

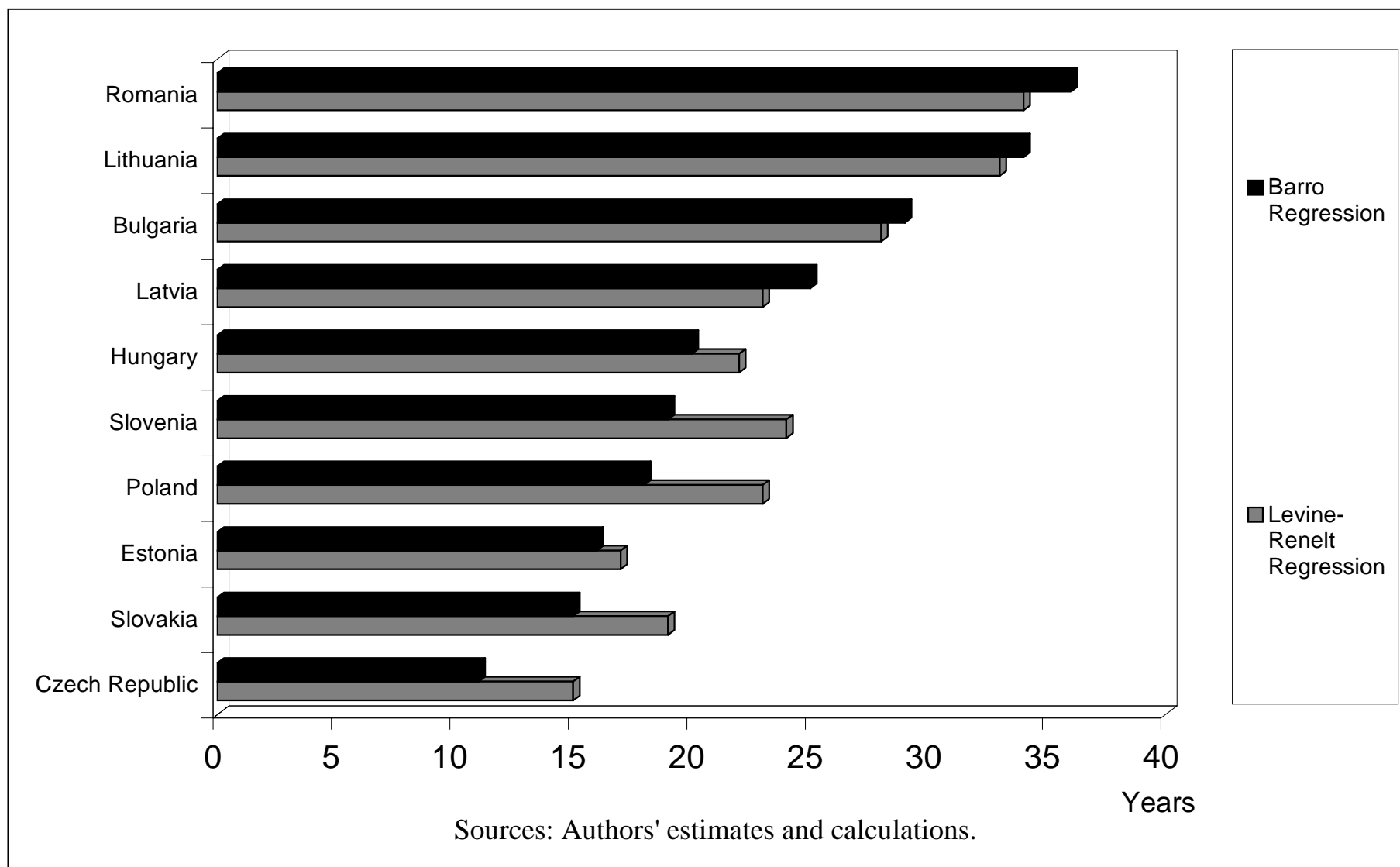
Enlargement to the East
and
Policy Choices in the West

Tito Boeri, Fondazione RDB
Presentation at the EPC meeting
Vienna, June 29, 2001

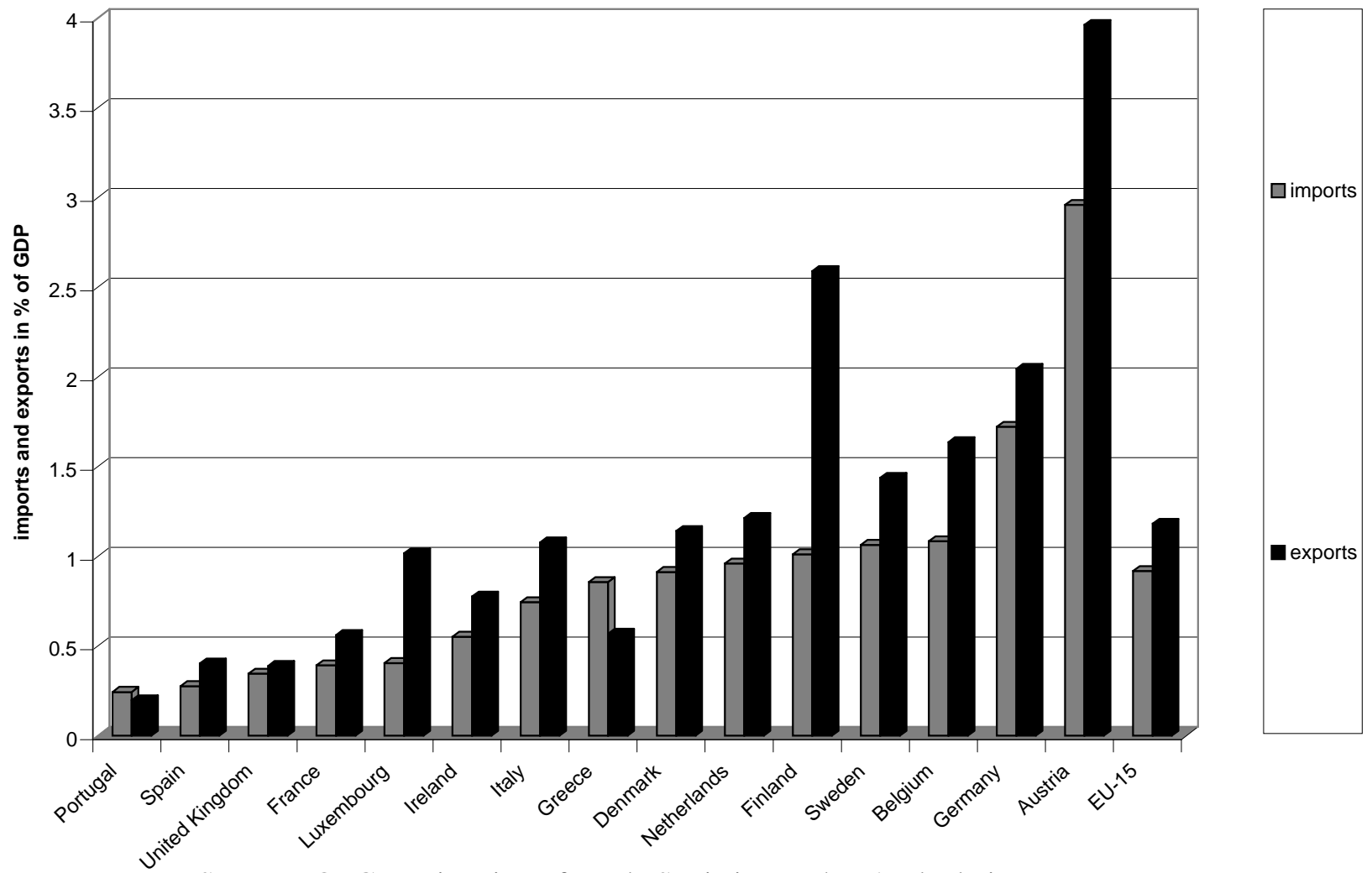
Outline

- Likely Speed of Income Convergence
- Too small to matter (in the West)? Trade and FDIs
- Migration scenarios and their drawbacks (high uncertainty)
- Lessons from previous Accession Episodes
- Policy options for the West
- Policy options for the East

Convergence to low-income EU countries (Number of years required)



Too small to matter? Trade turnover with the CEECs-10 in % of EU-15 GDP 1998



Sources: OECD, Direction of Trade Statistics, authors' calculations.

