

EUROPEAN POLICYBRIEF



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

August 2019

INTRODUCTION

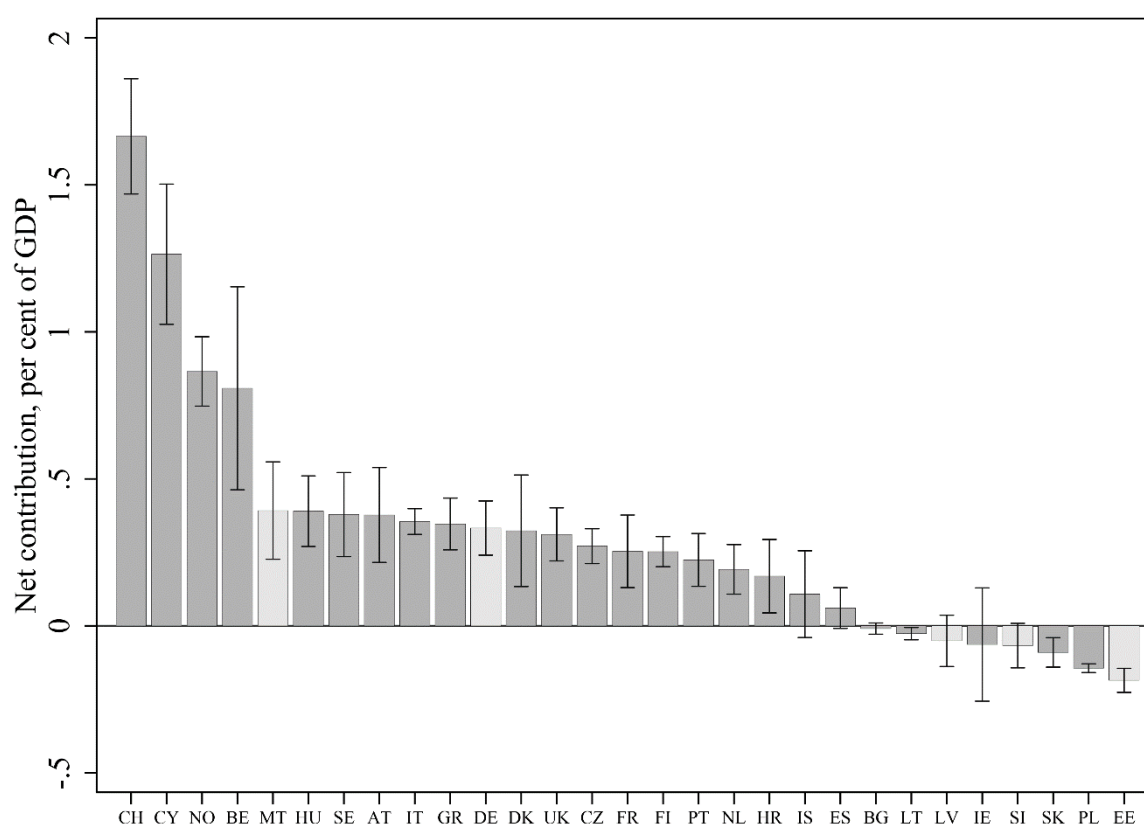
The right to free movement is one of the fundamental pillars of the European Union (EU), and in 2015 nearly 13 million EU citizens were living in a Member State other than their country of birth. The free movement principle concerns the right of EU citizens to seek and take up employment in any Member State and have full access to the host country's system of social protection. Free movement, including the question of access to benefits and services, has always been contentious, and the large-scale movements that have taken place within the European Union over the last 15 years have generated an unprecedented level of tension and led to numerous political discussions regarding the consequences and legitimacy of free movement. Particular attention has been given to the question of how migration between EU countries affects the public finances of the receiving countries (see Ruhs and Palme 2018). However, there has been no comprehensive empirical analysis of such fiscal effects to guide the public debate and policymaking.

In order to fill this gap, Work Package Four of the REMINDER project has been dedicated to making the first large, comparative set of estimates of the fiscal effects of the migration of EU citizens within the European Economic Area (EEA). Using a new method and synthesizing a number of data sources, including cross-country individual-level data (EU-SILC) data as well as national accounts, we have been able to produce estimates for 29 out of the 31 countries in the EEA spanning the years 2004–2015. In this policy brief we summarize the findings from three interrelated working papers published by the REMINDER project (see 'Further Reading' below).

