EUROPE ON THE MOVE: A FREEDOM TOO FAR?

Migration policy

The EU's right to free movement has been blamed as a key reason behind the UK's vote to leave the union, as well as cited for being a drain on countries that lose their workers to more affluent neighbours. But how accurate or fair is this? Stefanie Linhardt looks at both sides of this increasingly heated debate, and examines the likely fate of refugees into Europe.

Immigration is a topic that always gets emotions running high. The UK's vote in June to leave the EU can be attributed partly to a perception that immigration has had a detrimental impact on the country's society and economy. But not all migration is the same, and not all migrants make the same economic and social impact.

At the heart of the Brexit debate was the right of member state citizens to travel freely under the EU's single market and free movement of people framework. Together with the overwhelming flow of Middle Eastern refugees (mainly to Germany), it became part of an even broader discussion within the union.

The EU's freedom of movement has its roots in 1957's Treaty of Rome as one of the four economic freedoms of the EU's single market – free movement of goods, services, labour and capital. However, only with 1992's Treaty of Maastricht was the 'labour' provision changed to a free movement of EU 'citizens', a concept that Iceland, Liechtenstein and Norway signed up to through the European Economic Area (EEA), as did Switzerland through bilateral agreements.

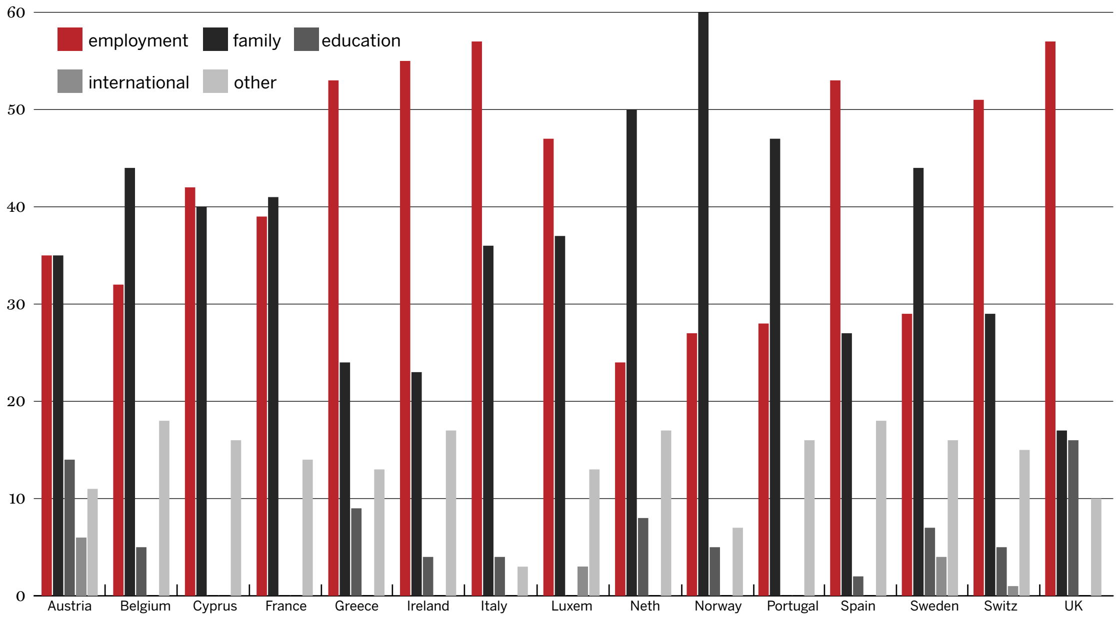
A widely debated aspect of the single market, free movement was attacked by 'Vote Leave' supporters in the UK referendum on EU membership as a means to 'benefits tourism' – i.e. moving to a country to claim social security payments – as a reason for high unemployment levels in the country, and as putting pressure on already stretched public services.

But how well founded are these claims? Is freedom of movement necessary in a single market and, if so, who benefits?

