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## Economic issues in a community immigration policy: the regional dimension

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## **Economic Issues in a Community Immigration Policy: The Regional Dimension**

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## **Abstract**

In November 2000 the European Commission published its communication “On a Community Immigration Policy”. The Commission’s Document identifies clearly the changing pressures which have affected the need for a reappraisal of immigration policy. First, the advent of the single market with free movement of labour within the EU requires a common approach to immigration over the EU’s external borders. Secondly, the gradual transition from an era of high unemployment into one of tighter labour markets, coupled with demographic change, has been revealing increasing problems of labour market bottlenecks, especially in respect of certain specific skills, requiring more than a national-based competitive bidding for selected immigrants. Thirdly, there has been an increase in asylum-seeking and illegal migration.

The particular pressure for a review of EU policy on immigration has come from the situation in Central and Eastern Europe over the past decade, in particular how to accommodate the accession of the first waves of candidate countries into a unified single labour market and how to regulate the anticipated continuing pressure for migration from those countries in the region remaining outside the EU. The enormous increase in migration activity in the early 1990s, following a long period of stable or falling migration pressure since the 1950s and early 1960s, demonstrated both types of migration, genuine pressures for workers to migrate from poor regions to rich regions as part of an increasing integration of the European economy and large flows of population resulting from war and ethnic conflict.

Although it is easy to demonstrate that the overall pressure of immigration to the EU is not likely to be great, there is the problem that such immigration is highly regionally concentrated and this has implications both for the policy as a whole and for regional development within the EU. This paper assesses the regional impacts of migration in the context of a model of migration which stresses the limited duration of much migrant activity. It highlights the importance of short-term migration in terms of remittances and productivity gain, but identifies the importance of improving information to reduce the asymmetry which leads to mismatch and hence to reduced welfare in both sending and receiving regions. Particular evidence is drawn from data on migration from Poland, Albania and Bulgaria. The paper concludes that Immigration Policy needs to address mechanisms for identifying migrant flows and preparing for their easy absorption. Rather than trying to set aggregate quotas or optimal transition periods to free movement; this may be most efficiently achieved through use of voucher or auction systems.

## 1. Introduction

Immigration has again become a contentious political issue in Europe. Persistently high unemployment in many EU countries has been coupled with two major changes in the pattern of migration. First, there was an increase in movement following the fall of the Berlin Wall and the opening of borders with countries in Central and Eastern Europe, which raised fears of the consequences of eventual EU enlargement for future migration. Secondly, the waves of refugees and asylum seekers unleashed by ethnic conflicts, not just in Europe following the break up of Yugoslavia and the Soviet Union, but across the world, have put excessive pressures on the procedures for processing asylum claims and caring for asylum seekers, in many countries. This has been associated with the increasing electoral success of far right political groups standing on an anti-immigration and anti-immigrant platform.

For the European Union this poses particular difficulties, especially in the context of enlargement. One immediate and pressing problem is the development and enforcement of Community agreements on asylum and refugee status in the face of substantial increases in asylum seeking and associated attempts at illegal immigration. However, more significant in terms of the development of the EU is the issue of free movement for future members where, mainly at German and Austrian insistence, lengthy transition periods to full mobility have been proposed. Furthermore, the new eastern borders of the EU following enlargement may pose further difficulties arising from the current openness of these borders and the historic national and ethnic ties which transcend them. Ironically, this concern about rising migration pressure has to be considered against a background in which there is widespread concern that mobility within the existing EU is insufficient to provide the necessary labour market flexibility to ensure competitiveness and permit adjustment within the Eurozone.

In this paper we try and place these various different dimensions of the problem in context using a consistent model of migration. This recognises that, within Europe, most migration is not permanent, but part of a process of mobility in which both return and serial migration are natural economic responses to a dynamic economy. Traditional measurement of migration at a national level in many countries is insufficient to identify the real pressures. These are likely to occur differentially in different regions, with border regions and metropolitan regions the main potential destinations, but with repercussions for other regions. We aim to show the beneficial effects of migration, on both the home (origin) and host (destination) regions. We also bring forward some evidence to suggest that there is little difference in the preferences of migrants and non-migrants and, more importantly, between those moving legally and illegally. This leads us to some observations on the development of a more efficient policy towards migration both within and into the EU.

The remainder of this paper is organised in five main sections. First, we review the EU policy context. Secondly, we discuss the main features of a conceptual model of migration and its implications. Thirdly, we consider the evidence on the main trends and pressures in migration. Fourthly, we discuss the policy options suggested by this approach.

## 2. The EU Policy Background

European Commission (2000) identifies clearly the changing pressures which required the reappraisal of EU immigration policy. First, the advent of the single market with free movement of labour within the EU requires a common approach to immigration over the EU's external borders. Secondly, the experience of a period of relatively high and persistent unemployment within the EU has changed attitudes to migration. However, this disguises the bottlenecks which already exist for some specific skills and demographic projections suggest a considerable tightening of labour markets over the next two decades. Shortages of certain specific skills, especially in the IT sector, requires more than national-based competitive bidding for selected immigrants. Thirdly, the aftermath of the wars in the former Yugoslavia and continuing ethnic and religious persecution, both in the Balkans and elsewhere, has led to an enormous increase in asylum-seeking and with it a problem of illegal migration, often exploited by criminal elements.

Immigration and asylum were firmly established as areas of Community competence in the Treaty of Amsterdam, leading to agreement on the elements of a common asylum and immigration policy at the European Council in Tampere in October 1999. The key point here is the recognition that individual Member States cannot determine their own conditions for the admission of third country citizens if they are supposedly operating in a single unified labour market.<sup>1</sup> However, the development of this EU position has to recognise that individual member states have their own historical and cultural differences with respect to immigration, especially in respect of migration from specific countries. This affects both the likely pattern of demand for immigration from third countries and the ability of each member state to absorb migrants from different parts of the world.

The basic principles enunciated by the Commission are:

- Assessing appropriate immigration levels based on co-operation, exchange of information and reporting. This should both review what had happened in previous period and set out indicative targets tied closely to future labour market needs, but recognising both existing agreements with countries of origin and the need to absorb new migrants.
- Defining a common legal framework for admission based on: transparency and rationality; differentiating rights according to length of stay; clear and simple application and assessment procedures; and improved availability of information.
- Integration of third country nationals to ensure comparable living and working conditions, to fight discrimination and xenophobia, and to ensure that this is part of a continuing and lasting process.
- Improving information, research and monitoring on migration flows and patterns, especially relating to the incorporation of information on illegal movements, asylum seeking etc.

