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Can Mobility Offset Unemployment?

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Almost a quarter of the young people in the EU are unemployed. And once again it is the crisis-ridden states that have been hit hardest. But in other countries such as France, Sweden, and Luxembourg, younger members of the workforce, far more than their older counterparts, are also finding it difficult to get a job. Freedom of movement within the EU could help to provide them with new opportunities. All that is needed is the right kind of support.

I

The sovereign debt crisis in the eurozone has had dramatic consequences for European labour markets. In April 2012, almost 25 million people in the EU were out of work – a historic high. Whereas unemployment in Austria, Germany, Luxembourg, and the Netherlands ranged from just 3.9% to 5.4%, in Greece and Spain joblessness climbed to almost 25%.

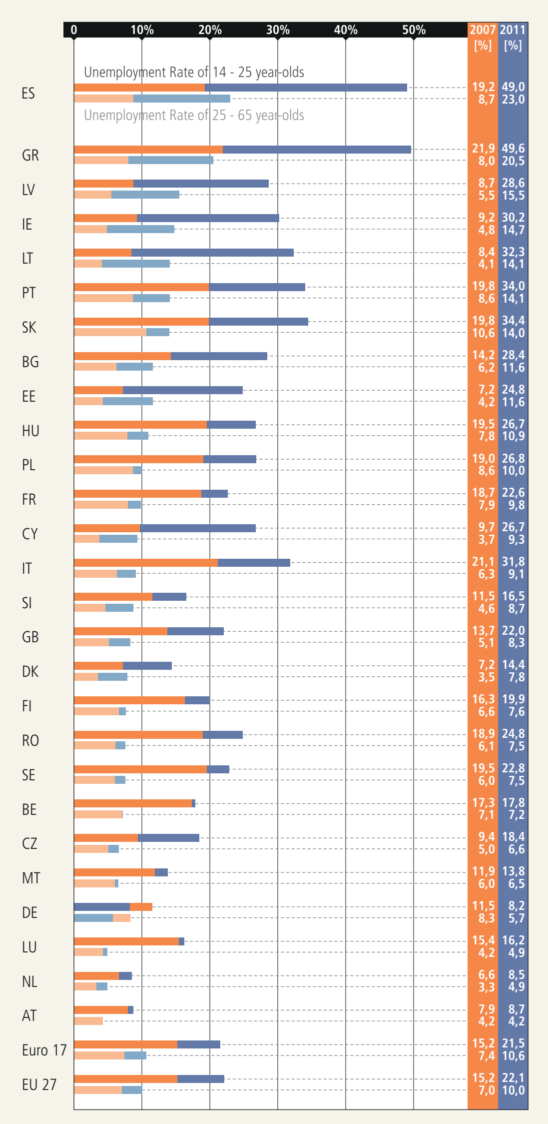
The increase in youth unemployment has been especially disastrous. As of 2012, 35% of people under the age of 25 in Italy and Portugal were out of work, and in Spain and Greece this was true of 50% of their peers. Thus 5.5 million young people (22.6%) between the ages of 14 and 25 are unemployed. One of the reasons why unemployment in the southern eurozone countries is on the increase is that since the euro's introduction in 2002 they have not managed to boost their productivity.

In the past, countries that ran into economic difficulties were able to devalue their currencies if low productivity was adversely affecting their competitiveness. A flexible exchange rate was an important tool which could be used to compensate for an economy's outmoded manufacturing technology, and thus to maintain its international competitiveness.

In theory, the mechanism works as follows: A country with low productivity levels devalues its currency with the help of a flexible exchange rate. This reduces its costs, and cushions the negative impact of declining international competitiveness. But since the introduction of a common currency, this is no longer possible. The absence of a national currency and at the same time low productivity growth have led to declining exports and rising imports. The declining demand for (expensive) domestic products is both the reason for and the result of these developments. And the accelerated decline in manufacturing has led to a rise in joblessness.

Unemployment in the EU

Youth Unemployment Trends in 2007 and 2011



Source: Eurostat, 2012

If countries with divergent productivity growth rates decide to establish a currency union, they should meet at least one of the following criteria. They should be in a position to lower their wage levels and thus be able to reduce their manufacturing costs in ways that are not dependent on technological progress. Or they should have a mobile workforce that is prepared to go where the jobs are. However, in the eurozone these criteria for a viable monetary union exist only to a limited extent. Thus in his essay “Die Krise im Euro-Raum: Auslöser, Antworten, Ausblick” (The Eurozone Crisis: Reasons, Answers, and the Future), Henrik Enderlein, professor at the Hertie School of Governance, comes to a sobering conclusion: “On paper Europe may have created an internal market, but we are a long way away from a totally integrated economic area.”

