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Integration of migrants in the EU: lessons and implications for the EU migration policies

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Abstract. Our paper deals with the specific aspects of immigration and the effects that the integration of immigrant groups may have in the national income. Through an appropriate analysis, this research attempts to provide a description of the immigration phenomenon in the EU, the consequences of it in the labor markets and the relation with the distinct integration policies implemented by the EU countries.

Since the European Union enables free mobility among its Member States, certain EU countries have become attractive destinations because of the working conditions and/or employment opportunities. As a result, some EU nations have experienced the inflow of large amount of immigrants and disturbances on their labor markets.

With regard to the above, the concept of immigration surplus stipulating that immigration phenomenon might trigger off a process of redistribution of wealth that could in turn enhance the volume of production and increase the national income can be applied for analyzing these processes. In addition, we find that deeper integration of immigrants into host countries can lead to higher levels of economic success. Therefore, we conclude that the high level of integration may lead to an increase in the immigration surplus of the host countries.

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1. INTRODUCTION

European Union (in particular some of its Member States) have long became very attractive and appealing destinations for international migrants (both the EU nationals and nationals of the third countries). Even though the reasons why people decide to migrate to the EU and within the EU are diverse, the European Commission (2011) denoted that since 1995 migration for work issues and employment search have become the main reasons for moving from the home countries (EU Commission, 2011). Thus, there are mostly economic reasons why labor force decides to seek higher revenues and better working conditions in foreign labor markets.

Bilan and Strielkowski (2016), Čajka et al. (2011), Stanek & Hosnedlová (2012) and Stojanov et al. (2011) affirm that immigrants choose host countries according to the ability to absorb the additional labor supply that they can provide. As a result, certain EU Member States have experienced the inflow of large amount of immigrants and disturbances in their labor markets. The migration policy makers, labor associations, trade unions and general society confront the constant dilemma of the consequences of allowing labor migrants to enter their countries and interact in their society (Borshchevska, 2012). A common concern about this phenomenon and that might shape the policies implemented regard that immigrants come into a country without any contribution to society and that may only take advantage of the conditions of the labor market.

This paper deals with the specific aspects of immigration that can describe the implications of this phenomenon and the effects of it in the national economies of the member states in the EU. Is immigration beneficial for enhancing economic growth? Do locals benefit from the mobility of foreign workers or just the immigrants perceive the positive effects? Does this amount in labor supply just represent a threat for the employment in the long run? These research questions can shape the analysis and provide pattern for locating the research within the European space because of the economic importance of the region and the heavy inflow of migrants into it (e.g. the incident off the shores of the Italian island Lampedusa).

For practical purposes, the immigration indicators chosen for the analysis will be limited and will just include foreign-born or third country nationals, with a legal status. This paper also deals with the impact on migration, especially labor migration, on the economic and social development of the host countries (represented in this work by the EU Member States and other selected countries). Migration issues have represented a point of interest of numerous research papers and books; although certain inconsistencies can be observed in the results from study to study, most of them agree on the negligible or insignificant effect of it in the local economy.

2. LITERATURE REVIEW

When it comes to migration and its impact on wages, there are several sources that might be taken into account. For instance, using a meta-database that consists of 348 wage effects collected from 18 studies, Longhi et al. (2005) analyzed the general effect of migration in native wages. They concluded that from the percentage variation in wage of a native worker with respect to a 1 percentage point increase in the ratio of immigrant labor force over national workers is just about a decrease of 0.119%. The effect was lower in countries inside EU while in the United States is higher.

Furthermore, Lemos and Portes (2008) analyzed the impact of one of the largest migration inflows in the UK during the years 2004 to 2006. The empirical analysis found little hard evidence that reveals the entrance of these groups contributed to the fall in wages or raise the unemployment. In another related investigation, Lemos and Portes (2008) analyzed the impact of migration from the new EU Member States on native workers. The empirical study showed some results about the correlation between the immigration inflow and the unemployment rate. A one percentage point increase in the proportion of the migrant labor force (among the working age population) might decrease the unemployment rate in the EU Member States by 0.015 percentage points. Nonetheless, the estimated coefficient also resulted as insignificantly different from zero.