Overall fiscal impact

The first study (Nyman and Ahlskog 2018) presents the overall estimates of the net fiscal effect of intra-EU migration, as well as detailed decompositions. The results presented in Figure 1 are straightforward in a number of ways. The net fiscal effects are generally positive, but modest. In most countries, we find that the fiscal effects are in the narrow range of $\pm 0.4\%$ of GDP. A net contribution of 0.4% of GDP can roughly be compared to the revenue generated by a change in the average income tax rate of one percentage point. In the region as a whole, the effect was positive during the period studied, despite the Great Recession taking an important toll. The net fiscal impact of EU migration is determined partly by how the average migrant household contributes to the surplus or deficit, and partly by the relative size of that population. The biggest winners are Switzerland, Cyprus, Norway and Belgium, for the simple reason that EU immigrant households on average provide a fiscal surplus, and these countries have the largest population shares of EU immigrants.

Figure 1. Net fiscal effect of all EU migrant households, per country, 2005-2015



Source: Nyman and Ahlskog (2018).

It is important to keep in mind that these numbers are based on immigration specifically, and do not represent the full picture of the consequences of free movement. If we want the full picture of free movement, we would also have to include emigration effects; that is, the effects on the public budget of having someone leave. Furthermore, migration could affect not only the public budget, but also the economy as a whole, for example the labour market (through both displacement and upward mobility effects). The fiscal estimates presented in this work package, however, are premised on such net effects being of negligible importance. To the extent that such effects are substantial, they are not visible in these estimates. The importance of, and sensitivity to, these and a range of other necessary simplifying assumptions are extensively discussed in Nyman and Ahlskog 2018, as is a number of auxiliary analyses using different outcome measures. In the regime analysis that follows, we will display country differences on the household level and the consequences of budget deficits/Great Recession.

Another question is how the state of public finances varies across countries and over time, not least during the Great Recession, and it is important to recognise that fiscal impacts can vary from negative to positive depending on whether the state runs a fiscal deficit or surplus. To understand how EU migration affects the public finances therefore demands that we take a number of aspects into account, and also consider that the answers differ depending on how the questions are specified. Below we will present results from the second study (Österman, Palme and Ruhs 2019) that compares the size of the effects across migrant status and illustrates the importance of the state of the public finances with an emphasis on the Great Recession.

Regime analysis

A particular focus in the debate about the fiscal effects of intra-EU migration has been questions regarding the consequences of granting EU workers unrestricted access to the host country's welfare state, such as whether free movement encourages so-called "benefit tourism" to more generous welfare states. Despite the high salience of the issue in public policy debates, comparative analysis across different countries has been very limited. Building on the approach and analysis of Nyman and Ahlskog (2018), we developed and applied an institutional perspective on the fiscal effects of intra-EEA mobility in a second study (Österman, Palme and Ruhs 2019). Specifically, we explored whether variations in the fiscal effects of EU migrants were associated with cross-country differences in welfare state and labour market institutions.

There are reasons why one can expect specific national institutions to affect the fiscal effects of immigration. The design of the national tax systems and welfare states affect the taxes that migrants pay and the particular types of welfare benefits they receive. One expectation is that more "generous" welfare states might lead to lower net-fiscal contributions than less generous welfare states, or that welfare systems that have strong "needs-based" components might be more costly than systems with stronger contributory elements. However, the complexity of national institutional regimes, and the fact that institutions do not only shape the fiscal effect of migrants after they have entered the host country, but also often determine the skill level and other characteristics of immigrants a country receives, make it difficult to be certain about what to expect. How different institutional regimes are linked to the fiscal effect of EU migrants is, therefore, an important issue for empirical analysis.

