

Welcome and Introduction to the
7th Munich Economic Summit 2008 by

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Ladies and Gentlemen,

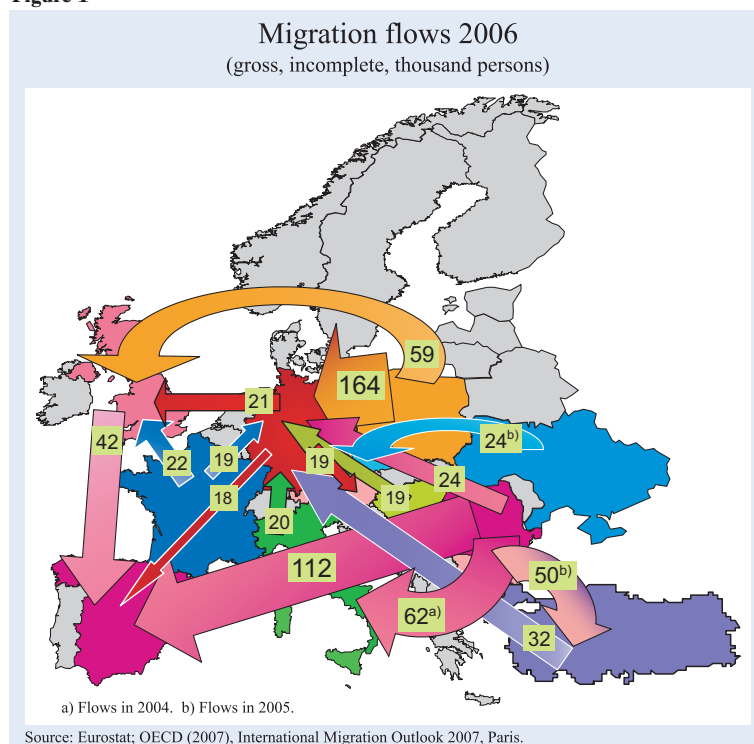
Europe is currently experiencing a huge east-west migration wave that resembles the Great Migrations (*Völkerwanderung*) in the 4th to 6th centuries. Recently, hundreds of thousands of Romanians have migrated to Italy and Spain. Eight hundred thousand eastern Europeans have been accepted as workers in Britain within the last four years, most of them coming from Poland. In the last two years, one and a half million Poles have emigrated, and overall probably more than two million since EU accession in 2004. On a smaller scale, the migration of Ukrainians to the Czech Republic, of Bulgarians to Turkey and of British citizens to Spain is worth mentioning, which all range in the order of some tens of thousands per

year (Figure 1). Indeed the migration from Eastern Europe has been largely triggered by the wage differences. Expressed in nominal term, wages in Eastern European EU countries are currently ca. one sixth of the western German level.

There has also significant migration recently to Germany, in particular from Poland, Turkey and Romania. Since Germany still restricts the immigration of dependent workers from eastern EU countries, most immigrants come as self-employed or economically inactive people. In Munich, for example, the number of self-employed tilers increased in 2004 and 2005, in the first two years after the first eastern enlargement wave, from 119 to 970. By 2005, Germany had absorbed 37 percent of all migrants from Eastern Europe. In comparison, Italy had absorbed 22, Greece 11 and Switzerland 8 percent, while the share amounted to only 3 percent in the United Kingdom (see Figure 2). In the same year, 13 percent of the population living in Germany was foreign born, more than that of Britain (10 percent), France (7 percent), Spain (5 percent) or Italy (3 percent), as shown in Figure 3.



Figure 1



The immigration waves of the last two years (especially from Eastern Europe) to Britain, Spain and Italy appear to have significantly changed these figures, but the information needed to up-date the statistics is not yet available. People move faster than the statistical offices are able to count them. For example, Table 1 shows the statistics on the accumulation of approved applicants to the UK worker registration scheme in the period between May 2004 and March 2008. The total number reached more than 800,000 eastern Europeans in this short period. In particular, many Polish people went to Britain, since this country has not banned worker immigration. Yet, following the