THE ECONOMICS OF FREE MOVEMENT

Marianne Thyssen, EU commissioner for employment, social affairs, skills and labour mobility, has little doubt. "Across the union, we have numerous people searching

Main reasons for EEA migration by destination country (percentage of total migrants)



Source: Eurostat 2008. EU27 migrants within EEA. No data available for other EEA countries.

for a job but we still have 2 million unfilled vacancies," she says. "Labour mobility allows a more efficient allocation of human resources within Europe. It means more opportunities for workers but also for employers."

According to Eurostat data from 2008, employment is the main reason European citizens move within the EEA – with or without having previously secured a job in the destination country – followed by family reasons. Italy and the UK are the countries that have the highest percentage of people moving there for work (data for Germany was not available), and Norway for family reasons.

For businesses, the idea of matching people with jobs where they are available creates a market of 500 million potential employees rather than the more limited pool of citizens in one country. It is no wonder that lobby group BusinessEurope, which represents Europe's national business federations, sees free movement within the EEA as a huge advantage.

"The single market is a cornerstone of European prosperity," says BusinessEurope director-general Markus Beyrer. "Free movement of people is as important for a well-functioning single market as the free movement of goods, services and capital. In fact, the free movement of people not only allows companies to get access to the skills they need to generate more growth and more employment, it is also essential to be able to provide services across Europe's internal borders."

NOT FOR JOBS

However, David Goodhart, head of demography, immigration and integration at UK think tank Policy Exchange, argues that businesses' ability to choose from a larger pool of skilled or unskilled workers is not necessarily to the benefit of the average member of the society "if that advantage to the employer means that wages are lower and investment in education and training of the domestic workforce falls off, which it obviously tends to do".

And what about those not moving for jobs, but for family, education or other reasons? Within the EEA, people can move for different reasons – but not to receive social benefits, says Ms Thyssen.

"The right of free movement is a citizens' right but it is subject to conditions," she says. "If you are working, then you have the right to reside in the country where you work and you cannot be discriminated against. But if you do not have a job and you cannot show that you have sufficient means to live independently, then you do not have the right to stay in another member state and have access to their social benefits."

Citizens are entitled to unemployment benefits only in the country where they have last worked. However, their duration of employment in another member state has to be taken into account under the so-called 'aggregation rule', creating another cause for discord.

In this respect, the European Commission is examining whether there should be a minimum period of employment in the new member state before the aggregation rule kicks in and is working on legislation to better coordinate social security rules in Europe, which are expected to be presented before the end of the year.

IS EU MIGRATION BENEFICIAL?

Madeleine Sumption, director at Oxford University's Migration Observatory analysis body, suggests that while there have been attempts to measure the economic benefits of migration, ultimately it is difficult to find reliable and comparable answers in areas such as the impact on labour markets, productivity and innovation due to a lack of accurate data.

"That said, there are some semi-theoretical comparisons that we can make across countries," she adds. "High-skill immigration is more economically bene- »

ficial than low-skill immigration, as are migrants with high employment rates, because someone who is working is going to be paying taxes and is less likely to require support from the state."

Looking at EU free movement migrants, at 38% Luxembourg is the country with the highest percentage of migrants to have found a job before emigrating, followed by Switzerland at 37% and the UK at 23%, according to Eurostat's 2008 figures.

While more detailed data on the fiscal impact of the EU's free movement is not available across all EU countries, research has been conducted into the cases of Sweden and the UK, two countries with different pull factors for immigration.

Sweden has higher social expenditure (28.1% of gross domestic product [GDP] in 2014) than the majority of free movement countries that are Organization for Economic Cooperation and Development (OECD) members (where the average is 24.2% of GDP), and as such, could be seen as a more favourable destination for older migrants or those with lower expectations of finding employment. The state provides more support, which could suggest that the impact of migration to Sweden could be fiscally negative.

