Free Movement of Workers and Labour Market Adjustment

RECENT EXPERIENCES FROM OECD COUNTRIES AND THE EUROPEAN UNION

OECD

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Foreword

Demographic projections for the next decades point to shrinking workforces in most OECD countries. In the EU member states, the working-age population is expected to contract by 12% by 2030. In addition, the increasingly competitive global economic environment induces an accelerating pace of structural change. As a consequence, despite the high unemployment rates currently observed in many OECD countries, labour and skills shortages are anticipated to rise over the next two decades, challenging economic growth prospects. In this context, maintaining a high-quality workforce represents a key strategic goal for both employment and economic growth.

Together with education and training and activation policy measures, the implementation of more effective systems for migration management and of integration measures to improve the labour market outcomes of immigrants are a key part of equipping workforces with the necessary skills to cope with demographic and occupational changes and to contribute to the competitiveness of EU and OECD economies.

Against this background and in the context of increased importance of migration-related issues in the EU employment policy agenda, the Directorate General for Employment, Social Affairs and Inclusion of the European Commission and the OECD's Directorate for Employment, Labour and Social Affairs launched in 2011 a two-year joint project on "Matching economic migration with labour market needs". The project aims at providing new insights on the policies needed to ensure that economic migration can effectively respond to labour market needs.

As part of this project, a conference on "Growing free labour mobility areas and trends in international migration" (14 and 15 November 2011, Brussels) was jointly organised by the European Commission and the OECD, bringing together policy makers, experts, observers from international organisations, as well as representatives of employers' associations and of trade unions. It aimed at shedding light on the role which free-mobility migration could play in addressing labour and skills shortages.

The present publication consists of the papers presented at this conference. It contrasts the development of the EEA free labour-mobility area with experiences of other free labour-mobility zones, investigates the impact of the establishment of a free-movement area on labour migration patterns among its member countries, and examines the economic impacts on origin and destination countries.

Since the second half of the 20th century, free labour-mobility areas have expanded widely, in the context of the development of regional economic integration processes. On average, free-movement migration accounted for almost a quarter of all *permanent-type* migration flows to OECD countries in recent years. Several examples of free-movement zones across OECD countries are the Trans-Tasman Travel Arrangement between Australia and New Zealand, free labour-mobility between Switzerland and the

EEA countries, the MERCOSUR Free Movement and Residence Agreement and, to a lesser degree, the North American Free Trade Agreement.

The share of free-movement flows in total permanent migration movements is highest in the EU/ETFA area (37% in 2009). It currently represents the most significant example of a free labour-mobility zone, both in terms of the number of countries involved and the scope of the liberalisation. The recent expansion of the free labour-mobility area in Europe as a consequence of the 2004 and 2007 EU enlargements and the bilateral agreements between Switzerland and the European Union provide interesting case studies for an analysis of the impact of free-movement flows on the labour markets of both origin and destination countries.

Post-enlargement labour mobility from the new EU member countries to the EU15 and Norway was extensive. However, the majority of the inflows went to a few destination countries where labour market conditions were initially favourable and the host-country language not a major obstacle to many of the migrants, such as the United Kingdom and Ireland in the case of the countries that joined in 2004, and Spain and Italy following the accession of Bulgaria and Romania in 2007.

Prior to the economic crisis, free-mobility migration accompanied sustained economic growth and fuelled the rapid expansion of certain economic sectors. The new migrants were generally young, better educated than average and spread out over the countries they went to, moving where job opportunities were more plentiful and not just to large cities. Many movements were *temporary* in nature as migrants accumulated experience, skills and savings abroad and then returned to their countries of origin, but others opted to settle in the countries of destination. Often they took on jobs that were below their formal education levels, providing a motivated, flexible workforce working for wages which may have been low by destination-country standards but were still several times higher than what they could have expected to earn at home. The evidence presented during the conference suggests that free mobility has had an overall small, but generally positive, impact on the labour markets in destination countries, both on wages and on employment levels. However, some negative effects have also been observed in particular occupations at the lower end of the skills distribution and on specific groups of resident workers, such as low-skilled youth and non-EU/EFTA nationals.

The effects on origin countries varied. Some saw limited outflows relative to the total population, others – notably Bulgaria, Romania and the Baltics – much larger ones, with significant losses of population. Some of the loss occurred among young, highly-qualified workers, who could not always find appropriate work opportunities at home. Some of those countries saw an increase in inflows of workers from non-EU/EFTA countries, but the magnitude of such inflows was dwarfed by the outflows to EU/EFTA-countries.

Taking stock of the experience of the recent economic crisis which did not hit all countries to the same degree, this publication also addresses the effects of uneven economic shocks in free-mobility zones. It suggests that free mobility has played an adjustment role in the labour market, even though the size of the effect does not appear to have been large enough to reduce regional differences in unemployment substantially.

Finally, this publication analyses the forecasts for demographic and educational trends in the medium-term, with the aim of assessing the extent to which free labour-mobility could contribute to meeting future labour and skills shortages. Because of similar socio-demographic trends and the assumption of continued economic convergence across regions, the potential for free labour mobility to address emerging labour market

needs is limited. Notwithstanding, there remain some administrative obstacles to full free mobility even in the EU/EFTA region which call for further harmonisation efforts, in order to release the full potential of free mobility to respond to labour market needs.

Against this background, over the medium-term significant increases in employment rates at all ages and in productivity will be required if economic growth is to be secured and the funding base for public social protection preserved. Better mobilising the available domestic labour supply – through activation, education and training as well as integration policies – as well as improving the matching between labour demand and supply within free-mobility areas through policies aiming at fostering mobility – will be necessary in order to maintain growth rates and living standards, although in many cases these policies may not be sufficient. Opening clear pathways to labour migration, in the context of a more effective management of migration flows, will be needed in the future, together with efforts to improve the labour market outcomes of immigrants and their children. Success on the latter front would also enable public opinion to take a more positive outlook on migration and its potential contribution to sustainable growth.

John Martin

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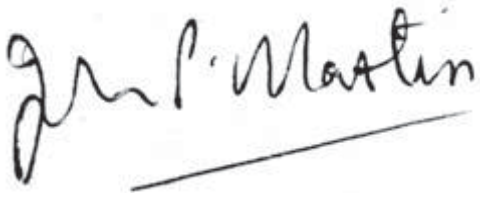

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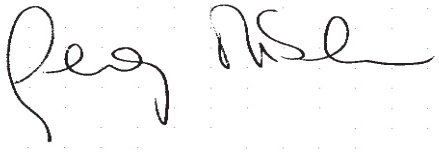

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Acronyms and abbreviations

Andean Community of Nations	Bolivia, Colombia, Ecuador, Peru
APEC	Asia-Pacific Economic Co-operation
ASEAN Community	Brunei, Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
CSME	CARICOM Single Market and Economy: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago.
Cedefop	European Centre for the Development of Vocational Training
CES	Common Economic Space
CIS	Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Russian Federation, Tajikistan, Ukraine, Uzbekistan
COMESA	Common Market of Eastern and Southern Africa: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe
CSO	Central Statistical Office (Poland)
ECOWAS	Economic Community of West African States: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo
ECSC	European Coal and Steel Community
EEA	European Economic Area: EU member countries and EEA EFTA countries: Iceland, Liechtenstein, Norway
EFTA	European Free Trade Area: Iceland, Liechtenstein, Norway, Switzerland
ESA	EFTA Surveillance Authority
EU	European Union: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, United Kingdom

EU2	Bulgaria and Romania (joined the Euroepan Union in 2007)
EU8	Poland, Hungary, the Czech Republic, Slovenia, Slovakia, Estonia, Lithuania, Latvia (joined the European Union in 2004)
EurAsEC	Eurasian Economic Community
EU-SILC	European Union's Survey on Income and Living Conditions
Fafo	Institute for Labour and Social Research (Norway)
FDI	Foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GNP	Gross national product
ILO	International Labour Organization
IOM	International Organization for Migration
IOM LINET	IOM Independent Network of Labour Migration and Integration Experts
IPS	International Passenger Survey
ISCED	International Standard Classification of Education
ISCO	International Standard Classification of Occupations
LDCs	Less developed countries
LFS	Labour force survey
MAC	Migration Advisory Committee
MERCOSUR	Agreement on Free Movement of Persons and Residence: Argentina, Brazil, Paraguay, Uruguay (Chile and Bolivia associated members)
MFN	Most-favoured nation
MSI	Migration Selectivity Indices
NAFTA	North American Free Trade Agreement: Canada, Mexico, United States
NBP	National Bank of Poland
NIESR	National Institute of Economic and Social Research
NINo	National Insurance Numbers
NMS	New member states (NMS or EU12) correspond to the 12 countries that entered the European Union from 2004 onwards
NORDIC	Nordic Common Labour Market: Denmark, Finland, Iceland, Norway, Sweden
NRP	National Reform Programmes

NUTS	Nomenclature of Statistical Territorial Units
ODA	Official Development Aid
OMS	Older member states (OMS or EU15) correspond to the 15 countries already members of the European Union by 2004
PPS (Chapter 1)	Personal Public Service
PPS (Chapter 6)	Purchasing Power Standards
RDS	Respondent driven sampling
SADC	Southern African Development Community: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe
SAWS	Seasonal Agricultural Workers Scheme
TCN	Third Country Nationals
TFR	Total Fertility Rate
TTTA	Trans-Tasman Travel Arrangement: Australia, New Zealand
UNDESA	United Nations Department of Economic and Social Affairs
UNHCR	UN Refugee Agency
VET	Vocational education training
WIIW	Vienna Institute for International Economic Studies
WRS	Worker Registration Scheme

Main findings of the joint EC/OECD conference on growing free labour mobility areas and trends in international migration, 14-15 November 2011, Brussels

by

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Introduction

Since the 1950s, in many parts of the world, labour migration movements have been facilitated – to a lesser or greater extent – among selected groups of countries, generally characterised by close geographical proximity and historic and economic ties. Such liberalisation of international labour mobility has generally developed in the context of a broader process of regional economic integration, and has tended to be introduced in the latter phases of this process. The degree to which labour migration is facilitated varies with the level of regional integration. Only in a limited number of cases has the liberalisation of international labour mobility in the context of regional economic integration processes led to the establishment of free labour mobility areas, involving full and equal labour market access for all member countries' nationals. The great majority of such free-movement areas are to be found among OECD countries.

The development of free labour mobility areas can have a significant impact on the characteristics and the size of migration movements within the areas concerned, as well as in neighbouring countries. Free mobility of workers among a group of countries may affect the allocation of labour within the whole area, and play a role in shaping the response of the member countries' labour markets to asymmetric economic shocks. To shed more light on migration and labour-market issues related to the establishment and expansion of free labour mobility areas, the EU Commission and the OECD Secretariat co-organised a joint technical conference in Brussels on 14 and 15 November 2011.

The papers presented and the discussions held at this conference have contrasted the developments of the EEA free labour mobility area with other experiences of free labour mobility zones across OECD countries and have examined the labour migration patterns induced by the establishment of free movement areas as well as their impact on member countries' economies. In the context of the EC/OECD joint project on "Matching economic migration with labour market needs", the conference has also addressed the role of free labour mobility in responding to labour shortages that are expected to arise in the European Union and in other OECD countries over the medium to long term, mainly as a consequence of ageing populations and workforces. This publication presents the proceedings of this conference and summarises the main findings.

The facilitation of international labour mobility in different regional economic integration zones

Since the second half of the 20th century, regional economic integration has developed in various contexts in parallel to globalisation of the economy. Neighbouring countries with strong economic relations have identified efficiency gains in the reciprocal liberalisation of trade, capital movements and sometimes of labour flows, as a means of enhancing the competitiveness of national and regional economies. According to the degree of interdependency agreed upon by member countries, regional economic integration has taken a variety of institutional forms, ranging from free or preferential trade areas to common markets to economic unions, which imply the harmonisation of selected domestic policies and the adoption of common standards and regulations.

The degree to which labour migration is facilitated varies with the level of regional integration. When it is allowed, facilitated labour market access for member countries' nationals within free trade areas may be limited to certain sectors and to specific categories of workers – generally highly skilled. Higher levels of economic integration, such as those reached within common markets and economic unions, may involve the recognition of a right to free labour mobility to all member countries' nationals, although it is not unusual that this right is implemented gradually, through transitional arrangements. Accompanying measures, such as mutual recognition of qualifications, international transferability of social security rights, and facilitated rules for family reunification also indirectly affect the possibility to relocate in another country. These measures are frequently enacted in free labour mobility areas but are not systematic in other contexts (Chapter 1).

The European Economic Area (EEA) currently represents the most significant example of a free labour mobility area, both in terms of the number of countries involved and of the extent of the facilitation granted to member countries' nationals in entering the labour markets of other participating countries. Workers of EEA countries have the personal right to free mobility, entailing the right to move freely, without any visa requirement, within the territories of all member countries of the area to look for a job and to take up employment, under the same conditions applying to the nationals of the countries concerned, the right to reside there for the purpose of working, and, subject to minimum income requirements, the right to remain after having been employed. According to the principle of equal treatment, EEA workers are entitled to the same social and tax benefits as nationals in all the member countries of the free-mobility area, including access to employment and housing services. To further facilitate the mobility of workers in the area, accompanying measures have been foreseen, providing for the co-ordination of social security systems between member countries (including pension systems), and for the mutual recognition of professional qualifications. In addition, family members of a worker who exercises the right of free movement are entitled to establish themselves together with the worker in the respective host country, regardless of their nationality, and to take up employment. Thus, in this specific case, the right of free movement within the EEA is extended to third-country nationals.

This exceptionally high degree of liberalisation of labour movements among EEA countries is the result of a unique process of economic and political integration which has its origins in the establishment of a common market within the European Economic Community, and which has evolved following the creation and the expansion of the European Union, and the establishment of the European Economic Area. Since 2002, the same rights to free mobility as those granted to EEA workers in each

others' countries, apply as well between the EEA and Switzerland, as a result of the implementation of the bilateral Agreement on the Free Movement of Persons between Switzerland and the European Union (also subject to some transitional arrangements).

Other free labour mobility areas across OECD countries are to be found, respectively, between Australia and New Zealand, under the Trans-Tasman Travel Arrangement, and among MERCOSUR members and associated countries (including Chile), even though a lower degree of facilitation of labour mobility – notably in terms of accompanying measures – is provided for in those areas, compared with the EEA and Switzerland (Chapter 1).

A significantly lower degree of liberalisation of workers' movements in the context of a regional economic integration process is to be found among the member countries of the North American Free Trade Agreement (NAFTA). Free labour mobility is limited to specific categories of member countries' nationals – *i.e.* qualified professionals – who have a job offer in one of the occupations listed in the NAFTA treaty. NAFTA nationals meeting the requirements can apply for a TN temporary visa in each member country of the free-trade area. Under this visa, the job for which an offer has been made is exempted from a labour market test and from the need to qualify under the host country's certification standards (Chapter 12).

Despite strong historic and economic ties, facilitation of labour mobility among the member countries of the Community of Independent States (CIS) is in theory limited and mainly implemented at the bilateral level. However, with growing labour migration among some of the member countries of the region – notably from former USSR member countries to the Russian Federation – in the context of a visa-free regime introduced since the 1990s, there are some indications of improving co-operation among CIS countries on regional labour migration management. Under this regime, workers can search for work and, if a job is found, must obtain a work permit from the Russian authorities (Chapter 11).

The impact of the establishment of EU enlargement on labour migration patterns within the European Union

The gradual extension of the EEA free labour mobility area as a consequence of the two latest EU enlargement rounds of 2004 and 2007 provides an interesting case study for the analysis of the impact of the establishment of a free labour mobility area on international migration flows, as well as on member countries' labour markets, due to the unprecedented number of countries involved and to the high migration potential of accession countries. In addition, the economic crisis, which started in 2008 on the heels of thee two major enlargement rounds, hit EEA countries unevenly, offering a unique opportunity to observe how free mobility migration adjusted to asymmetric economic shocks.

There was increased international labour mobility within the area, albeit unevenly distributed

Shortcomings in existing data are a challenge to analyses of the scale of post-enlargement labour mobility flows from the accession countries to the former EEA member countries. The main limitation is that national statistics in some EEA countries do not identify or report inflows of nationals from other member countries of the area.

Analysis based on available data on inflows of foreign workers (OECD series), has shown a marked increase in international labour mobility from EU accession countries (EU8 and EU2) to the EU15 and Norway in the period 2004-08, at the aggregate level (Chapter 1). Average annual inflows of workers from EU8 countries into the EU15 doubled over the period 2004-07, compared with 2000-03, hitting a record high of 708 000 entries in 2007. Similar trends were observed, in the corresponding period, for EU8 worker inflows in Norway (Chapter 6). Administrative data on post-accession flows from Bulgaria and Romania to other EEA member countries also suggest an increase in international labour mobility. However, a certain proportion of the flows registered after the two latest EU enlargement rounds may have been the result of *de facto* regularisation of EU8 and EU2 nationals already present and employed (illegally) in other EEA countries prior to their countries' accession to the European Union.

The breakdown of flows by nationality reveals significant heterogeneity in the extent of post-enlargement free labour mobility flows, both among origin and destination countries within the EEA, and a marked polarisation in their distribution, particularly in the first years following the EU enlargements. A few EEA countries have received the majority of post-enlargement worker inflows from the accession countries. The increase in the inflows of EU8 workers in former EEA countries after 2004 is largely accounted for by two of the three countries which fully applied free labour mobility rules since 2004, namely the United Kingdom and Ireland. Similarly, post-enlargement intra-EU worker movements from the EU2 have headed preferentially to Spain and Italy. On the other hand, the bulk of workers inflows from the new EU member countries into the former EEA countries have originated from Poland and Romania, which are also the most populated enlargement countries. The Baltic countries – notably Lithuania and Latvia – Bulgaria and the Slovak Republic, on the other hand, have seen large outflows of working-age nationals headed to the EU15 and to Norway, relative to their populations.

The selective opening of their labour markets to workers from EU8 and EU2 countries by the EU15 and Norway, resulting from different national transitional arrangements, are only part of the explanation for such a heterogeneous and polarised distribution of post-enlargement intra-EU labour mobility flows. Other factors such as labour demand, the language spoken and existing networks in destination countries have played a role at least as important as the transitional arrangements in directing labour migration flows from new EU member countries to the other EEA countries.

The dramatic rise in workers' inflows from EU8 countries into the United Kingdom and Ireland in the four years following the 2004 enlargement was undoubtedly spurred by the fact that the two countries immediately lifted restrictions to labour market access for EU8 nationals. However, what boosted free labour mobility inflows from the accession countries into Ireland and the United Kingdom was sustained economic and employment growth, under favourable labour market conditions – including relatively high wages – and flexible labour market institutions. Furthermore, the possibility to improve their proficiency in English may have acted as an additional incentive for young workers in the EU8 countries to move to the United Kingdom and Ireland. The absence of those factors may have made Sweden – which also immediately opened its labour market to nationals from the new EU member countries – a less attractive destination.

Common linguistic roots and high labour demand – both formal and informal – in specific sectors such as construction and domestic and elderly care, together with existing networks, a favourable regulatory framework, prior bilateral agreements and favourable

transitional arrangements compared to other potential destination countries, have been the main drivers for EU2 workers' inflows in Spain and in Italy.

Among the Central and Eastern European countries that joined the EEA in 2004, Poland witnessed the highest population outflow – in absolute numbers – headed to other EEA countries, in the early post-accession period. Between 2004 and the end of 2007 the total stock of Polish migrants abroad rose spectacularly, increasing by almost 1.5 million, to reach 2.3 million (from 0.75 million to 1.9 million in the EU27) or 6.6% of the total population. 80% of those migrants were staying in other EU countries, mainly the United Kingdom, Germany and Ireland. An important shift in the EEA destination countries of Polish emigrants was observed, compared to the pre-accession period, with Germany losing its top position and hosting less than 25% of Polish migrants in 2008. On the other hand, the stock of Polish migrants staying in the United Kingdom rose from 24 000 in 2002 to almost 700 000 in 2008, while corresponding figures for Ireland went up from 2 000 to 200 000 (Chapter 7).

Historically, the evolution of labour migration among the member countries following the establishment of a free-movement area does not seem to have affected proportionally worker inflows from third countries. In particular, increased free labour mobility flows in the case of the two recent EU enlargement rounds, have not resulted in a decline of international labour migration from third countries to the EEA. When it has occurred, the decrease in the number of work permits granted to third-country nationals in those EEA countries which have received the highest share of post-enlargement movers, has been temporary and small compared with the increase in free-mobility inflows. Similar results were found in the case of Switzerland, after the implementation of the Agreement on the Free Movement of Persons with the European Union. On the other hand, evidence of growing inflows of workers from third countries has been found for some of the new member countries of the EEA free labour mobility area. However, the extent of the increase in the number of work permits granted to third-country nationals was small compared with the scale of labour migration of the country's own nationals under the free-movement regime (Chapter 1).

Free-movement migration is slowing down in the aftermaths of the economic crisis

The global economic crisis and the consequent job crisis have resulted in a drop of free-movement flows by one third on average over OECD Europe, even though not all countries were affected in the same way. The decline in migration from enlargement countries was strongest in Ireland, Spain and the United Kingdom. These countries, where large inflows of nationals from the EU8 and EU2 had supplied a big part of the sustained employment growth in the years immediately preceding the crisis, were hit earliest by the drop in labour demand. As a result, the number of new applicants to the United Kingdom's Worker Registration Scheme (WRS, dedicated to workers from the new EU member countries) fell by 27% in 2008 and by a further 34% in 2009. In Ireland, the number of citizens of these countries registering for a social security number (PPS) fell by 42% in 2008 and an additional 60% in 2009 (Chapter 2).

Across OECD countries, free movement migration was the type of migration most affected by the decline in labour demand as a result of the onset of the economic crisis. A drop in free labour mobility flows was observed not only in the EEA and Switzerland but also from New Zealand to Australia in the context of the Trans-Tasman Travel Arrangement. Within free-mobility areas, costs of migration are lower and information

about job opportunities is readily available, which helps make migration more responsive to changing economic conditions.

While the drop in free mobility was the strongest impact on labour migration witnessed in EEA destination countries as a result of the crisis, the overall adjustment of free mobility migration in the EEA during the crisis appears to have been more limited than might have been expected. However, the continuation of the gradual lifting of the restrictions on flows between the former and new members, has been a confounding factor in this respect, with the resulting positive effect on flows limiting the apparent negative impact of the crisis on free mobility. In particular, inflows from Romania and Bulgaria continued strongly in many countries during the crisis. In addition, non-labour flows maintained themselves, as many previous free-mobility migrants were joined by their families who had stayed behind in origin countries. Thus, although free movement flows – in particular of workers – declined during the crisis, the overall population of free-mobility migrants continued to increase, except in Ireland and Iceland, two countries that were particularly hard hit by the crisis.

Free mobility flows did not fall off completely as a result of the crisis, and this can be explained in part by the varying effect of the crisis on individual origin countries. While migration from Poland – the only EU country to experience positive growth in 2009 – slackened significantly, the crisis in the Baltic countries of Lithuania and Latvia, whose economies contracted by 16% and 19% respectively, led to increased emigration. This is evident in the shift in the national distribution of free-mobility flows to the United Kingdom after 2008, with the share of Poles declining and that of Latvians and Lithuanians rising (Chapter 4).

As there is no risk of losing one's residence status within a free-mobility area, recent migrants should be more willing to leave when employment conditions worsen than third-country migrants who must either remain or lose their status if they leave. Still, overall outflows of immigrants from within the free-mobility zone have not increased to the same extent as inflows have declined. Unemployed recent intra-EEA migrants, especially those having stayed long enough in destination countries to qualify for unemployment benefits and related social benefits, appear to have preferred, at least in the short term, to remain in their receiving countries rather than moving elsewhere or returning back home. Return migration within the free-mobility zone has been modest in most cases, and more sensible to labour market conditions in the country of origin rather than in destination countries.

There has been an overall positive, but small, impact of free labour mobility flows on the labour markets of destination countries

The impact of the free-labour mobility flows created by the 2004 and 2007 EU enlargements on the labour markets of EEA destination countries appears to have been small yet positive, globally, both on wages and on employment levels. In the United Kingdom, where a total of over 1.1 million WRS registrations had taken place over the period May 2004 to April 2011, the effects of such important immigration flows on wages and employment prospects of domestic workers were found to be small or absent overall, even though certain groups were more negatively affected. Negative employment effects for native workers with intermediate levels of education were "counterbalanced" by positive effects on the better qualified. No statistically significant impact of EU8 and EU2 migration was detected on unemployment, either in total or for any identifiable subgroup, with the exception of young lesser-skilled workers, notably men. Nor was a significant impact observed on wages, either on average or at any point in

the wage distribution. However, the 2008-09 recession and the ensuing sluggish growth may have modified this situation, especially for the more vulnerable groups in the labour market, which are more likely to be displaced during a downturn, when competition for jobs is greater (Chapter 4). This issue needs to be looked at more closely.

Evidence from Italy suggests that on the whole the country's labour market has benefited from free-mobility inflows from the accession countries, with very small average effects on wages and unemployment. Those results may be related in part to the geographic distribution of EU8 and EU2 immigrants, who migrated mainly to those Italian regions characterised by higher wages and lower unemployment. The trend in the geographic distribution of post-accession migrants in Italy, contrasts with a more dispersed pattern observed in other major receiving countries of post-enlargement free-movement flows. However, worker inflows from accession countries seem to have worsened employment opportunities of immigrants already residing in Italy. This finding is consistent with the segmentation of the Italian labour market and the complementary distribution of immigrants and natives across occupations, as well as with the characteristics of the Italian immigration system, in which – in contrast to many other EU/OECD countries – third-country labour migrants are selected into lesser-skilled occupations (Chapter 5).

Generally, in the main receiving countries, the increased inflows of EU8 and EU2 workers in the period 2004-07 have fuelled strong economic and employment growth and sustained the rapid expansion of certain economic sectors, among them construction. Free-mobility migration has provided a flexible supply of workforce to receiving countries, responding more promptly than other types of migration to deteriorating labour market conditions since 2008. On the other side, in some countries, this inflow has contributed to fuel the housing bubble.

Also in Norway, the dramatic increase in the inflows of migrants from EU accession countries after 2004 (from less than 1 500 annually in the period 2000-03 to 25 000 in 2010, mostly from Poland) was a response to an economic boom, which created strong demand for labour in construction and manufacturing. Over the period 2004-10 employment in Norway increased by 10%. Immigrants from EU8 and EU2 countries accounted for one fourth of total employment growth (Chapter 6).

In Ireland, where the economy boomed around 2004, the labour that flowed in as a result of EU enlargement dampened wage pressures. With labour demand growing strongly, wages would have risen in the absence of large inflows. This would have choked off the increased labour demand and, consequently, employment growth, and hence GDP growth, would have been constrained. With the economic crisis hitting the country hard in 2008-09, outflows of free-movement workers helped to alleviate pressure on the labour market (Chapter 3).

A comprehensive analysis for EEA countries suggests that free mobility has played an equilibrating role, in the face of the uneven impact of the crisis across member countries of the free-movement area, contributing to a 6% reduction in unemployment across the area. However, the size of the effects has been too small overall for free-movement migration to be seen as an adjustment mechanism for asymmetric regional labour market shocks across Europe. Nevertheless, given the limited numbers of free-mobility migrants in the overall labour force, this contribution in the adjustment is not negligible (Chapter 2).

There have been no adverse effects on the welfare systems, in the short-term

In the main receiving countries of post-enlargement labour flows from the EU8 and the EU2, the concerns expressed on the exploitation of the welfare system by immigrants are not supported by analyses. In Italy, studies based on EU-SILC have shown that there are no behavioural differences in access to welfare programmes between migrants and natives (Chapter 5). In the United Kingdom, post-enlargement EU8 immigrants who had at least one year of residence and were therefore legally eligible to claim benefits, were found to make much less use of benefits and public services than natives, even after controlling for demographic characteristics. In the longer term, however, the balance may change due to the effects of the economic crisis, and more generally, as a result of the evolution of migration patterns, with free-movement migrants settling in the United Kingdom with their families, and thus consuming more benefits (Chapter 4).

While in the short-term, migration from the accession countries has brought substantial economic gains for the Norwegian society, increased segmentation and dualisation has been observed in the lower end of the labour market, as EU8 and EU2 migrants have tended to concentrate in low-skilled occupations, accepting lower wages than residents. It has been pointed out that, in the long run, this trend may challenge the sustainability of the Norwegian social model based on a universal and comparatively generous welfare state and on a compressed wage structure. However, this challenge does not seem to stem necessarily from the free movement of workers itself, but rather from shortcomings of national labour market institutions in adapting to increasingly transnational labour markets (Chapter 6).

In some receiving countries, the rapid increase in the inflows from accession countries has generated pressures on local housing stocks and social services, especially in those localities where significant immigration was a new phenomenon. Notably, a presentation on the case of Switzerland, pointed out that, despite overall positive economic impact of the Free Movement of Persons Agreement with the EU, high immigration rates, mostly originating from the EU15, resulting from such agreement represent a challenge for the country's infrastructure system and put unprecedented pressure on the local housing market.

The labour markets in origin countries have not been adversely affected by significant outward migration in the short-term

There is some evidence that, in the short-term, important outflows of workers – either in absolute numbers or relative to the population – have benefited the labour markets of accession countries. In the early post-enlargement period, most of these countries were experiencing economic transition, characterised by an oversupply of labour. In this context, large-scale emigration may have acted as a safety valve, reducing the supply of labour and thus contributing to improving the labour market situation. However, emigration was not the primary cause of the positive developments generally observed in the labour markets of accession countries in the period 2004-07 (decline of unemployment levels and increase in wage levels), but rather a factor that facilitated or accelerated a process which had already started prior to the entry of those countries in the European Union and which resulted mainly from structural changes in the whole economy. In Poland, for example, in the short to medium-term the impact of the relatively massive supply shock at the macro-scale was small if not negligible. In the post-accession period, the situation in the Polish labour market improved significantly, but this was mainly due to the process of job creation and, generally, to the favourable economic

climate. In that context, post-accession migration served essentially to offset the negative impact which structural mismatches and large unemployment could have had, in the short-term, on the transition process, thus helping to improve the long-term development potential (Chapter 7).

Generally, post-accession migration from the EU8 and the EU2 has been characterised by a selective mobility of the youngest and well-educated. In some countries, significant losses of young and highly qualified persons have raised concerns about brain drain. However, it was found that a significant share of the well-educated young people who moved from the accession countries into other EEA countries in the first years following enlargement could not find appropriate work at home. Furthermore, available evidence suggests that low skilled workers were overrepresented notably among recent migrants originating from Bulgaria and Romania.

In the case of Poland (Chapter 7) there was a clear pattern of positive selection of persons who completed tertiary education. This has been described as an *overflow* of economically redundant well-educated young persons. It originated mainly in rural areas. The labour shortages observed in Poland during the post-accession period were comprised mostly of qualified workers but not necessarily highly skilled ones. The main sectors suffering shortages of labour included construction and manufacturing. Thus it seems unlikely that the posts could be filled by expatriating well-educated migrants Although such migrants were ready to take on such lesser-skilled jobs while abroad, they were not willing to do so in their countries of origin.

In a few cases post-accession flows from the EU8 and the EU2 have strengthened the demand for foreign workers. This process has been amplified by demographic changes in the accession countries, characterised by extremely low birth rates and population ageing. In the long term, one of the effects of post-accession migration and related demographic and labour-market changes maybe an increase in the scale of immigration and a rising participation of foreigners in the labour markets of the EU8 and the EU2. In Poland, this tendency was already visible as of 2008, with a dramatic increase in seasonal workers from neighbouring non-EU countries. However, in most other accession countries, whose labour markets have been badly affected by the economic crisis, neither significant immigration from third-countries nor return migration of the domestic workforce seem to be occurring at present, which poses a challenge to long-term recovery and economic growth prospects.

With the boost in outflows headed to the EU15 and Norway in the post- accession period, EU8 and EU2 countries have recorded a significant increase in remittances, which have increased living standards of persons resident in these countries but have sometimes been an inducement to inactivity.

The benefits of free labour mobility to the immigrants themselves are less clear-cut

Despite a relatively high average educational attainment, the overwhelming majority of post-enlargement movers from accession countries have taken up medium- to low-skilled jobs in their EEA receiving countries, concentrating in a few sectors, notably construction, manufacturing, hotel and restaurants, employment in private households and agriculture. A mismatch between educational attainment and job skill levels has been particularly evident for EU8 workers, and especially for Polish workers, who constituted the most educated group (almost 20% of recent Polish intra-EEA movers held a university degree but even higher figures are recorded for Estonia, the Czech republic, Hungary and the Slovak Republic) (Chapters 1 and 7).

In the United Kingdom, in 2007, only 3% of WRS registrants were managers and senior officials or in professional or associate professional and technical positions, compared with 91% of all work permit holders. In contrast, elementary occupations accounted for 72% of WRS registrants but only 2% of work permit holders. Thus, while the work permit system for non-EEA workers responded to shortages of the highly skilled, the WRS responded mainly to demand for the lower-skilled (Chapter 4). This might also explain why the dramatic increase in the inflows from accession countries in the early post-enlargement years was not associated with a corresponding decline in the inflows of third-country nationals.

This strong overqualification pattern was also reflected in the higher earnings disadvantage observed for EU8 and EU2 migrants relative to third-country nationals in some EEA receiving countries. In Ireland, for example, immigrants from accession countries were found to have the biggest wage gap across all immigrant groups (Chapter 3). Similar results were recorded for the United Kingdom.

Among the factors that may explain the disproportionate overqualification observed for EU8 and EU2 workers in the EEA labour markets, in addition to problems in language proficiency, are the predominantly temporary nature of post-enlargement labour flows from accession countries, as well as much higher wages in destination countries, compared to those in the countries of origin of free-movement migrants. Most of the free-mobility movers from accession countries were young people willing to take on jobs immediately upon arrival, accumulate human capital – including language skills – and savings, and return back home. Overqualification is not observed for New Zealanders in Australia, for example, who do not face language barriers when exercising their right to free mobility under the Trans-Tasman Travel Arrangement.

In most countries, the unemployment rate of recent free-mobility migrants was higher than that of the native-born already at the onset of the crisis. However, during the crisis, at the aggregate level, the average unemployment rate of recent migrants from accession countries does not seem to have grown more strongly than that of the native-born, in spite of the fact that the former tend to be in a more vulnerable position in the labour market (Chapter 2).[1]

This seems mainly due to two factors. First, free-mobility migrants tend to be more mobile than the native-born and, in response to deteriorating labour market conditions, have changed jobs and/or moved within the free-mobility area more frequently than the native-born, either by returning to their origin country or by moving to other regions within the free-mobility area. Thus, the fact that recently arrived workers from accession countries did not show higher levels of unemployment than natives in their EEA receiving countries might not necessarily mean that those immigrants suffered less than natives during the crisis. In Ireland, the sharp decrease in the employment rates for EU8 and EU2 immigrants between the first and the last quarter of 2008 did not translate into a corresponding increase in the numbers of unemployed and inactive. Instead, the population of immigrants fell, indicating that outward migration was occurring (Chapter 3).

A second factor explaining the lower increase in unemployment for workers from accession countries at the aggregate level is that, during the crisis, employers may have been more reluctant to lay off those workers than other workers, because of their higher productivity compared with their native-born peers, resulting from higher educational attainment of workers from accession countries compared with the native born employed in the same sectors and occupations. Indeed, there is evidence that with the crisis the

overqualification pattern for EU8 and EU2 migrants in the labour markets of EEA receiving countries has become even more marked (Chapter 2).

However, the picture is far from uniform and sharp differences in the impact of the economic crisis on recent intra-EEA movers have been observed across countries and sectors. More recent data and more detailed analysis are needed in order to see if free-mobility migrants have indeed fared better or worse than their native-born peers during the recession and sluggish recovery.

For those free-mobility migrants returning back to their EU8 and EU2 origin countries, difficulties in the insertion in their home countries' labour markets have been reported. In Poland, the majority of returning emigrants seems to have opted for self-employment (Chapter 7).

Free-labour mobility remains limited

Despite a fairly favourable legal framework for free labour mobility within the European Economic Area, intra-EEA mobility remains a relatively limited phenomenon, even after the increase recorded after the 2004 and 2007 enlargements. According to the Analysis and Evaluation Directorate of the Directorate-General for Employment, Social Affairs and Inclusion (DG Employment) of the European Commission, at the end of 2010, of the total foreign population living in the EU27, 39% came from another EU member country (respectively 22% from the EU15, 9% from the EU2 and 8% from the EU10), compared with 61% from non-EU countries.

Another presentation from the DG Employment has pointed out that, to fully grasp the potential of free labour mobility to respond to labour market needs in the EEA, further efforts are required, namely in terms of enforceability of the already existing accompanying measures with regard to social security rights of intra-EEA movers, as well as the recognition of professional qualifications. Administrative burden, together with difficulties in accessing to information on how intra-EEA free-labour mobility works in practice, have been reported to be important disincentives to free mobility. These remaining obstacles call for measures to improve transparency and to increase awareness of the rights linked to the free movement of workers.

In addition, the labour market outcomes of recent migrants from accession countries – especially those who are staying for longer periods than originally foreseen in their EEA receiving countries – need to be improved, particularly in terms of the returns to education.

Free labour mobility and future labour and skills shortages in the European Union

Demographic forecasts for the next decades point to trends of a shrinking workforce in most OECD countries. In the European Union, after decades of growth, the decline of the working-age population will start in 2013, according to Eurostat demographic projections, which indicate a loss of more than 2.5 million persons in the active population of the EU27 in the decade 2010-20, and of 10 million persons in the following decade. It is expected that, as a consequence of those trends, labour and skill shortages will rise in the European Union over the next decades, challenging economic growth prospects.

In order to maintain growth rates and living standards in the European Union over the medium-term, large increases in employment rates at all ages and in productivity will be

required, although incentives to increase working hours might also play a significant role. Educational policies can contribute to increase productivity, by fostering further increases in educational attainment, by improving the quality and relevance of educational programmes, and stimulating educational research and innovation. Activation policies aimed at enhancing the labour market participation of under-represented groups are also key to reaching medium-term employment targets under the Europe 2020 strategy and beyond. In addition, within a comprehensive package of policies aimed at addressing short to medium-term labour and skill shortages in the EU, migration management has an important role to play, as it is unlikely that improvements in productivity and in the mobilisation of the domestic labour force will be sufficient to fully satisfy future labour market needs (Chapter 9).

At the national level, the relative importance of education, activation and migration policy measures to tackle increasing labour and skill shortages varies depending on the average levels of educational attainment and participation rates of the domestic population in each EU member countries, as well as on its migration history and the capacity to deal with integration issues. Thus, it seems that in the short- to medium-term, for the countries that acceded to the European Union in 2004 and 2007, education and activation policies will be more relevant instruments than migration of third-country nationals in meeting labour market needs, while the role of migration for the EU15 economies seems likely to be more significant (Chapter 10).

The potential of free-mobility of workers within the EEA, to address expected shortages in member countries' labour markets appears limited. According to Eurostat estimates, both demographic and educational trends in the new EU member countries are likely to converge, in the medium-term, to the patterns currently observed in the EU15. Population ageing and increasing rates of enrollment in higher education – which, in the short-term, reduce the labour market participation of the youngest cohorts of the working-age population – are already observable tendencies in the countries which acceded to the European Union in 2004 and 2007 (Chapter 10). Free mobility can act to encourage labour reallocations across regions, reducing regional mismatches between labour supply and demand, but the possibility to satisfy labour and skill shortages in this way is limited if all countries are subject to the same trends. In order to benefit from the still untapped potential of free-labour mobility within the EEA, it is necessary to eliminate remaining obstacles to intra-EEA worker mobility and to improve the labour-market outcomes of free-mobility migrants in their receiving countries. Nonetheless, at some stage, greater recourse to third-country migration will appear inevitable.

An important reservoir of young skilled persons willing to migrate for labour purposes can currently be found in some neighbouring countries of the EEA, and, notably, in those countries located on the southern mediterranean shores, provided employers in the destination countries are able and keen to select from this pool of workers. Improving the co-operation on migration management with those countries may be a necessary step to draw on this potential in order to tackle future labour and skill shortages in the EU. A presentation on migration patterns from south Mediterranean countries to the European Union has drawn an outlook for long-term perspectives of job-skills matching through this channel. At present, growing co-operation among neighbouring countries in the field of migration management to respond to complementary labour market needs can be observed in the CIS region, where demographic prospects for the Russian Federation – which is the centre of the CIS migration system – represent a challenge for the future economic growth and welfare prospects of the country (Chapter 11).

Current employment rates among tertiary-educated immigrants and their children in the EEA are lower than among the native-born and their offspring of comparable educational attainment. This calls for further integration efforts to make more appropriate use of immigrants' skills, if increased immigration is to contribute as expected to meeting future labour and skill shortages. Demographic projections for the EU27 point unequivocally to a growing shortage of young graduates in the medium-term. Well-managed selective immigration could fill part of the needs. However, against the prospect of developing selective immigration based on the level of education, it is important to tackle the mismatches between migrants' educational attainments and labour market outcomes in EEA countries. The capacity of immigration to help manage demographic bottlenecks depends not only on the characteristics of the immigrants themselves, but also on the achievements of labour market integration and non-discrimination policies in the host countries. The various forms of underemployment or misallocation of migrants imply a waste of resources which has economic and social costs. No selective immigration policy can be effective if it does not endeavour simultaneously to reduce these forms of underemployment and sub-optimal allocation of immigrant workforce (Chapter 8).

In conclusion, the potential of the free-mobility regime within the European Union to respond to the demographic changes and the consequent labour and skill shortages to come will be limited. In order to meet the challenges of demographic change, it will be necessary to both better mobilise the available domestic labour supply – including making better use of immigrant skills – and, at the same time, increase labour migration from third countries. As demonstrated by a presentation on the case of Canada, the experience of other OECD countries that have been implementing for several years already a mix of education, activation, integration and migration policy measures to tackle demographic shortages in the workforce, can serve as an example to the EU countries.

Note

1. However, there appear to be large differences by country of origin, with some indications that Bulgarian and Romanian workers suffered significantly more than EU10 nationals.

Part I

The development of free mobility areas

Chapter 1

Free labour mobility areas across OECD countries: an overview*

by

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Since the 1950s, in many parts of the world labour migration movements have been facilitated between selected groups of countries to a lesser or greater extent. If these liberalisation experiences share a number of characteristics, there are also important differences – both in terms of the degree to which the migration movements have been facilitated and in terms of accompanying measures. This chapter aims to provide a better understanding of the development of free labour mobility areas and their impact on migration flows. This sort of movement is expected to play a greater role in responding to ageing populations and workforces.

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Introduction

Since the 1950s, in many parts of the world labour migration movements have been facilitated between selected groups of countries to a lesser or greater extent. If these liberalisation experiences share a number of characteristics, there are also important differences – both in terms of the degree to which the migration movements have been facilitated and in terms of accompanying measures. This chapter aims to provide a better understanding of the development of free labour mobility areas and their impact on migration flows, in the context of the increasing role this sort of movement is expected to play in responding to ageing populations and workforces.

The structure of the chapter is as follows. Section 1.1 presents a brief overview of the trends that have led to the increase in international agreements aimed at facilitating labour mobility within regional or sub-regional areas. Section 1.2 takes stock of selected experiences of free labour mobility areas to examine the extent to which they have affected the scale and composition of regional migration flows, as well as of international migration originating from countries outside the area. Section 1.3 concludes.

1.1. Regional economic integration and the liberalisation of labour mobility: developments across OECD countries

Since the mid-1950s, various international agreements have been concluded among groups of countries – generally characterised by close geographical proximity as well as historic, economic and cultural ties – providing for different degrees of liberalised access to local labour markets for member countries' nationals.[1] This phenomenon has expanded significantly during the past two decades. As a consequence, sub-regional or regional areas within which international labour mobility is, to some extent, liberalised can currently be found worldwide (see Figure 1.1) for a detailed list of countries participating in each area, and Box 1.1 for a description of selected areas outside the OECD).

The foundations of the EU free labour mobility area, for example, lie in the efforts made, after the Second World War by six neighbouring European countries with preferential trade relations, to secure peace through strengthened economic interdependence. The Treaty of Rome establishing the European Economic Community (1957) provided for the gradual realisation of a common market, in which unhampered circulation of goods, persons, services and capital among member countries would be allowed. In this context, the implementation of the freedom of movement of workers was foreseen as one of the key elements underlying a broader process of economic integration. It also responded to attempts that had been made by some European countries since the end of the 1940s aimed at reduce the significant imbalances between labour surplus in some countries – for example, Italy – and unmet labour demand in others.

The European Union represents a particular case where the process of integration among neighbouring countries has gone further, leading to the establishment of an economic, monetary[2] and (to a certain extent) political union. More generally, regional economic integration has developed in various contexts in parallel with globalisation of the economy. Neighbouring countries with strong economic relations have identified efficiency gains from the reciprocal liberalisation of trade, capital movements and sometimes of labour flows, as a means of enhancing the competitiveness of national and regional economies.

In line with the degree of interdependency agreed upon by member countries, regional economic integration has taken a variety of institutional forms, ranging from free or preferential trade areas, to common markets, or to economic unions, all of which imply the harmonisation of selected domestic policies and the adoption of common standards and regulations.

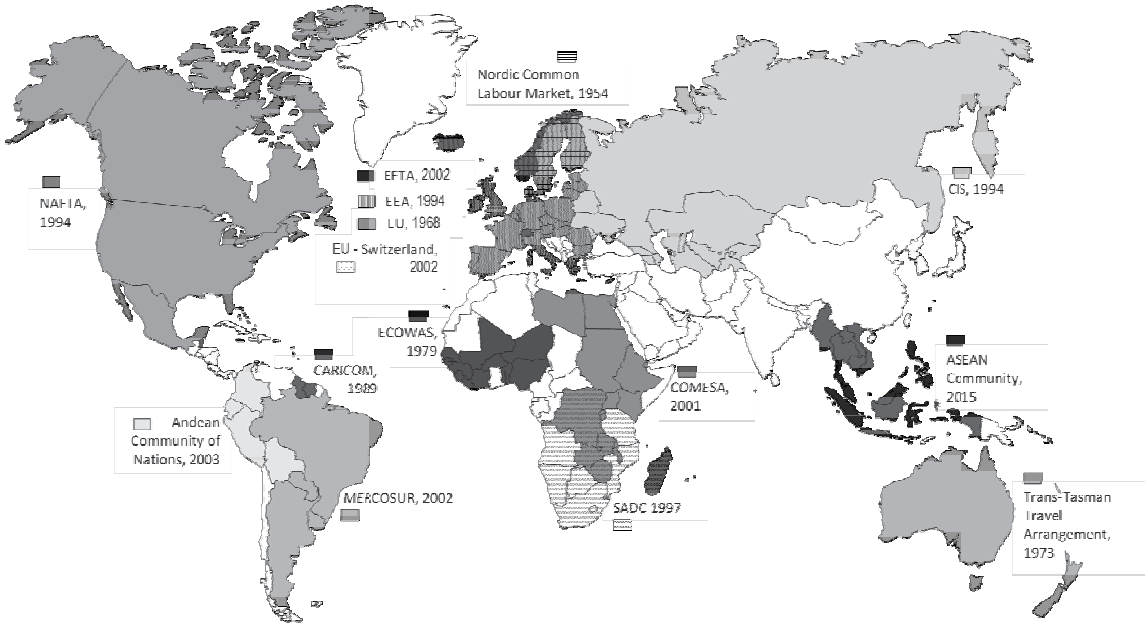
Box 1.1. Regional integration agreements providing for facilitations of workers' movements in selected non-OECD countries

Within the Community of Independent States (CIS), visa-free movement has been allowed for all nationals of member countries (CIS member countries are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, the Russian Federation, Tajikistan, Ukraine and Uzbekistan) since the implementation of the 1992 Bishkek Agreement. The Agreement on Co-operation in the Field of Labour Migration and Social Protection of Migrant Workers, concluded in 1994, aimed at facilitating the employment of CIS nationals in the labour markets of other member countries. However, access to employment for CIS nationals in the labour markets of other member countries has largely remained subject to national law and regulations as well as to bilateral arrangements.

Progressive elimination of obstacles to the free movement of persons was one of the main objectives stated by the treaty establishing the Southern African Development Community (SADC), which was concluded in 1992 among Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. In 1995, a draft protocol on the free movement of persons within SADC was introduced, but was replaced, two years later, by a more limited protocol on the facilitation of movement of persons, the revision has not yet entered into force.

According to the goals set up in the roadmap establishing the ASEAN community, free flow of skilled workers will be implemented by mid-2015 among the member countries Brunei, Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

Figure 1.1. Free/liberalised labour mobility areas across the world



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered.

Source: Author's own work.

Liberalisation of labour mobility within regional areas across OECD countries: common features and different developments

The degree to which labour migration is facilitated varies with the level of regional integration. When it is allowed, facilitated labour market access for member countries' nationals within free trade areas may be limited to certain sectors and to specific categories of workers – generally highly skilled. Higher levels of economic integration, such as those reached within common markets and economic unions, may involve the recognition of a right to full and equal labour market access – *i.e.* free labour mobility – for all member countries' nationals, although it is not unusual that this right is implemented gradually. Accompanying measures, such as mutual recognition of qualifications, international transferability of social security rights, and facilitated rules for family reunification also indirectly affect the possibility to relocate in another country. These measures are frequently enacted in free labour mobility areas but are not systematic in other contexts.

The freedom of movement of workers in the European Union

The European Union is the most significant example of liberalised labour mobility among a group of neighbouring countries, both in terms of the extent of the facilitation granted to member countries' nationals and with respect to the number of countries involved. This is the result of a unique process of economic and political integration that has its origins in the establishment of a common market within the European Economic Community, and which has evolved following the creation and the expansion of the European Union.

The Treaty of Rome establishing the European Economic Community recognised for workers of participating countries a specific right to free mobility, this included the right to move freely, without requiring a visa, within the territory of member countries to look for a job and take up employment, the right to reside there for the purpose of working and, subject to conditions, the right to remain after having been employed. The right to equal treatment with respect to labour market access and working conditions was also granted by the Treaty.[3]

Freedom of movement of workers within the European Economic Community began to be implemented in 1968, following adoption of secondary legislation.[4] Regulations and directives introduced since then have clarified and further developed original provisions of the Treaty. In particular, through application of the right to equal treatment, member countries' workers have been entitled to the same priority to employment as nationals throughout the Community, as well as to the same social and tax benefits, including access to employment and housing services and membership of trade unions.[5] To facilitate the mobility of workers, social security systems have been co-ordinated among member countries,[6] and the mutual recognition of professional qualifications enforced.

In addition, family members of a worker who exercises the right of free movement have been entitled to establish themselves together with the worker in the respective host country regardless of their nationality, and to take up employment. However, the right of free movement within the European Community is extended to third-country nationals only in this specific case.[7]

Freedom of movement of workers, as originally foreseen in the EC Treaty, covered all member countries' nationals engaged in economic activity, but also students engaged in vocational training and jobseekers. Free movement of self-employed workers is also

guaranteed through treaty provisions on freedom of establishment and freedom to provide services. Council Directives adopted in 1990 have extended the rights linked with the freedom of movement also to persons who have ceased their professional activity, and to all students.

Since the 1990s, enhancement of EU regional integration has helped facilitate the mobility of all EU nationals within the European Union. The Treaty of Maastricht has conferred to every EU citizen, regardless of their employment status, the personal right to move and reside freely within the territory of the Union, eliminating the need to obtain a residence card and introducing a right to permanent residence.[8] The incorporation of the Schengen co-operation into the EU legal framework operated by the Treaty of Amsterdam has resulted in further facilitation of movement, as a consequence of the abolition of checks at the internal borders of the participating countries.[9]

Table 1.1 presents the different stages of expansion of the free labour mobility area, following the enlargements of the EEC/EU. For some new member countries, transitional arrangements restricting the right of free movement of workers in the years immediately following their accession have been applied, as a measure to avoid disturbances in the local labour markets of countries already part of the internal market.

Table 1.1. Enlargements of the Community internal market

	Date of EEC/EU membership	Date of full implementation of free labour mobility
Belgium, Germany, Italy, France, Luxembourg, the Netherlands	1957	1968
Denmark, Ireland, United Kingdom	1973	1978
Greece	1981	1987
Portugal, Spain	1986	1992
Austria, Finland, Sweden[1]	1995	1994
Cyprus,[2] Malta	2004	2004
Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia	5/1/2004	01/05/2004-01/05/2011
Bulgaria, Romania	1/1/2007	01/01/2007-01/01/2014

1. As a consequence of the entry into force of the Agreement on the European Economic Area, workers from Austria, Finland and Sweden were granted the right of free movement in the internal market before the accession of those countries to the European Union.

2. Notes on Cyprus:

Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this chapter relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: European Commission.

In the cases of the 2004 and 2007 enlargements, countries that were already members of the European Union (generally referred to as EU15 countries) have been allowed to maintain restrictions to labour market access for nationals from new member countries[10] for up to seven years after the accession date. The transitional period has been divided in

three distinct phases of two, three and two years, respectively. In the first phase, EU15 countries have been allowed to continue applying national rules of access to their labour markets. At the end of this two-year period, each member country could choose to apply national rules for another three years, or to implement the Community rules regulating free labour mobility in the European Union. In this latter case, a safeguard clause allows for the possibility to reintroduce work permits temporarily in case of a labour market disturbance. Maintaining restrictions to labour market access in the third phase is allowed only if there is an ongoing threat of serious disturbances in a country's labour market. Unlike previous enlargement rounds, in those of the 2004 and 2007 the decision on the application of transitional periods was left to each national government, resulting in selective openings of EU15 labour markets to workers from new member countries.[11]

Free movement of workers within the European Economic Area

Since the entry into force of the agreement on the European Economic Area (EEA) on 1 January 1994, participation in the internal market has been extended to the member countries of the European Free Trade Association (EFTA), with the exclusion of Switzerland.[12] The European Economic Area is the free labour mobility area with the highest number of member countries, including all EU countries as well as Norway, Iceland and Liechtenstein.[13]

Within the European Economic Area, workers from the European Union and from the EFTA EEA member countries as well as their family members have the same rights to free mobility – including accompanying rights in terms of social security and recognition of professional qualifications – as those provided for by the EC Treaty and implementing legislation. The agreement on the European Economic Area allows for all new Community legislation concerning the internal market to be applied throughout the EEA. Norway, Iceland and Liechtenstein are also associated members of the Schengen area. As a consequence, the European Economic Area is an area without checks at the internal borders.[14]

Freedom of movement of workers between Switzerland and the European Union and among EFTA member countries

Workers' freedom of movement between Switzerland and the EU member countries is based on the provisions of the bilateral Agreement on the Free Movement of Persons, which began to be implemented in 2002.[15] This agreement is part of a broader range of bilateral agreements through which economic co-operation between Switzerland and the European Union has been regulated since 1972. The form of the bilateral agreements adopted for economic co-operation between Switzerland and the European Union implies a lesser extent of institutionalisation of economic interdependence among participating countries, compared to that underlying the establishment of a common market. Unlike the EEA Agreement, the Agreement on the Free Movement of Persons between Switzerland and the European Union does not provide for the participation of Switzerland in the EC internal market, nor does it allow for automatic adoption by Switzerland of relevant EC legislation.[16]

The Agreement on the Free Movement of Persons gives nationals of Switzerland and European Union the right to work and live in the territory of any of the participating countries. The same rules regulating free mobility of workers within the EC internal market apply under the agreement, except for the obligation for newly arrived

EU/EEA workers intending to stay in Switzerland for more than three months to register with the local authorities and apply for a residence permit before starting to work for a Swiss employer.[17] The agreement has provided for transitional periods during which restrictions of access to the Swiss labour market for workers from participating countries may be maintained, and the number of residence permits issued can be limited.[18] Switzerland also entered the Schengen area in 2008, after which identity checks were abolished at Swiss borders with the other countries party to the area.

The conclusion of the bilateral Agreement on the Free Movement of Persons between Switzerland and the European Union and the establishment of the European Economic Area led to a de facto realisation of free labour mobility among EFTA member countries, as of June 2002. An agreement amending the convention establishing EFTA was signed later the same year, extending to the entire EFTA area, the arrangements existing among EEA EFTA countries with respect to the mobility of persons.

Free labour mobility in the Nordic Common Labour Market

Since 1954, according to the Agreement on the Nordic Common Labour Market, nationals of Denmark, Finland, Norway and Sweden have been granted the right to settle and work in each other's countries, without the need to obtain a work permit.[19] Together with the Agreement on the Nordic Passport Union and the Nordic Social Security Convention, the Agreement on the Common Nordic Labour Market is one of the three founding pillars of the Nordic co-operation, which was established in 1953 and was built on longstanding geopolitical and cultural ties among Scandinavian countries.

Unlike most of the other experiences observed across the OECD area, labour mobility was liberalised within the Nordic Common Labour Market long before trade barriers were lifted.[20] Since the establishment of the Nordic Common Labour Market, not only have workers but all citizens of the Nordic countries have been granted the right to move freely, including students and the unemployed. Since 1955, the Nordic Social Security Convention has granted, since 1955, to all Nordic nationals working or residing in another Nordic country the same social security coverage as that country's own nationals, thus further encouraging workers' mobility within the area. In addition, as a consequence of the implementation of the Agreement on the Nordic Passport Union, starting from 1957 passport checks at the common borders of member countries were abolished. However it was only when, in 1967, the four countries participating in the Nordic co-operation became involved in the new European Free Trade Area with the European Commission via their membership of EFTA that the legal restrictions on trade in commodities between Nordic countries disappeared. Moreover it was not until the late 1980s that the movement of capital between Nordic countries was liberalised completely. A comprehensive common market was only established when the Nordic countries joined the EEA in 1994.

The rapid acceleration of the integration process within the European Union and the gradual accession of Denmark, Finland and Sweden as well as Norway and Iceland to the EC internal market, as a consequence of both the enlargement of the European Union to the Nordic countries and the establishment of the European Economic Area, have overtaken, since the mid-1990s, existing practices of free labour mobility under the Nordic Common Labour Market – a framework which has, nevertheless, continued to exist.

Free movement of workers under the Trans-Tasman Travel Arrangement

Since 1973, free labour mobility for Australian and New Zealand citizens between each others' countries has been regulated through the Trans-Tasman-Travel Arrangement (TTTA). Prior to this date, freedom of movement of persons between Australia and New Zealand was allowed under informal arrangements. The TTTA is not expressed in the form of any binding bilateral treaty between Australia and New Zealand, but rather consists of a series of immigration procedures applied by the two countries.

From 1973 to 1994, the Trans-Tasman Travel Arrangement allowed Australian and New Zealand citizens to enter each other's country to visit, live and work, without the need to apply for authority for admission. New Zealand nationals were exempt from entry visa requirements in Australia, and were considered "exempt non-citizens", *i.e.* automatically permanent residents entitled to health and social security payments and eligible for Australian citizenship. Since 1994, they are instead automatically granted a Special Category Visa (SCV) upon presenting their passports for immigration clearance, and allowed to work and live in Australia indefinitely.

While a SCV is technically a temporary visa, not granting a permanent resident status, from 1994 to 2001 New Zealanders holding a SCV continued to be considered permanent residents. It was only on 27 February 2001 that new amendments to Australian citizenship and migration legislation came into force that required SCV holders who were not in Australia prior to that date[21] to hold a permanent residence permit to access certain social security payments,[22] be eligible for citizenship or sponsor their family members for permanent residence. However, this tightened Trans-Tasman immigration procedures have not affected freedom of access to the labour market, and Australians and New Zealanders continue to be allowed to work and live indefinitely in each other's countries.

Free movement of workers provisions under the MERCOSUR Agreement on the Free Movement of Persons and Residence

Free movement of factors of production was foreseen as one of the fundamental objectives of the Southern Common Market by the Treaty of Asuncion, establishing the MERCOSUR (1991). However, free labour mobility within the MERCOSUR began to be implemented only following the adoption of the MERCOSUR Free Movement and Residence Agreement by Argentina, Brazil, Paraguay and Uruguay, as well as the associate countries Bolivia and Chile, in December 2002.

The agreement grants to all nationals of participating countries freedom to work and live in the territory of each other's countries, provided they have had no criminal record for the past five years. Under the agreement, nationals of MERCOSUR member countries, as well as Chileans and Bolivians, have the right, upon presentation of valid documentation, to enter each other's countries and to be issued a temporary visa allowing for up to two years residence. At expiry, this visa can be converted into a permanent residence permit provided that the applicant has sufficient subsistence means.

Citizens of all countries participating in the MERCOSUR Free Movement and Residence Agreement are granted the right to the same full and equal labour market access as the country's own nationals in the territory of any other member country, as well as the right of equal treatment in terms of working conditions. They are also entitled to family reunification. Accompanying measures to free labour mobility in the field of social security have been implemented within the MERCOSUR as a result of the adoption of the Multilateral Agreement on Social Security in 2005. Recognition of professional as well as academic qualifications in the common market has also been provided for.

As explicitly stated in the preamble of the agreement, the implementation of free labour mobility within the MERCOSUR serves essentially to regularise unauthorised immigrants from neighbouring countries – a persistent phenomenon in the region, specifically for Argentina.[23]

Facilitated labour market access for highly-skilled workers under free trade agreements: the North American Free Trade Agreement

Free trade areas function on a lower level of regional economic integration than common markets. Some free trade agreements provide for the facilitated mobility and labour market access in each others' countries of specific categories of workers such as traders, service providers, intra-company transferees, business visitors and in some cases selected categories of professionals, but they usually do not grant immigration rights in each others' countries.

The NAFTA Agreement was concluded on 17 December 1992 between Canada, Mexico and the United States. It entered into force 1 January 1994. Under this agreement, a specific stream of temporary immigration has been created by the participating countries that allows for facilitated access to specific occupations in local labour markets for qualified professionals who are nationals of any NAFTA country.[24]

Special NAFTA visas (TN visas) can be issued to nationals of Canada, Mexico and the United States, provided that they have a job offer for one of the professional occupations listed in the Treaty, they can prove that they possess the required qualifications and professional experience for the job, and they do not intend to establish permanent residence in the country.[25] NAFTA nationals qualifying under the TN stream are exempted from labour market tests and, if admitted, need not requalify under the host country's certification standards.

The list of NAFTA-recognised occupations can be modified over time based on the parties' agreement. It currently comprises 63 occupations, including accountants, engineers, management consultants, technicians, physicians, nurses and college teachers. Minimum education requirements and alternative credentials for each occupation are specified. At least a baccalaureate degree is required for almost all the occupations listed.[26]

Special NAFTA visas are temporary and have a maximum validity of three years.[27] Although indefinitely renewable, NAFTA visas do not confer permanent immigration rights. Spouses and unmarried children under the age of 21 who are accompanying or following TN visa holders are granted a derivative non-immigrant visa, regardless of their nationality. Under this visa, family members of a TN visa holder are not entitled to work in the host country.

