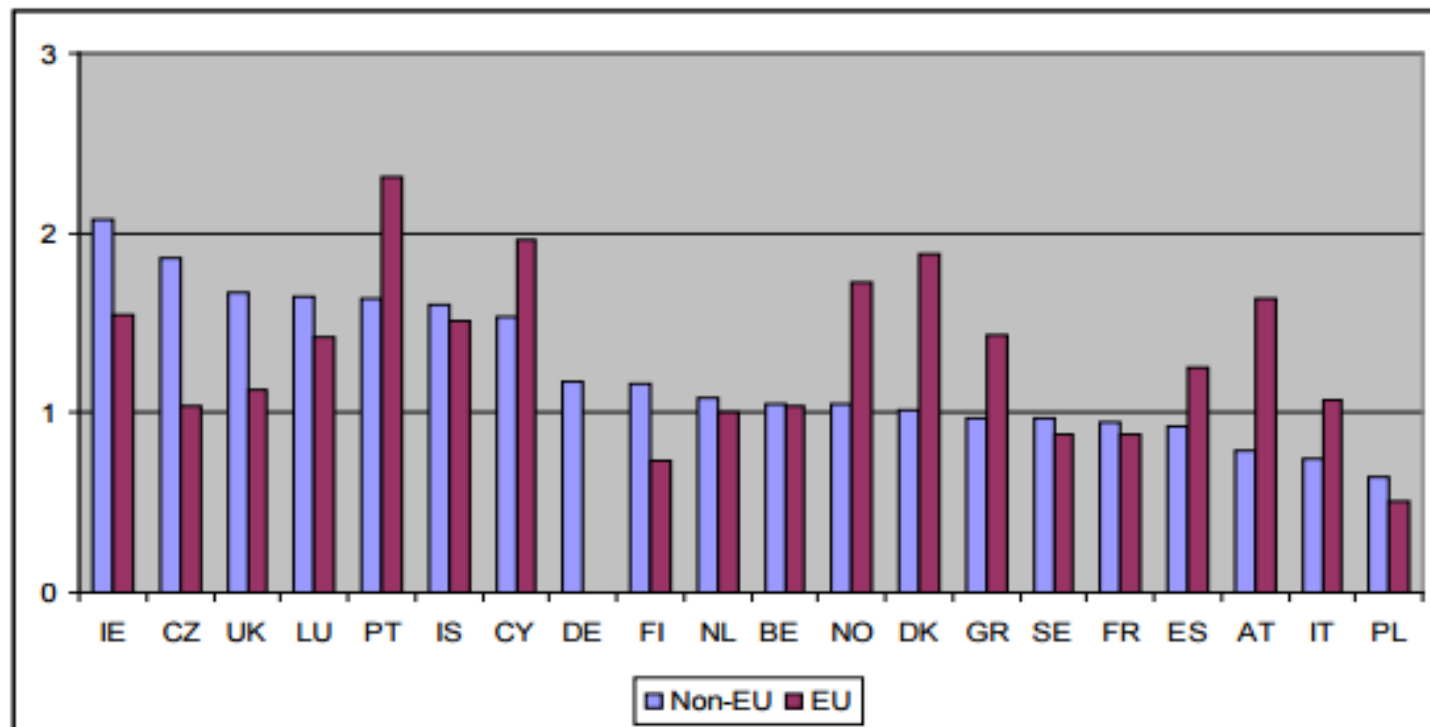
Figure 8: Ratios of average ages of immigrants and natives



Notes: EU SILC 2007. *All immigrants for Germany.



