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European Commission
(ARGO)

POLICY BRIEF 3

Migrants and the European Labour Market: Current Situation and Outlook*

By Rainer Münz and Thomas Straubhaar

Introduction

Today almost all West European countries and several new EU member states in Central Europe have a positive migration balance. And it is very likely that sooner or later this will be the case in the other new EU member states and today's accession countries.

As Europe's population ages, immigrants and their descendants-and the possibility of active labour migration-will become an important factor stabilising the size and influencing the composition of the European workforce. In the context of the European Employment Strategy (EES) launched in 1997 and the Communication issued by the European Commission (2002) assessing progress in the Strategy, a discussion of labour migration and its effects on employment structure may be helpful. This paper contributes to this discussion by analysing the size, and structure of Europe's migrant population and assessing the economic position of migrants in the broader context of European labour market developments.

The European Labour Force Survey (LFS) is used as the main data source for this paper. Unlike other official data sets, which only distinguish between those holding the citizenship of an EU member state and those who do not, the LFS allows one to use the criterion "place of birth" to distinguish between foreign-born and native-born residents of the EU. The results for both groups are then compared with those of *foreign nationals* legally residing in an EU member state-a group that partially overlaps with the *foreign-born* population. This exercise shows lower employment and higher unemployment rates as well as a concentration in certain sectors of the economy and in low-pay jobs for both foreign-born residents and foreign nationals from middle- and low-income countries, but above-average employment rates for immigrants from high-income countries residing in EU 15 (including intra-EU migrants).

The picture, however, is somewhat different when looking at the foreign-born population, as this includes naturalized citizens of EU member states who on average are economically better integrated than those who remain third country nationals. As a result, foreign-born residents of EU countries have higher employment rates and,

*A more detailed version of this paper including data tables will be available online starting September 1, 2004 at:
http://www.migrationpolicy.org/events/2004-08-31.euroconf_publications.php.

on average, are employed in better positions than legal foreign residents. This suggests the following: in Europe, the process of integration of immigrants differs to a lesser degree from that of traditional countries of immigration such as the US, Canada and Australia than has been previously assumed, although labour market outcomes remain disappointing for migrants from low and middle-income countries, in particular from Northern Africa and Turkey.

Further sustained efforts to enhance integration of immigrants and their children and to provide equal opportunities are necessary. Confronted with an aging and eventually shrinking domestic population Europe also has to consider migration policies based on skill based selection mechanisms and measures to identify future labour and skills gaps. In the medium- and long-term the EU will have to compete with other OECD countries for attractive potential migrants. A planned Green Paper from the European Commission will provide one touchstone for this important conversation on when and how migrant should be admitted for employment and what status they could be accorded during their residence in the Union. Such efforts are necessary if Europe is to take the proactive migration management approach needed to maintain both economic advantages and social cohesion in the midst of demographic change.

How Many Migrants Live in Europe?

The exact number of migrants residing in Europe is unknown. This is partly due to the fact that many European countries-in contrast to Canada and the US-continue to use nationality, but not place or country of birth as a standard criterion in their demographic, economic and social statistics. "Foreign nationals", traditionally counted in European statistics, are residents of EU 25 who do not have the nationality of the country they reside in. "Foreign born," on the other hand, refers to all people who were born outside of a particular member state, regardless of their current citizenship. Thus, it includes immigrants who have acquired the nationality of their county of residence in-which can make a significant difference, considering that in the decade 1992-2001 some 5.8 million people were naturalized in EU 15 (OECD/Sopemi 2004).

Data collected by OECD for 2000-2001 put the number of foreign nationals in the EU 15 at 20.1 million people. Of these, fewer than 6 million people were EU 15 citizens living in another EU 15 member state, and some 14.3 million were third country nationals. The largest group of third country nationals residing in the EU are citizens of Turkey (2.6 million), followed by Morocco (1.4 million).

Additional information can be obtained by combining data from the LFS with that produced by the UN Population Division and data from national censuses and population registers. Looking at only the highest figure for each country, this method puts the number of first generation immigrants (=foreign born population) in the EU 15 (2002) at 33 million. As published and unpublished data for some countries still to certain extent under-estimate the size of the foreign-born population, one can assume the presence of 33-36 million people in the EU 15 (2001-02) who are either legal immigrants - both foreign nationals and citizens - or irregular migrants. Another 1.7 million immigrants living in the other EEA states and Switzerland and some 1.5 million immigrants living in the new EU member states in Central Europe bring the size of Western and Central Europe's migrant population to 36-39 million people.