An overview of regional schemes to facilitate worker movements across OECD countries

Analysis of the main characteristics and developments of free labour mobility areas across OECD countries allows identification of a number of common trends in the establishment and the evolution of these areas over time.

Liberalisation of international labour mobility among a group of countries generally occurs in the context of a broader process of regional economic integration and involves countries in geographical proximity and which already have significant and longstanding migration flows among each other. Table 1.2 illustrates the scale of regional migration within selected regional economic integration areas across OECD countries. Based on

data on the stock of foreign-born populations from the *Database on Immigrants in OECD Countries* (2005/06), the figures reported in the table cover, for each area, the nationals of the member countries living in each others' countries, and include persons who did not enter their host country under facilitated labour mobility rules.[28]

Table 1.2. Stock of member countries' nationals residents within the free/liberalised labour mobility area

Regional economic integration area	Stock of foreign-born persons	As a share of total foreign-born	Share of women	Share of highly educated
NAFTA		Persons born in NAFTA		
Canada	310 790	5.1	55.8	52.7
Mexico	135 148	46.8	46.3	18.3
United States	11 576 757	30.0	44.9	10.0
Total NAFTA	12 022 695	26.7	45.2	11.2
European Union		Persons born in the EU25/EU15		
Total EU15	6 402 878	17.5	51.7	25.0
Total EU25	9 386 493	24.7	52.5	23.6
EEA + Switzerland		Persons born in EEA and Switzerland		
Norway	110 437	34.8	50.8	39.3
Total EEA	9 569 806	25	52.5	23.8
Switzerland	847 000	51.4	51.6	23.4
TTTA		Persons born in TTTA		
Australia	349 172	8.5	49.6	25.1
New Zealand	48 918	6.2	54.4	28.5
Total Trans-Tasman	398 090	8.1	50.2	25.5

Note: The categories EU25 and EEA do not contain the following destination countries: Estonia, Latvia, Lithuania, Malta, Slovenia and Slovak Republic.

Source: Database on Immigrants in OECD Countries (DIOC), 2005/06.

In most OECD experience removal of barriers to the international mobility of workers has tended to be a later achievement in the process of regional economic integration, due to higher political resistance to the liberalisation of international flows of workers compared with the liberalisation of flows of goods and capital. However, liberalisation of international workers mobility is not necessarily the final step of economic integration. In certain cases its implementation can be followed by the introduction of measures providing for a certain degree of harmonisation of social security systems among member countries, as well as the adoption of reciprocal procedures for the recognition of academic and professional qualifications.

As a general rule, under a free labour mobility area, the liberalisation of international labour mobility does not apply to all persons residing in the area, but only to the citizens of the member countries of the area. In certain cases, the free labour mobility regime may be extended to certain third-country nationals in specific situation – *i.e.* family members of a citizen of a participating country of the area, who has exercised his/her right of free movement.

A trend towards expansion of the territory covered has been observed for some free labour mobility areas across OECD countries. This trend is generally irreversible; meaning that membership of a free labour mobility area may expand but not reduce over time.[29]

Gradual implementation of free labour mobility through growing facilitation of international workers' movements among member countries is another broad tendency in

the establishment and expansion of free movement areas. However, unlike horizontal expansion in terms of increased membership, vertical expansion through deeper liberalisation of labour mobility among member countries is often – at least temporarily – reversible. Safeguard clauses providing for the temporary reintroduction of restrictions of access to the domestic labour markets of member countries in case of above-average influx of workers from the other member countries have been foreseen in the latest EU and EEA enlargement rounds, as well as under the Agreement on the Free Movement of Persons between Switzerland and the European Union. Spain has recently made use of such a safeguard clause, suspending the application of Community rules on free labour mobility for Bulgarian and Romanian workers in its labour market. The progressive tightening of Trans-Tasman immigration procedures in Australia is another example of the reversible nature of the liberalisation of international workers' flows.

Table 1.3 summarises the main features of current experiences of regional liberalisation across OECD countries.

Table 1.3. Intra-regional liberalisation of worker's movements across OECD countries

Agreement	Number of member countries[1]	Level of economic integration	Free labour mobility for member countries citizens	Co-ordination of social security systems	Recognition of professional qualifications	Family members of member countries citizens
European Union (EU)	27	Economic and political union	Yes: personal right to free labour mobility. No visa or residency requirements,[2] equal treatment asthe country's own citizens in labour market access and working conditions	Yes: right to combine periods of social contributions and pension contributions in different member countries. Same entitlement to statutory social security provisions as the country's own citizens.	Yes: automatic	Family members of a member country citizens exercising the right of free movement are entitled to establish themselves in the respective host country, regardless of their nationaly and take up employment
European Economic Area (EEA)	30	Common market	Yes: personal right to free labour mobility (as above)	Yes: as above.	Yes: automatic	As above
Common Nordic Labour Market (NORDIC)	5	Common market	Yes: personal right to free labour mobility (as above)	Yes: same social security and social rights as the country's own citizens	Yes: automatic	As above
Free Movement of Persons Agreement between Switzerland and the EU	28	Bilateral agreement	Yes: as above but no obligation for EU citizens to register and apply for residence permit before starting work in Switzerland	Yes; as in the EU and EEA	Yes: automatic	As above
Trans-Tasman Travel Arrangement (TTTA)	2	Commonly agreed immigration procedures	Yes: free labour mobility SCV issued automatically. Since 2001, same conditions as for third-country citizens applying for permanent residence.	Yes, but need to obtain permanent reseidency to access certain social security payments (mainly working age income support payments)	n.a.	Family relationship temporary visa (five years) granted to third-country nationals of SCV visa holders. Does not confer work rights.
MERCOSUR Agreement on the Free Movement of Persons and Residence	6	Common market	Yes: right to obtain a two-year work and residence visa that may be converted into permanent; equal treatment as the country's own citizens in labour market access and working conditions. Exemption from labour market test.	n.a.	Yes: automatic	Granted an accompanying visa.
NAFTA	3	Free trade area	No, but specific temporary immigration stream. TN visa (maximum three years renewable) may be issued if member country national has a job offer for NAFTA-listed profession and proof of required qualifications.	No	Required qualifications specified in the list of NAFTA-authorised occupations.	Family members are granted a derivative non-immigrant visa, regardless of their nationality. Under this visa, they are not entitled to work.

1. For the list of member countries under each agreement, see Annex 1.A1.

2. Except during transitional periods.

Source: Author's compilation based on original research.

1.2. The impact of free labour mobility areas on the international migration of workers

The purpose of this section is to analyse the effects of establishing a free labour mobility area on the evolution of labour migration flows, between the member countries of the area as well as from third countries. The analysis covers mainly the European Economic Area and Switzerland, which present the most significant examples of recent expansion of facilitated labour movements at regional level within the OECD area. Free mobility under the Trans-Tasman Travel Arrangement is discussed separately (Box 1.2), as the conclusion of the TTTA represented a process of formalisation, rather than the establishment of a free movement area among member countries.

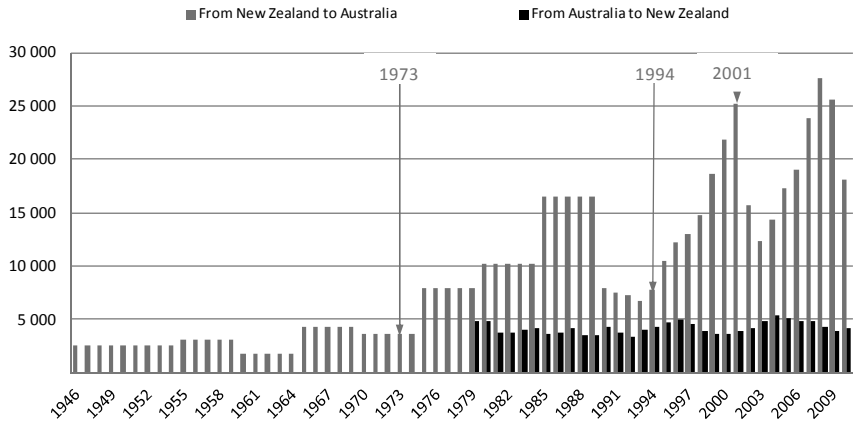
Box 1.2. The characteristics of free mobility under the Trans-Tasman Travel Arrangement

As explained in Section 1.2 above, flows of Australian and New Zealand nationals in each other country for the purpose of work and residence have always been unrestricted. The Trans-Tasman Travel Arrangements of 1973 merely recognised the fact that New Zealanders and Australians should continue to be able to move freely between the two countries. The 1994 and 2001 legislative changes in Australia did not affect the right of New Zealanders to work and live indefinitely in Australia. Rather than being dependent on administrative or legislative developments, the evolution of the scale of Trans-Tasman flows between Australia and New Zealand is driven by the relative economic conditions of the two countries.

Trans-Tasman movement is substantial and of considerable significance to both countries. However, there is a long-term trend of much greater flows from New Zealand to Australia than from Australia to New Zealand, both numerically and in proportion to the population of origin. While the exact numbers vary from year to year, in recent years the annual number of Trans-Tasman arrivals in each country has been approximately 800 000. This number includes all categories of entries: short-term visitors, long-term visitors, and permanent settler arrivals. The definition of each category is based on migrants' intentions as recorded in their passenger card, respectively less than 12 months stay, 12 months or more, permanent stay. Over the period 2000-10, an annual average of more than 20 000 long-term and permanent settler arrivals of New Zealand nationals has been recorded in Australia, while the corresponding figure for Australians in New Zealand is less than 5 000 (see figure below).

The relatively high emigration to Australia of economically active New Zealanders has raised concerns of a Trans-Tasman brain drain from New Zealand. However, recent research carried out by the New Zealand Department of Labour (Stillman and Velamuri, 2010) has shown that New Zealanders living in Australia generally have the same educational distribution as those remaining in New Zealand and receive the same returns to their human capital, despite a sizeable gap in average wages between, respectively, the high-wage areas in Australia and in New Zealand. Conversely, Australians in New Zealand were found to be more educated than Australians in Australia, even though the average wages and returns to human capital are lower in New Zealand.

Long-term visitors and settler arrivals from New Zealand to Australia (1945-2010), and from Australia to New Zealand (1979-2010)



Source: Australian Department of Immigration and Citizenship; Statistics New Zealand.

To what extent has the establishment of free labour mobility areas affected the scale, nature and composition of international flows of workers within those areas?

The impact of the 2004 and 2007 enlargements of the European Union and the European Economic Area on the scale of labour inflows from the EU new member countries to the EU15 and Norway

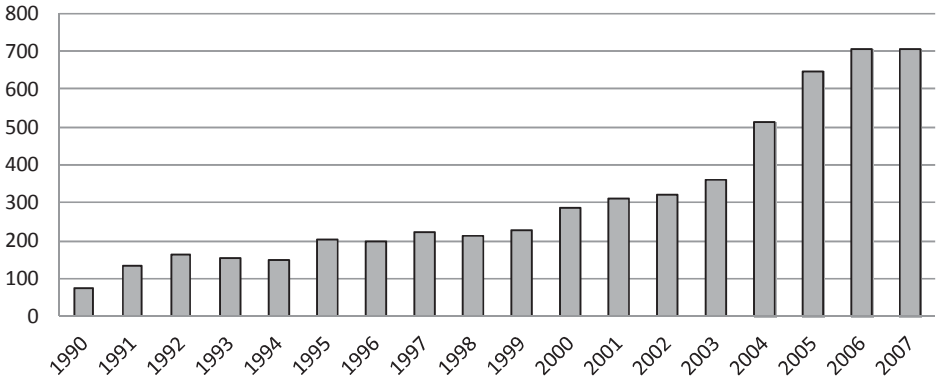
The latest two rounds of the EU enlargement are of particular interest for the analysis, due to the unprecedented number of countries involved as well as to the high migration potential of accession countries. The 2004 EU enlargement to the Czech Republic, Cyprus,[30] Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia represents the widest single expansion of the Community internal market so far. Taken together, the 2004 EU enlargement and that of 2007 to Bulgaria and Romania almost doubled the number of countries participating in the internal market. Eurostat demographic statistics show an increase by more than 19% of the EU population following the 2004 enlargement, and a further increase by more than 6% in 2007. In addition, compared to previous enlargement rounds, greater differences in income levels and labour market conditions existed between the accession countries and the EU15.

Shortcomings in existing data are a challenge to analyses of the scale of post-enlargement labour mobility flows from the EU8 and the EU2[31] to the EU15. The main limitation is that national statistics of many EU countries do not report flows of EU migrants. The analysis presented here is mainly based on the OECD series on inflows of foreign workers, elaborated on the basis of administrative data collected annually, in most OECD member countries, by the ministry in charge of work permit delivery and concerns the number of work permits issued during the year.[32] Data for some countries include seasonal workers. For those EU15 countries that fully opened their labour markets to workers from new EU member countries immediately after accession, data are taken from alternative sources. In the case of Ireland, the inflow of EU8 nationals after 2004 is obtained using the Personal Public Service (PPS) numbers. The PPS number is the unique identification number applied by various government departments and other public service providers for transactions with individuals. Every person having the right to social security payments in Ireland is attributed a PPS number.[33] Data on the entries of EU8 workers in the United Kingdom are drawn from the Worker Registration Scheme (WRS). Although granted access to the labour market in the United Kingdom since 1 May 2004, workers from EU8 countries were required to register under the WRS until 30 April 2011, as a way for the UK Government to keep track of their inflows to the national labour market. Data for Sweden are published by the Swedish Migration Board.

Available data on annual inflows of workers from EU8 countries into the EU15 show, globally, a marked increase in the first four years following EU enlargement compared with the pre-accession period. While during the period 1990-2003, on average, 215 000 EU8 workers had entered EU15 countries annually – peaking at almost 363 000 in 2003 – an average of almost 650 000 yearly entries were registered in the period 2004-07 – hitting a record high of 708 000 entries in 2007. However, as shown in Figure 1.2, an increasing trend in the inflows of workers from the EU8 into the EU15 had been observed since the early 1990s, and, since 2001, annual entries of EU8 workers in the EU15 have remained above 310 000. In addition, part of the increase in the inflow of EU8 workers registered in EU15 countries in the years immediately following the lifting of restrictions on labour market access may have been the result of EU8 nationals already employed illegally in the EU15 countries regularising their situation.[34]

Figure 1.2. Inflows of EU8 workers into the EU15, 1990-2007

Thousands



Note: Data are missing for Austria and Greece. Data for Germany and the United Kingdom include seasonal workers. Data for some years are missing for the following countries: Belgium (1990), Germany (only seasonal workers in 2005), Denmark (prior to 2000), Spain (1996, 1997), Finland (prior to 2000), United Kingdom (prior to 1995), Ireland (prior to 1998 for the EU8; prior to 2001 for the EU2), Italy (prior to 2002, 2004, and 2007), Luxembourg (prior to 2006), the Netherlands (prior to 1995, and 2007), Portugal (prior to 2001 and after 2006).

Source: OECD International Migration Database.

Labour mobility from the EU8 to the EU15 has decreased since 2008. This trend can be attributed to a reduction of the migration potential of those countries, due to improved labour market conditions in some origin countries, and to the economic crisis affecting the main receiving countries among the EU15, with the consequent decline in labour demand in those countries. Those developments are analysed in further detail in Chapter 2 in this volume.

Table 1.4. Inflows of EU2 workers into the EU15, 2000-09

Country of destination	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Belgium	300	400	300	300	200	300	400	4 400	5 500	5 900
Germany	..	..	..	..	..	32 000	54 800	57 400	78 000	92 200
Denmark	300	300	300	100	100	200	200	1 000	800	1 800
Finland	100	100	100	100	100	100	200	300	600	400
France	300	500	400	400	400	500	500	2 700	4 400	3 000
United Kingdom	..	..	..	..	..	..	..	29 800	19 600	21 500
Spain	..	..	9 600	7 100	28 300	131 900	17 400	39 200	..	..
Ireland	..	2 900	3 200	3 400	13 500	19 300	16 500	11 700	7 200	4 000
Italy	12 100	..	..	143 200	..	17 500	22 200	..	..	..
Luxembourg	..	..	..	..	..	..	100	300	..	..
Netherlands	1 000	1 200	1 200	1 500	1 700	2 400	3 000	3 700	4 100	4 200
Portugal	..	9 300	4 300	1 300	700	700	1 200	..	..	..
Sweden	300	300	400	300	500	500	600	..	..	..

Note: Data for Austria and Greece are missing.

Source: OECD International Migration Database.

The evolution of the annual inflows of workers from Bulgaria and Romania into the EU15 as illustrated in Table 1.4 reflects partial data series in two of the main countries of destination, Spain and Italy. Despite the issue of missing data, what appears clear is that migration from Romania and Bulgaria was already at a high level prior to accession, while migration from the EU8 was significantly boosted by accession. The rise in the annual level of inflows of EU2 workers into Italy and Spain prior to accession, in 2003 and 2005, can largely be explained by the large regularisations held in Italy, in 2002 (permits issued in 2003), and Spain, in 2005, which allowed many illegally employed Romanian workers to appear in the statistics of work permits. In 2004, for which Italian data on annual inflows are missing, the Italian population registry shows an increase of 75 000 in the stock of Bulgarian and Romanian residents.[35]

As to Italy, in absence of work permit data for the years 2007 to 2009, the series on the annual increase of the stock of Romanian residents captured by the population register give an indication of the trends of post-enlargement flows. While around 40 000 additional Romanian residents were recorded at the end of 2006 compared with the previous year, the corresponding figure for 2007 was above 280 000. This record increase in the stock of Romanian residents in Italy in 2007 could be largely attributed to emergence of Romanians previously present without permits from illegal situation.[36] However, annual additions to the stock of Romanian residents in Italy remained at much higher levels in 2008 and 2009, compared with the pre-accession period – with, respectively, around 170 000 and 91 000 additional Romanians registered. This suggests that even though Romanian immigration into Italy was already at high levels before 2007, the EU accession did result in a further increase.

As explained in Section 1.1 above, selective application of transitional arrangements by EU15 countries meant that national labour markets opened to workers from new EU member countries at different dates during the seven years following their accession.[37] In the case of the 2004 enlargement, only Ireland, the United Kingdom and Sweden applied Community rules for the free movement of workers to EU8 nationals immediately after the accession.[38] Finland, France, Greece, Italy, Luxembourg, the Netherlands, Portugal and Spain all opened their labour markets to EU8 workers during the second phase of the transitional arrangements, albeit at different moments.[39] Only Austria and Germany – the two destination countries that had received the bulk of the worker inflow from EU8 accession countries prior to enlargement – maintained restricted access to their labour markets for EU8 workers until the end of the third phase of the transitional period.[40] As for the 2007 EU enlargement, only Finland and Sweden among the EU15 fully opened their labour markets to EU2 workers at the beginning of the first phase of the transitional period. They were followed by Denmark, Greece, Spain and Portugal, during the second phase. However, Spain later used the safeguard clause, reintroducing restrictions on access to its labour market for Romanian workers on 22 July 2011.

Even in those countries that have continued to restrict labour market access for workers from new EU member countries after the accession date, there have been facilitations in the form of privileged quotas/access in certain occupations (*e.g.* Austria, Germany, Greece, the Netherlands and Spain; in Ireland and the United Kingdom for EU2 workers), or for seasonal workers or contract workers (Germany); full labour market access granted in shortage occupations (*e.g.* France, Italy); or through bilateral agreements (particularly Spain, Italy, and Greece have a number of bilateral agreements in place which facilitate immigration from Bulgaria and Romania). In Denmark, since 2008, EU8 and EU2 workers who can prove that they have a job which meets regular standards with respect to wage and working conditions are exempt for work-

permit requirement.[41] In all EU countries, nationals from other member countries enjoy a preferential treatment vis-à-vis third-country nationals if access to the labour market is granted. In addition, the fact that they can enter to search for work accords them an advantage over third-country nationals in the labour market.

All in all, aggregated data show a significant increase in the level of inflows of EU8 and EU2 workers into the EU15 since 2004, compared with the period 1990-2003. However, the national breakdown reveals great heterogeneity in the extent of post-enlargement labour mobility both among origin and destination countries within the European Union. Thus few countries have received the majority of worker inflows from new EU member countries. The increase in flows to the EU15 from the EU8 is largely accounted for by just two countries, out of the three that fully opened their labour markets upon accession in 2004, namely the United Kingdom and Ireland. Inflows of workers from the accession countries into Germany remained relatively stable, at high levels, after the enlargement, but seasonal workers with three-month permits have accounted for the great majority of those flows. Spain and Italy have been the preferred destinations of workers from the EU2 (Figure 1.3).[42]

As shown in Figure 1.4, the bulk of workers inflows from the new EU member countries into the EU15 have originated from Poland and Romania, which are also the two most populated enlargement countries. A high degree of polarisation has characterised the distribution of post-enlargement labour mobility flows, particularly in the first years following the accession, with Nationals from Poland, the Slovak Republic and the Baltic countries mainly entering the labour markets of Germany, the United Kingdom and Ireland, while flows from Romania and Bulgaria are mainly headed to Spain and Italy.[43]

Figure 1.3. Main EU15 destination countries of EU8 and EU2 workers inflows, 2003-09

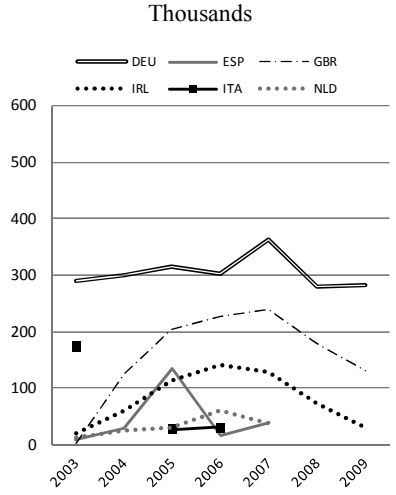
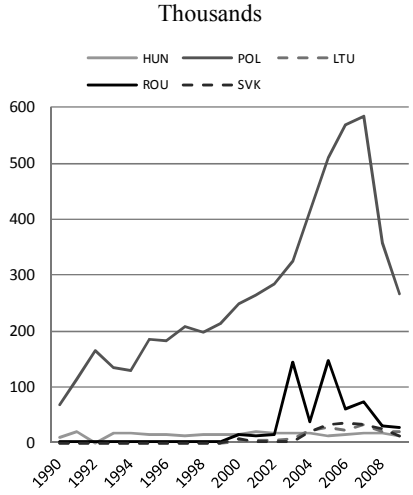


Figure 1.4. Main EU8 and EU2 origin countries of workers inflows into the EU15, 1990-2009



Note: Data are missing for Austria and Greece. Data for Germany and the United Kingdom include seasonal workers. Data for some years are missing for the following countries: Belgium (1990), Germany (only seasonal workers in 2005), Denmark (prior to 2000), Spain (1996, 1997, 2008, 2009), Finland (prior to 2000), France (2009), United Kingdom (prior to 1995), Ireland (prior to 1998 for the EU8; prior to 2001 for the EU2), Italy (prior to 2002, 2004, and 2007 to 2009), Luxembourg (prior to 2006, and 2008, 2009), the Netherlands (prior to 1995, and 2007 to 2009 for the EU8), Portugal (prior to 2001 and after 2006), Sweden (after 2007).

Source: OECD International Migration Database.

The selective openings of the EU15 labour markets to workers from EU8 and EU2 countries, resulting from different national implementation of transitional arrangements, cannot explain alone the heterogeneous and polarised distribution of post-enlargement intra-EU labour mobility. Other factors such as labour demand, language spoken, and existing networks in destination countries have played a role at least as important as the regulations foreseen under the transitional arrangements in driving labour migration flows from new EU member countries to the EU15.

As noted, the United Kingdom, Ireland and Sweden opened their labour markets fully in 2004. However, only two of these saw significant increases in flows. The rise in workers' inflows from new EU member countries into the United Kingdom and Ireland in the years following the 2004 enlargement was undoubtedly encouraged by those two countries immediately lifting restrictions to labour market access for EU8 nationals. However, other factors made those countries attractive as well, namely favourable labour market conditions – including relatively higher wages – and flexible labour market institutions in the United Kingdom and Ireland. Furthermore, the opportunity to improve their proficiency in English may have acted as an additional incentive for young workers in the EU8 countries. In the United Kingdom, almost 126 000 entries of workers from the new EU member countries were recorded under the Workers Registration Scheme (WRS) in 2004, rising from less than 2 300 in 2003. The three years that followed saw additional annual entries of over 200 000 workers under the WRS, peaking at 240 000 in 2007. Likewise, in Ireland, more than 60 000 PPS numbers were issued to nationals of the enlargement countries in 2004, a three-fold increase compared with the previous year. The corresponding annual figures for the period 2005-07 have always exceeded 110 000, hitting a record high of more than 140 000 in 2006.

Conversely, in spite of having granted full labour market access to workers from the EU8 immediately at the beginning of the transitional period, Sweden did not receive massive inflows of those workers after 2004.[44] Over the period 2004-06 the Swedish Migration Board recorded an annual average of around 4 600 entries of workers from the new EU member countries, compared with 4 400 in 2003. In addition to the issue of language, the characteristics of the Swedish labour market may also play a role. A lower number of vacancies, due to low turnover, affects demand, especially in less skilled employment. Nor were labour migration flows greatly increased by general liberalisation of Swedish labour migration policy for non-EU workers in December.[45]

On the other hand, even maintaining particularly tight restrictions to labour market access for workers from the EU8 countries throughout the transitional period, Germany has nonetheless continued to be the main destination country for those workers after thfollowing enlargement, albeit seasonal workers have accounted for the great majority – about 90% – of labour inflows from accession countries into Germany both before and after 2004. However, notwithstanding constant or growing labour demand in certain sectors, network effects, traditional widespread knowledge of the German language among EU8 nationals,[46] and geographical proximity between main EU8 origin countries and Germany, the increase in annual inflows of workers from new EU member countries compared with the pre-accession years has been much lower both in absolute and relative terms in Germany than in Ireland and the United Kingdom, and has mostly been due to an increase in seasonal flows. Thus, transitional restrictions appear to have been effective in limiting post-enlargement inflows of workers from new EU member countries into Germany.[47] The yearly average inflow of labour from accession countries has exceeded 200 000 since 1997. In 2004, almost 300 000 entries of workers from new EU member countries were registered in Germany, a 3% increase compared with the corresponding

figure for 2003 (290 000). Annual average entries of EU8 and EU2 workers recorded for the period 2005-07 have been almost 330 000, peaking at 364 000 in 2007.

Figure 1.5 illustrates the evolution of the annual entries – in absolute numbers – of workers from the EU8 and EU2 countries into Germany, the United Kingdom, Ireland and Sweden, from the pre-accession to the post-accession period – for the years for which respective data are available. Figure 1.6 shows the increase of EU8 workers' inflows into those countries after 2004, relative to the average level of inflows observed in the period 1998-2003.

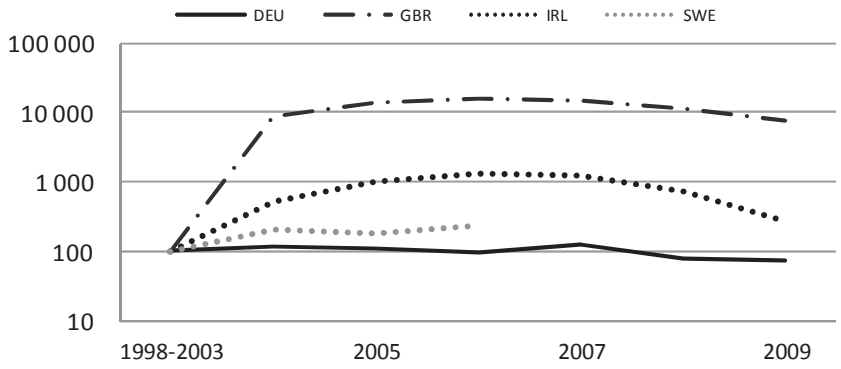
Figure 1.5. Annual evolution of the inflows of EU8 and EU2 workers in selected EU15 countries

Absolute numbers, in thousands

Source: OECD International Migration Database.

Figure 1.6. Evolution of the inflows of EU8 workers in selected EU15 countries, 1998-2009

Index 100 in 1998-2003, logarithmic scale



Note: Data for Germany and the United Kingdom include seasonal workers. Data for Ireland are overestimated as they also include EU8 and EU2 nationals not in employment. Data are missing for the following years: Germany (only seasonal workers in 2005), Sweden (after 2007). The index in Figure 1.5 is calculated based on the average annual entries of EU8 workers in the period 1998-2003.

Source: OECD International Migration Database.

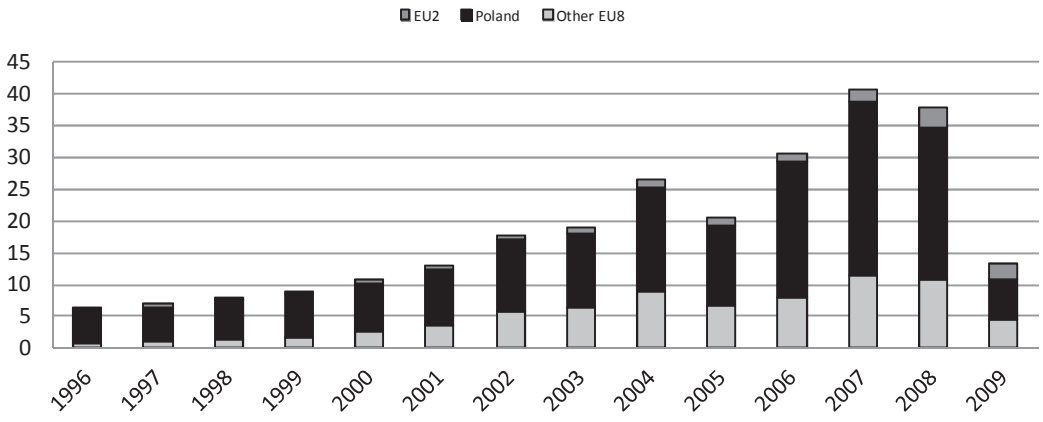
Common linguistic roots and high labour demand – both formal and informal – in specific sectors such as construction and domestic and elderly care, together with the favourable regulatory framework foreseen in bilateral agreements, have been the main drivers for EU2 workers' inflows into Spain and Italy. The large increase in those inflows recorded in regularisation years confirmed that easy access to illegal employment has constituted an important pull factor for Bulgarian and Romanian workers into Italy and Spain, at a time when their opportunities for legal immigration for employment were largely restricted.

As a consequence of the association of the European Economic Area in the EU enlargement process, transitional rules for the free movement of workers from the EU8 and the EU2 countries have been applied also by Iceland, Liechtenstein and Norway (see Section 1.2). Available data on annual entries of workers from accession countries into Norway over the period 1996-2009 suggest a steady increase in the inflows of EU8 workers from 1996 to 2007, with the exception of 2005 (Figure 1.7). The pace of the increase accelerated in 2006 and 2007, most likely as a consequence of the loosening of the restrictions to labour market access for EU8 workers at the start of the second phase of the transitional period. At that time there was also growing labour demand in Norway due to the oil boom.

The highest annual increase in the number of entries of EU8 workers in Norway was recorded in 2006, with the inflow reaching almost 30 000 from barely 19 000 in 2005. In 2007, the annual inflow reached its record high, at almost 39 000. The evolution of the annual entries of EU2 workers into Norway has also followed a growing trend since the mid-1990s, albeit remaining at a much lower level. The highest number of entries was recorded in 2008, despite the fact that restrictions to labour market access placed on Bulgarians and Romanians were maintained after 2007: it amounted to around 3 100. Poland, Lithuania, Latvia and Romania have been the main origin countries of the inflows of workers from the EU8 and the EU2 into Norway.

Figure 1.7. Evolution of the inflows of EU8 and EU2 workers into Norway, 1996-2009

Thousands



Source: Norwegian Directorate of Immigration.

The nature of post-enlargement labour mobility from the new EU member countries to the EU15 and Norway

With regards to the nature of post-enlargement labour mobility from the EU8 and the EU2 into the EU15 and Norway, one of the most unexpected and salient characteristics has concerned occupational distribution relative to the educational distribution of migrant workers from the new EU member countries in their destination countries. Despite a relatively high average educational attainment, the overwhelming majority of post-enlargement movers from accession countries in the EU15 and Norway have gone into medium- and low-skilled jobs, notably in manufacturing, construction, hotel and restaurants, employment in private households and agriculture.

Mismatch between educational and occupational distribution has been particularly evident for EU8 workers, and especially for Polish workers, which constituted the most educated group (Drinkwater *et al.*, 2006). According to Brücker *et al.* (2009), the average educational attainment structure of recent EU8 movers has been similar to that of the native population in receiving countries, with around 60% of medium educated, a quarter of highly educated, and only 15% of low educated. However, their occupational distribution has been quite different from that of the overall EU15 workforce. Almost a third of workers from the EU8 have taken low-skilled elementary jobs, and they have been strongly underrepresented in highly skilled jobs. The percentage of those in low-skilled occupations rises to 40% in the case of recent EU2 movers. However, this group has taken on a substantially higher share of low-skilled jobs, compared with nationals from the EU8. In countries that have maintained tight restrictions to labour market access for nationals of the accession countries after the enlargement, such as Germany, it seems that employment patterns of recent EU8 and EU2 movers have tended to match more closely their skill levels (Baas and Brücker, 2007).[48]

Another characteristic of post-enlargement labour mobility relates to the importance of temporary movements. This has been particularly the case for the flows originating from the EU8, especially Poland. The phenomenon is illustrated, for example, in the United Kingdom by the importance of the discrepancy between flow and stock figures. While the WRS recorded a total of almost 770 000 approved workers from the

EU8 between May 2004 and December 2007, the stock of employed EU8 residents in the United Kingdom increased by around 390 000 between 2003 and 2007, according to LFS data. That suggests that around half of the EU8 workers who entered the United Kingdom since enlargement had left the country after four years (see also Pollard *et al*., 2008). A similar picture emerges for Ireland when comparing PPS numbers issued to nationals from the new EU member countries with the increase in their resident stock according to the Irish Quarterly Household Survey. The same does not, however, appear true for EU2 workers in their main destination countries.[49]

Finally, with regards to the geographical distribution, a notable feature of post-enlargement migration from new EU member countries into the EU15 and Norway is that it has tended to spread out more across regions in destination countries. This is in contrast to migration from third countries, which tends to concentrate more in larger cities. In the case of the United Kingdom, for example, research has shown that EU8 and EU2 nationals of working age are half as likely to live in London compared with other immigrant groups and have gone to regions that had previously attracted few immigrants (Pollard *et al.*, 2008).

The impact of implementation of the Agreement on the Free Movement of Persons between Switzerland and the European Union on the scale of EU workers' inflows into Switzerland

Labour migration from the EU15 and EFTA to Switzerland was already well established prior to the entry into force of the bilateral Agreement on the Free Movement of Persons in 2002. In addition, controls with respect to wages and working conditions and the priority given to Swiss residents were not lifted until 2004, while numerical limits for the access of EU15 and EFTA workers into the Swiss labour market remained in force until June 2007.[50] The quota for long-term permits (more than 12 months) was set at 15 000 per year. As this limit was rapidly filled, many EU15 and EFTA migrants received short-term permits at first, which were later renewed until converted to long-term permits in the following years. Altogether, those circumstances explain the trends observed in the annual inflows of EU15 and EFTA workers in Switzerland since 2002 (Figure 1.8).

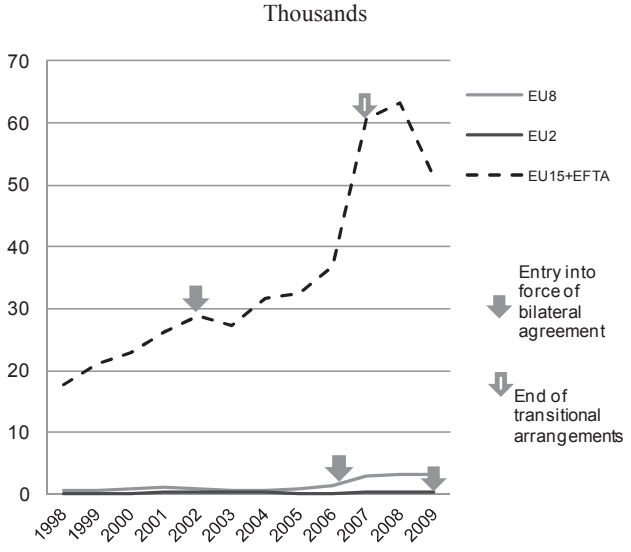
A modest increase in the total number of short-term and long-term permits granted to EU15 and EFTA nationals was recorded in the first two years of implementation of the agreement, relative to the 2001 level. On average, almost 28 000 entries of EU15 and EFTA workers were registered in Switzerland in the period 2002-03, compared with almost 26 000 the previous year. The annual increase was more relevant over the period 2004-06 – when the yearly number of permits granted grew by over 20% compared with 2001 – and boosted in 2007, when the annual entries exceeded 60 000 rising from less than 37 000 in 2006. After a record high of 63 000 entries in 2008, the annual inflow of EU15 workers into Switzerland contracted in 2009, albeit remaining at much higher levels compared with the period preceding full establishment of free mobility.

Flows from the EU8 were much smaller: on average, fewer than 850 short and long-term permits were issued annually in the period 1998-2006. Following the entry into force of the first additional protocol to the bilateral Agreement on the Free Movement of Persons, this number increased steadily, during the period 2006-09, although remaining very marginal in absolute terms and below the quota allotted – which was fixed at 2008 long-term permits and 26 000 short-term permits per year. In 2006, around 1 500 EU8 workers entered Switzerland, a 90% increase compared to 2005. The corresponding figure for 2009 was 3 550. However, quotas and other restrictions on

access to the Swiss labour market for EU8 workers ended on 1 May 2011. With the end of restrictions, inflows of workers from the EU8 rose from about 160 per month in the period September 2009-April 2011 to 740 per month in the period May-August 2011.

EU2 worker inflows into Switzerland have been even smaller than those of the EU8, remaining below the average annual level of 300 entries over the period 1998-2009. Since the implementation of the second protocol to the Agreement on the Free Movement of Persons between Switzerland and the European Union in June 2009, the admission of Bulgarian and Romanian workers in the Swiss labour market is subject to numerical limits and a labour market test as well as wage controls, under a transitional period due to end by June 2016.[51] The annual quotas of both short-term and long-term permits – respectively set at 523 and 4 987 – have been consistently filled, so flows have not varied. As of July 2011, annual quotas for EU2 workers' inflow into Switzerland have been increased to 684 long-term permits and 6 355 short-term permits.

Figure 1.8. Evolution of the annual inflows of workers from the EU15 and EFTA, EU8 and EU2 into Switzerland, 1998-2009



Source: Swiss Federal Office of Migration.

Did the establishment of free labour mobility areas have an impact on the scale of international labour migration flows headed to the member countries of those areas and originating from third countries?

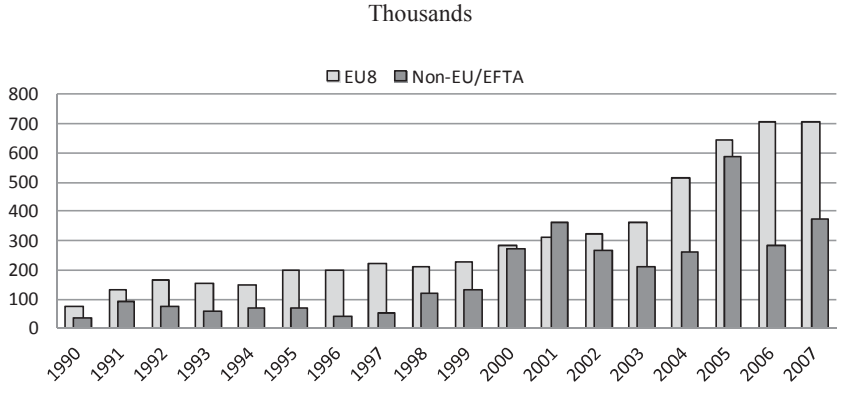
Growing free labour mobility inflows since 2004 have not affected proportionally the scale of the inflow of non-EU/EFTA nationals in the EU15, Norway and Switzerland

The establishment of a free labour mobility area among a group of countries might make it more difficult for nationals of non-participating countries to access the labour markets of the area, as a consequence of the preference accorded to internal mobility. However, neither the recent EU and EEA enlargements, nor the implementation of the Agreement on the Free Movement of Persons between Switzerland and the European Union, has resulted in a significant decline of the legal inflows of workers from non-EU/EFTA countries.

Although the 2004 EU enlargement led to an important increase in the annual inflows of nationals from the EU8 in the labour markets of the EU15 in the first four years following accession, over the same period theaggregated number of work permits granted yearly in the EU15 to non-EU and non-EFTA nationals continued to grow, albeit at a lower pace compared with that of EU8 workers.[52] The average annual number of work permits issued in the EU15 to non-EU/EFTA nationals increased by about 35% in the period 2004-07, relative to the period 2000-03, rising from almost 280 000 to almost 380 000. Corresponding figures on the average yearly entries of EU8 workers recorded in the EU15 show a 100% increase in 2004-07 compared with 2000-03, from more than 320 000 to more than 640 000.[53] Figure 1.9 illustrates the annual evolution of worker inflows into the EU15, respectively from non-EU/EFTA countries, and from the EU8, over the period 1990-2007.

Even for those countries among the EU15 that witnessed the highest increases in the annual inflows of EU8 workers in the post-accession years – namely the United Kingdom and Ireland – there is no evidence of a corresponding decline in the number of work permits granted to non-EU/EFTA nationals. In Ireland, the annual number of work permits issued to non-EU/EFTA nationals decreased steadily in the period 2004-06, in line with a boost in the entries of EU8 nationals recorded in the same years as a consequence of the abolition of all restrictions to labour market access for workers from accession countries. However, any impact of the establishment of free labour mobility with the EU8 on the scale of labour migration from third countries was minor relative to the extent of the increased inflows from the EU8.[54] Despite the major increase of new PPS numbers issued to nationals from the accession countries which doubled in 2005 compared with the previous year, the number of work permits granted to non-EU/EFTA nationals in the period 2004-06 declined by only 10% (Figure 1.10).

Figure 1.9. Evolution of the annual inflows of workers from the EU8 and from non-EU/EFTA countries into the EU15, 1990-2007

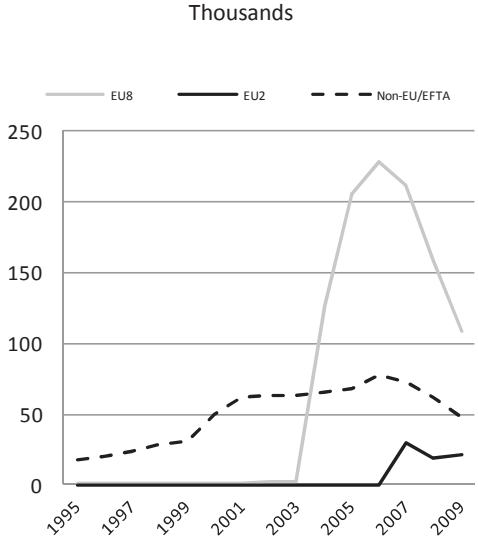


Note: Bulgarians and Romanians are not included in non-EU/EFTA workers. Data are missing for Austria and Greece. Data for Germany and the United Kingdom include seasonal workers. Data on EU8 workers inflows are missing for some years for the following countries: Belgium (1990), Germany (only seasonal workers in 2005), Denmark (prior to 2000), Spain (1996, 1997), Finland (prior to 2000), United Kingdom (prior to 1995), Ireland (prior to 1998), Italy (prior to 2002, 2004, and 2007), Luxembourg (prior to 2006), the Netherlands (prior to 1995, and 2007), Portugal (prior to 2001 and 2007), Sweden (2007). Data on EU8 entries in Ireland are based on PPS numbers and may thus overestimate the number of workers. Data on EU2 worker inflows in Ireland are not available prior to 1998. Data on the annual number of work permits issued to non-EU/EFTA nationals are missing for some years for the following countries: Belgium (1990), Germany (prior to 1997 and 2005), Denmark and Finland (prior to 2000), Spain (1996, 1997), United Kingdom (prior to 1995), Ireland (1990), Italy (prior to 2000, 2001 to 2004), the Netherlands (prior to 1996), Portugal (prior to 1995 and after 2006), Sweden (2007).

Source: OECD International Migration Database.

Figure 1.10 Evolution of the annual inflows of workers from the EU8, the EU2 and non-EU/EFTA countries into Ireland, 1998-2009

Figure 1.11 Evolution of the annual inflows of workers from the EU8, the EU2 and non-EU/EFTA countries into the United Kingdom, 1995-2009



Note: Bulgarians and Romanians are not included in non-EU/EFTA workers. Data are missing for Austria and Greece. Data for Germany and the United Kingdom include seasonal workers. Data on EU8 workers inflows are missing for some years for the following countries: Belgium (1990), Germany (only seasonal workers in 2005), Denmark (prior to 2000), Spain (1996, 1997), Finland (prior to 2000), United Kingdom (prior to 1995), Ireland (prior to 1998), Italy (prior to 2002, 2004, and 2007), Luxembourg (prior to 2006), the Netherlands (prior to 1995, and 2007), Portugal (prior to 2001 and 2007), Sweden (2007). Data on EU8 entries in Ireland are based on PPS numbers and may thus overestimate the number of workers. Data on EU2 worker inflows in Ireland are not available prior to 1998. Data on the annual number of work permits issued to non-EU/EFTA nationals are missing for some years for the following countries: Belgium (1990), Germany (prior to 1997 and 2005), Denmark and Finland (prior to 2000), Spain (1996, 1997), United Kingdom (prior to 1995), Ireland (1990), Italy (prior to 2000, 2001 to 2004), the Netherlands (prior to 1996), Portugal (prior to 1995 and after 2006), Sweden (2007).

Source: OECD International Migration Database.

In the United Kingdom, the annual inflows of workers from third countries increased at a slightly higher rate during the period 2004-06, relative to 2001-03. The annual number of entries of EU8 workers and that of work permits issued to third-country nationals in the United Kingdom both peaked in 2006, and started to decline in 2007. This suggests that rather than mirroring each other, the respective trends of free labour mobility and immigration of workers from third countries have followed the evolution of the economic situation, in the United Kingdom (Figure 1.11).

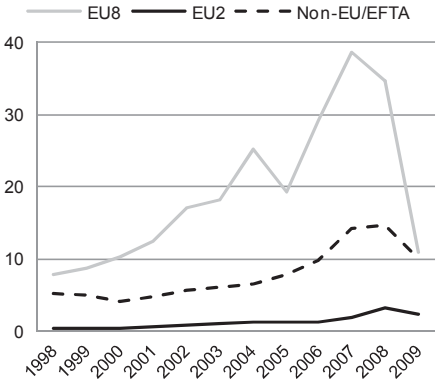
Similar results were found for Norway, where the annual inflow of workers from outside the EEA and EFTA was not affected by the significant increase in the number of EU8 workers who entered the country in 2006-07 but rather continued its growing trend observed since the beginning of the decade (Figure 1.12).

The most likely explanation is that the opening up of labour markets to nationals from the EU accession countries in the EU15 and Norway brought in workers who were largely complementary to those coming under the permit schemes. This is confirmed by analysis of the occupational distribution of post-enlargement EU8 and EU2 movers into the EU15 (see Chapter 2 in this volume). While work permit systems in the EU15 and Norway are mainly employer driven, and are generally oriented towards highly-skilled or

highly-specialised workers, the overwhelming majority of the inflows of EU8 and EU2 workers under the free labour mobility regime went into medium to low-skilled jobs. One could also argue that the priority accorded to EEA nationals in the respective labour markets of each other's countries ensures that non-EU/EFTA migrants fill positions not taken up by free mobility migrants.

Figure 1.12 Evolution of the annual inflows of workers from the EU8, the EU2 and non-EU/EFTA countries into Norway, 1998-2009

Thousands

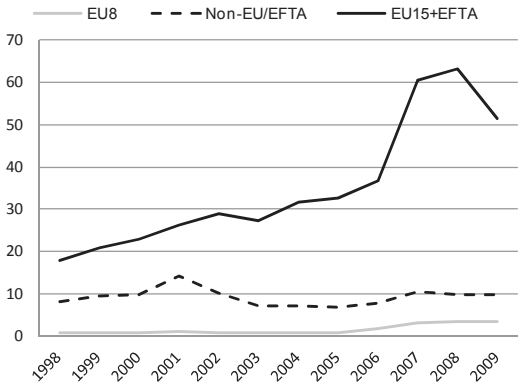


Source: Norwegian Directorate of Immigration.

In Switzerland, a moderate decline in the number of work permits issued to third-country nationals coincided with the gradual increase in the annual entries of EU15 and EFTA workers in the period 2004-06. However, as shown by Figure 1.13, inflows of third-country nationals in Switzerland had already been slackening since 2001, while the boost in free movement entries after 2007 did not result in further decrease of admissions of workers from outside the EU15 and EFTA. Their number increased slightly in 2007 compared to the average annual level of the previous period, and remained stable in the following two years (Figure 1.13).

Figure 1.13 Evolution of the annual inflows of workers from EU15 and EFTA countries, from the EU8 and from non-EU/EFTA countries into Switzerland, 1998-2009

Thousands



Source: Swiss Federal Office of Migration.

In some EU8 countries, growing outflows of native workers towards the EU15 under the free labour mobility regime have been accompanied by an increase in the inflows of workers from non-EU countries. However, the scale of those inflows has not been proportional to the outflows.

In some EU8 countries that, following accession to the European Union, experienced large outflows of native workers to the EU15 – in absolute numbers or relative to the total population – a significant increase in the inflows of workers from outside the European Union has been observed in the past five years compared with the previous decade, partly due to a replacement effect.

According to available data from the Polish Ministry of Economy, Labour and Social Policy, after having oscillated throughout the period 1995-2005, the annual number of work permits issued to non-EU nationals in Poland has increased steadily and at a growing pace since 2006. From around 8 600 in 2005, it rose to almost 10 000 in 2006 and to more than 12 000 in 2007. The rate of growth has accelerated in the period 2008-09, with an average increase of almost 60% on an annual basis, and in 2009 a record high of almost 30 000 work permits were granted to non-EU nationals in Poland. The main origin countries of post-accession workers inflows from third countries into Poland have been Ukraine, Vietnam, Belarus, Turkey and China. In particular, the number of work permits granted to Ukrainians in Poland almost tripled from 2006 to 2009, when it represented a third of the total.

Consistent improvement in the Polish labour market and the progressive emergence of skills shortages in selected sectors – resulting both from the process of economic catching up with the EU15 and the massive outflows of Polish workers headed to the EU15 in the period 2003-07 – are the main factors explaining the growing trend in labour immigration from non-EU countries into Poland observed since 2006. As shown in Figure 1.14, however, the extent of the increased inflows in the period 2006-09 was negligible compared with the scale of the annual inflows of EU8 workers recorded in the EU15 in the corresponding period.[55] According to estimates on average, around 480 000 Polish workers have emigrated every year to the EU15 in the period 2003-07.

Similar considerations apply to the case of the Slovak Republic, where a ten-fold increase in the number of work permits granted to non-EU nationals in 2008, relative to the average level of 2004-06, is likely to have been in response to growing labour shortages. These shortages were due both to the relatively high labour mobility towards the EU15 observed in the post-accession years, and to a significant improvement in the Slovak labour market as a consequence of increased foreign investments in the country. Still, post-enlargement inflows of third-country nationals into the Slovak Republic have remained well below the levels of emigration of Slovak workers into the EU15 in the corresponding period (Figure 1.15).

In the Slovak Republic, as in Poland, Ukrainians and Asian workers accounted for the highest share of growth in labour immigration from non-EU countries recorded in the post-enlargement period. This suggests an increased attractiveness of EU8 countries after their accession to the European Union for workers from neighbouring Eastern European and Asian countries.

Figure 1.14 Annual evolution of the inflows of non-EU workers into Poland, and of Polish workers into the EU15, 1995-2009

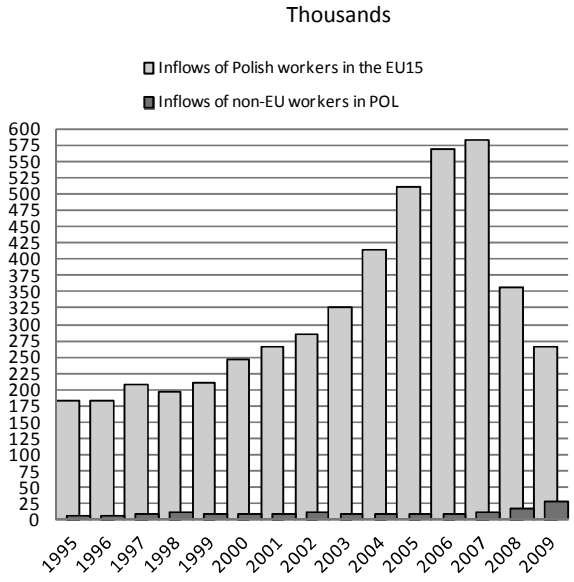
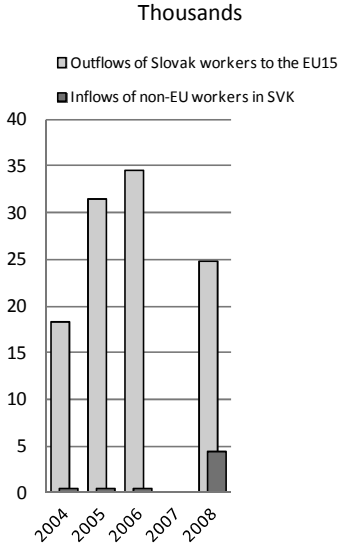


Figure 1.15 Annual evolution of the inflows of non-EU workers into the Slovak Republic and of Slovak workers into the EU15, 2004-08



Source: Polish Ministry of Economy, Labour, and Social Policy and Slovak Ministry of Labour, Social Affairs and Family.

Inflows of workers from non-EU countries into the EU8 are not just related to replacement of emigrating native workers. A growing trend in the annual admission of third-country nationals for working purposes has been observed after EU accession in some EU8 countries – especially the Czech Republic – that have not been characterised by large outflows of nationals to the EU15.

1.3. Conclusions

Since the 1950s, a growing tendency towards liberalisation of international labour mobility, in the context of regional economic integration agreements, has been observed worldwide. However, only in a limited number of cases has this trend led to the establishment of free labour mobility areas. The great majority of implemented free movement areas are to be found among OECD countries.

The European Economic Area currently represents the most significant example of a free labour mobility area, in terms of both the number of countries involved, and of the scope of the liberalisation of labour mobility for member countries' nationals – including with respect to the accompanying measures foreseen to facilitating the exercise of their right to free mobility. The gradual expansion of the EEA free labour mobility area to the EU8 and EU2 countries, as a consequence of the two latest EU enlargement rounds of 2004 and 2007, provides a suitable illustration for the analysis of the impact of the establishing a free labour mobility area for international migration flows, both between the member countries of the area and from third countries.

With respect to the first issue, analysis of the evolution of the scale of worker flows from accession countries into the former EEA member countries has highlighted a significant increase in international labour migration among the member countries of the

free labour mobility area, in the first four years following its establishment, still great heterogeneity has been observed in the distribution of free labour mobility flows both among origin and destination countries within the area. Concerning the nature of migration, post-enlargement movers from the new EU member countries have for the most part taken up medium to low-skilled occupations in their EEA receiving countries, despite a higher level of qualifications on average. Post-enlargement labour migration has largely been temporary and has tended to spread out more across regions in destination countries, compared with migration from third countries.

An analysis based on the relative scale of the inflows has shown that increased labour migration among the member countries of the free labour mobility area, in the case of the two more recent EU enlargement rounds, has not resulted in a decline of international labour migration from third countries to the EEA. What has occurred, the decrease in the number of work permits granted to third-country nationals in those EEA countries that have received the highest share of post-enlargement movers has been temporary, and much less important than the observed increase of free mobility flows. This seems to suggest a certain complementarity between the nature of free movement migration and that of discretionary migration under permit regimes.

On the other hand, evidence of growing inflows of workers from third countries has been found for many of the new member countries of the EEA free labour mobility area. In the cases of those accession countries that have experienced large outflows of their national workforce to other EEA countries, the increased inflows of workers from third countries may indicate a replacement effect. The effect would however be very minor as the extent of the increase in the number of work permits granted to third-country nationals was marginal compared with the scale of labour migration of the country's own nationals under the free movement regime.

Notes

1. Only liberalisation of international workers' mobility in the context of broader regional integration agreements is taken into account. Bilateral agreements for labour migration management do not fall within the scope of this chapter.

2. Not all EU member countries participate in the monetary union. For more details on the evolution of the process of integration within the European Economic Community, since 1993 the European Union, see Section 1.2.

3. Art. 48, Treaty of Rome (1957), transposed as Art. 39 in the consolidated version of the Treaty establishing the European Community and Art. 45 of the Treaty on the Functioning of the European Union (TFEU).

4. Council Regulation 1612/68/EEC of 15 October 1968 (later amended by Regulation 2434/92/EEC and Directive 2004/38/EC) on freedom of movement of workers within the Community and Council Directive 68/360/EEC of 15 October 1968 on the abolition of restrictions on movement and residence within the Community for workers of member countries and their families were the first implementing regulations adopted. Secondary legislation introduced in the following years includes: Regulation 1251/70/EEC of the Commission of 29 June 1970 on a worker's right to remain in the territory of a member country after having been employed in that country; Council Regulation 1408/71/EEC of 14 June 1971 on the application of social security schemes to employed persons, to self-employed persons and to members of their families moving within the Community; Council Directive 90/365/EEC of 28 June 1990 on the right of residence for employees and self-employed persons who have ceased their occupational activity; Council Directive 90/366/EEC of 28 June 1990 on the right of residence for students; Directive 2005/36/EC of the European Parliament and of the Council of 7 September 2005 on the recognition of professional qualifications, which consolidates recognition rules introduced by 15 directives adopted since 1977.

5. The only exception to equal treatment regards access to employment in public services, which remains subject to national law (*cf.* Art. 39.4 of EC Treaty, consolidated version).

6. The foundations for the adoption of measures in the field of social security lie in Art. 51 of the Treaty of Rome. Implementing legislation has allowed workers choosing to move to another member country to maintain acquired social security rights in all member countries and combine periods of social contributions and periods of pension contributions for the purpose of obtaining social benefits. Employed workers, self-employed and students from other member countries are entitled to the same statutory social provisions as nationals of the host member country.

7. Family members include spouses and registered partners, children under the age of 21 and dependent relatives in the ascending line of the worker and his/her spouse.

8. Art. 21 TFEU; Directive 2004/38/EC.

9. The Schengen area and co-operation are founded on the Schengen Agreement of 14 June 1985, entered into force in 1995, which provides for the abolition of all internal borders between signatory countries (originally France, Germany, Belgium, Luxembourg and the Netherlands) and for the creation of a single external border where immigration checks are carried out following identical procedures. The Schengen area represents a territory where the free movement of persons is guaranteed. The Schengen area has gradually expanded over time to include almost all member states of the European Union. Bulgaria, Cyprus (see note 11) and Romania participate in Schengen co-operation but are not yet fully-fledged members of the Schengen area, as border controls between them and the Schengen area are maintained until some conditions are met. Ireland and the United Kingdom are not part of the Schengen area but can participate in the Schengen co-operation.

10. With the exceptions of Cyprus and Malta.

Notes on Cyprus:

Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this chapter relates to the area under the effective control of the Government of the Republic of Cyprus.

11. For a detailed discussion of transitional arrangements adopted for the 2004 and 2007 EU enlargements and their impact in terms of labour mobility, see Section 2.1.

12. After the accession of Austria, Finland and Sweden to the European Union in 1995, EFTA/EEA countries comprised Norway, Iceland and Liechtenstein. The entry into force of the EEA Agreement for Liechtenstein was postponed to 1 January 1998.

13. Through the EEA Enlargement Agreement, the EEA EFTA States are associated with EU enlargement. Thus, EEA enlarged simultaneously with the EU on 1 May 2004 to EU8 countries, Cyprus (see note 31) and Malta. EEA was enlarged to include Bulgaria and Romania on 1 August 2007.

14. Except for Ireland and United Kingdom, who are not participating in the Schengen area. Norway and Iceland have been associated in the Schengen co-operation since 25 March 2001 as a consequence to their membership in the Nordic Passport Union; Liechtenstein has been an associated member in the Schengen area since 28 February 2008.

15. The Agreement on the Free Movement of Persons was originally concluded between Switzerland and the EU15. As a result of the EU enlargement of 1 May 2004, the agreement was supplemented by an additional protocol containing provisions for the

gradual introduction of the free movement of persons with the new EU member countries, which came into force on 1 April 2006. Following the EU accession of Bulgaria and Romania, a second protocol to the agreement was concluded, effective since June 2009.

16. In 1992, Swiss citizens rejected in a referendum the participation of Switzerland to the European Economic Area.

17. A short-term residence permit, renewable indefinitely, is issued in the case of a job-contract lasting less than one year. For contracts longer than one year, a long-term residence permit is granted.

18. For a detailed description of transitional arrangements under the Agreement on the Free Movement of Persons between Switzerland and the European Union, see Section 2.1.

19. Iceland joined the Nordic Co-operation in 1982. As a consequence, the original agreement on the Nordic Common Labour Market of 22 May 1954 was replaced by a new version, which came into force on 1 August 1983.

20. The same held true for the Anglo-Irish labour market, which existed well before the free trade agreement of 1966.

21. SCV holders who were in Australia on 26 February 2001, or had been in Australia for at least one year prior to that date, as well as all New Zealanders in possession of a certificate issued under the Social Security Act 1991 proving that they were residing in Australia at a particular date, have been recognised as having the status of "protected SCV holders" and exempted from the requirements for permanent residence and access to social security payments introduced in 2001.

22. Those are essentially working-age income-support payments.

23. The MERCOSUR Free Movement and Residence Agreement has been implemented in Argentina following the adoption of the country's new Migration Law in 2003. For more details on regional integration and migration in South America see OECD (2010), *Latin American Economic Outlook*.

24. Chapter 16 of NAFTA Agreement.

25. Until January 2004, the United States maintained an annual quota of 5 500 for the admission of Mexican citizens under the TN stream.

26. For more details on recognised NAFTA occupations, see Appendix 1603.D.1 of the NAFTA Treaty.

27. Until October 2008, TN visas were issued for a maximum duration of one year.

28. The proportion of persons born in the countries participating in the regional integration agreement that enter each others' countries under facilitated labour mobility rules varies considerably depending on the agreement. While in the EEA and Trans-Tasman countries most of the foreigners born in each others' countries enter under free movement rules, the proportion of TN visas represent a marginal fraction of the total inflows of NAFTA nationals in each others' countries.

