Putty Capital and Clay Labor
Differing European Union Capital and Labor Freedom Speeds in Times of European migration

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Abstract

Globalization has led to unprecedented risks stemming from global interconnectedness. Economic trade may distribute benefits of international exchange unevenly due to fundamental barriers of distance, national borders and implicit market segmentation. In order to equalize more equitable trade prosperity, the European Union (EU) 4 freedoms of goods, services, capital and labor were established by a neoliberal policy framework and the Eurozone featuring a common currency. While there is a vital central monetary union and since the 2008/09 World Financial Crisis a common European fiscal pact, EU free movement is limited regarding labor mobility. This paper is based on the idea that the asymmetry of the mobility of labor and capital leads to the risk of an uneven distribution of gains within the European Union towards some core states against the periphery. In the light of the current European migration, the following paper offers a forward-thinking perspective on potential emergent risks arising within the European Union due to an asymmetry between the mobility of labor on the one hand and capital and goods on the other in times of mass migration. The reasons for this asymmetry of the mobility of labor and capital are found in explicit labor mobility constraints that comprise of work permission requirements and sector specific restrictions while implicit drawbacks arise due to specific language, cultural and skill requirements. Within the EU full capital flows and export opportunities may gravitate trade benefits towards original EU core countries, while periphery countries that became later part of the EU are shunned from full employment. A less mobile workforce in the EU periphery is described as a reserve army of labor with social problems invisible to the core union as for remaining out of focus due to national borders and geographic distance. Trade and labor movements within the EU are analyzed with attention to export, unemployment as well as migration patterns in order to advocate for attention to labor freedom within the EU following the greater goal of Ricardian mutually-beneficial free trade in combination with societal stability enabled through a harmonious interplay of national government and European governance polity in time of European mass migration.

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I. Introduction

Globalization led to an intricate set of interactive relationships between individuals, organizations and states (Centeno and Tham 2012). Deepening nets of interactions challenge human foresight on implicit impacts of migration (Gilpin 2001). Novel transportation means and melting borders imply potential societal downfalls. As complex interdependencies may hold unknown outcomes for society, highly integrated international communities are under pressure of unexpected socio-economic developments. In seeking to shed light onto implicit system failures' socio-economic consequences down the road and potentially-disastrous outcomes of cumulative actions triggering mass movements; the currently emergent risk theory outlines unexpected dangers and insufficiently-described shadows of the invisible hand in the age of globalization of the world economy (Centeno and Tham 2012, Miller and Rosenfeld 2010).

Since the post-World War period, globalized world trade has grown much faster than world output. International trade now involves a larger number of countries and sectors than at any time in history and reaches deeper into more sectors of national economies than ever as an expanded array of goods and services has become exchangeable (Held and McGrew 2007). Trade is also unprecedentedly complex. With growing globalization and quickening of transfer speed, trade may impose unknown systemic economic, social, and political risks on a global scale (Centeno et al. 2013, Okamoto 2009, Urry 2012). Nowadays international trade has no longer limited local effects but potentially unforeseen global consequences holding societal downfalls. Trade may breed inequality such as the Agreement on Trade-Related Aspects of Intellectual Property Rights TRIPS agreement's negative externality of reducing access to affordable medicines in the developing world (Leonhardt, Keller, and Pechmann 2011, Stiglitz 2006, Summers and Pritchett 2012). Applying emergent risk theory onto international trade theories is an innovative way to explaining how the openness of economies to international markets creates economic winners as well as losers (Held and McGrew 2007).

In the light of globalized trade, the European Union (EU) embarked on a paths of establishing a framework of 4 freedoms to ensure mutual access to capital, goods, labor and services whilst melting down national borders. In the light of the most recent and ongoing European migration crisis, the question arises if these 4 EU freedoms are feasible and enacted in a fair and mutally-beneficial manner. Risks may emerge from negative externalities of mass migration if labor mobility is more stagnant than relocation in the light of open borders.

This paper argues that within the EU there is an asymmetry between the mobility of labor on the one hand and capital and goods on the other. More specifically, it claims that while there is mobility of capital and goods, labor is immobile. This situation may create risks within the EU as for distributing the economic benefits and gains of the EU unevenly beneficial towards the core states against some later acceded periphery regions. The paper is organized as follows: First, an introduction to the main thesis that the asymmetry of the mobility of labor and capital creates risks is established, then the argument is strengthened by underlining how an uneven distribution of the gains of the Union imply emergent risks.

In the light of qualitatively and quantitatively growing international exchange of goods and services, the demand for an in-depth understanding of how institutional global trade policy frameworks echo in socio-economic correlates has gained unprecedented momentum. New economic thinking widens the interdisciplinary lens to study emergent risks of international trade shadowing economic markets and the societal compound. In exceeding orthodox economics' insights and traditional public policy attempts to curb societal risks, heterodox economic approaches outlining socio-economics of international trade appears as real-world relevant emergent risk prevention strategy.

