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## Immigrants in the UK and in West Germany - Relative Income Position, Income Portfolio, and Redistribution Effects

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June 2003

# Immigrants in the UK and in West Germany – Relative Income Position, Income Portfolio, and Redistribution Effects

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## **ABSTRACT**

### **Immigrants in the UK and in West Germany – Relative Income Position, Income Portfolio, and Redistribution Effects**

Based on data from the BHPS and the GSOEP, we analyse the economic performance of various ethnic groups in the UK and West Germany, as well as the effects of income redistribution on these populations. Taking the indigenous population of each country as the reference category, we find that, as a whole, the non-indigenous population in the UK fares much better than the immigrant population in Germany. However, the range of economic performance across different ethnic groups in the UK is much larger than that in Germany. The German corporatist welfare system is characterised by much stronger redistribution effects than the liberal UK one. Consequently, the relatively low-performing immigrant population in Germany profits more from the redistribution system than immigrants with similar socio-economic attributes in the UK.

JEL Classification: J15, J18, D31

Keywords: immigration, migration policy, income redistribution

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## 1. Introduction<sup>1</sup>

Most western European countries currently face the problem of low fertility rates and increasing life expectancy. Scientists and politicians are starting to realise that, in the long run, this may severely endanger the welfare system or at least the level of economic well-being in their countries. In this context, selective immigration is considered as a tool that may help to address the problem. This approach, however, is in clear conflict with public opinion—on the whole, immigrants are considered to be an economic burden rather than a relief. This persistent prejudice is hard to refute (cf. Simon & Lynch 1999; Bauer et al. 2000, Fertig & Schmidt 2001, 2002).

Most research in this specific field focuses on differences between immigrants and the native-born population with respect to the receipt of public benefits (cf. Jensen 1988, Maani 1993, Khoo 1994, Gustman & Steinmeier 1998, Riphahn 1998, Hu 1998)<sup>2</sup>, but neglects the other side of the cost-benefit calculation, i.e., tax and social security contributions. The question of whether immigrants--or specific subgroups of the immigrant population--tend to enrich or burden the native-born population is an important one. Borjas (1995) believes that the cost-benefit calculation will become a key component of the immigration debate. The crucial question is: “Do (immigrants) consume more services from the public sector than they pay for in taxes?” (Schultz 1998, p. 245). As Bhattarai & Whalley (1997) clearly point out, this question cannot be answered by analysing only the take-up of public transfers such as welfare benefits. An appropriate approach must consider both the receipt of benefits and the contribution to the tax and welfare system. Ideally, observation periods should cover the full life-cycle of immigrants. However, the analyses reported in most of the existing literature--including the present study--are restricted to rather short observation periods of just a few years, or even to single-year snapshot analyses, although the limitations of such designs are evident (cf. Bonin 2001 for an attempt to overcome these limitations). LaLonde & Topel (1991) report that immigrants to the USA have lower incomes than the native-born population, but bear this burden for themselves, that is, without any serious effects on the host population resulting from redistribution. Simon (1996) confirms this finding for the US of the 1970s, but shows that for more recent periods the picture is no longer as clear. For Switzerland, Weber & Straubhaar (1996) report that immigrants are net payers to the tax and social security system. Gustafsson & Österberg (2001) note that immigrants tend to burden the public sector budget upon arrival in Sweden, but that after a few years this is no longer the case. However, as Ekberg (1999) points out, the question of whether immigrants on the whole contribute to or benefit

from the public sector is largely dependent on the age structure of the immigrant population and on the labour market situation, and is therefore subject to change. It should be noted, however, that none of these studies are able to consider the possible indirect effects that immigration may have through its influence on native productivity, wages, and other relevant economic dimensions (cf. e.g. Friedberg & Hunt 1995). This limitation also applies to the present study.

Clearly, cost-benefit analyses in the context of immigration are strongly influenced by institutional settings, mainly with respect to immigration policy and the structure of the welfare system. As a consequence, it is questionable whether results from one country can be generalised to others, and adopted as guidelines for immigration policy-makers elsewhere, particularly when the respective immigrant populations differ. As such, it would seem valuable to conduct cross-country analyses with comparable data in order to analyse how immigrants fare in different countries given the respective institutional frameworks and controlling for individual characteristics of the immigrants. The analysis presented here focuses on two important west European countries with distinct immigration histories, policies, and welfare regimes, namely the UK and Germany. The aim of the paper is to describe whether (and if so, to what extent) institutional settings such as immigration policy and the structure of the tax and welfare system as a whole influence immigrants' economic performance. A special focus is placed on institutional effects on the performance of various ethnic groups in each country.

## **2. Immigration Policy and the Welfare System in the UK and Germany: Stylised Characteristics of Institutional Settings**

### *Immigration Policy*

Although there are substantial differences between the immigration policies of the UK and Germany, some important similarities can be identified "The immigration policies of the UK have been driven primarily by political, rather than economic concerns" (Wheatley Price 2001a, p. 195). Since the 1973 stop to the worker-recruitment policy of the 1960s and early 1970s (*Anwerbe-Stopp*), the same has been true of Germany. In both countries, there are certain groups that have privileged immigration status owing to historical responsibilities--in the UK, those from (former) British colonies and dominions, and in Germany, people of German ancestry (*Aussiedler*) moving back to Germany from former Eastern bloc countries (cf. Zimmermann 1999 for background

information about this specific group). In both countries, family-related network migration accounts for a large proportion of the non-indigenous population. In this context, both countries experience an inflow of persons with human capital endowments that are less transferable to the demands of the host country's labour market. Last but not least, both countries implement strong immigration controls in order to discourage refugees and asylum seekers from crossing their borders, on the basis that these groups are without doubt those most likely to burden the welfare state.

Beyond these similarities, there are some country-specific differences which are worthy of note. In contrast to Germany, the UK has a tradition of attracting not only less educated immigrants, but also highly skilled workers. Some of the Indians and many of the Asians immigrating to the UK import above-average skills (cf. Bell 1997), whereas highly qualified immigrants are comparatively rare in Germany. The sharpest contrast, however, is that racial disparities do not play an important role in the German immigration discussion (disregarding for a moment the very specific situation of the relatively small group of refugees and asylum seekers in Germany, who are only tolerated on a temporary basis). This is simply because the number of non-white permanent immigrants to Germany is marginal. For background information about immigration policy and the social structure of immigration in the UK, see e.g. Hatton & Wheatley Price (1999); for analogous information about Germany, see e.g. Rotte (1998). For recent changes in immigration policy and the structure of immigration, see OECD (2001, p. 185ff. [Germany]<sup>3</sup> and p. 264ff. [UK]).

### *Welfare System*

The UK is considered to belong to the group of 'liberal' welfare states characterised by relatively low taxes, low means-tested assistance, and modest universal transfers and social insurance plans (cf. Esping-Andersen 1990). Benefits cater mainly to a low-income clientele, mainly to prevent the (very) 'worst case' scenario (cf. Hills 1995 for an overview). Although policy-makers are still rather reluctant to fully adopt EU social policy standards in the UK, the influence of the European Union tends to steer the British welfare system somewhat further away from the classic 'liberal' systems such as the US.

Germany, in contrast, is considered to be a typical representative of the 'corporatist' welfare system, in which the male breadwinner model is supported. Well-established public pension and health care schemes as well as the unemployment insurance system

protect against “traditional” income risks. Redistribution effects in this type of welfare regime are expected to be rather large when compared to more liberal systems, especially in terms of poverty protection. Income inequality is thus rather low in this system, with its extended welfare programs and relatively high taxes (cf. Ankrom 1993, Ervik 1998).