29. One possible exception concerns the Agreement on the Free Movement of Persons between Switzerland and the European Union which was originally established for

seven years and whose continuation has to be confirmed periodically by member countries.

30. Notes on Cyprus:

Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this chapter relates to the area under the effective control of the Government of the Republic of Cyprus.

31. EU8 countries: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia. Cyprus and Malta are not included as workers from those countries were not subject to transitional arrangements in the EU15; flows from those countries have been marginal in absolute terms. EU2 countries: Bulgaria and Romania.

32. Although the analysis proposed in this chapter only deals with worker inflows, it has to be stressed that significant non-labour flows, namely of family members, are associated with free mobility.

33. Foreigners not in employment may be issued a PPS number in Ireland. Thus, PPS numbers overestimate labour migration to Ireland.

34. For example, according to the UK Home Office, up to 40% of EU8 workers registering for the worker registration scheme in 2004 may have already been in the country when the United Kingdom opened its labour market. Similarly, reports from the Dutch Ministry of Social Affairs and Employment indicate that the incidence of illegal employment of EU8 nationals decreased after the Netherlands decided to lift restrictions of access to its labour market.

35. The variation of the stock of foreign nationals captured by the population register underestimates flows, as it masks outflows and deaths. It also includes non-labour migrants and often births, leading to potential overestimates in workers.

36. Analyses based on the LFS variable on duration of residence in the country also seem to confirm that most of EU2 nationals were resident in Italy and Spain well before 2007, and that the increases registered in 2007 were partly due to the emersion from illegal situation.

37. All the EU member countries that joined the European Union in 2004 applied to each others' workers the Community rules for free movement since the accession date. With regards to the 2007 enlargement, Hungary and Malta decided to maintain a work permit system during the first phase of transitional arrangement. Hungary eventually lifted restrictions at the beginning of the second phase. Cyprus and Slovenia have opened their labour markets since 2007, but requested a mandatory worker registration during the first phase. All other new member states have applied the Community rules for the free movement of workers to Bulgaria and Romania since the accession date.

38. In Ireland and the United Kingdom, however nationals from the EU8 were required to register to obtain work and residence permits. In addition, at the beginning, work permits were only issued for one year at a time and if immigrants lost their jobs, their resident permit could be withdrawn. In all the three countries which fully opened their labour markets to EU8 workers at the beginning of the first phase of transitional arrangements, access to social welfare benefits for those workers was made conditional on a minimum length of residence.

39. Finland, Greece, Italy, Portugal, Spain opened their labour markets in 2006; the Netherlands and Luxembourg in 2007; France in 2008.

40. Austria and Germany also restricted the provisions of services in certain sectors such as construction, cleaning etc., against the posting of workers from the new EU member countries.

41. Similar rules have been applied in two EEA countries, Iceland and Norway.

42. The series for Italy is interrupted due to missing data on work permits issued to EU nationals.

43. However, partly as a consequence of the progressive labour market openings to nationals from new EU member countries in a growing number of EU15 countries and despite persistent polarisation, worker inflows from the new EU member countries have tended to spread across a higher number of EU15 countries over time.

44. Likewise, in spite of their labour markets being fully opened to EU2 workers since 1 January 2007, Finland and Sweden have not received massive inflows of those workers, who have opted instead to move to Spain and Italy.

45. The liberalisation was introduced at the onset of the economic crisis, which may have contributed to depressing demand.

46. However German-language proficiency is less common among the young – who are the bulk of the potential movers from the EU8 countries – than it was among persons in the older age groups.

47. However, the disproportionately high share of self-employed among recently arrived migrants from accession countries observed in Germany compared with countries that applied Community rules for labour mobility (European Commission, 2008) suggests that many EU8 and EU2 workers might have used the unrestricted right of establishment for self-employed persons to circumvent restrictions to labour migration foreseen under the transitional arrangements.

48. For more extensive analysis of labour market integration of workers from new EU member countries into EU15 and EFTA countries (see Chapter 2 in this volume).

49. In addition, according to recent studies, also in the case of EU8 workers, there is some evidence that duration of stay in their EU15 host countries may have extended beyond original intentions

50. The same transitional period applied to EFTA workers. On 1 June 2007, nationals from Cyprus and Malta were granted free labour market access in Switzerland.

51. The two protocols to the Agreement on the Free Movement of Persons between Switzerland and the European Union both include a safeguard clause, providing for the temporary reimposition of restrictions on residence permits in the event of an above-average influx of nationals from new EU member countries into Switzerland.

This safeguard clause will apply until 31 May 2014 to the EU8 and until 31 May 2019 to the EU2.

52. Favourable labour market conditions in most EU15 and EFTA countries before the advent of the recent economic downturn accounted for a big part of the explanation of those trends.

53 Note that Bulgarians and Romanians are not included in the group of non-EU/EFTA workers due to the accession of Bulgaria and Romania to the European Union in 2007.

54. A higher impact would probably be found disaggregating data by occupational levels, *i.e.* comparing the evolution of the inflows of non-EU/EFTA workers with the EU8 worker inflows into jobs for which third-country nationals were being recruited, namely high-skilled jobs. This type of analysis goes beyond the scope of this chapter. For a more extensive analysis of the labour market integration of workers from new EU member countries into the labour markets of the EU15 and EFTA (see Chapter 2 in this volume).

55. Data on worker inflows reported in Figure 14 only include work permits issued. However, in addition to work permits, since 2007 work visas can be issued in Poland to residents of non-EU neighbouring countries on the basis of a simplified procedure. Under this procedure, residents of Belarus, Georgia, Moldova, the Russian Federation and Ukraine can work in Poland without a permit for up to six months during a year on the basis of the declaration of a Polish employer. The number of work visas issued – mostly to Ukrainian nationals – on the basis of this simplified procedure increased dramatically from 22 000 in 2007 to 180 000 in 2010.

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Chapter 2

Free labour mobility and economic shocks: the experience of the crisis*

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This chapter aims to shed some light on the impact of the global economic crisis on free mobility. It aims to answer the following three key questions: First, how has free mobility evolved during the crisis? Second, how did free-mobility migrants who had migrated just prior to the onset of the crisis fare during the crisis? Finally, not all countries and regions were equally affected by the crisis. Is there any evidence that free mobility has played an equilibrating role during the crisis – that is, did free mobility encourage moves from areas that were hard hit towards others that were less affected?

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Introduction

The economic crisis hit European OECD countries on the heels of two major enlargements – 2004 and 2007 – of the free mobility zone.[1] These enlargements were associated with an increase in free-mobility-type migration and, at its peak in 2007 – just prior to the crisis –, permanent-type free-mobility inflows within Europe were about 840 000, on average almost 0.5% of the population for the European OECD countries for which standardised migration statistics are available.[2] In terms of new entries into the labour market, for these recipient countries, permanent-type free mobility accounted for about 15% of new entries into the workforce.

The chapter is structured as follows. Section 2.1 compares the labour market situation of the native-born and of recent free-mobility migrants during the crisis. Section 2.2 looks at how free-mobility flows reacted to the crisis. Section 2.3 provides a literature review on the role of migration as an adjustment mechanism in the case of economic shocks which do not affect all countries or regions in a free-mobility zone equally, and presents some preliminary findings from an ongoing empirical analysis on this issue. Section 2.4 concludes.

2.1. The impact of the crisis on the labour market outcomes of recent free-mobility migrants

The financial and economic crisis of 2008-09 was the worst of the past half-century and had severe effects on the labour markets of many OECD countries. In the European OECD countries, unemployment rates for the native-born increased by more than 2 percentage points in the two years to 2010 (see Table 2.1).

However, the crisis did not hit all labour markets in OECD Europe evenly. Increases in unemployment were particularly strong in Spain, Ireland and Greece – three countries which had seen large inflows of migrants just prior to the crisis. Among the new EU member countries, the unemployment increase was also large in the Baltic countries, in Bulgaria and the Slovak Republic, whereas it was about average in Poland and below average in Romania.

In most countries, the unemployment rate of recent free-mobility migrants was higher than that of the native-born at the onset of the crisis. However, their unemployment has grown less than that of the native-born. This is rather surprising since recent arrivals tend to be particularly vulnerable during a crisis (OECD, 2009). In addition, recent EU27/EFTA migrants, in particular those from the new EU member countries, have often been employed in temporary jobs and in sectors hard hit by the crisis, such as construction and manufacturing. Over the free-mobility area as a whole and considering all sectors, however, the picture is far from uniform (see Box 2.1).

The fact that recent free-mobility migrants seem to have been less hard hit – at least in terms of unemployment – than native-born may be due to several factors.[3] Unemployed free-mobility migrants may be more mobile than the native-born and thus may have changed jobs and/or moved within the free-mobility area, either by returning to their origin country or by moving to other regions within the area. In addition, there is some evidence of a so-called "added-worker" effect for recent EU27/EFTA migrants (see Box 2.1 and Annex 2.A1). Another possibility is that employers were more reluctant to lay them off during the crisis than other workers because of their higher productivity compared with native-born who are doing the same jobs. Whether this is actually the case

is difficult to ascertain, although one observes that productivity increases with education (see *e.g.* Hellerstein *et al,* 1999), and recent free-mobility migrants tend to have higher education levels than native-born who are employed in the same sectors and occupations.

Table 2.1. Evolution of unemployment during the crisis, native-born compared with recent EU27/EFTA migrants

	Unemployment rate 2008		Unemployment rate 2010		% change in unemployment rate of native-born vs. recent EU27 migrants	
	Native-born	Recent EU27 migrants	Native-born	Recent EU27 migrants	Native-born	Recent EU-27migrants
Austria	3.2	(8.2)	3.7	(7.7)	0.5	(-0.5)
Belgium	5.9	7.2	6.9	(9.0)	1.0	1.7
Switzerland	2.4	5.5	3.3	5.9	0.9	0.5
Czech Republic	4.4	..	7.4	..	3.0	..
Germany	6.7	7.8	6.4		-0.3	
Denmark	3.0	..	6.9	(10.9)	3.9	..
Spain	10.2	21.5	18.1	26.3	7.9	4.8
Finland	6.2	..	8.1	..	1.9	..
France	6.8	12.6	8.6	9.2	1.8	-3.4
Greece	7.8	..	12.3	(14.4)	4.5	..
Hungary	7.9	..	11.3	..	3.4	..
Ireland	5.8	8.0	13.1	18.2	7.3	10.1
Iceland	2.8		7.2		4.4	
Italy	6.6	11.0	8.1	12.9	1.5	1.9
Luxembourg	3.7	(7.9)	3.0	(5.3)	-0.7	(-2.6)
Netherlands	2.3	(6.9)	4.0	(6.8)	1.7	(-0.0)
Norway	2.3	..	3.0	..	0.7	..
Poland	7.2	..	9.7	..	2.5	..
Portugal	7.9	..	11.0	..	3.1	..
Sweden	5.3	9.3	7.1	10.9	1.8	1.6
Slovak Republic	9.6	..	14.4	..	4.9	..
United Kingdom	5.5	5.1	7.8	5.4	2.3	0.2
Bulgaria	5.7	..	10.3	..	4.6	..
Estonia	5.6	..	16.4	..	10.8	..
Lithuania	5.9	..	18.0	..	12.1	..
Latvia	7.6	..	19.0	..	11.4	..
Romania	6.1	..	7.6	..	1.5	..
Average[1]	5.3	9.4	7.6	10.7	2.4	1.3

1. The average is an unweighted one. It only includes countries in which unemployment rates for recent EU27/ EFTA migrants are statistically significant (*i.e.* above the reliability limit) in both 2008 and 2010. "Recent EU27/ EFTA migrants" refers to EU/ETFA immigrants who arrived between 2004 and 2008. "..": results not publishable due to small sample sizes or missing information. Values in brackets refer to sample sizes below the reliability limit and have to be interpreted with caution.

Source: European Union Labour Force Survey.

As a result, there is a high incidence of "overqualification" (*i.e.* individuals working in occupations associated with an education below the level which they have reached) among recent free-mobility migrants from the new EU member countries in the EU15.

Among those in prime working age (25-54) in 2008/09, the incidence of highly-educated individuals working in low- and medium-skilled occupations has been more than twice as high among recent free-mobility migrants from the EU8+2 than for EU15 native-born (45% vs. 18%).[4] The difference is even more striking for persons with a medium-level education (that is, upper secondary and post-secondary non-tertiary)

regarding their employment in low-skilled occupations (ISCO 9), where the respective figures are 25% for the EU8+2 compared with 8% for the EU15 native-born.[5]

The following sections try to shed some more light on the question of how free-mobility flows reacted to the crisis.

Box 2.1. Impact of the crisis on specific sectors

The crisis did not hit all sectors evenly. Some sectors, such as construction and manufacturing, were particularly hard hit. The below table depicts, for the EU/EFTA as a whole, the 18 sectors which account each for at least 1% of total employment and where employment has fallen over the course of the crisis. In some of these – notably in construction, warehousing and manufacturing of food products, free-mobility migrants who arrived following enlargement and the crisis (*i.e.* between 2004 and 2008) were strongly overrepresented. Looking at the evolution of the share of this cohort in sectoral employment shows a mixed picture. Overall, the share of this cohort in total employment has not declined and their share in the total decline of employment (their "adjustment burden") has been small. It exceeded 3% of the total job losses only in three sectors – the public administration, financial services, and warehousing.

A closer look at the changes by gender (Annex 2.A1) shows that men have been more affected than women. Indeed, for recent EU27/EFTA women, employment even increased during the crisis. This is attributable to the so-called "added worker effect", *i.e.* the tendency of some people to enter the labour market in order to compensate for the actual or potential loss of income of other family members. Annex 2.A1 also shows, by means of comparison, the decline of employment attributable to youth. This was much larger than that of recent EU27/EFTA migrants in total, although the youth were somewhat less affected than the recent free-mobility migrants in some of the hardest-hit sectors such as specialised construction and manufacture of machinery, as well as financial services.

Impact of the crisis of employment of recent EU27/EFTA migrants by sector

	Sectors	Total employment	Share of recent EU27/EFTA migrants per sector			Change of recent EU27/ EFTA migrants	Adjustment burden
		Relative difference 2010-08	2008	2010	Difference 2010-08	Employed in the sector 2010-08	Share of recent EU27/ EFTA migrants in total change
1	Specialised construction activities	-15.3	1.2	1.0	-0.2	-29.4	2.3
2	Manufacture of fabricated metal products, except machinery and equipment	-14.0	0.6	0.5	..	..	..
3	Manufacture of machinery and equipment n.e.c.	-10.6	0.9	0.7	-0.2	-30.3	2.4
4	Manufacture of motor vehicles, trailers and semi-trailers	-10.3	0.5	0.5	..	..	..
5	Warehousing and support activities for transportation	-8.9	1.2	1.0	-0.2	-26.4	3.7
6	Construction of buildings	-8.8	1.5	1.8	0.3	11.8	-2.0
7	Legal and accounting activities	-6.0	0.3	0.3	..	..	..
8	Other personal service activities	-5.9	0.9	1.0	..	..	..
9	Financial service activities, except insurance and pension funding	-5.8	0.9	0.6	-0.2	-29.7	4.4
10	Wholesale trade, except of motor vehicles and motorcycles	-5.3	0.8	1.0	0.2	22.5	-3.2
11	Manufacture of food products	-3.7	1.5	1.7	0.2	10.4	-4.2
12	Wholesale and retail trade and repair of motor vehicles and motorcycles	-2.9	0.6	0.5	..	..	..
13	Land transport and transport via pipelines	-2.8	0.5	0.6	..	..	..
14	Retail trade, except of motor vehicles and motorcycles	-2.4	0.5	0.6	0.1	9.1	-1.9
15	Architectural and engineering activities; technical testing and analysis	-1.1	0.7	0.7	..	..	..
16	Public administration and defence; compulsory social security	-0.8	0.1	0.1	0.0	-33.0	5.3
17	Crop and animal production, hunting and related service activities	-0.4	0.5	0.6	0.1	18.5	-22.6
18	Office administrative, office support and other business support activities	-0.4	1.1	0.7	..	..	..
Total (all sectors)		-2.5	0.7	0.8	0.0	-0.7	0.2

Note: The list only includes NACE sectors (two-digit) which account for more that 1% of total employment and where employment has fallen over the period. The total, however, refers to the entire economy (all sectors). "..": results not publishable due to small sample sizes.

Source: European Union Labour Force Survey.

2.2. Free mobility and the crisis

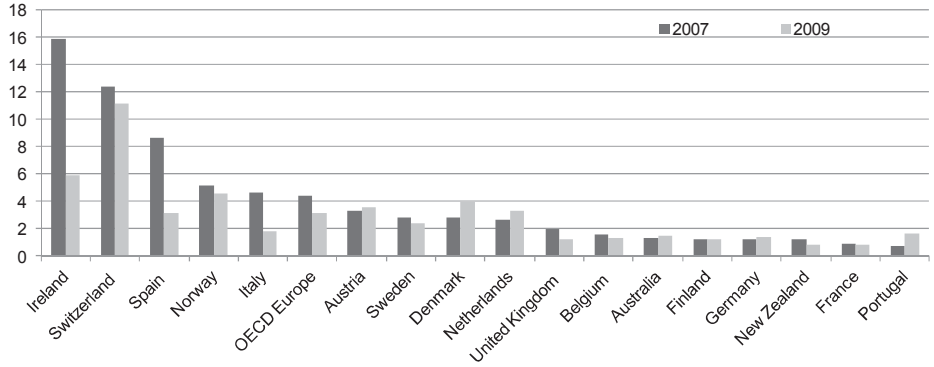
Flows of workers within Europe declined with the crisis

In the midst of the economic crisis, it became apparent that free-movement migration and temporary labour migration outside of free-mobility regulations were the types of flows most affected by the decline in labour demand (OECD, 2010). Within free-mobility areas, costs of migration are lower and information about job opportunities is readily available, in principle making migration more reactive to changing conditions.

While free-movement flows dropped by about one third on average over OECD Europe, not all countries were affected evenly. The decline was particularly strong in Ireland, Spain, Italy and, to a lesser degree, in the United Kingdom (see Figure 2.1).[6] These countries had seen large inflows of nationals from the EU8+2, particularly from Poland in the case of Ireland and the United Kingdom, as well as from Romania in the cases of Italy and Spain. The declines in free-mobility flows recorded for Italy and Spain between 2007 and 2009 were largely due to an exceptionally high number of Romanian and Bulgarian citizens reported in 2007 upon accession.[7]

Moreover, free mobility had supplied a large part of recent employment growth prior to the crisis in Spain, the United Kingdom and Ireland (Figure 2.2). These countries were then hit earliest by a drop in labour demand. The number of new applicants to the United Kingdom's Worker Registration Scheme (WRS, introduced for workers from the new EU member countries) fell by 27% in 2008 and a further 34% in 2009, although they rose again in 2010. In Ireland, the number of citizens of these countries registering for a social security number fell by 42% in 2008 and an additional 60% in 2009. The decline was also ongoing in 2010 (-25%).

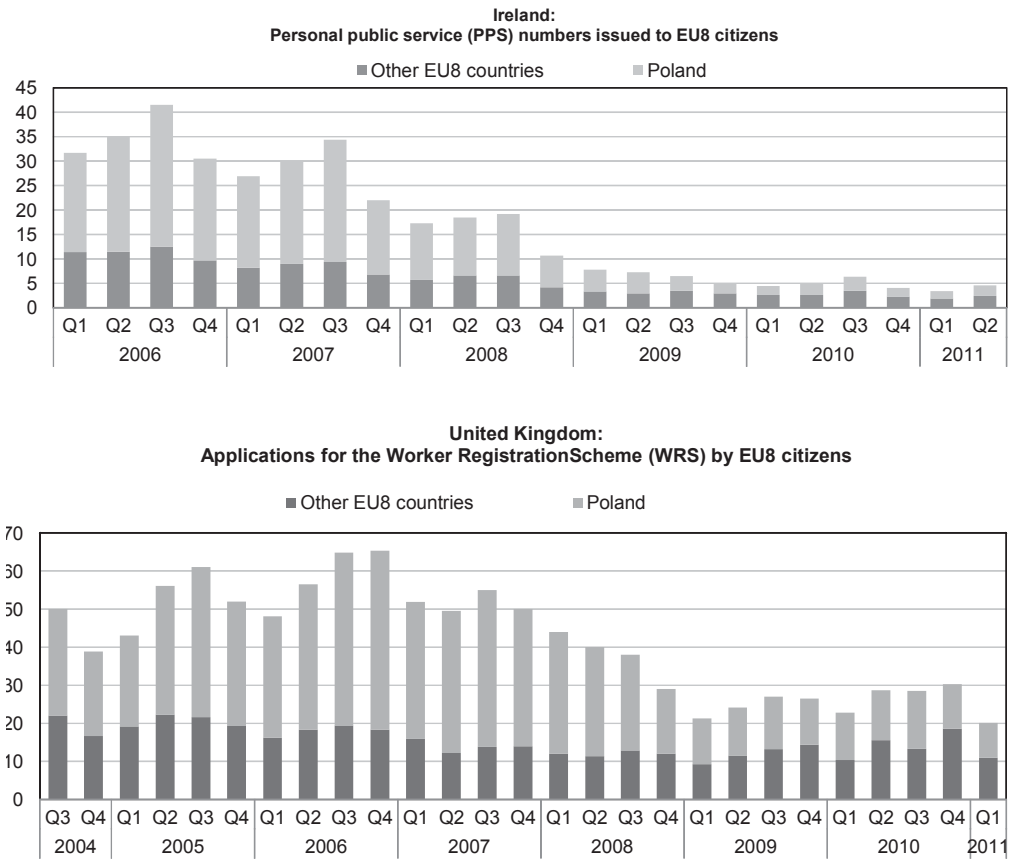
Figure 2.1. Free-movement migration per thousand population in selected OECD countries in 2007 and 2009



Source: OECD International Migration Database.

Figure 2.2. Free-mobility entries in Ireland and the United Kingdom

Thousands



Note: PPS numbers are issued to anyone in Ireland accessing social benefits, public services and certain other public services. Changes in PPS numbers are therefore only a proxy for changes in labour-related flows, as they are issued to children and inactive immigrants.

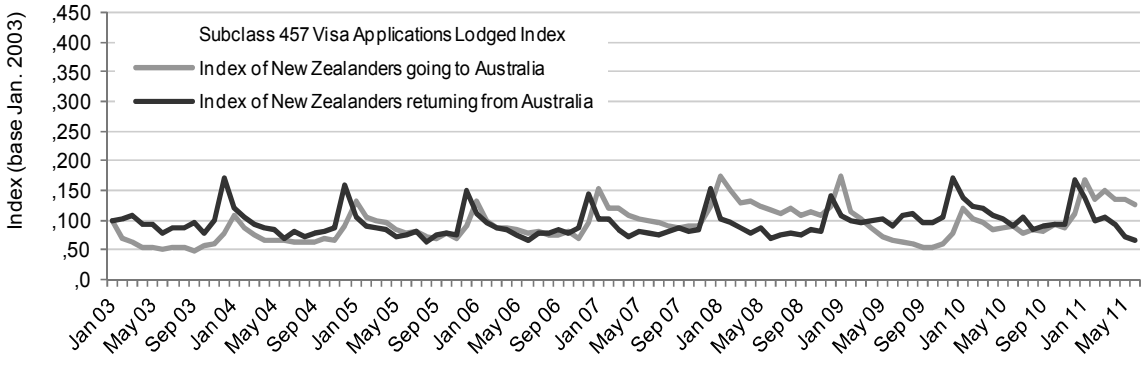
Source: Data provided by national authorities.

Other countries, which had seen smaller inflows prior to the crisis, also received fewer workers from within the free-mobility zone. Denmark, which had seen a steady increase in flows until 2008, saw them fall by 38% in 2009, although they remained above 2007 levels. In Sweden, flows fell by 25%. In Switzerland, as in Norway, the decline in free-movement inflows was about 30% between 2008 and 2009. In Iceland, inflows of workers ended with the collapse of the Icelandic financial bubble. In the other free-mobility area in the OECD, between Australia and New Zealand, free mobility also declined, albeit not by much (see Box 2.2). In contrast to the countries above, in Austria, Germany and the Netherlands, free-mobility migration even increased (see Figure 2.1 above), in coincidence with an easing of transitional arrangements.

Box 2.2. Free movement between Australia and New Zealand

Outside of Europe, the main free-movement area in the OECD is between Australia and New Zealand. Here, free movement appears responsive to labour market conditions. The below figure shows the movement of New Zealanders to and from Australia, compared to the demand for temporary foreign workers from other countries in Australia. Demand for foreign workers in Australia is closely related to labour market conditions and reflects the number of job vacancies (Department of Immigration and Citizenship, 2011). Free movement from New Zealand follows a seasonal pattern but shows variation from year to year according to the conditions in Australia. Rising labour demand in Australia – and rising temporary labour migration – have been associated with greater outflows from New Zealand to Australia, especially in 2008. In 2009, as growth slowed and demand slackened in Australia, outflows dropped more than usual, and returns from Australia were at a higher rate than prior to the downturn. Net migration to New Zealand rose in 2009 in part due to this change in free-movement flows, especially as 2008 had been a year with a high net migration of New Zealanders to Australia. This interruption ended in 2010, with an even higher level of outflows to Australia in 2011.

Movement of New Zealanders to Australia compared to applications for foreign workers from Australian employers, 2003-11

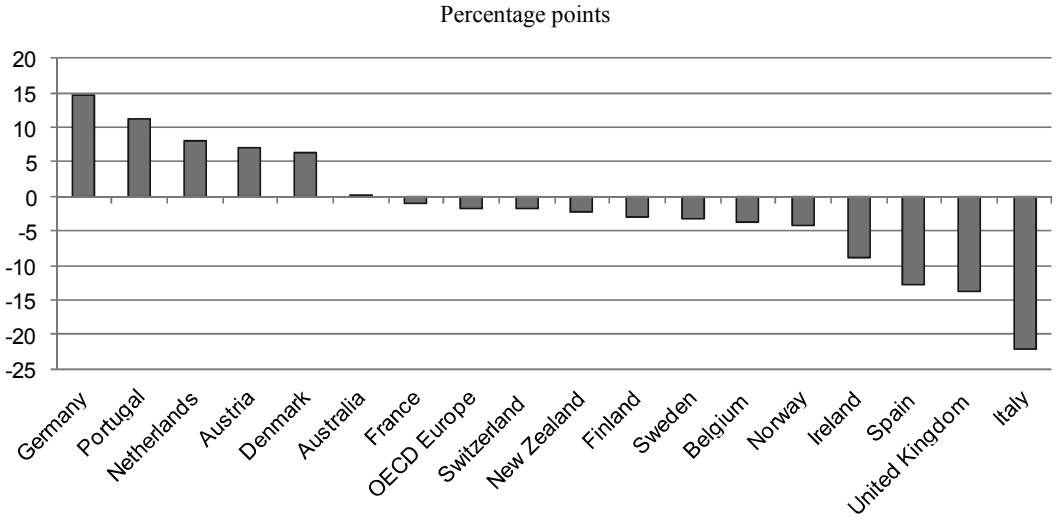


Note: The subclass 457 is the temporary (long-stay) visa for employment in Australia.

Source: Department of Immigration and Citizenship (Australia); Statistics New Zealand.

The average decline in free mobility and discretionary labour migration flows was a driving factor behind a general drop in overall migration by 5% in 2008 and 7% in 2009. However, while overall permanent-type flows within Europe declined, the overall share of free movement among total permanent-type flows into OECD-Europe declined only a little (see Figure 2.3).[8] Nevertheless, the picture is again not uniform across countries. While there have been strong declines in relative terms in Italy, the United Kingdom, Spain and Ireland, the share of free mobility among total permanent migration actually increased in Germany, Portugal, the Netherlands, Austria and Denmark. Among these, Germany and Austria had not yet fully opened their labour markets for nationals from the countries which had joined the European Union in 2004.

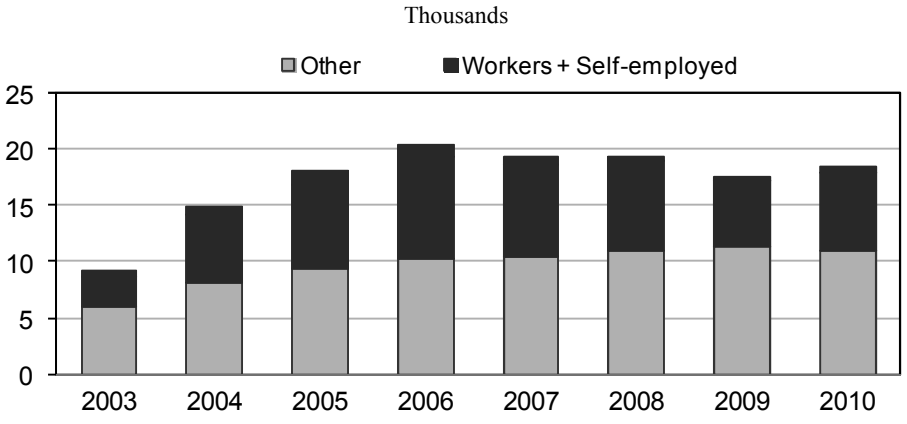
Figure 2.3. Change in the share of free-movement among permanent-type inflows in 2009, compared with 2007



Source: OECD International Migration Database.

Indeed, it is important to note that free mobility is not entirely employment-based, and one reason why flows have not declined more strongly along with labour demand is the fact that family and other components of free-mobility migration may have remained at roughly the same level or even increased during the crisis. One example is Sweden, where inflows from the EU27/EFTA for employment declined from 2006 to 2009. During the same period, however, inflows of EU27/EFTA citizens for other reasons – largely family and study – remained constant (Figure 2.4).

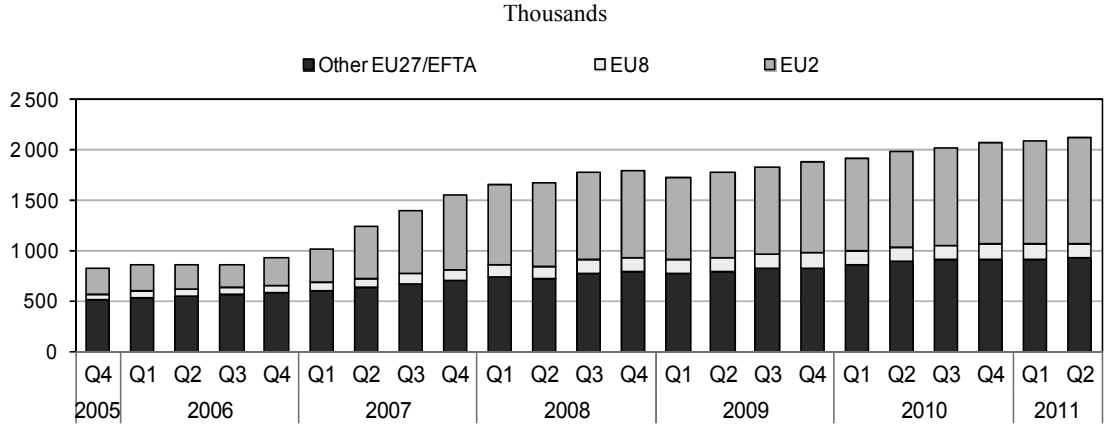
Figure 2.4. Inflows from the EU27/EFTA countries in Sweden, by category, 2003-10



Source: Swedish Migration Board.

For similar reasons, the overall stock of EU27/EFTA foreigners in Spain continued to increase even during the crisis (Figure 2.5).[9]

Figure 2.5. Evolution of the foreign population from the EU27/EFTA with a valid permit in Spain, by nationality, 2005-11



Source: Spanish Ministry of Labour.

Flows of workers within Europe continue to decline in some countries, but not in all

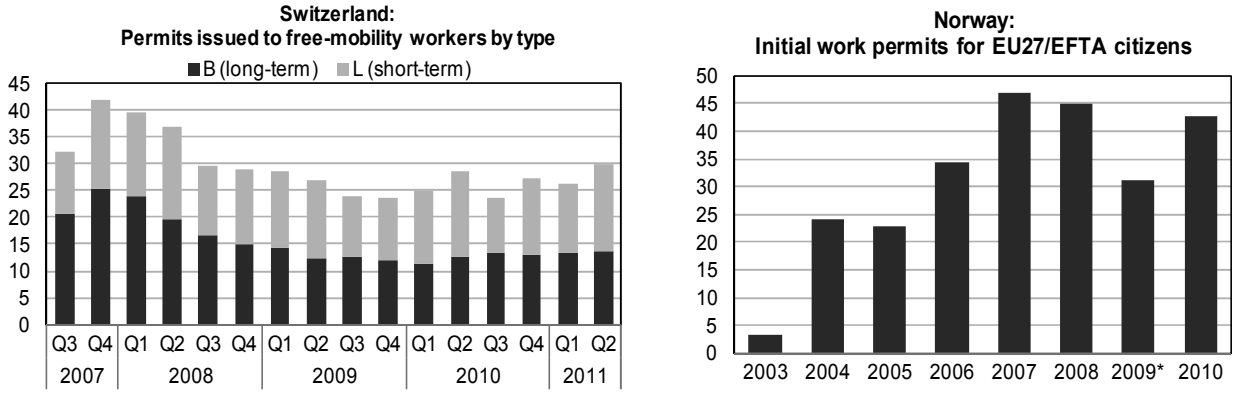
With administrative data available for a number of countries within the European Union through 2010, it is clear that free-mobility flows – in general and those specifically for employment – have continued to decline even during the weak recovery that followed the downturn.

Flows even to crisis-stricken countries have not fallen off completely, and this may be explained by the varying effect of the crisis in individual sending countries. In fact, while migration from Poland – the only EU country to experience positive growth in 2009 (+1.7%) – has slackened significantly, the crisis in the Baltic countries of Lithuania and Latvia, whose economies contracted by 15.7% and 18.7% respectively, led to increased emigration. This is evident in the flows to the United Kingdom. In Ireland, the fall in inflows from Poland was particularly sharp, and since 2009, Poland no longer represents the main origin country of new migration to Ireland. Migration to Ireland from Latvia and Lithuania also declined, but much less than that of Polish nationals.

Several countries have since seen a small increase in the level of free-mobility flows. Switzerland – where free movement accounts for most of migration and where much of free-mobility migration is from the EU15 countries rather than the EU8+2 – has seen some recovery in the level of flows, although they remain below pre-crisis levels (see Figure 2.6). The same holds for Norway and Sweden.

Figure 2.6. Free-mobility entries in Switzerland and Norway

Thousands



Source: Switzerland: *Bulletin Immigration Jan, Feb, Mar 2010*. Norway: Department of Immigration, *series changes from permits (2001-2008) to registrations (2010) and 2009 is an estimate.

Outflows have increased from EU27/EFTA countries, but to a smaller extent than the reduction in inflows

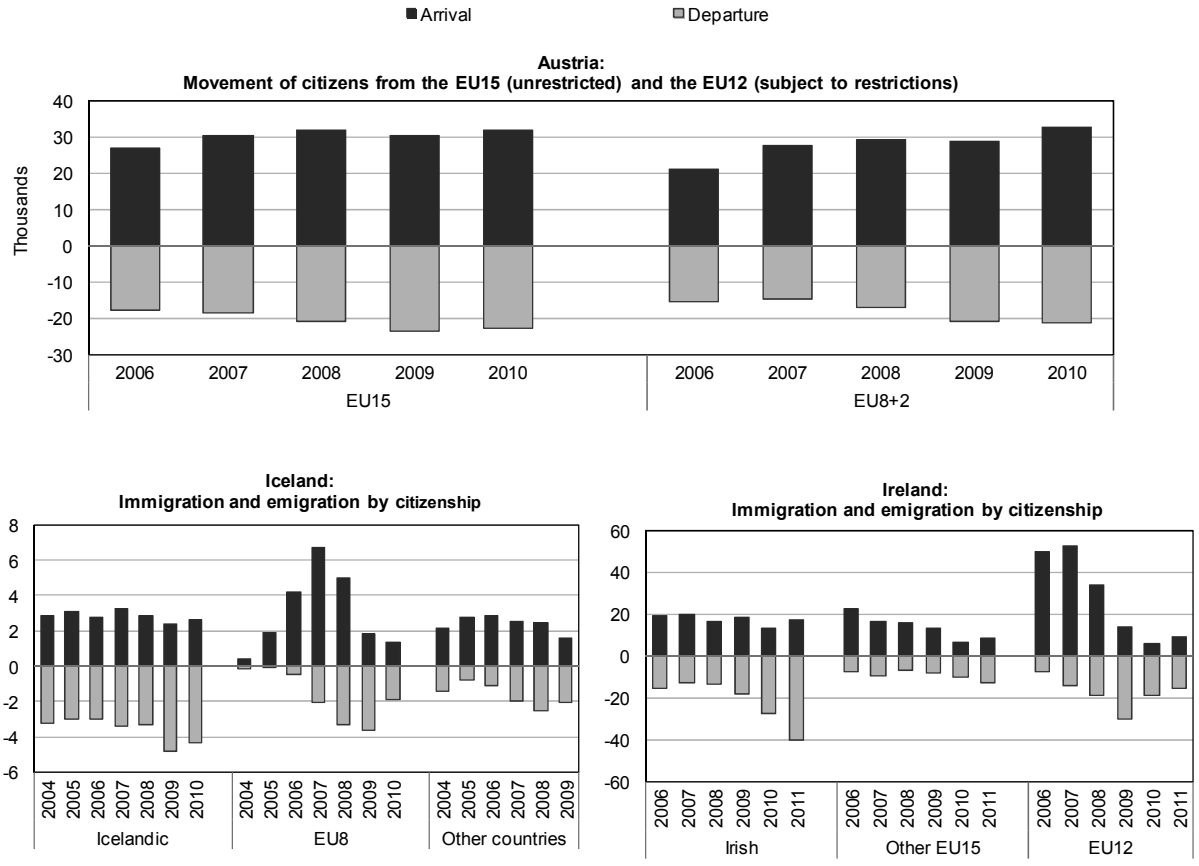
As there is no risk of losing status within a free-mobility area, recent migrants should be more willing to leave when employment conditions worsen than third-country migrants who must remain or lose their status. Still, outflows of immigrants from within the free-mobility zone have not increased to the same extent as inflows have declined (see Figure 2.7). In Austria, where restrictions on labour market access are still applied, flows increased prior to the crisis – both for old and new EU members – and declined slightly in 2009, although outflows did not show a large increase.[10]

In Ireland, the crisis has led to a much larger outflow of EU citizens, especially those from the accession countries. Net migration from these countries became negative in 2009. Irish citizens also appear to be lea to be leaving in significant numbers.[11]

The smaller inflows and larger outflows, however, have not been enough to lead to overall net emigration, so the stocks of free-mobility migrants have in most cases remained stable. Italy is a particularly interesting example in this respect, since the main origin country of migration is Romania, which acceded only in 2007 to the European Union. As a result, there has been a strong increase in free-mobility-type migration in the period thereafter, although this growth slowed somewhat in 2009 and 2010 (see Figure 2.8).

Figure 2.7. In- and outflows, by different labour market access and by EU8+2 and EU15 in selected European OECD countries

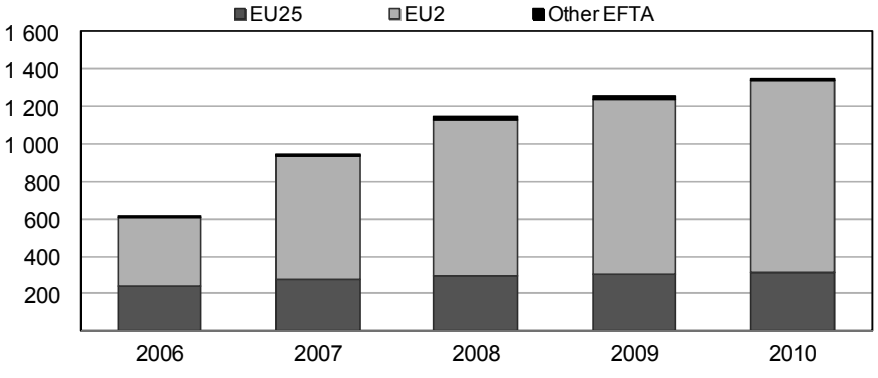
Thousands



Source: Austria: Statistics Austria; Ireland: Central Statistics Office; Iceland: Statistics Iceland.

Figure 2.8. Evolution of the population of free-mobility migrants in Italy, 2006-10

Thousands



Source: National Institute for Statistics (ISTAT).

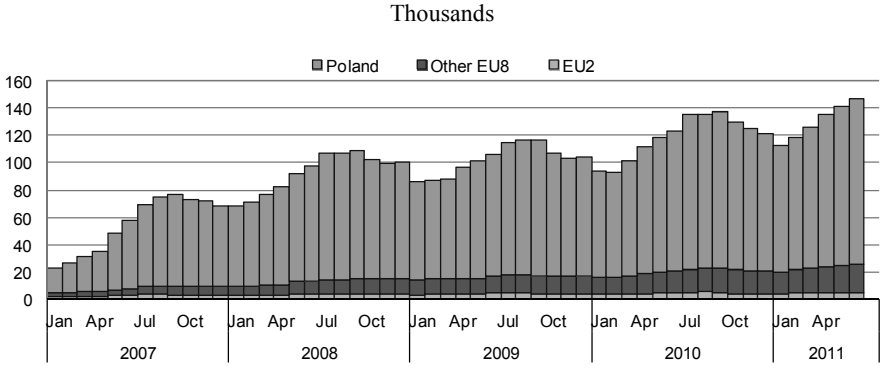
Social contribution and social benefit data suggest no decline in stock of workers

With the exception of a few hard-hit countries – Ireland and Iceland – the *overall population of employed free-mobility migrants* has been stable or increasing during the crisis, even as the total employment of native-born declined in many countries. A number of factors might explain this. First, as seen above, the population of free-mobility migrants has increased in most countries even during the crisis. Second, as seen above there is some evidence that during the crisis, spouses of migrants entered the labour market to compensate for the actual or potential loss of income of the breadwinner (see OECD, 2010). Finally, some occupations, such as seasonal agricultural work or long-term and home care (for which demand is growing in many countries), may not be attractive for natives even during times of high unemployment. This is also suggested by the sectoral picture in Box 2.1.

The lifting of transitional measures may have also led to higher levels of employment of EU8 citizens. In the Netherlands, the lifting of transitional measures in 2007 was associated with an increase in the number of employed workers from EU8 countries in 2008 (Figure 2.9). In 2009, employment of workers – largely Polish – maintained its level and its pronounced seasonal pattern which is due to the fact that most are employed in agriculture and horticulture. Most of these migrants are temporary – only about one in four is enrolled in a Dutch municipal registry – and they appeared to have remained in the Netherlands during the crisis. As economic conditions improved in 2010, the stock of workers from Poland and other accession countries began to rise again.

Unemployed recent EU27/EFTA migrants do not appear to be leaving the receiving country, especially if they have stayed long enough to qualify for unemployment benefits and related social benefits. In Ireland, for example, the Live Register contains all those persons (with some exceptions) registering for unemployment assistance or social benefits. The number of EU foreigners registered with the Live Register rose sharply with the crisis, but has hardly declined since 2009 (Figure 2.10). For those drawing benefits, the incentive to return home or move elsewhere may be less than for those who have no form of income support, which may explain why outflows have not followed job losses.[12] Clearly, returning home will only be an option for those with a prospect of a regular source of income in the country of origin (see below), or is postponed until benefit entitlement in the destination country is exhausted.

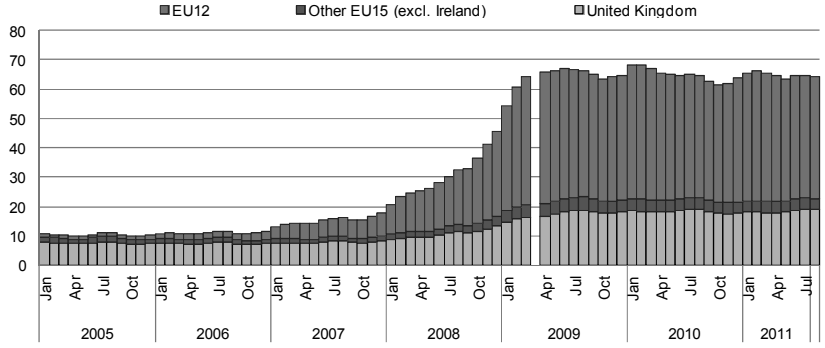
Figure 2.9. Monthly stock of employees from accession countries in the Netherlands, 2007-11



Source: Statistics Netherlands, based on employer payroll tax filing.

Figure 2.10. Persons enrolled in the Irish Live Register, by nationality, 2005-11

Thousands



Note: EU12 refers to all new EU member countries since 2004 (that is, also including Malta and Cyprus*).

*Notes on Cyprus:

Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this chapter relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Irish Central Statistics Office.

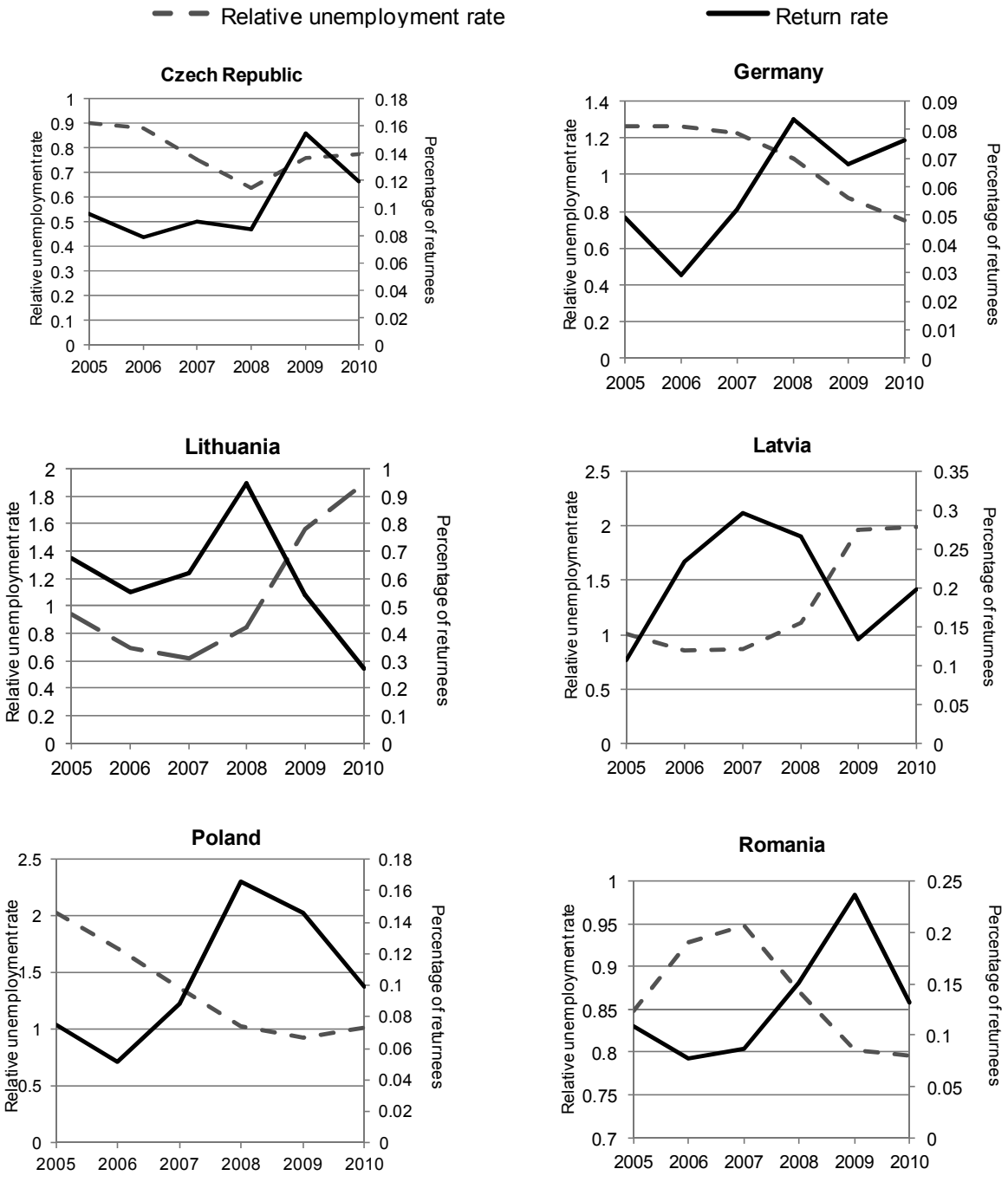
Return migration

Return migration is often poorly recorded in administrative data (see also Bräuninger and Majowski, 2011). Figure 2.11 below looks at returns of natives from within the EU/EFTA zone, on the basis of survey data from the European Community Labour Force Survey, over the preceding year.[13] Information is available for five new EU member countries and Germany. The latter experienced significant outflows prior to the crisis, notably to neighbouring Switzerland, following the gradual introduction of freedom of movement between 2002 and 2007.

To examine whether there has been any link between return migration and the labour market situation in the country of birth, the year-to-year evolution of the unemployment rate relative to that of the EU/EFTA as a whole is shown on the left scale.[14] In general, there is a negative correlation between returns and the evolution of unemployment relative to the other countries in the free-mobility zone. Hence, return migration within the free-mobility zone seems to react to labour market conditions in the country of birth. However, as measured in percentage of the native-born population, return migration has been modest in most cases, except in Lithuania in 2008 where nevertheless returns dropped significantly as the crisis began to impact strongly on the Lithuanian labour market.[15]

The review of flows during the crisis suggests that the greater the impact of the crisis on employment, the more free-mobility inflows and outflows tend to be affected, especially when there are strong differences in employment prospects between countries. Among the pre-crisis destination countries, Iceland and Ireland are extreme cases, with both recent migrants and native-born moving elsewhere. For most countries in the free-mobility area, however, there was a decline in inflows, but the free-mobility populations continued to increase.

Figure 2.11. Return migration from the EU27/EFTA and labour market conditions in selected European OECD countries, 2005-10



Note: The relative unemployment rate is measured as the unemployment rate relative to the EU27/EFTA as a whole. The return rate is measured as the share (in percentage of the total native-born population) of persons stating that they had returned during the past year from the EU27/EFTA area.

Source: European Union Labour Force Survey.

2.3. Free mobility – an adjustment mechanism during the crisis?

The above descriptive analysis has shown that there has been an impact of the crisis on free mobility in some countries, but not in others. This is not surprising since the crisis hit the countries and regions within the EU/EFTA very unevenly. To put the findings above into perspective, and to draw broader policy lessons for free-mobility areas in general, this section provides a more systematic answer to the question whether free mobility has been an adjustment mechanism during the crisis in the EU27/EFTA as a whole.[16]

Theoretical considerations and previous research

Already 50 years ago, Mundell (1961) stressed the need for high labour and capital mobility as a key shock absorber within a currency union – which applies to the 17 countries in the euro zone. Decressin and Fatas (1995), based on a methodology applied to interstate migration in the United States by Blanchard and Katz (1992), compared the shock absorption mechanisms between the European Union and the United States using data from 1968 to 1987. They provided evidence that differences in regional unemployment rates are more persistent in the European Union than in the United States. Their results indicated that employment shocks caused a much larger reaction in the labour force participation rate – and a lesser reaction in within-country migration – in the European Union than in the United States. Bentivogli and Pagano (1999) reached similar conclusions: comparing US states with the euro area (at the NUTS-1 level) between 1981 and 1994, they found regional unemployment disparities to be much more persistent in Europe. Indeed, their results showed no migratory response to regional unemployment differentials in Europe, whereas in the US migration responded to these differentials and it also responded much more to regional income differentials in the United States than it did in Europe.[17]

The lower inter-regional mobility in Europe is not necessarily surprising, particularly as far as cross-border migration is concerned. This mainly concerns history, language issues and cultural differences.

For potential free-mobility migrants to expect good job prospects, a high turnover in the labour market may be helpful so that "outsiders" can challenge "insiders". In a recent study of OECD countries, however, Martin and Scarpetta (2011) argue that high levels of employment protection, as is the case in many EU27/EFTA countries, are associated with low levels of labour reallocation. This may also explain why inter-regional migration plays a larger role in the United States than in the EU27/EFTA area. For France, Italy and Western Germany, Puhani (2001) finds that even within countries, migratory responses to unemployment and income differentials are not large enough to act as an adjustment mechanism in the short term. Labour market rigidities and comparatively low levels of inter-regional migration are also suggested by Jimeno and Bentolila (1998) as key determinants of persistently high regional dispersion in unemployment rates in Spain.

The above findings may also explain the fact that unemployed recent migrants do not immediately return home or seek employment in other countries within the free-mobility area. The same barriers – language, housing, recognition of qualifications and experience, as well as the costs directly associated with migration – affect a second move, and some may even be applicable to return migration, especially for migrants who have spent several years abroad.

Empirical approach

In the following section, we estimate the relationship between population changes and (lagged) unemployment or non-employment differentials between regions.[18] We limit ourselves to *net migration*, ignoring the distinction between inflows and outflows (Coen-Pirani, 2010). Only a lag by one year is considered for simplicity (Treyz *et al.*, 1993) and we ignore expectations of future labour market prospects in the migration decision.[19]

The literature has used different methodologies to estimate how migration responds to economic shocks. Decressin and Fatas (1995) use a model where economic shocks are measured by changes in absolute levels of employment (see also Blanchard and Katz, 1992). The authors demonstrate how this employment shock leads to labour force participation and employment rate reactions. Unless there are shifts in the demographic composition of the resident workforce (which are unlikely in the short run), any changes in employment not accounted for by changes in the labour force participation or employment rates must be due to migration, which is thus regarded as a residual factor.

We measure labour market shocks by the increases in the regional unemployment rate relative to the overall unemployment rate of the entire EU27/EFTA area. An alternative measure of the state of the labour market is the incidence of non-employment. In the following, we use both indicators. Similar to a study by Puhani (2001) on labour mobility as a potential adjustment mechanism for economic shocks in Europe, we investigate the statistical relationship between population changes in a region (both total population changes and changes induced by migration within the free-mobility area) and the regional unemployment rate relative to the overall unemployment rate in the free-mobility area. The empirical strategy is outlined in Box 2.3.

Box 2.3. Estimating the response of free-mobility flows to the changing labour market conditions

The idea to relate an implicit measure of *flows*, in our case population changes, to *stocks*, proxied in the chapter by the lagged unemployment rate, can also be found in the matching function literature (surveyed in Petrongolo and Pissarides, 2001), where the number of people hired (a flow) is related to the stocks of unemployment and vacancies, as in a production function. Harris and Todaro (1970) stress that even regions with high unemployment might experience net in-migration if wages are sufficiently high for those lucky to find a job. This is why we would like to model migratory responses to unemployment/non-employment and wage differentials between European regions. Unfortunately, we currently do not have income/wage data at our disposal. Nevertheless, apart from simple OLS regressions, we will also estimate models with fixed region effects that control for all heterogeneity between regions that is constant over time in our estimation period. Our estimating equation is:

$$\ln\left(\frac{mig_{it} + pop_{it-1}}{pop_{it-1}}\right) = \alpha_0 + \alpha_1 \ln\left(\frac{ur_{it-1}}{ur_{nt-1}}\right) + \mu_i + \eta_t + \varepsilon_{it} \qquad [1]$$

Where *i* indicates the region (at the NUTS-2 level) and *n* the economic area for which we estimate our model (in our case, the EU27/EFTA). The dependent variable is approximately the percentage change of the population that is induced by cross-border movements of foreign-born from within the free-mobility zone (hereafter referred to as "free-mobility-induced population change"). The impact variable is the logarithm of the ratio of the regional unemployment rate divided by the unemployment rate of the economic area in question. The coefficient α_1 can thus be interpreted as the percentage change in the population (due to net migration) induced by a 1% change in the number of unemployed persons in the previous year relative to the free-mobility zone, all other things equal. Based on this estimate and the average number of unemployed people and the average population figure in a region, we can simulate how many persons migrate this year for each additional person unemployed last year. By restricting the measurement of population change to migration within the free-mobility zone, we can also gauge the size of the contribution of intra-European migration to the migratory response to regional unemployment dispersion.

Empirical analysis

Our observation period is 2000-10, and the data are taken from the European Union Labour Force Survey. This period is interesting because it marks the aftermath of the introduction of the euro as a common currency for many European countries in 1999, the ongoing expansion of free mobility, and the global economic crisis since 2008. To ensure a better comparability over time, the free-mobility zone is defined as the EU27/EFTA countries for the entire period.[20]

The analysis is restricted to persons in prime working age (25-54). We estimate regressions for NUTS-2 regions in the EU27/EFTA.[21] The impact variable is either the logarithm of last years' unemployment rate divided by last years' unemployment rate in the free mobility zone as a whole or the equivalent term for the non-employment rate.

The dependent variable is either the population change from last year to this year in a region or the simulated free-mobility-induced population change in the region, which is defined as the change in (cross-border) free mobility of persons born in other countries of the EU27/EFTA plus last year's population, divided by last year's population.[22] This is to say, the simulated free-mobility-induced population change is the hypothetical population growth factor had the population only been changed due to the changes in the number of free-mobility zone migrants in that region. In this definition, we exclude people from the same member country, so that, for example, when simulating the free-mobility-induced population change for Brussels, only the change in the number of persons born outside of Belgium but within the free-mobility zone is accounted for.[23]

Ideally, we would like to observe free mobility directly, but instead, the data only allow us to measure the total population change of EU27/EFTA migrants in the age-group under consideration. This means, in particular, that we capture population ageing – if more people pass our upper age limit of 54 than our lower age limit of 25, as a negative population change, even if no migration is taking place. This measurement error is not necessarily a problem for our analysis: as far as all regions in the free-mobility zone experience a common trend in population ageing, this will simply bias the constant or the fixed time effects in our regressions, but it will not bias the coefficient of interest.[24] Even measurement error that is specific to certain regions will not bias our coefficient of interest, as long as it is not correlated with our impact variable, that is, the unemployment or non-employment rate in the region relative to the free-mobility area as a whole.

Both ordinary least squares (OLS) and fixed effect (FE) regressions are estimated. The FE estimates control for time-constant unobserved factors within each region, such as time-constant differences in income levels or amenities (*e.g.* climate, infrastructure, etc.) Whereas the OLS estimator uses all the variation in the data (within and between regions), the FE estimator only uses the variation in the impact and the dependent variable over time in each region, that is the so-called within variation in the data.

Tables 2.2, 2.3 and 2.4 show the regression results. We display coefficients for the full observation period 2001-10 and for the sub-periods 2001-07 (before the financial crises) and 2008-10 (during the financial crises). Table 2.2 shows the regression results of relative unemployment on population growth for the full sample size (that is, all regions) available from the European Union Labour Force Survey from 2001-10. The OLS regressions indicate a statistically significant negative effect of relative unemployment on population growth for the full observation period and for the sub-period during the financial crises. The coefficient of -0.001 for the period 2000-10 can be interpreted as follows: other things being equal, the relative number of unemployed persons in the

previous year increases by 1%, the rate of population growth in that region decreases by 0.001% (see Table 2.5 for an interpretation of this result). It is interesting to observe that during the period of the financial crises 2008-10, our point estimate is somewhat larger than for the full observation period. Indeed, in the OLS the point estimate is only significant during the crisis period. This provides an indication that crisis may have exacerbated the impact of relative changes in unemployment on population growth. The statistically significant effect of unemployment on movements in the population is robust to controlling for time-constant unobserved heterogeneity: the point estimates in the FE models are even larger in size than the OLS estimates and are always statistically significant, also in the sub-period 2001-07. The point estimate for the crisis period is again larger, this time being 50% higher than the size of the estimate for the pre-crisis period.

Table 2.2. Regression coefficients: relative unemployment/non-employment and population growth

Full sample

Population growth	Effect of lagged unemployment			Effect of lagged non-employment		
	2001-10	2001-07	2008-10	2001-10	2001-07	2008-10
OLS	-0.001**	-0.001	-0.002*	0.003**	0.005***	0.000
(s.e.)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)
R2	0.010	0.009	0.013	0.011	0.012	0.009
FE	-0.007***	-0.006**	-0.010**	0.003	0.003	-0.017
(s.e.)	(0.002)	(0.003)	(0.004)	(0.009)	(0.015)	(0.013)
R2	0.019	0.014	0.021	0.011	0.011	0.014
Number of regions	277	263	264	277	263	264
Number of observations	2,309	1,532	777	2,309	1,532	777

Note: */**/*** statistically significance at the 10%, 5% and 1% level, respectively.

OLS: Ordinary least square; (s.e.) = standard error.

Source: European Union Labour Force Survey.

Table 2.3. Regression coefficients: relative unemployment/non-employment and population growth

Reduced sample

Population growth	Effect of lagged unemployment			Effect of lagged non-employment		
	2001-10	2001-07	2008-10	2001-10	2001-07	2008-10
OLS	-0.001	0.003**	-0.001	0.006**	0.012***	0.000
(s.e.)	(0.001)	(0.001)	(0.001)	(0.002)	(0.002)	(0.002)
R2	0.010	0.008	0.021	0.017	0.026	0.020
FE	-0.007***	-0.005	-0.009	0.003	0.008	-0.008
(s.e.)	(0.002)	(0.004)	(0.005)	(0.007)	(0.01)	(0.015)
R2	0.014	0.005	0.026	0.008	0.004	0.019
Number of regions	275	254	259	275	254	259
Number of observations	1 857	1 177	680	1 857	1 177	680

Note: */**/*** statistically significance at the 10%, 5% and 1% level, respectively.

OLS: Ordinary least square; (s.e.) = standard error.

Source: European Union Labour Force Survey.

Table 2.3 shows the regression results of relative unemployment on population growth only for those regions for which we also have information on EU27/EFTA migrants for the entire period.[25] The estimates for the OLS regression do not seem to be robust. Although the coefficients for the period 2001-10 and 2008-10 are comparable with the previous results, they are no longer statistically significant.[26] For the FE regression results, the estimates for the reduced sample provide similar results as for the full sample, both in terms of size and statistical significance, although the estimated coefficients are less statistically significant.

Using this reduced sample, the results of relative unemployment on population growth and the results of relative unemployment on the simulated free-mobility-induced population change can now be compared. Table 2.4 displays the regression results of relative unemployment on the simulated free-mobility-induced population change. The OLS regression results are always negative and statistically significant for the full observation period and for the period 2001-07. Interestingly, the point estimate of the effect of relative unemployment on simulated free-mobility-induced population change is insignificant for the period 2008-10. This suggests that the reaction of free mobility to changing labour market conditions may have been weaker during the crisis, in line with the descriptive evidence in Section 2.2 which showed that inflows of free-mobility migrants remained significant, including in countries such as Spain which were hard hit.[27] However, for the fixed effect regression results, the effect of relative unemployment on simulated free-mobility-induced population change is the same during both sub-periods and always statistically significantly negative.

