

Economic Policy 20th Anniversary

London, 20 October, 2005

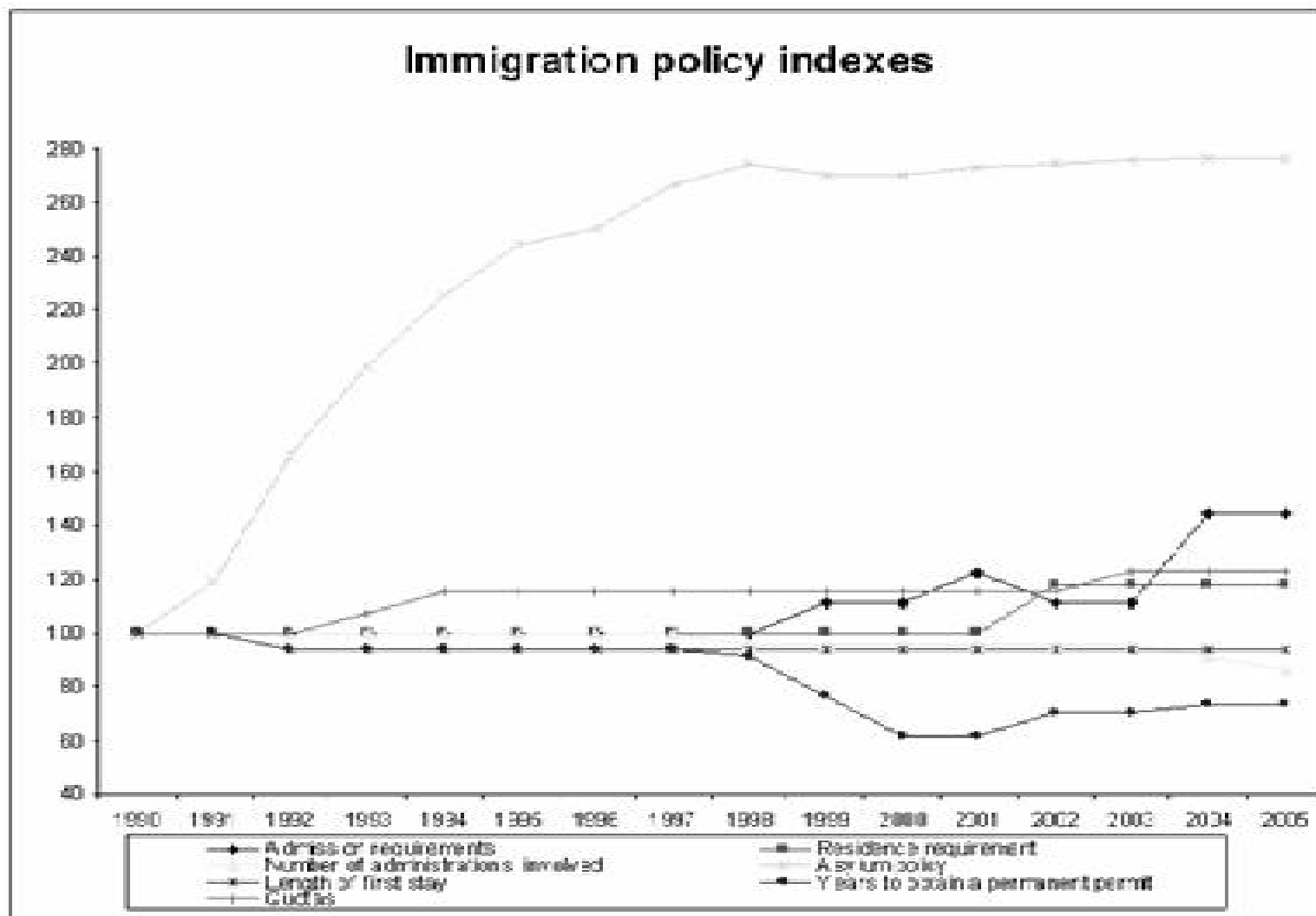
Migration, Coordination Failures and EU Enlargement

