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Abstract

Migration from the European economies in transition is discussed on the bases of the research carried out within the framework of the Global Development Network over the last four to five years. Trade-offs between functionings and capabilities are traced in cases of voluntary and involuntary migration as well as in the case of permanent and temporary migration. Various causes and effects of migration are considered. Policy proposals end the paper. There is a literature review in the appendix with the view to check the claims made in the public debate on migration against the existing knowledge on that subject.

Keywords: transition countries, migration, labour markets, European integration.

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Introduction

There have been significant movements of people after the fall of the Berlin Wall. Most of it has been for economic reasons and in that sense voluntary, but the Balkans, and other post-socialist regions, have also produced significant amounts of political or forced migrations. After the Eastern enlargement in 2004 and the beginning of the Balkan enlargement of the European Union (EU) in 2007, migration has become important labor market issue in the EU too (see the Appendix for a review of opinions and the literature). Finally, adverse economic expectations for the next couple of years are bound to sharpen even more the policy debate on how to deal with various aspects of inward and outward migration in all its forms. These issues have been and continue to be intensely researched and debated.

Most of the research that is reported on here has been conducted in the framework of cooperation of The Vienna Institute for International Economic Studies and the Global Development Network (GDN). Within GDN, wiiw acts as a hub for Southeast European countries in transition and runs research competition on various development and transition issues. Most, but not all, of those are connected with the ongoing Global Research Projects run by GDN and some of those were addressing various migration issues. In addition to that, wiiw has been studying migration flows from other countries in transition, mainly those from Central Europe and the Baltic states. A selection of this research effort is reviewed and summarized here.¹

In this paper, after some preliminary remarks on the applicability of the capabilities approach to human development to the issue of migration, the evidence on the flows of migrants from Eastern and Southeastern Europe and the Baltics will be reviewed. The bulk of the paper deals with the determinants of migration and of the labor market and other microeconomic and macroeconomic effects of migration both on the sending and receiving countries. Policy conclusions and recommendations close the paper.

¹ For a survey of other literature see Gligorov (2006) reproduced here as an Appendix.

Capabilities and Functionings: The Trade-Off

One issue that emerges in the study of migration is of importance to human development approach that relies on the theory of capabilities and assesses development, institutions, allocation of resources and income and other relevant distributions on that basis.² To see the issue in the case of migration, one needs to distinguish between functionings and capabilities in the usual way (Sen 1970, 1979, 1985, 1988; Fleurbaey, 2006, 2008). Functionings are specific beings and doings that an individual can achieve, that can be measured in terms of individual utility or welfare, while capabilities are defined as the ability to choose among different sets of functionings, i.e., of different sets of beings and doings, which could be compared or assessed in terms that are not necessarily summarized by some measure of individual or collective welfare.³ While functionings can be seen as the set of endowments and welfare that a person can have or achieve, capabilities depend also on the choice set that a person has. The latter depends on the combination of positive and negative freedoms (“freedom to” and “freedom from”) that are at least in part supplied by social, cultural and political circumstances that individuals find themselves in.

The way these concepts are defined, capabilities imply functionings in the sense that the latter need to be available in order for a person to be able to choose that set of functionings that utilizes to the full his or her capabilities. Clearly, the circumstances may be such that the conditions for full utilization of one’s capabilities are not present. This may be because of the specific social structure or because of political circumstances. One may still be able to achieve high levels of functionings and indeed it is theoretically possible to achieve high levels of individual functionings and even have low levels of inequality of functionings in a society, though the freedom to exercise one’s capabilities is not available to everybody or to anybody and consequently there is significant inequality in capabilities.

² No attempt is here made to review the voluminous literature on functionings and capabilities. For the purposes of this paper, a rather general discussion of these concepts suffices. However, no simplification is involved.

³ It is essentially the Aristotelian idea that one diversifies one’s functionings in order to fulfill one’s capabilities as a person or a social being. The choice set includes alternative selves as well as welfare levels. Clearly, some exogenous distribution of abilities is the constraining factor, though one has to assume that there is some degree of flexibility that in turn depends on the social or overall distribution of capabilities and on the level of development (e.g., on the system of education and on the income *per capita* or other similar indicators of development).

An example that is pertinent to this paper is that of former socialist or communist countries in Eastern and Southeastern Europe and indeed in Asia too. Though the real levels of inequality are not all that well represented in the assessments of income inequality in these countries and also in the assessment of the human development indicators, it can be, for purposes of this discussion, assumed that these were highly egalitarian societies, though people were severely restricted in the use of their capabilities.⁴ In other words, there was, let us assume, low inequality of functionings, but rather high deprivation of capabilities, and probably high inequality in terms of capabilities too. Thus, at least theoretically, it is conceivable that capabilities could have been increased and the inequality in that sense also diminished without the increase in the inequality of functionings, i.e., that there are no trade-offs between capabilities and functionings during post-socialist transition (there is some evidence that this is indeed what has happened in transition countries, though the differences among them are quite significant; Gligorov 2008, Holzner and Leitner 2008).

The migrants from the transition countries, however, may be facing a choice between capabilities and functionings.⁵ The choice may involve trade-offs both ways: capabilities may be sacrificed to achieve a desired level of functionings and functionings may be diminished to preserve certain capabilities. These choices may be present even if both capabilities and functionings are increasing (i.e., when they are Pareto-improving) but not to the same extent, and also when they are decreasing (i.e., when they are Pareto-inferior), but again not to the same extent. For a simple way to see that capabilities may be sacrificed in order to secure certain functionings, it is enough to assume that immigrants have limited citizenship rights, may face different labor laws, may have problems with social integration and also suffer from the disintegration of previous social ties, and may have higher costs due to cultural differences between their native their immigrant countries.

For instance, most economic migrants make a choice of the first type: they give up some capabilities in order to achieve certain functionings. Migrants are often motivated by higher

⁴ This is an assumption purely for the sake of argument. In reality, neither functionings were maximized nor was there the claimed equality. Sen in 1988 and elsewhere compares India and China in terms of these trade-offs between some capabilities, that people in India enjoy, and some functionings, that people in China have an advantage in.

⁵ The trade-off between functionings and capabilities is present quite generally and it is not faced only by migrants. However, it is perhaps easier to see due to the specific legal, social and political position of the migrants. No claim is made that there is anything unique to the choices that migrants make.

incomes that they can earn by crossing the border and working in a foreign country. This motivation may be strong enough to induce illegal migration as an extreme case. Clearly, moving out of legality into illegality will normally reduce the capabilities of the individual. The trade-off is present even in the case of legal migration, because of the restricted access to institutional, political and social resources in the country of immigration: that legal, and every other, status of the immigrant is different from that of the native population. Thus, many migrants trade capabilities for functionings.

It may be different for political or involuntary migrants. To the extent that they can still choose, they may be declining the opportunity to preserve their achieved level of functionings in order not to give up on some of their capabilities. If the choice is to cooperate and give up dissent or opposition in order to continue to function in the same way as before in one's native country, a person may choose, to the extent that there is a choice, to flee and to accept a lower level of functionings in order to preserve at least some of the valuable capabilities. Thus, some involuntary migrants may be trading off functionings for capabilities.

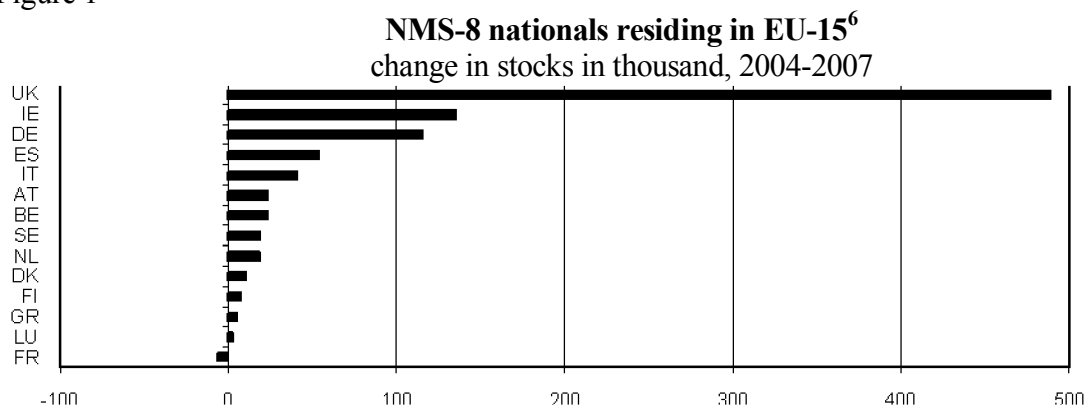
These trade-offs are present both in the cases when there is a Pareto-improvement in both capabilities and functionings and where there is a move to a Pareto-inferior combination of capabilities and functionings. An example of the former case is that of temporary migrants, mostly skilled ones, who may improve their capabilities but increase their functioning even more. The example of the latter, i.e., of Pareto-inferior trade-off, is perhaps the case of "modern slaves", that is of people who in the end experience a decrease in both capabilities and functionings, but whose capabilities are even more severely constrained than functionings.

The discussion of these different cases is important not only from the point of view of the clarity of research and interpretation, but also for drawing policy inferences and recommendations. In the following, most of these cases will be discussed with the examples of the research on migration from Central European and Southeast European and the Baltic countries in transition or post-socialist countries.

Migration Flows

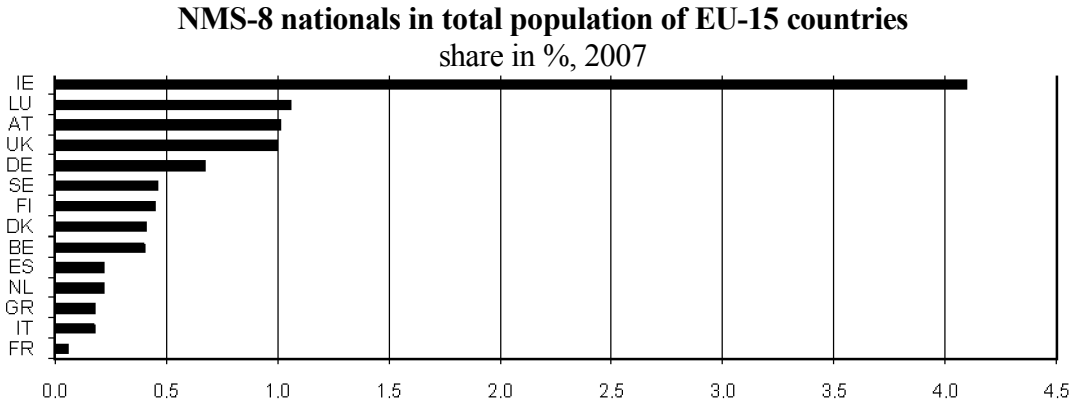
Data on migration flows from Central and Southeastern Europe and the Baltics are not necessarily very reliable, but those which are available do testify to relatively large migration to more developed countries in the EU. This can be read out of Figures 1-6. They cover only the period after the Eastern and Balkan enlargements in 2004 and 2007. Still, in Figure 6 the stock of immigrants into EU-15 countries in 2007 is compared to the stock in 2004. The implication is that immigration after transition countries have joined the EU has probably been larger than the one that took place before. Also, that these have been large in terms of the population of the sending countries, though not necessarily dramatically. As for the receiving countries, some have received many more migrants than the others, but overall these numbers are not high for the EU as a whole and also for most of the individual countries.

