

**Using economics to design policy:**

**What kind of  
EU-migration policy  
do we need?**

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## 1. Introduction

For some time now, migration has become a highly controversial issue in public debate and reached the top level on political agendas in many European countries, as well as in Northern America. But the usual content of discussion and envisaged action is of a strikingly defensive nature. Generally speaking, there seems to be a fear that the economically highly developed European societies become overwhelmed by mass immigration from the poorer South and the East and that things may get 'out of control'. Migration is perceived as something that threatens living standards and welfare. Henceforth, public debates often conclude that 'something has to be done'.

This paper argues that most of the fears concerning migration lack clear justification once they are confronted with the implications of migration theory as well as with empirical evidence. Firstly, most people are geographically and culturally immobile and wish to remain so. Secondly, out of those few who would really like to migrate from outside into the EU, most will not be able to do so, because they are not economically 'wanted'. They therefore lack the means to move and they can not make a sufficient living within an EU country. Thirdly, there is the overall trend of slowing population growth and the economic consequences of ageing populations in western and central Europe caused by persistent below-replacement fertility rates. Irrespective of present unemployment problems this will in the medium term create a vacuum in the labour markets of the European Economic Area (EEA) and hence immigration demand.<sup>1</sup> Fourthly, migration and labour mobility are an essential ingredient of economic integration and correspond to the key economic logic of the European Common Market. Migration is economically efficient and beneficial, provided we allow economic incentives to determine it. Fifthly, reaping the benefits of economic integration is likely to require at least some degree of labour mobility. The development of welfare societies and the spread of dual career households, however, made people increasingly immobile. The ability to attract scarce mobile labour is therefore likely to become a key-element of locational competition within countries. With respect to the 'wanted', migration will become a quest rather than a threat.

There is, however, a need for 'something to be done', namely the explicit formulation of a more innovative, forward-looking common European migration policy for at least three reasons: (a) in order to be economically beneficial, (im)migration and occupation of foreigners have to be determined by economic incentives. This requires a migration policy that allows market mechanisms to work as far as possible. (b) Even though migration is generally perceived as economically efficient, it invokes distributional consequences that create

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<sup>1</sup> The impact of the changing demographic trend in Central European societies and the (restricted) possibility for immigration to compensate for that trend are discussed e.g. in Steineck (1994), Zimmermann (1991), Masson/Tryon (1990), Hagemann/Nicoletti (1989), Bös/Weizsäcker(1989) and OECD (1988). Coleman (1991:18) asking whether there is a need for immigration concludes that "increased immigration is not needed to satisfy quantitative workforce deficiencies at least for the next ten or twenty years in Western Europe or the EC in general." His result is based on the substantial reserves of employable manpower which greatly exceed any short-term demographic deficiencies. "The current number of unemployed alone is equivalent to the demographic deficit beyond the first decade of the next century" (Coleman 1991:18). As the literature on the impact of demographic transition on migration demand has already been lively debated, we will concentrate on the other arguments in what follows.

'winners' and 'losers' and may change the structure of a society in a socially undesired way. For this trade-off, a regime of completely free migration is unlikely to be a feasible policy option in the near future. Migration from outside the EU will continue to be restricted. But we are going to demonstrate that the restriction of immigration from non EU-countries requires the design of a common European migration policy. (c) Political and ecological reasons are likely to increase forced migration. Resulting requests for admission are difficult to neglect purely on the grounds of lacking economic demand. It has to be realised, though, that the welcoming of people for humanitarian and ethical reasons is often more costly and less efficient than to take joint action in order to prevent the root causes of forced migration. (d) Unfortunately there is little prospect of fast development convergence between the developed and the less developed world. The number of disadvantaged people in the South and East who dream of moving for a better living but lack the opportunity to do so (because they are nowhere in the North economically 'wanted') is bound to increase. This creates at least moral arguments to reduce migration potential in the South and East.

While reasons (a) and (b) demonstrate the need for an *internal* migration policy including rules on entry and exit and action to be taken in order to remove remaining obstacles to free mobility within the European economic area, reason (c) and (d) require the design of an *external* migration policy in order to reduce the migration potential in the South and East. Both elements of such a migration policy, the 'domestic' as well as the 'foreign' part, are inefficient if the basic rules are not common for all the EU countries. Once this is recognised, however, migration ceases to appear as a threat, requiring defensive action. It rather becomes a challenge for innovative and visionary policy making.

The paper is organised as follows: section two discusses who would like to come and who is likely to be wanted from the point of view of (economic) migration theory as well as with respect to some recent empirical evidence on migration within and into the EU. It concludes with a brief investigation of the degree of demand determination of migration into the EU. Section three states the need for a migration policy from the point of view of economics. Section four summarises existing EU regulations in the field of migration. It then continues to formulate ten guidelines for what needs to be done. Section five concludes.

## **2. Who would like to come, who is likely to be wanted**

### **2.1 Push and/or pull: implications from migration theory**

Why do people move? Numerous possible explanations have been set forth to answer this question. Most integrated theoretical answers are essentially advanced formulations of the so called '*push-pull approach*' pioneered by Lee (1966). According to this well performing theory, migration results from the interaction of (supply side) *push factors* in the area of emigration and (demand side) *pull factors* in the area of immigration. Migration occurs only if there is both, sufficient push factors which create the desire to emigrate as well as pull factors creating a *demand for immigration*. Furthermore, *intervening factors* like lacking information, institutional arrangements hampering mobility and political regulations have to be overcome.

Outline 1 draws an advanced multi-disciplinary push-pull framework to explain migration. With respect to the causes of migration, it emphasises what essentially all theories of migration have in common, namely the belief that differences in *environmental macro factors* of geo-political units (counties, regions, countries, larger areas like common markets) cause migration. The exact form of these differences, however, can vary. We call the analysis of migration-inducing environmental differences between geo-political units the '*macro level*' of migration research. Individual human beings, in this terminology the '*micro-level*' of analysis, compare the macro-level units on the basis of perceived differences. These are by no means exclusively economic but include also differences in the cultural, political and geo-ecological situation. On the basis of a decision-making process people weigh the different advantages and disadvantages of their present macro-level unit of residence and potential alternatives and decide whether they want to remain within their present area of residence (decision to 'stay') or whether they want to move to a different geo-political unit (decision to 'go').

All 'go'-decisions by the inhabitants of a macro-level-unit at a given time constitute the *migration potential* of this unit. Let us assume a two-unit world, made up of countries A and B. All inhabitants of country A who are willing to migrate to B make up A's migration potential at time t. This potential faces B's demand for immigration which is determined by macro factors and B inhabitants' willingness to accept immigrants from A. In a situation where B needs and is willing to accept all immigrants from A, B's migration potential could entirely transform into effective migration. Whether and how fast this would happen depends on the presence and magnitude of *intervening obstacles* like lacking or biased information, institutional and legal hindrances or procedural requirements. If the economy in B has no need for migration or if inhabitants of B are not willing to accept immigration from A, actual migration is unlikely to occur and migration potential transforms into what one may call *migration pressure* (Straubhaar, 1993).

If in this A-B-world pull factors in A create demand for more migrants than the number of people in B who are willing to move, one will find actual migration to be *supply determined*. There is evidence that in some fast developing centres of industrialised countries, internal mobility has been essentially supply determined. People could find better paid jobs in industrial centres if only they would like to move there. But if the number of people who would like to migrate is smaller than the number of those who are wanted, migration becomes *demand determined*. In this case, which seems to be especially true for the current migration situation of unskilled people in many developing countries, people may desire to go somewhere else, but they lack the means to do so and the opportunities to make a living that would allow them to stay somewhere else. Usually, however, actual migration is *simultaneously* determined by both, supply and demand factors.

To obtain a more realistic assessment of *migration potential*, one has to consider what determines people's decision to migrate.

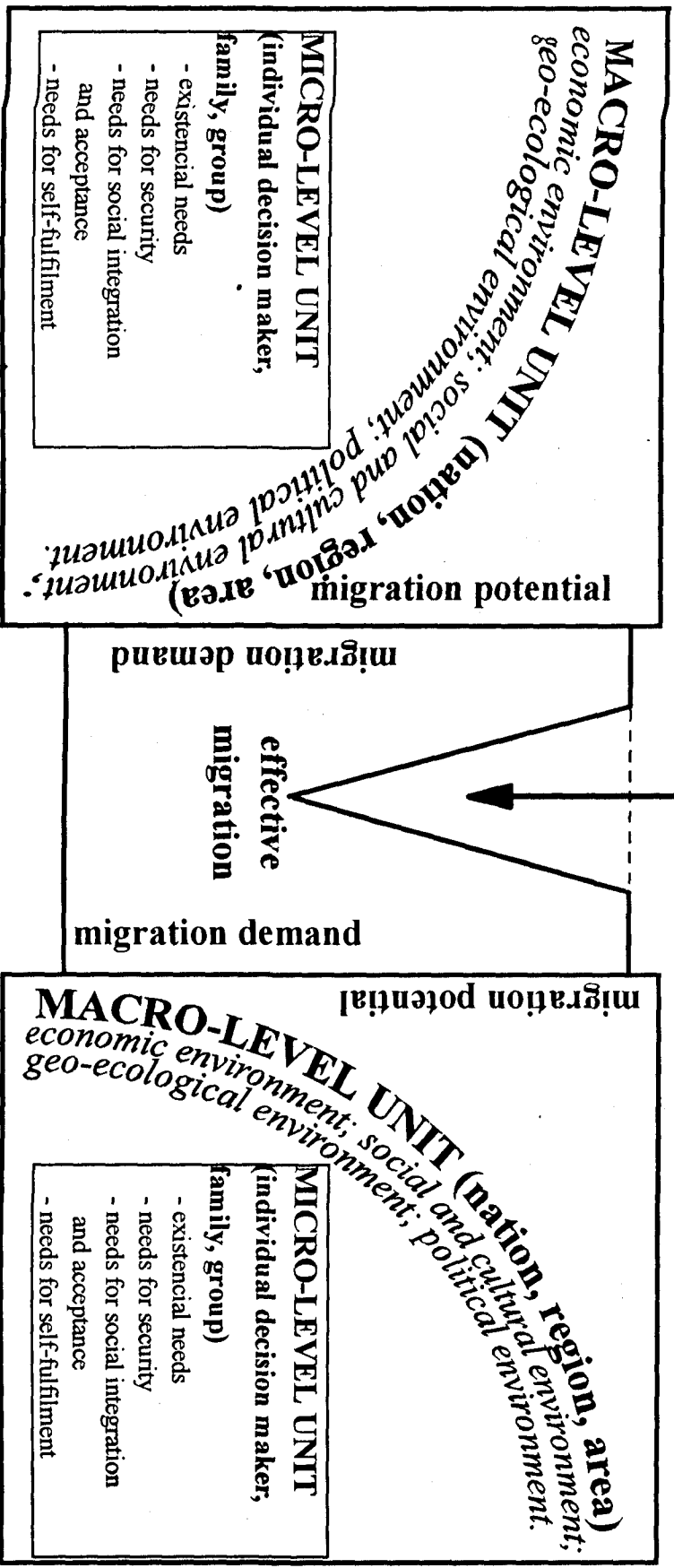
# Explaining Migration - An Interdisciplinary Framework

Outline 1:

**A**

intervening obstacles  
 legislature information institutions

**B**



time

The framework in outline 1 distinguishes between (a) existential economic needs (b) needs for security (c) needs for social integration and acceptance and (d) needs for self-fulfilment.<sup>2</sup> It looks not only at economic costs and benefits of migration but it takes non-economic factors explicitly into account. After all factors like peace, freedom, security, love, health and happiness, to mention just a few, are very important elements of life and can not be excluded from considerations about the effects of migration. Economic migration theories have traditionally focused on (a) and (b) in order to justify migration.<sup>3</sup> Reasons (c) and (d) have more often been covered by sociological and psychological theories of migration.<sup>4</sup> Nevertheless, economic contributions can help to understand why the large majority of people does not want to move, despite of supposed important incentives (Hammar, 1994). In what follows, we will concentrate on economic contributions to migration theory in order to explain the demand and/or supply determination of actual migration flows.

(Neo)Classical economic theory (Hicks, 1932) has identified income or rather *wage differences relative to migration costs* as the major determinant of and incentive for migration. Given the huge wage difference between the South and East on the one hand and the North on the other hand and given the dramatic decrease in transportation and communication costs, this simple theory would lead us to expect an enormous migration potential. Maybe this is where most common European fears of mass migration emanate from. But subsequent developments in the micro theory of migration have drawn attention to further important variables which are required in order to determine migration potential:

- 1) The so called *Harris-Todaro (1970) approach* emphasised that people weigh outcomes at different locations with the respective expected *probabilities* to realise them. Not only wage level differences and relative costs of movement matter, but also *labour market conditions* like employment growth and unemployment levels.<sup>5</sup>
- 2) The *Human-Capital approach* pioneered originally by Sjaastad (1962) and Becker (1964) stresses that comparing macro-level conditions at a certain point in time can not explain migration decisions sufficiently because the decision to migrate involves a dynamic assessment and may be thought of in similar terms as any investment decision. Thus, *expectations* about the (insecure) future, *attitudes towards risk* and *preferences for the present* determine migration decisions. People who do not care too much about the future may want to avoid the near costs of migration even if migration 'promises relatively high benefits in the more distant future.
- 3) *Search theories* (McCall/McCall, Berninghaus/Seifert) outline why *information* is a decisive element in determining migration patterns (and eventually sequential migration

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<sup>2</sup> These categories have been originally developed by Maslow (1972) and Allardt (1975).

