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The political economy of immigration and welfare state reform: a collection of comparative political and economic essays on human mobility and social protection
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1.1 SETTING THE SCENE: THE DISSERTATION IN CONTEXT

In most developed nations immigration has become a defining characteristic of open, interconnected, and interdependent economies. The European Union (EU) is one particular example of this in action, where the widening and deepening of European integration has created a unique system of mobility for its citizens. European citizens have the right to live and work in any Member State of the Union, and under EU law, mobile citizens have a range of rights afforded to them under the rules governing freedom of movement, such as equal access to the tax and benefit systems in which they reside. However, the extent to which European Union (EU) mobile citizens¹ can or should be able to access the welfare systems of their host Member State is a controversial and highly sensitive political issue, one that has sparked heated public debates concerning the sustainability of increasing immigration and generous welfare states. While freedom of movement was broadly supported in the past and is widely considered the most important achievement of European integration (Vasilopoulou and Talving, 2018; Lutz, 2020; Sojka et al., 2023), following the financial crisis of 2008 and mounting fiscal pressures on states, arguments of who should be included and who should be excluded in order to preserve the advantages of the welfare state have come to the fore (Mulligan, 2017).

Deciding on the specific boundaries to identify who is ‘in’ and who is ‘out’ continues to be a major point of political contention and is typically defined by polarised viewpoints, to the extent that freedom of movement has become a critical source of tension across the EU and is arguably one of the key drivers of increasing Euroscepticism (Lutz, 2020; Blauburger et al., 2021). For example, the governments of three EU member states and one former – the United Kingdom (UK), Germany, the Netherlands, and Austria – wrote a joint letter to express concerns over ‘welfare tourism’ and called

1 European citizens who move across borders but within EU member states or European Free Trade Association (EFTA) countries are typically referred to by EU Institutions as ‘mobile citizens’ rather than migrants. However, an immigrant is merely a person who moves from one geographical region to another, and the vast majority of migration never actually takes place across a border but rather internally within a country (McAuliffe and Triandafyllidou, 2021). For the purpose of this dissertation therefore, I use terms such as mobile citizen, intra-EU labour migrant, and immigrant somewhat interchangeably depending on the chapter and the context in which ‘human mobility’ is being discussed.

on the EU to revise freedom of movement rules in order to make it more difficult for EU mobile citizens to access welfare in other EU countries². The letter argued that the EU members with more generous welfare systems attract larger numbers of EU citizens from those EU members where the standard of living may be lower and benefits less generous, thereby affecting the sustainability of Western welfare states. In 2016, concerns regarding immigration and the welfare state played a critical role in the UK's EU referendum campaign (Heath et al., 2020). At times, the politicisation of EU citizens' rights appeared to follow traditional cleavages between left and right, but between the choice for a "hard Brexit" over a "soft Brexit" in order to ensure barriers are in place to stop the free movement of people from the EU and the fall of the "red wall" in the 2018 British general elections (traditional Labour voters switching their vote to the Conservative Party), it has become clear that it is no longer such a straightforward division. Those who traditionally supported the left and greater socio-economic redistribution were voting for the right in order to express their desires for greater border controls and restrictions on immigration (Goodwin et al., 2022). Furthermore, this concern is not isolated to the UK. There has been a much wider, general increase in Euroscepticism alongside the rise of Eurosceptic politicians, public figures and political parties such as Marine Le Pen (National Rally – France), Geert Wilders (PVV – Netherlands), Heinz-Christian Strache (FPÖ – Austria), and the Alternative für Deutschland (Germany) who have garnered support from across the political spectrum.

The rapid transformation of our societies brought about through globalisation seems to be a key trigger, with individuals on both left and right, working class or elite, taking either an anti-globalisation (protectionist) or pro-globalisation (open) stance. On the one hand, the removal of barriers to trade, capital, and mobility have been economically vital and enabled the European Union to become progressively more interconnected, interdependent, and to grow in economic power. On the other hand, it is becoming more and more apparent that despite this increase in overall wealth, it has not been shared equally, with certain segments of society left behind through increasing inequality and rising costs of living. As a result, more and more political battles have been won and lost on platforms that support or oppose one or more of the facets of globalisation. In particular, and especially since the economic crisis of 2008, these public and political debates have increasingly intertwined globalisation and migration as nation states find their labour markets and social security systems under pressure and with fewer options at hand to address inequality within its borders. So perhaps it is of no surprise that immigration and intra-EU mobility are challenging the way we govern.

