

Lowering Welfare Benefits: Intended and Unintended Consequences for Migrants and their Families

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Abstract: In this paper we study intended and unintended effects of a large welfare reform in Denmark that targeted refugee immigrants. The reform, referred to as “Start Aid”, was proposed in March, approved by June, and enacted on July 1st of 2002. Individuals who were granted residency up until July 1st were eligible for the same Social Assistance levels as native Danes, while those who were granted residency after July 1st received up to 50 percent lower *Start Aid* levels. We first investigate the primary effect of the reform. We find that for males the reform resulted in an approximately 100% increase in labor earnings and employment, driven solely by an extensive margin response with employment in unskilled jobs. We also show that the reform led to a dramatic drop in disposable income and induced disincentives partly through means-testing, and partly through a particular design feature of the reform, leading married females to withdraw from the labor force and welfare system while also attenuating males’ employment response to the lower benefit level. Studying the secondary consequence of the reform, we find that the reduction in welfare benefits led to a 7-fold increase of women being caught stealing groceries in supermarkets, whereas men are more likely to commit violent crimes. We also show that children who received residency during the preschool age were 25% less likely to be enrolled in Danish daycares and preschools and 5%-points more likely to end up in the poorest performing group in language test scores, and that boys completed less education. Youths were also more likely to commit both property and violent crime because of the reform.

Keywords: Social assistance, labor market outcomes, migration.

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