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# **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

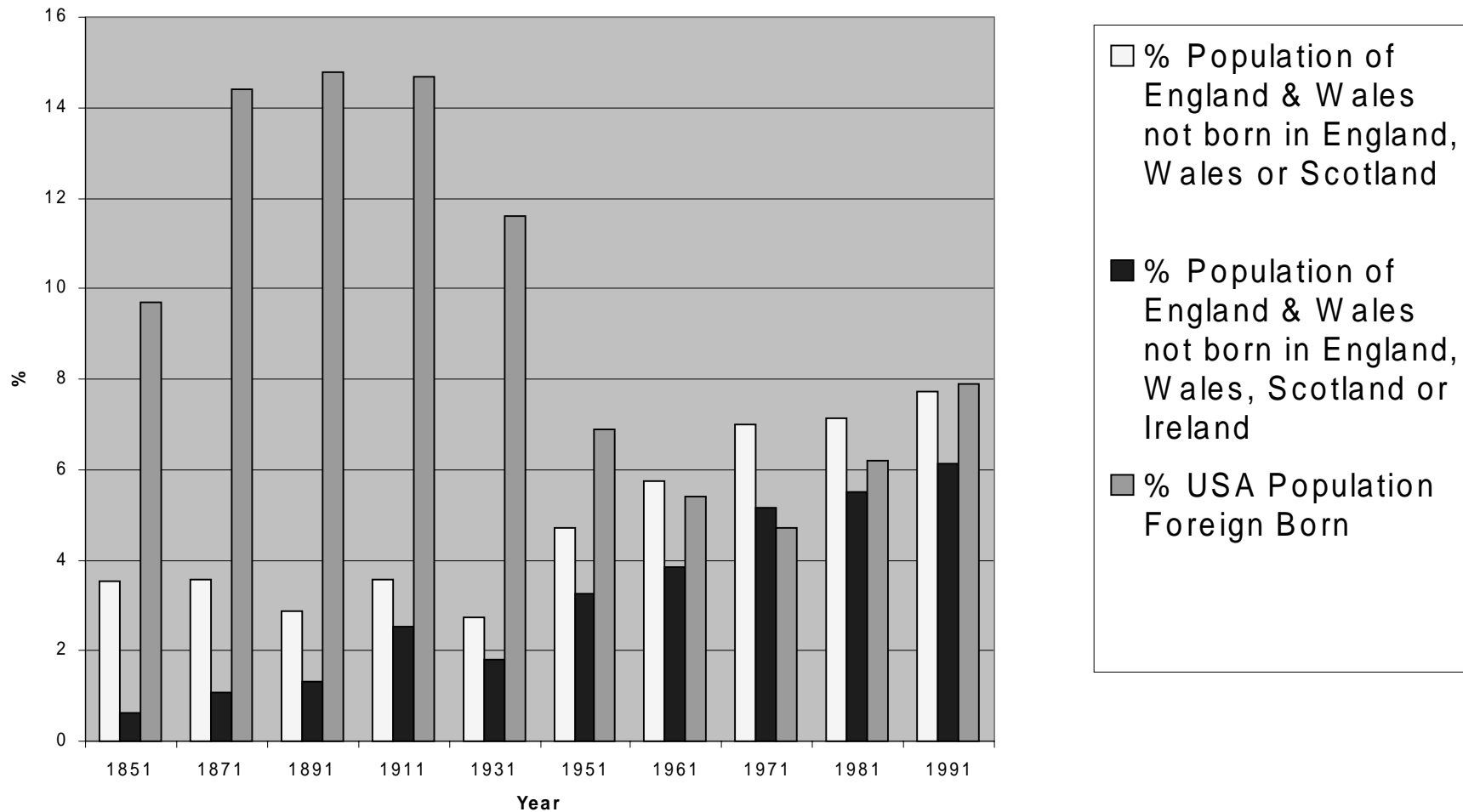
- Net legal immigration into the EU has been high in the 1990's, averaging 2.2 legal migrants per 1000 inhabitants.
- Net legal immigration into Western Europe (Austria, Benelux, France, Germany, Switzerland) has been especially high, at 4.7 legal migrants per 1000, 1990-1995.
- Net migration into the US, 1990-1998 was 3.0 per 1000.