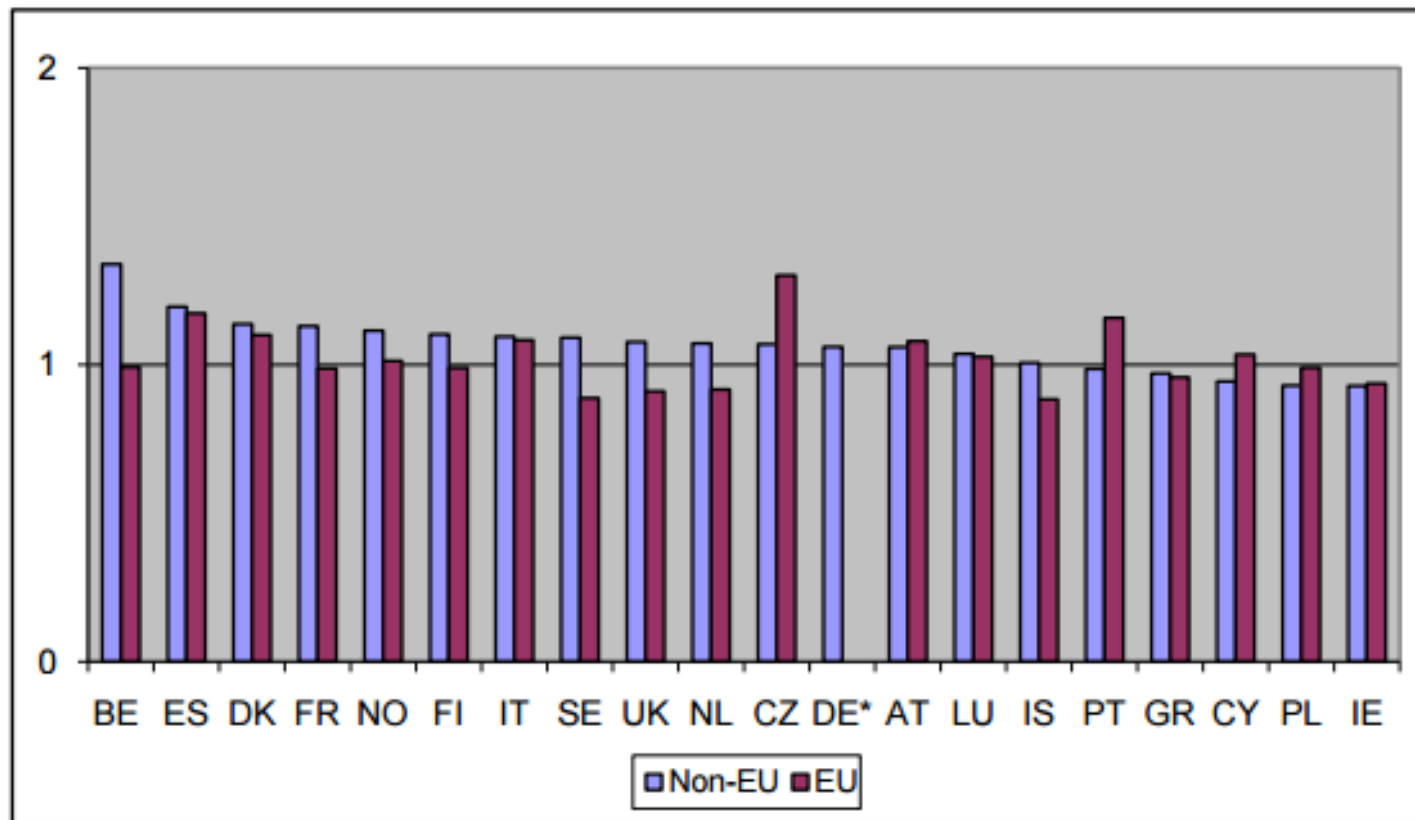
Figure 9: Ratios of proportions of immigrants and natives with post-secondary and tertiary educations



Notes: EU SILC 2007. *All immigrants for Germany.



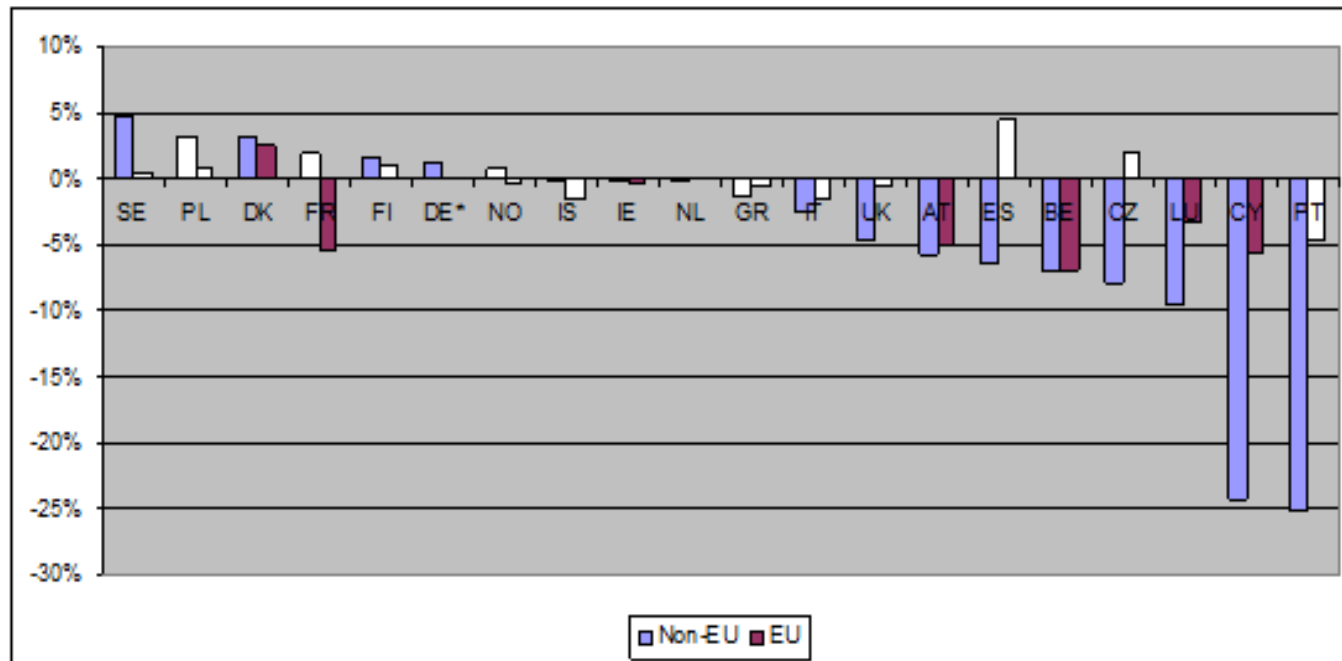
Figure 11: Ratios of average number of children



Notes: EU SILC 2007. *All immigrants for Germany.



