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The double- edged sword of free movement

Understanding the benefits and
risks of labor market liberalization
in Switzerland

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The double-edged sword of free movement

In a nutshell

As Switzerland and the European Union engage in renewed negotiations over a comprehensive framework agreement, the principle of free movement of persons remains a pivotal and contentious issue. While the agreement promises enhanced access to EU programs and markets, concerns persist about potential strains on infrastructure, wage pressures, and national sovereignty. Recent research by Andreas Beerli and colleagues provides timely insights into these debates. Their studies reveal that liberalizing labor market access can lead to strong inflows of immigrants followed by firm growth and productivity gains – without negative effects on the labor market overall. However, they also highlight that such immigration flows may be accompanied by increased support for anti-immigration parties, driven more by political narratives than by direct economic or cultural threats. These findings underscore the importance of balancing economic openness with proactive investments into public infrastructure and housing, as well as informed public discourse.

Opportunities for action

1

For the economy to maintain strong firm growth, higher employment, increased labor productivity, and expanded innovation activity, the free movement of labor remains essential.

2

Migration policy outcomes cannot be assessed solely through economic data. Even objectively positive labor market effects can be politically destabilized if public narratives turn negative. These must be addressed as such.

3

Realizing the economic benefits of immigration requires parallel investments in local public services – such as education, housing, and transport – alongside communication strategies that counter fear-based narratives.

Switzerland has historically been a country shaped by immigration. Already in the aftermath of World War II, the nation actively recruited foreign workers to fuel its booming industries. Switzerland had fewer than 5 million inhabitants in 1945. Today it has 8.8 million. The Swiss Federal Statistical Office (FSO) reckons that the country's population could, for the first time, exceed 10 million by 2040. Indeed, Switzerland is very attractive for workers because of its high wages and good quality of life. Yet, this tradition of openness has always been a double-edged sword. While Switzerland's economy has long depended on the inflow of foreign workers, this reliance has often been accompanied by fears of "Überfremdung" (i.e., fear of cultural erosion), wage competition, and pressure on public infrastructure.

Managing the benefits of immigration while addressing societal concerns has historically been a delicate balancing act. Today, as Switzerland and the European Union renegotiate the institutional framework governing their relationship, the principle of free movement of persons – long seen as a pillar of Swiss–EU cooperation – is once again under scrutiny. Political tensions, concerns over "infrastructure stress," and the perceived erosion of sovereignty have fueled a more critical and polarized public discourse. Against this backdrop, a fundamental question arises: how does labor market liberalization affect the economy, society, and political stability? Two recent studies offer rigorous empirical evidence to address these questions.

Effects of liberalizing access to cross-border workers

One major contribution comes from the analysis of the abolition of immigration restrictions for European cross-border workers following the Agreement on the

Free Movement of Persons. The authors exploit a natural experiment: the staggered liberalization created near-laboratory conditions, as regions close to the Swiss border were more strongly exposed due to their proximity to cross-border commuting. In the study, the researchers essentially compare developments in regions with high and low inflows due to their border proximity (Figure 1). Using a difference-in-differences approach and detailed firm- and worker-level data between 1994 and 2011, they document several key findings.

Their first step was to quantify the immediate impact of liberalization on the composition of the workforce. Between 1999 and 2010, the policy led to a net increase in foreign employment equivalent to 10 percentage points of the 1998 workforce in municipalities located within 15 minutes of the border. This effect was most pronounced after 2004, when full free movement came into effect, and notably, two-thirds of the new immigrant workers were highly educated (Figure 2). In addition, there was a modest but disproportionate increase in the number of permanent resident immigrants near the border. Although Switzerland removed barriers for EU immigrants across all regions, the fact that this increase was concentrated in border areas suggests that access to cross-border workers complemented, rather than substituted, resident EU migration.

The presence of more skilled workers had measurable economic effects. Firms in the border regions responded with significant growth. Compared to firms in less affected areas, they increased employment, raised labor productivity, and expanded their innovation activities. The number of patent applications and the share of R&D employees rose, especially in firms operating in skill-intensive manufacturing and service sectors. Also, these effects were strongest in companies that had previously

reported skill shortages, indicating that better access to qualified labor helped resolve structural hiring bottlenecks.

