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Thomas Straubhaar\* and Achim Wolter\*\*

## Current Issues in European Migration

*The pattern of migration into the EU and within the EU has changed greatly in recent years. Does this make it necessary to introduce a common European migration policy? How is the planned eastern enlargement of the EU to be seen against this background?*

The current intergovernmental conference of the 15 member states of the EU has essentially three topics on its agenda: efficiency (the reform of institutions and decision-making), deepening (steps towards political union) and widening (enlargement to include new members). One of the central questions here, which directly touches upon all three subjects, is that of asylum and migration policy:

□ cooperation in the field of asylum and migration policy is necessary for reasons of efficiency because it is only in this way that the free movement of citizens in Europe can be completed;

□ deepening towards a common EU migration policy is becoming more urgent within the framework of the third pillar of the EU because the individual member states are increasingly unable to pursue an independent national asylum and immigration policy;

□ enlargement by the eastern European applicants requires a convincing concept for the question of the free movement of persons in order to avoid false anxiety in the west and exaggerated expectations in the east.

The free movement of persons is a basic right in the European Community.<sup>1</sup> It has been an integral part of the process of European unification since the EEC Treaties of 25. 3. 1957 (Art.3, sub-paragraph c) and the Single European Act of 28.2.1986 (addition of Art. 8a to the EEC Treaty). Furthermore, with the revision of the Treaty as of 7. 2. 1992 (Treaty of Maastricht, EC Treaty) the concept of "Union citizenship" was introduced (Art. 8 EC Treaty). According to this article, a national of an EU member state is automatically also a citizen of the Union. This involves a number of rights (and duties), such as the right to move and reside freely within the entire territory of the EU, as well as

active and passive voting rights in the state of residence (and not according to nationality) at municipal elections and at elections to the European parliament.

Union citizenship can be interpreted as the logical consequence of the free movement of persons. The originally economically motivated free movement of workers has finally become emancipated. It has become a basic political right. But the path towards a "citizens' Europe" is not yet ended. The further concretisation of "Union citizenship" plays a role of central importance in the intergovernmental conference which began in the spring of 1996. Its task is "to fill Union citizenship with substance in all its aspects".<sup>2</sup>

### Increased Immigration from Outside the EU

The EU regulation on freedom of movement applies only to citizens of other EU member states. Citizens of non-EU states do not have the right to move freely within the EU. The crossing of the border from one EU country to another EU country by non-EU citizens is treated as an exit into, or entry from, a third country. The free movement of persons and the planned extension of Union citizenship involve a number of problems, however, if each EU member country continues to apply its own independent asylum, immigration and citizenship policies, as has been the case up to the present.

The pattern of migratory movements both into the EU and within the EU has changed considerably since the 1960s. Migration from outside the EU has increasingly gained in importance. Today, immigration

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<sup>1</sup> Marcel Dietrich: Die Freizügigkeit der Arbeitnehmer in der Europäischen Union, Zürich 1995, particularly pp. 170-186, shows convincingly - with an eye to the decisions of the European Court - that free movement is a genuine basic right.

<sup>2</sup> European Commission: Regierungskonferenz 1996: Stellungnahme der Kommission - Stärkung der Politischen Union und Vorbereitung der Erweiterung, Luxembourg 1996, p. 9.

flows from third countries make up the greater part of EU migratory movements. Whereas the share of EU internal migration was still almost two thirds in 1960, at the beginning of the 1990s it had fallen to about one third of total migratory movements.<sup>3</sup>

However, the more the picture of EU migration is dominated by workers from third countries, the more national differences in immigration policies and the denying of free movement to third country nationals come into conflict with the basic economic aims of the Single Market. It ought to be the aim of the common EU labour market to achieve the optimal utilisation of the efficiency advantages of a borderless economic area via the geographical mobility of the factors of production. If, however, a part of the gainfully employed persons resident in the EU is excluded from the process of cross-border adjustment (i.e. the workers from third countries) then the allocatively efficient equalisation of the marginal factor products cannot be achieved.<sup>4</sup> Only if workers from third countries also have the right of free movement within the labour market will the EU labour market be that which it is intended to be: a common labour market with no barriers whatsoever to the mobility of the factors of production.

### Asylum Seekers and Illegal Immigrants

The migratory flows from third countries are increasingly dominated by asylum seekers and illegal immigrants. These two channels function largely as a substitute for legal and directly labour-market oriented immigration into the EU, which has been

made considerably more difficult since the beginning of the 1980s. According to existing estimates the number of illegal immigrants in the EU has grown to a present figure of roughly 2.5 million, of which one million are in Italy alone and 500,000 in Germany.<sup>5</sup> The number of asylum seekers in the EU has also risen markedly since the beginning of the 1980s. Germany in particular has become the most important EU destination for asylum seekers. While in 1983 only just short of 20,000 applications for asylum were made in Germany, in 1992 the figure was almost 440,000 and in 1993 – following a change in the asylum procedure on 1st July, 1993 which involved, in particular, the definition of “safe third countries” – the figure was still over 320,000.<sup>6</sup> That these applications for asylum often represent attempts to circumvent other “congested” immigration channels is demonstrated by the recognition ratio. Whereas at the beginning of the 1970s in Germany about 40% of applications for asylum were recognised as being justified, the recognition ratio fell at the beginning of the 1990s to 3–4%.

