

Department of World Economics

SUMMARY

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Immigration in the United States of America and the European Union

Helping to Solve the Financial Consequences of Ageing?

(Ph.D. dissertation)

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1. Previous Research and Importance of the Topic

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 number and share of old (65 +) population, while the number of 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 working age population relative to those over 65) 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. The ageing together with the fast improvement of the (mostly very expensive) medical technologies also leads to expanding health-care costs in public budgets. Thus, the ageing related economic problems are one of the most serious concerns in the Western world.

The replacement of the part of working age population through migration could help to reduce the financial burden of ageing. The aim of the dissertation is to answer the question: **does replacement migration be a good solution for the EU and America to tackle the rising fiscal expenditure on pensions? Does it help to solve the financial consequences of ageing?** This question is also important in the context of global migration waves: America and Europe have been one of the main destinations of international migration. The USA and the EU can and have to select the migrants they want or could accept. So it is good to know, what kind of migration is principally (economically) beneficial for the host countries. If the main goal of the immigration is the economic benefit for the host societies, I think it should be, than migration must have a positive fiscal effect on public budgets.

The direct net fiscal effect of migration on public budgets equals to 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 the immigrants. If immigrants pay more to 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, 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** (1997, 1998) 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 (Borjas [2001] p. 126). 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 (Hanson et al. [2001] p. 59). The 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 (ibid. pp. 60, 121). These differences were explained by the following factors: higher share of foreign born population in California, 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 that the overall economic impact (sum of fiscal, product, and labour market effects) of immigration in the United States is around a 10 billion net surplus annually (Borjas [2001] p. 87).

Steven A. Camarota from the Center for Immigration Studies, a Washington based think tank, estimated 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 (Camarota [2004] p. 5). 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 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 (Gott – Johnston [2002] p. iii). The main 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 Labour Market Policy Research at Växjö University in Sweden estimated the negative fiscal balance of immigration at 0.9 % of the Swedish GDP in 1991 and 2 % in 1994 (Ekberg [1999] pp. 418, 421). 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 (*ibid.* p. 423). 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.

As the estimates show, 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. In my dissertation I'm examining these factors to establish the criteria for beneficial migration. I confront these criteria with the real migration waves in America and Europe to find out their possible fiscal effects. I also make some policy recommendations to develop beneficial migration policies which could help to solve the ageing related economic problems.

2. Applied Methods

The starting-point of the dissertation is the assumption that if the age structure, the employment situation and the taxed earnings of the immigrants are better than the native population's ones, than the fiscal impact of immigration will be positive. The age structure of the immigrant population is better in every analysed country so we can abstract from this factor. Thus the main hypothesis is: the fiscal impact is determined by the labour market performance, the earnings and the welfare consumption of the immigrants. If the employment rate and the earnings of the migrants are higher and their welfare consumption is lower than the national average, the fiscal impact will be positive. In this case the immigration increases the incomes of the host countries and their citizens, generates net public revenues and counterweights the economic consequences of ageing.

In the dissertation I try to confirm this hypothesis with the help of the existing fiscal-impact estimates and statistical data. So I'm drawing conclusions from the secondary analyses of the existing estimates and statistical data. With the help of available literature and data, I established the main criteria for economically beneficial migration and I evaluated the main migration waves to US and the EU under these criteria. Policy recommendations for the creation or the reform of migration policies are also added. The dissertation is comparative; there is special attention paid to the differences between the US and the EU, but also between the various member states within the EU.

The analysis is focusing on the direct short-term fiscal impact of immigration. Of course there are also indirect fiscal effects generated mostly by the labour and product market effects of immigration (changing the supply and prices of labour and capital). The fiscal impact can also change significantly on long-term. These factors support a broader dynamic analysis of the fiscal balance which includes the indirect and long-term effects. However, it is very hard to calculate the indirect and long-term fiscal effects of immigration and the existing estimates are very uncertain and confusing. They depend on so many unknown or hardly predictable factors that their results are on too long scale. That's why I concentrate on direct short-term (fiscal year) effects. One have to note that exactly this direct and short-term fiscal balance is crucial as a possible counterweight of the current ageing-related fiscal burden and this is relevant for the tax-payers and the decision makers.