Through capturing the interplay of international trade and the migrating real economy, the following article is meant to shed light on international trade socio-economic downfalls within the EU in order to serve as a window of opportunity for alleviating negative externalities of emergent risks of global trade and mass migration. Pursuing the greater goal of deriving recommendations how to stabilize economic markets in the 21th century in finding an optimum balance of deregulated market systems and governmental control, the following paper investigates the EU institutional and neoliberal policy framework's impact on socio-economic developments with a transitioning society (Evans 1995). With the current policy framework shift from national governments to EU governance in the European world, decisions in one country can impact on the interest of citizens of other societies in a complex multi-faceted way, which opens a range of unprecedented trans-boundary problems challenging traditional national democracy. Currently once-in-a-lifetime-available information on European Union trade and financial zone in the post-2008/09 World Financial Crisis but in particular the current migration crises offer a unique snapshot of the prevailing Zeitgeist to portray societal downfalls stemming from emergent risks of unbalanced trade and societal movement in the age of globalization. Introducing emergent risk mitigation strategies within globalized economic markets may thus – more than ever – help avert future socio-economic crises and imbue public trust in open borders and *Willkommenskultur*-immigration markets through improved economic market stability and societal welfare stemming from universal access to equally-shared benefits of global trade alongside building economic opportunity.

II. European Union

IIA. History

The European Union (EU) is a socio-legal-economic framework of 28 European member states spanning over 1,707,787 square miles. Comprising of a population of over 500 million inhabitants (7.3% of the world population), the EU generated a GDP of 16.584 trillion US dollars in 2012, constituting approximately 23% of the global nominal GDP (20% in purchasing power parity). According to the Credit Suisse Global Wealth Report 2012, the EU owns the largest net wealth in the world guided by a system of supranational independent institutions and intergovernmental policy frameworks. Founded after World War II by the core countries Belgium, France, Italy, Luxembourg, the Netherlands and West Germany in 1957 to overcome nationalism through economic interdependence in a European Coal and Steel Community; the EU expanded[2] and developed into a customs union of the greater European community, which accedes new member states[3] and extends legal policy frameworks on a constant basis based on the Copenhagen criteria – including respect for democracy, human rights and the rule of law as well as a functioning market economy. The European Currency Euro was introduced in 2002 in 12 countries and is currently legal tender in 19 countries[4]

Following a 2007 call by ECB president Jean-Claude Trichet emphasizing the need for the EU to pursue further economic and financial integration in the aftermath of the 2008/09 World

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[2] 1973 Denmark, Ireland, United Kingdom; 1981 Greece; 1986 Portugal, Spain; 1989 former East German territories; 1993 Malta; 1995 Austria, Finland, Sweden; 2004 Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia; 2007 Romania, Bulgaria; 2013 Croatia.

[3] Albania, Bosnia and Herzegovina, Iceland, Kosovo, Macedonia, Montenegro, Serbia and Turkey are candidates for membership. The European Free Trade Association also comprises Iceland, Liechtenstein, Norway and Switzerland through bilateral treaties.

[4] The Eurozone is a monetary union of 19 EU member states that have adopted the Euro as their common currency and sole legal tender. The Eurozone consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Other EU states (except for Denmark and the United Kingdom) are obliged to join once they meet certain financial criteria. Andorra, Monaco, San Marino and the Vatican also use the euro as an area of cooperation.

Financial Crisis; The European Treaty on Stability, Coordination and Governance in the Economic and Monetary Union was drafted in January 2012. This intergovernmental Fiscal Stability Treaty was enacted in January 2014 and ratified by 25 countries as of April 2014 in order to define mandatory deficit or debt criteria, which target at budget discipline and fiscal austerity measurement alongside coordination of economic policies within the European monetary union as a common European stability mechanism.

IIB. Neoliberal policy framework of the 4 EU freedoms of trade

In recent decades, EU trade has become regularized and systematized through the activities of EU institutions, legal treaties and neoliberal policy frameworks. As a political symbol of integration and economic stimulus, the Eurozone prospered international trade within a cohesive customs union (Jackson 1997). The development of a common European market is a core objective of the EU community. Through a system of concurrently-to-national-legislations-established legal and policy frameworks, the EU aims at free movement of *goods*, *capital*, *people*, *services and establishment* within the Eurozone.

Free movement of goods ensures goods – when circulating within the EU market – not to be subject to customs duties, discriminatory taxes or import quotas and a common external tariff on goods entering the EU market. Approximately half of all EU-trade is 'intern' and controlled by harmonized EU legislation.

Free movement of capital fosters investment fluidity of finance, shares and assets. Under the auspice of the European Central Bank governing monetary policy; the monetary union, established in 1999, introduced the EU currency in 2002, which is currently legal tender in 19 member states. The euro eases citizen and goods' transfer within the EU by eliminating exchange rate difficulties smoothening economic fluctuations through price transparency and interest rate stability.

Free movement of persons is targeted at enabling EU citizens to move freely between member states in their living, working, studying or retiring in any country by lowering administrative burdens and bureaucracy in the accreditation of professional qualifications. In the Schengen Area, border controls and passport checks between 26 European countries including 22 of the 28 EU member states have been abolished officially, yet were re-enacted due to the immigrant influx since April 2015.

Free movement of services and establishment aims at allowing self-employed people to move between member states to provide services. Legislation in this area is a residual freedom, which only applies if no other freedom holds.

Overall, neoliberal EU policy frameworks set out to widen and deepen the extent of the EU market by constantly lowering trade barriers for member states in order for EU network participants to enjoy benefits from trade, specialization, and economies of scale (Hermann 2007). Through EU integration of economic markets, the EU promises productivity increase, access to a vast array of consumer goods that are available at favorable prices and employment opportunities for those connected to the union, who are meant to gain through increased income levels and improved living standards. Yet free trade areas may also be argued to be inherently preferential and discriminatory in the eye of explicit and implicit free trade imperfections, which become blatant in the eye of the 2015 European migration (Bhagwati and Krueger 1995).

