Rethinking migration

Work and welfare in a mobile economy

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policy network paper

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future of the welfare state

global europe, social europe

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renewal of social democracy

Abstract

Governments across Europe are responding to public concerns about the economic impacts of migration by developing and implementing more selective immigration policies. Using a variety of sophisticated tools, including the UK's new "points based system", policymakers are trying to attract "useful" migrants to our borders, while keeping "unwanted" migrants out. By letting in only those migrants who will contribute positively to our economies, the aim of these policies is to maximise the economic benefits of migration while minimising its (apparent) social costs. This paper questions the utility of this approach. The costs and benefits of migration are too tied up with the regulatory structures of our labour markets and welfare systems to try to achieve this objective simply by selecting the "right" kind of migrants, as if their particular skills-set was the only variable that mattered. If our aim is to enhance the productive incorporation of migrant workers, existing efforts to manage migration require a much more holistic approach. This does not mean that states should abandon efforts to select migrants, but rather that immigration, labour market and welfare policies need to be developed in tandem.

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1. Introduction

The relationship between migration, work and welfare is not a new debate in Europe. Ever since the launch of the European Community's single market programme in 1987, establishing the free movement of goods, services, workers and capital within the Community, concerns have been expressed that intensified locational competition would trigger a "race to the bottom" in wages, taxes and social standards. These concerns were magnified in 2004, when 10 new member states, mostly from central and eastern Europe, acceded to the European Union. The EU's biggest ever round of enlargement, the event caused considerable unease among the public in the EU-15, who feared it would lead to mass migration from the new member states and further social dumping (Kvist 2004, p. 305). European governments have tried to convince their electorates that labour migration is good for the economy—with little success. Public scepticism about the economic impacts of migration has shown no sign of abating. Today public concerns about the impacts of migration threaten to take an even uglier turn as the prospect of a world-wide recession is likely to intensify competition for jobs among immigrant and non-immigrant populations.

European governments of all stripes have reacted to these trends by developing and implementing more selective immigration systems. Using a variety of sophisticated tools, including Britain's new "points based system", policymakers have invested increasing resources to try to attract "useful" migrants to our borders, while keeping "unwanted" migrants out. By letting in only those migrants who will contribute positively to our economies, the aim of these policies is to maximise the economic benefits of migration while minimising its (apparent) social costs. In this paper we question the utility of relying exclusively on migration policies, selective or otherwise, for achieving this objective. As we argue in this paper, the productivity of migrants depends not only on the characteristics of the individual immigrants themselves but also on labour market and welfare structures within the host societies.

> Immigration, labour market and welfare policies need to be developed in tandem

Current efforts to select migrants according to their value to the economy underestimate the complexity of the relationship between migrant flows, labour markets and welfare systems. They reflect a widespread tendency among policymakers and the public at large to see migration as a distinct and separate phenomenon that "happens" to our societies, the impacts of which can therefore be "controlled". If our aim is to enhance the productive incorporation of migrant workers, existing efforts to manage migration require a much more holistic approach. As the rapid increase in population mobility both within Europe and at the global level indicates, we need a new lens for thinking about the economic prosperity and wellbeing of our societies, one that accepts migration as integral to Europe's 21st century reality. This does not mean that states should abandon efforts to manage migration, but rather that immigration, labour market and welfare policies need to be developed in tandem. Before exploring this argument in greater detail, we begin with a brief review of the traditional literature on the impacts of labour migration, to highlight some of the limitations of this approach.

2. The economic "impacts" of labour migration

Although much of the existing literature on the economic impacts of migration has been conducted using evidence from the United States, in recent years we have seen an increasing body of European literature on this question, reflecting Europe's growing net inward migration. Much of this literature is prompted by a desire to inject greater objectivity into a debate that has become highly politicised and emotional. For important sectors of European public opinion, migrants are responsible for various new forms of economic insecurity: increased competition for jobs, the dampening of wages, and unfair competition for limited public services. However, to the disappointment of both extremes in Europe's polarised debate on migration, the empirical evidence presented in the literature is remarkably inconclusive. Studies of the impact of migration on public finances, employment and wages in particular countries find that, while some countries display more positive outcomes than others, the recorded impacts are generally small.