The larger the number of asylum seekers and illegal immigrants living and looking for employment within the EU, the more important a common EU-wide asylum and immigration policy becomes. If national policies differ too greatly it will not be possible to abandon the control of persons at the national borders. The control of persons would continue to be necessary from the viewpoint of the individual state in order to apply national laws and to prevent three-cornered migration. Asylum seekers and those wishing to immigrate from third countries could be tempted to circumvent the “stricter” immigration and residence conditions of one EU country by going through a “milder” EU country. They would be able first to immigrate to a “mild” EU country with relatively little bother and then to cross over without restrictions into the “stricter” EU country as an EU-internal migrant. This three-cornered migration is not to be judged negatively from an economic point of view<sup>7</sup> but it is likely to be too great a provocation for national political decision-makers and executive authorities. Border controls and the control of persons would be maintained or reintroduced. This would mean, however, that a border-free Europe and the advantages of the Single Market could not be completely achieved.

### Differing Naturalisation Practices

Differing naturalisation practices in different countries are also a particular problem. On average the EU member states grant national citizenship to about 2%

<sup>3</sup> Cf. T. Straubhaar: On the Economics of International Labor Migration, Bern 1988; Eurostat: Migration Statistics 1994, Luxembourg 1994; Eurostat: Migration Statistics 1995, Luxembourg 1995.

<sup>4</sup> Cf. P. A. Fischer, T. Straubhaar: Ökonomische Integration und Migration in einem Gemeinsamen Markt, Bern 1994.

<sup>5</sup> According to J. J. Schorl, B. J. de Bruijn, E. J. Kuiper, L. Heering: Migration from African and Eastern Mediterranean Countries to Western Europe, paper for the Council of Europe Conference, Majorca 1996.

<sup>6</sup> Cf. Federal Statistical Office: Im Blickpunkt: Ausländische Bevölkerung in Deutschland, Stuttgart 1995, p. 123. Within the EC the number of asylum seekers rose from almost 140,000 in 1985 to over 470,000 in 1993; cf. Eurostat: Asylum Seekers and Refugees: A Statistical Report, Luxembourg 1994; and Eurostat: Migration Statistics 1995, Luxembourg 1995.

<sup>7</sup> Three-cornered migration is in the final analysis nothing but an arbitrage phenomenon. It therefore cannot be negative from an economic point of view, even if it violates valid laws. (Cf. A. Jahn, T. Straubhaar: On the Political Economy of Illegal Migration, Discussion Paper No. 52 of the Institut für Wirtschaftspolitik, Universität der Bundeswehr, Hamburg 1995.) It is, rather, an indication of the fact that economic realities and political and legal norms differ too greatly: the more marked this discrepancy is, the more attractive three-cornered migration will be and the greater will be the pressure to adjust political and legal norms to economic realities.

of their resident foreign population per annum.<sup>8</sup> The majority of these EU naturalisations are granted to residents from non-EU countries. The Scandinavian countries, the Netherlands and the United Kingdom show the highest naturalisation rates, at about 4-5% of their foreign population per annum. In contrast, the average naturalisation rate in the years 1990 to 1993 for Germany was only 0.57%.

In this case, too, if the differences in the national regulations concerning the acquisition or loss of citizenship are too great there will be incentives to circumvent them. Nationals of third countries could be tempted to choose the EU member state in which it is easiest to acquire (and keep) citizenship of the Union. They would thus be able to acquire rights and entitlements which could not be acquired directly. It cannot be ruled out, for example, that a Swiss becomes a Swede, and thus a citizen of the Union, while maintaining his/her double nationality as a Swiss, which (as a rule) would not be possible if he/she became a citizen of the Union by taking on German nationality. Or an EU member state could "sell" its national citizenship.<sup>9</sup> It is to be expected that a number of EU member states would put up resistance to the – from their point of view – too thoughtless granting of Union citizenship by other EU member states, particularly when Union citizenship involves an increasing number of rights.

### Rising Skills of Migrants

The skill pattern of the migration flows both within the EU and into the EU has gone through quantitatively important and economically significant changes.<sup>10</sup> The skill pattern of the inner-Community migration movements between the EU member states has changed decisively in the last thirty years. While it was originally blue-collar workers who took advantage of the free movement of labour within the EC, today it is white-collar workers who do so. The original "guest worker" migration of unskilled labour can scarcely be found in the inner-Community migration of today. Inner-Community migration has instead become the migration of highly skilled workers, often taking place within multinational enterprises:

□ In northwestern Europe in the 1960s demand for relatively unskilled foreign workers was dominant. This demand was met on the one hand by the supply from less developed regions within the Community (particularly from Italy) and on the other hand from the "traditional" southern European hiring countries, Turkey and Yugoslavia.

□ In the 1990s the demand for foreign workers in northwestern Europe shows a completely different skill pattern. Demand for highly skilled specialists now dominates. These are recruited mainly within the EU or in other OECD countries. The relatively low demand for unskilled foreign workers is met, in contrast, by immigration (including illegal immigration) from third countries.

□ In southern Europe the demand for foreign workers in the 1990s shows the same skill pattern as that in northwestern Europe in the 1960s. Southern Europe today has become an immigration region. The main demand is for unskilled workers. This demand is met largely by supply from north Africa, eastern Europe and from the eastern Mediterranean. It is attempted to meet the weak demand for highly skilled specialists mainly within the EU.

