

# The citizenship premium

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# Valorisation Addendum



In light of the growing salience of international migration, policy-makers of destination countries have a strong incentive to ensure a quick and successful settlement process of newcomers. The Netherlands – being a country of net-immigration – is no exception. The integration of immigrants constitutes a prominent subject in the coalition agreement of the Dutch Rutte III government, recently sworn into office in October 2017. According to this document (Rijksoverheid, 2017, p. 54), successful integration is characterized among other things by mastery of the native language and active participation in Dutch society, including (but not limited to) the labour market. Research consistently shows that particularly first generation immigrants perform worse than natives on these indicators of integration (CBS, 2016; Eurostat, 2017a, 2017b; Heath & Cheung, 2007). This is unsurprising, given that these migrants enjoyed their formative years abroad, and have resided in the host country for a comparatively short period of time. Yet it is in the interest of both immigrants themselves and host societies to develop ways to facilitate the integration process. Immigration has the potential to stimulate real (inflation adjusted) GDP per capita (Bove & Elia, 2017), decrease natives' financial burden for public expenditures (Dustmann & Frattini, 2014) and reduce dependency ratios (the share of the population that is not in the labour force) in host countries (Gagnon, 2014).<sup>24</sup> However, the positive fiscal and demographic outcomes of immigration depend on the formal and informal opportunities of immigrants to actively participate in society. In other words, immigrants can only provide an economic contribution to host countries if they are allowed to do so. In that context, citizenship may play an important role, for instance by providing unrestricted access to the labour market. Indeed, international research suggests a positive association between citizenship acquisition and income from labour (Bratsberg et al., 2002; Helgertz et al., 2014; Steinhardt, 2012). Such positive outcomes associated with naturalisation are also known as the *citizenship premium* (OECD, 2011).

Although there is a large field of literature that has analysed the effects of citizenship in the labour market (Helgertz et al., 2014, p. 343), these studies focus almost exclusively on the question whether a citizenship premium exists or not. Such research is of limited use for policy makers, because there is substantial heterogeneity in citizenship regimes and pathways to citizenship. For example, migrants may acquire citizenship early or late in the settlement process, through facilitated procedures, or at different stages of their life course. Citizenship policies differ between countries and over time, and may not be equally relevant to all migrant groups. This dissertation therefore sheds light on the question to whom and under which conditions naturalisation facilitates socio-economic integration. By putting emphasis on the question *why* (rather than whether or not) naturalisation matters, the focus shifts to a more context-specific understanding of the citizenship premium. This may aid the

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<sup>24</sup> See also Bodvarsson & van der Berg (2009) for a theoretical discussion. Note that aggregate economic outcomes of immigration depend on labour market characteristics of destination countries, as well as the skill structure of the native workforce vis-à-vis the migrant inflow (Dustmann, Glitz, & Frattini, 2008).

formulation of targeted policy, tailored to get the most out of migrants' legal status transition from non-citizen to citizen.

This dissertation focusses on the case of the Netherlands, where citizenship has historically played an important role in the integration debate. In the eighties, citizenship was predominantly seen as an instrument for integration. Requirements for naturalisation were thus relatively liberal to encourage migrants to naturalise (Heijs, 1995, p.180). This changed in the nineties, when particularly the Christian Democratic CDA and Conservative Liberal VVD called for more restrictive requirements for naturalisation. Rather than a stepping stone, naturalisation was seen as the end-state of the integration process; the 'crowning of the integration', as the Christian Democratic parliamentarian Verhagen argued (Tweede Kamer, 2000, p. 51). In line with the notion of citizenship as the reward for successful integration, citizenship policies became more demanding, for instance with the (re-)instalment of the renunciation requirement (prohibiting dual citizenship), and the introduction of a naturalisation test. However, these policies were implemented with very little knowledge of the effect of institutional conditions on (1) immigrants' propensity and ability to naturalise and (2) integration outcomes associated with naturalisation. This dissertation specifically addresses those questions.

### *The relevance of citizenship in the labour market: work and income*

One of the main conclusions from this dissertation is that citizenship has the potential to stimulate the integration of immigrants in the labour market. Citizenship acquisition subsequently increases the probability of employment by about 13 percent (Odds ratio 1.12 for men and 1.13 for women). Furthermore, male and female immigrants from economically less developed countries of origin enjoy 3 and 5 percent higher earnings respectively if citizenship is acquired. On top of that, the labour market performance already starts to improve substantially prior to naturalisation. For instance, the employment probability of immigrants who naturalise is already more than twice as high at the moment of naturalisation compared to more than three years prior to naturalisation. While these findings clearly show that citizenship matters, any effective policy making on this issue will also require insight into the underlying mechanisms. Indeed, while many migrants enjoy a citizenship premium in the labour market, others do not, and part of the positive effect already manifests prior to citizenship acquisition. In other words, the relevance of citizenship seems to originate not only from the legal status transition itself. Simply handing out citizenship will thus not have the desired effect in terms of immigrant integration. So how can policy-makers maximise the positive labour market outcomes of naturalisation?