> The population groups who have suffered most from from increases in migrant labour are migrants

For instance, a study of 18 European countries conducted in 2003 found that if immigrants' share of total employment rises by 10%, native employment only falls by between 0.2% and 0.7% (Angrist and Kugler 2003, p. 328). A recent paper, which calculated the average findings of a wide range of empirical studies, showed that a 1% increase in the number of immigrants in the labour force led to only a 0.1% fall in wages (Longhi et al. 2004, p. 472). Similar inconclusive results emerge from studies of the net fiscal impact of migration in the United Kingdom, which indicate different outcomes depending on the methodologies employed (Kirby et al. 2007).

These "low-level" results can nevertheless disguise considerable differences in the distribution of gains and losses for particular groups among the native-born population and across different parts of the country (Nathan 2008, p. 19). There is no denying that, in a number of cases, increases in the labour supply have had negative concentrated effects, especially at the low-skilled end of the market (Gordon et al. 2007, Dustmann & Glitz 2005). In the UK, for instance, this was found to have contributed to a rise in unemployment among 18-24 year olds looking for unskilled jobs (Riley et al. 2006, p. 8). Ironically, statistical evidence suggests that, in almost every European country, the population groups who have suffered most from increases in migrant labour are migrants themselves. OECD data for 2006 showed that the unemployment rate amongst the foreign born population in the UK was 7.4% compared to 5.5% for the native-born; in Germany, it was 16.6% and 9.4% respectively; in Denmark, 7.4% compared to 3.2%; and in Sweden, 13.6% to 6.0%. Only Italy largely bucked this trend (OECD, 2006).

Similarly, even in countries like the UK, Greece and Spain where the net fiscal impact of migration is positive, migrants can pose difficult challenges at local level, particularly in relation to the provision of housing, education and other public services. This problem can be particularly acute in localities that have had little or no prior experience of migration, including many rural communities in the UK (House of Commons 2008, p. 13). In other countries, including the Netherlands, Denmark and Sweden, the situation is even more grave as the net fiscal balance of migration is considered to be negative (Ekberg 2006, p. 11). According to a 2003 survey from Sweden, non-refugee immigrants are 5.5% more likely to be receiving social assistance than natives, and refugee immigrants are 27.3% more likely (Hansen & Lofstrom 2003, p. 83).

In short, although the aggregate balance of migration's impact on labour markets and welfare systems is often negligible—and sometimes even positive—this finding can disguise what are often considerable differences across localities, socio-economic groups and sectors. The influx of migrant workers encourages job creation in some sectors but displaces workers and dampens wages in others. Migrants can likewise have positive or negative effects on a country's public finances, depending on a variety of factors. In the following two sections we critically examine the way policymakers across Europe are responding to these distributional problems, and suggest how their approach should be improved.

3. Migration and work in a mobile economy

Policymakers across Europe are responding to public concerns about the dampening effects of migration on employment and wages by relying exclusively on changes to their migration policies. The UK is currently at the forefront of these efforts, following the gradual introduction of a new "points based system". According to this system, only high-skilled migrants will be able to enter the country without sponsorship from an employer, with the stated aim of attracting the "brightest and the best" to the country. Meanwhile, migrant groups considered to have little or no economic value—either as a result of their low-skills base or because they do not have sufficient resources to support themselves—are faced with reduced legal channels for entry, exemplified by the current closure of the UK's low-skilled Tier 3 option.

Other countries are following Britain's example by offering priority, or "fast track", entry to migrants with high incomes, good professional qualifications, or specific skills needed in the economy. In Denmark, for example, while raising obstacles to the entry of asylum-seekers and spouses (language tests, integration declarations, income requirements), the government is making residence permits available to any migrant that has a specific job offer with a yearly salary of 50,000 Euros (OECD 2008, p. 238). The recent introduction of a "carte des compétences et talents" by the government of President Sarkozy illustrates this trend in France.

> Other countries are following Britain's example by offering "fast track" entry to migrants

In this section we argue that these measures, on their own, will not achieve their desired effects ie maximising the economic benefits of migration. We advance this argument by exploring the influence on migration flows and impacts of one particular aspect of European labour markets: the degree of labour market flexibility, which we define as the amount and type of employment protection regulations which affect opportunities for and actual mobility among employees (Wallace 2003, p. 781).