### **3. Data and Methods**

#### **3.1 Data**

The UK section of our analysis is based on the British Household Panel Study (BHPS). This representative household panel survey, directed by the Institute for Social and Economic Research (ISER) at the University of Essex, was initiated in 1991. Starting with 5,500 households and 10,300 individuals who are re-interviewed yearly, it has become one of the most important databases for social researchers using British data (for further details, see Taylor, 1998, or <http://www.iser.essex.ac.uk/bhps>). In the present study, we use data from 1995 to 1998. Because BHPS respondents are asked to provide information on their income for the 12-month period preceding the interview, our analysis covers respondents’ income for the period from September 1, 1994 to August 31, 1998 (for documentation of annual income data based on the BHPS, see Bardasi et al. 1999).

The German part of the analysis is based on representative micro-data from the German Socio-Economic Panel (GSOEP), likewise an ongoing panel survey with a yearly re-interview design. The starting sample in 1984 was of similar size to that of the BHPS. In contrast to the BHPS, the immigrant population was over-sampled in the GSOEP, thus facilitating analyses of this specific population (for further details, see SOEP-Group, 2001, Wagner et al., 1993, or <http://www.diw.de/english/sop>). Because almost no immigrants are resident in Eastern Germany, and because East German income structures still differ markedly from West German ones, we restrict our analysis to West Germany. Furthermore, we exclude refugees and asylum seekers because of their very specific income situation and their—at best—restricted coverage in the BHPS. We use GSOEP data collected from 1995 to 1999, including the new “immigrant” sub-sample initiated in 1994/95 (Burkhauser et al. 1997). In terms of retrospective income information, we therefore analyse income years 1994 to 1998.<sup>4</sup>



In order to control for differences in initial sampling probabilities and selective attrition over time, we apply appropriate weighting factors to all descriptive analyses for both samples (for technical details of the GSOEP, see Haisken-DeNew & Frick 2001; for the BHPS, see <http://www.iser.essex.ac.uk/bhps/doc/index.html> [Section V]). In order to reduce the impact of different age distributions,<sup>5</sup> and to focus on the economic performance and capacity for self-support in different ethnic subgroups, we generally restrict our analyses to those living in households with a head of prime age (20 to 60 years).<sup>6</sup>

### **3.2 Level of Analysis and Definition of Ethnic Groups**

The unit of analysis is the individual in his or her respective household context. Households are categorised into different ethnic groups according to the ethnicity of the adult household members (aged 17 and over). After categorisation at the household level, all members of a household (including dependent children) are assigned the same ethnicity status, regardless of their legal nationality.

Ethnic subpopulations in the UK are tend to be differentiated along race lines (see, for example, Berthoud, 1998). Because there is no German equivalent to this race concept, however, in the present paper we distinguish according to the region of origin of the non-indigenous population: i) native-born persons with an immigrant background ('immigrants' in the broader sense);<sup>7</sup> ii) Commonwealth citizens from India; iii) Commonwealth citizens from Africa and the Caribbean;<sup>8</sup> iv) Commonwealth citizens from Pakistan and Bangladesh; v) citizens of other European Union countries; vi) citizens of (other) western industrialized countries; vii) other (non-indigenous) persons. The reference group is the indigenous population of native-born whites. Note that this approach also covers the race aspect to a large degree.

In West Germany, we distinguish the following non-indigenous groups: i) native-born non-Germans; ii) ethnic Germans (*Aussiedler*) from former Soviet Republics; iii) ethnic Germans (*Aussiedler*) from Poland and Romania; iv) citizens of Turkey and the former Yugoslavia (the major non-EU countries from which "guest workers" were formerly recruited); v) citizens of European Union countries; vi) citizens of (other) western industrialized countries; vii) other (non-indigenous) persons. Here, the reference group is the indigenous population of native-born Germans. Based on this definition of ethnic groups, Table 1 shows the respective proportions of each subgroup in each national

sample. While about 13% of the UK population lives in non-indigenous households (with prime-aged heads), the figure rises to 22% in West Germany.

In our regression models, we include further information on the assimilation status of immigrants. We distinguish between so-called ‘non-mixed’ and ‘mixed’ immigrant households. In ‘non-mixed’ households, all adults in the household are immigrants, whereas in ‘mixed’ (immigrant) households, at least one adult is a member of the indigenous population. The latter household composition is assumed to reflect a higher degree of integration of the immigrant member(s) of the household. In addition, we use a standard indicator to measure the ongoing assimilation of immigrants, namely number of years since migration.

### **3.3 Income Components, Relative Income Positions, and Redistribution Measures**

Although we analyse income at the individual level, income information is calculated at the household level. The assumption underlying this approach is that all members of a specific household pool their resources and share the utility of a given household income. Consequently, information about the various (equivalent) income components of a specific household is ascribed to all members of that household, regardless of age or individual income performance. In order to adjust for differences in household size and composition, we apply the modified OECD equivalence scale, which gives weights of 1.0 to the head, 0.5 to other adult household members, and 0.3 to children. In order to reduce the effect of extreme income outliers, we apply a bottom trimming by eliminating all households with post-government incomes of less than 600 GBP or 1200 DM, respectively.<sup>9</sup> Finally, after deflating all income measures to 1995 national currencies, we pool the observations across all analysable cross-sectional years in the second half of the 1990s.

Given our interest in differences between the immigrant and indigenous populations, we analyse the following income components for each of the subgroups described above: i) employment income; ii) capital income (including imputed rent for owner-occupied housing); iii) private transfers<sup>10</sup>. The sum of these three components represents pre-government (or market) income. Adding iv) old age pensions and v) public transfers,<sup>11</sup> and subtracting vi) taxes and social security contributions finally yields our measure of post-government income. Table 1 presents basic data on cross-ethnic differences in pre- and post-government income, as well as on income inequality.

– please insert Table 1 about here –

With only a few exceptions, standard income distribution features emerge for the various subpopulations observed in the two countries. First, the distributions of pre- and post-government income are skewed to the right; i.e., the median is to the left of the mean. Secondly, because our sample was restricted to households with prime-aged heads, average pre-government income levels exceed post-government income levels, with a high proportion of income being paid as tax. The cross-country comparison reveals that the impact of redistribution is markedly higher in Germany, especially when the average amounts of public transfers received and taxes and of social security contributions paid are also taken into account (not shown in this Table). As far as income inequality as measured by the Gini coefficient and the Theil index is concerned, pre- and post- government incomes are less equally distributed in the UK than in Germany. While this also applies to the respective indigenous populations in the cross-country comparison in the cross-country comparison, it emerges that inequality among the non-indigenous UK population clearly exceeds inequality among the reference group of the native born white population. This does not hold for Germany, where inequality measures for immigrants and foreigners do not differ to any great extent from those of native born Germans. The same picture emerges when considering single ethnic groups.

For the purposes of cross-country comparability, the analyses below are based on standardised income components, where individual income is related to the respective mean of the total population in each country (total mean = 100%; for Germany: West Germany). The effect of redistribution is measured by subtracting the relative income position based on pre-government income from that based on post-government income for each individual. This yields a metric measure which is positive (negative) for those who improve (worsen) their income position as a result of the redistribution process.

## 4. Empirical Results

### 4.1 Relative Income Position in Various Types of Income

As starting point, we compare the relative income positions within each of the analysed income components by ethnic group. We focus on both aggregates (market income, non-market income, taxes and social security contributions) and individual components.

#### *UK*

In the UK, immigrants from the European Union, other western industrialized countries, and other non-Commonwealth countries (mainly Asian countries) show substantially higher *pre-government incomes* than the native-born white population, whereas those who migrated from India exhibit income levels fairly similar to those of the indigenous population (1<sup>st</sup> panel of the UK part of Table 2). In contrast, the economic performance of those who moved to the UK from African and Caribbean Commonwealth countries, and especially of immigrants from Pakistan and Bangladesh, is clearly below average. On average, the latter receive only 42% of the mean pre-government income of the native-born white population. Native-born non-whites also perform less well than native-born whites (-21%). This may be interpreted as evidence for the hypothesis that fully integrating immigrants into their host society is a long-term task. Overall, even when including native-born non-whites, the economic performance of immigrants to the UK is similar to that of the indigenous population.