Table 2.4. Regression coefficients: relative unemployment/non-employment and free-mobility-induced population growth

Reduced sample

Free-mobility-induced population growth	Effect of lagged unemployment			Effect of lagged non-employment		
	2001-10	2001-07	2008-10	2001-10	2001-07	2008-10
OLS	-0.001***	-0.002***	-0.001	-0.001	-0.001	0.000
(s.e.)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)
R2	0.036	0.021	0.037	0.029	0.010	0.034
FE	-0.003**	-0.003**	-0.003**	-0.003	-0.002	-0.009*
(s.e.)	(0.001)	(0.002)	(0.002)	(0.001)	(0.004)	(0.005)
R2	0.034	0.012	0.037	0.028	0.008	0.046
Number of regions	275	254	259	275	254	259
Number of observations	1,857	1,177	680	1,857	1,177	680

Note: */**/*** statistically significance at the 10%, 5% and 1% level, respectively.

FE: fixed effect; OLS: Ordinary least square; (s.e.) = standard error.

Source: European Union Labour Force Survey.

When using non-employment as an indicator for the labour market opportunities in a region, almost none of the estimates, either by ordinary least square or fixed effect, are statistically significant.[28] This may be due to the fact that the unemployed tend be the more mobile part of the population without employment, reacting stronger to economic shocks (see also Jones and Riddell, 2006).

The effects displayed in Tables 2.2, 2.3 and 2.4 seem rather small, but in order to interpret them correctly, we have to take into account that unemployed people are usually only a small fraction of the population. Therefore, in Tables 2.5, 2.6 and 2.7 we interpret the estimation coefficients at the sample means.

Table 2.5 puts the results from Table 2.2 into perspective.[29] The average number of unemployed people in a region in our full-size sample is about 48 300 persons. A 1% increase in this number corresponds to 483 persons. So if relative unemployment in the previous year increases by 483 persons, the population decreases by 0.00144%. How large is that number? The average population size for a NUTS-2 region in our sample is about 750 000, 0.00144% of which are 11 persons. So 483 additional unemployed persons in the preceding year decrease the population (all types of migration, including intra-national but inter-regional) in a region by 11 persons, according to our estimates. This means that 2.2% of the increase in unemployment is adjusted for by a population change, that is, by migration. Taking the FE estimates at face value, the adjustment is much stronger, about 11%.

Table 2.5. Interpretation of OLS/FE estimates: relative unemployment and population growth

Full sample

Population growth	Effect of lagged unemployment					
	OLS			FE		
	2001-10	2001-07	2008-10	2001-10	2001-07	2008-10
Average unemployment	48 264	47 919	49 493	48 264	47 919	49 493
1% increase	483	479	495	483	479	495
Average population	749 817	768 344	775 141	749 817	768 344	775 141
Migration effect	-11	-9	-16	-52	-49	-75
Unemployment adjusted due to migration in %	2.23	1.91	3.33	10.84	10.13	15.16

FE: fixed effect; OLS: Ordinary least square; (s.e.) = standard error.

Source: European Union Labour Force Survey.

Table 2.6. Interpretation of OLS/FE estimates: relative unemployment and population growth

Reduced sample

Population growth	Effect of lagged unemployment					
	OLS			FE		
	2001-10	2001-07	2008-10	2001-10	2001-07	2008-10
Average unemployment	42 642	39 359	49 493	42 642	39 359	49 493
1% increase	426	394	495	426	394	495
Average population	723 756	695 710	748 210	723 756	695 710	748 210
Migration effect	-10	20	-10	-51	-38	-64
Unemployment adjusted due to migration in %	2.44	-4.99	2.12	11.85	9.63	12.99

FE: fixed effect; OLS: Ordinary least square; (s.e.) = standard error.

Source: European Union Labour Force Survey.

This is similar to previous estimates in the literature (Puhani, 2001). During the period 2008-10 which was dominated during the recent economic downturn, our point estimate is somewhat larger than for the full observation period, for both OLS and FE estimates. Using the latter, we find that in crisis period, 15% of the unemployment increase was adjusted for by a population change, whereas over the whole decade, that number was only 11%. Again, the respective numbers for the OLS estimates are much lower, but go in the same direction. The picture also broadly holds when using only the reduced sample (Table 2.6).

Table 2.7 looks only at cross-border free-mobility reactions to the crisis. Over the full period, due to free mobility, unemployment in the EU27/EFTA area has been reduced by about 6% at the maximum.

Table 2.7. Interpretation of OLS/FE estimates: relative unemployment and free-mobility-induced population growth

Reduced sample

Free-mobility-induced population growth	Effect of lagged unemployment					
	OLS			FE		
	2001-10	2001-07	2008-10	2001-10	2001-07	2008-10
Average unemployment	42 642	39 359	48 714	42 642	39 359	48 714
1% increase	426	394	487	426	394	487
Average population	723 756	695 710	748 210	723 756	695 710	748 210
Migration effect	- 8	- 13	- 5	- 22	- 24	- 26
Unemployment adjusted due to migration in %	1.76	3.22	0.98	5.09	6.18	5.34

FE: fixed effect; OLS: Ordinary least square; (s.e.) = standard error.

Source: European Union Labour Force Survey.

To sum up, relative unemployment drives population changes at the regional level in the free-mobility area, although the size of the effects are too small for migration to act as an adjustment mechanism for regional labour market shocks across Europe.[30] In addition, our results are not completely robust. For example, the estimates are sensitive to the exclusion of regions with missing observations for the free-mobility-induced population change. We find a larger point estimate for the period of the financial crises when considering total population change. This result breaks down, however, when only the free-mobility-induced population change is considered.

2.4. Conclusions

This chapter attempted to shed light on three key questions related with free mobility during the crisis. The questions raised and the answers arrived at from a look at the data and the empirical evidence are the following:

How has free mobility reacted to the crisis?

The adjustment of free-mobility migration during the crisis appears to have been more limited than what might have been expected. Overall, free-movement flows declined during the crisis, but not necessarily stocks, except in the worst-hit countries (Ireland and Iceland). In contrast, in Spain – for which large pre-crisis inflows were also followed by a deep recession – the impact on net free-mobility migration has apparently been less pronounced. Flows for employment fell, but other flows – in particular family

migration – may not have fallen, and some of the non-work flows may have involved people who became economically active in the destination country. Some outflows seem to have taken place as well from the worst-hit countries in the EU15, but not to the same extent as the fall in inflows. In the European Union, the source of flows among EU8 sending countries shifted from Poland to the Baltic countries, especially Latvia and Lithuania, which were hard hit during the crisis. Evidence on return migration is limited, but it seems that it has reacted to labour market conditions in origin countries, although not always strongly.

Across the EU/EFTA as a whole, a major confounding factor that has limited the impact of the crisis on free mobility has been the continuation of the gradual lifting of restrictions. As a result, in particular inflows from Romania and Bulgaria continued strongly in many countries during the crisis. The easier conditions granted to nationals from these two countries in 2007 led to an immediate increase of migration to the main destination countries, and this flow continued through the crisis. This is due to the fact that employment conditions in the two origin countries remained poor and migrants were joined in their host countries by their families originally left behind.

How did free-mobility migrants who had migrated just prior to the onset of the crisis fare during this shock in the labour markets of their host countries, notably in terms of unemployment?

In contrast to general observations regarding the impact of a crisis on recent arrivals (see OECD, 2007 and 2008), the unemployment of recent arrivals from the EU27/EFTA has grown less than that of the native-born – in spite of the generally more vulnerable labour market position of the former. This could be due to several factors. Unemployed free-mobility migrants tend to be more mobile than the native-born and thus may have changed jobs and/or moved within the free-mobility area, either by returning to their origin country or by moving to other regions within the area. In addition, there is some evidence of an "added worker effect", in particular for women from the EU27/EFTA. Another possibility is that employers were more reluctant to lay them off during the crisis than other workers because of their presumed higher productivity. To which degree this is may be the case is, however, not clear, although one observes that recent immigrants from the EU27/EFTA tend to have higher education levels than the native-born in the same jobs.

Is there any evidence that free mobility has played an equilibrating role during the crisis – that is, did free mobility encourage moves from areas that were hard hit towards others that were less affected?

Notwithstanding these confounding factors, within the EU27/EFTA, the labour market impact of the crisis has been uneven, which makes it possible to study the impact of asymmetric shocks in a free-mobility zone. The tentative results from the empirical analysis suggest that free mobility has played an equilibrating role, but overall its impact has been small – unemployment in the EU27/EFTA area has been reduced by about 6% at the maximum. The size of the effects is thus too small for migration to act as a major adjustment mechanism for regional labour market shocks across Europe.

Nevertheless, given the limited numbers of free-mobility migrants in the overall labour force – in 2008, about 4% for the EU27/EFTA, three quarters of which have been in their host countries for more than five years – this contribution in the adjustment is still not negligible. However, further analyses are needed to ascertain these preliminary findings.

Notes

1. In this chapter, unless stated otherwise, all migration within the EU27 and the EFTA countries (Iceland, Norway and Switzerland) is considered free movement. Although a number of countries have adopted transitional measures, all had introduced specific facilitations for migration from the other countries concerned.

2. The terms "free mobility" and "free movement" are used synonymously throughout this chapter.

3. There appears to be some variation in the labour market performance within the group of EU27/EFTA free-mobility migrants. Immigrants from the new EU member countries, in particular from Romania and Bulgaria, tend to be harder hit than EU15/EFTA migrants. However, with the exceptions of Ireland, Italy, Spain and the United Kingdom, the samples are too small to produce reliable results that are disaggregated by EU8 and EU2 migrants. In the two former countries, EU8+2 migrants are harder hit than the native-born, whereas the reverse holds in Spain and the United Kingdom – *i.e.* the results are qualitatively the same as in Table 2.1.

4. EU8 refers to the Central and Eastern European countries which joined the European Union on 1 May 2004, EU2 to Romania and Bulgaria which joined on 1 January 2007. About 20% of recent free mobility migrants from the EU8+2 (that is, EU8 and EU2) have a high education level, which is about the same share as in their origin countries. 53% have a medium-level education.

5. However, there is no indication that the incidence of "overqualification" has increased over the crisis.

6. Data for 2010 are not yet available.

7 Part of the increase was attributable to citizens already in the country who benefited from a status change upon accession.

8. Note that these figures relate to permanent-type flows which tend to be less sensitive to economic conditions as temporary movements. Distinguishing between temporary and permanent-type movements in a free-mobility zone is not straightforward; in general, persons benefiting from free mobility who have been resident for more than a year in the host country and who are not students are considered permanent.

9. Since mid-2008, the stock of working-age free mobility area citizens has grown more slowly than the stock of children and people over 65. The growth in the stock of other EU15/EFTA nationals is driven by the large number of retirees (for the largest nationality, the United Kingdom, about 30% are 65 or older), who are not negatively affected by local labour market conditions and have continued to move to Spain and indeed, as the housing market collapsed in Spain, incentives for older people to move there have increased significantly. In contrast, migrants from the EU2 are young – on average, 32 years old – and mostly seeking employment.

10. This may be partly due to the fact that outflows are not always associated with de-registration.

11. Although there is no information available yet on whether Irish nationals are moving within the free-mobility area – traditionally, to the United Kingdom – the number of Irish moving to traditional destinations outside of Europe is increasing. For example, the number of Irish primary applicants for temporary work visas in Australia increased by 60% between 2009 and 2010, and permanent migration increased by almost 25%. Over the same period, permanent migration of Irish citizens to Canada was up 50%, and temporary labour migration to Canada increased 25%. Still, cumulative flows to non-EU/EFTA countries are below the reported outflows, suggesting that many Irish are remaining within the free-mobility area.

12. Note also that benefit replacement rates in the destination countries are typically much more generous than in the origin countries, thereby creating an incentive to stay even if the migrants become benefit-dependent.

13. The labour force survey tends to underestimate the number of recent arrivals in most countries. To which degree this holds for returnees is, however, not known.

14. Of course, conditions in the main destination countries also affect returns, with administrative data providing some indications that more Poles returned from the United Kingdom and Ireland in 2008, and more Romanians from Italy and Spain in 2009, as the crisis reached those countries.

15. Note the different scale on return migration from Lithuania. Even during the peak of the crisis which hit Lithuania's labour market harder than that of all other EU27/EFTA countries with the exception of Latvia (see Table 2.1), returns were still higher than in all other countries. This is associated with the fact that Lithuania also had by far the largest outflows relative to its population.

16. This is a particularly important question within the euro zone since the exchange rate cannot adjust to cushion the effects of asymmetric shocks.

17. The EU accession of Central and Eastern European countries has led to a set of studies investigating regional convergence in the accession countries and migratory responses to regional inequalities. Huber (2007) surveys this literature, which in sum does not find regional convergence in the accession countries. Instead, proximity to an inner-EU border and capital city status seem to have fostered economic development. Fidrmuc (2004) even finds that despite of growing regional disparities in the accession countries, measured by the coefficient of variation in wages and unemployment, overall regional migration flows have decreased. Migration seems to have contributed little to convergence between regions in EU accession countries. This may be due to liquidity constraints and housing market imperfections (see Huber, 2007; and Caroleo and Pastore, 2010).

18. In addition to unemployment and employment (which is the counterpart to non-employment), wage differentials clearly also could have an impact on flows between regions. Data on regional wages are not available. As a proxy, we use the regional GDP per capita from the Eurostat REGIO Database. Including this information did not substantially alter the results below. However, since the regional GDP per capita data are only available until 2008 and not for all regions, some of the coefficients were no longer statistically significant.

19. These are modelled *e.g.* by Gallin (2004) and by Kennan and Walker (2011).

20. This classification has been undertaken in spite of the fact that not all countries formed part of the mobility zone throughout the entire period, and a number of transitional measures applied. Indeed, migration flow data from a number of countries

suggest that there was already significant migration from the new EU member countries prior to their accession to the European Union (the same also applied for Switzerland regarding the introduction of free mobility with the EU15). In addition, immediately upon accession, all EU27/EFTA countries had to introduce facilitations for nationals from the new EU member countries.

21. The Nomenclature of Units for Territorial Statistics (NUTS) classifies the regions in the EU27/EFTA and EU candidate countries. The NUTS-2 level is the second level in this classification.

22. Annex Figure 2.A1.1 shows, for all regions in the sample, the association between the evolution of relative unemployment and the overall migration-induced population change (*i.e.* including intra-national migration). Annex Figure 2.A1.2 does the same for cross-border free-mobility-induced population change only.

23. Note that in principle, free mobility applies on the basis of nationality, not country of birth. However, in the rare case where an adult offspring of non-EU27/EFTA migrants born in an EU27/EFTA country does not have an EU/EFTA nationality, he or she will benefit from the facilitations provided by the EU Directive for Long-term Residents.

24. Although ageing is a common factor, the pace of ageing varies significantly across regions/countries. However, if that heterogeneity is constant over time, then the fixed effects estimator will take care of this and there will not be any bias.

25. For a list of the regions which did not provide information on free-mobility migrants throughout the entire period under observation, see Table 2.A1.3.

26. It appears that the results for the full sample have been driven by the regions that are excluded from the reduced sample (see Table 2.A1.3). In particular, Germany and Italy report systematic missings. Indeed, country-specific estimations (results available upon request) show that in both of these countries, the respective coefficients of the impact of relative unemployment performance on the growth in the working-age population are strong and statically significant.

27. As mentioned above, this is due to a number of factors including the ongoing immigration of non-labour migrants (namely family) and the lifting of some transitional restrictions during the crisis period.

28. Indeed, for the overall population change, the coefficients tend to have a positive sign.

29. Table 2.6 shows the respective results for the reduced sample.

30. These results are in line with previous results in the literature, which suggests that the adjustment mechanism in the European free-mobility zone is somewhat slower than regarding interstate migration in the United States (*e.g.* Decressin and Fatas, 1995).

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Annex 2.A1

Supplementary tables and figures

Table 2.A1.1. Impact of the crisis on employment of recent EU27/EFTA migrants, by gender, for the ten sectors with largest employment decline and total employment

	Sectors	MEN						WOMEN					
		Total employment	Share of recent EU27/EFTA migrants per sector			Change of recent EU27/EFTA migrants	Adjustment burden	Total employment	Share of recent EU27/EFTA migrants per sector			Change of recent EU27/EFTA migrants	Adjustment burden
		Relative difference 2010-08	2008	2010	Difference 2010-08	Employed in the sector 2010-08	Share of recent EU27/EFTA migrants in total change	Relative difference 2010-08	2008	*2010*	Difference 2010-08	Employed in the sector 2010-08	Share of recent EU27/EFTA migrants in total change
1	Specialised construction activities	-15.1	1.2	1.1	-0.2	-27.7	2.3	-18.0	0.6	*0.3*	..	..	..
2	Manufacture of fabricated metal products, except machinery and equipment	-13.9	0.6	0.5	0.0	-15.9	..	-14.8	0.6	*0.5*	..	..	..
3	Manufacture of machinery and equipment n.e.c.	-10.4	0.8	0.6	-0.1	-27.7	2.0	-11.7	1.3	*0.9*	..	..	..
4	Manufacture of motor vehicles, trailers and semi-trailers	-10.1	0.5	0.4	..	..	..	-11.3	0.6	*0.5*	..	..	..
5	Warehousing and support activities for transportation	-9.4	1.1	0.9	-0.3	-31.6	3.9	-7.5	1.5	*1.4*	..	..	..
6	Construction of buildings	-8.5	1.6	1.9	0.4	13.1	-2.4	-12.4	0.6	*0.5*	..	..	..
7	Legal and accounting activities	-10.8	0.4	0.2	..	..	..	-2.9	0.3	*0.3*	0.2	-3.1	..
8	Other personal service activities	-19.9	1.1	1.1	..	..	..	-1.3	0.9	*1.0*	..	..	..
9	Financial service activities, except insurance and pension funding	-5.2	1.1	1.0	..	..	..	-6.3	0.6	*0.3*	7.4	-51.3	5.2
10	Wholesale trade, except of motor vehicles and motorcycles	-1.7	0.6	0.5	..	..	..	-9.1	0.4	*0.4*	..	..	..
Total (all sectors)		-3.5	0.8	0.8	0.0	-3.7	0.8	-1.2	0.9	*1.0*	-23.7	11.2	-0.2

Note: "..": results not publishable due to small sample sizes.

Source: European Union Labour Force Survey.

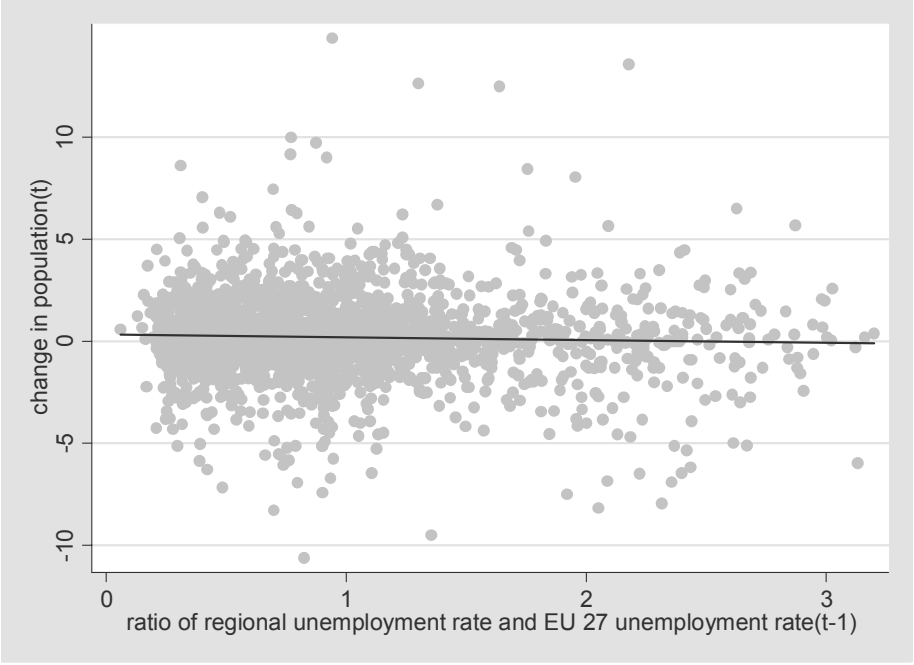
Table 2.A1.2. Impact of the crisis on employment of native-born and native-born youth, for the ten sectors with largest employment decline and total employment

	Sectors	RECENT EU27/EFTA MIGRANTS						NATIVE-BORN YOUTH					
		Total employment	Share of recent EU27/EFTA migrants per sector			Change of recent EU27/EFTA migrants	Adjustment burden	Total employment	Share of native-born youth per sector			Change of native-born youth	Adjustment burden
		Relative difference 2010-08	2008	2010	Difference 2010-08	Employed in the sector 2010-08	Share of recent EU27/EFTA migrants in total change	Relative difference 2010-08	2008	2010	Difference 2010-08	Employed in the sector 2010-08	Share of native-born youth in total change
1	Specialised construction activities	-15.3	1.2	1.0	-0.2	-29.4	2.3	-15.3	12.8	11.4	-1.4	-24.8	20.7
2	Manufacture of fabricated metal products, except machinery and equipment	-14.0	0.6	0.5	..	..	..	-14.0	10.6	8.5	-2.1	-30.9	23.4
3	Manufacture of machinery and equipment n.e.c.	-10.6	0.9	0.7	-0.2	-30.3	2.4	-10.6	8.5	7.8	-0.8	-18.6	15.0
4	Manufacture of motor vehicles, trailers and semi-trailers	-10.3	0.5	0.5	..	..	..	-10.3	9.7	7.7	-1.9	-28.1	26.3
5	Warehousing and support activities for transportation	-8.9	1.2	1.0	-0.2	-26.4	3.7	-8.9	8.5	8.0	-0.5	-14.7	13.9
6	Construction of buildings	-8.8	1.5	1.8	0.3	11.8	-2.0	-8.8	8.6	7.8	-0.8	-17.3	16.8
7	Legal and accounting activities	-6.0	0.3	0.3	..	..	..	-6.0	7.5	6.9	-0.7	-14.5	18.2
8	Other personal service activities	-5.9	0.9	1.0	..	..	..	-5.9	16.0	15.1	-1.0	-11.7	32.1
9	Financial service activities, except insurance and pension funding	-5.8	0.9	0.6	-0.2	-29.7	4.4	-5.8	7.7	6.5	-1.2	-20.0	26.5
10	Wholesale trade, except of motor vehicles and motorcycles	-5.3	0.8	1.0	0.2	22.5	-3.2	-2.9	14.4	13.2	-1.2	-11.0	55.0
Total (all sectors)		-2.5	0.7	0.8	0.0	-0.7	0.2	-2.5	9.5	8.7	-0.8	-10.6	40.9

Note: "..": results not publishable due to small sample sizes.

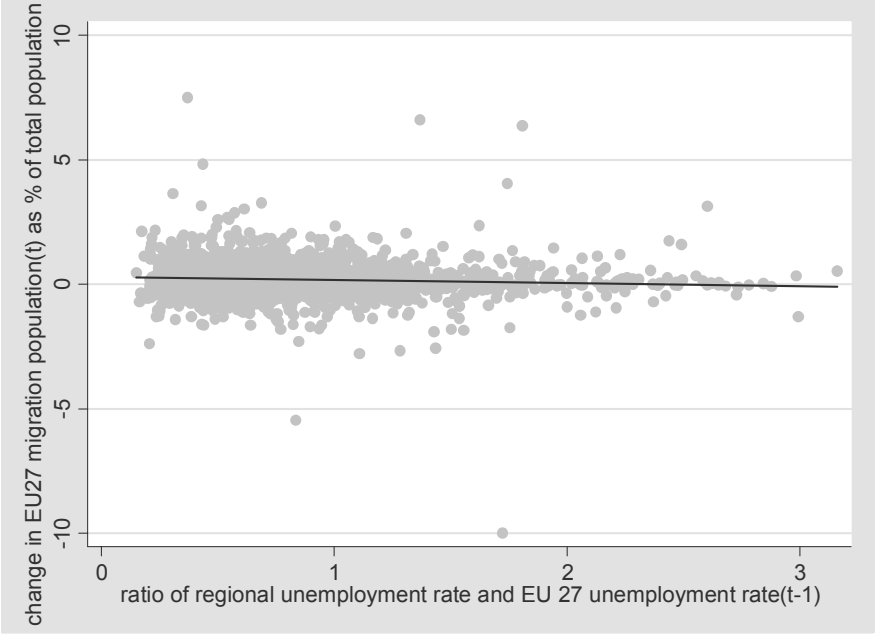
Source: European Union Labour Force Survey.

Figure 2.A1.1. Evolution of relative unemployment rate and population growth in the following year



Source: European Union Labour Force Survey, 2001-10.

Figure 2.A1.2. Evolution of relative unemployment rate and free-mobility-induced population growth in the following year



Source: European Union Labour Force Survey, 2001-10.

Table 2.A1.3. List of countries and regions with no information on free-mobility-zone migrants

	Region	Missing years									
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Belgium	Antwerpen	○									
Switzerland	Région lémanique	○									
	Espace Mittelland	○									
	Nordwestschweiz	○									
	Zürich	○									
	Ostschweiz	○									
	Zentralschweiz	○									
	Ticino	○									
Czech Republic	Prague	×	□								
	Central Bohemia	×	□								
	Southwest	×	□								
	Northwest	×	□								
	Northeast	×	□								
	Southeast	×	□								
	Central Moravia	×	□								
	Ostrava	×	□								
Germany	Stuttgart					×	×	×	□		
	Karlsruhe					×	×	×	□		
	Freiburg					×	×	×	□		
	Tübingen					×	×	×	□		
	Oberbayern					×	×	×	□		
	Niederbayern					×	×	×	□		
	Oberpfalz					×	×	×	□		
	Oberfranken					×	×	×	□		
	Mittelfranken					×	×	×	□		
	Unterfranken					×	×	×	□		
	Schwaben					×	×	×	□		
	Berlin	○				×	×	×	□		
	41 no code				○	×	×	×	□		
	42 no code				○	×	×	×	□		
	Bremen					×	×	×	□		
	Hamburg					×	×	×	□		
	Darmstadt					×	×	×	□		
	Giessen					×	×	×	□		
	Kassel					×	×	×	□		
	Mecklenburg-Vorpommern					×	×	×	□		
	Braunschweig					×	×	×	□		
	Hannover					×	×	×	□		
	Lüneburg					×	×	×	□		
	Weser-Ems					×	×	×	□		
	Düsseldorf					×	×	×	□		
	Köln					×	×	×	□		
	Münster					×	×	×	□		
	Detmold					×	×	×	□		
	Arnsberg					×	×	×	□		
	Koblenz		○			×	×	×	□		
	Trier		○			×	×	×	□		
	Rheinhessen-Pfalz		○			×	×	×	□		
	no code					×	×	×	□		
	Chemnitz (Sachsen)					×	×	×	□		
	Dresden (Sachsen)					×	×	×	□		
	Leipzig (Sachsen)					×	×	×	□		
	Sachsen-Anhalt							×	□		
	E1 no code					×	×				
	E2 no code					×	×				
	E3 no code					×	×				
	Schleswig-Holstein					×	×	×	□		
	Thüringen					×	×	×	□		

Table 2.A1.3. List of countries and regions with no information on free-mobility-zone migrants *(cont'd)*

Denmark	Denmark							×			
	Hovedstaden							○			
	Sjælland							○			
	Syddanmark							○			
	Midtjylland							○			
	Nordjylland							○			
Spain	Melilla			×	☐				×	×	☐
Hungary	Central Hungary	☐									
	Central Transdanubia	☐									
	Western Transdanubia	☐									
	Sauthern Transdanubia	☐									
	Northern Hungary	☐									
	Northern Great Plain	☐									
	Southern Great Plain	☐									
Ireland	Border, Midland and Western					×	☐				
	Southern and Eastern					×	☐				
Italy	Piemonte	×	×	×	×	☐					
	Valle d'Aosta	×	×	×	×	☐					
	Liguria	×	×	×	×	☐					
	Lombardia	×	×	×	×	☐					
	Provincia Autonoma Bolzano/Bozen	×	×	×	×	☐					
	Provincia Autonoma Trento	×	×	×	×	☐					
	Veneto	×	×	×	×	☐					
	Friuli-Venezia Giulia	×	×	×	×	☐					
	Emilia-Romagna	×	×	×	×	☐					
	Toscana	×	×	×	×	☐					
	Umbria	×	×	×	×	☐					
	Marche	×	×	×	×	☐					
	Lazio	×	×	×	×	☐					
	Abruzzo	×	×	×	×	☐					
	Molise	×	×	×	×	☐					
	Campania	×	×	×	×	☐					
	Puglia	×	×	×	×	☐					
	Basilicata	×	×	×	×	☐					
	Calabria	×	×	×	×	☐					
	Sicilia	×	×	×	×	☐					
	Sardegna	×	×	×	×	☐					
Poland	Poland						○				
	Lódzkie	×	×	×	×	×	☐				
	Mazowieckie	×	×	×	☐						
	Malopolskie	×	×	×	×	☐					
	Slaskie	×	×	×	☐				×	×	×
	Lubelskie	×	×	×	×	×	×	×	☐		
	Podkarpackie	×	×	×	×	×	☐		×	☐	
	Swietokrzyskie	×	×	×	×	☐		×	×	☐	
	Podlaskie	×	×	×	☐						
	Wielkopolskie	×	×	×	☐			×	×	☐	
	Zachodniopomorskie	×	×	×	×	☐					
	Lubuskie	×	×	×	☐						
	Dolnoslaskie	×	×	×	×	☐					
	Opolskie	×	×	×	☐						
	Kujawsko-Pomorskie	×	×	×	☐	×	☐				
	Warminsko-Mazurskie	×	×	×	☐						
	Pomorskie	×	×	×	×	☐		×	☐		
Portugal	Região Autónoma dos Açores	×	×	×	×	×	×	☐			

Table 2.A1.3. List of countries and regions with no information on free-mobility-zone migrants *(cont'd)*

Sweden	Stockholm									○
	Östra Mellansverige									○
	Sydsverige									○
	Norra Mellansverige									○
	Mellersta Norrland									○
	Övre Norrland									○
	Småland med İarna									○
	Västsverige									○
Slovenia	Vzhodna Slovenija	×	○		☐					
	Zahodna Slovenija	×	○		☐					
Slovak Republic	Bratislava		×		×		☐			
	Western Slovakia		×		×		☐			
	Central Slovakia		×		×		☐			
	Eastern Slovakia		×		×		☐			

Legend:

×	Missings in EU27/EFTA migrant induced population growth due to no identified EU27/EFTA migrants via "country of birth"
○	Missings also in population growth due to missing observations of regions the year before in general
☐	Missings due to definition of growth, which draws on the information the year before

Source: European Union Labour Force Survey 2001-10.

Part II

The labour market impact of free mobility in Europe

Chapter 3

EU enlargement and Ireland's labour market

by

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This chapter considers several issues related to EU enlargement, migration and Ireland's labour market. The first section presents the figures on net migration to Ireland for the recent past. What becomes clear from this picture, and what will be known to most observers, is that the Irish experience since 2004 is broken up into two very distinct phases. For the four years after 2004, net migration was strong but from 2009, net migration has turned negative due to Ireland's deep recession. Given these two phases, it is necessary to examine the labour market dimensions from different perspectives.

Introduction

This chapter considers several issues related to EU enlargement, migration and Ireland's labour market. Section 3.1 presents the figures on net migration to Ireland for the recent past. What becomes clear from this picture, and what will be known to most observers, is that the Irish experience since 2004 is broken up into two very distinct phases. For the four years after 2004, net migration was strong but from 2009, net migration has turned negative due to Ireland's deep recession. Given these two phases, it is necessary to examine the labour market dimensions from different perspectives.

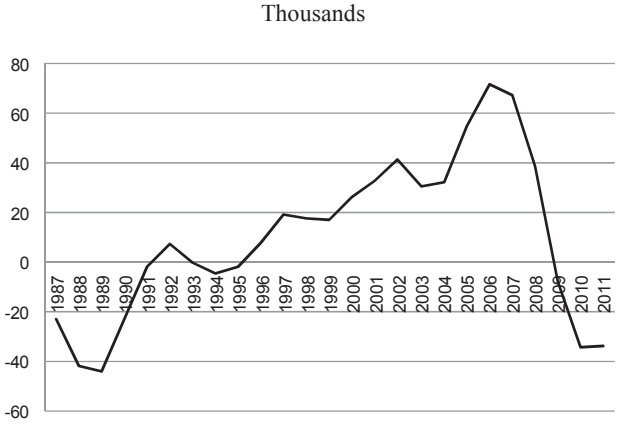
For the earlier phase, the literature examined the following issues: what were the characteristics of the immigrants (mostly from the EU's accession states) who arrived in Ireland during this period (Section 3.2); how did they fare in the labour market; what were there impacts on economic variables such as GDP and wages (Section 3.3). For the latter phase, the question arose of whether the recession had impacted more strongly on the labour market outcomes of migrants relative to natives (Section 3.4).

As will be seen, Ireland was able to take advantage of EU labour mobility around 2004 as labour flowed in. Post-2008, an advantage from labour mobility is still present as labour flows out. However, it is not clear that the immigrants themselves benefited in a straightforward manner. This is discussed in Section 3.5.

3.1. Net migration to Ireland

Net migration to Ireland had been positive since the mid-1990s but, as can be seen from Figure 3.1, there were two phases of acceleration since then. Between 1999 and 2002, net migration rose from 17 300 to over 40 000. After a modest decline in the rate of inflow between 2003 and 2004, the rate accelerated again and reached an all-time high of 71 800 in 2006. There were two factors behind this surge. First, in 2004 only Ireland, the United Kingdom and Sweden offered full labour market access to citizens of the accession states. This meant that the potential migratory outflow from these countries was to be channelled into these three countries. Second, Ireland was experiencing rapid economic, and employment, growth around this time. Since that peak, the rate of inflow has fallen and become negative. For the two most recent years, the rate of net outflow has been estimated at around 34 000 and this, of course, is related in large part to Ireland's recession.

Figure 3.1. Net migration to Ireland, 1987 to 2011



Source: Central Statistics Office, *www.cso.ie.*

3.2. Immigrants' characteristics and outcomes[1]

Barrett and Duffy (2008) show the education levels of EU10[2] immigrants, along with those of other immigrants based on data from 2005. Their figures are presented in Table 3.1. The first point to be taken from the table is that Ireland's immigrants, in general, are relatively highly educated. We know from Barrett *et al.* (2006) that about 30% of the Irish labour force have third level qualifications. Hence, the proportion of immigrants with third level qualifications, at over 40%, points to a high-skilled inflow. As regards immigrants from the EU10, although they have the lowest proportion of highly educated across the immigrants groups, they still compare favourably with the domestic labour force in terms of skill levels.

Table 3.1. Educational distributions of immigrants to Ireland by national group, 2005

Percentages

	United Kingdom	EU-13	EU10	Other	United States	All immigrants
No formal/primary education	2.4	1.1	6.4	4.7	0	4
Lower secondary	18.3	2.2	9.3	3.5	7.1	8.4
Upper secondary	19.6	22.4	37.8	25.2	17.9	26.8
Post Leaving	11.4	8.2	14.6	7.1	10.7	10.4
Third level	15.1	14.2	12.6	13.6	3.6	13.6
Third level - degree or above	33.3	51.9	19.2	45.9	60.7	36.8
	100	100	100	100	100	100
N	378	268	452	508	28	1,634

Source: Barrett, A. and D. Duffy (2008), "Are Ireland's Immigrants Integrating into its Labour Market?", *International Migration Review,* Vol. 42, No. 3.

Although the figures on education levels presented in Table 3.1 point to a highly-skilled inflow, research on immigration in Ireland has identified a tendency for immigrants to be employed in situations which do not fully reflect their skills. Of course, this over-qualification finding is typical of migration research in many countries and has given rise to a number of theories such as the lack of location-specific human capital and discrimination. Such factors may be at play in Ireland but before discussing them, we will look in greater detail at the research on labour market outcomes.

The labour market experiences of immigrants in Ireland have been explored along two dimensions: wages and occupational attainment. Looking firstly at the work on wages, Barrett and McCarthy (2007a) used the Irish component of the European Union's Survey on Income and Living Conditions (EU-SILC) from 2004 to explore the earnings of immigrants generally in Ireland and also those of EU10 immigrants in particular. They found that immigrants, on average, earned 18% less than natives, controlling for characteristics such as gender, experience and education. However, this aggregate figure of 18% hid large differences across immigrant groups. For example, when broken down by immigrants from English-speaking and non-English-speaking countries they found that the immigrant/native wage difference was essentially zero for the former group and 31% for the latter group. They then went on to look within the non-English-speaking group and found a wage disadvantage of 45% for EU10 immigrants relative to natives. This was the largest disadvantage across the different national groups.

As the data used by Barrett and McCarthy in that paper were collected through 2004, it could have been the case that some of the EU10 immigrants in the sample were interviewed prior to May 2004. As such, they may have been working illegally. Even those who have arrived after May would have been very recent arrivals and so the high degree of wage disadvantage may not have been a surprise.

In order to get a second look at this issue, Barrett and McCarthy (2007b) repeated the analysis using EU-SILC data for 2005. Although the later estimate of the EU10 immigrant earnings disadvantage was lower at 32%, this was still a sizeable wage gap and bigger than those of other immigrant groups. Given that the sample was drawn in 2005, the wage disadvantage would not have been related to illegality. However, the possible lack of location-specific human capital is clear. The EU-SILC data did not include information on year of arrival but we know that most of the EU10 immigrants would have been recent arrivals.

Another view of immigrant earnings in Ireland in the mid-2000s can be found in Barrett *et al.* (forthcoming). This paper contains significant advances on the two Barrett and McCarthy papers, partly because of the data used and partly because of the techniques employed. The data used by Barrett *et al.* (forthcoming) is from a survey of 50 000 employees taken in 2005, of which 10% were immigrants. As Barrett and McCarthy were working with samples of around 200 immigrants, Barrett *et al*. had a vastly bigger dataset set to work with. And whereas Barrett and McCarthy relied on OLS regression, Barrett *et al*. used quantile regression to get a richer sense of the immigrant earnings disadvantage across the earnings distribution.

As with Barrett and McCarthy, Barrett *et al.* (forthcoming) found that immigrants from the EU10 had the highest earnings disadvantage across all immigrants groups. The figure they report is of a EU10 gap of 18% relative to natives. This is smaller than the estimates in the two Barrett and McCarthy papers. The more interesting results in the paper arise in the context of the quantile regression. The wage gap is essentially zero for the first earnings decile but rises steadily across the deciles reaching 16% in the highest decile. Barrett *et al.* also ran OLS wage regressions within educational categories to see if the immigrant earnings disadvantage varies across educational levels. They found that immigrants with low levels of education (*i.e.* primary or secondary only) earn similar amounts relative to natives with similarly low levels of education. They also found that the wage gap is evident for those with postsecondary and tertiary education. They interpreted these results as providing evidence that the wage disadvantage for EU10 immigrants is not about discrimination of low-skilled and vulnerable immigrants but about the failure of more skilled immigrants to fully capture returns to human capital.

As noted above, the second approach to looking at labour market outcomes was by looking at occupational attainment. Barrett and Duffy (2008) used data from Ireland's official labour force survey (known as the Quarterly National Household Survey) from 2005 to explore whether immigrants were employed in high-level occupations at rates comparable to native employees, controlling for characteristics such as age, experience and gender. They did this by running ordered probit regressions in which the dependent variable was a four-way categorisation of occupations, with a ranking from high to low level.

The first regression presented by Barrett and Duffy shows that immigrants (generally) are 2% less likely to be in the highest level occupations and 4% less likely to be in the next category down, relative to natives. They are also 2% more likely to be in the bottom category and 4% more likely to be in the category second from bottom.

As was the case with the earnings results, the results for immigrants in general hide important differences across immigrant groups. And again, as was the case with the earnings results, the biggest difference between natives and immigrants arose in the case of EU10 immigrants. They were found to be 9% more likely to be in the lowest occupational category relative to natives and also 9% more likely to be in the second lowest category. The results also showed them to be 5% less likely to be in the highest category and 13% less likely to be in the second highest group.

As noted under the discussion of earnings, part of (indeed much of) the disadvantage experienced by EU10 immigrants relative to natives may have been the result of the EU10 immigrants being recent arrivals and so lacking location specific human capital. If this were the case, then the disadvantage would not be a concern and would be expected to disappear as immigrants spent longer in Ireland and accumulated the required location-specific human capital. In the data used by Barrett and Duffy, they had information on the year in which immigrants has arrived in Ireland. Hence, they were able to explore whether the occupational disadvantage disappeared over time.

The results from the EU10 immigrants, and for most of the other immigrant groups, were disappointing. Little evidence was found in support of a decline in the "occupational gap" between immigrants and natives, including those from the EU10. As Barrett and Duffy write, this could be because the time period being examined was too short. It could also have been the case that the cell sizes being used in the analysis were too small to generate statistically significant differences in the estimates. But either way, no evidence of labour market integration was found, in the sense in which they defined it.

3.3. Immigrants' impacts

Research that has been conducted into the labour market impacts of immigration in Ireland has not focused on the EU Accession States in particular but has instead taken all immigrants as a block. However, Barrett (2010) makes some inferences about the possible impacts by drawing on that work.

The impacts of immigration into Ireland have been considered in two papers, Barrett *et al.* (2002) and Barrett *et al.* (2006). In the case of both papers, the approach taken was along the lines taken in Borjas *et al.* (1997) in that it involves the use of a model of the Irish labour market to simulate the impact of migration and to trace through the impact on variables such as GNP, GNP per worker, employment, unemployment and wages. A key feature of the model is that it incorporates a crucial determinant of output growth in a small open economy such as Ireland, namely, competitiveness. In essence, output in Ireland is driven by its ability to attract internationally mobile capital and this, in turn, is achieved by having wages that are lower relative to trading partners. Migration impacts in the model by constraining wage growth through a labour supply increase. This wage dampening effect impacts positively on competitiveness and thereby on labour demand.

One problem with using the model to simulate the impact of immigration is that the classification of immigrants into the high-skilled and low-skilled categories is not clear-cut. In Barrett *et al.* (2002), immigrants who described themselves as having particular levels of education were treated as being the same as natives with the corresponding levels of education. However, Barrett *et al.* (2006) were dealing with a later flow for whom this approach would tend to overstate the true inflow of skills given that there was evidence of skilled immigrants working in occupations below their skill levels. They

approached the problem in one of their simulations by using occupations as the indicator of skills as opposed to reported education levels.

Table 3.2 presents what Barrett (2010) described as an "inferred" measure of the impact of EU12 immigration. He used the term "inferred" because what he did was take results from Barrett *et al.* (2006) and scale them to fit with the higher level of EU12 immigration in the later part of the decade. The figures in Table 3.2 show the inferred impacts of an inflow of 180 000 immigrants, with 180 000 being the number of EU12 immigrants in the labour force as of 2008.

Barrett *et al.* (2006) present simulation results under two scenarios. In one, adjustment within the labour market occurs through the rate of unemployment and in the other adjustment is through wages. As the rate of unemployment was generally constant around 2004 (at 4.5%), it seems reasonable to assume that most of the adjustment to immigration was through wages. For this reason, only Barrett's results based on that scenario (Barrett, 2010) are presented here.

The first point to be taken from Table 3.2 relates to the impact on employment. Although an inflow 180 000 represented 8% of the labour force, the simulation suggests that the impact on employment was actually much lower. Employment only increased by 4.4% according to the model. The reason for this is because wages fall (on average) by 7.8% and so there is a reduction in labour supply. Given the net increase in employment and a positive impact on output per worker, GNP is increased by close to 6%. We should note that while this approach to estimating the impact of immigration showed wages declining by 7.8%, an alternative method failed to find clear evidence that the immigration into Ireland actually reduced wages. Barrett, Bergin and Kelly (2011) used the skill-cell approach of Borjas (2003) and found contradictory evidence on the relationship between immigration and wages in Ireland.

Table 3.2. Inferred impact of EU10 immigration of 180 000 labour force participants

	% change
GNP per worker	1.7
GNP	5.9
Total employment	4.4
Average wage	-7.8

Source: Barrett, A. (2010), "EU Enlargement and Ireland's Labour Market", in M. Kahanec and K.F. Zimmermann (eds.), *EU Labor Markets after Post-Enlargement Migration*, Springer, Berlin.

Even through this concise presentation of results from the impact simulation, it is possible to get a sense of the mechanism through which EU10/12 immigration impacted upon the Irish economy. The Irish economy was experiencing rapid growth around 2004 and so demand for labour was strong. In the absence of a large inflow, wages would have risen. This would have choked off the increased labour demand and so employment growth, and hence GNP growth, would have been constrained. At one point, this was considered a great advantage to the Irish economy but now the question must be raised of whether the boom was prolonged, in an undesirable way, in part by the labour inflow.

3.4. The recession

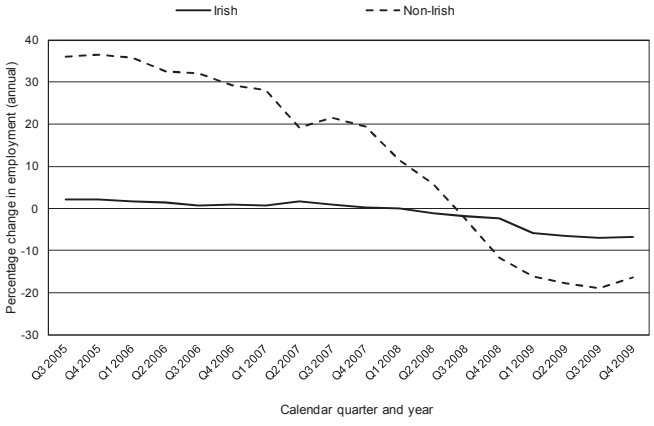
As with many of the world's economies, Ireland experienced an economic recession in 2008 and 2009. However, in the case of Ireland the recession has been more severe, and prolonged, relative to elsewhere. Gross national product fell by 2.8% in 2008 and by a further 11.3% in 2009. One of the main consequences of the recession has been a rapid rise in the rate of unemployment. In 2007, unemployment averaged 4.6%. By December 2008, unemployment had risen to 8.6%, and by the end of 2009 it had reached 13.1%.

Given the size of the economic collapse and the relatively recent inflow of such a large number of immigrants, an important question was whether the immigrants would be disproportionately impacted upon relative to natives. Barrett and Kelly (2012) addressed this issue. They began by using published data from the Central Statistics Office's Quarterly National Household Survey to see if they could identify different trends in immigrants and native employment over the course of the years leading up to the recession and then during the recession.

Figure 3.2 shows the trend in employment growth for nationals and non-nationals, as presented by Barrett and Kelly, and striking differences are immediately apparent. In 2005 and 2006, the annual rate of growth in employment for non-nationals was 30% or higher. Although the pace of growth slowed in 2007, it was still running at 20% or above. The rate of growth for non-nationals continued to decline through 2008 but one interesting point to note is that the annual rate of change in the numbers employed became negative for nationals before this occurred for non-nationals. During the second quarter of 2008, the number of nationals employed fell by 1.1% relative to the same period one year earlier. The corresponding figure for non-nationals was still positive at this point. However, from the third quarter of 2008 the annual rate of decline in the numbers of non-nationals employed exceeded that of nationals: in the third quarter of 2009, the rate had reached close on 20% for non-nationals, compared with a 7% fall for nationals. Just as the national/non-national comparison showed stark differences in the earlier period, the comparison is almost as stark in the period of the recession.

Figure 3.2. Percentage change in employment growth for nationals and non-nationals, 2005-09

Annual



Source: Barrett, A. and E. Kelly (2012), "The Impact of Ireland's Recession on the Labour Market Outcomes of its Immigrants", *European Journal of Population,* Vol. 28, No.1.

While the data shown in Figure 3.2 is interesting and suggests a differential impact of the recession across immigrants and natives, Barrett and Kelly (2012) pointed out that multivariate regression analysis was needed to identify if there was truly an "immigrant effect". For example, it could be that immigrants are generally younger and that the real "victims" of the recession were actually young people as opposed to immigrants. The approach they adopted is as follows. They used micro-data from 2008 and 2009 and merged the two datasets. They estimated probit models of employment. By including dummy variables for immigrants and the year 2009, they can estimated a) if immigrants had higher employment probabilities relative to natives and b) if people observed in 2009 had lower employment probabilities when compared to people who were observed in 2008. They then introduced an interaction terms between the immigrant dummy variable and the 2009 dummy variable. This interaction term allowed them to estimate if the fall in employment probabilities in 2009 was higher for immigrants.

Their most important results are re-produced in Table 3.3. In their Model 1, they include the year and immigrant dummy variables, where the immigrants are broken up into four groups and the reference category is natives. Other controls are included, such as age and education, but not the interaction terms. As can be seen, over the two years of data, only immigrants the EU's new member states have higher employment probabilities when compared to the natives.

In Model 2 the year (2009) and immigrant dummy variables are interacted and so the coefficient and marginal effect estimates can be interpreted as showing whether immigrant employment probabilities suffered more in the recession relative to natives. The answer is that this did happen but only for immigrants from the EU's new member states.

Table 3.3. Probit model of employment for immigrants by nationality and all natives

		Coefficient	Standard error	Marginal effect	Standard error
Model 1	United Kingdom	-0.327***	-0.035	-0.124***	-0.014
	EU-13	-0.033	-0.051	-0.012	-0.018
	EU non-member states	0.227***	-0.025	0.077***	-0.008
	Other	-0.231***	-0.028	-0.087***	-0.011
Model 2	United Kingdom*Year	0.057	-0.07	0.02	-0.025
	EU-13*Year	0.046	-0.101	0.016	-0.035
	EU non-member states*Year	-0.324***	-0.05	-0.123***	-0.02
	Other*Year	-0.081	-0.055	-0.03	-0.02

Note: Standard errors in parentheses. Model 1 includes immigrants and year dummies but no interactions between the two. Model 2 includes the immigrants and year dummies and also the interaction terms; *, **, ***: significant at the 10%, 5% and 1% level, respectively.

Source: Barrett, A. and E. Kelly (2012), "The Impact of Ireland's Recession on the Labour Market Outcomes of its Immigrants", *European Journal of Population,* Vol. 28, No.1.

Before leaving the discussion of Barrett and Kelly, there is one further point in that chapter which is useful here. Barrett and Kelly look at how the numbers of immigrants in Ireland in employment, unemployment and labour force inactivity evolved between early 2008 and late 2009. The numbers employed fell by around 90 000 but there was not a corresponding increase in the numbers unemployed and inactive. Instead, the population of immigrants fell thereby indicating the outward migration was occurring.

3.5. Conclusions

Ireland's labour market has experienced the most remarkable fluctuations since EU enlargement in 2004. The economy boomed around 2004 and the labour that flowed in as a result of EU accession helped to keep maintain the boom's momentum. With the economic crisis of 2008-10, the evidence suggests that immigrants were disproportionately impacted upon by the recession, especially those from the EU10. Population outflows have resumed although Ireland still retains a population of immigrants that is higher than at any time prior to the Celtic Tiger.

At the level of the immigrants themselves, the experience of immigration to Ireland may not have been entirely positive. As noted above, wages were lower than those of natives and no evidence was found of increased occupational attainment over time. Then the recession impacted severely on immigrants. However, from the perspective of a national economy, Ireland did appear to exhibit a migratory flexibility which would generally be applauded by macroeconomists. Labour flowed in when needed and seems to be leaving when not needed. In this way, maybe Ireland has shown a positive macroeconomic feature at a time of otherwise disastrous macroeconomic indicators.

Notes

1. Much of the discussion in Sections 3.2 and 3.3 is taken from Barrett (2010).
2. EU10, EU12 and non-member states are used in the chapter to denote those countries that joined the EU in 2004 plus Bulgaria and Romania, who joined later.

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Chapter 4

The United Kingdom experience of post-enlargement worker inflows from new EU member countries

by

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The United Kingdom was one of only three EU member states to allow citizens of those Eastern European countries acceding in May 2004 freedom of entry into the labour market. Although this arrangement was not extended to the citizens of Bulgaria and Romania they continue to be employed under the work permits scheme, the Seasonal Agricultural Workers Scheme and the Sectors Based Scheme. This chapter looks at the post-enlargement worker inflows from the new EU member countries and their impact on employment and wages of domestic workers by level of education in the United Kingdom.

Introduction

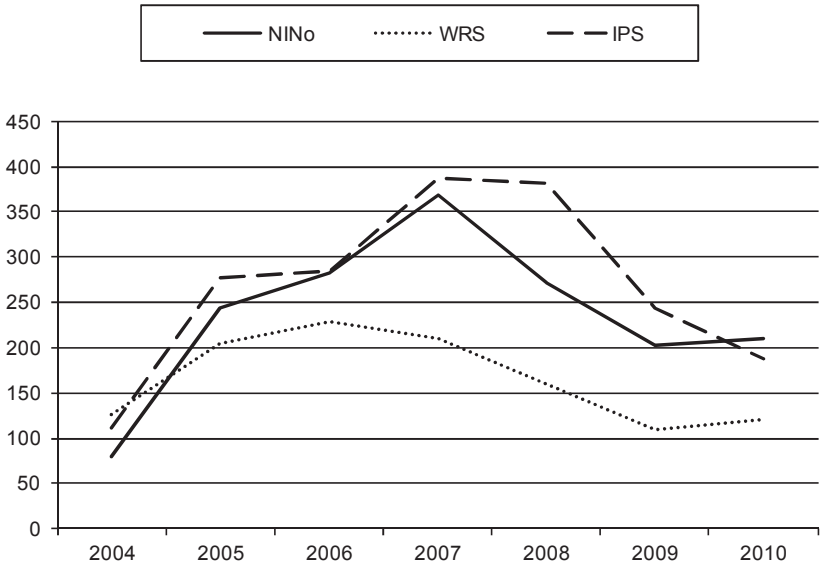
The United Kingdom was one of only three EU member states to allow citizens of those Eastern European countries acceding in May 2004 (EU8 group) more or less freedom of entry into the labour market. Those who entered employment were required to register and pay a small fee under the Worker Registration Scheme (WRS) which continued until April 2011. The WRS became the main data source on numbers and characteristics of EU8 workers. Self-employed EU8 citizens did not have to register so that WRS data underestimate the total number of new workers. Furthermore, it is thought that an unknown number of EU8 workers never registered and are therefore excluded from the statistics. Citizens of Cyprus[1] and Malta were not part of the WRS and were free to take up work in the United Kingdom immediately on accession.

A similar freedom to take up work was not extended to the citizens of Bulgaria and Romania upon the accession of the two countries (EU2) in 2007. They continue to be employed under the work permits scheme, the Seasonal Agricultural Workers Scheme and the Sectors Based Scheme. Data on the two countries are compiled separately from the other accession countries.

Figure 4.1 shows the inflows of EU10 citizens (International Passenger Survey) and workers (WRS, NINo) since 2004. From a peak in 2007, inflow numbers of workers measured by the WRS and National Insurance Numbers (NINo) declined but then levelled off. By April 2011, 1.134 million WRS registrations in total had taken place.

Figure 4.1. Flows of EU8 citizens, 2004-10

Thousands



Note:

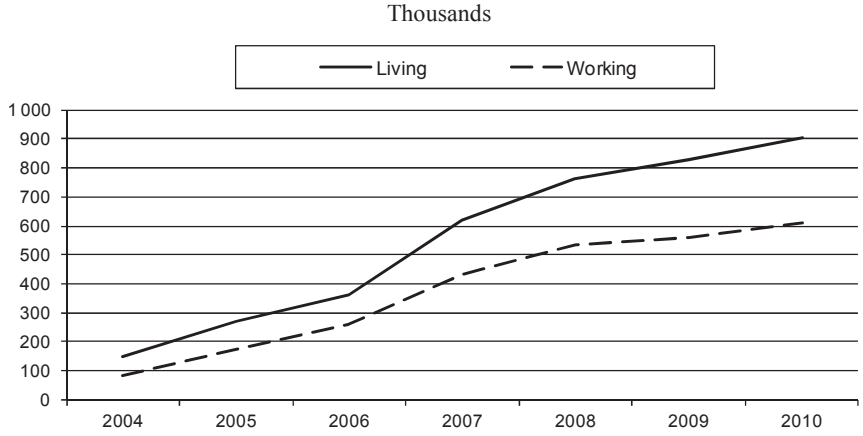
IPS: International Passenger Survey; NINo: National Insurance Numbers; WRS: Worker Registration Scheme.

IPS data include total EU8 population; IPS 2010 data are from January to September; NINo and WRS data include working EU8 population.

Source: Office for National Statistics, National Insurance Recording System, United Kingdom Border Agency.

Stock numbers (labour force survey) have continued to climb as more of them stayed (Figure 4.2), with an estimated 1.106 million EU 8 and EU2 citizens resident in the United Kingdom in spring 2011, some 736 000 of whom were working.

Figure 4.2. Stocks of EU10 (EU8+EU2) citizens, 2004-10



Source: Labour force survey.

There is evidence from studies in both the United Kingdom and sending countries that many WRS workers were over-qualified in terms of skill and educational levels for the jobs taken up (see, for example, Anderson *et al*., 2006; Kaczmarcyk and Okolski, 2008; Sumption and Somerville, 2009). In 2007, 91% of all work permit holders in the United Kingdom were managers and senior officials or in professional or associate professional and technical positions, compared with only 3% of WRS registrants. In contrast, elementary occupations accounted for 72% of WRS registrants but only 2% of work permit holders (Salt, 2009). Thus, while the work permit system[2] for non-EEA workers responded to shortages of the highly skilled, the WRS responded mainly to demand for the lower skilled. For Bulgarians and Romanians, the largest group was labourers, with child and personal care workers and medical doctors also represented. There is no simple explanation for why Eastern Europeans are employed below their skill level, although Sumption and Somerville (2009) suggest several factors are likely to be at work. These include poor English skills; employers' difficulty in recognising foreign credentials; discrimination; a reliance on social networks in a situation in which existing Eastern European nationals already work disproportionately in low-skilled jobs; and the new migrants' willingness to work in low-skilled jobs, in part because they know that their stay is temporary, perhaps while improving their English skills.

4.1. Main characteristics of migrants from post-enlargement countries

Migrants from EU8 countries

Nationality

Nearly two thirds of EU8 immigrants were Poles, followed by Lithuanians, Slovaks and Latvians. Very few Estonians and Slovenians came and there were relatively small numbers of Czechs and Hungarians. In recent years the proportion of Poles among new arrivals has fallen while those of Latvians and Lithuanians have risen. The national distribution in 2011 is in Table 4.1.

Table 4.1. Stocks of EU10 (EU8+EU2) citizens, 2011

Thousands

EU10	Living	Working
	1 105	736
Poland	658	442
Lithuania	129	93
Romania	79	54
Latvia	62	34
Slovak Republic	54	36
Hungary	47	30
Bulgaria	47	34
Czech Republic	29	13
Estonia	..	..
Slovenia	..	..

Note: ".." indicates less than 10 000. Row totals include relevant estimates for these cells.

Source: Labour force survey.

Age

The flow has been a young one. About 43% of WRS registrants were aged 16-24 with only 1% above 55.

Sex

There has been a preponderance of male WRS registrants, 56%.

Employment rate and wages

Male workers from EU8 countries have higher employment rates (90%) than most other groups, including the UK-born (75%). Females also have higher rates (76%) than others, with UK-born women 70%. Because they tend to work in lower skilled jobs than the native workforce, wage rates for males born in EU8 countries are about 60% of those for the UK-born, those for females around 70%; overall, wages for the EU8-born are lower than those of all other major immigrant groups (Coats, 2008).

Sector

The largest group was in the "administration and business" sector; a majority of these would have been registrations with temporary employment agencies from where they would have gone on to work in other sectors. Hospitality was the second most important sector (17%), followed by agriculture (10%), manufacturing (6%), food processing (6%) and retail (4%).

Occupation

Detailed data on the main occupations taken up by registrants for the period May 2004-March 2009 are in Table 4.2. The largest group was process operatives in factories, followed by warehouse workers.

Table 4.2. Worker Registration Scheme for major occupations registered, May 2004 to March 2009

Sector	Number	%
Process operative (other factory worker)	253 130	27.8
Warehouse operative	76 580	8.4
Packer	53 860	5.9
Kitchen and catering assistant	52 765	5.8
Cleaner, domestic staff	51 110	5.6
Farm worker/Farm hand	39 680	4.4
Waiter, waitress	32 110	3.5
Maid/Room attendant (hotel)	32 050	3.5
Sales and retail assistants	25 705	2.8
Labourer, building	24 930	2.7
Care assistants and home carers	23 655	2.6
Other/Not stated	244 750	26.9
Total	910 325	100

Source: UK Border Agency.

Geographical distribution

The largest number of EU8 migrants registered for National Insurance (NINo) in London, but some may subsequently have moved on. WRS data show a more dispersed pattern, with East Anglia having the largest proportion (15% of the total), then the Midlands (13%) and London (12%) (Coats, 2008). Individual EU8 nationalities do not always have the same geographical distributions (Bauer *et al.*, 2006), For example, unlike the Poles, Lithuanians are particularly concentrated in Northern Ireland, eastern and south-east England; in contrast, Poles are more dominant in much of Scotland and Wales and the industrial north-east.

Migrants from Bulgaria and Romania (EU2)

Less skilled workers

The Seasonal Agricultural Workers Scheme (SAWS) is now the main avenue for those Bulgarian and Romanian workers who are not self-employed. The gender composition of the successful SAWS applications has been fairly constant, with 60 to 65% of the applicants being male. Small numbers of citizens of the two countries are allowed in through the Sectors Based Scheme to fill certain specified vacancies in food manufacturing. Table 4.3 summarises the numbers approved since 2007.

Table 4.3. Seasonal Agricultural Workers Scheme (SAWS) and Sector Based Scheme (SBS) approvals, 2007 to mid-2011

	SAWS	SBS
Bulgaria	49 243	3 972
Romania	30 529	718
Total	79 772	4 690

Source: UK Border Agency.

Skilled workers

During 2010 and the first half of 2011, 2 131 work permits were given to Bulgarians and Romanians. Easily the largest proportion went to health and care workers (Table 4.4).

Table 4.4. Work permits and first permissions for Bulgarians and Romanians, January 2010 to June 2011

Category	Number	%
Health and care	932	43.7
Finance	221	10.4
IT	180	8.4
Science and engineering	165	10.5
Managers	140	6.6
Other	493	23.1
Total	2131	100

Source: UK Border Agency.

Economic and labour market impact of migration

It is only within the last decade or so that serious attempts have been made to establish the economic effects of immigration in the United Kingdom. For the most part, economic models have sought to measure fiscal and labour market effects. Some of the models have analysed immigration generally, making it difficult to identify specific post-enlargement effects; others have looked specifically at the new accession countries.[3] Hence, although the main focus of the rest of the chapter is the new member states, more general findings are also reported.

