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PRESIDENCY NOTE
EU Mobile Workers:
A challenge to public finances?

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1. INTRODUCTION

Free movement of workers is one of the "four freedoms" enjoyed by the EU citizens. Labour mobility is considered to be an important element in a currency union, as it may be one of the factors that contributes to the adjustment to economic shocks.

Besides positive effects, labour mobility can increase unemployment rate in the country of destination when labour supply exceeds labour demand as a consequence of the inflows of workers. In addition, intra-EU inflows of workers can negatively affect labour productivity in country of origin since workers leaving a country are in general younger and better qualified. Moreover, public finances react to the changes in the migration flows through the channel of tax base erosion.

Drivers of labour mobility differ across countries, but often they include differences in per capita income, economic growth and outlook, job opportunities and employee satisfaction, wage gap, tax burden on labour, national conflicts, quality of the health care and tertiary education, quality of public goods / quality of life and incidence of corruption.

The impact of labour mobility on the real economy depends on the qualification and age of the mobile workers but also on the nature and magnitude of flows. Depending on country-specific features and phase of the business cycle, the mobility of workers may be beneficial or detrimental to economic development.

2. CEPS PAPER

In the background paper, Daniel Gros described the effects that labour mobility may exert on the economy. The evidence shows that labour mobility may have positive or negative impact on the economic growth.

According to CEPS, wage gap is one of the drivers of labour mobility. Even if the wage gap among the EU Member States has decreased in recent years, this still represents an issue for new Member States.

Large-scale and protracted migration of labour may also contribute to tax base erosion in the country of origin, and can therefore eventually have an effect on the sustainability of public finances. It tends to have a greater impact in countries with large public debt and government expenditure.

CEPS, however, also observed that the fiscal costs of lower income tax revenue, that may be generated by large-scale migration of labour, may be partially offset by an indirect effect. According to the paper, the emigrants carry out remittances in order to finance the private consumption of their families which results in an increase of the value-added tax revenues in home countries.

3. CHALLENGES

In this field, one of the biggest challenges is related to the brain drain which can hinder the potential output in the country of origin. Brain drain phenomenon may contribute to lower growth and slower income convergence. This may be addressed by national policies to ensure sustainable and inclusive growth, implementing specific sectoral measures, improving institutions, maintaining stability and boosting job creation, modernizing education and health care systems. European policies may also play an important role in ensuring convergence with a moderating effect on the brain drain. The wage gap still remains an important driver of migration.

The impact of labour mobility on eroding the tax base in the country of origin is a fundamental challenge for the Member States as it may affect the soundness of public finances. In this context, the national governments should take the appropriate measures in order to reduce the migration's impact on the government budgetary balance, especially by streamlining government expenditures.

4. ISSUES FOR DISCUSSIONS

The following issues could be taken up as a starting point for further reflections:

- a) What are the main challenges that the European Union is facing in the field of labour mobility? Is migration a real challenge for the EU as a whole or only for certain Member States?
- b) Which are the main drivers of labour mobility? How can governments address the brain drain issue? Is there a need for additional European instruments addressing this issue in countries where the incidence of this phenomenon is high?
- c) What is your opinion about wage gap? Do you think that it should be considered one of the main drivers of migration?
- d) Do you think that public finances of the Member States are weakened by intra-EU labour mobility?

