

Cross-Country Differences in the Contribution of Future Migration to Old-Age Financing

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Structure of the presentation

- **Motivation** of the paper
- **Methodological approach:** model, assumptions, main mechanisms
- **Presentation of results**
- **Conclusions**

Motivation I

- Declining fertility and increasing life expectancy in (Western) European societies: **demographic ageing**
 - **Old-age dependency ratio** ((pop. 65+)/((pop. 15-64))) in European Union is projected to increase from 28% (in 2013) to 50% in 2060 (European Commission 2015)
 - Currently: 1 elderly individual ~ **4 prime-age individuals**;
in 2060: 1 elderly individual ~ **2 prime-age individuals**
- Challenge for **sustainability of public finances**, old-age social expenditures
 - EC Ageing Report (2015): projects **increase of expenditures** for pensions, health and long-term care by **1,8% of GDP (European Union)** and **3,1% of GDP (Austria)** by 2060
 - As a consequence: frequent policy debates and policy reforms to improve sustainability (e.g. pension reforms)

Motivation II

- On average, migrants are younger than natives
- **Continuous** flow **net inward migration** can potentially soften demographic ageing and thus **improve public budgets** in the medium- and long-run
- “Cross-country differences in the contribution of future migration to old-age financing”; recently published in: International Tax and Public Finance (J. Berger, T. Davoine, P. Schuster and L. Strohner)
- Several papers have already analysed impact of migration on public budgets in models; our analysis provides **cross-country analysis** with a **consistent** general equilibrium **model**

Methodological Approach I

- Quantitative analysis of the **public finance impact of migration**
- Including **additional revenues** (taxes, contributions) and **additional expenditures** (pensions, unempl. benefits, public services,...)
- General Equilibrium Model with focus on **labour market, public finance** and **demographics** for 4 representative EU Member States (AT, DE, PL, UK)
 - Model is applied at EcoAustria, EC (DG EMPL) and IHS (slightly different versions)
 - Country-specific **institutional settings** (e.g. tax system, social security system,...)
 - **Differences between natives and migrants** (wages, unemployment probability,...)
 - Labour market integration of refugees is worse than labour market integration of 'regular' migrants => **results can not be transferred to current refugee migration**

Methodological Approach II

- Comparison of a “baseline” and a “no-migration” scenario
 - **Baseline scenario:** reproduces Eurostat demographic projection; different migration volumes (relative to population size)
 - **No-Migration scenario:** zero net migration of foreign-born individuals

	Avg. Net Migration Foreign Born 2014-2060 (in % of pop.)	
	Baseline	No-Migration
AT	0.52%	0.0%
DE	0.17%	0.0%
PL	0.06%	0.0%
UK	0.47%	0.0%

Source: Eurostat, own calculations.

Main Mechanism: Migration dampens Demographic Ageing

Old Age Dependency Ratio ((pop. 65+)/ (pop. 15-64))				
	2013	2060 Baseline	2060 No-Migration	Gap (No-Mig)-Base
AT	27	50.2	62.8	12.6
DE	31.8	59.7	66.4	6.7
PL	20.5	58.8	59.7	0.9
UK	26.6	40.5	49	8.5

Source: Eurostat, Berger et al. (2016).

Already in Baseline:
Ageing process in all 4
countries: **DE and PL** ageing
fast, **UK** ageing slow

No-Migration:
ageing process faster in all
countries: strongest impact in
AT, weakest in **PL**

- **Main Reason:** different migration volumes

Simulation Results

- Faster ageing process in **No-Migration** scenario significantly **worsens public finance** situation
- We simulate **3 different ways to balance the budget** (deficit in No-Mig = deficit in Baseline): income tax, retirement age, pension benefits

	necessary adjustment in 2060		
	income tax rate (in pp)	eff. retirement age (in years)	pension benefit ratio (in pp)
AT	14.3	4.9	-15.4
DE	7.3	2.5	-5.6
PL	1.7	0.4	-1.0
UK	6.2	5.1	-6.4

