

# Divisions of labour: rethinking Europe's migration policy

BY JAKOB VON WEIZSÄCKER



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**Divisions of labour: rethinking Europe's migration policy**

Jakob von Weizsäcker

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# Foreword

In their great book, *Globalisation and History*, economic historians Kevin O'Rourke and Jeffrey Williamson reckon that migrations explain about two-third of the Scandinavian countries' nineteenth century catch-up (with respect to US income per head) and roughly the entirety of that of Ireland and Italy. History reminds us that for all that economists have written about the key role of international trade, in the first round of globalisation the movement of people was a much bigger factor than the movement of goods. For a few decades this experience was forgotten. After the last migration waves within and into Europe dried up or were stopped in the 1970s, it became standard practice to assume that people do not move, at any rate that they should not move. Economic policy in most cases took the immobility assumption for granted and migration, or rather the prevention of it, became a topic for discussion among interior ministers rather than economy ministers. Even the fall of the USSR and German unification did not result in this assumption being durably challenged.

Yet what was for some time perceived as the natural state of affairs did not survive the century. In the US, which had remained an immigration country throughout, the influx of immigrants, especially from Mexico, accelerated in the last decades of the twentieth century. In post iron-curtain Europe, borders proved to be increasingly porous. And by the mid-2000s it became clear that the migration effects of EU enlargement would exceed by far what economists had forecasted. A growing number of European countries – from Ireland to the UK and Spain – had opened their doors. As a result, the Spanish demographic – and therefore economic – outlook changed radically from decline to expansion in the course of a few years. At the same time, the immigration stance in other EU countries which had been relatively open, such as the Netherlands, became more restrictive in response to integration challenges. But can one country open its doors while another one proceeds to shut them? With the EU's internal mobility agenda in the wake of enlargement settled, this question of immigration from outside the EU is increasingly at the centre of discussion at the EU level. So (im)migration is back on the European agenda.

Yet Europeans remain unsure whether it is a blessing or a curse. They are even

unsure whether the migration issue should be approached from an economic or from a law-and-order perspective. Member states exhibit very different – and somewhat unstable – preferences, with some countries putting emphasis on the economic benefits of migration and others adhering to a restrictive attitude. The European Commission rightly argues that governments should agree on a common approach but there is disagreement on what this approach should be. The stakes are thus high for Europe as a whole and for its unity, and disagreements abound.

Jakob von Weizsäcker, the author of this Blueprint, has already contributed several Bruegel papers on the migration issue. In 2006 he coined the term 'Blue Card' and proposed under this name a scheme to offer skilled migrants access to the entire EU labour market. As someone who is well aware of the complexity of the issues and of the limits of a purely economic approach, he is not offering the familiar economist's prescription – namely that migration is akin to trade and should therefore not be resisted. Rather, he wants to provide the building blocks for a better informed policy debate that takes political constraints into account but does not overlook the economic rationale.

In this Blueprint, Jakob von Weizsäcker therefore carefully discusses which aspects of this policy area belong to the member states and which belong to the Union, and outlines do-able steps towards a common approach in the fields where action belongs to the EU. His proposals regarding the appropriate division of labour are simple and concrete because he is persuaded that only simple and concrete ideas can change the terms of the debate on what is a politically highly charged issue. He is right.

*Jean Pisani-Ferry, Director, Bruegel  
Brussels, October 2008*



# Executive summary

There are three main migration challenges for Europe:

- **Flow.** Migratory pressure is on the increase as the populations of poorer countries in the greater neighbourhood of the European Union become more mobile.
- **Stock.** EU member states with a significant stock of immigrants are confronted with a major integration challenge as the aspirations of many second-generation migrants are frustrated by poor education and poor labour market performance. If integration policies fail, large ethnic underclasses may become a permanent feature in the EU.
- **Talent.** Global competition for high-skilled workers has intensified owing to skill-biased technological change and globalisation, and the EU struggles to attract and retain top talent. With the internal mobility agenda in the aftermath of EU enlargement settled for better or for worse, the time to address the external migration challenge is now.

But which part of these challenges needs to be addressed at the EU as opposed to the national level? Ultimately, this is the key question underlying the current debate on the 'pact on immigration' that is to be adopted during the French EU presidency. Past experience shows that the development of a common European immigration policy is, politically, a particularly difficult undertaking:

- **History.** There are major differences in tradition, outlook and migration experiences between member states, so that preferences are diverse.
- **Politics.** Immigration continues to be a politically divisive subject within most member states. As a consequence, national priorities can be volatile.
- **Sovereignty.** There is a natural reluctance to delegate decisions about who is allowed to enter a country and who is not to the European level since such decisions are often seen as one of the defining elements of national sovereignty.

Bearing these difficulties in mind, three priority areas for EU policy action are identified and concrete policy suggestions are developed:



- **High-skilled migration.** For the EU successfully to participate in the global competition for talent, the Blue Card draft directive needs to be strengthened. In particular, the Blue Card needs to become more readily transferable so that it genuinely offers access to the entire EU labour market. At the same time, concerns about brain drain should be taken seriously, not least by offering developing countries an opt-out clause.
- **Irregular migration.** The EU agenda on irregular migration must be balanced to succeed. The currently envisaged efforts to reduce irregular migration through tighter controls will only be able to slow the inflow of irregular migrants somewhat but will not make the problem of irregular migration disappear. Therefore, it is proposed that tighter controls should be combined with better humanitarian standards and an agreement on continuous ‘earned regularisation’ as a realistic alternative to sporadic mass regularisations.
- **Asylum.** Not least because of past coordination efforts, asylum applications in Europe have dropped considerably in recent years while wars and political persecution continue to make people flee their home countries on a large scale. In order for Europe to help these refugees more effectively, a ‘new Nansen’ scheme offering 25,000 additional humanitarian immigration slots per annum is proposed, the funding and allocation of which are to be organised at the European level.

# 1. Introduction

Europe's migration challenge needs to be addressed with some urgency. There are three main aspects of that challenge. First, migratory pressure is on the increase as the populations of poorer countries in the greater neighbourhood of the EU become more mobile. Second, EU member states with a significant stock of immigrants are confronted with a major integration challenge as the aspirations of many second-generation migrants are frustrated by poor education and poor labour market performance. If integration policies fail, large ethnic underclasses may become a permanent feature in the EU. Third, global competition for high-skilled workers has intensified owing to skill-biased technological change and globalisation, and the EU struggles to attract and retain top talent. With the internal mobility agenda in the aftermath of EU enlargement settled for better or for worse, the time to address the external migration challenge is now.

Under the comprehensive Hague programme which extends until 2010, the EU is already starting to develop a common European immigration policy. But progress to date has been uneven and controversial, and the failed Irish referendum on the EU's Lisbon Treaty in early 2008 further delays the introduction of qualified majority voting on European immigration policy. In view of the urgency to make progress and the difficulties encountered, the priority that the French Council presidency has given to EU immigration policy in the form of the proposed 'pact on immigration and asylum'<sup>1</sup> is welcome since it provides new momentum for the current legislative proposals and stands to shape the EU's next work programme on immigration beyond 2010.

This pact on immigration, set to be adopted by the European Council in October 2008, is structured around the following five themes:

- Organising legal immigration to take account of the priorities, needs and reception capacities determined by each member state, and to encourage integration.

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1. See <http://www.statewatch.org/news/2008/sep/eu-european-pact-on-immigration-and-asylum.pdf> for a draft version of the pact.

- Controlling illegal immigration by ensuring that illegal immigrants return to their countries of origin or to a transit country.
- Making border controls more effective.
- Constructing a 'Europe of asylum'.
- Creating a comprehensive partnership with the countries of origin and of transit in order to encourage the synergy between migration and development.

As these broad-based headings indicate, the pact is set to continue the long-standing tradition of arguing for a comprehensive approach to European migration policy. Past experience shows that the development of a common European immigration policy is, politically, a particularly difficult undertaking. There are several reasons for this. First, there are major differences in tradition, outlook and migration experiences between member states, so that preferences are diverse. Second, immigration continues to be a politically divisive subject *within* most member states. As a consequence, national priorities can be volatile. Third, there is a natural reluctance to delegate decisions about who is allowed to enter a country and who is not to the European level since such decisions are often seen as one of the defining elements of national sovereignty. In view of these difficulties and the prospect of further delay in the introduction of qualified majority voting in this domain, protracted decision-making and incremental progress towards a common migration policy will continue to be the norm.

When decision-making is so difficult, it becomes even more important for policymakers carefully to prioritise their policy proposals, giving preference to the most pressing and the least controversial rather than aiming for all-encompassing comprehensive solutions. One of the underlying concerns of this paper is to examine to what extent the agenda set out in the proposed 'pact on migration' might perhaps need to be refined in order fully to reflect such a balanced and workable set of policy priorities.

For which aspects of immigration policy is the need for a common European approach most pressing? And which are the areas where immigration challenges should continue to be dealt with at the national level, either permanently or at least for the time being? In principle, policy areas where cross-border spillovers are limited and national preferences are diverse should remain a national responsibility. By contrast when cross-border spillovers are considerable, either policy coordination or harmonisation is called for. Harmonisation tends to be a good solution when national preferences are well aligned, while coordination is often more appropriate when spillovers are major but national preferences are diverse. In the following, we attempt

to apply these somewhat abstract notions of the subsidiarity principle in order to identify priorities for a European immigration policy and to develop concrete policy proposals.

To prepare the ground for the analysis, the next section explores the migration status quo in Europe both in a statistical sense, by providing basic immigration statistics, and a policy sense by presenting the EU policy developments hitherto. The third section then provides a simple analysis of the economic implications of immigration. Finally, the fourth section identifies priority areas for EU immigration policy and gives policy recommendations.

## 2. Setting the stage

This section explores the immigration status quo within the EU<sup>2</sup>. In the first part of this section, the scale and structure of internal and external migration are explored, making use of the available migration statistics showing that the different EU member states have very different migration experiences. The second part then attempts to capture the key aspects of the institutional arrangements that govern migration within the EU and between the rest of the world and the EU.

### Migration stocks and flows

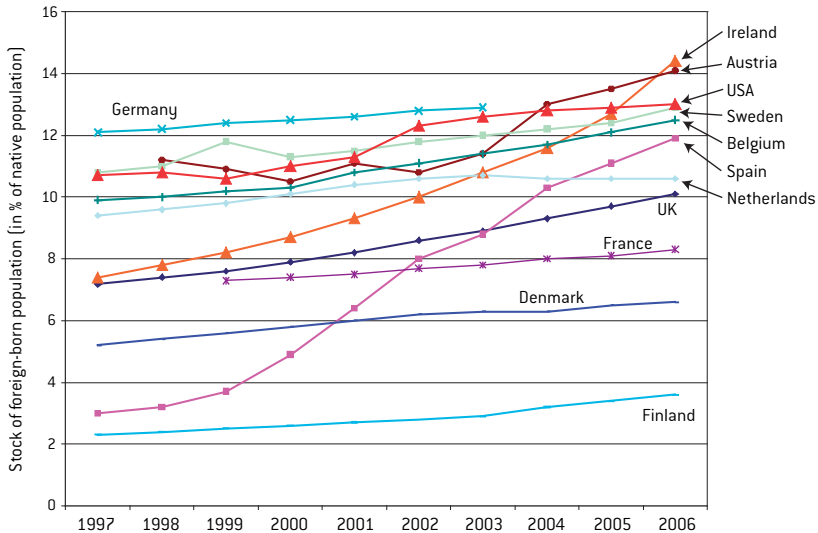
Looking at migration stocks and flows in the EU, we first explore overall migration patterns. After that, we attempt to disaggregate those numbers into different categories, especially by skill, to obtain a more differentiated picture of intra-EU differences. Finally, we explore the future migration potential from the EU's greater neighbourhood.

During the past decade, immigration to the fifteen old EU member states has increased substantially, as illustrated in Figure 1. Spain experienced the most rapid increase in the stock of foreign-born among OECD countries, adding nine percentage points of foreign-born over the past decade. But Ireland (+7 percentage points), Austria and the UK (both +3 percentage points) also experienced an uncommonly rapid increase in their stock of foreign-born. And there are signs that even the twelve new EU member states who joined the EU since 2004, many of which initially experienced substantial migration outflows, are increasingly experiencing immigration from poorer EU neighbourhood countries.

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2. This section is based on Brücker and Weizsäcker (2007).

**Figure 1: Stock of foreign-born in selected EU countries and the US between 1997 and 2006**



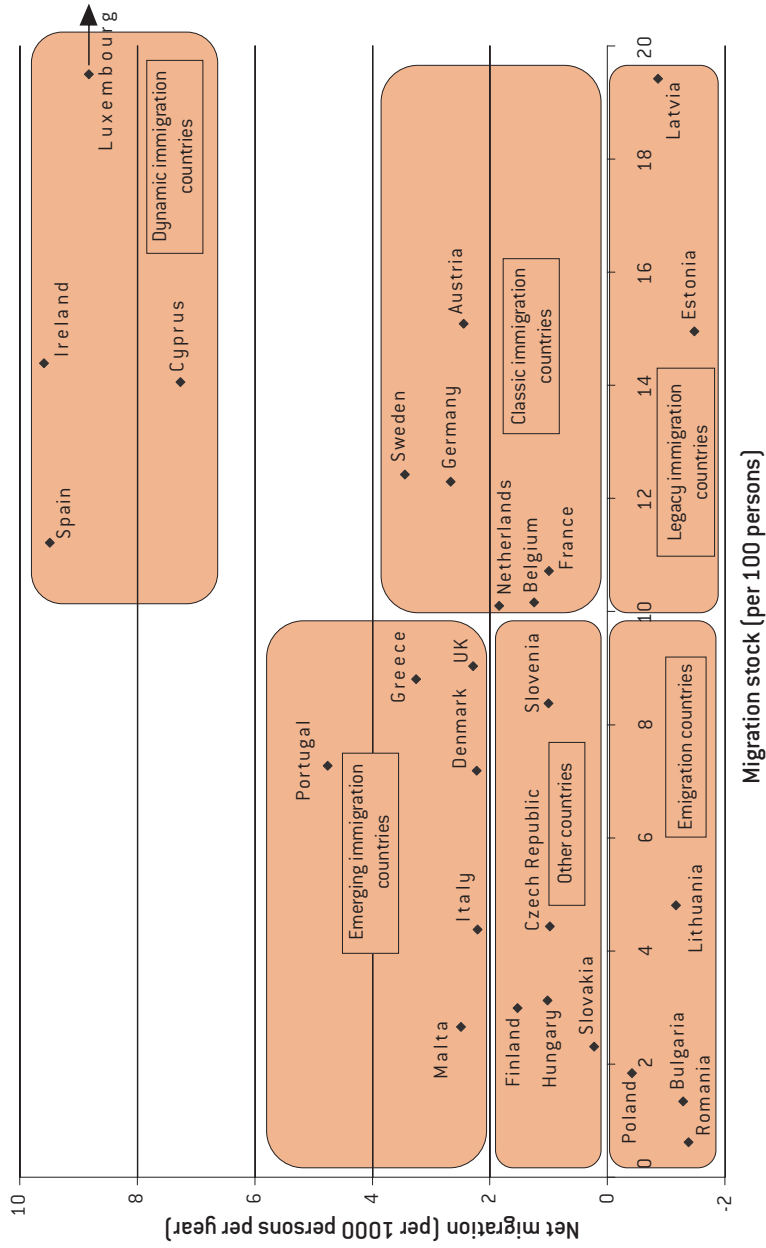
Source: OECD

Compared to the US, a traditional immigration country, the EU15 are catching up fast with respect to the stock of foreign-born as a proportion of the native population. However, the differences in migration experiences among the EU15 remain large, let alone among the EU27. To explore the potential for joint EU policies, we aim to explore these immigration differences as they may have an important impact on policy preferences.

