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Economic Benefits of Facilitating the Integration of Immigrants

Alexander M. Danzer*

Introduction

Migration is an important expression of the global factor mobility that contributes to an efficient resource allocation for production processes. However, migrants differ from other production factors in that they are human beings carrying origin-specific characteristics which they take across places. Because migrants from different countries speak different languages, behave differently and identify with different ethnicities, beliefs and places, inter-cultural encounters in the economic and social sphere can be potentially costly. Direct costs range from business transaction costs (e.g., translation of documents, knowledge of local business habits/rules of conduct) to open social conflicts. More indirect costs stem from comparatively higher unemployment rates among immigrants and poorer schooling outcomes for their descendants. Decades of experience with immigration have convinced most societies that these costs can only be reduced by integrating immigrants into the host country. Thus, many governments are concerned with the consequences of migration, and the integration of immigrants has become of utmost importance in politics.

The economic benefits of integration

Integration is a multidimensional concept spanning the economic, political and social sphere. The resulting complexities make it difficult to specify one unique definition of integration. Economists have for decades been interested in the economic success of immigrants in terms of earnings (Chiswick 1978) but they began only recently analysing the political and social dimensions of integration like language proficiency, citizenship or self-identification (Bauer, Epstein and Gang 2005; Bisin, Patacchini, Verdier and Zenou 2008; Dustmann 1994; Dustmann 1996; Lazear 1999; Manning and Roy 2010).

To illustrate how the integration of immigrants relates to economic costs, we initially consider the language spoken at home as a measure of integration. Knowledge of the host country language is crucial for any kind of day-to-day interaction. Hence, it is hardly surprising that there is mounting evidence for a labour market advantage for immigrants who are proficient in the local language in the US, UK, Australia or Germany (Bleakley and Chin 2004; Chiswick and Miller 1995, 2005; Dustmann and Fabbri 2003; Dustmann and van Soest 2002). In order to assess the relationship between language knowledge and the costs of non-integration at the country level we construct a measure of the fraction of pupils with immigrant backgrounds who speak their parents' native language at home rather than the local one. When children speak a foreign language at home, their parents will most likely prefer not to speak the host country language as well. Although we cannot directly assess the reasons for speaking another language (parents might not be capable of speaking the language or might prefer to raise their children in their own mother tongue for cultural reasons), it seems plausible that the choice of language at home is an expression of the level of integration. It indicates whether parents want and/or can raise their children in a way that they can optimally participate in the labour market and civic society.

Economic benefits or costs can be analysed in various forms. One active area of investigation relates to immigrants' performance on the labour market. Thus, we use the unemployment rate among immigrants as a measure of economic costs. However, in order to account for general macro-trends between different countries we "purge" these unemployment rates from the general labour market performance by defining immigrants' excess unemployment as immigrants' un-

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employment rate over natives' unemployment rate. This measure thus reflects how much harsher the labour market conditions are for immigrants relative to natives.

Figure 1 shows cross-country evidence for the relationship between our first integration measure and the excess unemployment among immigrants for a set of OECD countries. Evidently, non-integration as measured by more pupils speaking a different language than the local state language (of school instruction) is positively related to excess unemployment indicating that the lack of language skills and language practice might bring immigrants in relatively weaker labour market positions.

Although the international evidence suggests a relatively clear relationship for OECD countries, this association might potentially be confounded by the structure and the composition of the unemployed across countries. Even more severe, in such an analysis it is impossible to assess whether the lack of integration causes some immigrants (or immigrant communities) to have poorer labour market success or vice versa. A sounder assessment of whether the degree of integration affects economic benefits or costs would be to analyse this relationship at the level of the individual (where we can control for various demographic characteristics) in a rather narrow setting (where we can rule out cross-country differences). In order to achieve this, in Danzer and Ulku (2011) we specifically designed a household survey that allows the analysis of the impact of integration on economic success among immigrant households within one single city and within one single ethnicity, namely, the Turkish community in Berlin.

Figure 1

Sources: PISA 2006; OECD 2008; own calculations.

