

*The Integration of European Labour Markets*

edited by Ewald Nowotny, Peter Mooslechner, Doris Ritzberger-Grünwald

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The ongoing economic integration of Europe in recent decades has been accompanied by the gradual establishment of free movement not only of goods and capital but also of labour. Within the EU, the implementation of the Single European Act of 1987 permitted citizens of EU states to reside and look for a job in any other EU member state. The enlargements of the EU toward the east in 2004 and 2007 further extended the right to work to citizens of the new EU member states, albeit with transitional periods. While labour remains relatively immobile in Europe, the opening of these borders as well as the observed worker flows raises the question of how these have influenced European labour markets. The book under review documents and analyses the changes in labour markets in European countries in recent decades focusing on the impact of inter-country labour mobility, as well as of trade, upon variables like wages, employment, demand for infrastructure, contributing to the formulation of the appropriate migration and labour market policy. While the book contains papers presented at a conference on the topic ‘The integration of European labour markets’ held in Vienna in November 2008, i.e. before the escalation of the current financial and economic crisis, their analyses, conclusions and policy implications seem very relevant to the design of the current and future labour market and migration policy at national and EU level.

Besides a short introduction by Ewald Nowotny, the Governor of Oesterreichische Nationalbank, there are thirteen chapters divided into three parts. Part I deals with the effects of migration on the labour market and consists of four chapters. In the first chapter, entitled ‘Labour mobility and the integration of European labour markets’, Professor Zimmermann starts from the evidence that labour mobility in an ageing Europe, even though beneficial, is too little. He then argues that Europe needs skilled labour, which is complementary to available capital and unskilled labour and it should

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be attracted through immigration. Within this framework, he proposes a plethora of policy measures at state and EU level to encourage selective immigration, albeit some, like the 'obligatory stays abroad in the educational sector', sound challenging. While the well written paper by Zimmermann inspires the reader to think about the appropriate migration policies, it is not clear whether all EU member states, north, south, east and west, large and small, face the same migration policy challenges.

Chapter 2 by Joaquin Arango presents Spain's policy difficulties in managing labour immigration in recent decades, which are representative of the southern EU countries. Spain, where immigrants from 1 million in 2000 increased to 5 million in 2008 with manifold positive impact, was facing a consistent gap between the demand for immigrant workers and restrictive admission policies, as exercised through annual quotas and nominal job offers. This excess demand for migrants, however, bred high levels of irregular immigration. Despite stricter measures against irregular immigration taken in 2000, following a large regularization programme, it increased remarkably again, leading to a new large regularization in 2005 and the simultaneous widening of legal entry of migrant workers for temporary jobs and jobs difficult to fill. While Arango considers it premature to evaluate these measures, he speculates that the current economic crisis might show that the 'the party is over and that the decade ending in 2007 was an exceptional period'.

Chapter 3 by Gabriel Felbermayr and Wilhelm Kohler looks at the differences between international movements of goods and capital on the one hand and international migration on the other to explain why countries, although generally favourable towards international trade, are rather reluctant to agree to obligations on international migration. At an analytical level they show that, unlike international trade, in the case of international migration, because it involves movement of people, it is not feasible to establish a compensation mechanism (via tax-cum-subsidy) in the migrant receiving countries for those segments of population negatively affected by immigration, unless immigrants are discriminated against.

The chapter by Peter Egger and Doina Maria Radulescu examines the role of national migration policy upon foreign direct investment on the presumption that the latter involve cross-border flows of skilled employees within the firm. To examine this they approximate migration policy by a Migrant Integration Index (MIPEX), which takes as a benchmark the highest European standards specified in European Community Directives regarding migrant's access to employment and citizenship. After empirical estimates they conclude that the more liberal the institutional settings for immigrants in receiving countries, the higher, *ceteris paribus*, the FDI flows.

The next five chapters belonging to Part II investigate European migration patterns after the EU enlargement in 2004 towards Eastern Europe, which is considered a natural experiment in testing many migration hypotheses. The chapter by Herbert Brücker systematically examines the migration movements that evolved after this en-

largement (the various transitional periods adopted by incumbent countries seems to have affected the size of immigration flows), relates these flows to economic factors such as income differences and employment opportunities, as well as to institutional causes, and presents econometrically-derived immigration projections from the new member states to the old ones, which are not substantially different from the recent past, although they may have contracted because of the current crisis. The chapter by Katarzyna Budnik is a thorough study of Polish emigration to the UK after the EU enlargement. Using data on Polish-born workers resident both in Poland and in the UK after Poland's accession to the EU and applying appropriate econometric techniques (switching wage regression with double selection) Budnik examines whether Polish workers behaved rationally in the sense that they maximized the returns of their observed and unobserved skills by either migrating or staying home. In their contribution, Stephen Nickell and Jumana Saleheen examine whether immigration to the UK affects average occupational wage by region, measuring the pressure of immigration upon this wage with the immigrant-native ratio by region and occupation, which turns out to have a small but significant negative impact.

The last two chapters of this Part study the effects of emigration upon the new EU member states. The chapter by Radek Malý and Christoph Maier (both at the European Commission) raise the issue of labour shortages and brain drain in these countries of origin. After reviewing available statistics they argue that, while some new EU member states with high mobility suffer from labour and/or skill shortages, migration is not the main reason. The chapter by Vesselin Mintchev deals with emigration and remittances in the Balkans, focusing on Bulgaria. Despite the paucity of statistical information, Mintchev provides interesting evidence on the economic and migratory developments in Balkan countries, and offers estimates of Bulgaria's emigration potential and of remittances made by returning Bulgarians.

The final Part III is devoted to the effects of international trade or of broader economic integration upon labour markets. In particular, chapter 10 by Giuseppe Bertola, written in concise style, analyses the relation between international economic integration and the efficiency of each country's labour market policy. Following the standard labour market analysis, he demonstrates that international economic integration, by making labour demand more wage elastic, worsens the (un)employment side effects of national labour market policies, while in his empirical section, exploiting the introduction of the EMU in 1999, provides evidence supporting his argument. The chapter by Henryk Kierzkowski, entitled 'New trade in New Europe', initially provides an informative presentation of the economic justification, evolution and extent of outsourcing between the old and new EU country members, and then discusses, at a theoretical level, the potential effects of outsourcing upon employment and wages.

The last two contributions concern the effects of economic integration upon wages. In chapter 12, Éva Katalin Polgár and Julia Woerz investigate the potential effects of international trade on wages following a macro approach. Their empirical specification concerns the effects of trade ratio on average wages at industry level within the EU25. Despite the significant positive and negative effects of trade upon certain wages, they turn out to be extremely small, indicating that international trade cannot be considered as a decisive factor in wage determination. While Wolfgang Pointner, in assessing the effects of international trade upon wages in Austria, uses micro wage regressions which also include trade variables, it is doubtful whether his results identify any systematic link between the examined variables.

Overall the book is carefully written and presents certain new evidence on recent labour market developments in European countries, contributing significantly to the debate on the economic effects of international trade and of the EU enlargements. The reviewer considers himself to have benefited by reading this volume and believes that the same would hold for many other academics, researchers or practitioners