## **1b. The % Share of Foreign Nationals in EU Populations**

	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>1998</b>
<b>Germany</b>	<b>1.2</b>	<b>4.5</b>	<b>5.6</b>	<b>7.4</b>	<b>8.9</b>
<b>Italy</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>1.2</b>	<b>2.1</b>
<b>France</b>	<b>4.6</b>	<b>5.3</b>	<b>6.8</b>	<b>6.8</b>	<b>6.3</b>
<b>Total EU</b>	<b>2.3</b>	<b>3.6</b>	<b>3.7</b>	<b>4.4</b>	<b>5.3</b>

# 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.

	<b>1991</b>	<b>1995</b>	<b>1999</b>	<b>Average 1990-99</b>	
<b>Germany</b>	<b>256,100</b>	<b>127,900</b>	<b>95,100</b>	<b>187,960</b>	
<b>France</b>	<b>50,000</b>	<b>20,400</b>	<b>30,900</b>	<b>29,720</b>	
<b>UK</b>	<b>73,400</b>	<b>55,000</b>	<b>91,200</b>	<b>49,680</b>	
<b>USA</b>	<b>56,300</b>	<b>154,500</b>	<b>42,500</b>	<b>99,070</b>	



## 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 225million 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

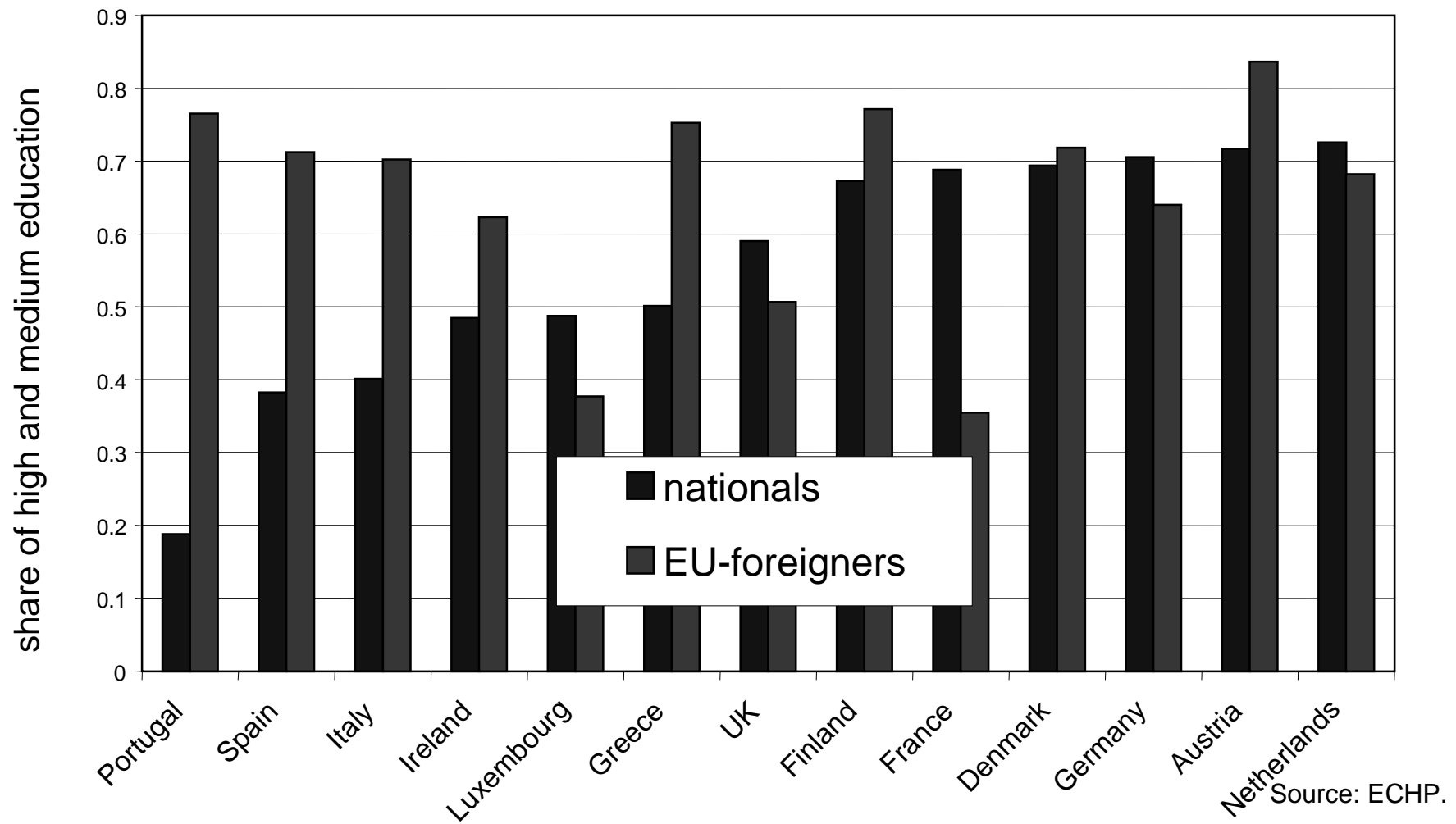


# Further Facts on the Structure of Migration

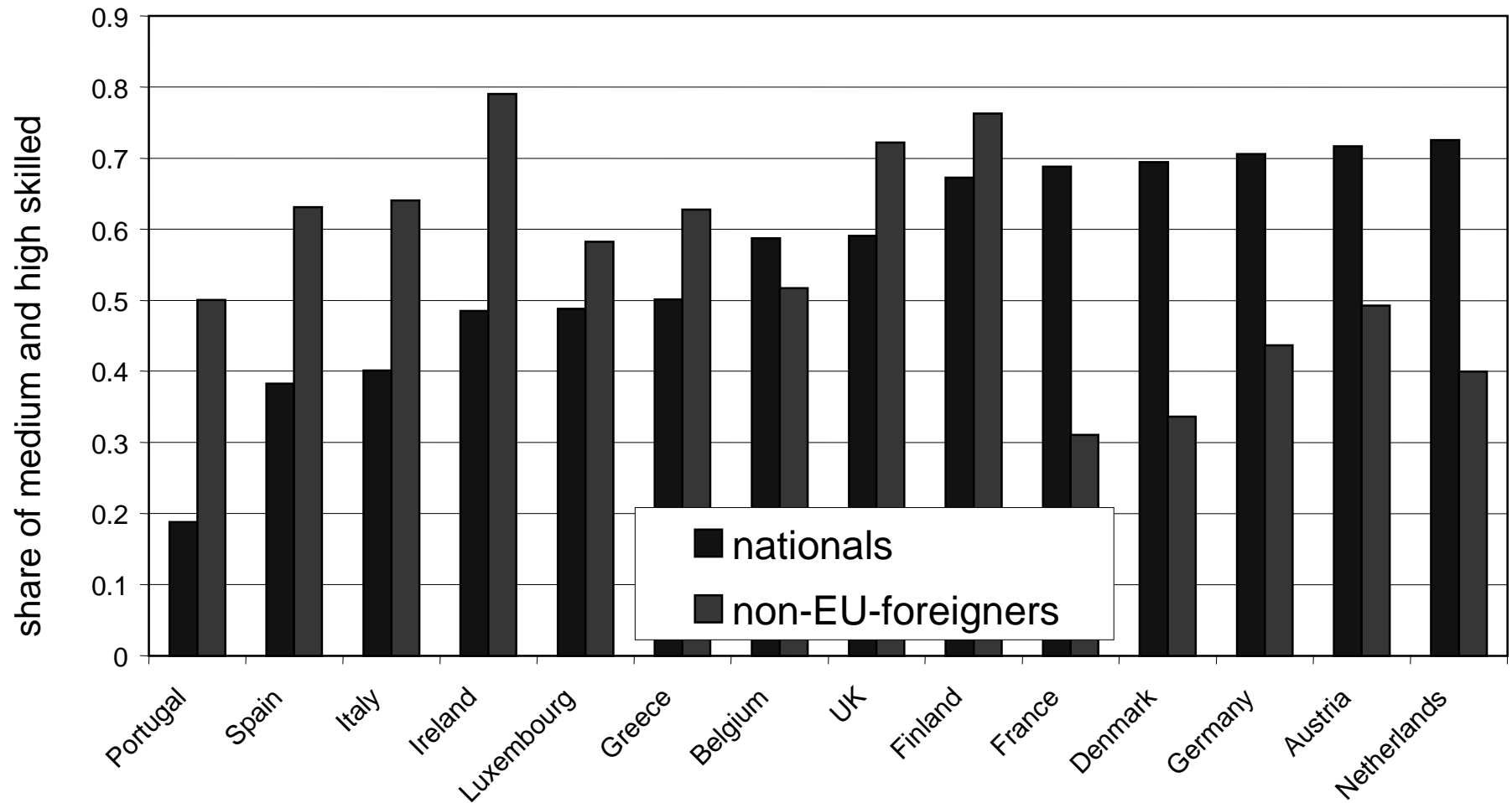
- Country of origin mix:
  - low, and presumably, declining PPP-GDP per capita relative to host countries in EU-15;
  - low secondary/tertiary school enrolment;
  - high earnings inequality relative to EU-15.
- Skill composition of migrants:
  - low for non-EU foreigners/mixed for EU foreigners relative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



