

To Move or Not to Move

- Migration of Labour in the European Union^{}**

- 1 Introduction**
- 2 Labour mobility and economic theory**
- 3 Labour migration in the EU**
- 4 Theory versus reality: Why do people stay?**
- 5 Outlook: What type of migration in the European Union?**
- 6 References**

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For a detailed presentation of the size and structure of the non-national population and labour force in the 15 EU member states see: Kiehl M. and Werner H. (1999): *'The Labour Market Situation of EU and of Third Country Nationals in the European Union'*, IAB-Topics No. 32 (download: <http://www.iab.de>).

1 Introduction

A common European market demands unimpeded cross-border movement for goods, services, capital and labour. These four basic liberties were largely achieved with the realisation of the single European market in 1993. Free movement of labour had already been in place considerably longer. Freedom of movement has been possible for workers from member states of the European common market since 1968. A further stage of integration is planned in the creation of a common monetary area, which may also have an influence on migration movements.

Although free movement of labour has been in existence for a long time and constitutes one of the major achievements of European integration, it has not led to an increase in the mutual exchange of workers. This is frequently lamented with the comment that workers should go to where they are most productive on the one hand and where they can thus also obtain the highest wages on the other hand. In this way an efficient deployment of the workers would be ensured and prosperity in the economic area would be increased best. In spite of continuing considerable differences between the countries and regions with regard to income and unemployment rates, labour migration has remained at a lower level than expected. This is often interpreted as a failure of the European labour market and calls are made for increases in the flexibility of the labour market, for the elimination of further obstacles to migration or even for special promotion of mobility.

2 Labour Mobility and Economic Theory

2.1 Concept

Mobility and migration constitute a complex phenomenon. Its analysis is proving increasingly to be interdisciplinary. This is also true of the attempt to answer the central questions of research into migration within theoretical approaches. Here the causes and effects of migration as well as its social and economic policy consequences are prominent (cf. Borjas 1996, 279-315). First of all an attempt should be made to define more precisely the terms 'mobility' and 'migration'.

In literature there is not a clear differentiation between the terms 'mobility' and 'migration'. In some cases they are even used synonymously. Nevertheless the two terms should be differentiated as follows. What should be understood by the term spatial (interregional) mobility of workers is in general any movement of labour from one region to another. Spatial movement of labour with a simultaneous change of residence is migration. Thus the term 'migration' is associated with a permanent character. If the spatial movement of labour does not involve a change of residence, we speak of commuters. The following terms are also used in order to differentiate: 'interregional' mobility' meaning mobility between geographical areas, and 'intra-regional mobility' meaning mobility within the geographical areas.

The task of a theory of interregional labour mobility is to explain what reasons lead to occurrences of mobility. What determinants influence intensity, direction and geographical distance? What effect does the mobility of the production factor of labour have on regional development?

2.2 Benefits, costs and barriers of mobility and migration

The following section focuses on economic approaches. They have to take into consideration a number of aspects of the decision to migrate. There is a broad spectrum of motives for migrating, ranging from economic and personal reasons to political reasons. At the same time, with the decision to migrate it is necessary to differentiate between temporary and permanent migration. The original plan may possibly be subject to amendment if the worker concerned was not fully informed about the working conditions in the host country. The decision to migrate is therefore also always a decision made with uncertainty.

The economically motivated decision to migrate is dependent upon the expected transaction costs. Decisions concerning migration can only be made if all transaction costs are taken into account; knowledge about the transaction costs is one of the pre-requisites for being able to distinguish between the economic conditions of the native land and those of the host country. To put it simply, transaction costs mean the weighing up in monetary terms of the benefits one gives up against the gains to be expected in the future if one migrates. Examples of transaction costs are for instance the expected wage differentials (taking into account the probability of finding a job), mobility costs (such as the costs of moving house), differentials in the cost of living (this applies in particular for different costs on the housing market) as well as search and information costs which are necessary for tracking down employment opportunities. If the transaction costs exceed the individual gains, migration does not occur.

Further barriers, such as general institutional restrictions, which have a prohibitive effect on potential migratory movements should not be prominent within the EU member states. Nevertheless it is to be tested below why the free movement of labour regulation in accordance with article 48(1) of the EC treaty is not being taken advantage of more as a result of mobility barriers that actually continue to exist.

