

**European Integration Consortium
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**Labour mobility within the EU in the context of
enlargement and the functioning
of the transitional arrangements**

- Executive Summary-

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Executive Summary

1. The EU Eastern enlargement was accompanied by a distinct increase in migration from the new member states (NMS) into the fifteen incumbent EU member states (EU-15). According to our analysis of the available data, the number of foreign nationals from the eight new member states (NMS-8) from Central and Eastern Europe which joined the EU at the 1st of May 2004, residing in the EU-15 has increased from about 900,000 persons before EU enlargement to about 1.9 million in 2007. This corresponds to an annual net increase of some 250,000 persons p.a. in the first four years since EU enlargement. During the same period of time, the number of foreign residents from Bulgaria and Romania in the EU has increased from about 700,000 persons to almost 1.9 million, although these countries have joined the EU not before January 1st, 2007.
2. The increasing migration from the NMS into the EU-15 is associated with a diversion of migration flows: Austria and Germany, who received about 60 per cent of the immigration inflows before EU enlargement, were replaced by Ireland and the UK (in case of immigration from the NMS-8) and by Spain and Italy (in case of immigration from Bulgaria and Romania) as the main destinations of immigrants from the NMS. While the overall increase in the number of immigrants from the NMS-8 is by and large consistent with a number of estimates of the migration potential which have been carried out prior to EU enlargement, the regional distribution of migrants across the EU-15 countries is not. This can be traced back to several causes: the selective application of transitional arrangements for the free movement of labour by the EU member states, the favourable labour market conditions and flexible labour market institutions in the new destination countries, as well as other causes such as language, culture and climate. Altogether, this has affected the regional distribution of migrants across the destinations in the EU-15 in a way which is historically unprecedented.
3. The uncertainty on the future migration potential is still high. There is first evidence e.g. in the UK that net immigration flows from the NMS-8 have started to decline even before the financial crisis. A declining net immigration from the NMS reflects not only the acceleration of the convergence in wages and labour market conditions between the EU-15 and the NMS which can be observed since EU enlargement. Migration theory and empirical evidence suggests that the propensity to migrate in the population which still lives at home is decreasing the higher the share is which already lives abroad if preferences and migration costs are not homogeneous across individuals. We thus expect that net migration rates from the NMS will tend to shrink after the initial migration hump. This expectation is confirmed by our estimation of the future migration potential from the NMS.
4. We estimate that the stock of migrants from the NMS-8 in the EU-15 could increase from 1.9 million in 2007 to 3.8 million in 2020 under the present institutional conditions, and to 4.4 million when the free movement is eventually introduced by all EU-15 member states. The stock of migrants from Bulgaria and Romania is estimated to increase from almost 1.9 million in 2007 to 3.9 million in 2020 under the current immigration conditions, and to slightly more than 4.0 million if the free movement of workers is introduced. Thus, as a rule of the thumb, migration stocks from the NMS could

double in a period of about 12 years. We expect that the net migration from the NMS into the EU-15 will decline in the course of the financial crisis; even a net return migration is possible. This can be traced back inter alia to the fact that migration is largely determined by employment opportunities in destination countries and the foreign workers are more than proportionally affected by dismissals in an economic downturn.

5. These projections are based on a new approach to estimate the migration potential. Migration can be understood as a decision, which maximises utility across a large set of destinations. Economic and other variables in alternative destinations can therefore not be ignored if bilateral migration potentials are estimated. This methodological problem is particularly relevant in the context of the EU's Eastern enlargement, since the choice of Germany and Austria to maintain immigration restrictions has certainly affected the scale of migration in other destinations such as the UK and Ireland. We have therefore pooled all EU-15 member states to one destination, which enables us to circumvent this problem. We thus provide a projection migration potential from the NMS for the entire EU-15, but not for the individual EU-15 countries. A forecast for individual EU-15 destination countries is in our view not possible for methodological reasons at present. Needless to say that numerous caveats apply to the estimates of the migration potential presented in this study. The identification of the relevant elasticities suffer from very few observations which are available since the transitional arrangements for the NMS-8 and the more liberal immigration conditions for Bulgaria and Romania have been introduced. Moreover, the free movement scenario relies on the assumption that the migrants from the NMS respond in the same way as migrants from the EU-15 to explanatory variables such as the income differential. This need, however, not to be the case. Moreover, the projections focus on long-term developments and do not consider short-term fluctuations of the business-cycle which can impact the scale of migration substantially. Thus, our estimates should be understood as no more than a clue to the possible magnitudes involved.

6. The additional labour mobility triggered by the EU's Eastern enlargement has increased income in the enlarged EU substantially. On basis of different macroeconomic models we find that the additional migration caused by the EU Eastern enlargement has raised the GDP of the enlarged EU (i.e. the joint GDP of the EU-15 and the NMS-8) by about 0.11 per cent in the short-run and by about 0.2 per cent in the long-run during the 2004-2007 period. Thus, the GDP of the enlarged EU tends to increase by 24 billion in the long-run. It will further increase in the course of future immigration. By about 2020, the overall gains are about twice as high if the migration potential is realised. Introducing the free movement will create additional gains compared to a prolongation of the transitional arrangements.

