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## Immigration, labour mobility and EU enlargement

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# **Immigration, Labour Mobility and EU Enlargement**

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**Abstract:** Immigration has once again become an important and contentious issue in the European Union. This paper, therefore, contributes to the debate by analysing different dimensions of the problem in the context of EU enlargement, using a consistent model of migration. This recognises that, within Europe, most migration is not permanent, but part of a process of mobility in which both return and serial migration are natural economic responses to a dynamic economy. We show that there are beneficial effects of migration, on both the home (origin) and host (destination) regions. We also bring forward some evidence to suggest that there is little difference in the preferences of migrants and non- migrants and, more importantly, between those moving legally and illegally. This leads us to some observations on the development of a more efficient policy towards migration both within and into the EU.

**JEL Classification:** J61

**Key Words:** migration, EU, CEEC, labour markets.

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# Immigration, Labour Mobility and EU Enlargement

## 1. Introduction

Immigration has again become a contentious political and economic issue in Europe. Rising unemployment and the rise of far right political groups, coupled with the waves of refugees unleashed by ethnic conflicts, not just in Europe following the break up of Yugoslavia and the Soviet Union, but across the world, have brought it centre stage. For the European Union this poses particular difficulties, especially in the context of enlargement. One problem is the development and enforcement of Community agreements on asylum and refugee status, which has its most acute manifestation in the nightly attempts to cross the Channel into the UK from a refugee centre at Sangatte in northern France. More significant in terms of the development of the EU is the issue of free movement for future members where, mainly at German and Austrian insistence, lengthy transition periods to full mobility have been proposed. Furthermore, the new eastern borders of the EU following enlargement may pose additional problems. These arise from the current openness of these borders and the historic national and ethnic ties which transcend the often artificial nature of the borders. The question of migration has to be considered against a background in which there is widespread concern about the lack of mobility within the existing EU to provide the necessary labour market flexibility to ensure competitiveness and permit adjustment within the Eurozone.

In this paper we try and place these various different dimensions of the problem in context using a consistent model of migration. This recognises that, within Europe, most migration is not permanent, but part of a process of mobility in which both return and serial migration are natural economic responses to a dynamic economy. We aim to show the beneficial effects of migration, on both the home (origin) and host (destination) regions. We also bring forward some evidence to suggest that there is little difference in the preferences of migrants and non-migrants and, more importantly, between those moving legally and illegally. This leads us to some observations on the development of a more efficient policy towards migration both within and into the EU.

The remainder of this paper is organised in five main sections. First, we review recent attempts to develop a consistent EU policy towards immigration. Secondly, we examine some evidence on the main trends in migration. Thirdly, we discuss the main features of a consistent model of migration and its implications. Fourthly, we present some results from the application of this model. Finally, we discuss the policy options suggested by this approach.

## 2. The EU Policy Background

The European Commission's communication "On a Community Immigration Policy" was published in November 2000.<sup>1</sup> This identifies clearly the changing pressures which have affected the need for a reappraisal of immigration policy. First, the advent of the single market with free movement of labour within the EU requires a common approach to immigration over the EU's external borders. Secondly, the experience of a period of relatively high and persistent unemployment within the EU has changed attitudes to

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<sup>1</sup> European Commission (2000)

migration. However, this disguises the bottlenecks which already exist for some specific skills and demographic projections suggest a considerable tightening of labour markets over the next two decades. Shortages of certain specific skills, especially in the IT sector, requires more than national-based competitive bidding for selected immigrants. Thirdly, the aftermath of the wars in the former Yugoslavia and continuing ethnic and religious persecution, both in the Balkans and elsewhere, has led to an enormous increase in asylum-seeking and with it a problem of illegal migration, often exploited by criminal elements.

Immigration and asylum were firmly established as areas of Community competence in the Treaty of Amsterdam, leading to agreement on the elements of a common asylum and immigration policy at the European Council in Tampere in October 1999. The key point here is the recognition that individual Member States cannot determine their own conditions for the admission of third country citizens if they are supposedly operating in a single unified labour market.<sup>2</sup> However, the development of this EU position has to recognise that individual member states have their own historical and cultural differences with respect to immigration, especially in respect of migration from specific countries. This affects both the likely pattern of demand for immigration from third countries and the ability of each member state to absorb migrants from different parts of the world.

The basic principles enunciated by the Commission are:

- Assessing appropriate immigration levels based on co-operation, exchange of information and reporting. This should both review what had happened in previous period and set out indicative targets tied closely to future labour market needs, but recognising both existing agreements with countries of origin and the need to absorb new migrants.
- Defining a common legal framework for admission based on: transparency and rationality; differentiating rights according to length of stay; clear and simple application and assessment procedures; and improved availability of information.
- Integration of third country nationals to ensure comparable living and working conditions, to fight discrimination and xenophobia, and to ensure that this is part of a continuing and lasting process.
- Improving information, research and monitoring on migration flows and patterns, especially relating to the incorporation of information on illegal movements, asylum seeking etc.

The Tampere Council resolution was concerned primarily with providing a framework for legal migration. This can be seen as essentially providing a common set of rules governing the external influences on the internal labour market of the EU. In this sense it is exactly analogous to the Community external trade policy. The particular problems of illegal immigrants and asylum seekers raise different questions, relating principally to human rights and the concern over trafficking in human beings, and the use of such migrants in illegal employment (often at below minimum wages and standards of employment) within the EU labour market. Illegal immigrants are at risk of being exploited because of their (lack of) legal status. To a large extent this should be seen as a human rights issue and not be confused with policies towards legal migration. However, an unfortunate confusion has arisen, able to

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<sup>2</sup> The conclusions of the Tampere Council meeting recognise “the need for approximation of national legislations on the conditions of admission and residence of third country nationals, based on a shared assessment of the economic and demographic developments within the Union, as well as the situation in the countries of origin”

be exploited by political and media interests, in which the term “economic migrants” figures strongly.