<sup>3</sup> See e.g. Fischer/Martin/Straubhaar (1995) for a recent evaluation.

<sup>4</sup> Faist (1995) presents a remarkable attempt to survey and synthesise sociological and political micro and macro theories of migration.

<sup>5</sup> Herzog/Schlottmann/Boehm offer an excellent survey on migration and unemployment problems. Ghatak/Levine present a thorough discussion of modifications of the Harris-Todaro model and their empirical verification.

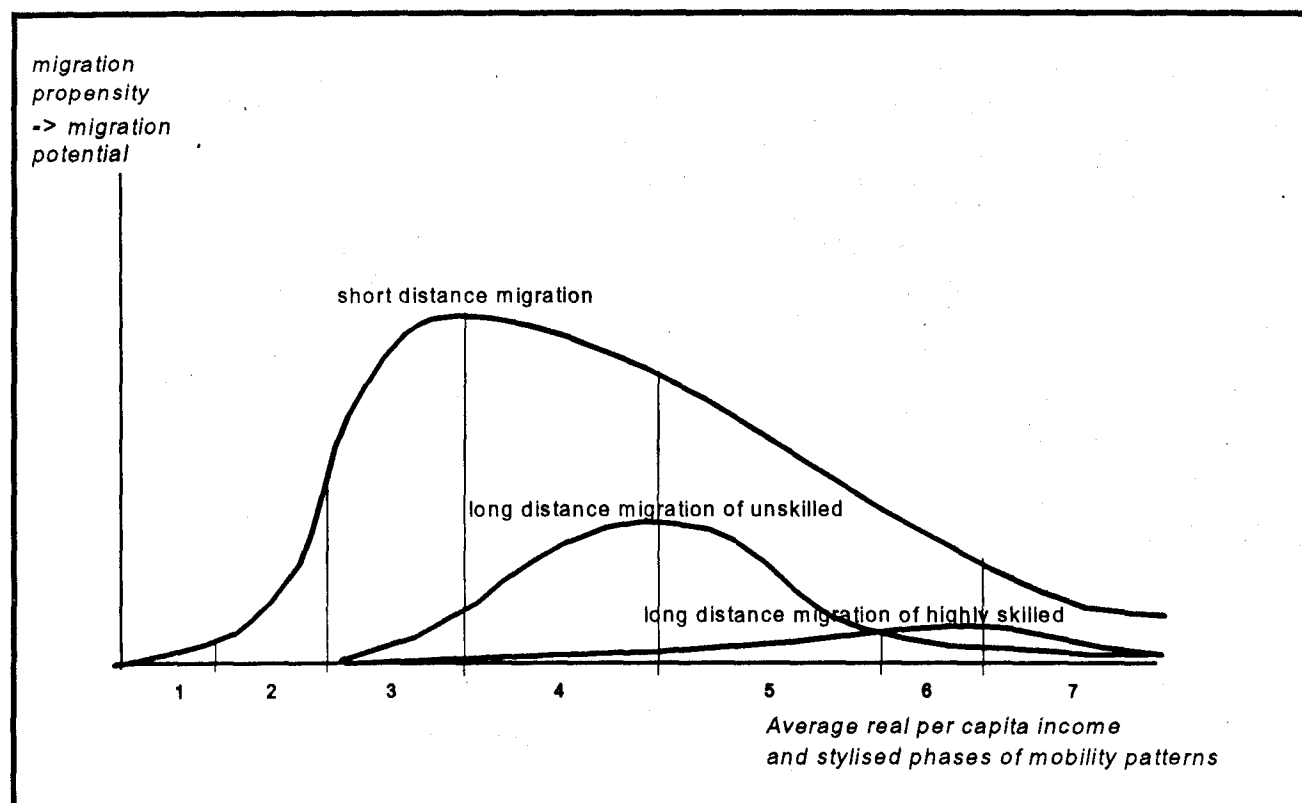
and job search processes). As migration is not costless, people may find it rational not to consider migrating at all or to head for 'second best solutions'. The cheap availability of information about potential migration destinations, e.g. due to *history* or the existence of '*migration networks*' (Massey et al., 1993), is often the key-explanation for the direction of actual moves.

- 4) The '*New Economics of Migration*' (Stark, 1991) scrutinises how insights about the creation of migration potential change if we allow the *family* or a *group* rather than an independent individual to determine migration decisions. This gives room for *insurance* and *risk* considerations (Stark and Bloom, 1985) as well as for accounting for aspects of *relative deprivation* (Stark and Taylor, 1989) and changes of social status within reference groups.
- 5) The *value of immobility* approach (see Becker, 1962 and Chiswick, 1986 for a firm-specific and production-side oriented treatment, Fischer/Martin/Straubhaar, 1995a for a more comprehensive approach) emphasises that immobility has a value of its own. To stay at a certain location allows people to accumulate society-, firm- and space-specific '*insider advantages*' that are non-transferable and thus lost in case of migration.
- 6) The '*inverted-U curve hypothesis*' (Faini/Venturini, 1994; Fischer/Martin/Straubhaar, 1995b) links the level of economic development or personal wealth with the propensity to migrate. It can be derived from micro-economic considerations about the relative importance of existential and other needs as stated in outline 1. According to this hypothesis, people who struggle to cover their existential needs may be willing to move, but they are unlikely to migrate internationally because they do not have the means to cover initial costs of migration. If the societies they are living in develop economically and if individual welfare increases, more families will be able to cover the initial costs of sending at least one member of the family abroad. The economic development of societies will therefore first increase migration potential. Beyond a certain watershed, however, where existential needs become relatively less important and the economic, social and political costs of mobility make it more and more attractive to stay rather than to go the migration potential will be reduced again. Of course, in times where development deteriorates, the opposite will be true. Faini and Venturini estimate this watershed level at a per capita income of around US-\$ 4000 (Faini/Venturini, 1992), Fischer/Martin/ Straubhaar (1995b) come to similar conclusions but point to the fact that the development of mobility propensities ought to be different for short distance (regional) migration, long distance (international) migration of unskilled and for migration of highly skilled. Figure 1 illustrates this point graphically.

The above enumeration is of course not complete but it allows some theoretical insights about *the migration potential and gives some answers to the question who would like most to migrate into EU-countries*. These are not just those who are poorer and therefore expect higher incomes when moving, but more so



**Figure 1: Migration propensity and development: the modified inverted U-curve**



(a) *those who are young* (because their time horizon is longer and their investment in location-specific insider advantages lower) *and relatively independent*.

(b) *those who face a high probability of finding a job and making a good living in the labour market of the immigration area but do not expect an improvement of their situation at their present location in the near future*.

(c) *those who have cheap access to information about a certain area*. Therefore, those who desire to come are most likely to be found in *geographically not too distant places* that have some *cultural or historical and/or lingual links* to the prospective immigrant society.

(d) *those whose skills and abilities are relevant and therefore transferable* into the immigrant societies (because of the value of immobility). From an economic point of view, this will on the one hand be mostly so for relatively well educated people and for sending economies that have reached a level of development and economic organisation which is not too different from the potential immigrant area. On the other hand, people from such societies are not very likely to desire to come, because of point (e).

(e) *those who live in rapidly developing areas of so far less developed countries*. Immigrant potential will neither be largest in highly developed nor in the poorest economies. Willingness to migrate over longer distances is most likely to increase in less developed areas that enjoy periods of fast development and transition. Once economies

reach a certain level of development (and therefore become more similar to EU-countries), their inhabitants' desire to migrate is bound to decrease. Normally these economies then become net immigrant areas themselves.

But are those who would eventually like to come also those who are likely to be 'wanted'?

After the second world war, structural shortage of unskilled labour has led European countries to welcome the immigration of unskilled workers who had some cultural or historical links to the immigrant societies. Germany and Switzerland built up so called 'guest worker systems' inviting people from Southern economies to help building up the host economies (Rudolph, 1995; Fischer/Straubhaar, 1995), Sweden welcomed thousands of Finnish manual workers (Westin, 1994; Fischer/Straubhaar, 1996) and French and British accommodated relatively openly members of their (former) colonies (Coleman, 1994; Salt, 1995a, 1995b). But with progressing world-wide economic integration, further international specialisation and economic development, the European economies have lost competitiveness in labour intensive productions requiring large scale employment of unskilled workers. The higher the wealth of European economies raises, the more international labour division will emerge where unskilled work is imported and developed economies specialise in the production and provision of high productivity work that demands correspondingly higher skills. (Findlay, 1995; Krugman, 1994; Salt/Singleton, 1995) As some unskilled work, especially in the service sector, is not tradable, a limited need for unskilled work will persist, however. Because these simple jobs ought to be low paid and thus relatively unattractive for natives, some demand for immigration of unskilled is likely to remain. At present, however, unskilled labour in most European countries suffers from particularly high unemployment rates, and with further economic development and structural change, large scale demand for unskilled immigrants is likely to continue to decrease.

With economic integration advancing, the scope for local specialisation and eventually exploitation of scale economies of concentration (Krugman, 1991) increases. Correspondingly, we expect two kinds of people to become more 'wanted' from the point of view of an immigrant area:

- (a) *those who are locally non-available (or only at more expensive terms), well educated and/or trained specialists<sup>6</sup> and*
- (b) *those who live in the periphery of newly emerging centres of economic activity respectively urban agglomerations.*

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<sup>6</sup> The conclusion that the demand for migration of high skilled will increase implicitly assumes that the enhancing effects of economic integration and local specialisation are not outweighed by decreases in transportation and transaction costs and advancements in communication reducing the requirement for specialists to move to a certain place. From a more micro point of view, the analysis of multinational company derives similar conclusion. Salt notes: 'What this means is that as the organization becomes multinational, it increasingly uses relocated skills and expertise to exercise control from the centre; but after a certain point the trend toward the international relocation of staff is halted and may well go into reverse' (Salt, 1992:501).

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Synthesising this short discussion of theoretical insights into who is most likely to migrate into the EU and who will be most 'wanted', we conclude that young and relatively well educated people from culturally linked and geographically not too distant areas that undergo periods of relatively fast development or transition are most likely to move. From this point of view, future integration of the former communist economies in the near East will be most significant for the origin and scale of future migration flows into the EU. After all not just present wealth differences, but *expected prospects* for future development matter for migration decisions. In higher developed countries, people usually become more immobile due to the increasing accumulation of a 'value of immobility' and due to non-economic needs. In very poor countries, people do not migrate because they do not have the means to cover the initial costs. The migration potential of unskilled workers is bound to exceed the demand of European labour markets. Unskilled labour migration will therefore be *demand determined*. Within locational competition, highly skilled specialists will become more 'wanted'. Availability of highly skilled specialists could become a key determinant of (regional) economic development. But for micro-economic reasons we do expect the migration propensities of highly skilled individuals to decrease. Migration of highly skilled specialists will henceforth be rather *supply determined*. Finally, people's willingness to migrate from the periphery into the centre may determine the rise and fall of local centres.<sup>7</sup>

## 2.2 Some empirical evidence on migration in and into the EU

The World Bank estimates that in 1985, 106,5 million people were on the move or lived outside their country of origin. That equalled about 2 percent of the total world population. Approximately 20 million or 19 per cent were fleeing political persecution or war (ILO/IOM/UNHCR 1994; 5). The IOM has estimated the global potential of those who would eventually like to come to higher developed areas at about 80 to 100 million people (IOM, 1991). Thereof, about 60 million would like to move permanently and 20 million temporarily. About 15 million are refugees and asylum seekers and approximately 30 million are illegals (IOM, 1991).