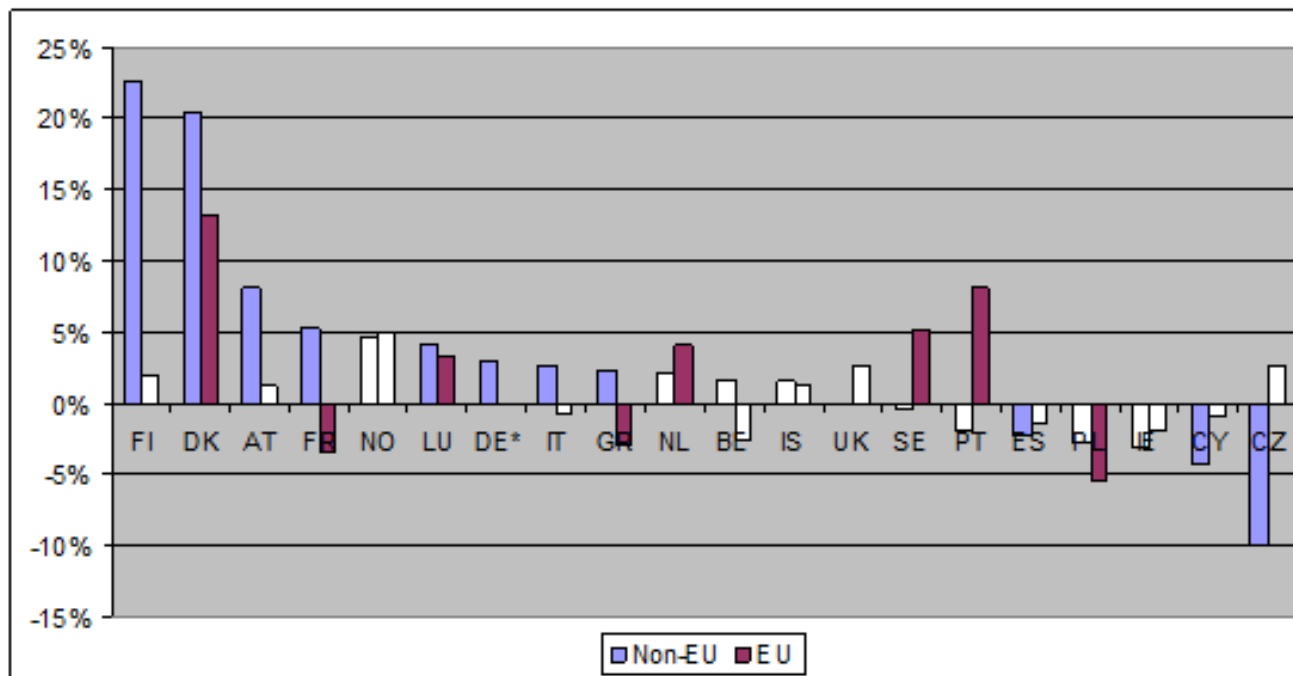
Figure 3: Estimated marginal impact of immigrant status on support receipt: All types of support



Source: Barrett and Maître (2011), based on calculations using EU-SILC 2007; note: white bars imply statistically insignificant differences; * implies all immigrants for Germany



