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EU monetary policy failure offers a lesson on migration

The free movement of labour is now the most important of the three freedoms of the Treaty of Rome – and it poses serious issues for the EU



In the UK, over coming decades, our population is set to rise substantially

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By [Roger Bootle](#)

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[128 Comments](#)

Economists like to portray themselves as dispensers of eternal truths. In practice, not only the answers change over time – so too do the questions.

Unfortunately, rather like the generals who have a habit of being constantly ready to fight the last war, economists have a habit of being concerned with yesterday's issues.

Meanwhile, politicians, being, as John Maynard Keynes observed – “the slaves of some defunct economist or other” – are usually even further behind.

This applies, par excellence, to the EU.

The Treaty of Rome – the foundation document of the European Union, signed in 1957 – laid down three freedoms of movement: of goods, capital and labour.

For many economists at the time (and for some still), this made perfect economic sense. Economies are more productive when resources are allocated efficiently. And they are

more likely to be allocated efficiently if they are free to move between competing places and types of employment.



The

migrant crisis continues to intensify Photo: Antonio Parrinello/Reuters

At the time of the Treaty, and for a long period afterward, the freedom that seemed most important to both economists and their political masters was the freedom of movement for goods.

It is easy to understand why. The Great Depression of the 1930s had been characterised by the widespread imposition of trade barriers, including tariffs, which caused international trade to contract. This was one of the main forces behind the collapse of output.

But the world has changed. The manufacture and trading of goods has become a smaller part of our GDP, while tariff barriers have come down dramatically around the world. The free movement of labour is now the most important of the three freedoms – and it **poses serious issues for the EU.**

It has become so important because of two major factors: first, the huge expansion of the EU to the east, including countries with much lower standards of living, whose people, therefore, have a strong economic incentive to move; second, the mass of people outside the union who want to get in.

The onrush of people from outside is due to the breaking down of states in the Middle East and Africa, the increased allure of the life apparently on offer in the EU, and the inexorable rise in the populations of these regions.

But you ain't seen nothing yet!

Over the next few decades, the population of Africa and the Middle East is set to soar.

As a result, today's migration issue isn't about the allocation of resources; it isn't even primarily about economics at all. It is about the ability and willingness of people, cultures and institutions to absorb large numbers of people from the outside, often with very different values, beliefs and traditions.

What is the answer? The EU is seeking a common European migration policy.

Of course, it already has such a policy for people within the union, namely free movement; now it is looking to put in place the equivalent of the Common External Tariff for goods, that is to say an EU-wide policy on immigration into the EU.

This is fully in line with the EU's history, which is one of integration: the establishment of Common this and Single that. This is, after all, what the pursuit of "ever closer union" seems to imply.

But this isn't a sensible approach to every issue. With the establishment of the single currency, the euro, integration hit a serious stumbling block.

It turned out that, with regard to currencies at least, not having all countries integrated made economic sense. Forcing everyone to have a "one-size-fits-all" monetary policy, we said, would bring heavy costs. We have been proved right – in spades.

The problem arises because the countries of the eurozone are very different in their economic structure, institutions and traditions. Having separate currencies helped them to cope with these differences. This was a case where Europe's interests lay with continued separation.

What can we learn from this episode regarding population and migration? Does it make sense to have a one-size-fits-all migration policy?

The demographics of the EU member states are very different. In the UK, over coming decades, our population is set to rise substantially. **By contrast, in Germany, Spain and Italy the population is set to fall substantially.**

True, the Schengen system of passport-free travel, of which we are not even members, is breaking down. But this is not the real issue.

Once immigrants to the EU have EU passports, they can move anywhere in the union. That means the overall number of potential migrants to each and every EU member country is in the hands of each and every EU member country.

Yet why should the interests of other EU members, either individually or collectively, coincide neatly with ours?

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Moreover, as and when a common European policy on migration is adopted, do we think that the EU – and each and every EU member country – will be competent in enforcing it? What basis is there in the EU's history for believing this?

Sometimes you don't have to go the whole hog to secure substantial economic benefit. Canada has recently been negotiating a free trade agreement with the EU. Note that this does not mean that it is joining "the Single Market".

What has Canada missed out on by forging a free trade agreement without the magic market membership? The answer is, principally, the free movement of people.

Somehow methinks this will not be a great loss to the Canadian populace. It is clear that the institutions of the EU and its driving force – the push towards ever closer union – are out of step with contemporary conditions.

Just what is the problem to which the EU is the solution?

- Roger Bootle is executive chairman of Capital Economics;
roger.bootle@capitaleconomics

