

# Some Economics of Migration in the EU (Carlo Giannone)

## Draft

### I. Introduction

In this notes we assume that, as a general rule, the outstanding majority of the EU sovereign States – in compliance with free market traditional mainstream economics - have a “externally constrained behavior”; or, in much simpler words, do want to keep all foreign third countries migrants out of their borders, except in a few cases where such people are protected by universal norms and their use is justified as efficient. This comes from an orthodox political economy argument according to which single State's attempt to control human factor mobility are, in a global world, hopeless and inefficient. Even in most liberal States - as in the European Monetary Union - human rights and sovereignty are conflicting principles (Joppke, 1998).

The present framework reveals an amazing prevalence of ugly selfish attitude towards outsiders, coupled with a frequent beggar-my-neighbour activity in critical times, when an absolute priority have “Rescue and Secours” first-aid operations<sup>1</sup>. As the end is to safe human life, the most valuable “good”, except in a slavery society, the public goods are the object of the following pages. To a serious observer, current inter-state relations look as zero-sum games between strong and weak nations wherein both face to further their own interests to detriment of the other; ironically, as soon as all were committed to the principle of human rights, no international regime would be necessary. As with regard to the immigration problem, the evidence of increasing flows of migrants to the EU shows how a claim is possible to underline a correspondingly growing effort to screen, detect and try to stop that hundred thousands wave. With almost no exceptions, the bulk of European member States do tend to adopt a similar approach to immigration. More precisely, two migration regimes can be singled out with opposite goals and distinct stages of enforcement - only the first dealt with in this note - establishing the free movement of citizens in an area without internal frontiers, according to the 1987 Schengen Amendment to the Treaty of Rome. The guess is that it takes the shape of a rather peculiar “club “ among member states and entrusted by the European Commission and the European Court of Justice.

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<sup>1</sup> It would be clearly unsuccessful to try to identify, not to compare, the historical and social reasons why EU members have different attitudes towards surviving migrants, at least to enhance their ready identification and assistance. It is safe to know that they vary from the formal British reject of “melting pot” and the German call for *gastarbeiter*, *aussiedler* and *asylanten*, to the French long lived integration policies of “Noirs”, and the even excessive use, in Italy, of penalties for the illegal crossing of its borders, and coasts. The assumption is that contrary to US federal government whose features are color-blindness but make a neat distinction between citizenship and personhood, EU looks essentially as a club, or a mixed inclusive group strongly marked by heterogeneity of ends and purely economic means.

As far as the basic feature for a differential treatment of people is nationality, intra-European migration regime has impaired the possibility to reject citizens from members states, with a negligible impact on total mobility. It must be emphasized that the fair working of an economic club is limited to its members, who have to respect the same rules in order to get they alone the benefits and to allow external visitors to come in or to keep them out. A further, increasingly important motive is internal security. A continuous appeal inside EU to cooperate against illegal mobility, drug traffic and terrorism feeds on mutual feelings of fear and distress, thanks also to the sound argument that the rise of skilled and unskilled immigration quotas in a foreign country does affect the number/size, of the threats (Bandyopadyay S., Sandler, T., 2014).

No wonder why since 1997, the Amsterdam Treaty has shifted asylum and immigration matters from third to a "First Pillar", making unanimity the supranational voting rule within the State members dominated Council of Ministers, so to close the circle to potential exterior threats. Although the trend was formally intended to reduce members sovereignty to monitor foreign citizens, it implied an EU harmonization highly effective in restricting asylum policy. To give but an example of the binding relevance of EU rules and procedures to preserve "status quo", Britain's attractiveness might seem greater as it did not sign the Schengen Agreement<sup>2</sup>

In this paper, after a brief Introduction in Section I, a summary of the literature on public goods Vs. club goods will argue for an astonishing analogy between EU member States behavior on migration and some central findings of two Public Choice-Public Economics classics, in Section II. Further similarities of theoretical work with EU migration policy in practice are commented in Section III, and a few critical hypotheses for a future reversal approach make up final Section IV.

## **II. Some analytics on the theory of collective action**

At first sight, Olson's provocative work (Olson, 1965) needs some refinements, an objective for which it is enough to take a sample of the many hundreds contributions in the past fifty years.

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<sup>2</sup> To quote directly from the press: "...this is why Britain receives fewer applications than other countries (only 31745 out of more than 625000 for refugee status last year in the 28 countries, with Syrians making up 1/5 of the total). Most arrive by plane, on fake documents; but the few thousands coming through the Eurotunnel , i.e. the channel "via Calais", are merely the visible part of a much bigger phenomenon, if one accept that (according to the charity "Asylum Aid) 600000 migrants live illegally in the country. Overall, the prospects to be granted asylum are somewhat higher (39%) in Britain than in France (22%), and even the black economies are reckoned of the same size, that is to say about 1/10 of GNP in 2013. (...) The application process, however, is complicated here by Britain's semi-detached relationship with the EU, although it is a signatory of the Dublin Regulation, under which it is allowed to return asylum-seekers to the country where they first set foot in Europe." *The Economist*" 416, 8947, 18<sup>th</sup> June 2015.

