

Immigration Policy in the European Community

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Migration has become a major global phenomenon in recent decades. As well as permanent migrants and their families there are seasonal and temporary workers, frontier workers, illegal immigrants and asylum-seekers. In Africa the traditional movement of traders and seasonal workers has been obscured by the large number of refugees from political conflict. In Asia there has been temporary migration from the Indian subcontinent to meet the labour shortages of the Middle East. In Europe the long established migration patterns from ex-colonies to the UK and France, and of Turks to Germany, has been supplemented by new flows into the traditional countries of emigration such as Italy, Spain and Portugal. At the same time the political changes in Central and Eastern Europe have created new and substantial immigration pressures upon the Community.

For the developing countries, from which these immigrants principally come, these outflows usually offer significant economic advantages. Faced with high rates of population growth and limited employment creation immigration offers a safety valve. Remittances can be a significant source of foreign exchange, while returning migrants may bring capital and skills to foster economic growth. Only the loss of any scarce skilled and qualified labour may inhibit their economic development. From a global perspective economic analysis would see such movements of labour as yielding the same global welfare maximisation that arises from the free movement of capital and of free trade. However immigration is determined not just by economic forces but also by political decision making. It is the receiving countries whose

immigration policies determine the scale of immigration flows and therefore it is their national economic evaluation of the costs and benefits that is central to understanding this phenomenon. The intention of this paper is to bring economic welfare analysis to bear on this issue from the narrower perspective of these receiving countries.

This analysis will be placed in the context of the EU experience. The establishment of the free movement of labour under the Single European Act and the first stages in the creation of a borderless Europe under the Schengen agreement have brought to the fore the issue of external immigration into the European Union. Inevitably it is being recognised that there is a need to establish a common EU immigration policy to replace fragmented and inconsistent national regimes.

In the following papers I first describe the changes that took place in national immigration policies in the 1970s. In Section 2 I review the trends in immigration into the EU Member States over the last few decades and its significance to their economies. The change in national policies reflected in part concerns as to the economic consequences of continued immigration, in particular its impact upon the receiving countries social infrastructure and labour markets. In Section 3 welfare analysis is brought to bear in order to clarify these economic arguments. I also review the available studies of the economic impact of immigration into the United States. The paper concludes with a review of the progress that the EU has made towards the development of a common immigration policy.

I. Labour Mobility in the EU

Common labour markets had existed between the UK and Ireland and the Nordic countries before the formation of the EU in 1958. Although the original Treaty of Rome under Article 3(c) had required `the abolition, as between Member States, of obstacles to freedom of movement of persons', the process of establishing a common EU labour market did not make significant progress until the enactment of the provisions of the Single European Act. In 1992 this finally created the single European market (SEM). A series of Directives and Regulations have sought to remove all obstacles to labour mobility within the EU by outlawing discrimination between EU citizens in employment rights, health, social security and housing entitlements in any member state. The Commission is also pursuing a programme to establish the mutual recognition of both vocational and academic qualifications. Any EU citizen has the right to take up employment or establish a business in any member state, and to seek employment, accompanied by their dependents, throughout the EU.

Despite the SEM legislative programme the intra-EU movement of labour is expected to decline in the coming decades. The principal labour flow in the 1950s and 1960s had been from the poorer Southern European states, such as Italy and Spain, to the more prosperous Northern countries, eg. Germany and France. However the rising incomes in the Southern states has removed much of the incentive to migrate, while the cultural and language differences across Europe will always present a significant barrier to migration. By contrast the pressure from external migrants for entry into the EU remains substantial and is likely to increase. The rate of immigration has been determined solely by the controls imposed by each European state. Between 1960 and 1970 the number of foreign workers in nine European

countries, increased from 2.5 m. to 5.4 m. The numbers were to peak at 6.3 m. in 1973 and then decline to 5.8 m. by 1987 (Hansen 1993). However the number of foreign residents was substantially greater and by 1991 it was estimated that 8 million non-EU nationals were resident in the Community, 2.5% of the EU's population. By contrast only 5 million EU citizens were resident in an EU country other than their own.

Initially immigration into Europe during the period of post-war reconstruction was of 'displaced-persons' from Central and Eastern Europe. During the boom years of the 1950s and early 1960s European countries actively recruited labour from their ex-colonies or developing countries. National immigration policies could be broadly classified as of two types: rotational and permanent. Switzerland and West Germany adopted a rotational system of immigration controls, where permits were issued for a limited period and could not be extended. By contrast the UK operated a system of permanent residency permits. Other European countries operated a mixture of these two systems, but no country allowed uncontrolled immigration.

By 1973 West German attempts to rotate immigrant labour under the 'guestworker' system had failed to prevent the emergence of a permanent immigrant community which exceeded 10% of the workforce; one quarter of which was Turkish. The impact of the 1967-68 recession and the first oil price shock of 1973-4 provided the trigger for a policy change. From November 1973 recruitment of foreign labour and the issue of primary immigration permits were ended. At the same time the number of permits for relatives of existing migrants were increased; effectively recognising the failure of the rotational system. Although the recessions provided the rationale for the tighter immigration controls, the available evidence of unemployment rates amongst unskilled workers (approx. 0.1%) suggests other political

considerations were of greater importance than the state of the labour market (Hansen 1993).

During the 1970s a similar watershed was passed in many European countries in their attitude to immigration. In France the first attempt to tighten the controls on legal and illegal employment of foreign labour occurred in January 1972 with the "Fontanet" circular. The opposition of employers ensured its suspension in 1973, but legislative controls on immigration were significantly tightened by 1974. In Sweden the foreign recruitment of labour was halted and immigration permits reduced in 1972. Similarly the Netherlands tightened its immigration controls in the late 1970s. The UK had been seeking to reduce 'new' Commonwealth immigration since 1962, with the 1971 Immigration Act restricting immigration to the dependents of existing immigrants.

As with West Germany the rise in unemployment in the early 70s seems unable to explain both the tightening of entry controls and their subsequent maintenance. Political concern at the social impact of large and growing non-European immigrant communities may well be the crucial factor in explaining these policy changes. However two further economic considerations may have contributed to these policy shifts. Firstly, recognition of the strain that substantial immigration was placing on the social infrastructure such as housing, education, health, and social services, and upon social security budgets. Secondly, pressure from trade unions concerned that immigrants would displace their members in employment and depress wages. These two issues are analysed in greater detail in Section 3.