7. The benefits and costs of migration are, however, not evenly distributed across all factors of production and the sending and receiving countries. The impact of migration on the total factor income of the native population in the receiving countries is slightly declining in the short-run, while it tends to increase in the long-run when capital stocks have adjusted to their equilibrium levels. The converse holds for the sending countries. Wages will decline slightly in the receiving countries and increase in the sending countries in the short-term, while the aggregate impact on the aggregate wage level is

neutral in the long-run. The aggregate unemployment rate has slightly increased in the receiving countries and fallen in the sending countries in the short-term. The overall level of unemployment shrinks in the enlarged EU slightly. In the long-run, the impact of migration on aggregate unemployment is, however, by and large neutral.

8. The impact of migration from the NMS on the different groups in the labour market is relatively balanced. Less-skilled workers in the receiving countries are slightly more affected by competition from migrants from the NMS than high- and medium skilled workers. This can be traced back to the fact that migrant workers from the NMS are employed well below their skill levels, such that they compete more than proportionally with less-skilled workers. While foreign workers tend to lose, the impact on native workers in the receiving countries is neutral or positive.

9. The modest effects of labour mobility on wages and employment which we find here can be traced back to the fact that the labour market effects of migration are mitigated by the adjustment of other markets to labour supply shocks. There exists robust empirical evidence that the capital-output ratio and, hence, the productivity adjusted capital-labour ratio remains constant in the long-term. Thus, capital stocks tend to adjust to labour supply shocks over time. Moreover, economies adjust to labour supply shocks by changing their sectoral structure and the trade vector. Both effects mitigate the impact of labour migration and have been considered by the models employed here.

10. We find only a moderate selection bias of the migrant population from the NMS with respect to their skill structure. The overwhelming share of the migrants from the NMS is concentrated at the medium skill levels. The educational attainment of the migrant population is slightly higher than that of the native population in the sending countries and comparable to that of the native population in the receiving countries. The increased migration from the NMS is accompanied by increasing investment in education in the home country. Particularly investment in tertiary education has substantially accelerated during the last decade. Whether improved migration opportunities have contributed to these increasing human capital investments in Central and Eastern Europe is, however, an open question. Altogether, our findings suggest that neither the 'brain drain' nor the 'brain gain' will have a considerable impact on labour markets and the economies in the sending and the destination countries.

11. Migrants from the NMS are employed well below their education levels in the EU-15. Although the educational attainment of migrants from the NMS is relatively high, the overwhelming share of the NMS migrants is employed in occupations which require only elementary skills. Moreover, the returns to education and work experience are extremely low for NMS immigrants in the UK, particularly for workers which have arrived since Eastern enlargement. In Germany and some other important destination countries, employment patterns tend to match more education levels of migrants from the NMS, but employment and participation rates of NMS migrants are there well below those of the UK and Ireland. The phenomenon that migrants from the NMS are in many EU member states employed below their education levels does not necessarily imply that migration results in a 'brain waste' if we consider the entire life cycle. Additional human capital may

be acquired abroad such as language skills, which will display their returns later in the domestic labour market.

12. Our findings do not support the widespread concerns that immigration creates a fiscal burden to the welfare state in the receiving countries. Although our analysis is hampered by data limitations, we find evidence from the EU-SILC that immigrants from the EU-25 (i) receive less contributory benefits than natives, and (ii) not significantly more non-contributory benefits than natives. The econometric analysis further demonstrates that there are no behavioural differences between the two groups once potential confounders are controlled for. The finding that migrants participate less in contributory benefits is not surprising since those systems tend to discriminate against short contribution periods, which particularly affects the immigrant population. That migrants participate no more than proportionally in non-contributory benefits may be traced back to the age structure and other favourable demographic characteristics of the migrant population which may compensate for the higher unemployment risks that migrants face in the EU. The findings reported here apply to migrants from the EU-25 as covered by the EU-SILC. However, we observe no distinct pattern in countries where migrants from the NMS-10 have a high share in the immigrant population, such that we conclude that our findings can be generalised to some extent to the group of interest here. The findings from the country studies are mixed in this respect. While NMS migrants in the UK and Ireland are characterised by very high labour market participation rates, low unemployment and other characteristics which imply a favourable balance for the welfare state, in other countries such as Germany we find that NMS migrants are more than proportionally affected by unemployment.

13. The regional pattern of migration from the NMS displays a higher concentration than that of other migrant groups. The biggest local clusters of NMS migrants can be observed in the London areas and Vienna. Migrants from the NMS-8 show a lower degree of concentration than those from Bulgaria and Romania or the candidate countries. Cross-border commuting plays, however, only a minor role in migration from the NMS. The main exception is the Bratislava-Vienna area. Nevertheless, surveys of migration intentions in this area display a higher propensity to move to other destinations such as the UK and Ireland rather than to countries in the immediate neighbourhood like Austria and Germany. Moreover, compared to previous waves of the survey, we observe that migration intentions tend to decline.

14. Altogether, our estimates do thus not suggest that labour mobility can contribute to a severe imbalance in the labour market or other adverse effects in receiving countries. Both the unemployment and wage effects are small at the macroeconomic level. Moreover, historical experience suggests that the level of migration depends on employment opportunities and contracts in the course of an economic downturn. We therefore do not expect that the opening of the labour markets in those countries which still maintain immigration restrictions will affect native welfare and labour markets severely. In the medium and long-term, our simulations suggest in contrast that the native population in the receiving countries is likely to benefit.