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Heinz Werner*

Free Movement of Labour in the Single European Market

*Improving the mobility of labour is a major component of Project 92.
What are the reasons for migration under conditions of freedom of movement and what are the repercussions for the labour market?*

Free movement of labour in the EEC Treaty means the "abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment".¹

Regulation (EEC) No. 1612/68, which effected the formal free movement of labour for the six founding members of the EC elaborates on the wording in the Treaty as follows:

"Whereas the right of freedom of movement, in order that it may be exercised, by objective standards, in freedom and dignity, requires that equality of treatment shall be ensured in fact and in law in respect of all matters relating to the actual pursuit of activities as employed persons and to eligibility for housing, and also that obstacles to the mobility of workers shall be eliminated, in particular as regards the worker's right to be joined by his family and the conditions for the integration of that family into the host country."²

Theoretical Background

According to the integration theory,³ the creation of a single market generates additional welfare effects by enabling labour to move to where it is most productive. The theory argues that a shift occurs from less productive to more productive jobs until marginal productivity and hence pay (for the same work) are in alignment within the area of integration. Prerequisite to this is of course that labour is mobile, that workers are informed of the job opportunities in other countries, that no other constraints on migration exist in the narrow sense (work permits, residence permits) and in the broader sense (e.g. differences peculiar to specific

countries in the performance of a given job, the living and housing conditions, language).

In contrast, classical foreign trade theory proceeds from the immobility of labour between states. The differences in production factor endowment (mineral resources, capital, technology, labour) are balanced out by means of trade, which also raises prosperity. Each country concentrates on producing those goods for which it has a comparative advantage over the other, i.e. which it can produce more cheaply (Heckscher-Ohlin theorem). According to this theory, trade relations induce a division of labour in line with the comparative production advantages between countries. From this standpoint, labour migration is thus unnecessary. Apart from that, capital is more mobile than labour.

Free Movement of Labour in Practice

When free movement of labour was being discussed in the 60s, there were fears that Italian workers would flood the labour market.⁴ This did not occur. The employment of Italian workers in the EC did in fact increase but the growth in migration between 1962 and 1972 was below the average for EC members as a whole.

Nor did the accession of the United Kingdom, Ireland and Denmark in 1973 prompt a wave of migration and this was also the case with full free movement of labour

¹ Treaty establishing the European Economic Community, Article 48 (2).

² Regulation (EEC) No. 1612/68 and Directive on Freedom of Movement for Workers in the Community, Official Journal of the European Economic Communities of 19 October 1968, L 257, p. 10.

³ Peter Robson: The economics of international integration, London, 1987, p. 65; Thomas Straubhaar: Labour Migration within a Common Market: Some aspects of EC experience, in: Journal of Common Market Studies, September 1988, p. 46.

⁴ Heinz Werner: Freizügigkeit der Arbeitskräfte und die Wanderungsbewegungen in den Ländern der Europäischen Gemeinschaft, in: MittAB 4/1973, p. 339.

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for Greek workers in 1987. There is no reason to expect developments with Spain and Portugal to be any different when the transition period to full free movement of labour expires on 1 January 1993.

Looking at the employment of foreign EC citizens in the member states over recent years, there is generally more of a downward trend, particularly in EC countries employing large numbers of EC nationals (Table 2). This also holds for the Federal Republic of Germany (Table 1). The number of employees from EC countries subject to social insurance contributions declined between 1977 and 1987 from 730,000 to 492,550. Exceptions to this were the British and Irish, where employment rose in the same period. If we break down the figures according to qualifications, an interesting trend is discernible. The number of employed graduates from EC countries rose almost throughout, although the level is still quite low

⁵ John Salt, Allan Findlay: International migration of highly skilled manpower: Theoretical and development issues, in: OECD (Development Centre): The impact of international migration on developing countries, Paris 1989, p. 159 ff.

(Table 1). This phenomenon, incidentally, is not confined to the EC countries; it can be observed on a global scale.⁵

Mobility of Labour and Industrialization Level

Motives for migration can be divided into so-called pull and push factors. The former are the employment opportunities in the other country with better pay. The latter can be lack of employment prospects, unemployment, low income in the home country. If both factors are present in two countries, there is a basic potential for migration. Before migration can actually take place, the workers concerned must be informed about the conditions in the other country and migration must also be possible. The country of immigration must be accessible in terms of distance and it must be legally possible to enter it (ignoring illegal migration).