Economic migration has become an emotive term applied to those who are seen to be trying to avoid normal migration rules as a means of securing economic advantage. However, with the possible exception of pure political asylum, almost all migration could be regarded as being economic<sup>3</sup>. The main motivation for people to seek employment and/or residence in another region is that the economic returns to them (or their family) are greater in the destination region than at their present location. Allowing this movement to take place can be shown quite easily to be of potential benefit to both the receiving region and the origin region.<sup>4</sup> It is more important to distinguish migration which arises from the interaction of labour markets and other market forces in an increasingly integrated global economy and that which arises from essentially non-economic forces. The objective for the former is to establish a policy which ensures fair and equal treatment of all according to origin and destination and the skills and other characteristics of the migrant. The latter is dealt with through the basic principles of the 1951 Geneva Convention on refugees.<sup>5</sup>

The particular pressure for a review of EU policy on immigration has arisen from the experience of the past decade. The initial wave of migration from the candidate countries and others in Eastern Europe in the early 1990s led to concerns about the long-term implications of free movement for EU labour markets. The expectation that economic convergence would take a long time would lead to continuing pressures for workers to migrate from poor regions to rich regions. For those countries left outside the enlarged EU these pressures would remain, especially given the aftermath of war and ethnic conflict.

A guiding principle of the development of the policy on immigration (and also the policy towards the free movement of labour within accession negotiations) has been that any policy has to reflect and respect the situation in the origin countries as much as that within the existing EU. The differences in economic status of the candidate countries from the existing EU members is feared to imply an enormous continuing pressure for migration which would be threatening to the economies of both the origin and the receiving regions. The further problem is that those states remaining outside the EU may generate increasing migration problems for the newly acceded countries, with whom many have, for historical reasons, relatively open borders. Problems of transit or, during any transition period to fully open borders, problems of “stockpiling” of hopeful migrants on the western borders of the candidate countries, would need to be addressed.

The main objections to uncontrolled migration are that the inflow of less skilled migrants to a region may reduce average incomes, displace local workers from employment and increase the burden on social and welfare services. At the same time the outflow of workers from a region is seen to remove the more skilled and able, thus reducing growth potential. This process is thus seen as a means of perpetuating inequalities between regions and reinforcing a

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<sup>3</sup> Indeed it is quite feasible to include political asylum in an economic framework, taking into account lifetime earnings.

<sup>4</sup> We use the term region since the analysis is not just about movement between sovereign states, but also applies to any movement between distinct labour market areas.

<sup>5</sup> There is of course no perfect distinction between these various types of migrant. One of the basic rights of a refugee is access to work such that acceptance as a refugee may be one way of overcoming failure to gain acceptance as a legal migrant in the labour market. One of the factors which has led to a growth in claims for genuine refugee status is the ambiguous way in which conventional migration rules have been applied. The contention here is that sorting out the latter would lead to a reduced pressure of so-called bogus asylum claims.

core and periphery structure to the European economy in which some regions are in a virtuous circle of autonomous economic growth and high income and others trapped in a dependency situation of low growth and low income.<sup>6</sup>

However, there are certain other factors which need to be introduced to place this in context. First, there is an implicit contradiction in that the recipient regions fear an influx of migrants taking low skill jobs whilst origin regions fear the loss of higher skilled more dynamic residents. Secondly, labour mobility within the EU has typically been argued to be too low to serve as an adequate adjustment mechanism to divergent economic conditions (asymmetric shocks) between different regions, especially in the context of monetary union.<sup>7</sup> Thirdly, the degree of disparity in current economic conditions between the EU and the candidate CEEC countries is significantly larger than any experienced in previous expansions of the EU. Fourthly, and most significantly for the case presented here, most migration which does take place is not of a once and for all permanent nature: migrants frequently move for short periods as a means of enhancing short-term earnings or longer term earning prospects; many migrants move on a regular, often seasonal, basis; most migration has to be regarded in the context of family decisions.

The issue of labour mobility within the EU has been addressed in a further Communication from the European Commission on “New European Labour Markets, Open to All with Access for All”<sup>8</sup>. This is part of the current concern within the EU to raise the efficiency of labour markets which can respond effectively to changes in demand through wage flexibility, occupational flexibility or mobility. Although we are not primarily concerned here with internal mobility, it is important to place consideration of external mobility in the context of the current problems of movement and labour market flexibility within the EU.

A principal concern of the Commission is that various barriers continue to keep labour mobility within the EU at too low a level, although what might constitute an appropriate level of mobility is much less clear.<sup>9</sup> It is estimated that annual migration between Member States amounts to around 0.75 per cent of the resident population and perhaps only 0.4 per cent of resident EU nationals. The most comparable levels of mobility in the US are on average some six times greater, approximately 2.4 per cent of the population moves between US states on an annual basis. The potential barriers to mobility in the EU are also clear, inconsistent labour market institutions, problems in the portability of pensions and social security rights, the lack of full mutual recognition of qualifications and experience and, above all, a range of social, cultural and language barriers. However, whether the complete removal of such barriers would lead to a dramatic increase in mobility in the EU is much less certain.

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<sup>6</sup> See, for example, Faini (1996); Reichlin and Rustichini (1998)

<sup>7</sup> Conventional economic theory would argue that labour moves towards higher returns. In the case of an asymmetric shock, which reduced labour demand in one region relative to another, labour would move from the lower demand region to the higher demand region. This would increase the returns to labour in the lower demand regions and reduce them in the higher demand region which would correct the imbalance. That this does not happen is frequently simply put down to imperfections in labour markets which prevents labour responding efficiently.

<sup>8</sup> COM(2001)116 final, Brussels, 28.2.2001

<sup>9</sup> For a detailed analysis of this see House of Lords (2002) *Working in Europe: Access for All*, 15<sup>th</sup> Report of the Select Committee on the European Union, Session 2001-02, The Stationery Office, London

The problem of the lack of mobility has been addressed by a High Level Task Force on Skills and Mobility, which reported in December 2001<sup>10</sup> and the recommendations of which fed into the Action Plan proposed to the Barcelona Council meeting in March 2002. The Task Force made a large number of recommendations relating to both occupational and geographical mobility, concentrating on the need to improve information and transparency in labour markets, including the provision of basic skills such that the benefits of mobility can be enjoyed by all skill groups. The Action Plan<sup>11</sup> identifies eleven actions on occupational mobility and skills development, a further eleven on geographic mobility and three on information and transparency for completion, in almost all cases, by 2005. The Action Plan makes a clear link between factors influencing internal mobility in the EU and the EU's immigration policy.

### **3. Trends and Pressures in Migration**

In order to structure an analysis of the issues surrounding this search for a common policy, we look first at the scale of the problem before outlining a more rational model of migration behaviour and drawing policy conclusions. This evidence focuses on the economic motives for, and consequences of, migration. The geographical focus is on movement between the EU and the neighbouring states of Central and Eastern Europe (CEEC).

