Migration to the European Union

A study on the effect of social expenditure on immigration

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Abstract
Migration to the European Union has increased the last ten years with asylum immigrants being a large part. There is an ongoing debate about the cost of migration and whether or not immigrants tend to cluster in countries with high social benefits. Theoretical framework in the field of migration economics show a connection between level of immigration and the welfare system.

This thesis will use macro-data on migration flows, social expenditure, wages, employment and immigrant population from OECD which will be combined with micro-data of individual views on politics and welfare. This will hopefully shed light on if the level of social expenditure and individual opinion with regards to willingness to help others may affect immigration.

The question for this thesis is : Does a generous welfare system or high level of government social expenditure in a certain country within the European Union attract a high inflow of immigrants?

Results show, as other research conducted in similar fashion, both a positive and negative impact by social expenditure depending on the type of regression made. A conclusion about whether the effect of social expenditure is positive or negative could not be done at this point in time for this research.

Keywords
Immigration, Social expenditure, Welfare, European Union
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1 Introduction
With the recent groups of refugees from the Middle East and Africa it is a large ongoing debate about the cost for the government associated with immigration and whether or not certain groups tend to seek generous welfare countries. The migration to the European Union has increased the last ten years with asylum migration being a large part. (see figure 3&4) Hatton (2005) writes about the debate within the European Union that has been ongoing, then as well as now, when the common European asylum system appeared. With a wide spread of political opinion in this matter adding research to the discussion is of foremost importance.

The policy agreed upon within the European Union is that the first country an immigrant arrives in and starts the asylum process is the one where he or she shall stay. This is regulated through the common European asylum system (Council regulation 343/2003). In Europe, free movement of people without border controls is agreed upon by the Schengen agreement which makes it possible to move freely throughout the European Union. (Schengen agreement 1985) This was the case until December 2015 when Sweden and a few other countries reinstated the border controls for all individuals entering from both European and non-European states. This raises the questions about people’s location choices and if the migration flow is affected by country specific characteristics. Unlike the United States where a lot of previous research in this subject has been conducted, the European Union consists of independent countries that can take action to regulate migration flow as the situation of 2015.

Research state that immigrants are more likely to have a need for social assistance than the native population. Borjas and Trejo (1991) show that immigrants use welfare to a higher extent than natives in the United States, and the last cohorts arriving to the country used the most. The topic for this bachelor thesis will be about migration and specifically clustering of immigrants in areas with high welfare benefits. Borjas (1999) consider differences between the native population and the migrants with regards to settling decisions. An immigrant can, when entering a new country, decide a specific place where he or she prefers to live depending on the benefits that area yields. A person migrating theoretically face lower cost of moving within the new country than the natives, in the sense that natives have already paid the major part of getting to the new country. Borjas’ model predicts that immigrants will cluster in states with high
welfare benefits. In other words, some states in the United States have become welfare magnets, i.e. their generous welfare benefit level becomes a magnet for immigrants.

Continuing this research, it is of interest to see if a conclusion can be made that the theory about migrants seeking regions with higher welfare benefits within the European Union holds true. A comparison of the level of government social expenditure, employment and wages with the number of migrants will be made between member countries of the European Union to try explaining why people decide on a certain country.

The research question laying as a ground is: Does a generous welfare system or high level of government social expenditure in a certain country within the European Union attract a high inflow of immigrants?

The focus on total social expenditure as the main explanatory factor of migration is due to data availability. Information on welfare expenditure is only available on an aggregated level. Furthermore, comparing asylum migration with other groups of migrants will add to our understanding of whether groups of migrants act in diverse ways. According to the previous research by Borjas high social expenditure, e.g. a generous welfare system, is predicted to attract especially low skilled migrants. The macro-data on migration flows, social expenditure, wages, employment and immigrant population from OECD will be combined with micro-data of individual views on politics and welfare aggregated to a macro-level. This will hopefully shed light on natives’ general perception of taking care of other’s wellbeing and if that affects migration.

Disposition of this research starts with an introduction to the subject and why this has an interest in present day. The second part is the theoretical and empirical literature showing the contemporary research from the United States and Europe. The third chapter is the theoretical framework. The fourth chapter describes the method used and is followed by the fifth part which show the data used in the empirical analysis of the result. Part six is the result, main part of this research. Following the result comes a discussion in part seven and conclusion in part eight, binding all parts together. Lastly references and appendices can be found in part nine and ten.
2 Background

2.1 Migration through Europe

2.1.1 Borders

Travel between countries within the European union and Schengen should be borderless according the the policy agreed upon. Before December 2015 when Sweden decided to reinstate border controls on travel from European countries, with other countries following, there were no internal border controls. (Swedish government 2017 & European commission 2017)

There is a difference between crossing internal versus an external border. Each country individually monitor their own borders and who is permitted to enter. Most countries have the same controls for EU and non-EU members consisting of the 22 EU-countries making the borderless group. Bulgaria, Cyprus, Ireland, Romania and the UK requires a separate visa when a person originating from outside the union wishen to enter. Within the borderless Schengen group anyone can move freely between countries without the need to show passport. The difference emerges when crossing an external border where everyone need to provide official documentation to prove ones identity. (European commission 2016a) Common for all countries are collaboration in areas of information sharing between member states through Schengen information system and Visa information system. There is a also a border agency, Frontex, which is only a complement to the national agencies with possibilities of sending resources to strengthen the external European border. (European commission 2016b)

