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REVIEW OF: "GLOBALIZATION, MIGRATION AND WELFARE STATE: UNDERSTANDING THE MACROECONOMIC TRIFECTA" BY ASSAF RAZIN[1]

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Economic historians like to compare the main features of the two waves of globalization. A typical summary would highlight that between 1870 and 1914, international trade grew very rapidly, capital was free to move around the globe to reap the highest available returns, and migration was mostly unencumbered. Similarly, after 1960, global merchandise exports grew dramatically as a share of global GDP, and the same holds true for international movements of capital and—possibly to a lesser extent—for international flows of people. One key difference between the two waves of globalization is represented by the role played by the welfare state, which has been key in insuring that the benefits of the recent wave of globalization have been enjoyed by large sections of society, at least in Western democracies. Razin's recent volume focuses precisely on the interaction between the welfare state and an array of key aspects of globalization, using a general equilibrium political economy framework.

The book is structured in six related but distinct chapters. The first three chapters provide an advanced country's perspective of globalization and its main features. Chapters 4 and 5 zoom in on the experience of Israel, and Chapter 6 focuses on a comparison of the interactions between the welfare state and migration in the contexts of the US and the European Union.

The first chapter offers an overview of the evolution of globalization over the past decade, highlighting that the rapid growth in inequality both across and within countries has made many observers question the benefits of globalization. Importantly, Razin points out that this emerging trend is likely to be strengthened by the increased uncertainty about global economic conditions brought about by the COVID-19 pandemic. In particular, the health crisis has exposed the very limited resilience of global value chains and just in time production techniques to global shocks, inducing many political leaders to reconsider the need to maintain basic domestic manufacturing capabilities in an array of critical sectors.

Chapter 2 develops a rich general equilibrium framework in which migration, trade and capital mobility are allowed simultaneously, and where a skill based immigration policy is

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determined jointly with the extent of redistribution to be carried out by the welfare state, in a setting where the median voter is assumed to be decisive. The model—while still rather stylized—is complex enough to require a numerical solution and highlights the key role played by the aging of a population in shaping the median voter's preferred policy. The framework delivers insights on the effects on economic policy outcomes of some of the shocks that have affected advanced economies around the globe, like skill biased technological change, or the change from a "rich" to a "poor" median voter.

Chapter 3 develops once again a rich general equilibrium framework in which the links between trade and financial liberalization and the welfare state are studied. Relative factor endowments—in a Heckscher-Ohlin like fashion—are shown to play an important role in determining both which groups within society will support globalization, and the extent of the transfers carried out by the welfare state.

Chapter 4 focuses on the experience of Israel in the post-World War II period. It starts by documenting the importance of immigration for the country's long-term population dynamics and then emphasizes how the immigrant inflows from the Former Soviet Union (FSU) of the early 1990s could be compared in size only with the arrivals occurring immediately after the establishment of the state of Israel in 1948. A key feature of this wave is that immigrants were on average more skilled than natives were. Given the unique provisions of the Law of Return, immigrants very quickly gained access to Israeli citizenship, and given their sheer numbers, were able to affect the balance of power. Interestingly, Razin documents that the arrival of FSU immigrants is associated with a decline in pre-tax inequality, driven by the increased supply of skilled workers. However, at the same time, Israel experienced an increase in after-tax income inequality, an outcome that is compatible with the theoretical framework proposed in this chapter, in which the extent of redistribution brought about by the welfare state endogenously declines as a result of a median voter becoming more skilled.

Chapter 5 provides an overview of the recent developments of the Israeli economy highlighting the key role played by the country's embracement of globalization in insuring its successful transition from a middle-income country plagued by high inflation, to a high tech hub that emerged virtually unscathed from the 2008 Great Recession.

