



6 FREEDOM OF MOVEMENT

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Freedom of movement is a fundamentally important freedom. Imagine how limited your life would be if you were born in a village somewhere in Britain and were not allowed to move anywhere else. You would have to go to the local school, good or bad. You could not go to university. Your work options would be few and, quite likely, unrewarding. Your choice of whom to share your life with would likewise be slim. How you might wish you had been born in London, with all the opportunities that it offers. That may sound like an extreme example. But in many respects, it is less extreme than the situation faced by people born in a poor country and denied the right to move to a richer one. Born in a British village, your possibilities would be restricted, but you would still enjoy a high standard of living by global standards, the protection of property rights and the rule of law more generally, decent healthcare and so on. Born in an African village, your prospects would be much bleaker. Indeed, even a bright, industrious and enterprising woman born in Africa would most likely end up leading a worse life than a lazy dimwit born in Europe. The world is anything but flat.

Even in reasonably sized rich countries such as Britain, people place a very high value on freedom of movement. Asked what the EU means to them personally, Britons' top answer by far is the freedom to travel, study and work anywhere in the EU (European





Commission 2014).¹ Some 1.8 million Britons live elsewhere in the EU – nearly as many as the 2.34 million other Europeans who reside in Britain – and many more spent part of their year abroad.²

Freedom of movement – liberation from being tied to the land where you happen to have been born – is not just intrinsically important. It is key to unlocking other vital freedoms. In order to trade, people often need to move. To export tourism services, for example, Britain needs to welcome foreigners for a period of time. To seek treatment from a foreign surgeon, people also need to move. If a British patient goes abroad to have an operation, this is generally classified as trade, whereas if the surgeon comes to Britain, it is classified as migration – yet the operations are analogous. Where services have to be delivered locally – old people cannot be cared for from afar; offices and hotel rooms have to be cleaned on the spot; food and drink have to be served face to face – international trade is only possible with labour mobility. So, if the free movement of goods and services is considered to be beneficial, then surely so too is the movement of the people who produce them.

This introduction may seem like an extended diversion from the topic of this chapter: what would an ideal, free-market migration policy for Britain look like, and what kind of feasible relationship with the EU is best suited to delivering it? But in fact, it goes to the heart of the matter. Because whereas there is almost universal agreement among supporters of free markets that free trade is a good thing, the free movement of people is unfortunately much more contested – including, ostensibly, on economic grounds.

1 37 per cent of Britons say freedom of movement is the thing they most associate with the EU.

2 EU migrants moving to UK balanced by Britons living abroad. *Financial Times*, 10 February 2014. <http://www.ft.com/cms/s/0/5cd640f6-9025-11e3-a776-00144feab-7de.html> (accessed 2 September 2015).





This chapter will make the case that Britain ought to allow people to move freely, as indeed it did in the nineteenth century.³ It will further argue that Britain's current position as a member of the EU offers an almost ideal policy mix: freedom of movement within the EU (with the exception of the transitional controls on citizens of Croatia, which joined the EU in July 2013), with no constraints on Britain's migration policy towards non-EU citizens. While Britain ought to be more open to the rest of the world (and drop the restrictions on Croatian migrants), the barriers to this lie in domestic politics, not EU law. Since the status quo in relation to labour mobility – remaining in the EU with the existing terms of membership – is optimal, alternative options, such as renegotiating the terms of Britain's membership, leaving the EU and joining the EEA, or leaving the EU and negotiating bilateral agreements with the EU, could not improve on it.

Why freedom of movement is the right policy

Migration is an essential element of economic development. People often need to move to where the jobs are. And by coming together in diverse cities, dynamic people create new ideas and businesses. In our globalising world, where the economy is forever changing and opportunities no longer stop at national borders, it is increasingly important for people – be they British businesspeople or Polish plumbers – to move freely, not just within a country but also internationally. Just as it is a good thing for people to move from Liverpool to London if their labour is in demand there, so too from Lisbon or Lithuania. So governments should allow people to move as freely as politically possible.

3 For instance, in 1872, the then Foreign Secretary, Lord Granville, declared that 'by the existing law of Great Britain all foreigners have the unrestricted right of entrance and residence in this country'.





The emerging pan-European labour market is encouraging the allocation of labour to its most efficient use. It enables Britain to specialise in what it does best; reap economies of scale; foster dynamic clusters; and improve the variety, quality and cost of local products and services. Increased mobility also makes the economy more flexible, allowing it to adapt more readily to change. Last but not least, foreigners' dynamism and diversity boost competition, innovation and enterprise, raising long-term productivity growth and living standards.