2 Austrian Federal Ministry of the Interior, German Federal Ministry of the Interior, Dutch Ministry of Security and Justice, UK Home Office (2013), 'Letter to the Irish presidency', available at: http://docs.dpaq.de/3604-130415_letter_to_presidency_final_1_2.pdf

Alongside these key public debates, the globalisation of movement and its relationship with the welfare state has also become a central focus of academic debate. While, increasing openness for flows of trade and capital on the transformation of the boundaries of the welfare state has been an important theme within the literature on the evolution of the welfare state, it has not been until more recently that the study of globalisation has started to incorporate increasingly open borders and how migration shapes the way the welfare state is organised. In 1986, Freeman published the article 'Migration and the Political Economy of the Welfare State', one of the earliest contributions to this particular stream of literature. He opens the debate by arguing that increasing inflows of labour fundamentally challenge the viability of the welfare state. Freeman presents the idea that as labour mobility and globalisation are in general open systems, while the welfare state must be a closed system in order to survive, that ultimately, the free movement of labour and the welfare state cannot coexist. Later, Alesina et al.'s (2001) influential article 'Why Doesn't the United States Have a European-Style Welfare State?' and Alesina and Glaeser's (2004) follow-up article present evidence to support Freeman's argument and provide the foundations for much of the subsequent research on this topic. Both articles aim to explain the lack of a developed welfare state in the United States (US) and show that the high ethnic fractionalisation of the population in the US is a crucial factor limiting the development of a welfare state. They determine that European nations were able to develop mature welfare states thanks to the relatively homogenous nature of their populations and the shared solidarity between peoples of a similar race, language, and culture. Based on their findings, they reason that an increase in the movement of people or an increase in the ethnic diversity of European nations will ultimately diminish the generosity of European welfare states. However, despite this argument, the empirical evidence is not rooted in an analysis of European data on European welfare systems and immigration regimes. As such, the overarching research question that this dissertation seeks to answer is: to what extent does immigration structurally and conceptually challenge the boundaries of welfare states in Europe?

To answer this question, this dissertation draws on a wide range of theory and empirical evidence that comes before it. There are a number of competing theories that endeavour to explain how immigration, and/or globalisation more broadly, may affect national welfare states in Europe. At the macro-level, the efficiency hypothesis and 'Embedded Liberalism' are two central but opposing theories. The former argues that increasing globalisation will force governments to retrench social protection schemes in order to keep taxes low, stay globally competitive, and reduce the fiscal burden of migrants (Gaston & Rajaguru, 2013). The latter argues that governments in open economies must expand the welfare state in order to insure citizens against the risks posed by globalisation if they wish to ensure continued support for policies of openness (Ruggie, 1982). While Ruggie's theory of

embedded liberalism originally intended to be applied to the openness of trade and capital, it is also generalisable to the increasing openness of migration regimes. If immigration is perceived as an economic risk by natives and those who benefit from open borders wish to maintain support for immigration, then the same deal meant for trade and capital could be struck for immigration. The current empirical evidence on these macro-theories is mixed and existing research provides reasons as to why we can expect immigration to in some ways increase and in other ways decrease the generosity of the welfare state (Gaston & Rajaguru, 2013; Lipsmeyer & Zhu, 2011; Nannestad, 2007; Soroka et al., 2006; 2016; Stichnoth & Van der Straeten, 2013; Römer, 2023). However, perhaps the prevailing view is that immigration puts a strain on tax and benefit systems, which spells bad news for welfare state generosity and thus the ability to address economic inequalities.