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<sup>1</sup> The conclusions of the Tampere Council meeting recognise “the need for approximation of national legislations on the conditions of admission and residence of third country nationals, based on a shared assessment of the economic and demographic developments within the Union, as well as the situation in the countries of origin”

The Tampere Council resolution was concerned primarily with providing a framework for legal migration. This can be seen as essentially providing a common set of rules governing the external influences on the internal labour market of the EU. In this sense it is exactly analogous to the Community external trade policy. The particular problems of illegal immigrants and asylum seekers raise different questions, relating principally to human rights and the concern over trafficking in human beings, and the use of such migrants in illegal employment (often at below minimum wages and standards of employment) within the EU labour market. Illegal immigrants are at risk of being exploited because of their (lack of) legal status. To a large extent this should be seen as a human rights issue and not be confused with policies towards legal migration; it is the latter with which we are primarily concerned here.

The particular pressure for a review of EU policy on immigration has arisen from the experience of the past decade. The initial wave of migration from the candidate countries for EU membership, and others in Eastern Europe, in the early 1990s led to concerns about the long-term implications of free movement for EU labour markets. The expectation was that economic convergence would take a long time and this would lead to continuing pressures for workers to migrate from poor regions to rich regions. For those countries left outside the enlarged EU these pressures would remain, especially given the aftermath of war and ethnic conflict.

A guiding principle of the development of the policy on immigration (and also the policy towards the free movement of labour within accession negotiations) has been that any policy has to reflect and respect the situation in the origin countries as much as that within the existing EU. The differences in economic status of the candidate countries from the existing EU members (Table 1) is feared to imply an enormous continuing pressure for migration which would be threatening to the economies of both the origin and the receiving regions. The further problem is that those states remaining outside the EU may generate increasing migration problems for the newly acceded countries, with whom many have, for historical reasons, relatively open borders. Problems of transit or, during any transition period to fully open borders, problems of “stockpiling” of hopeful migrants on the western borders of the candidate countries, would need to be addressed.

**Table 1 Selected Indicators of CEEC-10, 2000**

	GDP per capita (PPP)		Unemployment rate
	€	as % of EU-15	%
Bulgaria	5400	24	16.4
Czech Rep.	13500	60	8.8
Estonia	8500	38	13.7
Hungary	11700	52	6.4
Latvia	6600	29	14.6
Lithuania	6600	29	16.0
Poland	8700	39	16.1
Romania	6000	27	7.1
Slovakia	10800	48	18.6
Slovenia	16100	72	7.0
<b>CEEC-10</b>	<b>8736</b>	<b>38</b>	

The main objections to uncontrolled migration are that the inflow of less skilled migrants to a region may reduce average incomes, displace local workers from employment and increase the burden on social and welfare services. At the same time the outflow of workers from a region is seen to remove the more skilled and able, thus reducing growth potential. This process is thus seen as a means of perpetuating inequalities between regions and reinforcing a core and periphery structure to the European economy in which some regions are in a virtuous circle of autonomous economic growth and high income and others trapped in a dependency situation of low growth and low income.<sup>2</sup>

However, there are certain other factors which need to be introduced to place this in context. First, there is an implicit contradiction in that the recipient regions fear an influx of migrants taking low skill jobs whilst origin regions fear the loss of higher skilled more dynamic residents. Secondly, labour mobility within the EU has typically been argued to be too low to serve as an adequate adjustment mechanism to divergent economic conditions (asymmetric shocks) between different regions, especially in the context of monetary union.<sup>3</sup> Thirdly, the degree of disparity in current economic conditions between the EU and the candidate CEEC countries is significantly larger than any experienced in previous expansions of the EU. Fourthly, and most significantly for the argument advanced here, most migration which does take place is not of a once and for all permanent nature: migrants frequently move for short periods as a means of enhancing short-term earnings or longer term earning prospects; many migrants move on a regular, often seasonal, basis; most migration has to be regarded in the context of family decisions.

Labour mobility within the EU is a further concern related to the need to raise the efficiency with which labour markets can respond effectively to changes in demand through wage flexibility, occupational flexibility or mobility.<sup>4</sup> Although we are not primarily concerned here with internal mobility, it is important to place consideration of external mobility in the context of the current problems of movement and labour market flexibility within the EU. A principal concern of the Commission is that various barriers continue to keep labour mobility within the EU at too low a level, although what might constitute an appropriate level of mobility is much less clear.<sup>5</sup> It is estimated that annual migration between Member States amounts to around 0.75 per cent of the resident population and perhaps only 0.4 per cent of resident EU nationals. The most comparable levels of mobility in the US are on average some six times greater. The potential barriers to mobility in the EU relate to inconsistent labour market institutions, problems in the portability of pensions and social security rights, the lack of full mutual recognition of qualifications and experience and, above all, a range of social, cultural and language barriers. However, whether the complete removal of such barriers would lead to a dramatic increase in mobility in the EU is much less certain.

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<sup>2</sup> See, for example, Faini (1996); Reichlin and Rustichini (1998)

<sup>3</sup> Conventional economic theory would argue that labour moves towards higher returns. In the case of an asymmetric shock, which reduced labour demand in one region relative to another, labour would move from the lower demand region to the higher demand region. This would increase the returns to labour in the lower demand regions and reduce them in the higher demand region which would correct the imbalance. That this does not happen is frequently simply put down to imperfections in labour markets which prevents labour responding efficiently.

<sup>4</sup> European Commission (2001)

<sup>5</sup> For a detailed analysis of this see House of Lords (2002) *Working in Europe: Access for All*, 15<sup>th</sup> Report of the Select Committee on the European Union, Session 2001-02, The Stationery Office, London

The problem of the lack of mobility has been addressed by a High Level Task Force on Skills and Mobility, which reported in December 2001<sup>6</sup> and the recommendations of which fed into the Action Plan proposed to the Barcelona Council meeting in March 2002. The Task Force made a large number of recommendations relating to both occupational and geographical mobility, concentrating on the need to improve information and transparency in labour markets, including the provision of basic skills such that the benefits of mobility can be enjoyed by all skill groups. The Action Plan<sup>7</sup> identifies eleven actions on occupational mobility and skills development, a further eleven on geographic mobility and three on information and transparency for completion, in almost all cases, by 2005. The Action Plan makes a clear link between factors influencing internal mobility in the EU and the EU's immigration policy.

### 3. The Determinants and Consequences of Migration

It is not proposed to review economic approaches to migration in detail in this paper<sup>8</sup>. We take as a starting point a basic push-pull model in which individuals respond to differentials in wages, labour market opportunities, demographic and political factors in the origin and destination regions. Demographic factors will be particularly important over the next two decades since relatively low rates of population growth in the EU could lead to a significant shortfall in labour supply over the next 20 years.<sup>9</sup> Although population growth in most CEEC is also fairly low higher rates of unemployment could provide a significant incentive for movement.<sup>10</sup> At the same time there is a growing shortage of workers in some key industries, leading to pressure to relax restrictions on the immigration of foreign labour with specific skills, such as IT specialists.