The findings that reveal the investigations, and is of critical importance, is defined that even when the effects of immigration to foreign labor markets are marginal or minimal, these might lead to positive results, contrary to the concerns of policy makers. As mentioned in "The impact of migration from the new European Union Member States on native workers" (Lemos and Portes, 2008) actual labor markets can be able by now to show proper flexibility and speed of adjustment in case of disturbances.

This paper employs the co-called "Immigration Surplus" designed by George Borjas (1994, 1995) that emerged with the purpose of describing the consequences of the labor mobility process through the effects on labor markets. This concept has been chosen for this research because it can concisely reflect the measure of the positive or negative effects of immigration at the aggregate level of national income. Even when the methodology used by Borjas (1999) could be a bit robust, it represents one of the few procedures that intend to measure such a complicated aspect as immigration.

Likewise, is intended to analyze the economic implications of the various levels of integration in the member states of the European Union in regard to the effects of labor immigration on the local economy. This aims to explain whether the benefits or damages caused, and expressed by the Immigration Surplus, can be enhanced or reduced with high levels of social and economic integration.

In a lack of a common immigration policy frame between Member States, the aspect of integration of immigrants present different scenarios among countries of the region (Bilan, 2014a,b; Miłaszewicz et al.). In some nations, immigrants might experience greater difficulties to interact, work and/or adapt than in others. Thus, the inability to coordinate efficient integration strategies can lead to a situation of inefficient allocation of resources by the public institutions (Trbola, 2011) and a limitation to the possible positive benefits raised by immigrants.

These barriers of integration can contemplate issues such as complications while entering the labor market, higher costs of migration and lower disposition of immigrants to receive lower wages because the cost of stay in the country is high.

The Research and Evaluation Group of DTI Associates and Levine prepared a collection of five research papers for the Bureau of International Labor Affairs and the United States Department of Labor (see Chao and Levine, 2004). In these papers is described the role of immigrant integration in the labor force in regions such as North America and Europe. It is also addressed cases where the integration of foreign workers into the local labor force represents a way to enhance the market or to compensate a social issue that might harm the economy in the future (e.g. the aging condition of the European labor force).

Flynn and (2013) as well as Hennebry and Preibisch (2012) described Canada's immigration program as an active measure to integrate refugees and immigrants to economy and society. Even when there were signs in the early 1990s that showed an increase in the rate of low incomes, probably related to the foreign worker inflows, the second half of the 1990s revealed an improvement in the economic growth. Initiatives such as foreign credential recognitions, language training, internships, bridging programs and others focused their efforts to help immigrants to access labor markets and thus contribute to the market and economy growth.

Differently from other countries with high immigration levels, the Unites States has no explicit immigrant integration policies or programs. In "*The Economic Integration of Immigrants in the United States: A Review of the Literature*" (Goździak and Martin, 2004), the authors explain that even when the country lacks of immigrant integration strategies, this process occurs within the civil and private spheres. "*Almost all immigrants to the United States are sponsored by family members or employers who take a principal role in ensuring their adaptation to the new country*" (Goździak and Martin, 2004). In this way, the labor market has a peculiar characteristic and is so flexible that the immigrants could easily find opportunities to be employed and integrate at certain level to the society. Upward mobility between jobs and positions also characterizes the American labor market, thus the immigrants have more possibilities to increase their incomes. Certainly, this case serves as an example where integration is not properly in charge of a public institution but still denotes the benefits the can be enhanced with it; is important to remember that this is a rare characteristic of the labor market in the United States.

The report "*Migration, Labor Markets, and Integration of Migrants: An Overview for Europe with a Comparison to the U.S.*" (Münz, 2004) details the aging issue in Europe. Longevity and low fertility rates characterize this population where domestic working populations seem to be eventually shrinking. Additionally, this condition also increases the demand of low skilled workers. Another elaboration entitled "*Recruitment of migrants from third countries is increasingly appearing as the main way of responding to the growing demand for medium and high skilled labor"* discussed by Münz and Fassmann (2004), who implicate that after 2010 many countries would have to develop pro-active migration policies to meet burgeoning demographic and economic needs. In the short term the recruitment of immigrant labor force from East European countries will be able to compensate the aging issue, later the EU Member States will appeal to labor resources in third countries. Thus, if the EU intends to maintain economic growth in the area might need to deploy integration strategies that encourage migrants to work within the Member States by offering them sufficiently attractive conditions. These integration strategies can include certain selection parameters of immigrants that match with the complementarity condition depicted in the Immigration Surplus, thus, benefits from the migrant inflows can be achieved. To quote: "*Migrants most likely to help match shortages of labor and skills and with the best chances to integrate are probably those who are able to adapt to changing conditions, by virtue of their qualifications, experience and personal abilities*" (Münz, 2004).