Recent Flows

In 2003, the 28 EU+EEA countries and Switzerland had an overall net migration rate of +2.2 per 1000 inhabitants. The net gain from migration was +1.0 million people. This accounts for more than three quarters of Europe's total population growth (+1.3 million people in 2003). In absolute numbers the gross immigration was largest in Germany, the UK and Italy. Relative to population size, Cyprus had the largest positive migration balance (+14.1 per 1000 inhabitants), followed by Ireland (+7.0), Portugal (+6.1), Switzerland (+6.0), Liechtenstein (+5.9) and Spain (+5.5). Only Lithuania (-1.4 per 1000 inhabitants), Iceland (-0.9), Poland (-0.4), Latvia (-0.3) and Estonia (-0.1) recorded a negative migration balance.

Gates of Entry, Relevance of Labour Migration

In many European countries recent regular immigration is dominated by family reunification and migration related to the formation of new families, by the inflow of asylum seekers (412.000 applications in the EU 25 in 2002), and by the inflow of co-ethnic "return" migrants. For instance in Sweden (2001) over 70% of residence permits were granted for purposes of family formation/reunion. In Belgium and Denmark this was the reason in over 50% of cases, while in Austria, Finland, France and Italy it applied to between 20% and 30% of all people taking legal residence in these countries. In 2000, in 61% of the cases, employment was the basis for legal entry in Italy, 46% in Portugal and 36% in Spain. In Ireland and Greece admission for economic reasons played a dominant role. In the UK, employment was the reason for entry in only 27% cases, with family reunification applications accounting for another 27%.

Looking at the EU overall, nearly 40% of all residence permits were granted for the purpose of employment whereas 30% were granted for the purpose of family reunion. These figures, however, do not give the full picture as in several EU countries economic migration on a larger scale takes place in the form of seasonal and temporary labour migration (529,000 persons admitted in 2001 in EU 15) as well as in the form of irregular labour migration of at least the same magnitude. The latter only statistically becomes visible at the occasion of so-called amnesties and regularization programs. During the period 1995-2002 some 2.5 million migrants were regularized in EU 15.

Labour Migration in the New EU Member States

In the new EU member states in Central Europe labour migration is still relatively small. Only in (the government controlled, i.e. Greek part of) Cyprus is the share of foreign labour above EU average. In Poland the number of work permits for labour migrants fluctuated between 15,000 and 18,000 (1997-2002), but irregular labour migration has already become visible; in Slovenia the number of work permits fluctuated between 34,000 and 40,000. The Czech Republic, in 2001, counted 104,000 non-nationals legally working in the country. When adding trade licenses the number of economic migrants can be put at around 168,000 (2001). In Slovakia their number was 9,000 in 2002. Relative to work force and population size Hungary has the largest number among the new member states of legal foreign workers and employees: 115,000 in 2002 or 2.3% of the work force.

In the new EU member states, the great majority of migrant workers come from neighbouring countries and regions. In Slovenia, more than 90% of the foreign workers and employees come from other successor states to the former Yugoslavia.

Foreign workers from Ukraine, Belarus and the Russian Federation represent the majority in Poland and some 30% in the Czech Republic. In Hungary 43% of the foreigners were Romanian citizens, followed by citizens of Serbia (11%) and Ukraine (8%), most of them ethnic Hungarians. Around 10% had come from the EU. The Czech Republic and Poland also have a sizeable share of migrant workers from Asian countries, notably Vietnam, whereas Hungary hosts the largest Chinese diaspora community in Central Europe, making up 6% of all foreign residents in Hungary.

Education, skills

The skills profile of the foreign-born population is markedly different from that of the total EU population. Both people with low skills (immigrants: 52%; EU 15 average: 48%) and with high skills (immigrants: 20%; EU 15 average: 17%) are overrepresented among immigrants. People with medium skills are underrepresented among migrants (immigrants: 28%; EU 15 average: 39%). This is mainly a result of labour markets primarily creating demand for high and low skilled migrants.

