



**BORDERS, MIGRATION AND LABOUR MARKET DYNAMICS IN A  
CHANGING EUROPE**

**FINAL REPORT ON ESRC PROJECT L213252042**

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## Executive Summary

The reduction of the effect of borders, both within the EU and through its enlargement, has particular significance for the way labour markets operate. Concerns have been expressed over the potential for large-scale migration into the EU from the candidate countries, at the same time as there is concern within the EU that mobility is too low to meet the need for flexibility in labour markets, especially in the context of a single currency area. A single European labour market requires that these issues can be analysed within a single conceptual framework. In this research we have sought to develop such a framework through the development and application of a consistent model of labour mobility, which recognises that migration is often for short periods rather than permanent, which assumes the period to be spent in the foreign labour market is often planned in advance, and which allows for the way in which labour markets in both home and host regions respond to such mobility. The research has had four main objectives:

- i. the development of a dynamic model of labour mobility in the short and long run;
- ii. testing the model on available migration data and on some recently collected survey data for a set of border regions of the EU;
- iii. evaluation of cross-border activity on the economic development of home and host regions;
- iv. determination of appropriate policy responses to the pressures from such cross-border activity.

The research has focussed on a number of contrasting case study areas, which represent different types of border. These range from an internal border facing major changes as a result of the completion of new infrastructure (France-UK), through an external border with one of the first group of candidate countries (Germany-Poland), and an external border with a much less developed candidate country (Greece-Bulgaria) to what is likely to remain a difficult external border with enormous pressures for migration into the EU (Greece-Albania). The model has been tested in detail on some unique micro-data sets available for two case studies (Albania and Greece) and partially, using both existing data and some data collected in a parallel project, on the other cases.

A primary focus has been to build temporary and short-term migration decisions into potential migrants decision sets; thus a potential migrant has to choose the duration as well as the destination when considering whether to search outside the home labour market. Since return migration then becomes an expected outcome of the model, we can examine the contribution of migrants to regional production and development in the host country and the impact on productivity and wage levels in the home country.

The results from this analysis can be considered under seven main headings:

- i. There is clear evidence a short period of emigration enhances both the employability of migrant on return to the home country and that migrant's chance of establishing a business. Migration flows thus need to be considered in terms not just of aggregate or net flows between countries, but also in terms of the length of stay as this will have important consequences for the return to migration both to the individual migrant and to home and host countries. There is considerable importance attached to short-term, seasonal and contract migration in this process.
- ii. Returning migrants have a positive impact on productivity and investment in their home country which are more important than the impacts on consumption from remittances. This counters the frequent claims of a fear of productivity loss through a "brain drain".
- iii. Those choosing to migrate for a period benefit from higher wages on their return than they would have without migration, but migration also has the effect of both raising the mean level of wages and reducing inequality in labour markets, this contributing to both greater efficiency and equity.
- iv. The effectiveness of migration in improving the efficiency of both home and host labour markets depends on the extent to which migrants with particular skills can be effectively matched with the labour market needs of potential employers. Better information is thus critical to more efficient use of migration, whether this is for seasonal or longer-term movement. The projected problems in EU labour markets due to changing demography and shortages of specific skills imply a pressing need to improve such information. We are concerned, however, at the attempts to use quantitative controls, either in terms of aggregate flows or points based systems as the basis for an immigration policy and have shown that there is a case for an auction-based system of migration permits, where permits are either auctioned amongst potential immigrants or their potential employers.

- v. Strong positive relationships were found between the profiles of both those stating intentions to migrate and those actually migrating suggesting that intentions data may be a better guide to actual migration propensities than has previously been believed. We have also been able to show that there are no great differences between the motivation of legal and illegal migrants.
- vi. Increasingly constraints on mobility within households and the desire to spread risks between different labour markets mean that individual-based models of migration in which the individual moves both residence and workplace are less valid. In many cases a change of workplace may involve commuting, often over long distances and longer periods than the conventional daily commuting. This frequently is not just cross-border movements, but evidence from movements between Belgium, France and the UK has shown how this may operate and its significance for the EU's current eastern borders, and even more so for an enlarged EU's new eastern borders.
- vii. Examination of data on investment flows and cross-border moves by firms between Belgium and France and France and the UK suggests that there is no common pattern of substitutability or complementarity between labour and capital; moves depend on the relative characteristics of origin and destination, in terms of, for example, direct investment incentives, unit labour costs and proximity to markets.

