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Migration, Co-ordination Failures and Eastern Enlargement

Herbert Brücker

DIW Berlin und IZA, Bonn

?

- Economic theory: large potential benefits associated with migration
- Why then transitional periods for free labour mobility?
- Are there negative externalities for receiving countries?
- Co-ordination failures among recipients?

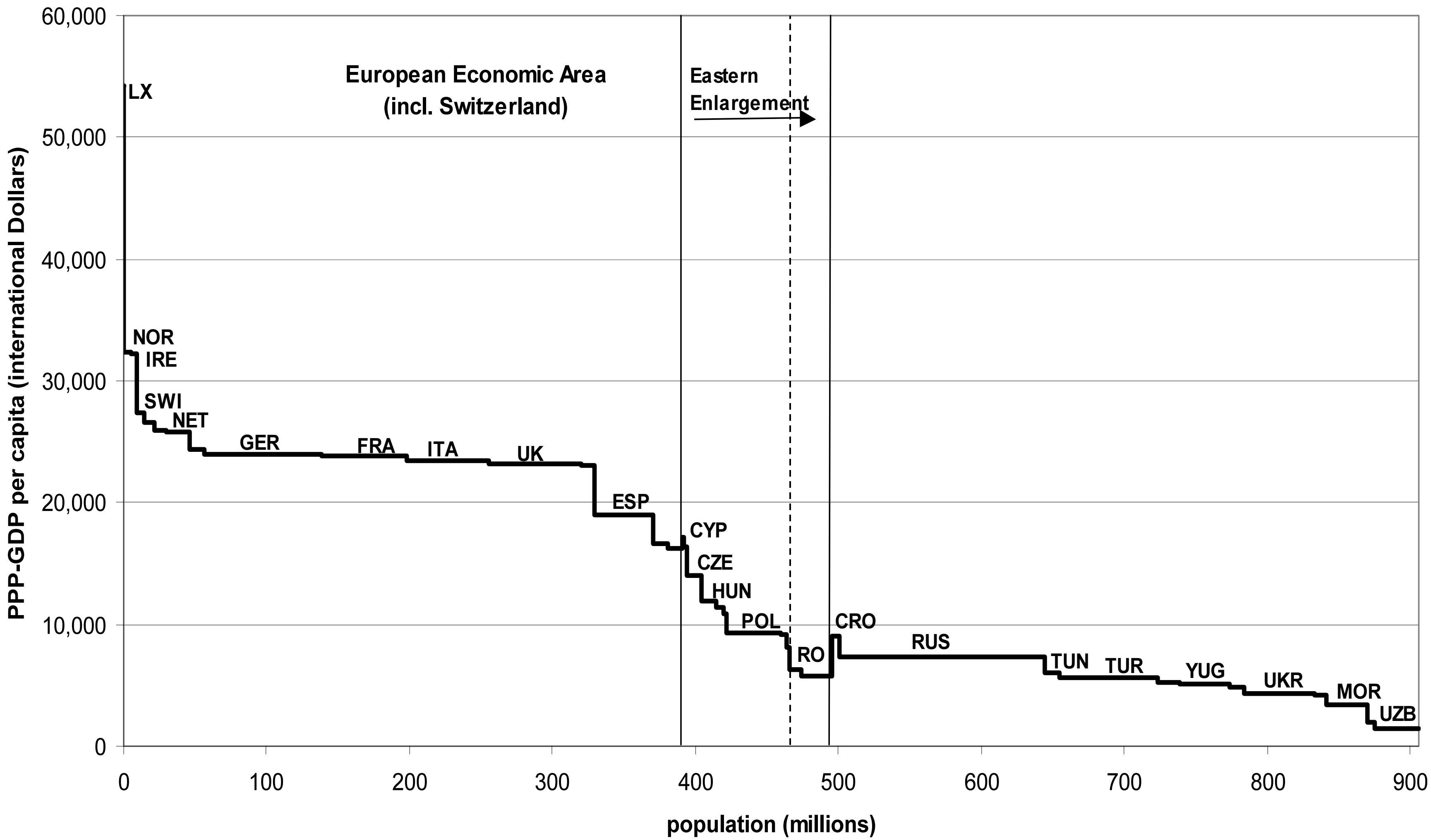
Outline

- Documenting migration before Enlargement, the "race to the top" occurred with the Enlargement and associated diversion effects.
- Evaluating *costs and benefits of migration restrictions* using calibrated CGE model with imperfect labour markets and welfare payments.
- Have transitional periods resulted in *co-ordination failures*? Why? What are the alternatives?