3. IMMIGRATION SURPLUS

The increase in the migration flow of migrants and immigrants in the European Union have led to the fact that countries should confront a change in the composition of societies with different kinds and levels of education, skills and labor preferences between other important cultural factors. These heterogeneous societies have generated for several years the discussion about the economic implications and the benefits or damages that this kind of activity can generate in the welfare of the nationals and the nation's macroeconomic indicators.

It is mainly because of this characteristic of diversity that the complementarity between the labor force and capital can arise and bring benefits to the host economies where immigrants reside. These benefits can be measured in monetary terms, for instance in the form or the so-called "immigration surplus" coined by George Borjas (1994).

In order to understand the concept of immigration surplus, we should settle the research in a host competitive economy with market clearing framework, without externalities and that allows the free movement of factors of production from one country to another so that the welfare and efficiency could increase. For the practical purposes of this research, it will be ignored the negative effects that immigration might cause when the host country is facing a problem of structural unemployment.

Our paper will follow the same methodology implemented in "The Economic Benefits from Immigration" (Borjas, 1994) to compute the immigration surplus from the EU member states. Borjas (1994) establishes a production function with just two inputs; labor force and capital: $Q = f(K, L)$. The segmentation of labor force can be presented as follows: $L = N + M$, where N is s native labor force and M is an immigrant labor force.

Additionally, it must be assumed all workers are perfectly substitutes between each other, capital and labor force supplies are perfectly inelastic and there are constant returns on scale. The price of each factor is equal to its individual marginal production, where and represent the price of each capital and labor unit respectively at the *n* time. Finally, the entire output of the production function is entirely distributed to the workers and the owners of the capital.

Once the assumptions of Borjas model have been set, is necessary to first describe the equilibrium before the arrival of the immigrant labor force. The capital and the native labor force produce certain amount of national income in the time *0*. Thus, the production function for the time period 0 can be presented in the following way: $Q_N = r_0K + w_0N$.

Since the capital supply is inelastic the total output of this closed economy is the area delimited by the marginal product labor line. The area (A,B,*N*,0) in Figure 1 represents the national output of the economy in the time period *0*.

Now, we should explain the changes in the equilibrium after the arrival of the immigrant labor force. Since it has been already assumed, the labor force supply is perfectly inelastic and all workers are perfect substitutes between each other, the entry of this group will result in a shift to the right of the labor supply curve.

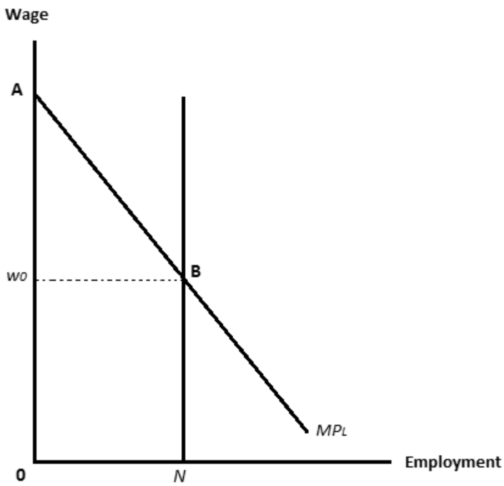

Figure 1. Market equilibrium before the entrance of immigrants

Source: Borjas (1994).

Figure 2 shows the changes in the wage and employment levels after the entry of the foreign born and third-country nationals. The two scenarios (before and after the arrival of immigrants) can now be compared and in this way visualize the changes in national income, wage and employment. As a result of the shift, the level of wage will decrease from to , this means the level of employment will increase from *N* to *L*.

Now the two scenarios can be compared and analyze the changes in national income, wage and employment. As a result of the shift, the national income will increase and now it will be represented by the area (A,C,L,0). The level of employment will increase from *N* to *L*. The level of wage will decrease from to because part of the national income is now directly distributed to immigrants; this redistribution is represented by the area (D,C,L,N). The immigration surplus, that represents the gains (or losses) resulting from the changes on the labor market caused by migration, is delimited by the area (B,C,D).