There are certainly other aspects of labour market institutions which might have an influence on migrant flows and productivity (e.g. the size of informal markets, wage structures, etc). We have chosen to focus on the strictness of employment protection legislation, or labour market "flexibility", because it is an aspect of European labour markets which varies considerably from state to state. According to the World Economic Forum's global competitiveness report for 2008-2009, Denmark ranked first among 134 countries surveyed for the flexibility of their hiring and firing practices, with the UK in sixth place and Spain, Germany and Italy very near the bottom (Global Competitiveness Report 2008, p. 442). These variations have lent themselves to interesting and important research on the interaction between labour markets, migrant flows and the economic integration of migrants.

A growing body of scholars have begun to explore the impact of employment protection legislation on the direction and level of migrant flows. The remarkable difference in net migration flows into the UK and Sweden, following the decision by both countries to open their labour markets completely to A8 workers, has been an important focus of their work. Although the English language was no doubt an important incentive for workers from the new member states, it is argued that the considerable flexibility of the UK's labour market also played an important part in shaping the direction of migrant flows (von Weizsäcker 2008, Ruhs 2007).

Other scholars have turned their attention to the impact that different employment protection regimes can have on migrant labour market performance. In rigid labour markets, immigrants tend to face high entry barriers resulting in high unemployment rates and low levels of participation among migrant workers (Brochmann & Dölvik 2006, p. 17). In Germany, for example, which has comparatively strict employment protection legislation, there is a large (18% point) gap in employment rates between migrants and non-migrants. Inflexible labour laws therefore not only hinder the positive integration of migrants, they also make it more difficult for certain sectors of the economy to expand and offset the negative impacts that an increase in labour supply might have on the employment prospects of native workers. This problem has for example, particularly troubled the construction industry in Germany, which employs large numbers of both regular and irregular workers. In times of recession, the rigid labour market and the comparatively low mobility of regular German workers determine that they compete directly with immigrants, thus undermining their own job prospects (Münz 2006, p. 8).

Since the early 1990s, driven by global economic integration and technological change, governments across Europe have embarked on reforms aimed at easing employment protection legislation in order to facilitate more contractual diversity and increase the efficiency and competitiveness of our economies (OECD 2004, ch.2). However, little attention has been given to the effects of these reforms on mobility patterns, employment rates and productivity levels among Europe's growing migrant workforce.

There is worrying evidence that much of the recent deregulation has tended to increase flexibility "on the margins", creating a segmented labour market where certain groups (especially temporary and agency workers, which disproportionately recruit among migrants, young people and women) "enjoy" more flexible forms of employment, ending up in unstable low-paid jobs and overrepresented among the growing underclass of the working poor. In the UK, a recent TUC report by the Commission on Vulnerable Employment (May 2008) estimated that there are over 2 million in precarious employment, defined as "precarious work that places people at risk of continuing poverty and injustice resulting from an imbalance of power in the employer-worker relationship" (Trades Union Congress 2008, p. 3). The dangers of excessive deregulation are all too apparent and governments need to take this into account.

If Europe wishes to achieve its Lisbon objective of becoming the "most competitive and knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion", policymakers will have to give much more attention to the interaction between labour market flexibility and migrant integration. Bearing in mind the adverse effects which excessive regulation and excessive de-regulation can have on the mobility and productivity of migrant workers, national policymakers will need to construct labour market policies which are flexible enough to facilitate the incorporation of migrants while minimising their potential costs for social cohesion and long-term prosperity. In other words, a form of "regulated flexibility" is needed which allows economies to adjust to external stimuli while maintaining a minimum level of social rights and accommodating the cultural and institutional specificities of each European state.

4. Migration and welfare in a mobile economy

A similar process as that described in the previous section in relation to labour markets is visible in European governments' reactions to the perceived "impacts" of migration on our welfare systems. On the one hand, there is fear that immigrants may be a burden on our welfare states, consuming public services and social benefits that are already under immense strain as a result of our ageing societies and budget deficits. On the other hand, the "right" type of migrant is perceived as a potential cure for Europe's ailing welfare systems, especially those who are young and employed and arrive without families. Governments have sought to resolve this trade off between the costs and benefits of labour migration to our welfare systems by setting limits to the number and types of migrants who can cross our borders, and restricting access to social assistance and welfare entitlements to migrants once they are in. Once again, they are trying to resolve the problem at hand by relying on migration policies alone.

