



WP4: Fiscal impacts

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REMINDER meeting September 5, Vienna



WP4 D4.1

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D4.4

Work Package 4

Objectives

- Estimate key aspects of the fiscal impact of intra-EU migration for all EU Member States.
- Understand how the fiscal impact is conditioned by welfare state institutions, labour markets settings and the tax system as well as the composition of the migrant population.

In the original application, we also planned in-depth studies of 4–5 Member States. This has been replaced by an in-depth analysis of the unemployment insurance system (D4.2) as well as detailed information about every country in the broad cross-national analysis (D4.1).



Work Package 4

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Deliverables

- D4.1 Working paper based on broad comparative analysis of 29 EEA countries.
- D4.3 Working paper based on regime comparisons.
- D4.2 Working paper based on in-depth analysis of the unemployment insurance.
- D4.4 Policy Brief with summary of the evidence from the WP and policy advice based on these findings.



Work Package 4

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Remaining work

- Finalizing last deliverable.
- Preparing for publication in academic outlets.



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The fiscal effects of EU migration

Rafael Ahlskog and Pär Nyman

March, 2018



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- Static model.
 - No life-cycle effects.
 - No behavioral effects.
- Top-down approach.
 - Divide the government expenditures and revenues into mutually inclusive and exclusive categories.
 - Allocate these categories to natives and migrants based on micro data.



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Deliverable 4.1

Revenues				
Category	% of GDP	Allocation criteria		
Consumption taxes	12.94	Disposable income		
Taxes on income and wealth	9.08	Income tax $+$ wealth tax		
Capital and corporate taxes	3.18	Pro-rata		
Social security contributions	11.38	Wages		
Sales	3.24	Pro-rata		
Other revenue	3.26	Zero marginal revenue		



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Deliverable 4.1

Expenditures			
Category	% of GDP	Allocation criteria	
Benefits	6.30	Benefits	
Pensions	7.64	Pensions	
Non-congestible public goods	7.83	Zero marginal cost	
Demographically modelled expenditures	12.57	Age and sex	
Congestible public goods	11.34	Pro-rata	



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Deliverable 4.1

Demographically modelled expenditures

Category	% of GDP	Allocation criteria
Primary education	1.83	Only age 3–10
Secondary education	1.84	Only age 11–18
Post-sec. and tertiary education	.99	Only age 19–29
Old-age	.62	Only age 65+
Health	6.17	Age intervals
Police and prisons	1.13	Sex and age



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Total impact over time



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Caveats and limitations

- It is what it is (a <u>static</u> analysis of <u>fiscal</u> effects).
- Avoid analyses of individual budget items not derived from micro-data.
- No EU-identifier for EU-migrants in Germany, Estonia, Latvia, Malta or Slovenia.
- Too few EU-migrants in Bulgaria to interpret results per percent of EU migrant households.
- Many EU-migrants in Eastern Europe have actually not migrated (Melissa: metrics matter).





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Deliverable 4.3

Objectives

- Compare the fiscal impact between five institutional regimes (packages of institutions, because too many inst. parameters).
 - Basic security.
 - Continental corporatist.
 - Mediterranean corporatist.
 - Universal.
 - State insurance.
- Investigate if these differences can be explained by compositional and macroeconomic differences.
 - Different compositions can reflect both confounders and mediators.



D4.1

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Theoretical arguments

- Institutions redistribute to/from current migrant population.
 - Eligibility criteria may exclude migrants.
 - Larger public sector inflates the (positive) effects.
- Institutions affect the composition of migrants.
 - Universal welfare could serve as a 'welfare magnet' (but remember D4.1 limitations, and weak support in Katrin's presentation).
 - High minimum wages makes entry harder (into market and country).



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Deliverable 4.3



Fiscal effect per household



D4.1

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Fiscal effect per household: with controls at their mean



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Unemployment benefits, EU migrants workers, and the cost of social protection in European welfare states

Lutz Gschwind, Pär Nyman and Joakim Palme

June, 2019



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Objectives

- Go beyond the regime approach and make an in-depth study of one particular institution.
- Identify sources of cross-national variation in net fiscal effect of EU-migrants.



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Why the unemployment insurance?

- Most-likely case for fiscal cost.
 - Demographic profile of mobile workers.
 - EU-migrants more affected by economic shocks.
- Important institution and possibly more salient than other budget items.
- Large variation between Member States.



D4.3

D4.4

Deliverable 4.2

Hypotheses

Higher relative cost of EU migrant workers when the UI system is characterized by

- Broad coverage.
- Short qualification periods.
- (High replacement rates).
- (Long duration).



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Deliverable 4.2

Empirical approach

- Net contributions are calculated in a similar way as in 4.1.
- Benefits observable in EU-SILC, but contributions based on strong assumptions.
 - Total contributions = total benefit-payments.
 - Individual contributions are proportional to earnings.
- Regressions with individual-level predictors and institutional characteristics from the Social Insurance Entitlements Dataset (SIED).



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Deliverable 4.2

Results

- No support for our hypotheses about UI design.
- A cost rather than a contribution.
 - We know from 4.1 that this is more than compensated for.
 - But maybe UI is special (cmp. Blinder and Markaki, 2019)?



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Free movement of EU workers and fiscal impacts: Welfare regimes, unemployment benefits and overall effects

Policy brief

August, 2019



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Main findings

- The fiscal effects of EU migration are generally positive, but modest.
- The fiscal impact was barely affected by the Great Recession.
- Larger differences between East and West than between welfare regimes.
- A cost for the unemployment insurance system.



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Deliverable 4.4

Policy implications

- The fiscal impact of immigration is not a reason to restrict the free movement of workers.
- The arguments in favour of the free movement are stronger during economic recessions (or rather asymmetric shocks).
- Generous welfare programs do not make immigration a fiscal burden, but interplay with labour market regulations are important when designing reforms.
- The UI analysis points to a communication problem, but it could also be an argument for targeting matching measures to EU migrants or for increased circular migration.