

## Naturalization and citizenship: Who benefits?

### Liberalizing access to citizenship has labor market benefits for immigrants and can improve their assimilation

Keywords: citizenship, economic integration, assimilation, immigration, Europe

#### ELEVATOR PITCH

Politicians, the media, and the public express concern that many immigrants fail to integrate economically. Research shows that the option to naturalize has considerable economic benefits for eligible immigrants, even in countries with a tradition of restrictive policies. First-generation immigrants who are naturalized have higher earnings and more stable jobs. The gains from citizenship are particularly apparent among immigrants from poorer countries. A key policy question is whether naturalization *causes* labor market success or is taken up by those immigrants who would anyway be most likely to succeed in the labor market.

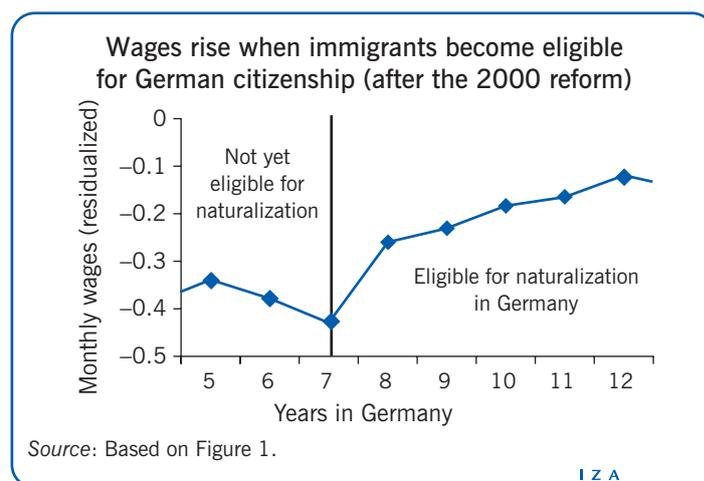
#### KEY FINDINGS

##### Pros

- ⊕ Citizenship is associated with large and persistent wage gains in most countries.
- ⊕ The wage gains suggest that naturalized citizens “catch up” with earlier immigrants and ethnically similar natives.
- ⊕ Gains are higher for immigrants from poorer countries, who also “catch up” with immigrants from more developed countries over time.
- ⊕ In Germany, women gain more than men; and recent immigrants gain more from access to citizenship than traditional guest workers.

##### Cons

- ⊖ Citizenship appears to have no effect on labor force participation in some countries.
- ⊖ Public transfers such as welfare or unemployment insurance benefits slightly increase following naturalization.
- ⊖ With the exception of Norway and Sweden, the propensity to naturalize is relatively low in European countries.
- ⊖ It is not clear if naturalization *causes* labor market success or is taken up by those immigrants most likely to succeed anyway.
- ⊖ There is a lack of research on how access to citizenship affects the social and political integration of immigrants.



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#### AUTHOR'S MAIN MESSAGE

Existing evidence suggests that the benefits of naturalization for first-generation immigrants are significant. Citizenship results in higher wage growth, more stable employment relationships, and increases upward mobility into better-paid occupations and sectors. A better assimilation of immigrants in the labor market in turn also benefits destination countries through fiscal gains and better social cohesion. As such, liberalizing access to citizenship could be a key policy instrument toward improving the rate of economic integration of immigrants in the host country.

## MOTIVATION

In many European countries, immigrants have higher unemployment rates and lower wages than the native population. This lack of economic integration can present significant challenges to the host countries. For example, by increasing the fiscal burden on the host country, the lack of economic integration of immigrants can create social resentment, unrest, or hostility among the native population. In response, many governments have imposed or considered imposing restrictions on immigration. Such restrictions might include limiting the entry of low-educated immigrants into the country and/or limiting the entry of immigrants from certain countries. An alternative for policymakers is to instead strengthen the assimilation of immigrants in the host country.

Citizenship offers immigrants several important avenues of economic and social improvements. First, citizenship is a prerequisite for a number of public sector or government jobs. Many countries also require citizenship in order to become a civil servant (or within the EU, citizenship of one of the EU member states). To the extent that these jobs offer better pay or working conditions than jobs open to the non-naturalized immigrant, naturalization would improve labor market performance. Second, in the private sector, employers might prefer to employ citizens because there are fewer travel restrictions and travel-related costs involved. A third reason is that employers might be hesitant to hire and train immigrants who stay only for a limited amount of time before returning to their home country. Acquiring the citizenship of the host country would eliminate such barriers to employment, training, and mobility. It would also signal to employers a long-term commitment from the employee to remain in the host country.

