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Working Paper Series

#2017-018

Challenged by migration: Europe's options

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UNU-MERIT Working Papers

ISSN 1871-9872

**Maastricht Economic and social Research Institute on Innovation and Technology
UNU-MERIT**

**Maastricht Graduate School of Governance
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UNU-MERIT Working Papers intend to disseminate preliminary results of research carried out at UNU-MERIT and MGSoG to stimulate discussion on the issues raised.

Challenged by Migration: Europe's Options

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March 2017

Abstract

This paper examines the migration and labour mobility in the European Union and elaborates on their importance for the existence of the EU. Against all measures of success, the current public debate seems to suggest that the political consensus that migration is beneficial is broken. This comes with a crisis of European institutions in general. Migration and labour mobility have not been at the origin of the perceived cultural shift. The EU in its current form and ambition could perfectly survive or collapse even if it solves its migration challenge. But it will most likely collapse, if it fails to solve the mobility issue by not preserving free internal labour mobility and not establishing a joint external migration policy.

Keywords: labour mobility; migration; European Union; refugees;

JEL Codes: D01; D02; D61; F02; F16; F22; F66; J6

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“We must build a kind of United States of Europe.”

Winston Churchill, speaking in Zurich
September 19, 1946

“Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity.”

Robert Schuman Declaration
May 9, 1950

1. Introduction

Peace and prosperity have been the guiding objectives of the European integration process. Although challenging, free labour mobility has been among the core principles from the beginning. It was understood that the free movement of people would need a much longer path, but it would nevertheless be unavoidable to meet the preferences of the people, the demands of the economies and the political vision for Europe without it. For decades, the enlargement and integration process has been moving ahead. While slowing down at times, or being delayed, it also experienced larger jumps, as it happened for instance after the end of socialism. Over the years, the number of countries involved and the integration ambitions have increased substantially. The quantity and quality of European country-members have exhibited a bright perspective for the continent, at all political, social and economic levels. European hearts and brains were on the same track.

But looming EU-scepticism¹ among the citizens in the member-countries with the larger challenges of the integration process became transparent as in the case of the Maastricht economic criteria, the economic shocks caused by the Great Recession and the rise of anti-globalism. The troubles around the Euro rose with the helpless actions of European policy-makers. Therefore, parts of societies started feeling that they were left behind and wrongly associated this with EU integration. At the same time, political decisions chose to ignore the economic and social potential

¹ We prefer "EU-scepticism" instead of the widely used term Euroscepticism, which is misleading after the crisis around the currency.

benefits of a united Europe. A world-wide cultural shift moved societies from evidence-based policy-making to evidence-ignoring policy-making. Nationalistic movements, a desire for strict ethnic homogeneity and anti-European sentiments became stronger and stronger. Brexit is only one of the consequences.

Migration and labour mobility have not been at the origin of the cultural shift. But nowhere can the puzzle be better demonstrated than on free human movements. Free mobility is a central part of the human dream; it is cherished individual right. It is beneficial economically because it brings workers to the place where they are needed most; it creates welfare and fights poverty. With the right skill mix it contributes to the upward mobility of natives. During the period after the EU-East enlargement as well as during the Great Recession we saw labour mobility to increase substantially, as was predicted and hoped for. This mobility enabled also the absorption of asymmetric shocks. In fact, intra-EU labour mobility during the recent economic crisis helped attenuate disparities in the levels of unemployment between EU country-members (European Commission, 2016). Neither intra-EU cross-country labour mobility nor external immigration caused any considerable economic problems. Instead they fostered economic development. There was no relevant welfare tourism in Europe. So against all facts, migration was claimed to cause damages to natives either through losses of jobs, income or misuse of the welfare state.

An egregious example of mismatch between facts and politics is the Brexit decision. Refugees are another one. While refugees exhibit challenges for policy-making, they were never a relevant economic challenge for Europe, even at the relatively high levels of inflows in 2015 and 2016, which were mostly absorbed by Germany. Despite the apparent rising political wish to strengthen Fortress Europe, the EU needs more not less migration in the middle and longer future due to a declining and aging population.

As a consequence, the free mobility of people and labour is under threat, and with it peace and economic prosperity. Europe is at the crossroads to either collapsing to single, egotistic and

nationalistic states or finding the political resolve to stabilise and continue the integration process. The solution of the migration issue will be largely associated with this outcome and strongly enforcing it. Namely, without free internal labour mobility and a joint external migration policy, the likely outcome is the breakdown of Europe.

