

Immigrations and Public Finances in Finland

Part II: Life Cycle Effects on Public Finances of Asylum Seekers and Refugees

English Summary

Samuli Salminen

1. Life Cycle Effects Explain What Impact an Immigrant's Entire Life Span has on Public Finances.

A *net fiscal effect* is the difference between *fiscal revenues* and *fiscal expenditures*. In other words, an individual's net fiscal effect is calculated by subtracting the sum of current transfer payments to this individual, expenses from public services provided for this individual as well as expenses from criminal punishments from taxes and tax-like payments paid by this individual. Hence, an individual's net fiscal effects recount his net contribution to public finances in Finland, that is, to the Finnish taxpayer.

The realised fiscal effects. *The realised, that is, past, direct fiscal effects* were already estimated for the ten largest immigrant groups as well as for persons born in Finland, as a reference group, in the first part of the research project, which was published in 2015. The net fiscal effects were calculated by using annual person-level databases maintained by *Statistics Finland*, the *National Institute for Health and Welfare (THL)* and the *Finnish Immigration Service*. These panel data contain information on almost all paid taxes and tax-like payments, current transfer payments received, public services provided and criminal punishments, and so on, from 1995 to 2011. Taxes related to enterprise activities were also included in individuals' net fiscal effects if they pertained to the scope of individual taxation.

Life cycle effects. The second part of the research project, which this document summarises, focuses on estimating *net fiscal effects over entire life spans* of individuals for Finnish-born persons (native population) from birth until death and for foreign-born persons (immigrants) from the time of immigration to Finland until death (while taking possible emigration from Finland into account). Thus, these so-called *life cycle effects* sum up the accumulated net fiscal effects of immigrants during their entire life span in Finland.

2. Life Cycle Effects of Iraqi- and Somalian-Born Asylum Seekers and Refugees.

Estimating the life cycle effects of immigrants born in Iraq and Somalia was a particularly important task to undertake, because these two groups represent the two largest so-called refugee migrant groups in Finland. Immigrants from Iraq and Somalia arrive in Finland either as asylum seekers or quota refugees or as family members of these two groups.

Moreover, immigrants from Iraq represented the largest and those from Somalia the third largest asylum seeking groups during the so-called *refugee crisis* of 2015. During that year, 32,000 asylum seekers arrived in Finland, and this was the fifth highest number of asylum seekers per capita in the EU after Hungary, Sweden, Germany, and Austria.

3. The Most Extensive Study on the Life Cycle Effects of Asylum Seekers in Europe.

This study is the first one conducted in Finland on the life cycle effects of asylum seekers and their family members based on official register databases. Moreover, these kinds of studies are rare on the European level. Overall, this study, carried out by the *Suomen Perusta Foundation*, is the most extensive ever conducted on the life cycle effects of asylum seekers according to the author. By extent of the study, we refer to the extent of register-based research data used in the study, as well as to the thoroughness of, for example, modelling of fiscal effects related to pensions, taking into account possible emigrations from Finland, and presenting results including the life cycle effects of immigrants' children.

4. Life Cycle Effects Results on Iraqi- and Somalian-Born Asylum Seekers.

Life cycle effects are predictions, and the uncertainties pertaining to them are represented by probability distributions. These predictive probability distributions are based on the information about immigrants born in Iraq and Somalia provided by the aforementioned authoritative register databases.

The life cycle effects results for those born in Iraq and Somalia and who migrate to Finland between the ages of 20 and 24 are presented below in Table 1. The results are shown as both ‘not including the life cycle effects of immigrants’ children’ (left-hand columns) and ‘including the life cycle effects of immigrants’ children’ (right-hand columns). Life cycle effects predictions were formulated in such a way that the life cycle effects’ expected value for a native Finnish-born person is exactly 0 euros.

Table 1: *Life cycle effects for those born in Iraq and Somalia and who migrate to Finland between the ages of 20 and 24. Native Finnish-born persons are used as reference group with the mean prediction of zero euros. Prediction averages (expected values) and standard deviations (SD) for life cycle effects. The numbers shown are euros per person as of 2015.*

Country of origin	Not including children’s effects:		Including children’s effects:	
	Expected Value (€)	(SD (€))	Expected Value (€)	(SD (€))
Iraq	-690,000	(623,000)	-844,000	(1,227,000)
Somalia	-951,000	(801,000)	-1,343,000	(1,769,000)
<i>Finland</i>	0	(898,000)	–	(–)

Somalia. According to the results shown in Table 1, the average (expected value) of life cycle effects for immigrants born in Somalia is -951,000 euros per person, while excluding the life cycle effects of immigrants’ children. On the other hand, the average is -1,343,000 euros when children’s effects are included. The standard deviations (SD) in Table 1 are those of life cycle effects predictive probability distributions, and they are used to measure the magnitude of uncertainties pertaining to individual life cycle effects predictions.

Iraq. The equivalent results for those born in Iraq, and who migrate to Finland between the ages of 20 and 24 are as follows: The life cycle effects expected value while excluding children’s effects is -690,000 euros, and -844,000 euros when children’s effects are included.

Finland. The life cycle effects for the native Finnish-born population include fiscal expenditures accumulated during the ages of 0 to 19 years old. These expenditures are not included in the above-mentioned life cycle effects predictions for those born in Iraq and Somalia since the results here are shown for those who have migrated to Finland between the ages of 20 and 24 years old.

5. The Rates of Exclusion for the Second-Generation Immigrants who Have Grown up in Finland: 6 to 8 Times High as Those for Young Adults with a Native Finnish Background.

