

East-West Migration: Will It Be a Problem?

How many will come? Thousands, millions? Does Europe need a new Iron Curtain? These questions dominate the ongoing negotiations on the eastward enlargement of the European Union. Western Europeans fear that the removal of barriers to migration would lead to a mass exodus of cheap(er) Eastern European workers from Eastern to Western Europe, which would place severe economic and political strains on the Western European target countries. And indeed, the East-West migration potential seems to be substantial. According to some guesstimates the migration flows from Central and Eastern to Western Europe could be up to 10 million people. Other assessments indicate more modest figures in the magnitude of about 4 million. Most of them (about 3 out of 5) would probably go to Germany.

It remains an open question, however, whether the right of free movement will in fact stimulate the predicted substantial East-West migration flows. Nevertheless, such speculations have a long tradition in the history of the European Union. When in 1957 the original European Economic Community was formed, the Germans and French were afraid of being overrun by Italian "guest workers". However, something completely unexpected happened: only for a very short period of time did some Italians go North to become "guest workers" in Germany. Many more – but still relatively few – Southern Italians moved to the fast developing Northern Italian economy and did not even think about going to other EEC member countries. When in 1981 Greece and in 1986 Portugal and Spain became members of the European Community, Northern European member countries again worried about the South-North migration potential. And again, Portuguese, Spaniards and Greeks did not follow conventional prejudices. They mainly stayed at home and moved North only in extremely limited numbers.

What we could learn from the southward enlargement of the EU is that rapid economic integration into a single market area was, and is, a most effective transformation strategy and therefore it turns out to be a most efficient anti-immigration strategy. The inclusion of Eastern Europe into an enlarged single market with no barriers to trade, free capital flows and unrestricted labour mobility can therefore be expected to diminish substantially, rapidly and sustainably the East-West migration potential.

Economic integration in a single market takes place above all via trade in goods and services and via capital transfers, and not so much via the migration of workers. Trade flows react much more elastically than people to the formation of a single market. To a large extent trade in goods and capital transfers make the migration of labour unnecessary. For economists this is no surprise. It is exactly the result that is predicted by the traditional Heckscher-Ohlin-Samuelson models of international economics: trade and migration are substitutes. The same is true of capital flows. Bringing machinery to labour renders unnecessary the movement of people to the machines!

For the capital markets in Eastern Europe, becoming a member of the EU is like getting a quality certificate. It means credibility and security for the protection of property rights, the rights of shareholders and, thus, for direct investments. Risks for capital transfers are reduced. Hence, West-East direct investments are likely to function to a large extent as a substitute for the East-West migration of workers. In as far as there is a complementary relationship between capital transfers and migration, direct investments and the migration of labour are necessary in order to exploit the advantages of an integrated economic area. In this case, however, it is usually a question of the migration of highly qualified specialists and not of the mass migration of unskilled workers.

Once the Eastern European countries become EU members, access to the large internal market will support efficiency and thus stimulate economic growth. This will have a strong inhibitive effect on migration, as can again be demonstrated by the example of Southern Europe. With their rising standard of living, the traditional EU emigration countries (Italy, Greece, Spain, Portugal) have become immigration countries. The natives of these countries no longer migrate in order to seek employment abroad. Instead, the economic upswing has created a pull effect on workers from third countries.

The Southern European experience tells us one more story, namely that immobility has a positive economic value. Staying at home allows people to use their specifically local know-how for earning an income and for spending that income. This know-how would be lost in the case of migration and would have to be acquired once more at the new place of residence. A further advantage of immobility lies in the option value of waiting. Analogously to investment decisions on financial markets, waiting has a positive option value, which arises because the postponement of the migration decision until later reduces the relative uncertainty and therefore the risk which is involved. If during the period of waiting the differences in income between the home region and the potential host region diminish, the actual migration flow will be much smaller than originally planned.

It is precisely this value of immobility that explains why most people prefer to "stay" even if "going" seems to be an attractive alternative at first glance. For most people, the second glance clearly shows that the value of immobility is higher than the expected net present value of a move abroad. Consequently, staying is rational individual behaviour. The large majority of people want to live and work where they have their roots. They usually prefer the status quo to an unfamiliar or insecure change. The simple abolishment of legal impediments to migration is usually insufficient to overcome individual (microeconomic, social and cultural) obstacles.

We might also expect that simply the prospect of having the opportunity of migrating within a common internal market at a later date, as long as a job is available, reduces present individual readiness to migrate quite decisively. Again the experience of the EU confirms this expectation. Within the EU, labour migration has proved to be mainly demand-determined: it usually depends to a major extent on the needs and employment opportunities in the immigration countries. Having achieved a certain standard of living and having hopes for further improvements, people do not just move. They migrate only if they already have an attractive work contract in their pocket.

Of course, future East-West migration might be different from historical South-North patterns. But both theoretical assumptions and the empirical experience of former enlargement processes provide strong arguments that the freedom of East European workers will not generate the strong migration flows that frighten some Western Europeans. But even if there were a migration hump and more people than expected moved West, this would not harm Western Europe. Less than 2% of EU citizens presently live in another EU country. In the immediate future it is therefore more likely to be too little migration which causes a problem for the EU than too much. More migration would facilitate the overcoming of regional and sectoral labour market disequilibria and some of the demographic problems caused by the ageing of the EU population.

However, fears about migration exist, and politicians have to take them seriously, regardless of whether they are justified or not. In order to allay these fears there are basically two options: either freedom of movement could be delayed for several years or free mobility could be granted immediately but only for a limited number of people. The German chancellor has stated his preference for a transitional period of seven years as was the case for the Southern European countries. Such transitional periods are only a third best solution, however. The second best solution would be to implement free mobility but to set an upper limit to the number of immigrants. This would at least allow an immediate partial reallocation of the labour force according to market mechanisms. And it would therefore be a first step on the way towards the economically first best solution: the free movement for all new citizens of the European Union.

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