



European
Institute

Free Movement of Persons and Migration

Report of the hearing held on 21st January, 2016



LSE Commission on the Future of Britain in Europe

Rapporteurs:

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Foreword

This is the report on the fourth hearing of the LSE Commission on the Future of Britain in Europe which focused on the Freedom of Movement and Immigration and took place on Tuesday, February 23rd 2016.

Participants were invited not for their views on the referendum itself, but for their expertise in the realm of the EU's Freedom of Movement policies. The attendees who ultimately joined us for the hearing were academics, policy-makers and activists.

We are extremely grateful for their attendance at the meeting, the lively debate that ensued and their useful comments on a draft version of this report. We would also like to thank those involved in the project at the LSE; particularly David Spence for his thorough comments on draft versions of this report, as well as Marion Osborne for her administrative support. All remaining errors in this report remain ours.

Contents

1. Introduction	4
2. Summary	5
3. Costs and benefits of the free movement of persons: A matter of perspective	6
3.1 The availability of reliable data	6
3.2 Cost-benefit perspectives: The EU as a whole	6
3.3 Cost-benefit perspectives: European citizens	7
3.4 Cost-benefit perspectives: member states	8
3.4.1 Countries of origin	8
3.4.2 Receiving countries	8
4. Assessing policy options: Curing the ‘problem’ by killing the patient?	11
4.1 Reforming the British welfare state	11
4.2 Establishing an ‘emergency brake’	11
4.3 The Brexit scenario	12
5. Conclusions	13
Participants list	14

1. Introduction

The topic of this hearing was the EU's freedom of movement rules and the role they play in the discussions surrounding the United Kingdom's upcoming EU referendum. The hearing was therefore concerned with the impact of these provisions both on the European Union itself, and on individual member states, focusing particularly on the effects on the United Kingdom.

The EU's freedom of movement policies have moved up political agendas across Europe ever since the enlargement of the EU to Central and Eastern European countries in 2004 and 2007 brought in a number of countries that were at significantly lower levels of socio-economic development than those that had previously become members. The growth in labour market opportunities in different member states has meant that more EU citizens have made use of their right to freedom of movement since the year 2000 than previously, with countries like Germany and the UK being the most popular destinations.

However, during the hearing it became clear that the debate about freedom of movement should not be limited to intra-EU migration. For many participants this policy area is part of a broader debate on the costs and benefits of the EU's Single Market. Nonetheless, while some contributors at the hearing suggested that "accepting freedom of movement is the cost of doing business with the EU", others cautioned that the national perspective was equally important.

Such considerations are particularly relevant since polling data suggest that migration is one of the core issues for voters in the UK¹. While the referendum campaigns have turned to wider debates about the costs and benefits of EU membership, the way in which the migration-related outcomes of the government's renegotiation package are being discussed could still have a significant influence on the outcome.

Overall, a disparity remains, on the one hand, between the negative public perceptions of the effects of migration, and, on the other, the more nuanced impression given by much of the available academic data, which suggests that effects are either negligible or positive. A number of reasons for this gap were suggested, mainly depending on the perspective adopted. Assessments may vary according to whether the economic, social or cultural effects of the EU's freedom of movement policies are being considered, and whether the approach is based on an analysis at state level or at the level of groups of individuals.

In order to capture the range of discussions that took place during the Hearing, the remainder of this report is structured as follows: the first section outlines the costs and benefits of freedom of movement from different perspectives, while pointing to difficulties in providing accurate data on these developments; the second section discusses a variety of responses to the perceived problem of EU migration to the UK, and the effect they are likely to have on the outcome of the referendum; thirdly, the report weighs up the evidence submitted by the participants.

¹ According to YouGov issues trackers.

