

**Lecture # 6**  
**Economics of European Integration**

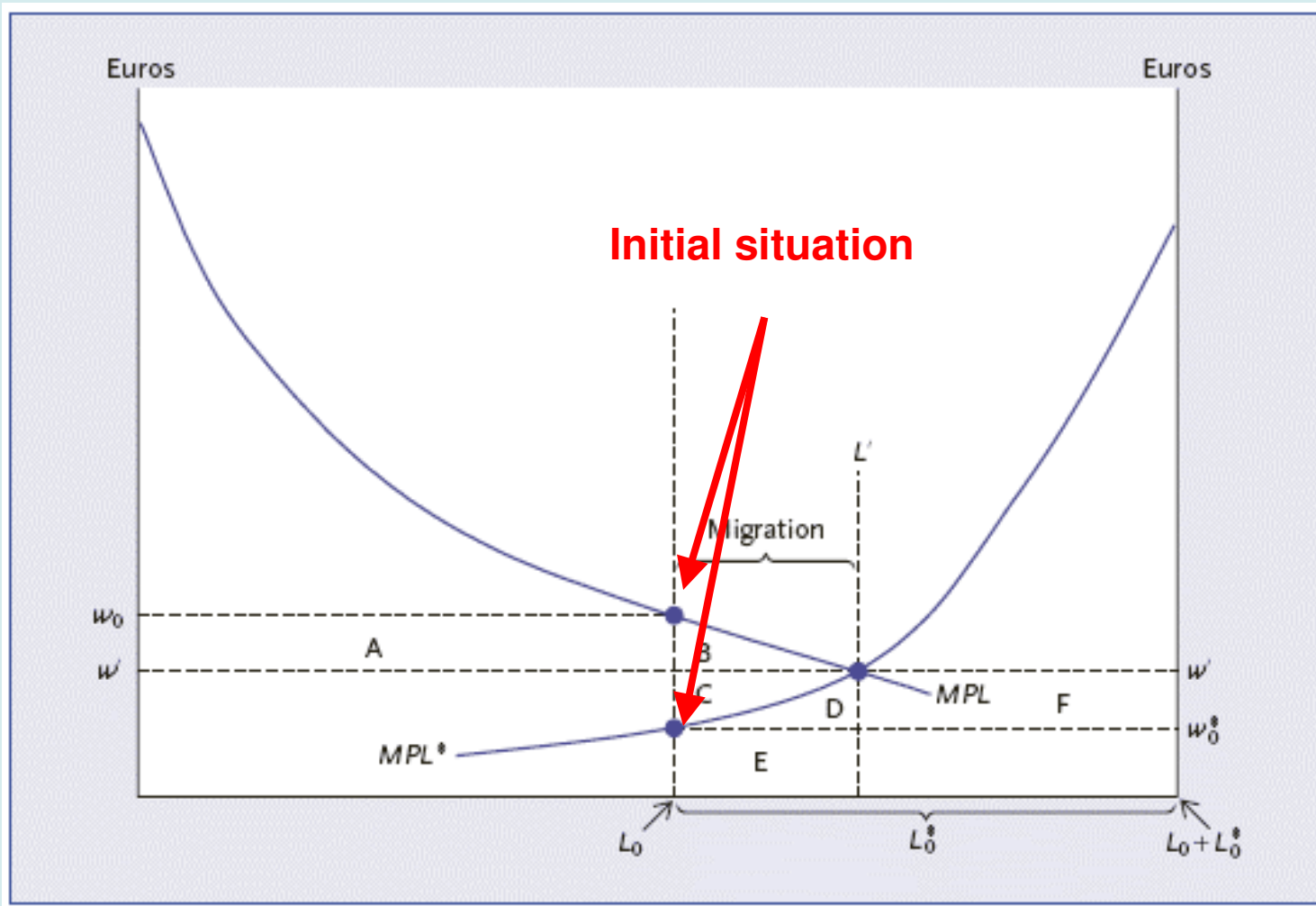
Spring Semester 2009

Gerald Willmann

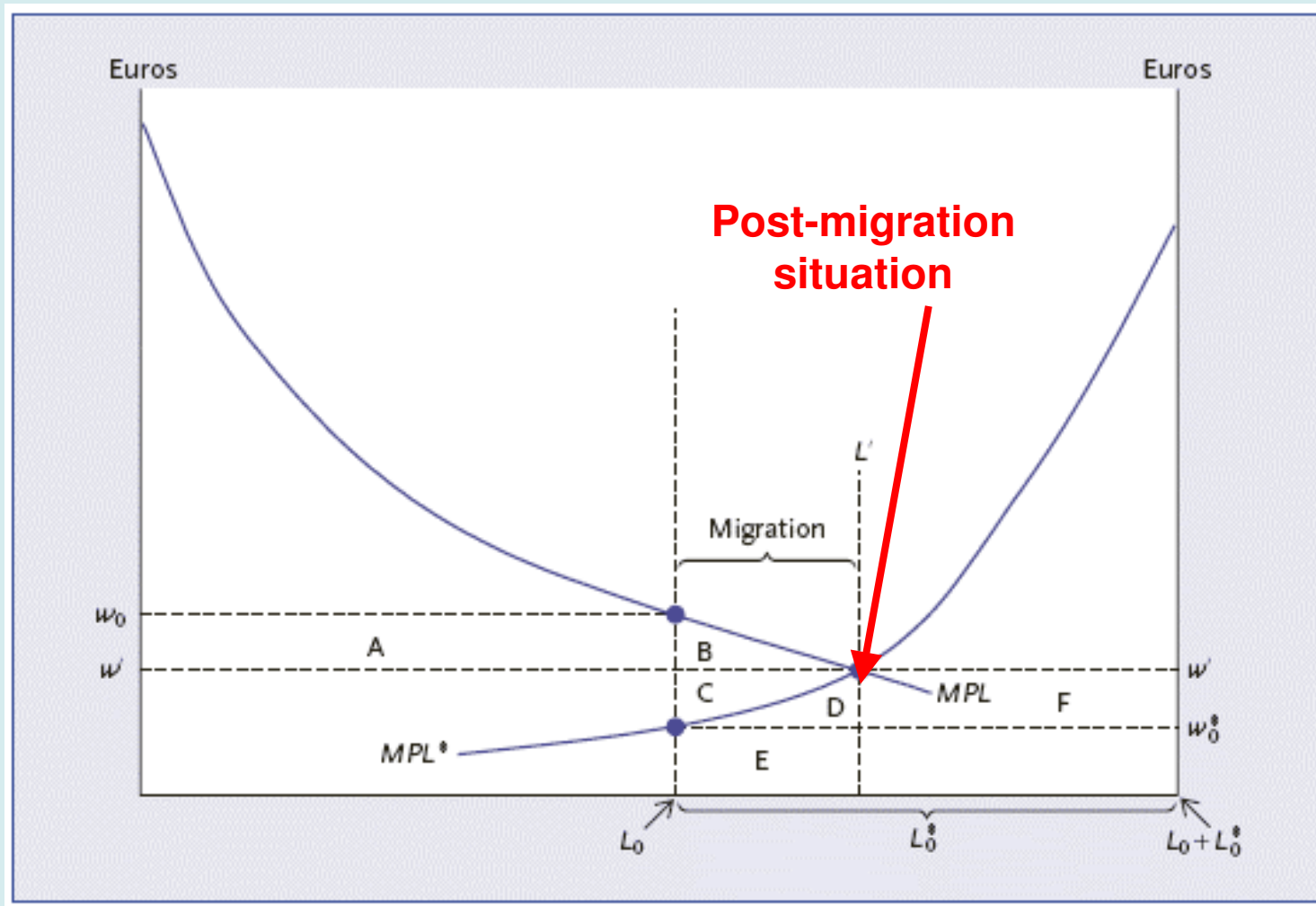
# Theoretical Framework

- "Specific Factors Model"
- graphical device: the Neary bucket
- applicable to labor, but also capital and other factors
- caveats about labor because owners move