Figure 2

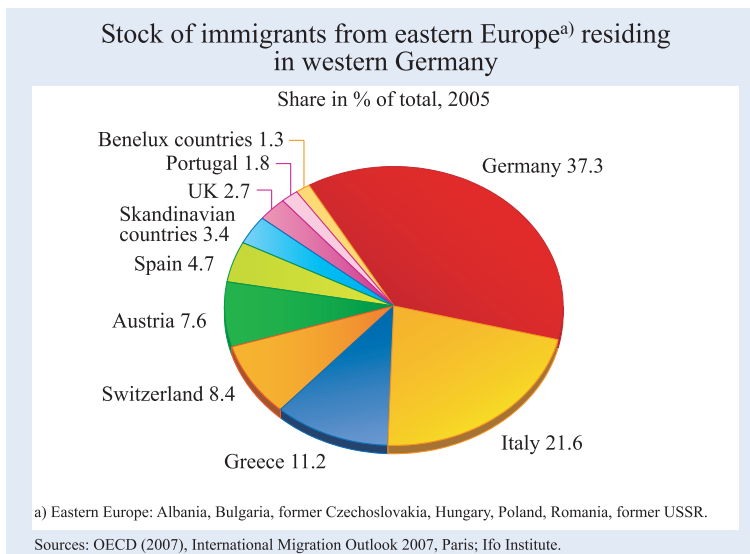


Figure 3

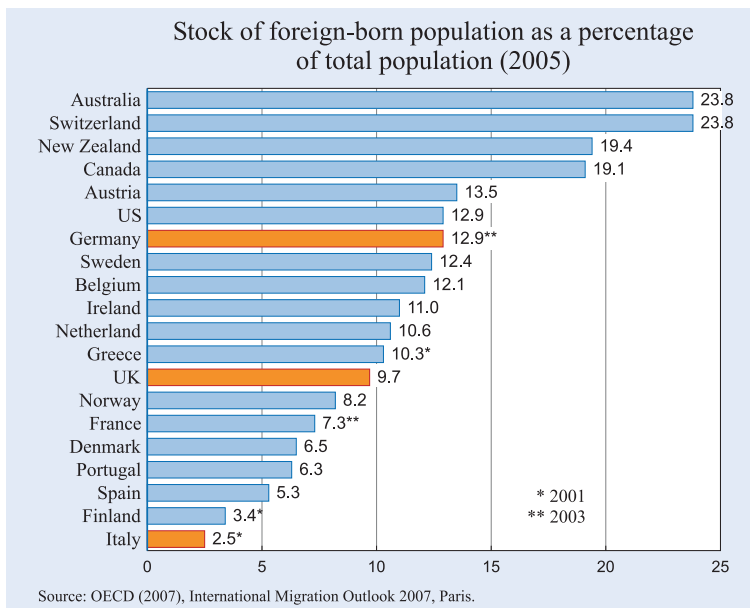


Table 1

Approved applicants to the UK worker registration scheme (May 2004 to March 2008)

Country of origin	Number of applicants (in thousands)
Poland	541
Slovakia	84
Lithuania	76
Latvia	39
Czech Republic	36
Hungary	28
Estonia	7
Slovenia	1
Total	812

Source: UK Border Agency, Accession Monitoring Report May 2004 to March 2008, London.

EU rules applied for a transition period, Germany and some other European countries have chosen a different immigration strategy: Eastern European job seekers are not allowed to immigrate.

