

Immigration

In 1979, China's Vice-Premier Deng Xiaoping, during a state visit to Washington, met with President Jimmy Carter. "Mr. Vice-Premier," the president said, "The Jackson-Vanik amendment prohibits our granting most-favoured-nation status to centrally-planned economies, unless they provide freedom of departure for their own nationals." Deng Xiaoping leaned back in his chair, smiled, and asked, "Well, Mr. President, how many Chinese nationals do you want? Ten million? Twenty million? Thirty million?" Not surprisingly, that exchange marked the end of Jimmy Carter's brief campaign to grant Chinese citizens the right to leave their country. This anecdote, taken from *Heaven's Door. Immigration Policy and the American Economy* by George Borjas, illustrates the key issue of immigration policy in Western countries like the Netherlands: there are always more people willing to migrate than the host country is willing to admit. Immigrants, particularly those from non-Western countries, have much to win. From an economic perspective, the challenge seems to be how to deal with immigration pressure in such a way that the final outcome will be a *win-win* situation with respect to the immigrants and the host country.

A few years ago, the United Nations came up with the idea of 'replacement migration': immigration as a compensation for Europe's ageing and shrinking population. This view, supported by the European Commission, assumes that both the immigrants and the host countries will then be better off. This would be the win-win situation we are looking for. Let us investigate the idea a little further. Ageing in the Netherlands will reach its peak around 2040. However, total population, now 16.2 million, will then have reached 17.7 million. Ageing will certainly have a negative impact on the labour force, but this is likely to be outweighed by increasing participation of women and the elderly below retirement age. So, as regards population and the labour force, it is not quite clear what should be replaced. Nevertheless, the number of elderly persons will, roughly speaking, double over the next decades, and this will lay a burden on public finances. According to a recent estimate, a budgetary adjustment up to 1.8 percent of GDP would be required to arrive at a sustainable system of public arrangements. To achieve this, a reduction of the dependency on social transfer programmes, particularly the overstretched disability scheme, seems to be the option of first choice. This works both ways, as it increases the tax base and decreases public

spending. Only if this approach falls short of solving the problem will other options, such as immigration, come into play.

Young and economically active immigrants may indeed be helpful. However, they will have children and grandchildren. Unfortunately, newborn children in the Netherlands make – on average – a negative



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contribution to public finance during their lifetime. This puzzling feature, which reflects the generosity of the Dutch system of collective arrangements, is explained in the article entitled *The fiscal impact of immigration*. Taking into account the fact that immigrants usually have families, their long-term fiscal impact turns out to be practically zero. Thus, immigration will not solve the budgetary problem. This calculation assumes that immigrants show the same economic performance as the average Dutch resident. If, however, their average employment rate and income were lower, as it is for the present non-Western immigrant population, immigration would aggravate, rather than alleviate, the financial burden of ageing. Only if immigrants outperform the average Dutch resident on the labour market, will their fiscal impact be clearly positive. However, assuming we would be able to attract these high performers, it would still take millions of them to make a substantial contribution to the required budgetary adjustment. Given these findings, immigration does not seem to be an effective way to alleviate the financial burden of ageing.

As I ponder the subject of replacement migration in the Netherlands, only one feasible application occurs to me. Our best soccer players, eventually, go for the big money in Spain, Italy, or England. They are replaced by young, talented players from other parts of the world. But even then, the benefits turned out to be only temporary. Players like Romario and Ronaldo, after a few years in the Netherlands, soon followed in the footsteps of their Dutch colleagues.

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The cut-off date used in the compilation of the projections in Economic Outlook was mid June