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## The EU Structural Funds as a Means to hamper Migration

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# The EU Structural Funds as a Means to Hamper Migration

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## Abstract

Comparing the current economic situation of the internal markets of the US and the EU, two things are noticeable. On the one hand, the EU is conducting massive regional policy programmes (notably with their Structural Funds) to foster economic cohesion among the 27 nations belonging to the single European market while in the US with its 50 federal states such policies play a rather subordinate role. At first glance, this seems to be consistent with the fact that a low (high) inequality in the economic geography in the US (EU) is observable. Only 2.5% of the total population in the US lives in regions with less than 75% of the US average GDP per capita while in the EU approximately 34% of the total population lives in such regions eligible for structural funds support. But by taking a closer look, on the other hand, it is revealed that the internal mobility of US citizens is significantly higher than that of EU citizens. According to economic theory migration, besides the free flow of goods, services and capital, plays an important role in assuring convergence in a common market. Following this strand of theory no regional policy is needed to achieve economic cohesion among the regions or nations of a common market. Thus, comparing the two internal markets, the question comes up if the lower degree of economic cohesion in the EU has something to do with the lower mobility of EU citizens and a higher degree of structural interventions? To answer this question, the paper consists of three parts. First, the theoretical background concerning migration and the potential need for regional policy is presented, to find out if one of them is a better instrument to achieve a balanced economic development within an internal market. In the second part, we discuss the actual situation of EU internal migration and the structural funds of the EU. In the last part, we examine why migration rates are comparatively low and analyse the interrelation between the regional policy and (internal) migration in the EU. Besides other things like language, culture or institutions this paper is going to argue that structural funds are inhibiting internal migration, which is one of the key measures in achieving convergence among the nations in the single European market. It becomes clear, that the European regional policy aiming at economic cohesion among the 27 member states is inconsistent if the structural funds hamper instead of promoting migration.

JEL-Classification: E62, F15, F22

Keywords: Migration, Structural Funds, European Integration

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# 1. Introduction

The preamble of the Treaty on the Functioning of the European Union (TFEU)<sup>1</sup> of 2009 states that one of the main goals of European integration is to harmonise and actively improve the living and working conditions of European Union (EU) citizens (European Union 2010, p. 15f.). The main policy instrument of the EU to do so is their regional policy, which is mainly implemented by the so-called structural funds. These include the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the European Cohesion Fund (ECF). All three of them transfer financial means paid by richer regions belonging to the European single market to regions lagging behind in their economic development in order to actively improve the living and working conditions of EU citizens. Therewith, the EU takes another way than the United States (US) where regional policy plays a rather subordinate role (Pierdzioch 2007, p. 1). However, in the US the economic gap between the 50 federal states is not as large as in the 27 member states of the EU. While in the US only three federal states including only 2.5% of the US total population, namely Arkansas, West Virginia and Mississippi, are lagging behind the other federal states, in the EU approximately 34% of the total population lives in such regions<sup>2</sup> with less than 75% of the average GDP per-capita.<sup>3</sup> Thus, executing a regional policy to assure a harmonic economic development in the US would be virtually redundant.

Comparing both internal markets from an economic point of view, it is noticeable, that given the inequality in the economic geography in the two markets, at the same time internal migration rates are significantly different. US citizens are much more internally mobile (5.9% of the people changed their residence in 1999) than citizens in the EU (only 0.1% of the people changed their residence in 2000) (Heinz and Ward-Warmedinger 2006, p. 7f.; Martin 2003, p. 1f.). Hence, the question comes up if the lower degree of economic cohesion in the EU has something to do with the lower mobility of EU citizens and a higher degree of structural intervention of the EU regional policy? This question can be splitted into two subquestions that should be dealt with in this paper. First, is migration or regional policy more suitable to achieve a harmonic economic development

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<sup>1</sup> Before December 2009 this was the “Treaty establishing the European Economic Community” (EEC Treaty) of 1957 which was renamed in TFEU in Article 2 of the Lisbon Treaty.

<sup>2</sup> See footnote 12 on page 8 for a detailed definition of the term “region” in the EU.

<sup>3</sup> The figures are own calculations on the basis of Marcu (2011) and the European Commission (2012c) for the EU and the data for the US is taken from the Bureau of Economic Analysis (2012) and the Census Bureau (2012).

in the internal market of the EU? Second, how are migration and the structural funds related with each other?

To answer these two questions, in the first part of the paper we shortly analyse the theoretical implications concerning migration and regional policy against the background of a cohesive economic development within the common markets of the US and the EU, respectively. In the second part we discuss the actual situation of the structural funds of the EU and the situation of internal migration in the single European market. Before we present the conclusion of the paper, we analyse in the third part why internal European migration is quite low and how internal migration and the structural funds payments are interrelated. We will find that the structural funds payments hamper internal migration in the EU and thus, by inhibiting market forces, work counterproductive to their own goals of harmonizing and improving the living and working conditions of EU citizens. In the end, the paper argues that the strategy followed by the European regional policy is inconsistent if the structural funds are inhibiting internal migration, which is one of the key measures in achieving economic convergence among the nations in the single European market.

## **2. Internal Migration or Regional Policy in the EU?**

The question if internal migration or the structural funds are more suitable to achieve a harmonic economic development is hard to answer empirically, because we do not observe the counterfactual situation (Berthold and Neumann 2003a, p. 8).<sup>4</sup> Thus, the question can mainly be answered theoretically against the background of the achievement of a harmonic economic development to improve the living and working conditions of the citizens in the EU. In economics there is no explicit theory to evaluate if migration or regional policy is better to achieve this. That is why different trade, growth and regional economic theories are taken into consideration. With the help of these theories economic activities, i.e. mobility of goods, services, capital and labour, and their allocative and distributive consequences for the economies considered, are explained. Because of the wide field that is covered by these theories, it is not that easy to immediately gain clear cut insights concerning migration and the structural funds in the single European market.

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<sup>4</sup> For an empirical analysis of this question two identical worlds with a common European market would be necessary from a theoretical point of view. One with regional policy without migration and one without regional policy but with migration. Only then, a reliable conclusion about the advantageousness of migration or regional policy in achieving a harmonic economic development would be possible.

But nevertheless, two main pillars can be found in the economic literature to analyse the question raised in this paper, namely the “Thesis of Convergence” and the “Thesis of Divergence” (Berthold and Neumann 2003a, p. 1). While the (neo)classical trade and growth theory can be allotted to the thesis of convergence, the new trade and endogenous growth theory are assigned to the thesis of divergence in the literature (Dresel 2005, p. 13ff.; Schindler 2005, p. 91ff.).

Following the thesis of convergence the free movement of labour (and also goods, services and capital) will automatically lead to a harmonic economic development, such that the living and working conditions, at least in the long run, are approximately the same all over the EU. Hence, the market mechanism itself coordinates the process of convergence and regional policy interventions are not needed or just needed to accelerate convergence among the nations and regions of the EU. Therefore, the EU policy has just a regulative task, which is to enforce and ensure the free movement of goods, services and factors of production.<sup>5</sup>

In the reverse conclusion, economic divergence only occurs if the free movement of labour, capital, goods and services is imperfect which leads us to the thesis of divergence. Following this thesis, imperfect markets are the reason why, e.g., migration besides other factors leads to the typical pattern of an economically strong agglomeration and a weak periphery lagging behind in its economic development. Hence, according to this strand of theory not only passive and regulative but also active allocative and distributive policy interventions are needed to alleviate the consequences of inequalities in the economic geography in an internal market. To make this point clear, this also means that policymakers could implement policies that work against one or all of the four freedoms, like migration for example.<sup>6</sup>

Another strand of theory to analyse if internal migration or the structural funds are more suitable to achieve a harmonic economic development is the so-called new economic geography (NEG), which came up in the beginning of the 1990s. It can be seen as a

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<sup>5</sup> In practice, the EU has implemented what the thesis of convergence is implying, that is the free movement of goods, services, capital and labour, also known as the so-called “Four Freedoms of the EU”. This kind of passive and regulative policy stems from the beginning of European regional policy in 1957 (Treaty of Rome), while since the 1986 Single European Act the EU regional policy became more and more active and interventionist by using the structural funds, for example (Holtzmann 1997, p. 86ff.).

