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Welfare and Immigration

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ROBERT SCHUMAN CENTRE FOR ADVANCED STUDIES
MIGRATION POLICY CENTRE (MPC)**

Welfare and Immigration

ALAN BARRETT

**MIGRATION POLICY CENTRE (MPC)
RESEARCH REPORT, MPC RESEARCH REPORT 2012/07
BADIA FIESOLANA, SAN DOMENICO DI FIESOLE (FI)**

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Abstract

This paper contains a review of the economics literature on the issue of the relationship between immigration and welfare. The review is organised around two questions. First, are immigrants, especially low-skilled immigrants, attracted to welfare-generous states? Second, are immigrants more likely to be recipients of welfare compared to natives? The evidence with respect to both questions suggests that the more extreme fears sometimes expressed in public discourse are exaggerated. While some groups of immigrants might be attracted to welfare-generous states, the effect is unlikely to be significant in terms of public budgets. Similarly, while examples do appear of certain sub-groups of immigrants using welfare more intensively than natives, there are many examples where the opposite holds or where no difference is found. In spite of these findings, a case can still be made that policies should be adopted which convince native populations that excess welfare use by immigrants cannot arise. Such policies may be needed if on-going immigration, which is desirable on many grounds, is to avoid negative political pressure.

Section 1. Introduction

Immigration is, and has been, a controversial subject for generations. For many years, fears that immigrants take jobs or lower wages have tended to feature prominently in public discussion. In more recent times, partly as a result of the growth in the welfare state, the nature of the fears expressed about immigrants have extended beyond the labour market and into the realm of social spending. Boeri (2010) captures some of the public commentary through the use of quotes. For example, he quotes the leader of the Norwegian Progress Party as saying that “there is a large number of migrants living on welfare and they have been in this condition for a very, very long time” (p651). He also quotes the leader of the French National Front as saying that “there are too simply many immigrants living on welfare” (p651).

The welfare-related fears over immigrants appear to be based on two, inter-related, assumptions. First, there appears to be a view that immigrants receive welfare in (relatively) larger numbers when compared to the native population. Second, there also appears to be a view that immigrants are attracted to welfare-generous states. I deliberately use the word “assumptions” when describing the source of the fears concerning immigration and welfare use because the truth or otherwise of the first and second view just described need to be established empirically. In this paper, my aim is to review the empirical literature within economics with a view to establishing whether (a) the incidence of welfare-receipt among immigrants is higher than natives and (b) whether there is evidence that immigrants are disproportionately attracted to welfare-generous states, the so-called “welfare magnet effect”.

The paper is structured as follows. Following Barrett and McCarthy (2008), I begin the review (in section 2) by looking at the literature on the welfare magnet. While I am mainly interested in the papers in this area that look at international migration, I also draw attention to some papers on internal migration in the U.S. as they highlight some issues of importance. In Section 3, I look at the papers which explore whether immigrants are more intensive users of welfare services compared to natives. Again following Barrett and McCarthy (2008), I look at papers which consider this issue from a pan-European perspective before going on to look at country-specific papers.

In general, two broad findings emerge from the reviews in Section 2 and 3. First, while immigrants sometimes appear to be relatively intensive users of welfare when compared to natives across states, this difference is far from universal and often disappears when other socioeconomic characteristics, such as education are controlled for. Hence, an-immigrant specific effect on the likelihood of welfare receipt is very often not present. Second, while some studies (and again not all) have found evidence for the welfare magnet hypothesis, the estimated effect is usually quantitatively small or not statistically significant. Hence, the fears referred to above seem somewhat unfounded.

Even though the research appears not to support the claims of the anti-immigration lobby, the question still arises of whether immigration and welfare policies should be designed in such a way as to counteract fears of excessive immigrant welfare use. If this were the case, then immigrants would be protected from accusations of being burdens on the state and such a situation could improve the overall context in which immigrants live and work. With this in mind, I will address some policy issues in the concluding section (section 4) drawing on the work of Boeri (2010) and others.

Section 2. The Welfare Magnet

Borjas (1999) looks at the issue of whether differences in welfare regimes lead to differences in the nature of the immigrant inflow across the states of the U.S.. He notes that there are a number of dimensions to the hypothesis that welfare can act as a “magnet”. First, it could be that immigrants come to the U.S. in response to the incentives created by the existence of welfare benefits. Second, immigrants who fail to secure employment or who become unemployed may be less likely to out-

migrate. Third, differences in the relative generosity of welfare systems across states can lead to a pattern of settlement of immigrants that leads to higher welfare burdens in the more generous states. Interestingly, Borjas also notes that “(d)espite their importance, there has been little systematic study of these magnetic effects” (p 608).

Borjas develops a model of immigrant location in which states vary in terms of the generosity of their welfare systems and also in terms of the returns to skills. While natives are assumed to face fixed costs of migration across states, these costs are not relevant to immigrants for whom the choice between states is costless, given that the decision to move has been made. The model leads to a number of predictions, including the greater clustering of low-skill (and hence more welfare-prone) migrants relative to natives in states with more generous welfare systems. The model also predicts that the change in the welfare participation rate brought about by a change in the benefit level should be higher in the immigrant population relative to the native population (“benefits elasticity”, as labelled by Borjas).

With regard to the clustering hypothesis, Borjas notes that a relatively high proportion of immigrant households in receipt of welfare reside in California, a state with a high level of welfare generosity. In 1990, California was home to 9.6 percent of the native U.S. population who did not receive benefits and home to 11.5 percent who did receive benefits. Also in 1990, 27.6 percent of immigrants who were not on welfare lived in California compared to 37.6 percent of immigrants who were in receipt of benefits. This observation prompts Borjas to assert that “there may indeed exist a purposive clustering of less-skilled immigrants in California” (p 618). A more formal analysis in which he controls for demographic and socioeconomic factors, and also for possible networks effects, yields a result of excess clustering of immigrant welfare recipients.

The evidence presented by Borjas with regard to his estimates of differences in benefit elasticity across immigrants and natives is less conclusive. While a range of specifications point to a higher benefit elasticity for immigrants, the differences are generally not statistically significant. Borjas himself makes the following important point in his concluding paragraph: “Because of the potential policy significance of these findings, it is important to emphasize that much of the empirical evidence presented in this article is relatively weak (in the sense that the statistical significance of the results is often marginal)” (p 635).

Around the time that Borjas was looking at this issue, a number of papers were also being produced in which internal migration within the US was used to establish if there was evidence for the existence of welfare magnets. While international migration is the focus of this review, it is of interest to detour briefly into this literature to see what was found and what lessons might apply.