II. Recent Trends in Immigration

Initially the attempt to curtail immigration in the early 1970s across the EU was largely successful. However family reunification and the natural growth of the immigrant communities resulted in their continued expansion. Family reunification and the young age profile of these communities, has produced a fertility rate significantly higher than that of the indigenous population. Thus while the European fertility rate is approximately 1.6 children per woman, below the replacement ratio of 2.1, that for example, of Tunisian women resident in France was 6.19. In 1992 10% of all births were to parents of foreign origin in Germany, Belgium, France and the UK. However over time most immigrant groups would be expected to adjust their fertility rates to those of the indigenous European population (OECD 1991).

During the 1980s net migration had equalled the indigenous population growth of the EU with the number of foreign residents increasing by nearly 800,000 in Germany, by 500,000 in Italy and by 200,000 in the UK and the Netherlands. In France the number of foreign residents fell by 130,000 as a result of naturalisations and immigrants returning to their home countries. But overall net immigration had been on a downward trend until the last few years of the 1980s (Table 1). This reversal has been attributed to four factors; the social upheavals in Eastern Europe, an upturn in the inflows of skilled labour, the increase in migration to the Southern Member States of the Community and the increase in the number of asylum seekers (Table 2). The number of asylum applications increased in Germany from 73,832 in 1985 to 322,600 in 1993; in France from 25,800 to 27,600 and in the UK from 5,900 to 28,500. The total number of refugees resident in the EU in 1988 had reached 1.2 million; with 800,000 in Germany, 184,000 in France and 100,000 in the UK.

Table 1
Immigration

	'000			
	1983	1991	1992	1993
Belgium	34.3	54.1	55.1	53
Denmark		29.2	29.1	20
France	64.2	109.9	116.6	99.2
Germany	273.2 (West)	920.5		1,207.6
	989.8			
Netherlands	36.4	84.3	83	87.6
UK	53.5	53.9	52.6	55.5

Source : OECD : Trends in International Migration, Annual Report 1994

Table 2

Asylum Seekers & Refugees

	'000					
	1985	1990	1991	1992	1993	1994
Belgium	5.3	12.9	15.4	17.6	26.7	14.3
Denmark	8.7	5.3	4.6	13.9	14.3	6.6
France	28.9	54.8	47.4	28.0	27.6	26.0
Germany	73.8	193.1	256.1	438.2	322.0	127.0
Sweden	14.5	29.4	27.3	84.0	37.5	18.6
UK	6.2	30.3	57.7	32.0	28.5	41.0

Source : Statistics in Focus 1996, No1, Eurostat

By 1993 the total number of non-EU residents in the Community had reached 12 million (Table 3). Of these migrants one quarter were Turks, mainly resident in Germany, and another quarter from North Africa and resident in France. Germany accounts for 39% of all migrants to the EU and France 18%. Relative to their populations Germany again emerges as having the highest concentration at 5.9%, with Austria at 5.6%, France at 3.9%, and Belgium, and the Netherlands with 3.7%. The significance of migrant labour to the various European economies can be seen in Table 4. Again immigration is most significant to the German economy, with economically active immigrants providing 7% of Germany's total labour force; while in France, the second highest, they total 4%. Belgium, Portugal, the Netherlands and the United Kingdom all fall in the range 2.1% to 2.7%

However these Tables need to be treated with some caution as an indication of the extent of immigration to the various Member States of the EU. Each country varies significantly in the right to naturalisation and this is reflected in the numbers who are granted national citizenship (Table 5). At one extreme is Sweden, where in 1993 42,700 immigrants received citizenship through naturalisation (13.6% of the resident foreign population), whereas in Germany citizenship was granted to 45,000 (0.9% of the foreign residents). Further complications arise from variations in the entitlement to citizenship of the children of foreign nationals resident in a country, which is the usual practice in France but not in Germany or Austria, and from the entitlements to citizenship of people born abroad (see M. Baldwin Edwards 1991). Thus the UK's estimated non-EU population of 1 million contrasts with the 2.6 million ethnic minority population (1991), while Germany has received over one million immigrant ethnic Germans.

Table 3

Non EU Residents

1993

	Population ‘000	% EU	Total ‘000
Austria	445	5.6	3.6
Belgium	372	3.7	3.0
Denmark	140	2.7	1.1
France	2251	3.9	18.5
Finland	35	0.7	0.2
Germany	4777	5.9	39.0
Greece	134	1.3	1.1
Ireland	21	0.6	0.1
Italy	740	1.3	6.1
Netherlands	564	3.7	4.6
Portugal	89	0.9	0.7
Spain	19	0.5	1.6
Sweden	313	3.6	2.6
UK	1259	2.2	10.3
EU15	12176	3.3	

Source : Statistics in Focus 1996, No2, Eurostat

Table 4
Foreign Employees in the EU
1994

	` 000	% Labour Force
Belgium	105	2.7
Denmark	32	1.2
France	926	4.0
Germany	2514	7.0
Greece	59	1.4
Ireland	9	0.6
Italy	127	0.6
Netherlands	179	2.6
Portugal	13	2.7
Spain	66	0.4
UK	574	2.1

Source : Labour Force Survey 1994, Eurostat

Table 5

	Naturalisations '000				
	1986	1990	1991	1992	1993
Germany	13.8	20.0	27.1	36.9	45.0
France	45.6	54.4	59.6	59.2	60.0
Sweden	20.7	16.8	27.7	29.4	42.7
UK	45.5	57.2	56.7	57.8	45.8
EU15	176.7	197.6	237.0	295.7	290.7

Source: Statistics in Focus 1996, No2, Eurostat

Finally we must recognise that so far I have only discussed the available data for legal immigration. Illegal immigration is also regarded as being significant, especially in the Southern Member States of the EU. The EU Commission (ISOPLAN 1989) estimated that in 1988 Spain had 294,000 illegal residents, Portugal 60,000, Greece 70,000 and Italy 850,800. In 1991 Spain decided to regularise the situation of illegal immigrants and received 133,000 applications.