Findings in this dissertation provide two answers. First, the observed positive effects prior to naturalisation stem from the intention to naturalise in the future. Migrants start to invest in their human capital development (for instance language capabilities) to

meet the formal civic and linguistic requirements for naturalisation, and to utilize the rewards and opportunities that citizenship will offer, such as unrestricted access to the labour market. These investments already start to bear fruit in the labour market before migrants become citizens of the host country. The citizenship premium is thus in part an *anticipation effect*. Consequently, possession of the host country citizenship matters most if it is acquired relatively early in the settlement process, when accelerated investment in host-country specific skills and knowledge can really make a difference. For instance, while the probability of employment for migrants who naturalise after 5 years of residence (the current residence requirement in the Netherlands) is 34 and 38 percent higher for male and female immigrants respectively (Odds ratio 1.34 and 1.38) compared to their non-naturalising counterparts, this is limited to only 10 percent for those who naturalise after 8-10 years of residence. In other words, the timing of naturalisation matters. The host country citizenship offers an incentive for migrants to invest in their integration process, rather than providing a systematic advantage that remains constant over time.

This has important implications for the residence requirement for naturalisation. If the required period of legal residence is too long, the moment of naturalisation is delayed to such an extent that it erodes the added benefit of accelerated investment in host-country specific human capital. My analyses suggest that acquiring the host country citizenship after four to five years of residence maximises associated positive labour market outcomes. While five years is the most common residence requirement in the EU28<sup>25</sup>, many countries have more restrictive requirements up to 10 years of legal residence. Furthermore, citizenship policies differ not only between countries, but also change within countries over time in parallel with the political landscape. Conservative governments traditionally argue for restrictive conditions for naturalisation, including a long residence requirement. A good example is the Dutch government, which in January 2014 introduced a bill to increase the residence requirement for naturalisation from five to seven years. However, empirical findings in this dissertation show that a longer residence requirement would hamper the extent to which citizenship facilitates the integration of immigrants. While the proposal was accepted in the Second Chamber in June 2016 by the coalition of the Social Democrats (PvdA) and Conservative Liberals (VVD), senators of the PvdA took a more critical stance towards the proposal in the First Chamber. In the plenary debates, senators from the PvdA, as well as the Greens (Groenlinks), Liberal Democrats (D66) and Socialist Party (SP) referred to publications based on analyses in this dissertation<sup>26</sup> to criticize the proposal (Eerste Kamer, 2016, p. 3, 5; Eerste Kamer, 2017b, p. 3; Eerste Kamer, 2017c). In October 2017, the proposal was rejected in the Senate. While it is difficult to ascertain the impact of this dissertation on

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<sup>25</sup> Residence requirements in the EU range between 5 and 10 years of uninterrupted legal residence. See the Citizenship Law Indicators of the Global Citizenship Observatory (GLOALCIT) for a more detailed comparative overview (<http://globalcit.eu/>).

<sup>26</sup> See Peters, Schmeets and Vink [2017] and Vink, Peters and Schmeets [2016].

the final vote, the Dutch policy journal *Economisch Statistische Berichten* (ESB) highlighted its contribution in their annual overview.<sup>27</sup> In sum, this dissertation emphasises that integration outcomes associated with naturalisation are conditioned by the way in which the status is acquired. Since the naturalisation process is in part determined by citizenship policies, policy-makers can have a direct impact on the pathways to citizenship that are open to immigrants.

Second, the relevance of citizenship depends on the individual background and life situation of immigrants. While some migrants may naturalise because of the legal rights and privileges it offers, the same status may for others predominantly constitute a reflection of social identification with the host society. Indeed, becoming a Dutch citizen has different implications for a migrant from Germany or the U.S. compared to an Eritrean or Afghan migrant. These differences condition the extent to which naturalisation matters for the integration of immigrants. My findings show that particularly migrants from economically less developed countries of origin benefit from citizenship acquisition in the labour market. However, these migrants are also highly dependent on citizenship policies that condition access to status. Migrants naturalise less quickly and less often under more restrictive institutional conditions. Yet the relevance of citizenship policies is not equal for all migrant groups. Particularly migrants for whom the utility of citizenship is greatest are deterred by more restrictive requirements. In contrast, institutional variation does not substantially affect naturalisation rates of migrants who do not need citizenship as much, and who are generally less interested in naturalisation.

The potential for citizenship to function as a vehicle for immigrant integration thus presents policy-makers with the challenge of an institutional balancing act. If there are no requirements for naturalisation, citizenship is unlikely to play a role in the integration process, as any rights and entitlements linked to the status would be meaningless. Yet if institutional conditions are too restrictive, then the very migrants who need it most may find it difficult to meet these criteria. Moreover, certain requirements for naturalisation are more likely to facilitate integration than others. For instance, some mastery of the native language is a precondition for participation in for instance the labour market or the political decision-making process. As such, basic linguistic requirements may play a positive role. Yet high financial costs to apply for naturalisation only serve to make citizenship more selective, and a long residence requirement will erode the added benefit of accelerated investment in host-country specific human capital. In other words, requirements for naturalisation that do not serve an integration objective can easily turn into mechanisms of exclusion. In that case, the potential for citizenship to stimulate and incentivise immigrant integration is wasted. The requirements for

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<sup>27</sup> More specifically, the following was stated by the chief editor of the journal: *"Contributions to ESB had a societal impact. They really mattered. For instance, the analyses of Hans Schmeets, Floris Peters and Maarten Vink on the relationship between citizenship acquisition and employment contributed to the fact that the proposal to increase the residence requirement for naturalisation was rejected in the Senate, (...)"*.

naturalisation should be determined in such a manner that migrants have reasonable opportunities to acquire the status, and that the eligibility criteria serve a clear integration purpose.

