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# PEOPLE ON THE MOVE: MIGRATION AND MOBILITY IN THE EUROPEAN UNION

Uriintuya Batsaikhan, Zsolt Darvas and  
Inês Gonçalves Raposo



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People on the move: migration and mobility in the European Union

Uuriintuya Batsaikhan, Zsolt Darvas and Inês Gonçalves Raposo

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# Foreword

Migration is one of the most divisive policy topics in today's Europe. Emotions run high when citizens across our continent discuss the refugee 'crisis' of 2015, intra-EU migration, posted workers, border control, Schengen and so on. Perceptions often differ vastly from realities on the ground. That is why we decided to provide a comprehensive and data-driven book on the current state of affairs of immigration in Europe, which I am very happy to introduce.

The book offers numerous insights. On overall immigration numbers and their relationship to Europe's demographics, it is fascinating to note that only 30 years ago, in the mid-1980s, Europe became a net immigration continent – after 400 years of populating many parts of the world. More recently, it is important to note that net immigration has become distinctively more important for population change than the natural change. In 2015, the natural rate of population change turned negative.

Another issue is perceptions of migration. This volume shows the relatively high support for intra-EU migration as opposed to immigration from outside the EU, and documents how emigration away from central and eastern Europe has created labour shortages in that part of the world and has also affected its demographics.

The book also surveys research on the economic impact of migration and analyses the importance of education for integration of immigrants into the labour market. It finds that in many EU countries, second- and third-generation descendants of immigrants are much less well integrated into the labour market and have worse educational outcomes than natives.

This volume also documents the vastly different ways in which EU countries assess asylum applications. In some countries, large percentages of applicants get granted asylum status while in others the percentages are very low.

The authors conducted a novel survey of banks and concluded that the tightening of financial regulation that has been necessary to tackle money laundering and terrorist financing has made it more difficult to offer financial services to refugees. The solution to this problem is not to ease regulation, but to tailor it to the specific needs of refugees, offer clear guidelines to banks and improve refugee identification.

The authors make a number of important policy recommendations, highlighting the importance of effective EU border control, consistent implementation of EU decisions and of practical measures such as creating an EU database and ID for refugee identification.

I would like to thank the authors for a very comprehensive and thorough work which I am sure will inform many stakeholders and help improve the fact base that underpins important debates. My gratitude also goes to the Mastercard Center for Inclusive Growth, which funded this study.

*Guntram Wolff, Director of Bruegel  
Brussels, January 2018*

# Executive summary

Immigration tops the list of challenges of greatest concern to European Union citizens. While in some years immigration has been primarily driven by economic motives and family reunification, in the last few years Europe has experienced a major surge of refugees fleeing wars and conflicts in Syria, Afghanistan, Iraq and other countries. The arrival of a large number of asylum seekers in a short period has created huge administrative, border-protection and financial difficulties in several EU countries, and even led to a partial suspension of the border-free intra-EU travel area. The public perception of refugees and other immigrants has been shaped by the devastating conflicts in a number of EU neighbourhood countries and the tragic deaths of migrants seeking to cross the Mediterranean Sea. Concerns are also voiced frequently about the difficulties of integrating people with different cultural backgrounds.

At the same time, there are economic and political reasons to allow the immigration of workers, students and family members, while the provision of humanitarian assistance to refugees is a key value of the European Union. Meanwhile, the public understanding of simple facts about migration is sometimes far removed from reality.

We assess the immigration challenge that the EU faces. We analyse public perceptions, extensively map migration patterns in the EU, review the literature on the economic impact of immigration and analyse the integration experiences of immigrants to the EU. We also reflect on immigration policies and the role of private institutions in fostering integration.



Chapter 1 provides an overview of the EU's demographics:

- Population growth due to natural change (the balance between live births and deaths) has declined from 0.8 percent in the 1960s to essentially zero. In 2015, the EU saw a natural population decline for the first time at least since 1960.
- Net immigration into the EU was close to zero from the 1960s to the early 1980s, when it started to increase. Since 1992, net immigration has been a more important source of population increase than natural change.
- The large inflow of refugees in 2015-16 was not historically unprecedented. However, the circumstances of immigration, the composition of flows of immigrants and the uneven distribution of asylum seekers across EU countries were unprecedented.

Chapter 2 uses a range of surveys to analyse the public perception of immigration:

- EU citizens have become relatively less concerned about economic issues and more concerned about immigration and terrorism. Surveys show that citizens tend to associate terrorism with immigration.
- Europeans are more negative about immigration than people on other continents.
- On average – though there are major differences between countries – EU citizens perceive that immigrants take more jobs than they create, and take out more fiscal resources than they put in.
- There is a major difference between public perceptions of migration from other EU countries and immigration from outside the EU. Support for intra-EU mobility has increased and exceeds two-thirds of the EU population. Support for extra-EU immigration is generally lower.
- We do not find support for the hypothesis that the high share of foreign citizens in a population, or a rapid increase in their share, fuels

anti-immigrant sentiment. In fact, we find some evidence for the opposite. It seems that the perception that immigration could be a problem, rather than the actual presence of immigrants, has greater influence over public support for immigration.

- There is a huge gap between perceived and actual stocks of immigrants, with most people over-estimating the proportion of foreign-born people in their countries.
- EU citizens generally disapprove of the way the refugee crisis was handled in Europe. Nevertheless, a large majority of Europeans is in favour of a common European asylum policy and increased EU efforts to fight illegal immigration.

Chapter 3 analyses immigration into and emigration from EU countries in terms of source and destination countries and educational levels. It also considers the movements of posted workers within the EU.

- Annual emigration of EU citizens (to both EU and non-EU countries) was relatively stable at about 0.29 percent of population from 2009-15. The highest levels of emigration were from the central and eastern European EU countries, and the lowest levels were from southern Europe, where recently increased emigration rates have not yet reached the EU average. The cross-border mobility of EU citizens remains well below intra-country mobility within the United States and other large countries.
- Posted workers from central and eastern European countries account for a mere 0.15 percent of the population in north-west EU countries, which makes it surprising that the revision of the EU Posted Workers Directive (96/71/EC) has received such prominent attention in EU policy debates.
- In 25 countries, the return of citizens who previously emigrated does not compensate for overall emigration; the exceptions are Cyprus, Denmark and Malta.
- Emigration from central and eastern European countries has creat-

ed major labour shortages. However, the immigration of these central Europeans to north-west EU countries did not take away jobs from local workers at a significant scale; labour shortages in various industries increased in north-west EU countries in parallel to the arrival of central and eastern European workers. The labour shortage problem was already significant before 2008, but has become even more severe in recent years and requires urgent attention.

- In earlier years, non-EU citizens immigrated into the EU primarily for work, but in recent years, humanitarian reasons have become dominant with about 1.2 million asylum applications in both 2015 and 2016. The expected number for 2017 is 640,000.
- European countries assess asylum applications very differently. The acceptance rate in EU countries varies from 15 percent to 85 percent. It is rather unlikely that the composition of flows of asylum seekers explains these large differences. A more likely explanation is differences between countries in the implementation of the EU's asylum rules.
- The disproportionate distribution of refugees between EU countries entails excessive burdens for some EU member states. Fair burden sharing is essential.

Chapter 4 reviews the literature on the economic impact of migration, particularly in relation to fiscal policy and labour markets, and considers the economic impact of sudden inflows of refugees and asylum seekers.

- There is a lack of conclusive evidence that immigrants take jobs from, or depress wages for, natives. Instead, the impact on the host country depends on migrant characteristics and the host country's economic and institutional factors.
- The fiscal impact of migrants is generally found to be small and depends on migrant characteristics. Migrants make a greater fiscal contribution the younger and better integrated into the

labour market they are, while family and elderly migrants as well as refugees tend to be a fiscal burden. The literature results on whether migrants might cluster in countries with generous welfare systems and make a smaller contribution to public finances are mixed. The initial fiscal impact might also change in time, for example, labour migrants with a positive fiscal contribution might bring family members later and they might retire, when their fiscal contribution turns negative. Or the initial fiscal burden of refugees might turn to positive fiscal contribution when they integrate into the labour market.

- Studies on sudden inflows of refugees suggest that restricting refugees' access to the labour market leads some to enter the informal economy, limiting the evaluation of their economic impact.
- There is consensus that the economic impact of migration on receiving countries is largely influenced by the composition of migrant flows. Migrants who come for work reasons or for the short-term are associated with better economic outcomes for receiving countries.
- The swiftness of integration also plays a non-negligible role; the faster migrants are integrated into the labour market, the sooner they actively contribute, through taxes and social contributions.

Chapter 5 examines how Europe integrates migrants. Given that integration is time consuming, we focus on the experiences of earlier waves of immigrants.

- Effective integration would imply that first-generation migrants do not perform much worse than the native-born population on various indicators, while second-generation migrants are expected to have similar levels of activity and achievement as the native-born population.
- With the exception of a few countries, integration has fallen short. The labour force participation rates of second-generation immi-

grants are close to those of native populations, and above those of first-generation immigrants, only in the UK, Sweden and France, suggesting successful integration processes. In most other EU countries, second-generation migrants participate less in the labour force than first generation migrants, and much less than natives.

- Unemployment rates among second-generation migrants tend to be higher than rate among the native population, even in the UK, Sweden and France.
- Better educated immigrants are much more likely to be employed than poorly-educated immigrants, highlighting the role of education in successful integration strategies. The share of people with a low level of education is much higher among the non-EU-born population than the native-born and other-EU-born populations.
- More immigrants than native workers feel that they are overqualified for their jobs, raising questions about the recognition in the EU of the qualifications of migrants.
- Young immigrants are much more likely than native-born youth to leave school early (with the notable exception of the UK).
- The children of immigrants tend to underperform in educational terms compared to the native population. However, in Ireland, the UK, Portugal, Latvia and Hungary second-generation migrant children achieve better scores than the native population.
- Foreign citizens tend to have lower incomes. However, it is difficult to disentangle whether lower average incomes are connected to the lower average education levels of immigrants, or are because of discrimination.
- EU integration policy scores are rather poor compared to Canada, Australia and the US, especially in education.

Chapter 6 studies the financial inclusion of refugees, which poses major challenges. Our findings are informed by our own survey on the views of financial institutions on the regulatory environment and attitudes toward financial inclusion.

- The necessary tightening of regulation to tackle money laundering and terrorist financing has made it more difficult to offer financial services to refugees, even though there have been a number of European efforts to foster financial inclusion. Most banks regard EU know-your-customer requirements as somewhat or overly restrictive in terms of offering financial services to refugees.
- Supervisory authorities have issued guidelines on the financial integration of refugees only in about half of the EU countries. All EU countries should prioritise the issuing of such guidelines.
- The urgent need refugees have to open a bank account is blocked by identification requirements that are not designed to accommodate to their situation. A European identity document for refugees and a pan-European registry of refugees, to which financial institutions should have access, would greatly foster financial inclusion.
- Financial institutions generally do not provide specialised products or are not equipped to deal with the specific needs of refugees, and show little interest in doing so. Simplifying existing regulations or recommending best practices could facilitate the process of settlement by refugees in their host countries.
- Private-sector initiatives, such as offering micro-credit to refugees, offering short-term employment and providing internet access would facilitate their inclusion. The private and public sectors should work together on the integration of refugees.
- Public-private partnerships, on issues such the establishment of common and robust principles for financial inclusion, private sector support for the set-up of national and pan-European refugee registries, cooperation on training of refugees and social inclusion, should be explored.

We offer in chapter 7 twelve policy recommendations related to public dialogue (1), refugees (2-7), integration of immigrants (8-11) and labour shortages (12):

1. Address negative perceptions of migrants: public understanding of immigration is often far from reality, making it important to disseminate accurate information about various aspects of immigration.
2. Protect the EU's borders and fight illegal immigration: while various measures have been introduced, 85-90 percent of the EU population would like to see additional measures.
3. Continue to build partnerships with neighbourhood countries, which can help to contain refugee and immigration inflows into the EU, facilitate the successful and safe return of ineligible migrants and provide information about eligible migrants.
4. Provide additional funding for border protection, neighbourhood partnerships and immigrant integration: a small percentage of the EU budget is spent on these areas, which we find insufficient given that immigration is a priority concern of citizens.
5. Ensure the consistent implementation of the EU's asylum rules: the widely different rates of acceptance of asylum seekers in different EU countries suggest different implementation of the EU's asylum rules. Clear guidelines are needed for the evaluation of asylum applications and their consistent implementation.
6. Address the very uneven distribution of refugees among EU countries: relocation of refugees from, and financial support to, heavily impacted countries is essential. Countries that resist accepting refugees for political and ideological reasons should make large enough financial contributions instead of being forced to accept refugees.
7. Improve identification of refugees by issuing a European ID to each refugee and creating of a pan-European registry of refugees, linked to national central registries: such instruments, established with European financing, would greatly facilitate the identification and integration of refugees.
8. Learn from the best integration practices: only a few European countries can be regarded as successful in terms of integration of immigrants. Cooperation with the private sector and social part-

- ners should also play a role in improving integration systems.
9. Combat educational and spatial segregation: early childhood education, language and professional training for recently arrived immigrants, and better access to higher education for young and second-generation migrants, are essential for their integration and to limit spatial segregation.
  10. Ensure the EU strategy for integration is well articulated with national governments and other institutions: the EU's 2016 Action Plan on the integration of third country nationals (COM (2016) 377) includes several useful initiatives which should be better implemented by member states.
  11. Review financial regulation to promote the financial inclusion of refugees: regulation should strike a balance between the fight against money-laundering/financing of terrorism and the economic integration of refugees. At the minimum, all supervisory authorities should issue guidelines on financial inclusion of refugees.
  12. Address labour shortages in EU member states by fostering labour force participation, increasing the pool of labour for the private sector through reduced public-sector employment, education and specific training programmes and by overhauling the tax/social security contribution system to promote higher net wages, while keeping gross wage costs and fiscal revenues unchanged.



# 1 Introduction

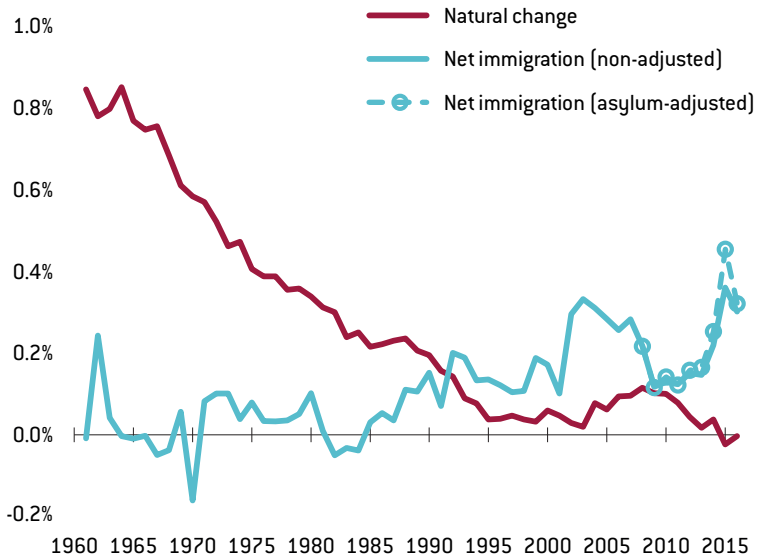
The demographics of the 28 countries that, at the time of writing, make up the European Union have changed dramatically in the past half century. While in the first half of the 1960s natural change (the balance of live births and deaths) increased the population by 0.8 percent a year, the contribution of natural change to population growth has since declined steadily and fell close to zero in the late 1990s (Figure 1). The increase in longevity did not compensate for the fall in fertility. Although there was a slight increase in the rate of natural change in the late 2000s, it started to fall again and 2015 was the first year (at least since 1960) with a natural population decline in the EU.

Net immigration from outside the EU shows an opposite trend. It was close to zero from the 1960s to the mid-1980s, when it started to increase. Since 1992, net immigration to the EU has become a more significant source of population growth than natural change.

The composition of the flows of immigrants entering the EU is changing. While in some years immigration has been primarily driven by economic motives and family reunification, in the last few years Europe has experienced an overwhelming wave of refugees fleeing wars and conflicts in Syria, Afghanistan, Iraq and other countries. In both 2015 and 2016, about 1.2 million first-time asylum applications were registered in the EU. The average number of applications from January-September 2017 suggests an expected total annual volume of 640,000 in 2017, still well above the 2008-11 average of 265,000 per year<sup>1</sup>.

1 Extra-EU asylum applications, annual data from Eurostat (dataset name: migr\_asyappctza).

**Figure 1: Components of population change in the EU, 1960-2016 (percent of population)**



Source: Bruegel using Eurostat's 'Population change - Demographic balance and crude rates at national level [demo\_gind]' and 'Persons subject of asylum applications pending at the end of the month by citizenship, age and sex Monthly data (rounded) [migr\_asypentzm]' datasets. Note: immigration (non-adjusted) indicates the data as included in the population statistics. Immigration (asylum-adjusted) also considers the change in the pending number of asylum seekers, who are not included in population statistics. Both net immigration times series are based on the 'net migration plus statistical adjustment' indicator of Eurostat, which may cover, besides the difference between inward and outward migration, other changes observed in the population which cannot be attributed to births, deaths, immigration and emigration. OECD data suggests large statistical adjustments for Italy in 2012-13 and for Spain in 2002-2011, with which we modified the 'net migration plus statistical adjustment' indicator to reflect only net immigration. Other countries had either zero or rather small statistical adjustments. Data covers the 28 members of the EU as of end 2017 for the full period of 1960-2016.

However, despite increasing numbers of asylum applications, Figure 1 has a very clear message: total net immigration into the EU in 2015-16 was not historically unprecedented. In several years in the mid-2000s, total net immigration into the EU (including refugees and

immigrants arriving for other reasons) relative to population was quite similar to the 2015-16 values.

Therefore, while the magnitude of recent inflows of non-EU nationals was not unprecedented, the circumstances were. The arrival of a large number of asylum seekers in a short period created huge administrative difficulties in many EU countries, necessitated the mobilisation of significant financial resources and required increased border protection measures. It even led to a partial and temporary suspension of the border-free intra-EU Schengen travel area. There were many incidents of deaths of irregular migrants in the Mediterranean Sea. These problems, and the atrocities that a few asylum seekers committed and the crime of smugglers, were widely reported in the media. In addition, the number of terrorist attacks has increased throughout Europe, which is sometimes associated with immigration (Wike, Strokes and Simmons, 2016). As a consequence, immigration, along with terrorist concerns, top the list of challenges EU citizens are most concerned about according to Eurobarometer opinion surveys.

In parallel with the increase in refugee-status applications, emigration out of southern European countries to other EU countries has increased somewhat, while there has been major emigration out of Latvia and Lithuania. Still, intra-EU mobility remains below levels of internal mobility in large countries like the US<sup>2</sup>. The recent increase in intra-EU mobility was partly driven by the long-lasting euro-area crisis after 2008, which led to diverging unemployment rates in different EU countries. Unemployment increased to high levels mostly in southern euro-area countries and the three Baltic states, while unemployment has fallen to historically low levels in the two largest EU economies, Germany and the United Kingdom. These differences in labour market situations led an increasing number of workers to take advantage of

2 According to Ester and Krieger (2008), intra-US mobility was much larger than intra-EU mobility in the early 2000s. The minor increase in intra-EU mobility, and the reported decline in intra-US mobility, are unlikely to have changed the difference between the EU and the US significantly.

their rights to work in another EU country, freedom of movement being one of the four fundamental economic freedoms of the European Union.

There has also been an increase in so-called ‘posted workers,’ or workers temporarily posted to another EU country where their employer provides a certain service, such as construction or financial services. European Commission president Jean Claude Juncker made the reform of the EU directive on posted workers a main priority of his presidency. The European Commission proposed the revision of the directive in spring 2016; the reform is, at time of writing, in negotiation between the European Parliament and the Council.

Immigration from both inside and outside the EU has been a major issue in domestic political debates in a number of EU member states. For example, it was one of the main issues in the campaign preceding the UK’s referendum on European Union membership in June 2016, and was a hot topic in the campaigns preceding the 2017 elections in the Netherlands, France and Germany, in which anti-immigration parties had a high profile.

Meanwhile, Eurobarometer also shows that most Europeans trust the EU more than they trust their national governments and 69 percent of respondents say that they are in favour of a common European policy on migration (November 2017 Eurobarometer survey). These views highlight the importance of a unified European approach.

In this Blueprint, we assess the immigration challenge that the European Union faces. We begin with an analysis of public perceptions of immigration (chapter 2), then map immigration into the EU and intra-EU mobility (chapter 3). Chapter 4 analyses the economic impact of immigration using a comprehensive literature survey. Chapter 5 examines the integration record of immigrants in the EU. Chapter 6 is devoted to a special topic in integration: financial inclusion of refugees, based on our own survey of financial institutions. Finally, chapter 7 looks at the EU’s policy response to immigration in general, and to the refugee crisis in particular. We then formulate twelve policy recommendations.

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**Box 1: Defining immigrants and refugees**

There are various definitions of immigrants and migrants. According to the United Nations definition<sup>3</sup>, migrants are those who change their residence from one place to another for a given amount of time, not including business people or tourists. Seasonal workers are included in the 'short-term migrant' category.

According to the International Organisation for Migration, there were 1 billion migrants in 2015, including 244 million international migrants. The remainder are internal migrants (according to the International Organisation for Migration definition), a large number of whom – 150 million – are Chinese migrants moving from rural to urban areas<sup>4</sup>.

In the EU context, Eurostat defines immigration as the action by which a person establishes his or her usual residence in the territory of a member state for a period of at least 12 months, having previously been a resident of another member state or a third country. Conversely, emigrants are those who have been a usual resident in a member state and cease to have their usual residence in that member state for at least 12 months<sup>5</sup>.

Refugees are those who, owing to fear of persecution on the grounds of race, religion, nationality or membership of a particular social or political group, are outside of their country of nationality and cannot seek protection in that country or, owing to fear, are unwilling to return to it (Geneva Convention relating to the Status of Refugees, Art. 1). From a legal perspective, obtaining refugee status has two stages: asylum seekers are those who have submitted their application to seek asylum in a country other than their own. If the application (including possibly the subsequent appeal) is successful, this person acquires the right to be recognised as a refugee.

3 <http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/migrant/>.

4 International Organisation for Migration (2015) *Global migration trends, 2015*, available at <http://gmdac.iom.int/global-migration-trends-factsheet>.

5 [http://ec.europa.eu/eurostat/cache/metadata/en/migr\\_immi\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/migr_immi_esms.htm).

While the above-listed definitions apply to newcomers, it is much more challenging to define and measure people who have an immigrant background in the resident population. Statistical data is only available for two categories of such people: foreign citizens and foreign-born people. These are useful statistics that we will report, but these definitions do not include all people with an immigrant background. Unfortunately, statistics are not available for second (people born from immigrant parents) or third generation migrants, or for people born to mixed couples (children of an immigrant and a local citizen). However, native citizens might regard people with an immigrant background as still being an ‘immigrant’, even if they have obtained the citizenship of the host country and their family has lived in the host country for decades.

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## 2 Public perception

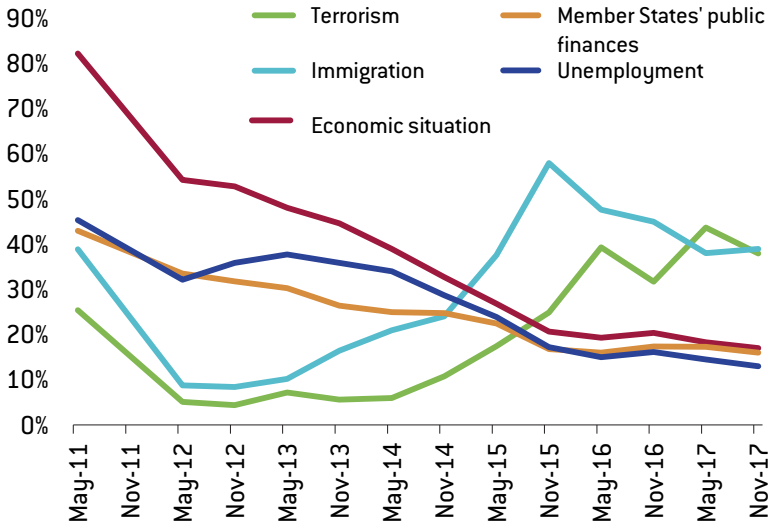
Public opinion is crucial for policy design. While opinion surveys often have shortcomings, they can provide valuable information about the views of citizens. In this chapter we scrutinise various surveys conducted by Eurobarometer, the European Social Survey, Gallup, IPSOS and Pew Research Center to better understand public perceptions of immigration in Europe and on other continents. We consider whether immigrants are viewed as making an economic contribution, or whether they are seen as an economic burden; if there are differences in perceptions of immigrants from the EU and from outside the EU; and if the EU's response to the refugee crisis since 2015 and attempts to build a common European migration policy have met with public approval.

### **European immigration concerns**

Since May 2011, the EU's Eurobarometer opinion survey has included a question about the most important issues facing the European Union. Between 2011 and 2014, EU citizens were most worried about the economic situation, unemployment and the state of member states' public finances (Figure 2). These concerns gradually became less pressing as the economic situation improved. Since the spring of 2015, in parallel with the refugee surge, the share of people identifying immigration as the most important issue facing the EU has sharply increased. The identification of terrorism as a key issue has also increased since 2015, following several deadly attacks in Europe. Immigration concerns tracked by Eurobarometer peaked in November 2015, since when there has been some decline.

Nevertheless, according to the November 2017 survey, immigration continues to be the most important challenge for 39 percent of EU citizens.

**Figure 2: Most important issues facing the European Union, share of respondents**



Source: Eurobarometer surveys. Question QA5 “What do you think are the two most important issues facing the EU at the moment?” Maximum of two answers possible.

Migration was one of the main issues of the campaign preceding the UK’s referendum on European Union membership in June 2016<sup>6</sup>.

6 However, high immigration does not necessarily mean more negative attitudes towards immigration among local populations. In the United Kingdom’s Brexit referendum, areas with more migrants tended to vote remain, while areas with fewer migrants tended to vote leave. Areas with more immigrants are typically economically more dynamic areas with larger shares of young and educated inhabitants, who also tended to vote remain. When controlling for various socio-economic factors, the share of foreign-born citizens in the population was not a statistically significant determinant of the leave votes (annex of Darvas and Wolff, 2016).

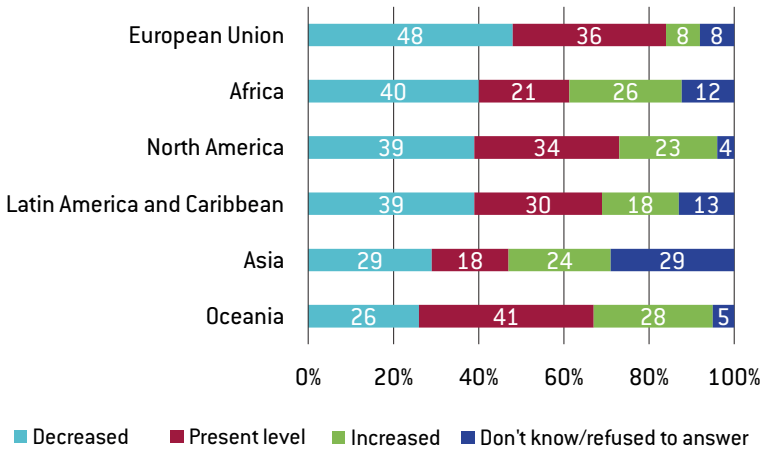


The 2017 elections in the Netherlands, France and Germany again put immigration into the spotlight, with anti-immigration parties prominent in the elections.

### Global perceptions of immigration

Anti-immigration rhetoric might be more prominent in Europe than in the rest of the world. According to a 2015 International Organisation for Migration poll (IOM, 2015), people in the EU have the most negative views worldwide on migration, with 48 percent responding that migration levels should be reduced (Figure 3).

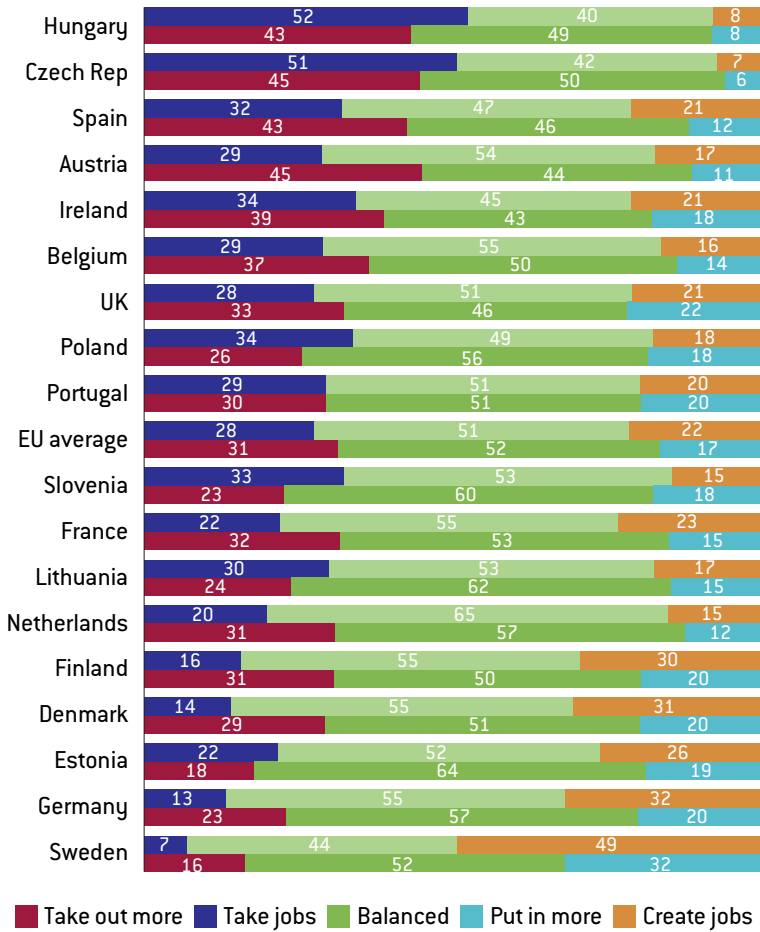
**Figure 3: Attitudes towards immigration globally, share of respondents**



Source: IOM (2015), Figure 1.2 and Table 5.1. Note: responses to the question: “In your view, should immigration in this country be kept at the present level, increased or decreased?” Groups are weighted by population size.

Moreover, the survey findings indicate that in countries with unemployment rates above 15 percent, almost half of the respondents said that immigration should be reduced. Adults with a university degree, and people aged under 54, are more likely to say that immigration should be kept at the present level or increased.

**Figure 4: Europeans’ perceptions of immigrants’ net fiscal and net job impact, percent of respondents, 2014**



Source: European Social Survey, 2014. Note: respondents were asked to provide their views on a scale 0 to 10, 0 representing ‘immigrants receive more than they contribute’ and ‘immigrants take away jobs in the country’ and 10 representing ‘immigrants contribute more than they receive’ and ‘immigrants create more jobs.’ The ‘take out more’ and ‘take jobs’ categories include respondents answering 3 or less. The ‘put in more’ and ‘create jobs’ categories represent respondents answering 7 or above. Balanced: scores between 4-6.

Lastly, citizens of high-income countries are more likely to respond that immigrants take jobs that natives do not want (58 percent), whereas 35 percent of low-income country respondents say that immigrants take jobs that the natives want. The differences in opinions can be largely explained by respondents' socio-economic situations (household income, education level, employment status and age) and countries' economic situations (unemployment rate, views on the country's general economic situation, with a worsening economic situation leading to low support for increased immigration and *vice versa*).

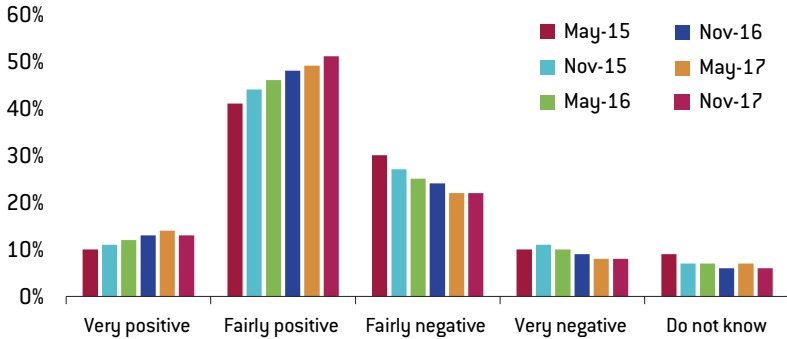
### **Intra-EU differences in perceptions**

There are major differences between people in different EU countries in terms of their attitudes towards immigration into the EU. In the 2014 European Social Survey special module on immigration, EU citizens were asked whether immigrants are net fiscal contributors or recipients, and whether they are net job creators or job takers (Figure 4). On average, most EU citizens think immigrants take more jobs (27 percent) than create jobs (22 percent) and take out more in benefits (32.5 percent) than contribute in taxes (16.5 percent). Attitudes in different countries are very different, however, with Hungary, the Czech Republic and Spain at one end of the spectrum with more negative views and Sweden, Germany and Estonia at the other with more positive views.

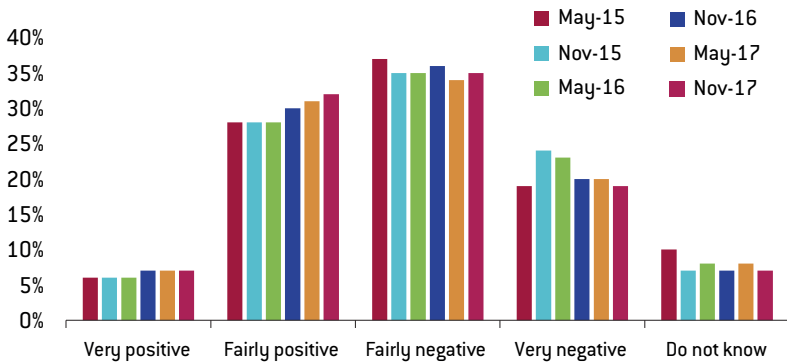
Perceptions of immigration differ widely depending on whether immigrants come from another EU country or from outside the EU. Since May 2015, the first time the Eurobarometer survey included a related question, support for intra-EU immigration has been much higher than support for immigration from outside the EU (Figure 5).

**Figure 5: EU citizens, support for immigration from inside the EU and from outside the EU, percent of responses, 2015-17**

**A) Immigration of people from other EU countries**



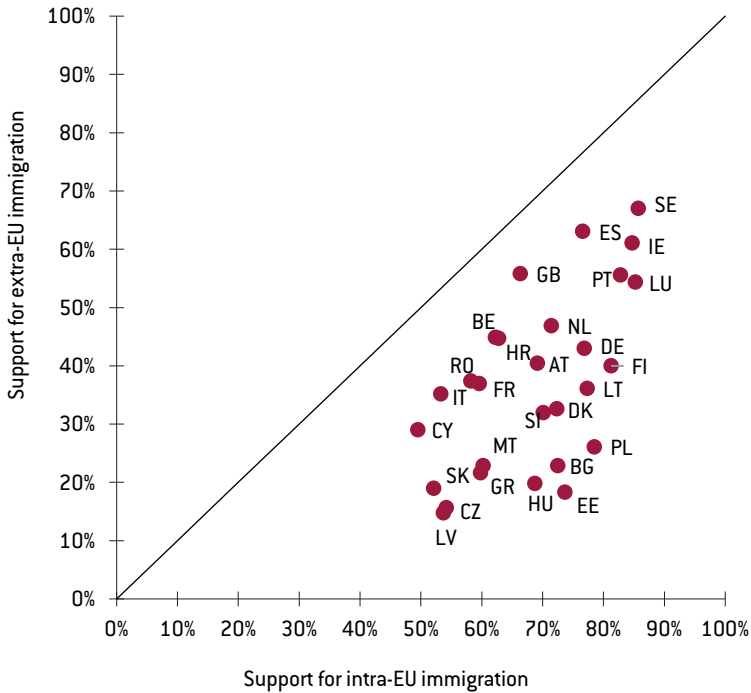
**B) Immigration of people from outside the EU**



Source: Eurobarometer surveys. Note: the survey asked: “Please tell me whether each of the following statements evokes a positive or negative feeling for you – immigration of people from other EU member states; immigration of people from outside the EU”.

Furthermore, support for intra-EU immigration has risen since May 2015 to the point that the share of respondents with a positive view exceeds two-thirds, while support for immigration from outside the EU remained at the same level until May 2016 and has risen slightly since.

**Figure 6: Support for immigration from inside the EU vs. immigration from outside the EU, percent of respondents, 2017**



Source: Eurobarometer, fall 2017. Note: respondents were asked: “Please tell me whether each of the following statements evokes a positive or negative feeling for you – immigration of people from other EU member states; immigration of people from outside the EU”. Share of respondents responding ‘very positive’ and ‘fairly positive’ are added together and shown as a share of those who responded to this question.

