Oesterreichische Nationalbank
Conference on European
Economic Integration

November 28 to 30, 2004, Vienna

Do Not Slam the Welfare Door to New Immigrants !

(summary)

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DO NOT SLAM THE WELFARE DOOR TO NEW IMMIGRANTS!

According to the Eurobarometer survey, about one European citizen out of two believes that minority groups are exploiting the system of social welfare. With an increasing number of poor immigrants coming to Europe, the pressure to close the doors of the welfare state is increasing. In the eve of EU Enlargement, Ireland, United Kingdom, and Sweden restricted access to welfare of workers from the New Members States. The Council of Economic Advisors to the German Ministry of Finance is now actively campaigning for the so-called delayed integration principle, which involves postponing for up to 5 years access to welfare by new legal immigrants. This is a short-sighted and politically unattainable policy that will create long-lasting problems to save a few euro in the short-run. Europe needs a *common* immigration policy and a *co-ordination of welfare minima*. Our belief is based on the study of the US experience, economic theory, and extensive empirical research.

The US experience with restrictions to welfare access is revealing. In 1996, the welfare system was partly decentralized to the states and limitations were introduced in the US to access to welfare benefits for legal immigrants. For instance, legal non-asylum immigrants who arrived in the country after August 1996 were barred from receiving food stamps or using Medicaid for 5 years. The proponents of this reform were hoping that a more decentralized system would make the states more cautious in providing expensive welfare benefits to immigrants. The reform failed on both accounts. Since 1996, the provision excluding immigrants from some welfare services has been challenged in the courts. In addition, some provisions became politically unattainable; already by 1997, the Congress started repealing the tougher provisions. Finally, the states felt the political pressure to maintain the benefits at the previous levels under the federal system ; this is particularly evident in states like California, in which immigrants account for more than 15 percent of the electorate. What did we learn from the US experience? A decentralized system that strongly discriminates against immigrants is politically unviable, easily challengeable in courts, and slowly reverts to the previous system.

Economic theory provides further arguments against closing welfare access. Restricting access to welfare reduces labour mobility and the net present value of immigration for the host country. This is because migration is a two-sided and long-term investment : the migrant pays upfront the mobility costs and invests in future income streams, while absorbing the risk of not finding a job immediately. The risk is more serious in the European labour markets than in the US. Welfare systems protect against these risks. Barring access to welfare in the initial years when the risk of unemployment is higher, is a strong deterrent to migration, including intra-EU migration, which is badly needed in Europe. By moving labour from less to more productive jobs, migration fosters growth and prevents overheating in local labour markets. Furthermore, a country receiving a migrant has to incur some costs in the short-run, which are repaid over time by the immigrant in terms of social security contributions and taxes. The quicker the assimilation, the shorter the period during which the migrant is a fiscal burden. Preventing —or even simply delaying access to welfare and public services like health and housing—encourages illegal immigration, further swelling the ranks of the

shadow economy and retarding the growth of social contributions and tax base. With these shadow economies of Europe already above the OECD average, welfare policies should avoid exacerbating its size.

Even the savings in the short-run would be modest. The reason why migrants often are more dependent on welfare than natives is that they have larger families and are more frequently subject to unemployment episodes. Once account is made of all this, it turns out that in most countries immigrants are no more dependent on welfare than natives. And the fact that they have many children is an asset for Europe, which is ageing rapidly. It certainly costs less to have more migrants than to pay generous children allowances in order to induce natives to increase their fertility rates. True, in some countries, there is some "residual dependency," not explained by the above factors. But it is a rather marginal effect and almost exclusively confined to contributory systems, like unemployment benefits. These systems are being reformed throughout Europe to make them more closely corresponding to insurance principles and prevent opportunistic behaviour. In light of these reforms, immigrants who are younger than natives—are net contributors to these schemes.

Some countries have in place temporary restrictions to access to welfare by short-term residents, wherever they come from. Introducing new restrictions vis-à-vis legal immigrants would open a Pandora's box of Court rulings. Many EU directives and decisions of the European Court of Justice have already introduced in the European material constitution non-discrimination clauses on the grounds of nationality and have explicitly recognized the entitlements to social security benefits and social services. These principles are in the Constitution to be signed in Rome in ten days time.

What the EU should do is to adopt a common policy toward immigrants. This is essential to spread over time immigration flows, and ensure that immigrants go where there is demand for them, and not where the rules are looser. Large differences in welfare payments across the EU may also distort decision locations of immigrants. To prevent this to happen, rather than shutting the welfare doors, EU countries should co-ordinate their minimum standards for welfare (at purchasing power parities) and plan on funding them at the EU level, having in mind that a minimum guaranteed income scheme defined at about 600 euros for a single (the average level across the EU-15 countries) at UK PPP would cost no more than ¼ of current total social assistance expenditure in the EU.

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