

# Migration to the land of redistribution

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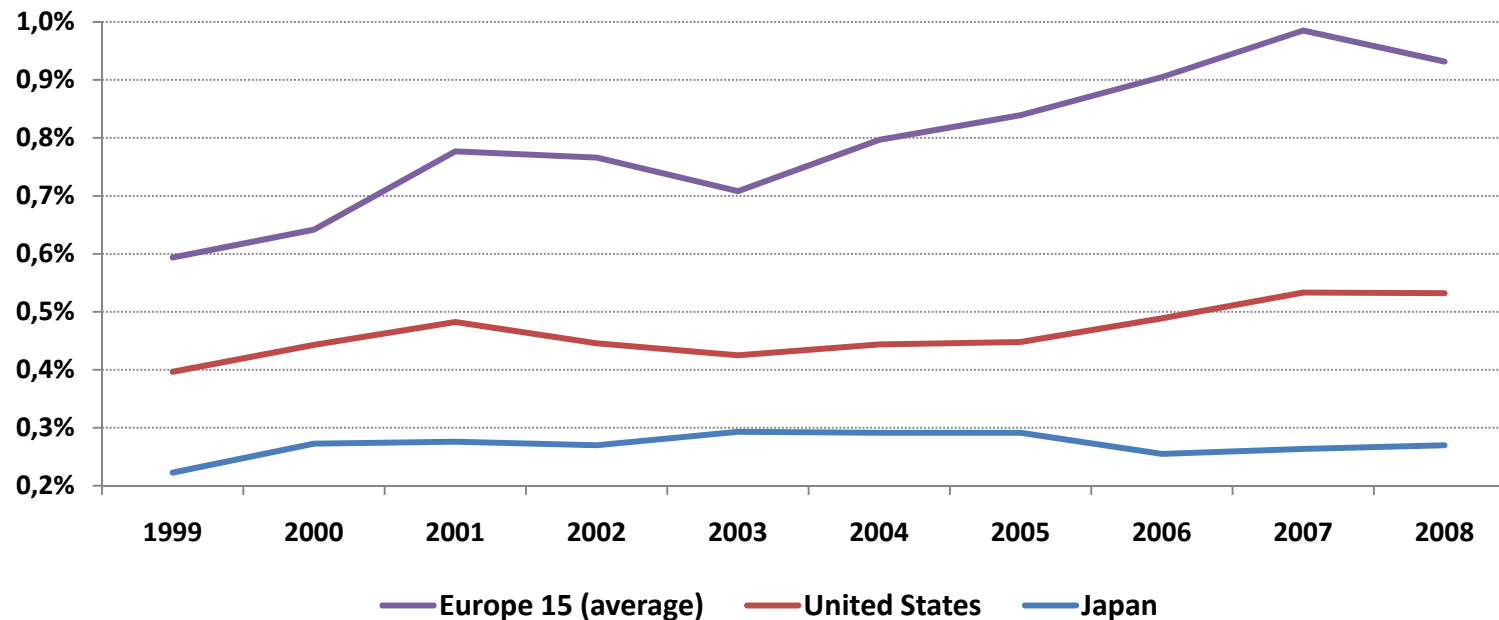
13th Kurt W. Rothschild Lecture

Linz, October 21th, 2010

# More and more migrants to Europe ...

f R  
D B

Annual legal inflows of foreign population  
(as a % of resident population)



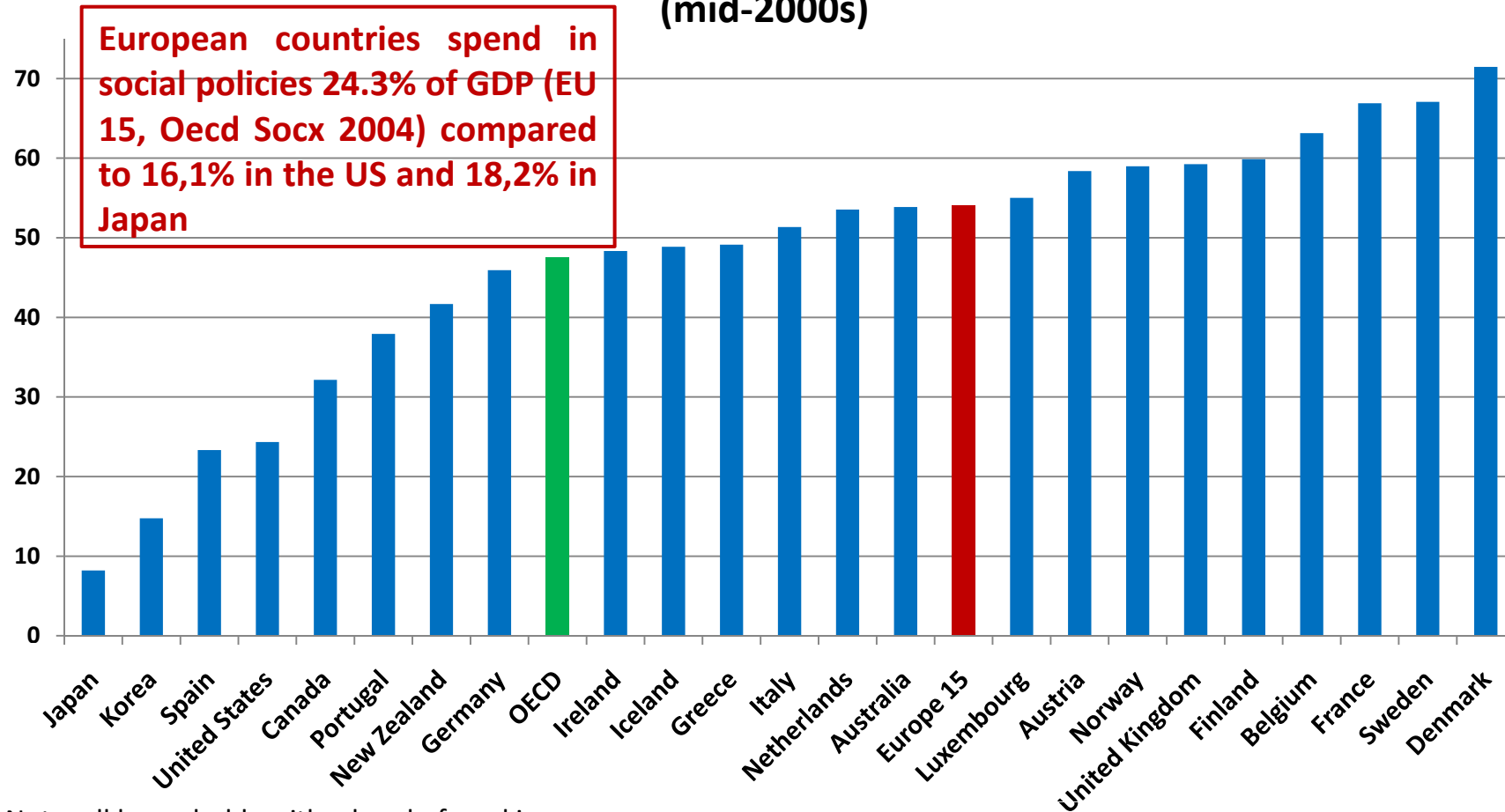
Stock of foreign borns	1998	2008	Delta
Italy	1090820	3891295	257%
Spain	748953	5598691	648%

Source: SOPEMI 2010, Oecd

# ...the land of redistribution

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Percentage reduction of poverty rates operated by net social transfers  
(mid-2000s)



Note: all households with a head of working age

Source: own elaborations on Oecd Employment Outlook 2009

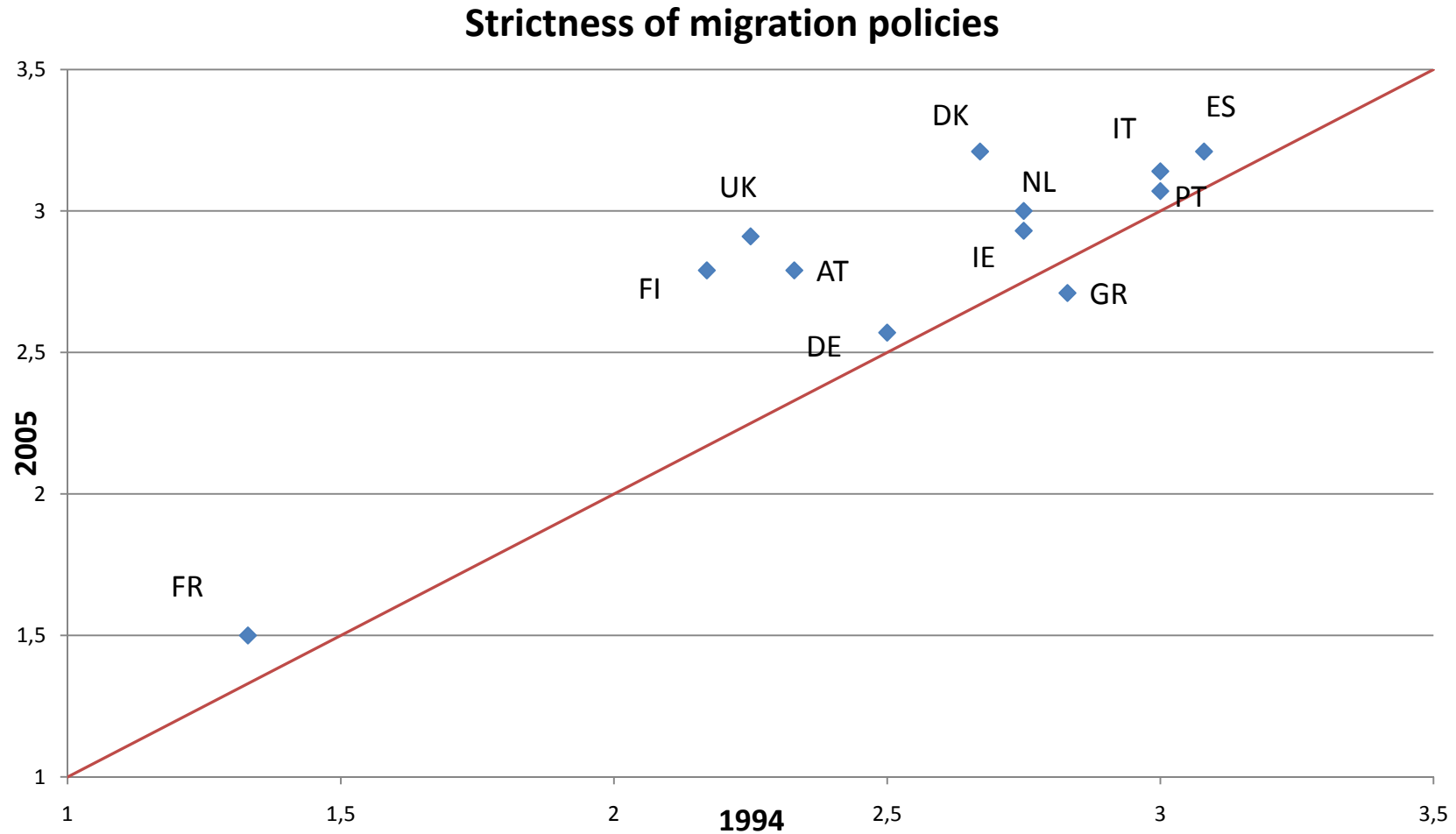
# Deteriorating Perceptions

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D B

% of respondents agreeing with the following statements		Germany	Spain	France	UK	Italy <sup>(1)</sup>
<i>"immigration bad for country's economy"</i>	ESS 2002	31	26	28	44	27
	ESS 2006	40	25	39	46	41
	<b>2006-2002</b>	<b>9</b>	<b>-1</b>	<b>11</b>	<b>2</b>	<b>16</b>
<i>"immigrants make country worse place to live"</i>	ESS 2002	34	37	37	42	42
	ESS 2006	42	36	42	47	54
	<b>2006-2002</b>	<b>7</b>	<b>-1</b>	<b>5</b>	<b>5</b>	<b>14</b>
<i>"unemployed immigrants should be made to leave"</i>	ESS 2002	50	25	32	53	49
	Harris 2009	67	71	51	78	79
	<b>2009-2002</b>	<b>17</b>	<b>46</b>	<b>19</b>	<b>25</b>	<b>30</b>

Notes: 1) The ESS survey took place in Italy only in 2002 and 2004.