Enchautegui (1999) focused on women and used US Census data from 1980 to explore if women who had moved state between 1975 and 1980 had typically moved to (a) more generous welfare states, (b) states with higher wages and (c) states with lower rates of unemployment. Enchautegui reports finding evidence in support of the magnet hypothesis but the effects are typically small. What is perhaps more important is the finding of differing strengths of the relationship between migration and welfare across different groups. For example, the welfare effects are typically larger for unmarried compared to married women. This means that although magnet effects might be present for more disaggregated groups, the quantitative importance of the effect diminishes. This needs to be kept in mind if the core concern here is with some notion of fiscal burden.

Levine and Zimmermann (1999) take a somewhat different approach to this question in their paper, although again they look at internal US migration. They use panel data (the US National Longitudinal Study on Youth) and try to set up a treatment and control framework where they compare the propensity to move across groups which are deemed more likely (treatment) and less likely (control) to draw on welfare. By including a measure of state-level welfare generosity in their model, they can assess if their treatment group are more likely to move to welfare generous states. They chose poor single women with children as the treatment group and find little evidence of welfare-induced migration.

Enchautegi (1997) looked only at women and reported significant results for certain sub-sets of women. Levine and Zimmermann (1999) then took this further by focusing on poor women with children. In this way, it seems that the search for welfare-induced migration was focusing on smaller and smaller groups. Gelbach (2004) continues along this path but this time adds a new consideration to the modelling of welfare-induced migration as opposed to looking at a new sub-group. One of the innovations in Gelbach's paper was to consider the life-cycle dimension of the migration decision. In particular, he argued that women with younger children were more likely to migrate to a welfare generous state because the benefit of child-related payments would be maximised by moving when the children were young. Gelbach does find support for this hypothesis and so, to an extent, the presence of a magnet effect is confirmed. However, it should be noted that the budgetary impact (in terms of the state's welfare budgets) of the implied migration is small. In addition, while the results in the paper based on data from 1980 confirm the magnet hypothesis in a consistent manner, no such consistency is found using data from 1990.

The last paper that I will consider in this detour into the literature on migration-induced internal migration in the US is McKinnish (2007). I have noted already how the focus in this work has tended to narrow in on certain groups to see if an effect is present. McKinnish's innovation in this respect is to pay particular attention to welfare prone groups living close to the borders between U.S. states. The logic behind this is obvious. While a difference-in-difference estimate can be generated by comparing migration patterns over time between groups who are more or less likely to be in receipt of welfare (i.e. treatment and control), a further difference can be exploited by comparing those living close to borders to those who live in the centre of states. This focus does allow McKinnish to generate results which are consistent with welfare migration but as the results are not statistically significant, it is difficult to attach too much weight to them if the issue is policy design.

Brücker et al (2002) in their analysis of the European situation begin, like Borjas (1999), with a simple theoretical model that shows how less-skilled immigrants are more likely to move to countries with generous welfare systems. And again like Borjas, they also point out that immigrant location decisions can also be influenced by factors such as the presence of ethnic networks, whereby the simple predictions of the model can be diluted.

The main aim of their work is to examine differences in the extent of welfare dependency between immigrants and natives across countries (discussed in Section 3 below). However, they also conduct a rudimentary analysis of whether the generosity of welfare systems across countries is correlated with a greater degree of difference between immigrants and natives in their relative receipt of benefits. They define immigrants as being citizens of non-EU countries; citizens of the EU are viewed as "natives" even if they are living in an EU country which is not their country of citizenship. They take their measure of the extent to which immigrants are more intensive users of welfare benefits¹ and regress it against an OECD summary measure of benefit entitlement. A positive result is found although on the margins of significance.

Boeri (2010) updates some of the elements of Brücker et al (2002). When he looks at the relationship between the generosity of social spending and the skill composition of immigrants across countries, he finds that total social expenditure is indeed associated with a lower-skilled immigrant inflow. However, he also finds that specific forms of payment, such as unemployment benefits and active labour market programmes, appear to be associated with higher skilled inflows.

De Giorgi and Pellizzari (2009) also consider the issue of whether immigrant location decisions are influenced by the generosity of welfare benefits. Like Brücker et al (2002), they use data from the European Community Household Panel covering the period 1994 to 2001. They estimate a model of location choice across 14 countries of the pre-enlargement EU. As the data include information on the year in which each immigrant settled in their destination, they include in the analysis measures of

¹ We discuss this in Section 2 when we return to the Brücker et al (2002) chapter.

wages, unemployment and benefit generosity across destinations for the year each immigrant made their location choice. They also include as controls a set of destination country dummy variables (which account, for example, for the strictness of immigration laws) and four time period dummy variables. Interactions of these two sets of dummy variables are also included, thereby allowing the destination-specific effects to change at discrete time intervals.

The results suggest that benefits do play a role in determining location choices of immigrants. However, the effect is small, especially when considered relative to the impact of wages; a comparison of coefficient estimates suggests that the wage effect on location choice is ten times that of the benefit impacts. It is also the case that the interactions between benefit levels and individual characteristics are generally insignificant (gender is the one exception, with women being less attracted by high-benefit countries). The simple theoretical models proposed by Borjas (1999) and by Brücker et al (2002) would lead to the expectation that lower-skilled people would be more likely to choose high-benefit locations. The absence of this result in the De Giorgi and Pellizzari analysis would suggest that welfare is not a key factor in determining the nature of the immigrant inflow, in the sense of immigrants who are more likely to be in need of welfare being attracted to high benefit locations.

In spite of the small effect of benefits on location choice uncovered by De Giorgi and Pellizzari, they argue that the impact is still sufficient to offset many of the potential benefits of migration in Europe. It is a well-rehearsed argument that inward migration to Europe can help to counteract the adjustment difficulties that arise as a result of its largely immobile native population. But as argued by De Giorgi and Pellizzari, if location choices are made partly in response to differences in welfare regimes as opposed to difference in wages and rates of unemployment, this potential benefit of migration is weakened. As a result of this perceived loss in the benefits of migration, De Giorgi and Pellizzari propose the harmonisation of welfare regimes across Europe.

A recent addition to the literature which seeks to find evidence for the existence of a welfare magnet is Giulietti et al (2011). The particular angle which they take is to look for a correlation between spending on unemployment benefits across countries and the rates of immigrant inflow, without taking explicit account of the skill composition of the inflow. They note early in the paper that there are at least two possible sources of endogeneity and so the authors attempt to correct for this problem.