IIC. EU migration crisis of 2015

The ongoing European migrant crisis arose from 2012 on through the rising number of refugees coming to the EU, across the Mediterranean Sea or through Southeast Europe, applying for asylum and ultimately striving for a permanent relocation. According to Eurostat, EU member states received over 625,000 asylum applications in 2014, with Germany, Sweden, Italy and France comprising two-thirds of the total application numbers while Sweden, Hungary and Austria are among the top recipients of EU asylum applications per capita. Most immigrants come from areas such as the Middle East – foremost Syria and Iraq – but also Africa (Eritrea, Nigeria, Somalia, Sudan, Gambia) and South Asia (Afghanistan, Pakistan, Bangladesh) and the Western Balkans (Kosovo, Albania). In an attempt to control and monitor the immigrant influx, individual countries have at times reintroduced border controls within the EU. Political tension has emerged between countries willing to accept asylum seekers and others trying to discourage their arrival.

The Dublin Regulation determines that the EU member state is responsible for asylum seekers, where refugees first got officially registered and fingerprinted on EU territory, which places an unequally heavy burden on border countries in the geographical periphery of the union. Since 2015 major border controls have been re-established and ground transportation partially halted to combat the EU migrant stream. In the search for a sustainable solution of relocation and resettlement of migrants, the European Parliament currently seeks information how to integrate migrants in society legally and technically. From an economic standpoint, European officials must create viable working conditions for economic markets to swallow the massive amount of foreign labor in the wake of the unprecedented migrant influx. Whether a centralized relocation plan featuring a quota system should distribute non-EU asylum seekers around the EU member states to burden share the immigrant problem evenly or if the EU should follow country-by-country or even case-by-case approaches, is a pressing question. If Germany opens up its borders for all refugees, as Angela Merkel announced, will there be enough economic flexibility of the European labor market to cope with a mass foreign labor stream?

IID. Limitations to EU labor mobility

History, geography, borders, national culture and politics on worldwide economic integration suggest that economic globalization may be unevenly spread due to fundamental barriers of distance, national borders and market segmentation. Gravity models of international trade, which account for geographic distance, demonstrate an almost exponential decline in trade activity with distance between the trading partners (Held and McGrew 2007). Border and home bias effects mainly measure increasing economic divergence between countries and the tendency of investors or consumers to buy domestic assets and goods.

In particular, geographic borders and cultural frontiers hold labor movement barriers – a topic hardly covered in the European context. While classical political economy "perfect freedom" captures labor as fungible, malleable and homogeneous insofar as workers can learn whatever skills are required to engage in any employment, in reality natural freedom of labor obstacles exist. Despite dramatic trade liberalization with the EU over the last fifty years, significant explicit non-tariff trade barriers remain while distance, history and culture still continue to influence European trade patterns and determine European labor market patterns.

Constraints on EU international trade comprise explicit and implicit obstacles. Free labor mobility is hindered by explicit field exemptions and citizenship requirements (e.g., Art 45 Abs 4 AEUV restrictions of foreign labor in national bureaucracy), but also implicit by locally required expertise such as peculiar language proficiency and national customs. In general, EU citizens do not need a permit to work anywhere in the EU. However, Liechtenstein imposes quotas that limit the number of people who can work and live in Liechtenstein for all nationals of EU countries other than citizens of Liechtenstein. Croatian citizens are also restricted by transitional arrangements to work in EU countries and required to obtain work permits in Austria, Belgium, Cyprus, France, Germany, Greece, Italy, Luxembourg, Malta, the Netherlands, Slovenia, Spain, and the UK. In reverse, Croatia restricts labor from these countries access to the Croatian labor market. Restrictions may also apply to posted workers in Germany and Austria for certain sectors.

In addition, work permits are subject to bureaucratic scrutiny and their frequent renewal is mandatory. For example, EU citizens who want to remain in Austria longer than 4 months need a registration pegged to actual and ongoing work, social insurance and supportive funds without any access to Austrian social benefits. Worker migrants may also be predestined as unemployment target groups.

Implicit labor mobility obstacles comprise of educational differences, language barriers, cultural norms and local skills. EU trading regimes may lead to poor countries lacking trained workforce implying labor mobility obstacles (Semmler 2013). Currently the EU has designated by agreement with member states 24 diverse languages[5] as official and working, but also a wealth of different dialects and linguistic diversities exists – which shadow Winston Churchill's post-WWII vision of a 'United States of Europe.' Although the EU was partly set-up to challenge the US economic market domination, compared to the US market, EU citizens face language barriers and stark national identity differences.

Another implicit downturn for labor mobility may stem from completely diverting pension schemes within the EU – featuring historically grown pay-as-you-go versus capital covering systems as well as completely differing pension standards (e.g., nationally differing pension ages, compensation schemes, double dipping possibilities allowing to work for salary and claim full pension benefits in some countries versus mandatory labor force age caps in others), which may implicitly hold workers from migration in fear of losing secured national pension status. Overall, legislation on pension transfers and tax treaty harmonization is still in infancy and migrants currently face economic, social and bureaucratic obstacles. Regulatory reform in this area is difficult to implement as taking promised pension claims away infringes national laws and lacks public support in an overall loss-averse world (Puaschunder 2015).

