

Immigration to Denmark from non-Western countries will still result in a net transfer from the public purse in 2050 – if immigration and integration remain unchanged

It is expected that in 2014, non-Western immigrants and second generation immigrants will require a net outlay of EUR 2.2 billion from public funds. That is to say, the total amount paid out to immigrants in the form of individual and public state services and transfer incomes will be EUR 2.2 billion higher than the total sum they will pay into the public purse in the form of taxes and fees. Nor will immigration from non-Western countries generate a net income for the state in the foreseeable future, if trends in immigration and integration continue as they are today. In 2050 non-Western immigration will still generate a net deficit, although this will have fallen to EUR 0.8 billion.

These findings emerge from calculations by the Rockwool Foundation Research Unit carried out in collaboration with the DREAM (Danish Rational Economic Agents Model) Group. Despite a clear improvement in integration over the past 15-20 years and a strong shift in the pattern of immigration towards immigration for work and study purposes, there is still no prospect of non-Western immigration generating a surplus for public finances. Even in 35 years time, non-Western immigration will still be making no net contribution to solving the problems of financing the Danish welfare state – problems which will exist as result of an ageing population, with fewer people of working age. On the contrary, immigration from non-Western countries will exacerbate the financial problems facing the welfare state, unless integration is further improved.

In contrast, the signs are that Western immigration to Denmark will make an even larger contribution to financing welfare in the future than is the case today, with such immigration currently providing a net surplus of EUR 0.5 billion to

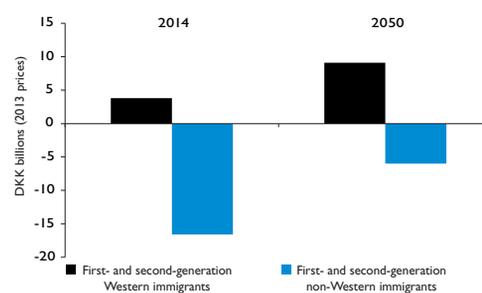
The significance of immigration

A central topic in the debate on welfare is whether immigration could help to solve the challenge posed by an increasing number of elderly people in the population, and fewer people of working age. Continuing from previous analyses by the Rockwool Foundation Research Unit of the significance for Danish public finances of Western and non-Western immigrants, this Newsletter reveals the extent to which immigration and integration as they are today can be expected to affect the financing of the welfare state in the future. In the long term, will Western and non-Western immigration generate surpluses for the Danish public purse?

The immigrant population compose 11 pct. of the population in Denmark in 2014 and (expected) 16 pct. in 2050.

the state. By 2050 this surplus will have increased to EUR 1.2 billion if immigration and integration remain unchanged. Taken together, immigration from Western and non-Western countries can thus be expected to make a modest net contribution of EUR 0.4 billion in 2050.

FIGURE I
Net contributions to public finances, 2014 and 2050



Note: The figures forecast for 2014 are based on projections for the period 2013-2015.

SOURCE: THE ROCKWOOL FOUNDATION RESEARCH UNIT.

Today, non-Western immigration to Denmark generates a deficit for the public purse of EUR 2.2 billion. This deficit will be significantly reduced in 2050, but the balance will remain negative. In contrast, Western immigration already generates a surplus of EUR 0.5 billion, and this surplus will have increased to EUR 1.2 billion in 2050.

Second generation non-Western immigrants are expected to be net contributors in 2050

Net transfers from the public sector to people from non-Western backgrounds are distributed very differently to first-generation and second generation immigrants. In the analysis first-generation includes all immigrants born abroad, as opposed to second generation immigrants that are born in Denmark.

Today, net spending on second generation immigrants totals EUR 1.7 billion, while spending on first-generation immigrants, who have a low level of employment, totals EUR 0.5 billion. Second generation immigrants tend to be better integrated, but at present they are young and often in education. If we look forward in time by half a generation to 2050, the first generation of immigrants will have begun to leave the labour market, and the net annual deficit for them will have climbed to EUR 1.6 billion. In contrast, the second generation immigrants will have reached adulthood and become active on the labour market. Their present deficit in relation to public finances will have been transformed into a surplus of EUR 0.8 billion, so that together, the first and second generations of immigrants will produce a deficit of EUR 0.8 billion.