II

Mobility Instead of Unemployment

Every economy has to find ways of dealing with the economic imbalances of its constituent regions. The eurozone is no exception. It seems likely that there will continue to be considerable differences in productivity within the eurozone and that they will continue to have a negative effect on the competitiveness of certain member states. In order to prevent a rise in unemployment in these countries, it would make sense to think about how it can be made easier for the jobless to go to where the jobs are. In an ideal situation, people will move from weak economies to internationally competitive countries, thereby reducing unemployment in their home countries.

To a certain extent, this is already happening. With regard to migration to Germany in 2011, the Federal Statistical Office stated: “The migration of foreigners increased, especially from the EU area (by 138.000, or 34%). And there was a noticeable increase in immigration from EU countries that have been badly hit by the financial and debt crisis. Ninety percent more immigrants than in 2010 came from Greece (11.000 people) and 52% from Spain

(7.000 people).“ However, in absolute terms the data show that workforce migration is still much too small to make a substantial contribution to solving the labour market problems of the weak economies. Although freedom of movement enshrined in EU legislation has removed the legal barriers to migration within the EU (with the exception of Romania and Bulgaria), in practice the theoretically obvious idea of underpinning the viability of the monetary union with the help of workforce migration runs up against a number of obstacles and anxieties. In addition to linguistic and cultural barriers, these include fears that the migrants will disadvantage the native workforce.

III

A Blessing or a Curse?

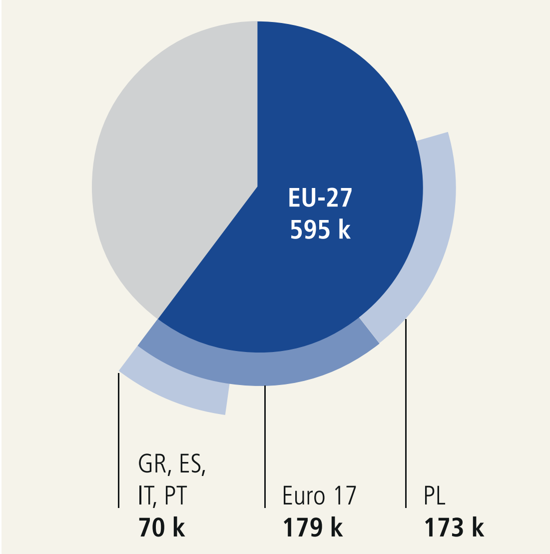
It is reflexively assumed that an influx of workers could have a negative impact on the domestic labour force: For example, through a greater labour supply and thus downward pressure on wages, or through heightened competition among the workers.

However, this short-term view ignores a number of dynamic developments that can soften and perhaps redress the negative impact of lower wages and unemployment on the native workforce:

- First, one should not forget that demand for goods and services is generated by an increase in the number of people gainfully employed. On the one hand, an overall increase in employment leads to an increase in disposable income, and this translates into a rise in consumer expenditure. On the other hand, an increase in employment will probably lead to an upsurge in investment demand. Higher levels of consumer and investment demand lead to an increase in labour demand, which will also benefit native workers;

- Second, declining wages have the effect of reducing manufacturing costs in the immigration region. This will enhance international competitiveness, causing exports to increase. The net result is that recruitment at export-oriented companies goes up, and this in turn leads to across-the-board growth and rising employment;

Immigration to Germany according to Origin Country, 2011



Source: Federal Office of Statistics, 2012 © Bertelsmann Stiftung

- Third, surveys have shown that migrant workers frequently save more and are more willing to take risks than the domestic population. As sociologist Michael Bommes points out in “Migration und Veränderung der Gesellschaft” (Migration and Societal Change), migrants have a positive effect on overall savings, investment, and above all on the number of start-ups. All of these factors help to initiate a process of economic growth that also benefits the citizens of the immigration region;

- Fourth, as a result of wage bargaining or legal provisions it tends to be difficult to reduce wages. This means that wages often do not decline even if immigration increases the size of the workforce. Furthermore, numerous studies show that on the labour market new migrants tend to compete with earlier migrants more than with the domestic workforce. Herbert Brücker comes to the following conclusion in “Neue Erkenntnisse zu den Arbeitsmarktwirkungen internationaler Migration” (New

Insights into the Labour Market Effects of International Migration): “The majority of studies suggest that the native population comes out on top in almost all the various qualification groups, whereas to an important extent the people who lose out in this situation are foreigners who already live in the country;”

- Finally, it is quite conceivable that there is a shortage of labour in the immigration region. In this case migrant workers will not lead to declining wages, and native workers will not be put out of work. In fact, the migrant workers simply fill the supply and demand gap on the labour market and raise the overall level of employment without generating a distributional conflict with domestic workers.

