

EUSA Review Forum

European Migration and Asylum Policies: What's the Scoop?

HARDLY A DAY GOES BY WITHOUT major international newspapers reporting on Europe's problem with its migration policies. The international press points to the fact that Europe's demographics are unfavorable: the Europeans are having fewer babies whereas they need the extra people to provide labor on the eve of a major retirement boom. As a result, critics argue that Europe should have active migration policies to encourage migrants to work in Europe. They should learn from other immigration countries who have attracted many to their country as a place of destination.

Of course Europe has had migrants – mostly guest workers – who have been around for many decades. However, there have been issues with the way in which guest workers have been treated in the host country. For the longest time they were seen as 'temporary workers' who would 'one day' return home. Clearly, after the third generation is born, that assumption is no longer valid (and really had been questionable for a number of years already). Having significant numbers of migrants in one's country begs the question of their integration and their treatment in the context of the EU. The most recent event that has awoken the whole discussion about migration, is the enlargement of the EU to the East. The mandate of the EU is to have freedom of movement of labor across the entire area. Yet it is regarding this very basic principle that some Member States feel uncomfortable. The question of migration was also part and parcel to the 'no' vote of many of those who voted against the Constitutional Treaty in the spring of 2005. Similarly, those who are against further enlargement to the East are often worried about 'mass migration' (for example from Turkey). Historical comparisons with earlier enlargements suggest this prospect of large-scale migration is exaggerated, but the argument has a strong appeal among populist leaders. Another group that often finds itself going through long procedures and not knowing its rights and duties, are refugees. Here too the EU has recently stepped in to provide policies for the whole of the EU rather than relying on individual Member States making

separate policies.

To shed some light on the issues, we asked five scholars to focus on various aspects of migration in the EU. Adrian Favell provides an overview of the issues surrounding East-West migration and analyses what is actually happening. He concludes that migration makes an important contribution to the political economy of Europe. Valsamis Mitsilegas offers a legal perspective on an emerging EU policy on economic migration. He points to strong Commission involvement but highlights Member States' reluctance to adopt common standards and casts some doubt on further progress if the Constitutional Treaty does not enter into force. Sandra Lavenex points to the challenges of creating and further developing an EU policy in the area of asylum and migration policies – in particular the tension between intergovernmental dynamics and what could be seen as a nascent process of supranational constitutionalization in these matters. The contribution of Saime Ozcurumez discusses how intricately linked migration and asylum issues are to Turkey's accession to the EU. Her analysis shows how Turkish domestic actors need to be reassured that accession is forthcoming in order to adapt to EU asylum and migration policies. Finally, Eiko Thielemann discusses attempts by the Member States to fairly share responsibilities for asylum seekers and refugees in Europe and shows why these initiatives have not produced the desired results.

*-Amy Verdun, University of Victoria,
EUSA Forum Editor*

Beyond Fortress Europe? Trends in East-West Migration in Europe *Adrian Favell*

THE ENLARGEMENT OF THE EU eastwards in May 2004 completed a geo-political shift in post-1989 Europe, that – in terms of the migration and mobility of populations – poses the biggest demographic change in Europe since the end of the second world war. For sure, the freedom of movement of persons from the new Member (and candidate) States remains a contentious issue. West European Member States seem far less keen on the movement of people westwards, while worrying little about the gold rush of Western capital and business east. Yet one by one

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From the Chair

John T.S. Keeler

JUST AFTER HAVING READ a long series of articles on the post-referenda crisis of the European Union,¹ I spent a month this summer in Brussels co-directing a new EU Studies Summer Program jointly administered by the Institute for European Studies of the Free University of Brussels and the EU Centers of the University of Washington and the University of Wisconsin.² It was a reinvigorating experience in many ways. As our students noted, the EU viewed close up did not appear to be an institution faltering, failing or floundering. From the Rondpoint Schumann in Brussels to the court complex in Luxembourg, gleaming new buildings and towering cranes illustrated that “Europe” was quite literally still in a building phase. Moreover, the sixteen EU officials who participated in our program through the organizational efforts of my co-director, Peter Hobbing (former Principal Administrator in the Commission), greatly impressed our students with their energy and expertise related to a wide range of missions. To cite but a few examples: Nick Banasevic of DG COMP discussed his work on the case designed to rein in Microsoft; Agnes Hubert (Bureau of European Policy Advisors) described efforts to advance the cause of gender equality; Mark Cropper and two young Polish colleagues from DG AGRI talked about the challenge of implementing the Common Agricultural Policy in the new accession countries; Giovanna Bono explained how the expansion of the European Security and Defense Policy had led to the hiring of security-oriented staff to enable the European Parliament to exercise its oversight obligations; Ian Andersen (DG SCIC) explained how the EU was attempting to meet the growing linguistic demands posed by enlargement; Chris Docksey (Legal Services) discussed the complexity of procedural issues posed by new issues within pillars II and III; and Paul Weissenberg (DG ENTR) explained the growing role of the European space industry on the world market. All in all, one was reminded on a daily basis that the constitutional malaise is not the only issue worthy of attention and that—for all the talk of the EU reconciling itself to a “boring” profile—Brussels is facing many challenges in an innovative and impressive manner.

Those achievements and frustrations will, of course, be the focus of our next EUSA Biennial Conference to be held May 17-19, 2007 in Montreal, Canada. This conference will be a landmark event for EUSA in several ways: it will be the 10th EUSA conference; it will be the first held outside of the United States, reflecting the

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(continued from p.1) borders are coming down, and a new East-West migration system is being established in the continent.

Nearly all the policy advocacy on East-West migration, as well as all the credible demographic and economic scholarship, suggests that the West has little to fear. Europe as a whole, they say, is only likely to benefit from a greater degree of manageable East-West movement. Not only is Western Europe likely to benefit from a new influx of highly educated, talented or in any case ambitious East Europeans. These migration trends are also quite different from the post-colonial and guest worker immigration that has proven such a long term political issue. East European migrants are in fact regional 'free movers' *not* immigrants; and with the borders open, they are much more likely to engage in temporary circular and transnational mobility, governed by the ebb and flow of economic demand, than by long term permanent immigration and asylum seeking.

For all the good arguments to encourage open borders and free movement, the political calculation on these issues seems to point to a different rationality. There is in fact great electoral reward to be had by populist politicians using the 'threat' of open doors eastwards as a tool for berating the impact of the EU, in particular the liberalization of West European labor markets or employment legislation. The ugly French debate about the 'Polish plumber' during the EU constitutional vote of spring 2005 was but the most visible example of this phenomenon. Little matter that the handful of Polish plumbers in France are outnumbered ten to one by their Polish counterparts who dominant this sector in London or Manchester – or apparently that the British economy seems to be doing much better than the French on the back of this informal workforce.

