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## ***Welcome to Europe: A European Blue Card Proposal***

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## **Welcome to Europe: A European Blue Card Proposal<sup>1</sup>**

### **Summary**

This contribution argues that the EU should open up to skilled immigrants through a points system via a European “Blue Card” granting access to its entire labour market. This European version of the Green Card could become a powerful complement to any national effort to attract top talent. In addition, students graduating with a Masters degree or equivalent from European universities or from top universities abroad should be automatically eligible for a Blue Card. This “Blue Diploma” would help attract young talent early. Finally, in future rounds of EU enlargement, higher-skilled workers should be welcome immediately, provided they reach an earnings threshold: the “External Minimum Wage”.

In Section 1, a tentative explanation of why many countries in Europe are falling behind in the global competition for talent is provided. In Section 2, key facts of migration, its skill content, and the increasing supply of skills worldwide are examined. In Section 3, the basic efficiency and distribution arguments for and against high and low-skilled migration are analysed. The impact of emigration - “brain drain” and “brain gain” - on developing source countries is also discussed. Finally, Section 4 proposes potential policy options for Europe to attract high-skilled migrants and addresses a number of frequently raised objections and concerns.

### **1. Laggards in a Global Competition for Talent**

Why are many European countries finding it so difficult to effectively participate in the global competition for talent? For example, Germany’s new immigration law of 2004 was touted as an important step forward to attract more high-skilled immigrants. But during 2005, less than 1000 high-skilled immigrants came to Germany under the restrictive and timid provisions under that law. France is currently discussing an immigration bill that also contains provisions for high-skilled immigration. However, the special provisions regarding “compétences et talents” don’t seem to be a particularly courageous step forward either.

One explanation for these difficulties in agreeing on a policy framework that will succeed in attracting more high-skilled migrants might be the popular but flawed idea that the capacity for absorbing immigrants is essentially fixed, say at 100 000 per year, and the only question is: How should these immigration slots be allocated? If the number of slots were fixed, a moral case could be made to give the available slots to the most deserving: those suffering from political persecution, from abject poverty, from family separation. And an economic case could be made that the slots should be given those who would benefit the local economy the most: highly skilled immigrants. Thus, there would be a head-on conflict between what is morally right and what is in

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<sup>1</sup> This paper is based on an article published in the *Horizons stratégiques* (Revue trimestrielle du Centre d'analyse stratégique in Paris). It is an extended version of Bruegel Policy Brief 2006/03.

the national interest. Therefore, any policy aiming to attract high-skilled migrants could be accused of being a political trick that implicitly cracks down on morally more deserving migration.

But reality is different. The number of migrants that a country is willing to absorb is not fixed. In particular, the immigration of high-skilled workers need not reduce the capacity to absorb less skilled and perhaps morally more deserving migration. This is illustrated in Table 1. Canada, Switzerland, and Australia, the countries with a points system for immigration, have a strong bias in favour of highly skilled immigrants. But this does not appear to have come at the expense of less skilled immigrants. Foreign born without tertiary education make up only 8 percent of the population in France, the Netherlands and Belgium, and 11 percent of the population in Germany. By contrast, in the three countries with a points system, the foreign born without tertiary education amount to 12 percent of the population in Canada, 14 percent of the population in Australia, and 17 percent of the population in Switzerland.

**Table 1 – International comparison of the extent and skill composition of migration**

Country	% foreign-born	% with tertiary natives	Education among foreign-born	High-skilled foreign-born (% total population)	Points system to attract high-skilled as of:
Poland	2,1	10,4	11,9	0,2	N/A
Spain	5,3	19,4	21,8	1,2	N/A
Portugal	6,3	7,7	19,3	1,2	N/A
Denmark	6,8	18,8	19,5	1,3	N/A
United Kingdom	8,3	20,1	34,8	2,9	2007*
France	10,0	16,9	18,1	1,8	N/A
Netherlands	10,1	19,5	17,6	1,8	N/A
Belgium	10,7	22,9	21,6	2,3	N/A
Sweden	12,0	22,8	24,2	2,9	N/A
United States	12,3	26,9	25,9	3,2	N/A
Germany	12,5	19,5	15,5	1,9	N/A
Canada	19,3	31,5	38,0	7,3	1967
Switzerland	22,4	18,1	23,7	5,3	1996
Australia	23,0	38,6	42,9	9,9	1984

Note: \*Expected date following announcement by UK Home Office in March 2006

Source: Dumont and Lemaître (2004)

Thus, decisions on high-skilled immigration and on low-skilled immigration can to a large extent be treated separately. But should they be? Economic effects of high-skilled immigration are generally positive for the receiving country while low-skilled migration has more ambiguous effects, as shown further below. Hence, decisions about attracting more high-skilled immigration will tend to be relatively easy. By contrast, decisions regarding low-skilled migration often prove highly complex and controversial for both economic and non-economic reasons. By bundling the discussion of high and low-skilled migration together, many European countries, including France and Germany, are losing valuable time in the global competition for talent.