### *A simple migration typology of EU member states*

The most important quantitative measures of migration are the stock and flow of migrants. Using these, the migration experiences of member states can be described by identifying six different categories as indicated in Figure 2. Those countries with a high stock of migrants (above 10 percent of the total population) are grouped into three different categories according to their net migration inflows. *Dynamic immigration countries* (Spain, Ireland, Cyprus, and Luxembourg) rapidly add to their already elevated stock at net immigration rates of around eight per thousand per year. *Classic immigration countries* (Austria, Belgium, Sweden, Germany, France, and the Netherlands) have low but positive immigration rates of around two per thousand per

Figure 2: Classification of immigration regimes in EU27 by migration net flows and stocks in 2005



Source: World Bank, World Development Indicators 2006, Washington DC  
 Belgian stock of foreign-born – Institut National de Statistique (Registre National)

year. And *legacy immigration countries* (Estonia, Latvia) have experienced a large influx of migrants in the historic (Soviet) past but are now experiencing modest net emigration of around one per thousand per year.

The EU countries with less than 10 percent foreign population are also grouped into three categories. *Emerging immigration countries* (Portugal, Greece, Malta, UK, Denmark, Italy) have net immigration inflows scattered around three per thousand per year. *Source countries* (Romania, Bulgaria, Lithuania, Poland) display net emigration of around one per thousand per year. The remaining EU countries do not currently display a very pronounced migration profile, with foreign populations below 10 percent and net immigration rates at around one per thousand per year.

As a next step, we attempt a breakdown of migration by country of origin and by skill level. We are forced to shift in migration definitions between foreign-born and foreign citizens in the following owing to data limitations. The difference is significant as a result of different approaches to naturalisation and differences in the numbers of foreign-born expatriates returning home. Also, the numbers that we present have different base years, which can lead to substantial deviations, especially for emerging and dynamic immigration countries where stocks have been rapidly increasing over recent years. Despite these limitations that limit comparability, the breakdowns yield important insights.

#### *Decomposing immigration by country of origin*

The stock of foreign citizens in the EU15 is made up of roughly six percent of the total population of the EU15, as summarised in Table 1 (overleaf). It reveals a surprisingly simple decomposition of the population with foreign citizenship by region of origin. Roughly one third of foreign citizens in EU15 countries come from the EU27. One third originates from the broad EU neighbourhood that includes the Balkans, Turkey, EU neighbourhood countries around the Mediterranean and eastern Europe, and Russia. The final third comes from the rest of the world.

This also leads to an important observation regarding the historic propensity to migrate to the EU15 from different regions. The EU27 and the EU neighbourhood have a population of just below 500 million each. Since their contribution to foreign residents in the EU15 is also comparable, the propensity of their inhabitants to migrate to a (different) EU15 country is also comparable. Broadly speaking, this is attributable to two factors. First, mobility inside the EU is not particularly high, despite the absence of legal barriers, not least because of relatively small income



differentials. Second, mobility from the EU neighbourhood is significant, despite the legal restrictions, not least because of geographic proximity and large income differentials.

**Table 1: Foreign citizens in the EU15 by region of origin**  
(2005 or nearest available year)

	EU15	NMS12	EU27	Neighbouring regions*	Rest of world	Total
<i>Foreign residents in % of total population</i>						
Austria	1.6	1.1	2.6	5.6	1.2	9.4
Belgium	5.5	0.1	5.6	2.1	0.9	8.6
Denmark	1.1	0.2	1.3	1.2	2.5	4.9
Finland	0.4	0.3	0.7	0.7	0.7	2.1
France	1.9	0.1	2.0	2.2	0.9	5.1
Germany	2.0	0.7	2.7	4.0	2.1	8.8
Greece	0.5	0.9	1.4	4.9	1.8	8.1
Ireland	1.8	n/a	1.8	n/a	4.4	6.2
Italy	0.2	0.6	0.8	1.9	1.4	4.1
Luxembourg	33.2	3.1	36.3	n/a	2.7	39.0
Netherlands	1.3	0.1	1.4	1.4	1.5	4.3
Portugal	0.6	0.0	0.6	0.0	1.6	2.3
Spain	1.5	1.0	2.5	1.5	3.9	7.8
Sweden	2.1	0.3	2.4	0.8	2.2	5.3
UK	1.6	0.2	1.8	0.2	3.1	5.0
<b>EU15</b>	<b>1.6</b>	<b>0.5</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	<b>6.2</b>

\* Neighbouring regions: Balkan countries, Turkey, EU neighbourhood countries in the Mediterranean and Eastern Europe, Russia.  
Sources: Eurostat population statistics, European Labour Force Survey, authors' calculations

The rest of the world has a population of just above five billion inhabitants. Hence the implied propensity to migrate to the EU is only roughly one tenth of that from the neighbourhood, with its 500 million inhabitants. This crude arithmetic confirms that distance is an important determinant of migration. But the distinction between EU neighbourhood and the rest of the world is evolving. Thus, there are two important scenarios leading to greatly increased migration to Europe. First, the legal and *de facto* barrier to migration from the EU neighbourhood might decrease. Second, a number of countries in the greater EU neighbourhood that currently fall into the 'rest of the world' category might increase their emigration rates to Europe to levels that make them in effect EU neighbourhood countries for our purposes. In particular, this might occur for a number of countries in sub-Saharan Africa and in the Middle East.

Of course, it should be borne in mind that this simple picture of migration to the EU15 is the outcome of very varied circumstances in different member states, as can be seen by breaking down the data to the country level. For example, the bulk of foreigners in the UK come from the rest of the world, which is largely the result of old colonial ties. In Germany, the bulk of immigrants hail from the neighbourhood region, not least due to Germany's former guest-worker programme. And in Belgium foreign citizens from the EU15 dominate in part because of the role of Brussels as the capital of Europe.

One important aspect of immigration that is not properly captured by these statistics is irregular migration. While precise numbers are not available for obvious reasons, some four to eight million irregular migrants can be expected currently to be living in the EU27, with as many as half a million arriving each year<sup>3</sup>. It seems plausible that that rising immigration pressure from the EU's wider neighbourhood, detailed in the section on proximity and income differences below, could result in further increases in the stock and flow of illegal immigrants.

#### *Decomposing immigration by skill*

Another breakdown of migration that is critical to our argument is breakdown by skill presented in Figure 3 (overleaf), which compares key immigration countries in Europe with North America and Australia. It shows that classic immigration countries such as Australia and Canada manage to attract a much higher proportion of skilled immigrants than countries like France or Germany, both of which are well below the OECD average with regard to their immigration skill-mix.

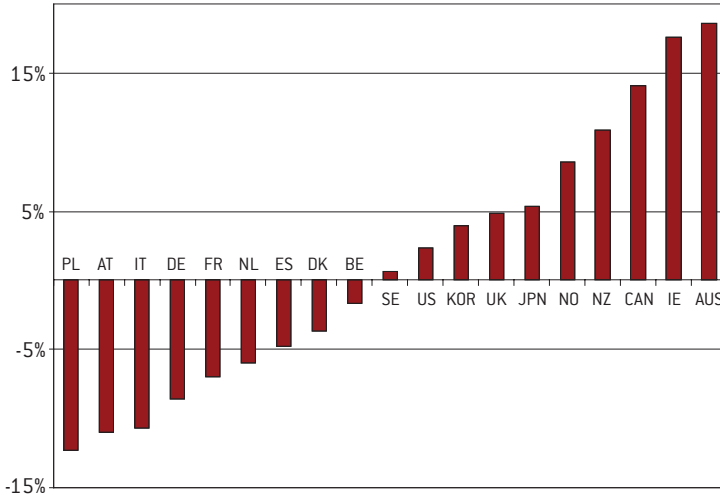
It is sometimes argued that Europe is not attracting high-skilled immigrants because it already has enough high-skilled locals, whereas manual labour is lacking. However, this does not seem plausible because the percentage of tertiary-educated is also higher among Canadian and Australian natives than among EU natives. Are the skill requirements of the Australian and Canadian economies really significantly higher than in Europe?

It would appear more plausible that the numbers of high-skilled immigrants are to a considerable extent influenced by immigration policy. Australia and Canada organise their economic immigration through 'points systems' which favour skilled immigration. By contrast, France and Germany have restrictive immigration policies that

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3. See Düvell (2006) for a comprehensive discussion of the various estimates.

**Figure 3: Tertiary-educated among foreign born**  
 (Deviations from the OECD average of 23 percent in percentage points)



Source: OECD, author's calculations

imply a low-skill bias. The reason for this low-skilled bias of restrictive policies is that high-skilled migrants can usually find an alternative host country that will welcome them with open arms so that there is little incentive for them to engage in irregular immigration. By contrast, low-skilled immigrants often have fewer options and will be tempted to find their way into a country despite tight restrictions even if this means accepting an irregular status initially.

This interpretation is reinforced by the high percentage of high-skilled immigrants into the UK, where immigration policies for high-skilled migrants have been more favourable for some time. In addition, it is obvious that English, as the world's international language, is an important asset for anglophone countries attempting to attract a high percentage of skilled migrants.

*Internal migration and enlargement*

In Table 1 we have seen that internal EU migration is relatively small. One reason is that numerous small legal obstacles stand in the way of migration within the EU. For example, the differences in the organisation of social insurance and welfare states across the EU can turn portability of social entitlements into a nightmare. At the same time, income differences within the EU15 are relatively small, and one would expect

this to reduce migration. Where income differentials within the EU are larger, as is the case between the EU15 and the new member states, fairly substantial migratory movements can be observed (Table 2, overleaf).

The changing regional pattern of migration from the new member states in eastern Europe suggests that the selective application of the transitional periods across the EU, and in particular the fact that Germany has taken a restrictive stance, has triggered a substantial diversion of migration flows towards the UK and Ireland. Interestingly enough, this does not hold true for the Scandinavian countries. Although Sweden has opened its labour market completely, and Denmark to a great extent, net migration flows into these two countries have been – at some 6,000 persons – almost negligible in the first two years after enlargement. Language, and perhaps differences in labour market institutions, might have played an important role in shaping the direction of east-west migration flows.

It is striking that there has also been a substantial migration flow from Bulgaria and Romania into the EU15 during the past few years, although both countries were not part of the EU before 2007. Based on bilateral agreements, Spain admitted roughly 360,000 migrants from Romania and Bulgaria between 2000 and 2005. The number of foreign residents from Bulgaria and Romania has also substantially increased in Italy, but to a lesser extent than in Spain. Again, we see a diversion of migration flows. In Germany, which had been the main destination for migrants from these countries in the early 1990s, the number of residents from Bulgaria and Romania has declined from 260,000 to 130,000 over the last decade.

The diversion of migration flows has influenced two subsequent policy decisions. First, even those countries which opened their labour markets to workers from the eight new member states of central and eastern Europe ('NMS8') at the beginning of enlargement were reluctant to extend this free movement to Bulgaria and Romania upon their accession in 2007. The fear of receiving an extraordinarily high share of migrants from these countries certainly influenced the decision to keep the door closed to Bulgaria and Romania in countries such as Ireland and the UK. Second, a number of EU15 countries decided to open their labour markets to workers from the NMS8 when the first two-year period of the transitional arrangement expired in May 2006<sup>4</sup>. The rationale behind these policies is that second-mover countries, ie

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4. Finland, Greece, Italy, Portugal and Spain opened their labour markets completely, and some other countries increased quotes and removed barriers at sectoral level (Belgium, Luxembourg and the Netherlands). In recent years, further restrictions have been lifted, including perhaps most significantly, the opening of the labour market in France in the run-up to the French EU presidency.

**Table 2: Residents from the eight new member states of central and eastern Europe in the EU15, 2000-2006**

	2000	2002	2003	2004	2005	2006
	<i>1,000 persons</i>					
Austria <sup>i</sup>	60.4	44.6	41.0	53.7	80.5	78.9
Belgium <sup>i</sup>	9.3	12.2	9.5	15.6	25.6	59.9
Denmark <sup>ii</sup>	8.7	10.0	10.2	10.5	11.3	13.3
Finland <sup>iii</sup>	12.9	14.8	15.8	16.5	18.3	17.8
France <sup>i</sup>	37.8	44.9	35.1	43.0	46.8	29.6
Germany <sup>iv</sup>	416.5	453.1	466.4	480.7	438.8 <sup>x</sup>	481.7 <sup>x</sup>
Greece <sup>i</sup>	13.8	14.9	16.4	15.2	20.6	20.1
Ireland <sup>v</sup>	6.4	8.6	49.1	54.1	58.5	58.5
Italy <sup>vi</sup>	34.4	41.5	42.2	55.6	67.8	79.8
Luxembourg <sup>i</sup>	1.1	1.2	1.1	1.1	0.7	0.7
Netherlands <sup>vii</sup>	9.4	11.2	12.2	13.1	17.9	23.2
Portugal <sup>viii</sup>	0.4	0.7	0.6	0.7	0.8	0.3
Spain <sup>i</sup>	10.6	30.0	41.5	46.7	61.8	74.3
Sweden <sup>ix</sup>	23.0	22.9	21.4	21.1	23.3	26.9
UK <sup>x</sup>	52.7	62.0	78.6	81.4	180.8	328.6
<b>EU15</b>	<b>697.3</b>	<b>772.3</b>	<b>841.1</b>	<b>909.0</b>	<b>1,053.4</b>	<b>1,293.5</b>

Notes: i). Eurostat Labour Force Survey 2006; ii). Statistics Denmark (population statistics); iii). Statistics Finland (population statistics), 2006; iv). Statistisches Bundesamt (population statistics), all data refer to 12/31 of previous year. 2006 and 2005 not comparable to previous years due to data revision; v). 2002 population census; 2005: LFS, other values estimated; vi). 2004-06 ISTAT (population statistics), 2000-03 Council of Europe, recent demographic developments in Europe; vii). Statistics Netherlands (population statistics); viii). 2000-02 Eurostat Labour Force Survey, 2003-06 estimates and extrapolations; ix). Statistics Sweden (population statistics, 31/12; x). Eurostat Labour Force Survey 2006, national LFS data report for 2005 240,000 and for 2006 365,000 citizens from the NMS8 – statistical break (data revision).

Sources: National population statistics and Eurostat Labour Force Survey 2006.

