

Managing Migration in the European Welfare State

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Executive Summary

Net migration into the EU has been substantial over the past decade: After peaking at over 1 million per year in the early 1990's, net migration to the EU declined over the past decade but is now rising again, and was over 700,000 in 1999. The net legal immigration rate for the EU, 1990-98, was 2.2 per 1000 inhabitants, compared with 3 for the US and almost 0 for Japan. Illegal immigration is estimated to be 60% higher in Europe, at about 500,000 per annum, than in the US. The population of the EU is 34% larger than that of the US. Refugees seeking asylum in the EU between 1989 and 1998 have also exceeded an average of 350,000 per annum, with over 20% being granted entry. As a result of substantial net migration flows, the stock of foreign born in the population of a typical EU country has steadily increased – particularly in Germany – where the stock of foreign population grew by about 3 million to 7.3 million between 1985 and 1999. The percentage of the population with foreign nationality in EU countries is 8.9% in Germany, 9.1% in Austria, 8.7% in Belgium, 6.3% in France, 2.1% in Italy and 3.8% in the UK. The process of naturalisation in some countries causes these figures to substantially understate the proportion of foreign born.

Whereas migration to the EU countries in the 1950s and 60s appears to have been largely demand induced, migration in the 1990s occurred despite EU unemployment, and this has given rise to concerns for the pressures that immigration might bring on the welfare state. This concern is amplified by the costs of supporting high benefit levels in some EU countries. Whereas economic policy in the 1950s and 60s was encouraging of immigration – particularly of a temporary variety - after the rise in unemployment associated with the oil shocks of the early 1970s, policy in the EU broadly changed to a “zero economic migration” stance.

The high levels of refugee and illegal flows, together with the migratory consequences of EU enlargement have provided a focus for popular concern and policy analysis. The total population of the ten accession candidates from Central and East Europe amounts to 104 million while the average GDP of these countries is less than 40% of the average GDP in the EU at purchasing power parities. Thus, granting freedom of labour mobility within the enlarged EU appears likely to prompt substantially greater immigration flows than when the EU was enlarged to include Greece, Spain and Portugal, with a joint population of only 59 million at the time of accession, and a GDP per head about two thirds of that in the EU. Until the present, migration flows from Eastern Europe have primarily affected Germany and Austria.

Analysis of EU immigration occurs in a context of falling population growth and an increasingly elderly population. Between 1975 and 2000, the population of the EU15 grew from 349 to 375 million; however, the working age population (20-64) is forecast to fall from 225 million in 1995 to 223 million in 2025. The share of population aged over 65 was 15.4% in 1995, and is expected to reach 22% of the population in 2025. The

candidate Eastern and Central European countries have even slower population growth. As a result, net migration has become the primary influence on EU population growth, and there is extensive discussion regarding the role increased immigration should play in resolving any problems brought about by ageing EU populations.

Our study addresses these issues in several ways. Given the dearth of unifying statistics concerning the pattern of migration into EU countries, in Section 1 we provide an overview of EU immigration, documenting the changing shares of foreign populations, the pattern of inflows by origin country into major EU countries, distinguishing the flows from Eastern Europe enlargement. We describe the changing levels of asylum seekers in EU and other OECD countries in the past two decades, and give some evidence on the pattern of illegal immigrant flows. Evidence of the age and skill structure of immigrants, sectors of employment and the size of employing firms is also given. Finally, we provide evidence on the concentration of immigrants into certain urban areas.

In section 2 we discuss three aspects of the attitudes of EU natives towards immigration: racism, the influence of the state of the labour market and welfare take-up. Our findings imply that whereas both welfare and labour market concerns contribute to explaining opinion towards further immigration, racially motivated concerns may be the most important factor. Attitudes towards migrants are heavily affected by native education levels.

In section 3, we explore the relationship between immigration and the financial strain on the welfare state. To what extent is there evidence that immigrants take into account the generosity of the welfare system when choosing a destination country? To what extent are migrants more dependent upon the welfare system than natives, holding constant observable characteristics? We find that there are large differences across EU countries with respect to the structure of the migrant population and their welfare dependency. There is some evidence that increased migration may place pressure on the welfare programmes of the more generous countries, but not in the least generous ones, although the effect is typically moderate. A significant part of the higher dependency on unemployment benefits of migrants is left unexplained by differences in observable characteristics. Furthermore, these dependency differences seem to be persistent over time.

Section 4 reviews policy towards immigration. We first describe the policies that govern immigration to and within the EU. We review the extent to which enlarging the EU has altered the scale of immigration and the human capital characteristics of migrants. The linkages between immigration policies, the size and type of migrant flows are explored, together with the resulting implications for welfare dependency. This leads to analysis of asylum seekers, their separate human capital characteristics, and labour market performance. Finally, we discuss the harmonisation of immigration policies across EU countries.