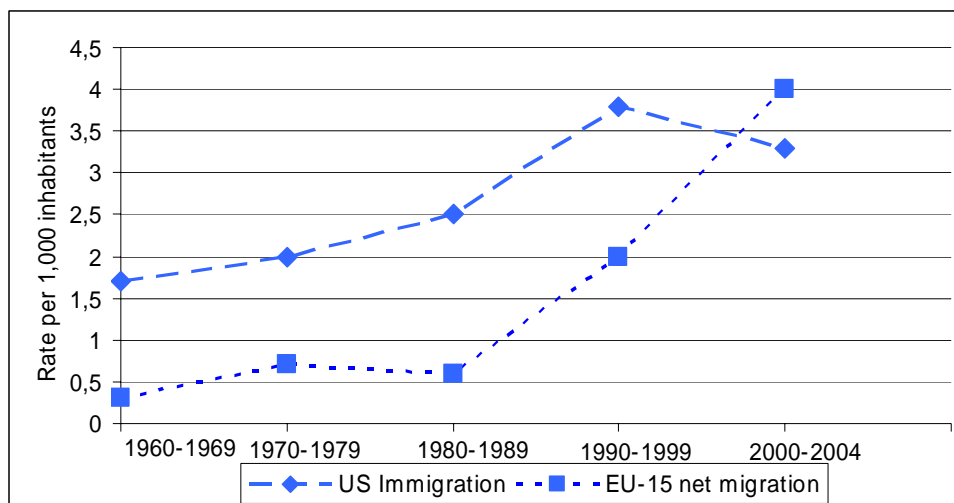
The case for a separate and accelerated treatment of the issue of high-skilled immigration is further reinforced by the potentially benign effect that successful high-skilled immigration policies might have on the politics of integration. Greater numbers of immigration success stories in the economic and scientific arena could help to reduce any exaggerated anxieties associated with immigration and immigrants overall. Furthermore, high-skilled migrants may also have a positive direct effect on existing migrant communities, for example through the availability of new roles models. Hence, instead of reducing the number of available slots for low-skilled migrants, more high-skilled migration might well increase the willingness to absorb more low-skilled migrants at the same time.

In order to attract more highly skilled migrants, this article proposes the introduction of a “Blue Card”, a European version of the US Green Card that would provide highly skilled third country nationals with instant access to the entire European labour market. The Blue Card would be allocated on the basis of skill through a Europe wide points system. Such an EU wide system would be more attractive than any national system from the perspective of high-skilled immigrants. Also, a European solution would provide greater visibility, predictability, and transparency than 25 different national systems.

## 2. Migration and the global supply of skills

Immigration rates in the EU-15 and the US remained at relatively moderate levels during the 1960s, 1970s, and most of the 1980s, as shown in Chart 1. Migration rates only shot up in the late eighties and early nineties. They rose again substantially in the early 2000s in Europe in particular, driven by immigration to the EU-15 from Eastern Europe. In addition, there is significant illegal immigration.

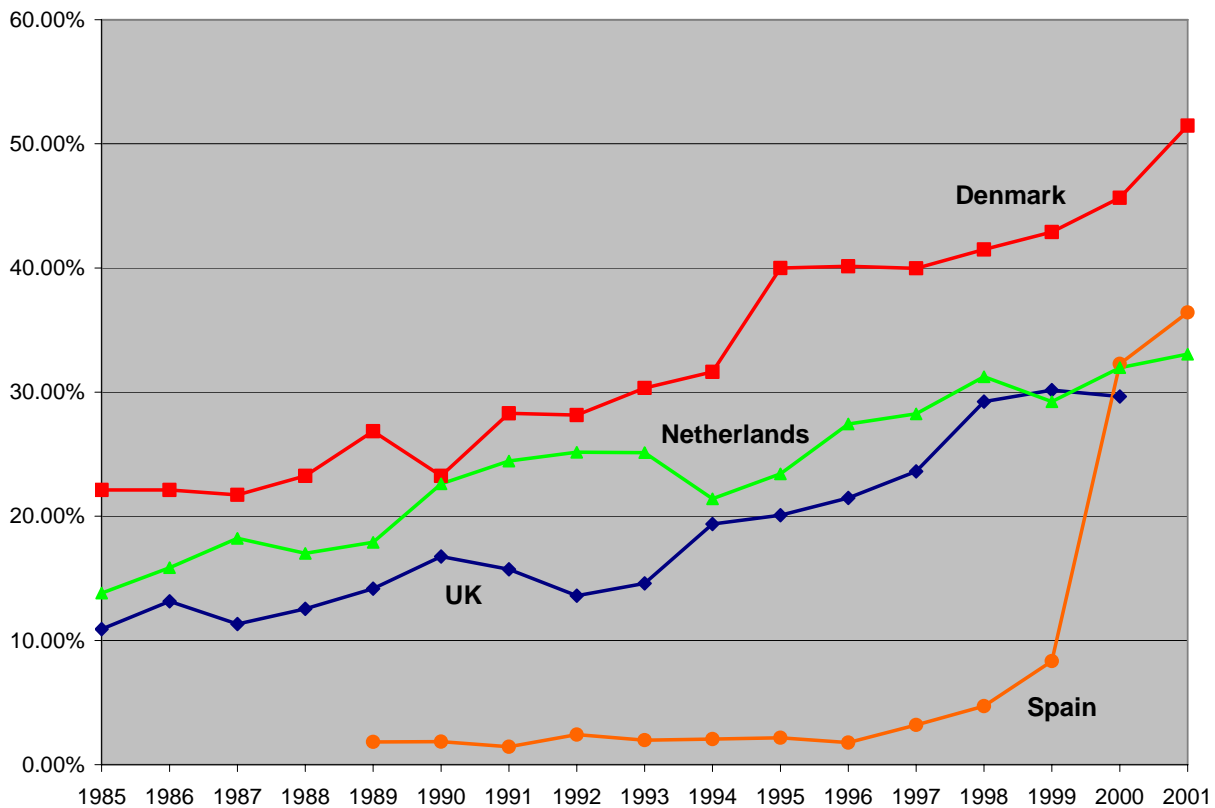
**Chart 1 – Recent increase in immigration to the EU and the US**