This wishful thinking rests on the idea that economic theory might provide a tool for a better knowledge of the worldwide migration problems. For a set of individuals joined to derive mutual benefits from sharing one or more goods whose benefits are exclusive, several studies have attempted to overthrow the economic factors perfect mobility postulate to give reasons why some goods are better enjoyed within a certain group. The most influential paper - not incidentally dating back to exactly five decades – appeared by a Nobel prize Public Choice School author (Buchanan, 1965). In both those seminal contributions, the goods were neither excludable nor rival pure public goods, according to modern Public Economics. A rough synthesis of the Buchanan's paper includes the following features: a) the use of one or more “club goods” is voluntary, because sharers must associate and pay fees in order to become members and get the gains withheld to outsiders; b) the optimal size is finite and univocally determined, as clubs are exclusive groups for which disposition of non-members is needed; c) there is a clear motive to build clubs if leftovers do not consume the goods. Moreover, club goods must: d) exhibit a costless exclusion mechanism to collect financing tolls; e) involve a dual simultaneous decision making process, one for provision and another to select membership optimal size; f) be supplied in a specific amount through congestion-internalizing tolls. Finally, on occasion, they g) are provided by alternative institutional arrangements, e.g. members-owned or for-profit firms.

To discuss without excessive strain international migration, let us start by saying that migrants' cheap and abundant work force of variable skill is at disposal of existing clubs - EU States, once a Treaty or an interstate Agreement has been signed. Ironically, notice the mainstream free trade, perfect competition axioms still rests by definition upon the “perfect mobility factors” hypothesis. Labour force is nothing but a good, however, only if scarce and useful.

In the Buchanan's legend, however, club goods become a mix of a unique sort, as the above rules and conditions make them at the same time public inside, and private outside the club. Moreover, non rival public goods which unable only to exclude someone else are not club goods, the key issue being an inexpensive and efficient mechanism to charge users for congestion; overall, a club design stems from the right to choose and welcome new members, not to include outsiders.

More interesting than Buchanan's model are some recent variants, based on homogeneous club with fixed rates of utilization, in the absence of a clear-cut distinction between membership fees and visitation tolls. To see this, next section comments the new insights.

### **III. Further considerations on targeted models**

Whether preceding observations are accepted, a rather strict analogy can be suggested between economic theory and EU member States' practical resilience towards migration. In fact,

small groups of competitive firms can achieve equilibrium as well as a set of Buchanan replicable clubs, when population is a multiple of their size, leading to the same optimization results of before. Next step is to generalize a likely similar attitude in the involved countries. Although earlier jurisdictional works predated Buchanan's study, they spread solid basis for new institutional design.

In the McGuire model (McGuire, 1974), the membership condition captures the "voting by feet effect" as per capita average cost is minimized of a single good, or a unique package, of local public goods, in terms of crowd and provision. As with regard to the budget restraint, the cost function ensures clearing whenever each community is of the optimum size within a heterogeneous population to give a set of homogeneous local authorities. Anybody can move to his most preferred one but clubs cannot accommodate for all groups, as members make wholly use of the quantity. More precisely, inside the club consumption resembles closely the sharing of a pure public good, while the opposite holds for third persons, who get coarsely excluded as strangers, or non-members. A way-out will is to allow members' patterns to differ sharply and segregate identical people clubs.

Real world does not require complete equality of tastes and consumption and consider heterogeneity, so that under the hypothesis of a variable utilization of the shared good both a marginal provision cost and a marginal maintenance cost are at work: funds need to include tolls, more than provision and membership fees. In short, a member becomes not independent from visitors and marginal crowding costs are summed over all individuals to internalize the crowd externality, mainly due to outsiders imposing extra costs beyond congestion. If crowding is not anonymous, tolls are tailored to users and design becomes extremely difficult. A test of the congestion function depends on the average use rate with twofold effects on toll and self-finance. As in the Buchanan's framework, however, if congestion cost are tied to provision, to determine the latter and the toll size will represent a dual decision. A recent review by Sandler (2015) assumes a threshold public good for which benefits accrue members<sup>3</sup> only after a fixed amount is supplied<sup>3</sup>.

Besides further distinctions on the goods, a jump into the massive economic literature on collective action confirms the relevance of the Olson and Zeckhauser (1966) study of military alliances sharing a pure public good. Although the authors were actually studying deterrence in the UN context of the time, the logic is easily extended to many trade coalitions and economic Treaties.