Up to the beginning of the 70s most EC countries pursued a comparatively liberal policy towards immigrant labour, where there was a corresponding need for labour.

Table 1
Foreign Employees Covered by Social Security in the Federal Republic of Germany According to Nationality and Occupational Qualification, 1977 and 1988

Nationality		Employees in training	Employees with low qualification	Qualified employees (not technical college/university)	Graduate employees covered by social security	Qualified employees (incl. technical college/uni)	Employees covered by social security (excl. trainees)	Employees covered by social security (total)
French	1977	701	24,087	16,789	2,054	18,843	42,930	43,631
	1987	233	20,072	16,235	2,099	18,334	38,406	38,639
British	1977	781	11,429	9,946	3,091	13,037	24,466	25,247
	1987	697	14,324	13,432	4,446	17,878	32,202	32,899
Italian	1977	4,384	212,892	62,393	1,555	63,948	276,840	281,224
	1987	1,901	127,748	50,587	1,463	52,050	179,798	181,699
Belgian	1977	339	3,952	4,343	558	4,901	8,853	9,192
	1987	68	2,759	3,356	696	4,052	6,811	6,879
Dutch	1977	1,484	14,144	25,085	1,932	27,017	41,161	42,645
	1987	322	7,606	16,488	1,961	18,449	26,055	26,377
Luxembourger								
	1977	56	379	534	259	793	1,172	1,228
	1987	16	267	416	270	686	953	969
Danish	1977	135	906	1,694	330	2,024	2,930	3,065
	1987	63	696	1,365	283	1,648	2,344	2,407
Irish	1977	28	604	432	106	538	1,142	1,170
	1987	41	701	575	176	751	1,452	1,493
Spanish	1977	2,246	74,615	22,706	744	23,450	98,065	100,311
	1987	3,190	39,778	20,193	888	21,081	60,859	64,049
Portugese	1977	638	47,097	12,250	175	12,425	59,522	60,160
	1987	1,718	25,404	8,409	271	8,680	34,084	35,802
Greek	1977	2,508	134,203	23,946	1,838	25,784	159,987	162,495
	1987	3,632	76,242	19,107	1,932	21,039	97,281	100,913
EC nationals total								
	1977	13,300	524,308	180,118	12,642	192,760	717,068	730,368
	1987	11,881	315,597	150,163	14,485	164,648	480,245	492,126
Foreign employees total								
	1977	29,558	1,293,023	519,616	46,388	566,004	1,859,027	1,888,585
	1987	53,227	997,467	485,118	53,072	538,190	1,535,657	1,588,884

Source: IAB VII/6.

Obviously, when the receiving country adopts such an immigration and employment policy and there is a pronounced disparity between levels of industrialization and employment and earnings prospects in the receiving and sending country, the influx from the less developed countries will persist, in fact it will grow. Böhning called this the "self-feeding process of migration".⁶ This self-feeding immigration is engendered by two factors. At the beginning of the immigration, the foreign workers take on jobs that are already unattractive to nationals. After a certain period, they then obtain jobs that indigenous workers leave for status or prestige reasons. As it is easy to get foreign workers, more replace these in the jobs that their predecessors now find "socially undesirable". For nationals, therefore, the employment of foreigners affords them greater vertical mobility. On the other hand,

another cause of self-feeding immigration is that foreign workers tend to fetch their families, friends and acquaintances into the country. A migration push will continue to exist as long as there are enormous wage disparities between the receiving country and the country of origin. This cannot in principle be excluded even for a saturated labour market, as evidenced by the influx of emigrants from non-member states, the economic refugees.

Similar Levels of Development

All the investigations conducted on (voluntary) migration indicate that a major determinant is the differential in economic development and hence earning opportunities. With increasing alignment of economic development and thus pay, for example through a stepped-up regional policy of the EC, a major migration impulse will diminish. The prosperity gap has also been lessened by increased trade amongst the EC countries.

⁶ W. R. Böhning: Studies in international labour migration, London and Basingstoke 1984, p. 68 ff.