Source: Eurostat, US Office of Immigration Statistics, US Census Bureau

In order to gauge the potential importance of increasing migration flows for economic development, it is instructive to compare the gross inflow into the working age population through demography and through migration. As shown in Chart 1b, the age adjusted immigration inflow into the workforce exceeds 30 percent of the gross demographic inflow into the workforce. For example, in the UK, for 100 persons entering working age with their twentieth birthday (and that includes 1<sup>st</sup> and 2<sup>nd</sup> generation migrants who entered the UK before their 20<sup>th</sup> birthday), there are the equivalent of 30 fresh immigrants aged twenty entering the UK. Therefore, it is clear that the skill composition of this important immigration inflow, and the average length of stay of migrants as a function of skill has a substantial impact on the composition of the European labour forces over the coming decades.

**Chart 1b – Age adjusted gross immigration inflow to the working age population as % of gross demographic inflow into the working age population**



Source: Eurostat, own calculations

Definitions: Age adjusted gross immigration inflow into the working population: immigration inflow aged 20 to 60, with 20 year olds receiving weight 1, 40 year olds receiving weight 0.5, and 60 year olds receiving weight 0. Gross demographic inflow: number of people turning 20 years old in a given year.

Over the coming years, migration rates and migration pressures might well increase further. Globalisation is rapidly “shrinking” the world without shrinking worldwide income differences quite as fast. There are concerns in Europe over this influx of immigrants, and low-skilled immigrants in particular. At the same time, to become a competitive and dynamic knowledge-driven economy as spelled out in the Lisbon agenda, Europe will need to become much better at attracting talent from the rest of the world. Pisani-Ferry (2006) demonstrates that the EU-15 have levels of physical capital similar to the US but substantially lower human capital endowment. Such relative “overcapitalization” may not be sustainable. In addition to improved education policies, it seems plausible that migration policy may be able to play a role in closing the human capital gap of Europe.

The European Commission has accordingly become active in this area (Box 1). However, progress has been slow. Some of the reasons for this have already been mentioned in the previous section. In addition, many relevant stakeholders still use problematic economic concepts to discuss migration, most importantly the “lump-of-labour” fallacy according to which the number of jobs in an economy is fixed. This policy brief argues that the issue of economic migration should instead be framed in terms of the skill level of immigrants.

#### **Box 1: EU-Level Activity on Economic Migration**

A recent Policy Plan on Legal Migration (European Commission 2005) outlines the initiatives the European Commission intends to take over the 2006-09 period. This plan is based on the Green Paper, “On an EU Approach to Managing Economic Migration”, of January 2005, and the wide consultation that followed.

In particular, a framework directive is planned in order to define a common set of basic rights granted to migrant workers. Furthermore, four specific directives would be designed to discipline the entry and residence of particular types of immigrants, namely highly-skilled and seasonal workers, intra-corporate transferees and remunerated trainees.

One of the main objectives is to make the EU more attractive to high-skilled migrants. Whether this could be achieved through an EU work permit, similar to the Blue Card proposed in the brief, is under discussion.

#### **Box 2: The Canadian Example of a Points-Based Immigration System**

The points system for immigration was pioneered by Canada in 1967 and its skills bias was reinforced in 2001. Under the current rules, a foreign applicant must have previous work experience as a skilled worker to be eligible for treatment under the points system. Then, to be able to become established in Canada, a minimum of 67 points out of 96 have to be awarded on the basis of the following factors:

- Education (up to 25 pts)
- Proficiency in the official languages (up to 20 pts)
- Experience (up to 21 pts)
- Age with more points for younger migrants (up to 10 pts)
- Arranged employment (up to 10 pts)
- Adaptability including family ties to Canada (up to 10 pts)

These factors aim at capturing not only the economic potential but also the likelihood of a successful integration.

The differences in both the extent and the skill composition of migration, among developed countries, are striking. In particular, the percentage of highly-skilled foreign-born in the entire population varies widely, as highlighted by Table 1, in which green indicates a high percentage, yellow a mid-range percentage and red a low percentage of high-skilled foreign born in the population.

Australia, Canada, and Switzerland have been phenomenally successful in attracting large numbers of migrants with a strong bias towards high-skilled immigration. All three countries have a points-based system for attracting high-skilled immigrants (Box 2).

In mid-range immigration countries, the picture is much more varied. Germany, for example, has attracted disproportionate numbers of low-skilled immigrants, consistent with its historically large guest worker program. In other European countries, migration from former colonies, often in the aftermath of independence, has played a more important role. In particular, it is worth pointing out that Spain, a country with a relatively low stock of immigrants, is presently experiencing a massive surge in immigration, not least from South America almost 200 years after most countries of that continent gained independence.