□ A relatively new trend is that inner-Community migration is very often also inner-firm migration, i.e. it takes the form of a cross-border placement or transfer within the "internal labour market" of a multinational enterprise.<sup>11</sup> Thus, an analysis of British labour force survey data for the period 1985 to 1995 showed that 261,000 (i.e. 35.6% of all registered) immigrants were due to inner-firm transfers. Among EU citizens (excluding Ireland) the corresponding share was 34.3%, among returning British migrants 31.2% and among non-EU citizens due to the greater geographical distances involved the figure was 44.9%.<sup>12</sup> In future it can be expected that the importance of this form of migration within Europe will continue to increase with the growing Europeanisation of large numbers of previously national enterprises.

The resulting migration, often termed the "Euro-mobility" of "Euro-specialists", can take different

<sup>8</sup> Eurostat: Migration Statistics 1995, Luxembourg 1995.

<sup>9</sup> Again, from an economic point of view there are no objections to the selling of citizenship by a state (or by its decision-makers); cf. T. Straubhaar: Einwanderungszertifikate: Mehr als ein Diskussionsvorschlag?, in: Wirtschaftswissenschaftliches Studium (WiSt), Vol. 20, 1991, No. 3, pp. 151-153. The problem, however, is that according to the EC Treaty Art. 8 citizenship of the Union is granted along with national citizenship. This involves rights which other EU member states might not wish to grant so easily to persons from third countries.

<sup>10</sup> Cf. W. R. Böning: Top End and Bottom End Labour Import in the United States and Europe: Historical Evolution and Sustainability, in: W. R. Böning and R. Z. Beiji (eds.): The Integration of Migrant Workers in the Labour Market: Policies and their Impact, ILO International Migration Papers 8, Geneva 1995, pp. 47-59.

<sup>11</sup> On the causes of this current trend cf. A. Wolter: Multinationale Unternehmen als Kanal der Wanderung Höherqualifizierter, Discussion paper No. 64, Institut für Wirtschaftspolitik, Universität der Bundeswehr, Hamburg 1996.

<sup>12</sup> Cf. J. Salt: International Migration and the United Kingdom, Report of the United Kingdom Soperni Correspondent 1995.

forms, however. It need not necessarily have a permanent character, precisely because of the geographical proximity within Europe, but can instead take place in the form of relatively temporary, shorter-term (project-) oriented migration, such as weekly stays or business trips or as periodic commuter movements.<sup>13</sup> The emerging "Euro-regions" are doing their best to strengthen this new form of migration as well as cross-border commuting.

### Too Little Migration

The speed of world-wide structural change demands permanent reaction on the part of labour markets. Basically, there are three options open:

- ☐ Wages react flexibly to changes in demand. In this case disequilibria will be balanced out by price or wage reactions.
- ☐ Due to rigid tariff systems or inflexible legal or administrative regulations, wages react relatively sluggishly to changes. In this case disequilibria will be balanced out by quantitative reactions. Structural unemployment is the result.
- ☐ Workers react elastically to the changed demand

and supply situation. They change their occupation (occupational mobility) and/or their place of work (geographical mobility). Occupational or geographical mobility can balance out short-term disequilibria and accelerate economic adjustment processes. Mobility is an alternative to falling real wages and/or growing unemployment.

The chronically high structural unemployment in the EU is the result of macroeconomic rigidities on the goods and labour markets, of economic policy interventions which inhibit adjustment, but also of the lack of individual mobility of workers.<sup>14</sup> This may be a consequence of false signals set by social policy, which subsidise immobility and place disadvantages on mobility. Inner-Community migration serves as an adjustment mechanism only to a very limited extent. The free movement of persons is still the least used freedom of the Single Market. Less than 2% of EU citizens presently live in another EU country.<sup>15</sup> In the

<sup>13</sup> Cf. J. Salt: The Future of International Labour Migration, in: International Migration Review, Vol. 26, 1992, pp. 1077-1111, particularly pp. 1085 ff.

<sup>14</sup> OECD: Beschäftigungsstudie, Paris 1994.

<sup>15</sup> Eurostat: Migration Statistics 1995, Luxembourg 1995.

Club von Florenz (Hrsg.)

## Europa: Der unmögliche Status quo

Vorwort von Jacques Delors

The Club of Florence – a discussion forum of well known Europeanists headed by Max Kohnstamm – presents its proposals for the further direction of European integration. Central to their thesis is that the EU has to adopt to Europe's transformation without losing its spirit of integration. In a further enlarged Europe efficiency and legitimacy are of crucial importance. And the Club of Florence proposes – just in time for Maastricht II – a number of measures how this could be achieved. One thing, however, remains clear to the authors: the status quo is not an option to achieve these goals. If the EU does not find the courage to carry out the necessary reforms its stability will inevitably suffer.