Figure 1



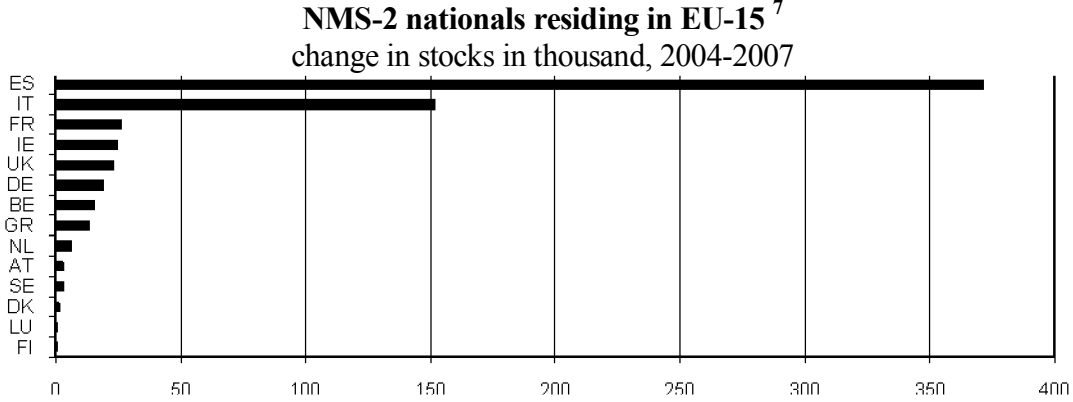
⁶ NMS 8 are New Member States of the European Union that joined in 2004 (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia).

Figure 2



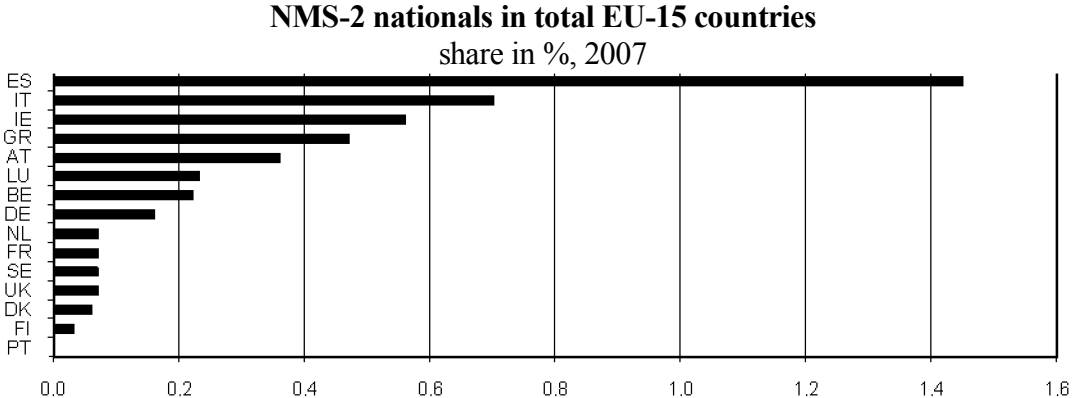
Source: Eurostat-LFS, wiiw calculations.

Figure 3



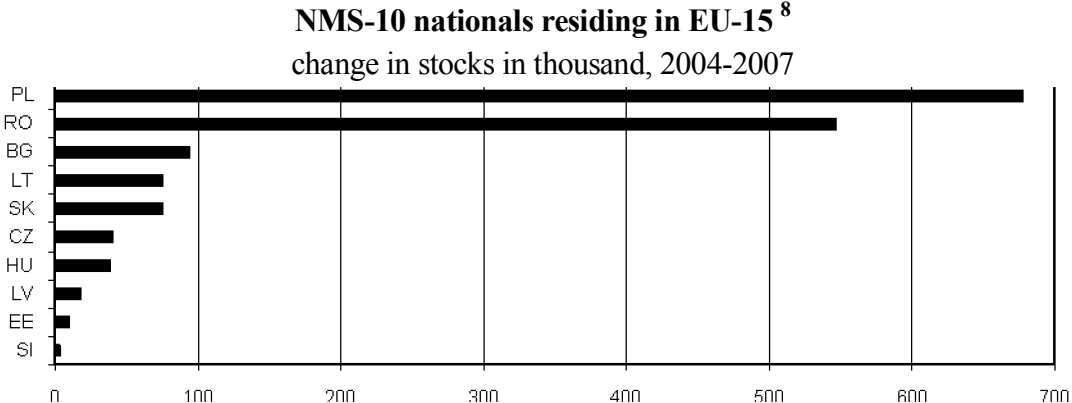
⁷ NMS 2 are the New Member States that joined in 2007 (Bulgaria and Romania).

Figure 4



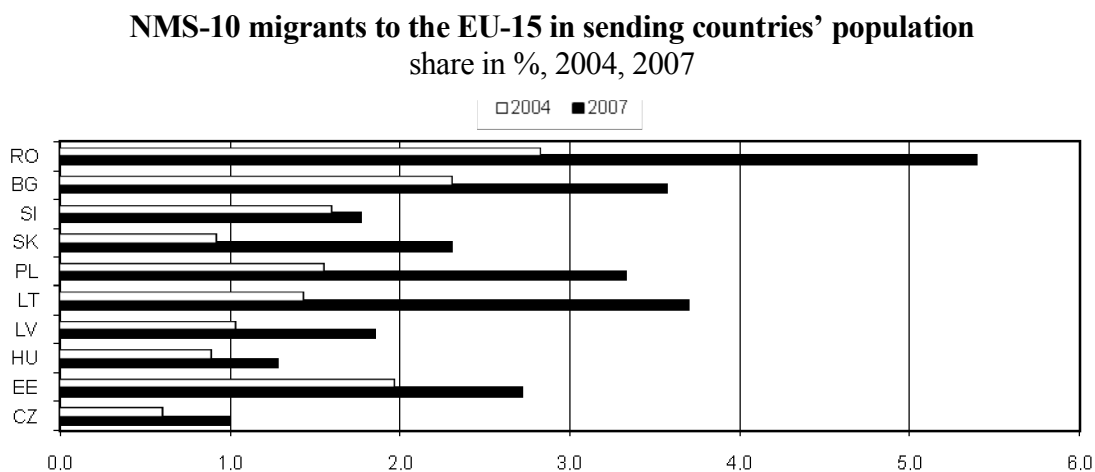
Source: Eurostat-LFS, wiiw calculations.

Figure 5



⁸ NMS 10 are NMS 8 plus NMS 2.

Figure 6



Source: Eurostat-LFS, wiiw calculations.

There are clearly differences when it comes to the origin of the migrants and the countries that they go to. For instance, migrants from the two new member states from the Balkans (Bulgaria and Romania) seem to prefer Spain, Italy and Greece, though they also go to the countries that are preferred by the new member states from Central Europe and the Baltic countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia). Also, these two Balkan countries have seen more outward migration than most other new member states. Though, outward migration from Latvia and Poland is also very high.

The picture is rather different in the other Balkan countries in transition (Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro and Serbia) as can be seen from table 1. Though these countries are not member states of the EU and in a number of cases do not have visa free regimes with the EU or with most other countries that are traditional destinations for migrants from this region (e.g. USA, Canada, Australia), the level of outward migration is higher or dramatically higher than in the new member states of the EU. Caution is necessary when numbers of migrants from successor states of Yugoslavia are interpreted. The stock of migrants is in most cases much larger, only some of the migrants have been granted citizenship in EU or other countries, which probably accounts for relatively low numbers for Serbia, Croatia and especially Bosnia and Herzegovina. In addition, it is not clear how migrants from Kosovo are treated, which probably accounts for the sharp decline in the number of migrants from Serbia in 2004. In any case, former Yugoslavia countries have experienced outward migration since mid-

1960s and cannot be easily compared either to Bulgaria and Romania or to the quite striking case of Albania. There is, however, no doubt about the importance of outward migration from the Balkans.

Table 1

Population from Southeast European countries in the EU-15 by sending country, numbers, and per cent of home-country population

	2000	2001	2002	2003	2004	2005	2006	2007
Albania	380,978 12.45%	427,682 13.91%	476,055 15.39%	591,120 19.00%	670,646 21.45%	722,022 22.98%	753,266 23.87%	872,064 27.56%
Bosnia-Herzegovina	341,737 9.06%	337,591 8.88%	326,663 8.55%	328,512 8.57%	319,676 8.32%	324,897 8.46%	318,786 8.29%	314,885 8.19%
Croatia	304,066 6.80%	306,452 6.90%	324,005 7.29%	336,967 7.59%	323,121 7.27%	322,001 7.25%	321,335 7.23%	314,881 7.09%
Macedonia	86,795 4.28%	104,440 5.13%	105,679 5.20%	136,577 6.74%	143,693 7.07%	153,749 7.55%	162,144 7.95%	145,888 7.14%
Serbia	882,767 11.74%	854,709 11.39%	898,762 11.99%	853,982 11.42%	381,367 5.11%	592,968 7.97%	514,778 6.95%	432,839 5.86%
Bulgaria	58,489 0.72%	83,384 1.04%	166,913 2.12%	200,412 2.56%	227,987 2.93%	265,764 3.43%	285,698 3.71%	309,749 4.04%
Romania	180,927 0.81%	230,444 1.04%	283,607 1.30%	461,381 2.12%	602,039 2.78%	764,616 3.53%	930,430 4.31%	1,096,664 5.09%
Slovenia	29,339 1.48%	29,947 1.50%	31,922 1.60%	33,642 1.69%	33,504 1.68%	33,712 1.69%	34,307 1.71%	32,616 1.62%

Note: figures are based on different data sources due to availability.

Source: national statistics, Eurostat, LFS.

Thus, in general, it can be concluded that outward migration from transition countries in Central, Southeastern Europe and the Baltics has been large and persistent. In some case, e.g., Albania, it has been quite dramatic. Of course, the extent of overall movements of people is not captured by these figures due to the fact that there has been quite significant internal, i.e., intra-Balkan migration due to violent conflicts that have produced large number of refugees and internally displaced persons. In Table 2 the stock of refugee population is presented. In addition, this is controlled for the level of development in terms of GDP at PPP (purchasing power parity) *per capita* (the estimate is done on the full sample of countries as given by the World

Development Indicators data source). Clearly, most post-socialist countries in Southeast Europe have a surplus of refugee population compared to for example European countries or Austria in particular.

Table 2
Refugee population, by country of asylum, in % of total population, 1999-2004

	Average, 1999-2004	Surplus, given GDP PPP pc	Surplus difference to Austria
Europe	0.41	-	-
Austria	0.33	0.49	-
Albania	0.03	0.05	* -0.44
Bosnia-Herzegovina	0.91	0.99	0.50
Croatia	0.33	0.36	-0.13
Moldova	0.00	0.00	* -0.48
Serbia-Montenegro	4.50	4.39	3.90
Macedonia	0.32	0.40	* -0.08

Source: WDI 2007

Note: Surplus estimated using GLS, corrected for heteroskedasticity and panel specific autocorrelation.

* Estimated surplus statistically not significant.

In addition to these movements of population, intra-regional economic or voluntary migration has been increasing in the Balkans in the last couple of years (DGECEFIN and wiiw, 2008). The data is not reliable due to lack of clear regulation in some cases, but in general the phenomenon can be only understated and not overstated.

Determinants of Migration

Reasons for migration are complex (a recent survey of issues in Hanson 2008). When it comes to economic or voluntary migration, it is to be expected that pull factors will dominate push factors. This is often disputed with correlations between the changes in the levels of employment and unemployment and the flows of migration (inward or outward). It is, however, not altogether clear whether domestic labor markets can be seen as being quite independent from the world markets or, for most of the cases discussed here, European labor markets. In some cases, there is a tradition of outward migration so that levels of employment and unemployment in domestic markets may be influenced by the changes in labor conditions in the markets that are traditionally the major destinations of the migrants.

