LABOUR MOBILITY IN THE ENLARGED EUROPEAN UNION

The free movement of persons, especially free movement of labour, is one of the most controversial issues in the debate on EU enlargement. It is widely regarded as the main reason why current European Union member states (MS) may not in the end want new members from the eastern part of Europe. Those who are opposed to enlargement argue that strong waves of immigration from Central and Eastern Europe (CEE) would ‘swamp’ western labour markets and make heavy demands on public resources. But even some impartial analysts concede that free movement of workers in an enlarged EU would lead to increasing xenophobia within the MS.

However, shortages of labour in certain sectors in the EU combined with the view that absorption of new Eastern European workers would speed up economic progress leading to new jobs may change the political context. For the moment, the European Commission is wavering on the labour mobility issue. EU officials feel they may not need to impose any limitations on Central and Eastern European nationals wanting to work within the EU. All the data on migration suggest that migration flows from the Central and Eastern European countries (CEECs) to the EU are not huge and will probably increase only a little.

This paper will question the notion that admission into the EU will bring about large migration flows to current EU member countries. It also argues that the economic effects of labour migration are rather small, if not slightly positive. And that, therefore, the migration issue should be given reasonable, but not excessive weight in current and future debates regarding the timing and process of EU enlargement.

THE DEBATE

The fear of unmanageable flows of migrants from east to west among the European population is not surprising. The 10 candidates represent an increase of the EU area with a total of approximately 1.1m square km – 33% of the current EU area – and a population of more than 100 million people – over 25% of the current EU population, while the enlarged EU’s total GDP will grow by no more than 5%. These fears are reinforced as a result of unfortunate experiences with previous labour immigration. Germany and France for instance have not yet fully overcome the social consequences of importing hundreds of thousands of ‘guest workers’ during the boom of the 1950s and 1960s.

In addition, labour migration comes with unpleasant political baggage. Any new plans for free movement of labour arouse bitter opposition from specific interest groups as they rather feel threatened by immigration than society as a whole. Politicians tend to adopt policies to protect their clientele. They will therefore try to delay, or even prevent, the free movement of CEE workers as far and as long as they can. Recent events in Western Europe confirm this. After the German IT sector called for workers to be brought in from India and CEE to fill the gap in the German IT labour market, politicians and trade unions protested. They oppose the ‘Green card’ scheme using the slogan ‘more training, not more immigration’. Furthermore, immigrant workers are accused of depressing wages by excepting lower salaries.
Ironically, restriction on labour movement might in fact be rather advantageous for the CEECs. From an economic viewpoint, in the current economic climate free movement of labour would be profitable for the receiving countries and harmful for the sending countries. Importing highly skilled human capital could eventually support economic growth in the CEECs. Conversely, it would represent a net loss for the CEECs. It is paradoxical that they are demanding equal rights on labour mobility in regard to their western counterparts. Nevertheless, political leaders of the CEECs are right in their claims, but for different reasons.

The advantages of free movement of labour in the enlarged European Union are so obvious that it is hard to a logical case against them. The economic case for restriction is especially weak. Immigrant workers have a rather small impact on current unemployment and wage levels and pressure on public resources. Rather, labour immigration contributes to growth in the EU and is necessary to remedy shortages in the economy, for example in the vital information technology sector. Moreover, the EU has an age structure that is less and less able to support its welfare systems. That is why the UN recommends intake of migrant workers. Finally, some economists argue that a severe lack of labour mobility within the EU – whether enlarged or not – is one of the major problems the Euro-zone is facing.

WHAT SORT OF MIGRATION?

Broadly speaking, there are four major components of migration inflows into EU countries: workers, family members accompanying workers, family reunification and refugees. Within the category of workers there are three broad types of labour-related migration flows associated with the CEECs:

(a) Flows of workers with medium and high skills – largely scientists and professionals – migrating from CEE to the EU. (b) Flows of workers with low and medium-level skills moving from east to west within CEE and also from the Former Soviet Union (FSU) to the CEE. (c) Flows of highly skilled workers from the EU to CEECs, consisting mainly of managers and entrepreneurs engaged in foreign direct investment.