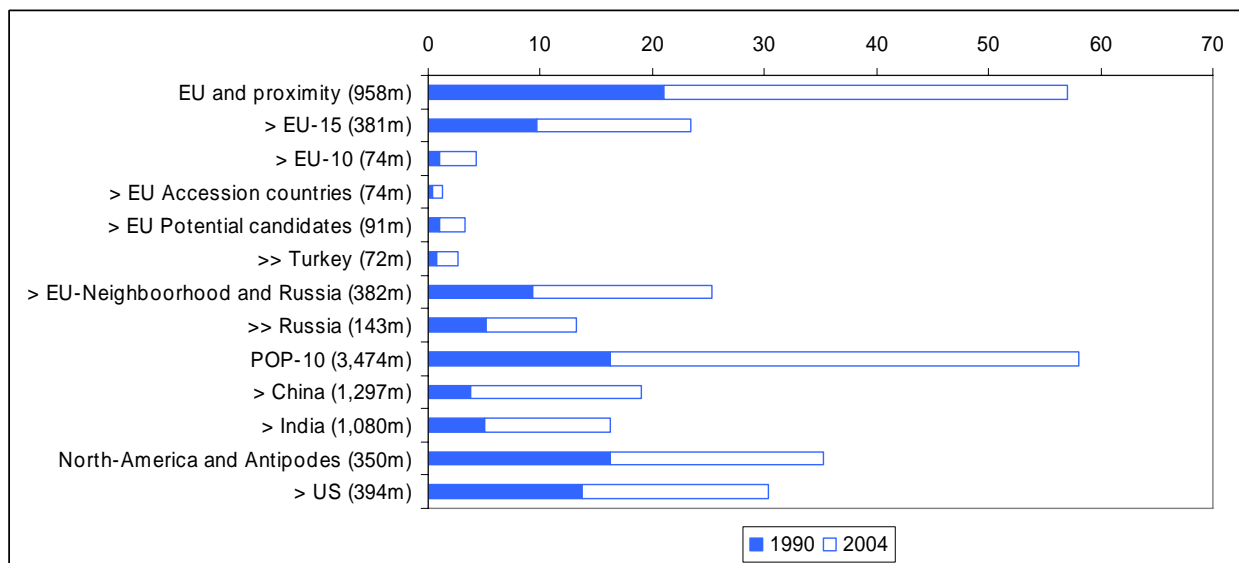
However, it seems that English-speaking countries generally have a distinct advantage in attracting high-skilled migrants, because English is the most widespread second language in the world. This also makes universities in English speaking countries more attractive internationally. This English language advantage sometimes leads other countries to conclude that they shouldn't even try to engage in the global competition for talent. A viable alternative might be to try even harder instead.

Contrary to popular perception, the US does not seem to have a high-skilled bias in its migration. The reason is that the high-skill bias of migration to the US from many countries of the world cancels out with the low-skill migration bias of the large influx of immigrants from Mexico.

But what if many more countries followed the examples of Canada, Switzerland, and Australia? Would those other countries simply be competing for the same scarce international supply of skilled labour? Chart 2 helps to dispel this concern. Over the last 15 years, the number of students in tertiary education has increased dramatically.

**Chart 2 – Number of students in tertiary education**

Country (pop.)	Students in 1990 (million)	Students in 2004 (million)	Students in 2004 (% of pop.)
<b>EU and proximity (958m)</b>	21.0	36.0	3.8
> EU-15 (381m)	9.7	13.7	3.6
> EU-10 (74m)	1.0	3.3	3.3
> EU Accession countries (74m)	0.4	0.9	3.0
> EU Potential candidates (91m)	1.0	2.3	2.6
>> Turkey (72m)	0.7	1.9	2.7
> EU-Neighbourhood Countries (239m)	9.3	16.0	4.2
> Russia (143m)	5.1	8.1	5.7
<b>POP-10 (3,474m)</b>	16.3	41.7	1.2
> China (1,297m)	3.8	15.2	1.2
> India (1,080m)	5.0	11.3	1.0
<b>North-America and Antipodes (350m)</b>	16.2	19.0	5.4
> US (394m)	13.7	16.6	5.7



Source: Edstats (World Bank)

Notes: Nearest available year used when student data missing for 1990 or 2004. Bosnia & Herzegovina, Armenia, Palestinian Authority, and Syria not included in EU & Proximity due to missing data.

Today, the share of students in the population is in fact lower in the old EU member states (EU-15) than in the new member states (EU-10) or the wider EU neighbourhood (EU Neighbourhood Policy Countries + Russia). Turkey is also catching up rapidly.

Even more striking is the increasing supply of skill among the Pop-10<sup>2</sup>, the 10 most populous economies outside the US and Europe. Over the last 15 years, the Pop-10 have collectively increased their numbers of students by 156%. As a result, they now have more students than the enlarged EU and the US combined.

Overall, tertiary education rates have been converging much faster than incomes. As a result, no shortage of young and high-skilled migrants is to be expected any time soon. If Europe wants to welcome more high-skilled migrants, it can.

