

# Social protection systems in the EU-25 – ready for increased labour mobility?

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Introduction .....	1
I. East-West migration in Europe.....	3
I.1. Total CEE-10 population in the EU-15 member states.....	3
I.2. East-West migration patterns – the example of Germany and Poland .....	4
II. EU legislation pertaining to the mobility of persons .....	8
II.1. General principles .....	8
II.2. Regulations concerning the 2004 enlargement.....	9
III. National social policies in the light of Eastern enlargement.....	11
III.1. Eligibility to social protection benefits in the EU-15 member states .....	11
III.2. Redistributive elements in branches of social protection.....	12
III.3. Contributions to and benefits from social Sprotection systems in the EU-15..	14
IV. Assessing the impact of East-West migration on European welfare states .....	16
Conclusion.....	18
Bibliography .....	19

## Introduction

The two most recent enlargements of the European Union in 2004 and 2007 increased its population by more than 100 million inhabitants. The GDP per capita of the acceding countries at the time of accession ranged between 40 and 80 per cent of the old member states (EU-15) for the 2004 enlargement and around one third for the 2007 round. The scale of the enlargements – unprecedented in the history of the EU – and the strong income differences raised concerns in the old member states that their labour markets and their social protection systems might be seriously affected by a wave of immigration from the new member states.<sup>1</sup> In order to alleviate the presumed negative

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<sup>1</sup> These fears are, however, by no means new and were already an issue during the southward enlargements of the 1980s (see ERICKSON/KURUVILLA 1994)

impact of a potential wave of immigration, a ‘transitional period’ of seven years was negotiated during which the old member states could choose to limit immigration from the new Central and East European (CEE) member states.<sup>2</sup>

This paper analyses the potential impact of migration on social protection systems in the EU-25.<sup>3</sup> Whether an immigrant is a boon or a bane for the financing of social protection in the host country depends on his overall net contribution, which in turn depends on his socio-economic characteristics. It may be positive (e.g. when relatively young immigrants contribute to pay-as-you-go pension systems), neutral (e.g. in funded pension systems), or negative (e.g. when an immigrant contributes less to health insurance than the average while being at normal risk). Symmetrically, emigrants may burden or alleviate the social budget of the sending state. If they were unemployed in the sending state, emigration may take pressure from the social budget. However, if highly qualified labour leaves the country to work abroad (the so-called “brain drain”), it may have the opposite effect.

Thus, it is insufficient to simply study the “generosity” of social security systems in terms of gross benefits. Only a detailed study of contributions and eligibility conditions makes the analysis complete. Therefore, in what follows, all major areas of social protection in the EU-25 member states are analysed with regard to the relevant dimensions: the financing principles of social protection, the criteria for receiving benefits, and the conditions for immigrants to be full members of these social protection systems. By examining single policy areas with respect to their specific provisions, we empirically back widely discussed social policy models such as the Esping-Andersen classification which distinguishes liberal, conservative, and social democratic social policy regimes (ESPING-ANDERSEN 1990). The scheme for calculating contributions, waiting periods for eligibility, and the conditions for payment of benefits are all important elements to determine the role of migrants in social protection systems.

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<sup>2</sup> Such measures were not introduced against immigration from Cyprus and Malta (see the respective Annexes V to the Act of Accession 2003).

<sup>3</sup> The paper is limited to the EU-25 since detailed comparative accounts of social security systems are not yet available for Bulgaria and Romania (compare MISSOC 2006).

## I. East-West migration in Europe

Migration will only be neutral with regard to the social budget if (prior) contributions and benefits are more or less proportional. If they are not, then the socio-economic characteristics of migrants (age, number of children, average income etc.) determine the net gains or losses for social protection in the source and destination countries.

In order to assess the impact of migration from the formerly communist states that now are part of the EU-27, we will first give an overview of the major sending and receiving states in the pre-enlargement phase. Second, at the example of Germany—the largest receiving state—we will inquire more deeply into the structure and development of migration in the past decade.

