

**ECONOMICS***Sociology*

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**Introduction**

Immigration and its various aspects<sup>1</sup> have been on the public and political agenda in most established countries for many years. Accelerated immigration is a result, among other things, of increased mobility stemming from cheaper and easier means of transportation, the widening wealth gap between industrialized and other countries that is leading many people to leave their country of origin in the hope of arriving at a country that seems to afford a better life, and local and regional conflicts<sup>2</sup> creating tens of thousands of homeless and refugees. Incoming immigration has a considerable impact on a country's culture, demographics, politics, and religion, as well as on the local economy and labor market, as evident in many countries that have experienced such waves throughout history (Goldin *et al.*, 2012; Lewis & Peri, 2014).

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<sup>1</sup> Migrants, foreign workers, illegal residents, and refugees.

<sup>2</sup> Such as the wars in Bosnia, Kosovo, Iraq, Afghanistan, various African countries, and in recent years other countries in the Middle East, particularly Syria.

**EFFECT OF WELFARE  
AND EMPLOYMENT POLICIES  
ON THE CORRELATION BETWEEN  
MIGRATION AND UNEMPLOYMENT**

**ABSTRACT.** The subject of immigration has been on the public and political agenda of most established countries for many years and has been the focus of much research. In light of increasing immigration to Europe in recent years, this study explores the association between immigration and local unemployment, by examining three prominent immigration destinations: Greece, Germany, and the United States. The research findings indicate that all three countries show a correlation between the two indices, with the different welfare and employment policies implemented by each generating differences in the features of this correlation. In Greece, where the welfare and employment policy implemented encourages idleness, a positive correlation was found between the indices. In Germany, which implements a conservative policy that encourages employment, a negative correlation was found between the two indices. In contrast, the United States implements a liberal immigration policy that produces an ambivalent association between the indices.

This study has two interlinked goals: One is to detect and establish a correlation between the extent of immigration and changes in the rate of unemployment, by examining previous immigration trends in three prominent immigration destinations (Greece, Germany, and the United States) and analyzing their impact on the local employment market. The second is to locate an intervening variable associated with a country's welfare and employment policy that affects the structure of the domestic employment market and may be capable of influencing and even determining the direction of the correlation detected (or not) between these two indices. The research method will be based on a correlative analysis of immigration and unemployment data for the three immigration destinations mentioned above, while examining the welfare and employment policies in each of these countries.

The growing stream of Syrian refugees across the borders of European Union (EU) countries in general<sup>3</sup> and Greece and Germany in particular has earned the issue of immigration's impact on destination countries a renewed place on the public and research agenda (Ethan & Peri, 2015). Examination of previous immigration trends indicates that the economic effect of immigration on the host country is not clear-cut (Drinkwater, 2003; Waters *et al.*, 2009). In some cases, immigrants contributed considerably to the local economy. One example is the mass immigration of Jews from the former Soviet Union to Israel upon the former's dissolution in the early 1990s (DellaPergola, 1998).

Then again, there are many testaments to the negative and undesirable impact of immigration on the domestic economy. One example is the immigration of Mexicans, Cubans, and Asians to the United States in the previous century, whose impact on the local labor market and its pay levels have been studied extensively (Portes & Bach, 1980; Portes & Stepick, 1985; Wilson & Portes, 1980; Saiz, 2003).

## **1. A review of immigration around the world throughout history**

As stated, immigration, both between countries and between continents, is a phenomenon that has recurred throughout human history in different periods, from and to different places, and for different reasons and causes. Conspicuous examples are the extensive and lengthy waves of immigration from Canada and China to the United States from the early 19<sup>th</sup> and until the mid-20<sup>th</sup> century (Ramirez, 2009; Ramirez & Otis, 2001), and later on also immigration from Latin American and Asian countries to the United States in the 1980s and 1990s, (Saiz, 2003; Waters *et al.*, 2009). These periods of immigration, deriving from the US immigration policy, strongly affected the local society and economy (Borjas, 2011).

In Europe as well, immigration has played a major role, particularly since the conclusion of World War II. Examples are illegal Italian immigration to France and Switzerland (Rinauro, 2014), as well as the migration of Italian citizens across the borders of West Germany (Rieder, 2004). Also notable is the official Dutch emigration program (during 1945-1960) that encouraged local farmers to leave its rural areas for Canada (Flora, 2012; Fallon, 2000; Schryer, 1998), as well as the movement of citizens from various European countries (such as Poland, Germany, and Italy) to Brazil (Bastos & Do Rosário, 2012).

At the same time, over the years and mainly since the 1970s, different European countries have become the destination for significant waves of immigration from various North African countries, and have experienced real concerns that their labor markets would become less competitive, particularly among the poorly educated or less skilled (Hainmueller and Hiscox, 2007).

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<sup>3</sup> In 2014 and 2015 the annual number of immigrants to Europe was in the hundreds of thousands, having multiplied several times from the beginning of the decade.

## 2. Growing Syrian refugee immigration to Europe in general and to Greece and Germany in particular during 2014-2016

In late 2010, a series of civil uprisings erupted in several Arab countries.<sup>1</sup> The series of uprisings that began in late 2010 in Tunisia (Spencer, 2011; Schraeder, 2012) led to a change of government in Libya (Brahimi, 2011; Emadi, 2012) and Egypt (Bush, 2011; Fahmy, 2012). Several months later the Syrian rebel movement ("Free Syria") attempted to topple the government, instigating acts that developed over the years into a full-fledged civil war (Lesch, 2011; Seale, 2012). These refugees entered various EU countries, changing the latter's demographic composition, cultural life style, and employment market (Raess and Burgoon, 2015).

As stated, the growing immigration to and within Europe is nothing new. Greece, as well as other countries in southern Europe (Italy, Portugal, and Spain), had experienced lengthy periods of intense immigration in the past: in the latter half of the 19<sup>th</sup> century, and then again after World War II (Arango & Baldwin-Edwards, 2014). Indeed, a considerable drop in the number of immigrants to Greece was evident in the early 1970s, however two decades later, with the fall of communist regimes in Eastern Europe and the Soviet Union in the early 1990s, immigration to Greece and to neighboring countries increased once again (Kotzamanis, 2004; Antonopoulos, 2006; Baldwin-Edwards & Kraler, 2009).

The reasons for the immigration movement to Greece were mainly economic and were associated with the nature of the local economy in general and its well-developed tourism and services industry in particular, which had the effect of increasing the demand for unskilled workers. In addition, the proximity of Greece to many immigrants' country of origin, such as the Balkans and North Africa, as well as Eastern Mediterranean countries in general and Albania in particular, turned it into a preferred destination (Kokkali, 2011).