The study also uncovers important effects on native workers. Highly educated Swiss workers experienced wage growth of around 5% after the reform. These gains were concentrated in skill-intensive sectors such as IT, engineering, and business services. Moreover, the reform increased their chances of moving into higher-level positions, suggesting that firm growth opened new career paths and management opportunities.

At the same time, the study finds no evidence of widespread adverse effects for other groups. Employment levels among Swiss nationals remained stable across the board. Only in a few low-skilled service occupations do the data suggest minor signs of displacement – but these effects were small and not statistically robust. Real hourly wages for Swiss workers also showed no decline; if anything, they rose slightly in the border regions compared to inland areas.

Under conditions of strong labor demand and with appropriate institutional frameworks, labor market openness can generate “win-win” outcomes.

Taken together, the study challenges the often-assumed trade-off between immigration and the welfare of native workers. It shows that under conditions of strong labor demand and with appropriate institutional frameworks, labor market openness can generate “win-win” outcomes. Firms become more dynamic and competitive, while highly qualified natives benefit through better wages and career opportunities. The Swiss case demonstrates that well-managed immigration – particularly of skilled labor –

can be an engine of economic progress rather than a threat.

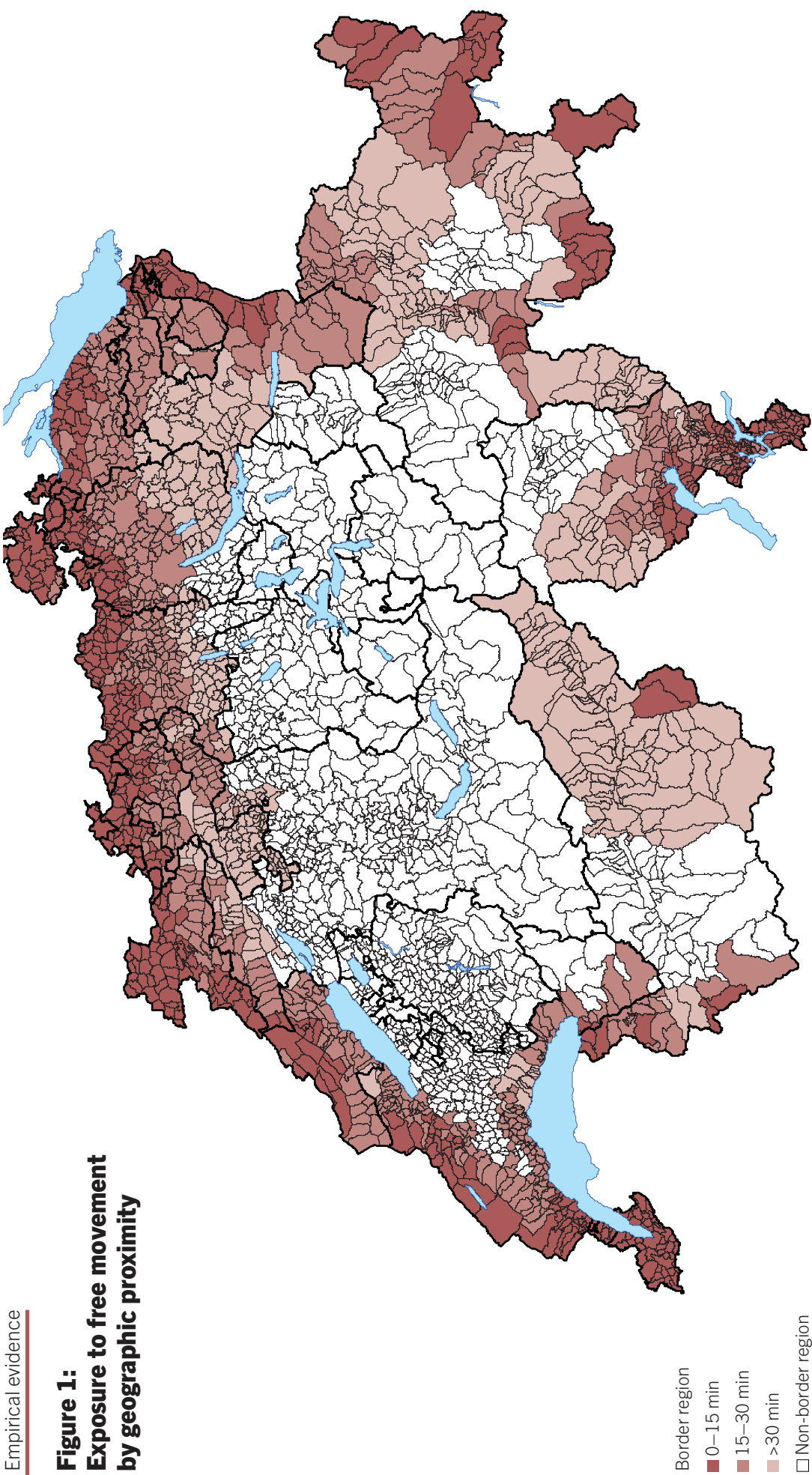
Additional research from Switzerland complements these findings. The arrival of highly skilled cross-border workers has been shown to increase patenting activity in Swiss firms, without displacing native researchers (Cristelli & Lissoni, 2020). Trade outcomes have also improved: firms engaged in international markets expanded both the quality and volume of their exports in response to increased immigration (Ariu, 2022). Moreover, immigration appears to have influenced educational trajectories: vocationally trained Swiss workers were more likely to pursue further education at universities of applied sciences, particularly in non-STEM fields (Bächli & Tsankova, 2023).