Slowly, however, West European nations have one by one accepted the inevitable, and brought down transitional barriers to freedom of movement for new Member States. As things stand in June 2006, the trend seems to be clear after much lobbying from the European Commission. Initially only three countries opened their borders: Ireland, Sweden, and the UK. From May 2006, Finland, Greece, Portugal, and Spain have now followed suit. Belgium, France, Luxembourg and Italian are reducing barriers, while Denmark and the Netherlands are undecided. Only Austria and Germany – where hostility post 1989 has always been greatest – have confirmed they will maintain them.

The slow political acceptance of open East-West borders confirms the underlying fact that Europe in future has an almost desperate structural demographic and labor force need for increased intra-European population movements. These have not been satisfied by the intra-EU movement of West Europeans, with regional disparities between north and south evening out through development, structural funds and welfare provision. Labor

markets instead have looked East. European economies, with some variation, increasingly resemble the USA, in which immigrants fill a vast range of low end service sector, manufacturing and agricultural work, that nationals no longer accept. Who better to fill these 3D ('dirty, dangerous and dull') jobs, than neighbors from the East, who are likely to be temporary rather than permanent, and are ethnically 'similar' and/or culturally 'proximate'? There is a strong suspicion here that West Europeans might be quite happy to reduce their reliance on non-white, non-European immigrants by the development of a more internal and regional European labor market. This in fact would extend well beyond the frontiers of the official Member States, to include candidate countries and other near neighbors. The EU in effect can be seen as a territorial project in regional integration, that has used its external partner agreements to set up new mechanisms of managing regional migration flows, while closing doors to others.

Neo-liberal economists and idealist pro-EU federalists see the economic migration of East European as a win-win scenario, in which West European economies benefit from dynamic labor market effects, while East European movers cash in on the premium of working in the higher paid West. Research completed by the PIONEUR project, however, suggests a less happy scenario.¹ Both higher and lower end migrants from the East are attracted by the West, and certainly see their movements as temporary, opportunistic and circular. In fact there is little evidence that formal borders or barriers make a lot of difference between, say, Poles and Romanians, although the latter are more likely to find themselves in precarious situations for want of official papers. But where their experiences are strikingly similar is in their strong sense of exclusion and exploitation. Many of these migrants accept sharp downward mobility in terms of status and qualifications in order to fill some low end niche in the labor market, that is grimly justified in terms of its payoff for family back home. They are in danger of becoming a new Victorian servant class for a West European aristocracy of creative class professionals and university educated working mums. Professional and college level East Europeans attracted West for educational opportunities, meanwhile, also find themselves blocked in their careers. For them, too, the emergent structure is of a discriminatory secondary labor market, that keeps them provisional and precarious, in order the better to extract cheaper labor. In most major cities in the USA today, the faces likely to be flipping burgers, cleaning cars, tending gardens, or working as *au pairs* for young children are Latino; in Europe today, these same figures with speak with Balkan or Slavic accents. One can only speculate that in the long run West European publics are likely to be more comfortable with this scenario than seeing black and brown faces in the same jobs, or hearing them speak the language of Allah.

Political scientists are apt to mistake the words of politicians or the plans of policy makers for political and social reality. In an environment in which there are electoral gains to be had from talking tough on immigration, it is no surprise then that the literature on migration has thus been dominated by a focus on policies of immigration control, security, or the effective building of a 'Fortress Europe'. But, just as in the USA, much of this discussion is in fact a game of political 'smoke and mirrors', to mask just how little control governments or the EU have over migration and mobility trends, let alone the globalizing international labor market. The underlying political economy of Europe, rather, is one that is not closing but *opening* borders to the East. Debates on immigration policy would therefore benefit from paying more attention to the demographic trends and labor market dynamics that underwrite policies. This calls also for greater awareness of the work of human geographers and sociologists on these questions.

Further Reading

Adrian Favell and Randall Hansen (2002) 'Markets against politics: Migration, EU enlargement and the idea of Europe', in *EU Enlargement and East-West Migration*, special edition of *Journal of Ethnic and Migration Studies*, vol.28, no.4, Oct 2002.

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Is There an EU policy on Economic Migration? *Valsamis Mitsilegas*

THE DEVELOPMENT OF COMMON EU standards on economic migration – in particular the admission of third country nationals to the Union and their rights once inside the EU – would seem to be a top priority in a Union whose objective is to be transformed from an internal market to a borderless 'area of freedom, security and justice'. The Treaty of Amsterdam 'communitarized' the legal basis for the adoption of such measures (in the so-called 'Title IV' of the Treaty establishing the European Community or TEC), and action was also prioritized by the 1999 Tampere Conclusions. However, almost a decade on from Amsterdam, the lack of progress of EU action in the field of economic migration is striking, and is in sharp contrast with the proliferation of EU legislative, policy and operational measures in the fields of asylum, irregular migration and border controls. The sole major piece of legislation adopted in the field of economic migration has been Directive 2003/109/EC on the status of third-country nationals who are long-term residents in the EU, with a parallel Commission proposal on third country nationals in paid employment falling in the Council.² Legislative at-

tempts were coupled by calls by the Commission to apply the open method of co-ordination (OMC) to immigration policy (COM (2001) 387 final). This method of policy-making is deemed by the Commission to be relevant in particular in the fields of integration and employment of migrants (COM (2003) 336 final). However, it has been demonstrated that the impact of OMC in the immigration field has also been limited.³

A major factor behind this lack of progress is the perceived challenges posed by the communitarization of decisions on economic migration – in particular who and how many to admit in the territory- to state sovereignty and the image of EU Member States as capable of controlling their borders. This sensitivity is reflected in the institutional framework, in particular the decision-making procedure for Community immigration measures.⁴ The Amsterdam Treaty 'communitarized' immigration policy, but maintained – at least for a transitional period – decision-making by unanimity in the Council, with the European Parliament merely being consulted. This arguably accounted for both the watering down of standards in the long-term residents Directive, and the non-adoption of the Directive on paid employment. However, this more 'intergovernmental' method of decision-making still persists in the field of economic migration, even after the move to decision-making under the 'Community method' in the fields of irregular migration and border controls by Decision 2004/927/EC (asylum measures are now also adopted under the 'Community method', following Article 67(5) TEC, which was added in Nice). Decision-making on economic migration will eventually move to qualified majority voting (QMV) in the Council and co-decision with the Parliament if and when the Constitutional Treaty is ratified. But even then, EU competence to determine quotas (or 'volumes of admission') of economic migrants will be limited (Article III-267(5)).

This reluctance by Member States to agree on common standards on economic migration – regarding the admission and rights of third country nationals – seems to be at odds with the efficient functioning of the internal market and disregards the reality of the abolition of borders within the Union, at least as far as the full Schengen members are concerned. How helpful is the maintenance of purely national policies on admissions for the development of an efficient EU labor market? How meaningful are national policies regarding labor rights of third country nationals already admitted in one Member State in the light of the abolition of internal frontiers? How beneficial is the lack of common standards in a borderless area where, even if no common understanding of rights exists, movement across borders once admitted in the territory – and employment in the shadow economy of another Member State – is possible? How useful is the proliferation of measures on irregular migration, if these are not combined with a coherent common policy on economic migration? These are all open questions, which

the current approach of Member States seems to do little to address.

