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## Admire the Best; Forget the West – Looking for an Immigration Policy for Central-Eastern Europe

*Summary: Most western societies are ageing rapidly; the number of pensioners has been rising continuously during the past decades. In the future we are facing an even bigger rise in the number and percentage of the senior (65 +) population. Public pension expenditures have been expanding and they could reach unsustainable levels in the coming decades. The replacement of part of the working age population through migration could help to reduce the financial burden of ageing. The aim of this paper is to answer the question: is replacement migration a good solution for the new EU members to tackle the rising fiscal expenditure on pensions? The United States and most of the Western European countries have a long standing tradition of mass immigration. So we (the new member states) have a unique chance to study their experience and learn from their mistakes instead of repeating them.*

*„The big difference in the way Europeans and Americans look at immigration springs from the fact that America protects its welfare system from immigrants but leaves its labor markets open, while the EU protects its labor markets and leaves its welfare system open.“*

**Kathleen Newland**, Migration Policy Institute, Washington<sup>1</sup>

<sup>1</sup> “Talking of immigrants”, *The Economist*, June 3, 2006.

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*“It’s just obvious that you can’t have free immigration and a welfare state.”*

**Milton Friedman**, Nobel-prize laureate economist<sup>2</sup>

Most societies of the developed world are ageing rapidly. During the last decades the number of births has been declining sharply, the fertility rate (number of children per woman) is currently under the replacement level (2.1) in every Western country. Parallel to this development, the life expectancy is rising; people are living longer and longer. The number of pensioners has been rising continuously during the past decades. In the future we are facing even bigger rises in the percentage of the senior (65 +) population, while the working age (15 – 64) population will rise only slowly or in many developed countries it is going to stagnate or decline. The old-age dependency ratio (number of older people over 65 relative to the working age population) will rise in all OECD economies posing a critical challenge to public finances. Public pension expenditure as a percent of GDP has risen in the EU-15 from about 6% in 1960 to over 12% in 2000 and on the assumption that no action will be taken to address this situation, pension spending could reach unsustainable levels close to 20% of GDP in the coming decades.<sup>3</sup> Ageing, together with the fast improvement of (mostly very expensive) medical technologies, also leads to expanding health-care costs in public budgets. Thus, age related economic problems are one of the most serious concerns in the Western world.

The replacement of part of the working age population through migration could help to reduce the financial burden of ageing. The aim of this paper is to answer the question: is replacement migration a good solution for the new EU members to tackle the rising fiscal expenditure on pensions? Does it help to solve the financial consequences of ageing? If yes, what kind of models

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<sup>2</sup> G. Borjas *The Impact of Welfare Reform on Immigrant Welfare Use*. (Washington: Center for Immigration Studies, D.C., 2002) p. 1.

<sup>3</sup> K. Mc Morrow, W. Roeger *EU Pension Reform – An Overview of the Debate and an Empirical Assessment of the Main Policy Reform Options*. (EU Commission, Directorate General for Economic and Financial Affairs Working Papers 2002), p. 12.

should the CEE countries (notably Slovakia) follow, what are the good and bad lessons from Western Europe and the USA? I will argue that during the last two decades in many Western countries migration lead to more costs than benefits and created more problems than it solved. Some EU members instead of using immigration as a tool to tackle the financial consequences of ageing were creating their new ethnic underclass. We should learn from their mistakes and not repeat them.

### Cost and Benefits of Migration for the Host Societies

The direct net fiscal effect of immigration on public budgets equals the difference between the public revenues (sum of direct and indirect taxes and contributions paid) and public expenditure (social benefits, welfare services and public goods provided by the government) related to immigrants. If immigrants pay more into the public budget than they receive from it, the fiscal effect of migration is positive, the immigrants 'pay their way', we can talk about a transfer of wealth from immigrants to natives. In this case immigration helps to reduce the financial burden of ageing. If public expenditure related to immigrants is higher than revenues paid and generated by them, the fiscal impact is negative, migration is causing a net fiscal burden, and the transfer works the other way. Some research has been made on the short-term fiscal impact of immigration for the host countries, here are the major findings:

In the 1990's U.S. Congress appointed a Commission on Immigration Reform, which requested the National Academy of Science to examine the overall fiscal impact of immigration. The results were included in two studies by Smith and Edmonston<sup>4</sup> and showed that net annual fiscal burden of immigration considering all transfers (from natives to immigrants) at (US) local and national levels is estimated to be between \$ 166 and \$ 226 per native household, so at the federal level the fiscal burden is between \$ 15 billion and \$ 21 billion per year in 1996 dollars. The main reasons for this were found in the differences (between immigrant and native households) in family structure and income levels: immigrant families tend to have more dependent children who use publicly funded schools and immigrant households are poorer and so receive more welfare transfers and pay fewer taxes.<sup>5</sup> The