### 1.1. Total CEE-10 population in the EU-15 member states

At the time of the last round of Eurostat censuses, there were around one million people residing in the EU-15 with citizenship of one of the Central and Eastern European countries that joined the EU between 2004 and 2007.<sup>4</sup>

Tab. 1: Residents with CEE8 citizenship in EU-15 countries by country groups, 2001

EU-15 country	Residents with CEE8 citizenship in EU-15 (2001)							% of total Total population	
	Poland	Cz. Rep./ Slovakia	Hungary	Slovenia	Baltic States	Bulgaria	Romania		
Belgium	8	1	1	0	0	1	3	15	0,1%
Denmark	6	1	0	0	2	0	2	12	0,2%
Germany	301	60	54	19	21	34	90	580	0,7%
Greece	13	1	1	0	0	35	1	50	0,5%
Spain	16	2	1	0	5	26	6	56	0,1%
France	34	2	3	1	1	3	4	48	0,1%
Ireland	2	2	0	0	4	1	4	13	0,3%
Italy	27	4	3	3	1	7	4	49	0,1%
Luxembourg	1	0	0	0	0	0	0	1	0,3%
Netherlands	6	1	2	0	1	1	2	12	0,0%
Austria	22	7	13	7	0	4	13	67	0,8%
Portugal	0	0	0	0	0	1	0	2	0,0%
Finland	1	11	1	0	11	0	1	25	0,5%
Sweden	17	2	3	1	3	1	4	30	0,3%
UK (a)	61	12	13	1	11	5	8	111	0,2%
Total population in EU-15	514	106	96	32	62	120	142	1072	0,3%
% of resident population (country of origin)	1,3%	0,7%	0,9%	1,6%	0,9%	1,5%	0,7%	1,0%	

(a) Country of birth

Source: own calculations, based Eurostat 2001 Census statistics, except for Germany based on Central Register for Foreigners (Ausländerzentralregister)

About half of these migrants were of Polish origin. Poland not only is the largest of the new member states, but also has a relatively high share of emigrants compared to its

<sup>4</sup> Due to a lack of official migration flow statistics, the most reliable data for migration are those on stocks of foreigners in the source countries (see DOCQUIER/ HARFOUK 2005: 7).

resident population. This share was the highest for Slovenia: a total of 30,000 people was living in EU-15, representing 1.6 per cent of its resident population.

The countries bordering the new member states have the highest share of CEE10 immigrants, indicating that geography plays a central role in migration decisions (BRÜCKER ET AL. 2003: 4). This does not only concern Germany and Austria, but also Finland and – to a lesser extent – Sweden. In Southern Europe, only Greece has a comparably high share of CEE immigrants, more than two thirds coming from neighbouring Bulgaria.

Among the receiving states, Germany was by far the most popular in absolute terms. Almost 500,000 citizens of CEE8 countries resided in Germany in 2001.

In order to establish the total number of long-term or permanent emigrants, it has to be borne in mind that some immigrants from CEE10 countries have acquired the host country's citizenship since the late 1980s and are thus no longer included in the above statistics. The EU-15 countries bordering the CEE10 are again in the lead. For instance, a total of almost 200,000 Poles have acquired German nationality between 1988 and 2004.<sup>5</sup> Assuming that most of those who have acquired an EU-15 citizenship are actually living in that state, there were about 1.6 million former or current CEE10 citizens living in the EU-15, representing 1.6 per cent of the sending states' resident population on average, and 0.4 per cent in the receiving states.<sup>6</sup>

### ***1.2. East-West migration patterns – the example of Germany and Poland***

When looking at East-West migration, one should keep in mind that it is selective. Especially at times of relatively high unemployment in the receiving states, finding an employment contract worth immigrating for mostly requires some minimal qualifications. Also, the figures suggest that the young are generally more mobile than the middle-aged—to the benefit of pay-as-you-go pension systems in the receiving states which are under pressure due to the high share of pensioners in the total population.

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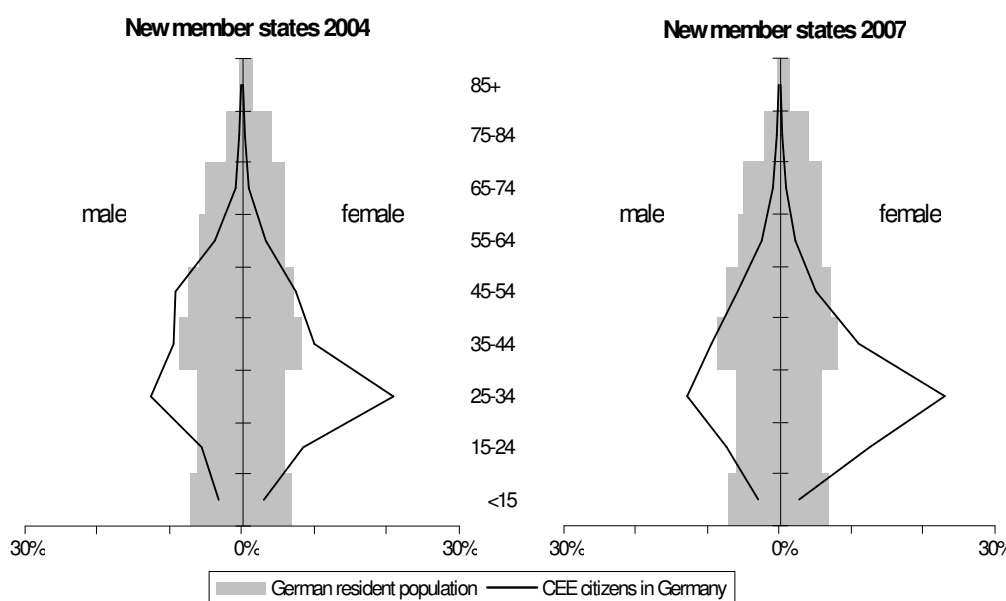
<sup>5</sup> The data does not give any information about the country of residence of this group. ([http://www.imiscoe.org/natac/acquisition\\_statistics.html](http://www.imiscoe.org/natac/acquisition_statistics.html))