III. Theory

Labor inflexibility imposes unforeseen emergent risks to the EU community. In the grand picture of the 4 market freedoms, a somehow-hindered full labor mobility may lead to an implicit fallacy of composition regarding EU competition policies, which aim to ensure undistorted competition within the EU market in order to accomplish economic liberalization. As financial transfers across borders influence economic performance and stability of regions (Semmler 2011), the

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[5] Bulgarian, Croatian, Czech, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Irish, Italian, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish and Swedish.

combination of fluid freedom of goods and finance but immobile labor may gravitate the luxuries of international trade towards a center of economically-developed EU countries, from which the periphery of the later-joining Eastern accession countries is shunned. This *putty-capital-and-goods-but-clay-labor-trap* implies undescribed emergent risks within the EU by distributing the benefits of free trade towards some core EU states, which may gain more from financial benefits of market-widening expansions than the periphery. The EU policy framework acting more in interest of capital and goods than labor freedoms therefore holds socio-economic downfalls for periphery countries, whose citizens may not enjoy the luxuries of free trade in an extent as the core EU.

Overall, the 4 trade freedoms' differing speeds may breed uneven development within the European compound. The current trans-border financial, goods and labor flows may grant the core increased access to financial and export markets, while peripheral economies remain fluctuating subject to, rather than active participants in, their operation. Understanding the EU as a multiple equilibria phenomenon (Semmler 2013), the EU policy framework leading towards the EU acting more in interest of goods and capital transfers than labor movement coupled with natural market conditions implies economic developmental drawbacks and societal inequality (Krugman 1996, Rodrik 1997). The following sections describe trade theories in order to present how unbalanced EU trade alienates the EU periphery from the benefits of international trade by labor immobility, unemployment and remigration patterns.

IV. Trade

The potential EU free trade downfalls of labor immobility in relation to more fluid capital and goods transfers may imply unfair trade patterns (Bhagwati 1999, Chang 2002). Contrary to standard economic international trade theories of Ricardian comparative advantages and the Heckscher-Ohlin model, the current EU trade framework may feature imperfect competition, in which labor faces uneven entry barriers and economic integration (Held and McGrew 2007). The synchronization of the EU trade may not have been uniform. Expenditures for mobility and skill differentiation are trade barriers for labor to move within the EU market, in which only core countries may reap the gains of trade through market expansion of goods transfer and capital control through finance mobility. In this quasi-oligopolistic framework, market entry barriers result in a small number of countries setting the price for labor. The determination of price levels by core EU countries works controlled through explicit trade barriers and is implicitly influenced by indirect labor mobility obstacles. In terms of people flows, the core of the EU economy is now less integrated with the periphery. Putty goods and capital freedom but clay labor immobility may thus lead towards absolute advantages of the economically-stronger central EU core reaping financial profits from market expansion and exporting goods to an economically-weaker periphery, which may overall be economically left behind as for hindered access to labor market development and hence standard of living improvement opportunities. This view of competition is directly opposite to strategic competition, in which entry barriers generally tend to become porous with ongoing technological and institutional development. In reality, governmental investment in firms are made in the context of the broader hierarchical society (Mittnik and Semmler 2012). The state capacity to building a favorable environment through policy interventions itself is limited as for being dependent on internal and external power relations of states and the ruling elite's impact on the state's capacity to promote industrialization and private sector adoption of novel technologies. The EU featuring concurrent national government with overlapping hierarchical control patterns of singular member states must thus account for regime dependent influences on economic correlates (Mittnik and Semmler 2012). While there is the overarching goal of free trade, national interest of a historically grown core union may oppose common governance of EU free trade endeavors.

International differences in wage costs stemming from uneven free trade within the EU lead to persistent employment imbalances and may impose uneven development. Regarding full freedom of goods transfer, those countries benefiting from goods trade have trade surpluses and thus higher rates of capital accumulation; while labor immobility between different countries and regions of the EU hinder "pure" foreign trade. Thereby profits in form of surplus value are transferred from the underdeveloped periphery to the more economically developed core regions. Since profits are an important source of growth, the transfer of profits out of the underdeveloped regions reduces growth there relative to what it could have been in the absence of the intrusion of foreign capitals. In addition, the periphery countries remain shunned from access to the extended EU labor market opportunities, which hinders factor price equalization and socio-economic development. Large and persistent differences in goods transfers and wages among the developed and underdeveloped regions of the EU thus breed socio-economic inequality over time. The following part presents descriptive results of financial flows, labor immobility and socio-economic development inequality in the EU core and periphery.

V. Results

The different speeds of goods and labor movement within the EU deepen a trend towards central EU countries' export and financial hegemony while periphery countries remain stuck in long-term unemployment through a distinct pattern of export, capital and labor immobility.

The EU grants financial access through capital freedom and a common Eurozone. After the EU Eastern accession in 2004 featuring the entrance of the eight Central and Eastern European countries – Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia – as well as Rumania and Bulgaria following in 2007 to the EU community, the core union comprising the already established EU benefitted from access to novel monetary revenues. For instance, the Austrian banking sector successfully seized the opportunity to expand their presence in the Central and Easter European banking markets in the wake of the EU enlargement. Taking into account that almost 40% of the Austrian banking systems' total profits were earned by Central and Eastern European (CEE) operations around 2006 and after the EU Eastern enlargement Austria peaked at owing 65% of the Croatian banking sector, the evolution of the CEE banking markets had a substantial positive influence on the Austrian finance sector in the pre-2008/09 Crisis era (Boss et al. 2006). Capital market opening granted the core to reap banking sector revenues while imposing adjustment challenges for the more inflexible labor market.