– please insert Table 2 about here –

Breaking down the total pre-government income into different components shows that pre-government income consists largely of *employment income*. Immigrants from the European Union, other western industrialized countries, and other non-Commonwealth countries have above-average *capital incomes*, as do Indians, who are significant out-performers in this respect (+62% on the UK population average). In sharp contrast, native-born non-whites, immigrants from African and Caribbean Commonwealth countries, and those from Pakistan and Bangladesh receive hardly any income from capital. However, corresponding to the picture that emerged for total pre-government income, even when including native-born non-whites, the average capital income of

immigrants to the UK is similar to that of the indigenous population. The same does not hold for *private transfers*. Almost all immigrant groups --including native-born non-whites--enjoy substantially higher levels of private transfer than the native-born white population. Indians form the only exception here, receiving by far the least in private transfers. This is consistent with the finding that this group enjoys exceptionally high capital incomes. It can be assumed that private transfers within the family represent an important alternative to public transfers in a liberal welfare system, helping to prevent low-income families from falling into poverty. However, it must be noted that on average this income component does not exceed five percent of post-government income for any of the ethnic groups considered in the UK analysis.

To gain a better insight into the relevance and structure of *non-market income* received by immigrants (2<sup>nd</sup> panel of Table 2), we separate old age pensions from *public benefits*. Because our sample is restricted to people living in households with prime-age heads, the incidence of the former income source is of course very limited, so we concentrate here on income from public benefits. Overall, we observe a similar level of public benefit receipt among native-born whites and the immigrant population as a whole. However, large variations in the magnitude of this income source were found across groups: native-born non-whites receive much higher benefits than native-born whites (+57%), as do immigrants from African and Caribbean Commonwealth countries (+71%) as well as Pakistanis and Bangladeshis (+61%). On the other hand, the level of public benefits received by immigrants from the European Union, and, in particular, from India, 'other' Western industrialized countries, and other non-Commonwealth countries is remarkably low (about -30% in the latter three groups).

In general, the pattern of contributions to the *tax and social security* system (3<sup>rd</sup> panel of Table 2) reflects the pattern observed for pre-government income. In view of their pre-government income position, Indians contribute less than average, whereas immigrants from the European Union and other western industrialized countries contribute more than average. These deviations are not strongly pronounced, however.

Consequently, the group-specific levels of *post-government income* (4<sup>th</sup> panel of Table 2) are similarly distributed as the levels of pre-government income. The poor situation of native-born non-whites (with only 79% of the national average income), however, improves only marginally (to 84%) following the transfer of fairly large amounts of non-market incomes. One should bear in mind, however, that this group is considerably

younger (average age of household head: 36 years) than the remaining population (where the average age of the household head is 41 years). As such, market income (employment and capital income) is more likely to be relatively low.

### *West Germany*

In West Germany, a very different picture emerges. In line with results presented in the existing literature (see, e.g., Dustmann 1993; Bauer & Zimmermann 1997; Schmidt 1997; Dustmann & Schmidt 2000), immigrants show much lower *pre-government incomes* than native-born Germans (-23% on the West German population average; 1<sup>st</sup> panel of the West German part of Table 2). This can be attributed to the low-performing groups of *Aussiedler*, immigrants from Turkey and the former Yugoslavia, and ‘other’ (non-industrialized) countries. Contrary to the situation in the UK, native-born foreigners enjoy pre-government income levels similar to those of the indigenous population. The only non-indigenous group that outperforms native-born Germans in pre-government incomes is that of immigrants from (non-EU) Western industrialized countries (+16%). In Germany, as well as in the UK, *employment incomes* constitute the major part of pre-government income. In contrast to the UK, however, the employment incomes of immigrants to Germany do not keep pace with those of the indigenous population, but remain about 25% lower. A similar situation is found for *capital income*. The returns on the smaller capital stock of immigrants to Germany are very low compared to those of native-born Germans; the immigrants’ average capital income is not even half that of the reference group.<sup>12</sup> Another striking difference to the UK emerges in the structure of *private transfers*. Whereas this income component was more than twice as high among UK immigrants than in the indigenous population, it is only half as high in Germany. Ethnic networks providing mutual support seem to be much more common in the UK than in Germany. It is likely that this notable divergence between the two countries under analysis reflects differences in the financial dependencies of low-income groups on friends and relatives, which in turn reflect the different institutional settings of the respective welfare systems.

When focusing on *public benefits* as the most relevant component of *non-market incomes* (2<sup>nd</sup> panel of the West German part of Table 2), we again find marked differences between the UK and the German immigrant populations relative to the respective indigenous populations. In total, UK immigrants draw a similar level of public benefits as do native-born whites. In Germany, immigrants receive 30% more from public transfers than do native-born Germans. *Aussiedler* from former Soviet

Republics receive the highest levels of public benefits (+63% on the West German population average). The only notable exceptions here are EU migrants and native-born foreigners. Overall, these findings confirm the findings of researchers such as Castranova et al. (2001): that immigrants to Germany are more dependent on public transfers than the native-born population.

The distribution of *taxes and social security contributions* in West Germany (3<sup>rd</sup> panel of the West German part of Table 2) is similar to that observed for pre-government incomes, with one exception: native-born foreigners make higher contributions than expected.<sup>13</sup>

Summing up, the results presented in this section show a much wider heterogeneity in the economic performance of UK immigrants than in that of immigrants to West Germany. In the UK, the economic performance of the immigrant population as a whole is similar to that of the indigenous population, and some groups of immigrants substantially outperform the native population. On the other hand, some groups, such as Pakistanis and Bangladeshis, were shown to live in very poor conditions. In contrast, German immigrants were found to have a generally low market performance.

#### **4.2 The Structure of Post-Government Income (“Portfolio”)**

We now turn to our income portfolio analysis, in which we calculate the various income components as a share of total post-government income for each ethnic group, i.e., their “portfolio structure”. We interpret high (low) shares of market income and large (small) losses in the redistribution process as indicators for a high (low) degree of self-supporting capacity in the respective subgroup (Table 3).

In the UK, the total non-indigenous population shows a similar post-government income structure to the indigenous reference group. Market income represents about 100% of post-government income, about 20% of the income portfolio comes from non-market incomes (in this age group, mainly public benefits) and about the same share is deducted for taxes and contributions to the social security system. Again, however, there is substantial variation within the non-indigenous population. Among native-born non-whites, as well as immigrants from African and Caribbean Commonwealth

countries, and particularly those from Pakistan and Bangladesh, market incomes play a much smaller role in the structure of the income portfolio than in the other groups. Once again, the Pakistani and Bangladeshi population is the worst off. Their market income constitutes only two thirds of their total income, with public benefits making up more than 40% of their portfolio. As a consequence, their contribution to the tax and social transfer system is only 10%, and as such much lower than in any other group.

– please insert Table 3 about here –

In Germany, a rather different picture emerges. First of all, the effects of the different institutional settings within the tax and social security system are obvious. While in Germany, 36% of total income is redistributed by the ‘corporatist’ welfare state, the corresponding figure for the UK is only 21%. In contrast to the UK, the employment income of the total non-indigenous population represents a similar proportion of post-government income as is the case for the native-born German population. However, capital income is of much less importance among the non-indigenous population--with the exception of immigrants from Western industrialized non-EU countries. These show remarkably high shares of market incomes. In contrast to the UK, public benefits make a much larger contribution to the income portfolio of the non-indigenous population than to that of native Germans (17% vs. 10%). However, in marked contrast to the UK situation, this income component does not substantially exceed 20% in any of the population groups under analysis for Germany.



### 4.3 Correlates of Relative Pre -Government Income Position

In order to evaluate the extent to which the cross-ethnic group differences found in the bivariate analyses can be contributed to ethnicity *per se*, we estimate multivariate regression models, simultaneously controlling for a range of socio-economic characteristics (head of household's education, age, sex, health status, unemployment experience, and family type).<sup>14</sup> To avoid systematic correlations between the right-hand variables employed in the estimation resulting from the repeated observation of multi-person households, we restrict our sample to heads of households only. Because data was pooled over several years of observation, we specify random-effects regression models (GLS) to account for individual correlations across time. Dependent variables are *a*) the logarithm of "relative pre-government income position" and *b*) the absolute "change in the relative income position" following the redistribution process of the tax and welfare system (i.e., the difference between post- and pre-government income). For both regression models, we run four specifications, controlling for the heterogeneity of immigrants in various aspects--region of origin, years since migration, and assimilation status (measured in terms of 'mixed' or 'non-mixed' household).

