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EAST-WEST *Migration*

ALTERNATIVES

East-West Migration

The Alternatives

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Preface

The World Economy Group is an independent group of leading economists set up by WIDER to report on major economic issues. Last year they produced a widely acclaimed report on the general problems of economic transition entitled *Reform in Eastern Europe*. This year they comment on one of the huge problems that have been unleashed by these reforms.

This is the problem of migration. As the barriers between East and West have come down, so the pressure to move west has manifested itself. This poses the West a tremendous problem. For decades it preached about the inequities of penning people into their homelands. Now the East is willing to let them go, and the West is saying they cannot come. This raises major economic and social issues.

The authors put forward with great clarity the classic economic argument in favor of the free movement of labor. This is that, when people move in pursuit of higher wages, they are raising their own productivity. But the group also point to the social problems that migration can cause in both the receiving and the sending country. This leads them to examine other ways in which productivity can be raised without people moving.

There are two classic means. The first is trade. If trade barriers come down, workers in the East can produce for Western markets just as well as if they were working in the West. The group therefore argue strongly in favor of a European free trade area covering all countries East and West. But, as they point out, this will by no means eliminate the income gap between East and West. The migratory pressure will be only partially abated.

The other classic method for reducing income gaps between countries is the international flow of capital. Again the group point out that this can be only a smallish part of the total investment funds needed for economic development. But it can be a crucial part. If, like the Marshall Plan money, it has the right conditions attached, it can trigger good policies, which will do more to raise living standards than everything else put together. The group argue strongly for an imaginative aid package for the former Soviet republics, including a consolidation of the debt.

Do free trade and capital flows make migration unnecessary? The group do not think so. They argue that Europe should permit immigration of skilled workers on the same scale as the United States does. They show convincingly that this can do little if any harm to the existing Western workers. They have more anxiety about the impact of brain drain on the East. But to deny all hope of exit is to deprive the East of a vital safety valve and its citizens of a basic human right.

This is a stimulating report, full of information and penetrating economic analysis. I commend it to all the many policy-makers concerned with the wide range of issues covered in the report.

Lal Jayawardena

Director of WIDER
Helsinki
9 December 1991

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1 Overview

In West Berlin wages in dollars are ten times higher than in Poznan—less than 200 miles away. So a Polish worker can increase his income by a multiple of ten by a quite simple move.[1] Table 1 gives the comparable figures for other countries in Eastern Europe.

These disparities are not of course new. But there used to be a Berlin Wall. Since 1989 everything has changed. All Eastern European countries now let their citizens leave (and reenter) as they wish. The former Soviet Union is the sole exception, and there anyone will be able to leave from the beginning of 1993.[2]

Where income disparities are massive and movement becomes a possibility, the pressure to move is intense. And it will become much stronger as unemployment rises in the East. Until the income gap is reduced, the pressure to migrate will remain.

How much actual migration occurs will be governed by Ohm's Law, as in the flow of electric current. The flow will be proportional to the difference in income levels and inversely proportional to the resistance. So should the West resist?

Table 1
Wage gaps and populations, 1990

	Wage per hour (US $)	Population (millions)
Eastern Europe		
Poland	0.7	38
Hungary	0.7	11
Czechoslovakia	0.8	16
Bulgaria	0.2	9
Romania	0.6	23
Yugoslavia[1]	1.1	24
USSR (European)[2]	0.9	222
Eastern Europe (total)	0.9	343
Receiving countries		
Germany (West)	11	61
France	8	56
Italy	11	57
UK	8	57
EC (total)	9	340
EFTA (total)	13	25
Western Europe (total)	10	365
USA	13	250
Canada	13	27
Australia	14	17

Sources: Wages in Eastern Europe: Average monthly wages in local currencies for Poland, Hungary, Romania, Bulgaria, and Czechoslovakia taken from UN Economic Commission for Europe, *Economic Survey of Europe*, 1990–1991. Exchange rates from IMF, *Financial Statistics*. Hours worked per month taken from ILO, *Yearbook of Labour Statistics*, 1989–1990.