<sup>4</sup> J.P. Smith, B. Edmonston (eds) *The Immigration Debate*. (Washington D.C.: National Academy Press, 1998). J.P. Smith, B. Edmonston (eds) *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. (Washington D.C.: National Academy Press, 1997)

<sup>5</sup> G. Hanson et al. *Immigration and the U.S. Economy: Labor-Market Impacts, Illegal Entry, and Policy Choices*. (Washington D.C.: IMF – International Monetary Fund, 2001), p. 59.

results – through the case studies of two states, California and New Jersey – showed great regional differences. Net annual fiscal impact imposed by current immigrant-headed households on native residents was \$ 229 in New Jersey and \$ 1174 in California, the average immigrant household receives transfers (from natives) of \$3,463 in California and \$1,484 in New Jersey.<sup>6</sup> These differences were explained by the following factors: higher share of foreign born population in California, a more extensive welfare system in the Golden State and different immigrant households there (poorer, less skilled with more dependent children).

George J. Borjas, a Harvard economist estimated<sup>7</sup> that the overall economic impact (sum of fiscal, product, and labor market effects) of immigration in the United States is around a 10 billion net surplus annually.

Steven A. Camarota from the Center for Immigration Studies, a Washington based think tank, estimated<sup>8</sup> that households headed by illegal aliens imposed more than \$26.3 billion in costs on the (US) federal government in 2002 and paid only \$16 billion in taxes, creating a net fiscal deficit of almost \$10.4 billion, or \$2,700 per illegal household. According to Camarota, the primary reason for this deficit was the low education levels (nearly two-thirds of illegal aliens lacking a high school degree) and resulting low incomes and tax payments of illegal immigrants, not their legal status, heavy use of most social services or unwillingness to work. Among the largest costs identified were: Medicaid (\$2.5 billion); treatment for the uninsured (\$2.2 billion); food assistance programs such as food stamps, WIC (Women Infants and Children program), and free school lunches (\$1.9 billion); the federal prison and court systems (\$1.6 billion); and federal aid to schools (\$1.4 billion). Many of these costs associated with illegal migrants are due to their American-born children, who are awarded U.S. citizenship at birth. That's why Camarota argued that greater efforts at barring illegal immigrants from federal programs will not reduce costs because their citizen children can continue to access them.

In a research made for the British Home Office, Gott and Johnston estimated<sup>9</sup> that in 1999/2000 migrants in the UK contributed £ 31.2 billion in taxes and consumed £ 28.8 billion in benefits and state services, so they made a net fiscal contribution of approximately £ 2.5 billion. The main

<sup>6</sup> Ibid. pp. 60, 121.

<sup>7</sup> G. Borjas *Heaven's Door, Immigration Policy and the American Economy*. (Princeton, New Jersey: Princeton University Press, 2001), p. 87.

<sup>8</sup> S. Camarota *The High Cost of Cheap Labor, Illegal Immigration and the Federal Budget*. (Washington D.C.: Center for Immigration Studies, 2004), p. 5.

<sup>9</sup> G. Gott, K. Johnston *The Migrant Population in the UK: Fiscal Effects*. (London: Home Office Research, Development and Statistics Occasional Paper 77, 2002), p. iii.

reasons for this: the age structure of the migrants was younger than the British population's, their education, employment situation, income level and welfare consumption was not significantly different from the UK average.

Jan Ekberg from the Centre of Labor Market Policy Research at Växjö University in Sweden estimated<sup>10</sup> the negative fiscal balance of immigration at 0.9% of the Swedish GDP in 1991 and 2% in 1994. According to Ekberg, the fiscal effect of migration in Sweden was positive up to about 1980, with a positive income effect for natives culminating around 1970 at 1% of the GDP. However, as the composition of migrants changed during the 1980's (the vast majority of them are asylum seekers and their family members from the Balkans and third world countries) and their labour market situation deteriorated during the 1991 – 1994 economic crisis, the fiscal balance went to negative numbers and was deepening till 1994.