Simultaneously, we control for a range of socio-economic status measures which are known to be linked to income risks (e.g., number of children, unemployment, health impairments, etc.). We are explicitly interested in differences between the indigenous and non-indigenous populations. To save table space, however, we will only present parameter estimates for immigration-specific covariates (full results are available from the authors upon request).<sup>15</sup> Information about the distribution of all variables used in the models can be found in Table 4.

-- please insert Table 4 about here --

*UK*

We start by examining the non-indigenous population in the UK (upper panel of Table 5, column 1). The multivariate regression provides support for the results of our bivariate analysis, indicating that the labour market performance of the non-indigenous UK population is similar to that of the indigenous population; i.e., there are no significant differences between the two groups. Results for the control variables show

the pattern expected on the basis of labour market research (see, e.g., Oxley et al. 2001): Compared to the reference group of couples without children, each additional child reduces market income, this effect being much stronger for lone parents with their reduced earnings capacity. We also confirm the typical age profile, with income decreasing at higher ages, as well as a positive effect for households headed by males, distinct educational differences, and a negative impact of impaired health status and recent unemployment. All these effects are highly significant. However, we do not find any time effect in our pooled data, indicating that income levels in the UK remained stable over the observation period.

When further differentiating ethnicity by controlling for ‘non-mixed’ and ‘mixed’ households in the non-indigenous population (see section 3.2), we find that the latter group in fact has a more successful market performance than the indigenous reference group (column 2). Conversely, the market (mainly employment) incomes of immigrants remaining in a ‘non-mixed’ ethnic context are 20% lower than those of the indigenous population. Both of these effects are statistically highly significant and underline the importance of societal integration for immigrants to progress to higher economic levels.

When improving the control of differences in the immigrants’ ethnicity and regional origin as well as their duration of stay in the UK (column 3), the positive effect of ‘mixed’ households persists. Furthermore, we confirm the descriptive findings identifying native-born non-whites, immigrants from African and Caribbean Commonwealth countries and, to an even greater extent, Pakistanis and Bangladeshis as high-risk groups with significantly lower labour market performances than the native-born white population. These results are in line with those presented by Wheatley Price (2001a, b). Consistent with our descriptive findings, immigrants from India perform similarly to the indigenous population, even when controlling for their socio-economic background. Notably, though, their group-specific above-average market performance that emerged for immigrants from EU countries in the bivariate analysis seems to be caused by a positive selection with respect to their socio-economic characteristics. When background variables are controlled, EU citizens in fact perform less well than the British indigenous population. More detailed analysis using interaction terms of ethnicity and education showed this effect to be based solely on the very poor performance of those EU migrants with low levels of education (not shown in the tables). When controlling for ethnic origin, the immigrants’ duration of stay in the UK

has no significant effect on their economic performance. This raises the question as to the integration capacity of British society.

Finally, when restricting the analysis to the non-indigenous section of our sample and using ‘non-mixed’ ethnicity households as a reference category (column 4), we find that ‘mixed’ ethnicity households are indeed much better off than ‘non-mixed’ ones. Immigrants from India perform better than the reference group of immigrants from EU countries, and those migrating from non-Commonwealth countries show significantly higher pre-government incomes than EU immigrants, although this effect is only significant at the 10% level

– please insert Table 5 about here –

#### *West Germany*

For Germany (lower panel of Table 5), we find quite a different pattern of results in our first specification (column 1). We confirm the descriptive findings according to which the economic performance of the immigrant population as a whole lags behind that of the indigenous population. In principle, the results for the socio-economic control variables are similar to those found for the UK (not documented in table).

Introducing the ‘mixed’ immigrant household category (column 2) yields a pattern comparable to the one that emerged for the UK. The non-indigenous population is much worse off than the indigenous one, and those immigrants living in ‘mixed’ ethnicity households are significantly better off than those in ‘non-mixed’ ones.

When controlling for ethnic origin in a more detailed manner (column 3), the positive effect of living in ‘mixed’ ethnicity households persists, as was the case for the UK. In contrast to the findings for the UK, however, we cannot identify any immigrant group that outperforms the indigenous population. Only immigrants from (non-EU) western industrialized countries manage to keep pace with native Germans. All other groups are substantially worse off, particularly both groups of *Aussiedler*, those migrating from Turkey or the former Yugoslavia, or ‘other’ countries. Note that this residual category does not consist mainly of Asians, as in the UK, but also of people from Eastern Europe. Furthermore, the longer the duration of stay in Germany, the higher the market

(mostly employment) incomes--even when simultaneously controlling for age. Although this effect is only significant at the 10% level, it can be taken as a notable difference to the situation in the UK.

Finally, when restricting the German sample to the non-indigenous population (column 4), our first finding is that the 'mixed' immigrant population indeed performs significantly better than those living in 'non-mixed' contexts, most of whom are probably integrated in closely knit ethnic networks. Distinguishing between different ethnic groups reveals that--compared to the reference group of immigrants from EU countries--native-born foreigners perform similarly, whereas all other immigrant groups (except those from other western industrialized countries) are under-performers in terms of their pre-government income position. When restricting the sample to immigrants, the positive effect of duration of stay is more pronounced than reported in the model for the full sample. Furthermore, the negative effect for the squared duration variable indicates that the positive marginal effects associated with length of residency diminish over time.

#### **4.4 Correlates of Income Redistribution**

Finally, this section focuses on income redistribution effects as measured by the individual difference between post- and pre-government income position. Negative effects emerging from our regression calculation represent individual declines in the relative income position that result from tax and social security contributions paid on the one hand and public benefits received on the other. Again, we are primarily interested in cross-ethnic differences, and control for the same characteristics as mentioned above (Table 6). These measures of socio-economic status basically deliver the expected results for both countries: An increasing number of children, lone parenthood, increasing age of the household head, low levels of education, physical impairment, and recent unemployment all display a significant positive relation to the redistribution process, while, on average, households with younger heads, male heads, and highly educated heads pay into the system; i.e., their relative pre-government income position is higher than their post-government one (not documented in Table).

-- please insert Table 6 about here --

Starting once more with the situation in the UK (upper panel of Table 6, column 1), there is no evidence that the non-indigenous population as a whole profits more from the redistribution process than the indigenous one. However, the second specification (column 2) shows that those living in households of ‘mixed’ ethnicity contribute significantly more to the system than the indigenous population. Compared to the indigenous population, not a single ethnic group significantly profits from or loses out to the redistribution process when controlling for origin and years since migration (column 3). Those living in households of ‘mixed’ ethnicity are still the “losers” in the redistribution process, though at a somewhat lower level of significance.

When focusing only on the sample of non-indigenous UK inhabitants (column 4), the finding persists that, compared to the immigrant population living in ‘non-mixed’ ethnic households, those living in ‘mixed’ households help to finance the system. Surprisingly, there are no significant differences according to ethnicity or region of origin. Immigrants from non-EU western industrialized countries constitute the only exception here, and are net contributors to the system, though this effect is only significant at the 10% level

Again, results for Germany differ markedly from those for the UK (lower panel of Table 6). Our first specification (column 1) indicates that, compared to the indigenous population, the total immigrant population significantly improves its income position as a result of the German redistribution process. This result is mainly attributable to those living in ‘non-mixed’ ethnic households (column 2). Those living in ‘mixed’ ethnic households, in contrast, are found to be net payers. Those immigrant groups with below-average pre-government incomes (*Aussiedler*, immigrants from Turkey and the former Yugoslavia and other non-western industrialized countries) gain most from redistribution in Germany (column 3).