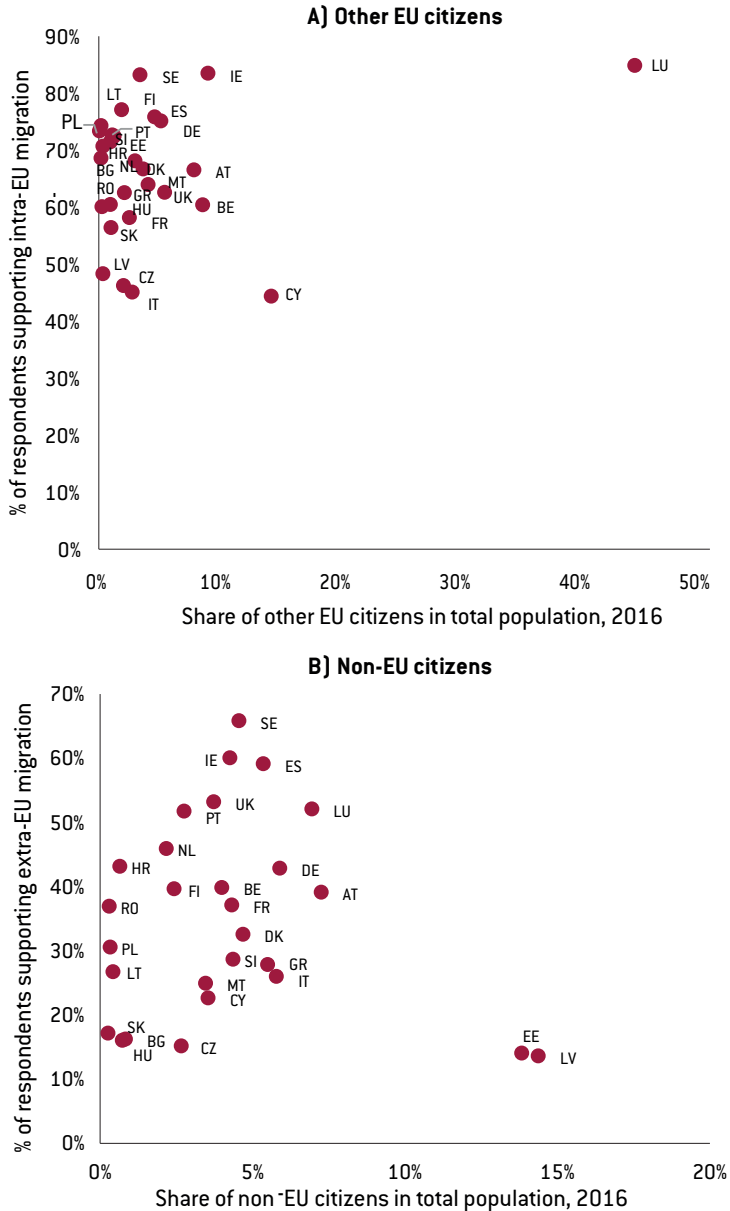
Therefore, while the level of support for immigration from outside the EU is well below the level of support for intra-EU immigration, the refugee crisis that started in 2015 has not led to a further deterioration in support for immigration from outside the EU, and there has even been a slight increase in support.

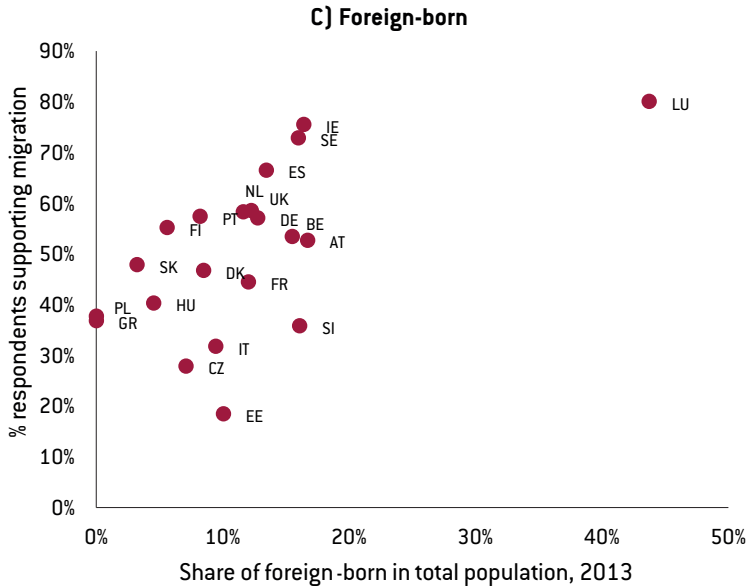
Though the more positive view of intra-EU migration compared to immigration from outside the EU is found in each EU country, there are also substantial differences (Figure 6). People in Luxembourg, Ireland and Sweden are most supportive of intra-EU migration. Only in Cyprus does support for intra-EU migration fall below 50 percent of citizens. It is notable that in the United Kingdom, where intra-EU immigration was one of the main topics of the 2016 Brexit referendum campaign, support for intra-EU immigration was 66 percent and support for extra-EU immigration was 56 percent in November 2017, according to Eurobarometer. Support for extra-EU immigration was very low – down to just 15 percent – in a number of central and eastern European countries (the Czech Republic, Slovakia, Latvia, Hungary and Estonia).

### **Are perceptions of immigration driven by the number of immigrants?**

There is no negative relationship between the level of support in a country for immigration and the share of foreign citizens in the resident population. If anything, the relationship either does not exist or is even positive, for the three categories covered by Figure 7. If we disregard the outliers of Cyprus and Luxembourg on panel A, and Estonia and Lithuania on panel B, it seems that there is an even a positive correlation between the two variables: citizens in countries hosting more foreign citizens tend to support migration more. In Estonia and Latvia, the large share of non-EU citizens is related to a large Russian minority, and the very negative views of extra-EU immigration are likely fuelled by insecurity related to the Russian Federation. Panel C for foreign-born people also suggests a weak positive relationship between the share of foreign-born residents and support for migration.

**Figure 7: Immigration support vs. the share of immigrants in resident population**





Source: Bruegel based on Eurostat 'Population on 1 January by age group, sex and citizenship' dataset, code: migr\_pop1ctz and OECD International Migration Database. For the foreign-born panel, support was computed as the weighted average of support for intra-EU and extra-EU immigration, using weights proportional to the share of other-EU and non-EU citizens in population.

Another hypothesis would be that support for immigration decreases in countries that have experienced a recent surge in immigration. For intra-EU migration (Figure 8), this does not seem to be the case: the correlation is close to zero<sup>7</sup>.

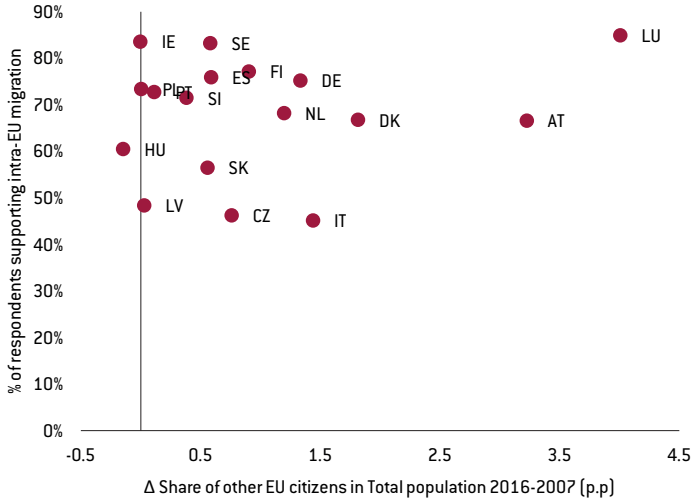
Overall, using cross-country data we do not find support for the hypothesis that the high share of foreign citizens in a population, or a rapid increase in their share, fuels anti-immigrant sentiment. On the contrary, when outliers are discounted (for good reasons), the data suggests that countries that host more foreign citizens tend to have more favourable views about them.

<sup>7</sup> Unfortunately, data constraints do not allow us to analyse the case of extra-EU foreign citizens.

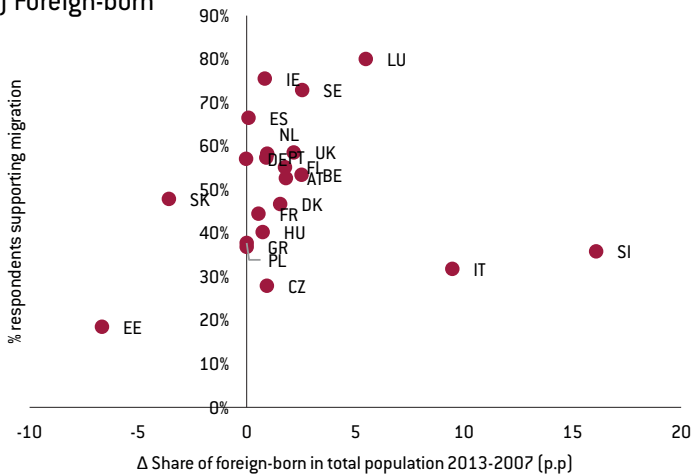


**Figure 8: Support for immigration vs the change in the share of other EU citizens and foreign-born people in resident population**

**A) Foreign citizens**



**B) Foreign-born**



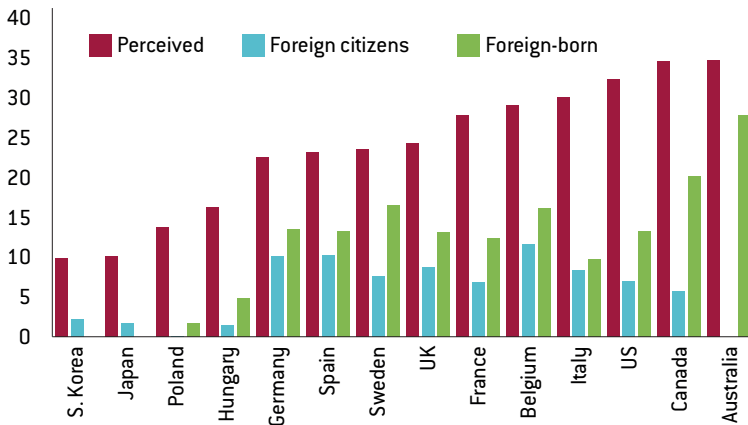
Source: Bruegel based on Eurostat ‘Population on 1 January by age group, sex and citizenship [migr\_pop1ctz]’ dataset, OECD International Migration Database and Eurobarometer surveys.

Our analysis thus arrives at the same conclusion as Mourlon-Druol (2016) and Darvas (2016) about the role of immigration in the United Kingdom’s 2016 referendum on EU membership and the decision to leave the EU: the actual presence of immigrants did not have a significant effect on the results, supporting the conjecture that it was rather the perception of immigration as a problem that influenced the vote.

### Perception versus reality

The perception of immigration is often far from reality. An IPSOS survey found that in all countries where the question was asked, people perceived that there were many more migrants than there actually were (Figure 9). This is not an EU-specific issue; the same perception is found around the world. Among the EU countries, the largest gaps between perceived and actual shares of immigrants in the total population are found in Italy, Belgium, France, the UK, Hungary and Poland.

**Figure 9: Perceived and actual stocks of immigrants in resident populations, 2014 (percent of population)**

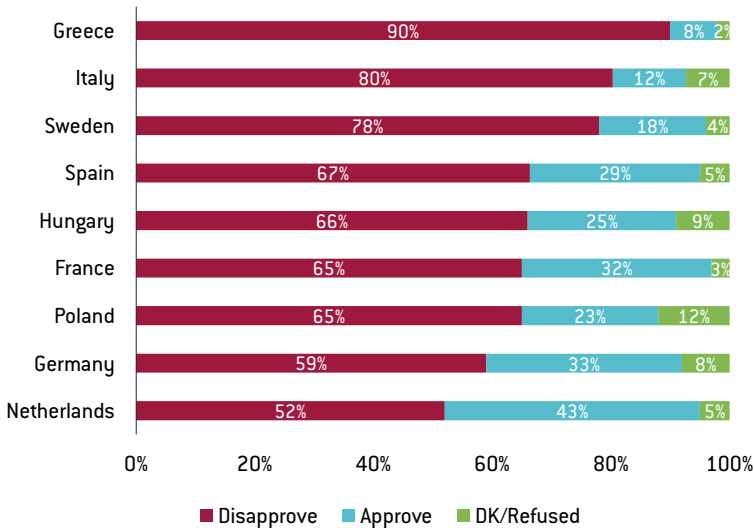


Sources: IPSOS - survey conducted in 2014, OECD. Note: the question asked was: “What percentage of the [Country] population do you think are immigrants to this country (i.e. not born in [Country])?” OECD data for Canada, Poland from 2011.

## Disapproval of the EU asylum response

At the same time, the composition of immigrants from outside the EU is changing. While in some years immigration is primarily driven by economic motives and family reunification, in the last few years Europe experienced an overwhelming wave of refugees fleeing wars and conflicts in Syria, Afghanistan, Iraq and other countries (see chapter 3). The refugee crisis and the response to it are quickly feeding through into public opinion in the EU. The common public fears are that the refugee crisis is linked to insecurity and the threat of terrorism, and that the inflow of refugees will ultimately mean fewer economic opportunities for the natives. These fears are shown, for example, in the survey results reported by Wike, Stokes and Simmons (2016).

**Figure 10: The EU's responses to refugee crises, public approval rating, selected countries, percent of respondents, 2017**



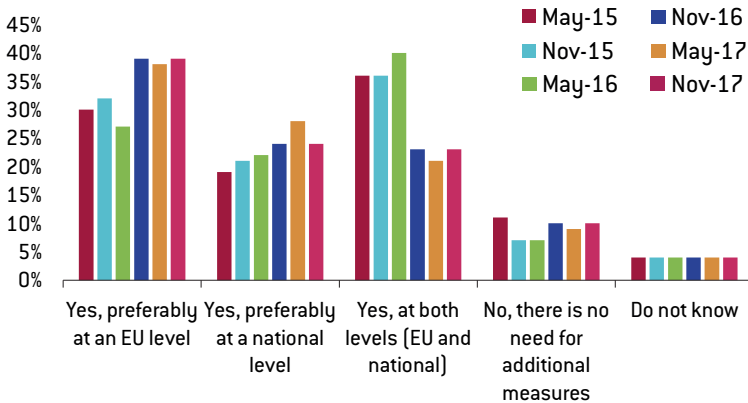
Source: Pew Research Center, Spring 2017 Global Attitudes Survey. Note: the question asked was: "Do you approve/disapprove of the way the European Union is dealing with the refugee crisis?"

According to a 2017 Pew Research Center survey, almost 90 percent of Greek citizens in Greece and around 80 percent in Italy and Sweden, broadly disapprove of the way the refugee crisis was dealt with, while the median disapproval rate for the nine surveyed EU countries was 66 percent (Figure 10). However, we cannot isolate from the data whether the public rejection of the EU’s response results from the actual problems, for example on the shores of Greece and Italy, or the general anti-immigrant bias in some other European countries.

### Call for a European approach and greater efforts to fight illegal immigration from outside the EU

With the general rejection of the EU’s policy response to the refugee crisis, it is not surprising that the overwhelming majority (about 85-90 percent) of EU citizens would prefer additional measures to be taken to fight illegal immigration from outside the EU (Figure 11).

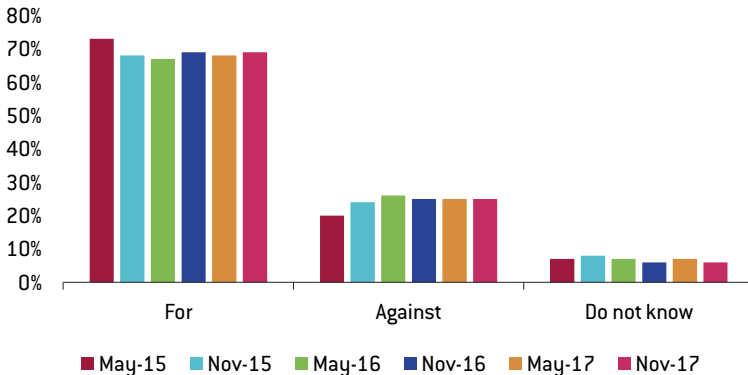
**Figure 11: The need to introduce additional measures to fight illegal immigration from outside the EU, percent of respondents, 2015-17**



Source: Eurobarometer surveys. Note: the question asked was: “In your opinion, should additional measures be taken to fight illegal immigration of people from outside the EU?”

Moreover, public opinion favours the involvement of the EU in these additional measures, even though the share of people looking for a purely national solution increased somewhat from 19 percent in spring 2015 to 26 percent in November 2017. The countries mostly in favour of a national solution are Slovakia (42 percent), Austria (40 percent) and the Czech Republic (39 percent), while the least enthusiastic countries about a purely national approach are Luxembourg (11 percent), Germany (13 percent), Spain (16 percent), Estonia (18 percent), Netherlands (16 percent), Denmark (17 percent), Sweden (17 percent) and Malta (17 percent).

**Figure 12: Support for a common European policy on migration, EU, percent of respondents, 2015-17**



Source: Eurobarometer surveys. Note: the question asked was: “What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it. – a common European policy on migration”.

The Eurobarometer surveys also show that most Europeans trust the EU more than they trust their national governments, and that the levels of trust in the EU and in national governments are picking up for all countries after a long period of decline (Batsaikhan and Darvas, 2017). Moreover, more than two-thirds of respondents say they are in favour of a common European policy on migration, a level of support

that has hardly changed in recent years (Figure 12)<sup>8</sup>. These views highlight the importance of a unified European approach.

Arguably, as Europe rebuilds in the wake of the long-lasting financial and economic crisis after 2008, and the existential risks to the euro recede, the support for intra-EU immigration is increasing, while immigration from third countries, and better protection of the EU's border, will become key topics in the next few years.

8 There are again differences within the EU: in several central and eastern EU countries, such as the Czech Republic, Hungary, Estonia and Poland, the share of people against a common European policy on migration is rather high in the range of 43-55 percent, while the rejection rate is much lower in Spain (8 percent), Germany (13 percent), the Netherlands (15 percent) and Luxembourg (15 percent), according to the November 2017 Eurobarometer survey.

# 3 Mapping migration in the European Union

In this chapter, we take a closer look at the amount, composition and dynamics of immigration into and within the EU, considering the source countries and other characteristics, such as education level, age and gender. We start with total immigration into, and emigration from, EU member states. We then look specifically at intra-EU mobility, including so-called ‘posted workers’, and at immigration from outside the EU, including the recent wave of asylum seekers. We also present data on the share of foreign citizens and foreign-born people in EU countries and their origins.

## 3.1 Annual immigration and emigration trends

Figure 13 shows trends in the movement of people from 2009-15 for the aggregate of 27 EU countries and three groups of EU countries<sup>9</sup>. We separate home-country citizens and foreign citizens – the foreign-citizens category includes people from other EU countries and non-EU countries (including refugees).

Annual emigration of home citizens (to both EU and non-EU destination countries) has been relatively stable at about 0.28 percent of population on average across the countries considered in Figure 13, with a minor increase recently. This minor increase is entirely due to increased emigration from southern EU countries from a very low

<sup>9</sup> Unfortunately, breaks in the data and missing values do not allow us to report data from before 2009. Bulgaria is excluded because of missing values.

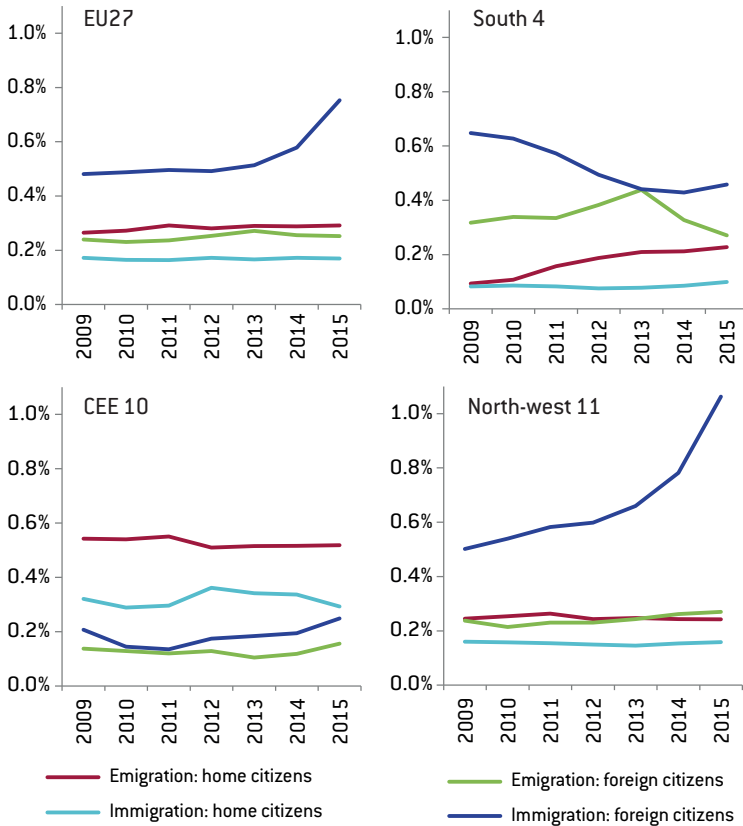
level of 0.09 percent in 2009 to 0.23 percent in 2015. High unemployment in southern EU countries was the main driver of the increase, yet it is notable that even after the increase, the annual emigration flow remains below the EU average. The highest levels of emigration rates are from the central and eastern EU members, with a relatively stable emigration rate of about 0.53 percent of population per year, more than the double than rate in north-west and southern EU countries.

Return migration – the immigration of home citizens – is also highest in central and eastern European countries, though returns do not compensate for emigration. On average, central and eastern European countries had the largest net emigration rates of 0.23 percent of population in 2015, followed by the four southern EU countries at 0.13 percent and the 10 north-west EU countries at 0.08 percent. Net emigration of home-country citizens was recorded by 25 of the 28 EU countries in 2015 (Figure 14). The largest net outflows of home citizens were from Lithuania (-0.64 percent of population), Latvia (-0.58 percent) and Croatia (-0.52 percent), while the only three countries where citizens returned on a net basis were Cyprus (0.25 percent), Malta (0.12 percent) and Denmark (0.10 percent). Figure 14 also shows that emigration of home citizens from Italy and Spain remained rather low compared to other EU countries, even if there was some increase in the preceding years.

A clear message from Figure 13 is that immigration of foreign citizens increased significantly from 2009-15, primarily because of refugee inflows to north-west EU countries. In 2015, the largest inflow of foreign-citizens as a share of population was to Luxembourg (4.02 percent of population), followed by Malta (2.61 percent), Austria (1.83 percent) and Germany (1.79 percent). In terms of number of people, Germany received the bulk of asylum seekers, as we discuss later in this chapter.



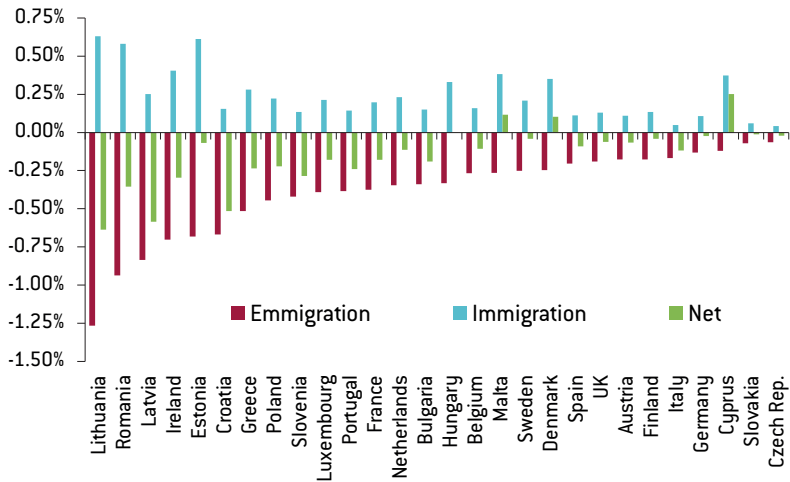
**Figure 13: Trends in immigration and emigration: home and foreign citizens, 2009-15 (percent of population per year)**



Source: Bruegel based on Eurostat ‘Emigration by age group, sex and citizenship [migr\_emi1ctz]’, ‘Immigration by age group, sex and citizenship [migr\_imm1ctz]’ and ‘Population on 1 January by age and sex [demo\_pjan]’ datasets. Note: EU27: current EU members except Bulgaria. North-West 11: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom. CEE 10: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. South 4: Greece, Italy, Portugal and Spain. Belgian data is not available for 2009: we assumed that the growth rate (in terms of number of people) from 2009 to 2010 was the same as in the Netherlands. For Latvia, total flows are available for the full period of 2009-15, but the home citizen/foreign citizen breakdown only from 2011-15. For 2009-10, was assumed that the annual growth rate (in terms of number of people) of foreign citizens was the same as in Lithuania.

Some of immigrants go home: the emigration of foreign citizens from the EU has been relatively stable at about 0.25 percent of EU population annually. Net immigration of non-EU citizens has increased from about 0.25 percent of EU population in 2009 to about 0.5 percent in 2015, while EU citizens are leaving the EU at a rate of about 0.1 percent of population on average.

**Figure 14: Emigration and immigration of home-country citizens in 2015 (percent of population)**



Source: Bruegel based on Eurostat ‘Emigration by age group, sex and citizenship [migr\_emi1ctz]’, ‘Immigration by age group, sex and citizenship [migr\_imm1ctz]’ and ‘Population on 1 January by age and sex [demo\_pjan]’ datasets.

### 3.2 Intra-EU mobility

The central and eastern EU member states have the most mobile populations. Citizens of these countries primarily moved to the west, including Italy and Spain.

#### *East-west mobility*

The eastern enlargements of the European Union in 2004 (10 countries), in 2007 (Bulgaria and Romania) and in 2013 (Croatia) increased the potential for east-west mobility within the EU, given that labour mobility is one of the fundamental freedoms of the EU.

However, the accession treaties with new EU member states allowed the older countries to impose transition periods of up to seven years, during which immigration restrictions on the citizens of newer member states could be maintained. The older member countries also had the option to introduce such controls during the seven-year transition period, even if they had abolished the restrictions earlier, provided that there was a serious disturbance of their labour markets.

In 2004, twelve of the fifteen older EU members used this option and adopted temporary immigration controls, but the UK, Ireland and Sweden opened their labour markets directly from 1 May 2004 for nationals of the eight central European countries (EU8) that joined the EU on 1 May 2004. When Bulgaria and Romania joined, ten countries opened their labour markets already from 2007, while the other 15 countries imposed restrictions on free movement (usually requiring a work permit). These temporary restrictions were gradually removed during the seven-year transition periods. It is notable that among all older EU members, there was only one instance of new restrictions being introduced after a complete abolition of restrictions: Spain introduced new controls on immigrants from Romania in August 2011, after

having removed all controls in 2009<sup>10</sup>.

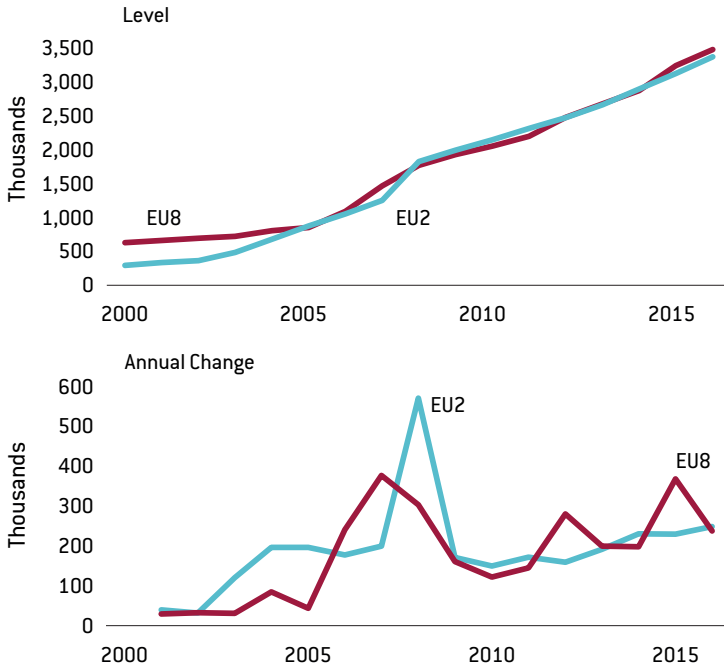
The right of movement from central and eastern European countries to western Europe was rapidly taken up. For the 2004 entrants, the peak was in 2006. However, the peak of migration from Romania and Bulgaria was also in 2006 – one year before they entered the EU (Figure 15).

In terms of the impact on destination countries, the United Kingdom and Ireland received disproportionately large inflows after 2004. The non-introduction of temporary controls by these two countries likely diverted immigration to them.

The big surge in migration from Bulgaria and Romania in 2006 is largely attributable to migration from Romania to Italy and Spain. The big surge suggests there was a pent-up desire to move to western Europe before these countries entered the EU. However, it is also noteworthy that the net inflow from Bulgaria and Romania in 2003-05 – before these countries entered the EU – was practically the same (even slightly higher) than migration in 2008-12, after the enlargement-related surge abated. Evidently, many people from Bulgaria and Romania were able to find ways to move to western Europe well before these countries entered the EU, while the subdued 2008-12 flows could be explained by the temporary mobility restrictions that were imposed by receiving countries, and the increase in unemployment in the two main destinations countries, Spain and Italy.

10 In August 2011, Spain imposed a requirement for Romanian citizens who wanted to take up a job in Spain to ask for permission in advance, based on the existence of a work contract. The restrictions applied all sectors and regions of Spain, but did not affect Romanian nationals already working in Spain. The imposition of this requirement was made possible by Romania's accession treaty, which specified a seven-year transition period: two plus three plus two years, with different options to impose restrictions in each phase. Spain abolished transitory restrictions in 2009, but re-introduced them in August 2011 "*due to serious disturbances on its labour market*" and maintained them until the end of the seven-year transition period, December 2013. See [http://europa.eu/rapid/press-release\\_IP-12-1440\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1440_en.htm).

**Figure 15: EU8 and Bulgarian/Romanian (EU2) citizens living in subgroups of older EU members, 2000-15 (in thousands)**



Source: Eurostat ‘Population on 1 January by age group, sex and citizenship’ dataset, code: migr\_pop1ctz, and UK Office for National Statistics ‘Population of the UK by country of birth and nationality’ dataset. Note: the top panel shows 1 January data of a given year as 31 December data of the previous year, so that the difference in year-end data shows the annual net flows, as reported in the bottom panel. EU8 countries: Czech Republic, Estonia, Hungary, Poland, Lithuania, Latvia, Slovenia, Slovakia. EU2 countries: Romania and Bulgaria. The destination countries for EU8 includes 12 older EU member states, not including France, Greece and Spain, while the destination countries for EU2 includes 13 older EU member states, not including France and Greece. Therefore, EU8 and EU2 data are not comparable because Spain is not included among the destination countries for EU8 but included for EU2. There are a few missing values in the Eurostat database, which we approximated in order to have constant country-composition aggregates. Missing UK data was approximated using data from the UK Office for National Statistics data. Irish data is missing for 2000-06: we assumed that the growth rate of immigrants from EU8 and EU2 was the same as in the UK. The 2004-07 missing data for Belgium was approximated by using the growth rate for the Netherlands. Similarly, missing data points for Luxembourg were approximated using Dutch growth rates.

Country-specific mobility numbers show that Germany and the UK are main destination countries for migrants from the central and eastern EU members (Table 1), but there are notable exceptions. Romanians preferred to move to Italy and Spain: almost three times as many Romanians moved to Italy and Spain combined than to Germany and the UK combined. Estonians primarily move to Finland because of geographical closeness and cultural similarity. Austria is the second most important destination country for neighbouring Croatia and Slovenia, and the third most important destination country for Hungary.

Finally, the minor role of France is noticeable. The number of central and eastern European citizens in France is just about one-tenth of the German figure. Distance is unlikely to be a main reason for this, because Spain – further than France – is a more popular destination country for migrants from Bulgaria, Lithuania, Poland and Romania (countries for which Spanish residency data is available).

The crisis had an influence on east-west migration patterns, because of diminished labour market opportunities in some key destination countries, such as Italy and Spain. This was reflected in a slowdown in mobility from the east to the west (Figure 15). However, economic and labour market developments in certain central and eastern European countries also had a major influence on migration patterns. There was a massive exodus from hard-hit Latvia and Lithuania, where GDP and employment fell by 10-20 percent (Darvas, 2013). The population declined by more than 10 percent in these countries from 2008-12.

**Table 1: The main EU destination countries for central and eastern European migrants, stocks of foreign citizens as of January 2016 (thousand people)**

	Destination countries														
	Germany	UK	Italy	Spain	Austria	Ireland	France	Belgium	Netherlands	Greece	Sweden	Denmark	Finland	Portugal	Luxembourg
Bulgaria	228.7	66.9	58.0	130.5	22.4	1.8	21.1	31.3	21.9	78.7	6.0	8.2	1.9	6.7	1.2
Croatia	283.3	3.8	18.1	n.a.	69.7	0.9	3.8	1.8	2.2	0.3	4.8	1.4	0.4	0.2	0.7
Czech Republic	51.7	45.4	5.8	n.a.	12.4	5.5	4.7	3.5	3.5	0.9	1.5	1.4	0.5	0.3	1.0
Estonia	6.3	8.1	1.2	n.a.	0.5	2.6	0.8	1.0	1.1	0.1	4.7	1.4	50.4	0.1	0.6
Hungary	171.2	83.4	8.0	n.a.	63.3	8.2	6.8	6.4	12.3	0.8	6.7	4.3	2.0	0.5	1.5
Latvia	30.4	98.1	2.8	n.a.	1.4	21.0	2.0	1.8	3.8	0.3	5.5	5.0	1.8	0.3	0.6
Lithuania	42.0	172.2	5.1	17.2	1.4	37.4	2.7	2.4	5.3	0.5	11.3	11.5	1.5	0.5	0.9
Poland	703.8	928.3	98.0	66.6	57.6	124.6	54.7	70.4	110.9	14.7	50.8	35.3	4.0	1.4	4.1
Romania	444.2	236.3	1151.4	695.0	82.8	18.3	108.3	73.2	13.7	48.2	14.4	22.4	2.5	30.5	3.8
Slovakia	47.9	94.0	8.5	n.a.	35.4	10.9	4.3	6.1	4.8	0.8	1.4	2.4	0.4	0.2	0.8
Slovenia	27.0	1.6	2.6	n.a.	15.3	0.2	0.9	1.1	1.1	0.1	0.8	0.4	0.1	0.1	0.7
<b>All countries</b>	<b>2036.7</b>	<b>1738.0</b>	<b>1359.4</b>	<b>n.a.</b>	<b>362.2</b>	<b>231.3</b>	<b>210.0</b>	<b>198.8</b>	<b>180.4</b>	<b>145.3</b>	<b>108.0</b>	<b>93.7</b>	<b>65.4</b>	<b>40.8</b>	<b>16.0</b>

Source: Eurostat 'Population on 1 January by age group, sex and citizenship' dataset, dataset code: migr\_pop1 ctz. Note: blue: main destination country, red: second main destination country.

In Latvia and Lithuania, most of the population decline in 2008-12 was a result of the emigration of young cohorts and the resident population of younger people declined by about 20-25 percent, causing major losses to these countries. Large-scale emigration from Latvia and Lithuania continued in 2013-16.

Since about 2013, emigration from central and eastern European countries has started to increase again (Figure 15), most likely because of better labour market opportunities in the main destination countries. Croatia, which entered the European Union in 2013, has also seen increased emigration.

Even during the crisis, there was no mass return migration, as noted by Zaiceva and Zimmerman (2012). Instead, the rate of return migration to the central and eastern European countries has proved to be relatively stable (Figure 13). However, there are country-specific differences (Table 2). For example, by 2016 return migration to Bulgaria, Hungary and the three Baltic countries had increased, while to the Czech Republic, Poland and Romania it declined.

**Table 2: Return migration flows (thousands)**

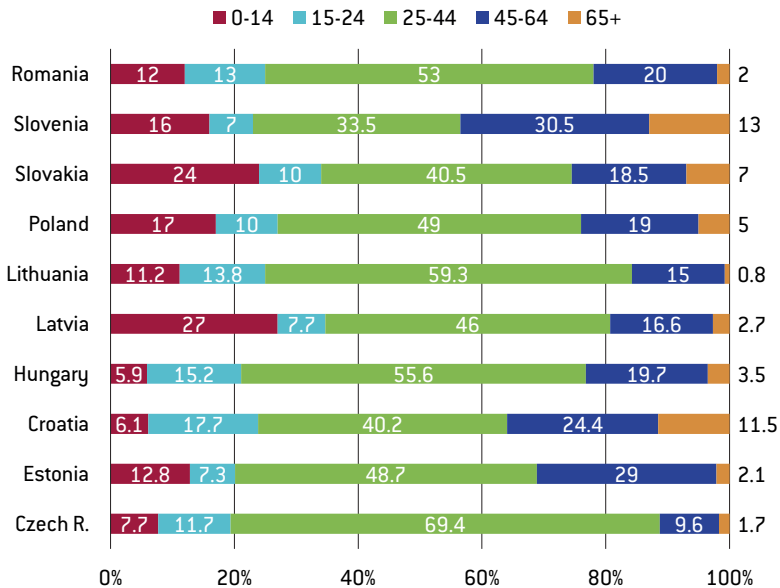
	2009	2011	2015
Bulgaria	-	4.9	10.7
Czech R.	21.7	8.1	4.5
Estonia	1.7	2	8
Croatia	-	4.7	6.5
Hungary	2.3	5.5	32.6
Latvia	0.5	1.5	5
Lithuania	4.8	14	18.4
Poland	142.3	102	84.8
Romania	124.9	138.4	115.5
Slovakia	1.2	1.1	3.2
Slovenia	2.9	3.3	2.8

Source: Eurostat 'Immigration by age group, sex and citizenship' dataset, code: migr\_imm1ctz.



Even though return migration flows are not large, it is useful to look at the profile of returnees to central and eastern European countries. They are mostly 25-44 year olds – the most mobile age bracket (Figure 16). For the Czech Republic, almost two-thirds of returnees are in the 24-45 age bracket; for Slovenia, the same age group makes up one third of returnees. A typical returnee to a central and eastern European country is below the age of 45, single, male and employed in a lower-skilled job abroad despite having attained a tertiary degree, which suggests that individuals who are returning are overqualified and could signal a brain-waste (Zaiceva and Zimmermann, 2012).

