

Is highly skilled migration good business for Denmark?

Abridged version

This is an abridge version of the original Danish language report. For more details about the study please consult the Danish language version or contact Chief Economist Claus Seidelin clas@dea.nu.

The Danish economy is expected to face great challenges in the years to come from low economic growth and ever greater pressure on the public finances. At the same time, large cohorts of workers will be leaving the labour market, potentially jeopardizing the ability of many businesses to recruit the talent they need to create economic growth, new jobs, and increase prosperity.

In recent years, Denmark has seen a series of labour market reforms that will help increase the number of capable hands and minds on the labour market. Yet more measures will be needed to meet the challenges of low economic growth, increasing shortages of qualified workers, and to ensure the financial sustainability of the welfare state in its present form.

One option that often comes up in the political debate is increasing recruitment of highly educated workers from abroad. On the one hand, recruiting more foreign workers will benefit the public finances by boosting income tax receipts. Conversely, the state will incur costs as foreign workers and their families access public services such as healthcare, childcare, primary and other forms of education, as well as when they receive transfer incomes such as unemployment benefits, state maternity pay, family allowances, student grants, and so on. An important question in the policy discussion is whether highly skilled immigrants and their accompanying family members provide a net gain for the Danish economy.

This report presents a cost-benefit analysis that calculates actual public spending and revenue associated with immigrants working in highly skilled professions in Denmark, and their families. The analysis does not stop at the impact of highly educated immigrants on the public finances – we also analyse how long they stay in Denmark, and how the length of their stay is affected by whether they bring their families with them.

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In contrast to most other research on the topic, this report exclusively considers highly educated immigrants employed in Denmark. We consider highly educated immigrants from both Western and non-Western countries to determine whether country of origin makes any significant difference for the final analysis. For our purposes, this meant omitting immigrants who have come to Denmark for humanitarian reasons, e.g. as refugees or as family dependents.

For the purposes of this report, highly educated immigrants are defined as immigrants who have been employed in a position that ordinarily requires postgraduate-level qualifications. This entails that we have moved the focus of the analysis onto the qualifications needed to fill these positions, rather than what education immigrants happen to have been registered as having. This shift was necessitated by a lack of reliable information on immigrants' existing overseas qualifications. In one section of the report, we specifically examine the group of immigrants who came to Denmark under the so-called Researcher Tax Scheme, which offered highly educated immigrants a lower rate of taxation for the first few years after arriving in Denmark.

Our main finding is that highly educated immigrants and their families, whether Western or non-Western, are major net contributors to the public finances, thanks to high income tax receipts and their relatively limited use of public services and social benefits.

Below, we present a few key findings:

- Around 7,500 immigrants who were qualified for employment in highly-skilled positions arrived in Denmark between 2003 and 2013.¹ Of these, approximately three-fourths immigrated from the EU and other Western countries, with the remainder coming from non-Western countries. The typical highly educated immigrant is a man in his late 20s with no family. The largest proportion is from Germany, which accounts for about a fifth of highly-educated immigration to Denmark. China and India are by far the largest non-Western countries of origin, accounting for around 40 percent between them.
- On average, highly educated immigrants without families stay in Denmark for 5.5 years, during which time they contribute 130,000 DKK per year, on net, to the public finances – more than 720,000 DKK in additional revenue per person over the 5-year period. The average net revenue from highly educated immigrants with families is just under 220,000 DKK per year. As they on average stay for 10 years, that constitutes a 2.2 million DKK net contribution to the public finances.
- Highly educated immigrants are major net contributors to the public finances no matter their domestic situation or ethnicity. Single immigrants from Western and non-Western countries make roughly similar net contributions, while contributions from Western immigrants with families are considerably higher than contributions their non-Western counterparts. Higher average contributions from Western immigrants with families are partly because of their higher incomes, compared to single immigrants, but also because their accompanying spouses are more likely to be working and contributing to the public finances.

¹ Positions have been classified to the third decimal of the latest Danish (DISCO-08) implementation of the International Standard Classification of Occupations (ISCO), which divides workers into 558 distinct occupations with closely related roles.

- While highly educated immigrants with families overall tend to have longer stays in Denmark than singles, the length of their stay largely depended on their spouses' employment prospects. Of highly educated immigrant families where the spouse had found employment within the first year of arrival, a full 81 percent were still in Denmark five years on, compared to 68% of immigrants whose spouses were not employed.
- On average, immigrants without families who came to Denmark under the Researcher Tax Scheme stayed for an average of 3.5 years, during which they made an average annual net contribution of 225,000 DKK to the public finances – a total surplus of 780,000 DKK over the period, despite enjoying a more lenient tax rate than other highly educated immigrants.²

² The current 5-year researcher tax scheme saw next to no use prior to 2011, which means that the majority of immigrants included in this study in practice fell under the 3-year scheme.
