

Populism, mobility and portability

- *Tito Boeri*
- *Brexit Lunchtime Lecture*
 - *LSE, 1 March 2017*

Brexit from what?

- What is at stake is much more than Brexit
- **Four** elections to come that may walk us out of the Euro and of the European Union, at least as we know it ...
- ...and **one** dominating issue: unprecedented immigration of refugees, which is way different from strictly economic migration

Multivariate analysis (Flanders)

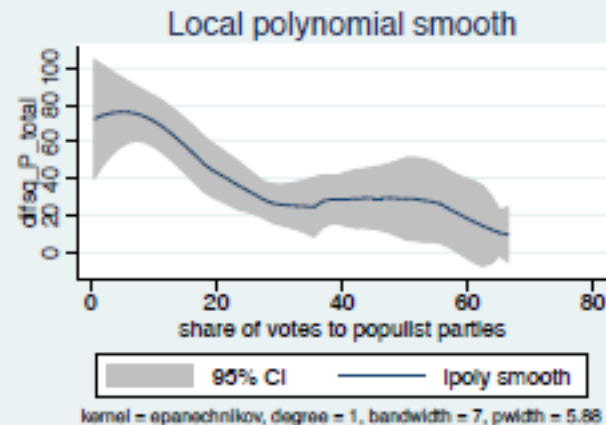
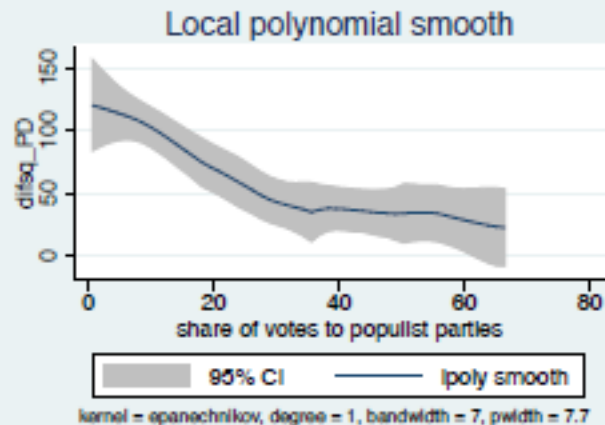
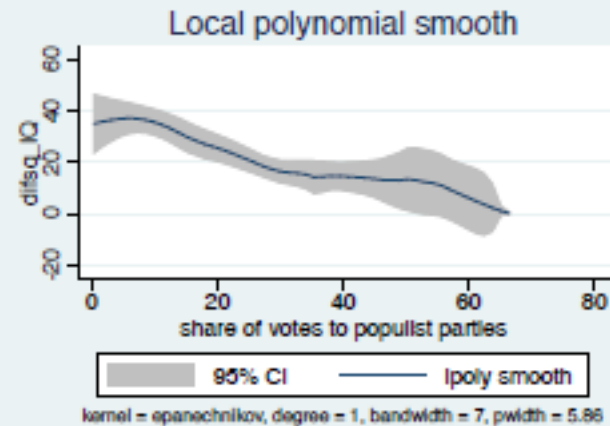
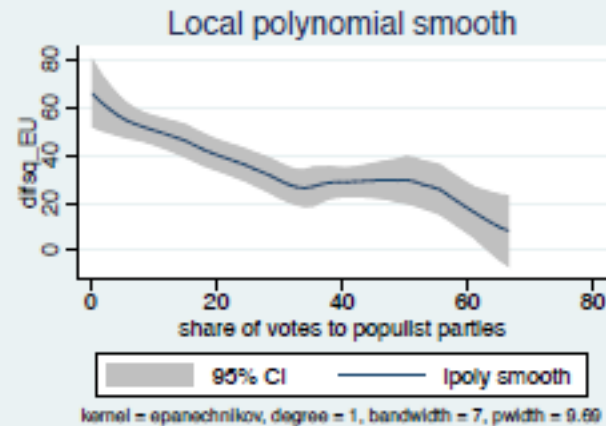
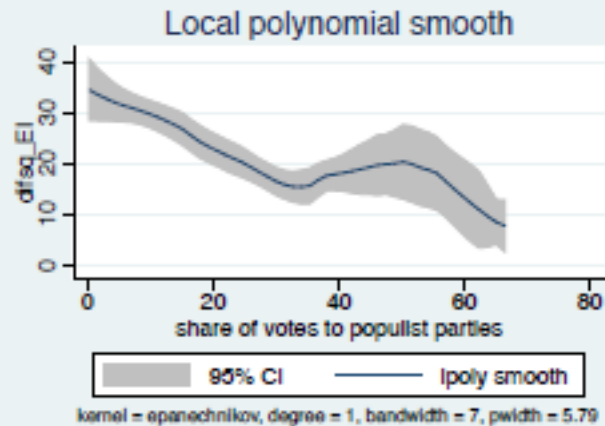
OLS estimation of Vlaams Blok's vote share in federal elections 1999