Europe at the outset of Enlargement

- The income gap is larger than in past accession rounds
  - PPP-GDP per capita of NMS less than 50% of EU-15 average
- GDP growth is faster in NMS than in the EU-15 since end of transitional recession
  - 3.4% compared to 2.1%
- but no indication that speed of convergence is faster there than that found by Barro and Sala-i-Martin in ‘old’ EU
  - half-live of initial income difference is about 35 years

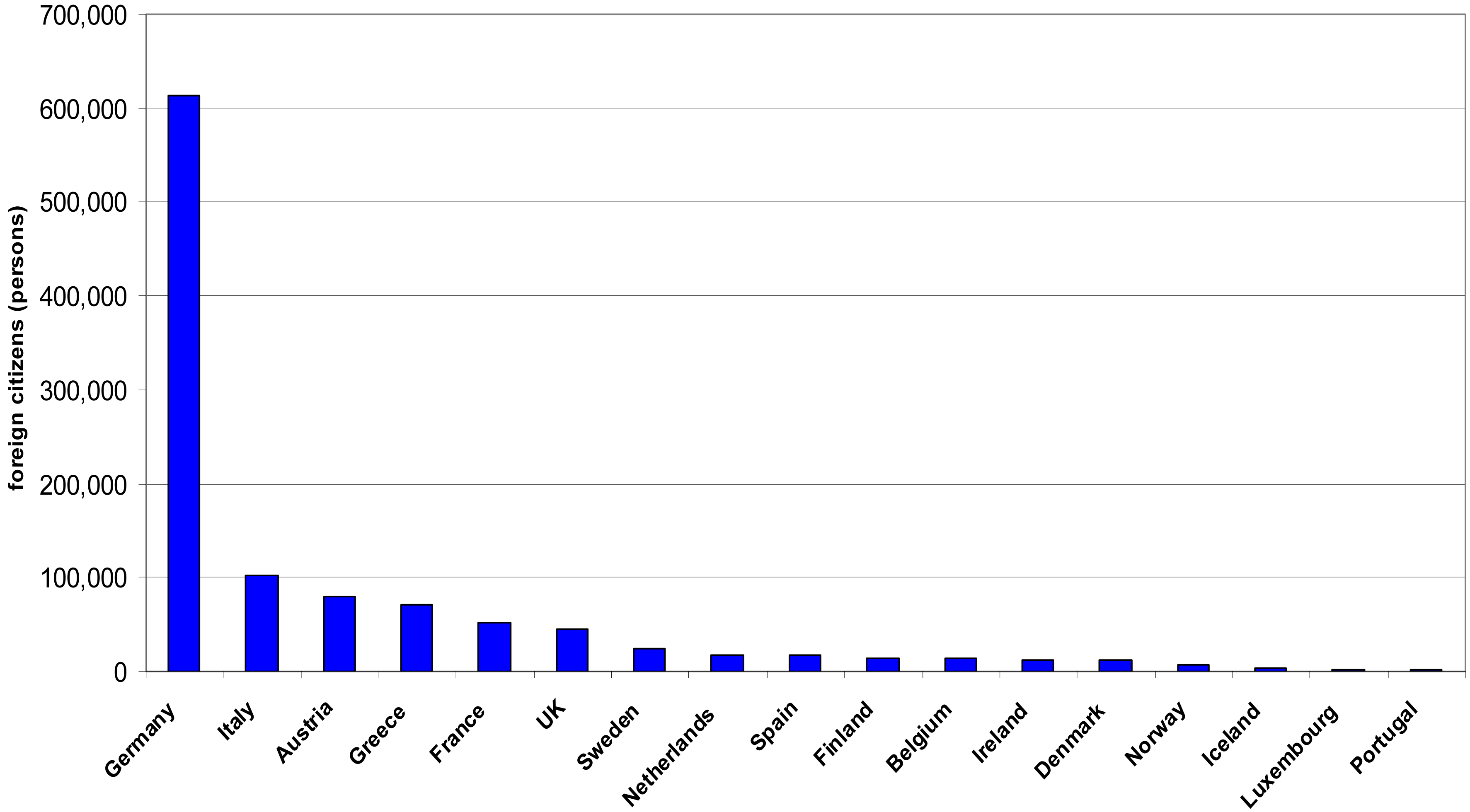
The European income gap, 2003



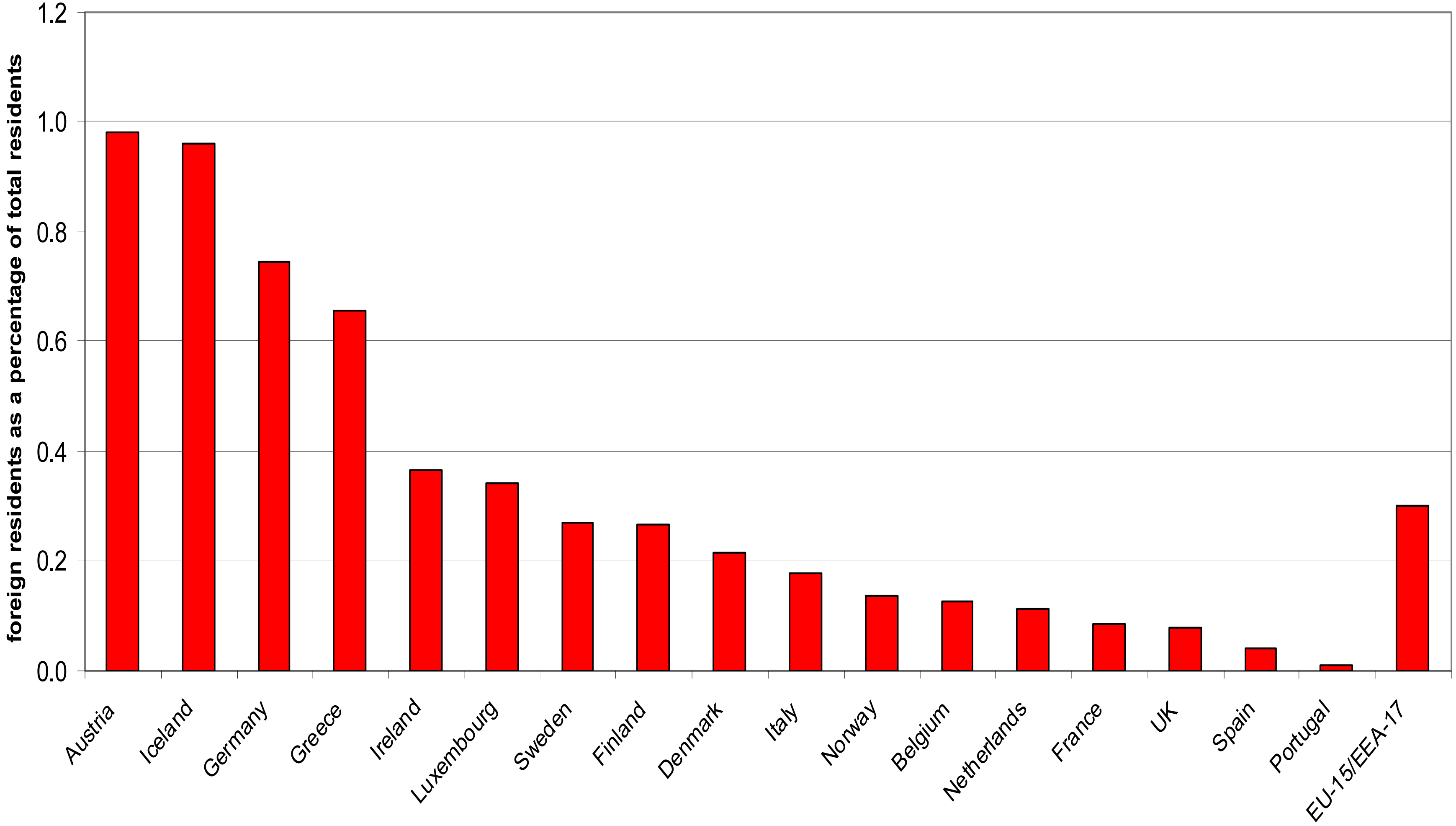
Europe at the outset of Enlargement (cont.)

- But only moderate East-West migration before Enlargement:
  - 0.8 million citizen from the NMS resided in EU/EEA at January 1, 2004
  - another 300.000 from Bulgaria and Romania
  - cumulative migration figures are higher due to naturalizations and migration of ethnic Germans
- main destinations are Germany, Italy, Austria, Greece and UK in absolute terms …
- … and Austria, Iceland, Germany, Greece and Ireland in relative terms

Foreign citizens from CEEC-10, 1.1. 2004



Foreign citizens from CEEC-10 (% of residents)



Enlargement and the "race to the top"

Initially most countries for free mobility, but then transitional periods introduced everywhere:

- Access to labour market largely restricted at least for first 2 years

  Belgium, Finland, France, Germany, Greece, Luxembourg, Netherlands, Spain, Switzerland

- Small quotas for work permits, labour markets otherwise closed, limited access to welfare benefits

  Austria, Italy, Portugal

- Labour Market partially opened, obligations for residence and work permits, limited access to welfare benefits