**Figure 16: Age profile of return migrants, 2015**



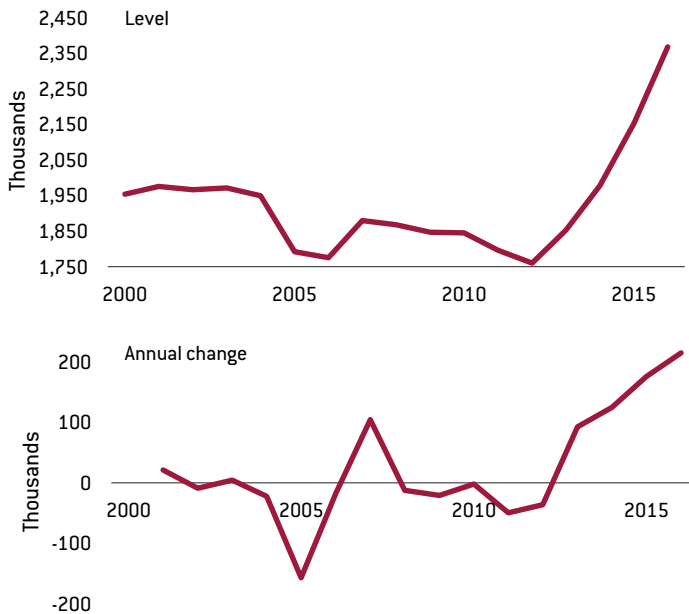
Source: Eurostat ‘Immigration by age group, sex and citizenship’ dataset, code: migr\_imm1ctz. Note: data for Poland, Slovakia, Slovenia and Romania is for 2013.

The EU 2010 Labour Force Survey documents the economic activity of returnees one year before the survey. The results suggest that the majority of returnees (above 60 percent in most central and eastern

European countries, with the exception of Slovenia where students constitute the biggest group) were employed abroad prior to returning. Romania, Bulgaria and Latvia reported the largest shares of returnees who were unemployed while abroad.

Moreover, with the gradual return of post-enlargement migrants, which might accelerate as they start to retire, cross-border pension transfers and social remittances might become major issues (Duszczuk and Matuszczyk, 2016).

**Figure 17: Southern EU citizens living in eight north-west EU countries, thousands, 2000-15**



Source: Eurostat 'Population on 1 January by age group, sex and citizenship' dataset, dataset code: migr\_pop1ctz. Note: southern Europe: Greece, Italy Portugal and Spain. North-west EU-8: other older EU countries not including France, Luxembourg and Ireland. End-2015 data is available also for these three countries: 1.04 million southern EU citizens were living in France, Luxembourg and Ireland altogether, so the omission of these three countries from the chart is major.

*South-north mobility*

Migration from southern (Greece, Italy, Portugal and Spain) to northern and western EU countries is also of interest. From 2000 to 2012, there was a decline in the number of southern European citizens living in northern EU countries (Figure 17). That is, even though labour markets in southern Europe were hit hard in 2008-12, there was still net return migration to southern Europe, which is puzzling. However, since 2013, an increasingly large number of southern European citizens have decided to move to northern EU countries.

**Table 3: The main EU destination countries for migrants from southern Europe, stocks of migrants as of January 2016 (thousand people)**

Source countries	Destination countries														
	Germany	France	UK	Spain	Belgium	Luxembourg	Netherlands	Austria	Italy	Sweden	Denmark	Portugal	Ireland	Greece	Finland
Greece	314.6	8.1	56.9	n.a.	16.7	2.6	14.1	5.5	7.0	8.4	2.4	0.2	0.4		0.9
Italy	557.4	192.8	195.1	191.6	156.8	20.3	29.5	25.1	-	8.6	8.1	6.1	4.8	5.2	2.4
Portugal	124.0	553.9	222.3	101.8	44.2	93.1	19.4	3.2	5.8	2.3	2.8	-	1.8	0.3	0.6
Spain	148.1	156.7	133.8	-	61.7	5.5	26.8	6.6	22.6	8.8	6.0	10.0	4.2	1.0	2.4
All countries	1144.1	911.5	608.0	293.4*	279.3	121.5	89.7	40.4	35.4	28.1	19.3	16.4	11.1	6.5	6.4

Source: Eurostat 'Population on 1 January by age group, sex and citizenship' dataset, dataset code: migr\_pop1ctz. Note: blue = main destination country, red = second main destination country. \* The total for Spain as a destination country does not include Greek citizens.

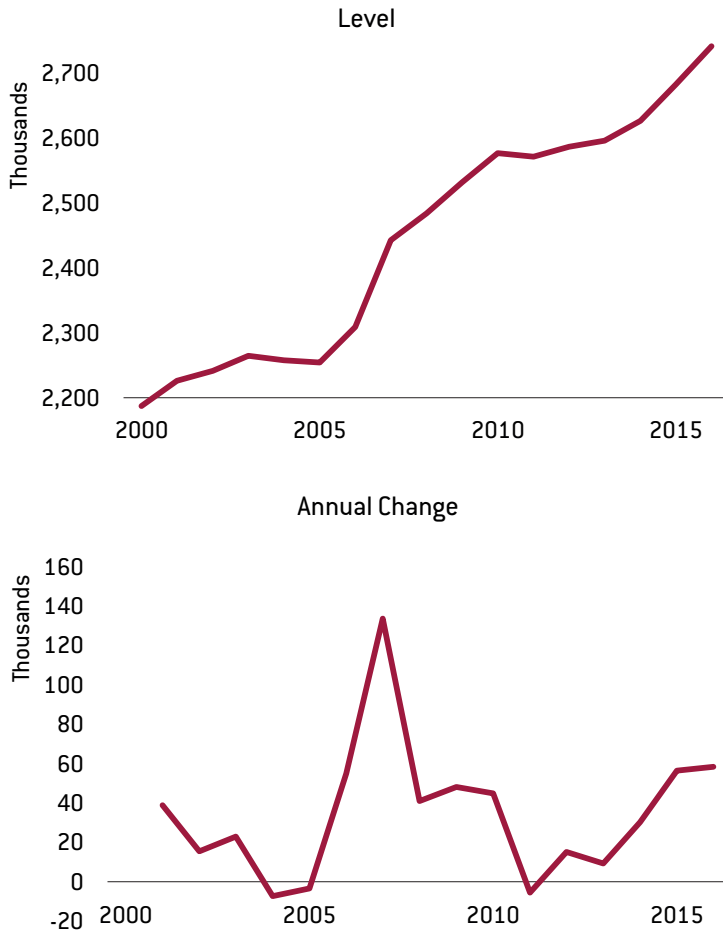
Some studies have reported a shift from east-west to south-north mobility (Fries-Tersch and Mabilia, 2015, and Barslung and Busse, 2014), as emigration from crisis-hit countries increased. However, while Figure 17 indicates a rapid increase in south-north mobility (even though the omission of France as a destination country is highly significant), the east-west flows (the sum of EU8 and EU2 net flows,

Figure 15, right panel) continue to be much larger in terms of number of people, and even larger as a share of source-country population, because the combined population of Greece, Italy, Spain and Portugal is greater than the combined population of central and eastern European EU members.

*Mobility within the north-west of the EU*

We also look at intra-region mobility within north-west countries of the EU, such as Germans living in France and French people living in Germany. The top panel of Figure 18 shows that the level of north-west EU nationals living in other north-west EU countries increased after 2000, reaching 2.7 million in 2015. However, the flows have been rather modest (bottom panel of Figure 18), even in 2006, when the largest change during the 2000-15 period was recorded. The approximate 140,000 increase in 2006 was much lower than annual outflows from central and eastern Europe during the whole period (see the bottom panel of Figure 15), and more recently from southern Europe (see the bottom panel of Figure 17), even though the total population of north-west EU countries is more than twice that of the central and eastern European countries or the southern European countries.

**Figure 18: North-west EU citizens living in another north-west EU country, thousands, 2000-15**



Source: Eurostat 'Population on 1 January by age group, sex and citizenship' dataset, dataset code: migr\_pop1ctz and UK Office for National Statistics 'Population by country of birth and nationality underlying datasets' dataset. Note: countries included: Belgium, Denmark, Germany, Ireland, Luxembourg, the Netherlands, Austria, Finland, Sweden and the United Kingdom. Some missing data was interpolated: Belgium: Luxembourgish growth rates applied where necessary; Ireland: UK growth rates applied where necessary; Luxembourg: Belgian growth rates applied where necessary.

**Table 4: The main EU destination countries for migrants from north-western Europe, stock of migrants as of January 2016 (thousands)**

Source countries	Destination countries														
	UK	Spain	Germany	France	Belgium	Austria	Netherlands	Sweden	Ireland	Italy	Luxembourg	Denmark	Portugal	Greece	Finland
Austria	14.2	n.a.	166.3	4.6	2.8	-	4.1	3.3	0.4	6.1	0.9	1.4	0.6	1.3	0.5
Belgium	26.0	32.4	24.5	96.3	-	2.2	30.6	1.5	0.8	5.5	19.4	1.1	2.4	1.2	0.4
Denmark	30.9	11.7	19.6	5.4	2.7	1.1	3.0	37.1	0.5	2.0	2.0	-	0.6	0.7	0.7
Finland	9.6	12.3	12.9	2.7	2.8	1.5	2.8	57.6	0.5	1.6	1.2	2.8	0.8	0.5	-
France	167.6	100.7	116.6	-	161.8	7.8	20.9	7.6	6.1	28.6	41.7	6.1	8.4	4.4	2.0
Germany	136.5	142.1	-	88.2	39.3	176.4	72.3	28.2	7.7	36.7	12.8	23.7	9.0	11.2	4.1
Ireland	336.0	15.6	12.4	8.5	4.1	1.4	5.3	2.4	-	2.7	1.7	1.8	0.9	0.5	0.6
Luxembourg	0.1	n.a.	16.3	6.3	4.3	0.8	0.5	0.0	0.0	0.2	-	0.1	0.1	0.0	0.0
Netherlands	81.7	46.5	134.5	37.9	151.7	8.5	-	9.9	3.0	8.1	4.0	7.5	5.9	2.7	1.3
Sweden	34.4	21.0	17.6	8.2	3.8	2.9	4.2	-	1.1	3.0	1.9	14.9	2.0	1.2	8.2
UK	-	296.4	97.0	148.8	23.5	10.0	44.2	19.8	121.2	26.6	6.1	16.7	17.2	16.0	4.4
All countries	1144.1	911.5	608.0	293.4*	279.3	121.5	89.7	40.4	35.4	28.1	19.3	16.4	11.1	6.5	6.4

Source: Eurostat 'Population on 1 January by age group, sex and citizenship' dataset, dataset code: migr\_pop1ctz. Note: blue = main destination country, red = second main destination country. \* The total for Spain as a destination country does not include Luxembourgish citizens.

### Posted workers

In EU terminology, posted workers are EU citizens with an employment contract in their home country, who are temporarily posted to a host EU country by their employer when their employer provides a certain service. For example, if a Polish construction company builds a house in Germany it might post workers from Poland who have Polish contracts. Posted workers are different from labour migrants, who reside and are employed in the host country.

Posted workers receive a great deal of attention in EU policy discussions (Darvas and Vaccarino, 2016). The revision of the EU directive setting the rules for posted workers is at time of writing

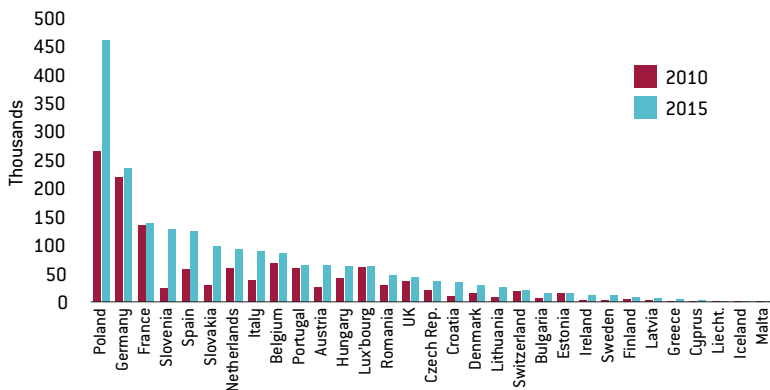
under negotiation between the European Parliament and the Council. In 2015, there were about 2 million work postings in the European Economic Area (EEA) and Switzerland, representing a small share of total employment (0.65 percent of the labour force and 0.9 percent of total employed people in the EU). These numbers are small compared to the 11.3 million long-term migrants. Furthermore, the average duration of a posting is only 98 days, so in full-time-equivalent terms, the share of posted workers in total employment is only 0.4 percent (Darvas, 2017b, and De Wispelaere and Pacolet, 2016)<sup>11</sup>.

Posting is concentrated in three countries, on both the sending and receiving ends. Poland (22.8 percent), Germany (11.7 percent) and France (6.9 percent) are the largest sending countries in absolute terms, while the main destination countries are Germany (28 percent), France (11.9 percent) and Belgium (10.5 percent). When analysing posted workers as a share of domestic employment, however, the picture is quite different. For instance, Poland sends out almost a quarter of all posted workers, yet these account for only 2.5 percent of domestic employment. On the other hand, Luxembourg (24.7 percent) and Slovenia (14.2 percent) have the highest shares of sent posted workers as a share of domestic employment. From the receiving countries' perspective, Luxembourg (9 percent), Belgium (3.8 percent) and Austria (2.5 percent) have the highest shares of posted workers relative to domestic employment (European Commission, 2016d).

The dominant sector for posted workers is construction, which accounts for about 42 percent of total postings, but there are major differences between EU countries (Figure 21). Non-construction industry, finance, and education and social work also account for relatively large shares.

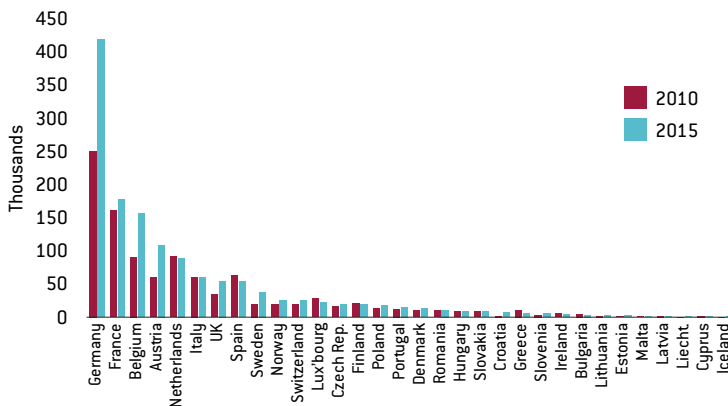
11 Darvas and Vaccarino (2016) highlight that the numbers and potential impact of undeclared workers are much greater, given that there are 100 times more undeclared workers in high-wage EU countries than posted workers from low-wage EU countries.

**Figure 19: Posted workers by sending member state, 2010 and 2015**



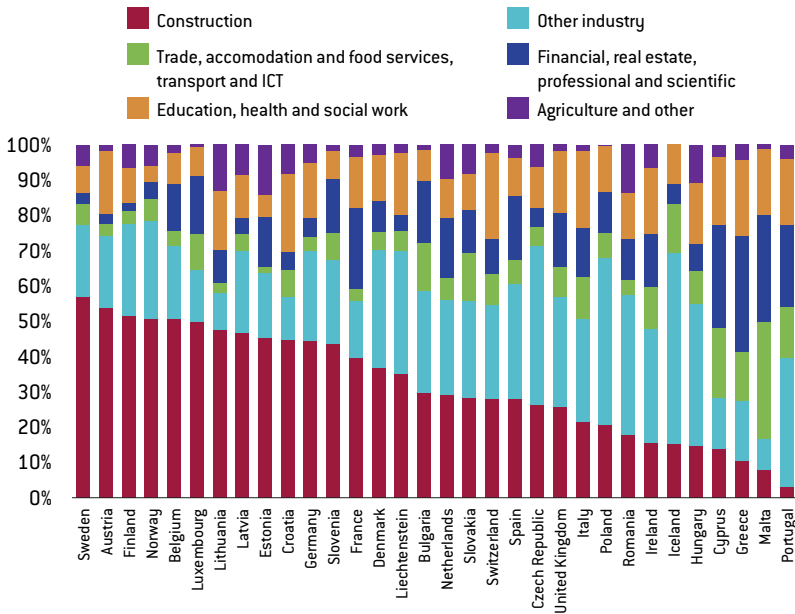
Source: De Wispelaere and Pacolet (2017) Note: for Croatia and Switzerland data is from 2013 instead of 2010, for Bulgaria data is from 2012 instead of 2010, and for Sweden data is from 2011 instead of 2010. The data for Norway for 2015 is from 2014.

**Figure 20: Posted workers by receiving member state, 2010 and 2015**



Source: De Wispelaere and Pacolet (2017) Note: Because of a lack of data, these numbers do not include posted workers active in two or more member states; as such the numbers given are an underestimate. For Croatia, 2013 data is substituted for 2010 data.



**Figure 21: Sector of posted workers in receiving member states, 2015**

Source: European Commission (2017) 'Posting of workers - Report on A1 portable documents issued in 2015'; <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7980&furtherPubs=yes>.

De Wispelaere and Pacolet (2015) argue that there are several reasons to favour posting over permanent migration. For example, because posted workers pay tax in their countries of origin (if the posting does not exceed half a year), the posting mechanism can potentially serve as a stabilisation tool, somewhat serving as a form of fiscal transfer, when the country of origin experiences an asymmetric shock. However, the specific conditions under which posted workers are employed in host countries, their relatively small number and the limited durations of postings mean the labour market impact and/or local displacement effects are likely to be very small.

*Human capital flight*

Human capital flight, or brain drain, is the emigration of skilled individuals. The literature has extensively examined the brain-drain hypothesis and its detrimental effects on sending countries, mainly focusing on movements from developing countries to the OECD (Docquier, 2014). For the EU, two avenues can be analysed. The first is the EU as a whole and the movement of people from the EU to other economies, such as the United States or Canada (Choi and Veugelers, 2015). Second, movements within the EU can be examined, mainly the outflows of skilled migrants from central and eastern Europe and southern Europe to the northern and western EU countries.

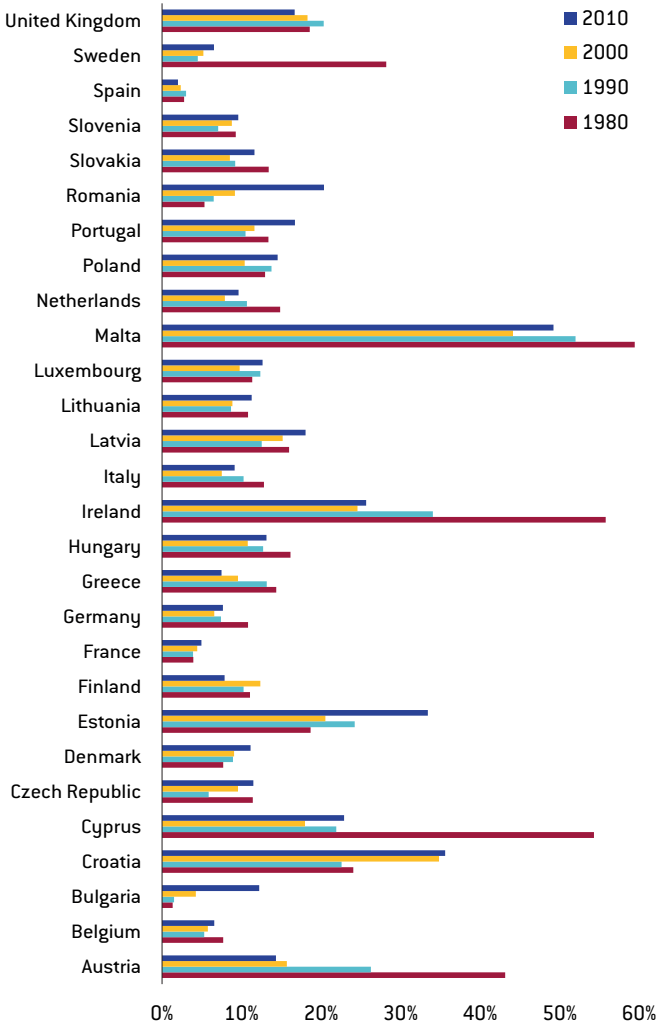
While the academic literature focuses on highly skilled people, such as those who completed tertiary education, in the European context other skilled professions, such as construction and other industrial workers, are similarly important.

Brain drain can result from push and pull factors. Low wages and GDP per capita in home countries, combined with the prospect of better living standards in other countries, lead people to move. High rates of youth unemployment and the EU rights of free movement have also been highlighted as push factors (Andor, 2014).

On the economic impact of brain drain, as expected, declining productivity, the lack of innovation and increasing inequality are mentioned as consequences for income, welfare and employment in sending countries (Grubel and Scott, 1966; Bhagwati and Hamada, 1974). However, the effects depend on the “*magnitude, the speed, the intensity and the structure of immigration flows with regard to age and qualification*”, and on “*the business cycle of the receiving economy*” (Straubhaar, 2000).

Figure 22 shows that on average, about 10 percent of the EU’s high-skilled people are living abroad, but there are huge differences between countries. About half of Malta’s high-skilled people were abroad from the 1980s to the 2010s.

**Figure 22: Share of high-skilled nationals living abroad relative to total high-skilled nationals, 1980-2010**



Source: Brücker *et al* (2013) dataset. Note: for each skill level and year, emigration rates are computed as the proportion of the stock of migrants over the stock of pre-migration population (defined as the sum of residents and migrants in each source country). Age group: 25 years and older. The database is built merging national census and population data for 20 OECD destination countries concerning 195 origin countries. For details, see methodological note, available at: [http://doku.iab.de/daten/brain-drain/iabbd\\_8010\\_v1\\_methodology.pdf](http://doku.iab.de/daten/brain-drain/iabbd_8010_v1_methodology.pdf).

The share of high skilled workers from in Austria, Cyprus and Ireland working abroad was similar to the Maltese share in the 1980s, but these shares have reduced more recently. In contrast, Bulgaria, Croatia, Estonia, Portugal and Romania are now sending significantly more of their high-skilled people to other countries.

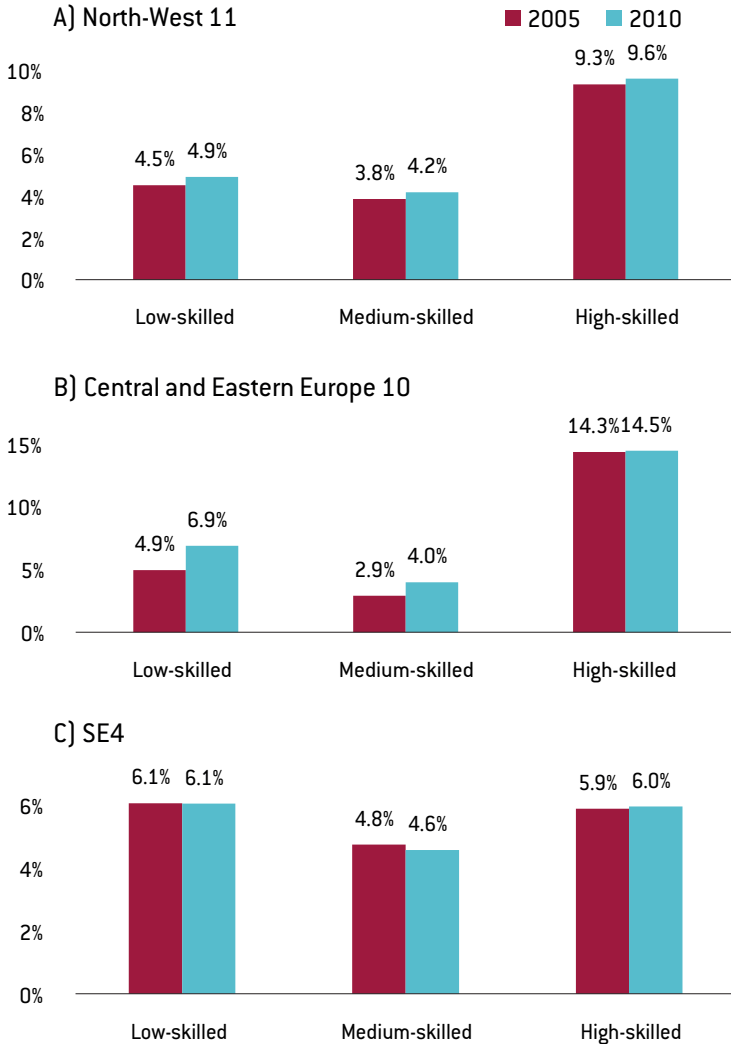
Figure 23 reports shares of low, medium and high-skilled nationals living abroad for the three main EU country groups. Clearly, emigration of high-skilled individuals is highest from the group of central and eastern European countries (14.5 percent in 2010). The shares are lower for the group of north-west European countries (9.6 percent) and southern Europe (6 percent). It is notable that, for the central and eastern European and the north-west European country groups, much larger shares of high-skilled people have left compared to medium and low-skilled people, but for southern Europe the emigration rates of all three skill classes are rather similar.

Figure 24 shows that labour shortages in central and eastern European countries increased significantly after the 2004 EU enlargement, but there was also an increased shortage of labour in north-west EU countries in this period. These findings have two implications. First, emigration after EU enlargement had a negative impact on central and eastern European labour markets and created labour shortages<sup>12</sup>.

Human capital flight can harm source countries by creating labour shortages (Docquier and Bhargava, 2007). Figure 24 shows the share of respondents to the European Commission's Business Survey that mentioned labour shortages as a factor impeding production for the industry, services and construction sectors.

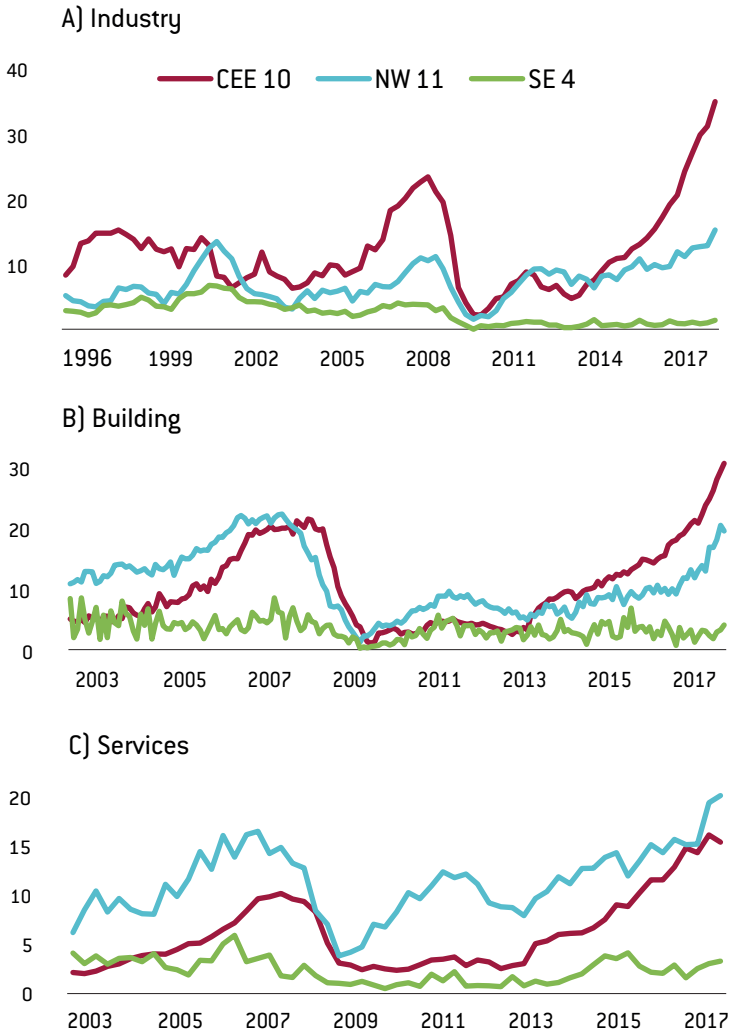
12 See Kaczmarczyk *et al* (2008) for an analysis of the labour and skill shortages faced in central and eastern European countries after EU enlargement.

**Figure 23: Share of low, medium and high-skilled nationals living abroad as a percentage of total number of nationals with the same skill level, 2005-10**



Source: Bruegel based on Brücker *et al* (2013) dataset and Eurostat 'Population by educational attainment level, sex and age' dataset, code: [edat\_lfs\_9901]. Note: the figure shows data for people aged above 25. See the note to Figure 22 for further details.

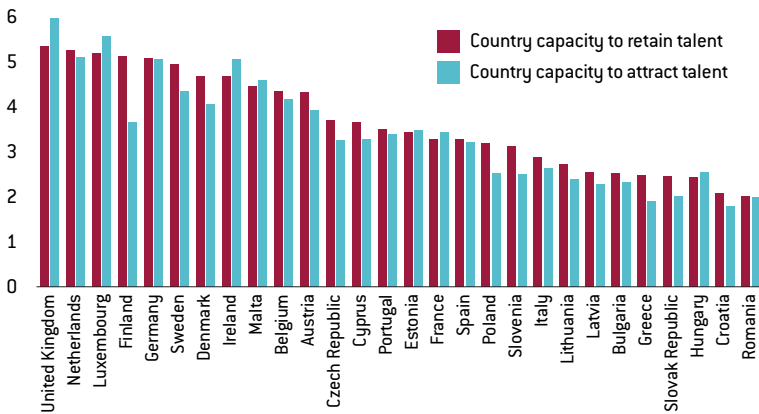
**Figure 24: Labour shortages as a factor impeding production**



Source: European Commission, European Business and Consumer Surveys: Joint harmonised EU industry survey (Question 8 Answer F3S - 'Factors limiting the production: labour'), Joint Harmonised EU Construction Survey (Question 2 Answer F4S - 'Main factors currently limiting your building activity: shortage of labour force') and Joint harmonised EU services survey (Question 7 Answer F3S - 'Factors limiting the business: labour forces'). Note: CEE10 = 10 central and eastern European countries; NW11: 11 north-west EU countries; SE4: 4 southern European countries.

Second, the immigration of these central Europeans to north-west EU countries did not take jobs from local workers at any significant rate (at least in the construction, other industry and services sectors for which data is available), because labour shortages in those countries were on the rise in parallel to the arrival of central and eastern European workers.

**Figure 25: Countries' capacity to retain and attract talent, 2017**



Source: World Economic Forum Global Competitiveness Index, 2017-2018 Edition. Indicator codes [EOSQ399] and [EOSQ400]. Note: the indicators are presented as a weighted average between 2016 and 2017. The indicators measure to what extent the country retains/attracts talented people domestically/from abroad, respectively. Both indicators are scaled from 1 to 7, with 1 indicating not at all and 7 = to a great extent. A low score in the country's capacity to retain talent, therefore, indicates that the best and brightest might leave to pursue opportunities abroad; a low score in the country's capacity to attract talent indicates that the country is not able to attract the best and brightest from around the world. For details on the computation methodology see: 'Technical Notes and Sources' from the Global Competitiveness Report 2017-2018.

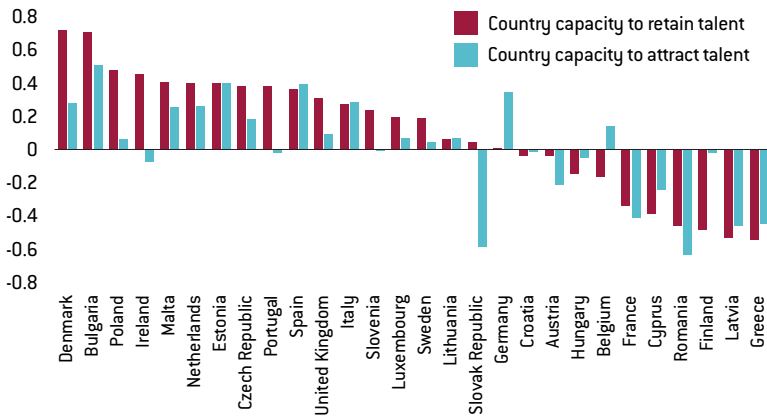
With the recession and increased unemployment after 2008, labour shortages became a minor factor. But with the recovery after 2012, labour shortages began to appear again. More recently the severity of this problem even exceeded its pre-crisis peak, especially in central

and eastern European countries, and also in north-west European countries. Therefore, the conclusions reached for the pre-crisis period continue to apply: emigration from central and eastern European countries had a major negative impact on their labour markets and created labour shortages, while the migration of these central Europeans to north-west EU countries did not take jobs from local workers.

It is also noticeable that in the four southern European countries, labour shortages have not posed a major problem, either before the crisis or more recently.

The ability of a country to attract and retain talent is an important factor that can influence human capital flight and brain drain. World Economic Forum indicators (2017-18) show that countries' capacities to retain and attract talent are similar (Figure 25). For instance, the United Kingdom has a high capacity to both retain and attract talent, whereas Romania has a small capacity in both areas.

**Figure 26: Change in countries' capacities to retain and attract talent, 2014-17**



Source: Bruegel based on World Economic Forum Global Competitiveness Index, 2017-2018 and 2014-2015 Editions. Note: the variation is computed by taking the difference between the scores attained in 2017-2018 and the scores attained in 2014-2015. See Figure 25 for information about the indicators.



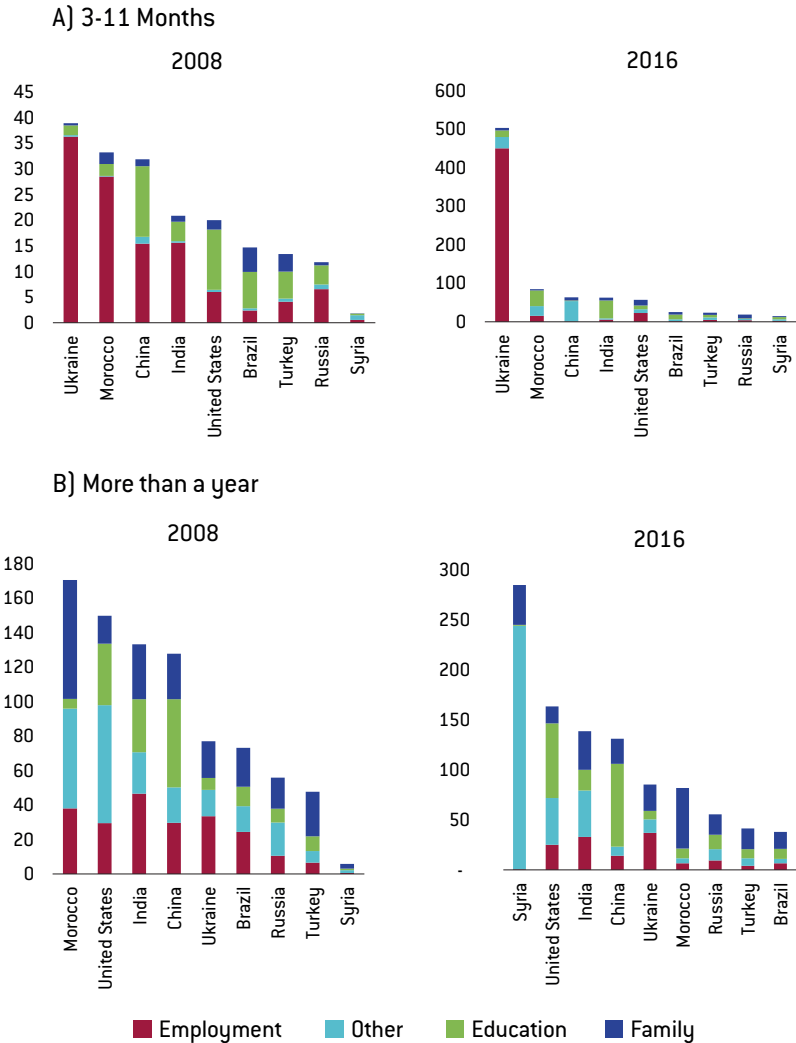
From 2014-17, the central and eastern European countries that suffer the most from labour shortages experienced mixed fortunes in terms of their ability to retain and attract talent. Bulgaria, Poland, Estonia and the Czech Republic became more attractive to talent from 2014-17 (though their scores remain below the scores of the main north-west EU destination countries), while Hungary, Romania and Latvia became less attractive to talent.

More recently, some studies have posited that the effects of remittances and returning migrants could overcome the negative impacts of emigration – according to the brain-gain hypothesis, sending countries could also benefit from the exit of the brightest, either because it creates incentives for them to invest more in human capital (see Poutvaara, 2004; Mayr *et al*, 2009; Beine *et al*, 2003) or through positive diaspora externalities on foreign direct investment (Docquier and Lodigiani, 2006).

### **3.3 Immigration from outside the EU**

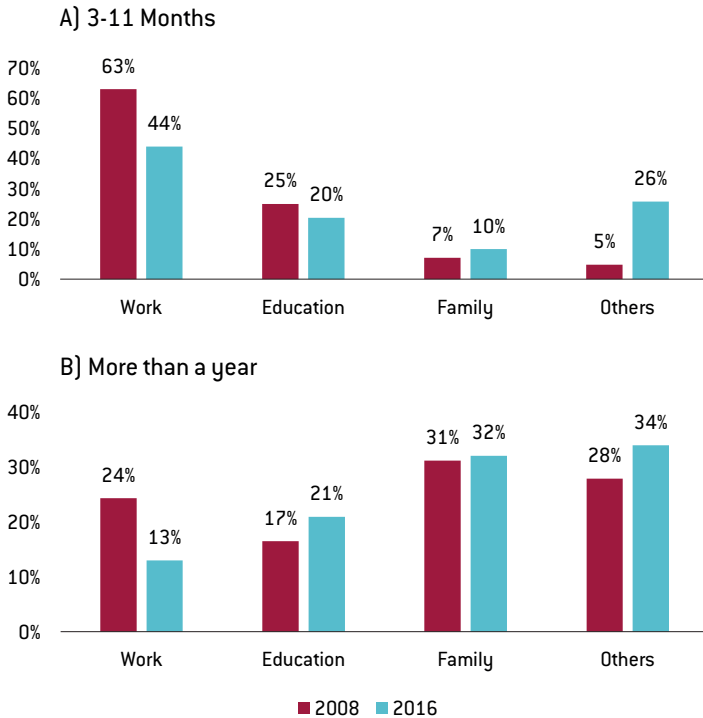
Economic, social, political, historical and cultural factors explain the large numbers of extra-EU migrants in some member states. Migali and Natale (2017) find that the existence of a previous colonial link, a common legal system and a common official language are all significant determinants of total first residence permits, regardless of the form of migration. Commonwealth citizens who are either married to, or are the children of, someone with the right of abode might also have the same right to reside in the UK for an unlimited time. Commonwealth citizens are also eligible for a UK ancestry visa, which allows them to stay in the UK for five years. In some cases, bilateral agreements can influence migration flows. Germany and Turkey, for instance, have a strong migration link that dates back to a bilateral labour agreement signed in 1961. Following an initial influx and settlement in Germany of contracted workers from Turkey, immigration flows during the 1970s were linked to family reunification. In the 1980s migration from Turkey to Germany had political motivations, with migrants seeking asylum (Aydin, 2016).