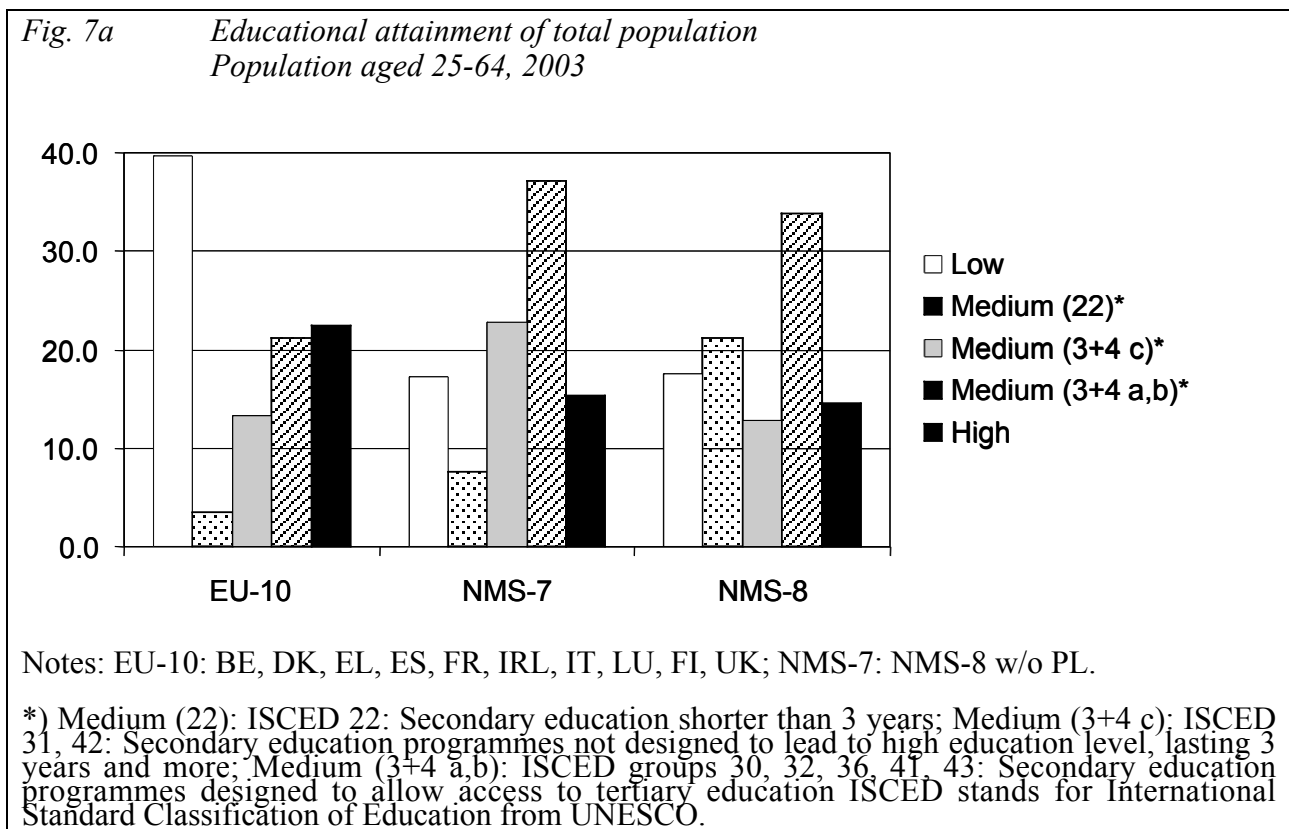
It may be useful, therefore, to go beyond the attempt to identify push and pull causes for migration and perhaps look at the overall development of the labor markets, domestic and cross-border alike. This seems especially warranted in the case of migrations that are prompted by significant shocks to labor markets. This is the case, for instance, of the wave of outward migration from Yugoslavia in mid-1960s, from Albania in early 1990s, and from the new member states of the EU after 2004 and 2007. In all these cases, sudden liberalization of labor markets has induced significant movements of people. In some cases, outward migration has been massive. These liberalizations have, as a rule, been driven both by push and by pull factors.

For instance, in the case of Yugoslavia in the 1960s, high growth in Western Europe and growing unemployment in Yugoslavia has coincided for liberalization of cross-border movement of people to be acceptable to both sides (Woodward 1995). As a consequence, a massive one time outward migration took place over a relatively short period of time. The changes that this round of migration has brought about both to the receiving and the sending countries have been significant and long-lasting. Similar effects may be expected from massive outward migration from Albania (and Kosovo) and from several new member states too.

One effect is that migration may become endemic. An aspect of it will be discussed later. Still, most of the Balkan countries, for instance, are traditionally migrant countries. In some cases, this has been interrupted during the socialist period, but this has changed since the beginning of transition. Similar traditional migrant habits and routes exist in central Europe and

the Baltics. In these cases, it is not easy to separate push from pull factors even if those are rather broadly defined.⁹

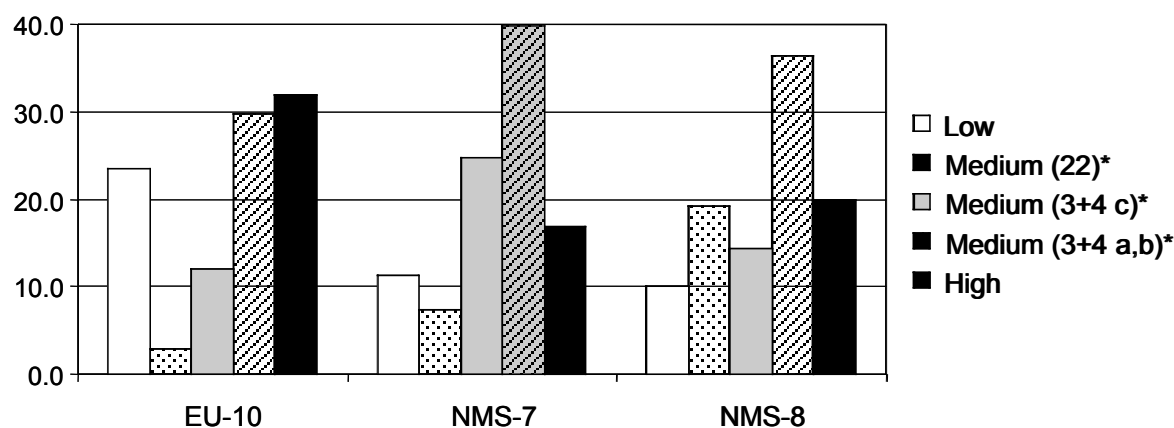
The identification of push and pull factors is additionally complicated by the fact that migrants and native laborers are not necessarily substitutes but may complement each other. This is where the relative endowment of skills across countries may play a significant role. Also, differences in demography between sending and receiving countries may be quite important. Thus, low skilled migrants may enable the receiving country to benefit from increased division of labor while the sending country may experience a change of comparative advantages, e.g., from that of abundance of unskilled labor to that of relatively greater supply of skilled one, and that may be beneficial to its development.¹⁰



⁹ I am not aware of a good historical study of the migrations within and without Europe. Many studies of particular countries or peoples exist. There is no point in this paper to review that literature. I think that it is not controversial that many Eastern European nations have large diaspora in Western Europe and in immigrant countries overseas.

¹⁰ Again, this is a very general statement on issues that have received a lot of attention in the literature on migration. These issues are of course controversial.

Fig. 7b *Educational attainment in total employment
Population aged 25-29, 2003*



Notes: EU-10: BE, DK, EL, ES, FR, IRL, IT, LU, FI, UK; NMS-7: NMS-8 w/o PL.

*) Medium (22): ISCED 22: Secondary education shorter than 3 years; Medium (3+4 c): ISCED 31, 42: Secondary education programmes not designed to lead to high education level, lasting 3 years and more; Medium (3+4 a,b): ISCED groups 30, 32, 36, 41, 43: Secondary education programmes designed to allow access to tertiary education

Thus, the skill composition of domestic and outside labor markets is important. In the case of post-socialist countries, the skill composition is different than in the case of other migrant regions, where unskilled labor predominates in the sending countries. In post-socialist countries there is an abundance of skilled labor, at least if the skill distribution is conditioned on the level of GDP (see Figures 7a and 7b for new member states). As a consequence, it can be expected that both skilled and unskilled migrants will have somewhat different effects on both the receiving and the sending countries or rather on their labor markets.

The situation in the Balkans may be somewhat different, though the data on secondary and tertiary education do suggest that these countries probably have more educated labour force than their level of GDP would warrant. The data, e.g., in Tables 4 and 5, do seem to suggest that the supply of skilled workers is higher than the overall demand. In any case, these tables indicate that there is probably a surplus in skilled labour given the level for development of these countries (other indicators of development calculated in the same way can be found in Gligorov 2009).

Table 4**Gross tertiary enrolment ratio, (ISCED 5 and 6), Total, 1999-2004**

	Average, 1999-2004	Surplus, given GDP PPP pc	Surplus difference to Austria
Europe	47.9	-	-
Austria	52.2	-19.0	-
Albania	16.6	6.9	25.9
Bosnia-Herzegovina	18.7	15.5	34.6
Croatia	35.1	10.6	29.6
Moldova	33.8	30.8	49.9
Serbia-Montenegro	36.6	23.0	42.1
Macedonia	25.1	10.6	29.6

Source: UNESCO

Note: Surplus estimated using GLS, corrected for heteroskedasticity and panel specific autocorrelation.

Table 5

	Gross secondary enrolment ratio, 1999-2004		
	Average, 1999-2004	Surplus, given GDP PPP pc	Surplus difference to Austria
Europe	101.1	-	-
Austria	99.6	90.1	-
Albania	75.4	74.2	-15.90
Bosnia-Herzegovina	87.7	85.5	-4.60
Croatia	86.6	83.2	-6.92
Moldova	82.6	82.3	-7.78
Serbia-Montenegro	90.0	88.4	-1.68
Macedonia	83.9	81.8	-8.28

Source: WDI 2007

Note: Surplus estimated using GLS, corrected for heteroskedasticity and panel specific autocorrelation.

Finally, the demographic factors play a role. In most other regions, sending countries tend to be young and receiving countries tend to be old. In this region, i.e., in Central Europe and the Balkans this is not the case for the most part. The only real exception is the Albanian population (not only in Albania, but in Kosovo, Macedonia, and in other countries where they are a minority). This has significant consequences for the flow of remittances, for their use and for fiscal systems in both the receiving and the sending countries. Migrants from Central Europe and the Balkans do not necessarily help either the demographics of the receiving countries or that of the sending countries, and thus do not necessarily have the expected both positive and negative effects on the fiscal burden and sustainability in both sets of countries.

Many studies of migration in this region, especially in the Balkans, have been concerned with the flow of remittances and with their role as determinants of migration. Out of quite a number of hypothesis that have been advanced to explain the high levels of remittances, one that seems to do better than the others is that remittances are repayments for investments in the migrants (Wolf et al, 2008). One interpretation could be that families invest in migrants who then repay the debt by remitting part of their income. Remittances then are substitutes for the

deficiencies in the financial markets and in the fiscal systems. They are not very different from intra-family or intra-ethnic borrowing and lending activities and all the other types of investment activities.¹¹

Apart from economic migration, political or involuntary migration continues to play a role in the Balkans. This type of migration presents additional problems. Closely related to such migrants as refugees, asylum seekers or displaced people are also those who rely on human trafficking for reasons of joining illegal migrants or because of the existence of high barriers to migration. These latter cases are tricky in the sense that they are clearly involuntary in a counterfactual sense, i.e., those who make use of facilitators of human trafficking would presumably prefer to migrate legally if they could, but are voluntary in the sense of revealed preference, at least at some point in the process of migration. In the case of the Balkans, political, forced or involuntary migration is still rather important as is human trafficking and generally the use of illegal immigration into countries of destination.