  Denmark, Ireland, Norway, UK

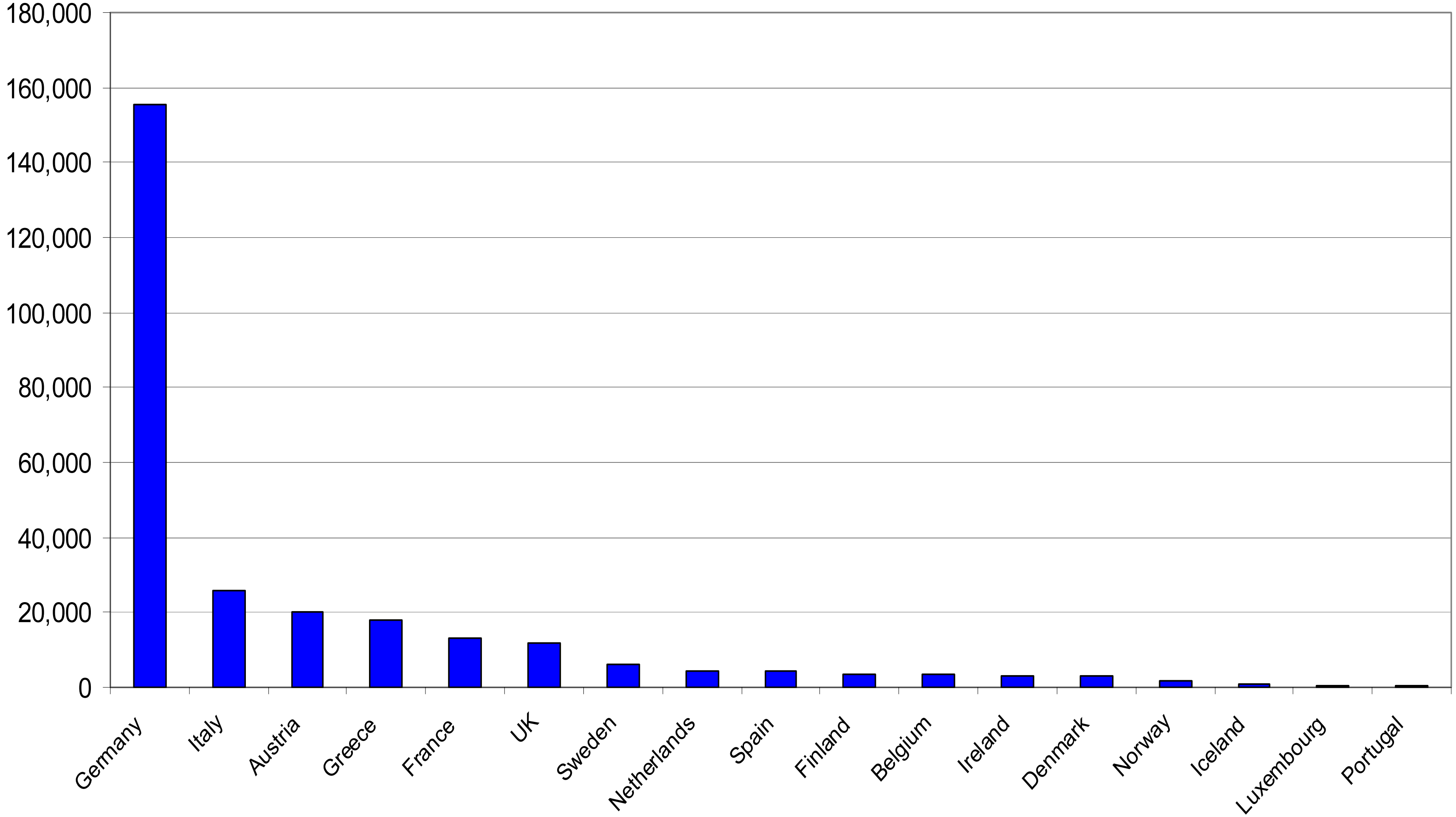
- Application of Community rules for free labour mobility