When restricting the sample to the immigrant population (column 4), it still emerges that those living in ‘mixed’ immigrant households contribute more to the redistribution capacity of the German welfare state than the reference group of those living in households of ‘non-mixed’ ethnicity. Again, *Aussiedler*, immigrants from Turkey and the former Yugoslavia and other non-western industrialized countries profit significantly more than the reference group of EU migrants. In contrast, foreigners born in Germany, but without a German passport, experience significant reductions in their

relative income position as a result of redistribution. With increasing duration of stay in Germany, immigrants benefit less from redistribution. This is an important result, showing that, *ceteris paribus*, immigrants to Germany become ever less reliant on the redistribution effects of the welfare system--the longer they stay, the better their market performance and the higher the contributions they make to the tax and social security system. This seems to indicate substantial differences between the assimilation capacity of immigrants and the institutional regulations in the UK and in Germany.

## 5. Conclusions

Our results clearly indicate a more pronounced heterogeneity in the economic performance (capacity) of the non-indigenous population in the UK than that in Germany. In the UK, some ethnic groups even outperform the native-born white population. In Germany, this is only the case for immigrants from non-EU western industrialized countries. This may be explained by the qualification level of the non-indigenous population in Germany: this group still includes a high proportion of the rather low -qualified so-called 'guest workers' hired in the 1960s and early 1970s as well as their descendants. At the lower end of the income distribution, Pakistanis and Bangladeshis in the UK are far worse off than the main risk group in Germany, the ethnic Germans (*Aussiedler*), most of whom have entered the country since the late 1980s.

In contrast to the situation in the UK, the non-indigenous population in Germany profits from the redistribution process, even when controlling for various measures of socio-economic status such as educational level, number of children, unemployment, health status, etc. Furthermore, the employment incomes of immigrants to Germany increase markedly during their initial period of residency, and, as a result of this improved economic self-support, their reliance on the receipt of public transfers decreases.

In light of these substantive differences, it is remarkable that in both countries immigrants who live in 'mixed' ethnic households (i.e., at least one adult in the household is a member of the indigenous population) outperform the indigenous population with respect to both pre-government income and contributions to the tax and social security system. This positive effect of the long-term assimilation of immigrants remains very stable across the various specifications of our models. However, we cannot rule out endogeneity problems given that this indicator may also be a cause of

economic success, as well as a result. Further research based on longitudinal data should provide a deeper insight into this important issue.

Finally, the 'better' or 'less costly' socio-economic structure of the non-indigenous UK population, which is doubtlessly influenced by a stricter immigration policy, in combination with a less sheltering 'liberal' welfare state, leads to fundamental differences in eligibility for and take-up of benefits in the two countries analysed. It appears to be rather difficult to separate these two effects. Future studies need to concentrate on this important issue of cross-national comparative research.

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**Table 1: Pre- and Post Government Income and Income Inequality Measures in the UK, 1995-1998<sup>1)</sup>, and in West Germany, 1995-1999<sup>2)</sup>, by Ethnic Group - Population in Private Households with Head of Prime Age -**

UK										
Measure	Indigenous Population (Native-Born White Pop.)	Total	Non-Indigenous Population (Immigrants and Non-White Population)							Total
			Native-Bborn	Common-wealth: India	Common-wealth: Africa and Caribbean	Common-wealth: Pakistan / Bangladesh	EU - countries	Western Industrialized Countries	Other Nnon-Indigenou s	
<b>Median Equivalent Income (in 1995 GBP)</b>										
· Pre-Gov't Income	11,443	11,281	8,166	11,386	7,340	3,158	12,097	14,735	14,156	11,423
· Post-Gov't Income	9,877	9,483	7,626	9,325	7,873	5,133	10,296	11,737	11,876	9,833
<b>Mean Equivalent Income (in 1995 GBP)</b>										
· Pre-Gov't Income	12,682	12,915	10,056	12,887	8,860	5,368	14,813	16,703	16,021	12,712
· Post-Gov't Income	11,041	11,132	9,274	11,048	8,754	6,065	12,483	13,297	13,197	11,052
<b>Income Inequality (Gini Ccoefficient)</b>										
· Pre-Gov't Income	.3935	.4417	.5562	.2871	.5130	.5998	.4253	.3777	.3319	.4001
· Post-Gov't Income	.3003	.3432	.3766	.2544	.3541	.3517	.3377	.3076	.2871	.3061
<b>Income Inequality (Theil Index)</b>										
· Pre-Gov't Income	.2816	.3560	.5682	.1362	.4889	.6528	.3208	.2551	.2106	.2914
· Post-Gov't Income	.1537	.2030	.2301	.1032	.2025	.2226	.1957	.1655	.1651	.1600
<b>% of Population Share</b>	<b>87.1</b>	<b>12.9</b>	<b>1.9</b>	<b>1.5</b>	<b>1.1</b>	<b>1.3</b>	<b>3.1</b>	<b>1.5</b>	<b>2.5</b>	<b>100.0</b>
<i>N of observations</i>	33 253	4 466	566	538	303	352	1 196	629	882	37 719
West Germany										
Measure	Indigenous Population (Native-Born Germans)	Total	Non-Indigenous Population (Immigrants and Native-Bborn Foreigners)							Total
			Native-Bborn	Aussiedler: Former Soviet Republics	Aussiedler: Poland, Romania	Guest-workers: Turkey, Fformer Yugoslavia	EU - countries	Western Industrialized Countries	Other Nnon-Indigenou s	
<b>Median Equivalent Income (in 1995 DEM)</b>										
· Pre-Gov't Income	45,868	31,977	39,067	27,229	31,083	27,766	41,966	61,107	34,034	42,786
· Post-Gov't Income	34,837	26,025	34,838	25,243	24,173	22,738	31,792	47,997	27,531	32,821
<b>Mean Equivalent Income (in 1995 DEM)</b>										
· Pre-Gov't Income	51,128	37,166	47,775	32,056	36,342	30,100	46,360	56,066	38,072	48,035
· Post-Gov't Income	38,563	29,380	31,832	27,577	27,728	24,982	34,881	42,576	29,985	36,528
<b>Income Inequality (Gini Ccoefficient)</b>										
· Pre-Gov't Income	.3553	.3795	.3734	.3975	.3622	.3591	.3150	.3025	.4175	.3661
· Post-Gov't Income	.2809	.2801	.2751	.2468	.2522	.2434	.2555	.2564	.3338	.2871
<b>Income Inequality (Theil Index)</b>										
· Pre-Gov't Income	.2331	.2556	.2316	.2784	.2407	.2330	.1771	.2147	.3191	.2447
· Post-Gov't Income	.1404	.1327	.1191	.1080	.1190	.1005	.1112	.1428	.1878	.1447
<b>% of Population Share</b>	<b>77.8</b>	<b>22.2</b>	<b>0.9</b>	<b>3.5</b>	<b>1.6</b>	<b>7.6</b>	<b>4.8</b>	<b>0.9</b>	<b>2.9</b>	<b>100.0</b>
<i>N of observations</i>	33 537	17 291	907	1 926	1 127	7 480	4 545	148	1 158	50 828

<sup>1)</sup> Average of 1994-1997 income years. - <sup>2)</sup> Average of 1994-1998 income years.

Source: BHPS; SOEP; Cross-National Equivalent Data File; authors' calculation.