Both macro-level theories discussed above focus on the ‘supply-side’ of social policy, they emphasise a government’s potential policy response to global changes and are perhaps less studied than the ‘demand-side’, which focuses on the way that individuals within societies demand social policy change as a result of global changes. Key theories at the micro-level are the compensation hypothesis, the anti-solidarity hypothesis, and welfare chauvinism.

The compensation hypothesis theorises that in light of increasing economic insecurity from greater competition on the labour market, natives will demand greater compensation and consequently welfare state expansion (Brady & Finnigan, 2014; Fenwick, 2019; Marx, 2014; Paskov & Koster, 2014; Rodrik, 1998; Römer, 2023; Vlandas & Halikiopoulou, 2021; Walter, 2010, 2017). If immigration is (perceived) to lead to reductions in wages, increase the likelihood of becoming unemployed, or decrease the likelihood of securing a job, then this increased risk is what could lead to individuals seeking increased security through a more comprehensive social security net. The anti-solidarity hypothesis theorises that because support for the welfare state is grounded in solidarity between citizens, a desire to pool and share risk across individuals, then anything that may challenge this solidarity such as changing the ethnic, linguistic and cultural make-up of society as a result of increasing ethnic heterogeneity, can thus erode citizens’ support for the welfare state (Burgoon & Rooduijn, 2021; Heath & Richards, 2020; van Oorschot, 2008). Welfare chauvinism theorises that rather than retrenching or expanding the welfare state as a whole, native-born residents may wish to ring-fence benefits from foreign-born residents in order to maintain more generous benefits for themselves (Brady & Finnigan, 2014; Cappelen & Peters, 2017; Eger, 2010; Eger & Breznau, 2017; Eick & Larsen, 2022; Hjorth, 2016; Larsen, 2011, 2020; van der Meer & Reeskens, 2021; Negash & van Vliet, 2024; van Oorschot, 2000; van der Waal et al., 2013). This could happen because an individual may consider an immigrant as

more “undeserving” of welfare support in comparison with the elderly, sick and disabled people, and the unemployed, also known as the immigrant deservingness penalty, (Bonoli et al., 2024; Ford, 2015; van Oorschot, 2008) or because they may consider migrants over-represented in their receipt of benefits, thus placing too much pressure on public services and questioning the sustainability of the welfare state (Magni, 2021).

Again, the evidence base for these explanatory theories is mixed, likely because of the differences in the data used, the time periods and countries under study, and the methods utilised. Moreover, these relationships are typically moderated by national contexts such as levels of immigration and economic stability or institutional structures such as welfare regime or programme type (Burgoon & Rooduijn, 2021; Eick & Larsen, 2022; Mau & Burkhardt, 2009), as well as individual level contexts such as economic and cultural insecurity, as individuals respond to the circumstances in which they find themselves (Hays et al., 2005). It is the detail in which these preferences are shaped and how social policy may be affected in these varied contexts, which provides the many avenues for research to explore and understand.

Nonetheless, despite the expanding body of literature, several important gaps remain theoretically, empirically, and methodologically that this dissertation aims to fill. With regards to theory, this dissertation is embedded not only within the literature on migration and the welfare state, but it also fits within the broader literature on globalisation. First, I question the persistent assumption that free immigration always spells bad news for generous welfare states (e.g. Freeman, 1986; Friedman, 1999; Alesina et al., 2001) and provide the alternative perspective that under certain circumstances, this does not seem to hold true. Instead, I hypothesise that dependent on the type of social welfare programme or type of mobility under study, we can expect to find the opposite effect and that immigration and free movement of labour in the EU could be positively associated with welfare state generosity.

Second, much of the research mentioned above predominantly relies on aggregate social spending as the primary measure of welfare state generosity. Welfare spending (typically measured as a percentage of GDP) alone cannot adequately capture aspects such as benefit access, benefit conditionality, benefit adequacy. It is sensitive to demographic factors such as an aging population or rising unemployment and may also simply fluctuate based on changes to the denominator (rising or shrinking GDP) rather than changes in spending. However, it provides excellent cross-national comparability over time as it is well-recorded, widely available and regularly updated. As such, it provides an excellent indicator for both overall fiscal effect and disaggregated across multiple policy domains. To account for this so-called ‘dependent variable problem’, this dissertation incorporates alter-

native measures of generosity, such as the generosity index from Scruggs et al. (2014) in Chapter 2 and replacement rates in Chapter 4, providing a more holistic approach to measuring welfare state generosity. Moreover, my research disentangles welfare state expenditures in Chapter 4 to provide a more detailed picture of how specific social policies may be influenced by immigration.

