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Migration Policies and EU Enlargement

The prospect of a number of East European countries' accession to the EU has given rise to fears that a "trek westwards" will follow, which would place severe economic and political strains on the Western European target countries. EU politicians and some of their voters are therefore demanding transitional periods of several years. But are the expectations of massive East-West migration justified?

Thomas Straubhaar*

East-West Migration: Will It Be a Problem?

The closer the Central and Eastern European countries (CEECs) get towards EU membership, the hotter the issue of East-West migration becomes. The political discussion and the academic debate have gained both momentum and roughness. Economists and econometricians argue about the size and speed of potential East-West migration flows. There are dozens of approaches to guesstimating the East-West migration potential¹ and not surprisingly the results seem to differ according to the methods used or the assumptions made.²

The Double Extrapolation Problem

The main methodological difficulty lies in the fundamental political and institutional change that goes along with the accession to the European Union (EU). Coming in from the cold (war) into the well-established EU is doubtlessly a unique experience in the history of the CEECs. Thus, if there is a case where the famous Lucas-critique is well applied, it is in the case of the EU enlargement and its effects on East-West migration flows.³ The methodological key questions are: how far can we (1) use experiences in the past to learn something for the future and (2) specu-

late about free migration in an area where there has not yet been any (legal) migration at all?

The Lucas-critique refers to the level of consistency and invariance over time and space. It is about the correctness of an extrapolation from past migration patterns to expected migration behaviour and it is about the possibilities of applying empirical migration experiences from one area (e.g. from Southern Europe) to another (e.g. to Eastern Europe). Some scholars try to overcome this fundamental methodological problem by the inclusion of so-called country-specific effects. In most econometric forecasts

¹ See for example the contributions to OECD: Migration Policies and EU Enlargement, The Case of Central and Eastern Europe, Paris 2001; or the surveys by Peter H u b e r: Migrationspotentiale aus den MOEL und ihre Steuerungsmöglichkeiten: ein Literaturüberblick, Vienna 1999; or Elmar Honekopp: Überblick über Ergebnisse bisher vorliegender Schätzungen zum Migrationspotential im Falle einer Arbeitskräftefreizügigkeit im Rahmen der Osterweiterung der EU, Institut für Arbeitsmarkt- und Berufsforschung (IAB), Nuremberg June 2001 (mimeo).

² See for example Tito Boeri und Herbert Brucker: The Impact of Eastern Enlargement on Employment and Labour markets in the EU Member States, European Integration Consortium (DIW et al.), Brussels 2001; Herbert Brucker: Die Folgen der Freizügigkeit für die Ost-West-Migration, Schlussfolgerungen aus einer Zeitreihenanalyse der Migration nach Deutschland, 1967 bis 1998, in: Arbeitsgemeinschaft Deutscher Wirtschaftswissenschaftlicher Forschungsinstitute, ARGE: Migration in Europa, Berlin 2001, Duncker & Humblot, forthcoming; or Gebhard Flaig: Zur Abschätzung der Migrationspotentiale der osteuropäischen EU-Beitrittsländer, in: Arbeitsgemeinschaft Deutscher Wirtschaftswissenschaftlicher Forschungsinstitute, ARGE, ibid.

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the country-specific aspects are captured by a country-specific intercept which remains constant over time. However, it remains more than crucial how the country-specific intercept is defined and applied to the CEECs, which have no historical experience of free migration at all (first, because there was no right to emigrate (legally) for decades, and second because there was no right to immigrate (legally) into the EU in the last ten years!)

Large Methodological Differences

With the methodological problem of double extrapolation in mind, most guesstimates evaluate more or less carefully the forecasting power of structural East-West migration models. Most of them rely on a migration supply function that has its origin in micro-economic migration theory (i.e. wage theory, human capital theory, job search theory). In a second step, individual migration behaviour is aggregated to one (seldom to several) macroeconomic migration equation(s). For reasons of simplification, and as a consequence of the limited transferability to other times and places and finally due to the lack of data availability the macroeconomic migration specification remains rather ad hoc and poor in most of the models applied to the question of future East-West migration potential.⁴

Some other scholars follow a completely different approach in order to overcome the double extrapolation problem. They rely on opinion polls or surveys.⁵ Normally, the result is a rather high migration potential. This outcome should not really surprise us. It is the clear consequence of the fact that the answers to the question whether someone would like to go West can be given without any consequences. There are no costs for saying yes and consequently the yes is not a strong migration commitment. Bauer and Zim-

mermann have tried to overcome the weakness of the non-costly indication of potential willingness to migrate in general surveys by conducting a survey only among "experts" (i.e. 446 academics and administrative employees in the sending countries).⁶

Small Differences in Results

In comparing all the different approaches, studies and reports that have made some guesstimates of the future East-West migration potential one surprising fact clearly leaps to the eye of an open-minded observer: independent of the variety of assumptions and models that have been used to forecast potential East-West migration flows, the old and simple rule of thumb is strongly confirmed that East-West migration would reach about 3% - 4% of the CEEC population within one or two decades after EU-wide freedom of movement has been granted to CEEC citizens. Taking into account the return migration, the net migration rates are about half as large as the gross migration rates and would lie between 1% and 2%. This means that in the long run about every second East-West migrant will return home (or will leave the EU to go to another country, or will become a citizen of his or her new EU host country, or that some citizens of the host country will go East).