The paper elaborates on the relevance of labour mobility and migration and provides a brief history of labour mobility in the European institutional settings. Then the options for Europe's migration and mobility policy are discussed. The essay ends with conclusions.

2. The Relevance of Migration and Labour Mobility

There is abundant empirical evidence showing huge benefits from free intra-EU mobility and migration in general, and negative partial findings are scarce.² But why is labour mobility economically beneficial? The core answer is that it contributes to an optimal allocation of resources, and therefore generates higher and better output and more welfare. Hence, migration economics is an important part of economics in general. Mobility helps labour markets to adjust in disequilibria, particularly after asymmetric regional shocks. It supports higher total income, creates more jobs, and hence reduces unemployment. Therefore, the Single European Labour Market project has been top on the European agenda, although it is still incomplete.

Building up a European tradition, already the Treaty of Paris in 1951 allowed for free movement of workers in the coal and steel industries. The Treaty of Rome in 1957 established the right of free movement of workers throughout the European Economic Community. And the Maastricht Treaty in 1992 established free labour mobility as a core value of the European Union (EU). Hence, for a long time, the political (and not only economic) consensus has been that

² See various overviews like Constant (2014) and (2017), Giulietti (2014), Kahanec and Zimmermann (2009) and (2016), Zimmermann (1996) and (2014) and Blau and Mackie (2016). The handbook edited by Constant and Zimmermann (2013) provide further contributions. The following analysis in this section draws also on Constant (2017) and Zimmermann (2016).

fostering growth through a more efficient allocation of labour can create greater economic welfare, increase European social-cultural integration, and strengthen a shared European identity.

What are the facts? In 2014, among the 15 to 64 years old EU-born, 4% were living in an EU-state other than their birth-country. This is fewer than 15 million mobile people in a Union of about 500 million. Among non-EU nationals migration was much larger with roughly twice as many (28 million) moving. However, there is substantial variation in the stocks of migrants across EU-States. As a share of the total population migrants exceed 32% in Ireland and Luxembourg, while they are 10% in Cyprus and below 0.5% in Bulgaria, Romania, the Baltic States and Poland. Germany, Spain, France, Italy and the UK absorb 70% of all EU-citizen migrants and more than 70% of non-EU migrants. Among native Europeans, about 4% work in an EU member-country other than their country of birth. Non-EU workers are more mobile with 6.6%. Migrants exhibit lower employment rates than natives, but these rates depend on the time of arrival in the host country, improving with additional years of residence (European Commission, 2016b). Jauer et al. (2016) concur that migrants from outside the EU are typically more mobile also within Europe. Overall, mobile workers in EU28 are young and well-educated following opportunities where unemployment is low. In general, they have higher employment rates and better job prospects than comparable natives (Constant, 2017).

Unfortunately, the situation in 2017 suggests that the political consensus that migration is beneficial is broken, or at least it is in substantial danger. But this is not new to the 60 year old EU. Already before, large-scale international migration was viewed by some as a threat to the sovereignty of national borders, to economies and their societies. Rising concerns about even intra-EU mobility in the political debates before and after the Brexit vote in many European member-states suggest insufficient understanding of the substantial benefits of migration and a convoluted understanding of the value of the EU in general.

The core of the European migration challenge, however, is not too much labour migration, but too little mobility of workers. For many decades, and with some exceptions, migration across regions, within a country and between countries within Europe were even declining. It is well-known that intra-EU mobility is lower than interstate mobility in the U.S. Traditionally, interregional migration has played a much smaller role in economic adjustments in Europe than in the U.S. Only recently has Europe become more flexible and mobile, a consequence of the EU Eastern-enlargements and following the economic divergence of European countries during and after the Great Recession. Workers in the Eurozone countries have become more mobile than those in countries outside this zone (Beine et al., 2013; Arpaia et al., 2014). More worker mobility to foster economic adjustments would be certainly beneficial.

Further forthcoming European labour challenges are technological change (automation), a shift in demand from low-skilled to highly-skilled workers, population aging and a shrinking of the native European workforce. Europe therefore faces the rising need to attract appropriate, in particular skilled labour from the international markets. Given the comparative disadvantage Europe has on the issue, compared to traditional immigration countries such as the U.S., Canada and Australia, the too low but still falling understanding of the challenges in Europe causes long-term damages to the competitiveness of the entire continent.

3. Labour Mobility in the Evolution of Europe

The precursors of the EU go as far back as 1944 when the governments of Belgium, Netherlands and Luxembourg formed the Benelux Customs Union, while still in exile. The ensuing monetary agreement, economic union and foreign affairs cooperation of Benelux became the background of the European integration. European countries that experienced the calamitous 1st and 2nd World Wars and their visionary leaders understood the power and peace that comes with unity and proposed to confederate into a European entity. Winston Churchill already spoke about it in 1946.