From the point of view of economic theory and under competitive conditions, workers are allocated to those jobs which tend to maximise the value of the employment gain. The main motivation for deciding to migrate is the workers' desire to improve their economic situation and their conditions of work. They are in a constant process of searching for a better job (in terms of higher productivity and a higher income). At the same time firms are also searching for better workers. As a result, the value of the marginal product of labour is equated across firms and across labour markets (for workers of given skills). The equilibrium allocation of workers and firms, therefore, is efficient: no other allocation can increase the value of labour's contribution to national income.

In the context of neo-classical equilibrium theories, the effects of migration on economic growth and per capita income in the region of origin and the destination region are described under the following assumptions: homogeneous supply of labour, perfect competition on the labour market, full employment, free mobility of production factors, perfect transparency and information, no interregional transport costs. It is also assumed that wage differentials are the only reason for migration. Workers in low-wage regions migrate to high-wage regions. The migration of workers balances out the wages in the two regions after a certain time with the premises set. Thus the migrations cease when interregional wage differences no longer exist.

This theoretical point of view does not correspond to the actual conditions. With realistic assumptions, the migrations can be expected to have effects which by no means lead to parallelism of wage expansion and wage contraction. Thus an interregional balancing out of per capita income is not to be expected. There are various reasons for this:

Workers are not fully aware of the true potential of their education and training and their abilities. Firms, too, are not able a priori to make statements concerning the true productivity of their future employees. As a result of this asymmetrical information, the allocation of workers and firms is not efficient in reality. Alternative allocations could lead to an increase in the national product. In this respect mobility is of central importance for the functioning of the labour markets: it promotes allocative efficiency by shuffling workers to society's highest-valued employments. The following section describes the mechanisms which contribute, via the mobility of labour, to an increase in efficiency.

Since Hicks every modern analysis of the decision to migrate has been based on the hypothesis that "differences in net income advantages, chiefly differences in wages, are the main causes of migration" (cf. Hicks 1932, 32). In this respect the migration of workers is seen as a form of human capital investment. Workers calculate the value of the employment opportunities available in each of the alternative labour markets, net out the costs of making the move, and choose whichever option maximises the net present value of lifetime earnings.

To understand migration better, various authors repeatedly emphasise the necessity to analyse the individual migrant's decision-making process as the underlying basis for mass movements. The search and decision-making process are most prominent.

Human capital consists of the income-producing skill, knowledge, and experience embodied within individuals. This stock of capital can be increased by specific investments which require present sacrifices but increase the stream of future earnings over one's lifetime. However, the alternative of migration is not automatically considered in connection with a potential for increased lifetime earnings. It must be weighed against the expected gains. Relevant determinants of the decision to migrate are transportation expenses, forgone income during the move, psychic "costs" of leaving family and friends, and the loss of seniority and pension benefits. Rationally, a person opts for migration when the sum of the discounted expected future earnings exceeds the total costs of the discounted decision to migrate. If the non-monetary disadvantages exceed an expected increase in income, the person concerned will opt to remain in the place of origin.

Studies of migration repeatedly point to the central role of age. All else being equal, the older a person is, the less likely he or she is to migrate. There are various reasons for this fact. First, older migrants have fewer years to recoup their investment costs. Migration constitutes a human capital investment. Net gains to migration depend on age because older workers have a shorter period over which they can collect the returns on the migration investment. The shorter payoff period decreases the net gains to migration, and hence lowers the probability of migration. Second, older people tend to have higher levels of human capital that is specific to their present employers. This human capital, by definition, is not transferable to other jobs. And finally, older people often have higher migration costs than younger people; additionally, the psychic costs of migration may rise with age. Another important factor is that the potential costs of migration multiply as family size increases (cf. McConnell, Brue 1995, 259).

In addition, the probability of migration varies inversely with the distance a person must move. The greater the distance to the future region of employment, the more difficult it is to

obtain sufficient information about it. In addition to the psychic costs, which also increase along with the distance, the transportation costs are of course also directly connected with the distance that has to be covered. These problems may, however, also arise less intensively. Migrants often follow the routes previously taken by family, friends and relatives. Via multiplier effects this phenomenon can in some cases lead to unexpectedly high migratory movements of some population groups from certain regions to certain destination regions.

Additional relevant factors are:

- job opportunities (vacancies) or the opposite: the unemployment rate,
- family size, as well as home ownership,
- state and local government policies,
- personal tax rates,
- language skills and the cultural and social environment.

