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Abstract

Luxembourg is the EU and OECD member state (MS) with a permanently increasing immigration and the highest share of immigrants and cross border commuters within the labour force and more so within the competitive sector.
Luxembourg has a typical Bismarckian corporatist welfare system, which has developed a generous and broad welfare regime over the last 100 years with a further important push during the last two decades. Since then, benefits offered muted steadily to middle class standards and providers were merged to universalistic national bodies, leaving behind the different former corporatist providers. Due to a higher dependency on welfare benefits due to the economic downturn, nearly all MS modified from the 1970s onwards their original systems, mostly in the sense of a liberalization with cutbacks in comparison to the former more generous provisions. There has been a shift in responsibility from the state to the individual citizen via different means such as a non-increase of benefits, restricting eligibility (re-commodification), restructuring schemes in a radical way (recalibration) and cost containment measures (Pierson, 2001). Luxembourg however expanded and improved its system.
What is the link between immigration and the outstanding evolution of the welfare system?
The steady increase of young foreign contributors (immigrants and crossers) provided Luxembourg with the means to develop from a corporatist model to a Scandinavian with highest provisions, an emerging service sector and no significant retrenchment policy. Immigrants contribute, on average, more to the different welfare insurances than they use them, given their on average younger age, given a predominantly economic immigration and given higher employment rates than those of nationals.

Keywords: Migrants' incorporation, corporatist - universalistic welfare regime, Luxembourg, migrants' contribution

JEL classification codes: I38

1 Introduction

Luxembourg is the EU and OECD member state (MS) with the highest share of immigrants within the resident population, within the labour force and more so within the competitive sector. It has a long standing tradition with immigrants, since the end of 19th century. It implemented a clear immigration policy aiming at the arrival of Europeans. Furthermore, it developed since then a policy attracting the same time highly qualified immigrants and foreign economic decision makers from the Northern hemisphere as well as poorly qualified manual workers from Southern regions of Europe (Italy, Portugal and the former Republic of Yugoslavia; Hartmann-Hirsch, 2010).

This particular situation produced a unique stratification, positioning on top of the societal pyramid a transnational economic elite (Hartmann-Hirsch and Amétépé, 2010), which runs a booming economy – a 'virtual spiral' (Schuller, 2002) – putting Luxembourg on top of GDP and employment growth scales1. The wealth produced in this small MS is, in an outstanding way, due to the leading highly qualified transnational elites, a very active, thus efficient group of less qualified immigrants and a quantitatively more important group of cross border commuters; nationals became minority in the domestic labour force and more so in the competitive sector.

Luxembourg has a typical Bismarckian corporatist welfare system, which has developed a generous and broad welfare regime over the last 100 years with a further important push during the last two decades. Since then, benefits offered muted steadily to middle class standards and providers were merged to universalistic national bodies, leaving behind the different former corporatist providers. Beside the generous transfers, Luxembourg also developed considerably the service sector, going thus more and more in the sense of Scandinavian regimes. Due to a higher dependency on welfare benefits due to the economic downturn, nearly all MS modified from the 1970s onwards their original systems, mostly in the sense of a liberalization with cutbacks in comparison to the former more generous provisions. There has been a shift in responsibility from the state to the individual citizen via different means such as a non-increase of benefits, restricting eligibility (re-commodification), restructur-

[1] OECD reports, JER, JRSPI of the CEC,

ing schemes in a radical way (recalibration) and cost containment measures (Pierson, 2001). Luxembourg however expanded and improved its system. What happened in Luxembourg? Its evolution is in contradiction with the aforementioned general trend of other corporatist or Scandinavian models. What is the link between immigration and the outstanding evolution of the welfare system?

Initially, welfare systems were developed within Nation-states, aiming – in a somehow 'natural' way - at nationals. Immigrants were considered as not belonging to the nation-State's system. After WW II, national welfare states became obliged by supranational conventions to open-up and integrate all2 residents, to avoid exclusion of certain groups and provide all3 residents with equal opportunities (Bommes, 2007, Ette, Faist, 2007). However, even within supranational (EU) legal texts, immigrants are considered to be a potential 'burden' on the social security budgets; this has obviously patterned some of the exclusion conditions within national law (section 3.2.). Integration in the area of social security is done via attributing social rights, the equivalent amount of public spending and access to social services. Immigrants are entitled to certain/to all benefits, according to the type of welfare regime in the different EU member states (MS) and their migration status (EU or non-EU; Sainsbury, 2006). Integration policies of nation-states vary with regard to the opening-up of immigrants.

How do nation-states cope with their *national mission* as opposed to their *supranational obligations*? What about the opening up of welfare schemes to immigrants, about the incorporation Nation-States foresee for those 'externals'?

In the following sections we will, in a first stage, present some key features of Luxembourg's immigration and its welfare regime. We will also provide a concrete example of the opening-up of social rights to immigrants, demonstrating Luxembourg's incorporation policy. In a second stage, we will analyse the contributions to taxes and social security as well as consumptions of benefits and insurances by EU and non-EU immigrants and nationals – both highly or less qualified. This will enable us to provide a preliminary answer to our main question: How was it possible that Luxembourg could avoid retrenchment policies for

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[2] Including immigrants, but depending on the supranational level, this « universal membership model » might be defined by EU institutions, thus providing EU citizens with access, or by other supranational institutions, such as the European Council including hence more than the EU – 27, or even by worldwide institutions like UN.[2] A more detailed and general classification is presented in Hartmann-Hirsch (2009).

[3] We skip the stronger conditions for non-EU citizens, who – with regard to EU legislation - obtain a residence permit only if the contract provides with at least the minimum wage.

its corporatist-universalistic system? Our answer will be that a booming economy run, to an extent of two thirds, by foreigners (migrants and cross border commuters) allowed this exceptional evolution of the welfare model of this small nation-state.