Wages in receiving countries: Average wage is taken from ILO, *Bulletin of Labour Statistics*, and updated by OECD, *Main Economic Indicators*, July 1991, p. 21, unless otherwise stated. Exchange rates from IMF, *Financial Statistics*.

Population: UN *World Population Prospects*, 1990.

1. Calculated from local currency wage quoted in ILO, *Yearbook of Labour Statistics* for 1988, and updated from OECD, *Quarterly Labour Force Statistics*, vol. 2, 1991, p. 168.

2. These figures are for Russia, the Baltic republics, Ukraine, and Belorussia. USSR average wage from *Houston Four*, vol. 2, p. 201, with the average weighted by employment from *Houston Four*, vol. 1, p. 230, table 31, converted at the commercial rate of Rs 1.8 = $1.

The Alternatives

In a world without controls, three main processes would operate that would eventually eliminate the income gap and thus the pressure to migrate.

1. Labor would flow to the West, where capital abounds.

2. Capital would flow to the East, where labor abounds.

3. Goods and services would be traded in both directions.

The first two processes would raise capital/labor ratios in the East toward those in the West, thus raising incomes in the East toward Western levels. Trade would also tend to equate capital/labor ratios in any given industry by letting the East export labor-intensive goods and import capital-intensive ones. This would tend to equalize real wages and rates of profit without the need for people to migrate westward or capital to move east.

So is the answer a total deregulation of the movement of labor, capital, and goods—as is the aim within the European Community?

There is an overwhelming case for complete freedom of trade, including agricultural as well as industrial products. But at the very least the European Community should offer the Eastern countries a free trade agreement like that being worked out between the United States and Mexico.[3] There is no special virtue in bringing Easterners to the West to produce labor-intensive goods, rather than enabling them to produce those goods at home and then sell them abroad.

Private capital flows are also a part of the solution. At present capital is biding its time, each investor wanting to be sure there are enough others, plus a prospect of political and economic stability. In this context a political lead is essential. Free trade is one key, since it enables Western investors to use cheap Eastern labor to capture Western markets. But clear property rights, free markets, and macroeconomic stability are also essential.

The East is poised between entry into a virtuous circle of economic reform and reconstruction and entry into a vicious circle of rising prices, leading to populist Latin American–style solutions and thus to further economic disaster. Sound economic policies will be extremely difficult to implement since they involve short-term pain. In this context external aid, conditional on good policies, can be a key catalyst. A major function of external aid is as a bribe to generate consensus in support of sound policies.

Most governments, including for example the British government in 1976, find it easier to administer a bitter pill if it is prescribed by a foreign doctor rather than by themselves. The same is true of most organizations—otherwise how could management consulting be such a flourishing industry? But the international management consultants based in Washington and Brussels need to bring real money with them to be convincing. Like Marshall Plan aid it will be tiny relative to domestic savings. But like Marshall aid it can make a big difference to the whole tenor of reform, and eventually restore the private capital flows that were moving before 1914. Debt relief will also help. But without new money, the international head teachers will find it difficult to influence their new disciples.

Reform in the East is in the interest of all, but above all of Western Europe, which will benefit from the new demand for its exports and from the diminished pressure to migrate. So Europe will have to pay a disproportionate amount.

But what else shall we do about the migration of labor? Should this too be unconstrained? It cannot be. For migration, though it benefits the migrant, can inflict external costs on those who live in the host country and in the country of origin. It has to be regulated if major social tensions are to be avoided. But by no means should it be forbidden. Freedom of movement is a basic element of human dignity, and this must include the prospect of being able eventually to migrate. The mingling of new people, though often painful, can bring new life to a nation, as has happened before with immigration from Eastern lands.

The concept of a "common European space" would be meaningless without permitting substantial permanent movement from East to West. The issue has to be not "Whether" but "How many?"