Modest East-West Potential

Table 1 illustrates that in absolute numbers the 3% - 4% rule of thumb leads to the assumption of a gross East-West migration potential of about 3 million people and a net migration potential of about 1.5 million people for all 10 CEEC candidate countries together (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia). If we exclude the two least developed CEECs (i.e. Romania and Bulgaria), that most probably will not belong to the first wave of EU eastward enlargement, the East-West migration potential for the remaining CEEC-8 might not reach more than 2 to 2½ million people gross and 1 to ½ million people net.

³ The Lucas-critique is "that any change in policy will systematically alter the structure of econometric models. ... (This conclusion, T.S.) is fundamental; for it implies that comparisons of the effects of alternative policy rules using current macroeconomic models are invalid regardless of the performance of these models over the sample period or in ex ante short-term forecasting". Robert E. Lucas: *Econometric Policy Evaluation: A Critique*, in: Karl Brunner and Allan H. Meltzer (eds.): *Carnegie-Rochester Conference Series on Public Policy*, Vol. 1, 1976, p. 41.

⁴ "Imposing more and more *structure* on the estimation of the determinants of aggregate migration flows typically reduces uncertainty *within* the sample but may not necessarily lead to better forecasts." Michael Fertig and Christoph M. Schmidt: *Aggregate-Level Migration Studies As a Tool for Forecasting Future Migration Streams*, University of Heidelberg, Department of Economics, Discussion Paper Series No. 324 (2000), p. ii. To my knowledge, the Fertig-Schmidt paper is the only exception that uses a non-structural model to get some insights into the potential East-West migration patterns. In their approach the migration rate is determined by a random country-specific component that is persistent over time and a period-specific component that is invariant to all countries.

⁵ For example see Heinz Fassmann, Christiane Hintermann: *Migrationspotential Ostmitteleuropa. Struktur und Motivation potentieller Migranten aus Polen, der Slowakei, Tschechien und Ungarn*. ISR-Forschungsberichte, Institut für Stadt- und Regionalforschung, No. 15, Verlag der Österreichischen Akademie der Wissenschaften, Vienna 1997 or IOM (International Organization for Migration): *Migration Potential in Central and Eastern Europe*, Geneva 1998.

⁶ Thomas Bauer and Klaus F. Zimmermann: *Assessment of possible migration pressure and its labour market impact following EU enlargement to Central and Eastern Europe*, Study for the UK Department for Education and Employment, IZA (Bonn), CEPR (London), July 1999.

Table 1
The 3% - 4% Rule of Thumb

Assumed share of population willing to migrate	East-West Migration Potential (in millions)	
	CEEC-10 (Population 105 m.)	CEEC-8 (Population 74 m.)
Gross emigration		
3%	3.2	2.2
4%	4.2	3.0
Net migration (including return migration)		
1.5%	1.6	1.1
2%	2.1	1.5

CEEC - 8 is: Slovenia, the Czech and Slovak Republics, Hungary, Poland, Estonia, Lithuania, Latvia.

CEEC - 10 is: CEEC - 8 plus Bulgaria and Romania.

Source: own calculations.

Looked at from the opposite side, this is about 0.8% of the total EU population (gross) or 0.4% of the total EU population (net, including return migration). Therefore, fears of "mass migration" seem highly exaggerated. Furthermore, against the background of the decline in the EU population and the ageing of society the expected East-West migration potential does not look dramatic at all.

How Valid is the 3% - 4% Rule of Thumb?

Of course it is, and remains, speculation as to how far the 3% - 4% rule of thumb will really be relevant to EU eastern enlargement. One basic criticism is that the rule is based on the experience of the Southern European countries (SEC) and it clearly remains an open question whether the SECs can serve as an analogy for the CEECs. There are many important differences which can be found when comparing these two groups of countries. Most important might be that the level of development and the average real per capita income in the CEECs is much lower than it was in the case of Greece, Portugal and Spain. At the time of entering the EU in the early 1980s the SECs reached about 2/3 of the average EU per capita income. The CEECs are far below this level. If we take the average of all ten CEEC candidates, we get a real per capita income that reaches about 1/3 of the EU average (Table 2). And even if we exclude the two least developed CEECs (i.e. Romania and Bulgaria), the remaining CEEC-8 reach not more than about 40%. This is a quite substantial difference compared to the SECs. And the relatively large income gap will

last - even if the CEECs grow faster than the EU. Table 2 assumes that year for year the growth rate of per capita income in the CEECs exceeds that in the EU-15 by 2%. But still it takes the CEEC-8 about 10 years to bridge the income gap on average by about 10 percentage points and four to five decades to catch up with the EU-15 average!⁷

The larger income gap is relevant because individual migration decisions do not follow a linear function, but rather, a logistic one. This means that the individual migration elasticity is stronger in the case of larger income gaps but becomes weaker in the case of smaller income gaps. Individual migration elasticity might even approach a saturation border that will reduce incentives to migrate long before an equalisation of incomes is achieved. Thus, it makes a difference whether the income gap is 1/3 (as was the case with the SECs) or 2/3 (as is the case with the CEECs).