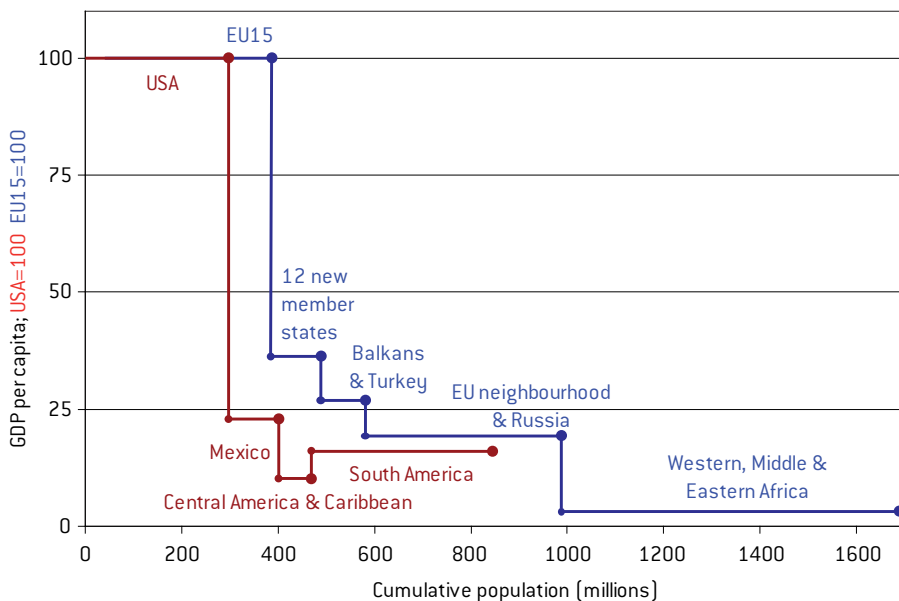
countries which open their labour markets after the others, receive only a relatively small share of migrants. Given that regional migration patterns are relatively stable over time – due in part to network effects, language barriers and the like – this expectation is not unreasonable.

Although the key decisions on the transition towards full labour mobility in the entire EU27 by 2014 have now been made, the recent enlargement experience is not just of historical interest. It illustrates well the possible pitfalls of coordination failure, and warns that if immigration from the highly educated and culturally close new EU member states had the potential to be controversial, immigration may be even more controversial from equally near but much poorer countries in the EU neighbourhood.

*Proximity and income differences as drivers of migration*

This type of proximity migration from much poorer countries in the neighbourhood of the EU, similar to the massive influx of migrants from Mexico to the US, might well play a much more important role for the EU in the future. It is estimated that there are currently some 12 million Mexican immigrants living in the US, roughly 60 percent of which illegally. The illegal inflow from Mexico may exceed 400,000 migrants per year. Geographic proximity and the income gap with Mexico appear to be key drivers of that development. As we have seen above, the EU numbers of between four million and eight million irregular migrants and an annual inflow of up to 500,000 may already be comparable.

**Figure 4: Income gaps of the EU15 and US with their respective neighbourhoods**



Source: IMF data.

Note: The unweighted average of current exchange rate and purchasing power parity is used for comparing GDP per capita.

In order further to assess the similarities with the US-Mexico situation, Figure 4 compares the income gaps of the EU15 and of the US with their respective neighbourhoods using a synthetic conversion rate that is an average of the current exchange rate and the purchasing power parity. The reason for this unusual choice of conversion rate is that migration decisions are in part driven by purchasing power parity

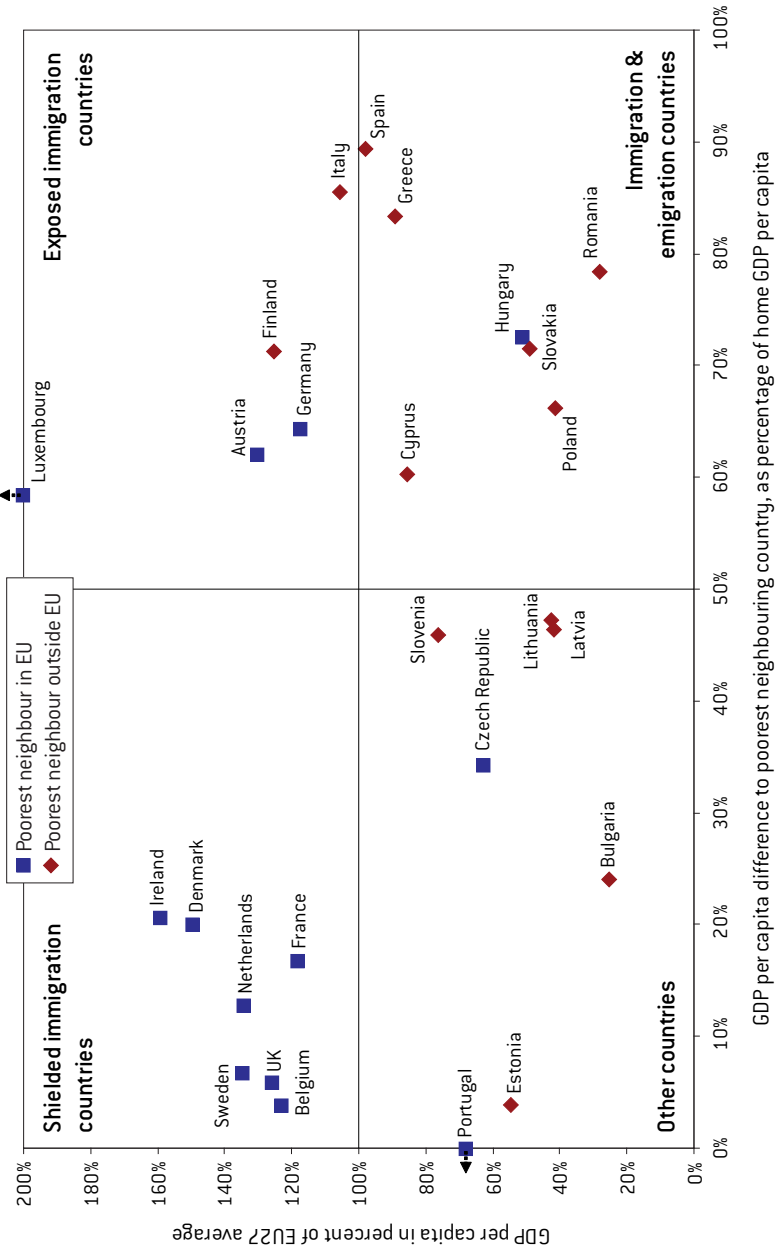
comparisons, but also in part by current exchange rate comparisons in view of remittances and the possible return of the migrants with savings accumulated abroad. Figure 4 shows that the income gap between the US and Mexico is significantly greater than between the EU15 and the 12 new member states which joined the EU in 2004 and 2007.

However, the US-Mexico gap of roughly a factor of five is very similar to the gap between the EU15 and the average of EU accession and neighbourhood countries around the Mediterranean and in Eastern Europe. But Mexico only has around 100 million inhabitants, roughly one third of the US population. By contrast, the EU accession countries, the neighbourhood countries and Russia taken together have roughly 500 million inhabitants, which is about the same as the population of the entire EU27. Even when taking the larger population of the EU15 compared to the US into account, the migration challenge in the EU neighbourhood for the EU can be said to be three times as large as the migration challenge from Mexico for the US. Looking further to Latin America from the US and to western, middle and eastern Africa from EU15, the comparatively greater immigration potential for the EU is also apparent.

Yet Figure 4 does not capture the major effect of actually having a common border which increases migration pressures further, as the example of the US and Mexico illustrates. But even in that respect, US migration exposure is not without its parallel in Europe. In particular, migration exposure between neighbouring Spain and Morocco is extreme. However, some other countries in Europe are clearly much less exposed to income differences with immediate neighbours. Figure 5 presents a classification of the migration exposure of EU27 by looking at both the income difference with the poorest adjacent country and the GDP per capita level.

Countries with high income levels but without poor immediate neighbours like the UK or Denmark can be thought of as *shielded immigration countries*. They are attractive to migrants because they are rich, but they are not particularly exposed to neighbourhood migration pressures. Countries with high GDP per capita and comparatively poor neighbours like Spain, Finland, and Germany are *exposed immigration countries*. The reluctance of Austria and Germany to open their labour markets to citizens from the new member states neatly illustrates this fear of greater exposure. However, the migration diversion experience of the UK and Ireland suggests that shielded countries may still attract many migrants if exposed countries in between refuse to admit migrants. This leapfrogging of exposed but closed immigration countries is greatly facilitated by the availability of (up to now) cheap air travel in the EU.

Figure 5: Exposure of EU members states to income differentials with neighbouring countries



Source: IMF data Note 1: The unweighted average of current exchange rate and purchasing power parity is used for comparing GDP per capita.  
 Note 2: Countries separated by less than 100 km of sea were treated as neighbouring countries.



Then there are relatively poor countries such as Poland and Romania bordering much poorer countries still, like Ukraine and Moldova. These are potential *immigration and emigration countries* which face the challenge of managing both aspects of migration simultaneously. These countries are also likely to be popular transit countries. Finally, there are the countries with below-average income but without extremely poor neighbours where likely migration pressures are more difficult to predict.

Figure 5 also shows that very large income differences between neighbouring countries within the EU (as indicated by the blue dots) have already become the exception within the EU. They mainly concern Germany and Austria. By contrast, large income differences across external borders of the EU (as indicated by red dots) abound. This underlines the importance of developing a common policy for the immigration of third country nationals. This is where the main net migration flows of the future are to be expected, which will by far outpace those from the new member states. If mishandled, these pressures could turn into large-scale illegal immigration inflows, accompanied by growing public resentment in host countries. These illegal immigrants might then further increase the need for coordination and harmonisation within the Schengen area.

In sum, it appears quite certain that proximity and income differences will be important drivers of migration for the EU. But what governance structure can the EU rely on to manage these future migration movements?

### **Migration rules and governance**

The control of external borders and decisions about who is allowed to enter and who is refused entry is traditionally considered to be one of the core elements of the sovereignty of a state. Against this background, it was a bold vision by the founding fathers of the EU that citizens from any EU member state should be allowed to travel without border controls and migrate across the entire EU with hardly any legal restrictions. The implementation of that vision is now nearing completion. Implementation rests on two pillars: the free mobility for EU workers and the Schengen agreement. By contrast, national policies with regard to the external entry and lateral movement within the EU of third country nationals remain diverse. Only in recent years have efforts towards greater coordination and harmonisation intensified in this area.

#### *Free mobility for EU workers*

Free mobility for workers within the EU has been a basic principle of the European

Union since the Treaty of Rome was signed in 1957. Over the decades, numerous directives and court decisions have clarified and expanded the implications of this right, which is now a central part of the legal definition of EU citizenship<sup>5</sup>. In recent years, free mobility for EU workers has increasingly been extended to include strong rights of mobility for inactive EU citizens. In particular, Directive 2004/38 'on the rights of citizens of the Union and their family members to move and reside freely within the territory of the member states' has gone a long way towards establishing free mobility for EU citizens, whether economically active or not. One of its key provisions establishes that, after five years' residence, even inactive EU citizens are eligible for full welfare benefits in any member state<sup>6</sup>.

When countries join the EU, their citizens also become EU citizens and, as a consequence, also benefit from the right freely to move, reside and work anywhere in the EU. If the state joining the EU is substantially poorer than the EU average, this can initially trigger significant migration flows. During the 2004 and 2007 round of enlargement, there were concerns in EU15 about the prospect of mass immigration from eastern Europe. In order to address these concerns, the so-called '2+3+2' rule was agreed as a transitional arrangement governing labour mobility from new member states. According to the agreement, EU15 member states were allowed to delay the introduction of free movement for workers from the new member states in eastern Europe<sup>7</sup> for a period of up to seven years in total. Any restrictions would have to be reviewed after the initial two years and then after another three years with a view to lifting the restrictions should they no longer be deemed necessary. A third extension of the transitional period by a final two years is permissible in the presence of serious imbalances in the domestic labour market.

Germany and Austria are particularly reluctant to lift restrictions, possibly on account of their geographic proximity to eastern Europe, as we shall see below. But irrespective of whether these restrictions may have made sense for some EU15 member states during a transitional period, they will have to be lifted soon. All restrictions on citizens of the eight new members states in eastern Europe which joined the EU in 2004 (NMS8: Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia and Slovenia) will be lifted by 2011 at the latest. For the two new member states which joined in 2007 (NMS2: Bulgaria and Romania) restrictions will be lifted by 2014 at the latest. Since the focus of this chapter is on the future challenges

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5. Free mobility for workers has proven so attractive that EFTA countries like Switzerland are also joining in.

6. Directive 2004/38/EC, Article 16(1).

7. The new member states were also given the right to impose restrictions on EU15 member states, although such reciprocal restrictions have mostly symbolic significance.

posed by immigration from outside the EU, we will in the following take the internal mobility for EU workers as given, although it will technically only be achieved by 2014.

### *The Schengen Agreement*

In 1985 France, Germany and the Benelux countries concluded the Schengen Agreement with a view to abolishing border controls at their joint borders. To address some of the potential problems of such a move, not least with regard to third-country nationals, the Schengen Agreement includes a number of additional provisions on the harmonisation of external border controls, on policy co-operation between signatories, and on the creation of the Schengen visa as a common visa for the Schengen area.

By 2001, all member states of the then EU15 with the exception of the UK and Ireland had joined and implemented the Schengen agreement. It is expected that by 2010 almost all of the new EU member states (and all EFTA countries) will have fully implemented the Schengen Agreement. Therefore, travel without frontier controls at any land border is rapidly becoming a reality throughout the entire EU27<sup>8</sup>. In parallel with the development of borderless travel inside the EU, steps were also taken to coordinate asylum policy through the Dublin Convention, not least to prevent 'asylum shopping'.

### *Mobility of third-country nationals*

The legal admission of third-country nationals as economic migrants to the EU remains largely within the responsibility of individual member states. The admission rules of member states are characterised by great diversity. The great variety of admission schemes for high-skilled migrants may serve as an example that admission policies in different countries often have relatively little in common.

Virtually all EU member states have special immigration schemes in place for highly-qualified third-country nationals. Around half have schemes that go beyond highly-specialised categories such as researchers, artists and intra-corporate transferees. Among those with more extensive schemes, some use minimum salary thresholds (which vary enormously between countries), others use skill criteria such as

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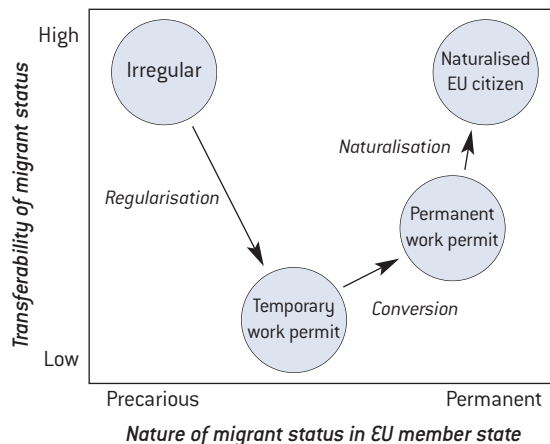
8. Although the UK and Ireland have opted out of Schengen, their only land border (between each other) has been without formal border controls ever since Ireland became independent in 1922.

academic degrees or past work experience. Some use a mix of the two. At least four member states have several categories of high-skilled workers for which different entry and/or residence conditions apply. The existence of a firm job offer or job contract is not required in the UK but is in all other member states. Some countries require that the employer demonstrate that no local can be found to fill the job, others do not. Also, some countries admit those high-skilled immigrants who qualify for admission on a temporary basis only or at least initially, others admit them on a permanent basis. However, there is one important common feature of these different schemes. They are generally so restrictive that the immigration inflow under these schemes tends to be only a small fraction of total immigration.