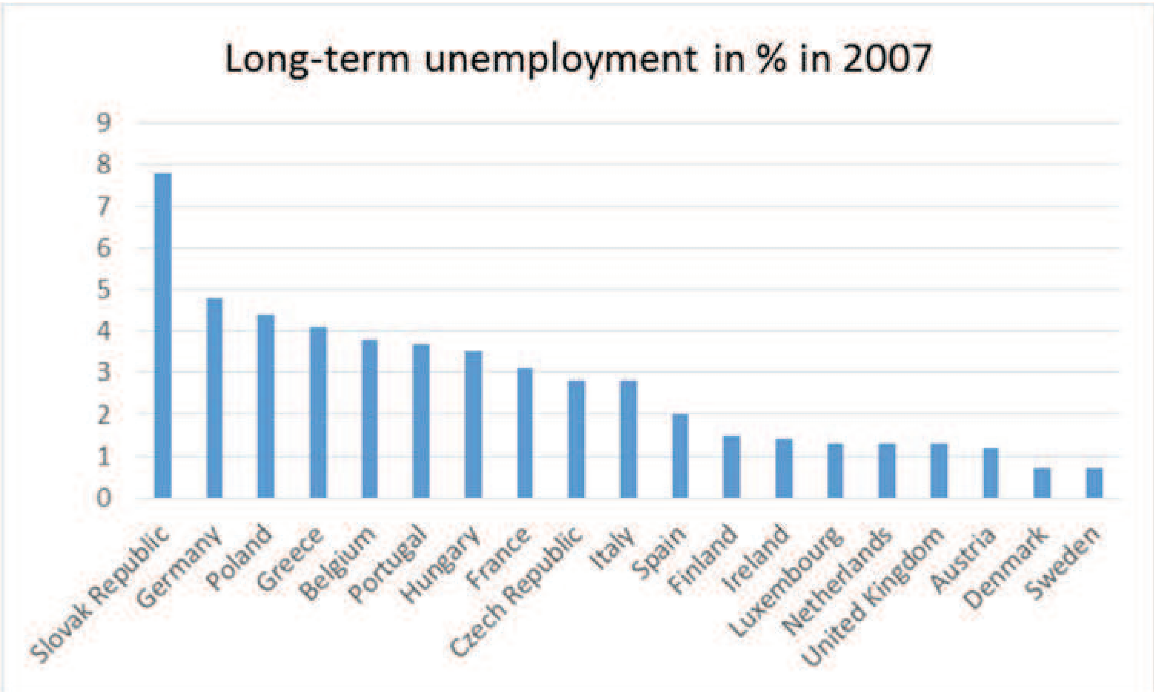
Labor immobility can be measured in migration during 'time windows' around policy changes. During the recent opening of the Austrian employment market to Bulgaria and Romania from January 2014, there was a mild increase of 13,724 Bulgarians and Romanians moving to Austria for work as of November 2014 mainly in key qualification sectors such as medicine, IT, technical, and service industries. Lack of job openings and professional networks for non-German-speaking communities are reported as underlying obstacles causing labor stickiness.

In 2012 the overall EU unemployment rate stood at 11.4 percent. Based on the EU accession of 2004, old 'core' member states (EU 15) and EU-2004 accession 'periphery' member states (EU12) differ on employment significantly. When comparing core with peripheral countries, we find in the core a relatively lower mean unemployment rate of 7.54% – based on Austria 4.9%, Belgium 8.8%, Czech Republic 7.1%, Denmark 6%, Finland 8.1%, France 10.2%, Germany 5.3%, Hungary 8.1%, Italy 13%, Luxembourg 4.9%, Malta 6.4%, Netherlands 8.3%, Sweden 8.1%, and UK 6.3% as of 2013 and 2014 – compared to 15.04% mean unemployment in the periphery – based on Bulgaria 11.6%, Croatia 21.6%, Cyprus 17.4%, Estonia 10.9%, Greece 27.9%, Ireland 10.7%, Latvia 9.8%, Lithuania 12.4%, Poland 10.3%, Portugal 16.8%, Romania 7.3%, Slovakia 14.4%, Slovenia 13.1%, Spain 26.3% as of 2013.

Unemployment hits the European youth the hardest. Of the under the age of 25 years workforce, 23.7% were unemployed in the Eurozone and 21.9% in the overall EU as of November 2014. The youth in the core EU faces a mean unemployment rate of 18.3%, based on core countries Austria 8.9%, Belgium 21.6%, Czech Republic 15.6%, Denmark 11.4%, Finland 20.7%, France 25.4%, Germany 7.4%, Hungary 19.8%, Italy 43.9%, Luxembourg 18.4%, Malta 13.5%, Netherlands 9.7%, Sweden 23%, and UK 16.3%., while the periphery youth stands at 29.1% – such as periphery countries Bulgaria 21.4%, Croatia 45.5%, Cyprus 34.8%, Estonia 13.9%, Greece 49.8%, Ireland 21.8%, Latvia 20.3%, Lithuania 15.5%, Poland 23.2%, Portugal 34.5%, Romania 23.3%, Slovakia 29.2%, Slovenia 20.4%, and Spain 53.5% national unemployment rates – as of November 2014.