The estimates presented above showed that the (short-term and direct) – positive or negative – fiscal balance of immigration on the national level is rather marginal in the US and UK (around 0.1 – 0.25% of the American and British GDP) but locally the costs for specific groups (California native taxpayers for example) can be relatively high. In Sweden the negative fiscal balance was (and probably remained) quite significant. However, one has to note that Sweden is probably an extreme case in the Western world with the highest net expenditure on migrants related to the GDP. (The Scandinavian country combines one of the most extensive welfare systems in the world with mass migration of poor refugees and their family members.) As the researchers found, the costs and benefits are strongly dependent on the composition of migrants (their employment status, earnings, skills, family sizes) and the welfare system arrangements. So any cost-benefit analysis should focus on these factors because they determine the amount of taxes and contributions paid by the migrants and the public expenditure related to them.

### Replacement Migration – Yes, but not Alone

Replacement migration can't solve the fiscal problems related to ageing alone. The worsening ratio between the legally employed (so contribution-paying) population and the (contribution financed) pensioners needs other measures to balance the pension and health-care expenditure:

*Pension reform.* The parameters of the Pay-As-You-Go pension systems should be changed. Increasing the effective retirement age, limiting the early-

<sup>10</sup> J. Ekberg, "Immigration and the Public Sector: Income Effects for the Native Population in Sweden", *Journal of Population Economics* No. 12/1999, pp. 418 – 423.

retirement schemes and decreasing the generosity of the public pension schemes (gross replacement rate) seem to be inevitable. The structure of the pension system could be transformed too. A self-funding mechanism could be added through the creation of 'second pillar' public or private pension funds which are not directly dependent on the demographic change. The government could help and promote the activity of the already existing voluntary private pension funds.

*Labour market reform.* Public policies should help to raise the employment. In many European countries just 55 – 60% of the working age (15 – 64) population is (legally) employed. This is particularly the case of some new EU members (notably Hungary, Poland, and Slovakia). High unemployment, inactivity or early-retirement rates are reducing the number of contribution-payers. There are vast resources of possible contribution-payers within these countries, so the policies should be targeted to promote the job-creation. If a great variety of jobs is created for different groups of people (even for those over 65), the financial burden of ageing will be smaller.

Migration, added to the reforms mentioned above could be useful in the partial replacement of the working age population. It is important to note that none of these measures could solve the age-related problems alone. According to a 2004 IMF study<sup>11</sup> the changes in just one area would require very dramatic reforms between 2000 and 2050: raising the retirement age by 6 – 8 years, enlarging the employment rate by 10 – 20 percentage points or admitting so many migrants that they share in a total population increase of 20 – 40%. These measures are hardly politically acceptable, so their combination could be a feasible solution. Therefore replacement migration could be one of the measures needed to tackle the financial consequences of ageing. However it's important to note that its effectiveness is strongly dependent on various factors analyzed below.

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*In countries with low employment and high unemployment rates with stagnating or slowly rising employment levels, mass migration will only deepen not solve the problems of the labor market.*

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<sup>11</sup> *How Will Demographic Change Affect the Global Economy? Chapter III. World Economic Outlook.* (Washington D.C.: International Monetary Fund, September 2004), p. 155.

### To What Kind of Labor Market the Migrants Arrive?

Replacement migration makes sense only when migrants find jobs. In countries with low employment and high unemployment rates with stagnating or slowly rising employment levels, mass migration will only deepen not solve the problems of the labor market. In April 2006 the average unemployment rate in the US was 4.7%. The largest ethnic minority immigrant groups had similar indicators: the unemployment rate among Hispanics was 5.4% and from the Asian working age population 3.6% was jobless.<sup>12</sup> Labor market performance is also very similar in most of the European Union's member states if we compare the native workforce with the migrants from other EU countries. However, there are huge differences between the EU and third country nationals. In 2004 in the 15 countries of the European Union the average unemployment rate among EU citizens was 8.7% for females and 7.5% for males while among third country nationals the corresponding figures were 17.9 and 17.3%.<sup>13</sup> So the unemployment rate among the recent immigrants from third countries (foreign nationals born outside the EU) is more than twice the rate of EU citizens'.

There are great differences between the different ethnic groups even in the United Kingdom, one of the best performing European economies in the last decade. The unemployment rate for white British males stayed at 6% in 2001, and 4% of white British females were jobless in the same period.<sup>14</sup> But the unemployment rate for Pakistani, Bangladeshi and Black males varied between 16 and 21% and 18% of Pakistani and 22% of Bangladeshi women were without jobs – this is around five times more than the rate for native white British females. While around 68% of the working age British women were employed, only 24 and 20% of Pakistani and Bangladeshi Muslim woman were so.<sup>15</sup> It is necessary to emphasize that these results reflect the improvement of the labor market performance of ethnic minorities in Britain during the 1991 – 2001 period of economic boom. Most European countries – unlike Britain – don't have statistics about the labor market performance of whole ethnic groups based on national origin. However regional statistics and some surveys about

<sup>12</sup> *Employment Situation Summary*. (Washington D.C.: US Department of Labor – Bureau of Labor Statistics, 2006), pp. 1 – 2.