<sup>6</sup> Compare estimates in BRÜCKER ET AL. 2003: 3

***Age profile of migrants compared to sending and receiving states' populations***

Figure 1 shows that the age profile of immigrants from the new member states are very different from the average resident population in Germany.<sup>7</sup> The share of children and the share of the elderly are lower than on average, while the share of young working-age people is much higher. For the eight new CEE member states of the 2004 wave as well as for Bulgaria and Romania, there is a strong peak in the age group between 25 and 34 years. This is especially true for women: almost one quarter of total immigrants from the new member states are women in this age group.

*Fig. 1: Germany: Age profile of citizens from the new member states (Dec 31<sup>st</sup>, 2005)*



Source: own calculations, based on STATISTISCHES BUNDESAMT 2006a, 2007

A closer look at the age profile of immigrants from the new member states having lived in Germany in 2005 reveals that the share of immigrants in working-age is considerably higher than in the total population. Whereas 60.8 per cent of the resident population in Germany was between 20 and 65 years old, the respective share was almost 90 per cent for the CEE citizens.

<sup>7</sup> The figures are based on the population with foreign citizenship and therefore does not include those who have taken up German citizenship (e.g. ethnic Germans).

Tab. 2: CEE-10 citizens residing and total population in Germany

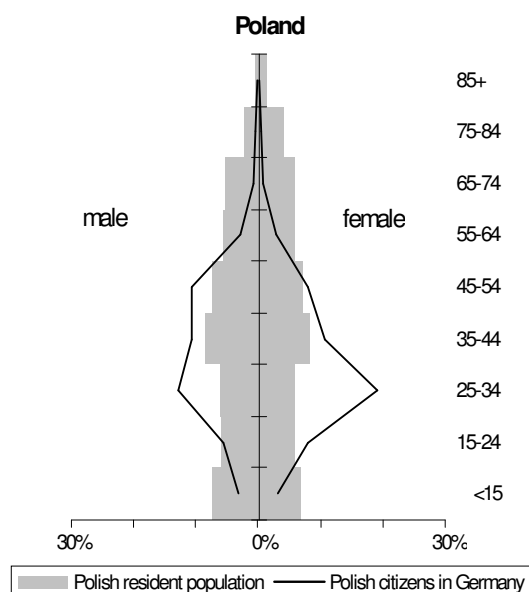
Citizenship	Total (in 1000)	of which (%)		of which working age (20-65)			Average age		
		female	male	all	female	male	all	female	male
<b>CEEC8 2004</b>	<b>490</b>	<b>54,1</b>	<b>45,9</b>	<b>87,3</b>	<b>88,1</b>	<b>85,9</b>	<b>36</b>	<b>35</b>	<b>37</b>
Poland	327	53,3	46,7	87,6	87,9	87,3	36	35	37
Czech Republic/Slovakia	62	61,4	38,6	88,2	90,3	84,9	34	34	36
Hungary	49	42,8	57,2	90,4	89,6	91,1	39	37	40
Baltic States	31	68,6	31,4	80,4	85,6	69,2	32	32	32
Slovenia	21	50,0	50,0	82,5	84,3	80,8	46	46	47
<b>CEEC2 2007</b>	<b>112</b>	<b>57,9</b>	<b>42,1</b>	<b>86,8</b>	<b>88,1</b>	<b>85,0</b>	<b>34</b>	<b>33</b>	<b>35</b>
Romania	73	58,6	41,4	86,4	87,8	84,5	34	34	35
Bulgaria	39	56,6	43,4	87,5	88,7	86,1	32	31	34
Total resident population	82438	51,1	48,9	60,8	58,8	62,8	42	44	41

Source: own calculations, based on STATISTISCHES BUNDESAMT 2006a

Of course, the figures have to be interpreted carefully. On the one hand, they include all foreign citizens living on German territory, no matter what the reason for their immigration was. The figures for Slovenia include a wave of asylum seekers that fled from war in former Yugoslavia. However, figures do not include immigrants that have been naturalised. Since the late 1980s, more than 200,000 Poles acquired German citizenship.<sup>8</sup> However, in 2005 their age profile was similar to that of their former nationals residing in Germany, with an average age of 36 years and a working-age share of 75 per cent.