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immediate future it is therefore less likely to be too much migration which causes a problem for the EU than too little, for it is becoming ever more urgently necessary to open up national labour markets and in this way to overcome regional or sectoral labour market disequilibria. In the 1970s and 1980s it became more than clear that the economies which were particularly successful in coping with structural change were those in which the labour markets were open and unregulated. They were able to react more quickly and more flexibly to changes in the macro-economic environment. The comparison of employment trends in the USA and in the EU offers convincing empirical evidence in support of this thesis.<sup>16</sup>

In April 1996 the EU Commission appointed a high-ranking workgroup to investigate the reasons for the low mobility of labour within the EU.<sup>17</sup> This step, which is in itself a correct one, is countered at the same time, however, if on the other hand the inner-Community mobility of unskilled labour is stigmatised as "social dumping" and impeded. The EU directive on the posting of workers which was approved at its first reading in June 1996 by the EU labour and social ministers is more than simply a sin against the market economy. The EU directive on the posting of workers remains a protective duty on labour with all the negative macroeconomic consequences which protectionism brings with it.<sup>18</sup> From a macroeconomic point of view, in a common internal market migration is positive. It is an arbitrage phenomenon and helps to remove disequilibria. Much more efficient in the long run than a short-term protective duty on labour would therefore be the opposite, namely the reduction of inner-Community barriers to mobility. This is true in particular with regard to persons from third countries. Only if persons from third countries can be mobile within the entire single market will it be possible to

utilize to the full the economic advantages of the free movement of workers. Otherwise labour market rigidities will remain (the immobility of the factor of production "worker from a third country") and necessary adjustments will have to be made all the more via the other two options – "wage reactions" and "unemployment".

### Multi-Speed Migration Policy

The call for EU-wide free movement for workers from third countries only has a real political chance if it is combined with clear and transparent regulations. These must lay down who is to be allowed to enter the EU, and stay and work there, under which conditions and with which rights.<sup>19</sup> The Maastricht treaty contains a number of innovations which could serve as a basis for a common migration policy. Art. K.1 of the EU Treaty declares "asylum policy", the "rules governing the crossing by persons of the external borders of the Member States" and "immigration policy and policy regarding nationals of third countries" to be "matters of common interest". These include:

- a) conditions of entry and movement by nationals of third countries on the territory of Member States;
- b) conditions of residence by nationals of third countries on the territory of Member States, including family reunion and access to employment;
- c) combatting unauthorized immigration, residence and work by nationals of third countries on the territory of Member States."

Immigration policy was thus transferred to the third pillar of the treaties, the "cooperation in the fields of justice and home affairs". Art. K.3 of the EU Treaty gives the individual member states, as well as the European Commission, the right to make proposals on the adoption of joint positions and actions. The most important change is to be found, however, in Art.

<sup>16</sup> O. J. Blanchard, L. F. Katz: Regional Evolutions, in: Brookings Papers on Economic Activity 1992, pp. 1-61, show that in the USA it is the workers in particular who, by means of migration, are responsible for the relatively rapid adjustment to changes in the economic environment. An exogenous shock (growth spurts abroad, strong fluctuations in exchange rates, increases in prices of imports and raw materials, recession in sales outlets) which originally reduces total employment in an American region by 1%, leads on average to an increase in the unemployment rate of half a percentage point after two years. After six years the unemployment rate goes down to its original level, while total employment is reduced by a further percentage point compared to its original level (i.e. there is a fall of about 2% altogether). It takes ten years for employment to balance out at a new equilibrium level, which is about 1% below the original level. However, in the USA the 1-2% of those originally employed and who have been made redundant do not remain in their accustomed place of residence and stay unemployed, but move away and find productive employment in another region. Exogenous shocks therefore hardly led to any permanent rise in structural unemployment in the regions of the United States.

<sup>17</sup> Cf. M. Rist: Warum hapert es in der EU bei der Personenfreizügigkeit?, in: Neue Zürcher Zeitung, No. 95 of 24. 4. 1996.

<sup>18</sup> Cf. T. Straubhaar: Schutzzoll auf Arbeit – Das neue Gesicht des Protektionismus, in: List Forum für Wirtschafts- und Finanzpolitik, Vol. 22, 1996, to be published shortly.

<sup>19</sup> An economic view of an efficient European immigration policy is to be found in A. Steineck: Ökonomische Anforderungen an eine europäische Zuwanderungspolitik, Baden-Baden 1994. For a legal view compare the two drafts of an immigration regulation for the EU by C. Gusy: Möglichkeiten und Grenzen eines effektiven und flexiblen europäischen Einwanderungsrechts, in: W. Weidenfeld (ed.): Das europäische Einwanderungskonzept, Bertelsmann Stiftung Gütersloh 1994, pp. 127-159; and M. Wollenschläger: Grundlagen und Anforderungen einer europäischen Einwanderungsregelung, in: W. Weidenfeld (ed.), op. cit., pp. 161-192.

K.9 of the EU Treaty: according to this the Council "acting unanimously on the initiative of the Commission or a Member State may decide to apply Article 100c of the Treaty establishing the European Community to action in areas referred to in Article K.1 (1) to (6)". In plain English this means that, with the reservation that decisions must be unanimous, immigration policy could be transferred to the competence of the Community.

The Schengen Agreement is a first step towards the comprehensive free movement of persons, but it remains primarily an instrument for the enforcement of border controls, for police cooperation within the territory of the EU and for the execution of asylum and refugee legislation. The Schengen Agreement was originally signed by Belgium, Germany, France, Luxembourg and the Netherlands (Schengen I on 14. 6. 1985, Schengen II on 19. 6. 1990). Since then Italy (1990), Spain and Portugal (1991), Greece (1992) and Austria (1995) have joined. The Agreement is not yet in force in Italy, Greece and Austria, however, due to difficulties in translating it into domestic law. The five northern states of Sweden, Denmark, Finland, Norway and Iceland have observer status since 1. 5. 1996 and intend to join the Agreement in the near future as long as this does not undermine the passport union which they already have. Due to the abstention of the United Kingdom and Ireland, "Schengenland" could become an interesting test case. It could sound out how far the EU member states wish in future to take the further steps towards the deepening of integration according to more strongly functional criteria and on the basis of "voluntary" cooperation.

