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Labor Migration: Macroeconomic and Demographic outlook for Europe and Neighborhood regions

Vladimir Borgy, Xavier Chojnicki

NON TECHNICAL SUMMARY

Since the late 1990's, the pace of international migration has accelerated and this phenomenon is likely to further develop in the coming decades as part of globalization. The recent period is characterized by new migrations, especially from Eastern and Central European regions and Commonwealth of Independent States (CIS). The early period of transition was marked by ethnic and conflict-driven migration, while during the more recent one, migration became mainly economically-motivated. Since the frontiers of a larger Europe are not well-defined, it might be relevant to assess the consequences of tighter links between Western Europe and regions perceived to be in its back yard. The Neighborhood Policy of the European Union could define more precisely the migration policy between Europe and some specific countries. Some political leaders seem also ready to embrace the idea that an influx of migrants is the best way to save European pension systems by limiting the increase of the dependency ratio and the contribution rate. In order to assess the demographic and economic consequences of migrations in Europe and neighborhood countries, we use the INGENUE 2 model. The model describes a multi-region, world model in which the structure of each regional economy is similar to that of other applied overlapping generations (OLG) general equilibrium models. In the model, the world is divided into ten regions according to geographical and demographic criterions. The GDP growth rate of each region relies mainly on its demographic evolution and on the assumption regarding the catching up process of total factor productivity. With this general equilibrium model, we have useful insights on the impact of the asynchronous ageing processes on international capital flows as well as the interest rates. The rich modeling framework of this multi-regions model allows us to put into connection migration with the "triangular" relationship between population aging, pension reforms and international capital markets that has received increasing attention in the academic literature. Compared to other studies, our paper offers a global vision of the consequences of international

migrations. Indeed, the value-added of the Ingenue model is that it is able to analyze the effects of international migrations on both the destination and the origin regions. The general equilibrium OLG model gives some interesting insights into the macroeconomic adjustments of such migration scenarios in the long run. In particular, we show that the financing of the PAYG pension system is noticeably improved in the regions receiving the migrants (Western Europe and the "Slavic world" in the migration scenario presented here). Nevertheless, one must note that a realistic migration scenario does not offset the effect of ageing in the regions receiving the migrants: in this regard, pension reforms appear to be necessary in order to deal with the ageing problem that these regions will face in a near future. Concerning the regions losing migrants, the adverse consequences of emigration are more important the more the region is advanced in the ageing process (and is already suffering from a declining population). In this regard, our analysis provides some quantitative results that allow us to compare the consequences of emigration for Eastern Europe and the "Mediterranean World", two regions that are not at the same stage in the ageing process.