It is impossible to make an exact estimate of the economic benefits of freedom of movement within the EU. However, they are certainly much greater than generally assumed. Political debate tends to assert, wrongly, that migrants harms locals' job prospects and are a burden on the welfare state. Economic studies often suggest that the benefits of migration to the existing British population are relatively small. But those studies are misleadingly incomplete. The economic models used are often partial: analyses of migrants' impact on the labour market or public finances ignore their impact on the economy as a whole (which, in turn, also affects locals' wages and employment, as well as taxes and spending). They are usually static: broader general equilibrium models analyse the impact of immigration in an artificial world without economic growth, where migrants' dynamic impact on investment and productivity growth, and, hence, on future living standards, is ignored. And even dynamic models generally define away migrants' contribution to innovation and enterprise, because they assume that new technologies fall like manna from heaven and ignore the role of institutions and individual entrepreneurs altogether. In a neo-classical growth model, which fails to explain technological progress and ignores the role of Schumpeterian waves of creative destruction, Albert Einstein, Sergey Brin, EasyJet or the City of London simply do not exist.

To grow fast, dynamic economies need to generate lots of genuinely new – and often disruptive – ideas and then deploy





them across the economy. Such ideas sometimes arrive from individual geniuses coming up with incredible insights in isolation – and those exceptional people seem disproportionately to be migrants. Globally, around 30 per cent of Nobel laureates were living outside their country of birth at the time of their award. For example, Venkatraman Ramakrishnan of the University of Cambridge’s Laboratory of Molecular Biology, who became President of the Royal Society in November 2015, is an Indian-born and US-educated biologist who determined the structure of the ribosome. Other examples include Andre Geim, a Russian-born scientist who developed a revolutionary supermaterial called graphene at the University of Manchester, and Christopher Pissarides, a Cypriot-born economist at the London School of Economics. But new ideas mostly emerge from creative collisions between people. For those interactions to be fruitful, people need to bring something extra to the party. The saying ‘two heads are better than one’ is true only if they think differently.

Since I first wrote about this (Legrain 2007), plenty of research has backed up my case that both immigrants individually and the interaction between diverse people more generally generate new ideas. As Scott Page (Professor of Complex Systems, Political Science and Economics at the University of Michigan, Ann Arbor) explains, groups that display a range of perspectives outperform groups of like-minded experts. His research shows that ‘organisations, firms and universities that solve problems should seek out people with diverse experiences, training and identities that translate into diverse perspectives and heuristics’ (Page 2007). That diversity dividend can be large, because an ever-increasing share of our prosperity comes from solving problems – such as developing new medicines, computer games and environmentally friendly technologies; designing innovative products and policies; and providing original management advice. Empirical evidence bears this out. Diversity in general and immigration in particular are associated with increased patenting as well as





higher productivity, as I detail in my latest book (Legrain 2014: Chapter 11).

As well as helping to generate new ideas, migrants help deploy them across the economy through their entrepreneurial dynamism. Britain's most valuable technology company, ARM Holdings, which designs the chips in most smartphones, was established with the help of Austrian-born Herman Hauser. Europe's most profitable airline, EasyJet, was founded by a Greek entrepreneur in Britain, Stelios Haji-Ioannou. Many of the entrepreneurs in Tech City, a hub for technology start-ups in East London, are foreign. For example, two Estonians set up TransferWise, a peer-to-peer currency exchange that enables people to send money abroad without paying the extortionate fees charged by banks. Overall, immigrants in Britain are nearly twice as likely to set up a business as UK-born ones.⁴ Contrary to the belief that only some immigrant cultures are entrepreneurial, Global Entrepreneurship Monitor surveys show that in Britain all their categories of immigrant are more entrepreneurial than white UK-born people (Levie and Hart 2009).

Migrants tend to be more enterprising than most because they are a self-selected minority who have taken the risk of uprooting themselves and tend to have a burning desire to get ahead. Like starting a new business, migrating is a risky enterprise, and hard work is needed to make it pay off. Since migrants usually start off without contacts, capital or a conventional career, setting up a business is a natural way to get ahead. And because outsiders tend to see things differently, they may be more aware of opportunities and go out and grab them.

It is often argued that while highly skilled migrants may be beneficial to Britain, less-skilled ones are not – and that the government should admit the former, but not the latter. Yet it is

⁴ Migrants to the UK had a total entrepreneurial activity rate of 16 per cent, compared with 9 per cent among UK-born people (Centre for Entrepreneurs 2014).





impossible to identify in advance how, or how much, anyone will contribute to society, let alone how their children will. Nobody could have guessed, when he arrived in the US as a child refugee from the Soviet Union, that Sergey Brin would go on to co-found Google. Had he been denied entry, America would never have realised the opportunity that had been missed. How many potential Brins does Britain turn away or scare off – and at what cost?

