

Economics of European Integration

Lecture # 6

Migration and Growth

Winter Semester 2013/14

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Migration

Facts and Theory

Immigration: Facts



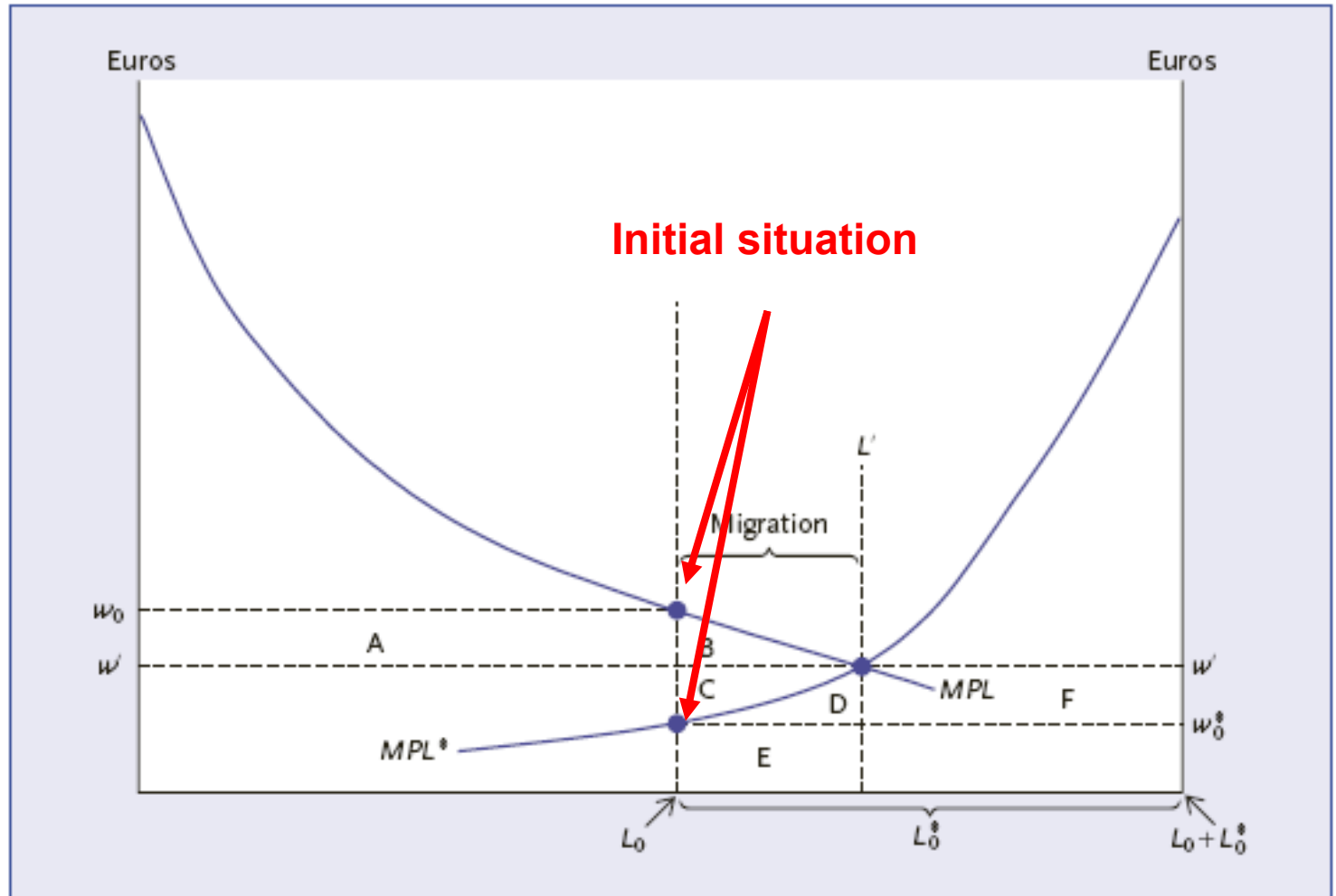
Table 8.3 Net immigration before and after enlargements (thousands of people)

	Belgium	Denmark	Germany	Ireland	Greece	Spain	France	Italy
1997–2003	164	71	1146	193	302	2596	853	1197
2004–2007	202	42	237	245	162	2558	358	1753
	Luxembourg	Netherlands	Austria	Portugal	Finland	Sweden	UK	Total EU15
1997–2003	27	266	164	344	32	143	924	6522
2004–2007	12	–60	179	131	40	157	842	5557
	Bulgaria	Czech Rep.	Estonia	Cyprus	Latvia	Lithuania	Hungary	
1997–2003	–213	32	–14	41	–33	–96	97	
2004–2007	–1	174	1	52	–5	–28	71	
	Malta	Poland	Romania	Slovenia	Slovakia	Total EU12		
1997–2003	17	–497	–592	18	–14	–186		
2004–2007	7	–79	–23	29	17	262		

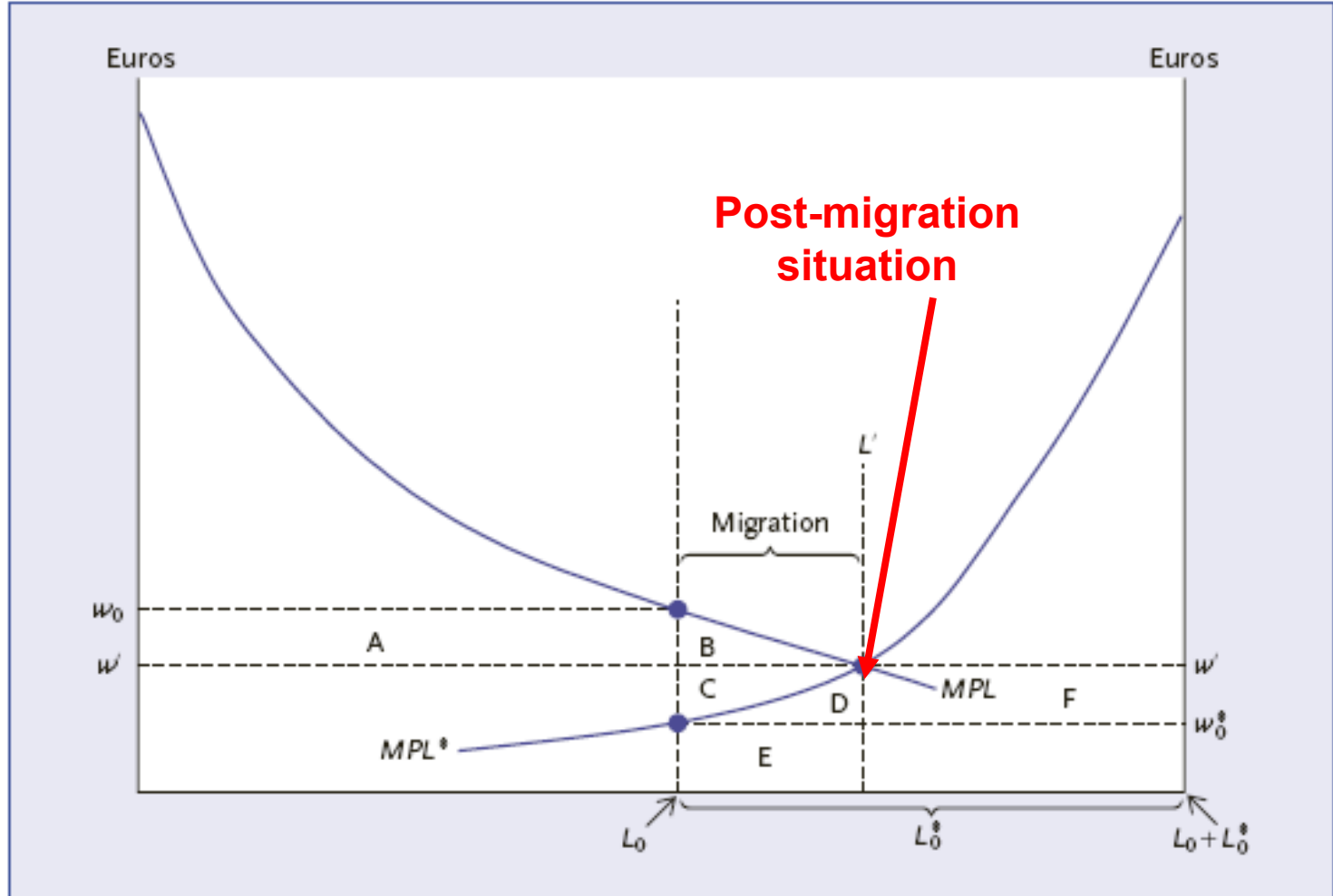
Note: A positive number indicates net immigration, a negative number signals net emigration.