Table 2
Foreign Residents and Foreign Employees in EC Countries
(in 1,000)

	Belgium	Denmark	FR Germany	Greece	Spain	France	Ireland	Italy	Luxem- bourg	Nether- lands	Portugal	United Kingdom
Foreign residents												
Total												
1975		94	4090		165	3442						
1980	879 ^a	100	4453	70	183			211 ^a	96 ^a	473	109 ^a	1682 ^a
1985	898	108	4379	98	227 ^c	4061	79		99	559	80	1700
1986		117	4513						98	553	87	1736
Of which: EC countries												
1975			1616		93	1860						
1980	598 ^a	25	1503	19	108			79 ^a	89 ^a	168		712 ^a
1985	584	26	1357	30	134 ^c	1566	65		93	173	21	729
1986		27	1365						91	162	23	754
Of which: non-EC countries												
1975			2474		72	1582						
1980	281 ^a	75	2950	52	75			132 ^a		306		971 ^a
1985	314	82	3022	68	92 ^c	2495	14		6	386	59	971
1986		91	3148						7	391	64	982
Foreign employees												
Total												
1975	230	41	2091			1900	13	10	49	113		791
1980	213	39 ^a	2041	25	59	1208 ^a				190	26 ^a	833 ^a
1985	187	39	1555	24		1260	20	57 ^b	53	166	31	821
1986			1547	24		1173	21		55	169		
Of which: EC countries												
1975	174	14	849			1045			46	59		347
1980	159	11 ^a	732	5		653 ^a				84		406 ^a
1985	141	12	520	6		640	17	14 ^b	50	76	7	398
1986			498	7		590	16		52	76		
Of which: non-EC countries												
1975	56	27	1242			855			3	55		444
1980	55	28 ^a	1309	19		555 ^a				106		427 ^a
1985	46	28	1036	18		620	4	43 ^b	3	90	24	423
1986			1048	18		583	4		3	92		

Notes: ^a 1981; ^b 1983; ^c 1984.

Source: SOEC: Beschäftigung und Arbeitslosigkeit, various volumes.

Cross-border labour migration has not increased.⁷ So, trade has substituted for migration. Migration thus does not behave complementarily to trade relations amongst the EC countries.⁸ Classical foreign trade theory is confirmed here. This of course does not rule out that here and there sectoral or qualification-linked gaps can emerge between countries that then generate a migration potential. Whether these are translated immediately and fully into actual labour migration is doubtful.

Progress and Plans within Project 92

In introducing free movement of labour in 1968, it was not the intention of the EC Commission to unleash massive labour migration. Rather, the rationale was that no-one should be compelled to go to another EC country for purely economic reasons and therefore have to adapt to different legal and socio-cultural conditions.⁹ The free movement of labour provided for in the Treaty of Rome is aimed at enabling those who wish to engage in their occupations in a larger geographical area. In addition, trade and capital movements were to ensure growth and prosperity in all EC countries.

It would, of course, be in breach of the principles of a common market to guarantee freedom of movement only for goods and capital and not for labour. From the

⁷ The mobility of labour amongst the EC countries thus declined along with the regional mobility within the EC countries. Cf. Karr, Koller, Kridde, Werner: Regionale Mobilität am Arbeitsmarkt, in: MittAB 2/1987, p. 197 ff.

⁸ Thomas Straubhaar: On the economics of international labour migration, Bern and Stuttgart 1988, p. 127 ff.

outset then, it was the declared goal of the EC Commission to remove the barriers to the free movement of labour amongst the EC countries. The intent was not only to do away with the formal (legal) barriers, such as work permits and residence permits, but also to establish equal job opportunities for all EC citizens in other EC countries. This is why Regulation (EEC) No. 1612/68, which formally inaugurated free movement of labour, was supplemented by Regulation (EEC) No. 1408/71, in which nationals and EC foreigners are assured equal social cover. This achieved a large degree of integration in this area. Nevertheless, special problems remain.¹⁰

For cross-border workers, two fiscal systems apply. The Commission has proposed taking the country of residence as the country of taxation.

So far the civil service has been excluded from the free movement of labour. The Commission is endeavouring to largely abolish this ruling and confine it to "the exercise of sovereign powers" which are to be narrowly defined. This would free access for EC nationals to the public services (transport, post and

⁹ Willem Molle, Aad van Mourik: International movements of labour under conditions of economic integration: The case of Western Europe, in: Journal of Common Market Studies, March 1988, p. 337; Commission of the EC: Die Freizügigkeit der Personen in der Europäischen Gemeinschaft, Europäische Dokumentation 3/1982, p. 6.

¹⁰ For details see: Commission of the European Communities: Soziales Europa (special edition), 1988, p. 17 ff.

¹¹ See Ingo Hochbaum, Claus Eiselstein: Die Freizügigkeitsrechte des Art. 48 EWG-Vertrag und der öffentliche Dienst, Schriftenreihe der Arbeitsgemeinschaft der Verbände des höheren Dienstes, Bonn 1988.