<sup>8</sup> Figures are also excluding illegal immigrants. However, they do not have a strong impact on the financing of social protection in the host country since they neither pay contributions nor do they receive benefits (SCHMÄHL 2004: 25).

Fig. 2: Poland: Age profile of resident population and of emigrants living in Germany (Dec 31<sup>st</sup>, 2005)



Own calculation, based on GŁOWNY URZĄD STATYSTYCZNY 2004, STATISTISCHES BUNDESAMT 2007

A look at the age structure of the Polish resident population shows that the ‘beneficial’ age profile of Poles living in Germany cannot be attributed to the demography of Poland. Though the Polish resident population is younger than the German (an estimated 32 per cent were forecast to be under 25 in 2005, compared to only 25 per cent in Germany), the age profile of the emigrants is clearly dominated by working-age people (87.6 per cent, compared to 63.0 per cent in the resident population).

### ***Qualifications and employment***

Results from the 2004 Census in Germany show that 34.4 per cent of Poles having migrated to Germany have a high school diploma and 8.3 per cent a university degree, compared to only 19.4 and 6.2 per cent of the resident population, respectively (STATISTISCHES BUNDESAMT 2006b: 138-9, 154-5). This points towards a ‘new’ type of migration compared to earlier waves with a relatively large share of high-skilled (see KOSER/LUTZ 1998: 2).<sup>9</sup>

The selectiveness of migration also implies that there is a certain ‘brain drain’ in the source countries. According to Polish Census statistics for 2002 (GŁOWNY URZĄD STATYSTYCZNY 2003), only 23.7 per cent of the population had a high school diploma

<sup>9</sup> For comparison, the share of Turkish immigrants with a highschool education is only 5.7 per cent, and no more than one per cent hold a university degree.

(compared to 34.4 per cent of Poles having emigrated to Germany), and only 4.9 a university degree (compared to 8.3 per cent).

The higher average qualification of Polish immigrants is also reflected in their employment structure. With an unemployment rate of 15.8 per cent and a share of self-employed of 9.7 per cent, they fare worse than the resident population (11.1 per cent unemployed, 11.2 per cent self-employed), but much better than e.g. Turkish immigrants with 22.1 and 8.1 per cent, respectively (STATISTISCHES BUNDESAMT 2006b).

## **II. EU legislation pertaining to the mobility of persons**

As a second analytical step towards appraising the impact of the EU eastern enlargement on migration between the member states, it is important to note the precise regulation of the mobility of persons. We need to distinguish between the Union's general principles and the way migration is regulated for the 2004 enlargement.<sup>10</sup> After discussing the general principles for the mobility of persons in the EU, we will compare the regulations concerning the transitional period (2004 until 2011 the latest) introduced by the old member states.

### ***II.1. General principles***

The “four fundamental freedoms”, i.e. the free movement of goods, workers, services and capital, were at the heart of the European project since its early days (see Part III of the Treaty of Rome).

The free movement for persons is limited to workers, or—more precisely—to those taking up an employment in another member state. The free movement of workers also allows them to look for employment in other member states. Legal practice of the European Court of Justice generally limits these stays to six months. For the first three months, migrants can claim unemployment benefits in their home country while residing abroad. After this period, EU citizens can claim social benefits in the host country unless it can be shown that this was the sole reason for their immigration.<sup>11</sup>

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<sup>10</sup> Similar regulations as those described here apply to the 2007 enlargement of the EU to Bulgaria and Romania (EUROPEAN COMMISSION 2007).

<sup>11</sup> This of course explains the predominance of working-age migrants as shown in the German case (see p. 5).



When claiming social benefits in the host country during the time of seeking employment, EU citizens may in principle not be discriminated against. This means that if social benefits are granted to all citizens of a member state, then citizens from other member states are also covered. On the contrary, those branches of social protection which are based on the insurance principle and where benefits depend on previous payments into the system, immigrants will not be entitled to any claims (SINN ET AL. 2001: 122-4).