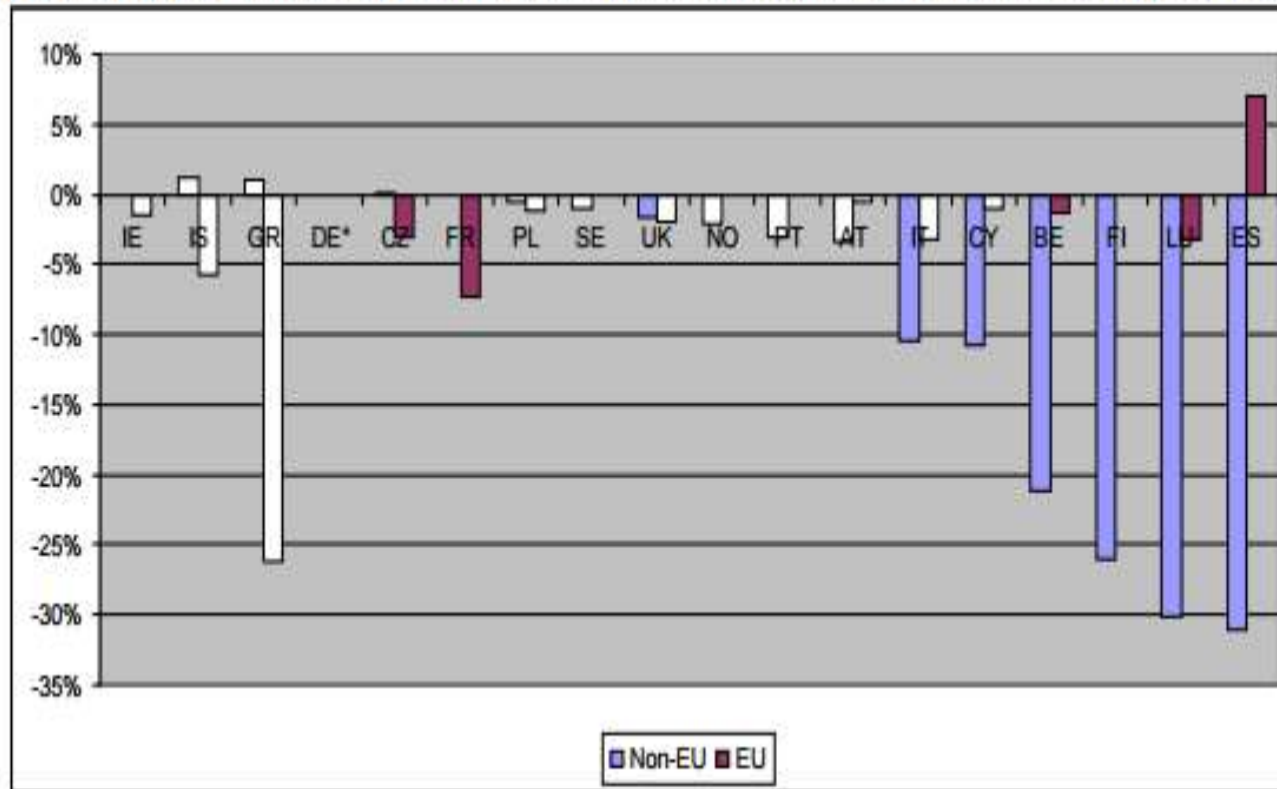
Figure 4: Estimated marginal impact of immigrant status on support receipt: unemployment, sickness and disability



Source: Barrett and Maitre (2011), based on calculations using EU-SILC 2007; note: white bars imply statistically insignificant differences; * implies all immigrants for Germany



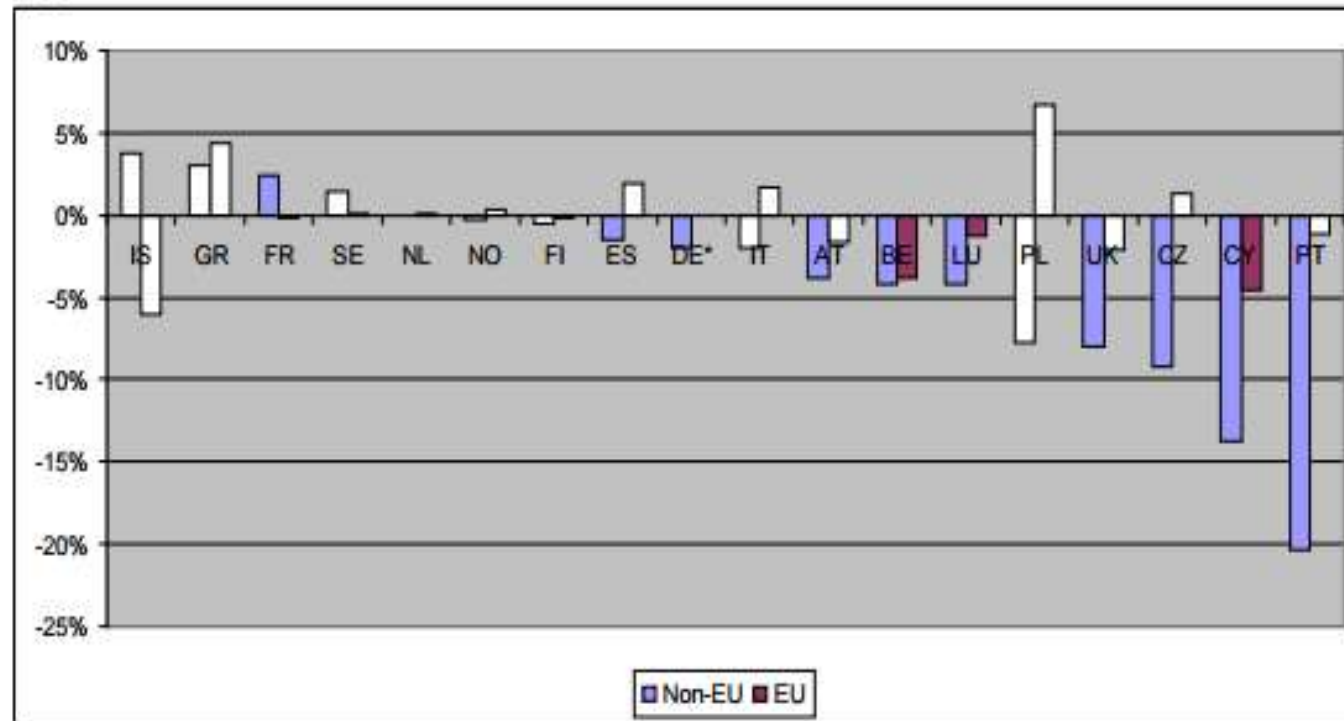
Figure 14: Estimated marginal impact of immigrant status on support receipt: Old age