Member states are also relatively free to decide on the conditions governing status changes for their migrants from third countries. Specifically, it is up to member states to decide on the regularisation of irregular migrants, on the extension of temporary work permits and on the conversion of temporary to permanent work permits. However, some EU-level rules exist governing status transitions. Perhaps most significantly, legal migrants are to be accorded permanent residence after five years in a member state<sup>9</sup>. Finally, member states set their own naturalisation rules.

But to what extent can migrant status, once it has been established in one member state, be transferred within the EU? A stylised summary of transferability of migrant status in the EU is given in Figure 6.

**Figure 6: Transferability of migrant status within the EU**



9. With the exception of the UK, Ireland and Denmark which are not fully participating in this EU regime.

Irregular migrants can easily migrate from one country in the Schengen zone to another and will still be irregular migrants there. In that unusual sense, their status is fully transferable. By contrast, third-country nationals with a legal work permit generally cannot transfer that permit within the EU. Their residence and work permit is only valid for the member state where it was issued. This limits their mobility inside the EU, unless they are prepared to forgo their legal status and start working as irregular migrants in another EU country. Usually, such a step would be unattractive. However, this option may become relevant when their legal stay is about to expire. But this scenario has, in essence, already been captured by the observation that irregular migrants enjoy status transferability within the Schengen area.

By contrast, for third-country nationals with permanent work permits, an important element of transferability of status has been introduced. Third-country nationals with long-term resident status are to enjoy transferability of their status when they move from one EU country to another, according to Directive 2003/109. However, this directive will only become fully effective once the transitional restrictions on worker mobility for EU citizens from new member states have been lifted between now and 2014. The legal reason for this is that no third-country worker must be given greater rights of mobility than, say, an EU citizen from Romania whose mobility may be restricted until 2014. And even after 2014 member states may impose restrictions on the mobility of workers from third countries with long-term resident status on grounds of labour market imbalances. It appears likely that a number of open questions in this area will have to be resolved in the courts over the next decade or so. Ultimately, the only legal third-country migrants who currently enjoy full EU-wide portability of status in their own right (and for their close family members who may not be EU citizens) are naturalised EU citizens.

### *EU migration governance*

For future coordination and harmonisation of the diverse migration policies within the EU towards third-country nationals, the EU governance structures matter greatly. They have been substantially strengthened in recent years and stand to be further reinforced if qualified majority voting on migration were to be adopted as part of the currently stalled Lisbon Treaty.

Before 1993 European cooperation in the area of justice and home affairs policy (including migration) had essentially to be dealt with at the intergovernmental level outside Commission and treaty structures. In 1993, justice and home affairs policy was formally included under the so-called 'third pillar' of the Maastricht Treaty and

therefore continued to be dealt with at the intergovernmental level in practice. Not least owing to dissatisfaction with progress under the weak structures of the third pillar, the Amsterdam Treaty of 1997 submitted the area of border controls and migration policy to a decision-making procedure essentially in line with normal European Community procedure (after a five-year transition period). The Amsterdam Treaty also incorporated the Schengen Agreement into the European Union framework, with the UK and Ireland retaining their right to opt-in selectively.

In 1999 the European Council met for a special meeting in Tampere, Finland, in order to provide the initial guidelines for the work in the area of freedom, security and justice during the first five years under the Amsterdam Treaty. This Tampere programme<sup>10</sup> called for the development of a common EU migration policy. It also suggested that the legal status of third-country nationals who are long-term residents in the EU should receive mobility rights similar to those of EU nationals, resulting in the cornerstone Directive 2003/109 already mentioned.

The Hague programme<sup>11</sup> for the period 2005-2010 is very much a continuation of the Tampere programme, aiming to develop a common migration policy by 2010. In the framework of that current work programme, the European Commission is preparing five proposals for directives in the area of migration, covering the admission of high-skilled migrants, temporary migrants, and intra-corporate transferees. More recently, the French EU presidency has made immigration policy a priority, proposing a 'pact on immigration' aiming at stronger EU-level coordination on both legal and illegal immigration policy, external border controls, asylum and other policies closely associated with immigration policy.

Under the Lisbon Treaty presently in abeyance, the unanimity requirement for decisions on border controls and migration policy would be replaced by qualified majority voting. Further, the Commission would be granted the sole right of initiative in this area. This streamlined decision-making process would certainly make it easier to coordinate and harmonise migration policy in the EU and, as such, would appear to be a desirable feature of any rescue package for the Lisbon Treaty.

However, irrespective of whether or not the European decision-making rules are eventually streamlined in the area of migration, the key analytical question is what exactly should be regulated at the EU level, and why, and how. The next section dis-

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10. See Presidency Conclusions of the European Council in Tampere, 15-16 October 1999.

11. See Presidency Conclusions of the European Council in Brussels, 4-5 November 2004.

cusses some of the key arguments that are frequently encountered in the debate, introducing a number of fundamental ideas that are important for the economic analysis of migration in the process. Subsequently, these ideas are then used to help identify policy priorities for the EU.

## 3. Migration economics: a primer

The economics of migration is highly complex but the public discourse rewards simplicity. Therefore, both critics and advocates of immigration often rely on oversimplification when it comes to the economic impact of immigration. But it is difficult meaningfully to explore the European policy options on such an oversimplified basis. The main objective of this section is thus to add some layers of analytical complexity which better do justice to the issues at hand.

In order to do so, we first explore some of the most commonly used economic arguments in favour and against a more open immigration policy. Specifically, we examine the following pro-immigration claims: that immigration is desirable precisely on the same grounds as trade; that immigration leads to economic growth and therefore to greater prosperity of the host-country population; that ageing Europe needs immigrants to cope with its demographic crisis; and that the proper functioning of the EU's common currency, the euro, requires more open immigration policies. Subsequently, some of the most commonly used economic arguments against an open migration policy are also examined. Specifically, we explore the likely wage and employment impact of immigration, look at the impact of immigration on the welfare state, and finally discuss the notion of a limited absorption capacity for immigration. Overall, we find that while all these arguments for and against immigration may have some merit, on close inspection they typically turn out to be less forceful than is often claimed.

On the basis of this nuanced view on immigration, we then attempt to identify priority areas for EU policy interventions, using a skill-based analysis.

### Pro-migration arguments

Economic migration can loosely be defined as any cross-border migration that occurs in order to obtain a better-paid job. If pay is broadly in line with productivity, a move to a better-paid job thus increases global economic output. This is the fundamental efficiency argument in favour of economic migration. But according to the fac-



tor price equalisation theorem of classic trade theory, wages might in principle be equalised and global economic output increased through the trade in goods alone. In that view, trade and migration would be two ways of achieving the same thing.

### *Migration and trade*

Despite the occasional setback, the political reality of today is that trade policy is generally guided by a vision of free trade worldwide. Also, global capital markets are fairly integrated. Binding capital controls during normal times are out of fashion although they can have a role to play during crisis situations. By contrast, migration policies generally tend to be restrictive. This is why Faini *et al.* (1999) called migration the 'great absentee' of globalisation. Does it matter? That critically depends on whether the factor price equalisation theorem is right and trade and migration are really just two ways of achieving the same thing.

In practice, current levels of trade openness do not appear to be very effective at equalising wages worldwide. As Table 3 shows, the wage differences between countries for the same occupation remain very substantial. Earnings multiples of 10 are not unusual when comparing salaries using the current exchange rate. Clearly, it is those high earnings differentials that are to an important extent driving economic migration.

One of the main reasons for these wage differences is not to be found in remaining barriers to trade but in institutional differences between countries. Often, poor countries are poor because of inferior institutions that reduce total factor productivity. Despite recent development success stories, upgrading poor institutions and thereby improving total factor productivity is a slow process. Furthermore, the track record of successfully helping poor countries change their poor institutions through outside development assistance is at best mixed. Hence, it is not unreasonable to expect international quality differences in institutions to persist for the time being.

With this in mind, perhaps the decisive difference between migration and trade becomes obvious. Migration provides people from poor countries with direct access to better institutions whereas trade does not. This short-circuiting of the development problem by allowing workers to move to a better location is at the heart of the equity and the efficiency argument in favour of migration.

Clearly, it is unfair that some children are born in countries with poor institutions

Table 3: Variation of average monthly earnings in the same occupation by country

Occupation	Countries in sample	Earnings in US\$ using current exchange rates			Earnings in US\$ using purchasing power parity		
		Top 20% point in distribution	Bottom 20% point in distribution	Ratio of bottom 20%	Top 20% point in distribution	Bottom 20% point in distribution	Ratio of top to bottom 20%
Physicians	51	2856	183	15.6	3815	753	5.1
Insurance agents	41	1668	205	8.1	2214	684	3.2
Programmers	35	2114	166	12.7	2693	774	3.5
Clicker cutter	30	1097	95	11.5	1298	304	4.3
Logger	26	1040	77	13.5	1547	215	7.2

Source: Freeman (2006).

whereas others are born into countries with good institutions. By allowing international migration, country of birth and economic opportunity are to some extent decoupled, reducing the inequality of opportunity. Furthermore, economic migration stands to produce efficiency gains beyond what could be achieved through free trade alone by moving workers to higher productivity environments.

To the extent that the quality of institutions in the source and the host country are not altered by immigration, this is a fairly robust argument for why freer migration can contribute to increased global output even in the presence of trade. However, it should be noted that migration sceptics often regard the very potential of mass immigration to harm social cohesion and the fabric of the host country society as a major concern.

The precise extent to which free migration could and would increase world output is very difficult to estimate. But according to Rodrik (2002), the potential from freer migration might easily dwarf potential gains from further trade liberalisation if one assumes that institutional quality is not hurt by immigration. And, using additional somewhat heroic assumptions, Hamilton and Whalley (1984) even argued that free migration might have the potential to double world output.

In political economy terms, one would be inclined to interpret the observation that the potential gains from the liberalisation of migration are probably larger than those from lifting the remaining barriers to trade as an indication that, politically, it is somehow more difficult to liberalise migration than trade. This is indeed the case, pointing to a second key difference between migration and trade. The main winners of migration are typically the migrants themselves. However, by virtue of their migrant status, they are systematically underrepresented in the host country that needs to decide on the admission of migrants. And potential migrants that still reside in the source country have even less opportunity to make themselves heard in the host country.

By contrast, the gains from trade accrue to local citizens who have proper political representation in their country. Of course, this representation may not be perfect. In particular, if the losses from trade are concentrated more narrowly than the gains from trade, opponents of trade may find it easier to organise themselves than the beneficiaries so that there may also be a protectionist bias<sup>12</sup>. But the political economy bias is clearly against migration. Furthermore, it may often be politically impossible to strike a deal for migrants to share some of their gains with natives in

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12. eg Grossman and Helpman (2002).

the host country due to principles of anti-discrimination. In particular, it is generally difficult for host country governments to access the gains from migration that accrue to low-skilled immigrants in the absence of some form of tax or benefit discrimination against migrants compared to similarly low-earning natives.

In summary, we find that the efficiency case for migration critically depends on institutional differences between host and source country – and on the impact of immigration on institutional quality in the host country (and indeed the source country). Further, it has become clear that even if institutions were sufficiently robust to sustain large-scale migration, the political economy of immigration is harder because a large part of the gains from migration accrue to the migrants whose political representation in the host country is often weak and whose rents may be difficult to share with (potential losers within) the host country population.

### *Migration and growth*

GDP growth is often used to make the case for migration empirically. For example, the UK government defends its immigration policy before voters with the observation that about 15 to 20 percent of output growth in the UK between 2001 and 2006 was reportedly due to immigration. However, a recent House of Lords report on immigration has objected that a positive impact of immigration on GDP is ‘an irrelevant and misleading criterion for assessing the economic impact of immigration on the UK’.

The House of Lords Committee has an important point here. From a host-country perspective, a key question is whether the influx of immigrants helps or harms the native population. In other debates, say on tax reform, GDP impact can and is legitimately used as a meaningful yardstick to assess policies. Because GDP impact is often a valid measure of policy impact, one might be tempted to believe this also applies to immigration, which could explain why the UK government and others are tempted to use it as such.

To see why this argument is flawed, one simply needs to go back to the definition of GDP which is, broadly speaking, the sum of all incomes. If there are more immigrants, GDP is almost certain to go up simply because there are additional workers also earning an income. Logically, the only way for GDP not to grow when new immigrants arrive would be for immigrants to have to have an extremely negative impact on natives – larger than the incomes that the immigrants themselves are earning.

Empirically, such a scenario is not very plausible. As is discussed further below, the

impact of immigration on average incomes in the native population tends to be somewhat positive. Further adding the incomes of migrants simply makes that growth impact stronger still. And even for those natives with the same labour market profile as the immigrants, Borjas (2003) estimates that an influx of one percent of immigrants reduces the wages of the natives in that bracket by only 0.3 percent. To arrive at a worst-case scenario, one could ignore all income gains of natives who do not compete with migrants in the labour market or who own capital. Further, one could pessimistically assume that the average migrant only earns half of the average native in the same age and qualification bracket. But even with these unrealistically pessimist assumptions, an influx of one percent of immigrants would still lead to positive GDP growth.

Just as GDP in the host country will almost automatically go up in response to migration, GDP in the source country will tend to go down no matter what. The income of those who emigrate will simply no longer be counted towards the GDP of the source country. However, just as the increase in GDP in the host country does not automatically mean that immigration is good for the native of the host country, the decrease in GDP in the source country does not automatically mean that those remaining in the source country are worse off.

To address this issue, it is sometimes proposed to instead use GDP per capita as a suitable yardstick for the impact on host-country and source-country populations instead. Clearly, this is a step in the right direction as it takes into account that migration changes the population numbers in both source and host country. However, even GDP per capita can be misleading when it comes to the impact of migration. The problem with GDP per capita is readily understood by looking at the impact on GDP per capita of a migrant who earned an above-average labour income at home and earns a much higher but below-average labour income abroad. This situation is in fact not unusual because migrants are typically better educated than the average inhabitant of the source country but in many instances still earn a below-average wage in the host country.

Since the migrant was an above-average earner at home, the nominal GDP per capita in the source country will decrease even if we assume that the incomes of those who remain in the source country do not change. And because the migrant is a below-average earner in the host country, host-country GDP per capita will decrease with migration even if we assume that the incomes of the native population in the host country remain unchanged. In this situation, GDP per capita in the host country and in the source country decrease although, by assumption, the incomes of the

immobile in host and source countries do not change and the income of the migrant even goes up. The example we have constructed illustrates that even GDP per capital will tend to be a misleading indicator of the benefits of migration for the immobile population.