Where benefits are tied to certain periods of contribution as in most pension schemes (see part II), Art. 42 (a) provides for the aggregation of all contribution periods in an individual's biography—irrespective of the countries where the contributions were paid. Thus, if an individual has already worked in his home country (or a third country in the EU) and contributed to social security before immigrating to one of the old member states, non discrimination requires that this contribution period will have to be fully taken into account when determining benefits in the new host country (MOSLEY 1990: 150). However, the total amount of, e.g., pension benefits is not paid by the host country, but divided between the countries in which the claimant has paid contributions (see SINN ET AL. 2001: 144 for details).

To summarize, EU legislation privileges the mobility of the working-age population and the possibility to keep entitlements to social benefits when crossing the borders. By splitting the financing of pension benefits between countries according to the individual's employment biography, an over-proportional of receiving states is avoided.

## ***II.2. Regulations concerning the 2004 enlargement***

Responding to the concerns of a number of member states (most notably Germany and Austria) that massive migration would set in if allowing free movement of workers after the 2004 enlargement, a transitional period was negotiated during which each of the old member states may limit access of migrants to their labour markets for up to seven years after accession in the case of a threat of "serious disturbances of its labour markets" (Annex V to the Act of Accession 2003 of the eight new CEE member states).

Tab. 3: *Transitional restrictions on labour mobility applied by the EU-15 member states (Phases 1 & 2)*

EU-15 Member State	Phase 1		Phase 2			
	2004	2005	2006	2007	2008	2009
Germany	Work permits/limitations for posted workers in certain sectors					
Austria	Work permits/limitations for posted workers in certain sectors					
Netherlands	Work permits (simplified for some sectors)			no restrictions		
Belgium	Work permits		Work permits (to be abolished when certain conditions are met)			
Luxemburg	Work permits					
France	Work permits (with some exceptions)					
Spain	Work permits		no restrictions			
Portugal	Quota system		no restrictions			
Italy	Work permits/quota system		no restrictions			
Greece	Work permits		no restrictions			
Denmark	Work permits (simplified)					
Finland	Work permits		no restrictions			
Sweden	no restrictions					
UK	no restrictions					
Ireland	no restrictions					

Source: own illustration, based on EUROPEAN COMMISSION 2007

While some of the old member states have liberalised access to their labour markets from the start (UK, Ireland, and Sweden), others have retained the same restrictions to workers from the eight new CEE member states that apply to foreigners from outside the EU. In addition to the work permit system, Germany and Austria have also limited access for posted workers—normally covered by Art. 49 TEU on the freedom to provide services—in certain sectors such as construction.

### III. National social policies in the light of Eastern enlargement

As shown in part I, some of the old member states still limit the access of immigrants from the new member states. But even if no transitional restrictions apply, taking up residence in another member state normally requires an employment contract. These restrictions have to be borne in mind when assessing the impact of potential migration flows on the financing of social policy in the new and old member states.

#### III.1. Eligibility to social protection benefits in the EU-15 member states

Once admitted to another member state, entitlement to social security depends on the specific provisions of the system. In some cases (e.g. most health insurance systems), immigrants are covered from the day of arrival, while in other cases (e.g. pension schemes), they have to contribute for a long time before being entitled to benefits (or having contributed to the respective systems in their countries of origin).

Tab. 4: Eligibility conditions by branch of social protection in the EU-15 member states

	Sickness (in kind)		Sickness (in cash)		Invalidity		Old age		Unemployment		Sufficient resources	
	type	length	type	length	type	length	type	length	type	length	type	length
Austria	-	-	-	-	C	60-180	C	180	C	6	R/N	-/-
Belgium	C	*	E/C	6	C	6	-	-	E	18	R	-
Denmark	R	1.5	E	2/3	R	60	R	120	C	12	R	84/-
Finland	-	-	-	-	R	36/-	R/E	36/1	E	10/-	R	-
France	C	*	E/C	3	C	12	C/-	1/-	C	6	R	-
Germany	-	-	-	-	R	60	C	60	C	12	R	-
Greece	C	2.5	E/C	5	C	0-60	C	200	E	4		
Ireland	R	-	C	6	C	60	C	60	C	9/-	R	-
Italy	R	-	-	-	C	60	C	60	C	24/10	R	-
Luxembourg	-	-	-	-	C	12	C	120	E	6	R	-
Netherlands	-	-	-	-	-	-	-	-	E	6	R	-
Portugal	R	-	E/C	6	C	60	C	180	C	12	R	-
Spain	-	-	C	6	C	0-120	C	180	C	12/-	R	36
Sweden	-	-	-	-	R/C	-/12	R/-	36/-	E	6	R	-
United Kingdom	-	-	C	-	C	12	C	120	C/R	-/-	R	-

type: type of conditions to be fulfilled for receiving benefits  
length: minimal length of fulfilling the respective condition (in months)

R: residence  
E: employment  
C: contributions  
N: Nationality

\* Minimum amount of contributions, i.e. duration depends on income

Source: own illustration, based on MISSOC 2004

It is easy to see from the table 2 that some branches like sufficient resources and health care are more easily accessible than others. The pension schemes are the most restrictive, generally necessitating contributions for several years before touching any benefits.