To this end, we have set up two econometric models that take into account the endogeneity of the relevant variables of interest. In other words, we account for the problem that integration directly affects income while income may reversely affect integration:

- The "integration model" estimates the determinants of integration and focuses on the role of income. Therefore, we measure integration as a composite index comprising citizenship, inter-ethnic friendship networks and the ethnic composition of co-workers. As income might be endogenously determined, we account for this endogeneity by using the number of working-age adults in the household as an exclusion restriction which does not directly affect an individual's level of integration. Our results show that income affects integration positively.
- The "income generation model" estimates the determinants of household income, focusing in particular on whether integration affects income. This might be the case as better integrated individuals have better perspectives on the labour market (e.g., they can access better paid jobs). In order to identify this model, we add indicators for whether spouses or children live in Turkey. Clearly, immigrants with trans-national families might be more likely to return home and thus are less likely to integrate. Our findings indicate that integration increases income significantly.

Since both approaches – the cross-country and the individual setting – establish a significantly positive correlation between integration and economic success of immigrants, a natural question is why non-integration among immigrants can be observed at all? To answer this question we will provide three possible explanations:

1. High opportunity costs
2. Externalities and
3. Policy failures.

Reason for failed integration: high opportunity costs

Much of the – often polemic – public debate on integration failures has centred around the unwillingness of immigrants to adapt to the culture and language of the host country. Yet, if successful integration is economically beneficial,

why should people penalise themselves through such purely irrational behaviour? One way to look at this puzzle is to interpret the integration decision of migrants as a choice made deliberatively based on a careful cost-benefit calculation. Upon arrival, immigrants are naturally not integrated. Thereafter, migrants can either integrate or not, and integration might provide economically more promising options. However, at the same time, integration is costly as migrants have to learn the local language and code of conduct. Rationally, if the benefit of integration does not exceed the cost of integration, integration will not be pursued. The cost of integration can be substantial, as it might also include giving up the (natural) membership in an ethnic network that can provide economic opportunities and alternative sources of income.

In the study of Turkish immigrants in Berlin, we tested the economic importance of ethnic communities as an alternative to integration. We therefore measured which ethnic networks immigrants are embedded in, distinguishing between local, trans-national and familial ethnic networks. The scope and density of these connections provide information about potential economic support mechanisms for immigrants. These networks may be relevant for job referrals (Topa 2001) or for information regarding welfare take-up (Bertand, Luttmer and Mullainathan 2000). This approach allows to investigate whether ethnic networks can economically substitute for our composite measure of integration (Danzer and Ulku 2011).

Using a quantile regression approach we show that a positive pay-off from full integration exists only for households in the higher guartile of the welfare distribution (Table 1). In contrast the economic returns generated from membership in a local ethnic network are significantly higher at the lower end of the income distribution. Family networks seem to play a somewhat different role as they are significant in the lower and upper end of the distribution. This goes hand in hand with our finding that local and family networks promote income only in the non-integrated group of immigrants (Table 6 in Danzer and Ulku 2011). Generally, the evidence supports our view that integration is too costly for lower income households, who tend to increase their economic success by staying in local networks. In addition, transnational Turkish networks lower the economic success of the better-off households. This outcome together with the finding that transnational networks reduce income (Table 6 in Danzer and Ulku 2011) indicates that the preservation of strong transnational ties is accompanied by lower economic performance in Germany. As noted earlier, this can be explained by the costs of maintaining the transnational network.

Table 1

The effect of integration vs. networks on income level

	Integration	Local ethnic network	Family network	Trans-national network
Quartile 1	o	o	+	o
Quartile 2	o	+	o	o
Quartile 3	+	o	o	–
Quartile 4	o	o	+	o

Note: This table is a reduced version of Table 7 in Danzer and Ulku (2011). – "o" indicates no significant relationship. – "+" ("–") indicates a factor increasing (decreasing) household income.

Source: Danzer and Ulku (2011).