What consequences can be derived from migration?

What is important here is the issue concerning the return of investment in human capital. It is, however, necessary to take various restrictions into consideration here. Thus the decision to migrate, which is based on expected net benefits, is subject to uncertainty and imperfect information. In some incidences, the expected gain from migration simply does not materialise. In this (and other) respect(s) general statements of migration theory must be critically qualified to the return on investment from migration.

2.3 Characteristics of migrants

In addition to the region-specific determinants - such as wage differentials between the region of origin and the destination region - a number of studies point to the central role played by demographic determinants in the decision to migrate. The importance of age was already mentioned above. However, different patterns of behaviour can also be determined with the level of education and training.

As already mentioned, there is a positive correlation between the worker's level of education and his or her probability of migrating. This positive influence of education on the intensity of migration could be due to the fact that workers with a higher level of education and/or training display greater efficiency in their search for work in alternative labour markets. In this respect they reduce their migration costs. Moreover it is conceivable that the regions relevant for more highly qualified workers are larger and more numerous than those relevant for lower qualified workers. In addition it can be assumed that the incentive for mobility is relatively greater as a result of greater relative income differences. Language barriers may also constitute less of a barrier to mobility for well educated workers with "transferable skills". In this respect a more rapid adjustment to the new working environment could be expected.

Geographical mobility can therefore contribute to improving the match between workers and firms. Analyses - especially from the USA - show that workers generally benefit from the decision to migrate through an increase in income. Owing to this mobility towards regions with higher incomes, migration contributes to a reduction of income differentials. This is demonstrated in American studies (e.g. Borjas 1996, 283; Barro, Sala-i-Martin 1991, 107-158; Blanchard, Katz 1992, 1-61). Net migration from rural to urban areas has also tended to redist-

tribute population towards higher wage areas. However, migration accelerates economic development, and may thus aggravate regional agglomeration effects.

Frequently the decision to migrate is not a single decision. Return and repeat migration can be caused by the realisation of having made a wrong decision if the actual opportunities for advancement or income gains can not be realised owing to a decision made with incomplete information. Every migration is generally followed by a return migration, which can in some cases be quite considerable. Thus, for example, Eurostat estimates that in 1993 about a quarter of the EU migrants from other EU states were return migrants (cf. Fischer, Straubhaar 1996, 22). On the other hand return and repeat migration can be regarded as an explicit career-advancement strategy (within an intra-company transfer). Thus repeat migration can also be found within the group of highly qualified workers. There are empirical indications for both of these connections. Workers who migrate to a more distant region are more likely to return to where they came from. This may be due to possibly imprecise information about the more distant region, leading to the subsequent realisation that the original decision to migrate was a mistake. Moreover it can be assumed that in the case of a move between increasingly distant geographical areas, the 'cultural difference' also increases. A change of job involving a move from Palermo to Munich has a different significance to a move from Linz to Munich. Sociological thoughts come to the fore here. That is why it may seem natural for many workers from more distant home regions to limit the duration of their stay to the medium term.

The decision to migrate is usually not an individual decision but is generally a group decision. This report does not deal with the discussion and problems of the overall benefits of migration for several people at the same time. This decision situation plays a role for example in the case of couples in which both partners work or in the case of families with children of school-age.

3 Labour migration in the EU

3.1 Free movement of labour - achievements

The recognition of educational and training qualifications is a particularly difficult undertaking. The declared aim in a single market must, however, be the elimination of barriers to mobility. The removal of such obstacles does not necessarily require the harmonisation of the national education and training systems, but it does demand at least a recognition or transparency of educational and training qualifications.

In order not to impede the mobility of migrant workers due to maintaining social protection rights, regulations were agreed concerning the transfer of benefit entitlements in national social security systems in the EU. Restrictions to the access and residence rights of EU foreigners are incidentally only possible if there is a threat of danger to public order, security or health. It must also be pointed out that the public administration can be excluded from the free movement of labour regulation (Art. 48 EC treaty). However, the European Court of Justice has limited this regulation in that it only applies to activities that are necessarily connected with exercising the power of a public authority. Thus, for example, teachers at general schools no longer come under the exception regulation of public administration.