The Pressure to Migrate

One can hardly think about this without trying to estimate the likely pressure to migrate. There are currently about 3.3 million ethnic Germans in Poland, Romania, and the former Soviet Union.[4] Under the German constitution any German has the right to settle in Germany, and the majority of those in the East will probably move in the next decade.[5]

To form an idea of how many others would like to move, we can probably best look at the migrations from Southern Europe in the 1950s and 1960s and from Mexico in the 1970s and 1980s. Neither migration was uncontrolled (since most migrants were legal). But the numbers who actually moved provide some minimum estimate of the fraction of (non-German) people in the East who would want to move if they could. The estimate is probably a minimum because the costs of information and travel are constantly falling, and there is also the possibility of real economic and political disaster in the East.

Between 1950 and 1970 almost 3 percent of the population of Southern Europe shifted into Western and Northern Europe (5 million people), and a roughly equal number moved to the Americas. Since 1970, 4 percent of the population of Mexico has shifted into the United States. Are Europe and the United States together ready to accept say 3 percent of the population of the East? This would imply (in addition to say 3 million Germans) some 4 million others from the former Soviet satellites and 6 million from the European Soviet area—perhaps 1 million would-be immigrants a year.

If there were major ethnic conflicts or famine, the numbers could be much higher. If the worst happened, we should be talking about refugee camps and disaster relief. But we shall concentrate on the less dramatic scenario of say 1 million people a year wanting to move for many years to come.

Such migration has happened before. In the years before the First World War this was the rate of migration into the United States alone. But are we ready for it now?

The Response

Leaving aside refugees, the United States at present admits each year 160,000 primary migrants (without family ties in the United States). Europe admits virtually none. One response for Europe would be to persist in these policies. But this would be wrong. If people wish to move to better themselves, there is a strong presumption that they should be allowed to do so. Such moves generally increase world output.

There may of course be negative externalities: social tension and additional fiscal burdens imposed on others. And these can justify limits on those types of migration that impose such external costs. Clearly skilled workers are much less costly for the West to absorb, on both cultural and fiscal grounds. And there will be a high proportion of them willing to leave the East. We would therefore urge that Europe admit at least as many people as the United States currently admits on nonfamily grounds, and (like the United States) give preference to skilled workers. The United States should also increase its quota.

But, comes the reply, this will divest the East of just the workers that it needs in order to rebuild. The issue, however, is not so clear-cut. In the first place, emigrants invariably send home remittances that often exceed the whole of their income in the country they left. Such remittances are a major source of financial capital inflow (in Yugoslavia, Turkey, and Portu-

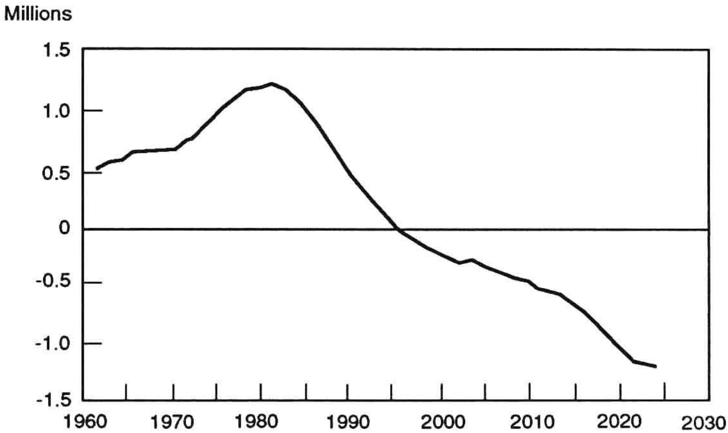

Figure 1
Net entrants to the Western labor force per annum, 1961 to 2025, assuming that participation rates remain constant at the level of 1985. (Source: Eurostat, referred to in Coleman, 1990.)

gal they finance a quarter or more of imports).[6] Moreover emigrants rarely lose touch with their native land and often return, acting as major conveyors of know-how.

Others will object that Western Europe just cannot absorb any more bodies. Fortunately it does not have to. The growth of the Western European labor force is nearly at an end (see figure 1). There is a sharp decline in the number of young people, which in some countries has already led to shortages of young workers. More important, as time proceeds there will be fewer and fewer people of working age to support each elderly person or child. Thus there can be major fiscal advantages to the West from importing youngish, skilled workers who can help to support the old, and will in due course be supported by the fiscal contributions of their own children.