| | Vlaams Blok vote share |
|------------------------------------|------------------------|
| Intercept | -2.630*** (-6.43) |
| Per capita income | 0.052* (1.84) |
| Unemployment rate | 2.344 (1.35) |
| Foreign population | |
| Population from Maghreb and Turkey | 7.096*** (2.99) |
| Population from other countries | -1.542* (-1.73) |
| Crime | 0.804 (0.77) |
| Associational life | -111.149** (-2.22) |
| Population density | 277.534** (2.47) |
| District magnitude | 0.006 (0.79) |
| Number of observations | 103 |
| Adjusted <i>R</i> squared | 0.518 |

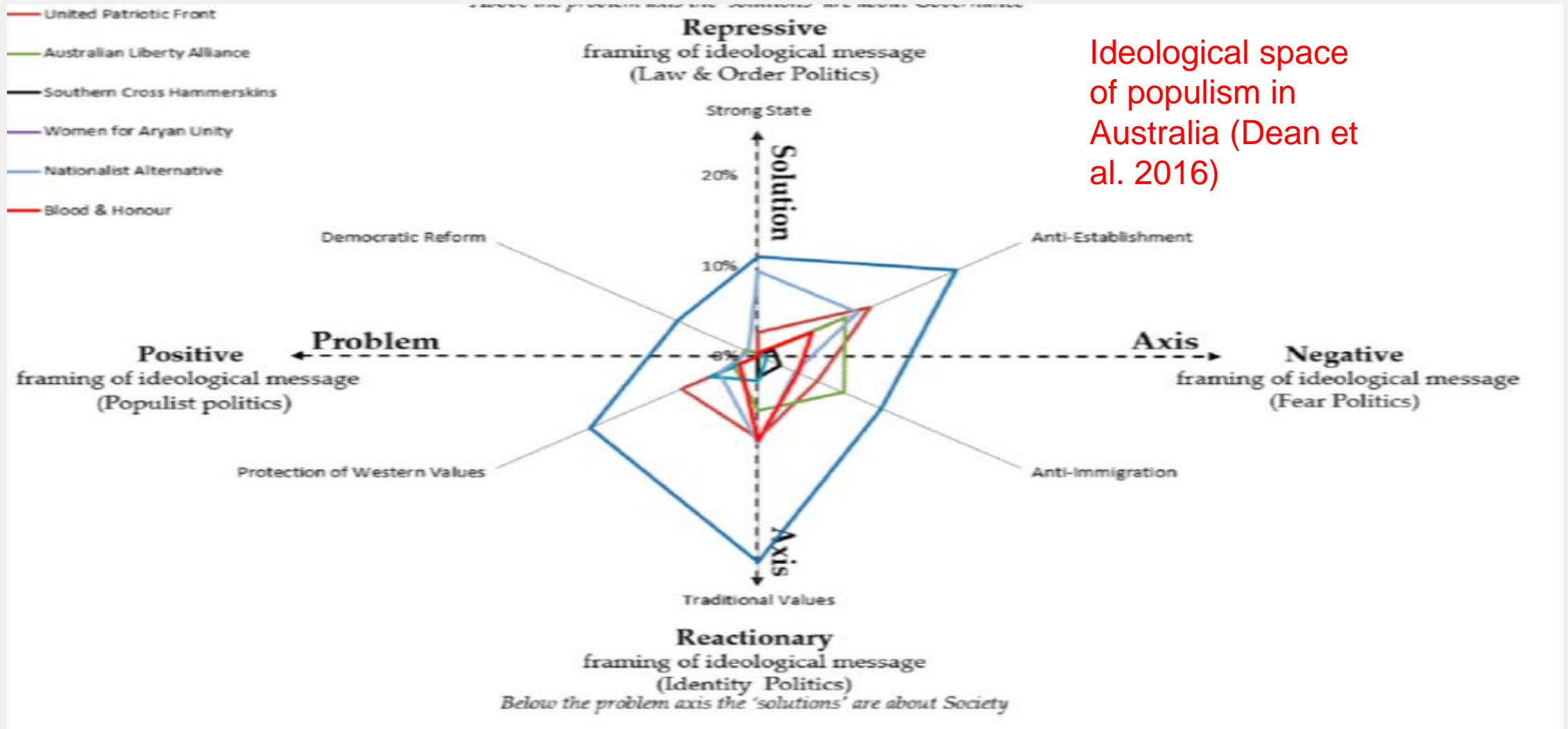
Notes: *t*-values are in parentheses. The dependent variable is the transformed vote share: $\ln(V/(1 - V))$.