# 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.





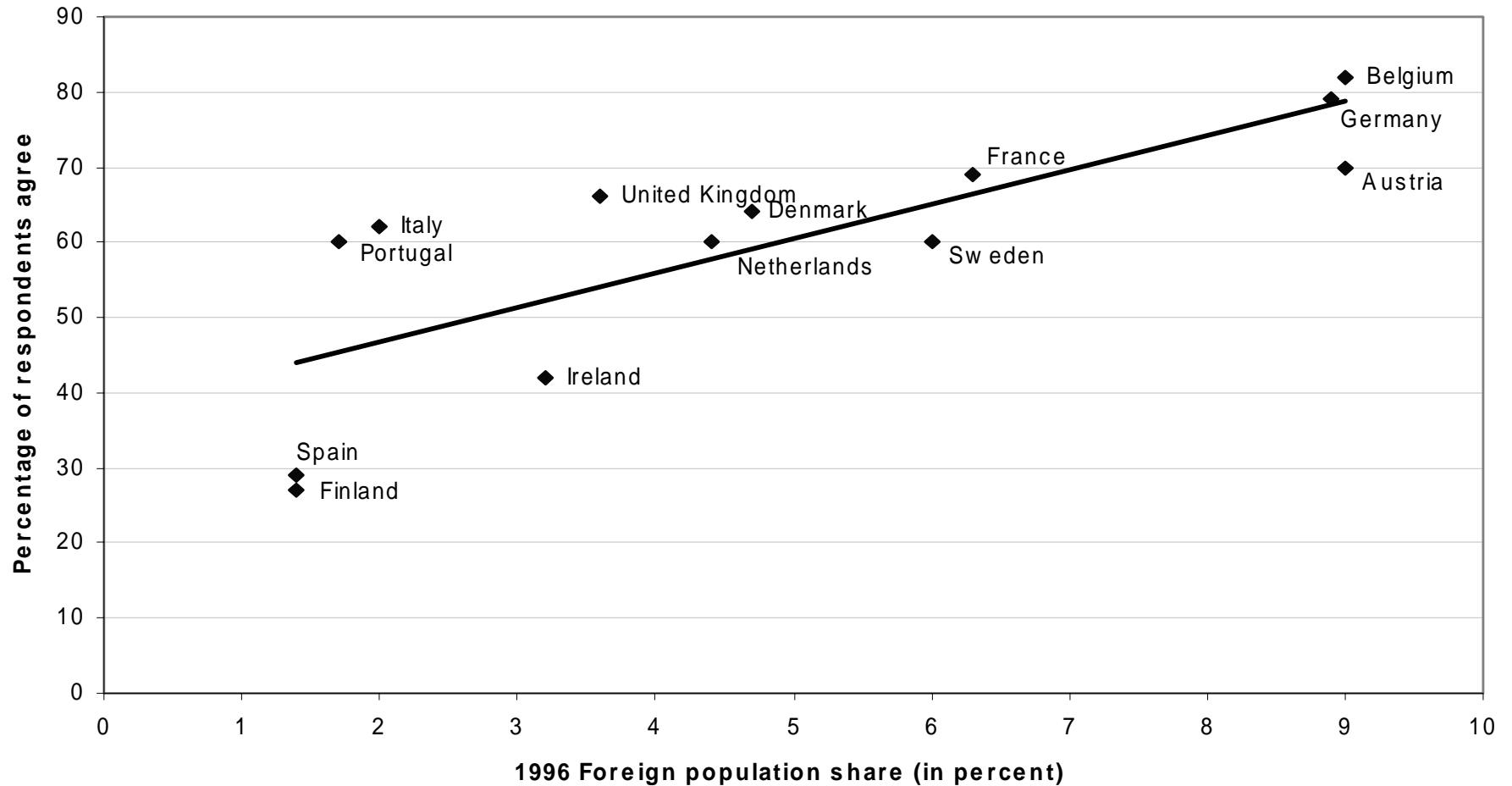
## Findings II

- 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).





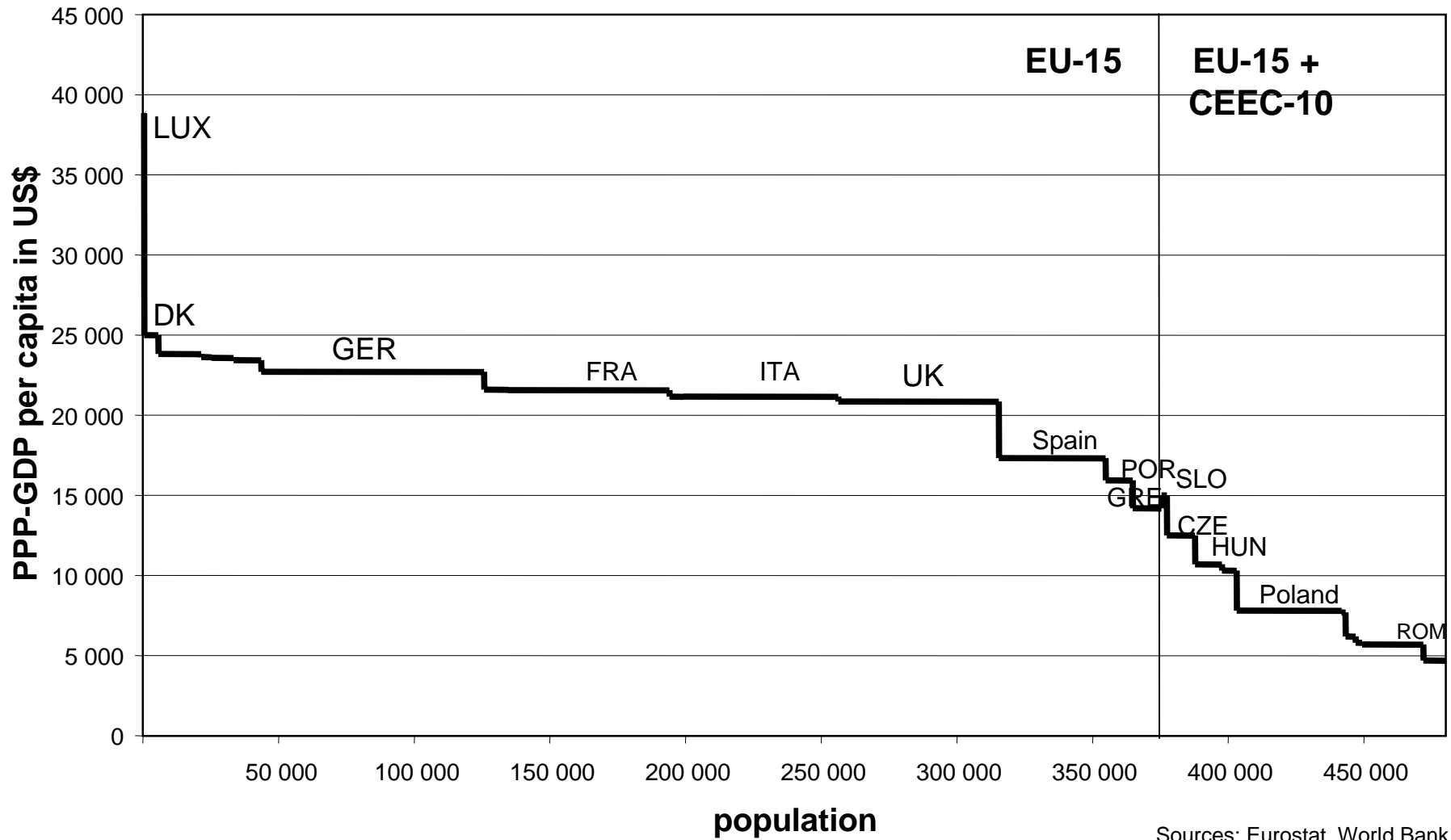
## **D - EU Enlargement**

### **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 rate, and institutional variables;
  - estimation of a panel of 18 countries with fixed effects;
  - fixed effects are explained in a second regression.