After the legendary speech of Robert Schuman in 1950, Benelux, along with France, Italy and West Germany (EU6) signed the Treaty of Paris in 1951, forming the European Coal and Steel Community (ECSC). Symbolically, ECSC was rendering the raw materials of war into a Community of peace and reconciliation. ECSC formally opened and started operations in 1953.

These successful steps prompted the EU6 to sign the Treaties of Rome on March 25, 1957, establishing the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) in order to foster deeper economic cooperation. While EEC was first and foremost a customs union, Article 3(c) of the treaty already proposed the abolition of obstacles to freedom of movement for persons, services and capital between member states. The treaties are thus considered to be the cornerstone of the European Union.

The 1965 Merger Treaty that combined the EEC, ECSC, and Euratom into a single institutional structure, paved the way to the EU. During this first decade some migration is recorded, but always in close substitutability to trade. The EEC expanded in 1973 to include Denmark, Ireland and the UK. The EEC survived the oil crises of the 1970s peacefully and added new member-states in the 1980s. Greece joined in 1981 as the tenth member. Spain and Portugal joined in 1986 forming the set of 12. Along with the Schengen agreements abolishing internal border controls,³ the EEC materialised the free mobility of its people.

In 1986, with the Single European Act the EU12 set off to transform the common market into a single European market by December 31, 1992, amending the Treaty of Rome and allowing for political integration, economic and monetary union. This Act was a much needed momentum to the EU-scepticism and the economic recession of the 1980s. In spite the turbulence caused by the fall of the Berlin Wall and the ensuing fall of the Soviet Union, EEC remained united, embraced the German unification in 1990, and was ready to move on to the next level of integration.

³ The first Schengen Agreement was signed by Belgium, Netherlands, Luxembourg, France, and Germany in 1985. Implementation of Schengen was signed in 1990 and enacted in 1995 for the original signatories plus Italy, Spain, Portugal, Greece, and Austria and for Denmark, Finland, and Sweden in 2001.

The EU12 signed the Treaty on European Union (TEU) as plenipotentiaries in Maastricht in 1992 and created the EU as we know it today. Historians argue that the boost of the EU creation stems from the uncertainty of the fall of the USSR in 1991, and the unification of Germany in 1990, which deemed intergovernmental cooperation pertinent. The Treaty brought under one umbrella three pillars: (i) Euratom, ECSC, and EEC (ii) Common Foreign and Security Policy and (iii) police and judicial cooperation in criminal matters. It introduced the concept of European citizenship, over and above the national citizenship and along with it the right to circulate and reside freely in the Community; it expanded and reinforced the role of the European Parliament; and it launched the economic and monetary union (EMU). EU's expansion in 1995 to Austria, Finland and Sweden created the EU15.⁴

The 1997 Dublin Convention aiming to harmonise refugee policies stipulated that the first member-country of entry was responsible for the asylum seekers. The idea was to avoid the case where no member-state accepts responsibility for the asylees who would in turn orbit around the EU-states and file multiple applications.⁵ The Treaty of Amsterdam (1997), as an amendment to the TEEU created an employment policy for the Community departing from intergovernmental handling and bringing the EU closer to its citizens. It incorporated the Schengen agreements and established the free movement of EU and non-EU citizens.

After the Treaty of Nice (2001) that took care of institutional issues, the Eurozone was created in 2002 and 12 of the EU15-States adopted the Euro as their new currency.⁶ The largest expansion of EU15 came in 2004 with the accession of eight Eastern European countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia or EU8) plus Cyprus and Malta. In 2007, Bulgaria and Romania joined the EU25 while Croatia joined the EU27 in 2013.

⁴ The no-border control, free mobility Schengen area includes 26 countries; only 22 are in the EU28. While Ireland and UK are not part of Schengen, Cyprus, Croatia, Romania and Bulgaria are candidates. On the other hand, Iceland, Lichtenstein, Norway, and Switzerland are in Schengen (but not in EU28).

⁵ Dublin's recasts (in 2003 and 2013) allowed for "readmission" of asylees and used specific criteria for admission. The EU asylum fingerprint database, EURODAC was created. In light of the refugee surge in the fall of 2015, additional revisions were proposed.

⁶ Denmark, Ireland and the UK opted out. Today, only 19 of the EU28 use the euro as their common currency.

