



## Free movement of labor within the EU-25?

**The** migration debate in the United States has come to dominate much of the political discussion. Are migrant or immigrant workers good or bad for the U.S. economy? Should labor migration be encouraged or thwarted? And what should the U.S. government do about those immigrant (or migrant) workers already in the United States?

The temptation is to view this debate as uniquely American. Nevertheless, it exists in Europe as well – but with a twist. The free movement of labor is a basic commitment in the process of European integration. European Union (EU) member states take as given that they will benefit from the exchange of populations (or at least they did when the EU was only fifteen member states). Now that the Union is larger, the issues of migration and immigration take on new meaning.

The second anniversary of the so-called big bang enlargement of May 1, 2004 – when Cyprus, Malta and eight post-communist countries joined the EU – has been marked with media reports asking one basic question: have the lives of the citizens of the new EU members changed, and if so how? Many of the EU newcomers have seen enviable economic growth, with the Baltic States at the top of the list with annual GDP growth on average exceeding 7% (for 2004-2005). Prices have risen but wages are lagging behind. Money from EU coffers, formally called EU structural funds, is being spent on regional development and infrastructural improvements. Finally, a number of citizens from the new EU have moved to work in Western Europe. Yet their movement is not unfettered. Only three out of 15 old EU members opened their labor markets to the EU newcomers in 2004. Now the time has come for the other member states to decide whether to open their doors as well. Such deliberation necessarily brings the questions of migration and immigration to the fore, both in the older member states and in their newer counterparts.

### **Expectations**

Before the enlargement numerous studies tried to predict the amount and nature of labor migration to the rich EU from the much poorer Central and Eastern European neighbors, basing their conclusions on immigration data from the 1990s.

According to a study by the European Commission, annual net immigration from the Central and Eastern European countries (CEECs) reached its peak in 1990, with more than 300,000 people originating from Central and Eastern Europe (CEE) moving across borders to reside in the EU-15. After 1993, net immigration flows from CEECs declined sharply, but the stock of immigrants continued to rise, and by 1998 the number of CEE nationals residing in the EU was an estimated 870,000 persons, constituting a 0.2% share of the EU population. The most popular receiving countries were Austria and Germany, due to their open policies towards the CEECs' workers in

the mid-90s. Data from 2003 confirmed the same tendency, as around two thirds of the total of 400,000 CEEC nationals residing in EU-15 had chosen Austria and Germany as host countries.

Researchers did not expect dramatic changes after the May 2004 enlargement. Under the condition that no restrictions for the access to EU-15 labor markets would exist, the annual immigration from CEECs would reach 300,000-350,000 people (or 2-4% of the source population of the CEECs) in the first years following the big-bang enlargement. Cumulated over 15 years, the absolute net number of migrants was estimated at around 3 million people, or about 1.2% of the projected working-age population of the EU-15 in 2020.

Looking at these numbers, public debates relating to opening labor markets to all citizens of the new EU members focused on speculation that nationals from the much poorer CEECs would take away jobs from EU-15 nationals, push wages down and in general have negative consequences for the economies of EU-15. Certainly, the large gaps in per capita income and wages (in combination with geographical proximity and established historical and cultural ties) provide high incentives for East-West mobility. As to income differences, the Economist Intelligence Unit in 2003 calculated that the new EU members would need between 21 and 59 years to reach the average EU-25 living standard. Some of the newcomers, notably Poland and Slovakia, which are neighbors to the old EU members Germany and Austria, had very high unemployment levels as well (exceeding 18% in May 2004).

Much of the European public expected that CEECs' nationals would become a burden for the welfare states of the old EU. According to a 2002 survey by Eurobarometer (which commissions public opinion surveys in the various member states for the European Commission), half of EU citizens believed that migrants were already abusing the welfare state. This perception ignored the fact that access to social benefits is restricted according to national rules, which are not harmonized in the EU. Thus each country may limit access to non-contributory social-welfare payments.

Moreover, migration experts predicted that rather than permanent one-way migration, the old EU would see a predominance of short term, circulatory movements backwards and forwards across borders. In other words, a person would make frequent short-duration trips to earn a living in EU-15 while maintaining a home in the country of origin. This was partly due to the character of work permits available. Most of them were temporary since many workers from CEECs were expected to be employed in agriculture, tourism, construction and private household services.

As to economic implications, some experts suggested that migration from Central and Eastern Europe would lower future wage increases in EU-15 for low-skilled workers in labor-intensive sectors such as manufacturing or construction. Others suggested that migrants could even reduce unemployment by lowering wages in the regions where the pool of job seekers is largest. For those who feared wage convergence (with wages in EU-15 going down rather than wages in the CEECs going up), experts stressed that it was driven by trade, not labor immigration. One has to bear in mind

that, with the exception of Poland, the CEEC populations are small and thus could not substitute a sizable amount of workers to influence the market significantly.