As exhibited in graph 1, long-term unemployment was highest in the Slovak Republic, Germany (with former East Germany accounting for high unemployment as ever since the reunification in 1990, the unemployment rate in the East has been almost twice that of the West), Poland and Greece in 2007.

Figure 1: Long-term unemployment throughout the EU in 2007



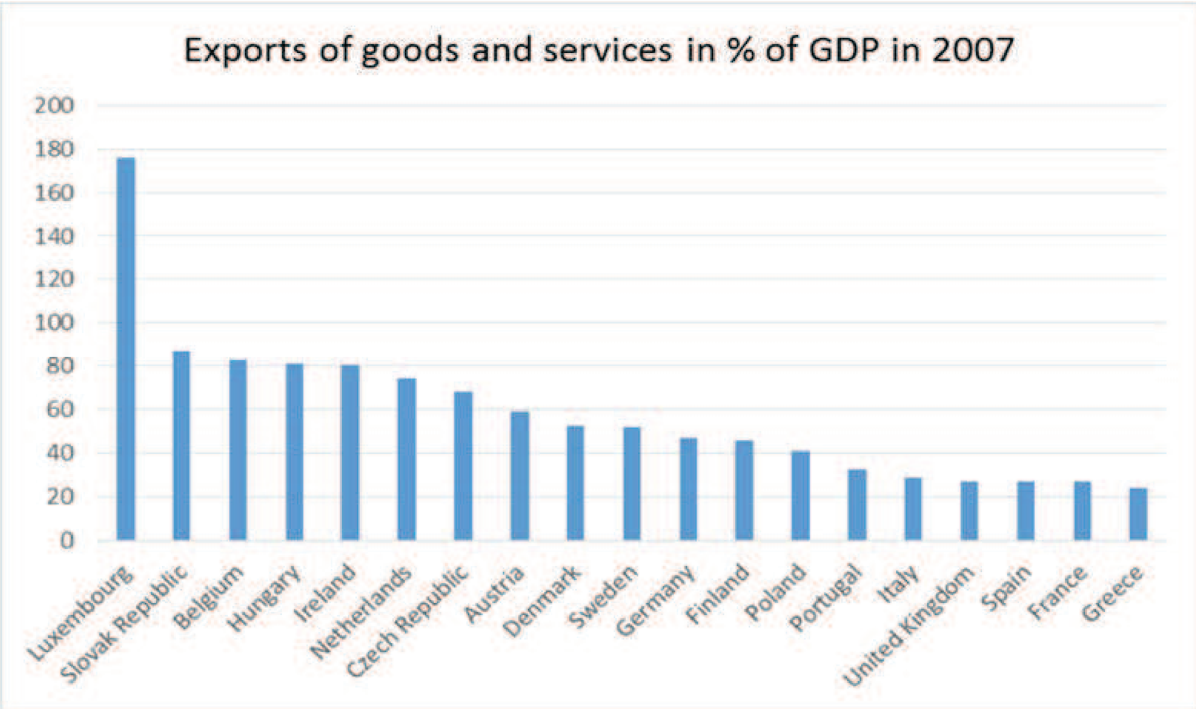
Source: Gapminder, International Labor Organization

In the same year 2007, export to GDP strong countries were Luxembourg, Belgium, Hungary and Ireland. Graph 2, however, displays total exports to the world, of which only around 60% may comprise EU-intern trade.

A sign for 'discouraged' workers is found in immigration statistics of returning citizens. In 2012, the relative share of national immigrants, in other words immigrants with a EU citizenship to which they are returned, within the total number of immigrants was highest in Romania (93 % of all immigrants), Lithuania (88 %), Latvia (72 %), Portugal (64 %), Poland (63 %), and Estonia

(58 %). These were the only EU-27 member states to report that return migration in terms of citizenship accounted for a higher than 50% share. By contrast, Luxembourg, Cyprus, Italy and Austria had relatively low shares, as return migration in terms of citizenship in 2012 accounted for less than 10 % of all immigration[6] (European Commission 2014). Returning workers may also cut on remittances by migrants, which are an important source of foreign exchange for labor-exporting countries (Gevorkyan 2013).

Figure 2: Export of goods and services in % of GDP within the EU in 2007



Source: Gapminder, World Bank

Overall, the periphery appears to hold a reserve army of labor featuring a pool of unemployed available to work when needed during business expansions. Reserve army of labor is a concept originating from Hegel's work on pauperism and Karl Marx's notion of capitalism, which describes a latent body of workers that can be called upon ruling societal classes in times of economic expansion. If more workers are needed and floating unemployed pools are used up in the center, the latent peripheral workers are drawn upon. The reserve army of labor thereby acts as buffers that allows industrial workforce pick up in pace of accumulation without wage-

[6] Note, the national immigration statistics do not provide a qualitative interpretation of the return. Apart from discouraged workers returning to their homeland, there may other reasons and the data leaves open where they return from as it may also represent return from non-EU 3rd party countries.

inflationary hiring bottlenecks. A reserve army also implies wage pressure and consequently declining living standards. A reserve army of labor like situation within the European compound may impose downward pressure on worker wages while granting beneficial labor market flexibility to the industrial core. Barriers to labor market access in a competition-free environment implying labor immobility leads to some countries setting overall wage prices while pacing cheaper labor forces entering the market. This reserve army of labor may be worse than Marx's concept, who coined the term based on visible negative effects of social stratification within one country, as the novel EU reserve army of labor's socio-economic downsides are invisible to the core EU as for taking place in the distant periphery, where unemployment stagnates national productivity and economic competitiveness.

