



Labour mobility in the euro area

September 20, 2011



The recent crisis has exacerbated the imbalances on the labour markets in the euro area. Unemployment figures in the GIPS countries remain at record highs, whilst other euro countries are unable to satisfy their demand for skilled workers.

Internal migration can be an effective way of reducing disequilibria on the labour markets, especially in a monetary union that does not have flexible exchange rates as an adjustment mechanism.

Migration flows have responded to high unemployment in the euro periphery. In Spain, for instance, the immigration surplus has shrunk from upwards of 700,000 in 2007 to a scant 63,000 in 2010. Without the reversal in the migration trend unemployment in Spain would be up to 1.7 percentage points higher and in Ireland as much as 3.5 points.

Europeans are apparently becoming more willing to relocate. The potential for internal labour migration is particularly high among young, well-qualified workers, who are especially hard hit by high unemployment in the peripheral countries despite their good qualifications.

Immigration from the euro periphery to Germany is likely to increase in the coming years given the relatively promising employment outlook there. However, our analysis suggests that inward migration will rise only moderately.

www.
dbresearch.com

Authors

Dieter Bräuninger
+49 69 910-31708
dieter.braeuninger@db.com

Christine Majowski
christinemajowski@web.de

Editor

Barbara Böttcher

Technical Assistant

Angelika Greiner

Deutsche Bank Research
Frankfurt am Main
Germany

Internet: www.dbresearch.com

E-mail: marketing.dbr@db.com

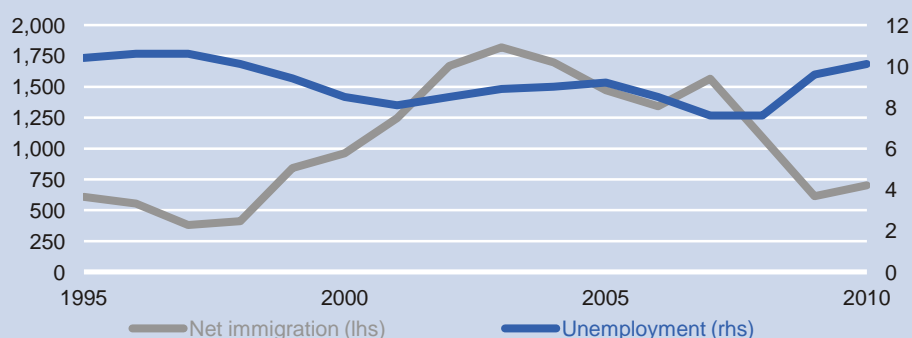
Fax: +49 69 910-31877

Managing Director

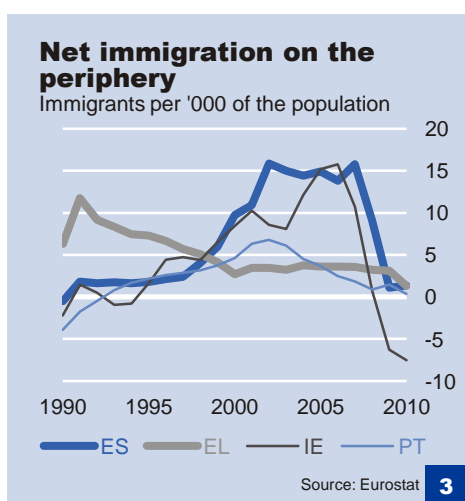
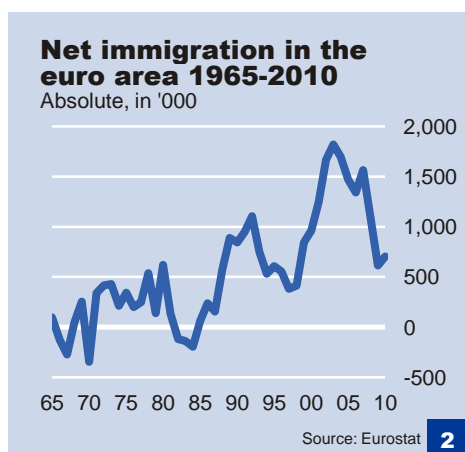
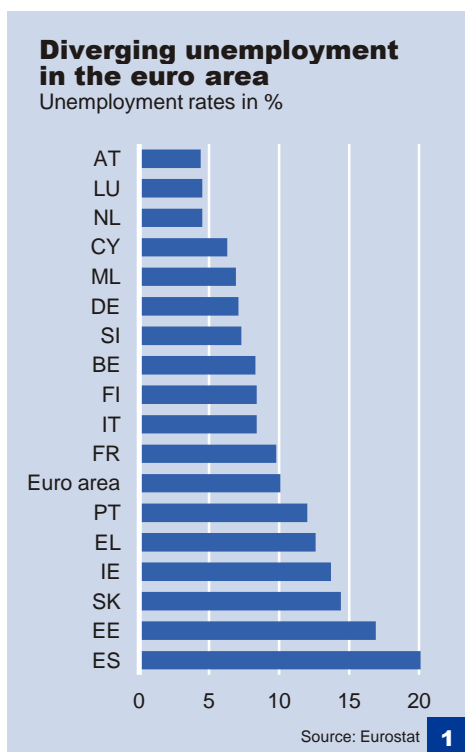
Thomas Mayer

Net immigration and unemployment in the euro area

Net immigration in '000, unemployment in %



Source: Eurostat



1. Introduction

Since the eruption of the financial and economic crisis, labour markets in Europe have trended farther apart. Many EU countries are registering record unemployment. Elsewhere, employers are unable to find any skilled staff. But greater labour mobility could act as a counterbalance to reduce joblessness in certain regions and alleviate the shortage of labour in others.

In a common economic area – and even more so in a single monetary area –, the migration of human capital plays an important role in labour market efficiency. Under flexible exchange rate regimes economic imbalances between countries are generally reduced through the appreciation or depreciation of their currencies – a mechanism not available in a monetary union. If prices and wages are also inflexible or if no further pressure can be brought to bear on them, what remains is labour mobility as an adjustment mechanism to reduce short-term and structural imbalances between regions.

However, in the past decades this mechanism has had only limited impact and has been very slow to work in the internal European market.¹ Comparatively little migration of labour has taken place within the EU. Will this sluggish adjustment process persist, or will we see an upswing in inward migration in the aftermath of the economic crisis?

This EU Monitor sets out to examine how migration flows in the euro periphery are reacting in the recent economic crisis, how they help level imbalances, and how they might develop in the years ahead from the perspective of Germany as a destination country.