Irrational fears of mass migration, welfare tourism and domestic labour displacement led many of the EU15 to introduce 7-years transitional arrangements or the '2+3+2' mobility scheme to the Easterners. Hard evidence soon showed that the EU15-States that closed their borders experienced adverse outcomes, while those countries that opted for early free mobility had beneficial outcomes (Kahanec and Zimmermann, 2009; 2016). Croatian workers will be under this scheme until 2020, if these EU-states can prove that restrictions are needed to protect their labour markets. Naturally, Croatia imposed equivalent restrictions to workers from these EU-States (Constant, 2017).

It became obvious that the enlarged EU needed to amend the TEU, make it simpler and more efficient. This culminated in the Treaty of Lisbon (signed in 2007 and enacted in 2009) that brought sweeping reforms. Namely, it changed the EU's architecture, made new allocations of competencies between EU and Member-States, and let the institutions legislate. The Treaty is considered a landmark of free mobility as Article 2§2 specifies: "The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime." Both TEU and the Treaty on the Functioning of the European Union (TFEU) safeguard the right of every EU-citizen to move and live in another EU-state. TFEU (Article 45) specifically guarantees the free movement of workers in the EU28⁷ as a fundamental principle. Workers can stay in the host country after their employment ends and receive equal treatment with nationals.

It is important to note however, that while there is some progress in aligning social and formal qualifications, health and unemployment benefits or the transferability of skills are still not aligned among member-states, and constitute impediments to free mobility. Additional mobility limitations are often in place such as working in the public sector because countries reserve public-

⁷ Iceland, Liechtenstein and Norway that are in the European Economic Area also have access to the same free movement.

sector jobs for their own citizens. Language barriers and cultural differences add to the divergence between de jure and de facto mobility.

An analysis of bilateral migration flows by Vargas-Silva (2012) shows that EU-nationals who migrated to another EU-State in 2010 accounted for 35% of the total migrant stock in the EU as a whole. This number masks substantial variation among the states. While in Luxembourg and the Czech Republic they accounted for over 80%, they were only 31.7% in the UK. This is not the mass migration that some politicians claim.

The June 2016 referendum in the UK resulted in a majority vote to leave the EU. This is an example, where people dissatisfied with their country's direction blame the Union. The UK was one of the first EU-States to open up to the Easterners in 2004 and benefited from them. But UK was also hit hard from the economic crisis and terrorist acts. It was this, along with political cunning that led the majority of some socioeconomic strata to vote for Brexit. While there is serious evidence that upon its exit from the EU Britain will experience negative economic outcomes with respect to trade, it is not obvious how migration will play out. It is also interesting that the Brexit argument was based on migration when in fact the UK had the lowest immigrant stock from other EU-States and received very few refugees (Constant and Zimmermann, 2016).

Unfortunately, the avalanche of refugees to Europe from Syria, Afghanistan, Iraq, etc. that started in 2014 provided an opportunity to the populist nationalistic parties to surface and threaten the Union from within. Reacting out of fear and in confusion between migration and terrorist attacks, some EU-States⁸ resorted to a special clause of Schengen and closed their borders temporarily, claiming serious threats to public policy or internal security. A study commissioned by the European Parliament (2016) calculating the costs to Schengen shows that the introduction of ID-

⁸ For example, Denmark (from March, 4 to June, 2, 2016) from the sea and land bordering Germany; Norway (from January, 15 to May, 12, 2016); Sweden (from January, 10 to June, 7, 2016); France (from November, 13 to May, 26, 2016) an emergency state due to the terrorist attacks in Paris. In the context of Recommendation of the Council on May, 12, 2016 Germany closed its land border with Austria (until November, 12, 2016) and Austria closed its land border with Slovenia and Hungary (from May, 16 to November, 12, 2016) http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/schengen/reintroduction-border-control/index_en.htm.

checks would cost the EU citizens and firms between 7 and 14 billion Euros. Direct cumulative macroeconomic costs due to the termination of Schengen may even be between 14 to 64 billion Euros per year (0.1% - 0.4% of EU GDP). Lastly, if border controls are permanently re-introduced the costs would be much higher.⁹

4. Europe at the Crossroads

Given the rich institutional basis of European labour mobility and the evidence of its economic benefits it is difficult to argue that the last decades have been dominated by a false vision for the future of the continent. Nevertheless, voters in an evidence-ignoring society have the right to object and to abandon potential welfare for something else they value. This is the backside of democracy. However, it is also part of the democratic tradition to fight and argue for evidence-based policy-making and for an open society by pointing at the huge costs such ignorance would cause. The EU in its current form and ambition could perfectly survive or collapse even if it solves its migration challenge. But it will most likely collapse, if it fails to solve the mobility issue.