The present situation indicates that

neither Danes nor second generation non-Western immigrants to Denmark will generate a financial surplus over the course of a lifetime. Danes are expected to cost the state on average EUR 695 per year from cradle to grave, while second generation non-Western immigrants are expected to cost EUR 1,070 each per year. Finally, second generation Western immigrants are expected to more or less break even in their relationship to the Danish public finances; they will generate a small lifetime surplus of EUR 50 per year. However, they also constitute a smaller group.

It should be noted that a country's economic policy can certainly be sustainable in the long run, even if every new-born member of the population is expected to generate a deficit in the course of his or her lifetime. This is the case for Denmark at present, with the problem of financial sustainability being almost non-existent at a level equivalent to under 0.5 per mille of GDP.

Average vs. marginal costs

The calculations presented above are based on average costs – all public expenditures, including the costs of fixed public goods - are included. This is a proper approach when calculating the fiscal sustainability and analysing whether an

How should a prognosis for the period up to 2050 be interpreted?

A very long-term prognosis is not really an attempt to forecast what will actually happen in the distant future: rather, it is a means of calculating the consequences of *present* trends. Thus, for example, it is difficult to foresee the consequences of wear and tear on most objects simply by observing them in use. It is necessary to obtain information about how long the objects can withstand a given load, or what proportion is worn away after a specified number of years of use.

In the same way, it is difficult to assess development trends in society on the basis of a description of that society in a given year. What is the impact of an immigration level of X individuals in a given year, for example? Or what is the significance of younger cohorts ensuring that they obtain more education? Such things cannot be assessed on the basis of data for a single year, and it is also difficult to base assessments on changes from one year to the next, or over a short period of time. It is therefore useful for the discussion of demographic features such as immigration, the number of births and education to look forward far into the future, so that one can better understand the importance of changes taking place in the present.

We can in fact be relatively sure that what our prognoses tell us is *not* what will actually come to pass. Many of the assumptions on which the prognoses are based will undoubtedly change. In addition, prognoses often provide the basis for policy changes in and of themselves. The most recent reforms in the area of welfare in Denmark, for example, are based on political reactions to prognoses that showed that Danish fiscal policy would be unsustainable unless there were changes in policy.

average person from a given group will make a net positive or negative contribution to the public finances. However, when the level of immigration is under discussion, it is in fact the question of marginal changes to expenditure that should be considered. Such marginal (i.e. additional) costs are those that are relevant for the political issue of whether to accept more or less immigration in the future as compared to maintaining the

current policy. These marginal costs related to immigration only take into account spending and income associated with individuals (unemployment benefit, visits to the doctor, tax, etc.) and not contributions to society's fixed costs (armed forces, construction of roads and bridges, central administration, etc.). Calculations based on marginal costs are presented in the next article in this newsletter.

Immigration policy and public finances

The economic performance of a country is affected both through the aliens act and through the integration policy. Both the entry of fewer immigrants with low potential for employment and general improvements in the relationship of immigrants to the labour market would improve the sustainability of Denmark's public finances. New calculations show that the last 5,000 of the non-Western immigrants arriving in Denmark each year place an annual burden of EUR 0.3 billion on the Danish economy, viewed purely in financial terms. Furthermore, the very fact that refugees are less easily employable than other non-Western immigrants has at least as great an impact on public finances.

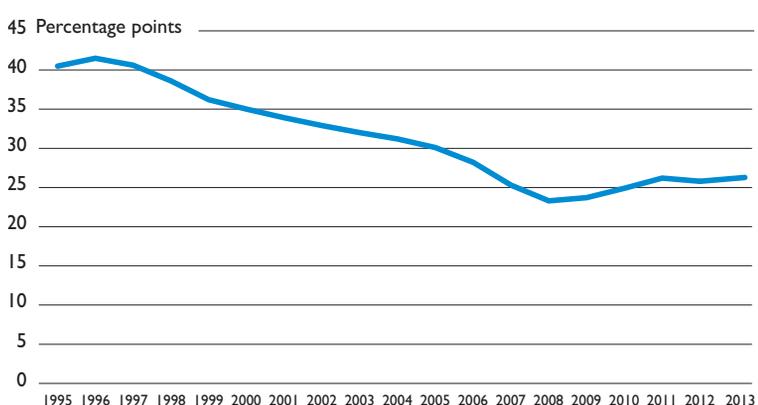
The significance of immigration policy for the public finances can be assessed by examining how changes in future immigration is expected to affect the financial sustainability of the welfare state, otherwise known as the fiscal sustainability. At present, around 14,500 non-Western immigrants arrive in Denmark each year. Some of them leave again, but the majority settle. The last 5,000 people in the forecast annual immigration will create a deficit for the public finances of, on average, EUR 0.3 billion per year, which is equivalent to a decrease in the fiscal sustainability indicator of 0.12 percentage points. Without these last 5,000 immigrants per year, the Danish sustainability indicator is 0.08% of GDP; with them, it is -0.04% of GDP.