## **Full Report of Research Activities and Results**

### ***Background***

The effect of reducing or removing borders lies at the centre of research on European integration. Border regions are thus areas of considerable interest because they represent locations where both the potential benefits and costs are concentrated. A particular dimension of change is in labour markets where the free movement of both labour and capital can have profound impacts. Considerable research effort has been devoted to border regions and the implications for their development, largely from the regional science tradition (e.g. Ratti and Reichman, 1993; Cappellin and Batey, 1993). A parallel research tradition has analysed international migration, with a focus on the pressures for economic migration across frontiers (e.g. Zimmermann, 1995), but with an increasing emphasis on the potential for illegal migration. Such studies have tended to concentrate on the factors determining the aggregate rate of migration. But many of the conventional distinctions are becoming blurred as migration becomes a short-term option for mobile labour, regular commuting (often on a weekly or less frequent basis) reflects household constraints. At the same time as concerns are expressed over the potential problems of large-scale migration into the existing EU from the candidate countries, there is concern within the EU that mobility is too low to meet the needs of flexible labour markets, especially in the context of a single currency area. If there is to be a single European labour market we have to understand these issues within a single conceptual framework.

### ***Objectives***

This project aimed to address the various elements identified above, by using a consistent model of labour mobility, both short and long term, which allows for a dynamic response in order to assess the impacts on the labour markets and economies of both origin and destination regions. Five principal objectives were established:

- v. the development of a dynamic model of labour mobility in the short and long run;
- vi. testing the model on available migration data and on some recently collected survey data for a set of border regions of the EU;
- vii. evaluation of cross-border activity on the economic development of home and host regions;
- viii. determination of appropriate policy responses to the pressures from such cross-border activity;
- ix. identification of appropriate indicators for assessing the suitability of different border regions for private sector investment.

Objectives i. to iv. have been met as described in detail in the ***Results*** section of the report below. The basic model has been shown to work well as a framework for analysis and supports the basic premise of the need to view all movement at a micro level. The model has been tested in detail on the specific micro-data sets available for two case studies; it has not been possible to replicate this exactly in all the case studies, but in each case data has been identified which has enabled at least partial testing of certain key aspects. One interesting finding is that border regions have different levels of exposure to pressure such that objectives iii. and iv. have developed rather differently from the way we had envisaged, but we have been able to make important assessments of the impacts of mobility on both sets of regions. For this reason objective v. has not been developed in quite the way we had envisaged, but we have been able to explore this in the context of data from a survey made available from a parallel project for one of our study regions.

### ***Methods***

Given that the principal focus of our research has been to identify the reasons for movement in the dynamic context of the long-term decision made by individuals about their mobility plans, the traditional migration model based on aggregate flow data for migrants is inappropriate.

A primary focus is the analysis of temporary and short-term migration decisions and the impact these have on regional development, growth and local labour markets in both origin and destination regions. We model as a dynamic process the magnitude, duration and regional composition of migration flows between regions as a product of the choice between employment probabilities in different sectors of the home labour market and those in destination regions. Secondly, we consider how local labour markets respond to these supply shocks and assess the extent to which labour market effects differ between geographical areas, across occupational groups and various types of skills. Using information on the percentage of migrants' wages that is spent in local markets, saved and/or returned to the home country as remittances, we estimate the contribution of migrants to regional production and development in the host country. We then look at the impact of return migration on both productivity and wage levels in the home country to assess both the individual return to migration and the overall impact of migration on the home country labour market.

To provide some empirical evidence we focus on a set of contrasting case studies, which represent a continuum of border types. These range from an internal border facing major changes as a result of the completion of new infrastructure (France-UK), through an external border with one of the first group of candidate countries (Germany-Poland), and an external border with a much less developed candidate country (Greece-Bulgaria) to what is likely to remain a difficult external border with enormous pressures for migration, often illegal, into the EU (Greece-Albania). The regions chosen as case studies reflect both a range of different situations, but are also regions in which the principal applicants had direct previous experience, as well as established contacts, to enable data acquisition and direct local knowledge.