**Figure 27: EU country residence permits by main sending countries and reason for issuance, 2008 and 2016, thousands**



Source: Eurostat ‘First permits by reason, length of validity and citizenship’ dataset, code: migr\_resfirst. Note: country names indicated on the horizontal axis are source countries from where immigrants arrived in the EU. China includes Hong Kong. Other reasons include refugee status, humanitarian reasons, residence only permits without the intention to work, study or reunite with family (eg residence permits issued to pensioners).

**Figure 28: First residence permits issued by EU countries, type and duration of the permit (share of total permits for a particular duration), 2008 and 2016**



Source: Eurostat ‘First permits by reason, length of validity and citizenship’ dataset, code: migr\_resfirst. Note: the category ‘Others’ includes permits issued to refugees and beneficiaries of various other protection schemes (subsidiary protection, international protection, humanitarian reasons, unaccompanied minors, victims of trafficking in human beings), but also for unspecified reasons and residency-only permits. Eurostat’s metadata file notes that there have been improvements in statistics collected, but problems of missing and incomplete data occur: [http://ec.europa.eu/eurostat/cache/metadata/en/migr\\_res\\_esms.htm](http://ec.europa.eu/eurostat/cache/metadata/en/migr_res_esms.htm).

### *Migrants’ motives*

The type of residence permit issued varies with the length of the stay (Figure 28). Immigrants who come for less than a year arrive predominantly for work: 63 percent of short-term residence permits in 2008

and 44 percent in 2016 were issued for this reason. In contrast, in 2008, 24 percent of migrants staying more than one year received a work permit, declining to 13 percent in 2016. People migrating for education accounted for about a quarter of both short and long-term residence permits. This share did not change much between 2008 and 2016. Family reasons are less important for short-term migrants (10 percent of residence permits issued), but about one-third of longer-term residence permits are issued to migrants for this reason. Residence permits issued in the category ‘others,’ which includes refugees, beneficiaries of other protection schemes and residence permits issued for unspecified reasons (which also could include granting of refugees status), saw a significant increase both in terms of short-term and longer-term permits. In terms of absolute numbers, 345,000 short-term and 684,000 long-term permits issued to immigrants for ‘other’ reasons in 2016, altogether slightly over than one million people.

#### *High-skilled migration into the EU*

Between 2010 and 2011, 28 percent of migrants into the EU were tertiary-educated. High-skilled migrants (HSM) can be broadly defined as being tertiary educated, but the OECD provides three definitions (Chaloff *et al*, 2009) of HSM based on education, occupation or wage level: ‘highskilled’ is considered to *“include post-secondary education that is university-level but that may involve a vocational, technical or professional qualification of shorter duration than a bachelor’s degree”*, corresponding approximately to tertiary education. From an occupational standpoint, *“occupations including managers, professionals and associate professionals”* are included in the definition. The wage-level is used in some countries as a proxy for skill level.

High-skilled migration offers added value to recipient countries. Benefits range from increasing the entrepreneurial profile of the country to filling the skills gap in host countries. Desiderio and Mestres-Domènech (2011) note that *“the proportion of new migrant entrepreneurs in the labour force is much higher than among natives”*,

a significant share of migrant entrepreneurs (30-40 percent) have tertiary education and a *“higher average educational level than their native counterparts”*. An influx of high-skilled migrants is also useful in filling specialist shortages. HSM *“complement physical capital and technology and the human capital of both low- and high-skilled native workers”* (Constant, 2014) and can be an incentive for technological progress (Kerr and Lincoln, 2011).

In the EU, the main common mechanism to attract HSM is the European Blue Card, which is regulated by Council Directive 2009/50/EC of 25 May 2009. This directive defines highly qualified employment as the *“employment of a person who in the Member State concerned, is protected as an employee under national employment law and/or in accordance with national practice, irrespective of the legal relationship, for the purpose of exercising genuine and effective work;”* *“is paid”* and *“has the required adequate and specific competence, as proven by higher professional qualifications.”*

However, there is a general consensus that the EU needs to improve its policies toward high-skilled migrants (European Commission, 2016a). The Blue Card has not appealed enough to either employers or high-skilled workers themselves and – with the exception of Germany – has been severely underused by EU countries. This means that the EU issues fewer permits to highly-skilled workers than other competitors for HSM. In 2015, 17,104 visas were issued in Europe to high-skilled workers, compared to the US total of 275,317.

Discussions are underway on reform to improve the Blue Card system and address some of its major shortcomings (see González *et al*, 2013, and Kahanec and Zimmermann, 2011). To begin with, the EU Blue Card sets a rather high salary requirement threshold. The thresholds vary in different EU countries but are still higher than HSM scheme thresholds in other countries. It is therefore difficult for a HSM to meet the minimum salary requirement in order to apply for the card in the first place; only one in three highly-educated migrants meet the salary requirements. The system also greatly restricts mobility:

in-country status changes are not allowed and Blue Card holders cannot move from one member state to another without applying for a new EU Blue Card. Intra-EU mobility under the current directive is considered relatively unattractive for migrants. More importantly, many employers are reluctant to request Blue Cards for potential employees, seeing the process as too problematic. Offering incentives, such as the possibility for cardholders to apply for a permanence residence permit, would improve the attractiveness of the Blue Card scheme.

In the face of an increasing skills shortage<sup>13</sup>, it is crucial for the EU to begin to take more of a lead in the global race for talent. According to a Gallup survey (cited in European Commission 2016a), 33 percent of highly-educated workers worldwide who intended to migrate preferred the EU (or European Economic Area) as a destination, compared to 19 percent who preferred the United States. However, in the United States, 37 percent of working age migrants have at least a college degree against 26 percent in the EU. This could suggest that while the EU might seem attractive to a potential migrant, its system does not facilitate high-skilled migration in the same way that those of other OECD countries do.

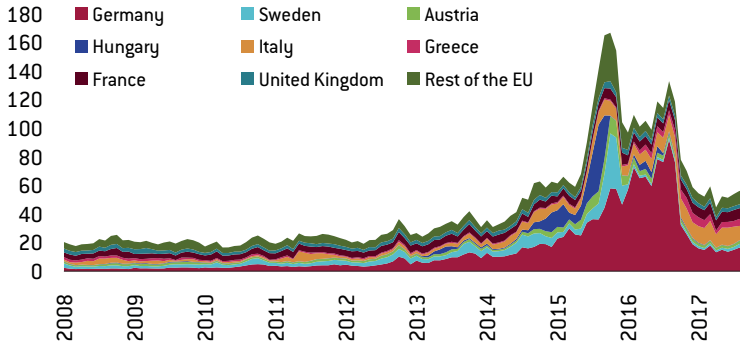
#### *Inflows of asylum seekers into the EU*

Both in 2015 and 2016, about 1.2 million to 1.3 million first-time asylum applications were registered in the EU with changing within-year intensity (Figure 29). In all EU countries, asylum applications from asylum seekers peaked in the autumn of 2015. In addition to the notable case of Germany, high numbers of applications were filed in Hungary, Sweden and, to a lesser extent, Austria and Italy. From the end of 2015 to the autumn of 2016, Germany received the overwhelming share of applications; thereafter, the number of applications abruptly fell. Since the beginning of 2017, the asylum application wave

13 Charloff *et al* (2009) say that “Most OECD countries expect growing shortages of highly-skilled labour in the coming two decades, and immigration is viewed as one way of addressing these”.

has abated considerably, with the notable exception of Italy, where the number continues to rise at time of writing.

**Figure 29: First-time asylum applications in the EU, by country of application, January 2008 – September 2017**



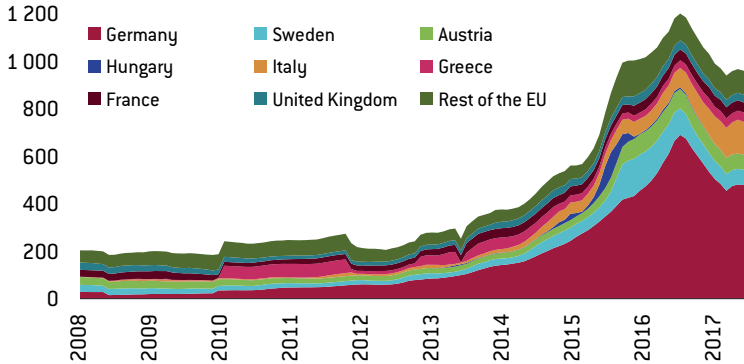
Source: Eurostat 'Asylum and first time asylum applicants by citizenship, age and sex Annual aggregated data (rounded)' dataset, code: migr\_asyappctza. Note: for some countries, data on first-time asylum applications is not available for certain periods at the beginning or our sample period, but data on total applications is available. We approximate the missing first-time applications data by assuming that the ratio of first time to total applications was the same in the missing periods as the actual value of this ratio in the first full year when both indicators are available.

The large inflow of asylum seekers posed immense difficulties in dealing with their applications, which is also reflected in the number of pending applications. The number of applicants waiting for a decision increased from approximately 300,000 in 2010-13 to 1.2 million by September 2016 (Figure 30). Since then, along with the decline in applications (Figure 29), the number of persons with pending applications has declined. Nevertheless, as of September 2017, there were almost one million asylum seekers awaiting decisions, a rather large number.

Large numbers of asylum applications do not translate into equally large acceptance rates. In the EU as a whole, the acceptance rate was about 50 percent, but there are very significant differences between member states (Figure 31). In Hungary, Poland and Croatia, the

acceptance rate is only about 20 percent or even lower, while Malta accepted about 80 percent of asylum applications and Slovakia more than 60 percent.

**Figure 30: Asylum seekers with applications pending at the end of the month, January 2008 – September 2017**



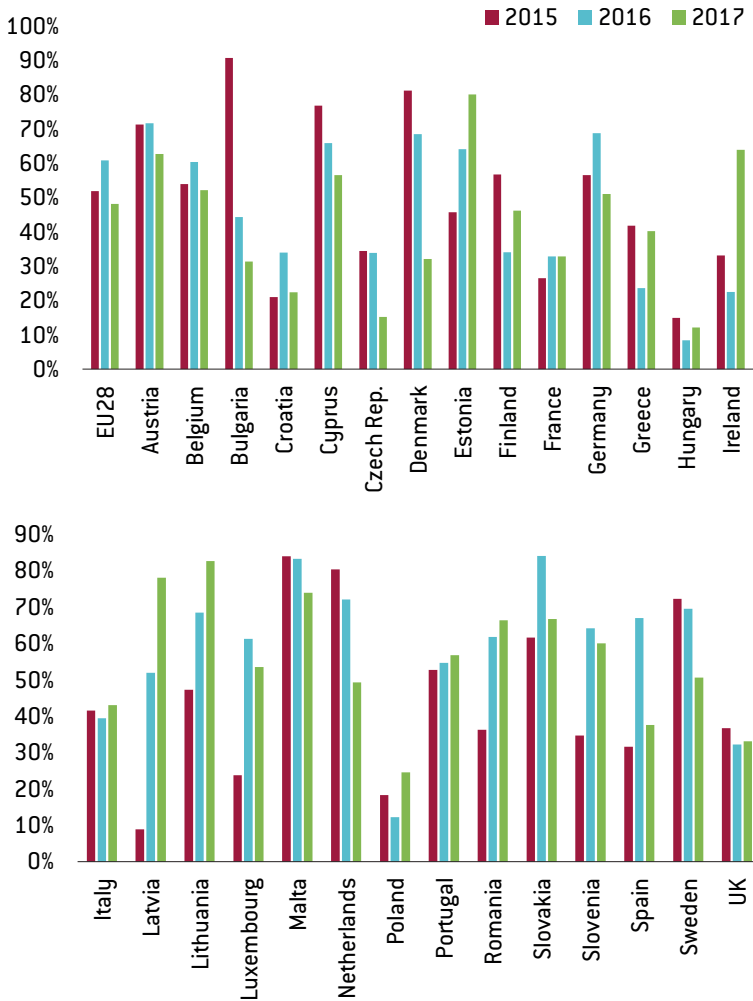
Source: Eurostat 'Persons subject of asylum applications pending at the end of the month by citizenship, age and sex Monthly data (rounded) [migr\_asypenczm]' dataset. Note: Data for some countries was missing for 2014 (Austria and Netherlands), 2013 (Netherlands and Cyprus), 2011-12 (Cyprus and Croatia), and some months in 2010 for Belgium, the United Kingdom, Cyprus and Croatia. Whenever it was possible, we approximated these missing values by interpolating available data, eg for Austria we assumed a constant growth rate between December 2013 and January 2015. For the UK, we used the percent growth rate observed in Sweden to approximate the missing UK values in January-May 2010.

There have been large swings in the acceptance rate through the years. For example, in Latvia it increased from 9 percent in 2015 to 78 percent in 2017, while in Bulgaria it declined from 91 percent in 2015 to 31 percent in 2017. In contrast, acceptance rates remained fairly stable in, for example, France, Italy and the UK.

The composition of flows of asylum seekers (eg whether they have risked their lives or migrated for economic reasons but used the current inflow of refugees as an opportunity to enter the EU) might explain some of the differences in acceptance rates, but is unlikely to be the only factor.



**Figure 31: Positive first instance decisions on asylum applications, % of applications, 2015-17**



Source: Eurostat’s ‘First instance decisions on applications by citizenship, age and sex Quarterly data (rounded) [migr\_asydcfstq]’ dataset. Note: the first half 2017 is reported for 2017.

Leerkes (2015) analyses the composition of flows of asylum seekers by country of citizenship, age and gender and finds that some differences in acceptance rates are explained by these compositional factors, but nevertheless substantial differences persist. Drawing on the literature, he concludes that the differences in composition-adjusted acceptance rates are likely explained by differences in the willingness to admit asylum seekers, which in turn can be related to differences in unemployment or differences in the popularity and political influence of anti-immigration parties. Therefore, it seems that variable implementation of the EU's asylum rules also explains the differences between countries' acceptance rates.

There is a huge difference within the EU in terms of where asylum applications are made, where the asylum applications are accepted and GDP (Figure 32). Disproportionate distribution of asylum seekers and refugees within the EU relative to the distribution of GDP entails disproportionate burdens and socio-economic implications for EU member states.

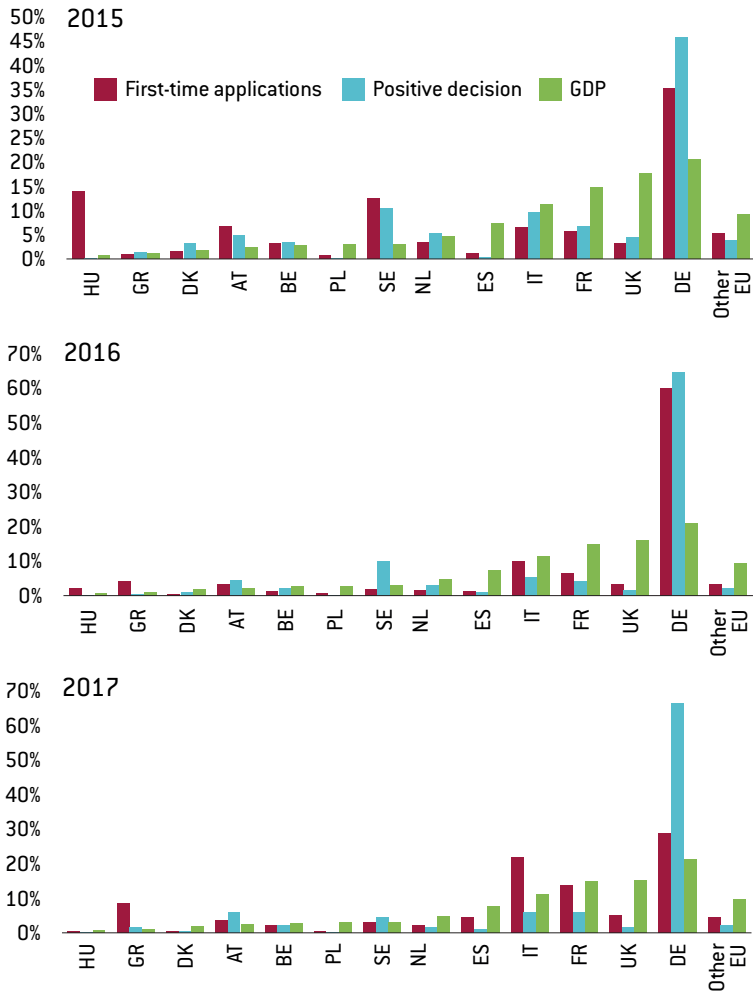
- Germany received disproportionately more applications and had a higher positive decision rate relative to its share of EU GDP, in all three years of 2015, 2016 and 2017.
- Sweden's shares of applications and of positive decisions were also disproportionately high in 2015, but by 2017 its asylum seeker and refugee shares became more similar to its GDP share.
- Greece has received a disproportionately high share of applications, but because it ultimately accepts fewer asylum seekers than the EU average, its share of positive decisions remained close to its GDP share.
- Hungary received 14 percent of applications in 2015, a huge share compared to Hungary's 1 percent share of EU GDP. But because of a very low acceptance rate (Figure 31), Hungary's share of positive decisions was a mere 0.2 percent. After building a fence along its

southern border, Hungary's share of applications declined to very close to zero.

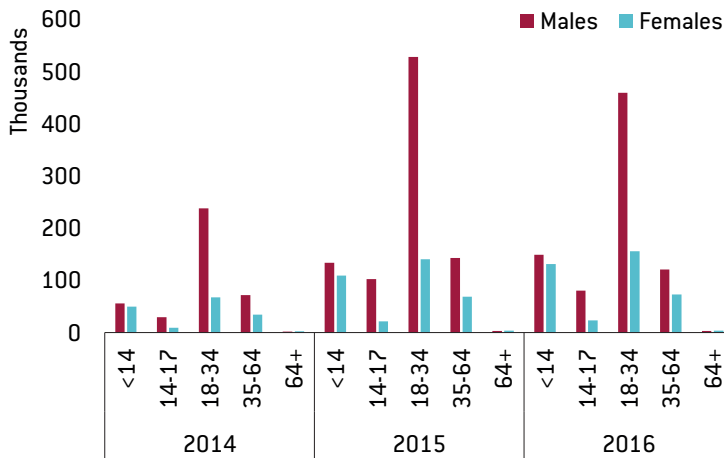
- Italy's share of applications was lower than its share of EU GDP in 2015, but this relationship had reversed by 2017. However, because of a lower than the EU average acceptance rate, Italy's share of positive decision remains well below its share of EU GDP.
- For many other countries, including Poland, the Netherlands, Spain, France and the United Kingdom, the shares of asylum applications and positive decisions remained well below their GDP shares.

The EU has financial instruments dedicated to supporting the management of migration flows and safeguarding the Schengen area, including the Asylum Migration and Integration Fund for 2014-20, with a total budget of €3.137 billion, and the Internal Security Fund, for which €3.8 billion was allocated in the 2014-20 multi-annual financial framework. We discuss these instruments, along with the various other initiatives to manage the refugee crisis, in chapter 7.

**Figure 32: Total asylum applications, positive first instance decisions, and GDP, % of EU totals, 2015, 2016 and 2017**



Source: Eurostat’s ‘Asylum and first time asylum applicants by citizenship, age and sex Monthly data (rounded) [migr\_asyappctzm]’ and ‘First instance decisions on applications by citizenship, age and sex Quarterly data (rounded) [migr\_asydcfstq]’ datasets, and the November 2017 AMECO dataset. Note: the 2017 distributions were calculated using the following data: January-August 2017 for first time applications, January-June 2017 for positive decisions, and the whole of 2017 for GDP.

**Figure 33: Asylum applicants by age and gender, 2014-16**

Source: Eurostat 'Asylum and first time asylum applicants by citizenship, age and sex' dataset, code: [migr\_asyappctza].

### 3.4 The share of foreign citizens and foreign-born people resident in the population

While defining an immigrant is relatively straightforward in relation to flows of people, defining immigrants within the resident population is much more complicated (see Box 1 in chapter 1). There are two standard indicators of stocks of immigrants in the resident population of a host country: the share of foreign citizens and the share of foreign-born people. Foreign citizens are people who retain the citizenship of their home countries. This category might include people born in the host country. Foreign-born persons were born outside of the country of their usual residence, regardless of their citizenship. This category might include home-country citizens who were born to home-country parents abroad. There is some but imperfect overlap between the two categories, because some foreign-born people obtain the citizenship of their host country, while some foreign citizens were born their host country.

While these two alternative indicators of immigrants in resident population are straightforward, they might not coincide with the perceptions of the native population. For example, native people might still consider a naturalised former immigrant as an ‘immigrant’, even if this person has obtained the citizenship of the host country.

#### *Foreign citizens*

We calculate the share of foreign citizens in each EU country at the end of 2015. We make two adjustments to population statistics. First, at the end of 2015 there were 1 million asylum seekers in the EU who had submitted their asylum applications and were waiting for decisions. These people were in EU member states, but were not included in population statistics. Second, we also consider posted workers. Most posted workers are not included in the resident population of the host country, when the duration of the posting is short.

Therefore, we calculate an adjusted population for each EU country at the end of 2015. We start with the reported population number, add the number of asylum seekers waiting for decisions on their applications, add the posted workers received from other EU countries and subtract the posted workers sent to other EU countries. Since no data is available on the number of posted workers at the end of 2015, we had to approximate their number (Box 2).

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**Box 2: Calculation of the number of posted workers at the end of 2015**

The calculation of posted workers present in each EU country at the end of 2015 necessitates some approximations, for three reasons.

First, data is not available on the number of posted workers at the end of 2015, only on the total number of people involved in posting in 2015. Most of them, for example those people who go for a posting period for one month between January and November, are not present in the host member state at the end of the year. We therefore calculate the average number of posted workers for each day in 2015, which is the same indicator as the ‘full time equivalent job indicator’. We calculate this indicator from the perspectives of both sending and receiving countries<sup>14</sup>. To do that, we need information on the average duration of postings. This information is available for 13 sending countries. For the other 15 EU countries, we used approximations by considering neighbouring countries or countries with similar characteristics, as indicated in Table 5. For example, the average duration of postings by Belgian companies is 33 days, while it is 29 days for French companies. We used the average of these two numbers, 31 days, for neighbouring countries and other western European countries that might have similar characteristics, such as Austria, Denmark, Finland, Germany, the Netherlands and Sweden. Table 5 shows that the duration of postings is typically much longer for workers posted from central and eastern European countries than from western European countries. We assume that the duration of postings from a particular source country to all destinations countries is the same, given that duration data is not available on a bilateral basis. For example, we assume that Belgian posted workers spend on average 33 days in Germany, the same 33 days in the Netherlands, and the same 33 days in all other EU countries.

Second, while all people holding the A1 document are considered ‘posted workers’ in policy discussions (their total number was 2.05 million

14 For example, if the average duration of postings is three months, then four posted workers account for a full-time job and one posted workers accounts for one-fourth of a full-time job.

for the European Economic Area (EEA) plus Switzerland in 2015), in fact slightly less than 1.5 million people are actually posted workers, while the remaining half a million are either ‘active in two or more member states’ or ‘others’, such as civil servants, sailors or flight crew. Still, we consider people belonging to all three categories as ‘posted workers’, similarly to the use of this term in policy dialogues<sup>15</sup>. The detailed bilateral matrix for source and destination countries is available only for the 1.5 million actual posted workers: for all others, we assumed that the composition of destination countries (from a given source country) is the same as the composition of actual posted workers. Furthermore, we only consider EU members, but not non-EU EEA members or Switzerland, and thus we do not consider people who are posted from or to Norway, Iceland, Lichtenstein and Switzerland.

Third, the detailed decomposition of destination countries is available for all EU member states except the United Kingdom. For the UK, we assumed that the share of Ireland in destination countries is 15 percent (this is an ad-hoc assumption, based on an overview of the shares of posted workers of other EU countries in their neighbouring countries), while the share of all other EU countries is proportional to the average share of each country in total EU postings. Given that the UK posts relatively few workers, less than 32,000, who account for about 12,000 full-time equivalent jobs, this approximation hardly distorts our final results.

15 Even the European Commission’s factsheet talks about 2.05 million posted workers.



*Table 5: Average duration of postings of workers by sending countries, actual data (white box) and our approximations (gray box), 2015 (days)*

	<b>Average duration per posting by sending member states</b>	<b>Countries used for approximation</b>
Austria	31	Belgium, France
Belgium	33	
Bulgaria	188	Croatia, Hungary, Slovenia
Croatia	225	
Cyprus	298	
Czech Rep.	148	
Denmark	31	Belgium, France
Estonia	227	
Finland	31	Belgium, France
France	29	
Germany	31	Belgium, France
Greece	195	Cyprus, Italy
Hungary	198	
Ireland	240	
Italy	92	
Latvia	266	
Lithuania	266	Latvia
Luxembourg	16	
Malta	61	France, Italy
Netherlands	31	Belgium, France
Poland	173	Czech Republic, Hungary
Portugal	61	France, Italy
Romania	188	Croatia, Hungary, Slovenia
Slovenia	142	
Slovakia	173	Czech Republic, Hungary
Spain	61	France, Italy
Sweden	31	Belgium, France
UK	135	France, Ireland

Source: Bruegel based on De Wispelaere and Pacolet (2017).

Our results (Table 6) show that intra-EU mobility has not reached very high levels as a percentage of host country population, with the exception of Luxembourg. For example, central and eastern European citizens account for only 1.88 percent of the population of north-west EU countries, while posted workers add a mere additional 0.15 percent<sup>16</sup>. Six southern EU members account for 1.18 percent of the population of north-west EU countries, while citizens of other north-west countries account for an additional 1.13 percent (eg Germans who live in Belgium and Belgians who live in Germany). Altogether, other EU citizens account for 4.4 percent of the population of north-west EU countries. Central and eastern European countries host very few other EU citizens, while in the South 6 countries, the share of central and eastern European citizens is almost 2 percent of population.

The share of central and eastern European citizens in the resident population of host countries is highest in Austria and Ireland (over 4 percent). Their share at about 2.5 percent in Germany and the United Kingdom is also above average, while their share is especially low in France at 0.3 percent. Luxembourg is really special: 41 percent of the population is citizen of another EU country, mostly from north-west and southern European countries. With 13 percent of population from other EU countries, Cyprus hosts the second largest share of other EU citizens, while Belgium and Ireland are in third place with shares slightly higher than 8 percent.

The shares of foreign citizens in the population are rather low, below 2 percent, in a number of central European countries: Bulgaria, Croatia, Hungary, Lithuania, Poland, Romania and Slovakia. These low shares are not surprising because wage levels are much lower in these countries than in western European countries and wages are key drivers of migration decisions. In two other central European

16 We note that we only consider posted workers *per se*, but do not consider possibly accompanying family members for which data is not available. Most likely, for short-term postings family members do not accompany the posted worker, but for longer duration family members might join.

countries, Estonia and Latvia, the rather high share of about 15 percent is explained by historical reasons related to their former inclusion in the Soviet Union – Russian nationals continue to live in these countries (see chapter 2). However, the share of other-EU nationals is extremely low even in Estonia and Latvia, highlighting again the major role of wages in migration flows.

Table 6 also shows that posted workers account for an especially minor share of population. For example, the shares of posted workers from central and eastern European countries in the populations of France, the Netherlands and Belgium (three countries that have been especially vocal in the posted workers debate) are 0.05 percent, 0.13 percent and 0.32 percent, respectively – very low shares. Therefore, it is surprising that the revision of the posted workers directive has been so prominent in EU policy debates (see chapter 7).

The share of non-EU citizens in resident populations varies from half percent in Lithuania to 14 percent in Estonia and Latvia. The EU average is slightly above 4 percent. Pending asylum applicants add a further 0.2 percent, which, as we note, is distributed rather unevenly between EU countries, with Sweden and Austria having the largest shares relative to population.

**Table 6: Composition of EU country populations according to citizenship, end-2015 (percent of adjusted population)**

	Non-EU citizens		Citizens of other EU countries						Total other EU citizens	Home country citizens minus posted workers sent
	Pending asylum	Residents	From CEE-11		From South-6		From North-West 11			
			Residents	Posted workers	Residents	Posted workers	Residents	Posted workers		
Austria	0.91	7.28	4.11	0.41	0.46	0.03	2.42	0.09	7.51	84.30
Belgium	0.32	4.01	1.74	0.32	2.46	0.04	3.48	0.27	8.32	87.35
Bulgaria	0.13	0.91	0.04	0.01	0.05	0.00	0.10	0.01	0.20	98.76
Croatia	0.00	0.71	0.14	0.05	0.06	0.01	0.13	0.01	0.39	98.89
Cyprus	0.24	4.49	n.a.	0.01	n.a.	0.01	n.a.	0.02	12.89	82.37
Czech R.	0.01	2.66	1.41	0.07	0.07	0.00	0.37	0.01	1.94	95.39
Denmark	0.26	4.79	1.64	0.06	0.34	0.01	1.33	0.04	3.42	91.53
Estonia	0.01	13.97	0.49	0.07	0.11	0.00	0.57	0.03	1.27	84.76
Finland	0.50	2.45	1.18	0.24	0.12	0.01	0.40	0.03	1.98	95.06
France	0.05	4.31	0.31	0.05	1.36	0.03	0.61	0.03	2.40	93.24
Germany	0.51	5.86	2.46	0.27	1.38	0.01	0.75	0.03	4.91	88.72
Greece	0.24	5.47	1.34	0.01	0.20	0.01	0.37	0.01	1.95	92.34
Hungary	0.37	0.73	0.45	0.02	0.06	0.00	0.36	0.01	0.90	98.00
Ireland	0.10	4.29	4.89	0.02	0.24	0.01	2.99	0.07	8.21	87.40
Italy	0.10	5.78	2.24	0.02	0.06	0.01	0.20	0.01	2.54	91.59
Latvia	0.01	14.39	0.22	0.03	0.02	0.00	0.07	0.01	0.35	85.25
Lithuania	0.00	0.48	0.10	0.04	0.02	0.00	0.05	0.01	0.22	99.29
Lux'bourg	0.43	6.88	2.77	0.25	21.15	0.04	15.91	0.75	40.87	51.82
Malta	0.19	3.54	n.a.	0.01	n.a.	0.05	n.a.	0.04	3.66	92.61
N'lands	0.17	2.60	1.06	0.13	0.53	0.01	1.10	0.07	2.91	94.31
Poland	0.01	0.35	0.02	0.01	0.01	0.00	0.04	0.01	0.08	99.56
Portugal	0.00	2.74	0.39	0.00	0.16	0.03	0.46	0.01	1.07	96.19
Romania	0.00	0.30	0.05	0.01	0.10	0.01	0.09	0.01	0.27	99.43
Slovakia	0.01	0.29	0.67	0.07	0.07	0.01	0.20	0.01	1.02	98.69
Slovenia	0.01	4.47	0.66	0.12	0.10	0.01	0.12	0.02	1.02	94.51
Spain	0.04	5.35	2.03	0.01	0.64	0.01	1.49	0.02	4.20	90.42
Sweden	1.56	4.77	1.08	0.19	0.28	0.01	1.67	0.07	3.29	90.37
UK	0.05	3.79	2.66	0.01	0.96	0.01	1.28	0.01	4.93	91.23
Total EU	0.20	4.11	1.58	0.09	0.73	0.01	0.83	0.03	3.27	92.42
North-west 11	0.3	4.62	1.88	0.15	1.18	0.02	1.13	0.04	4.4	90.68
CEE 11	0.05	1.19	0.27	0.03	0.05	0	0.14	0.01	0.5	98.26
South 6	0.08	5.34	1.99	0.02	0.3	0.01	0.71	0.01	3.04	91.54

Source: Bruegel. Note: North-West 11: first 15 EU members without Italy, Greece, Portugal and Spain. South 6: Cyprus, Italy, Malta, Greece, Portugal and Spain. CEE 11: the central and eastern European members that joined the EU in 2004-13. Adjusted population: population as reported in population statistics plus pending asylum seekers plus posted workers received minus posted workers sent.

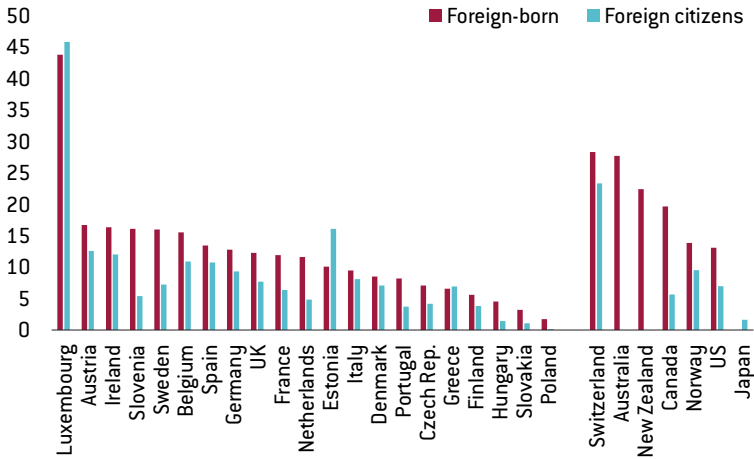
### *Foreign-born people*

Since some immigrants obtain the citizenship of their host country, the number of foreign citizens within a population might not correspond with all people who are viewed as ‘immigrants.’ Foreign-born people might not correspond either to people who are viewed as ‘immigrants,’ because the category of foreign-born people does not include people whose parents or grandparents were immigrants but who were born in the host country – quite often, such people are also considered ‘immigrants.’ Moreover, the foreign-born population includes those people who were born to native parents abroad but moved to the home country of their parents.

EU countries generally have higher shares of foreign-born residents than foreign citizens, with the exceptions of Luxembourg, Estonia and Greece (Figure 34). Switzerland, Australia, New Zealand and Canada host much larger shares of foreign-born people than EU countries with the exception of Luxembourg. Nevertheless in almost half the EU countries (for which OECD data is available), the share of foreign-born residents is similar or even higher than in the United States. However, the way intra-EU mobility is taken into account has a major bearing on the comparison with the US. For the US, we do not consider intra-US mobility, but only mobility from other countries. But for the EU, foreign-born people and foreign citizens also include people from other EU countries. If we view the EU as a single entity, the share of non-EU people in the EU is much lower than non-US people in the United States. But if people from other EU countries are considered to belong to the same category as non-EU immigrants, then in about half of the EU countries, the share of ‘immigrants’ has reached the share observed in the United States.

Neither the share of foreign-born, nor the share of foreign citizens, is high in the United Kingdom relative to other EU countries, and the UK shares are well below the shares in Canada, Australia and New Zealand. Therefore, it is notable that even though an international comparison does not suggest unusually high share of foreigners in the UK, immigration was a key topic in the campaign ahead of the UK’s referendum on EU membership in June 2016.

**Figure 34: Foreign-born and foreign citizen population in 2013 (percent of total population)**



Source: OECD International migration database. Note: 2012 for Ireland, France and Greece; 2011 for Poland and Canada. Data on foreign citizens is not available for Australia and New Zealand, while data on foreign born residents is not available for Japan.

# 4 The economic impact of immigration

This chapter reviews the literature on the economic impact of migration, particularly in relation to aggregate output, fiscal policy and labour markets. The chapter also reviews the particular case of the economic impact of sudden inflows of refugees and asylum seekers. The literature is extremely voluminous and there are no clear-cut conclusions: some works find generally positive impacts, while others find negative or neutral impacts. The general lesson is that the impact depends on the characteristics of flows of incoming migrants, the institutional and economic characteristics of receiving countries and the swiftness of integration.

## 4.1 Impact on output

Migration could impact GDP in three main ways, through an increase in the working age population, greater demand for goods and services and an increase in the productivity of the average worker. The impact on aggregate output is generally positive, because some immigrants start working shortly after arrival, thereby directly contributing to output, while consumption by immigrants increases demand in the host country, which stimulates output at least in the short term. A key question, however, is the impact on productivity.

Ortega and Peri (2014) find that openness to trade and migration increases a country's *per-capita* income, with migration having a much greater impact than trade. This effect of migration on per-capita income operates through an increase in total factor productivity,

including diversity of productive skills and greater innovation. Alesina *et al* (2016) find a similar result when controlling for a number of factors, including trade openness, trade diversity and education. Jaumotte *et al* (2016) find that a 1 percentage point increase in the share of migrants raises the receiving country's GDP per capita by 2 percent. The mechanisms through which immigration increases labour productivity could be different for high-skilled and low-skilled workers. High-skilled migration increases innovation in the host economy (Alesina *et al*, 2016; Ortega and Peri, 2014; Hunt and Gauthier-Loiselle, 2010), while low-skilled migrants increases productivity by making the natives take up higher skilled jobs (Peri and Sparber, 2009; Cattaneo *et al*, 2015; D'Amuri and Peri, 2014).