The limits of the current approach were demonstrated in the recent debate over regularizations in EU Member States. Regularizations – or amnesties in some English-speaking countries – are common in a number of EU Member States, in particular in southern Europe, but avoided elsewhere. In the light of different national attitudes on the subject, no proposals for common EU action in the field have been tabled thus far, with Member States being left free to decide on the basis of national considerations. However, one such national decision to regularize – by Spain, last year – caused the reaction by Germany, which argued that the Spanish Government should have informed its EU partners at an early stage of its plans to regularize, as this decision might have a significant impact on the flow of people across the EU. This German reaction has resulted in a Commission proposal to establish a mutual information procedure concerning national measures in the field of immigration and asylum (COM (2005) 480 final), on which agreement was recently reached. However, it is hard to see how such a scheme would stop national decisions (for example to regularize), with *prima facie* no legal obligation of Member States to refrain from such decisions, and – perhaps more importantly – in the light of no coherent Union policy on economic migration.

In light of these inconsistencies, and renewed demographic alarm calls for Europe and attempts to resurrect the Lisbon agenda, the Commission has recently attempted to relaunch EU action on economic migration by the publication first of a Green Paper on economic migration (COM (2004) 811 final) and then a Policy Plan on legal migration (COM (2005) 669 final). The Policy Plan demonstrates clearly Member States' opposition to any horizontal framework covering conditions of admission of third-country nationals for economic purposes in the EU. In the light of this fact, the Commission is taking a pragmatic approach of tabling, in the next two years, a series of legislative proposals: a general Directive on the rights of third-country nationals already admitted in a Member State; and four sectoral Directives on the conditions of entry and residence of (1) highly skilled workers, (2) seasonal workers, (3) intra-corporate transferees, and (4) remunerated trainees. The link between EU economic migration policy and the Lisbon Agenda is evident, in particular by its emphasis on highly skilled workers (although reference is also made to support circular and return migration). In the Policy Plan, the Commission continues to advocate the adoption of binding legislative measures to achieve common standards in the field of economic migration. This strategy would seem to be the best way forward, as, unlike other fields of EC law, there is a clear legal basis for the adoption of Community legislation. Moreover, legally binding norms – which are enforceable and subject to interpretation by national

courts and the ECJ – are essential where the protection of the rights of third country nationals is concerned. The Commission's Policy Plan is welcome in refocusing the debate on economic migration. However, under the current decision-making arrangements, it remains to be seen whether any of these measures will be adopted if the Constitutional Treaty is not ratified, and if yes, in what form.

Further Reading

House of Lords, EU Committee, *Economic Migration to the EU*, 14th Report, session 2005-06, HL Paper 58

V. Mitsilegas, 'A 'Common' EU Immigration and Asylum Policy: National and Institutional Constraints', in P. Shah (ed.), *The Challenge of Asylum to Legal Systems*, Cavendish, 2005, pp.125-144

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EU Immigration Policies Between Supranational Integration and Intergovernmental Venue-Shopping *Sandra Lavenex*

JUSTICE AND HOME AFFAIRS (JHA) cooperation in general and European Union (EU) immigration policies in particular are often considered a *Sonderfall* ('special case') of European integration, yielding new forms of cooperation through 'intensive transgovernmentalism' rather than integration through the 'Community method'. Scholars studying the evolution of European asylum and immigration policies seem to agree that European integration in this policy area has not so much consisted of constraining Member States' exercise of sovereignty. Rather it has boosted their means of control towards undesired aliens. The establishment of intergovernmental cooperation fora has strengthened the autonomy of those sections of domestic bureaucracies concerned with the control-aspect of migration policy, shielding them from the countervailing impact of human rights norms and their supporters. The effect was to neutralize domestic constraints limiting liberal democracies' ability to reject 'unwanted immigration': the influence of heterogeneous (organized) interests and the legal rights conferred to different classes of migrants enshrined in domestic constitutions.⁵ Is this 'fortress Europe' imaginary still valid, after the (recent) realization of the Community method in asylum and immigration matters? To what extent is it affected by the broader process of constitutionalization in the European Union?

Tragic events such as those surrounding the mass attempts of asylum seekers and refugees to enter the Spanish exclaves of Ceuta and Melilla last year, and plans to establish closed reception centres at the EU's external

border tend to confirm the restrictive trend in European policies. Drawing a parallel to other areas of European integration, however, one may assume that the autonomy-generating effects of Europeanization are a transitory phenomenon and will be caught-up by supranational dynamics suggested by historical institutionalists or neofunctionalists. A social-constructivist perspective too would suggest that the creation and perpetuation of a 'fortress Europe' would contradict fundamental principles of liberal democracies, thus ultimately engendering the consecutive 'uploading' of corresponding individual rights. In this case, asylum and immigration policies would become part of the ongoing constitutionalization process in the European Union, codifying supranational rights pertaining to third country nationals.

Indeed, the Charter of Fundamental Rights, which was included in the 2004 Draft Constitutional Treaty affirms abidance to the right of asylum and the norms of the international refugee regime. Furthermore, in recent years, a number of directives have been adopted in this field that put certain obligations on the Member States. Some of these directives can be seen as constitutional steps as they codify individually enforceable rights pertaining to third country nationals in the EU, for instance on non-discrimination (2000) or refugee status determination (2004). Several other directives, however, most of them challenged before of the European Court of Justice (ECJ), have been seriously criticized for being in breach with international human rights. This is the case of the directives on family reunification, the rights of long-term residents, or that on asylum procedures. Apart from using vague language and listing many exceptions (thus leaving a great margin of discretion to the Member States for implementation), the instruments codify minimum standards that undermine the average level of rights in national legislations or, in the case of long-term residents, those granted to EU citizens under freedom of movement.⁶

An analysis of the interplay between organizational and ideational factors in this contested area of Europeanization sheds light onto the conditions sustaining the dominance of sovereignty-sensitive, restrictive policies on the one hand, and permitting rights-based, constitutional steps on the other. In organizational terms, the opening-up of the decision-making arena to involve actors other than the hitherto dominant Justice and Home Affairs Ministries has had a positive impact on the development of a supranational rights-based approach. Debates in the Convent elaborating the Charter of Fundamental Rights document the prevalence of a human rights oriented discourse among the participants that differs strongly from the security-orientation of JHA deliberations. In secondary law too, the participation of other sections of the national and European bureaucracies (e.g. Social Affairs Ministers and Commission Directorate in the case of anti-discrimination)

or the European Parliament have yielded more liberal outcomes. In ideational terms, liberal outcomes were possible when their promoters were able to link the question of aliens' rights to overarching, well-established norms of European integration in their justification discourse. In the absence of a human rights catalogue in European Community (EC) law, the norms were taken from the sphere of market integration, namely non-discrimination (for the anti-discrimination article and directive) and mutual recognition. The latter norm played a crucial role in the deliberations on the refugee qualification directive which, especially after a number of critical rulings by national courts, had become necessary to make the core of the common European asylum system, the Dublin Convention/Regulation on states' responsibility to examine asylum claimers, both operationally effective and normatively legitimate. In these cases, a positive constitutionalization outcome in the sense of codifying individuals' rights was possible not because Member States changed their interests, but because actors accepted the prescriptive status of common European norms. In the other cases, where pro-integrationist actors (both for organizational and ideational reasons) were unable to establish a link with pre-existing European norms, secondary legislation has confirmed the restrictive focus of earlier cooperation. In this context, the status of the Fundamental Rights catalogue in both legislative (legal status) and ideational (prescriptive value) terms will play a crucial role in future deliberations.