The life cycle effects of Immigrants' children are based on what is known about them as 22-year-olds in comparison to persons with a native Finnish background of the same age. The rates of exclusion and income support recipients for those immigrants' children who have either been born in Finland or who have moved to Finland under the age of eight are shown in Table 2 below. Even though these second-generation immigrants have grown up and went to school in Finland, their rates of exclusion are 6 to 8 times high as those for 22-year-old young adults with a native Finnish background.

Table 2: *Immigrants' children who were either born in Finland or moved to Finland under the age of eight. Rates of exclusion and income support recipients (%) at the age of 22. As a reference group, the same numbers are shown for 22-year-olds with a native Finnish background. Source: Statistics Finland (registers).*

	Iraq	Somalia	Finland
Rate of exclusion (%)	24	34	4
Income support recipients (%)	50	49	11

6. Conclusion: Finland Should Not Take in Any New Iraqi- and Somalian-Born Immigrants from the Standpoint of Finnish Public Finances.

So-called *decision theory* (or *decision analysis*) has been developed in the fields of statistics and economics. Its aim is to maximise a decision-maker's expected utility from a decision-making situation that involves uncertainties about the outcome.

From the standpoint of Finnish public finances, this means that those immigrants whose expected value of life cycle effects discounted to present value is negative, that is, below zero euros, should not be allowed to immigrate to Finland.

**Conclusion from life cycle effects predictions discounted to the present value:
No New Iraqi- and Somalian-Born Immigrants Should Be Allowed to Immigrate to Finland
from the Standpoint of Finnish Public Finances.**

7. Reasons Why the Results of Life Cycle Effects are Credible and Reliable.

Life cycle effects from the Suomen Perusta Foundation's study are reliable and credible above all for that reason they are almost completely based on research data compiled from authoritative register databases (*Statistics Finland, the National Institute for Health and Welfare (THL)*). The research data contain annual person-level data on almost all paid taxes and tax-like payments, current transfer payments received, public services provided and criminal punishments, and so on, from 1995 to 2011/2014.

Life cycle effects consist of seven components, including, for example, length of residence in Finland, net fiscal effects and the sums of wages and salaries for the working-age population. The following is a list of what makes the predictions of the components – and thus the life cycle effects predictions – in this study credible and reliable:

1. The predicted length of residence in Finland, that is to say, the probability to emigrate from Finland, is taken into account in the life cycle effects predictions.
2. Net fiscal effects predictions for 16 to 62-year-olds match the corresponding original net fiscal effects data compiled from authoritative databases. **Effects related to the length of residence in Finland, age, year of immigration to Finland and gender were specifically taken into account.**
3. Predictions of earnings-related pensions, national pensions and guarantee pensions for native Finnish-born persons match the corresponding long-term forecasts made by *the Finnish Centre for Pensions (ETK)* in 2016.
Moreover, these pension predictions are based on predictions of the sums of wages and salaries of the working-age population that match the corresponding original sums of wages and salaries data obtained from *Statistic Finland*. **Effects related to the length of residence in Finland, age, year of immigration to Finland and gender were specifically taken into account.**
4. Predictions of other parameters, such as *the discount factor* and *the real growth of wages*, are based on data consisting of a longitudinal series of observations of these parameters. The predictions of these “other parameters” are also probability distributions, as are the predictions of above-mentioned components of life cycle effects.
5. Almost identical life cycle effects results for immigrants' children can be reproduced by using minimum estimates of negative life cycle effects for those affected by exclusion made by *the National Institute for Health and Welfare (THL)* in 2018.
6. Averages of net fiscal effects for those under 15-year-old and averages of net fiscal effects for those over 62 year-old, excluding effects related to pensions that are predicted separately, are taken from Finnish studies and official statistics.

Citations on the First Part of the Research Project (*Realised Fiscal Revenues and Expenditures*) & Expert Hearings:

I [Finland's largest newspaper] Helsingin Sanomat 24.3.2017: "Asylum seekers do not get employed – employment of the people from Iraq and Somalia is particularly weak":

"The most precise estimate of the realised costs [of the refugee crisis] so far has come from researcher Samuli Salminen of the Finns Party's think tank Suomen Perusta. [. . .]". Matti Sarvimäki, VATT Institute for Economic Research.

II Matti Sarvimäki (VATT): "Labor Market Integration of Refugees in Finland", VATT Institute for Economic Research 2017:

"Salminen (2015) presents a detailed comparison of the social benefits and the use of public services among immigrants living in Finland by country of birth." (p. 2).

III Nordic Economic Policy Review 2017 – Labour Market Integration in the Nordic Countries. Matti Sarvimäki: "Labor Market Integration of Refugees in Finland":

"Salminen (2015) presents a detailed comparison of the social benefits and the use of public services among immigrants living in Finland by country of birth." (p. 93).

IV Jere Päivinen (Ministry of Social Affairs and Health 2017): WHAT DO WE KNOW ABOUT THE ECONOMIC IMPACTS OF IMMIGRATION? Review of the economic implications of immigration:

"The studies used in the review did not contain information on the reason for immigration. However, a country of origin based analysis (Salminen 2015) makes it possible to deduce that the most negative public financial effects per capita are the result of humanitarian immigration and the most positive public financial effects come from employment-based migration." (p. 60).

V Researcher Samuli Salminen has been heard as an expert on immigration and public finances by the Employment and Equality Committee of the Parliament of Finland on 15 October 2015.

VI Researcher Samuli Salminen has been heard as an expert on immigration and public finances by officials from the Hungarian Ministry of Finance on 2 December 2015.

For more information about the research project, please visit our web page in English:
<https://www.suomenperusta.fi/in-english/>