The productivity channel is also key in Portes *et al* (2016), who assess the impact on the UK economy of reductions in migration arising from Brexit. Portes *et al* (2016) estimate a fall in UK GDP ranging from 0.63 percent to 1.19 percent. Di Giovanni *et al* (2014) consider the aforementioned mechanisms and find large and positive long-run impacts on welfare for the origin and destination countries.

Another possible route to productivity growth is the positive impact high-skilled migration could have on innovation in the receiving country. This is especially relevant for Europe, where growth and investment have been anaemic. Fassio *et al* (2015) find that a 1 percent increase in the number of highly-educated migrants has a positive, though small, effect on innovation (an increase in citations of around 0.1 percent). This effect varies in different sectors, with high-tech sectors experiencing a positive effect. However, the effect of low-skilled migrants on innovation is found to be negative in both high and low-tech sectors.

Immigration has a redistributive impact on the native economy. While it is true that immigration expands economic activity, most of the gains accruing to natives are small at around 0.1 percent of GDP, since most of the gains made by immigrants – 98 percent of the \$1.6 trillion annually in the US – goes back to the migrants themselves as



wages and benefits (Borjas, 2013). Atoyán *et al* (2016) find a negative impact of large-scale emigration from central, eastern and southeastern Europe on the sending countries' potential growth, with annual growth rate losses amounting to between 0.6-0.9 percentage points in some countries from 1999 to 2014 (Albania, Montenegro, Romania, Latvia and Lithuania).

Migrants in the host country contribute to aggregate demand through consumption of goods and services. While migrants remit a certain share of their income to their home countries, depending on their financial position, ties to the home country and other factors, with time and integration they tend to remit less as their needs in the host countries increase (Straubhaar and Vădean, 2005; Lianos and Cavounidis, 2006). Echazarra (2011) finds that remittances peak at 10 years and decline afterwards for migrants in Spain, for reasons including naturalisation, family re-unification, declining ties to the home country and formation of new families.

## 4.2 Labour market impact

The notion that “*immigrants are taking our jobs*” is often cited in various news outlets and was especially prominent during the 2016 US presidential race, the Brexit referendum and during elections campaigns in France and the Netherlands in 2017. Alongside security and terrorism concerns, the majority of Europeans are worried about the impact of refugee inflows on labour market outcomes for natives.

There are also common portrayals in popular culture of the immigrant who was a doctor in his home country but drives a cab in New York, or the engineer waiting tables in London because of lack of recognition of her qualifications, and language, institutional and other barriers. In this section we analyse the literature on the impact of migrants on the host country labour market.

Given the wealth of literature on the labour market and the fiscal impact of immigration, especially in the last few decades, it is possible to examine the effect of immigration on native employment and

wages. Even though such studies are non-exhaustive, there is consensus on the lack of conclusive evidence that immigrants systematically take jobs from natives or depress wages for the natives. Instead, the impact of immigration on the host country's labour market seems to largely depend on two interconnected factors: migrant characteristics and the host country's economic and institutional factors.

Migrant characteristics typically considered in the literature include gender, origin, and length of stay in the host country, educational attainment and skill level. Immigrant characteristics in turn determine the labour-market assimilation process; that is, to what extent the education and skills of immigrants are substitutes for, or complements to, those of the natives. This determines wage setting for immigrants and of natives.

The second set of factors – the host country's institutional and macroeconomic setting – includes the unemployment level, strength of unions, wage rigidities and the size of the informal economy. The host country's past experience of, and effectiveness in terms of, integration also play a role. Spain's institutional experience of migration would be more extensive from that of Greece, for example.

As the work experience of immigrants in host countries increases, labour market outcomes of immigrants converge to those of natives, after controlling for origin and destination-specific effects. Aleksynska and Tritah (2013) examine the education and occupation (mis) match of immigrants and of natives in 22 European countries and find that the share of correctly-matched immigrants increases gradually as immigrants live in the host country longer – this increase of match is mainly driven by integration of over-educated immigrants. Overall, 22 percent of immigrants to Europe are over-educated for the jobs they do, compared to 13 percent of natives. The incidence of over-education among migrants is as high as 35 percent in the UK and 47 percent in Portugal (Aleksynska and Trihah, 2013; Akresh, 2008). Higher incidence of over-education and higher skills among immigrants (even though these are not completely complementary)

could be due to selection bias in a country's immigration policy. In this respect, in countries such as the United States, Canada, United Kingdom, Australia or New Zealand, the share of high-skilled immigrants is reflected in their skill-based immigration policies (Czaika and Parsons, 2015). In the US, for instance, almost half of the immigrants who arrived between 2011 and 2014 were college educated, and immigrants were better educated than natives in 26 US states (*Economist*, 2017).

Moreover, a good majority of immigrants (eg 53 percent for the US) obtained their degree prior to immigration, meaning that in most cases the host country is benefiting from the education paid for by others (Batalova *et al*, 2008). However, because of institutional and administrative barriers, it might be difficult for migrants to have their degrees recognised in the host country. This largely depends on institutional factors in host countries. Beyer (2016), after studying the labour market outcomes for immigrants in Germany, shows that highly-skilled immigrants face a sizable skill downgrading and relatively large and persistent wage gaps. While immigrants make substantial contributions to the economy, they face more obstacles in the labour market than native workers, and these obstacles are overcome only gradually and never fully (Beyer, 2016). However, studies tend to converge on the fact that more advanced German language skills reduce wage penalties for immigrants, underlining the need for early training in the host country language as part of the integration process (Dustmann and van Soest, 2001, 2002; Aldashev *et al*, 2009; Zibrowius, 2012).

Earlier studies for the US and Canada did not find persistent wage differentials that are not fully overcome. Instead, while it is true that US immigrants start with much lower wages than natives with similar characteristics, they catch up over time (Chiswick, 1978) and even overtake natives after 10-15 years in the US and Canada, possibly because of self-selection with potentially greater ability to meet the labour market's demands (Meng, 1978; Chiswick, 1978).

National and local conditions matter for the long-term employment and labour-market impact of immigrants. After studying the entry into the labour market of immigrants in Sweden who arrived between 1989 and 1991, Aslund and Rooth (2003) concluded that individuals entering before recession were 7-9 percent more likely to be employed and have 12-18 percent higher earnings than the cohorts entering the labour market during recession. The authors conclude that successful labour market integration should start with provision of support to those regions with better labour market conditions and higher shares of immigration (Aslund and Rooth, 2003). It is no surprise that immigrants, similarly to natives, tend to move to parts of the host country with better labour market conditions. In the US, for instance, half the college-educated immigrants are concentrated in a handful of locations: California, New York, Florida and Texas (Batalova and Zong, 2016).

Economic theory posits that an increase in labour supply leads to a fall in wages. The effect of highly educated immigrants on natives' wages, however, is not straightforward. There are several factors that might mean wages do not decrease, such as immigrants and natives having different education and skill levels, meaning they are not perfect substitutes. Immigrants and natives might have similar education levels but complementary skills. If immigration is concentrated in one region and natives move out of that region, wages might adjust. Institutional factors and wage rigidities are other possible factors (Edo and Rapaport, 2017).

Some empirical works find evidence of a negative impact of immigration on native wages (Borjas, 2003; Borjas and Katz, 2013; Dustmann, Frattini and Preston, 2013; Dustmann, Schoenberg and Stuhler, 2016), while others find no effect (Card, 1990; Ottaviano and Peri, 2012; Peri and Sparber, 2009). There is also some evidence of increases in wages for select groups of natives (Beerli and Peri, 2015). Rowthorn (2015), in an analysis of the impacts of immigration on the UK labour market, concludes that competition from immigrants might

result in lower wages for low-skilled local workers, including previous immigrants. He also emphasises the importance of the state of the business cycle, because immigration damages the job prospects of low-skilled natives when the labour market is slack.

Internal labour mobility might also be negatively impacted by immigration. For instance, by using panel co-integration methods to analyse Italy, which is characterised by significant north-south wage and unemployment differentials, Brücker, Fachin and Venturini (2011) find that, depending on unemployment and wage differentials, the presence of foreign workers in the labour forces of the destination regions significantly discourages internal labour mobility.

For US states, the impact of immigration on native wages and the elasticity of wages to immigration differ. Edo and Rapaport (2017) look at the effects of immigration on the employment rates and wages of similarly skilled natives in the short-run and find that an immigration-induced increase of 10 percent in the size of a group representing a particular skill level and a particular state reduces natives' wages by -0.2 percent to -0.1 percent. However for low-education, low-wage groups the effect is -0.3 percent to -0.4 percent. As such, higher minimum wages make the natives in these states less sensitive to competition from immigrants in the same skill groups.

The impact of immigrant's skills on native labour market outcomes is not linear. The impacts of lower-skilled and highly-skilled migrants go beyond an effect on the employment rates and wages of natives in the same skill groups.

Switzerland offers a unique case study, because two different parts of the country were opened to foreign workers at different times. Restrictions on cross-border workers commuting from Italy, France, Germany and Austria were gradually eliminated between 1999 and 2004. These workers were allowed to work only in Switzerland's border regions. Labour market access for other immigrants, who intended to work and settle in Switzerland, was also eased between 1999 and 2007, but in the same way for all regions. After 2007, the EU's free movement

policy was fully implemented for cross-border workers and for all other EU immigrants in Switzerland's border and non-border regions. The different timing of labour market opening allowed Beerli and Peri (2015) to analyse the effect of immigration on natives' employment rates and wages in border and non-border regions. Overall, they find relatively small aggregate effects, but also find that some groups of workers benefited from the liberalisation policy while others suffered losses. For example, they find that the wages of natives with college degrees and more experience increased, while there was some decline in employment of natives with high-school degrees. As immigrants entering Switzerland were mostly highly educated, the highly-educated natives were able to rise to higher positions and increased wages, while high-school educated workers moved down or were replaced in what can be called 'middle jobs' by highly-educated migrants. Beerli and Peri (2015) also conclude that low-educated native workers were not affected.

Another regional study looks at the large inflow of Czech workers into Germany 14 months after the fall of the Berlin Wall and finds a moderate decline in wages for younger native workers, but a sharp decline in employment for older native workers (Dustmann *et al*, 2017). The drop in employment resulted not so much from natives leaving employment, but rather from a reduction in hiring of natives.

Chozelas and Tsagloulou (2009) present a more mixed picture of the immigration patterns of mainly Albanians into Greece since the early 1990s, when Greece became a net migrant recipient country. Low-skilled migration had a positive effect on GDP growth, revitalised the agricultural sector and helped smaller companies, dampened inflationary pressure and provided a short-term boost to the social security system. However, the inflow of migrants also expanded the informal sector, exacerbated income inequality, expanded unemployment and put downward pressure on wage growth for the low-skilled. There is some evidence that immigrants did not increase the level of unemployment among the natives in Greece because immigrants tend

to take jobs that natives turn down (Fakiolas and King, 1996; Fakiolas, 1999). Immigrants tended to free family members employed in agriculture and in small family businesses, leading to an increase in self-employment and helping Greece converge to the European standards (Cavounidis, 1998). Workers previously employed in the agricultural sector were now able to enter the labour market as paid employees.

The labour force participation rate of women has been positively impacted by the flow of low-skilled immigrants. The flow of low-skilled immigrants has responded to demand for low-wage part-time jobs typically occupied by female natives in the form of unpaid domestic labour, thereby allowing them to enter the labour market. The results hold for Greece (Lianos, 2004), Spain (Farre, Gonzales and Ortega, 2011) and the US (Cortes and Tessada, 2011). In Norway, job-related migration, particularly from eastern Europe, spurred new job creation among both male and female natives (Furlanetto and Robstand, 2016). A similar finding of a decline in native unemployment in response to immigration is found for the US (Peri, 2012) and for Albanian migration to Greece (Labrianidis and Lyberaki, 2001).

Furthermore, factors such as ethnic identity and the strength of the ethnic sentiment also have an impact on the labour market outcomes of migrants. Bisin *et al*, (2011) examine the relationship between ethnic identity and labour market outcomes of immigrants in Europe and find immigrants with a strong identity (in terms of attachment to religion, traditions and language spoken at home) suffer from weaker employment prospects, but immigrants without strong ethnic identity do not face such weakened prospects. These results show that integration policies to increase the labour market participation of migrants can be successful, but success also depends on strength of ethnic identity. Since the fiscal cost of the failure to integrate immigrants into the labour market is higher than the cost of integrating them (see next section), we can conclude that favourable attitudes towards integration and active steps to make it happen reduces costs and also leads to favourable labour market outcomes for migrants.

### 4.3 Fiscal impact

A growing body of literature examines the fiscal effects of immigration. Are migrants net contributors or net beneficiaries? What contributions and benefits do first and second generation migrants accrue during their lives? How does this compare to the native population? The answers to these questions are vital in integration efforts and national migration policies, and for projecting general government spending.

Most of the literature finds that the fiscal impact of immigration is relatively small, in the magnitude of  $\pm 1$  percent of GDP. The net fiscal impact of migrants can be direct and indirect. The direct impact is through taxes paid and benefits received and can be assessed using government tax and expenditure records. The indirect fiscal impact is felt through the impact on labour market outcomes for natives, which are more difficult to measure.

Net fiscal impact is commonly described as the difference between the contributions immigrants make to the public finances through taxes and other social contributions, and the benefits received. There is some debate on whether one should only account for the welfare system or also for the use of public services; and whether to include only direct cash transfers but not the cost of in-kind benefits. It can be argued that public services should be left out of the accounting because they are needed regardless of the presence of migrants.

The hypothesis that migrants tend to cluster in countries with the most generous welfare systems is called ‘the welfare magnet hypothesis.’ The literature assessing the welfare magnet hypothesis is divided, with some studies finding that migrants do make decisions based on the generosity of a destination country’s welfare system (Meyer, 2000; Borjas, 1999). This is particularly the case for vulnerable groups, such as mothers with young children (Gelbach, 2004). Others find no evidence for welfare-induced migration, even for vulnerable groups, for the US (Levine and Zimmermann, 1999) and for east-west migration in post enlargement Europe (Skupnik, 2013).

Furlanetto and Robstand (2016) analyse immigration into Norway



and find that there is no evidence of immigrants being a burden on public finances. This is because most migrants come to Norway for work reasons – in the short-run they increase public revenue through tax and social contributions. But in the long-run, public expenditures increase, reflecting, for example, family reunifications. As such, the net effect on public finances is positive in the short-run and neutral in the long-run.

In OECD countries, immigrants contribute less than the native-born to taxes and social security but are not more dependent on benefits (OECD, 2013). As such, the integration of migrants into the labour market is a key step in attaining potentially large and positive fiscal gains.

The use by migrants of government services varies depending on the origin country. In the US, the share of migrants on means-tested benefits, such as food aid and Medicaid, for households headed by immigrants from Mexico and Guatemala, is 5-6 times higher than for households headed by migrants from Canada and Germany (Camarota, 2012).

Naturally, and similarly to what has been discussed for labour markets, the magnitude of the fiscal impact and whether it is negative or positive differs according to the occupation, education and age of migrants. Active working-age adults migrating for work reasons are most likely to pay more in taxes than they receive in benefits, compared to those coming for family reunification or humanitarian reasons. Seasonal workers do not represent a big burden for public services because they do not bring their families with them (Lianos *et al*, 1996). Less active migrants – either too young or too old – population are likely to incur net costs because they require different government services.

In Greece, where migrants are younger than the native population, a survey conducted in public hospitals in Athens showed that only 6.5 percent of all patients are immigrants, compared to the 7.4 percent share in the total population (Maratou-Alipranti and Gazon, 2005). Therefore, even though public perception sometimes suggests that

immigrants disproportionately use public services, causing natives difficulties in accessing such services, the data from Athens shows that in fact the share of immigrants among patients is lower than their share in the total population. Furthermore, it should be noted that because of the more hazardous work that low-skilled migrants in particular do, they are twice as likely to suffer accidents at work and seek medical treatment (Maratou-Alipranti and Gazon, 2005).

Given how individuals' contributions to, and receipts from, public finances vary throughout their lifetimes, it is important to measure not only the static impact (ie the fiscal impact of migration at a given point in time). Chojnicki (2013) finds that for migrants in France, the fiscal impact is negative at 14 years old but positive and peaking at 25 years, thereafter decreasing and turning negative after 47 years. Furthermore, the lifecycle of the contributions of immigrants in France was negative in 2015, but in the long-run with the constant influx of working-age migrants the overall impact is slightly positive.

From the mid-1970s to the mid-1980s, immigrants in Sweden made a net fiscal contribution as the majority were labour migrants. Since the mid-1980s, the net fiscal contribution has become negative because of the change in the composition of the immigrant population (Ekberg, 2009). Similarly, migrants arriving in the UK since the 2000s are younger and better educated than the natives and less likely to rely on state benefits; consequently, their net fiscal impact is positive (Dustmann and Frattini, 2013, 2014). Moreover, recent immigrants, particularly from the European Economic Area (EEA), reduced the fiscal burden on the natives and helped reduce the UK's fiscal deficit.

However, Rowthorn (2014) notes that that the overall fiscal impact of large-scale immigration is normally small relative to GDP, because the large positive fiscal contribution of some types of immigrant is largely or wholly offset by the negative contributions of others. He highlights that specific assumptions about the economic and social characteristics of immigrants, which were made in the literature, might not hold in practice, making the various calculations about the fiscal

impact of immigrants uncertain. He also highlights that the benefits of immigration, insofar as they exist, derive in part from taxpayers and families in other countries in the form of investment in human capital that was made in those countries before the immigrants arrived in their host country.

#### **4.4 Impact of the sudden flow of migrants**

The global refugee crisis and forced displacement is above all a humanitarian tragedy and it is a collective responsibility and moral imperative that the rest of the world provides support and safety for people fleeing wars, conflicts and disasters. By the end of 2015, more than 65 million people were forcibly displaced from their homes, of which one-third had crossed international borders and two-thirds were internally displaced. It marked the largest displacement since the second world war (UNCHR, 2015).

The estimated number of asylum applications in the EU from January 2015 to September 2017 was 2.9 million, and the overwhelming strain on the asylum seekers and the European authorities responding to the crisis is equally high. While it is difficult to forecast the flow of refugees in the future, one cannot exclude that relatively large inflows (as observed even in 2017, see Figure 29) will continue, and therefore a large number of refugees will remain in Europe, where they will settle and build their livelihoods. A recurrent criticism of the response to the crisis was the lack of a coherent and coordinated European asylum and refugee policy. In this respect, it is important to examine past experiences of the economic, social and cultural integration of refugees to draw out lessons for better policies.

When assessing the economic integration and impact of refugees, it needs to be acknowledged that refugees' needs and paths to integration are different from those of labour and family migrants. In the short-term, refugees entail high initial costs, such as food, housing and language and legal assistance, while in the long-term the costs decline as they integrate into the labour market.

The fiscal costs for the EU have been relatively small. The IMF estimates the fiscal cost of asylum seekers from 2014-16 to be around 0.19 percent of total EU GDP (Aiyar *et al*, 2016), but the cost varies in different EU countries. National fiscal costs have been projected to be equal to 0.5 percent of GDP in Germany annually from 2016-17, 0.3 percent in Austria and 0.9 percent in Sweden for 2016 and 0.8 percent in Turkey in 2014 (OECD, 2015). The capacity for investing in longer-term integration also varies depending on the member state but the costs and risks of the failure of integration are even greater than the investment in integration policies (European Commission, 2016a).

Ott (2013) finds that the labour market performance of refugees is slightly worse than that of labour migrants even after controlling for demographic differences (such as age, educational level and ability to speak the host country's languages), but this gap closes in the long run. The fiscal contribution made by refugees tends to be lower than that made by economic migrants, reflecting in most cases obstacles that inhibit quick absorption of refugees into the labour market. While the short-term fiscal cost of receiving incoming refugees can be a burden for some countries, the medium and long-term fiscal impact is difficult to predict (Aiyar *et al*, 2016).

The net fiscal impact of refugees over time ultimately depends on the characteristics of refugee populations, skill complementarities and the efficiency of national institutions in terms of integration. Cully (2013) estimates that the net fiscal impact of refugees in Australia starts out negative, unlike labour and family migrants who make a positive contribution from the first year. But, after a period of 10-15 years, refugees have a positive net fiscal impact. In Canada, 80 percent of newly-arrived refugees rely on social assistance; this share decreases to 25-20 percent after four years (Lu, Frenette and Schellenberg, 2015). Similarly, Citizenship and Immigration Canada (2011) finds that 75 percent of the refugees move out of social assistance after 4 years. Ruist (2015) estimates for Sweden that the total redistribution of public resources to refugees was equal to 1 percent of GDP in 2007, with 80

percent due to lower *per-capita* revenue from refugees while 20 percent was due to higher *per-capita* public costs. Moreover, while somewhat less than 30 percent of refugees are employed during the first two years of arrival in Sweden, compared to a 78-80 percent employment rate among labour migrants, after 10 years the refugee employment rate rises to 65 percent compared to 80 percent for labour migrants. (OECD, 2015).

Evans and Fitzgerald (2017) find that after six years, refugees in the US are more likely to be employed than US-born residents of the same age. Based on the data from the American Community Survey, the authors find that over 20 years, refugees in the US pay \$21,000 more in taxes than they receive in benefits. Furthermore, longer-resident refugees have better economic outcomes and rely less on government assistance. Age combined with period of residence is one of the main determinants of better adjustment and economic self-sufficiency.

Various studies have also analysed the impact of sudden flows of refugees on the employment and wages of natives. The most significant case in terms of the academic debate it has stirred was the Mariel Boatlift - a sudden flow of 125,000 mostly low-skilled Cuban refugees who arrived in Florida in the mid-1980s, increasing the labour supply of the state by 7 percent. Card (1990) concluded that the Mariel Boatlift had no effect on the wages or employment rates of native workers; a later study by Peri and Yasenov (2016) supported these findings. However, Borjas (2015) finds that the sudden flow of refugees caused the wages of male natives with less than a high school degree to drop dramatically by 10-30 percent, largely as a consequence of matching migrant and native workers of the same skill level. Similarly, Borjas and Monras (2017) find large negative effects on native wages, but do not find an effect on native unemployment. Borjas (2016) finds that non-Hispanic workers without high school degrees saw a large and robust drop in wages in Miami in the 1980s. But, Clemens and Hunt (2017) re-analyse the study and find that the result was rather due to the simultaneous arrival alongside the Mariel Boatlift of low-income

less-educated Haitians, who could not be separated from the data.

Three other analyses of large sudden refugee waves cover France (Hunt, 1992), Israel (Friedberg, 2001) and Europe (Angrist and Kugler, 2003). Friedberg (2001) studies the influx of Soviet refugees to Israel from 1990-94, which raised Israel's population by 12 percent, and finds no negative effect on native outcomes within occupations. But Borjas and Monras (2017) analyse the same inflow and find that there were detrimental effects on natives' wages. Hunt (1992) analyses the effect of an inflow into France of 900,000 people of European and Jewish origin from Algeria, and concludes that native unemployment increased by 0.3 percentage points, while no study on the fiscal effect has been done. Angrist and Kugler (2003) study the effect on Europe of refugees fleeing the Balkan war in the 1990s and find that a 1 percentage point increase in refugees raises the native unemployment rate by 0.83 percentage points.

In certain cases, studies on the impact of refugees on the labour market outcomes of natives yield mixed results. The labour market impacts of 2.5 million Syrian refugees in Turkey – with Pakistan, the country with the largest refugee population – are hard to measure because a large majority of refugees are working in the informal sector (Del Carpio and Wagner, 2015). Refugees in Turkey were unable to work officially until January 2016, as they were treated as foreigners under temporary protection. Therefore a large number of refugees left the camps and entered the informal economy. According to Del Carpio and Wagner (2015), this led to a displacement of Turkish workers within the informal economy and pushed them to be formally employed, with three native workers entering formal employment per 10 informally employed refugees. Notwithstanding the employment outcomes, public attitudes are a major concern. In a poll conducted in 2014, 56 percent of Turks said that *"Syrians take our jobs"*, with numbers reaching as high as 69 percent in provinces neighbouring Syria (Erdogan, 2014). Public sentiment is crucial for effective integration. In addition, employment in the informal economy puts refugees in

precarious positions, without proper legal protection or access to public services.

Speed and ease of access to the labour market is crucial for the integration of refugees. Under certain conditions, there is no waiting period in Canada, Greece, Sweden and Norway, while the waiting period can be as long as 12 months in the Czech Republic and the UK, nine months in France, Hungary, Luxembourg and Slovenia (OECD, 2015). Targeted labour market policies, language training and effective education and skill validation processes make integration more effective. For instance, Sweden developed an ‘introduction plan,’ through which the Public Employment Services provide language training, employment preparation and basic education on Swedish society. The plan comes with a financial benefit for six months after a participant has found a job; support is gradually phased out with continued employment (Aiyar *et al*, 2016). The Swedish Migration Reform of 2010 put in place another effective migration strategy, which is a short and partially subsidised internship, giving migrants a chance to prove their skills to an employer. Although, the internship does not guarantee employment, the certificate from the employer can be used to find other work. Bevelander and Irastorza (2014) conclude that among all immigrants to Sweden, refugees display the biggest gains in employment, from 16 percent to 64 percent over a 14-year period. Refugees also underwent a large shift from unskilled to skilled work. After 10 years, only one in five working refugees worked in unskilled employment. Providing initial labour market training, particularly language skills, is essential for long-term labour market performance. Beyer (2016) finds that immigrants in Germany without German language skills earn 30 percent less than the natives, while good language skills close the gap by 12 percentage points, and a degree in German by further 6 percentage points.

# 5 Integrating migrants

The integration of migrants is a crucial issue for social development and cohesion in host countries. Integration is a broad concept. It covers issues such as labour market participation, education, social, financial and political inclusion, mixed marriages and the degree of friendliness of natives toward migrants. A study by the Open Society Foundation (2014) found that when working class or unemployed communities rely on social housing and some other form of social transfer, the 'natives' tend to treat 'newcomers' as competition for scarce resources. However, the same study showed that more contact with migrants through schools, community activities and other forms of social engagement led to greater acceptance by natives. Therefore, it is crucial to study the degree of integration of newcomers as well as the socio-economic dynamics of host communities.

In this chapter, we assess the integration of migrants in terms of:

- Labour market: labour market activity, employment, unemployment, over-qualification, temporary employment, part-time employment, long-term unemployment;
- Education: educational attainment, early drop outs, low-achievers, language skills;
- Social inclusion: income, at-risk-of-poverty rates, housing rates;
- Active citizenship: Naturalisation rates, political activity, membership of political parties;

Financial inclusion, that is, access to various financial services, is a special topic that we study in chapter 6.



Whenever possible, we compare the various indicators for (a) the native-born population, (b) second-generation migrants, and (c) first-generation migrants. First-generation migrants are those who were born abroad and moved to their new home countries (either recently or long time ago), while second-generation migrants are those who were born in the host country from first-generation migrant parents. Effective integration would imply that first-generation migrants do not perform much worse than that the native-born, while second-generation migrants are expected to have similar levels of participation and achievement as the native-born population.

### **5.1 Labour market**

Employment is a crucial indicator of the degree of integration of migrants into a society. In 2014, Eurostat conducted a specific survey of immigrant working activity by comparing the native-born population to first and second-generation immigrants. Immigrants in this context include people from other EU countries and from non-EU countries, yet whenever possible, we differentiate in this section between these two groups. Based on this data, Figure 35 shows that in terms of labour force participation – that is, the sum of employment and unemployment – second-generation migrants are close to the native-born population and have higher rates than first-generation migrants only in the UK, Sweden and France, suggesting successful integration processes. By contrast, in Spain, Greece, Poland, Italy, Belgium and Germany, second-generation migrants have lower labour force participation rates than first-generation migrants, which is concerning. While some of the differences between first and second-generation migrants could be compositional (if for example first-generation migrants have on average a higher level of education and they immigrated primarily for work reasons, while the parents of most second-generation migrants were refugees with low educational attainments), the very low labour force participation rates of second-generation migrants in these six countries underlines a failure

of their integration processes. This dire finding highlights the major challenge of migrant integration, and calls for a better understanding of the more successful practices in the UK, Sweden and France.

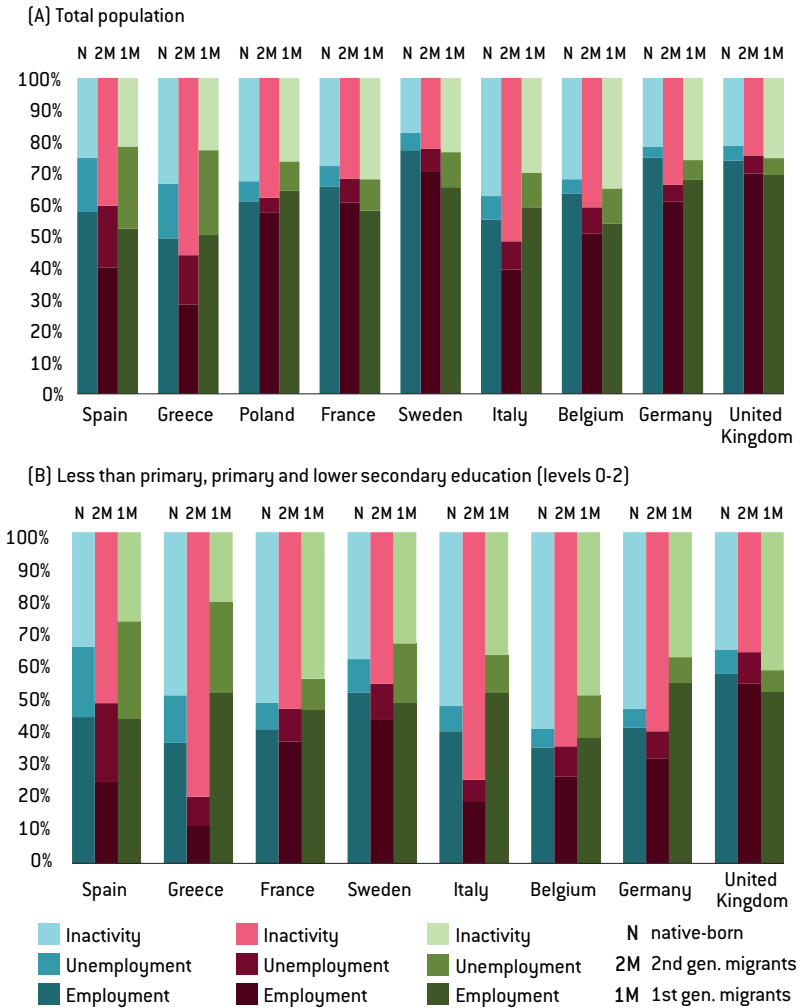
The good news for four of the six poorly performing countries (Spain, Greece, Italy and Poland) is that the labour market participation rate of first-generation migrants is higher than that of the natives, thereby helping to increase the average labour force participation rate in these countries.

Another notable observation is both first and second-generation migrants tend to face somewhat higher levels of unemployment than the native-born population in most countries, even in the UK, Sweden and France.

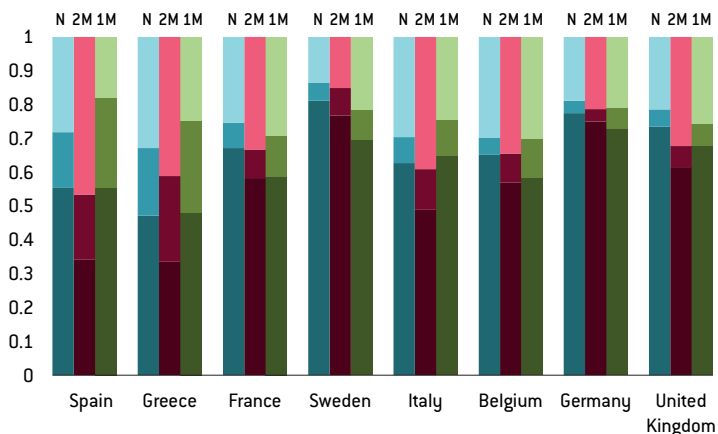
A further important observation is that that the labour force participation rate of better educated immigrants is higher than that of less educated immigrants (Panel D of Figure 35; unfortunately data is available for fewer countries). In Spain and Belgium, tertiary-educated second-generation migrants have higher labour force participation rates than tertiary-educated first-generation migrants. This finding clearly highlights the role of education in successful integration strategies.

On average in the EU, the unemployment rate of the non-EU born population was 16.2 percent in 2016, more than double the 7.8 percent rate for the native-born population, which shows that immigrants face challenges in becoming integrated in their new home countries (Figure 36). Moreover, the share of long-term unemployed in total unemployed is higher for non-EU born than for native born in two-thirds of the countries.

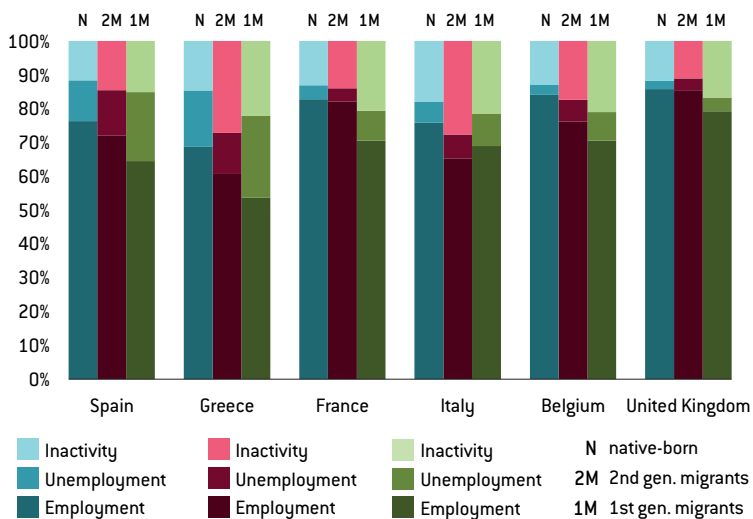
**Figure 35: Labour market activity by migrant status, selected countries, 2014**



(C) Upper secondary and post-secondary non-tertiary education (levels 3 and 4)

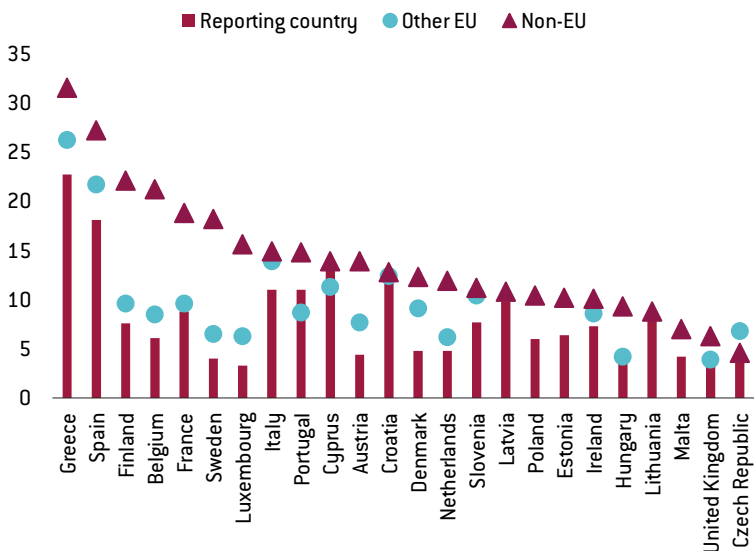


(D) Tertiary education (levels 5-8)



Source: Bruegel using Eurostat ‘Employment rate by sex, age, migration status, citizenship and educational attainment level [lfs0\_14lempri]’ and ‘Unemployment rate by sex, age, migration status, citizenship and educational attainment level [lfs0\_14luner]’ datasets. Note: we express all ratios as a share of total population. Therefore, the unemployment ratio indicated on the chart is different from the usual unemployment rate, which is the ratio of the number of unemployed to the labour force. We calculate all ratios as a share of total population because the sum of the ratio for employed and the ratio for unemployed indicates the labour force participation rate. That is, the top of the middle-shaded portion of the bar indicates labour force participation.

**Figure 36: Unemployment rate by place of birth for people between 20-65 years of age, 2016 (percent)**

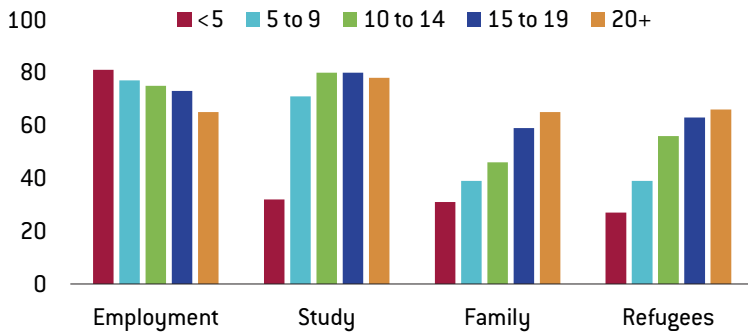


Source: Eurostat, 'Unemployment rates by sex, age and country of birth (%) [lfsa\_ur-gacob]' dataset. Note: the unemployment rate of the non-EU born population is not available for Bulgaria, Germany, Romania and Slovakia.

The integration into the labour force of immigrants who arrive as refugees or as family members might take decades. Dumont *et al* (2016) reports the employment rate of immigrants who arrived in the EU at different times, broken down according to the main reason for their immigration (work, study, family reunification, humanitarian) (Figure 37). Unfortunately, Figure 37 is not based on longitudinal data (following the same immigrants over time), but on data for immigrants with different durations of residence in the EU. Since immigrants arriving at different times might have different characteristics in terms of their qualifications, prior work experience or other factors and the integration policies of several EU countries have changed in the past decades, no firm conclusion can be drawn about how many years it takes for immigrants to reach the employment levels of natives.

