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# **The Economic Impact of the Free Movement Agreement in Switzerland**

**in a nutshell #1, December 2015**



SWISS NATIONAL SCIENCE FOUNDATION

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## Messages for Decision-Makers

**The Free Movement Agreement between Switzerland and the EU/EFTA has not led to a mass influx of immigrants.**

**The higher unemployment rate of foreign workers in Switzerland is not a result of the Free Movement Agreement.**

**The immigration that took place under the Free Movement Agreement had virtually no impact on the labor market situation of resident workers.**

**The Swiss economy profited from the Free Movement Agreement.**

**The Free Movement Agreement strengthened the national budget.**

### What is meant by...

#### ... net immigration

Immigration minus emigration, or the vertical distance between the dark and light lines in Chart 1. Alternative terms are net migration or migration balance, which are subject to less misunderstanding.

#### ... Free Movement Agreement with the EU

The bilateral agreement pertaining to the free movement of persons that was signed on 21 June 1999 brought a stepwise lowering of barriers to the cross-border movement of persons and a partial liberalization of cross-border service provision. It was approved by Swiss voters in 2000 and came into effect on 1 June 2002. Initially it pertained only to the so-called EU17 and EFTA member countries. In 2006 its scope was extended to the so-called EU8 and in 2009 to Bulgaria and Romania (EU2).

#### ... quota system

In a quota system, the host country sets an upper limit on new immigration permits thereby limiting the influx of foreigners.

**Many fears and concerns are linked to the Free Movement Agreement between Switzerland and the EU/EFTA: mass immigration, strain on the national budget from unemployed foreigners, or job and wage losses from increased competition, to name just a few. The results of empirical research conducted within the framework of the “nccr – on the move” indicate that many of these fears and concerns are unwarranted.**

Some Swiss feel that the Free Movement Agreement with the EU/EFTA has led to a mass influx of foreigners, as the title of a recent voter initiative suggests. Others point to the high unemployment rate among the foreign population and conclude that the Agreement has put a great strain on the government budget. Still others fear they will lose their jobs or suffer income loss due to increased competition. The so-called flanking measures (or back-up measures) aimed at preventing wage competition are intended to guard against just that. And some observers feel that immigration has contributed little economically. As proof they point to per capita gross domestic product (GDP), a common measure of living standards, which has barely risen since the Agreement came into force.

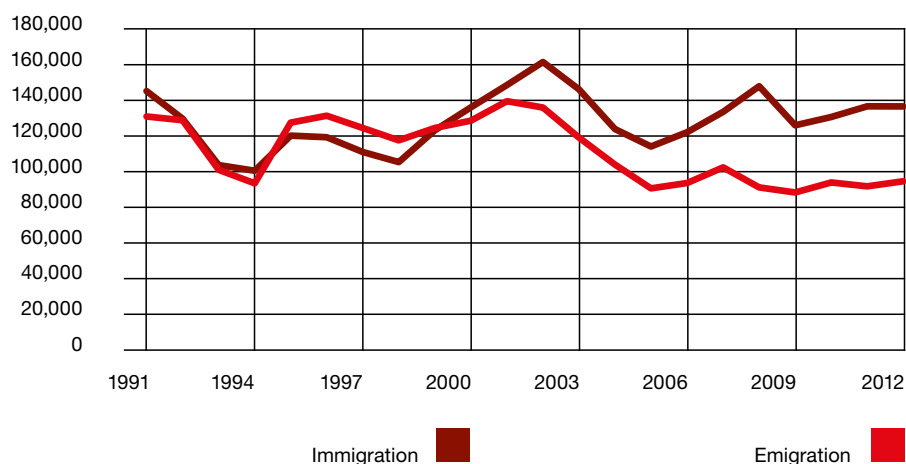
peaked in 2002 when the Free Movement Agreement came into force (see Chart 1). Since then, immigration from these countries has actually followed a trend decline. Viewed from this angle, one would sooner conclude that the Free Movement Agreement has in fact slowed immigration.