Multiplier effects: Distance from populist platforms

(Guiso et al., 2017)



Populism: short-term protection driving us away from long-term solutions



3 key challenges

1. Preserving long-term protection requires decoupling migration and the welfare state: otherwise standard tools of social inclusion may become weapons on mass exclusion.
2. We should transform refugee into economic migration, integrating them by voluntary matching (rather than by «forced marriage»)
3. This is possible only in large labour markets. A single market for labour in Europe requires an infrastructure for mobile workers, ensuring portability of social security rights and preventing abuse. A modest proposal.

What drives negative perceptions of migrants (OLS regression)

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

| | <i>All</i> |
|-----------------------------|----------------------|
| <i>Fiscal drain</i> | 0.318*** (47.888) |
| <i>Poverty/unemployment</i> | 0.182*** (30.525) |
| <i>Crime rates</i> | 0.162*** (23.700) |
| <i>Wage effects</i> | 0.083*** (14.342) |
| <i>Country Dummies</i> | Yes |
| <i>Observations</i> | 20492 |
| <i>R squared</i> | 0.39 |

Fiscal drain is by and large the main driver of negative perceptions. Poverty, crime rates and wage effects also important but 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.

Populism and “welfare shopping”

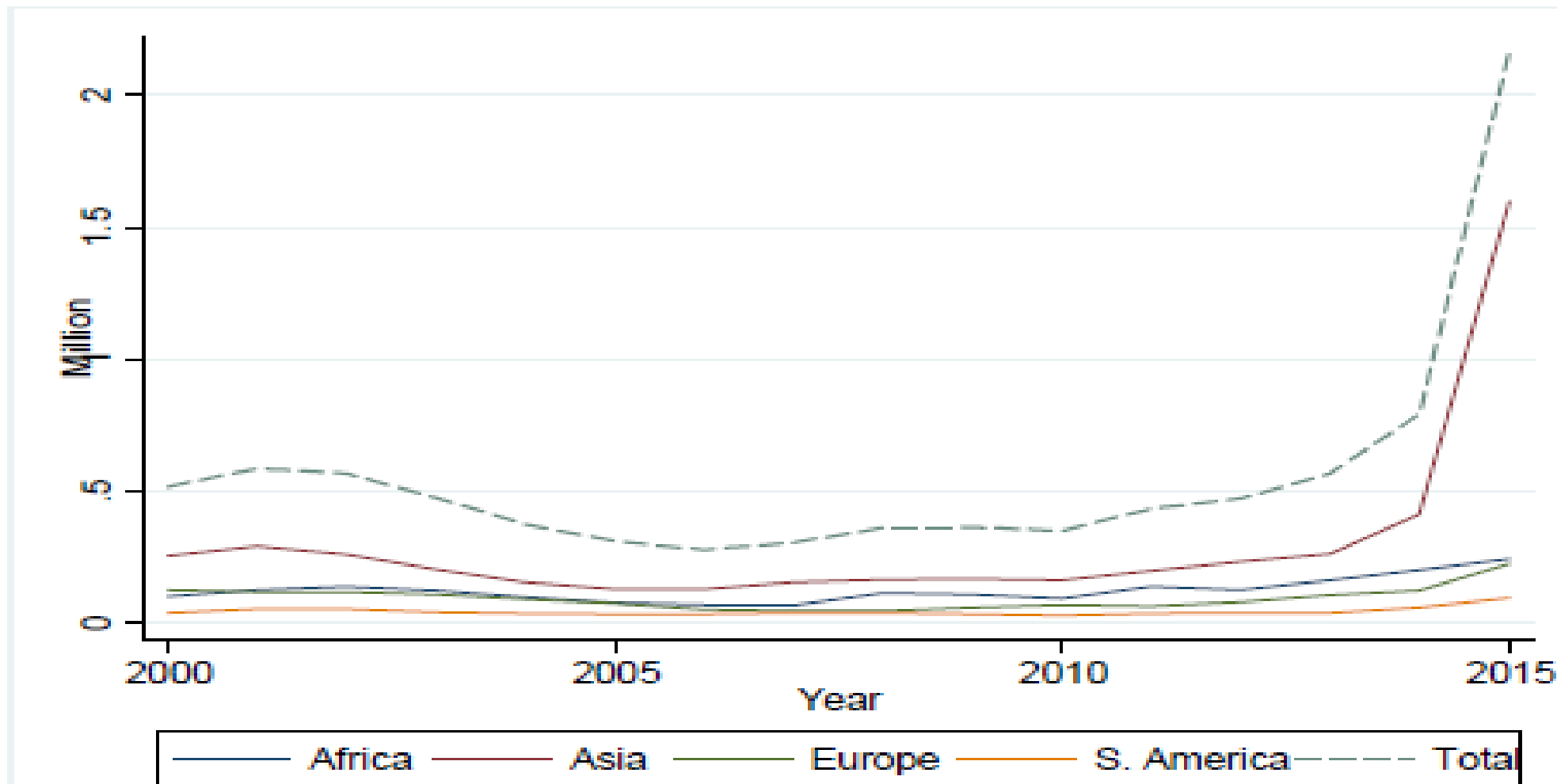
- *Claus Hjort Frederiksen* (Danish Minister for Employment) : *“If immigration from Third World Countries were blocked, 75 per cents of the cuts necessary to maintain the welfare state would be unnecessary”*
- *Thilo Sarazzin* (former Berlin central banker): *“Germany is digging its own grave by admitting waves of immigrants who are spongers, welfare cheats, and sub-intelligent beings”*

