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The Differential Impact of Immigration on the Welfare State in Times of Population Ageing – A Literature Review

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Abstract: Against the background of the declining birth rate and the increasing number of elderly people, the labour market shortage caused by the ageing population puts considerable financial pressure on the welfare state. Previous literature has proposed associated solutions, and opening up immigration policies has received increasing attention as one of the possible approaches. However, there is not enough research to prove how effective immigration actually is in ameliorating the financial pressures of an ageing population on the welfare state. By innovatively introducing the variable of type of welfare state, this paper explores the different preferences of different countries in choosing immigrants as workforces in the face of population ageing. It concludes that immigration has a more pronounced effect on improving the demographics of liberal and conservative welfare states and fills a research gap in the relationship between immigration and the welfare state.

Keywords: Immigration Policy, Welfare State, Demography, Aging Population

1. Introduction

The term welfare state "describes a variety of political practices and processes related to the arrangement of a social and economic order within a polity", and since the end of the World War 2, it has gradually become a "synonym for the different ways in which societies aim to provide social justice and practice the redistribution of taxes, which constitute the main way of financing the welfare state" [1].

Among all the challenges of the welfare states, the threat of a growing aging population to the sustainability of welfare policy has been widely discussed by scholars. In the half century between 1950 and 2000, life expectancy increased globally from 48 to 68 years and is expected to continue to rise, reaching a peak of 76 years in 2050 [2]. The cost of the national welfare system is increasing with the deepening of aging. On the other hand, global fertility rate is declining in an alarming speed. Compare to the previous figure of five babies per woman, by 2050, it is expected to fall to an average of 2.2 babies per woman [2]. The low birth rates and a growing old population have led to a shortage in the labor market, which have put countries' welfare system under enormous financial pressure [3].

Faced with the dilemma of the aging population, migrants, generally younger and with higher fertility rates, seem a viable way to improve the demographic structure and ease fiscal pressures [4]. When referring to the welfare state's solutions to aging, the adoption of more inclusive immigration policies is increasingly being suggested by scholars [5].

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However, while an open immigration policy is becoming more and more accepted, it also faces certain political restrictions. Although open immigration policies can help improve the demographic structure and ease the pressure on the welfare system caused by the aging population, the attitudes of domestic citizens toward immigrants also affect the final decisions of governments [6]. Most of the current research linking the two subjects of immigration and the welfare state is concerned with the impact of the entry of immigrant groups on fiscal expenditure in the welfare state, and there is not enough research to prove how effective immigration actually is in ameliorating the financial pressures of an ageing population on the welfare state [7].

This paper first summarizes the viable approaches for welfare states to address the fiscal pressures of ageing populations, then focuses on reviewing and analyzing the advantages and disadvantages of open immigration policies compared to other approaches, and presents the key constraints as well as challenges to the national immigration policies. It contributes to providing a reference for future welfare countries on how to develop immigration policies to deal with population aging issues and provides a theoretical basis for future scholars to conduct research on the relationship between immigration and demographics of welfare states.

2. Possible Ways for Welfare States to Deal with Population Aging

The problem of an aging population has led to an increasing number of welfare recipients in society [8]. At the same time, the social welfare cost has also increased. However, the Labor shortages caused by low birth rates have left the country with insufficient resources of funding to support the expensive welfare system. This part will summarize the feasible solutions of the welfare state to the problem of population aging in terms of reducing the cost of the welfare system and increasing the supply of labor.

2.1. Reducing the Cost of the Welfare System

The first approach is austerity, also known as retrenchment [9]. The effectiveness of austerity policy as a potential solution to the aging population has been discussed by scholars. It is a policy of achieving a sustainable welfare system by increasing national taxes and reducing public welfare expenditures [10]. However, it’s hard for voters to accept this action of easing fiscal pressure by cutting social services, which is one of the significant considerations of government leaders [11].

The second approach is aimed at decreasing the needs of the elderly and reducing the burden of healthcare on the country, which can be achieved in many different ways. Although the average life expectancy of the aged has been greatly increased since 1950s, health-threatening chronic diseases such as diabetes have become more common in this group, so the external supports from the national welfare system are necessary for many old people to maintain a normal life [12].

In order to reduce spending in this area, states could make more efforts to prevent illness and promote health in older people. Research has shown that higher national spending on health care is not a waste of resources, and that the short and long-term returns it brings make this investment cost-effective [13]. States’ interventions such as advertising, personalized advice, control of alcohol, tobacco and other goods which are harmful to the physical health of the elderly have been helpful in promoting the health of the elderly and have saved the national health and welfare system a lot of expenses [13,14]. What’s more, Lower medical and health care costs for the elderly can also be achieved by using some innovative high technology. According to studies, improving the efficiency of elderly care services and reducing the overall costs through utilizing innovative technology is a challenging but significant way to achieve sustainable long-term care in the country [15,16].