  Sweden

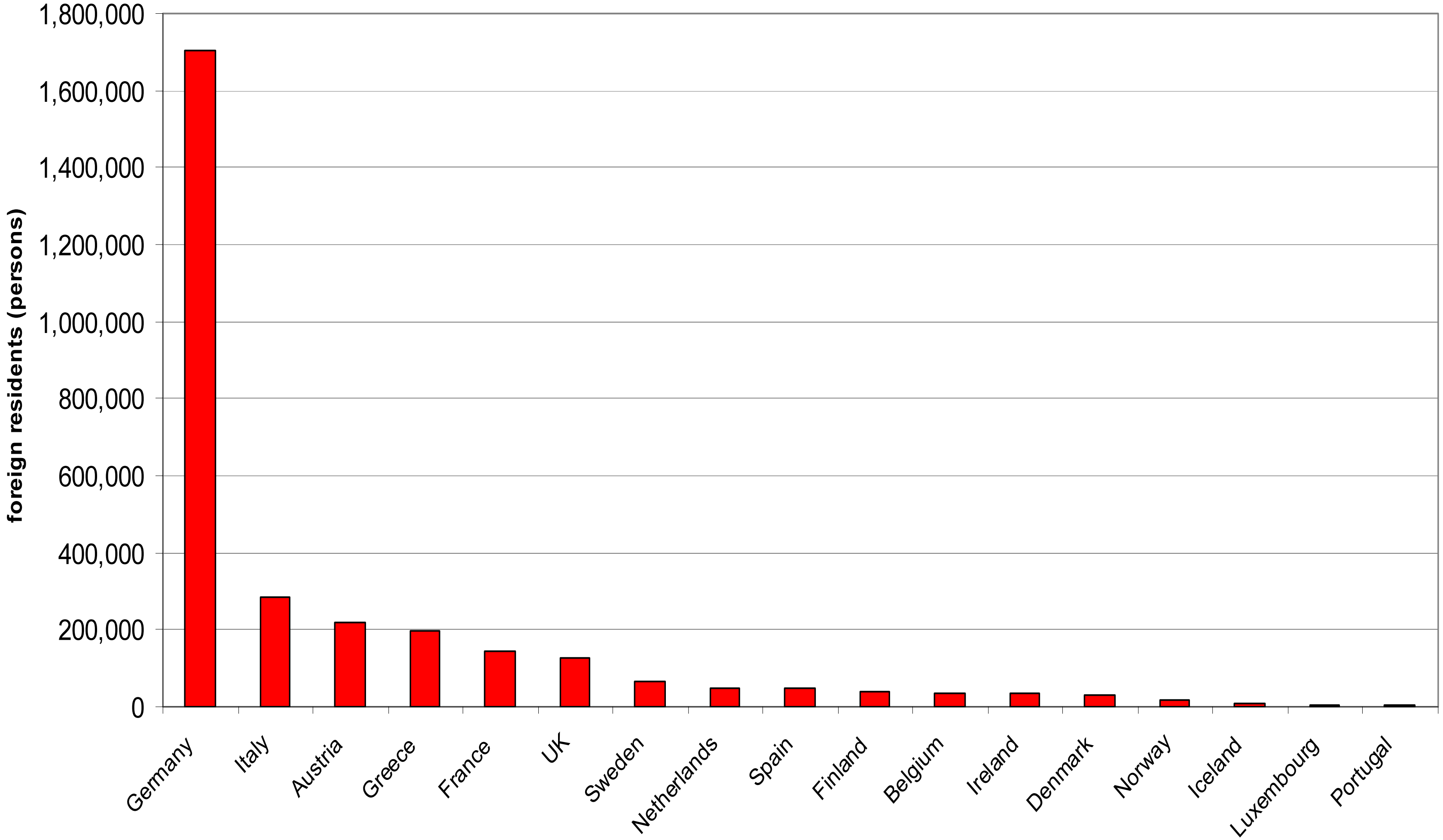
Evidence of migration diversion after May 1st?

- We need a **counterfactual**
- Estimation of macro (stock) migration model to Germany (1967-2001) from a panel of European source countries
- Projections assuming speed of convergence a la Barro and Sala-i-Martin and constant unemployment rates
- Extrapolation to EEA-17 based on current distribution of migrants from 8 NMS
  - long-run stock: 2.6-3.2 million persons
  - short-run net inflow: 270,000-325,000 persons

Net migration scenario after May 1st, 2004



Long-run migration scenario: stocks 2030



Preliminary evidence

- **UK:**
  counterfactual: 12,000 (net inflow); 130,000 (long-run stock)
  May through December 04: 130,000 migrants from NMS. Excluding those applying before May and temporary migrants, still more than 50,000

- **Ireland:**
  counterfactual: 3,100 (net inflow); 34,000 (long-run stock)
  31,000 permits for workers from NMS in the May-October 04 period up from 20,000 in 2003

- **Germany:**
  counterfactual: 155,000 (net inflow); 1.7 mill. (long-run stock)
  Population down from 614.000 to 533.000, mainly, but not only, due to statistical effect

Preliminary evidence

- **Sweden:**
  counterfactual: 6,200 (net inflow); 67,000 (long-run stock)
  3,966 work permits (up from 2,097 in 2003)

- **Denmark:**
  counterfactual: 2,900 (net inflow); 32,000 (long-run stock)
  2,048 work permits in 2004

- **Norway:**
  counterfactual: 1,600 (net inflow); 17,500 (long-run stock)
  net inflow about 2,000

- **Problem:** figures on work permits *not* compatible with population statistics

Summarising

Altogether, preliminary evidence suggests that

(i) total migration into the EU-15 is at around 100-150,000 persons in 2004, roughly one-third of the projected migration potential, and

(ii) substantial migration diversion away from main receiving countries towards those which have been less restrictive and speak English

Outline

- Documenting migration before Enlargement, the *tightening of migration restrictions* in the EU, the “race to the top” occurred with the Enlargement and associated diversion effects.
- **Evaluating *neglected costs of migration* restrictions using calibrated CGE model with imperfect labour markets and welfare payments.**
- Have transitional periods resulted in *co-ordination failures*? Why?
  What are the alternatives?