The possible sources of endogeneity identified are as follows. First, as immigrants themselves are sometimes recipients of unemployment benefits, their inflow will impact upon the size of spending. Even where (as is the case in this paper), spending relative to GDP is the dependent variable, there is a potential difficulty since immigration will alter GDP. The second source of endogeneity is related to policy responses. If policy makers believe that the current welfare system is attracting immigrants, they may alter the parameters of the system, thereby leading to a reduction in spending. In order to overcome the endogeneity problem, Giulietti et al drawn upon the political science literature. They use the number of parties in the ruling coalition of a country as an instrument for spending on unemployment benefits. The logic here is that coalitions with larger parties will be more likely to “buy” support as reaching agreement on curtailing spending will be more difficult.

Giulietti et al use data from nineteen European countries over the period 1993 to 2008 to explore whether there is a relationship between spending on unemployment benefits and the rate of immigrant inflow. The OLS estimates of the relationship between these variables point to the existence of a welfare magnet but once the instrument discussed above is employed, in both IV and GMM models, the estimated relationship becomes small and statistically insignificant.

Razin and Wahba (2011) introduce another important consideration in their exploration of the existence of a welfare magnet. As they discuss, much research on immigration essentially assumes that free movement of individuals exists and then analyses various issues without referring back to the legal context in which immigrants are observed. Razin and Wahba take an explicit look at the legal context and derive interesting hypotheses on how the legal context, as it relates to migration, might

interact with the welfare system to produce different relationships between welfare generosity and the skill composition of the immigrant inflow.

The essence of their proposed hypothesis can be summarised as follows. In a situation where immigration is freely open to citizens of other countries, low-skilled immigrants who are attracted to generous welfare benefits are more likely to arrive. At the same time, higher-skilled immigrants will realise that they will have to pay higher taxes in the welfare-generous host country and will then choose to migrate elsewhere. The differential rates of inflow for high-skilled and low-skilled immigrants will lead to an inflow which is consistent with a welfare-magnet situation. Now consider the situation of a country with a restrictive immigration regime. If such a country is also welfare-generous, the citizens of the country will realise that an inflow of low-skilled immigrants will lead to an increased welfare caseload and hence higher taxes. In this situation, citizens will opt for a migration regime where only high-skilled immigrants are allowed to enter. These high-skilled immigrants will be attractive to the citizens of the welfare-generous state because their arrival will allow the burden of the welfare system to be spread more widely, thereby lowering the tax burden of the existing residents.

Razin and Wahba then test their hypothesis by exploiting the differing legal regimes which face immigrants from different countries as they attempt to immigrate in the free movement area of the European Union, plus Norway and Switzerland. Citizens within this area can move freely; however, citizens from outside this area who want to immigrate are subject to restrictions and conditions. By looking at the differential patterns of immigration by skill-group across immigrants in the free- and restricted-migration regimes, and by relating them to welfare generosity, it is possible to test the hypotheses described above. Razin and Wahba find support for the welfare-magnet hypothesis in the situation of free movement. However, they also find support for the hypothesis that high-skilled migrants seem to be disproportionately present where immigration is restricted and welfare is generous.

Section 3. Are immigrants more likely to be in receipt of welfare payments?

The question of whether immigrants use welfare more intensively than natives has generated the most papers in the general area of immigrants and welfare. In this section, I will consider the findings from this research for a number of European countries. Before doing so, I will make a brief reference to the U.S. literature where concerns over welfare use by immigrants led to a curtailment in welfare-related rights of immigrants under the Personal Responsibility and Work Opportunity Act (PRWOA) of 1996. The act imposed a denial for most types of means-tested assistance to non-citizens who arrived after the passage of the legislation and limited the eligibility for many non-citizens who were already in the U.S..

Jensen (1988) showed that immigrants in the U.S. were only marginally more likely to be on welfare compared to natives, when unadjusted rates of participation were compared. Once welfare-related characteristics were controlled for, it appeared that immigrant households were less likely to receive benefits. Borjas and Hilton (1996) showed how this small difference between natives and immigrants held when only cash benefits were considered. Once non-cash benefits were included in the analysis, the immigrants were shown to draw more heavily on benefits relative to natives. Borjas and Trejo (1991) showed that more recent immigrants into the U.S. were more likely to be in receipt of welfare relative to earlier arrivals. They also showed that the longer an immigrant household resided in the U.S., the more likely they were to receive benefits. This implied that immigrants assimilated into welfare as opposed to out of it and as such was an important finding.

Borjas (2002) looks at whether the welfare reforms of 1996 led to a greater decline in welfare use among immigrants relative to natives. He concludes that this was not the case in general, apart from the situation in California where immigrant welfare use dropped significantly. Kaestner and Kausal (2005) do find an impact of welfare reform for recently arrived immigrant women. Moreover, they found that the reduction in welfare use by this group was the result of reduced eligibility and not the result of non-take-up of benefits by eligible immigrants (the so-called chilling effect). This was yet

another important finding because Borjas (2002) suggests that the fall off in welfare use among immigrants in California that he observed may have been related to such a chilling effect.

I now turn to the European literature in this area. Brücker et al (2002) provide an EU-wide analysis so I will begin with their findings before looking at more recent Europe-wide studies. I will then report on the more detailed analyses within countries and will consider in turn the research for Sweden, Germany, Britain, Demark, Italy, Norway and Ireland.

Brücker et al (2002) use the European Community Household Panel (1994-1996) to look at the relative rates of welfare receipt for non-EU immigrants in 11 countries of the pre-2004 EU. As with much of the work in this area, their interest is partly in assessing whether differences in receipt rates observed in raw data remains when individual characteristics are controlled for. Put differently, they assess whether there is an “immigrant” effect on welfare receipt above and beyond the effects that can arise, for example, if immigrants are less educated on average than the native population.

Their review of the raw data suggests to them that two groups of countries can be defined. In one group of countries, non-EU immigrants have similar rates of welfare use relative to EU citizens and in some cases have even lower rates. The countries in this group are Germany, the UK, Greece, Spain and Portugal. The other group is made up of countries where the rate of welfare receipt among non-EU immigrants is significantly higher than the native population. This group is made up of Denmark, the Netherlands, Belgium, France, Austria and Finland.

As mentioned above, Brücker et al were interested in seeing if these differences disappear once characteristics are controlled for. However, before conducting that analysis they set out a number of reasons why immigrants may rely on welfare to a greater or lesser extent than natives that cannot be explained by their characteristics. It is useful to reproduce these reasons here.