Yet a discussion paper by Joakim Ruist, migration researcher at Gothenburg University's department of economics, argues that the average net fiscal contribution to Sweden of EU10 migrants (that is, from Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Slovakia and Slovenia) per immigrant in 2011 was positive at an average of Skr35,290 ($4117), as was that of the 'old' EU14 members to the tune of Skr64,235 – all considering benefits used such as sickness support, pensions, unemployment support, schooling and care.

"In terms of migration, in particular from EU countries, there seems to be a big mix-up [between] availability of public services at times of demographic change and austerity, and what those who are coming to the country are contributing in terms of taxes and are taking out in services," says Christian Dustmann, professor of economics at University College London and director of UCL's Centre for Research and Analysis on Migration.

A POSITIVE FOR THE UK?

A country that has become a centre of migration research thanks to its often Eurosceptic stance, the UK has comparatively low income taxes. OECD data from 2015 found the UK on average has the third lowest taxes, putting it well below the area average (26.31% of GDP versus 38.19%). Switzerland – which sees high numbers of German immigrants (26,640 in 2013 according to the OECD) where the income tax rate is among the four highest in the region – has the lowest tax rates, followed by Ireland.

UCL's Mr Dustmann and Tommaso Frattini, associate professor in the department of economics, management and quantitative methods at the University of Milan, were the first to publish in-depth analysis of the fiscal impact of immigration in the UK in 2013. This concluded that EEA migration to the UK has been fiscally positive from 1995 to 2011 to the tune of £8.8bn ($11.41bn). Updated calculations in 2014 halved the figure to £4.4bn but migration-critical think tank MigrationWatch UK disputed the figures and published its own estimates, which put the total fiscal impact of EEA migrants for 1995 to 2011 at -£13.6bn.

> HIGH-SKILL IMMIGRATION IS MORE ECONOMICALLY BENEFICIAL THAN LOW-SKILL IMMIGRATION, BECAUSE SOMEONE WHO IS WORKING IS GOING TO BE PAYING TAXES AND IS LESS LIKELY TO REQUIRE SUPPORT FROM THE STATE ***Madeleine Sumption***

But EU commissioner Thyssen says that EEA migration has "boosted the GDP in the host countries in the EU15 by about 1% in the long run".

BRAIN DRAIN

Still, the impact of migration is felt in both the origin country as well as the destination. Across EU countries, the member state seeing the most inter-EU emigration is Romania. According to OECD data, some 293,521 Romanians left the country for other EEA members in 2013. Although the overwhelming majority (139,500) moved to Germany, the strong numbers for Italy (59,700) and Spain (30,035) suggest that language similarities play a significant role when choosing a country to migrate to.

And while in destination countries it is more beneficial for the economy to have the highly skilled migrate, this can be problematic for the origin countries. Romania's finance minister Anca Dana Dragu told *The Banker* in May that the country has to deal with an "exodus of young doctors to western Europe", while large numbers of education workers are also leaving the country.

While Romania's economy has not yet seen a correlation between migration and GDP growth – the contraction in the economy in 2009 and 2010 was related to the financial crisis – its population had already been shrinking before EU entry. International Monetary Fund (IMF) data shows that since 1991, the Romanian population has been on the decline, from 23.5 million to 19.9 million in 2015.

An IMF report on the emigration impact on eastern Europe finds "overall, emigration appears to have lowered potential growth and slowed economic convergence with the EU" in countries in the south-east of Europe and the Baltics. Nearly 20 million central, eastern and south-eastern Europe (CESEE) nationals have left the region over the past 25 years. Some 80% of these migrants went to western Europe, according to the report, more than half of which moved to Germany, Italy and Spain.

But an exodus of highly skilled and educated workers should encourage any government to try to lure their citizens back. In Romania, the government increased local wages in healthcare and education sectors to attract valuable emigrants to return, Ms Dragu told *The Banker*, adding that these structural policy measures have already sparked interest from Romanians to return.

While return migration appears to have been limited in the CESEE region, according to IMF research, there is no consistent data available. Should policies and structural reforms such as those in Romania attract more workers back to their home countries, economies could benefit from 'brain gain' – a transfer of knowledge from returning migrants to the local population.

