

The Mobility Challenge for Growth and Integration in Europe



Klaus F. Zimmermann

Abstract

The key message of this article is that open and flexible labour markets foster growth, development and integration in Europe as well as promoting increased welfare. But labour markets in the EU still suffer from many impediments, the core challenge being a lack of sufficient labour mobility both within and between countries. Empirical research has identified this as one of the major causes of the European employment and growth crisis. The situation could worsen if widespread and growing diffidence, if not outright hostility, towards migration were to lead to its decline. The article draws on a vast empirical literature to highlight the positive role of migration, exploding in the process some of the commonly held myths about migration. There is overwhelming evidence that in Europe migrants do not depress wages of native workers, nor do they take their jobs away. Quite to the contrary, they contribute to employment growth and increases in productivity of native workers. And since migrants as a group are young, dynamic, relatively well skilled and eager to work, they are net contributors to national and social security budgets: the myth of migration induced by welfare hand-outs is simply contradicted by facts. Migration in Europe is quite simply labour migration and not welfare migration. Furthermore, fears that migration might lead to a brain drain in labour exporting countries are also misplaced. Evidence suggests the rise of circular migration .i.e. migrants moving back and forth from their home country, often more than once, bringing back with them acquired skills. If we want to the EU to reap the substantial benefits accruing from increased labour mobility between Member States there is therefore a clear need to address the current strong sentiments against immigration, which appear to be rooted in deep seated fears of negative changes in the cultural and social environment in recipient countries.

The Mobility Challenge for Growth and Integration in Europe

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The key message of this article¹ is that open and flexible labour markets foster growth, development and integration in Europe -- and they increase welfare. We all have to realise however, that the single European labour market which has been a European objective for so long remains a vision. The core challenge we face is a lack of sufficient labour mobility. This is by no means universally accepted, as witnessed by the rise of the welfare migration debate in some of the European countries, among them my home country Germany, and the recent vote of Swiss voters against EU labour mobility. It is therefore important to spell out clearly the determinants of labour mobility and its value for economic prosperity.

At the outset, it is particularly important to highlight that it is labour migration – and decidedly not welfare migration – that dominates our current economic reality. This migration also supports economic equality. How so? Because migrants do not depress wages -- nor do they take jobs away. Rather, they foster employment and innovation and make natives more productive. A brain drain, sometimes much feared by sending countries, does not have to happen.²

This applies even to the so-called diaspora economies, ethnic groups living away from home. They provide potential for economic and political collaboration.³ This is an especially important finding for Europe. As we all know, our continent will face broad-based population decline in many countries not just in the future, but already now. Given that, it is a virtue, not some kind of horror prospect, that we will see a much higher level of permanent and circular migration.⁴ This is especially true because, if we allow the filter of the labour market to work, there usually is a quite remarkable form of self-selection: generally speaking, people who migrate guided by economic conditions are dynamic and eager to work.

The global context

With the inescapable progress of globalization, and in particular given the advances in human mobility, labour markets are bound to become more integrated. The impending demographic disruptions I mentioned before will set in with full force in the coming years in many countries. Climate change, natural disasters and the rise of the BIC countries (Brazil, India and China) will pose additional labour market challenges. Ethnic diversity will continue to rise in importance, as both an opportunity and a threat – just think of current events in Ukraine. The rise of resources available to the developing world and the strong increase in human capital will generate more opportunities for global mobility.

¹ This is a substantially revised version of IZA Policy Paper No. 69.

² See, e.g., Constant and Zimmermann (2013), Zimmermann (1994), Zimmermann (1995), Zimmermann (2005), and Zimmermann (2009). See also the reviews in the IZA World of Labor project by Constant (2014) and Peri (2014).

³ See Plaza (2013).

⁴ The economic, political and social benefits of circular migration are outlined in Zimmermann (2014).