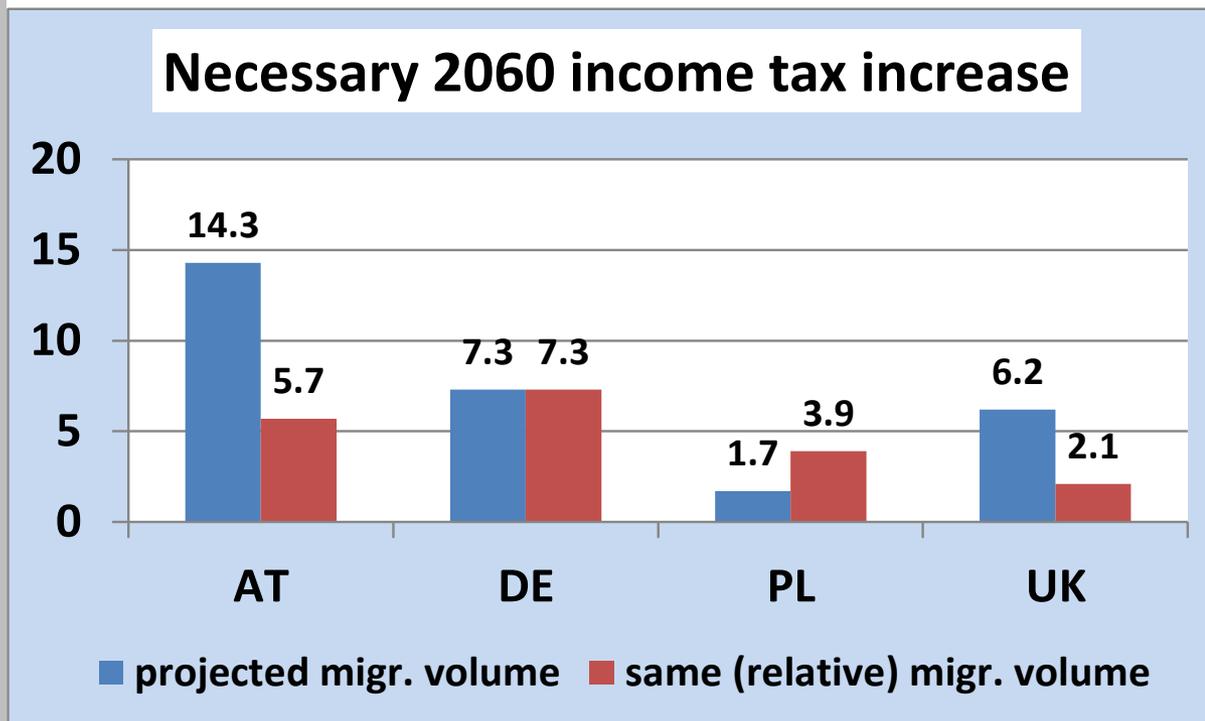
Source: Berger et al. (2016).

In No-Migration scenario either (results for AT in 2060)

- **Increase income tax rate** by 14pp (~9% of GDP)
- **Increase effective retirement age** by 5 years
- **Reduce pension benefit ratio** by 15pp (~ 330 Euro/month)

Qualitatively same, but quantitatively different (smaller) results in DE, PL, UK

Simulation Results – Same (relative) migration volume



Main reason for **different results**: different migration volumes

Counterfactual analysis: **same (relative) migration volume** in all countries (as in DE)

Some differences still remain

- E.g.: social security system is much less generous in UK => reduces public finance impact of a migrant

Source: Berger et al. (2016).

Conclusions

- Analysis demonstrates a **pronounced positive long-run impact of migration** on public finances (even though **migration alone not sufficient** to deal with demographic ageing)
- Keep in mind: changes in migration policy call for **changes in social security policy**
- Benefits of migration are larger **the better migrants are integrated** (in the labour market)
 - Given less favourable labour market integration of refugees, our **results should not be transferred** to current refugee migration
- Despite current challenges and negative perceptions towards migration: **don't forget benefits of migration**

Thanks for your attention!