The analysis suggests a number of key points which need to be taken into consideration. First, it is difficult to substantiate a continuing flow from the CEEC at the levels experienced in the 1990s, and there is an expectation that resident migrants from CEEC in the EU15 will stabilise by 2010-2020, but there are potential difficulties arising from the sectoral and spatial concentration of migrants. This would suggest a parallel to the experience of migration from the southern European countries which peaked in the early 1960s and demonstrated little or no response to eventual membership of the EU in the 1980s.

The accession of CEEC does, however, provide an important opportunity for the EU in addressing potential future labour supply problems. It is essential not to lose the potential gains through imposing excessive constraints on the free movement of labour. Labour markets cannot be treated independently of capital markets and goods markets. However, there is a need for improved information to ensure that there is better matching of potential supplies and demands of migrant labour in terms of skill, destination etc. Migration to date has often been a haphazard process dependent on inaccurate and asymmetric information.

Migration also needs increasingly to be viewed not as a once for all relocation, but as part of a long-term strategic decision within the context of family circumstances. Migration policy needs to recognise this. In particular this type of migration may have important implications for future capital and trade flows. An important element is the incidence of short-term, seasonal or contract migration. Aggregate flows of migrants do not adequately reflect these differences. Seasonal migration is typically not recorded, but net flows may underestimate

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<sup>10</sup> Final Report of the High Level Task Force on Skills and Mobility, December 2001, [http://europa.eu.int/comm/employment\\_social/general/index\\_en.htm](http://europa.eu.int/comm/employment_social/general/index_en.htm)

<sup>11</sup> Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, *Commission's Action Plan for skills and mobility*, COM(2002)72, European Commission, Brussels, 13.2.2002

the market adjustment potential of total mobility and the characteristics of the migrants involved.

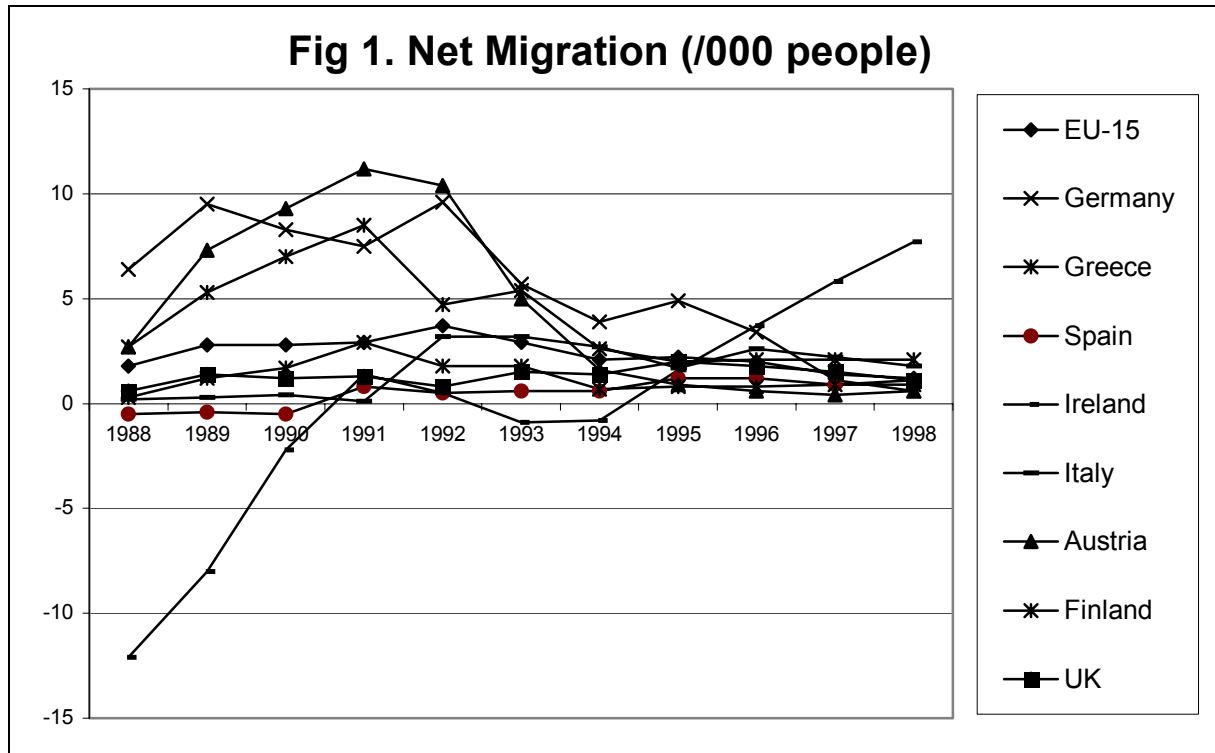
For most CEEC migration is a significant issue, but not an overwhelming one. For all EU countries the flow of migrants, even in the most affected countries of Austria and Germany, is very small relative to the total population and to the existing stock of migrants. There are some CEEC countries where migration is a significant problem. Albania is the best known example of this where by 1998 some 75% of the working population expressed a wish to work in another country and between 1994 and 1998 over 40% had in fact done so.<sup>12</sup> These are likely to be temporary problems. Comparison with the more advanced CEEC, such as Poland, suggests that both the actual and desired migration rates fall with greater experience of working abroad. Furthermore, it is obvious from the Albanian data that most actual movement, even illegal movement, is voluntarily short-term.

Net migration flows from all sources for EU Member States remained remarkably constant throughout the 1990s (Figure 1 gives the data for selected Member States). The highest rate of net migration was actually for Luxembourg (not shown in Figure 1 but consistently around 10/1000). Considerable reductions in rates of net in-migration were experienced in Austria, Germany and Greece, the other three countries with relatively higher rates in the early 1990s when they faced the main problems of refugees from war zones immediately following the initial upsurge in movement after the opening of borders during the early stages of transition in the CEEC. The main changes were the transformation of Portugal and Ireland from net out-migration to net in-migration countries. These changes were related to the improved economic performance of the two countries, and this is an important message for the likely response of CEEC with improved economic performance. Relative to working age population, however, migration remains relatively low, an average of 0.8% for the EU15 in 1998 with the highest figure (Luxembourg) being 4.5% and the lowest (Greece and Portugal) just 0.2%.