On the socio-political level, a reserve army of labor in the EU periphery creates racial and social divisions within the EU community. Within the entire EU, the downward pressure on wages cheapen workers' subsistence and perpetuate in the gold-standard like monetary Eurozone, in which internal devaluation adjustments are taken out at the expense of the labor market. With the 2008/09 World Financial Crisis and the Fiscal Pact legally obliging EU countries to bail each other out, this situation of a discouraged reserve army of labor in the EU periphery may cause additional real wage pressure onto the center whilst leaving the periphery shunned from free trade benefits of economic prosperity and societal welfare. Overall, the problem of downwards pressure onto wages due to the reserve army of labor in the EU periphery perpetuated in the aftermath of the 2008/09 World Financial Crisis, which had unevenly-heavy effects, as some countries like Iceland, Greece and Spain experienced severe financial problems, despite their EU membership (Duchac 2008). In some periphery EU countries, the sovereign debt increased in the 2008/09 recession, which steered rapidly enacted austerity policies to control growing debt (De Grauwe 2011, Semmler 2013). During this period of increasing financial stress and budget consolidation policy, the EU monetary union using the same currency, led to weaker countries being unable to devalue their own currency, which could have stimulated their economies by increasing exports and debt repayment burden easing (Semmler 2013). Nations having no national central bank that controls the monetary policies of sovereign nations or a sufficient deposit insurance that might calm people who fear a banking collapse, increased downward pressure on wages in economic recessions (Semmler 2013).

VI. Discussion

Overall, unequal exchange through trade are fundamental causes of societal inequalities (Frieden and Lake 2000). In the case of the EU, the fundamental proposition of Ricardo's theory of comparative advantage (1821/1996) and the Heckscher-Ohlin model assuming free trade to be mutually beneficial are questioned as for detected uneven EU trade benefits distribution. The current free trade imbalances within the EU lead to a persistent trade pattern of deficits for the periphery and trade surpluses for the more developed capital-intensive EU core countries. Periphery countries have labor-intensive products and higher unit labor costs because of low labor productivity. Free trade between the developed core and underdeveloped periphery countries thus triggers a value inflow into developed countries and outflow from underdeveloped countries. As wealth rises in developed countries at the expense of underdeveloped peripheral regions, effective demand is stimulated in developed countries and lowered in underdeveloped regions. While free goods trade ensures export advantages (e.g., in terms of market expansion and vent-for-surplus economies of scale) for the core EU and finance freedom leads to productive capital inflow into the core EU; labor immobility hinders employment market adaptation and profit rate equalization in the peripheral labor market.

In addition, individuals' perceptions of the future and the state of the economy may influence individuals' spending and investment choices – thus in some countries people end up in an economically unfavorable situation through a self-fulfilling prophecy or self-enforcing mechanism (Semmler 2013). Countries in the periphery may face a vicious cycle transmitted through financial markets, where financial stress and macroeconomic self-enforcing feedback mechanisms eliminate the positive impacts of automatic market stabilizers (Semmler 2013). Contractionary multipliers resulting from a reduction in fiscal spending, which recently gained attention of EU policymakers in the aftermath of the 2008/09 World Financial Crisis, may in particular imply negative effects in post-crisis economies (European Commission 2014). Regime-dependent multiplies weaken economically already left-behind regions even more (Mittnik and Semmler 2012). Exchange imbalances due to unequal power relations between EU countries thus undermine social democracy and erode the social glue (Held and McGrew 2007).

Negative outcomes of wage pressures and unemployment within the EU suggest systematic EU governance and national governmental interference to alleviate negative socio-economic impacts of market failures. Regarding economic development solutions, the common Eurozone and monetary union restrict socio-economic development through depreciation of national currencies – for example as practiced in Ireland in the 1990s (Boyer 2012, Semmler 2013). As alternative capital value repatriation through transfers of savings from developed to underdeveloped countries could overcome unequal exchange deficits and help close the gaps between core and peripheral EU countries (Emmanuel 1972, Gevorkyan 2013, Piketty 2014).

Extending the theory of uneven development due to export of capital, direct investment promoting capital accumulation may alleviate negative externalities of economic trade imbalances. However, foreign direct investment transfers monetary value at the expense of potentially outcompeting domestic firms' initiative industries, development of the indigenous production and local trade (Shaikh 1979). Foreign investment can thus also imply the risk to tighten the grip of stronger over weaker EU countries through free trade and competition itself (Shaikh 1979).

As there are no 'automatic' market mechanisms that correct the downsides of trade imbalances, EU institutions and national governments are called upon to govern trade. Governmental actors have a fundamental role in establishing vital conditions for overall socially-beneficial market development. States and governance bodies can become involved in economic life, establishment and administration of the judicial, regulatory, and infrastructural framework in which private property, competition and contracts come to operate (Panitch and Gindin 2012). In the implementation of free market policies, European policy frameworks need governmental support, yet these efforts may sometimes be in conflict with national interests. As an example of a national versus collective union interest predicament, free access to Austrian higher education is currently regulated by a quota system to overcome brain drain of foreigners leaving Austria after having been educated and Austria missing a key-qualified labor force. A well-balanced policy mix should thus meet the needs of the union and states to concurrently set the tact on migration within the EU (Ho 2010, Moudud 2014). The preliminary results may also be extrapolated onto global labor markets in the age of digital information and algorithm-based labor force.