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Benu Varman

CAPITAL FLIGHT

A Critique of Concepts and Measures

The term "capital flight" is not clearly defined and is applied to a variety of concepts. Estimations of the amount of flight capital, which influence international banks, decisions regarding credits and the economic policies of the countries involved, are correspondingly imprecise. Benu Varman's book was written as a Ph. D. thesis at the University of Kiel. It deals both theoretically and empirically with the phenomenon of capital flight from developing countries and comes to completely new definitions and information. It received the "Erich Schneider Price 1989" for its outstanding quality.

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communications), public health, schools, and civilian research in public institutions.¹¹

□ The right of residence for unemployed and short-term employees from the EC is to be strengthened and enlarged to include family members. So far it has only applied to employees.

□ EC-wide recognition of as many professional qualifications as possible is being aimed at. For medical and paramedical occupations (nurses, midwives, pharmacists), for architects and lawyers/solicitors, directives have been adopted over the last ten years to streamline courses of training and ensure mutual recognition of professional qualifications.

Work has begun on jointly specifying EC-wide job profiles and requirements in the following sectors: restaurants and hotels, vehicle mechanics, construction, electrical engineering, agriculture, gardening and forestry, textiles and clothing. This should make vocational qualifications and requirements easier to compare.

The long-term goal is the introduction of a so-called EC training passport certifying the training and occupational activity of the holder. This was already mentioned in the Commission's White Paper of 1985.¹² As in the case of the liberalization of trade, here too there will be no painstaking harmonization, but the so-called country of origin principle will apply. If for example someone can document having legally performed a certain occupation in an EC country, he should be permitted to do the same in other EC countries.

The mutual recognition of university degrees obtained after at least three years' study has now been decided. In the case of occupations that require detailed knowledge of national conditions, lawyer/solicitor or accountant for example, an additional aptitude test or a further training lasting a maximum of three years can be required.

More Migration through the Single European Market?

The emigration push does not depend solely on the absolute difference between income levels in the country of origin and the target country; another determinant is the pay level in the country of origin. If income is socially commensurate with the conditions at home, it may be assumed that the emigration threshold will be higher, i.e. the absolute earnings differential could widen without necessarily causing labour to migrate.

Also, certain general conditions have changed: owing to their declining demographic trends (apart from

Ireland and Portugal) and continued industrialization, the outlying countries of the EC that have served as manpower reservoirs for the European industrialized nations will in future need more workers themselves.¹³ Some countries, such as Italy, Spain or Greece are already drawing in large numbers on the labour force of third countries, particularly from Africa and Asia.¹⁴ For example, 1 to 1.5 million foreigners are estimated to be living in Italy, mostly illegally.

Based on the above, it should be clear that, even after the completion of the single European market, there is no reason to expect a spectacular migration of labour. Additional, economically motivated migration could occur in certain sectors or at certain levels of qualification, in management or in engineering, i.e. in highly qualified specialized occupations. The following provisos need, however, to be made:

□ Mobility rises with qualification, but a responsible position in a given profession calls for mastery of the language and a more or less detailed knowledge of the economic, legal and social structure of the country and the branch. These requirements can only be met by a relatively small number of people. Higher qualification usually entails a commensurate remuneration at home, so that after economic development and pay in the EC countries have levelled out, the threshold for economic migration will only be overstepped to a small degree. It may also be assumed that the threshold for economic migration will move upward, i.e. that the income differential between home country and target country will have to widen.

□ Regional economic areas near the borders will probably merge closer together. Certain Euro-regions could develop where national frontiers will increasingly forfeit their separative function. Commuting, where the place of residence and job are in separate countries, could expand here.

□ Cross-border movement will also increase, without being recorded statistically: mutually agreed exchanges for a limited period, practical training periods, study visits, business trips, etc. will become more common owing to the increased internationalization of firms. They need not entail a permanent change of residence.

¹² Commission of the European Communities: *Vollendung des Binnenmarktes: Weißbuch der Kommission an den Rat*, Brussels 1985, p. 25.

¹³ Giuseppe Callovi: *Prospective des flux migratoires internationaux dans L'Europe communautaire à l'aube du troisième millénaire*, Colloque international sur le vieillissement démographique, Paris, 4-5 October 1988, p. 13 ff.

¹⁴ Cf. OECD: SOPEMI (continuous reporting system on migration), Paris, various volumes.