With the contrasting birth rates of the EU and the surrounding countries of North Africa and Asia, and the widening economic gap between these developed and developing areas, migration pressure is expected to be substantial in the coming decades. Between 1994 and 2025 the population of Algeria is expected to increase 91%, Egypt's 67%, Morocco's 76%, Tunisia's and Turkey's 56% and Sudan's by 121% (United Nations Population Fund 1994). Political change in Eastern and Central Europe, with the threat of economic collapse, has also raised the spectre of substantial East - West migration. The International Organisation for Migration (1991) has suggested that 5 million migrants will move into the EU by the year 2000. Germany, Austria, France, Italy and the Benelux countries are seen as the most likely recipients of these migrants. If these estimates were to be realised it would represent only an increase of 0.3% of these countries' populations. By comparison during the peak years of immigration to the US (1900-1910) the inflow was 1.2%. However these estimates remain highly uncertain and the actual outcome will be determined by the political decisions of the EUs Member States.

III. Analysis

Immigration will have an impact both upon the labour market conditions and the public finances of a receiving country. It will have implications both for workers and employers in the short and long run. Beginning with a global perspective the economic evaluation of international immigration focuses upon the gains in allocative efficiency that arise from the free movement of factors of production. The efficient world wide utilisation of factors will be indicated by the equalisation of goods and factor prices across all economies. Should factor prices, reflecting marginal productivities, vary, then a reallocation of factors will allow increased production and a gain in global welfare.

A considerable debate has taken place as to whether free trade in goods and the free movement of capital are sufficient to achieve global welfare maximisation without the need for labour mobility, as suggested in the Heckscher-Ohlin-Samuelson model (see Straubhaar 1988). This conclusion is less clear once the simplifying assumptions of this model are relaxed. Impediments to free international trade, whether arising from trade barriers or natural protection inherent in the nature of the good, and insufficient labour mobility within a country, may both require international labour mobility to achieve allocative efficiency. Markusen (1983) argues that economies of scale, imperfect competition, taxes and differing production technology, will all require labour mobility to complement international trade.

However in this discussion of the welfare effects of international migration it will be assumed that labour mobility is essential to achieve allocative efficiency, and will focus upon the question of the distribution of the benefits from such migration.¹ Thus the analysis will be confined to the benefits and costs experienced by the receiving country. This is a more narrowly focused definition than the global welfare analysis which is usually employed.

These distributional aspects are a crucial issue when international labour flows are usually constrained by national controls on the right of entry and settlement. Restricting the welfare analysis to that of the impact upon a host country will more realistically reflect the policy making environment.

In Fig.1, before immigration occurs, the labour demand (L_d) and indigenous labour supply (L_s) are in equilibrium at real wage 0_a with employment 0_g . At this real wage employees are receiving a welfare surplus or economic rent of dab . Producers, who are able to pay a uniform wage of 0_a receive a producers surplus of ajb , the difference between labours marginal productivity as represented by the labour demand curve and the uniform wage 0_a .

Since the prevailing real wage exceeds the costs of migration a totally elastic supply of immigrant labour is available to this economy. Immigration is however limited to the increase L_s-L_s2 . This lowers the equilibrium wage to 0_i and increases total employment to 0_f . It is assumed that all immigrants are employed. The consequences for the indigenous labour force in this common labour market are both a reduction in their wage and a fall employment to 0_h . The reduction in employment is occurring as the lower wage is now below the reservation wage for hg members of the indigenous labour force. The size of the reduction in employment will be determined by the elasticity of the indigenous labour supply. Although those who are no longer employed are able to take additional leisure, which in itself yields utility, both those who cease employment and those who remain employed will lose $aikb$ of labour surplus with the fall in the real wage. By contrast for the employers the producers surplus increases from ajb to ije . This increase in welfare would be sufficient for employers to compensate labour for its loss of welfare and still gain the area kbe .

From this basic analysis we must now consider the relaxation of some of the simplifying assumptions and the longer term dynamic effects upon an economy of such migratory flows. Consider first the assumption that the economy is functioning at full employment. In an economy where real wage levels are not completely flexible, but constrained by a 'floor' such as that imposed by minimum wage legislation, involuntary unemployment may emerge. In Fig.2 we illustrate the extreme case of this argument. Starting from an equilibrium market clearing real wage $0a$ we will now also regard this as the minimum wage. Now migrant labour gm can fully displace the indigenous labour force $0g$ generating a potential maximum welfare loss $0abg$ which is not offset by any gain in producers surplus, which remains ajb . Brecher and Choudhri (1987), extending the neoclassical model to include unemployment, arrive at the same conclusion that any migration now represents a welfare loss. However migrant labour is unlikely to completely displace any indigenous labour force

The availability of social security benefits as a source of alternative income must also be considered, since it will provide some residual economic welfare to the involuntarily unemployed. Only if it is argued that work yields positive utility to an employee - by providing a social structure, work satisfaction etc. - might the welfare loss of involuntary unemployment again become substantial. With the indigenous labour forces' reservation wage indicated by their labour supply curve the total welfare reduction will only be reflected in the loss of consumer surplus adb .

Immigration will also have an impact upon public finances. Tax contributions by immigrants will raise government revenues but will be offset by claims upon social security from any

unemployed displaced indigenous workers or by the immigrants themselves. However immigrants will also be contributing through the tax system to the provision of society's collective public goods from their wage income gcef. In the case of pure public goods this will represent an unambiguous gain to the welfare of the indigenous population. Many collectively provided services offer elements of 'public goodness' and economies of scale which will again reduce the costs of their provision when spread over a larger population. However where capacity is reached in the provision of additional public services substantial incremental costs of service provision may arise. This issue is particularly relevant when considered in the context of the dependency ratio of any migrant labour force. The social costs of immigration will be greater the higher the dependency ratio of any immigrant group ie. the greater the proportion of economically inactive dependents in each family. Rotational immigration controls minimise this dependency ratio by only permitting the entry of those who are economically active. By contrast permanent immigration, with the entry of dependents, will impose the greatest social costs. Here the pattern of migration begins with young men, followed by wives and then dependent close relatives. High fertility rates in immigrant communities also tend to increase the dependency ratio above that of the national average, while the age profile will reduce it in the short run.

