Asylum seekers and the budget

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Abstract

In the recent past, the Netherlands has received more asylum seekers per capita than any other EU country. During a relatively long admittance procedure, asylum seekers are accommodated by the government. Short-run costs, therefore, are relatively high. The inflow of asylum seekers shows an erratic course and reliable predictions seem to be impossible. More than once this has given rise to overspending preset ceilings for government outlays. Such incidents have dominated the discussion over the past few years. However, due to the weak labour market performance of admitted refugees, long-term budgetary effects deserve some attention as well.

Introduction

What is the relation between asylum seekers and the budget? Like other European countries, the Netherlands has experienced an increasing inflow of asylum seekers since the eighties. At first the issue was dealt with in mainly legal and humanitarian terms. Since the mid-nineties, however, the numbers have grown substantially, causing tensions not only with respect to the capacity of the facilities, but also with respect to public funding.

Before we go further into the budgetary aspects, we will present the main facts with respect to asylum seekers in the Netherlands in an historical and international perspective. Next, we turn to the budgetary aspects. First, the focus is on the absorption of short-term fluctuations in the inflow. Second, we assess long-term effects on public spending. These effects are related to those asylum seekers who eventually are allowed to stay. To what extent will they find a job and so become independent of welfare transfers?

Seeking asylum in the Netherlands

Since the eighties, most western European countries have faced an increasing inflow of asylum seekers. The Netherlands is no exception. The following main countries of origin have emerged: Afghanistan, Iraq, Somalia and former Yugoslavia (see Figure 1).

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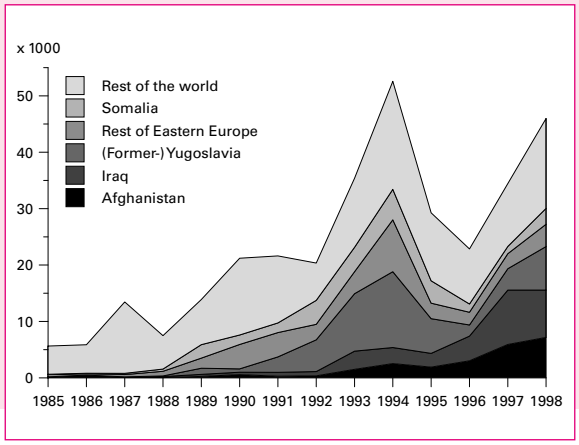
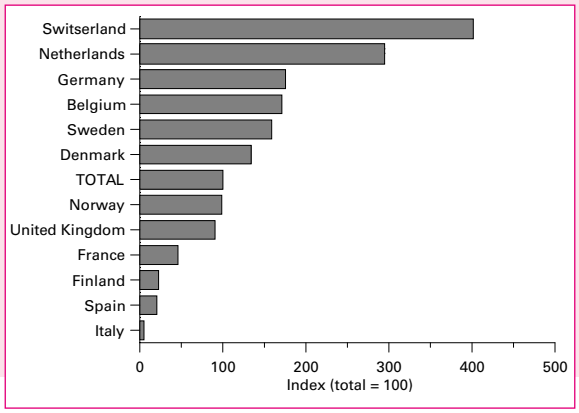
Figure 1 Inflow of asylum seekers in the Netherlands by country of origin, 1985-1998



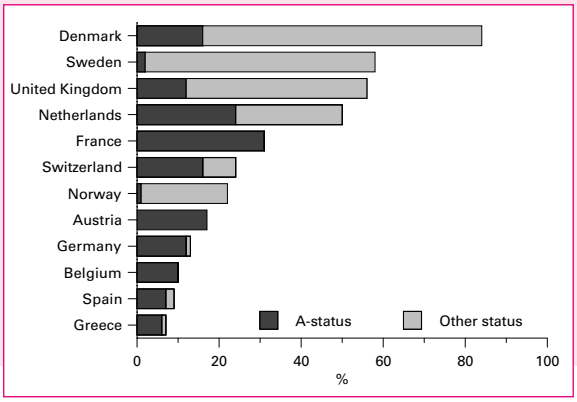
The share of the Netherlands in the European inflow sharply increased in 1994. This can largely be attributed to a number of restrictive measures taken by Germany in 1993. This caused a diversion of flows to other countries, in particular to the Netherlands. In reaction, the Netherlands took similar measures, although present Dutch policy seems not to be as restrictive in all respects, for instance with respect to the repatriation of Bosnian refugees. However, the Dutch share in the European inflow has not returned to the previous level. A ranking of the major European countries of destination shows that the Netherlands is second only to Switzerland as regards the inflow of asylum seekers per capita, while the other EU countries are left far behind (see Figure 2). It should be noted that an international comparison of figures on asylum seekers is hampered by statistical problems. This will probably, however, not affect the overall picture.