Remittances and Migration

There has been growing interest in the flows and different effects of remittances that migrants send back home. Studies abound on microeconomic and macroeconomic impact of remittances especially in the countries where they play a very important role. Out of the set of countries under consideration in this paper, some countries in the Balkans are perhaps more interesting than most others. As can be seen in table 6, remittances tend to be very important in a number of Balkan countries, e.g., in Albania, Bosnia and Herzegovina and Romania. In addition, Serbia is one of the countries with highest inflow of remittances and data for Macedonia is suspect because some recent estimates indicate that remittances play a much larger role than it can be determined from the balance of payments data. To get a sense of the importance of remittances, it can be perhaps pointed out that in most of the countries mentioned above they are higher than foreign direct investments. Thus, remittances are quite crucial for these economies.

The determinants of the amount of remittances are not all that well understood. One issue is how are they connected with the migration flows? In other words, is outward migration

¹¹ For the strategy for testing alternative hypothesis of motivations to remit see detailed discussion in Wolf et al. (2008).

motivated by the need to earn money and remit back home? In the case of endemic migration, that is in the cases when outward migration has a long history, it is natural to hypothesize that remittances are a (and perhaps the) motivating factor for the decision to migrate out of the domestic labor market. This seems to be confirmed by the fact that these are long term phenomena, which means that they have become endogenous to the overall structure of economic activity.

Table 6

Workers' remittances and compensation of employees in the countries of Southeast Europe, debits and credits as share of GDP, 2000 to 2006

	2000	2001	2002	2003	2004	2005	2006
Workers' remittances, credits							
Albania	12.41	12.12	12.92	17.39	21.72	21.93	20.33
Bosnia and Herzegovina	16.00	13.86	13.72	18.77	20.66	19.35	17.76
Croatia	2.47	2.35	2.61	3.43	3.69	3.36	2.53
Macedonia	1.91	1.59	2.18	4.00	4.62	4.50	4.91
Bulgaria	n.a.	2.37	2.85	4.34	2.73	2.62	2.04
Romania	0.00	0.01	0.01	0.03	0.04	5.87	7.11
Slovenia	0.06	0.07	0.06	0.06	0.06	0.03	0.02
Compensation of employees, credits							
Albania	1.57	1.66	1.81	2.47	2.79	2.44	3.18
Bosnia and Herzegovina	10.64	8.77	7.75	9.76	8.91	8.20	7.18
Croatia	0.38	0.57	0.68	1.06	1.44	1.43	1.87
Macedonia	0.01	0.13	0.32	0.77	1.49	1.52	1.71
Bulgaria	0.39	2.50	3.86	6.61	8.05	6.54	6.44
Romania	0.21	0.22	0.27	0.24	0.23	1.49	1.49
Slovenia	0.81	0.72	0.77	0.97	1.15	1.12	1.13
Workers' remittances, debits							
Albania	n.a.	n.a.	n.a.	0.00	0.00	n.a.	0.00
Bosnia and Herzegovina	n.a.	-0.08	-0.09	-0.16	-0.75	-0.40	-0.53
Croatia	-0.13	-0.12	-0.10	-0.07	-0.07	-0.08	-0.10
Macedonia	-0.34	-0.48	-0.53	-0.42	-0.42	-0.37	-0.39
Bulgaria	n.a.	n.a.	n.a.	n.a.	-0.11	-0.12	-0.10
Romania	n.a.	0.00	n.a.	0.00	0.00	-0.01	-0.01
Slovenia	0.00	n.a.	0.00	0.00	0.00	0.00	0.00
Compensation of employees, debits							

Albania				-0.09	-0.10	-0.12	-0.46
Bosnia and Herzegovina	-0.04	-0.09	-0.11	-0.17	-0.20	-0.18	-0.17
Croatia	-0.06	-0.05	-0.07	-0.17	-0.18	-0.14	-0.14
Macedonia			-0.02	-0.01	-0.04	-0.04	-0.05
Bulgaria	-0.18	-0.16	-0.08	-0.08	-0.07	-0.08	-0.13
Romania	-0.01	-0.01	-0.01	-0.02	-0.01	-0.04	-0.05
Slovenia	-0.12	-0.11	-0.18	-0.29	-0.36	-0.40	-0.52

Sources: wiiw annual database (GDP), IMF balance of payments statistics (remittances).

The flows of remittances have been analyzed with the aim to answer different questions. Because of the long term nature of outward migration from former Yugoslavia countries, they provide for an interesting case in this respect. A number of studies have been conducted to gauge the determinants and the effects of remittances in this group of countries. Perhaps the most interesting paper is that by Jovicic and Dragutinovic (2006). In that paper, they present evidence of the flow of remittances in these countries and analyze their behavior as a consequence of the labor market developments and over the business cycle. Out of a rich set of findings, three may be more interesting than others.

Table 7

Estimated model of remittance determinants in the SEE
- Dependent variable: Remittances *per capita*

Variable	Coefficient	Significance level
Unemp	0.496	0.000
GDP _{pc} -Low	-0.173	0.000
GDP _{pc} -Croatia	0.049	0.055
D0	1.849	0.000
D1	-1.440	0.000
D2	-0.772	0.000
Constant	3.081	0.000
R ² =0.640; Breusch-Pagan test=8.241 (0.004); Wald statistics (7)= 364.27 (0.000); Total number of observations=121		

First, they find that the state in the domestic labor markets influences the decision to emigrate; in other words, a decline in employment or an increase in unemployment influences the flow of emigration. In that sense, it is the push factor that is more important overall. Other factor that was found to be important is the state of integration onto the EU: D0 is no contract with the EU, D1 is association agreement and D2 is accession negotiations (these are dummy variables: remittances decline with integration. Table 7 presents the results for Southeast European countries as a whole.

Second, remittances behave counter-cyclically: the inflow increases if domestic economy does worse and decreases if it improves. This suggests that remittances are mostly used to support consumption of family members back home. This motivation changes at higher levels of GDP *per capita*. In table 7 the sign for Croatia, which is a significantly more developed country than the rest in the sample, is different than for the other countries with lower GDP *per capita*. That is perhaps an indication that once countries are more developed the use of remittances changes: they are more often invested rather than consumed. This study does not provide a definite confirmation for such an explanation, however. Further research of the use of remittances in relatively better off countries would be needed to check whether this indeed the case.

Table 8

The estimated model of remittance inflow as a dependent variable

Variable	Coefficient	T-ratio	Significance level
Remittances (t-1)	0.422578	3.940848	0.0002
Cons. goods imports	0.499891	4.117992	0.0001
Industry output (t-1)	-2.162264	-3.402872	0.0012
Constant	10.25248	3.722019	0.0004
R ² =0.488; DW=1.677; JB=44.163; DF=-7.454; BG(4)=1.986; W=5.864			

Tables 8 and 9 show the results for Serbia only. These tables report VAR estimates that show some habit formation, as Jovicic and Dragutinovic interpret their findings, so that the flow of remittances depends rather strongly on previous inflows of remittances. Also, consumption, and especially imports of consumer goods show stability over time in addition to being dependent

on remittances. This stability of consumption and its dependence on the continuous inflow of remittances imply that remittances work counter-cyclically. This is also supported by the fact that in Serbia, and indeed throughout countries in transition, currency substitution is quite high, so that consumption and savings are being protected if significant shares of income are denominated in foreign currency, which certainly remittances are.

Table 9

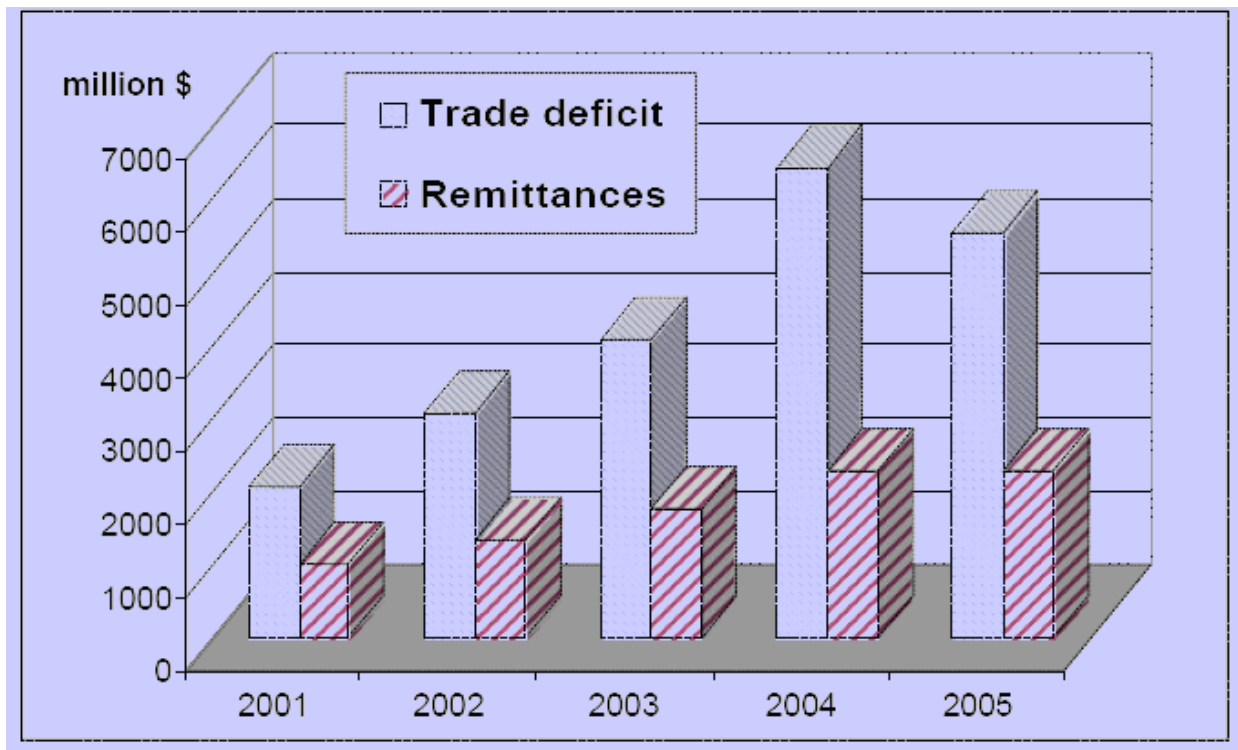
The model of consumer goods imports as the dependent variable

<i>Variable</i>	<i>Coefficient</i>	<i>T-ratio</i>	<i>Significance level</i>
Cons. goods imports (t-1)	0.845593	19.48185	0.0000
Remittances	0.087437	2.345997	0.0225
Industry output	0.839557	3.621288	0.0006
Dummy Jan. 2005	-0.969549	-6.150446	0.0000
Constant	-3.472813	-3.476296	0.0010
R ² =0.922; DW=2.004; JB=13.944; DF=-7.892; BG=0.861; W=1.405			
<i>Short run elasticity: 0.0874; long run elasticity: 0.087/(1-0.845)=0.563</i>			

Third, the increase of remittances goes together with trade deficits (Figure 8 shows that for Serbia).

Figure 8

Trade deficit and remittance inflows in million of US dollars



This is, as Jovicic and Dragutinovic explain, both because of microeconomic and macroeconomic reasons. High inflow of remittances tends to strengthen the exchange rate of the domestic currency thus supporting the services sector rather than the exporting sector. In addition, higher amount of remittances pushes the price level and the wage rate up which has unfavorable consequences for the labor market, which in turn make outward migration attractive and in the next step support the steady inflow of remittances.