2. Summary

- Free movement of labour was one of the founding principles of the Treaty establishing the European Economic Community in 1957, but in the context of the UK referendum it has become contentious.
- In the absence of precise and reliable data, establishing the true impact of the provisions for freedom of movement on the level of migration since the UK joined the European Communities in 1973 is difficult.
- Assessment of costs and benefits depends largely on whether effects are considered on the EU as a whole, on individual member states, or on particular socio-economic groups within a state.
- There is strong evidence for overall positive economic impact of intra-EU labour migration for both the EU and the UK.
- However, UK wages may be held down by EU immigration, particularly in lower income unskilled sectors.
- The effect of free movement on the provision of public services in the UK is relatively small, as the majority of intra-EU migrants come to the UK to seek employment, are not accompanied by family members, have generally completed their education and are not acting as welfare tourists.
- But: the nature of the design and funding arrangements of the British welfare system means certain restrictions on benefits, recognised under EU law, are more difficult to implement in the UK.
- The migration-related contents of the Government's package were said to contain important elements that might address some of the concerns of the general public about the negative impact of EU migration.
- The UK Government was seeking:
 - firstly, a reform of the benefits system to prevent access by migrants to in-work benefits until they had been resident in the UK for a certain number of years;
 - secondly, to avoid the exportation of child benefit to the migrant's country of origin.
- Participants at the Hearing doubted that the reform package would have a significant impact on levels of EU migration to the UK, and concluded that the main pull factor to the UK was its strong and open economy.
- Brexit (and even leaving the Single Market) is unlikely to deliver the kind of immigration cuts that some proponents of leave would like to see.

3 Costs and benefits of the free movement of persons: A matter of perspective

The discussions during the Hearing highlighted some of the difficulties involved in evaluating the costs and benefits of the EU's free movement regime, starting with the issues raised by data collection. This was followed by a discussion on the costs and benefits of EU freedom of movement rules from three different perspectives: first, that of the EU as a whole; second, that of individual European citizens, and third that of member states, focusing on the effect on the United Kingdom in particular.

3.1 The availability of reliable data

The discussion quickly revealed a major problem in any discussion of the effects of the EU's freedom of movement policies, namely the inherent difficulty of gathering accurate migration data. The importance of establishing even the most basic facts was recently highlighted when the UK government published statistics on the take up of welfare benefits by EU migrants, which were subsequently called into question by the government's own statistical watchdog.²

The first problem in establishing accurate data on migration (and its impact) concerns the challenge of being able to distinguish between permanent migration patterns and shorter-term mobility. Moreover, one of the main sources of data for EU migration to the UK, for instance, is the Office of National Statistics' estimates derived from the International Passenger Survey, figures which fail to capture accurately the intentions of people

crossing the UK's borders and to record their length of stay.

As some participants pointed out, this makes it difficult to assess how many EU migrants have settled permanently in the UK and, consequently, what their impact is on the UK's labour market and public services. While some academic studies have tried to provide more accurate data³, the availability of reliable up-to-date statistics remains a critical problem. However, even with better data, disagreements would remain as to the appropriate level of analysis when evaluating the costs and benefits of migration.

3.2 Cost-benefit perspectives: The EU as a whole

For some participants, the EU's freedom of movement provisions are as much an economic concept as they are a symbol of what the EU represents. They therefore set the current situation regarding freedom of movement within a wider context, arguing that it has been a core feature of European integration (albeit in a weaker form) ever since the foundation of the European Economic Community.

While earlier flows were significantly lower than today, participants nevertheless pointed out that Germany, for example, received relatively large numbers of migrants from Greece and Spain when they joined the European Communities in 1981 and 1986 respectively. It was also pointed out that the reforms leading to the current iteration of the right to freedom of movement, as established with the

² The Independent, 'David Cameron's EU migrant benefits figures blasted by UK Statistics Authority watchdog', 11 November 2015.

³ C. Dustmann, T. Frattini and C. Halls (2010): "Assessing the Fiscal Costs and Benefits of A8 Migration to the UK", Fiscal Studies 31 (1), pp. 1-41.

Treaty of Maastricht, were actually based on concerns during the 1980s that intra-European mobility was too low.

From an economic perspective, some participants suggested that freedom of movement of persons is a necessary corollary to a functioning single market, which in turn has positive socio-economic effects for the EU as a whole. If governments are interested in reaping the full economic benefits arising from the free flow of goods, capital and services, then the benefits can only accrue if the flow is accompanied by the free movement of persons. It was stressed that a change to one of these four components would necessarily have negative consequences on the others.

While not all EU economies have benefitted equally from the Single Market, it is widely agreed that the integration of less developed countries into the single market has not only created economic benefits for the countries in question, but for the EU as a whole.

Several participants cautioned, however, that reducing EU migration to a purely economic dimension would not do justice to the European project itself. The EU's concept of freedom of movement serves as an important symbol for individual freedoms in Europe, even at times when the economic benefits are not immediately obvious. As one participant pointed out, freedom of movement is often viewed as a basic principle of what it means to be a European. It was one of the central aspirations of Central and Eastern

Europeans who were denied this right under Communist rule.