All of these factors will eventually require a global reallocation of resources. This will force international and domestic labour markets to undergo major adjustment processes. The strong demand for skilled workers - along with the fight against extreme economic inequality, the creation of 'good' jobs, as well as the increased employment of specific groups (such as the young, older, female, low-skilled and ethnic minority workers) - will need scientific monitoring and evaluation. There is nothing "academic" about this. It is the only way to make sure at the political, economic and social levels that we will be able to initiate the necessary adjustment processes and labour market programs in time.

That is the key reason why migration economics is a fast growing and exciting research area with very significant and rising policy relevance. In what follows I will present some of the key insights from this ever more important field of research and policy advice.

We all know that free trade and open labour markets are determinants of economic welfare. In his legendary 1981 book, the U.S. population economist Julian Simon claimed that humans and human capital are – in his words – “the ultimate resource”.⁵ He was also a strong proponent of open and free labour markets. While Simon died much too young in 1998, his vision is still very much alive. Indeed, in this age of information and knowledge capitalism, human capital has become the key driver of economic growth. And - here is the important point to remember - it can be optimized globally through migration if and when it is well-conceptualized and not badly managed.

In a recent article, entitled “Open Borders” and published in the Review of Economic Dynamics, John Kennan uses a simple static model of migration costs to show that the net gains from lifting mobility restrictions around the world would be enormous.⁶ China’s strong role as a magnet in the global market for human capital will soon challenge the position of the United States leaving it to Europe to strengthen its strategy in accessing the “ultimate resource” so as not to fall behind in the race of nations. This is the finding of another recent study which I had recently published in the Journal of Contemporary China.⁷ The goal of this article is to further stimulate the debate on the optimal use of human capital – and to explore some surprising horizons of research. This research also suggests that the recently started negotiations about a transatlantic economic zone should not stop with free trade, but involve also labour mobility. However, I am rather pessimistic that we will see such a zone operating in the near future.

Public debate on European labour markets is particularly topical in view of the forthcoming elections to the European Parliament. The wide dissatisfaction with the common European labour market plays a significant role in the rising euro scepticism of the European citizens. The goal of a common European labour market has not been achieved so far. It is, however, the centrepiece of European integration, and free labour mobility is the most important element of it.

In a survey I have just completed among the 700 Europe-based labour economists of the IZA world-wide fellow network about two thirds of the respondents agreed that a single European labour market is important for achieving larger economic welfare.⁸ More than 70% think that the single labour market is not yet achieved, and more than 80% find that labour mobility within the EU to be by far the most essential factor for such a market. Labour experts consider that a rapid recognition of qualifications, the harmonization of social security systems and the knowledge of several languages to be the three most important factors likely to lead to more labour mobility in Europe.

⁵ See Simon (1981).

⁶ See Kennan (2013).

⁷ See Constant et al. (2013a).

⁸ See Krause et al. (2014).

Christopher Pissarides and Ian McMaster, however, have cautioned against too optimistic expectations arising from the vision of flexible labour markets in their famous article on “Regional Migration, Wages and Unemployment”.⁹ The authors assessed “the extent to which regional disparities in economic prosperity are removed over time by the working of the 'market system'.” Flexible wages and labour mobility could achieve that “an equilibrium with only compensating differentials will result”. But his data for the UK lead them to conclude that while the market forces are at work, the processes of adjustment were very slow and “a regional policy that moved jobs to depressed areas - in contrast to relying on the movement of people to jobs - could save society considerable adjustment costs.” The challenge outlined in this article has inspired a research program for me and many of my colleagues aimed at understanding the determinants of labour market forces and appropriate policy measures in a European context.

The beneficial effects of labour mobility

Everybody is aware that labour mobility is desirable because, in economic terms, it contributes to an optimal allocation of resources – and thus plays a crucial role in generating higher output and welfare. Such mobility ensures a quick adjustment of labour markets, especially at the regional level. Migrants need to have and maintain different talents and abilities if they are to increase their host economy’s growth potential. The societal fetish of assimilation or the melting pot metaphors are both misleading concepts.