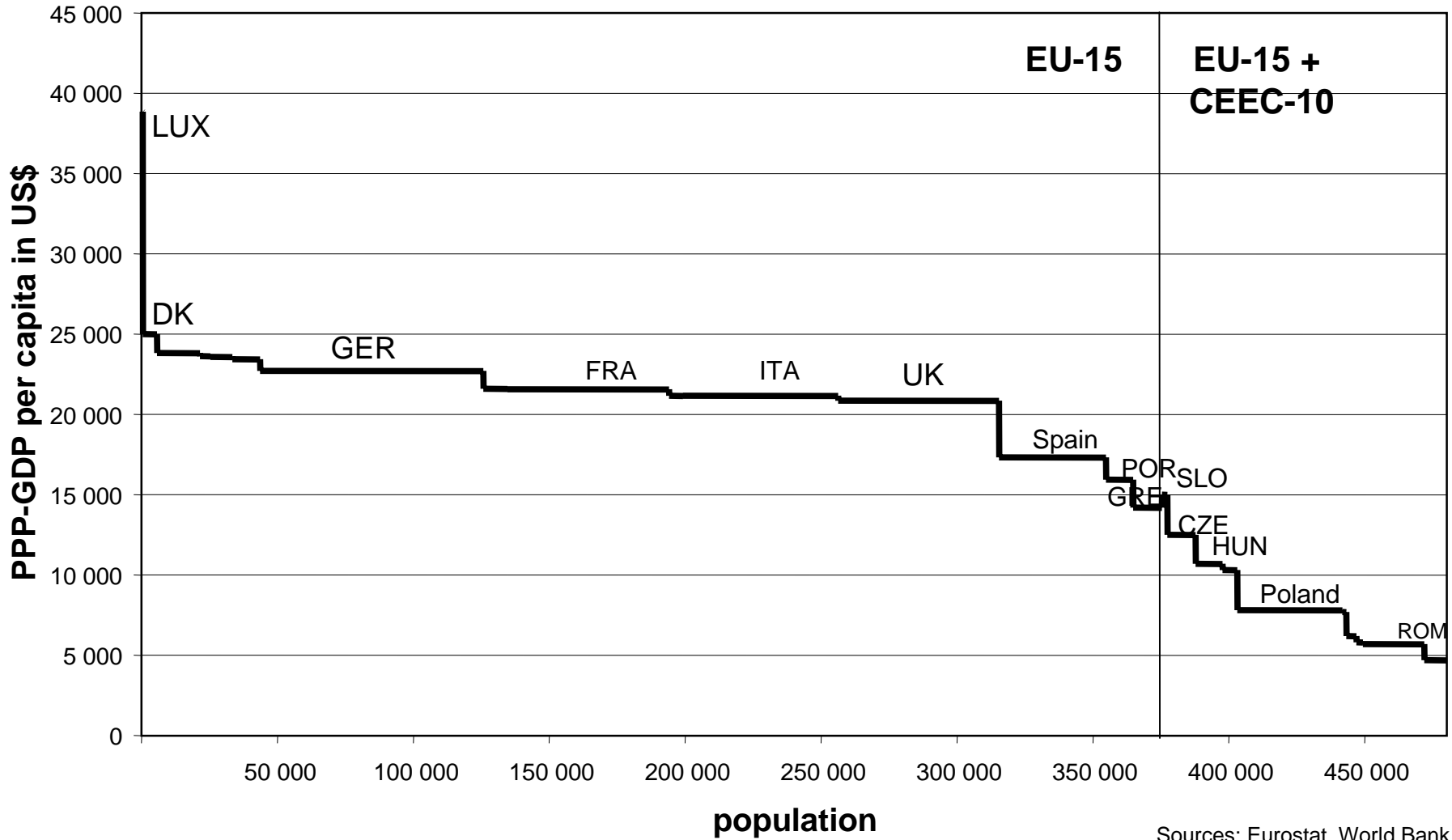
Too small to matter? FDI

- Again too small to matter for EU (0,2 of EU GDP and 0,8 of gross fixed I)
- Driven by market access more than low cost of labour and by privatisation of SOEs
- Relevant for the CEECs-10 (7% of their GDP and 25% of I), hence, *important for growth, interest rates and wages in the East*

Migration from the CEECs-10

- *Basic figures:*
 - population: 104 million (1999);
 - immigrants in the EU-15: 0.8-0.9 million (1999);
of these: 66 % in Germany / 14 % Austria;
 - wage gaps from 90 (Bulgaria and Romania) to 50 per cent (Slovenia)
 - nomadic populations concentrated in the poorest regions of the CEECs

PPP-GDP and Population of the EU-15 and the CEEC-10, 1998



Sources: Eurostat, World Bank.