3. The Main Findings of the Dissertation

3.1. Ageing Related Problems in Europe and America

As a combined impact of demographic factors, labour market influences and the rising generosity of the public pension systems (rising gross replacement rate) the public pension expenditure as a percent of GDP between 1960 and 2000 has risen in the EU-15 from about 6% to over 12% and in the US from 4 to over 7 %. While measuring the ageing related fiscal problems, it is clear that the United States are in a far better situation than the European Union. The American population is younger, the fertility rate is significantly higher than in Europe, the employment growth was bigger during the last decades and finally, the public pension system (social security) is less generous than its European equivalents. Plus the earnings of the American pensioners are less dependent on the Pay-As-You-Go public pension system than in Europe. (In the case of the EU-15 in 2000 nearly 90% of retirement income provision was coming via the Pay-As-You-Go system with the remainder coming from various funding pillars. In the US, the breakdown between social security and funding was roughly 2/3 to 1/3 respectively. In terms of the total income of pensioners, the Pay-As-You-Go system provided roughly 55-60% of the total income of pensioners in the EU, with the US social security system contributing roughly 40%.) To conclude, under these circumstances; if the developed countries try to solve the ageing related problems with the replacement migration of the working age population, the EU member states need more immigrants. This is also true from a pure demographic perspective, to keep the number of the working age population or counterbalance the worsening old-age dependency ratio. It is

important to note that there are great differences between the EU member states. The countries with the lowest fertility rates and the highest share of older population (for example Italy and Germany) are mostly in need of immigrants, while some other states with higher birth rates and younger population (notably Ireland and France) are not so much.

3.2. Labour Market in the United States and the European Union

The aim of the 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. Replacement migration makes sense only when migrants find a (legal) job. That's why the overall situation of the labour market and especially the employment of the immigrants is a key factor of the fiscal impact. Between 1990 and 2006 the US and some European countries (Britain, Netherlands, Denmark, Sweden) had high employment and low unemployment rates. America, Britain, Ireland, Netherlands and Spain had dynamic labour markets in 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: rigid, over-regulated labour 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 labour cost (high personal income tax and social security contributions); too high and demotivating welfare benefits, especially high unemployment benefits offered for 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 time leads to rises in already high contributions; social and cultural differences to the US (preference of free time over work, lower entrepreneurship activity, lower labour mobility – both job to job and geographical mobility).

To boost the job creation in these countries it is necessary to liberalise the labour markets, cut the high taxes and social contributions as well as the welfare benefits and prefer the active labour 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 for a job. Mass immigration to these

unreformed labour markets just deepens the economic problems.

In the US there are no major differences between the labour market performance of various immigrant ethnic groups and the native population. The labour 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. This problem becomes more and more significant as the share of extra-EU migrants is rising. The unemployment of third country immigrants in the EU was 2 or 3 times the national average in most of the member states, their employment rate was 10-30 percentage points below the majority populations' one. This situation is mainly the result of the poor labour market performance, the too extensive and demotivating welfare system and the composition of migrants which mostly did not reflect the demand on the labour market.

3.3. Immigration and 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. That could be the case when high proportion of migrants lives on various welfare benefits or works for low wages (so pays small taxes and contributions). This problem is strongly connected to 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 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. 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 lot higher in Europe than in America, especially in the case of extra-EU migrants.

3.4. The Composition of Immigrants

From the 1990's the three main channels of migration to America and the EU were the migration of refugees/asylum seekers, family reunification and illegal immigration. The labour migration was rather the exception as the following table shows:

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: International Organisation for Migration [2005]: *World Migration 2005, Costs and Benefits of International Migration*, p. 400

Asylum seekers, family reunification and illegal migration are not predominantly driven by labour demand, these migrants many times lack the skills needed to find a job. Many times the supply of migrants is not meeting the demand on the labour market, this could lead to rising unemployment or welfare dependence. This development is in sharp contrast with the predominantly labour migration in Germany and France during the years of post-war economic miracles (1955 - 1973) or the internal migration within the EU. To make it worse, in many European countries (France, Italy, Ireland, Denmark, Sweden) it was forbidden or highly limited (Germany, Austria, Spain) for the asylum seekers to work while the asylum procedure was pending (in many cases it can last for several years). On the other hand, many welfare benefits and services were provided for these people by the host countries. This combination could be highly demotivating for third country nationals coming from very poor societies. On long term it can lead to passive welfare dependence and the emergence of ethnic underclass.