Source: European Communities, 1995–2009

Migration: The Simplest Framework



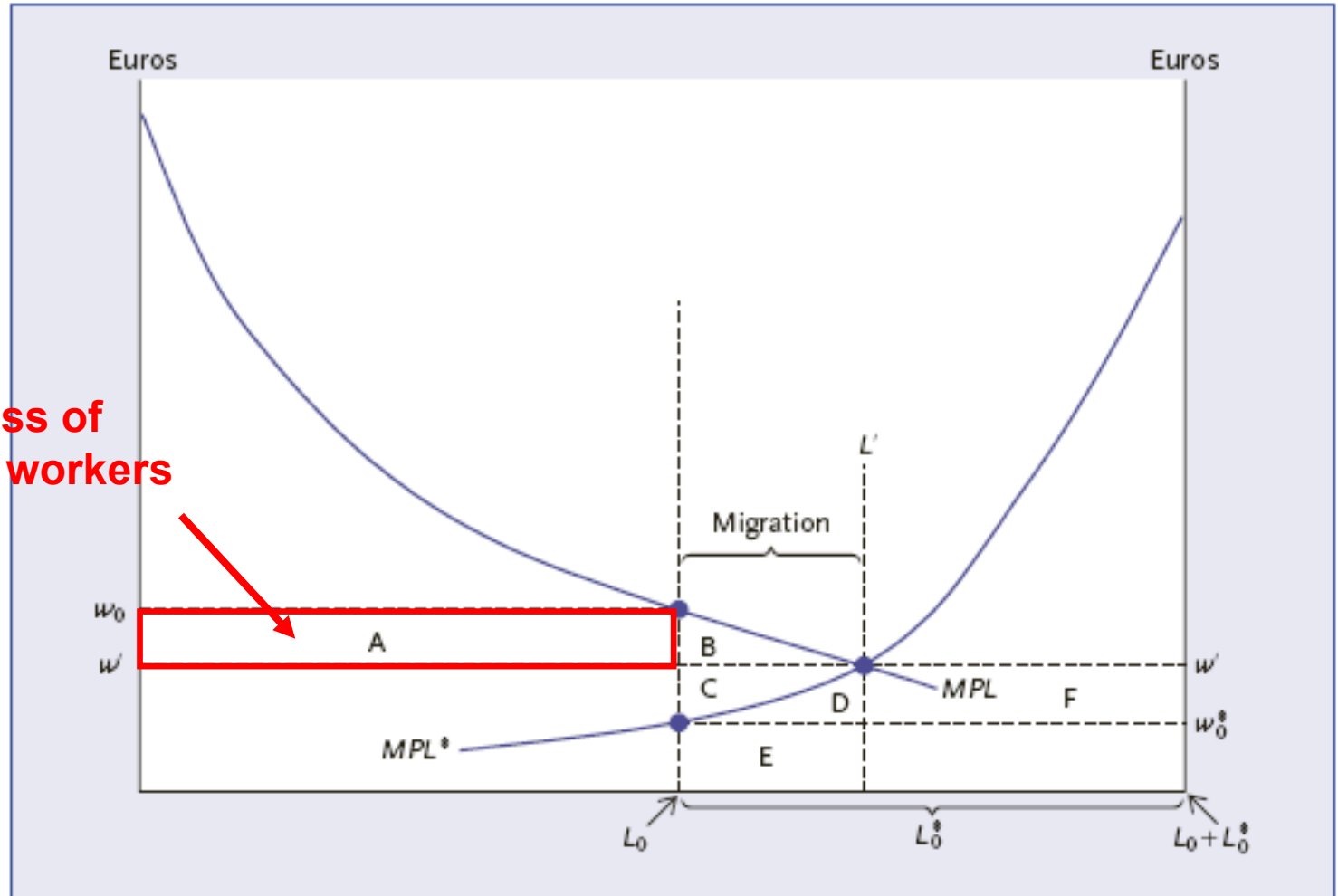
Migration: The Simplest Framework



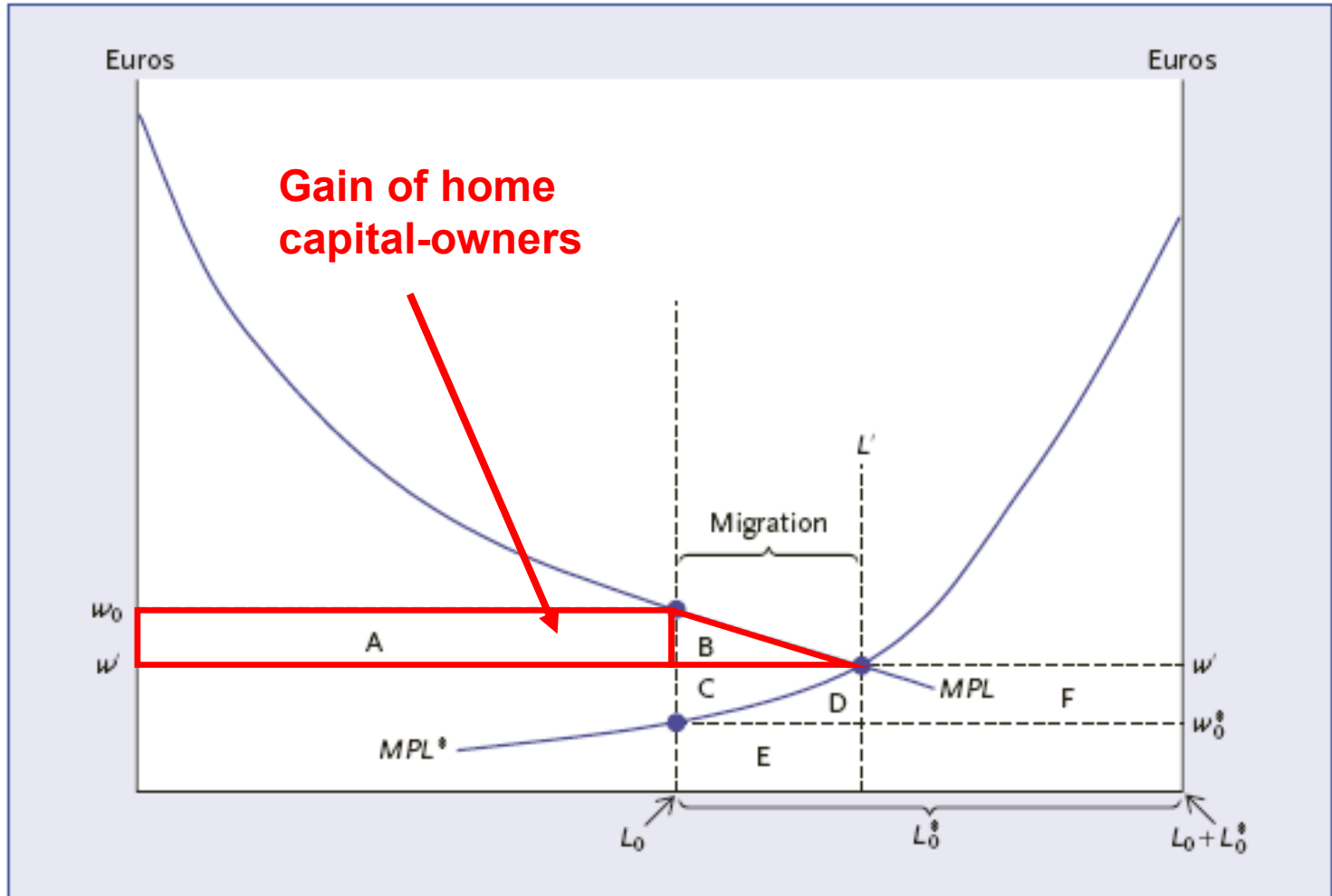
Migration: The Simplest Framework



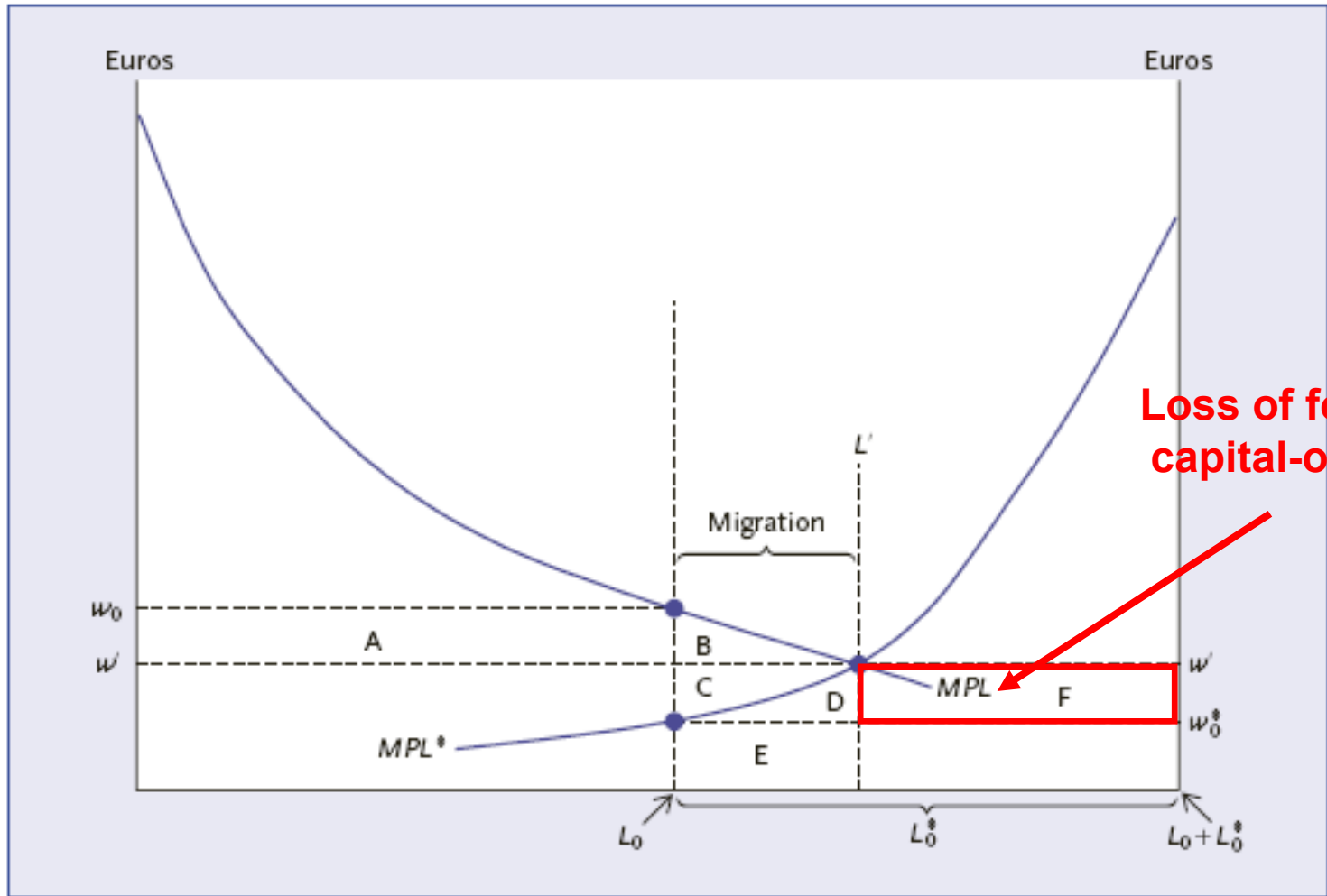
Loss of home workers



Migration: The Simplest Framework

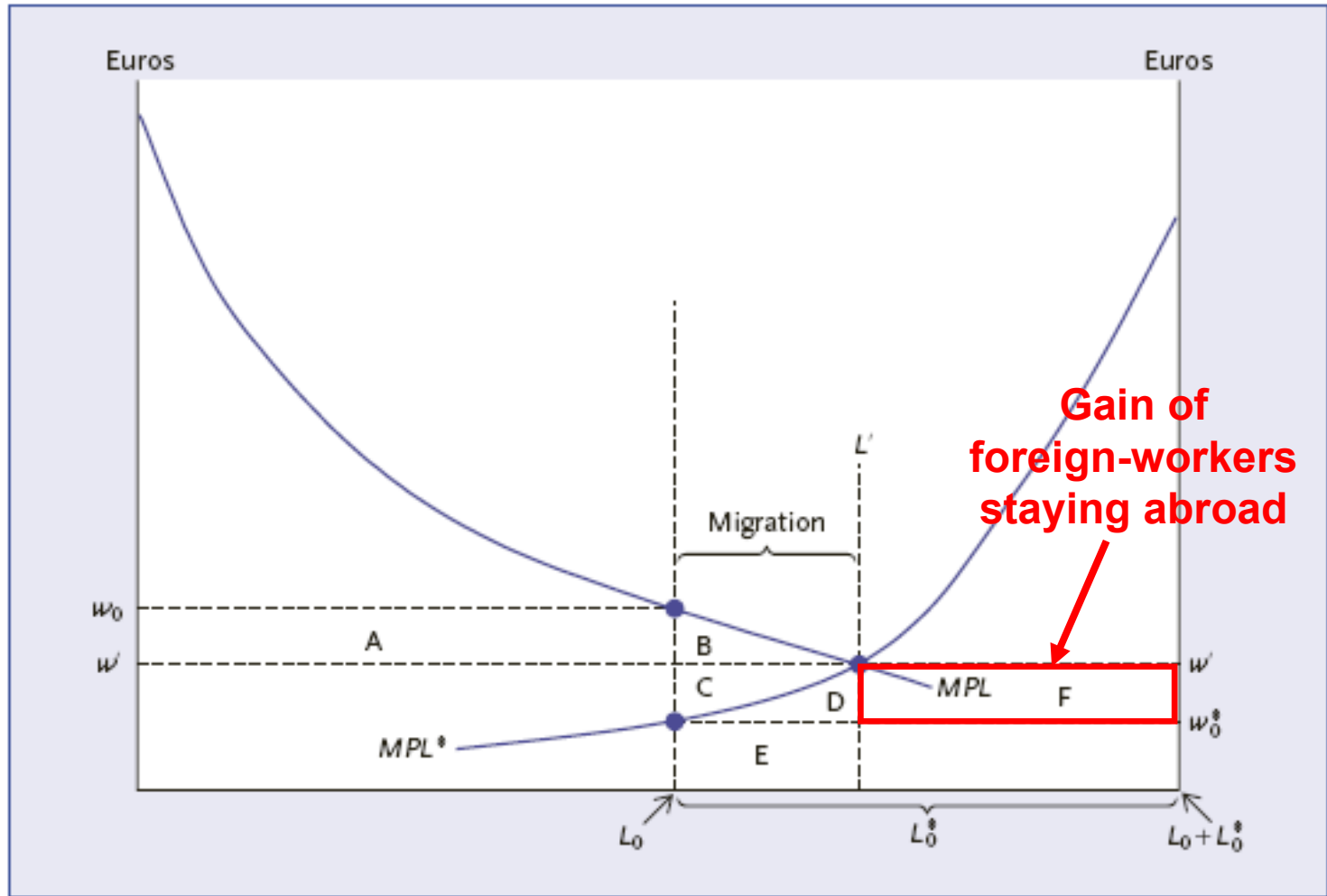


Migration: The Simplest Framework

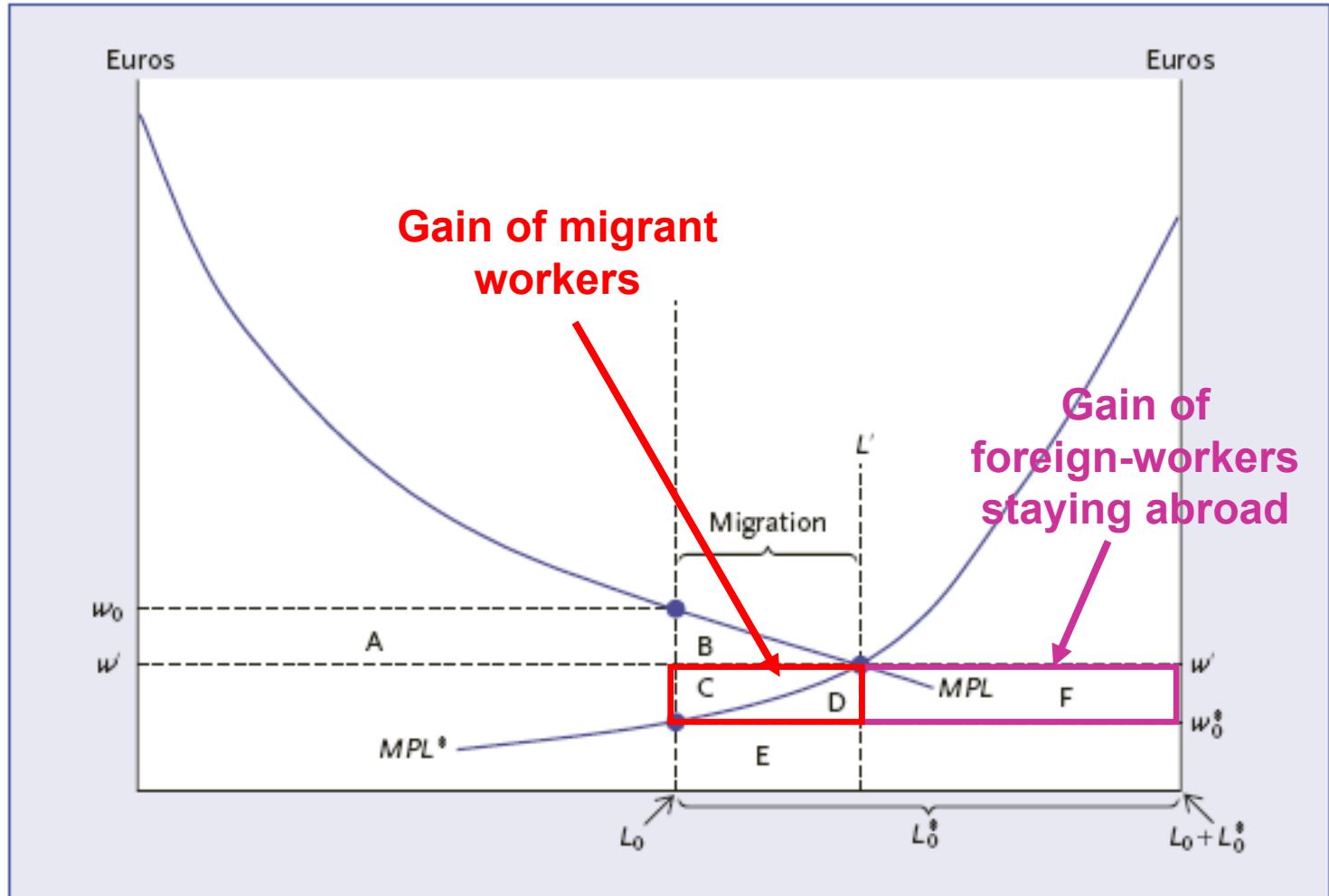


Loss of foreign capital-owners

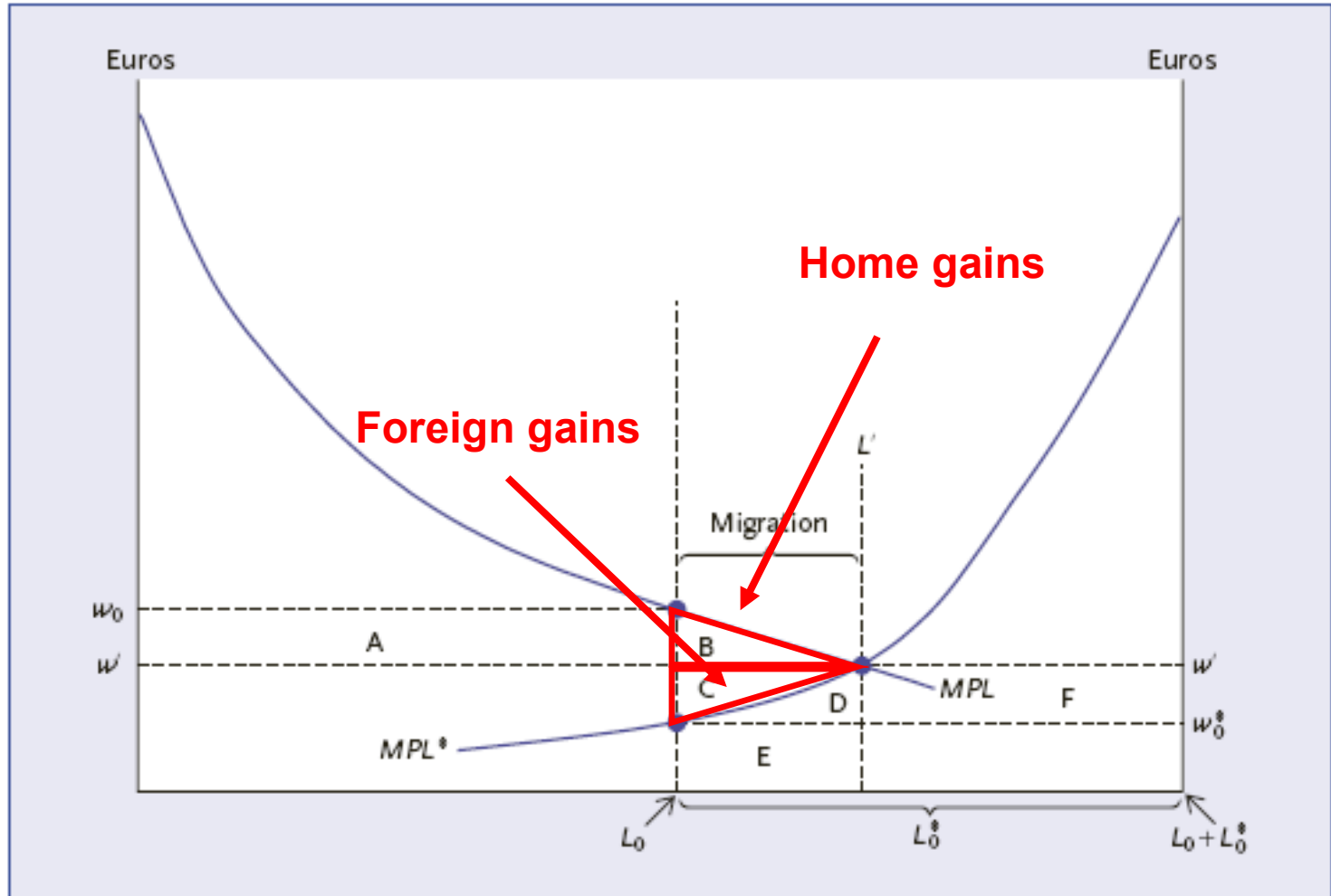
Migration: The Simplest Framework



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Migration: The Simplest Framework