For the latter two cases we had access to specially collected data following an earlier PHARE-ACE funded project, which interviewed both potential and actual migrants (including illegal migrants) and employers of migrants in the destination regions. This enables detailed micro level assessments of the motivation for migration, the extent to which intentions are fulfilled, the experience of migration, the level of remittances, wages and the impacts on labour markets in the destination regions. This has provided a unique opportunity to answer some of the questions which aggregate data does not allow.

We did not have exactly equivalent data for the other regions, and we did not envisage any primary data collection. We have thus sought to use a variety of existing data sets, including international data from the Vienna Institute for International Economic Studies and the Innocenti Research Centre, national survey data such as the German Socio-Economic Panel (SOEP) and the UK International Passenger Survey and various survey data sets from Poland which together have enabled us to validate certain aspects of the underlying model. For the UK-France case study, where regular cross-border movements of labour are relatively uncommon, but there has been increased cross-border movement of firms, we were able to obtain additional funding from the INTERREG2 programme which enabled us to mount a survey of such movement and the labour market implications, but also allowed a parallel study of the Belgian-French border to be undertaken by French colleagues which has allowed us to look at movement across one of the more open borders in the EU.

## ***Results***

The results of the project are most easily considered under two broad headings: the micro-level, considering the decision making of individual migrants and the operation of local labour markets, and the macro-level, looking at the aggregate impacts of these decisions.

### **The micro-level: decisions of individual migrants**

#### *An underlying model of migration*

As discussed above, the key to our understanding of the migration process is a more consistent modelling of the migration decisions of individuals and the hiring decisions of those employing migrants. The underlying model of migration (see Papapanagos and Vickerman, 2000; Cuka et al, 2002; Leon-Ledesma and Piracha, 2001) is based on a decision by a potential migrant in a transition country facing a given probability of unemployment either to stay in the existing location or to move to a new location. In the existing location there is a choice of unemployment or of searching for an alternative job, for example in the emergent private sector. In the possible new location there is a choice of the length of stay; the individual can draw a higher wage which can be partially remitted home and partially saved in anticipation of a future return home, whilst also searching for a new job in the home market. If the move is made then a cost is incurred, both financial and psychic.

The model demonstrates the way in which the choice to migrate will be affected by changes in a set of labour market parameters both at home and in the possible host country. In particular, allowing for short-term and return migration shows that rising relative wages (or falling employment) can be an inducement to migration because it increases the potential returns to the acquisition of skills abroad (Kule et al., 2000). There is clear evidence from the Albanian data that a short period of emigration does enhance both the employability of the return migrant and that migrant's chance of establishing a business. That migrants do acquire skills is also borne out by an analysis, based on panel data for a set of 11 transition countries, of the estimated impact on productivity in countries benefiting from return migration (Leon-Ledesma and Piracha, 2001). This shows that the main effects are the positive direct impacts on productivity and indirect impacts via a positive impact on investment. There are also positive impacts on consumption from remittances, but the suggestion is that these effects are actually less important than the productivity impacts. This is an important new insight,

suggesting that the consumption impacts are less important than believed hitherto, but the productivity impacts much more important and likely to counter fears of productivity loss through a “brain drain”.

The effectiveness of migration as an equilibrating force in the home and host labour markets also depends on the hiring decisions of employers. Potential employers face, first, the problem of assessing the skills of the migrant and, secondly, the risk of the likely length of the stay (affecting the returns to any on the job training given). Hence employers will seek ways of reducing these risks, for example by taking short-term or temporary workers on contracts offered by known representatives in the home regions. This is particularly found in the detailed case study of seasonal migration from an agricultural region in eastern Poland (Akkoyunlu, 2001d, e).

Within the overall model there are several issues which have been raised: migration and commuting decisions; the spatial matching of skills; migration as training and productivity impacts; migration and other dimensions of labour market flexibility; and the link between migration and foreign direct investment.