Skill levels vary greatly by national origin. Immigrants from Southern Europe living in another EU country as well as immigrants from Turkey, North Africa/Middle East and sub-Saharan Africa have relatively high proportions of people with low skills. In contrast immigrants from North-western Europe living in another EU country and in particular immigrants from other industrialized regions (North America, Australia/New Zealand) have higher proportions of highly skilled people.

Work Force, Dynamics of the Labour Market

In 2002 some 290 million people living in the EU 25 were of working age (15-65). Of them, 62.8% were actually employed (employment rate in age groups 15-65). Employment rates range from 51.5 % in Poland and 55.5 % in Italy to 73.6 % in Sweden, 74.4 % in the Netherlands and 75.9 % in Denmark. Big differences between male and female employment rates can be found in Southern Europe, namely in Greece, Italy, Malta and Spain - countries (except Malta) with high unemployment rates for women. Labour force participation of women is significantly above average in Scandinavia.

Currently, unemployment rates diverge significantly between EU states, ranging from 19.8% in Poland to 2.7% in the Netherlands. Regarding unemployment there is no clear pattern that would distinguish EU-15 states from new member states.

Migrants are of increasing importance to the EU workforce. Between 1997 and 2002 the number of people employed in the EU-15 increased by about 12 million (+8.1%), out of which 9.5 million were EU-nationals and more than 2.5 million were third-country nationals. While the share of third-country nationals in total EU employment was 3.6% in 2002, they contributed 13% of employment growth during the period 1997-2002. If we also account for foreign-born naturalized EU citizens the contribution of immigrants to employment growth is in the order of 20% (European Commission 2004).

The employment of migrants has increased in recent years due to strong economic growth and increases in the number of skilled migrants. In 2002, the employment rates of EU-nationals already had reached at 82% for the medium skilled and 89% for the high skilled. In 2002 they had further risen to 82% and 89% respectively. Between 1997 and 2002 the number of employed medium skilled migrants increased

by 50% and that of highly skilled migrants doubled, amounting to more than 60% of the total increase in the employment of migrants. This reflected cyclical growth in employment and the migrants' over proportional contribution to this increase. The situation for the low skilled is less favourable.

Employment and Unemployment Rates of Immigrants

The employment rate of the foreign-born population (61%) is lower than the EU 15 average (64%). But immigrants from Western and Southern Europe living in another EU 15 country and from other industrialised countries have higher employment rates and lower unemployment rates than the total EU population. The opposite is true for immigrants from other parts of the world. Employment is particularly low and unemployment correspondingly high among immigrants from Turkey, Middle East/Africa, and Asia. Immigrants from the new EU member states, the Balkans and Eastern Europe and from Latin America have almost the same employment rate as the EU 15 average, but higher unemployment (Münz and Fassmann 2004).

Foreign-born men only have a slightly lower employment rate (71%) and higher unemployment (9.3%) than the EU 15 average for the male population (empl.: 73%; unempl.: 6.9%). Employment is high among male immigrants from other EU member states, the Americas and Australia. Only male immigrants from Turkey, Africa and the Middle East have significantly lower employment rates and much higher unemployment.

Differences are larger among women. Foreign-born women have a lower employment rate (52%) and higher unemployment (9.7%) than the EU 15 average for the female population (empl.: 56%; unempl.: 7.8%). Female immigrants from Turkey, Africa and the Middle East have particularly low employment and high unemployment, while women from Asia have particularly low employment but average unemployment rates. Women from Latin America have average employment rates but particularly high unemployment rates. The opposite is true for women from Western EU countries and from other Western countries.

As employment and unemployment rates vary to a considerable degree with acquired skill levels, lower employment rates among certain immigrant groups are partly the result of differences in skills compositions. However, skill differences are not the only explanatory factor. Employment rates of male migrants moving within EU 15 countries do not differ much from the EU average while lower skilled women from other EU 15 countries have higher employment rates. This is particularly true for women from Southern EU 15 countries. In contrast immigrants from Turkey and North Africa/Middle East at *all* skill levels have lower employment and higher unemployment rates than the EU average. The employment rates of immigrants from new EU member states, Eastern Europe and the Balkans are below the EU 15 average for highly skilled men and women, but above EU average for low skilled women.