3.3 Cost-benefit perspectives: European citizens

Comments focusing on the effects that freedom of movement have on individual European citizens revealed different perspectives depending on the category of citizen concerned. Just as freedom of movement affects different member states in different ways, the costs and benefits for individual citizens depend on factors such as national origin and socio-economic status.

While the benefits of the freedom of movement are obvious for those who have taken up their right to reside in a different country, they are less obvious for non-mobile individuals. Nonetheless, as one participant commented, from an economic perspective, freedom of movement has positive effects not only for migrants, but also for the host country. While the latter effect is relatively limited when broken down at individual level, the impact over the life course is significant for individual migrants. These surplus benefits are internalised in the EU, increasing the average level of wellbeing of every EU citizen. In addition, it was pointed out that the mere possibility of EU-internal migration serves as an insurance policy when individual EU economies suffer from recession, allowing workers to seek employment elsewhere.

There is strong evidence for overall positive economic impact of intra-EU labour migration for both the EU and the UK

3.4 Cost-benefit perspectives: member states

While intra-EU migration operates from and to all EU countries, a distinction can nonetheless be made between the effects on two broad categories of member states: namely the countries of origin (migrant-sending countries) and migrant-receiving countries. The effects on the latter group also depend largely on the *kind* of EU migrants they receive.

3.4.1 Countries of origin

While there are concerns that emigration may lead to a “brain drain” and a worsening of the demographic outlook, the effects on the countries of origin were generally viewed as very positive by the participants at the Hearing. This is primarily due to the payment of financial remittances by migrants back to their home countries. Simultaneously large-scale emigration creates incentives for political and economic reform. One participant supported this argument by citing the example of the long-term positive effects of the Irish brain drain during the 1980s on the country itself.

By contrast, some participants cautioned that large-scale emigration from Europe’s Eastern and Southern member states contributes to a loss of workers who would be capable of injecting economic dynamism into the economies of their countries of origin. In their opinion, the positive effects associated with freedom of movement can eventually become negative if too many citizens decide to settle abroad permanently instead of making only short-term use of the ability to work, live and study abroad.

One participant illustrated the positive effects of freedom of movement in the case of Poland. While there has been large-scale emigration of skilled Polish workers, little evidence is found that this emigration has led to major labour market shortages (with the possible exception of the information technology sector). Nonetheless, some concerns were expressed as to the potential negative demographic effects on sending countries’ pension systems.

3.4.2 Receiving countries

Comments about the effects on recipient countries offered insights into both general costs and benefits of receiving EU migrants, and the effects on specific member states, and particularly on the UK.

A number of participants argued that destination countries benefit from receiving migrants in a variety of ways: due to their contributions to national budgets, the introduction of new skills into the labour market, by dampening the effects

of ageing populations in the host countries or more broadly in cultural terms.

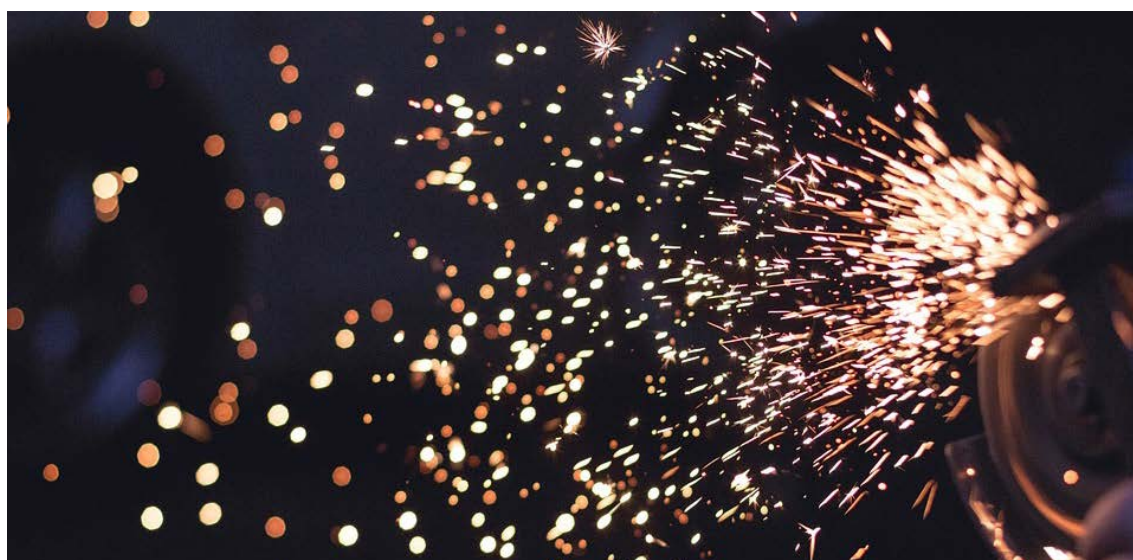
Participants also pointed to the fact that the UK is not the only recipient country for EU migrants, with various member states receiving different kinds of migrants. In that context, Spain and Portugal were cited as examples of countries receiving a high proportion of retired elderly EU migrants (including significant numbers from the UK).