**Table 2: Relative Income Position for Market- and Non-Market Income Components in the UK, 1995-1998<sup>1)</sup>, and in West Germany, 1995-1999<sup>2)</sup>, by Ethnic Group - Population in Private Households with Head of Prime Age -**

<b>UK</b>										
<b>Type of Income</b>	Indigenous Population (Native-Born White Pop.)	Total	Non-indigenous Population (Immigrants and Non-White Population)							Total
			Native-Bborn	Common-wealth: India	Common-wealth: Africa and Caribbean	Common-wealth: Pakistan / Bangladesh	EU - countries	Western Industrialized Countries	Other Nnon-Indigenou s	
<b>Relative Income Position (Total = 100)</b>										
<b>Pre-Government Income</b>	<b>100</b>	<b>101</b>	<b>79</b>	<b>101</b>	<b>70</b>	<b>42</b>	<b>116</b>	<b>131</b>	<b>126</b>	<b>100</b>
· Employment Income	100	99	80	95	72	40	115	131	123	100
· Capital Income	99	103	56	162	47	53	118	133	114	100
· Private Transfers	87	193	212	19	130	118	195	129	387	100
<b>Non-Market Income</b>	<b>100</b>	<b>96</b>	<b>130</b>	<b>68</b>	<b>159</b>	<b>141</b>	<b>96</b>	<b>59</b>	<b>63</b>	<b>100</b>
· Old Age Pensions	104	60	0	47	100	47	133	8	46	100
· Public Benefits	99	104	157	72	171	161	88	69	67	100
<b>Taxes and Social Security Contributions</b>	<b>99</b>	<b>103</b>	<b>82</b>	<b>93</b>	<b>71</b>	<b>35</b>	<b>123</b>	<b>144</b>	<b>125</b>	<b>100</b>
<b>Post-Government Income</b>	<b>100</b>	<b>101</b>	<b>84</b>	<b>100</b>	<b>79</b>	<b>55</b>	<b>113</b>	<b>120</b>	<b>119</b>	<b>100</b>
<b>West Germany</b>										
<b>Type of Income</b>	Indigenous Population (Native-Born Germans)	Total	Non-Indigenous Population (Immigrants and Native-Bborn Foreigners)							Total
			Native-Bborn	Aussiedler: Former Soviet Republics	Aussiedler: Poland, Romania	Guest-workers: Turkey, Former Yugoslavia	EU - countries	Western Industrialized Countries	Other Nnon-Indigenou s	
<b>Relative Income Position (Total = 100)</b>										
<b>Pre-Government Income</b>	<b>106</b>	<b>77</b>	<b>99</b>	<b>67</b>	<b>76</b>	<b>63</b>	<b>96</b>	<b>116</b>	<b>79</b>	<b>100</b>
· Employment Income	105	81	109	70	83	67	101	111	80	100
· Capital Income	114	50	25	44	20	31	67	149	72	100
· Private Transfers	111	61	127	93	39	20	21	172	151	100
<b>Non-Market Income</b>	<b>97</b>	<b>110</b>	<b>62</b>	<b>153</b>	<b>108</b>	<b>115</b>	<b>93</b>	<b>89</b>	<b>97</b>	<b>100</b>
· Old Age Pensions	108	71	3	133	66	75	76	0	24	100
· Public Benefits	93	126	85	163	124	131	99	121	126	100
<b>Taxes and Social Security Contributions</b>	<b>106</b>	<b>77</b>	<b>120</b>	<b>65</b>	<b>82</b>	<b>61</b>	<b>98</b>	<b>111</b>	<b>76</b>	<b>100</b>
<b>Post-Government Income</b>	<b>106</b>	<b>80</b>	<b>87</b>	<b>75</b>	<b>76</b>	<b>68</b>	<b>95</b>	<b>116</b>	<b>82</b>	<b>100</b>

<sup>1)</sup> Average of 1994-1997 income years. - <sup>2)</sup> Average of 1994-1998 income years.  
Source: BHPS; SOEP; Cross-National Equivalent Data File; authors' calculation.

**Table 3: Components and Structure of Equivalent Post-Government Income in the UK, 1995-1998<sup>1)</sup>, and in West Germany, 1995-1999<sup>2)</sup>, by Ethnic Group - Population in Private Households with Head of Prime Age -**

<b>UK</b>										
<b>Income Components</b>	Indigenous Population (Native-Born White Pop.)	Non-Indigenous Population (Immigrants and Non-White Population)								Total
		Total	Native-Bborn	Common-wealth: India	Common-wealth: Africa and Caribbean	Common-wealth: Pakistan / Bangladesh	EU - countries	Western Industrialized Countries	Other Nnon-Indigenou s	
<b>Income Component as a Proportion of Post-Government Income (in %)</b>										
<b>Pre-Government Income</b>	<b>103</b>	<b>101</b>	<b>81</b>	<b>114</b>	<b>80</b>	<b>67</b>	<b>106</b>	<b>116</b>	<b>116</b>	<b>103</b>
· Employment Income	92	87	71	96	71	55	91	99	104	91
· Capital Income	10	10	6	17	5	8	12	14	10	10
· Private Transfers	2	3	5	1	3	4	3	2	2	2
<b>Non-Market Income</b>	<b>18</b>	<b>20</b>	<b>35</b>	<b>9</b>	<b>36</b>	<b>43</b>	<b>16</b>	<b>9</b>	<b>9</b>	<b>18</b>
· Old Age Pensions	2	1	0	1	1	2	1	0	1	1
· Public Benefits	16	19	35	9	35	41	15	9	8	17
<b>Taxes and Social Security Contributions</b>	<b>-21</b>	<b>-21</b>	<b>-16</b>	<b>-23</b>	<b>-16</b>	<b>-10</b>	<b>-22</b>	<b>-25</b>	<b>-25</b>	<b>-21</b>
<b>Post-Government Income</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>West Germany</b>										
	Indigenous Population (Native-Born Germans)	Non-Indigenous Population (Immigrants and Native-Bborn Foreigners)							Other Nnon-Indigenou s	Total
		Total	Native born	<i>Aussiedler</i> : Former Soviet Republics	<i>Aussiedler</i> : Poland, Romania	<i>Guest-workers</i> : Turkey, Former Yugoslavia	EU - countries	Western Industrialized Countries		
<b>Income Component as a Proportion of Post-Government Income (in %)</b>										
<b>Pre-Government Income</b>	<b>124</b>	<b>115</b>	<b>136</b>	<b>106</b>	<b>120</b>	<b>110</b>	<b>126</b>	<b>116</b>	<b>108</b>	<b>122</b>
· Employment Income	108	107	132	97	117	105	118	96	95	108
· Capital Income	15	7	3	8	2	5	8	18	11	13
· Private Transfers	1	1	1	1	1	0	0	2	2	1
<b>Non-Market Income</b>	<b>13</b>	<b>20</b>	<b>12</b>	<b>24</b>	<b>18</b>	<b>22</b>	<b>12</b>	<b>17</b>	<b>23</b>	<b>14</b>
· Old Age Pensions	3	3	1	5	3	4	2	0	1	3
· Public Benefits	10	17	11	19	15	18	10	17	22	11
<b>Taxes and Social Security Contributions</b>	<b>-37</b>	<b>-35</b>	<b>-48</b>	<b>-30</b>	<b>-38</b>	<b>-32</b>	<b>-38</b>	<b>-33</b>	<b>-31</b>	<b>-36</b>
<b>Post-Government Income</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>1)</sup> Average of 1994-1997 income years. - <sup>2)</sup> Average of 1994-1998 income years.

Source: BHPS; SOEP; Cross-National Equivalent Data File; authors' calculation.