The escalation of the lethal events in disintegrating Syria led to an increase in the stream of migrants arriving in Europe in general and on the shores of Greece in particular, however many chose not to remain in this country, contending as it was with its own grave economic circumstances,<sup>4</sup> and to head for Germany. The choice of Germany stemmed mostly from the liberal immigration policy it had introduced since the conclusion of World War II (Joppke & Rosenhek, 2002), transforming it in time into a social and economic haven for immigrants (Ivanda, 2010; Martin, 2004; Thränhardt, 1995). The continuing debt crisis in Europe further enhanced the flow of immigrants to Germany from economically weak European countries such as Italy and Spain, which reached its height in 2013 (Bertoli *et al.*, 2013).

The liberal immigration policy embraced by Chancellor Merkel positioned Germany as a preferred destination for the more than one million Syrian immigrants who, following the worsening political and defense crisis in their country of origin sought to settle and rebuild their life in Germany. With the increase of immigration to Europe in general and to Germany in particular during 2014-2016, new studies were published seeking to examine this phenomenon from different perspectives. Some explored the social and cultural effects of this movement (Adam, 2015), while others focused on individual attitudes towards the growing immigration of mostly Muslim refugees to Europe (Bridges & Mateut, 2014). Another study reviewed the economic and demographic effects of current immigration to Europe on the UK and found a positive but limited economic impact, with a matching modest demographic impact (Hansen, 2016).

As stated, one of the major aims of this study is to clarify the effect of the welfare and labor policy implemented in a country on the association between the extent of incoming

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<sup>4</sup> As a result of the continuous debt crisis in southern Europe.

immigration and the local unemployment rate. Thus, a literature review exploring the different effects of welfare and labor policies on local employment markets will be presented.

### ***2.1. The welfare and labor policy and its effect on local employment***

Many studies have examined the effect of the welfare and labor policy implemented in a country on the local employment rate and its features (Rueda, 2015; Cerda, 2003; Livanos & Zangelidis, 2013). Others examined the effectiveness of different policy tools in the field of local employment, such as Kluge who reviewed labor market programs in nineteen European countries (Kluge, 2010). Similarly, Boone & Van Ours presented a theoretical and empirical analysis of the active labor market policy, based on data from 20 OECD countries during 1985-1989. The research findings indicate that training and preparation of the unemployed for inclusion in the labor market is the most effective program for reducing local unemployment, in contrast to employment subsidy programs, which are extremely inefficient (Boone & Van Ours, 2004).

Other studies focused on an analysis of the active labor market policy of specific countries, for instance Lubyova & Van Ours analyzed the efficiency and influence of active labor market programs on the transition rate from unemployment into regular jobs in the Slovak Republic (Lubyova & Van Ours, 1999). Another example is Janoski, who investigated the labor policy in West Germany and the United States (Janoski, 1990), and there are many others.

Also notable is Calmfors, who reached the conclusion that an active labor market policy has many varied effects on local employment (both desirable and undesirable). This study indeed found it difficult to arrive at a conclusion as to the clear-cut effect of the policy. Nonetheless, it is clear that the policy, which includes labor incentives (also for temporary jobs), is capable of helping diminish the local unemployment rate (Calmfors, 1994).

As stated, the current study does not aim to examine and analyze the efficiency of any certain welfare and employment policy (as did the studies presented above), rather to present a general model of how this policy affects the correlation between unemployment and immigration (if such a correlation shall be found).

## **3. Presentation of the findings and their analysis**

The current study seeks, as stated, to examine the association between immigration trends and changes in the local employment market (as manifested in unemployment rates), and to reach conclusions with regard to the features of this association. For this purpose, a review will be portrayed of previous immigration trends in Greece, Germany, and the United States, comparing these to changes and trends in domestic unemployment indices, with the purpose of uncovering a correlation between changes in the extent of immigration and in unemployment rates, as well as the direction of this correlation.

### ***3.1. Immigration to Greece and the local unemployment index***

The attempt to locate data on immigration to Greece in different periods met with considerable difficulty, as the legal recognized immigration is augmented by a constant process of illegal unrecognized immigration. Hence, the immigration information published by government authorities is incomplete.

Nevertheless, the data published by Prof. Baldwin-Edwards, who used reliable assessments of immigration to Greece combined with other sources of information (such as legalizations, school registrations, etc.) may be used to a limited extent. This information

makes it possible to portray immigration to Greece only from 1988 to 2004<sup>5</sup> (Fassmann *et al.*, 2009). Thus, *Figure 1* below presents the changes in the number of (legal and illegal) immigrants and foreigners in Greece from 1988 to 2004.

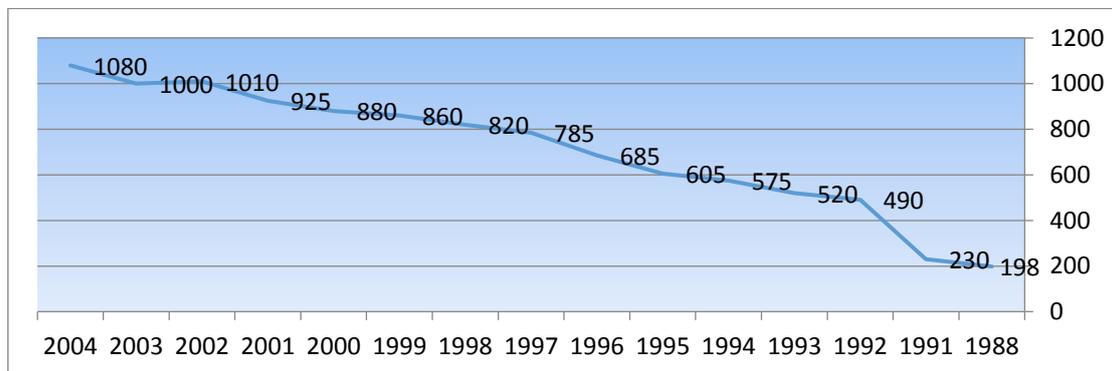


Figure 1. Immigration to Greece from 1988-2004 (Number of immigrants, Thousands)

Source: Baldwin-Edwards, M. (2004), Figure 1, p. 241,

[http://www.mmo.gr/pdf/general/IMEPO\\_Final\\_Report\\_English.pdf](http://www.mmo.gr/pdf/general/IMEPO_Final_Report_English.pdf).

The data in *Figure 1* attest to a consistent and conspicuous rise in the total number of immigrants in Greece from the early 1990s to the mid-2000s. This trend will be contrasted below with changes in Greek unemployment during these years, in order to try and detect a correlation between these two indices.

Examination of the Greek employment market indicates a clear consistent rise in Greek unemployment from 1991 to 2004. This may indicate a positive correlation between the immigration indices in those years (as portrayed in *Figure 1*) and the unemployment index portrayed in *Figure 2* below.