2.1.2 Asylum process

The Common European asylum system, founded on the Dublin regulation states how European countries should treat asylum migrants. The original regulation from 2003 and with additions in 2013 constitutes how a third-country or state less individual should be treated in their pursuit of protection within the union. A member state shall examine all requests for protection by asylum seekers made in the country but an application can only be done in a single country. It is not possible to seek asylum in more than one country and the country first receiving the application is the country responsible for the applying individual. If the process has been initiated in the first country but an
individual departs for a second one he or she shall be returned. There are some exemption to the regulations that may apply for example if the individual has stayed in a country a longer time or due to personal safety. (Council regulation No. 343/2003 & No. 604/2013)

2.2 Migration costs
Costs associated with migrating to Europe from Africa and the Middle East is difficult to set an exact number on though several sources estimate the payments refugees have to make. News reports tells stories from refugees being forced to pay several hundred to thousands of euro for passage over the Mediterranean sea. Malm (2015) for Deutsche Welle, Pabst (2013) Daily Mail and Kingsley Patrick (2015) The Guardian gives similar accounts for the rates smugglers demand for their services. The price is said to be in the range of 1000 to 2000 Euro for the trip between Turkey and Greece alone with other costs emerging as well before arriving in Europe.

Scientific sources gives the same information, according to van Liempt and Sersli (2013) the cost is a couple of thousand euros and Rohr Garztecki (2016) says one have to pay 1000 to 2000 USD for the trip between Turkey and Greece. The high price is payed to refugee smugglers used when the ordinary legal routes into the European border countries are closed. Rohr-Garztecki continues with the information about the summer of 2015 when 5000 migrants arrived every day resulting in a 5 million dollar revenue for the smugglers. It is impossible for someone in the situation of a refugee to migrate to Europe without the help of smugglers. The people behind these voyages have a background in organised crime accustomed to working in organised networks that specialise in smuggling, arms trade and drugs. Further services are provided by the criminal organisations which may increase the cost of migration to Europe such as forgery of documents and other necessities for the journey.

3 Literature review
3.1 Welfare use among immigrants
3.1.1 Studies from the United States
The participation in the welfare system by immigrants is described by Borjas and Trejo (1991). Depending on which point in time we are looking at, differences appear on national origin and mean skill level of immigrating groups. Studies from the United States show that recently arriving cohorts use welfare to a higher extent than previous.
Data from 1950–1980 indicate that certain cohorts have greater usage in relationship to the native population. Before 1950 immigrants used less welfare than natives, but up to 1980 it increased to around 10 percent more than natives. With time the trend shows that recent immigrants participate in welfare programs to a higher degree.

3.1.2 Studies from Europe
Hansen and Lofstrom (2003) addresses the usage of social assistance of immigrants in line with Borjas and Trejo, but in Sweden. The main point to investigate is if immigrants assimilate in or out of welfare and why the welfare expenses has increased over the years. The social expenditure increased with 50 percent in Sweden during the 1990s. They study three different groups: natives, refugees, and non-refugee immigrants. They show how the welfare usage has changed over the last thirty years for different cohorts of immigrants. Refugees living in Sweden use 40 to 50 percent more welfare than natives at the time of arrival and non-refugees use around 15 percent more in comparison to natives. The two immigrant groups will after twenty years of declining usage converge to about five percent more welfare use than natives. This shows that immigrants participate to a higher degree, but there are significant differences when looking at the time of arrival and what type of immigrant being referred to.

3.2 Immigration and welfare magnets
According to the theory formulated in Borjas (1999) immigrants will cluster in areas with high welfare benefits. Several researchers have tested this hypothesis, i.e. that areas with a generous welfare system become magnets for immigrants.

3.2.1 Studies from the United States
Zavodny (1999) investigates the settling choices of legally permanent residents in the United States and if there is a connection to the level of social benefits states offer. Information about immigrants, divided into subgroups of family sponsored, employment based and refugee/asylum migration. The study shows as others conducted in a similar fashion that immigrants tend to settle in a small number of states. The primary factor behind settling choices for immigrants is the size of the state and the number of foreign-born people already living there. A group that stands out is refugee/asylum seekers for which results shows a connection between welfare states and the number of asylum seekers. An about one percent increase in social benefits yields a
two percent increase in the migration for the group. Furthermore, it can be shown that the same group move again after a while to a higher degree than other groups.

Zadovny (1999) argues that just because refugees reside in states with high welfare it does not mean they choose it by themselves. They may have been placed there by government decision makers and not had the intention to move there for benefits. The labour migration group is the only group sensitive to changes in employment.

How the immigrant inflow will be affected by not being eligible to government welfare programs is something brought up by Kaushal (2005). The report addresses the policy change made in 1996 in the United States that new citizen is not entitled federal benefits for the first five years of residency. The new law made individual states take action and at different level guarantee some kind of social assistance. California was the state with highest benefits. The results from the study show no significant or very small attraction towards welfare magnets. Diverse groups originating from several countries choose a variety of states to reside in except for low and high skilled women from central and South America who seek states with high welfare.

Further research in this time period in the United States is conducted by Dodson (2001). In the article, it is argued that both welfare generosity and concentration of immigrant from the same origin have an impact on the location choices. In line with the previous research he also finds that a lot of immigrants choose states and cities where migrants from their country historically has settled before. A majority of the immigrants choose a small number of states and some states saw almost no immigration at all. Bartel (1989) answers several questions about migration decisions about where, what affects settling and how groups of immigrants differ in their choices. Bartel comes to the conclusion that new immigrants first of all move to locations with previous high immigration and the decision is highly related to the educational level. Highly educated tend to cluster a lot less than the low educated seek, who the more densely immigrant populated states and especially cities.

3.2.2 Studies from Europe
Pedersen, Pytlikova and Smith (2008) investigate what may affect the migration flow into OECD countries with a large number of variables from both the country of origin and the receiving country. The level of government social expenditure is one of the
variables used in the model to see if it has any effect on the inflow of migrants. Variables alongside with the expenses are for example network effects, language, distances, trade and foreign population. From the result, it is shown that network effects have a large impact on the migration, meaning that if there is already a significant number of foreign-born people in the receiving country others may follow.

GDP factors impacting the migration flow and the hypothesis of welfare magnets have been tested and showing only weak relationship. The main effect is according the research network effects impacting the stock of immigrants to Western Europe. Several different regressions were made, weighted least squares, fixed effects and generalized estimating equation. Results on social expenditure do show both positive and relationship to migration flow. The numbers are calculated to be both positive and negative and mostly not statistically significant depending on whether foreign born population is taken into consideration or not.

Nannestad (2007) wants to investigate the relationship between immigration and welfare systems. The study is about moral hazards of immigration and if immigration is an asset or a burden. Moral hazard in this context is the situation where the incentive to work is reduced because of generous welfare which exists for both natives and immigrants. One form of moral hazard specific to immigrants appear when the welfare reduces the incentive to integrate into the host country culture, not gathering necessary knowledge for entering the labour market.

A discussion is being made about the classical migration models and what the true effect is for a welfare state. Question arises whether immigrants use welfare due to moral hazard or negative self-selection, i.e. that those coming are of a lower educational and skill level. Negative self-selection appears when the ones with least skill knows they have more to earn if choosing to migrate due to higher wages for their skill-level in the new country. The negative selection and moral hazards should then create higher welfare dependency. Considering possible impact on native wages and usage of social insurance programs is putting strain on the public finances it is difficult to say exactly how much immigration affects the economy. At the same time working immigrants create surplus through consumption. Nannestad (2007) says no decisive conclusion can be made whether or not immigrants have been economic assets the last decades for
welfare states but concludes that at least 15-20 years has to pass before a positive economic result from immigrants emerges.

To summarize the previous research used for the report the general results are that network effects are the most important factors for immigration. With a high number of people with similar background the potential migrants see the levels a positive sign for where to settle. Only a number of articles see distinct connections between welfare or social expenditure and immigration, and when such a connection is apparent it is attributed to a certain group. There is no consensus among researchers if there exist a clear relationship between welfare and immigration, and at the same time there are differences between European and American literature.

4 Theoretical framework
Borjas (1994) interpretation of Chiswick’s model for immigrants adaption to the host country knowledge and acquiring skills suited for the labour market. Immigrants face an initial wage disadvantage relative natives when arriving, and after a number of years since migration the wages will have increased. Chiswick’s original model says immigrants will catch up and surpass native workers because of skill acquisition. The conclusion Borjas made is that cohort effects creates this through immigrants arriving in different points in time having spread initial skills. Immigrants in the 1950s was more productive than natives and later cohort skills have gone down. This can be shown in earnings gap from 1950 to 1990, the gap has increased between immigrants and natives. In 1950 immigrants earned 20 percent more than natives but in 1980 31 percent less.

According to the research it is expected that immigrants today earn less and use more welfare, because of their decreasing skills lack of important host country knowledge such as language proficiency, and labour market difficulties. The fact that immigrants face discrimination on the labour market and have difficulties finding a job can also explain their higher need of welfare assistance Borjas (1994) also show that larger differences depending on the country of origin appear when looking at wages.

The location choice immigrants make upon arrival to a new country is described by Borjas (1999). The article “Immigration and welfare magnets” addresses behaviour behind these decisions and differences between the native population and the migrants
as regards to settling decisions. When entering a new country the immigrant can decide a specific place where he or she prefers to live depending on the level of social benefits that area yields, assuming that all other factors affecting the location decision are held constant. According to Borjas it should be argued that a person migrating faces lower cost of moving within the new country than natives, in the sense that migrants already have paid the major part when getting to the new country.

Borjas’ work about the United States tells the cost of moving from one state to another should be lower for an immigrant even if entering in for example New York and having a state further to the east coast as final goal.

Applying this theory on Europe gives the following example with two countries within the union that have different wage structures meaning the lowest and highest wage a person can get differs including a minimum earnings level which can be welfare. The y-axis in figure 1 and 2 display the logarithmic wage and the x-axis the skill level, which could be interpreted as the number of years of education. Adding migration creates a line showing the relationship between the skill level and the wage of the country of origin, located outside the European Union. Depending on which of the countries having the highest difference in wage distribution affects the outcome if there will be positive or negatively selected migration.

Figure 1 visualize the migration outcome under the assumption that the returns to skills in country 2 is higher than in country 1 and the the returns to skills in the immigrants’ source country is larger than in both destination countries. Figure 2 show the opposite case where the country of origin has a narrower distribution meaning line Country 0 is flatter. Va,b,c are the points where moving decisions are being made for individuals of that skill-level and w-bar is the social benefits the two countries offer.

Depending on the level of welfare the two countries offers its citizens different number
of immigrants will come to stay there. If the wages are like figure 1, low skilled immigrants with low wages in their home country will move to country 1 where welfare payments are above the wages in both countries. They will work from point A to B in country 1 and from B to C in country 2, but after point C there is no extra benefit from migrating. Low skilled will use more welfare and choose the country where they are entitled to the highest level of social benefits.

Figure 1. Borjas(1999)

Compared with the situation in figure 2 where the country of origin has a flat distribution meaning a person with a wage up to point A moves to country 1 receiving welfare, between A and B stay in the home country, B to C works in country 1 and thereafter works in country 2. Depending on what skills a certain individual possesses affects the wage they can make and in turn which country is the appropriate final destination when migrating. For the individual with least skills nothing will change in figure 2. It can be concluded low skilled will migrate to countries with high welfare because w-bar still is above the wage level of country 0. Only difference in figure 2 compared to 1 is the wage to skill levels thus where individuals choose to work.

Figure 2. Borjas(1999)

The cost of migrating is included in Borjas model as if the cost increase or decrease there will be an upward or downward shift in the curves. Upon entering the United States, it is assumed that a major part of the migration cost is used or payed for and the final settling decision will not be affected by the cost. For example, entering in New York and having California as the goal do not increase migration cost substantially. The same assumption must be expected to hold true for the European Union if the model is going be applicable meaning entering in a southern country do not affect the cost of relocating to northern European countries.
The theoretical prediction is that low skilled immigrants will cluster in the countries with the highest welfare benefits. According with the theory on welfare usage figure 1 is the situation that most likely occurring with high distribution on wage related to skill in the home country resulting in migration of low skilled individuals to the location with high welfare level increasing their living standard.

5 Methodical framework
To analyse the role of social expenditure in explaining migration to the European Union an empirical model will be estimated through an ordinary least squares regression, using panel data on country level from OECD and the European social survey.

The empirical model is a variation of Zavodny (1999) and Pedersen et al. (2008). The model for this report uses variables similar or closely related to the two base models. Pedersen et al. (2008) describes push and pull factors being the forces behind migration and relevant to include in the model for this research. Receiving country specific conditions such as the level of social spending is a pull factor while factors originating in the immigrant’s home country are push factors. Push factors may be for example the employment or wage level in the country of origin. In the model of this thesis only pull factors will be taken into consideration because of the difficulties when matching country data and working on an aggregated level.

The variables should ideally measure network, economic and labour market effects like what is assumed by Zavodny. On country level, it is difficult to attain data that represents these effects, especially network effects. However, including a variable like the number of foreign born might capture most of the network effects. The employment rate and wage can control for labour market pull factors and the economic pull-factors are captured by social expenditure and GDP.

Four regression will be made, one regular OLS regression for the main data part consisting of the OECD data, following that a regression with country fixed effects on the same variables and finally two regressions including the ESS variables, with and without country fixed effects. Difference will be made between if the migrant population belongs to asylum seekers or if they arrive with other backgrounds. All independent variables will be lagged one period back in time as Zavodny (1999) explains to compensate for bias and the ability to obtain information for migrants.
Migrants can only know how the economic situation or labour market looked like in previous periods and not in the current period when migration takes place. Using lags in the regressions is supposed to give a better interpretation. Deciding when and where to migrate is not made with up to date available data especially when being far from the destination with limited information gathering possibilities.

The following four equations are specified:

Equation 1:

\[ M_{it} = \beta_1 F_{it-1} + \beta_2 S_{it-1} + \beta_4 E_{it-1} + \beta_5 W_{it-1} + \beta_6 G_{it-1} + \beta_8 Y_t + \varepsilon_t \]

Equation 2:

\[ M_{it} = \beta_1 F_{it-1} + \beta_2 S_{it-1} + \beta_4 E_{it-1} + \beta_5 W_{it-1} + \beta_6 G_{it-1} + \beta_7 ESS_{it} + \beta_8 Y_t + \varepsilon_t \]

Equation 3 (country fixed effects):

\[ M_{it} = \beta_1 F_{it-1} + \beta_2 S_{it-1} + \beta_4 E_{it-1} + \beta_5 W_{it-1} + \beta_6 G_{it-1} + \beta_7 C_t + \beta_8 Y_t + \varepsilon_t \]

Equation 4 (country fixed effects):

\[ M_{it} = \beta_1 F_{it-1} + \beta_2 S_{it-1} + \beta_4 E_{it-1} + \beta_5 W_{it-1} + \beta_6 G_{it-1} + \beta_7 ESS_{it} + \beta_8 C_t + \varepsilon_t \]

Dependent variable denoted by \( M \) equals the migrant inflow to European countries in period \( t \), specified as (i) asylum migration and (ii) immigration without asylum seekers. The dependent variable is specified in logarithmic form since this makes it easier to interpret the results in the regressions. \( F \) is foreign population period \( t-1 \), a lagged value which shows if the migration today is affected by how many migrants lived in the country the year before. The number of foreign born in a country should be seen as a network effect, i.e. that a migrant wants to move to a destination where people of the same ethnicity or regional background already live. \( S \) is the main focus of this work, i.e. the variable of interest, social expenditure is displayed in the form of percent a country’s GDP in period \( t-1 \). \( E_f \) and \( E_n \) is the employment rate in period \( t-1 \) for the native and foreign-born population separately. \( W \) is the wage in period \( t-1 \) in the form of annual wage price parity adjusted (PPP) in 2015 USD. ESS-variables in period \( t \) are several aggregated answers from questioners trying to explain how the view in different countries differs on questions such as if wellbeing and strong government is important.
This is supposed to show if the inhabitants have a more generous view. This can be interpreted as description of the size and acceptance of a welfare state when its inhabitants answer how they see on helping others and the importance of government. C and Y are dummy variables for country and year. E is the error term.

Foreign born population measured in the regression as 10 000 for example an increase from 1 to 1.5 is 10 000 to 15 000. The same goes for the average annual wage and GDP per capita as 1000 USD.

6 Data
6.1 Data

Countries included in the study, in total 24 different, are European OECD countries including non-European union members that participate in the Schengen agreement. The following countries are included: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and United Kingdom.

The variables of interest are: total immigration, asylum immigration, foreign-born population, social expenditure as percentage of GDP, average wage, employment rates for the native population and foreign-born population. Social expenditure includes all public spending. Several different types of government spending is included in the OECD measure of public spending. Included is public spending related to old age, health, family, unemployment, survivors (pension and funerals), incapacity, labour market programs, housing and other such as cash payments for low income families and food subsides.
Data from the European social survey (ESS) is on micro level and contains answers from a number of questionnaires. The survey is performed in rounds every other year from 2002 to 2014 starting with ESS round 1 and ending with ESS round 7. For this report, rounds 2 to 7 are used because of the main macro data are available from 2004. The time frame chosen is from 2004 to 2014, though with variables lagged the first year will be 2006. This means our sample contains in total 213 observations, when the ESS-variables are used the sample is reduced to 90 observations.

The individuals in the ESS data have been aggregated up to country level by calculating the mean value of the answers. The questions are graded one to five, one being something you totally agree with and five implying answering do not agree at all. The answers in order from five to one: “Not like me”, “a little like me”, “somewhat like me”, “like me”, “very much like me”, and a final answer “don’t know” which has been omitted for not having a corresponding numerical value in the data set.

The questing asked are:

Do you think it is;

- Important people are being treated equally and have equal opportunities?
- Important to live in secure and safe surroundings?
- Important to understand different people?
- Important to help people and care for others wellbeing?
- Important that the government is strong and ensures safety?
6.2 Descriptive statistics

<table>
<thead>
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<th>VARIABLES</th>
<th>N</th>
<th>Mean</th>
<th>St. dev</th>
<th>Min</th>
<th>Max</th>
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<tbody>
<tr>
<td>Asylum migration</td>
<td>229</td>
<td>13 292</td>
<td>19 407</td>
<td>10</td>
<td>173 070</td>
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<tr>
<td>Non-asylum migration</td>
<td>229</td>
<td>124 335</td>
<td>196 645</td>
<td>749</td>
<td>1 172 220</td>
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<tr>
<td>Social expenditure</td>
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<td>12.5</td>
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</tr>
<tr>
<td>Foreign-born population</td>
<td>229</td>
<td>2 200 451</td>
<td>2 883 126</td>
<td>20 669</td>
<td>10 689 000</td>
</tr>
<tr>
<td>Annul average wage</td>
<td>229</td>
<td>39 564</td>
<td>11 470</td>
<td>15 092</td>
<td>60 196</td>
</tr>
<tr>
<td>Foreign-born employment</td>
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<td>85.5</td>
</tr>
<tr>
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<td>48.9</td>
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<td>13 787</td>
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<td>90 628</td>
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<td>0.36</td>
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</tr>
</tbody>
</table>

Summary statistics show the values of the data without any lags applied or logarithmic forms. Highest and lowest levels of immigration belong to Germany and Estonia.

Number asylum seekers arriving in Germany was 2014, 173 000 and lowest Estonia 2004, only 10 asylum seekers. Estonian asylum migration increased to 150 in 2014. The highest non-asylum migration was also to Germany at 1.7 million while Estonia had 749 migrants. The country with the most foreign born is Germany with 10.6 million and the one with the least is Iceland, 20 669. France spends the highest percentage on social expenditure, 32 percent while Estonia spends only 12.5 percent.

Average annual wages is topped by Luxembourg at 60 000 USD per year and the lowest wages can be found in Estonia 15 000. Highest GDP per capita is also found to be Luxembourg 90 000 USD and Poland lowest at 16 000. ESS-variables are taking on strange numbers even though they intuitively should be highest and lowest at 1 and 5 because of the values from the questioner. This is caused because they are being made from mean values for every year and country resulting in that strange minimum and maximum values are generated.
7 Results
7.1 Baseline results
The first results consist of a standard OLS regression with asylum migration and non-asylum migration as dependent variables in logarithmic form. Independent variables are social expenditure as percent of GDP, annual wages, employment foreign, employment native and GDP per capita. Social expenditure is the key variable that is interesting to this study. As shown in table 2 there is a positive relationship between the percentage a government invest in social expenditure and asylum migration and a negative relationship with the non-asylum migration. Because the migration is in logarithmic form the coefficients for social expenditure are interpreted as follows: a one percentage point increase in social expenditure is associated with a 0.15 percent increase in asylum migration and a 0.07 decrease in non-asylum migration. Both coefficients are statistically significant at the 1 percent level. Asylum seekers show a tendency to settle in countries where welfare is a prioritised part of GPD. The difference between asylum and non-asylum migrants indicate a separation in the type of individuals associated with the two groups.

Other statistically significant variables are the employment rates for foreign born and natives, all at the 1 percent level. A higher employment rate among the foreign-born is negatively associated with the number of asylum seekers and positively correlated with the number of non-asylum migrants, whereas the native employment rate shows the opposite relationship. A non-asylum seeking migrant want to move to a country with possibilities for work. If a large share of the foreign-born is working the probability of other migrants getting an employment seems likely, and therefore the migrant wants to settle there. If one have the intention not to work an opposite situation will emerge.

Several of the articles see a connection between asylum migration and social benefits. If not for all groups of immigrants, there is at least some groups that show a relationship. Kaushal find women from south America more frequently migrate to welfare areas and Zavodny who find the strongest relation for asylum seekers clustering in generous states. Comparing the result of this report with Zavodnys, the increase in migration due to social expenditure is quite different. Table 2 Show 0.15 percent increase for every percentage unit increase compared to a one percent increase gives 2 percent extra migration of asylum seekers in Zavodny’s study.
The main attraction for immigrants to a certain country common for almost all articles brought up in this report is network effects. With a larger number of people originating from the same country or region the immigration increases. In table 2 the foreign-born population indicates that 10 000 more foreign born individuals increase the asylum migration by 0.003 percent.

Table 2: Effect of social expenditure on asylum and non-asylum migration

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Asylum migration</th>
<th>Non-asylum migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social expenditure</td>
<td>0.151***</td>
<td>-0.074***</td>
</tr>
<tr>
<td>(0.031)</td>
<td>(0.022)</td>
<td></td>
</tr>
<tr>
<td>Foreign-born population</td>
<td>0.003***</td>
<td>0.001**</td>
</tr>
<tr>
<td>(0.000)</td>
<td>(0.000)</td>
<td></td>
</tr>
<tr>
<td>Annual average wage</td>
<td>0.010</td>
<td>0.026*</td>
</tr>
<tr>
<td>(0.019)</td>
<td>(0.014)</td>
<td></td>
</tr>
<tr>
<td>Foreign-born employment</td>
<td>-0.089***</td>
<td>0.084***</td>
</tr>
<tr>
<td>(0.020)</td>
<td>(0.014)</td>
<td></td>
</tr>
<tr>
<td>Native employment</td>
<td>0.062***</td>
<td>-0.061***</td>
</tr>
<tr>
<td>(0.018)</td>
<td>(0.013)</td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.021</td>
<td>-0.030***</td>
</tr>
<tr>
<td>(0.014)</td>
<td>(0.010)</td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>213</td>
<td>213</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.575</td>
<td>0.344</td>
</tr>
</tbody>
</table>

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Variables not displayed: Year

Employment for native and foreign born show interesting patterns with regards to the complete opposite results for the two groups. Employment for foreign born impact asylum migration negatively and non-asylum positively. The opposite applies to native employment where asylum is positively affected and non-asylum negatively. Values for these two groups are similar around +/- 0.085 and 0.06.

7.2 Results with ESS-variables
The second part of the result is made on asylum migration with ESS-variables included. There are five regressions one for each of the ESS variables added. The reason for separating them and not having all variables in the same regression is because of them being highly correlated (see correlation table in the Appendix). A negative result for ESS-variables is positive because of the data arranged as 1 to 5, with 1 as the most positive answer to the questions. Social expenditure is still statically significant and
with a positive effect though not at the 0.01 level for all specifications. The employment rates for natives and the foreign-born show a similar pattern as before, but not statistically significant at the highest degree or in some cases not at all.

Interpreting the answers from the ESS-data is difficult and cannot be seen as exact values but how the opinion is changing from the mean. If negative the variables say that the population is positive to the questions and a lowering of the mean value implies more immigration to the country. When the citizens believe in a strong government it will yield higher migration. The same goes for the other micro-variables that interpret the general view people have on helping others. Safety, wellbeing, equality and a strong government is all opinions that may be connected to if a country is seen as a welfare state.

Importance of a strong government -1.5, importance of being safe and secure -2.18 and importance of equal opportunity -2.5 are statistically significant variables and having a positive effect on migration.

All variables within the model should somewhat be intuitively related with people’s willingness to help others. Significant variables for the importance of safety and equal opportunity seems with regards to the group Asylum seekers should affect the number of migrants. If the inhabitants of a country believe that safety and equal opportunity is important the country is good destination.

When these ESS-variables are added, social expenditure is still positive and statistically significant, but with a slightly lower coefficient estimate. The employment rates are statistically significant at least at the lowest level when combined with ESS as well. Pedersen et al(2008) Dodson(2001) and Bartel(1989) all agree that network effects is a large factor to why one chooses to settle in certain locations. The ESS-variables should be should in a way be interpreted as a network effect.

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social expenditure</td>
<td>0.139***</td>
<td>0.095**</td>
<td>0.091**</td>
<td>0.161***</td>
<td>0.085**</td>
</tr>
<tr>
<td></td>
<td>(0.049)</td>
<td>(0.044)</td>
<td>(0.045)</td>
<td>(0.047)</td>
<td>(0.042)</td>
</tr>
</tbody>
</table>
### 7.3 Results with fixed effects

In this part of the result the regression on migration is made with fixed effects showing opposite result compared to the regular regression. The regression is consisting of the same lagged variables as before but with an added dummy-variable for country. Assuming there are no changes for countries over time, such that all other factors that may affect for example social expenditure supposed to be more or less constant. There is a negative impact of social expenditure contrary to previous results on asylum migration and positive on non-asylum migration. The large change from positive to negative results only apply to social expenditure and the other stay the same, only small changes in values. Effect from foreign-born employment is reduced on but slightly increased for natives effect on asylum migration. All variables are significant at least on the 0.1 level and some at higher levels. The country fixed effects should eliminate variation over the years but it does not tell us why there are there large differences.

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Coefficient</th>
<th>Coefficient</th>
<th>Coefficient</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign-born population</td>
<td>0.002***</td>
<td>0.003***</td>
<td>0.003***</td>
<td>0.003***</td>
<td>0.002***</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.000)</td>
<td>(0.000)</td>
</tr>
<tr>
<td>Annul average wage</td>
<td>-0.018</td>
<td>-0.008</td>
<td>0.004</td>
<td>-0.055*</td>
<td>-0.033</td>
</tr>
<tr>
<td></td>
<td>(0.030)</td>
<td>(0.034)</td>
<td>(0.034)</td>
<td>(0.033)</td>
<td>(0.030)</td>
</tr>
<tr>
<td>Foreign-born employment</td>
<td>-0.092***</td>
<td>-0.074**</td>
<td>-0.072**</td>
<td>-0.121***</td>
<td>-0.074**</td>
</tr>
<tr>
<td></td>
<td>(0.035)</td>
<td>(0.034)</td>
<td>(0.034)</td>
<td>(0.035)</td>
<td>(0.032)</td>
</tr>
<tr>
<td>Native employment</td>
<td>0.089*</td>
<td>0.032</td>
<td>0.027</td>
<td>0.127***</td>
<td>0.063*</td>
</tr>
<tr>
<td></td>
<td>(0.046)</td>
<td>(0.036)</td>
<td>(0.036)</td>
<td>(0.046)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.107***</td>
<td>0.095***</td>
<td>0.091**</td>
<td>0.142***</td>
<td>0.101***</td>
</tr>
<tr>
<td></td>
<td>(0.035)</td>
<td>(0.036)</td>
<td>(0.036)</td>
<td>(0.037)</td>
<td>(0.033)</td>
</tr>
<tr>
<td>Importance of a strong</td>
<td>-1.537*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.789)</td>
<td>(0.856)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important to help people</td>
<td>-0.183</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.477</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important to understand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>people</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of being safe</td>
<td>-2.178***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and secure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.692)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of equal</td>
<td>-2.506***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>opportunity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.860)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.661</td>
<td>0.645</td>
<td>0.646</td>
<td>0.685</td>
<td>0.680</td>
</tr>
</tbody>
</table>

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Variables not displayed: Year
Pedersen et al. (2008) mentions implications arising in the use of fixed effects on regression made in their report. One problem with the use of a regression like this may be overestimation of the variable social expenditure. Though this do not explain the total mirroring of the result in this study where results with and without fixed effects are nearly complete opposites of each other.

Looking at the regressions made by Pedersen with and without fixed effects there is not high numbers enough to draw a conclusion of social expenditure impacting the migration flow. In contrast to that report Zavodny who get similar results when including estimation for regional fixed effects there is a clear distinction between. Zadovny show a relation between asylum seekers and the level of welfare provided by the different states in the United States.

GDP per capita also changes from the baseline regression to country fixed effects by increased effect on both asylum and non-asylum migration. Instead of being around close to zero the result show negative 0.2 and positive 0.1.

Table 3: Fixed effect of social expenditure on asylum migration

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Asylum migration</th>
<th>Non-asylum migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social expenditure</td>
<td>-0.146***</td>
<td>0.094*</td>
</tr>
<tr>
<td></td>
<td>(0.049)</td>
<td>(0.051)</td>
</tr>
<tr>
<td>Foreign-born population</td>
<td>-0.004***</td>
<td>0.004**</td>
</tr>
<tr>
<td></td>
<td>(0.001)</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Annul average wage</td>
<td>-0.048*</td>
<td>0.068**</td>
</tr>
<tr>
<td></td>
<td>(0.028)</td>
<td>(0.030)</td>
</tr>
<tr>
<td>Foreign-born employment</td>
<td>-0.029***</td>
<td>0.049***</td>
</tr>
<tr>
<td></td>
<td>(0.011)</td>
<td>(0.011)</td>
</tr>
<tr>
<td>Native employment</td>
<td>0.138***</td>
<td>-0.090***</td>
</tr>
<tr>
<td></td>
<td>(0.032)</td>
<td>(0.033)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-0.213***</td>
<td>0.104**</td>
</tr>
<tr>
<td></td>
<td>(0.045)</td>
<td>(0.047)</td>
</tr>
<tr>
<td>Observations</td>
<td>213</td>
<td>213</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.951</td>
<td>0.854</td>
</tr>
</tbody>
</table>

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Variables not displayed: Year & Country
7.4 Results with fixed effects including ESS-variables

Regressions including ESS-variables with fixed effects still show the same opposite result as the one without these variables. Social expenditure is negative and the results for employment is turned around. The values are not as good as the previous regressions even though keeping the approximately the same values the only significant ones are native employment and foreign born population. The overall significance of the variables has gone down but values for the variables are still the same.

Importance of being safe and equal opportunity still have a positive impact but only the lower significance level. The ESS-variables seems to only complement the data in the standard regression and not while using fixed effects. Almost every variable is insignificant at all levels.