Reason for failed integration: externalities

Even in the absence of an intrinsically low willingness to integrate or rational economic alternatives to integration, migrants might not be able to integrate. A growing body of research has analysed the effect of segregation and ethnic enclaves on economic success and integration of immigrants (Borjas 1995; 1998). Cutler and Glaeser (1997) analyse the detrimental effects of segregation for African-Americans in the US. The authors were the first to seriously address the issue of endogenous selection of migrants into certain neighbourhoods. Although it is true that immigrants who are less willing or able to integrate will deliberatively self-select into ethnic neighbourhoods where they can live without knowledge of the local language, recent studies that attempt to control for this endogeneity still find negative causal effects of living among ethnic fellows on language skills (Danzer and Yaman 2010) while the effect on wages seems mixed (Edin et al. 2003, Damm 2009). Damm (2009) and Edin et al. (2003) use the initial exogenous placement of refugees in Denmark and Sweden to account for current exposure to their own ethnic group. Edin et al. (2003) find that living in enclaves improves earnings of less-skilled refugees while no significant effect pertains for those with more than 10 years of education. Damm (2009) finds that higher ethnic concentrations increase earnings irrespective of skill levels. Although these two studies have convincingly solved the problem of self-selection, it should be noted that refugees differ from labour migrants and that the conditions in relatively small

countries like Denmark and Sweden can be dissimilar to larger immigration countries. The study of Danzer and Yaman (2010) attributes the lack of social integration to negative externalities from living among many co-ethnics. In other words, immigrants in ethnic enclaves have fewer contact opportunities and fewer incentives to learn the local language as long as they can communicate more easily in their foreign mother tongue. Thus, even at a given level of willingness to integrate, immigrants in ghettos will ultimately be less integrated.

While housing segregation has been a traditional field of investigation, schooling segregation has gained interest with the collection of comparable student evaluations in the PISA project of the OECD. Jenkins et al. (2008) compute simple dissimilarity indices of pupils' social background in the PISA rounds 2000 and 2003 for selected OECD countries. These dissimilarity indices measure social status as a households' position at the national social position index or according to mothers' educational status and range between zero (no segregation, or in other words equal distribution of pupils with different social backgrounds across schools) and one (perfect segregation, or in other words pupils of different social backgrounds are perfectly separated). Countries with especially high levels of social segregation at the level of secondary schools are Austria, Belgium and Germany while low levels of segregation can be found in the Nordic countries Norway, Sweden and Denmark. The former countries tend to have strong academic selection at relatively young ages while the latter do not. The international sample of OECD countries employed for Figure 2 clearly indicates that countries with higher social dissimilarity indices also tend to have larger immigrant-native test score gaps. In other words, we observe that immigrants perform relatively weaker than natives in countries where pupils from low social background are segregated to specific schools.

Figure 2

Reason for failed integration: policy failure

The third potential reason for failed integration is related to integration policies. It is important to distinguish between ex-ante and ex-post policies. Ex-ante policies mainly constitute immigration controls where countries try to pre-select migrants with favourable characteristics and skills. Such entry barriers for weaker candidates were not only considered as a means to optimally serve the host labour market but also as instruments that prevent non-integration. Point-based systems are intensively used in Anglo-Saxon countries, but their effectiveness might be reduced by alternative entry modes (Antecol et al. 2003). A number of European countries have recently started to target highly skilled immigrants (e.g., Germany, France and Portugal).

More variation across countries exists with respect to ex-post integration policies that are used to facilitate the integration of immigrants into the host society upon arrival. Table 2 shows the mean values for several migration, integration, schooling and policy measures for a set of OECD countries. The countries are grouped into three categories:

- A group in which school children with immigrant backgrounds have a similar socio-economic status as their native counterparts. (Group 1)
- A group in which descendents of immigrants have a significantly lower socio-economic status – between one fifth and one half of a standard deviation below the native average. (Group 2)
- A group in which immigrant pupils have a much lower socio-economic status measured as being at least half a standard deviation below the native average. (Group 3)

As indicated in Table 2, the countries that fall into the third group have much poorer integration outcomes than countries from category 1, although these countries differ relatively little with respect to the immigrant population share.