Migration narratives and the rise of far-right support

However, labor market liberalization also had political consequences that reveal deeper societal dynamics. A separate study investigates how the influx of foreign workers influenced voting behavior in Switzerland.² Analyzing municipal-level election data before and after the liberalization, they find that support for far-right, anti-immigration parties increased significantly in municipalities located within 15 minutes of a border crossing compared to municipalities farther away (Figure 3). The rise amounts to about six percentage points, corresponding to a 32 percent increase relative to pre-reform levels.

Critically, the study rules out standard explanations for this political shift. Employment rates, average wage levels, and subjective perceptions of economic security among Swiss citizens developed similarly across regions. Nor did concerns about cultural threats or crime increase in the affected regions. Instead, the researchers identify a different mechanism: the success of political narratives framing

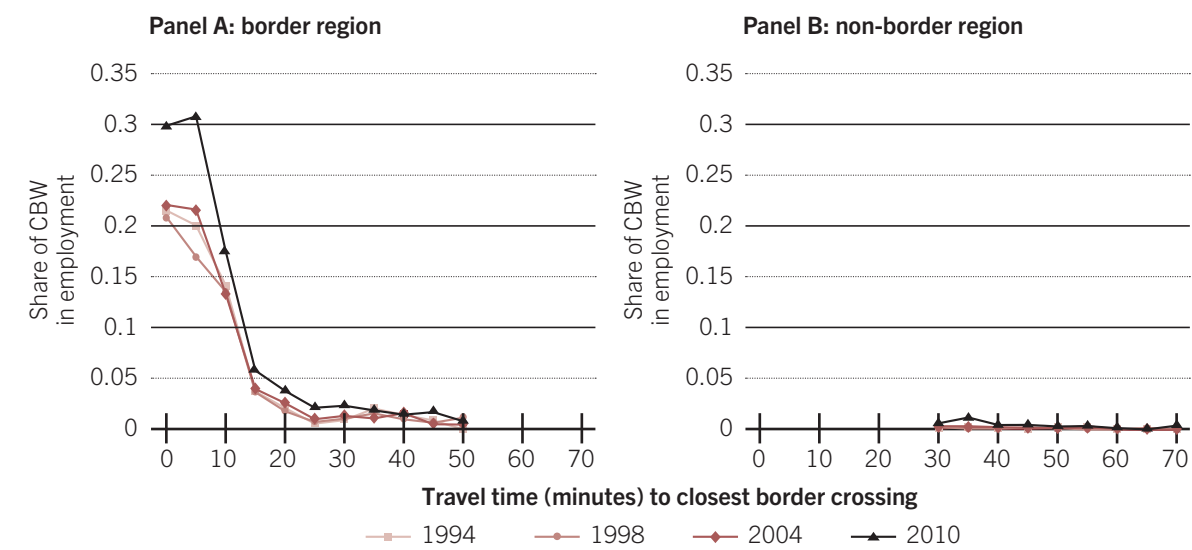
Figure 1:
Exposure to free movement
by geographic proximity