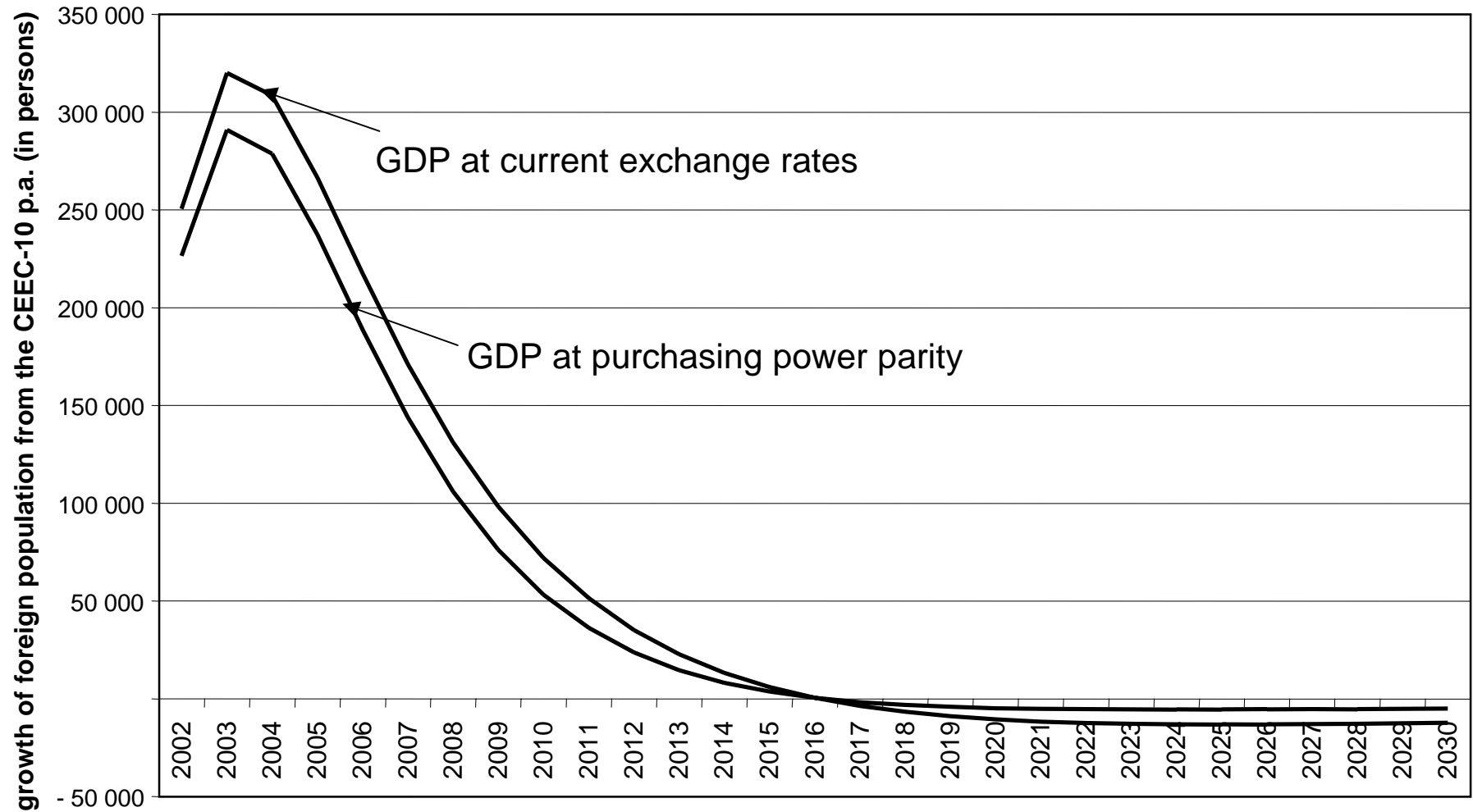
## Estimating the Migration Potential: an Example (continued)

- 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).