### **3. Economics of migration: a primer**

Economic migration can loosely be defined as any cross-border migration that occurs to take on a better paid job. If pay is broadly in line with productivity, a move to a better paid job thus increases global economic output. This is the fundamental efficiency argument in favour of migration.

But most people would prefer to stay at home if it wasn't for the money. Therefore, why not upgrade productivity where the people currently are instead of having people chase more productive jobs abroad? International trade and cross-border movement of capital are helping to do just that. According to the classic factor price equalisation theorem of trade theory, wages might in principle be equalised internationally through the trade of goods alone! However, there are important reasons why migration pressures are likely to persist even under free trade, full mobility of capital, and flexible labour markets domestically.

First, many poor countries suffer from an inferior "production function" because of poor institutions. Despite recent development success stories, upgrading poor institutions is a slow process. In the meantime, workers in many developing countries will continue to suffer from inferior wages. Migration can short-circuit this development problem by allowing workers move to locations with a better "production function" immediately.

Second, agglomeration effects are an important rationale for migration. For example, France and the UK are large countries with fairly uniform institutions, free trade and free movement of capital. Nevertheless, workers continue to migrate to extremely expensive and crowded places like London or Paris. The reason is that people become more productive by virtue of geographic concentration. By moving to a large agglomeration, often in a foreign country, they can also hope to greatly improve the match between their skill and their job, thus boosting their productivity.

In summary, important factors driving migration today include good institutions and agglomeration effects. In both areas, Europe is well positioned. In view of these important efficiency arguments<sup>3</sup> for migration, why is free migration such a remote prospect? Besides non-economic factors, distributional concerns are the main reason.

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<sup>2</sup> China, India, Indonesia, Brazil, Pakistan, Bangladesh, Nigeria, Mexico, Vietnam, Philippines.

<sup>3</sup> Strictly speaking, agglomeration effects need not improve overall efficiency, see Charlot et al. (2006).

### 3.1. Distributional Effects of Migration

The basic argument is easily understood: Almost by definition, the migrant himself or herself derives benefits from a higher wage abroad. In the host country, wages of workers with labour market characteristics similar to those of the migrant can be expected to marginally decline while the income of those with different skills increases. Beneficiaries typically include people with different skills and owners of capital and land. In the source country, the wage impact will be a mirror image: the wage prospects of workers similar to the emigrant are set to improve while those with complementary factors of production would tend to suffer somewhat.

On that basis, low-skilled immigrants will tend to increase income inequality among the native population in the host country as the already below average wages of low-skilled natives will come under additional pressure. By analogous arguments, high-skilled migration has a benign distributional impact in the host country and an adverse distributional impact in the source country. Ultimately, these opposing effects between different skill groups and different countries are likely to be at the core of any economic controversy over migration.

However, while this theoretical argument is simple and compelling, it has been surprisingly difficult to find convincing empirical evidence to support it. In their analysis of empirical surveys, Longhi et al. (2005, 2006) find only a minute “consensus estimate” of the distributional impact: a one per cent increase in immigration only leads to a 0.12% decline in wages within the relevant skill segment and a 0.024% decline in employment.

If this were true, it would be wonderful news. Essentially, one could stop worrying about the distributional implications of migration altogether. However, as Borjas (2003) has pointed out, most of the empirical studies that fail to find a significant distributional impact of migration focus on the impact of immigration on wages in small geographic areas. But such an approach fails to control for the endogeneity of migration. Migrants tend to be attracted to locations that have the most vibrant local economies and therefore typically the most attractive wages. Hence, any negative wage impact of immigration might be hidden by above-average wages in areas that manage to attract the largest numbers of migrants.

By applying an econometric approach immune to this particular concern, Borjas (2003) and Aydemir and Borjas (2006) obtain substantially higher estimates of the wage impact of migration for the US, Canada, and Mexico. According to these studies, immigration of 1% reduces wages at the respective skilllevel by between 0.3 and 0.4% and migration could explain up to one third of the increase in the wage gap between low-skilled and high-skilled wages in the US over recent decades. Furthermore, Borjas finds in a simulation that any efficiency gains may well be tiny compared to these adverse distribution effects.

But those findings are unlikely to mark the end of the empirical debate. Bonin (2005) applies Borjas’ methodology to German data and finds much smaller effects. Also, questions remain as to why the wage effects of classic natural experiments like the Miami Boatlift and the mass emigration from the Commonwealth of Independent States (CIS) countries have not been more marked. Finally, Ottaviano and Peri (2006) find significant complementarity of native and foreign workers within the same skill group and they argue that only the least skilled group of natives in the US are likely to experience a negative wage impact due to migration.

In summary, the empirical literature has not been able to comprehensively dispel the distributional concerns that come with low-skilled migration. Therefore, such concerns cannot be entirely dismissed at this stage. At the same time, it seems already clear that any adverse distributional effects of low-skilled migration have not been the most important factor in rising income inequality over recent years. Hence, attempts to lay much of the blame for the economic stagnation of low-skilled natives in recent years on immigrants are not only politically but also factually misguided.

Assuming a welfare function that is inequality averse, the efficiency and distributional findings can now be brought together. High-skilled immigration is likely to increase welfare among the host country population since both efficiency and equity are likely to be improved. By contrast, low-skilled immigration has an ambiguous welfare effect in the host country. It increases efficiency from the perspective of the native population provided that there is sufficient adjustment in the capital stock while it is probably somewhat widening the income gap between rich and poor in the host country.