# Migration: The Simplest Framework

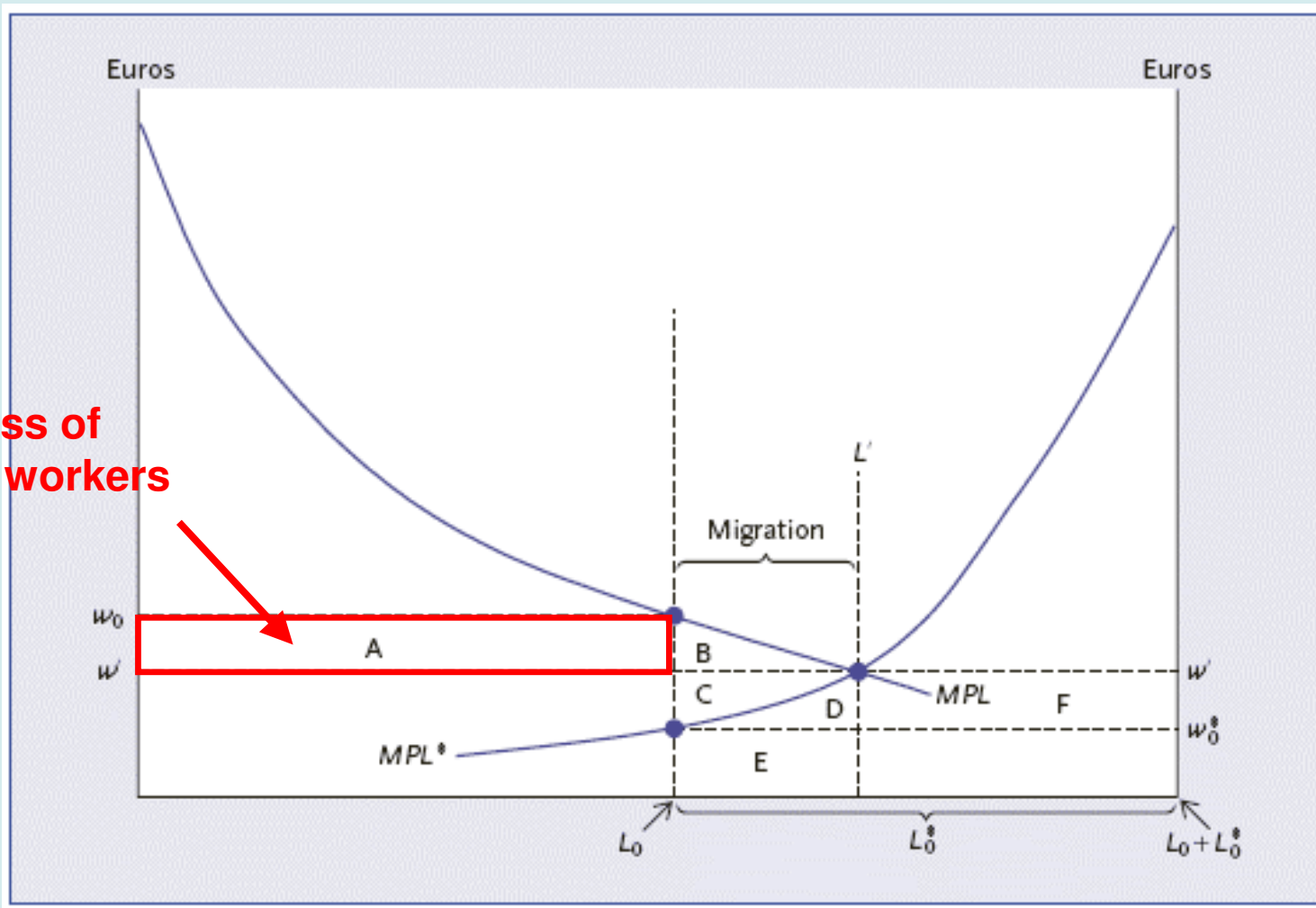


# Migration: The Simplest Framework

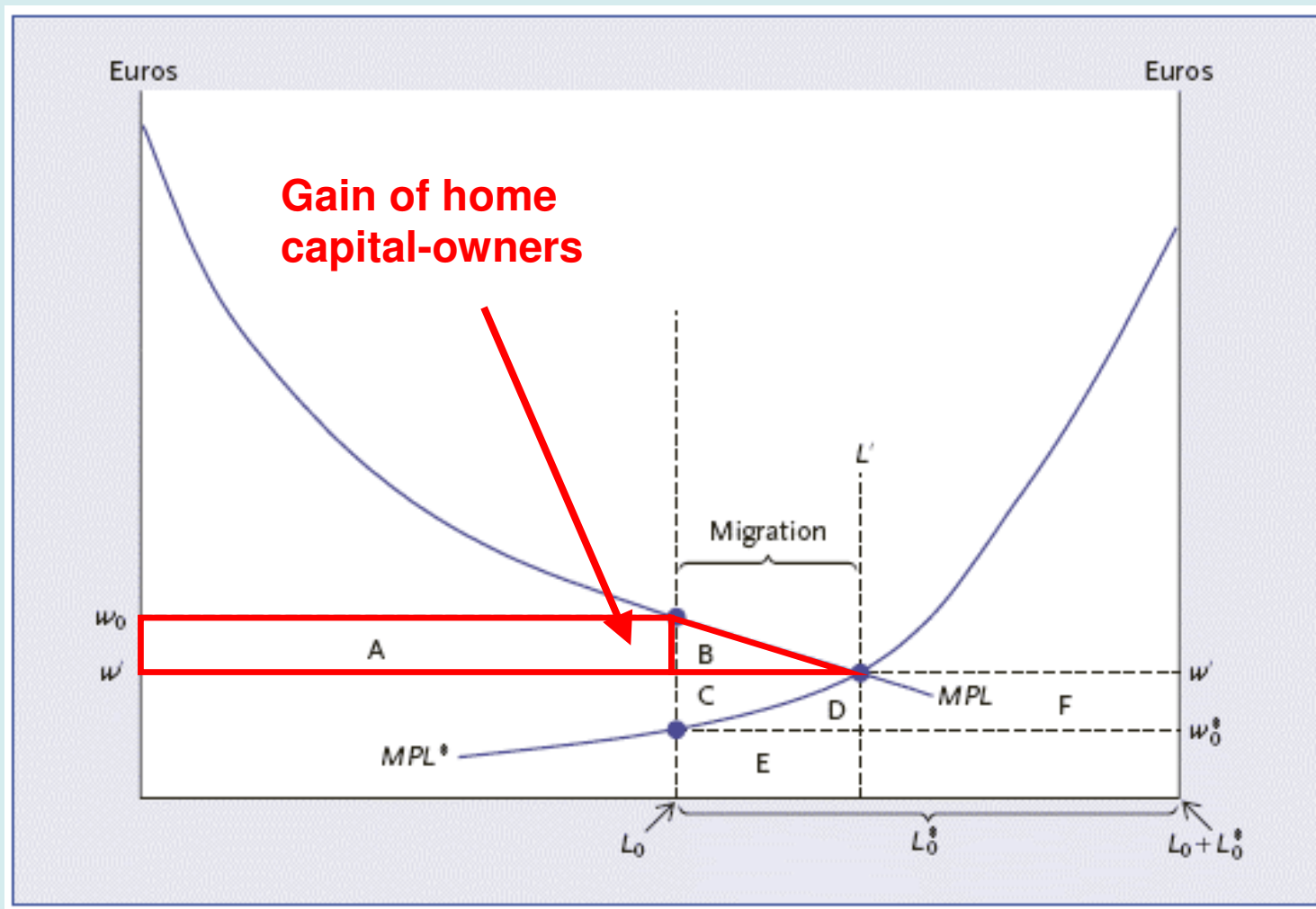


# Migration: The Simplest Framework

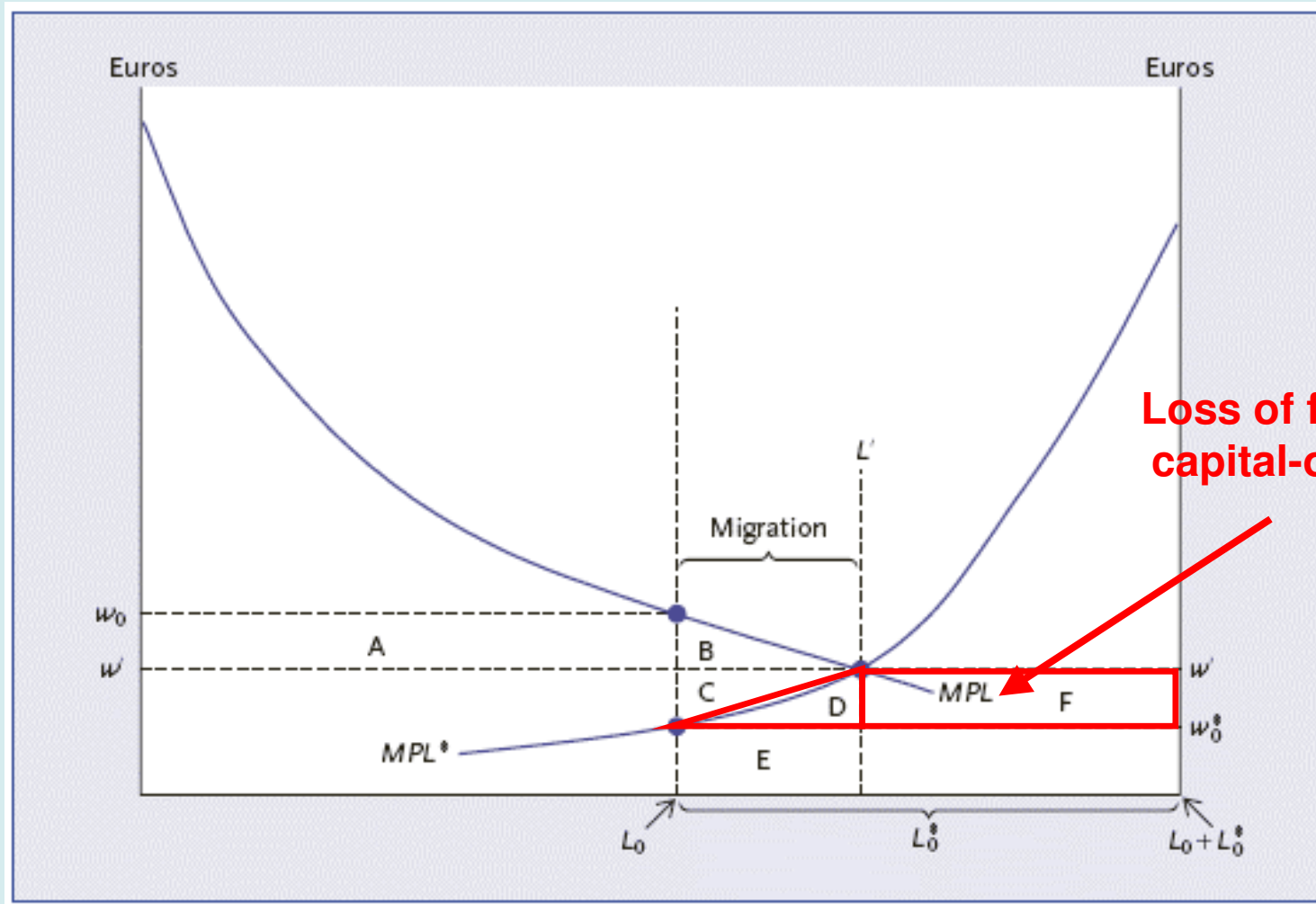
Loss of home workers



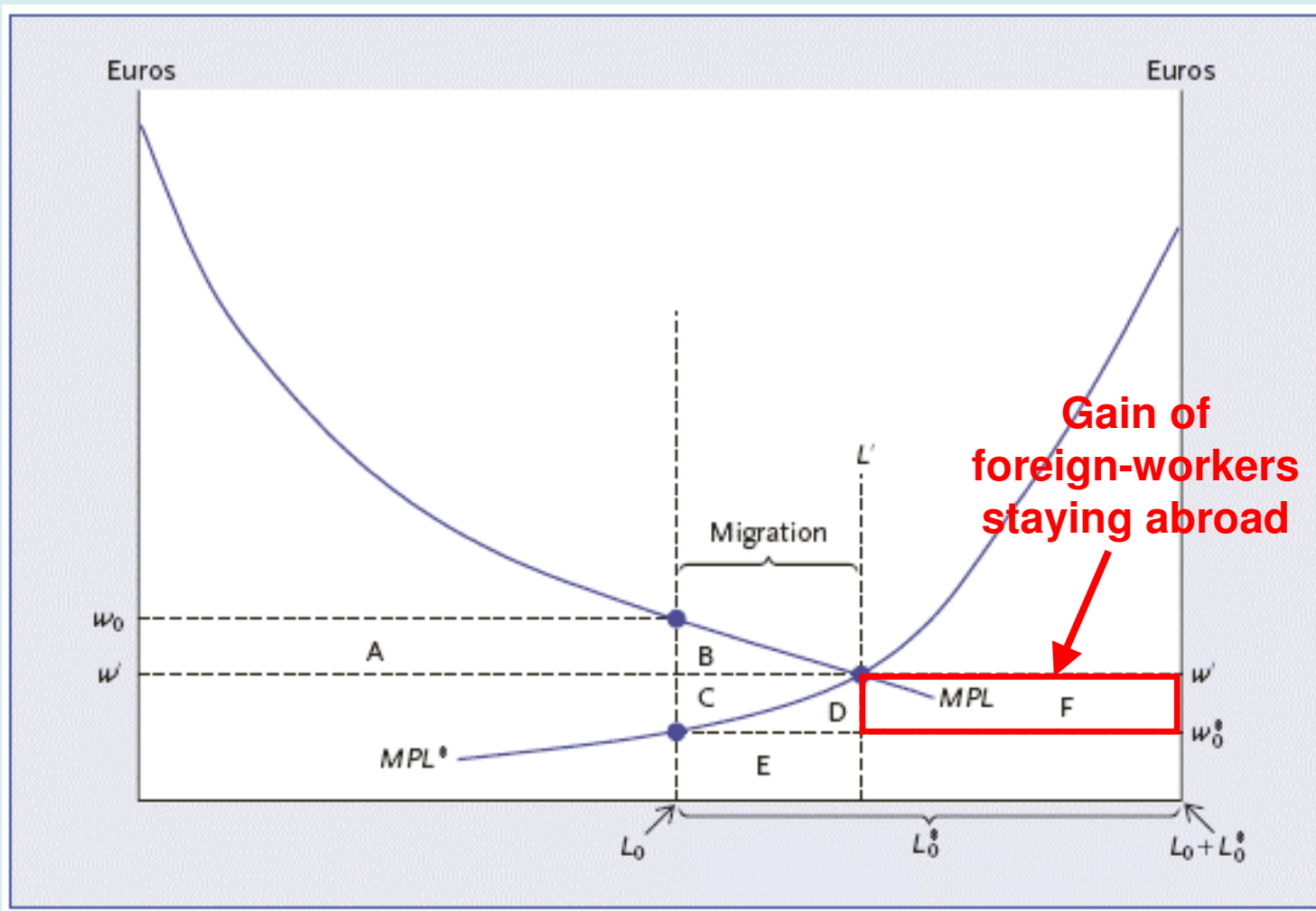
# Migration: The Simplest Framework



# Migration: The Simplest Framework

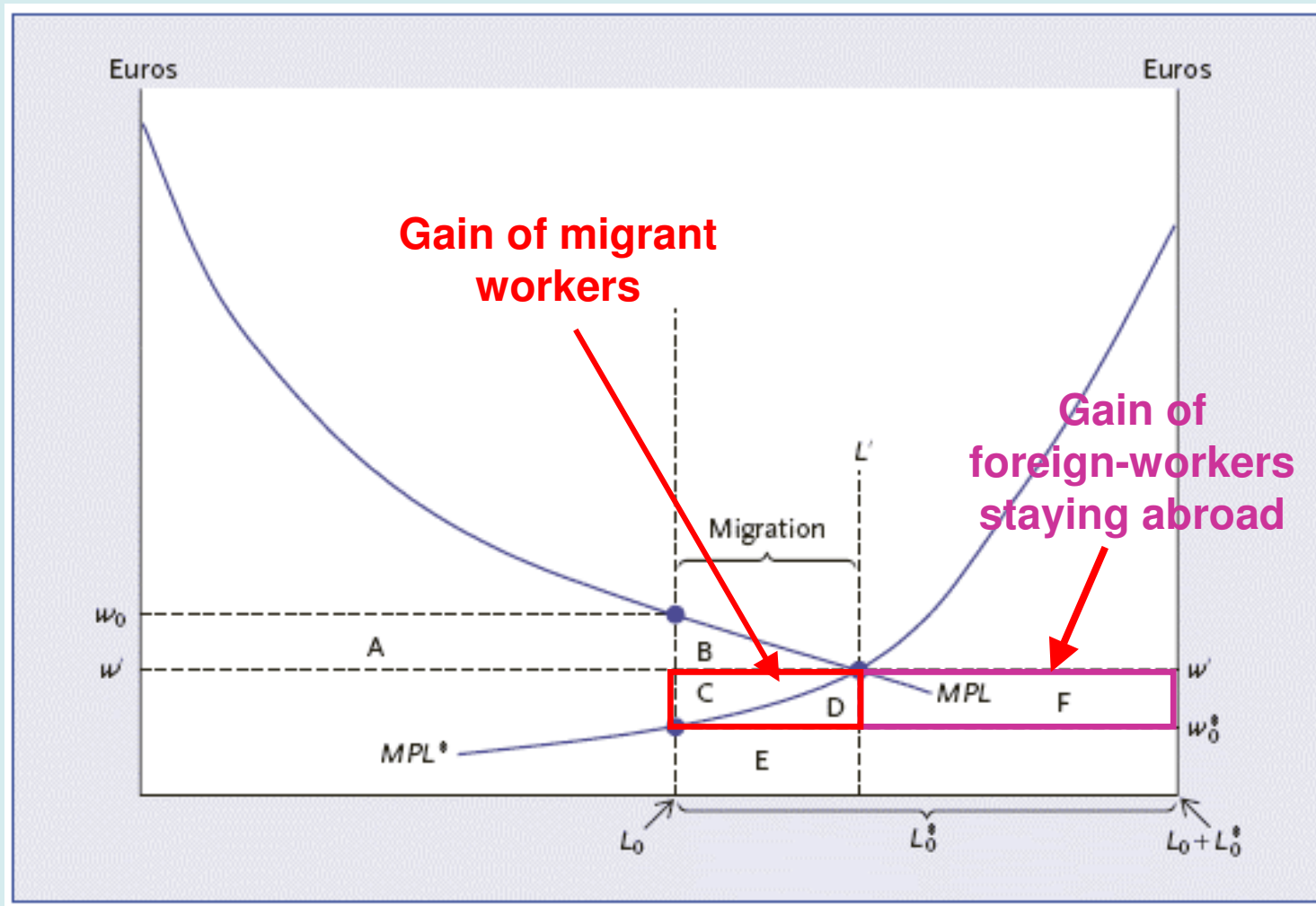


# Migration: The Simplest Framework

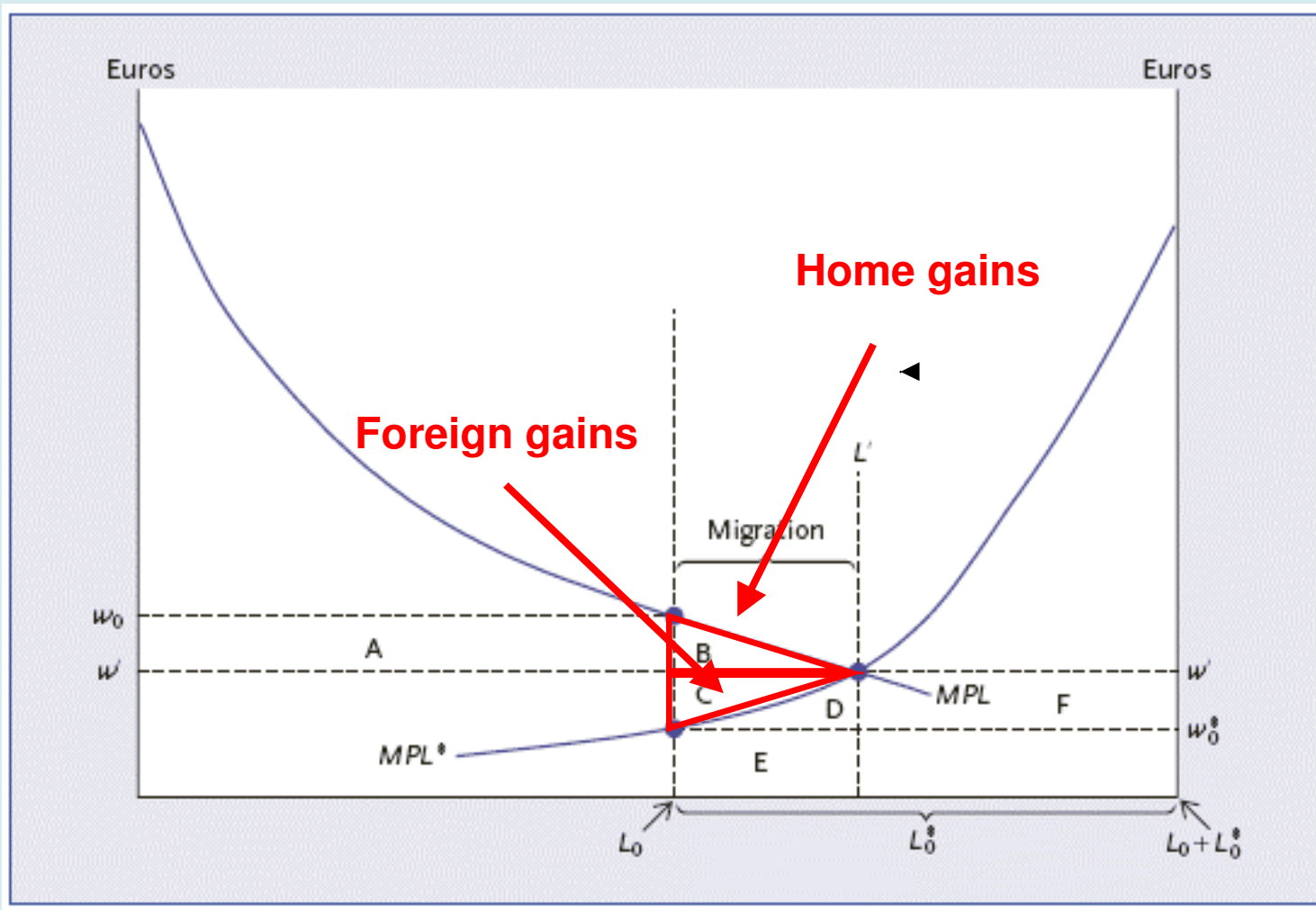




# Migration: The Simplest Framework



# Migration: The Simplest Framework



# Controversies Abound

- Economic logic sometimes clashes with social logic