However, economists agreed that free movement of labor would be beneficial for the whole EU for various reasons. First, CEEC nationals could help many regions that lack sufficient supply of labor in various sectors, especially in healthcare, engineering and public services. With EU-15 nationals proving increasingly reluctant to take on jobs that are dirty, difficult, or poorly paid, CEEC nationals could meet the needs of service-based economies demanding flexible workers. Second, and most important, every migrant worker not only earns individual income, but also contributes to the growth, including an increase in the per capita income, of his or her host country. After all, every legal employee not only pays taxes but also adds to local consumption (he has to rent a place to live, pay living expenses, eat, etc.), thus increasing demand that as a result has to be met by increased supply, i.e. higher production that translates into higher growth. To be fair, there were concerns about short-term adjustment problems for the labor markets of Austria and Germany, the countries that had attracted most CEEC nationals in the past. Particular attention was given to commuting to the Austrian capital Vienna, which is within driving distance from the Slovak and Hungarian capitals. Commuting to Vienna, and also to other Austrian as well as German cities, would allow the combination of high wage levels in Germany and Austria with the low cost of living at the original place of residence.

However, experts agreed that limiting the free movement of labor from the new member states in Central and Eastern Europe would lack economic rationale and not solve the problem. Instead, any restrictions would only delay the overall movement of workers and, in the meantime, drive labor migration into the black market.

### **Restrictions**

Most national governments of the old EU disregarded this advice, seeing as how from May 2004 only Sweden, Ireland and the UK applied one of the fundamental principles of the EU, i.e., the free movement of labor for all EU newcomers. In practice that meant that the citizens of the ten new EU countries (like anyone from the old EU) could also look for jobs and go to work there without facing any discrimination or restrictions.

Meanwhile, Greece, Spain, Portugal, France, Germany, Austria, Italy, Belgium, Luxembourg, the Netherlands, Denmark and Finland continued to apply pre-enlargement rules for workers from Poland, Hungary, Slovakia, Slovenia, the Czech Republic and the three Baltic States (EU-8). No special measures were imposed on the citizens of Cyprus and Malta (although Malta was allowed to protect its small labor market from other EU nationals until 2011). As for the citizens of new Central and East European member states, they still had to go through the time-consuming procedure of applying for work permits. The regimes for granting such permits are not coordinated; therefore, they differ from country to country. Some countries have annual quotas; others use bilateral agreements permitting limited number of workers from EU-8 in certain sectors, such as construction, information technologies or agriculture. In any case, no country could impose rules that would be stricter than the

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ones already in place before May 2004. For example, if Germany gave 2000 work permits to construction workers from Central and Eastern Europe in 2003, it could not cut this number after May 2004, allowing those citizens from CEECs that already were employed in EU-15 before May 2004 to continue working there.

It has to be stressed that no discrimination could be applied once an EU-8 citizen had started legal employment. In other words, as soon as she receives a work permit she is entitled to the same rights as the nationals of the country of her residence. This means equal treatment with respect to remuneration, social and tax advantages.

Old EU members were to give preference to workers from new EU member states over nationals from the so-called third countries, i.e. non-EU countries. Similarly, there were no restrictions on citizens from Central and East European member states regarding their right to establish businesses in the old EU. Moreover, only Germany and Austria were permitted to restrict access to their service markets, thus limiting the possibilities for the neighboring Polish, Czech, Slovak, Hungarian and Slovenian companies to post their workers temporarily across the old EU border. At the same time, the governments of the CEECs were allowed to impose reciprocal restrictions on labor flows from the old EU; however, only Hungary, Poland and Slovenia did so. All ten new EU members opened their labor markets to fellow newcomers.

All restrictions for access to labor markets were in line with the Accession Treaty, according to which any EU country could protect its labor market until 2011, with two interim deadlines that would allow a review of the situation and a possible lifting of the protective measures.

## Results

Some months before the first deadline (April 30, 2006) the European Commission issued a report analyzing the situation in the old EU countries' labor markets.

First, the report concluded that the immigration from EU-8 had been lower than foreseen. With the exception of Austria and Ireland, in all the other old EU countries nationals from the new member states represented less than 1% of their working age population. Based on official statistics for 2005, in Ireland, which received the highest number of newcomers, 3.8% of its working age population were citizens from the ten new EU countries. In Austria the figure was 1.4% even though it was one of the countries that had not opened its labor market. Therefore, the report revealed that the restrictions did not keep EU-8 workers out of the so-called "closed" old EU countries. In other words, the restrictions did not have direct effect on controlling labor migration from the new EU members. Instead, mobility flows were driven by factors related to supply and demand conditions.