<sup>6</sup> An example is the “2+3+2-rule” which allowed the countries belonging to the EU-15 to wall off their labour markets for a maximum of seven years against the competition of workers from the central and eastern European countries, Romania and Bulgaria that joined the EU in 2004 and 2007 (Angenendt 2008, p. 20).

mixture or synthesis of the theses of convergence and divergence because it can explain developments of convergence as well as of divergence depending on the progress of the economic integration of regions (Ohr 1994, p. 5f.; Schmidt 2010, p. 26f.). Starting from a “natural” allocation of the factors of production between two economic areas, the mobile factors, according to the NEG, will decide on taking their location depending on the centripetal (promoting agglomeration) and centrifugal (promoting deglomeration) forces. At the beginning of economic integration the factors will locate in the agglomerating area because they are higher compensated there. This goes on until the arbitrage of factor prices reaches an equilibrium which determines the economic geography of regions and arises from an equilibrium of the two forces mentioned before. Given the mobility of goods, services and factors of production at a certain point in time, this equilibrium depends on the costs of transaction and transport. If these costs start to change in the course of the process of economic integration, it is likely that the economic geography of the regions will change. Hence, depending on the transport and transaction costs, it is possible that processes of agglomeration or deglomeration occur in an internal market at the same time. Migration plays an important role here, because depending on the location of the mobile factors in the course of integration, processes of agglomeration or deglomeration lead to diverging or either converging economic spatial developments (Schmidt 2010, p. 27). Since the same amount of goods is produced independent of agglomeration or deglomeration processes within the models of the NEG, allocative policies cannot be legitimated on the basis of this theory (Lammers and Stiller 2000, p. 19). The diverging or converging economic spatial developments implied by the NEG justify, only distributive policies. But since the explanatory power of the NEG models is very limited until today, concrete distributive policy implications cannot be derived from the NEG models yet (Schindler 2005, p. 116f.).<sup>7</sup> Therefore, Lammers and Stiller (2000) conclude from their analyses of the famous NEG model of Ludema and Wooton (1997) that the EU policy should remove all barriers to trade of goods, services and factors, that it should strengthen the European traffic infrastructure and that migration of labourers in the internal market of the EU should not be allowed until transaction and transport costs are comparatively low due to economic integration.

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<sup>7</sup> The explanatory weakness of the NEG models in this case is due to the problem that researches must be able to evaluate the exact phase (start, medium, end or somewhere in-between) or amount of transport and transaction costs of the process of integration (Schindler 2005, p. 115). Such an indicator does not exist yet.

To sum up, it becomes clear, that by looking at economic theory, no unambiguous insights and policy implications concerning migration and the structural funds in the single European market can be gained. Nevertheless, all strands of theory state the importance of the free movement of persons with reference to better allocation and overall economic welfare in a common market. Looking at the models corresponding to the thesis of divergence, migration fosters inequalities in the economic geography. Consequently, these models imply distributive regional policy interventions so that policymakers face a trade-off between allocative efficiency and a harmonious distribution. At the same time this also means that the EU (regional) policy should not prohibit the free flow of factors of production in any way since it is a vital prerequisite for the enlargement of the overall welfare in the EU. In conclusion, according to the NEG, the EU policy should concentrate on ensuring and enforcing the free flow of goods, services and factors and should reduce transaction and transport costs, so that the mentioned trade-off disappears and migration at the same time promotes allocation and a cohesive economic development in the single European market.

### **3. Internal Migration in the EU and the Structural Funds in Practice**

In the last section we analyzed the theoretical implications concerning the ability of migration and regional policy to bring up a harmonic economic development and economic efficiency in the single European market. We found, that migration in an advanced process of economic integration (characterised by low transport and transaction costs) as in the EU<sup>8</sup> plays an important role to assure both, an efficient allocation and a harmonic distribution of incomes in the single European market. Now, we are going to present the actual situation of migration and regional policy in the EU. We thereby clarify in detail what is the object of our analysis in this paper. In the first subsection, we shortly discuss the main instrument of the EU regional policy, namely the three structural funds ERDF, ESF and ECF. We are going to analyze their historical development, their goals, implementation and financial amount.<sup>9</sup> This analysis should enable us to study the interrelation of the structural funds and the European internal migration in the last part of the paper. In the second subsection, we define what we mean by (internal) migration and describe the actual situation in the EU.

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<sup>8</sup> See, e.g., Schlichting and Heinrichs 2010, p. 4.

<sup>9</sup> For a detailed discussion see, e.g., Schmidt 2010, p. 41ff. and Holtzmann 1997.

### 3.1. The Structural Funds of the EU

As mentioned above, the main instruments of the EU regional policy are the three structural funds ERDF, ESF and ECF. They have not been primarily set up for the sake of a planned political intervention into the allocation and distribution in the internal market of the EU. They rather have emerged as a subject of negotiation in the different phases of the deepening and enlargement of the European Economic Community (EEC) created by the 1957 Treaty of Rome (Schindler 2005, p. 35f.). Like migration, the establishment of the structural funds was closely tied to the process of European integration. In the beginning of this process, the European regional policy set the focus on the establishment of the internal market and the coordination of the national economic and financial policies. In the course of time, from the Single European Act (SEA) in 1987 and the Maastricht Treaty in 1992 to the TFEU today, this passive and regulative kind of policy more and more changed to a discretionary and interventionist type of policy (Schindler 2005, p. 39ff.).

Since the beginning of their implementation the main goal of the structural funds interventions of the EU is to improve the living and working conditions of its citizens. Nowadays, this goal should be reached by an investment policy that supports economic growth, an improved quality of life and sustainable development, job creation, competitiveness and the abolishment of the still significant economic, social and territorial disparities (European Commission 2012d). In the current programming period for the EU structural funds 2007-2013 this investment policy has a total funding budget of €347.41bn<sup>10</sup> and is pursuing the following three objectives (Schmidt 2010, p. 47).

The first is the objective of “Convergence” with a total budget of €283.28bn corresponding to 81.54% of the total structural funding budget for the period 2007-2013. The aim of this objective is to help regions with a per capita gross domestic product (GDP) of less than 75% of the EU average GDP per capita to catch up with regions that are above this threshold (European Commission 2012c).<sup>11</sup> This objective concerns 17 of the EU-27 member states with a population of 154 million people in 84 different regions at the

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<sup>10</sup>This amounts to approximately 35.7% of the total EU budget for that period or just over €49 billion per year. Since all regional policy programmes are co-financed by the member states the total available budget for the regional and cohesion policy is almost €700bn (European Commission 2012b).

<sup>11</sup>To be more precise, article 5 paragraph 1 of the Council Regulation No 1083/2006 exactly defines the regions eligible for funding from the structural funds under the Convergence objective. These are regions whose GDP per capita, measured in purchasing power parities and calculated on the basis of Community figures for the period 2000 to 2002, is less than 75% of the average GDP of the EU-25 for the same reference period (European Council 2006).

NUTS-2-level.<sup>12</sup> In addition, 16 so-called “phasing-out-regions” with 16.4 million people whose per capita GDP due to statistical reasons is still slightly underneath the threshold of 75% are covered by the objective of Convergence (Schmidt 2010, p. 43). Under this objective, projects like the improvement of basic infrastructure, water and waste treatment, high-speed internet connections, training and job creation programmes are funded, for example (European Commission 2012c).