More significant for our approach is the consideration of migration as part of the dynamic process of labour market adjustment. Migration is not just the permanent movement of labour from one region or country to another, involving movement of both workplace and residence. Such migration is at one extreme in a continuum of adjustments which have to be defined both spatially, with respect to workplace and residence, and temporally, with respect to the length of time spent at the new location. Much movement between European labour markets is only short-term, sometimes because of regulatory restrictions, but often because of choice by the migrant. This includes frequent seasonal movement of workers under specific contracts. At the other end of the spectrum we can observe within the EU the increasing incidence of weekly commuting, reflecting the workplace choices of households with many earners and the constraints of housing markets. We also observe longer distance conventional commuting reflecting improved transport into major cities, sometimes

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<sup>6</sup> Final Report of the High Level Task Force on Skills and Mobility, December 2001, [http://europa.eu.int/comm/employment\\_social/general/index\\_en.htm](http://europa.eu.int/comm/employment_social/general/index_en.htm)

<sup>7</sup> Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, *Commission's Action Plan for skills and mobility*, COM(2002)72, European Commission, Brussels, 13.2.2002

<sup>8</sup> See Massey *et al.* (1993) for a detailed survey of migration literature. For a recent survey specific to the labour market in Europe, see Akkoyunlu and Vickerman (2000) and for an outline of the general approach adopted here see Papapaganos and Vickerman (2000).

<sup>9</sup> Estimates suggest that the labour force in the EU will contract by 5.5% by 2020 (from 145 million to 137 million).

<sup>10</sup> See Bauer and Zimmermann (1999)



associated with telecommuting. All of these represent examples of people seeking work outside their labour market of residence.

Migration is frequently modelled just as the decision by the migrant, in terms of (static) differences in earning potential or the probability of unemployment in two regions. The view taken here is that we need to see this as part of a long-term, dynamic adjustment in which movement is a response to longer run expectations in both markets, and in which individuals may choose to work for a limited period in another market as part of a process of acquiring new skills, or money for future investment, or to remit earnings home.<sup>11</sup> Such movement incurs costs, both the direct costs of moving, including search costs, and the indirect costs of separation from family and possible exposure to harassment at the destination. At the level of the family, different members may choose to work in different labour markets as a means of spreading the risks of unemployment. In a process of rapid change, such as found during economic transition, labour market expectations will be changing and hence people's responses to these expectations will affect decisions to migrate. If people think that life in their own country is likely to improve this could either lead to their postponing a decision to migrate, or to accelerate it on the basis that the potential returns to any skill acquisition or financial gain are increased.

The observation of return migration is often interpreted as a failure in information which leads to migrants taking the "wrong" decision. However, viewing the single migration decision as part of a long-term labour market development decision makes such movement entirely rational. This is not to deny the problem of imperfect and asymmetric information and one part of our set of models is aiming to show how more efficient decisions are taken when these information imperfections are reduced. Analysis shows clearly that information which enables the better matching of migration flows to labour market needs has a greater positive effect both on the migrant experience and the destination regions.<sup>12</sup> There is also substantial evidence of short-term seasonal contracted migration (from specific regions to specific employment opportunities) which enables employers to rely on the quality of migrant labour employed (i.e. achieving symmetric information).

Hence it is argued that migration is part of a dynamic process within the lifetime expectations of workers. In this context, there is evidence that migration is self-selective, i.e., those who migrated would have done better regardless of whether or not they had gone abroad. Therefore, immigrants maybe "more able and more highly motivated" than the natives.<sup>13,14</sup> Hence migration is generally expected to yield welfare gains, especially if the marginal productivity of labour differs across countries. Based on this it has been argued that if all markets are functioning well then migration is welfare improving, not only for migrants, but also (on average) for natives. However, the effects of migration on the labour markets and the regions between which the migrants move are considered in more detail in the next section.

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<sup>11</sup> De-Coulon and Piracha (2002) analyse the performance of return migrants to Albania and Leon-Lesdesma and Piracha (2001) study the role of remittances in selected CEECs.

<sup>12</sup> Akkoyunlu (2001a).

<sup>13</sup> See Borjas (1987) and Borjas and Bratsberg (1996) for an analysis of the effect of self-selected immigrants on the US labour market and Bauer *et al* (2002) for the effect of self-selection on German labour market.

<sup>14</sup> Straubhaar and Zimmermann (1993) show that migration from Central and Eastern Europe to Germany caused the average level of human capital in Germany to increase whereas the opposite occurred in the sending countries. Based on such analysis, it has been argued that a selective (or perhaps more accurately "targeted") immigration policy could be used to attract the highly qualified workers needed in innovative industries.

There are positive and negative effects of migration on both the sending and receiving countries. Both effects, therefore, have to be considered in order for a migration policy to be effective, not only for migrants but for the economies of the regions involved. Here we discuss important economic consequences from the perspective of sending and receiving countries.

Emigration can provide relatively well paid employment for both unskilled and skilled workers which offers an outlet for domestic frustration with the pace of transition that might otherwise present serious political problems, and can produce large inflows of valuable hard currency remittances. At the same time, sending country governments express concern that emigration deprives these nations of their best human resources, represents a transfer of educational investment from poor to rich countries and leads to abuses or exploitation of their workers. It has been difficult to demonstrate empirically that international migration results in development in the origin countries over the short-term. It is not clear that migration does reduce unemployment levels but it does appear to play an important role in absorbing labour force growth.

The movement of skilled and highly qualified workers is likely to result in a slow down of the development process in the origin country. However, whether emigration constitutes a "drain" of workers at any skill level sufficient to hinder the development process depends upon the availability of human and other resources to fill the gap. Similarly, since short-term migration may contribute to the acquisition of skills abroad it may have a substantial long-term beneficial effect. It is more clearly evident, however, that remittances improve the welfare of migrants' non-migrating families and enable a higher level of provision of education and health care for children which has long-run beneficial effects on future growth. Remittances may have reached very high levels in some countries, anything from 20-40% of GDP in Albania where upwards of 40% of the population has had at least one period of migration.<sup>15</sup> In Poland remittances are estimated to have increased by over 80% between 1994 and 1998 amounting to over \$1 billion by 1998.<sup>16</sup> As well as current remittances during spells of working abroad, the accumulation of financial capital for future investment is a major incentive for working abroad for many migrants.<sup>17</sup>

In terms of the receiving countries, studies have shown that international migration has contributed towards human capital formation by influencing natives' accumulation of knowledge.<sup>18</sup> Therefore immigrants have not only been an important source of labour supply but also significant contributors in introducing innovative and dynamic new elements in the field of science and medicine. However, some sectors are adversely affected by immigration than others and therefore in recent years the effects of migration on the employment of natives has become a serious and contentious subject of debate. These effects vary, not only by sector and occupation, but also by country and type of migration.<sup>19</sup> For instance, it has been argued that immigration in sectors that employ relatively low skilled workers causes negative wage and employment effects. The evidence on this is not conclusive. Some

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<sup>15</sup> Annual remittances, therefore, are much higher than annual foreign aid. In 1996, for instance, foreign aid amounted to approximately \$200 million while remittances totalled approximately \$370 million. This trend is believed to be continuing.