1. Self-selection: Immigrants may have unobserved characteristics that make them more likely to choose to live in a country with more generous welfare benefits.
2. Migration-specific effects: Language problems or psychological trauma could lead immigrants to be more reliant on welfare.
3. Discrimination: Discriminatory practices by employers could see immigrants facing difficulties in securing employment.
4. Network effects: Networks can assist immigrants in obtaining jobs or immigrants may become part of networks that are excluded from mainstream society. Hence, network effects can lead to immigrants being more or less reliant on welfare.
5. Non-portability of entitlements: Immigrants may be excluded from the welfare system in their host countries through legislation.
6. Reduced wages: Any factors which tend to reduce the wages of immigrants, such as exclusion from public sector jobs, will tend to reduce their employment rate and hence will increase their likelihood of being on welfare.

They consider the question of what they refer to as “residual dependency” on the part of immigrants by estimating probit models of welfare receipt for each country and including a dummy variable indicating non-EU immigrants. A positive and significant coefficient on this variable can be taken as showing an independent impact of immigrant status on welfare receipt. Focusing on their results for unemployment benefits, they find such an immigrant impact in Denmark, the Netherlands, France, Austria, and Finland. No such effect is found for Germany, the UK, Greece and Spain.

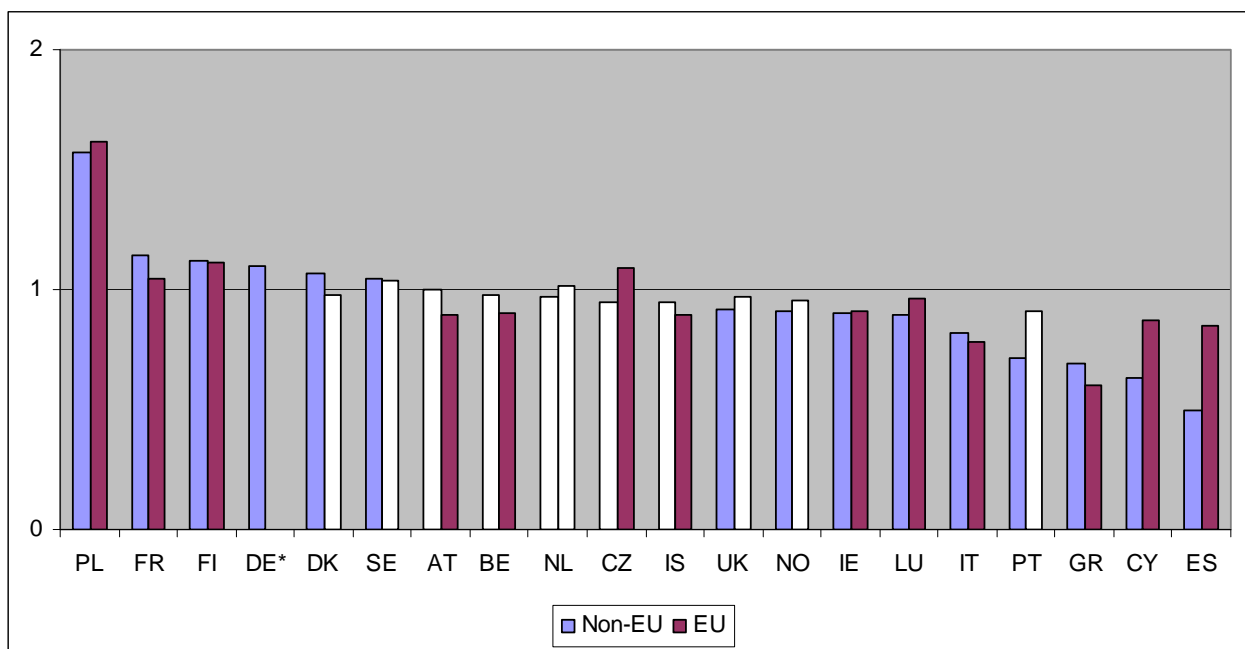
As mentioned above, Boeri (2010) updates the work in Brücker et al (2002), this time using data from the European Community Survey on Income and Living Conditions (EU-SILC). Pooling data across four waves of the EU-SILC (2004-2007) and across fifteen countries of the EU, he finds that immigrants are more likely to be in receipt of non-contributory benefits but also that they are less likely to be in receipt of contributory benefits. Looking within countries and controlling for individual

characteristics that would be associated with welfare receipt, he then explores whether there is an immigrant-specific effect on the take-up of non-contributory benefits. Across the 15 countries in question, he only finds negative and significant effects in six countries. In another five of the countries, immigrants are shown to have lower rates of receipt of non-contributory benefits once controls are added to account for the individual characteristics.

Barrett and Maître (2011) also look at the issue of the receipt of welfare by immigrants across Europe and also use the EU-SILC data, this time from 2007. Unlike Boeri (2010), they do not focus on the distinction between contributory and non-contributory benefits but instead look at all benefits and then various categories such as unemployment-related payments and old-age payments. In Figure 1, I present calculations from Barrett and Maître where the following ratios are shown for each country – the proportion of the immigrant population that receives welfare divided by the proportion of the native population that receives welfare. If the proportions are the same, the ratio is one. A ratio greater than one indicates a country where immigrants are more intensive users of welfare compared to natives; a number less than one indicates the opposite. In the figure, the countries are ranked from left to right based on the size of the ratio for non-EU immigrants.

The main point to be taken from this figure is the general tendency for immigrants to be less intensive users of welfare relative to natives. Of the twenty countries in Figure 1, the proportion of non-EU immigrants receiving welfare is higher than the proportion of natives in just five countries – Poland, France, Finland, Sweden and Denmark. Germany has a ratio greater than one but the data on Germany do not indicate if an immigrant is from within the EU or from outside. In most other cases, especially with respect to non-EU immigrants, the ratios are either less than one or not statistically different from one.

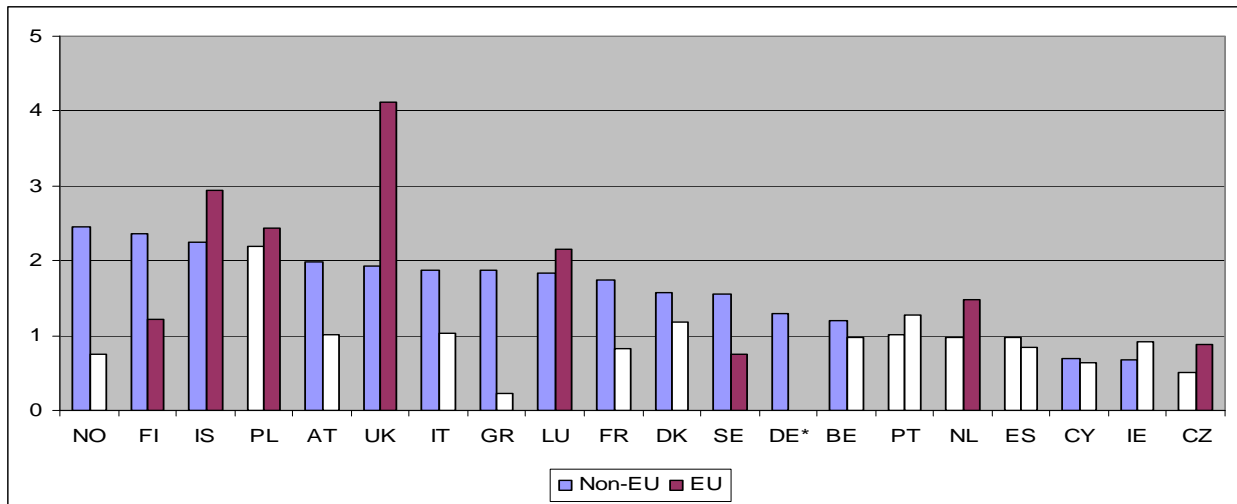
Figure 1. Ratio of proportions of immigrants and natives: All types of support