During the last decades the difference between the education and skills of immigrants and native population in the US has been widening. In 2000 only 8 % of the native US workforce had less than 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 %. In the European Union there are similar gaps between the education of natives and third country immigrants. The skills of 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; more than 50 % of immigrants with no qualification were inactive and only 35 % had a job.

3.5. Factors Determining the Fiscal Effects of Migration

Summarising the factors mentioned above, we can analyse the fiscal impact of the migration as in the following table:

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 labour market	high employment and low unemployment rates	low employment and high unemployment rates
Dynamics of the labour 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 immigrants	Most of the migrants are workers or their family members	Most of the migrants are refugees, asylum seekers, illegal immigrants 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 underrepresented in crime as well as in prison population	Migrants are over-represented in crime as well as in prison population

Under these criteria we can analyse the various migration waves to the Western countries during different periods in the past. We can estimate the costs and benefits of immigration for the host societies and the fiscal balance of migration.

3.6. The Fiscal Balance in Europe and America

During the era of great European migration to the US (1880 – 1924), when the percentage of foreign born people reached 14-15 percent, the fiscal balance was positive. The main reason for this is that the welfare state – as we know it today – was basically non-existent except the public education. So the immigration-related social expenditure was minimal. The American economy was rising fast and it created many new work opportunities for the migrants. Anyway, there was no other possibility than live off from the work.

The classical era of labour migration in Western Europe (1955 – 1973/74) had similar characteristics. Mostly young single males arrived (usually without families and dependent children) in the booming European labour markets following the high demand. They came to work, mostly to pick up concrete jobs offered by the employers. Their access to the welfare system (under gradual construction that time) was limited. During the post-war economic “miracles” the unemployment was very low, we can talk about a full employment. With this young, working immigrant population, the fiscal effects of migration were highly positive.

The second great migration wave to the US (since 1965) has more complex fiscal consequences. According to the estimates its short-term and direct fiscal effects on the national level are close to zero, approximately plus-minus 0,1-0,25 percent of the American GDP. The situation on the American labour market had positive effects on the fiscal balance. The US economy has been creating many new jobs during the last decades, the employment rate is high, the unemployment is relatively low. There are no major differences in the labour 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 the immigration are relatively high, the immigrants are over-represented between the welfare recipients. The immigration related welfare expenditure is mostly due to the lower education and resulting lower income of the foreign-born population. The higher fertility in immigrant families plays also

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 labour 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 high proportion of unauthorized migrants. Its fiscal effects are worse.

The migration waves from Africa and Asia to Western Europe between 1973 and 2006 are different nearly in every aspect from the American characteristics; their fiscal balance – with the significant exception of the United Kingdom and Ireland – is negative. In the continental economies during the 1990's the unemployment was high, the employment relatively low and stagnating or rising too slowly. It was hard to absorb the hundreds of thousands of new immigrants for these labour markets, especially when considering that the migration was not predominantly a labour migration; 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 labour market integration of the newcomers, the European welfare states with their services and financial support were basically open to them. The access of the immigrants to the welfare benefits (more generous than in the US) was barely limited. The African and Asian immigrants tend to have more children than the 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, 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, 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.

The characteristics described above do not apply for the internal migration within the European Union. The intra-EU migrants from the other member states were very similar to the citizens of the host societies. There were no major differences in unemployment or employment rates, in skills, education, number of children etc. Thus, the fiscal balance of this internal migration was close to zero, probably with a net surplus. The immigration of highly skilled labour under various special schemes leads to large net fiscal gains for the host societies – like in America. However these immigrants represented only a small fraction of the newcomers in most of the European countries. Some groups of the African or Asian immigrants (notably the Chinese, Indian, Filipino and Vietnamese) are also exceptional. The fiscal balance in their case was probably positive – a major difference from the other Asian and African immigrants in Europe.