Hence, there are two base scenarios.¹⁰ The first scenario is the “my country first” approach. This is the current path for the UK under Brexit and for the U.S. under President Trump. Other countries in the EU are on this way, or may be after the upcoming elections. This is equivalent to the isolationist view of “fencing ourselves in” pretending we keep others out. The second scenario is more complex. It is the political and economic union, “a kind of United States of Europe”, in the vision of Winston Churchill and Robert Schuman, equipped with mechanisms to balance the interests between the member-states. Such a Europe will be able to withstand the current rocky road and deal with migration properly, providing flexibility and security to its peoples.

What are the potential strategies for solving the mobility issues? Europe needs answers and action for internal labour mobility, long-term labour immigration and the refugee challenge. It

⁹ See [http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578990/IPOL_IDA\(2016\)578990_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2016/578990/IPOL_IDA(2016)578990_EN.pdf).

¹⁰ A recent paper by the European Commission (2017) discusses 5 scenarios assuming the continuation of the union.

currently assumes that each country can deal with the migration issues in its national interests alone, and Europe could even restrict internal cross-country labour mobility without substantial economic consequences. But those migration restrictions are labour market constraints, which may negatively affect all economies in a chain reaction. This is in particular true for the countries in the Eurozone. Hindering labour mobility there may cause additional problems with the Euro, while improving internal adjustments through the labour markets could reduce problems with the single currency. Hence, free labour mobility is a pre-condition for a well-functioning European economy.

To enhance intra-EU labour mobility among EU-nationals the following steps can help: offering language courses (currently only available to third-country nationals) can alleviate language barriers; harmonising the recognition of professional qualifications and instituting something like the European Professional Card for health professionals would be a useful tool; aligning pension rights would be a welcoming step.

As a factor of production, labour cannot be viewed and judged in isolation. Labour mobility goes together with the free mobility of goods and services. The service sector in the EU is still regulated impeding some professionals from offering their services in some EU-States. Such are the accounting, legal, telecommunications and construction sectors which are regulated in some countries.

Further, short-term and long-term labour migration with non-EU countries needs a common basis.¹¹ Points systems could provide transparency for migrants and the host countries and have been shown to be effective to screen and guide mobility; this can also lead to or imply permanent residency. The criteria may explicitly include integration indicators such as education, language proficiency, job characteristics and social activities. An even better, but more controversial, approach for short-term mobility is to use the labour market as a filter for migration. Those who have a job offer can come and stay, as long as the work relationship persists. Those who can no

¹¹ See for the rest of this section also Zimmermann (2016) for a more intensive discussion of the issues in particular in the context of refugee migration. As has been shown early by Constant and Zimmermann (2005), the entry channel upon immigration may be crucial for the forthcoming economic performance.

longer find a job have to leave, at least after a transition period, if they do not obtain a permanent residence permit. Circular migration contracts between countries may ease such relationships, which are very useful to meet demands for flexibility in host countries. Offering successful foreign students who graduate the option of staying if they find a job after some transition period is the most effective long-term immigration policy to keep high-skilled workers. Lastly, the Blue Card scheme should be modernised and become more attractive to international migrants by simplifying procedures.

It should be obvious that the refugee burden needs to be fairly shared within a workable EU, because membership in a union involves both rights and obligations. This implies solutions for the reception of asylum seekers as well as the labour market integration of refugees taking into account their skills. Current labour market regulations on asylum seekers and refugees are partly responsible for their weak performance in the labour market. For instance, a refugee or asylum seeker could better receive the right to move to the employment channel in a points-based admission system as soon as she/he gets a decent job offer. Those could be allowed to work as quickly as possible and not be restricted to a particular region within the country, or after recognition as a refugee even in their initial host EU-State. This would improve their long-term labour market attachment and their financial contribution to the public coffers.

5. Conclusions

Current public debates in Europe suggest that the long-term political consensus that migration is beneficial is broken or at least it is in substantial challenge. Still shared largely by the elites, it gets declining support in elections. This correlates with a rising disinterest in evidence-based policy making and in looking at hard facts. However, the free movement of citizens has been an essential part of the European dream of a better and more equal society of diverse people. Restricting labour mobility would come in the long-run at large economic and social costs. This would become

eventually transparent to voters, who then may reconsider. Hence, the answer to the crisis of Europe must be “more, not less Europe” by re-installing the vision and creating more efficient and flexible structures dealing with it. European brains and hearts should work again in parallel.

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