Notes: This figure depicts municipalities in the border region in three different shades of brown and those in the non-border region in white. Within the border region, we distinguish

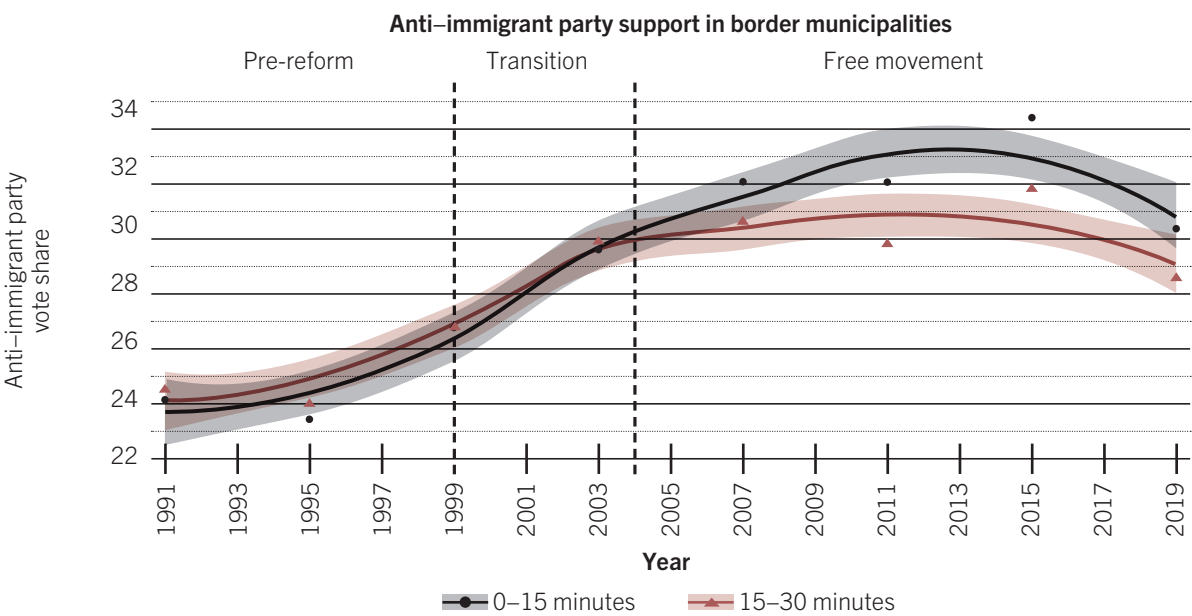
three regions according to their travel time by car to the nearest border crossing. The black lines denote cantonal borders.

Figure 2:
Increase in cross-border employment following labor market liberalization



Notes: The figure plots the number of cross-border workers relative to total employment in 1994, 1998, 2004, and 2010 separately for the border region (panel A) and the non-border region (panel B). The figure also reveals the change in the employment share of CBW over time. The change was very small and sometimes even negative in the preliberalization period (i.e., between 1994 and 1998). During the transition period (1999–2003), the share increased slightly, but only in municipalities close to the border. The increase in the share is largest in the free movement phase (i.e., between 2004 and 2010), and it is larger closer to the border. Municipalities are grouped into bins of five minutes according to their travel time by car to the next border crossing. Bins with a very small number of total workers are omitted, i.e., those with travel time above 50 minutes in the border region and those between 13 and 30 minutes in the non-border region.