<sup>16</sup> See Leon-Ledesma and Piracha,(2001)

<sup>17</sup> Kule *et al.* (2000) shows that in Albania migration rates are strongly related to the perception of migrants of potential advantages in capitalising on the new liberalised economy.

<sup>18</sup> See Chiswick (1988) and Galor and Stark (1994).

<sup>19</sup> See Friedberg and Hunt (1995) and Haisken De New and Zimmermann (1999)

empirical studies have shown that these effects are very small.<sup>20</sup> The economic explanation of the absence of wage effects is that migration doesn't affect wages but rather the composition of output, i.e., it affects the industrial structure of the receiving country. Thus those sectors that employ immigrants expand, leaving the employment level and wages of natives unchanged while those sectors that restrict the employment of immigrants shrink, resulting in increased unemployment of natives in that sector without altering wages in a significant way.

The other side of the argument is that cheap, low-quality immigrant labour may lead to a loss of competitiveness, since it induces a slowdown in the adjustment process to higher quality production. However, declining relative wages for less skilled workers are an incentive for the home population to engage in human capital formation and earn higher wages in the long-run. Immigration can increase labour market flexibility, provide incentives to slow down wage growth and thus increase employment. Thus, there is no clear threat to the welfare of indigenous workers from immigration.<sup>21</sup> Unskilled immigrants increasingly occupy employment opportunities that the indigenous workforce is no longer willing to fill. Furthermore, despite the leakage for remittances, immigrants have relatively high propensities to consume and add to local demand. In this regard, the ingress of unskilled immigrants probably raises EU welfare by more than trade.<sup>22</sup>

The evidence is thus finely balanced on the impacts of migration. There are both costs and benefits to both origin and destination regions. Typically the costs are short-term and not always those perceived as most important by popular misconceptions of immigrants: by and large migrants do not displace local workers from employment.

#### **4. Trends and Regional Pressures in Migration from Central and Eastern Europe**

In this section we examine the evidence on origins and destinations in migration from CEEC to the EU. In the absence of a comprehensive micro data set which would enable us to look at both flows and reasons for movement, we take data from a variety of sources to paint a picture of the varied pattern of movement taking place.

Net migration flows from all sources for the EU as a whole remained remarkably constant throughout the 1990s. Considerable reductions in rates of net in-migration were experienced in Austria, Germany and Greece, after an initial upsurge in the early 1990s when these countries faced the main pressures of the early stages of transition in the CEEC and of refugees from war zones. The other main change of note was the transformation of Portugal and Ireland from net out-migration to net in-migration countries, an important indicator of the migration response to improved economic performance. Relative to working age population,

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<sup>20</sup> Card (1990), for instance, shows a negligible effect on wages of a large influx of migrants in the Miami area. Also Borjas (1994) finds no support for the hypothesis that the employment opportunities of US-born workers are adversely affected by immigration and Gang and Rivera-Batiz (1994) estimate that a one per cent increase in migrant labour in Europe will affect native wages between +0.02 and -0.08 per cent only. More recently, Zorlu (2000) analysed the wage effects of ethnic minorities in the UK and found that both substitution and competition effects are occurring simultaneously, so that there is no clear unambiguous effect on wages overall. Other recent papers with similar results are Pischke and Velling (1997) and Gaston and Nelson (2002).

<sup>21</sup> It is possible that relatively recent migrants may be substitutes for previous migrants, as they are likely to move to similar locations in the host country, have similar skills and work in similar industries.

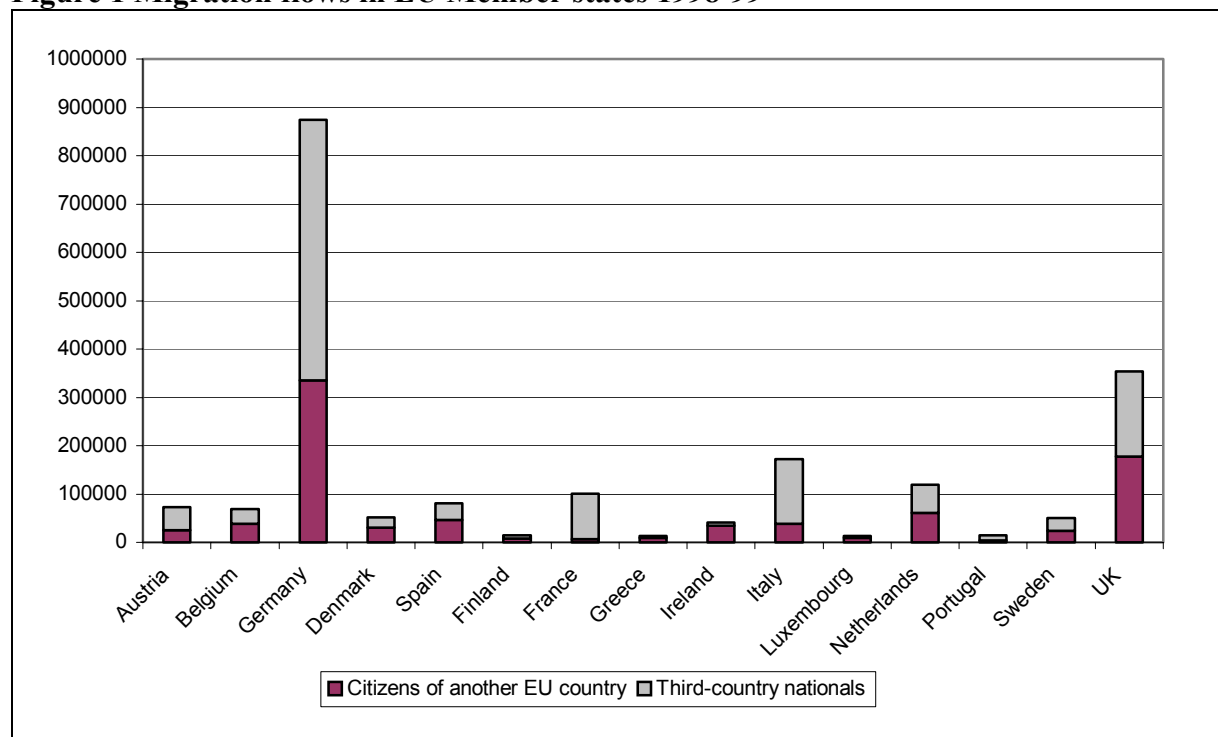
<sup>22</sup> Haikonen De New and Zimmermann *op cit*

however, migration remains relatively low, an average of 0.8% for the EU15 in 1998 with the highest figure (Luxembourg) being 4.5% and the lowest (Greece and Portugal) just 0.2%.