These three effects together tend to support structural problems in the labor markets and those in turn support higher levels of outward migration, at least in the case of former Yugoslavia and in Serbia in particular.

Labor market effects of remittances have been studied extensively in other countries too. A recent study looks at the effects on labor vs. leisure trade-off in Albania (Narazani, 2008). Utilizing LSMS (living Standard Measurement Survey) the study finds that once remittances are sizeable, they induce preference for leisure over work in employees. The effect is nonexistent for

self-employed people. This also suggests that remittances may have supported formal economy less than the informal one on the assumption that most of those who are self-employed participate in the informal economy. These results for Albania are reported as follows:

Table 10: Male Labour Supply Behaviour by Remittances Deciles (50% increase of remittances)

Remittances Deciles	Wage employee		Self-employed	
	M0	M1	M0	M1
I	32.61348	32.61282	46.6237	46.62381
II	27.55036	27.54493	46.14353	46.14584
III	28.87537	28.85627	47.50375	47.50652
IV	30.19125	30.15541	48.73935	48.75917
V	30.5533	30.50384	47.85358	47.86404
VI	30.36687	30.23003	48.59375	48.58953
VII	28.10178	27.87871	45.12634	45.27331
VIII	29.74043	29.44362	49.85564	50.07621
IX	32.51592	31.89286	46.94759	47.40201
X	34.79727	30.76408	47.86826	51.16745

Note: M0 refers to baseline model,
M1 refers to simulated model

“Tables 10-12 indicate that an increase of 50% in remittances, other things being equal, will affect negatively the labour supplies of both men and a woman in case they are wage workers while a reverse effect is observed in case they are self employed.

The negative effect of remittances on labour supply is not new in the migration literature. Nevertheless, these tables indicate that this impact is noticeable only for sizeable amounts of remittance share in individual income and especially in the last remittance deciles (in case of women 43% for dependant worker and 33% for self-employed, while in case of men 28% in case of dependant worker and 37% for self-employed). Table 12 indicates that male labour supply is more elastic to remittance than that of female. Several studies prove that male labour supply elasticity to non-labour income (such as remittances) outnumbered female labour supply while the reverse trend is observed in case of responses to wage changes.”

Table 11: Female Labour Supply Behaviour by Remittances Deciles (50% increase of remittances)

Remittances Deciles	Wage employee		Self-employed	
	M0	M1	M0	M1
I	11,65535	11,65287	52,29045	52,28836
II	9,119665	9,105733	43,74645	43,7582
III	11,87772	11,84187	43,79152	43,83835
IV	13,89162	13,84811	52,4006	52,45588
V	10,71529	10,6642	46,76595	46,81461
VI	11,46077	11,35102	48,09008	48,12782
VII	12,65334	12,52649	45,80028	46,01454
VIII	10,26164	9,992486	42,48617	42,84985
IX	12,0005	11,66052	42,3474	42,59697
X	9,220448	9,07694	42,68828	45,97343

Note: M0 refers to baseline model,
M1 refers to simulated model

The study takes the next step to simulate the possible effects of the introduction of a flat tax on labor supply. The expectation is that the lowering of the income taxes will at least partly neutralize both the incentive to exit the labor market for the recipients of sizeable income support from remittances and also to decrease the incentive to work in the informal economy in order to evade taxes.

These findings may be unique to Albania because of the high disutility of paid employment and very high share of informal economy. Given that most of the Albanian firms are very small, with one or two people employed, relatively high inflow of remittances is supportive of the type of business that these micro firms are engaged in. Formal employment as a rule means working for the government, which may not provide for as profitable opportunities to earn money as the informal sector does. These characteristics may not be typical for other Balkan or transition countries. However, they may be relevant for developing countries because Albania is in economic and demographic terms more of a development than transition economy.

Table 12: Labour Supply elasticities with respect to remittances by gender and disposable income deciles

Disposable Income Deciles	Male		Female	
	Wage employee	Self-employed	Wage employee	Self-employed
I	-0,0000314	7,82E-06	-0,00042	-0,0000535
II	-0,0001716	9,63E-05	-0,00347	0,0005524
III	-0,0008296	0,000101	-0,00614	0,0021702
IV	-0,0017062	0,000874	-0,00935	0,0024998
V	-0,0017316	0,000524	-0,01054	0,0022834
VI	-0,0069151	7,41E-05	-0,02326	0,0019825
VII	-0,0117537	0,006108	-0,02386	0,0095027
VIII	-0,0136148	0,009086	-0,05397	0,0184127
IX	-0,0331869	0,020447	-0,07046	0,0131285
X	-0,1964374	0,179482	-0,17188	0,1446428

Skill Acquisition and Migration

Transition countries do not suffer from scarcity of skills. In fact, the employment structure shows labor markets' preference for skilled labor. Indeed, among those unemployed, unskilled workers are mostly to be found. Irrespective of that fact, one finds large number of skilled people among the migrants. The natural explanation is that people with skills are motivated to migrate because of the significant difference in wages between the sending and the receiving countries. In addition, it is, as a rule, easier to immigrate if one has skills than if one is unskilled. Finally, it may be the case that the trade-off between capabilities and functionings is lower for skilled than for unskilled people. The reason for this difference is due to the higher social and legal opportunities that skilled persons usually have. They usually find it easier to integrate socially and also have easier time if they decide to naturalize. These advantages increase their capabilities or, to put it differently, they have to sacrifice less of relevant capabilities for the improved functionings that they achieve by emigrating.

This raises an interesting question about the incentives to return if a gap between wages in the sending and receiving countries is narrowed? One way to address this question is to look at the wages that a skilled person can get before and after he or she has spent some time abroad. In a

study of the wage effects of return migration in Romania (Iara 2006), it was found that indeed those who have spent some time abroad can expect to fetch a higher wage once they decide to return.

This could be interpreted in a number of ways. It may just reinforce the preference for skilled labor which is anyway present. The entrepreneurs may judge that a skilled person returning to the home labor market may have upgraded his or hers skills during their stay abroad. As the demand for skilled labor is anyway high, marginal premium on skill may also be significant.

A competing explanation may be that high outflow of skilled people leads to higher wages for those who remain in the skilled labor market and higher wages for return migrants may just indicate that they are wage setters in that particular market. It takes a higher wage to induce a skilled person to return back and that difference will eventually be erased as this marginal wage will determine the overall wage in that particular market. This process will stop once wages on the domestic market are equal to those in the outside market (not nominally but in some meaningful sense to include the difference in the price levels and many other determinants of labor preferences).

This analysis is based only on Romanian data. It is tempting to generalize the findings to the whole region, but the data is not available. There also may be a difference between countries that are members of the EU, or where on the way to becoming member states, and countries outside of the EU. The reason perhaps has to do again with constraints on capabilities. A less developed country that is inside the EU or is going to join the EU presents its citizens with different choices than a citizen of a country outside of the EU may face. So, the trade-off between functionings and capabilities may be lower for citizens of countries that are inside the EU.

Return Migration in General

What has been said about skilled migrants and the effects of their return on wages does not necessarily extend to unskilled migrants. The demand for their labor services at home is low and the evolving structure of the transition economies does not seem to indicate that there is much of complementarity between unskilled and skilled workers. Indeed, industries with low skilled

workers are disappearing and the services sector cannot quickly absorb all the unskilled people looking for work.

In a recent study on the return migrants from Bulgaria (Mintchev and Boshnakov, 2006), it was found that a sizeable amount of Bulgarian emigrants take jobs in EU member states such as Spain and Greece. They rely on a survey of return migrants and find that their main motivation is to earn money and bring it home rather than anything else. They summarize their main findings thus:

“The assessment of migration experience as well as the main remittances usage and their impact on the economic status of Bulgarian households provides background for the following conclusions:

- The survey findings show that roughly 15% of Bulgarian households (over 400 thousand) have participated in international migration process in the period 2001-2005. The total number of return migrants is estimated at over 400 thousand and the number of persons currently staying abroad respectively at over 200 thousand.
- Men prevail among return migrants (over two third), as well as married persons up to 45 years of age; the majority of respondents (80%) have at least secondary education.
- Preferences for South-European destinations are found (almost half of return migrants) where short-term migration predominates. About one fourth of respondents had jobs in agriculture, each sixth in transport and each seventh in tourism as well as in construction. Although mass Bulgarian emigration is engaged in 3-d jobs unattractive for the local labor force, return migrants believe that their work was qualified. As a whole they feel satisfied with their stay abroad.
- The vast majority of Bulgarian return migrants had spent *less than half* of their earnings; besides, about half of respondents had spent abroad *less than one fourth* of the earnings received. No significant difference was found in the shares of expenditures between male and female migrants and, surprisingly, between migrants returned from different European regions. The amount of

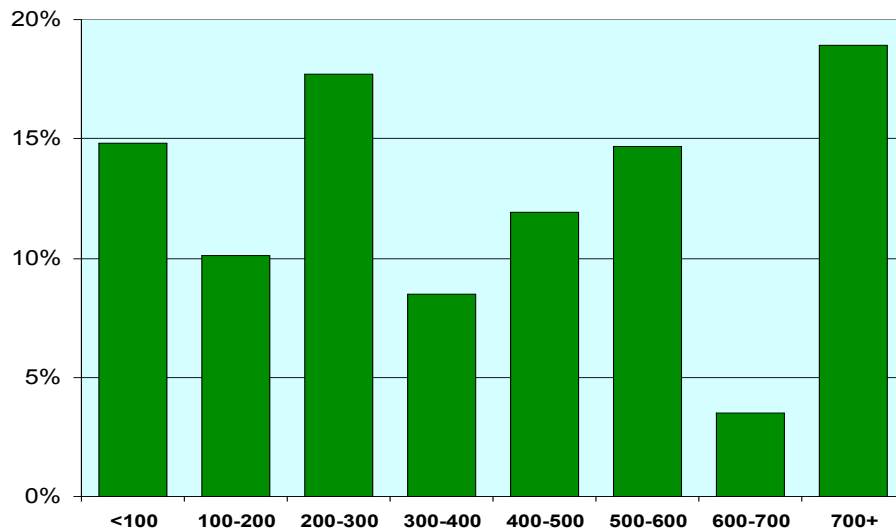
remittances is related mainly to the educational level as well as to gender (women are less paid) and age (more experienced migrants are better remunerated).

- Remittances to Bulgarian households are used mainly for consumption but also in „non-altruistic” (profit-oriented) purposes. It was found that about one in five households that have received transfers from abroad run own businesses while this share is twice lower for the other families. Remittances have significant positive net impact on Bulgarian households’ well-being – the substantially higher relative share of families with monthly income over 800 BGN (409 EUR) among return migrant households is indicative of the fact.
- Private transfers to individuals cover one fifth of the trade deficit and reach one third of foreign direct investments inflow in the country. In this respect, remittance behavior plays an important role for the macro-economic stability of Bulgarian economy. However, the official bank reporting system records less than half of the actual amount of remittances inflow. It is confirmed by the fact that more than half of return migrant households used to receive funds mainly in cash.

The survey findings indicate the existence of a persistent orientation of migration outflows from a *new emigration* country like Bulgaria to the *new immigration* countries of South European EU tier. Thus, Bulgarian policy is facing the dilemma whether to contain or, to the contrary, to liberalize the cross-border (particularly short-term) mobility. There is no doubt however that the political elite of the economies in transition of South-Eastern Europe should take increasingly into account existing migration practices and attitudes.”

