



Austrian and German Governments Must Relax Immigration Rules to Prevent Outsourcing to Eastern Europe

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Many people in the European Union fear that Eastern Enlargement will lead to major job losses in the member countries and in particular in Austria and Germany as the two most important neighbours of Eastern Enlargement. More recently, in Germany these fears about job losses to the accession countries have extended to high skill labour and IT jobs. New research published by the **Centre for Economic Policy Research (CEPR)** shows that Eastern Enlargement of the EU will lead to surprisingly few job losses because jobs in Eastern Europe do not compete with jobs in Austria and Germany. However, the research also finds that multinational firms in Austria and Germany are outsourcing the most skill intensive activities to Eastern Europe taking advantage of cheap abundant skilled labour in Eastern Europe.

- Professor Dalia Marin has examined new survey data of 660 German and Austrian firms with investment projects in transition countries during the period 1990 to 2001. The new survey data represent 100 per cent of Austrian and 80 per cent of German direct investment in Eastern Europe.
- According to her calculations, German multinationals have created 460 000 jobs and Austrian multinationals 201 000 jobs due to relocations in Eastern Europe. These newly created jobs have led to a direct loss of 90 000 jobs in Germany and 22 000 jobs in Austria. These figures are obtained by computing the jobs created by German and Austrian firms in Eastern Europe when investors have given low costs or outsourcing as the prime motivation for investment.
- The study finds that the outsourcing activities to Eastern Europe that have taken place are a response to a human capital scarcity in Austria and Germany that has become particularly since the 1990s. Corporations' outsourcing of skill intensive firm activity to Eastern Europe has helped to ease the human capital crisis in both Austria and Germany. Professor Marin found that high skilled jobs transferred to Eastern Europe

account for 10 per cent of Germany's and 48 per cent of Austria's supply of university graduates in the 1990s.

- Dalia Marin's research has found that low cost jobs of affiliates in Eastern Europe help Austrian and German firms to stay competitive in an increasingly competitive environment.
- The governments in Germany and Austria might be tempted to address the problem of firms' outsourcing of headquarter activity by subsidizing skill intensive activities in Germany and Austria. On December 19, 2003 Chancellor Schroeder declared that his government will meet the challenge of the loss of high skill jobs to offshore production to low wage countries by creating high skill jobs in Germany.
- Professor Marin argues that a subsidy on high skill intensive activity may make things worse when a country is faced with a scarcity of skilled workers. By increasing the profitability of Research and Development activity, firms increase their demand for high skilled labour that exacerbates the scarcity of skilled workers and drives up wages.
- Governments in Austria and Germany should instead adopt policies that will increase the supply of skilled workers in their economies. This could be done through allowing skills to come in from other countries via immigration or through producing more skilled workers through an improved education policy.
- Marin argues that liberalizing the movement of high skilled labour with Eastern Enlargement would be desirable. By importing skilled workers from Eastern Europe, Austria and Germany could lower the relative wages for skilled workers and with it the cost of innovation in Germany. This will make it attractive for firms to undertake knowledge intensive activities in Germany rather than Eastern Europe.

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