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<sup>12</sup> Evidence from a specially collected data set, Papapanagos and Sanfey, (2001)





The contribution of net migration to population growth is estimated at around 0.18% per annum in the UK, a little larger than the natural increase. For Germany the figure is 0.25% against a natural decrease of -0.10% per annum. Stocks of foreign population remain relatively small in most EU states, around 3 to 3.5% in the UK, around 6.5% in France and around 8 to 9% in Germany and Austria. Figures for some of the smaller states are much larger, 34% in Luxembourg (and 19% in Switzerland). This translates into an estimated stock of foreign labour in 1997 of about 0.95 million in the UK, compared with 1.57 million in France and 2.00 million in Germany. The figure for the UK is somewhat larger than in the 1980s but has remained remarkably constant during the 1990s. The figure for Germany increased by about 25% over the decade 1987-97, but the stock was actually smaller in 1997 than in 1980.

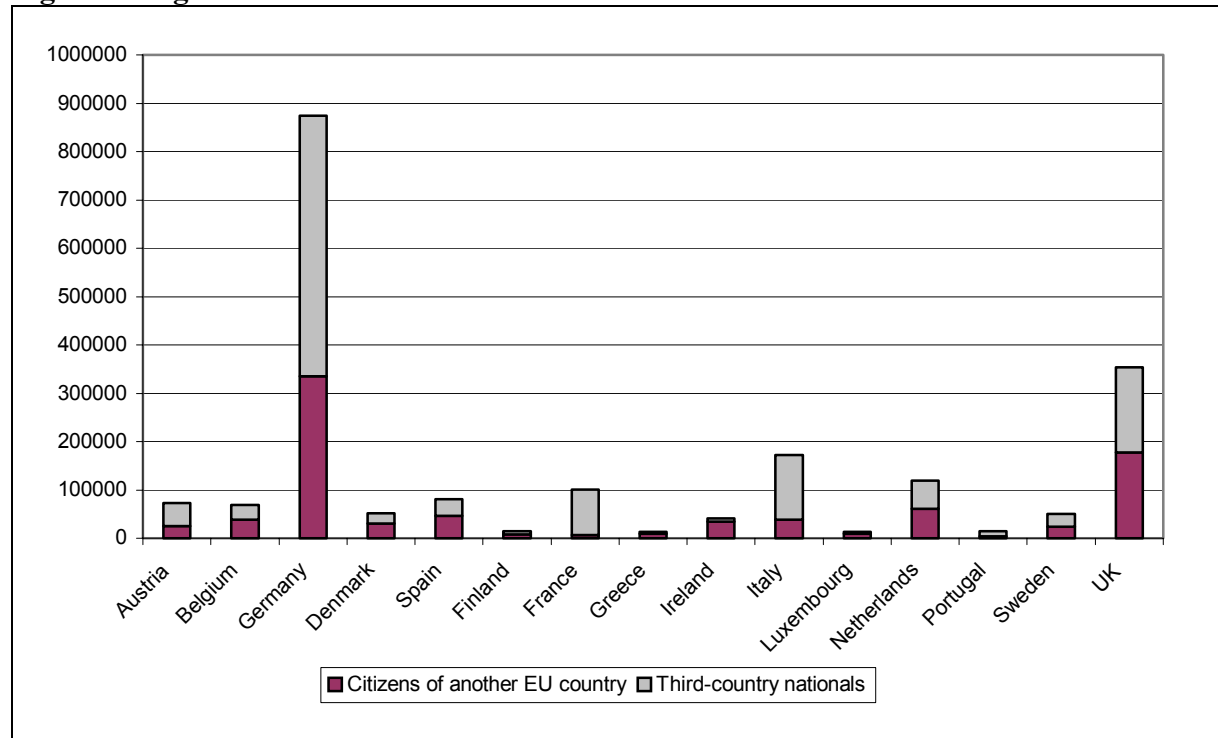
Sources of immigrants and destinations of emigrants do differ substantially between EU Member States (Figure 2). Around 40% of migration flows in the EU is internal to the EU, although again there are variations between countries. For the UK, the CEEC are less important than for many other EU countries, around 50% of migrants in 1998-99 were from the EU and 50% from third countries (only around 1.5% of immigrants from CEEC). By contrast 60% of Germany's immigrants were non-EU (16% from CEEC) and at the other extreme only 6% of France's and 22% of Italy's immigrants were EU citizens.

A recent report for the EU estimates that the stock of residents from the CEEC-10 in the UK at January 1996 was 39000 (0.07% of the population) and in Germany at January 1998 was 554869 (0.68% of the population).<sup>13</sup> The pattern of the total stock of foreign residents and those from CEEC is shown in Figure 3. This report estimates likely future trends in this

<sup>13</sup> See Boeri, T., Brücker, H. and others (2000)

migration pattern and the stock consequences for Germany on the basis of a plausible econometric model of migration. This suggests a continuing decline of annual net migration from the CEEC-10, from over 200000 persons annually to under 100000 by 2010 and under 30000 by 2020. This would stabilise the resident population from the CEEC at around 2.5 million residents by 2020-30, around 2.5% of the resident population (3.5% of the German population). The corresponding figures for the UK show a gradual decrease in annual migration from around 15000 to less than 2000 by 2020 and an increase in the resident population from about 40000 in 1998 to 170000 by 2020. For the EU15 this implies a steady population of about 3.75 million from the CEEC-10 by 2020, just over 1% of the population.

