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## THE FLOW OF LABOR LIKE A BAR IN THE ECONOMIC MODERNIZATION OF THE EUROPEAN EX-SOCIALIST COUNTRIES

### Summary

The author points the importance of building local relationships on reducing the migration flow. The stabilization of labor market should be part of economic policy mainly in post-communist countries.

**Key words:** labour market, migration, sustainable development, revitalization

Although many people think that Hungary has recovered from the shock following the collapse of the socialist economy, the economic indicators show a non-ending period of a long transition. The more developed economies might have prepared the scenarios of overcoming the demographic crisis. The labour markets of Eastern Europe, including Hungary, become supply sources of the labour demand of prospering countries. Besides, the tolerance of the population is getting lower. It is difficult to adopt measures protecting the labour market in the period of economic integration and liberation. The necessary tools of setting up a good migration strategy are exploring the strata-specific reasons for and motives of emigration, establishing a dialogue and concerted regional and national employment policy. I would like to introduce all these as well as the current findings of my research in my paper

Although the different schools of thought of economics did not deal with migration directly, their approach can be deduced from their views relating to labour. The change in the economic thinking appears in the migration theories. The various schools of thought of economics gave different explanation and significance to labour allocation. None of the schools of thought alone can totally explain the reason for migration and its direction, size, macroeconomic influence. However, they provided new aspects to help us understand and forecast the international movement of labour force.

Economic thinking at the end of the 20<sup>th</sup> century – in which „new economics” is dominant – regards innovation and information technology such an important factor of production that it speaks of a completely new age in economic history.

Growth theories of this age refer to technological development as an endogenous variable. Labour force should not only be taken into account as a quantitative variable but also as a qualitative factor. Prognoses should also include migration with special regard to the brain-drain phenomenon. Retaining population should be given a top priority when managing crisis.

The competitiveness of a given nation's labour market or that of a smaller economic unit (region, county) is jeopardized by the drain effect of the over-liberalized global labour market. State, as an economic actor, should attract, retain and motivate the actual and potential labour force. It can, relying on the approaches of the different economic schools of thought, develop an effective migration policy that serves as the basis of sustainable development.

Many of the representatives of neo-Keynesians, post-Keynesians, the new institutional school and new-Marxists were concerned with the significance of human capital and related issues. Their theorems influence the economics of migration. The neoclassical paradigm was then replaced by the, so called, **endogenous growth-theory** which analyses economic growth by explicitly modelling technical development and human capital accumulation. **The highly trained workforce is attracted by the „knowledge factories”, the intellectual capital tends to be concentrated.** Therefore, poor countries' growth will be slower than that of richer ones. Researchers of the endogenous growth-theory dealt a lot with the impact of governmental policy on economic growth. Their views influenced the investigation of the migration of scientific degree holders.

**Representative of the new institutional school assert that market behaviour cannot be analyzed through the behaviour of individual actors.** By saying this they question the classical approach of migration based on individual pay differences. The institutions (which are not the organizations themselves, they are rather behavioural systems) appear as independent factors in the market, they have their own goals, thus their role modifies the conditions and characteristics of market equilibrium. Studying the institutional environment leads us to the **network theory** [Portes and Walton, 1981, Castells, 1989, Sassen, 1988]. If the relatives, friends, neighbours and workmates have relationship in the potential target area, it can minimize the migrant's risk if he or she can rely on the already existing interpersonal networks for information [Taylor, 1976]. One aspect of the further development of the model is the problem of building relationships. Swaan [1994] points out the lack of institutions of relationship-building in the transitional economies. Building relationships is necessary and costly; however if those relationships exist already it will significantly decrease transactional cost and increase yields. The research of the new institutional school can be seen as the beginning of investigating problems that had been ignored by the traditional economics [Mátyás 1996].

Balogh [1993] argues that **world is getting smaller, it tends to be unified, we live in an age of interdependence and there is only one world-economy and world-trade system.** A new world order is shaping up, the basis of which is globalization. It pervades a great deal of migration theories following Wallerstein's [1983] work.