There are indications that, for most nationalities, those who have naturalized are doing better in the workforce than those who remain foreign nationals: discrepancies in employment and unemployment rates are clearly visible when comparing highly skilled male and female immigrants from new EU member states, the Balkans and Eastern Europe with foreign nationals of these countries residing in the EU 15. Such discrepancies are visible at all skill levels when comparing female immigrants from Turkey and male as well as female immigrants from North Africa/Middle East with Turkish nationals (women) and with nationals of North African and Middle Eastern

countries (men and women) residing in the EU 15. Such discrepancies do not appear when comparing highly skilled and unskilled male immigrants from Turkey with Turkish nationals of the same skill level (male).

Occupational Structure, Industry Structure

On the whole, the occupational structure of the foreign-born population in Europe (as identified in the LFS) is different from the EU 15 average. Economically active immigrants are underrepresented in medium-skilled non-manual positions (immigrants: 9%; EU 15 average: 13%) and over represented in non-skilled manual positions (immigrants: 24%; EU 15 average: 18%). Immigrants from North-western Europe living in another EU country as well as immigrants from other industrialized countries predominantly occupy highly skilled non-manual positions. Immigrants from Southern Europe living in another EU country as well as immigrants from the Balkans, Central and Eastern Europe and from Turkey are over proportionally active in skilled and unskilled manual positions. Immigrants from North Africa/Middle East and sub-Saharan Africa as well as from Asia have an average representation in highly skilled non-manual positions but are over proportionally active in unskilled manual positions (Münz and Fassmann 2004).

Economic inclusion and exclusion of migrants

Third-country nationals have also much lower employment rates than EU-nationals (by 14 %-points lower in 2002), in particular in the prime-age group (by 20 %-pts. lower). The gap is on average wider for women than for men, within all working age groups (European Commission 2004).

In more than half of the EU 15 the gap in employment rates has been shrinking over the last decade. From 1994 to 2002, the employment rates of non-EU nationals improved significantly in Portugal (+28 %-pts.), Spain, (+22 %-pts.), Denmark (+18 %-pts.), the Netherlands (+16 %-pts.), Ireland (+13 %-pts.), and Finland (+12 %-pts.). Smaller increases were recorded in the United Kingdom, Sweden and Greece. The employment rates for non-EU nationals remained below average in France and Belgium, and there was a decline in the employment rates of non-EU nationals in Austria (-3.5 %-pts.), Luxembourg (-3.1 %-pts.), and Germany (-2.0 %-pts.).

Migrant workers and employees originating from non-Western and non-EU countries are not only concentrated in a few sectors of the economy, but within them, in the lower skilled segments. A growing number of them are employed in the health and care sector as well as in education. Domestic services also play an important role, though not always visible in available statistics due to the high proportion of irregular migrants working in this sector. By contrast young people of foreign origin tend to be increasingly working in jobs closer to the domestic profile.

Whether these changes mean a better starting point for migrants' longer-term integration in the labour market is questionable, as they still tend to remain concentrated in low quality service jobs offering little room in terms of adaptability and mobility.

The picture, however, tends to better if one does not compare third-country nationals with EU nationals, but native-born with foreign-born workers and employees. This is to be expected as naturalized citizens tend to be better integrated than legal foreign residents. However discrepancies between immigrants from non-industrialized countries and Europe's majority populations remain strong.

The employment rate of legal foreign residents from North Africa and Turkey is systematically lower than for EU-nationals whatever the skill level is. In contrast citizens of Balkan countries have employment rates that are at or above EU-nationals' levels both for men and women. The same is true for North Americans and Australians residing in Europe as well as for citizens of North-western Europe residing in another EU member state.

As naturalization in many EU 15 countries has drastically increased since the 1990s the sub-segment of foreign nationals has become much less representative of the migrant population. In fact, the economic position of the foreign-born (=migrant) population in EU 15 differs on average less from Europe's total population than the economic position of the foreign resident population. The latter are in a less favourable economic position. If one looks at foreign nationals only instead of immigrants with or without citizenship of the receiving country, one could therefore derive an overly negative picture.