Even for temporary emigration, costs may be non-negligible. Figure 9 gives the distribution of costs found in the Bulgarian study.

Figure 9. Distribution of respondents by the amount of funds spent for financing their departure (EUR)



As for the satisfaction in the job, the Bulgarian data seem to indicate that qualified job and one that goes with a legal contract is preferable (see Table 13). Again, if these findings were to be interpreted in terms of the trade-off between capabilities and functionings, it seems to be the case that satisfaction increases if that trade-off is smaller and decreases if it is really just functionings that the motive and the reward for outward migration. This interpretation is tentative and suggestive because the research that is reported on here was not designed to answer that question or to test such a hypothesis.

Table 13. Satisfaction of return migrants

Personal assessment of main job characteristics		Are you satisfied by your stay abroad regarding your professional advance?			
		Yes, completely	Yes, in some extent	No	Total
Full-time job:	No	33.3	41.7	25.0	100.0
	Yes	36.5	45.9	17.6	100.0
Qualified job:	No	19.0	47.6	33.3	100.0
	Yes	51.9	44.2	3.8	100.0
Official contract:	No	28.8	44.2	26.9	100.0
	Yes	44.7	48.9	6.4	100.0
Average monthly earnings (EUR)		1196.26	1091.39	789.05	1074.0

Clearly, the aim of outward migration is to maximize the remittances. Those are used to improve the functionings of the return migrant as well as of the family. The decision to migrate does involve some sacrifice of capabilities, albeit temporal, because these are return migrants. It can be hypothesized that this type of migration will diminish once the economy in the home country solves its structural problems in the labor market.

Temporary Migration

In a number of countries, temporary migration and indeed commuter migration plays a significant role. Workers in Slovakia, Poland, and Romania as well as in many other countries cross the border to do temporary work in a neighboring country and often commute daily. Many of these are illegally employed or are working in the informal market. These migrants tend to worry the authorities in the receiving countries because they may have important influence on the wages and employment in the border regions. On the positive side, they do not as a rule qualify to use public resources and tend to pay taxes (indirect ones in the case of informal employment). They do spend most their money at home, which is the case with remittances in general. That amounts to increased imports from the sending countries.

In an interesting study on temporary migration from Poland into Germany (Micevska, Sazcuk and Stark 2007) it was found that temporary migrants, who present a sizeable part of total

outward migration from Poland due to the way temporary migration is regulated in Germany, do not tend to assimilate socially or otherwise. In a way, they keep their capabilities fixed and connected with their country of origin while working abroad in order to improve their and the functionings of their families.

In another study on the effects of outward migration on one town in Romania (Pop 2006), it was found again that perhaps the main objective of emigration has been higher earnings with the aim to spend them at home. The relatively large inflow of remittances has had a sizeable effect on the local economy. The question that is asked is whether that has led to development of this particular town or not? The main finding is that the answer depends on the policies adopted nationally and locally. High inflow of remittances may distort incentives to work and also favor consumption over investments. There is a clear case for policy intervention in order to restore proper incentives for work and investments so that migration can be a vehicle for growth and development.

Economic Impact on Sending and Receiving Countries

There is large literature on the impact of migration on the receiving countries (see Appendix). There are fewer studies, at least when it comes to this region, on the effects of migration on the sending countries. This is partly due to the lack of data and also to lack of concern on the part of the sending countries because they are as a rule facing a rather worrisome state in their respective labor markets.

Most of the studies on the effects of immigration on receiving economies have been concerned with effects on wages and on public spending. When it comes to the immigration from transition countries into EU, the effects are essentially negligible if the EU as a whole is considered. The inflows are too small to make much of a difference either to wages or to employment in the EU as a whole. Even if immigration were to be much larger, the effects would be for all practical purposes negligible.

That is not necessarily true for each individual country. Some countries have received more immigrants than the others. In those countries, e.g., in Great Britain, Sweden and Ireland, the impact has been studied rather carefully. Most studies have hard time finding significant

negative effects of inward migration. There is some evidence that wages have been depressed for unskilled work and that some substitution of immigrant for domestic employment has taken place in for instance Great Britain. On the positive side, there are arguments that immigration has been conducive to price stability and thus to lower interest rates and as a consequence has supported higher rates of investment. Overall, the effects have to be judged to have been positive.

Much debate has been stirred by the argument that there are immigrants who are not really looking for jobs but are “welfare shopping”. And even if they are employed, they take more from public spending than they put into public revenues. There is hardly any thorough study of this issue, however. The theoretical debate is also inconclusive because the effects depend on a number of assumptions about the future state of affairs that cannot be checked against any data at the moment. The governments seem to have come to the conclusion that they should prefer high skilled immigrants who decide to settle for a limited period of time. So, they pay taxes at progressive rates and return home before using health and other higher cost public services. Similarly, governments are ready to accept unskilled or people with lower qualifications if they do not bring their families along and if they stay only for a specified period of time.

It is not clear that this approach to immigration really makes sense. The main fiscal problem in the EU member states is that of sustainability due to the fact that the population is ageing and the health costs and the dependency ratios are increasing. Thus, there may not be revenues to sustain spending on health care and pensions in the long run. To the extent that immigrants are younger than the native population and especially if they tend to have more children, growing population through immigration would be beneficial to the sustainability of the fiscal systems in the receiving countries. Though this argument has been made, it has not had the needed policy impact so far.

When it comes to the impact of outward migration on the sending countries, the main interest has been on the effects of migration on skill composition of the labor force and on the microeconomic and macroeconomic impact of remittances. Some of the latter have already been discussed. The former issue is somewhat more difficult to assess. There have been relatively few studies of the determinants of the structure of labor markets in countries in transition. In a recent study (DGECFIN and wiiw, 2008), it has been argued that low employment and high unemployment in the Balkan countries is mostly the consequence of structural characteristics and

are much less influenced by the flexibility of the labor markets. There is any number of structural disequilibria in the labor markets in this region. This can be seen easily from the structure of the unemployed. The highest rates of unemployment are among the long term job seekers, among the unskilled, among the young and among women (the latter especially in Albania, Kosovo and Macedonia). This means that older people who have lost their jobs or young people who have never had a job and do not have the needed skills – have virtually no chance to get a job. Similarly, in some countries, the labor participation of women is extremely low.

Outward migration may be an answer for young unskilled people, but not for older workers and for most women. For the young and for those without skills, domestic market is just too small – in terms of demand for labor. Thus the choice for these types of workers is to depend on one or the other type of welfare support or to seek employment abroad. Given that there is low demand for their labor services as it is, the impact on the labor market of this type of outward migration should be small. The impact on fiscal balances is of course very positive.

When it comes to the skilled workers, the issue of brain drain emerges. In the case of the countries considered here, it is to be understood that the situation is rather different than in a typical developing economy. The reason is that the level of GDP in these countries is still low given their endowment of skills. This is because of the dramatic decline of GDP in the early years of transition and the continuing low level of employment even after years of high growth. And in the Baltics and to the even higher extent in the Balkans, this gap is still very large. Therefore, outward migration of skilled people may not be suboptimal. They are not the scarce resource in most of these countries. That is reflected in the relatively high difference in wages for skilled labor in these countries and in the more developed EU countries.

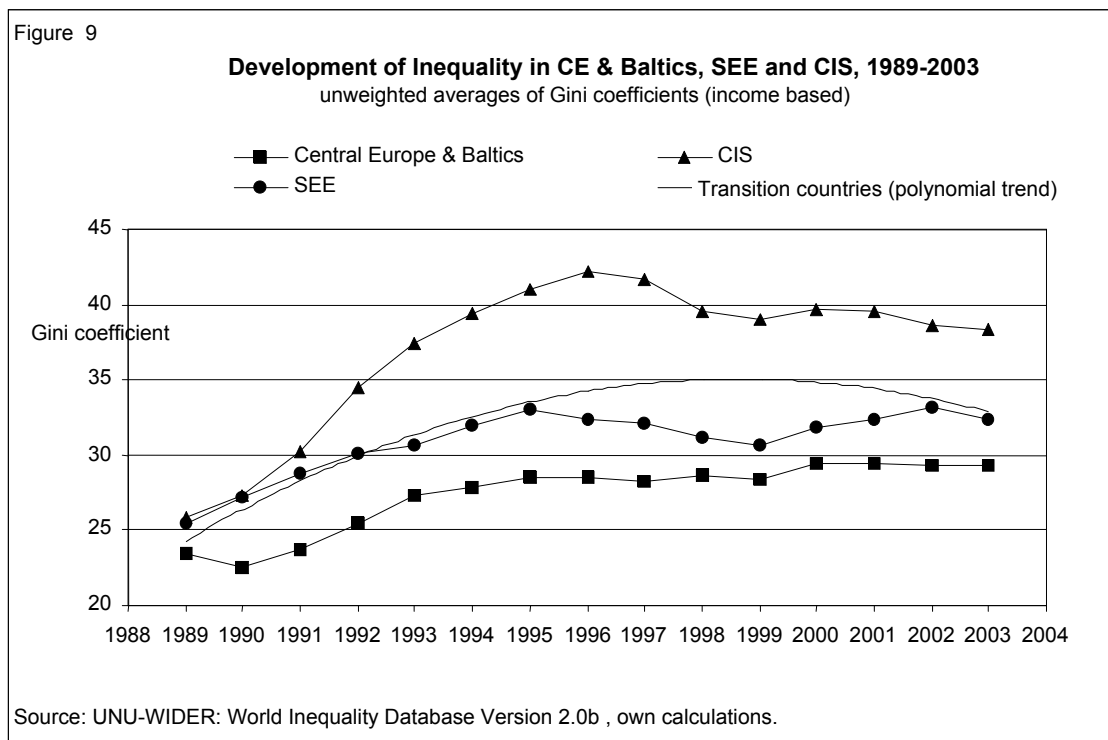
Thus, outward migration does not as a rule have negative consequences for the sending countries in this group in any case.

Migration and Inequality

The countries considered here do not display high levels of inequality. Some are quite egalitarian, while most of them have Gini-coefficients that are not different from those in the more developed countries of the EU (for overall developments see figure 8). Transition countries further to the

east are significantly more unequal and this is even more the case in the most migrant developing countries. This is to a large extent consequence of relatively high levels of public spending and other indirect policies of redistribution. Thus, it is hard to argue that it is absolute deprivation or lack of equality of capabilities that drives outward migration.

How about relative inequality? In a study by Stark and Micevska (2008), it is found that Polish temporary migrants are motivated by relative poverty, i.e., inequality, rather than absolute poverty. It seems to be the case that migrants are as a rule to be found among the people who are poorer than their reference group. It is tempting to argue that there are certain social pressures that incite people that are doing worse than those they compare themselves with to migrate in order to improve their functionings. Whether that is the correct interpretation, it is not possible to say on the basis of this study.



It seems, however, to be the case that these migrants do no compare themselves with the people in the receiving countries but with those in their country of origin. This even in the case when they have been temporary migrants for quite a while, that is when they have renewed their temporary working permit, which is for three months, many times over. They are interested in

functionings in the country they work in and not in enlarging their capabilities even if they for all practical purposes live in the new country. Their relative inequality with the native workers does not determine their decisions to go or stay or to work or not, but it is their reference group at home that seems to influence this decision. This is certainly an interesting and further research may clarify the influence of relative poverty or of inequality on labor market decisions further.

Forced Migration

Most of the studies are about voluntary migration, though the voluntariness of the decision needs to be defined carefully. In the case of some countries in transition, e.g., those in the Balkans, involuntary or forced migration plays a very significant role. In these cases also the meaning of the term involuntary needs to be defined rather carefully.