In section 5, we analyse potential gains from a policy of encouraging contracted temporary migrants into EU countries and contrast them with the costs and benefits of permanent migration. We discuss problems of enforcement and the potential efficiency gains to both the sending and host countries.

Section 6 discusses the extension of unrestricted labour mobility to Eastern Europe, and asks whether Eastern enlargement will result in mass immigration to the EU. We find that free movement will probably result in a migration of between 2 and 4% of the population of candidate countries, in the long run. This adjustment process is expected to occur over a long period of time with average net migration into the EU being at most 300,000 persons per annum in the first decade. Over half of these migrants may enter Germany.

In Section 7, we discuss the policy implications raised by European immigration. The political context is that the European Commission considers that channels for legal immigration to the EU should now be enhanced. Given the historically high levels of immigration during the 1990s and the unpopularity of policies that facilitate migration, this is a striking step. Mindful that migration policies go beyond the management of migration flows to include policies toward assimilation, we nevertheless limit our discussion to policy towards the structure of migration and the political context in which these policies might evolve.

Policy Recommendations

Eastern Enlargement: the proposal by the European Commission to largely postpone migration over a long transitional period is likely to merely postpone the migration potential from the East, and maintain a high degree of uncertainty as to the eventual consequences of free movement. This policy may also have an adverse effect on the skill composition of migrants from the East. In contrast to this proposal, quota arrangements can reduce uncertainty regarding the actual size of migration, smooth migration pressures instead of merely postponing it, and allow for a neutral or favourable skill composition of immigrants. EU policies should address compensatory measures in the sending regions such as allocations from the structural and cohesion funds to the education sector in the CEECs.

Family Unification: About half of migration into EU countries arises from the right of those settled in the EU to bring dependants to live with them. Although there is evidence that family unification has contributed to welfare dependency in some EU countries, the case for restricting such migration is weak. Policies supporting family cohesion and the nurturing of children lie at the heart of EU social policy, and a change in this area is not recommended, although EU countries should consider the implications of differing policies towards family criteria for entry.

Asylum and Refugee Policy: At present the national regulation of humanitarian migration is producing a “race to the bottom”. The EU should set a common set of rules for admitting asylum seekers and refugees in the EU, co-ordinate the implementation of the rules, and share the costs of humanitarian migration equally, e.g. by a fund for asylum seekers, refugees and other humanitarian migrants. This will internalise costs and prevent that countries with more generous policies are penalised. Against the background of large differences in national standards, the policy problem is to agree on a common set of

norms which guide European asylum and refugee policies. A set of minimum standards, which are financed at the European level, while national policies remain free to admit further humanitarian migrants, may be a first step in the right direction toward a common European asylum and refugee policy.

Economic and illegal migration: Towards a co-ordinated policy with countries of origin. The increasingly elderly EU population and labour shortages for certain skilled occupations provide the context in which the EU is presently considering an expansion of skilled immigration although the destination of such migrants might be unequally distributed across EU countries. From one viewpoint, such immigration can be viewed as balancing the less skilled migration associated with the illegal flows, and indeed immigration of 250,000 high skilled migrants to the EU is rather modest in proportion to 500-600,000 illegal immigrants and refugees. However, although this may reflect a balancing in terms of EU skill proportions, such a policy will draw disproportionately on the high skill populations of low and middle income countries, and also compound the increasing congestion in Western Europe, particularly its cities. We advocate a policy of ceasing to pursue unilateral policies towards migration from low/middle income countries of origin, and instead promote co-ordinated policy making towards immigration. The gains from co-ordination for the EU arise from the high illegal immigration flows and the costs of refugee migration. The gains for low/middle income countries arise from mitigating the externality costs that result from long term migration by skilled workers/entrepreneurs. The essence of the co-ordinated policy would be to provide a framework in which the origin country is compensated for the externalities lost by skilled migration, but would be moderated by “fines” arising from illegal flows and violations of human rights standards as partly measured by refugee flows. Within this partnership, the origin countries may prefer that permanent migration of skilled workers should be limited below the laissez-faire level, and we discuss in Section 5 how a rotation of temporary migrants allows potentially more workers to acquire savings and skills to use in the origin country, than with permanent migrants who, evidence suggests, gradually lose contact with their origin country. The implementation of such a policy framework would require careful preparation, but by working in partnership with a group of LDC’s, this would be a quite different political contract to the “guest worker” programmes of the 1960’s, and instead should be partly viewed as part of the EU international development programme.