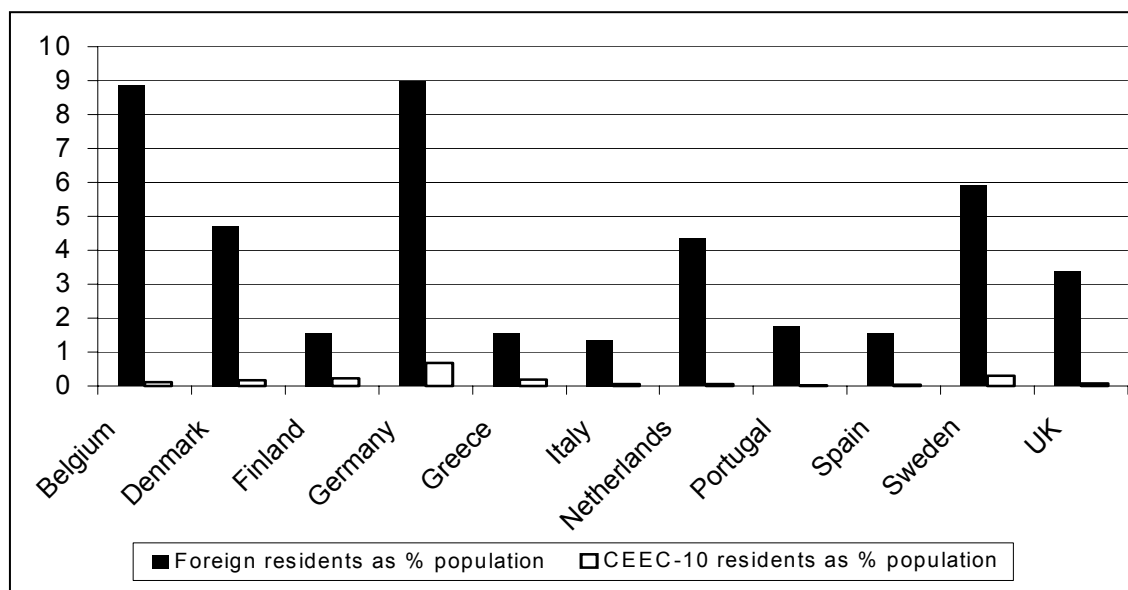
**Figure 2 Migration flows in EU Member states 1998-99**



One further factor of significance is that, not only are CEEC migrants concentrated particularly into Austria and Germany (around 73% of the CEEC working age population resident in the EU, and 80% of those in employment), but within these countries there are clear concentrations in certain regions which exacerbates the problem of assimilation. In Austria there is a very high concentration in the eastern region of Burgenland (around 6% of the employed population against a national figure of 1.1%). In Germany the largest concentrations are the eastern parts of Bavaria (between 1% and 2.5% of the employed population against a national average of 0.5%). Similarly London has dominated other regions in the UK: over 50% of all migrants to the UK live in London and the South East and some two-thirds of all new migrants head for these regions. Around 40% of all EU migrants settle in London. It is concentrations like these that can give rise both to the prominence of political issue of migration and to the associated social problems.<sup>14</sup>

<sup>14</sup> Note, however, that concentrations of CEEC immigrants in the new Länder of Eastern Germany, where some of the most prominent political disturbances have occurred, are actually below the national average, with the exception of Berlin. However, even in Berlin the proportions are only consistent with those found in the main

**Figure 3 Foreign residents as % population, by EU country 1998**



The main losers of population in the CEEC countries, for which any reliable data is available, have been Romania and Poland, but migration losses are only an average  $-0.07\%$  and  $-0.04\%$  respectively. Substantial migration flows exist between the CEEC, especially for the smaller countries such as the Baltic States where around 80-90% is intra CEEC movement. Estimates of the 1998 stock of CEEC residents in the EU show that by far the largest group is Polish nationals (over 350000) which constitute nearly half of the total, followed by Romanians (120000).<sup>15</sup>

To some extent the perceived problem of migration has arisen because of the serious problems of the 1990s. First, the instability brought about the ending of a long period when normal migration between the CEEC and the current EU was not possible led to an upsurge in migration movement between the near CEEC (CEEC-6)<sup>16</sup> and the EU. Secondly, this was further and massively distorted by the refugee problem caused by the successive wars in the former Yugoslavia. An analysis of German migration flows with the CEEC-6 and the former Yugoslavia shows a rapid rise in gross inflows of population in the period 1990-93 was matched within less than three years by an equally large rise in out-migration such that net migration changed relatively little during this entire period.<sup>17</sup>

We have concentrated thus far on what may be termed normal migration, movements which are captured in official statistics of those moving legally, principally for employment related reasons. The emphasis here is on the relative insignificance of these flows in both the total resident population and the total flows of migrants. Asylum seekers and illegal migrants are

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urban areas of western Germany. This, to a large extent, reflects the fact that migrants do respond to the economic pull of employment opportunities.

<sup>15</sup> Boeri, T., Brücker, H. and others (2000) *op cit*.

<sup>16</sup> Poland, Czech and Slovak Republics, Hungary, Romania and Bulgaria

<sup>17</sup> Some of this was due to the restrictive conditions under which many refugees were allowed to enter Germany, but the overall impact is clear.

a separate problem. From relatively insignificant levels the problem of asylum seekers increased rapidly in the 1990s reaching a peak of around 700000 in Western Europe in 1992, but falling back to around 260000 by 1997. For the UK from a steady figure between 4000 and 6000 in the 1980s this rose to 44845 in 1991, falling back to 29645 by 1996, but then rising steeply to 71155 in 1999 and 80315 (430400 including dependents) in 2000.<sup>18</sup> The UK had the highest number of asylum seekers in the EU. Applications from Europe fell in 2000 to 22880 (28%) and were overtaken by those from Asia. Asylum is clearly a problem related to temporary circumstances in countries of origin and therefore not something which should drive overall immigration policy. It is, however, a problem which has clearly grown in significance in the past decade and one which it would be unwise to ignore.

Associated with the growth of asylum seeking has been a substantial rise in illegal immigration. This is a difficult issue on which to present reliable data, but a number of observations are in order. Evidence from work in Albania suggests that illegal migrants are not substantially different in their motivation from legal migrants.<sup>19</sup> Evidence from the US-Mexico border suggests that periods of greater intensity of policing seem to be associated with increasing illegal migration.<sup>20</sup> This arises to a large extent because frustrating potential migrants at the point of entry simply builds up a stock of intending migrants – the motivation does not change it just takes longer. This situation provides the opportunity for criminal activity to flourish, largely through providing false information to migrants and encouraging them to believe in greater returns to migration which more than cover any payments required. Whilst there are clear needs for reliable information on international movements of persons who are not citizens of a country, there is the suggestion that excessive enforcement of rules may lead to an increase in attempted illegal movements, often with tragic consequences.<sup>21</sup>

Thus our main conclusion on migration flows is that there is essentially not a problem which requires major new action in terms of a continuing and rising threat of population flows associated with enlargement of the EU. If we compare the earlier enlargement of the EU, net outflows of population have been reduced in line with the improved economic performance of those countries, Ireland being the most obvious example. The EU needs a consistent policy towards migration, which can be applied at the Union level, to ensure consistent treatment of intending migrants whatever their point of entry and whatever their intended final destination and to avoid the temptation to deflect the perceived migration problem to partner states. In the following sections we examine first the main causes of migration, which need to be understood as the basis for a consistent policy approach, and then the likely consequences on the economies of the home and destination regions.