When these dynamic effects are taken into account, it may well be that the arrival of migrant workers can positively impact wages and employment opportunities for the domestic workforce. In “Arbeitsmarkt und Migration” (Labour Market and Migration), a survey of studies devoted to the impact of migration on wage levels and employment opportunities, Max Steinhardt of the Hamburgisches Weltwirtschaftsinstitut concludes: “The various different empirical methodologies all indicate that migration has no more than a minor effect on wages and employment opportunities within a certain country.”

IV

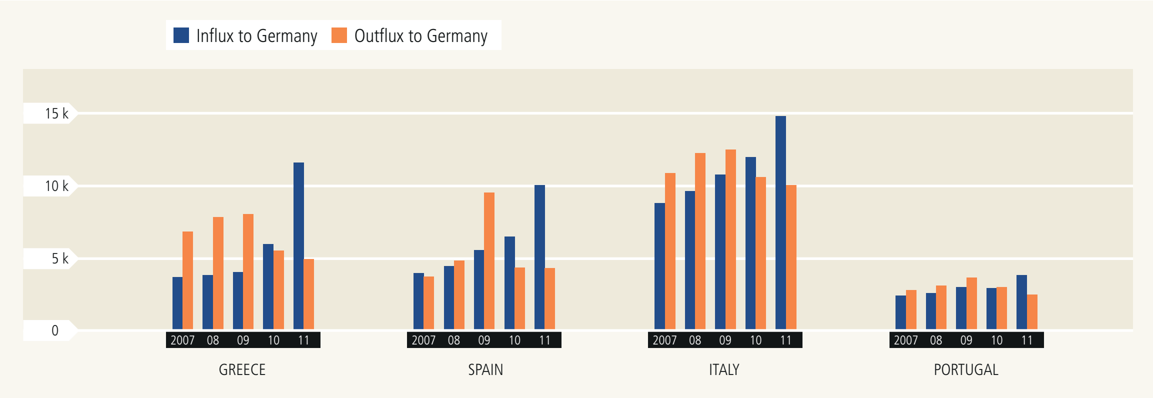
Advantage or Disadvantage?

The exodus of workers from an economy suffering from high unemployment takes some of the pressure off local labour market and welfare budgets, which would otherwise have to make transfer payments. For this reason, migration has a generally positive impact on the southern European states currently battling very high unemployment.

However, in addition to the positive effects mentioned above, an exodus of workers can also have disadvantages. Above all, there is a danger of a “brain drain,” that is, the loss of highly qualified workers. Studies of migration patterns have shown that highly qualified young people are particularly willing to migrate. For the region they leave this means a deterioration in productivity. That is why brain drain has a negative influence on growth and development prospects. If the region from which they come is an economy with a below-average level of development – as is currently the case with the southern eurozone states – brain drain simply exacerbates the growth and welfare disparities between the regions. In general, migrants leave their countries of origin with their savings. This represents a loss of capital for those economies. A lack of capital is a primary growth-retarding factor, especially in less developed economies.

Labour Migration

Migration in and out of Eurozone Countries with High Unemployment to Germany, 2007 to 2011



Source: Federal Office of Statistics, 2012

When it comes to the availability of capital, the emigration of highly qualified workers acts as a brake on the development of the southern eurozone states.

However, it is possible to single out a number of things that actually counteract these negative trends. Thus brain drain and the loss of capital can be overcome and reversed by other developments:

- First, it needs to be remembered that not all emigrants leave their country of origin forever. Many of them return home after a temporary period abroad, and raise the level of the local human capital on account of the skills acquired abroad;

- When there is a high level of unemployment, and in particular high youth unemployment, there is little incentive for young people to invest time and money in their education. However, in countries with high unemployment rates the prospect of earning higher wages abroad can be an incentive to pursue education. Since not all of those who decide to improve their educational qualifications will actually go abroad, this will raise the educational level in the country as a whole. In other words, "brain gain" may well replace "brain drain." This is not merely a theoretical concept. In "Migration: Entwicklungsmotor statt Entwicklungsbremse" (Migration: An Engine of and not a Brake on Development) Marcus Böhme, Toman Omar Mahmoud, and Rainer Thiele state: "Empirical studies have shown that brain gain really does exist, and that in some countries it can more than offset the emigration of skilled workers;"

- Migrants can make up for the loss of capital that is part and parcel of the process of emigration. This happens when people who have gone abroad send part of their income to family members in their home country. According to the World Bank, in 2010 these remittances amounted to US$325 billion globally. This is about three times the size of official development assistance. In 2011 remittances are expected to total US$351 billion. It is remarkable that between 1990 and 2010 the number of migrants increased by only 40 percent in global terms, whereas within this period the volume of remittances increased tenfold. Even if these figures refer primarily to migrants from developing countries, it would not be wrong to assume that the data are similar in the case of European migration.

