EU immigration benefits the welfare state in Denmark


The problem of 'welfare tourism' has been raised by several politicians across Europe, with some arguing that immigration from other EU countries can create a burden for welfare systems. ***Dorte Sindbjerg Martinsen*** *and* ***Gabriel Pons Rotger*** *present results from a recent study of the impact EU immigration has had on welfare spending in Denmark. They find that between 2002 and 2013, EU immigrants made a significant positive net contribution to the country's public finances.*

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The relationship between EU immigration and the British welfare state was one of the main themes of the UK's EU referendum campaign. The participation of EU citizens in the British labour market – and their rights to welfare benefits – sat at the heart of a heated, polarised debate over EU immigration. The assumption that the UK had become a 'honeypot nation' for welfare-seeking EU immigrants was one of the potential reasons that prompted many voters to back Brexit.

But this debate was not unique to the UK. Similar – and equally strong – assumptions about the negative impact of EU immigration on welfare states are found in other EU countries. Fears of 'welfare magnetism' are especially prominent in Denmark. The leaders of almost all of the country's political parties have united in expressing their deep concern about the viability of Denmark's welfare state in light of EU free movement, given that many Danes view their welfare system as being particularly generous and attractive.

With a tax-financed, non-contributory welfare state, Denmark is indeed a crucial case for testing the thesis that EU immigration can create a welfare burden. Denmark represents the purest expression of what remains of the Nordic welfare state. Among EU states, it has the largest share of non-contributory benefits. For most welfare benefits, entitlement does not depend on having contributed to the scheme. And in comparison with other EU member states, benefits tend to be relatively generous.

To illustrate, a Danish study grant for 2017 is approximately 800 euros per month. This is a universal benefit granted to all students regardless of their parents' income. Additionally, students can take out loans. Families with children that are 18 years old or younger in Denmark are entitled to child benefits. This benefit is also universal and again granted independently of income. The amount paid depends on the age of the child, but is on average about 160 euros per month per child (as of 2017). A Danish social assistance benefit is currently around 1,450 euros per month. Social assistance is a tax-financed minimum subsistence benefit granted to unemployed individuals who do not qualify for higher contribution-dependent unemployment benefits and do not have their own resources to live on. The Danish unemployment benefit is, on the other hand, insurance-based. The amount paid can be up to a maximum of 90% of the member's previous work income, but no more than a maximum rate of approximately 2,300 euros per month (2017 level).

Thus, the Danish welfare state is generally regarded as being more attractive than the presumed UK 'honey pot' and is therefore a more likely case for confirming whether the 'welfare magnet thesis' is a genuine concern. Moreover, while the UK government has previously admitted that it does not know the extent to which EU migrants have benefitted from the UK welfare system, we have extensive data on this topic for Denmark.