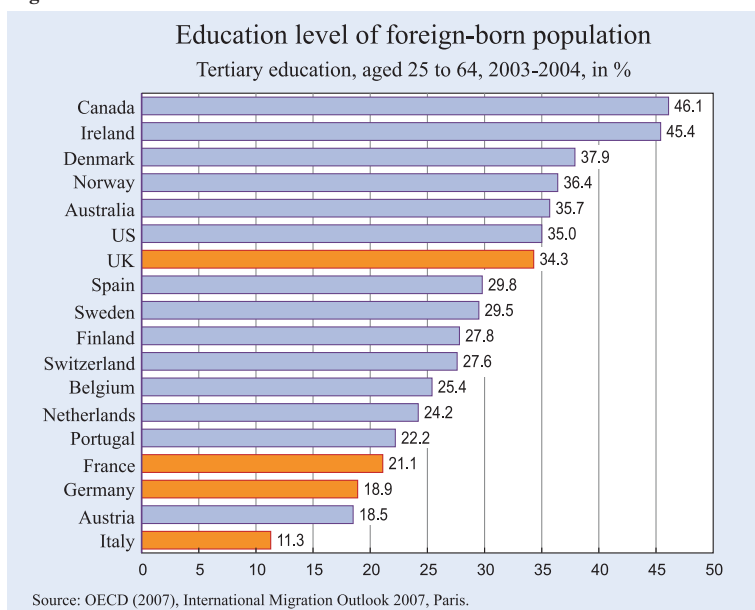
Is there a brain gain for Western Europe from these migration waves? What are the qualifications of these immigrants? Figure 4 shows the education level of the foreign-born population. For example, the share of the foreign-born population in Canada with a tertiary education (i.e. with university degrees) amounted to around 46 percent in the years 2003-2004. So Canada is experiencing a high-skilled immigration, followed by Ireland, Denmark, Norway, the United States and Britain. By contrast, France, Germany and Italy are found at the bottom of the ranking: these three big continental European countries have mainly been the destination of low-skilled migrants.

We can also observe particular employment groups of immigrants. Table 2 compares the share of foreign-trained physicians working in selected countries. In Britain around 13 percent of doctors are from abroad, the share increases to 19 in

Switzerland, 20 in Canada, 21 in Australia and 27 percent in the United States. For the United States, foreign doctors are typically from India, Pakistan and the Philippines. To be sure this is not good for India, for example. Jagdish Bhagwati suggested already in the 1970s that there should be an emigration tax in India for people to repay their education costs to the state before they leave the country.

Another relevant statistic is the number of foreign students enrolled as a percentage share of the total number of students in a country. According to Figure 5, Italy had a relatively small share of foreign

Figure 4



ing was led by New Zealand. In this context we should bear in mind that Germany and France, for example, do get lots of skilled people and train them, but still the overall qualifications of the immigrant population are low. In other words, Germany and France have failed to keep these well-trained people.

Is there a brain drain away from Western Europe? Figure 6 reveals the percentage share of physicians living abroad. A few Italian, French and German physicians operate in foreign countries: in 2000 the share amounted to 1.7, 2.1 and 3.1 percent in these countries, respectively. With approximately 25 percent, Ireland positioned on the top of the ranking: this country appears to be an immigrating and emigrating country of skilled-people at the same time. There has traditionally been strong migration dynamism in both directions. More than 9 percent of British doctors were not operating at home in the same year. It may be due to the British health care system equipped with less attractive pay levels that stimulate the movement of British doctors to foreign countries.

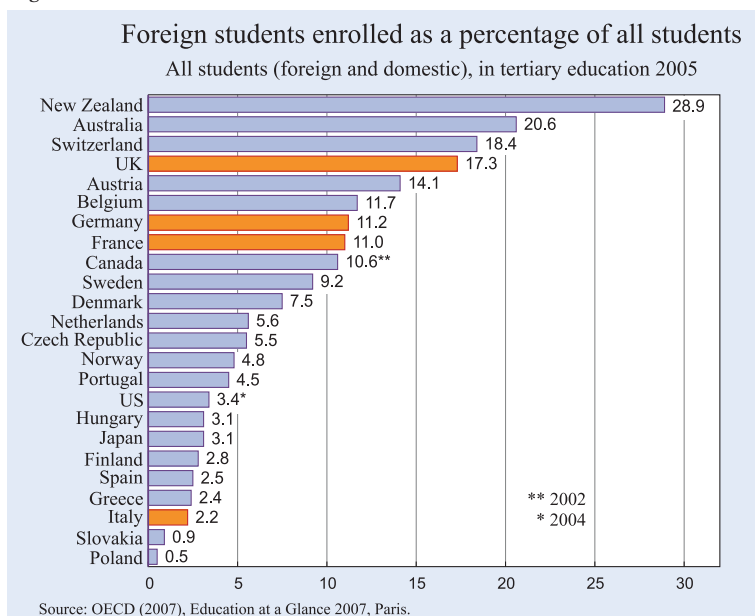
Table 2

Origins of foreign-trained physicians

Country	Share of foreign-trained physicians (%)	Top three countries of origin
UK (2001)	12.6	India, Ireland, South Africa
Switzerland (2001)	19.1	Germany, Yugoslavia, Belgium
Canada (1998)	20.0	UK, South Africa, India
Australia (1998)	21.4	UK, Asia, New Zealand
US (2001)	27.9	India, Pakistan, Philippines

Source: Ifo Institute.

