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Can an Entrance Fee Solve the Migration Problem? Probably Not

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Abstract: Refugee and poverty migration is one of the key challenges developed Western societies are facing. Due to the unstable political situation in many parts of the world and the lasting high differences in development between the economies, these migratory movements will continue to increase in the future. In order to channel immigrants, the authors suggest that migrants must pay an entry premium to obtain a permanent right of residence. We criticize this proposal from both an ethical and an economic perspective. We argue that a pricing system is neither ethically legitimate nor economically sensible. In order to meet the challenges of migration, a fundamental change in economic cooperation between developed and less developed economies is more appropriate.

Keywords: immigration, entrance fee, social justice, fairness

In medieval Europe, migrants who desired to acquire permanent township in a prosperous city had to pay a specific fee to the authorities to obtain full citizenry. This *gabella immigrationis* was a means to sort out the economically active individuals from futile migrants trying to cadge their living at the expense of others. The crucial issue for public authorities was to fix this specific entrance fee in a way to keep the number of immigrants at a manageable level. Furthermore, the fee should attract destitute but dynamic young migrants eager to improve their lot by hard work and to hold off wasters.

In the 21st century, Europe as a whole sees itself in a situation similar to the one of prosperous medieval towns. For many, the European Union is a haven of safety and wealth in times of political turmoil and unrest. Thus, the European continent has become the aspiration of so many in distress.

Eurostat reports that in 2016 around 4.3 million people immigrated to one of the EU-28 member states while 3 million left one of those states (including internal flows). Around 2 million people came from non-EU countries. As of January 2017 around 4.2% of the EU-28 population were from non-EU countries.

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While massively decreasing compared to the previous year, the EU received more than 700,000 applications for international protection in 2017. In the same period more than 500,000 people were granted protection (especially from Syria, Afghanistan, and Iraq). Entry was denied for more than 400,000 people. 170,000 people reached Europe by sea, less than half as of 2016.

In an integrated political and economic community like the European Union the question of dealing with immigration consists of three parts: a) whom shall be given permission to enter the Union? b) how should immigrants be allocated across member states? c) how to integrate immigrants into the corresponding society? In their paper, Margit Osterloh and Bruno Frey (2018) argue that an entrance fee solves these issues simultaneously. In addition, they claim that this proposal would even put an end to one of the most pressing moral problems, human trafficking. Can an entrance fee at the same time guarantee the right of asylum, inhibit welfare tourism and stop human trafficking? Is such an admission charge even a Pareto-improvement that makes all parties involved—the countries of origin, the countries of destination, and the migrants themselves—better off? Some doubts are in place. We argue that the entrance fee proposed by the authors solves none of the problems mentioned above, but in fact poses new ones.

First, the authors put asylum seekers, war refugees, and labour migrants¹ on the same level. In fact, it is obvious that both groups share some common features. Whenever possible, refugees as well as labour migrants select their country of destiny according to ethnic networks and labour market perspectives. Thus, once the decision to leave the home country has been made, the pull-factors of migration are identical. Both groups take considerable risks and hardships in order to reach their desired country of destination. It is also true that, due to a lack of legal immigration opportunities, many labour migrants misuse the asylum laws to achieve residency in the warranted country of destination.

Nevertheless, the most profound difference between the two groups remains. Whereas the labour migrant's motivation to leave the native country is a deliberate choice based on the calculus of economic costs and benefits of migration, refugees flee their home countries to save their bare lives and those of their relatives. Thus, whereas pull factors of migration might be similar or identical, the push factors definitively are not. These profound differences between economic migrants and war refugees has been recognised at all times. Medieval towns opened their gates in times of menace and war for the residents living nearby.

¹ We speak of labour, not of poverty migration, as people from the least developed countries do not have the necessary means to leave their countries.

Even if we accept the idea of an ‘entrance fee’ in principle at least for labour migrants, we argue that such an entrance fee would be neither justifiable on moral grounds nor efficient. The main question is of course how to fix the price of this fee. It is startling to see, that the authors are largely tacit on this crucial issue of their proposal. They reject Gary Becker’s (2011) idea of a residency auction as being “unfair” and “not applicable to asylum seekers”, which is somewhat contradictory to their main argument. But the reason is quite obvious. Although the price mechanism is the most efficient instrument for resource allocation, the outcomes of any price system can only be regarded as fair if all consumers have the necessary means to afford the goods and services under consideration (on this concept of economic fairness see Varian 1974). The moral concept of fairness thus requires an egalitarian distribution of economic resources (Dworkin 1981; Roemer 1998). Sufficient resources provided, any restraint from consumption rests on the consumer’s unwillingness to pay only. If, however, the equal distribution assumption is violated, any price mechanism works as a rationing device on the basis of an individual’s ability to pay. This rationing mechanism can reasonably be refuted on moral grounds, irrespective whether the price is fixed by political authorities or determined by supply and demand. It is very unlikely that a formal or informal credit system will do the job, as credit rationing is a serious issue in developing countries and one of the main obstacles to economic growth. And as the loans amount to several 10,000€, we cannot compare this to micro credits anymore.