New economics, which introduces production from a new perspective, is gaining more and more emphasis in famous economists' publications. They tend to suggest that the conditions and circumstances of production have radically changed following the structural changes of the past twenty years. The factors of production do not mean the traditional land-capital-labour triumvirate any longer [Landfeld-Fraumeni, 2001]. One pillar of this new system is human resource that uses the, so called, "infocommunication". All these changes tend to put migration on a new footing.

Population trends influence the size and composition of the whole population and, consequently, those of the labour source. In the second half of the 20<sup>th</sup> century demographic processes were characterized by low and stable levels of mortality and fertility, the natural growth of the population stopped. This phenomenon could be observed in Hungary as well from the second half of the 80ies. The picture, however, is overshadowed by the immigration surplus, as a result of which the number of population in West-European countries stagnated and a minor decrease began. 2.9% of world population (175 million people, every 35<sup>th</sup> person) lives outside his or her country [IOM, 2003]. Majority of them, 100 million people, found new home in the developed countries. It is generally true that 2 to 5% of the population of a country permanently lives far from the home countries; the number of migrants has doubled since 1975. The size and structure of the labour source determines an economy's ability to perform.

Globalization in the 20<sup>th</sup> and 21<sup>st</sup> centuries, and Hungary's accession to the European Union, **have changed Hungary's labour market in the past few decades**. It placed our region into the migration processes, the reasons for and consequences of which is slowly deciphered by the domestic science.

The laws and infrastructures, aimed at treating migration, have been developed and have transformed in Hungary in the past 10 years. Several migration studies threaten employees of member states with the potential East-Middle European „invasion". In my judgement the social, economic and labour-market conditions of Hungary do not indicate multitudinous emigration. This scientific hypothesis has been underpinned in various studies in the recent period

**The mobility, which in European terms can be viewed as low-scale, may bring adverse consequences. Therefore, I hold it important that researchers explore the expected movements and their social and economic consequences.** The demographically independent ex-socialist countries have lost a significant number of population in the recent decade, which may have very considerable economic consequences (e.g. uneven distribution of age). It follows from the time-series that the loss of population in the ex-socialist countries was a system-specific element of the demographic situation. Relative to the European figures, its components are the low average life span, the low number of children in a family and the loss of population by way of emigration.

The macroeconomic indicators and the balance of migration – with special regard to the immigration indicator – move together in the first decade of the 21<sup>st</sup> century.

In the short run, the effects of migration on demand and supply in the labour market should be taken into account.

In the long run, its effect on the productive capacity of the economy has to be attention to. The lack of the labour force (human resource) may become an important factor in the growth pace of the net national product, that is, in the stoppage of the growth of production.

Maintaining competitiveness and sustainable development should also be supported by influencing migration processes in Hungary as one of the Eastern-Central European countries.

A tight positive relationship can be observed among the indicators describing the economy and society and the balance of migration per 1000 persons, in the light of the data between 2001 and 2005. At the county level the capital strength of enterprises operating in the county, the internal balance of migration and the net average earnings contribute predominantly to the change of the international balance of migration. It is also influenced by the employment and housing conditions. By managing these factors via economic policy, a region's (county's) ability to retain its population can be improved, the emigration can be decreased, thus, the development can be maintained. The main source of loss is losing the highly qualified workforce including not only scientists, young intellectuals, doctors, but also businessmen, investors who leave the country with their multiplier capital. The emigration of the young workforce who have secondary vocational qualifications may bring about a considerable deterioration in the employment structure and the productive capacity of the economy. Employment policy, within economic policy, should pay a special attention to hinder the emigration of intellectuals.