2 A performing Immigration

2.1 A Long Standing Tradition of Immigration

Luxembourg is the second smallest member of the EU with 502 066 inhabitants in 2010, of which 43 percent are foreigners. With regard to two categories, Luxembourg implemented a pro-active immigration policy: *First*, Luxembourg always aimed at a *European* immigration, having signed two conventions with Portugal and the former Republic of Yugoslavia in 1970 – and not signing a prepared labour exchange convention with Tunisia! Before this, during the first half of 20th century, Italian manual workers immigrated to work in the steel industry and reached nearly 20 percent of the resident population in 1930. From the 1970's onwards, *low skilled non-EEC* Portuguese and to a lesser extent Yugoslavs had then an eased access to the labour market. *Secondly,* most OECD countries developed recently an immigration policy aimed, in a privileged way, at *highly qualified immigrants.* Luxembourg did so since long time: Prussian engineers launched the steel industry at the end of the 19th century and again foreign managers came to Luxembourg in order to develop the financial sector after the steel crisis in the 1970s (von Kunitzki, 2007).

Luxembourg is positioned on top of the OECD scale with regard to the share of 'highly qualified amongst all recently (last ten years) arrived immigrants' and with regard to the share of 'immigrants being in high skill jobs'[4]. The group of highly skilled immigrants became more numerous than the national equivalent (table 1) and it is better qualified than the equivalent group of nationals. The countries of origin are mainly those from the Northern hemisphere (Hartmann-Hirsch, 2008). Almost three quarters (72 percent) of the highest 5 percent of wages and 79 percent of directors of the banking sector are foreigners (Fehlen and Pigeron-Piroth, 2009).This policy has been implemented, in the case of Luxembourg, by easing the access to the la-

[4] OECD, 2009: 14 s. All those who have a BA or a BSc are considered as highly qualified. We applied the same definition for our analysis.

bour market for non-EU citizens with *high wages* without a modification of the legal framework (OECD, 2003: 110). Similar to the German 'Zuwanderungsgesetz', the Parliament adopted a new immigration law in 2008 differentiating immigrants according to a selective immigration policy (high wages, university degrees etc.), thereby legalizing the previously implicit policy. Nationals appear to be in a sandwich situation, being positioned in between the two aforementioned two groups[5]. In addition, the share of international officials is one of the highest in the EU. Since the 1950's, Luxembourg hosted a number of international organisations, and international officials currently present 4,3 percent of the domestic labour market and 5 percent of the resident population[6].

Luxembourg is the country with the lowest share of Third Country Nationals (Thill-Ditsch, 2010). Their share remained low and stable with 5 percent in 2000 increasing to 6 percent in 2009 (resident population). Only 3.8 percent of the resident population are less qualified non-EU citizens (table 1).

Table 1: Proportions of economically active nationals and immigrants as a share of all economically active persons aged 25 to 64 by level of education

Luxembourgian and immigrant groups	**2002**	**2006**
Highly qualified Luxembourgians (HQ)	9.5	9.8
HQ immigrants: EU/non-EU	10.6	13.0
Less qualified Luxembourgians (LQ)	48.2	44.5
LQ EU immigrants[7]	27.9	28.9
LQ non-EU immigrants	3.7	3.8
Total	100.0	100.0

Source: PSELL3/EU-SILC, waves 2002 and 2006, authors' calculations. The cut-off for defining the level of education is BAC+3. This is based on the OECD definition.

[5] Cf Fehlen and Pigeron-Piroth, 2009: 79 percent of directors of the financial sector are foreigners.
[6] Cf. http://www.statistiques.public.lu/fr/acteurs/statec/index.html, 2008
[7] A differentiation is made between EU and non-EU only for less qualified immigrants, as the latter have been subject to more rigorous conditions since the establishment of the selective policies (1990s/2000s).

2.2 Immigration and Employment Growth

Three elements compose the domestic labour force; nationals (29 percent), immigrants (27 percent) and cross border commuters (44 percent) (IGSS, 2009). In comparison with the EU, Luxembourg was mostly on top of the scale with regard to GDP and employment increase[8] with an average annual growth of 3.7 percent between 1998 and 2008; for cross border commuters, the annual average was 8.8 percent, for resident migrants 3.7 percent and for nationals 0.3 percent (Di Bartolomeo, 2009). Thus, Luxembourg's economy and labour market heavily depended, and depend on foreigners (immigrants and cross border commuters). 68 percent of the *domestic labour market* and 74 percent of the competitive sector are foreigners; 44 percent of them are immigrants and 56 percent are cross border commuters (Statec, 2008).

The increase of cross border commuters was always higher than that of immigrants and more so than that of nationals. However, we observe an even higher increase for Third Country Nationals and more so for new MS. The share of non-EU citizens remains between 2 and 3 percent of the domestic labour market given the aforementioned European immigration policy: after each EU enlargement, numerous European former non-EU immigrants were shifted to the group of EU-citizens, reducing each time the meanwhile increased group of Third-Country-Nationals.

Furthermore, Luxembourg's immigration is predominantly economic; it figures on top of the OECD scale with 54.3 percent as compared to an average of 14.5 percent (OECD, 2009: 16); thus, the share of family reunion and humanitarian inflows is low as compared to the OECD average. The latter two are considered being more in danger of poverty and exclusion, being eventually a 'burden' to welfare schemes. Furthermore, Luxembourg never ordered a stop to an economic immigration. Since WW II, there is an uninterrupted inflow of migrants - and more so of cross border commuters[9] - with a steady increase of the highly qualified immigrants and economic decision makers.

In conclusion, we observe a well performing immigration (and cross border movement): First, the proportion of less qualified Third-Country-Nationals has decreased, which might partly be due to recent selective policies (table 1; Hartmann-Hirsch, 2010).

[8] cf. Joint Employment Reports (JER) and Joint Reports on Social Protection and Social Inclusion (JRSPSI, 2009.

[9] Due to panel data which do not include cross border commuters we will neglect this even more important share of contributors to insurances and taxes.