# Tightening of Migration Policies



Source: fRDB Inventory of migration policies (1990-2005)

# Politicians point to “welfare shopping” <sup>f</sup> **R** **D B**

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- *Claus Hjort Frederiksen* (Danish Minister for Employment, 2006) : “If immigration from Third World Country were blocked, 75 per cents of the cuts necessary to maintain the welfare state would be unnecessary”
- *Heinz-Christian Strache* (leader of FPO, Austria, 2009): “Social housing, family allowances and child subsidies should become a citizen's right only and should not be given easily to immigrants”
- *Thilo Sarazzin* (former Berlin central banker, 2010): “Germany is digging its own grave by admitting waves of immigrants who are spongers, welfare cheats, and sub-intelligent beings”

# More?

f R  
D B

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- *Roberto Maroni* (Italian Minister of Interior, 2010) “Migrants are a negative resource; we should not build houses (and religious sites) for them; it is outrageous that migrants acquire the same rights of Italians while only the latter pay”.
- *Siv Jenin* (Norwegian Progress Party), “There is a large number of immigrants living on welfare and they have been in this condition for a very, very long time”.
- *Catherine Megret* (French Front National, 2010) “There are simply too many immigrants, who knows how many children they send to the streets and then claim welfare”.
- *Kai Pontinen* (keyword in the 2009 campaign for European Parliament in Finland) “Stop to welfare bum immigrants”.

# Key issues

f R  
D B

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- Are measures of mass inclusion becoming weapons of mass exclusion?
  - Are negative perceptions related to the fiscal effects of migration, notably the fear of welfare shopping?
  - Do actually migrants draw on welfare, are they a *net* burden for European countries?
  - What can be done to *decouple* migration and welfare?



# Outline

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- Driving factors behind negative perceptions of migrants in Europe.
- Empirical evidence on:
  - net fiscal position of migrants
  - residual dependency on the welfare state
  - effects of the generosity of the welfare state on the skill composition of migration
- How to decouple migration and welfare?

# “Grading” immigration

f R  
D B

- Source: European Social Survey, cross-sectional survey initiated in 2002.
- All variables are expressed as 0-5 indexes
- Overall evaluation: “immigration is good or bad for our economy?” (0:bad - 5: good)
- Specific assessments
  - Fiscal Drain: “do you think migrants take out more than they put in or put in more than they take out?”
  - Poverty and unemployment: average scores for two questions, namely “immigrants take jobs away” and “harm prospects of the poor”
  - Wages: “average wages are reduced by migrants”.
  - Crime: “immigrants make [country]’s crime rate worse”.

# Determinants of the overall “grading”

(OLS regression)

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Overall Economy  
Dependent variable: Migrants are bad/good  
(0-5) for the economy

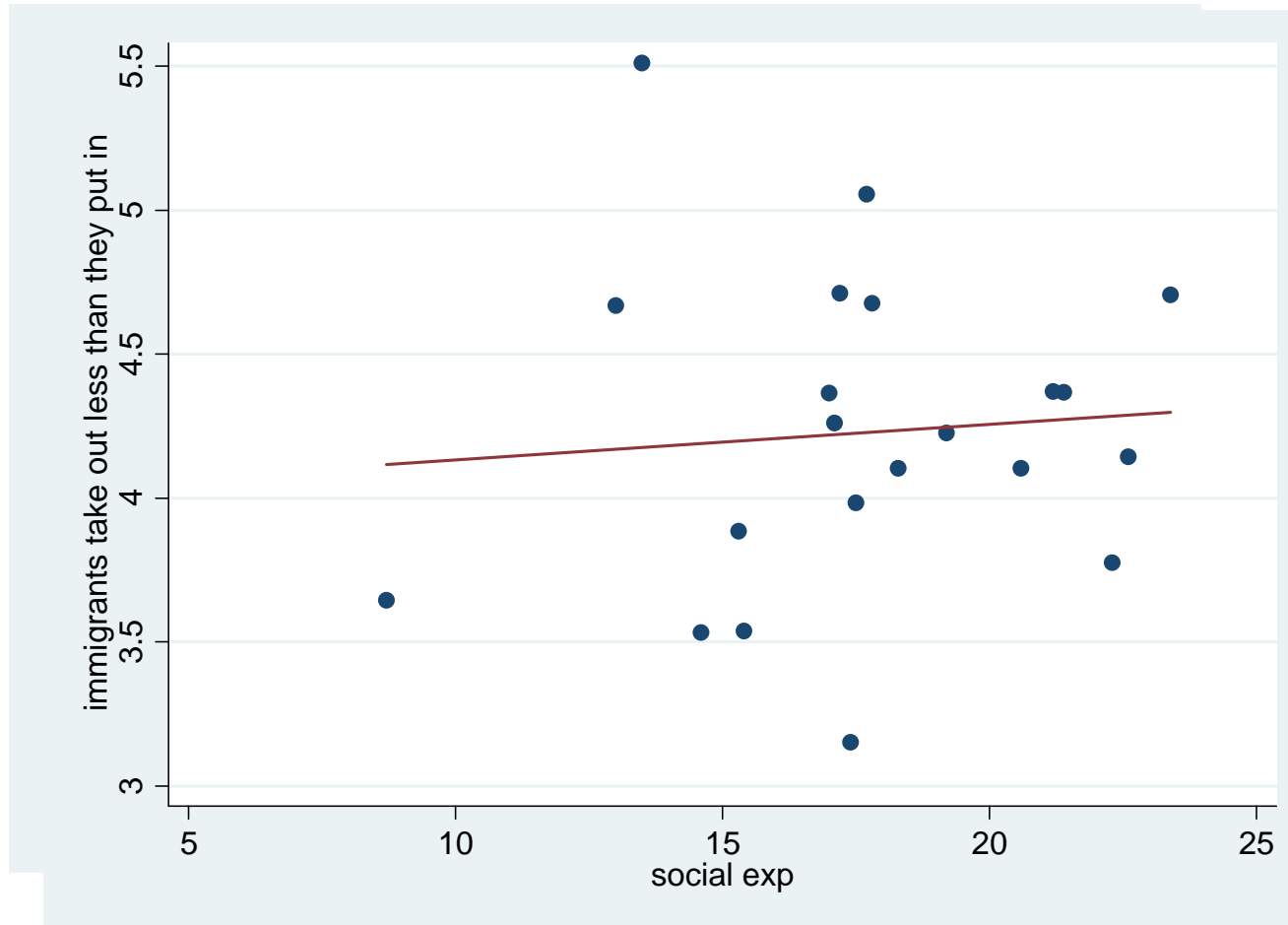
	All
Primary edu	-0.131*** (-6.910)
Tertiary edu	0.132*** (9.752)
Fiscal drain	0.318*** (47.888)
Poverty/unemployment	0.182*** (30.525)
Crime rates	0.162*** (23.700)
Wage effects	0.083*** (14.342)
Country Dummies	Yes
Observations	20492
R squared	0.39

Fiscal drain is by and large the main driver of negative perception. Poverty, crime rates and wage effects have a much lower explanatory power.

Notes: It statistics in brackets, \* significant at 10 per cent, \*\* significant at 5 per cent, \*\*\* significant at 1per cent. Individual controls are: age, sex, income level, living in a city, presence of migrants among relatives or friends, left wing ideology, labour market status relative to immigrants, immigrant. Source: ESS 2002.

# Large cross-country variation

f R  
D B



Source: ESS 2002

# Summarising perceptions

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D B

- The perception of a fiscal drain is the main driver of negative perceptions
- Education improves perceptions
- Cross-country heterogeneity in perceptions about fiscal effects can be partly explained by the different generosity of the welfare state
- Negative perceptions are also (but less) related to poverty and unemployment, and crime rates

# Outline

f R  
D B

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- Driving factors behind deteriorating perceptions of migrants in Europe.
  - Empirical evidence on:
    - net fiscal position of migrants
    - residual dependency on the welfare state
    - effects of the generosity of the welfare state on the skill composition of migration
  - How to decouple migration and welfare?

# Main channels

f R  
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Simple model. Negative fiscal externalities of migration related to:

1. Average ***net fiscal position*** of migrants: how much do they pay and how much do they get?
2. ***Welfare dependency*** : do they take more than what they are supposed to in light of their characteristics (age, number of children, labour market status, skill, income)?
3. **Skill composition of migration**: do countries with more generous system attract migrants more likely to draw on welfare (low-skilled, with many dependent family members, etc.)?

# Recent Literature

f R  
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- Cohen, Razin and Sadka (NBER WP, 2009): high (low) skilled migrants have a positive (negative) effect on the level of welfare state
  - Facchini and Mayda (REStat, 2009): positive (negative) impact of education on pro-immigration preferences in higher (lower) per capita GDP countries. Negative (positive) effect of individual income in higher (lower) per capita GDP countries.
  - Pellizzari (2010): immigrants from outside Europe and from other non Eu-15 are more likely to apply for local welfare in Italy (+1.5% and +0.4%) than natives.
  - See Barrett and McCarthy (Oxford Review of Economic, 2008) for a review of earlier studies.



# EU-SILC data

f R  
D B

- EU cross-sectional survey of Income and Living Conditions (SILC). 4 waves (2004 - 2007).
- It provides detailed information on the tax and benefit position of the interviewees and of their families (n° of recipients & amount received).
- Detailed coverage of the take-up of welfare programmes:
  - *Contributory* : unemployment, pensions, sickness, disability.
  - *Non-contributory*: housing and family allowances
- Relatively large sample (more than 1.6 million obs. , about 5% of them are migrants)