Second, the report concluded that the effects of such labor migration on the EU-15 were less important than foreseen, given the relatively small numbers of workers from the new member states residing in the old EU.

Third, the report said that Ireland, Sweden and the UK had experienced positive effects like high growth, a drop in unemployment and a rise in employment. There was no evidence of welfare tourism (although it is clear that the threat of such abuses has been bandied about in the media). At the same time the report suggested that the 12 EU countries that had restricted access to their labor markets could have faced undesirable side-effects, such as higher illegal employment numbers and bogus self-employed work. In other words, many citizens from the new member states had used alternative employment possibilities that gave the host country less or no income tax revenues.

Regarding the nationality of the workers from the new member states that chose to go to work in the old EU, around two thirds came from Poland (according to Polish Ministry of Labor, over 400,000 people went to work in EU-15 in the first year after EU enlargement). The majority of the last third is composed of Lithuanians, Latvians and Slovaks. The GDP per capita of all these four countries is about 50% of the EU-25 level. In addition to that, Poland and Slovakia have very high levels of unemployment – exceeding 18% in May 2004. They have large rural sectors, and consequently a large pool of low skilled workers eager to take up jobs in the old EU that may be unattractive to the local population.

### **Reservations**

Following the report, Vladimír Špidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, recommended that the restrictions on the movement of workers from Central and Eastern Europe to other old EU countries should be reconsidered. Nevertheless, only Finland, Spain, Portugal and Greece opened their markets as of May 1, 2006. France, Belgium and Luxembourg are abolishing work permits only in sectors where they face labor shortages, thus cherry-picking which workers to admit. The Netherlands plans to open up its labor market in 2007, although the national parliament will take the final decision and might refuse the government's initiative. Denmark will gradually open up until 2009. Italy has doubled the quota for work permits issued to foreigners. Only Austria and Germany continue to maintain the same restrictions as from May 2004, and they intend to keep their labor markets regulated until 2011.

Thus, most governments of the EU-15 are continuing to ignore the fact that easing labor migration is for their own benefit, because any legal employee contributes to the growth of the host country not only by paying taxes but also by consumption. For example, a British study has suggested that additional workers from Central and Eastern Europe would boost UK growth by 0.2% in 2006 and 0.4% in 2007. Moreover, the governments do not seem to have learned the lesson that restricting labor mobility does not stop it, and instead gives incentives for illegal employment, which results in foregone tax revenues.

The main reason for such government decisions is the exaggerated sensitivity towards public opinion. Following the rejection of the European Constitutional Treaty in the Netherlands and France, cabinets all over EU-15 are striving to be closer to their people, i.e., take decisions that are in line with what the public thinks. But the public

fears uncertainty about the future as a result of globalization and the necessary adaptation to the problems of the old continent – the aging population and the economies in recession. This background gives strength to trade union allegations about massive job losses to CEEC nationals, while the benefits of EU enlargement to their economies are largely ignored. As a result, politicians wary of losing short-term political capital have not shown much courage in explaining the necessity and advantages of opening up local labor markets.

## Future

As wage levels in CEECs and EU countries start approaching the same levels, even the marginal migration potential from the member states that joined in May 2004 will decline. The costs of migration will outweigh the benefits before wage levels equalize with the EU. Therefore the countries of Central and Eastern Europe might soon become recipients of labor migration. Moreover, debates about outflow of human capital are high up on the agenda. Findings that many jobs taken by CEEC nationals in destination countries are of a lower qualification level than those left – for example, a bank clerk picking strawberries in Ireland – are slowly forcing national governments to think of incentives for their citizens to stay home.

With the accession of Bulgaria and Romania in sight (planned for January 2007 but may be delayed until 2008), a similar debate has started on whether to open EU-25 labor markets to Bulgarians and Romanians. No final decisions have been taken. However, imposing restrictions seems likely as even Ireland and the UK – the economies that have been most open to foreign workers – have hinted that they could limit free movement of workers from the 26<sup>th</sup> and 27<sup>th</sup> EU member states with approximately 30 million inhabitants in total. Even some of the Central and East European member states have indicated they could play hardball against the yet poorer Romania and Bulgaria, although some research suggests Romanians and Bulgarians would prefer Italy, Greece and Spain, which already have relatively large communities of compatriots.

Regarding Turkey's possible EU membership, there have been announcements that Istanbul might face permanent restrictions in this field. However, the accession negotiations that started in autumn 2005 will take several years. It is too soon to tell what measures could be taken to regulate the immigration from Turkey, with approximately 70 million inhabitants and large expatriate communities in Germany and Austria.

Like the United States, the European Union faces an important debate over migration and immigration. That debate will intensify so long as the process of EU enlargement continues. U.S. politicians may have the luxury to imagine a time when immigration slips out of the public debate. However since the free movement of peoples is woven into the fabric of European integration, EU politicians cannot.