The data from Eurostat reveal that mobility in the European Union has remained modest. Currently only about 2% of all workers in the EU are employed in another member state. Al-

though their numbers have increased slowly over time, the number of workers from third countries has increased more rapidly, leading to a decreasing share of EU workers among the total number of foreign labour.

3.2 Why do workers migrate? – Determinants of labour migration

Economic theory provides two hypotheses as to why workers move. According to integration theory (cf. Robson 1987, 65; Straubhaar 1988a; Molle 1994, 205), the creation of a single market generates additional welfare effects by enabling labour to move to where it is most productive. The theory argues that a shift occurs from less productive to more productive jobs until marginal productivity and hence pay (for the same work) are in alignment within the area of integration. Prerequisites to this are, of course, that labour is mobile, that workers know about the job opportunities in other countries, that no other constraints on migration exist either in the narrow sense - work permits, residence permits - or in the broader sense - recognition of qualifications, cultural differences, living and housing conditions and language.

In contrast to this, classical foreign trade theory assumes the immobility of labour between states. The differences in production factor endowment - mineral resources, capital, technology, labour - are balanced out by means of trade, which raises prosperity. Each country concentrates on producing those goods for which it has a comparative advantage over the others, in other words, those which it can produce more cheaply (Heckscher-Ohlin theorem). According to this theory, trade relations induce a division of labour in line with the comparative production advantages between countries. From this standpoint, labour migration is unnecessary. Trade is a substitute for labour migration. Apart from that capital is more mobile than labour.

An economically motivated potential for migration arises when varying levels of economic development exist between countries. More specifically, we can identify push factors in the emigration countries and pull factors in the immigration countries. Pull factors are the prospects of higher pay and the availability of jobs in the particular destination country. Push factors can be lack of employment prospects, unemployment or low income in the home country. There is a potential for migration if there are push factors in one country and pull factors in another. Demand pull and supply push factors can be compared to battery poles: both are necessary to get started. But before migration can actually take place further conditions have to be met: transparency/information and the lifting of barriers. The workers willing to move must be informed about the conditions in the receiving country, and this country must be accessible in terms of distance and legal entry (illegal migration left aside). In general, the ensuing flows are regulated by legislative and/or administrative procedures such as type of work permit or residence permit, which limit access and duration of stay. In the EU context the latter barriers no longer play a role, but cultural and language differences still exist and act as barriers to international mobility.

All the investigations conducted so far on (voluntary) migration indicate that a major determinant is the differential in economic development and hence earning opportunities. But the emigration push does not depend solely on the absolute differences between income levels in the country of origin and the destination country. The relative level of pay in the country of origin is important as well. If the income is above the poverty line and reaches a socially acceptable level, the income threshold to emigrate is bound to be high, that is, the absolute earnings differential must be considerable to cause labour to move. Otherwise people tend to

stay. Two decades ago in Europe, the wage ratios between the then richer countries in the north such as France and Germany and the poorer ones in the south such as Spain, Portugal and Greece were something like 6 to 1 and migrants flocked from south to north to take advantage of them. Nowadays the wage ratio is something like 3 to 1 and relatively few people migrate - even though it is now easy for EU nationals to work in other EU countries. In other areas of the globe such disparities would cause mass movements of labour (cf. Stalker 1994, 156). There are also other factors at play here besides wages. For example future prospects may weigh heavily when considering migration as a permanent option. If the people in Spain, Greece or Portugal feel that life in their own country is likely to improve in the years ahead they may prefer to stay.

To sum up one can say that European integration is well advanced with regard to trade: trade relations between the member states have intensified. Trade and competition have occurred less between the different sectors of industry than within such sectors or product groups. Trade has increased because of the specialisation of products within industries rather than because of a division of labour in the form of production displacements. Production displacements would have ruined whole industrial units and caused mass redundancies. The ensuing unemployment would have been a potential incentive to migrate. In general this migration pressure did not come about.

Incomes, seen across the member states in terms of the per capita national product, show a convergent tendency, although considerable regional differences within the member states still prevail. These persisting or even widening gaps between low-income and high-income regions within member states tend to contain potential migration flows within individual member states and not to induce workers to migrate across national borders.

Employment, another indicator of welfare and a factor in migration, has not lived up to expectations: overall employment growth has remained modest and a continuous increase in unemployment has been observed (at least until recently). Thus employment opportunities for potential migrants have not increased.