<sup>13</sup> *Employment in Europe 2005, Recent Trends and Prospects*. (Luxembourg: European Commission – Directorate-General for Employment, Social Affairs and Equal Opportunities, 2005), p. 126.

<sup>14</sup> *Focus on Ethnicity and Religion 2006*. (Houndmills: Office for National Statistics, Palgrave Macmillan, 2006), p. 136.

<sup>15</sup> *Ibid.* p. 150.

youth unemployment are alarming. The situation of the second generation immigrants (children of immigrants who were born abroad) is worsening in many European countries. In France for example the unemployment rate of the 19 – 29 years old children of Algerian and Moroccan immigrants is 40%, twice the national youth unemployment rate.<sup>16</sup> Under these circumstances one can hardly talk about beneficial replacement migration, many times rather the immigration of welfare recipients is the case.

The US and some European countries (Britain, Netherlands, Denmark, Sweden) have high employment and low unemployment rates. America, Britain, Ireland, Netherlands and Spain had dynamic labor markets in the last 15 years with many new jobs created. On the other hand many countries of the old continent were coping with low economic growth, high, mainly structural unemployment (around 10%) and stagnating employment rates. The three largest economies of the Euro Zone, Germany, France and Italy are the most important examples, but Belgium, Greece and some new member states have similar problems.

The sluggish economic growth, stagnating low employment rates and high, long-term structural unemployment in the big continental economies were caused by the following factors:<sup>17</sup>

- Rigid, over-regulated labor markets (strong employment protection, low flexibility in hiring and firing, high costs of firing) caused by legislation, case law and collective agreements.
- High tax wedge on labor cost (high personal income tax and social security contributions which are increasing the labor cost for employers).
- Too high welfare benefits, especially high unemployment benefits offered long term without active participation of the unemployed.
- Demographic change, namely the ageing of the population, which puts under pressure the pension and health-care expenditure and many times leads to rises in already high contributions. The European populations are "greyer" than the American.

<sup>16</sup> *Les immigrés en France – Édition 2005*. (Paris: INSEE – Institut National de la Statistique et des Études Économiques, 2005), p. 130.

<sup>17</sup> See: K. Aiginger, A. Guger *The European Socio-Economic Model, Differences to the USA and Changes over Time*. (Wien: WIFO working papers No. 266, 2005); *OECD Employment Outlook 2004*. (Paris: OECD, 2004); *Benefits and Wages*. (Paris: OECD, 2004); *European Year of Workers' Mobility 2006: Facts & figures*. (European Commission, 2006) and *Entrepreneurship*. (European Commission, Flash Eurobarometer, 2004). In the post-socialist new member states of the EU the low employment and high unemployment rates mostly are the consequences of other factors, notably the economic heritage of the communist system and the following deep transformation recession.



- Social and cultural differences (preference of free time over work, low entrepreneurship activity, low labor mobility – both job to job and geographical mobility).

So the CEE countries should try to avoid these problems by different labor market policies. To boost job creation it's necessary to liberalize the labor markets, cut the high taxes and social contributions as well as the welfare benefits and prefer active labor market policies instead of passively distributing the benefits. Without these steps the businesses are not motivated to create new (legal) jobs and the unemployed or inactive people are not motivated to look actively after a job. Mass immigration to these unreformed labor markets just deepens the economic problems.

### What Kind of Migrants are Arriving?

The aim of replacement migration is to gain job-takers who will contribute to the public budgets and doing so they will help to reduce the financial burden of ageing. That's why replacement migration should be predominantly a migration of workers based upon the demand of the labor markets. Asylum seekers, family reunification and illegal migration are not predominantly driven by labor demand, these migrants many times lack the skills needed

**Table 1:** *Composition of Immigrant or Long-Term Migrant Admissions by Category Selected Developed Countries*

Receiving country	Workers		Family reunification		Refugees	
	1991	2001	1991	2001	1991	2001
Australia	45	55	47	33	8	12
Canada	18	26	64	62	18	12
United States	10	19	75	70	15	11
Denmark	20	22	60	53	20	25
France	27	20	58	69	15	11
Sweden	2	2	62	65	36	33
Switzerland	47	55	51	42	2	3
United Kingdom	49	54	42	35	9	11

Source: *World Migration 2005, Costs and Benefits of International Migration*. (International Organization for Migration, 2005) p. 400.

to find a job. Replacement is the most widespread argument supporting migration but in reality in most of the developed countries only the minority of the new migrants was workers during the last 15 years. Most of the Western European countries had a high level of migration of refugees and their family members and relatives but with the exemption of the UK, Ireland and Sweden they didn't open their labour markets for the citizens of new member states after the 2004 enlargement of the European Union. They used temporary restrictions to keep out the workers from new member states.