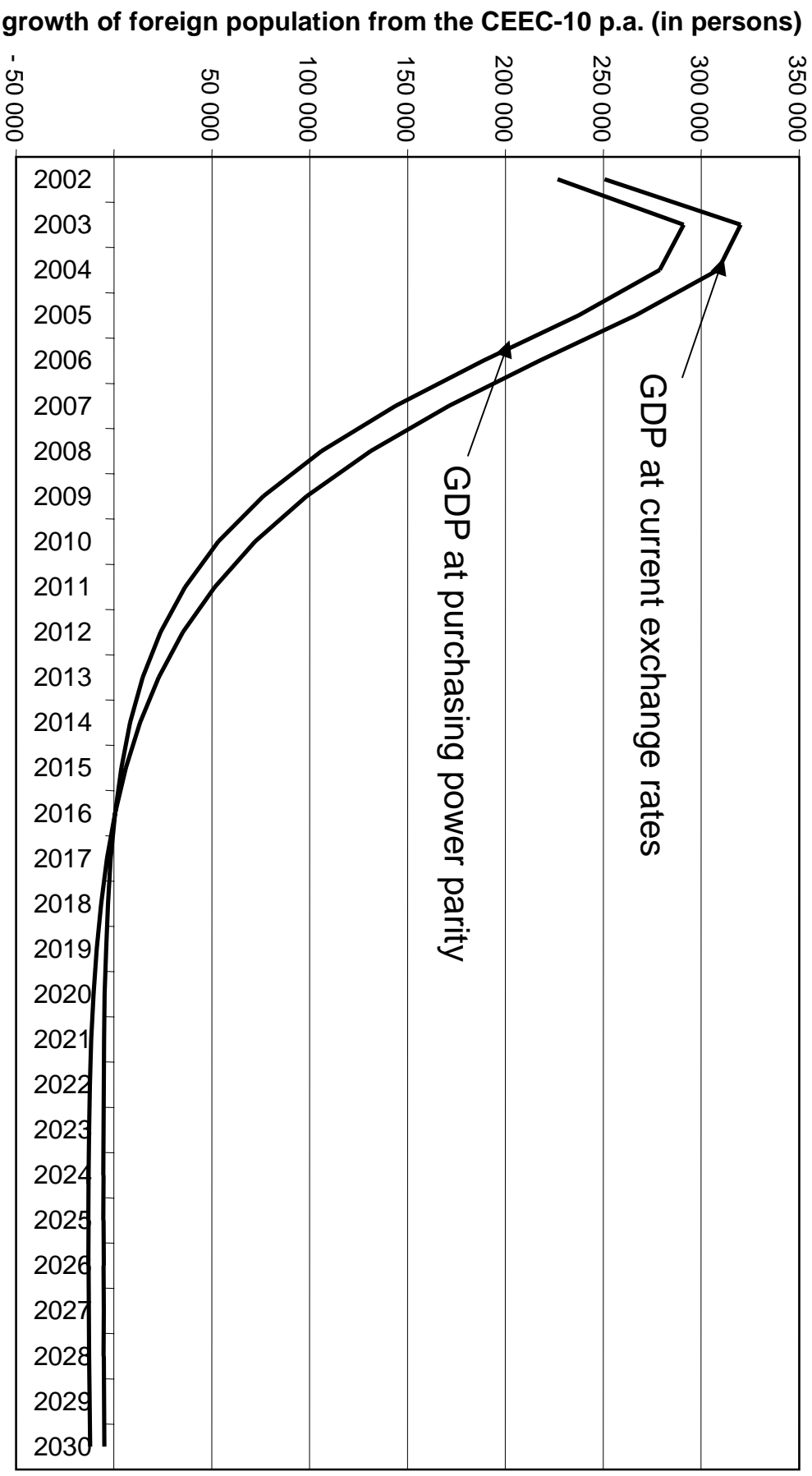
Estimating the Migration Potential

- *method*: extrapolations from time-series analysis of migration to Germany, 1967-1998 from 18 countries; panel estimation with fixed effects; country fixed effects are explained in a second regression
- *key assumptions*: no migration restrictions, convergence occurring at 2 per cent p.a., migration stocks adjust to income differences, employment rate, and institutional variables, constant unemployment; demographic scenario of the World Bank.

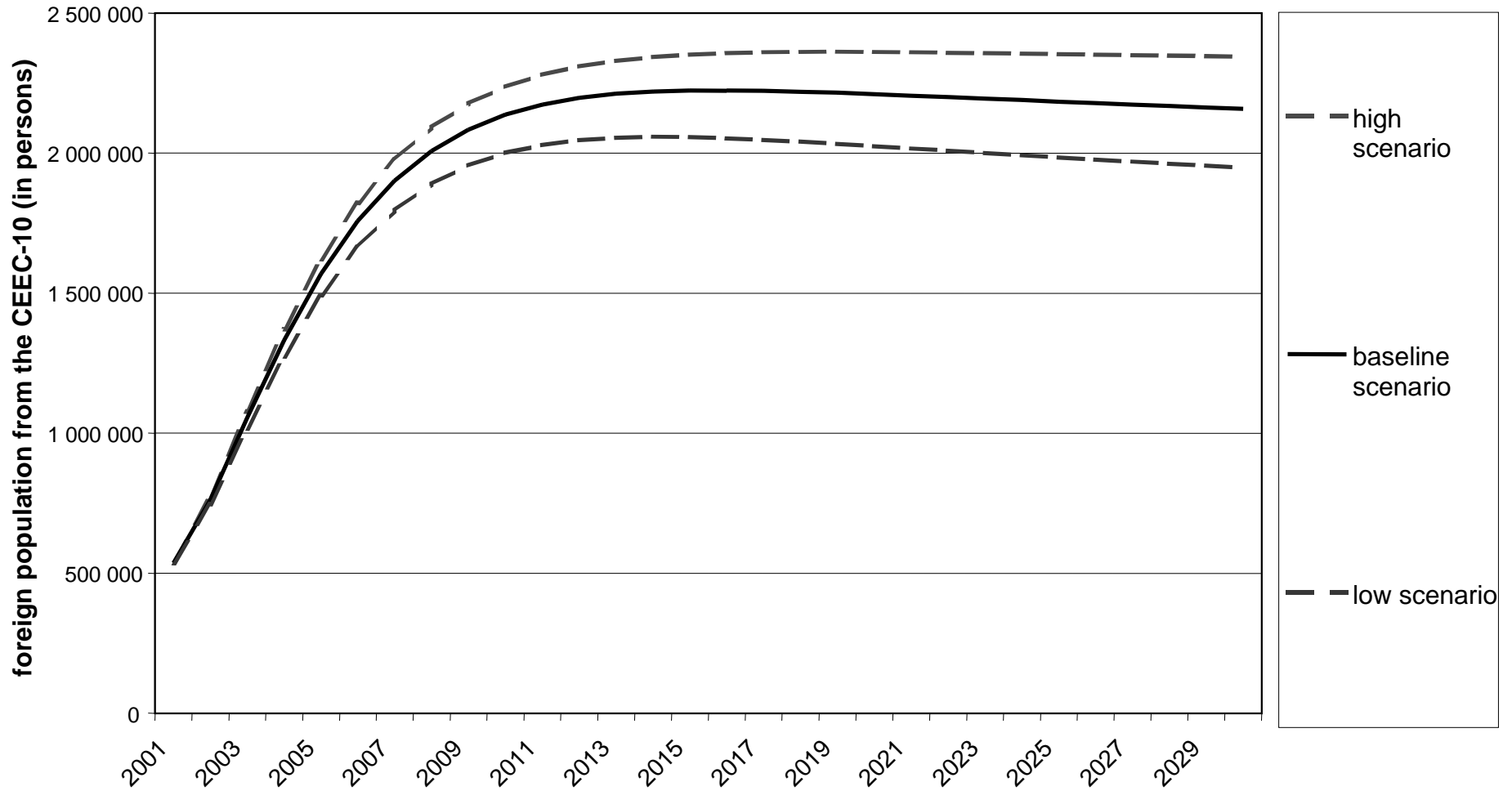
Key Results

- *Stocks*: from about 850.000 individuals (of which 300.000 employees) to 3.900.000 individuals by 2030
- *Flows*: Decelerating over time (from 335,000 per year to 100,000)
- roughly 2/3 of these (stock and flows) to Germany
- in line with Layard et al. (92), Bauer and Zimmermann (1999) and Aintila (1998); not with Sinn et al. (2001).

Predicted flows from the CEEC-10 to Germany



Predicted *stocks* of nationals from the CEEC-10 in Germany



Large uncertainty

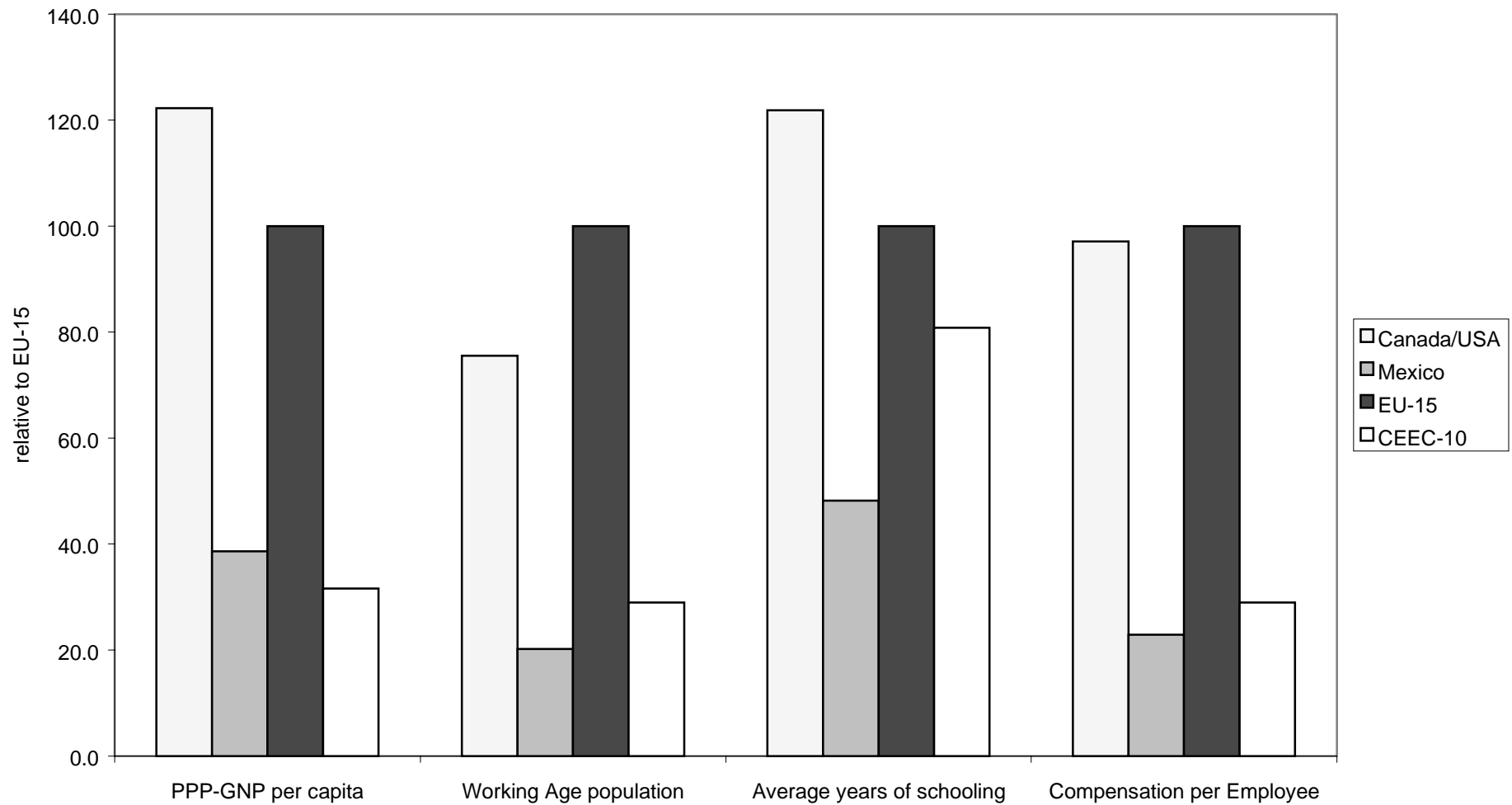
- Neglected second round effects from migration to growth
- Delays in accession may increase migration pressures (expectations about income convergence)
- Large standard errors around point estimates
- Role of expectations about migration restrictions and “welfare shopping”....