Finally, it can be concluded that in the course of European integration, trade has substituted migration. The prosperity gap - a major factor for migration - has been mitigated by increased trade between the EU countries. Furthermore, capital is more mobile than labour and can substitute migration. Therefore, cross-border labour migration between EU countries has not increased. The mobility of labour amongst EC countries thus declined along with the regional mobility within the EC countries (cf. Karr a. o. 1987, 197). Intra-industry trade, a characteristic feature of European integration, as mentioned earlier, entailed less risk of losing entire plants - and hence jobs - in favour of other countries. Migration thus did not complement trade relations between the EU countries (Molle 1997 and Straubhaar 1988). Elements of the classical foreign trade theory can be found here. The pressure to migrate for economic reasons is low between countries with similar levels of development or if improvement in the standards of living in the home country can be expected. If in the course of the integration process an alignment of economic development and, therefore, of pay is to be expected, then a major migration impulse - income differentials - further diminishes. This of course does not rule out that regional, sectoral or qualification related gaps between countries still occur which may give new opportunities for migration of labour. In the light of what has been said so far what kind of migration can be expected in future?

3.3 Migration - the regional perspective

The regional dimension is of great importance for many issues in economics, and this is also the case for migration in the EU. Although there is still a considerable difference between the richest and poorest regions of the European Union, a slow, but continuous alignment of per capita GDP can be seen (cf. European Commission 1994, 34-39). Whereas the member states are coming closer together with regard to their level of development, the picture is different when observed on a regional basis. It is noticeable that the developmental differences have continued to increase between the regions, in spite of national convergence (cf. European Commission 1996, 135). As already shown, this trend can be observed in particular in the per capita GDP and less in the unemployment rates. What consequences does this have for European migration movements? What is the relationship between internal migrations and external migrations? Has internal mobility perhaps increased because of the persisting regional differences? These are the crucial questions.

The movements of labour within Europe - which reached their peak in the 1960s (King 1994, 218-241) - have decreased during the past few years. This also applies to the internal migrations within the EU member states, as is proved by Eurostat statistics. This development is attributed to the fall in income differentials between the EU states. Owing to the persisting regional disparities described earlier, one would expect, from a theoretical point of view, more mobility between the regions within individual member states. What can be observed, however, is a 'restricted' willingness to migrate. This can not be put down to simple reasons such as language or cultural barriers, as is the case at international level. A closer observation of the inner-state migrations seems to be necessary. Analogy considerations can be derived from this for international migratory movements among other things.

Italy, Spain and Germany were selected as examples (for details see Tassinopoulos, Werner 1998). These two southern European countries represent typical emigration countries of the past decades. Both of them have so far been characterised - in comparison with the EU average - by below-average per capita income and high unemployment rates (for an overview cf. Christofides 1996, 96-149 and Franks 1996, 175-215). In particular Italy continues to be marked by strong regional disparities.

Italy and Spain demonstrate a trend towards an increase in the number of immigrations compared with emigrations for the period from 1980 until 1995 (total external net migration). In the 1990s the balance will be positive, i.e. in the two countries the immigrants (some of whom are return migrants) outweigh the number of emigrants. In the case of internal migration there are reverse developments in both of the countries in the observation period 1980-1994. Whereas in Italy the internal interregional migratory movements are decreasing steadily, Spain in the 1980s and 1990s is seeing an increase in the number of migratory movements within the country both in broadly absolute terms and relative to the population. In individual regions of Spain, such as Andalusia, an increase in the number of emigrations would be expected owing to the below-average economic situation, but there is a reverse trend there. Since the early 1990s the region has recorded positive net migration. It is not possible to explain why this is so within this context.

Besides the development and the relationship between internal and external migration, what is also of interest is whether there is a connection between migrations and GDP per head and the unemployment rate.

For both of the countries the following picture applies: regions with a higher unemployment rate record a broadly negative net migration. This means emigration from the region concerned. These regions are lagging behind the particular country in their development. This applies in particular to southern Italy. Examination of the GDP per head also produces a similar result. When per capita GDP is relatively weak, emigration movements occur. As per capita GDP increases, there is a positive net migration tendency, i.e. the higher the relative income in a region is, the greater the net immigration is in relation to the number of emigrations. This is the case in Italy and Spain.

Both of the determinants for intraregional migrations, that of income as well as that of unemployment can also be seen broadly in Germany. Because of the considerable differences between the new states and western Germany, analogies can be drawn to both of the Mediterranean countries.