The fact that the public perceives this differently has to do with the frequent use of the easily misunderstood term “net immigration” (see “What is meant by ...”). Whenever immigration exceeds emigration, the foreign population increases. However, net immigration, or the change in the stock of foreigners, can also climb when immigration falls. All that is required is for emigration to decline by more than immigration. In fact, this is the very reason why the foreign population rose after the Free Movement Agreement came into effect (see Chart 1). Most observers did not consider this possibility because the term “net immigration” wrongly suggests that an increase in net immigration necessitates a rise in immigration.

### “Mass Immigration”

The strong growth in the foreign population stems mainly from increased immigration from the northern EU17/EFTA and non-European countries especially, which began in the mid-1990s under the old quota system and

Chart 1: Immigration and Emigration, EU17/EFTA Countries, 1991–2012



Source: State Secretariat for Migration (SEM), includes holders of sub-annual residency permits, own calculations

Our statistical analysis indicates that only 28 percent of the post-2002 increase in the foreign population from EU/EFTA member countries is linked to the enactment of the Free Movement Agreement. Two percentage points are found to be due to increased immigration and 26 percentage points to decreased emigration, i.e., to an increased average length of stay of immigrants, as Chart 1 suggests. The increased sedentariness probably results from an extension of the validity of work permits from one to five years through the Free Movement Agreement. The potential impact of the permit extension on emigration has been virtually ignored to date.

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**“From a statistical aspect, most of the increase in the stock of immigrants from EU/EFTA countries after 2002 is not linked to the enactment of the Free Movement Agreement.”**  
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#### Unemployment among Foreigners

The current high level of unemployment among foreign workers is not a consequence of the Free Movement Agreement. Rather it is due to the large numbers of low-skilled foreign workers that Swiss firms recruited for decades and which are no longer needed in such quantities today. Up until the mid-1990s, 50 percent of foreign workers recruited abroad were unskilled and less than 20 percent had a college

degree (see Chart 2). In the 1990s a radical change took place: today less than 20 percent of immigrant workers are unskilled and over 50 percent have a college diploma. The driving force behind this sudden switch are two long-term trends: offshoring and skilled-biased technical progress. These trends have had an impact on the labor markets of all modern industrial nations, increasing employers' demand for high-skilled workers to the detriment of the low skilled.

#### Labor Market Situation of Resident Workers

The results of our statistical analysis indicate that the labor market situation of resident workers was little affected by the influx of foreign workers. Neither their wages nor their employment suffered. This should come as no surprise as Swiss employers recruit foreign workers mainly to fill job openings left vacant. In this sense, immigration serves to ease the pressure on the domestic labor market.

#### Immigration and Growth

Roughly a third of Swiss economic growth from 2003 to 2009 can be attributed to the immigration from EU/EFTA member countries that occurred after the Free Movement Agreement came into force. The speed of economic growth, labor productivity and per capita GDP also rose as a result of immigration from the EU and EFTA. That these effects have been hard to discover at the nationwide level stems from the fact that the post-2002 influx of persons from EU/EFTA member countries made up only 6 percent of the permanent population and

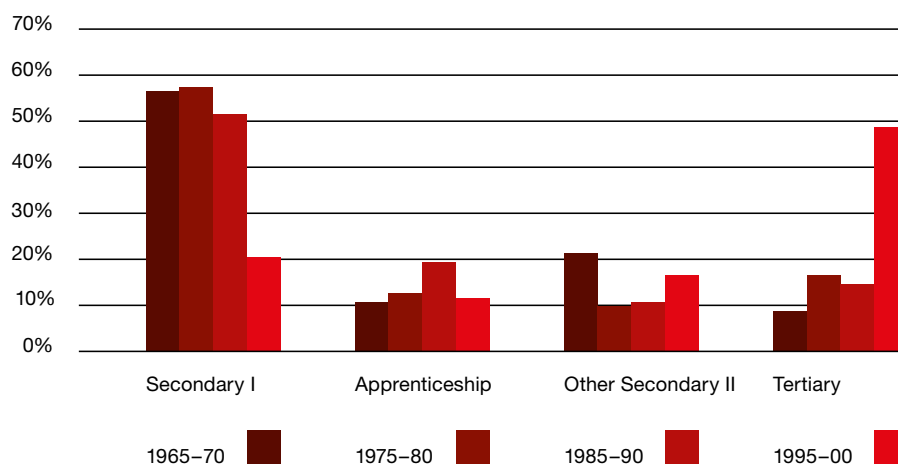
7 percent of the labor force by 2010. Hence it is unrealistic to expect a large impact at the aggregate level.