Political Economy of Migration Restrictions

- Evidence of status quo bias in opinion polls
- In Europe support for “migration zero” scenario
- Accepted once in, but “please no more!”, “the boat is full”
- Fears about abuse of welfare (largely unmotivated)
- Role of expectation (need of credible rules)

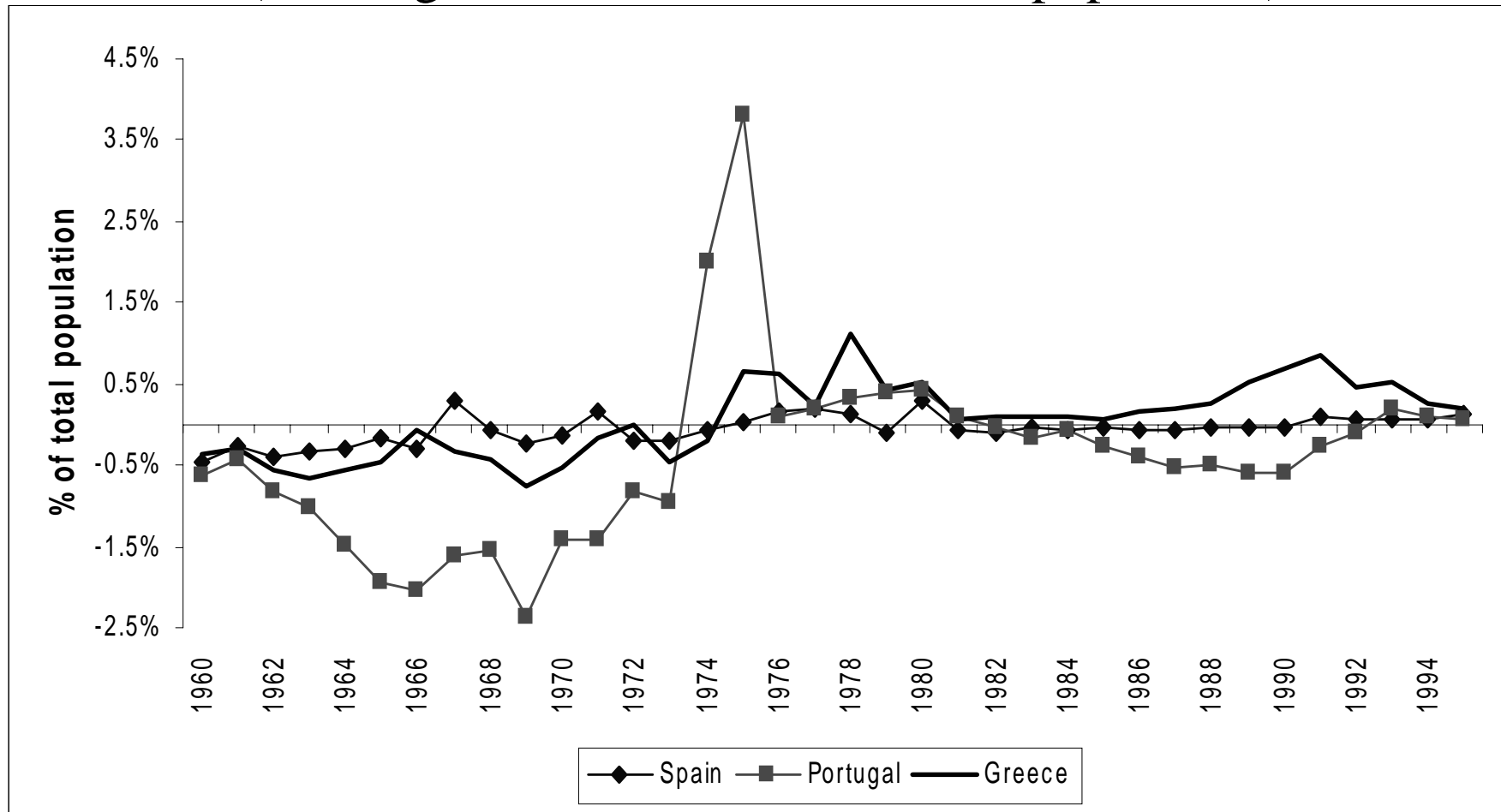
Lessons from previous “accessions”: NAFTA

Similarities in initial differences (Canada/USA versus Mexico and EU-15 versus CEEC-10)