Participants offered a variety of insights into both the costs and benefits of EU migration to the UK. Despite the many positive economic effects reported in the discussion, a significant increase in EU immigration to the UK since the EU's enlargement to the East in 2004 and 2007 has raised some concerns. However, most participants agreed that a large part of EU migration to the UK was demand-driven and due to the dynamism of the UK's economy.

Generally speaking, the EU's freedom of movement rules have provided UK businesses with a steady supply of workers, be they highly specialized or low-skilled. With regard to the economic impact of EU migration on the UK, reference was made to a study outlining an overall fiscal benefit to the UK's public finances as a result of intra-EU migration⁴.

While the effects on the UK's economy appear to be largely positive overall, some participants also referred to a recent study⁵ showing that high levels of immigration to the UK have the potential to hold down UK wages, creating particularly high risks for workers in the low-skilled and semi-skilled sectors. Moreover, some participants highlighted concerns about the impact of migration on public services, as well as social cohesion within communities.

Several participants noted that EU migrants arriving in the UK tend to be young, they have received their education



⁴ C. Dustmann and T. Frattini (2014): "The Fiscal Effects of Immigration to the UK", *The Economic Journal* 124 (580), pp. F593-F643.

⁵ S. Nickell and J. Saleheen (2015): *The impact of immigration on occupational wages: Evidence from Britain*, Staff Working Paper No. 574, London: Bank of England.

abroad and often have not yet formed families. This creates significant benefits for the UK, as the country is receiving the benefits from skills acquired abroad without having to pay for them. Moreover, young people tend to make less use of the National Health Service. However, participants did point out that, when migrants settle more permanently and form families, these dynamics may be expected to change. While they are likely to pay more taxes as they integrate further into labour markets, public expenditure on education and healthcare is expected to rise.

Moreover, a growing population does have wider effects on the housing market and on the provision of public services. As noted by one participant, the impact of migration also depends on the ease of scalability and adaptability of different services, to a changing population. Overall, the problem of accurately estimating migration levels and patterns makes it difficult for planners to alter the provision of services rapidly, in particular in cases where important capital costs arise, as for housing and transportation.

Several participants countered this claim by arguing that the budgets for public services in the UK have been cut significantly in recent years, even when demand has been on the rise, meaning that the pressure on public services is felt across the UK and not just in areas with significant numbers of migrants.

When discussing public concerns about the impact of migration on the UK's social services, participants pointed to the fact that, where benefits are provided on a non-contributory basis, it is difficult under EU rules to restrict access selectively for individuals, even to those who have not contributed to the system. Member states based on contributory social security systems have managed to curtail access to non-contributors while remaining compliant with EU legislation, whereas tax-funded systems like that in the UK have struggled to do so.

Most participants agreed that the costs of welfare benefits for EU migrants are relatively small. The issue is nonetheless significant in terms of public attitudes, particularly in the UK. In Ireland for example, a country with a similar non-contributory welfare system, concerns over the welfare costs for EU migrants have been much more muted and are regarded as largely insignificant compared to the wider benefits of being a member of the EU.

Beyond the economic dimension, a number of participants highlighted the reputational benefits for the UK due to the country's openness to migration in general, and to EU migration from Central and Eastern Europe in particular. Finally, some participants cautioned against adopting an overly short-term perspective on the issue of net migration levels since migratory patterns can be subject to significant changes over time.

4 Assessing policy options: Curing the 'problem' by killing the patient?

A number of different policy options were briefly discussed at the hearing. The exchanges demonstrated that there are no easy fixes when it comes to addressing concerns over immigration to the UK.