2. Migration patterns in the peripheral countries

Pre-crisis migration trends

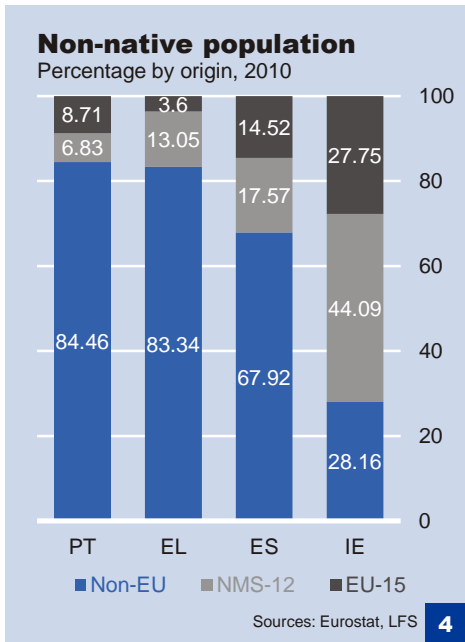
Whereas during the 1950s and 1960s labour (mainly migrant workers from Italy, Spain and Portugal) migrated to the core European countries, migration flows in subsequent decades exhibited a different pattern. Since the 1970s and 80s Italy, Spain, Portugal, Greece and Ireland have evolved from traditional outward into inward migration countries. This reflects their dynamic economic development in recent decades, which gathered pace chiefly in the years leading up to and after the establishment of monetary union and those countries' accession to the euro area. During that period the peripheral euro countries derived considerable benefit from favourable interest rates and capital inflows. The boom, increasingly driven by growth in sectors with heavy demand for low-skilled labour – such as the construction industry, the services sector and tourism – attracted massive inward migration flows.

During this period Spain advanced to the major migration magnet in the EU. Between 2000 and 2007 an average of more than 730,000 people a year settled there. Over a third of these (around 250,000) came from the EU. As a result Spain registered the second largest influx of migrants in the OECD, outpaced only by the US.²

In 1995 Ireland notched up its first positive migration balance (i.e. net immigration) in decades. No other European country saw higher net in-migration in the pre-crisis years per head of the population. Relative to the total population, the share of migrants soared from

¹ See Bonin et al. (2008); Puhani (1999); Zimmermann (2009).

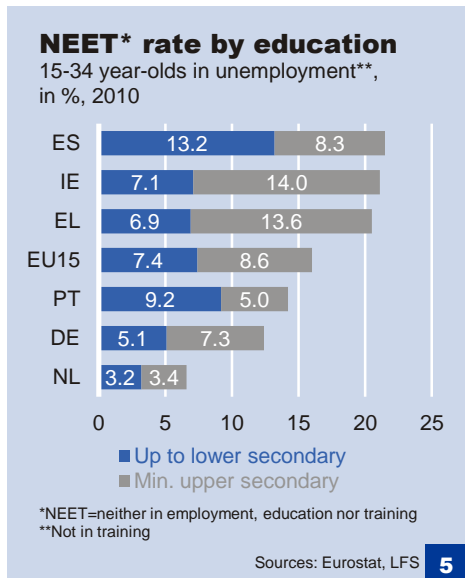
² See IOM (2010).



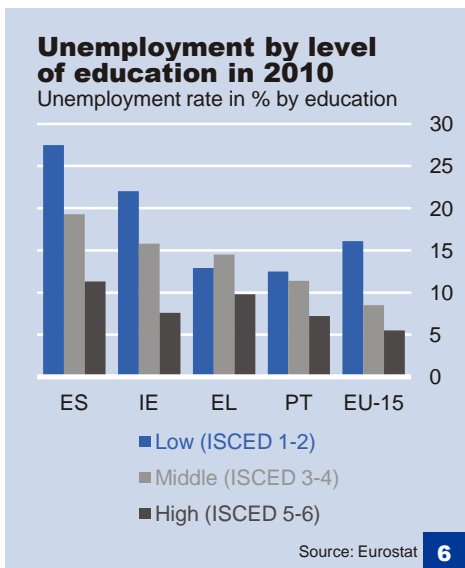
3.2% in 2000 to 12.5% in 2008. The structure of migrants to Ireland differs considerably from that in the other countries analysed inasmuch as most migrant workers – unlike those moving to the peripheral countries of Southern Europe – come from EU countries (2010: EU-15 28%, EU as a whole 72%). What is more, they are exceptionally well trained – around three-quarters of people from the EU-15 are educated to tertiary level – and young – 83% are of working age.³

Slump on labour markets in the crisis

The recent crises have hit the labour markets in the previously booming euro periphery particularly hard. Whilst many euro countries have shown signs since early 2010 of gradual economic recovery, stabilisation has not yet reached the countries on the periphery. The jobless tally there is far higher than in some core countries such as Germany, where unemployment in 2010 was only 7.1% (see Graph 1). Spain registered the highest proportion of people out of work in the EU last year at 20.1%. In Ireland, Greece and Portugal unemployment levels in 2010 were similarly above average, ranging between 12 and 14%. And the opening months of 2011 have seen further increases. In all the countries examined the crisis on the labour market has taken its heaviest toll among young workers, low-skilled labour, men and migrants from non-EU countries and the new EU member states.



In a downswing **young employees** are frequently the first to be laid off – partly because they are often on fixed-term contracts or other atypical employment arrangements. In many cases this is the result of rigid employment structures for older staff, who cannot simply be dismissed when new orders dry up.⁴ But a low level of education is another contributory factor. In Portugal and Spain, for example, the percentages of school and vocational training dropouts are more than twice as high as the EU average, hitting 37 and 31% respectively in 2007. During Spain's pre-crisis construction boom, for instance, many young Spaniards abandoned their training to cash in on the good earnings to be had in that sector. However, well-qualified young people – notably in Ireland and Greece – are also feeling the pinch of high unemployment (see Graph 5).