The 2006 conference of the UNO in international migration and development confirmed the relationship between emigration of individuals and the development of the country of origin. Although it did not draw firm conclusions about the nature of this relationship, it pointed out that **migration and development are inter-related, this relationship is complex and further inquiries should be made into this issue**. Recommendations so far have placed emphasis on the demands of the host country rather than the immigrant or the needs of the country of origin. At the same time, the American Congress also addressed the immigration reform. However, the negotiations did not deal with the impacts of the suggested reforms on the development of the country of origin.

Hungary has gradually been present in the migration processes. The population of the European continent is decreasing which issue is the most significant in the East European countries. The most remarkable decline may happen in Bulgaria and Russia. The former may lose 38% of its population of 7.8 billion, whereas, in the latter one, the population will decrease by 17%, that is, by 25 million people. According to the forecasts, Hungary's population of 10,1 million will be 8.9 million in 2025 and 8 million in 2050<sup>1</sup>. Our neighbouring countries' popu-

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<sup>1</sup> László Hablicsek prepared a population forecast in Hungary. He used three scenarios: an optimistic, a basic and a pessimistic version. I am using the basic approach in my dissertation.

lation is also diminishing considerably. The population of Slovakia may drop from 5,4 million to 4,7 million, that of Ukraine from 47,4 to 38,4, that of Romania from 21,7 to 15,7 million, that of Serbia and Montenegro from 10,7 to 10,2 million and that of Slovenia from 2 million to 1,7 million.

Although the migration loss is difficult to be proven in east European countries and in central-east European countries, it can be prognosticated, and it will have demonstratable macro-economic consequences.

Regional (economic) policy is more and more important in the 21<sup>st</sup> century. Strategies relating to migration are essential part of economic policy.

A basic assumption of this chapter is that migration is primarily a question of national security and secondarily it is an economic issue. That is, its labour market aspect tends to be neglected, which I think is a wrong approach. Although I am aware that the international agreements determine the political, legal and economic life, I suggest that the national employment policy should place more emphasis on managing migration in order to decrease the negative effects of the emigration processes and make use of the positive effects.

Hungary is a sender, a transit and a host country at the same time. That is why we should draw conclusions from other countries' practices. It is important to notice that migration influences growth, redistribution and the sustainability of the pension system. This process needs to be managed. Immigration, especially in the case of qualified workforce, may strengthen the domestic economic growth.

Apart from the potential benefits of immigration, the country has to prepare for the emigration of its labour force. Since qualified workforce is a key factor of competitiveness, one objective of a nation's economic policy is to utilize the knowledge of its citizens, so make sure if they move abroad temporarily, then having returned, they can make use of their experiences at home.

A geographical inequality is characteristic of the labour market in Hungary: the level of employment, the rate of unemployment and the inactivity rate differ by regions. Its reason has been different in the various decades after 1989 (change of regime) [Tóthné Sikora, 2007].

## Recommendations concerning the regional migration strategy

I formulated different scenarios at the end of my research using the GEO4 report as a basis:

**Market solution:** The achievement of human prosperity is facilitated through the support of the private sector. That is, the government strives to create favourable domestic conditions for the workforce; and to adopt market-compatible solutions to mitigate the adverse effects of migration.

**Political solution:** The government is able to stop emigration using political tools. It also attracts knowledge in order to help backward regions. It runs state-

owned research institutes and supports educational institutions in the country; it concentrates the state investments in the lagging regions.

**Safety:** Here the government and the private sector compete for the control. It is important from the point of view of migration because in this case there are scenarios in which self-regulation and re-burdening have role.

**Sustainability:** It entails the cooperation of the private sector, the society and the government in order to ensure human welfare. (Labour) migration develops in a way that the labour markets of the less developed countries of Europe are able to reproduce themselves: in this way the systems of the welfare-state based on redistribution will not collapse; the classical social insurance system is able to work.