4.1 Reforming the British welfare state

As already noted, the design of the UK's welfare arrangements limits the possibility of restricting access to welfare benefits for EU migrants. Furthermore, the UK's government is highly centralised, making it more difficult to adapt policy planning to regionally differentiated demographic challenges. Regions in decentralized countries like Germany have been able to adapt their planning more successfully to different intra-EU migration patterns.

While the potential for institutional changes in the UK to address these challenges and constraints has been discussed in the past, most participants felt that wide-ranging institutional reform was unlikely. Some voiced concerns that any fundamental changes in response to the challenges associated with EU membership would further fuel Euroscepticism in the UK.

4.2 Establishing an 'emergency brake'

The effectiveness of an emergency brake mechanism, as in the negotiation package, for the suspension of benefits to EU migrants was also discussed at the Hearing. While the specifics of this measure were

the design and funding arrangements of the British welfare system mean certain restrictions on benefits, recognised under EU law, are more difficult to implement in the UK

unclear at the time of the Hearing, many participants had their doubts about the effective implementation of such a measure.

Some participants suggested that the establishment of an emergency brake on EU migrants' access to in-work benefits would raise questions about exactly who would be able to trigger the measure and on what basis. While the deal that has been agreed since the Hearing addresses this issue by giving ultimate decision-making power to the European Council, the issue of eligibility criteria has not been clearly addressed, as the deal simply states that the UK would be able to make use of the emergency brake mechanism in the current circumstances.

The focus of the discussion turned, however, on the likely efficacy of the measure in bringing down EU-migration to the UK. Most of the participants agreed that the effect on migration levels was likely to be minimal. Some nonetheless highlighted the important symbolic effects of the measure in addressing public concerns about so-called welfare tourism.

4.3 The Brexit scenario

Asked about the viability of Brexit as a solution to the perceived problem of mass EU migration to the UK, participants pointed to many unresolved issues. Most felt that Brexit would do little to bring about significant change in the immigration pull factors that have made the UK a popular destination country for migrants. Nonetheless, two distinct scenarios were discussed in more detail.

While participants agreed that Brexit would, in theory, give Britain more control over its immigration system, most believed that, in practice, control over immigration would remain limited. Doubts were cast on the capacity of an open economy like that of the UK to close its borders.

Participants also cautioned against seeing the EU's free movement of persons' provisions in isolation, as they are intrinsically linked to other aspects of the Single Market. If the UK wants to continue to benefit from access to that market, most considered that it was not feasible to assume that the other member states would allow Britain to restrict movement of EU citizens into the UK unilaterally. Asked about solutions that would see Britain reorganize its relationship with Europe in a similar way to Norway's EEA participation, or Switzerland's bilateral treaties, the consensus was that this would not address the perceived problem of migration to the UK.

In the absence of a settlement similar to the Norwegian model, participants discussed the idea of a points-based system as is currently in place in Australia. While some participants recognized the appeal of such a model, they nevertheless pointed to a number of specific difficulties that would arise. British businesses are expected to oppose a solution that renders access to qualified labour more difficult, and such a system would be expected to generate significant bureaucratic costs. Whereas one participant saw the attraction of a system that provides preferential access to migrants from richer countries, others cautioned that such a system would create more problems than it would solve.

Some participants also warned that any significant change to migration policy would radically increase incentives for illegal migration, ultimately putting a large number of workers at risk of exploitation. Finally, it was suggested that significant difficulties would arise for Britain's relationship with Ireland if the UK were no longer a member of either the EU or the European Economic Area (EEA).

5 Conclusions

Two broad conclusions emerged from the LSE expert Hearing on free movement of persons and migration.

First, the discussions shed some light on the question as to why so many disagreements remain about the costs and benefits of migration. Data on migration remain notoriously weak, and analysts will always differ in their assessment of the relative importance of financial and non-financial factors involved. More importantly, the Hearing made it clear that, ultimately, any assessment usually comes down to the question of whose benefits and costs are of most concern.

Second, the meeting highlighted that our experts did not believe that the British Government's renegotiation deal will prove an effective way to cut immigration to the UK. It seems very clear that the reasons for immigration to the UK have a lot more to do with pull factors created by an open and successful British economy than with the attractiveness or otherwise of Britain's welfare system. As one of the hearing's participants aptly put it: 'For free market economies, the only effective way to reduce immigration is to wreck your economy and throw it into recession'. If Britain wants to remain an open market economy, even a Brexit scenario is unlikely to deliver the kind of control over immigration that some proponents of leave would like to see.

the main pull factor to the UK
is its strong and open economy

Participants List

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