It is therefore vital to realize that it is not cultural assimilation, but cultural integration that is good in an economic context. Now, you may ask yourself whether that’s not just a semantic difference or whether I am glossing over some potential political pitfalls. I suggest that this is not the case. Cultural “integration” refers to a much more dynamic blending of the identities of the migrants, both of their home country and their host country. In a globalized world, such an active blending is bound to increase human linkages – and hence economic opportunities. In contrast, the old standby of “assimilation” captures a far more passive way of combining cultures – primarily by just focusing on blending in.

The key to it all is to focus on the migration of skilled people. This not only fosters economic efficiency, but it creates additional jobs for the unskilled as well as what we would call the differently skilled. It is also good at promoting more equality, as shown by my research with Martin Kahanec published in the Oxford Handbook of Inequality: we find that there is no negative trade-off between efficiency and equality.¹⁰ Empirical evidence suggests that migrants typically neither take jobs away from local workers nor depress wages, and labour migrants do not typically come to take up welfare benefits.¹¹ However, social tensions between locals and foreigners may arise if sufficient integration opportunities are not available -- or if the integration efforts fail.

This points not only to the particular importance of future research in this area, but also to two further requirements. Firstly, scientists need to make this research directly policy-relevant. And secondly, policymakers should to consider these researchers a very active partner to in helping to manage the future – and not some kind of fig leaf or clean-up brigade after policymaking has resulted in a near-complete mess.

The challenge of labour immobility

Labour inflexibility has long been seen in the last few decades as the major determinant of the European employment crisis and the persistent slump of economic growth in Europe. That is why an increase in the geographical mobility of labour has been suggested as a strong instrument to foster faster economic adjustment and growth. It is therefore not too much labour migration, but too

⁹ See Pissarides and McMaster (1990).

¹⁰ See Kahanec and Zimmermann (2009a) and Kahanec and Zimmermann (2014).

¹¹ See Giulietti and Wahba (2013).

little mobility of workers has been the core of the European migration challenge.¹² Labour mobility between and within countries can be beneficial when employed in a balanced way, but both migration across regions within a country and between countries within Europe has been on the decline in some periods over the last decades. Interregional migration has played a much smaller role in adjustment in Europe than in the United States, where it has been an important component of the relative success of the American economy for many years.¹³ It is only recently, that Europe has become more flexible while the US labour market became less flexible.¹⁴

Despite everything I have said so far, I realise that, in our globalized world, migration is a controversial and challenging issue. An estimated 3.0% of the world's population are currently considered to be international migrants. While an exhaustive discussion of the issue is beyond the scope of this article, it should be stressed that the world is the flexibility reserve of Europe - but only in a very limited sense. All developed economies face a strong and increasing excess demand for skilled labour. This is brought about by technological change, population aging and, in the case of Europe, by a substantial decline in the future native European workforce.¹⁵ These upcoming needs clearly cannot be satisfied sufficiently by the local labour force or by the educational system in the individual countries.

Europe as a whole is more and more drawn into a competition to provide the institutional settings for its companies to attract international skilled labour to fill the gaps. However, unlike traditional immigration countries such as the United States, Canada or Australia, Europe has no standing on the international labour markets for high-skilled people. That is why for us Europeans, concepts like migration, return migration, onward migration and circular migration are the new challenges and phenomena we will rapidly need to learn to deal with in this phase of the internationalization of the labour market.¹⁶

Causes of regional immobility in Europe

In 2008, I directed an IZA team that worked on a research project of the European Commission looking into the causes of labour immobility in Europe.¹⁷ The research team found that the single largest cause of the lack of mobility in Europe was a lack of language skills, other major causes being rising female labour market participation and less mobile double-income households, an increase in the homeownership rate, still existing barriers to the transferability of social security entitlements, insufficient recognition of formal qualifications, insufficient transparency of the European job market and online search engines, persistent long-term unemployment which leads to increased relevance of social networks for the individual and cultural barriers.