- Effectiveness sometimes clashes with equity
- Solidarity clashes with individualism
- Acquired advantages under threat

# Why Labour Markets Matter

- Labour costs: key for international competitiveness
  - Half of all production costs
  - Set nationally
- Labour markets are indirectly in competition via goods markets
- Labour mobility
  - One aspect of this competition
  - Also helps know each other

# Why wage rigidity?

- Labour markets are different
  - Domination by one side
  - Information asymmetries
  - Losing a job is a major vulnerability
  - Human capital and special skills
- Social imperatives
  - Fairness
  - Need for income stability
  - Need for job security

# Effects of economic integration on the labour markets

- More competition on the goods market means that labour costs are a strategic issue
- Goods market integration indirectly leads to labour market integration.
- It also calls for faster reaction to shocks: flexibility is at a premium

# Effects of the labour markets on economic integration

- Economic integration creates winners and losers
- Willingness to undertake economic integration depends on the winners readiness to compensate the losers
- This calls for safety nets that make labour markets more rigid and less able to face competition

# The case of social dumping

Wages and productivity in 2005  
(Germany = 100)

Country	Weekly private sector earnings	Labour productivity
Bulgaria	5	32
Croatia	22	57
Czech Republic	19	66
Estonia	13	54
Hungary	20	69
Latvia	7	46
Lithuania	10	51
Poland	16	63
Romania	7	36
Slovakia	15	60
Slovenia	33	77



# Relevance of Welfare Systems

- immigrants use public goods (and pay taxes for it)
- if different from native average, they affect the welfare system and redistribution
- can be both positive as well as negative
- beyond economic effects, they affect the political determination of the welfare system and redistribution