Across the different branches, the most restrictive conditions on average apply in Greece. For the first 50 working days, health care expenditures are not reimbursed even if persons have already paid contributions during this period. Cash benefits in case of

temporary inability to work are only paid after 100 working days. The Netherlands, on the contrary, are the most liberal in this respect. Not only are immigrants fully covered by health insurance (including cash benefits) from the day of arrival and entitled to a minimum income, they also have pension claims which increase with the number of contribution years.

### ***III.2. Redistributive elements in branches of social protection***

In order to establish whether immigrants are a bane or a boon for the financing of social protection, it is not decisive how “generous” a system is, but whether the overall contributions (including taxes aimed at financing social protection) of migrants fall below or exceed their benefits.

To determine this, a considerable reduction of the complexity of the redistributive systems is necessary. We will make a distinction between systems in which the benefits are roughly proportional to the contributions, and those which have a distinguishable redistributive element. If there is no redistributive element, then the inclusion of new persons will not have a discernible impact on the previous contributors because on average, immigrants’ benefits equal their contributions.

When turning to the redistributive elements of social policy, it is important to distinguish different forms of redistribution. Three major types are important here:

Systems based on the insurance principle, such as sickness or unemployment insurance, redistribute means from those who are actually affected by a certain life situation and those who are not. From the individual perspective, though, the coverage of such risks by insurance can be rational under situations of uncertainty. Thus, though there is de facto redistribution, every individual may have an interest to cover himself. Only if there are predictable a priori differences in risk levels will redistribution be systematic rather than random.

Even though in recent years there is a trend towards funded systems, most European pension systems are based on pay-as-you-go financed schemes, implying inter-generational redistribution. In such a setting, it is not only the current average income of immigrants which determines their net contribution, but also their average age. The impact of migration on such systems is mostly positive, especially in countries with low birth rates and a high ratio of elderly people.

Finally, vertical redistribution, i.e. redistribution between persons with different levels of income, occurs in all systems that are either financed by income-based contributions or taxes while providing the same benefits to everybody (e.g. most health insurance systems), or systems that provide aid for the least well-off (e.g. minimum income guarantees).

While the relative importance of social policies with regard to total costs differs from one country to another, five major areas of social policy can be identified:

- public pensions,
- health care,
- family benefits, and
- unemployment benefits, and
- minimum income guarantees.

For all these schemes, we can operationalise the net contribution of migrants by comparing their payments to the benefits they receive in return.

*Public pensions* do mostly not redistribute between different income groups because even when financed by compulsory and differentiated contributions, benefits are most often proportional to these contributions. However, pay-as-you-go pension schemes in which current old-age benefits are paid by the present contributors may actually benefit from immigration of potential working-age contributors. These inter-generational effects of public pension schemes require a different analytical scheme and will therefore not be treated in detail.

*Health care*, on the other hand, is most often characterized by income-dependent contributions, whereas the public health system provides the same benefits to all individuals unless they have signed additional insurance contracts. Thus, for migrants, the benefits of the health system are the same as for native citizens of a host country, but the contributions vary with their personal income. The difference between an individual's contributions and the average will be taken as a measure for his net contribution to the health care scheme.

*Family benefits*, on the contrary, are most often tax-financed, but the benefits accrue to special groups of individuals only. The most important part are child benefits. Thus, ceteris paribus, if migrants have more children on average, and if these are entitled to benefits, then net contribution within the family and children scheme may be expected

to be negative. There is thus another “dimension” of redistribution between single persons and families. Where these benefits are tax-financed, the two dimensions of redistribution intersect: high-income single persons benefit least, low-income families benefit most.

*Unemployment insurance* is most often contribution-based and does therefore not provide directly for redistribution between high-income and low-income households. However, as indicated above, it redistributes between persons with different risk levels. The higher a person’s probability to be unemployed is, the higher will be his net benefit.

### **III.3. Contributions to and benefits from social Sprotection systems in the EU-15**

Table 3 summarizes the relation between a person’s income on the one hand and the contributions he pays or benefits he receives on the other. A positive number indicates a preferential treatment of lower income groups while a negative number indicates an advantage for higher income groups (i.e. higher benefits due to higher contributions).