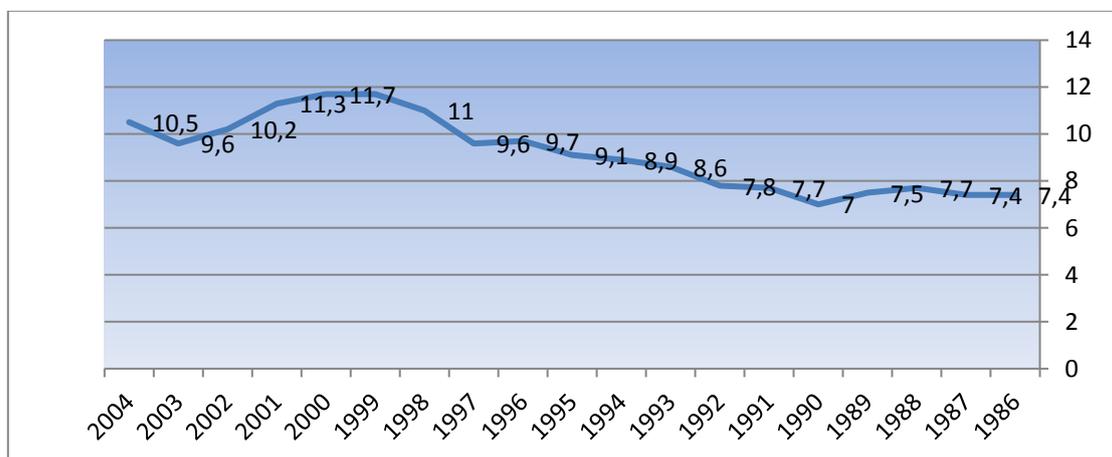


Figure 2. Unemployment rate in Greece from 1986-2004

Source: The World Bank, <http://databank.worldbank.org/data/home.aspx>.

The considerable research conducted on the effect of immigration on domestic employment shows that immigrants were mostly found to occupy a large number of jobs, most of them unskilled jobs (Stewart & Hyclak, 1984). Thus, in countries that offer a high

<sup>5</sup> Beginning from the year 2005 Prof. Baldwin-Edward's research institute ceased to receive financial support and thus could no longer provide data.

supply of unskilled jobs and have a low demand for such jobs by employees – this trend will have a positive effect as it can contribute to better utilization of production factors in the domestic economy. However, in countries where, to begin with, the demand for unskilled jobs is higher than the supply of such jobs, immigration might create competition between local workers and immigrants and lead to a lowering of pay levels in unskilled industries sought by immigrants as well as a rise in unemployment among local citizens.

Accordingly, it may be assumed that the considerable growth in the number of immigrants to Greece in the period presented in *Figure 1* had a negative effect on the local labor market, as the many immigrants who entered the country increased the supply of unskilled personnel and thus the competition for jobs that are suitable for this type of workers (such as in tourism, restaurants, cleaning, etc.). These circumstances led to a drop in the pay offered for jobs that do not require professional skills, putting immigrants at an advantage versus their local competitors, as the former are willing to make do with lower pay even if only in order to find a job in the local labor market. This process led to the displacement of many locals from the labor market and, accordingly, to a rise in unemployment in the Greek economy (as shown in *Figure 2*).

As stated, immigration to Greece increased from the early 2010s to the present, while local unemployment rates reached new heights.<sup>6</sup> This seems to confirm the existence of a positive correlation between these two indices. However this statement must be restricted as a result of two facts: First, although the wave of immigrants to Greece has indeed increased since the beginning of the current decade, the large majority of these immigrants do not perceive Greece as their final destination rather only as a point of transition to somewhere else in Europe. Secondly, the conspicuous rise in Greek unemployment since the beginning of the decade was strongly affected by the European debt crisis, with its extremely detrimental effect on the Greek economy. Nonetheless, the positive correlation between immigration and unemployment is corroborated by the conspicuous rise in unemployment indices<sup>7</sup> in neighboring Portugal in the 1990s, which similar to Greece experienced accelerated incoming immigration in these years following the dissolution of the Soviet Union.

### ***3.2. The Greek model – a deficient welfare and employment policy that encourages unemployment***

The positive correlation between immigration and unemployment rates, found in Greece until the early 2000s, is compatible with the local welfare and employment policy. This policy was characterized by a lack of compatibility with local circumstances, a lack of uniformity, and inefficient benefits awarded to the unemployed and to the needy, as well as a lack of coordination between the various services, and more (Symeonidou, 1996). Until the emergence of the global economic crisis in 2008, Greece's welfare and employment policy was not a top political priority and was characterized by inequality in the different welfare areas (Venieris, 2003; Matsaganis *et al.*, 2003). Nonetheless, since many citizens of working age were employed in the public sector, in family businesses, or self-employed, the country's disorganized policy on employment aroused no concern.

Moreover, many citizens were involved in undeclared economic activities and thus could register as unemployed while also enjoying a high income that provided them with a comfortable standard of living (Katsios, 2006). Furthermore, policy measures taken in Greece at the outbreak of the sub-prime crisis, including among other things reducing workers' pay in the public sector, the diminished purchasing power of employees, providing unemployment

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<sup>6</sup> In 2011 Greece's unemployment rate reached 17.8%, in 2012 24.1%, in 2013 27.3%, and in 2014 26.5%.

<sup>7</sup> Unemployment in Portugal in the early 1990s was at a particularly low rate of only 2.6%, but it reached 6.5% by the middle of that decade (Source: World Bank).

pay, awarding subsidies to employers, and more, were not consistent with the needs of the unemployed, and thus unsurprisingly had no real effect on the rising unemployment (Dimoulas, 2014). Hence, this inefficient welfare and employment policy was widely criticized for not offering the necessary tools to handle the real challenges needed to develop the Greek employment market (Matsaganis, 2011; Matsaganis, 2012).

The arrival of many immigrants in Greece, who as stated had the effect of pushing local workers out of the formal employment market, raised official unemployment rates since these dismissed workers could, as stated, allow themselves to register as formally unemployed and enjoy unemployment pay while continuing to work under the radar. The negative effect of immigration on the local employment market, as diagnosed above and in other studies (Fakiolas, 1999), was clear to Greek policy makers, who for many decades had treated incoming immigration as a necessary evil, and accordingly formed an immigration policy aimed at limiting the flow of immigrants and even deporting them from the country (Triandafyllidou, 2009; Lazaridis, 1996; Batziou, 2011). This restrictive immigration policy began to change towards the end of the 2000s, when the shaky state of the Greek economy led to legislative changes aimed at permitting the legal integration of immigrants in the local labor market, in the hope of stimulating the economy that was sinking into a severe recession (Batziou, 2011).

