

Weekly Report

Poor Marks for Germany's Isolationist Policy

The free movement of workers within the European Union does not place a burden on labor markets or social services. This is the conclusion of a recent study on the development and effects of east-to-west migration in the wake of EU enlargement in 2004 and 2007. In this light, Germany's restrictive immigration policy received poor marks. Recent measures—such as Germany's labor migration regulation law, which is intended to ease the immigration of highly qualified foreigners—are certainly steps in the right direction. However, they still do too little to enable Germany to exploit the opportunities offered by immigration.

Migration is an integral part of Europe's past and present. The EU Eastern enlargement, which took place in two rounds in 2004 and 2007, has added a new dynamic to the debate in Germany and at the European level concerning immigration, labor migration, and the shortage of skilled workers. The reasons are clear: the enlargement was unprecedented in many respects. The new EU member states had recently made the transition from planned economies to market economies. In addition, practically all east-to-west migration had been cut off for an extended period—from the end of the Second World War until the collapse of the Eastern Bloc.¹ Furthermore, the differences in income and levels of unemployment between the older EU countries and the new member states were enormous. Finally, the scale of the expansion—in terms of population—presented a significant challenge to the process of European integration. These particular characteristics of the Eastern enlargement indicate that it was a unique moment in the EU's development.

EU enlargement was accompanied by concern and general uncertainty in many quarters. Primarily, the following questions were raised:

- Do immigrants from the accession countries pose a threat to the welfare systems of old EU countries?
- Is the new east-to-west migration accompanied with a loss of jobs for native-born workers?
- Will the countries of origin suffer from “brain drain” and demographic instability?

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¹ The former Yugoslavia is an exception. A successor state—Slovenia—entered the EU in 2004.

Box 1

EU Labor Markets After Post-Enlargement Migration

Martin Kahanec and Klaus F. Zimmermann (Eds.), Springer, Berlin et al. 2009, ISBN: 978-3-642-02241-8

This newly released volume, titled "EU Labor Markets after Post-Enlargement Migration," presents the current knowledge of the economic effects of migration on European labor markets.

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Z. Dermendzhieva, R. K. Filer

In fact, there is no evidence that migration from the accession countries has led to the displacement of native-born workers or reduced wages (Box 1); and the feared immigration into welfare has failed to materialize.² Although a "brain drain"—the emigration of qualified workers—has been observed in the countries of origin, studies show that the circulation of skilled workers within the EU can provide a better solution to demographic and economic problems and may improve allocation efficiency.

² It should also be noted that access to social services for EU nationals is restricted in the member states—in Germany, for example, to those looking for work who are not entitled to insurance. An evaluation of the effects of the EU's eastern expansion on migration policy can be found in Kahanec, M., Zimmermann, K. F. (eds.): EU Labor Markets after Post-Enlargement Migration. Berlin et al. 2009, Springer.

The Educational Level of Immigrants has risen across Europe

The EU initially adopted a transitional provision that restricted labor mobility from the accession countries for up to seven years. Most older EU countries took advantage of this provision—only Ireland, the UK, and Sweden immediately opened up their labor markets in 2004 with few or no restrictions. Over time, more and more member countries have decided to lift restrictions. Yet major hurdles were placed for those wishing to enter the labor markets in Germany and Austria and—at least until January 2009—these countries continued their policy of severely restricted mobility.³

³ In January 2009, a labor migration regulation law came into force in Germany. It could mark a new beginning for German migration policy.

The number of immigrants from the accession countries rose between 2003 and 2007: the number of foreign residents from countries that joined the EU in 2004 grew from 893,000 in 2003 to over 1.91 million, equivalent to 0.5 percent of the entire population of the old EU. The average inflow (net immigration) was 254,000 people a year after 2004, compared to 62,000 a year between 2000 and 2003. The proportion of foreign residents coming from Bulgaria and Romania, which joined the EU in 2007, rose continually from 2000, reaching 1.86 million people in 2007.