#### **4. A Model of Migration**

Economic models of migration are usually based on the so-called “push-pull model”<sup>22</sup>. This identifies a number of negative (push) factors in the country of origin that cause people to

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<sup>18</sup> See *Asylum Statistics UK 2000* (Home Office). Preliminary data for 2001 suggests a fall of 11% to 71700.

<sup>19</sup> Papapanagos and Sanfey *op cit*.

<sup>20</sup> See Hanson and Spilimbergo (1996)

<sup>21</sup> It is a matter of great regret that the publicity given to this plays into the hands of xenophobic elements, both blowing the magnitude of the issue out of all proportion and raising and playing on the fears of the population about alien influences, welfare scroungers and threats to jobs.

<sup>22</sup> See Massey *et al.* (1993) for a detailed survey of migration literature. For a recent survey specific to the labour market in Europe, see Akkoyunlu and Vickerman *op cit*.

move away, in combination with a number of positive (pull) factors that attract migrants to a receiving country. The push factors include such elements as demographic, political and economic hardships in the origin countries, while the pull factors include the geographic and cultural proximity and the comparative advantages of the destination country, such as higher wages and better working conditions. This is a more comprehensive model than the simplest economic model dependent entirely on differences in wage levels.

Demographic factors will be an important driving force in migration. Lower rates of population growth in the EU could lead to a significant shortfall in labour supply over the next 20 years. Although population growth in most CEEC is also fairly low higher rates of unemployment could provide a significant incentive for movement.<sup>23</sup> This could put a considerable pressure on the economies of the EU countries.

Political factors are more complex and could possibly influence the migration decision more profoundly than the demographic factors. Impatience, particularly of educated youth, with the slow speed of transition to liberalised markets and the increase in ethnic tensions within a number of CEEC which remained masked during the communist period could both emerge as major push factors.

Economic factors are the most significant push factors. A slow transition speed may provoke migratory sentiments in the young, but a speedier transition can result in unemployment and a weak social security system can provoke mass movements when people weigh gains (due to higher wages) against the cost (due to unemployment or low wages).<sup>24</sup> For example, GDP per capita in Eastern Europe at the end of the 1980s was 1/8<sup>th</sup> of the average in Western Europe and fell by as much as 12% by 1991. Furthermore, an increase in the unemployment figures in the CEE-reformed countries resulted in cross-border migration, especially from Poland to Germany. At the end of 1990, nearly 1.2 million Poles were considered to be unemployed caused mainly by the transition process, which resulted in a decrease in subsidies, budgetary restrictions and a decline in industrial production.

There is still a significant divergence in per capita income between CEECs and the EU countries. As Table 1 shows, in 2000 the average GDP per capita was only 38% of the EU average. This, coupled with high unemployment rates in the candidate countries, is the main cause of migration from CEECs to the EU, especially to the border countries of Austria and Germany. However, estimates suggest that over time there will be convergence of per capita incomes of various CEEC-10 to, at least, the low-income EU countries. This will, therefore, ease any migration pressures from accession countries as they are the most advanced of the total CEECs-10 and hence are likely to converge to EU average relatively quickly.

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<sup>23</sup> See Bauer and Zimmermann (1999)

<sup>24</sup> See Papapaganos and Vickerman (2000) for a detailed analysis of this factor.

**Table 1 Selected Indicators of CEEC-10, 2000**

	GDP per capita (PPP adjusted)		Unemployment rate
	in €	as % of EU-15	%
Bulgaria	5400	24	16.4
Czech Rep.	13500	60	8.8
Estonia	8500	38	13.7
Hungary	11700	52	6.4
Latvia	6600	29	14.6
Lithuania	6600	29	16.0
Poland	8700	39	16.1
Romania	6000	27	7.1
Slovakia	10800	48	18.6
Slovenia	16100	72	7.0
<b>CEEC-10</b>	<b>8736</b>	<b>38</b>	

Source: European Commission, *Making a success of enlargement*, EC, Brussels, 2001

The other side of the migration model, as mentioned before, is the “pull factors”. Labour market affects are by far the most important pull factors as there are important reasons for the EU to import labour from the CEECs. The labour market issue is primarily linked with the demographic factors that have already been mentioned. Estimates suggest that the labour force in the EU will contract by 5.5% by 2020 (from 145 million to 137 million). This can have serious repercussions on the EU economies in 20 to 30 years when the ratio of workers to pensioners could fall significantly.

The other aspect of the labour market effect is that there is shortage of workers in some key industries. Therefore there is already pressure on domestic authorities by producers to relax restrictions on foreign labour, especially in Germany where the foreigners are hired as contract workers for up to six years in the case of IT specialists. This issue has also been raised in the UK.

More significant is the consideration of migration as part of the dynamic process of labour market adjustment. Migration is not just the permanent movement of labour from one region or country to another, involving movement of both workplace and residence. Such migration is at one extreme in a continuum of adjustments which have to be defined both spatially, with respect to workplace and residence, and temporally, with respect to the length of time spent at the new location. Much movement between European labour markets is only short-term, sometimes because of regulatory restrictions, but often because of choice by the migrant. This includes frequent seasonal movement of workers under specific contracts. At the other end of the spectrum we can observe within the EU the increasing incidence of weekly commuting, reflecting the workplace choices of households with many earners and the constraints of housing markets. We also observe longer distance conventional commuting reflecting improved transport into major cities, sometimes associated with telecommuting.

All of these represent examples of people seeking work outside their labour market of residence.

Migration is frequently modelled just as the decision by the migrant, in terms of (static) differences in earning potential or the probability of unemployment in two regions. The view taken here is that we need to see this as part of a long-term, dynamic adjustment in which movement is a response to longer run expectations in both markets, and in which individuals may choose to work for a limited period in another market as part of a process of acquiring new skills, or money for future investment, or to remit earnings home.<sup>25</sup> Such movement incurs costs, both the direct costs of moving, including search costs, and the indirect costs of separation from family and possible exposure to harassment at the destination. At the level of the family, different members may choose to work in different labour markets as a means of spreading the risks of unemployment. In a process of rapid change, such as found during economic transition, labour market expectations will be changing and hence people's responses to these expectations will affect decisions to migrate. If people think that life in their own country is likely to improve this could either lead to their postponing a decision to migrate, or to accelerate it on the basis that the potential returns to any skill acquisition or financial gain are increased.