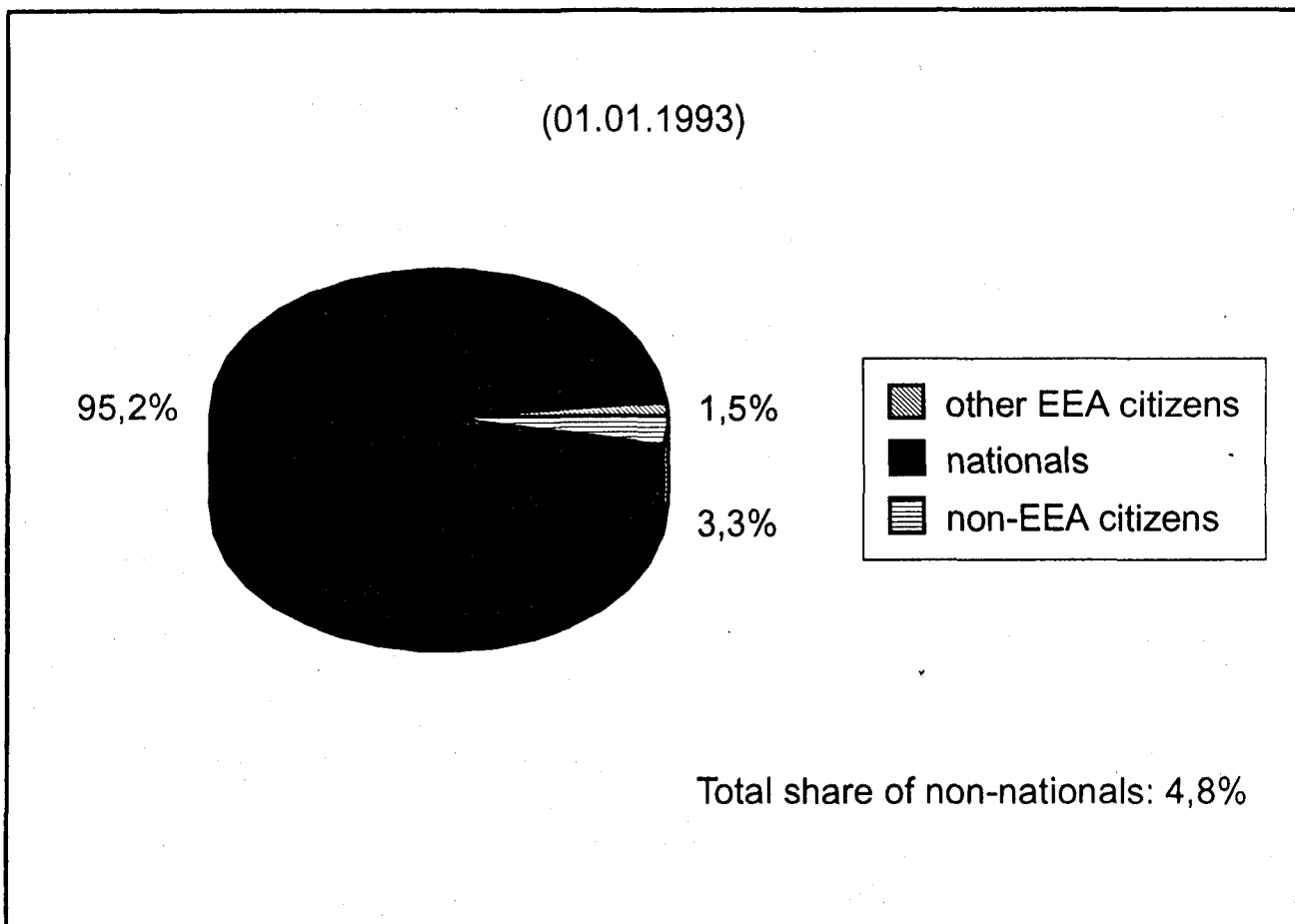
The actual migration into the EU looks rather modest. Figure 1 shows that in 1993, only about 18 million (4.8 percent) of all citizens in EEA countries were foreigners (Eurostat, 1996).<sup>8</sup> Only 3,3 per cent were citizens from outside the EEA. Net immigration of all foreigners into EEA countries in 1993 equalled *less than 0.3 per cent* of the total population.

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<sup>7</sup> Our neglect of 'new forms of mobility' (Majava, 1991) that are less tightened to economic (labour market) needs, like the temporary movement of people for reasons of education or pensioners move for natural amenities, does not imply that we consider such forms of mobility less important for migration in EU countries. Our discussion has just concentrated on economically determined and work related reasons for migration. We believe this kind of migration to be most important for the determination of (restricted) immigration from third countries into the EU.

<sup>8</sup> Whereas not otherwise stated, all the following data is taken from Eurostat (1996).

**Figure 2: Population in the EEA by citizenship**



Datasource: Eurostat (1996)

In 1993, the largest *absolute size of foreigners* in the EU could be found in *Germany* (6.5 millions), *France* (3.6 millions), the *United Kingdom* (2.2 millions) and in *Italy* (0.9 millions) which has turned from 'the' classical European emigration country into an immigration country. Once we look at the *share of foreigners* in total population, however, smaller countries enter into the leading positions. In the EU, *Germany* (8 per cent) was accompanied by *Luxembourg* (30 per cent<sup>9</sup>), *Belgium* (9 per cent) and *Austria* (6.6 per cent) to represent the four countries with the highest share of foreign population. In the EEA, all of them were outnumbered by *Liechtenstein* with 38.3 per cent: due to the dominance of short distance migration, small countries that share a relatively long borderline with other European countries tend to have higher shares of foreign citizens.

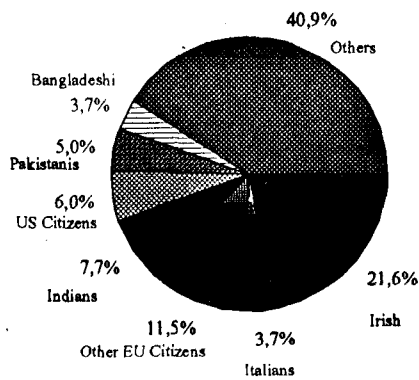
Figure 3 shows the *origin of foreigners by citizenship* in the four EU countries that hosted the largest numbers of non-nationals. The charts further underline the relatively high share of immigrants from *outside* the EU. They illustrate impressively the *importance of geographical proximity* (especially for France), *colonial and cultural links* (U.K. and France) and the significance of *history and migration networks* (Germany).

<sup>9</sup> For Luxembourg, the data refers to 1991.

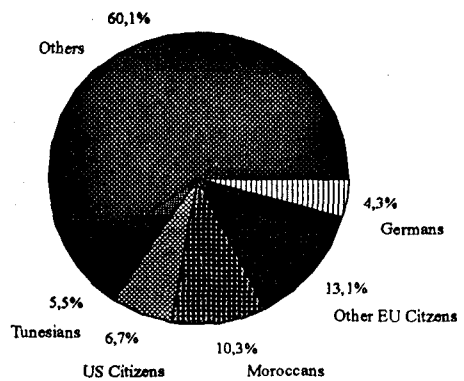
**Figure 3: Non nationals in selected EU countries by citizenship**

**Non-nationals by citizenship  
in the United Kingdom, Spain, Germany and France  
(01.01.1993)**

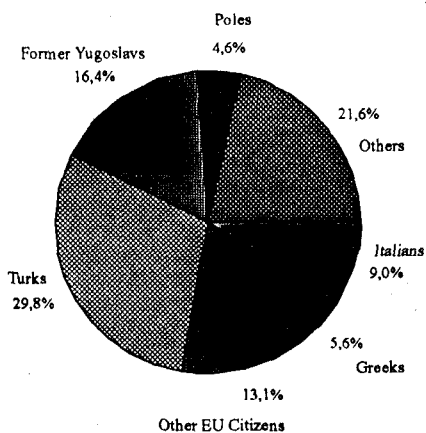
**United Kingdom**



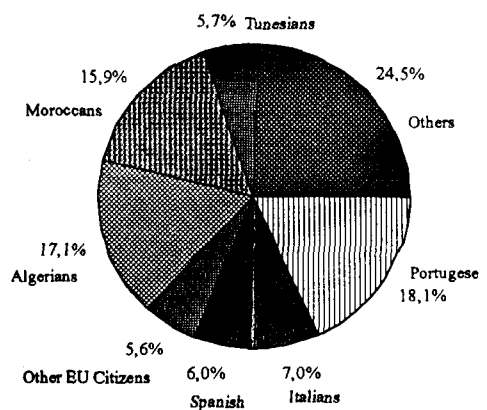
**Italy**



**Germany**

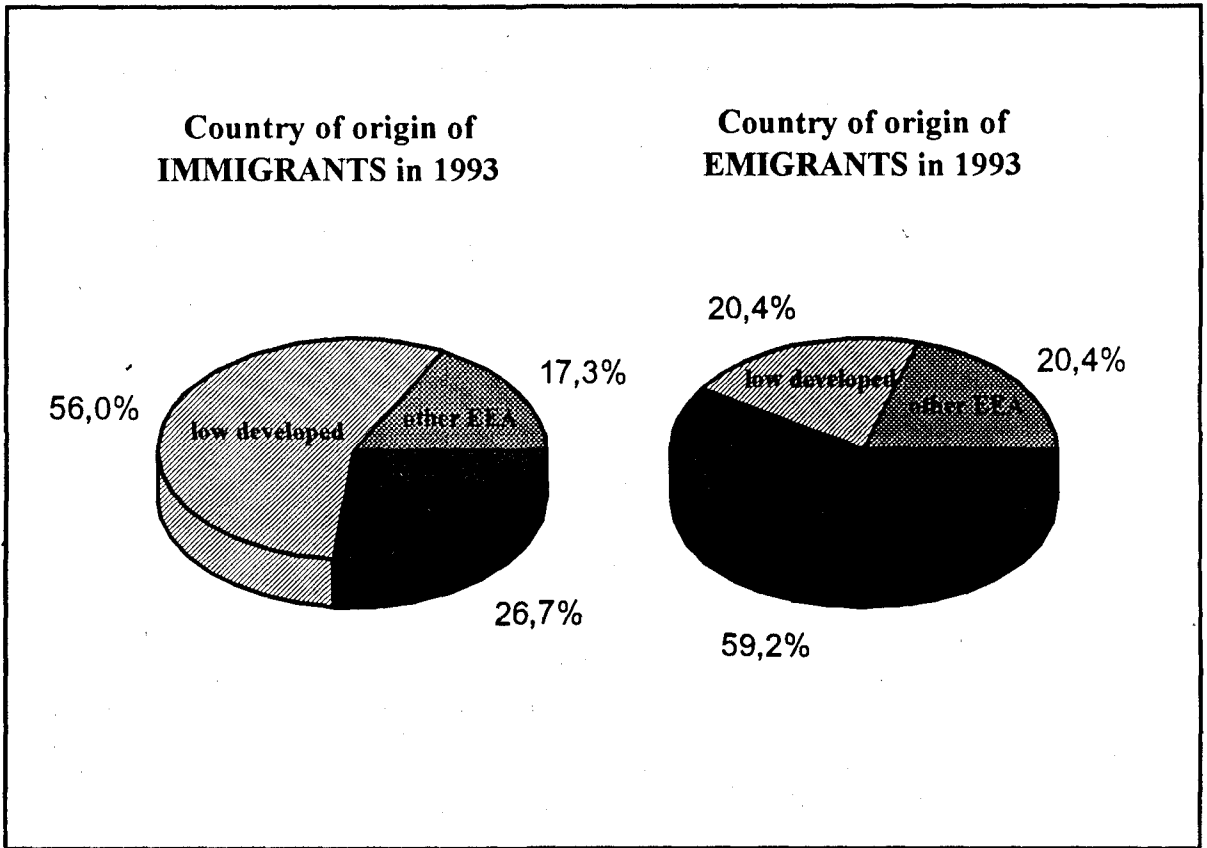


**Spain**



Source: Eurostat (1996)

**Figure 4: Country of origin of non-national immigrants and emigrants in EEA countries by development level**



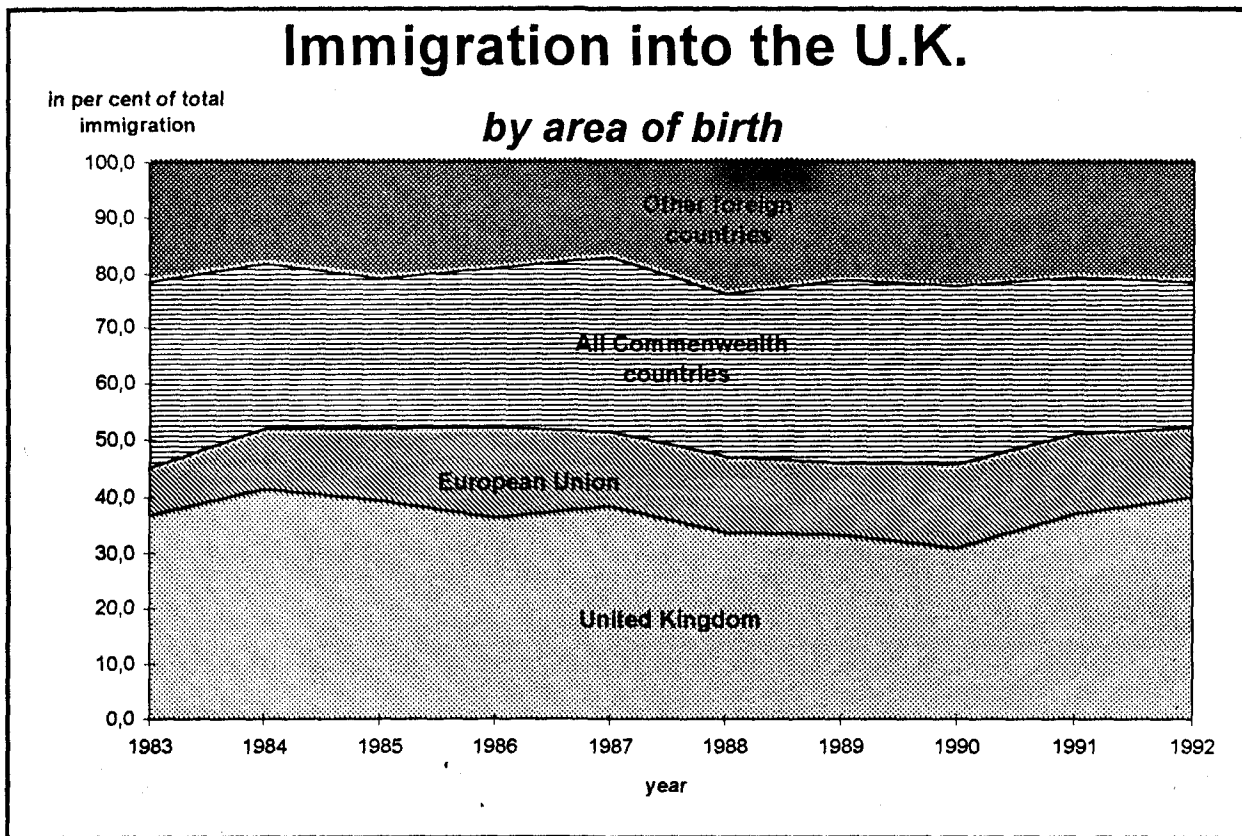
Datasource: Eurostat (1996)

With respect to immigration, figure 4 depicts the *composition of immigrants* into the EEA in 1993 who were of foreign nationality. Eurostat estimates that in 1993 about one fourth (25.9 per cent) of all who immigrated into EEA countries were nationals (returnees). Out of all non-nationals only one in four was another EEA citizen. Another one in four come from a developed non-EEA country, while the remaining two originated from a less developed country. But as far as emigration is concerned, only one out of five emigrants was a citizen of a low developed country, while three were non-EEA developed country nationals. Thus, while more citizens of low developed countries enter the EU than leave, the net balance is strongly negative with respect to citizens of other developed countries. Though weak, this lends some support for our theoretical hypothesis that people who have reached a certain threshold wealth but originate in low developed countries have higher propensities to migrate into the EU than people from other developed countries.

In most EU countries, the share of EU immigrants decreases while the number of non-EU immigrants increases. Though EEA citizens enjoy more or less full freedom of movement, their mobility is decreasing. Even citizens of previously 'classical' immigration countries like Greece, Portugal and Spain have not increasingly migrated to other EU countries after joining the EU. On the contrary, their share in migration flows has fallen since.

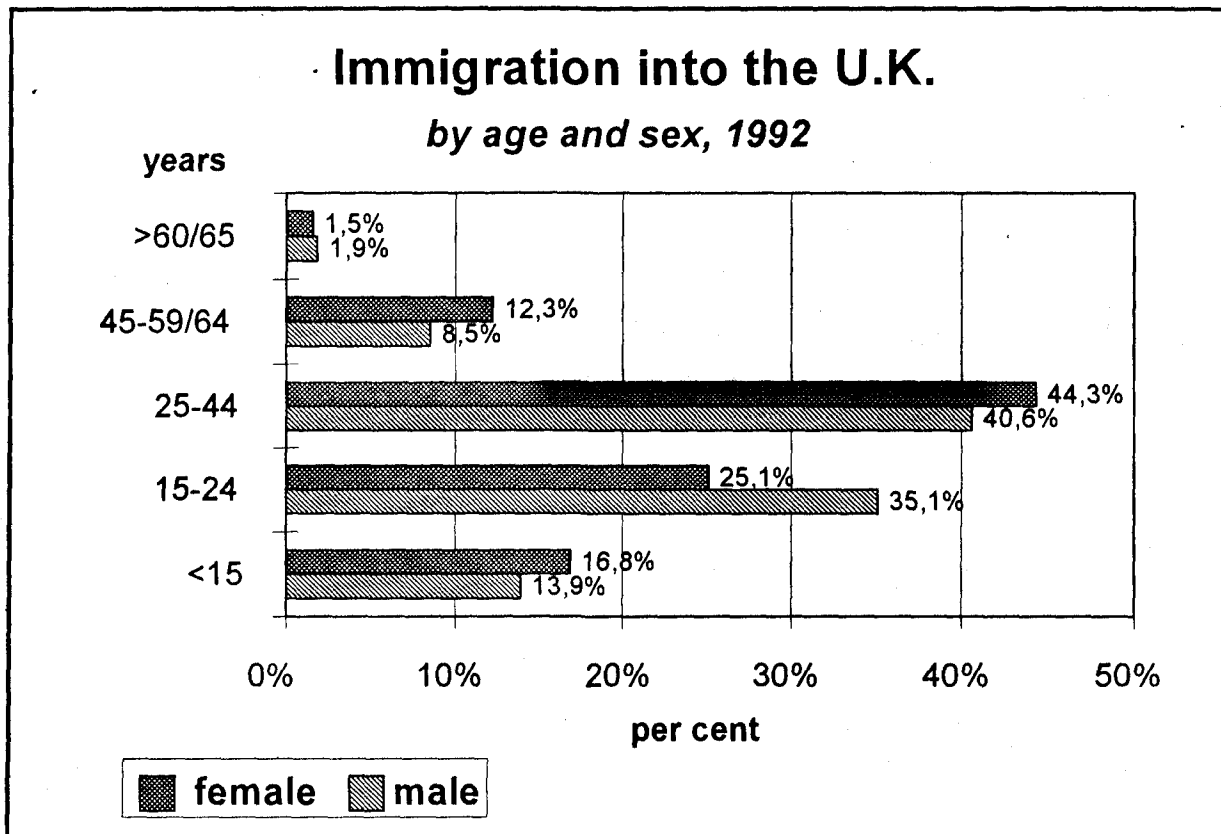
For those EU countries where data is available, overall gender distribution of immigrants has been rather balanced; about as many males immigrated to EU-countries as females.

Figure 5: Birthplace of immigrants into the U.K. 1983-1992



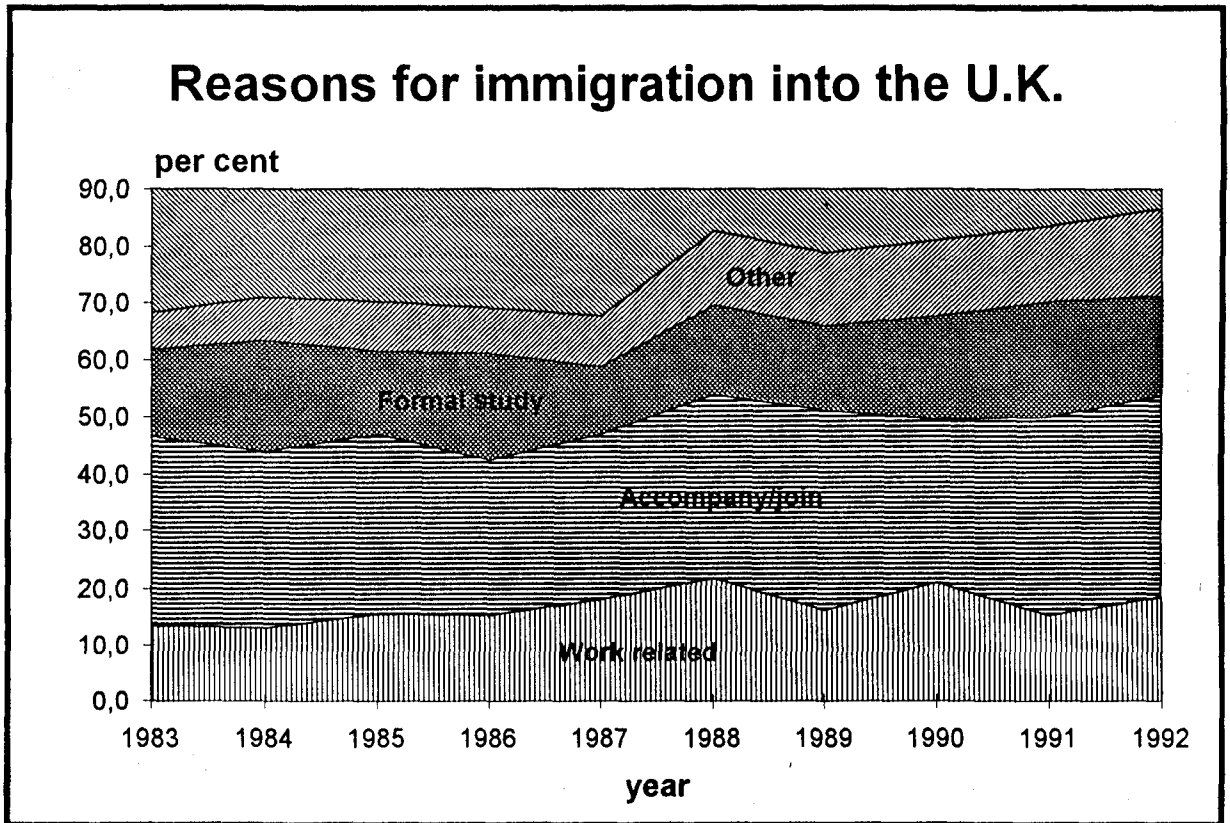
Datasource: HMSO (1995).

Figure 6: Age and sex distribution of immigrants into the UK 1992



Datasource: HMSO (1995).

Figure 7: Recorded reasons for immigration into the U.K. 1983-1992



Datasource: HMSO (1995), CSO (1995).

Let us have a somewhat closer look at immigration into the U.K.<sup>10</sup> Figure 5 shows the share of immigrants to the U.K. who were born in another EU country. It is not only minor, but also slowly decreasing between 1983 and 1992. As expected, immigrants were on average particularly young (figure 6). One fourth of all male and even one third of all female immigrants were between 15 and 24 years old; 70 per cent of male immigrants and 76 of female ones were aged 15-44. In 1992 57 per cent of all immigrants were employed prior to migration.

Although coming by majority from less developed countries, roughly 60 per cent had professional and managerial occupations, 40 per cent did manual and clerical jobs before migrating.<sup>11</sup> The immigrant age group 15-24 was dominated by females. The sex distribution of all other age groups is biased towards men, apart from pensioners who were women and men in about equal numbers (figure 6).

<sup>10</sup> If not otherwise stated, all the following U.K. figures are calculated from HMSO (1995) and CSO (1990, 1995). Note that for Britain there are sometimes non-trivial differences in data on migration and migrants, depending on the respective source. See e.g. the appendix in Salt (1995) for a more detailed technical description of sources.

<sup>11</sup> Furthermore, intra-company migration was of utmost importance. According to Salt (1995), no less than 43.5 per cent of all foreign national labour immigrating into the U.K. in 1994-95 changed workplace within the same (multinational) company. See also the chapter by Salt in this book.



Figure 6 on reasons of migration illustrates another typical feature of today's immigration into EU countries. (CSO, 1995). Only between 10 and 20 per cent of all UK immigrants reported to have moved for work related reasons. Simultaneously, the share of those who accompany or join an economically motivated migrant (family reunion) is increasing together with those who move for 'other reasons'. This phenomena obviously limits the scope for effective migration policy measures aimed at economically motivated migration.

To summarise this selected empirical evidence on immigration into the EU, we may state that figures for the EEA in general and the U.K. in particular show that immigrants originate increasingly from outside the EU and particularly from developing areas. For the choice of the host country, historical, cultural and colonial links as well as geographical proximity still play an important role. Especially within the EU, most people move regionally, within areas of the Common Market. Immigrants in the EU are usually young and their gender distribution seems to be rather balanced, overall. In the U.K., only between 10 and 20 per cent of them immigrated for work related reasons. More people came to join or accompany somebody or to study. Nevertheless, more than half of those who immigrated into the U.K. in 1992 were employed prior to immigration and most of them had professional and managerial occupations; only the minority was previously employed in manual and clerical jobs. All in all, the 5% share of non-nationals now residing within the EU is surprisingly low.

### 2.3 Is migration into EU-countries demand based?

In the last two subsections we have argued that migration is simultaneously determined by push and pull (supply and demand) factors. For migration from lower developed countries, migration potential is likely to outweigh migration demand. In other words, not all of those who would like to come and stay find an opportunity to do so. In these cases we expect migration to be *demand determined*. For immigration from highly developed countries, however, supply factors are likely to play a more important role. In this third subsection, we take up this point by investigating the determination of migration flows into Germany. The main reason for using Germany as an example is that migration data is usually rather scarce and unreliable even for EU countries but the German case is exceptionally well documented and labour market data is available for the main sending countries too.

Figure 8 depicts annual immigration propensities to Germany (immigration in per cent of total population; left hand scale) against the development of the West-German unemployment rate (seasonally adjusted, right hand scale). At the beginning of the 1960s the immigration propensity of (non-national) migrants from outside the EU was still below that of EU immigrants. During the seventies and eighties, immigration from other EU countries remained at the low level of below 0,5 immigrants per 100 inhabitants with a falling trend and little variation. Immigration of non-nationals from outside the EU<sup>12</sup> increased sharply during the last

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<sup>12</sup> The migration figures for Germany given here all exclude Germans and thus also the so called 'Aussiedler', German origin 'returnees' from the East, whose number amounted to approximately 2.3 millions people immigrated between 1968 and 1994 (German Statistical Yearbooks). For further discussion of the peculiarities of immigration into Germany see the chapter by Hönekopp in this book.

thirty years. At the end of the eighties, it approached (the relatively low) level of German internal mobility. Although showing similar variation patterns as intra-EU immigration, extra-EU immigration has exhibited much stronger fluctuations than intra EU-flows. We have tested these fluctuations against GDP growth, employment growth and unemployment rates. The most obvious relation is the strongly symmetric behaviour of third-country immigration and *unemployment rates* shown in figure 8. A decrease in West-German unemployment rates has been associated with an increase in third-country immigration and increases in unemployment clearly led to decreases of immigration rates. To the extent that unemployment rates are good proxies for (business cycle determined) labour demand, figure 8 suggests that immigration into Germany has indeed been *demand* determined, especially as far as immigration from outside the EU is concerned. How about the interplay of pull and push factors? Figure 8a-c depicts immigration into Germany from Italy, Greece and Turkey against GDP, employment and unemployment patterns in the sending and receiving countries. Italy illustrates the case of an economically fast developing EU member country, Greece has been a third country until becoming an EU member and Greek labour being finally entitled to (entirely) free movement of labour within the EU from 1987 onwards. Turkey represents an important and typical third country sending area. To make the included labour market and migration information comparable, we plotted all data in figure 8 as indices calculated with a base value of 1 for 1975 as numeraire. The graphs thus show variations relative to 1975.

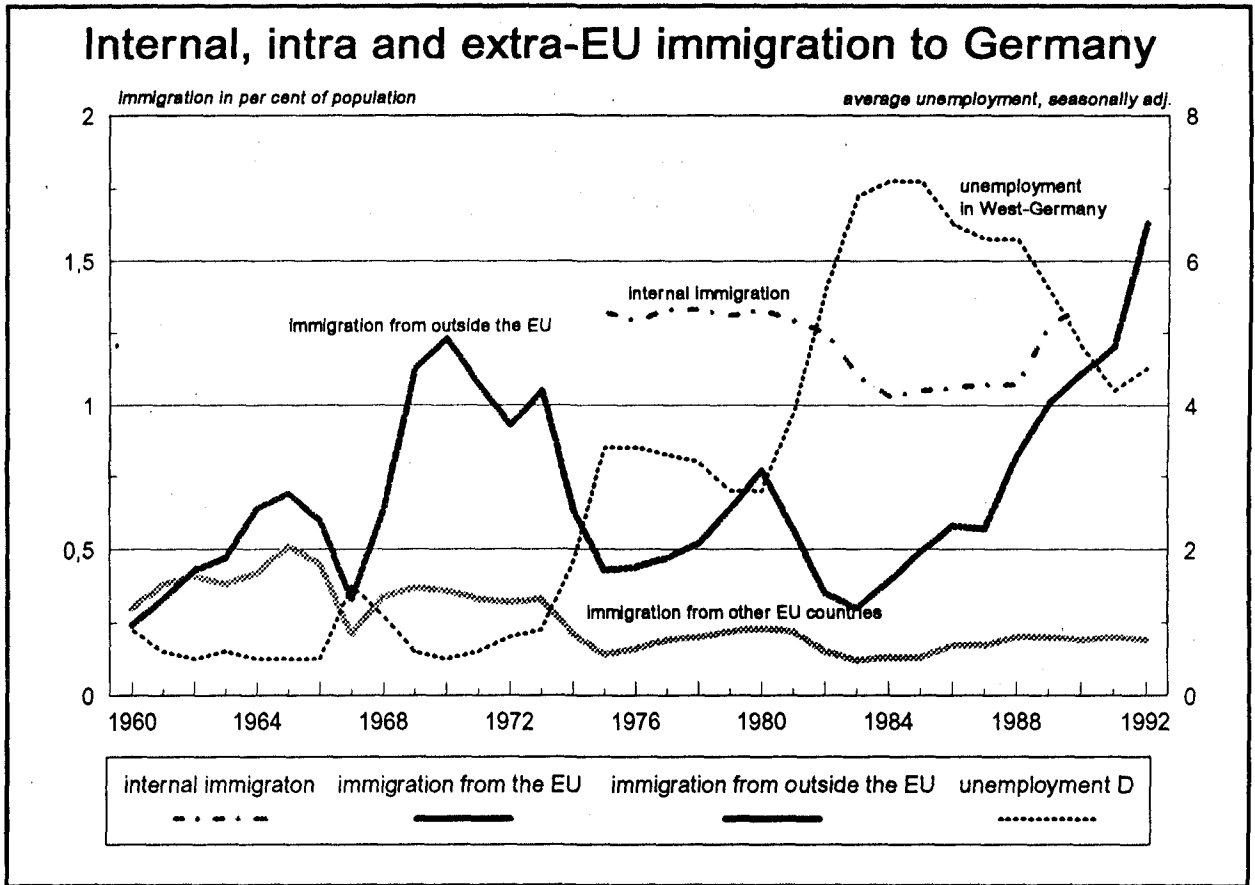
For *Italy*, the trend of strongly decreasing mobility going along with growth of GDP per worker shows off most clearly. Again, fluctuations are negatively correlated with German unemployment rates, but no clear relation between Italian unemployment rates and migration can be detected. During the eighties, Italian unemployment increased sharply but migration of Italians into Germany did not react to any serious extent. It seems that Italian immigration has been demand determined, but possibly also driven by a strong decrease of migration potential with advances in Italian economic development and convergence towards the economic development of other EU countries.<sup>13</sup>

In the 1960s the immigration of *Greeks* was up to 5 times higher than in 1975. Since then it has remained relatively constant at a considerably lower level although Greek unemployment has increased seriously during the eighties. To grant freedom of movement within the EU resulted in a small increase of Greek emigration in 1988 that was immediately followed by a decrease in 1989 and the following years. Again the data in graph 9b suggests that immigration from the non-EU country Greece has been largely demand based at least in early years, while the decrease in the number of Greeks who were considering emigrating might have become a more important factor in determining migration flows in recent times.

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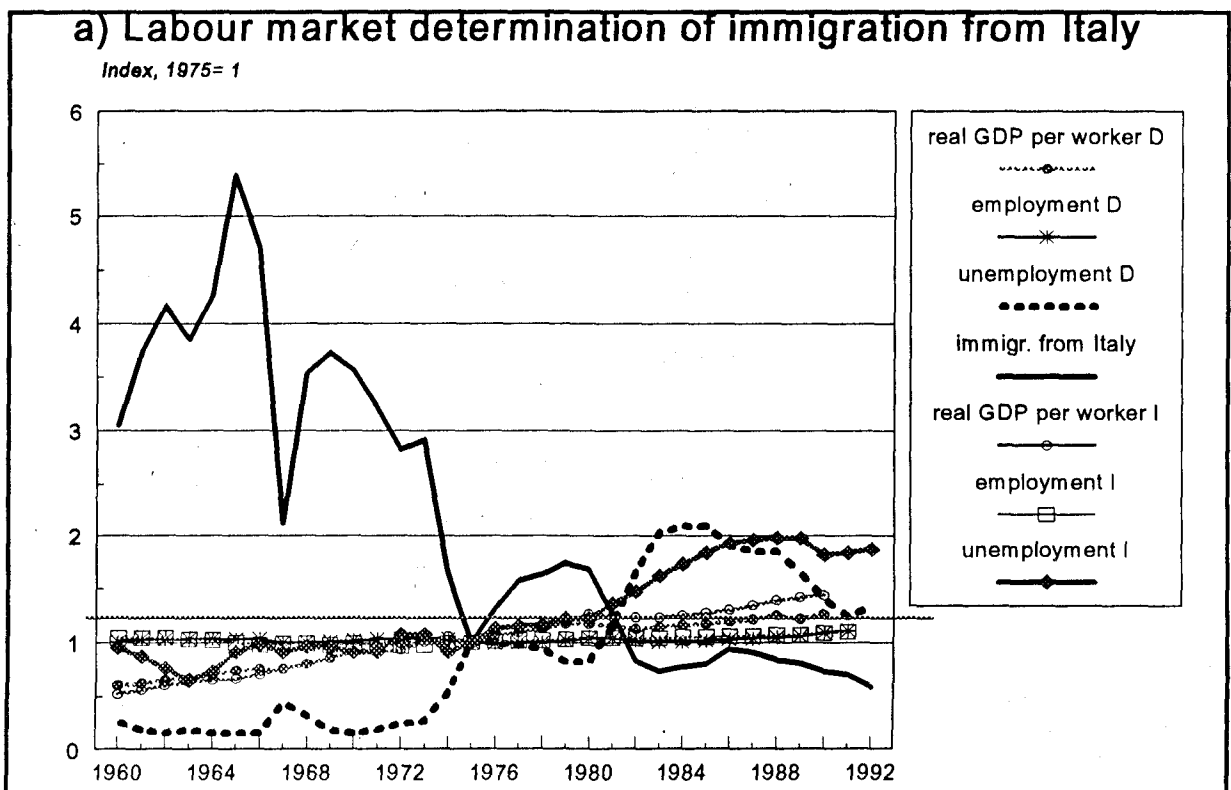
<sup>13</sup> Although one may argue that any really important relation between two variables should show up in a graphical presentation, one has of course to be cautious in drawing such kind of conclusions only on grounds of multi-variable graphics. For Italy, we have run a GLS-regression of (logarithms) of immigration rates against gdp and labour market indicators. The following variables were estimated to contribute to the determination of immigration rates at a probability level >0,95%, listed with decreasing significance (in brackets the direction of the relation): unemployment rates in Germany(-), GDP per worker in Italy(-) and unemployment rates in Italy(+). Employment patterns in Germany and Italy did not contribute to explain migration patterns. The results, however, suggested several problems with the data and estimation method.

**Figure 8: Immigration propensities and unemployment in Germany**

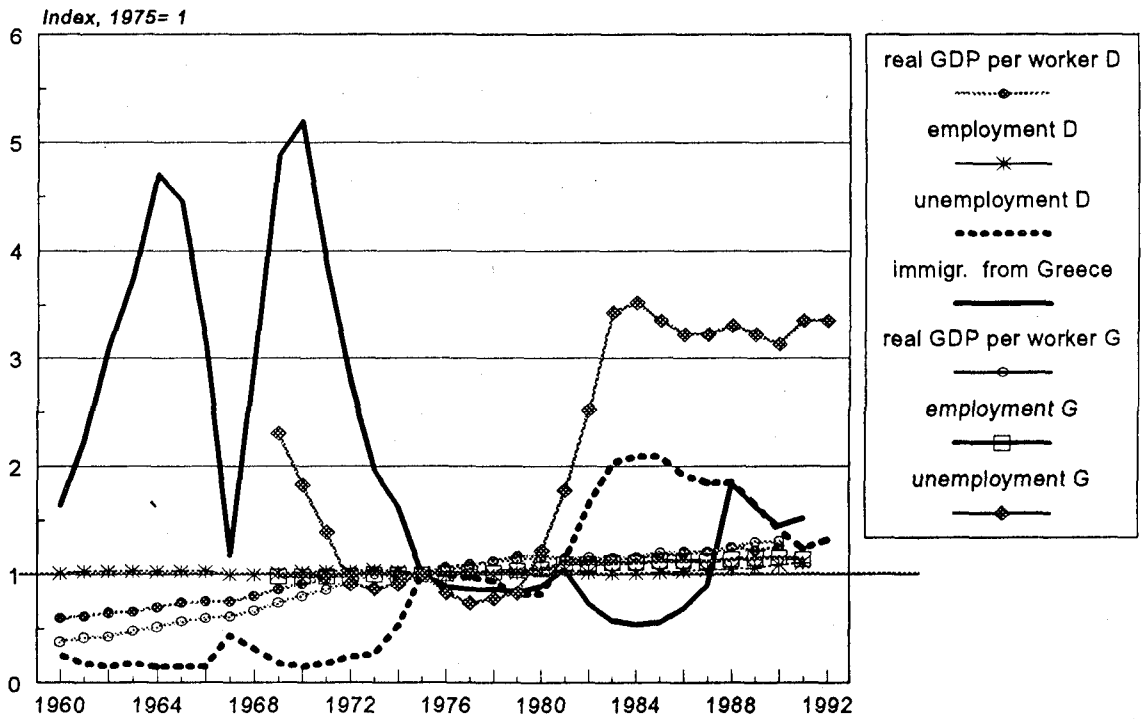


Datasource: Eurostat (var. editions).

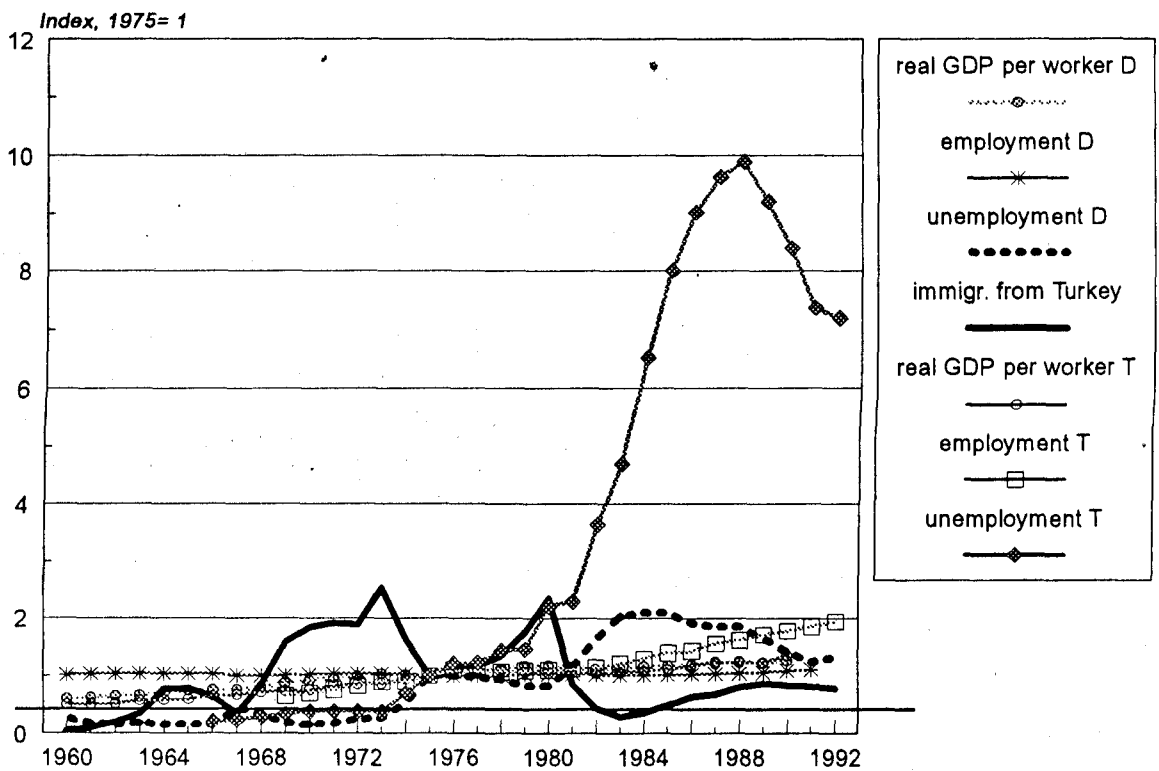
**Figure 9: Labour market determination of immigration to Germany**



## b) Labour market determination of immigration from Greece



## c) Labour market determination of immigration from Turkey



Datasources: Eurostat (var. editions); Summers and Heaston (1994).

The strongest evidence for the dominance of pull factors in the determination of migration from outside into the EU shows off in figure 9c. Immigration from *Turkey* again developed *clearly symmetric* to changes in the West-German unemployment rate. Decreases in unemployment were associated with *increases in immigration from Turkey and vice versa*. But the increase in the Turkish unemployment rate resulted in a (slight) increase in immigration of Turks to Germany only until the labour market situation in Germany started to deteriorate in the eighties. Then, immigration decreased below 1975 levels despite a tenfold of the Turkish unemployment rate between 1975 and 1989: after all, immigration from Turkey to Germany was *clearly demand driven*.<sup>14</sup>

Let us conclude this section on who would like to come and who is likely to be wanted with a stylised comparison of labour demand and supply patterns in north-west Europe in the 1960s and the 1990s (outline 2), taken from Böhning (1995;53).

In the 1960s, *domestic labour demand* has been relatively equally spread between high skilled, skilled and low skilled, with the majority being skilled. There were labour market shortages in *high skilled* and *low skilled* jobs. As the migration potential in the most important (southern) emigration countries consisted mainly of unskilled workers, there was an *important immigration of unskilled* and *some immigration of high skilled* but almost none of (medium)skilled.

In the 1990s, educational efforts in the north-western European countries have led to a further relative increase in the provision of domestic skilled labour. North-western countries have a relatively high demand for high skilled foreign labour, little demand for skilled and some demand for low skilled. People within the EU have become increasingly immobile. Immigrants therefore come more and more *from outside the EU*. As this migration potential consists *above all of unskilled, immigration of unskilled (and medium-skilled) is and will be primarily demand based*. In the *small scale intra-EU migration* both, *demand and supply factors will play a role*, with supply factors gaining momentum. Although remaining probably less in absolute numbers, migration of high skilled specialists is likely to become an increasingly important and scarce factor in locational competition. We thus expect the *mobility of high skilled to be largely supply determined*.

Generally speaking, those who come for labour market reasons -unskilled and high skilled- do usually have particularly favourable socio-demographic characteristics. We can expect them to be on average younger, more independent, less risk averse and more forward looking than the average population.

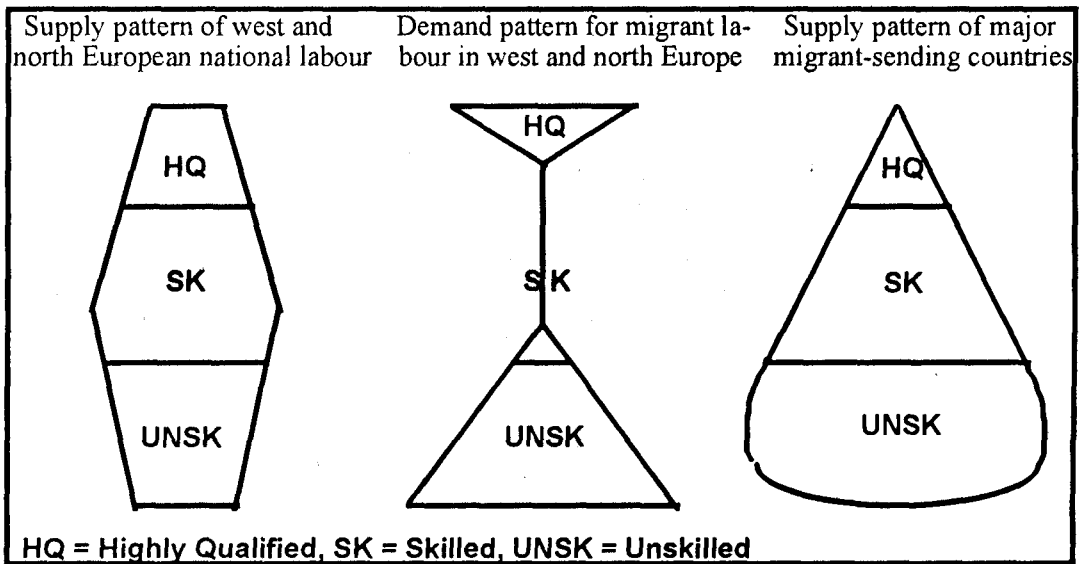
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<sup>14</sup> Various more sound econometric analyses confirm the predominantly demand determined character of immigration from relatively lower developed Mediterranean countries into the EU. See e.g. Feithen (1985) and Straubhaar (1988) for an in-depth analysis.

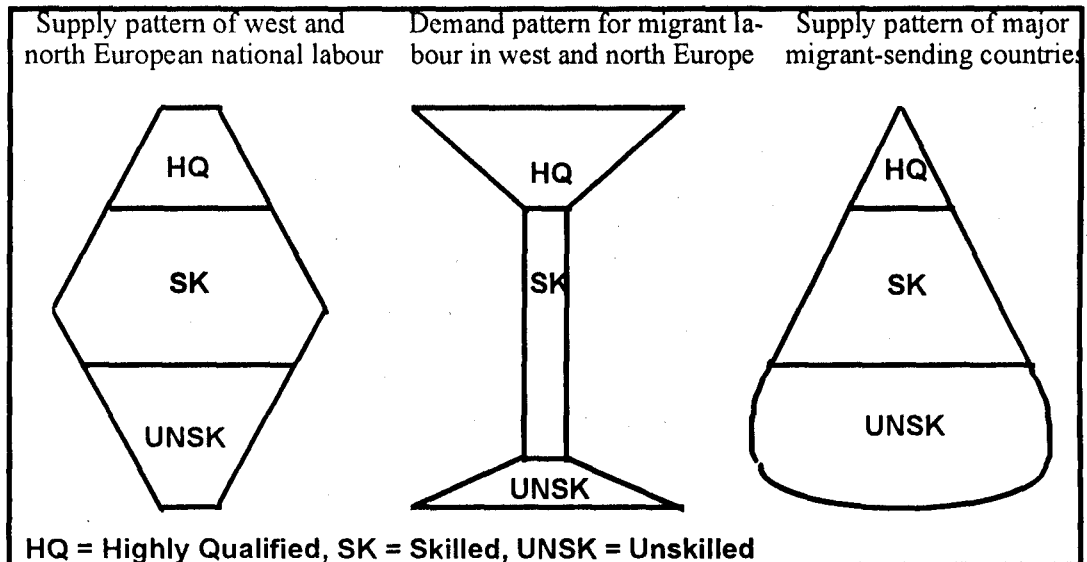
Outline 2:

# Stylised labour demand and supply patterns and migration demand in the 1960s and 1990s

## a) Western and Northern Europe, 1960s



## b) Western and Northern Europe, 1990s



### 3. Why do we need a (common) migration policy?

International migration of labour - together with international trade and the liberalisation of capital flows - is an essential instrument of economic integration which aims to enhance international competitiveness and to improve the international allocation of factor flows. Mobility of labour is important and necessary to exploit the benefits of economic integration that emanate from comparative advantage, increased specialisation and a more complete division of labour. Consequently it belongs to the four essential 'freedoms' of a Common Market<sup>15</sup>.

There are basically five reasons for the wealth enhancing importance of migration in economic integration:

- 1) Mundell (1957) demonstrated in his pioneering article that *in a neo-classical world* of the Heckscher-Ohlin-Samuelson (H-O-S) type<sup>16</sup> labour migration may substitute for hampered trade. In other words, in case trade does not allow to exploit the potential benefits of economic integration fully, e.g. because it is impossible or too costly due to transport and transaction costs like (tariff or non-tariff barriers to trade)<sup>17</sup>, then labour migration 'can do the job' instead.
- 2) As trade of services is often only possible if the service provider moves too, trade and services tend to be complements.
- 3) If the basis of exploiting gains from international integration is *not* to be found in H-O-S type differences in factor endowments *but* in imperfect competition or differences in production technology, both, trade and movement of labour (and capital flows) will have to complement each others in order to allow for full economic integration (Markusen, 1983).<sup>18</sup>
- 4) If local economies of scale allow for more efficient production, the degree of labour mobility (and people's willingness to move where scale economies may be realised) can become an important determinant of development (Krugman, 1991a,b).
- 5) If highly developed and specialised economies experience asymmetric macroeconomic shocks, labour mobility can be an effective and efficient short-run adjustment mechanism

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<sup>15</sup> Freedoms that are: free trade of goods, free trade of services, free movement of labour and free mobility of capital.

<sup>16</sup> A H-O-S world is, above all, characterised by perfectly competitive markets and comparative advantage that results from locationally different factor endowments (only).

<sup>17</sup> The more tariffs were reduced during the last decades of trade liberalisation, the more non-tariff barriers became an important substitute. Since tariffs no longer provided protection, non-tariff barriers attracted the interest of rent-seeking domestic producer groups (Frey 1985, Hillman 1989).

<sup>18</sup> Admittedly, in some cases where the world is different from the H-O-S utopia, trade and free movement of factor flows may be inferior to unilateral strategic action in maximising *national wealth*. See e.g. Krugman (1987) for a discussion of the relevant literature. Krugman concludes, however, that 'Free trade is not passé, but it is an idea that has irretrievably lost its innocence. Its status has shifted from optimum to reasonable rule of thumb' (Krugman, 1987; 132).

avoiding persistent unemployment increases and structural problems (Blanchard and Katz, 1992; *European Economy*, 1990; 140ff.).<sup>19</sup>

In brief, migration is overall wealth enhancing, - *if people move due to economic incentives*.<sup>20</sup> Once trade, capital flows and migration have allowed for perfect economic integration and hence optimal allocation of factor flows, economic incentives will disappear and (net) migration will automatically come to a halt. Whether and how much mobility of labour is needed to achieve such an optimal situation will depend on relative costs of trade, capital mobility and labour migration.

From an (*allocational*) economic point of view, there is thus good reason to welcome economically motivated migrants. Clearly, *the best migration policy would be a laissez-faire policy of free movement of labour that may not distort economic incentives for migration*. Who would like to come, has the means to come and is able to make his living at legal terms should be allowed to do so as long as he or she wants. Irrespectively where she or he is coming from, the immigrants activity will increase overall economic wealth. However, this is only true, if markets are not seriously distorted and if there are no incentives to come or to stay that are of non-allocative nature (e.g. tax avoidance, incentives to stay for social benefit regulations etc.).

Apart from the purely allocational aspects summarised above, migration has also *distributional consequences*. Migration creates 'winners' and 'losers'.

From a comparative static perspective, the main 'winners' of immigration will be capital owners and native labour whose skills are complementary to those of the immigrants (or who work in jobs that are complementary to immigrant occupations). The main losers tend to be people who are similar to the immigrants and whose jobs may be substituted by immigrant occupations. While 'winners' will find their opportunities and returns to increase due to immigration even in the short run, employment and gross wages of 'losers' will decrease.<sup>21</sup> This implies transitory changes in the structure of the immigrant society.<sup>22</sup> If overall economic benefits of immigration are positive, it would be theoretically possible to let 'winners'

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<sup>19</sup> In a recent paper, Fatás and Decressin (1995) show that the EEA is indeed characterised by a particularly low labour mobility, compared e.g. to the United States. Therefore, regional asymmetric shocks tend to have long run consequences and increase local unemployment persistently.

<sup>20</sup> During the last years, a vast literature on the economic effects of labour mobility has emerged that goes far beyond what we present here. For a general introduction into the theory of effects of migration and the interdependence between labour mobility and economic integration see e.g. Fischer/Straubhaar (1996) and the references therein.

<sup>21</sup> Razin and Sadka (1995) argue that introducing migration in the presence of structural unemployment might indeed be wealth decreasing because it mainly results in a further increase of unemployment. To obtain this result, however, they have to make some rather questionable assumptions, like e.g. that natives and immigrants are de facto perfect substitutes. Schmidt/Stilz/Zimmermann (1994) demonstrate that the consequences of immigration in the presence of structural unemployment crucially depend on the causes of the unemployment problem. Immigration may as well help to overcome rigidities that cause unemployment and thereby improve the situation even of natives who tend to be in a substitutive relationship to immigrants.

<sup>22</sup> For a more comprehensive discussion of distributional effects of migration Straubhaar (1992).



compensate the 'losers'. But distributional effects may also have social consequences that are difficult to correct. In practice, compensation of 'losers' often turns out to be difficult for polit-economic reasons; especially if migration takes place rapidly. This is one reason why an optimal migration policy is unlikely to be totally *laissez-faire*. To restrict immigration and reduce migration potential in the countries of origin is likely to be desirable in the presence of huge economic differences between the sending and the receiving economies.<sup>23</sup> The design of a migration policy should preferably include automatic mechanisms to compensate potential 'losers'.

Generally speaking, we would expect that the higher the substitutability of foreign and domestic workers, the more important will be the design of a (restrictive) immigration policy that defines entry and exit rules and supports the optimal allocation of immigrant labour once admitted. It will have to take account that there will always be immigrants whose advantage of 'taking them in' is by far larger than their costs of admission. This is most likely for high skilled workers and highly qualified professionals who are now and will continue to be scarce in the EU. It might be much cheaper to "roll out the red carpet for the skilled" than to build up these human resources within the EU.<sup>24</sup> "Opening the golden door wider - to newcomers with know-how" Becker (1990) calls this strategy.

Another reason why restricting immigration may be desirable from the point of view of the welfare of the immigrant country is that being a citizen of a state is like membership in a club. Like clubs, states decide by themselves who belongs to them and who is a foreigner. Therefore, being a member of a state or a club is something very valuable.<sup>25</sup> Indeed, the phenomenon of international (labour) migration is characterised by a legal asymmetry. In general, a country of origin is denied the right to close its borders to bona fide emigrants by

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<sup>23</sup> Furthermore, in the presence of scale economies, "factor mobility which is important in a regional economy like the common market could increase inter-regional inequality, if factors move to the high-return regions, characterized by a larger purchasing power and the benefits of higher productivity stemming from more favourable management and social structure. ... A too-rigid 'division of labour' between the North and the South, according to which the South specializes more in traditional labour-intensive industries, could be counter-productive" (Jacquemin, 1990; 47-49).

<sup>24</sup> This is exactly the question Markusen (1988) asked. For Canada his result is that the best thing an economy could do is to subsidise the use, not training, of skilled specialists. The latter policy would subsidise foreign economy through emigration of the skilled natives. What the EU could learn from this result is that it is a more efficient way to subsidise high-tech sectors than skilled specialists because the former would develop by themselves human resources.

<sup>25</sup> Or as Walzer (1983:31) states: "The primary good that we distribute to one another is membership in some human community. ... Men and woman without membership anywhere are stateless persons. ... non-members are vulnerable and unprotected in the marketplace. Although they participate freely in the exchange of goods, they have no part in those goods that are shared".

the Universal Declaration of Human Rights.<sup>26</sup> However, a country of immigration has the undisputed right to decide whom and how many people it admits.<sup>27</sup>

In a club, one shares common goods (and values). Allowing new members to enter is important for the financing of these goods and the survival of the club, but if membership grows too rapidly, the system is likely to come under pressure, congestion effects may occur and threaten eventually the survival of the club in its original form.

We can summarise the policy-consequences of our short discussion of benefits and costs of immigration by stating that:

- (a) due to distributional consequences of immigration and the value of citizenship as a 'club good' a *laissez-faire* policy of totally free migration is unlikely to be socio-economically optimal.
- (b) A migration policy is needed in order to define clear entry and exit rules on the basis that a location should be open for immigration to the extent that immigrants' marginal productivity (labour market productivity, capital investments and their contribution to the financing of the societal public and club goods) is higher than their marginal costs of adaptation and natives' disutility from allowing them to join the club.
- (c) The need for an efficient immigration policy that restricts entrance but allows those who are needed to come in and to stay grows in times when social costs are rising and economic benefits are declining.
- (d) To design an efficient migration policy will have to take the growing competition for scarce human resources into account. Migration policies have to be attractive for those people with high advantages for the economy and society. Even though immigration of unskilled may be largely demand based, immigration of high skilled is more likely to be supply determined. Neither closing the border completely, nor opening it for everybody is the goal, but a selection of those whose entrance is permitted, according to their benefits and costs for the immigration country.
- (e) An important element of the 'internal' part of migration policy is to make sure that economic incentives for foreign labour allocation are not distorted by market failures and wrong incentives like tax avoidance or social benefit considerations.
- (f) An efficient 'internal' migration policy has also to include measures to improve labour market flexibility. The best migration policy is a good labour market policy.

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<sup>26</sup> Of course, the right to "leave any country, including one's own" is not granted all over the globe. Many countries enforce more or less strict (re-)emigration regulations. Weiner (1985:444-445) specifies five sets of exit rules: Prohibition Exit Rules, Selective Exit Rules, Permissive Exit Rules, Promotional Exit Rules and Expulsion Exit Rules.

<sup>27</sup> "Affluent and free countries are, like elite universities, besieged by applicants. They have to decide on their own size and character. More precisely, as citizens of such a country, we have to decide: Whom should we admit? Ought we to have open admissions?" Walzer (1983:32).

But why, for all that, do we need a common European migration policy? There are two clear answers on this question. The first is an economic 'internal' migration policy-oriented and the second a more political external 'foreign' migration policy-oriented.

From the internal point of view, we have demonstrated that free mobility of labour is an important precondition for the exploitation of the benefits of economic integration. This is not only true for the inhabitants of a common market but also for *third country immigrants*. Henceforth, *third country immigrants* should not only be granted free mobility within a member country, but within the whole common market. If we allow for different migration policies within the same common market and do not grant free mobility to third country nationals, different policies work like different taxes. They correspond to location-specific changes in the endowment with immobile factors, only that they are not market based. Separate immigration policies and immobility of third country nationals between member countries of a common market give room for strategic action, distort comparative advantage and hamper efficient factor allocation. Nationally independent migration policy and inter-country immobility of third country nationals are in permanent conflict with the goals of the Single European Market.<sup>28</sup> As a solution, one could grant third country nationals free mobility and leave nation states the sovereign right to define entry regimes. But provided that market mechanisms work this would mean that the country with the most open entry regulation would implicitly set the policy for the common market as a whole.

The 'external' argument for a common migration policy is that we do not only deal with economically motivated immigrants. More and more, people flight political persecution and ecological catastrophes. Resulting requests for admission are difficult to neglect purely on grounds of lack of economic demand. Welcoming people on humanitarian and ethical grounds is often costly, more costly and inefficient than to take action to prevent the 'root-causes' of forced migration. Also, there are unfortunately little near prospects of fast development convergence between the developed and less developed world. The number of those disadvantaged people in the South and East who dream of moving for a better living but lack the opportunity to do so (because they are nowhere in the North economically 'wanted') is bound to increase. This creates at least moral arguments for helping to reduce migration potential in the South and East. For policy action and political pressure to oppose and prevent such migration pressure, however, unilateral action of single countries is inferior to *joint action of the EU* from the point of *effectiveness* and *bargaining power*. This is the simple argument about the need for a external 'foreign' component of a common European migration policy.

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<sup>28</sup> An excellent outline of the problem and first step towards a solution is given by Böhning/Werquin (1990).

## 4. Towards a common EU migration policy

### 4.1 What has been done?

The elementary relationship between economic integration, migration and welfare was one of the basic ideas behind the common market which the European Community started to strive for in the mid-fifties. The original Treaty of Rome of 25 March 1957 which established the European Economic Community contains provision for the free movement of labour in Articles 48 et seq. Article 48 stipulates that "freedom of movement for workers" entails the "abolition of any discrimination based on nationality between workers of the member states as regards employment, remuneration and other conditions of work and employment". This right of free movement has been successively extended to self-employed and to grant EU-wide freedom of supply of services, including e.g. insurance. Furthermore, the treaty of Maastricht as it has been agreed upon on February 2, 1992 introduces the Union Citizenship, according to which every citizen of an EU member state is automatically also a citizen of the European Union. This citizenship incorporates different duties and rights. To the latter belong the right of freedom of movement and residence within the whole union and the active and passive right to participate in municipality elections in whatever member country an EU citizen takes residence. The Union citizenship can be seen as a logical development of the originally purely economically motivated free labour mobility into a basic political right of freedom of movement. It represent an essential step towards a 'Europe of citizens'.<sup>29</sup> Its further concretisation will be one of the key-issues in the so called Maastricht II Governmental Conference that is negotiating in 1996-97.

What has been completely neglected in building up the EEA and the EU are the *migration flows from and to the outside world*. Third country citizens are not free to move within the EEA. Entering another EU country, they are still treated as if they would enter from the outside of the EU. Furthermore, EU member states remain completely free to define their policy against migrants from the outside. They may independently set entry and exit rules and agree on bilateral agreements liberalising mutual migrations. Also, they are more or less free to decide on rights and duties of third country nationals. Until today the EU has *no active common migration policy*. In many EU countries the national migration policy is basically limited to the setting of entry rules for third country nationals. So far, the only binding provision of co-operation in the field of migration policy towards third country nationals is the obligation of *mutual information* on new policy measures introduced.

The treaty of Maastricht contains some provisions that may give ground for designing a common European migration policy. Art. K1 of the treaty names immigration policy, and the policy against third countries an *issue of common interest*. Migration policy has been attached to the task of co-operation in internal affairs and matters of administration of justice.

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<sup>29</sup> However, the right for free movement is still not all encompassing. For example, it does not apply to unemployed or to people who are dependent on other sorts of social welfare payments. This is to avoid a so called 'social welfare tourism'.