Figure 2 Inflow of asylum seekers per capita in 12 European countries, 1994-1998



What is it that makes the Netherlands so attractive to asylum seekers? An obvious explanation would be the relative high chance of acquiring a refugee status (A-status) or another status leading to a residence permit. As is shown in Figure 3, the Netherlands ranks high in this respect,

Figure 3 Status recipients as a percentage of asylum applications, 1992-1997



though the picture is not as striking as the one presented in Figure 2[1].

Another factor that might explain the attractiveness of the Netherlands is its failure to repatriate all asylum seekers whose applications have been rejected. An unknown, though presumably large proportion, does not leave the country. The relatively long procedure, averaging about 22 months, is of course not conducive to this end. Until recently, practically all asylum seekers were entitled to full accommodation during this procedure. As some other countries follow a less generous policy with respect to accommodation, this might offer an additional incentive to choose the Netherlands as a destination. Apart from these institutional arrangements, the dynamics of immigration are also relevant. It is common knowledge that the presence of a community of compatriots serves as an attraction factor for potential migrants. This may encourage sustained immigration flows, even under changing circumstances.

Policy reactions

The increasing inflow of asylum seekers has led to a gradually more restrictive policy, aiming at discouraging the economically motivated applicants without reducing the chances of the 'genuine refugees'. In addition, shorter and more transparent procedures are envisaged. The principles of *Safe countries of origin and Safe third countries* have been adopted, implying that those people who originate from or passed through a country regarded as 'safe', are not entitled to apply for asylum. The principle of safe third countries has been implemented in the Dublin Convention, subsequent to the Schengen Accord, which came into effect in 1995. These agreements imply that asylum seekers can travel freely within the Schengen area, even though they are required to apply for asylum in the country of first arrival. This requirement is only partly effective, since without proof the country of first arrival is not obliged to take asylum seekers back, and such proof is not easily produced. More than 80 percent of all asylum seekers pass through one or more safe third countries before coming to the Netherlands, but only 10 percent can eventually be returned to another country. The Schengen Accord and the Dublin Convention have undoubtedly facilitated the inflow of asylum seekers to the Netherlands and perhaps offer the main explanation for the sustained large share of this country in the European inflow after 1994.

Can the inflow be predicted?

The previous discussion clearly shows our limited knowledge of the mechanisms behind the inflow of asylum seekers. Making reliable predictions of the inflow, even in the short run, seems to be out of reach for the time being. Employing time-series analysis based on quarterly data, we detected a significant seasonal pattern and a positive, though not quite significant, trend (see box: Estimation results). Apart from these features, the inflow approximates a random walk, meaning that, adjusted for seasonal components and trend, the last quarterly observation offers the best prediction for the future. Though predictions generated by such a model are far from reliable, the approach does offer the possibility to calculate a confidence interval, within which the actual inflow will lie with a certain probability.

Budgetary considerations

In the Netherlands, budgetary policy rules feature a strict separation of the revenue and expenditure sides of the budget. At the start of a new administration, separate fixed expenditure ceilings are constructed for central government, social security and health care outlays. As a rule, higher expenditure on a budget item *vis-à-vis* the estimates underlying the fixed spending limits can be accommodated only in case of underspending on other items or additional budget cuts. In the summer of 1998 spending limits for the period 1999-2002 were constructed.

Outlays on asylum policy are open-ended: asylum seekers who meet the criteria should be admitted to the asylum procedure. Most of the people awaiting the outcome of such a procedure are accommodated in an asylum seekers' centre. The associated costs constitute the greater part of the outlays on asylum seekers. As was stated before, the inflow of asylum seekers is largely unpredictable. Even more so are the associated outlays.

Of course, the assessment of the inflow of asylum seekers in the period 1999-2002 was an important assumption underlying expected outlays on asylum policy that constituted part of the fixed spending limits. However, in the early spring of 1999 it was concluded that the inflow of refugees in the Netherlands in the period after the completion of the 1999-2002 fixed budgets necessitated an upward adjustment of the expected inflow. The adjustment of the expected inflow in 1999 and 2000 had a large impact on estimated outlays in both years. The Ministry of Finance reported that outlays on asylum seekers would exceed the previous estimated total budget by approximately euro 0.5 billion in 1999, and euro 1.0 billion in 2000. To put this

Estimation results

Univariate time-series analysis (Box and Jenkins, 1976) with additional seasonal dummy variables produced the following estimation results (t-ratios between brackets):

$$\Delta y_t = \underset{(-1.9)}{-0.130} D_1 \underset{(-2.3)}{-0.150} D_2 + \underset{(2.5)}{0.168} D_3 + \underset{(3.3)}{0.219} D_4 + e_t$$