Notes: EU SILC 2007. *All immigrants for Germany.



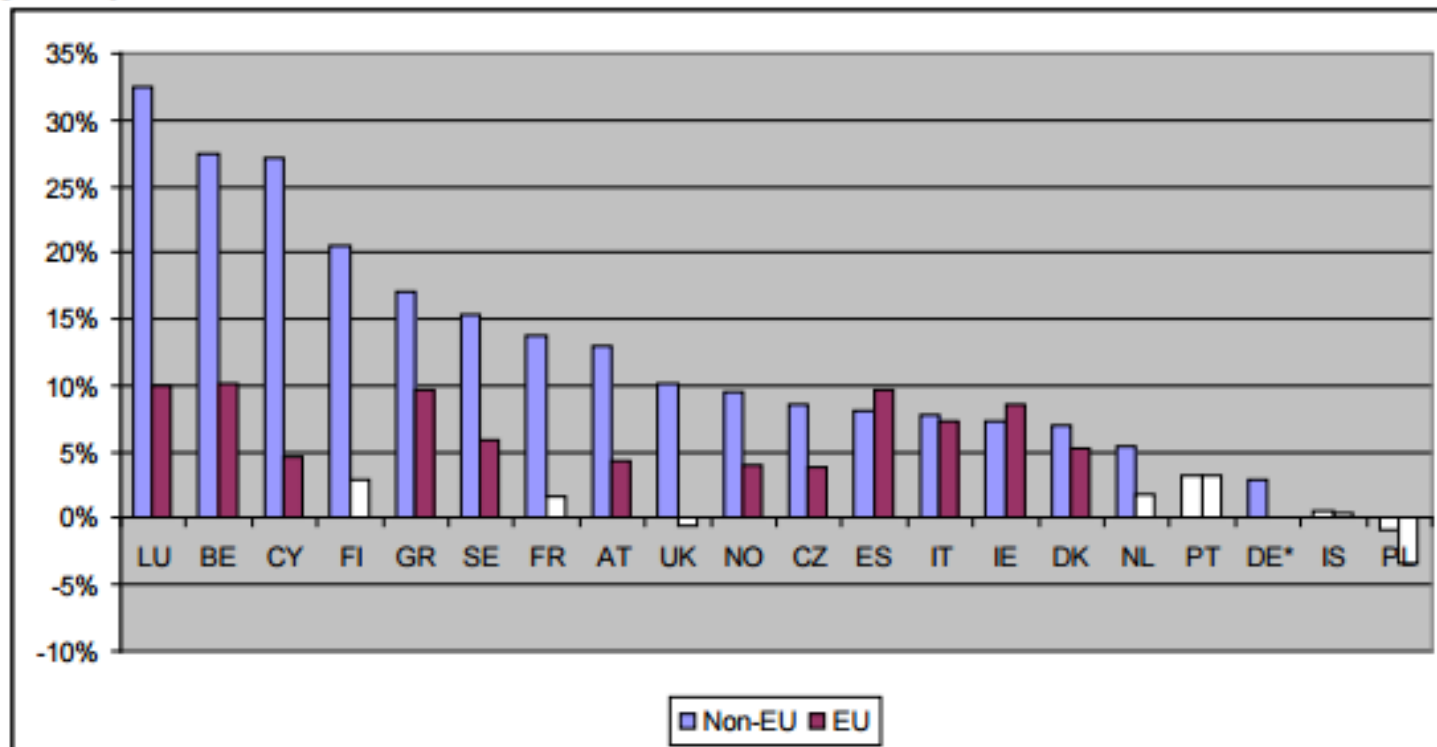
Figure 15: Estimated marginal impact of immigrant status on support receipt: family/child support



Notes: EU SILC 2007. *All immigrants for Germany.



Figure 16: Estimated marginal impact of immigrant status on support receipt: At risk of poverty



Notes: EU SILC 2007. *All immigrants for Germany.