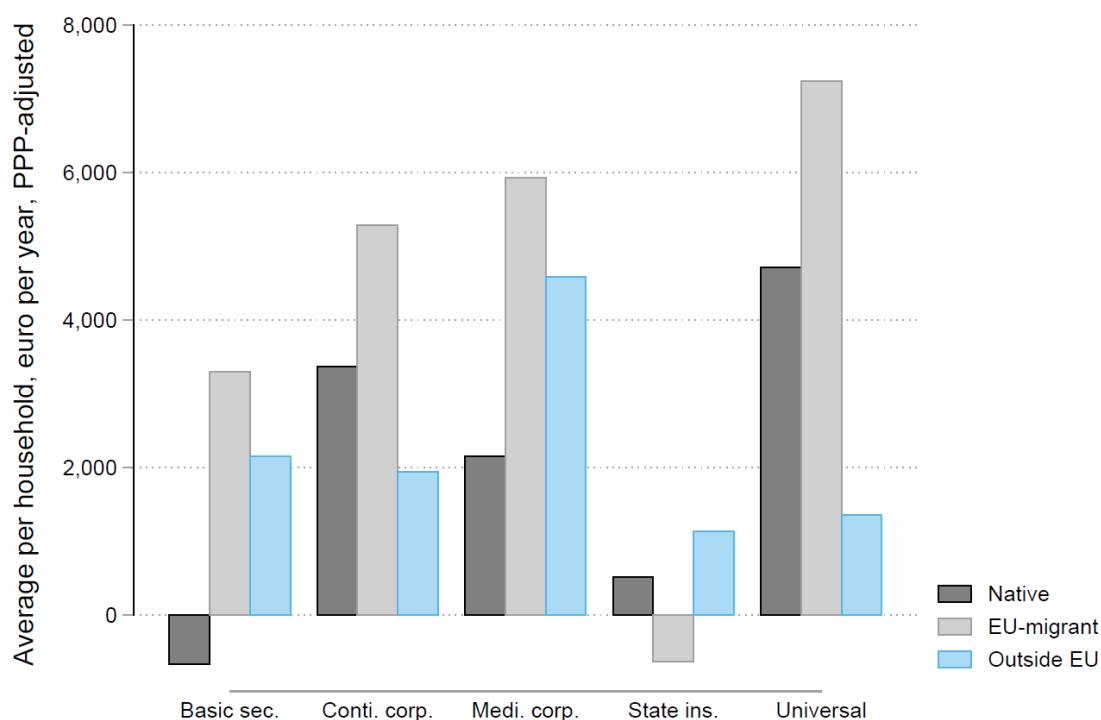
We analysed how the fiscal effects of EEA migrants vary across five different "institutional regimes," covering 29 EEA countries:

- Basic security regime: Ireland, Malta, and the UK

- Continental corporatist regime: Austria, Belgium, France, Germany, The Netherlands, and Switzerland
- Mediterranean corporatist regime: Cyprus, Greece, Spain, Italy, and Portugal
- State insurance regime: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, and Slovakia
- Universal regime: Denmark, Finland, Iceland, Norway, and Sweden

Figure 2 presents the fiscal impact of EU migrants in relation to the two other main groups in the data, natives and migrants from outside the EU, for the period 2004–2015, separating the five different institutional regimes. It shows that EU migrants have a more positive effect on the public budgets than both natives and migrants from outside the EU in all institutional regimes except for the State insurance regime. Among the Western immigration countries, the net contribution of EU migrants is highest in the Universal regime (7200 euros per migrant household annually) and lowest in the Basic security regime (2700 euros). In the Basic security regime, natives constituted a net fiscal burden during the period under consideration. During this period, this is mainly explained by the considerable budget deficits in the UK and, especially, Ireland. Figure 1 suggests that, in contrast to the net-deficits associated with natives, migrants generated positive net fiscal effects during this period in the Basic security regime. The State insurance regime stands out, in that the data suggest that EU migrants in these countries on average generated a slight fiscal burden (600 euros). It should be noted, however, that the numbers of EU migrant households in these countries are relatively small. Among all Western regimes, the net-fiscal contribution of EU migrants is considerably larger than that of non-EU migrants, most likely due to the fact that a greater share of EU migrants are labour migrants and therefore in employment.