In addition, previous research typically relies on broad indicators for immigration, in particular ‘foreign-born population as a percentage of the total population’, which identifies individuals born elsewhere than their current country of residence as migrants. While this approach provides a useful overview, it fails to capture the nuances of different types of mobility, such as the distinct impacts of labour migrants, refugees, or EU mobile citizens. These distinctions can be crucial, as different migrant groups may have varying degrees of access to welfare services, contribute differently to national economies, and be perceived (negatively or positively) in different ways. My thesis addresses this gap by developing more precise indicators for intra-EU labour mobility (EU citizens who reside in another EU country other than the one of their country of birth) in Chapter 3 and then testing this specific type of mobility, thus offering a more precise analysis of how different migrant populations interact with the welfare state in Chapters 4 and 5.

In terms of methodology, this thesis uses a number of quantitative techniques to answer its research question. I follow the broader literature and use typical methods for working with cross-sectional, time-series analysis such as panel corrected standard errors and multilevel models for survey data and public opinion, but I also provide robustness checks utilising lesser-used methods in the political economy literature on migration, such as an instrumental variable approach and error correction models.

By addressing these gaps, this dissertation complements and advances the current literature, thereby offering a detailed and comprehensive analysis of the relationship between migration and welfare states in Europe. Moreover, it embraces the macro- and micro-level mechanisms that may be transforming the welfare state as a result of changing levels of immigration. Having addressed the gap in the literature, the rest of this introduction now focuses on providing a more detailed description of each chapter.

1.2 A READER’S GUIDE

This thesis is structured around a collection of four independent, yet interconnected articles that intend to provide insight into the way mobility and immigration influence the structural and conceptual boundaries of the welfare state. They aim to contribute to the comparative political economy

literature on the welfare state by analysing the effects of immigration on both social policies and social policy preferences. While the chapters can be read independently, they are closely related and have a continuous red thread that is outlined in this introduction.

Following the introductory chapter, Chapter 2 of this dissertation is a sole-authored, published article and provides an overview of the macro-level relationship between the stock of immigrants across 16 European countries and the generosity of the welfare state. This article extends previous research (Gaston & Rajaguru, 2013; Lipsmeyer & Zhu, 2011; Soroka et al., 2006; 2016) by taking into account arguments from Scruggs and Allan (2006) and Starke (2006) that studies researching welfare policy change should complement expenditure data with additional quantitative measures. Consequently, specific attention is paid to the ‘dependent variable problem’ and operationalising the ‘generosity’ of the welfare state through two different indicators of welfare state effort: (1) social spending as a percentage of gross domestic product and (2) an index of welfare state generosity (Scruggs et al. 2014). I find that immigration is positive and significantly associated with social spending and has no significant association with the generosity index. As a result, I argue that there is no evidence to support the idea that increasing immigration has led to the erosion of welfare state effort in Europe. Immigration in this chapter is operationalised as ‘foreign-born as a percentage of the population’, a broad measure that is indicative of the stock of immigrants in a country. A key reason this indicator is used is because it is one of the best reported, cross-country comparative indicators for levels of immigration. The drawback is that it lacks depth and cannot provide a more detailed insight into the relationship between types of immigration and the welfare state. Accordingly, the next chapter of this dissertation is assigned to developing more specific indicators for immigration to be utilised in later chapters.