Nevertheless, Figure 37 shows that more recently arrived refugees and family members have a rather low employment rate of about 30 percent, while the employment rate of refugees and family members who arrived 20 years ago or even earlier is about 65 percent. Recently arrived immigrants who came to study have a low employment rate (since many of them are still at school), while former students who arrived more than five years ago have rather high employment rates, reflecting the high share of tertiary-educated in that group.

**Figure 37: Employment rates of third-country immigrants by reason for immigration and years of residence in the EU, 15-64 years old, in 2014**



Source: Dumont *et al* (2016), Figure 14, based on the 2014 EU labour force survey.

Note: data is based on a one-time sample collected in 2014 and considers immigrants who arrived at different times. Data covers 25 EU countries and considers immigrants from non-EU countries.

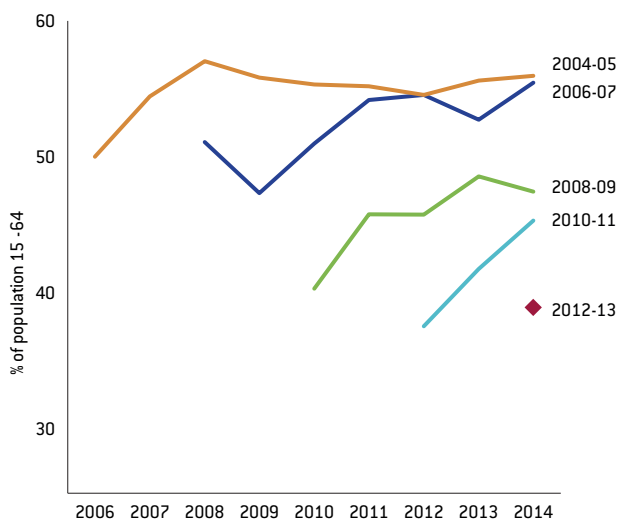
A solution for the data problems associated with Figure 37 would be to track the employment rates of immigrants who arrived in a particular year for a particular reason (work, study, family reunification, humanitarian). European Commission (2016f) includes data by the year of arrival, but not by the reason for arrival (Figure 38). This figure has two main messages:

- Employment rates of third-country immigrants in the EU tend to increase up to about 3-5 years following their arrival, after which

their employment rates remain broadly the same. This finding suggests that it takes time to integrate immigrants into the labour market, but those who are not integrated after about 5 years might face continuing diminished employment prospects.

- More recently arrived third-country immigrants have lower employment rates than immigrants who arrived earlier. For example, the employment rate of immigrants who arrived in 2010-11 was 38 percent in 2012, while for those who arrived in 2004-05 it was 50 percent in 2006 (in both cases we look at the employment rate at about 1-2 years after arrival). The lower employment rates of more recently arrived third-country immigrants might be a consequence of their different characteristics (for example, a larger share of refugees among more recent immigrants), and also of the different economic situation in the EU: the EU's unemployment rate in 2006 was much lower than in 2012-14.

**Figure 38: Employment rates of third-country immigrants in the EU by year of arrival in the host country and years of residence**



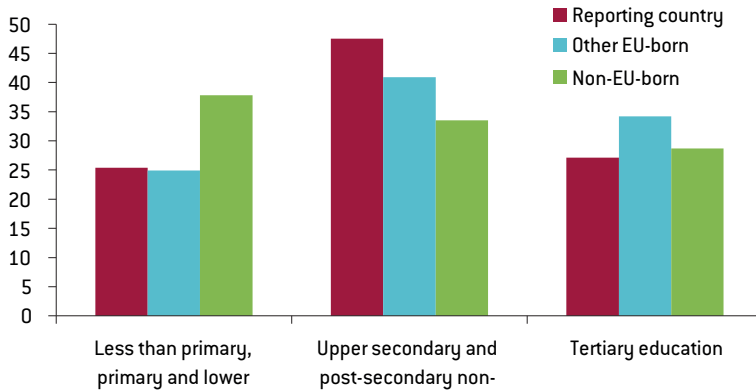
Source: European Commission (2016f), Chart 5 in Chapter II.2, page 168. Note: Germany is excluded.

It is unfortunate that European Commission (2016f) does not provide employment data according to both the year of arrival and the reason for immigration.

## 5.2 Education

Education is a very important channel through which migrants can integrate into the society of their new home-countries. As Figure 39 shows, the share of people with tertiary education is lowest for the native-born population, and thus immigrants help in achieving the Europe 2020 strategy's target of increasing the proportion of people with tertiary education.

**Figure 39: EU population (15-64) by educational attainment level and country of birth, 2016**



Source: Eurostat, 'Population by educational attainment level, sex, age and country of birth (%)', code: [edat\_lfs\_9912].

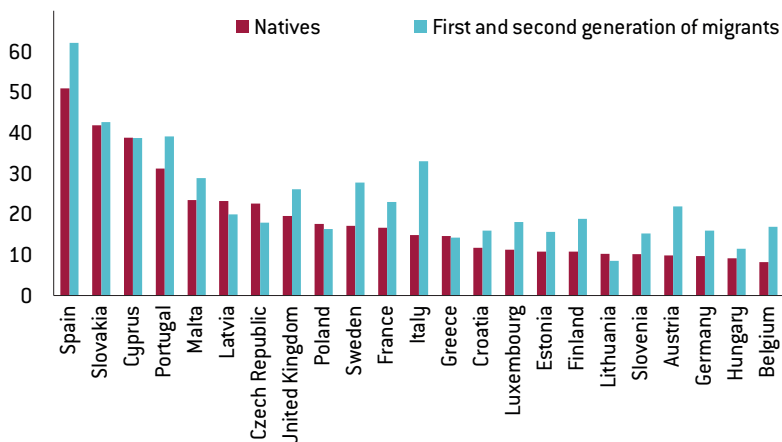
Figure 39 also shows that EU countries attract relatively higher proportions of non-EU-born immigrants with low educational levels. Their share (38 percent) is well above the shares of low-educated people among the native-born and other EU-born populations (25 percent). Nevertheless, as noted in chapter 4, Jaumotte *et al* (2016) underline that immigration



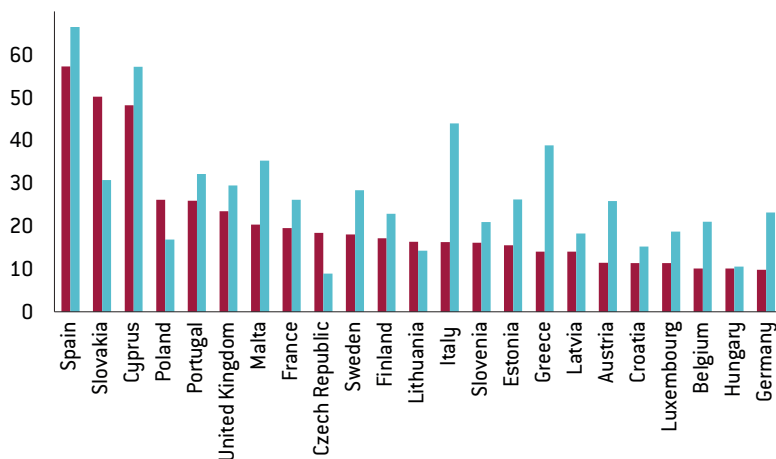
of both high and low-skilled workers, despite being politically controversial, brings benefits to destination countries by raising *per-capita* income through increased labour productivity and general living standards.

**Figure 40: Self-declared over-qualified employees as a share of total employees, 2014**

A) Upper secondary and post-secondary non-tertiary educated workers



B) Tertiary educated



Source: Eurostat 'Migration and labour market' dataset, code: [lfs0\_14loq]. Note: Rest of EU countries omitted due to missing data.

While the EU attracts a high proportion of skilled migrants, many migrants feel that they are over-qualified for their jobs – more so than native-born workers (Figure 40)<sup>17</sup>. The biggest gaps between migrants and natives in terms of perception of over-qualification are observed in Italy, Spain, Sweden and Austria, for both middle and high education levels, while there are very few countries in which native-born workers are more likely to feel over-qualified compared to immigrants.

It should be underlined that the perception of over-qualification is stronger within the group of people with tertiary education. This raises questions of the recognition of the qualifications of migrants in EU member states, and the efficient use of skills and qualifications within EU labour markets.

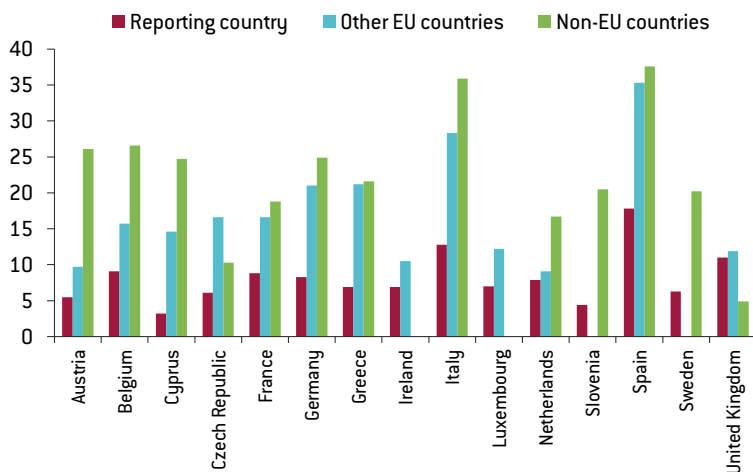
Information on early school leavers also sheds some light on the integration of migrants, helping to assess how early leaving can be reduced and which educational practices should be applied. The way the educational system is organised and the types of student-teacher relationships influence the number of early school leavers (Eivers, Ryan and Brinkley, 2000).

Spain and Italy have the highest shares of early school leavers among foreign citizens at about 35 percent (Figure 41). But this share is also relatively high at about 20-25 percent considering non-EU citizens in Austria, Belgium, Germany, France, Greece, Slovenia and Sweden. Of the EU countries shown in Figure 41<sup>18</sup>, only in the UK are non-EU nationals less likely than natives to leave the school system early, highlighting another aspect of successful integration of immigrants in the UK.

17 Unfortunately, this data is not available separately for first and second-generation migrants; the data covers first and second-generation migrants as a single category, and also does not separate migrants who arrived from another EU country from those who arrived from outside the EU.

18 Data on early school leaving by foreign citizens is not available for other EU countries.

**Figure 41: Share of 18-24 year olds who left education or training early, relative to the total population of the same age group by citizenship, 2015**



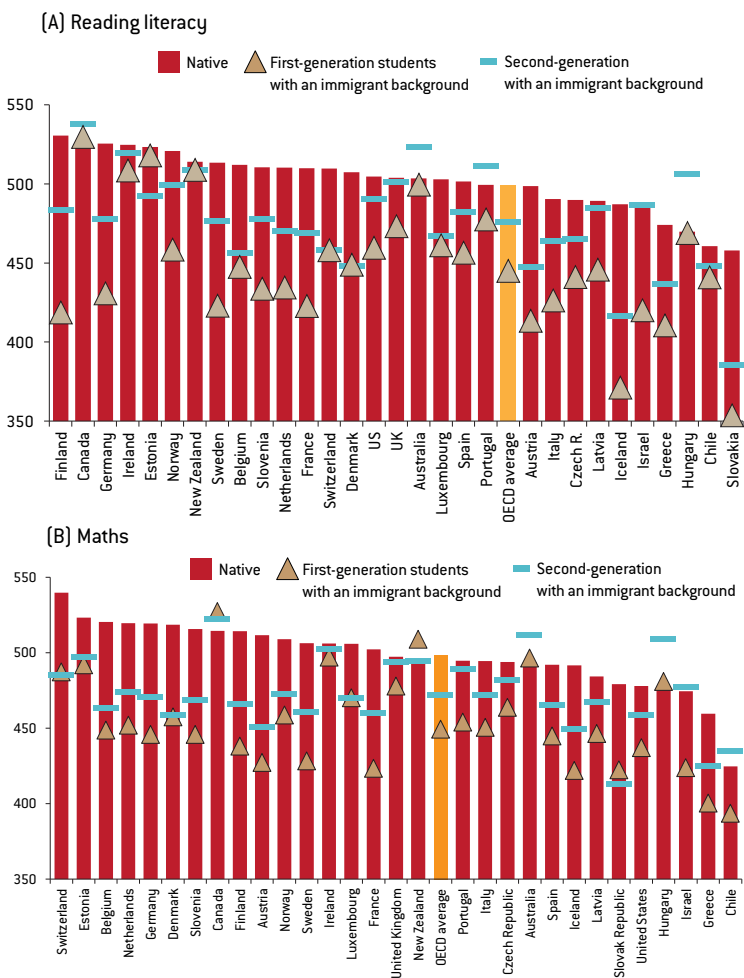
Source: Eurostat, 'Early leavers from education and training by sex and citizenship' database, code: [edat\_lfse\_01]. Note: Early leavers from education and training denotes the percentage of the population aged 18 to 24 having attained at most lower secondary education and who are not involved in further education or training. Data for non-EU citizens is missing for Ireland and Luxembourg, while data for other EU citizens is missing for Slovenia and Sweden.

Student performance in reading literacy by family origin is a crucial indicator for assessing the achievements of students with migrant backgrounds. Figure 42 shows that in most EU member states, second-generation migrant children perform better in reading literacy and mathematics than the first generation of students with an immigrant background, suggesting significant progress with their integration. However, second-generation migrants reach, or even exceed, the level of reading literacy among native-born students only in Ireland, the UK, Portugal, Latvia and Hungary<sup>19</sup>, while in other EU countries even second-generation migrant students perform worse than native-born students. This result again

19 The good results for youths with a migrant background in Hungary is likely explained by the immigration of Hungarian nationals from neighbouring countries with large Hungarian minorities, who are native Hungarian speakers.

highlights the difficulties in properly integrating immigrants so that at least second-generation migrants attain results similar to those of natives – with the key exceptions of the five countries listed. As for mathematics, second-generation migrants perform better than natives in Canada, Australia, Hungary, Israel and Chile.

**Figure 42: Student performance by family origin, 2015**

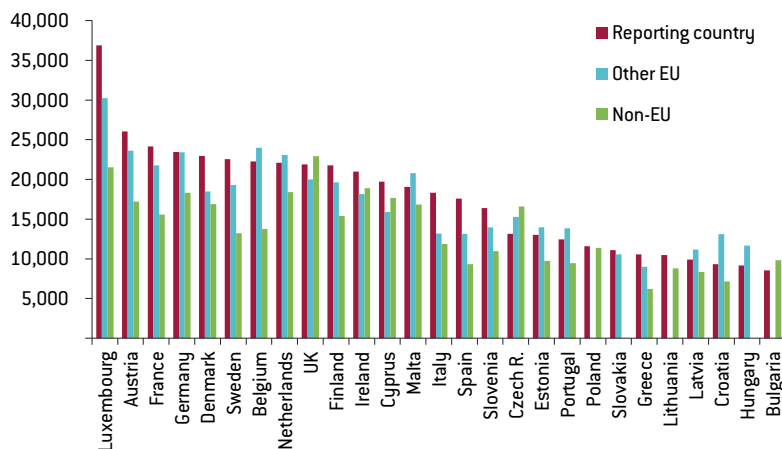


Source: OECD PISA 2015 Database.

### 5.3 Income and poverty

In most EU countries, native citizens have higher income than non-native EU citizens, who in turn have higher income than non-EU citizens. Unfortunately, data is not available on incomes broken down by education level, which is surely factor behind the low average income of non-EU citizens. As Figure 39 indicated, the share of low-educated people is much higher among the non-EU born citizens than among native-born or other-EU born citizens, and low-educated people tend to have lower incomes than better educated people. There are only two countries, the Czech Republic and the United Kingdom, in which non-EU citizens earn more than home citizens, which is likely explained by the low share of low-educated people among non-EU citizens living in these countries. While Figure 39 indicated that on average in EU countries, 38 percent on non-EU citizens have a low level of education, in the Czech Republic their share is only 14 percent, while in the UK it is 18 percent.

**Figure 43: Mean equivalised net income (in purchasing power standard) by citizenship, 2015**

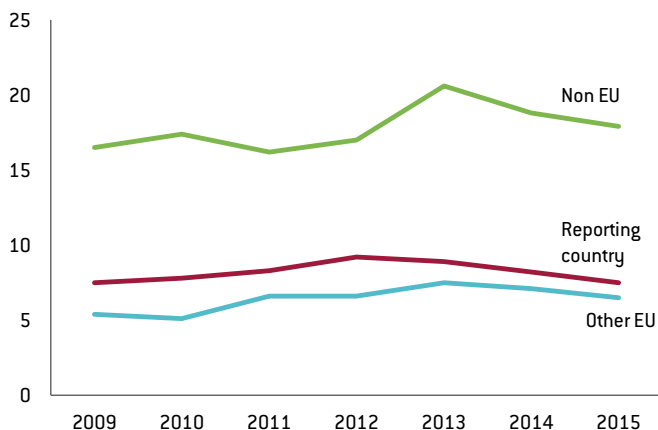


Source: Eurostat, 'Mean and median income by broad group of citizenship (population aged 18 and over)' dataset, code: [ilc\_di15]. Note: Romania omitted due to missing data.

The lower average income of non-EU citizens is also reflected in higher poverty rates. As argued by Darvas (2017a), the so-called ‘severe material deprivation rate’ is the most suitable available poverty indicator in the EU. This indicator measures the share of people unable to afford at least four of nine items<sup>20</sup>. Figure 44 shows that non-EU citizens face a much higher severe material deprivation rate than home-country citizens or other EU citizens.

But there are some exceptions, similarly to average incomes. For example, in the Czech Republic the severe material deprivation rate for non-EU citizens was 7.5 percent in 2015 and in the UK it was 8.2 percent, in contrast to the EU average of 17.9 percent (Figure 44). This is again in line with the different educational composition of non-EU citizens in the Czech Republic and the UK, compared to other EU countries.

**Figure 44: Poverty: Severe material deprivation rate by citizenship in the EU, 2009-2015**

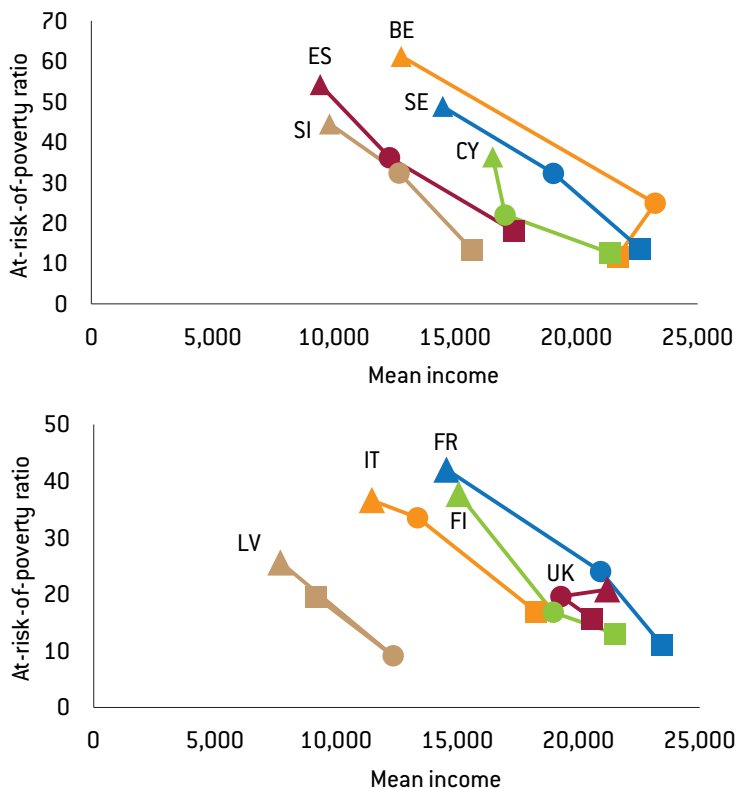


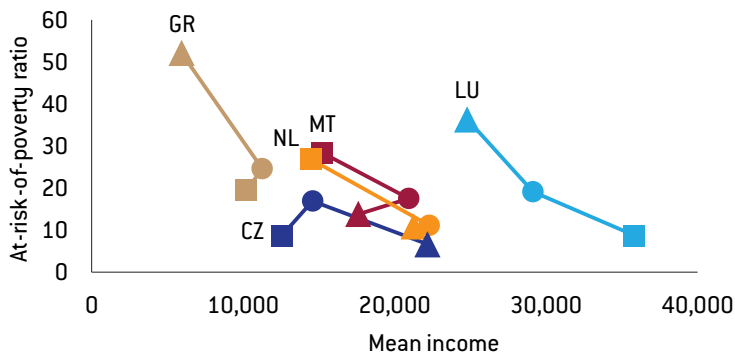
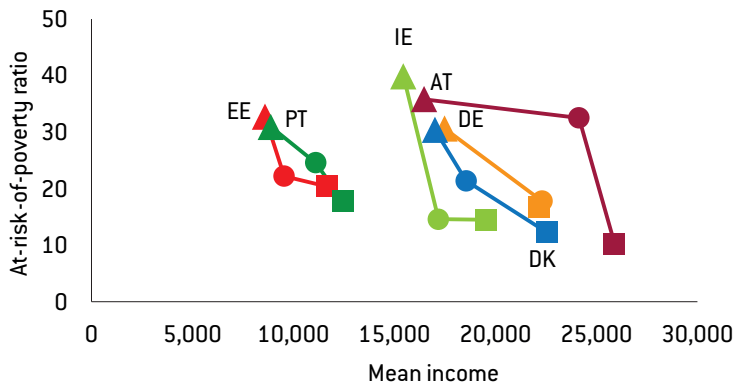
Source: Eurostat ‘Severe material deprivation rate by broad group of citizenship (population aged 18 and over) [ilc\_mddd15]’ dataset.

20 Rent, mortgage or utility bills; adequate home heating; a reserve against unexpected expenses; regular meat or proteins; a holiday; a television set; a washing machine; a car; and a telephone.

There is another indicator that is frequently associated with ‘poverty’: the so-called ‘at risk of poverty’ rate, which shows the share of people with a disposable income below 60 percent of the national median equivalised disposable income. However, as argued by Darvas (2017a), this indicator essentially measures income inequality, not poverty.

**Figure 45: Relationship between mean equivalised net income (purchasing power standard) and the at risk of poverty rate, 2014**





Source: Bruegel based on Eurostat's 'At-risk-of-poverty rate by broad group of citizenship (population aged 18 and over) [ilc\_li31]' and 'Mean and median income by broad group of citizenship (population aged 18 and over) [ilc\_di15]' datasets. Note: The three markers in each case represent three groups of people according to citizenship: reporting country (square), other EU (circle) and non-EU (triangle). For most countries, non-EU citizens have the lowest income and the highest at risk of poverty rate, while home country citizens have the highest income and the lowest at risk of poverty rate. Romania, Poland, Bulgaria, Hungary and Croatia are omitted because of missing data.

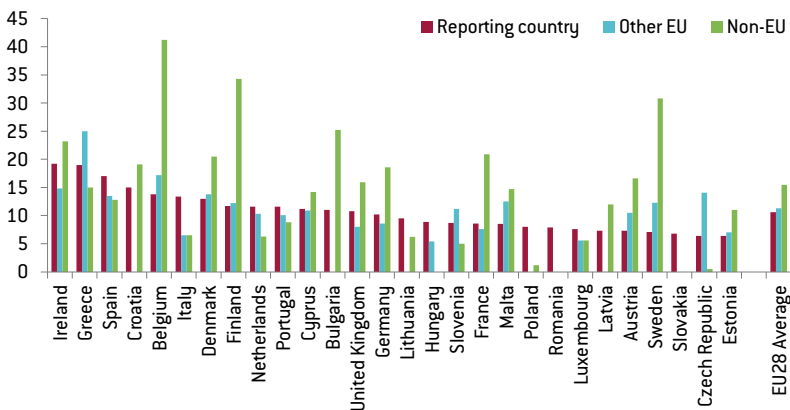
The theoretical arguments and the cross-country empirical evidence in Darvas (2017a) can be augmented by within-country data for the three main groups of citizens: home, other-EU and non-EU (Figure 45). There is a very strong negative correlation between the at-risk-of-poverty rate and mean equalised net income for these three groups



in most countries. The at risk of poverty rate is lowest, and mean equalised income is highest, for native citizens. Other-EU citizens on average experience higher at-risk-of-poverty rates and lower income, and non-EU citizens have the highest at risk of poverty rates and the lowest mean income.

Income and poverty are strongly linked to work intensity, because labour income is the main source of income for most people, especially immigrants. Non-EU citizens aged 19-59 are more likely than other groups to live in households with very low work intensity (Figure 46). This share is alarmingly high in Belgium (44.2 percent), the Netherlands (31.9 percent) and Finland (31.2 percent), suggesting ineffective integration, while the share is quite low in Malta (6.8 percent), Poland (4.6 percent) and Luxembourg (7.9 percent).

**Figure 46: Share of people living in households with very low work intensity aged 18-59 by citizenship in the EU countries, 2015**

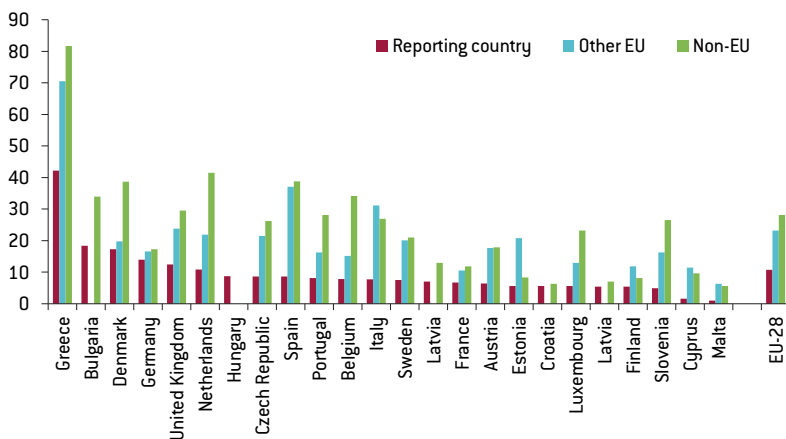


Source: Eurostat 'People living in households with very low work intensity by broad group of citizenship (population aged 18 to 59 years)' dataset, code: [ilc\_vhl15]. Note: The work intensity of a household is the ratio of the total number of months that all working-age household members have worked during the income reference year and the total number of months the same household members theoretically could have worked in the same period.

Work intensity is highest among the other-EU citizens group, that is, EU citizens moving to another EU country. This finding is consistent with the EU mobility rules, with movements of people to other EU countries strongly linked to work.

Housing has a crucial role in the well-being of individuals and excessive housing costs can contribute to poverty. The share of people spending more than 40 percent of their disposable income on housing is higher for non-EU citizens than other groups in most countries (Figure 47). The rate for non-EU citizens is especially high in Greece, Spain, Belgium and Ireland. Not surprisingly, this rate is lowest for home-country citizens in most countries.

**Figure 47: Housing cost overburden by citizenship, EU countries, 2016**

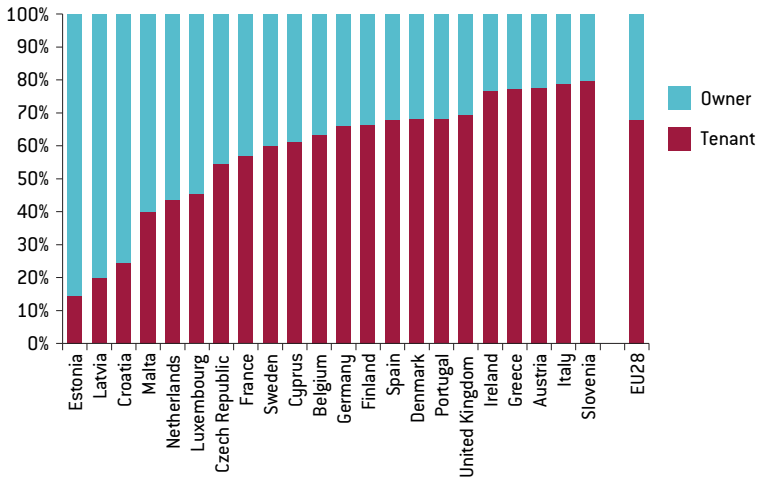


Source: Eurostat. 'Housing cost overburden rate by age, sex and broad group of citizenship (total population aged 18 and over)' dataset, code [ilc\_lvho25]. Note: the housing cost overburden rate is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40 percent of disposable income.

Tenure status in light of housing overburden costs, serves as an important indicator of individual well-being. Clearly, foreign citizens

are more likely than natives to be tenants (Figure 48), which is in line with the housing cost overburden rate observed for non-EU citizens (Figure 47). It is important, however, to take into account other country-specific features when examining the tenure status of foreign citizens, which varies significantly in different EU countries.

**Figure 48: Tenure status of foreign citizens aged 20-64 as a percentage of total population, 2015**



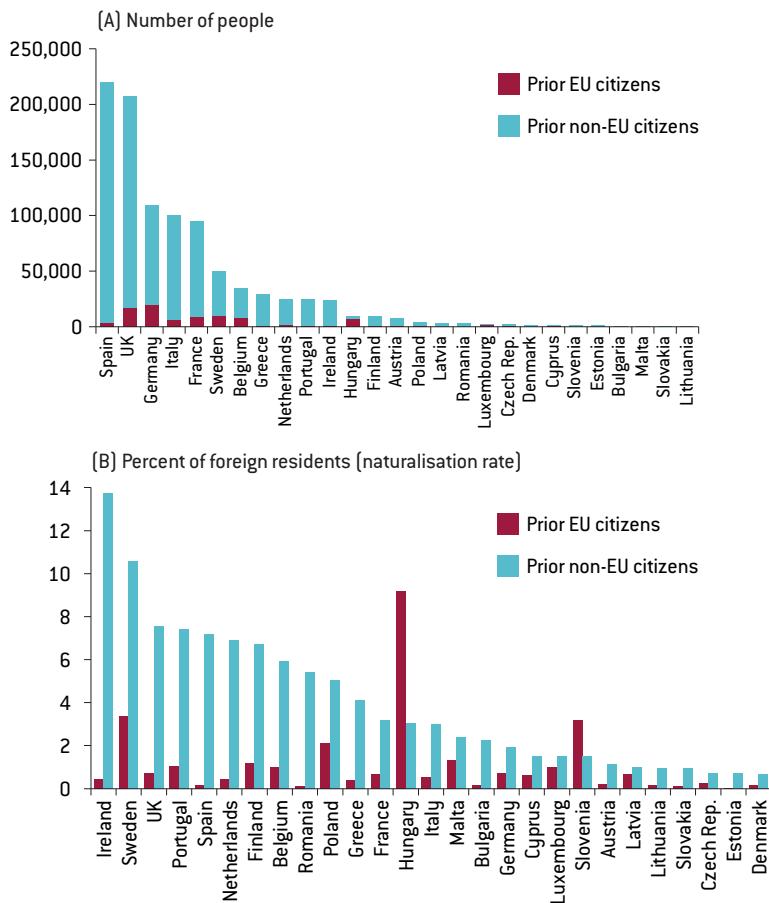
Source: Eurostat, 'Income and living conditions' dataset, code: [ilc\_lvps15].

## 5.4 Active citizenship

Even though the acquisition of citizenship of the host country is in itself neither necessary nor sufficient for successful integration, it can provide an important push for better integration. Among EU countries, Spain and the UK grant citizenship to – by far – the largest numbers of non-EU citizens, while Germany and the UK grant citizenship to the largest number of other-EU citizens (Figure 49). The five EU countries with the largest economies granted roughly 75 percent of all EU country citizenships granted in 2013. This is not surprising given the size of these countries, but seeking the citizenship of these countries might also have

been incentivised because the passports of these countries allow visa-free access to more than 150 countries (Passport Index, 2017).

**Figure 49: Acquisition of citizenship by EU and non-EU residents in the EU, 2013**



Source: Eurostat 'Acquisition and loss of citizenship' dataset, code: [migr\_acqn]. Note: the naturalisation rate is defined by Eurostat as the ratio between the number of persons who acquired the citizenship of a country during a calendar year and the stock of foreign residents in the same country at the beginning of the year.

The rate of the acquisition of citizenship might also reflect national legislation and whether or not the process is simple. For example, Hungary introduced a special programme enabling Hungarian minorities living in other EU countries (mostly Romania and Slovakia) to obtain Hungarian citizenship, which was likely a factor leading to the highest naturalisation rate for other-EU citizens (panel B of Figure 49). For non-EU citizens, Sweden and Ireland have high naturalisation rates compared to the larger economies of Germany, Italy and France (Figure 49, panel A), though in terms of absolute numbers, Germany, Italy and France grant more citizenships to non-EU citizens.

There are different ways to obtain citizenship. In many countries the criteria are based on minimum duration of prior legal stay in the country, work history and lack of a criminal record.

However, there has been a notable increase in the number of countries offering residency and citizenship programmes that involve financial investment on the part of prospective citizens. Countries operating these programmes typically issue temporary residency cards, which, after qualifying periods, can be converted into permanent residency and even citizenship.

About half of the EU countries now offer such invest in citizenship programmes (Sumption and Hooper, 2014). Some countries such as the Netherlands, the US and Singapore, only allow the option of obtaining their passports as a second passport in cases of investment in the private sector, while in other countries, such as Malta, applicants can give money directly to local governments in the form of non-refundable fees or low interest loans (Sumption and Hooper, 2014). A temporary or permanent residency card allows foreigners to stay and work in certain countries or even get tax benefits, while a passport also allows travel visa-free to other countries.

Among European countries, Hungary and Greece ask for the smallest investments. Spain, Portugal and Bulgaria also have much lower thresholds than Cyprus and France (Table 7). Countries differ substantially in terms of the residency requirements and citizenship

qualifying periods. Cyprus provides citizenship to investor programme participants immediately, with no requirement in terms of the number of days an investor and his or her family members should spend in the country, meaning that no specific residency requirements are applied. This might justify the relatively high minimum investment threshold.

**Table 7: Minimum investment requirements for residency or citizenship, selected countries**

Country	Minimum investment amount	Residency requirements	Citizenship qualifying period
Bulgaria	€511,292	None	5 years
Cyprus	€2 million	None	Immediate
France	€10 million	N.A.	5 years
Greece	€250,000	None	7 years
Hungary	€250,000	None	10 years
Portugal	€500,000	7 days a year	6 years
Spain	€500,000	None	10 years
UK	£1 million	185 days a year	6 years
US	\$ 500,000 (targeted), US \$ 1 million (elsewhere)	180 days a year	7 years

Source: Arton Capital (<https://www.artoncapital.com/>); Xu, El-Ashram and Gold (2015); Henley and Partners Holdings (<https://www.henleyglobal.com/>) and Passport Index (2017).

Demand for investment in citizenship programmes varies from country to country and depends on a wide range of economic, political and social factors. In the US, for example, the US Citizenship and Immigration Service allows entrepreneurs and their families (with children being under 21) to qualify for a permanent residency (green card), once the necessary investment has been made and 10 permanent jobs have been created for US workers<sup>21</sup>. Table 8 compares numbers of US Immigrant Investor visas with the numbers of residence

21 See <https://www.uscis.gov/eb-5>.

permits issued in the UK and Portugal, and provides some information on the number of application quotas in Hungary (for Hungary, there is a lack of precise information on how many investors actually made use of the investment immigration programme).

**Table 8: Applications to invest in citizenship programmes in selected countries, 2013-15**

Country (type of permit obtained)	Number of permits			Percent of population
	2013	2014	2015	2015
Hungary (application quotas)	1000	2000	1700	0.017%
Portugal (residence permits)	494	1526	766	0.007%
UK (residence permits)	1603	2995	708	0.001%
US (Immigrant Investor visas)	7312	9128	8773	0.003%

Sources: Bruegel based on Portuguese Immigration Service (SEF), UK government Tier 1 (investor route), Hungarian Ministry of Foreign Affairs and U.S. Department of State, Bureau of Consular Affairs, 'Table II Fiscal Years 2012-2016 Classes of Immigrants Issued Visas at Foreign Service Posts', <https://travel.state.gov/content/dam/visas/Statistics/AnnualReports/FY2016AnnualReport/FY16AnnualReport-TableII.pdf>.

Active citizenship also refers to how people get involved in the local communities they live in and, as a consequence, their involvement at national level. The term refers to civic and political participation and is concerned with the equal rights and responsibilities of migrants, serving as an indicator of a migrant's level of integration.

A substantial number of studies on this topic distinguish between the experiences of young and adult migrants (Kroger, 2007; Mansouri and Kirpitchenko, 2016), as young people represent a considerable proportion of migrants to the European Union (Bhose, Lepola and Yared, 2015). Young migrants (under 25 years old) are more exposed to uncertainty in terms of establishment of new ties and social networks and are expected to be more influenced by societal structures. Therefore, many European programmes focus on young migrants in

particular, for example the Active Citizenship: Enhancing Political Participation of Migrant Youth (ACCESS) project, funded by European Commission. The main motivation for the project was to promote the political involvement of young citizens, based on young immigrants who are politically involved at local level being more likely to have a sense of European citizenship (Bhose, Lepola and Yared, 2015). In this sense, projects such as ACCESS encourage the active political involvement of young migrants, providing a possibility to influence policymaking.

Matiniello (2005) distinguishes two forms of political involvement: conventional and unconventional. The latter includes participation in protest, strikes and demonstrations, the power of which is hugely dependent on collective action, while the former refers to running for election or voting. Unfortunately, comprehensive data is not available on the political involvement of immigrants.

## 5.5 Migration integration index

Huddleston *et al* (2015) developed a comprehensive indicator, the Migrant Integration Policy Index (MIPEX), to measure and compare government policies to promote the integration of immigrants. The index is made up of 167 indicators to create a multi-dimensional picture of immigrants' opportunities to participate in society. It is important to note that the index measures policies, not outcomes.