These immigrants are not evenly distributed among the old EU states, however. Whereas immigrants from Bulgaria and Romania preferred to settle in Spain and Italy, disproportionately high numbers of those from countries which joined the EU in 2004 arrived in Ireland and the UK. There is, however, no clear relationship between the level of freedom of movement and the level of immigration. This is illustrated by Sweden, which had removed barriers to immigration in 2004 but hardly experienced any immigration from the accession countries. It appears that other factors such as geographical, linguistic and cultural distances or established immigrant networks in the destination country play more important roles than the economic situation.

Along with a rise in numbers, there has also been a change in the composition of immigrants from the accession countries. Immigrants who arrived after enlargement have a higher labor participation rate and also a higher employment rate than those who emigrated to the “old” EU before enlargement. Although the proportion of high-skilled among immigrants fell after the enlargement, there was a simultaneous drop in the proportion of low-skilled workers. This resulted overall in a slight increase in the average educational level of immigrants after 2004.

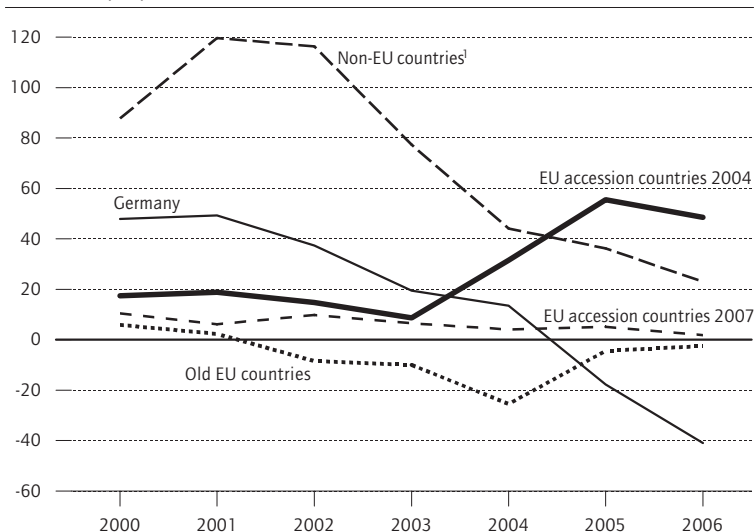
Then transitional rules restricting labor mobility were introduced in part to combat the perceived negative effects of immigration on the labor market and welfare system of destination countries. Current studies, however, have shown that such fears were unfounded. Immigrants do not claim social benefits more often than natives, and there is even evidence of a reduction in income disparities in the old EU countries through the arrival of qualified workers from the new member states.⁴ Furthermore, there is no indication of a crowding out of native employment by immigrants, nor a drop in wages.

⁴ Zimmermann, K. F., Kahanec, M.: International Migration, Ethnicity and Economic Inequality. In: Salverda, W., Nolan, B., Smeeding, T. M. (eds.): The Oxford Handbook of Economic Inequality. Oxford 2009.

Figure

Net Annual Immigration to Germany Based on Region of Origin

In 1000s of people



¹ Including individuals with no or unknown nationality.

Source: Calculations by DIW Berlin.

DIW Berlin 2009

More Immigrants in the German Labor Market despite Mobility Restrictions

Germany did not immediately open up its labor market to immigrants from the accession countries. Nevertheless, the number of immigrants from the countries which joined in 2004 has risen considerably.⁵ The net immigration rate for this group was about 2.5 times higher from 2004 to 2006 than in the four year period prior to enlargement (see Figure). Yet this considerable relative increase did not amount to a dramatic rise in absolute numbers—the annual net immigration of this group stabilized in the end at a comparatively low level of around 50,000 people. Among these immigrants, the largest group is Poles; they have dominated net immigration to Germany for years.