The attempt has been made in the study on involuntary migration in Bosnia and Herzegovina. The country was experiencing a war and a civil war between 1992 and 1995. Large displacement of people occurred. Also, there were large number of refugees and internally displaced people. There were also a significant number of political refugees, i.e., people who were running away from all the parties in conflict, who were running away from the conflict simply. The question asked in this study (Oruc, 2008) is do their individual characteristics explain where they end up? In particular, does the difference in education or in skills determine where one ends up as a refugee, as a displaced person or as a citizen?

The theoretical assumption is that people do involuntarily resettle, but that they have a choice as to where and in which way they resettle. That means that even if capabilities are very restricted, and one is tempted to say that a person is being simply coerced into a decision, there is still some choice of the set of functionings that he or she can make. One finding is that the scope for choice increases with the level of education. People with skills have more of a choice than those without skills. The choice set varies also with other characteristics, e.g., gender, age, health and probably many others.

The other example of the same issue and the same ambiguity is brought about in a study on “modern slavery” in the Balkans (Shima, 2008). The question is whether the restrictions to immigration into EU countries support human trafficking from the Balkans? A number of

countries in the Balkans and more broadly in Eastern Europe face steep visa restrictions to travelling into the EU countries. Thus, they have to find facilitators who will get them into the country they want to go to. This story starts with a choice but ends into an involuntary labor contract. The marginal, i.e., individual outcomes, are not the same and do depend on the characteristics of this modern slaves, who are mostly women.

Thus, there is some room to refine the distinction between voluntary and involuntary migration and to analyze the full complexity of the trade off between capabilities and functionings that people have or make.

Policy Issues

This paper reports only on a limited number of studies, though they are representative, on issues connected with migration from countries that have in the meantime joined the EU and other EU countries or from the Balkans into the EU. Mostly economic aspects have been discussed, though social and other issues have been touched upon. The key policy conclusions that can be drawn from this body of research should probably include the following ones:

Migration involves a trade off between capabilities and functionings. In most cases of economic migration, capabilities are sacrificed in order to maximize functionings. This is not inherent in the labor market mobility but in the policy decisions to restrict capabilities of inward migrants. This has quite a number of negative consequences both for the migrants and for the native population. The main being that the inequality in capabilities breeds negative social and political consequences, some of which are evident in a number of countries with large migrant populations. The obvious policy conclusion is to work on the equality of capabilities of both migrants and the citizens of the receiving countries. A few years back, there were some promising proposals along these lines, but those have been pushed aside because of the growth anti-immigrant sentiments in the EU member states. I have in mind the proposals and even some legislation in some countries to grant rights that usually go with citizenship to migrants. Also, there were attempts to work for socially inclusive institutions within increasing diversity. The ideas of voting rights for migrants in local elections were floated around and also the project of building multicultural societies was popular. Recent developments have been in the opposite

direction. Thus, migration has been more about functioning than about capabilities really. Indeed, the policy approach seems to be that one way to increase barriers to immigration is to increase the price in terms of capabilities a migrant has to pay to resort to migration with the aim of improving their functionings.

The existing restrictions are designed in such a way to maximize the benefits of the native population and to push most of the costs on the immigrants. This is mostly counterproductive. There is a tendency, recently adopted by the House of Lords of Great Britain, to assess the welfare impact of immigration only in terms of the welfare effects on the native population and to disregard the welfare improvements of or costs to the immigrants. This is morally unacceptable and makes no economic sense also. The costs of discrimination cannot be born only by the immigrants but will have external social effects that are highly undesirable from the welfare point of view. The point may be made by a comparison between the EU and the USA. Many studies show (see some references in the Appendix) that social segregation that is more prominent in the EU than in the USA has social costs for the native population and not only for the migrants. In the most general manner, one can argue that the increase of diversity that migrants bring increases potentially capabilities of the native population but only if social inclusion is possible. Otherwise, the costs in terms of capabilities fall on both the native and the immigrant population, though arguably more on the latter than on the former.

In the case of the migrations from Central European, Southeast European countries and the Baltics, there have been relatively minor negative consequences usually identified with the brain drain or with the wage and employment effect on labor markets of both the sending and the receiving countries. This is mostly because of the specific characteristics of these countries and their experience cannot be immediately transplanted to the developing countries. However, even in the cases that very much resemble developing countries, e.g., in the Balkans, the experience so far has been rather positive. In that context, it is hard to understand the slow pace of the introduction of freedom to move to people of these areas.

The negative effects of migration are almost invariably connected with the immigration policies on the part of the receiving countries that tend to push the costs on the migrants. Particularly damaging have been restrictions that have supported the development of informal markets and of growing practice of illegal migration. Most of the existing restrictions make no

sense especially because there is clearly a strong pull influence due to unfavorable demographic and fiscal developments in the EU.

Finally, most of the research points to the significant role that policy can play in order to support the efficient migration flows and outcomes. Rather than use crude regulatory instruments, which mostly rely on the idea that there is some optimal policy of discrimination, it makes sense to use the tax system in order to elicit optimal trade-off between labor and leisure, between the domestic and wider labor markets and between skill acquisition and employment. This is clearly the first best policy instrument due to the fact that remittances play such a huge motivating reason for migration and have sizeable macroeconomic and macroeconomic effects. In order to make more specific proposals, a proper study of the taxation systems would be necessary. Currently, wiiw is conducting a large study of informal economies in the Balkans and in the Eastern Europe and the results may prove useful for policy recommendations when it comes to migration too.

Appendix: Building, Destroying, and Crossing Walls: A Note on the Literature on Immigration

Introduction

Eastern Enlargement of the European Union did not involve immediate liberalization of cross-border labour markets, though the expected and indeed the realized immigration was not dramatic (Zaiceva 2006, Zaiceva and Zimmermann 2008, Kahanec and Zimmermann 2009). Finland, Greece, Spain and Portugal have decided not to prolong the barriers to labor mobility for citizens of the new member states of the European Union (EU) from Central and Eastern Europe. In that they join United Kingdom (UK), Ireland and Sweden that did not impose restrictions to begin with. The other countries have three more years to keep the barriers on and can extend them for additional two years afterwards. Most of them have indicated that they intend to soften the restrictions already and will in all probability lift them off well before the deadline is finally reached in 2011. At the moment, judging from the public pronouncements, it looks as if only Austria and Germany will use up the opportunity to restrict access to their labour markets to the full.

In this context, it is interesting to note the recent assessment by an independent expert group, the ITEM Club, who have in their *Spring Forecast* (2006) reached the conclusion that the overall impact of migration from the new member states of the EU on the UK economy has been quite positive overall: “As a direct result the UK workforce has become younger, more flexible and economical, easing the pensions burden and keeping interest rates lower than many commentators could have predicted. Even with a modest rise in unemployment numbers we are looking at a very favourable cost-benefit ratio.” Also, migrants “have plugged gaps in a variety of industries, from agriculture to hospitality and catering with nearly 300,000 immigrants taking new jobs in the UK in the last 3 years. Unlike previous occasions that have been confined to major urban centres, this influx has benefited many regions across the UK from East Anglia to Edinburgh.”¹²

¹² See ITEM Club Spring Forecast (2006), pp. 11-16 http://www.ey.com/global/content.nsf/UK/Economic_Outlook. Quotes are from the press release. Similar assessments can be found in European Commission (2006) and in UK Home Office *et al.* (2006). See also Doyle, Hughes and Waldesjo (2006), Gilpin *et al.* (2006), and Anderson *et al.*

In the current debates on migration in the EU and in the USA often opposite expectations are voiced about three of the issues that are deemed to be more important than the others. The first is that migration is not the same as trade, because of the effects on public finances.¹³ The second is that immigrants lower wages and that is especially damaging in the case of low skilled workers.¹⁴ The third is that immigration increases cultural heterogeneity that has all kinds of negative consequences.¹⁵ In this short literature review, these three arguments will be assessed for their consistency and empirical support.

Voluntary and involuntary migration

To introduce the discussion, a brief conceptual comment may be in order: migration is seen here as a labour market phenomenon, which means that mostly economic immigration will be discussed (and effects on the sending countries will be set aside). The empirical research finds significant differences between the economic and political migrants.¹⁶ In the case of the economic migration there is a voluntary, contractual relationship between the employer and the employee.¹⁷ The behavior of both is guided by the markets and in turn influences developments in the markets (though it is not the case that markets, e.g. expected wages are the only reason to migrate or stay, Kahanec and Zaiceva 2008 and Budnik 2009). Thus, the idea, for instance, that without the restriction on migration from less developed to more developed countries the whole population of the less developed countries will settle in more developed countries or that there

(2006). Though there are differences in the specific findings in these reports, the main messages for the UK and the EU as a whole are generally in accordance with the findings by the ITEM Club quoted in the text.

¹³ For the theoretical statement of the difference see Hammond (1993, 1995, 2000) and Hammond and Sempere (2004a); for typical assessments of the policy implications see Becker (2006), Krugman (2006a). For a detailed discussion of the appropriate way to study migration from the public finance point of view consult MaCurdy, Nechyba and Bhattacharya (1998). For an extensive and influential argument on the public finance effects of immigration see Sinn (2004a and 2004b). There is of course no lack of those who argue for more protection from foreign trade too. It is indeed questionable whether it makes sense to free trade and to restrict migration given that both have effects on labour markets and competitiveness. For the evidence that trade and migration have been historically treated differently and for the discussion of some of the reasons why this has been so see Hatton and Williamson (2005)

¹⁴ Krugman (2006a). Krugman (2006b) gives a succinct description of a negative, even nightmare, utopia that is not often encountered.

¹⁵ For an influential statement see Huntington (2004).

¹⁶ For a comprehensive treatment see Borjas (2005); for a discussion see Boswell and Crisp (2004).

¹⁷ There is a sense in which the employment of illegal immigrants is not voluntary; it can be reasonably argued that they would prefer legal employment to the illegal one. It makes sense to argue that this type of employment is involuntary, though no coercion on the part of the employer is actually involved.

will be no end to immigration into rich countries if there is free movement of labor is inconsistent with the way markets work.

It is different with political migrations or with refugees. Their resettlement is involuntary and is not guided primarily by the labor markets. In addition, in many countries, political immigrants and refugees are treated differently from the economic migrants.¹⁸ In general, the former are often denied market access and may be rather entitled to income support of one kind or another. As a consequence, their participation in the labour markets is quite different as is their impact on the public finances. It could be argued that even in their case market solutions are better than the alternative ones, but that is a separate issue.

The key conceptual difference, to repeat, is whether cross-border migration is seen as a market or as a political phenomenon. It is to be expected that market induced movements will give rise to different consequences from those that are pushed by political shocks, though both are more often than not influenced by both economic and political causes, but those should be kept distinct conceptually.

Migration and social welfare

Though the effects of migrations on the labour markets are the most important ones, the public debate has been dominated by the concerns with their effects on the public finance. Especially in cases where most of the immigrants have been with low skills. Low skilled migrant, it is argued, is a cost on the budget while high skilled one is a net contributor. The argument is as follows. A low skilled migrant belongs to the low income group that benefits from the progressive nature of taxation. Thus, low skilled migrants take out more than they bring in over their lifetime. The opposite is the case of the high skilled migrant. Therefore, from the public finance point of view, it is argued, low skilled migrants should be kept out and high skilled ones should be welcomed in.¹⁹

¹⁸ For a historical overview of laws on citizenship and the way immigrants have been treated consult Bertocchi and Strozzi (2005).

¹⁹ On the public finance issues connected with congestion, see a theoretical discussion in Hammond and Sempere (2004b). For an argument that applies to a welfare state, such as are those that can be found in the EU, see Sinn (2004a and 2004b).