In Denmark, for example, reforms introduced from 2001 have severely curtailed previous generous asylum and family-reunification policies; marriage visas are only granted to spouses aged 24 years of age; migrants' access to social assistance is limited for the first seven years of residence; and residence status withdrawn for temporary migrants in case of job loss (Goul Andersen 2005, p. 8). In the UK, local authority housing and certain tax-based benefits are restricted to temporary migrants and their families, and the government's 2008 citizenship green paper proposes to make permanent residence (and thus access to further welfare entitlements) conditional on migrants' ability to prove their economic self-sufficiency over a number of years (Home Office 2008, p. 26).[1]

In this section we argue that curtailing migrant access to benefits will not achieve the desired effects, as it assumes that the "problem" at hand lies exclusively in the number and characteristics of the newcomers who enter our societies. While the characteristics of migrants of course play a role, this approach fails to acknowledge that the source of the problem may also reside in the nature of our welfare states. We propose to widen our analysis to consider the possibility that certain aspects of our welfare systems—namely, the extent and conditions of their coverage—may be adversely influencing the economic impacts of migration by creating "welfare traps" for both immigrant and non-immigrant populations, thereby reducing the productive capacity of both groups in our increasingly mobile societies.

As is well known, welfare regimes continue to vary substantially from one European state to another. Borrowing the standard, four-fold classification of European "social models", we find that welfare coverage is more universal in certain systems (in particular those associated with the "Nordic" model) than others (notably, the "Anglo-Saxon", "Continental" and in particular the "Mediterranean" models). However, in their different ways and to varying extents, the welfare regimes associated with all four models face unsustainable economic and demographic pressures, even without taking migration flows into account (Sapir 2005, p. 369). The question arises, then, as to whether and how the degree of welfare coverage provided in different states influences the economic impacts of labour migrants.

On the one hand, there appears to be evidence that generous welfare regimes experience a more negative net impact of immigration on public finances. For example, according to one study, in the period between 1994 and 1996, migrants in Denmark and Finland (which at the time boasted universal welfare regimes) were 15.6% and 27.4% more likely to be dependent on welfare than the native-born, even once similar characteristics have been controlled for (Brücker et al. 2001, p. 79). In another study, the high welfare dependency ratio among immigrants in Sweden was calculated to

1. The new Citizenship, Immigration and Borders Bill proposed in the Queen's speech to the opening of Parliament on 3 December 2008, further demonstrated the government's commitment to making newcomers "earn the right to stay".

represent a cost of 2% of Sweden's annual GNP (Ekberg 1999, p. 421). These patterns are frequently cited as evidence of a "welfare magnet" effect, whereby resource-poor migrants are attracted to countries with universal welfare coverage.

However, numerous studies have cast doubt on the theory that immigrants choose their countries of destination in order to claim welfare benefits (Baldwin-Edwards 2002, p. 5; Sciortino 2002, p. 17). More recent research suggests that, rather than create a magnet effect, overly generous welfare systems appear to create "welfare traps" for both immigrant and non-immigrant populations, where benefit recipients find that it becomes difficult to enter or return to the labour market. According to one study, a migrant on benefits with a family in Denmark in the 1990s could be landed with an extremely high marginal tax rate, creating a negative incentive structure (Baldwin Edwards 2002, p. 4). The same logic is true for non-immigrant benefit recipients in countries with very generous welfare systems, who may find few incentives to seek employment, especially if their job prospects are limited to the low-skill, low-pay end of the employment spectrum (Giddens et al. 2006, p. 49).