The gains can be raised because the market wage matches the marginal productivity of the last unit of labor hired and the immigrants bring the possibility to increase the national income by more than the cost of their employment. Even when the natives face a fall in their wages and a decrease in their welfare, the negative effect is not as big as the increase in the income that the owners of the capital will experience.

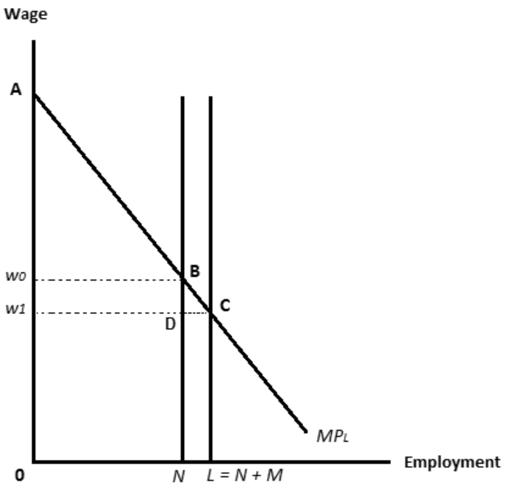

Figure 2. Market equilibrium after the entrance of immigrants
Source: Borjas (1994).

To measure the approximate value of immigration surplus from the time *0* to time 1 we can compute the value of its area in the figure 2. This area can be expressed as: *Immigration surplus* = $\frac{1}{2} * (w_0 - w_1) * M$.

Borjas reformulated the equation in order to express the immigration surplus as the fraction of the national income that was enhanced by the foreign and third-country nationals.

The size of the immigration surplus will be conditioned by the elasticity factor price of labor and the increase in the national income will react proportionally to it. The greater the changes in wage due to an increase in the labor supply, the greater will be the resulting immigration surplus. Inversely, if the wages are not so sensitive to changes in the labor supply it will be hard to increase the income.

It is also important to remark that both production inputs (*L,K*) should have a complementary relation rather than to be perfect substitutes one of another; immigrant labor force must complement the capital owned by natives to achieve a positive reaction. If capital and labor complement each other means the elasticity of factor price is large (absolute value) and natives will experiment bigger benefits from the entry of immigrants. In the other scenario, if labor and capital are easy substitutes one of another the migration surplus will be small and natives will hardly benefit from the immigrants.

Through the concept of immigration surplus is possible to discern one of the main ideas that shapes this research, the entry of migrants to an economy that offers them employment opportunities may result in economic benefits for the general economy.

Another key finding in Borjas' research is related to the redistribution of wealth. Even if the immigration surplus represents a small increase in the national income, the amount of wealth that is transferred from the native workforce to the owners of the capital occurs in a larger quantity.

Figure 2 showed the fraction of the total income that is directly transferred to the foreign born and third-country nationals (area (B,C,D)). It also showed the fraction of wealth that is transferred from the labor force to the capital owners. Area (represents this redistribution of wealth.

4. LIMITATIONS OF RESEARCH

The immigration surplus framework faces various limitations due to the number of assumptions used to calculate it. In the following section will be presented some of the cases where the concept can be restricted:

a) Immigrants augment the stock of capital
Let's suppose the case where the immigrant labor force entries the host country and each of these owns a certain amount of capital. After their arrival, the labor supply force will increase as well as the amount of capital used in the production function. Since the changes in the labor market had been compensated in some way by the new capital, the adjustments in wage won't be so sensitive and the resulting immigration surplus won't be as large as following Borjas assumption. The immigration benefits could be nullified if the capital increases in the same proportion than the increase of the labor force.

b) Correlation between the native's wage and immigrants "share"
Borjas presumes that the existing correlation between the natives' wages and the immigrant share should not exhibit a small impact in the opportunity of foreigners to access the native earnings. This kind of correlation might serve as a measure of acceptance of the local labor market to the immigrants, however, if the owners of capital and employers are still interested to improve their production through lower labor costs, migrants will continue having access to this native earning no matter the level of correlation estimated.

c) Labor unions
The role of unions could significantly alter the principles of the immigration surplus. With the entry of immigrants into the host economy, wages must be reduced in order to generate the wealth redistribution and an increase of national income. However, unions will hardly allow a fall in wages due to an increase in labor supply. If the mobility of the factors of production consents the new labor market conditions, the native workers must choose between accept the new salaries or quit their jobs. This scheme could lead to an increase in the unemployment rate and general discontent of nationals. Once the native population is not pleased with their labor market condition, they will demand changes in the immigration policies that can protect the native's welfare. Finally, the changes in the policies might restrict the creation of an immigration surplus in the host economy.

d) Workers are perfect substitutes one of another
The assumption that all workers are perfect substitutes for each other alienates the model from the reality of the labor markets. In addition, it limits the potential positive economic effects of qualification, work experience and innate skills of each individual.