How can the level of development of internal migration in Italy and Spain be assessed? In spite of the increased differentials in the unemployment rate in the Spanish regions, the mobility of individual regions has decreased clearly over a broad period since the 1970s. Various authors essentially see institutional changes in the country. Political decentralisation, a regional redistribution of income, unemployment benefit and trade union activities are given as reasons (cf. Bentolila 1997, 591-898 and DIW 1997, 193). Unions have become quite powerful. Sectoral collectively bargained wages are binding for about 80% of all employees. Unions have aimed at reducing wage inequality across regions. All of these factors lower the willingness for mobility. A further possible barrier to migration is seen in the inefficiency of the Spanish housing market. Rental housing is scarce and expensive, housing prices are high relative to income, and housing sales are heavily taxed.

A new effect that can be observed is migration from richer to poorer regions ('affluent migration'). This, theoretically contradictory, effect is explained in part by return migration. Further causes are seen in special unemployment benefits for workers in the agricultural sector in Spain, as well as the general incentive of lower costs of living in the 'poorer' destination regions.

For Italy, too, a relative decrease in interregional mobility can be observed. The constantly high regional disparities between northern and southern Italy lead one to expect higher mobility activities. This is not the case, however. In order to explain this 'empirical puzzle' (cf. Faini a. o. 1997, 571-579), which is described by various authors, a number of possible causes are referred to. Both the convergence of Italian wage disparities as well as the supportive family environment (this applies especially to young and older people) make migration unnecessary. As in Spain there is here, too, a higher taxation of housing transactions, which can act as a barrier to mobility. In addition to this there are demographic developments such as the falling proportion of young people. Moreover the increasing labour force participation of women as well as inefficiencies in the job-matching process between different regions impede mobility.

4 Theory versus reality: Why do people stay ?

Classic economic migration theory would lead us to expect migratory flows of huge magnitudes in contemporary Europe. The existing differences in capital/labour ratios, in wage levels and unemployment rates between countries should be a sufficient incentive for many individuals to change their place of residence. But this flow has not happened. Economic

theory also predicted that these movements would occur from low-wage to high-wage countries until wage level differences levelled out. Thus the incentive to migrate would disappear and migration would stop. In reality neither did wages equalise in the integration area nor did migration between the EU countries come to a halt. In previous chapters it has been shown that the conditions of the "pure" economic theory did not tally with reality. A number of modifications could narrow the gap between theory and the real world such as cost, imperfect information or migration as a group or family decision. These adjustments allow an explanation of the different forms of migration. But the central paradox remains that most people in the EU stay immobile, although important national and regional disparities continue to persist.

Nearly all scholars writing about migration ask why people move. What has hardly been asked until now is whether immobility itself could have a "positive value" to the individual as well as to society as a whole. Fischer/Martin/Straubhaar are among the first to present in a systematic way some hypotheses on the "value of immobility" which will be summarised below.

They argue that some of the abilities and assets of every human being are location-specific. In other words they can only be used "on the spot", in a certain area or firm and are not transferable to other places of residence. An important part of these skills and abilities has to be obtained within a location-specific learning process which requires time and effort. Migration turns such efforts into lost "sunk costs", i. e. costs which are tied to a specific location. Mobility may therefore result in a decrease of potentially achievable relative wages because firm-specific abilities are "sunk" (lost) in the case of a change of workplace. Therefore, immobility makes sense to a majority of people because migration would lead to a loss of location-specific assets and abilities. Furthermore it is immobility which permits the accumulation of location-specific advantages. These "insider" advantages are not only economic, but also, and perhaps first of all, cultural, linguistic, social and political:

Location-specific advantages (value of immobility)

(1) Work-oriented

* Firm-specific advantages make an employee more attractive for the specific firm he/she works at present. This leads to higher firm-specific compensation for non-transferable knowledge and abilities. If the firm has subsidiaries in different locations, insider advantages allow for firm-internal mobility between locations. Intra-firm mobility maintains or even increases insider advantages and will not cause losses in individual productivity and thus compensation.

* Space-specific advantages make the worker attractive for firms located in his region or country. Examples of such location-specific advantages are expertise in regional/national preferences, habits of clients, specific locational production technology or insider knowledge of the peculiarities of the political or legal situation in a country.