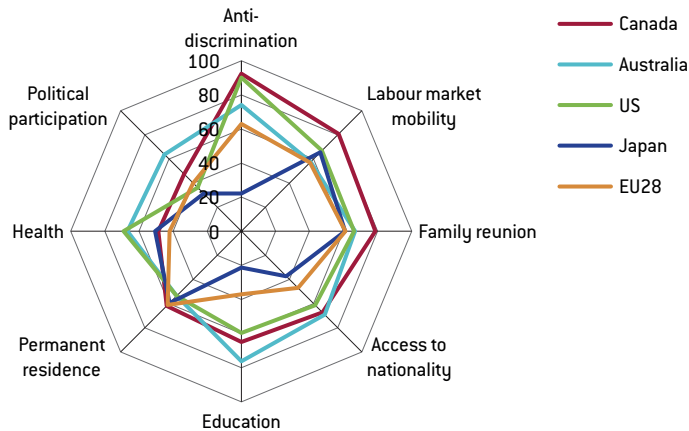
Based on Huddleston *et al* (2015), Figure 50 compares major economies' migrant integration scores in terms of health, permanent residence, education, access to nationality, family reunion, labour market mobility, anti-discrimination measures and political participation (MIPEX index). The labour market mobility score is intended to indicate whether migrants enjoy equal rights and free access to jobs. Huddleston *et al* (2015) emphasise the importance of this indicator, pointing out that most countries continue to invest in labour mobility reform. The family reunion, access to nationality and permanent residence indicators deal with the criteria that need to be met for migrants



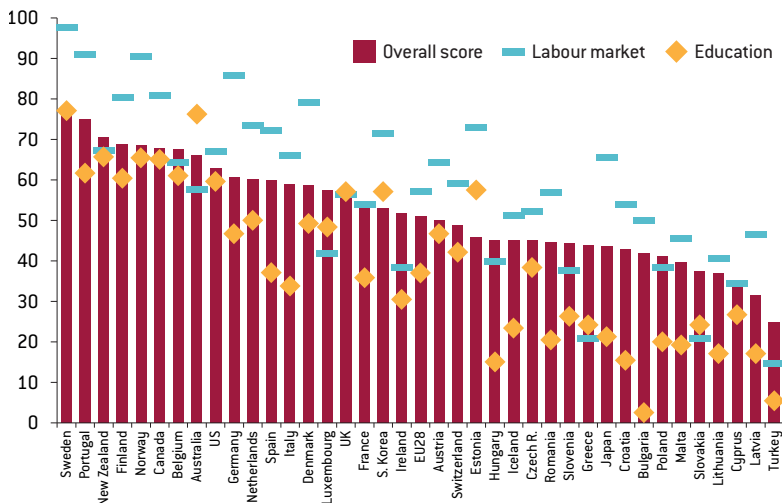
to reunite with their families, obtain nationality or become a permanent resident of the host country. The education indicator covers access to education and whether the needs of migrants are addressed. The health score is an indicator of healthcare coverage and easiness of administrative procedures, among other factors. The political participation score captures indicators such as the rights of migrants to take part in elections and the political freedoms available to them. Lastly, the anti-discrimination score gives information on how well protected immigrants are against racial or religious discrimination.

Overall, the EU scores rather poorly compared to Canada, Australia and the United States, especially in education (Figure 50). Canada leads on the anti-discrimination, labour market mobility, family reunion and permanent residence indicators. The EU scores relatively high only on permanent residence, which reflects the development of initiatives such as invest in citizenship programmes in most EU member states. However, Figure 50 also shows that major improvements are needed in the EU in all other policy areas, in line with the findings of Huddleston *et al* (2015).

**Figure 50: Migrant integration policy scores, global comparison, 2015**



Source: Huddleston *et al* (2015), Migrant Integration Policy Index.

**Figure 51: Migrant integration policy scores by country, 2015**

Source: Huddleston *et al* (2015).

Figure 51 shows migrant integration scores for countries. The leaders in Europe on the basis of their overall scores are Sweden, Portugal and Finland. Sweden's labour market indicator score is the world's highest and Sweden is second ranked worldwide after Australia for the education indicator. Figure 51 suggests great diversity within the EU, with central and eastern European countries ranking relatively poorly.

We note however that the Migrant Integration Policy Index, which primarily measures policies, sometimes contradicts the output-based indicators we considered earlier in this chapter. For example, Belgium ranks fairly high on the Migrant Integration Policy Index (fourth among EU countries), while Belgian immigrant results in terms of their labour force participation, staying on in education and other educational scores were very weak. The overall Belgian Migrant Integration Policy Index score is pushed up by good scores in the permanent residence, access to nationality and anti-discrimination categories, but

Belgium scores quite low on its health and education policies<sup>22</sup>.

The integration of migrants and refugees is affected by societal attitudes and cultural identity in host countries, with favourable attitudes being shown towards to others that share cultural characteristics. The implications of this cultural affinity bias (Espenshade and Hempstead, 1996) range from the decisions to grant citizenship to immigrants (Aalberg *et al*, 2011) to the integration of second and third-generation migrants in society (Thomson and Crul, 2017). While one would expect that socio-economic differences between migrants and non-migrants would disappear over generations, second-generation migrants still experience forms of racism (Hirsch, 2017) and have lower expectations of finding a job compared to non-migrants, which cannot be explained by their socio-economic status (Verhaeghe *et al*, 2016). Institutional differences, in educational systems for example, help explain differences in integration of second-generation immigrants in different European countries (Cruel and Vermeulen, 2003).

Success in integrating migrants is, to some extent, related to countries' historical experiences with migration and/or previous colonial links. While countries such as France, Germany, the Netherlands, Sweden and the UK have long histories of immigration and experience with social integration, Greece, Italy and Spain only became destination countries during the late 1990s and have only comparatively recently implemented integration policies. A national identity strongly

22 On education, Huddleston *et al* (2015) comment that current general and targeted education policies are not enough to guarantee equal opportunities for immigrant pupils, who are concentrated in socially disadvantaged schools. The Belgian school systems (both in the Flemish and Walloon communities) have been very slowly adapting to the learning needs of their many immigrant pupils. Huddleston *et al* (2015) also point out that vast majority of immigrant pupils with low-educated mothers are concentrated in disadvantaged schools, much more than non-immigrants with low-educated mothers. In Belgium, foreign-born pupils with low-educated mothers are twice as likely to be maths low-achievers (51 percent) than non-immigrants with low-educated mothers (25 percent). This gap is cut in half from one generation to the next (38 percent for second-generation immigrants with low-educated mothers), but is still very large.

linked to religion also affects the degree of tolerance and integration in Greece, Italy and Spain (King and Lulle, 2016; Triandafyllidou, 2012). Nonetheless, France is often described as an assimilationist country, whereas Germany and the United Kingdom take what is called a multicultural approach. Whether integration policies are multiculturalist or assimilationist can be described by the national conceptions of identity (Medrano and Koenig, 2005; Choquet, 2017).

Dumont *et al* (2016) presents several proposals for better integrating migrants. Recommendations include providing swift activation and integration services to migrants that are likely to receive approval for their stay, facilitating labour market access and promoting equal access to integration services. The report points out that the needs of refugees are significantly diverse, requiring diversity and flexibility of responses.

# 6 Financial inclusion of refugees

Financial inclusion is a crucial aspect of integration. In a financially advanced area like the European Union, it is essential to be able to receive transfers from the government or an employer, pay invoices electronically, keep savings safe or use a card for various transactions. Financial inclusion of labour migrants and foreign students is relatively straightforward because of their granted residency rights and because they possess proper identification documents. However, the financial inclusion of asylum seekers and refugees poses major challenges until they reach a sufficient level of settlement, such as having a job and a relatively long-duration residency permit.

According to Hansen (2016), refugees have very different financial needs depending on the displacement-to-integration process, which is divided into four phases:

1. **Arrival:** survival cash for immediate food and housing needs;
2. **Initial displacement:** savings, remittances and paying for immediate service needs such as school fees or furniture;
3. **Stable/protracted displacement:** broader options for savings beyond bank deposits, micro-consumer credit, small business loans, health insurance;
4. **Permanent settlement:** financial services needs start to resemble those of the host population, such as access to credit, pension schemes, business loans, remittance and payment accounts, etc.

Refugees, especially in developed countries, face hurdles because many administrative procedures require a bank account in order to pay for various social services, rent accommodation and/or access educational services. Setting up a bank account is one of the first steps towards integration. However, a large majority of newly-arrived refugees do not have a valid identity document, which makes it extremely hard for the private sector to serve refugees according to a set procedure. A key concern from the perspective of financial institutions is money laundering.

The literature suggests that once migrants reach phases 3 and 4 in the integration process, their financial inclusion or not does not depend on cultural factors (eg distrust of banks), but rather on family income, language barriers and limited access to information (Hirschler, 2009). A key aspect in the financial inclusion of migrants is the sending and receiving of remittances. Fast and reliable electronic remittances offer the best opportunities in this regard.

### **6.1 Barriers and initiatives**

There are contradictory forces at work in relation to financial regulation and financial inclusion. The continuing tightening of financial regulation and oversight of the financial sector (which is important in the fight against money-laundering and terrorist financing) works against the economic integration of refugees.

#### *'Know your customer' regulations as a barrier to financial inclusion*

Financial regulations, which specify the due diligence processes financial institutions must carry out before they provide financial services to customers, are generally called 'know your customer' (KYC) regulations. Such regulations are adopted worldwide, often to serve anti-money-laundering goals. In the EU, the 2015 Anti-Money-Laundering/Combating the Financing of Terrorism (AML/CFT) Directive ((EU) 2015/849) provides a framework for the prevention of the use of the financial system for the purposes of money laundering

or terrorist financing. The directive instructs member states to coordinate and harmonise their AML laws. Each member state is required to take “*appropriate*” steps to identify, assess, understand and mitigate the risks of money laundering.

The possibility that AML/CFT requirements might hinder access to financial inclusion has been under discussion for several years. For instance, a 2008 World Bank report (Bester *et al*, 2008) states that “*the pursuit of financial inclusion and the pursuit of an effective AML/CFT regime are complementary and not conflicting financial sector policy objectives*”. Moreover, Bester *et al* (2008) point out that “*without a sufficient measure of financial inclusion, a country’s AML/CFT system will thus safeguard the integrity of only a part of its financial system – the formally registered part – leaving the informal and unregistered components vulnerable to abuse. Measures that ensure that more clients use formal financial services therefore increase the reach and effectiveness of the AML/CFT controls*”. A 2009 report by the Consultative Group to Assist the Poor (CGAP, Isern and De Koker, 2009) states that “*AML/CFT measures can negatively affect access to, and use of, financial services. If those measures are not carefully revised the inappropriate implementation of these standards—especially in emerging markets—plays a role in excluding millions of low-income people from formal financial services*”.

There is potentially a set of direct and indirect, formal and informal barriers to financial inclusion. As Hansen (2015) points out, “*even with a UNHCR refugee registration card, local officials and employers might not recognise the paperwork as valid or sufficient for access to formal employment or social benefits*.”

In order to overcome the current barriers to financial inclusion faced by refugees and other migrants, Lewis *et al* (2017) points to three actions: to adapt the delivery of financial services to the needs of specific groups through, for example, staff who speak their languages; to advance financial inclusion among young refugees and migrants; and to encourage digital ID schemes (Lewis *et al*, 2017). Hansen (2015)

elaborates a six-step strategy for financial service providers: conduct a scoping study, create a strategic plan, make contract, segment potential clients, adjust eligibility and appraisal criteria, and conduct a pilot test.

Additionally, there is evidence of some countries adopting systems with flexible account opening requirements and applying what can be called ‘tiered’ know your customer practices. Mexico, for instance, approved a four-tiered scheme for opening deposit accounts in August 2011, under which low-value and low-risk accounts benefit from eased standards. An assessment made two years later concluded that as a result of the measure, 9.1 million accounts were opened, 50 percent of which came under the lowest tier of regulation<sup>23</sup>. In 2013, a three-tiered KYC system was implemented in Nigeria. In this case too, the restrictions implemented increase with the amounts transacted or deposited. The Central Bank of Nigeria expressed its aim of deepening financial inclusion when the tiered system was introduced<sup>24</sup>.

#### *European initiatives to foster financial inclusion*

A number of European initiatives have been taken to counteract problems related to the financial inclusion of refugees. In 2015, the European Parliament’s Employment and Social Affairs Committee recommended that financial services providers supported by the European Progress Microfinance Facility should “*view refugees and asylum seekers as a target group.*” In 2014, the EU published a law requiring banks to offer basic accounts to all legally resident customers, including asylum seekers and refugees. The law included in its scope “*people seeking asylum under the Geneva Convention of 28*

23 For a review of the Mexican case see a blogpost by the Consultative Group for Assisting the Poor (CGAP) at <http://www.cgap.org/blog/bold-move-toward-simplifying-amlcft-lessons-mexico>.

24 See <https://www.cbn.gov.ng/out/2013/ccd/3%20tiered%20kyc%20requirements.pdf>.



*July 1951 Relating to the Status of Refugees, the Protocol thereto of 31 January 1967 and other relevant international treaties*<sup>25</sup>.

Similarly, there have been initiatives by EU member states to foster the financial inclusion of refugees.

Germany, for example, reduced KYC requirements to allow financial services providers to serve new migrants and refugees. In 2015, the BaFin (the German federal financial supervisor) adopted transitional provisions to allow refugees to open basic accounts even if they were unable to comply with standard German KYC requirements. Refugees can instead use a document certified by the German immigration authority containing personal details (name, place and date of birth, nationality and address, photograph), as documentation to open such an account.

Subsequently, on 5 July 2016, Germany adopted a regulation<sup>26</sup> to determine the documents to verify identity for the purposes of creating a payments account in accordance with the German anti-money laundering law and the EU directive. According to German federal law, an asylum seeker who is not in possession of documents specified in the European Anti-Money Laundering Directive can present a *proof of arrival* in accordance with § 63a of the Asylum Act, which says that “*a foreigner who has applied for asylum and who has been treated according to the provisions of the Asylum Act or the Residence Act but who has not yet applied for asylum shall immediately be issued with an asylum seeker certificate (proof of arrival)*” (our unofficial translation from German). This section of the Asylum Act further specifies the information included in this document: a list of 21 items of personal

25 Directive 2015/92/EU, paragraph 35.

26 Annex I mentions the following “non-exhaustive list of risk variables that obliged entities shall consider when determining to what extent to apply due diligence measures”: (i) the purpose of an account or relationship; (ii) the level of assets to be deposited by a customer or the size of transactions undertaken; (iii) the regularity or duration of the business relationship.

information<sup>27</sup>. Each document has a unique barcode pertaining to an individual.

The Belgian Financial Sector Federation (FEBELFIN) has also set up basic banking services for asylum seekers and refugees<sup>28</sup>. By law, each Belgian credit institution is obliged to offer these services to any consumer, though access is still conditional on verification of identity. The required data provided by means of written evidence are family name, first name, place and date of birth. Address requirements are less stringent for “officially recognised refugees,” who may indicate a temporary residence. To check the identities of asylum seekers or refugees, banks verify identity certificates provided by the Belgian authorities. Other documents are also accepted, such as proof of application for asylum.

Digital identity, based on information publicly available on the internet, can be a way of supporting financial inclusion of the unbanked. There have been some applications designing alternative ways of identifying possible clients through collection of digital data from various platforms, such as social media. For such approaches to have a real impact on financial inclusion, this type of identification would have to be recognised in financial regulation. However, at the time of writing, digital identity solutions are in a development phase and it is difficult to foresee their future potential.

#### *Assessing the KYC regulations – the PwC report*

In January 2016, PricewaterhouseCoopers (PwC) published a comprehensive survey of existing KYC regulations across the world. From that report, we extracted information on EU countries’ high-level requirements for verification of customer identification information (question

27 [https://www.gesetze-im-internet.de/englisch\\_asylvfg/englisch\\_asylvfg.html#p0538](https://www.gesetze-im-internet.de/englisch_asylvfg/englisch_asylvfg.html#p0538), accessed 12 December 2017.

28 Basic banking services include paying/withdrawing cash money into/from a payment account, and making deposits/transfers/withdrawals, including direct debit, and payments by means of an instrument such a payment card.

9 of the survey). Name and place of birth are common requirements to every member state. However, there are differences in terms of the documents that may be accepted as evidence (Table 9).

**Table 9: National KYC regulations: customer identification requirements in the EU**

**A) Information required**

	Full name	Date and place of birth	Nationality/citizenship	Address	Signature	Social security number	Profession
AT	Green	Green	Green	Green	Green	Red	Red
BE	Green	Green	Red	Green	Red	Red	Red
HR	Green	Green	Red	Green	Red	Green	Red
CY	Green	Green	Red	Green	Green	Red	Green
CZ	Green	Green	Green	Green	Red	Red	Red
DK	Green	Green	Red	Green	Red	Green	Red
EE	Green	Green	Green	Red	Red	Red	Red
FI	Green	Green	Red	Red	Red	Red	Red
FR	Green	Green	Red	Green	Red	Red	Green
DE	Green	Green	Green	Red	Red	Red	Red
EL	Green	Green	Red	Green	Red	Green	Green
HU	Green	Green	Green	Green	Red	Red	Red
IE	Green	Green	Red	Green	Red	Red	Red
IT	Green	Green	Red	Green	Green	Red	Red
LV	Green	Green	Red	Red	Red	Green	Red
LU	Green	Green	Red	Red	Green	Red	Red
MT	Green	Green	Green	Green	Red	Green	Red
NL	Green	Green	Red	Red	Red	Red	Red
PL	Green	Green	Green	Green	Red	Red	Red
PT	Green	Green	Red	Green	Red	Green	Green
RO	Green	Green	Green	Green	Red	Red	Red
SK	Green	Green	Red	Green	Red	Red	Red
SI	Green	Green	Red	Green	Red	Red	Red
ES	Green	Green	Red	Green	Red	Red	Red
SE	Green	Green	Red	Red	Red	Green	Red
UK	Green	Green	Red	Green	Red	Red	Red

 Information required  Not mentioned as required

**B) Documents accepted as evidence**

	Passport	Identity card	Driving license	Proof of address*	Other*
AT					
BE					
HR					Name of issuing identity
CY					Profession
CZ					
DK					Tax returns are also accepted as evidence
EE					Face to face recognition
FI					For foreign citizens: citizenship/passport number
FR					Profession, revenues
DE					Residence permit
EL					Profession
HU					Valid residence permit for foreign nationals
IE					
IT					
LV					
LU					
MT					
NL					Travel documents for refugees
PL					
PT					
RO					Telephone number
SK					
SI					"Supporting evidence needs to be included", which exactly is not stated
ES					Permission of impeachment sent by the MoJ
SE					
UK					Or a government/judicial-authority issued document with full name and either residential address or date of birth

Signals documents that can be provided alternatively
  Not mentioned as accepted

\* eg utility bill, residence permit, correspondence with local or central authorities

Source: Bruegel based on PwC (2016).

The Netherlands is the only jurisdiction that accepts refugees' travel documents as valid documentation. A valid residence permit for foreign nationals is explicitly mentioned in Hungary, Germany and Luxembourg. In some EU countries (Cyprus, Portugal, Greece and France), information about the profession should also be disclosed.

It should also be noted that question 12 of the survey asks "*in what circumstances are reduced/simplified due diligence arrangements available?*" None of the 26 EU countries covered by the survey (Lithuania and Bulgaria are missing) made any direct or indirect reference to migrants, asylum seekers or refugees.

## **6.2 Bruegel survey of financial institutions**

In order to shed light on banks' attitudes towards the financial integration of refugees, and their assessments of whether KYC regulations negatively impact the ability of financial institutions in Europe to offer basic and more advanced financial services to refugees, we conducted a survey of financial institutions.

We received 14 responses from financial institutions in nine European countries: Austria, Cyprus, Estonia, Germany, Greece, Italy, Luxembourg, Spain and Sweden. In addition, the banking associations UK Finance and Finance Norway provided valuable input. While our respondents are not a representative sample in a statistical sense, it is reassuring that we received responses from countries that have received a very large share of the refugees that have entered Europe and also from countries with fewer refugees. Moreover, half the respondents have refugee clients and half do not, enabling us to assess the responses accordingly.

The survey included 15 questions. Most of the questions were either yes/no or numerical choice questions, but there were also some open-ended questions.

*Part 1: Regulatory environment*

There is a rather diverse experience with the issuance of national regulatory/supervisory authority guidelines for refugee financial inclusion in EU countries (Table 10). Authorities in Austria, Cyprus, Germany and Luxembourg have issued such guidelines, but those in Estonia, Italy, Spain and Sweden have not. For Greece, the two banks in our sample gave opposite answers. Differences were also apparent in relation to a number of other issues, indicating that EU directives are implemented differently in various EU member states.

**Table 10: National regulatory/supervisory authority guidelines on financial inclusion of refugees**

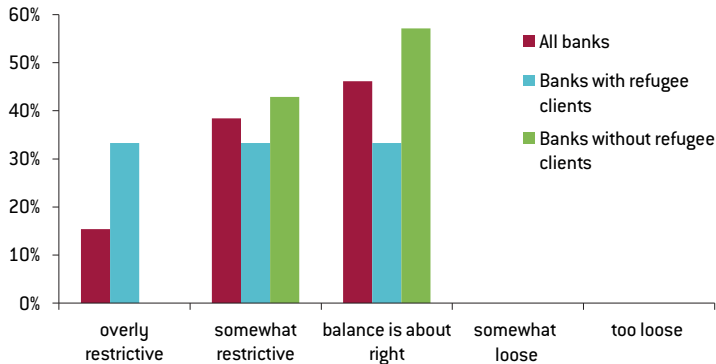
Country	Guideline issued
Austria	Yes
Cyprus	Yes
Estonia	No
Germany	Yes
Greece	Yes/No
Italy	No
Luxembourg	Yes
Spain	No
Sweden	No

Source: Bruegel. Note: the following question was asked: Q1 Has your national regulatory/supervisory authority issued guidelines regarding the offering of financial services to refugees in recent years? The two Greek banks surveyed by us gave opposite answers.

Figure 52 shows that none of the banks in our survey consider that KYC regulations are either somewhat loose or too loose. Instead, 46 percent of banks say KYC regulations strike the right balance between the need to offer financial services to refugees and the anti-money-laundering/counter-terrorist financing (AML/CFT) goals, while 54 percent assess KYC regulations to be restrictive. There is a notable difference between banks that have refugee clients and banks that do not have refugee clients:

- Banks with refugee clients were split equally between finding the AML/CFT rules ‘overly restrictive,’ ‘somewhat restrictive’ and ‘the balance is about right’ in relation to offering financial services to refugees;
- None of the banks that do not have refugee clients found KYC regulations to be overly restrictive, and slightly more than half of these banks said the balance is about right.

**Figure 52: Restrictiveness of the ‘know your customer’ (KYC) regulations (percent of responses)**



Source: Bruegel. Note: The following question was asked: Q2 In your opinion, or that of your institution, do the ‘know your customer’ (KYC) regulations of your country strike the right balance between the need for offering financial services to refugees and the anti-money-laundering (AML)/counter-terrorist financing (CFT) goals? Please select your answer from the options below: 1. KYC regulations are overly restrictive and severely limit financial inclusion of refugees; 2. KYC regulations are somewhat restrictive and somewhat limit financial inclusion of refugees; 3. The balance is about right; 4. KYC regulations are somewhat loose and allow offering financial services to customers with above average risk of money-laundering or terrorist financing; 5. KYC regulations are too loose and allow offering financial services to customers with high risk of money-laundering or terrorist financing.

Therefore, banks that have refugee clients tend to view KYC regulations as being more restrictive than banks that do not have refugee

clients. We cannot exclude the hypothesis that this difference in the responses is related to actual experience: banks that actually deal with refugees might have learned that financial inclusion of refugees is a difficult process and KYC regulations are sometimes restrictive in this regard. Unfortunately, we cannot test this hypothesis from our survey results.

We asked an open-ended question about what changes to KYC regulations would be desirable<sup>29</sup>. Not surprisingly, none of the banks that assessed the balance between the need to offer financial services to refugees and the AML/CFT goals as about right (Figure 52) made suggestions. But most banks that assessed the regulation as either overly restrictive or somewhat restrictive made proposals, which we categorise under three main headings:

- **Identification:** many banks said there were problems around the identification of refugees.
  - For example, in a country receiving many refugees, the immigration authority confiscates the refugees' identity documents and a very time-consuming and difficult process has been established in which the refugees bring copies of their identification documents to the financial institutions, which must then phone the immigration authority to verify the person's refugee status and the validity of the copies of the identity documents. Such procedures make the financial inclusion of refugees burdensome and time-consuming, and increase the risk of identity fraud and of refugees being used for money laundering or terrorist finance purposes.
  - The banking institutions should have guidance and efficient tools to enable them to assess the validity of the documentation provided to refugees to confirm their status.

29 The following question was asked: Q3 What changes to the 'know your customer' (KYC) regulations would you welcome in order to foster financial inclusion of refugees?



- Two related suggestions were made to simplify the process of identification:
  - i. 1. The creation of a central pan-European registry of refugees, to which EU financial institutions would have online access. The registry should include all basic information about each individual: their parents' names, place and date of birth, the status of the application for granting a residence permit, indicate if identification documents have been stolen, and related information.
  - ii. 2. A European ID issued to each refugee would facilitate identification; the ID should include the refugee's key identification information.
- **Guidelines:** Issuance of guidelines about financial inclusion of refugees in those countries in which the national authorities have not yet done so (Table 10).
- **Consistency** with other regulations: Specific guidance should be given on how the provisions of the Payment Accounts Directive should be interpreted in line with the risk-based approach set out in AML/CTF legal framework.

### *Part 2: Refugees as clients*

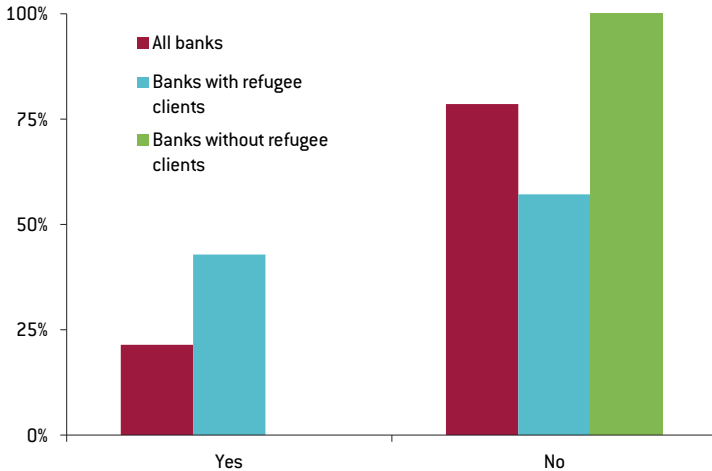
Of the 14 banks we surveyed, seven have refugee clients. Of those banks that do not have refugee clients, two do not deal with private customers, while the others either said that refugees had not approached them, or refugees had approached them but did not meet the criteria for an offer of services to be made.

Banks in our sample were not very active in attracting refugee clients (Figure 53). Unsurprisingly, banks without refugee clients did not take any steps to attract refugees. Slightly more than half of the banks with refugee clients have not taken such steps either.

The relatively low level of activity in attracting refugees might be related to the weak business prospect that refugees might offer. Almost

one-third of banks (both those banks that have and that do not have refugee clients) responded that offering financial services to refugees is not interesting at all, while most other banks have only little interest or some interest (Figure 54).

**Figure 53: Active steps to attract refugee clients (% of responses)**



Source: Bruegel. Note: the following question was asked: Q5.1 Did your institution make active steps to approach refugee clients (for instance, visiting refugee settlement centres, printing flyers and brochures)?

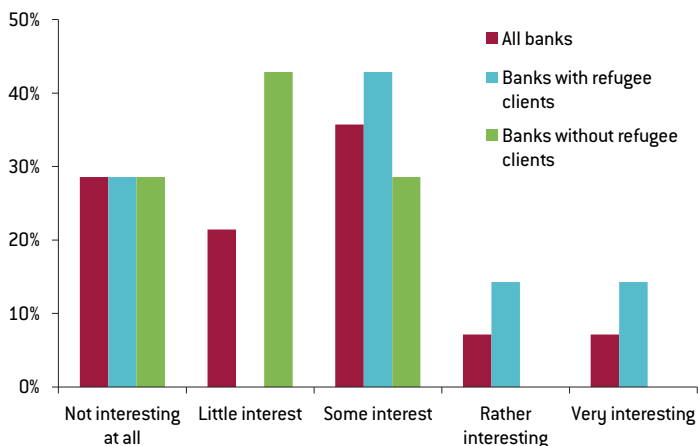
The bulk of responding banks see no competitive advantage in serving refugees<sup>30</sup>. A few banks argued that their perceived advantage relates to their network, or to certain legal provisions that create an advantage for some but not all banks.

Slightly more than half of the banks with refugee clients have specific products for refugees (Figure 55). The typical specific product for asylum seekers and persons who have been granted refugee status is

30 The following question was asked: Q7 Does your institution have a competitive advantage in serving more refugees?

a special free of charge account for a certain period, possibly with limited transactional functions and a debit card. Persons who are granted refugee status can apply for all the deposit products offered by the bank, in line with each product's acceptance criteria.

**Figure 54: Refugees as potential clients for financial institutions (% of responses)**



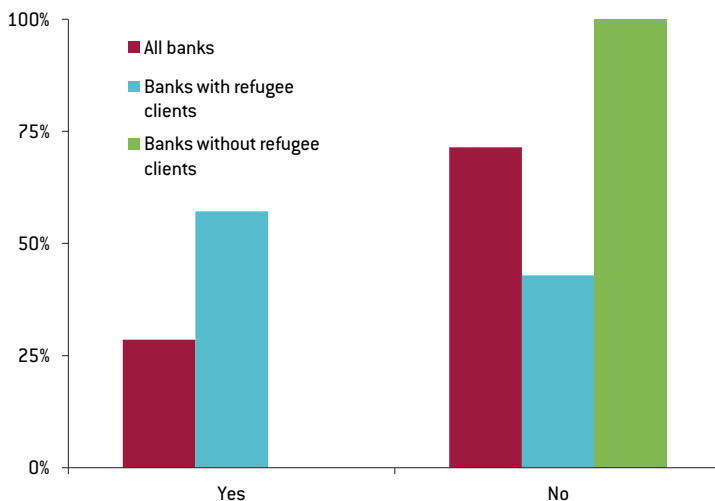
Source: Bruegel. Note: the following question was asked: Q6 On a scale from 1 to 5, how interesting is the offering of financial services to refugees as a business prospect for your institution?

The typical products that refugees can access are bank accounts, international transfers, e-banking, various savings products and debit cards. However, none of the banks offer any specific credit or loan facility to refugees, and consequently none have any specific programmes or loans for refugees who want to set up a small business<sup>31</sup>. Banks consider offering loans only after they have a sufficiently long-established relationship, with appropriate transactional behaviour, and only if the refugee receives a

31 The following two questions were asked in these regards: Q10 *At what point in your relationship with refugee clients would you consider offering certain credits to refugees?* Q11 *Are there any specific programs or loans for refugees wanting to set up small businesses?*

residence permit in the country in question. Under such circumstances, refugees can apply for loans under the same conditions as any other customer.

**Figure 55: Specific financial products for refugees (percent of responses)**



Source: Bruegel. Note: the following question was asked: Q8 Does your institution have specific financial products for refugees?

The types of identification document accepted are typically different for asylum seekers and those granted refugee status<sup>32</sup>. Asylum seekers need a valid asylum certificate and proof of residence registration, while refugees who have been granted refugee status need to present a valid residence permit recognising their refugee status and a valid identification document, similarly to other customers.

In terms of support for staff in dealing with refugees, only four

32 The following question was asked: Q12 What identification documents do you accept from prospective refugee clients?

banks provide relevant guidance or training<sup>33</sup>. These measures include:

- A branch with employees with knowledge of Arabic (only one bank);
- Internal written guidelines regarding accepting refugees as clients and on-going due diligence (more banks);
- Various training courses (more banks).

*Part 3: New initiatives to foster financial inclusion*

In the last part of the survey, we asked about possible private-sector initiatives and public-private partnerships that might address the challenges faced by refugees to foster financial inclusion<sup>34</sup>. The key proposals are the following.

*Private-sector initiatives:*

- Offer micro-credit and other specific products that refugees need to be able to get started, to support self-employed persons, to contribute to job creation and to facilitate social integration.
- Employ refugees in the short-term, thereby helping them to obtain their first work experience in the host country. Financial institutions could take the lead.
- Help refugees to obtain mobile phones and access to the internet. This could make it much easier to gather and share information, deliver services such as mobile cash and mobile banking. Phone companies could be especially helpful in this initiative.
- Foster the private sector's commitment to prevent the risk of exploitation at work.

33 The following question was asked: *Q13 Do you provide any guidance/training to your staff in order to effectively communicate with refugees who are prospective clients? (eg language)*

34 The following questions were asked: *Q14 What private sector initiatives could address the challenges faced by refugees to foster financial inclusion? Q15 What public-private partnerships could address the challenges faced by refugees to foster financial inclusion?*

*Public-private partnerships:*

- Hold consultations between banks and regulators on how to tackle the challenges faced by refugees and foster their financial inclusion. The dialogue should include the financial intelligence unit of the country, in order to better consider the right balance between the need for financial inclusion of refugees and the KYC regulations in line with the AML/CTF goals.
- Establish common and robust routines that all financial institutions could apply in relation to refugees, which would ensure sufficient KYC checks, fair treatment of the customer and elimination of the risk of discrimination. Common routines would also reduce the risk of the institution being deemed non-compliant.
- A joint initiative by banks and supervisory authorities to mitigate the inherent risks arising from individuals from high-risk jurisdictions, and to provide such individuals with access to a single account in the country of residence with limited use (eg with limitations imposed on permitted transactions and amount thresholds).
- Set-up of a national central registry of refugees. The private sector could support the design of its rules for development and maintenance. The registry could serve as a reliable source for the verification of the refugees' data and be the basis of a pan-European registry.
- Provide training by private/public schools or professional training organisations, including in languages and financial literacy. A public-private partnership could also finance booklets with typical financial words, partly to support the training efforts.
- Promote social inclusion through working activities, vocational training and cultural exchange by public-private partnerships, with assistance from social cooperatives, social enterprises and associations. These initiatives could help refugees even in terms of financial inclusion.

## 7 Policy implications for the EU

As we noted in the introductory chapter of this Blueprint, net immigration has become a more important source of population increase than natural change in the EU since the early 1990s, while in 2015 and 2016 there was even a natural decline in the EU and thus immigration was the sole source of population increase. In this sense, Europe has become an immigration area. Opinions might differ over whether allowing immigration was a deliberate policy choice or somewhat accidental. Pro-immigration policies might be put in place for economic reasons, such as attracting the brightest talents and filling labour market gaps, or for political reasons, such as allowing some immigration from former colonies of European powers. But allowing immigration might have been somewhat forced by circumstances on EU countries too, given the difficulties of protecting the EU's southern and eastern borders and the devastating recent conflicts in the EU's neighbourhood, which have led to human flight from these conflict zones. Whatever the reasons were, the continuously growing presence of people with immigrant backgrounds, including the recent large wave of asylum seekers, pose major policy challenges for the EU and its member states.

We have highlighted that the reception, admission and integration of immigrants from outside the EU, including asylum seekers, does not always work properly in many EU countries. There are also many differences between EU countries in how they deal with and integrate foreigners, even though most Europeans favour a common migration policy. Almost 90 percent of European citizens call for more effective

measures to fight illegal immigration from outside the EU, which again highlights the need for further action.

Intra-EU mobility seems to be less of a problem from the perspective of host countries, despite the recent heightened debate about posted workers. There is a rather high and even increasing level of support for intra-EU mobility, and the emerging labour shortages in the main destination countries highlight the urgent need for additional labour. However, emigration from central and eastern European countries has been a major important reason for record-high labour shortages in these countries, which might hinder their economic development.

The purpose of this chapter is to draw out policy conclusions from our work. We start by summarising recent policy measures and debates and then offer twelve recommendations.

## **7.1 Measures taken to manage the refugee crisis**

Arguably, the most visible immigration challenge in recent years has been the refugee crisis. Bringing peace to conflict zones would be the ultimate solution to the refugee crisis, but that's largely outside the control of European nations. But the EU and its member states have adopted various measures to:

- Help neighbouring countries like Turkey cope with large inflows of refugees;
- Build partnerships with North African countries to limit illegal immigration and smuggling of migrants;
- Improve the protection of EU borders, including the Mediterranean coast; and
- Improve reception and integration of refugees and migrants in the EU.

We review each of these in turn.



*External actions to build partnerships with neighbouring countries and to protect the EU borders*

The Syrian conflict and the subsequent refugee crisis is the world's largest humanitarian crisis since the second world war. By September 2017, 3.1 million Syrian refugees had fled to Turkey<sup>35</sup>. The Turkish government provided support to refugees, creating a \$6 billion fiscal burden from 2011 to 2015. In 2015, Turkey asked for funding from other countries. In November 2015, the EU set up the EU-Turkey Joint Action Plan and agreed to provide €3 billion to Turkey for humanitarian assistance during the 2016-17 period in the framework of the Facility for Refugees in Turkey<sup>36</sup>. The priority areas to which funds are allocated are: humanitarian assistance, migration management, education, health, municipal infrastructure and socio-economic support. The budget is made up of €1 billion from the EU budget and €2 billion in additional funding from the member states. These member states' contributions are made to the EU budget and classified as external assigned revenue. Of the €1 billion from the EU budget, €250 million was mobilised in 2016, leaving €750 million aside for 2017. Member states contributed €630 million euros in 2016 (European Commission, 2017). Funds from the Facility are partly channelled to the Emergency Social Safety Net (€348 million), which is intended to provide regular cash allocations to up to one million of the most vulnerable refugees in Turkey. Beyond the support provided to Turkey, the European Union has also mobilised several other financial instruments to manage migration flows and to assist third countries (Box 3).