The study identified a low European annual interstate mobility (1%) in comparison with the United States (3%) and Canada (2%). The following policies to minimize labour market frictions at the national and the trans-national levels were suggested:

- (i) strengthening the institutional preconditions of mobility on the labour market,
- (ii) developing mobility-friendly educational policies,
- (iii) creating effective information and social networks,
- (iv) easing mobility barriers stemming from the diversity of national social protection and qualification systems, and
- (v) extending the knowledge base and evaluating mobility-related policies.

¹² See Zimmermann (1995).

¹³ See Bonin et al. (2008).

¹⁴ See Jauer et al. (2014).

¹⁵ See Constant and Tien (2011) for the case of Germany.

¹⁶ See Constant et al. (2013b).

¹⁷ See Bonin et al. (2008).

Low European regional mobility was considered to be a major challenge when the Euro was created. The recent so-called Euro crisis reminded me about my lecture on the Economics of Europe I gave at Dartmouth College in Summer 1997, which made the point that clear and effective rules to ensure fiscal stability and sufficient labour flexibility within a unified European labour market would be necessary to make the Euro a success for growth and welfare. As we do know now, the lack of fiscal stability and insufficient labour mobility were important factors behind the Euro crisis.

New freedom of movement for Eastern Europe

Early on in the process of EU enlargement towards Eastern Europe, I led IZA research teams that studied the expected size of migration and the impact on natives, migrants and the uses of welfare systems. In various journal articles and in a book published with Springer-Verlag, we found that the labour market effects on the natives were negligible. We will soon publish another volume of research papers with recent confirmations of these findings.¹⁸

Germany finally opened its labour market to workers from those Eastern European countries that had joined the European Union back in 2004 only on May 1st 2011. After this far too long transition phase, full freedom of movement has reached Germany at last. At the time, I was in Warsaw at a conference and observed the debate in the media which predicted another emigration wave of Poles to the West. But as many of my fellow migration researchers and I had expected, the expected large emigration did not occur. On January 1, 2014 many European countries finally opened up their labour markets for Romania and Bulgaria. IZA had organized a migration workshop in Bucharest in November 2013 to judge the potential for the further developments from the two new member states, where the complaints about already perceived large losses of highly-skilled people were dominant.

Eastern Europeans actually did a big favour for Europe at large. They increased the number of circular labour migrants who were really looking for work - and not for welfare. These motivated people helped make European labour markets more flexible. With the benefit of hindsight, we now know that Germany's policymakers have done their country no favour with their fears of overburdening the German labour market during the transition period of EU Enlargement. High-skilled workers, who are urgently needed in many sectors of the German economy, voted with their feet and instead moved to countries such as the UK and Ireland. The economic message is clear: there are unassailable benefits to opening up one's labour market as early as possible for skilled labour.¹⁹

Meanwhile, having lost out on the dynamic end of the market due to short-sightedness, the German government had to contend with plenty of older and low-skilled workers from Eastern Europe. They still continued to migrate to Germany through other channels such as illegal migration or self-employment. Germany's closed-door policy pursued since 2004 therefore produced a double negative effect. Fears of Eastern European workers flooding the labour markets of Germany and other Western neighbours were completely unsubstantiated. Meanwhile, the labour from Eastern Europe with a high productivity potential had long moved to other attractive regions of the world. That's like scoring not just one, but two own goals in a football match.

Traditionally, in comparison with immigration countries such as the United States or Canada, Europe attracts a much larger share of unskilled workers, while a larger share of skilled migrants migrate to those countries. Nevertheless, skilled and unskilled migrants are more present in countries with lower unemployment and better economic conditions; this due in part to the

¹⁸ See Eichhorst et al. (2011), Elsner and Zimmermann (2014), Kahanec (2013), Kahanec and Zimmermann (2009b), Kahanec and Zimmermann (2010), Kahanec and Zimmermann (forthcoming 2014), Zaiceva and Zimmermann (forthcoming 2014).