The welfare argument in favour of high-skilled immigration and the welfare ambiguity of low-skilled immigration are reinforced by a number of additional aspects that have so far been neglected:

- The Fiscal Impact of Migration in a Welfare State

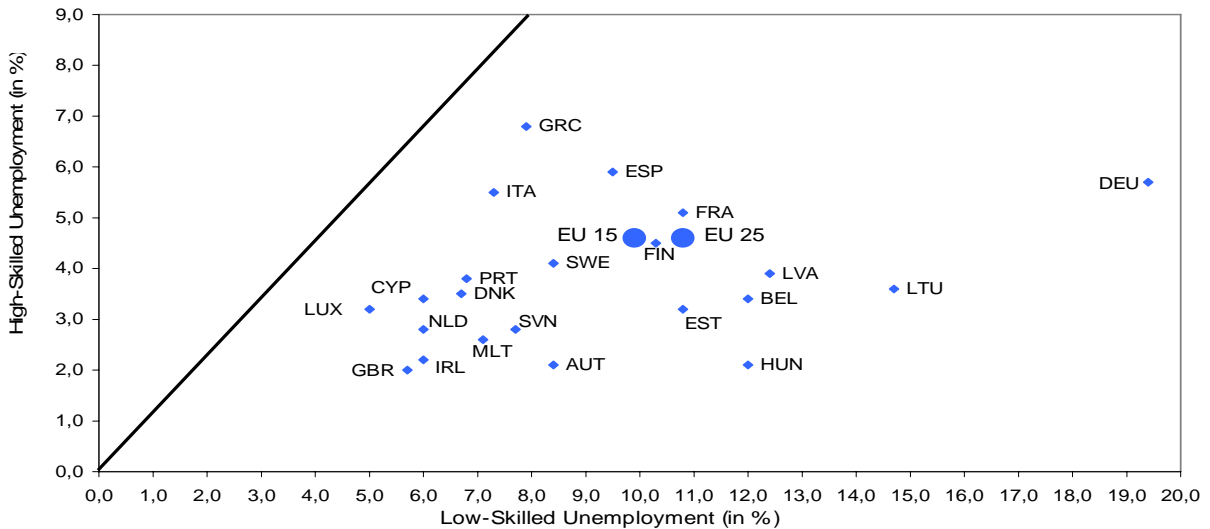
Obviously, the net fiscal impact of a high-skilled immigrant tends to be substantially more favourable than the net fiscal impact of a low-skilled migrant. However, even low-skilled immigrants can make a positive net contribution to the welfare state since pay-as-you-go pensions impose a large burden on young migrants.

- Migration and Inflexible Labour Markets

Low-skilled workers are typically more affected by poorly functioning labour markets than high-skilled workers. Chart 3 shows that the unemployment rate of low-skilled workers in Europe is systematically higher than for high-skilled workers. On average, the former stands at 10% in the EU while the latter is only 5% and can primarily be explained by frictional unemployment. This suggests that the labour market will be able to absorb high-skilled migrants more readily than low-skilled migrants.<sup>4</sup> While far from perfect, Chart 3 is at least likely to be a better guide to migration policy than the job opening statistics that are often used to assess migration needs. This is because job openings tend to be inflated, almost by definition, for sectors with high turnover which in turn is often associated with poor paid, low skill requirements, and seasonality.

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<sup>4</sup> However, if the low-skilled unemployment is due to centralized wage setting coupled with low mobility, additional low-skilled immigration might actually reduce unemployment by reducing the marginal productivity differentials between regions, as explained in Boeri and Brücker (2005).

**Chart 3 – Unemployment in Europe by skill-level**

Source: Eurostat

Note: \*Unemployment rates for worked aged 25 and over(Q2 of 2005).

“High-Skilled” = Tertiary education; “Low-Skilled” = Primary and Lower Secondary only.

#### ■ Dangers of an Ethnic Underclass

There are signs that certain immigrant communities in Europe are developing into an ethnic underclass. It is clear that much better education and improved economic opportunities for the children of low-skilled migrants already in Europe, need to be provided. Migration policies can usefully complement such integration measures by creating a high-skill bias among fresh immigrants. Low-skilled immigrants already in Europe are the closest labour market substitutes to new low-skill immigrants. Hence, by reducing the inflow of additional lowskilled immigrants, the economic prospects of existing low-skilled immigrant communities could probably be improved.

For the source country, low-skilled emigration or “brawn drain” typically improves welfare as it improves both efficiency and redistribution. This positive impact of low-skilled emigration is reinforced by remittances. Low-skilled emigrants will often help to support poor relatives in the source country with their higher earnings abroad.

By contrast, the welfare impact of high-skilled emigration or “brain drain” is ambiguous. The source country may suffer from an adverse efficiency and distributional impact as a result of the brain drain. There will be fiscal loss since high-skilled emigrants will no longer pay taxes in their home country. And just as high-skilled migrants help to uplift their ethnic communities abroad, they could have made notable contributions to public life had they stayed at home.