# Caveats

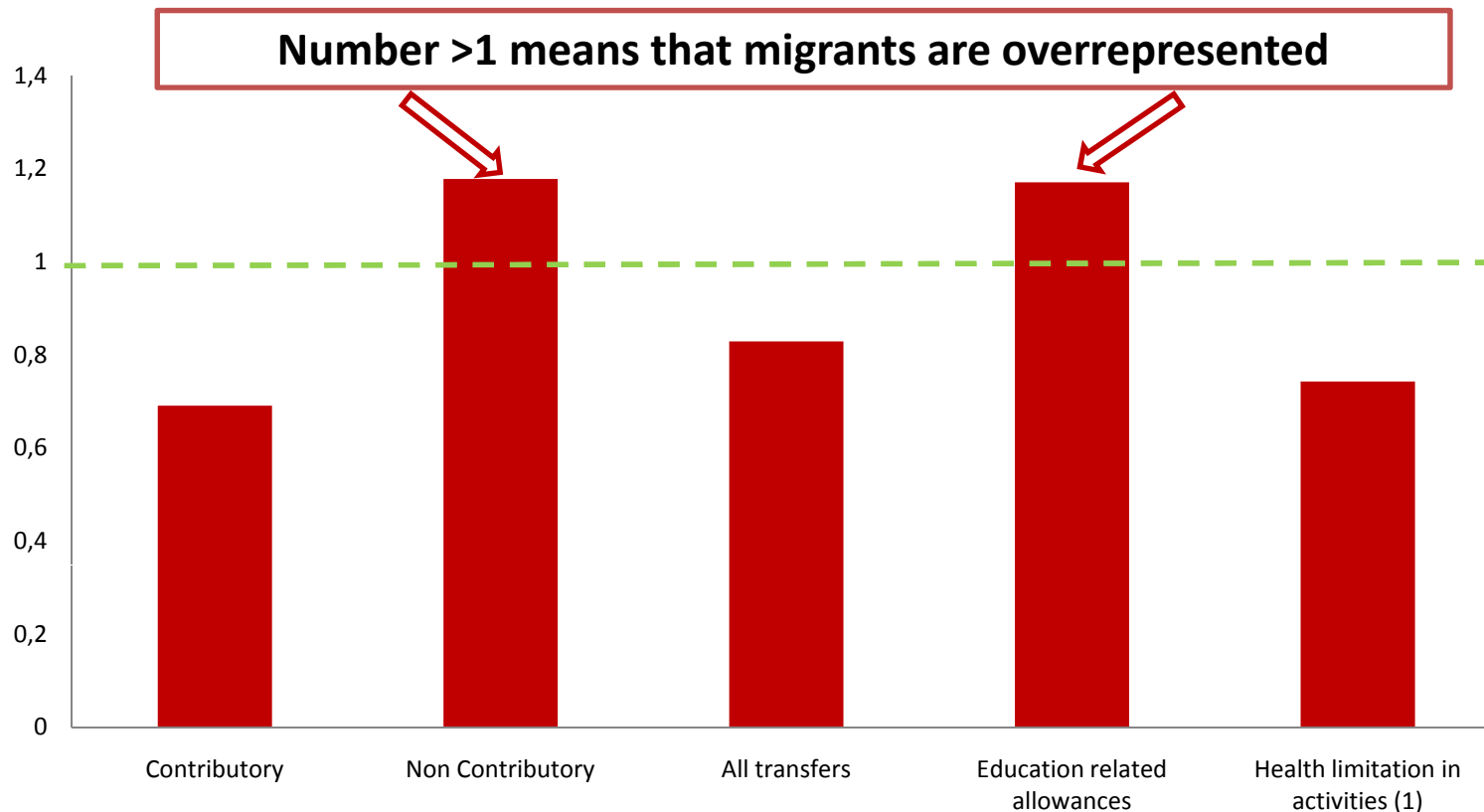
f R  
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- Migrants can be defined either on the basis of their citizenship or country of birth. We use citizenship. Good for former colonies.
  - No way to disentangle within and outside EU25.
  - Static notion of the net fiscal position (transfers-taxes & SSC): no consideration of the lifetime contributions/benefits (e.g., pensions).
  - Very limited information on health and schooling benefit/costs.

# More likely than natives to be beneficiaries?

f R  
D B

Migrant to natives odds ratios of the receipt of various types of transfers (EU15)



Source: EU-SILC (yearly averages, 2004-2007), pooled data.

Notes: (1): % of respondents declaring to have "limitation in activities people usually do because of health problems for at least the last 6 months"

# Net Fiscal Position of migrants

f R  
D B

<i>Country</i>	<i>share of net contributors (SNC) among migrants</i>	<i>SNC: migrants over natives</i>	<i>ANFPMigrants – ANFPNatives ANFP Stdev. overall</i>
Austria	78,3%	1,34	0,12 **
Belgium	84,0%	0,91	0,37 ***
Denmark	52,2%	0,84	-0,49 ***
Finland	47,2%	0,80	-0,57 ***
France	44,5%	0,81	-0,32 ***
Germany <sup>+</sup>	64,4%	1,21	-0,11 ***
Ireland	50,3%	1,06	-0,20 **
Luxembourg	54,9%	0,99	-0,18
Norway	55,7%	0,86	-0,53 ***
Spain	91,7%	1,54	0,35 ***
Sweden	49,0%	0,77	-0,55 ***
United Kingdom	68,9%	1,23	0,23 ***

\*\*\* significant at 99%, \*\* at 95%, \* at 90% (t-test on equality of migrants' and natives' ANFP).

<sup>+</sup>Germany, in the EU-SILC no distinction is made between EU and non-EU migrants.

Source: EU SILC 2004, 2005, 2006, 2007; pooled data.

# Residual dependency/social free-riding

f R  
D B

Coefficients of migrant dummies in probit regression of benefit receipt

Contributory Extra EU 25		Non Contributory Extra EU 25	
<i>Austria</i>	-0.01	<i>Austria</i>	-0.06***
<i>Belgium</i>	-0.20***	<i>Belgium</i>	0.14***
<i>Denmark</i>	0.06***	<i>Denmark</i>	0.04
<i>Finland</i>	0.07***	<i>Finland</i>	0.16***
<i>France</i>	-0.10***	<i>France</i>	0.29***
<i>Germany<sup>+</sup></i>	0.03**	<i>Germany<sup>+</sup></i>	0.15***
<i>Greece</i>	-0.08***	<i>Greece</i>	-0.05***
<i>Ireland</i>	-0.19***	<i>Ireland</i>	-0.03
<i>Italy</i>	0.00	<i>Italy</i>	-0.01
<i>Luxembourg</i>	-0.10***	<i>Luxembourg</i>	0.10**
<i>Netherlands</i>	-0.13*	<i>Netherlands</i>	0.42***
<i>Portugal</i>	-0.12***	<i>Portugal</i>	-0.18***
<i>Spain</i>	-0.09***	<i>Spain</i>	-0.02***
<i>Sweden</i>	-0.24***	<i>Sweden</i>	0.02
<i>United Kingdom</i>	-0.16***	<i>United Kingdom</i>	-0.24***

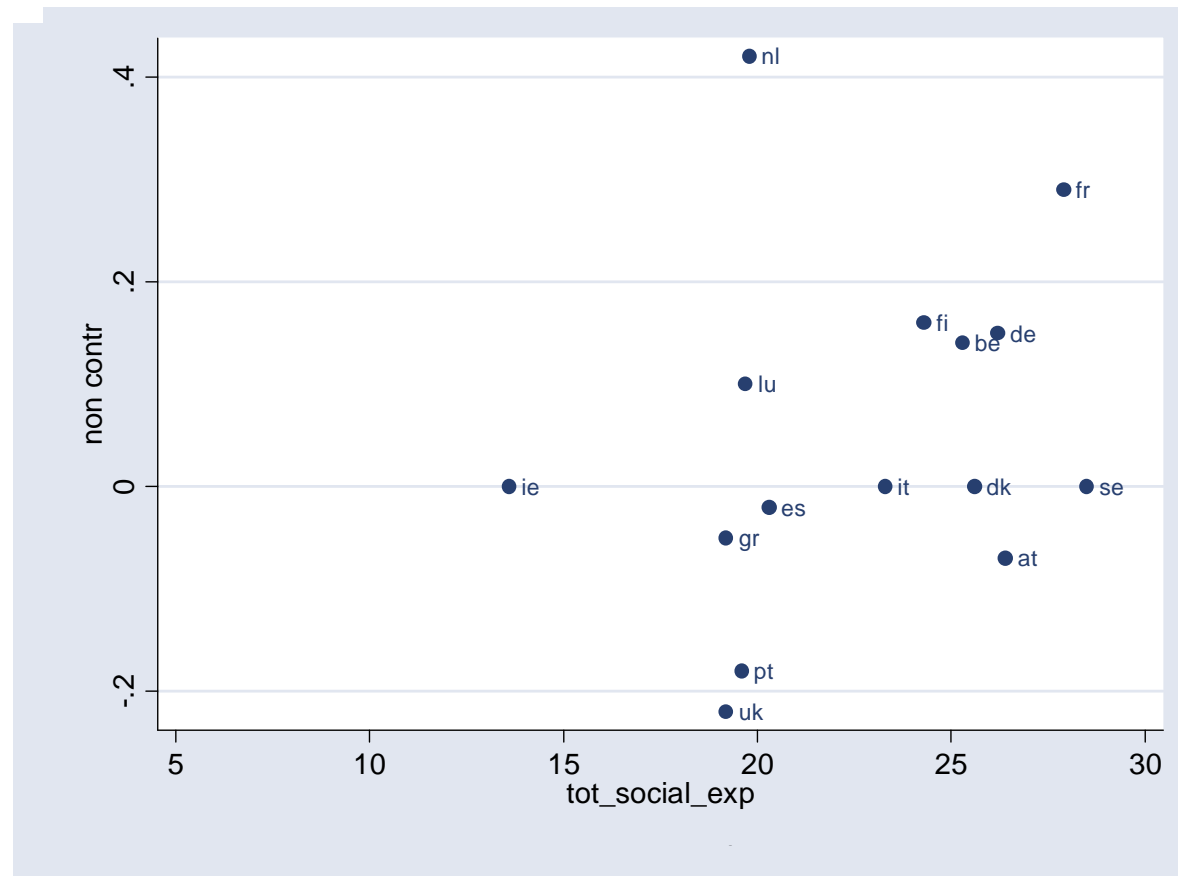
Social Free Riding

Residual Dependency

It includes the following controls: gender, age (linear and quadratic), number of children, family size, educational attainment, house ownership, labour market status of the respondent and of the partner. Source: EU-SILC 2004-07, pooled data.

# Residual dependency vs. social expenditure

f **R**  
**D B**



Source: EU-SILC, 2004-2007

# Summarizing

f R  
D B

- Social Free Riding: In 10 countries over 15, being migrant extra EU 25 *lowers* the probability of receiving contributory benefits. The exceptions are in this case Denmark, Finland and Germany.
- In 6 countries there is evidence of a sizeable Residual Dependency of migrants on non-contributory transfers. Also 4 countries with low take-up rates of migrants for this kind of transfers.

# Skill composition of migrants is deteriorating

f R  
D B

Ratio of the share of individuals with tertiary education in the migrant population and the same share in the native population

<i>Country</i>	<i>Relative Share '90</i>	<i>Relative Share '00</i>	<i>Δ 2000-1990</i>
Spain	2,19	1,15	-1,05
Portugal	1,85	1,03	-0,82
Greece	1,79	0,99	-0,80
Italy	1,60	0,91	-0,69
Germany	1,98	1,36	-0,61
Norway	1,48	1,05	-0,43
Ireland	2,83	2,50	-0,33
Netherlands	1,08	0,87	-0,21
France	1,32	1,12	-0,20
Belgium	1,05	0,87	-0,18
Austria	0,77	0,71	-0,06
Finland	1,03	1,01	-0,02
Denmark	0,78	0,81	0,03
Uk	1,67	1,83	0,16
Sweden	1,11	1,29	0,18

Sources: Own extrapolations on data from Docquier (2006) and Barro-Lee (2000)



# Not all social transfers are correlated with low skill migration

f R  
D B

	Dependent variable: Difference in Relative skill ratio (2000-1990)	
	(1)	(2)
<i>Active labor market programmes</i>		0.141 (0.547)
<i>Housing policies</i>		-0.491 (1.04)
<b>Unemployment benefits</b>		<b>0.301**</b> (2.37)
<b>Total social expenditure</b>	<b>-0.065**</b> (-2.69)	<b>-0.113***</b> (-3.59)
<i>Constant</i>	-0.071 (-0.92)	-0.044 (-0.49)
<i>Regional dummies</i>	no	no
<i>Observations</i>	27	21
<i>R squared</i>	0.22	0.54

Source: Oecd and own elaborations on data from Docquier (2006)

Notes: (2) independent variables are also given by differences between 2000 and 1990.

# Overall

f R  
D B

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- Migrants overrepresented among recipients of non-contributory systems and lower ANFP than natives. Some residual dependency on non-contributory transfers in countries with a generous welfare system. Contributory systems: social free-riding on migrants.
  - The skill content of migration decreased everywhere, more so in those countries with a more generous social policy system
  - Thus, all three factors at work (NFP, residual dependency and skill) although large cross-country differences.