Stocks of foreign population remain relatively small in most EU states, around 3 to 3.5% in the UK, around 6.5% in France and around 8 to 9% in Germany and Austria. This translates into an estimated stock of foreign labour in 1997 of about 0.95 million in the UK, compared with 1.57 million in France and 2.00 million in Germany. The figure for the UK is somewhat larger than in the 1980s, but has remained remarkably constant during the 1990s; that for Germany increased by about 25% over the decade 1987-97, but the stock was actually smaller in 1997 than in 1980.

Sources of immigrants and destinations of emigrants do differ substantially between EU Member States and this is one factor which poses problems for a common immigration policy or agreement on an appropriate transition period for CEEC candidate countries. Around 40% of international migration in the EU is internal to the EU (Figure 1). For the UK, the CEEC are less important than for many other EU countries, around 50% of migrants in 1998-99 were from the EU and 50% from third countries (only around 1.5% of immigrants from CEEC). By contrast 60% of Germany's immigrants were non-EU (16% from CEEC) and at the other extreme only 6% of France's and 22% of Italy's immigrants were EU citizens.

**Figure 1 Migration flows in EU Member states 1998-99**

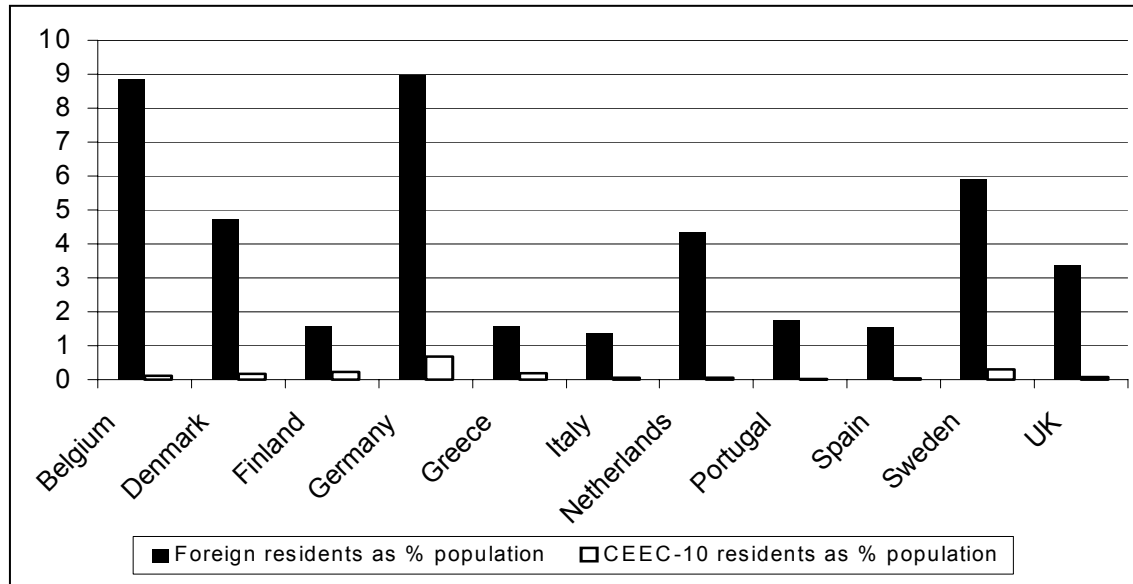


A recent report for the EU estimates that the stock of residents from the CEEC-10 in the UK at January 1996 was 39000 (0.07% of the population) and in Germany at January 1998 was 554869 (0.68% of the population).<sup>23</sup> The pattern of the total stock of foreign residents and those from CEEC is shown in Figure 3. However given the downward trend in net migration from the CEEC from over 200000 persons annually in 1998 to an estimated less than 100000

<sup>23</sup> See Boeri, T., Brücker, H. and others (2000)

by 2010 and under 30000 by 2020. This would stabilise the resident population from the CEEC in the EU at about 3.75 million by 2020, just over 1% of the EU population, possibly 2.5 to 3.5% of the German population.