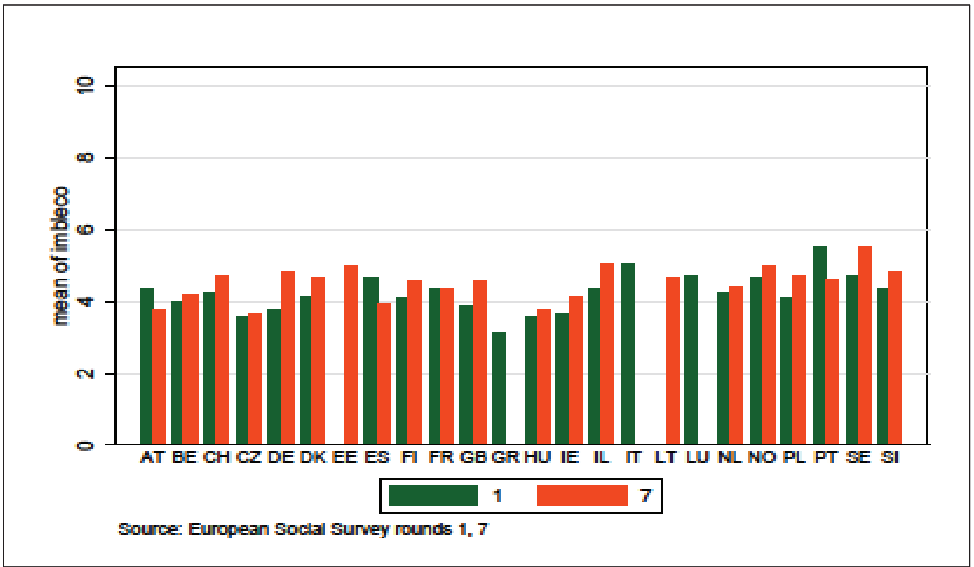
The last chapter concludes the book by comparing the co-evolution of migration and welfare state policies in the United States and the European Union. The main stylized fact put forward is that the US has a much smaller welfare state than EU member countries. This important difference in policy has then encouraged a massive surge of welfare migration toward the European Union, which has become the destination of 85 percent of the low skilled migrants to developed countries (page 150), whereas at the same time the US has been able to attract over 50 percent of the world's highly educated migrants. The chapter then discusses a theoretical framework for understanding whether the observed differences in welfare state and migration policies could be explained by the fact that the US is a federal entity with strong centralized decision making when it comes to both migration and welfare policies, whereas the EU is a collection of sovereign states with a very limited ability to coordinate member states' fiscal and migration policies.

The book provides interesting and provocative insights on the complex interaction between the different facets of globalization. It summarizes the author's work over the past two decades and is a must read for all the scholars working at the intersection between international and public economics.

Many of the arguments put forward are intuitive and broadly convincing and I particularly enjoyed reading Chapters 4 and 5 and the interpretation they offer of the post WW-II experience of Israel.

The idea that the welfare state plays a key role in explaining voters' preferences over globalization is very plausible, especially when it comes to understanding concerns with migration. In fact, cross-country opinion studies like the European Social Survey have highlighted that in most receiving countries citizens systematically think that migrants tend to receive more from the destination country's welfare state than they contribute to it (see Figure 1, where we report figures for wave 1 (2002) and 7 (2014)).[3] There is also direct evidence that natives' preferences for redistribution are affected by the presence of foreigners (e.g., Dahlberg, Edmark and Lundqvist 2012; Facchini, Mayda, Murard, 2016; Alesina, Murard and Rapoport 2019, etc.).

Figure 1
Average perception of position vs welfare state



[3] The exact phrasing of the question is "Most people who come to live here work and pay taxes. They also use health and welfare services. On balance, do you think people who come here take out more than they put in or put in more than they take out?" and the range is between 0–10, where 0 indicates that migrants take out more, whereas 10 indicates that they put in more. The average was 4.18 in 2002 and 4.50 in 2014.

Perceptions are clearly important when it comes to policy decisions in a democracy. At the same time, there is plenty of evidence that public opinion is often based on a partial and/or incomplete understanding of a phenomenon, and this is especially true when it comes to migration. Several studies have stressed how respondents in many advanced countries tend to make very basic mistakes, for example systematically overstating—often by a large margin—the share of immigrants in the population (Sides and Citrin 2007, Grigorieff, et al. 2020, etc.). Given this evidence, and the complexity of the link between immigration and the welfare state, it is thus natural to ask to what extent the public's concerns with the immigrants' position vis-a-vis the welfare state are justified.