The social and cultural background of the migrants is also very important, such as the level of their education, language skills, the cultural traditions, family models, the level of corruption and crime in sending societies etc. These factors should be also taken into account. During the last decades the difference between the education and skills of immigrants and native population in the US has been widening.<sup>18</sup> In 2000 only 8% of the native US workforce had less than a high school education, but more than 29.8% of immigrants (foreign born) and among the immigrants who arrived in the 1990's that share was 34.4%.<sup>19</sup> In the European Union there are similar gaps between the education of natives and third country immigrants. The skills of the migrant are crucial in determining their earnings and welfare consumption. In the UK, for example, in 1999 less than 10% of migrants with higher education claimed state benefits while nearly 40% of those with no qualification did so.<sup>20</sup> More than 50% of immigrants with no qualification were inactive and only 35% had a job (ibid.).

The CEE countries should focus on immigration of workers in connection with the demands of their labour market. Especially the skilled, educated immigrants should be preferred because they will be the ones with high earnings and tax payments on one hand and low welfare consumption on the other. However, the CEE countries should not forget about the low skilled workers if they are needed (otherwise they will arrive and work illegally as the development in many Western countries showed).

<sup>18</sup> G. Borjas *Heaven's Door, Immigration Policy and the American Economy*. (Princeton, New Jersey: Princeton University Press, 2001); S. Camarota *Immigrants in the United States – 2000, A Snapshot of America's Foreign-Born Population*. (Washington D.C.: Center for Immigration Studies, 2001) and G. Hanson et al, *Immigration and the U.S. Economy: Labor-Market Impacts, Illegal Entry, and Policy Choices*. (Washington D.C.: IMF – International Monetary Fund, 2001) are all confirming it.

<sup>19</sup> S. Camarota *Immigrants in the United States – 2000, A Snapshot of America's Foreign-Born Population*. (Washington D.C.: Center for Immigration Studies, 2001), p. 9.

<sup>20</sup> C. Gott, K. Johnston *The Migrant Population in the UK: Fiscal Effects*. (London: Home Office Research, Development and Statistics Occasional Paper 77, 2002), p. 19.

### Extensive or Limited Welfare States?

The extent of the welfare state as well as the accessibility of the welfare benefits for the migrants is another key factor. An extensive welfare state with wide-scale benefits (not just the social benefits but free – tax financed – education and healthcare too) accessible for migrants could lead to a situation when the cost of migration outnumber the benefits. When high proportion of migrants lives on various welfare benefits or works for low wages (so pays small taxes and contributions) this could be the case. This problem is strongly

**Table 2:** *Use of Means-Tested Programs by Head of Household's Nativity By Year of Entry (2000, %)*

Welfare program	Native households	Immigrant households <sup>1</sup>				
		All immigrant households	Pre-1970 immigrants	1970-79 immigrants	1980-89 immigrants	1990-2000 immigrants
Public Assistance <sup>2</sup>	2.1	3.2	1.8	2.9	4.1	3.9
SSI	3.9	5.3	4.9	7.1	5.5	4.1
Food Stamps	5.3	6.7	4.1	6.1	7.5	8.4
Medicaid	12.1	18.6	11.7	17.9	23.5	19.7
Percentage of Households Using Any of the Above	13.3	19.7	12.5	18.8	24.3	21.2
EITC	13.1	25.5	10.7	22.9	31.5	32.7
1 – Immigrant and native households defined by nativity of household head. Year of entry based on household head. 2 – including TANF (Temporary Assistance to Needy Families) and General Assistance Programs. SSI – Supplemental Security Income Medicaid – Government sponsored health-care program for those with low incomes EITC – Earned Income Tax Credit						

Source: S. A. Camarota: *Immigrants in the United States – 2000, A Snapshot of America's Foreign-Born Population*. (Washington D.C.: Center for Immigration Studies, 2001), p. 12.

connected with the level of education of migrants. Low skilled people tend to be unemployed more often in Western societies and if they work, they earn lower wages, so pay smaller amounts of taxes.