It is useful to distinguish between temporary and permanent movements of workers as well. Temporary labour migration typically involves single persons working in the host country repeatedly for short time periods and entail less integration and greater response to labour market conditions. Permanent migration, however, has additional consequences for the host country, as family members are likely to accompany the worker. Usually permanent migration results in greater integration in terms of taxes and benefits compared to temporary workers and immigrants because they are less likely to consider return to their country of origin.

TRENDS OF MIGRATION IN EUROPE

Since 1989 three trends in east-west migration flows can be distinguished (OECD 1998).

(a) Migration in the CEECs and in countries of the FSU is dominated by east-to-west flows rather than south-to-north flows common to the EU. Within the east-to-west migration there has been an increase in migration from CEE to the EU, but also
increased inflows to CEE from the FSU. East-west migration flows are currently at levels lower than those registered between 1989 and 1992. They continue to reveal the predominance of certain nationalities and the relative importance of certain host countries. The main sending regions are the FSU (Belarus and Ukraine) Romania, Poland, and Bulgaria. To these may be added former Yugoslavia and the Baltic States. OECD figures suggest that Germany is the EU country with the highest incidence of foreigners from CEE, both in relative and absolute terms. It is followed by Austria, Sweden, the Netherlands, Greece and Belgium.

(b) While permanent emigration from CEE to the OECD countries is declining, temporary migration of workers from east to west is developing fast as well as that within the CEE. Poles, mainly destined for Germany and Austria, dominate temporary labour migration. In Austria, data indicate that, in 1995, nationals from the Czech Republic, Hungary, Poland and Romania accounted for about 23% of work permits, which allow up to two years of residence. Nationals from CEE accounted for about one fifth of the short-term work permits in Austria, but barely for 4% of the permanent permits.

(c) Regional migration movements between CEECs and immigration flows to the CEECs, considered entirely, are growing. The largest flows to CEE are from former Yugoslavia and SU. Poland, Hungary and the Czech Republic attract transit migration, largely as a result of their relative higher wages, the convertibility of their currencies and the relative lower levels of unemployment. Only a certain number of those transit migrant actually succeed in emigrating to the west – mainly to Nordic countries, Germany and Austria – while many remain in the country of transit or return to their country of origin.

**CAUSES OF LABOUR MIGRATIONS**

The main causes of migratory movements from east to west are the evident economic discrepancies between east and west in Europe, combined with the critical situation in the Balkans and the impact of accelerating globalisation. More specifically, causes for labour migration can be divided in push factors (the search for jobs and higher incomes by CEE and FSU workers) and pull factors (operating where immigration serves western needs and interests). The effect of both push and pull factors is mitigated by constraints on further increases of east-to-west labour migration.

1. **Push factors**

   The geopolitical factor is probably the most important, particularly wars in areas such as former Yugoslavia, Armenia and Georgia. In Hungary there are, more than 50,000 refugees from former Yugoslavia, most of who have received temporary residence permits. Unemployment appears to be the second strongest push factor for migration. The Slovak and Czech Republics exemplified this in 1996. Although the standards-of-living differences between the two countries were negligible, the unemployment rate differential was almost 10%.

2. **Pull factors**
(a) *Unemployment rates, standards of living and wages* – those are the most important pull factors. The likelihood of finding a job abroad, the difference of relative per capita income (differing wages and wealth expectations) and large income differentials, together with the cost of moving, all stimulate migration. For example, Poland and the Czech Republic particularly attract transit migration from the FSU, largely because of their relatively higher average wages. In addition, for Central and Eastern European nationals the choice of temporary migration versus permanent settlement is influenced by differences in purchasing power of their earnings depending on where they are spent. What immigrants earn in the west is worth more when spent in the east. Temporary work in the west accompanied by savings is often preferable for CEE nationals to permanent settlement of the whole family in Western Europe.

(b) *Migrant network effects* are very important in the rise of migration movements. The more immigrants live in a particular country, the more likely it is that they attract further immigrants into that country.

(c) *Geographical proximity* of the immigration country is a third pull factor. The financial burden of moving as well as the cultural strangeness of the immigration country is assumed to have a migration reducing effect. In all, distance seems to have a negative effect on net migration.