The impact of the crisis on **migrants** – above all labour from non-EU countries – is particularly severe. Additionally, in Ireland and Spain above-average numbers of citizens from the new EU member countries are without work. Indeed, in Ireland their jobless rate is higher than that of immigrants from non-EU countries. One reason for the generally high unemployment is that immigrants are often employed in sectors severely affected by the crisis, such as construction, manufacturing and the hotel and catering trade.⁵

As would be expected, consideration of the unemployment rate by level of education indicates that the **lower the educational attainment** the higher the risk of being without work. Greece is a notable exception: there, the unemployment rate for people with secondary level education in 2010 is 1.6 percentage points higher than for people with a low level of education (see Graph 6). Part of the problem here lies with closed professional guilds, resulting in poor labour market permeability for medium-skilled workers. This means, for example, that day labourers stand a better chance of work than truck drivers. But on the whole the level of education in

³ See MPI (2010).

⁴ See European Commission (2008); European Commission (2011b).

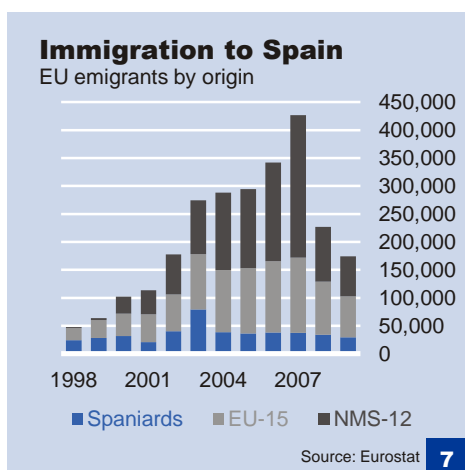
⁵ See Koehler et al. (2010); MPI (2010).

Greece, as in Portugal, is a less serviceable means of explaining the extent of unemployment, because people across the entire educational spectrum are affected by joblessness on a similar scale.

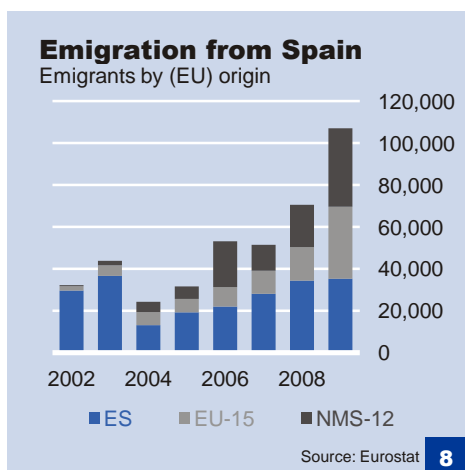
Gender also makes a difference, with the crisis affecting **men** far more severely than women. This is because sectors featuring a very high proportion of male workers – such as the construction business and industrial manufacturing – have suffered sharp declines. However, in areas dominated by women, like social services (e.g. nursing) and private households, there has been little alteration in demand. Consequently the female unemployment rate has risen comparatively less steeply.

Shift in migration patterns triggered by the crisis

The massive contraction in employment has had a huge impact on migration flows. Countries with high net pre-crisis immigration, such as Ireland and Spain, are seeing people depart in droves. Inward migration figures have also tumbled sharply, with Spain registering the strongest absolute decline in net immigration. Even so, with the exception of Ireland the countries concerned still have a migration surplus. In Portugal for instance the strong outflow of EU-15 nationals was made up for by the arrival of larger numbers of eastern Europeans, chiefly Ukrainians and Moldavians.⁶ Many Romanians and Bulgarians have continued to move to Spain.⁷ Persistent immigration by certain groups of migrants is due partly to the fact that conditions in their country of origin are in some cases even worse.



7



8

Relief for labour markets through migration

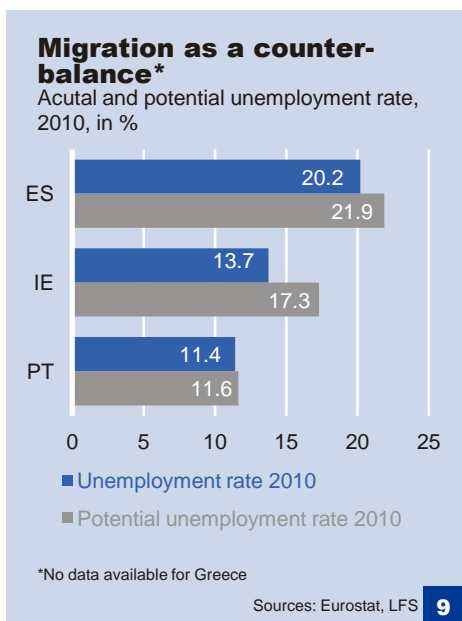
Without outward migration the imbalances on the respective labour markets would be even more pronounced. To ascertain the extent of relief resulting from migration we have run a simplified model calculation, although the absence of suitable data meant we were unable to include Greece. We assume that during the crisis years 2008 and 2009 just as many immigrants would have entered the respective country and just as many emigrants would have left it as they did in 2006 and 2007. On the basis of these potentially extra people in the relevant country we can calculate the additional potential size of the working age population.⁸ For Ireland, Portugal and Spain it works out at 89,200, 13,600 and roughly 498,000 respectively. We further assume that this additional working age population would not have found work in the shorter term owing to the current crisis and inflexible labour markets and that they would have been recorded as additional jobless persons in the national unemployment statistics.

So had these workers arrived or not left the country even during the crisis, in the case of Ireland this would have made a very profound difference of 3.5 percentage points in the jobless rate. For Spain it would still have added on 1.7 percentage points (see Graph 9). That would put considerably more pressure on the respective job markets. Higher labour mobility could bring relief to the labour markets on a similar scale.

⁶ See INE 2010.

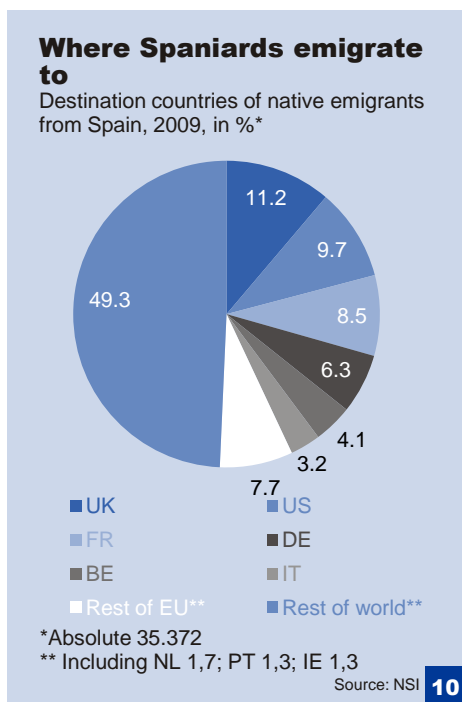
⁷ See Koehler et al. 2010.