The second objective is “Regional Competitiveness and Employment” with a total budget of €55.41bn corresponding to 15.95% of the total funding budget in the actual programming period. Independent from structural problems occurring in the process of integration, this objective consequently aims at supporting regions that are not covered under the Convergence objective. In a two-stage approach, the attractiveness of regions and that of the workforce living in them, as well as their competitiveness should be enhanced (Schmidt 2010, p. 43). On the one hand, a more balanced development in the regions under consideration should be encouraged and poverty should be eliminated. On the other hand, richer regions should be supported in order to create knock-on effects for all the other regions in the EU. This objective concerns 172 regions in the EU with approximately 330 million inhabitants while projects like the development of clean transport, the support for different kinds of research, small businesses, training and job creation programmes are funded under it (European Commission 2012c).

The third objective is “European territorial cooperation” with a total budget of €8.72bn corresponding to 2.51% of the total funding budget for 2007-2013. It aims at strengthening the cross-border, transnational and interregional cooperation in the EU (Schmidt 2010, p. 44). Hence, this objective covers all 271 regions of the EU with its 502.5 million inhabitants (Marcu 2011, p. 1) while projects of natural resources management, risk protection, the improvement of transport links, the creation of networks of universities and research institutes are funded, among others (European Commission 2012c).

To implement these three goals, the three structural funds are used under some or all of the regional policy objectives. The ERDF is used to finance policy measures under all three objectives. By promoting the reduction of regional imbalances, this fund should encourage economic and social cohesion in the EU. Therefore, the ERDF finances:

- “direct aid to investments in companies (in particular SMEs) to create sustainable

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<sup>12</sup>“NUTS” stands for the “Nomenclature of Territorial Units for Statistics”. It is a geocode standard for referencing the subdivisions of countries and regions in the member states of the EU developed and regulated by the European Union.

jobs;

- infrastructures linked to research and innovation, telecommunications, environment, energy and transport;
- financial instruments (capital risk funds, local development funds, etc.) to support regional and local development and to foster cooperation between towns and regions;
- technical assistance measures” (European Commission 2012b).

The ESF finances projects under the two objectives Convergence and Regional Competitiveness and Employment. It especially aims at improving the employment and working conditions in the EU. So the ESF supports the following actions:

- “adapting workers and enterprises: lifelong learning schemes, designing and spreading innovative working organisations;
- access to employment for job seekers, the unemployed, women and migrants;
- social integration of disadvantaged people and combating discrimination in the job market;
- strengthening human capital by reforming education systems and setting up a network of teaching establishments” (European Commission 2012b).

The ECF only supports the objective of Convergence. It aims at member states whose gross national income (GNI) per capita is lower than 90% of the EU average.<sup>13</sup> It should not only help these economies to catch up with richer member states but also to stabilise them. In the period 2007-2013, the ECF supports projects under the following categories in 15 selected member states:

- “trans-European transport networks, notably priority projects of European interest as identified by the Union and,
- environment; here, the Cohesion Fund can also support projects related to energy or transport, as long as they clearly present a benefit to the environment: energy efficiency, use of renewable energy, developing rail transport, supporting intermodality, strengthening public transport, etc.” (European Commission 2012b).

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<sup>13</sup>For a precise definition, which regions are eligible for funding from the ECF, see article 5 paragraph 2 of the Council Regulation No 1083/2006 (European Commission 2012c).

All regional policy interventions of the EU are following the two principles of subsidiarity and additionality (Weidenfeld and Wessels 1995, p. 293). This means that the EU only co-finances policy projects on the national, regional or local level, that are in line with its three regional policy objectives and where political action from the point of view of the member states is necessary. All projects are planned, implemented, administered and accounted on the national, regional or local level by local businesses or societal partners, as well as civil-societal groups (European Commission 2012a). To sum up, it became clear in this paragraph, that the three structural funds do not only follow economic considerations. Instead, they cover a wide range of policy fields and try to influence the political, natural, ecological, social and cultural environment in the European internal market.<sup>14</sup>

### **3.2. Internal Migration in the EU**

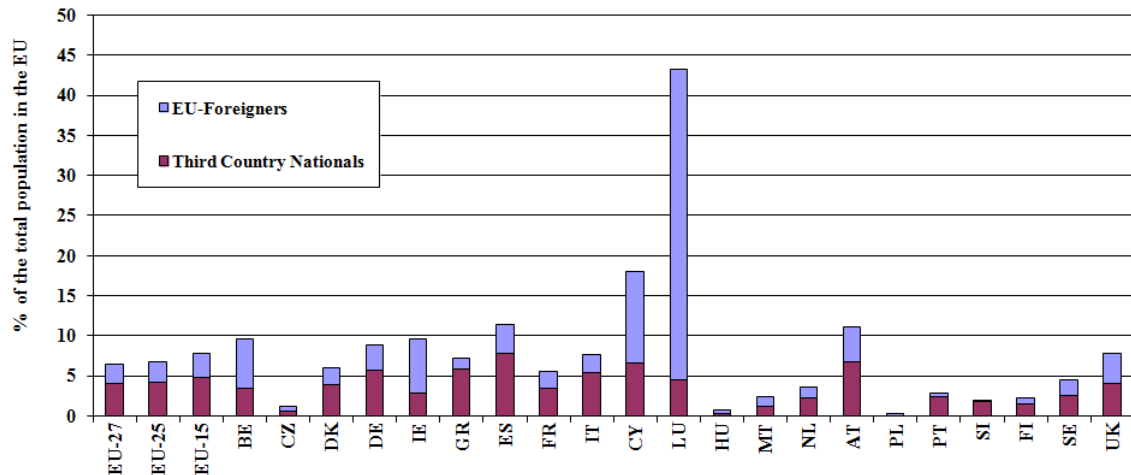
In social sciences migration is defined as the movement of a person or groups of persons, that are associated with a permanent cross-border change of residence from one political residential municipality to another.<sup>15</sup> All non-permanent changes of residence (commuters, tourists, seasonal workers, etc.) have to be subsumed under the concept of mobility. Since there is no clear cut application of these two definitions in the literature (Fischer 1999, p. 17), we do not differentiate between migration and mobility in this paper. Moreover, we have to distinguish between internal and international migration. While international migration is defined as the change of residence between different political and geographical entities, internal migration takes place between different political entities of the same geographical area (generally the national state). Since the free movement of persons in the EU is only allowed for people holding an EU citizenship, we concentrate on the internal migration in the EU, which can be defined as the immigration or emigration of EU citizens in or out of one member state of the European Union to another member state (Han 2000, p. 9). In other words, the concept of EU internal migration, which we analyse here, is tied to the EU citizenship and encompasses the change of residence of EU citizens between countries belonging to the internal market of the EU. Now, looking at the EU internal migration, two things can be noticed. First, it is difficult to draw an exact picture

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<sup>14</sup>This note is very important and will be of interest in the discussion about the reasons of the low mobility level in the EU in chapter 4 on page 13 and its interrelation with the structural funds in chapter 4.2 on page 18.

<sup>15</sup>Until 1950, according to the recommendations of the United Nations (UN), migration or a change of residence was defined as permanent, when it exceeds a period of more than one year. Since the 1960s a permanent change of residence is defined as one, that lasts longer than five years (Han 2000, p. 7).

**Figure 1: Share of Foreigners in the EU Member States in 2011 in % of the Total Population in the EU**



Source: Own calculations according to Eurostat (2012).