Figure 2: Net annual fiscal effect per household in different institutional regimes, by migrant status, 2005–2015

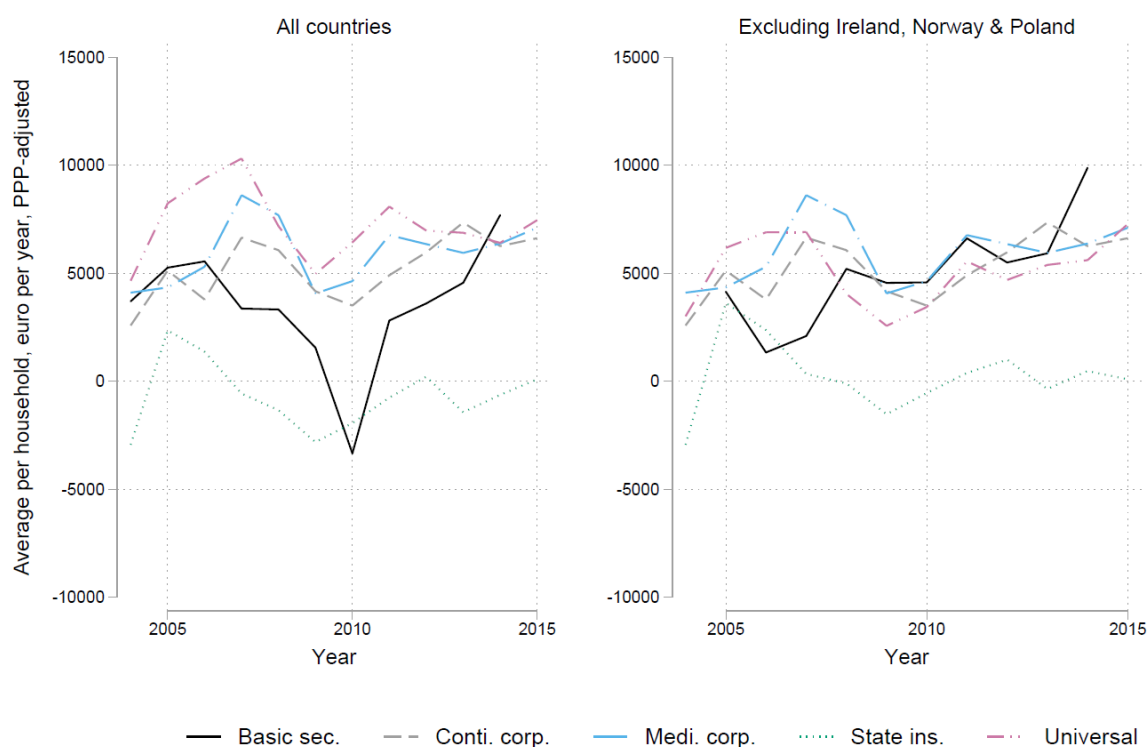


Source: Österman, Palme and Ruhs (2019).

We can also separate annual revenues and expenditures attributed to EU migrant households across the different regime types. The smaller net fiscal contribution of EU migrant households in the Basic security regime is mainly explained by lower revenues compared to the Continental corporatist and Universal regimes, as expenditure in these three regimes is on a similar level. While the Continental corporatist and Universal regimes demonstrate similar levels of expenditure and revenue, the levels of both revenue and expenditure are clearly lower in the Mediterranean corporatist regime and lowest in the State insurance regime. This is an expected result considering the lower income levels in these countries.

Figure 3 below shows how the annual net fiscal effect of an EU migrant household changed over time in the different institutional regimes. The left panel includes all countries, whereas the right panel excludes the most influential outliers. The left panel of the figure shows a large drop in the net-fiscal contribution of an EU migrant household in the Basic security regime at the time of the financial crisis. There is a clear drop in the net fiscal contribution of EU migrants in all regimes when the economic crisis hit in 2009. From 2011, all regimes started to recover, with the net fiscal contribution of EU migrants increasing and, by 2015, reaching close to pre-crisis levels. These *average* effects are influenced by countries that can be considered “outliers” in the data. We have identified one such country within each regime, including some negative and some positive outliers. The outliers include Ireland (Basic security regime), Poland (State insurance regime), Greece (Mediterranean corporatist regime), and Norway (Universal regime). For the Universal regime, excluding Norway lowers the net fiscal effect in general. The exclusion of Poland leads to a general shift upward of the net fiscal effect of an EU migrant household in the State insurance regime.

Figure 3: Annual net fiscal effect per EU-migrant household in different institutional regimes over time, 2005–2015



Source: Österman, Palme and Ruhs (2019).