⁸ The additional potential size of the working age population is calculated as follows: (potential non-emigrants * average share of 15 to 64 year-olds in emigrants + potential additional immigrants * average share of 15 to 64 year-olds in immigrants) * participation rate of foreigners in the workforce.



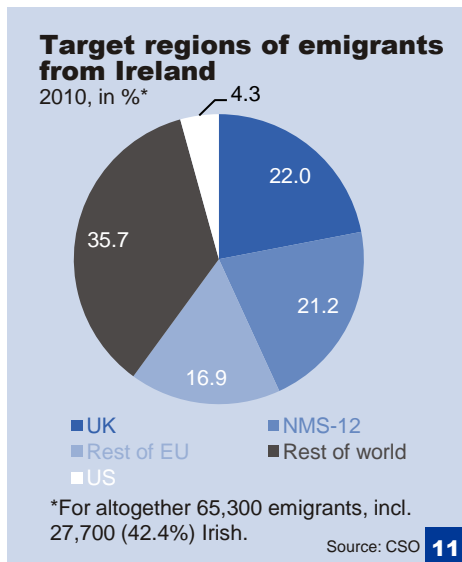
Both before and during the crisis immigrants from non-EU countries were generally more mobile,⁹ balancing out at least part of the labour market disequilibria. This higher mobility can be attributed to the often less favourable employment situation – caused for example by fixed-term contracts or other atypical arrangements in sectors particularly sensitive to the business cycle – and to looser ties with the destination country. But migrants from the new EU countries, Poland in particular, also react comparatively more sensitively to cyclical fluctuations and thus help offset some of the imbalances.¹⁰ In the present economic crisis, however, more locals also appear to be migrating.

At present there is no way of assessing the scale of migration by local labour from the peripheral countries. This is due partly to the inadequate data situation. For one, it is difficult to record migration data systematically (also with regard to characteristics such as age and education) due to the free movement of people within the EU. For another, much of the more recent data on inward and outward migration is not yet available. Modelling of migration flows triggered by the recovery of some economies in the euro area since the beginning of 2010 and by persistent stagnation or recession in other countries is therefore still limited.



Latter-year destinations for emigrants from the periphery

No recent data exists on the destinations of most emigrants from the southern European periphery, especially those from non-EU states. Of the 324,000 people who left Spain in 2009, for example, the destinations of only 75,000 are known. Even for the 72,000 EU citizens (excluding Spaniards) who emigrated from Spain in 2009, the Spanish statistics indicate a destination for only a relatively small proportion, i.e. roughly 16,400. All that is comprehensively known is where Spaniards emigrated to in 2009. They headed chiefly for the United Kingdom, the United States, France and Germany (see Graph 10). For Ireland statistics are at least available by largish target regions. They show that the majority of emigrants from Ireland in 2010 (2009), namely 22% (18.3%), made their way to the UK, which is to say that in 2010 Britain attracted more immigrants from Ireland than the entire group of new EU member states, which registered a share of 21.2%. In 2009 the NMS-12 still clearly topped the list, on 35%. This reflects the extremely high level of migration from Ireland at that time by citizens of those 12 countries. In 2010 (2009) 16.9% (10.1%) emigrated to the EU-13 (= EU-15 excluding Ireland and the UK) (see Graph 11).

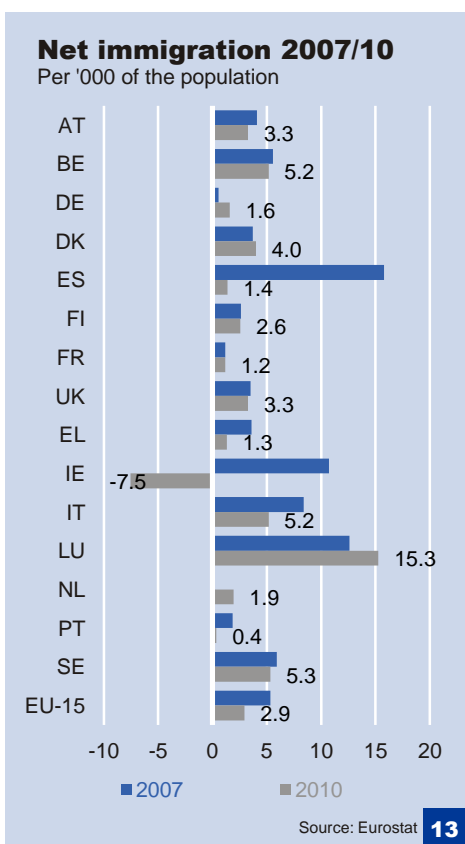
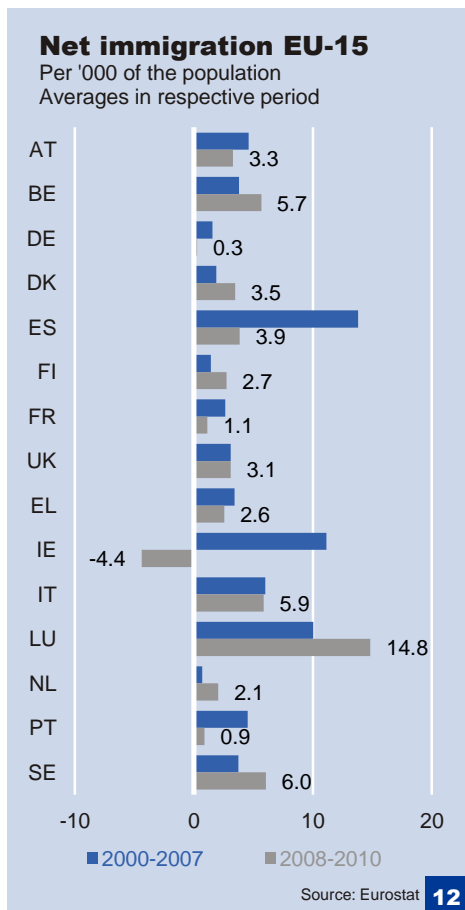


The statistics available suggest that so far Germany has played only a minor role as a destination for immigrants – all the more so if we consider immigration relative to population size. Per head of the population more people still moved to Spain, Greece and Portugal between 2008 and 2010 than to Germany, as illustrated by Graph 12.