#### *Migration and commuting decisions*

The decision to move is relatively easy to model in the abstract, but typically difficult to capture empirically (Akkoyunlu and Vickerman, 2000; Akkoyunlu, 2001a). For this reason many models use intentions data where a population at risk of migration can be surveyed and the characteristics of potential migrants analysed, as for example in an analysis of some earlier Albanian data (Papapanagos and Sanfey, 2001a). The criticism of such analyses is that intentions data is often a very poor guide to actual migration, in particular it is thought to overestimate actual migration; this is of concern if used as the basis of immigration policy decisions. The specific Albanian data we used during this project enabled us to make some comparison between actual revealed migration and the analysis of earlier intentions in terms of the profiles of migrants in both groups. Strong positive relationships were found suggesting that intentions data might be a better guide, at least to assessing the propensity to migrate, than has previously been argued, recognising that the majority of migrants move for a limited period and have the long-term intention of returning home (Papapanagos and Sanfey, 2001b).

Most models of international mobility are based on the presumption that individuals move both workplace and residence. Increasingly the constraints on mobility within households and the desire to spread risks between different labour markets mean that such assumptions are less valid. In many cases a migrating individual in terms of the workplace may effectively be commuting. Within a free and flexible labour market there is a no clear easy distinction between migration and commuting, except for distance, and the possible distances over which commuting is possible have been reduced by improvements in transport. This is even more difficult when we allow for periodic commuting e.g. on a weekly or less frequent basis. Cross-border commuting is nothing new: as long ago as the 1920s there were an estimated 100000 daily Belgian commuters with jobs in the Nord-Pas de Calais region of France and although this number had fallen to around 6000 by the late 1990s, the flow had reversed to some extent with one estimate of more than 18000 daily French commuters into Belgium (Collier and Vickerman, 2001f). We might expect this to become an increasing phenomenon across the EU's eastern borders, especially in the case of more dynamic regions. As a future problem we have noted, from our work on Poland, the potential problems which may arise on an enlarged EU's new eastern borders (Akkoyunlu, 2001e; Vickerman, 2001a).

However, it is also clear that increased cross-border commuting is not a foregone conclusion just from a reduction in perceived border barriers (Papapanagos and Vickerman, 2000) and even where there has been a major reduction in the barrier this does not necessarily lead to any great increase. There are, for example, only 240 residents of the Nord-Pas de Calais region recorded as working in the UK (and not necessarily in the neighbouring border region of Kent (Collier and Vickerman, 2001c, f). Relatively little east-west cross border commuting has occurred on the Polish frontier with the new German Länder.

#### *Spatial matching of skills*

Much literature on migration, largely for reasons of data availability, has concentrated on aggregate flows of migrants. This makes it more difficult to assess the way in which actual migrant flows contribute to the equilibration of labour markets. We have examined the evidence on labour markets to try and assess the extent to which observed surpluses and deficits in terms of specific skills relate to the ways in which migration takes place (Akkoyunlu, 2001a). One way this can be observed most directly is in terms of the short-term contract and seasonal migration which characterises a lot of movement from Central and Eastern European Countries. An analysis of such migration between Poland and Germany (Akkoyunlu, 2001c) shows that well over 90% of seasonal moves are for jobs in agriculture, undertaken by predominantly young males who were typically over-qualified for the job undertaken. The typical stay for a seasonal worker is 8

weeks to 3 months (average 10.5 weeks), for a contract worker it is 9 months. Of the net earnings of seasonal worker around 60% is estimated to be saved/remitted, rather less than the 80% of the much better paid contract workers.

In a separate analysis of movement within the EU, we surveyed the location and recruitment decisions of French firms in Kent (Collier and Vickerman, 2001e). Although there was relatively limited use of migrant labour by such firms (about 5% of all employees were French) these were concentrated in jobs where the firms were facing recruitment difficulties and were typically of senior management or highly skilled technical workers. This is also found in a parallel survey of Belgian firms locating in the Nord-Pas de Calais region of France, although rather smaller proportions of Belgian workers were employed, almost exclusively in senior management positions (Collier and Vickerman, 2001f).

#### *Migration, training and productivity*

We have seen above that migration flows can pre-eminently be seen not as essential responses to poor conditions in the home labour market, but as strategic investment decisions in human capital. Individual impacts on wages and aggregate effects on productivity and investment have been identified above (Kule et al., 2000; Leon-Ledesma and Piracha, 2001). The Albanian data also allows analysis of the relative performance of returning migrants against those who have not migrated. The analysis of this is only at a preliminary stage (De-Coulon and Piracha, 2002), but suggests that not only do those who have migrated gain higher wages, but non migrants would typically have performed even better than those who did migrate. The latter groups are typically those for whom the perceived costs of migration were seen as too high. Moreover, analysis of the wage distribution suggests that not only does migration increase the mean wage, but it also has the effect of reducing inequality in the wage distribution. Although these results are still very preliminary they add further weight to the belief that migration has positive impacts on the home country's economy and on the process of transition.