Table 2

Integration, schooling success and integration laws, by socio-economic status of immigrants

	Percent migrants	Dissimilarity index*	Share of immigrants speaking foreign language**	PISA gap reading	PISA gap maths	Anti-discrimination law***	Access to citizenship ***
Countries where immigrants have far less favourable SOE status (≥ 0.5 of st.dev.)	15.1	0.35	0.56	41.0	42.8	56.1	44.1
Countries where immigrants have less favourable SOE status (0.20 - 0.49 of st.dev.)	7.8	0.34	0.37	40.0	31.6	70.4	46.4
Countries where immigrants have comparable SOE status to natives	11.0	0.32	0.25	34.7	28.3	76.7	66.0

Socio-economic status (SOE) of immigrants as defined in PISA (2006).
* Dissimilarity Index taken from Jenkins et al. (2008). – ** This variable is computed as the share of pupils speaking a language different from the language of instruction at home over the share of students from an immigrant background (as defined by the fraction of pupils with an immigrant mother). This definition was chosen, as in most countries mothers clearly spend more time with the children during their childhood. Very similar results apply for alternative definitions with fathers or both parents. – *** Category taken from the Migrant Integration Policy Index ranging from zero (critically unfavourable) to 100 (best practice).

Source: PISA (2006); Jenkins et al. (2008); MIPEX Integration Index, www.integrationindex.eu; Database on Immigrants in OECD countries (DIOC), OECD (2008); own calculations.

This shows that the pure size of the immigrant population is not responsible for different integration outcomes. However, countries in which immigrant families are more disadvantaged have higher social segregation and higher shares of households communicating in their original mother tongue – a sign for non-integration. This translates into relatively weaker schooling outcomes for immigrants in countries where they have a more disadvantaged social position. The native–immigrant PISA test score gap is positive in all countries; however, the distance is much larger where immigrants tend to come from poorer social backgrounds.

The most interesting variables refer to policy outcomes from the Migrant Integration Policy Index, a measure collected by the Migration Policy Group. These measures rate the quality of integration policies on a scale from zero (indicating that the situation of the integration policy is critically unfavourable to immigrants) to 100 (indicating a country where the integration policy follows best practice). Our first measure relates to anti-discrimination laws as these are meant to provide an important safeguard for immigrants' economic opportunities. Evidently, the countries with poorer anti-discrimination laws are those where immigrants tend to live in socio-economically more precarious conditions. It should be noted that it is impossible to establish any causality here, so we cannot assess whether immigrants are worse off due to these regulations or whether poorly skilled and integrated immigrants live in stricter countries because other countries positively select migrants. Similarly, countries in which immigrants are less well protected against discrimination make it much more difficult to attain citizenship. In most countries only the adoption of citizenship grants full civic rights (like voting etc.), so that barriers in access make integration as a long-term strategy economically disadvantageous and politically unviable.

Conclusions

In the political sphere immigration has been a controversial topic for many years. Alleged ethnic and cultural tensions, immigrants' disadvantaged employment and educational outcomes on the one hand and the struggle for better protection against discrimination and increased incentives for integration on the other hand have often been discussed in ideological terms in many European societies. Economists can contribute to this debate, first, by analysing the economic setting of integration, and second, by providing a perspective that acknowledges the individual immigrant as an economically rational agent.

The evidence presented in this article has shown that integration is associated with economic benefits at the aggregate country level as well as for the individual household. This led to the natural question: Why are some immigrants not integrated if non-integration is economically disadvantageous? We provided three reasons. Firstly, immigrants will choose to inte-

grate if integration pays off. This requires that integration costs are not excessive. However, these costs are substantial for economically weaker households for whom ethnic networks provide viable alternative sources of income. Secondly, the social and ethnic segregation of immigrants across space provides relatively fewer opportunities and incentives to integrate. This can lead to poorer integration outcomes even if all immigrants are completely willing to acquire proficiency in the local language, culture and code of conduct. Thirdly, policies may reduce the incentives to integrate. Insufficient anti-discrimination laws and poor access to an immigration country's citizenship can be found in those countries where immigrants perform less well at school, where segregation is greater and integration weaker.

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