### *The relevance of citizenship in the housing market: homeownership*

Although there is an extensive body of literature on the relevance of citizenship for the integration of immigrants, these studies focus almost exclusively on labour market outcomes of naturalisation. Yet the settlement process comprises a much broader range of socio-economic factors, including quality of housing, living conditions and neighbourhood characteristics. However, in existing research on those indicators (Feijten et al., 2008; McConnel, 2015; Rossi & Weber, 1996; Uunk, 2017; Zorlu et al., 2014) the role of citizenship for these integration outcomes is often not specifically addressed. In this dissertation, I break with the state-of-the-art's exclusive focus on the labour market, and analyse whether citizenship matters for homeownership of immigrants. Buying property can be thought of as a long-term commitment to the host society, and a reflection of the intent to stay and build a life in the destination country. Homeownership can also provide important financial benefits compared to private or social rented housing, including favourable tax treatment, the gradual accumulation of property wealth and lower long-term payment for housing. Furthermore, homeownership may stimulate social well-being through an increase in social status, greater psychological health (Rohe & Stegman, 1994) and better neighbourhood conditions (Rossi & Weber, 1996). For migrants who have successfully integrated into the labour market, homeownership may thus be the next step towards a self-sustained, stable life for themselves and their children in the host country.

Migrants are however less often homeowners compared to the native population. Figures from Statistics Netherlands show that on January 1, 2015, 60.9 percent of all households with a native-born principal wage-earner were homeowners, compared to 44.9 and 25.1 percent among migrant households of western and non-western origin (CBS, 2017a). Although this so-called 'ethnic gap' in the housing market is in part explained by compositional differences between migrants and natives in terms of income and wealth, this only explains part of the puzzle. An alternative explanation would be the legal status of immigrants. While unequal treatment in the field of housing on the basis of (among other things) nationality is prohibited in many countries – including the Netherlands – there are indications that lenders still consider the citizenship status of migrants when evaluating their creditworthiness (College voor de Rechten van de Mens, 2016; van Dorst et al., 2017, p. 22-23). Naturalisation may placate feelings of risk associated with approving a loan for individuals with a migrant background. In that context, I analyse whether citizenship acquisition matters for the probability of homeownership of immigrants.

Empirical findings show that citizenship acquisition increases the probability of homeownership of employed immigrants by 25 percent, holding all other characteristics constant. This suggests a mechanism of legal status discrimination in the housing market, as migrants who are in principle eligible for a mortgage are less likely to secure a loan if they do not have the Dutch citizenship. Moreover, naturalisation matters less for migrants with a native-born Dutch partner. This provides further credence to the notion of legal status discrimination, as migrants with a native partner are less likely to be discriminated against on ethnic grounds, and thus do not need the host country citizenship as much to mitigate their disadvantaged position. Migrants are less likely to own property after the onset of the financial crisis, or when originating from countries that are culturally more dissimilar from the host society. However, citizenship acquisition is unable to remove those obstacles in the housing market.

Policy-makers can respond to these findings in two ways. First, since unequal treatment in the field of housing on the basis of nationality is prohibited in the Netherlands, the government has a legal obligation to address discriminatory behaviour by lenders. Until then, policy-makers should recognise the current reality that citizenship matters in the housing market. Facilitating access to citizenship acquisition is thus an effective way to improve opportunities of immigrants to secure a mortgage. The former Dutch government argued as much in a recent explanatory memorandum on the residence requirement for naturalisation, stating that “(...) the opportunities of naturalised migrants in the labour market will generally be better compared to a non-naturalised migrant, even with a permanent residence status. The same is likely true when migrants attempt to secure a loan to finance a house or set up a business” (Eerste Kamer, 2017a, p. 3). While citizenship may thus remove some of the structural obstacles migrants face in the housing market, it should be emphasized that from a legal perspective, this is not an acceptable situation. If lenders would act in accordance to existing anti-discrimination law, migrants would not need the host country citizenship to improve their chances to secure a mortgage. In the long-term, this issue should be prioritized.

In conclusion, findings in this dissertation support the notion of citizenship as a stepping stone for the integration of immigrants. Conceptualising citizenship as the reward for successful integration does not do justice to the fact that integration is a process, not a definitive state of being. If requirements for naturalisation are reasonably attainable, the prospect of full membership of the host society can stimulate migrants to invest in their integration. However, positive outcomes of naturalisation depend on the right timing and functional institutional conditions. The insights from this dissertation regarding the question to whom and under which conditions citizenship matters are thus crucial for policy-makers to get the most out of legal status transitions of immigrants.