Governments are incapable of picking individual winners, let alone planning an entire economy's ever-changing manpower needs. So, a selective immigration policy cannot possibly determine the correct number and mix of people that Britain needs now, let alone how these will evolve in future. Just think how damaging such policies would be if applied between London and the rest of the country, or between England and Scotland. Why should it be any different between Britain and the rest of the EU, or between Britain and the US? Allowing people to work wherever they want and companies to hire whomever they want would clearly deliver a better outcome.

Indeed, basing a selective immigration policy on the premise that Britain benefits from high-skilled immigration but not from the lower-skilled variety is economically illiterate. It is equivalent to arguing that Britain benefits from importing American software, but not Chinese clothes. In fact, the gains from migration depend largely on the extent to which newcomers' attributes, skills, perspectives and experiences differ from those of existing residents and complement ever-changing local resources, needs and circumstances. Migrants may have skills that not enough locals have, such as medical training or fluency in Mandarin. They may have foreign contacts and knowledge that open up new opportunities for trade and investment. Their diverse perspectives and experiences can help spark new ideas and solve problems better and faster. As risk-taking outsiders with a drive to get ahead, they tend to be more entrepreneurial than most. Having moved once, they tend to be more willing to move again, enabling





the job market to cope better with change. And they may be more willing to do less-skilled and less-attractive jobs that most locals with higher living standards, education levels and aspirations no longer want to do, such as pick fruit or care for the elderly.⁵ Or they may simply be young and hard-working, a huge bonus to an ageing society with increasing numbers of pensioners to support. Newcomers' taxes can also help service and repay the huge public debt that has been incurred to provide benefits for the existing population.

Critics who counter that Britain could make do without migrant labour may be literally correct – Robinson Crusoe scraped by alone on his island – but autarky would make us all much poorer. While alternatives may exist – paying higher wages may induce a higher local supply of labour, or over time induce people to acquire the skills required for jobs in demand; some jobs can be replaced with machines or computers; some tasks can be performed overseas – closing off one's options clearly has a cost. Without foreign labour, for instance, English strawberries would go unpicked, or be so prohibitively expensive that Spanish ones picked with foreign labour would be imported instead. Like trade barriers, immigration controls reduce Britons' welfare – and by raising the cost of products and services, they harm the poor most.

While Britain's future prosperity depends on developing new high-productivity activities and nurturing existing ones, a large share of future employment will be in low-skill, low-productivity location-specific activities, precisely because such tasks cannot readily be mechanised or imported. The biggest area of employment growth in Europe is not in high-tech industries, but in care for the elderly. Yet retirement homes already cannot find enough suitable local applicants for care-working vacancies, nor

5 Indeed, according to the modern trade theory of comparative advantage based on factor endowments, an economy such as Britain, where low-skilled labour is relatively scarce, would benefit more from low-skilled migration than the higher-skilled variety.





can the elderly be properly cared for by a robot or from overseas. Persuading young local people who would rather do something else to work in a retirement home would require a substantial wage hike – and that implies pensioners making do with much less care, big budget cuts elsewhere or large tax rises.

Critics respond by claiming that immigrants impose all sorts of costs, notably harming Britons' job prospects, burdening public finances and causing congestion on a crowded island. Yet study after study shows that such fears are largely unfounded.⁶

Starting with the labour-market impact: immigrants do not take local people's jobs any more than women take those of men, because there is not a fixed number of jobs to go round. As well as filling jobs, they create them when they spend their wages and in complementary lines of work. Critics who argue that immigrants harm the job prospects of European workers implicitly assume that newcomers compete directly with Britons in the labour market – and that the economy never adapts to their arrival. If immigrants were identical to native workers and suddenly arrived in an economy with no vacancies, they would indeed have a temporary negative impact on local workers – but only until investment caught up with the increased supply of workers and higher demand for goods and services.

