The use of welfare by migrants in Italy *

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Abstract

A large part of the Italian welfare system is designed and implemented at the very local level, leading to a high degree of heterogeneity in the type and the generosity of available programs across the country. As a consequence, studies of welfare use based on standard household surveys may fail to consider a large part of welfare recipients and provisions. In this paper I overcome such a problem by using a new administrative archive that contains information on means tests certificates needed for applying to all kind of locally administered welfare programs. Results show that, without controlling for observable characteristics, migrants from outside the EU are more likely to apply for welfare. Once individual and household characteristics are controlled for, such a residual welfare dependency is greatly reduced but does not disappear. Geographical location is a key factor, given that migrants tend to locate in the richest areas of the country, which also happen to be the ones where the local welfare is most generous.

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1 Introduction

Italy is one of the OECD countries that has experienced the largest increase in migration flows over the past decade. On average between 1998 and 2008 approximately 250,000 migrants arrived in Italy every year, approximately 0.5% of the resident population. The stock of foreigners in the country has consequently increased from 1.9% in 1998 to 5.8% in 2008. These numbers compare to annual flows in the order of 0.15% to 0.28% of the resident population in countries like France, Germany and the UK over the same period.[1]

As a consequence, Italians are, among all European citizens, the ones whose opinions have become more and more anti-immigration over the past few years, as indicated by the European Social Surveys (Boeri, 2010; Boeri and Bruecker, 2005). Boeri (2010) shows that the main driver of such a deterioration in the Italians' views of immigration is the concern that migrants might represent a fiscal burden for the receiving country, mainly through the exploitation of its welfare state.

Whereas such a concern might be understandable in most pre-enlargement EU countries, like France, Germany or the UK, where the welfare system is relatively generous, it is surprising in Italy, a country where social expenditure is heavily concentrated on old age pensions, where there is no universal unemployment insurance and where the provision of income support programs is extremely limited. For example, Italy is the only country in the pre-enlargement EU-15, together with Greece, where a minimum income scheme does not exist (Monti and Pellizzari, 2010). Hence, there seems to be very little welfare to be exploited by migrants.

For these reasons, Italy seems to be a particularly interesting case to study. Unfortunately, data limitations and the peculiarities of the welfare arrangements in the country make it difficult to analyze the issue of migrants welfare dependency (Boeri, 2010).

Above and beyond the data limitations, the high degree of fragmentation of the Italian welfare also complicates the analysis. In fact, other than pensions, unemployment benefits and a few family allowances that are administered centrally, anything else, from housing benefits or social housing to subsidized child care to income support, is fully delegated to local authorities, mainly municipalities. As a consequence, each of the over 8,000 Italian municipalities decides what programs to introduce and how to administer them. Furthermore, such decisions are often subject to budget constraints, so that many programs are withdrawn during the fiscal year when resources run out.

It is such a fragmentation, combined with the resource constraints, that might more likely explain the concerns of many Italians. Local welfare is more generous in the richest areas of the country, where local authorities can rely on more abundant financial resources. At the same time, such areas are also those where migrants are more likely to locate for the obvious reason that, typically, the relative demand for unskilled labour is higher. In rich areas Italians are relatively more educated, thus reducing the supply of native unskilled labour and, potentially, increasing the demand for personal services, like housekeeping and child/old-age care (Mazzolari and Ragusa, 2007). Hence, migrants cluster in rich areas and in unskilled occupations, where they earn lower wages than natives, who are concentrated in high-skill jobs. As a consequence, within geographical locations migrants' welfare dependency is relatively high.

In this paper I am able to overcome the data problems that have limited most previous research by using an original administrative archive of means tests performed at all levels of the public administration to establish individual's and households' eligibility to all kinds of benefits, both in cash and in kind. To the best of my knowledge, this dataset has never been used for analyzing the use of welfare by migrants.[2] This new data allows me to capture the great heterogeneity of welfare programs across the country, although at the cost of looking at applications rather than actual recipiency. Nevertheless, it is only by using this alternative database that it is possible to capture the myriad of local welfare schemes that are unlikely to be covered in national-wide (or even European-wide) surveys, like the EU-SILC, that

[1] Only Spain has experienced migration flows that are comparable to Italy and, in some cases, even higher.

[2] In fact, the only study I am aware of that uses this data source is Boeri, Dessy, Garibaldi, Monti, and Pellizzari (2007).

necessarily need to select a restricted set of standardized questions (Boeri, 2010; Boeri and Bruecker, 2005; Brucker, Epstein, Saint-Paul, Venturini, and Zimmerman, 2002).

Two important areas of welfare provision are excluded from my analysis: the services offered through public education and public health. These are important issues that certainly deserve more attention by researchers but that cannot be analyzed thoroughly with my data.

The focus of the paper is mainly empirical. In fact, one can think of theoretical explanations for differences in welfare use by migrants and natives that go in both directions. The ambiguity of the theoretical arguments is mirrored in the mixture of the empirical findings one can find in the literature. Depending on the country, the data source, the type of migrants and the period examined results vary greatly. Several studies do find evidence of residual welfare dependency (Borjas and Hilton, 1996; Borjas and Trejo, 1991; Bratsberg, Raaum, and Roed, 2007; Castronova, Kayser, Frick, and Wagner, 2001; Hansen and Lofstrom, 2003; Riphahn, 2004), while others shown that, after controlling for a large set of observable characteristics, migrants use the welfare state significantly less than natives (Barrett and McCarthy, 2007, 2008).

Contrary to some other studies, I will not try to answer the question of wether migrants are net contributors to the welfare state of the receiving country (Boeri, 2010; Dustmann, Frattini, and Halls, 2009; Rowthorn, 2008; Storesletten, 2000). Given the difficulties in addressing such an issue in a static framework and the arbitrariness of the assumptions needed to frame it dynamically, I prefer to concentrate on the simpler issue of welfare use.

The paper is organized as follows. In Section 2 I briefly outline the institutional peculiarities of the Italian welfare state. In Section 3 I describe the data that will be used in Section 4 to estimate the residual welfare dependency of migrants. Section 5 concludes.

2 The Italian welfare state

There are two features of the Italian welfare system that are worth emphasizing. First, it is disproportionately concentrated on pensions, which account for more than 46% of total social expenditure. Other expenditure items, like unemployment, family related benefits or income support, taken together only amount to 25%. This compares to 32% spent on the same items in the average OECD country.[3]

Migrants' welfare dependency usually refers to non-pension benefits, as this kind of transfers can be usually received after a short period of residence in the country. Pension contributions, on the other hand, are often perceived as a deadweight loss for migrants, especially when they expect to leave the country before retirement (Dustmann, 1997). Hence, the particular distribution of social expenditure in Italy should make it a less attractive destination as compared to other European countries.

The second important feature of the Italian welfare is its geographical fragmentation. Only a handful of programs are offered by the central government, while the entire areas of education scholarships, social or subsidized housing and income support are fully delegated to the local authorities, mostly municipal governments. Hence, each of the over 8,000 Italian municipalities decides what programs to introduce and how to administer them. Furthermore, such decisions are often subject to budget constraints and need to be reconfirmed fiscal year after fiscal year. In case financial resources ran out before the following budget is approved the programs are terminated and some applicants, who would have otherwise been eligible, are denied access.

At the central level the National Social Security Administration (INPS) administers the unemployment benefits and family, sickness and maternity allowances. Notice, that all these programs are insurance-based, although they do have some redistributive component through minimum and maximum payments. Overall, the coverage of unemployment benefits is extremely low. Family benefits are

[3] *OECD Social Expenditure Database*.

also administered centrally. They are the only national purely non-contributory program in Italy and the most redistributive in the entire system (Baldini, Bosi, and Toso, 2000).[4]

Other than these few programmes, everything else is left to the autonomous initiative of local governments. Although sometimes regions do legislate the introduction of some welfare scheme, it is normally the municipal governments that operate in this area. Such a situation generates a high degree of heterogeneity across the country, with some cities in the richest areas providing a long list of programs for housing, education, child and old age care, general income support. In the poorest regions many cities do not offer any welfare.

Such a fragmentation makes it difficult for general surveys to set out questions that can effectively capture the variety of programs that are offered at the local level. I will be able to look at these programs by focusing on a new administrative archive that contains a random sample of means tests. In fact, in order to apply for any means tested program one has to submit a form that certifies the household's financial situation, hence including income and wealth, equivalized by household size and composition. Such a certificate is issued by a special office at the Social Security Administration and the database that I use is a random extraction of records from their archive. More details about this data source are provided in Section 3.

3 Data

The data source that I use in this paper comes from the administrative archives of the National Social Security Administration, INPS (*Istituto Nazionale per la Previdenza Sociale*). As already outlined in the introduction, anyone applying to a means tested program, including those offered by local administrations, needs to submit an official document that certifies the situation of the households in terms of income and wealth. Such a certificate, called ISEE (*Indicatore della Situazione Economica Equivalente*) is issued by INPS. The data I use are constructed by sampling individuals enrolled with INPS (which simply requires having paid social security contributions of any kind at some point between 1987 and 2004) and linking such a sample with the archive of the ISEE certificates.[5]. Hence, for those individuals who do not appear in the ISEE archive, i.e. those who never applied for a means tested program, I only know a few basic demographic characteristics, like age, gender and, importantly, the country of birth. For those individuals who do have a ISEE record I also have access to all the characteristics that are included in the ISEE application, e.g. family composition, employment status, income.

Thus, I use the information of whether an individual appears in the ISEE archive as an indicator that he/she applied to some kind of means tested program and I compare such an indicator between Italians and non-Italians. I concentrate on means test applications submitted in 2005, the most recent year available in the INPS-ISEE data, although I also have information on ISEE certificates issued since 2001.[6] Since the ISEE measures the economic situation of the household, it does not matter who specifically submits the application, the archive contains information on all household members.

The obvious advantage of using the INPS-ISEE data is the possibility to analyze the use of all those locally-administered programmes that are so important in the Italian context. Additionally, these data also contain the fully disaggregated indicator of the country of birth as well as the exact province of residence, a piece of information that will prove extremely important in my analysis in Section 4. The

[4]The other program with similar characteristics is the *pensione sociale*, social pension, essentially a minimum income scheme for people aged 65 and over.

[5]The sampling is performed on the basis of days of birth. I select all persons of any age born on 4 dates in the calendar year (March 10th, June 10th, September 10th and December 10th). Given the quasi-randomness of births over the calendar year (notice that, having picked a date in each season should make the sampling robust to seasonality in births) such a procedure leads to a random sample of about 1/90 of the reference population (of people enrolled with INPS).

[6]ISEE certificates are valid only for one fiscal year, so if one applies for welfare repeatedly over time, he/she will appear in the ISEE archive with one record for each year in which an application has been submitted.

main drawback is the fact that the presence of a ISEE record simply indicates that the person (or someone in his/her household) applied to one or more of such programs but it does not necessarily mean that the application was accepted. It should also be emphasized that, for the obvious reason that only regularly employed workers pay social contributions, the INPS-ISEE data does not cover illegal migrants.

Table 1 reports some descriptive statistics from the INPS-ISEE data. Overall I have 407,154 observations. The total percentage of immigrants is estimated at around 10%, with over 5% coming from non European countries and the remaining being divided into a 1.3% from the pre-enlargement EU15 and a 3.2% arriving from other EU countries. In terms of benefit applications, approximately 8% of individuals in the sample have a ISEE certificate issued in 2005. Such a percentage shows a very interesting variation between Italians and foreigners. Around 7.9% of natives apply for local welfare as compared to 5.6% of migrants from the pre-enlargement EU15 and 8.4% of migrants from other EU countries. The incidence of welfare applications increases to 9.4% among migrants from other non-European countries. Programs related to education appear to be the most important ones for all types of individuals.

4 Results

This section presents the results of the analysis of welfare use by migrants in Italy using the INPS-ISEE archive.

As I discussed already at length in the introduction and in section 2, standard survey data, such as the EU-SILC, are unlikely to capture the use of the myriad of welfare programs that are offered at the very local level and that play such an important role in the Italian system. The INPS-ISEE data allow to investigate differences in the rate of application to all those local welfare programs between migrants and natives. Table 2 reports the results of a series of probit regressions where the dependent variable is equal to 1 for those individuals who appear to have a ISEE record in 2005, these are individuals who have submitted an application to obtain a ISEE certificate to be included in the application for some kind of means tested welfare program.

The model in the first column of Table 2 only includes a set of dummies for the country of origin, with natives being the reference group. In the following columns the set of controls is enlarged to include first demographic characteristics (column 2) and then (column 3) also dummies for the region of residence (20 dummies). Finally, in column 4 I explore the relative elasticity of the application rates of migrants and natives to the level of local unemployment. The INPS-ISEE data include information on the province of residence, hence in the regression in Table 2 I still include the regional dummies and I use the level of unemployment in the province as an indicator of the labour market conditions. There are over 100 provinces in Italy, a number that is sufficiently large to guarantee the identification of the effect of the unemployment rate within the region.

Unfortunately, the set of possible controls is limited by the fact that I can only use the few pieces of information that can be derived from the demographic archive at INPS. In fact, although the ISEE archive does contain additional variables, those are not available for the individuals who did not submit an ISEE application, which are all the zeros in the dependent variable of the models estimated in Table 2. Later on, in Table 3 I run a different specification that allows me to use all the variables that can be derived from the ISEE archive.

Results in the first column of Table 2 show that, while migrants from the pre-enlargement EU15 are significantly less likely than natives to apply for local welfare (-2.3%), the effect is of the opposite sign for those arriving from outside Europe (+1.5%). These differences are also quantitatively important as compared to the average application rate of around 8% for natives. On the other hand, migrants from other European countries are only marginally more likely than native to use local welfare by a mere 0.4%.

Including same simple demographic controls changes things substantially, especially for non-European migrants, whose coefficients is reduced to +0.4%. The estimated difference between natives and EU15

migrants changes only slightly and decreases to a -2.6%, while the small effect previously estimated for other European migrants now disappears. This result confirms that the process of migrants' self-selection is paramount to understand why their unconditional welfare dependency is higher than that of natives (De Giorgi and Pellizzari, 2009).

The results in column 3 of Table 2, further show that also the selection of migrants into different geographical areas within Italy is extremely important. In fact, the control set in column 3 is augmented with indicators for the region of residence and the estimates for both non-EU15 European migrants and migrants from other continents increase substantially to +2.3% and +2.7%, respectively. Controlling for geographical location generates an increase in the abosolute value of the coefficient of migrants of the order of almost 7 times.[7] The results for EU15 migrants are only marginally affected by the introduction of regional dummies, suggesting that this group does not choose their final destination on the basis of the generosity of local welfare and that their labour market performance is more comparable to that of natives.

These results suggest that the role of geographic residence is crucial in the Italian setting. Local welfare is more generous in the richest areas of the country, where local authorities can rely on more abundant financial resources. At the same time, such areas are also those where migrants are more likely to locate for the obvious reason that, typically, the relative demand for unskilled labour is higher. In rich areas Italians are relatively more educated, thus reducing the supply of native unskilled labour and, potentially, increasing the demand for personal services, like housekeeping and child/old-age care (Mazzolari and Ragusa, 2007). Hence, migrants cluster in rich areas and in unskilled occupations, where they earn lower wages than natives, who are concentrated in high-skill jobs. As a consequence, within geographical locations migrants' welfare dependency is relatively high, which explains why the estimated effects increase when conditioning on the region of residence.

Hence, the important role of geographical location in the estimates of Table 2 is the result of very limited differences in welfare use between migrants and natives in the South of the country - where welfare is not particularly generous anyway - and larger differences in the North, where most migrants are located.

In the last column of Table 2 I exploit the geographical detail of the data to produce estimates of the elasticity of welfare applications to changes in the conditions of the local labour market, an issue of particular interest given the severity of the current economic crisis. This is an exercise that, to my knowledge, has never been carried out before, I suspect, because of data limitations. In the INPS-ISEE data the place of residence is identified at the level of the province, hence it is possible to augment the control set of the regressions in Table 2 with the unemployment rate in the province, while still conditioning on regional dummies. In this specification, the identification of the coefficient on the unemployment rate rests on the assumption that all other local effects are constant at the regional level.

Column 4 in Table 2 reports the estimates of the same model of column 3 with the local unemployment rate interacted with the indicators for migrants. Overall, an increase in local unemployment by 1 percentage point, over an average of 7.9%, corresponding to approximately 20% of a standard deviation, increases the application rate of natives by 0.2 percentage points or 2.5% of the average. The following interactions coefficients allow to explore how such an effect vary across types of migrants. For people coming from the EU15, the effect is only slightly (but statistically significantly) stronger by a 0.1 of a percentage point.

Interestingly, the estimates for both migrants from other European countries and from other continents are negative and large enough to reverse the main effect. Both groups appear to reduce their application rate in the face of increasing unemployment. This is a result that certainly requires more research but, as a first approximation, one could think of at least two mechanisms that may generate

[7] In unreported regressions, I also experimented with province dummies and results are very similar to those reported in Table 2, suggesting that most of such heterogeneity is distributed across regions rather than across provinces (or cities) within regions.

it. First, since migrants, almost by definition, have a higher propensity than natives to move in search of good economic conditions, a rise in unemployment may lead them to leave the area rather than to apply for welfare. Second, since migrants do appear to be paid less in labour market (due either to discrimination or to lower effective skills or to lower bargaining power), employers may substitute native with foreign workers in times of economic hardship. Generally speaking, this result also suggests that worries about a more acute exploitation of welfare services by migrants during recessions seem to be misplaced.

The analysis of Tables 2 suggests the presence of a substantial degree of residual welfare dependency. However, the limited set of control variables leaves the suspicion that such results might be driven by things like family composition or income, that cannot be observed for all individuals in the INPS-ISEE data. For this reason, in Table 3 I concentrate exclusively on observations that do have a corresponding ISEE record, which includes numerous additional variables, and I define the dependent variable as the number of applications submitted in 2005. In fact, one piece of information that applicants must include in their ISEE request is the number of programs they are applying to. This is needed because the Social Security Administration (INPS) sends the means tests certificates directly to the local administrations that implement the programs.

The drawback of this approach is, obviously, the loss of those individuals who do not apply to any program. The advantage, thou, is the possibility to enrich the control set a lot more than what could be done in the exercises reported in Tables 2 and **??**. Given that the dependent variable is a count variable, the model is estimated using a poisson regression.

The unconditional differences in the number of welfare applications reported in column 1 of Table 3 indicate that, conditional on submitting at least one application, Italians apply to more programs than any type of migrant but those from the pre-enlargement EU15, for whom no difference can be detected. These effects remain statistically significant and rather constant also in columns 2 and 3, where individual and household characteristics are introduced. In column 4 I also add regional dummies and the effect disappears for migrants from other European countries but remains significant for those coming from outside Europe. For this last group, however, the coefficient is reduced by approximately two thirds. Such a result confirms the importance of the process of endogenous location decisions that migrants make within Italy. Finally, in column 5 I further expand the control set with the actual value of the means test, i.e. a measure of equivalized income and wealth of the household. Results are hardly affected.

5 Conclusions

In this paper I presented an analysis of migrants welfare dependency in Italy that differs from all previous studies in its use of administrative data. Common survey data are unlikely to capture the use of the myriad of welfare programs offered at the very local level.

The geographical heterogeneity of the Italian welfare system is a well know peculiarity but one that has never been properly acknowledged in studies of welfare use. The empirical evidence based on my administrative data, indeed, suggests that many important features of migrants' welfare dependency could not be detected exclusively with survey data.

In particular, I find that geographical location is paramount. Migrants naturally concentrate in rich areas where the relative supply of skilled workers is high and there is demand for unskilled labour. Hence, they work in jobs that are comparatively less well paid that those hold by natives. As a consequence, they earn less and, having also larger families, they tend to use the local welfare system more intensively than observationally similar Italians.

From the policy perspective, the results presented in this paper confirm the idea that the selection of migrants is important and, therefore, if the government wants to reduce welfare dependency it should, perhaps, implement migration policies that favour the arrival of skilled persons. At the same time,

however, I also show that the selection of locations within the country is equally, if not more important. Specifically, the heterogeneity of welfare provisions across Italy may have the potential to increase dependency and worsen the citizens' view of immigration. Policy aimed at harmonizing the provision of local welfare programs may prove beneficial in this respect.

The findings in this paper also bear a more general message, despite being produced with very specific Italian data, and speak to all those contexts where welfare is heterogeneous across geographical areas, like Germany or the United States.

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Tables

Table 1: Descriptive statistics of the INPS-ISEE sample

	Citizens	Migrants			Sample Size
		EU15	Other Europe	Extra Europe	
Individuals	366,089	5,647	13,739	21,625	407,154
%pop	89.91	1.38	3.37	5.31	407,154
%Requesting benefit	7.94	5.64	8.38	9.44	407,154
%Female	47.91	55.14	47.37	34.31	407,154
Mean age	44.88	42.10	39.95	40.89	407,154
	(12.46)	(10.05)	(9.79)	(9.52)	
%Resident in north west	25.96	23.80	22.56	35.25	407,154
%Resident north east	18.48	21.40	30.65	22.15	407,154
%Resident center	20.22	23.01	27.83	26.26	407,154
%Resident south east	10.39	11.03	8.41	04.23	407,154
%Resident south west	24.92	20.75	10.53	12.10	407,154
Mean household size	3.66	3.62	3.66	3.69	32,605
	(1.27)	(1.19)	(1.41)	(1.58)	32,605
%Employed	61.41	63.63	78.11	79.87	32,605
%Single parent	6.72	8.15	11.33	10.99	32,605
%Work parent	12.08	15.36	17.21	13.20	32,605
Equivalized income	22,908.41	18,700.05.92	14,027.82	13,795.61	28,931
and wealth (if>0)	(20,695.78)	(20,765.78)	(11,454.96)	(11,102.05)	

Means and (std. deviations).

Table 2: Probability of ISEE submission - 2005

Dependent variable = 1 if a ISEE application has been submitted in 2005				
	(1)	(2)	(3)	(4)
Country of origin:				
1=EU15	-0.023***	-0.026***	-0.021***	-0.029***
	(0.003)	(0.003)	(0.003)	(0.005)
1=other European country	0.004*	-0.001	0.023***	0.084***
	(0.002)	(0.002)	(0.002)	(0.007)
1=non-European country	0.015***	0.004**	0.027***	0.098***
	(0.002)	(0.002)	(0.002)	(0.005)
Unemployment rate (province level) and interaction with migrant:				
Unemployment rate				0.002***
				(0.000)
Unemployment rate * (1=EU15)				0.001*
				(0.000)
Unemployment rate * (1=oth. Europe)				-0.005***
				(0.000)
Unemployment rate * (1=non-Europe)				-0.006***
				(0.000)
Individual characteristics	No	Yes	Yes	Yes
Regional dummies	No	No	Yes	Yes
Observations	407,154	407,154	407,154	407,154

All models are estimated as probit regressions. The reported estimates are marginal effects computed at the average of all the control variables. Individual characteristics include a gender dummy and a quadratic function of age.

Table 3: Poisson regression for the number of programs requests with ISEE

Dependent variable = num. of welfare applications in 2005					
	(1)	(2)	(3)	(4)	(5)
Country of origin:					
1=EU15	-0.000	0.024	0.023	0.010	0.011
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
1=other European country	-0.136***	-0.121***	-0.128***	-0.024	-0.014
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
1=other non-European country	-0.190***	-0.194***	-0.201***	-0.086***	-0.076***
	(0.017)	(0.017)	(0.017)	(0.018)	(0.018)
Equivalized income					0.000
and wealth					(0.000)
Individual characteristics	No	Yes	Yes	Yes	Yes
Household characteristics	No	No	Yes	Yes	Yes
Regional dummies	No	No	No	Yes	Yes
Observations	32,605	32,605	32,605	32,605	32,605

Individual characteristics include a gender dummy and a quadratic function of age. Household characteristics include household size, a dummy for single parents and for working parents.