Österman, Palme and Ruhs (2019) also report the results of a set of regressions of the net fiscal contribution of EU migrant households on the institutional regime and a series of individual-level and country-level control factors. The aim of these regressions is to explore to what degree the variation in the fiscal impact of EU migrants across the five regimes may be explained by differences in the fiscal balance and the background characteristics of migrants. But we find no significant differences between the estimated fiscal impacts of EU migrants in the different Western regimes. To sum up; we do not find any evidence in support of the common idea that migrants generate a greater fiscal burden in more generous welfare states. While expenditure per EU migrant household is higher in the Universal regime than in the other regimes, this is more than compensated for by higher revenues from these households.

Unemployment benefits

In the third study, Gschwind, Nyman and Palme (2019) go beyond the regime approach and take a more in-depth look at a specific social protection program: unemployment insurance. In the context of free movement, unemployment insurance is the ‘most likely case’ of a social protection program becoming a financial burden on the welfare state. This is partly due to demography: mobile workers are primarily of working age and therefore not only eligible for employment-related benefits, but also less likely to be in need of health care and other old-age related benefits and services. It is therefore likely that EU migrant workers would be more strongly affected by economic downturns, giving rise to higher relative costs particularly in countries that were strongly affected by the repercussions of the Great Recession. Data on the receipt of unemployment benefits among EU migrant workers is limited, but we have been able to again utilize the approach from Nyman and Ahlskog (2018) on the individual-level income data from *European Statistics on Income and Living Conditions* (EU-SILC) and added new country-level data from the *Social Insurance Entitlement Dataset* (SIED). Data constraints limit this in-depth study to 15 countries.

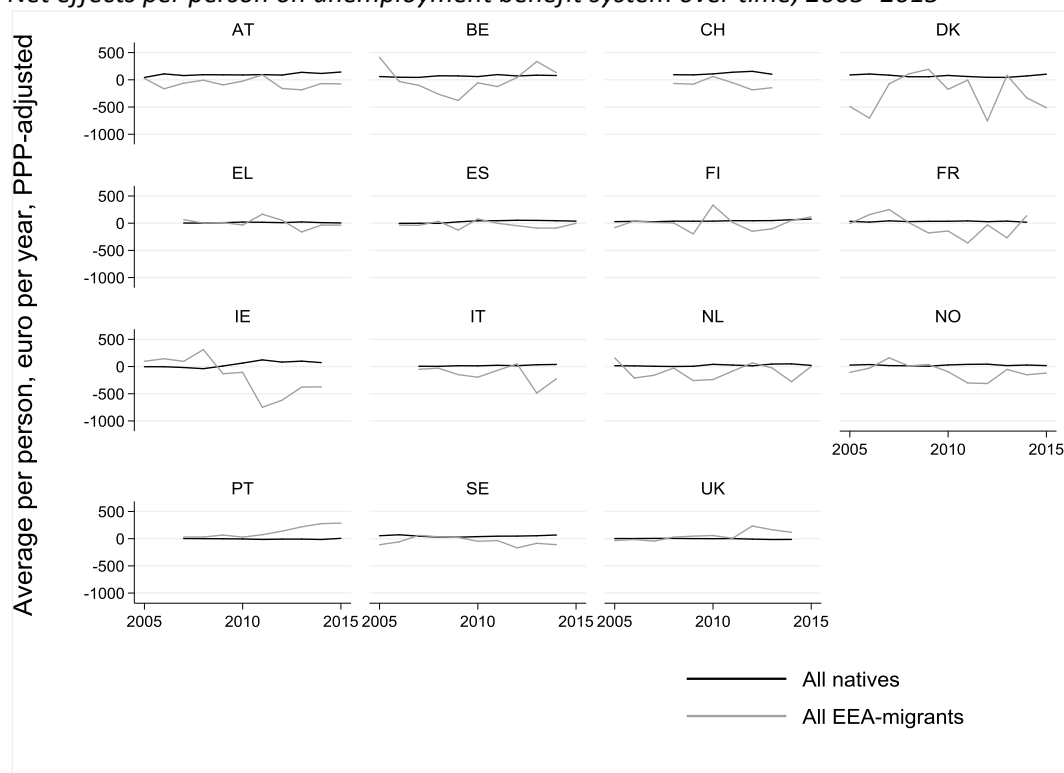
Net fiscal effects of intra-EEA migration are first studied descriptively across countries, using a static model when it comes to unemployment insurance. All payments from the public budget to an individual are added up on an annual basis and subtracted from the estimated level of contributions over the same period of time. The resulting average “net-effects” per person are then summarized on the national level, allowing for a systematic cross-country comparison between natives and EU migrant workers. The key difference in this study is that revenues and costs of unemployment benefits are separated out from the total of public revenues and expenditures for all other purpose. This generates a more in-depth understanding of the mechanisms underlying the broader cross-sectional patterns identified by Nyman and Ahlskog (2018) as well as Österman, Palme and Ruhs (2019). It is also a partial approach that warrants us putting the results into the broader context of the preceding studies.