### ***3.3. Immigration to Germany and the local unemployment index***

The conclusion of World War II in the mid-1940s was characterized by a wave of immigrants from European countries to various destinations, including Germany which took in tens of thousands of immigrants each year. In the 1950s the flow of immigrants to Germany continued and (in 1953) even crossed the hundred thousand mark (101,599), reaching 227,600 immigrants a year towards the end of that decade (in 1959). The 1960s were characterized by a prominent and consistent rise in the number of immigrants to Germany, and each year the annual total rose by tens of thousands, until topping one million in 1970 (1,042,760).

*Figure 3* below portrays immigration to Germany from the early 1970s until 2014. The data show a conspicuous drop in the number of immigrants to Germany in the late 1970s, a trend that remained constant until 1983.<sup>8</sup> Since the early 1980s, however, and until the mid-1990s (1995), immigration to Germany increased significantly and once again crossed the million mark, probably as a result of the dissolution of the Soviet Union and Yugoslavia and the fall of the Berlin Wall. From that time and until the mid-2000s the number of immigrants decreased slightly,<sup>9</sup> while once again showing a rise from the latter half of that decade and until the present, as a result, as stated, of the growing wave of immigrants from African countries and later on also from Syria.

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<sup>8</sup> When the annual number of immigrants was only 354,496.

<sup>9</sup> Reached some 750 thousand a year on average.

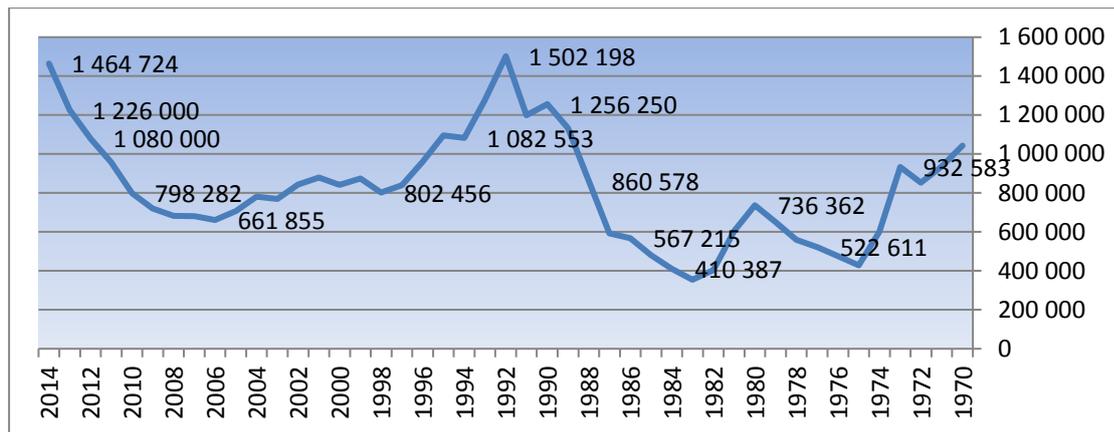


Figure 3. Immigration to Germany during 1970- 2014 (Total arrivals, by year)

Source: Central Bureau of Statistics, Germany, <https://www.destatis.de/EN/Homepage.htm>

Examination of Germany's unemployment index over the years shows, in fact, an inverse relationship between the immigration rates and local unemployment. This relationship is evident from the 1950s, characterized as stated by a growing wave of immigration. In these years Germany's unemployment rate showed a sharp consistent drop, as Germany's total unemployment rate at the beginning of that decade (1950) was 11% while by the end of the decade (1959) it was only 2.6%. The 1960s as well, characterized as stated by an additional and even significant increase in immigration to Germany, showed another conspicuous drop in Germany's unemployment rate, which for almost the entire decade remained at less than one percent!<sup>10</sup>

Figure 4 below describes the changes in the German unemployment index from the 1970s to 2014. The data indicate a continued negative correlation between the immigration and unemployment rates. Accordingly, in the 1970s, when immigration to Germany continued to rise local unemployment dropped<sup>11</sup> (3.8% in 1979). Moreover, in the period from the early 1980s to the middle of that decade, when immigration to Germany diminished, as stated, unemployment began to rise (9.3% in 1985). In the period from the mid-1980s to the early 1990s, immigration to Germany once again rose rapidly and consistently (as portrayed in Figure 3) and at the same time there was a conspicuous and consistent drop in the local unemployment rate (5.1% in 1991). The drop in immigration rates to Germany, which began in the mid-1990s and continued until the mid-2000s, was also reflected in the local unemployment rate, which began to rise (11.1% in 2005). Since the second half of the decade, however, immigration to Germany rose once again and local unemployment rates dropped accordingly (5% in 2014), as portrayed in Figure 4.

<sup>10</sup> Aside from the following years: 1960 (1.3%), 1967 (2.1%), and 1968 (1.5%). Source: World Bank data.

<sup>11</sup> Aside from 1974-1975 when immigration diminished while unemployment rose.

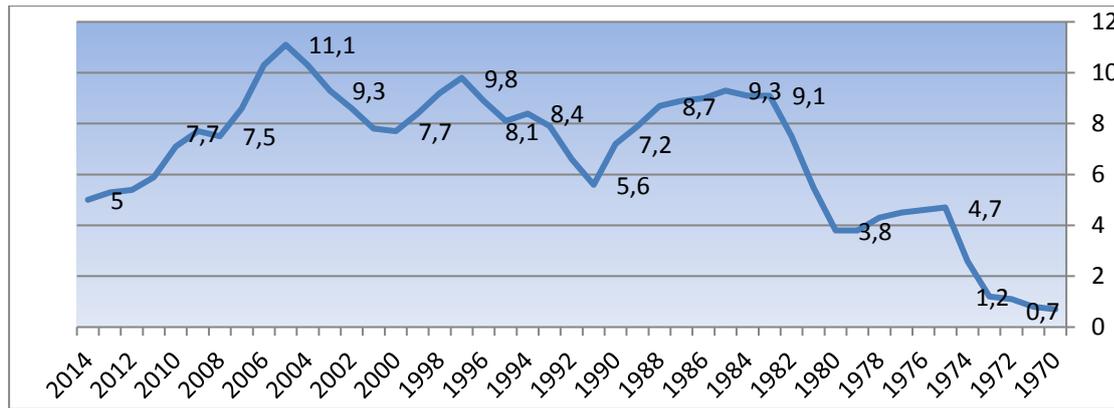


Figure 4. Unemployment rate in Germany from 1970-2014

Source: Central Bureau of Statistics, Germany, <https://www.destatis.de/EN/Homepage.html>  
The World Bank, <http://databank.worldbank.org/data/home.aspx>.

Hence, the comparison between trends and changes in immigration to Germany (Figure 3) and trends and changes in the German unemployment rate (Figure 3) clearly indicates a consistent negative correlation between immigration to Germany and German unemployment levels. The German government policy of encouraging employment, portrayed below, may have had an impact on this correlation.

