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It makes economic sense to open borders

The French and Dutch governments should not use eastern enlargement of the European Union as a scapegoat for their referendum defeats. Unemployment and dependence on welfare payments are due to domestic policy failures; closing borders or welfare to workers from the new members would backfire.

It is easy to make migrants responsible for high unemployment. Start by substantially overestimating the number of migrants, as the natives invariably do. Then assume the number of jobs is fixed. Evidently any immigrant must be taking the job of a native, so unemployment can be cut only by stopping immigration. This "lump of labour fallacy" is popular wisdom, and even some serious commentators seem to buy it. But it is indeed false.

From 1960 to 2000, west Germany received 8.5m migrants. The native labour force also increased by another 1.3m as more women went to work. The total labour force increased in west Germany by 6m. True, unemployment rose by 2.7m – but that happened just when immigration was decelerating and more people were taking early retirement. The rise of unemployment in west Germany coincided with policies reducing labour supply, rather than the other way round, except in the 1990s, when unification brought both deep unemployment in the east and internal migration to the west.

The German case suggests that even in rigid labour markets large inflows of migrants can be accommodated without increasing unemployment. When institutions prevent wage adjustment, migration may temporarily create unemployment. But migration related to eastern enlargement of the EU has so far been much lower than expected, notably to countries, such as France and the Netherlands, applying transitional restrictions to workers from the new member states.

Restricting welfare or closing doors to workers from new EU member states until economic convergence is achieved would backfire

These asymmetric arrangements prevent migrants from the new member states going where they would be most beneficial: countries where centralised bargaining systems enforce, over the entire workforce, wages set by reference to the labour market in high-productivity regions. That creates unemployment in low-productivity regions. Migrants from the new members could arbitrage away these differentials and contribute to lowering unemployment in the poor regions, given the centralised wage-setting. This is because migrants go to the rich regions. Migration puts pressure on rigid institutions. And this is most beneficial in the most rigid countries.

Restricting welfare or closing doors to workers from new member states for a few decades until economic convergence is achieved would backfire by cutting just the type of migration that is easiest to assimilate: legal, intra-EU migration of medium and highly skilled people. Migration would fall not because workers from the new members plan to come and live on welfare but because migrating to high-unemployment EU countries entails big risks of not finding a job, and many decisions related to migration are irreversible.

Discriminating against foreigners in the welfare system would encourage the take-up of shadow economy jobs not covered by social insurance, postpone assimilation of migrants and raise the number of workers employed and paid by companies in the sending countries. Rather than increasing profits for companies selling labour services, it is better to allow more migrants who will spend their incomes in their new and (via remittances) their old countries. Rather than depriving immigrants of welfare benefits it is better to use "welfare-to-work" to reduce long-term dependence on transfers. And these policies increase labour supply in countries with ageing populations and shrinking labour forces.

International migration creates large benefits for the populations of receiving and sending countries. The best estimates for potential east-west migration in the long run in the new EU are about 3 per cent of the eastern population. We calculate* that, at the given wage and productivity gap between western and eastern Europe, the migration of 1 per cent of the eastern population to the west could immediately increase EU gross domestic product by 0.2 to 0.3 per cent. Open borders would therefore bring a GDP gain of close to 1 per cent, that is, by up to €50bn. Europe cannot afford to forgo that.

* *Migration, Co-ordination Failures and EU Enlargement, www.frdb.org*

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