A unique dataset

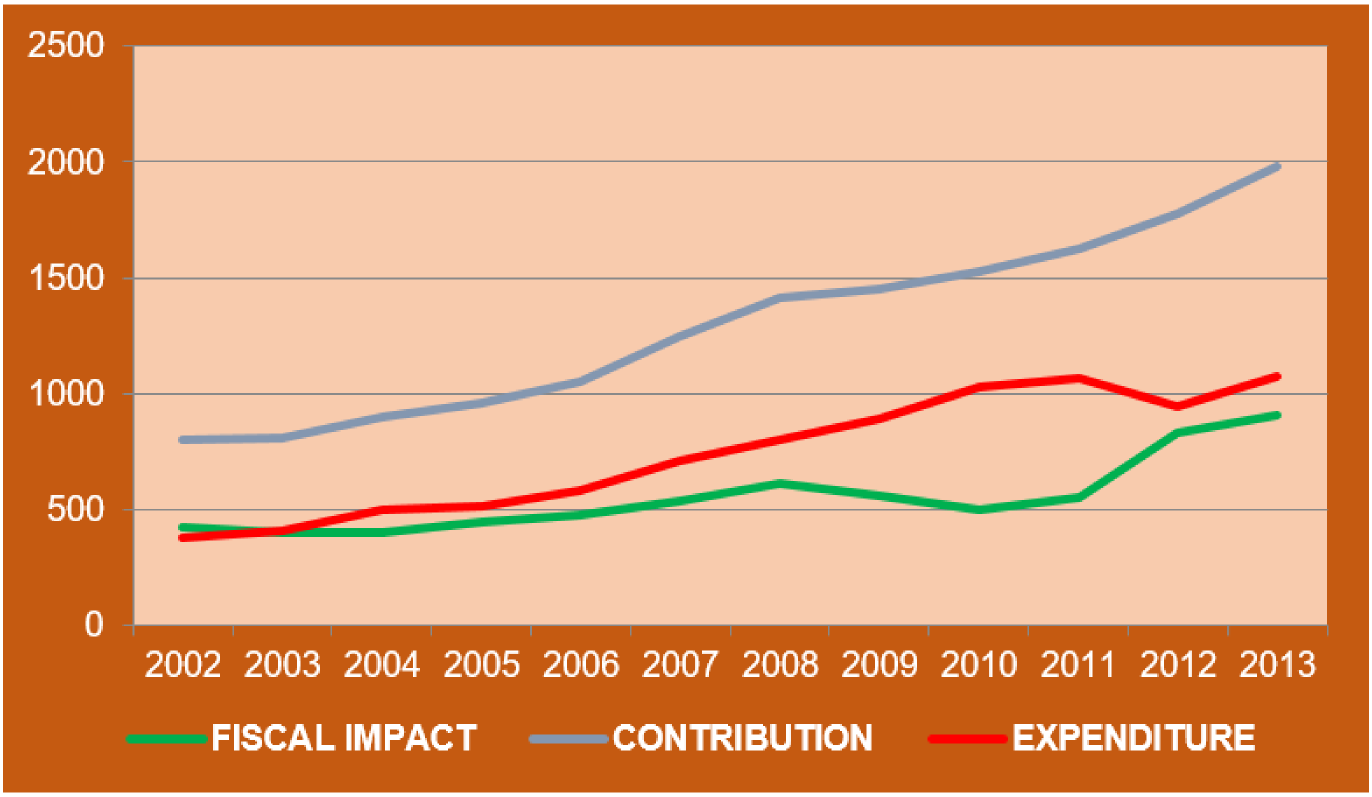
In a recent study, we have analysed both the contribution of all EU citizens residing in Denmark to the Danish welfare system, and the consumption of welfare spending by these citizens between 2002 and 2013. The data was compiled from a unique dataset of Danish register data, allowing for a detailed and fairly exhaustive examination of welfare contributions and expenditures. In addition, the time period examined is important as it allowed for an analysis of the welfare impact of EU immigration during 12 years of significant EU change. Perhaps such a period of dramatic EU change will never occur again, given this included the EU enlargements of 2004 and 2007, with ten new Eastern European member states along with Cyprus and Malta joining, changes in EU law regarding residency and cross-border welfare rights, the financial crisis, and the termination of transitional arrangements for the free movement of people from the new member states, which Denmark had in place until 2009.

During this period, the number of EU immigrants increased considerably in many member states, including Denmark. By the end of 2002, around 54,000 citizens from other EU countries lived in Denmark. By the end of 2013, this had grown to 160,000. To assess the fiscal impact of this change, administrative data on all EU citizens' contributions through taxation, VAT (indirectly calculated) and labour market contributions were compiled and compared with their welfare expenditures in terms of cash benefits and service benefits. The average expenditures for public goods (defence, environment protection, waste management, infrastructure, and so on) were also taken into account. To avoid overestimating the contribution from EU citizens, we chose to use a conservative calculation of the remittances on VAT payments from EU citizens in their first five years of residence. We were not able to include corporate tax as a contribution. As such, had we chosen a less conservative method, the net contribution may have been significantly higher.

EU citizens as net contributors to the public purse

Overall, our findings show that EU citizens have been net contributors in Denmark – both accumulated and on average. Over the entire period, EU immigrants have made a significant positive fiscal contribution to Denmark of 6.63 billion euros. In 2013, the total net contribution of EU citizens to the Danish public purse was about 910 million euros. Furthermore, apart from the years of crisis, 2008–2010, the average fiscal impact remained rather constant at around 6000 euros per year per EU citizen. The positive return of EU immigrants to the welfare state was recently confirmed also for 2014 in a report from the Danish Ministry of Finance. Figure 1 presents EU citizens' net contribution between 2002 and 2013.

Figure 1: Total fiscal impact of EU citizens per year in Denmark from 2002-2013 (million euros)



***Note:* For more information, see the authors' accompanying journal article in European Union Politics.**

A few other findings from the study should also be noted. EU citizens are overrepresented in the 'working age group' compared to the Danish population as a whole. The overrepresentation is highest for EU citizens from the new member states. Furthermore, EU citizens from the new member states contribute on average less than citizens from the old member states because of a lower average income but, at the same time, they do not use welfare benefits to the same extent.

The overall conclusion from the study is that EU citizens have contributed to financing the Danish welfare state – throughout a period of significant economic and political change. The findings should invite us to rethink the free movement-welfare state nexus. They suggest that the welfare state is much less vulnerable to the impact of free movement than current political discourse would dictate, and in fact the public finances of a state can benefit from EU immigration. Just as important is that the profile of EU citizens does not fit the picture of a 'welfare tourist'. Instead, EU migrants tend to be relatively young, contribute financially to the system, and are less likely to claim benefits.

Note: This article is based on the authors' recent study in European Union Politics. The study was supported by Norface's independent research programme, Welfare State Future as part of the project TransJudFare. The article gives the views of the authors, not the position of LSE Brexit or the London School of Economics. It first appeared on EUROPP.

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