The Effect of Citizenship on Savings and Wealth Accumulation of Migrants: Evidence from Germany

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Abstract

A growing challenge for many countries in the world is population ageing and its effects on pension system. Despite immigration is seen as a possible solution to smooth transition from pay-as-you-go pension schemes, a significant fraction of migrants themselves are at/or near retirement age. However, we know very little about immigrants' capacity to provide for themselves in old age and achieve economic security.

Apart from that, another growing challenge is the integration of migrants into the host-country society. Due to the increasing pressure of international migration, citizenship laws have moved to the front line of the integration policy agendas, not only as a way to foster integration, but also as a measure to affect labour markets, welfare programs and demographic trends.

The following paper aims at combining the aforementioned challenges in order to further expand our knowledge about the effect of immigrants' citizenship status on their savings and wealth accumulation choices. The empirical strategy exploits two immigration reforms in Germany, and using GSOEP data, the question we aim to answer is: Does a more liberal access to citizenship affect savings of migrants and what are the likely channels through which these effects take place?

In the literature, acquiring host-country citizenship is usually seen as a way to alter the duration of stay for migrants (Constant and Zimmermann, 2011). One of the first studies linking length of stay and migrants' saving and remittance behaviour is the work of Merkle and Zimmermann (1992). Using data for Germany, they find that return intentions significantly affect migrants' remittances but not their savings. In addition, Dustmann (1997) argues that not only return intentions play a role, but also the level of uncertainty, leading to accumulation of precautionary savings. Following this line of research, our preliminary results show that immigrants significantly reduce their propensity to save and amount of savings after naturalization, while remittances are unaffected. In addition, we find that this reduction is significantly stronger among low-educated migrants. These results suggest that both precautionary savings and return intentions are likely channels through which these effects take place.

References

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