OECD observes the design of selective immigration policies within most of its MS; however, only three countries succeeded: Austria, Luxembourg and Norway (OECD, 2009: 15[10]). Second, overqualification[11] of EU and non-EU citizens is marginal, if not inexistent, in contrast to the neighbouring countries (OECD, 2009: 13). The transnational brain is obviously vital to the 'national' economy. And last but not least, transnational elites positioned themselves on top of the national elites, producing thus quite unusual patterns of 'integration and assimilation' (Hartmann-Hirsch and Amétépé, 2010). Foreigners are the main contributors to the economic performance of this small nation-state. The economy, the labour market, and the society are the most transnationalised within the OECD.

3 Luxembourg's Welfare Regime and its incorporation of migrants

Luxembourg was able to develop, enlarge and improve its welfare system, creating one of, if not the most generous regime in the EU. During the last two decades, authorities introduced a comprehensive new care insurance (1998) plus several new benefit schemes[12] and launched an important social service sector for children and the elderly. On top of these new measures, standards have been considerably improved (Kieffer, 2008; Hartmann-Hirsch, 2009 and 2010).

Within this context and in view of the large share and well performing immigrants, it is interesting to see *which type of welfare model this small nation-state* has developed. We will classify Luxembourg's welfare protection[13] on the basis of Esping-Andersen's (1990) three welfare models and of Soysal's (1994) incorporation models and we will present an example of incorporation policies.

[10] Outcomes are those quoted above. However, we do not control for the link between policies and these outcomes. Hartmann-Hirsch (2010) demonstrated the more market than policy driven in- and outflows.
[11] Active persons with a tertiary education (ISCED 5/6) who work in other - "lower" – than professional or associate professional occupations (ISCO 2/3).
[12] Parental leave in 1998, two provisions for the elderly in 1998, etc.
[13] A more detailed and general classification is presented in Hartmann-Hirsch (2009).

3.1 A Corporatist universalistic Welfare Regime with Limited Efficiency

Within the three models (corporatist, Scandinavian and liberal: Esping-Andersen, 1990), Luxembourg's social protection should be considered as ***a profoundly corporatist model***: Luxembourg started to adopt Bismarck's insurance models by 1901 with egalitarian contributions by employers and employees plus important co-financing by the State - with the exception of the care insurance, which is only financed by the employees and the State (launched in 1999). Services were underdeveloped (Esping-Andersen, 1999). A low female employment rate demonstrated the 'conservative' role leaving child care responsibilities to the family. Labour market participation in these countries is lower than in liberal and Scandinavian systems[14].

For contributory Bismarckian insurances, which are linked to the work contract, immigrants, whether EU or not, are immediately insured (health, pension-disability, care and accident insurances). For non-contributory, means tested benefits like social assistance, two elements are taken into account: the income and the composition of the *household* – as opposed to the income of the *individual* person, *the* Scandinavian parameter. The State is the main protecting actor and citizens rely in an easier way on public benefits. As a response to the higher take-up, a typical feature of corporatist systems is the fear of abuse of benefits, and more so the fear of abuse by 'outsiders' (immigrants) as opposed to open Scandinavian schemes, which are built-up on the presumption of a 'universal solidarity attitude' (Esping-Andersen, 1990: 100).

During the last decades, Luxembourg progressively adopted ***Scandinavian standards,*** going even beyond the high Northern European middle class standards in contrast to the corporatist and liberal levels with 'equity amongst the poor' (Esping-Andersen, 1990).

Child benefits in Luxembourg are by far the highest in EU. The policies for the elderly are extremely generous: care insurance provides with the most generous monthly cash benefit plus important benefits in kind (Hartmann-Hirsch, 2007). Pension insurance provides with very generous replacement rates (4th position within

[14] Cf Blossfeld et al. 2006 for early exit versus late exit patterns.

OECD countries: OECD, 2007). Out-of-pocket money for health provisions by patients is the lowest within OECD (2008: 123)[15]

Other principles can also be considered as ***Scandinavian:*** welfare in Luxembourg is highly budgetised[16]: some benefits are financed on the basis of the state's budget alone (child and unemployment benefits: MISSOC). Furthermore, Luxembourg developed an important service sector for child care and the elderly leaving thus behind the transfer orientated corporatist model – a significant recalibration (Pierson, 2001 and Hartmann-Hirsch, forthcoming). In addition to that the former corporatist providers/schemes have been merged into one major 'national' insurance[17] - this is the case of health and pension insurances - or one unique national scheme - this is the case of the care insurance, which has immediately (in 1999) been launched as a unique national scheme, including also civil servants.

Two elements *might be considered* as ***liberal*** ones:

Contribution rates for employers and employees are the lowest within neighbouring MS (Hartmann-Hirsch, forthcoming, table 4), being an incentive to companies to settle in Luxembourg. Luxembourg can afford these low indirect labour costs due to high tax incomes - the effect of an excellent economic performance with its 'virtuous spiral' (Schuller, 2002). The state compensates the low contribution rates by co-financing these systems generously.

The care insurance (law of 1998) is financed by the employees/independent or self employed (plus the state). This is in line with a liberal philosophy, wishing not to hamper the competitiveness of the market. Again as opposed to liberal models, the state compensates the missing part of the employers.

Concluding we would say, there is no liberal trend - like in Germany - by introducing competition amongst providers by multiplying them, but a clear option for ***universalistic structures*** in order to provide egalitarian access. Luxembourg expanded its offer, based on a steady increase of contributors with a permanent arrival of young immigrants and cross border commuters (Hartmann-Hirsch forthcoming). Due to these performing and sustaining immigrants and cross border commuters, Luxembourg was able to move from a Bismarckian system to a more and more Scandinavian one (Hartmann-Hirsch, forthcoming).

[15] Cf for more detailed argumentation, cf. Hartmann-Hirsch, 2009 and 2010: forthcoming.
[16] "The tax share of the total financing of social security in Luxembourg is 40% higher than that of its direct neighbours that have similar systems of financing (also Bismarckian)" (Cichon, 2007: 38).
[17] plus remaining providers for civil servants.