Simon (1994) has reviewed estimates of the impact upon public finances of immigrants. Studies of US, Canadian, Swiss, Swedish and German data suggest that immigrants make a net contribution to public finances. But many of the studies fail to take into account all of the costs of public service provision, focusing principally upon transfer payments and taxation. The net gain in public finances also arises principally as a result of the young age profile of immigrants, who therefore minimise their pension cost. However in the long-term any

immigrant community will impose the same pension costs as the indigenous population.

We can now turn to the dynamic effects of labour migration. With competitive product markets the lower wage costs will be reflected in lower prices. This will result in an increase in demand for goods with a consequent rightward shift of the labour demand curve. Depending upon the usual elasticity criteria - the price elasticity of demand, the supply elasticity of capital, the elasticity of substitution of other factors and the larger the share of labour in final costs - the demand for labour and the equilibrium wage rate will increase. Thus the welfare loss to the indigenous labour force will be reduced as we return towards the original equilibrium wage rate $0a$ (Fig.3) and the employment of the indigenous labour force increases to $0g$, with total employment at $0p$. Producer surplus has also risen to qra .

But in product markets which are monopolised the fall in the real wage may be diverted to higher levels of profit. It is possible that this will result in higher levels of investment by firms or consumption by the owners of capital, both types of expenditure increasing the demand for the output of the economy and raising the demand for labour, as described above. However it is also possible that this increased purchasing power may be dissipated in a higher demand for imports. Under these circumstances no expansion of output or increase in demand for labour will occur.

Finally we can consider the implications of the possibility that the immigrant labour may be entering a segmented labour market. In the extreme case where total segregation is occurring and none of the indigenous labour force is willing to take employment in a particular occupation, immigrant labour might be regarded as having no displacement effect upon the

indigenous labour force. However in the longer term immigrant labour is likely to accumulate human capital and raise its expectations such that it will not be confined to a distinct unskilled sector. Such complete segmentation of the labour market is also improbable, with labour shortages in any particular sector of the economy more likely to arise from the failure of wage rates to rise sufficiently to elicit the necessary supply of indigenous labour. Such wage rigidity may itself result from the perception of employers that cheaper immigrant labour is potentially available, even allowing for any possible higher indirect costs of their employment eg. the need for increased supervision. Only one possible case of unambiguous welfare gain is likely and that will occur where particular skill shortages exist which can only be met by immigrant labour. Such skilled labour will allow an expansion of production and the employment of complementary 'unskilled' indigenous labour. In Fig.4 there are a substantial number of unskilled labourers seeking employment at wage $0t$. With the expansion of demand for this complementary labour there is a gain in wage payments to those newly employed of $muxp$ and in producers surplus of $uvyx$. This unambiguous welfare gain can offset any losses being experienced in the skilled labour market.

But it must also be recognised that any gains from immigration will last only for that period during which specific skill shortages continue and until the indigenous labour force may be trained. Although the availability of immigrant labour may ameliorate short-run inflationary pressures through reducing labour market mismatch (Hansen 1993), it may also inhibit economies from undertaking the necessary structural reforms which will be required for sustained long-term growth. The OECD (1985) has suggested just such a phenomenon occurred in Europe before 1973 where substantial immigration allowed labour market rigidities to be sustained.

Empirical Studies

One approach to estimating the impact of immigration is to simulate such changes in an economic model. Razin and Sadka (1995), assuming rigid wages, estimated that with immigrants representing 10% of the labour force the aggregate consumption of an indigenous labour force would be reduced by 3.4%. However the model employed makes some heroic assumptions and focuses upon the shift of investment between human and physical capital.

More revealing evidence can be derived from econometric studies which directly attempt to estimate the impact of immigration upon the indigenous labour force. This principally depends upon the degree to which immigrants and indigenous labour are complements or substitutes in the production process. Grossman (1982) estimated that a 10% increase in the number of immigrants to the US would reduce employment by 0.8% in the short-run with rigid wages, with a fall of 1% in indigenous wages in the long-run. Borjas (1983, 1986) suggests that immigrants are complements in production for male indigenous labour but substitutes for women. By contrast Bean (1988), in examining the impact of illegal immigrants on five Southwestern labour markets, finds no evidence for a negative effect upon either indigenous men or women.

However it has been argued that it is the degree of skill that immigrant labour brings to the labour market that is, in turn, the crucial determinant of its complementarity or substitutability. Most of the immigration into both the US and EU has been of unskilled or semi-skilled labour, which is more likely to be competing with indigenous unskilled labour, but may be complementary to skilled indigenous labour. US studies have established, as

would be expected, that increased supplies of any type of labour reduces that group's own wages (Lalonde & Topel 1991). But Rivera-Batiz & Sechzer (1991), taking into account the relative skill characteristics of twenty four immigrant and indigenous labour groups, find only a small adverse cross effect. For example, a 10% increase in immigration from Latin America reduces white US wages by less than 0.5%. These results are supported in work by Butcher & Card (1991), Winegarden & Khor (1991), Borjas (1991) and Friedberg & Hunt (1995).

But recent work by Borjas, Freeman and Katz (1991) has noted the considerable decline in the earnings and employment prospects of unskilled labour in the US in recent years. They estimated that immigration and trade factors accounted for a fall of 3% to 5% in unskilled wages between 1980 and 1988. Chiswick (1991) has raised more fundamental criticisms of the empirical approach of many of these studies. Most attempts to estimate the impact of immigration on wage rates have utilised cross-State or cross-city data, but Chiswick points out that the mobility of immigrant labour will itself ensure that any inter-State or inter-city wage differentials are eliminated in the long run. Greenwood and McDowell (1994), in reviewing the literature, are also very critical of the assumptions of constant returns to scale, competitive markets and immobile capital, underlying many studies. They believe that the more narrowly defined the groups affected by immigration or the more recent the data employed, the more likely a negative impact seems to emerge. They also observed that complementarity is not the only issue in assessing the impact of immigration, but consideration also needs to be given to demand effects and the consequences for capital accumulation, aspects that are largely unexplored.