Figure 4 shows the resulting estimates for each country over time. The trends indicate that the net-effect of EEA-migrants on the unemployment benefit system fluctuates considerably and falls below that of natives on average. Particularly strong negative effects (i.e., lower contributions than use of the benefit system) in comparison to natives can be noted for Denmark and Ireland for some of the years. An overall consistent trend towards a net-positive effect (i.e., higher contributions than use of the system) can only be observed for Portugal and the United Kingdom.

A first glance at the overview across countries and over time appears to show that EEA migration constitutes a burden for most of Europe’s unemployment benefit systems. This seems to stand in contrast to the findings in previous research, which pointed to a general pattern of positive net effects, especially in the countries selected for this study (Nyman and Ahlskog 2019; Österman, Palme, and Ruhs 2019). However, the net effects, both positive and negative, are relatively small compared to the overall budget of

the unemployment benefit system. Beneficiaries receive around 5000€ per year on average across countries. The average net-effect of EEA-migrants on the other hand is -55€, which corresponds to only a tiny fraction of the overall budget.

Figure 4: Net effects per person on unemployment benefit system over time, 2005–2015



Source: Österman, Palme and Ruhs (2019).

Differences between migrants were also studied for the subgroups of contributors and beneficiaries with help of multiple regression analyses. The results indicate that the impact of EEA-migrants is comparatively small and varies between countries on both the cost and the revenue side. Once the models control for socio-demographic characteristics of the migrant population, no consistent differences from the native-born could be found in the pooled regression analysis across 15 countries. When it comes to the institutional characteristics of the unemployment insurance programs, only the replacement rates show a significant effect as driver of costs but similarly for both EEA-migrants and natives.

To sum up, our analyses studies suggest that migration/mobility under the free movement pillar generates a positive net effect on the public finances of typical immigration countries in the EEA area and close to zero effects among countries in Eastern Europe that in the context of free movement are typical emigration countries. The effects are modest in most countries but more substantial among some of the countries with particularly high proportion of EU workers. Among the Western welfare regimes we observe no significant differences in the net effect on public finances simply because the more generous welfare states raise more taxes to cover the higher costs. When it comes to the specific case of unemployment insurance, the net costs for EU-migrants tend to be slightly higher in some countries but are negligible compared to the positive overall effects. A final reflection is that the policy implications of this small negative effect may to a large part be due to its higher visibility compared to the much larger positive effect stemming from the from the less visible but favourable demographic composition of the EU mobile working population in immigration countries.

POLICY IMPLICATIONS AND RECOMMENDATIONS

The EU's system of free movement and equal access to welfare benefits has been associated with fears of a burden on the public finances of the immigration countries among the EU member states. The studies reported in this policy brief have analysed various aspects of the fiscal impacts of immigration of EU workers. We have found that immigration of workers tends to generate positive effects for the public finances in most countries and in countries where immigration is reasonably large. In countries where the effects are negative and close to zero, or barely positive, immigration of EU citizens is small. This implies that the system of free movement of EU workers has positive effects for the receiving countries where it is big enough to be of real significance for the public finances. The political implication of this is that fears of EU labour immigration being a burden on the public finances are unfounded and that, from a public finance point of view, there are good reasons to keep the main components of the current system of free movement in place.