BALANCE BETWEEN COSTS AND TAXES

- **Straubhaar and Weber (1994)** try to estimate the impact of foreigners on the Swiss fiscal system using a special survey on consumption conducted in 1990.

They are able to include, on the income side, payments to the public budget in the form of **direct and indirect taxes and social payments, and the contributions for the use of public goods and of club goods (that is to say, education, public health, protection of the environment etc.)** and, on the expenditure side, **direct transfers to firms and the use of public goods and club goods.**

The budget turns out to be largely positive for the Swiss government, which received a net transfer per family of about \$1743 in the year examined.

Given the number of foreign resident families, there is a net gain of about \$464 million for the Swiss Government.



Conclusion

- This issue is much more addressed in the political debate, probably because the choice of more selective immigration policies or selective eligibility policies are easier to discuss.
- This approach, however, relies on the idea that migration is a permanent phenomenon, whereas in the recent years many studies have pointed out the importance of returns, and their frequencies.
- If the European Union pursues the policy of circular migration, the theoretical and empirical debate will have to be revised.



Figure 2.1 Trends in Migration Policies

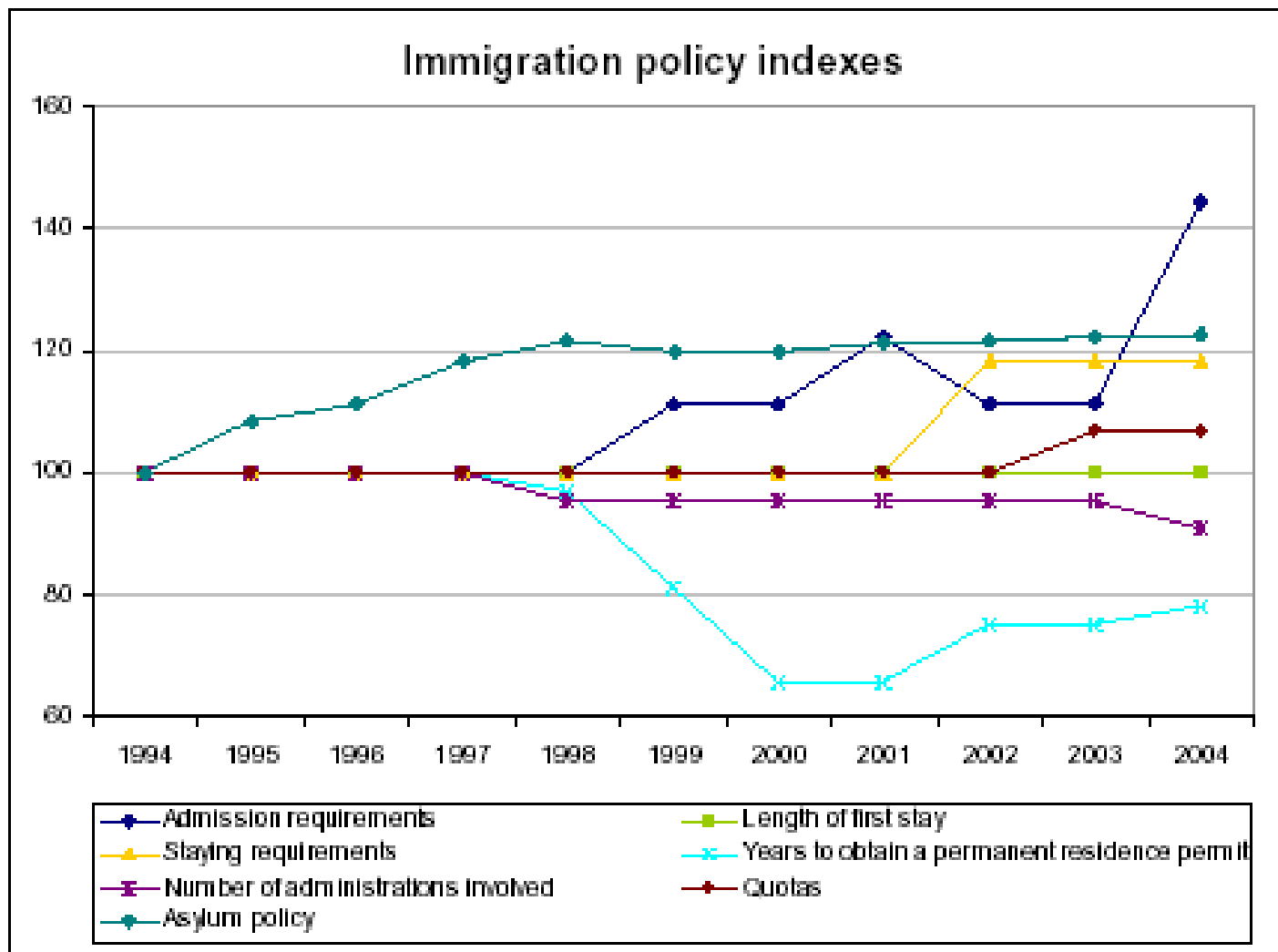
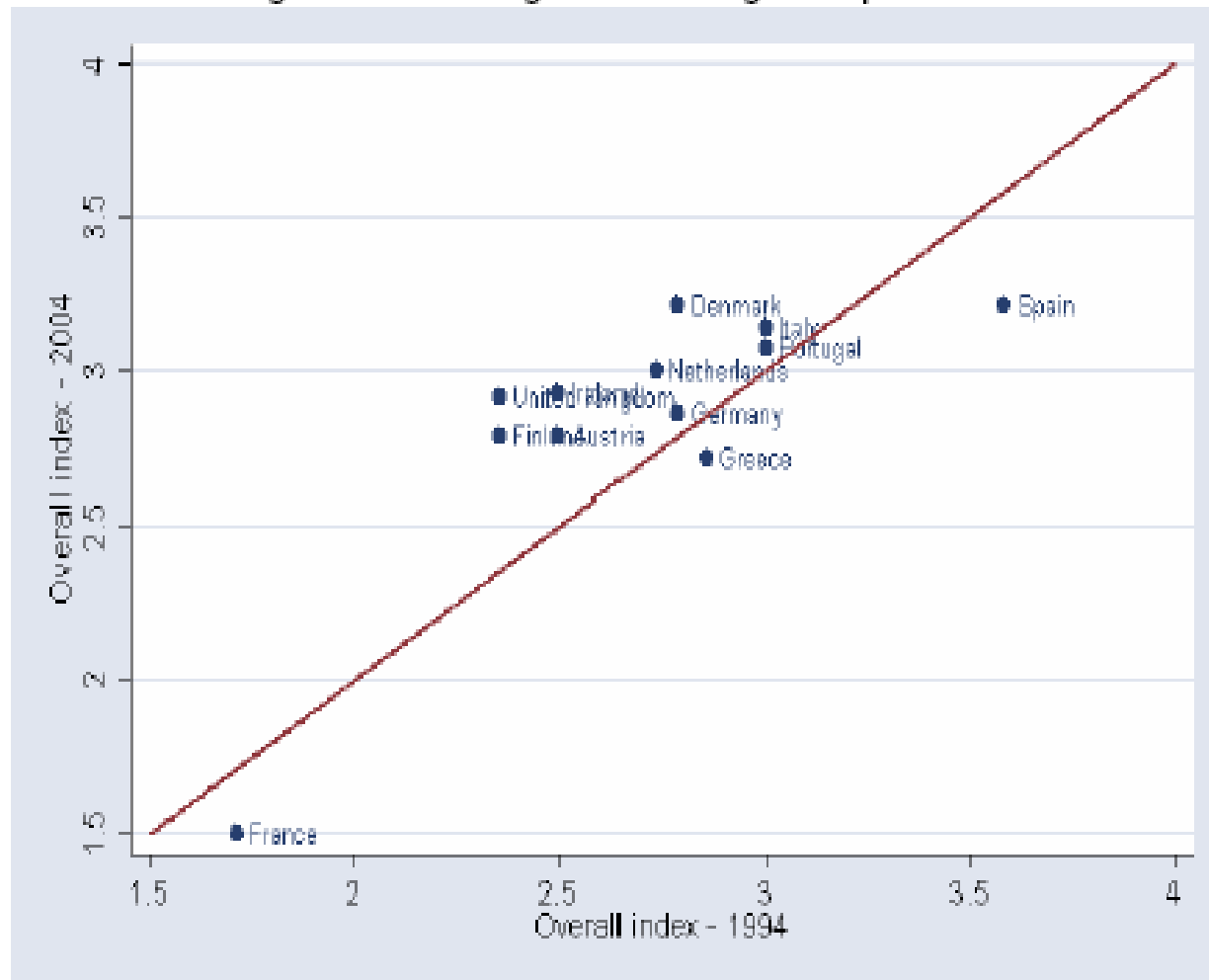




Figure 2.2. Convergence in immigration policies?





Citizen of a member state when
the country enter the EU face a
transition period in which the free
mobility does not apply

The transition period lasted 6 years for
Italy, Spain, Greece and Portugal after
which they could freely mouve around
EU and the internal frontier controls
could be eliminated.