There are two significant exceptions from the Western European migration after 1973: the United Kingdom and Ireland (however, in this country the mass migration is a new phenomenon of the last few years). Approximately half of the migrants coming to the UK have been arriving through the channels of labour migration, based upon the demand on the labour market. The employment among the various immigrant ethnic groups in Britain has not been significantly different from the average. The education of the immigrants has been a bit better than the British average. In 2004 the United Kingdom was the only big member state which opened its labour market (but not the welfare system) for the workers from the new member states. These factors resulted in positive fiscal balance. The workers from the new member states helped to reduce inflation and did not harm the work opportunities of the local inhabitants significantly during the first two years after the EU enlargement. Most of the new migrants have been young (under 35) without dependent family members, their labour market performance not very different from the British average, their access to the welfare system limited. (They qualify for most of the welfare assistance only after 12 months of work.) According to these circumstances, in general, the UK is an exception in Western Europe with a positive fiscal balance. However, this does not necessarily apply for every single ethnic

group. The Muslim immigrants from the Indian subcontinent (namely from Bangladesh and Pakistan) are very different from the British immigrant population. The fiscal impact of Pakistani and Bangladeshi migration is negative.

3.7. Multiculturalism or Integration

The mass immigration created major problems in the host societies because in most cases it has been running without any integration or assimilation policy and the majority of migrants were coming from completely different cultures and societies. The lack of integration policies could be explained by the spread of multiculturalism (which became a ruling ideology especially in the Anglo-Saxon world, Scandinavia and the Benelux countries) and the fact that for a long time immigrants had been treated as temporary inhabitants, who will return to their countries of origin, so they have to keep its language and traditions and it is not necessary for them to integrate to the host societies. The combination of mass immigration from very different societies, the (applied) multiculturalism and other economic problems mentioned above lead to several social, ethnic and political tensions and problems as well as serious security risks in the host countries:

- Rising segregation, ethnic ghettos where born in or around the main Western cities, mostly isolated from the majority, living their own life in parallel societies, many times lacking the knowledge of the official language and coping with social problems (high unemployment, urban poverty, rising criminality).
- Spread of illegal and strange traditions in some immigrant communities (female genital mutilation, polygamy, honour killings).
- Rising ethnic tensions between the native and immigrant population or extremist groups, atrocities, clashes, urban riots.
- The appearance and spread of radical extremist Islamism and Islamist terrorism and the rise of its home-grown form in the Western societies.

The multiculturalism is not to blame because it advocates the equal recognition of all groups (cultures, religions, communities etc.) or it stands for their equal value and equal rights, but because it could result in total fragmentation of societies, were sprawling identities and loyalties and various group interest are competing and fighting for rights and sources against each other, many times on the others expense. As well as, the multiculturalism is unable to deal with the intolerant and aggressive communities. (Should they have the same rights and resources even if they openly pray for attacking other groups or ending the democratic regime?) Worse, the multiculturalism during the last decades many times paralyzed the

public policies and threatened the rule of law by tolerating illegal traditions and practices (as the already mentioned female genital mutilation or polygamy, or the hate speeches in radical Mosques).

During the last decades the mass immigration to the Western countries was running without the support or against the will of the public. The democratic legitimacy for the process has been missing. Among the European and American citizens the anti-immigration feelings were rising. The political elites and mainstream political parties however for a long time were reluctant to face these issues, sweeping the problems under the carpet. This situation resulted in rising preferences and electoral successes of the anti-immigration parties or civic movements. By the end of millennium the immigration debate became one of the most important issues in the main host countries which the major political forces couldn't ignore any more. The rising problems, concerns and public opposition in many countries lead to reforms of the immigration policy or at least reform plans has been created.