When considering the flows of migrants into and out of Germany, it is clear Germany is not a classical immigration country. On the contrary, without the increase in immigration from the accession countries, Germany would have even experienced a negative net migration in recent years. This is pri-

⁵ On the effects of EU Eastern enlargement on Germany, see also Brenke, K., Yuksel, M., Zimmermann, K. F.: The Effects of EU Enlargement and the Temporary Measures of the German Labor Market. In: Kahanec, M., Zimmermann, K. F. (eds.): EU Labor Markets after Post-Enlargement Migration. Berlin et al. 2009, Springer, 111–129.

marily due to the emigration of people with German citizenship.⁶

Furthermore, it appears that the composition of immigrants has changed following the EU Eastern enlargement. Immigrants who arrived in Germany after 2004 from countries which joined in that year are older and have a lower level of education compared to earlier immigrants. Before 2004, immigrants were primarily women. Now, young men make up the majority, particularly from Poland and the Balkans.

This change in composition is also reflected in the success of immigrants in the labor market, which was analyzed with data from the 2006 microcensus, provided with the kind support of the statistical offices of both the German federal government and the Länder (see Table).⁷ The analysis shows that immigrant employment prospects after enlargement are 23.1 percent lower among immigrants from the new EU member countries than native Germans; the difference is only 12.7 percent for earlier immigrants from these countries. It appears that this group's labor market attachment has decreased over time, as they also have the lowest labor participation of all the immigrants, with the exception of non-EU immigrants who came to Germany after 2004. At the same time, they are predominantly employed in low-paid jobs, work longer hours and have the lowest average net income of all immigrant groups—again with the exception of those recently from non-EU countries. However, the recent immigrants from the accession countries are 15.7 percent more likely to be self-employed than natives. In addition, this group earns a relatively low income, whether employed or self-employed. Taking into account the high numbers of those leaving and entering, it can be assumed that a significant portion of these people work on a seasonal basis in low-paid jobs—for example, in agriculture. The results suggest that these immigrants are more likely to be competing with non-EU immigrants for low-skilled jobs rather than with native labor force. This group cannot in any way meet Germany's need for a high-skilled workers.

In general, restrictions on labor mobility in Germany have not resulted in lower net immigration from the new member countries—on the contrary, there has been a noticeable increase. However, this immigrant group's labor market attachment has decreased over time. These findings underline the importance of a more open German migration policy aimed

Table

Immigrant Success in Labor Markets Compared to Native Germans

	Income (log)	Working hours	Employed	Self-employed
EU accession countries in 2004 (Immigration after 2004)	-0.277	-0.745	-0.231	0.157
EU accession countries in 2004 (Immigration before 2004)	-0.210	-1.199	-0.127	-0.009
Non-EU countries ¹ (Immigration before 2004)	-0.126	-0.741	-0.125	-0.021
Non-EU countries ¹ (Immigration after 2004)	-0.371	-2.595	-0.442	-0.037
Old EU member states (Immigration before 2004)	-0.031	0.794	-0.023	0.025
Old EU member states (Immigration after 2004)	0.058	-1.627	-0.220	-0.010
Germany (naturalized)	-0.099	-0.630	-0.061	-0.021

¹ Including the EU accession countries in 2007.

Source: Calculations by DIW Berlin.

DIW Berlin 2009

at attracting high-skilled workers. The restrictive policy in Germany neither ensures the inflow of urgently required high-skilled workers, nor prevents the undesirable influx of low-skilled. Hence, it cannot have any positive impact on the German labor market.

Current German and European Initiatives Fall Short

The German government notified the European Commission in April 2009 that it would continue to take advantage of the transitional rules to restrict the mobility of immigrant workers from the new EU member states. Five years after the EU Eastern enlargement, Germany still limits access for these workers. The immigration trends since 2004 discussed above may be exacerbated by this policy, for all EU countries aside from Germany and Austria have long since fully joined the common European labor market.⁸ The German economy does not enjoy the benefits of employing skilled workers from Eastern Europe, nor should it be assumed that qualified immigrants will have a particular interest in immigrating to Germany in 2011, when Germany has to end restrictions. Against this backdrop, renewed mobility restrictions threaten to backfire economically.

Still, some positive signals have also come out of Berlin. In January 2009, the labor migration regulation law came into effect. The essence of this is the appropriate legislation designed to increase

⁶ Total net migration in the figure is the sum of all the individual net migrations illustrated.

⁷ The figures in the table are estimated regression coefficients which show deviation from the reference group of native Germans.