With regard to efficiency/sustainability and equity[18], we can assess equity for Luxembourg with comfortable middle class standards but limited efficiency: Two weaknesses have been underlined by the CEC and OECD repeatedly: 'corporatist' early exit patterns and low female employment rates[19]. Luxembourg did not reach the objectives of the European Employment Strategy in 2010 with an overall employment rate of 70 percent, an employment rate of 60 percent for women, and 50 percent for workers aged 55 – 64. In 2007, womens' and the elderly workers' employment rates respectively reached 56 and 32 percent (Haag, 2010). Luxembourg provides numerous incentives for early exit via high replacement rates for disability, pension and early retirement schemes as well as via specific corporatist benefits (Hartmann-Hirsch, 2006). The two weaknesses concern more nationals than foreigners (Plan National de Réforme, 2008: 44).

Generally speaking, attitudes of nationals seem to be more influenced by a corporatist philosophy, considering the State as the main responsible actor, whilst immigrants seem to be more driven by employment orientated Scandinavian or liberal attitudes.

In terms of Sapir's benchmarking, Luxembourg could be – together with Scandinavian models - another best practice with equity due to the improving broad and generous welfare offer. However, sustainability/efficiency is a major problem given the high inactivity rates. A full labour market participation philosophy has yet not reached a certain share of nationals.

3.2 Immigrants' (and Nationals') Incorporation: the case of social assistance

Soysal (1994) as well as Bommes/Halfmann (1998) highlight the ambivalent "national" approach of welfare states; benefits were mainly aimed at nationals, but nation-states became more and more subject to supra-national organisations which entailed an increasing obligation to incorporate immigrants, at least those from other MS. 'Migration' and 'welfare systems in nation-states' constitute, a 'contradictio in se': "to an increasing extent, rights and privileges once reserved for citizens of a nation are codified and expanded as personal rights, undermining the national order of citizenship" (Soysal, 1994: 1).

[18] Scandinavian countries produce efficiency (with high labour force participation) and equity (with middle class standards and egalitarian access) – best practice in terms of benchmarking. Continental countries produce equity (amongst the poor!) but no efficiency (due to high inactivity rates). And liberal models produce efficiency (low inactivity rates) but no equity (extremely low benefits): Sapir, 2005.
[19] cf. *JER* and *JRSPI* as well as the bi-annual *OECD Economic Surveys*.

Luxembourg's means tested social assistance, the Revenu Minimum Garanti (RMG) is a concrete example for a non-pro-active immigrant incorporation, for a prudent opening-up of non-contributory benefits.

Incorporation of immigrants into the four main contributory Bismarckian insurances (health, pension, accident and care insurances) is automatic for those who have a work contract or are actively self-employed; members of the nuclear family are automatically co-insured. Here immigrants are incorporated in the same way as nationals, as soon as they award a work contract.

However, the non-contributory benefits, mainly those, which are means tested and considered stigmatising, contain other conditions: a residence and an age condition in the case of Luxembourg. Both might concern nationals and / or immigrants. We will have a closer look into access conditions and how it developed.

RMG as well as other benefits[20]) contained and still contain a preliminary residence condition, which allows authorities to hinder newcomers which might be looking for 'social tourism'. Users of social benefits and more so immigrants are often considered a 'burden' to the state (Borjas and Hilton, 1996), lacking the necessary solidarity with the destination State (Bommes, 2007). Further, the EU legislation, which, in general, challenges the MS to open up their schemes to EU citizens, also protects its MS from non-active potential *EU immigrants*, those, who might become a "burden to the State" through having no work contract and/or insufficient financial resources (directives 364/1990 and 38/2004). However, the EU regulation on free movement 1612/68 (art. 7) also protects its active EU-migrants: "He shall enjoy the same social (and tax) advantages as national workers."

Regarding RMG, Guibentif and Bouget (1997) positively stress the inexistence of a nationality condition - in contrast to other MS - but characterise Luxembourg as the MS with the most rigorous residence condition: a previous official residence of 10 years. The objective of authorities was to prevent "social tourism"– this was also the idea of the European directive 1990/364 aimed at non-active EU migrants[21]. Luxembourg seemed to be in line with European legislation: immigrants, even EU immigrants should not "be a burden on the State". The fear of abuse is explicit. The offi-

[20] "Allocation pour personnes gravement handicapées", law of 1979 and "allocation de soins", law of 1989.
[21] Free movement is guaranteed for active EU-citizens and their nuclear family; however for non-active EU citizens, Member states control for the entrance.

cial idea was to treat *all* residents in the same way, whether nationals, EU or non-EU citizens. In 1989, the same condition was eased to "10 years at least during the last 20 years"[22] in order to ease access for two groups: the homeless (without official residence documents!) and nationals returning to Luxembourg after a stay abroad, who then had to wait another 10 years in order to become eligible. There was no concern about immigrants (draft bill 3249[00]). Ten years later, in 1999 the residence condition was revised again. At this moment, there was a strong debate concerning EU and non-EU immigration. With regard to the residence condition, the opinions of the social partners highlighted on the one hand the *danger of being sentenced by the Court of Justice of EU (CJEU) for non-opening-up, thus discriminating EU citizens* and, on the other hand, the *danger of discrimination of non-EU citizens* (if EU-citizens would have immediate access) which could be sentenced by the European Court of Human Rights (Council of Europe). The Conseil d'Etat ("second Chamber" of Luxembourg) proposed *not to abandon too quickly the residence condition* for EU-citizens, but to wait for a clear sentence by the CJEU.

Different modifications of the draft bill have been introduced during the 3 years of debate. Finally, the law of 29 April 1999 stipulated "5 years during the last 20 years" for all, hence for EU- and non-EU citizens (as well as for nationals) in order to avoid "social tourism", maintaining the philosophy to treat *all resident claimants* in the same way. According to the convention of Geneva (1951), a *supranational legal text* and a decision by a *national tribunal*, Luxembourg *had to* accept immediate access to RMG for recognized refugees. The *CJEU* sentenced Luxembourg for indirect discrimination of EU-citizens, as all EU citizens are entitled to "the same social (and tax) advantages as national workers" (art. 7 regulation 1612/68). Thereafter, national authorities *had to* abolish the residence condition for all EU-citizens, but maintained it for the non-Communitarians (2001). European MS enjoyed full sovereignty concerning non-EU immigrants up to 1997 (Treaty of Amsterdam), but even after 1997, EU law does not yet indicate precise conditions for access to social security benefits for non-EU citizens with exception of the long term immigrants directive (Castles and Miller,2009: 181ss). In the case of Luxembourg, the opening-up of social rights has been imposed by supranational case law and legal texts. With the pru-

[22] « y avoir résidé pendant dix ans au moins au cours des vingt dernières années; » (art.2 (1) of the law of 16 June 1989).

dent corporatist 'incorporation', authorities intended to keep newcomers – mainly migrants - away from welfare provisions as long as there is no sentencing by supranational means (Soysal, 1994)[23]: corporatist regimes protect those who are already member of the system and defend it against "intruders".