The financing of health care has a redistributive character in all the EU member states analysed here, i.e. no country used flat-rate contributions. Still, there are differences as regards the degree of redistribution between different income groups. In Germany, for example, persons with incomes above a certain threshold are free to choose a private insurance and thus do not contribute to the public health care system.<sup>12</sup> In about half of the countries, co-payments are reduced for low incomes, adding a further redistributive stance within health care.

Child benefits are also financed by income-related contributions or taxes, while benefits are either flat-rate or decreasing with income (i.e. only paid to incomes below a certain threshold).

Within both systems, migration means a financial loss for the social protection system of the source country if:

- their (potential) income would be above average in the source country
- they are less prone to sickness than the average population (i.e. young migrants)
- they have less children than the average if these are entitled to benefits

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<sup>12</sup> Though it is often argued that the fees their insurance pays—which are often higher than those paid by the public health care system—are an important element for financing health care.

The opposite is true for the receiving state. If the demographic characteristics of the source and destination countries are similar, then a loss for one state means a gain for the other. However, when comparing a migrant's income to the average, it is possible that it would have been above average in the home country while being below average in the receiving state, e.g. for university graduates from the new member states that take up work in the old member states for which they are over-qualified. In such cases, both countries lose out.

Tab. 5: Contributions and benefits in relation to income

Member state	Sickness (in kind)		Sickness (in cash)		Old age		Unemployment		Child benefits	
	F	B	F	B	F	B	F	B	F	B
<b>Old member states</b>										
Austria	1	0	1	-1	1	-1	1	-1	2/T	1
Belgium	2	1	2	-1	2	-1	2	-1	2	0
Denmark	T	0	T/2	-1	T/0	0	2/0	-1	T	0
Finland	T	1	2	-1	2	-1	3/1	0/-1	T	0
France	2	1	2	-1	1	-1	1	-1/0	2	0
Germany	1/0	1/0	1	-1	1	-1	1	-1	T	0
Greece	1	0	1	-1	1	-1	1	-1	1	0
Ireland	3	0	2	0	2	0	2	0	T	0
Italy	2	1	2	-1	2	-1	2	-1	2	3
Luxembourg	1	1	1	-2	1	-1	T	-1	1	0
Netherlands	1/0	0	2	-1	1	0	2	-1/0	T	0
Portugal	T	1	2	-1	2	-2	2	-1/0	T	2
Spain	T	0	1	-2	1	-1	1	-1/0	T	1
Sweden	T	1	2	-2	1	-1	2/1	0/-1	T	0
United Kingdom	T/2	1	2	0	2	-1	2/T	0	T	0
<b>New CEE member states 2004</b>										
Czech Republic	2	0	2	-1	2	-1	2	-1	T	3
Estonia	2	0	2	-2	2	-1	2/T	-1/0	T	0
Hungary	2	1	2	-2	1	-2	2	-1	T	0
Latvia	T	1	1	-2	1	-1	1	-1	T	0
Lithuania	2/T	0	2	-1	2	-1	2	0	T	0
Poland	2	0	T	-2	1	-1	2	0	T	0
Slovakia	2	1	2	-1	1	-1	2	-1	T	0
Slovenia	2	0	2	-1	2	-1	2	-1	T	2

F Financing  
B Benefits

*Code Financing*

3 contribution increases overproportionally with income  
2 contribution increases proportionally with income (fixed % rate)  
1 contribution increases underproportionally with income  
0 contribution equal for all (lump sum)  
-1  
-2

*Benefits*

benefits decrease overproportionally with income  
benefits decrease proportionally with income  
benefits decrease underproportionally with income  
benefits the same for all (flat rate)  
benefits grow underproportionally with income  
benefits grow proportionally with income (% rate)

Source: MISSOC 2004

Turning to unemployment benefits, pensions, and cash benefits in case of sickness, the picture is more mixed. In Germany, Austria, and Greece, these systems do not have a distinguishable impact on vertical redistribution (i.e. distribution between income groups). The former two represent the classical conservative or corporate welfare

regimes, in which entitlements to benefits depend on income status and thus maintain existing structures.

In Ireland and the UK, flat rate benefits are common practice. This means that if migrants earn less than the average and/or are at a higher risk, migration will have a negative impact. However, in the case of unemployment and pension benefits, the conditions for eligibility (compare II.1) make it impossible for migrants to draw benefits right away. In the case of old age, they have to contribute in the destination country before being entitled to benefits.<sup>13</sup> In the case of unemployment, though case law allows persons to look for a job in other member states, moving from one member state to another normally requires an employment contract in the country of destination. Thus, at the time of arrival, immigrants already contribute to unemployment insurance without being able to benefit from it. In the short term, migration may be expected to have a positive impact in these areas.