The costs of migration restrictions

- Evaluation of benefits and costs for receiving country, sending country and region as a whole
- Migration between economies more and more similar to Europe:
  - with labour market clearing (perfect labour markets)
  - with wage rigidities and unemployment
  - with regional wage and employment disparities
  - with welfare (unemployment) benefits

The model

Key features:

- 2 economies: East (sending) and West (receiving)
- 3 production factors:
  - low-skilled labour
  - high-skilled labour
  - (physical) capital
- productivity and capital endowments as in EU-15 (West) and NMS (East)

Scenarios

1. Three different labour market regimes:
   - clearing labour markets (**flexible**)
   - rigid minimum-wage for manual labour (**MINWA manual**)
   - realistic wage rigidities (**bargaining**):

2. Regional imbalances in recipients

3. Transfers to unemployed

Flexible vs. rigid labour markets

	flexible	MINWA manual	bargaining
	change in % at migration of 1 %		
1. GDP			
• total region	0.3	0.19	0.25
• West	0.7	0.50	0.56
• East	-0.7	-0.59	-0.55
2. Native income			
• total region	0.001	-0.10	-0.04
• West	0.001	-0.18	-0.12
• East	-0.001	0.12	0.16
3. Migrant income			
	145.8	144.6	146.5

Flexible vs. rigid labour markets (cont.)

	flexible	MINWA	bargaining
	change in % at migration of 1%		
4. post-tax wage manual labour			
• total region	0.28	0.12	0.13
• West	-0.54	-0.19	-0.51
• East	0.29	0.00	0.25
5. post-tax wage non-manual labour			
• total region	0.31	0.06	0.11
• West	-0.13	-0.52	-0.26
• East	0.29	0.41	-0.21
	change in %-points at migration of 1%		
6. unemployment rate			
• total region	0.00	0.03	-0.03
• West	0.00	0.27	0.19
• East	0.00	-0.16	-0.19

"Greasing the wheels" effect

- Borjas (2001): migration arbitrages away regional income disparities.
- we model the receiving country as 2 regions
    - GDP per capita in low-income region 25% *below* country average
    - GDP per capita in high income region 25% *above* country average
    - migrants move only into high income region
- clearing labour markets in high-income region
- benchmark: homogeneous regions, semi-rigid

"Greasing the wheels" effect (cont.)

	heterogeneous	homogeneous
	change in % at migration of 1 %	
1. GDP		
• total region:	0.51	0.25
• West:	0.90	0.56
• East:	-0.55	-0.55
2. Native income		
• total region:	0.04	-0.04
• West:	0.003	-0.12
• East:	0.16	0.16
3. Migrant income		
	242.5	146.5

Welfare door

Direct and indirect effects of welfare benefits:

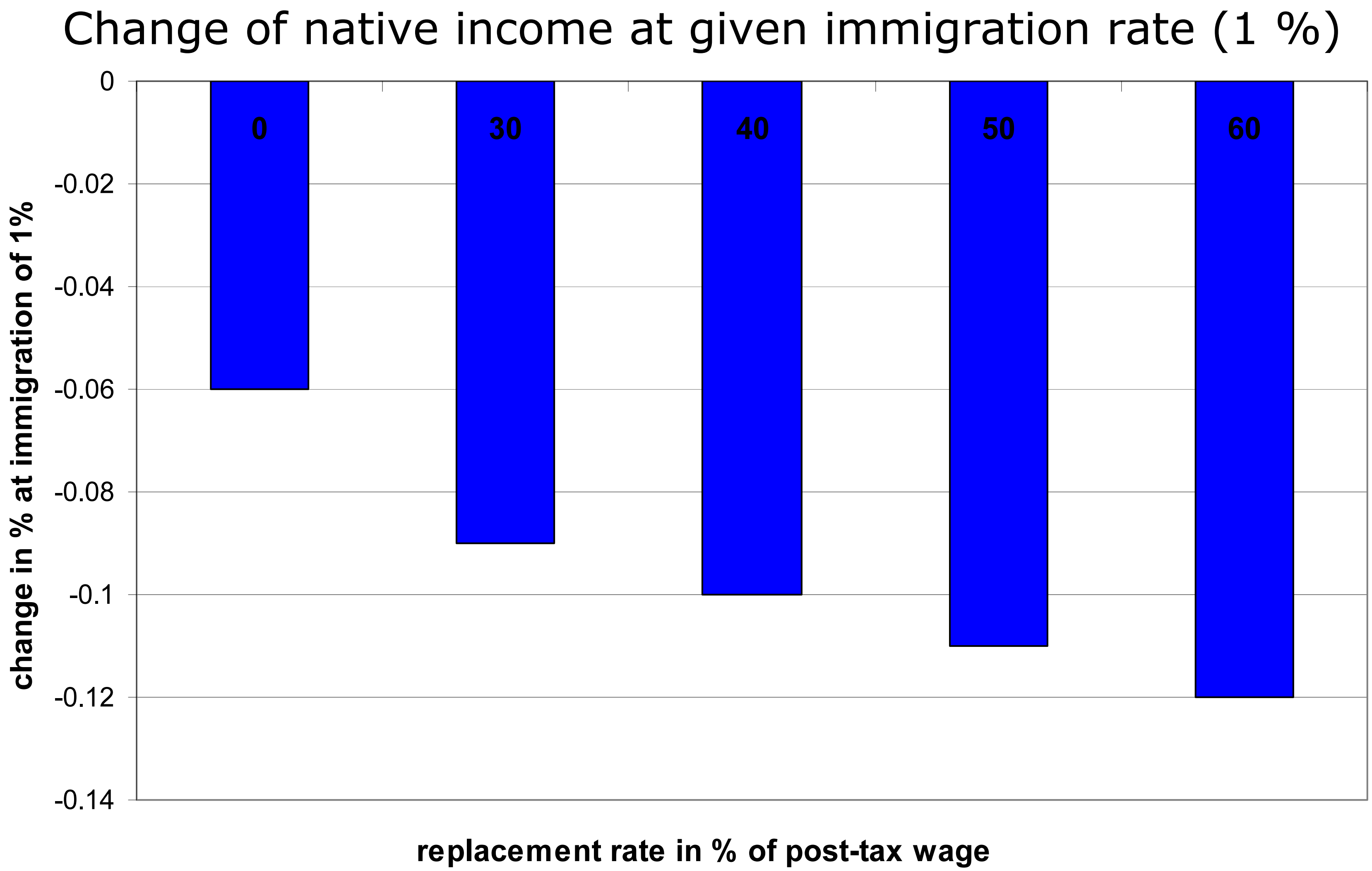
1. Direct fiscal impact of welfare benefits (per given replacement rate) on native income in receiving countries at given migration rate (1%)
2. Indirect effect via changes in

   (i) scale and

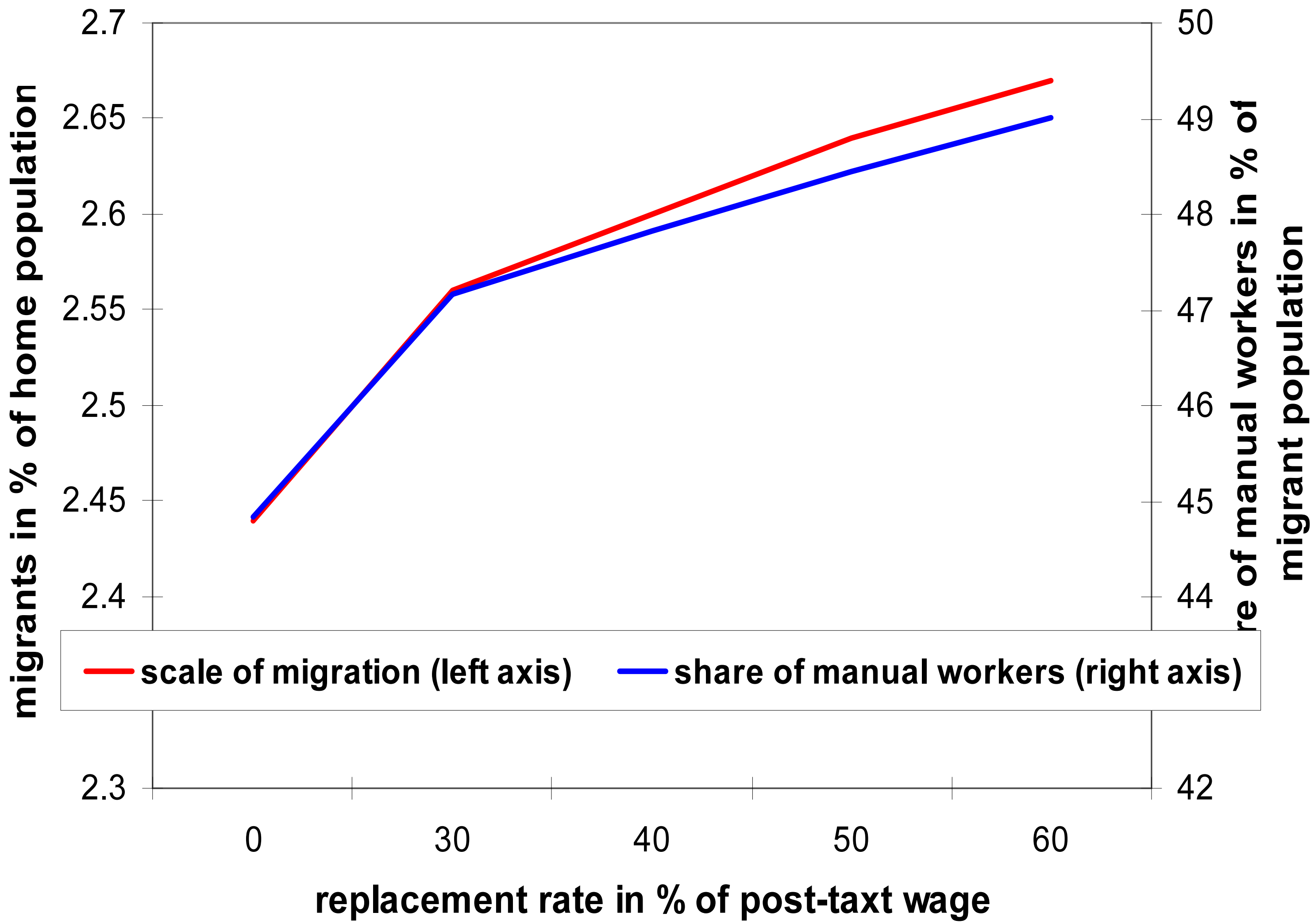
   (ii) composition of migration (Roy model).