European studies of the impact of immigration on the labour market are fewer but broadly

support the US conclusions. Although Winkelman and Zimmermann (1993) found that immigration had made a significant but small contribution to increasing unemployment in Germany in the 1970s, Muhleisen and Zimmermann (1994) found no effect in the 1980s. In terms of a wage effect, again it is necessary to distinguish between the impact upon the skilled and unskilled indigenous labour force. DeNew and Zimmermann (1994) for example, found that immigration appeared to have depressed the wages of unskilled German workers but increased the earnings of the skilled workers. Similarly Eckberg (1983) identified a negative impact upon the unskilled wage in Sweden in the 1970s, but this was found to be small. A comprehensive study by Gang and Rivera-Batiz (1994), of both the US and European labour markets, attempted to isolate the specific skill characteristics of both immigrant groups and the indigenous labour force. Amongst other results they suggested that a 1% increase in the labour force arising from Turkish immigration would reduce the wages of an average worker in the Netherlands by 0.09%, while German workers would experience a 0.01% reduction. Asian immigrants to the UK reduce average UK wages by 0.08% and in France by 0.1%, while North Africans reduce French wages by 0.07%. However the authors admit that the available data is not entirely satisfactory and have assumed perfect wage flexibility, and hence no unemployment. Finally Zimmermann (1994) found a correlation between the proportion of immigrant labour employed in German industries and their reliance upon unskilled indigenous labour. These industries also appear to be competing with imports and to have low levels of both innovation and R & D.

A recent review article by Zimmermann (1993) concluded that most studies had been unable to identify any significant adverse effects. It is therefore suggested that immigrants are usually complementary to the indigenous labour force rather than substitutes in the labour market.

However any adverse consequences will be experienced mainly by unskilled indigenous labour, especially as both groups tend to be concentrated in the same industries.

Although on balance immigration might appear from this work to offer short-run advantages, with foreign labour being complementary to the indigenous labour force either through being confined to a particular labour market sector or by overcoming skill shortages, it may still have adverse long-term consequences, unless the immigration is rotational. Unskilled immigrants would be expected to acquire skills over time and would then compete with indigenous labour. Alternatively, meeting skill shortages through immigration may reduce returns to the indigenous labour force from investing in their human capital and therefore delay the long-term adjustment of the economy. In regard to public finances any short-term gain from the age profile of immigrants will be offset by long term claims upon that society. Thus the inter-generational costs and benefits of permanent immigration raise particular problems in evaluating the overall advantages of immigration and bring to the fore the central political issue of defining the 'indigenous society'.

IV. EU Immigration Policy

Concerns that the employment of immigrant labour might undermine pay and conditions for indigenous labour, and thereby threaten 'social cohesion', has formed one element of the more general debate about the possibility of 'social dumping'. With the establishment of the SEM competitive pressures from low-cost producers within the EU, where wages, social security or employment conditions are poor, may serve to undermine labour conditions in the more advanced EU member states. This is of particular concern to West Germany, the highest labour cost economy of the EU. The issue is by no means as simple as it might at first appear,

since high wage costs may be offset by high labour productivity, and social security benefits may be traded-off against wage levels in a labour market with wage flexibility (see Dearden 1995). Nonetheless the demand for EU wide minimum employment conditions remains strong. As part of the Social Action Programme (SAP) designed to realise the principles of the Social Charter, Directives have extended the rights enjoyed by full-time workers to those employed under `atypical' contracts (eg. part-timers, those on short-term contracts), minimum employment conditions for young workers, and restrictions on working hours. A minimum wage has also been proposed for the Community. As part of the SAP the Commission has also drafted rules setting minimum employment conditions, including wage levels, for foreign workers, whether employed directly or through subcontractors. Such subcontracting is particularly important in the construction industry where significant numbers of foreign workers have been employed.

But the SEM, with its creation of a common internal labour market, inevitably raises the issue of the need for a common immigration policy for the Community. Once within the borders of the EU immigrants will face few border checks on their movement across national frontiers. The Single European Act of 1986 (SEA) specifically excluded issues affecting the free movement of people from the extension of qualified majority voting (QMV) and attached a declaration that the SEA would not constrain Member States' rights to take action for the purposes of controlling immigration. However a Political Declaration attached to the SEA committed the States to co-operation in combating drug trafficking, international crime and terrorism and in the control of immigration. But this co-operation was to be inter-governmental, excluding the institutions of the Community including the European Court of Justice (ECJ). Four developments have so far resulted from this commitment - the

Schengen Agreement, the Dublin Convention on Asylum, the Convention on External Borders and TREVI.

The TREVI group, which preceded the formally independent Ad Hoc Group on Immigration, had been formed in 1975. Consisting of EU Interior Ministers, it co-ordinated action against terrorism, international crime and drug trafficking. In 1986 its activities had been extended to immigration issues. By 1990 an agreement had been signed determining Member State responsibilities for processing asylum applications. The TREVI group was also harmonising visa application procedures, facilitating the development of a common list of undesirable aliens and the exchange of information. Complementing these developments was the Schengen Group - Benelux, France, and Germany. Originally signed in 1985 the Schengen Accord aims to remove border controls between these countries, but complemented by the harmonisation and strengthening of external border controls. The Agreement provides for the exchange of information on non-EU nationals through the computerised Schengen Information System and the development of a common list of undesirables as defined by each States security services. It also involved the establishment of common visa requirements, currently covering 127 countries. Non-EU nationals will however be able to travel for up to three months within the Schengen group for the purpose of tourism, but with a requirement to register their residence. The Schengen Agreement came into force in March 1995 and in 1997 it was incorporated into the Treaty of Amsterdam, integrating it into the EU institutions. It now covers all of the EU's Member States except for the United Kingdom and Ireland.

Considerable difficulties have arisen with both the Convention on External Borders and the Dublin Convention. With the Convention on External Borders problems have arisen from the

position of Gibraltar, which may now be treated as an EU 'colony' and for Denmark, with its pre-existing Nordic Labour Agreement. Much of this Convention is comparable to the Schengen Agreement, with common lists of undesirable aliens, computer exchange of information, carrier sanctions and free movement of non-EU nationals for up to 4 months. Meanwhile the Dublin Convention (1990) established that all asylum claims should be handled by the first EU State that an applicant enters. Similarly the non-binding London Resolution (1992), allowing asylum seekers to be deported to non-EU buffer States without right of appeal, has faced the challenge that it may violate the 1951 UN Convention on refugees. Again it must be emphasised that all of these agreements are inter-governmental and outside of EU jurisdiction.