### 3.4. The conservative model in Germany – resistance to welfare policies that epitomize laziness

Examining features of the German employment market in the two recent decades reveals an intentional government policy of expanding the supply of jobs and reducing the unemployment rate. Already in the late 1990s, the German leadership sought a model for reducing the number of unemployed and creating millions of new jobs. The German model supports workers' well-being but objects to it if utilized for purposes of laziness and in order to promote idleness over gainful employment.

The German immigrant policy followed its new immigration law enacted in 2005, which aroused at the time an extensive public debate on the possible economic benefits of incoming immigration. Some claimed that immigration would constitute an additional economic force that would contribute to the local industry and ensure the international competitiveness of its products. Others were concerned that immigration might raise the local unemployment rate and overburden the German welfare system (Bauder, 2008).

Germany's welfare policy follows a conservative model, i.e., it is an extensive public welfare system based on employment. The German welfare state is based first and foremost on strong workers' unions and cooperative associations that provide workers with all the services they need. The employment market is based to a large degree on a high level of professionalization.<sup>12</sup> In the early 2000s a decision was reached to cut the German welfare system and allocate unemployment pay for shorter periods, with the intention of encouraging the unemployed to return to the employment market (Eichhorst *et al.*, 2010).

The German economy, which in 2010-2011, once the global sub-prime crisis subsided, resumed a relatively high growth rate (4.1% and 3.7%, respectively) compared to most other countries and European countries in particular, lacked the necessary human resources to let

<sup>12</sup> A normal course for young Germans is to begin acquiring a profession in high school, and a large part of the tertiary education system consists of vocational settings.

local industry keep up with the high rise in its GDP. The policy of encouraging employment introduced in these years, which required those unemployed to find a job rather than relying on the welfare state, and also supported them by providing employment guidance, professional training, and various welfare services (such as day care for the children of working moms, etc.), led to a conspicuous drop in local unemployment from 2011-2014.<sup>13</sup> This drop was even more evident due to the rising unemployment in various European countries, particularly southern European countries (which were in the midst of an ever deepening debt crisis).

At the same time, Germany experienced worrying demographic processes stemming from the aging of the local population, a reduction in the proportion of young people, and the gradual retirement of Baby Boomers born after World War II. Hence, while the German economy was growing and the German policy encouraged and promoted an increased supply of jobs, there was a lack of local workers. These circumstances transformed Germany into the largest supplier of jobs in Europe and attracted immigrants both from European countries and from all over the world, who entered the vacuum that had been created and helped stabilize the local labor market. As a result, it is possible to say that in light of the government policy on employment and internal demographic changes affecting the local labor market, the German economy seems to have need for the immigrant workforce. More immigrants mean more rapid economic development, manifested in improvement of the various domestic economic indices, including the unemployment index.

### ***3.5. Immigration to the United States and the local unemployment index***

As mentioned in the introduction, the United States experienced extensive and continuous waves of immigration from various parts of the world from the early 19<sup>th</sup> century. The data in *Figure 5* show that from the early 1820s until the middle of that century, the number of immigrants to the United States grew constantly, reaching more than two million by the end of that period.<sup>14</sup> After only a decade of reduced immigration, this process resumed its growth and in the late 1880s reached a new record of over five million immigrants.<sup>15</sup> Indeed, after this peak as well, the wave of immigrants diminished for one decade (from 1891-1900), and then immigration trends rose once again to a new record of nearly nine million in the 1900s.<sup>16</sup> From that time and until the 1940s, the number of immigrants to the United States began decreasing sharply and consistently, reaching only slightly more than half a million immigrants by the end of this period.<sup>17</sup> *Figure 5* shows that the rate of immigration to the United States began to recover only in the 1940s. Hence, it is possible to conclude that aside from the 1930s, characterized as stated by a conspicuous decrease in immigration, all other periods show a constant rise in the number of immigrants to the United States.

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<sup>13</sup> As portrayed in *Figure 4*.

<sup>14</sup> From 1851-1860 the total number of immigrants to the United States reached 2,259,214. Source: US Department of Homeland Security.

<sup>15</sup> From 1881-1890 the total number of immigrants to the United States reached 5,246,513. Source: US Department of Homeland Security.

<sup>16</sup> From 1901-1910 the total number of immigrants to the United States reached 8,879,386. Source: US Department of Homeland Security.

<sup>17</sup> From 1931-1940 the total number of immigrants to the United States reached only 528,431. Source: US Department of Homeland Security.

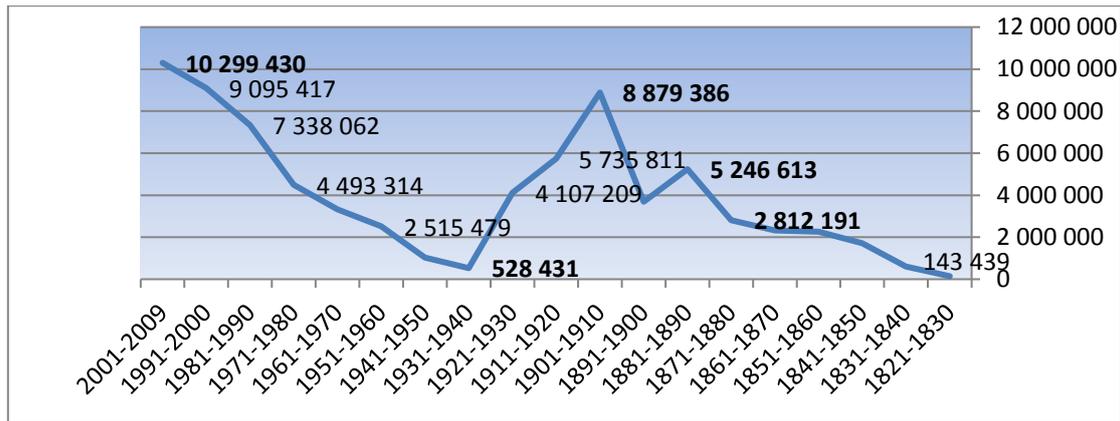


Figure 5. Immigration to the US during 1821-2009 (by decade)

Source: U.S. Department of Homeland Security.