In the United States the welfare participation of immigrants is higher than the average even though the access of migrants (especially the illegal aliens) to various social benefits is limited. In 2000 19.7% of immigrant households and 13.3% of native households used some type of means tested welfare assistance program.

In Europe the differences in welfare dependence are even bigger for various reasons: the unemployment and inactivity rates of extra EU migrants and their descendants are higher, the access to welfare benefits for migrants is barely limited and the welfare systems are more extensive than in the US. America is the only developed country that does not have a full government-supported health-care system, the only Western democracy that does not provide child support to all families and one of the only two OECD countries (the other is Australia) that does not provide paid maternity leave.<sup>21</sup> In addition, the differences in fertility rates between immigrants and natives are bigger in Europe than in the United States, and this means higher childcare-related welfare expenditure – especially in the more extensive welfare states of the old continent. To conclude, the public welfare expenditure related to the immigrants is a lot higher in Europe than in America, especially in the case of extra-EU migrants.

The CEE countries should try to avoid these problems by not creating very extensive welfare states and they should – at least temporarily and partially – limit the access of immigrants to welfare benefits.

### When Does Replacement Migration Pay Off?

Summarizing the factors mentioned above, we can analyze the fiscal impact of the migration in Table 3.

Analyzing the migration to the Western countries during the last 15 years under these criteria, the overall picture is quite gloomy. Many of the West European countries with extensive welfare states and badly performing labour markets had high levels of immigration (predominantly low skilled refugees and their families) from the developing countries. The fiscal impact of the migration waves from Africa and Asia to Western Europe between 1973 and

<sup>21</sup> J. Micklethwait, A. Wooldridge *The Right Nation, Why America is Different*. (London: Penguin Books, 2005), p. 7.

**Table 3:** *Cost-Benefit Analysis of the Migration*

Criteria	The benefits of immigration outnumber costs, migration is beneficial for the economy and helps to reduce the fiscal burden caused by ageing	The costs of immigration outnumber its benefits, migration is harmful for the economy and deepens the fiscal burden caused by ageing
State of the labor market	high employment and low unemployment rates	low employment and high unemployment rates
Dynamics of the labor market	Rising employment, declining unemployment	Stagnating, slowly rising or falling employment, rising or high, stagnating unemployment
Welfare state extension	Limited welfare system	Extensive welfare system
Accessibility of welfare benefits for migrants	The access of migrants to welfare benefits is limited	Migrants are entitled to full scale of welfare benefits
Composition of migrants	Most of the migrants are workers or their family members	Most of the migrants are refugees, asylum seekers and their family members
Level of education	Most of the migrants have higher education (high school or more) and good language skills	Most of the migrants are low skilled with poor knowledge of the official language
Crime in immigrant communities	Migrants are under-represented in crime as well as in prison population	Migrants are over-represented in crime as well as in prison population

2006 – with the significant exception of the United Kingdom and some new immigration countries (e.g. Ireland, Spain) – was negative. In the continental economies during the 1990's, unemployment was high and employment was

relatively low and stagnating or rising too slowly. It was hard to absorb the hundreds of thousands of new immigrants for these labor markets, especially when considering that the migration was not predominantly a labor migration; the majority of the migrants were refugees, illegal immigrants or the family members of the former immigrants. The mostly low levels of education and language ability of the new immigrants were just deepening the problem. While there have been major problems with the labor market integration of the newcomers, the European welfare states with their services and financial support were mostly open to them. The access of the immigrants to the welfare benefits (more generous than in the US) was barely limited. African and Asian immigrants tend to have more children than European families, and their traditional family models many time resulted in very low employment rate of the women (as they stayed at home with the children). This situation leads to high social expenditure (on unemployment, families, housing, childcare, education, and healthcare). During the 1990's the unemployment of extra-EU immigrants reached very high levels in Germany, France, the Benelux and Scandinavian countries, many times two or three times over the national average (which in the continental economies was already twice as much as the American or British unemployment rate). The employment rate of the third-country immigrants was also significantly (10 – 30 percentage points) below the average. This situation resulted in relatively low incomes in public budgets (paid by the immigrants), because few people were working and usually for low salaries. On the other side, the public expenditure related to the immigrants was relatively high, because of the higher unemployment rates and the presence of larger and poorer families. Most communities of the extra-EU migrants were also over-represented in crime and among the prison population. This led to further expenses. The combination of low incomes and large expenditure created a negative fiscal balance in the public budgets. This development is in sharp contrast with the predominantly labor migration in Germany and France during the years of post-war economic miracles (1955 – 1973) or the internal migration within the EU. As the study made by the Bank of England showed, the migration from the new EU member states to Britain after the 2004 accession was also beneficial, helped to reduce inflation and didn't harm the work opportunities or the wage levels of native workers significantly.<sup>22</sup> The main reasons for this: the vast majority of the migrants were young (under 35) workers with qualification, mostly without dependent children, their access to welfare benefits has been limited (only after 12 months