We will now analyse who contributes what to social security and the public budget in order to try to answer our aforementioned central question with regard of the sustainability of an outstanding because expanding corporatist-Scandinavian welfare model.

4 Contributions to social security and state's budget / consumptions

There is an abundant literature on the consumptions, less on the contributions of immigrants to the welfare protection system and the public budget of the destination country. Contributions to insurances as well as to taxes are automatic, linked to income; consumptions of insurances are guaranteed in contrast to means tested benefits. What about contributions to insurances and taxes and consumptions from insurances and other allowances, both by nationals and by immigrants? With this empirical question we can first of all see which of our groups contributes more than it consumes and the opposite. Secondly we come back to the aforementioned broader theoretical framework, highlighting the antagonism between national welfare regimes and migration, which within the political and academic debate led sometimes to a conclusion of an 'abusing consumption' by migrants (Borjas and Hilton, 1996; Soysal, 1994).

Different authors study the impact of immigrants on the economy (wages, unemployment, etc.). Immigrants are either shown to take-up welfare benefits more than nationals (Borjas and Hilton, 1996), or their positive effects are highlighted for example, on ageing societies or on the wages of the low skilled (Brücker et al., 2006). For both results as well as for many others, there is an implicit statement of

[23] Even if non-Communitarians have not to be considered according to EU legislation, other supranational frameworks might consider this type of exclusion as discriminatory (e.g. the European Court of Human Rights).

homogeneity of immigrants as well as of nationals and *the* immigrants are predominantly those with a working class background. Others demonstrate little dependency on welfare for certain groups of immigrants (inner Scandinavian migration) as opposed to a higher dependency of other groups (migration from the South) (Pedersen, 2005). Implicitly, inner Scandinavian immigrants are distinguished from the others from the South and are better off, whilst nationals are taken as a homogenous group.

Still others explain different types of dependency on welfare schemes. For example, the minimum income within different legal frameworks; this contrasts a liberal nation state with its liberal welfare regime (UK) and a conservative nation state with the equivalent welfare regime (Germany). This considers whether generous welfare systems constitute a higher incentive for potential emigrants, whether these welfare regimes are “welfare magnets” (Borjas, 1999; Hartmann-Hirsch, forthcoming); but no clear trend could be observed (Büchel and Frick, 2004).

Moreover, the immigrants in the UK are found to be a more heterogeneous group than those in Germany and the latter perform worse than the former. This has been explained by the liberal welfare regime leaving more responsibility with the individual than with the State, whilst corporatist regimes are more likely to produce attitudes of “assistés”, relying on the State (Büchel and Frick, 2004).

Finally, Pedersen (2005) observes that the very diverse results can be explained by the fact that the research had been done in different historical periods. It is based on different legal frameworks in different nation states and on different benefit schemes with different types of immigrants.

For nearly all researchers, there is an implicit statement on homogeneity of immigrants, more so for nationals, with immigrants predominantly being those with a working class background with some exceptions (Pedersen, 2005).

In the following section, we will give an account of the data set and introduce our approach, following for the latter Büchel and Frick (2005), who compared the pre-government income (market) to the post-government income: starting with the pre-government /market income, adding-up public benefits and deducing contributions (taxes and insurances) in order to obtain the post-government income.

This approach can be handled in the most appropriate way by using the PSELL3/EU-SILC household panel[24] (wave 2006). The survey provides detailed data on approximately 30 types of income[25]. Furthermore, some variables allow us to calculate personal taxes and social contribution as well as consumptions within a *unique* data base. We will concentrate on the resident population, as panel data exclude cross border commuters. Our panel data includes residents, i.e. nationals, immigrants, and international civil servants. This sample allows us to analyse the economic status and other socio-demographic characteristics of individuals and households. We built a dataset after matching adult individuals and households headed by a person aged between 25 and 64. Our observation unit is the individual and we obtain almost 3500 individuals. For each individual, we got information about the age, the sex, the marital status, the nationality, and the year of immigration to Luxembourg, the educational level, the activity, the market income etc. Although our analysis unit is an individual, we use some questions on the various elements of the household's income (including the non-labour income and different public benefits aimed at the household or at certain persons of the household) as well as the taxes and the social security contribution. In Luxembourg public means tested benefits are always related to the household as a whole and not to an individual living in this household – a corporatist parameter. Excepted the income for each individual, we also apply for individuals incomes related to the households according to the OECD equivalence scale[26] on the household's income, which are added to the individual level.

What is new about our approach is that we will differentiate immigrants as well as nationals with regard to educational levels. Hence, we can distinguish effects due to migration and education with a high probability of an equivalent effect on income and dependency on welfare. The educational level is considered a proxy of the professional status and the wage. Our analysis will be done with five target groups. Highly qualified non-EU immigrants enjoy easier access to the labour market than

[24] Which included in 2002, 3.500 households and 10.000 individuals - 8.000 of them aged 16 and more.

[25] Wages, income from self-employment and from capital (private income), pension schemes (they are generated by private and public funds (including State's contributions), different types of subsidiary incomes like unemployment benefit, social assistance, etc. Amongst public benefits, there are universal benefits, which can be cumulated with wages, and means tested benefits, which can only be matched in case of a private income which remains below a certain threshold.