¹⁹ See Kahanec (2012).

attractive economic conditions, but also because migrants contribute to these better conditions.²⁰ The existing evidence suggests the potential for competition with the natives, but hard evidence for this is rare. However, new migrants are much more likely to compete more seriously with the low-skilled migrants from outside Europe. A recent example is Polish-German migration in the transition period to free labour mobility during EU enlargement where a larger share of unskilled Polish workers generated labour market pressures not for native Germans but for non-EU immigrants.²¹

Immigrants in the Welfare Hammock

Some myths never die... like the one about migrants who only come to use our welfare state as a “hammock.” This stereotype persists despite numerous studies to the contrary, including an international IZA study recently prepared for the European Commission. The key finding, which was also published in the *International Journal of Manpower*, is that the generosity of welfare benefits has no substantial impact on migration in the European Union.²² The study, which included the experience of 19 European countries between 1993 and 2008, addressed the question of whether national differences in unemployment benefits influenced individual decisions to migrate. The result could not be clearer: such benefits had no impact whatsoever on intra-EU migration – the correlation was zero. Instead, the study showed that the skill level among EU labour migrants is remarkably high. While in some cases migrants are more likely to be unemployed than natives, this is rather due to ill-designed immigration and integration policies than to generous public benefits.

Moreover, recent studies show that taxes and social security contributions paid by foreigners in Germany exceed per capita expenditure on welfare benefits for the same group by about 2,000 euros annually.²³ One of the main reasons is the favourable age structure of immigrants, who tend to be young. This is also why we should offer job prospects to skilled young people from other European countries such as Greece, Spain and Portugal, who currently suffer from youth unemployment. The only thing that ought to matter is their readiness to fill the labour shortages that many German employers are experiencing. After all, that is what an advanced, globally integrated economy with a declining population ought to be doing. Not to mention that empirical evidence also shows that the employment of each high-skilled immigrant creates up to three additional jobs in low-skill sectors, such as household services.²⁴

Why then do these objective facts still generate such emotionally charged opposition? What causes those strong sentiments against immigration even though the economic benefits of (properly controlled) immigration are obvious? As American and British researchers have shown, the widespread resentment is not just about the fear of losing one’s job to a foreigner. It is also about a deeper-seated fear of negative changes in one’s cultural and social environment. Whether these worries are real or imagined does not really matter: if we fail to address these concerns adequately, the gap in the minds will widen – up to a point where the term “integration” might evoke a negative connotation.

Europe’s lost generation

There is no bigger challenge for labour economics and society at large than the profound economic crisis in Europe which has led to a situation where more than seven million young people under the

²⁰ See Zimmermann (1995, 2005).

²¹ See Brenke et al. (2009).

²² See Barrett et al. (2012) and Giulietti et al. (2013).

²³ See Bonin (2006).

²⁴ See Hinte et al. (2012).

age of 25 in the European Union are now NEETs (not in employment, education or training).²⁵ This is more than just a socially explosive issue. If the young generation turns away in despair from the “European idea,” the entire European project would be at risk of disintegration. Against this background, Europe’s top policymakers have rightfully put this issue at the top of their agenda. However, many of the hastily proposed remedies are ill-suited to bring about sustainable solutions. The “Youth Guarantee” scheme, which seeks to provide all young people under the age of 25 with a job or training opportunity within four months after registering as unemployed, is certainly a well-intended idea. But it would be an illusion to believe that this guarantee will amount to much more than a mere extension of the present dead-end strategy. New jobs are not created at the push of a button, nor by emergency action programs passed during political summits. The billions of dollars allocated by EU leaders to youth employment initiatives will result in great disappointment - if policymakers fail to tackle the roots of the crisis.

After all, we should never forget that Europe’s high level of youth unemployment is not a result of the crisis: the level of youth unemployment has risen at the same pace as that of overall unemployment. Hence the dramatic scope of the issue is a result of the economic crisis in general, paired with the continued lack of structural reforms aimed at improving the labour market situation of the young.