As the result of these reforms there is a rising convergence in Western immigration policies. Most developed countries are heading towards an Anglo-Saxon type immigration policy, preferring the migration of labour force, especially the skilled workers while reducing the family reunifications and fighting against illegal immigration. These steps are also improving the overall positive economic impact and the fiscal balance of immigration. Parallel to these changes more and more attention is given to the integration of immigrants and their efforts to integrate to host societies. Most of the immigration reforms introduced obligatory language and integration courses for the new immigrants. The language ability and the integration courses are often conditional for getting a residence permit; some countries even introduced integration contracts. By signing these contracts the immigrants are obliged to take part in language and integration courses and to comply with the rules of host countries. Breaking these rules or not taking part in the courses could lead to a withdrawal of the residence permit and deportation. Thus, the radical forms of applied multiculturalism are loosing they popularity and more and more countries are turning to integration based immigration policies.

4. Summarizing the Conclusions, Policy Recommendations

The aim of the dissertation is to answer the question: does replacement migration be a good solution for the EU and America to tackle the rising fiscal expenditure on pensions? Does it help to solve the financial consequences of ageing? **The immigration could significantly lower the ageing-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, the 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 labour 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 labour 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). The 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 it's 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 the 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 labour market meets with the supply of the immigrant workforce. The number and composition of the immigrants and their education are key factors. If the quality and the quantity of immigrant labour supply is similar to the demand on the market, than most of the immigrants find a job and become tax-paying inhabitants, the fiscal balance is improving. If not, than many immigrants or the native citizens will be unemployed and use the welfare services, so public revenues will decline, the expenditure increase, 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, the mass immigration (especially from poor countries) could impose heavy burden on public finances.

- The situation on the labour market and the welfare consumption is strongly affected by the composition of immigrant population. Those coming through the channels of labour migration easily find a job (many of them are coming to fill up concrete vacancies). The refugees, family members or illegal immigrants are not selected upon the demand on the labour market, for these groups it is harder to find a job.
- The labour market performance, the income and the welfare consumption of the immigrants depends mostly on their education, skills and language ability. The skilled people with high qualification usually have a job with higher salaries, so they pay more taxes and contributions to the public budget while their welfare consumption is lower. The 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 the 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 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, this 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.

Under these criteria the fiscal balance of the various migration waves to the United States of America and the member states of the European Union could be described as following:

- The era of great European migration to the US (1880 – 1924) and the classical era of labour migration in Western Europe (1955 – 1973/74) had positive fiscal balance.
- The recent immigration to the US (as a part of the second great migration wave in American history since 1965) probably has a (direct short-term) fiscal effect close to zero, so its fiscal effects at the national level are rather marginal, around 0,1-0,25 % of the US GDP. The legal migration (especially the migration of highly skilled workforce) has a

positive fiscal balance; the illegal migration probably means a net fiscal burden for native taxpayers.

- The fiscal balance of the migration waves to Western Europe between 1973 and 2006 has been negative, especially in the case of extra-EU, mostly African and Asian immigrants. The intra-EU migration has probably small positive fiscal effects.
- The United Kingdom is a significant exception with a positive fiscal balance, which is a result of the high share of labour migrants and the relatively high level of education of the immigrants.

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 the labour migration especially the inflow of skilled labour based upon the demand on the labour market. It does not forget about the low skilled workers if they are needed (otherwise they will arrive and work illegally). It fights against the 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 is forbidden to them to work. This could lead to welfare-dependence.

The economic reforms in Western countries (e.g. the German labour market reform, the French pension reform) and the changes in immigration policies are in line with my recommendations. They try to improve the ratio between the active and pensioner population, reduce the unemployment and enlarge the economic benefits from immigration. However, these reforms quite often meet with great public opposition, and the political elites – fearing the loss of popularity – are acting slowly and reluctantly. The direction of the reforms is right, but there are problems with the speed and determination. Sometimes the implementation is also problematic; especially the immigration laws are broken again and again followed by series of amnesties. The Western governments should speed up the reforms, implement them and enforce the laws to achieve significant positive economic outcomes.

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