New Citizens, Old Borders

Why Europe has not put out the welcome mat for its new members

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THE EUROPEAN UNION (EU) welcomed the citizens of the 10 new member countries (NMCs) by shutting the door in their faces. Actually, it did worse than that. Because there is no agreement at the EU level on common rules to be applied to the new citizens during the seven-year transition period, each of the old members decided to establish its own without coordinating with the others. In general, these rules substantially tighten migration or other restrictions that affect the newcomers.

Austria and Germany, the destinations of four out of five migrants from Eastern Europe, announced in 2002 that they would restrict migration from the NMCs for the full seven years. France and Belgium decided to maintain current restrictions on immigration for new EU citizens for at least the first two years. The Danish government met fierce resistance when the Ministry of Labor proposed opening Denmark's borders to all new citizens who could prove they had a job. Greece and Italy opted to treat NMC citizens as if they were migrants from countries outside the EU. Finland, initially intending to take a liberal stance, postponed the opening of its borders for at least two years. A Swedish government draft bill in the same vein was not approved by the parliament, but Sweden also has plans to limit access. If that happens, all countries bordering the NMCs will have restricted migration by workers from the "New Europe" (see map).

This tightening of restrictions is a reaction to the mounting concerns of the public in the established EU members (the EU-15) about migration issues. The new members are small economically—they have significantly lower incomes per capita than the EU-15—but large demographically: the two phases of eastern enlargement (the CEE-8, plus the planned admission of Bulgaria and Romania) involve more than 100 million people. More than fearing large waves of migrants from the NMCs, citizens of the EU-15 are concerned that workers from the new members will sponge off their welfare states. According to a 2002 survey by Eurobarometer, the polling organization of the European Commission, one in two EU citizens believes that migrants, wherever they come from, are already abusing the welfare state, and two out of three consider that the EU should open up only to countries whose living standards are comparable. Not surprisingly, the survey shows that the largest declines in popular support for enlargement have occurred in the EU countries with the most generous welfare benefits.

[1]Categories reflect plans of government as made public before May 20, 2004.

Bad for growth

But closing the door to the new citizens will hurt EU growth while at the same time failing to solve the welfare issue. The new restrictions will alter the geographical orientation of migration, preventing migrants from the NMCs from going to the countries where they can be most productive. In Central and Southern Europe, where the labor markets have low mobility, migrants play an important role by increasing average productivity, contributing not only to stronger growth but also to higher incomes per capita

(Borjas, 2001). Because of distortions in wage patterns (wages are often set irrespective of local labor productivity conditions), migrants can even reduce unemployment by lowering wages in the regions where the pool of job seekers is largest.

As for welfare access, restrictions on legal migration only encourage illegal migration, which is much worse from a fiscal standpoint. Unlike legal migrants, illegal workers do not help finance the welfare state. Forgone revenues are sizable because migrants are generally young and work most of the time. Furthermore, illegal migrants tend to be less skilled than legal migrants. When they are regularized (the EU has a long record of migration amnesties), illegal migrants are more likely to draw cash transfers than if migration restrictions had not already been in place. Moreover, regular migrants from the NMCs are generally better educated than the average EU worker, let alone migrants from other nations.

A better way

A better way to deal with migration would be to adopt a common (and rather generous) transitional quota set by the EU as a whole—enabling at least part of the potential welfare gains to be realized in the form of higher growth while providing information on migration pressures. The quota could be based on past migration episodes (Boeri, Brücker, and others, 2001), perhaps accommodating an annual inflow of some 400,000 people.

While transitional restrictions are in place, reforms should be carried out that tackle concerns about the future viability of the welfare system. In seven years, when the transitional period is over, differences in incomes between old and new members will still exist. Studies by Barro and Sala-i-Martin (1991) and Levine and Renelt (1991), using traditional growth regressions to extrapolate the growth prospects of the new members, show projected annual growth rates in the NMCs of around 5 percent—a rate that implies a rather slow process of convergence not only to the average income of the EU but even to that of low-income members like Greece, Portugal, and Spain (Fischer, Sahay, and Vegh, 1998). These estimates are broadly consistent with the 2 percent rate of "conditional convergence" found by Barro and Sala-i-Martin (1991, 1995). (Conditional convergence is the rate of convergence toward the steady-state income level of the benchmark countries, taking into account the effects of variables affecting economic growth.)

Thus, economic convergence is a long-term business. Meanwhile, the EU's redistributive policies should be reformed to help curb migration pressures and discourage "welfare shopping" by citizens of the poorest nations. Some evidence exists that immigrants to the EU from non-EU countries are receiving proportionally more social transfers than the native population (Boeri, Hanson, and McCormick, 2002), a difference that cannot be accounted for entirely by such observable characteristics of migrants as number of dependent children, marital status, and skill level. But actual welfare shopping involves a relatively small number of people.

Even so, there is a risk that public opinion may induce governments to adopt policies reducing social protection for workers moving within the EU. This would be a bad outcome for Europe, a continent whose citizens are much less keen to change residence than in the United States: less than half a percentage point of the European labor force changes region of residence within a year (compared with 2.5 percent moving across states in the United States). Indeed, Europe needs a more mobile workforce to correct its large labor market imbalances.

Thus, the critical challenge facing EU policymakers is to reconcile policies that promote mobility with the needs of its immobile citizens. One solution would be to coordinate at the EU level the programs—such as social assistance—that are financed out of general government revenues. In principle, common standards could be defined in terms of minimum guaranteed-income schemes (Bertola, Boeri, and Nicoletti, 2000; Bean and others, 1998), protecting such programs from fiscal competition across jurisdictions and preventing a potential "race to the bottom" in welfare provision. All EU countries, including the new members, should therefore be encouraged to gradually adapt their social assistance programs (which exist also in the NMCs) to meet some basic income requirements. EU coordination at the level of these minimum guaranteed-income schemes should be gradually pursued, with the long-term intention of building up a pan-European safety net as one of the pillar institutions of the European Union. ■

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