In addition to the two methods mentioned above, some countries also reduce state spending by encouraging private savings. Australia's retirement policy advocates the use of tax subsidies to

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promote individual savings in order to reduce the pressure on country's public finances, but this approach has been proven to increase domestic inequality [17].

2.2. Increasing the Labor Supply

"Active aging" has been adopted by many countries as one of the most popular approaches. According to the definition given by the WHO, active aging "is the process of optimizing opportunities for health, participation and security in order to enhance the quality of life as people age" [18]. It promotes the idea that older people can continue to make a positive impact on the country's economy, culture and other areas after retirement [18]. The rationale for "active aging" to alleviate the financial pressures of an aging population is to ease the burden on the welfare system mainly by extending the working age [19], which has been proven to be effective. With the increase in the projected age of the population, the policy of raising the old-age threshold by 1.2 years per decade is predicted to be sufficient to provide the country with a great number of labor force, and will even contribute to a decline in the old-age dependency rate [20]. Scholars have also proposed many ways to promote the implementation of active aging. For example, it can help to achieve longer working years for older workers by promoting their health in their workplace [21].

However, the implementation of active aging also faces many challenges. Many employees often choose to withdraw from the labor market before reaching the mandatory retirement age based on reasons such as already having sufficient wealth or being satisfied with their current living situation [22]. Moreover, increasing the retirement age will lead to a higher unemployment rate among the senior population, and extending working years will lead to more serious health problems among the elderly, both of which will increase the cost of the welfare system [23,24].

In addition to engaging older people to remain involved in social activities, adopting a more open female employment policy is also an option to ease the financial pressure on the welfare state [25]. States need to promote policy measures such as parental leave and paid maternity leave to remove the worry of caring for children from the female population, so that they can attract more women into the labour market [26]. Additionally, the establishment of reliable child care and education system is also an essential way to promote female employment [27].

However, if the above welfare policy needs to be done by the state, the substantial capital costs behind it will be questioned and opposed [25]. The entrenched gender norms about men being the main breadwinners for their families have also long prevented women from playing a wider role in the labour market [28].

Afonso concluded that societies in which the state has greater power to intervene in the welfare system and societies with more equal gender values are more likely to achieve high female employment rates [25]. This can be analyzed specifically depending on the different types of welfare state. For the welfare states, individual welfare derives not only from state activities, but also from other approaches such as full employment in the labor market, private provision and voluntary welfare [29]. Whereas, the dominant welfare provider varies among countries. According to Esping Andersen, the welfare states are classified as three types of regimes: "liberal regime", "conservative regime" and "social-democratic regime" [30]. In the case of the "liberal" regime, the market is the dominant provider of welfare and the state only moderately redistributes the resources; as for the "conservative" regimes of welfare, the main welfare provider is the family; the "social-democratic" welfare regime has the highest level of state intervention [31]. Therefore, social-democratic countries have the least resistance to promoting female employment compared to other types of welfare states.

Opening up immigration policies and recruiting foreign workers could also increase the source of labor, which will be the focus of the next two sections.

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3. Immigrants as a Source of Labor — The Advantages

In terms of demographics, the arrival of immigrant communities can somewhat offset the ageing of the population in the country. Replacement migration has been proven to be useful in balancing demographics as an effective solution to domestic labour market shortages [32] Moreover, international migration has now become a major determinant of population growth in many Western countries [4]. Unlike the adjustment of fertility policies and the action of improving the domestic labour force participation rate, its main advantage is reflected in the fact that immigrants can quickly fill the labour gap in the country and bring economic returns to the country in a short term [33]. In other words, while increasing fertility is the fundamental way to improve the demographic structure of countries on a long-term basis, immigration can bring enough labour into the country during the pre and mid-term period of rising fertility (when the demographic structure does not improve much) to mitigate the negative effects of population aging [32,34].

Combined with the classification of welfare states above, liberal and conservative regimes have welfare systems that are less subject to state intervention [31]. Without regard to gender concepts, expanding women-related welfare and increasing women's employment opportunities will be more difficult to achieve in these two types of states. In particular, for countries with liberal regimes where labour market employment is their dominant source of welfare, labour shortages have the most significant impact on their national welfare systems. Therefore, immigration is an effective substitute for coping with labour supply shortages in liberal and conservative welfare states where increasing female employment is more difficult.