Figure 5



students in 2005. In the United States the share amounted to only 3.4 percent. At the same year Germany and France had around 11 percent, compared to 17 percent for Britain, while the total rank-

ing was led by New Zealand.

Let us now have a closer look at Germany. Germany has had large-scale ethnic German immigra-

Figure 6

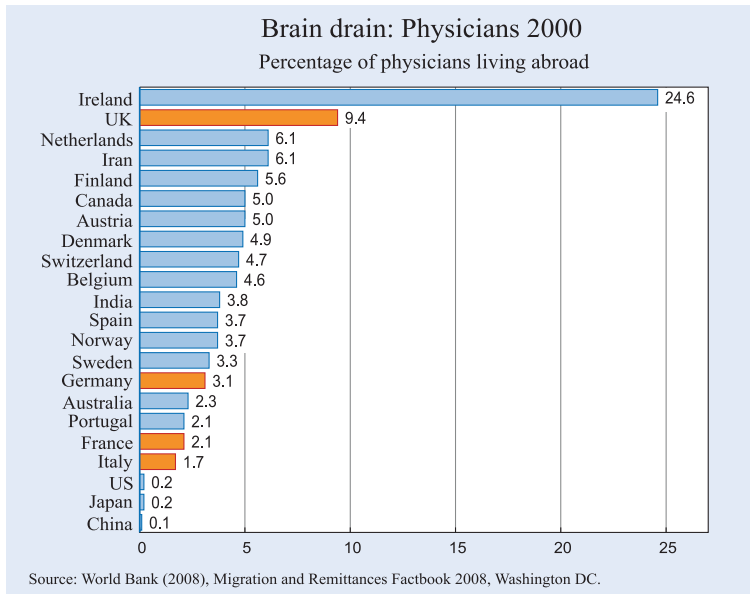


Figure 7

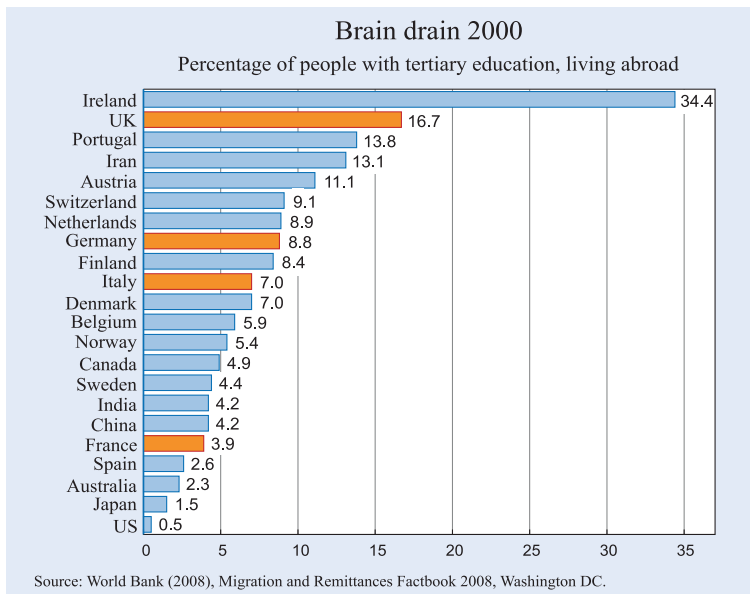
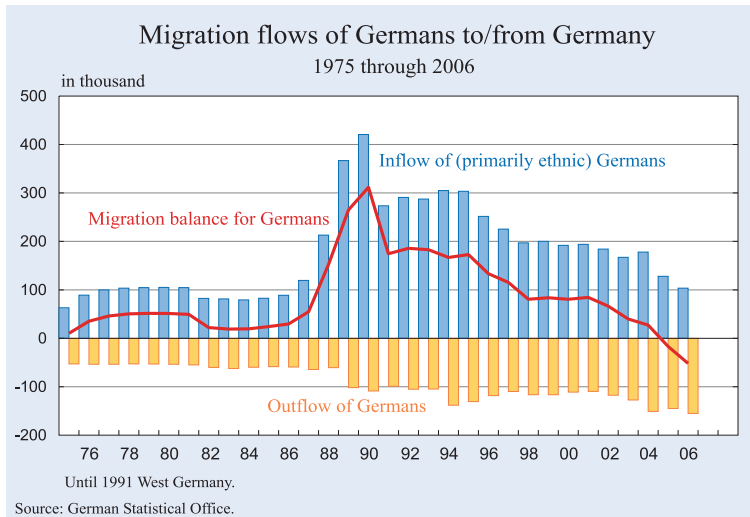