Fiscal effects

Government policy after 1997 was more favourably inclined towards labour migration as a key element in economic growth than hitherto. Much of the discussion about the impact of migration, particularly in the period immediately prior to the 2004 enlargement, focused on its overall economic effect and especially the fiscal balance. A lively political and academic debate began about the degree to which immigration benefited the economy and society more generally.

The first attempt to assess the net fiscal contribution of first generation immigrants to the United Kingdom was made by Gott and Johnston (2002) for the period 1999 to 2000. They estimated that migrants in the United Kingdom made a net contribution to the economy of GBR 2.5 billion but that the net fiscal contributions of migrants differ significantly between different groups. For example, on average migrants contribute more in taxes than they receive in public spending; however, low-skilled migrants may nevertheless be negative net fiscal contributors. Critics argued that the estimated net fiscal gain was meaningless unless seen in the context of the overall budgetary position and that as migrants age and retire they will become net recipients (Lilley, 2005). Meanwhile, Rowthorn (2004) and Coleman and Rowthorn (2004) argued that any assessment of the fiscal contribution of migrants should take account of its effect on GDP per head, on the cost of administering the immigration programme and providing for the special needs of immigrants so that a focus on net fiscal change could be misleading.

Sriskandarajah *et al*. (2005) revisited the Gott and Johnston study, extending it to cover the period from 1999 to 2004, using the same basic methodology to achieve

comparability but making changes to deal with some of the criticisms, including the treatment of dependants. They concluded that the contribution of immigrants to public finances was growing and was likely to continue to do so in the near future. Total revenue from immigrants grew in real terms from GBR 33.8 billion in 1999/2000 to GBR 41.2 billion in 2003/04, a 22% increase compared with the 6% increase for the UK-born. Sriskandarajah *et al.* found that migrants in the United Kingdom were positive net fiscal contributors in upturns of the economy but negative net fiscal contributors in downturns. Nevertheless, migrants are found to be greater net fiscal contributors than natives in both upturns and downturns. In one of the first studies to include EU8 migrants, Riley and Weale (2006) concluded that immigration since 1998 had raised GDP by 3.1% and by 1% during 2004-05.

A different view came from the major report by the House of Lords Select Committee on Economic Affairs (2008) on the economic impact of immigration, including that post-accession. It concluded that the main beneficiaries of migration were immigrants and their families; immigration had a very small impact on GDP per capita; it was unlikely to create significant benefits for the resident UK population; and that while the overall fiscal impact of immigration was small, significant variations across different immigrant groups were masked. Further, a government inter-departmental paper presented to the House of Lords Select Committee on Economic Affairs argued that even an additional 200 000 migrants in any one year would constitute a small proportionate increase in the overall population of the United Kingdom, so the direct impact of migration on GDP/head would inevitably be small. The paper also pointed to the absence of research on the impact of migration on components of GDP other than earnings and stressed the need for both a short- and long-term view and concluded that "in the long run, it is likely that the net fiscal contribution of an immigrant will be greater than that of a non-immigrant" (Home Office and Department of Work and Pensions, 2007).

More recently, Dustmann *et al.* (2010) assessed the fiscal consequences of migration to the United Kingdom from the EU8 countries during the period 2004 to 2008. They showed that EU8 immigrants who arrived after EU enlargement in 2004, who had at least one year of residence and were therefore legally eligible to claim benefits, were 59% less likely than natives to receive state benefits or tax credits and 57% less likely to live in social housing. Furthermore, even if they had the same demographic characteristics as natives, they would still be 13% less likely to receive benefits and 29% less likely to live in social housing. Comparison of the net fiscal contribution of EU8 immigrants with that of individuals born in the United Kingdom, showed that in each fiscal year since enlargement in 2004, irrespective of the way that the net fiscal contribution is defined, EU8 immigrants made a positive contribution to the public finances despite the fact that the United Kingdom had been running a budget deficit over the last few years. This is because they had a higher labour force participation rate, paid proportionately more in indirect taxes and made much less use of benefits and public services. In the longer term, the authors suggested that the balance might change as migrants settled in the United Kingdom and raised families, thus consuming more benefits. On the other hand, their overall better educational level than UK residents (35% left school at or after the age of 21, compared with 17% of natives) implied that they might pay more in taxes.

Labour market effects

Most research on the effects of immigration on wages and the employment prospects of domestic workers find them to be small or absent, although there is some evidence from the United States that displacement is more likely during a downturn when competition for jobs is higher (Peri, 2010).

Employment and unemployment

Third country immigrants to the United Kingdom have historically experienced higher unemployment rates than the domestic population (Dobson *et al*., 2001) and a lower employment rate (Sumption, 2010). With the onset of economic downturn from 2008, unemployment rose and employment fell among both groups, although the size of the gap between them was more or less unchanged (Sumption, 2010). However, aggregate trends are not replicated among all immigrant groups. Sumption's analysis shows that unemployment rose more for immigrants from Africa and Pakistan/Bangladesh, to reach 14 and 17% respectively by mid-2009. By comparison, recent EU8 immigrants, together with those from the EU15 and North America, fared as well or better than the UK-born. The reasons for these differences are unclear, although suggested factors include education, minority status, age, gender, the level of economic development in source countries and the sectors in which different immigrant groups work. Migrants who became unemployed may have opted to return to their home country, reducing the unemployment rate. Hence, it is impossible to generalise for all migrants even though, as seen below, much of the economic effort to explain the impact of migration is made at a fairly aggregate level (*ibid*.).

The first empirical study of the effects of immigration in the United Kingdom on local labour markets, wages and employment was by Dustmann *et al*. (2003). They looked at immigrants as a whole, without regard to skill or education levels. Their main finding was that "if there is an impact of immigration on employment then it is statistically poorly determined and probably small in size" and that "higher immigration appears to be associated with higher wage growth in the currently resident population" (Dustmann *et al*., 2003, p. 4). Hence, "the perception that immigrants take away jobs from the existing population, thus contributing to large increases in unemployment, or that immigrants depress wages of existing workers, do not find confirmation in the analysis". Rowthorn (2008) was more cautious, arguing that statistically insignificant effects of immigration on unemployment did not necessarily mean they were small and that background "noise" in the model may have compromised accuracy.

Several studies have reviewed the regional effects of post-enlargement immigration. Green *et al.* (2007a, 2007b, 2008) found that EU8 and EU2 workers were disproportionately employed in low-skilled elementary and operative occupations in the West and East Midlands and South East; many of the migrants were not fully using their existing skills in the United Kingdom. However, they found no statistically significant evidence that growth in the number of migrant workers had caused unemployment to increase at the local scale. In the South East particularly, employers were overwhelmingly positive about the impact of migrant workers on their overall business performance. The impact of migration on communities and services more generally seemed to be most keenly felt in those local areas with limited past experience of immigration and in those which had experienced a rapid influx of migrant workers. Using local area data, Wadsworth (2010) also suggests that there was no evidence that an influx of immigrants to an area increased the outflow of domestic workers.

There is some evidence that overall unemployment fell faster in those regions which attracted most immigrants after 2004 (Coats, 2008), although this might be expected since these were the more economically vibrant areas. Reviewing the first year of EU8 immigration, Portes and French (2005) concluded that there was no relationship at local authority level between concentrations of WRS registrations and any increase in the unemployment claimant count. However, a study in North Staffordshire found that EU8 migrants had displaced asylum seekers who were working rather than displacing natives (French and Mohrke, 2006).

A study of trends in EU8 migration to the United Kingdom during the period to June 2010, based on the WRS, found that as the recession took hold its effects were both spatially and sectorally uneven (McCollum and Findlay, 2011). Moreover, in the same study an empirical survey of a small sample of employers in the hospitality and agricultural sectors found that EU8 migrants were generally viewed positively and described and having a strong work ethic with the result that they were compared favourably with domestic labour. Analysis of WRS data suggested that EU8 migrant labour was particularly sensitive to the recession in the construction and hospitality sectors, while numbers in agriculture and associated food processing held up well. The authors suggested that one reason may be that EU8 migrants hold a core position in the agribusiness sector as employers have found it difficult to recruit domestic labour despite adverse economic conditions (*ibid*.). Hence there was a perception that EU8 migrant labour was "a positive but not essential supply in urban areas and in the hospitality sectors, but as a core workforce in rural areas and in the food production and processing sectors" (*ibid*., p. 10). One consequence of this was that reductions in migrant labour participation were less in rural areas than in urban ones.

Concern has been expressed that the influx of migrants from accession states might have impacted on youth (aged 16-17) unemployment rates. However, the evidence is unclear. In the years after 2004 long-term youth unemployment initially fell before levelling off, with later rises put down to cyclical factors (Coats, 2008). Riley and Weale (2006), however, focused on the 18-24 age group who were more likely to be in competition with EU8 migrants of a similar age. They concluded that the increase in unemployment for this group after 2004 was partially attributable to the inflow of migrants. Barrell *et al*. (2007) concurred with these findings but found that the unemployment effects were slight at best. Blanchflower *et al.* (2007) suggested that EU8 migrants arriving after 2004 were more likely to be unemployed than either natives or those arriving before 2004, suggesting that recently arrived migrants were not cheaper to employ than the other groups.

Overall the consensus seems to be that in the years after accession EU8 labour immigration had no significant impact on the level of unemployment, with the possible exception of those in their late teens and early twenties. This prompted one commentator to suggest that "perhaps more by luck than design, the government has succeeded in matching labour supply to labour demand through its liberal approach to free movement of workers in the EU" (Coats, 2008, p. 56).

In early 2012, three published studies in as many days looked at the effects of migrant inflows on the domestic labour market. Migration Watch (2012) argued that the inflow of over 600 000 migrants from the EU8 countries was likely to have been implicated in the increase in youth unemployment of 575 000 during 2004-11. However, the study offered no analysis of possible causal mechanisms. Two more analytical attempts to identify the impact of migration on the labour market during recession were carried out by the National

Institute of Economic and Social Research (NIESR) (Lucchino *et al*., 2012) and the Home Office's Migration Advisory Committee (MAC, 2012). The considerable media interest in what seemed at first to be conflicting conclusions generated considerable heat but little new light. The studies were essentially complementary. They used different measures of employment/unemployment; assessed the impacts of immigration on different groups; used different data sources and time periods. Neither provided evidence of a definite causal link between immigration and employment or unemployment in the United Kingdom. In this they were consistent with earlier studies.

The NIESR report looked at the claimant unemployment rate, the impact on all people in the United Kingdom, used national insurance number registrations on foreign citizens and reviewed only the period 2002-11. The analysis was carried out at local authority level for Great Britain (*i.e.* Northern Ireland was not included). It used the same approach as that of Lemos and Portes (2008) but with a different data source. The results, across different specifications of the model and robust to a number of econometric tests, showed a very small negative and generally insignificant correlation between the migrant inflow rate and the unemployment claimant count rate. Furthermore, there was some tentative evidence that when economic growth is lower, as during the recession, migrant flow rates are associated with slower claimant growth than would otherwise have occurred. The authors hypothesised that this may be because during a recession migrants are more likely to go to areas with stronger economies and/or by boosting local demand they mitigated the effects of recession on domestic workers.

The MAC study was a broader analysis of the impact of migrants, including public service and social impacts. The report looked at employment rate, excluded foreign-born people, used LFS data and reviewed the period 1975-2010 overall and sub-periods 1975-94 and 1995-2010. The study found a tentative negative association between working age migrants and native employment when the economy is below full capacity for non-EU migrants and for the period 1995-2010. Results suggested that every 100 additional non-EU migrants "may cautiously be estimated to be associated with a reduction in employment of 23 native workers". However, the relationship holds only for the recently arrived: "those migrants who have been in the United Kingdom for over five years are not associated with displacement of UK-born workers". The study found no statistically significant association between inflows of working-age EU migrants and native employment.

Wage rates

In a second study (2005), Dustmann *et al.*, using regional level data, disaggregated the labour force by education and skill level. Results showed unclear effects of immigration on wages, depending on the skill mix of the resident population and the way the economy may adjust to changes in the skill mix. They concluded that there was little evidence of overall adverse effects of immigration on native outcomes with the possibility of a small positive effect upon wages for low-skilled natives. The effect on wages is partly determined by the degree to which immigrants are substitutes for domestic workers. It is also affected by the introduction of the National Minimum Wage which helped to prevent undercutting and subsequent displacement of native and established immigrant workers. According to Frattini (2008), for the period 1995-2006 immigration kept down average prices of non-traded goods and services, with the strongest effects on such labour intensive sectors as restaurants and take-aways, bars and pubs, dry cleaning and hairdressing. He estimated that an increase of one 1 percentage point in the immigration-native ratio would lead to a 0.3% decrease in average prices in these sectors because of the pass-through effects of wage reductions for low-wage workers.

Manacorda, Manning and Wadsworth (2006), taking the long view from the mid-1970s to mid-2000s, tackled the issue of why there seems to be so little wage effect on natives in the United Kingdom arising from labour immigration. Their conclusion was that natives and immigrants are imperfect substitutes so that an increase in immigration reduces the wages of the latter relative to the former. However, they accept that substitution may be greater among the less skilled although the size of the effect is small. Quite why is unclear. It may be because competition means that domestic workers are willing to work for lower wages than in the past (Saleheen and Shadforth, 2006) or that rising migration helped to increase the fear of unemployment which restrained wage growth and kept inflation low (Blanchflower *et al*., 2007). However, Coats (2008) argues that anxieties resulting from the rising level of consumer debt and high mortgage costs, which meant that losing one's job could be financially catastrophic, might be more influential. This is consistent with the findings of Dustmann *et al*. (2008) and Nickell and Salaheen (2008), both of which concluded that competition for jobs from immigrants may be greater among the less skilled. Wadsworth (2010) found confirmatory evidence for this when level of education is taken into account, although the national minimum wage provides a floor below which wages cannot (legally) fall.

Blanchflower *et al* (2007) concluded that EU8 immigration had tended to increase supply by more than it increased demand in the United Kingdom in the short run and thereby acted to reduce inflationary pressures. Reviewing the period 2001 to 2007, Reed and Latorre (2009) found that overall the effects of immigration on wages were small. A 1-percentage point increase in the share of migrants in the United Kingdom population would reduce wages by 0.3%. Building on Gilpin *et al*. (2006), and making a number of significant improvements and extensions, Lemos and Portes (2008) found no statistically significant impact of EU8 migration on claimant unemployment, either overall or for any identifiable subgroup. In particular they found no adverse impacts on the young or low-skilled nor was there a statistically significant impact on wages, either on average or at any point in the wage distribution, although the evidence here was less complete.

4.2. Conclusions

The degree to which the United Kingdom has benefited fiscally from immigration in general and post-accession immigration in particular continues to be contentious. The nub of the debate is how far immigration has improved GDP per head for the native population. It is also accepted that most of the models are static in that they focus on current and past situations rather than taking a more dynamic approach. The latter would assess the longer term effects as initially temporary migrants settle, become long term and consume more.

Overall, the research evidence for the economic effects of migration suggests that the scale and nature of fiscal benefits to the economy are unclear but probably small. Most studies of the effects of immigration on the wages and the employment prospects of domestic workers find them to be small or absent. There is some evidence of negative employment effects (*e.g.* reduced wages or increased unemployment) for those with intermediate levels of education, but this is offset by positive effects on the better qualified.

The recession does seem to have had some sectoral effect on migrant employment. Recruitment in construction and hospitality fell more than that in agriculture and food processing. A consequence of this is that migrant employment has held up better in rural areas than in urban ones.

No statistically significant impact of EU10 migration has been detected on claimant unemployment, either in total or for any identifiable subgroup. In particular, so far there has been little adverse impact on the young or low-skilled, nor was a significant impact detected on wages, either on average or at any point in the wage distribution. This situation seems to have continued into the current recession.

Notes

1. Notes on Cyprus:

   Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

   Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

2. From 2008 the work permit system was superceded by the points based system.

3. Numbers of migrants from Cyprus (see note 1) and Malta have been very small so the focus here is on the EU8 and EU2 Eastern European states.

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Chapter 5

Labour mobility from new EU member countries: the impact on Italy

by

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The European Union's eastern enlargement stimulated substantial labour migration from new to established member states. Among the latter, Italy has experienced one of the largest increases in inflows over the past decade. The number of immigrants regularly residing in the country almost doubled in the seven years following enlargement in 2004. This chapter describes the size of these flows and the functioning of transitional arrangements in Italy. A broad picture is provided of the demographic characteristics and observed skills of these immigrants from new member states, as well as their labour market outcomes. The impact on the Italian labour market and welfare system is also investigated.

Introduction

The European Union's eastern enlargement stimulated a substantial labour migration from new to established member states. Among the latter, Italy has experienced one of the largest increases in inflows over the past decade. The number of immigrants regularly residing in the country almost doubled in the seven years following enlargement in 2004. According to Italian population statistics,[1] regular residents increased from 2.4 million in 2004 to 4.6 million in 2010 (*i.e.* from 4.1% to 7.6% of the Italian population). A large share of such increase – about 38% – was due to immigrants coming from the EU10 (EU10 countries include the Czech Republic, Cyprus,[2] Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia) and EU2 (Bulgaria and Romania) countries. The aim of this study is to discuss the impact on the Italian labour market and welfare system of this sudden increase in labour mobility resulting from the two recent rounds of the EU enlargement.

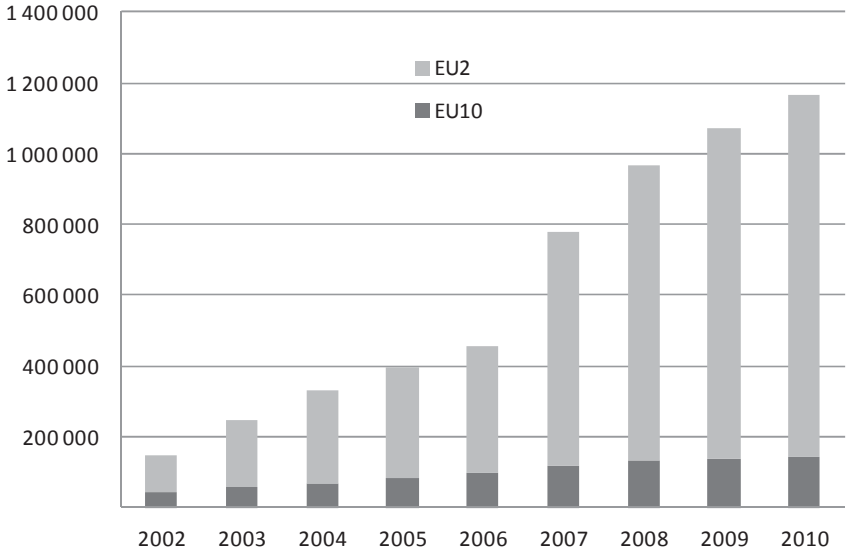
As will be seen, the Italian labour market mainly benefited from population inflows from the new member states, despite widespread concerns that labour migration enlargement would depress wages and increase native unemployment. Also, evidence on welfare access by immigrants tends to suggest that once individual and household characteristics are controlled for, the residual welfare dependency of immigrants seems to disappear.

The chapter is organised as follows. Section 5.1 describes the size of the post-enlargement migration inflows and the functioning of transitional arrangements in Italy. Section 5.2 offers a broad picture of the demographic characteristics and observed skills of these immigrants from new member states, as well as their labour market outcomes. Sections 5.3 and 5.4 investigate the impact of these inflows on the Italian labour market and welfare system, and Section 5.5 concludes.

5.1. The enlarged labour mobility and Italy

As observed by Barrell, FitzGerald and Riley (2010), enlargement occurred during a period that saw a more general increase in the number of foreign nationals residing in Italy. The swell in the EU10 population there thus may have occurred in any case, independently of the EU enlargement. However, over the seven years following the 2004 enlargement, the number of residents from the EU10 countries doubled (from 68 620 in 2004 to 143 759 in 2010), a faster rate of growth than for non-EU immigrants. And the most striking result concerns immigrants from Romania and Bulgaria, whose number has grown fourfold over the same period (Figure 5.1). In the few years preceding and following the 2007 enlargement, the presence of immigrants from Romania in particular – already representing the 6% of the immigrant population in 2002 – began to rise steeply, to the point that Romanians are today the largest immigration group in Italy, accounting for 22% of foreign residents (968 576 individuals in 2010). Given this rapid increase in migration inflows to Italy, Fic *et al.* (2011) estimate than 70% of immigration from the EU8 and EU2 countries may be attributed to the enlargement process itself.

Figure 5.1. EU10 and EU2 residents in Italy



Source: Author's calculations based on Italian population statistics from *demo.istat.it*, 2011.

The sudden increase in the number of immigrants – from the EU2 countries in particular – may be linked to the functioning of transitional arrangements in Italy. Boeri and Brücker (2005) suggest that the restrictions imposed by most EU15 countries during the transitional period following 2004 enlargement led to a diversion of EU8 migration from traditional destination countries bordering the new member states (Austria, Germany and Italy) to EU15 countries with more liberal immigration policies, notably the United Kingdom and Ireland. Something similar may have occurred after the second enlargement. The strict application of transitional arrangements induced diversion of flows away from Austria and Germany (the main destinations of migrants from Bulgaria and Romania at the beginning of the 1990s) to other traditional destination countries adopting a more liberal approach, such as Italy and Spain. According to Brücker (2009), countries such as Spain, Italy and Greece had a number of bilateral agreements in place that facilitated immigration from Bulgaria and Romania one way or another. Moreover, several rounds of mass regularisations in Italy and Spain have increased official migration figures from Bulgaria and Romania.

In Italy, the transitional arrangements in 2004 and 2007 were implemented in different ways. In the first three years following 2004 enlargement, the Italian government – like many other EU15 member states' governments – imposed restrictions on labour migration from the EU8 (although access was granted to the self-employed). In practice however, immigration quotas were substantially increased beginning in 2006.[3] Community rules for free movement were finally applied in July 2006, thus subtracting immigrants of the EU8 countries from the Italian quota system.

Also in 2007, the Italian government introduced temporary transitional restrictions on the freedom of movement for employment for citizens from Bulgaria and Romania. From the beginning however EU2 immigrants were quota-exempt and simplified access was introduced for several categories of workers. In fact, a temporary regime was adopted for a year (and subsequently extended up to 2011), according to which the freedom of

movement principle applied for Bulgarian and Romanian workers of particularly high skill levels or belonging to "strategic sectors" (such as construction, metalworking, domestic and personal care, hotel-related services and the agriculture, maritime and fishing sectors), and for self-employed workers. Bulgarian and Romanian immigrants employed in other sectors had to apply for a visa under simplified procedures (Makovec, 2009; Barbagli, 2007).

5.2. Characteristics of new member states' immigrants

The evidence presented in this section is based on the 2010 waves of the Italian Labour Force Survey, a representative random sampling every quarter of more than 160 000 individuals. In line with these data, immigrants are defined as those individuals either born abroad or holding non-Italian citizenship.

Table 5.1 reports the demographic and economic characteristics of the Italian working-age population (*i.e.* all individuals between 15 and 64 years of age) by country of origin, in order to compare new member states' immigrants with other immigration groups and natives. Immigrants are divided into four main categories: immigrants from the eight countries of the 2004 eastern enlargements (EU8[4]), from Bulgaria and Romania (EU2), from the EU15, and from extra-EU countries (not EU).

As shown in Table 5.1, the incidence of women among immigrants from the new member states is particularly high as compared not only to natives, but also to other immigration groups. For example, women are as high as 74% of immigrants from the EU8 countries, a share consistent with the distribution of new member state immigrants across sectors. According to Eichhorst *et al.* (2011), the "household sector" in the EU15 countries shows an extraordinarily high concentration of foreign-born labour (75% of workers in Italy, against a EU15 average of 48%). Immigrants in this specific sector are mainly domestic helpers, cleaners and launderers (83%) and personal care workers (12%), occupations that in Italy are typically female-dominated.

Immigrants are on average much younger than natives. The EU2 immigrants are by far the youngest immigration group in Italy, with 70% aged 25-44 years**,** compared to only 42% of natives. Immigrants from the new member states are also more likely to be single compared to all other population groups.

With regard to educational attainment, new EU member states' migrants tend to be more educated than natives. There are two possible reasons. The first is a composition effect: migrants are on average younger than natives. Second, Italy is historically characterised by very low tertiary education compared to the EU15 average. Some differences emerge, however, when we compare EU8 and EU2 immigrants. Individuals coming from Romania and Bulgaria are the least educated among immigrants (only 7% of them hold tertiary education attainments, while 70% have the lowest levels of education), while EU8 immigrants seem to be more concentrated in medium levels of education.

Table 5.1 also presents the geographical distribution of each migration group. Interestingly, the decision on where to migrate varies slightly across different groups, with new member states' immigrants more represented in central regions of the country. However, the most common location remains the northern regions of Italy, where more than 50% of immigrants from the EU2 (42% from the EU8) currently reside. The foreign presence in the southern regions of the country is very small, apart from in some large cities (Barbagli, 2007).

Table 5.1. Italian working age (15-64) population by migration group

	Native	Migrants			
		EU15	EU8	EU2	Not EU
Sample size	369 261	4 178	1 495	7 006	28 853
% working-age population	89.0	1.0	0.4	2.1	7.5
Individual characteristics:					
% female	49.7	58.1	73.9	54.7	51.3
% age 25-44	41.9	56.7	61.8	69.9	58.4
% low education	46.4	38.4	28.1	34.7	53.8
% high education	13.0	19.4	12.6	6.8	10.3
Household type:					
% single	14.7	16.0	24.8	19.7	19.5
% with children	66.3	64.7	55.6	60.0	69.1
% single parent	7.9	9.1	8.2	5.5	7.1
Geographical location:					
% Northwest	25.6	23.4	16.0	29.8	34.0
% Northeast	18.2	18.8	26.5	20.3	27.3
% Centre	18.9	20.0	32.0	33.4	22.4
% South & Islands	37.3	37.8	25.5	16.5	16.3
	100.0	*100.0*	*100.0*	*100.0*	*100.0*
Labour market characteristics:					
Unemployment rate	8.1	9.8	7.7	11.9	11.8
% employed	37.0	45.5	52.1	56.5	47.1
% employed women	28.9	36.3	50.1	49.1	36.5
% employed men	45.5	58.3	57.1	65.2	58.1
% fixed-term contract (employees)	9.1	10.4	14.3	15.3	12.0
Median monthly wage in euros (employees)	1 210	1 220	940	970	1 000

Source: Author's calculations based on the Italian Labour Force Survey 2010.

The last group of variables in Table 5.1 describes the immigrants' position in the labour market. In Italy, new member states' immigrants have much higher employment rates than natives. Differences are remarkable, especially for women. About 50% of immigrant women are currently employed, compared to only 29% of native-born women. The differences are also large between immigrant and native men (20 percentage points in case of EU2 migrants). The high employment rate among immigrants is a common feature of Southern European countries, where mass immigration is a relatively recent phenomenon and mainly employment-driven. Since the majority of immigrants from the EU8+2 move to Italy for work purposes, the vast majority of enlargement labour mobility is driven by economic reasons.

Finally, immigrant workers are among the groups most affected by unemployment. Although figures may partly reflect the effects of the economic crisis, Table 5.1 clearly shows that all immigrant groups experience higher unemployment than natives. Romanians and non-EU immigrants are the most affected groups, with a 12% unemployment rate compared to 8% for natives.

5.3. Impact on employment and wages

Empirical literature on migration typically finds that international labour mobility has little effect on employment and wages in the receiving countries; however, distributional effects across different population groups may be observed. In particular, the effects of migration on receiving labour markets crucially depend on the substitutability or complementarity between migrants and natives. Natives who complement the migrant

labour force tend to win, while those who substitute tend to lose. Recent studies on immigration from the new EU member states are generally consistent with these findings. Fic *et al*. (2011), Kahanec and Zimmermann (2010) and Brücker *et al.* (2009) all suggest that enlargement labour mobility had surprisingly little or no impact on unemployment and wages of the receiving countries in the EU15. However, in some EU15 countries, the impact may have been differed by skill groups. According to Blanchflower and Lawton (2010) for example, recent immigration from the EU8 to the United Kingdom may have had some (small) impact on the relative wages of the unskilled.

Several studies on Italy tend to support the finding that the Italian labour market has not suffered from population inflows from the new EU member states (from the EU2 countries in particular), with very small average effects on wages and unemployment. Table 5.1 reports simulation results by Brücker *et al.* (2009) showing that the additional labour mobility from the EU8 to Italy over the period 2004-07 decreased average wages by only 0.03% in the short run (compared to an EU15 average of -0.09%), and had no impact in the long run. Average unemployment rates increased in the short run by only 0.02 percentage points (0.06 in EU15) and by even less in the long run (+0.01 in Italy, compared to +0.02 in EU15). Moreover, as summarised in Table 5.2, Fic *et al*. (2011) estimate that the immigrant population from both EU8 and EU2 to Italy had no impact on unemployment rates over the period 2004-09. The same study estimates that the decrease in wages linked to the EU8 migration was also close to zero (-0.07%), while the effect of the population inflows from the EU2 countries (in Italy much greater in volume with respect to inflows from the EU8 countries) had a negative impact equal to -0.69% over the six-year period to 2009.

Table 5.2. Impact of migration from the new EU member states on the Italian labour market

	Italy		EU15	
	Short run	Long run	Short run	Long run
Brücker *et al*. (2009)				
Impact of EU8 migration (years 2004-07) on:				
Unemployment (change in p.p.)				
All workers	0.02	0.01	0.06	0.02
Natives	0.01	0	0.03	0
Non-natives	0.17	0.15	0.19	0.16
Wages (change in %)				
All workers	-0.03	0	-0.09	0
Low-skilled	-0.03	0	-0.1	-0.01
Medium-skilled	-0.03	0	-0.09	-0.01
High-skilled	-0.03	0	-0.07	0.01
Natives	-0.02	0.01	-0.07	0.02
Non-natives	-0.17	-0.14	-0.41	-0.34
Fic *et al*. (2011)				
Impact of EU8 migration (years 2004-09) on:				
Unemployment (change in p.p)	0	0	0.04	-0.01
Wages (%)	-0.07	-0.07	-0.03	-0.13
Impact of EU2 migration (years 2004-09) on:				
Unemployment (change in p.p.)	-0.01	0	0.02	0.01
Wages (%)	-0.69	-0.71	-0.24	-0.28

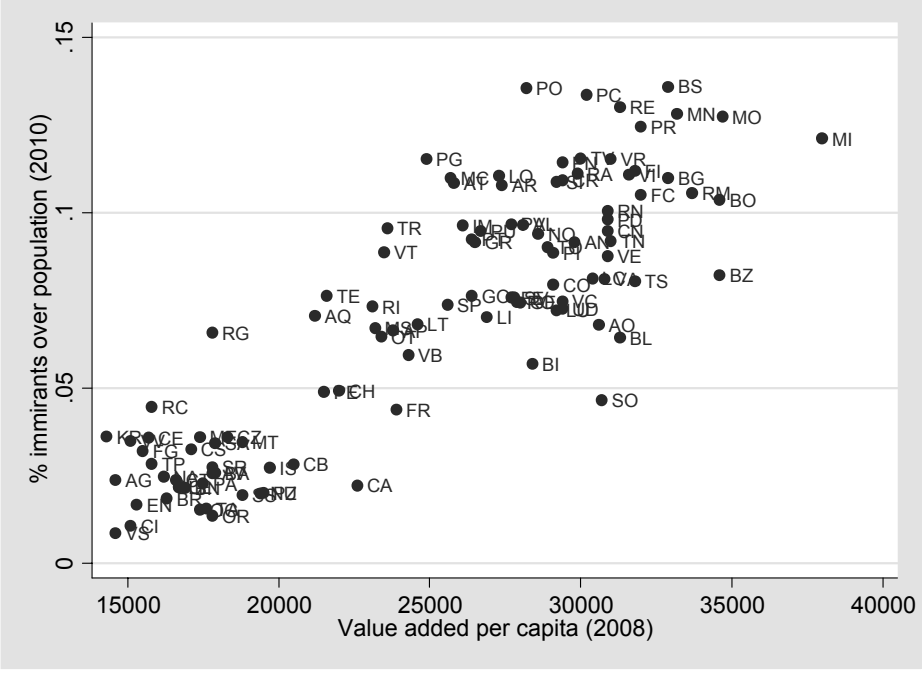
p.p.: percentage point.

Source: Author's adaptation from Brücker, H. *et al.* (2009), "Labour Mobility Within the EU in the Context of Enlargement and the Functioning of the Transitional Arrangements", European Integration Consortium.and Fic, T., D. Holland, P. Paluchowski, A. Rincon-Aznar and L. Stokes (2011), "Labour Mobility Within the EU: The Impact of Enlargement and Transitional Arrangements", National Institute of Economic and Social Research, NIESR Discussion Paper No. 379, revised August 2011.

The minor average effects of migration on unemployment and wages are consistent with the idea that immigrants in Italy tend to select high-wage, low-unemployment regions of the country. In any migration context, the decision on where to locate is most often based on two primary factors: first, migrants usually benefit from the presence of immigrants from their country of origin and therefore they tend to locate where they can rely on the support of existing networks of compatriots. Secondly, these networks are typically created in more dynamic regions, thus reinforcing the concentration of migrants in areas with more favourable economic conditions. Post-enlargement labour migration is no exception in this respect: as discussed above, new EU member states' immigrants typically located in northern (-central) regions of the country, where there are better earnings and employment opportunities, and migrants' networks are more developed. Moreover, in rich areas of the north, the demand for unskilled labour is typically higher: workers are relatively more educated which reduces the supply of native unskilled labour and increases the demand for immigrant workers (either unskilled or more willing to accept work below their qualification level). Thus, regions with higher wages or lower unemployment – such as the northern regions in Italy – are likely to attract more immigrants, generating a positive correlation between immigration and native wages.

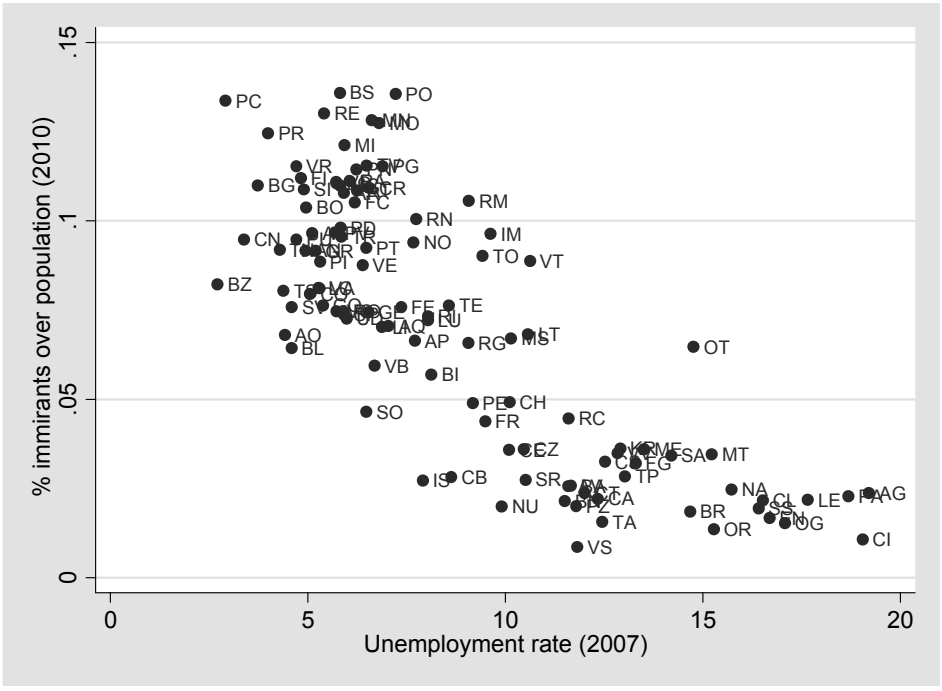
Figure 5.2 supports this interpretation. Plotting the percentage of immigrants in the Italian population against unemployment rates by province, it clearly shows that migrants tend to concentrate in areas with low unemployment. As further confirmation, Figure 5.3 reports the percentage of immigrants against value added per capita by province (currently the only available measure of income at province level). The correlation between the two variables is clearly positive, thus supporting the idea that the richest areas of the countries are also those with a higher percentage of immigrants.

Figure 5.2. Immigration and value added in Italy, by province



Source: Author's calculations based on Istat data (2011).

Figure 5.3. Immigration and unemployment by province



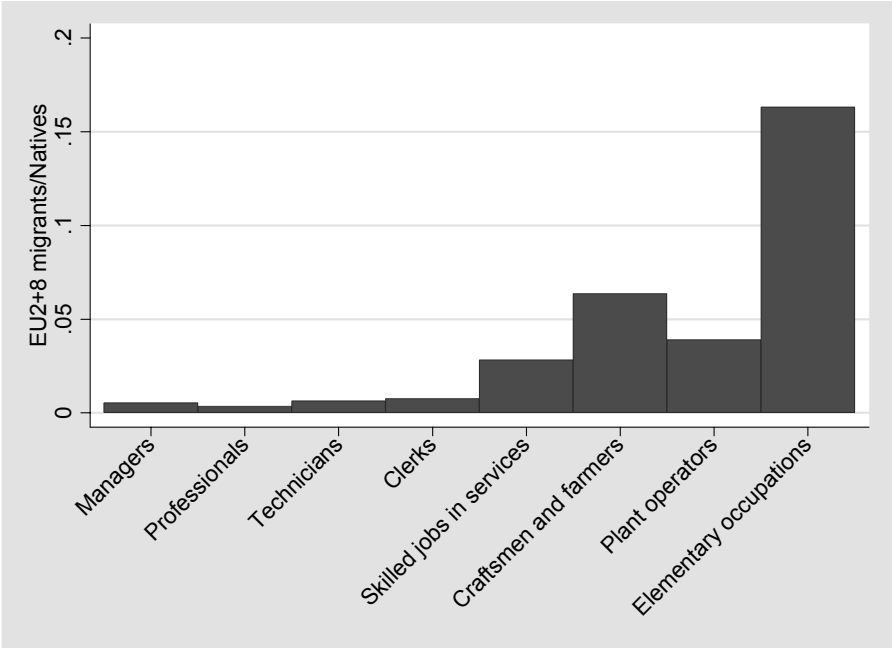
Source: Author's calculations based on Istat data (2011).

Post-enlargement labour mobility may have affected different groups in the Italian labour market in different ways, despite the small aggregate effects on employment and wages. According to Brücker *et al.* (2009), effects on the Italian labour market have been balanced across different skill groups of the labour force; this is unlike what happened in other European countries, where highly skilled workers benefit slightly in the long run. Some differences, however, may be appreciated by comparing natives and immigrants. While wages and unemployment rates of the native population are hardly affected by enlargement immigration, simulation results show that the wages of the immigrant workforce tend to decrease (by 0.17% in the short run and by 0.14% in the long run) while unemployment rates tend to increase (by 0.17 percentage points in the short run and by 0.15 in the long run). The different impact of post-enlargement labour mobility on immigrant workers is consistent with the view that there is imperfect substitution between immigrants and natives in the Italian labour market, so that new member state immigrants tend to compete more with other immigrants already residing in the country than with native workers.

This result is confirmed by the distribution of EU2+8 migrants across occupations. Figure 5.4 shows the ratio between migrants and natives across eight occupational groups, with the most skilled on the left and the least skilled on the right. EU2+8 migrants are clearly concentrated in most manual/elementary occupations relative to natives. As observed by Pellizzari (2012), this finding is common to all migration groups in Italy. The overall picture emerging from data signals that the most required profile among immigrants in Italy over the past years remains that of low-skilled and low-qualified workers. Table 5.3 further supports this finding: looking at the top five jobs of EU8+2 immigrant and native workers in Italy, it shows that 54% of immigrants are concentrated in just the top five occupations, which are all low-skilled jobs or skilled

occupations in the construction sector. Native jobs show less concentration (only 23% of workers are concentrated in the top five jobs) and the most common occupations are relatively skilled, white-collar jobs. Thus, according to these figures, natives do not seem to suffer from competition with low-skilled immigrants, who are actually concentrated in different jobs.

Figure 5.4. Distribution of new member states' immigrants by occupation



Source: Author's calculations based on the Italian Labour Force Survey, 2010.

Table 5.3. Top five occupations among new member states' immigrants and natives

Immigrants from EU8+2		
%	% within occupation	
25.6	17.5	(1) Unskilled workers engaged in cleaning, sanitation, laundry and similar
13.3	12.9	(2) Artisans and skilled labourers in construction and maintenance of buildings
7.3	5.6	(3) Shopkeepers or restaurant and food services workers
3.8	5.4	(4) Artisans and skilled labourers to finish construction jobs
3.6	4.1	(5) Drivers of motor vehicles
53.5		*Total*
Natives		
%	% within occupation	
7.0	93.3	(1) Retailers and salespeople
4.1	97.1	(2) Administrative professionals
4.1	96.1	(3) Secretaries and keyboard-operating clerks
3.9	97.5	(4) Staff with specific administrative, managerial and financial functions
3.5	79.2	(5) Shopkeepers or restaurant and food services workers
22.7		*Total*

Source: Author's calculations based on Italian Labour Force Survey, 2010.

This aspect is supported by past research by Gavosto, Villosio and Venturini (1999) and more recently by Villosio and Venturini (2006); these findings show that the presence of immigrants does not reduce the employment probability of natives, and that natives and immigrants are complementary in the labour market. Further, Gavosto, Villosio and Venturini (1999) show that immigrants' labour market participation positively affects the wage of natives. Interestingly, a recent study by D'Amuri and Peri (2011) documents that the inflows of immigrants in the period 1996-2007 in Western European countries (including Italy) altered the occupational distribution of natives with similar education and age. They find that immigrants and natives – as a consequence of the increasing labour immigration – tend to specialise in different production tasks. In particular, immigrants took manual-routine types of occupation while natives moved, in response, toward more complex jobs.

This does not necessarily imply that new EU member states' immigrants are low skilled. Brücker *et al.* (2009) and Barrell, FitzGerald and Riley (2010) argue that the skills employed by the occupational structure of EU8 immigrants in the EU15 are somewhat different from their actual educational attainments. In Italy, the incidence of immigrants accepting occupations below their qualification level may be particularly relevant for immigrants from the EU8 countries, since the majority of these have medium-high levels of education.

5.4. Impact on the welfare system

The purpose of this section is to discuss whether and to what extent migrants from the new EU member states affect the Italian welfare system. Anecdotal evidence and public opinion surveys often suggest that immigrants tend to rely disproportionately on the welfare system of destination countries, thus representing a burden for their fiscal systems.

There are some peculiarities of the Italian welfare system that are worth emphasising in this context. First, social expenditure in Italy is disproportionally concentrated on pensions. However, immigrants typically rely more on non-pension benefits, as this kind of transfer can usually be received after a short period of residence in the country. Pension rights meanwhile are only available after a long stay or may even represent a deadweight loss for the immigrants when they expect to leave the country before retirement. From this point of view, Italy can be considered a less attractive destination as compared to other European countries. Second, the Italian welfare system is characterised by high geographical fragmentation. Some programmes are administered at national levels (unemployment benefits, some types of family allowances, etc.), but many others are delegated to local authorities. Basically, each municipality decides what programmes to introduce and how to administer them. That leads to a high degree of heterogeneity in available programmes across the country, with the richest regions of the north providing more generous welfare programmes and the poorest areas perhaps not offering any programme at all (Pellizzari, 2012; Monti and Pellizzari, 2010). As a consequence of this fragmentation, studies of welfare use based on standard household surveys may fail to consider major portions of welfare recipients and provisions.

The majority of empirical studies addressing the issue of migrants welfare dependency are based on the European Survey of Incomes and Living Conditions (EU-SILC), the most common dataset currently used to study welfare provisions in most European countries (Italy in particular). However, the crucial variables of citizenship and country of birth in this dataset do not allow any distinguishing between

EU15 and new EU member states' immigrants, thus making it very difficult to draw policy conclusions on the issue of welfare dependency when the focus is on specific groups of migrants moving within the European Union.

Brücker *et al.* (2009) and Boeri (2010), for example, focus on the impact of immigration on European welfare systems, assessing whether immigrants rely on welfare benefits more than natives, and which factors can help to explain the observed differences. They exploit the detailed coverage of welfare transfers provided by the EU-SILC to analyse separately contributory and non-contributory transfers.[5] Their econometric analysis shows that in Italy – in contrast to other EU15 countries – there are no behavioural differences in accessing welfare programmes between the two groups, once observable characteristics are controlled for. Hence, the evidence from the EU-SILC data does not support widespread concerns in the public that immigrants are exploiting the Italian welfare state, even in the stricter sense of "residual welfare dependency" (*i.e.* the fact that, even after controlling for all observable characteristics that might determine eligibility, migrants are still overrepresented among welfare recipients).

A similar procedure is replicated by Pellizzari (2012) in a study directly addressing the issue of welfare use by migrants in Italy. When looking at the Italian sample of 2007 EU-SILC data, he finds that overall, benefit recipiency is higher among migrants than natives. Migrants are overrepresented, in particular, among recipients of non-contributory benefits, especially family-related allowances. However, when controlling for observable characteristics, any statistical significance between natives and migrants of any origin fades away. Geographical locations, family characteristics and income levels in particular play a key role in explaining differences in the use of welfare services. In other words, the higher welfare dependence is mainly due to the fact that migrants earn less than natives, have larger families and tend to locate in northern regions of the country, where local welfare is more generous. However, Pellizzari (2012) also uses administrative data on means-test certificates required when applying for locally administered welfare programmes, including those offered by municipal administrations (thus overcoming one of the main drawbacks of EU-SILC data). In this case, after controlling for individual and household characteristics, residual welfare dependency is reduced but does not disappear, although geographical location remains a key variable in explaining differences in welfare use by immigrants. In this context, the high heterogeneity of welfare provisions across Italy, coupled with more generous programmes offered in those regions where the presence of immigrants is higher, could increase dependency and worsen citizens' perceptions of immigration.

5.5. Conclusions

The enlargement process stimulated a large inflow of workers into the Italian labour market, mainly from the EU2 countries (Romania in particular). Transitional arrangements probably played a very important role in shaping the scale of eastern labour migration to Italy. In fact, during the 2007 enlargement, Italy chose a relatively liberal approach, exempting immigrants from Romania and Bulgaria from application of its quota system and introducing preferential access for several categories of workers. It is very likely that this selective application of transitional arrangements induced diversion of flows away from Austria and Germany (in the past the main destinations of migrants from Bulgaria and Romania) toward Italy in particular.

Available studies on Italy tend to support the conclusion that the Italian labour market has mainly benefited from population inflows from the new member states, with very small average effects on wages and unemployment. What are the possible explanations for that result? It is here argued that this finding is consistent with the fact that new member states' immigrants typically located in the richest areas of the country, where there are better earnings and employment opportunities; migrants' networks are more developed; and the demand for unskilled labour is typically higher. In other words, new EU member states' immigrants – like other immigration groups in Italy – decided to live in those regions already characterised by high wages and lower unemployment, thus generating a positive correlation between the level of immigration and (native) wages.

However, post-enlargement labour mobility may have affected different groups in the Italian labour market in different ways. While wages and unemployment rates of the native population were hardly affected by the enlargement immigration, the new immigration flows seem to have negatively affected employment opportunities of immigrants already residing in the country. This different impact on foreign workers is consistent with the view that immigrants and natives are complements rather than substitutes in the Italian labour market, so that new EU member states' immigrants tend to compete more with other foreigners already residing in the country than with native workers. That idea is supported by evidence concerning the occupational distribution of immigrants and natives across occupations. While natives tend to specialise in more skilled jobs, the most required profile among immigrants in Italy remains that of a low-skilled and low-qualified worker.

Notes

1. Italian population statistics are based on the number of immigrants registered at municipality offices at the end of every calendar year. These data do not include irregular immigrants.

2. Notes on Cyprus:

   Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

   Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the government of the Republic of Cyprus.

3. The 2006 quota for immigrants from the EU8 countries was so large (equal to the total number allocated to all other non-EU countries) that the number of applications was finally much lower than the maximum ceilings. Given this result, in July 2006 the Prodi government decided to completely open the Italian labour market to citizens of these eight new member states (Barbagli, 2007).

4. Attention is focused on the eight Eastern European countries of the 2004 enlargement, as citizens from Malta and Cyprus were not affected by transitional restrictions and, given their size and small immigration flows to Italy, their impact on the Italian labour market can be expected to be negligible.

5. The rationale for a separate analysis is that contributory benefits are social insurance schemes to which individuals are entitled only if they have contributed to the system in the past; this eligibility restriction is likely to lead to a migrant underrepresentation, while the reverse could occur with respect to non-contributory benefits, typically funded by general taxation.

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Chapter 6

Central and Eastern European labour migration to Norway: trends, conditions and challenges

by

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The Nordic countries have attracted considerable numbers of labour migrants since the eastward enlargement of the European Union in 2004 and 2007. However, the magnitude and composition of migration flows have differed considerably between the Nordic countries, with Norway as the top destination. We analyse how the influx to Norway has been powered by economic growth, high wages – especially for lesser skilled workers – and structural changes in many industries facing shortages in local labour supply. Such dynamics have been complemented by family- and network-related effects, as individual workers settle down and bring their families. In the wake of migration, new secondary forms of employment have spread in many sectors. Based on in-depth surveys collected among Polish migrant workers in Oslo in 2006 and in 2010, this chapter analyses how terms of employment, working conditions, social mobility and risk of unemployment vary between different groups of workers. Finally, it briefly reviews the impact of migration on the economy, labour markets and institutions in Norway.

Introduction[1]

In the wake of two consecutive eastward enlargements of the European Union in 2004 and 2007 the Nordic countries have attracted considerable numbers of labour migrants from the new EU member states in Central and Eastern Europe (EU8+2). However, the magnitude and composition of migration flows have varied considerably between the different Nordic countries, with Norway as the top destination country. This trend has been accentuated during the international economic downturn in the wake of the financial crisis, out from which Norway – largely unaffected by the crisis – emerged as one of Europe's most attractive destinations for European migrant workers. The result has been record levels of immigration after the crisis.

The impacts and challenges raised by these developments are subject to political as well as scholarly debate. A number of European studies on the impact of post-2004 labour migration based on large scale aggregate data have concluded that the effects of free movement upon labour markets and institutions of receiving countries have been small or negligible, although some vulnerable groups in the labour market may suffer displacement and wage depression (EU Commission, 2008; Kahanec and Zimmermann, 2009; Barell *et al.,* 2010). Others have argued that these kinds of aggregate level studies based on administrative data are poorly fit to say anything conclusive about the complex processes associated with labour migration (Arnholtz and Hansen, 2011; McGovern, 2007). They argue that administrative data on free moving labour migrants are of poor quality and usually provide little information about the actual working conditions of migrant workers (Reeger and Sievers, 2009). Because migration affects different segments of the labour market and different skill-groups of workers in very different ways, these effects – which may be positive for some groups of workers and negative for others – may cancel each other out in aggregate level analysis (McGovern, 2007). Furthermore, cyclical effects are difficult to take into account, because the causes which lead to high levels of immigration in certain areas, such as economic growth, may obscure its potential consequences, such as wage depression or job displacement. Finally, economic impact assessments of this kind typically rest on an implicit assumption that the impact of migration occurs instantaneously and affects labour markets uniformly (Arnholtz and Hansen, 2011). In reality, however, the consequences will more likely unfold through slow, long-term and sequential processes of adjustment which affect different sub-segments of the labour market in highly different ways. This is not least the case in institutionally-regulated labour markets such as the Norwegian, where the structural impacts of market changes are mediated through complex multi-level processes of collective bargaining, negotiation and adaptation on behalf of individuals, institutions and collective actors.

In this chapter we adopt a more institutionally-oriented approach, taking in perspectives from segmented labour market theory and industrial relations, in order to understand the processes and impacts of this recent wave of migration to Norway as well as the challenges it raises for the Norwegian social model. Drawing on analysis of a variety of data sources, including registry data, surveys among recent migrants and case studies in affected industries, we argue that migration from the new EU member so far has brought substantial economic gains for Norwegian society in a period marked by solid economic growth and labour shortages. At the same time, however, the high labour mobility from low cost countries – in combination with specific aspects of the institutional framework of Norwegian labour markets – have led to increased dualisation in parts of the Norwegian labour market. This process includes the establishment of new

migrant intensive sub-segments of the labour market on the fringes of the otherwise highly regulated Norwegian working life. Furthermore, we suggest that this trend in the long run may pose a significant challenge to the sustainability of the Norwegian social model based on a universal and comparatively generous welfare state and a compressed wage structure. We argue that this challenge stems not necessarily from the free movement of workers itself, but from the limited ability of national institutions to regulate the increasingly transnational labour market. The policy responses to these challenges in the years after 2004 have resulted in a shift in labour market regulation and enforcement. If these ongoing changes will result in sustainable ways of securing decent labour standards and opportunities for social mobility which are also compatible with the existing welfare model, remains to see.

6.1. Identifying causes and impacts of migration

Migration research has identified a wide range of factors that contribute in shaping the macro patterns and flows of migration. In order to understand the highly different patterns and volumes of labour migration evident in the Nordic countries, several of these factors need to be taken into account. First of these, are the huge economic differentials in the levels of wages and unemployment between sending and receiving countries. Second, we need to look at the structural changes within immigrant intensive industries which generate a specific demand for migrant labour. These changes are often related to the concept of labour market segmentation (Piore, 1979). Once established, migration patterns tend to be reinforced through the expansion of social migrant networks, which increase the likelihood of further mobility by providing access to information and material and social support for new migrants, reducing the risks and cost of migration and increasing its expected returns. While state policies obviously shape international migration flows, the significance of border control has diminished within the enlarged EU/EEA area. During the first five years after 2004, however, the transitional restrictions in some of the Nordic countries influenced the patterns of migrant flows.

Just like the causes of migration, the *effects* of migration on labour markets of receiving countries have proven difficult to explain through any one simple theoretical model. Neoclassical economic theory predicts that receiving country wages tend to fall as migration increases the supply of labour. Extensive research by labour economists has shown, however, that the effect of migration on native workers wages is small, negligible or sometimes even positive (Friedberg and Hunt, 1995; Dustman *et al.*, 2004). Nonetheless, there is ample evidence that migrants tend to receive lower wages than native born workers. In labour economics, this is usually explained by complementarities of skills between migrants and natives, whereby migration has a negative effect on wages and employment for those who hold similar skills as the migrants and a positive one for those with complementary skills. A similar, but slightly alternative approach is offered by theories of *labour market segmentation,* which direct attention to institutional features of labour markets and to jobs as markers of social status as well as a source of income. This theory suggests that labour markets consist of separate segments, and that native workers' are often unwilling to take on low status jobs not just because they generate low pay, but also because they infer low status. Since migrants are primarily recruited to perform work that is shunned by natives (typically semi-skilled, repetitive jobs with limited security), the process of migration and labour market segmentation leads to a segregation of the labour force into separate, non-competing groups (McGovern, 2007).

The multidisciplinary approach that dominates today's migration research highlight the need to supplement economic perspectives with institutional analyses of how labour markets function. This is particularly pertinent in the Nordic countries where labour markets are strongly regulated by state policies and centralised negotiations between social partners. As we shall see in the later sections, the bounded solidarity on which the Nordic models of work and welfare are built are likely to be challenged by increasing international mobility (Brochmann and Hagelund, 2010; NOU 2011:7).

6.2. New patterns of labour migration to the Nordic countries

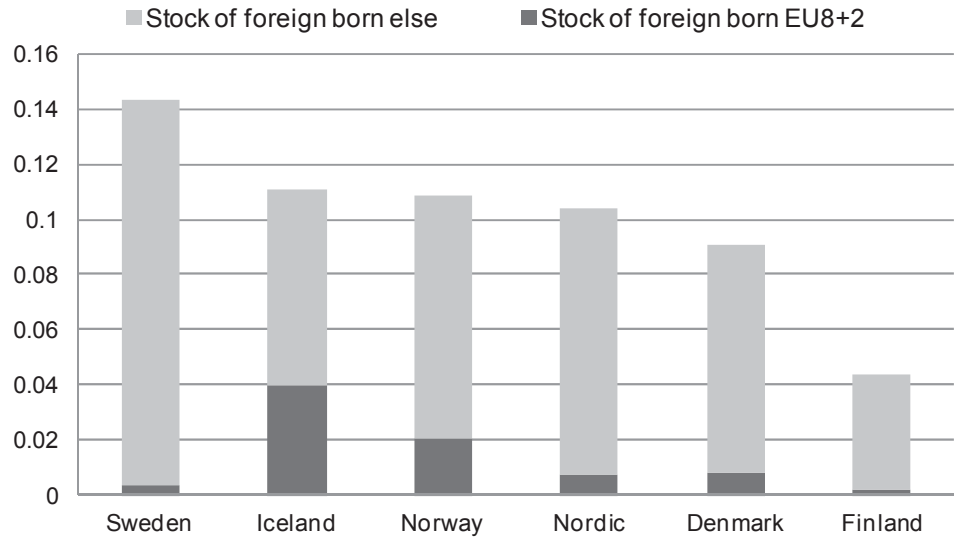
The five Nordic countries[2] share much common history including 50 years experience with a common, open labour market. Besides the common linguistic heritage – where Danish, Norwegian and Swedish are considered mutually intelligible – the political systems and the social models of the Nordic countries exhibit many similarities. Distinguished by comparatively generous "universalist" welfare states and well-regulated labour markets covered by encompassing collective agreements, the Nordic countries have been associated with high labour market participation, limited pay and gender inequalities, and active macro-economic stabilisation policies (Dølvik *et al.*, 2011).

Free mobility of labour in the Nordic countries was formalised by an agreement between Denmark, Finland, Island, Norway and Sweden in 1954. During the post-war period this common Nordic labour market has been distinguished by the level of freedom with which citizens have been able to move among the member countries (Pedersen *et al.*, 2008). During the first 40 years after the Nordic Passport Union agreement had been signed, migration flows from Finland, Denmark and Norway to Sweden dominated. Such intra-Nordic migration flows diminished in the 1990s, reflecting the deep recession in the Swedish economy. Gross migration to Sweden fell strongly in the other Nordic countries. Well into the 2000s, Denmark received a net flow from Iceland, Norway and Sweden, and both Finland and Norway receive a net flow from Sweden. From 2004, Sweden once again became the net receiver of people from Denmark (see Annex Tables 6.A1.3 and 6.A1.4).The significant shift in the Danish-Swedish flows largely reflects the opening of the Øresund Bridge between Copenhagen and Malmö. Over the past decade, huge demand and higher wages in the Norwegian service sector has pulled many Swedes from high youth unemployment to wait tables in Norwegian restaurants and cafés.

Foreig-born population in the Nordic countries

In 2010 there were roughly 25 million residents in the Nordic countries, with Sweden the largest (9.3 million), Iceland the smallest (300 000), and Norway, Finland and Denmark in the middle (4.9 to 5.5 million) (see Annex 6.A1). The foreign-born population in the Nordic countries counted in total 2.6 million in 2010 equalling 10.4% of total population, increasing by 600 000 foreign-born in six years. In 2010 the foreign-born population in Sweden counted for 14.3% of the population, whereas immigrants in Finland only counted for 4.4% of the total population. Denmark, Norway and Iceland are placed closer to the Nordic average with foreign-born population counting for 9.1, 10.8 and 11.1% respectively. While Finland and Iceland only recently have become immigrant destinations, the three Scandinavian countries share a relatively similar history of immigration over the last half century consisting of labour migration in the post-war era up until the mid-1970s, followed by family and humanitarian migration in the late 20th and early 21st century.

Figure 6.1. Stock of foreign-born residents from EU8+2 and total stock of foreign-born, 2010



Source: Nordic Statistics.

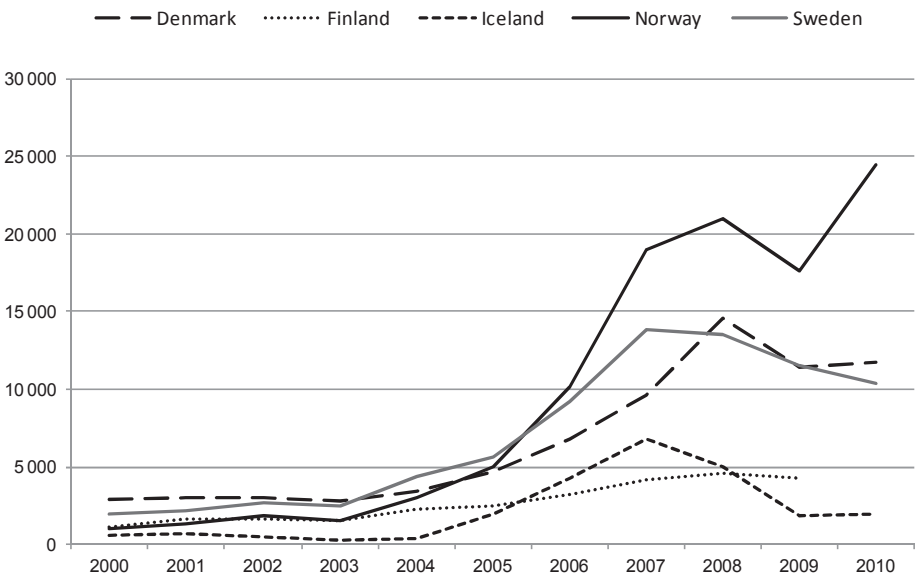
In Iceland one out of three resident immigrants are from the new EU countries in Central and Eastern Europe. In Norway the ratio is one out of five, with Denmark close to the nordic average of one out of ten. In both Sweden and Finland the proportion of settled immigrants from EU8+2 is well below other Nordic countries.

Inflow from Central and Eastern European countries

After the enlargements of the European Union in 2004 and 2007 the inflow of citizens from the ten new members in Central and Eastern Europe increased substantially to the Nordic countries. In absolute numbers Norway has since 2004 had the highest inflow from these countries followed by Sweden and Denmark. Adjusting for population size the inflow from Eastern Europe has been the highest in Iceland, followed by Norway and Denmark (see Annex Table 6.A1.2).

Figure 6.2 illustrates that the number of citizens from CEE countries immigrating to the Nordic countries before 2004 were low. Annually less than 1 500 migrants from EU8+2 settled in Norway in the period 2000-03, but seasonal flows of agricultural labourers approached 15 000 each years. In 2010 the number of citizens immigrating to Norway from these countries peaked to 25 000. This number accounted for almost half of total inflow to the Nordic countries, and was even higher than before the financial crisis. All the Nordic countries experienced lower demand for labour in 2009 due to the financial crisis, and consequently the migration from these countries decreased. In Denmark and Iceland the inflow from Eastern Europe seem to have stabilised on 2009 level, while Sweden have had a reduction in inflow since 2007.

Figure 6.2. Annual inflow from EU8+2 citizens to selected Nordic countries



Source: Nordic Statistics.