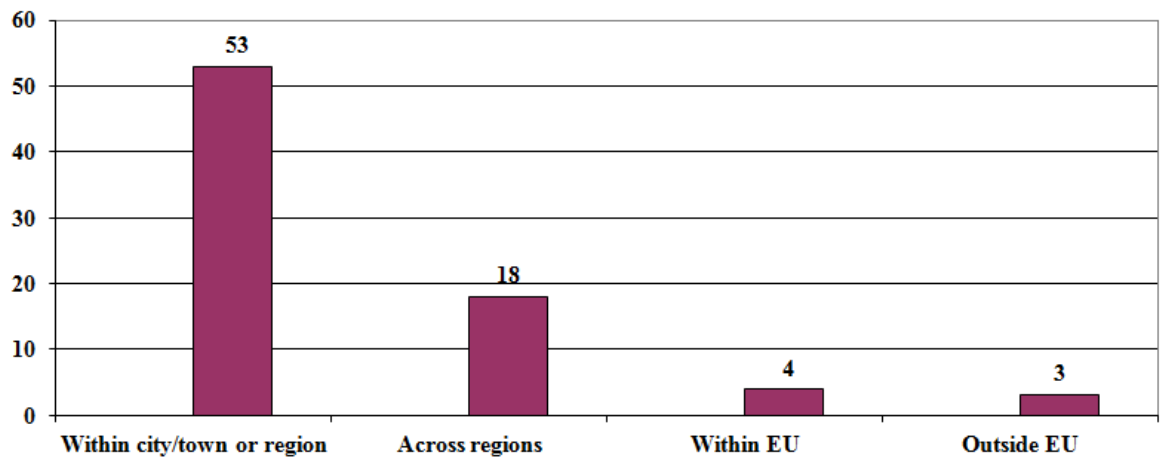
Note: Data for BG, EE, LV, LT, RO and SK were not available in the Eurostat database, so they have been removed in the figure (see also Table 2 on page 27 in the appendix).

for the situation of internal migration in the EU, since there is simply a lack of actual, comparable and complete data (Dijkstra and Gáková 2008, p. 1). Thus, only very general statements can be made, although Eurostat has begun to collect some data on this issue starting from year 2000 (Eurostat 2010). Second, looking at some general indicators for the EU's internal migration, it becomes clear, that its amount is quiet low. Although the free movement of persons is nearly unrestricted within the European single market since 2004<sup>16</sup>, only 12 million people out of 31 million foreigners coming from another country stem from other EU member states (see Table 2 on page 27 in the appendix). Hence, only 2.37% of the population with an EU citizenship lives and works outside its country of origin in one of the 26 other EU member states. The low level of internal migration also becomes clear in the breakdown by country in Figure 1 on the current page. Only in Belgium, Ireland, Cyprus, Luxembourg and Hungary the amount of foreigners with an EU citizenship lies above the amount of third country nationals living and working in these member states. This is quiet surprising since it is much easier for EU citizens

<sup>16</sup>Concerning the 2+3+2-restrictions on the free movement of labour in the EU since its eastward enlargement in 2004, see footnote 6 on page 4.

then for third country nationals to migrate within or to immigrate to the EU. The low propensity of EU citizens to migrate is also confirmed in the 2005 “Eurobarometer Survey on Geographical and Labour Market Mobility” analysed by the “European Foundation for the Improvement of the Living and Working Conditions” (EFILWC) (EFILWC 2006). According to its analysis only 3% of the EU citizens ever migrated beyond the borders of the EU, only 4% migrated within the internal market and the largest share of them were either completely immobile or migrated within cities and regions or across regions of the same national state (see Figure 2 on this page). A detailed apportionment by

**Figure 2: Mobility of EU-25 Citizens According to Distance (%)**



*Source: EFILWC (2006, p. 16f).*

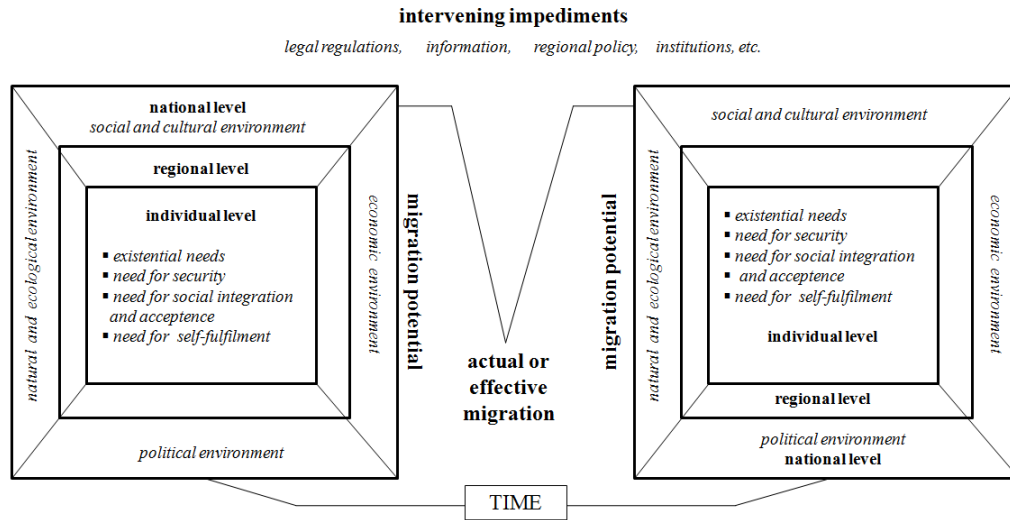
member states and demographic characteristics of those migrants can be found in Table 1 on pages 25–26 in the appendix. It is noticeable here that independent of sex, age and working status only slight differences concerning the migration behaviour of EU citizens can be found in the Eurobarometer Survey. Furthermore, highly educated individuals are much more mobile than lower educated ones and there also exist some countries in the EU where the mobility of their citizens significantly lies above the EU average, namely Ireland, Luxembourg, Cyprus and Sweden. But independent of these differences, we can conclude that even though the opportunity of free movement for EU citizens is almost completely implemented, the level of internal migration is surprisingly low. This brings us to the question why and for what reasons individuals actually migrate or stay immobile. This will be discussed in the following chapter.

## 4. Why is EU Internal Migration so Low?

Before we can analyse why and for what reasons migration is comparatively low in the EU, we need to clarify why people actually migrate between two different geographical entities, i.e. we need to find out the determinants of migration. Unfortunately, no exact, general and overall migration theory, trying to explain the circumstances that lead to the decision to migrate, does exist in the literature (Fischer and Straubhaar 1994, p. 97; Haug and Sauer 2006). Since these circumstances are multi-causal, there rather exist different theoretical and empirical approaches on different levels of analysis and from different disciplines (Schmidt 2010, p. 33). On the one hand, such approaches exist at the micro-, meso- and macro level of analyses, i.e. at the individual, regional and national level. On the other hand, one can differentiate between political, geographical, demographical, sociological, ethnological, historical, psychological and economic approaches, that theoretically and empirically try to explain migration. In economics, the decision to migrate is generally modeled as an individual decision, where an utility maximizing and rational individual, that tries to improve its living situation, compares the costs and the utility to migrate from one area to another (Schmidt 2010, p. 34f.). According to this approach, the potential migrants compare economic variables like wage levels, unemployment rates, price levels or growth rates at home and at the possible destination. When the utility to move is higher then the costs, individuals will start to migrate and to relocate their residence. But since migration is a multidimensional phenomenon the economic approach seems to be too narrow to completely explain migration. It neglects important explanatory variables from other disciplines and levels of analysis like social and cultural conditions or the political and natural environment.