Complementarity vs Substitution



- Consideration: unskilled workers complements to skilled workers and capital
 - Complementarity of migrants and native factors of production provides a win-win situation
- Empirical findings inconclusive:
 - 1% rise in supply of migrant labour changes native *wages* by +/-1%
 - Increase or decrease of risk to *unemployment*, depending on type of workers, or no link

Immigration and skills



Table 8.4 Education level and skills of recent immigrant workers in the EU15 countries in 2005 (percentage of total)

	Overall EU employed	Immigrant workers from:		
		EU15	EU10	Outside EU
Education				
Low	27	15	15	36
Medium	47	41	63	40
High	26	44	22	23
Occupation				
High-skilled white collar	40	55	16	20
Low-skilled white collar	26	24	28	25
Skilled manuals	25	12	27	21
Elementary tasks	10	9	30	35

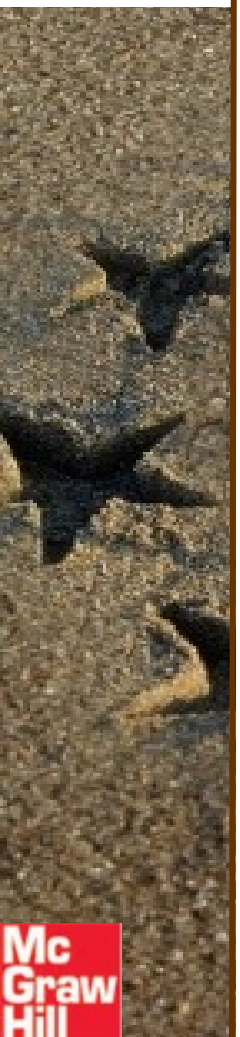
Source: Survey of the European Union, OECD, Sept 2007

Barriers to mobility



- Labour mobility in the EU as fundamental freedom of movement
- Low mobility within European Union
- Barriers to mobility:
 - Restrictions for new EU members' nationals mobility
 - Differing Pensions systems
 - Unemployment benefits
 - Regulated professions
 - Language, housing, health systems, etc.