For those reasons, any serious empirical analysis of the economic impact of immigration and its desirability cannot rely on GDP figures alone. Instead, the incomes of migrants and the immobile populations in the host and source country need to be accounted for and looked at separately. In practice, this is not always easy due to the poor availability of data. Also, some conceptual difficulties remain, such as the question of whether the incomes of second-generation immigrants should be counted as income of natives or incomes of migrants.

But in spite of these difficulties we clearly need to improve upon host-country GDP growth as a yardstick to assess the economic impact of immigration.

#### *Ageing and labour shortages*

In the context of Europe's rapidly ageing populations, it is sometimes also argued that immigration is needed both to pay the pensions of natives and to fill the gaps left by a rapidly retiring native workforce.

We start to examine the argument by exploring the economic meaning of a 'labour shortage'. It means that for some reason there are more companies trying to hire workers of a certain profile than are available at the prevailing wage for that profession. One straightforward solution to that problem would be simply to increase the wage: as a result more people would become available in the job market and fewer companies would want to hire, which would help the shortage to disappear.

Alternatively, immigration restrictions could be relaxed in order to fill the vacancies. This is not an uncommon policy approach. For example, France is explicitly relying on estimates of labour market shortages for decisions about which sectors to open up to workers from the new EU member states. However, the economic rationale for selecting immigrants based on sectoral labour shortages is not that strong for at least three reasons.

First, the best and most reliable indicator that a profession is in great demand and that the supply is scarce is a high wage. Therefore, if immigration policy is to aim at alleviating scarcity in the labour market, it should first and foremost focus on high-

skilled professions where wages are high.

Second, the number of vacancies in the labour market statistics depends on many factors, some of which have little to do with any real shortage in the first place. For example, the labour market turnover in the hotel, restaurant and leisure sector is traditionally among the highest. For a variety of reasons, people working in that sector simply change jobs often. Because the turnover in that sector is high, the number of vacancies in that sector is also higher than it would otherwise be. But it would certainly appear inappropriate for migration policy to target a particular sector simply because staff turnover in that sector is high.

Third, real labour market shortages in the sense of a sudden demand or supply shock to which the wages do not respond instantaneously are almost by definition very transient in nature. After a short interval, wages will typically adjust to the shock. This is especially true of upward wage adjustments (which are needed to eliminate labour shortages), to which there tend to be only few institutional barriers in market economies. By contrast, migration is a long-term commitment for a host society, with migrants typically staying on several years or even for their entire life. This mismatch in time horizons between the phenomenon of labour shortages and immigration makes it implausible that the two should be closely linked.

However, things are somewhat more complicated still. The reason is that in many industries there are large network effects and major economies of scale. When a new industry emerges where local network effects and economies of scale matter crucially, one decisive factor for where this sector will locate is the rapid and ready availability of workers at reasonable cost. For this reason, it is entirely conceivable that the emergence of the automotive cluster in post-war Germany owed as much to Germany's 'guest-worker' programme as it did to the quality of German car engineering, as explained in Box 1.

In conclusion, it can be said that labour-market policies driven by labour shortages generally run a risk of being overly short-termist while diverting political attention away from the true scarcity of high-paid and high-skilled workers. However, the real world is more complicated. There have been occasions such as the emergence of the German automotive cluster where the potentially flawed reasoning in terms of labour shortages might have led to a policy that secured Germany a long-term competitive advantage in this sector.

**BOX 1:****THE 'GASTARBEITER' EXPERIENCE AND THE GERMAN AUTOMOTIVE CLUSTER**

Starting in the 1950s, the German coal, steel and automotive sectors wanted to hire many more low-skilled manufacturing workers than were available at the going wage. In order to address this shortage, the first formal guest-worker ('Gastarbeiter') programmes were introduced in 1955. This involved the signing of bilateral treaties with Italy, Spain and what was then Yugoslavia, and the establishment of recruitment offices on the ground. In 1960, Portugal and Turkey were added to that list. The original plan that guest workers should rotate was increasingly opposed by employers who had little interest in continuously training a revolving workforce. By 1964, the rotation planning was formally abandoned. In the same year, Germany celebrated the arrival of its millionth guest worker.

By 1971, an estimated 10 percent of the total workforce in Germany was made up of guest workers. In the key automotive sector, the percentage of the workforce made up of guest workers routinely exceeded 25 percent. It seems entirely conceivable that the emergence of Germany as the leading European cluster for the automotive industry would not have been possible without the massive use of immigrant labour. The automotive industry - then as now - is characterised by major economies of scale. In the post-war period, transport and telecommunications links were not in a position to support massive outsourcing. In this setting, guest workers may have given the German automotive sector a decisive competitive edge by allowing it to scale up its production very rapidly without major problems of runaway costs or the quality of the workforce.

German workers continue to benefit from the presence of this automotive cluster today. This is often overlooked, as Germany is now trying to come to terms with the significant social costs incurred as a result of the guest-worker experience and the way the accompanying integration challenge was (mis)handled from the 1970s to the 1990s.

Of course, in the age of outsourcing and globalisation one would be hard pressed to explain why a repeat of the low-skilled guest-worker programme would be needed. But the lesson that dynamic sectoral clusters may often be easier to establish in an environment that is open to immigration still holds. Silicon Valley would not be what it is today without the enormous contribution of clever and enterprising immigrants.



Nor could London – notwithstanding the current upheaval in financial markets - have become the powerhouse of the global financial services industry if it had not been able to attract foreign financial talent by the tens of thousands.

Let us now turn to one particularly important variant of the labour shortage argument, namely the demographic deficit. The basic idea is that massive immigration over the coming decades will be required because so many natives will retire but not enough young natives will be available to take their place. This argument proves to be problematic simply because the number of jobs in a country that need doing is not fixed, as will be explored in detail further below when looking at the wage and employment impact of immigration. By the same token, ageing does not automatically lead to labour shortages.

However, one could, in principle, imagine that fixed proportions between young and more experienced older workers are needed for efficient production. In other words, one could imagine that young and old workers are complements instead of substitutes in which case there would still be a powerful case for immigration for demographic reasons. However, a closely related question has already been studied for the baby-boom years, namely whether the wages of largely baby-boom cohorts were depressed and the wages of smaller cohorts before and after were inflated<sup>13</sup>. It was found that this cohort wage impact for the baby boom was small, and certainly minimal compared to international wage differences. Therefore, one would expect that the changes in cohort size due to the ‘baby bust’ will also have a relatively limited impact on cohort wages, which means that the demographic argument is perhaps not that powerful.

It may even be that Europe’s demographic crisis develops into a deterrent for immigrants. As we have already seen in many parts of the European countryside, ageing can accelerate the exodus of young people. And at least for young high-skilled immigrants, it may not be particularly attractive to move to European countries that impose a high burden on the young through unreformed pension systems. In that sense, Europe should perhaps address its demographic crisis in order to attract migrants rather than attempting to attract migrants in order to avoid the difficult reforms necessitated by its demographic crisis.

However, the demographic argument should not be discounted entirely. Urbanisation has been one of the most marked phenomena over the past two centuries in Europe

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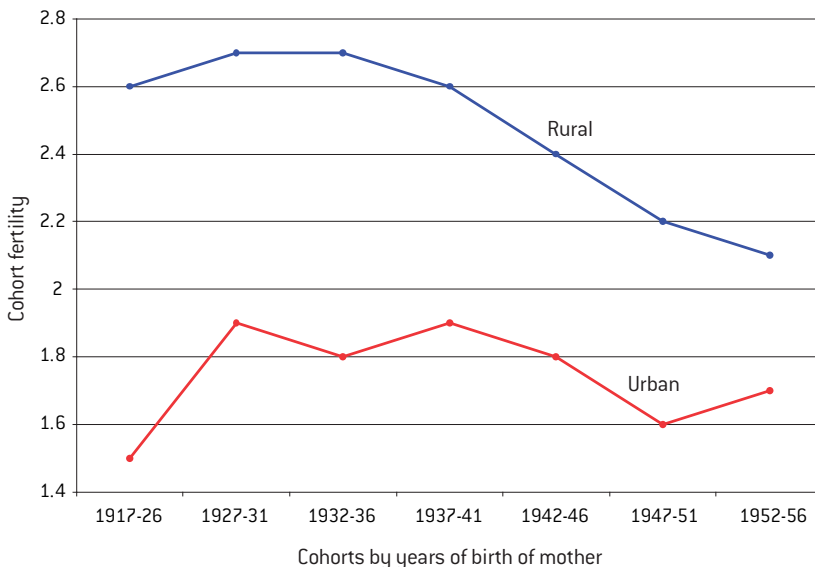
13. Macunovich [1998].

and across the world. In 1800, around 15 percent of the population in Europe was urban. This percentage rose to roughly 40 percent in 1900 and 75 percent in 2000. Globally, urbanisation has just reached the symbolically important 50 percent threshold and by 2030 some 60 percent of the world's population is expected to live in an urban setting.

Theoretically, urbanisation could be driven by either of two factors: migration from the countryside to the cities and higher fertility in urban than in rural areas. But in reality most urban settings are low-fertility environments. Effective fertility in many urban areas has been below the replacement rate (the fertility rate at which the size of each generation is preserved) for centuries. By contrast, high-fertility rural areas have been the driver of population growth.

Therefore, migration into urban areas has been and continues to be essential to sustain and grow city populations. Historically, these rural-to-urban migration movements have occurred within countries. However, rural populations in Europe now only constitute 25 percent of total population (and substantially less in some EU member states) and the fertility decline over past decades in Europe has essentially been a rural phenomenon as illustrated with Austrian data in Figure 7.

**Figure 7: The decline of rural cohort fertility in Austria**



Source: Spielauer (2005)

The observed decline in rural fertility in industrialised countries raises the crucial question: will we allow our cities to shrink at the risk of them becoming less vibrant or should we allow the century-old pattern of migration from high-fertility rural areas to low-fertility urban areas to continue through an influx of third-country nationals? This seems to be the real demographic choice of immigration policy, at least to the extent that migration flows can be effectively controlled by government. And if we accept that economically vibrant cities are the key to economic prosperity, the demographic argument would appear to have some merit, albeit perhaps for somewhat different reasons than is often imagined.

### *External immigration, internal mobility and the euro*

Finally, one important argument in favour of external immigration into the euro area in particular is that a currency area will greatly benefit from mobility across regions to absorb asymmetric shocks. Unfortunately internal mobility within the euro area is relatively low compared to mobility within the US and therefore asymmetric shocks are more persistent and less readily absorbed<sup>14</sup>. In addition to the remaining artificial barriers to internal mobility<sup>15</sup> this transatlantic difference can be explained by language barriers and high sunk investments in specific locations in traditionally less mobile Europe.

In view of this low level of internal mobility, external immigration may be a powerful substitute for internal mobility to assure the smooth functioning of the euro area. The reason is that external immigrants will generally have close to zero differential immigration costs between different EU countries (provided that the legal situation is the same throughout the EU) because the fixed cost of moving does not vary much depending on the exact location where the external immigrant settles.

As shown in Figure 8, Ireland and Spain with their booming economies have experienced particularly large inflows of immigrants in recent years, which has no doubt to some extent helped to prevent divergences within the euro area.

However, external mobility even on such a large scale is not sufficient to prevent divergences altogether, as the examples of Ireland and Spain also illustrate. One reason for this has probably been the key role of the property and construction boom in both of these economies. In fact, high immigration, and consequently even higher

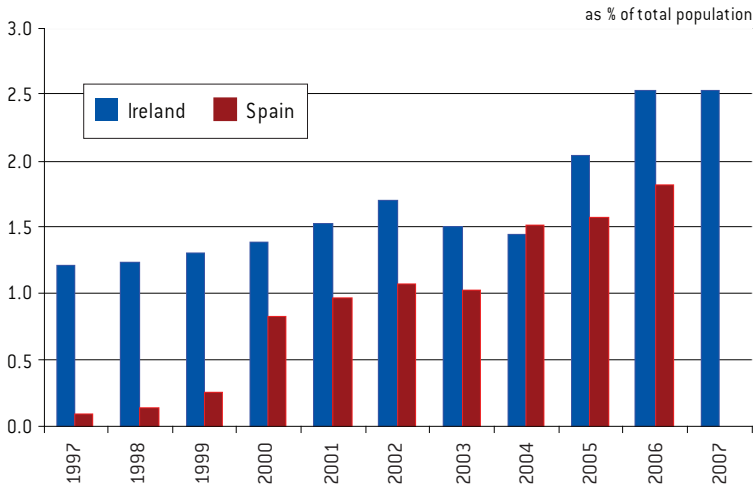
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14. Decressin and Fatás (1993), Blanchard and Katz (1992).

15. See for example Fenge and von Weizsäcker (2008).

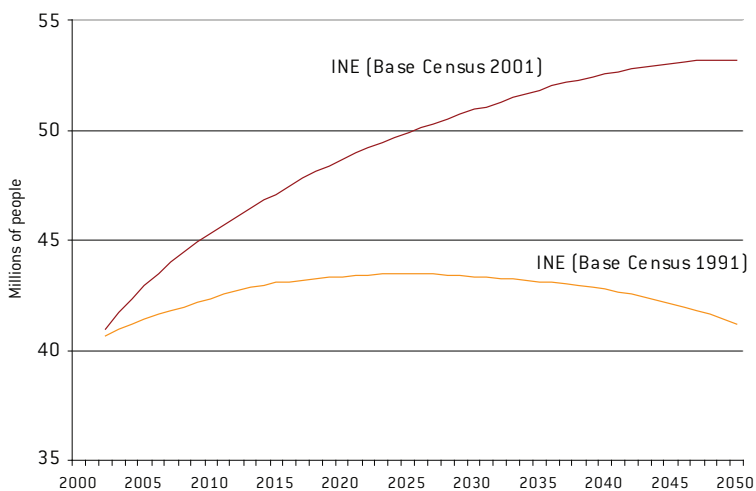
immigration expectations shown in Figure 9, may have played a role in fuelling the property bubbles in Ireland and Spain, as argued in Ahearne *et al.* (2008).

**Figure 8: Recent immigration flows to Spain and Ireland**



Source: Bruegel

**Figure 9: Population projection for Spain (UN 1996, INE 2005)**



Source: INE and UN.

## Anti-migration arguments

Some of the key concerns regarding immigration are how it might affect social cohesion and the quality of institutions in the host country, how it might adversely impact the job prospects of natives, and how expensive immigrants might be for tax payers, especially in countries with a generous welfare state. In the following, we briefly explore all three arguments.

### *Absorption capacity*

As we have seen above, one of the main advantages of migration compared to trade is that immigration grants immediate access to the generally better institutions in the host country. But since the host society is bound to change somewhat as a result of migration, so will, in general, the institutions. Hence, there may be a concern that the very quality of institutions that attracts immigrants in the first place may suffer as a result of immigration. A priori, it is of course also possible that immigration might improve institutional quality further. But there is the widespread concern that a rapid and substantial influx of immigrants, especially when it leads to the emergence of an ethnic underclass, might endanger the social cohesion of a society and thereby also its political and social foundations.