Table 6.1 describes the transitional restriction on migration from the new EU member states that were in operation the first years after 2004 in the Nordic countries. If we assume that such restrictions would have an impact on migration flows, it may seem odd that Norway and Denmark – which both applied restrictions – have received more migrants from the new member states in both absolute and relative terms than Sweden which did not apply any restrictions. It may be argued that other factors trumps state restrictions. However, it could also be argued that the nature of restrictions in Denmark and Norway – and the right to equal pay for migrant workers – in fact worked as an additional pull factor making these destinations even more attractive.

Table 6.1. Transitional restrictions on the free movement of labour from new EU member states in the Nordic countries

	Restrictions on EU8 migration (2004)	Restrictions on EU2 migration (2007)
Sweden	No restrictions	No restrictions
Norway	Workers obliged to show contract for full time work at Norwegian wage level in order to obtain residency permit. Restrictions on access to welfare benefits. Restrictions phased out in 2009.	Same as for EU8. Restrictions still in operation
Denmark	Same as in Norway. Restrictions relaxed in 2007 and phased out in 2009.	Same as for EU8. Restrictions still in operation
Finland	Restrictions based on labour market testing. Phased out in 2006.	No restrictions
Iceland	Restrictions based on labour market testing. Phased out in 2006.	No restrictions

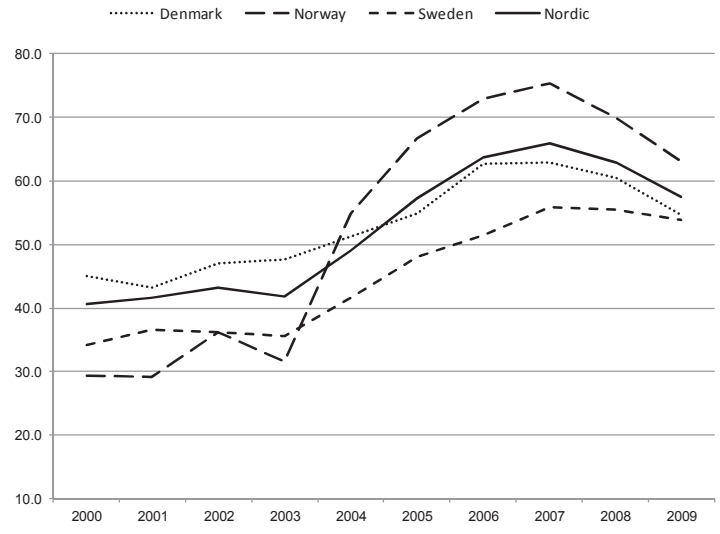
Changing demographic composition of migration flows

Before 2004 the number of immigrants from Central and Eastern Europe to Norway was low and dominated by women, often coming on family permits to marry with a Norwegian. In addition, several thousand seasonal workers came to work in agriculture every summer through a bilateral agreement on temporary work, but they were not allowed to settle. Neither was the unknown number of workers who entered clandestine or on tourist visas working in the informal economy. After 2004 the number of migrants increased dramatically (as shown in Figure 6.2) and the composition of flows also changed. Three out of four immigrants from the new EU members residing in the Nordic countries are today from Poland. Only in Finland has Estonians outnumbered Polish migrants. Lithuanians are the second largest group in Norway and Iceland. In Denmark and Sweden immigrants from Romania are the second largest group of the new EU8+2.

The male share of the immigration flow rose quickly after the EU enlargement, particularly in Norway. From 2004 to 2007 the male share of inflow to Norway rose from 30% to 75%. This can partly be explained by the transitional arrangements, which required full-time work (hard to find in female dominated low skilled sectors) and Norwegian pay, partly by the boom in the Norwegian economy creating strong demand for labour in construction and manufacturing. From 2007 and onwards, however, the female share of inflow from EU8+2 has increased, as many of the male workers have been joined by their spouses and children. This pattern resembles other flows of labour migration, like that of the *Gastarbeiter*, when male workers first went from the south of Europe, Turkey, and Pakistan or from North Africa, to give Germany, the United Kingdom or the Scandinavian countries a try. Many of them planned to return but ended up working and living in their new country, and over the years reunited with their families.

Figure 6.3. Male share of inflow from EU8+2 to selected Nordic countries and Nordic total

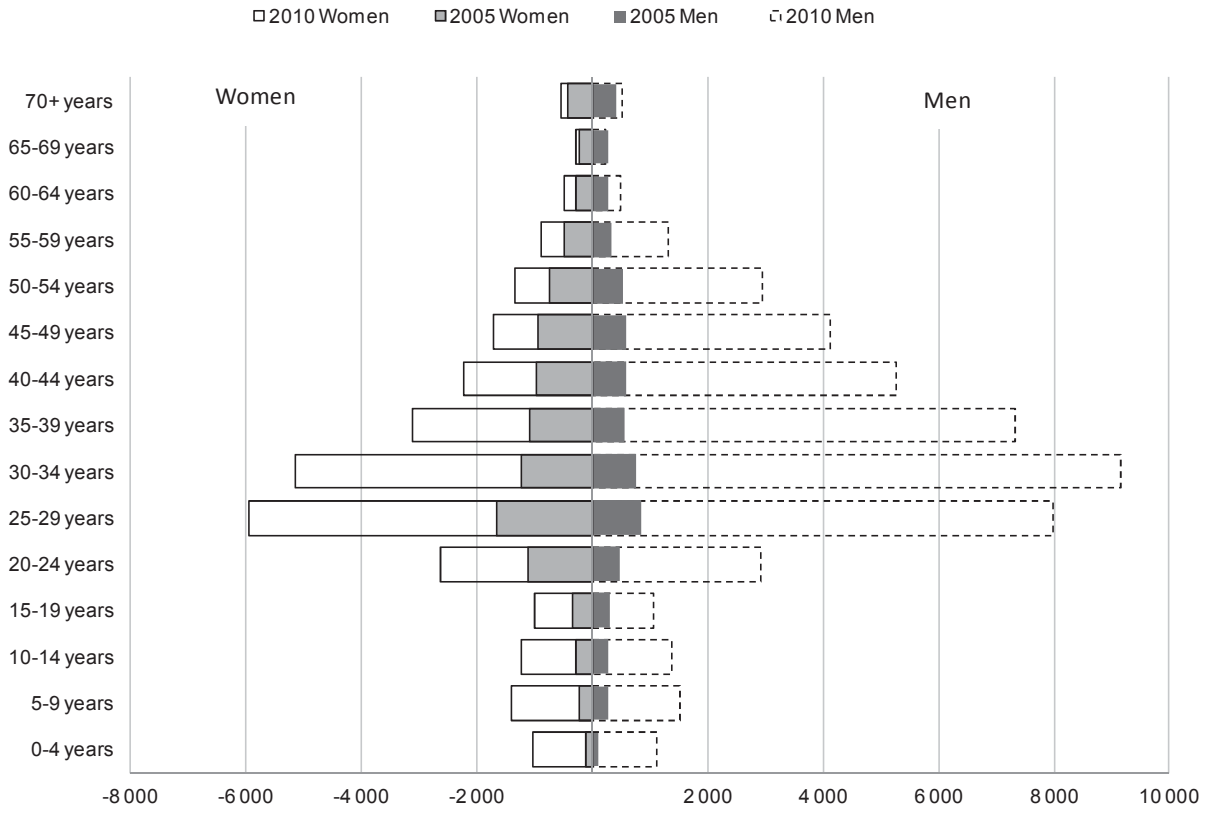
Weighted average



Source: Nordic Statistics.

The changing composition of migration flows can also be traced in the changed age structure for the immigrant population in Norway from EU8+2. Since 2005 there has hardly been any change in the stock of old people, while the number of men in prime working age (25 to 54 years) increased significantly. The increase in the youngest age-cohorts can be explained by increased family reunification. Population data, and the Polonia Survey, indicates that many of the labour migrants have brought their families to Norway and the Nordic countries and seem to have the intention to stay more permanently like the former wave of labour migration from Pakistan and Turkey in early 1970s, but unlike highly skilled labour migration to the oil industry from the United Kingdom and the United States.

Figure 6.4. Age structure for immigrants with background from EU8+2 in Norway in 2005 and 2010

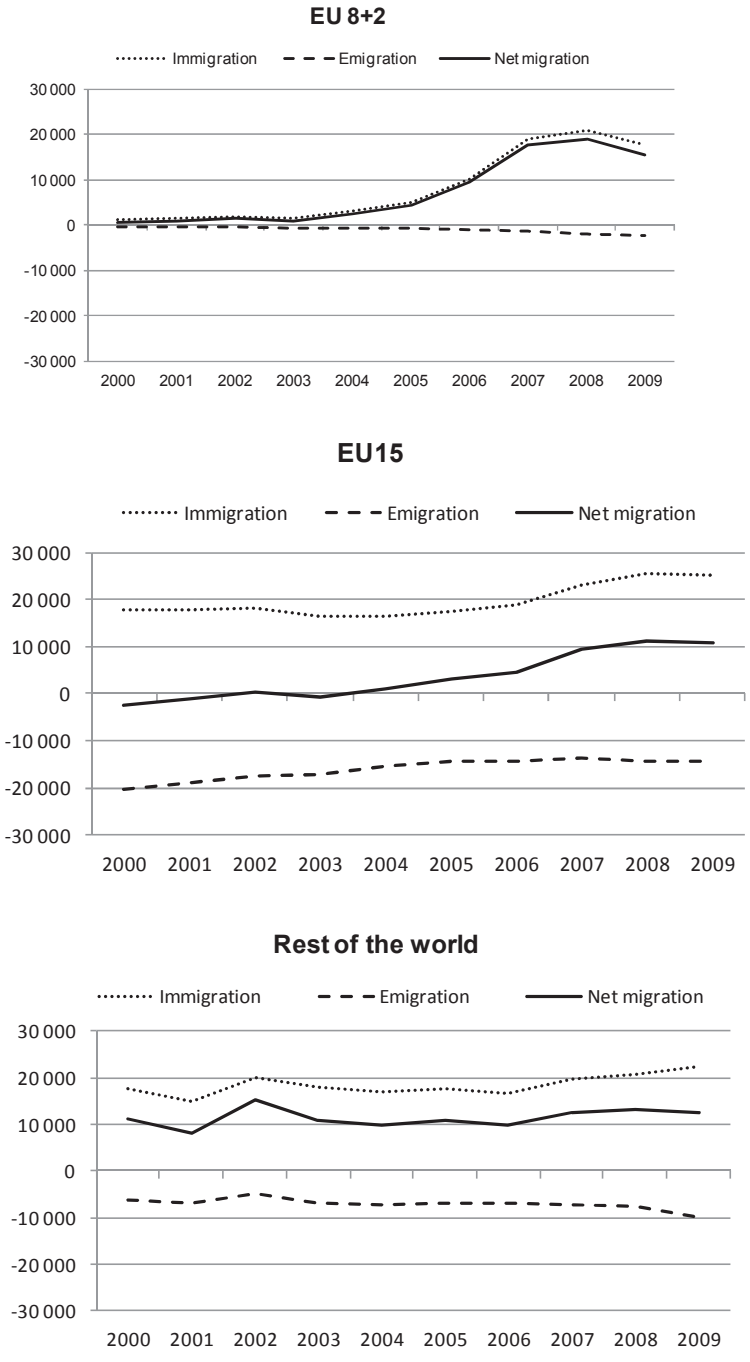


Source: Statistics Norway

Figure 6.5 illustrates that the emigration of EU8+2 citizens from Norway so far has been very low compared to the number of people who have immigrated. In 2008 roughly 21 000 immigrated and only 2 000 emigrated, adding 19 000 EU citizens to the Norwegian population in one year. Immigration from other countries in Europe have also been high over the last ten years (on average 20 000 annually) but for this group the annual emigration has stabilised around 15 000. For immigrants from outside Europe the emigration is even more stable – on average 7 000 annually over the last ten years. A challenge when trying to describe the in- and outflows of migrants from EU8+2, however, is the fact that official population data only register settled immigrants. Since a

high share of the labour migrants who come to Norway from *e.g.* Poland and Lithuania, do not register as settled immigrants, these numbers underestimate the influx of immigrants from EU8+2 in the Norwegian labour market as well as the outflow.

Figure 6.5. Immigration, emigration and net migration to Norway, by citizenship, 2000-09

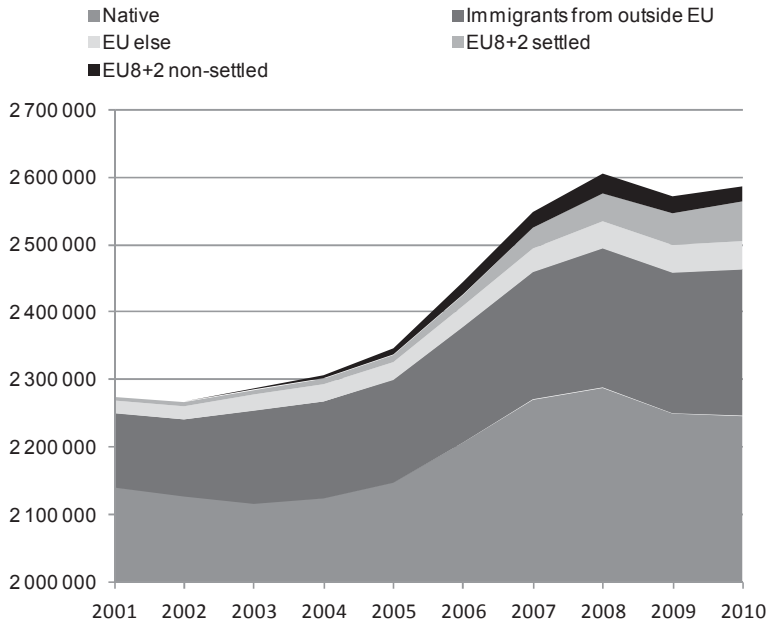


Source: Statistics Norway.

Settled and non-settled immigrants from EU8+2 in the Norwegian labour market

In Norway the labour market statistics is based on the traditional labour force survey, but in addition there are register based employment statistics. The most important source on immigrants' performance in the labour market is derived from register data. The register statistics on employment and unemployment among immigrants are based on several sources: data from the Register of Employees and the Unemployment Register, both at the Norwegian Labour and Welfare Administration and information from tax files from the National Tax Administration. Since 2003 official statistics in Norway have published numbers on employment of non-settled immigrants in the Norwegian labour market, based on data from Norwegian Central Office for Foreing Tax Affairs (OECD, 2011). In 2003 there were approximatly 25 000 non-settled immgrants employed, but the number rose to more than 80 000 in 2008. The majority of non-settled employees in the Norwegian lanbour market are either from another nordic country (40%) or from an EU country in Eastern Europe (40%), and many of these are employed by foreign subcontractors and temporary staffing agencies.

Figure 6.6. Number of employed by year, country of origin and settlement status, 2001-10

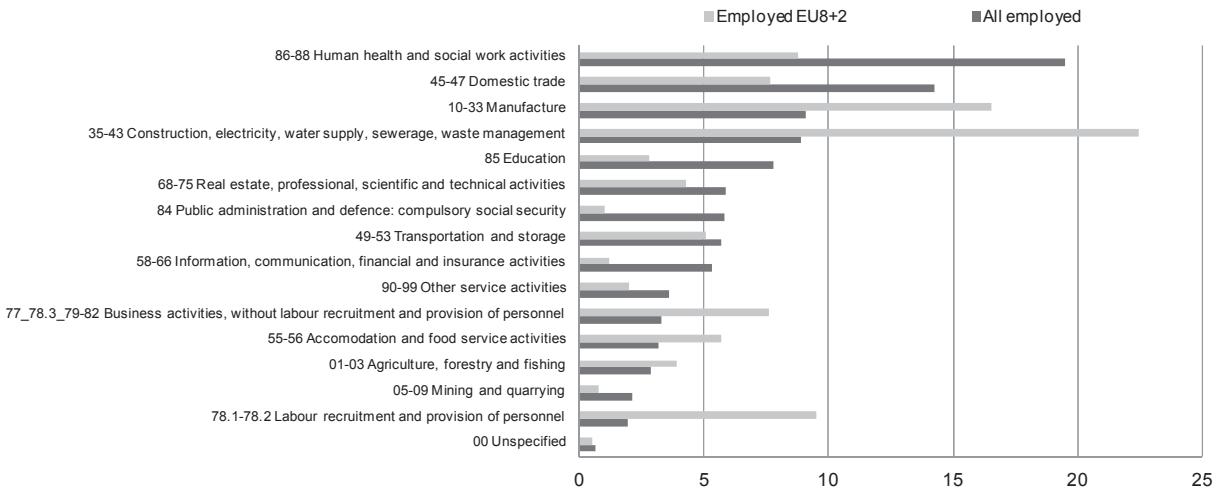


Source: Statistics Norway.

Since 2004 the total number of employed in Norway has increased with 10% or 280 000, from 2.3 million to almost 2.6 million. Immigrants counted for more than half (56%) of the increase in the labour force in this period. Immigrants from EU8+2 alone constituted one fourth of total increase. Today there are labour migrants, both settled and non-settled, from EU8+2 working in all 19 counties in Norway. More than 20 0000, or one out of four is working in the Oslo-area (including neighbouring Akershus). On the west coast of Norway both counties surrounding Stavanger and Bergen attracts each 10 000 labour migrants from EU8+2. The majority of EU8+2 migrants are employed in either construction, manufacturing or temporary work agencies (which mainly cater to

construction and manufacturing). As illustrated by Figure 6.7 they are strongly overrepresented in all these industries. Their likelihood of being hired through a temporary staffing agency is, for example, eight times higher than that of the total workforce. Labour migrants from EU8+2 are strongly underrepresented in public sector branches such as education, health and public administration, but also in information, communication and financial services. It should be noted that these numbers are collected in 2009, at a time when the construction and manufacturing industries were badly affected by the financial crisis. The overrepresentation of these sectors was probably even higher both before and after that year.

Figure 6.7. Percentage of EU8+2 migrant workers in different industries, compared to the total workforce



Source: Statistics Norway.

Identifying driving factors of migration

Considering the cold and dark winters, their small size and particular languages it may seem easy to explain why many people do not migrate to the Nordic countries. On the other hand there are pull-factors that can explain why the Nordic countries have changed from sending to receiving countries since the 1950s. As shown in Table 6.1, the average gross wage is significantly higher in all the Nordic countries than in most other European countries. In 2007 a Norwegian or Danish employee could expect to get paid on average EUR 26 and 24 per hour – in Sweden and Finland EUR 18 and 15. Considering that a Polish worker in Poland could expect EUR 3.3 per hour worked at home, it is no wonder why people move to the Nordic countries or why Norway and Denmark have become their main destinations. Furthermore, the Nordic labour market is characterised by a compressed wage structure implying that low skilled jobs are better paid than elsewhere both in absolute and relative figures. In 2007, the unemployment rate in EU8+2 were only 2 percentage points higher than in EU15, but considerably higher than in the 2-3% unemployment rates of Norway and Denmark.

Although impossible to trace using register data, migration networks have been an important factor for the growth and perpetuation of migration flows over time. In Norway these networks were firmly established already before 2004. Several thousand Polish refugees were already settled in Norway in the wake of the Solidarnoc uprising in the early 1980s, and thousands of Polish citizens had gained experience and connections as

seasonal workers from the early 1990s and onwards. The Polonia Surveys conducted in 2006 and 2010 (see below) revealed that 83% of the Poles staying in Oslo in 2010 knew someone staying there before arrival. This number was significantly higher in 2010 than in 2006, indicating the cumulative impact of migrant networks.

In the Polonia Surveys, migrants were asked about their motives for leaving Poland and for choosing Norway as a destination (see Table 6.2). Their responses clearly show that families and social networks, besides economic motives, are powerful drivers of migration. For women, reuniting with family members was the most important reason for leaving Poland and for choosing Norway as a destination. For men, having family and friends in Norway (25%) or being recruited by someone in Norway (13%) was – when these reasons are put together – regarded as the most important reason for choosing Norway by equally many as the relatively high Norwegian wage level (37%). In the next sections we will see how recent years large scale recruitment of migrant workers have led to structural changes in some migrant labour intensive industries. When trying to understand what generates the demand for foreign labour in Norway, these changes must be taken into account (Table 6.3).

Table 6.2. Self-reported motive for leaving Poland and for choosing Norway as a destination among Polish migrants in Oslo

Most important reason for leaving Poland	Men	Women
To find work and/or earn more money	73	39
To reunite with family or partner who was already in Norway	6	44
To see the world, experience and learn new things	19	12
Someone else made the decision for me	1	2
In order to study	0	1
Total	100	100
Most important reason for choosing Norway as destination	**Men**	**Women**
Friend or family was already in Norway	25	65
Norwegian wage level	37	17
Was recruited by someone in Norway	13	6
Accidental/no particular reason	13	2
Easy to find work in Norway	5	3
Good social benefits in Norway	1	1
Other reason	5	6
Total	100	100

Note: N=501.

Source: 2010 Polonia Survey.

Table 6.3. GDP per capita, hourly gross wage, and unemployment in the EU and EEA countries, 2007

		GDP per capita in PPS		Hourly gross wage		Unemployment rate
		In euros	In % of EU 15	In euros	In % of EU 15	
Nordic countries	Denmark	31.4	114	24.23	166	3.7
	Finland	29.6	107	15.46	106	6.9
	Sweden	31.3	113	17.68	121	6.1
	Norway	45.7	166	26.14	179	2.6
	Iceland	32	116	n,a,	n,a,	n,a,
EU8+2	EU8+2	13.2	48	3.03	21	8.9
	Poland	12.9	47	3.34	23	13.8
	Estonia	16.7	61	3.51	24	4.9
	Latvia	13.9	50	2.92	20	5.9
	Lithuania	14.3	52	2.95	20	4.3
	Czech Rep.	18.7	68	3.71	25	5.3
	Hungary	14.8	54	4.16	29	7.2
	Slovak Rep.	16.4	59	3.42	24	11.3
	Slovenia	22	80	8.31	57	4.7
	Bulgaria	9.3	34	1.11	8	6.9
	Romania	9.6	35	1.76	12	n,a
EU else	EU-15	27.6	100	14.56	100	7
	EU-27	24.6	89	12.12	83	7.1
Selected countries	France	27.7	100	17.58	121	8.3
	Italy	25.1	91	9.86	68	6.8
	Spain	25.2	91	10.88	75	8.3
	United Kingdom	29.4	107	16.84	116	5.3
	Netherlands	33.3	121	17.71	122	3.2
	Portugal	17.6	64	6.72	46	8
	Switzerland	34.7	126	22.59	155	n,a

PPS: Purchasing power standards.

Source: Eurostat.

6.3. Employment and working conditions: the case of Polish migrants in Oslo

Official register data does not provide much information about the actual conditions under which these recent migrants work and live in Norway. An alternative source of data is interview based surveys. Recent labour migrants are, however, an elusive population for survey sampling, especially in the context of free movement, due to high mobility, irregular housing and limited registration. Ordinary random sampling based on public registers would in such a population produce highly selected samples and very low response rates. This is why, in the autumn and winter of 2006, Fafo, in collaboration with researchers from the Centre for Migration Research in Warsaw, conducted the first Polonia Survey using respondent driven sampling (RDS), a sampling technique especially designed to produce statistically unbiased estimates for hard-to-reach population where no sampling frame exist (Heckathorn, 1997; Salganik and Heckathorn, 2004). The 2006 Polonia Survey proved successful and was repeated in early 2010. Both samples consist of more than 500 Polish labour migrants staying in the Oslo area. In-depth face-to-face interviews covering a wide range of topics were conducted by a team of Polish speaking interviewers. The results from these surveys have been reported in two Norwegian reports (Friberg and Tyldum, 2007; Friberg and Eldring, 2011). Findings from these studies can only be generalised to the population of Polish migrants in the Oslo area and the situation may be different in other parts of Norway. However, such detailed survey data can bring light to migratory and labour market dynamics which at this point are impossible to reveal using register data. The main findings from the two surveys can be summarised in the following brief points:

Temporary and circular migration, followed by settlement and family reunion

The selection of Polish migrants coming to Norway is affected by linguistic barriers and labour market demand. Polish migrants in Oslo are older than the average Polish emigrant since 2004. Few have higher education or relevant language skills, but most of the men are skilled workers with vocational training. In 2006 the overwhelming majority of Polish migrants in Oslo were men, most of them had families living in Poland, and they were only working temporarily in Norway or commuting back and forth between Norway and their families in Poland. Only a small minority were settled with their partners or family members in Norway. In 2010, just four years later, the situation was substantially changed. The share of women was significantly higher and the majority of workers now reported that their partners were living in Norway. Housing arrangements had also changed. In 2006, communal housing together with colleagues and worksite barracks were the most common forms of housing. In 2010 the majority of respondents reported that they were living together with family members. The change from 2006 to 2010 could be attributed to labour demand, as temporary workers were usually recruited to fill permanent labour needs, and to the network and family-related dynamics of the migration process which led to a gradual process of settlement for many migrants (see also Friberg 2012a, forthcoming).

Employment concentration and precarious working conditions

Employment among Polish migrants is highly concentrated and segregated by gender. In Oslo, almost all men work in construction, while the majority of women work as cleaners. In other parts of Norway, large employers of Polish migrant labour include agriculture and shipyards. Within these sectors, most recent Polish migrants are employed in niche markets dominated by recent immigrants (Table 6.4).

Table 6.4. Sector and terms of employment, Polish workers in Oslo in 2006 and 2010

Terms of employment:	Construction work		Cleaning		Other	
	2006 (N=289)	2010 (N=292)	2006 (N=108)	2010 (N=81)	2006 (N=57)	2010 (N=81)
Permanent legal job in Norwegian company	15%	19%	3%	17%	20%	48%
Legal, but a-typical employment (temporary employment, posted subcontractors, agency work, etc.)	54%	52%	11%	25%	44%	42%
Illegal work (no written contract and does not pay tax)	32%	28%	86%	58%	37%	10%
Total	100	100	100	100	100	100

Source: 2006 and 2010 Polonia Survey. Fafo Institute of Labour and Social Research.

In *construction*, less than one in five are permanently employed by regular Norwegian construction firms. The majority of Polish construction workers are hired through temporary staffing agencies or Polish subcontracting firms specialising in the provision of cheap and flexible labour, or they have other forms of casual, informal and temporary affiliations to clients and employers. Typically moving from one temporary assignment to the next, most Polish construction workers in Oslo reported that they only work together with other Poles and that they only speak Polish at work. Construction work-sites are usually separated by organisational and linguistic barriers between Polish and other Central and Eastern European migrant workers on the one hand and the native workers who are usually permanently employed within Norwegian companies on the other. While

the small minority of Polish workers who are employed by regular Norwegian construction firms enjoy working conditions similar to those of natives, low wages and precarious working conditions are common in the market for flexible labour intensive subcontracting. In 2010, nine of the Polish construction workers in Oslo had hourly wages below the industry average, and a substantial minority also received less than the legally extended minimum wage. Three out of ten workers did not have a written work contract. Two out of three reported to have worked overtime without receiving overtime payment, while one in three had experienced not getting paid for their work at all. One in three construction workers did not expect to get absence with pay if they become sick. One in three workers expected to lose their job or face serious problems if they talk to Labour Inspectors, and almost every fifth worker expected to lose their job or face serious problems if they become sick. Precarious and illegal working conditions were found in many different parts of the building market, but it seemed particularly common among those employed through transnational subcontracting firms and those employed by firms working for private clients.

In Oslo's *cleaning sector* (which was an immigrant niche sector since long before Poland's accession to the European Union) female Polish migrants first specialised in the fast-growing market for domestic services to private households. This market is almost exclusively an informal and unregulated labour market, and workers enjoy little protection and no access to social benefits. This was partly a result of the Norwegian transitional restrictions, whose requirement of full time work proved to be a hurdle for regularisation for many workers within cleaning. In recent years Polish women are increasingly also being employed within the regular cleaning sector. Working conditions in the regular cleaning sector is also characterised by underemployment, low wages and financial insecurity, but as regular workers with access to social benefits they enjoy some protection. A growing minority of Polish migrant workers are employed outside of the two main employment niches of construction and cleaning; women in public health, child care and hotels, and men in auto repair shops, warehouses and manufacturing. These workers are more often permanently employed and usually have better working conditions than the majority working in construction and cleaning.

Occupational mobility and language acquisition

It is sometimes assumed that migrant workers have temporary, atypical and casual employment because they are only staying temporarily in the host country, and that those who settle down over time will find their way into regular employment with better conditions of work and more protection against fluctuations in demand (see for example the White Paper on Labour Migration St.meld. nr. 18, 2007-2008). There are several reasons to expect such a development: As migrants have more time to adapt, they acquire basic language skills and become less dependent on middle men and go-betweens; many workers will need time going through the initial trial periods necessary before landing regular employment; and employers need time to grow more accustomed to the new addition to the labour force. Polish migrants are still quite recent arrivals on the Norwegian labour market, but so far, we find that peripheral employment only to a very limited extent has worked as a stepping stone into regular employment. Comparing the situation in 2006 and 2010 as well as analysing the link between length of stay and employment situation, the survey material indicate that workers outside construction and cleaning do in fact move into better and more stable employment as time goes by. Within cleaning there is some mobility from informal work in the domestic sector to legal (although usually temporary and atypical) employment in the regular cleaning sector.

There is also some mobility from work in cleaning to work in other sectors such as public health and child care. However, within the construction industry, which employs the majority of Polish migrant workers in Oslo, there is very little mobility from peripheral employment in temporary staffing agencies and transnational subcontractors to regular employment within construction firms. The share of workers holding permanent legal contracts with Norwegian firms did not change significantly between 2006 and 2010, and the probability of having permanent employment does not increase after having worked in Norway for several years. To what extent this is an effect of the financial crisis which particularly affected the construction industry or a symptom of more permanent ethnic segmentation following the inflow of migrant workers is difficult to tell at this point in time. Qualitative studies, however, suggest that structural changes in response to the new labour supply have produced highly segregated work organisations and stereotyped employment practices which have made mobility from one segment to another particularly difficult (Friberg 2012b, forthcoming).

Labour market mobility is connected to language acquisition. Labour migrants from new EU member states, unlike most humanitarian and family migrants do not have access to state sponsored language training. The survey shows that construction workers – who usually work in separate Polish work teams and speak Polish at work – have significantly slower rates of language acquisition compared to other groups, measured by self-reported language skills. Both cleaners and workers in other sectors – who usually need to communicate on some level with clients, employers and customers in either English or Norwegian – report to have better language skills, also when controlling for length of stay. The relationship between language acquisition and employment situation is probably mutually reinforcing, as individuals with better language skills have more employment opportunities outside traditional niche markets, while those who work in such linguistically segregated niche markets are deprived of on-the-job language training, which in turn slows down language acquisition and reduces further employment opportunities.

Labour migrants are vulnerable to unemployment in times of crisis

Although Norway was among the Western European countries least affected by the financial and economic crisis which struck in 2008, some sectors, such as construction and industrial manufacturing which had been expanding rapidly in the boom leading up to the crisis, did not escape its consequences (NOU 2011:1). According to a nationwide survey among employers in these industries conducted in 2009, the most common way to meet reduced labour demand was to cut the use of hired labour from temporary staffing agencies and subcontractors, while protecting the firms' regular employees (Andersen *et al.*, 2009). These particular segments of the labour market in these particular industries were exactly where the majority of the Polish migrants work. Not permanently employed, they could easily be laid off, or simply run out of assignments as the market for labour intensive subcontracting collapsed. The timing of the crisis was important in terms of migrants' eligibility for unemployment benefits. First of all, the transitional regulations had restricted their access to social benefits during their first year of residency. When they were revoked in May 2009, all Polish migrants who had earned over a certain amount during the previous year(s) were eligible to claim unemployment benefits upon unemployment. Second, four and a half years after the EU enlargement, a large number of Polish migrants had stayed long enough to claim such rights. As a result of the crisis and the migrants' new access to benefits, registered unemployment soared. While overall unemployment in Norway remained exceptionally low throughout the crisis

– at less than 3% – Polish born settled immigrants reached an unemployment rate of 14% in early 2010 – up from less than 2% two years before. In Oslo, the number was 15.4%. These numbers concur with our survey results which showed that 16% among those who had registered themselves as settled in Norway stated that they received unemployment benefits at the time of the survey, suggesting that the survey provides a representative picture of the unemployment situation within the target population. However, substantial numbers among those who lost their jobs were still not eligible to receive benefits, and had little incentive to register with authorities. According to survey results labour market exclusion in the wake of crisis was therefore far more extensive than what was reflected in official numbers. At the time of the interviews, as much as 30% of the Polish workers in Oslo were out of employment, but less than half of those who reported to be unemployed had registered themselves with authorities.

The crisis affected different parts of the migrant population in very different ways. Construction workers were – not surprisingly – much more affected than those who had been working in other sectors. The way in which they were affected was significantly influenced by their last type of employment. In short, those with the most peripheral forms of employment had the greatest probability of becoming unemployed. At the same time they had the least probability of gaining access to unemployment benefits. Those with regular permanent employment had less risk of becoming unemployed, but greater chance of getting access to benefits if they did become unemployed.

6.4. The impact of migration on economy, labour markets and welfare

One of the most hotly debated issues regarding the free movement of workers within the enlarged European Area is the impact of labour migration on labour standards, working conditions, welfare and the functioning of labour market regulations in receiving countries. For Norway, the (partial) opening of the labour market to the new EU member states in Central and Eastern Europe in 2004 was a major turning point, and the long-term effects are still highly uncertain. Based on preliminary trends and existing studies, however, some tentative conclusion may be suggested.

Economic growth, tax revenues and labour market flexibility

Labour migration from the new member states has so far brought substantial economic gains for Norwegian society, by providing much needed labour in a period of high economic growth, with increased tax revenues and reduced inflation as a result, while placing little burden on public spending. Surveys among employers suggest that the use of migrant workers from new member states have contributed to increased flexibility and reduced labour costs in a period marked by labour shortages in many sectors, and that CEE migrant workers are considered to have a "higher willingness to work" and lower rates of sick leave than other workers. (The flip-side of this was reflected in the 2010 Polonia Survey, where 55% of respondents reported that Polish workers were expected to work harder than Norwegians, and 17% expected to lose their job or get serious problems at work if they became sick.) Recent studies show that labour migrants are also more mobile than the general population. By responding quickly to regional variations in the labour market, they reduce "bottlenecks" and contribute to a more flexible workforce (Røed and Schöne, 2011).

Impact on native workers: complex, diverse and difficult to measure

While the labour market situation for the migrant workers themselves were discussed in the previous section, the impact of migration on the wages and employment of native workers have proven difficult to measure. As Lumpe (2008) has shown in a review of the labour economic literature on migration, both theoretical models and empirical studies tend to offer differing and sometimes opposing conclusions on the benefit of migration and its effects on labour markets. European research on the impact of post-2004 labour migration indicates that the effects have been small, although low skilled workers to some extent may suffer displacement and wage depression (EU Commission, 2008; Kahanec and Zimmermann, 2009; Barell *et al.,* 2010). These studies are, however, marked by methodological problems of measurement, due to data quality, difficulties in taking cyclical effects into account, too high level of aggregation, and not least an implicit assumption that the impact of migration occurs instantaneously and affects labour markets uniformly. In reality, the consequences will more likely unfold through slow, long-term and sequential processes of adjustment which affect different sub-segments of the labour market in very different ways.

Theory suggests that workers with complementary skills and jobs are positively affected by migration, while workers with the same kind of skills and jobs as those performed by migrants will be negatively affected in terms of wage depression and job displacement (Røed, 2006). For example, increased access to cheap and flexible labour through temporary staffing agencies in the Norwegian construction industry has most likely increased the productivity and income of the permanent core staff of construction firms. Access to cheap seasonal labourers in agriculture and fishing industries has likewise increased the productivity and income of the Norwegian food producing sector, and in Norwegian shipyards substantial growth by means of low paid posted workers from new member states has secured jobs and wage growth for domestic yard workers. Because most of the new labour migrants in Norway are concentrated in niche markets dominated by immigrants, most native workers will not experience direct competition. However, for people who are already disadvantaged in the labour market, tougher competition can make it harder to find or retain work when the supply of low skilled labour is abundant. In a study of the Norwegian construction industry using data from before EU enlargement (1998-2005), Bratsberg and Raaum (2010) finds that wages drop 0.6% when the immigrant share in an occupation increase by 10%, in part due to substitution effects, and accompanied by a transition to welfare by some native workers. A broad study of the entire Norwegian labour market found similar effects for workers with low skills in several industries (Bratsberg, Raaum and Schøne, 2010). These studies analyse data from a period marked by limited labour migration, and updated studies using data obtained after 2004 can be expected to produce more conclusive results.

Structural changes, labour market segmentation and inequality

Since 2004, labour migration has significantly changed the composition of the workforce in several sectors, such as shipyards, agriculture, and food processing, construction and low skilled services. Some of these sectors have experienced a substantial growth in total employment based solely on migrant labour. This is the case for the temporary staffing industry which grew from employing just over 20 000 in 2001-03 to more than 60 000 in 2008. In the same period the migrant share of the workforce in temporary staffing agencies went from less than 10% to about 50%, about half of which came from new EU member states. According to a Fafo study in four Norwegian shipyards, workers from the new member states accounted for 60% of

total employment in these years, whereof roughly 80% were posted by east European subcontractors and only 1/5 had obtained a permanent job (Andersen and Ødegaard, 2011, forthcoming). Fish processing has seen substantial exit of native workers and reduced permanent employment, but has upheld production by means of accelerating shares of immigrant workers: Workers from new EU states accounted for 15% and other immigrant groups for 20% of total employment in 2009.

Structural changes in the labour market in response to the increased access to cheap and flexible labour tend to produce effects that in the long run may prove problematic for the Norwegian social model based on equality, redistribution and universal welfare. For example, the differential regulation of the mobility of labour and services, and the opportunity to avoid employer responsibility by hiring migrant workers through transnational subcontractors, temporary staffing agencies and self-employed contractors have facilitated strategic adaptations by employers (Andersen *et al.*, 2009). New hiring strategies aimed at reducing costs and increasing flexibility tend to increase dualisation and segmentation of the workforce in exposed parts the labour market, producing new forms of inequality along lines of ethnicity and nationality. What is referred to as complementarity in the jargon of labour economics, usually mean that migrant workers find employment in low wage, low skilled immigrant niche markets, doing work that natives avoid, for wages that natives would not accept. Analyses from Statistics Norway show that the average income of households from new EU countries in 2006-08 was only about ¾ of the income of immigrant households from Asia and Africa, and over 30% of people from new EU member states belonged to households with persistently low income even after three years of residence (Andersen and Sivertstøl, 2009). This supports the impression that the Norwegian companies mainly employ workers from new EU countries in low wage positions – often on a temporary, short-term basis. As native workers seek to avoid those jobs associated with migrant labour, the development of such niche markets tends to reinforce the need for new migrant workers willing to work at low rates.

Migration, labour market flexibility and the welfare state

CEE labour migrants have high rates of employment and low demands for welfare benefits, but long-term prospects seem less certain. Studies have shown that earlier waves of labour migrants to Norway, who also displayed exceptionally high rates of employment, over time were pushed out of employment and into welfare dependency (Bratsberg *et al*., 2010). Developments in the wake of the recent financial crisis have fuelled concerns over whether new labour migrants will face a similar fate. Unemployment levels among EU8+2 citizens in Norway went from less than 3% in 2004-07 to well over 10% in the period 2009-10, while unemployment among native-born remained below 3%. In 2009, controlling for gender and age, settled migrants from new EU member states in fact displayed lower rates of employment than the general population (65% *vs*. 77%) (NOU, 2011:7, s.183). The inflow of labour migrantsfrom EU8+2 to Norway have remained high throughout 2009-11, despite persistent unemployment among EU8+2 citizens in Norway. This suggest that employers may well prefer to recruit new workers from abroad rather than employ those already settled in Norway who have lost their jobs. Concentrated in cyclically sensitive parts of the labour market, the new migrant workers were disproportionally affected by the crisis, and the relatively high levels of unemployment in the subsequent years is likely a temporary phenomenon. In the long run, however, it is not unreasonable to assume that the establishment of new low wage segments in the labour market, characterised by temporary and precarious employment and little room for upward

mobility, combined with generous and universal welfare provisions, can make it both difficult and unrewarding to remain employed over time. Another plausible outcome of the immigration-flexibilisation-welfare triangle may be that migrant workers employed in seasonal and temporary jobs sensitive to cyclical fluctuations may end up having to juggle temporary work with periodical reliance on public unemployment benefits. Such a development wold mean that the already observed flexibilisation in migrant labour intensive sectors becomes subsidised by public sources, as migrant workers move to the unemployment office rather than "back home" in periods between temporary assignments (see also Friberg, 2012c, forthcoming). While the long-term relationship between labour migration and the welfare state in Norway remains uncertain, the current state of affairs suggests that low wage competition and labour market flexibilisation, whether induced by migration or otherwise, can have unforseen side-effects in a generous universal welfare state.

Changing institutional framework as a response to migration

While the impact of labour migration on wages, labour market functioning and the welfare state entails a slow process of adjustment, its impact on institutional regulations and public policies is far easier to observe. After 2004, it soon became clear that the Norwegian model of labour market regulation based on voluntary collective agreements and enforcement was challenged by the large scale mobility of labour from low cost countries. Norway has considerably lower rates of unionisation and collective agreement coverage than the other Nordic countries. As the EU/EEA regulatory framework stipulates equal treatment for labour migrants and application of a nucleus of host country conditions for posted workers, there is considerable leeway for adapting national regulations in order to counteract undesired effects of mobility. In post-2004 Norway, a host of measures was launched to prevent "social dumping". First, transitional restrictions applied from 2004 to 2009 required full time work at Norwegian pay level as a prerequisite for granting residency permits. In parallel, the 1993 law on extension of collective agreements has been used by the unions to demand (and get acceptance for) generalisation of minimum wages and some other items in migrant labour intensive sectors such as construction, agriculture, shipyards and, very recently, cleaning. Decided by the "Tariffboard", such extensions have won bipartisan acceptance in construction, agriculture and cleaning, but have been contested by the employer side in shipyards and other export-oriented sectors. The extension in the shipyard sector has been taken to court by the employers for breech with the posting directive and EEA rules on service mobility, and after a plain defeat in the first round, the second instance has now asked the EFTA court for advice. Due to such divisions as well as scepticism of extending collective agreements among many unions, legally binding minimum wages does thus far not apply in more than 10% of the Norwegian labour market. The special criteria for extension, notably that it must be documented that foreign labour is treated less favourably than the conditions laid down in the relevant national collective agreement, has according to the unions also made it difficult to raise such cases. As a consequence, low pay competition by foreign labour, sub-contractors and temp agencies is still entirely legal in substantial parts of the Norwegian labour market. Another implication is that several of the key measures in the government action plan to combat social dumping by strengthened control and enforcement – *e.g.* chain liability responsibility for main contractor – do apply only in the four sectors with legally extended minimum wages. While mandatory ID cards have been introduced in the construction sector, new registration schemes have been established for foreign subcontractors, for staffing agencies, and an authorisation scheme is underway in cleaning. What most of these measures has in common is a stronger state involvement in labour affairs and more statutory regulation. In the areas

with extension, this entails a closer interplay between statutory measures and collective agreements, which represent a novelty in the Norwegian social model. The challenge for the government is that the social partners so far have been cautious in activating these new, forceful mechanisms, raising questions about how to develop a more encompassing, efficient regime for regulation and control of minimum wages that can prevent further dualisation in the lower ends of the labour market. The employer side has suggested that the extension mechanisms is replaced by a statutory minimum wage, but this is fiercely rejected by the trade unions who fear further erosion of the collective agreements. Also other elements of the government action plan against social dumping have been subject to controversy, and recently the EFTA Surveillance Authority (ESA) invoked the *Rüffert* decision of the European Court of Justice to challenge the government's recent introduction of a social clause in public procurement tenders, requiring compliance with relevant collective agreements in accordance with the ILO Convention 94. This case is expected to end in the EFTA court, illustrating that Norway is still in an early stage of adjusting its labour regime to the rise in low wage competition in the widened European labour market.

6.5. Conclusions

As shown, Norway has become a major employer of labour from EU8+2. This reflects, firstly, a bundle of interacting demand side factors, associated with rapid economic growth, tight labour markets, rising labour demand, high wages, especially for lesser skilled workers, liberal transitional arrangements, and introduction of extension mechanisms aimed to ensure that migrant labour are paid in accordance with Norwegian minimum rates. As Norway was only mildly affected by the aftershocks of the financial crisis, such pull factors have probably contributed to heighten Norway's relative attractiveness as destination country during the past few years. Secondly, supply side factors have pushed in the same direction, partly due to geographical proximity, emergence of migratory infrastructure such as cheap air carriers, recruitment websites and alike, partly due to network dynamics whereby former refugee populations and sizeable groups who took up seasonal agricultural work and entered the informal cleaning business during the 1990s have provided contacts and information fuelling subsequent flows.

The low rates of return and continued inflows, as well as the interview material referred above, suggest that most of the labour immigrants from EU8+2 find Norway a favorable place to work with ample employment and income opportunities. Surveys also show that the workers from EU8+2 are welcome and popular among the majority population, considered to be reliable and hard-working people. In the household sector, this is reflected in flourishing markets for home renovation and cleaning, not always reflected in the national accounts. Compared to the native workforce, however, there is growing evidence that many EU8+2 workers have difficulties gaining a foothold in the regular, permanent Norwegian job market. They are strongly overrepresented in the peripheral, fluid parts of the labour market, characterised by lower wages, harsher working conditions, and higher risk of job-loss than most natives. This pertains in particular to the sizeable share of labour migrants who are dependent on being hired (as posted workers) by home country sub-contractors and temp agencies competing for contracts in the lower end of the Norwegian market. As shown, these groups of posted workers are at the mercy of short-term fluctuations in the market for sub-contracting and often earn their living in the spot-market for atypical work. At the same time there are some indications that parts of the migrant population from EU8+2 find their way into

more stable jobs, such as the growing numbers of women taking up jobs in the expanding care sector. Evidence from the construction sector, however, suggests that prospects of upwards mobility in this major immigrant sector so far have been limited. The signs of increased segmentation and dualisation of the lower ends of the labour market in the wake of post-2004 labour migration has raised political concern about the implications for equity, participation and welfare in the longer term.

A government appointed commission assigned to investigate the relationship between migration and the welfare state delivered its report in June 2011, indicating that better integration of labour migrants into regular employment was needed to prevent the kind of marginalisation, exclusion and rising welfare dependency experienced in the wake of the 1970s' guest worker migration (NOU 2011:7). The Norwegian economy, labour market and welfare state have definitely profitted from the vast labour immigration in recent years and are likely to face shortages of labour in the years to come. Yet, the long-term benefits of labour migration – for the migrants themselves and for society – as well as the implications for the sustainability of the welfare system, are critically dependent on the resident labour migrants' chances to remain in gainful employment. Considering the sizeable share that still are dependent on unstable, low end jobs – commonly associated with higher risks of labour market exclusion – and the rising take-up of social benefits, the Commission highlighted efficient measures to prevent low wage competition and marginalisation in the labour market as key to facilitate a viable interplay between labour migration and the welfare state in the years to come. A central challenge for the Norwegian social model is thus to reconcile high labour migration with maintenance of the egalitarian, inclusive traits of the labour market and the generous welfare schemes. If migration gives way for growing inequalities and dualisation in the labour market, the prerequisites for the working line in social policies – that is, strong incentives to work – are likely to wither, and pressures to roll back generous welfare schemes will arise.

In terms of research agendas, the implication is clearly that more and better knowledge about the relationship between labour migration, mobility of services, and processes of labour market regulation and adjustment, is warranted. This pertains in particular to how company recruitment strategies, wage formation and opportunities for social mobility in the host country labour market are influenced by the availability of a variety of channels for hiring of migrant labour that are subject to very different regimes for wage setting and employment conditions. That is, how is recruitment into regular employment presupposing equal treatment influenced by the available option of hiring posted migrants through transnational sub-contractors and temp agencies where wages, working conditions and labour costs are usually cheaper and more flexible? The effects of such "regime shopping" on labour substitution, pay inequalities, recruitment opportunities, skill formation, and migrants' mobility in the host country depend indeed on regulatory choices made by host state actors (within the framework of the EU posting regime, Posted Workers Directive, 96/71EC). In Norway, the option to extend collectively agreed minimum wages to posted workers has (as mentioned) been utilised in four branches covering roughly 10% of the labour market. In order to develop more efficient tools and means to secure that labour migration in the future evolve in equitable and sustainable forms, we need better knowledge (and data) about the impact of different regulatory approaches – and their mutual interplay – on employer strategies, employment conditions and social mobility among labour migrants as well as among their contenders in the host labour markets.

Notes

1. This chapter is based on research funded by the Norwegian Ministry of Labour, the EEA Financial Mechanism, the Nordic Council of Ministers and the Norwegian Research Council.

2. Nordic countries make up a region in Northern Europe which consists of Denmark, Finland, Iceland, Norway and Sweden and their associated territories, the Faroe Islands, Greenland and Åland. In this chapter the Faroe Islands, Greenland and Åland are excluded from the analysis.

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Annex 6.A1

Supplementary tables

Table 6.A1.1. Population 1 January 2010 by reporting country and birthplace

	Denmark	Finland	Iceland	Norway	Sweden	Nordic countries
Total population	5 534 738	5 351 427	317 630	4 858 199	9 340 682	25 402 676
Native born	5 033 227	5 118 244	282 509	4 331 400	8 002 717	22 768 097
Foreign born	501 511	233 183	35 121	526 799	1 337 965	2 634 579
% foreign born	*9.1*	*4.4*	*11.1*	*10.8*	*14.3*	*10.4*

Source: Nordic Statistics

Table 6.A1.2. Annual migration of citizens from EU8+2 to selected Nordic countries, per thousand inhabitants

	Migration rate EU8+2										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Denmark	0.5	0.6	0.6	0.5	0.6	0.9	1.2	1.8	2.7	2.1	2.1
Finland	0.2	0.3	0.3	0.3	0.4	0.5	0.6	0.8	0.9	0.8	n.a.
Iceland	2	2.4	1.6	0.8	1.5	6.6	14.2	22.1	16.1	5.7	6.1
Norway	0.2	0.3	0.4	0.3	0.6	1.1	2.2	4.1	4.4	3.7	5
Sweden	0.2	0.2	0.3	0.3	0.5	0.6	1	1.5	1.5	1.2	1.1
Nordic countries	0.3	0.4	0.4	0.4	0.5	0.8	1.4	2.2	2.3	1.8	2.1

Source: Nordic Statistics.

Table 6.A1.3. Intra-Nordic immigration, 2004-10 (total)

	Sending countries				
	Denmark	Finland	Iceland	Norway	Sweden
Receiving countries					
Denmark		2 288	8 895	17 643	33 791
Finland	2 643		335	3 910	18 108
Iceland	10 080	312		3 224	3 133
Norway	18 183	4 311	2 117		28 556

Source: Nordic Statistics

Table 6.A1.4. Net intra-Nordic migration, 2004-09

	Denmark	Finland	Iceland	Norway
Denmark				
Finland	355			
Iceland	1 185	- 23		
Norway	540	401	-1 107	

Source: Nordic Statistics.

Chapter 7

Labour market impacts of post-accession migration from Poland

by

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The period following Poland's accession to the European Union saw significant changes in the migration patterns of the country's population. There was an unprecedented increase in scale: in just three years the number of Polish citizens staying temporarily abroad rose from 1 million to over 2.3 million, or 6.6% of the total population. Migration dynamics changed as well, including choice of destination and migrants' skills. Theoretically, such a massive supply shock should lead to severe adjustments on the sending labour market. Available empirical evidence, however, indicates that there were no significant effects in either the short term (employment/unemployment) or the medium term (wages). This chapter argues that the labour market situation in Poland was only moderately affected by the recent outflow. Nevertheless, serious long-term impacts may be in store, particularly in terms of demographic structures and regional allocation of labour on the domestic market.

Introduction

Poland is a country with a tradition of outward mobility that began over a century ago. However, while its previous waves of migration elsewhere were indeed massive, Poland's accession into the European Union can still be seen as a turning point. Already in the early post-accession years there was a spectacular increase in scale and dynamics of the international mobility of Poles; the only possible comparison in the region would be the migration of Romanian citizens. In 2007 the stock of Polish citizens staying temporarily abroad was estimated at around 2.3 million or 6.6% of the total population – sufficient to raise the question of socioeconomic impacts of mobility.

The issue most frequently discussed is the effect of post-accession migration on the Polish labour market. The main message of this chapter is that the contemporary labour market situation in Poland was only moderately affected by the outflow of Polish citizens. Developments instead suggest that labour market performance and the underlying dynamics are determined mainly by business cycle-related factors. Nonetheless, the recent migration of Poles may have serious long-term impacts, particularly if we consider demographics and the local/regional distribution of labour.

The chapter is structured as follows. Section 7.1 provides a general statistical picture of the post-accession outflow from Poland, with an emphasis on selected structural features. Section 7.2 looks at expected labour market impacts of migration for the short, medium and long terms. Section 7.3 concludes.

7.1. Post-accession migration from Poland: scale and structural features

It is commonly acknowledged that assessing the scale and structure of international mobility is an extremely difficult task. This is especially so if the analysis focuses on migration under the free mobility regime introduced in 2004.[1] With Poland, as with other Central and Eastern European countries, the main problem with official data is that a significant number of persons who have become emigrants and have *de facto* ceased to live in Poland continue to be counted as permanent residents in the population register. Consequently, official population estimates are seriously biased as they do not take into account this large group of *de facto* migrants who are still included in the registers. Register data are therefore rarely used in migration studies.[2]

In order to overcome the difficulties of assessing temporary migration, Polish researchers as well as the Polish Central Statistical Office (CSO) use all other available data to estimate the scale, dynamics and structure of Polish migration. Table 7.1 summarises estimates provided by the CSO, commonly described as the most reliable source of data on recent Polish migration.[3]

Table 7.1's data documents the spectacular development of migration in the early post-accession period. Between 2004 and the end of 2007, the number of temporary Polish migrants increased by almost 1.5 million and reached, as stated in the Introduction, 2.3 million (6.6% of the total population). Post-accession migrants were mainly choosing other EU countries: the share of those staying in the EU24 equalled 80%, compared to 57% in 2002. However, there was an important shift in destinations within the European Union. Germany – the primary target country in the pre-accession period – lost its top position and hosted less than 25% of Polish migrants in 2008.

Table 7.1. Polish citizens staying abroad for longer than two months (three months from 2007 onwards)

	2002 (May) – Census	2004*	2005*	2006*	2007*	2008*	2009*	2010*
				In thousands				
Total including:	**786**	**1 000**	**1 450**	**1 950**	**2 270**	**2 210**	**1 870**	**1 990**
EU27	451	750	1 170	1 550	1 860	1 820	1 570	1 615
Austria	11	15	25	34	39	40	38	32
Belgium	14	13	21	28	31	33	34	45
Denmark	.	.	.	.	17	19	20	19
France	21	30	30	49	55	56	47	55
Germany	294	385	430	450	490	490	415	455
Ireland	2	15	76	120	200	180	140	125
Italy	39	59	70	85	87	88	85	92
Netherlands	10	23	43	55	98	108	84	108
Norway	.	.	.	.	36	38	45	46
Spain	14	26	37	44	80	83	84	50
Sweden	6	11	17	25	27	29	31	37
United Kingdom	24	150	340	580	690	650	555	560
				*Percentage change in relation to the previous year***				
Total	**.**	**.**	**45.0**	**34.5**	**16.4**	**-2.6**	**-15.4**	**6.2**
EU27	.	.	56.0	32.5	20	-2.2	-13.7	2.9
Austria	.	.	66.7	36.0	14.7	2.6	-5.0	-15.8
Belgium	.	.	61.5	33.3	10.7	6.5	3.0	32.4
Denmark	-	-	-	-	-	11.8	5.3	-5.0
France	.	.	0.0	63.3	12.2	1.8	-16.1	17.0
Germany	.	.	11.7	4.7	8.9	0.0	-15.3	9.6
Ireland	.	.	406.7	57.9	66.7	-10.0	-22.2	-10.7
Italy	.	.	18.6	21.4	2.4	1.1	-3.4	8.2
Netherlands	.	.	87.0	27.9	78.2	10.2	-22.2	28.6
Norway	.	.	.	.	.	5.6	18.4	2.2
Spain	.	.	42.3	18.9	81.8	3.8	1.2	-40.5
Sweden	.	.	54.5	47.1	8.0	7.4	6.9	19.4
United Kingdom	.	.	126.7	70.6	19.0	-5.8	-14.6	0.9

Note:

* As for the end of a given year. ** 2002-04 changes not reported due to lack of full data comparability.

Source: CSO – Central Statistical Office (2011), "Informacja o rozmiarach i kierunkach emigracji z Polski w latach 2004-2010" (Information on the scale and directions of emigration from Poland in 2004-2010), Warsaw.

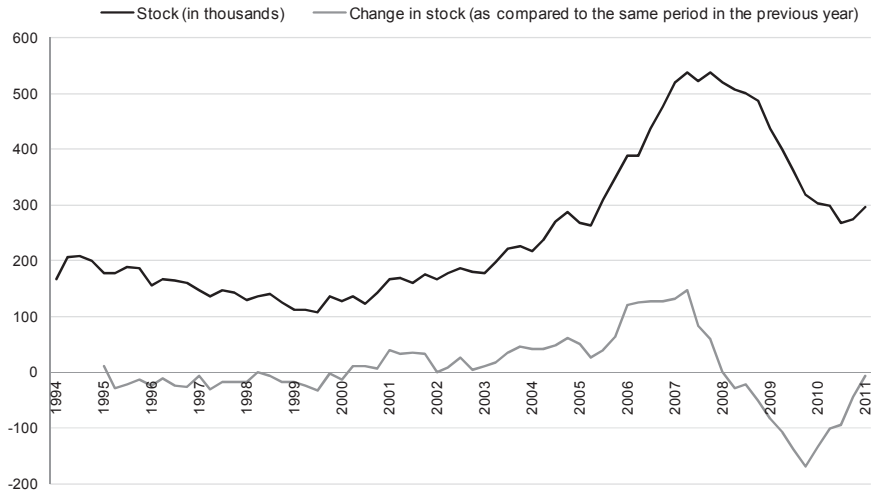
On the other hand, both English-speaking countries experienced a spectacular inflow from Poland: the stock of migrants staying in the United Kingdom rose from 24 000 in 2002 to almost 700 000 in 2008; in the case of Ireland the increase was even higher – from 2 000 to 200 000. Available evidence suggests that these shifts among the top destination countries are not necessarily a consequence of Polish mobility between EU member states. Thus the "diversion effect" related to selective opening of the EU labour markets and introduction of transitional arrangements – a factor argued by Brücker *et al.* (2009) – is highly questionable. The high ranking of the United Kingdom seems rather to be an outcome of recent outflow; there are still a great number of people choosing Germany as a destination.[4] Moreover, recent migration from Poland should not be understood in terms of concentration (*i.e.* in English-speaking countries), but rather as "spilling over" (Kaczmarczyk and Okólski, 2008).

The estimates for 2008-10 are to be interpreted with caution, mainly because the basis for all calculations was Census data obtained in 2002. Thus, figures for the second half of the period under analysis can be seriously biased. On the other hand, the most recent estimate (for the end of 2010) uses the first outcomes of the 2011 Census already. That makes the figures highly reliable but also casts doubt on any kind of trend analysis. According to the data presented, since 2008 there has been a gradual decrease in the scale of migration that can be attributed to the economic downturn in the majority of migrants' destinations. A slight decline in the number of persons staying abroad was already observed in 2008 (2.6%). However, in 2009 the decline amounted to over 15% and the stock of temporary migrants was estimated at 1.87 million (around 5% of the total population of Poland). The largest scale of decline was noted in the case of Ireland, the Netherlands (in 2009) and Spain (in 2010) – *i.e.* in countries most seriously hit by the economic crisis.

However, the most recent estimate suggests an increase in the scale of migration (around 120 000, *i.e.* a 6.2% increase over the previous year, mostly in non-European countries). This outcome poses serious methodological challenges. First, the data provided do not include detailed information on non-EU destinations and it remains unclear why Polish migrants are targeting non-European countries. Second, other Polish data (Figure 7.1) and data from the main destination countries do not document a new wave of migration from Poland. Rather, in a few cases (the United Kingdom and the Netherlands) the stock of Polish migrants remains relatively stable. This may suggest that problem lies in underestimation of previous stocks.[5]

Figure 7.1. Stock of Polish temporary migrants and change in stock as compared to the same period one year before, all destinations, 1994-2011

Quarterly data



Source: Author's calculation based on data from the Polish Labour Force Survey.

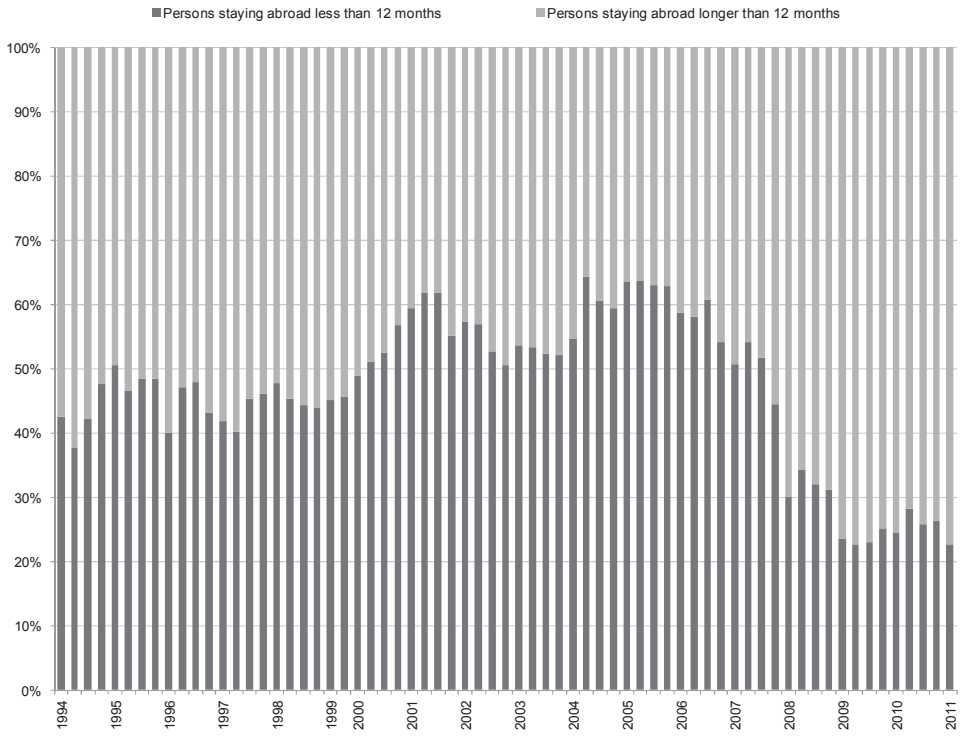
Generally, the available data reveal that seven years after the EU enlargement, the number of Polish citizens staying abroad temporarily remains relatively high (particularly as compared to other countries of the region), but there is no further increase. That may suggest that Polish migration entered a new "mature" phase. The same holds for

structural features of migration. In the context of labour market impacts, it is important to note the following:

- One specific feature of recent migration from Poland is the predominance of labour mobility. According to data from the Polish Labour Force Survey and other sources (*i.e.* dedicated surveys), the overwhelming majority of Polish migrants (over 90%) take up employment while staying abroad. Evidence is still lacking regarding the behaviour of Polish labour migrants on the labour market of receiving countries struggling with the economic downturn (*i.e.* change in status, reunification of families, welfare tourism).
- In the transition period, Polish migration was dominated by temporary or circular mobility (back and forth migration movements). This shift (not observed in previous decades) can be linked to both changes in migration policy (*e.g.* the introduction of visa-free regimes) and changes in cost/benefit ratios. The pattern, however, started to change in 2007 and this tendency strengthened in the years following (Figure 7.2). Available data suggest that population of Polish migrants staying abroad becomes more and more diversified with an increasing share of settlement migrants (particularly in the United Kingdom).