That is why, we follow the interdisciplinary model of Fischer and Straubhaar (1994, p. 81ff.) that does not share this division of migration models according to different levels of aggregation or disciplines. Instead, they propose a model which combines findings from different disciplines and levels of analysis and which is depicted in Figure 3 on the next page. The underlying approach of this model is the economic one, mentioned above. But in addition to this, also non-economic circumstances at the national, regional and individual level like the socio-cultural, the natural and ecological, as well as the political environment, that influence the migration decision, are included in this model. Thus, "... migration is understood as a process of interaction of different societal systems (countries, economies)" (own translation of Fischer and Straubhaar 1994, p. 97).

**Figure 3: An Interdisciplinary Model to Explain Migration**



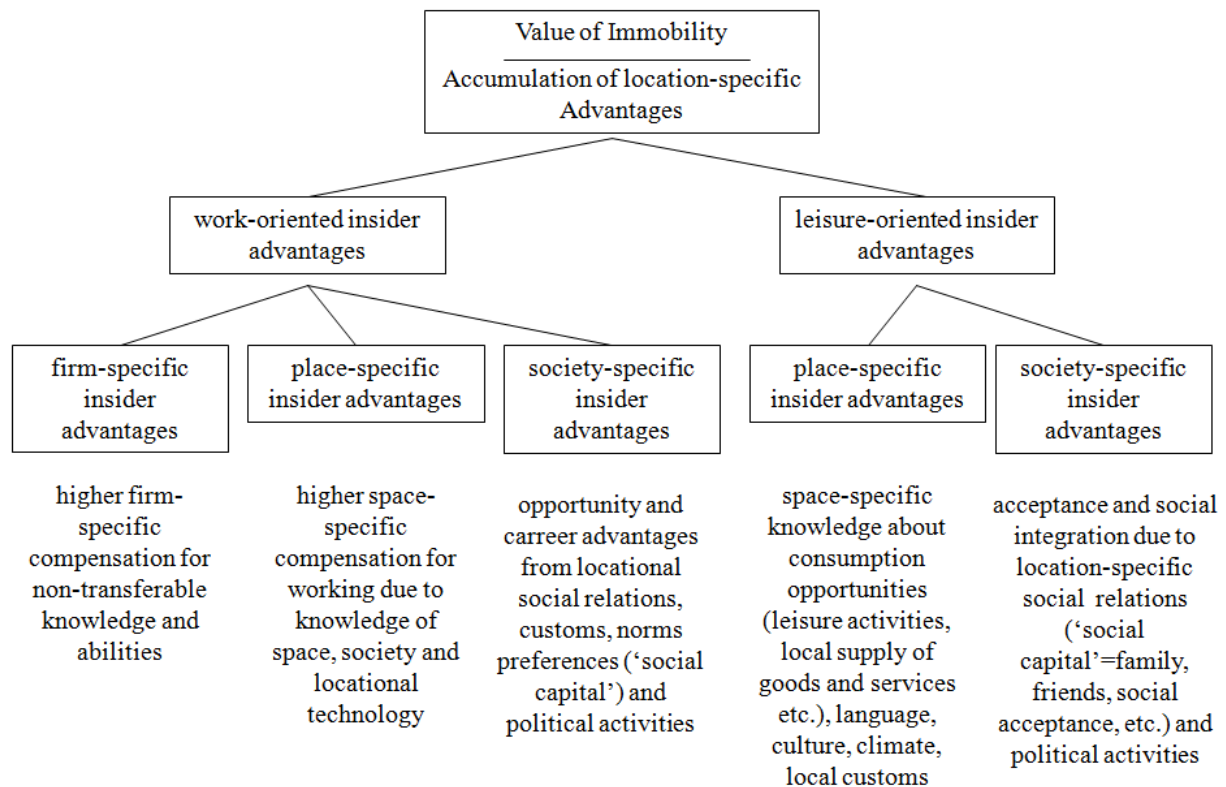
Source: Slightly changed depiction and own translation according to Fischer and Straubhaar 1994, p. 98.

In both locations (depicted by the two boxes) a migration potential arises if the individual (social, political, economic, cultural, etc.) utility to migrate outweighs its costs. But the actual migration does not only depend on this “migration supply” but also on the “migration demand” in the respective other area. The migration demand itself depends on the labour demand, the degree of economic integration, factor endowment, market imperfections, social conditions etc. in the other area. Moreover, the effective migration is even smaller when legal regulations, imperfect information and institutions, regional policies, geographical distance, etc. (intervening impediments) are also included into the model. Having these different explanatory variables or multidimensionality of migration in mind, it becomes easier to understand why European internal migration might be this low, as just from the simple comparison of wage or income differentials in the economic approach to migration. In the following paragraphs we are going to discuss individual advantages to remain immobile, the many still existing barriers to migration in the European single market as well as the role of the structural funds in terms of internal migration in the EU. All these things influence the migration decision at all levels of aggregation and in all four kinds of environments depicted in Figure 3. They increase the migration costs and thus foster the immobility of EU citizens.

## 4.1. Reasons for Immobility and Barriers to Internal Migration

In contrast to the widely discussed advantages of mobility, there might also be advantages for individuals to stay immobile, although there are huge differences in income or unemployment rates across regions. Such location-specific insider advantages, as they are called in the literature, are accumulated in a local learning process over a certain range of time, requiring certain information and at least temporary immobility, giving rise to an individual “value of immobility” (Dresel 2005, p. 67). As these advantages are location-specific, they are tied to a certain region and thus investments into these insider advantages will transform to sunk costs in case an individual is migrating to another region (Fischer 1999, p. 75). Insider advantages can be divided into work- and leisure-oriented location-specific insider advantages as depicted in Figure 4 on this page. According to this approach,

**Figure 4: The Insider-Advantage Approach towards Immobility**



Source: Extended depiction according to Fischer, Holm, Malmberg and Straubhaar 2000, p. 11.

an individual chooses, forms and acquires firm-specific, place-specific and society-specific advantages over time that yield larger and better compensations and career opportunities related to its job. Additionally, place-specific and society-specific advantages can be accumulated related to the leisure time of an individual. Staying immobile assures that the human capital gathered in such a way is not devaluated but further accumulated, thereby increasing the value of immobility. That such insider advantages play an important role in explaining the immobility of EU citizens becomes clear in the 2010 Eurobarometer Survey on geographical and labour market mobility conducted by the Directorate-General for Employment and Social Affairs. Here, 39% (27%, 21%, 19%) of the participants of the survey declared that they did not migrate due to home (family, friends, language) considerations (European Commission 2010, p. 111ff.).<sup>17</sup>

Besides the value of staying immobile and the fact that European integration is fairly advanced from an economic point of view today, there are still many political, social and institutional barriers to European internal migration, which should be shortly discussed in the following paragraph.<sup>18</sup> In the literature there are certain key barriers mentioned again and again that are impeding mobility in the EU. These are problems concerning the mutual recognition of qualifications, the (economic) discrimination of migrants in the EU, institutional barriers to migration as well as minimum employment standards.

Access to occupations in other EU member states is often restricted for internal migrants because native employers are not able to assess their qualifications, i.e. their human capital. Thus, we face a typical situation of asymmetric information leading to lower compensations for immigrants in comparison to native labourers (Berthold and Neumann 2003b, p. 8). In order to overcome such problems, the mutual recognition of vocational qualifications and certificates needs to be given, otherwise these information asymmetries contribute to the impediment of EU internal migration. Another barrier to migration closely connected to the one mentioned before is the (economic) discrimination of immigrants. Potential migrants might stay immobile because they need to except lower wages, have to pay higher rents or prices for adequate housing (price discrimination) or have to cope with discriminatory attitudes and practices in the country of destination (Tassinopoulos and Werner 1999, p. 13). Institutional barriers to migration in the EU

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<sup>17</sup>For a more detailed discussion of the “Insider-Advantage Approach towards Immobility”, see Fischer, Holm, Malmberg and Straubhaar 2000.

