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Immigration and the Dutch economy

Introduction

- 1 The Netherlands Bureau for Economic Policy Analysis, part of the Ministry of Economic Affairs[1], has produced a wide-ranging study of the impact of immigration on the economy of the Netherlands. The web site is www.cpb.nl
- 2 The main results confirm findings in the US, Canada, and the UK that the benefit of large scale immigration to the resident population is very small and can sometimes be negative.

Main results

- 3 The study, published in June 2003, concluded that immigration of labour has the following effects:
 - a) the gross domestic product will increase, but this increase will accrue largely to the immigrants in the form of wages;
 - b) the overall net gain in income of residents is likely to be small and maybe even negative;
 - c) the amount of redistribution between residents is substantial;
 - d) the more the skill distribution of immigrants differs from that of residents, the larger the amount of redistribution will be;
 - e) residents with skills comparable to those of immigrants will lose;
 - f) residents with skills complementary to those of immigrants will win in the long run;
 - g) capital owners will win in the short run, but in the long run their gains will disappear;
 - h) due to labour market imperfections, part of the income effect for resident workers will be replaced by employment effects (unemployment instead of a wage decrease).
- 4 The effects of immigration on public finances were assessed by calculating the net lifetime contributions of immigrants and their effects on future budget balances. We conclude that:

- a) The fiscal impact of an immigrant depends very much on his or her age at entry and social and economic characteristics (labour market performance). The outcomes are most favourable for immigrants who are 25 years of age at entry and perform well on the labour market.
 - b) For all entry ages, however, immigrants turn out to be a burden to the public budget if their social and economic characteristics correspond to those of the present average non-Western resident. Accordingly, budget balances are affected negatively.
 - c) This average negative contribution of immigrants is not fully the result of a lagging performance. It is partly also the reflection of the generous system of Dutch collective arrangements.
 - d) Immigrants who perform better on the labour market than average Dutch residents alleviate public finances over a wide range of entry ages. Accordingly, an inflow of such immigrants would positively affect the budget balance.
 - e) The results indicate that immigration cannot offer a major contribution to alleviate public finances and thus become a compensating factor for the rising costs for government due to the ageing of the population.
- 5 An increasing population density brought about by immigration might affect the economy. After a rough assessment, we come to the following conclusions;
- a) Accommodating an increasing population and associated economic activity, given a fixed amount of land, may have a negative impact on gross domestic product per *head*, but not necessarily on the average income of the *resident* population;
 - b) The further population density increases, the more economies of scale are likely to be outweighed by negative external effects related to such phenomena as traffic congestion, pollution, and loss of open space, landscape and nature.

11 August, 2004

NOTES

- 1 Roodenburg, H; Euwals, R; ter Rele, H (2003) *Immigration and the Dutch Economy*, ISBN 90-5833-129-6. CPB Netherlands Bureau for Economic Policy Analysis, Van Stolkweg 14, P.O. Box 80510, 2508 GM The Hague, the Netherlands. Telephone+31 70 338 33 80; Telefax +31 70 338 33 50; Internet www.cpb.nl