Figure 7.2. Short- and long-term migrants from Poland according to the Polish Labour Force Survey, 1994-2011

Quarterly data in percentage



Source: Author's calculation based on data from the Polish Labour Force Survey.

- Post-accession migrants are much younger than previous cohorts. According to data from the labour force survey, the median age of all post-accession migrants was 28 (while during the pre-accession period it was 30). Additionally, significant differences were identified regarding destination countries – the median age of those choosing the United Kingdom or Ireland was 6-7 years lower than in the case of those staying in Germany (Kaczmarczyk *et al*., 2011).
- In the brain-drain debate, the skill structure of migrants is of the utmost importance. As shown by the data from the labour force survey, recent Polish migrants are relatively well-educated: almost 20% have a university degree (as compared to 15% in the pre-accession period) – see Table 7.2. The most numerous group constitute migrants with vocational education but there is a clear overrepresentation of persons with tertiary education (Brücker, 2009) (see also Figure 7.6).
- Traditionally, Polish migrants came from many different geographical areas of the country, with the most numerous flows observed from regions with the longest tradition of international migration and strongest migrant networks (voivodships Opolskie, Małopolskie and Podlaskie). This situation changed after 2004. Recent Polish migration is definitely less broadly sourced than before [see MSI (Migration Selectivity Indices) for particular regions in Table 7.3]. The regions sending the most migrants in the post-accession phase are for the most part economically underdeveloped areas with relatively large shares of natural resources and agriculture (Kaczmarczyk *et al*., 2009; Kaczmarczyk and Okólski, 2008).

Table 7.2. The education structure of Polish pre- and post-accession migrants, by gender

Percentage

Level of education	Pre-accession			Post-accession		
	Total	Men	Women	Total	Men	Women
University degree*	14.7	12.0	18.3	19.8	15.6	27.0
Secondary	14.0	7.1	23.1	14.2	8.8	23.8
Secondary vocational	26.1	26.0	26.3	28.1	29.8	25.1
Vocational	34.8	45.4	20.9	30.9	39.2	16.2
Primary school	9.9	9.3	10.9	7.0	6.6	7.8
Unfinished primary school	0.4	0.2	0.5	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

1. Including bachelor's, master's and Ph.D. degrees.

Source: Fihel, A. and P. Kaczmarczyk (2009), "Migration: A Threat or a Chance? Recent Migration of Poles and Its Impact on the Polish Labour Market", in K. Burrell (ed.), *Polish Migration to the UK in the "New" European Union: After 2004*, Ashgate, London.

Table 7.3 presents selectivity ratios with regard to particular characteristics of pre- and post-accession migrants from Poland.

Table 7.3. Structural features of the pre- and post-accession migration

Migration Selectivity Indices (MSI)

Variable	Category	MSI in the pre-accession period	MSI in the post-accession period
Region of origin	Opolskie	1.63	0.22
	Podkarpackie	1.69	1.48
	Podlaskie	1.61	0.87
Educational attainment	Tertiary	0.02	0.42
	Vocational	0.34	0.30
Age	Mobile (20-40)	0.97	1.21
Gender	Male	0.20	0.35
Type of settlement	Cities over 100 000	-0.30	-0.22
	Cities under 100 000	0.09	0.20
	Rural areas	0.15	0.08

Note: Migration Selectivity Indices (MSI) are calculated on the basis of the LFS data and compare fractions of the number of persons with given characteristics in the migrant population and total sending population. Selectivity of outflow takes place if the index assumes a non-zero value for any category (value) of a given variable. Positive values of MSI mean that migrants falling into a specific category (variable) of a given variable are relatively more numerous than people in the general population with the same characteristic; negative values mean the opposite. The higher the positive value or lower the negative value of MSI, the stronger the selectivity – MSI equal to 1 indicates twice as high a share of migrants with a given characteristic compared to the sending population (Kaczmarczyk *et al.*, 2009).

Source: Author's calculation based on Anacka, M. and M. Okólski (2010), "Direct Demographic Consequences of Post-accession Migration for Poland", in R. Black, G. Engbersen, M. Okolski and C. Pantiru (eds.), *A Continent Moving West? EU Enlargement and Labour Migration within the EU*, Amsterdam University Press, Amsterdam; and on Mioduszewska, M. (2008), "Najnowsze migracje z Polski w świetle danych Badania Aktywności Ekonomicznej Ludności" (Recent migration from Poland according to the Polish LFS data), CMR Working Paper No. 36/94.

7.2. Labour market impacts

The links between the labour market and migration are among the most important issues in the migration and development debate, engaging both theoretical and empirically oriented economists. However, the focus of most of the studies available has been on the well-developed receiving countries. Numerous theoretical approaches and empirical studies have dealt with the position and performance of immigrants on receiving labour markets and looked at their impacts on the labour-importing markets (Borjas *et al.*, 1997; Borjas, 2003; Card, 1990 and 2001; Friedberg and Hunt, 1995; Kahanec and Zimmermann, 2008; Zimmermann, 1998). Studies assessing impacts of migration on sending countries' labour markets are far more limited in number, and especially lacking in the case of the Central and Eastern European countries. The following sections attempt to assess multiple impacts of recent migration on the Polish labour market.

According to migration theory, a massive outflow of the labour force should result in sets of effects linked to particular time frames (Borjas, 2004; IOM, 2005; Kaczmarczyk *et al.*, 2009, Janicka and Kowalska, 2010):

- In the short term the main effects are related to change in the supply of labour, and thus refer in particular to changes in employment, unemployment and (eventually) in the number of those who are out of the labour force.

- In the medium term adjustments to market equilibrium may take place and these may result *inter alia* in pressure on wages. Structural features of the outflow, such as brain drain, play a role.
- In the long term another set of adjustments is possible, including changes in the structure of the economy (capital/labour ratio, demand-side modifications), in the occupational and social mobility of indigenous workers, and in immigration of foreign labour.

The remaining part of this section addresses these predicted effects in the context of post-accession Poland. The main methodological problem lies in distinguishing impacts specifically resulting from the international mobility of Polish citizens.

Table 7.4. Selected macroeconomic indicators for Poland, 2001-11

Measure	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.9	4.3
GDP per capita in purchasing power standards (PPS) (EU27 = 100)	48	48	49	51	51	52	54	56	61	62	..
Employment rate (15-64)	53.4	51.5	51.2	51.7	52.8	54.5	57	59.2	59.3	59.3	..
Unemployment rate (LFS)	18.5	19.7	19.3	18	16.7	12.2	8.5	6.7	8.2	9.6	9.6

..: Data not available.

Source: Author's calculation based on Eurostat data.

Table 7.4 shows that the post-accession years can be divided into two periods. The first (2004-08) was marked by high growth rates; a closing of the income gap as compared to the rest of the European Union; and gradual improvement of the labour market situation (the major achievement being a spectacular decline in unemployment). In the second (2009-11), the labour market suffered the impacts of the global economic crisis. Even if Poland managed to survive the first phase of the crisis in relatively good economic shape (very high GDP growth rates as compared to most EU member states), the registered unemployment rate still eventually rose to almost 10%. The main aim of the next sections is to question the role of migration in the labour market developments.

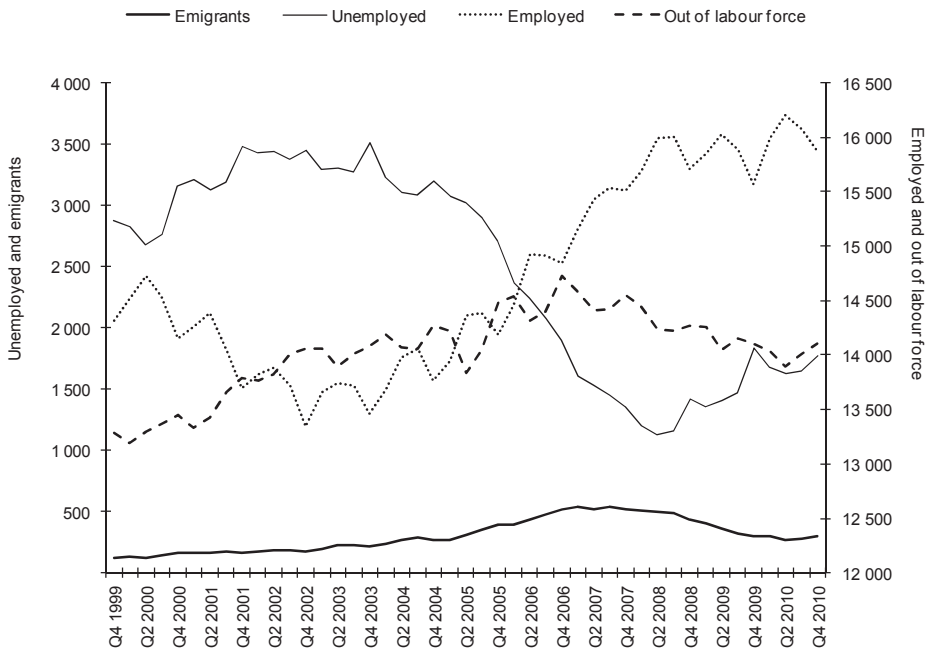
Short-term impacts

As with other transition economies, one of the most important economic issues facing Poland was a serious oversupply of labour. As a result, during most of the pre-accession period the unemployment rate was very high, reaching nearly 20%. In addition, the Polish labour market used to be described in terms of low participation and employment rates, structural mismatches and a large share of long-term unemployment (Kaczmarczyk *et al.*, 2009).

The situation was already beginning to improve prior to EU enlargement as the Polish economy grew (annual GDP growth in 2003 and 2004 was respectively 3.9% and 5.3%). In 2004 the number of unemployed gradually began to decrease: from 3.2 million in early 2004 to 1.2 million in late 2008 according to LFS data. (The unemployment rate decreased from 19.1% to 7.1%.) As shown in Figure 7.3 this change was accompanied by a significant increase in the scale of migration: the stock of migrants (according to the LFS data) rose from 218 000 to around 500 000.

Figure 7.3. Migration and the labour force in Poland, 2000-11

Quarterly data

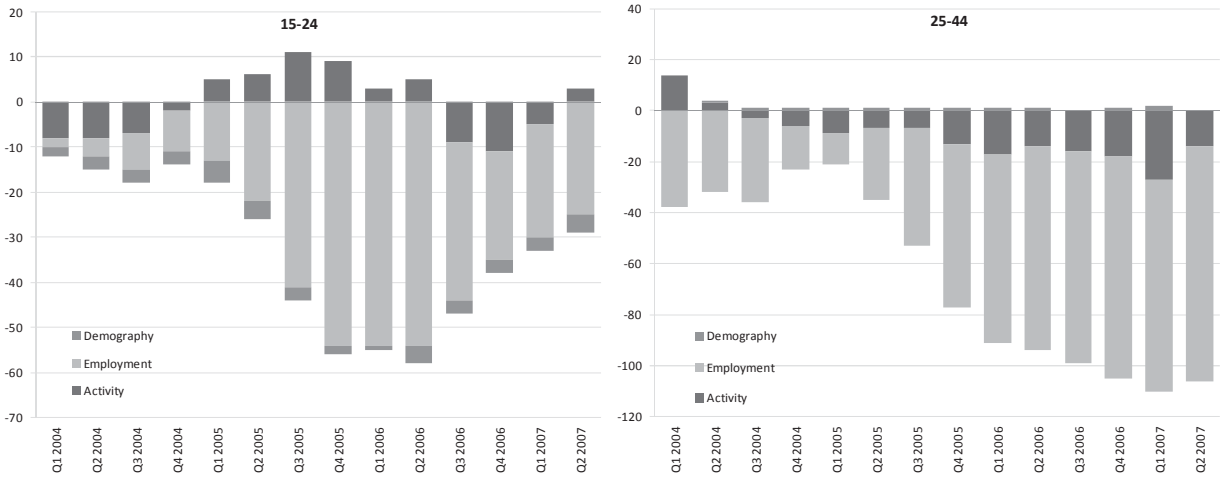


Source: Author's own calculation based on data from the Polish Labour Force Survey.

Cursory analysis could suggest that the decline in unemployment might be an outcome of spectacular post-accession migration. In fact, the Pearson correlation coefficient for the period from the second quarter of 2004 to the fourth quarter of 2007 equals -0.82, which indicates an almost perfectly negative linear relationship between the two time series.[6] This observation alone cannot serve as a proof of the causality between migration and unemployment (or an "unemployment export" hypothesis). First of all, the fall of unemployment observed since 2004 was also strongly correlated with the rise in employment (Pearson correlation coefficient = -0.97): employment rates increased from 44% to 50.1% between the second quarter of 2004 and the second quarter of 2008. Secondly, the general trends in the labour market continued even once emigration rates had stabilised, *i.e.* in 2007 and 2008. This indicates that post-accession emigration could not have been the primary cause of the changes in the labour market; these resulted mainly from structural and business cycle changes in the whole economy. Thirdly, the LFS data show that the stock of migrants rose by approximately 300 000 whereas unemployment fell by 2 million. That suggests that even if emigration would have a direct impact on the level of unemployment, only a small proportion of changes in the latter variable could be attributed to the former (see also Kaczmarczyk *et al.*, 2009).

The Polish labour market situation was topic of an analysis presented by Bukowski *et al.* (2008), who investigated the impact of three factors on unemployment: demographic structure, changes in economic activity, and changes in employment. As clearly shown in Figure 7.4 changes in the level of unemployment of people in a mobile age should be attributed primarily to a rise (or decline) in the level of employment.

Figure 7.4. Impact of demographic factors, changes in economic activity and employment on unemployment, 2004-07[1]



1. The sign is positive for components that increase the level of unemployment and negative otherwise.

Source: Bukowski, M., G. Koloch and P. Lewandowski (2008), "Labour Market Macrostructure in NMS8 – Shocks and Institutions", in M. Bukowski (ed.), *Employment in Poland 2007 – Safety on the Flexible Labour Market*, MPiPS, Warsaw.

In the pre-accession period the increase in unemployment was primarily a consequence of the number of (*i.e.* lack of) job places available. Other effects exerted moderate influence and acted in the opposite direction: the inflow of new cohorts of workers was more or less compensated by decreasing participation rates (particularly in the case of older age groups). Figure 7.4 reveals that in the post-accession period the most important factor influencing unemployment (in a negative way) remains employment. The effects of both remaining factors were marginal; however, an impact of changes in economic activity was noted that could be attributed to migration. That is to say, the decrease in participation rates observed in 2005 and 2006 that led – together with the sound process of job creation – to the significant decline in unemployment was to some extent brought on by the outflow abroad. A good number of migrants, even if still registered as permanent citizens of Poland, do not show up in Polish statistics either as unemployed or as economically active, and therefore impact the unemployment rate. This tendency is especially evident in the case of persons in the younger age brackets. Over the years 2003-06 the number of unemployed persons in the age group 15-24 decreased by over 260 000. Of this number, more than 110 000 can be accounted for by changes in employment, and the rest mainly to changes in participation patterns. The latter factor can be linked with two processes: a growing tendency to obtain tertiary education, and massive post-accession outflow (Kaczmarczyk *et al.*, 2009).

The outcomes of Bukowski *et al.* (2008) are supported by a study carried out by Lo Turco and Parteka (2008), who analysed the link between labour markets in the new member states and trade with EU partners. Their findings show that in the case of tradable sectors, domestic employment was positively affected by employment in trade-partner states. That would mean that the correlation between labour emigration from Poland and a decline in unemployment there are both a result of the same factor – the business cycle in an enlarged European Union. When demand for labour declined in the European Union towards the end of 2008 due to cyclical factors and the financial crisis, both emigration and employment in Poland were affected.

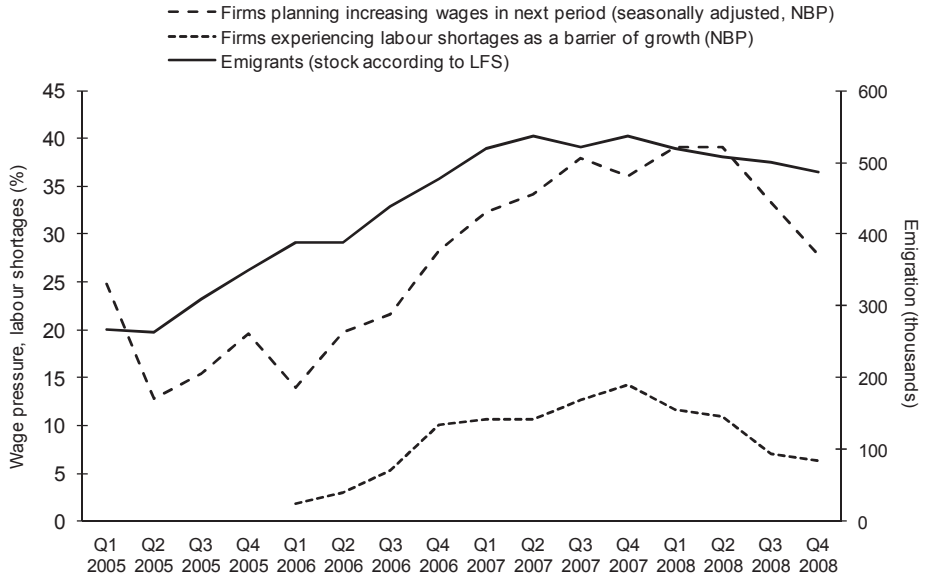
The impact of migration on the labour market was addressed by Budnik (2007). She applied the steady-state solution in order to compare migration scenario *versus* counterfactual scenarios and to evaluate the effect on the Polish labour market. Outcomes of her study – referring to the phase of most numerous outflows – revealed that even if post-accession migration from Poland was really massive, it had only a moderate impact on the estimated steady-state shares of people with different labour market statuses. For the period 2004-05 the bias in unemployment rate due to migration (difference between unemployment rates estimated for migration and non-migration scenarios) was negligible, estimated around a 0.4 percentage point. However, the study clearly stressed that migration can have far more severe effects in particular regional and local labour markets. Budnik (2007) also analysed gross flows on the Polish labour market (flows between labour market states) in consecutive quarters over the period 2000-06. The novelty of her approach lay in the introduction of migration as a new labour market state (similar to employment, unemployment and non-participation). The study showed that mobility on the Polish labour market is generally very low: in all cases the probability of changing status was lower than 5% (in case of employed and non-active, lower than 3%). Analysis of transition probabilities revealed, however, that they were higher in the post-accession period than in the first half of the 2000s. This referred also to migration: transition probability from a home labour market to a foreign labour market was around 0.1% in the pre-accession period and 0.3% post-accession. At the same time, transition probability from unemployment to migration equalled 0.5% as compared to 0.1% in the case of transition from employment to migration; that may support, at least to some extent, the export of unemployment hypothesis. In the case of returnees (or persons with migration experience), their chances on the domestic labour market were better than the chances for those non-active, but worse than for those unemployed (Kaczmarczyk and Okólski, 2008).

A last issue, *i.e.* the question of labour market performance of returnees, is one of the most critical components of the overall assessment of migration impacts. According to a study completed by the National Bank of Poland (Gumuła *et al.,* 2011) around 7% of Polish companies did employ persons with migration experience, but the total share of returnees among those who newly accessed the labour market was smaller than 2% (1.2% in late 2010). Additionally, there is no sound evidence on the transition from migration towards self-employment in Poland. Evidence from other countries suggests that this is the main channel enabling the return of migrants on the domestic labour market. This hypothesis seems especially valid in the Polish case, especially when considering the structural characteristics of migrating persons and conditions on local and regional labour markets in Poland. Unfortunately, there is no in-depth analysis on this issue available so far.

Medium-term impacts

The most important labour market equilibrium adjustment due to a massive outflow (and so decline in supply) of the labour force should theoretically be wage pressure. Most of empirical evidence available confirms the theory (Mishra, 2007; Hanson, 2005; Aydemir and Borjas, 2006). The transition period in Poland saw a dramatically difficult situation on the labour market, one marked by severe unemployment. Thus vacancy rates were extremely low for most of that period. Then from 2005 until late 2007 the vacancy rate and (particularly) the share of firms reporting problems finding employees increased rapidly. The number of companies experiencing labour shortages as a barrier to growth varied from practically none prior to 2005 to 14.2% in the third quarter of 2007, and then fell again to around 6% in 2008. The sectors most seriously hit included construction (with 35% of firms reporting hiring difficulties) and manufacturing (over 15%) (Figure 7.5).

Figure 7.5. Labour shortages, wage pressure (seasonally adjusted) and emigration, 2005-08



NBP: National Bank of Poland.

Source: Kaczmarczyk, P., M. Mioduszewska and A. Zylicz (2009), "Impact of the Post-Accession Migration on the Polish Labor Market", in M. Kahanec and K. Zimmermann (eds.), *EU Labor Markets After Post-Enlargement Migration*, Springer Verlag, Bonn.

Importantly, throughout 2007, labour shortages were declared the most important barrier to growth (NBP, 2008). However, as the business cycle phase changed in 2008, when the Polish economy started slowing down, labour shortages ceased posing a serious problem for most firms. This suggests, again, that labour shortages observed in the post-accession phase were primarily an outcome of a favourable economic situation and not necessarily outward migration.

Labour shortages are one of the most important factors responsible for wage pressure. This was proved by National Bank of Poland data (NBP, 2008) showing that in the post-accession period the fraction of companies planning to increase wages was higher among firms facing labour shortages than among those not reporting the problem. These plans, however, did not initially translate into high increases in actual wage levels on the aggregate level between 2004 and 2006: real wages rose at a moderate rate (2-4% annually). Additionally, reports on the impact of outflow on planned wage changes was very unstable over time. As shown by Gumuła *et al.* (2011) in the most critical phase of post-accession migration (mid-2007), almost 30% of those employed reported that international mobility of Poles was an important factor behind pressure on wages. Over the next years – along with a decrease in scale of migration but also clearly visible signs of economic downturn – this share declined to 1% in 2008 and 2009, and to 0% in 2010 (Janicka and Kowalska, 2010; Gumuła *et al.,* 2011).

Budnik (2008) attempted to address this issue by directly measuring the impact of migration on wage levels (search-and-matching model). A comparison of the actual migration scenario and a counterfactual scenario with migration rates fixed at the 2002 level revealed that the steady-state impact on the wage rate of an increase in worker outflow of around 4.5% (as observed between 2002 and 2006) was moderate and lower

than 1% (in 2006). Similar results were provided by the analysis completed by Kowalska (2011), who estimated the elasticity of wages in Poland with respect to emigration (based on data from the Polish LFS). The aggregate and individual data analyses revealed that 10% of the labour supply shock caused between a 2% and 4% increase in wages (on average, depending on assumptions). Interestingly, the elasticity of wages with respect to international mobility was higher for men than for women, and higher for employees under 30 than for older ones. This observation points again to selectivity issues, such as discussed in Section 7.1.

The impact of large-scale emigration on the supply of labour may be both quantitative and qualitative. Qualitative effects include changes in the composition of the labour force due to the selectivity of migration; this leads to the longstanding and heated debate on the mobility of highly skilled persons and its positive and negative effects (Grubel and Scott, 1966; Bhagwati and Hamada, 1974; Stark *et al.*, 1997; Dumont and Lemaître, 2005).

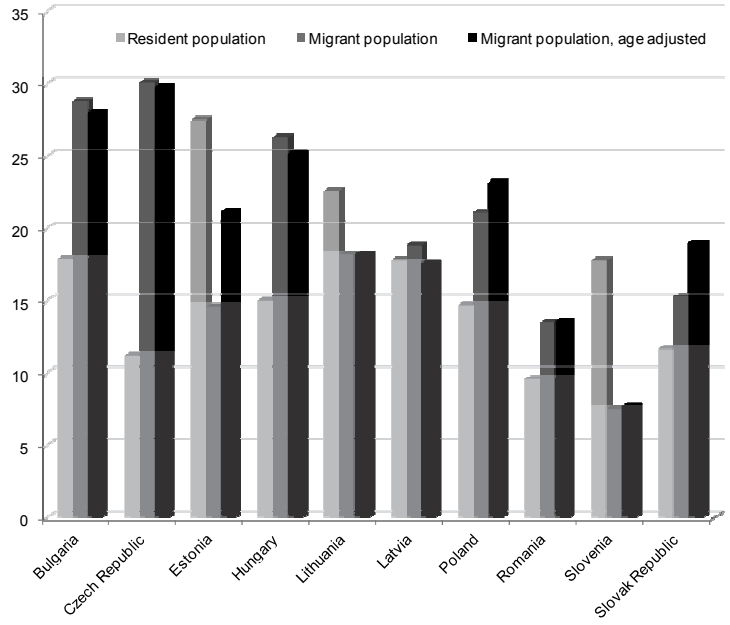
Labour market impacts stemming from the mobility of highly skilled workers can be short term as well as long term. According to Beine *et al.* (2001), a distinction can be made between the static (or *ex post*) effects of outflow – which can be termed a brain-drain effect – and the dynamic (*ex ante*) brain-gain effects related to a possible increase in the investment in education induced by the prospect of migration. Fihel *et al.* (2009) referred to the model proposed by Beine *et al.* (2001) to assess the impacts of post-accession migration from Poland.

Figure 7.6 indicates an overrepresentation in most new member states of well-educated persons. In the case of Poland there was a clear pattern of positive selection of persons who completed tertiary education. The term "brain drain" is thus appropriate; however, the exact impact of this phenomenon remains an open question. With regard to the short- and medium-term effects of the outflow, it is extremely difficult to assess the impact of post-accession migration on the skill mismatches in specific sectors and regions in Poland. The statistical data available suggest that the labour shortages observed in the post-accession period relate mostly to qualified workers but not necessarily those who might be described as highly skilled. In fact, the main sectors suffering shortages of labour included construction and manufacturing (Kaczmarczyk *et al.*, 2009). It is hardly possible that these posts could be filled by well-educated migrants choosing EU labour markets (even if they were ready to take these kinds of jobs while staying abroad). Additionally, due to the general situation of the Polish labour market (oversupply of labour), post-accession migration should be assessed in terms of "brain overflow"[7] rather than "brain drain".

In methodological terms, analysis of the "brain effect" is even more challenging. The structure of educational attainment of Poland is still changing, but the empirical evidence available shows that this process is caused by a set of non-migratory factors (*e.g.* social change, growing interest in obtaining higher education, structural change within the system and introduction of the new educational model following the Bologna process. It is impossible to extract any post-accession brain effects. What is of far greater importance is the performance of Polish migrants abroad. One of the key assumptions of the model proposed by Beine *et al.* (2001) is that the rate of return to education should be higher abroad than in the country of origin (which is supposed to induce more people to invest in their education in order to engage in gainful international migration). However, recent studies (Drinkwater *et al.*, 2006; Fihel *et al.,* 2009) suggest that Polish migrants abroad are employed in positions far below their skills (severe over-education). Moreover, as shown by Olszewska (2011), the rate of return to education in the case of Polish well-

educated migrants choosing the United Kingdom as their destination was lower abroad than on the domestic labour market. This signifies that the outflow of skilled workers from Poland has the characteristics of a "brain waste", which undermines the theoretical rationale for increased human capital formation.

Figure 7.6. Share of persons with tertiary education in migrant and resident populations in the new member states



Source: Fihel, A., P. Kaczmarczyk, N. Wolfeil and A. Żylicz (2009), "Brain Drain, Brain Gain and Brain Waste", in H. Brücker (ed.), *Labour Mobility within the EU in the Context of Enlargement and the Functioning of the Transitional Arrangements*, IAB, Nuremberg.

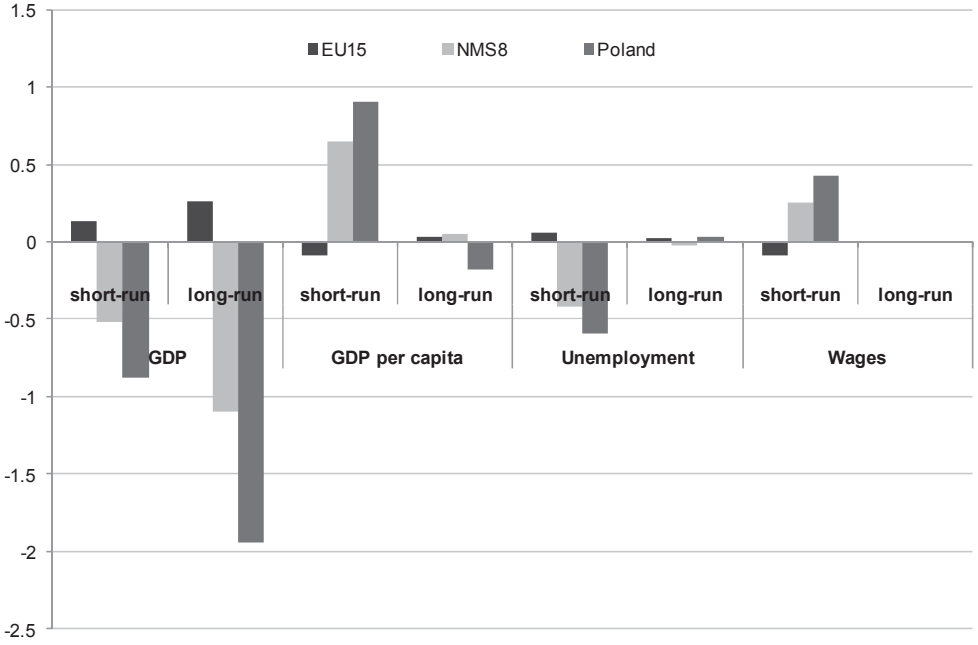
Generally, post-accession migration from Poland is characterised by a selective mobility of the well-educated – *i.e.,* by a brain drain. However, the positive selection of well-educated emigrants is mostly due to demographic developments arising from changes in the age structure of the sending population and changes with regard to educational attainment. These issues will be taken up in the next section.

Long-term impacts

Neoclassical economic theory suggests that in the long run, migration is neutral to labour market, *i.e.* changes in the supply of workers should be internalised by means of structural changes on the labour market and adjustment in the capital/labour ratio. This thesis is explored by Brücker *et al.* (2009), who looked at macroeconomic impacts of post-accession migration from the new member states (Figure 7.7).

Figure 7.7. Macroeconomic impacts of post-accession migration from new member states (NMS), sending and receiving countries

Percentages, as compared to the counterfactual scenario assuming migration at the pre-accession level



Source: Author's calculation based on Brücker, H. (ed.) (2009), *Labour Mobility within the EU in the Context of Enlargement and the Functioning of the Transitional Arrangements,* IAB, Nuremberg.

Brücker *et al.* (2009) argued that 1) post-accession migration brought major benefits for the receiving countries (particularly the United Kingdom) and reduced the growth potential in sending areas; 2) impacts on wages and unemployment were moderate and rather positive in short/medium term; and 3) most of labour market effects were negligible in the long run. This kind of approach does not take into account those effects related to demographic aspects of migration or possible structural changes on the domestic labour market. In the case of post-accession migration of Poles, these effects may be more significant than short- and medium-term adjustment in wages and employment/unemployment.

The importance of the demographic dimension of recent migration from Poland should be recognised, in terms of both numbers and structural features. According to available estimates (Okólski and Mioduszewska, 2008; Grabowska-Lusinska and Żylicz, 2008) the number of migrants staying temporarily abroad increased by over 1 million between 1 May 2004 and early 2007 (*i.e.* in the most important phase of post-accession outflow). After considering settlement mobility the total net loss of population in this period was around 1.1 million (*i.e.* 2.8% of the total population). In the case of working-age persons this loss was significantly higher, amounting to 4% of the total population at that age (slightly over 1 million migrants) (Kaczmarczyk and Okólski, 2008). This number suggests that we should not expect significant impacts of migration at the country level. However, more in-depth analysis reveals severe challenges with respect to certain groups and, particularly, the spatial dimension.

First, the demographic loss was more significant in the case of males than females (4.4% *vs*. 2.2%). Second, the highest outflows were of persons aged 25-29 (9.3%) and 20-24 (8.8%) as compared to an overall 3.3% of the total population. Third, net losses were similar for persons who completed tertiary, post-secondary or secondary and vocational education (in all cases around 4%). Significant differences were noted, however, when analysing education and gender jointly – for males the largest loses were of persons with completed secondary and vocational education (5.8% and 5.4%, respectively), while for females the largest loss was noted among those with tertiary education (3.3%). Fourth, even if urban and rural areas displayed similar patterns, major differences were noted when it came to the most mobile age groups. For those 25-29 years old – the age group most strongly affected by the population outflow – the loss in the rural population was as high as 9.5%; in the case of medium-sized and small towns it amounted to 10%, and for large towns it came to 8.2%. Last but not least, the demographic impacts of migration were significantly different when considering region of origin. For the total population the loss varied from 1.8% (Mazowieckie voivodship and particularly the Warsaw area) to over 7% (Podkarpackie voivodship, marked by the highest propensity to migrate in the post-accession period). These differences were even more striking when we account for type of settlement and age group: in the case of younger age brackets and rural areas in the south-eastern part of Poland, losses were commonly close to 25-30%[8] (Kaczmarczyk and Okólski, 2008).

The data presented above are highly relevant if we attempt to understand the origins of the recent migration of Poles. Available evidence (including correlation between migration rates and such variables as level of economic development, structure of the local economy, activity patterns of inhabitants, etc.) suggests that migration was more intensive in regions with a relatively higher share of the population living in rural areas and in those with younger populations (particularly in the post-accession period). In fact, one of the most important post-accession migrant groups comprised young, well-educated persons departing from relatively backward regions with weak labour markets and (at least remnants of) a semi-subsistence economy. Such people can easily be termed economically "redundant"; their outflow should be described in terms of overflow rather than drainage (Kaczmarczyk and Okólski, 2008).

This observation is highly relevant when we look at the long-term impacts of recent migration. As pointed out by Layard *et al.* (1992) one of the preconditions for development in post-war Europe was massive outflow of surplus labour. This kind of phenomenon happened *inter alia* in the case of Italy and Spain, creating a stimulus for improvement in the efficiency of their labour markets. Because of political conditions, *i.e.* policies prohibiting massive migration, this kind of process never happened in Poland.[9] As a consequence, during the transition period the Polish labour market was characterised by an enormous surplus of labour. Furthermore, structural and spatial distribution of the labour force did not match labour market needs: relatively large shares of the population were "trapped" in rural areas in subsistence sectors. Accession to the European Union and post-accession mass migration facilitated – for the very first time in contemporary history – the outflow of the "economically redundant" population originating from economically backward regions. Kaczmarczyk and Okólski (2008) argue that even if post-accession flows have only had a moderate impact on sending economies in the short run (including unemployment, economic activity and wages), this kind of labour market "pre-emption" or "crowding out effect" can significantly improve development potential in the long term. Recent migration can bring about significant changes in the labour market structure and institutional setup. While countering the

oversupply of labour, it makes all reforms of the labour market easier (or even generally feasible). In this context return migration – so welcomed by many policy makers in Poland and other new member states – may seriously limit that development potential (at least if it happens "too early", *i.e.* before completion of labour market reforms).

The economic downturn of the late 2000s created great uncertainty and thus changed the momentum of new migration from Poland. Analysis of migration data shows that post-accession migration has entered a new, more mature phase. Its most distinct feature is the visible division of migrants' strategies: whereas a relatively large group of post-accession migrants have already returned to their countries of origin, others have taken serious steps to settle abroad. Additionally, post-accession flows have influenced the situation on domestic labour markets and in a few cases seriously strengthened the demand for foreign workers (Kaczmarczyk *et al.*, 2009). The process was amplified by demographic changes (extremely low birth rates, an ageing population). As suggested by economic theory, one of the effects of the outflow may be an adjustment in the demand for labour in the longer term, so that labour supply gaps could be filled with a foreign labour force. This phenomenon was analysed by Grabowska-Lusińska and Żylicz (2008), who looked at the demand for foreign labour in the context of intensive labour shortages as experienced by Polish companies in 2006-07. Their findings did not support the thesis that Poland has already begun to transform itself into a net immigration country: the share of companies employing foreign workers was marginal (less than 1% of all registered firms), and potential demand (declared willingness to employ foreign workers) was only slightly higher (3.3%). So far, the majority of companies employing foreigners were turning to recruitment abroad because of specific labour shortages – *i.e.* the main cause was the fact that immigrants held specific qualifications not available in the Polish labour market (around 40%). However, declarations concerning future plans clearly suggest that Polish employers are aware of potential labour shortages in the future and are ready to engage in active recruitment abroad, with foreigners expected to fill the gaps in the indigenous labour force. Thus, in the long term one of the effects of post-accession migration and related demographic and labour market changes might be an increase in the scale of immigration and a rising participation of foreigners in the Polish labour market (Kaczmarczyk *et al.*, 2009). This tendency was already evident in 2008. Particularly important is the inflow of seasonal workers from neighbouring post-Soviet countries (mainly from Ukraine), who may be admitted via a so-called simplified procedure. The number of visas issued on the basis of employers' declarations of intention to employ foreigners within this legal framework increased from 22 000 in 2007 to almost 190 000 in 2009. Most of the seasonal workers found employment in agriculture, construction and household services – what are typically labelled "immigrant" sectors (Kaczmarczyk *et al.*, 2009).

7.3. Conclusions

The EU enlargement completed in May 2004 opened a new chapter in the contemporary history of Poland and its migration. The "new" migration proved spectacular in both scale and dynamics (particularly until 2007). It was also significantly different from previous waves as regards structural features of the outflow. Migration from Poland became domain of young and relatively well-educated persons coming mostly from relatively backward regions of the country. Much recent mobility from Poland can be explained in terms of labour market imperfections or mismatches that create serious challenges, particularly for those attempting to start their professional

careers. Experience of the post-2004 period revealed that the structural composition of migration and selectivity of the outflow to large extent determine migration's impacts.

The analysis presented above attempted to show that the short- and medium-term impacts of migration (*i.e.* those referring to immediate labour market adjustments with respect to employment/unemployment and level of wages) were not very pronounced. In fact, the overall effect of the relatively massive supply shock on the macro scale was moderate if not negligible. This was due *inter alia* to general economic conditions but also to structural features of the labour force (including its demographic composition). The same refers to the selective outflow of highly skilled Poles, which is to be interpreted in terms of brain overflow rather than drainage.

The main aim of the previous section was to emphasise the importance of long-term impacts of migration. This appears particularly challenging because the issues under analysis refer to relatively new, dynamic and still ongoing process. Nevertheless, based on preliminary findings and observations, it was possible to stress the potential of post-accession migration as a factor for changing the structural and institutional setting of the labour market, as well as leading to the gradual transformation of Poland into a net immigration area.

Notes

1. It is important to note that the full opening of the EU labour market was completed only in 2011, when Austria and Germany relaxed transitory arrangements regarding access to their labour markets. In fact, in May 2004 only three countries – Ireland, Sweden and the United Kingdom – opened their labour markets to newcomers from the EU10 countries – but even in these cases, transitory arrangements were introduced regarding access to social benefits.

2. For this reason, Polish migration statistics use a category of "temporary migrants", comprising permanent residents of Poland who have stayed in a foreign country for longer than three months. The estimate is based on census data, registers, LFS data and immigration data from destination countries (Kaczmarczyk and Okólski, 2008).

3. The outcomes of the 2002 National Census have been used as the basis for presenting the estimates in Table 7.1. The estimates following were obtained using register data, LFS data and data from destination countries.

4. Note that the number of temporary Polish migrants in Germany as indicated by the CSO estimate (see Table 7.1) increased from 385 000 in 2004 to 490 000 in 2008.

5. In fact, Poland's CSO announced a re-estimation of the data for 2007-09. The outcome should be available in the first half of 2012.

6. For the whole period under analysis (2000-11), the correlation between unemployment and migration is strongly negative (-0.77), as it is with the lagged migration time series (-0.71). Interestingly, these relationships became far less stable during the crisis (Q1 2008-Q1 2011): the correlation remained strongly negative (-0.87), but the relation between lagged migration and unemployment became strongly and almost linearly positive (0.98). Additionally, in the past few quarters there was no statistical correlation between unemployment and employment (previously there had been an almost linear negative correlation).

7. A brain overflow occurs when there is an (intentional or unintentional) oversupply of educated professionals in the sending country, whose abilities cannot be matched to job offers. In such a case, migration of the highly skilled occurs at low or zero opportunity costs, and reduces the labour market supply-demand inequality in the sending country.

8. Due to relatively small samples, data are not representative for this level of disaggregation and thus should be interpreted with caution.

9. Migration in the communist period was relatively limited in terms of numbers and involved only a small portion of the population, *i.e.* inhabitants of regions with relatively well-developed migrant networks or links to particular destination countries (the case with so-called ethnic Germans) (Kaczmarczyk, 2005).

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Part III

Matching labour supply and demand

Chapter 8

The EU workforce and future international migration

by

Gery Coomans
Economist

Demographic projections for the EU27 point unequivocally to a growing shortage of young graduates, which will become increasingly pronounced as the decade continues. In theory, selective immigration could fill part of the corresponding labour needs. However, against the prospect of developing selective immigration based on the level of education, it is important to note that the distribution of immigrants by level of education does not appear very favourable, since there is still very heavy overrepresentation of the lowest level of education. In addition, the ability of immigration to help manage demographic challenges depends more on the architecture of the host countries, in terms of integration and non-discriminatory deployment, than on the characteristics of the immigrants themselves.

Introduction

Demographic projections for the EU27 strongly indicate a growing shortage of young graduates, which will become increasingly manifest as the decade continues. That issue raises four broad questions. First, what can be expected from the shrinking working-age population and its ageing? Second, what are the scope and implications of "changes in quality" linked to rising educational levels? Third, should these quantitative and qualitative shifts trigger a tweaking of selective immigration criteria? And fourth, what are the lessons to be learned from territorial breakdowns, on a regional level?

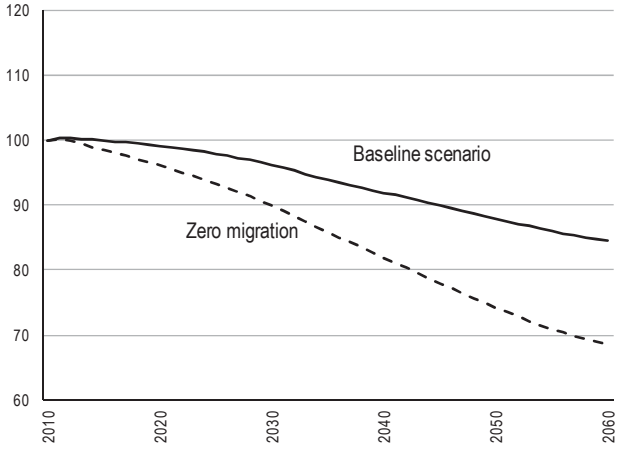
8.1. The shifting working-age population

Peaking and declining

As shown in Figure 8.1, the working-age population (aged 15-64) of the EU27 will peak at 336 million people in 2011-12, before beginning a decline that appears irreversible. This decline will remain marginal throughout all of the current decade (at approximately 1%) but gather pace in the one following (dropping by another 3% from 2010 levels). Thus by 2030, the decrease should amount to approximately 4%, according to the base scenario based on Eurostat projections. In the event of zero net migration, the drop should amount to some 9% – and to roughly 30%, as opposed to 15%, by 2060.

Figure 8.1. Projected change to 2060 in the working-age population (15-64 years), EU27

Base 100 = 2010



Source: EUROPOP 2008.

With regard to national differences, it should be noted that demographic projections show growth of over 20% in the 2030 forecast working-age population in only three out of 27 countries – Cyprus,[1] Ireland and Luxembourg – two of which (Luxembourg and Cyprus) have small populations. About 18 countries should see their working-age population shrink by 10% or more by 2030, including Germany and all of the Eastern European countries (Table 8.1).

Table 8.1. 2030 working-age population index

Index in 2060 (Base100 = 2010)					
EU 27		85	Zero migration 70		
	Cyprus*	135			
+ + +	Luxembourg	132			
	Ireland	124			
	United Kingdom	110			
	Sweden	102			
+	France	102		DEU	72
	Belgium	100		CZE	71
	Denmark	96		HUN	70
	Austria	91		EST	69
-	Spain	89		SVN	68
	Portugal	88	- -	SVK	61
	Netherlands	86		ROU	61
	Finland	86		POL	60
- -	Italy	83		LTU	58
	Greece	82		LVA	58
	Malta	77		BGR	57

* Notes on Cyprus:

Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

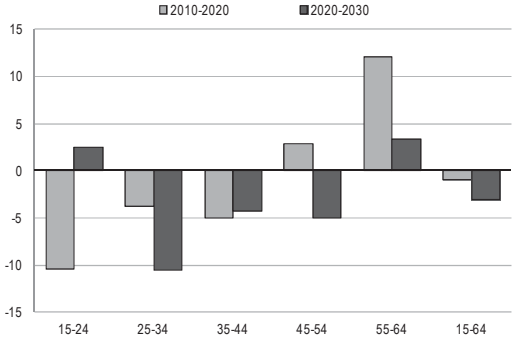
Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this chapter relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: EUROPOP 2008.

The working-age population will gradually grow older (and so decline) as baby boomers reach post-productive age and fertility rates drop below the replacement threshold. Figure 8.2 shows that the ageing of the working-age population will be especially pronounced during the current decade: the number of persons aged 55 to 64 will increase by approximately 12%, while the ranks of incoming generations (aged 15 to 24) will decrease by over 10%.

Figure 8.2. Age distribution of the working-age population, EU27, 2010-30

Changes in percentages



Source: EUROPOP 2008.

The growing impact of dependency

Another change is characteristic of the current decade: the growth in economic dependency rates, which links working age people with the rest of the population. The percentage of the population that is of working age has currently peaked at 67% and will decline continuously, reaching 56% in 2060. This means a gradually increasing burden on the income of the working-age population to support age groups that are either pre-productive (all those younger than 14 years old) or post-productive (aged 65 and over). Figure 8.2 shows annual growth in the ratio of the total population to the working-age population – which is merely the inverse of the working-age population's share of the total population. This ratio had augmented until the early 1970s due to the relative increase in the number of children. Between the early 1970s and the present, this ratio has shrunk almost continuously, giving the working-age population a chance to acquire an increasing share of the income generated; this was an era of a demographic dividend, enjoyed by countries, during which the working-age population grew more rapidly than the total. In the current decade, countries are entering a phase in which the burden of pre- and post-productive age groups is increasing, and will continue to do so throughout the coming half-century.

It will be shown that the trend in demographic dependency, implied by Figure 8.2, can be interpreted as the annual increase in income that the working-age population must generate just to keep per capita income constant. Insofar as the relative size of the pre-productive age group is expected to remain virtually constant, it is the burden of the post-productive age group that will be felt**,** which is why the value represented on the graph can be construed for the period to come as the annual cost of ageing, expressed as a percentage of GDP. This cost will average 0.4% of GDP per annum between 2010 and 2030. It should be noted that if the demographic projection assumed zero net migration, this percentage would increase by 0.16 point, to an average of 0.56% over the same period. In other words, immigration in line with Eurostat's demographic projections would reduce the annual cost of ageing by roughly one sixth of a percentage point. This merely reiterates the point often made that the burden resulting from the growth of dependent population groups can be shared in a more equitable way because of immigration.

Lastly, it should be noted that the reasoning remains the same whether or not the working-age population achieves the necessary increase in income by raising its own employment or productivity rate, or any combination of the two.

8.2. The quantity and quality of the workforce

An overall decline in the workforce ultimately increases the importance of productivity factors. This may be explained from three standpoints.

First, the age structure is commonly considered to have a direct impact on productivity; workforce ageing plays a negative role. Nevertheless, while an ageing workforce would obviously have been a handicap in the industrial golden age, it is also an asset in the form of accumulated experience that is needed for a knowledge-based economy – as has been shown by good practices in a number of European countries. Therefore, it is difficult to draw unequivocal conclusions about how ageing affects productivity.

Second, while the notion of "qualification levels" might be deemed the one most appropriate for assessing the "quality" of labour, such an approach is problematic. An individual's qualification to undertake certain types of work depends both on that

person's own characteristics and on the environment into which he or she is placed – which is why no economist has ever been able to provide an adequate let alone flawless definition of a person's level of qualification. Moreover, any innovation affecting productivity might be interpreted as a change in qualifications. Since qualification cannot be defined as an inherent characteristic of people present in the labour market, it cannot be measured independently of a particular context.

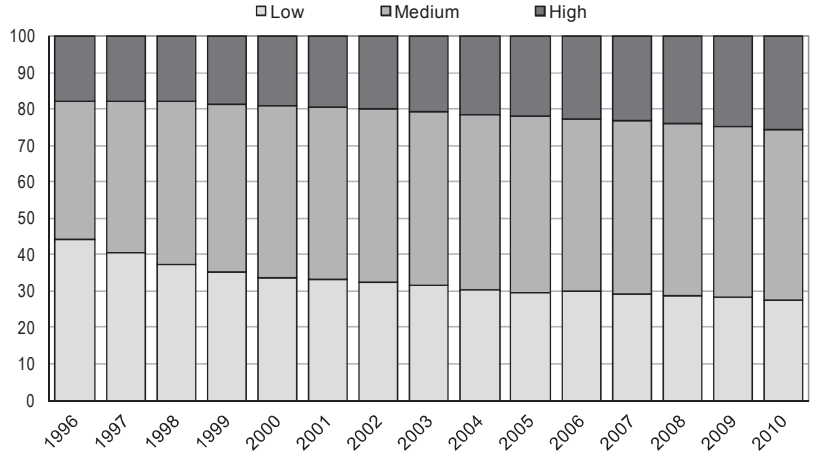
Third, the usual practice is to approximate qualification(s) through the level of education, usually using ISCED[2] classifications. In what follows, the customary three-group division will be used – lower education (ISCED 0-2), secondary education (ISCED 3-4) and higher education (ISCED 5-7, which ordinarily corresponds to secondary education plus two years of further study).

Educational progress

Rising levels of education have been a distinguishing feature of the past three or four decades; there were even spectacular gains in a number of countries that had not completed the transition to mass secondary education. Figure 8.3 shows the shifting shares of the three educational levels for the 25- to 64-year-old age group in EU27 between 1996 and 2010. While the share of lower education dropped from 44% to 27% that of the higher level rose from 18% to 26%.

Figure 8.3. Trends in population distribution by level of education, EU27, 1996-2010

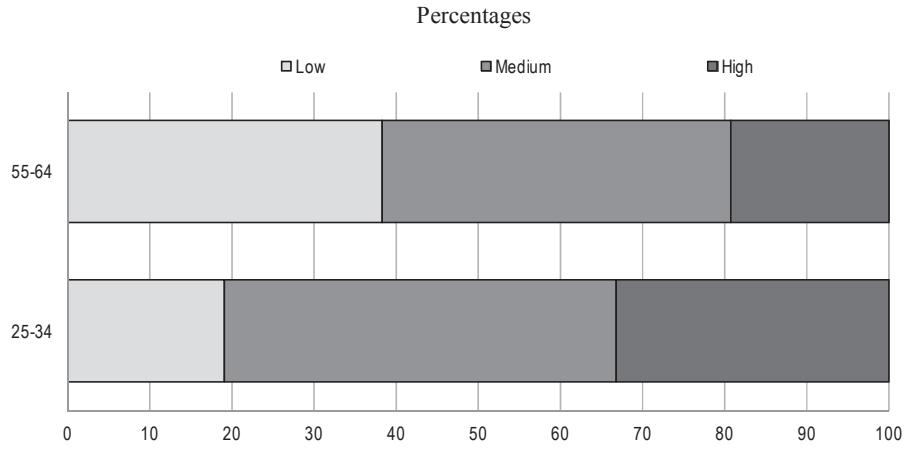
Percentages



Source: Eurostat Labour Force Survey.

Figure 8.4 shows the same distributions for two age groups in 2010. While the share of the 55-64 age group with higher education was only 19%, the proportion had already reached 33% for the 25-34 age group. From one group to the other, the share of the lower educational level was cut in half (from 38% to 19%).

Figure 8.4. Distribution of young and older workers by level of education, EU27, 2010



Source: Eurostat Labour Force Survey.

A number of features concerning the rise in higher education warrant a note. First, it has been far more pronounced for women. In the 25-34 age group, 29% of men held a higher education degree in 2010, but the proportion was 38% for women, who accounted for 56% of aggregate higher education graduates.

Second, it is obvious that the rising levels of education are closely related to demographic changes, not only in Europe but also throughout the world: the drop in fertility rates reduced the number of children per family and encouraged investment in education.

Third, the rise in level of education increased the workforce almost automatically as activity (and employment) rates are universally correlated with education levels: activity rates in Europe average 88% for higher education graduates and 63% for the lowest level (for the 25-64 age group). The trend means that for the current decade, that the decline in the overall working-age population is more than offset by this simple mechanical effect, *ceteris paribus*, of the numerical growth of groups with higher activity rates. Such reasoning means there can be non-demographically led sources of workforce growth.

Fourth, it is still reasonable to consider that the rise of education, along with contributing to greater productivity, also offers the advantage of helping raise living standards and enhancing social cohesion.

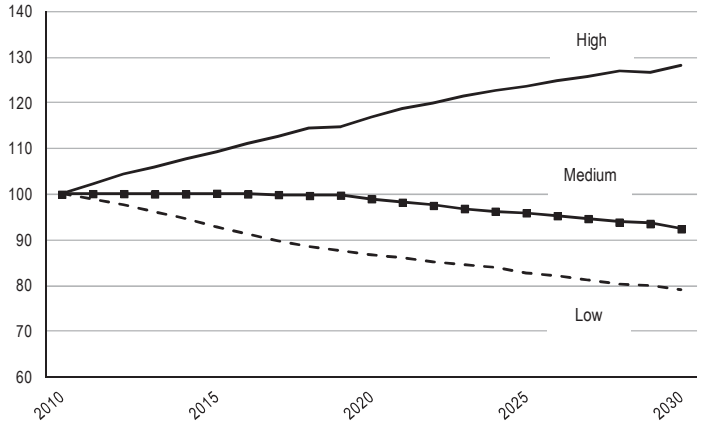
Projections by level of education

The changes in educational distribution lend themselves well to log-linear projections, as estimates drawing on the number of people by level of education have shown to be relatively reliable in the past. The one exception would be when the rise extends over many years, as is the case with Germany and Switzerland. In contrast, Italy was showing few signs of a rise in levels of education until the end of the century, when it joined the overall trend; the projections for Italy in 2010 are clearly more favourable than those that could have been made around 2000.

Figure 8.5 shows changes in the level of education for the aggregate EU27 working-age population in 2030. Continuous growth can be observed in the number of individuals with higher education, with 1.6% projected annual growth in the current decade; a stable trend in the number of people with secondary education; and a 1.4% annual decrease in the number of people at the lowest level of education.

Figure 8.5. Projected 2030 population aged 15 to 64, by level of education, EU27

Base 100 = 2010



Source: Eurostat Labour Force Survey and EUROPOP 2008.

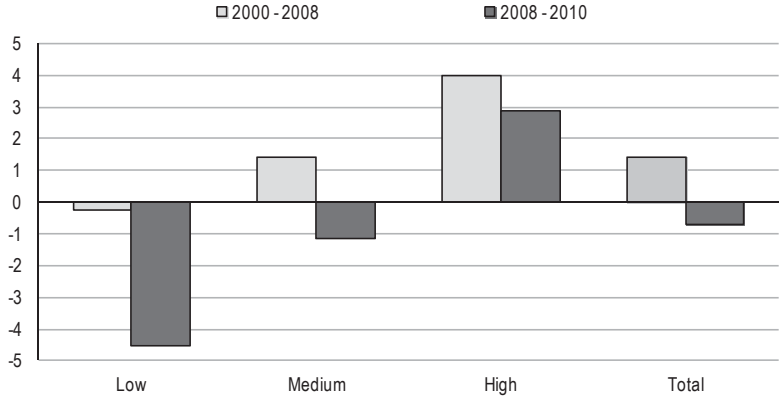
These trends raise the issue of the potential of selective immigration based on education level. We will return to this later in the chapter.

The labour demand side

The question thus becomes whether the observed changes described above are compatible with the employment patterns observed so far by level of education. Figure 8.6 shows that between 2000 and 2008 employment growth was high for graduates of higher education (averaging 4% per year for EU27), whereas growth rates were merely near-average for the employment of persons with only secondary education (+1.4% per year) and slightly negative for the lowest level of education (-0.2% per year). If one focuses on 2008-10, years marked by the economic crisis, it can be seen that growth remained positive only with respect to higher education (+2.9% per year), whereas it was negative for the secondary and lower levels (-1.1% and -4.5% per year, respectively).

Figure 8.6. Employment growth by level of education, EU27, 2000-10

Percentages



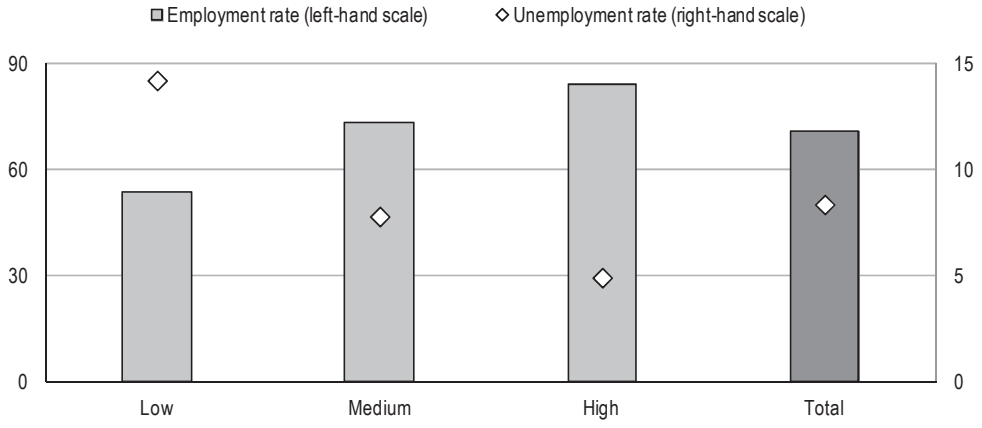
Source: Eurostat Labour Force Survey (Spring).

Deployable reserves of labour

If the supply of labour resulting from the combined impact of demographic and educational change is insufficient to replicate the difference in growth rates observed over the last decade, would changes in employment rates enable to meet the labour force needs? Figure 8.7 shows that with an 84% employment rate for higher education graduates (and a 4.9% unemployment rate), the margin for increasing the employment of this group is very certainly slimmer than it is for lower-level graduates, only 54% of whom are employed and 14% unemployed. In fact, while employment rates at the highest level of education vary little by country, employment rates at the lowest level can more than double from one country to the next. This highlights the importance of active labour market policies; in some cases, it also highlights the ineffective utilisation of immigrants with low levels of education if the employment rate for that group is, for example, 30%.

Figure 8.7. Employment rates by level of education, EU27, 2010

Percentages of the population or the labour force aged 25-64



Source: Eurostat Labour Force Survey (Spring).

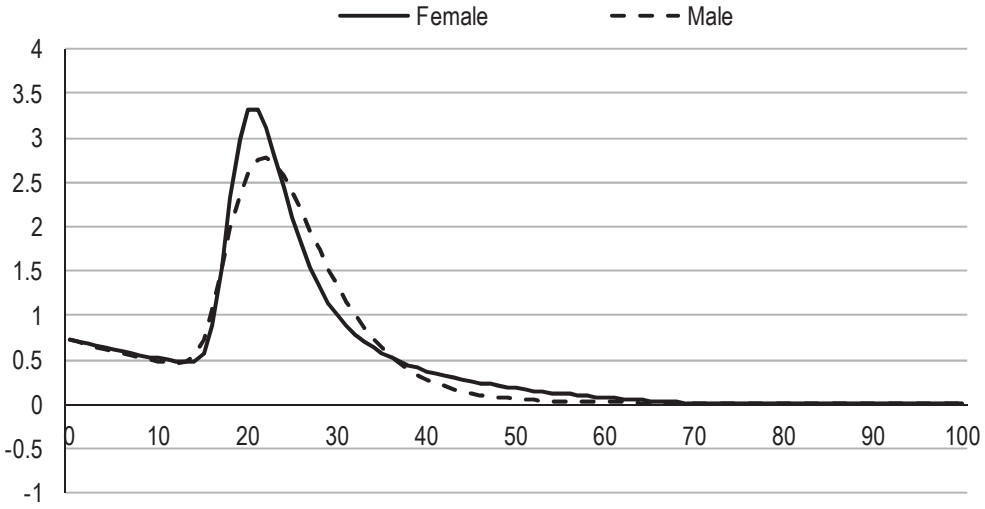
Breaking it down by age

However, if the aim is to reflect on selective immigration, it is certainly necessary to factor the dimension of age into the analysis. The first reason for this is obvious: the vast majority of immigration involves young people (Figure 8.8). Over 60% of immigrants are between 18 and 32 years of age.

Moreover, using education levels as a relevant immigration criterion is justifiable only with regard to groups that are relatively young; the relevance dwindles with age. Apart from the implications relating to qualifications upon entry into the job market, any long-term participation in that market usually involves a combination of acquired skills (objectifiable or tacit knowledge), promotions and re-orientations, against a general backdrop of increasing career uncertainty. Over-selectivity would make it difficult to apply immigration criteria: any selectivity becomes counter-productive if it is too strict, yet inoperative if it remains too lax.

Figure 8.8. Age distribution of immigrant population

Percentages



Source: EUROPOP 2008.