Better integration

Integration into the labour market is of great significance for the effects of immigration on the fiscal sustainability. The

average net contribution to public finances from cradle to grave for non-Western immigrants is EUR -2,240 yearly, and this is very largely attributable to low levels of employment. If Denmark could succeed in improving integration to such an extent that refugees achieved even the same level of attachment to the labour market as other non-Western immigrants, their average net contribution to public finances would rise (i.e. be less negative) to EUR -1,740 annually, which would represent an improvement by 22%. This would have at least as great an effect on the fiscal sustainability as reducing the number of non-Western immigrants by 5,000.

FIGURE 2
Employment gap between Danes and non-Western immigrants, ages 16-64.



SOURCE: STATISTICS DENMARK'S STATISTICS BANK

Over the period 1995-2013 there was an improvement in labour market integration for non-Western immigrants, illustrated here as the differences between the employment rates for Danes and non-Western immigrants. Nevertheless, there remains some way to go before non-Western immigrants achieve a level of employment comparable to that of native Danes.

Second generation immigrants from non-Western countries perform better

Second generation non-Western immigrants have come a long way in comparison with their parents in terms of their financial relationship with the welfare state.

Even though the Danish public sector has contributed financially to the children's upbringing, but only to a limited extent for that of some of the parents, second generation non-Western immigrants draw far less on public finances than immigrants of the first generation.

The average net contribution per person to the public purse for each year that the individual is in Denmark, was EUR -695 for Danes and EUR -1,070 for second generation non-Western immigrants, while for first-generation non-Western immigrants it was a massive EUR -2,240.

By way of comparison, Western immigrants make a net contribution to public funds of EUR 2,550 for each year they are in the country, while second generation Western immigrants make a net contribution of only EUR 50 per year. As is to be expected, the figure for second generation western immigrants is much lower, reflecting the fact that they, unlike their parents, have drawn on state funds throughout their upbringing in Denmark, and also the fact that first-generation Western immigrants have

a stronger tendency to emigrate once more.

The modest average net contribution of second generation Western immigrants of EUR 50 in 2013 prices should be compared with contributions of EUR -695 for Danes and EUR -1,070 for second generation non-Western immigrants, which are the two other groups to be born and brought up in Denmark. It is notable that the second generation non-Western immigrants do much better than their parents, despite the fact that unlike their parents, they have made use of public funds throughout their upbringing. Thus, non-Western second generation immigrants contribute more than their parents to the public finances, while Western second generation immigrants contribute significantly less.

If second generation non-Western immigrants in Denmark resemble Danes more closely than they resemble their parents in their financial relationship to the public purse, this is in part because many first-generation non-Western immigrants have always been, and still are, poorly integrated into the Danish labour market – primarily because they come to the country without qualifications that match the demands of that labour market. It is also due in part to the fact that second generation non-Western immigrants tend to have distanced themselves significantly from their parents' generation.

TABLE I

Proportions of the population comprised of immigrants, 2014 and 2050

		2014		2050	
Non-Western	Immigrants	4.9%	272,850	6.1%	376,041
	Second generation	2.3%	127,716	4.3%	264,928
Western	Immigrants	3.5%	196,672	4.5%	274,040
	Second generation	0.4%	21,601	1.6%	96,404

SOURCE: THE ROCKWOOL FOUNDATION RESEARCH UNIT

Both Western and non-Western immigrants and second generation immigrants will comprise larger proportions of the Danish population in 2050 than is the case today. In total, it is expected that 16% of the Danish population will have an immigrant background in 2050, as opposed to 11% today.

Study publication details

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