The observation of return migration is often interpreted as a failure in information which leads to migrants taking the "wrong" decision. However, viewing the single migration decision as part of a long-term labour market development decision makes such movement entirely rational. This is not to deny the problem of imperfect and asymmetric information and one part of our set of models is aiming to show how more efficient decisions are taken when these information imperfections are reduced. Analysis shows clearly that information which enables the better matching of migration flows to labour market needs has a greater positive effect both on the migrant experience and the destination regions.<sup>26</sup> There is also substantial evidence of short-term seasonal contracted migration (from specific regions to specific employment opportunities) which enables employers to rely on the quality of migrant labour employed (i.e. achieving symmetric information).

Hence it is argued that migration is part of a dynamic process within the lifetime expectations of workers. In this context, there is evidence that migration is self-selective, i.e., those who migrated would have done better regardless of whether or not they had gone abroad. Therefore, immigrants maybe "more able and more highly motivated" than the natives.<sup>27,28</sup> Hence migration is generally expected to yield welfare gains, especially if the marginal productivity of labour differs across countries. Based on this it has been argued that if all markets are functioning well then migration is welfare improving, not only for migrants, but also (on average) for natives. However, the effects of migration on the labour markets and the regions between which the migrants move are considered in more detail in the next section.

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<sup>25</sup> De-Coulon and Piracha (2002) analyse the performance of return migrants to Albania and Leon-Lesdesma and Piracha (2001) study the role of remittances in selected CEECs.

<sup>26</sup> Akkoyunlu (2001).

<sup>27</sup> See Borjas (1987) and Borjas and Bratsberg (1996) for an analysis of the effect of self-selected immigrants on the US labour market and Bauer *et al* (2002) for the effect of self-selection on German labour market.

<sup>28</sup> Straubhaar and Zimmermann (1993) show that migration from Central and Eastern Europe to Germany caused the average level of human capital in Germany to increase whereas the opposite occurred in the sending countries. Based on such analysis, it has been argued that a selective (or perhaps more accurately "targeted") immigration policy could be used to attract the highly qualified workers needed in innovative industries.

## 5. The Consequences of Migration

There are positive and negative effects of migration on both the sending and receiving countries. Both effects, therefore, have to be considered in order for a migration policy to be effective, not only for migrants but for the economies of the regions involved. Here we discuss important economic consequences from the perspective of sending and receiving countries.

Emigration can provide relatively well paid employment for both unskilled and skilled workers which offers an outlet for domestic frustration with the pace of transition that might otherwise present serious political problems, and can produce large inflows of valuable hard currency remittances. At the same time, sending country governments express concern that emigration deprives these nations of their best human resources, represents a transfer of educational investment from poor to rich countries and leads to abuses or exploitation of their workers. It has been difficult to demonstrate empirically that international migration results in development in the origin countries over the short-term. It is not clear that migration does reduce unemployment levels but it does appear to play an important role in absorbing labour force growth.

The movement of skilled and highly qualified workers is likely to result in a slow down of the development process in the origin country. However, whether emigration constitutes a "drain" of workers at any skill level sufficient to hinder the development process depends upon the availability of human and other resources to fill the gap. Similarly, since short-term migration may contribute to the acquisition of skills abroad it may have a substantial long-term beneficial effect. It is more clearly evident, however, that remittances improve the welfare of migrants' non-migrating families and enable a higher level of provision of education and health care for children which has long-run beneficial effects on future growth. Remittances may have reached very high levels in some countries, anything from 20-40% of GDP in Albania where upwards of 40% of the population has had at least one period of migration.<sup>29</sup> In Poland remittances are estimated to have increased by over 80% between 1994 and 1998 amounting to over \$1 billion by 1998.<sup>30</sup> As well as current remittances during spells of working abroad, the accumulation of financial capital for future investment is a major incentive for working abroad for many migrants.<sup>31</sup>

In terms of the receiving countries, studies have shown that international migration has contributed towards human capital formation by influencing natives' accumulation of knowledge.<sup>32</sup> Therefore immigrants have not only been an important source of labour supply but also significant contributors in introducing innovative and dynamic new elements in the field of science and medicine. However, some sectors are adversely affected by immigration than others and therefore in recent years the effects of migration on the employment of natives has become a serious and contentious subject of debate. These effects vary, not only by sector and occupation, but also by country and type of migration.<sup>33</sup> For instance, it has

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<sup>29</sup> Annual remittances, therefore, are much higher than annual foreign aid. In 1996, for instance, foreign aid amounted to approximately \$200 million while remittances totalled approximately \$370 million. This trend is believed to be continuing.

<sup>30</sup> See Leon-Ledesma and Piracha,(2001)

<sup>31</sup> Kule *et al.* (2000) shows that in Albania migration rates are strongly related to the perception of migrants of potential advantages in capitalising on the new liberalised economy.

<sup>32</sup> See Chiswick (1988) and Galor and Stark (1994).

<sup>33</sup> See Friedberg and Hunt (1995) and Haisken De New and Zimmermann (1999)



been argued that immigration in sectors that employ relatively low skilled workers causes negative wage and employment effects. The evidence on this is not conclusive. Some empirical studies have shown that these effects are very small.<sup>34</sup> The economic explanation of the absence of wage effects is that migration doesn't affect wages but rather the composition of output, i.e., it affects the industrial structure of the receiving country. Thus those sectors that employ immigrants expand, leaving the employment level and wages of natives unchanged while those sectors that restrict the employment of immigrants shrink, resulting in increased unemployment of natives in that sector without altering wages in a significant way.

The other side of the argument is that cheap, low-quality immigrant labour may lead to a loss of competitiveness, since it induces a slowdown in the adjustment process to higher quality production. However, declining relative wages for less skilled workers are an incentive for the home population to engage in human capital formation and earn higher wages in the long-run. Immigration can increase labour market flexibility, provide incentives to slow down wage growth and thus increase employment. Thus, there is no clear threat to the welfare of indigenous workers from immigration.<sup>35</sup> Unskilled immigrants increasingly occupy employment opportunities that the indigenous workforce is no longer willing to fill. Furthermore, despite the leakage for remittances, immigrants have relatively high propensities to consume and add to local demand. In this regard, the ingress of unskilled immigrants probably raises EU welfare by more than trade.<sup>36</sup>

The evidence is thus finely balanced on the impacts of migration. There are both costs and benefits to both origin and destination regions. Typically the costs are short-term and not always those perceived as most important by popular misconceptions of immigrants: by and large migrants do not displace local workers from employment.