#### **IV. Assessing the impact of East-West migration on European welfare states**

The impact of migration on the financing of social protection in the sending and the receiving states depends on the structural characteristics of the migrants such as age or the number of dependant family members per employee. Some systems are more vulnerable than others, depending on the incorporated redistributive stance.

##### *Structural effects of migration*

The age profile and the relatively low number of dependent children is a common feature that can generally be observed for East-West migration. It is easy to see how immigration of working-age employees can temporarily alleviate pay-as-you-go pension schemes when there is a high share of pensioners in a society (see SCHMÄHL 2004: 24).<sup>14</sup> The number of contributors is increased instantly while entitlements are postponed to the future, alleviating the impact of an ageing society on the system for the years to come.

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<sup>13</sup> This is why migration is generally believed to have a positive impact for the financing of public pensions in pay-as-you-go systems.

<sup>14</sup> Though many reforms have been engaged in the EU member states to promote the development of funded systems, no single member state has an exclusively funded system (see EUROPEAN COMMISSION 2006). Thus, there is at least some inter-generational redistribution in all member states.



In health care, it can be assumed that the comparatively young immigrants are healthier so that they are likely to use health care benefits less intensively than the average in the country of destination. In addition, the number of children per employee—insured without additional contributions in all public health care systems analysed here—is much lower among the immigrant populations from the new member states than in their host countries' resident population (see section I.2).

Thus, there is reason to believe that in health care and in pensions, the overall effect is positive in the receiving states and negative in the sending states, the latter losing an over-proportional share of its working-age population.

### *System-dependent redistributive effects*

Contrary to the effects described above which apply to all of the analysed states and which are symmetric, i.e. a positive impact in the receiving state implies a negative impact in the sending state and vice versa, part of the impact depends on the very design of social security in the respective states. Most notably, the degree to which each system organizes redistribution between different income levels plays a decisive role.

Seemingly counter-intuitively, the 'liberal welfare states' (UK and Ireland, but also Netherlands) have the highest scores on redistribution when comparing calculation of contributions and benefits. This is because they are characterized by flat-rate payments that do not depend upon prior income or contributions, benefits whose primary goal is to combat poverty.

Ireland is the most classical example in this respect: for all branches listed in table 3, the Irish public social security system offers flat-rate benefits only. For example, there is only one public pension which amounted to € 193.30 per week on January 1<sup>st</sup>, 2006—any additional old-age insurance must be contracted with private companies (MISSOC 2006).

In the 'conservative' or 'corporatist' welfare states such as Germany or Austria, on the other hand, benefits are mostly proportional to contributions, except for child benefits, (public) health care and—of course—minimum income guarantees. Pensions, unemployment benefits and sickness cash benefits are tied to prior income and hence contributions. Thus, the impact of migrants on these systems is more or less neutral.

The sending states also have very different social protection systems, though not easily classifiable. Only two countries—Poland and Lithuania—opted for flat-rate

unemployment benefits, and none for flat-rate pensions or sickness cash benefits. Thus, an outflow of high-income emigrants does not have a strong impact on these sub-systems because the respective (potential) claims are reduced more or less proportionally. On the contrary, all health care and child benefits have redistributive impact so that the loss of residents with higher income implies a net financial loss.

## **Conclusion**

To assess the impact of East-West migration on the different member states' social protection systems, it is important to acknowledge the migrants' specific age and qualification structures. As has been shown at the example of the largest single stream of migrants from East to West, i.e. from Poland to Germany, the socio-economic indicators are quite different from earlier waves of immigrants. Most notably, they have on average much higher qualifications than their Turkish counterparts in Germany, and are less struck by unemployment. Thus, studies of the impact of enlargement on the receiving states' welfare systems are likely to have a negative bias if they use the current immigrant population as an estimator for the 'new migrants' (see, e.g., SINN ET AL. 2001).

On the other hand, the endogenous 'positive selection' of migrants implies an outflow of high-skilled labour from the new member states to the EU-15. Next to the considerable consequences this 'brain drain' may have for the economic development of the sending states, it also implies a considerable crowding out of the contribution base. Hence, migration is much more likely to have a negative impact on the welfare states in Central and Eastern Europe rather than in the old member states, especially since the number of migrants per capita is much higher in the sending states.

In order to adequately appraise the overall effect of migration on social protection, a further empirical question has to be addressed: the average income of CEE immigrants in the different age groups. It can be expected to be lower than the average, implying below-average contributions. Thus, the 'waste' of qualifications that often follows from migration has its corollary in a 'waste' of the contribution base: their potentially high contributions are lost in the sending states and their contributions in the receiving state are rather low. Only a targeted policy for integration of immigrants in professional life can counter such waste in the future when barriers to migration are reduced further.

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