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The issue

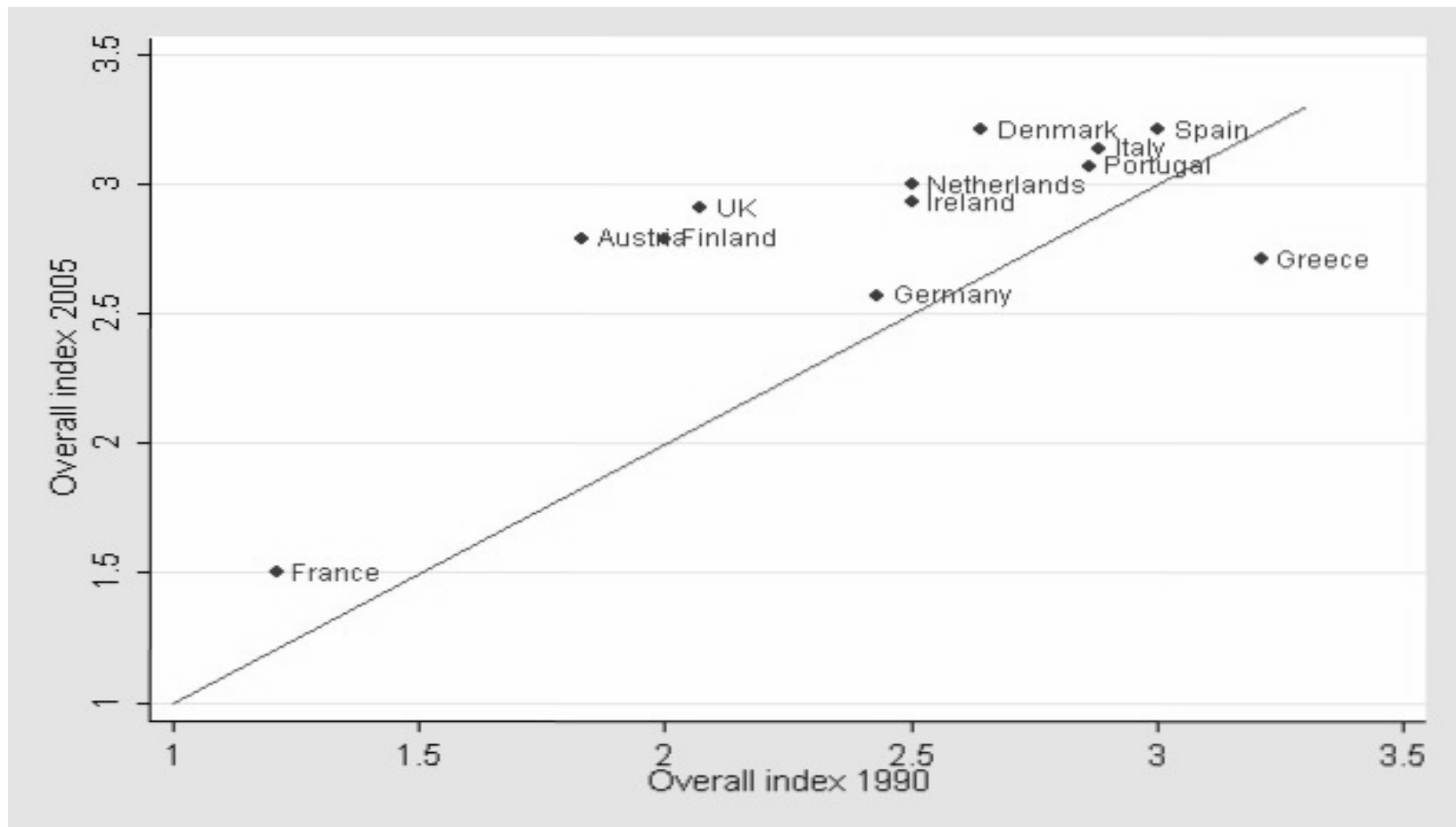
- Economic theory: large potential benefits associated with migration
- Yet migration is the “great absentee” of globalisation.
- Is it because there are neglected costs or benefits are being overestimated?
- Or is it because of co-ordination failures? Of which type?
- *Lessons* from the Eastern Enlargement