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

In Figure 2, I show similar ratio calculations from Barrett and Maître but this time focusing on unemployment supports. It should also be noted that the samples across countries are now restricted to the working age population only, given the nature of the support in questions. Here, a somewhat different picture emerges when compared to Figure 1. Recalling that ratios over one imply higher rates of support receipt for immigrants relative to natives, there appears to be a stronger tendency for higher rates of receipt of unemployment supports among non-EU immigrants. Across the 19 countries, 12 countries show ratios above one for non-EU immigrants; a further two also have ratios above one, but these are not statistically significant. In the case of Norway, Finland and Iceland, the ratio exceeds two.

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

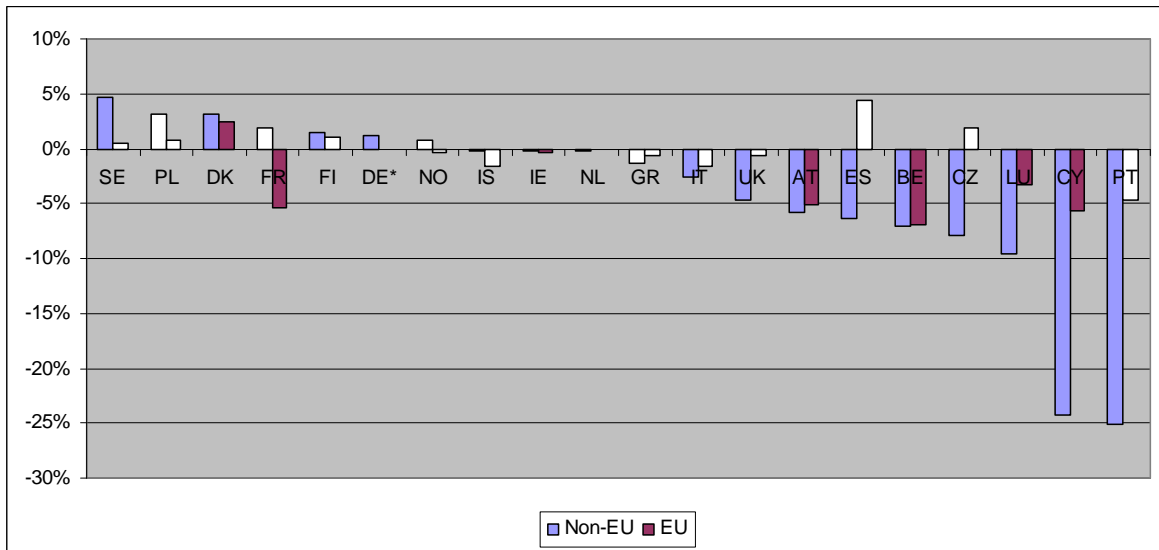


Source: Barrett and Maître (2011), based on calculations using EU-SILC 2007; note: white bars imply statistically insignificant differences; * implies all immigrants for Germany

In the case of Figure 1 and 2, no adjustment had been made to the data by Barrett and Maître to account for individual characteristics across immigrants and natives which would be associated with welfare receipt. Barrett and Maître go on to do this and I report on their findings through Figures 3 and 4 below. In both figures, the marginal impact of being an immigrant compared to a native on the likelihood of welfare receipt is presented. These marginal impacts are estimated in probit regressions where relevant controls are included.

Looking first at Figure 3, it can be seen how the multivariate analysis in general shows a pattern of lower rates of receipt among immigrants relative to natives, controlling for relevant factors. In the case of non-EU immigrants, Sweden, Finland and Denmark are the only countries in which higher (and statistically significant) rates of receipt among immigrants are observed. These countries showed similar outcomes in Figure 1 when unadjusted data was presented, so, from this perspective at least, the controls which were added have not altered the picture substantially.

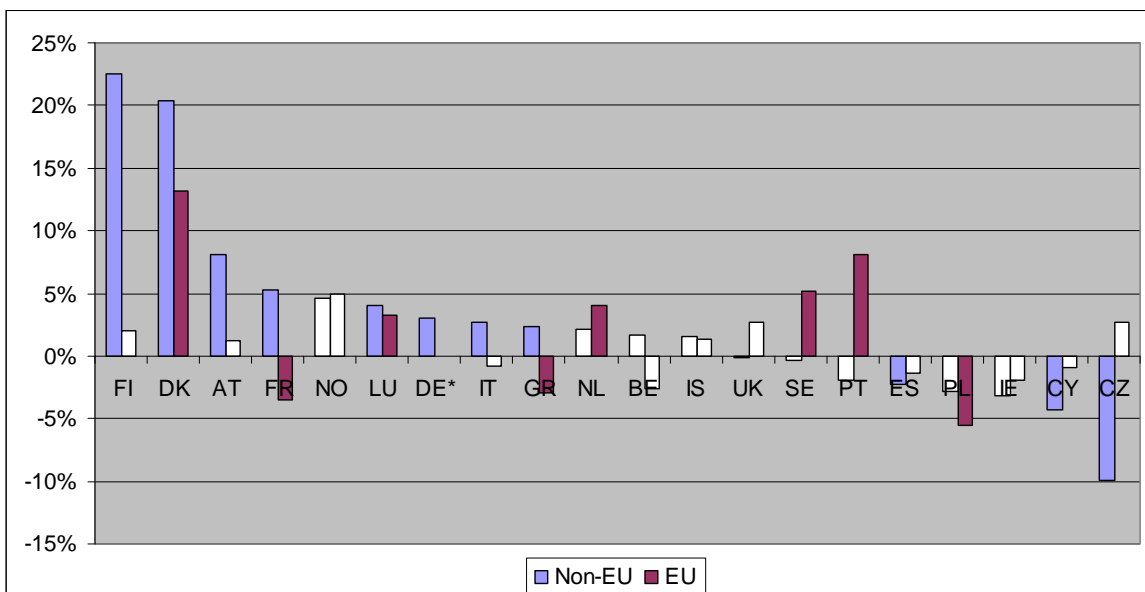
**Figure 3. Estimated marginal impact of immigrant status on support receipt:
All types of support**