Table 2.1
Transitional regulations in the EU-15

	Access to labour market	Access to welfare benefits
Austria	Access to labour markets restricted at least for 2 years, quotas for work permits.	Restricted.
Belgium	Access to labour markets restricted at least for 2 years.	Restricted.
Denmark	General access to labour market, but obligations for work and residence permits. Work permits issued only for 1 year (EU-nationals: 5 years).	Restricted, residence and work permits can be withdrawn in case of unemployment.
Finland	Access to labour markets restricted at least for 2 years.	
France	Access to labour markets restricted at least for 2 years.	Restricted.
Germany	Access to labour markets restricted at least for 2 years, prolongation for further 3 years under discussion.	Restricted.
Greece	Access to labour markets restricted at least for 2 years.	
Ireland	General access to labour market, but obligation to register for work and residence permits. Work permits issued first for limited time. Safeguard clause applies.	Restricted, income support etc. is granted only to individuals which have a right for a residence permit.
Italy	Access to labour markets restricted at least for 2 years, quotas for work permits.	Restricted.
Luxembourg	Access to labour markets restricted at least for 2 years.	Restricted.
Portugal	Access to labour markets restricted at least for 2 years, quotas for work permits.	Restricted.
Spain	Access to labour markets restricted at least for 2 years, bilateral agreement with Poland which permits limited number of Polish nationals to work.	Restricted.
Sweden	Community rule for free labour mobility applies.	Equal treatment.
United Kingdom	General access to labour market, but obligation to register for work and residence permits. Work permits issued first for limited time. Safeguard clause applies.	Restricted, income support etc. is granted only to individuals which have a right for a residence permit.

Sources: Collection by the authors, based on Home Office (2004); Kvist (2004) and national information.

Table A: Income differentials between ECA countries and Western Europe, 2000-2002

	Per-capita GDP PPP in US\$	Percent of that of western Europe
Slovenia	17,587	61.8
Czech Republic	14,933	52.5
Hungary	12,863	45.2
Slovak Republic	12,133	42.6
Estonia	11,303	39.7
Poland	10,253	36.0
Croatia	9,660	33.9
Lithuania	9,530	33.5
Latvia	8,420	29.6
Russian Federation	7,730	27.2
Bulgaria	6,700	23.5
Macedonia, FYR	6,477	22.8
Turkey	6,190	21.7
Romania	6,147	21.6
Kazakhstan	5,263	18.5
Belarus	5,160	18.1
Ukraine	4,517	15.9
Albania	4,480	15.7
Azerbaijan	2,887	10.1
Armenia	2,757	9.7
Georgia	2,077	7.3
Kyrgyz Republic	1,607	5.6
Uzbekistan	1,603	5.6
Moldova	1,380	4.8
Tajikistan	900	3.2
Bosnia and Herzegovina	n.a.	n.a.
Serbia and Montenegro	n.a.	n.a.
Turkmenistan	n.a.	n.a.
Average West Europe	28,462	100.0

Sources: World Bank; SIMA database and staff estimates



Table B: Population By Age in Millions in ECA and Western Europe, 2002 and 2025

Shaded cells indicate declining population	2002 Years of Age				Projected 2025 Years of Age				Change 15-64	
	Total	0-14	15-64	65-	Total	0-14	15-64	65-	Percent	Millions
Total ECA	477	99	326	52	476	80	322	75	-1	-4
<i>EU-8</i>	<i>73</i>	<i>13</i>	<i>51</i>	<i>9</i>	<i>69</i>	<i>10</i>	<i>45</i>	<i>14</i>	<i>-12</i>	<i>-6</i>
Baltics	7	1	5	1	6	1	4	1	-22	-1
Visegrad & Slovenia	66	12	46	8	63	9	41	13	-11	-5
<i>SEE</i>	<i>124</i>	<i>29</i>	<i>85</i>	<i>10</i>	<i>141</i>	<i>27</i>	<i>97</i>	<i>17</i>	<i>14</i>	<i>12</i>
Turkey	70	20	46	4	89	19	62	8	36	16
Former Yugoslavia	21	3	16	2	21	3	14	4	-16	-3
Albania, Bulgaria, Romania	33	6	23	4	31	5	21	5	-9	-2
<i>CIS</i>	<i>279</i>	<i>57</i>	<i>190</i>	<i>32</i>	<i>266</i>	<i>43</i>	<i>180</i>	<i>43</i>	<i>-5</i>	<i>-10</i>
<i>Resource Rich</i>	<i>216</i>	<i>38</i>	<i>150</i>	<i>27</i>	<i>191</i>	<i>27</i>	<i>128</i>	<i>35</i>	<i>-15</i>	<i>-22</i>
Russia	144	24	101	19	124	17	83	24	-18	-18
Ukraine	49	8	34	7	41	5	28	8	-18	-6
Azerbaijan	8	2	5	1	10	2	7	1	32	2
Kazakhstan	15	4	10	1	15	3	10	2	4	0
<i>Others</i>	<i>63</i>	<i>19</i>	<i>40</i>	<i>5</i>	<i>75</i>	<i>16</i>	<i>52</i>	<i>8</i>	<i>31</i>	<i>12</i>
Caucasus	8	2	6	1	7	1	5	1	-12	-1
Central Asia	41	15	25	2	55	13	38	4	54	13
Belarus and Moldova	14	3	9	2	13	2	9	2	-4	0
Western Europe	391	65	261	65	396	57	249	90	-4	-12

Source: Date source; World Bank; SIMA database, UN population prospects: <http://esa.un.org/unpp/index.asp?panel=2>; and staff estimates