The argument is flawed in all of its forms. In the typical case, the low skilled immigrant is initially a contributor to the public revenues, because he or she pays taxes immediately and starts receiving most of the social benefits only later.²⁰ Thus, in the beginning, the immigrant bolsters rather than endangering the public finances. He or she contributes more, on net basis, than the native low skilled worker over their whole lifetime, because he or she has not been relying on any public resources before immigrating. The issue, if there is an issue, then is who is paying for the benefits that he or she is receiving later in the life, once health services are needed or, for instance, at retirement? Clearly, to the extent that the tax system is progressive, the better off pay more than the worse off for whatever is supplied by the public sector. The issue is, however, what is the opportunity cost of the immigrant as compared to the native worker? Clearly, the immigrant worker costs less. Even if he or she brings in the family and has children, that is also the case with the native worker. The only difference is in the duration of the contribution and in the amount of benefits. As a rule, an immigrant contributes for a longer period of time and draws less on social benefits overall.²¹

This may be different in the case of an immigrant who applies for benefits rather than for work. In most cases, except for political or refugees in general, this is not possible because of the way the benefits system is set up. Recent studies on migration within the EU, also, find no evidence of “welfare tourism”, i.e., of people migrating in order to take advantage of target countries’ welfare systems.²² It is, indeed, true that in some cases the unemployment rate among the immigrants is higher than among the native population; though most studies find that the employment rate among the immigrants is actually higher than among the natives.²³ In some cases, e.g., in France, the unemployment among the second generation of immigrants is higher than among the native youth. This is not the consequence of immigration *per se* but of the way the labour market and social discrimination work. Restricting migration would not improve the

²⁰ For an extensive argument see Simon (1884, 1989). Theoretical case has been made in a series of papers by Razin and Sadka (1998a, 1998b, 1999, 2004), Gilpin *et al.* (2006), Doyle, Hughes and Waldesjo (2006).

²¹ In Sinn (2004a and 2004b) it is argued that the beneficial effects of immigration on social security contribution can be found only for immigrants that settle for more than 10 years and especially for those that stay for more than 25 years (and have children). The implication would have to be that incentives for short term immigration should be removed and long term migration, especially of families with kids, should be encouraged.

²² See e.g., European Commission (2006).

²³ For one study on immigration in and within EU 15 see Peracchi and Dopalo (2006). They find that labour markets characteristics of long-term immigrants from outside EU 15 converge to those of the natives unlike in the case of intra-EU 15 where immigrants tend to have lower employment and higher unemployment rates than the natives.

working of the labour market; in all probability the level of unemployment would remain the same with or without migration. The distribution, of course, would be different with the natives being the only ones who would be unemployed if there were no immigrants.

It may seem that an immigrant with larger family would be a burden irrespective of whether he or she is skilled or not. Over the whole lifetime, and certainly over successive generations, that is not the case.²⁴ The working force will in fact become younger and will in all probability lower the burden of social security benefits. That is the case even with the costs of education and health being taken into consideration because they will be paying for those with higher earnings that will come with higher human capital that investments in education and health will bring. Again, to the extent that the tax system is progressive, transfers from rich to poor will of course remain migration or no migration. Of course, if the educational system discriminates against the children of the immigrants, they will be a growing burden on the social security system.

Thus, the argument about low skilled immigration is essentially an argument about the desirability of progressive taxation. If it is believed that direct or indirect social transfers are not desirable, than it may make sense to change the systems of taxation and of social benefits, but that is an argument for and not against migration. For one, because immigrants cost less than the natives in terms of public finance, and, for another, because once there is no tax or other types of transfers, there are no reasons to restrict migration, at least not on that account. In addition, the existing welfare states, with progressive taxation, support permanent rather than guest immigration. Consequently, they support freer rather than more restricted mobility and they support legalization of illegal immigrants rather than their repatriation. Finally, migrant families are more supportive of the public finances of the recipient countries than the individual migrants.

Why is so much debate on immigration concerned with its effects on the public finances? Essentially because the investigative motivation of much of this research is muddled and confused. Competition for employment is seen as a labour market issue, but it is also assumed that employment is in fact being rationed with natives queuing up ahead of the immigrants. Their privileged place in the queue is justified on *inter alia* public finance grounds. Clearly, these are contradictory assumptions, i.e., market access to and rationing of employment, and that accounts

²⁴ There seems to exist a theoretical agreement on that; see Simon (1984), MaCurdy, Nechyba and Bhattacharya (1998), Razin and Sadka (1999 and 2004) and Sinn (2004a and 2004b) .

for the stress that is put on consequences of immigration on public financing. This also reveals that the debate about immigration is really the one about justified inclusions and exclusions.

Wages and competitiveness

Increased supply of low skilled labor, it is argued, depresses the wages of low skilled workers. That, it is suggested, has an income and an employment effect. In addition, it is sometimes argued that it has a negative effect on competitiveness. Most of these arguments either do not go through or are about other aspects of the market system and not really about migration.

The argument about the wages declining due to the competition from the immigrants is no different from a similar argument that could be made about internal labor mobility. However, it is mostly argued that internal mobility is beneficial for the efficient allocation of labor unlike cross-border mobility. In the same manner, it is argued that internal free movement of goods is good, but imports of cheap products are not. Thus, this is in essence an argument about the market allocation rather than about migration.

Theoretically, it is argued, if there is full employment and supply of labour is increased, the wage may be expected to fall. This, however, depends on the assumptions made to justify the existence of full employment. If, as seems unavoidable on theoretical grounds, it is assumed that full employment implies that employees and employers are wage takers, i.e., that wages are set by the market, then an increase of labour supply should not lead to any change in the wages. If there is no full employment, either migration cannot happen, for lack of demand, or it will push the wages downwards and thus push the economy in the direction of full employment.

Some empirical analysis, e.g., in Israel, seem to indicate that it may be appropriate to assume that wages are indeed given in a small open economy. Initially, an inflow of migrants depresses the wage, but as the return to capital increases, so do investments and wages bounce back rather quickly. In addition, most studies find that the depressing effect on wages comes more from trade than from migration.²⁵

It is also argued that a migrant worker displaces a domestic worker thus increasing unemployment. That makes sense only if the reservation wage of the domestic worker is higher

²⁵ For short and long term effects on wages see Borjas (2003 and 2009) and for the effects of trade vs. immigration on wages see for instance the recent survey of the literature by Hanson (2006).

than that of the migrant one. If that is the case, the causes that support high reservation wage should be investigated. That, again, has nothing to do with migration. In fact, research in the US finds that the effect of the low skilled migrants on the wages of the low skilled native workers is essentially non-existent, mainly because they are not really perfect substitutes. Indeed, the difference between the wages of natives, between low and high skilled, seems not to have changed despite significant increase of immigration in the last few decades.²⁶ In the EU, the inflow of new immigrants from the Central European new member states has been too low to have had any discerning influence on the wages in the EU.

Finally, it is argued that low skilled migrants, unlike the high skilled ones, threaten the competitiveness of the country of destination. Because the country will, it is argued, specialize in low skilled sectors rather than in high skilled sectors. Thus, USA will look more like Mexico and the EU will converge to Turkey. This is not supported either by theory or by the evidence. In fact, low skilled workers are invited to migrate because the developed countries specialize in high skilled industries. That may create demand for low-skilled labour in services and in other non-tradable sectors. In the same way, developing countries export high skilled labor because they specialize in low skilled sectors.

If, however, developed countries were to protect their low skilled workers and keep their wages higher than they would be with liberalized migration, these countries will either support its workers to specialize in low skilled labor or will attempt to diversify rather than specialize. In the latter case, of course, it cannot be that these countries will both attempt to develop all types of skills and to specialize in the high skilled sectors. In other words, they will either have to give up the idea of being competitive or will have to choose whether they want to support low skilled specialization of domestic workers.

The issue of diversity

In view of recent social tensions in immigrant neighborhoods, it is argued that the assimilation policy in the EU but also in the USA is failing. It is believed that there is significant difference between earlier migrations and the current ones. The folk theory, now used to criticize certain

²⁶ See Card (2005a) and Ottaviano and Peri (2005). For criticism of the latter paper see Borjas, Grogger, and Hanson (2008).

version of the idea of multiculturalism, is that in the past immigrants wanted to integrate and to look as much as possible like the natives, while now they want to preserve their identity and thus the heterogeneity of the societies in the EU and the USA is increasing. As a consequence, cultural barriers to immigration, it is argued, should be strengthened (for some limited discussion of the existence and the importance of various types of cultural barriers, see Sanroma, Ramos, and Simon 2008 and van Dalen and Henkes 2009).²⁷

Both claims – i.e., that heterogeneity is a problem and that the lack of assimilation leads to more social conflicts – are not supported by historical and sociological evidence. When it comes to assimilation, it is hard to argue that current inflow of migrants is not assimilating because it has been quite recent.²⁸ As for diversity, it is not likely that the identity issues are now more important than they used to be in the past. In fact, the institutional ability to deal with diversity is if anything better now than it was the case in the last century. It may perhaps not be an exaggeration to argue that the international tensions that we observe now used to be internal tensions in the states and the empires of the past. Indeed, both the US and the EU are now in a position to take advantage of the increased diversity.

The last statement is predicated on the assumption that diversity is advantages in economic, social and cultural sense.²⁹ That may sound as a paradox, but that reaction is just an indication of the confusion that surrounds the discussion of the whole issue of migration. It is true that managing greater diversity stresses the need for institutional reform and development and that readiness for institutional reforms may be in short supply nowadays. But that has little to do with migration and everything to do with the weak political will that characterizes both the US and the EU at the moment.

²⁷ For a detailed account of the history of immigration into the USA see Zolberg (2006). For some reflections on the economics of the historical evidence on migration see O'Rourke (2004). For an overall assessment of economic effects of migration both on countries of origin and of destination see Global Economic Prospects (2006).

²⁸ For an influential study see Borjas and Katz (2005). For evidence that new immigrants are assimilating much as have the previous waves of immigrants into the USA see Card (2005).

²⁹ For some evidence that diversity is indeed beneficial see Ottaviano and Peri (2004).

Conclusion

The debate on immigration is completely detached from the facts as we know them or could know them and the inferences about it that are made in the public are hardly consistent. They are also not supported by economic and social theory, not to mention history because some of the most developed countries in the world are historically recipients of large inflows of immigrants if they are not outright products of immigration and colonization.³⁰ Just looking at the bulky facts – such as unemployment levels, working hours, wages and public finance problems – it is clear that the main economic characteristics have little if anything to do with immigration both in the US and in the EU.

In the US, in the period of rapid immigration, unemployment rates have been quite low, probably not very far from full employment. In the EU, the persistently high unemployment in a number of countries can hardly be blamed on immigration; it is hard to find a study of this intriguing macroeconomic fact that relies on immigration flows for an explanation. Similarly, the decline in effective working hours in most of Europe can hardly be blamed on the growing competition from the immigrants. As for wages, it is hard to find evidence for negative, and in most cases of any, effects of immigration on wages.

Similarly, neither public finance nor social problems can be traced to increased immigration. Immigration, if anything, may have positive effects on the long term sustainability of the public finances of the aging European and US societies. Internal security as well as the crime rates do not seem to have worsened in the last few decades and in fact internal security has most probably improved, in some cases like New York quite dramatically.

It is thus hard to avoid the thought that for some rather embarrassing reasons when it comes to issues of migration and the clash of civilizations, whatever that might mean, it is politically correct, even for most vocal advocates of free markets, to advocate building internal and external walls, the introduction or maintenance of discriminatory legislation and even ethnic cleansing through deportation.

³⁰ For a history of migrations into the USA see Zolberg (2006).

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