What Europe needs is a common labour market that is characterized by mobility, flexibility and innovative entrepreneurship. But these are precisely the areas in which the European Commission lacks the power to force the Member States to implement fundamental reforms. All the more importantly, each individual country must be encouraged to do its homework when it comes to solving country-specific problems. France, for example, has created enormous labour market entry barriers for unemployed youth by setting high minimum wages and maintaining strict employment protection. Spain, on the other hand, has lots of university students in the humanities but very few vocational trainees. In Greece, medium-sized enterprises that are willing and able to train young workers are practically non-existent.

Youth all across Europe need solid, practice-oriented training. Some countries like Germany, the Netherlands and Austria rely on a successful “dual training system,” combining the attendance of vocational schools with hands-on experience in a firm.²⁶ On the downside, as German firms regularly complain, the much-appraised dual model is also quite costly. This is why the vast amount of money poured into youth employment initiatives should be used primarily to promote investment among Southern European firms who, in turn, agree to create training positions. At the same time, policymakers should provide further incentives to enhance cross-border mobility. Even if few young people actually choose to move to another EU country, those who do, and succeed in the labour market, will be the perfect proof that the “European idea” does offer great opportunities after all – also, and particularly, during the current crisis.

Looking ahead: opportunities for enhanced mobility

For all the progress that has been made in Europe in past decades, intra-European labour mobility still leaves much to be desired. In this sense, the current grave economic crisis in countries such as Portugal, Spain and Greece offers a blessing in disguise. People living there, especially younger professionals and skilled workers do certainly have an incentive to make a move now. Does that imbalance those societies? Do we have to worry in particular about a brain drain that sucks these countries dry of skilled people and thus makes an economic recovery harder to achieve?

I would argue that we don't really have to worry about that for three main reasons. Firstly, the people who are moving to other countries such as Germany hail, in most cases, from the ranks of

²⁵ See Cahuc et al. (2013).

²⁶ See Eichhorst et al. (2012).

the unemployed. All that we are witnessing in that regard is that supply and demand are no longer balanced just on a national basis, but on a Europe-wide one. That is a change definitely to be welcomed. Secondly, people who leave their country of birth are by no means gone forever. In fact, the contemporary trend of migration, properly understood, is best thought of as "circular migration", implying onward or return migration.²⁷ Think of the proverbial Polish plumbers or of young Polish professionals who worked in Ireland during that country's boom times. These people, for the most part, never intended to emigrate for good. In fact, many flew in on discount airlines for certain periods and, when not at work or on a project, also continued to live back home. In other words, they never really left and essentially lived in two countries.

In a world with many fluid and affordable transportation options, ever more people want to stay connected to their place of birth. They don't just want to go back for visits every five or ten years. The difference from a few decades ago is that now migrants can remain rooted in their place of birth. Which leads to the third reason for not being over concerned by the threat of a brain drain: the skills, job experience and contacts gained by migrants in their overseas deployment effectively travel back home or elsewhere with them. They are theirs to use and exploit for their own benefit.

In short, we live in a very different world now. If we really want more European, and indeed global, integration, then it is not just unavoidable, but downright desirable that many more people from different nations should populate the future Europe. It therefore makes sense – both from an economic point of view and in recognition of living in an increasingly globalised world - to continue on this path of integration, which as I have shown in this article, yields positive results. And such moves towards integration always challenge us to do better, to improve, and never to rest on what by necessity are at best our (temporary) laurels. In short, I see no alternative for any dynamic, growth- and future-oriented economy than to participate actively in developing the European Union including the further development of the Euro into a factor of stability in international financial markets. This critically means that the Eurozone also includes the eastern part of Europe, provided that the Member States fulfil the inclusion criteria.

I hope this brief review of the world of migration economics and labour economics has shown that economic research plays a significant role in determining not just our shared European future, but our common human future globally. And I would hope that the most productive days of what economics can deliver to politicians and the people still lie ahead.

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²⁷ See Zimmermann (2014).

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