#### *Migration and other dimensions of labour market flexibility*

Mobility is only one dimension of flexibility which leads to the efficient operation of labour markets: it is, however, the dimension which has attracted the most attention both within the EU and in terms of the possible impacts of enlargement. We have examined ways in which migration relates to other dimensions of flexibility, both in terms of the matching of labour market needs to the availability of specific skills (Akkoyunlu, 2001a, g) and the overall impact of migration on the process of integration (Akkoyunlu, 2001f; Vickerman, 2002).

#### *Migration and foreign direct investment*

Increasingly we have recognised during the course of this project that the relationship between labour migration (or commuting) and capital mobility (especially foreign direct investment) is complex. There is not a simple way of determining whether the movements of labour and capital are substitutes or complements. Following some of the insights of the analysis of return migration on productivity in transition countries, we have begun to look at the impacts on foreign direct investment in these same countries. This will be an important extension of the current project and provide useful links to results from another project in the One Europe programme which has looked at FDI from a different perspective.

Our analysis of mobility within the existing EU has enabled us to look at FDI in the context of the France-Belgium and France-UK borders (Collier and Vickerman, 2001d, e, f). This suggests substantial differences between the two cases as to the degree of complementarity which depends on the extent to which FDI is motivated more by direct investment incentives (Belgian firms in France) or a more complex pattern of unit labour costs and proximity to markets (French firms in the UK).

### **The macro-level: aggregate flows of migrants**

It was not a primary objective of this research to be concerned with analysing or predicting the aggregate flows of migrants into or within the EU. However, the level of such flows does have a contextual relevance for this work, not least in understanding the impacts of such flows on both home and destination regions and in providing a focus for some policy conclusions from our micro-analysis of the migration decision. There are three main areas of interest: the length of stay of migrants and hence the relationship between gross and net flows; the geographical distribution of such flows; their relationship to the labour force needs of home and destination regions and hence impacts on unemployment and thus the net welfare effect of migration in both home and host regions.

### *The periodicity of migration*

In examining evidence on aggregate flows of migrants it is important to understand the time dimension in the migration decision. Relaxing the assumption that any migration decision is a permanent one, changes our view of both the significance of gross migration flows and their impacts. The existence of return migration is not necessarily evidence of “failed” migration, e.g. due to imperfect information; temporary or short-term migration may make a perfectly rational choice for those wishing to acquire specific skills (human capital) or access to financial capital, and since previous migrants are often the most dynamic members of the local labour force, they are likely to have a strong propensity, not just for movement or back to the starting point (return migration), but also forward to another location (serial migration).

Unfortunately at the aggregate level all we can observe is a flow of migrants between regions, neither the reasons for the move nor the likely period for which the move is being made are known. In order to get away from models analysing flows on the basis of differences in aggregate indicators between regions, our micro-analyses have shown the need to make allowance for individuals’ expectations of changes in those variables through time. The aggregate data suggests that net migration flows to the primary destination countries have been remarkably stable through time, periods of larger inflows are followed by periods of larger outflows; all EU member states are now net immigration countries and there has been a remarkable convergence in rates of net inflow (Vickerman, 2001b), but it cannot show the extent to which the underlying reasons for these flows and their composition has changed.

The aggregate level only provides data on recorded migration. This leaves many migrant flows unrecorded, including short-term migration within the EU which is unrecorded due to the provision for free movement; periodic commuting e.g. on a weekly or less frequent basis, where individuals take a job in another member state, but retain their principal residence in their home state; and illegal migration, where migrants cross a border illegally and seek work illegally at the destination. Our work on Albania and Bulgaria suggests that illegal migrants behave in much the same way and respond to much the same stimuli as legal migration (Kule et al, 2000; Papapanagos et al. 2001). In particular it is seen that all migrants are responding to economic stimuli and thus it is misleading to refer to certain groups of migrants as “economic migrants”. This latter question becomes easily confused with the question of asylum seeking where migrants arrive in a country, without the necessary permission to enter, claiming persecution or danger to life in the home country. We have not examined the asylum issue explicitly in this research.