(d) *Demand for labour.* In Western Europe it is both demand for specialised labour and for cheap labour in urban or border regions that attract CEE workers.

### 3. Constraints on emigration/immigration

In total there are five factors that inhibit labour migration:

(a) *Demography.* The traditionally higher birth and fertility rates in CEE underwent a dramatic reduction after 1989. Demography trends – especially in the Visegrad countries – begin to resemble those in the EU countries. From the point of view of labour market consequences for migration, lower birth rates of foreign residents will in the long-term result in lower labour market pressures.

(b) *Possible absorption of the potential labour migration in CEE.* It is possible that the differentiated structure of the CEECs themselves will absorb some migration flows. Absorption may be enhanced by lower job competition in the eastern part of the enlarged EU and by the geographical proximity and cultural similarities. Evidence of absorption can be found in immigration and emigration statistics for CEE. Of the total emigration from Romania during the period 1991-1995, 41% of migrants went to Germany, 9% to Austria, and 13% to Hungary. The Romanian-Hungarian relationship is seen in the share of refugees received in Hungary for the period 1988-1993, with 41% percent coming from Romania. Among the total number of valid work permits in Hungary between 1992 and the first half of 1996, about 50% were issued to Romanian citizens. Similar absorption processes are found, for example, between Ukraine and Poland on one side and the Czech and Slovak Republics on the other.

(c) *Conditions prior to EU membership may dilute incentives to emigrate.* Differences in standards of living will be reduced by the prior-to-accession requirements on GDP and other economic indicators of the joining countries. In fact, some of the prospective member countries are already projected to achieve the same standards as some of the weaker EU countries. This will both dampen the incentives to emigrate.
and also diminish the number of countries where substantially higher living standards could be achieved through migration.

(d) Experience of previous enlargements. The experience of previous enlargements shows that massive migration simply does not materialise. When in 1957 the Benelux countries, Germany and France joined Italy to build the EEC, the Germans and the French were afraid of being swamped by Italian ‘guest workers’. However, for a very short period of time some Italians did go North to become ‘Gastarbeiter’ in Germany. A larger proportion of southern Italians decided to migrate to the fast developing North, not even thinking about moving outside Italy. When in 1981 Greece, and in 1986 Portugal and Spain, became members of the EC, northern EC country members again worried about the south-north migration potential. And again, the Portuguese and the Spaniards as well as Greeks failed to follow conventional prejudices. Only in limited numbers did they move into northern member states. Most stayed at home.

(e) Settlement tradition in the CEECs. When looking at the population in CEE, it can be argued that internal mobility of people within the countries is low even if it is growing. The figures in three Visegrad countries (Hungary, Czech Republic and Slovakia) illustrate that internal mobility – change of permanent residence – are in general not higher than comparable indicators for Western Europe. Furthermore, about 70% of the movements are realised within the same administrative region. Therefore, expectations concerning high mobility of CEE population in the future may be challenged on these grounds.

Another study (IOM, 1998) confirms this view. The results here indicate that it is crucial to distinguish between short-term labour migration and long-term permanent emigration. The former was almost exclusively preferred by the inhabitants of the ‘first wave’ countries and Slovakia, indicating that the people wish to move and work abroad only temporarily in order to exploit the wage differentials. Inhabitants of countries such as Croatia, FYR and Ukraine preferred the latter option of permanent emigration. The key factors pushing the inhabitants of these countries to permanent emigration are ethnic tensions and extreme poverty. These facts imply that the migration potential of the first wave of candidate countries will be limited mainly to short-term and short-distance labour migration, which is likely to diminish with the decreasing income differentials.
POSSIBLE CONSEQUENCES OF FREE MOVEMENT OF LABOUR IN AN ENLARGED UNION

1. Estimated migration rates within an enlarged union

A recent study (H. Hille, T. Straubhaar, OECD, 2000) has tried to form expectations about the amount of migration between the CEECs and the EU. The study assumed that:

- The experience of enlargement with the southern European countries, in the first few years after free labour mobility was permitted, is exemplary for the CEECs.
- Free mobility of labour between the EU and CEECs does exist.
- The average unemployment rates in the EU are 10.5% and 15% in the CEECs.
- There is a stock of 1m CEEC-citizens in the EU.
- The distance between two geographical centre points in the EU and the CEEC is averaged 1500km.
- The income differentials values are between 40-70%.