## 6. Towards a Migration Policy

The thrust of the evidence is that migration is a response to economic opportunities which need to be considered in the context of the dynamic adjustment to labour markets. The past decade is no guide to the future expectations of migration within Europe since it involves a period of adjustment to long-term disjuncture in the operation of such markets. Moreover, the evidence points strongly to migration as being a short-term response to differentials but not a long-term solution.

The danger is, therefore, that interference with market forces produces continuing problems of adjustment and might lead to much longer problems of the incentives towards illegal migration and the criminal activity with which it is associated than would a more liberal regime.

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<sup>34</sup> Card (1990), for instance, shows a negligible effect on wages of a large influx of migrants in the Miami area. Also Borjas (1994) finds no support for the hypothesis that the employment opportunities of US-born workers are adversely affected by immigration and Gang and Rivera-Batiz (1994) estimate that a one per cent increase in migrant labour in Europe will affect native wages between +0.02 and -0.08 per cent only. More recently, Zorlu (2000) analysed the wage effects of ethnic minorities in the UK and found that both substitution and competition effects are occurring simultaneously, so that there is no clear unambiguous effect on wages overall. Other recent papers with similar results are Pischke and Velling (1997) and Gaston and Nelson (2002).

<sup>35</sup> It is possible that relatively recent migrants may be substitutes for previous migrants, as they are likely to move to similar locations in the host country, have similar skills and work in similar industries.

<sup>36</sup> Haikens De New and Zimmermann *op cit*

However, there are some clear indications of ways in which a more active approach to migration could be beneficial. One of the clear problems is in the failure of migrants to gain correct information about opportunities at possible destinations, and of potential employers in gaining adequate information about the skills of migrants. The problems arising from these asymmetries in information, and the benefits from reducing them, can be seen in the growth of seasonal contract movements where employers can recruit from the same area and be assured of the quality of the workers.<sup>37</sup>

Policies which aim to match the skill mix of migrants to the needs of destination regions clearly have some merit in this context. This is similar to the point system currently in use in Australia and Canada: a kind of selective immigration policy aimed at fulfilling the needs of particular industries or labour markets. However there are problems with this system. A point system may fail to take into account the economic shocks, like recession, to a country. Family reunification under this system can bring migrants who may not be qualified to fulfil any labour market needs, and who may be a burden on the welfare state. Furthermore, the time lag between identifying the problem sectors with labour shortage, and the actual arrival of immigrants can result in a mismatch with “wrongly qualified” immigrants.

Germany recently adopted a policy in which bilateral agreements with several CEECs have been signed in which people from their own labour force could be hired to work in firms/projects (mainly in the construction sector) in Germany on a contract which should not exceed three years. Wages for contract workers are lower than for German workers since social security benefits are paid according to the rules of the origin country. This policy has the benefit that administrative costs are lower than the point system; it clearly defines the relevant sectors so that appropriately skilled workers are admitted; and the quotas can be defined so that migrants can be used in any EU country in need of a particularly skilled labour. Although this policy reduces some of the inefficiencies of the point system, some criticisms, such as time lag and immigration of wrongly skilled workers, still apply.

An alternative cost-effective policy for the receiving country is one in which work permits are auctioned off to either those wishing to immigrate or, perhaps more practically, to the firms in the host country wishing to employ immigrants.<sup>38</sup> The host country can determine the need for labour at a given time period and then auction off work permits to fulfil that need. All those interested in a job in the host country can participate in such an auction.<sup>39</sup> Proceeds from the auction of work permits could be split between the host country (i.e., revenues generated could contribute towards the administration costs associated with setting up an auction and the redistribution to natives) and the origin country, where the funds could be used in the education sector and also in other development-related projects to reduce future emigration pressures. The price at which a work permit could be acquired would set a ceiling on the earnings of the illegal immigration industry and potential migrants would opt for illegal immigration only if it were considerably cheaper than the legal alternative of acquiring a work permit. Therefore, as long as the auction price of acquiring a permit remains below the costs associated with illegal immigration, such a policy will be efficient not only in attracting “rightly” qualified people but also in alleviating problems of illegal immigration. In

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<sup>37</sup> Some 250000 temporary migrants from CEECs were present in Germany in 1997, 210000 of whom were seasonal workers, a figure which has grown from under 120000 in 1991, see Boeri, Brücker et al (2000) *op cit*.

<sup>38</sup> A variant of this policy has been in use in some Middle Eastern countries since 1974 and has been efficiently tackling the labour shortage problem without any significant adverse effects related to immigration.

<sup>39</sup> This includes people already present in the host country but do not have a work permit. This will help discourage and reabsorb illegal immigration.

addition, illegal costs are sunk whereas the work permit fee will be refundable if the immigrant repatriates to his home country. Therefore buying a work permit could be considered an investment, especially for the short-term immigrant. Upon repatriation, the refund from the permit, in addition to the retained savings, could be used in the origin country to set up business or build a home etc. hence benefiting the local economy. For the employers, such a policy will be more efficient if permits are transferable across sectors and firms since this reduces the unnecessary administration costs that could result if migrants had to return to the home country before they could be hired by another firm.

## **7. Conclusions**

The main message of this paper is that there is not an overwhelming problem of the potential gross flow of migrants for the EU either now or consequent on enlargement. The migration problems which do exist are more at the micro-economic level of matching potential migrants to labour force needs in the most efficient way.

The evidence available suggests that migrant flows can play a valuable role in helping to improve the flexibility of EU labour markets. This operates mainly through enabling occupational mobility rather than through creating unemployment. We are currently looking further at the impact in the home country of the migrants. Theory suggests that there should be net benefits here as well, especially where individual migration is mainly short-term in nature. Initial results suggest that there are positive impacts on productivity from returning migrants which add to the beneficial impact of remittances<sup>40</sup>. In addition labour markets in CEEC seem to be more flexible than in the EU suggesting that they can absorb market shocks more efficiently.

Migration may also have a positive impact on the wage distribution in the home region as well as on individual wages, by raising not only the mean wage but also reducing inequality and thus helping to promote greater efficiency.

A Community Immigration Policy thus needs to address mechanisms for identifying migrant flows and preparing for their easy absorption rather than trying to set aggregate quotas or optimal transition periods to free movement.

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<sup>40</sup> See Leon-Ledesma and Piracha (2001)

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