

Welfare dependency among Danish immigrants

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Abstract

We investigate welfare dependency and labour-market assimilation among immigrants in Denmark. Duration of stay is a major determinant of welfare dependency but labour-market assimilation patterns vary substantially across immigrants from developed and less developed countries. Late arriving immigrants depend relatively more on government transfers. This is partly attributable to the large variation in qualifications across cohorts of immigrants. Business-cycle effects appear to be considerably larger for immigrants than for natives, especially in the case of males.

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1. Introduction

Welfare dependency is substantially higher among immigrants at the time of arrival than among natives in most host countries. It has been argued that the most able and motivated individuals emigrate from their country of origin (e.g. Chiswick, 1978; Bell, 1997).¹ If so, welfare dependency should fall quickly upon arrival in the host country as the immigrants become assimilated into the host-country labour market. However, in many countries the integration into the labour market seems to be slow. This is the case also in Denmark. The employment rate is around 76% for natives

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¹ For the self-selection process in emigration, Borjas (1987) argues that it need not be the case, but that it depends on the income distribution in both host country and country of origin and their correlation.

and 47% for immigrants from non-western countries (Schultz-Nielsen, 2002) and welfare dependency of immigrants remains high after many years in Denmark.

An explanation may be the “welfare magnet hypothesis” (Borjas, 1999). In countries with a high standard of living and a generous system of public transfers, low-income groups have high compensation rates. Hence, a special selection of immigrants takes place in terms of educational attainment and motivation in general. For the tied-movers or marriage migrants, the wish to live in a highly developed country is a reason for migration (Çelikaksoy et al., 2006). For refugees, emigration decisions are not considered voluntary but the choice of *where* to apply for asylum is influenced by welfare systems in potential host countries.

With these considerations as background, we investigate the extent and persistence of welfare dependency among immigrants in Denmark. We do this in an assimilation framework in order to identify the process of welfare dependency in the years following migration. In addition, we test whether variations in the labour-market conditions at the time of entry into Denmark and age at migration matter for welfare dependency and assimilation of the immigrants. We explore also whether the business cycle affects natives and immigrants differently, i.e. whether immigrants tend to be more marginal labour than natives and therefore more dependent on transfers in downturns.

Section 2 describes the Danish welfare system. Section 3 poses hypotheses. Section 4 introduces the data used and relevant descriptive statistics. In Section 5 the econometric framework is outlined. Section 6 presents the results and section 7 concludes.

2. Background: immigrants and the Danish welfare system

Denmark is, along with the other Nordic countries, a welfare state with a large public sector where public income transfers constitute a large proportion of public expenditure. The typical Scandinavian welfare state is characterised by generosity in providing high public income transfers, especially to unskilled workers and other low-income groups. See Wadensjö and Örrje

Table 1
Public income transfers

Transfer	Explanation	Entitlement	Means-tested or fixed	Duration
Old-age pension	>65 of age.	Universal	Mixture ^a	Infinite
Early retirement pension	For disabled individuals.	Universal	Fixed	Infinite
Civil servants pension	Labour-market related pension paid to civil servants.	Entitlement requirements	Fixed	Infinite
Public welfare	Different kinds of cash benefits.	Universal	Means-tested	Infinite
Unemployment insurance benefits (UIB)	Unemployment insurance benefits. Paid by either the unemployment insurance organisations or the local governments.	Entitlement requirements	Fixed	Finite
Education support (I)	State-provided financial support to students.	Universal	Fixed	Finite
Education support (II)	Support to unemployed people who undertake education. Provided by the unemployment insurance organisations.	Entitlement requirements	Fixed	Finite
Public self-employment support	Financial support to individuals who start out as self-employed.	Entitlement requirements	Fixed	Finite
Child benefit	Subsidy to households with children.	Universal	Fixed	Finite
Public housing support	Paid to individuals who live in rental housing.	Universal	Means-tested	Infinite

^a Old-age pension consists of two amounts: base-payment (fixed) and supplementary payment (means-tested).

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