# Immigration: Facts

	Immigrants as % of population	% immigrants from EU	Share with low education				Immigrants (millions)
			Total population	EU Nationals	EU foreigners	Non-EU foreigners	
Immigrants are more than 5% of population							
Luxembourg	33	90	55	51	62	42	0.1
Austria	9		29	28	16	51	0.7
Germany	9	25	30	30	36	56	7.3
Belgium	9	63	41	41	na	48	0.9
France	6	37	41	31	65	69	3.6
Immigrants are more than 3% of population							
Denmark	5	21	31	31	28	66	0.2
Netherlands	4	28	28	27	32	60	0.7
UK	4	38	41	41	49	28	2.1
Ireland	3	71	51	52	38	21	0.1

# Immigration: Facts (cont.)

	Immigrants as % of population	% immigrants from EU	Share with low education				Immigrants (millions)
			Total population	Nationals	EU foreigners	Non-EU foreigners	
Immigrants are less than 2% of population							
Portugal	2	25	81	81	23	50	0.2
Greece	2	28	50	50	25	37	0.2
Italy	2	15	60	60	30	36	0.9
Finland	1	19	33	33	23	24	0.1
Spain	1	47	62	62	29	37	0.5
EU15	5	31					
Non-EU nations							
Switzerland	19	60					
Norway	4	41					
SOURCE: Adapted from Brücker (2002) 'Can International Migration Solve the Problems of European Labour Markets?'; Data on immigrant numbers and source countries from 1998; data on education levels from 1996.							