If free mobility of labour was permitted in the enlarged EU, the results of the study suggest a net immigration from CEE into EU. Under the current economic conditions, this would mean that in absolute numbers between 270,000 and 790,000 immigrants a year would leave the CEECs. At first sight, this seems a lot. But consider that for an immigration region like the EU, consisting of approximately 380m inhabitants, the calculated migration flows would amount to 0.03 – 0.2% of the population. Effects of immigration are, therefore, likely to be rather small. For the CEECs as a net emigration region, a departure of 0.27-0.8% of its labour force would, in contrast, be quite substantial.

Other studies on migration come to similar results. A recent study of the Swedish labour market (Fisher, 1999) found out that in northern Europe, international labour mobility accounted never more than 0.5% of the population a year. Another study (Franzmeier and Brücker, 1997) argues that, for each 10% income differentials between the CEECs and the EU, there will be a net migration rate of 0.08% of the CEECs population p.a. With an income differential of 50% this would accrue to a net migration rate of 0.4% a year.

2. Brain drain

The negative effect of the emigration of skilled people on those left behind is called the ‘brain drain’. By definition, brain drain is the permanent emigration by qualified persons. The outflow of highly skilled workers from the CEECs is claimed by some as being detrimental to their economic growth. The argument here, based on empirical evidence, suggests that immigration is self-selective. For example the share of highly qualified persons among foreigners residing in Germany exceeds the share of highly qualified persons among the German population. East European migration to Germany caused the average level of human capital in Germany to increase, whereas the opposite effect occurred in the sending countries. This is the classical case of the brain drain (M. Wolburg and T. Straubhaar, 1998). Therefore, east-west brain drain does not harm receiving – on the contrary it is a gain for the EU countries – but will,
rather, be an economic loss for the sending CEECs. Consequently, as the CEE sending countries would be harmed by a too-fast and too-far reaching liberalisation of movements of labour, it would be in their own interest to postpone the right of free movement of workers within an enlarged EU until emigration incentives are sufficiently low to avoid negative impacts on their own welfare. It is, therefore, paradoxical that the CEECs consider free movement of people and equal access to work as one of the most important benefits of EU membership.

However, neo-classical economists argue that migration of highly qualified persons contributes to an efficient allocation of resources and is, thus, desirable. Migration is therefore, a positive mechanism and an arbitrage process that overcomes local surpluses or scarcities in the factor endowments. It is a necessary mean to achieve factor price equalisation and it enhances the welfare of all countries involved – though probably not for some vested interest groups including those already employed in the immigration country. However, when other macro economic factors are taken into account (externalities, unemployment, etc.) the evaluation of brain drain effects become much more complex.

3. Short and long-term macro economic consequences

The most heavily debated impacts of migration to the immigrant society are the short-term or medium-term effects because they cause most changes in the economy. In general, the short and medium term effects of immigration on a macroeconomic level are rather positive because immigration helps to bridge bottlenecks. There are three additional short-term consequences.

First, there is the effect on labour prices. For the EU, real wages for skilled workers are likely to increase. Consequentially it is doubtful that there will be a negative response to immigration from this group of workers. It is rather the negative wage performance of unskilled workers that might induce a critical assessment of labour market integration by blue-collar workers and trade unions and lead them to oppose the idea of free labour mobility.

Second, based on expectations concerning the sectorial distribution of migration effects, labour-intensive industries in the EU should expand over-proportionally. Third, there is the influence of specifically on the emigration country of the so-called remittance effect, i.e. money that is being sent home by migrants. Remittances are regarded as a compensation mechanism for those left behind. Analysis of the remittances from Germany to selected CEECs shows that the aggregate remittances do not suffice to compensate the sending countries for the externality-induced income loss. In addition, migrants’ financial contribution to public services in the immigration country causes public transfer effects. A brain drain, thus, constitutes a burden for the sending countries even when remittances are taken into account, whereas the receiving country experiences a welfare gain.