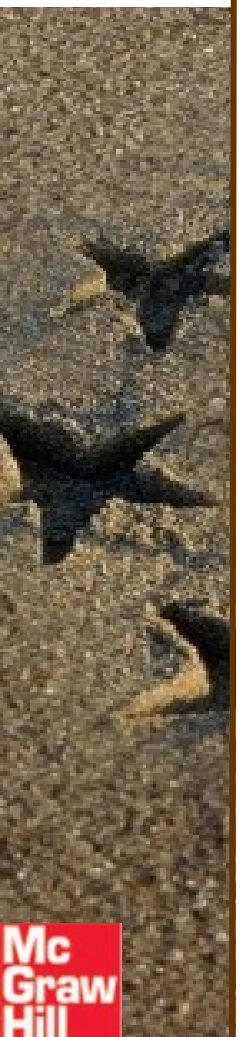
Chapter 7

Growth Effects & Factor Market Integration

Growth Effects



- European leaders have long emphasised the pro-growth aspects of European integration.
- These operate in a way that is fundamentally different from the way allocation effects operate;
- They operate by changing the rate at which new factors of production – mainly capital – are accumulated,
 - Hence the name '**accumulation effects**'.



Logic of growth



- Growth in income per worker requires more output per worker.
- Nation's labour force can produce more goods and services year after year only if they have more/better 'tools' year after year.
 - 'tools' means capital broadly defined:
 - physical capital (machines, etc.),
 - human capital (skills, training, experience, etc.) and
 - knowledge capital (technology).

Logic of growth (cont.)



- Hence, rate of output growth is linked to rate of physical, human and knowledge capital accumulation.
- Most capital accumulation is intentional and is called *investment*.
 - European integration affects growth mainly via its effect on investment in capital.
- *Long-run growth* involves a permanent change in the rate of accumulation.



Logic of growth: summary



- **European integration** (or any other policy) → allocation effect → improved efficiency → better investment climate → more investment in machines, skills and/or technology → higher output per person.
- *Medium run* effects eventually fade out.
 - Growth returns to its long-run rate.
- *Long run* effects raise long-run rate forever.



European Growth Phases, 1890-1992



Period	Real GDP	Real GDP per capita	Real GDP per hour
1890-1913 Belle époque	2.6	1.7	1.6
1913-1950 '2nd 30 year war'	1.4	1.0	1.9
1950-1973 Golden era	4.6	3.8	4.7
1973-1992 Productivity slowdown	2.0	1.7	2.7
Whole Period			
1890-1992	2.5	1.9	2.6

Growth in the WWII Reconstruction Phase



	The Set-Back: (Pre-war year when GDP equalled that of 1945)	Back-on-Track Year (Year GDP attained highest pre-war level)	Reconstruction Growth (rate 1945 to col. 2 year)
Austria	1886	1951	15.2%
Belgium	1924	1948	6.0%
Denmark	1936	1946	13.5%
Finland	1938	1945	n.a.
France	1891	1949	19.0%
Germany	1908	1951	13.5%
Italy	1909	1950	11.2%
Netherlands	1912	1947	39.8%
Norway	1937	1946	9.7%
Sweden	These nations grew during WWII		
Switzerland			
UK			

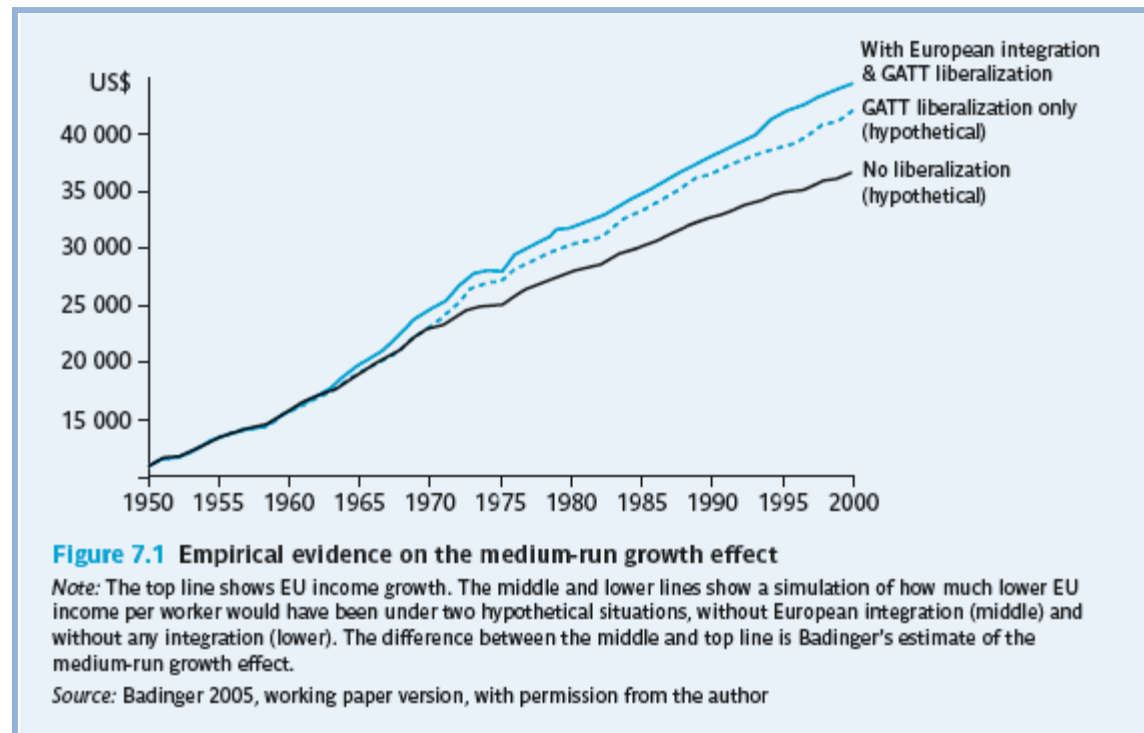
Selected countries facts

GDP per capita & Rankings, 1950 and 1973 (1990 international dollars).

	1950 GDP (1990 \$)	Europea n Rank 1950	Change in Rank 1950- 1973	GDP Growth Rate
EEC average	4,825	8.0	+ 1.2	4.2
EFTA average	6,835	3.6	-1.4	3.0
France	5,221	7	+ 2	4.0
Germany	4,281	9	+ 5	5.0
Italy	3,425	13	+ 2	4.9
UK	6,847	2	-5	2.4