### *Geographical distribution*

The “where to” and “where from” of migration is a major concern. For the home regions of migrants, the destination of migrant flows is a determinant of how successful migrants will be and hence how likely are long-term benefits from the short-term loss of population. If migrants are going to a number of different destinations there will also be a possibility of spreading the risks associated with migration. An initial hypothesis of this research, was that border regions might face a particular strain if migration were to become easier. Opening borders to migrants from the candidate countries would have its most direct impact in border regions for which the cost of access is lowest, especially for those seeking short stays. Within the EU, economic disparities between regions across national borders would be more likely to raise pressures for labour mobility, especially in the absence of national exchange rate or monetary policies within the Eurozone.

At a national level it is clear that the EU member states closest to the candidate countries, Germany and Austria, have faced the biggest immigration pressures. Within Germany and Austria some of the regions with the largest proportional stocks of migrants, relative to the population as a whole are those regions which neighbour candidate countries (Vickerman, 2001b). But this is not just a geographical, proximity, factor. One of the attractions of Austria and Germany has been their perceived economic success and their traditional reliance on immigrant labour (guest workers) to support the labour market needs of this success. Successful border regions, such as those in Bavaria, thus attract immigrants, but border regions not demonstrating this success, such as those in Saxony or Brandenburg, do not. Data on Polish migration to Germany, for example, shows clearly that the major flows are the traditional ones to the industrial centres of the former West Germany (Akkoyunlu, 2001d; Vickerman, 2001a). This mirrors other economic flows between Poland and Germany (Komornicki, 2000). Similarly, within the EU, for example, 40% of EU migrants to the UK had London as a destination, and although a further 32% moved to South East England, it has been estimated that only a relatively small fraction of these moved to the immediate border regions of Kent (Collier and Vickerman, 2001c).

Where border regions may be of greater significance is in the case of illegal migration. Migrants often seek work in the closest regions, especially if there is a risk of being caught and sent home, since this lowers the



cost of re-entry and finding work again. This is of some relevance in our Albania/Greece case study (Kule et al, 2000).

#### *Labour force needs*

Migration is usually seen from an economic perspective as a means of labour market adjustment. Migration is a way of equilibrating labour markets, as migrants respond to economic signals such as differentials in wages, unemployment and vacancies. In Western Europe, the past half century has been a period of labour shortage and net immigration which has spread gradually across all current EU member states such that all are now net importers of labour. Future projections show that the decline in fertility and aging of the population is likely to reduce the effective labour force in the EU by 5.5% by 2020 (Boeri et al, 2000; Vickerman, 2001b).

Simple aggregate analysis relates aggregate flows to aggregate labour market indicators, but in more advanced labour markets this is inadequate; it becomes vital to relate specific labour market demands to the specific characteristics of migrants. This has been shown not only to relate to the pattern of cross-border movements within the EU (see Collier and Vickerman, 2001b, c), but also to movements into the EU (Akkoyunlu, 2001b). How should the EU respond to this in policy terms? Our analyses confirm the views of others that restricted and/or excessively administered immigration policies are likely to be too slow and inflexible to meet labour force needs and that there is a case for an auction-based system of migration permits, it not being too different whether permits are auctioned amongst potential immigrants or their potential employers (Piracha and Vickerman, 2001).

We have discussed in detail above the impacts on productivity and income levels in home countries. This provides evidence to confirm the way in which migration has beneficial welfare effects on home as well as host regions. We need, however, to be careful in assessing the ways that this mechanism works, since it is not a simple aggregate effect, but works through the ways in which workers of particular skills meet particular needs in the labour markets and increase flexibility in both. An overall evaluation of the aggregate welfare effect depends critically on our understanding of migration at the micro level (Akkoyunlu, 2001f; Vickerman, 2002).

#### ***Future Research Priorities***

The project has opened a number of potentially interesting future avenues for research which are currently being explored. The most interesting of these is the link between labour mobility and FDI for which we are currently developing a methodology. Given the still topical interest (and controversy) concerning migration in the context of EU enlargement, our research base and contacts made will enable us to participate in future trans-national research activity.

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