Furthermore, the Maastricht treaty holds, that the EU *could* be given binding competence to develop and implement a common EU-migration policy, but it requires unanimous decision-making for it. It will depend on the proceeding of the intergovernmental conference ('Maastricht II') whether the basis for such a common migration policy will be developed. As long as it won't, the third country immigrants policy issue will remain in permanent conflict with the goals of the Single European Market.<sup>30</sup>

## 4.2 What should be done

So far we have tried to demonstrate that migration policy is not a threat to be feared. There is little ground to fear mass-immigration from third countries because the potential consists mainly of people who will find it hard to migrate, due to lacking demand. In the European countries, immigration of unskilled and medium skilled is to a large extend demand based. But there is growing scope for competition on immigration of scarce high skilled specialists. In brief, migration policy is a field that is still vastly uncovered by actual policy making. Once taken up for innovative, efficient design, it could contribute decisively to a further realisation of welfare gains from economic integration and the success of European Integration. Issues of migration and 'migration pressure' are likely to remain important in the future which makes it wise to deal with them in time.

In our opinion, a migration policy should consist of two separate (but interdependent) parts: (a) an internal migration policy and (b) an external 'foreign' migration policy (outline 3).

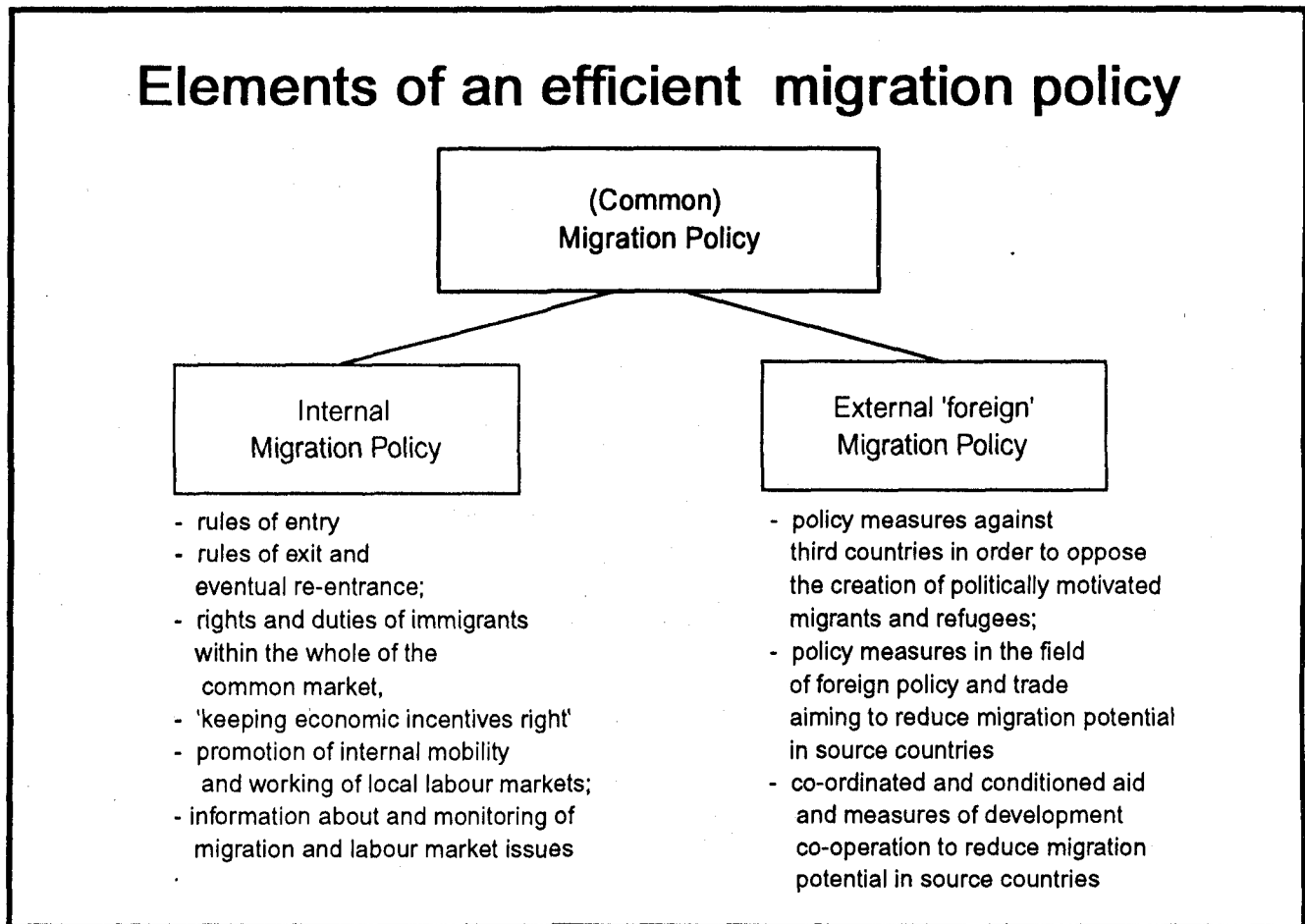
The internal migration policy has to define rules:

- (aa) *restricting entry* in a way that increases societal welfare and incorporates a minimum of distortion of economic incentives to migrate;
- (ab) on *exit* and eventual re-entrance;
- (ac) specifying *rights and duties* of third-country nationals *within* the whole of the *common market*,
- (ac) to *stimulate internal mobility* and the *working of local labour markets*;

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<sup>30</sup> Another way to proceed towards a common migration policy might be on the basis of voluntary intergovernmental agreements between some EU countries which others may join later. The Schengen treaty on the abolition of border controls is such an example which might once be considered to be transferred into binding EU law. Originally signed by Belgium, Germany, France, Luxembourg and the Netherlands in 1985 (I) and 1990 (II), Italy, Spain, Portugal Greece and Austria have joined in since. Denmark, Finland and Sweden are expected to officially sign in during summer 1996. The Schengen treaty is, however, above all about border controls, about co-operation by the different national police in matters of personal and tax control and about co-operation and exchange of information regarding asylum and refugee policies. It does not really refer to migration policy making. The immigration pressure from the "would like to be Europeans" perhaps more than anything else, will test the EU intra-area willingness to co-operate and the hardiness of the intention to abolish frontiers. It is in the view of labour movements from the outside into the EU that the EU might become a "Fortress Europe".

### Outline 3: Elements of an efficient migration policy



(ad) to *provide and co-ordinate information* about migration and labour market issues.

The task of the external 'foreign' migration policy would be to:

- (ba) to take and co-ordinate policy measures designed to prevent the creation of politically motivated emigration and escape from third countries;
- (bb) agree on policy measures in the field of foreign policy and trade aiming to reduce migration potential in the potential source countries;
- (bc) co-ordinate and condition measures of development co-operation designed to reduce migration potential in the source countries.

According to the principle of subsidiarity, not all of the envisaged measures necessarily had to be carried out on the common EU level.

Different targets may be followed in designing policies with regard to the above issues. In what follows, we do not discuss issues of accepting immigrants on humanitarian grounds

whose acceptance is determined by definition by other than economic considerations.<sup>31</sup> Once those are allowed in, basically the same rules should apply to them than for economically motivated immigrants.

From an economic point of view, we would like to suggest the following ten guidelines for the design of a common EU-migration policy :

1. **Let the markets decide who should be allowed in.** Economically motivated migration increases overall wealth in the country of immigration. Those immigrants who are most beneficial for the receiving country are those who are most scarce and therefore most needed. If overall immigration has to be restricted, partial agreements of free labour movement are likely to be efficient solutions because they do not select immigrants on other criteria than geographical and cultural proximity.
2. If restriction targets do not allow to grant freedom of immigration, **levy a fee or tax on entry** to restrict immigration rather than to allow immigrants in on arbitrary selection criteria. The fee may be used to compensate potential 'losers', to finance migration policy measures or may be paid back if the migrant leaves the country again.
3. The general advise to reduce immigration is to **increase entry costs and to reduce costs of return migration.**
4. **Once allowed in, apply the same rights and duties to immigrants as to natives.** In order to insure economic efficiency of immigrant labour allocation, do not restrict immigrants' rights to change jobs or move within the common market from one location and one employer to another. Third country nationals have to be entitled to move freely within the whole common market.
5. **Get the economic incentives for migration right.** Reduce barriers and obstacles to mobility. Eliminate non-allocative incentives for migration like tax and social security avoidance. Ease return migration and facilitate re-entry to those who consider returning home. Allow people in who can prove to be needed but do first not give them special support if they find it difficult to make their living. An idea could be during a starting period (e.g. the first two years) to exclude immigrants from unemployment benefit or similar kind of social welfare payment claims. If they afterwards consider re-migrating, allow them to transfer eventual rights for unemployment benefits or sickness leaves etc. to their next place of residence.
6. **Encourage integration of immigrants** who managed to successfully stay in the host country by easing access to political rights and eventual naturalisation.
7. **Be attractive for immigration of high skilled key-personnel.** Immigration of high skilled is likely to be of key importance for international competitiveness and the building up of

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<sup>31</sup> Admittedly, the distinction between economic and political motivated migrants is often somewhat arbitrary. For many potential immigrants admittance on humanitarian grounds and admittance for economic reasons may represent two partially substitutive 'entrance' doors to consider.

Europe's human resources of tomorrow. But let migration policy of the EU not become too discriminating. Racism and xenophobia are definitely self-defeating, because they repulse the kind of (complementary) human resources Europe certainly will need.

8. **The best internal migration policy is a good labour market policy.** Improve the flexibility and working of local labour markets. Make appropriate information easily accessible. Correct other policy measures (e.g. public or housing loan systems and support programmes) that make people immobile.
9. **Increase prospects for economic development in countries with high migration potentials.** The best policy to reduce migration potential is to promote general growth prospects in (potential) migrant sending countries and not just to implement measures directed to discourage emigration.<sup>32</sup> Already if *expectations* about future development at home improve, migration potential will decrease. Growth promoting 'foreign' migration policy measures can include improved *market access* for export goods, assistance to improve the working and international *integration of financial markets*, encouragement of *technology diffusion* and last but not least the promotion of '*good governance*' in migrant sending countries.<sup>33</sup> Be aware, however, that in very poor countries development may initially lead to an increase in migration propensities. Also, in some cases, improved information through investment activities may result in increased emigration to the investor country.<sup>34</sup>
10. **Support efforts in stabilising the political systems in the emigration countries.** Use co-ordinated multilateral (EU-)bargaining power to keep governments in potential sending countries from creating politically motivated emigration and escape. Promote the development of democratic tools and the installation of minority rights to prevent and handle internal conflicts. Another important contribution could be strict control and abolition of trade in arms and weapons in unstable world regions.

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<sup>32</sup> Note that once donor countries start to declare aid conditional on action taken to 'reduce' migration potential, migration potential itself as well as its perception by potential immigrant countries becomes an issue of strategic interest for governments in potential sending countries which aim to enhance aid and development support received.

<sup>33</sup> While simple aid transfers often establish dependency relationships and prevent markets from working rather than promoting sustainable development, the design and development of efficient economic policy and labour market institutions is conditional for growth enhancing market mechanisms to work. In this sense, supporting 'good governance' often represents a key element in promoting growth prospects and thus reducing migration potential in source countries.

<sup>34</sup> For a more detailed discussion and an optimistic assessment of the need for and feasibility of 'aid in place of migration' see the chapter by Moelle in this book.



## Conclusions

In this paper we have undertaken a synthesis of implications from migration theory and presented some empirical evidence to argue against the formulation of purely defensive national migration policies driven by fears of mass-immigration. Although migration potential in some lower developed country is likely to grow, immigration of unskilled or semi-skilled migrants from third countries is largely demand based. Those who would like to come are often not those who can come because lacking migration demand makes it impossible for them to move and to make their living in European immigration countries. A more innovative, forward looking migration policy is needed, however, because labour mobility can make important contributions to the further proceeding of economic integration in the EU and to future economic development.

Migration and labour mobility are economically efficient and increase overall wealth, *provided* the economic incentives are set right. Distributional aspects of immigration, however, make it unlikely that a completely free *laissez-faire* immigration policy towards the rest of the world will be socially optimal. Nevertheless, some immigration of unskilled persons will continue to be economically needed. Immigration of high skilled is likely to become an important issue in the determination of locational competitiveness and regional attractivity. Within the EU, the low labour mobility rather than mass immigration represents a problem for future integration.

If migration has to be restricted in some way, the explicit formulation of a migration policy is needed. It should consist of two separate but interdependent parts: an internal migration policy setting rules on entry, exit and rights and duties for all migrants within the common market and an external 'foreign' migration policy co-ordinating and implementing measures to reduce migration potential in sending countries. The paper identifies two main reasons why migration policy in EU-countries has to encompass a *common* EU migration policy. First, granting third country immigrants free movement within the whole of the common market is an essential requirement to realise the goals of full economic integration incorporated in the Single Market programme. But allowing free movement of third-country nationals within the EEA without a common migration policy means that the member country with the most open policy implicitly sets the rules for the entire market. Secondly, as far as an external 'foreign' migration policy is concerned, unilateral action of single countries is inferior to joint multilateral action from point of view of effectiveness and bargaining power. The paper ends with suggesting ten guidelines for the formulation of an efficient and forward-looking common European migration policy.