[26] head of household=1; other adult members aged 15 years and older=0,5; children aged below 15=0,3.

their less qualified counterparts given the aforementioned selective policy privileging those incoming migrants who have a wage of more than 4 times the minimum wage. Non-EU citizens award full free movement, thus face *no* obstacles. Hence we will have *one unique* group with 1. ***highly qualified non-EU and EU immigrants***[27]. For *less*[28] *qualified immigrants,* we distinguish clearly non-EU immigrants facing strong access conditions, and EU-citizens awarding free movement: 2. ***less qualified EU immigrants*** and 3. ***less qualified non-EU immigrants***[29]. If we differentiate immigrants in terms of qualification, we have to do the same for *nationals with* 4. ***highly*** and 5. ***less qualified nationals*** (table 1). The threshold for high qualification is holding a BA/ BSc according to OECD definitions

[27] Splitting up this group would produce too small figures for statistical analysis with panel data.
[28] We are aware of the quite unprecise criterion, but we followed OECD definitions.
[29] EU citizens are awarded free access to the labour market and, if they have a full residence permit, they are also entitled to minimal benefits like social assistance, etc. (via regulation 1612/68); this is not the case for non-EU citizens. A different treatment of EU and non-EU citizens is in line with European legislation (cf. anti-discrimination directives 2000/43 and 2000/78).

Table 2: Main source of income for individuals by the migration status and educational level of the head of household (percent), 2002-2006

Nationality and educational level		Primary income (Pre government income)			Other sources of income					
					Old age pension	Disability pension	Health and care allo-wance	Public benefits		
		Wage	Income from self-employment	Private income				Unemployment/ early retirement	Family allowance	RMG
Highly qualified nationals	25-44	87,5	28,7	44,2	1,5	0,0	2,9	1,0	50,1	0,5
	45-59	78,0	48,1	52,5	6,7	3,2	1,3	3,2	56,1	0,0
	60-75	19,7	59,6	52,8	72,0	1,0	0,5	15,5	22,8	3,1
Highly qualified foreigners	25-44	82,7	12,6	38,3	0,2	1,0	3,5	1,2	59,3	1,4
	45-59	82,0	23,0	37,2	1,3	1,2	2,9	1,2	67,2	0,2
	60-75	48,3	8,0	37,9	37,9	0,0	0,0	3,4	23,0	0,0
Less qualified nationals	25-44	77,1	18,6	34,5	1,9	2,5	13,7	1,3	65,8	3,9
	45-59	53,8	24,9	35,7	10,5	11,2	6,1	3,6	46,1	4,2
	60-75	4,9	33,1	40,8	87,5	6,8	0,8	1,5	12,8	2,8
Less qualified EU foreigners	25-44	79,1	7,3	20,5	1,4	2,7	15,0	3,8	81,1	7,0
	45-59	64,6	11,1	26,4	7,9	7,8	7,2	6,0	47,5	5,7
	60-75	7,3	15,0	31,4	78,5	11,7	1,0	3,4	8,1	4,2
Less qualified non-EU foreigners	25-44	51,5	3,1	16,5	0,5	3,1	20,1	4,6	78,9	19,6
	45-59	46,0	11,1	12,7	9,5	6,3	1,6	1,6	46,0	22,2
	60-75	0,0	13,5	8,1	43,2	5,4	8,1	0,0	59,5	43,2

Source: PSELL3/EU-SILC, waves 2002-2006: households headed by persons aged 25 to 64, authors' calculations
Reading note: 87.5 percent of highly qualified nationals between 25-44 years reported a wage as source of income

In the following section, we will comment on our findings concerning three items.

For ***market income***, we consider all types of non-public income. Under ***consumptions***, we summarize income elements which are either entirely or partly financed by the state with, on the one hand, positively connoted universal benefits like child rearing benefits and, on the other hand, stigmatizing means tested benefits like social assistance. In Luxembourg, both are 100 percent financed by the State. Old age and disability pensions, which people are *entitled to* and *have contributed to*, will be included in the consumptions of public provisions. According to the income, ***contributions*** can be zero, low or high. Thus we consider those who have pre-government incomes of more than 100 percent of the post-government income and contribute hence more than they consume *being economically performing, independent of the State and positive elements for the sustainability of the welfare regime.* Whilst those who consume more than they contribute and have a pre-government-income of less than 100 percent *depend on the State and are hence a potential 'burden to the State'*. Furthermore, we distinguish age groups in order to respond to the missing 'life-cycle data', which would be the optimum for the analysis of social security contributions and consumptions.

4.1 Market income: even the less qualified immigrants contribute significantly

Nationals report wages as a source of income to a lesser extent than immigrants – with the exception of non-EU citizens and the highly qualified migrants aged 25 to 44 (table 2). Regarding the latter in comparison with the equivalent nationals, longer educational periods might be the reason of the difference: De facto, highly qualified immigrants have higher degrees, enter later the labour market, work longer than nationals, obviously with 'late exit patterns' (cf. Blossfeld et al., 2006). This corroborates with administrative data we mentioned in secton 2.1. Obviously immigrants demonstrate, to a much higher extent, a 'universal solidarity attitude', even within the highest age group. Coming into a corporatist country as an economic immigrant with a Scandinavian or liberal educational background (childhood, youth) might explain the 'late exit' pattern. Nationals are, on average, older than immigrants (Thill-Ditsch, 2010); but even taking into account the age factor, we observe persistently the same 'early exit' attitude for nationals. Nationals (both categories) report private incomes and self employment to a greater extent than their immigrant counterparts. However, self-employment is not necessarily correlated with high wages: it might entail employers of small craftwork companies, those who live on low and very low incomes like free lancers, as well as lawyers, doctors and employers with low or important incomes.

Decomposing the pre-government income (table 3), the pre-government income of both skilled groups is similar and, logically, these two groups contribute more than the three others. For the less qualified, immigrants contribute more than nationals, demonstrating less ‘take-up attitudes’, being then also less dependent on benefits. The only group, which remains below 100 percent for its pre-governmental income and are thus economically less performant, are the less qualified non-EU citizens; this is confirmed by other results (Ametepé and Hartmann-Hirsch, 2008). With exception of the non-EU immigrants (3.8 percent of resident population: table 1) and all those aged 60 – 75 (nationals and immigrants), the other groups contribute more than they consume.