But a brain drain is not all bad for the source country. High-skilled migrants also send remittances back home. The option to emigrate may substantially increase the expected returns to education in the country of origin, thereby improving education incentive. Finally, if migrants return to their country of origin, and many of them do, the additional skills and savings they have acquired abroad become a powerful force of development. Therefore, moderate levels of brain

drain may actually be beneficial for the source country as, for example, argued in Beine et al. (2003).

### 3.2. Win-win Migration Policies

The findings of the previous sections are summarised in Figure 1: High-skilled migration tends to improve the welfare of the host country while the welfare impact of migration on the source country is ambiguous. By contrast, low-skilled migration has an ambiguous welfare impact on the host country while generally improving welfare of the source country. Finally, the most important welfare gains tend to accrue with the migrants themselves who typically reap substantial benefits from migrant.

While there need not be a conflict of interest between source and host country, there may well be. This raises the question how could the positions of host and source country be reconciled, if indeed there were a conflict of interest?

The solution to this problem looks simple: to make high-skilled migration a win-win proposition, both migrants and the rich host country would need to share some of their gains with the poor source country. And to make low-skilled migration a win-win proposition, both the poor source country and the migrants would need to share some of their gains with the rich host country<sup>5</sup>. In practice, however, there are two major obstacles to implementing such win-win outcomes.

First, the required cross border transfers may be difficult to organize since the country supposed to pay compensation would have an incentive to renege on the transfer. This makes the problem of creating win-win strategies for migration much more difficult than creating win-win strategies for international trade: with trade, only domestic transfers are required to compensate any losers.

**Figure 1 – Theoretical migration preferences**

High-skilled migration	+	?	+
Low-skilled migration	?	+	+
	Rich host country	Poor source country	Migrants

<sup>5</sup> The additional complication that a migrant may often have below average skills from the perspective of the rich host country but above average skills from the perspective of the poor source country is neglected here for ease of exposition. In order to create a win-win situation in this case, gains of migrants may have to be distributed to both natives of the rich host country and those who remain in the poor source country.

Second, the taxation of the rents of migrants may pose a serious problems in practice. Either such rents could be taxed as they accrue over the years. However, in that case the tax system would somehow have to discriminate against migrants for a long time after they migrate. But as migrants integrate, it would increasingly be perceived as unfair to burden them with higher taxes just because they have a migrant background. And legally, it might often be difficult to circumvent the pervasive legal principle of non-discrimination as may be needed to capture an important share of the migrant rent.

Alternatively, one could try to tax the rent of the migrant lump-sum as they enter the country. For example, migration permits could be auctioned and the proceeds of this auction would in effect be a tax on the economic rents of migrants. However, risk adverse and cash constrained migrants would find it difficult to bid in auctions of work permits at anywhere near the net present value of the expected rent of migration. Instead, one could of course auction the work permit to employers instead who are less risk adverse and cash constrained. However, this could also cause major problems. For the migrant to pay-off the employer for the auction investment, the migrant would typically have to work for that particular employer for many years below the going market rate. In the longer run, this would again raise questions of fairness and non-discrimination. Furthermore, transfer to new employers would have to involve problematic transfer fees arrangements that many regard as a modern form of slavery only just acceptable in the extremely well-paid world of football.

Probably the first concrete proposal to use the rents of the winners of migration to compensate the losers was the Bhagwati tax (Bhagwati 1972). He proposed that high-skilled migrants should continue to be subject to some degree of taxation in their country of origin in compensation for the potential loss caused by their emigration to their home country. However, for the reasons mentioned above, host countries have not been forthcoming in helping to implement such a scheme. But despite these difficulties, it is certainly worth pursuing the search for a clever implementation of win-win strategies since the fundamental economic rationale for the proposals remains sound today<sup>6</sup>.

In the meantime, Europe could certainly go a long way towards gaining the moral high ground simply by fulfilling last year's commitments to significantly increase development aid as a percentage of GDP. More specifically, the EU could make a point of subsidising education systems as an increasing function of the net inflow from any particular source country. Alternatively, rich countries could allocate more work permits for low-skilled workers, since a mixed strategy between high-skilled and lowskilled migration could also overcome the potential conflict of interest depicted in Figure 1.

#### **4. Policy proposals**

If the potential distributional problems with the source countries can be fairly resolved, how should Europe go about attracting high-skilled migrants? Before answering this question, the term "high-skilled" migrant needs a better practical definition.

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<sup>6</sup> For a recent discussion of such strategies, see Freeman (2006).

Perhaps the most obvious definition of skill would be based on formal qualifications. This also makes some economic sense since formal qualifications tend to be a fairly good predictor of future earnings potential. This is relevant since most migrants move in their 20s or early 30s when their current earnings are only a relatively poor predictor of future earnings potential.

However, from an economic perspective, a definition of skill ought to go beyond formal qualifications. As long as an immigrant is likely to achieve high earnings in the host country, he could be argued to have sufficiently rare talent so as to be regarded as highly skilled. This is the salary-based definition of skill. It is a highly flexible definition, capturing all kinds of professional excellence, including sports such as football and creative professions, which are difficult to standardise.

#### **4.1. An EU-wide Blue Card for highskilled migrants**

In a points system of immigration, both definitions of skill can simply be used in parallel. In view of the high flexibility of points systems and their success in attracting high-skilled migrants, it seems likely that many European countries will adopt them over the coming years.