⁸ This does not apply, however, to workers from countries that joined the EU in 2007. These workers still face mobility restrictions in some countries.

Box 2

The German Government's Action Program

On January 1, 2009, immigration policy measures were implemented in an action program called "The contribution of labor migration to securing qualified workers required in Germany." Together with changes affecting graduates from German schools abroad and foreign students educated in Germany, the program contains three central elements to ease immigration of university graduates and high-skilled workers (the "Labor Migration Regulation Law"):

1. The German labor market is completely open to university graduates from the new EU member states and their family members. It is no longer necessary to first determine whether a native is available to fill the position in question (priority check).

2. The minimum income threshold for high-skilled workers has been lowered from double the income ceiling for assessing contributions to the statutory health insurance fund (currently 86,400 euros) to the income ceiling (in the West) for assessing contributions to the pension fund, which is currently 63,600 euros. They also then receive permanent right of residence.

3. The labor market is completely open to university graduates from non-EU countries. A priority check is still carried out, as well as a check to ensure foreign workers are not hired at less favorable terms than comparable German workers.

Source: BMAS

Germany's appeal as an immigration country. The law outlines the requirements for work permits for immigrants from the accession countries without red tape (Box 2). As a consequence, the German labor market is completely open to university graduates from these countries.⁹ However, it remains to be seen what impact the law can actually have. Germany continues to send out strong signals that it has closed its doors to immigrants, and so a more profound effect seems questionable at the present time. In fact, this law adds to the general picture of a contradictory German immigration policy lacking transparency. To effectively communicate a real shift in German immigration policy, the government must send out much clearer signals.

Steps have recently been taken at the European level to make the EU more attractive to immigrants from non-member countries. At the end of May 2009, the EU Council of Ministers adopted minimum standards for admitting skilled workers from non-member countries (see Box 3). EU countries have until 2011 to implement the Blue Card directive in their national legislation. At first glance, this measure appears suited to persuading high-skilled workers considering immigration to focus more on the EU. However, the individual EU member states have been granted a comparatively large leeway in how they implement the directive and establish

their own standards. For example, Blue Card holders who want to relocate to another EU country have to repeat the application procedure. The maximum term of four years is also restrictive. Such regulations clearly prevent the EU from achieving its goal of establishing the Blue Card as an equivalent to the US Green Card.

Consequences of the Economic Crisis

The current economic crisis added a strong external influence to the "natural experiment" of a politically determined EU enlargement and the opening up of most national labor markets. As a result, a conclusive analysis of the impact on migration flows is in effect no longer possible. The focus of the analysis must turn to a different research question: trends and effects of migration with free mobility but during economic downturn.¹⁰

Even prior to such analyses, several fundamental observations can be made. Labor migration reacts strongly to economic cycles—especially when there are no restrictions on mobility for those entering for the first time, returning to their country of origin, or renewed entry to the destination country. In a few years, this will be the case in the entire area of the enlarged EU. The proportion of temporary

⁹ This applies to university graduates from non-EU countries as well, and hence worldwide, even though here there are additional administrative checks, whose effect in practice cannot yet be evaluated. To an extent, the regulation represents an attempt to open fully the German labor market to university graduates.

¹⁰ An in-depth analysis of this issue can be found in Kahanec, M., Zaiczeva, A., Zimmermann, K. F.: EU Enlargement, European Migration Flows, and their Labor Market Effects. In: Kahanec, M., Zimmermann, K. F. (eds.): EU Labor Markets after Post-Enlargement Migration. Berlin et al. 2009, Springer, 3–45.

Box 3

The New EU "Blue Card" Directive

At the end of 2007, the president of the European Commission presented a proposal for an EU "Blue Card," and at the end of May 2009, the EU Council of Ministers in Brussels passed a directive including minimum standards for admitting skilled workers from non-EU countries into the EU. The individual member states must implement this directive in their national legislation by 2011.

The directive establishes EU-wide minimum standards for the approval procedures of non-EU skilled and highly qualified workers. In particular, the following criteria have been determined for issuing the "Blue Card," which is valid from one to four years and may be renewed:

- Proof of professional qualifications (for example, a relevant university degree) or at least five years' rel-

evant professional experience in the sector where employment is sought.