The authors consider fixing the price for a permit according to the average willingness to pay. We do not know this willingness to pay for a permanent residency in Europe in advance. We do know, however, that the willingness to pay for a safe passage and a guaranteed work permit is much higher than the price human traffickers are able to demand for a perilous, illegal transfer and uncertain labour market perspectives. Thus, the price for a permit will be well above trafficking costs that we observe nowadays. This raises further issues. One can expect that under these conditions only the more affluent part of the LDC’s population will be able to use this new channel for migration. And we can anticipate that they will use it on a large scale, as the migration risks are negligible. Thus, developing countries will most probably lose the economically active middle class which is important for their future development, whereas the less privileged still have to rely on human trafficking.

If one still wants to pursue the idea of an entrance fee for foreign workers, one has to consider that this fee is due to every labour migrant, not only those from specific parts of the world. Thus, imposing an entrance fee has not only an impact on developing countries, but also raises the costs for economically beneficial and warranted labour migration. This makes the net effect of such a policy ambiguous even for the countries of destination.

In an integrated economic system such as the European Union, the question arises which jurisdictional level should be authorized to settle the premium. In line with Tiebout (1956) and in accordance with the subsidiarity principle, the paper argues for a premium that varies between countries and regions. This however disregards the externalities generated by the free movement of labour in an integrated labour market. Whenever entrance fees differ between jurisdictions, migrants will select the region with the lowest entrance fee and then move to the jurisdiction which provides the highest rate of return to the individual migrant. To avert this ‘weakest link’ problem, the premium must either be set uniformly on a transnational European level—and thus waiving the advantages of differentiated local entrance fees—or the European Union has to abandon the idea of free labour movement altogether.

Additionally, the authors suggest exempting migrants from minimum wage restrictions. Although this proposal sounds reasonable at first sight, as migrants on average show a lower productivity than native workers, this recommendation also misses the point. From an economic point of view, the reason for a minimum wage lies in the structure of the labour market. In a competitive environment, any minimum wage higher than the market wage reduces labor demand and leads to involuntary unemployment. In a monopsonistic environment, however, a uniform minimum wage increases economic efficiency and raises worker’s compensation and employment simultaneously. Thus, on competitive labour markets, minimum wages should be done away in any case. Repealing minimum wages for parts of the labour force in monopsonistic markets, however, would increase the market power of labour demand and fortify economic inefficiency. In any case, the pros and cons of minimum wages have nothing to do whatsoever with labour migration.

Having said all this, we certainly do not advocate maintaining the status quo. The opposite is true. The present situation is not only repugnant from a moral point of view, but also a waste of scarce resources and thus economically unsustainable. The solution to this problem, however, cannot be to put the burden entirely on the ones who drew a blank in the birth lottery. If the idea of global justice is not entirely meaningless, it is the obligation of the developed countries to supply institutions and establish economic structures that attenuate the most pressing problems and gradually improve the economic situation of the global south. This holds true irrespective of whether one argues for global justice from a cosmopolitan-utilitarian point of view (Singer 1993; Unger 1996), global social connectivity (Young 2006) or general considerations on transnational responsibility (Pogge 2002; O’Neill 1996). It is true, that foreign aid has not turned out to be too successful, although advocating an end to foreign aid policy seems exaggerated. But foreign aid alone definitively will not do the job.

There are various other ways in which developed countries can meet their global obligations. One is to open legal ways to enter the labour market for those migrants who supply skills that are complementary to the domestic ones. In an ageing Europe that faces tectonic destructions in its demographic structure, migration is one setscrew in a policy-mix to tackle demographic change which in fact might be mutually beneficial. Another policy field is the abatement of migration causes, most importantly by a preferential treatment of less developed countries in the process of globalization.

Migration and the integration of migrants is one of the most pressing social issues these days. And economic analysis provides us with numerous and valuable ideas to tackle these issues. However, a general entrance fee to the European Union for labour migrants is no part of it.

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