Alesina and La Ferrara (2000), for example, find that participation in social activities is significantly lower in more ethnically fragmented US communities. Entorf and Lauk (2006) identify significant negative peer effects of immigrant school performance on overall school performance in Germany and Austria with their selective three-tier school systems. However, it should not be forgotten that communities can also benefit greatly from cultural and ethnic diversity. This goes far beyond the hackneyed observation that the local restaurant scene will benefit from such diversity. Clearly, large immigrant cities such as London and New York are thriving not least because of the energy generated by immigrants, which includes cultural diversity and entrepreneurial spirit.

It is in this sense of social cohesion and institutional quality that the popular notion of an absorption capacity for immigration might be interpreted economically. However, it should be noted that the loss of social cohesion might often be a gradual process so that it might be more appropriate to think about it in terms of social externalities rather than a binding capacity constraint. Also, it should clearly be borne in mind that this social externality may well be positive for some immigrants while it might be somewhat negative for others.

This is in fact one reason why the notion that immigration policy essentially needs to allocate a fixed number of immigration slots, say 100 000 per year, is flawed. The number of migrants that a country is able to absorb is not fixed. In particular, the immigration of high-skilled workers may in fact have a positive externality such that the ‘absorption capacity’ for lower-skilled immigrants might increase as a result. Such effects might explain why Australia and Canada seem to cope quite well with around 13 percent of the population non-tertiary educated foreign-born, while in France and Germany there are significant tensions with around 10 percent of the total population non-tertiary educated foreign-born. Perhaps Australia and Canada are finding it easier to cope with low-skilled immigration precisely because of their much greater inflow of high-skilled immigration. This skill-based approach when thinking about immigration proves to be equally helpful when thinking about the wage impact of immigration.

#### *Wage impact of immigration*

Conceptually, the wage impact of immigration can cut both ways. Wages of native workers with labour market characteristics similar to those of immigrants can be expected to suffer. By contrast, natives workers with different skills which are complementary to immigrants and owners of capital can be expected to benefit. The net effect on natives would be expected to be positive for a relatively wide range of assumptions regarding the production function of the host country economy. Thus, in principle, the native winners of immigration might be able to compensate the native losers. However, in practice, this redistribution might not take place. Besides non-economic concerns, this distributional problem could be one plausible economic explanation why parts of the population might be critical of immigration.

And it also offers an explanation why the skill distribution of immigrants may matter for the political support of immigration. If the above logic is correct, low-skilled immigration will tend to increase income inequality among the native population in the host country as the already below-average wage of low-skilled natives will come under additional pressure. By contrast, high-skilled immigration would have a benign distributional impact in the host country, reducing the above-average wages of high-skilled natives while increasing the below-average wages of low-skilled natives.

However, while this theoretical argument is simple and compelling, it has been surprisingly difficult to find convincing empirical evidence to support it. In their analysis of empirical surveys, Longhi *et al.* (2005, 2006) find only a minute ‘consensus estimate’ of the distributional impact: a one percent increase in immigration only

leads to a 0.12 percent decline in wages within the relevant skill segment and a 0.024 percent decline in employment. This would be a very positive finding which might allow us to stop worrying about the distributional implications of migration on the host country altogether. But is it too good to be true?

Some people think so. The reason is that immigrants typically flock to the most vibrant cities that are undergoing rapid economic and job growth. Because of this, immigration and wage and job growth in the local economy can be expected to be positively correlated. Hence, any negative wage impact of immigration might be hidden by above-average wages in areas that manage to attract the largest numbers of migrants.

By applying an econometric approach immune to this particular concern, Borjas (2003) and Aydemir and Borjas (2006) obtain substantially higher estimates of the wage impact of migration for the US, Canada and Mexico. According to these studies, immigration of one percent reduces wages at the respective skill level by between 0.3 and 0.4 percent and migration could explain up to one third of the increase in the wage gap between low-skilled and high-skilled wages in the US over recent decades. Furthermore, Borjas finds in a simulation that the net gains for natives in the host country may be relatively small compared to the rather large distributional effects. But that is not the end of the debate.

First, Borjas' critics point to episodes of mass immigration to limited geographic areas that were not caused by rapid economic expansion. The Mariel Boat Lift (see Box 2) and the mass migration from the former Soviet Union to Israel in the early 1990s are two much-commented examples of rapid immigration caused by a political decision to lift emigration restrictions in the countries of origin rather than particularly dynamic economic conditions in the host country. The Mariel Boat Lift increased the population of Miami by seven percent in 1980. And the migration from the former Soviet Union to Israel increased the population of Israel by 12 percent between 1990 and 1994. Surprisingly, it turns out that the impact of these mass immigration episodes on the wages or employment of natives in Miami and in Israel has generally been negligible<sup>16</sup>, even in the short run.

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16. See Card (1990) for Miami and Friedberg (2001) for Israel.

**BOX 2: MARIEL BOAT LIFT**

In April 1980, a diplomatic crisis had developed in Havana, which resulted in thousands of Cubans taking refuge in the Peruvian embassy. To relieve the pressure inherent in the situation, Cuban leader Fidel Castro declared that Cubans wishing to leave for the US could do so from the port of Mariel. In the following months until September 1980, when this window of opportunity closed again, 125,000 Cubans left Cuba via Mariel on boats chartered by Cuban friends and relatives in the US. Roughly half of the migrants settled in Miami. This increased the total work force of Miami by seven percent and the Cuban workforce of Miami by 20 percent within a very short time by historical accident rather than through the strong economic pull of Miami compared to other cities.

Thus, the 'Mariel Boat Lift', as it came to be called, can be regarded as a particularly instructive natural experiment that provides an opportunity to study the labour-market impact of rapid immigration. It turns out that the effects on local unemployment and local wages were surprisingly limited. Card (1990) finds that the principal discernible impact on unemployment and wages occurred among Cuban workers. He estimated that Cuban unemployment increased by around three percentage points more than would otherwise have been expected, and Cuban wages in Miami suffered a relative decline of around nine percent between 1979 and 1985.

However, it appears that even the Cubans who had arrived before 1980 were not strongly affected. Both the increase in unemployment and the decline wages among Cubans in Miami are probably in large part due to a compositional effect. The recent arrivals simply had higher unemployment rates and received lower wages than those Cubans who had already established themselves. Therefore, the evidence from the Mariel Boat Lift suggests that the process of adjustment to this immigration episode imposed relatively little pain even on previous Cuban immigrants which may have been expected to be the closest substitutes to the newly arrived migrants.

Second, Borjas' critics point to a study by Ottaviano and Peri (2006), who decided to re-run the estimates while allowing for the possibility that natives and foreign workers are not perfect substitutes even within the same age and skill bracket. As a result, they find that much of the wage impact of fresh immigration actually falls on existing migrants rather than natives. As a result, they estimate that only a relatively



small proportion of very low-skilled natives has experienced an adverse wage impact from recent immigration, whereas the vast majority of natives has benefited substantially.

In conclusion, one can say that the literature has not yet been able comprehensively to dispel the concern that especially low-skilled immigration might have some adverse distributional consequences among native populations. At the same time, it seems unlikely that any such impact would be very considerable. We can illustrate this using the estimate of Borjas as a pessimistic benchmark. If the low-skilled population of a country were suddenly to increase by an enormous 10 percent, the low-skilled wages of natives would decrease by between three and four percent. Such orders of magnitude would not be negligible but could in principle be readily handled by European welfare states. However, there are two reasons why a modest adverse wage impact of immigration on low-skilled natives may not be entirely harmless.

The first reason is that labour markets in the EU do not function very well at the lower end of the skill spectrum. Specifically, on average in the EU, low-skilled unemployment is about twice as high as high-skilled unemployment. One important explanation for this is that wages which are already low cannot fall further because there is an explicit minimum wage or an implicit wage floor implied by the welfare state, as is the case in Germany. In the presence of such a wage floor, an immigration-induced adverse wage impact may translate into additional unemployment. It is therefore not surprising that a combination of frictional unemployment and difficulties in wage adjustment can also lead to an unemployment impact of migration.

However, the unemployment impact on natives is typically not very large and is also to a large extent temporary, as suggested for example by Jean and Jimenez (2007). Furthermore, it should be mentioned that a considerable part of the unemployment burden that arises temporarily or, less often, permanently as a result of immigration is borne by the immigrants themselves.

Table 4 compares the unemployment rates of native with foreign-born workers by skill level. The pattern is fairly straightforward. In Europe, the unemployment rates of natives are consistently higher for foreign-born than for native workers – in many cases even twice as high or more. In that sense, immigrants do bear a disproportionate part of the unemployment burden. In classic immigration countries like the US, Canada, Australia and New Zealand, the labour market performance of foreign-born relatives to natives is generally more similar to that of natives. While skilled migrants also have substantially higher unemployment rates than skilled natives, their

unemployment rates are rarely substantially above the national average.

**Table 4: Unemployment rates (in percent) of native and foreign-born by education**

	Native-born		Foreign-born		Total unemployment rate
	<i>Primary</i>	<i>Tertiary</i>	<i>Primary</i>	<i>Tertiary</i>	
Netherlands	4.3	1.5	9.7	4.3	3.0
Sweden	4.1	1.7	10.3	6.4	3.5
Denmark	5.1	2.2	10.7	6.0	3.8
USA	13.7	2.2	10.5	3.4	5.7
UK	7.3	2.9	11.3	5.6	5.8
Austria	9.9	2.2	14.0	6.7	6.4
New Zealand	10.9	3.3	11.9	6.1	7.1
Australia	10.4	2.7	10.8	5.7	7.3
Canada	11.8	4.6	8.6	6.9	7.4
Ireland	14.6	3.5	18.1	7.5	8.7
Germany	11.9	3.9	21.6	12.7	9.0
Belgium	14.1	4.5	26.5	12.2	10.5
Italy	13.6	6.4	14.4	9.5	11.6
France	17.1	6.6	24.2	11.9	12.8
Spain	16.2	9.6	17.8	13.4	14.1

Source: OECD database on immigrants

While it may on the one hand be politically reassuring for the host country that the unemployment impact of immigration is to a great extent borne by immigrants themselves, the next question inevitably concerns the fiscal impact of immigration.

### *Immigration and the welfare state*

The concern that immigrants will pose a burden to the welfare state is of particular relevance for Europe where welfare states are relatively large. However, even for Europe the empirical evidence turns out to be inconclusive. In a study for the Netherlands, Roodenburg *et al.* (2003) find a negative net impact of immigration on public finances. By contrast, Bonin (2002) finds that the average immigrant has a positive net fiscal impact in Germany across his or her lifecycle.

At first glance, it may seem surprising that the net fiscal impact of immigration in a country like Germany might be positive. After all, the skill-mix of immigrants is particularly low as we have seen in the previous section, the labour market performance

of immigrants is poor (Table 4) and the German welfare state is relatively generous. All these factors should make migrants relatively large net recipients of the welfare state. However, this reasoning overlooks one major feature of European welfare states. They not only redistribute from rich to poor but also redistribute on a massive scale from the working-age population to the inactive population and to pensioners in particular. Since immigrants are typically young adults when they arrive, the host country saves costs for their upbringing and their schooling, which has already been paid for by their country of origin, and taxes them to fund the transfers to pensioners. Of course, part of this transfer will be paid back to them in the future when they in turn retire. But since the net present value of their pension contribution tends to be much higher than the net present value of their acquired pension claim, young immigrants may be net contributors to the welfare state even if their earnings are below average and they are more likely than natives to become unemployed.

However, despite these age-specific effects of public pension, health and long-term care insurance there is little doubt that Europe is fiscally more vulnerable to a large-scale influx of low-skilled immigrants than the US on account of Europe's more generous welfare state. This potentially reduces the EU's optimal degree of openness to low-skilled immigration compared to the US.

At the same time, young high-skilled immigrants may not find it particularly attractive to move to European countries which impose a heavy burden on the young through unreformed pension systems. For this reason, the hope of attracting immigrants to avoid the politically difficult reforms necessitated by Europe's demographic crisis may to some extent be dashed. As already argued above when exploring the demographic argument, Europeans will probably need to deal with the demographic crisis hanging over our pension systems first in order to attract those sought-after high-skilled immigrants, rather than hoping that they will flock to our countries to sustain otherwise unsustainable pension systems.

### **Priority areas for EU policy**

Having developed a more nuanced view on the economic impact of immigration, we now attempt to identify priority areas for future EU immigration policy, and ultimately derive concrete policy proposals. We proceed by first exploring systematically the main areas of immigration policy that are also identified in the proposed 'immigration pact', namely: legal immigration policy, irregular immigration and border controls, asylum policy and integration policy. Then, in the subsequent section we look at concrete policy instruments and their relative merits in order ultimately to arrive

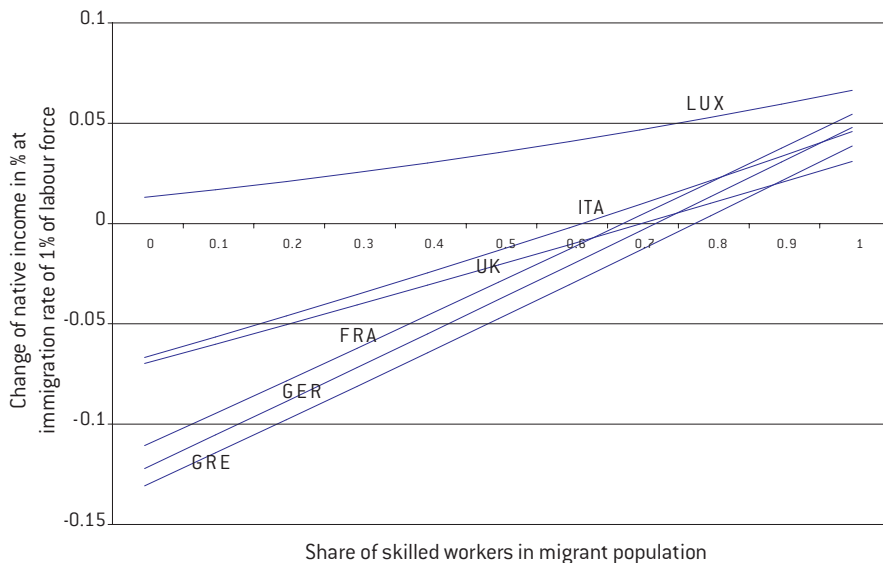
at a manageable number of policy proposals that might lend themselves more readily to implementation than the plethora of policy suggestions that tends to emerge from a traditional holistic approach.

We now look at the different policy areas in turn, starting with legal immigration.

### *Legal immigration*

The considerations above suggest that the overall impact of high-skilled immigration on the host country population is likely to be positive in essentially all member states of the EU. By contrast, the net impact of low-skilled immigration is less certain and more varied among member states due to institutional factors, including the generosity of the welfare state, the flexibility of the labour market and the quality of the existing human capital. Brücker and von Weizsäcker (2007) have explored this further using a simple general equilibrium simulation. As shown in Figure 10, they find a fairly similar and consistently positive impact for high-skilled immigration among member states and a much more varied and often somewhat negative impact of less-skilled migration.

