



## IN DEFENCE OF THE FREE MOVEMENT OF LABOUR

After EU enlargement, considerable migration can surely be expected. The sheer size of migration in itself, however, does not justify policy action. Small numbers could exceed the optimum level, and large numbers could fall below it. As long as the optimum cannot be calculated, no recommendations for migration policy can be derived from the estimated migration numbers.

In principle the migration of a portion of the Eastern European population is a good thing for Western Europe and for the EU candidates of Eastern Europe. Insofar as migration is motivated by wage differences between the countries, free migration choices lead to welfare gains in all countries. The sending country gains because the wage increases of the immigrants surpass the migration costs, and the target country gains because the immigrants' wages are below the value added that they create. A westward migration from the transformation countries, especially one that is self-correcting in the course of subsequent economic progress, is the hallmark of a reasonable transformation strategy. It would have been good if this principle had been followed in the process of German reunification. Econometric estimates are not required to reach this conclusion.

Two problems must not be overlooked, however. It is possible, firstly, that migration will encounter an encrusted labour market with rigid wages, and that domestic workers will be forced into unemployment as a result. Secondly, it cannot be ruled out that some migration will be motivated not only by wage differences but also by differences in the social systems. Both problems jeopardise the joint migration gains and should induce policy-makers to take action.

The distortion of migration by the social system is particularly problematic. The generosity of the redistributing state induces excess migration and threatens to erode the western European welfare states, since these states could engage in competition to reduce social benefits to discourage poverty migration. Numerous experts have pointed out

this danger, including the Advisory Council to the Germany Ministry of Finance.

Reacting to the insistence of the German government, the European Commission has proposed a five-year transition period during which migration quotas will be put into effect. This is a defensible but problematic solution since it lessens pressure on enacting domestic reforms. It would be better to create conditions in Western Europe that would allow Eastern Europeans to enjoy the free movement of labour immediately upon joining the EU.

In Germany this would require a reform of the labour market, including opt-out clauses for sector-wide pay agreements, a loosening of the wide-reaching dismissal protection laws, and especially a social welfare system, based on American and French models, that rewards initiative. Only by lowering wages in this way can jobs be created for the immigrants in the primary labour market without causing social hardship.

In addition, there should be a waiting period before immigrants have access to all tax-financed social benefits of Western European countries in order to correct the imbalance between what an immigrant receives from the state and what he contributes and to eliminate artificial migration incentives. Both the Ifo Institute and the Advisory Council to the Ministry of Finance have recommended such a policy.

Selectively delayed integration into the social systems of the target countries that would immediately grant entitlement to contribution-based benefits but would delay entitlement to certain tax-financed social benefits such as housing subsidies or supplemental social benefits is a major condition for the creation of a single European labour market. Anchoring this in EU law would not contradict the EU Association Agreements and would pave the way to European integration without government regimentation.

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