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

In Figure 4, I show the Barrett and Maître estimated marginal effects when only looking at unemployment, sickness and disability supports combined. Just as there was a contrast between Figures 1 and 2, there is a contrast between Figures 3 and 4 also. Figure 4 is more suggestive of higher welfare use among immigrants but this pattern is far from universal, in terms of the countries that appear in Figure 4. Seven countries show higher rates of receipt by non-EU immigrants when other factors are controlled for but a further 11 have estimated effects which are either negative or not statistically different from zero. A positive and significant effect is found for Germany but, again, it is not known if these immigrants are from the EU or elsewhere.

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



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

Barrett and Maître conclude by saying how the evidence does not, in general, point to excessive use of welfare by immigrants across EU countries. In the specific case of unemployment supports, there is some evidence of higher rates of receipt among immigrants but much of this disappears once controls are added. Barrett and Maître also conduct an analysis of poverty rates across immigrants and natives and find, in general, higher rates of poverty among immigrants. Combining their findings on welfare and poverty, they suggest that the main policy concern in this area might relate to the failure of welfare services to insulate immigrants from poverty and not excess use by immigrants of welfare services.

I now turn to more detailed country-specific analyses of immigrant-native differences in welfare receipt.

Sweden

Like many of the papers in this area, Hansen and Lofstrom (2003) begin their paper with reference to the increasing use of welfare by immigrants in the country being studied. By way of illustration, they quote the fact that in the mid-1990s expenditure on social assistance for immigrants in Sweden equalled that of natives, even though immigrants made up just 10 percent of the population.

They have two objectives in this paper. They assess whether immigrants in Sweden use welfare more intensively than natives controlling for characteristics that make people more likely to receive welfare. They also assess whether immigrants in Sweden assimilate into or out of welfare. They use longitudinal administrative data (covering the years 1990-1996 and with 300,000 individuals annually), which allow them to address the assimilation issue in a more satisfactory way relative to Borjas and Trejo (1991), who relied on two cross sections as opposed to actual longitudinal data.

Their results reveal the following. The observation of higher welfare receipt among immigrants relative to natives in the unadjusted data remains when observed characteristics are controlled for. This result is in contrast to results for Germany (discussed below) where the “raw” differential disappears once relevant characteristics are accounted for. They also find that immigrants tend to assimilate out of welfare, in the sense that welfare receipt is shown to fall with length of time in Sweden. This result contrasts with that of Borjas and Trejo (1991) who showed immigrants in the U.S. assimilating into welfare. However, Hansen and Lofstrom (2003) point out that in spite of reductions in welfare use with time spent in Sweden, the rate of convergence is not fast enough to eliminate native-immigrant differences in welfare receipt in the long-run (i.e. 20 years).

Hansen and Lofstrom went on to develop further their understanding of the factors underlying the native-immigrant difference in welfare receipt drawing on the empirical possibilities presented to them from the longitudinal data used in their 2003 paper. In Hansen and Lofstrom (2009), they examine transitions between employment, unemployment and social assistance receipt across natives and immigrants. Of particular interest to them is whether these groups exhibit “structural state dependence” with respect to welfare use. By this they mean the experience of being on welfare in itself increases the probability of remaining on welfare. This is in contrast to a situation in which people are observed to remain on welfare not because of structural state dependence but because they have characteristics which make them more likely to remain on welfare.

They find that refugees do exhibit a greater degree of structural state dependence relative to natives but that for non-refugee immigrants, the degree of state dependence is similar to that of natives. The implication of this is that refugees can become stuck in a welfare trap. For this reason, welfare reform policies aimed at reducing immigrant reliance on welfare have different impacts for refugees and non-refugees, given the different underlying processes that give rise to their presence on welfare.

In Hansen and Lofstrom (2011), they again use administrative, longitudinal data but this time covering a longer time period (1991-2001). The focus of this paper is on transitions in and out of welfare, rather than on transitions across the three states of employment, unemployment and welfare receipt as was the case in Hansen and Lofstrom (2009). They find that differences in the usage of

welfare across natives and immigrants are more readily explained by a higher rate of entry into welfare among immigrants as opposed to a lower rate of exit. The results also suggest that differences in observable characteristics between natives and immigrants are not the main source of the difference in welfare use between the two groups. Instead, time invariant differences in unobserved characteristics play a larger role. This finding is consistent with the finding in Hansen and Lofstrom (2003).

The findings with respect to the importance of differential entry rates in explaining the native-immigrant gap in welfare use suggest that policy should aim to reduce entry as opposed to focusing on exits. However, implementing such a policy stance is difficult as it may not be clear as to precisely which individual immigrants are more likely to enter welfare. The practice of profiling may be considered but this remains a largely untested approach to policy implementation.

Germany

As with the U.S. and the Swedish cases, Castronova et al (2001) motivate their analysis of the take-up of welfare payments by immigrants in Germany with reference to the higher rate of take-up among this group relative to natives. They quote earlier research as showing that immigrants in Germany were 3.7 times more likely to be in receipt of benefits relative to natives (Frick et al, 1999). In an effort to explain this immigrant-native difference, they pose the following question. Are immigrants more likely to receive benefits because they have higher rates of eligibility or because they have higher rates of take-up, conditional on eligibility? Castronova et al see this as being an important distinction for political reasons. As they put it “a group with high eligibility rates, all else equal, may be considered economically unfortunate or even victimised” (p 728). In contrast, “a group with high take-up rates is less likely to be granted such sympathies” (p728).

Unlike other studies in this area, they attempt to estimate eligibility for welfare benefits for each household in their sample based on household income and composition. They maintain that this is more easily done in the case of Germany relative to, for example, the U.S. where the complexities of the welfare system make such estimation more difficult. Once they have their eligibility estimates, they can go on to assess whether the immigrant-native difference is due to eligibility or take-up (or both).

Their results show that immigrants in Germany are no more likely to take-up welfare benefits relative to natives, given their eligibility. However, they are more likely to be eligible as a result of their incomes and household structures. Although the result is reported in these terms by Castronova et al, the results can also be thought of in terms of the observable characteristics of the immigrants “explaining” their higher reliance on welfare as opposed to their immigrant status *per se*.