The tightening of migration restrictions



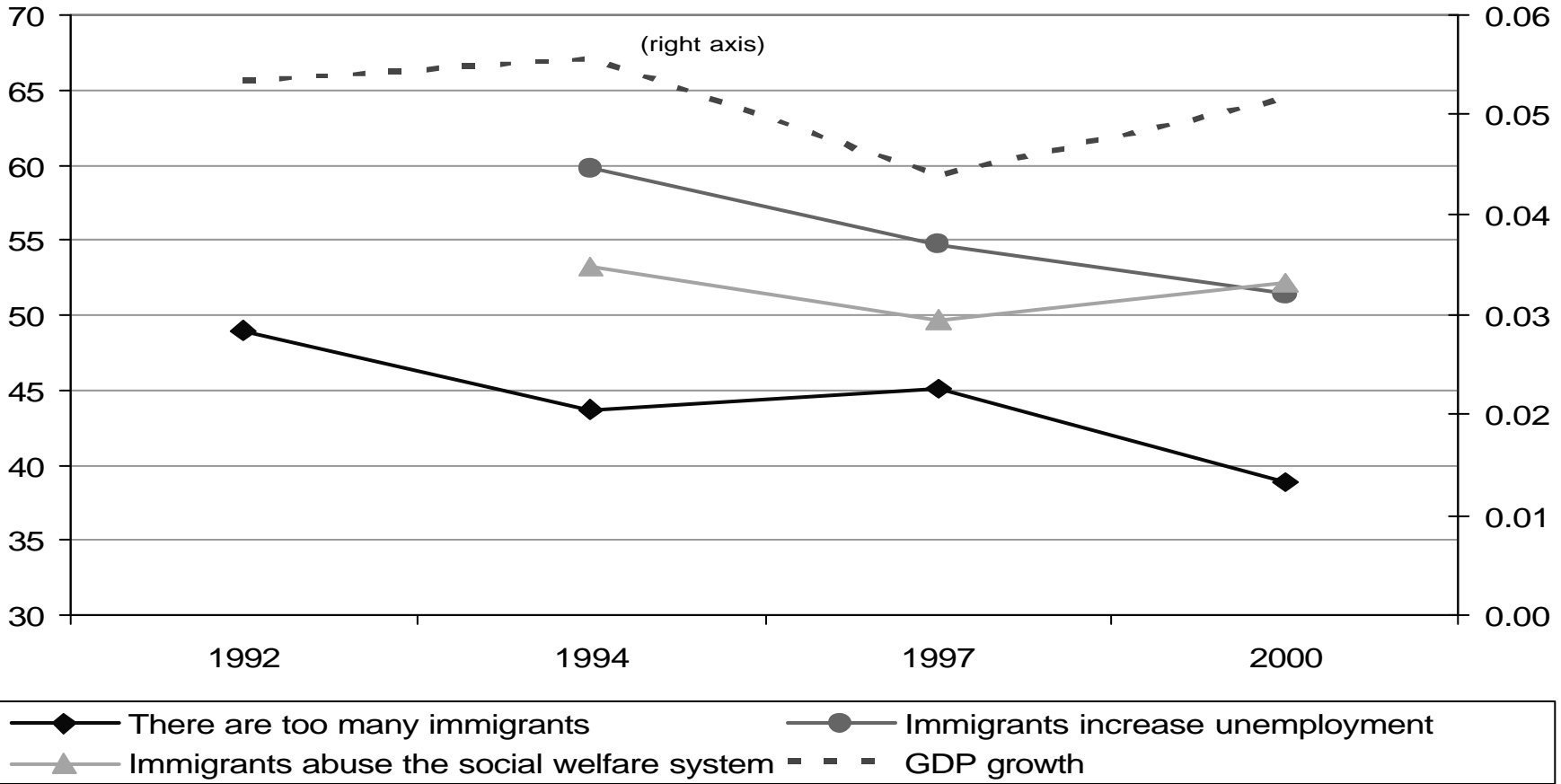
Indexes increasing in the strictness of migration restrictions. See www.frdb.org for details

Tightening in all the EU-15



Overall index of strictness of immigration policies. For more details: www.frdb.org