In the crisis years 2008 and 2009 net emigration from Germany amounted to 68,600 in total. It can be argued that people left the Federal Republic at that time because the economic outlook was uncertain even though the labour market was comparatively robust. When, in 2010, Germany began to show signs of dynamic economic development by international standards, it already attracted net immigration of 130,000.

⁹ See European Commission (2009); MPI (2010).

¹⁰ See Glismann/Schrader (2011); Koehler et al. (2010).



But even in 2010 Germany is still one of the worst performing EU-15 countries in terms of net immigration relative to its population. In 2010 1.6 people per thousand of the population immigrated to Germany, scarcely more than in the crisis-ridden countries Spain (1.4) and Greece (1.3). Instead, relative to the population size and after deduction of the number of emigrants (i.e. net), between 2008 und 2010 migrants from the EU-15 preferred to heed the call of Luxembourg, Sweden, Belgium and Italy.

So what does the future hold? The peripheral countries are facing a protracted period of adjustment. They are not likely to see the high growth rates needed for a sustained recovery in employment in the coming years. Particularly in Greece – but also in Spain given the extremely high level of unemployment at present there – it will probably take years for the employment situation to claw its way back to its pre-crisis level. In all probability more workers from the periphery, especially on the southern rim of Europe, will migrate in the short and medium term to the economically stable member states.

Europeans' readiness to migrate

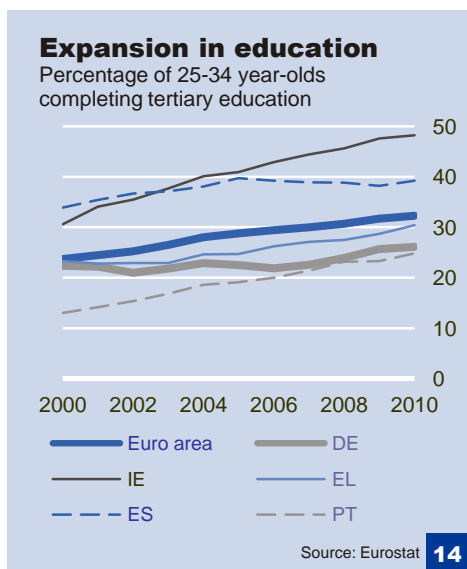
Surveys and statistics on the use of job placement websites, as well as reports from public authorities and the media, also suggest that EU citizens are becoming more willing to relocate within the Union.

A representative Eurobarometer survey from 2009 indicates that the **younger** and **better educated** Europeans are, the more willing they are to work abroad.¹¹ Those who have already gained **experience abroad** in their training and employment are also more willing to consider seeking jobs elsewhere in Europe. 14% of the EU-15 citizens polled had already spent time training and working in another European country. The percentages are roughly the same in all age groups. Consequently, after comparatively few years of work the younger generation can already draw on a similar amount of experience abroad as the older generations. With a share of around 19%, young Spaniards and Irish rank in the upper middle segment.

Destinations in other EU countries certainly seem popular with young Europeans, possibly making them more open to the idea of working elsewhere within the Union. In a Eurobarometer survey of 15 to 35 year-olds conducted in 2011 53% said that in view of the poor employment prospects they wished to work temporarily or permanently in another European country.¹² A disproportionately high number of these were young Spaniards (68%), Irish (67%), Greeks (64%) and Portuguese (57%). The higher the level of education the greater is the wish to work in other European countries (55% with higher qualifications versus 33% less qualified respondents).

Young Irish, Portuguese, Spaniards and Greeks cited the lack of work available in their geographic region or area of specialisation and mediocre payment for the jobs that were available particularly often as the main reasons for poor job prospects after their training. It is interesting that very few young people perceive the lack of adequate qualification as a problem when looking for work. Only 8% of Greeks gave this as their first or second reply. Yet the Greek education system with its inadequate practical focus is considered particularly deficient. 17 to 21% of Portuguese, Irish and Spanish

¹¹ See European Commission 2010.
¹² See European Commission 2011c.



respondents ticked this box. The European average worked out at 25%.

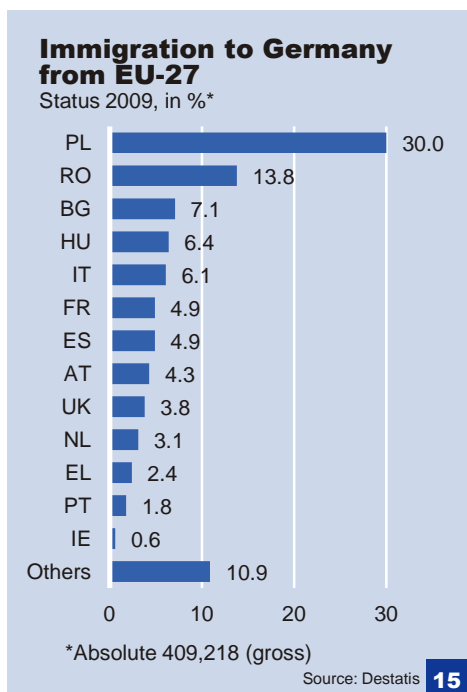
The statistics from the European job portal Europass also indicate that young workers are more actively seeking alternatives abroad.¹³ Of the Greeks, Irish, Portuguese and Spaniards who submitted their full CVs in 2011 approximately 80% were under 35 years old. Of course age will have a distorting effect here given that young people use the internet more often than older people. Even so, the considerable interest shown by young employees does provide insights into their willingness for mobility. The high proportion of users from the peripheral countries who already have work experience (70-80%) and knowledge of more than one foreign language (61-65%) signals a middle to high level of education on average.

There are a variety of reasons for the young generation's basically relatively high willingness to move. For one, young people tend to have fewer ties and are thus more flexible. Experience abroad, for example through Erasmus exchange programmes, has become widespread. And the past decades have witnessed a marked improvement in the level of education, accompanied by more extensive knowledge of foreign languages. Young people on the euro periphery in particular are now attaining higher levels of education than any previous generation. In Portugal the share of academics has almost doubled in the last ten years alone. In Ireland it has risen by almost two-thirds and in Greece by one-third.

3. Destination Germany?

But according to a Eurobarometer survey from 2009, EU-15 citizens willing to migrate do not view Germany as the most attractive destination.¹⁴ At that time most of the countries to which they gave preference were located outside Europe, namely in the US and Australia. At least the UK and Spain then followed in third place ahead of Canada. Only for respondents from the new member states did Germany top the list of potential destinations, followed by the UK, Austria, Italy and the US.