The limitations of an approach relying on inter-governmental agreements led Chancellor Kohl at the Luxembourg summit of 1991 to suggest 'Communitisation' of immigration and asylum policy. Subsequently the Ad Hoc Group on Immigration suggested three priorities for Community policy harmonisation :-

1. Admission of immigrants for family reunification, employment or humanitarian reasons.
2. Policy on illegal immigrants and deportation.
3. Admission of third-country nationals for employment.

In regard to asylum policy the Group sought the implementation of the Dublin Convention and the creation of a mechanism for sharing information about asylum applicants (CIREA established in June 1992).

In the face of opposition from some Member States, especially the UK, to an erosion of national sovereignty in this area, the Treaty on European Union (TEU) in 1993 recognised

two approaches - one based upon inter-governmental agreements, the other Community law. Thus under Articles K1.1 to K1.3 asylum policy, rules governing external frontier controls and immigration policy, were merely recognised as matters of common interest. In these areas Member States and the Commission share the power of initiative. Subject to unanimity the Council of Ministers could adopt joint positions, agree joint action or draw up Conventions based upon international law for national agreement. Under these arrangements a series of Council Resolutions were agreed covering the admission of third-country nationals for employment (June 1994), self-employment and for study (November 1994). The Ad Hoc Group has also been replaced by the permanent K4 Committee which will also oversee the European Information System which covers immigration, asylum security and policing policy.

By contrast Art. 100c amended the EU Treaty, and empowered the Council, under Community law, to unanimously determine which non-EU nationals will require visas to enter the Community; an essential requirement of the free internal labour market. The Commission has proposed a list of 129 countries from whom visas will be required, which is almost identical to the Schengen list of 127 countries. Further Art. K.9 of the TEU allowed the adoption of the procedures of Art.100c to the areas covered by Art. K1. Thus Community law could be extended to asylum policy, the control of external borders, foreign entry and residence requirements and control of illegal immigration. This was finally realised under the Amsterdam Treaty (1997) which ended the distinction between Community law and inter-governmental agreements in these areas. The Treaty also incorporates the Schengen Agreement which will create a borderless Europe between the 13 Schengen countries. It is anticipated that Schengen will also be applied by Norway and Iceland, but the UK and Ireland

will continue to operate border controls.

The Amsterdam Treaty retains the right of veto for Member States for at least five years in these sensitive areas. Since it will no longer be possible to 'tie' immigration permits to any single country in a Community that has removed internal border controls, and immigrants are likely to be far more mobile than EU citizens within the Community, as they are less inhibited by social, linguistic and cultural ties to particular Member States, the focus will be upon the overall EU limit. Arriving at such a Community quota may well prove difficult, as immigration limits acceptable to one Member State may be unacceptable to others.

The Tampere Council meeting in 1999 illustrated how far immigration policy has emerged as an important Community policy issue and how responsibility is shifting from individual Member States to the Union. As one of the specific priority areas addressed, the Council reiterated the need to develop a common European Asylum System - with clearly defined responsibilities amongst Member States, common asylum criteria, minimum standards of administration and the establishment of a database of asylum seekers (Eurodac). Further impetus was also to be given to the development of common visa requirements and the prevention of documentation fraud; with the possibility of the establishment of EU visa issuing offices. The Council called for much closer coordination between the border control services of the existing Member States and made clear the responsibility of any prospective members to adopt similar rigorous controls. The Commission was required to give priority to exercising the powers given to it in the Amsterdam Treaty to negotiate readmission agreements, or readmission clauses in other agreements, with all relevant countries. These are intended to address not only the repatriation of a non-EU country's nationals, but also the

readmission of non-nationals into the State in question who have transited into the EU. The negotiation of such wide ranging agreements is likely to prove problematic. In the recently concluded Lomé negotiations with the Asia, Caribbean and Pacific group of developing countries, the EU had proposed requiring such agreements as part of the aid and trade Convention. However after considerable controversy these proposals were watered down to the consideration of voluntary agreements, without any specified minimum requirements. The Convention will only include an enabling Article on illegal immigrants "subject to the constraint of international convention and law."

The Council also "acknowledges the need for approximation of national legislations on the conditions for admission and residence of third country nationals, based upon a shared assessment of the economic and demographic developments within the Union". - ie. the creation of a global EU immigration limit.

Conclusion

Economic theory is unable to offer an unambiguous answer to the question as to whether the EU member states will experience any net economic gain from continued immigration. At best it can indicate the forms of immigration that are most likely to maximise any economic advantage. If migrants are meeting a skill shortage or are only temporary, unaccompanied by dependents, then a net economic gain to the EU states is more probable. However it has been argued that importing skilled labour may offer only a short-run palliative to a skill shortage and may inhibit the necessary structural adjustment that is required for ensuring long-run economic success. Similarly although rotational systems of immigration control may be

desirable, experience has shown that such systems are unsustainable, even at the national level. A system of permanent immigration is the only viable long term option for an immigration policy, and yet it is such permanent immigration that lies at the root of the concerns that make immigration such a politically sensitive issue across Europe.

But it is clear that the debate about immigration is as much one about the social and political consequences as about the economic impact. As one author has noted, Europe's real perspective may be that "any immigration except of 'patrials' constitutes an intolerable disturbance; since the objective is to reduce immigration and incorporation to a level as close as possible to zero, the prevailing situation is unacceptable, and a harbinger of worse things to come." (p. 77 Zolberg 1993). If this is true than the most likely outcome of the European immigration debate is the emergence of a 'fortress Europe' against immigration from either developing countries or Eastern Europe, whatever the economic implications.