In addition, some employers may prefer to hire naturalized citizens instead of non-naturalized immigrants because they discriminate against immigrants, or in order to avoid possible discrimination by other employees or customers. To the extent that citizenship reduces or eliminates this type of discrimination, a naturalized immigrant has a higher chance of succeeding in the labor market.

Most importantly, naturalization provides immigrants with more rights in the host country and also strengthens their commitment toward that country. As a result, naturalization should increase the incentives of immigrants to learn the native language and invest more in the skills necessary to succeed in the host country. These investments in turn speed up assimilation as immigrants become more productive on the job or can work in better jobs.

In sum, arguments on both the demand and supply side of the labor market suggest that access to citizenship could be an important policy instrument for improving the rate of immigrant integration and assimilation in the host country, even in those countries that have traditionally restrictive citizenship laws.

## DISCUSSION OF PROS AND CONS

### **An overview of the estimated returns to citizenship**

The empirical literature on the consequences of citizenship has studied traditional “immigration countries” (such as the US or Canada) as well as several continental European countries that have had a more recent history of immigration, particularly since the 1960s (such as France, Germany, the Netherlands, Norway, Sweden, and Switzerland). In contrast, however, empirical evidence for other parts of the world is very limited.

Studies undertaken prior to 2000 used cross-sectional data (i.e., data in which immigrants are only observed once) to compare the labor market outcomes of naturalized immigrants with those of non-naturalized immigrants. A key empirical challenge of one-time studies is that a simple comparison of naturalized and non-naturalized immigrants is likely to overstate the actual benefits of citizenship. Migrants applying for citizenship might well be those with the highest motivation to integrate and those with the most suitable prerequisites and characteristics to perform well in the host country. Previous studies from Canada and the US, for example, suggest that naturalized citizens do indeed have better educational qualifications, which are associated with higher earnings, than non-naturalized immigrants [1], [2], [3]. The observation that naturalized immigrants perform better in the labor market than non-naturalized immigrants might therefore simply reflect the fact that naturalized citizens possess characteristics that make them more likely to succeed in the labor market.

The key question for policy, therefore, is whether naturalization *causes* labor market success or whether citizenship is merely taken up by the subset of immigrants with the highest likelihood to succeed in the labor market anyway. If naturalization is the cause of success in the labor market, then liberalizing citizenship laws will improve the labor market position of immigrants who become eligible following the reform. However, if that is not the case, then liberalizing citizenship laws will have no impact on the labor market performance of eligible immigrants, and might even be potentially negative if it results in a greater number of naturalized immigrants becoming dependent on welfare benefits.

In order to detect causality, recent studies (since 2002) have used panel data, which observe immigrants over several years [1], [4], [5], [6], [7], [8], [9]. The key advantage of this type of data is that it allows for observation of the same immigrant both before and after becoming eligible for naturalizing in the host country. A few studies exploit reforms in citizenship law that changed eligibility criteria in combination with panel data in order to analyze the effects of citizenship and the option to naturalize [6], [10]. In these cases, the studies can take into account immigrants' characteristics and therefore tease out whether citizenship actually causes labor market success.

This contribution considers three key measures of labor market success. First, employment in the labor force; second, immigrant earnings; and third, the self-sufficiency of immigrants, i.e., whether he or she receives public transfers, such as welfare or unemployment insurance benefits.

### **Existing evidence of the effect of citizenship on employment**

Evidence for immigrants in the Netherlands and Germany suggests that there are no effects of citizenship on employment. In contrast, the effects of citizenship on employment for Sweden are positive [6], [10], [11]. There is also a positive employment effect for immigrants in France, particularly amongst men. However, this study does not take into account the fact that most immigrants improve their economic position relative to natives over time in the host country—which is not necessarily related to the acquisition of citizenship. It is likely, therefore, that the French study overstates the effects of citizenship on employment [5].

For both Canada and the US, there is a significant employment effect following naturalization. Accordingly, naturalized immigrants are particularly more likely to work

in the public sector, although they also do go on to work in the private sector and as self-employed workers [7], [10].