<sup>22</sup> See: D. Blanchflower, J. Saleheen, Ch. Shadforth *The Impact of the Recent Migration from Eastern Europe on the UK Economy*. (London: Bank of England, 2007).

of continuous employment they had access to full range of benefits), their welfare use was minimal, and their employment and unemployment rates were similar to the native population. However this British experience is rather the exemption in West European immigration policies in the last two decades. Most of the EU-15 countries transitionally closed their labor markets for the workforce from new member states instead of limiting the access of migrants to welfare benefits and selecting them upon the demand of the economy.

The overall situation in America is much better. The US economy has been creating many new jobs during the last decades, the employment rate is high, and the unemployment rate is relatively low. There are no major differences in the labor market performance of the immigrants and natives. The migrant populations' employment and unemployment rate is similar to the average. These positive effects are however reduced by the lower education of the immigrant workforce. It leads to lower wages and lower taxes and contributions paid. Many of the low-skilled immigrant workers do not even pay income tax or they are getting back more than they paid because of the Earned Income Tax Credit (negative tax) program. On the other side, the costs related to immigration are relatively high, and the immigrants are over-represented between the welfare recipients. The immigration related welfare expenditure is mostly due to lower education and a resulting lower income of the foreign-born population. The higher fertility in immigrant families also plays a significant role. However, the welfare expenditure toward the immigrants is reduced by the American government, which tries to limit the access of the foreign born population to the welfare system. Much of the expenditure is related to the refugees and the illegal immigrants, while most of the public revenues are generated by the highly skilled. So the immigration of the skilled labor to the US (with the H1-B visa for example) is highly beneficial for the public budgets, but probably legal migration as a whole (excluding refugees) has a positive fiscal impact. There are major differences between the various ethnic groups migrating to the United States. Some of them, notably the Asian population has higher education, better skills, higher income and lower unemployment rate than the American average. It means a net contribution to the public budgets. On the other hand, the Hispanic, mostly Mexican immigration is predominantly low-skilled, with a high proportion of unauthorized migrants. Its fiscal effects are worse.

### **Economic Benefit Shouldn't Be the Only Aspect Considered**

When millions of migrants, future inhabitants and citizens are at stake, consequences other than economic should be also considered. The impact of

mass migration on host societies, security and political dimensions are very important. Migration waves to Western countries led to serious problems in these areas. The main concerns are the following:

- The lack of democratic legitimacy for mass migration. In most of the countries the majority of people were against great migration, so the immigration was running without the support of the Western citizens or against their will.<sup>23</sup> It led to a rise of anti-immigrant parties, some of them extremist political movements (e.g. the Front National in France).
- The lack of integration policies. The mass migration to the West was running without any integration or/and assimilation policies. Segregated ethnic ghettos were born, mainly in or around the big European cities. In these parallel societies with mostly segregated schools the migrants and their children live isolated from the majority. With higher unemployment, crime and social problems, many times ethnic tensions in these migrant communities also became the symbols of urban poverty. European countries instead of using migration to reduce fiscal problems caused by ageing were creating their ethnic underclass. Migration from completely different societies also brought to the Western countries many problematic traditions (polygamy, female genital mutilation, and honor killings).
- The risk of radicalism and terrorism. Migration also led to rising Islamist radicalism and home grown Islamist terrorism. They are both a great threat for Western democracies. Within the majority population, extreme racist and neo-fascist groups continue to prevail.

Future mass migration can deepen these problems if no adequate integration policies are created and implemented. Stronger measures against illegal habits (e.g. polygamy, female genital mutilation, honor killings) and religious and political extremism are also needed. In a worst-case scenario some European countries could fall apart to ethnic enclaves if nothing is changed.

The CEE countries should implement adequate integration policies. To avoid the law-breaking customs and the spread of extremism integration agreements should be considered (they have been introduced in many Western countries, like France, the Netherlands and Denmark, as parts of immigration reforms). By signing this agreement the immigrants accept the basic conditions of integration (learning the local language, customs and respecting the rules of host societies). If these principles are knowingly violated, it could be a reason for withdrawing the residence permit and deporting the immigrant to the sending country.