**Table 4: Household Characteristics in the UK, 1995-1998, and in West Germany, 1995-1999  
- Private Households with Head of Prime Age -**

Variable	UK		West Germany	
	All Household Heads of Prime Age	Non-Indigenous Household Heads of Prime Age	All Household Heads of Prime Age	Non-Indigenous Household Heads of Prime Age
	Mean (Unweighted, Standard Deviation in Parentheses)			
Non-indigenous household	.111 (.313)	1.000 (.0)	.306 (.461)	1.000 (0)
“Non-mixed” non-indigenous household	.049 (.217)	.451 (.497)	.125 (.331)	.409 (.491)
“Mixed” non-indigenous household	.060 (.238)	.548 (.497)	.181 (.385)	.590 (.491)
Years since migration	2.18 (7.71)	19.5 (14.06)	5.31 (9.92)	17.3 (10.62)
(Years since migration**2)/100	.640 (2.70)	5.81 (6.02)	1.26 (2.89)	4.12 (3.93)
Indigenous household	.889 (.313)	.0 (0)	.693 (.461)	.0 (0)
Origin: Native- born: non-indigenous	.017 (.131)	.159 (.366)	.021 (.145)	.069 (.255)
Origin: Commonwealth: India	.010 (.102)	.096 (.294)	-	-
Origin: Commonwealth: Africa and Caribbean	.007 (.084)	.065 (.246)	-	-
Origin: Commonwealth: Pakistan / Bangladesh	.005 (.072)	.047 (.212)	-	-
Origin: <i>Aussiedler</i> : Former Soviet Republics	-	-	.036 (.188)	.120 (.325)
Origin: <i>Aussiedler</i> : Poland, Romania	-	-	.024 (.153)	.079 (.269)
Origin: <i>Guest-workers</i> : Turkey, Ex-Yugoslavia	-	-	.117 (.321)	.382 (.486)
Origin: EU -countries	.030 (.171)	.273 (.445)	.078 (.268)	.255 (.436)
Origin: Western Industrialized cCountries	.017 (.129)	.155 (.362)	.003 (.061)	.011 (.108)
Origin: Other non-indigenous	.022 (.147)	.202 (.401)	.024 (.154)	.079 (.270)
Single	.159 (.365)	.126 (.332)	.176 (.380)	.096 (.295)
Couple, no children	.247 (.431)	.224 (.417)	.236 (.425)	.207 (.405)
Couple, 1 child	.139 (.346)	.150 (.357)	.195 (.396)	.228 (.419)
Couple, 2 children	.141 (.348)	.137 (.344)	.160 (.366)	.196 (.397)
Couple, 3 and more children	.064 (.244)	.066 (.249)	.062 (.242)	.089 (.285)
Single parent	.072 (.259)	.093 (.291)	.039 (.193)	.031 (.174)
Other type of household	.175 (.380)	.199 (.399)	.129 (.336)	.150 (.357)
Age (head of household)	40.6 (10.638)	40.1 (10.463)	40.6 (10.831)	41.0 (11.108)
(Age**2)/100 (head of household)	17.6 (8.735)	17.1 (8.438)	17.6 (9.075)	18.0 (9.269)
Male head of household	.618 (.485)	.574 (.494)	.682 (.465)	.759 (.427)
Education level (head of household): Low	.170 (.376)	.146 (.354)	.635 (.481)	.636 (.480)
Education level (head of household): Medium	.454 (.497)	.377 (.485)	.235 (.424)	.311 (.462)
Education level (head of household): High	.374 (.483)	.475 (.499)	.091 (.288)	.031 (.175)
Poor health status (head of household)	.113 (.317)	.112 (.316)	.058 (.234)	.065 (.246)
Months in unemployment last year (Head)	4.68 (2.05)	5.43 (2.27)	.824 (2.686)	1.279 (3.326)
Year of observation: 1995	.253 (.435)	.258 (.438)	.197 (.398)	.213 (.409)
Year of observation: 1996	.261 (.439)	.267 (.442)	.195 (.396)	.207 (.405)
Year of observation: 1997	.260 (.438)	.258 (.438)	.191 (.393)	.198 (.399)
Year of observation: 1998	.224 (.417)	.215 (.411)	.213 (.409)	.197 (.398)
Year of observation: 1999	-	-	.202 (.401)	.182 (.386)
<i>Equivalent Income Measures</i> (in 1995 national currencies)				
Pre-Government Income (Labor Income; Capital Income; Private Transfers)	13,443 (10,420)	14,218 (11,996)	47,517 (36,026)	37,387 (27,427)
Taxes and Social Security Contributions	3,033 (3,166)	3,252 (3,608)	15,282 (15,484)	11,952 (11,253)
Non-Market Income (Old Age Pensions; Public Benefits)	1,128 (2,013)	978 (1,719)	3,427 (5,864)	3,673 (4,866)
Post-Government Income	11,538 (7,042)	11,944 (8,391)	35,662 (20,872)	29,108 (15,583)
<i>Number of observations</i>	<i>13 233</i>	<i>1 458</i>	<i>19 384</i>	<i>5 946</i>

Source: BHPS; SOEP; Cross-National Equivalent Data File; authors' calculation.

**Table 5: Relative Pre-Government Income Position in the UK, 1995-1998, and in West Germany, 1995-1999: Results from Random-Effects GLS Models based on - Population in Private Households with Head of Prime Age -**

UK				
	(1)	(2)	(3)	(4)
	Household Heads of Prime Age			Non-Indigenous Household Heads of Prime Age
Non-indigenous household	-0.038 (0.041)	-0.204** (0.060)	- -	- -
“Mixed” nNon-indigenous hHousehold	-	0.269** (0.071)	0.243** (0.079)	0.270** (0.104)
Origin: Native born, non-indigenous	-	-	-0.457** (0.103)	-0.083 (0.168)
Origin: Commonwealth: India	-	-	0.044 (0.182)	0.372* (0.186)
Origin: Commonwealth: Africa and Caribbean	-	-	-0.344+ (0.193)	-0.035 (0.196)
Origin: Commonwealth: Pakistan / Bangladesh	-	-	-0.809** (0.206)	-0.343 (0.221)
Origin: EU -countries	-	-	-0.322* (0.130)	- -
Origin: Western iIndustrialized cCountries	-	-	-0.138 (0.154)	0.239+ (0.134)
Origin: Other non-indigenous	-	-	-0.169 (0.145)	0.211+ (0.125)
Years since migration	-	-	-0.001 (0.010)	0.009 (0.012)
(Years since migration**2)/100	-	-	0.020 (0.023)	-0.008 (0.026)
Constant	1.307** (0.173)	1.300** (0.173)	1.358** (0.173)	2.032** (0.543)
N of obs / groups	13233 / 4669			1458 / 567
Mean of dependent variable (unweighted)	4.328			4.311
Overall R <sup>2</sup>	.3898	.3902	.3921	.4117
West Germany				
Non-indigenous household	-0.239** (0.027)	-0.327** (0.033)	- -	- -
“Mixed” nNon-indigenous hHousehold	-	0.152** (0.034)	0.141** (0.034)	0.175** (0.046)
Origin: Native born, non-indigenous	-	-	-0.147+ (0.076)	0.134 (0.124)
Origin: <i>Aussiedler</i> : Romania, Poland	-	-	-0.556** (0.081)	-0.242** (0.085)
Origin: <i>Aussiedler</i> : Former Soviet Republics	-	-	-0.571** (0.097)	-0.242* (0.106)
Origin: <i>Guest-workers</i> : Turkey, Ex-Yugoslavia	-	-	-0.472** (0.083)	-0.237** (0.062)
Origin: EU - countries	-	-	-0.192* (0.086)	- -
Origin: Western iIndustrialized cCountries	-	-	-0.094 (0.198)	0.215 (0.215)
Origin: Other non-indigenous	-	-	-0.588** (0.085)	-0.324** (0.093)
Years since migration	-	-	0.012+ (0.007)	0.021* (0.008)
(Years since migration**2)/100	-	-	-0.030 (0.018)	-0.040* (0.020)
Constant	1.368** (0.163)	1.377** (0.163)	1.393** (0.164)	1.682** (0.318)
N of obs / groups	19384 / 5341			5946 / 1677
Mean of dependent variable (unweighted)	4.389			4.121
Overall R <sup>2</sup>	.3050	.3075	.3107	.3224

\*\* : p<0.01 \* : p<0.05 + : p<0.10 (sStandard errors in parentheses).

Dependent Variable: log (Relative Income Position Based on Pre-Government Income)

Family structure, characteristics of head of household (age, sex, education, health status, unemployment experience), and year of observation are included in all models, but not reported here (full results are available from authors upon request).

Source : BHPS; GSOEP; Cross-National Equivalent Data File; authors' calculation.