But immigrants and British workers are not identical. The newcomers, after all, are foreign: they speak English less well; they have fewer contacts and less knowledge of local practices; and low-skilled migrants may have less education and fewer skills than local workers. At most, then, they are imperfect substitutes for local workers, and compete only indirectly with them in the labour market. Some individuals, then, may lose out: an unreliable local builder who does shoddy work may find himself out of work, with a need to up his game or retrain. But even if Polish

6 On the fiscal impact, see, for instance, OECD (2013: Chapter 3). On the labour-market impact, see, for instance, Dustmann et al. (2008) and Centre for Research and Analysis of Migration (2014).





builders are willing to work for lower wages than local ones, they do not necessarily deprive local brickies of work: if home repairs are cheaper, more people can afford house improvements, while reliable, established builders may be able to charge richer clients more (and employ Polish workers). Mostly, though, immigrants take jobs that local workers cannot or will not do, and thus do not compete with them at all. On the contrary: immigrants often complement local workers' efforts, raising productivity and thus lifting their wages. A foreign childminder may allow a doctor to return to work, where the latter's productivity is enhanced by hard-working foreign nurses and cleaners.

While Milton Friedman famously said that 'it's just obvious that you can't have free immigration and a welfare state,'⁷ he was mistaken, as Britain's experience in the EU shows, and as I explained at length in an earlier pamphlet (Legrain 2008). Contrary to public perception, there is no evidence that Britain's welfare state acts as a 'magnet' for 'benefit tourists'. All 100 million or so people from the ten poorer ex-communist member states that joined the EU in 2004 and 2007 are free to move to Britain, as indeed are the citizens of crisis-hit countries such as Spain, Italy, Portugal, Greece and Ireland. Once they have been in Britain three months and are deemed 'habitually resident', they are eligible for some welfare benefits, albeit only for three months. Yet, of the 440 million or so citizens from other EU countries who could live in Britain, only 2.34 million do, and only 1.1 million of those are from the poorer member states who might conceivably be attracted by Britain's welfare system. Scarcely any are claiming welfare, let alone moving here with that purpose.

That people would be enterprising enough to up sticks to move to Britain in search of a better life and then choose once here to languish on welfare rather than earning more working

⁷ See <http://openborders.info/friedman-immigration-welfare-state/> (accessed 2 September 2015).





is scarcely credible – and thanks to Britain’s admirably flexible labour market, they do not get trapped in unemployment as they might in countries with insider–outsider labour markets. Indeed, in 2004, when Britain, Ireland and Sweden alone opened their labour markets to citizens of the A8 ex-communist countries that had just joined the EU, very few opted for Sweden, despite its very generous welfare state. Since Britain and Ireland restricted A8 citizens’ access to social benefits for the first year, prospective welfare migrants should have opted for Sweden. Yet of the 324,000 Poles who emigrated in 2005, only one in 100 went to Sweden – overwhelmingly to work (OECD 2007: Table 1.2 and Chart 1.7).

Far from being a burden on public finances, EU migrants to Britain are net contributors. Migrants from the EEA (the EU plus Norway, Iceland and Liechtenstein, which are also part of the free-movement area) contributed around 4.5 per cent more in taxes than they received in benefits over the period 2001–11, according to a study by Christian Dustmann and Tommaso Frattini of University College London. Recent EU migrants (those who arrived after 1999) contributed 34 per cent more in taxes than they received in benefits over the same period. In contrast, over the same period, the total of UK natives’ tax payments was 11 per cent lower than the transfers they received. Recent EU migrants were more than 50 per cent less likely than natives to receive state benefits or tax credits. They are also far better educated than natives: 32 per cent had a university degree. The comparable figure for UK natives is 21 per cent. The estimated net fiscal contribution of immigrants increases even more if one considers that immigration helps in sharing the cost of fixed public expenditures (which account for over 20 per cent of total public expenditure) among a larger pool of people, thus reducing further the financial burden for UK natives. The main reasons for the large net fiscal contribution of recent EEA immigrants are their higher average labour market participation (compared





with natives) and their lower receipt of welfare benefits (Dustmann and Frattini 2013).

It is often said that EU migrants put pressure on public services. But if their taxes more than pay for the services they receive, the real issue is that public services are not flexible enough to cope with change. After all, if a British person moved from Liverpool to London and local services could not cope, who would be blamed? Nor do hotels or Tesco complain that they cannot cope with increased demand for their services.

It is also nonsense to assert that Britain is 'full up'. Three-quarters of the country is agricultural land; even in England the urban reservations that we live in account for only 11 per cent of the surface area. There is plenty of space left: even in London there is still lots of derelict land. The problem is planning restrictions that excessively restrict development, driving up residential land prices to the benefit of large landowners and at the expense of everyone else. Having more people around does not have to be a problem: most people choose to live in cities, not the countryside. The most densely populated place in Britain is Kensington and Chelsea, which is hardly a hell-hole.