$R^2 = 0.33$

t = 1985:1 - 1998:4

where:

y_t = natural logarithm of the inflow of asylum seekers in quarter t, excluding those from former Yugoslavia and Eastern Europe

D_i = dummy variable: value 1 in quarter i and value 0 in other quarters

e_t = residual in quarter t

The estimated coefficients of the quarterly dummies constitute a significant seasonal pattern in terms of percentage changes. The sum of these coefficients is 0.107. Given the specification, this implies a positive *yearly* trend of approximately 11 percent. Whether this trend is significant can be tested formally by a Wald test with the null hypothesis that the sum of the coefficients equals zero. The F-statistic has a value of 0.64, and the associated probability is 42 percent. These results indicate that the null hypothesis cannot be rejected at the 5 percent confidence level. Apart from the seasonal pattern and implicit trend, the estimated model is to be characterised as a 'random walk'.

overspending into perspective: the preset total budget for asylum seekers was euro 0.9 billion in 1999 (about 1 percent of the total budget of the central government), dropping to euro 0.7 billion in 2000. In addition to the direct effect on the number of refugees in asylum-seekers' centres, the increasing inflow has overburdened the available capacity of handling asylum applications. As a result, the length of asylum procedures increased on average, contributing to more refugees in asylum-seekers' centres.

Since then, the government has attempted to curb overspending by announcing some changes in policy rules — e.g. no accommodation of former asylum seekers who have been refused a status. The higher outlays on asylum policy that persist are expected to be accommodated by lower spending on other items, notably interest payments (CPB, 1999).

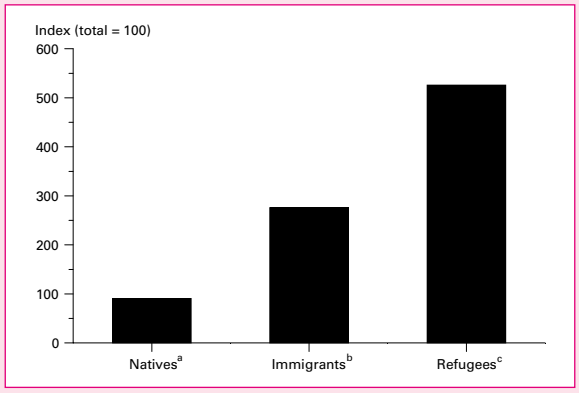
Labour market performance

In a short-term perspective, especially the 'direct' outlays during the asylum procedure, as described above, seem to matter. However, after the asylum seeker has been granted the refugee status, or at least a residence permit, government spending does not stop. This is when the 'indirect' costs enter. First of all, there are the costs of programmes for newcomers. These are more or less compulsory and include a Dutch language course. Second, for housing, health care and the other costs of living the refugee usually relies on welfare, at least at the start. Whether or not these outlays are only transitory depends on how successful the refugee is in finding employment. The labour market performance of refugees is thus crucial to long-term budgetary effects.

What do we know about the labour market performance of refugees? Unfortunately, data on the subject have not been collected in a systematic way. Certain surveys, based upon rather small samples, may give an impression. Two years after acquiring the refugee status, about 25 percent of refugees of working age had a job (Brink, 1997), while the average rate of employment in the Netherlands is 65 percent.

An earlier survey (Van Waveren et al., 1994) revealed that the welfare dependency of a comparable group was over 70 percent. Perhaps the most reliable figures on social security dependency are to be found in the *Regional Income Survey 1996* (Statistics Netherlands, 1999). This survey is based on a fairly large number of observations originating from taxation data. The population in the survey can be broken down by country of origin ('refugee countries' instead of 'refugees'). From these data, the dependency ratios[2] by ethic group (as presented in Figure 4) have been derived. It shows that the dependency ratio of refugees is almost six times as high as that of natives, and still twice as high as that of immigrants from the 'traditional' countries of origin.[3]

Figure 4 Dependency ratio[4] by ethnic group (excluding old-age pensions)



[a] including immigrants from western countries (excluding former Yugoslavia)
[b] from Turkey, Morocco, Surinam, the Netherlands Antilles and Aruba
[c] immigrants from non-western refugee countries and former Yugoslavia

The previous discussion clearly shows the disappointing labour market performance of refugees. However, the labour market in the Netherlands recently entered a state of labour shortage and low unemployment. In principle, this offers a better perspective for refugees to find a job. Whether this will actually lead to a significant improvement depends on the causes of the present low employment rate of refugees.