The intergovernmental conference of the EU member states is likely to seek a foundation for a common EU migration policy. The most important issues here will be those of a common asylum policy and of a coordinated immigration policy. So far, the first attempts by the EU to make progress towards a common migration policy were driven almost exclusively by political facts. For this reason, they were directed towards asylum and refugee law and

towards the problems connected with unauthorized immigration and with the primarily non-economically motivated migration of students, pensioners and tourists. The questions dealt with have usually been the enforcement, control and harmonisation of national legislation. Apart from these questions the opinion is still dominant that migration policy towards third countries should be left to the national legislation of the individual EU member states. Art. K.9 of the EU Treaty, together with Art. 100c EC Treaty, could offer a basis for a much more comprehensive joint approach. But it is unlikely that this opportunity will be used due to the requirement of unanimity and the foreseeable vote against by the United Kingdom. International law will thus continue to be the only path available for intergovernmental cooperation.

The "opting in" model which thus forces itself upon the sphere of asylum and immigration policy could possibly set a trend for other sensitive areas too. It allows partial membership, diverging from the previous principle that EU members are fundamentally obliged to conform to all integration objectives.<sup>20</sup> Instead of this, according to the "opting in" model an "avant garde" of countries could lead the way within the body of EU law even if not all EU members participated. The option of participation at a later date would have to remain open at all times for latecomers, however. This pragmatic approach would mean that those who wished to coordinate their immigration policy could do so without being blocked by those who still had national difficulties with the application of a common migration policy. Not all the EU member states but only those who wish to do so should adopt a common EU migration policy. The result would be a "multi-speed EU migration policy".

### **Is Mass Migration from Eastern Europe to be Expected?**

The list of eastern European countries which have applied for EU membership is a long one. Europe Agreements have been reached with the four Visegrad countries (Poland, Hungary, the Czech Republic and Slovakia), with the Baltic states (Estonia, Latvia and Lithuania), with Bulgaria, Romania and also, since mid-1995, with Slovenia. These Agreements open up the medium-term perspective of accession to the EU for the eastern European countries<sup>21</sup> on the basis of a comprehensive and close association relationship. This perspective of membership was emphasised and further concretised by the European Council at its meeting in Madrid in December 1995: the European

<sup>20</sup> In contrast to the "opting in" model, in an "opting out" model a full member is allowed dispensation for a limited period of time and for limited functions from the fulfilment of individual EU Treaty obligations. Examples of this are the temporary exemption of the United Kingdom and Denmark from the application of the EU Treaty Social Protocol in 1992. On the various integration models see also T. Läufer: 22 Fragen zu Europa (Die EU und ihre Reform), Presse- und Informationsamt der Bundesregierung, Bonn 1995, p. 148.

<sup>21</sup> Under the term "eastern European countries" in the following we mean only the countries named here, not the successor states to the USSR and not the remaining successor states to former Yugoslavia.

**Table 1**  
**Level of Economic Development in Eastern Europe 1993**

	Bulgaria	Czechia	Estonia	Hungary	Latvia	Lithuania	Poland	Rumania	Slovenia	Slovakia
Population in 1000	8926	10328	1578	10493	2669	3760	38518	23377	1975	5318
Unemployed in 1000	626	200	16	632	77	66	2890	1165	129	306
Rate of Unemployment %	16.27	3.95	3.06	12.77	5.40	3.55	15.75	10.37	14.42	12.81
Employed in 1000	3222	4848	517	4317	1345	1778	15462	10062	766	2081
in Agriculture	713	444	59	570	269	401	3861	3621	71	259
in Manufacturing	1179	2052	186	1589	429	584	5349	3605	367	840
in Services	1331	2352	273	2218	439	783	6152	2836	338	982
Share of Agriculture %	22.12	9.16	11.33	13.19	20.00	22.54	24.97	35.99	9.29	12.45
GNP in US \$ m.	9773	28192	4703	34254	5257	4891	87315	25427	12566	10145
GNP per capita in US \$	1095	2730	2980	3264	1970	1301	2267	1088	6363	1908
GNP per capita compared to Germany %	4.67	11.65	12.72	13.93	8.40	5.55	9.67	4.64	27.14	8.14

Note: The data on unemployment and employment in Hungary, Latvia and Poland are for 1992.

Sources: Statistisches Bundesamt: Statistisches Jahrbuch für das Ausland 1994, Wiesbaden 1994; Statistisches Bundesamt: Statistisches Jahrbuch für das Ausland 1995, Wiesbaden 1995; ILO: Yearbook of Labour Statistics, Geneva 1995; UN: Statistical Yearbook 1993, New York 1995; Czech Statistical Office: Quarterly Statistical Bulletin 1/1995.