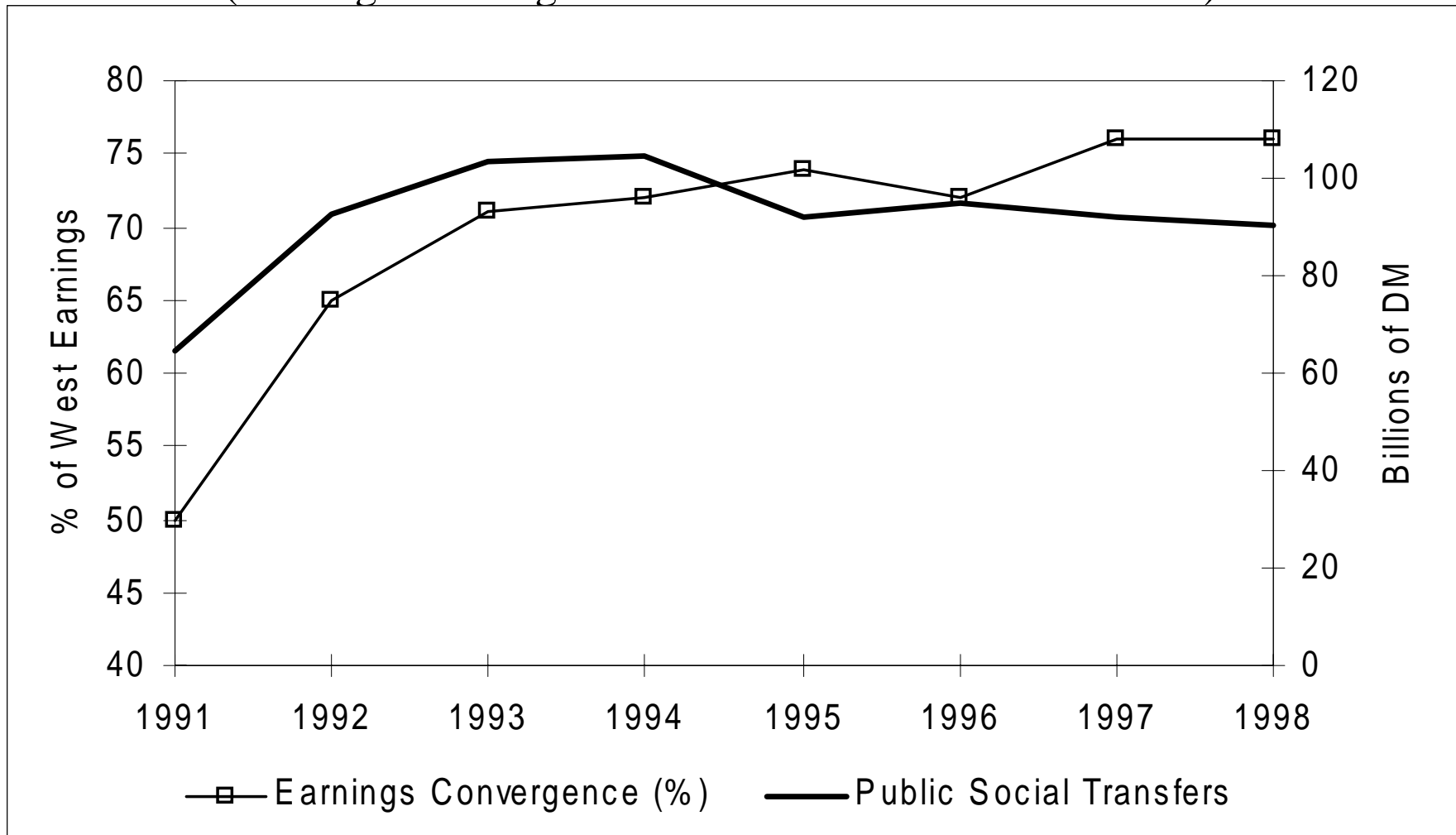
Lessons from the Southern enlargement

(Net migration Flows as % of total population)



Lessons from German Unification

(Earnings Convergence and West-East Social Transfers)



East-West Berlin sectoral blue-collar earnings convergence

(1993-1997, total gross monthly earnings as a percentage of the West Berlin average)

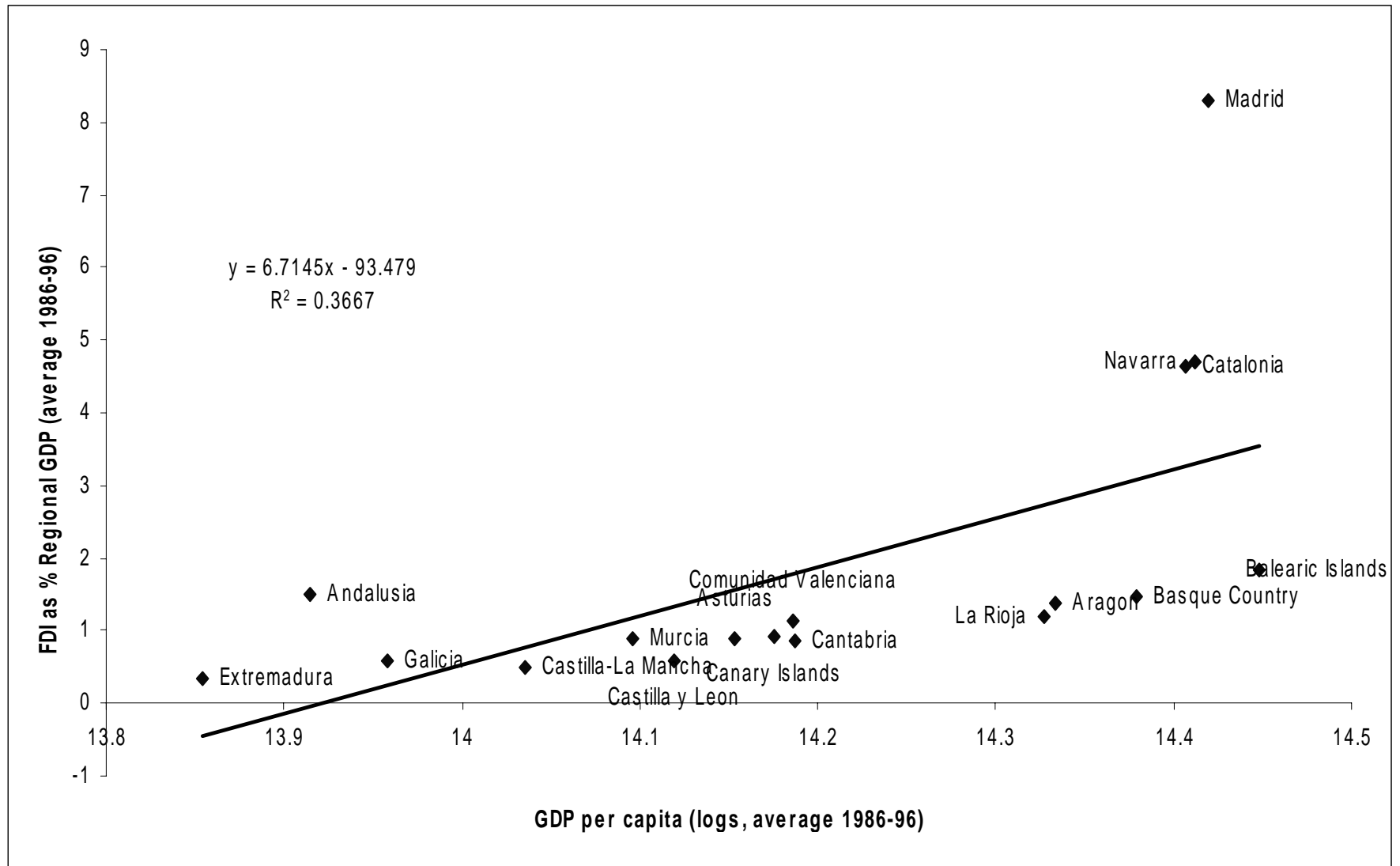
	Year		
<i>INDUSTRY</i>	<i>1993</i>	<i>1995</i>	<i>1997</i>
<i>Food and kindred products</i>	69.7	77.8	89.8
<i>Printing and Paper</i>	74.3	93.6	98.8
<i>Chemicals</i>	63.2	69.7	81.7
<i>Machinenbau(machine tools)</i>	71.0	77.8	81.1
<i>Electronic equipment, office machinery, data processing</i>	79.2	89.5	93.2
<i>Electricity Gas Water</i>	74.5	88.3	99.0
<i>Construction</i>	81.3	83.8	85.0

