THE GLOBE AND MAIL
CANADA'S NATIONAL NEWSPAPER

May 26, 2011

Germany's lesson for the U.S. on labour mobility

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The United States is still trying to come to grips with embracing the benefits of region-wide economic integration. This is especially true with regard to Mexico, its big neighbor to the south. With President Barack Obama now seeking to relaunch the immigration debate in the United States, the experience of Germany might provide some guidance. What is Mexico for the United States is Poland for Germany.

There are a number of intriguing parallels characterizing these two country pairings. Mexico -- its population of 112 million is 36 per cent as large as the United States with 311 million people. Similarly, Poland, with its 38 million people, is about 46 per cent as large as Germany, at about 82 million people.

Similar to U.S. companies under NAFTA since 1994, Poland since the early 1990s has become a manufacturing and assembly location for many German companies.

Partly as a result of this process of regional economic integration, per capita GDP in Poland, on a purchasing power basis, has risen from $10,305 in 2000 to $18,058 in 2009. Mexico has experienced a similar path of progress, with GDP per person rising from $10,868 to $13,681 (according to IMF data).

However, for all these remarkable signs of progress on the road to integration, it is labour markets in particular that remain a point of concern and contention. As Mexican President Felipe Calderon rightfully never tires of pointing out, "the only way in which we can find prosperity for the American and Mexican economies is working together through integration." In fact, neighboring economies have an abiding interest on utilizing each others' strengths and advantages in a complementary fashion to position themselves as well as their entire region optimally in the global competitive landscape. Germany passed a major milestone toward more integration on May 1 by easing labour restrictions on eight eastern neighbours. This may herald lessons for the future of the U.S.-Mexico relationship as well.

Lower labor costs in Poland and Mexico and the availability of a skilled and motivated work force in these two countries have helped German and U.S.-based companies to produce their goods at competitive prices. In what is fast becoming a true "twinning strategy," Polish and Mexican operations have become ever more an integral part of U.S. and German firms' global operating strategy.

At a time when there is much concern about all too far-flung supply chains, having a reliable industrial partner just across the border is a considerable advantage. In addition, with the ongoing erosion of the once tremendous labor cost advantage of China, the economic incentive to depend on long distances for goods assembly -- and having to ship goods all the way back from Asia -- is becoming gradually less attractive. This ought to strengthen region-based manufacturing compounds.

Still, despite all this progress and for all the advantages and bright prospects that lie ahead, the free flow of workers -- whether from Poland to Germany, or Mexico to the U.S. -- does remain a point of nervousness in the two richer countries.

Here, the past approaches of Germany and the U.S. have been quite different. While the U.S. never had a stated policy to the effect that its border was open, de facto a lot of Mexican labor found its way into the United States, primarily on a demand-driven basis.

In contrast, Germany relied on formal agreements with other countries to agree on the arrival of pools of Gastarbeiter (roughly the equivalent of Mexican farm workers). Especially in the heyday of its „economic miracle" period in the 1960s, Germany entered into arrangements with many countries, from Spain, Portugal, Greece and Italy to then-Yugoslavia and Turkey, all with the purpose of allowing specified numbers of workers into the country on a temporary basis.

In many cases, this model worked admirably. A lot of these „guest workers" put in a stint, usually of up to a decade, working in Germany. While they often lived in rather crowded quarters, they usually did so for one simple reason: They were keen on saving up as much money as possible, preferably enough to start their own small business upon their return to their home country, whether as a baker, mechanic or building contractor.

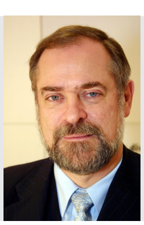
With Mr. Obama attempting to relaunch the immigration debate in the United States, these are precisely the experiences that matter. They provide real-life evidence that Mr. Calderon ought to be taken at his word when he tells American audiences that the Mexican government's primary goal is to keep as many Mexicans gainfully employed in their own country and also to have strong enough an economy to attract workers back home to seize economic opportunities which arise there. In addition, as the standard of living rises in Mexico, U.S. firms will have more opportunities to sell more goods just across the border.

More specifically, the lesson from Germany's experience over the past half-century is that closing borders actually has the opposite effect to what is intended. It interrupts the labor demand-driven flow back and forth because these workers will obviously choose to stay in the richer country even during a steep recession because they see no realistic way back into the country.

That is a lesson the United States would do well to observe, since it is especially crucial here at the present time. Open borders, based on sheer economic logic, actually lead to having a smaller number of illegal immigrants, fewer migrants and less focus on family-based immigration. All of that would make the wider regional economy more flexible and responsive to market signals.

Ultimately, as labor markets evolve, and as regional economies expand and integrate on a cross-country basis, we need to comprehend that this path is beneficial to all sides. That is a pivotal lesson for all to embrace, whether we live in Europe or North America.

An adapted version of this text was also published in the Polish newspaper Gazeta Wyborcsza on Friday, May 27, 2011, at the occasion of U.S. President Barack Obama's visit to Poland.



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