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**“Since the domestic supply of those skills sought is not sufficient, missing skills are being recruited abroad.”**  
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#### Relief for Government Finances

The government too currently profits from immigration. On average, the state presently earns an estimated CHF 15,000 annually from each EU17/EFTA immigrant household due to the fact that these households currently pay more in taxes and contributions than they receive in transfers and benefits. This situation will not persist, however, as immigrants, in time, age and settle down. As a consequence, the fiscal surplus will shrink to zero in about 40 years, all other things being equal. By then, however, the present value earned from an immigrant family from an EU/EFTA member country will have totaled between CHF 270,000 and 300,000 on average. >

**Chart 2: Educational Level of Full-Time Employed Immigrants 29 Years or Older Who Immigrated in the Previous Five Years, 1965–2000**



Source: Harmonized Data of the Swiss Censuses 1970–2000, own calculations

## Conclusion

Viewed against this backdrop, an annulment of the Free Movement Agreement, i.e., a return to the quota system, hardly appears economically attractive. Moreover, the reintroduction of quotas would probably not slow the growth of the foreign population. They have not been able to in the past: for one, be-

cause quotas have always been set to meet the demands of the economy and, for another, because they do not pertain to quantitatively important forms of immigration such as family reunification. Nor do quotas address the main cause of the current growth in the foreign population, i.e., the decline in emigration.

## Further reading

Can, Ensar. *Verdrängungseffekte des Freizügigkeitsabkommens Schweiz-EU auf dem Schweizer Arbeitsmarkt*. Basel: Department of Economics, University of Basel, 2014.

Can, Ensar, Nathalie Ramel, und George Sheldon. *Effekte der Personenfreizügigkeit auf die wirtschaftliche Entwicklung der Schweiz*. Basel: Wirtschaftswissenschaftliche Fakultät, Universität Basel, 2014.

Ramel, Nathalie. "Fiskalische Inzidenz der neuen Einwanderung in die Schweiz." In: *Drei Studien in angewandter Arbeitsmarktökonomie*, PhD-Dissertation, chapter 1. Basel: Department of Economics, University of Basel, 2014.



## The Economic Impact of New Migration and Integration Issues

### Project of the "nccr – on the move"

George Sheldon and Alois Stutzer, University of Basel

The strong influx of foreigners to Switzerland since the mid-1990s has raised concerns with regard to the economic impact of the new migrants and their integration into Swiss society. The project analyzes a number of important issues connected to recent migration, employing economic theory and applied econometrics and drawing from a broad range of data sources.

in a nutshell #1 reports on selected findings of this project.

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The nccr – on the move is the National Center of Competence in Research (NCCR) for migration and mobility studies. The center aims to enhance the understanding of contemporary migration patterns. Designed to develop new perspectives on the changing migratory reality, the nccr – on the move brings together research projects from social sciences, economics and law. Managed from the University of Neuchâtel, the network comprises seventeen research teams from seven universities in Switzerland: the universities of Neuchâtel, Basel, Bern, Fribourg, Geneva, Lausanne and Lucerne.

"in a nutshell" provides answers to current questions on migration and mobility – based on research findings, which have been elaborated within the nccr – on the move. The authors assume responsibility for their analyses and arguments.

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