<sup>23</sup> See for example the 1997 Eurobarometer opinion poll: *Racism and Xenophobia in Europe*. (European Commission, Eurobarometer Opinion Poll No. 47. 1997).



## Conclusions

Immigration could significantly lower the age-related economic burden if its fiscal balance is positive and it is followed by other economic policies, notably the labour market and pension reforms.

The immigration to unreformed, stagnating labour markets is not going to improve the employment and reduce the old-age dependency ratio alone and automatically. To achieve a positive change in the ratio between the active and pensioner population, pension reforms are necessary. Otherwise astronomical numbers of new immigrants will be needed to counterbalance the rise of the pensioner population, and there is no guarantee that they

will be employed. Thus, the immigration is a feasible solution only when pension and labor market reforms are added. The reforms of the public pension schemes are needed both in the United States and in EU member states (the only question is how radical the changes should be). The labor market reforms were mostly in need in those European countries, which were coping with high, mainly structural unemployment and low, stagnating levels of employment (between 1990 and 2006 notably the three largest continental economies, Germany, France and Italy, but also other countries, like Belgium and Greece). Immigration is reducing the fiscal burden of ageing and helping to prolong

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*Immigration is reducing the fiscal burden of ageing and helping to prolong the sustainability of the public pension and healthcare systems based on the solidarity between generations only when its fiscal balance is positive.*

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the sustainability of the public pension and healthcare systems based on the solidarity between generations only when its fiscal balance is positive. It means that the sum of taxes and contributions paid by the immigrants is bigger than the public expenditure related to them. The fiscal impact of immigration mostly depends on the labour-market performance, the income and the public (welfare) consumption of immigrants:

- The most important question is, if the demand on the labor market meets with the supply of the immigrant workforce. The number and composition of immigrants and their education are key factors. If the quality and the quantity of immigrant labor supply is similar to the demand on the market, than most of the immigrants find jobs and become tax-paying inhabitants, the fiscal balance improves. If not, than many immigrants or

native citizens will be unemployed and use the welfare services, so public revenues will decline, the expenditure will increase, and the fiscal balance will turn to negative numbers.

- The welfare system and the accessibility of welfare services and benefits for the immigrants is another key factor. In a country with an extensive welfare system and wide-scale benefits, where the access of immigrants to the welfare system is not limited, mass immigration (especially from poor countries) could impose a heavy burden on public finances.
- The situation on the labor market and welfare consumption is strongly affected by the composition of the immigrant population. Those coming through the channels of labour migration easily find jobs (many of them are coming to fill up concrete vacancies). Refugees, family members or illegal immigrants are not selected upon the demand of the labour market. For these groups it is harder to find a job.
- Labour market performance, the income and the welfare consumption of immigrants depends mostly on their education, skills and language ability. Skilled people with high qualifications usually have jobs with higher salaries, so they pay more taxes and contributions to the public budget while their welfare consumption is lower. Low skilled workers tend to be unemployed more often, if they work, their earnings are lower, so they pay less on taxes to the budget, but they are qualified for welfare programs and it leads to higher public expenditure.
- The cultural and social norms brought from the countries of origin could have an effect on the fiscal balance too. If large numbers of immigrants arrive from countries with high fertility and the tradition of a big family where mothers are usually at home with the children, they probably will keep these family models for a while. However, in Western societies coping with low fertility and giving relatively big support (in the form of welfare services, benefits and social rights) to families and women with children could result in huge social transfers to immigrant families.
- If immigrants are over-represented in crime and among the prison population it will increase the public expenditure (on police, courts, prisons etc.). If they are under-represented, public sources could be saved, the fiscal balance of immigration will be better.

Based on the criteria of positive fiscal balance we can describe the characteristics of an immigration policy which tries to maximize the economic gains for the host countries as following:

- This policy prefers labor migration, especially the inflow of skilled labour, based upon the demand on the labor market. It does not forget about the low skilled workers if they are needed (otherwise they will arrive and work

illegally). It fights against illegal migration, limits the number of family-reunifications reducing it to the closest family members.

- It is limiting the access of immigrants to the welfare system – at least partially and transitionally.
- It reduces the time for the asylum procedure and implements the decisions on asylum applications quickly. During the decision making process the labour market for the asylum seekers should be opened at least partially, so they could contribute to their cost of living. The asylum seekers should not be discouraged with wide-scale welfare services and benefits for years while it forbids them to work. This could lead to welfare-dependence.

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