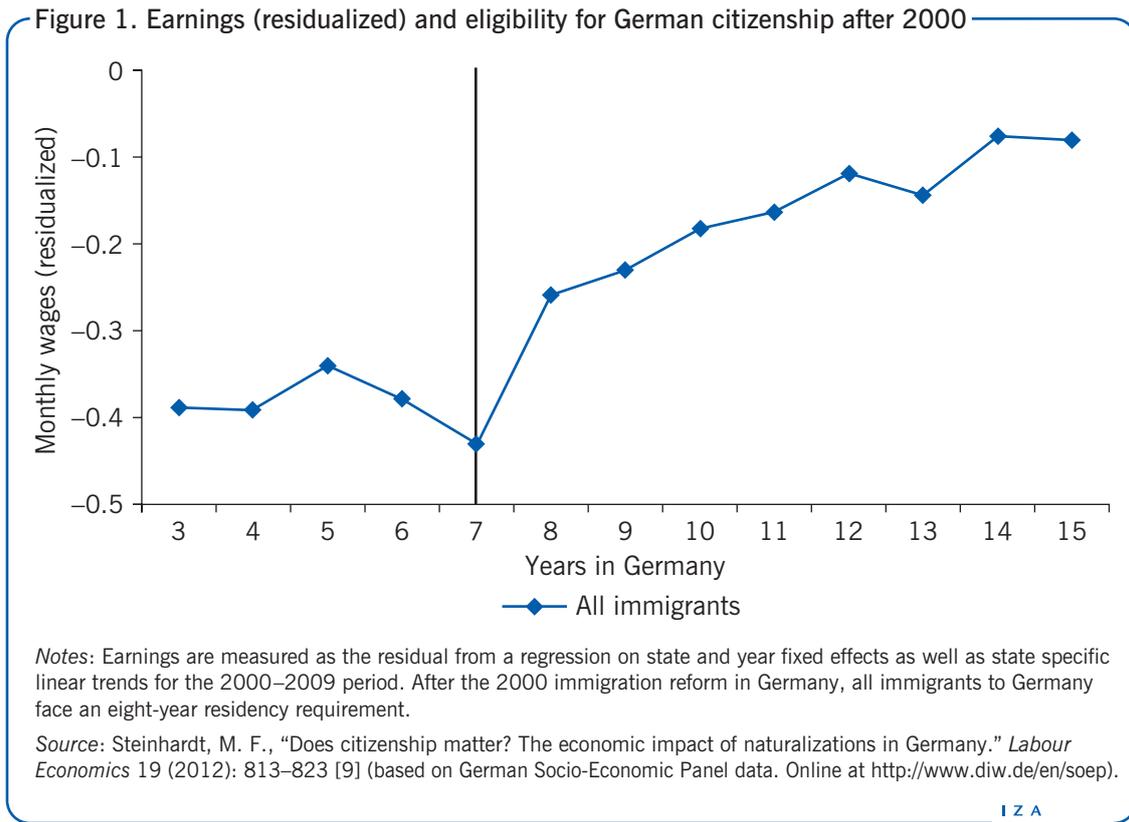
A concern often associated with immigration is that immigrants overuse the welfare state and therefore impose a fiscal burden for the host country. Evidence from Germany and Norway suggests that there are few effects of citizenship on the probability of receiving public transfers. In Germany, immigrants are approximately 2% more likely to receive welfare transfers or unemployment benefits following citizenship, though there is no effect for Norway. Given that in many countries access to welfare benefits is restricted for non-citizens (the specific rules vary considerably across countries), these results suggest that granting access to citizenship has only a small number of consequences for the welfare state.

However, citizenship does have important implications for those already attached to the labor market. Following naturalization, the job distribution of immigrants, both in Germany and the US, improves and their wage growth accelerates. In the US, the wages of naturalized men grow 25% more relative to non-naturalized immigrants over a period of ten years [1]. These large wage gains imply that naturalized immigrants “catch up” relative to non-naturalized immigrants.

In Germany, immigrants also experience large and persistent wage gains after they become eligible for citizenship. Figure 1 shows earnings before and after an immigrant becomes eligible for citizenship following Germany’s 2000 immigration reform, which reduced the residency requirements for immigrants to eight years [6] (see **Germany’s citizenship law reforms**). The earnings measure in Figure 1 is adjusted for macroeconomic conditions (after adjusting gross monthly earnings for aggregate business cycle influences, state-level differences, and state-specific time trends). Figure 1 shows that for the first seven years in Germany, immigrant wages are relatively flat. Following the 2000 reform, once immigrants become eligible for citizenship after eight years of residency, wages grow at a faster rate than during the first seven years. In addition, the post-reform earnings gains of citizenship are larger for more recent immigrants who arrived in Germany after the fall of the Berlin Wall but close to zero for traditional guest workers.