Policy options in the West

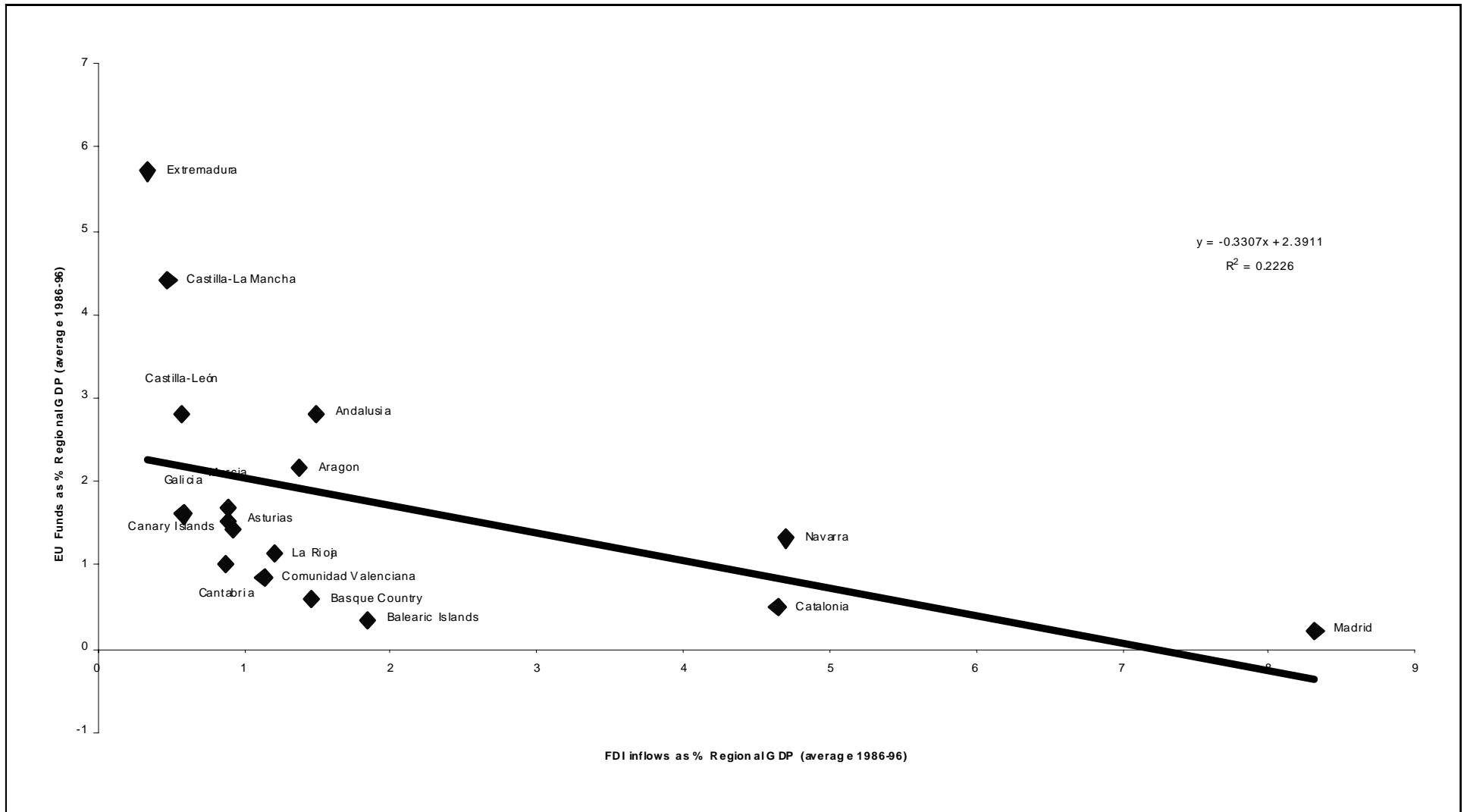
- Transitional period (5 plus 2)
- An option value of waiting before liberalising labour flows?
- Introduce EU quotas roughly of the order of the mean migration estimates
- No horse-trading on migration restrictions vs. freezing of the current allocation of structural funds, because SF are useful to promote convergence or reduce regional imbalances/migration pressures....

Regional Distribution of FDI Inflows

(Spain, 1986-1996)



Regional Distribution of EU structural Funds (Spain, 1986-1996)



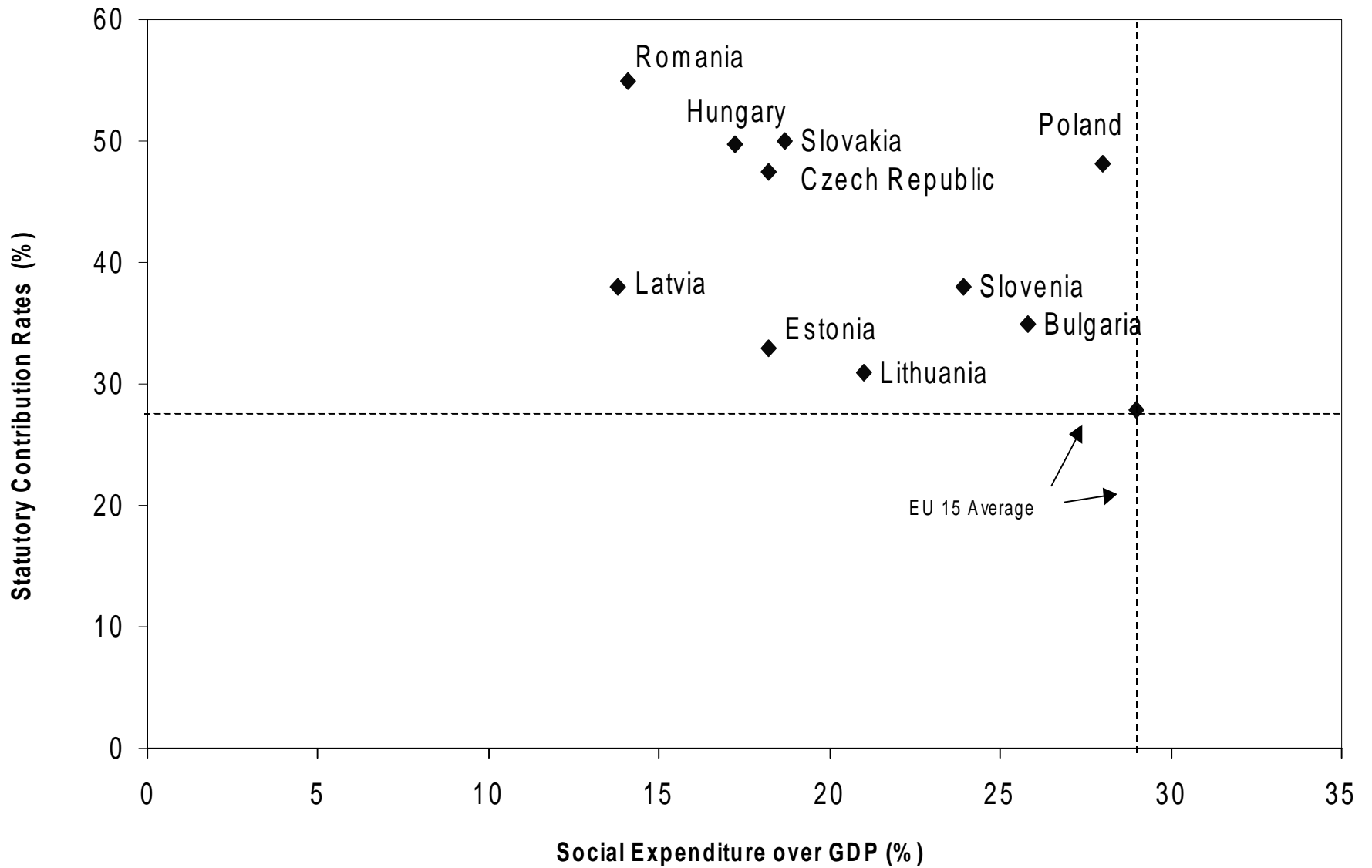
Policy options in West (continues)

- Remove barriers to mobility (e.g., portability of social security rights)
- No to “delayed integration principle” in access to welfare: migrants are the mobile component of the European workforce
- Decentralised wage setting
- Investment in human capital: skill upgrading to reduce impact of migration on wages of natives