There are by all means cogent reasons for this choice – especially for highly qualified people from the EU-15. Taxes and contributions are higher in Germany than in such popular destinations as the UK, the US, Canada and Australia. The wage level is lower – even if skills-specific pay levels can vary considerably. Added to which, the red tape in Germany is often daunting. There are 60 regulated professions alone – for doctors, teachers and ophthalmologists, for example – in which qualifications must be recognised by an official body or professional association. But as the shortage of skilled labour grows more acute, the recognition process is likely to be simplified.¹⁵ However, the greatest barrier for many people is the language, even if knowledge of English is now considered sufficient in some areas. 63% of the Spaniards polled by Eurobarometer, for instance, said that language in general was a major obstacle to emigration.¹⁶ Other industrial countries also vying for skilled labour often have lower barriers to market access for immigrants.



¹³ See Europass (2011).

¹⁴ See European Commission (2010).

¹⁵ In July 2011, the Federal Government abolished the priority check for doctors and engineers specialised in electrical and mechanical engineering and vehicle construction from non-EU countries. This check permits the recruitment of non-EU nationals only if no German worker can be found to fill the post (see ZAV (2011)).

¹⁶ See European Commission 2010.

Economic determinants of migration

In economic migration theories wealth differentials, as expressed in, say, wage differentials, and employment opportunities, as reflected in unemployment rates, are among the key factors influencing labour migration.* Wealth differentials may also be typified in social security systems. Whilst these differ in the euro area in terms of their size and the generosity of their benefits, in the short term social welfare systems are fairly irrelevant as a pull or push factor within the euro area. After all, basic social security is guaranteed in all countries. Entitlements going beyond this are largely acquired over a certain number of contribution years in accordance with the principle of equivalence. And anyway, the complexity of the various systems makes it very difficult for people to compare them.

Wage levels, labour market fluctuation and social security systems aside, there are other pull and push factors that impact on migration decisions. Geographic proximity and, most importantly, language play a decisive role. Hence much of Irish workers' mobility is due to their emigration to the UK, as well as to the US and other English-speaking countries, whilst the Portuguese most often feel the pull of Spain and the linguistically related countries France and Italy.

Also significant is the length of stay in the destination country. The longer the stay, the better are the chances of employment and the stronger the social ties. Existing social networks also act as pull and push factors. Close family ties of the kind found comparatively often in the southern countries make people less mobile, whereas social networks abroad facilitate a move there.

Institutional conditions are also instrumental; in recent years they have improved in general. The free movement of persons is now taken for granted. Companies are becoming increasingly international in their outlook. But lingering inconsistency in the recognition of professional qualifications remains something of a problem in certain areas. As a result many immigrants are over qualified for their jobs. This is the case with 20% of migrants from other EU countries and with fully 60% of highly skilled non-EU citizens.**

However, as the shortage of skilled staff grows more acute this problem will resolve itself to a greater extent through market mechanisms.

* See Baas/Brücker (2010); Puhani (1999); Sjaastad (1962); Zimmermann (2009).

** See European Commission (2009); Koehler et al. (2010).

Nonetheless, Germany has a strong suit in competition for immigrants from the Union. It has emerged stronger from the crisis than any other European country. At present the labour market is sending out the most positive signals in a long while. Young employees in particular stand a comparatively good chance of finding work in Germany, where the most recent statistics (July 2011) show youth unemployment running at 9.5%, less than half the euro area average (20.5%, Eurostat data). For skilled labour the outlook is especially good, given that 1.3 million academics will already quit active employment in this decade as they reach retirement age.¹⁷ In the next decade another 1.8 million will follow. This situation is compounded by the need for more qualified staff as a result of the ongoing structural shift towards a high-tech and knowledge-intensive society. Engineers, IT specialists and doctors in particular, as well as social service providers such as nursing staff and carers, are in constant demand.

There is much to suggest that the message is gradually getting through. In 2010 Germany notched up a migration surplus of roughly 130,000. Public agencies and the media report growing interest among Spaniards in particular.¹⁸ The EU job mobility portal has registered a sharp surge in inquiries from Spain regarding employment in Germany. Job fairs and recruitment exchanges organised by German businesses and the labour office are attracting considerable interest among Spaniards, and demand for the language courses offered by the Goethe Institute has doubled within the space of a year. Increasing numbers of Irish and Greeks – mainly young academics – are also looking abroad.¹⁹

So far, however, these reports signal nothing more than increased interest. It remains to be seen in the coming months and years whether the potential immigrants actually end up in Germany. What dimensions is immigration from the euro periphery likely to assume? Using an estimate model, in the following chapter we attempt to make a rough calculation of the potential scale of immigration.

Potential immigration to Germany from the periphery based on an estimate model

The assessment model presented here explains the net immigration rate – i.e. net immigration relative to the population of the source country (H) $migrate_{H \rightarrow DE,t}$ – of Greeks, Irish, Portuguese and Spaniards taking Germany (DE) as their destination with reference to the following factors (see also the box in the left-hand margin):

- the welfare gain expected, expressed in the (purchasing power-adjusted) **wage ratio** between the destination and source country $(y_{DE}/y_H)_{t-1}$ and between DE and a relevant alternative destination country (A),
- the improvement expected in job prospects, expressed as the ratio of **unemployment rates** in the source and destination country $(ue_H/ue_{DE})_{t-1}$ and in relevant alternative destination countries relative to Germany, as the actual destination $(ue_A/ue_{DE})_{t-1}$
- and the residual or error term ϵ_t .

Relevant alternative destinations are taken into account here since conditions in, say, Portugal and Germany are not the only factor influencing the decision by Portuguese to move to Germany. The

¹⁷ See BA (2011).

¹⁸ See ZAV (2011).

¹⁹ See MPI (2010).

relevant situation in France, the country to which the most Portuguese workers emigrate, also plays a part.²⁰

The independent variables are expressed in logarithms as it seems logical to assume that immigration, rather than growing in linear form, will also exhibit saturation effects. Since the components are expressed in logarithms, the effect of the preceding plus or minus sign is not apparent. The principle applies that if the ratio of wages and unemployment rates is comparatively more favourable for Germany (i.e. >1), the sign preceding the corresponding coefficient will be positive providing the explanatory variable has the expected effect. If, however, the ratio of wages or unemployment rates is less favourable for Germany (<1) – e.g. if the wage level is higher in Ireland – the sign should be negative.²¹ The independent variables also refer to the previous period (t-1), since the migration decision will presumably be taken with a time lag (in this case of one period).