Our analysis of welfare state regimes showed that the generosity of welfare states is not a negative factor for the fiscal impact of EU migrant workers. The political implication of this analysis is thus that Member States should not feel constrained by the fear of free movement being a burden when they decide on the generosity of their welfare state programs. However, our analysis of welfare regimes indicates that employment and wages have important repercussions for the fiscal effects of EU migrant workers. For example, in what we call the Universal welfare state, with generous provisions in-cash and in-kind, both wages and employment are higher and actually depend on social services for children and elderly, not least for female employment and wages. This suggests that there are institutional complementarities between welfare state institutions and labour market regulations that have consequences for the fiscal effects of free movement. The political implication of this is that welfare state reforms should be designed with full recognition of how they interplay with labour market regulations.

The Great Recession had a massive negative impact on the public finances in many Member States of the EU. Since EU migrant workers did not contribute more than natives to the deficits in the public finances for the countries for which we have good data, it could be argued that economic recession is not a bigger problem for the public finances because of the free movement system (i.e. immigration of EU workers). Moreover, that the labour force is mobile in a currency area improves the ability of the EU to deal with asymmetric shocks. Thus, the Great Recession is not a game changer in terms of policy recommendations for the free movement system. The political implication is rather that free movement is an asset in terms of dealing with economic recession, particularly those with asymmetric properties.

In some member states, EU migrant workers are a burden for unemployment insurance by generating costs higher than their contributions. High replacement rates represent a cost and, in times of crisis, a net burden on the public finances, but high replacement rates of unemployment insurance do not as such generate higher burden of EU migrant workers. High replacement rates should also be considered and assessed against the function that unemployment benefits serve as automatic stabilisers, as well as in terms of their progressive redistributive impact. While it deserves to be repeated that the net burden in the case of unemployment insurance is very small, it is also clear that the political salience of spending on unemployment benefits for migrant workers is very strong. The political implication of this is that there are good reasons to target measures to EU migrant workers that would improve matching on the labour markets and facilitate circular migration to take advantage of the fact host and sending countries are not necessarily affected by recessions in the same way, or at the same time.

The evaluation of the perceived net costs of EU migrant workers among the populations of the Member States is more strongly influenced by identity concerns than by research based estimates of such effects, or by real expenditures on EU migrant workers relative to the ‘domestic’ population (Blinder and Markaki 2019). We argue that this should have implications for research funding and dissemination of research based results. To further inform the public debate and policymakers, we recommend that the EU and its Member States increase the support to research that continues to analyse various aspects of the economic effects of free movement.

Politics is ultimately about values and dealing with trade-offs when win-win solutions cannot be found. This implies that all recommendations mentioned above have to be evaluated not only against the goals explicitly mentioned by us, but also against other goals that policymakers and their voters have reasons to value.

RESEARCH PARAMETERS

The three-year REMINDER project investigates the economic, social, institutional, and policy factors that have shaped the impacts of free movement in the European Union and the public debates surrounding it. The research aims to help European policy-makers develop policy responses that inspire public trust, ensure the fairness and sustainability of free movement, and maintain inclusive policies that reduce inequalities across the continent. This brief is part of Work Package (WP) 4, ‘Fiscal Impacts’, which has produced the first large, comparative set of estimates of the fiscal effects of the migration of EU citizens within the European Economic Area (EEA). The authors of this policy brief are Rafael Ahlskog, Lutz Gschwind, Pär Nyman, Marcus Österman, and Joakim Palme from Uppsala University, and Martin Ruhs from the Migration Policy Centre at the European University Institute. The main analysis is based on an analytical framework developed by Nyman and Ahlskog (2018) that utilise the EU-SILC data set to estimate various kinds of fiscal effects. For the institutional analysis, we have been guided by the SPEUDATA-set compiled within Work Package 7, as well as by variables from the SIED dataset. For more details, see the papers listed under ‘Further Reading’ below.

PROJECT IDENTITY

PROJECT NAME	ROLE OF EUROPEAN MOBILITY AND ITS IMPACTS IN NARRATIVES, DEBATES AND EU REFORMS – "REMINDER"
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WEBSITE

www.reminder-project.eu

FOR MORE INFORMATION

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FURTHER READING

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The Effects of Immigration on Welfare Access Across the EU: Do Subjective Evaluations Align with Estimations? Deliverable 10.3. REMINDER project. Available at: <https://www.reminder-project.eu/publications/working-papers/the-effects-of-immigration-on-welfare-across-the-eu-do-subjective-evaluations-align-with-estimations/>

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