<sup>18</sup>A good overview concerning this topic is given by Berthold and Neumann (2003b), Braunerhjelm, Faini, Norman, Ruane and Seabright (2000), the Social and Economic Council (2001) and Tassinopoulos and Werner (1999).

can be found at the housing and labour markets. High taxes on the sale of property, state-controlled rents and the high rate of residential property might also be reasons why EU citizens are strongly tied to certain locations in the internal market and stay immobile (Braunerhjelm, Faini, Norman, Ruane and Seabright 2000, p. 53; Tassinopoulos and Werner 1999, p. 10). Moreover, the increasing regulation of the European labour markets in the last decades is often seen as one of the main institutional barriers to internal mobility (Berthold and Neumann 2003b, p. 12f.). Improved protection against dismissals, state monopolies in the employment service sector or the unifying setting of wage levels by trade unions and employees associations (collective bargaining agents) increase the costs of mobility for potential migrants. The collective bargaining coverage introduced by the labour market insiders eliminates the labour market competition arising from the right of free movement of labour from other EU member states, i.e. the labour market outsiders. Thus, the signaling function of wages, indicating regional scarcity and productivity differences, is distorted leading to the disablement of wage differentials as an incentive to migrate within the EU (Schmidt 2010, p. 57). Another reason for the low mobility of EU citizens might be the unemployment compensation in the respective native region. Mobility due to reasons of subsistence is no longer necessary. Moreover, in some countries of the EU the unemployment benefits are larger than the income levels in other member states, so that immobility instead of mobility might be preferred by an average EU citizen. The same argument holds for differences in the social security or taxation systems or the missing of voting rights of EU immigrants in other EU member states. For example, internal migrants are able to transfer their social security entitlements to other member states due to the coordination of EU social security legislation but these entitlements are very different in the different member countries belonging to the EU. Additionally, EU internal migrants are only able to vote at the local and European level but not at the national level except in their country of origin. Since major living conditions, like social security, labour market regulations, taxation, etc. are determined at the national policy level, an EU immigrant is not able to influence this kind of legislation. Such voting constraints are also a barrier to migration within the EU (Berthold and Neumann 2003b, p. 14). Finally, minimum employment standards are mentioned in the literature as another reason for the immobility of EU citizens. Regulations like minimum wages, employment protection legislation or the posting of workers act, enforcing local employment standards for labourers from other member states, are increasing the labour expenses for other than local or regional companies in the internal market of the EU. These expenses against

“social dumping” have to be compensated by higher productivity levels of employees or more human capital, respectively, in order to allow sufficient profits for such companies. According to Berthold and Neumann (2003b, p. 16ff.) the argument of social dumping is used very often to prevent migration from employees of poorer EU member states, so that they are not able to improve their living and working conditions within the EU.

To sum up, most authors emphasise that state regulations like minimum wages and working conditions, employment protection law, discrimination, differences in social security regulations, strong trade unions and the well-established welfare states are barriers to migration within the EU. These barriers are often set up by labour market insiders at the expense of the often poorer labour market outsiders. Besides other things mentioned in this paper, they are eliminating inner European competition, assuring higher incomes to the labour market insiders and preventing a more efficient allocation of labour and harmonious distribution of incomes inside the EU.

## **4.2. The EU Structural Funds as a Root Cause Approach to Migration**

Besides the advantages of immobility and the barriers to migration, the EU structural funds also play an important role in hindering the migration of EU citizens in the single European market. As outlined in detail in chapter 3.1, the three structural funds finance measures on the individual, regional as well as on the national level, which affect all kinds of environments mentioned in the migration model on page 14. For example, the ERDF and the ECF finance infrastructure investments aiming at creating jobs at different locations in the European internal market and connecting them via different means of rail or public transportation. In other words, the two funds intervene in the social, economic as well as natural and ecological environment of potential migrants. Moreover, the ESF finances projects against discrimination, for lifelong learning, the strengthening of local human capital and the access to employment for job seekers. The ESF in this way also intervenes in the social, economic and even cultural and political environment of EU citizens that are potential migrants.

Recognising these interventions, the structural funds can be seen as “intra-European development aid” with which internal migration of EU citizens intentionally should be hampered by improving the living and working conditions in their native regions (Boswell 2005, p. 14f.; Fischer and Straubhaar 1994, p. 234f.). This idea, taken from development

economics, is known in the literature as the so-called “root cause approach” to migration (Hermele 1997, p. 150ff.). Hence, with the help of the structural funds the root causes of migration in the native areas of potential internal migrants are tackled to lower or even totally hinder emigration from such areas into other EU member states. That this argumentation is not trivial, becomes evident if one is simply looking at all the efforts European politicians are undertaking to especially hamper a certain form of migration, namely labour migration. Labour migration should be hindered within the EU to avoid competition of foreign workers to the labour markets of the richer core-countries of the internal market (Kureková 2011b; Schmidt 2010, p. 60). Before the eastern enlargement of the EU, the EU-15 countries introduced different instruments of pre-accession assistance to improve the living and working conditions in these countries hoping to lower the feared migration potential in 2004 and later (Boswell 2005, p. 15).<sup>19</sup> In the planning period 2000-2006 political, institutional and economic reforms have been conducted in the central and eastern European countries (CEE countries) with the help of the three financial instruments “PHARE” (Poland and Hungary: Aid for Restructuring of the Economies), “ISPA” (Instrument for Structural Policies for Pre-Accession) and “SAPARD” (Special Accession Programme for Agriculture and Rural Development), to improve the conditions in CEE-countries and thus to lower the effective emigration from these countries to other EU member states.<sup>20</sup> After the CEE countries accessed the EU, the financially more potent structural funds replaced the instruments of pre-accession assistance to further tackle the root causes to migration in these countries. In the literature on development economics, the usage of such financial means, i.e. public capital transfers to foster economic development and to prevent migration, is controversially debated for a long time (Angenendt 2008, p. 36f). In the context of the European Union with its structural funds and other regional policy measures, the theoretical as well as empirical analysis of the interrelation of the structural funds and (internal) migration is a rather recent field of study. Nevertheless, all authors writing on this issue conclude, that the interregional public capital transfers hamper convergence promoting migration. For example, Schmidt

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<sup>19</sup> Additionally, other exceptions from the principle of the free movement of labour have been enacted, namely the “Posting of Workers Directive”, which should be an instrument to prevent “unfair” competition on working conditions and wages in the cross border provision of services or the 2+3+2-system (see footnote 6 on page 4).

<sup>20</sup> In the current planning period 2007-2013 there is only one single instrument of pre-accession assistance for the potential EU member states Croatia, Iceland, Montenegro, the Former Yugoslav Republic of Macedonia, Serbia and Turkey called “Instrument of Pre-Accession Assistance” (IPA) which is continuing this kind of preventive migration policy within the EU.

(2010) explicitly examines this from an interdisciplinary and more theoretical point of view, while Kessler and Lessmann (2010) analyse the relation between inter-governmental transfers, interregional disparities and migration in a more general economic framework. Egger, Eggert and Larch (2011) investigate the relation between structural operations and migration within the EU not only theoretically but also empirically. They build up a new economic geography model where two economies finance their common regional policy through a common pool. International transfers into this pool are inversely related to GDP per capita and paid by the tax revenue of each country. Thereby, Egger, Eggert and Larch model international transfers like structural funds as payments from the rich countries to the poorer countries. Infrastructure investments financed out of this pool reduce local fixed plant setup costs or transport costs thereby fostering horizontal multinational firm activities. The higher activity level enhances factor price equalisation and thus eliminates the incentive to migrate under certain circumstances. When the initial labour endowment between the two countries modeled is relatively equal, both types of public infrastructure investments reduce migration. By contrast, for larger differences in the initial labour endowment between the two countries both types of public infrastructure investments foster migration. To find out which scenario might be predominant in the EU Egger, Eggert and Larch employ a panel of net migration flows between the EU member countries to empirically test the hypotheses inferred from their new economic geography model. Surprisingly, although there are so many different barriers to internal migration in the EU like language, culture, institutions, etc., Egger, Eggert and Larch “.. find that the EU’s structural expenditures reduce net migration on average.”<sup>21</sup>

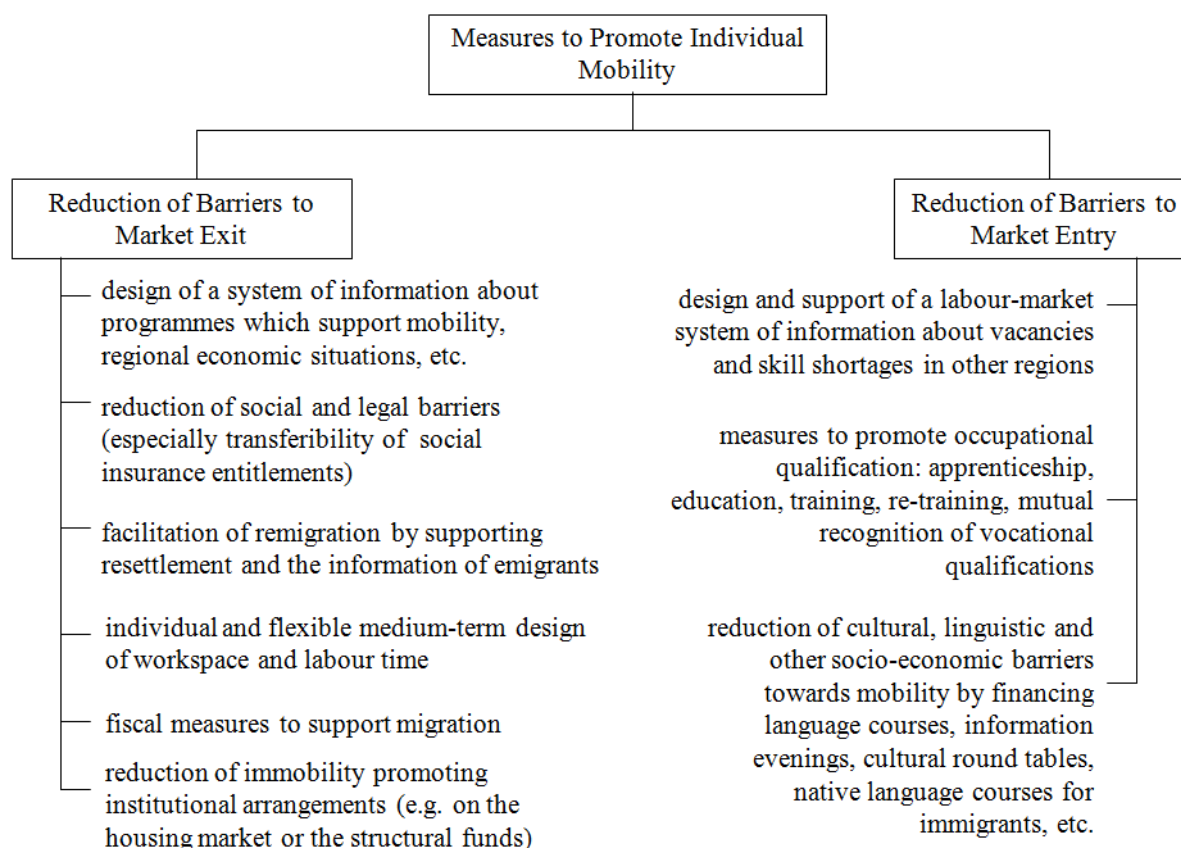
Having in mind the four freedoms of the internal market of the EU and especially the principle of the free movement of labour, it turns out that the actual EU regional policy counteracts its own principles, enacted in the European process of integration and regional policy implementation. On the one hand, free labour movements in the internal market should be possible but on the other hand European policy implements many measures that are designed to prevent migration. In contrast to the structural funds

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<sup>21</sup>In table 2 of their paper they report the coefficients of two different models (model 3 and model 5) they have estimated. Taking net immigration flows among EU-15 member countries over the period 1986 - 1996 as the dependent variable, they find an average statistically significant negative impact of the structural funds on net migration of -34.18% (10% significance level) and -41.83% (5% significance level). Their sample contains 371 observations, while the structural funds expenditures are constructed as a share of GDP at the country level. They also included country and time fixed effects in their regression to account for cultural and geographical characteristics, as well as for common shocks to intra-EU migration.

and EU internal migration literature, the development economics literature, in which the use of financial means to foster economic development and to prevent migration in the meantime has been rethought, is already one step ahead (Angenendt 2008, p. 36f). Here, migration is still seen as negative, i.e. as a competition for the labour markets of the rich countries of the EU. But as outlined in chapter 2, migration is also positively seen as a means to achieve allocative efficiency that has an impact on economic development, e.g., in the form of remittances or brain gain. Consequently, against the background of the often mentioned ineffectiveness of development aid it seems to be state of the art in this literature to prefer (controlled) migration instead of public capital transfers to foster economic development (Schmidt 2010, p. 61). Since the structural funds will not be discontinued in the future but rather expanded, the economics literature implies that

**Figure 5: Measures to Promote Individual Mobility**



*Source: Slightly changed depiction and own translation according to Fischer and Straubhaar 1994, p. 284.*

they should be reformed in such a way that they do promote internal migration in the EU. On the one hand, this could be done by taking into greater account the alignment of the structural funds spending with mobility incentives and mobility aid. On the other hand, the remaining barriers to migration in the EU should be removed and the structural funds should be retracted to their core objectives.<sup>22</sup> Additionally, Fischer and Straubhaar (1994, p. 284) propose different measures to foster individual mobility, which are depicted in Figure 5 on the preceding page. In short, these measures encompass the abolishment of market imperfections and the alleviation of adjustment processes by reducing barriers to market exit and entry for potential migrants.

## 5. Conclusion

In this paper we tried to answer the question if the low degree of economic cohesion in the EU has something to do with the low mobility of EU citizens and a high degree of structural intervention of the EU regional policy. As we saw in the first part of the paper, the theory predicts that in an advanced process of economic integration like in the EU migration plays a vital role in improving the allocative efficiency, assuring convergence among its member states and in increasing the overall welfare of EU citizens. At the same time, we found, that EU regional policy should be concentrating on ensuring and enforcing the free flow of goods, services and factors and should reduce transaction and transport costs in the internal European market.

In the second part of the paper, we described the different areas of intervention of the structural funds of the EU, their goals, history and financial amount, as well as the situation concerning the internal migration in the single European market. We found that the degree of interventionism by the European policy until today became increasingly interventionist in comparison to its rather regulative beginnings. In the current planning period 2007-2013 almost €700bn should be invested within the internal market of the EU to reach the defined policy goals. Therewith, the structural funds should finance measures on the individual, regional and national level, as well as in the cultural, social, political, natural, ecological and economic environment. Hence, the structural funds are intervening in the allocation of factors of production and in the distribution of incomes in the EU. Additionally, after having defined what is meant by the concept of internal migration in

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<sup>22</sup>The core objectives are the assurance of the free flow of goods, services and factors as well as the reduction of intra European transaction and transport costs (see discussion in chapter 2 on page 3).

the EU, we ascertained that the propensity of EU citizens to migrate is surprisingly low in light of the right of free movement within the internal market of the EU. In comparison to the internal market of the US, internal migration of EU citizens is only half of that of US citizens (Heinz and Ward-Warmedinger 2006, p. 7 and p. 12).<sup>23</sup>

In the last section of the paper, we analysed why individuals actually migrate or not and what other reasons might inhibit a larger volume of internal migration in the EU. Here, we followed Kureková (2011a, see abstract and p. 5f.), who pointed “... out the limited ability of the neoclassical framework to understand migration patterns in their complexity” presenting the interdisciplinary model to explain migration proposed by Fischer and Straubhaar (1994, p. 81ff.). According to this model, the individual decision to migrate depends on the cost-benefit equation of moving from one country to another and residing at two different locations in the internal market of the EU. This equation does not only take into account economic determinants of the migration decision at the individual, regional or national level but also political, cultural, natural, ecological, legal, institutional and social determinants. Knowing that migration is a complex process of human behaviour, we examined advantages of immobility, barriers to migration in the internal market of the EU and especially the structural funds as a cause for EU internal migration to be comparatively low. We found theoretical and empirical evidence that the EU structural funds in terms of a “root cause approach” appear to function like development aid. By improving the local living and working conditions, they lower the convergence promoting migration in the EU. Besides many other policy measures at the national as well as supranational level, European policy and certain interest groups (unions, tax payers, employers etc.) are aiming at inhibiting labour migration within the EU to protect their local labour markets from foreign competition connected with downward pressure on wages, the substitution of native by foreign workers or social security migration (see, e.g., Heinz and Ward-Warmedinger 2006, p. 25ff.). In the context of the enacted four freedoms of the internal market in the EU, it becomes clear that such policies and especially the structural funds stand in sharp contrast to the idea of the unrestricted movement of people. Therefore, policies hampering internal migration, which plays an important role for the process of convergence in the EU and is an important adjustment mechanism in

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<sup>23</sup>It should be kept in mind, that one can also find critique of such a simplified comparison in the literature. Ester and Krieger (2008) argue that the mobility gap between the EU and the US is smaller. They compare the mobility levels within EU member states and between the federal states of the US which they find to be a more reasonable comparison. Nevertheless, the internal mobility in the US still remains higher than intra member state mobility in the EU.

the European Monetary Union (EMU), are inconsistent as long as they do not promote migration. To finance convergence promoting migration activities and to eliminate the barriers to labour migration in the European labour market discussed above, would align the EU regional policy to the core idea of European integration, namely the four freedoms of the EU. Given such kind of structural spending, the EU regional policy would not be inconsistent any longer, at least to the extend of internal migration in the EU. Since the analysis of the interrelation of the structural funds and (internal) migration is a rather new field of study in economics more research, especially empirical research, has obviously to be done. But to do this, better data on the structural funds payments and internal migration in the context of the EU are necessary.

## A. Appendix

Table 1: Mobility Level of EU Citizens by Distance, Demographic Characteristics, Country and Destination (%)

	Within city, town or region	Across regions	Within EU	Outside EU
<b>Total</b>				
EU25	53	18	4	3
EU15	55	19	5	3
NMS	45	9	1	1
<b>Sex</b>				
male	52	17	4	3
female	55	19	4	3
<b>Age</b>				
18–24	19	7	2	0
25–34	48	17	5	3
35–44	61	18	5	3
45–54	62	19	4	4
55–64	60	21	4	4
65+	59	20	4	3
<b>Level of Education</b>				
Low or No	59	13	4	2
Average	56	17	3	3
High	54	27	7	5
Still Studying	17	9	3	1
<b>Employment Status</b>				
Employed	56	18	4	3
Unemployed	49	16	4	2
Retired	59	20	4	3
House Husband/-wife	56	16	5	2

To be continued on the next page!

	Within city/town or region	Across regions	Within EU	Outside EU
Country				
Austria	56	10	4	1
Belgium	62	14	5	3
Cyprus	53	19	9	3
Czech Republic	44	9	2	0
Denmark	65	38	8	6
Estonia	54	25	1	2
Finland	68	36	5	3
France	61	30	3	4
Germany	62	19	5	4
Greece	36	17	5	2
Hungary	51	11	1	1
Ireland	47	20	15	5
Italy	46	8	2	0
Latvia	48	24	2	3
Lithuania	62	8	1	1
Luxembourg	57	21	14	3
Malta	30	7	3	3
Netherlands	59	23	5	3
Poland	43	8	1	0
Portugal	44	9	5	2
Slovakia	36	6	2	0
Slovenia	40	10	2	2
Spain	49	11	5	3
Sweden	70	44	8	5
United Kingdom	55	25	7	6

*Source: EFILWC (2006, p. 16f), countries alphabetically arranged by the author.*

**Table 2: Total Population, EU-Foreigners and Foreigners in the 27 EU Member States in 2011 (1,000)**

Geo	EU-Foreigners	Third Country Nationals	EU Total population	Share of EU-Foreigners %	Share of Third-Country Nationals %	Share of all Foreigners %
EU-27	11,738.6	19,453.5	495,146.5	2.37	3.93	6.30
EU-25	11,735.0	19,441.6	466,257.6	2.52	4.17	6.69
EU-15	11,509.3	18,680.6	392,901.4	2.93	4.75	7.68
Austria (AT)	364.1	552.0	8,290.4	4.39	6.66	11.05
Belgium (BE)	668.2	374.1	10,989.4	6.08	3.40	9.48
Bulgaria (BG)	-	7.8	7,504.9	-	0.10	-
Cyprus (CY)	88.7	50.0	772.5	11.48	6.47	17.95
Czech Republic (CZ)	53.3	60.0	10,545.6	0.51	0.57	1.07
Denmark (DK)	117.2	210.8	5,565.6	2.11	3.79	5.89
Estonia (EE)	-	187.4	1,336.5	-	14.02	-
Finland (FI)	41.9	74.3	5,365.2	0.78	1.38	2.17
France (FR)	1,313.4	2,099.2	61,757.3	2.13	3.40	5.53
Germany (DE)	2,598.4	4,539.7	80,806.2	3.22	5.62	8.83
Greece (GR)	136.3	637.1	10,925.1	1.25	5.83	7.10
Hungary (HU)	42.4	23.1	9,832.5	0.43	0.23	0.67
Ireland (IE)	305.5	122.6	4,490.5	6.80	2.73	9.53
Italy (IT)	1,335.9	3,226.0	60,328.2	2.21	5.35	7.56
Latvia (LV)	-	348.4	2,229.6	-	15.63	-
Lithuania (LT)	-	14.0	3,231.3	-	0.43	-
Luxembourg (LU)	193.7	22.1	499.6	38.77	4.42	43.19
Malta (MT)	4.8	4.9	418.4	1.15	1.17	2.32
Netherlands (NL)	242.5	343.8	16,400.2	1.48	2.10	3.57
Poland (PL)	18.3	36.8	37,503.0	0.05	0.10	0.15
Portugal (PT)	49.4	246.3	10,646.7	0.46	2.31	2.78
Rumania (RO)	-	-	21,384.1	-	-	-
Slovakia (SK)	5.6	-	5,435.3	0.10	-	-
Slovenia (SI)	1.5	34.6	2,051.3	0.07	1.69	1.76
Spain (ES)	1,696.1	3,522.3	45,908.1	3.69	7.67	11.37
Sweden (SE)	184.3	237.2	9,418.8	1.96	2.52	4.48
United Kingdom (UK)	2,262.2	2,473.0	61,510.2	3.68	4.02	7.70

Source: Own calculations according to Eurostat (2012).

Note: Data for BG, EE, LV, LT, RO and SK were not available in the Eurostat database.

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