In this contested process of European policy-formation, the desire to limit the extent of new supranational obligations is omnipresent. It may be questioned whether communitarization will effectively put an end to strategic 'venue-shopping' by those sections of the national bureaucracies concerned with expanding their room of manoeuvre in immigration control. In stark contrast to the tedious negotiations preceding the adoption of common minimum standards, EU asylum and immigration policies have developed a very dynamic external dimension in relation to countries of transit and origin of migrants and constitute a focus of the European Neighborhood Policy. From an organizational and normative point of view, this external agenda may be interpreted as the continued effort to increase policy-makers' autonomy from political, normative and institutional constraints to immigration control. Whereas originally these constraints were identified in the pluralistic and humanitarian constituency of liberal democracies, the communitarization of JHA and, more broadly, the constitutionalisation of the EU increasingly replicates them at the European level. External action is thus a way to make progress in spite of internal blockades, and an attempt to circumvent new actors entering the field. Even where this cooperation takes place in the institutional framework of EU external relations, supranational actors

have fewer powers than they do in the now communitarized 'internal' asylum and immigration policies. At the same time, the scope for sovereignty transfers and national adaptation to the European level remains limited.⁷

To conclude, the development of EU asylum and migration policies can be read in organizational terms as a constant strife by some sections of the domestic bureaucracies to regain control over a transnational phenomenon while, in normative terms, limiting their supranational and humanitarian commitments. Yet, with the assertion of supranational actors in the field, and the effective linkage of pro-integrationist, rights-oriented claims with pre-existing norms of European integration, new constraints are created on these ambitions. Notwithstanding a persistingly restrictive attitude in national capitals, this incremental process can be read as a nascent constitutionalization of the rights of immigrants and asylum seekers in the supranational polity. Perhaps EU immigration policies are not such a *Sonderfall* after all.

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Europeanization of Immigration and Asylum Policy: Turkey Towards the EU **Saime Ozcurumez**

THE PROSPECT OF Turkey's membership to the European Union turned out to be an unending tale of controversy. The process of accession itself lacks routine as affirmed by last minute hurdles threatening to derail the launching of accession negotiations in October 2005 and of detailed entry talks in June 2006. Moreover, the prospects for full membership remain ambiguous for the elite and the public in the EU-25 and in Turkey. Lingering debates on 'privileged partnership' or recurring references to EU's 'absorption capacity' test the commitment and willingness of political actors in Turkey. Nevertheless, a hardly noticed and acknowledged harmonization process continues in the areas of immigration and asylum. Classic studies on Europeanization contend that the level of compatibility ('goodness of fit') between the European institutions and the national institutions determine the level and scope of the 'adaptational pressure'⁸. This essay claims that despite considerable misfit between immigration and asylum legislation of Turkey with that of the EU inviting strong adaptational pressures, domestic actors and institutions still manage to resist some of these pressures while largely complying with them. Accordingly, this essay seeks answers to two questions: Which immigration and asylum areas stand out as inviting high adaptational pressures in Turkey? How, and on what bases, do domestic actors shape their dominant strategies? I

argue that, with respect to nature of the adaptational pressures in general, in contrast to previous waves of enlargement, the ambiguity surrounding the prospects for Turkish membership distorts the incentive structure of Turkish policymakers. For domestic actors, the link between their incentives for compliance through complete harmonization of legislation and the expected pay-offs in the form of full membership is severed. With respect to the specific area of immigration and asylum, policymakers find themselves walking a fine line between refraining from blocking Turkey's accession due to technicalities while avoiding a wholesale 'burden shifting' whereby Turkey would assume the role of the border patrol of the most Eastern frontiers of 'fortress Europe'.

The first attempt at providing a comprehensive framework covering the field of immigration and asylum has been outlined by the 2005 Action Plan on Asylum and Migration for Turkey. The Action Plan foresaw the alignment of Turkey's asylum and migration strategy with the EU legislation, and the improvement of operational capacity of the institutions involved. Current goals in this field are combating illegal migration, strengthening border controls, implementing the Schengen acquis, harmonizing legislation to the EU acquis on visa policy, prevention of illegal migration, participation in Europol, strengthening the fight against organized crime, and lifting the geographical limitation to the 1951 Geneva Convention. Among these, adaptational pressures are highest in the areas of combating irregular migration (illegal migrants and transit migrants), readmission policy, and asylum policy. The following overview aims to reveal the diversity of preferences among domestic actors in each policy field, as well as incentives for compliance when faced with adaptational pressures.

Recent statistics on illegal immigrants suggest that in the last decade around half a million illegal immigrants have moved across Turkey's borders which imply that Turkey is becoming a country of destination and transit. In order to control this flow, Turkey introduced intensive border controls, collaborated with EU Member States for training security personnel, undertook actions for capacity building and public awareness, enhanced cooperation on information exchange, and increased the number of police operations targeting organized crime. Judged by the advances in the past few years, which in fact resulted in a reduction of the number of illegal immigrants, harmonization in this field proceeds efficiently and effectively. On the whole, Turkey's commitment to curb illegal migration and the level of consensus among domestic actors on the deemed benefits of such efforts are high. Domestic and EU actors perceive cooperation in this field as a rewarding partnership. Therefore, the domestic transformation toward Europeanization occurs relatively smoothly and largely independent of concerns over prospects of full membership. Apprehensions over whether Turkey will need to shoulder too much burden too early

in the negotiations do not seem to undermine the actions undertaken in this field.

Since November 2002, domestic actors in Turkey and in the EU have been haggling over the terms and conditions of a Turkey-EU readmission agreement yet to be signed. Turkey's present commitments are limited to re-admission of Turkey's own nationals, others who legally transited through Turkey and arrested for illegal entry to the EU, and those holding valid residence permits for Turkey. Turkey signed bilateral agreements with Greece, Syria, Romania, Kyrgyzstan, Ukraine and is negotiating with others in North Africa, Middle East and South Asia. The dividing lines among the domestic actors on this issue are clear. Some are cautious about hastily signing an agreement which might overburden Turkey with large numbers of immigrants if Turkish membership is not guaranteed. Others view such an agreement as a pro forma in the harmonization process which needs to be signed sooner or later to facilitate Turkey's accession. Therefore while early compliance in this area is seen to be a risky move by the former group, the latter camp identifies it as a strategic act to clear hurdles for full membership. However, both groups' concerns about the ambiguity of full membership preclude the signing of an agreement, defying adaptational pressures.

