

The Skill Composition of Migration and the Generosity of the Welfare State

Alon Cohen, Assaf Razin and Efraim Sadka

The Sapir Center for Economic Research,

Tel Aviv University

July 2009,

Abstract

Skilled migrants typically contribute to the welfare state more than they draw in benefits from it. The opposite holds for unskilled migrants. This suggests that a host country is likely to boost (respectively, curtail) its welfare system when absorbing high-skill (respectively, low-skill) migration. In this paper we first examine this hypothesis in a politico-economic setup. We then confront the prediction of the theory with evidence. In doing so, we reckon with an *endogeneity* problem that arise because the skill composition of migration is itself affected by the generosity of the welfare state.

Key words: Migration, Skill Composition, Welfare State

JEL Classification: F20, F22, H50