Footnote

1. I will also maintain the assumption of international capital mobility, thus avoiding any discussion as to the cost of capital dilution arising from immigration (eg. see Simon 1989, pp143-169)

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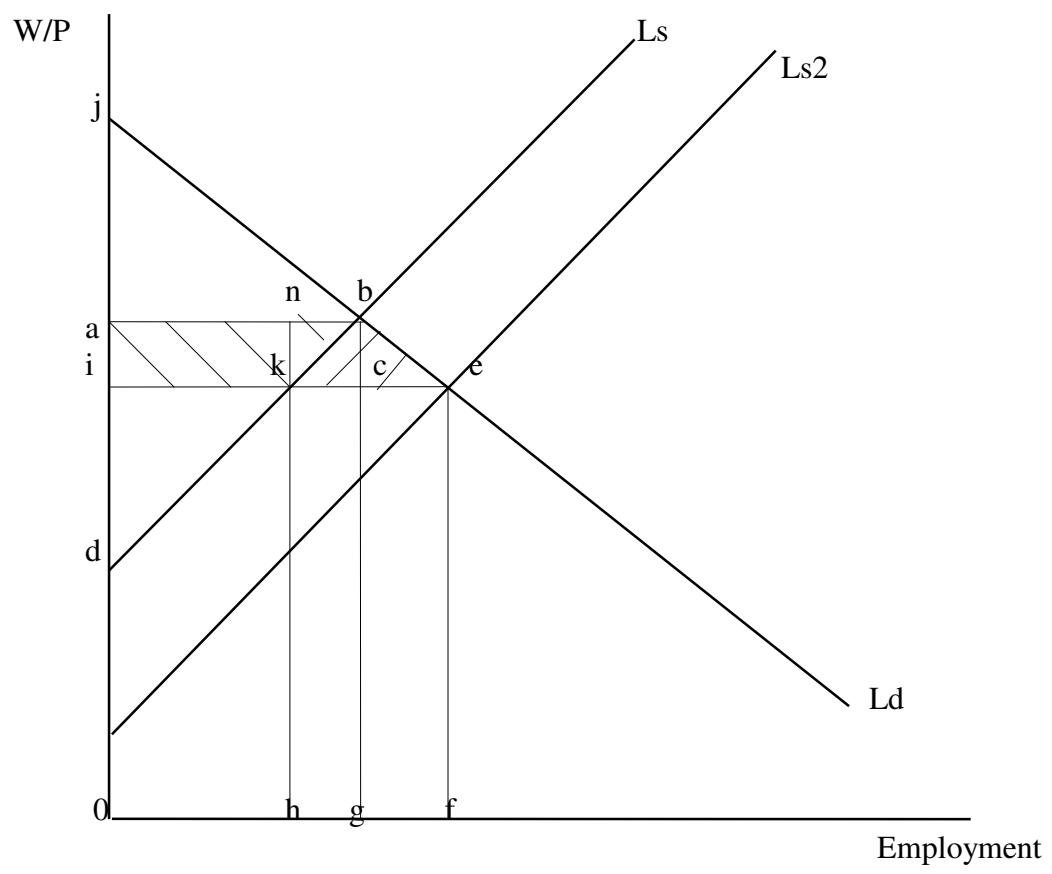


Fig.1.

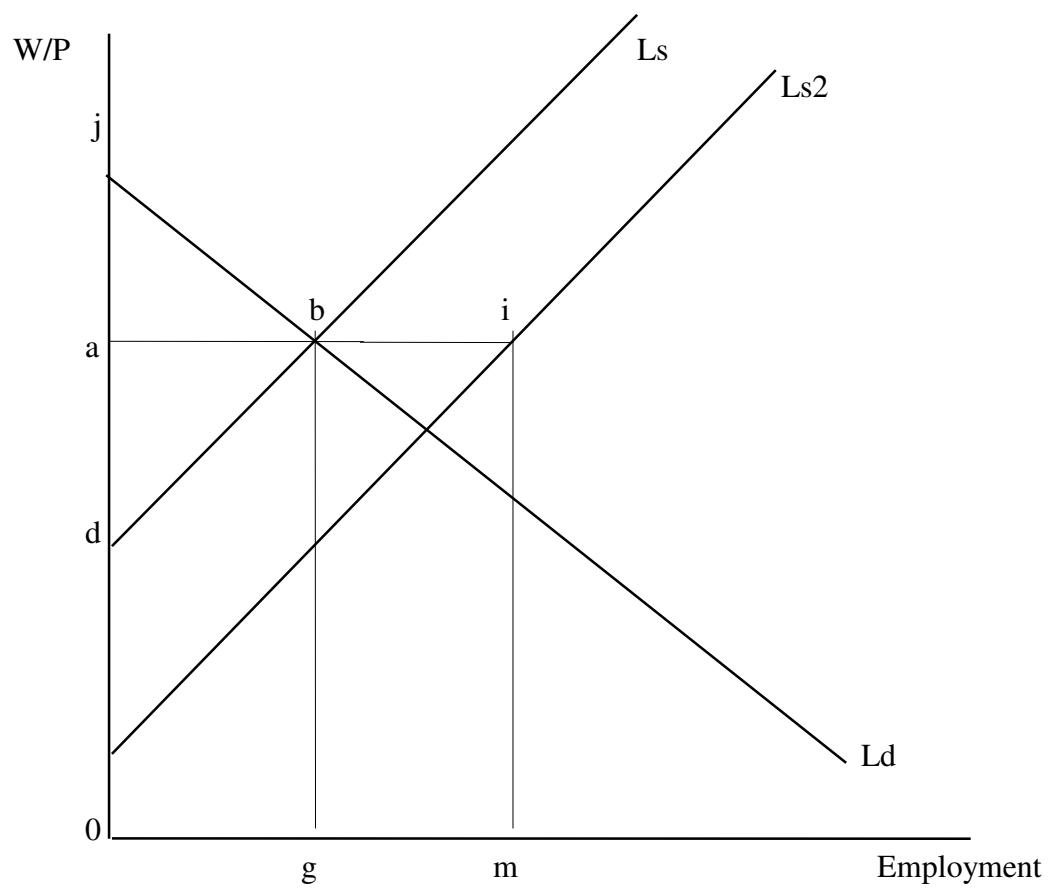


Fig 2.