Figure 8



tion since the 1970s, as illustrated in Figure 8. In particular, after the Iron Curtain fell at the end of 1980s, the influx of ethnic Germans from Eastern Europe into the country increased drastically, amounting to around 300,000 annually. This is part of the explanation of why Germany has a large share of foreign-born people. There has also been a remarkable outflow from Germany, as Figure 8 also shows. The net migration statistics for ethnic Germans have even become negative in recent years. According to the 2007 data, the natural German population is declining faster than that of any other OECD country. Moreover there is no other OECD country that has a lower number of babies per thousand inhabitants than Germany does.

Only a few years ago the population loss was partly compensated by the immigration flow of ethnic Germans. This is not the case anymore. The primary reason is that ethnic German immigration from Eastern Europe, Russia and the other CIS countries is largely exhausted. The remaining ethnic Germans are not interested in moving to Germany. Germany's emigration flow has increased a bit over the last 20 years, from 100,000 to 140,000 people, expressed in terms of gross outflow (Figure 9).

Where are all these German migrants going? Although Austria and Switzerland have rapidly gained attractiveness since the late 1990s, the United States has traditionally been the major target of German emigrants. The country has continuously ab-

Figure 9



Figure 10

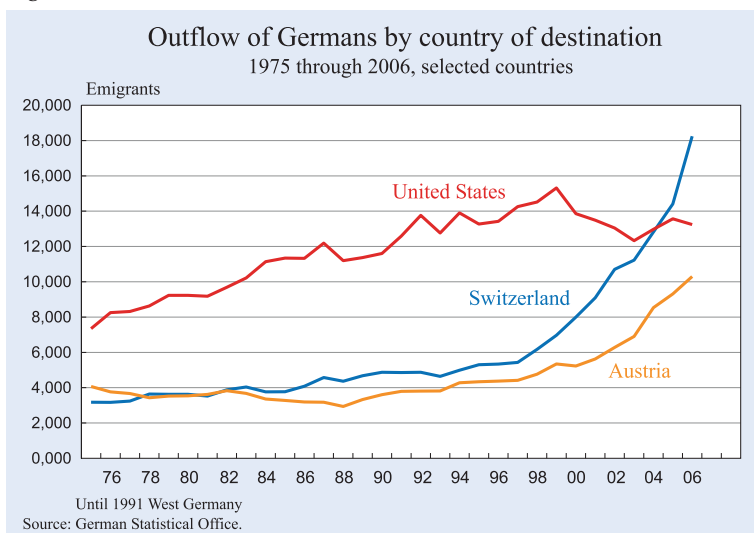
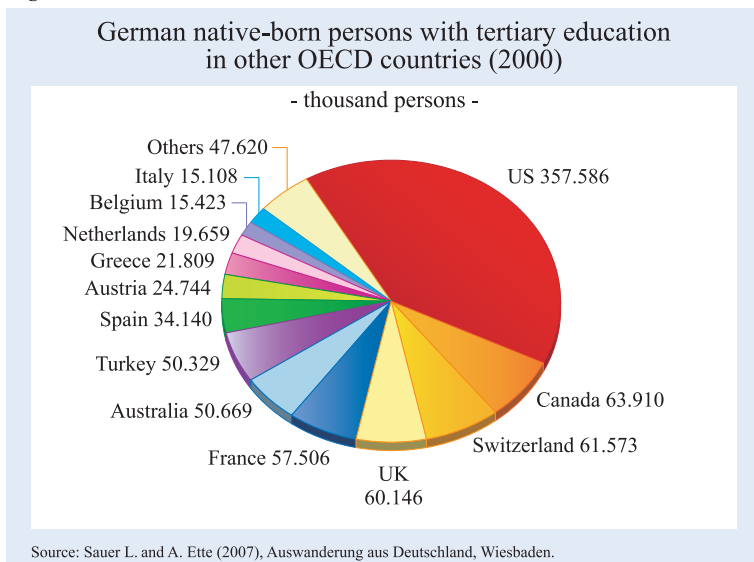