Problems more serious with refugee migration

- **Key differences between economic migrants and refugees:**
 1. Role of push (as opposed to pull) factors. Limited choice of «where to go». Matching to jobs more difficult.
 2. Refugee migration comes in larger waves than economic migration. Perceived as temporary while it is not.
 3. Regulations are substantially different (application should be made in the country of destination; while it is processed, the applicant cannot work, draws on welfare without paying for it). Refugees 50% less likely to work than economic migrants in the first 3 years since arrival. Convergence in 15 ys (Cream 2016)

Recent evolution of refugee migration (UNHCR)

- Annual number of asylum applications by origin continent (2000–2015)



Decoupling migration and welfare

- The problem is in the non-contributory part of social transfers
- More Bismarck and less Beveridge (better targeting of social assistance)
- «Short-term» here is against populists: in the short-run working migrants pay our pensions!
- In order to allow them to integrate into our labour markets we need i) large markets, ii) mobility-friendly institutions for contributors, and iii) contracts offering to migrants «graded residence security» (longer permits the longer they stay).

Big Cities are different (Naticchioni et al., 2016)

Table 4. The role of big cities. IV estimates. Population as weight.

| | All municipalities | | Up to 99th perc. | | Big cities | |
|-------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | FE | FE-IV | FE | FE-IV | FE | FE-IV |
| Immigrant share | 0.188*** (0.052) | -0.272 (0.548) | 0.302*** (0.049) | 1.184* (0.670) | 0.074 (0.175) | -0.259 (1.143) |
| Density | 0.018 (0.013) | 0.048 (0.036) | 0.047*** (0.012) | 0.042*** (0.014) | 0.011 (0.026) | 0.041 (0.095) |
| GDP growth NUTS-2 | 0.321*** (0.084) | 0.392*** (0.095) | 0.427*** (0.046) | 0.277** (0.122) | 0.071 (0.229) | 0.112 (0.252) |
| Population/1000 | -0.000*** (0.000) | -0.000*** (0.000) | -0.002*** (0.001) | -0.006* (0.003) | -0.000** (0.000) | -0.000** (0.000) |
| Constant | 0.490*** (0.017) | | 0.492*** (0.012) | | 0.529*** (0.058) | |
| Observations | 23,780 | 23,780 | 23,535 | 23,535 | 240 | 240 |
| Municipality FE | YES | YES | YES | YES | YES | YES |
| F-stat Excl.instruments | | 23.17 | | 10.68 | | 4.72 |
| R-squared | 0.655 | 0.646 | 0.626 | 0.597 | 0.822 | 0.817 |

Why do we need large markets?

- Large markets are better to absorb large migration waves. Less «amenity» effects. Quicker job finding due to network and other scale effects.
- More room for self-selection even when people cannot relocate.
- Better matching also in the market for personal services: short-term advantages of migrants more visible in cities.
- This increases the costs of «gambling for resurrection» by voting for anti-immigration outsiders.

We never implemented the Rome Treaty

- A single market for labour in Europe is the best response to the refugee crisis
- It also offers the best unemployment insurance for young natives
- However intra-EU mobility constrained by increasing barriers to mobility (also for EU citizens) and persistent limitations to the portability of social security rights across countries.

An EU social security number?

- Free movement of labour in the EU cannot be protected without ensuring full portability of contributory social transfers
- We need coordination between different social security systems and institutes in order to prevent and contrast abuses (work in one country, obtain UB from another) and to regulate mobile workers implementing social insurance across countries
- A single **European social security identification number** would make this coordination easier
- Would also strengthen EU identity (example of the US Social Security Number)