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<sup>3</sup> A full participation Nash equilibrium is a "Prisoners' Dilemma" social optimum, i.e. a cost-sharing procedure, contrary to Olson's prediction of sub-optimality. If benefits accounts for  $b=4$  only after 3 units of good to five potential contributors of one or nil units at a per unit cost,  $c=5$  a structure where all cover  $1/5$  of the cost, no matter who provides the good, is implied. When the number of payers is below the threshold, all owe  $-n$  and outcomes are a couple of Nash equilibrium, i.e. no one or everyone contributes; by insuring threshold is met, each will likely contribute. The author toward whom a consistent debt has been accumulated in writing down these pages (Sandler, 2015) has examined conventional alliances as being clubs to protect a certain area, or country, on the assumption that both club or group methods of economic investigation can be applied to ascertain the efficient size/user fee of almost any organization and derive optimality conditions.

The case of “EU/versus migrants” policy comes rightly at the core of the question. Due to Olson’s uptake, volunteer specific benefits are selective incentives to bolster collective action and institutional design may, in turn, be thought as viable tools to improve effective people and government intervention, namely by small groups within federated structures. In these cases, contribution becomes a dominant strategy, e.g. the UN peacekeeping operations have member countries sharing the cost of the missions. Other studies (Ostrom, 2000) pushed the notion of evolving social norms to control overuse of specific common goods. At a global level, membership restriction and tolls appear strongly relevant for shared protection. On the contrary, without joint production, optimality hinges on the share of excludable pay-offs, notably when market and charges force preference revelation for country-specific and excludable impure benefits, respectively.

#### **IV. The option of an alternative strategic approach**

The recent EU Commission “Agenda on Migration” highlights solutions to let Europe to move forward and commits itself to the development of a common “interest system”. The proposals consist of viable criteria to automatically make an initial selection, e.g. with employers invited to identify priority applicants and effective migration only after individual migrants are offered a job. In the premises, this should bring to the construction of a “EU-wide pool” of qualified workers with national admission procedures based on each member State’s labour market needs.

Notwithstanding the enduring attitude just described, after the death of hundreds of people trying to reach Europe shores in the Mediterranean last April, the EU realized a need to set policy priorities to deal with the challenge of migration. A set of principles are suggested, with regard to the last year Pope’s address to Parliament and to human rights value, as stated in the Lisbon Treaty.

This should to be accompanied by solidarity and fair sharing of responsibility among EU States, according to the 1999 “Tampere Programme” and Article 80 of the Treaties for policies on borders, asylum and migrants. Some short and long run suggestions are worth to be considered<sup>4</sup>.

The new policy scheme would have a civilian authority and flexible mechanisms devised to ensure the visible people access to EU and an “Immigration Code” to consolidate standard rules.

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<sup>4</sup> A quite interesting additional proposal to be financed by the EU budget by member States contributions, in proportion to GDP refers to the task to oversee the asylum law uniform application. The opinion can also be agreed upon that EU migration policy 2014-2020 will succeed if underpinned by strict integration and funding provided by the Asylum Migration and Integration Fund (AMIF) complemented by European Social Fund (ESF). The UN would, in turn, adopt Sustainable Developments Goals (SDG) including migration-related targets (S.Carrera, D. Gros, E. Guild, 2015).

After the allocation distortions of the Dublin System, a change is deemed necessary in the institutional “club-style” design of the “Common European Asylum System” (CEAS) to provide common first-line reception and migrants direct access to member States labour markets.

A final consideration refers to the possibility that institutional design will help to have an idea to value effective collective action, if any, in the UE nearest future. As Olson himself advocated, the institutions do matter. From laboratory experiments and social norms the notion is borrowed that evolutionary game theory can test the overuse of shared commons (Ostrom, 2000). In some sense, volunteer specific benefits are selective incentives to uphold collective action and institutional design and may, in turn, be thought as a means for effective people and government intervention. In all these instances, contribution are a dominant strategy, e.g. the UN peacekeeping operations have member countries sharing the cost of the missions. In particular, federated structures might be able to foster an attitude in small, national groups included in the whole EU community much larger one. A massive number of studies in public economics and collective action progressed for their applications in the environmental field, biodiversity as in the already referred works on terrorists attacks, requiring more still insufficient coordination.

The options are to finally understand the true nature of migration as a valuable merit goods, or Commons, problem; or surrender to partial and unsatisfactory answers of just monetary content. Needless to say, all the above is not a dismissal of the traditional - club or group - economic approach. It is hopefully open an opposite scenario and imagine a public goods alternative strategy, where opportunistic free-ride is banned and expansionary EU policies promoted, at last, starting by the crossroad urgency of the emigration.

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