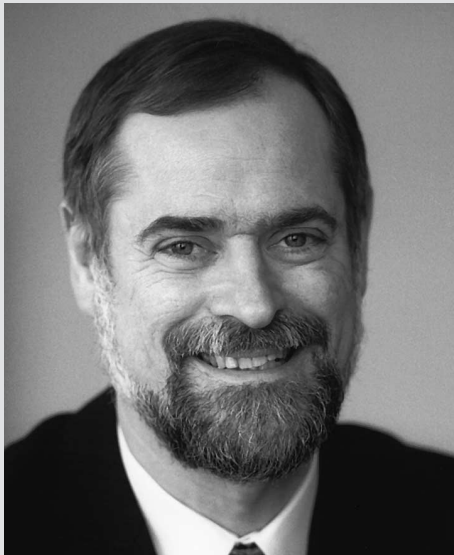


O P I N I O N

Free Movement of Labor after EU Enlargement



Many Europeans apparently fear that the planned enlargement of the EU would entail a strong increase in immigration from the new member states to Western Europe – and Germany in particular. The argument goes that the consequences for some European labor markets would be dramatic. This is the main reason behind the ongoing debate about installing an interim period of 5-7 years until the free movement of labor would take effect. The proponents of this approach refer to similar rules that applied to Spain and Portugal when those two countries joined the EU. But would the same rules also make sense in the case of EU eastward enlargement?

Various studies – conducted by IZA, the German Institute for Economic Research (DIW Berlin), the ifo Institute in Munich and others – have proven these fears to be clearly exaggerated. All of these studies basically arrive at the same conclusion: Immigration from the new member states will not exceed a moderate level, and most of it will only be temporary. According to IZA analyses, gross immigration to Germany will average about 90,000-140,000 individuals annually during the first 15 years following EU eastward enlargement. For the entire EU, IZA estimates immigration during the same period at 2-3 million individu-

als – equivalent to 2-3 percent of the population of the ten new member states. Due to the large scope of return migration, however, net migration can be expected to be much lower in the long run. And only a fraction of those who will cross the borders to Western Europe are actually going to seek employment.

Other studies yield somewhat higher estimates: DIW Berlin, for instance, suggests that immediate and unrestricted freedom of movement will bring about an average annual net migration to Germany of 144,000 individuals during the first decade after EU enlargement, starting with an initial net inflow of 220,000 people per year. For the second decade, the institute forecasts a steep decline in immigration to no more than 54,000 net immigrants per year. Like the IZA analysis, the DIW study gives no reason to worry. The ifo Institute estimates that the net migration to Germany will amount to an average of 250,000-300,000 individuals during the initial years, but suggests that net immigration will not decline as substantially in the second decade as predicted by DIW. Hence, net immigration would be somewhat larger in the long run than in the IZA and DIW studies.

In light of these findings, public fears are clearly unjustified, especially since future migrants from the new member states will have much higher qualification levels than those who came to Germany during previous migration waves. Make no mistake: Germany and Austria will certainly absorb the largest share of immigrants. This is due to the well-established ethnic networks in these countries. It would nonetheless be inappropriate to put the freedom of movement on hold for some time. An interim period of 5-7 years would mean that the Western labor markets would not open up until the end of this decade. Yet, demographic trends unequivocally show that the demand for immigrant labor in Germany will be exceptionally strong over the next five years. After that, it will take at least until 2015 for the demand to regain a comparably high level.

The proposed interim period, however, would trigger additional migration from Eastern Europe at a time when demographically based

immigration needs in Germany will be virtually non-existent for a while. In contrast, if the German labor market were to open up immediately after EU enlargement, demographically based needs would be at its peak. By then, the demographic shortage will amount to 500,000 people. The expected influx in the wake of EU enlargement would therefore not just be easily manageable, but even highly desirable.

On a different note, EU enlargement will, of course, also allow Western Europeans to tap new markets in the east. This will encourage the creation of new agglomerates and binational centers with a high growth potential, particularly in the eastern part of Germany. Immigrants come with language skills and cultural capital – both are prerequisites for successful entrepreneurial activities in the new markets.

Even today, most restrictions on the movement of goods, services, and capital have already been lifted. If individuals are not allowed to migrate from east to west, the production – especially in the labor-intensive sectors – will be moved from west to east. This would have a permanent negative impact on the German labor market. Higher unemployment would be the result, with the interim period being the major cause.

Keeping the borders officially closed to workers will not keep people from illegally migrating to the sectors dominated by low-skilled labor. After all, they would enjoy guaranteed amnesty at the end of the interim period. The consequence for Germany would be rising unemployment in the low-wage sector.

A sound strategy must therefore include two key elements. First, we should open up our labor markets immediately after EU enlargement; and second, we should make a targeted effort at recruiting highly qualified workers from Eastern Europe in order not to lose them to the other regions of the world that compete with us for the most talented minds.

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