Another way in which origin countries are benefiting from migration is through remittance flows. According to the IMF, emigrants' remittances back to their home countries have become important in many CESEE countries, particularly low-income ones. Furthermore, they appear to have "promoted investment and, in some cases, supported consumption and facilitated financial deepening", the IMF adds – although the benefits of remittances are another hotly debated topic.

THE DEBATE CONTINUES

So are there political or economic justifications for the freedom of movement of people? "Both," says the EU's Ms Thyssen. "Economically, it is part of the internal market, which is an integrated part of the European economy – we have four freedoms and they belong together. And there is a clear political dimension because the terms and conditions of free movement imply political choices."

Mr Dustmann believes the principle of free movement is essential for having a free and common trade area because "capital flows and labour flows in economic terms are basically two sides of the same coin".

It is a very emotive topic, and not everyone agrees with this assessment. For Policy Exchange's Mr Goodhart, free movement of people is overwhelmingly a political policy and is not required in a single market because it "barely existed for most of the single market's history".

He adds: "The benefits of freedom of movement have been massively oversold. Freedom of movement remained absolutely trivial until 2004, until you had the entry into the EU of 10 new states with average incomes of a quarter or a fifth of that of the rich countries, as a result of which, not surprisingly, the scale and extent of freedom of movement increased very sharply," he says, adding that this has been a big factor in the Brexit vote, and fuels Euroscepticism elsewhere in Europe.

Immigration can change the way communities "look and feel", says Oxford University's Ms Sumption. "People who live in areas that experience migration do not see it purely as an economic [or political] phenomenon but also as an important social one," she says.

Still, according to Ms Thyssen, 25% of European citizens say they dream of having a job in another member state, making freedom of movement one of the most cherished rights that EU citizens have. "But there are many others who do not want to leave their countries, so we have to create perspectives everywhere," she says. "We need more upward socio-economic convergence and then people have a real choice of where they want to be." TB

THE ECONOMICS OF REFUGEE MIGRATION

Movement within the EU is one topic, but the influx of refugees is a whole different ball game. Europe has given refuge to a million migrants fleeing war and persecution in mainly Syria and Afghanistan, but also some African countries.

The bulk of them are coming to Germany, not least since chancellor Angela Merkel said in 2015 that Europe's largest economy was getting ready to welcome 800,000 refugees by the end of the year – some 441,900 ended up claiming asylum in 2015.

The flows are not slowing, despite agreements between the EU and Turkey for the latter to return migrants who reach Greece via Turkey, measures taken to make the journey through the EU from Greece or Italy more difficult and to share the burden of refugees across member states. Yet the EU's decision to impose refugee quotas across its member states is facing criticism from the Visegrad group countries (the Czech Republic, Hungary, Poland and Slovakia), making the implementation of plans difficult.

"The economic case for today's refugee migration from the Middle East is slim but we shouldn't confuse refugee migration with our obligation as signatories of the Geneva Convention, which requires us to give refuge to people who flee persecution and war after having evaluated their cases," says Christian Dustmann, professor of economics at University College London and director of UCL's Centre for Research and Analysis on Migration. "Now whether that is economically beneficial for us or not is a secondary thought."

While the majority of refugees coming to Europe are men and women of working age, the economic benefits of refugee migration are in most cases not equal to those of EEA migrants.

"The big question is, how easily can these people get integrated and get jobs," says Madeleine Sumption, director at Oxford University's Migration Observatory. "When you compare people who have migrated for different reasons, refugees tend to find it more difficult to find work that reflects the education they have had in their countries of origin."

Refugees do not move by choice and often lack local language skills, which is why they are, at least initially, expected to be net receivers of public funds rather than contributors.

However, if those refugees become well integrated within the countries, the EU's efforts to reach burden-sharing agreements across countries in the long run could see refugee migration help revive communities that have been hit by emigration.