* Society-specific advantages arise from social relations and political activities which are built up in the society where the individual resides.

All of these three work-related advantages are likely to result in better job opportunities and career prospects and lead to higher revenues for the individual in the form of wages or income. Hence it may become economically logical not to move to another location.

(2) Leisure-oriented

* Society-specific advantages encompass such things as having friends, being socially accepted and integrated at the place of residence. Participation in political decision making and elections to democratic bodies also need society-specific investments and skills to be acquired during periods of immobility.

* Space-specific advantages range from information about the "good-value-for-money" Italian restaurant to knowledge about cultural events and the local housing market. In particular housing may prove a barrier to migrate. The housing market is often regulated and intransparent. Leaving and thus being forced to sell one's property at a certain time and buy or rent a new dwelling in another location often reduces prospective gains from mobility significantly.

Regaining space and society-specific leisure-oriented insider advantages is costly and time-consuming: staying immobile has its own value.

To sum up: location-specific advantages may explain why most people stay immobile even when considerable national and regional disparities continue to persist. People do not move because location-specific skills and abilities could be lost in the case of migration. It takes time and effort to accumulate insider advantages. The more location-specific insider advantages a person has already acquired, the less likely he/she is to migrate. Young people are therefore more likely to be mobile than older people.

But it should also be borne in mind that it is not only important how many location-specific assets people stand to lose from migrating but also how quickly they are able to make good these losses. In other words, how quickly can they acquire new location-specific skills? Those who generally lose the least from moving are the young. They are also the ones who adapt quickly. The effect of education on the value of immobility is indeterminate. On the one hand the well-educated are more mobile and more adaptable. Their life-styles may not differ considerably from one country to another. For some highly-qualified activities skills and knowledge may be transferable such as in technology, science or in management. On the other hand the higher the qualification the more important the ability becomes to express oneself properly in the language of the place of residence (as a teacher, for medical personnel, in entertainment, as a lawyer etc.) or to have a thorough knowledge of the national social and legal framework (e. g. lawyer, consultancy). The more national regulations are replaced by European-wide rules and the more English is used as the language in commerce, management, sciences and research the more this trend will favour the migration of the better qualified.

Further reasons for immobility

The above considerations provided some important ideas as to why so many people are unlikely to move. Apart from the "value of immobility" idea, there are other, more traditional explanations for decisions to stay. Four arguments should be elaborated further:

* Most people are strongly averse to risk and are thus reluctant to move even if they expect an improvement in their income or quality of life with a high probability but are aware of some risk involved. Moreover it is generally more difficult to assess risks correctly in a foreign country than at home and it is also more difficult to obtain the information needed to reduce risks. Risk aversion is a factor in real economic life. In migration theory it has never become popular because it leads to difficult calculations and assessment problems.

* Discrimination against immigrants also helps to explain immobility. Discrimination by the native population reduces the attractiveness of a destination. Discrimination often results in lower wage levels compared to the native population, regardless of the kind of employment and level of qualification. Migrants may also have to pay discriminatory prices, for example for housing and other services. Or they may suffer from isolation, feelings of marginalisation or being considered second-class residents or otherwise unwelcome. Discrimination may play a lesser role for EU nationals as compared to third-country citizens, but in times of economic hardship, when competition for jobs and in the housing market is increasing, discriminatory attitudes may be on the rise and discriminatory practices may still be applied.

* Social security systems tend to increase the losses in terms of forgone social benefits in the case of the outmigration of nationals. The level of social protection supplied can therefore be a key factor in reducing the propensity to leave. At the same time it may increase the propensity of non-nationals to take up residence in the target-country. The latter effect will depend on the extent to which migrants are free to benefit from the system. In the case of EU citizens their legal status corresponds to that of nationals. Their social security benefits are transferable if they leave. Thus differences in social security systems should not act as an important deterrent to mobility in the EU area.

* Legal barriers and border control can deter inflows. As work permits are no longer required for EU nationals and as further legal barriers to mobility have been more or less abolished within the EU, this argument is of less importance for inter-European migration. It is still valid, however, for workers from countries outside the EU. This does not mean that no impediments to migration of labour exist within the EU, such as administrative barriers or barriers due to differing tax and social security systems.