- Valid employment contract or binding job offer for a skilled job lasting at least a year and with a gross income of at least 1.5 times the average annual salary in the destination country (this may be reduced to 1.2 times the average salary in sectors with an acute shortage of skilled workers).
- Valid travel documents, proof of health insurance, background checks.

Source: European Commission

immigrants among migrants from EU countries is already exceptionally high; and given the changed economic environment, it might even increase. In addition, the public's perception and acceptance of immigration might be altered under the pressure of economic crisis. This could create a greater incentive for immigrants to return to their native country, as could a rise in unemployment among immigrants—especially if they have only been able to find work below their level of qualification, and more attractive jobs are available in their country of origin.

However, this is where the consequences of a worldwide economic crisis may show themselves. In contrast to the economic slump which began in 2001, the effects of the current downturn are felt to the same degree everywhere and not asymmetrically across economic areas. Immigrants straight out of Eastern Europe in particular are confronted with poorer economic conditions both in their current country of residence and in their country of origin. If the situation for them in the older EU countries is better, either objectively or even subjectively, it will greatly dampen their inclination to return to the new EU member states and could even increase interest in immigration there. In general, questions of further migration and circular migration will play a greater role for internationalized labor markets.

The behavior of immigrants from the accession countries could also vary depending on their country of residence and qualifications. For example,

the current economic crisis in Germany particularly affects export-oriented capital goods industries with their high proportion of qualified employment, while Ireland and the UK are suffering more from the general effects of the global economic downturn, which has affected all occupational groups. High-skilled immigrants (who are often young, single, and lacking strong family ties in their country of residence) are more likely to return home or migrate to another country than low-skilled workers who cannot be certain of finding work in their native country or elsewhere. Moreover, factors such as established networks or language may further serve as push or pull factors for European east-to-west migration. More accurate forecasts of migration behavior are presently almost impossible.

Conclusion

EU Eastern enlargement functioned as an institutional impetus for the migration potential in Europe. While the overall number of immigrants from the new member states markedly increased between 2003 and 2007, this increase was distributed unevenly among the destination countries of the old EU. However, there is no evidence of mass migration, as was feared in some quarters before EU enlargement:¹¹ the proportion of migrants who

¹¹ See for example Sinn, H.-W., Flaig, G., Werdinger, M., Munz, S., Düll, N., Hofmann, H.: EU-Erweiterung und Arbeitskräftemigration: Wege zu einer schrittweisen Annäherung der Arbeitsmärkte. ifo Beiträge zur Wirtschaftsforschung. Munich 2001.

moved from the new member countries to the old EU has remained smaller than that of immigrants from non-EU countries. Transitional rules repeatedly used to restrict labor mobility have clearly “diverted” many qualified immigrants from countries that joined in 2004 to Ireland and the UK; whereas Spain and Italy are the primary destination countries for Bulgarian and Romanian migrants.

There is no evidence that immigrants from the accession countries have displaced native-born workers, depressed their wages, or received welfare benefits to a greater extent than the native population. Yet the emigration of the young and qualified poses a demographic and economic challenge for their countries of origin. The “circulation of knowledge,” an anticipated result of circular immigration and reverse immigration, may help to overcome these problems.

Germany has quite intentionally avoided establishing itself as a migration country in the enlargement process. Although the number of Eastern European immigrants have increased, their qualification level has not improved. Hence, the German economy neither enjoys the advantages of employing high-skilled workers from Eastern European, nor should it be assumed that qualified immigrants will have a particular interest in coming to Germany in 2011, when intra-EU mobility restrictions are finally removed. It is currently of little use that the government has meanwhile rather discretely implemented regulations for providing work permits for highly qualified immigrants from the accession countries without red tape, since the signal that Germany’s doors are closed to immigrants is still too strongly broadcast. Such a policy is shortsighted even in the current economic crisis, as the future will bring a demand for high-skilled workers, which can only be met through immigration.

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