Turkey is increasingly receiving asylum seekers from Iran, Iraq and various African countries. On the one hand, Turkey maintains a 'geographical limitation' in its asylum policy, according to which only those arriving from Europe are accepted as refugees. On the other hand, Turkey complies with the principles of 'subsidiary protection' and 'non-refoulement'. Despite increasing activity in terms of enhancing institutional and administrative capacity and a commitment to lift the geographical limitation in time, domestic actors are far from agreeing among themselves on how and when to resolve this matter. The cautious actors warn about the possible adverse effects of lifting the limitation for Turkey considering the instability of the region. They fear that if the limitation is lifted before developing the administrative infrastructure as well as securing sustainable financial resources for status determination, reception and eventual resettlement of refugees, the results will be overwhelming. Others insist that Turkey needs to lift this limitation in any case to abide by its international obligations so they see no harm in proceeding with this at this stage. In parallel to the impasse surrounding the readmission agreement, lifting this limitation is plagued by the fears about uncertainty of membership and even further by concerns on overburdening Turkey.

In line with the revisionist literature on Europeanization, analyzed as a test case for incipient Europeanization, compliance with European legislation on asylum and immigration in Turkey points to the centrality of variables that mediate the relationship between adaptation pressures and perceived outcomes. Although all domestic

actors in this policy field share an overall commitment to facilitating Turkey's accession to the EU, the level and scope of concessions that they are willing to make depend, first, on the levels of apprehension regarding the prospects of Turkish membership and, second, other concerns about overburdening Turkey with immigration challenges. In irregular migration in which cooperation is seen highly beneficial for both sides, the actors seem to be more at ease with overcoming the challenges. However, signing a readmission agreement and lifting the geographical limitation in asylum policy both suffer major barriers due to perceptions involving the high costs of each as a result of too hasty moves for the sake of EU membership. Questions remain on how Turkey's experience compares with those of new Member States and other candidate countries.

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Balance of Efforts? Refugee Responsibility-Sharing in the EU **Eiko R. Thielemann**

REFUGEE PROTECTION EFFORTS in Europe are marked by vast inequalities in the responsibilities faced by different states. Despite the recent fall in asylum applications across the industrialized world, the ten new EU member states actually saw their combined total of asylum requests increase by four percent in 2004, compared to the previous year. In 2005, Cyprus was faced asylum responsibilities that were ten times higher in per capita terms than that of France, the EU Member States which received the largest (absolute) number of asylum applications that year. The Hague Program of October 2004 re-confirms that the development of a common policy in the field of asylum, migration and borders should be based on 'solidarity and fair sharing of responsibility, including its financial implications and closer practical cooperation between Member States'. To achieve this aim, the EU has pursued three broad kinds of responsibility-sharing initiatives in this area – regulatory, distributive and compensatory. First, the EU introduced a number of *regulatory* harmonization measures. Most noteworthy here are several directives which have aimed to level the asylum playing field and lay the foundations for a Common European Asylum System. The 2003 Reception Conditions Directive guarantees minimum standards for the reception of asylum-seekers, including housing, education and health. The 2004 Qualification Directive contains a clear set of criteria for qualifying either for refugee or subsidiary protection status and sets out what rights are attached to each status. The 2005 Asylum Procedures Directive seeks to ensure that throughout the EU, all procedures at first instance are subject to the

same minimum standards. Second, the EU introduced several *distributive* measures. The most important one was the introduction of the 2003 Dublin II Regulation, a reformed version of the 1997 Dublin Convention. The Dublin Regulation contains clear rules about the Member State responsible for assessing an application for asylum. It has been viewed by some as a critical instrument for the prevention of multiple demands ('asylum shopping'). Asylum seekers have to lodge their application for asylum in the first EU country in which they arrive. If not, they may be returned to another EU Member State if it can be shown that they have either crossed the border of another Member State or made an application for asylum in another Member State. Finally, the European Refugee Fund (ERF) has been in operation since 2000 and has aimed to financially *compensate* those Member States which are faced with disproportionate responsibilities in this area. The ERF supports Member States' action aimed to promote the social and economic integration of asylum seekers and their return to their countries of origin.

The effectiveness of all three types of responsibility-sharing measures, however, has been limited. First, the problem with policy harmonization is that it can of course only address imbalances in Member States' responsibilities which are due to differences in national policies. National policy differences are only one of several determinants for a protection seeker's choice of host country, with other structural factors such as geography, historic ties, employment opportunities being equally, if not even more, important. If structural pull factors are indeed so crucial, then policy harmonization might do more harm than good to the EU's efforts to achieve a more equitable distribution of asylum seekers across the Member States. EU policy harmonization curtails Member States' ability to use national asylum policy to counterbalance their country's unique structural pull-factors (language, colonial ties, etc.). This is why policy harmonization is more likely to undermine than to contribute to equitable responsibility-sharing (Thielemann 2004). Second, similarly paradoxical consequences on the distribution of burdens across the Member States can be attributed to the Dublin Regulation. It stipulates that asylum-seekers who move to another Member State as a secondary movement can be sent back to the 'state of first entry'. Despite often being hailed as a responsibility-sharing instrument, neither the Dublin Convention, nor its successor regulation, can therefore be regarded as an effective burden-sharing mechanism, as Dublin merely shifts responsibility back to the geographically more exposed Member States. Finally, with regard to the ERF, the most obvious problem has to do with the Fund's limited size (initially • 216 million over five years) which compared to national expenditures in the area of reception, integration and return of asylum-seekers and refugees pales into insignificance. According to UK Home Office estimates, Britain spent just under • 30,000 per asylum seeker in 2002,

if one includes administrative costs, legal bills, accommodation and subsistence. According to figures from the ERF's mid-term review, the UK was the second largest recipient of the Fund in 2002, and received approximately • 100 ERF money per asylum application made in the UK that year. One can therefore conclude that the overall effect of the ERF up to now has been more important in symbolic terms, than it has been in terms of its substantive effect in promoting a balance of efforts between the Member States. Even with the recently agreed tripling of the Fund for the 2005-2010 funding period, revenues from the ERF are highly unlikely to alleviate Member States' concerns about the economic (and social) costs associated with refugees and enhance their willingness to provide refuge to displaced persons. When analyzing the allocation of ERF resources, one finds that the Fund's principal beneficiaries are the destination countries with the largest absolute number of asylum-seekers and refugees. The Fund, however, does not take into account countries' relative absorption capacity. This means that for any given number of displaced persons a country like Cyprus receives the same financial help as Germany, irrespective of the two countries' fundamental differences in terms of per capita income, geographic size, etc. The Fund's redistributive impact consequently remains very limited. Ultimately, neither the ERF, nor the other instruments described above, can be said to contribute effectively to the goal of responsibility-sharing.