The analysis of European Labour Force Survey data shows that apparently immigrants in Europe are more successful than surveys and data only focusing on foreign nationals suggest. Thus, differences between traditional countries of immigration - such as Australia, Canada and the US - and European countries are probably smaller than assumed. Nevertheless for certain immigrant groups-in particular those coming from middle- and low-income countries-considerable employment gaps remain.

The analysis of LFS data also makes it clear that those immigrants who do not naturalize within the first 10-15 years are more likely to remain in low-skill and low-paid employment. This sectoral concentration of legal (and irregular) foreign residents can partly be explained by labour shortages and lower requirements in terms of specific skills. Such circumstances may provide immigrants and their children with better chance to enter the labour market. At the same time, relatively large numbers of migrants in some sectors with limited rights or scope for mobility within the labour market will not be in a strong position as regards wages and job-quality.

Therefore integration of third-country nationals newly arriving and residing in Europe remains an important issue for the EU, its member states and European civil society. In recent years a growing number of EU member states have introduced integration programs, ranging from language training courses to civic education. This goes along with efforts of the EU to implement anti-discrimination and equal opportunities legislation in all its member states.

Demographic Imbalances

For EU-25, a recent population forecast from the United Nations projects a 10% decline in the EU population to 2050, with the new member states anticipated to have particularly marked population declines. The real political and economic challenge, however, lies in the decline of the population at prime working age and the associated phenomenon of population aging. Low fertility and increasing life expectancy in Europe both reverse the age pyramid, leading to a shrinking number of younger people, an aging work force, and an increasing number and share of older people. In the absence of massive recruitment of economically active migrants, in Western and Central Europe the number of people between ages 15 and 65 will

decrease from 312 million (2000) to 295 million (a drop of 5.5%) by 2025 and to 251 million (a drop of 19.6%) by 2050. During the same period the old age dependency ratio, defined as the population over 65 divided by the working age population, is likely to increase from 23 percent (2000) to 35 percent (2025) and to 45-50% (2050).

Even more worrisome is the change in the ratio between economically active and retired persons. Assuming an employment rate of 70%, the number of employed persons per persons aged 65 and over will decline from 2.7 in 2010, to some 2.2 in 2020, 1.8 in 2030, and 1.5 in 2040. If, by reaching the Lisbon target, the employment rate were to rise further to 75% between 2010 and 2020, the decline in this ratio would be attenuated, reaching 2.4 in 2020.

Labour Force and Labour Market

The change in the economically active population will be smaller than the projected changes for the 15-65 age group, because only 60-80 percent of this age group are currently employed or self-employed. After 2010, Western and Central Europe (the EU-25) can expect a decrease in the active population. Until 2025, the decrease in the EU 25's active population will be on the order of -16 million. In other European countries such as Bulgaria, Moldavia, Romania, Serbia and Montenegro, the active or job-seeking population is already shrinking. In addition to shortages due to demographic change, we can also expect significant skills shortages, or qualitative mismatch, due to structural change and innovation.

Regarding structural change, European countries can expect a decrease in the employment share of the manufacturing and agricultural sectors, and an increase in the service sector share. These structural changes will be accompanied by changing qualifications requirements. While the share of the service sector in the EU-15 countries is already relatively high, significant structural changes will take place in new EU member states and accession countries. In these countries a relatively high share of the labour force is still employed in the agricultural sector while the service sector is underdeveloped compared to the EU average. In addition, there are substantial mismatches dating back to transformation processes in these countries, which brought about a decline in the oversized public sector. These problems will become even more acute in the accession countries if extensive migration of highly skilled individuals to the EU 25 and to traditional countries of immigration occurs.

If future labour supply fails to keep pace with demand, there are likely to be serious skills shortages on EU markets. This type of qualitative mismatch could in turn become a serious problem for economic growth throughout the EU.

Outlook

Given the high levels of employment already reached by skilled EU-nationals, recruitment of migrants from third countries appears as one of the primary options for responding to the growing demand for medium and high skilled labour. At the same time, Europe experiences a continuing demand for low skilled labour. For these demographic and economic reasons, during the 21st century, all present EU+EEA member states and accession countries will either remain or become immigration countries.