### Germany’s citizenship law reforms

Traditionally, Germany had a very restrictive citizenship law which was closely tied to ancestry and ethnic origin. Since the 1990s, Germany—a country which had a weak record of immigrant integration—has substantially liberalized its access to citizenship. In 1991, the government introduced, for the first time, explicit criteria for how immigrants could obtain German citizenship. Since 2000, immigrants can naturalize after eight years of residency in Germany, and children of foreign-born parents in Germany now obtain citizenship at birth. The residency requirements for eligibility vary across age and year of arrival as well as over time. The 1991 reform, for example, imposed age-dependent residency requirements for naturalization. Adult immigrants (aged 23 and above) faced a residency requirement of 15 years before they could apply for citizenship. Adolescent immigrants (ages 16–22) in turn could apply for German citizenship after only eight years of residence. The two immigration reforms provide a unique opportunity to assess the labor market returns of citizenship net of selection effects.



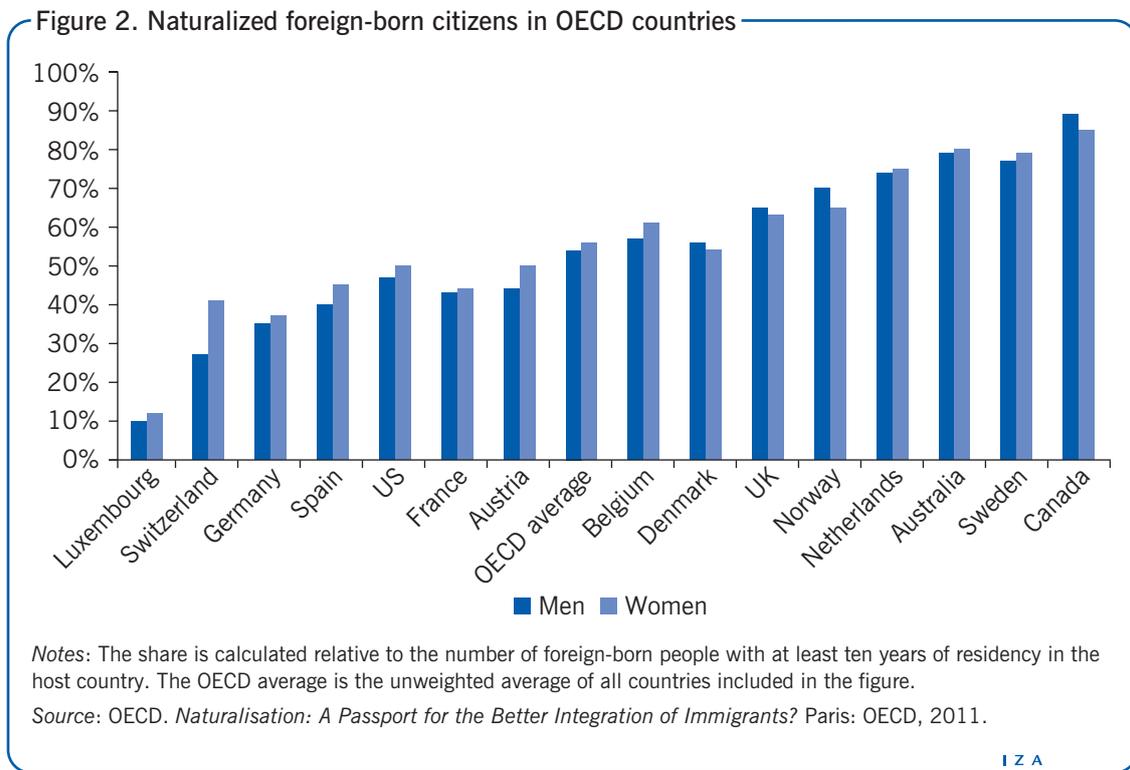
## Take-up of citizenship

The most credible empirical evidence on the labor market effects of citizenship suggests that the wage returns for immigrants can be substantial, even in countries such as Germany, which has a traditionally weak record of assimilation. These gains are all the more remarkable because it is often the immigrants from poorer countries, or those with less educational credentials, that are more likely to naturalize.

In “traditional” immigration countries, such as Canada and the US, for example, immigrants who naturalize are younger, have more educational credentials, and are more likely to originate from developing countries than non-naturalized immigrants [2], [3]. In contrast, in Germany naturalized immigrants are younger and more likely to originate from outside the EU, but they are often less, rather than more, skilled than non-naturalized immigrants. Yet even when they are less educated, immigrants who are eligible for citizenship in Germany improve their labor market position with higher earnings and better jobs.