What are the causes of the weak labour market performance of refugees? It would go beyond the scope of this article to discuss this question thoroughly. There are some indications that refugees have on average a higher formal educational attainment than migrants from the 'traditional' countries of origin, although clearly lower than the native population (Brink et al., 1996, and CBS/CPB, 1997). The underlying data have been derived, however, from a very small sample including only a few countries of origin. It should be added that the international comparison of educational attainment is, generally speaking, not very reliable. Nevertheless, lack of education does not seem to suffice as an explanation, since it also applies to immigrants from the 'traditional' countries of origin. The same is true with respect to possible discrimination and prejudice by employers. Perhaps the circumstances in the country of origin and the subsequent time spent in an asylum-seekers' centre, where until recently one was not allowed to work, may have eroded the professional background of some refugees. In the face of existing labour shortages, an effort to restore the employability of these refugees might be helpful.

Indirect costs

In discussing budgetary considerations with respect to asylum seekers, we have confined ourselves to the 'direct' costs that occur during the asylum procedure. Subsequent to the asylum procedure, there are also 'indirect' costs associated with those asylum seekers who are allowed to stay. Some of these costs are clearly transitory, such as the special programmes for newcomers, which include, for instance, a Dutch language course. Examples of other costs are welfare payments, housing subsidies and health care costs. Whether these are only transitory depends largely on the refugees' labour market performance in terms of employment and income, which – as we have seen – does not look good.

Contrary to the direct costs, the indirect costs are, at least partly, offset by revenues from taxes and social security contributions. Moreover, costs and revenues are age-dependent. A fiscal impact analysis should therefore focus on costs as well as revenues, preferably in an inter-temporal framework. Examples of this type of research are to be found in Smith and Edmonston (1997), Storesletten (1998) and Auerbach and Oreopoulos (1999).

In the Netherlands, until now, no such exercise has been undertaken. There are indications, however, that the indirect costs are substantial. In the past, some estimates were made of the indirect costs of the admittance of large groups of asylum seekers. The report of the so-called 'Geelhoed committee' (Geelhoed, 1994) contained tentative estimates of the follow-up costs of asylum policy. The estimates reflect annual costs during the first six years of an inflow of 35,000 refugees in one single year, part of whom are eventually allowed to stay. One of the conclusions of the report — according to a further underpinning by the Ministry of Finance (Ministerie van Financiën, 1994) — is that the admittance of such a group to the asylum procedure results in additional yearly 'indirect' outlays on welfare, rent subsidies, costs of education and children's allowances. Health care costs are not included. In the sixth year these costs amount to euro 0.25 billion (1999 prices). This seems low, compared to the direct costs according to the same source, which amount to euro 0.7 billion (1999 prices). However, it should be borne in mind that indirect costs begin to count as soon as the asylum procedure is concluded (usually within two years after arrival) and will go on beyond the six-year time horizon, because not all refugees will be independent of welfare by then. Therefore, the present discounted value of indirect costs may be expected to be higher than direct costs. As has been noted above, the extra expenditure approximated by the committee can only be absorbed by the fixed spending ceilings in case of underspending on other items or additional budget cuts. Though indirect costs seem to be substantial, this does not necessarily mean that there is a negative net fiscal impact. Whether this is the case or not depends largely on the revenues generated. As long as only a small proportion of the refugees is employed, the net fiscal impact is likely to be negative. This is even more so because, according to Statistics Netherlands (1999), the average income of the population from refugee countries is below average. A considerable increase in the employment rate of refugees is therefore a necessary condition to achieve a more balanced fiscal impact.

Conclusions

Since the mid-nineties, the Netherlands has received more asylum seekers per capita than any other EU country. The tightening of asylum policy in other countries, especially Germany, has probably diverted the asylum flows towards the Netherlands. This process has been facilitated by the abolition of border controls under the terms of the Schengen Accord. The inflow of asylum seekers shows an erratic course, and reliable predictions seem to be impossible. This introduces an element of surprise in budgetary policy. Incidents caused by an unexpected rise in the inflow of asylum seekers have attracted much attention. However, more persistent budgetary effects deserve attention as well. As asylum seekers as a whole show a weak labour market performance, many rely on welfare and other forms

of government support for quite some time. A much higher employment rate is essential to ensure a more balanced fiscal impact.

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Notes

[1] Due to data restrictions, the selection of countries in figure 3 differs to some extent from the selection in figure 2.

[2] The dependency ratio is defined as the number of benefit recipients as a percentage of the working population. The figures presented here are exclusive of old-age pensions. As employment at the age of 65 and older is almost negligible, the dependency ratio as defined above, practically speaking, relates to the population under that age. It should be noted that refugees are young on average, so that a relatively long time elapses before their old-age pensions are to be paid. This decreases the fiscal burden associated with refugees. Yet, even if we were to include old-age pensions of the indigenous population in the dependency ratio, while we leave them out entirely for refugees, the dependency ratio of refugees would still be three times as high as that of the indigenous population.

[3] These include, for the Netherlands, immigrants from Turkey, Morocco, Surinam, the Netherlands Antilles and Aruba.

[4] See note 1.