A further advantage of immobility has been discussed recently under the term "option value of waiting". Analogously to investment decisions on financial markets, waiting (and not migrating) has a positive option value. This positive option value arises because the postponement of the migration decision until later reduces the relative uncertainty and therefore the risk involved in the migration decision. The period of waiting can be used to gain information. If during the period of waiting the differences in income between the home country and the potential destination country diminish, the actual migration flow will be much smaller than could originally be expected. As has already been stated, income levels have shown a converging tendency between EU member states. Straubhaar/Wolter write that the option value of migration could be extended by the aspect that people are not risk-neutral but tend, rather, to be averse to risk. The bird in the hand is preferred to the two in the bush. It is also possible that the decision to migrate is not based on the long-term perspectives but takes place instead for short-term reasons. In this case the initially high cost of moving to another country can act as a deterrent and be overestimated, although the later advantages would be much greater. It is not possible either to exclude the fact that simply the prospect of having the opportunity to migrate at any time within a common area of integration may reduce present individual readiness to migrate.

5 Outlook: What type of migration in the European Union ?

As stated earlier, migration streams are strongly determined by different levels of income between the home country and the immigration country. But the emigration push does not depend solely on the absolute difference between income levels in the country of origin and

the target country. If a certain income is perceived as socially acceptable at home the threshold triggering emigration will probably be higher, i.e. the absolute gap between earnings may widen without necessarily causing labour to migrate. The progressive industrialisation of the peripheral countries of the EC levelled out economic development and rates of pay in the EC countries. Thus the threshold to migrate for economic reasons to another country may be reached in only some sectors or skill levels - and not at an overall level.

With economic integration advancing and the wealth of European economies increasing, the more an international division of labour emerges where production that requires unskilled work is imported and developed economies specialise in the production of high productivity work that demands correspondingly higher skills. As some "goods" of unskilled work, especially in the service sector (tourism, personal services, etc.) and construction are not tradeable, a limited need for unskilled work will persist. Because these simple jobs are low paid and thus unattractive for native workers, some demand for unskilled immigrants is likely to remain. Currently, however, unskilled labour in most European countries is suffering from particularly high unemployment rates. Highly skilled workers will become more "wanted". Young and relatively well educated people from culturally linked areas which are not too distant geographically and are undergoing periods of relatively fast development or transition are the most likely to move (cf. Fischer, Straubhaar 1996, 19). Availability of highly skilled specialists could become a key determinant of (regional) economic development. Nevertheless, as far as migration is concerned, a word of caution: for reasons described in previous chapters (micro- and macro-economic determinants, value of immobility) it can be expected that migration propensities of highly skilled individuals will not increase considerably, although they are in demand in other countries as well.

The economic differences between EU countries are no longer sufficient to give rise to migration on a massive scale. The Commission's actions for improving the free flow of labour - e. g. the mutual recognition of educational and training certificates or co-operation and exchange programmes in the educational field - are an important step towards realising a European common market as far as personnel is concerned. But they will not decisively influence general mobility behaviour. They will, however, ease the situation substantially in individual cases. This is the direction at which the efforts to establish a European citizenship are aimed (European Commission 1997). The recommendations of a high level group of experts to improve free movement of labour in practice in the context of EU citizenship are given in the Annex. Due to the same opportunities for nationals and EU citizens it will become easier and more commonplace to reside in one country and work in another EU country - if only temporarily. The labour force survey figures point in this direction of a slow but constant increase of EU nationals in other member countries.

But it should be clear that, after the completion of the Single European Market and the creation of a common currency, there is no reason to expect spectacular migration of labour between current EU member states. But partial imbalances and new opportunities for certain groups of workers may arise and additional, economically motivated migration could occur:

- (1) Inner EU mobility increasingly becomes a migration of the highly skilled workers.
- (2) More migration could also take place because regional economic areas near the borders will grow together even more.

(3) Temporary exchanges in education and on-the-job training, study courses abroad, business travel and the like constitute a special type of migration. These will increase and they do not necessarily imply a permanent change of residence.

(4) Another type of temporary migration of labour is the current phenomenon of so-called contracted workers from EU countries, mainly in the field of construction.

To sum up the future types of migration in the European Union one can conclude that, based on past experience, no spectacular migration of workers between current EU member states can be expected. However, new opportunities could occur for highly qualified manpower and specialists, in the border areas of neighbouring countries, for short-term stays for training and business purposes and for so-called contract workers who come on behalf of their firm to another member state to perform a specific contract of service.

6 References

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