**Figure 10: Impact on host country by immigrant skill level**



Source: Brücker and von Weizsäcker (2007)

For the time being, the spill-over effects among legal immigrants can be expected to be relatively small even within the Schengen area. The reason is that the legal immigration status of third- country nationals only becomes 'portable' between member states after five years of legal residence within the EU, and even then some legal obstacles remain. After five years of residence within one EU country, immigrants have usually already made a substantial investment in a local social network and have aged somewhat, both factors reducing their propensity to move on. While in principle there would always be the possibility for legal migrants to move and work within the entire Schengen area on an irregular basis even before five years have elapsed, any such move that led to a loss of legal status would typically be unattractive.

Therefore, harmonising legal immigration policies overall should not be regarded as an urgent priority at the EU level. This point is reinforced by the observation that preferences among member states regarding low- and mid-skilled legal migration can be expected to differ substantially. However, there is one important exception – high-skilled immigration – where preferences among member states are generally much better aligned and where a common European solution could make Europe significantly more attractive in the global competition for talent.

The EU is already falling behind in attracting high-skilled migrants, while countries like Canada and Australia are particularly successful in attracting foreign-born graduates through points- based immigration systems. This fact was already illustrated by Figure 3 showing that the percentage of the university-educated among foreign-born inhabitants is substantially below the OECD average for the typical EU country. Positive outliers in the EU are the English-speaking countries Ireland and the UK and to some extent Sweden.

There is little doubt that English-speaking countries do have a substantial advantage when it comes to attracting high-skilled immigrants for at least two reasons. First, many young ambitious migrants are attracted to English language universities not only because of the quality of teaching but also to perfect their knowledge of the *lingua franca* of this globalised age. Second, those high-skilled migrants who pursue their studies at home usually learn English as their first foreign language to a high level, so that a subsequent move to an English-speaking country minimises their linguistic migration cost.

Unfortunately some countries tend to draw the wrong conclusions from this language handicap. For example, the fact that Germany finds it more difficult to attract high-

skilled immigrants than the UK is routinely misinterpreted to imply that Germany simply has a lower demand for high-skilled immigrants and therefore does not even need to create a competitive legal framework to attract them. A case in point was the debate about the German 'Green Card' designed to attract high-skilled IT workers. When that German Green Card failed to attract as many applicants as was originally planned, the popular interpretation was that Germany simply did not need high-skilled foreigners and, even to the extent that it did need more high-skilled workers, it would be far preferable to educate Germans better for those high-paying jobs.

It transpires that this interpretation, variants of which are also frequently voiced in other EU countries, is doubly flawed. First, it ignores the fact that non English-speaking countries will need to offer high-skilled immigrants at least as attractive conditions of entry as English-speaking countries to compete successfully. Second, it overlooks the fact that the high-skilled often like to live and work in clusters. As a result, the ability to attract foreign talent can help to grow knowledge economy hotspots like Silicon Valley or the City of London, from which high-skilled natives greatly benefit. Had California instead insisted on staffing Silicon Valley exclusively with home-grown talent, it is seems likely that the global IT hotspot might simply have been created elsewhere.

Fortunately, the EU and the non English-speaking member states in particular are increasingly recognising that much more attractive entry conditions for high-skilled immigrants are needed for the EU successfully to participate in the global competition for talent. The recent flurry of national attempts to improve the legal basis for attracting high-skilled migrants, including the recent '*carte des compétences et talents*' in France, illustrate the progress that has been made in this debate.

However, there is one important feature that purely national initiatives will not be able to offer: immediate access to the entire EU labour market. For highly specialised immigrants this would undoubtedly be attractive. In particular, it would make migrants hesitate less about accepting a first job in a small or a non English-speaking member state. For example, an Indian high-skilled migrant with a job offer in Vienna will accept it much more readily if this guarantees access to the entire EU labour market. In the case that the first job turns out to be unattractive after all or the family has difficulties adjusting, the option value of being able to transfer to, say, Düsseldorf or Manchester (and not just within Austria to, say, Innsbruck) would be substantial.

Perhaps the most serious policy concern about an EU policy to attract high-skilled immigrants more effectively is its prospective impact on the source country by way

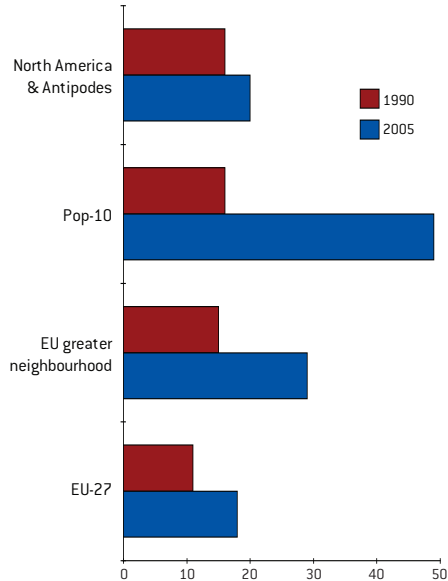
of brain drain. In particular, brain drain could have a negative impact on the growth potential of the source country's economy by depriving it of its innovation potential. Also, by reducing the domestic supply of skill, the skill premium in developing countries might increase, thereby leading to greater inequality. Furthermore, the fiscal impact of high-skilled emigration will generally be negative.

However, brain drain may not be entirely negative for the source country. The option to emigrate may substantially increase the expected returns on education, thereby improving private education incentives. Also, if migrants return to their country of origin - and many of them do - the skills and savings that they have acquired abroad can become a powerful force for development. Moderate levels of brain drain, therefore, may actually be beneficial for the source country as is argued, for example, by Beine *et al.* (2003).

Further, the explosion of tertiary education in developing countries over the last 15 years as presented in Figure 11 has dramatically increased the supply of skill in developing countries. In particular, the number of students in the ten most populated developing countries (Pop-10) has trebled, increasing from 16 million in 1990 to 49 million in 2005, now dwarfing the number of students in the EU, North America, Australia and New Zealand combined which in 2005 only amounted to 38 million. This rapid increase in the supply of skill is likely to have reduced the potentially adverse effects of brain drain for any given level of emigration. In fact, certain developing economies even have difficulty in properly absorbing the rapidly increased supply of university graduates, leading to shockingly high unemployment rates among them in countries such as Morocco.

Nevertheless, to be on the safe side, Europe may wish to combine attempts to compete more effectively for high-skilled immigrants with measures to mitigate any negative impact of brain drain, as elaborated in the policy section below.

Overall, it can be said that while the harmonisation of legal migration should not be regarded as a European policy priority, an exception should be made for high-skilled migration in order to strengthen Europe's position in the global competition for talent.

**Figure 11: Rapid increase in student numbers worldwide 1990-2005**

Source: World Bank Edstats. Terminology: EU Greater Neighbourhood = EU Neighbourhood Policy Countries+EU Accession Countries+Balkan Countries+Turkey+Russia, Pop-10: ten most populated developing countries which are China, India, Indonesia, Brazil, Pakistan, Bangladesh, Nigeria, Mexico, Vietnam and the Philippines; North America + Antipodes = Canada, USA, Australia, New Zealand

### *Irregular migration*

Unlike legal migrants, irregular migrants do not have a legal status to lose when they move around within the Schengen area. This de facto mobility of irregular migrants within the Schengen area gives rise to substantial spillover effects. For example, an estimated 50 percent of the irregular Ukrainian migrants in Portugal entered the EU with a Schengen visa issued by the Austrian or German embassies<sup>17</sup>.

The argument for coordination of irregular migration is further strengthened by the expectation that immigration pressures are set to increase in the coming years, as argued above. But how will Europe respond to this expected further divergence between the number of migrants hoping to enter the EU in search of a better life and the number of immigrants that EU member states are willing to absorb?

17. See Baganha et al. (2004).



The most important remedies that are routinely put forward to fight irregular migration are better border enforcement, more development assistance for countries of origin, and new legal migration schemes. However, while some of these measures can make sense, they are unlikely to be able comprehensively to address the problem of irregular migration which is why a European agreement on a path to legalisation should be part of any policy package dealing with irregular migration.

**Better border enforcement:** The EU is already engaged in joint enforcement efforts to reduce irregular migration. The control of the external borders is to be strengthened which is what the new EU agency Frontex is concerned to do. Efforts to fight human trafficking are to be further ramped up. And there are plans to intensify the quest for closer collaboration with major transit countries. In addition, plans to intensify the repatriation of irregular migrants are being developed, supported by new technology such a biometric visa for identification and agreements with countries of origin as well as transit countries. Irregular migrants generally do respond to incentives and therefore it is likely that a comprehensive set of enforcement measures will succeed in reducing the inflow of irregular migrants. However, it should not be overlooked that the underlying economic forces that drive irregular migration are so powerful that migrants are prepared to risk their lives on tiny boats trying to come to EU. Therefore, it is also clear that stricter enforcement activities stopping short of an iron curtain at the external borders and a police state within will only be able partially to address the problem of irregular migration.

To form an idea of the order of magnitude of the reduction in irregular migration that strengthened enforcement and verification requirements can achieve, it is instructive to look at the analysis of the Congressional Budget Office (2007) on the likely impact of the (currently stalled) Comprehensive Immigration Reform Act 2007. It was estimated that the comprehensive set of enforcement measures in this immigration reform bill would succeed in reducing the influx of irregular immigrants by about 25 percent. Arguably, the external borders of the EU are already more tightly guarded than the US border with Mexico. So to the extent that there are diminishing returns to border controls, Europe could even be expected to have a harder time reaching an reduction in irregular inflows of 25 percent by means of tighter controls.

What is clear, however, is that better enforcement can contribute to addressing the challenge of irregular migration. But the commonly held view of the general public that enforcement alone might be able to settle the problem of irregular migration is clearly flawed, since a large inflow of irregular migrants can be expected to continue even in the presence of tight controls. For reasons of political hygiene it is important

for political decision-makers to put their cards on the table about this fact.

**Increased development assistance:** The argument is often advanced that increased development assistance could be used to create better economic prospects in the key countries of origin so that the incentive to emigrate would be reduced. However, it transpires that even if increased development assistance were reliably to lift incomes in the countries of origin, the effect on migration flows might turn out to be ambiguous. The reason is that the level of income in the country of origin and the propensity to emigrate may well be hump-shaped<sup>18</sup>. Rising incomes may initially increase the likelihood of emigration. One reason for this could be that poor and credit-constrained individuals will only find migration affordable above a threshold income level. Only once income has grown beyond that threshold would the likelihood of migration go down on account of reduced income differences between source and host country. In view of the substantial uncertainty with regard to the impact of development assistance on migratory movements in the short and medium term, it would seem imprudent to couple development assistance and migration policy in the political discourse.

**Legal migration schemes:** Also, it is sometimes claimed that a suitable means to combat irregular immigration could be the expansion of legal immigration schemes, possibly in the form of temporary or circular migration<sup>19</sup>. For example, temporary migration schemes are to be an integral part of the ‘mobility partnerships’ that the EU plans to conclude with source countries, not least to reduce the inflow of irregular migrants. However, it is not clear how effective this would be. If we assume that the enforcement activities against irregular migration are at all meaningful, then the pool of potential irregular migrants kept out of the EU is likely to be much larger than the number of actual irregular migrants. For the sake of argument, assume that every fourth potential irregular immigrant manages to enter the EU. With this assumption, four potential irregular migrants would have to be admitted legally to reduce the number of irregular migrants by one. And this optimistically assumes that the four legal migrants would indeed come from the pool of potential irregular migrants, which is not necessarily the case. For the sake of argument, one could imagine that these four legal migrants would compete with irregular migrants on the labour market so that the wages of irregular migrants would be depressed and the incentive to migrate irregularly would be further reduced. However, since regular migrants tend to work in

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18. See eg Adams and Page (2003)

19. See the introduction of the OECD Immigration Outlook 2008 for a critical assessment of circular migration schemes.

different labour markets, the wage interaction between the two is likely to be relatively small.

In this context it is worth noting that the Congressional Budget Office (2007) also estimated the impact of a temporary legal immigration scheme that was to be part of the bill on irregular migration. Their estimated impact suggests that the problem of increased visa overstay as a result of the temporary migration scheme would have almost entirely cancelled out the reduction of irregular migration that could otherwise have been achieved through tighter border controls and enforcement.

In other words, it is safe to expect the number of irregular migrants to fall by much less than one for each additional legal migrant. And in the case of temporary immigration schemes, the number of irregular migrants may even increase substantially in response to the temporary legal migration channel, as convincingly argued by the Congressional Budget Office. Once this is widely understood, the political appeal of legal immigration schemes for the sole purpose of reducing irregular migration is likely to be greatly diminished.

**Path to regularisation:** While tighter controls can reduce the influx of irregular migrants, realistically none of the above approaches is likely to make the problem of irregular migration disappear any time soon. Therefore, EU member states need to find a pragmatic way to accommodate any residual irregular migration in ways that are compatible with human rights, basic law and order and the requirements of integration policy as will be elaborated further below.

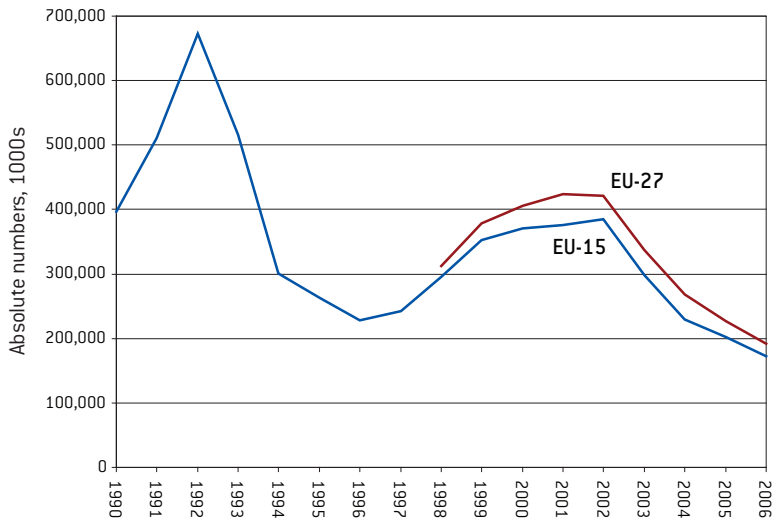
However, because of cross-border spillover effects, reinforced controls and regularisation policies will need to be coordinated at the European level. Owing to different legal and immigration traditions and the diversity of economic preferences regarding the predominantly low-skilled irregular migrants, agreeing on a European solution will not be straightforward. However, in the following section it will be argued that, by choosing the right balance of repressive measures combined with humanitarian standards and paths to regularisation, a common European policy on irregular migration may well be within reach.

### *Asylum*

In asylum policy, the importance of cross-border spillovers, not least in the form of 'asylum shopping', has already been widely recognised and has already led to far-reaching coordination at the European level (eg the Dublin Convention<sup>20</sup> and Dublin

II<sup>21</sup>). With the end of the Cold War, the EU experienced a rapid surge in asylum applications, as can be seen in Figure 12. In response, member states progressively tightened their asylum legislation and also started progressively to introduce EU regulation to govern asylum within Europe. Hatton (2008) estimates that these tighter and better coordinated rules have contributed to about one third of the recent decline in asylum applications, the other two thirds being attributable to a decline in the demand for asylum especially from citizens of eastern European countries and the countries of the former Soviet Union.