Riphahn (2004) also examines the German case but poses the research question along the more typical lines of whether the observed differences in take-up of welfare between natives and immigrants can be explained by characteristics. She also looks at whether immigrants assimilate out of or into welfare and whether the determinants of welfare receipt differ in their impacts across the two groups.

As with the Castronova et al (2001) study, Riphahn (2004) finds that the characteristics of immigrants explain their relatively intensive use of welfare and there is no “immigrant effect”. She fails to find assimilation effects, in the sense of immigrants being more likely to receive benefits as they spend longer in Germany. She does find that the impact of dropping out of the labour force is a much stronger predictor of welfare receipt among immigrants relative to natives.

Given her finding that it is immigrants’ characteristics, and not their behaviour, which gives rise to higher welfare use, Riphahn (2004) draws the policy conclusion that the issue should be tackled through immigration policy and not through changing eligibility rules. Her argument is based on the notion that states can best achieve immigrant-related outcomes by influencing the selection of immigrants at the point of entry as opposed to altering outcomes post arrival. In this way, the argument is equivalent to that made by the proponents of skill-based admission criteria in the context of desired labour market outcomes.

Britain

Barrett and McCarthy (2008) use data from the British Household Panel Survey (BHPS) for 2007 to assess whether immigrants in Britain are more or less likely to be in receipt of welfare. Their first look at the data shows that 19 percent of immigrants had received a welfare payment compared to 11 percent of natives so the simple picture is one of more intensive receipt on the part of immigrants. But as with all the studies being reviewed, Barrett and McCarthy go on to look at this simple figure in more detail.

First, the look at the relative receipt of welfare in a multivariate regression context and control for characteristics such as age, gender, marital status, education and presence of children under 12. When they do this, they still find that immigrants are more likely to be in receipt of welfare payments and the estimated effect (at 4 percentage points, compared to a native base of 11 percent) is large. However, they go on to look within the immigrants group and to ask if there are differences across immigrants from English-speaking and non-English speaking countries. It turns out that almost all of the immigrants in the sample who are from English speaking countries are from Ireland and so the comparison is really between Irish immigrants and immigrants from non-English-speaking countries.

The interesting result to emerge is that the single immigrant effect (the 4 percentage points reported above) disguised important differences across the Irish and the others. The Irish were shown to be more intensive recipients of welfare (7 percentage points) but immigrants from non-English-speaking countries were less likely to have received a payment (5 percentage points). Hence, the importance of not viewing immigrants as a homogeneous group was emphasised again.

Drinkwater and Robinson (2011) use a number of waves of the UK's Labour Force Survey (Q1 2004 to Q4 2009) to assess the issue in question here. The LFS is a much larger sample than the BHPS (used by Barrett and McCarthy, 2008) and so the analysis in Drinkwater and Robinson is based on almost 300,000 individuals, compared to around 5,000 in the Barrett and McCarthy paper. This large sample size allows for a much more disaggregated look at immigrants welfare receipt. In particular, Drinkwater and Robinson can look across seven immigrant groups based on region and seven different types of benefits, including tax credits aimed at lower income families.

Given the range of immigrants and the range of benefits being looked, it is perhaps unsurprising that the main finding relates to the heterogeneity among the immigrants groups. Looking firstly at the unadjusted data, male immigrants (in total) are 3 percentage points more likely to be on welfare when compared to native men (23 percent versus 20 percent, respectively). For women, immigrants (again in total) are less likely to be on welfare (51.1 percent of natives versus 47.3 percent of immigrants). But the variation within the immigrant groups is large. Only 7.6 percent of male immigrants from Australasia are in receipt of benefits compared to 31 percent of male immigrants from Asia. As with many other papers, Drinkwater and Robinson go on to control for welfare-relevant individual characteristics and the mixed pattern remains. Across the seven regional categories of male immigrants, the estimated marginal impact of being an immigrant is positive and significant in three cases. However, it is negative and significant in two cases and not statistically significant in two cases. For female immigrants, the general pattern is clearer with six out of the seven regional groups showing lower rates of welfare receipt. But for one group, Africans, the rate of receipt is higher. As Drinkwater and Robinson put it "(p)ossibly the main conclusion of the paper is that for the UK at least, it is very difficult to generalise on the issue of welfare participation by immigrants" (p24).

Denmark

Nannestad (2004) approaches the issue of immigrants and welfare in Denmark from the broader perspective of the long-run sustainability of the welfare state in the context of population ageing. His overall conclusions are negative with respect to the impact of immigration (at least from non-Western countries) on Denmark. He motivates his discussion of the topic by presenting the familiar argument

that immigration can potentially act to offset the fiscal pressures associated with population ageing. However, he then goes on to demonstrate that immigrants in Denmark from non-Western countries have tended to be net beneficiaries of the welfare state and that they remain net-beneficiaries even after ten years of residence in Denmark.

He discusses how this situation arises because of poor labour market outcomes for non-Western immigrants and also discusses how these poor outcomes are also present among the second generation. And while he does not attempt to show empirically that the generous welfare provisions in Denmark give rise to an inflow of low-skilled immigrants, he suggests that such a mechanism is in operation. As he puts it, “while immigrants as a whole are probably favourably self-selected (Chiswick, 2000), the Danish welfare state may be most attractive to immigrants with a relatively low market value”² (p 760).

For Blume and Verner (2007), the core question is whether the relatively high usage of welfare services by immigrants in Denmark declines with time spent there. Hence, they are building on the welfare-assimilation studies of Borjas and Trejo (1991), Hansen and Lofstrom (2003) and Riphahn (2004). Looking at the period 1984 to 1999, they find that for male immigrants from developed countries, rates of welfare receipt did converge on those of native men. For men from less developed countries, assimilation out of welfare occurred to a degree but rates of receipt remained well above those for native men. For female immigrants, some degree of assimilation out of welfare also occurred but it was weaker than that for men. This finding on assimilation out of welfare leads Blume and Verner to suggest that only immigrants who arrive at a very young age are likely to be “profitable” for Denmark, at least when viewed from the fiscal perspective.

Italy

Pellizzari (2011) looks at the situation in Italy using two data sources – the Italian component of the EU-SILC and administrative data. In general he finds that immigrants are more likely to receive welfare and although the effect diminishes as account is taken of individual characteristics, the greater likelihood of receipt remains. However, the finding which Pellizzari places greater emphasis on is the geographic distribution of immigrants in Italy. As welfare policy is regionalised, Italy appears to act as another laboratory for the welfare magnet hypothesis. Pellizzari observes a distribution of immigrants which is consistent with the hypothesis.