How do we explain this deficiency? It can be argued that the various EU burden-sharing measures (and their problems) are closely interlinked. For example, when analyzing the allocation of ERF money, it becomes clear that the bulk of the Fund's resources does not just go to the countries which are confronted with the largest (absolute) numbers of asylum-seekers. These are also the countries which have introduced the strictest national asylum measures in an effort to compensate for structural pull factors that make these countries particularly attractive to asylum-seekers. In other words, the current ERF allocation rules benefit above all those who have most to lose from EU policy harmonization which strips countries of the possibility to counteract country-specific pull factors. The ERF's allocation rules therefore appear to have been the result of traditional EU bargaining. Countries with the strongest bargaining chips (i.e. with the greatest credible threat to cause difficulties in negotiations on future policy harmonization in this area) are the most powerful ones when it comes to bargains about the distribution of EU spoils (Thielemann 2005). As long as EU measures aimed at achieving a 'balance of efforts' among the Member States remain ineffective, it will be the geographically more exposed Member States which will continue to face disproportionate responsibilities in the EU's twofold challenge to fight illegal migration while trying to safeguard the rights of legitimate asylum-seekers and refugees.

Further Reading

Thielemann, E.R. (2004) Why European Policy Harmonization Undermines Refugee Burden-Sharing, *European Journal of Migration and Law*, Vol. 6, No. 1, pp. 43-61.

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Endnotes

¹ Framework V project 2003-6, *PIONEUR: Pioneers of European Integration 'From Below': Mobility and the Emergence of European Identity Among National and Foreign Citizens in the EU*, directed by Ettore Recchi, Università di Firenze: <http://www.obets.ua.es/pioneer>

² Also relevant – but not exclusively dealing with economic migration matters- is Directive 2003/86/EC on the right to family reunification.

³ A. Caviedes, 'The open method of co-ordination in immigration policy: a tool for prying open Fortress Europe?', *Journal of European Public Policy*, 11/2, 2004, pp.289-310.

⁴ V.Mitsilegas, 'A 'common' EU immigration and asylum policy: national and institutional constraints', in P.Shah (ed.), *The Challenge of Asylum to Legal Systems*, Cavendish, 2005, pp.125-144.

⁵ Virginie Guiraudon (2000) 'Vertical policy-making as venue-shopping', *Journal of Common Market Studies*, 38 (2), 249-269, and Sandra Lavenex (2001) 'The Europeanisation of Refugee Policies: Normative Challenges and Institutional Legacies', *Journal of Common Market Studies* 39:5, 851-874.

⁶ Sandra Lavenex (2006) 'The Constitutionalization of Aliens' Rights in the European Union, *Journal of European Public Policy*, Special issue edited by Frank Schimmelfennig and Berthold Rittberger on Constitutionalization in the European Union, forthcoming 2006

⁷ Sandra Lavenex (2006) 'Shifting Up and Out: the Foreign Policy of European Immigration Control', *West European Politics*, 29 (2), 329-350.

⁸ Caporaso, J., Cowles, M. G. and Risse, T. (2001) (eds) *Transforming Europe: Europeanization and Domestic Change*. Ithaca, N.Y.: Cornell University Press, p. 7.

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EUSA Economics Interest Section Essay

Differences in Growth Patterns in the Euro Area¹

Patrick M Crowley
and
David G Mayes

ONE POSSIBLE OUTCOME from the process of European integration is that the member states could eventually become as similar to each other in economic terms as are the states in the U.S. or the provinces in Canada. This degree of similarity would enable them to reap all the competitive and efficiency gains from a large single market and would mean that single policies, particularly the single monetary policy, would tend to be more closely tuned to the needs of each of the member states. Following this hypothesis it is immediately apparent, however, that considerable variation will persist for the time being. The optimum currency area literature stresses that if, after the event, the parts of the monetary union do not converge fairly well on some average, then the more divergent states may face higher costs of adjustment. It is our purpose in this short article to explore how much the euro area countries do appear to be converging and how that might be reflected in their experiences with the single monetary policy.

Countries can diverge economically in a variety of respects. They can be subject to different shocks at any one time. They can respond differently to the same shocks. These differences in shocks and responses reflect differences in structures, different political and economic institutions, different tastes – the list is long. Many of these differences will offset each other. If the differences matter though, then governments will seek to offset them and people will change their behaviour and institutions to try to lessen the blow.

Here we look at a very simple indicator of the difference among the euro area countries – the rate of real economic growth. Establishing what the long-run rate of growth is likely to be is essential for running a balanced and sustainable macroeconomic policy that can cope with the impacts of events across generations. This concern is supplemented by another for the variations in the pattern of growth around these longer-term trends. First of all, it is difficult to distinguish a shorter run fluctuation from a change in trend until well after the event. This makes it very difficult to set fiscal and monetary policies that are designed to help smooth out fluctuations and stop short-run pressures from harming longer-run progress. Making the judgements correctly on the size and likely duration of such fluctuations is particularly important for member states or regions that are facing a deviation in the fluctuations and the appropriate re-

sponses to them are not symmetric above and below trend. A policy based on a simple aggregation across the euro area could then make it even more difficult for parts of the area that were showing the greatest deviations from the norm.

In trying to work out the position, researchers have traditionally tried to separate economic growth into three main components: a trend, an identifiable cycle and random (inexplicable) “noise”. In the case of the euro area member states, a business cycle lasting somewhere between three and eight years has generally been detected.

The main contribution of our analysis here is to suggest that this decomposition is over-simplistic and that we ought to consider whether there are differences among the euro area countries in fluctuations at other frequencies because many policies have their impact on behaviour more rapidly or more slowly than the traditional cycle. For example, monetary policy is generally thought to have its main effect over a horizon of one to two years. If the member states behave rather differently at these frequencies then this may have implications both for the setting of monetary policy and fiscal policy. If responses to a common policy are not the same then each country needs to think what this implies for structural and fiscal measures that can be varied at a more local level. Similarly, reversing the argument, if there are strong differences in the phase of a cycle across countries and responses are asymmetric (depending on whether the country is in an up or down phase, for example) then these need to be assessed in choosing the appropriate setting for an area-wide monetary policy.

The method

Three varieties of what is known as wavelet analysis are used to identify the frequency composition of the growth path through time – so extracting rapid fluctuations into a new series while at the same time extracting long cycles into another new series. This is done by “comparing” wave shaped functions (not necessarily symmetric) with the series under examination at a number of different frequencies. (A thorough introduction to wavelets and their use in economics can be found in Crowley (2005).) Although the mathematical background for this technique is quite complex, we do not need to include any of it here, as the analysis is very easy to show visually and is very intuitive.

The approach simply involves seeing what regular waves we can extract from the data at each possible frequency, building up from the basic interval in our data, namely, a quarter.² Thus we can look at cycles of length 1-2 quarter, 2-4 quarters, 1-2 years, 2-4 years, 4-8 years etc., each double the previous length until we reach the longest cycle that can be identified given our data period (8 years). Figure 1 shows a breakdown for the euro area aggregate. Here five different frequencies (which accord with wavelet functions at these frequencies) have

been distinguished, labelled d1 to d5, matching each of the 5 intervals described in the previous sentence.³ The sixth line shows the underlying trend (what is left over after extracting these cycles), labelled s5.⁴

The data

Our data set relates to real GDP for the euro area countries over the period 1970 to 2004Q2 (log-differenced to indicate growth rates). We also have data for Denmark, Iceland, Japan, Sweden, Switzerland, the UK and the US. The data are from the OECD database, with the exception of the US (US Bureau of Economic Analysis) and Switzerland (BIS). The euro area aggregate comes from the ECB Area-Wide Model database. Data are seasonally adjusted.