Figure 11



sorbed around 13,000 Germans every year in the last twenty years. In 2002 the new agreement on free movement between the EU and Switzerland became operative. Since then Switzerland has not been able to hinder the active German immigration, although such a strong trend was initiated at the end of 1990s, as already mentioned above (see also Figure 10). Figure 11 additionally shows an overview of the absolute number of educated Germans living abroad. In 2000, with ca. 358,000 people, the largest share of Germans with a tertiary education were in the United States, followed by Canada, Switzerland, Britain and France with around 60,000 educated Germans. As a consequence, the largest scale of German brain drain has taken place to the United States. One can also count the foreign scholars at US universities. There were about 12,000 Chinese studying at American universities at the end of 1990s, followed by 5,500 Japanese and 5,000 Germans. The number of German students was higher than that of British or French students in the United States, which amounted to approximately 3,000.¹

Why are so many Germans going to the United States? First of all the education system is better there. Another reason is money. What do we know about salary differences? Let us take the gross salary level in the corporate banking sector as an example. If one compares New York with Frankfurt, an associate at a bank currently earns

¹ See Buechtemann, C.F. (2001), Deutsche Nachwuchswissenschaftler in den USA, German Federal Ministry of Education and Research, Berlin, accessible at http://www.bmbf.de/pub/talent_ii-1_2.pdf.

Table 3
Annual salaries in corporate banking
(in Euro, OECD PPP)

City	Associate	Director
Frankfurt	50,000–80,000	120,000–170,000
London	67,000–160,000	173,000–333,000
New York	70,000–140,000	193,000–330,000

Source: BayernLB; OECD; Ifo Institute calculations.

40 to 75 percent more in the United States, expressed at the OECD purchasing power parity. And for a director the salary gap is even larger: bank directors in New York earn around 61 to 90 percent more than their colleagues in Frankfurt. Net income differences would be even bigger, because income tax is lower in the United States (see Table 3).

Many participants of the conference may also be interested in how university professors are differently paid. According to the statistics on average annual salaries of junior, associate and full professors collected by the European University Institute in Florence, junior professors in the United States earn 38 percent more than their western German colleagues. I can confirm this fact from my own experience. When a German scholar has an offer from an American university, German universities are hardly able to financially induce him to stay. For an associate professor the salary gap is even larger: US associate professors earn 45 percent more than German associate professors, while the US salary superiority against that of Germany increases to around 76 percent for full professors (see Table 4).

Let me briefly summarise the major findings. We do have a huge migration wave in Europe. Countries like France, Italy and Germany have been the major targets of less-skilled immigrants on a large scale. The migration pattern for Britain and Ireland is quite different, since these countries have had dynamic in- and outflow migrations at the same

time. There has been a strong movement of skilled people from Western Europe to the United States. Germany is not an exception. One of the crucial reasons why German academics and bankers, for example, prefer US universities and banks is the huge salary differences between these two countries.

Thank you for your attention. I look forward to a lively discussion of these issues.

Table 4
Annual academic salaries (in Euro, OECD PPP)

Country	Junior professor	Associate professor	Full professor
West Germany (2007)	40,864	46,680	56,683
UK: Essex Univ. (2007)	51,732	63,416	68,970
UK: LSE (2007)	55,285	69,947	106,280
USA (2006)	56,550	67,860	100,050

Note: West Germany: junior professor = W1, associate professor = W2, full professor = W3; UK: junior professor = lecturer (A), associate professor = reader; US: junior professor = assistant professor.

Source: European University Institute (2008), Max Weber Postdoctoral Programme, Academic Careers Observatory, Florence.