Figure 6 below portrays US unemployment rates from the late 1920s to the present. The data show that in the decade of the 1930s a considerable rise was evident in the US unemployment rate.<sup>18</sup>

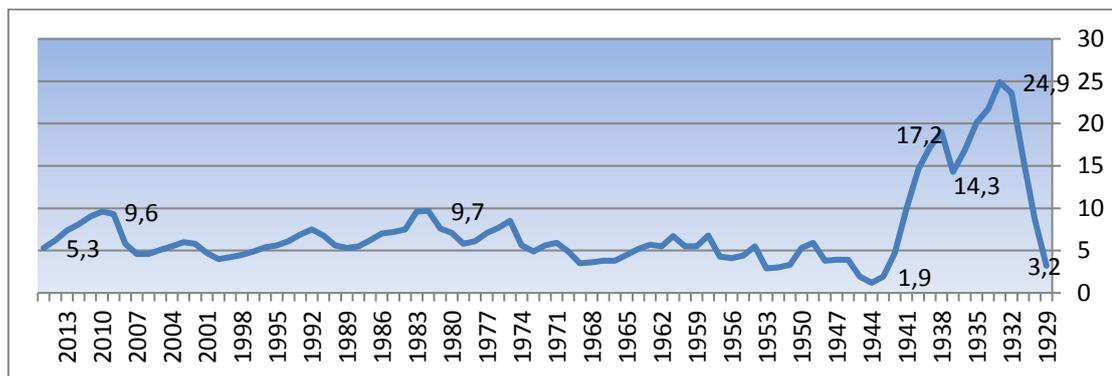


Figure 6. Unemployment in the US from 1929-2015

Source: For 1929-1945: bls- bureau labor statistics <http://www.bls.gov/cps/cpsatabs.htm>. For 1946-2015: U.S bureau labor statistics. U.S. Census Bureau Economic Indicators. Table 1. Employment status of the civilian noninstitutionalized population, <http://www.census.gov/economic-indicators>

As shown in Figure 6,<sup>19</sup> the 1930s were characterized by a sharp drop in immigration to the United States, as well as by a severe economic crisis<sup>20</sup> that had a significant negative effect on economic growth in the United States and globally. Therefore, the severe recession experienced by the United States in the 1930s and the rise of local unemployment probably had an effect on the conspicuous drop in immigration. Namely, in this period a negative correlation was found between immigration and unemployment, whereby the rise in unemployment occurred concurrently with a drop in immigration to the United States.

Examination of the US economy in the years prior to the 1930s shows that the economy experienced a period of accelerated growth and expansion as a result of the increasing demand for American commodities and services by devastated European countries

<sup>18</sup> Peaking in 1933, when unemployment reached 24.9%.

<sup>19</sup> Figure 5.

<sup>20</sup> The Great Depression of 1929-1933.

after World War I. This in addition to the availability of cheap money as a result of the low interest policy, as well as the implementation of a liberal worldview that enabled the markets to flourish. All this led to the almost constant growth<sup>21</sup> of the US economy from the conclusion of World War I (1918) until the beginning of the Great Depression in the early 1930s. This is evident from data on the US GDP, portrayed in *Figure 7* below.

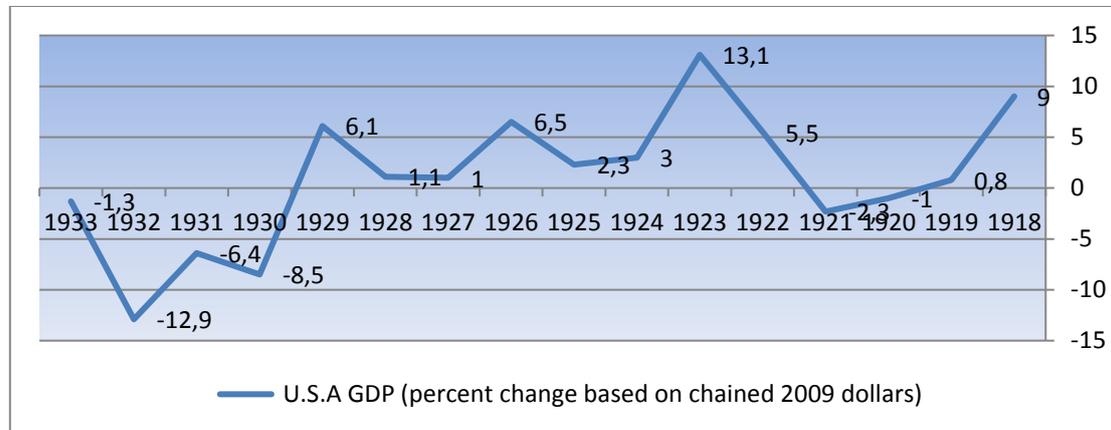


Figure 7. US GDP from 1918-1933

*Source:* For years 1910-1929: US Census Bureau Economic Indicators, Bureau of Economic Analysis. For 1930-1933: <https://www.measuringworth.com/datasets/usgdp/result.php>

In the period from the conclusion of World War I up to and including 1929, all sectors of the US economy showed a demand for workers, resulting in a particularly low unemployment rate.<sup>22</sup> In this period, immigration to the United States was high, once again indicating a negative correlation between immigration and unemployment. However, when the number of immigrants to the United States rose during the first decade of the 20<sup>th</sup> century, and upon emergence of the economic crisis, a turning point was reached in the US economy. The recession in the US GDP during 1930-1933 (as portrayed in *Figure 7* above) had an immediate and strong effect on the unemployment rate, which showed a sharp rapid rise.<sup>23</sup> In this period there was a drop in the rate of immigrants to the United States, as stated, corroborating the cyclic relationship<sup>24</sup> between immigration and unemployment.

### 3.6. The liberal model in the United States – a liberal welfare and employment policy

The United States is considered the most distinct example of a liberal welfare regime, characterized by minimal public intervention, and it follows the assumption that most welfare services will be provided by the markets themselves and that government interference is unnecessary and even inefficient (Harvey, 2014; Karger & Stoesz, 2010; Howard, 1999). The strong conflict aroused by the topic of welfare in the United States stems not only from the high tax burden that comes with extensive welfare systems, rather also from the fundamental ideological concept that sanctifies individual liberties. Many Americans believe that the government must minimize its interference in citizens' life, family, and work situation.

<sup>21</sup> Aside from 1920-1921, when the GDP receded by 1% and 2.3% (respectively). *Source:* <https://www.measuringworth.com/datasets/usgdp/result.php>

<sup>22</sup> In 1929 the US unemployment rate was only 3.2%.

<sup>23</sup> See *Figure 6*.

<sup>24</sup> Reduced unemployment leads to a rise in immigration, increased immigration leads to a rise in the number of unemployed, a rising unemployment rate deters immigrants and reduces the immigration rate, and so on and so forth.

Nonetheless, the US does have welfare services that are provided only to the most needy, i.e., to those who truly cannot support themselves in any way. Most of the welfare mechanisms that exist at present evolved from those established in the 1930s and 1940s as part of President Roosevelt's "New Deal" program. Nevertheless, with regard to the employment market, the United States government prefers to avoid intervention. Weak workers' unions (to such a degree that organized labor is forbidden), as well as no supervision of pay, employment terms, and social benefits, are some of the features of the liberal model, which is based on the assumption that companies compete for the most talented workers and this competition ensures good employment terms. This liberal worldview and the welfare and employment policy, as well as the consequent policy regarding unemployment pay (Anderson & Meyer, 1993), have no real effect on workers' choice whether to be part of the local labor market and to accept the terms offered them.