**Figure 2 Foreign residents as % population, by EU country 1998**



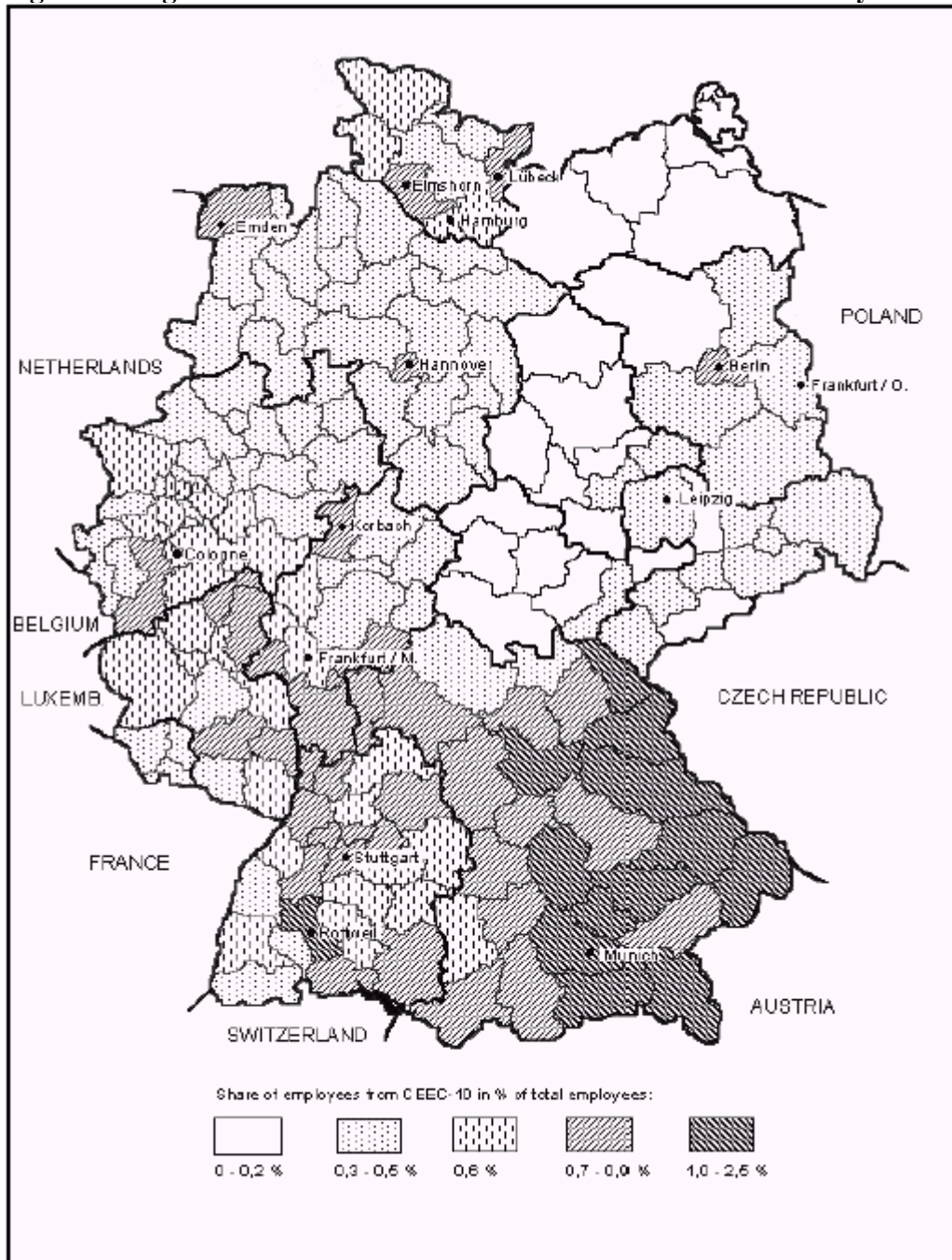
Not only are CEEC migrants concentrated particularly into Austria and Germany (around 73% of the CEEC working age population resident in the EU, and 80% of those in employment), but within these countries there are clear concentrations in certain regions (Figures 3 and 4). In Germany the largest concentrations are the eastern parts of Bavaria (between 1% and 2.5% of the employed population against a national average of 0.5%). In Austria there is a very high concentration in the eastern region of Burgenland (around 6% of the employed population against a national figure of 1.1%).

Whilst there is an obvious geographical pattern to these concentrations, with regions closer to borders with CEEC having higher proportions of residents from these countries, this is not simply a geographical relationship. It is noticeable how there are relatively few such residents in the new Länder where economic conditions are less favourable. It is also relevant to note that the highest concentrations are closest to the regions in the origin countries which have been performing most strongly during transition. This is a reflection both of the importance of matching skills and the availability of jobs and of the increasing propensity to seek skill and income enhancing opportunities abroad when economic conditions are expected to improve at home.

The main losers of population in the CEEC countries, for which any reliable data is available, have been Romania and Poland, but migration losses are only an average  $-0.07\%$  and  $-0.04\%$  respectively. Substantial migration flows exist between the CEEC, especially for the smaller countries such as the Baltic States where around 80-90% is intra CEEC movement. Estimates of the 1998 stock of CEEC residents in the EU show that by far the largest group is Polish nationals (over 350000) which constitute nearly half of the total, followed by Romanians (120000).<sup>24</sup>

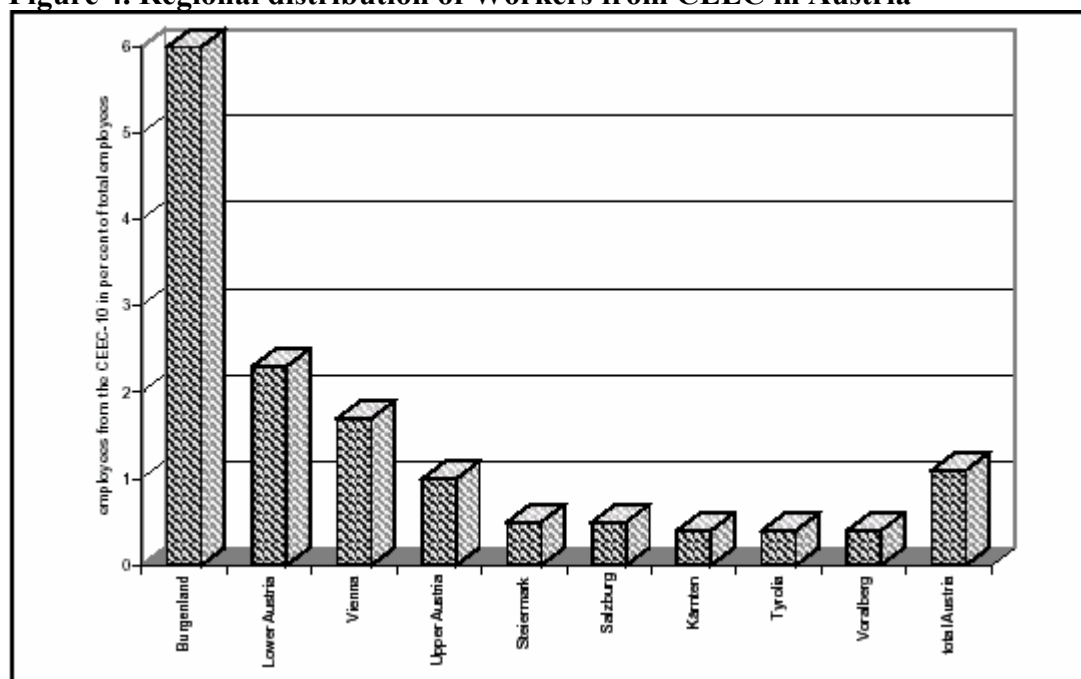
<sup>24</sup> Boeri, T., Brücker, H. and others (2000) *op cit*.

**Figure 3: Regional distribution of Workers from CEEC in Germany**



Source: from Boeri, Brücker et al. (2000)

**Figure 4. Regional distribution of Workers from CEEC in Austria**



**Source:** from Boeri, Brücker et al. (2000)

The regional origin of migrants within the CEEC is also not geographically straightforward. An interesting analysis of the pattern of flows across the Polish borders shows how border regions do not have disproportionately high shares of either out- or inflows, but that much more complex patterns of linkage relate to both trade patterns and historical networks of relationship (Komornicki, 2000).