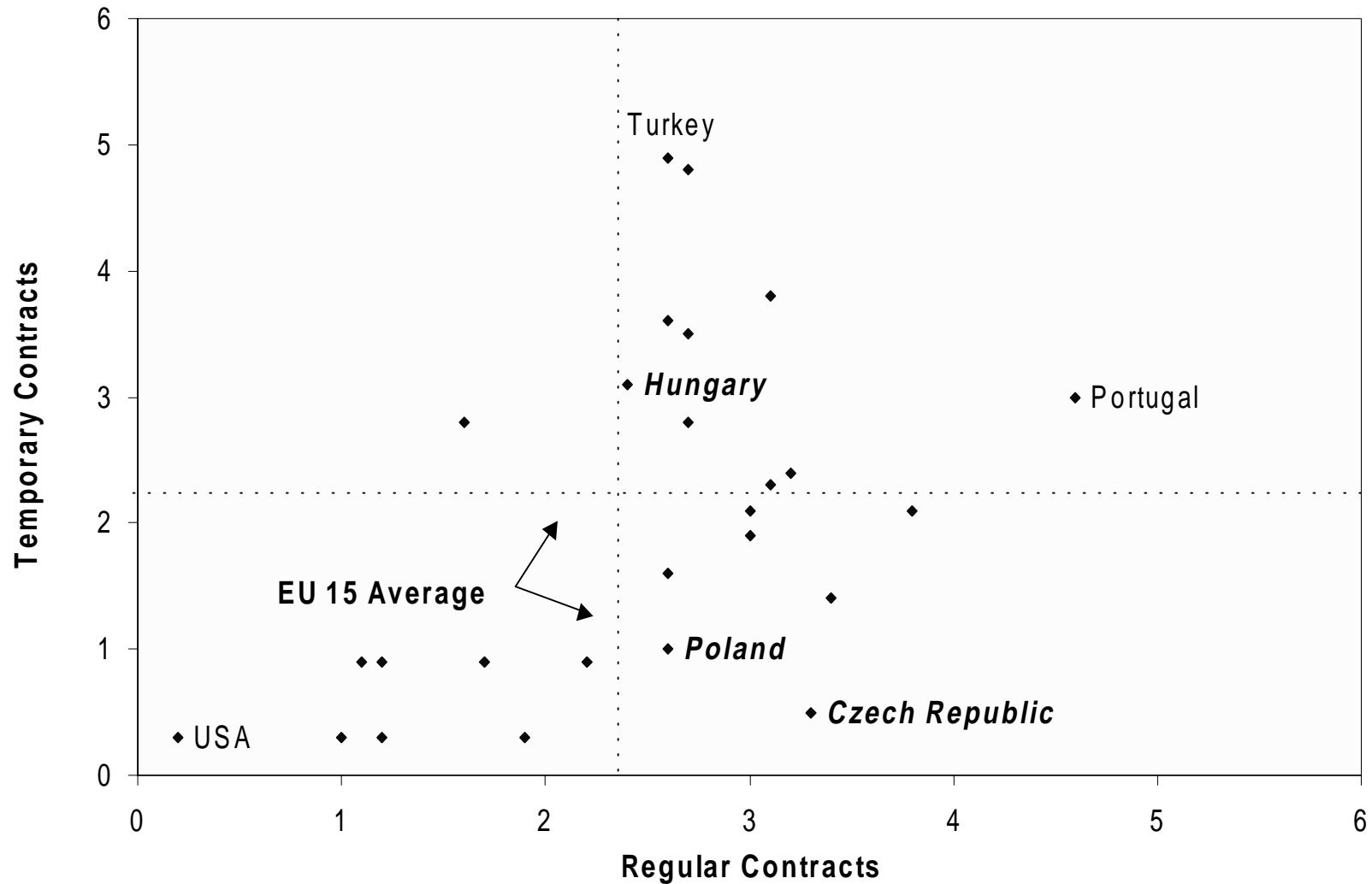
Policy Options in the East

- No risk of Social Dumping
- Improve social insurance in the CEECs as it:
 - legitimatises a market economy
 - and transition countries with significant social insurance schemes in place did better than the others
- Support Institutional Transformation and Investment in Human Capital

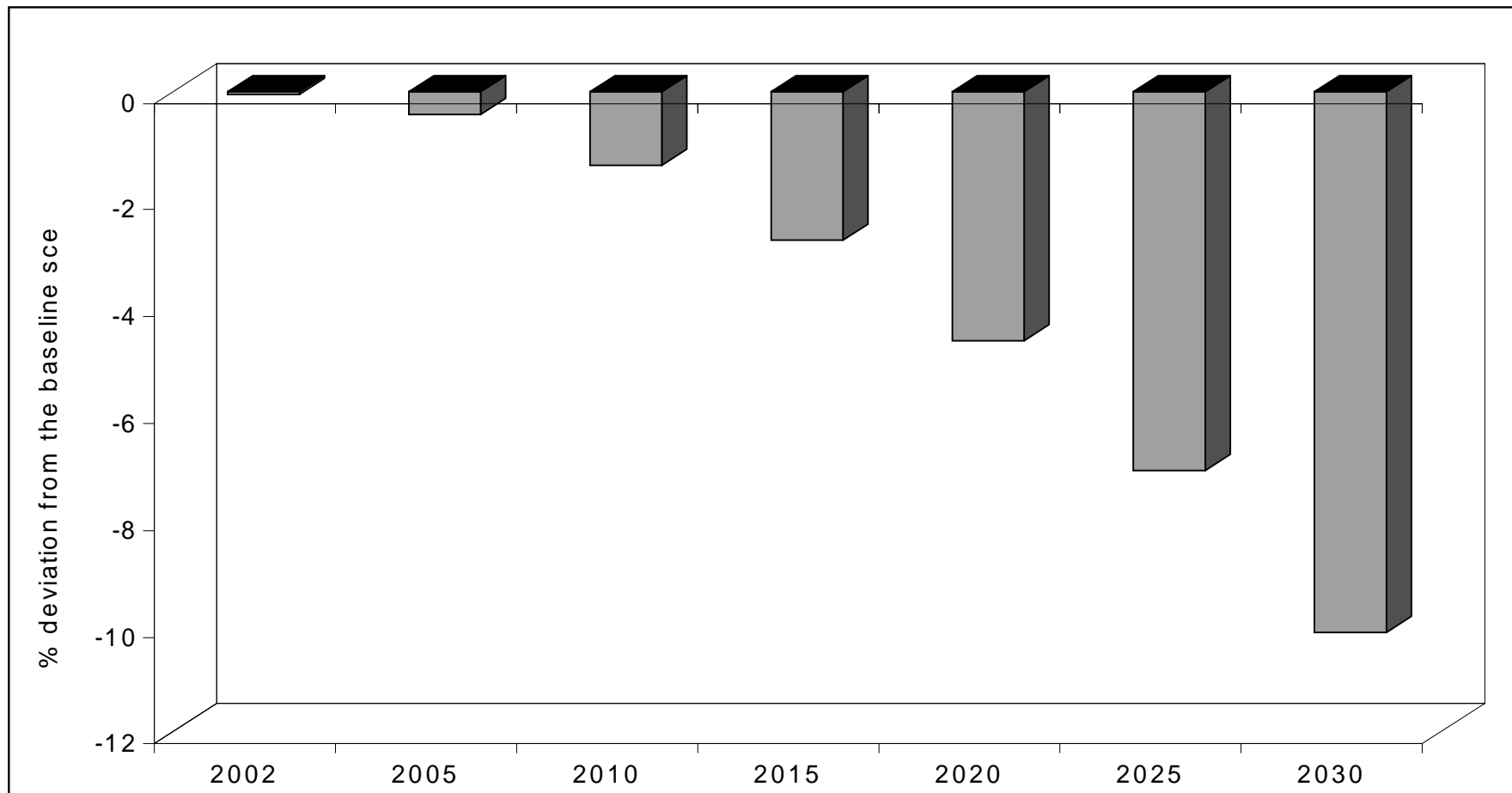
Social Dumping?