# Outline

f R  
D B

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- Driving factors behind deteriorating perceptions of migrants in Europe.
- Empirical evidence on:
  - net fiscal position of migrants
  - residual dependency on the welfare state
  - effects of the generosity of the welfare state on the skill composition of migration
- **How to decouple migration and welfare**

# How to decouple migration and welfare? <sup>f</sup> **R** **D B**

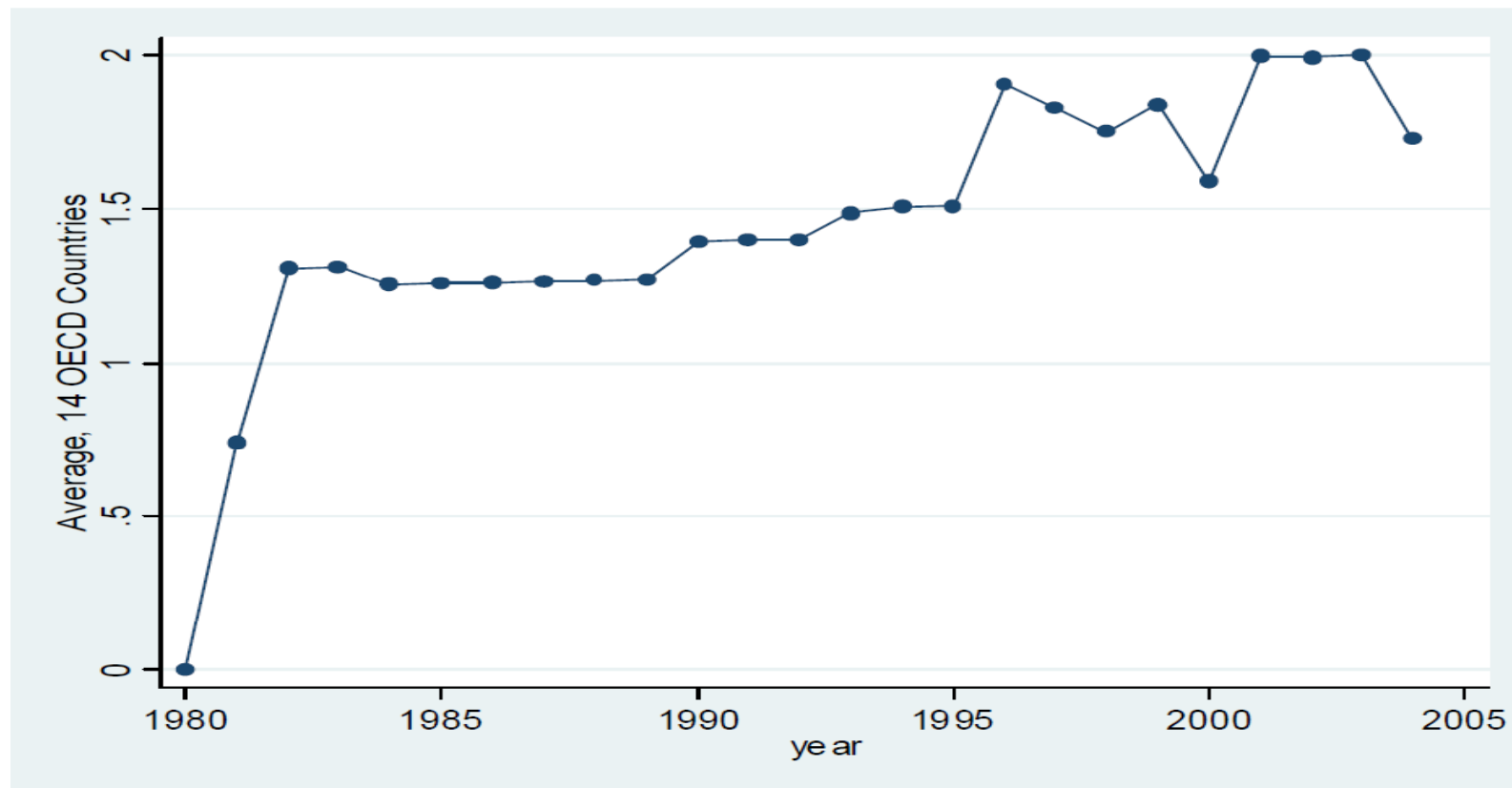
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- Demand for social protection just while social protection increases conflict of interest between natives and migrants and skilled and unskilled natives.
- Policies to decouple migration and welfare:
  1. closing the welfare door;
  2. introducing a “points-based system” (PBS);
  3. harmonising safety nets at the EU level;
  4. increasing the contributory component of social welfare.

# 1. Closing the Welfare Door

f **R**  
**D B**

Reform takes values +1, -1 or 0 depending on whether they increase, reduce or keep unchanged restrictions for migrants to the access to welfare benefits granted to natives.



Source: Brucker et al. (2009) based on fRDB database on immigration policies.

# Pros and Cons

f R  
D B

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- It could reduce the proportion of unskilled workers in migration inflows.
  - It postpones the assimilation of migrants who are already in the country or who would come in any event
  - Thus, **it may increase the negative externalities on the natives of immigration to rigid labour markets, by pushing many migrants into illegal activities**
  - The enforcement of this policy is also problematic, given the sizeable population of immigrants already in the EU (about 32 million). US experience revealing.

# Welfare Access and Assimilation <sup>f</sup> **R** **D B**

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- Boeri, Monti, Pellizzari, 2010. Reddito Minimo di Inserimento (means-tested social assistance scheme) introduced in 1998 as a pilot scheme in some municipalities
- Crime data (Istat) (1995-2004): Crimes reported by the Police to the Judiciary Authority by type of crime. Apprehensions over total reported crimes (efficiency)

# Crime reduction in Southern Italy <sup>f</sup> **R** **D B**

	log thefts (1000 inhab.)	
	(1)	(2)
u rate	-0.227 (0.272)	-0.224 (0.273)
big city	0.616*** (0.068)	0.618*** (0.069)
value added per capita	0.000** (0.000)	0.000** (0.000)
rmi coverage	-0.097** (0.045)	-0.095** (0.046)
big city*rmi		-0.037 (0.085)
year dummies	Yes	Yes
province dummies	Yes	Yes
constant	2.071*** (0.237)	2.068*** (0.238)
adj. R-squared	0.926	0.926
Obs.	294	294

An increase by 10 percentage points of the population covered by social assistance reduces thefts by about 1 percent.

Source: Boeri, Monti, Pellizzari, 2010

October 21, 2010

Tito Boeri

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## 2. Adopting a PBS?

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### (example of the Australian system)

D B

Table 2.2 The Australian skilled migration system, 2009

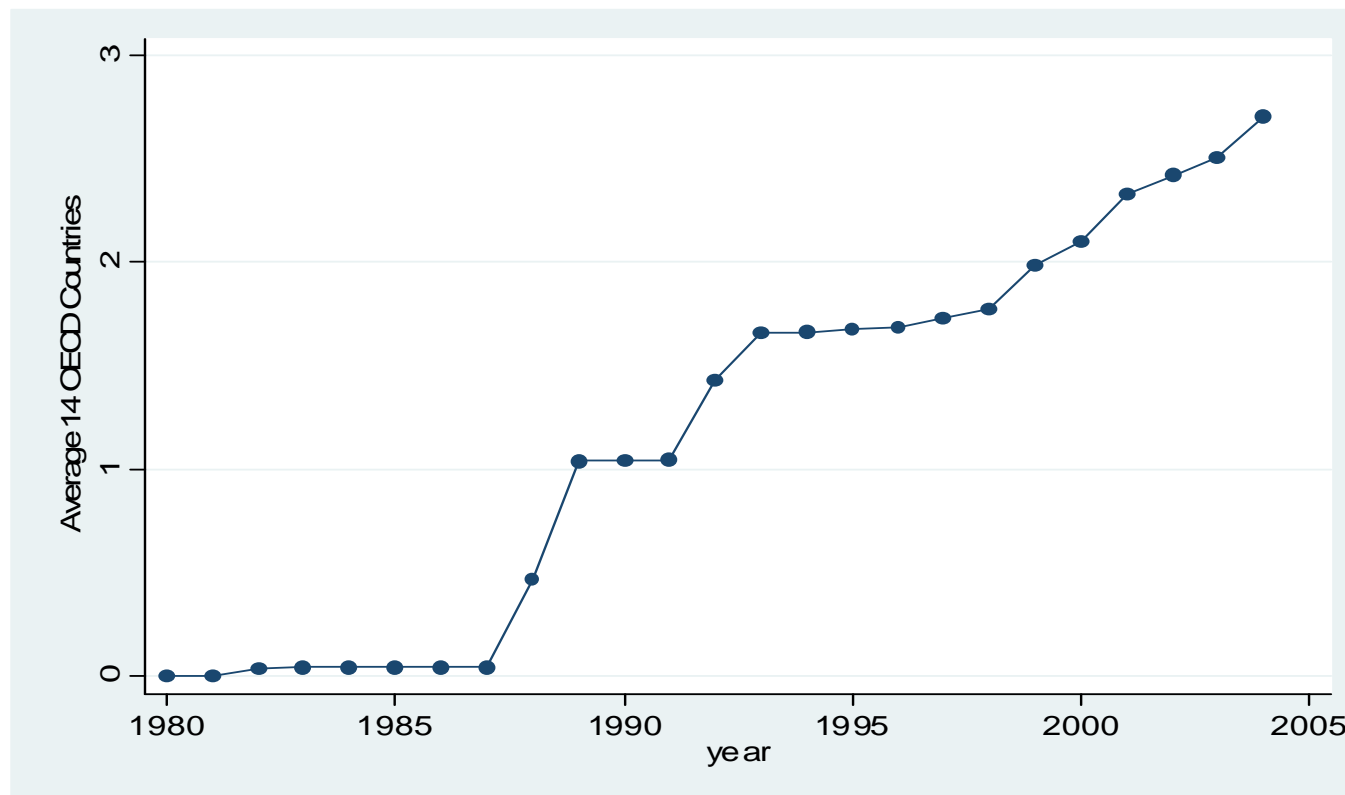
	Maximum number of points
Occupation	60
Age	30
English language proficiency	25
Specific employment	10
Australian employment	10
Australian qualifications	25
Occupation in demand	20
Designated language	5
Studying and living in regional Australia	5
Partners skill	5
State/territory government nomination	25
General skilled immigration pass mark	120
Employer Nominated Scheme pass mark	100

Source: Australian Government (<http://www.immi.gov.au/skilled/general-skilled-migration>)

# Policies are getting increasingly skill-selective

f **R**  
**D B**

Reform takes value +1 when it encourages skilled migration and 0 when it is neutral.



Source: Brucker et al. (2009) based on fRDB data base on immigration policies.