Results – comparing euro area member states

Our first task is simply to look at what this technique gives us. We do this first for the euro area aggregate as a whole. Figure 1 shows the output from “splitting out” or decomposing the original growth of real GDP into different frequency ranges. This decomposition of real GDP growth by frequency range gives some surprising results. First, the strength of the series representing the frequency ranges of 2-4 and 4-8 years appear to dominate the series, which tends to suggest that the frequency over which we observe the business cycle – roughly 3 to 8 years – is the most important element in GDP growth – but growth does contain other cycles as well. Second, the recessions in the euro area can clearly be identified (1974, 1982 and 1992) by dips in nearly all the series representing these frequency ranges, not just in the frequency at which we observe the business cycle. This tends to suggest that the other growth cycles in the data are important in collectively determining recessions. Lastly, all the series representing the frequency ranges were pointing upwards at the end of 2004, which suggests that growth was about to accelerate in the euro area, as indeed it has done.

Our second task is simply to consider how well the various wavelets match at the different frequencies to get an idea of the similarities in the growth cycles of the euro area countries. Figure 2 shows how well the individual countries’ wavelets are correlated with the same wavelets in the euro area as a whole. (Naturally the larger countries will likely have higher correlations because they form a noticeable part of the euro area).

The figure⁵ shows that for Belgium, France, Germany, Italy and the Netherlands, i.e. almost all of the original 6 member states of the EU, there is quite a close correlation at all frequencies, except the lowest. When we come to the next six countries (Austria is excluded and Switzerland included) there is very little similarity at any frequency. Portugal, Spain and Switzerland do show some correlation at higher frequencies, including over the monetary policy horizon. Finland is the least correlated – likely

because of the economic crisis it endured in the early 1990s – so this does not tell us how well correlated Finland is with the euro area cycles today.

Figure 3 on the other hand opens up a second important aspect of the relationship between the individual countries and the euro area by checking how the cycles are correlated as we lead and lag the individual country wavelets with the euro area ones. At lower frequencies, Belgium, France, Luxembourg, Greece, Portugal, Spain and Switzerland seem to have cycles that are fairly well in phase. Finland seems to lag it and Germany to lead it. Most countries show relatively similar phasing at all frequencies. Again Finland is a clear exception, as is Greece and in the case of Ireland some of correlations are even negative.

As we pointed out earlier, however, these correlations relate to the period as a whole. In the context of European integration it would be helpful to see whether the euro area countries have been becoming more correlated as time has gone by, as this is what we would expect. To do this a relatively recent time series technique known as Dynamic Conditional Correlation (Engle, 2002) is used.⁶ We can do this for the original data, shown in figure 4 for the group of core countries and then in figure 5 for the non-core countries. A visual inspection of figure 4 suggests that Germany has had consistently high correlations over the entire period, whereas France has had high correlations for the most part, but these occasionally dip towards zero. Belgium, Luxembourg and the Netherlands have had mostly positive correlations but Italy less so. One thing concerning business cycles that economists agree on, is that recessions tend to happen at the same time among countries, and apart from one exception this can be observed by looking at the value of the correlation during the recessions, which are identified on the charts by vertical lines. The exception, of course, is for France in the early 1980s where it is very apparent that France was out of step with the rest of Europe, and indeed this resulted in the famous “u-turn” in economic policy under the Mitterand government. In figure 5, Finland, Portugal and Spain now have more consistently positive correlations in recent years, but Greece and Ireland must give policymakers some cause for concern, as these correlations indicate that at times these countries have negative correlations with the euro area, and yet they are subject to the ECB’s monetary policy.

If we now look at 1-2 year cycles in figure 6 for the euro area core and in figure 7 for the euro area periphery, correlation is quite strong and seems to have improved for countries like Germany in recent years compared with the 1990s (which is probably driven by German unification), but once again the correlations for Finland, Greece and Ireland give some cause for concern, as they are either not always positive or erratic. Not only that but the relationship was more consistent over a large part of the ERM period up to the 1992 widening of the

system. This suggests that it might easily be possible to find periods over recent years where the appropriate monetary policy for Finland, Greece or Ireland individually would be quite different from that needed for the euro area as a whole. This material is from Crowley and Lee (2005), where the decomposition is also shown for other frequency cycles.

Results – the 3 largest euro area member states (I)

For the three largest euro area member states, Germany, France and Italy, we have taken this analysis a little further, and we illustrate it here for the case of the first two countries in figures 8 and 9⁷. We can see how well each pair of the wavelets for the two countries at each cycle length compare with each other using a measure from spectral analysis called magnitude squared coherence or MSC (Figure 8).⁸ This measures the similarities (accounting for lags) between the cycles at play at any given frequency. In the case of the shortest interval shown, 2-4 quarters, coherence remains fairly limited, although we see a period in the 1970s when coherence was rather higher. This is likely somewhat misleading as it reflects the first oil shock which had a dominating influence on the two countries, making all other sources of variation trivial by comparison. It is somewhat debatable whether we want to know how well countries move together in the face of abnormal shocks or in normal times. If they do not cohere in normal times then policy faces an enduring problem. On the other hand if they do not cohere in the face of major shocks then this is potentially a much more serious problem. Our analysis does not attempt to filter out shocks.

The striking feature of the graphs however is the strong coherence of the 4-8 year wavelets, the increasing coherence of the 2-4 year frequency cycles since the 1983 policy change in France and the rapid increase in coherence even in the 1-2 year frequency cycles since the initial disturbance from unification in Germany. At the same time, as is clear from figure 9, it is not simply that the cycles are similarly shaped but they are increasingly synchronized, even for the very high frequency cycles. It is worth noting in passing that there are sudden switches from being a long lag in one cycle to being a long lead on the next if the length of the cycle, at a particular frequency is not the same in both countries. This is noticeable in 1970 for the 2-4 year cycle and at the time of unification for the 1-2 year cycle.

A similar profile is observable between Italy and Germany, although at all but the 2-4 year cycle the coherence is weaker, especially in the shortest cycles. The relationship between Italy and France, however, appears to have been getting closer at all frequencies much in the same way as for that between France and Germany. The exception is the 1-2 year frequency cycles, which has become less coherent since the start of the euro

area. That could eventually pose a problem for ECB monetary policy if it persists.