- Under collective bargaining

Direct effect on host country



Impact on scale and composition of migrants



Total effects of unemployment benefits

Replacement rate	0	40	60
	change in %		
1. GDP			
• total region	0.59	0.64	0.66
• West	1.33	1.45	1.50
• East	-1.35	-1.45	-1.52
2. native income			
• total region	-0.01	-0.07	-0.11
• West	-0.16	-0.25	-0.31
• East	0.39	0.42	0.44
	change in %-points		
3. unemployment rate			
• total region	-0.06	-0.06	-0.06
• West	0.46	0.50	0.52
• East	-0.45	-0.49	-0.51

Summary of simulation results

- *Total* gains from migration are large:
  +0.2-0.5% GDP with migration of 1%
- Most gains accrue however to migrants and their families
- Small gains or losses for natives in receiving and sending countries depending inter alia on assumptions on wage rigidities:
  - losses for manual labour (-0.2% to -0.55%) and non-manual labour (-0.1% to -0.5%) in receiving countries;
  - unemployment rate increases in receiving countries by 0.1-0.2 percentage points, falls in sending countries
  - however, labour wins in total region

Summary of simulation results (cont.)

- Migration, hence total GDP in enlarged EU, *increases* with replacement rate. But steeper trade-off between native (-) and migrants income (+).

- Caveats:
  - no dynamics (capital accumulation) in the model
  - closed-economy framework
  - only unemployment benefits, no pensions

- Thus we likely over-estimate the costs of migration

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- Evaluating *neglected costs of migration* into imperfect labour markets with welfare payments using calibrated CGE model.
- **Why have transitional periods resulted in *co-ordination failures*? Why? What are the alternatives?**

Which co-ordination failures?

Two types:

1. Lack of co-ordination between senders and recipients
2. Lack of co-ordination among recipients

How does EU/EEA adress co-ordination failures?

1. Principle of free movement (Treaty of Rome) avoids co-ordination failures within Common Market
2. Transitional periods result in lack of co-ordination between senders and recipients
3. Transitional periods result in lack of co-ordination among recipients ("race to the top")

Policy conclusions

What are the alternatives?

1. **Closing welfare doors to East-West migrants at least transitionally?**

- *Would reduce migration and GDP. Could make public opinion more favourable to migrants, but not necessarily induce less restrictive policies, especially if done unilaterally.*

- *Enforceable? Incompatible with EU Treaties. Case of California. Equity considerations.*

Policy conclusions (continues)

2. **EU-wide quote (cum point system) during transitional period?**
   - *Co-ordination of migration policies prevents negative spillover effects.*
   - *Skilled migration is better for rigid countries.*
   - *Consistent with support of mobility within EU/EEA.*
   - *Quotas can be lifted before end of transitional periods if not utilised.*