The final category of objection is, to put it kindly, cultural: that newcomers will not fit into British society and may harm it in some way. It is odd that some defenders of individual freedom take a communitarian approach, assuming that everyone ought to fit in, a prescription that they would doubtless resist for someone born in Britain. Others speak of a threat to national identity, even though Britishness is increasingly based on civic values not ethnicity. So, while some people with liberal economic views may also have nationalist political views, their nationalist objections scarcely count against the liberal, or free-market, case for freedom of movement. As for the issue of how a liberal society copes with illiberal members, this is posed not only by the admission of some immigrants who are illiberal, but also by the presence of illiberal natives. Liberals must always be vigilant to defend





Britain's liberal institutions – not least against authoritarian governments – but this is scarcely sufficient grounds to restrict freedom of movement within the EU.

Why EU membership offers the best of both worlds

This chapter has argued that freedom of movement is the first-best policy for Britain, on the basis of liberal values as well as on economic grounds. But what kind of international cooperation is needed to achieve the desired first-best objective? Again, one can make an analogy with trade. The first-best outcome globally is free trade and, independently of what other countries choose, the first-best policy for Britain is unilateral free trade. But there are three reasons why the government might wish to sign an international trade agreement. First, because in the event that unilateral free trade was politically unachievable, the prospect of negotiating better access to foreign markets could help overcome protectionist domestic interests that fear import competition, and thus make it politically possible to lower British trade barriers. Second, as a result, such a trade agreement could give British exports better access to foreign markets, and thus enable Britain to import more. Third, because trade agreements tie governments' hands, raising the political cost of erecting future trade barriers. Ideally, such a trade agreement should be global, or at least as nearly global as possible, that is, with the members of the WTO. Otherwise, a regional or bilateral trade agreement implies a cost: giving privileged access to imports from countries in the agreement at the expense of those from non-signatories.

One can reason similarly with mobility. The first-best outcome globally is freedom of movement and, independent of other governments' policies, the first-best policy for Britain is unilateral openness to foreigners. But insofar as that is not politically possible, greater openness to foreigners may be achievable as part of





a treaty that offers Britons the right to move to other countries and raises the political cost of trying to raise future immigration barriers for protectionist and/or nationalist reasons. Ideally, such an agreement would be global, but insofar as this is not possible, a treaty that provides for freedom of movement across the 28 countries of the EU is clearly desirable. Clearly, this does entail a cost: Poles have privileged access to the UK job market compared with Australians. But there is nothing in the terms of EU membership that prevents the UK from offering equally good access to Australians. The divergence is due to British domestic politics, not EU treaty commitments.

There is thus a big difference between Britain's relationship with the EU in trade and that in labour mobility. The EU is a customs union for trade in goods and services, which requires a common external tariff and a single set of trade regulations; but in the case of labour flows, it is simply a free-trade area, with countries free to set their own tariffs and entry requirements for non-EU citizens. Thus, whereas one might argue that Britain should leave the EU in the hope of signing a free-trade agreement offering equivalent access while also being able to sign freer-trade deals with non-EU countries, that flexibility is already available in the UK's current relationship with the EU on labour mobility.

Since EU membership places no restrictions on UK immigration policy towards non-EU countries, this could (and ought to be) much more liberal. The model in this respect is Sweden. In December 2008, Sweden's liberal conservative government introduced radical reforms that allow businesses that cannot find suitable local workers to hire foreign ones of any skill level from anywhere in the world on two-year renewable visas. Insofar as immigration controls are deemed politically necessary, this open, flexible and non-discriminatory policy is greatly preferable to the UK's confused, arbitrary and discriminatory approach.





In terms of welfare policies, all the evidence shows that migrants move to work not to claim benefits, but in any case EU rules do not prevent non-discriminatory welfare reforms, ie, ones that apply equally to all EU citizens, akin to the WTO principle of national treatment in trade. So, the UK is free to restrict welfare benefits as it pleases, providing it does so for all potential recipients. Moreover, the EU's Free Movement Directive makes clear that the right to move and reside freely is not absolute. In theory, after three months an EU national without a job has no right to remain in another EU country unless they have sufficient means not to become an 'unreasonable burden' on the welfare state.

Thus, from a liberal perspective, the combination of freedom of movement and equal treatment within the EU and decentralised, unconstrained national decision-making for non-EU immigration is pretty much ideal: it prevents protectionist and discriminatory policies within the EU and does not prevent liberal policies towards the rest of the world.

The arguments for leaving the EU in order to 'regain control over our borders' and restrict EU migration are illiberal and economically harmful. Economic liberals should have no truck with them.

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