**Figure 12: New asylum applications in the EU**



Source: Eurostat

The legal tightening and the remarkable success in reducing the asylum application numbers (and to a lesser extent the number of people granted asylum) raises the question of whether today Europe still does full justice to its ambition to provide shelter to people who are in need of protection. Compared to other industrialised countries, this fear may look exaggerated with Europe continuing to receiving about three quarters of asylum claims among industrial countries.

At the same time, it is also clear that some countries within the EU are prepared to take on substantially more asylum seekers than others. In particular, Sweden's

20. Official Journal C 274, 19.09.1996.

21. Regulation [EC] 343/2003.

performance is remarkable, taking on over ten percent of total asylum claims received in industrialised countries in 2007, a not-so-distant second place behind the US and well ahead of much larger EU countries such as Germany, France, and the UK which historically took on more asylum seekers than Sweden. To an important extent, this is driven by the fact that of the 45,200 Iraqi asylum claims lodged in 2007, 41 percent were submitted to an accommodating Sweden.

This raises the question of whether countries like Sweden would be able to continue to pursue such timely and generous policies under more tightly harmonised EU-level asylum rules. One approach to resolving this might be to regard generous asylum policy that upholds European values as a European public good that can best be provided through joint financing of asylum expenditures, giving member states better financial incentives to sustain asylum policies in line with European values. From this public-good perspective, it could for example make good sense to provide Sweden with EU funds to help sustain its generous asylum policy towards Iraqi refugees.

A concrete policy proposal along these lines will be discussed in the next section.

### *Integration*

Because the mobility of legal immigrants from third countries remains relatively low, each member state can expect to bear the overwhelming part of the cost caused by failed integration policies for legal migrants. Furthermore, differences between member states in the composition of immigrant populations, institutional differences, not least in education and labour markets, and subtle differences in outlook, reduce the prospect for far-reaching EU legislation in this area. As a consequence, refining policies for mid-skilled and low-skilled immigration as well as integration policies should mainly be regarded as a national priority for the time being. With regard to integration policy, EU effort should be largely restricted to facilitating the exchange of information and joint learning, providing political momentum to national integration policies, and enhancing their quality without EU legislative action.

This might of course change if at some stage it were decided significantly to lower the period of time, currently five years, that third country nationals have to have enjoyed legal residence in one member state before they start to be able enjoy internal mobility within the EU. However, we would regard attempts to accelerate legal mobility for low- and mid-skilled third country nationals as unwise, precisely because such a move would force EU member states into the difficulty of having to coordinate issues where they have very different preferences.

## 4. EU policy proposals

For the three areas identified in the previous section (high-skilled legal immigration, irregular migration, and asylum policy) concrete policy proposals are now developed. In developing these proposals, we also reflect on how they could fit with the current immigration agenda of the French presidency.

### *High-skilled migration*

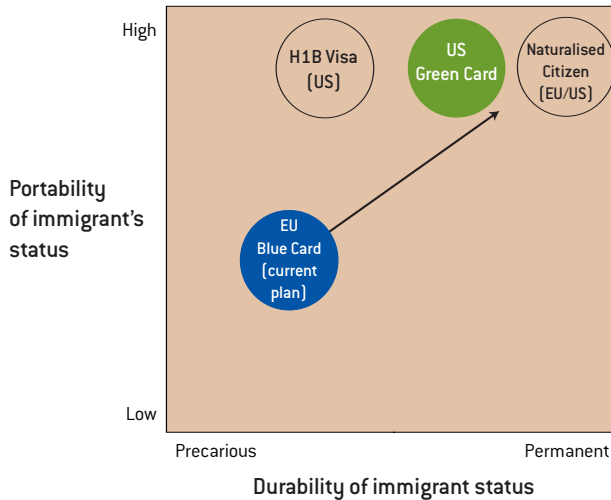
The main European policy priority in the area of high-skilled migration is successfully to introduce a European Blue Card<sup>22</sup> for high-skilled immigrants. The European Commission's draft directive on the creation of a European Blue Card recognises the need for Europe to participate more effectively in the global competition for talent and takes an important step in the right direction. However, a careful reading of the draft directive reveals that it would be almost as difficult to transfer to a second member state with an existing Blue Card acquired in the first member state as it would be to apply for a fresh Blue Card in that second member state.

This relatively low degree of guaranteed portability of the Blue Card within the EU labour market, coupled with the short initial validity period of the Blue Card of two years, risks undermining its international competitiveness as illustrated in Figure 13 (overleaf). The US Green Card and the special H1B Visa for high-skilled immigrants to the US not only grant access to the entire US labour market, their initial period of validity is also more generous. In order for the EU Blue Card to become more attractive, its portability among member status needs to be improved and its initial period of validity ought to be extended.

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22. See von Weizsäcker (2006) for an earlier 'Blue Card' proposal that coined the term.

Figure 13: The Blue Card needs improved durability and portability of status to be competitive



However, there is little hope that an agreement among member states could be reached to strengthen portability on the basis of the current access criterion for the Blue Card of 1.5 times the minimum wage in the member state in question. A Blue Card that can be obtained merely on the basis of, say, €750 monthly earnings in Romania is unlikely ever to be accepted throughout the EU. A more promising approach would be to allow skill and other migrant characteristics to determine eligibility for a Blue Card jointly with a salary threshold. Ideally, this would be achieved through a points system (see also Box 3 for the Canadian example). On that basis, it ought to be much easier to agree on a Blue Card that would grant access to the entire EU labour market in a more meaningful way.

Also, more could and should be done to attract high-skilled migrants by strengthening the attractiveness of European universities, which to some extent also requires European policy action as argued in Aghion et al. (2007). In the US, the quality of its leading universities is one of the most important channels by which to attract top talent early. After their studies, foreign-born students in the US benefit from a special contingent of H1B visas to allow them to stay on in the US and work. A similar feature could be introduced on the basis of the Blue Card in the form of a 'Blue Diploma', allowing foreign-born graduates with a Masters degree (or equivalent) from a participating university to find a job in the EU without being subject to the normal salary threshold of the Blue Card. Such a comprehensive and predictable arrangement would

### BOX 3: A BRIEF HISTORY OF THE CANADIAN POINTS SYSTEM

In a 1947 speech, the long-serving prime minister of Canada Mackenzie King stated a position on immigration that a non-negligible number of voters throughout Europe would still agree with today: “I wish to make it quite clear that Canada is perfectly within her rights in selecting persons whom we regard as desirable future citizens. It is not a ‘fundamental human right’ of any alien to enter Canada. It is a privilege [...] The people of Canada do not wish, as a result of mass immigration, to make any fundamental alteration in the character of our population.” Based on that argument, Canada continued migration policies that strongly favoured immigration from a number of (northern) European countries and discouraged immigration from Asia for another 20 years.

However, public pressures in Canada were mounting to end such ultimately racist immigration policies and under the visionary prime minister Lester B. Pearson the government commissioned a white paper (1966) to explore what a non-racist immigration policy might look like. Interestingly, the white paper worries about the possibility that ‘ghetto-like slums’ with ethnic migrants in the larger cities might emerge that would offset the advantages of increased cosmopolitanism. Ultimately, the introduction of a points system was recommended for Canada as a racially neutral but skill-based immigration policy. This recommendation was implemented by the Pearson government in 1967, arguably introducing the first race-neutral immigration system worldwide.

The points system has worked reasonably well over the decades and has been adjusted from time to time. One remarkable opportunity for Canada arose when Britain handed back Hong Kong to the Chinese and the Thatcher government decided to provide only 50,000 British passports to the around 5 million Chinese inhabitants of Hong Kong. The UK government argued that such a strict stance was required in order to avoid ethnic tensions. This provided the race-neutral Canadian immigration system with an opportunity to show its strength, attracting over 250,000 immigrants from Hong Kong between 1986 and 1997. With the benefit of hindsight and in view of the rapid rise of China in the global economy, most people would agree that Canada’s points system got it right, and the UK and Europe as a whole missed a golden opportunity.



help to attract foreign talent to European universities and to the European labour market afterwards. In principle, it would make sense to extend the Blue Diploma programme to universities outside the EU. To start with, the top 100 non-European universities, as measured by academic excellence, should also be included in the scheme.

In addition to a strengthened Blue Card, member states may wish to consider investing in complementary measures such as expatriate infrastructure in order better to compete for talent. Sought-after high-skilled migrants often have a choice between different destinations. One important but often neglected determinant of their ultimate migration decision is the availability of expat infrastructure such as suitable foreign language schools for their children. Since most high-skilled migrants have a good command of English, availability of suitable expat infrastructure tends to be an especially important criterion for moves into non-English speaking countries. The expansion of such expat infrastructure well beyond national capitals where it is currently concentrated is an example of a national measure that could usefully complement any EU effort on high-skilled migration.

To address concerns about brain drain, Europe may wish to consider two specific measures designed to mitigate any adverse development impact of the Blue Card. First, an opt-out from the Blue Card could be offered to any developing country concerned about brain drain<sup>23</sup>. Second, the EU could make a point of offering financial support for tertiary education to developing countries with particularly high rates of high-skilled emigration to the EU, an area of the education system that is often neglected by donors since the Millennium Development Goals rightly focus mainly on primary and to a lesser extent secondary education.

Beyond that, Europe could already go a long way towards gaining the moral high ground simply by fulfilling its commitments significantly to increase development aid as a percentage of GDP. Finally, from a development perspective it makes good sense to include clauses in migration legislation that facilitate brain circulation of the high-skilled migrants between the home and host country. If made sufficiently permanent, the Blue Card could in fact act as an insurance policy for high-skilled migrants wanting to return to their country of origin. If a high-risk career project at home does not work out, they would still have the option to come back to Europe.

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23. However, it is less clear whether this opt-out should also be extended to governments that, according to the consensus view, fail even remotely to act in the best interests of their citizens, as may currently be the case in Zimbabwe.

### *Irregular migration*

Next, we explore the second priority area of irregular migration. As a result of the divergence between the number of relatively low-skilled people wanting to come to Europe and the number of migrants EU member states are willing to admit legally, irregular migration is set to increase.

First, more stringent standards governing the treatment of irregular migrants could be agreed. With open internal borders, some member states might otherwise be tempted to drive irregular migrants away to neighbouring EU countries by treating them poorly. Individual countries that treat irregular migrants decently might in any case end up attracting more than their expected share. Stricter standards for the decent treatment of irregular migrants could help resolve this problem. Second, a basic framework for regularisation procedures could be defined, recognising the advantages of timely regularisation as opposed to sporadic mass regularisations. In particular, it is often overlooked that irregular immigrants who are regularised in one member state have a strong incentive to stay there because their legal status is initially not transferable. This provides an incentive for migrants to build themselves a local network and to learn the local language.

In doing so, the effective mobility costs of those regularised migrants increase substantially. In that sense, a country that regularises irregular migrants to some extent locks them in, thus reducing spill-over effects.

This effect may have been overlooked in the debate regarding Spain's recent mass regularisation. France was concerned that a substantial part of the regularised migrants would stay in Spain for five years only in order then to obtain long-term resident status and move to France. However, because of the lock-in effect outlined above, it is a priori unclear whether France will actually experience a substantial net increase of immigrants in response to the Spanish policy in the long run.

A more proactive regularisation policy stands to alleviate future integration problems. It took European societies too long to acknowledge that their guest workers were immigrants who required an integration investment. There is a risk that we are today making a similar mistake with irregular immigration. Instead, regularisation schemes should be used to provide incentives for rapid integration, providing accelerated regularisation for those irregular migrants who rapidly acquire language skills, display other characteristics that are conducive to rapid integration or require rapid regularisation for humanitarian reasons. By contrast, irregular

migrants who do not conform to this set of criteria would only be regularised after a much longer period and be exposed to the generally small but non-negligible risk of forced repatriation.

Whether such an 'earned regularisation' approach would increase or reduce the annual inflow of irregular migrants compared to the presently widespread approach of sporadic mass regularisation depends greatly on the respective detail of the two schemes. But in any event, combining the stronger reinforcement measures likely to be proposed by the French presidency with earned regularisation offers an attractive opportunity largely to take the anarchic and therefore politically corrosive element out of policies dealing with irregular immigration. At the same time, the 'earned regularisation' approach could help to achieve the declared objective of the French presidency of doing away with mass regularisations, while offering the flexibility that may be needed to accommodate the concerns of countries like Spain that view the proposal of the French presidency in this area with some scepticism.

#### *Asylum: towards a 'new Nansen'*

The time might have come for the larger countries of the EU to start paying a humanitarian dividend after having put in place necessary control and coordination systems to restrict the abuse of asylum. To start with, this could take the form of a European commitment proactively to offer 25,000 (or 0.05 percent of the EU population per year) extra people refuge from persecution and war. Rather than waiting for these refugees to arrive at our borders, such a proactive commitment could include transport logistics where needed. These additional 25000 humanitarian migrants per year could be offered a new Nansen passport. The previous incarnation of the Nansen passport was introduced by the Norwegian polar explorer and Nobel peace prize winner Fridjof Nansen to equip refugees from the Russian revolution with travel papers. Naming the programme after a Norwegian would also make good sense since it would be desirable to include non-EU members of the Schengen area such as Norway in the programme.

The funding of this scheme could be organised at the European level so that there would be no fiscal disincentive for member states to accept these humanitarian migrants. At regular intervals, there could be a European debate on how to best to use this additional humanitarian quota (and whether to increase it in response to an acute humanitarian crisis). In a sense, Wolfgang Schäuble's recent call to grant privileged access to the EU for Christian Iraqi refugees could be regarded prototypical for the kind of debates one would be having at the European level, involving difficult but

important discussions that would help Europe to grow as a forum of serious policy decision-making. In this particular case, it is true that while Christian Iraqis might be at relatively high risk in Iraq, at the same time this proposal may fit all too well the world view of those who already regard the Iraq disaster as a clash of civilisations. Irrespective of one's opinion of this particular proposal, the prospect of regularly having this kind of very concrete debate at the European level as part of the proposed programme would clearly contribute to strengthening Europe's humanitarian identity.

In any event, the proposed 'new Nansen' scheme could be a complement to any efforts designed to streamline asylum criteria at the EU level, preserving substantial room for manoeuvre to respond to exceptional humanitarian situations.

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## Divisions of labour: rethinking Europe's migration policy

The European Union is confronted with major immigration challenges. There are mounting immigration pressures from poorer countries, Europe is falling behind in the global competition for talent and it also needs to sustain its humanitarian commitment to accommodate refugees. Further, there are major integration problems as the aspirations of second generation migrants are often frustrated. Crucially, there is disagreement about what should be done and at what level – EU or national?

This Bruegel Blueprint attempts to answer these controversial questions against the background of the European 'pact on immigration' set to be adopted under the 2008 French EU presidency. It recommends that the EU focus on high-skilled legal migration, irregular migration and humanitarian migration while low-skilled legal immigration and integration policies should remain a national remit. Among several specific proposals is a strengthening of the EU 'Blue Card', a term originally coined by Bruegel and now a key part of the EU policy debate on how best to attract skilled migrants to Europe.

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