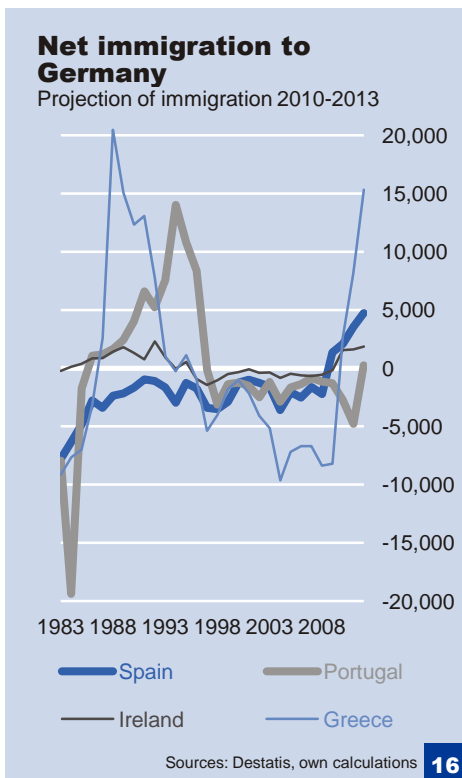
In an initial model (M1) alternative destinations are not taken into account, in contrast to model M2, which is set up as follows:²²

$$\begin{aligned} \text{migrate}_{H \rightarrow Z,t} = & a_0 + a_1 * \log(y_{DE}/y_H)_{t-1} + a_2 * \log(ue_H/ue_{DE})_{t-1} \\ & + a_3 * \log(y_{DE}/y_A)_{t-1} + a_4 * \log(ue_A/ue_{DE})_{t-1} \\ & + \epsilon_t \end{aligned}$$

The results of the regression analysis show in Table 17 that the coefficients are mostly preceded by the signs indicating the effect expected. If, for example, the wage ratio between Germany and Greece (in model 2) changes by 1% in favour of wages in Germany, the net immigration rate of Greeks rises by 17 percentage points. If the ratio of Greek and German unemployment rates (and the ratio of British and German unemployment rates) changes by 1% in favour of better chances of employment in Germany, the net immigration rate of Greeks climbs by 1.7 points (and 6.9 points respectively). If moreover the ratio of wages in Germany and the UK changes by 1% in Germany's favour, the immigration rate of Greeks soars by 52.7 points. Since the level of pay in the UK is higher than in Germany, the ratio of wages is less than one (<1). The logarithm is negative, meaning that the product of this and the negative coefficient is positive. The results for Ireland can likewise be interpreted by the relevant coefficients. Only in the models for Portugal and Spain do two variables not have the expected effect.

The low significance or lack of significance of coefficients in some of the other models can be ascribed to the small number of observations. This is due to the fact that labour in Portugal and Spain has enjoyed freedom of movement only since 1993 (seven years after accession to the EU). The number of observations is consequently 17. In the case of Greece and Ireland observations are also limited since some of the data does not go back far enough. A higher number of observations would increase the significance of the models accordingly. For all models the F-Test shows at least low significance.

In general, migration estimates are subject to considerable uncertainties. The net immigration rates and net immigration in the years 2010 to 2013 as calculated by using the assessment model



²⁰ This model makes no allowance for the influence of social networks, nor for the fixed effects language, geographic distance and culture. Baas and Brücker (2010) state that the less comprehensive models tend to put a higher estimate on immigration to Germany than fixed-effects models.

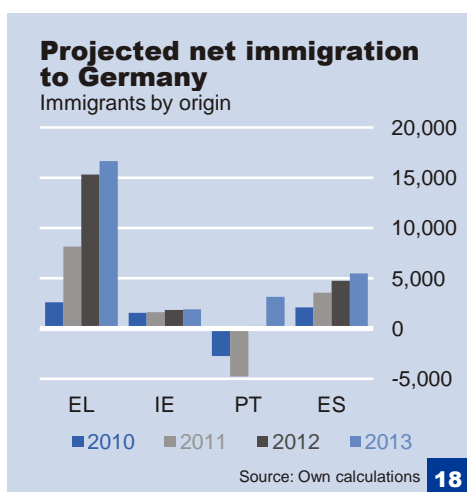
²¹ The model further assumes that emigration from Germany works on the same principle as immigration.

²² In model 1 the second line of the equation does not apply.

Model	GR		IE		PT		ES	
	M1	M2	M1	M2	M1	M2	M1	M2
Constants	-0.518	-0.9836 **	0.0416	0.1599	-7.3378 ***	-7.1481 ***	0.006	-0.0817 *
log(yDE/yH)t-1	1.6796	16.952	*** -1.789	-1.0684	39.2	*** 41.707	*** -0.9944	-0.7026
log(ueH/ueDE)t-1	5.6023 **	1.6685	1.1405 *	0.7428	-3.2857	*** -1.618	0.1124	-0.0301
log(yDE/yA)t-1		-52.693	***	-5.1831		-48.318	*	2.4013 ***
log(ueA/ueDE)t-1		6.8496	***	0.8067		2.126		0.2534 *
A		UK		UK		FR		IT
N	24	24	26	26	17	17	17	17
Adj. R2	0.1986 **	0.7422	*** 0.4976	*** 0.5145	*** 0.7395	*** 0.7634	*** -0.0474	0.4952 **

Significance levels: *<0.1; **<0.05; ***<0.01.

Sources: Destatis; Eurostat; IMF (2011), own calculations **17**



and presented in Graphs 16 and 18 should therefore be taken as rough estimates. They suggest that in the coming years more Greeks in particular will move to Germany. Moderate net immigration by Spanish and Irish workers is also to be expected. According to the estimates the flow of Portuguese workers will not begin to pick up until 2013.

Uncertainties with regard to the number of future immigrants and their age structures and qualifications also make it difficult to gauge the impact of migration on employment. Most studies indicate that the effects on wages and the labour market will be marginal.²³ In ageing societies distinct welfare gains are likely as immigrants swell the potential size of the economically active population, contribute to consumption and tax revenues and help finance the social welfare systems. All the more so if – as discussed in the earlier part of this chapter – the majority of immigrants are young and well qualified.

No danger of brain drain

It is often said that before further immigration takes place the still latent potential of the national labour market should be activated. Whilst this is certainly important, in the face of demographic change it will hardly suffice in the long run to alleviate the shortage of skilled workers. On the other hand, criticism is already being voiced that the targeted recruitment of skilled foreign labour is causing a brain drain detrimental to the source countries' economies.