A second important result is that the take-up of citizenship is quite low in many of the countries that have little tradition of large-scale immigration. Figure 2 shows the share of naturalized immigrants relative to the foreign-born population with at least ten years of residency in Organisation for Economic Co-operation and Development (OECD) countries. The average naturalization rate in the OECD is around 55%, but there is considerable variation across countries. In Canada, Sweden, and Norway, more than 70% of foreign-born individuals have acquired the citizenship of the host country. The corresponding share in Germany or Switzerland is between 30% and 40%. Countries such

as the US, Spain, and France have intermediate naturalization rates of between 40% and 50% (Figure 2).



The take-up rate of citizenship is often considered to be an indication of whether host countries can successfully absorb immigrants. Or, from the immigrants' perspective, whether immigrants are willing to become an integral part of the host country. Low take-up rates of citizenship are an indication that the costs of naturalizing may be substantial in some countries. One reason for this could be that immigrants only want to stay temporarily in the host country. Or, alternatively, that naturalized immigrants would face restrictions with respect to land ownership or inheritance, for example, in their country of origin. These costs could be considerable, particularly when destination countries require immigrants to give up their original citizenship upon naturalizing in the host country or, in other words, when they do not allow dual citizenship.

A second set of reasons might be that substantial barriers to naturalization are still in place in some countries. Traditional immigration countries require just three years of residency (Australia and Canada) or five years (US) before immigrants become eligible for citizenship. Residency requirements in many continental European countries are substantially higher. Germany required 15 years of residency for adults until 2000 and still currently requires eight years of residency. Austria, Italy, and Spain require ten years, while Switzerland requires 12 years of residency before immigrants can naturalize.

Both Switzerland and Germany also impose a number of additional restrictions. Immigrants have to demonstrate sufficient knowledge of the official language as well as economic self-sufficiency, among other things. The open question here is whether language skills, for example, should be a prerequisite for citizenship acquisition or are more the result of citizenship.

Evidence for Germany, where language requirements have been a precondition for applying for citizenship since 2005, suggests that knowledge of the native language improves with time spent in Germany. However, language skills do not improve automatically with citizenship acquisition, once the number of years spent in Germany is taken into consideration. More research is needed on whether citizenship that is tied to language requirements improves labor market outcomes, or whether it simply deters immigrants from applying for citizenship.

### **Benefits of citizenship for women**

A separate analysis by gender reveals that women in Germany appear to benefit more from a liberalized access to citizenship than men. Immigrant women who become eligible for citizenship have large and persistent gains, while eligible men appear to have much more modest earnings gains [6].

Accordingly, over a ten-year period, women earn 15% more on average, while men only gain about 6%. To put these estimates into perspective, women can close about 35% of the initial earnings gap between a recent immigrant to Germany and an immigrant who arrived 15 years earlier. Using the same comparison, men can close about 20% of the initial earnings gap. However, an earlier study from 2012 finds the opposite pattern, in that men employed in jobs covered by the social security system gain more than women [9].

There are three possible explanations for these differences. First, that there are differences in the estimation approach. Second, that the earlier study could not take into account the number of years spent in Germany and, therefore, the general assimilation effects that occur independently of naturalization. Third, that women in jobs covered by the social security system (considered in the earlier studies pre-2012) gain less than women who are self-employed or work in the public sector (who are included in the more recent study).

In Germany, at least 50% of the substantial gains for women are explained by increased labor mobility upwards into better-paid occupations and sectors. Following citizenship, women are less likely to be employed as blue-collar workers but more likely to be employed as white-collar workers.

There are three further mechanisms that contribute to women's relatively better position in the labor market. First, women have more stable jobs with permanent contracts and they remain with a given firm for a longer period of time. Second, women gain because they work in larger firms after becoming eligible for citizenship, and larger firms pay higher wages. Finally, women work more hours following citizenship eligibility.

The more modest returns for men in Germany (which are less than 50% of the returns for women) are largely explained by women's movement into higher-paying sectors and occupations. Men are less likely to be self-employed in low-paid jobs following citizenship and, like women, are more likely to have a permanent work contract and to keep a job in the same firm [6].