In the future, the autonomy of EU member states is believed to be more and more constrained by the forces of economic globalization. Realizing macroeconomic transition increasingly will involve EU governance beyond the state government control. The continuous interconnection of the European continent requires national governments to more and more engage in extensive multilateral collaboration and cooperation within the EU. This, however, creates trade-off predicaments between national policy, state autonomy and EU common goals. Inter-institutional cooperation and learning transfers between countries are recommended. Additional obstacles faced by the EU comprise the state capacity as only a selective group of nation states seem to be able to push policies through effectively within the EU compound, which may then dominate the socio-economic conditions of the others. While some progress has to be made on the national level with regards to the establishment of a legal framework, the European Commission could complement direct national level efforts and seek for a European-wide solution in a universal policy framework.

To overcome labor immobility, public EU and national policies could target at steering economic growth, migration, education and innovation. The European Central Bank should continue expansionary monetary policy that spurs capital investment featuring positive spillover effects. Active labor market policies should incentivize corporations to diversify the workforce. Flexible employment schemes – such as work sharing and *Kurzarbeit* short-time working – are recommended alternatives to reserve labor pools. Infrastructure investment will get young people into the workforce to overcome the youth unemployment obstacle.

A united migration policy will help harmonize the current diverse EU immigration practices. Unification of migration policies across the member states and a reformed quota system based on population and GDP could help ease labor immobility. Labor market integration also demands for a harmonization of the different concepts of citizenship laws. Labor could also be freed in dismantling bureaucracy by providing regulatory leeway and visa free travel for short-term workers. International accreditation of European degrees and certificates alongside offering language and cultural competency trainings will further steer labor market fluidity. Funds devoted to solidarity building could help local governments to devise strategies for responding to negative externalities of labor immobility. Economic aid could target at immigrant households to assign welfare packages without conditionality. Socio-economic improvement for employed immigrants, such as access to social benefits, and protection of workers without working permit should be advocated for.

In order to harmonize skills demanded and supplied, the detected skilled workforce challenge should be overcome by targeted education as a European responsibility. Unified EU-wide reforms to international education will help closing the gap between education and labor market. Building on the work of OECD's Programme for International Student Assessment (PISA), experts from all regions of the Union should sensitize to the cultural, political and economic contexts of each individual member state, working with local government authorities and schools to prepare education reform strategies and supervise their implementation.

International exposure should start as early as possible during education with a widening of the ERASMUS and SOCRATES program, which account for the most prominent EU benefit among young Europeans. National ministries should be in contact about common educational goals on the EU level and compare state-of-the-art teaching practices on an international basis. In the benchmarking of standards used, guidelines should be set up on how to meet common European educational goals and best practices. Higher education collaboration between European universities should be facilitated in order to improve higher education performance with a global outlook. The EU is advised to analyze educational outcomes and develop country-specific recommendations based on lessons learned from best-performing education systems around the world. Cost-benefit analyses and other in-depth studies on the effectiveness of existing EU education programs – such as Erasmus and Leonardo – should become a centralized strategy to defined international educational opportunities for schoolchildren, students and the workforce. Conducting studies of educational outcomes and measure returns on investment from existing and new programs in the EU will help implementing and post-implementation assessment of educational reforms conducted by EU member states. Teaching internationalization could be based on EU-wide initiatives to support universities in the design of a more flexible curriculum fostering diverse education that would give greater flexibility in adjusting to labor market needs. Whole-rounded educational initiatives can comprise exchange seminars, trainings, educational summer camps and gatherings to expand horizons and meet foreign peers by collaborating on additional knowledge and skills building in informal settings. Overall, acknowledging the importance of migration for economic development and international education will help scaling down psychological borders.

The EU labor force is not short of talented people but it is a challenge to change markets so talented workforce can be set free. In virtual career transfers and virtual labor mobility through technological involvement, modern jobs could dispatch physical labor requirements. Technology-driven labor market adjustment should feature IT solutions leading towards labor flexibility as for lowering the importance of the geographic area of the workplace. Innovation hubs of the digital economy could foster a trans-border e-skills transfers in the age of the digital economy. Under the EU Programme for Employment and Social Innovation, the EU could facilitate cooperation of a wide variety of EU universities to launch initiatives bringing innovation IT agencies and business incubators to professor sand students. Supporting framework conditions could help early stage IT advancement. The EU Erasmus Programs could foster exchange between technology hubs and enhance entrepreneurial skills in IT skill seminars and other forms of informal education across Europe. Cutting-edge research on technology transfer in academic cooperation will help strengthening employment and mobility.

VII. Conclusion

As a novel, pluralistic phenomenon, globalization holds undescribed emergent risks for society. Within the European community, the widespread effects of globalization and migration demand the strategic coordination of European governance and national government control in the context of a multi-layered governance-government system (Held and McGrew 2007). As free market itself will not change relative advantages based on competition and automatically develop nations equally, the EU and nation state need a harmonized political and institutional policy mix in the prism of global governance, EU economic market policies and national interests. Through well-tempered policy and legal frameworks, EU agencies in connection with respective state intervention can foster wealth, employment and social capital transfers through fair trade benefits distribution. National governments should work in accordance with EU institutional goals in securing global capitalism in order to breed an economically-fair and societally-harmonious United States of Euroworld.

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