Table 5: Fixed effect of social expenditure on asylum migration with ESS-variables

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
<th>Asylum migration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social expenditure</td>
<td>-0.118 (0.080)</td>
<td>-0.108 (0.079)</td>
<td>-0.108 (0.079)</td>
<td>-0.111 (0.079)</td>
<td>-0.077 (0.079)</td>
</tr>
<tr>
<td>Foreign-born population</td>
<td>-0.004* (0.002)</td>
<td>-0.005** (0.002)</td>
<td>-0.004* (0.002)</td>
<td>-0.004* (0.002)</td>
<td>-0.006** (0.002)</td>
</tr>
<tr>
<td>Annul average wage</td>
<td>-0.078 (0.054)</td>
<td>-0.082 (0.054)</td>
<td>-0.083 (0.054)</td>
<td>-0.085 (0.054)</td>
<td>-0.081 (0.053)</td>
</tr>
<tr>
<td>Foreign-born employment</td>
<td>-0.030 (0.028)</td>
<td>-0.035 (0.027)</td>
<td>-0.033 (0.027)</td>
<td>-0.036 (0.027)</td>
<td>-0.038 (0.027)</td>
</tr>
<tr>
<td>Native employment</td>
<td>0.145* (0.075)</td>
<td>0.157** (0.073)</td>
<td>0.153** (0.075)</td>
<td>0.155** (0.073)</td>
<td>0.175** (0.072)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-0.145 (0.105)</td>
<td>-0.165 (0.103)</td>
<td>-0.157 (0.104)</td>
<td>-0.163 (0.103)</td>
<td>-0.188* (0.101)</td>
</tr>
<tr>
<td>Importance of a strong government</td>
<td>0.531 (0.840)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important to help people</td>
<td>-0.649 (0.900)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Important to understand people</td>
<td>-0.066</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of being safe and secure</td>
<td>-0.563 (0.855)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Importance of equal opportunity</td>
<td>-1.786* (0.794)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(0.969)
Observations  90  90  90  90  90
R-squared  0.958  0.958  0.958  0.958  0.960

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Variables not displayed: Year & Country

8 Discussion
The baseline result is positively impacted by the level of social expenditure for the group asylum seekers. The initial result implies that there is some kind of relation between the dependent and independent variables. Introducing these strong results wakes an interest in if the theoretical prediction based on Borjas might hold true.

Results show the two groups in the study are widely different. Asylum and non-asylum migrants are not affected in the same way which implies there are fundamental differences in the type of migrants made up this group. People belonging to one group have different goals with their migration compared to others. The first model shows results in line with the prediction of low skilled migrants seeking a generous welfare state. The group asylum seekers should then be low skilled but it does not mean they are totally uneducated but miss knowledge required in the host country. No formal education or required language skills. Because previous research done in this field it is important to point out recent immigrants should be of lower quality prediction that those arriving now faces difficulties on the labour market.

This first part initially confirms the theoretical framework that assumes migrants will show attraction towards welfare magnets. In this case it is the asylum seekers that will migrate to countries with higher welfare.

The other group non-asylum seekers do include all other types of migrants such as labour migrants and family migration. For them wage is significant and negatively impacted by the social expenditure. This group migrate because of work and will therefore not see welfare as the important part. The social expenditure may display higher taxes and something that in turn impact labour.

A difference between the report and other research is the network effect of foreign born population is very low. Calculating what a 100 000 population would mean is only an increase of 300 migrants. Even though it is significant the number of people that should
migrate because of this effect is small compared to the total amount of immigrants. The other studies see network as the foremost factor behind migration. Further in the part related to this, the extended baseline regressions with ESS-variables is included which is supposed to be interpreted as some form of network effect. The general opinion of a population seems to have an effect on migration through several of the variables being significant and negative. Intuitively one would think that if country A is positively minded towards immigrants I as a migrant would like to settle there.

Fixed effects has a negative impact on asylum migration for the social expenditure variable. The answers are turned around creating a difficult situation to interpret. This per se does not indicate the whole model and previous answers is wrong but some kind of underlying effect causes the results. Compared to other studies where no differences has been shown for fixed effects it is safe to conclude that something is disturbing the regressions. The differences between fixed and non-fixed effects regressions may lie with the variable for social expenditure may capture other things than the level of welfare a government provides for its citizens. Percentage of GDP is a too large measurement that may not be appropriate for this kind of research.

A thought about the amount of asylum seekers per country is on the topic of country specific policies against migration. Individual countries choose how many to accept meaning some countries only accept small numbers and a few countries accept large groups. Political policy may affect more than the level of social expenditure on how many people get granted asylum. At the same time a generous welfare state may also be reflected in its generosity for refugee reception if such generosity exist.
9 Conclusion
To conclude the report it can be said that the initial research question partially has been answered. The difference in results between the regressions depending on country fixed effects being included or not makes it difficult to completely give a definitive answer. What can said though is anweres has been in line with theory and other research in this field in such way that it gives a wide spread result. Both a positive and negative relationships have been found between social expenditure and immigration. It is not at this state possible to draw any conclusion that any of the results are completely true but some kind of relation exist from what can be interpreted in the result. Whether the effect is positive or negative it is of importance to point out more research must be done. Interesting results are with regards to some of the ESS-variables that has shown large impact while significant. That may be a sign of a network effect by the total population displaying a positive view on helping those in need.

With all facts on hand after finishing the report improvements could be made by finding better data on social expenditure where it is separated depending on the type of social benefits included. All parts of social expenditure may not be what a person initially takes into consideration when choosing a country to settle in. With that said this thesis was supposed to be on an aggregated level with the usage of GDP data trying to investigate the over all relations of expenditures and migration. Other improvements could be finding data tying country of origin and destination together.

Further research should be done because of the variety in results not only in this report but in the literature as a whole. Finding more exact data such as Pedersen et al. would greatly make a difference in the matter.
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10.4 Background sources
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(Accessed 12 June 2017)

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11 Appendices

11.1 Tables

Table 6: Correlation between ESS-variables

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<th>VARIABLES</th>
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<th>ipstrgy</th>
<th>ipudrst</th>
<th>impsafe</th>
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11.2 Figures

Figure 3

![Figure 3](Stata figure of OECD migration database)

Figure 4

![Figure 4](Stata figure of OECD migration database)