V

An Opportunity for Everyone

When one takes into account the medium-term and long-term effects, migration is clearly an opportunity for all of the countries involved. In the immigration regions, migration can trigger growth and overcome labour shortages; it does not have to lead to declining wages and unemployment among the native workforce. And in out-migration regions, migration can contribute to lowering unemployment. It does not have to lead to brain drain and a loss of capital.

Against the backdrop of the economic diversity of the eurozone and the associated challenges – high unemployment in weak economies and a nascent dearth of labour in the booming regions – migrant workers who are willing to move between the different eurozone countries can contribute to overcoming the difficulties facing labour markets. In the economically weaker regions of the eurozone, an exodus of migrant workers could offset the rise in the number of people who are out of work (which has a negative impact on government finances since measures designed to combat unemployment lead to rising expenditure). This in turn would obviate the need for greater public indebtedness and contribute to the stabilization of public finances within the eurozone.

VI

Creating Greater Mobility

The EU is committed to the free movement of people. Thus Article 15 of the Charter of Fundamental Rights states: "Every citizen of the Union has the freedom to seek employment, to work, to exercise the right of establishment and to provide services in any Member State." The freedom to look for a job throughout the whole of the EU is one of the fundamental freedoms of the single market. Nevertheless, regional workforce mobility within the EU is lower than in the "US currency area." If we wish to reduce the pressure on labour markets in the economically weak eurozone states by improving the mobility of the workforce, we will have to give more support to migration than in the past.

The following measures can help to increase the level of intra-EU migration:

- Migrant workers are primarily motivated by attractive working and living conditions, career prospects, educational and work opportunities for family members, taxes and other levies and contributions, and immigration-friendly administrative processes, as well as by soft factors such as tolerance, respect for diversity, and the freedom to shape one's own destiny. An attractive "welcoming culture" in the immigration regions is considered of especial importance. Support needs to be given to reuniting families so that partners and children can improve their vocational prospects. In formal terms this is not a problem within the EU (with the exception of Romania and Bulgaria), but in practice implementation continues to be rather difficult;

- In order to enable people looking for work to take up employment in other EU countries, they need to have access to information about local labour markets. In this area, greater cooperation between European employment agencies is just as important as the development of multilingual databases containing details of employment opportunities. This is already the case with the job mobility portal EURES. Working in a country that is not one's own should also be facilitated by the speedy, non-bureaucratic recognition of home-country qualifications and diplomas, and above all in the case of EU citizens: by a citizen-friendly implementation of the EU Directive on the Recognition of Professional Qualifications. It would also be helpful if there were a better, less complicated way of transferring social insurance claims, e.g. an entitlement to unemployment benefit for people who are abroad in order to look for work (see the regulation on EU Social Security Coordination);

- In order to increase the level of immigration in the economic strong regions of the eurozone it will be necessary to adopt a pro-active way of attracting qualified and highly qualified people from the weaker eurozone states. This will include the establishment of additional service and information centres which can provide potential migrants in the weaker regions with information about work opportunities and the administrative framework in the stronger regions;

- After people have moved to an economic strong eurozone country they must be integrated into its society. They must have the same social participation rights as everyone else. Linguistic skills are one of the main preconditions for this. Thus it is essential to provide support for those learning and teaching foreign languages;

- And last but not least, the successful integration of migrants presupposes that an effort has been made to calm fears about the negative economic consequences of large numbers of immigrants. The main anxiety will probably be the fear that migrant workers will exacerbate low wages and joblessness, even if these fears are unfounded. Providing better information for the domestic population can reduce the anxiety caused by large-scale immigration and make it easier to integrate immigrants.

Even if the current sovereign debt problems in the eurozone cannot be overcome merely by encouraging workforce migration, it can make a valuable contribution to resolving the crisis. Moreover, a reduction in unemployment in the crisis-ridden countries is absolutely essential, not only because it is imperative to improve the state of public finances, but also in order to prevent the outbreak of social and political unrest.

Further Reading:

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