The EU has adopted various other measures, in addition to financial facilities. The Migration Partnership Framework<sup>37</sup> was introduced

35 <http://data.unhcr.org/syrianrefugees/regional.php>, accessed 22nd September 2017.

36 Commission Decision C(2016) 60/03 of 10.02.2016 on the Facility for Refugees in Turkey amending Commission Decision C(2015) 9500 of 24 November 2015.

37 [https://eeas.europa.eu/sites/eeas/files/factsheet\\_partnership\\_framework\\_on\\_migration.pdf](https://eeas.europa.eu/sites/eeas/files/factsheet_partnership_framework_on_migration.pdf).

in June 2016 and is aimed at working closely with third countries to fight smugglers' networks and support political, social and economic development in third countries. Actions include border management, enhancing local security forces through Common Security and Defence Policy missions and operations and through the involvement of other agencies (European Border and Coast Guard Agency, EUROPOL). These actions have been implemented in priority countries such as Ethiopia, Mali, Nigeria, Niger and Senegal. North (Egypt, Tunisia, Morocco, Jordan and Lebanon) and West African countries (Guinea, Côte d'Ivoire, the Gambia, Ghana) have also been covered more recently, by measures such as the European External Investment Plan. In Asia, cooperation has been made with countries such as Bangladesh, Pakistan and Afghanistan. In its Fifth Progress Report, published in September 2016 (COM(2017) 471 final), the European Commission identified as major weaknesses the stalled formal cooperation with some countries on readmission and the need to increase internal coordination. As for priorities, it points to managing migration along the Central Mediterranean route; enhancing domestic border control and anti-smuggling and migration management capabilities in countries of origin and transit; regionalising CSDP missions; swift implementation of existing projects in Southern Libya and Niger to foster socio-economic resilience; efforts to stem irregular migration by strong policies to protect human rights and ensure dignified living conditions for migrants in countries of transit and work with the United Nations High Commissioner for Refugees on resettlement.

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**Box 3: EU funds for migration, asylum and integration policies**

Most of the EU funds related to migration policies have been allocated under the Multi-Annual Financial Framework (MFF). Immigration and asylum policy falls under Heading 3 of the MFF. Under this Heading are the Asylum, Migration and Integration Fund (€3.31 billion for 2014-20) and the Internal Security Fund (€3.8 billion for 2014-20). The Asylum, Migration

and Integration Fund is intended “to promote the efficient management of migration flows and the implementation, strengthening and development of a common Union approach to asylum and immigration”, with 88 percent of the funding under shared management and 12 percent under direct management, to be divided between EU actions and emergency assistance<sup>38</sup>. The Internal Security Fund is aimed at promoting the implementation of the EU Internal Security Strategy, police cooperation and the management of the EU’s external borders.

The EU budget has various flexibility mechanisms that fund clearly identified and previously unanticipated expenses which exceed the expenditure ceilings set out in the MFF. The mid-term revision of the MFF allowed for existing resources from the remaining headings of the EU budget to be reallocated to migration, when needed. It established that “margins left available below the MFF ceilings for commitment appropriations shall constitute a Global MFF Margin for commitments, to be made available over and above the ceilings established in the MFF for years 2016 to 2020 for policy objectives related to growth and employment ( ... ) and to migration and security”<sup>39</sup>. The mid-term review also allocated in the region of €13 billion additional funding in 2017-20 for jobs and growth and migration and security<sup>40</sup>. The MFF regulation was amended to increase the ceilings of the Flexibility Instrument and the Emergency Aid Reserve<sup>41</sup>. The Flexibility Instrument is up to €600 million a year. The Flexibility Instrument was mobilised to supplement financing of migration, refugees and security expenditure by €530 million in 2017<sup>42</sup>.

38 [https://ec.europa.eu/home-affairs/financing/fundings/migration-asylum-borders/asylum-migration-integration-fund\\_en](https://ec.europa.eu/home-affairs/financing/fundings/migration-asylum-borders/asylum-migration-integration-fund_en).

39 Article 1 (6) of Council Regulation (EU, Euratom) 2017/1123 of 20 June 2017 amending Regulation (EU, Euratom) No 1311/2013 laying down the multiannual financial framework for the years 2014-2020.

40 COM (2016) 603.

41 COM(2017) 473 final.

42 Decision (EU) 2017/342 of the European Parliament and of the Council of 14 December 2016 on the mobilisation of the Flexibility Instrument to finance immediate budgetary measures to address the on-going migration, refugee and security crisis (OJ L 50 of 28 February 2017).

Table 11: EU Budget funds for migration policies in the 2014-20 Multiannual Financial Framework, € millions

	Final budget 2014	Initial budget 2015	Final budget 2015	Initial budget 2016	Final budget 2016	Adopted budget 2017	Adopted budget 2018
<b>Title 18: Migration and home affairs</b>							
<b>18 02 Internal Security</b>							
<b>Internal Security Fund</b>	401.1	392.6	558.7	645.2	713.2	696.1	717.5
FRONTEX	82.9	106.1	120.3	238.7	238.7	281.3	292.3
Europol	81.7	92.2	92.6	97.7	97.7	113.7	116.7
<b>18 03 Asylum and Migration</b>							
<b>Asylum and Migration Fund</b>	401.1	414.6	620.9	1,888.0	1,918.0	1,617.8	716.7
European Asylum Support Office (EASO)	14.5	15.0	15.4	18.7	18.7	69.2	85.8
European fingerprint database (Eurodac)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>18 07 Instrument for Emergency Support within the Union</b>					<b>148.5</b>	<b>198.0</b>	<b>199.0</b>
<b>(A) Direct funds for migration*</b>	<b>984.4</b>	<b>1,021.1</b>	<b>1,408.5</b>	<b>2,888.3</b>	<b>3,134.8</b>	<b>2,976.6</b>	<b>2,128.1</b>
<b>Title 19: Foreign policy instruments - selected instruments related to migration and aid to third countries</b>							
<b>Instrument for Stability (IFS):</b>							
<b>Crisis response and prevention</b>	226.8	247.6	247.6	253.5	253.5	199.2	287.8
<b>Title 21: Development and Cooperation Policy Area</b>							
Migration and asylum	46.3	41.6	41.6	57.3	57.3	405.0	51.5
<b>Title 22: Neighbourhood and Enlargement Negotiations</b>							
<b>Instruments within the European Neighbourhood Instrument</b>							
Med. countries: human rights & mobility	211	193	493	144	144	173	119
Mediterranean countries: Confidence building, security, conflict management	80	45	345	131	131	332	262
Palestine peace process	300	287	287	290	290	310	293
Eastern Partnership countries: human rights and mobility	247	207	207	195	195	214	230
Cross-border cooperation	170	303	303	9	9	8	12
<b>(B) Indirect funds for migration</b>	<b>1,282</b>	<b>1,323</b>	<b>1,923</b>	<b>1,080</b>	<b>1,080</b>	<b>1,642</b>	<b>1,255</b>
<b>TOTAL (C) = (A)+(B)</b>	<b>2,266</b>	<b>2,344</b>	<b>3,331.6</b>	<b>3,968</b>	<b>4,214.6</b>	<b>4,618</b>	<b>3,383</b>
<b>TOTAL EU BUDGET (D)</b>	<b>137,547</b>	<b>141,655</b>	<b>158,607</b>	<b>151,233</b>	<b>151,448</b>	<b>153,937</b>	<b>156,623</b>
<b>SHARE (C)/D)</b>	<b>1.65%</b>	<b>1.65%</b>	<b>2.10%</b>	<b>2.62%</b>	<b>2.78%</b>	<b>3.00%</b>	<b>2.16%</b>

\* (A) = 18 03 + 18 02 01 + 18 02 03 + 18 02 04 + 18 07

Source: Bruegel based on European Union Official Journals: L51 of 21/02/2016, L69 of 13/03/2015, L320 of 4/12/2015, L48 of 24/02/2016, L52 of 28/02/2017, L51 of 28/02/2017, and European Commission COM(2017) 400 EN. The 2018 budget was adopted on 22 December 2017, but at time of writing had not been published in the Official Journal, so we refer to the Commission Communication instead. Note: The €1 billion EU budget contribution to the Refugee Facility for Turkey is to be financed through

various budget headings: the Instrument for Stability (€20 million), Development Cooperation Instrument (€10 million in 2016 and €10 million in 2017), the Instrument for Pre-Accession (€55 million in 2016 and €595 million in 2017) and Humanitarian Aid (€165 million and €145 million in 2016 and 2017, respectively).

The Emergency Aid Reserve is targeted firstly at humanitarian operations for non-EU countries and can mobilise up to €300 million a year<sup>43</sup>. Additionally, a European Union Crisis Reserve was proposed to finance needs such as management of the migration crisis. This instrument is to be funded by decommitted appropriations from all MFF headings, estimated at €3 billion to €4 billion per year – part of this amount is to be used for the refugee crisis. The draft budget for 2017 was given an additional €1.8 billion from special instruments and margins for spending on migration<sup>44</sup>.

The EU also has decentralised agencies working on migration and home affairs – these include external border management and control as carried out by FRONTEX (Council Regulation (EC) 2007/2004 and repealed by Regulation (EU) 2016/1624), assisting police cooperation between member states through Europol, and assisting in the cooperation and implementation of member states' obligations under the Common European Asylum System through the European Asylum Support Office (EASO). EU agencies operate under indirect management, meaning the Commission delegates budget implementation to those agencies. The total EU contribution from the multiannual framework 2014-20 to FRONTEX, Europol and EASO was initially committed to at €626.4 million, €656.6 million and €109.3 million, respectively<sup>45</sup>, which amounts have been increased substantially in EU budget revisions (Table 11).

Outside of the MFF but under the EU budget, trust funds for external measures provide additional financing to support the EU's migration policies. An example of these instruments is the Instrument for Emergency Support

43 The exact share of this fund allocated to humanitarian aid to refugees is, to our best knowledge, not available.

44 COM(2016) 603.

45 COM(2013) 519 final.

within the Union (Council Regulation (EU) 2016/369). The emergency support within the Union is to be awarded in cases of disasters of “*exceptional scale and impact*” where “*no other instrument available to Member States and to the Union is sufficient*”.

Other trust funds encompass the Africa Trust Fund (€1.8 billion) to help parts of Africa affected by migration, the EU regional trust fund in response to the Syrian crisis (€500 million) and the Refugee Facility for Turkey (€3 billion). The latter Turkey facility is financed by the EU budget in part (€1 billion), and also by external assigned revenue (ie €2 billion from member states and private entities).

Lastly, the European Development Fund rests outside of the EU budget and provides funding from EU member states for projects related to migration, among others. The budget for the 2014-20 period is €30.5 billion. It is not stated how much of this amount will be granted towards migration specifically apart from a €2.2 billion contribution to the Africa Trust fund.

### *The Dublin Regulation*

The large inflow of asylum seekers since 2015 has put pressure on member states that have received large numbers in a short period, and has forced a re-evaluation of the existing EU tools, particularly of the Dublin Regulation.

The Dublin Convention in 1990 was the first EU legal agreement assigning responsibility for asylum applications to member states. It was replaced in 2003 by the Dublin II Regulation and updated in 2013 by the Dublin III Regulation, in force since January 2014 (Reg No. 604/2013), which applied to the 28 EU countries plus Iceland, Norway, Liechtenstein and Switzerland.

The Dublin Regulation contains the criteria for determining each member state’s responsibility for examining asylum applications. The regulation uses a hierarchy of criteria for asylum applications

– family unity, residence documents, irregular entry or stay, visa-waived entry. The main principle is that the member state responsible is the one “*which played the greatest part in the applicant’s entry to the EU*”, which places a big burden on a small number of member states. While in theory asylum seekers cannot choose the country in which they make their applications, in practice many migrants avoid registration until they reach a country where they would like to obtain asylum. This is reflected in the huge number of first-time asylum applications made in Germany, which was not the EU country of arrival for most refugees. These practices have been called ‘asylum shopping’.

An independent evaluation (Maas *et al*, 2015) and a May 2016 European Commission communication (COM 2016/0270 final) have summarised the problems of the Dublin III Regulation as a lack of consistent and correct implementation in member states, the hierarchy of criteria set out which does not take the capacity of the member states into account and hence does not aim at the objective of a fair sharing of responsibility and significant delays in the method of allocating responsibility, with waiting times amounting to 10 or 11 months before the start of the examination of claims. When assessing the Dublin III Regulation against what it was set up to do, the outcome is not positive. The regulation has not curbed multiple applications or secondary movements and there has been no or very little redistribution of applicants between member states.

Given the weaknesses of the Dublin system, its reform has become a pressing issue, with two main options about assigning the responsibility for asylum seekers on the table:

- The current criteria for the allocation of responsibility would be preserved, but it would be supplemented with a corrective fairness mechanism that would relocate and redistribute asylum seekers when a member state is overburdened, or
- replacement of the ‘first point of entry’ principle with a new system

that allocates asylum applicants based on a “*permanent distribution key reflecting the relative size, wealth and absorption capacity of each member state*”<sup>46</sup>. This option thus would put an end to the current system in which the EU country of arrival is responsible for processing the asylum application.

Whatever option is selected, a key issue is whether an opt-out from the new system will be possible, and if so, under what conditions. The European Commission and the European Parliament proposed different options:

- According to the Commission proposal, member states can opt out for twelve months, provided they make a solidarity contribution of €250,000 per applicant to the member states that got their applications instead;
- The European Parliament rejected the €250,000 per applicant proposal, and proposed instead a system of conditionality between participating in the relocation system and the national envelopes for the European Structural Funds<sup>47</sup>.

Another important aspect of the ongoing negotiations is the treatment of asylum seekers arriving from “*safe third countries*”, which are: Albania, Bosnia and Herzegovina, the former Yugoslav

46 See: European Commission factsheet on the Dublin system [https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/background-information/docs/20160406/factsheet\\_-\\_the\\_dublin\\_system\\_en.pdf](https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/background-information/docs/20160406/factsheet_-_the_dublin_system_en.pdf).

47 <http://www.europarl.europa.eu/sides/getDoc.do?type=COMPARL&mode=XML&language=EN&reference=PE599.751>.



Republic of Macedonia, Kosovo, Montenegro, Serbia and Turkey<sup>48</sup>. The Commission proposed that asylum seekers arriving from these countries should be “*inadmissible*” and be returned to these countries, which, if implemented, would have stopped completely the arrival of refugees from the Balkans and Turkey. However, the European Parliament rejected this proposal.

The proposals for the revisions were subject to discussions within various preparatory bodies, the Council and the European Parliament. The first triadialogue between the European Commission, the Council and the European Parliament is scheduled for 12 December 2017<sup>49</sup>, .

## 7.2 Intra-EU mobility and posted workers

Intra-EU mobility of labour is one of the four fundamental economic freedoms of the European Union. Beyond short-term business and leisure trips (which are completely unrestricted within the EU for EU citizens), under the EU’s Free Movement Directive (2004/38/EC), a citizen of an EU country can stay in another EU country for more than three months only in three cases:

1. If she/he finds a job (becomes employed or self-employed), or
2. If she/he and accompanying family have sufficient resources and sickness insurance and do not become a burden on the social assistance system of the host member state, or

48 “A country is considered as a safe country of origin where, on the basis of the legal situation, the application of the law within a democratic system and the general political circumstances, it can be shown that there is generally and consistently no persecution as defined in Article 9 of Directive 2011/95/EU 2, no torture or inhuman or degrading treatment or punishment and no threat by reason of indiscriminate violence in situations of international or internal armed conflict” (Directive 2013/32/EU). The European Commission lists Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia and Turkey to be “safe countries of origin within the meaning of Directive 2013/32/EU” (COM(2015) 452 final).

49 See [http://eur-lex.europa.eu/procedure/EN/2016\\_133](http://eur-lex.europa.eu/procedure/EN/2016_133) for information on the ongoing legislative process.

3. If she/he has student status and sufficient resources to cover living expenses and sickness insurance.

Recently arrived jobseekers benefit from slightly more preferential treatment, being able to stay for up to six (and not three) months. Permanent residency is acquired only after a continuous period of five years of legal residency according to the conditions described above.

While in certain quarters voices have been raised in favour of revising the free labour mobility principle, no serious discussion has started.

On the contrary, a major legislative debate on revising the Posted Workers Directive is ongoing. President Juncker sparked the debate when he stated in his Political Guidelines for the next European Commission in 2014 that *“in our union, the same work at the same place should be remunerated in the same manner”*. In March 2016, the European Commission submitted its proposal, which was approved (with some amendments) by the European Parliament in October 2017. Subsequently, the Council also adopted its position with some deviations from the parliament’s position.

The current Posted Workers Directive already requires companies posting workers to obey a large number of host-country labour regulations, including the host country’s rules on the minimum wage (including overtime rates), maximum work periods, minimum rest periods, minimum paid annual holidays, hiring out of workers, health, safety and hygiene, protection of pregnant women or those who have recently given birth, of children and of young people, and equal treatment between men and women and other provisions on non-discrimination.

The main points of the revision under discussion between the European Parliament and Council at the time of writing are:

- **Remuneration:** the host country's rules on remuneration should apply to posted workers. For example, if a Christmas bonus is guaranteed to local workers by law or collective agreement, such a bonus should be paid to posted workers too. The revision would not require 'equal pay'; for example, it would not require the wage of a posted worker in a certain industry to be the same as, for example, the average wage of local workers in that industry.
- **Duration:** the proposed revision would limit the duration of posting to 24 months with the possibility of an extension if a company needs more time to complete the service it was contracted to provide; the Council voted for an upper limit of one year plus possibly six more months.
- **Host-country rules:** all universally applicable collective agreements would become mandatory for posted workers in all economic sectors, such as the regulations governing the right to strike.
- **Subcontracting and temporary work agencies:** all rules would apply to subcontractor and temporary work agencies.

As argued by Darvas (2017c), the revision of the Posted Workers Directive will have little impact and was largely unnecessary. Instead policymakers should focus on the fight against bogus self-employment, social security fraud and undeclared work. According to Darvas (2017c), the number of undeclared workers in high-wage countries is more than 100 times the number of posted workers from low-wage countries. Undeclared workers are at the complete mercy of their 'employer', receive no social protection and can be paid below the minimum wage. Undeclared work creates major social problems, undermines welfare states and leads to unfair competition. Undeclared work is a real problem, but there is little evidence it is being sufficiently addressed.

### 7.3 Policy recommendations

Taking into account the current state of EU migration policy and the issues we have highlighted, we offer twelve policy recommendations related to public dialogue (1), refugees (2-7), integration of immigrants (8-11) and labour shortages in EU member states (12):

#### 1. Address anti-migrant attitudes

Some societies are more supportive of immigration than others, which might be rooted in various cultural and historical factors. However, the public dialogue can also influence perceptions, and it is essential that such dialogue is based on proper and objective information. We found that public perceptions about the scale of immigration into the EU are far from reality, which could be both a cause and a consequence of negative attitudes toward immigration in certain segments of society. Most likely, the findings of academic research on the impact of immigration on the economy, labour markets and public finances, which tend to be positive depending on migrant characteristics and the host country's economic and institutional factors, is not sufficiently absorbed in political discussions about immigration. Information about immigrants should therefore be better disseminated.

Addressing the discourse on migrants in integration policies is important. Jensen *et al* (2017) argue that anti-racism in policymaking should not be marginalised. The authors note that integration policies as they stand today in Europe draw boundaries between 'us' and 'them', reinforcing ideas of a majority culture and identity grounded in ethnicity and nationality. King and Lulle (2016) recognise integration as a two-way process and recommend that host countries be as much targeted as migrants by integration policies. In particular, they suggest targeting policies at the segments of society that are more likely to be unwelcoming of immigration, and fostering inter-ethnic socialisation at the micro-local level. Increasing the ethnic diversity of teaching staff and introducing mandatory dialogue between schools, parents and students is proposed as a solution for improving acceptance of religious and cultural diversity

in schools and achieving better outcomes from second-generation migrants.

## *2. Protect the EU's borders and fight illegal immigration*

Figure 11 in Chapter 2 showed that an overwhelming majority – 85-90 percent of EU population – would like to see additional measures to fight illegal immigration from outside the EU. Efforts therefore have to be stepped up. Reducing the incentives for illegal immigration has long been at the heart of the EU's immigration policy and has been set as a priority in the European Agenda on Migration and the European Agenda on Security. The fight against illegal immigration is done through curbing migrant smuggling, improving the control of external borders and improving readmission and return policies. The May 2015 EU Action Plan against Migrant Smuggling<sup>50</sup>, sets out a plan for 2015-20 involving strong cooperation at the EU level and with third countries of origin, international organisations and civil society. The plan has four pillars – enhanced police and judicial response, improved the gathering and sharing of information; enhanced prevention of smuggling and assistance to vulnerable migrants, and reinforced cooperation with third countries. External border controls are under the responsibility of FRONTEX, the European Border and Coast Guard Agency. The agency was reorganised in 2016<sup>51</sup> and now cooperates with the European Maritime Safety Agency to carry out border control. The Return Directive (2008/115/EC) sets common standards for the return of third-country nationals – the implementation of the return legislation in EU countries is monitored through European Commission visits. In order to protect EU borders, continued cooperation among national, European and third-country authorities is essential. However, the enforcement ability of EU agencies can be

50 COM(2015) 285 final.

51 See factsheet 'Securing Europe's external borders – A European border and coast guard', June 2017, available at [https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-security/20170613\\_ebcg\\_en.pdf](https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-security/20170613_ebcg_en.pdf).

limited because EU agencies tend to rely heavily on member states and the Commission for patronage, mandate and budget (Collett, 2015).

### *3. Continue to build partnerships with neighbourhood countries*

We recognise the efforts that have been made by the EU in its different partnerships with third countries, but the job cannot be regarded as finished while large-scale illegal border crossings continue. Better partnerships can help to contain refugee and other immigration inflows into the EU. Rowthorn (2015) emphasises the importance of supporting refugee-hosting countries in conflict regions, including the improvement of the conditions in their refugee camps. Mayer and Mehregani (2016) argue that it is necessary to work with the regions of origin, even though EU national asylum systems also need to be improved. Collett *et al* (2016) stress the importance of obtaining the consent of origin countries to the successful and safe return of ineligible or temporary migrants, and also the importance of their role as providers of occupational and educational information that can help host countries recognise and validate the skills and competences of migrants.

### *4. Provide additional funding for border protection, neighbourhood partnerships and immigrant integration*

The EU should not be shy of offering further financial assistance to Turkey and Balkan and north-African countries, under transparent conditions, if that would help to contain illegal border crossings. Likewise, EU financial resources for border protection should be reconsidered. Given that immigration is a top concern of citizens, we recommend mobilising larger funds than what has been deployed so far – which altogether amounts to rather the small amount of about 2-3 percent of the current Multiannual Financial Framework, which also includes spending on EU agencies not related to migration (Box 3). In our assessment, this is a very small share given the importance of immigration as a major public concern. Kamarás *et al* (2016) also conclude that limited amounts of appropriations are available within

the current MFF to address the refugee and migration crisis. A previous independent assessment of the use of EU funds for asylum and migration concluded that overall the implementation of the funds has been efficient (Hausemer *et al*, 2015). Since there are limited options to reallocate funds within the current MFF, *ad-hoc* instruments outside the MFF should be deployed, possibly with contributions from member states. For the upcoming negotiations on the next MFF, we recommend giving a much more prominent place to migration and border control than under the current MFF.

#### *5. Ensure the consistent implementation of the EU's asylum rules*

The EU's widely different asylum application acceptance rates, with some countries accepting only 10-20 percent of applications while others accept 80-90 percent, is only partially explained by the different composition of flows of asylum seekers in terms of their countries of citizenship and their age and gender (Leerkes, 2015). A more important reason is different implementation of the EU's asylum rules. This is a major problem. Applications should be assessed thoroughly and those who do not meet the conditions for humanitarian help should not be permitted to enter the EU. But the different implementation of EU asylum rules might lead to the rejection of applications of those genuinely in need of humanitarian help. Therefore, consistent implementation of asylum rules is essential. EU institutions and member states should work out clear guidelines for the evaluation of asylum applications, and ensure their consistent implementation.

#### *6. Share the burden of refugees between EU countries*

An improved Common European Refugee Policy is essential for providing border control, security and harmonised management of refugees, which member states otherwise cannot effectively provide. But even if the policy is improved, the burden will continue to be distributed among EU members unevenly, especially if the first-point-of-entry rule is strictly enforced. In line with Article 78(3) of the Treaty on the Functioning of

the European Union saying that “In the event of one or more Member States being confronted with an emergency situation characterised by a sudden inflow of nationals of third countries, the Council, on a proposal from the Commission, may adopt provisional measures for the benefit of the member State(s) concerned”, financial support to first-entry countries to overcome unequal burdens is inevitable. In our view there might not be a need to create a new EU fund for this reason; rather, it should be enough to step up the use of the various existing EU funds (see Box 3).

Relocation of refugees from overburdened countries should be a preferred strategy. The composition of people to be relocated in terms of their country of origin and socio-economic characteristics should be the same as those who are not relocated, for example, overburdened countries should not aim to keep the highly-educated and relocate only the low-educated refugees. However, we share the view of Bordignon and Moriconi (2017), who argue that the EU’s requirement to relocate refugees to countries with high political and ideological resistance against accepting them is not viable. Instead, asking for financial compensation is more sustainable than relocating refugees to these countries.

The key question is the form of the financial compensation. In our view, the European Commission’s original proposal for a lump-sum solidarity fee is more reasonable than the European Parliament’s modification which would make access to European Structural Funds conditional on participation in the relocation system. We regard the two issues (refugee relocation and Structural Funds) as completely separate and therefore advise against overlapping them. Structural Funds have a stated purpose and in our view these payments should be curtailed only if expenditures do not effectively serve the purpose or if the importance of the purpose diminishes because of the emergence of other priorities. The distribution of Structural Funds is very uneven within the EU, and non-participating countries would be impacted differently by a partial or even full suspension of EU Structural Funds payments. By contrast, a lump-sum payment made by a country each time it rejects the relocation of a refugee to its territory would impact each non-participating EU country equally.



Furthermore, the lump-sum solidarity fee could be immediately redirected to countries which are forced to host more refugees because of the rejection of the relocation system by other countries, while the non-used portion of Structural Funds cannot be reallocated in such a way.

*7. Improve refugee identification by issuing a European ID to each refugee and creating a pan-European registry of refugees, linked to national central registries*

The identification of refugees poses immense challenges. Identification would be greatly facilitated by the issuing of a European ID to each refugee and the introduction of a pan-European registry for refugees, as our survey presented in chapter 6 showed. The ID should include the refugee's personal information, including biometric information such as a fingerprint. The pan-European registry should be accessible online for relevant institutions. The pan-European registry would also allow monitoring the movements of asylum seekers and refugees within the EU and thereby prevent multiple asylum applications by the same person in different EU countries. The issuing of such IDs and the establishment of the accompanying system would involve significant costs. However, since immigration is a top concern for EU citizens, an up-to-date registry on refugees would be essential.

*8. Learn from the best practices in terms of integration of immigrants*

We found major differences between EU countries in terms of the integration of second-generation immigrants. For example, in Sweden and the United Kingdom, second-generation immigrants perform similarly to natives in terms of labour market participation, education and other indicators of integration. But in most other EU countries, such as Belgium and Italy, second-generation immigrants significantly underperform compared to natives. This suggests that the effectiveness of integration varies significantly in different EU countries.

There are significant differences in welcome and integration policies in EU countries. Underlying this are differences in cultural attitudes and societal perceptions of the contribution of immigrants.

Based on these perceptions, countries might promote early integration (as in Denmark or Germany) and prevent segregation (Sweden), or not. Models such as that in Italy, for instance, where the relocation of refugees throughout the country is decided by the central government and integration policies are left to local communities, accentuate differences in treatment (Bordignon and Moriconi, 2017). Waiting times in asylum decision-making and in the relocation process are also very long in a number of countries, and should be reduced.

The private sector could also put in place useful initiatives, as our survey in chapter 6 suggests. For example, companies could volunteer to employ refugees short-term in order to give them their first work experience in the host country. Public authorities could foster such initiatives by setting up a system in which companies can indicate their voluntary commitments.

Another important proposal from our survey relates to the organisation of training programmes. For example, tailored introductory programmes could help to overcome lack of information and poor access to informal networks (as also suggested by Aiyar *et al*, 2016). Strøm *et al* (2017) find that language distance partly explains differences between immigrants and natives' wages and access to the labour market. Language courses tailored to communities with different linguistic distances to the host countries would facilitate social and labour market integration, as would fast-track professional training and exams when the refugees' qualifications are not directly accepted in the host country.

Cooperation with social enterprises and associations on certain working activities, vocational training and cultural exchange would also facilitate social inclusion. Papademetriou and Benton (2016) recommend that governments engage employers and social partners in integration efforts as part of a forward-looking strategy.

Monitoring integration over the long-term is another important recommendation (Bordignon and Moriconi, 2017). Our proposal of a European ID for refugees and a pan-European registry would greatly facilitate such monitoring.

### *9. Combat educational and spatial segregation*

Combating educational and spatial segregation is a priority for integration of migrants and refugees. Early childhood education is crucial for disadvantaged families, a category that many migrant children belong to. Heckman (2012) highlights that in disadvantaged families the highest rate of return in early childhood development comes from investing as early as possible, because skills beget skills in a complementary and dynamic way. Language courses and professional training to foster the acceptance of qualifications are indispensable for recently arrived adult migrants. Enabling young immigrants and second generation migrants to access higher education would greatly foster their integration, as our findings in chapter 5 demonstrate.

The European Commission (2015) has suggested the use of European Structural and Investment Funds to support desegregation measures (eg inclusion of children in the mainstream school system through school-bus services, relocation of marginalised families to mixed neighbourhoods underpinned by provision of social housing and soft measures such as community development, mediation, and social assistance). Bolt (2009) reviews desegregation policies in European countries and finds that housing diversification is the most common, but there is still a significant gap between the rhetoric and the implementation of desegregation policies.

### *10. Ensure the EU strategy for integration is well articulated with national governments and other institutions*

While integration policy remains a national competence, in June 2016 the European Commission published an Action Plan on Integration (COM (2016) 377 final) with the aim of coordinating a common policy for assisting EU member states to integrate third-country nationals. In our view, this plan includes several useful initiatives and should be more prominently implemented in member states. The proposed actions were framed under a two-way process of integration. It should allow third-country nationals to embrace the

EU's fundamental values and to learn the language of the host country. But it should also offer them meaningful opportunities to participate in the economy and society of the host country. The proposals are made under five headings (pre-departure and pre-arrival measures; education; labour market integration and access to vocational training; access to basic services; and active participation and social inclusion) and would be implemented through policy coordination and funding. Other than that, the Commission proposes several other measures:

- To start pre-departure and pre-arrival measures with an emphasis on priority third countries and engaging member states to strengthen cooperation with these countries and measures;
- To provide education support, online language assessment and learning for newly arrived third country nationals, especially refugees;
- To promote labour market integration and access to vocational training through support for early recognition of academic qualifications of third-country nationals including refugees;
- To use the Asylum Migration and Integration Fund (AMIF) to launch projects that 'fast track' the insertion of refugees into the labour market;
- To improve housing, health and social infrastructure with the help of EU funds and the European Investment Bank and to facilitate refugees' access to such basic services.

Veloso Leão *et al* (2017) write that ensuring coordination between different policy areas, governance levels and member states is one of the main challenges in the implementation of the EU action plan. The authors hence suggest an evaluation of the impact of the functioning European tools for policy coordination, eg the European Integration Network and the AMIF, on policy actions and outcomes in member states.

### *11. Review financial regulation to promote the financial inclusion of refugees*

There are contradictory forces at work with regard to financial regulation and financial inclusion. The continuing tightening of financial regulation and oversight of the financial sector (which is important in the fight against money laundering and terrorist financing) is working against the economic integration of refugees. Our survey of banks (chapter 6) showed that the majority of banks with refugee clients regard the know-your-customer (KYC) regulations in the EU as either somewhat or overly restrictive, rather than striking the right balance between the need to offer financial services to refugees and the anti-money laundering and counter-terrorist financing goals. National authorities should review the implementation of their specific KYC rules and those countries that have not done so far should provide clear guidelines about the financial inclusion of refugees (about half of EU countries have not yet provided guidance). Consistency with other regulations, such as the Payment Accounts Directive should also be reviewed.

The European ID for refugees and the pan-European registry, to which financial institutions would have access, would also foster financial inclusion. And financial institutions themselves could also take further steps, for example by establishing special units with employees who speak different languages, producing internal written guidelines and offering training to staff on the financial inclusion of refugees. Financial institutions could also volunteer to organise training for refugees, set up dedicated websites and issue booklets to promote the financial inclusion of refugees.

### *12. Address labour shortages*

Business surveys indicate that labour shortages are at historically highs in most central and eastern European and north-west EU countries (Figure 24 in chapter 4). In general, labour shortages could be overcome by immigration (either from other EU countries or from non-EU countries), increased supply of domestic workers and by robotisation. Robotisation is at best a long-term prospect and not all tasks can be

performed by robots, while there is often resistance to immigration from outside the EU. Emigration from central and eastern Europe to north-western EU countries reduces labour shortages in the later and increases them in the former.

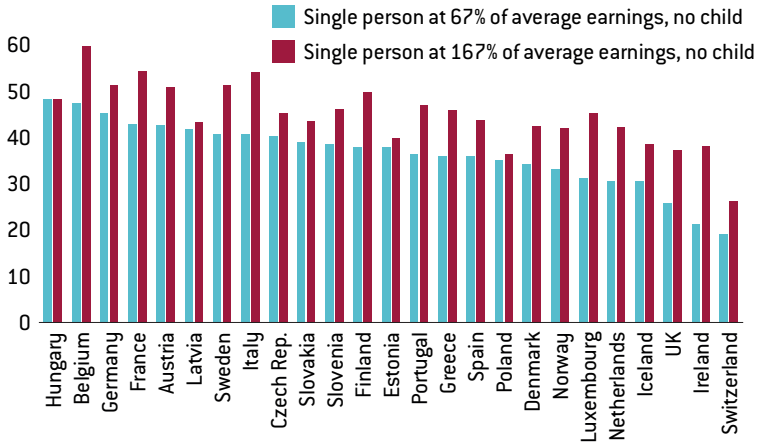
Measures in both regions should include:

- Steps to foster greater labour-force participation;
- A careful examination of public sector efficiency. The resulting reduction in public sector employment would free up more workers for the private sector;
- Training programmes targeting the professions and skills suffering from the greatest shortages should be prioritised;
- When labour shortages affect relatively low-paid jobs, such as in the construction sector (as business surveys indicate), increasing the progressivity of personal income tax and social security contributions (by cutting rates applied to low earners and increasing the rates applied to high earners) would facilitate a net income increase for low earners in a budget neutral way. Figure 56 shows that the tax wedge (the share of all taxes and social security contributions in labour costs) of single earners at 67 percent of the average wage is not much lower than the tax wedge of single earners at 167 percent of the average wage in several countries. Even in countries with a larger gap, there could be scope for further increases in progressiveness. Furthermore, a lower total tax and social security burden on low-income earners would facilitate a reduction in the black economy.

In central and eastern European countries, higher net wages throughout the wage distribution could slow emigration and speed up return migration. Cutting labour taxes and social security contributions while increasing other taxes (in a fiscally-neutral way) might facilitate net wage increases without increasing the overall wage bill for companies and undermining fiscal sustainability. Wealth and inheritance taxes are important candidates to counterbalance the labour tax reduction;

such tax adjustments would also foster more inclusive growth, as argued by Darvas and Wolff (2016).

**Figure 56: Tax wedge, 2016 (percent of total labour cost)**



Source: OECD Tax wedge data, <https://data.oecd.org/tax/tax-wedge.htm>. Note: Tax wedge is defined as the ratio between the amount of taxes and social security contributions paid after an employee (both by the employee and the employer) and the corresponding total labour cost for the employer. This indicator is measured in percentage of labour cost.

Among OECD countries, the tax wedge for low-wage earners is highest in Hungary, but there is room for manoeuvre to reduce the tax wedge in all other central and eastern European countries (Figure 56). For five of the six central and eastern European countries for which data is available, the tax wedge of low-wage earners is even higher than in the highly-indebted Greece and Spain, and in all central and eastern European countries it is much higher than in Switzerland, the country with the lowest tax wedge in Europe<sup>52</sup>.

52 For example, by reducing the tax wedge of low-wage earners to the Swiss level, the net wage of low-wage earners (who earn 67 percent of the average wage) could be increased by 56 percent in Hungary, 39 percent in Latvia, 32-35 percent in the Czech Republic, Slovakia and Slovenia and 25 percent in Poland, without influencing the gross labour cost faced by companies. Certainly, such a large reduction in the tax wedge would necessitate a major recalibration of the tax system by increasing other taxes.

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## PEOPLE ON THE MOVE: MIGRATION AND MOBILITY IN THE EUROPEAN UNION

Immigration tops the list of challenges of greatest concern to European Union citizens. While in the past immigration was primarily driven by economic motives and family reunification, in the last few years Europe has experienced a surge of asylum seekers, in particular from war-torn countries. In addition, some EU countries have seen significant inflows of EU citizens taking advantage of their freedom of movement rights.

Such movements of people pose major challenges for policymakers. EU countries must integrate immigrants while managing often distorted public perceptions of immigration. To meet the challenges, a better evidence base is needed that accurately describes the scale of the challenge, the impacts of immigration on European labour markets and public finances, the successes and failures of EU countries in integrating immigrants, and the hurdles refugees face, such as financial inclusion. This Blueprint offers an in-depth study that contributes to the evidence base and sets out twelve policy recommendations related to public dialogue, refugees, integration of immigrants and labour shortages.

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