This raises the question whether there is any room for European involvement regarding high-skilled migration. High-skilled migrants could give rise to positive cross-border externalities within the EU similar to research and development. In principle, this argument might even be used to justify subsidies for attracting high-skilled migrants, perhaps in the form of a centrally financed Erasmus style programme to attract third country nationals.

However, before going down the route of explicit subsidies, the attractiveness of Europe could be increased for free by providing third country nationals immediate access to the entire EU labour market. This will be more valuable from the perspective of the migrant than access to any national labour market due to the option value of the additional markets. Also, such an EU wide immigration regime would provide much greater visibility, predictability, and transparency than 25 different national systems.

Therefore, it is recommended to introduce a “Blue Card”, a European Green Card that would provide highly skilled third country nationals with instant access to the entire European labour market. This Blue Card would be allocated on the basis of skill through a Europe wide points system. Overall, such a system should make it significantly easier for Europe to compete for top talent with countries like the US or Canada.

However, national initiatives to attract more high-skilled immigrants need not wait until a European Blue Card is introduced. The reason is that for most EU member states it would appear to be in their narrow self-interest to attract greater numbers of high-skilled migrants. EU level coordination would merely help countries to get there faster, and to go even further.

## 4.2. Blue Diplomas for Foreign Graduates

As one particular variant of the Blue Card, an entirely qualification-based “Blue Diploma” could be introduced. Any graduate of a Masters programme (or equivalent) from a participating university could be made eligible for a Blue card by virtue of his or her degree. Such a comprehensive and predictable arrangement would greatly help to attract foreign talent to European universities and to the European labour market afterwards. In principle, it would make sense to extend Blue Diplomas to universities outside Europe also. For a start, the top 100 non-European universities, as measured by academic excellence, should also be included in the scheme.

Even from a development perspective, the Blue Diploma could turn out to be beneficial. By providing guaranteed access to the European labour market without requiring a permanent presence, circular migration in the spirit of the proposal by Weil (2006) would be encouraged. The Blue Card would in effect act as an insurance policy for graduates from developing countries in case they would like to take the risk of going back home. They could always return to Europe for a second chance.

This somewhat counter-intuitive reasoning that a permanent Blue Card might be a better tool to encourage circular migration than temporary work permits for the high-skilled deserves to be explored a little further. A closer investigation into the arrangements for high-skilled immigrants in the US and Germany found that in both countries, the only truly reliable means to always regain access to the host country labour market after a spell of indefinite duration in the home country is naturalization. Even the Green Card in the US or the German Niederlassungserlaubnis expire<sup>7</sup> during a return to the country of origin or onward migration for an indefinite duration.

In this light, the current temporary arrangement may very well be interpreted as a powerful incentive against circular migration.

## 4.3. An External Minimum Wage

It turns out that the skills-based approach of migration also has an interesting application to EU enlargement. For new rounds of EU enlargement (Bulgaria, Rumania, eventually Turkey), the question arises of how to manage the transition to full labour mobility.

As with immigration from third countries, the old member states will typically be more readily persuaded to open up their labour markets for highskilled than for low-skilled workers from new member states. Furthermore, due to the strictly limited duration of the transition process to full labour mobility, the dangers of abuse are less pronounced than they would otherwise be. Hence, a simple salary-based approach can be used to introduce full mobility for high-skilled workers while delaying access for lowskilled workers.

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<sup>7</sup> In Germany, an exception to that rule is made if the migration has previously lived in Germany for more than 15 years.

Citizens of new EU member states would be allowed to enter work contracts that pay above an external minimum wage in all old member states. This wage floor could initially be set at the median wage in each old member state. With time, the external minimum wage could be lowered at a jointly agreed minimum pace to reach full free mobility. Of course, any old member state would be allowed to open its labour market faster, or even lift all restrictions immediately, if it chose to do so.

Germany and other countries who have not yet introduced full mobility from the 2002 round of enlargement would be well advised to apply this approach immediately to attract high-skilled workers from the present new member states in Eastern Europe. Germany could introduce an external minimum wage of €30,000 per year for citizens of the new member states in Eastern Europe. For young workers, this threshold could even be set somewhat lower, at €24,000. As a result, the low wage sector in Germany would continue to be protected for the time being while Germany could start enjoying the benefits of skilled migration immediately. Over the next 3 to 5 years, this external minimum wage could then be progressively lowered in order to assure a smooth transition to full worker mobility in 2009 or 2011.

Interestingly, the Netherlands are already using the external minimum wage as a migration policy tool, albeit with a substantially higher earnings threshold. This raises the more general question why the external minimum wage might be better suited for a transition regime to full worker mobility while a Blue Card might be more suitable to regulate high-skilled migration from third countries. The key strength of the external minimum wage is that it offers a less bureaucratic and more economic definition of talent than a typical points based system. At the same time, this comes at the price a somewhat great potential for abuse. For example, an employer and a migrant could collude to agree on a higher wage on paper than in reality, thereby circumventing the external minimum wage relatively easily.

Bearing this in mind, the external minimum wage is particularly well suited for an environment where the harm done by abuse is limited. And clearly, during an introduction process of free movement for workers the harm done by abuse is much more limited than for third country migration since free movement will kick in after a couple of years anyway.

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