Chapter 3 is sole-authored and takes a closer look at data on migration and explores what existing migration data has to offer researchers studying migration related research questions in Europe. The chapter considers the main limitations of currently available migration data, and the solutions employed by other researchers to overcome those constraints. In addition, it presents how I have sought to fill one specific gap in migration data, and consequently the migration-welfare state literature, through the creation of an innovative operationalisation for intra-EU labour mobility using the EU-LFS. I create two indicators to help identify two different sub-flows of

immigration – EU15³ + EFTA⁴ labour migration and EU13⁵ labour migration. These two particular sub-sections of European movement previously had been invisible in the macro-level statistics for international comparison. This chapter explains the creation of these indicators, their limitations, and provides descriptive statistics to showcase both their suitability and accuracy as useful indicators, as well as to present some key trends in intra-EU labour migration that were previously assumed but not adequately supported by the data. It is following this chapter that the thesis narrows its scope to the effects of post-2004 EU expansion mobility on European welfare states.

Chapter 4 is coauthored with Olaf van Vliet and specifically builds upon Chapter 2. We utilise the indicators created in the third chapter to provide a more specific analysis of the relationship between immigration and the welfare state. While we continue to observe the macro-level relationship between the generosity of the welfare state and the level of immigration in 16 European countries using pooled time-series, cross-sectional data and panel corrected standard error models, just as I do in Chapter 2, the aim of this chapter is to provide a more detailed picture of these associations through breaking down social welfare generosity and immigration into more specific component parts. Thus, this chapter expands upon previous literature by analysing a previously ‘missing’ population of interest (intra-EU labour migration) and by disaggregating social welfare spending into separate subdomains capturing specific programme-related changes across countries. Moreover, we complement spending data with two replacement rates, unemployment from the OECD and original data on social assistance, in order to provide a more holistic approach to operationalising welfare state generosity. Again, this chapter finds no evidence of a negative relationship between immigration and European welfare states, indeed we find the opposite. In particular, we find positive associations between intra-EU labour mobility and unemployment spending and unemployment replacement rates, again indicating support for the compensation hypothesis.

Chapter 5 is sole-authored and aims to examine at the micro-level mechanisms that under-pin the macro-level relationships we see in the earlier chapters. This paper explores how Central and Eastern European (CEE) labour mobility, a particular type of migration, affects attitudes towards the welfare state. Through the use of multilevel models and the European Social

3 The pre-2004 expansion member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, The Netherlands, Portugal, Spain, Sweden, United Kingdom.

4 European Free Trade Association (EFTA) members: Iceland, Liechtenstein, Norway, Switzerland

5 The post-2004 expansion member states: Bulgaria, Croatia, Cyprus, Czechia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia

Survey (ESS), I test attitudes towards redistribution in light of increasing CEE labour mobility and aim to further understanding regarding the processes and mechanisms that may be leading to the adjustment of EU welfare systems and their changing boundaries as EU mobility intensifies. The mechanisms behind this specific relationship and the possible moderating effects remain unknown because indicators for intra-EU labour migration have not been available up until this point. Consequently, Chapter 5 takes advantage of the indicator created in Chapter 3 for CEE labour mobility and tests the validity of the compensation hypothesis in this particular context. Through the use of this more detailed indicator and in combination with foreign-born, I find that there is some evidence to support the compensation hypothesis, and I do not find significant negative associations between CEE labour mobility and social policy preferences except in the context of high immigration and high unemployment combined. The results provide a greater understanding of the way intra-EU labour mobility is linked to the changing boundaries of welfare states in Europe. Crucially, as attitudes towards redistribution are not being significantly eroded then I argue the legitimacy of European welfare states has not been undermined.

Finally, Chapter 6 ends this dissertation through reflecting on how it contributes to the academic literature, providing a summary of the main results from the previous chapters, and by drawing together its overarching conclusions. Moreover, it touches on the societal relevance of my findings, some limitations of the dissertation, and discusses future avenues for research. Ultimately, this dissertation argues that there is reason to be optimistic regarding the coexistence of national welfare states and immigration in Europe. It is not as simple as to suggest that increasing immigration undermines the solidarity that welfare states are built on as there are multiple other complex mechanisms at work, and this dissertation attempts to explore several avenues through which changes in the boundaries of the welfare state may take place.