It is certainly true that the peripheral countries need sustained growth prospects of their own. Structural reform is therefore urgently required, above all on the labour markets. Exceptionally high youth employment in particular reflects a lack of flexibility in those countries' employment structures. Even with stringent reform policies, it will presumably therefore be several years before employment regains its pre-crisis level. At least for this period, internal migration within Europe may be a sensible way of coping with the crisis. Mobile workers can, for one, help redress imbalances and, for another, they may have better job and training prospects abroad than would have been open to them (temporarily at least) in their native country. Then when they return home it will be with better qualifications. A period of work experience abroad boosts career opportunities, especially for university graduates.

²³ See European Commission 2009; Möller/Walwei 2009.



4. Conclusion

In the aftermath of the economic crisis net immigration in the euro periphery, which had previously attracted exceptionally high numbers of immigrants, has nosedived. In absolute and relative terms Spain and Ireland have experienced much higher emigration and less immigration. While the impact on Portugal and Greece has been less pronounced, it does exist.

However, with the exception of Ireland immigration surpluses remain, suggesting that labour mobility is relieving only part of the pressure on the respective jobs markets. But without the rise in emigration and drop in immigration the imbalances on the individual countries' labour markets would be even more onerous. According to our model unemployment in Ireland in 2010 would have been 3.5 percentage points higher and in Spain 1.7 points.

So far, however, this adjustment is being driven primarily by altered migration patterns among non-EU nationals. But considering the protracted adjustment period that the euro periphery countries now face, an increase in migration by domestic workers is certainly likely, with survey results and reports from employment authorities pointing in this direction.

In relation to its size, however, Germany managed in 2008 and 2009 to attract only a comparatively small proportion of this migrant labour. But a relatively robust economy and improved employment conditions in Germany, coupled with the comparatively worse economic situation in the United Kingdom and other popular European destination countries, suggest that in the near future a larger proportion of European migrants could head for Germany.

The results of our estimation model point to the possibility of increased immigration, mainly by Greeks but also Irish and Spaniards. On the whole, however, we expect fairly moderate immigration from the periphery – particularly in comparison to earlier waves. And in contrast to earlier trends, nowadays mainly young, well-qualified people appear to be seeking employment abroad – also in Germany. The stimulus for the German economy would be correspondingly positive, especially in an environment of increasingly scarce skilled labour.

But the shortage of qualified staff is one that internal migration within the euro area can only partly alleviate, all the more so since demographic change means that in the medium term well-trained young talent will be in short supply throughout the whole of Europe. What we therefore need right now is to improve education and employment opportunities with a skills drive and labour market activation offensive whilst also putting in place better conditions for the immigration of specialists from non-EU countries, in order to maintain Germany's position as an attractive industrial location.

Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)

Christine Majowski (christinemajowski@web.de)

Literature

- BA Bundesagentur für Arbeit (2011). Der Arbeitsmarkt für Akademikerinnen und Akademiker in Deutschland. Arbeitsmarktberichterstattung. Nuremberg 2011.
- Baas, Timo / Brücker, Herbert (2010). Wirkungen der Zuwanderungen aus den neuen mittel- und osteuropäischen EU-Staaten auf Arbeitsmarkt und Gesamtwirtschaft. WISO-Diskurs. September 2010.
- Bonin et al. (2008). Geographic Mobility in the European Union: Optimising its Economic and Social Benefits. IZA Research Report No. 19, Expertise for the European Commission.
- CSO Central Statistics Office Ireland (2010). Population and Migration Estimates. April 2010.
- European Commission (2008). YOUTH Final Report. Pathways to work: Current practices and future needs for the labour market integration of young people.
- European Commission (2009). Employment in Europe 2008. DG for Employment, Social Affairs and Equal Opportunities.
- European Commission (2010). Geographical and Labour Market Mobility. Special Eurobarometer 337. DG for Employment and Social Affairs.
- European Commission (2011a). European Economic Forecast. Spring 2011. DG ECFIN.
- European Commission (2011b). European Employment Observatory Review. Youth employment measures 2010. DG Employment, Social Affairs and Inclusion.
- European Commission (2011c). Youth on the Move. Flash Eurobarometer 319b. DG Education and Culture.
- Europass (2011). Statistics. Online at <http://europass.cedefop.europa.eu/> Status: 25/07/2011.
- Glissmann, Hans H. and Klaus Schrader (2011). Grenzenlose Freiheit auf Europas Arbeitsmärkten – Ausgrenzung in Deutschland? In Wirtschaftsdienst 5, 2011. Pp. 315-322.
- INE Instituto Nacional de Estatística Portugal (2010). Revista de Estudos Demográficos No 48. Edição 2010.
- IOM (2010). Migration and the Economic Crisis in the European Union. Implications for Policy, http://publications.iom.int/bookstore/free/Migration_and_the_Economic_Crisis.pdf
- Koehler, J. et al. (2010). Migration and the Economic Crisis in the European Union: Implications for Policy. IOM Thematic Studies, IOM, Brussels.
- Möller, Joachim and Ulrich Walwei (Ed.) (2009). Handbuch Arbeitsmarkt 2009: Analysen, Daten, Fakten. IAB-Bibliothek. Berlin.
- MPI Migration Policy Institute (2010). Migration and Immigrants Two Years after the Financial Collapse. Where Do We Stand? BBC World Services. MPI, Washington.
- Puhani, Patrick A. (1999). Labour Mobility – An Adjustment Mechanism in Euroland? Empirical Evidence for Western Germany, France and Italy. Centre for European Economic Research (ZEW). Mannheim.
- Sjaastad, Larry A. (1962). The Costs and Returns of Human Migration. Journal of Political Economy. Vol. 70. Pp. 80-93.
- ZAV Zentrale der Auslands- und Fachvermittlung der Bundesagentur für Arbeit (2011). Online at http://www.arbeitsagentur.de/nn_29928/Navigation/Dienststellen/besondere-Dst/ZAV/ZAV-Nav.html
- Zimmermann, Klaus F. (2009). Labour Mobility and the Integration of European Labour Markets. IZA Discussion Paper Series, No. 3999. IZA, Bonn.

© Copyright 2011. Deutsche Bank AG, DB Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht. In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange regulated by the Financial Services Authority for the conduct of investment business in the UK. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.

Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg