Managing Migration in the EU Welfare State

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Road Map

• Introduction and Empirical Background

• Critical aspects of immigration into the EU
  A - The pattern of immigration into the EU
  B - European attitudes towards immigration.
  C - The impact of immigration on the welfare state.
  D - EU migration policy and enlargement.
  E - Temporary migration policies.

• Directions for EU Policy
Introduction and Empirical Background
The EU Immigration Debate Has Been Shaped By Five Labour Market Developments

• 1. High net migration flows into Western Europe.

• 2. High levels of illegal immigration.

• 3. Country level fluctuations in refugee migration.

• 4. East European EU Enlargement.

• 5. A stagnant EU labour force and increasing numbers of retired workers.
1a. Net Migration

• Net legal immigration into the EU has been high in the 1990’s, averaging 2.2 legal migrants per 1000 inhabitants.

• Net legal immigration into Western Europe (Austria, Benelux, France, Germany, Switzerland) has been especially high, at 4.7 legal migrants per 1000, 1990-1995.

• Net migration into the US, 1990-1998 was 3.0 per 1000.
### 1b. The % Share of Foreign Nationals in EU Populations

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Italy</th>
<th>France</th>
<th>Total EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>1.2</td>
<td>0.1</td>
<td>4.6</td>
<td>2.3</td>
</tr>
<tr>
<td>1970</td>
<td>4.5</td>
<td>0.2</td>
<td>5.3</td>
<td>3.6</td>
</tr>
<tr>
<td>1980</td>
<td>5.6</td>
<td>0.1</td>
<td>6.8</td>
<td>3.7</td>
</tr>
<tr>
<td>1990</td>
<td>7.4</td>
<td>1.2</td>
<td>6.8</td>
<td>4.4</td>
</tr>
<tr>
<td>1998</td>
<td>8.9</td>
<td>2.1</td>
<td>6.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>
1c. % of Foreign Born in Population: England & Wales, and USA.
2. Europe’s Porous Borders: The Importance of Illegal Immigration

- EU illegal immigration is estimated to be about 500,000 per annum.

- This compares with 1999 net legal migration of 700,000 per annum.

- Estimated illegal immigration into the EU is 25% higher per annum per inhabitant than for the US.
3. Asylum Seekers

- EU Countries have experienced high and fluctuating levels.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>256,100</td>
<td>127,900</td>
<td>95,100</td>
<td>187,960</td>
</tr>
<tr>
<td>France</td>
<td>50,000</td>
<td>20,400</td>
<td>30,900</td>
<td>29,720</td>
</tr>
<tr>
<td>UK</td>
<td>73,400</td>
<td>55,000</td>
<td>91,200</td>
<td>49,680</td>
</tr>
<tr>
<td>USA</td>
<td>56,300</td>
<td>154,500</td>
<td>42,500</td>
<td>99,070</td>
</tr>
</tbody>
</table>
4. Migration and EU Enlargement

- The total population of the accession candidates is 104 million.

- The GDP per head of the candidates is less than 40% of the average EU GDP.

- The migration flows resulting from accession are likely to be substantial.
5. EU Demographics

- The working age population is estimated to fall from 225 million to 223 million by 2025.

- The share of those aged over 65 will rise from 15% in 1995 to an estimated 22% in 2025.

- Candidate EU members have even slower population growth than EU.
Key dimensions of immigration into EU

Our study analyses critical aspects of immigration into the EU in a way which is intended to increase understanding of how EU immigration policy might develop. We do this with analysis of five critical areas, followed by policy conclusions.

A - The pattern of immigration into the EU
B - European attitudes towards immigration.
C - The impact of immigration on the welfare state.
D - EU migration policy and enlargement.
E - Temporary migration policies.
A - THE PATTERN OF IMMIGRATION INTO THE EU

• Immigrants to the EU are:
  – unevenly allocated across countries
  – younger than natives
  – concentrated into urban areas
  – have high unemployment rates relative to natives

• About half of immigration arises from family unification
Further Facts on the Structure of Migration

• Country of origin mix:
  - low, and presumably, declining PPP-GDP per capita relative to host countries in EU-15;
  - low secondary/tertiary school enrolment;
  - high earnings inequality relative to EU-15.

• Skill composition of migrants:
  - low for non-EU foreigners/mixed for EU foreigners relative to natives in high-income EU countries;
  - high for EU foreigners relative to natives in low-income EU countries (no evidence for non-EU foreigners).
  - Relative to home population: high or at least equal for EU-foreigners.
  - share of low-skilled migrants is constant over time.
Skill Composition of EU Foreigners and Natives, 1996

Source: ECHP.
Skill Composition of Non EU Foreigners and Natives, 1996

Source: ECHP.
Rules of European Immigration Policies

• Removing barriers to labour mobility in the EU:
  - non-discrimination of EU citizens in labour markets;
  - equal treatment by social security systems;
  - no eligibility to social assistance of new arrivals.

• Restricting labour immigration from non-EU countries:
  - national regulation, but preferential treatment of EU citizens;
  - restricted labour immigration after 1973;
  - high share of family reunification.

• Admitting humanitarian migrants:
  - non-harmonised asylum/refugee policies;
  - penalisation of generous standards.
How Did EU-Immigration Policies Affect the Structure of Migration?

- **Pre-EU immigration policies:**
  - long-lasting impact of decolonisation and guest worker recruitment in the 1960s and early 1970s on recent migrant cohorts;

- **Free movement of workers:**
  - presumably small impact (share of EU-foreigners stagnates at 1.5% of the EU-population).

- **Immigration policies vis-à-vis non-EU nationals:**
  - family reunification, humanitarian migration and legalisation of illegal migrants support the immigration of less-skilled migrants.
Implications for the Labour Market Performance of Natives and Migrants

• moderate impact on native wages and employment;

• labour market performance of migrants lags behind that of natives;
  - higher unemployment of migrants relative to natives;
  - increasing gap in unemployment rates between migrants and natives;

• difference in labour market performance of migrants and natives can be explained by human capital characteristics;

• evidence for labour market assimilation of migrants.
B - European Preferences Towards Immigration

- We use the 1997 Eurobarometer Survey to study the influence of:
  - Racism
  - Labour Market Buoyancy
  - Welfare Dependency
Findings I

Self Reported Racism in Europe Is High but Poorly Explained:

• Weak positive correlation with the foreign share in own country population.

• Poor correlation with economic variables.

• Concern with unemployment rises with
  – Foreign population share
  – unemployment

• And falls with
  – growth.
Findings II

• The perception that minority groups abuse welfare:
  – Rises with foreign population
  – Rises with self reported racism.

• The perception that a country has enough immigrants:
  – Rises with foreign population share.
  – Declines with unemployment
Percentage Agreeing That Further Immigration Would Cause Problems Domestically by 1996 Foreign Population Share

Figure 2.7: Percentage of respondents agreeing that further immigration would cause problems domestically by 1996 foreign population share
C- Immigration and the Welfare State: Evidence to Date (Germany, Sweden, Denmark)

• Dependency ratios in foreign population are high relative to natives and in some cases are increasing
  • e.g. Germany

• Share of foreigners among recipients:
  – 1980: 8.3%
  – 1996: 23.5%
  – Share of foreigners in population
  – 1980: 7.2%
  – 1996: 8.9%
Key Findings in the Literature

• Higher dependency among German immigrants than natives entirely due to observed characteristics (less education, young, dependent children). This does hold in Sweden

• EU foreigners assimilate **out of** welfare

• Refugees have significantly higher welfare usage than other immigrants
Theoretical insights

• Welfare state compresses income distribution.
• Skilled Worker select less generous countries.
• Unskilled workers select more generous countries.
• Welfare benefits distort the composition of migrants.
• Holding constant observed characteristics, migrants not more likely to be on welfare.
• Migrants are young and assist with pension financing, but may be more dependent on other benefits.
Our Findings: I

• Countries can be split into two groups:
• Group 1: Migrants less educated than natives:
  – Germany, Denmark, Netherlands, Belgium, France, Austria.
• Group 2: Migrants highly skilled compared to natives:
  – UK, Greece, Spain, Portugal, Finland.
• Migrants younger and likely to have more children.
• Migrants more dependent on family benefits and UB in group 1, less on pensions.
• Furthermore, residual dependency positive in group 1 countries (except Germany).
Our Findings: II

- Correlation between generosity of UB and migrant’s education level.
- Group 1 countries more generous.
- Residual effect correlated with UB generosity.
- No Significant effect of other generosity measures.
- Migrant’s pressure on UB exists, but quantitatively moderate.
- However, problem more serious in “magnets” (Netherlands, Denmark).
D - EU Enlargement
Potential Migration From the CEEC-10

• Basic figures:
  - population: 104 million (1999);
  - immigrants in the EU-15: 0.8-0.9 million (1999);
    of these: 66 % in Germany / 14 % Austria;
  - PPP-GDP per capita: 40 %;
    GDP p.c. at current exchange rates: 15% of EU-15.

• Approaches to assess the migration potential:
  - opinion polls;
  - extrapolation of South-North migration;
  - simulations based on econometric models.
PPP-GDP and Population of the EU-15 and the CEEC-10, 1998

Sources: Eurostat, World Bank.
Estimating the Migration Potential: an Example

- A time-series analysis of migration to Germany, 1967-1998
  - assumptions: migration stocks adjust to income differences, employment ratee, and institutional variables;
  - estimation of a panel of 18 countries with fixed effects;
  - fixed effects are explained in a second regression.
Estimating the Migration Potential: an Example (continued)

• assumptions of baseline simulation
  - PPP-GDP per capita converge at 2% p.a.;
  - constant unemployment;
  - demographic scenario of World Bank.

• simulations give only a clue to the magnitudes of actual migration:
  - net immigration from CEEC-10 to Germany p.a. initially: 0.2-0.3 million persons (EU-15: 0.3-0.4 million);
  - long-run stocks: 2-2.5 million (EU-15: 3-4 million).
Simulation: Growth of Foreign Population From the CEEC-10 in Germany
Simulation: Foreign population from the CEEC-10 in Germany

- high scenario
- baseline scenario
- low scenario
E - Contracted Temporary Immigration

- Immigrants contracted to a certain employer for a given period of time.

- Benefits:
  - Increases the demand for temporary migrants,
  - Enables employers to offset the higher non-wage costs of employing,
  - Ensuring return to the origin country,
  - May decrease illegal immigration

- Costs:
  - May increase illegal migration.
Temporary Migration and Policy Implementation

• During the 90’s Israel adopted a contracted temporary immigration policy.

• Drawing upon evidence form Israel and the EU for successful implementation:
  – a relatively long period for the worker to stay in the host country;
  – the ability to make sure that the workers leave at the end of the period; and
  – low threat to the local population.
Provide incentives to return

• Bond imposed on worker,

• Penalty on employment of illegal workers,

• Forced Savings.
Conclusions: Directions For EU Policy

• The European Council seeks:
  – a common EU policy on asylum and migration
  – to increase legal immigration.

• We explore 5 channels for EU immigration:
  – Eastern enlargement
  – Refugees
  – Economic migration
  – Family unification
  – Illegal.
Policy directions: Eastern Enlargement

• Greater uncertainty about migration outcome.
• Current policy is to allow temporary work in the EU until 2010.
• If convergence is slow, immigration remains high in 2010, so that immigration is merely postponed.
• Transitory arrangements may affect migrant skill selectivity.
• Quotas may:
  – reduce uncertainty
  – safeguard skill composition
  – smooth transition.
Policy directions: Family Unification

- About half of EU immigrants.
- Rising component in some countries.
- Harmonization of EU policy.
- Do not recommend a change in policy.
Policy directions: Asylum

- National standard, differ and refugees unequally distributed in EU.

- Refugees have weaker labour market performance.

- Recommend harmonization of rules for admission across EU countries.

- A common EU fund to temporarily support recipient countries.
Policy directions: Economic and Illegal Migration

- Ageing EU population prompts calls for economic immigration.

- Will falling child dependency offset rising pensioner dependency?

- Do natives prefer an older retirement age to immigration?
….. Should “Economic Migrants” be Skilled?

• The EU should balance the skills of economic migrants against those of refugees/illegals.

• Such a policy may result in skill imbalances at the country level.

• Harmonization of EU policy towards naturalization of illegals/legals.
Finally:
Towards a Co-operative Policy With Origin Countries

Incentives to co-operate:

- High illegal/refugee flows.
- Origin countries loss of skilled worker externalities.

Integrate immigration and development policies:

- Compensation for skilled emigration offset by fines for illegal/refugee flows.
- Contracted temporary migration.