Often, however, migration does not have a strong effect on long-run growth and development. In periods of economic integration and rapid structural change, migration may be important in shaping future convergence-divergence patterns, as it might be the case in the enlarged EU. Highly skilled labour migration can be understood as a phenomenon that increases the development difference between countries and regions. Diverging factors are the consequence. This ‘divergence
school’ points out that the mobility of people is one of the potential determinants of core-periphery structures. If people move towards the centre the core will grow faster and faster while the periphery will increasingly lag behind. Migration will then promote the structural change in a positive way in the immigration area and in a rather negative way in the emigration area. The long-term outcome is a diverging pattern of economic growth. Unless policy measures are introduced to offset the effects of migration of skilled workers, polarisation effects may become self-sustaining and peripheral regions may find it very difficult to recover economically.

**BALANCING THE ARGUMENTS**

An expanded European Union with free movement of labour does seem to have less dramatic economic consequences for migration than may be believed at first sight. On the one hand, current member countries need not be afraid of mass migration. They are likely to win from the self-selectivity of migration. Welfare effects of immigration are positive. The arrival of further economic agents providing work and consuming goods expands overall economic activity which eventually increases aggregated wealth. On the other hand, it can be argued that emigration has a negative overall welfare consequence for the CEECs. This is understandable because the departure of a part of the workforce must result in less economic activity so that their economy shrinks. If the enlarged EU allows ‘soft borders’, an influx of highly skilled labour from the FSU might fill up the gaps in the CEECs labour market.

The East European countries should weigh the loss due to increased westward emigration against other economic gains from becoming members of the European Union, i.e. liberalising trade and capital transfers. Much stronger welfare effects for the CEECs can be obtained by completely liberalising trade and particularly by transferring capital from the EU into the CEECs.

Labour mobility, thus, proves to be a much more political issue than economic. Essentially, labour migration in the enlarged European Union poses questions above all on a political, institutional and social level for the EU, but even more so for the CEECs. Labour mobility will revolve around top-down and bottom-up political reactions to the arrival of foreign workers. It is likely that the population as a whole will react adversely to even a relatively small influx of labour. If foreign labour – CEE workers in the EU and FSU workers in the CEE – is perceived as a threat to the vested interest of certain groups in society, i.e. competition over limited resources (wages and public provisions), then the labour migration issue will be translated in electoral behaviour. Following a similar line of reasoning, it is most likely that the polity representing these interest groups is going to take a hard stance on migration issues. Some politicians in the EU, as in the CEECs, might even play the populist card and capitalise on the above-described threats.

The outcome of these two political processes will depend on the capacity of democratic institutions smoothly to absorb the new workers, and on the social reaction of the host society to the newcomers, i.e. the integration possibilities it offers. In regard to institutions, a distinction should be made between the institutional and the political realm. Of course institutions are formed through the democratic political process but this does not automatically mean the availability of the appropriate institutions that deal with the apparent problems migration causes. Lack of institutions
specifically dealing with labour migration, i.e. border controls, social welfare systems, housing, etc., will cause several social problems, which in turn have a political impact. Most of these institutions are already in place in the current EU. However, what is the institutional condition in the acceding countries? How are border controls being organised, i.e. soft or hard boarders? How are traditional and exchange links with neighbours in CEE going to be dealt with once the candidates are members of the EU? And how are the candidates going to deal with labour migration from the FSU? On a social level, the success of free labour migration in the enlarged EU will depend on the capacity of the host population to absorb (or at least adapt itself to) the influx of foreign workers. The current state of politics in certain EU countries does not promise a very positive evolution in this respect. Or does it? And here arise issues of identity, be it ethnic of civic, in the CEECs and the EU and their capacity to welcome labour migrants.

Based upon these three arguments, the preferred policy on free movement of labour in the enlarged EU and with respect to labour migration from the FSU to the CEECs is a step-by-step approach. It will give the EU and the CEECs time to prepare its population and institutions and create enough breathing space to monitor and redirect its policies. Nevertheless, the ultimate goal should be free movement of labour, because the economic case for it is very strong.