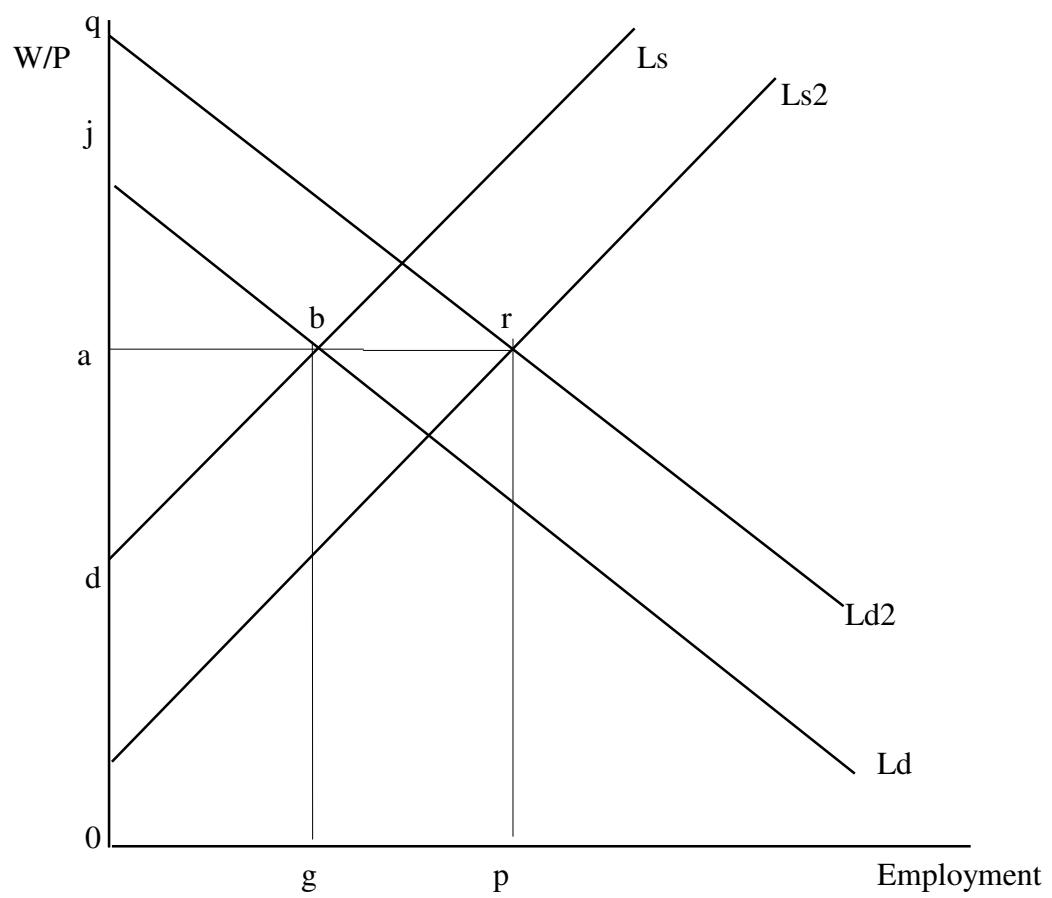


Fig 3.

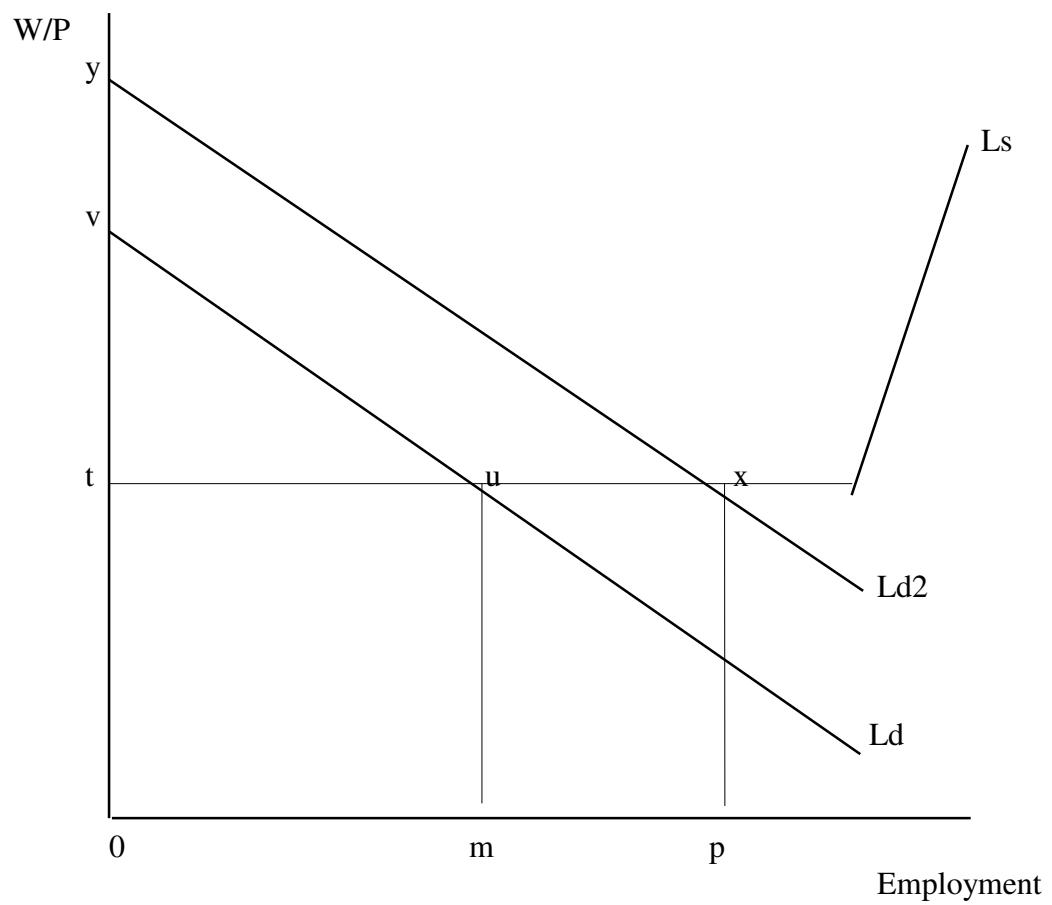


Fig.4