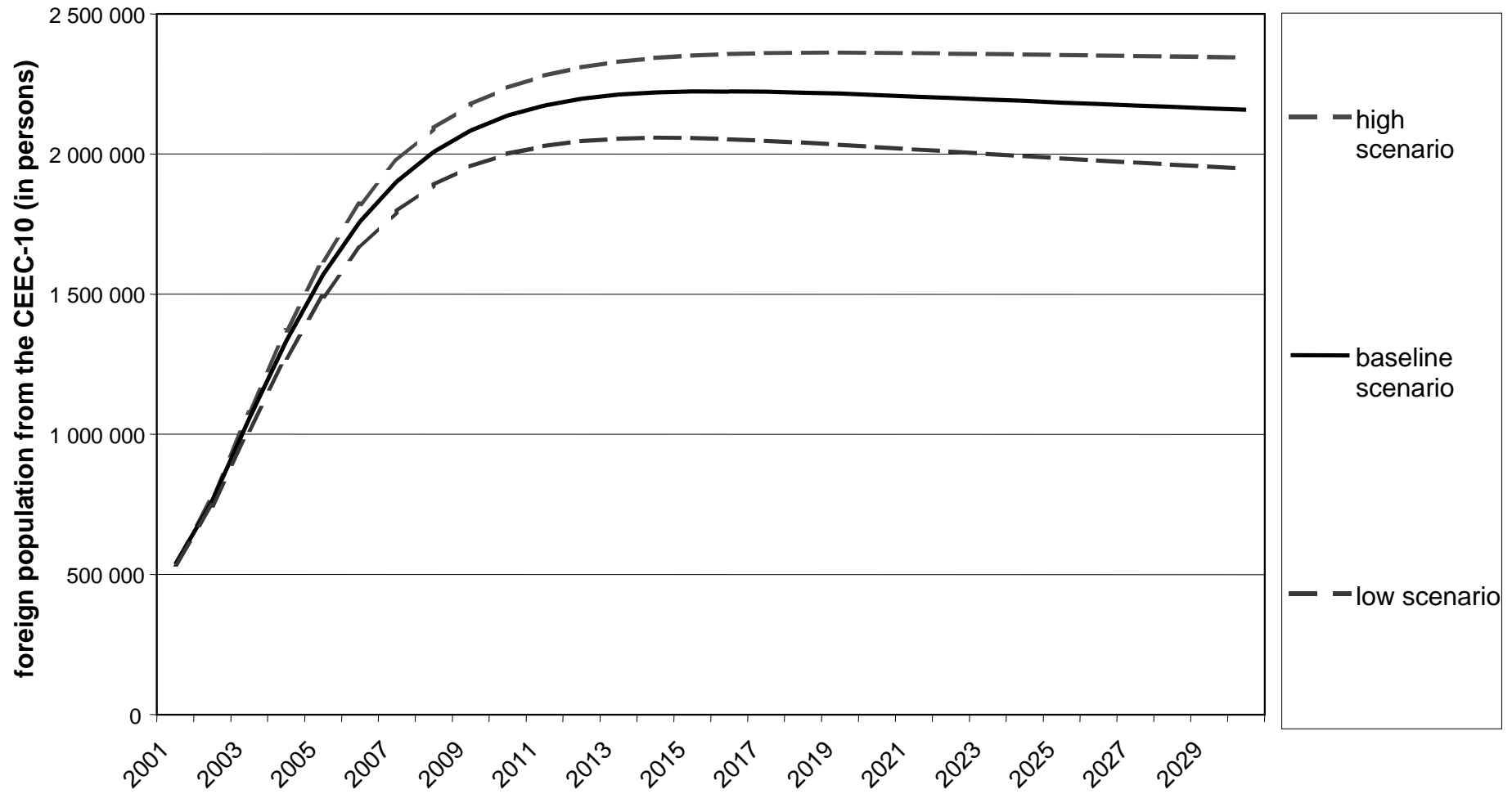




# Simulation: Growth of Foreign Population From the CEEC-10 in Germany



# Simulation: Foreign population from the CEEC-10 in Germany





## 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 from 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.