These observations suggest that the solution to Europe's welfare problems is not as simple as restricting access for migrants to our welfare systems. Indeed, such an approach may have adverse effects, not only on the welfare of migrants, but also on that of society as a whole. A glance at two European countries which have some of the most exclusionary welfare provisions towards migrants—Italy and Greece—illustrates this problem, or in the words of Brochmann and Dolvik (2006, p. 20) the "limits to the rationality of welfare cuts". Both countries have social assistance regimes that privilege protected members of the regular labour market (the traditional white, male breadwinners) with only residual universal services in the realms of healthcare and education. The result is highly fragmented welfare systems, where the resident population is divided into those who have access to social protection, including child benefits, unemployment assistance and pensions, and those who do not. Immigrants (along with women and the young) are over-represented in the latter category owing to the type of employment they have access to, which is frequently casual or temporary in nature. This is compounded by endemic problems in both countries' immigration systems, where most migrants only ever obtain short-term residence permits, which are difficult to renew. As a result, they frequently lapse into illegality, thereby finding their access to social protection curtailed even further. As recent expressions of anti-immigrant hostility in Italy illustrate, excluding newcomers from welfare protection can have adverse impacts on a society's economic and social integration and thus on the wellbeing and prosperity of its members (Geddes 2003, p. 154; Brochmann & Dölvik 2006, p. 17; Sciortino 2002, p. 17; McDougall 2008).

Caught between the economic costs of universalism and the social risks of fragmentation, what kind of welfare states can European governments construct in a mobile economy? In fact, most European countries have already embarked on some of the necessary reforms, even if these have not been designed and implemented with mobile populations in mind. These are embodied in the concept of "flexicurity", where welfare entitlements for both immigrants and the native-born are conditional on the duty to work or engage in other productive activities. Criticised by some for resulting in a "levelling down" of social protection across Europe (Chapon & Euzéby 2002, p. 37), these reforms in fact pursue a very different objective, namely, to cushion workers from the increased risks associated with structural change by securing their employability (especially through re-training) rather than their jobs (Giddens et al. 2006, p. 1-4). In our view, these employment-focused reforms are clearly preferable to the fragmented welfare systems which most European countries are heading for. As our economies and societies become increasingly mobile, creating two levels of welfare entitlements, one for migrant workers and one for the rest, will become economically unsustainable and socially disruptive.

5. Towards a more integrated approach

We have argued that relying exclusively on selective migration policies to maximise the economic impacts of migration while reducing its (apparent) social costs is impracticable. The costs and benefits of migration are too tied up with the regulatory structures of our labour markets and welfare systems for governments to try to accomplish these objectives simply by selecting the "right" kind of migrants, as if their particular skill-sets were the only variable that mattered. This argument should not be confused with the "open borders" position defended by some, where people should be allowed to move freely across borders as market processes on their own will ensure their positive economic impacts (Legrain 2006, p. 318-333). We have argued that completely deregulated labour markets and exclusionary welfare states can only lead to fragmented societies, where a privileged majority with high quality jobs and welfare rights are separated by a thin and fragile wall from a growing underclass of poor, populated by both immigrant and non-immigrant groups.

> Completely deregulated labour markets can only lead to fragmented societies

Far from denying the government a role in managing migration, our proposals only serve to highlight the need for a more integrated policy framework, where immigration, labour market and welfare policies are developed in tandem. Currently, even in the countries that have done most to link up migration flows and labour market needs, the efforts have been in one direction only. For example, the mandate of the UK's new Migration Advisory Committee is "to provide independent, transparent and evidence-based advice to government on where labour market shortages exist that can sensibly be filled by immigration" (Migration Advisory Committee 2008, p. 10). Through rigorous analysis of labour market dynamics in the United Kingdom, the Migration Advisory Committee has begun to develop shortage occupation lists which should guide the calibration of points for the different entry routes of the new "points based system".

As long as the system for calibrating points is regularly reviewed for changes in the labour market, the UK's points-based system is clearly an improvement over the previous work permit regime, which focused on a limited number of sectors only. However, the current system's exclusive focus on efforts to match migrants to the needs of the labour market overlooks the dynamic relationship between migration, labour markets and welfare systems that we have highlighted in this paper. Just as the Migration Advisory Committee currently issues recommendations regarding required changes to migration policy on the basis of the UK's labour market dynamics, so this same committee of economic and migration experts, or indeed another body set up for this purpose, should be looking at required changes to labour market and welfare policies on the basis of population mobility trends. The same conclusion, mutatis mutandis, applies for other European countries, bearing in mind their different starting points and national institutions.

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