Council would "following the conclusion of the intergovernmental meeting and taking into account the results obtained there as well as the statements and reports of the Commission as rapidly as possible take the necessary decisions for the start of the membership negotiations with the central and eastern European countries, so that the first phase of the negotiations take place at the same time as the beginning of the negotiations with Cyprus and Malta".<sup>22</sup>

The free movement of workers and of persons is regarded as a very central barrier to eastward enlargement. It is feared that the removal of legal restrictions to migration would lead to a mass exodus from eastern to western Europe.<sup>23</sup> The argument is, that this "Trek to the West" would place severe economic and virtually insurmountable political strains on the western European target countries. Certainly, eastern Europe is economically less developed, the agricultural sector is still large and industrial production is still very labour-intensive – all these are factors which speak for strong east-west migration (cf. Table 1). But what can we learn from economic theory and from the previous experience of the EU?

### The Analogy to Southern Enlargement

In the 1980s the EC was enlarged southward by Greece (1981), Portugal (1986) and Spain (1986). At the beginning of the membership negotiations these southern European countries were also far behind the EC member states in their economic development (cf. Table 2). Furthermore, these countries had also experienced dramatic political changes a short time

previously.<sup>24</sup> In Greece the military dictatorship was not removed until the end of 1974. In Portugal it was the "revolution of carnations" of 25. 4. 1974 which led to the removal of the Caetano regime. Spain's departure from the dictatorship of General Franco did not take place until after his death in November 1975. In other words, at the beginning of the EC membership negotiations at the end of the 1970s southern Europe was also just at the beginning of its political transformation from a long period of dictatorial-ideological dominance to democratic structures.

In the case of the southern enlargement of the EC, too, the discussion was dominated by misgivings about mass migration from the poorer south to the richer north of the EC.<sup>25</sup> Yet the removal of barriers to

<sup>22</sup> European Commission: Gesamtbericht über die Tätigkeit der Europäischen Union 1995, Luxembourg 1996, p. 353. (Our translation.)

<sup>23</sup> See for example P. Layard, O. Blanchard, R. Dornbusch, P. Krugman: East-West-Migration – The Alternatives, MIT Press Cambridge 1992; and R. Baldwin: Towards an Integrated Europe, London 1994, in particular pp. 190-192 and p. 199. Significantly, Baldwin comments only very briefly on the subject of east-west migration. He considers east-west migration to be a particularly sensitive subject. According to his rough estimates, the migration potential is about 5-10% of the eastern European population, which would mean a figure of 3.2 to 6.4 million persons for the four Visegrad countries alone.

<sup>24</sup> On this, see W. Merkel: Vom Ende der Diktaturen zum Binnenmarkt 1993 (Griechenland, Portugal und Spanien auf dem Weg zurück nach Europa), in: Aus Politik und Zeitgeschichte, Beilage zur Wochenzeitung Das Parlament, No. B 51/90 of 14.12.1990, pp. 3-14.

<sup>25</sup> Impressive enough are the fears of mass migration from southern Europe as expressed for example by K. Eckstein: Es sind einfach zu viele ..., in: Aus Politik und Zeitgeschichte, Beilage zur Wochenzeitung Das Parlament, No. B 25/82 of 26. 6. 1982, pp. 17-26; or W. Klauder: Die Brisanz des Ausländerproblems in der Bundesrepublik, in: Wirtschaftsdienst, Vol. 62, 1982, No. 6, p. 277. The Wirtschaftswoche dramatised the issue even more strongly in Vol. 36, 1982, No. 6 of 5. 2. 1982, in which it saw a "threat to peace" in migration from the southern European applicant countries.



**Table 2**  
**Level of Economic Development of the Southern European Countries before Entry to the EC**  
**and when Complete Freedom of Movement was Granted**

	Greece 1980	Greece 1988	Spain 1980	Spain 1992	Portugal 1980	Portugal 1992
Population in 1000	9642	10010	37386	39085	9819	9858
Unemployed in 1000	42	111	1277	2260	285	317
Rate of Unemployment %	1.18	2.95	9.95	15.45	6.72	6.53
Employed in 1000	3531	3657	11557	12366	3961	4543
in Agriculture	1084	972	2227	1253	1082	522
in Manufacturing	1023	997	4153	4001	1443	1500
in Services	1423	1689	5169	7113	1430	2521
Share of Agriculture %	30.69	26.58	19.27	10.13	27.32	11.50
GNP in US \$ m.	40	53	212	575	25	84
GNP per capita in US \$	4164	5283	5674	14706	2555	8541
GNP per capita compared to Germany %	31.66	27.20	43.13	66.22	19.43	38.46

Note: The data on unemployment and employment in Greece 1980 are for 1981.

Sources: OECD: Main Economic Indicators, Paris, various years; UN: Statistical Yearbook, New York, various years.

migration at the EC level was not enough to overcome the individual (microeconomic) barriers. Mass migration from the south to the north did not take place. Instead, southern European workers preferred to remain where they were, despite lower wages or even unemployment, rather than to look for work in other EC member countries. This behaviour was made possible for the individual worker, and was more attractive than inner-Community migration, thanks not least to the well developed social networks.

The free movement granted to the southern European workers did not initiate large inner-Community migratory movements from southern to northern Europe. It was the case in southern Europe that people preferred to live in their home country, even if they had to pay for this preference with a lower standard of living or with unemployment. Neither the considerable inner-Community welfare gap in individual purchasing power nor large differences in unemployment rates succeeded in creating strong incentives for cross-border migration within the EU from southern to northern Europe.

