

**M**ilton Friedman famously once said, “**you cannot simultaneously have free immigration and a welfare state**” (1999). The theory behind this statement is that a country with open borders and access to generous social welfare provisions will likely attract more destitute migrants, which then places a significant fiscal burden on the host country. It is this fiscal pressure that leads to the inevitable retrenchment of the welfare state. Another argument is that a generous welfare state requires a homogenous society because support for social welfare depends on solidarity between citizens, and as that solidarity is fostered through common linkages such as origin, language, and culture, increasing immigration presents a challenge to the welfare state through increasing the heterogeneity of the population. Consequently, this could lead native-born voters to oppose free movement or generous social protection schemes, or both. On the other hand, political economy literature also proposes an opposing effect – the compensation hypothesis – which argues that governments in open economies will need to expand the welfare state to ensure citizens against the risks posed by globalisation, such as the job insecurity increased labour migration brings.

## **The issue in the European context**

The nexus between immigration and welfare is a controversial and highly sensitive political issue, and as such, it typically divides opinion. For Europe, the human face of globalisation may present a severe challenge to its relatively generous welfare states through exposing tensions between the inherently closed system of the welfare state and the relatively open economies of developed nations. **The issue becomes particularly salient for the European Union (EU) and Schengen countries where the free movement of people is a fundamental principle protected under Article 45 of the Treaty on the Functioning of the European Union and access to welfare is granted on an equal basis with natives.** In today’s EU, around 17 million people have chosen to make another EU country their home, and under EU law, citizens of EU member states and of the European Free Trade Association (EFTA) are free to search for jobs in another EU or EFTA country. They are able to take up residence, participate in the labour market, and enjoy equal treatment with natives in their chosen country of destination. These laws aim to ensure that EU mobile citizens have equal access to employment, working conditions, and are entitled to the same social and tax advantages.

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Previous research in the United States (US) has demonstrated that greater ethnic heterogeneity is associated with reductions in welfare state effort and as a result, it has been argued that increasing immigration in Europe will eventually lead to the Americanisation of European welfare states and politics. **Indeed, in light of recent political movements such as Brexit and the support given to far-right political candidates in general, the issue has become more prevalent and controversial than ever. Thus, it is not hard to argue that increasing immigration presents difficulties and challenges for the future of European welfare states.** Despite heated public debates, however, empirical insight into the role of immigration in shaping contemporary welfare systems outside of the US is somewhat limited. One fundamental difficulty of this research is that there are opposing mechanisms at work and thus the limited studies that have been conducted across OECD or European countries provide mixed results. Some research argues that increasing immigration curtails the growth of social welfare spending, while others find that domestic political or economic pressures are more important for explaining variation in welfare provision than immigration. Moreover, depending on the sample chosen, other researchers have found a positive relationship between immigration and social welfare spending.

## **What about the data?**

This focus examines recent cross-country evidence on the empirical relationship between immigration and welfare state effort in Europe, the analysis is based on 16 European countries over the period 1990-2010. **Our research has sought to explore the relationship between stocks of immigrants, as measured by the proportion of the population that is foreign-born, and welfare state effort, operationalised by both social welfare spending as a percentage of GDP and a welfare generosity index.** We hypothesised that there were two critical directions in which the analysis could turn. First, in our European sample it is likely that a higher proportion of immigrants are low-skilled and

work in lower-paid jobs, and assuming these migrants are thus not net-contributors to the budget, then theory would suggest that increases in immigration lead to reductions in welfare state effort, which would be reflected in our chosen indicators – spending and generosity. However, given the arguments of the compensation hypothesis, increasing immigration could alternatively lead to an increase in welfare state effort. **The initial results show that immigration has a positive and statistically significant impact on welfare state effort. Yet, when social welfare spending is exchanged for a welfare generosity index, then no relationship between foreign-born and welfare generosity is found.** The results using the two indicators to express social welfare effort provide somewhat comparable results to authors who see support for the compensation hypothesis and affords as an essential contribution to existing knowledge on the political economy of immigration and welfare, as well as the broader political debate.

Concerning the mechanism behind the expansion of social spending, other studies have shown that exposure to globalisation increases individual risk, especially for low-skilled workers perceived labour market risks. Moreover, research that has focused on immigration and welfare preferences have shown that if natives feel economically insecure when exposed to increasing movement of labour, particularly at an occupational level, then they support more compensation and greater redistribution from the government. The results in this article suggest that this may be reflected in voter preferences and ultimately, policy decisions.

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**Alternatively, instead of the increase in spending indicating support for the compensation hypothesis, spending may increase for a different reason.** Perhaps the foreign-born population costs the welfare state more in terms of education or child-care costs, especially considering immigrants in Europe tend to have more children than the native population. Moreover, it is possible that immigration is linked to increased spending

through increased unemployment, either of natives or immigrants, rather than increased generosity. On the other hand, the foreign-born population on the EU is, as a whole, younger than the native population and is less likely to use the health system or draw a pension. Just as social spending is a flawed indicator, so is the welfare generosity indicator; consequently, the lack of a statistically significant relationship between foreign-born and the welfare generosity index does not mean that the increase in social spending is not indicative of increasing generosity. Finally, should the increase in spending be because of migrant dependence on welfare, it would also be reasonable to expect that the generosity indicator would have been negative and statistically significant in light of the arguments of the efficiency hypothesis – dependent migrants lead to fiscal pressure and the need to reduce welfare state effort.

## A race to the bottom?

**Taken together, neither measure of welfare state effort indicates that any retrenchment of the welfare state is taking place as a result of immigration.** The empirical analysis in our research suggests that there is no evidence to support the conclusion that increasing immigration is detrimental to or incompatible with European welfare states. Nevertheless, by using macro-level aggregate indicators, it is difficult to pinpoint the causal relationship, and future studies should be conducted to test the micro-level foundations of the compensation hypothesis for the human face of globalisation. However, for policy makers, these results should help shed some light on a topic troubled by xenophobia, racism, and discrimination. The results that have been laid out here should contribute towards evidence-based policy making in the field of immigration and social policy. **It is important to note that immigration does not seem to be leading to a ‘race-to-the-bottom’ in Europe, nor should increasing immigration mean that policymakers need to look at benefits in neighbouring countries when drawing up their own welfare policies.** Policymakers should aim to continue delivering welfare benefits and social protection schemes that work for improving social inequality and inclusion. This is particularly crucial for the successful integration of migrants into society, and as immigration numbers do not appear to be relenting, this will be fundamental for improving solidarity between diverse populations.

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