Figure 3:
Effects of opening borders on anti-immigrant voting



Notes: Points represent raw yearly means within commuting distance groups (without population weights). Lines are a smoothed estimate of the over-time trend; shaded areas denote 95% confidence intervals. The figure plots the vote share of anti-immigrant parties in national elections in municipalities within 0–15 minutes and 15–30 minutes from the nearest border crossing. Before liberalization, these parties were strong in the control municipalities, securing around 25% of the vote, on average. While voting for anti-immigrant parties increased in both types of municipalities during the free-movement period, support for anti-immigrant parties rose at a higher rate in border than in control municipalities. In the final election in our study period, anti-immigrant parties received, on average, around 30% of the vote in both types of municipalities.

immigration as a cause of “density stress” – a term borrowed from biology describing the negative consequences of overcrowding.

Even objectively positive labor market effects can be politically destabilized if public narratives turn negative.

Anti-immigrant parties such as the Swiss People’s Party (SVP) and other actors strategically employed the density stress narrative to link immigration to perceived pressure on housing, transportation, and public services, even in the absence of direct material deterioration. This party-driven framing proved particularly effective among voters with moderate levels of political awareness, who were most susceptible to new cues.

These findings underscore that migration policy outcomes cannot be understood solely through economic indicators and standard measures of perceived threats. Political reactions can depend heavily on newly introduced narratives and frames that can fall on fertile ground with the electorate. Even objectively positive labor market effects can be politically destabilized if public narratives turn negative.

Conclusion

Taken together, these studies paint a complex but coherent picture of labor market openness. Removing barriers to skilled immigration can boost economic growth and create upward mobility for native workers. However, political acceptance depends on narratives and perceptions, not just economic fundamentals.

In the current political climate, where migration is again at the center of national and European debates, these findings

suggest important avenues for policy-makers. Given the complex interplay of actors and influencing factors, economic impacts represent only one part of the equation. A broader perspective that takes into account local capacities and societal dynamics may be needed to support stable policy outcomes in the context of labor mobility.

Finally, further research is needed to understand the long-term dynamics of free movement, particularly regarding the effectiveness of Switzerland’s accompanying measures (“flankierende Massnahmen”) in protecting wage standards, the resilience of local education and healthcare systems under demographic pressures, the role of the housing market, and the broader distributional effects of labor mobility across regions and sectors. In addition, future studies could explore the conditions that made the reform successful: How important was the fact that the liberalization was gradual and predictable, allowing firms and labor markets to adjust over time? And to what extent did accompanying measures – such as wage controls or enforcement mechanisms – help mitigate potential negative effects on native workers? These questions are essential for understanding what it takes to design sustainable labor market openness in the long run.

This UBS Center Policy Brief summarizes evidence presented in the following academic articles:

1. Beerli, A., Ruffner, J., Siegenthaler, M., & Peri, G. (2021). The Abolition of Immigration Restrictions and the Performance of Firms and Workers: Evidence from Switzerland. *American Economic Review*.
2. Alrababah, A., Beerli, A., Hangartner, D., & Ward, D. (2024). The Free Movement of People and the Success of Far-Right Parties: Evidence from Switzerland’s Border Liberalization. *American Political Science Review*.

Further reading

Ariu, A. (2022). Foreign workers, product quality, and trade: Evidence from a natural experiment. *Journal of International Economics*, 139, 103686.

Bächli, M., & Tsankova, T. (2023). Free movement of workers and native demand for tertiary education. *Journal of Human Resources*.

Beerli, A., Indergand, R., & Kunz, J. S. (2023). The Supply of Foreign Talent. How skill-biased Technology Drives the Location Choice and Skills of New Immigrants. *Journal of Population Economics*, 36, 681–718.

Cristelli, G., & Lissoni, F. (2020, forthcoming JEEA). Free movement of inventors: open-border policy and innovation in Switzerland.

Docquier, F., & Rapoport, H. (2012). Globalization, Brain Drain, and Development. *Journal of Economic Literature*, vol. 50, no. 3.

Efferson, C., Lalive, R., & Fehr, E. (2008). The Coevolution of Cultural Groups and Ingroup Favoritism. *Science*, vol. 321, issue 5897.

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