Public opinion is *not* getting more hostile to migrants

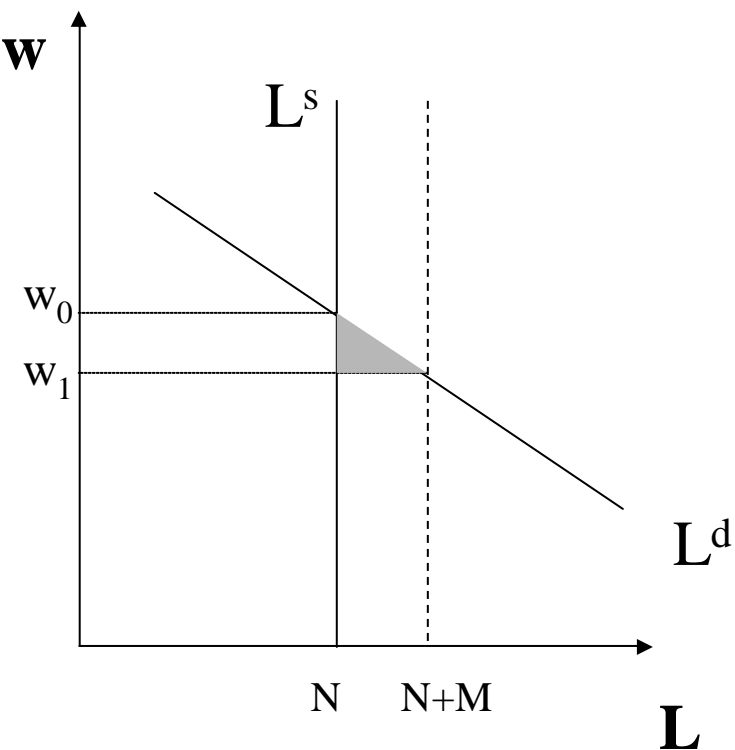


Explanations for the tightening offered in the paper

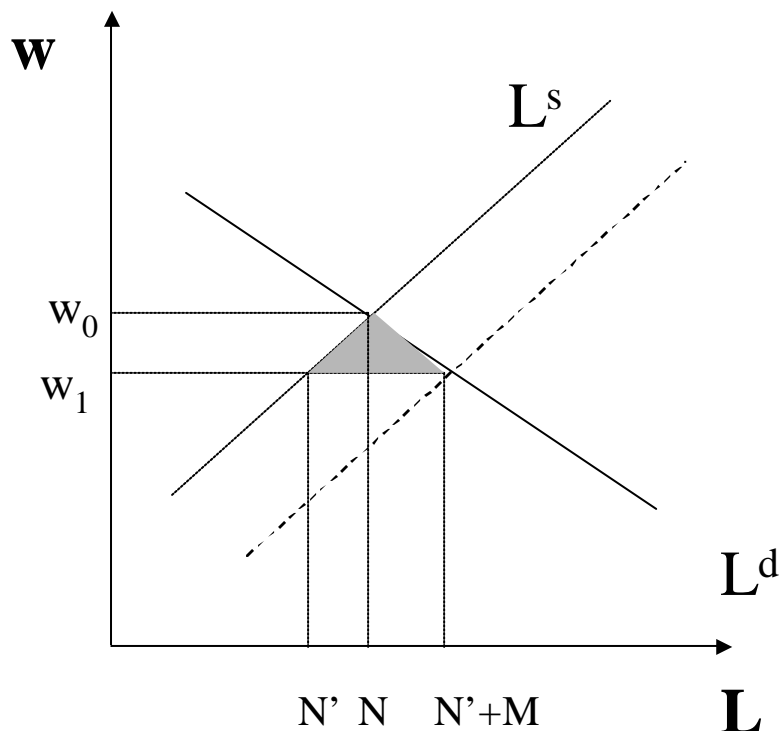
1. Immigration into rigid labour markets is more costly than in the textbooks and involves negative externalities, e.g., fiscal externalities (related to welfare payments) in the short-term. Thus socially accepted immigration flows involve some gradualism.
2. Unco-ordinated migration policies divert migration flows inducing a “race-to-the-top” in migration restrictions.