Examining the interaction between immigration and the welfare state, at one end of the spectrum we have temporary migrants, who are unlikely to receive much in the form of benefits while in the destination country. Typically, they do not relocate their families to the destination country, and as a result, their children do not benefit from public services such as free schooling, healthcare etc. Often they are not entitled to pension benefits, even if they pay contributions into the system. On the other end of the spectrum, there are refugees, who are often not even allowed to work while they wait for their case to be processed, and hence surely represent a burden for the public finances of the host country (see Fasani, Frattini and Minale 2021). When it comes to long term or permanent migrants, as Razin points out, skills and earning potentials play a key role in shaping their position vis-a-vis the welfare state. Yet, "permanent" migration in many countries is the exception, rather than the rule. As pointed out by Dustmann and Gorlach (2016) in a recent study, "…In 2011 foreign-born outflows stood at a ratio of 21 percent to the inflow of migrants to Australia; 41 percent, 64 percent and 76 percent to the United Kingdom, Germany and Spain; and 71 percent and 87 percent to The Republic of Korea and Japan, respectively". Complex patterns of temporary migration make it very difficult to assess the "real" impact of immigrants on the welfare state, as clearly spelled out in the recent analysis of the UK experience carried out by Dustmann and Frattini (2014).[4]

This discussion indicates that there might be an important disconnect between the public's perception of immigrants' net position toward the welfare state, and their actual stance toward it. More work is required to quantify this gap, but if it is as significant as we expect, then receiving countries' governments should embark on an information campaign to insure that the public will support welfare maximizing immigration policies.

[4] "Our findings indicate that, when considering the resident immigrant population in each year from 1995 to 2011, immigrants from the European Economic Area (EEA) have made a positive fiscal contribution … while Non-EEA immigrants, not dissimilar to natives, have made a negative contribution. For immigrants that arrived since 2000, contributions have been positive throughout, and particularly so for immigrants from EEA countries. Notable is the strong positive contribution made by immigrants from countries that joined the EU in 2004" (Dustmann and Frattini, 2014).

A second important issue raised in the book concerns the potentially important role played by the destination country's welfare state in affecting the size and the composition of the migrant population. This question has also been the subject of significant controversy in the economic literature. Much of the early evidence using panel or individual level longitudinal datasets found a limited impact of the generosity of the welfare state in attracting immigrants (see Borjas 1999, De Giorgi and Pellizzari 2009 and Giulietti 2014 for a survey). Many of these studies uncover effects that are smaller than those of labor market determinants, like local wages and unemployment rates. More recent contributions use richer administrative data sources focusing on individual countries, and take advantage of quasi-experimental variation to identify causally the effect of changes in the generosity of the welfare state on immigrant location decisions. Examples of this newer approach are represented by Kleven et al. (2014) and Agersnap et al. (2020). The first paper documents a significant response of highly skilled migrants to a tax benefit introduced in Denmark in the early 1990s to attract talent from abroad. The second highlights instead how a reduction in welfare benefits led to a decline in the attractiveness of the country for asylum seekers and family reunification non-EU migrants, compared to EU migrants whose entitlements were not affected. Crucially, as the authors point out, this change in policy saw the Danish government proactively engaged in information campaigns in asylum seekers' source countries (e.g., Lebanon) to insure that potential migrants were aware of the changes in the generosity of the welfare state at destination.

While of course it is hard to separate changes in the generosity of the welfare state toward migrants from more general changes in attitudes toward foreigners that would make them feel less welcome, these papers highlight a key and so far underexplored component of the welfare magnet hypothesis—namely, the role played by information about the destination country's welfare state characteristics. While it is intuitively plausible that well educated mobile workers are well informed and thus highly responsive to changes in the fiscal regime prevailing at destination, for other types of migrants, information campaigns on the main features of the welfare state can play a very important role in shaping actual relocation decisions. To make the welfare magnet hypothesis more appealing, more work is required to show systematically whether basic information on welfare state characteristics would affect the destination choice of potential immigrants.

Summing up, the book provides deep theoretical insights about the interactions between the welfare state and globalization, setting the ground for more empirical work to assess the relative importance of the mechanisms at work.

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