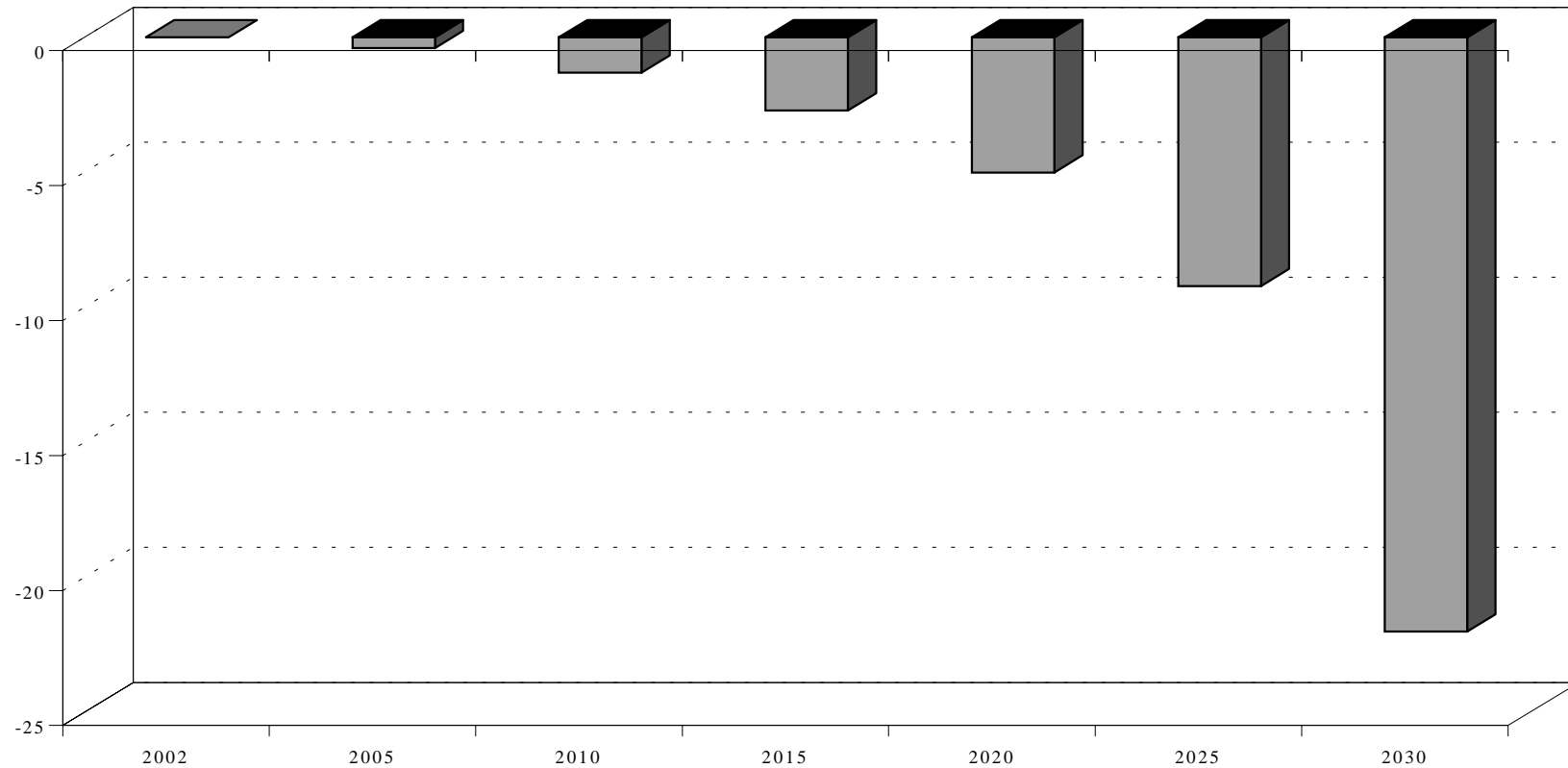
Social Dumping? Strictness of Employment Protection



Simulation 1: Effects on migration in Western Europe of an expenditure neutral change in the composition of public expenditure in the CEECs (Social Expenditure and Public Investment + 10% each and Government Consumption - 20%) (percentage deviation from the baseline scenario)

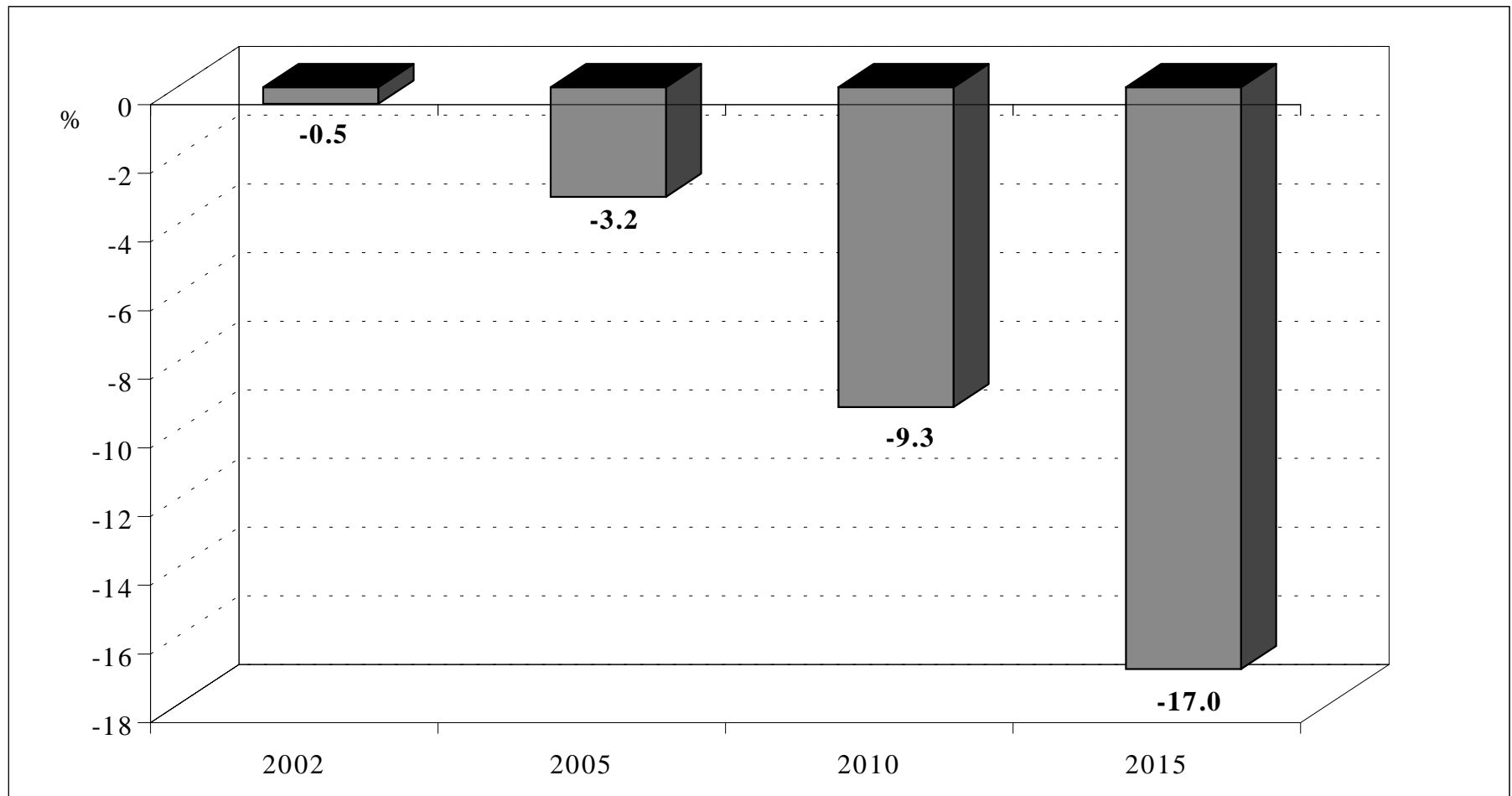


Simulation 2: Effects on migration in Western Europe of an increase of the institutional quality index of 10 points: percentage deviation from the baseline scenario.



Note: an increase of 10 points of the Index of Institutional Quality is that needed by the less advanced CEE countries (Bulgaria and Romania) to align to the EU average level.

Simulation 3: Effects on migration in Western Europe of an increase of 10% in secondary education enrolment rates and of 5% in primary enrolment rates in CEE: deviation from the baseline scenario



East-West deal?

- Labour to the West
- Capital to the East
- Migration restrictions traded with tax breaks for foreign investment in the East?

Thus what to do on migration?

- Transitional period with EU quotas
- Employment principle in access to welfare
- Transitional period should not be traded with status quo allocation of structural funds, but perhaps with incentives to FDIs in the East
- SF can support institutional transformation, social policy and education in CEECs-10

More on....

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