In contrast to Germany, in Norway there are only small wage returns for immigrant women, and essentially no returns for immigrant men [4], [12]. In Sweden, however, gains seem again to be substantial, particularly for women [10]. Though earnings gains are much more modest once repeated observations are used that take into account selection into

citizenship [11]. For Canada, gains are substantial, but similarly distributed for men and women immigrants [10]. In the US, there are also substantial gains in labor earnings for naturalized men, though unfortunately the authors do not analyze immigrant women [1].

Why gains vary across countries is still subject to debate. But it is, in all likelihood, related to the flexibility of the labor market. It is also influenced by the characteristics and background of the immigrants moving to different destination countries. Overall, it is interesting to note that in several countries wage gains as a result of citizenship are more significant for immigrant women. Since immigrant women have typically much lower attachment to the labor force and lower earnings than native women, citizenship helps them to improve their relative economic situation. It also helps them to obtain more independence economically from the outset.

### Who gains and why?

Researchers have sought to identify the determinants of the large earnings gains after obtaining citizenship. The underlying mechanisms show some commonalities but also differences across countries. This is not surprising given the large differences in their labor market institutions.

In the US, the most significant change following naturalization is that immigrant men are much more likely to work in white-collar jobs. Other changes, such as switching to public sector jobs, or to jobs with union coverage, occur more gradually following naturalization. After five years of holding the new citizenship, for example, an immigrant is 3.3 percentage points more likely to work in a public sector job and 9.0 percentage points more likely to work in a job that is covered by a union [1].

A further important result is that the gains from citizenship are not equally distributed across immigrants. Interestingly, the gains of citizenship are largest for immigrants from poorer countries. In the US, for example, an immigrant from relatively poor El Salvador earns 7.2% more following naturalization, while the gain is only 2.9% for an immigrant from comparatively rich Italy [1]. In Germany, an immigrant from poor Afghanistan has approximately 7% higher wages ten years later. In contrast, there is no return to citizenship for an Italian or EU citizen more generally [6]. Similar results are found for Canada and Sweden [10].

Since immigrants from poorer countries earn less than immigrants from more developed countries, the larger gains imply that citizenship helps immigrants from developing countries to catch up with immigrants from more developed countries over time.

### LIMITATIONS AND GAPS

Integrating immigrants into the labor market is just one important aspect of citizenship. The benefits of citizenship, both for the immigrants and the destination country, are likely to extend well beyond the labor market.

By granting voting rights, naturalization can have important consequences for the political landscape. It also affects immigrants, and therefore the destination countries, in many other areas. For example, naturalization might improve the health and well-being of the immigrants and their families. It could also strengthen their identification with the host

country, which would result in increased civic participation by the new citizen and more social cohesion in the country as a whole.

The very limited evidence available suggests that access to citizenship strengthens cultural identification and social ties with the native population [13]. However, much more research is needed that uses credible empirical strategies in order to assess how access to citizenship affects the social and political integration of immigrants in the host country.

Similarly, more research is needed on whether citizenship that is tied to language requirements improves labor market outcomes, or whether it simply deters immigrants from applying for citizenship.

Finally, more research is also needed on the subject of language skills and on the mechanisms underlying the wage returns to citizenship, particularly in settings other than the traditional immigration countries.

## SUMMARY AND POLICY ADVICE

The existing evidence suggests that citizenship carries substantial benefits to immigrants in the labor market. The benefits seem to be concentrated among immigrants already in the labor force prior to naturalization.

Citizenship results in higher wage growth, more stable employment relationships, and upward mobility into better-paid occupations and sectors. Earnings gains appear to be most significant for women and immigrants from poorer countries. As women and immigrants from poorer countries receive lower than average wages, citizenship helps those immigrants to improve their labor earnings relative to earlier immigrants.

The policy lesson emerging from this research is that, given the substantial benefits of citizenship to immigrants, especially for women and for immigrants from poorer countries, a more liberal access to citizenship in the host countries could be an attractive policy instrument to speed up the economic integration of immigrants. Ultimately, the opportunity to become full members of the host society not only benefits the immigrant but also carries fiscal and economic benefits for the host country.

## Acknowledgments

The author thanks two anonymous referees and the IZA World of Labor editors for many helpful suggestions on an earlier draft. Previous work of the author (see [6]) contains a larger number of background references for the material presented here and has been used intensively in all major parts of this article. The author also wishes to thank Nicolas Keller for collaboration on this research project.

## Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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### Further reading

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**The full reference list for this article is available from the IZA World of Labor website (<http://wol.iza.org/articles/naturalization-and-citizenship-who-benefits>).**