Table 3: Income component as proportion of total post-government income of individuals living in household headed by 25-75 years (percent), 2002-2006

		Primary income (Pre government income)	**Pension**			**Early retirement / Unemployment**	**Family benefit**	**Other public benefits**	**Social assistance (RMG)**	**Taxes and social contri-bution***	**Post government income**
			Total pension	*Old age pension*	*Disability*						
Highly qualified nationals	25-44	128,9	0,1	0,1	0,0	0,5	3,9	0,2	0,0	-25,9	100,0
	45-59	131,3	1,2	0,6	0,7	0,7	2,4	0,0	0,0	-26,8	100,0
	60-75	64,9	59,0	58,6	0,4	6,6	0,6	0,1	0,1	-23,9	100,0
Highly qualified foreigners	25-44	129,8	0,1	0,0	0,1	0,3	3,9	0,1	0,0	-26,3	100,0
	45-59	121,1	0,6	0,1	0,5	0,3	3,9	0,0	0,0	-21,2	100,0
	60-75	92,5	32,5	32,5	0,0	1,6	1,5	0,0	0,0	-22,2	100,0
Less qualified nationals	25-44	117,6	1,4	0,9	0,5	0,5	7,2	0,7	0,3	-22,8	100,0
	45-59	110,9	11,0	5,3	5,7	3,0	3,4	0,9	0,6	-23,3	100,0
	60-75	26,7	93,1	88,9	4,2	0,9	0,4	0,5	0,5	-17,8	100,0
Less qualified EU forei-gners	25-44	111,1	1,1	0,3	0,7	1,3	10,4	1,2	0,5	-21,8	100,0
	45-59	114,5	7,8	3,6	4,2	4,0	4,5	2,2	1,9	-25,7	100,0
	60-75	18,2	95,7	86,7	9,0	2,9	0,5	1,5	1,5	-15,8	100,0
Less qualified non-EU fo-reigners	25-44	88,4	0,3	0,0	0,3	2,1	22,0	4,7	2,8	-18,3	100,0
	45-59	71,1	31,3	15,3	16,0	0,5	4,8	17,2	17,0	-20,7	100,0
	60-75	-	-	-	-	-	-	-	-	-	100,0
All households		**99,4**	**21,7**	**19,0**	**2,7**	**1,6**	**4,5**	**0,8**	**0,6**	**22,6**	**100,0**

Source: PSELL3/EU-SILC, waves 2002-2006: households headed by persons aged 25 to 64, authors' calculations

*As proportion of pre-government income + pension + early retirement + unemployment+RMG+public benefits

Reading note: the pre-government income of highly qualified nationals between 25-44 years old is 29 percent higher than their post-government income

4.2 Consumptions vary according to the type of benefits

The high share of highly and less qualified nationals reporting that they have an old age pension is complementary to their aforementioned lower labour market participation, mainly for those aged 60 to 75; the difference between immigrants and nationals is significant. One can also relate these findings to lower educational achievements and the aforementioned 'early exit' corporatist attitudes (Blossfeld, 2006; table 2).

Disability schemes do not really concern highly qualified nationals and immigrants. According to administrative data, those working in the most dangerous economic sectors (like construction) are the poorly qualified newcomers (mainly immigrants), as well as the elderly workers (mainly nationals). Less qualified nationals and EU-immigrants use this benefit more than both highly qualified groups; there is clearly an earli**er** exit strategy by nationals with an important tape-up for the 45 – 59 years old. Interestingly enough, the share of disability users is lowest for the less qualified non-EU immigrants, even if they are overrepresented within those dangerous sectors. This might be due to problems of legal obstacles and/or information access for non-EU immigrants, of high costs of take-up just as for social assistance (table 2; Castranova, 2001; Ametepé and Hartmann-Hirsch, 2008) and, finally the fear of being returned to the country of origin (Bolzman, 2007). Less qualified nationals use this scheme most.

For early retirement and unemployment[1], highly qualified nationals aged 60 – 75 are the most important group of users, even if within our PSELL3/EU-SILC sample 16 percent of nationals and 4 percent of immigrants are civil servants, thus protected against unemployment and are not eligible for early retirement. Within the less qualified, the poorly performing non-EU citizens use these benefits rarely – facing legal obstacles (as long as they have limited work permits[2]) and being, on average, the youngest group. Concerning the three less qualified groups, nationals use these

[1] We follow the approach of Büchel and Frick and in the same time we respond to the concept of broad unemployment (all types of passive schemes like early retirement, unemployment, social assistance and disability: OECD). Due to low frequencies, we considered both in one category. We did not include disability as this is, in legal terms, part of the pension scheme, neither social assistance as this is the regime meeting the most numerous negative connotations and as we have published a more indepth paper on this item (Amétépé and Hartmann-Hirsch, 2009)..

[2] As soon as the work permit expires, the unemployment benefits are not any more due, thus, benefit periods might be considerably shortened; we refer to legal disposals of the data.

schemes to a much higher extent – again we can refer to corporatist attitudes and educational achievements. However, even if highly skilled nationals are awarded these benefits *(early retirement and unemployment benefit)* less often, the share of these benefits within their income is higher than that of the equivalent group of immigrants (table 3).

For child rearing benefits (child benefit plus others), the figures reflect the demographic situation in Luxembourg: the fertility of immigrants is higher than that of nationals for nearly all age groups and educational levels. Hence, they use these benefits more[3] (table 2). Taking the share of these benefits with regard to the post-government income, one recognizes logically the increasing impact of child benefits on lower and low post-government incomes for migrants and mainly for the less qualified non-EU migrants with low incomes (table 3). We do consider the use of child rearing benefits as a positive input, given the effects for future sustainability of welfare schemes.

For "other public transfers" (cash benefit of health and care insurances, students' loans), again we observe the similarity for the two highly skilled groups, this time also for the less qualified nationals and EU-immigrants, but a high dependence on these benefits for the less qualified non-EU immigrants (tables 2 and 3).