After 2010, burgeoning demographic and economic needs may force many countries to develop pro-active migration policies. For a relatively short period of time, European east-west migration will continue to play a role in balancing labour and skill gaps. But in the medium and long term, potential migrants will inevitably be recruited from other world regions. In this context, Europe will have to compete with traditional countries of immigration-in particular Australia, Canada, and the US-for qualified migrants to fill labour gaps.

The migrants most likely to help match shortages of labour and skills and with the best chances to integrate probably are those who are able to adapt to changing conditions, in view of their qualifications, experience and personal abilities. Future selection mechanisms, migration and admission policies must be put in order to assess both qualifications and adaptability of potential immigrants.

At the same time, given the political sensitivity of immigration, it is likely that governments will find it difficult to justify introducing programmes in the absence of already existing acute labour shortages. Even if projections might predict quantitative and qualitative shortages with a sufficient degree of certainty, governments may require more tangible "proof" in order to convince their electorates of the need for additional foreign labour. This implies that while projections provide a basis for policy planning in the areas of education, labour market, welfare or social reforms, because of the special political sensitivity linked to immigration, it is likely that migration policy will remain subject to more short-term, ad hoc planning. In this context the EU is well placed to develop medium and long-term migration policies able to cope with future demographic and economic challenges for Europe.

Challenges for Policymakers

- In the years ahead, other highly industrialized countries and even some middle-income countries will compete with EU member states for highly skilled migrants. EU member states should therefore begin to plan for ways in which they might become more "competitive" in attracting talented migrants. The prospect of permanent resident status and access to citizenship are one important factor worth additional consideration. These issues are also important for the social sustainability of labour migration programs.
- New methods of selecting economic immigrants of all skill levels might be tested: possible models could include temporary-to-permanent transitional visas, variations of the "points" systems used in Canada, Australia, New Zealand, and the United Kingdom, legalisation of irregular migrants through "earned regularisation," and smoothing the transition of foreign students from the university systems of member states to employment in the EU. (Papademetriou and O'Neil, 2004)
- Greater efficiency in processing speed as well as the streamlining of paperwork and legal costs in the admission of foreign workers, employees and entrepreneurs will help define better the contribution that labour migration can make to European economies. EU member states might devise new methods in admitting immigrants for particular jobs when EU/EEA nationals are not available. This, however, has to be done in ways that continue to protect domestic workers.

- The continuing need for low-skill labour in most EU member states should be acknowledged and managed by reducing the de facto reliance on irregular migration. Preparing for possibly even higher reliance on low skill foreign labour - in particular for domestic, health and care service - is one of the issues EU member states will need to consider. High skill labour migration is thus unlikely to constitute a complete migration management package, but will continue to play an important role for most countries in Europe.
- The new EU member states in Central Europe will inevitably become recipients of significant migration within the next decade. Preparation now may help them avoid some of the discontinuities, social and economic exclusion and political polarisation associated with poorly managed migration.
- Persistent gaps in employment and unemployment rates of certain immigrant groups (namely, people from Turkey and North Africa) across skill levels continues to be a challenge for European policy makers. Among the needed policy improvements is the “mainstreaming” of immigration and integration issues into economic and social policy portfolios, with the workplace remaining one of, if not the most important fields of action. Making the acquisition of skills (particularly language skills) compatible with employment should be a priority, as should promoting recognition of foreign qualifications. Continued implementation and evaluation of national anti-discrimination efforts are also an important first step.
- Better information regarding migrants needs to be collected in both migration specific and generalized surveys and censuses. The LFS provides one new tool contributing to informed policy making, and there are other promising signs. Following the Action Plan for the collection and analysis of Community Statistics in the field of migration (European Commission 2003b), the Commission is now preparing a proposal for a regulation to harmonise the collection of data and statistics. The first Annual report on migration and asylum has been released (European Commission 2004). However, stronger cooperation among EU member states as well as between them and the European Commission on this front are needed if these Annual Reports are to become a true source of compelling ideas, best practice and better outcomes in the fields of migration and integration.

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[DR. RAINER MÜNZ](#) is a Senior Fellow at the Hamburg Institute of International Economics (HWWA).

[THOMAS STRAUBHAAR](#) is President of the Hamburg Institute of International Economics (HWWA).