Statistical evidence

- Recent evidence shows sizeable medium-run effect of integration





Medium run growth effects

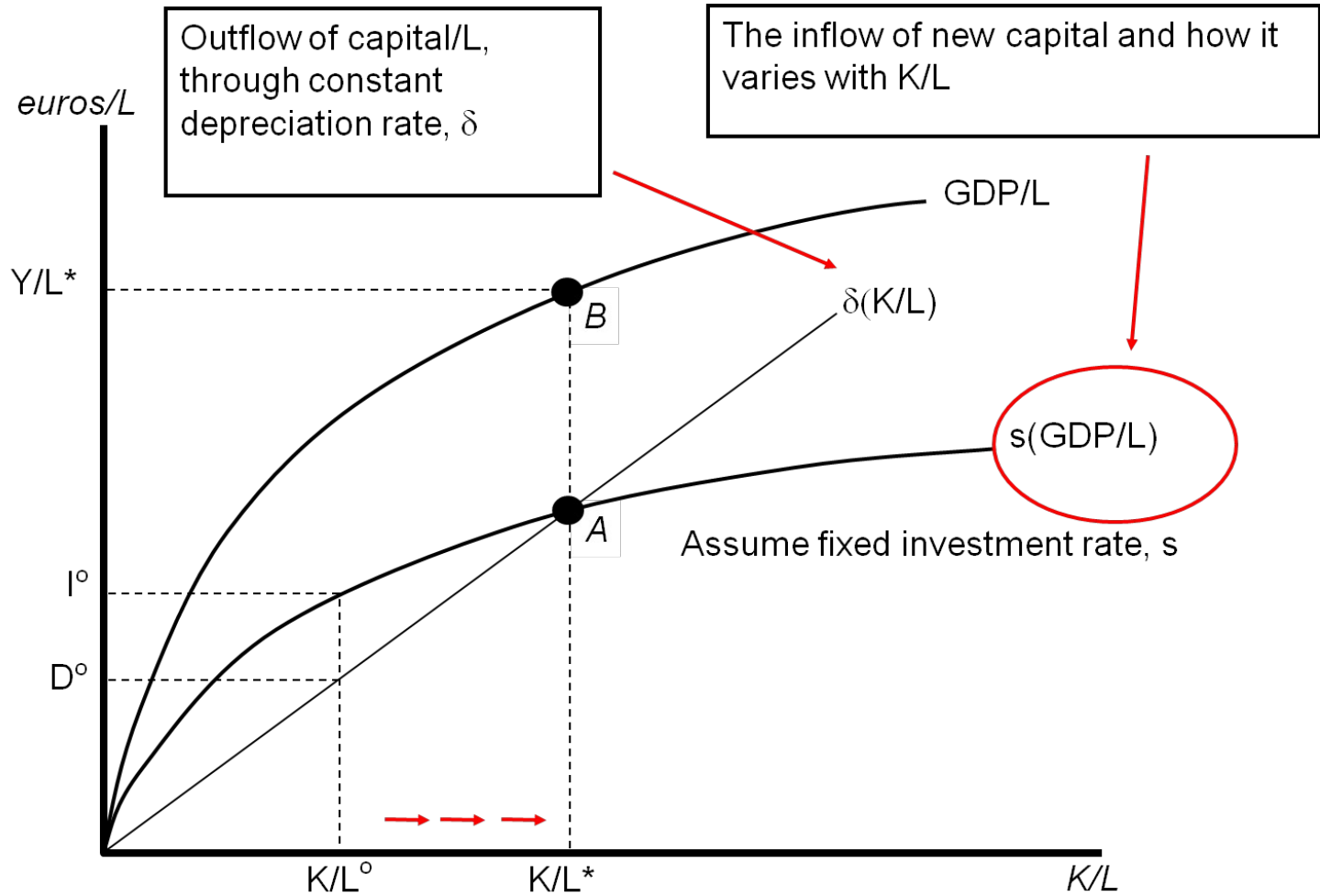
Solow analysis

Solow diagram

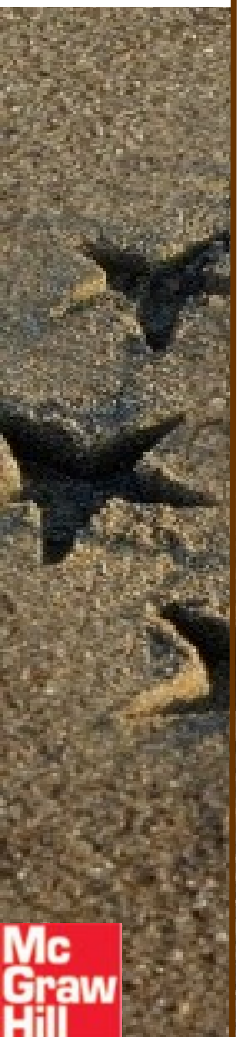
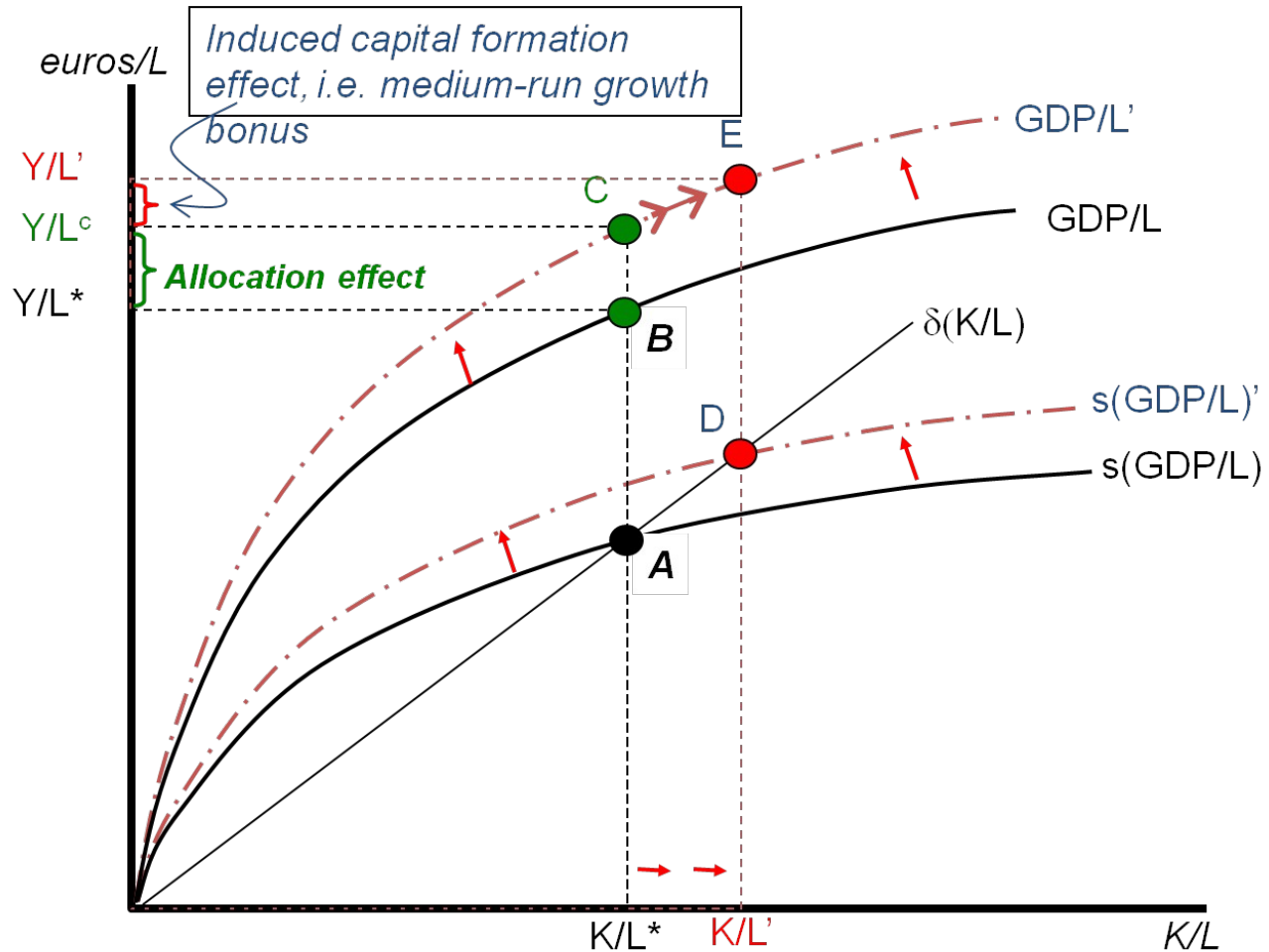


- Shows medium run growth effects in simple diagram.
- To simplify, start with:
 - whole EU as a single, closed economy
 - with fully integrated capital and labour markets and
 - the same technology everywhere.