Even though the model is developed over the assumption of constant return on scale, is interesting to understand the possible effects of variations in marginal productivity because of immigrants. The diversity and complementarity of factors of production (as mentioned previously) provides the opportunity to generate an increase in the returns on the aggregate even if the firm has constant return on scale. The different abilities between native worker and immigrant workers might enhance the skills of both groups through a “pick up” knowledge process in which the firms and owners of capital will benefit without paying for it. It should be also considered that immigrants are economic agents that interact in the markets of goods and services, not only in the labor market. Thus, their stay in a foreign country should raise the demand for goods and thus shift the labor demand curve to the right. Figure 3 shows this shift.

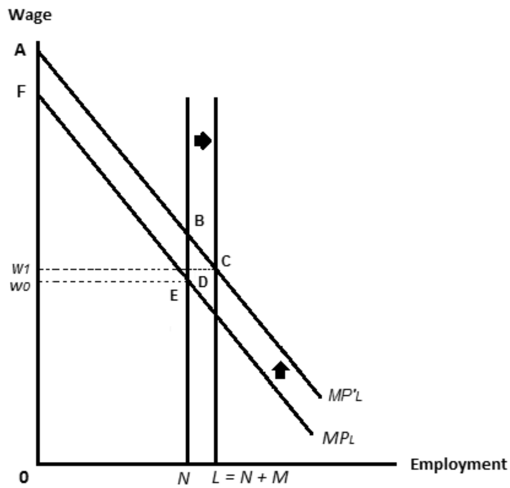

Figure 3. Equilibrium after the entrance of immigrants under external effects
Source: Borjas (1994).

Let us refer to these kinds of phenomenon as “external effects” just like Borjas did it. To represent the “external effects” in the production function assume the production function is set in the following way: $Q_F = f(K, L)\, Q^{\gamma}{}_{E}$, where Q_F represents the representative firms output, K is the capital, L is labor, $Q^{\gamma}{}_{E}$ is an aggregate output in economy, and γ is the percentage increase in the marginal product of labor as a result of an increase of 1 percent in aggregate output.

The shift of the labor marginal productivity curve to the right because of the external effects results in the increase of the national income. The area (B,C,D) represents the immigration surplus under external effects; meanwhile, the area (A,B,E,F) measures the impact of immigration in the total production of natives. The ideas about the external effects postulated by Borjas (1994) positive led to positive results and a very different posture towards immigration from the usual and negative one. Unfortunately there is not enough evidence to support these external effects.

The role of complementarity between the factors of production will now assess the consequences if native/immigrant skilled workers go together with immigrant/native unskilled workers into the labor market. The immigration surplus will arise in the cases the incoming groups of migrants differ from the skill composition of the native labor population. In the case both groups share the same level of skills, the native community is not going to benefit from the foreigners. Thus, the magnitude of the immigration surplus will also depend on how different is the immigrant labor force.

Skill differentiator in the workforce can be an important tool for immigration policy makers. Through this knowledge they can able to identify what type of immigrant population can maximize the immigration surplus and thus provide incentives to that specific group.

CONCLUSIONS

The concept of Immigration Surplus reveals many potential benefits resulting from the phenomenon of migration and the implementation of appropriate migration policies. These concepts may serve as a break-even point of paradigms about negative effects of immigrants into the host nation.

Understanding the complementary property of the factors of production, it can be structured a framework to identify the enhances of immigration and the type of immigrant population that has the potential to maximize the immigration surplus, either through differentiation of skills, external effects or changes in labor market conditions.

The phenomenon of immigration can be interpreted as a process of redistribution of wealth that could enhance the level of production and increase the national income. It is possible that, during the process in which wages and labor supply find their new market equilibrium, certain labor sectors may experiment a decrease in welfare, however, in the long run the total population should benefit from immigration because of the expansion of the total demand.

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