
Border Turmoil and Social Security Solvency

By Kerry Pechter Thu, Jul 12, 2018

"The inflows of migrant workers compensate the falling birth rate in our country, which is the gravest threat to the sustainability of our pension system," an Italian official said this week. But he could have been talking about the US.



News coverage of the anguish on the US southern border, where families fleeing domestic terrorism in Central America face a North America worried about a possible invasion by international terrorists, doesn't focus much on the link between US immigration policy and Social Security. But maybe it should.

A 2017 study by Bipartisan Policy Center showed that, while the impact of immigration on the US economy is complex and varied, an open-door policy toward working-age immigrants could help offset the fiscal problems associated with the aging of the Boomer generation and the nation's declining fertility rate.

Immigrants add to the workforce, pay taxes, and create demand, the BPC study showed. An influx of working-age immigrants could offset America's rising dependency ratio. Thanks to the retirement of the Boomer generation and a falling fertility rate, the US has only about two workers paying federal taxes for every individual dependent on federal programs like Social Security and Medicare.

Events in Italy this week showed, however, that there's not much room in the current political environment for dispassionate debate over immigration and economics. The chairman of Italy's social security agency was criticized for saying that his country needs a steady influx of immigrants to restore the balance between contributions and payouts within its pay-as-you-go first-pillar pension system, the equivalent of our Social Security.

The comments, by Tito Boeri of the Istituto Nazionale della Previdenza Sociale (INPS), were instantly "scorned" by the Italian government, according to a report in *IPE.com*. The government has closed ports to NGO (non-government organization) vessels that rescue immigrants crossing the Mediterranean Sea from Africa.

"By closing our borders, we risk destroying our social protection system," Boeri told Italy's

lower house of parliament. "A ruling class that lives up to its name must have the courage to tell Italians the truth: we need immigrants to keep our social protection system on its feet.

"Immigrants provide a very important contribution to the financing of our social protection system and their function is destined to grow in the next decades, while the generations of indigenous workers that enter the labor market will become smaller," he added.

Matteo Salvini, deputy prime minister and interior minister, who has worked to keep migrants from entering Italy, tweeted, "The chairman of INPS continues to be political, ignoring the will to work of so many Italians." In a Facebook video, he added, "Much will have to be changed in" the INPS and other public bodies.

Agency models €38bn financing gap

The INPS annual report that showed that a reduced inflow of foreign, non-European Union workers in the country would have a negative impact on its social protection system.

As part of the annual report, the organization modeled the evolution of welfare expenditure until 2040 if the inflow of foreign non-EU workers would be stopped completely.

The report showed that, in the three years before Italy's economic crisis, 150,000 foreign non-EU workers would join the system each year. At the same time, 5% of the stock of foreign workers, which amounted to around 100,000 people, would leave the labor force.

Assuming that the stock of foreign workers contributing to the system falls by an average of 80,000 each year until 2040, the INPS would lose €73bn in contributions from immigrant workers each year and gain €35bn in welfare expenditure directed at foreign workers, the report said, for a net inflow of €38bn in INPS coffers each year.

"The inflows of migrant workers compensate the falling birth rate in our country, which is the gravest threat to the sustainability of our pension system," Boeri said. While the system is prepared for rising longevity, further reductions in the numbers of contributors would likely put it at risk.

Former labor and welfare minister Elsa Fornero, who designed a major reform of Italy's pension system in 2011, told IPE: "We need immigrants, because our ratio of young workers in the labor force is shrinking. [But] immigrants alone can't solve Italy's pension problems."