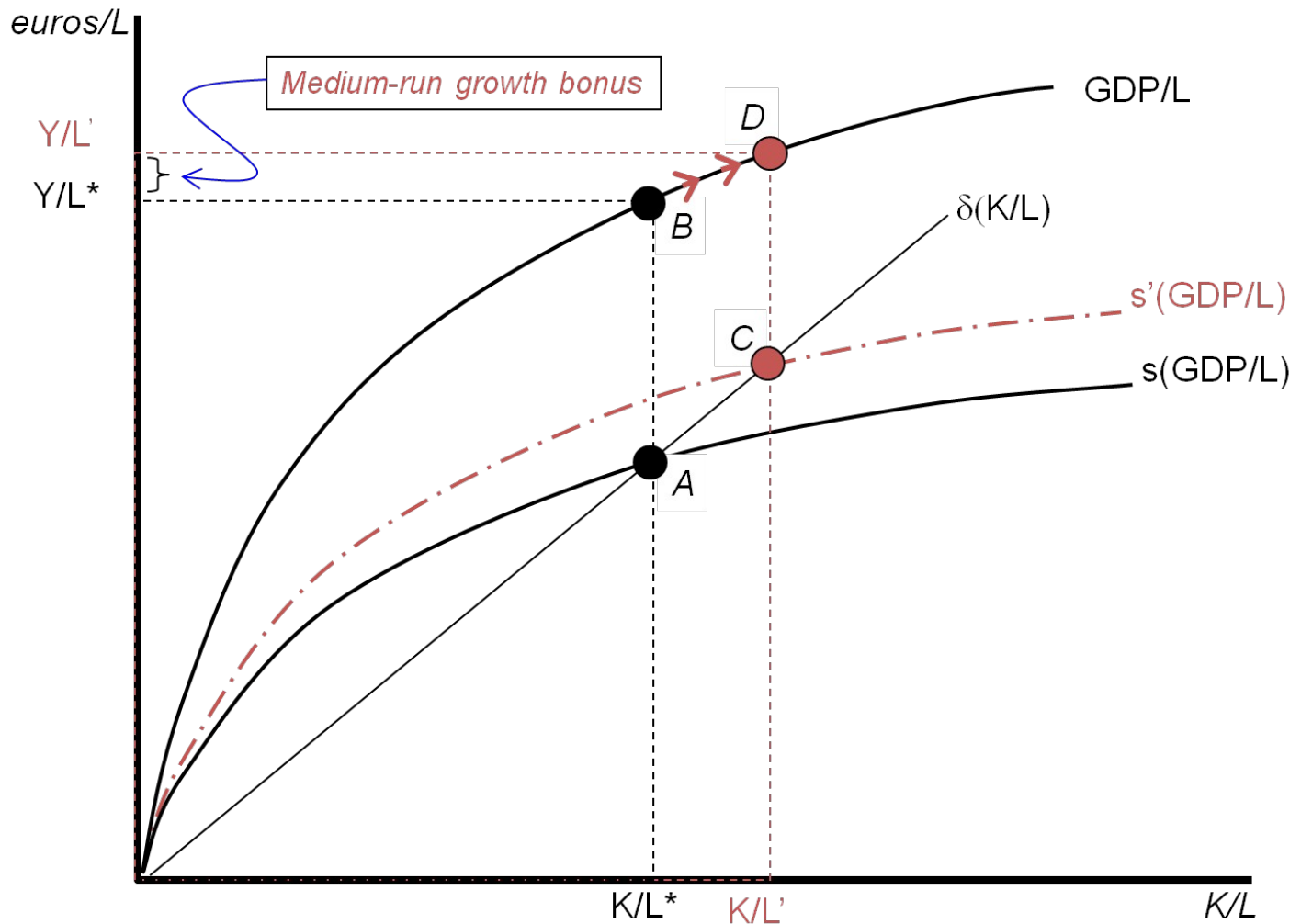
Solow diagram



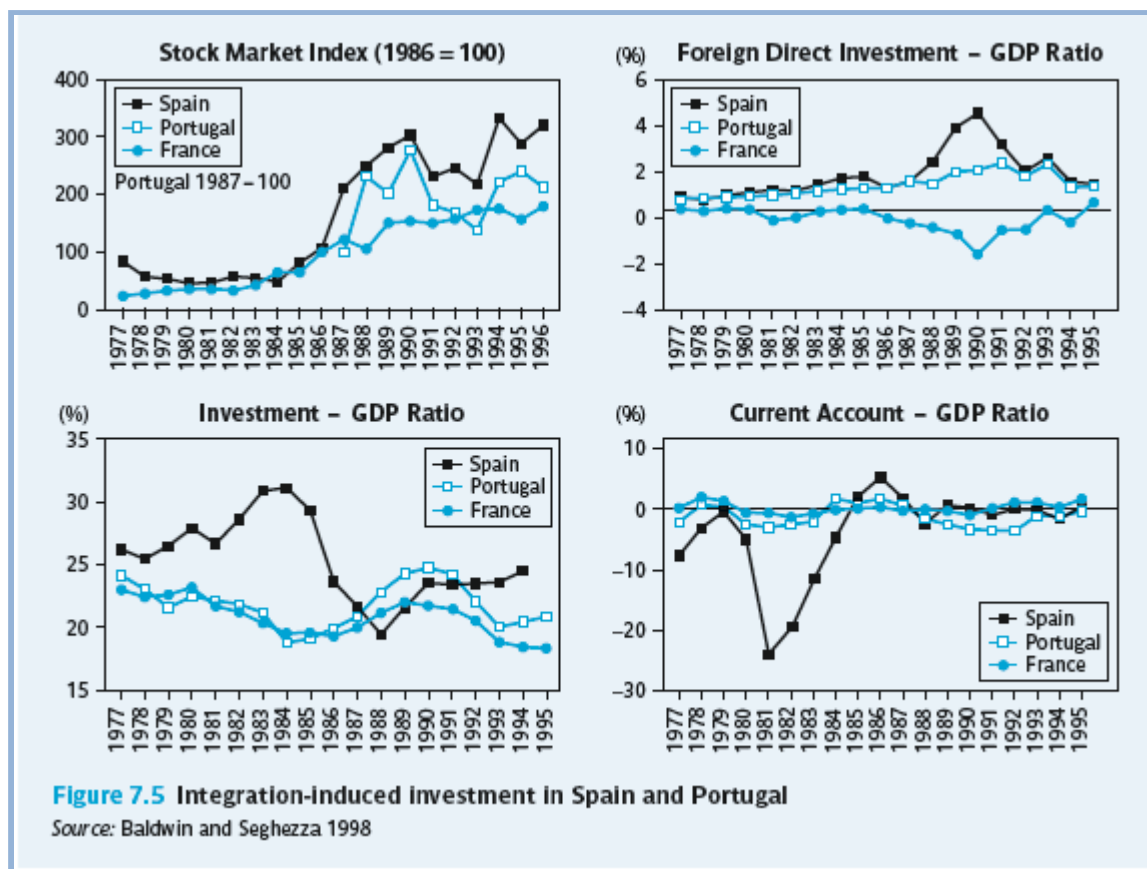
Medium-run growth bonus from integration



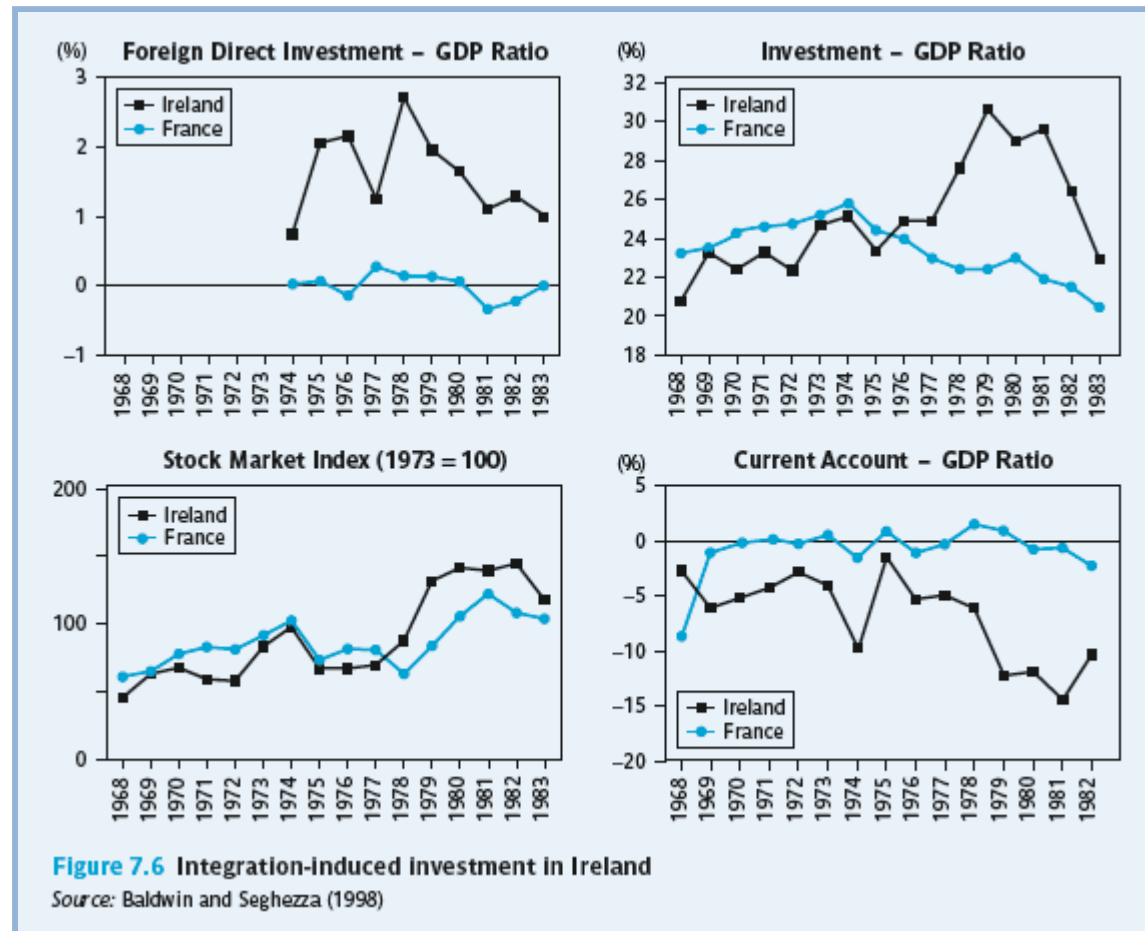
Integration induced investment rate rise