**Table 6: Income Redistribution Effects in the UK, 1995 -1998, and in West Germany, 1995-1999: Results from Random-Effects GLS Models - Population in Private Households with Head of Prime Age -**

	UK			
	(1)	(2)	(3)	(4)
	Household Heads of Prime Age			Non-Indigenous Household Heads of Prime Age
Non-indigenous household	-1.910 (1.276)	1.055 (1.856)	-	-
“Mixed” nNon-indigenous hHousehold	-	-5.009* (2.278)	-4.837+ (2.550)	-6.886* (3.116)
Origin: Native born, non-indigenous	-	-	3.800 (3.202)	-2.674 (5.033)
Origin: Commonwealth: India	-	-	3.376 (5.703)	-1.000 (5.538)
Origin: Commonwealth: Africa and Caribbean	-	-	3.324 (6.002)	0.271 (5.830)
Origin: Commonwealth: Pakistan / Bangladesh	-	-	6.842 (6.456)	1.877 (6.617)
Origin: EU -countries	-	-	5.801 (4.234)	-
Origin: Western iIndustrialized cCountries	-	-	-1.702 (4.928)	-7.177+ (3.984)
Origin: Other non-indigenous	-	-	5.976 (4.692)	-2.134 (3.725)
Years since migration	-	-	-0.055 (0.334)	-0.250 (0.361)
(Years since migration**2)/100	-	-	-0.401 (0.729)	0.387 (0.782)
Constant	83.478** (5.463)	83.611** (5.462)	82.895** (5.476)	60.774** (16.306)
N of obs / groups	13233 / 4669			1458 / 567
Mean of dependent variable (unweighted)	-17.498			-20.854
Overall R <sup>2</sup>	.2662	.2669	.2681	.2857
West Germany				
Non-indigenous household	2.693** (0.907)	4.612** (1.138)	-	-
“Mixed” nNon-indigenous hHousehold	-	-3.336** (1.197)	-2.901* (1.208)	-3.327** (1.202)
Origin: Native born, non-indigenous	-	-	-3.182 (2.615)	-8.463** (2.970)
Origin: <i>Aussiedler</i> : Romania, Poland	-	-	14.124** (2.759)	8.009** (1.992)
Origin: <i>Aussiedler</i> : Former Soviet Republics	-	-	11.797** (3.278)	5.933* (2.462)
Origin: <i>Guest-workers</i> : Turkey, Ex-Yugoslavia	-	-	8.990** (2.858)	5.421** (1.448)
Origin: EU -countries	-	-	4.347 (2.949)	-
Origin: Western iIndustrialized cCountries	-	-	8.755 (6.715)	-4.269 (5.016)
Origin: Other non-indigenous	-	-	12.112** (2.930)	4.820* (2.203)
Years since migration	-	-	-0.403 (0.255)	-0.592** (0.205)
(Years since migration**2)/100	-	-	0.762 (0.634)	1.237* (0.504)
Constant	83.124** (5.606)	82.984** (5.603)	83.105** (5.658)	52.943** (7.829)
N of obs / groups	19384 / 5341			5946 / 1677
Mean of dependent variable (unweighted)	-18.240			-11.408
Overall R <sup>2</sup>	.2220	.2232	.2255	.2979

\*\* : p<0.01 \* : p<0.05 + : p<0.10 (Standard errors in parentheses).

Dependent variable: Absolute change in relative income position due to redistribution

Family structure, characteristics of head of household (age, sex, education, health status, unemployment experience), and year of observation are included in all models, but not reported here (full results are available from authors upon request).

Source : BHPS; Cross-National Equivalent Data File; authors' calculation.

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## Endnotes

1 We are most grateful to Stephen Jenkins, who provided us with a with the BHPS income data required for our analysis. Furthermore, we thank three anonymous referees for most valuable comments.

2 Studies focusing on this issue constitute a major field of research in the context of immigration. The general expectation is that take-up intensity among immigrants will decrease with increasing duration of stay. However, a contradictory result has been presented by Baker and Benjamin (1995). This might be explained by differing institutional settings across the countries in which these studies were conducted. Borjas & Hilton (1996) believe that social networks among immigrants lead to higher take-up rates in this group. This interpretation is challenged by Zavadny (1997), however. Voges, Frick, and Büchel (1998) as well as Castranova et al. (2001) state that welfare receipt is higher among immigrants than among the native population, and the latter even find that take-up rates among immigrants are above average in the case of eligibility. However, both studies conclude that these findings can be attributed to the less favourable social structure of immigrant populations, i.e., that different ethnic origin is not a risk factor per se.

3 Backed up by the United Nations Population Division (2000) report stressing the need for immigration to Germany in order to combat the demographic problems of the ageing country, German politicians have recently started to think more carefully about another paradigm change. After an Expert Commission on Immigration (*Zuwanderungs Kommission*) presented its suggestions for a new immigration law in the early summer of 2001, the German parliament passed an innovative immigration law in spring 2002. Core elements of the new law are that the number of people allowed to immigrate will be regulated by specific labour market demands (e.g., the "Green Card" regulation), and that immigration should be more selective with respect to the socio-economic structure of the future immigrant population.

4 This annual income information is drawn from the Cross-National Equivalent File (CNEF, see Burkhauser et al. 2001). Since the GSOEP only collects information on gross income, a simulation module is used in the SOEP section of the CNEF to calculate individual tax and social security contributions and, finally, post-government income. This simulation only takes progression rules and basic allowances into account (cf. Schwarze 1995). Given that potential tax exemptions--which are very often concentrated at the upper tail of the income distribution--are largely overlooked, it may overestimate real tax payments

5 The age structure of ethnic groups (and hence the proportion of older people per ethnic group) is strongly dependent on group-specific immigration patterns. In addition, group-specific differential mortality can also be expected to affect redistribution patterns (Creedy et al. 1993).

6 Descriptive results covering the full sample are available from the authors upon request.

7 As Bell (1997) and Shields & Wheatley Price (1998) point out, it is important to differentiate between native-born and foreign-born immigrants in this context.

8 We are aware that immigrants from the Caribbean to the UK generally perform better in economic terms than those from Africa. However, the relatively low number of cases in these sub-groups of black immigrants makes pooling necessary.

9 This trimming reduced the number of observations by about 150 in both data sets. It should be noted that the providers of both data sets put much effort in to imputing income information that is missing due to item non-response: for information on the regression-based imputation technique used in the BHPS, see <http://www.iser.essex.ac.uk/bhps/doc/index.html> [Section V]; for the SOEP application of the row-and-column imputation procedure proposed by Little & Su (1989), see Butrica 1997.

10 Private transfers are by definition non-negative, since the underlying data does not account for transfers made to other private households.

11 For Germany, public transfers include housing benefits, child benefits, subsistence allowances and special circumstances benefits from the Social Welfare Authority, student grants, maternity benefits, unemployment benefits, unemployment relief, and unemployment subsistence allowance. For the UK, our measure of public transfers is based on detailed information on different types of social security benefits received by each member of a given household. However, the structure of housing benefits is somewhat different in wave 1 than thereafter (see Bardasi et al. 1999, p. 19).

12 These results can in part be attributed to the inclusion of imputed rental value for owner-occupied housing in our measure of capital income (as suggested by Smeeding & Weinberg, 2001). Not surprisingly, the proportion of owner-occupiers is by far the highest in the indigenous population. It should be noted that the inclusion of imputed rent in our income measure does not change the principal structure depicted here; rather, it accentuates the overall results.

13 As is the case for the UK, it should be borne in mind that the households of native-born foreigners in Germany are younger (average age of head: 35 years; not documented in tables) than in any other immigrant group (43 years) or indeed in the indigenous population (41 years).

14 We are aware that some regressors could be endogenous. This problem is inevitable in research designs such as ours. We therefore regard our approach as a correlation analysis rather than a causal one.

15 We assume equal effects of the socio-economic characteristics across ethnic groups. To test the accuracy of this assumption, we re-ran all models using terms of interaction for "education" and "ethnic group". The results remained very stable (results of this variant are available from the authors upon request).



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