What Would Be the Alternatives?

Of course, there are good reasons to be cautious with regard to the guesstimates that forecast only a relatively small East-West potential. But what would be the alternatives? Would the East-West migration potential be smaller if the EU denied or delayed free movement of persons for CEEC citizens? What we have learnt from the EU experience in the past is that if labour has the legal right to move freely, this makes people (especially in border areas) more mobile internationally, but it does not in itself induce mass migration from one country to another. People's social and cultural ties to their local environment are an important obstacle to migration which has commonly been underestimated from the perspective of theoretical economics and has not been taken into account seriously enough in the structural migration (forecasting) models.

Value of Immobility

In the common labour market of the EU, labour has been extremely immobile internationally. The free movement of persons is still the least used freedom in the EU Single Market. Less than 2% of EU citizens presently live in another EU country. Remember: this is about the size forecast by the 3% - 4% rule of thumb for the expected gross East-West migration potential in the future. What we might learn from the European empirical evidence is that immobility has a

⁷ It is self-evident that it would take a longer (shorter) period if the CEECs grow less (more) than 2% faster per year than the EU-15.

Table 2
How Long for Catching Up?

Country	Population in millions Year 2000	GPD per capita at PPP1 Year 2000	Average EU-15 = 100 Year 2000	When is the income gap ... 60% 50% 40% 0% (Assumption is that year for year CEECs grow 2% faster than EU-15)			
EU-15	375,3	22500	100%				
CEEC-10	104,7	8011	36%	2006	2017	2026	2052
Slovenia	2,0	15000	67%	—	—	—	2020
Czech Republic	10,3	12500	56%	—	—	2004	2029
Hungary	10,1	10700	48%	—	2003	2012	2037
Slovak Republic	5,4	10300	46%	—	2004	2014	2039
Poland	38,7	7800	35%	2007	2018	2028	2053
Estonia	1,4	7700	34%	2008	2019	2028	2054
Lithuania	3,7	6200	28%	2019	2030	2039	2065
Latvia	2,4	5800	26%	2022	2033	2043	2068
Romania	22,5	5700	25%	2023	2034	2043	2069
Bulgaria	8,2	4700	21%	2033	2044	2053	2079
CEEC-8 (without Romania and Bulgaria)	74,0	9080	40%		2011	2020	2046

¹ purchasing power parities.

Source: Own Calculations with data from the European Commission.

certain positive economic value.⁸ 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. Precisely this value of immobility explains why most people prefer to stay even if "to go" seems to be an attractive alternative at first glance. For most people, however, the second glance clearly shows that the value of immobility is higher than the expected net present value of a move abroad. Consequently, it is a very rational individual behaviour to stay. Why should this empirically significant pattern not be confirmed in the case of East-West migration?

The *large majority* of people want to live, work and stay immobile where they have their roots. People prefer the status quo to an unfamiliar or insecure change. The simple abolishment of legal impediments to migration is usually insufficient to overcome individual (microeconomic, social and cultural) obstacles to migration and to overshoot the value of immobility. Contrary to what one might expect at first from the theory of international economic integration, European labour has reacted little to the opportunity of free movement within a common labour market.

European workers might even prefer to stay unemployed at a certain location. They can afford this strategy due to the relatively generous social nets that tend to discriminate against mobility and reward immobility. The development of systems of social security and welfare allows for immobility even under conditions of long-term unemployment. The provision of increasingly comprehensive social security in the EU is one of the most important factors explaining the preference of immobility.

Enlargement the Best Anti-migration Policy

On the *macroeconomic* level international labour migration has proved to be mainly *demand-determined*: it usually depends to a major extent on the needs and employment opportunities in the *immigration* countries. In the EU, trade has reacted much faster and more elastically to economic integration than labour. The removal of formal and informal protectionist impediments led to a strong increase in intra-community trade. The equalisation of goods and factor prices expected on the basis of neoclassical Heckscher-Ohlin-Samuelson international economic theory thus materialised through trade rather than through the increased mobility of labour. To an important degree, *trade has replaced the economic demand for migration* in the EU. In brief: having the option to migrate within a common labour market has turned out to be the most effective anti-migration policy!

⁸ For an extensive treatment of the economics of immobility see Peter Fischer: On the Economics of Immobility, Bern 1999, Haupt.