The empirical fact that intra-EU migratory flows did not take place is also astonishing because the relative welfare gap between southern and northern Europe continues to be considerable. Per capita incomes adjusted for purchasing power in Greece and Portugal, but also in Spain, were still only 60% to 70% of the income level in Germany in 1993.<sup>26</sup> Unemployment in southern Europe has also permanently

remained at a high level. The average rate of unemployment in Spain is 23.8% (1994) and youth unemployment (persons under 25 years of age) is over 50% for females and 37% for males.<sup>27</sup> Despite this fact there is scarcely any migration from Spain to the other EU member states.

The example of southern Europe clearly shows that the reduction of restrictions to mobility alone is not enough to initiate the migration of workers in large numbers within the integration area. Sociological and psychological factors at the individual level as well as social, cultural and language differences between home country and host country remain strong barriers to migration. At the macroeconomic level the cross-border movements of workers within the EC were determined by the requirements and the employment opportunities in the host countries. The formal removal of barriers to mobility does not necessarily guarantee that the knowledge and abilities of the workers who are prepared to migrate correspond to the requirements and demands of the potential employers. It should be recalled here that EU freedom of movement does not apply to the unemployed. Unemployed persons may look for employment in other EU countries and they may enter other member states for this purpose, but this does not entitle them to any financial support whatsoever from the (temporary) host country.<sup>28</sup>

The development of the economy in the second half of the 1980s particularly in Spain, but also in Portugal and, in part, in Greece, shows that the adjustments due to integration into the Single Market took place above all via the trade in goods and services and via capital transfers, and not so much via the migration of workers. The trade in goods reacted

<sup>26</sup> Eurostat: Eurostat Jahrbuch 1995, Luxembourg 1995.

<sup>27</sup> OECD: OECD in Figures, 1996 edition, Paris 1996, p. 13.

much more elastically to the formation of the Single Market than did the supply of labour. The reduction of protectionist barriers led to a strong growth in inner-Community trade and in inner-Community direct investment. To a large extent the trade in goods and capital transfers made the migration of labour unnecessary.<sup>29</sup>

### Applicability to Eastern Europe

Of course it is, and remains, speculation as to how far the empirical experiences of EC southern enlargement are relevant to EU eastern enlargement. From a German point of view the greater proximity and the close cultural ties may of course make a quite decisive difference. Basically, however, a number of fundamental conclusions stemming from integration theory and from southern European experience should also be valid here:

The Single Market opens up and deregulates markets. It creates a high degree of legal certainty and clear rules for inner-Community transactions — particularly for the protection of property rights, the rights of shareholders and, thus, for direct investments. Obstacles to inner-Community trade in goods thus disappear. But above all the risks of inner-Community capital transfers are reduced. Because the transaction costs for trade in goods and movements of capital are as a rule lower than those for the migration of labour, trade and direct investments are likely to function to a large extent as a substitute for the migration of workers. In as far as there is a

complementary relationship between capital transfers and migration, direct investments and the migration of labour are necessary in order to exploit the advantages of a common market. In this case, however, it is usually a question of the migration of highly qualified specialists and not of the mass migration of unskilled workers.

A common internal market supports efficiency and thus stimulates economic growth. On average, the general economic situation improves rapidly and decisively, which has a strong inhibitive effect on migration. The empirical evidence of this assumption can again be demonstrated by the example of southern Europe. With their rising standard of living, the traditional EU emigration countries (Italy, Greece, Spain, Portugal) have become immigration countries. The natives of these countries no longer migrate in order to seek employment abroad. Instead, the economic upswing in the traditional EU emigration countries has created a pull effect on workers from third countries.

Just how strongly migration and development in the EU were bound together can be demonstrated using a simple econometric model for the period 1965 to 1990. Individual purchasing power (per capita income in real terms) is taken as an approximation variable for the individual standard of living and the level of development of the national economy. It is then empirically estimated to what extent changes in this approximation variable can explain changes in the migration balances of the corresponding EU member states. For the EU(12) countries in the period 1965 to 1990 there is a statistically significant positive correlation between the level of economic development and immigration/emigration.<sup>30</sup> The more (less) developed an EU country was, the stronger was the immigration pull (emigration push) to (from) that EU country. Precisely this simple idea supports the expectation that as a result of economic integration and the corresponding positive effects on economic growth migration within a common labour market will fall and migration from outside into this common market will increase.

### Advantages of Immobility

There is little reason to doubt that people in eastern Europe are just as "rooted in their native soil" and

<sup>29</sup> According to the basic principles of social security law in the EU, employed persons are socially insured in the country in which they live and work. The right to social security benefits can only be gained by a person who has made payments into the social security schemes of the host country by being employed there. For example, if a Portuguese building worker has worked in Germany and becomes unemployed then he has exactly the same rights regarding unemployment benefits as his German colleagues who have also been made unemployed. He can, however, only claim these rights in Germany since the right to benefits only exists in the country in which the employed person was last insured. Payment in another EU country is therefore ruled out — even if he returned to Portugal. A "migration of the unemployed" is thus prevented by the fact that "normally" unemployment benefits are not paid in another EU country. An unemployed person can under certain conditions continue to receive unemployment benefit from his previous country of residence if he has been given permission to reside in another member state for at most three months in order to look for work there. The same principle, that social insurance protection only exists in the country of residence and employment, also prevents "social security tourism". Rights are based exclusively on previous contributions. If workers have been employed in more than one EU member state in the course of their lives and made payments to the social insurance schemes there, then the insurance claims are mutually recognised so that there are no gaps in coverage and no periods of insurance cover are lost. For individual legal questions concerning EU freedom of movement see, in particular, J.-C. Séché: *Freizügigkeit in der Europäischen Gemeinschaft (Einreise und Aufenthalt)*, Luxembourg 1988; and by the same author: *Berufsausübung im Gemeinsamen Markt (Ein Leitfaden)*, 2nd edition, Luxembourg 1994.