Norway

The focus of the paper by Bratsberg et al (2010) is on the long-run labour market outcomes for immigrants in Norway but they steer into the area of welfare when trying to explain the labour market patterns that they observe. Using administrative data, they follow a group of “regular” male labour market immigrants (i.e. not refugees and family reunification immigrants) who arrived in Norway between 1971 and 1975 from Pakistan, India, Turkey and Morocco up to 2000. As they themselves conclude, the findings with regard to labour market outcomes are “dismaying” (p 3).

At the outset of the period under review, the immigrant group had an employment rate of 96 percent, above that of the native comparison group³. By 2000, the employment rate of the immigrants had fallen to 50 percent, substantially below the native comparison employment rate of 87 percent. They offer a number of explanations, including the impact of the welfare system. According to Bratsberg et al, some aspects of the welfare system combined to provide a high proportion of the

² He quotes Borjas (1999) as providing support for this view.

³ The native reference group was selected so as to match the distributions of age and educational attainment for the immigrant group. Hence, even if the employment situation of low-skilled workers generally deteriorated between the early 1970s and 2000, the comparison between immigrants and the native reference group allows for differential outcomes to be observed.

immigrant group with high replacement ratios. For example, as the immigrants typically had higher numbers of children, their payments were inflated accordingly.

Ireland

The comparisons between immigrants and natives in terms of receipt of welfare is noteworthy in Ireland because, unlike all the examples looked at so far, immigrants in Ireland are reported by Barrett and McCarthy (2007) as being less intensive users of welfare. The unadjusted figures suggest that immigrants are only half as likely to be in receipt of welfare payments. As immigrants in Ireland are also unusual in having levels of educational attainment that are higher than the native population, Barrett and McCarthy go on to consider the issue of differential rates of welfare receipt controlling for standard socio-economic factors.

They find that the lower rate of welfare receipt among immigrants remains even when controlling for relevant characteristics. They also show that unemployed immigrants are substantially less likely to be on welfare relative to unemployed natives. While this could be because of lower eligibility rates or lower take-up rates, one element of Ireland's welfare code points to the potential importance of eligibility. Immigrants must have been resident for at least two years in Ireland before they become eligible for welfare payment. As the data that Barrett and McCarthy used relates to 2004 and many of Ireland's immigrants are recent arrivals, the observed pattern could well be the result of this exclusion clause in the welfare code.

Section 4. Policy conclusions

I have now reviewed a large amount of literature organised around two themes. The first theme was the extent to which immigrants (especially low-skilled immigrants) are attracted to welfare-generous states – the so-called welfare magnet hypothesis. The second theme was the extent to which immigrants are disproportionately represented among welfare recipients, when compared to natives. Summarising the results is not entirely easy because different studies have arrived at different conclusions. In spite of this difficulty, I will pose the following question. Relative to the concerns that are voiced about the use of welfare by immigrants (as captured in the quotes in the Introduction), does the research point to a clear and sizeable problem across Europe? I think the answer to this would have to be no. Taking the theme of the welfare-magnet first, it is possibly the case that certain narrowly-defined sub-groups of immigrants are attracted to countries with more generous welfare systems but there is little evidence to suggest that the effect is strong enough and widespread enough to be a major determinant of welfare spending across European countries. As regards the second theme, again evidence of immigrants being disproportionally represented among welfare recipients can be found but this often relates to specific groups or specific benefits. When viewed in a comprehensive way and when other welfare-related characteristics of the people in question are accounted for, there is not strong evidence of widespread excess use of welfare by migrants.

The perspective that I have just taken is very much in line with the recent report by Zimmermann et al (2012)⁴. The authors of this report begin their conclusions with the following summary:

“The existing literature shows, contrary to what many may believe, that there is no clear evidence that migrants are particularly welfare prone. In addition, the statistical evidence in most of the studies remains weak or suggests only a tiny magnet-effect of welfare generosity on an inflow of migrants.” (p112)

Zimmermann et al (2012) also note that “the most clear-cut result to emerge from this element of the analysis was the greater likelihood of migrants being in poverty” (p112). In response to these findings,

⁴ Barrett and Maître (2011) and Giuliotti et al (2011) were inputs into this report.

the policy recommendations proposed by the authors focus on facilitating immigrants in their access to welfare so that their social inclusion is assisted. For example, where waiting periods or contribution periods apply to welfare eligibility, Zimmermann et al caution that these should not disadvantage immigrants and, at a minimum, any waiting or contributions should be transferable across EU borders. Similarly, Zimmermann et al address possible concerns about the provision of information on welfare entitlements to immigrants, especially those who do not speak the host country language.

Clearly, the perspective underpinning the proposals of Zimmermann et al (2012) is that the “problem” in the area where immigration and welfare intersect is in a failure of the welfare system to adequately deal with the needs of immigrants as they relate to social inclusion. This is obviously at odds with most of the public debate and discussion but it is in line with the research findings, as interpreted by Zimmermann et al. However, Boeri (2010) provides a somewhat different perspective and one that leads to very different policy conclusions.

While Boeri (2010) finds some evidence for the welfare-magnet hypothesis and for the excess use of welfare by immigrants, he does not over-emphasise the strength or importance of these findings in an economic sense. Instead, he places the importance of these (modest) findings in the context of public opinion. He provides more compelling evidence of the growing concerns among European citizens about the possible negative consequences of immigration. He also shows that concerns about immigrants being a fiscal burden are the main driver of the negative view. Based on these findings, he notes how “the social acceptability of migration very much relies on the capacity of governments to decouple migration from welfare policy” (p 668). In essence, what he appears to be saying is that in order to allow continued immigration and to guard against political opposition, governments must find ways of designing migration and/or welfare policies in a way that convinces citizens that immigrants will not be excessive welfare users.

The policies suggested are as follows. Looking with migration policies, one option would be to restrict welfare use on the grounds of citizenship or time spent in the host country. A second option would be to limit inward migration only to those with high skills who are unlikely to need welfare. Within welfare policies, and in order to prevent immigrants seeking the most welfare-generous states, Boeri mentions a proposal to harmonise minimum welfare standard across Europe. He also suggests extending the role and scope of contributory payments, based on his finding that immigrants were less-likely to be over-represented on such schemes.

While the Zimmermann et al proposals may reflect the evidence that has been generated on the interaction between immigrants and welfare, the political feasibility of such measures in the Europe of 2012 may be limited. To the extent that the economic and social benefits of immigration are to be protected through ongoing legal inflows into the EU, the maintenance of popular support is a real issue which needs to be addressed. In this context, the nature of the Boeri proposals may ultimately serve the greater good.

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