Immigration into perfect labour markets: the textbook case

With rigid LS

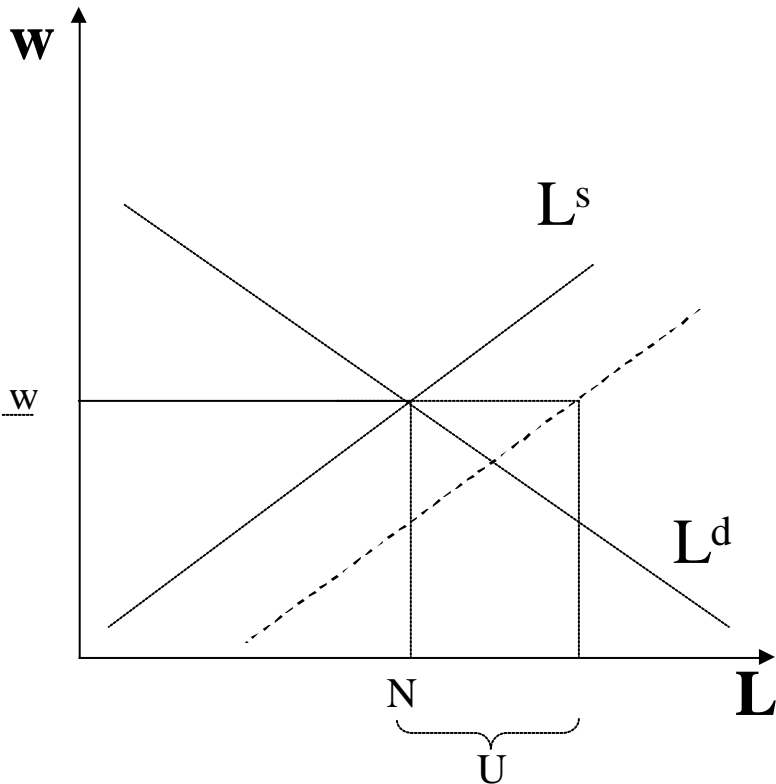


With elastic LS

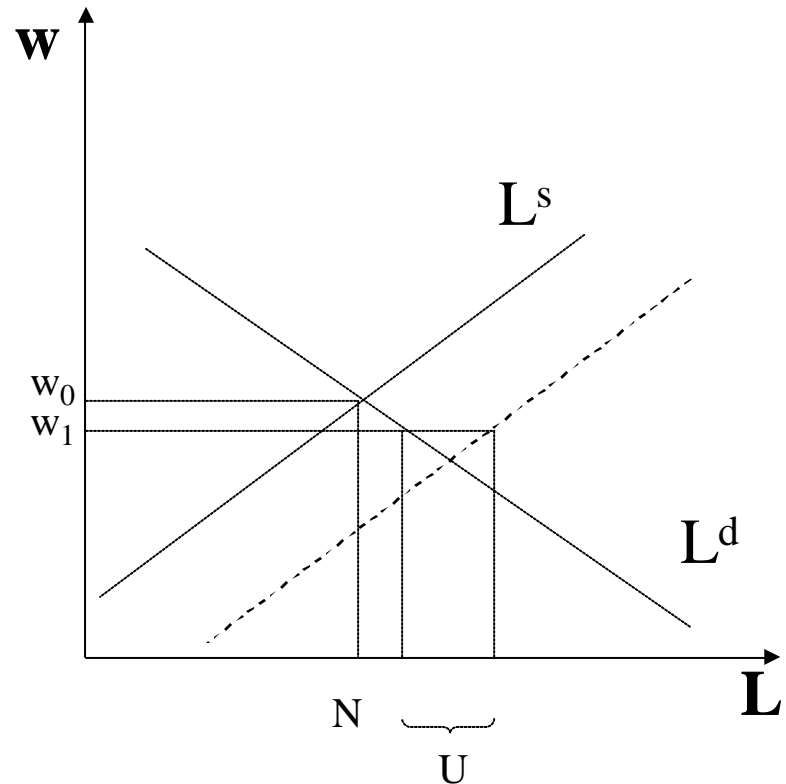


Immigration to imperfect labour markets

With a binding minimum wage



With semi-rigid wages



Calibration to EU Enlargement

greasing the wheels

homogeneous regions

change in % at migration of 3 % of NMS

1. GDP

- | | | |
|-----------------|-------|-------|
| • total region: | 0.51 | 0.26 |
| • West: | 0.90 | 0.57 |
| • 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

167.6

With Access to Welfare (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, notably with low mobility: up to 0.5% GDP with migration of 1%
- But accrue mainly to migrants and their families
- Lower gains (or larger losses) for destination countries with rigidities, but less averse effects on income distribution of natives.
- Migration, hence efficiency gains from migration, *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 legal migration, only welfare, no pension. Thus we likely over-estimate the costs of migration.

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

- 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, UK

- Application of Community rules for free labour mobility

Sweden

And asymmetries in policies diverted flows

- **UK:**
counterfactual: 12,000 (net inflow); 130,000 (long-run stock)
May through Dec 04: 130,000 migrants from NMS. Excluding those applying before May and temporary migrants, still more than 50,000. Continues in 2005 (stock raised to 231,000).
- **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
- **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

Policy options

Restricting migration or welfare access?

Migration

Uniform quota or point system?

Point system absorbing the different regulations (e.g., humanitarian points rather than asylum policies)

Freedom of movement within the EU. Migrants go where there are jobs for them.

Common enforcement: legal and illegal migration are two faces of the same coin.

But are citizens favourable to a EU policy?

Decisions about the immigration policy should be made by the EU rather than by the national Government