Strategies are based on interests: it is the interests that answer the question why a strategy is necessary and the environment determines where the strategy should be implemented. The strategy itself refers to what and how should be done [Korompai, 1995]. In order to lay the groundwork for migration strategie, I designed the PAD model which is presented below:

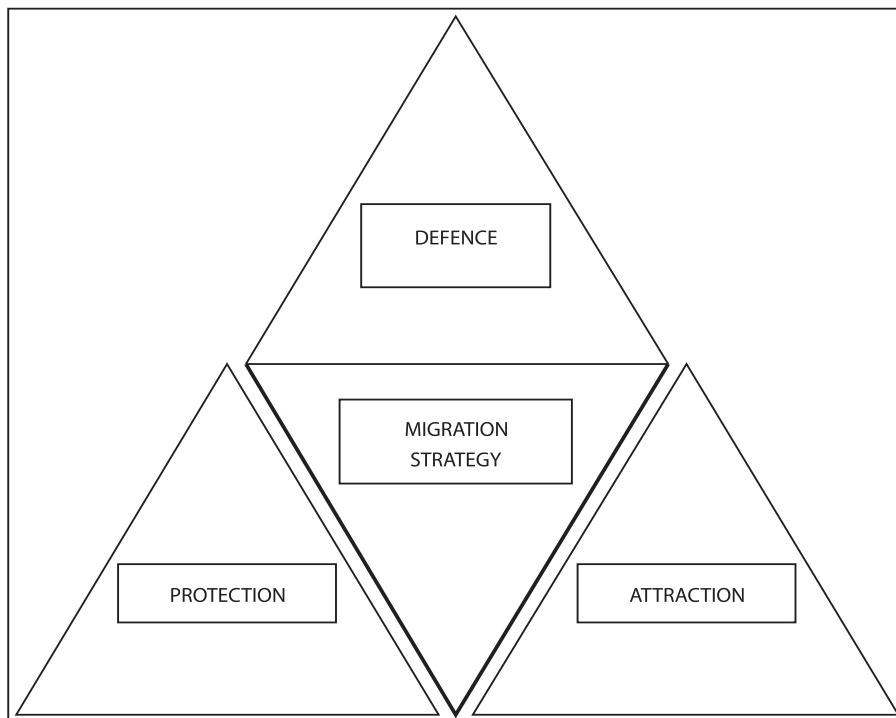


Figure 1. PAD model

Source: Own construction.

## PAD Concept of Migration

**Protection:** means to curb the immigration jeopardizing the County, the objective of which is to maintain the fragile peace of the society. Although the emphasis of my dissertation was to call attention to the losses caused by emigration, one has to pay attention to immigration as well. On the one hand, I assert that a strong and selective procedure of getting residence and work permit is necessary. However, EU citizens' migration should not be administratively hindered. One way of protection is strengthening the national self-awareness, interpreted in its correct meaning. This means, that Hungarian employees or employees from the County should enjoy preference. On the other hand, the society and the people employed in infrastructure facilities should be prepared for the rippling world-tendency that more and more foreigners will settle down.

**Attraction:** Because of the loss of population (natural loss and emigration), the demographical self-reliance of the County has become less and less. The labour market trends, as I have proven earlier, clearly necessitate supplementing the loss of the population from external sources. The demand is twofold: highly qualified workforce with innovative marketable knowledge and highly skilled workers are needed. Similarly to the theory of the American migration policy, the migration strategy has to support immigration of artists, doctors and people coming from afar because their presence may revitalize competition.

**Defence:** refers to retain the population born in the County to decrease the willingness to emigrate. It is essential that policy makers concentrate on people with outstandingly good skills (innate and gained competences). Two solutions are recommended at this point: on the one hand establishing local educational and research bases, financing and supporting public education. Besenyei [2009] argues that „knowledge centres are becoming today's economic and political centres”<sup>2</sup>. Those colleges and student workshops are important in which students become aware of their talents. However, as Professor Polonyi warns, we should not become a knowledge-factory. On the other hand, paving the way for the circular migration is also the task of the strategy. It means creating opportunities that motivates people working or studying abroad to return home.

Areas of the County in bad social conditions also need special attention for economic reasons.

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<sup>2</sup> Lajos Besenyei's lecture on 25 June 2009.

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