Cross-country migration patterns in the euro area respond to the business cycle and are significantly linked to unemployment rate differences, according to research by Marius Clemens and Janine Hart, to be presented at the annual congress of the European Economic Association in Geneva in August 2016.

The authors analyze 55 ‘migration corridors’ – pairs of countries sending and receiving migrants – in the euro area between 1980 and 2010 in order to extract the typical migration pattern. The unemployment rate differential negatively correlates with migration flow in almost all corridors (meaning that migrants move to countries with less unemployment) and in two thirds of cases, a differential in real wages also correlates with migration flows.

‘Work-related migration is a crucial stabilisation mechanism in a monetary union’, the authors argue. ‘This study contributes to our understanding of the interrelationship of wages, unemployment and net migration over the business cycle in the euro area.’

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The correlation of net migration – the difference between the inflow and outflow of migrants – with the unemployment rate differential and the real wage differential between the sending and receiving country varies across corridors. While the relationship between net migration and the unemployment differential is -0.3 on average and negative in almost all corridors, there is more heterogeneity with respect to the real wage differential. Here, less than two thirds of all corridors have a negative correlation.

This means that over the business cycle, workers choose locations where the unemployment rate decreases relative to their home country. The authors interpret this finding as evidence of migration acting as an insurance mechanism in the euro area. When an aggregate shock worsens workers’ employment conditions in one country, the free movement of labour enables them to avoid negative consequences by migrating to another country with more favourable labour market conditions.

The empirical results of this study are particularly relevant for evaluating migration as a potential adjustment mechanism in a monetary union of countries with heterogeneous labour market conditions.

In previous work, the authors show that the relative sluggishness of prices and wages can explain the cross-country heterogeneity of the wage-migration patterns. In the present study, the authors propose a two country business cycle model with bilateral migration and explain the crucial determinants of labour market rigidities in more detail.

One key element is that unemployed people choose to search for a job in another country when the migration benefit exceeds the cost. This model is able to replicate the
observed negative correlation of unemployment and net migration and also captures key findings from the empirical literature, such as wages being 3.2% higher for natives and unemployment rates being 17% higher for immigrants on average.

The euro crisis, where migration patterns strongly responded to the changing economic conditions, indicates that work-related migration is a crucial stabilisation mechanism in a monetary union when countries are hit by country-specific shocks that cannot be fully stabilised by a common monetary or fiscal policy.

Because of this stabilising effect, European policy-makers promote internal migration as a means to increase overall employment against the background of heterogeneous labour market conditions. At the same time, the UK vote to leave the EU underlines that opening up national labour markets to immigrants from the free movement area also raises concerns.

Both poles underline the need to understand the nature and determinants of internal cross-border migration in the euro area. This study contributes to our understanding of the interrelationship of wages, unemployment and net migration over the business cycle in the euro area.

Previous studies have shown that cross-border migration flows in the OECD and interstate migration in the United States respond to the business cycle. But until now, researchers have not documented these patterns for the different migration corridors in the euro area 12 countries and linked these findings to a theoretical business-cycle model with unemployment and bilateral migration flows.

The theoretical model proposed by the authors can be used to study the employment and welfare effects of both, policies – for example, to enhance mobility – and changes in the political environment – for example, the increasingly uneven distribution of refugees among members of the monetary union.

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Notes for editors: ‘A search and matching approach to business-cycle migration in the euro area’ by Marius Clemens and Janine Hart is a working paper presented at the 31st Annual Congress of the European Economic Association.

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