<sup>29</sup> On this see T. Straubhaar: *On the Economics of International Labor Migration*, Bern 1988.

<sup>30</sup> The regression produces a coefficient of determination  $R^2$  of 0.21, a  $t$  value of 8.92 and a gradient  $b$  of 0.68.

immobile as people in southern Europe. Immobility also has certain economic advantages over migration. It allows people to use their specifically local know-how for earning an income (i.e. mainly on the labour market) and for spending that income (consumption decisions). This specifically local know-how cannot be transferred. It would be lost in the case of migration and would have to be acquired once more at the new place of residence. A further advantage of immobility lies in the option value of waiting. Analogously to investment decisions on financial markets, waiting (i.e. not to migrate but to stay) has a positive option value.<sup>31</sup> This positive option value arises because the postponement of the migration decision until later reduces the relative uncertainty and therefore the risk which is involved in the migration decision. The period of waiting can be used to gain information. This reduces the risk of a wrong decision. If during the period of waiting the differences in income between the home region and the potential host region diminish, the actual migration flow will be much smaller than originally planned.<sup>32</sup> Precisely this tendency towards an equalising of standards of living and its restraining effect on migration are more likely to be achieved within the Single Market than if eastern Europe remains outside the EU.

Looked at dynamically the main problem of east-west migration is less likely to be the mass migration of unskilled labour than the migration of trained specialists. This migratory movement would, namely, mean a brain drain. Eastern European specialists would find it relatively easy to migrate to western

Europe thanks to the free movement regulation. In doing so, they would create positive impulses in the host regions but they would be missed on the labour markets of their home regions. In this way their migration would tend to strengthen further the existing differences in income between eastern and western Europe. More recent (theoretical) approaches, however, indicate that this brain drain need not necessarily be negative for the home regions.<sup>33</sup>

### Plea for a Pragmatic Approach

The European Council meeting in Madrid in December 1995 set entirely correct signals with regard to east-west migration. The clear declaration in favour of membership negotiations with the eastern European countries offers perspectives which tend to act as a restraint on migration. Simply the prospect of having the opportunity at a later date to be able to migrate within a common internal market at any time, as long as a job is available, reduces present individual readiness to migrate quite decisively.

With regard to east-west migration an even more offensive strategy (meaning a faster pace) is unlikely to create any great problems. The granting of extensive free movement to workers at the same time as the liberalisation of trade in goods and of capital transfers would create positive impulses for all the participating parties to the treaty. The best chances of success seem to be offered here by an integration model along the lines of the Agreement on a European Economic Area (EEA).<sup>34</sup> An EEA II would allow steps towards integration to be flexible and adaptable to the situation. That which was necessary could be integrated immediately and everything else could be done later and one step at a time. A comparatively extensive single market for the EU and eastern Europe could be realised very quickly. This would produce major stimuli for deregulation and growth. But above all there would be a greater degree of legal certainty for direct investments in eastern Europe. The evolution clause (Art. 118 EEA Treaty) would also make it possible to create new, common law one case at a time and to go forward gradually on the path to integration. Regarding the question of the free movement of labour, a step-wise approach with a transformation period of several years, analogously to the southern enlargement of the EU, would be a possibility. In the end, that which the Spanish philosopher Ortega y Gasset surmised for Spain could also be true of eastern Europe: the eastern European countries were the "problem", Europe is the "solution"!

<sup>31</sup> On this see M. Burda: Migration and the Option Value of Waiting, Seminar Paper No. 597, Institute for International Economic Studies, Stockholm University, 1995.

<sup>32</sup> The concept of the option value of migration could be extended by the aspect that people are not risk-neutral but tend, rather, to be averse to risk. The bird in the hand tends to be given preference over the two in the bush, and a "worse" alternative which can be anticipated with a high degree of probability may be preferred to a "better" alternative which is uncertain. It is also possible that the decision to migrate is not based on the long-term perspectives but takes place instead for short-term reasons. In this case the high fixed costs at the beginning of migration can act as a deterrent and be overestimated, although the later advantages would be much greater than the initial costs. Both extensions of the model – risk aversion and the preference for the short term – work in favour of waiting.

<sup>33</sup> On this cf. O. Stark, C. Helmenstein, A. Prskawetz: A Gain with Drain: A New Look at the Economics of the Brain Drain, Lecture held at the ESF Conference on Migration and Development, Strassbourg, 31. 5.-5. 6. 1996; and M. Wolburg: On Brain Drain, Brain Exchange, Division of Labour and Economic Growth within a Common Market, Discussion paper No. 66, Institut für Wirtschaftspolitik, Universität der Bundeswehr, Hamburg 1996.

<sup>34</sup> T. Bruha, T. Straubhaar: EWR II: Europäischer Wirtschaftsraum oder Stufenplan für Mittel- und Osteuropa?, Discussion Paper No. 72, Institut für Wirtschaftspolitik, Universität der Bundeswehr, Hamburg 1996.