Concerning social assistance, the non-EU less qualified immigrants are those with the highest poverty risk. According to Ametepé and Hartmann-Hirsch (2010), this group has a very high eligibility rate, however only half of the eligible persons go for take-up, whilst the other less qualified groups have a much lower eligibility and similar take-up, which might again be due to the fear of being returned. Highly qualified nationals or immigrants have nearly no eligibility and hence no take-up. Furthermore, the 16 (4) percent of national (international) civil servants in the sample explain lower take-up rates of less qualified nationals.

Within the table of decomposition (table 3), these results are complementary to those of the previous section on market income.

[3] Children born by foreign women are more numerous (absolute figures) than those born by nationals (STATEC: annuaire statistique).

Taxes and Social security contributions are a logical consequence of gross wages/incomes as detailed in work contracts/self employment following the addition of private income (pre-government) and once family composition has been taken into account. Comparing pre- and post-government income, non-EU less qualified immigrants consume more than they contribute, being the only “winners” of the system (Borjas and Hilton, 1996; Ametepé and Hartmann-Hirsch, 2008); this concerns only 3.8 percent of the population (table 1). For the other four groups they contribute more than they consume. The labour market participation of immigrants is significantly higher and consequently their dependence on replacement incomes is lower – always with the exception of the small group of less qualified non-EU immigrants.

With regard to the less qualified EU immigrants, the biggest group of Portuguese workers did experience Mediterranean welfare systems, where take-up of benefits was hampered in former decades due to missing benefits. Thus, even with an overall Bismarckian corporatist structure, these immigrants could not rely in the same way on cash benefits as this was the case in Northern European corporatist systems. Their attitudes might thus be more similar to liberal and Scandinavian patterns (Langers, 2007).

Büchel and Frick (2005) observed better performing immigrants in Luxembourg as compared to Germany. Meanwhile, we can be more precise: only the less qualified non-EU immigrants perform poorly, whilst the other two groups of immigrants perform better than nationals. Hence, the vast majority, contribute more than they consume in contrast to some traditional research findings (Borjas and Hilton, 1996; Borjas, 1999). Migrants compensate the early exit behavior and the take-up orientated attitudes of nationals. They are positive elements for the sustainability and more so for the enlarging evolution of this welfare regime.

5 Conclusion

Luxembourg's corporatist and universalistic-Scandinavian welfare system can be considered as one of, if not the most substantial model in EU. Other MS have been obliged to cut back their provisions in order to sustain their systems. Luxembourg however has up till now never been obliged to launch retrenchment policies and never opted for liberalization. It is the only corporatist system which has been expanded. How was it possible that this small nation-state has never been forced to launch retrenchment policies? And what is the role of immigrants within this exceptional situation?

Luxembourg has a predominantly economic immigration with an important share of highly qualified immigrants and of foreign economic leaders as well as a well performing less qualified EU immigration. Foreigners (immigrants and cross border commuters) have an important quantitative and qualitative impact on the competitive sector and can be considered as the main producers of Luxembourg's wealth. The high tax income as well as the sustaining membership of the younger immigrants and cross border commuters allowed authorities to enlarge and improve the corporatist welfare regime. The input of crossers is even higher than that of immigrants: nearly 100 percent are active; and according to EU law they contribute fully, but are not entitled to benefit fully to provisions as some benefits conditioned by residence[4]. Thus for the care insurance, 44 percent of contributors are those from cross border commuters and only 1.4 percent of spendings are exported (Hartmann-Hirsch, forthcoming).

Welfare regimes have been developed mainly with regard to nationals. The residence condition for social assistance can be considered as an indirectly excluding 'corporatist incorporation' policy, protecting those who are *in* the system, initially nationals, against potential *newcomers*, mainly immigrants, who might be a 'danger' for the sustainability of the system. Luxembourg like other MS has been obliged to open-up its means tested benefits for refugees and for EU-citizens – national incorporation policies *had to* adapt to supra-national law case and legislation. Incorporation policies were prudent and too prudent, if one considers the highly performing

[4]This is the case for benefits in kind of the care insurance.

and predominantly economic immigration in Luxembourg, which sustains insurances, other tax financed benefits and more so the expansion of the welfare system; overall, immigrants contribute more than they consume. The *exclusive* incorporation policies tackled an inexistent danger of 'abuse' by the well performing highly qualified immigrants and the quantitatively important group of less qualified EU citizens. Prudence might be explained with regard to the only fragile, small group of less qualified non-EU citizens. However, obstacles for the access to the labour market might also explain their weak economic performance (Büchel and Frick, 2004).

The fear of 'social tourism', the underlying reason for the residence condition, might be explained by the specific geographical situation of this small nation-State located in-between MS with corporatist and **non**-Scandinavian models, which underwent liberalization policies. However, we observe an overall higher labour market participation by immigrants as compared to nationals with exception of the less qualified non-EU immigrants. The overwhelming majority of immigrants demonstrate more liberal or Scandinavian attitudes than the more 'corporatist' nationals. We observe an important similarity in the two highly qualified groups of nationals and immigrants. All immigrants are stronger users of child benefits than nationals; this might be considered as 'a burden' to the welfare regime, but is also a response to the generation-contract for the welfare regimes.

Let us come back to the aforementioned paradox of an expanding corporatist-universalistic model with highest standards. We highlighted the high equity, but a missing solidarity with the welfare state, thus a low efficiency (Sapir, 2005 and Pierson, 2001). Obviously, foreigners, immigrants and even more so cross border commuters (Hartmann-Hirsch, forthcoming), compensate the low labour participation of nationals, thus they demonstrate a high 'solidarity' with the destination country (Esping-Andersen). The steady increase of young foreign contributors provided Luxembourg with the means to develop from a corporatist model to a Scandinavian with highest provisions, an emerging service sector and no significant retrenchment policy. Foreigners guarantee the current efficiency of the welfare regime. However, the OECD (2008) as well as the European Commission highlight the danger for future sustainability, mainly of the pension insurance. Luxembourg will face expensive years for these insurances as the current younger group of immigrants and crossers inevitably ages and will be entitled to their share of benefits, given supranational legislation.

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