In this way, free market forces that affect the scope of local unemployment also affect the extent of incoming immigration. Hence, a low unemployment rate generates a growing immigration rate, and vice versa. In other words, when the domestic economy grows, there is a demand for workers in all its industries, and the unemployment rate is low – immigration increases. However, when the economy enters a recession, employment drops, and unemployment rises – immigration levels out accordingly. The leadership is not a guiding element in this regard, rather it embraces a liberal economic policy that operates according to the principle of demand and supply. Thus, when there is a high supply of jobs the demand for immigration will rise. And in contrast, when the supply of domestic jobs diminishes – the demand for immigration will drop accordingly and immigrants will seek alternative destinations where they can make a living. In this way, the domestic unemployment rate leads to changes in the extent of immigration to the country.

## Discussion and conclusions

This study began with an attempt to detect and indicate a correlation between immigration trends and changes in the domestic unemployment rate of host countries. Subsequently, it endeavored to reach a conclusion concerning the effect of each country's public policy in the field of welfare and employment on the direction of the correlation uncovered. Three countries were selected for this purpose: Greece, Germany, and the United States, all characterized as immigration destinations but with different welfare and employment policies.

The research findings indeed indicate that all three countries examined show a correlation between their immigration trends and unemployment rates, but it is not a uniform correlation. In Greece a positive correlation was found between the extent of immigration and the unemployment rate, such that the higher the immigration the higher the domestic unemployment.

Observation of the data on accelerated immigration to Greece during 1991-2004 (*Figure 1*) side by side with the consistent rise in unemployment in this country during the same period (*Figure 2*) shows a similar trend in these two indices. Namely, immigration rates coincide with a rise in local unemployment. Additionally, *Figure 1* indicates a minor drop in immigration to Greece in 2003, while in that year there was also a drop in local unemployment. A year later, the number of immigrants to Greece grew once again, and the unemployment indices for this year (2004) attest to a rise in local unemployment as well. Namely, there appears to be a positive correlation between the two indices in Greece (Pearson Correlation: 0.8).

A possible explanation of this finding may be related to the unique features of the welfare and employment policy introduced in Greece during the years examined, a faulty

policy encouraging unemployment that did nothing to reduce it, rather the contrary. Many locals displaced from the labor market due to the arrival of immigrants had no real incentive to extract themselves from their official state of unemployment, rather chose to retain it and receive unemployment pay, and thus contributed to the marked rise of the domestic unemployment rate in times of accelerated immigration. Accordingly, it may be assumed that such a relationship is to be expected in other countries that apply a similar public policy, as portrayed in the following diagram:

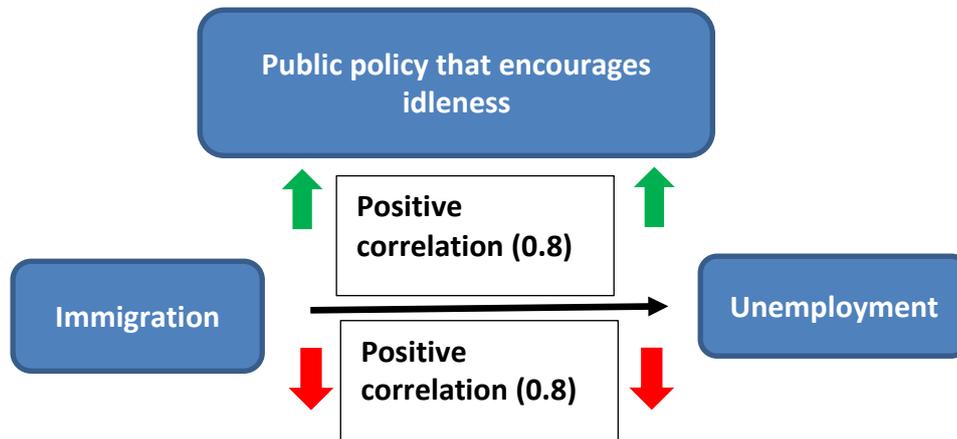


Diagram 1. The relationship between immigration and unemployment according to the Greek welfare and employment model

In contrast, examining immigration trends versus unemployment trends in Germany indicates a negative correlation between these two indices. Examination of data on immigration to Germany from the early 1970s to the mid-1980s (*Figure 3*) shows, as stated, a drop in this index. At the same time, unemployment in Germany grew during this period (*Figure 4*) (Pearson Correlation : -0.72). From the mid-1980s to the early 1990s a change was evident in these two indices, with immigration gradually growing while local unemployment diminished. Another changing trend can be seen from 1993 to the mid-2000s, when immigration resumed its conspicuous growth and local unemployment grew as well (Pearson Correlation : -0.75).

Accordingly, the question is: What is the explanation for this negative correlation? Which of the two indices serves as a catalyst for changes in the other? On one hand, domestic unemployment may be said to stimulate changes in immigration trends. Namely, immigrants' prior knowledge of the low unemployment rate in the economy to which they seek to immigrate encourages them to head for that country, and therefore an economy with a low unemployment rate will create an increase in incoming immigration, and vice versa. Then again, it is possible to say that the extent of immigration stimulates changes in the domestic unemployment rate. According to this explanation, the many immigrants that flood the local economy<sup>25</sup> find jobs in the traditional industry, where the supply of jobs is higher than the local demand, and thus help develop the businesses they join. These businesses contribute to the development of the industry and also to the development of other industries for which there is a demand by local unemployed citizens, and thus help expand the entire economy, increase employment, and accordingly, reduce the domestic unemployment rate.

Analysis of the negative correlation between German immigration and unemployment trends shows that the conservative German welfare and employment policy that urges the

<sup>25</sup> Which, as stated, are mostly unskilled workers who seek any job that will enable them to earn a living and to survive financially.

creation of new jobs and provides incentives for work over idleness, encourages incoming immigration as well as reintegration of the unemployed in the labor market. This policy helps meet the needs of local industry and contributes to lowering the unemployment rate. Hence, by following the German model, incoming immigration can serve as a catalyst for lowering the unemployment rate. In other words, the negative correlation between the two indices has the following effect: When immigration increases unemployment drops, and vice versa, as described in the following diagram:

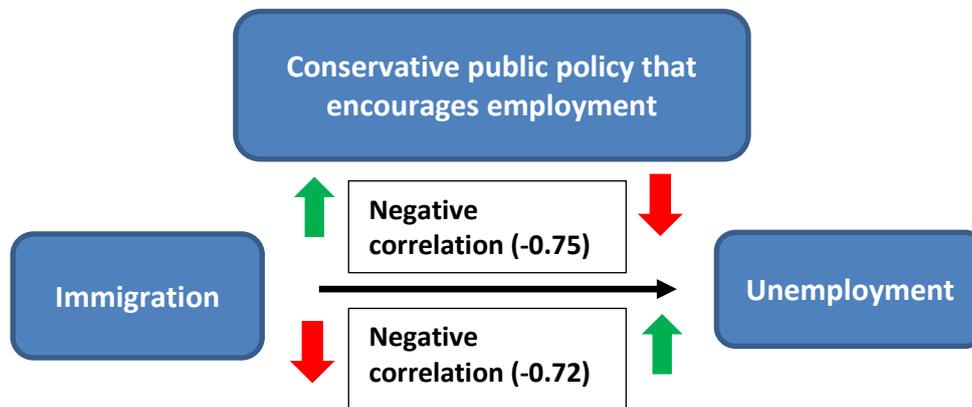


Diagram 2. The relationship between immigration and unemployment according to Germany's model of welfare and employment

In contrast, the liberal welfare and employment policy implemented in the United States gives free market forces a free rein to influence incoming immigration and the unemployment rate. Such a non-interventionist policy leads to a "see-saw" relationship between the two indices, operated by an "invisible hand" based on the principles of the liberal approach.

As stated, data on unemployment in the United States from the early 1930s to the mid-1940s indicate a considerable increase (*Figure 5*), as a result of the massive financial crisis experienced by the US in those years (*Figure 6*). This period also saw a steep drop in immigration to the US (Negative Pearson correlation: -0.8). The drop in immigration in the 1930s was followed by a period of economic recovery in the 1940s, manifested among other things in a conspicuous reduction in local unemployment (Positive Pearson correlation: 0.76). The US drop in unemployment since the 1940s occurred concurrently with a consistent rise in immigration (Negative Pearson Correlation : -0.78).

Thus, in circumstances of a growing domestic economy and a low unemployment rate, the unemployment index will constitute a catalyst for increasing incoming immigration and will reflect a negative correlation between the indices. However, when immigration increases and large numbers of immigrants push locals out of the employment market, such immigration will constitute a catalyst for increased unemployment and create a positive correlation between the indices, and so on and so forth as portrayed in the following diagram:

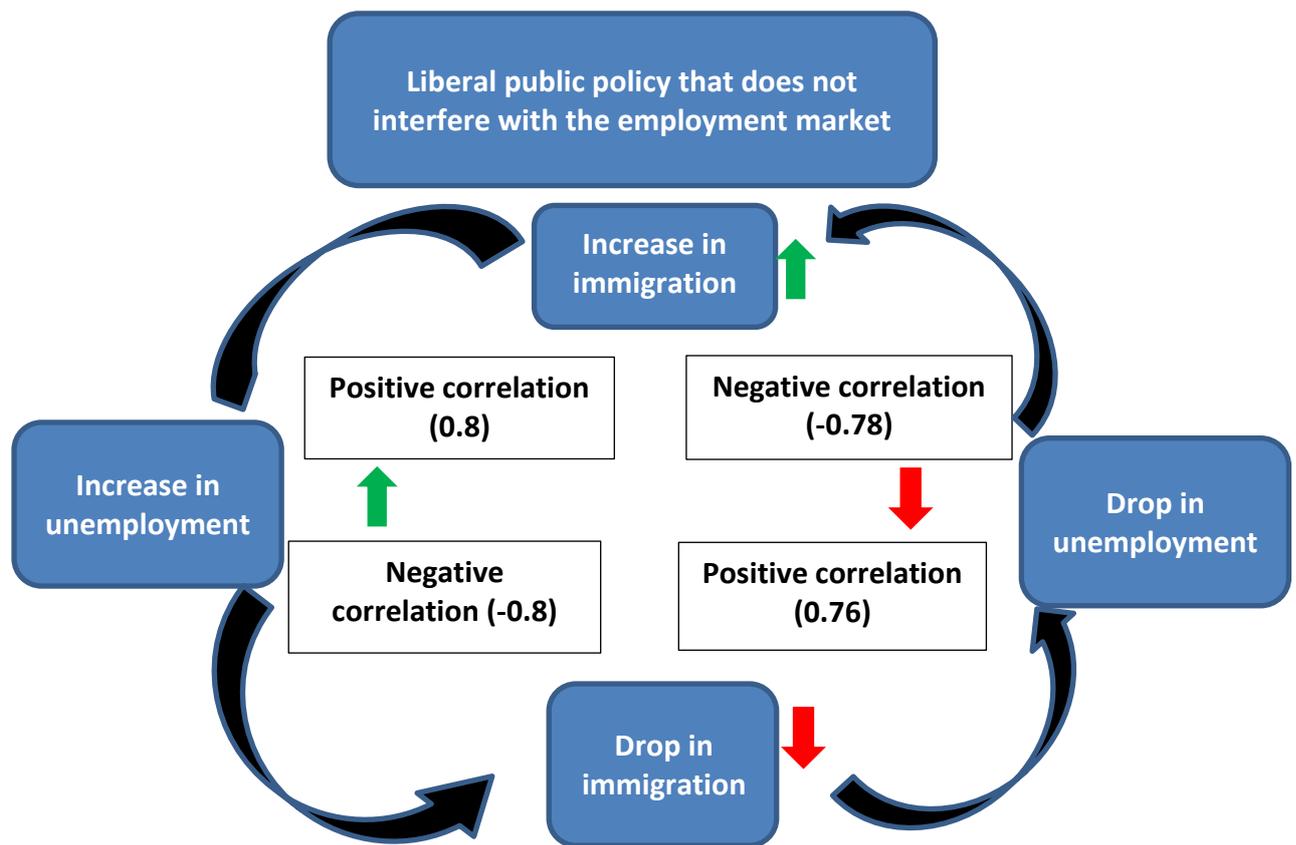


Diagram 3. The relationship between immigration and unemployment according to the United States welfare and employment model

These conclusions are compatible with the immigration policy implemented in each of these three countries as presented in the introduction. For many years<sup>26</sup> Greece has been implementing an immigration policy that pushes out immigrants, in recognition of the positive correlation in its economy between the increase in immigration and the rise in unemployment. Germany implements an immigration policy that encourages the intake of immigrants, in recognition of their contribution to the growth of the local economy, according to the negative correlation between the indices (increasing immigration contributes to reduced unemployment). In contrast, the United States implements, following the ambivalent association between the indices, a liberal immigration policy that does not encourage immigration but does not prevent it, rather provides only supervision and regularization. Based on these conclusions, we are now capable of evaluating the effect of accelerated immigration to EU countries on the employment market of each, according to their welfare and employment policy.

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<sup>26</sup> The Greek immigration policy changed in recent years after the economic crisis began and the country now attempts to integrate the immigrants in its labor market in order to contribute to the growth of the local economy.

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<sup>i</sup> Tunisia, Algeria, Jordan, Oman, Yemen, Egypt, Morocco, Sudan, Iraq, Libya, Kuwait, and Syria.