«Unlimited Migration? An Economic Perspective»

The "Engelberg Dialogues" focus on one of the four basic freedoms of the Single Market guaranteed to all EU member countries and their citizens, namely the free movement of labor. Viewed from an economic standpoint, the free movement of labor has one major virtue: it fosters the movement of labor to those regions where it is most valued resulting in a more efficient allocation of labor and increased economic growth.

With the introduction of the Euro, the free movement of labor has gained new and added importance. Before the Euro, countries that got into financial straits could regain their competitiveness simply by devaluing their currency. Yet with a common currency, this possibility vanished. Adjustment must now come through a painful wage and price deflation, productivity-enhancing investments or emigration. Thus in the Euro area, emigration has taken on an important equilibrating function. It has a down side, however. It can lead to depopulation, as eastern EU countries are now experiencing, threatening the economic viability of the sending countries.

Citizens in host countries tend to be skeptical of immigration, fearing that labor competition could threaten their wages and employment. Although, economic research generally finds these worries to be unfounded, they nevertheless seem to persist. Moreover, these fears appear to depend on the public's perception of the fiscal burden that immigration imposes. Here too, economic findings suggest that misgivings are unfounded.

The impact of immigration on wages and employment in the host country depends strongly on the cause of immigration, specifically, whether it's employer or immigrant-driven. Immigration is employer-driven (or endogenous) if it serves to fill positions in the host country that would otherwise remain vacant, and immigrant-driven (or exogenous) if it occurs irrespective of the labor market situation in the host country. In the former case, which applies to much of labor migration in Europe, immigration takes the pressure off an otherwise tight labor market and has no effect on wages and employment except to prevent demand-induced wage inflation.

Although market-driven, employer-induced immigration may nevertheless be suboptimal from a societal perspective inasmuch as the costs and benefits underlying an employment decision are solely those of the employing firm and not those of society as a whole.

To date, migration research has concentrated more on immigration than on return migration, although the size of a foreign population depends on both. Normally the focus is on net migration, which equals the difference between the two. Surprising for some, net migration and hence the foreign population can increase even if immigration falls. Return migration need only decrease by more. Moreover, return migration varies by skill. The high skilled tend to come and go, while the less skilled are prone to come and settle. These insights have important policy implications.