# Pros and Cons

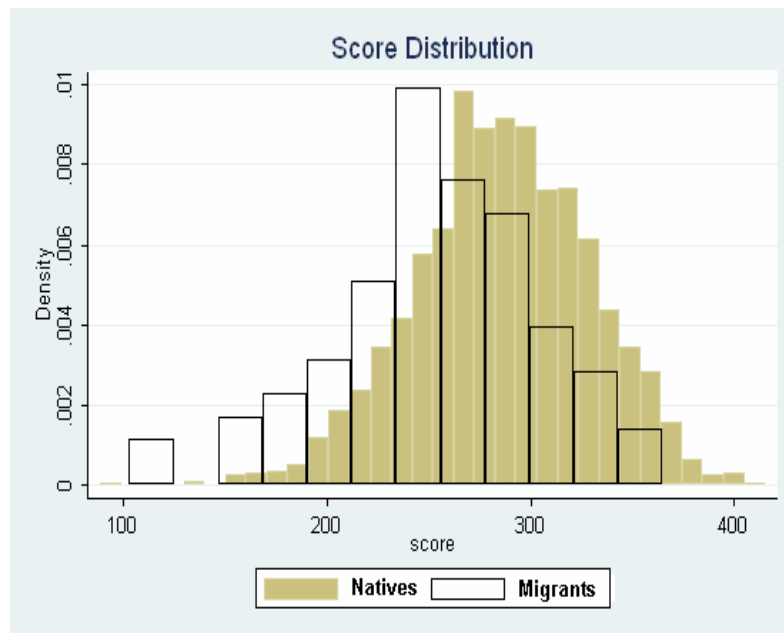
f R  
D B

- 
- It may encourage more skilled migration, involving less, if any, negative fiscal externalities.
  - It could simplify migration regulations, e.g. ad-hoc policies for highly-skilled & asylum seekers.
  - Potential second round effects via enhanced growth (if migrants more skilled than natives).
  - Approach being followed in more and more countries de facto if not de jure.
  - But how effective are points systems in selecting migrants? Need of strong signals (EU-level policies) to affect behaviour in the sending country

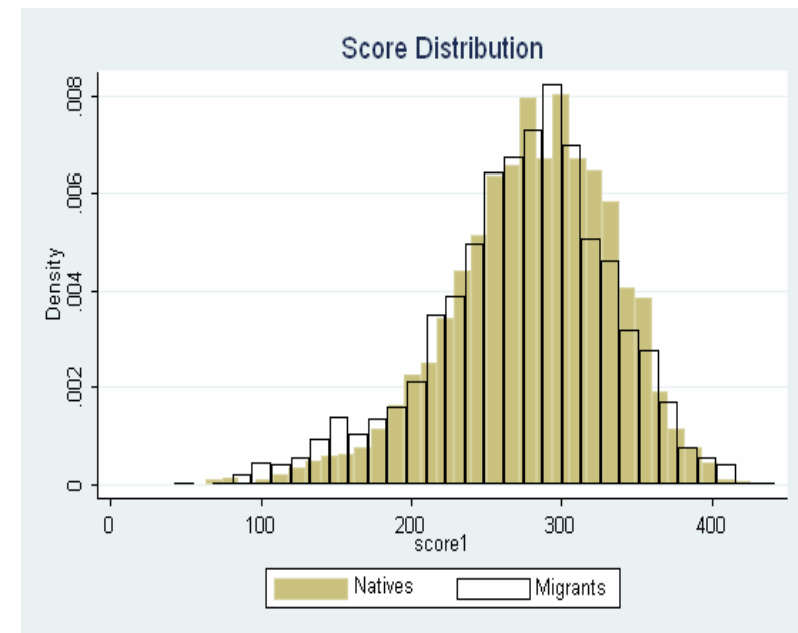
# IALS scores of natives and migrants

f R  
D B

Germany



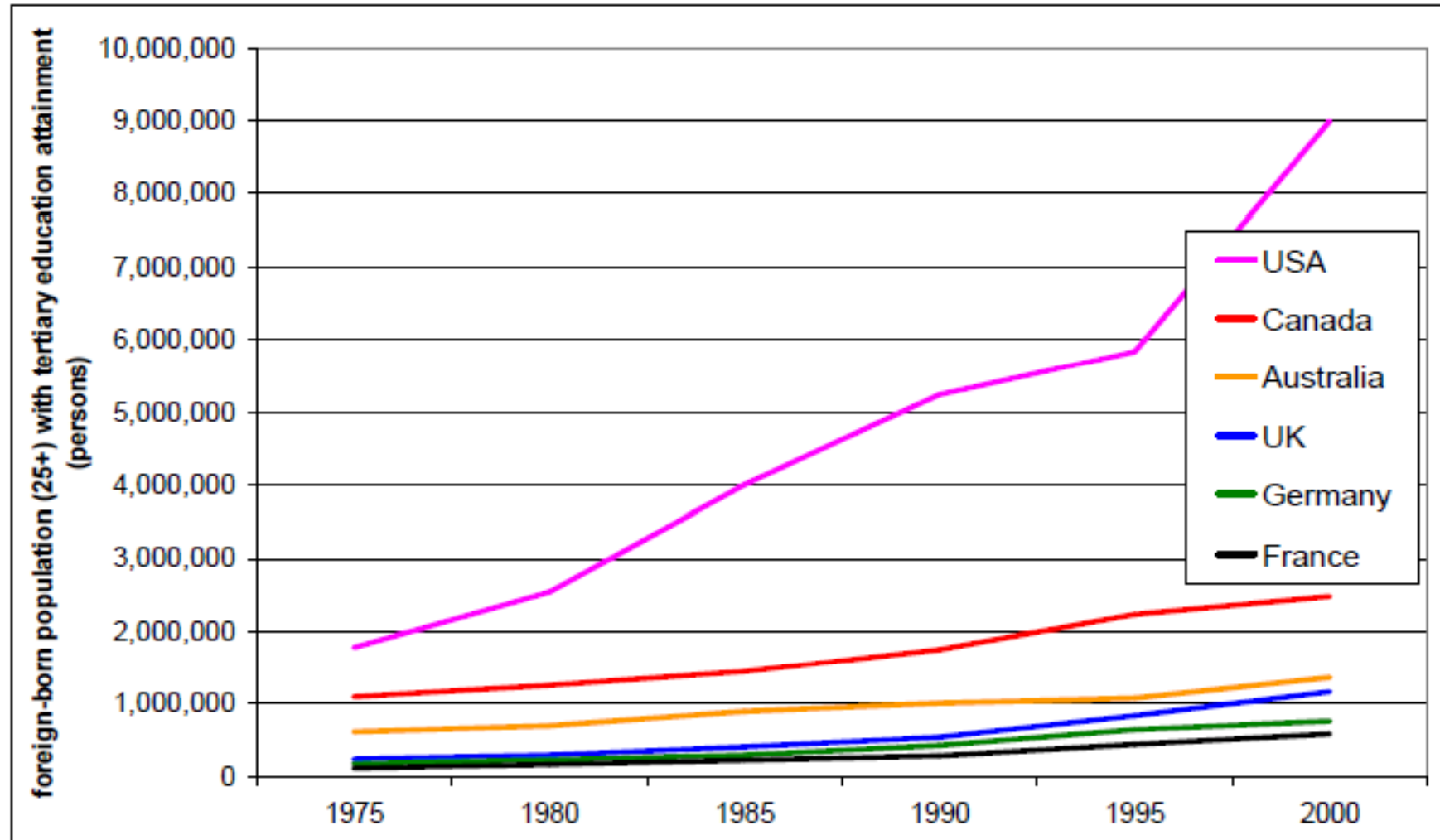
Canada



Source: IALS 2004

Bruecker et al. (forthcoming in Boeri, Brucker and Docquier, OUP 2011) sample of 74 countries (including 14 OECD countries): pro-skilled policies increase by 11% the ratio of tertiary to primary educated migrants.

# The winners in the race for brains<sup>f</sup> **R** **D** **B**



Sources: Data source Defoort (2009); own calculations.

# 3. Harmonising minimum welfare across jurisdictions

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f **R**  
**D B**

- EU-wide minimum welfare floor (Atkinson (1998)) preventing a “race to the bottom” in non-contributory transfers
- Important design features (adjustment to PPP, financing, etc.)
- If provided as citizenship right, necessary to coordinate policies on citizenship as well.
- Is the EU ready for this?

# Costs of a European Minimum Guaranteed Income

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f R  
D B

- De Giorgi and Pellizzari (2006) estimate that a scheme harmonised at 430 net monthly euros at purchasing-power-parity for a single without children (roughly the average of the MGIs offered in the EU-15 in 2000) would cost about 30 billion euros, which is about  $\frac{3}{4}$  of the current expenditure for social assistance and housing at the EU level. (CAP was 53 billion in 2007)
- Schmitter (1999) noted that 50 billion euros would more than suffice to lift all EU-15 citizens out of poverty

# 4. Increasing the Contributory Component of Social Policies

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f **R**  
**D B**

- A possible reform: make EU social policy systems more *Bismarckian* or proactive. Mutual obligation principle.
- Policies enforcing strict entitlement rules to unemployment assistance are useful in reducing long-term dependency on social welfare.
- Benefit Sanctions (ranging between 5 and 35 per cent of the benefit amount), proved rather effective in quasi-experiments also in Europe in reducing unemployment duration.



# Final Remarks

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D B

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- Perceptions that migrants are a fiscal burden drive negative perceptions of migrants in redistributive Europe.
  - Just while immigration is rising and there is increased demand for social protection among low-skilled natives.
  - Are perceptions well grounded? Only partly so. Some evidence of “residual dependency” of migrants on non-contributory transfers and self-selection of low skilled migrants in countries with generous welfare state.

# What to do?

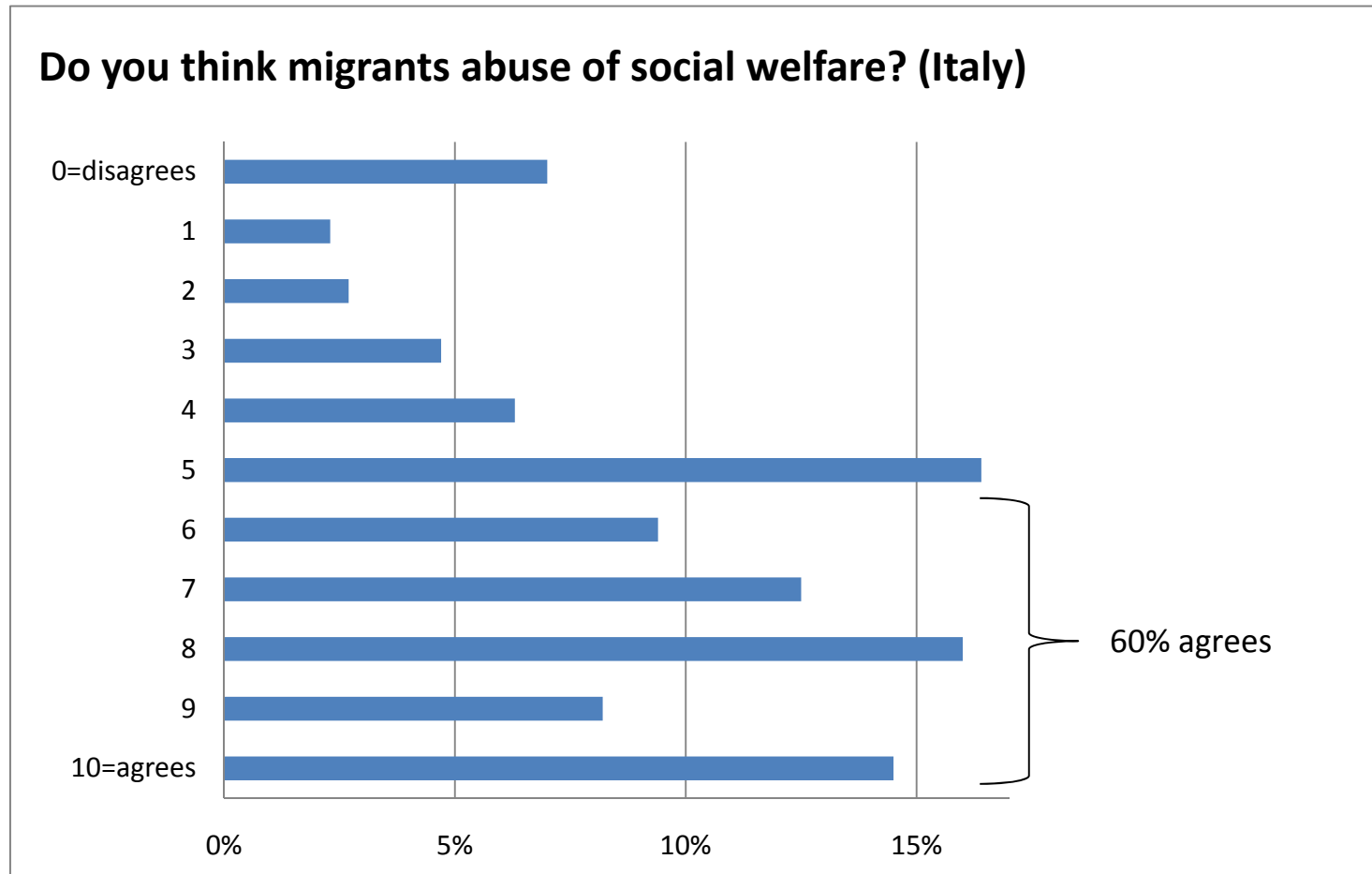
f R  
D B

- So far response of Governments only in terms of tightening of migration policies, cuts on welfare access by migrants and adoption of skill-selective migration policies.
- Explicit PBS and harmonisation of welfare minima may be better solutions, but require cross-country co-ordination which is lacking (example of Rom deportations)
- The only feasible option in the short-run may be to expand the contributory component of social

# ANNEX

# Deteriorating perceptions

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Source: fRDB Survey

# Cross correlations

f R  
D B

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	<b>Overall economy</b>	<b>Fiscal drain</b>	<b>Poverty/ unemployment</b>	<b>Crime rates</b>	<b>Wage effects</b>
<b>Overall economy</b>	1.0000				
<b>Fiscal drain</b>	0.4927	1.0000			
<b>Poverty/ unemployment</b>	0.3597	0.3756	1.0000		
<b>Crime rates</b>	0.4409	0.3759	0.3149	1.0000	
<b>Wage effects</b>	0.3274	0.2567	0.2372	0.5054	1.0000

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# Determinants of overall “grading”

(OLS regression)

f R  
D B

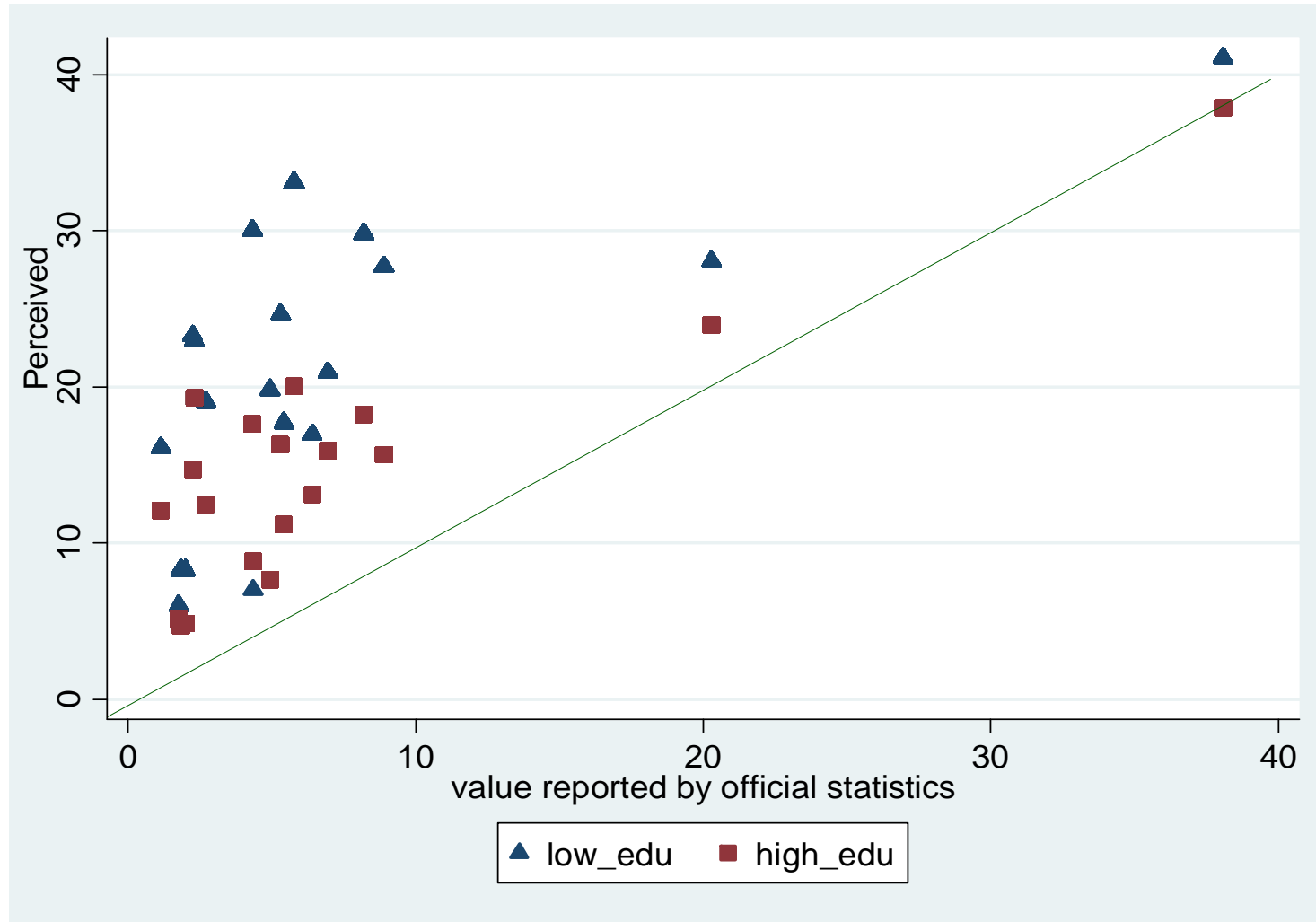
Overall Economy					
Dependent variable: Migrants are bad/good (0-5) for the economy					
	<i>All</i>	<i>All-perceived</i>	<i>primary edu</i>	<i>tertiary edu</i>	
<i>Primary edu</i>	-0.131*** (-6.910)	-0.124*** (-6.096)			
<i>Tertiary edu</i>	0.132*** (9.752)	0.123*** (8.847)			
<i>Fiscal drain</i>	0.318*** (47.888)	0.316*** (45.521)	0.309*** (16.859)	0.304*** (22.027)	
<i>Poverty/unemployment</i>	0.182*** (30.525)	0.187*** (29.879)	0.206*** (11.605)	0.190*** (16.172)	
<i>Crime rates</i>	0.162*** (23.700)	0.156*** (21.803)	0.224*** (11.665)	0.128*** (8.993)	
<i>Wage effects</i>	0.083*** (14.342)	0.078*** (12.824)	0.099*** (6.020)	0.064*** (5.487)	
<i>Perceived share of migrants</i>		-0.002*** (-4.708)			
<i>Country Dummies</i>	Yes	Yes	Yes	Yes	Yes
<i>Observations</i>	20492	18657	2564	4915	
<i>R squared</i>	0.39	0.39	0.42	0.32	

Notes: t statistics in brackets, \* significant at 10 per cent, \*\* significant at 5 per cent, \*\*\* significant at 1per cent. Individual controls are: age, sex, income, living in a city, left wing ideology, labour market status relative to immigrants, immigrant.

Source: ESS 2002.

# Perceived vs actual immigration by skill

f R  
D B



# A higher take-up of means-tested (non-contributory) transfer (Italy)

f **R**  
**D B**

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Dependent variable = 1 if a ISEE application was submitted in 2005

	(1)	(2)	(3)
<i>Country of origin:</i>			
1=EU15	-0.023*** (0.003)	-0.026*** (0.003)	-0.021*** (0.003)
1=other European country	0.004* (0.002)	-0.001 (0.002)	0.023*** (0.002)
1=non-European country	0.015*** (0.002)	0.004** (0.002)	0.027*** (0.002)
Individual charact.	No	Yes	Yes
Regional dummies	No	No	Yes
Observations	407,154	407,154	407,154

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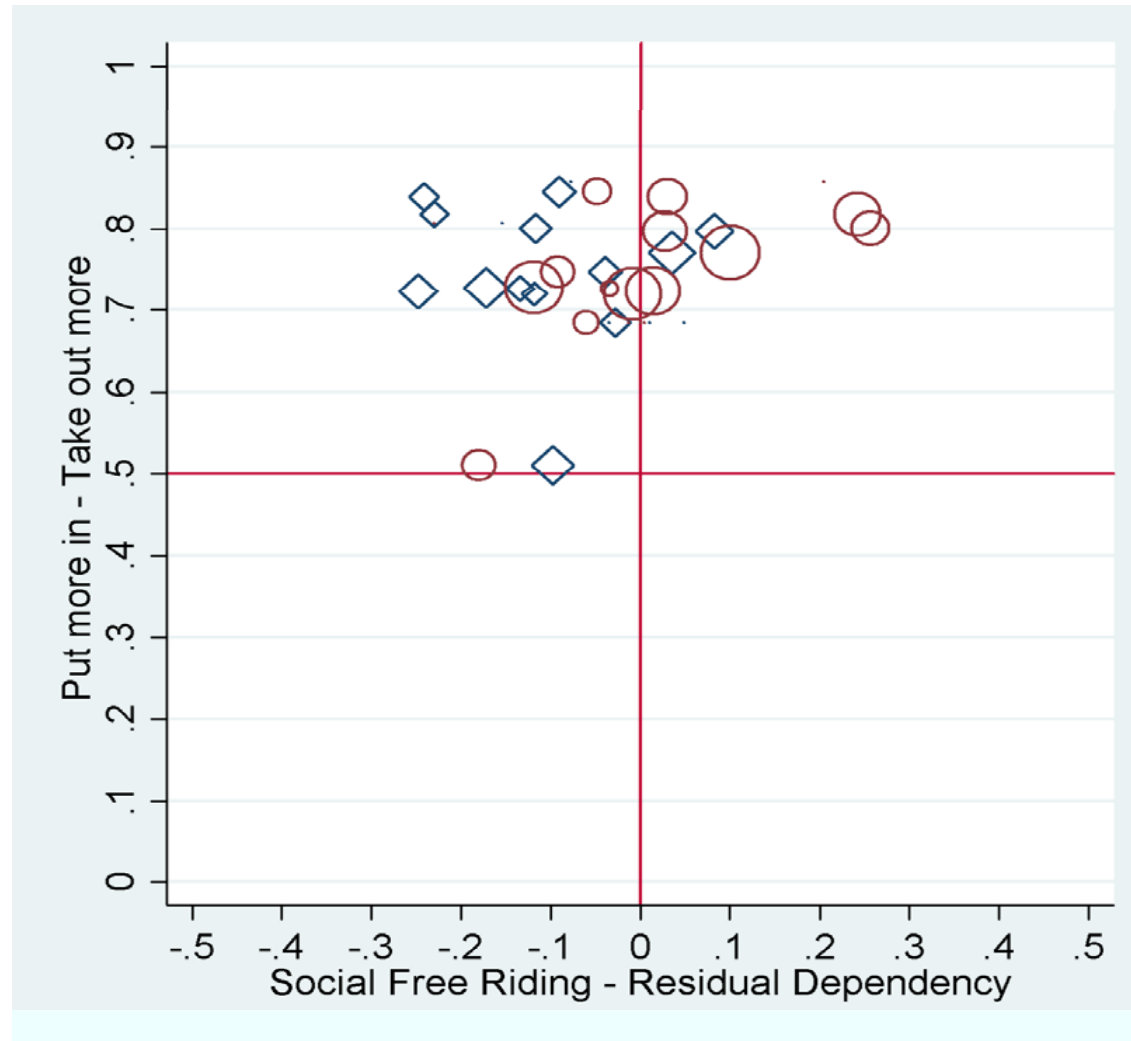
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All models are estimated as probit regressions. The reported estimates are marginal effects computed at the average of all the control variables.



# Perceptions and $\phi$

f **R**  
**D B**



Source: ESS (2002), EU-SILC (2004).

Notes: Circles denote non-contributory; squares contributory transfers. They are increasing in the standard deviation of the estimated coefficients.

# Perceptions and Source of Concern

## (ESS 2002)

f R  
D B

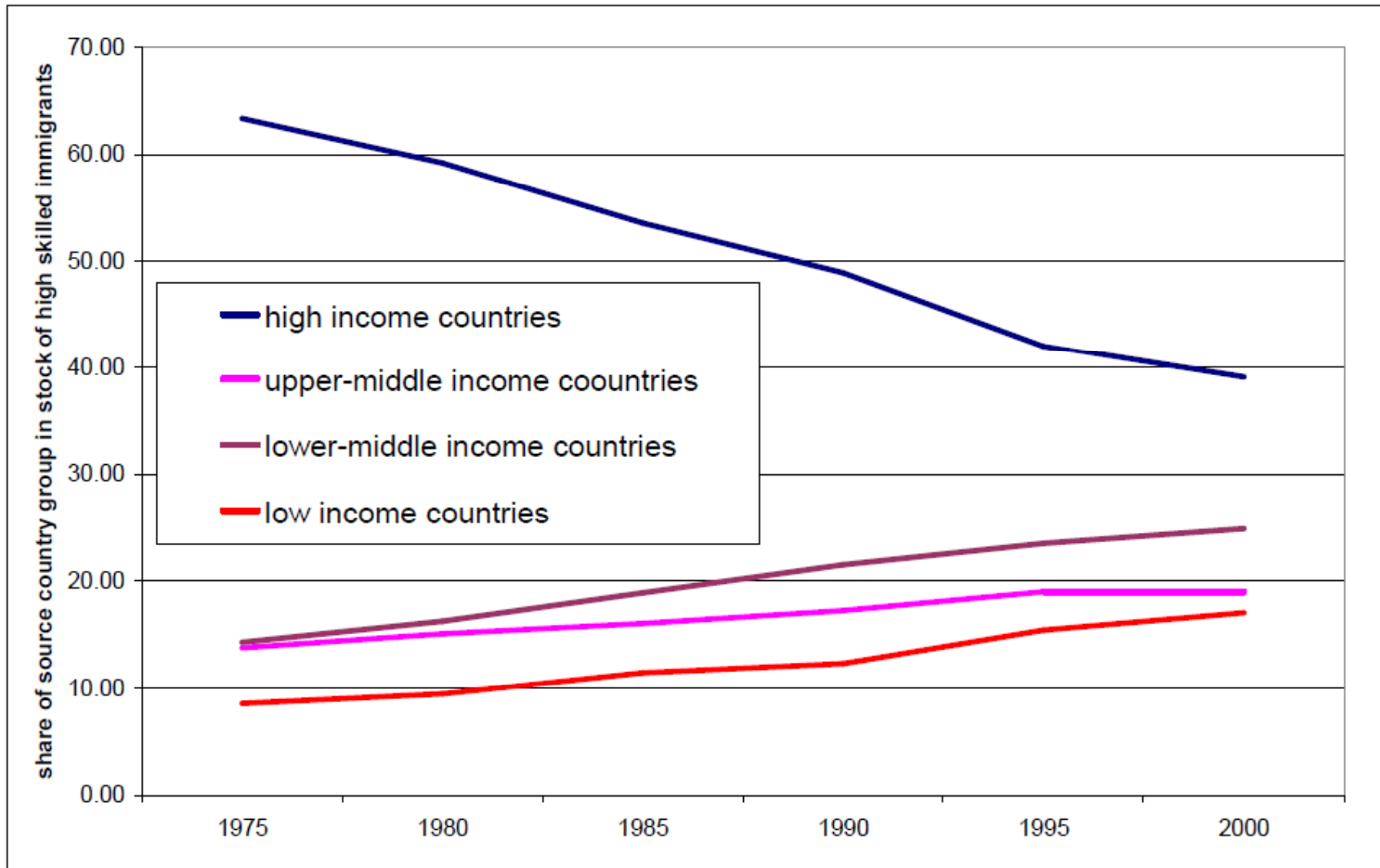
	Dependent variable: Migrants are bad/good (0-5) for the economy			
	All	all	primary edu	tertiary edu
Age	0.002*** (4.257)	0.002*** (4.547)	0.002 (1.017)	0.003*** (3.132)
Male	0.106*** (9.889)	0.104*** (9.190)	0.069** (2.130)	0.131*** (6.226)
<b>Primary edu</b>	<b>-0.131*** (-6.910)</b>	<b>-0.124*** (-6.096)</b>		
<b>Tertiary edu</b>	<b>0.132*** (9.752)</b>	<b>0.123*** (8.847)</b>		
<b>Fiscal drain</b>	<b>0.318*** (47.888)</b>	<b>0.316*** (45.521)</b>	<b>0.309*** (16.859)</b>	<b>0.304*** (22.027)</b>
<b>Poverty/unemployment</b>	<b>0.182*** (30.525)</b>	<b>0.187*** (29.879)</b>	<b>0.206*** (11.605)</b>	<b>0.190*** (16.172)</b>
<b>Crime rates</b>	<b>0.162*** (23.700)</b>	<b>0.156*** (21.803)</b>	<b>0.224*** (11.665)</b>	<b>0.128*** (8.993)</b>
<b>Wage effects</b>	<b>0.083*** (14.342)</b>	<b>0.078*** (12.824)</b>	<b>0.099*** (6.020)</b>	<b>0.064*** (5.487)</b>
<b><i>Perceived Migration</i></b>		<b>-0.002*** (-4.708)</b>		
Constant	1.227*** (23.693)	0.894*** (15.681)	-0.564 (-0.971)	0.907*** (8.437)
Country Dummies	Yes	Yes	Yes	Yes
Observations	20492	18657	2564	4915
R squared	0.39	0.39	0.42	0.32

Notes: t statistics in brackets, \* significant at 10 per cent, \*\* significant at 5 per cent, \*\*\* significant at 1per cent. The regressions include the following controls: labour market status, income status, ideology, immigration dummy, student dummy.

# Declining share of rich countries in global pool of highly skilled, 1975-2000

f R  
D B

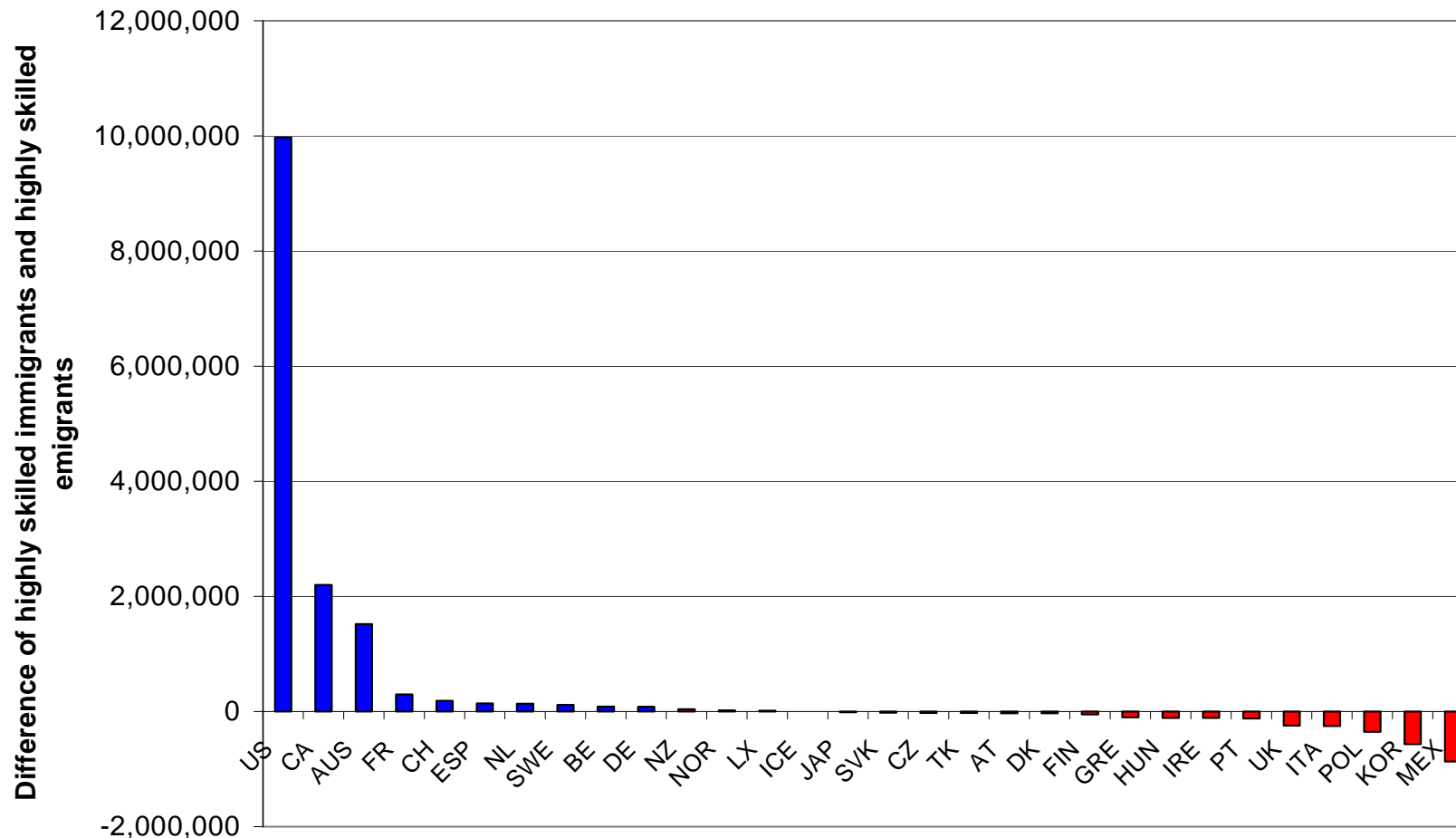
Figure 3.2 Share of source countries in high skilled immigrant stock by income level, 1975-2000



Sources: Data source Defoort (2009), own calculations.

# Difference between highly skilled immigrants and highly skilled emigrants (approximation)

f R  
D B

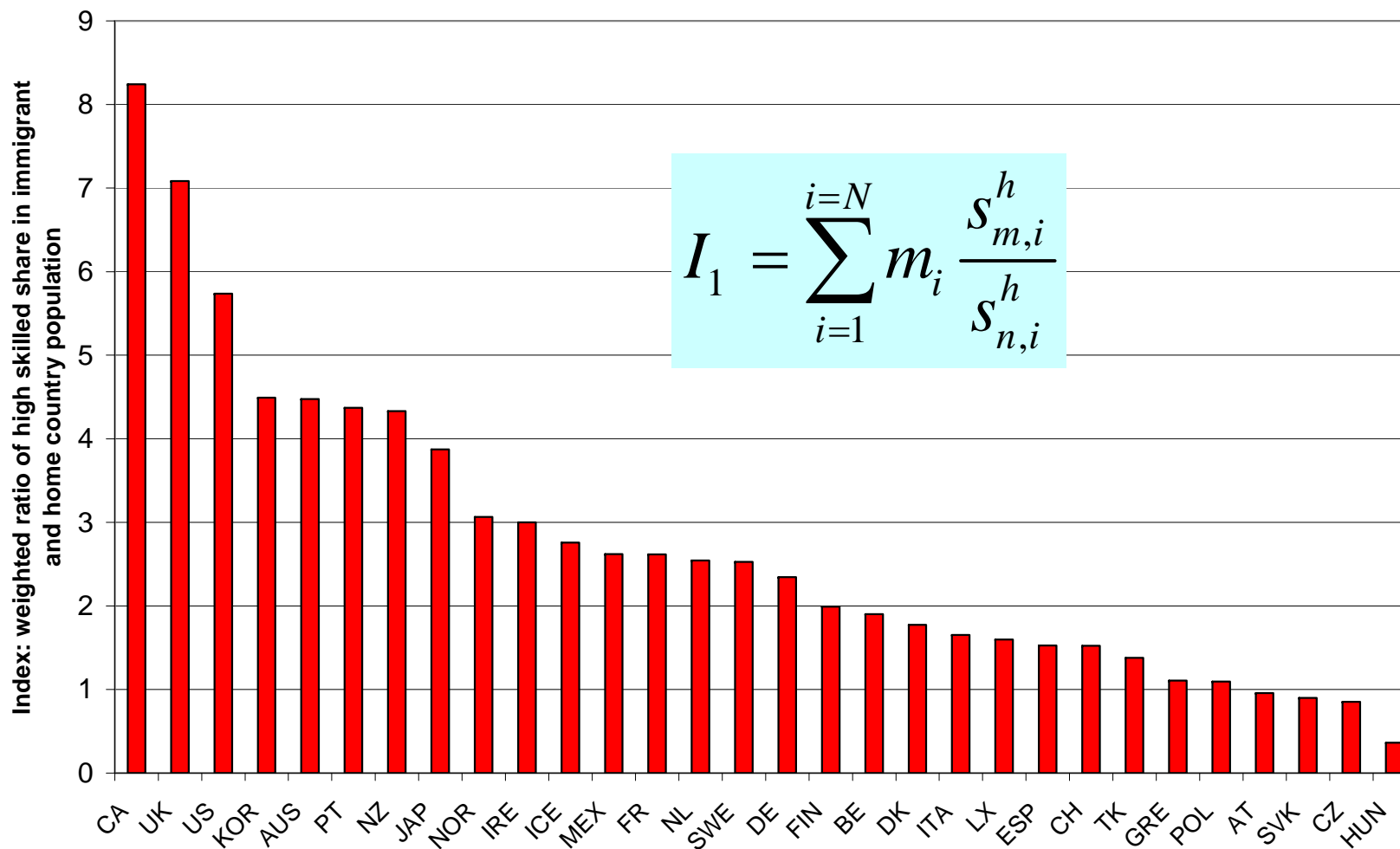


Source: calculations from Brucker et al. (2009) based on Beine et al. (2007).

# Selection bias of immigrant population relative to home population (1 = neutral)

f R

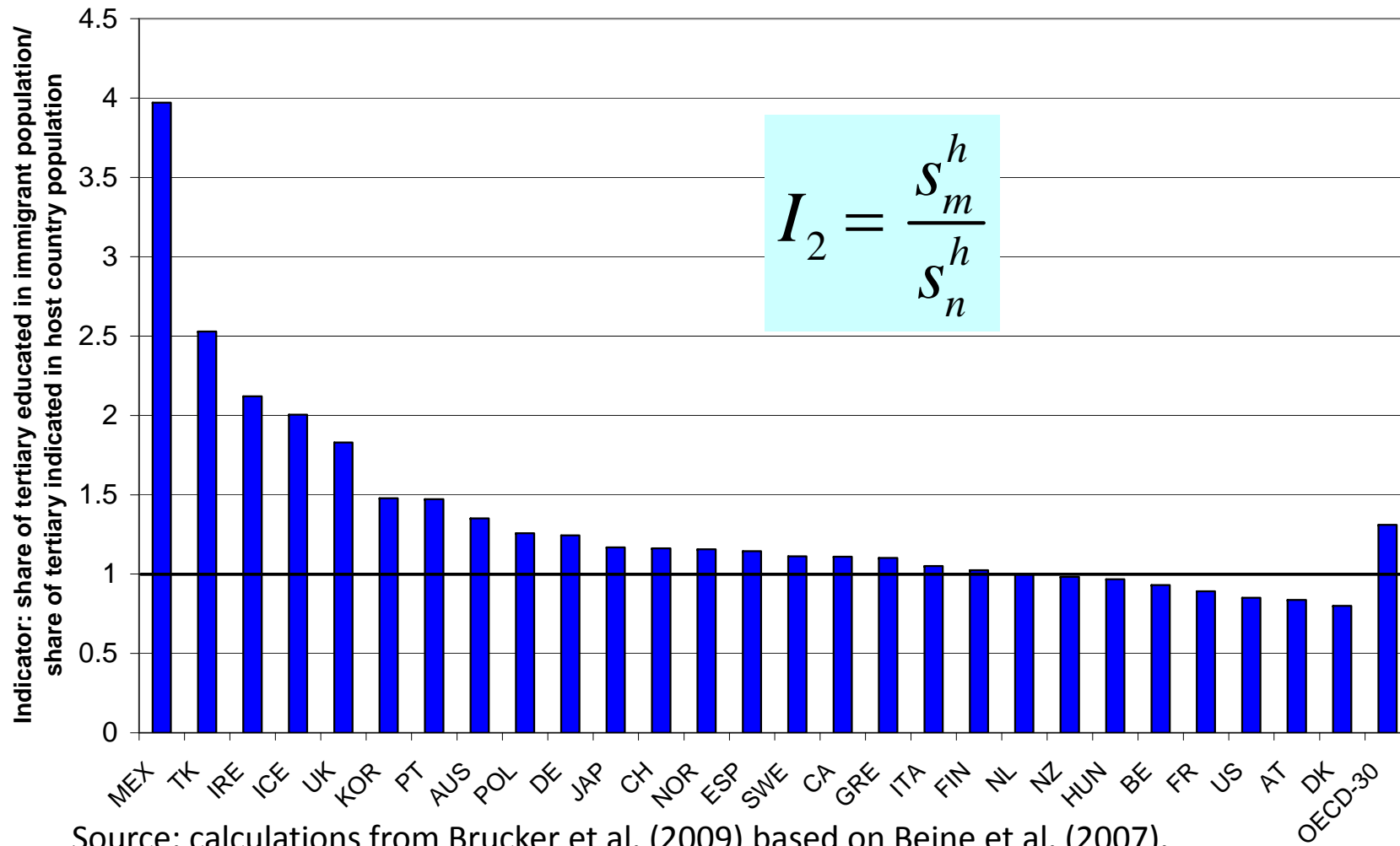
D B



Source: calculations from Brucker et al. (2009) based on Beine et al. (2007).

# Selection bias of immigrant population relative to host population (1 = neutral)

f R  
D B



# Evidence from UN Survey: Skill-selective policy reforms

f R  
D B

Table 2.5 Government's policy on highly skilled immigrants by income group, UN survey results 2007

country group by income level	Policy on highly skilled workers				Total
	Lower	Maintain	Raise	No interv	
high income	2	18	20	5	45
	4.44	40	44.44	11.11	100
upper middle income	1	24	9	2	36
	2.78	66.67	25	5.56	100
lower middle income	2	29	4	2	37
	5.41	78.38	10.81	5.41	100
lower income	0	13	3	9	25
	0	52	12	36	100
Total	5	84	36	18	143
	3.5	58.74	25.17	12.59	100

The table presents frequencies and row percentages by income, size of migration inflow and size of migration rate. *Policy on highly skilled workers* is the government's policy on the migration of highly skilled workers. The possible values of *Policy on highly skilled workers* are: The government has policies in place to lower, maintain, raise the migration of highly skilled workers; the government does not intervene with regard to the migration of highly skilled workers (or It is not known whether the government intervenes...). Data for migration is for 2005. The migration rate is defined as the migration inflow divided by the population of the destination country.

Source: United Nations.

# The role of pro-skilled policies

f R  
D B

	Total Migration		Selection (logarithmic difference of immigrant flows of tertiary and primary educated)	
	(1)	(2)	(1)	(2)
median wage: $w_d$	0.054***	0.051***		
wage premium: $w_d^h - w_d^l$			0.015***	0.016***
pro-skilled policies	-0.08		0.11***	0.12***
restricted benefit access	-0.07***	-0.08***	0.08***	0.08***
asylum	-0.09***	-0.09***	0,0014	
requirements for entry	0.01		-0.01	
requirements for residency	-0.04		-0.01	
undocumented	-0.02		-0.02	
bilateral fixed effects	YES	YES	YES	YES
observations	22,662	22,662	5,419	5,419

Notes: \*\*\*, \*\*, \* denote 1%, 5% and 10% significance levels.

Source: calculations from Brucker et al. (2009) based on Beine et al. (2007).



# Unemployment no longer positive for pro-welfare parties

f R  
D B

Until 2003, an increase by one percentage point of unemployment rate is associated with an increase by 0.73 percentage point in the share of vote of pro-welfare parties. However, after 2003, the effect is not statistically different from zero.

<b>Dependent Variable: Share of Vote of Pro-Welfare Parties*</b>		
	<b>1990-2003</b>	<b>2004-2009</b>
	<b>(1)</b>	<b>(2)</b>
Unemployment Rate	0.734*** (0.264)	0.463 (1.263)
Time Trend	0.260* (0.228)	0.150 (0.613)
Countries Fixed Effects	Yes	Yes
Observations	53	22

\* It includes: socialists, socialdemocrats, communists, other “pro-workers” parties and green parties.

Source: own computation based on “Parties and Elections Database” ([www.parties-and-elections.de](http://www.parties-and-elections.de))

# A simple framework

f R  
D B

- A simple static model of migration and welfare. Two types of agents, skilled and unskilled workers, both risk-neutral. Fixed native labour forces (normalized to 1).

- Welfare of skilled workers (S) and unskilled workers (U) is given by:

$$W^i = w_i(1-t)(1-u_i) + u_i b$$

$$i = S, U$$

- $w_i$  denote wages,  $u_i$  is the skill-specific unemployment rate, and  $t$  is the proportional tax rate paying the unemployment benefits,  $b$

# Theory (cont.)

f R  
D B

- The participation constraint requires that:  $w_i(1-t) > b$
- Assume that:
  - $u^s = 0$  so that taxes are for skilled workers a pure transfer to unskilled workers.
  - “no discrimination” in LM :  $u^u_{\text{natives}} = u^u_{\text{migrants}}$
- $m$  is the migrants to natives ratio,  $\gamma$  the share of unskilled workers among natives and  $\gamma_m$  the share of unskilled workers among migrants. Static Government budget constraint
- Benefit levels are: 
$$b = t \frac{w_s[(1-\gamma) + m(1-\gamma_m)] + w_U[(1-u)(\gamma + \gamma_m m)]}{u(\gamma + \gamma_m m) + \varphi m}$$
- –  $\gamma_m < \varphi < (1 - \gamma_m)$  denotes migrants (not) receiving transfers independently of their formal entitlement, i.e. a “residual dependency” (or “social free riding”) component

# Theory (cont.)

f R  
D B

- Focus only on welfare drain effects. No labour market effects

$$\frac{dW}{dm} = u\gamma \frac{db}{dm} - \left[ \left( w^S (1 - \gamma) + w^U \gamma (1 - u) \right) \right] \frac{dt}{dm}$$

- Fixing  $t$ , only benefits adjust to migration:

$$\left. \frac{db}{dm} \right|_{db=0} = \frac{t \left[ w_s (1 - \gamma_m) + w_U (1 - u) \gamma_m \right] - (\gamma_m u + \varphi) b}{u(\gamma + \gamma_m m) + \varphi m}$$

- The sign of the *benefit externality* depends on the (average) net fiscal position of migrants, notably on whether their tax income (first term in the numerator) exceed the amount paid to them in terms of social transfers (second term in the numerator)

# Theory (cont.)

f R  
D B

- When the net fiscal position of migrants is negative, the only way to insulate unskilled natives from the effects of migration on benefit levels is to adjust the tax rate in such way as to match the increase in social spending:

$$\left. \frac{dt}{dm} \right|_{db=0} = \frac{(\gamma_m u + \varphi)b - t [w_s (1 - \gamma_m) + w_U (1 - u) \gamma_m]}{w_s [1 + (1 - \gamma)m] + w_U (1 - u)(1 + \gamma m)}$$

# Taxes and self-selection by skill f R D B

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- The location choice of migrants can be modeled as a cost-benefit test comparing net earnings in the country of destination and net earnings in the country of origin ( $w_o$ ). Non-degenerate distribution of mobility costs ( $c$ ) for skilled and unskilled migrants. They move if :

$$w_s (1 - t) > w_o + c$$

$$w_u (1 - t) + ub(t) > w_o + c$$

- Hence the cutoff mobility costs is:

$$c_s(t) = w_s(1-t) - w_o \text{ and } c_u(t) = w_u(1-t) + ub(t) - w_o$$

# Self-selection by skill (cont.)

f R  
D B

- Hence differentiating the cutoff costs wrt taxes:

$$\frac{db}{d\gamma_m} = \frac{m[t(w_U(1-u) - w_s) - ub]}{u(\gamma + \gamma_m m) + \varphi m}$$

- A marginal increase in the share of unskilled migrants unambiguously decreases social transfers, since  $w_s > w_u$