As a specific category of immigrants, attracting highly skilled migrants has increasingly become the focus of many countries' immigration policies. There isn’t a very precise definition of highly-skilled immigrants, but the idea of conceptualizing it in terms of education, profession and income is popular [35]. In general, degree qualifications, occupations that require advanced training can be adopted as a measure of highly skilled migrants [36]. For highly skilled immigrants, they choose to become immigrants mostly because of their desire for exceptional salaries and a better quality of life [37]. As a result, high-skilled migrants are more likely to migrate to developed countries with greater income disparities like the United States and Canada [38]. From the perspective of the receiving country, high-skilled migrants have a higher ability to adapt to the local social and employment environment due to their generally higher language and literacy levels [38]. Besides, according to the research, highly skilled migrants also have some positive economic impacts on the host country —— higher total factor productivity and higher wage rates for highly skilled workers in the host country [39]. In summary, highly skilled migrants have stronger employment orientation and strength than other types of migrants and are more likely to contribute to filling the gaps in the national labor market.

4. Immigrants as a Source of Labor — The Disadvantages

Although in theory immigration can have a positive impact on improving the country's demographic structure, it is opposed by the native population for a variety of reasons [40]. Much of the opposition to immigrants as domestic workforces is based on the hostile attitudes towards them. First of all, although views on cultural diversity are becoming more and more tolerant, people' s identification with the national spirit and their insistence on cultural unity makes them more or less resistant to immigration [6]. As a group of people from different cultural backgrounds, immigrants often fail to gain a sense of identity from the local people, which has led to a general negative mentality towards open immigration policies [41]. In addition to this, the economic insecurity created by immigrants has led to exclusive attitudes towards them. At the micro level, when there is a competition with immigrants, local workers will feel threatened about their jobs and will be wary of immigrants [42].

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At a macro level, in countries with the lower gross domestic product (GDP) and where people live in greater poverty, attitudes towards migration are more negative [43].

Another idea that has been widely discussed by scholars is that immigrants abuse the country's welfare system and take away benefits that belong to local citizens [44]. The ethnic diversity resulting from the inflow of immigrant groups has been demonstrated to have a damaging effect on social cohesion [45]. However, the welfare state system is very dependent on social solidarity, especially in the case of social democratic welfare states which have a more generous and inclusive welfare system [2]. Thus, for welfare states with social democratic regimes, the arrival of immigrant groups implies that there will be more people receiving the welfare of the state, and therefore that type of state is more likely to see immigrants as a threat [3]. In other words, open immigration policies are more likely to be found in liberal and conservative welfare states.

5. Summary

Taking all the literature mentioned above together, it can be seen that there are a number of solutions that can be adopted to address the labour market shortage caused by an ageing population, which can be broadly divided into two parts: reducing welfare costs and increasing labour supply. The options for increasing the labour supply are mainly considered in terms of enhancing the domestic labour force (improving the employment participation of older people and females) and absorbing labour from abroad. However, no matter which method of increasing labour supply is chosen, there will be some limitations. The choice of active ageing and increased employment opportunities for women, although facing fewer political constraints, will increase welfare spending to some extent and deepen fiscal pressures. The choice of immigration as a labour supply, while improving the country's demographics in a short time, will probably face domestic public pressure. How to choose between opening up immigration policies and boosting domestic employment is a tricky question for countries. When discussed separately according to the classification of the welfare state, it seems to be possible to draw a potential pattern. Welfare policies that promote female employment are easier to achieve for welfare states with social democratic regimes with high levels of state intervention. But as social democratic countries have welfare systems that put more emphasis on social solidarity, immigration policies are less popular. For liberal and conservative welfare states, which are less dependent on state activity, increased welfare costs such as parental leave and paid maternity leave are opposed, but there is less exclusivity towards immigrant groups.

6. Conclusion

In conclusion, this paper analyzes the advantages and disadvantages of various solutions to the problem of ageing populations in the welfare state through a review of the extensive literature on the subject. By innovatively introducing the variable of the type of welfare state, it explores the different preferences of different countries for the selection of immigrants as their workforce. The final inference is that welfare states with liberal and conservative regimes are more likely to choose immigrants as their labor supply, while social democratic states are more likely to choose to increase the employment participation of women and older people in the country. It infers that immigration has a more pronounced effect on improving the demographics of liberal and conservative welfare states. Based on these conclusions, future research on the relevance of migration for improving population ageing in welfare states could start with the type of welfare state and compare the correlation between immigration and demographic dependency rates in different welfare states. The main contribution of this paper is that it provides innovative insights into how countries choose between opening up immigration policies and improving domestic employment, as well as providing

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a theoretical basis for studying the role of immigrant groups in improving the demographics of different countries.

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