In some parallel work we have looked in detail at patterns of movement, especially short-term seasonal and contract movements, between Poland and Germany (Akkoyunlu, 2001b, c). This shows that well over 90% of seasonal moves are for jobs in agriculture, undertaken by predominantly young males, who were typically over-qualified for the job undertaken. The typical stay for a seasonal worker is 8 weeks to 3 months (average 10.5 weeks) and around 60% of net earnings is estimated to be saved/remitted. Contract workers tend to be recruited for work in jobs such as construction and stay for rather longer, around 9 months. However, they are better paid and remit almost 80% of net earnings. What is of most interest is the way that waves of short-term migrants move from a specific origin region to the same destination region, reflecting that, especially for short-term migrants, network information is important for both the migrant and the potential employer. But this also confirms that we cannot understand fully the process of migration from aggregate flow data.

We have looked so far at cross-border movements, where we have seen the existence of a rather complex geographical pattern. If we look beyond the immediate border regions of the CEEC, it is clear that the major metropolitan regions dominate as attractors of migrant workers. In the UK, for example, London and South East England have dominated other regions with over 50% of all resident migrants and some two-thirds of new migrants head for these regions (Table 2). Around 40% of all EU migrants settle in London. It is

concentrations like these that can give rise both to the prominence of political issue of migration and to the associated social problems.<sup>25</sup>

**Table 2 UK International Migration, 1998**

Countries of the United Kingdom and Government Office Regions of England

Area of destination or origin within the United Kingdom	<i>Thousands</i>					
	All Countries	European Union	Country of Last or Next Residence			Other Foreign Countries
			All	Old	New	
<b>Net Flow</b>						
United Kingdom	<b>+133.5</b>	<b>+36.2</b>	+71.3	+38.3	+33.0	+25.9
Great Britain	<b>+135.9</b>	<b>+36.0</b>	+73.4	+39.2	+34.3	+26.5
England and Wales	<b>+135.0</b>	<b>+35.1</b>	+73.6	+42.1	+31.5	+26.3
England	<b>+132.6</b>	<b>+32.6</b>	+74.1	+42.7	+31.4	+25.9
Wales	<b>+2.4</b>	<b>+2.5</b>	-0.5	-0.6	+0.1	+0.3
Scotland	<b>+0.9</b>	<b>+0.9</b>	-0.2	-2.9	+2.8	+0.2
Northern Ireland	<b>-2.5</b>	<b>+0.1</b>	-2.1	-0.8	-1.3	-0.5
<i>Government Office Regions</i>						
North East	<b>+2.8</b>	<b>-1.0</b>	+4.0	-1.2	+5.2	-0.2
North West (inc Merseyside)	<b>+10.2</b>	<b>-3.9</b>	+7.3	+4.4	+3.0	+6.7
Yorkshire and the Humber	<b>+4.1</b>	<b>+3.8</b>	+3.0	-0.3	+3.2	-2.7
East Midlands	<b>+6.1</b>	<b>+4.6</b>	+1.7	+1.2	+0.6	-0.3
West Midlands	<b>+7.4</b>	<b>+1.9</b>	+2.7	-2.0	+4.6	+2.8
East	<b>+9.1</b>	<b>+4.2</b>	+4.4	+2.6	+1.8	+0.5
London	<b>+60.1</b>	<b>+14.2</b>	+38.5	+30.6	+7.9	+7.4
South East	<b>+29.2</b>	<b>+11.6</b>	+11.3	+7.0	+4.3	+6.2
South West	<b>+3.8</b>	<b>-2.8</b>	+1.1	+0.3	+0.8	+5.4

Source: International Passenger Survey, 2000

Turning to the impact of migration on the sending and receiving countries, there are both positive and negative effects. Emigration can provide relatively well paid employment for both unskilled and skilled workers which offsets problems of unemployment, but at the same time, there is concern that emigration deprives sending regions of their best human resources. Although the movement of skilled and highly qualified workers may result in a slow down of the development process in the origin region, it is more difficult to determine whether emigration constitutes a sufficient "drain" of workers at any particular skill level to hinder the development process. Since much migration from the CEEC is short-term, this may actually contribute more to the acquisition of skills and thus may have a substantial positive effect in the long-term. Furthermore, the remittances typically associated with such movement directly improve the welfare of migrants' non-migrating families and enable a higher level of provision of education and health care for children which has long-run beneficial effects on future growth. In Poland remittances are estimated to have increased by over 80% between 1994 and 1998 amounting to over \$1 billion by 1998.<sup>26</sup> As well as current remittances during spells of working abroad, the accumulation of financial capital for future investment is a major incentive for working abroad for many migrants.<sup>27</sup>

<sup>25</sup> Note, however, that in Berlin the proportions are only consistent with those found in the main urban areas of western Germany. This, to a large extent, reflects the fact that migrants do respond to the economic pull of employment opportunities.

<sup>26</sup> See Leon-Ledesma and Piracha,(2001)

<sup>27</sup> Kule *et al.* (2000) shows that in Albania migration rates are strongly related to the perception of migrants of potential advantages in capitalising on the new liberalised economy.



For the destination regions, immigrants have been an important source both of labour supply and in innovation in science and medicine.<sup>28</sup> The effects of immigration on employment and wages in these regions vary, not only by sector and occupation, but also by country and type of migration.<sup>29</sup> There is empirical evidence that these effects are quite small and that migration tends not to affect wages, but rather the composition of output. The sectors that employ immigrants expand, leaving the employment level and wages of natives unchanged while those sectors that restrict the employment of immigrants shrink, resulting in increased unemployment of natives in that sector without altering wages in a significant way.<sup>30</sup>

It is also argued that cheap, low-quality immigrant labour may lead to a loss of competitiveness, since it induces a slowdown in the adjustment process to higher quality production. However, declining relative wages for less skilled workers are an incentive for the home population to engage in human capital formation and earn higher wages in the long-run. Immigration thus increases labour market flexibility, provides incentives to slow down wage growth and thus increases employment. Thus, there is no clear threat to the welfare of indigenous workers from immigration.<sup>31</sup> Furthermore, despite the leakage for remittances, immigrants have relatively high propensities to consume and add to local demand. In this regard, the unskilled immigration probably raises EU welfare by more than trade.<sup>32</sup>

The evidence is thus finely balanced on the impacts of migration. There are both costs and benefits to both origin and destination regions. Typically the costs are short-term and not always those perceived as most important by popular misconceptions of immigrants: by and large migrants do not displace local workers from employment.

## 5. Towards a Migration Policy

The thrust of the evidence is that migration is a response to economic opportunities which needs to be considered in the context of the dynamic adjustment to labour markets. The past decade is no guide to the future expectations of migration within Europe since it involves a period of adjustment to long-term disjuncture in the operation of such markets. Moreover, the evidence points strongly to migration as being a short-term response to differentials but not a long-term solution. The danger is, therefore, that interference with market forces produces continuing problems of adjustment and might lead to much longer problems resulting in problems of illegal migration than would a more liberal regime.

However, there are some clear indications of ways in which a more active approach to migration could be beneficial. One of the clear problems is in the failure of migrants to gain

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<sup>28</sup> See Chiswick (1988) and Galor and Stark (1994).

<sup>29</sup> See Friedberg and Hunt (1995) and Haisken De New and Zimmermann (1999)

<sup>30</sup> Card (1990), for instance, shows a negligible effect on wages of a large influx of migrants in the Miami area. Also Borjas (1994) finds no support for the hypothesis that the employment opportunities of US-born workers are adversely affected by immigration and Gang and Rivera-Batiz (1994) estimate that a one per cent increase in migrant labour in Europe will affect native wages between +0.02 and -0.08 per cent only. More recently, Zorlu (2000) analysed the wage effects of ethnic minorities in the UK and found that both substitution and competition effects are occurring simultaneously, so that there is no clear unambiguous effect on wages overall. Other recent papers with similar results are Pischke and Velling (1997) and Gaston and Nelson (2002).

<sup>31</sup> It is possible that relatively recent migrants may be substitutes for previous migrants, as they are likely to move to similar locations in the host country, have similar skills and work in similar industries.

<sup>32</sup> Haisken De New and Zimmermann *op cit*

correct information about opportunities at possible destinations, and of potential employers in gaining adequate information about the skills of migrants. The problems arising from these asymmetries in information, and the benefits from reducing them, can be seen in the growth of seasonal contract movements where employers can recruit from the same area and be assured of the quality of the workers.<sup>33</sup>

Policies which aim to match the skill mix of migrants to the needs of destination regions clearly have some merit in this context. Thus the points system currently in use in Australia and Canada is an example of a selective immigration policy aimed at fulfilling the needs of particular industries or labour markets. However, a points system may fail to be sufficiently flexible and rapid to identify problem sectors with labour shortages and secure the necessary flow of immigrants or to react sufficiently quickly to economic shocks

Germany recently adopted a policy in which bilateral agreements with several CEECs have been signed in which workers could be hired to work in firms/projects (mainly in the construction sector) on a contract of up to three years. Wages for contract workers are lower than for German workers since social security benefits are paid according to the rules of the origin country. This policy has the benefit that administrative costs are lower than the point system; it clearly defines the relevant sectors so that appropriately skilled workers are admitted; and the quotas can be defined so that migrants can be used in any EU country in need of a particularly skilled labour. Although this policy reduces some of the inefficiencies of the point system, some criticisms, such as time lag and immigration of wrongly skilled workers, still apply.

An alternative cost-effective policy for the receiving country is one in which work permits are auctioned off to either those wishing to immigrate or, perhaps more practically, to the firms in the host country wishing to employ immigrants.<sup>34</sup> The host country can determine the need for labour at a given time period and then auction off work permits to fulfil that need. All those interested in a job in the host country can participate in such an auction.<sup>35</sup> Proceeds from the auction of work permits could be split between the host country (i.e., revenues generated could contribute towards the administration costs associated with setting up an auction and the redistribution to natives) and the origin country, where the funds could be used in the education sector and also in other development-related projects to reduce future emigration pressures. The price at which a work permit could be acquired would set a ceiling on the earnings of the illegal immigration industry and potential migrants would opt for illegal immigration only if it were considerably cheaper than the legal alternative of acquiring a work permit. Therefore, as long as the auction price of acquiring a permit remains below the costs associated with illegal immigration, such a policy will be efficient not only in attracting “rightly” qualified people but also in alleviating problems of illegal immigration. In addition, illegal costs are sunk whereas the work permit fee will be refundable if the immigrant repatriates to his home country. Therefore buying a work permit could be considered an investment, especially for the short-term immigrant. Upon repatriation, the

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<sup>33</sup> Some 250000 temporary migrants from CEECs were present in Germany in 1997, 210000 of whom were seasonal workers, a figure which has grown from under 120000 in 1991, see Boeri, Brücker et al (2000) *op cit.*

<sup>34</sup> A variant of this policy has been in use in some Middle Eastern countries since 1974 and has been efficiently tackling the labour shortage problem without any significant adverse effects related to immigration. See also the analysis by Myers and Papageorgiou (2002).

<sup>35</sup> This includes people already present in the host country but do not have a work permit. This will help discourage and reabsorb illegal immigration.

refund from the permit, in addition to the retained savings, could be used in the origin country to set up business or build a home etc. hence benefiting the local economy. For the employers, such a policy will be more efficient if permits are transferable across sectors and firms since this reduces the unnecessary administration costs that could result if migrants had to return to the home country before they could be hired by another firm.

## 6. Conclusions

The main message of this paper is that there is not an overwhelming problem of the potential gross flow of migrants for the EU either now or consequent on enlargement. The migration problems which do exist are more at the micro-economic level of matching potential migrants to labour force needs in the most efficient way.

The evidence available suggests that migrant flows can play a valuable role in helping to improve the flexibility of EU labour markets. This operates mainly through enabling occupational mobility rather than through creating unemployment. There will be differences in the impact on different regions within the EU, however. Generally migrants move to regions where there are shortages such that they do not pose a particular problem on the performance of native workers in those markets. There may be an issue where migrants compete with unemployed workers from other regions within the EU for jobs in labour shortage regions. However, the evidence on labour mobility within the EU suggests that even where there is free mobility workers have been reluctant to move; it may be inefficient to exclude migrants from outside the EU on this basis.

We are currently looking further at the impact in the home country of the migrants. Theory suggests that there should be net benefits here as well, especially where individual migration is mainly short-term in nature. Initial results suggest that there are positive impacts on productivity from returning migrants which add to the beneficial impact of remittances<sup>36</sup>. In addition labour markets in CEEC seem to be more flexible than in the EU suggesting that they can absorb market shocks more efficiently. Migration may also have a positive impact on the wage distribution in the home region as well as on individual wages, by raising not only the mean wage but also reducing inequality and thus helping to promote greater efficiency.<sup>37</sup>

A Community Immigration Policy thus needs to address mechanisms for identifying migrant flows and preparing for their easy absorption rather than trying to set aggregate quotas or optimal transition periods to free movement. However, it also needs to be sensitive to the considerable regional variations in labour market conditions within the EU in securing this. The argument here has been that allowing the market to determine appropriate flows may be more efficient and more effective than administrative controls.

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<sup>36</sup> See Leon-Ledesma and Piracha (2001)

<sup>37</sup> See De-Coulon and Piracha (2002)

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