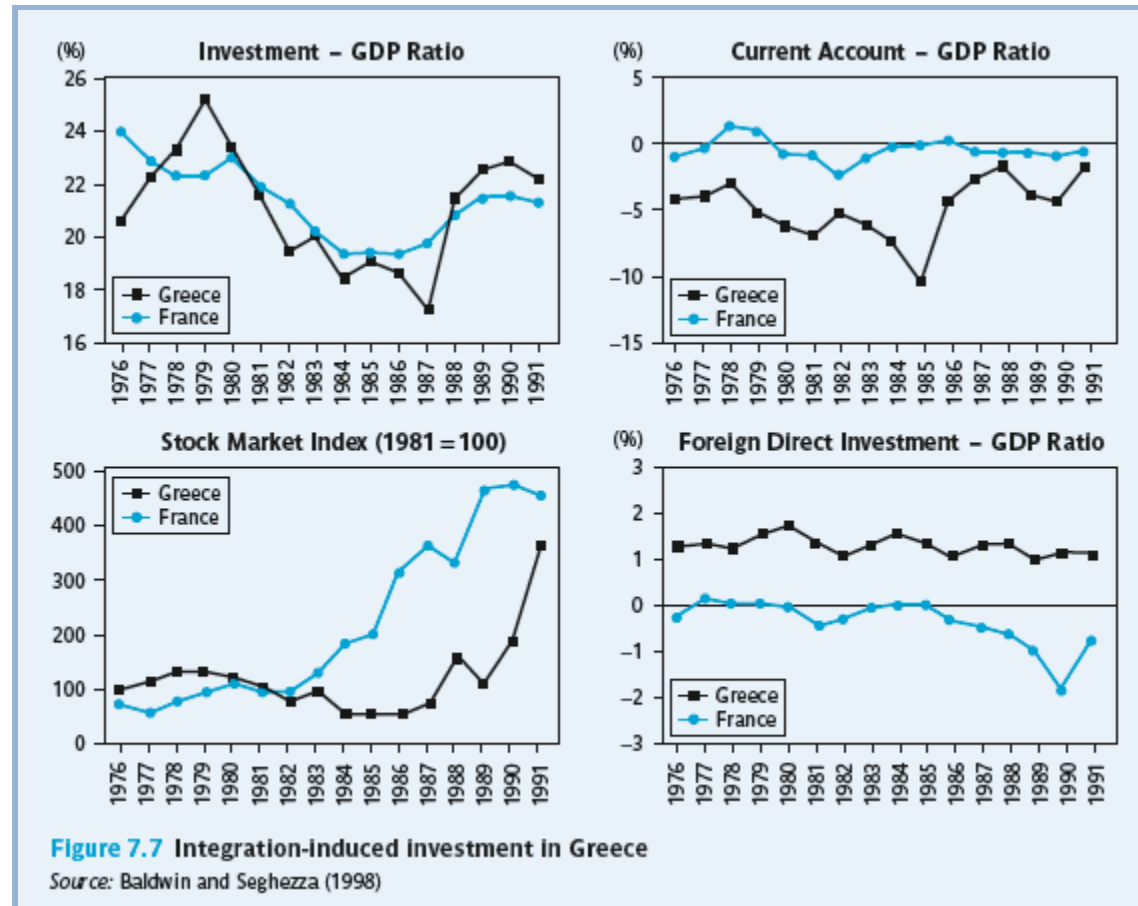
The Experience of Spain & Portugal



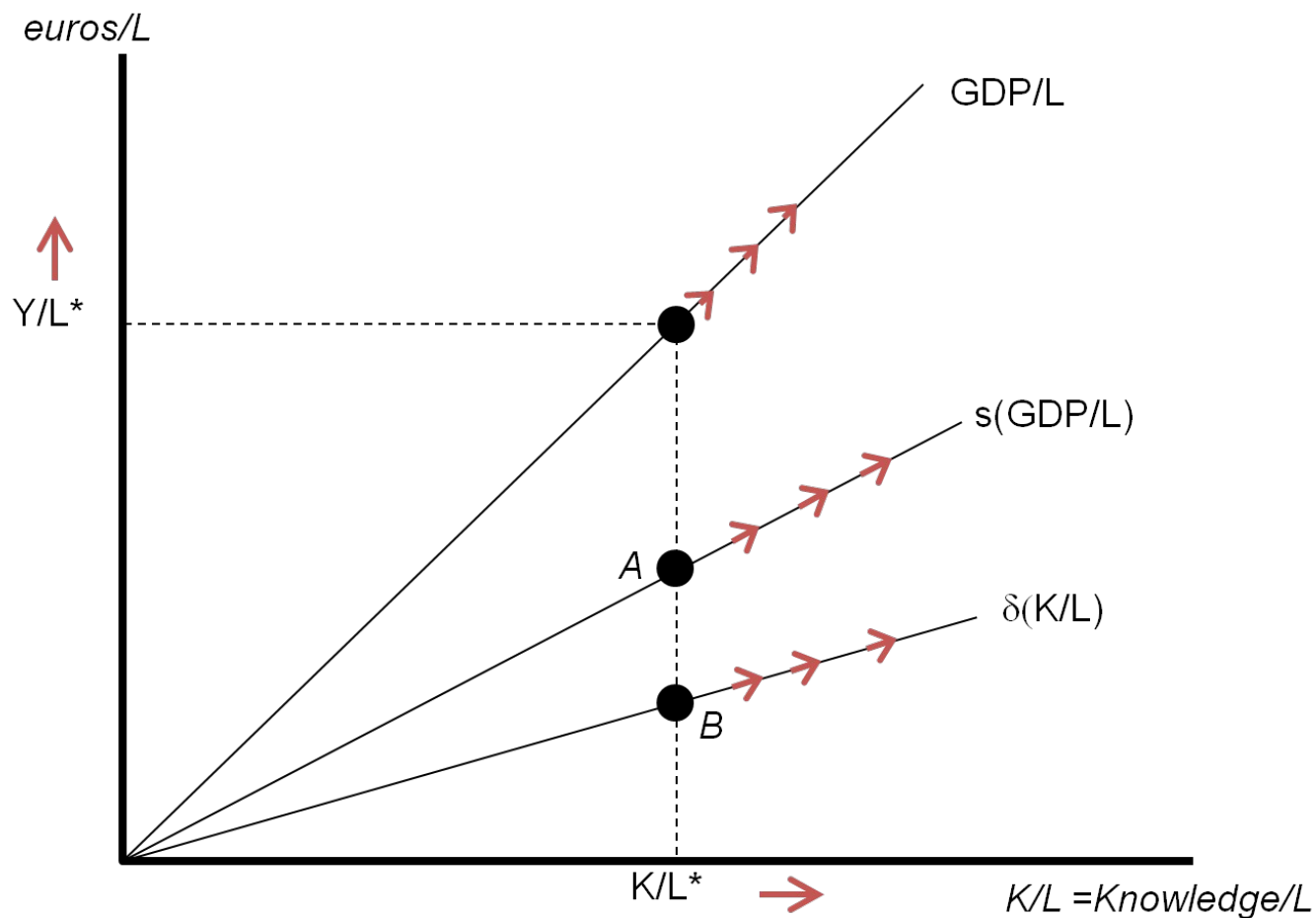
The Experience of Ireland



The Experience of Greece



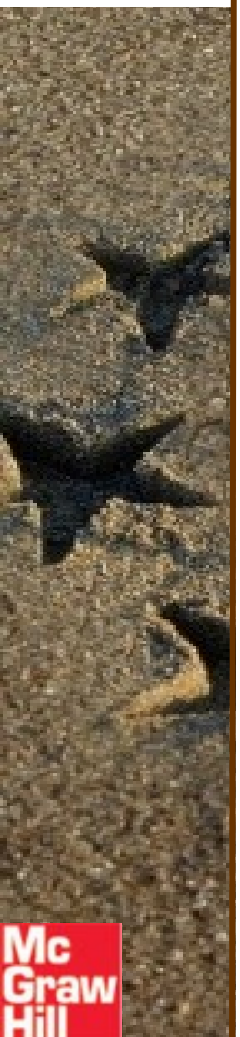
Long-term growth in Solow-like diagram



Long term growth through integration



- Integration improves efficiency → improves investment climate → higher investment rate (s rises to s') → faster growth (knowledge capital accumulates more rapidly)



Long-term growth in practice



- Empirical evidence for long term growth hard to find
 - Return to pre-Golden age levels
 - Hence: emphasis of focus on medium term growth
- Growth to be tested in the case of new member states



Long-term growth impact of integration