Results – the 3 largest euro area member states (II)

We turn now to another technique called the continuous wavelet transform or CWT (- see Maraun and Kurths (2004) for technical background on this method). This less well-known approach is to look at all possible frequencies in a continuous framework. It is somewhat more difficult to use but it is visually quite compelling, as can be seen in the case of France vs Germany, shown here in figure 10. The colour code at the side shows a colouration scale that corresponds to the measure of MSC estimated at any given frequency. Thus the redder sections suggest the emergence of similar and in the limit, almost identically shaped cycles. Business cycle frequencies are shown by the interval between the two dotted lines and the cone (pointed arch) drawn on the chart contains the area where we are most confident about the results (there are some technical problems in estimating the MSC outside this cone), so the area outside it is rather more tentative for any interpretation. Perhaps the most we can say, therefore, about the top right-hand part of the picture is that something seems to have changed.

Here the analysis starts with France and Germany in figure 10. We then need to compare these experiences. We show this for the other possible pairings in figures 11 and 12. In the top part of the figures which look for coherence in the wavelets in each pair of member states, the red area suggests strong coherence (very similarly shaped cycles) and the green and blue areas increasing difference. Thus taking the Franco-German pairing first, there have been a number of occasions over the years when the countries have differed in the higher frequency cycles. The clear discrepancy in the middle of the figure at business cycle frequencies probably relates to the period in the 1980s when France clearly changed its policy. The period since the creation of the euro has however been characterised by very considerable coherence except at the lowest frequencies. While this lies outside the region where we can speak with great confidence, this is likely to reflect the difference in growth rates that has more recently begun to affect the German economy.

The bottom half of the figures indicates how much the cycles are in phase (or synchronous). Thus moving towards darker blue and then purple indicates a lead, while lighter greens moving towards yellow and red denotes a lag. Thus, with the Franco-German picture, for a period in the 1970s, France tended to lag Germany at almost all frequencies. The 1980s shift resulted in a lead at business cycle frequencies, which has tended to die away more recently. At higher frequencies, the impact of

unification in Germany is obvious but in general cycles seem to be quite closely in phase.

For the comparison of Italy and Germany, the increased coherence and close phasing of cycles in recent years at all frequencies is very obvious (as is the effect of unification). However, in the early years Italy showed a strong lead over Germany at short and business cycle frequencies, which was reversed in the 1970s and early 1980s, although at the same time the cycles became more coherent, as is clear from the top half of the figure.

The remaining comparison between Italy and France follows. The change in French policy in the 1980s stands out; there is no unification effect and cycles in the euro area era have been quite coherent and relatively in phase. In lower frequency cycles, Italy appears to show some lead.

This use of continuous measures thus appears to give a similar set of results to that from the discrete methods in the previous section. However, it does suggest that there may be some differences emerging in trends that have not been picked up by the previous method of analysis.

Concluding Remarks⁹

Taking these various analyses together we can see that there is considerable similarity in the cycles of the euro area countries, particularly at cycles below and at business cycle frequencies, and this similarity is likely increasing. The similarity is greatest among the countries that were members of the EC from the beginning. Belgium and France show clear correlations with the euro area as a whole at all frequencies; Germany, Italy and the Netherlands have clear positive correlations except in longer cycles. Luxembourg, along with Portugal and Spain show less relationship to the euro area, very much at a par with non-members such as Switzerland and Denmark. Finland, Greece and Ireland show little correlation.

In general, cycles are quite well synchronised and Belgium, France, Germany, Italy, the Netherlands, Portugal and Spain are quite well in phase. Denmark, Sweden and the UK, which are not in the euro area, are quite well in phase with it at high (but not low) frequency cycles. For Greece and Ireland it is the other way round with low but not high frequency synchronisation. Finland shows poor synchronisation at all frequencies. However, to quite a large extent this reflects the Finnish crisis of the early 1990s.

If we look at how the relationships have been changing in recent years there are some interesting findings. If we take the data as a whole there is no apparent convergence inside the euro area, although Denmark appears to have converged towards it. However, once we divide the picture into the various different frequency cycles

there are some more obvious examples of convergence in the post 1999 period compared to the position in the previous decade. Finland, France, Germany, Ireland, Portugal and the UK have shown a clear increase in similarity in the 2-4year frequency. The same is true for France, Germany, Greece, Ireland, Luxembourg, the Netherlands, Denmark, Sweden, Switzerland and Japan at the 4-8year frequency. Given this includes three non-euro countries and one non-European country it is clear that convergence should not necessarily be equated with adoption of the euro, although clearly we would expect a common monetary policy to begin to impact cycles in growth in euro area member states after 1999. Lastly in the long-term trend there are significant movements in both directions. Belgium, France, Greece, Italy, the Netherlands, Sweden and the UK have moved closer. Whereas, Germany, Luxembourg and Denmark have moved away from the euro area pattern.

Finally, if we turn to the more detailed analysis of the convergence process across time of the three largest members of the euro area, there is a large degree of coherence at conventional business cycle frequencies between the three countries, although the coherence measure is not always significant. Further, and importantly for monetary policy, these cycles are largely synchronous. Coherence at other frequencies is less consistent, with low coherence often found at higher frequency cycles. Phasing at all frequencies appears to be less of an issue between the Italian and French economies, but perhaps this is hardly surprising, given the fact that Germany was the anchor of the ERM of the EMS and also experienced the exceptional circumstances surrounding the reunification of the country in the 1990s. In terms of similarity of cycles and phasing, Germany and France appeared to have been more closely associated with each other than with Italy during the late 1960s and 1970s. In terms of more recent trends, although there is increased uncertainty associated with the results, it is clear that coherence is currently increasing between the three countries, albeit during a slowdown in all three economies when common turning points of the business cycle might be expected. Phasing at all frequencies seems to be roughly synchronous, suggesting that ECB policies are not going to differentially impact any single country differently. It is likely that monetary policy will be unable to respond to differences in cycles at other frequencies, however, although clearly these cycles are important in terms of growth dynamics, as was shown by the wavelet power spectra plots.

As for future developments, as synchronicity is an important issue in the timing of business cycles, ECB monetary policy could perform the function of a 'coupler', aligning synchronization of cycles between these countries. But ECB monetary policy will not cope with idiosyncratic developments, which could 'decouple' the

synchronicity of business cycles – but in all cases where these could be identified in this study, the impact of these events was confined to cycles at frequencies shorter than the business cycle.

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Notes

¹ This article draws mostly on Crowley and Lee (2005) and Crowley Maraun and Mayes (2005).

² The wavelet method we choose is known as the Maximal-Overlap Discrete Wavelet Transform (MODWT).

³ The wavelets we have used are relatively symmetric.

⁴ The letter s is used because the trend is often described as the wavelet smooth. The wavelet literature is riddled with jargon, which we try to avoid while possible here.

⁵ Here on the horizontal axis the labels refer to the beginning of the frequency range under consideration, so for example the point and bar above 2 refers to the correlation between the 2-4 quarter frequency cycle series.

⁶ This approach involves using a VAR of the country and euro area growth processes at each frequency to generate a GARCH

regression.

⁷ This material comes from Crowley, Maraun and Mayes (2005), and uses a technique first developed by Craigmile and Whitcher (2004).

⁸ We use 16 quarter moving windows in making the comparison.

⁹ Much of this section is taken from Crowley and Mayes (2005).

Figure 1 Wavelet decomposition