8.3. The young workforce: the obvious bottleneck

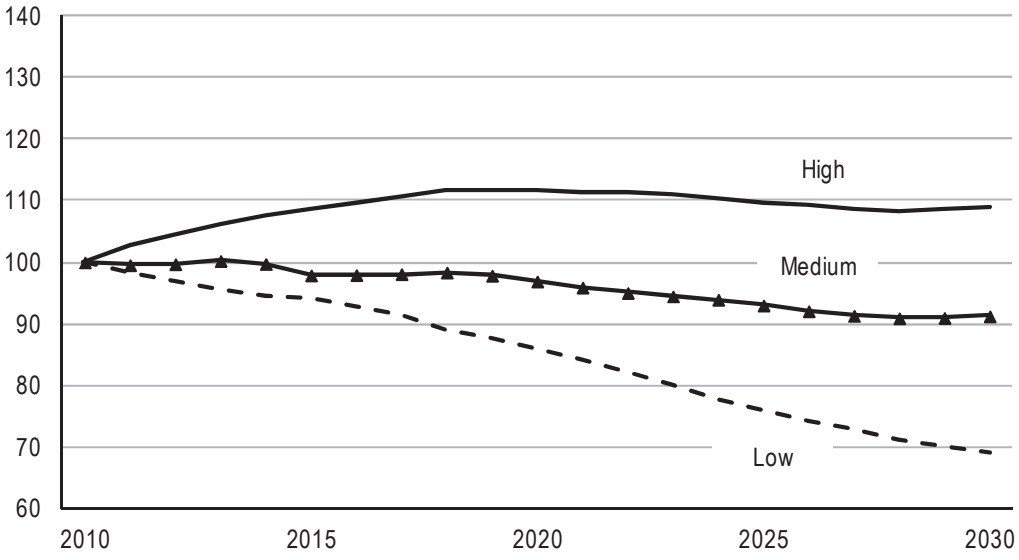
It would be useful to revisit the figures above, focusing solely on the first post-education age group – *i.e.* those aged 25 to 34. First, it should be recalled that this age group is expected to shrink by 3.7% during the current decade and by 10.6% during the 2020s, with an overall decline of nearly 15% (see Figure 8.2 above) over this period.

The combined effect of demographic and educational change means that the only increase expected in the current decade is in the number of graduates with higher education: +1.5% per year. Thereafter, this group is to remain flat. And while the number of young people at the lowest level of education is projected to decrease moderately until 2030, it is the number of young people at the secondary level that drops most: -1.5% per year over the current decade, with a roughly 30% drop over the coming 20 years.

On the demand side, employment growth for this age group was concentrated entirely on higher education graduates (Figure 8.10): +4% per year between 2000 and 2008, and a further 1.6% between 2008 and 2010, corresponding to annual average employment growth of a half million per year (546 000 new jobs). As for the employment of secondary school graduates and those with lower levels of education, there was a steady decrease, and even a collapse between 2008 and 2010.

Figure 8.9. Projection of the population aged 15-34 in 2030, by level of education, EU27

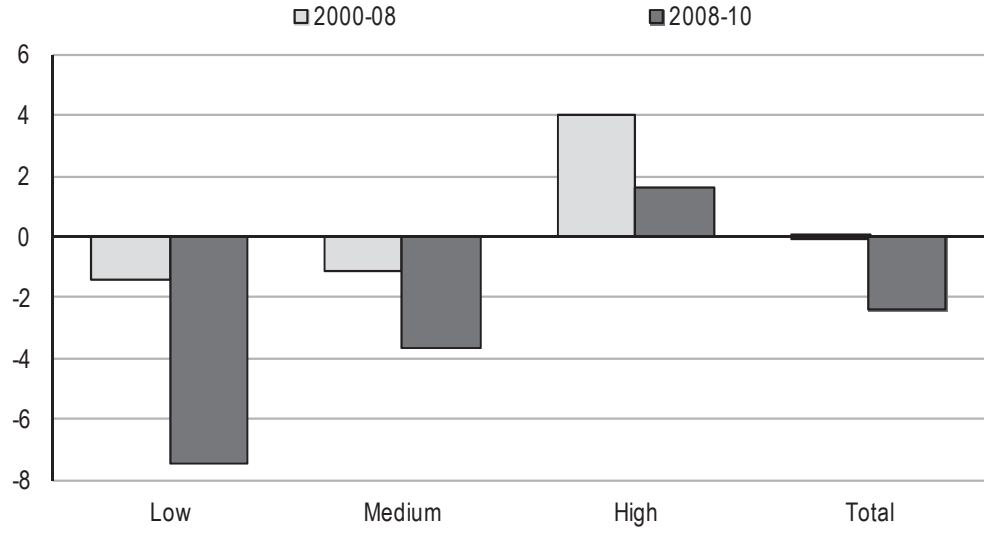
Base 100 = 2010



Source: Eurostat Labour Force Survey and EUROPOP 2008.

Figure 8.10. Employment growth by level of education, population aged 25-34, EU27, 2000-08 and 2008-10

Percentages



Source: Eurostat Labour Force Survey.

The clearest conclusion relates to the group of higher-educated graduates: past growth rates are no longer realistic due to the lack of supply resulting possibly in labour shortages. It is here that selective immigration using the criterion of educational level would seem most relevant. To achieve employment growth of a magnitude matching that of the previous decade, the immigration of young higher-educated graduates would actually need to increase significantly. While this requirement cannot be quantified precisely, a plausible rough estimation would yield the following for the coming decade. Based on annual labour requirements remaining around the half-million mark, the domestic supply being limited to a quarter of a million (more at the beginning of the decade and tending towards zero at the end of the decade), immigration would have to supply an annual complement of some quarter of a million in this age group and level of higher education – or approximately double what immigration has provided annually over the past decade. With the same assumptions, that figure would cover all of the employment growth for this age group and level of education for the 2020s.

For the secondary and lower levels of education, the European averages do not point to such clear-cut prospects. Equilibrium is a possibility for the secondary level with concomitant declines in supply and demand, even if this hinges on a rise in employment rates. For the lower level of education, there seems to be a gap between a moderate decline in supply and a steeper decrease in demand, attributable to a drop in an already low employment rate (65% in 2007, 57% in 2010).

European diversity precludes drawing conclusions of any kind from an average of the 27 member states. It is here in particular that national and regional analysis is needed to identify the likely bottlenecks.

8.4. The limits of the exercise

The exercise presented here runs up against limits that need to be taken into account.

Competition to attract talent

Past history often illustrates that some countries manage to modulate immigration flows based on the quality of the labour better than others. A typical example would be countries that enjoy a linguistic advantage, such as English-speaking ones.

The brain drain problem

Brain drain makes implementing highly targeted selectivity a delicate issue. This is famously the case for medical personnel, not only with respect to immigration flows into the European Union but also for certain intra-EU flows as well. It is also a known fact that circular migration can lessen the amplitude of the problems posed.

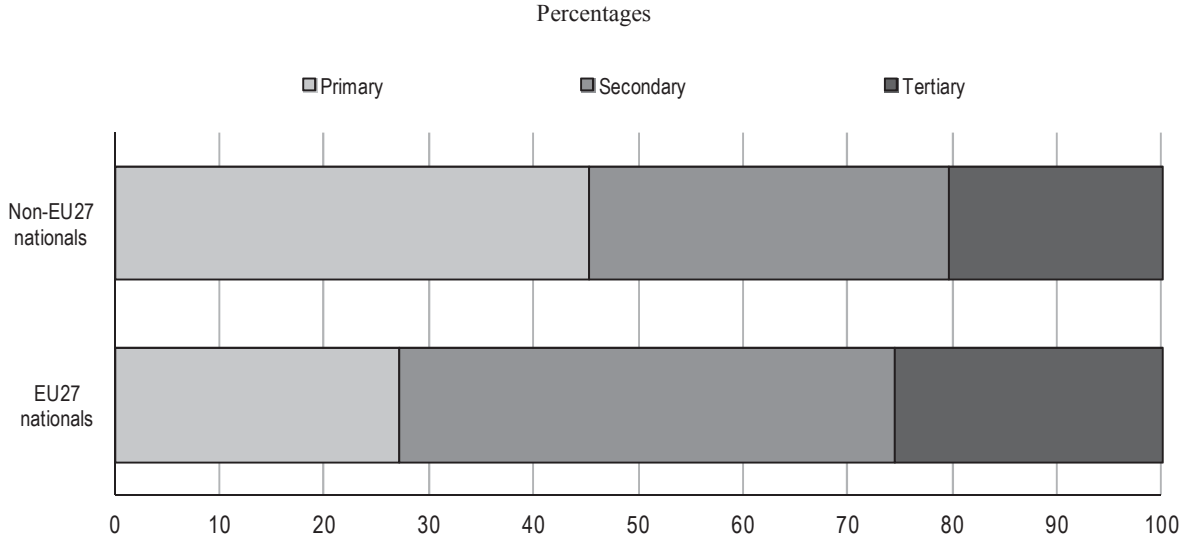
Certification of diplomas

There is also the problem of diploma recognition for immigrants. The most obvious example – and the one triggering the greatest regulatory response – is that involving medical personnel, an issue complicated by the fact that healthcare cost containment policies have tightened certification criteria.

The distribution of immigrants by level of education

Distribution of migrants by education level is presumably not conducive to implementing selectivity that would favour the highest level of education. About 25% of Europeans between 25 and 64 years of age are higher-educated graduates, versus 20% of third-country nationals (Figure 8.11). Yet the latter group is overrepresented in the lowest level of education, at 45% versus 27%. Introducing selective immigration could distort the distribution of immigrants by level of education, which is naturally a sensitive issue. Clearly this would raise the issue of the viability and relevance of general policies as opposed to targeted actions to deal with specific shortages.

Figure 8.11. Distribution by level of education of EU27 and non-EU27 nationals, aged 25-64, 2009



Source: Eurostat Labour Force Survey 2009.

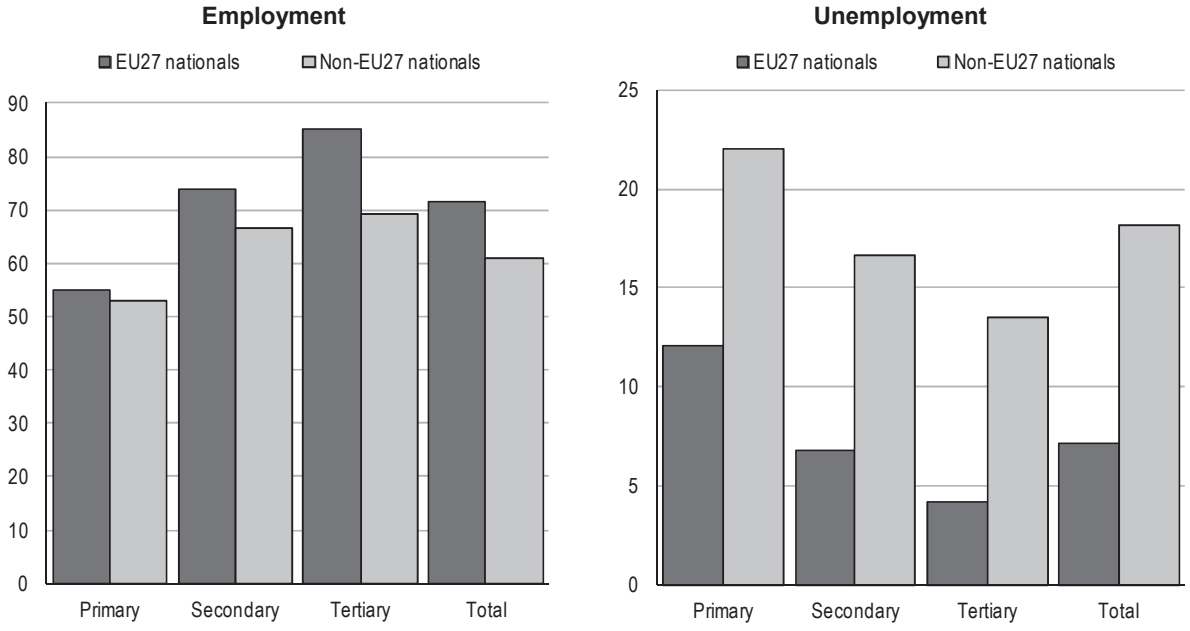
Difficulties in integrating the immigrant workforce

The immigrant workforce typically runs up against particular obstacles. Figure 8.12 shows that employment rates are lower and unemployment rates higher at each level of education for third-country nationals as compared with EU nationals.

Employment rate differentials are low for non-graduates, but most significant for higher education graduates: 85% for EU nationals versus 69% for third-country nationals (25-64 age group in 2009). The unemployment rates are, respectively, 4% and 14%.

Figure 8.12. Employment and unemployment rates for EU27 and non-EU27 nationals, aged 25-64, by level of education, 2009

Percentages



Source: Eurostat Labour Force Survey 2009.

Any rational policy to be instituted in connection with the development of selective immigration based on levels of education should give priority to improving employment integration and eliminating discrimination that causes underemployment among third-country graduates.

An analysis by diploma of the respective distributions of nationals and non-nationals in terms of occupations (ISCO) and sectoral concentration (NACE) would highlight other instances of underemployment of non-nationals. The image of an immigrant woman with a doctorate who finds herself working as a "cleaning lady" may be an extreme case, but close analysis would reveal a significant number of sub-optimal situations.

Even so, elimination of underemployment of third-country nationals would still make only a very limited contribution. In 2009 third-country nationals accounted for a mere 3% of all working higher education graduates (1.75 million out of 58 million). Raising their employment rate to a level similar to that of EU nationals would yield only 0.4 million additional jobs.

Accordingly, it is among new arrivals that the wastage due to underemployment is most likely to pose problems. Any selective immigration policy aimed at increasing the number of higher-educated graduates would have enough problems without adding those of underemployment.

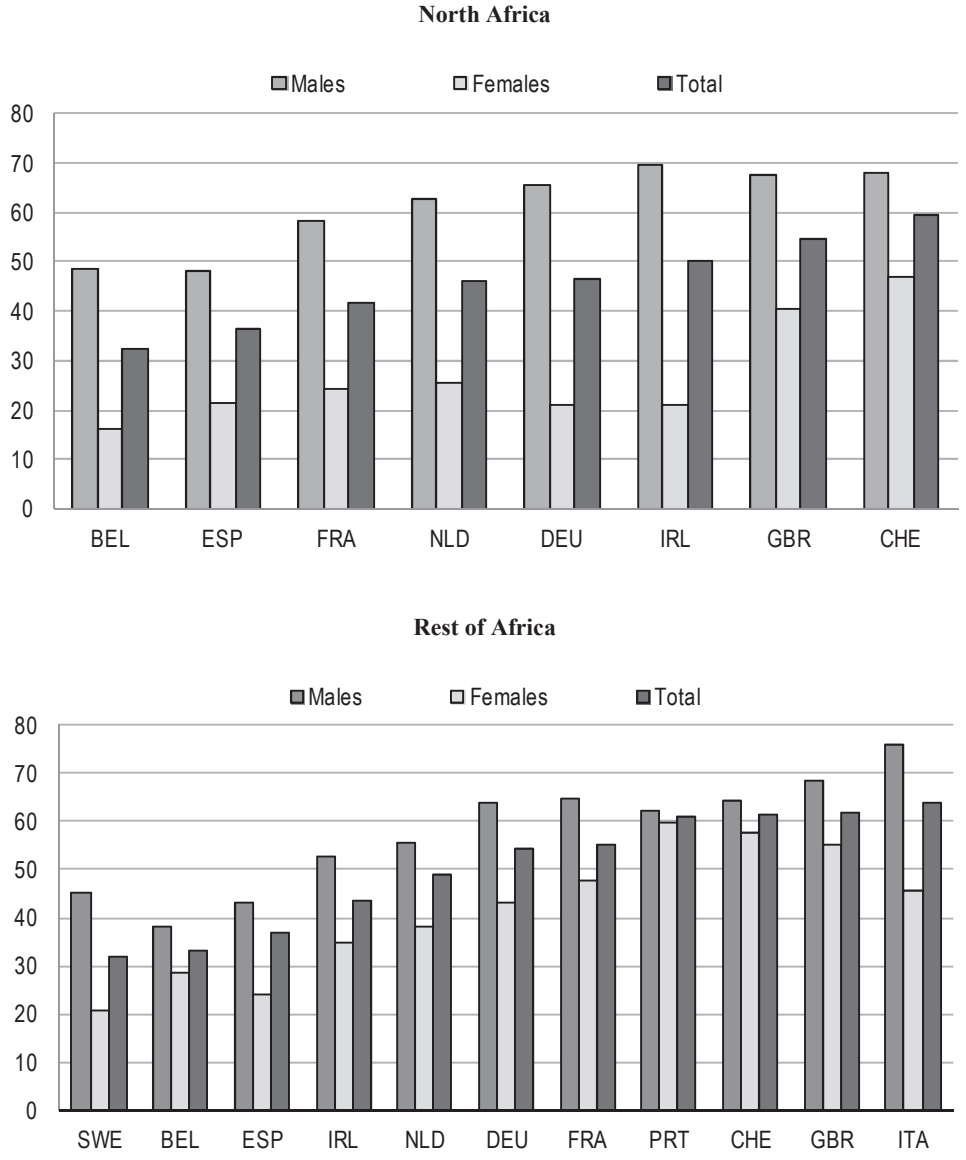
National differences

Lastly, it should be borne in mind that very significant differences persist among the member states regarding their ability to integrate the immigrant workforce. In

the United Kingdom for instance, there are approximately 2.4 immigrants for every 1 that is working; the ratio is higher than three to one in France. Figure 8.13 shows that for North African nationals, female employment rates vary by a factor of three to one from one European country to another. For nationals of sub-Saharan African countries, male employment rates can double from one country to the next.

Figure 8.13. Employment rates of immigrants from North Africa and the rest of Africa, by gender, 2010

Percentage of the population aged 25-64



Source: Eurostat Labour Force Survey 2010.

8.5. Conclusions

There are four conclusions. First, demographic projections point unequivocally to a growing shortage of young graduates, which will become increasingly pronounced as the decade continues. In theory, selective immigration could fill part of the corresponding labour needs. For the secondary and lower levels of education, average trends do not suggest any clear-cut conclusions. By breaking the analysis down at the level of individual member states and regions, a much more precise distribution of the bottlenecks can be obtained.

Second, against the prospect of developing selective immigration based on the level of education, the distribution of immigrants on that basis does not appear very plausible, since there is still very heavy overrepresentation of the lowest level of education. Modulating selectivity by pushing the distribution upward would be a massive challenge.

Third, the ability of immigration to help manage demographic bottlenecks depends more on integration systems and non-discrimination than on the characteristics of the immigrants themselves. Placing the focus less on qualifications certified by an initial diploma and more on lifelong skills development will accord greater importance to local schemes to enhance the quality and effectiveness of immigrant integration.

Lastly, the various forms of underemployment or misallocation of migrants would suggest a wastage that is a source of collateral costs – both economically, by wasting rare resources, and politically, in terms of social cohesion. No selective immigration policy can be effective if it does not reduce underemployment and sub-optimal allocation.

Notes

1. Notes on Cyprus:

   Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

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2. International Standard Classification of Education.

Chapter 9

Exploring conditions for EU growth given a shrinking workforce

by

Jörg Peschner
European Commission

The decline in the working-age population in Europe will place its welfare system under strain unless it can maintain the growth of the pre-crisis decade (1999-2008). Increases in labour force participation rates and increases in productivity are both necessary. This chapter looks at some of the impacts of different labour-supply development scenarios on Europe's economic growth paths and the productivity yields necessary to achieve those scenarios, in line with the Europe 2020 commitments. Potential contributors to better employment performance are examined, including regional development, mobility and migration policies, and progress in education. Single policy strands – such as activation measures, more open migration and structural policy – will not be sufficient to meet growth objectives, and a longer time horizon is necessary as new challenges will arise beyond 2020.

Introduction

Over the next decade, the negative effects of demographic ageing on employment are expected to intensify. After decades of growth, the decline of the working-age population (people aged 20-64) will begin in 2013, according to Eurostat's EUROPOP 2010 demographic projection (convergence scenario). All in all, the EU27 is projected to lose more than 2.5 million working age people in the course of this decade alone, and almost four times as many in the 2020s. A persistently shrinking workforce is an unprecedented situation; it poses major challenges to western policy makers, as collective welfare levels largely depend on potential economic growth, which in turn is the sum of productivity shifts and employment growth. Over the past decades Europe has become accustomed to increasing welfare standards, with new member states continuing to catch up. Across the European Union, employment growth contributed significantly to economic growth. In the decade before the crisis began in 2008, the 2% average shift in real GDP in the European Union was a result of a 1% productivity increase and 1% employment growth. (As the total population grew by 0.4% each year, 2% annual real GDP growth was consistent with some 1.6% growth per capita.)

In the context of the analysis presented in this chapter, it is crucial to understand that Europe will maintain its current welfare standards only if two conditions are met. European policy makers must:

- Cushion the projected decline in employment to the largest possible extent; and
- Compensate for employment decline by pursuing structural policies that favour stronger productivity shifts than seen in the past.

The chapter looks at the impact of different labour-supply development scenarios on Europe's economic growth paths and the productivity yields necessary to achieve those scenarios. Given the magnitude of the demographic changes ahead, the analysis will show that sustainable economic development must actually be embedded in a comprehensive policy package that includes higher productivity yields and better employment performance. Later sections shed some light on potential contributors to better employment performance, namely regional development, mobility and migration policies; and examine the potential progress in education as a source of productivity growth.

9.1. Europe's long-term growth potential and Europe 2020

The chapter's initial basis is the employment objective of the EU2020 Strategy for Smart, Sustainable and Inclusive Growth (EU2020), but the analysis extends well beyond the year 2020. One of the EU2020 core targets is to reach, by that year, an employment rate among 20- to 64-year-olds of no less than 75%, building on the 68% seen in 2010.[1] Meanwhile, most member states have substantiated their commitment to achieve their national employment objective for the year 2020 by setting quantitative targets in their latest national reform programmes (NRP) as shown in Table 9.1.

These are clearly ambitious objectives, particularly for member states where employment performance currently lags behind in a difficult labour market. The analysis that follows assumes imputed national employment rate targets consistent with an overall objective of 75% for 2020. To support that assumption, it:

- Uses the upper bound in countries with a range of 2020 target employment rates; and
- Assigns an employment rate target of 81% to the United Kingdom, in the absence of any national 2020 objective in that country's NRP.

Table 9.1. Targeted employment rates for 2020 as set by member states in their April 2011 national reform programmes, for the age range 20 to 64 years

	2010 employment rate	Target range 2020		Point target	Target assumed for the analysis	% points to go from 2010
		From…	To…			
EU27	68.5			75.0	75.0	6.5
Belgium	67.6			73.2	73.2	5.6
Bulgaria	65.4			76.0	76.0	10.6
Czech Republic	70.4			75.0	75.0	4.6
Denmark	76.1			80.0	80.0	3.9
Germany	74.9			77.0	77.0	2.1
Estonia	66.7			76.0	76.0	9.3
Ireland	64.9	69.0	71.0		71.0	6.1
Greece	64.0			70.0	70.0	6.0
Spain	62.5			74.0	74.0	11.5
France	68.8			75.0	75.0	6.2
Italy	61.1	67.0	69.0		69.0	7.9
Cyprus*	75.4	75.0	77.0		77.0	1.6
Latvia	65.0			73.0	73.0	8.0
Lithuania	64.4			72.8	72.8	8.4
Luxembourg	70.7			73.0	73.0	2.3
Hungary	60.4			75.0	75.0	14.6
Malta	59.9			62.9	62.9	3.0
Netherlands	76.8			80.0	80.0	3.2
Austria	74.9	77.0	78.0		78.0	3.1
Poland	64.6			71.0	71.0	6.4
Portugal	70.5			75.0	75.0	4.5
Romania	63.3			70.0	70.0	6.7
Slovenia	70.3			75.0	75.0	4.7
Slovakia	64.6			72.0	72.0	7.4
Finland	73.0			78.0	78.0	5.0
Sweden	78.7			81.0	81.0	2.3
United Kingdom	73.6	No target			81.0	7.4

* Notes on Cyprus:

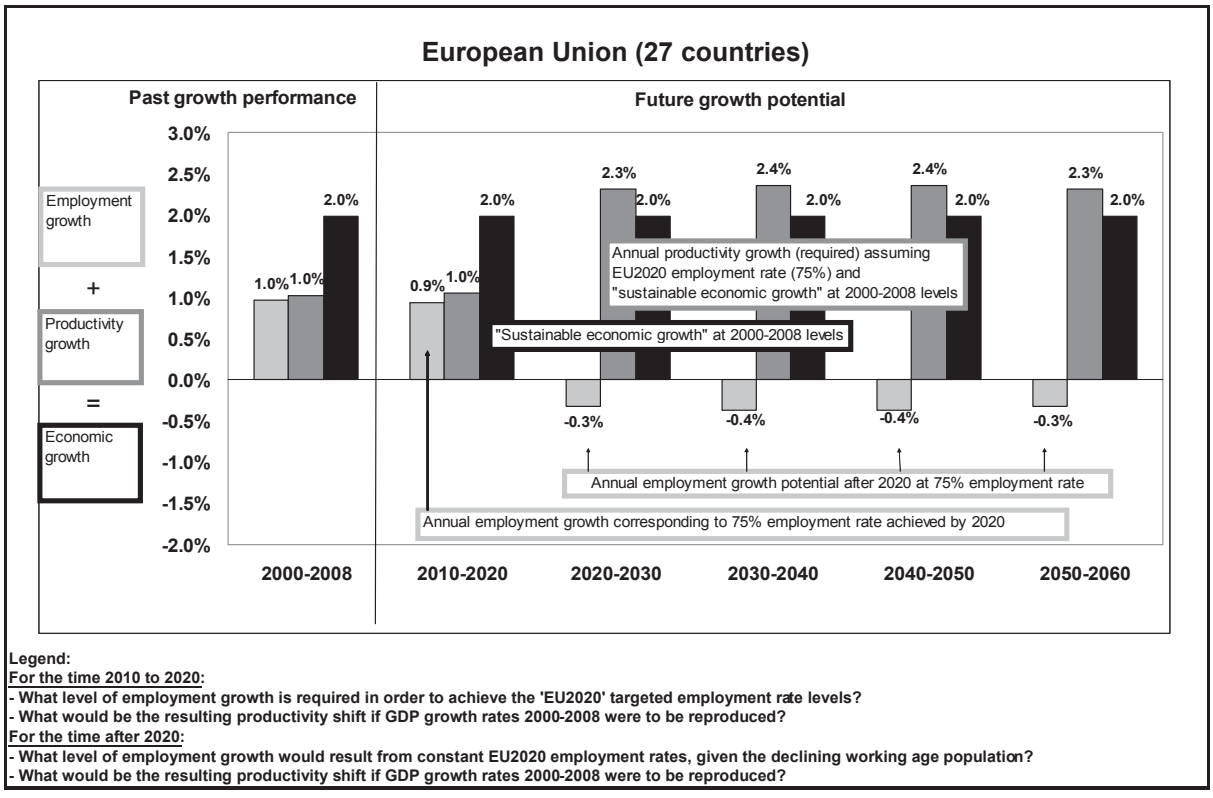
Note by Turkey: The information in this chapter with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this chapter relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: National reform programmes, April 2011. See *http://ec.europa.eu/europe2020/pdf/targets_en.pdf.*

The situation resulting from the assumptions is shown in Figure 9.1.

Figure 9.1. Projected annual employment growth at targeted employment rate of 75% achieved by 2020



Legend:
For the time 2010 to 2020:
- What level of employment growth is required in order to achieve the 'EU2020' targeted employment rate levels?
- What would be the resulting productivity shift if GDP growth rates 2000-2008 were to be reproduced?
For the time after 2020:
- What level of employment growth would result from constant EU2020 employment rates, given the declining working age population?
- What would be the resulting productivity shift if GDP growth rates 2000-2008 were to be reproduced?

Source: Author's calculation based on Eurostat EUROPOP 2010 demographic projection and Eurostat Labour Force Survey.

As mentioned above, total employment growth in the EU27 averaged an annual 1% (light grey column) over an eight-year period preceding the economic crisis, during which we also saw real GDP grow by an annual 2% on average (black column) and, as the difference, an annual productivity growth of around 1% (dark grey column). This simple equation is merely the *ex post* identity describing (potential) GDP from the supply side of the economy. However, it will help illustrate the effects of a declining workforce on Europe's welfare position.

Over the same recent period, many of the new member states were in the course of catching up in terms of per capita GDP and income – which would suggest that the 2000-08 GDP growth path is not what we would consider long-term equilibrium growth for the European Union. Other member states might not have fully exploited their growth potential, for instance. However, even with these uncertainties we may consider an overall economic growth of 2% "sustainable", in the sense that it would maintain (current) satisfactory welfare levels. If so, *vis-à-vis* what happened before 2008, we would conclude that given the EU's employment performance, productivity gains of around 1% per annum were sufficient to maintain Europe's welfare position over the pre-crisis decade.

We may now apply the same notion of a "sustainable 2% economic growth path" to the current decade 2010-20 (second pair of columns). We abstain from breaking down the

GDP target growth rate into per capita growth, as total population for the European Union is projected to remain relatively stable over the next decades (considerable decline is projected only after 2050). Consistent with the formal EU2020 target group we define the future working-age population as all individuals between the ages of 20 and 64; all employment is assumed to take place within this age range.[2]

The situation largely resembles the one seen before the crisis – provided the European Union manages to achieve its EU2020 employment rate target of 75%. In this scenario, annual employment growth of 0.9% would equate to some 20 million additional jobs over the next ten years, starting in 2010. That is, given achievement of the EU2020 employment rate objectives, even if the working-age population (slightly) declines, a considerable number of individuals will have been brought into employment, causing an increase in the employment rate of no less than 6.5 percentage points. With employment growth of 0.9% per year, Europe would need around 1.1% of productivity yields per year to achieve its assumed sustainable GDP growth level of 2%.

The third trio of columns in Figure 9.1 reveals that the situation will change drastically over the decades following 2020. With Europe keeping its employment rate at 75%, the shrinking workforce would drag down total employment by some -0.3% each year already in the next decade. In other words, the European Union would lose some 7 million jobs over the period 2020-30 unless further employment shifts were to happen for the EU27 to achieve its 2% economic growth in order to maintain current welfare levels. The productivity shift would need to be no less than 2.3% per year in that decade – more than twice the level in the European Union in the recent past, even before the crisis. The picture varies considerably across member states. Germany, for example, subscribes to an employment rate target of 77%, up from 75% in 2010, as shown in Table 9.1. If Germany achieves its 77% target by 2020 but fails to shift it to higher levels thereafter, that would cause employment to slump annually by no less than 1% between 2020 and 2040. That is, the country would have to more than double its pre-crisis productivity growth performance of 1.15% simply to generate an annual GDP growth of around 1.3%. For a 2% growth path, perhaps a more pertinent assumption in light of Germany's latest growth performance, productivity would have to triple.[3]

Given the magnitude of the productivity boost theoretically necessary, it becomes obvious that:

- Major progress is indeed needed to tap socially inclusive sources of productivity yields, *i.e.* the focus should be on education and skills formation in order to avoid either stagnation or productivity yields materialising in the form of capital deepening with little or no further job growth.
- The pressure to achieve sustainable economic growth levels cannot be resolved by productivity increases only: in the years following 2020 the number of people in employment must continue to increase. Logically, these would come from two sources (apart from longer work hours): a) attracting more immigrants from outside the European Union to live and work in Europe; and/or b) shifting the employment rate to levels beyond 75%.

9.2. The potential size of the employment gap and potential sources to fill it

This section concentrates on the situation after 2020 and attempts to arrive at a notion of how many workers would be missing in the European Union in the wake of a fast-shrinking workforce. Another simple assumption might help. First it is assumed that

Europe 2020 will be successful. More than 20 million jobs will be created over the next ten years and we will see the EU27 employment rate climb from 68% in 2010 to 75% by 2020. As a result, we assume that by 2020, Europe's social security schemes are financially stable and we will continue to see the economy on its sustainable 2% growth path.

Under these positive conditions the number of employed people will jump to 229 million, up from 2010's 208 million. Again for the sake of simplicity, it is assumed that employment is restricted to the age group 20 to 64. The ratio of dependent people (not in employment) per individual employed would then decline from 1.4 today to somewhere around 1.25 in 2020 despite the shrinking workforce.

The number of dependent people is considered to be:

Dependent = young (age <20) + old (>64) + non-employed (20-64)

In contrast to the demographic dependency ratio, this relation would give us information about *economic dependency* as it relates to the employment situation rather than simply age cohorts. It is thus referred to as the Economic Dependency Ratio (EDR).

EDR = dependent / employed (20-64)

= (total population – employed) / employed

= total population / employed – 1

It is assumed that policy makers throughout the European Union would consider maintaining the EDR in 2020 at levels then achieved, *i.e.* to keep it from climbing to levels of around 1.6 by the year 2060 (which would happen if the employment rate were to be kept constant at levels of 75%). That is referred to here as the "constant EDR scenario". How many workers would be missing relative to the reference scenario, where the European Union would just maintain its 75% EU2020 employment rate target, which may be called the "constant employment rate scenario"?

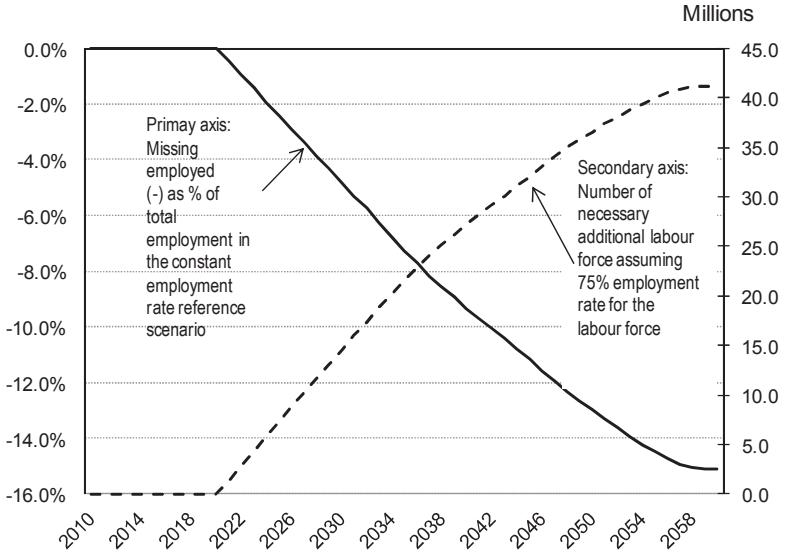
Following the definition of EDR, the number of workers necessary in the constant EDR scenario will then be given as:

Employed = total population / (EDR + 1),

where EDR = 1.25 for the years 2020 and after

Figure 9.2 reveals that no less than 15% of the workforce in the reference scenario would be missing in the very long run (solid curve). Were the European Union to fill these gaps through additional migration, the number of third-country nationals added to those already living in the European Union in the reference scenario would amount to more than 40 million people (broken curve) – even assuming a 75% employment rate for those migrants, which may appear ambitious in light of the current low immigrant employment rates in the European Union.[4] It may be justified, though, as a shift towards labour migration will certainly imply a stronger migrant labour market performance.

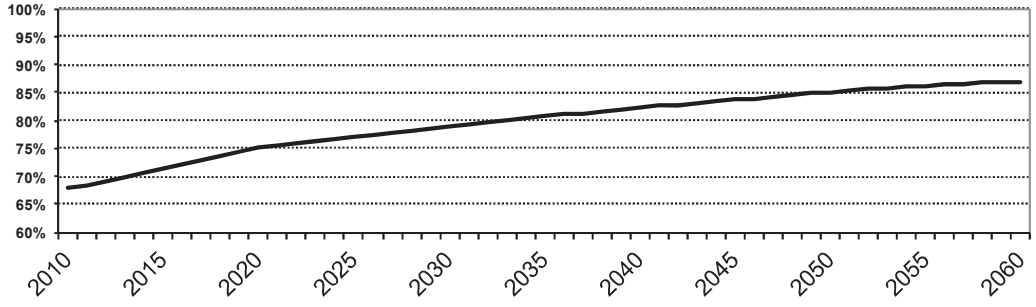
Figure 9.2. EU27: estimated missing employment after 2020 in the constant EDR scenario compared to the constant employment rate scenario



Source: Author's calculation based on Eurostat EUROPOP 2010 demographic projection and Eurostat Labour Force Survey.

Alternatively, without additional migrants, the employment rate necessary in the constant EDR scenario would approach 90% in the long run (see Figure 9.3)

Figure 9.3. EU27: imputed theoretical employment rate necessary without additional workforce (in constant employment rate scenario)



Source: Author's calculation based on Eurostat EUROPOP 2010 demographic projection and Eurostat Labour Force Survey.

In a number of member states the situation will grow even more acute. In Spain, the hypothetically missing labour force in the constant EDR scenario would amount to some 19% of the workforce in the reference scenario. That is, either some 5 million more migrants would be needed (assuming Spain's employment rate target of 74%; see Table 9.1), or the hypothetical shift in the employment rate would cause it to soar to levels close to 90%.

9.3. Some policy considerations

Sections 9.1 and 9.2 reveal that the demographic change and its resultant shrinking workforce will constitute a huge challenge for European policy makers, who will be forced to take decisive action in order to maintain the living standards to which European people have grown accustomed over the past decades. The analysis has assumed that policy actions were concentrated solely on productivity shifts (Section 9.1) and solely on migration and further shifting the employment rate (Section 9.2).

The results demonstrate that given the magnitude of the changes ahead, none of these policy strands would be able to prevent welfare losses if implemented as stand-alones. Doubling or tripling productivity growth would be hard to imagine from today's perspective. And neither the hypothetically necessary number of migrants nor a 90% employment rate threshold is very likely to become a realistic scenario. That is, European policy makers must include all of the following elements in a comprehensive policy mix in an attempt to help cushion the impact of the shrinking workforce to the largest possible extent:

- Shift productivity by structural policies in favour of further investment in innovation and human capital formation.
- Make an effort to achieve the EU2020 employment rate targets and go beyond those over the years following the year 2020.
- Apply a transparent approach towards migration that better addresses the needs of the labour market.
- Invest in integration measures for immigrants already living in the European Union, in order improve their low labour market participation.

The analysis will now focus on the objective to *further improve the employment rates* in the European Union in future decades. It first considers what further potential could arise from regions that currently show employment rates much below average, before examining the extent to which regional mobility may help achieve more ambitious employment rate targets.

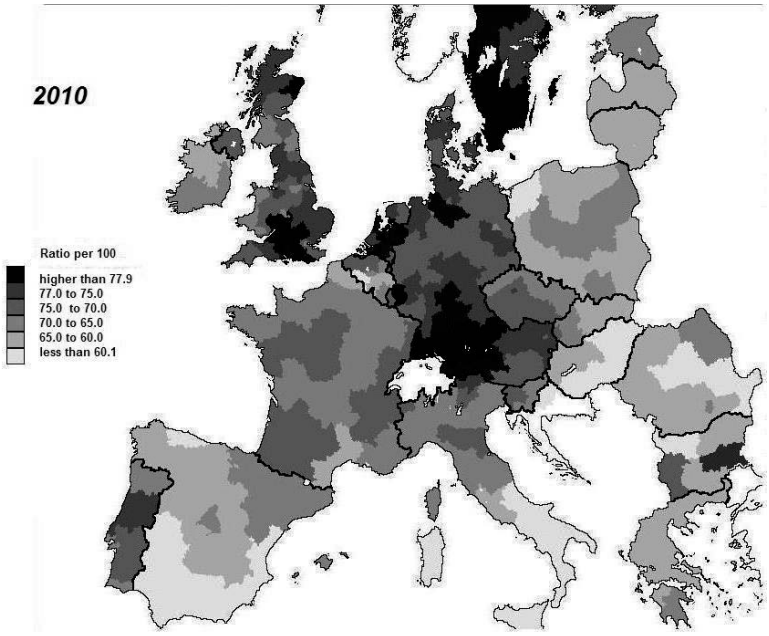
9.4. Europe in the long term: the EU's potential to go beyond 75%

Based on the simple approach presented in Sections 9.1 and 9.2, one might wonder about the EU's actual potential to further improve employment rates once the 75% target is achieved by 2020. Such considerations are justified since employment rates vary greatly, not only across countries but also across regions (see Figure 9.4).

In other words, countries manage to tap local human resources to a very different extent – a certainty reflected in the extent to which the national Europe 2020 targets, as laid down in the national reform programmes, differ from country to country (Table 9.1).

However, if we consider the 75% EU employment rate target an objective that *all* European regions could approach in the long run, this might give us an idea about the extent to which Europe might further improve its employment performance beyond Europe 2020. Instead of assuming the constant employment rate scenario, which settles for keeping the 75% employment rate over the decades following the year 2020, one might assume progressive improvements as those regions that have not caught up to 75% by 2020 will likely manage to do so by 2030. Those regions are referred to as "latecomers".

Figure 9.4. 2010 employment rates in the European Union (regions at NUTS-2 level)



Note: NUTS = Nomenclature of Statistical Territorial Units. Dark spots indicate high employment rates.

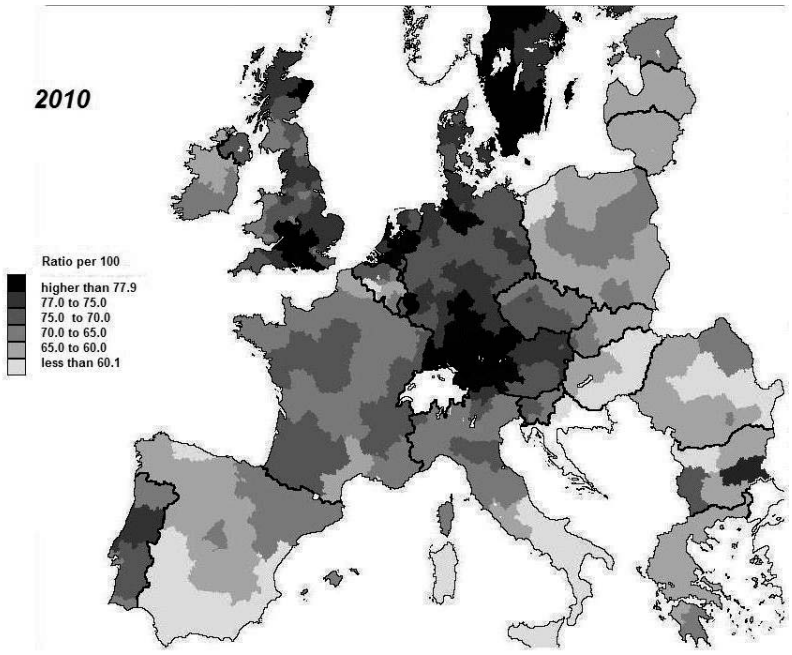
Source: Eurostat Labour Force Survey.

A socio-demographic projection tool used here was developed within the European Commission (DG Employment) for projections at the regional level (see Annex 9.A1 for the model's population projection). The regions are defined at the NUTS-2 territorial units level[5] – at which the European Union can count some 270. In order to compare the resulting EU employment pattern to the constant employment rate scenario described above, the new estimation uses regional employment rates and working-age population as projected for 264 regions. Afterwards, employment and population figures over regions are added together in order to calculate the EU27 overall employment rate, which is finally applied top-down to the EUROPOP 2010 national level population projections. Unlike EUROPOP, the regional model projection horizon will not exceed 20 years; analysis of Europe's further employment potential therefore does not extend beyond the year 2030.

However, in the absence of official employment rate targets for regions, it is assumed that the national targets shown in Table 9.1 will be applied to the regions – that is, regions of the same country have been assigned the same target. Starting from the year 2010, the regional employment rates will be shifted so as to make the respective country meet its employment objective by 2020. The extent of the shift corresponds to the last column in Table 9.1. The result is presented in the 2020 chart of Figure 9.5, for the year 2020 where all European regions will have considerably improved their employment performance, but with 107 regions falling short of the 75% overall target that the European Union will have approached on average. Now it is assumed the latecomers catch up to 75% by 2030. The result is presented in the 2030 chart of Figure 9.5. One can easily see from the difference between Figures 9.5b (2020) and 9.5c (2030) that it is Southern Italy, Southern Spain and many regions in Eastern Europe that would have to make enormous progress in further activating their local workforce.

Figure 9.5. Employment rates in the European Union, 2010, 2020 and 2030 (regions at NUTS-2 level)

9.5a. 75% average rate 2010-20, latecomer scenario 2020-30



9.5b. Europe 2020 (75% average)

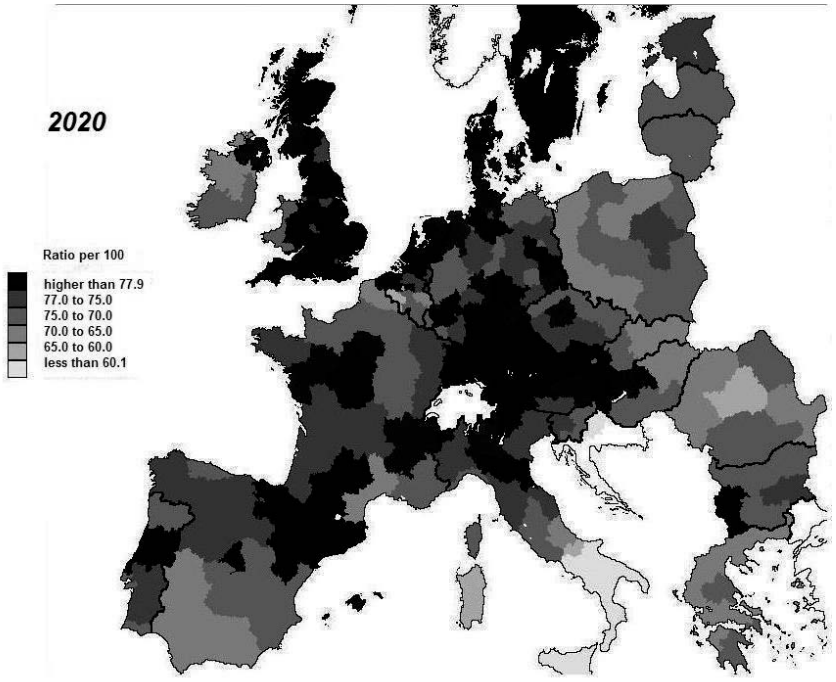
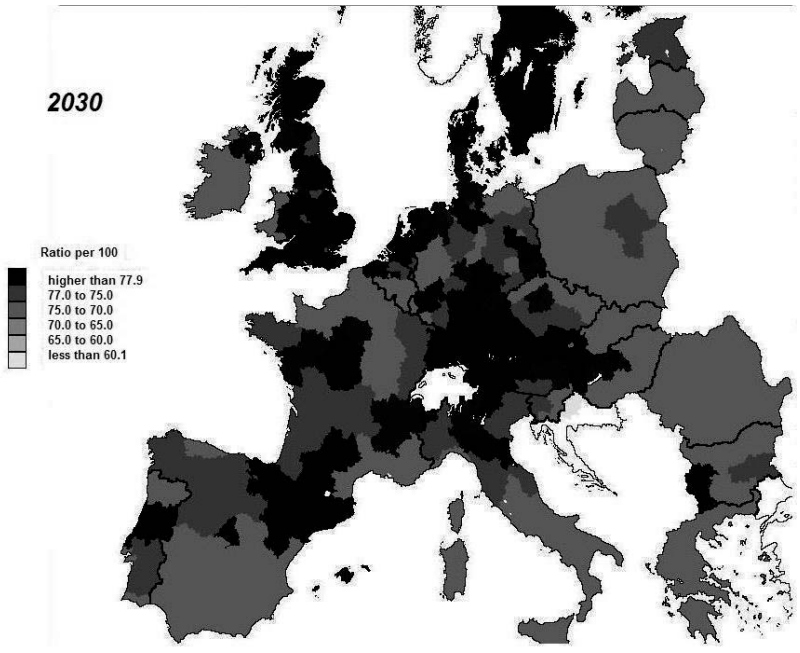


Figure 9.5. Employment rates in the European Union, 2010, 2020 and 2030 (regions at NUTS-2 level) (*cont'd)

9.5c. Latecomer scenario

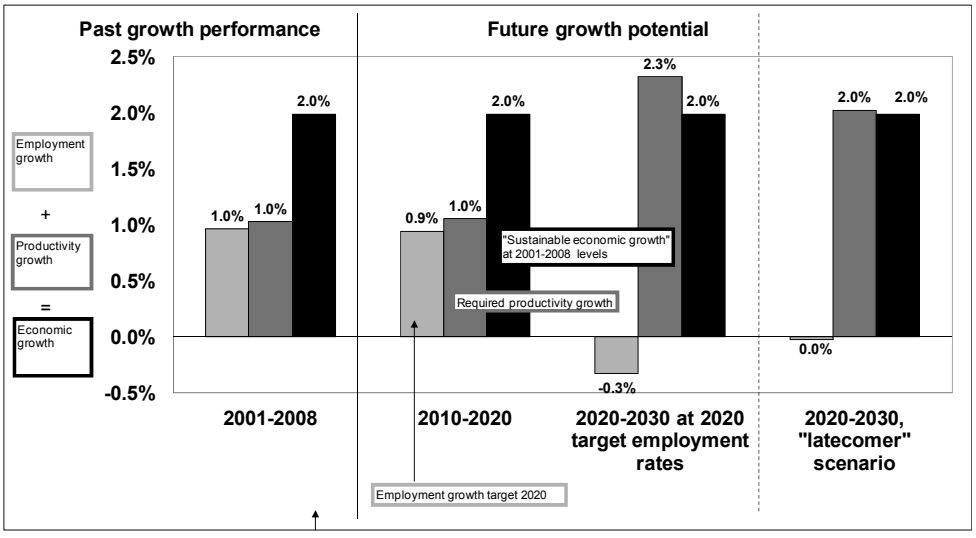


Source: Author's calculation based on DG Employment's regional socio-demographic projection; Eurostat local population data and Eurostat Labour Force Survey; darker colours indicate high employment rates.

Comparing results shown in Figure 9.5 for the EU27, to the case where a constant employment rate of 75% was applied for the period after 2020, the following picture emerges (Figure 9.6).

Figure 9.6. Computed annual employment growth at a targeted employment rate of 75% achieved by 2020

Constant employment rate scenario plotted against latecomer scenario



Source: Author's calculation based on DG Employment's regional socio-demographic projection, Eurostat EUROPOP 2010 demographic projection, Eurostat Labour Force Survey and Eurostat local population data.

Instead of a -0.3% employment decline (third trio of columns), the European Union could manage to keep its workforce in employment roughly constant over the decade starting in 2020 (last trio of columns). The difference would cumulate by 2030 to some 7 million workers or some 3% of total employment in the constant employment rate reference scenario. The European Union would shift its average employment rate upward to 77.3% by 2030 (Gáková and Dijkstra, 2008). That is, there is potential to further shift employment rates by some 2.3 percentage points if Europe manages to trigger employment, particularly in those regions that now perform least favourably. The increment of employment would, however, ease the pressure on productivity only slightly; productivity would still need to grow twice as fast as in the recent past in order to keep the 2% long-term growth path here considered able to sustain welfare standards.

9.5. Will mobility help?

As shown in the previous section, geographical dispersion of labour supply and labour demand is still considerable in Europe. A number of regions face unused labour resources while others are successfully activating their local workforce. Clearly, the situation calls for the promotion of international as well as intra-national mobility to better locally match labour supply and demand. This section presents evidence that the current mobility pattern will drag down population turnover in Europe's regions.

Regarding cross-border movements, the 2008 United Nations World Population Prospects reveal that net migration across Western Europe is only 1.7 per 1 000 population over the period 2005 to 2010, about half the level of the United States (3.3 per 1 000 population); big member states – Germany (1.3), France (1.6) and the Netherlands (1.2) – are below average. In terms of mobility across regions, Gáková and Dijkstra (2008) find that in 2006 the share of EU residents who arrived in another EU NUTS-2 level region represented less than 1% of the working-age population – compared to 2% for inter-regional mobility in the United States. Moreover, some 85% of these moves happened between regions of the same country, again pointing to particularly low international mobility profiles across Europe.

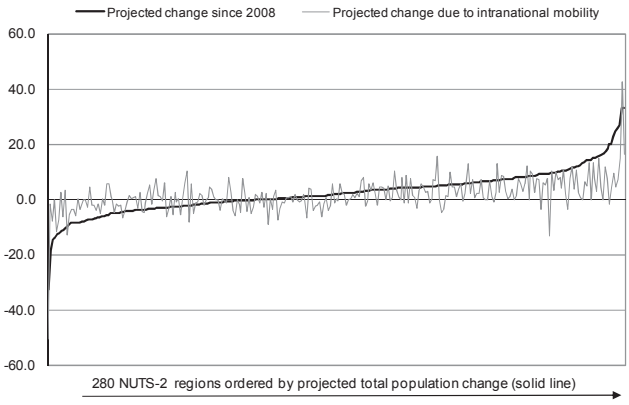
Modelling mobility across European regions is very difficult because data are largely unavailable. Data gaps prevent explicitly taking on board the issue of mobility in DG Employment's regional socio-demographic projection model. Hence, as it stands now, the model does not have a mobility sub-model. Regional population by gender and age group (as well as educational attainment level and employment status) is instead being projected in total, *i.e.* not broken down further by socioeconomic characteristics that might be of interest, such as the country of origin.

We can however extract, albeit imperfectly, the contribution of intra-national mobility to projected local population changes. If one plots a region's (local) population as projected by the model against the local population projected on the basis of *national* average assumptions on survival rates and fertility (project location X using the national average instead of local drivers of change), much of the difference would be attributed to population changes due to intra-national mobility – people moving from one region to another within the same country or internal migration (see Annex 9.A1 for further explanation).

Figure 9.7 shows regional population changes over the 2008-18 period (solid black curve) and the contribution to these changes from intra-national mobility (grey curve). For data quality reasons the figure begins with 2008 rather than 2010. Moreover, given that uncertainty is already high with respect to the considerations regarding mobility, the projected horizon is restricted to only ten years, as uncertainties beyond that point become more significant.

Figure 9.7. Mobility pattern in Europe: projected population change from 2008 to 2018

Percentage of population, 2008



Source: Author's calculation based on DG Employment's regional socio-demographic projection, Eurostat local population data and Eurostat Labour Force Survey.

Note that the 280 NUTS-2-level regions taken into consideration here (some of which are outside the European Union) are ordered alongside the x-axis by their projected proportional change in ascending order. As a consequence, the black curve indicating those changes is continuously increasing. The unstable grey line depicts the population change over the current decade resulting from intra-national mobility.

On the left side of the figure there are the regions that will lose population numbers. That is often due to the decreasing number of potential mothers, which eventually leads to low birth rates – a phenomenon that occurs in some spots in the Eastern member states. On the right side of the scale, many regions in Spain are projected to remain among those that will gain the most people, as they have in the past. It was international immigration that played a strong role in explaining positive population changes in growing regions.

However, it is interesting to find what intra-national mobility appears to contribute to the regions' overall population turnover. In the middle area where the overall changes are not that significant, the two curves align rather closely. That is, for most European regions there is a moderate projected total population change and moderate contribution of in-country mobility to that change. In fact, for more than two-thirds of the 280 regions the projected in-country mobility population change over the ten years considered is between -5% and +5%, equivalent to a per annum maximum change of 0.5% in whatever direction. On the left side of the figure where the projected population change becomes significantly negative, intra-national mobility seems to stick to the x-axis. In other words, mobility patterns seem to slow down the population slump in those regions losing people**.** Only at the other extreme, where locations are projected to gain the most people, does there appear to be a more significant contribution from intra-national mobility. All in all, the picture of low intra-national mobility seems to be confirmed.

From the point of view of resource efficiency and optimal factor allocation, it would be desirable for unused labour in region *x* to move to economically growing region y where there are vacancies. The person in question would take part in local production in *y*, adding to total labour force productivity and easing the pressure on productivity imposed by the shrinking overall workforce as depicted in Figures 9.1 and 9.6. The analysis shows that Europe's mobility patterns appear to be a brake rather than an accelerator to regional population dynamics, so these resources are hardly tapped. Hence,

there should be enormous potential for further improving overall employment rates by promoting inter- and intra-national mobility in the regions. Future research should focus on mobility's contribution to overall employment performance – supported by better data on population movements across European regions.

9.6. Focus on education for higher productivity increases

The previous sections concluded that Europe has room for improvement and to cushion the impact of the declining workforce on total employment, through higher employment rates, further qualified migration and higher mobility. However, pressure on productivity will increase. Coming back to the initial notion of GDP growth, where GDP growth equals the sum of employment and productivity changes, the rise in productivity that will be necessary raises the question of education.

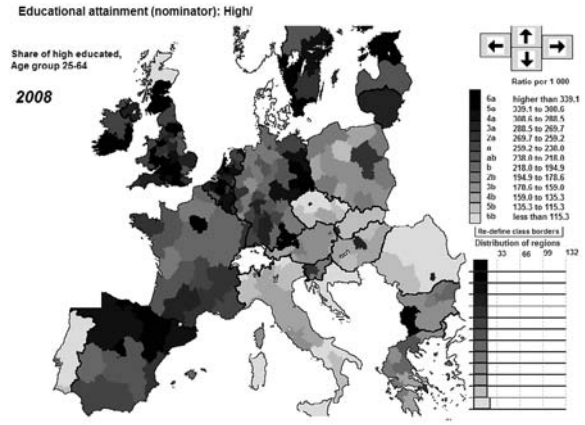
The regional model is used in order to more accurately depict where Europe has potential for improvement. The model supports the projection of educational attainment level per ten-year age group, beginning with the group aged 25 to 34 years – *i.e.* a young workforce for which part of the educational progression observed in the past can be observed in the coming two decades as well. Regional LFS time series are taken on board as concerns educational attainment levels per age group and gender from 1997 to 2008. However, there are a number of data gaps in the 12-year series, so that the share of 25- to 34-year-olds holding high educational degrees (tertiary level, ISCED classification 5-6)[6] cannot be projected by using log-linear extrapolation for every region considered.

Hence, in line with Coomans (2005, p. US8), in order to apply the same model across all regions, "educational progress" for the youngest cohorts (aged 25 to 34) is proxied by extrapolating part of the difference between the youngest (25-34) and the second youngest (35-44) age groups' percentages of those highly educated observed as an average over the most recent years for which data are available.[7] If on average the 25- to 34-year-olds in year t hold higher educational degrees than people aged 35 to 44, that implies that part of this cross-sectional educational shift will follow into t+10 for the then 25- to 34-year-olds. Thus when projecting the number of people by age, gender and educational attainment levels, a certain *structural age-specific educational progress* is implicitly assumed (see Annex 9.A1).

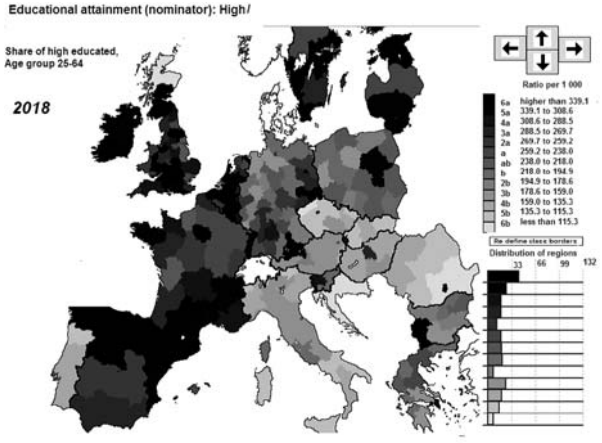
How then is the number of highly educated people in European regions projected to evolve? Figure 9.8 shows the share of highly educated individuals (with a tertiary degree) in the total age range from 25 to 64 years – Figure 9.8a being the situation in 2008. Figure 9.8c shows a projection of the share holding high educational degrees in the year 2018 incorporating the structural educational progress described. The figure indicates that it is well possible to boost the share of highly educated persons in many member state regions: almost 90% of the European NUTS-2 regions considered are projected to see an increase of that share, though the level of the shift varies significantly.[8] The majority of member states see all of their regions improve their educational profile. Roughly a third of the European regions see the share of highly educated persons shift by five percentage points or more. Among the bigger member states this is particularly true for regions in France, Spain and Poland: with age-specific educational progression continuing, those regions are set to substantially increase the share of highly educated people despite a changing age structure (population ageing may actually decelerates educational progression as older people normally hold lower educational degrees). On the other hand, there is scope for improvement in countries such as Italy, where the model projects the relatively slow progress observed in the past and/or the progress by cohorts held back by the increasing share of older people.

Figure 9.8. Regional educational attainment: share of highly educated people in 100 people aged 25-64 today (in 2008) and projected for 2018

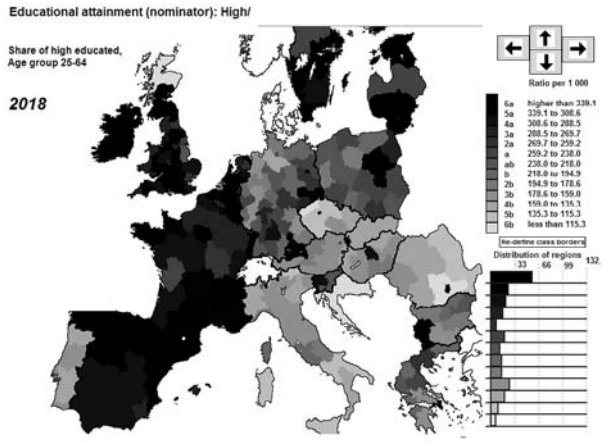
9.8a. Share of people holding high educational degrees within the age group 25-64 years in 2008



9.8b. …in 2018, assuming *no* structural educational progression for the 25- to 34-year-olds



9.8c. …in 2018, including structural educational progression for the 25- to 34-year-olds



Source: Author's calculation based on DG Employment's regional socio-demographic projection, Eurostat Labour Force Survey and Eurostat regional population data; no data for Hungary, Denmark, Norway, Switzerland, Turkey and part of the United Kingdom.

In order to depict the impact of structural educational progress, Figure 9.8b shows the projection for the share of highly educated people with the structural effect being "switched off" in the model. Of course, the magnitude of the educational shift from 2008 to 2018 is lower on average compared to the model with structural progress in effect – only a slight improvement is visible for a number of member states compared to the situation in 2008. Still, some 90% of the regions under consideration show a rise in the share of people holding higher degrees: in 14% of the regions the rise is five percentage points or more. This result reflects a cohort effect: the young cohort's relatively favourable educational profile will lead to an educational shift across the entire age range 25-64, also in the future as increasingly more (higher educated) youth enter the 25-64 group and increasingly older (less educated) people drop out. So even if the respective young cohorts do not see any further educational progress in the future, the cohort effect will lead to an overall increase in the percentage of people holding higher educational degrees. A further improvement is then added by the structural educational progress.

9.7. Conclusions

The European Union will be facing unprecedented hurdles as the number of people available for the labour market will decline sharply beginning in the middle of the current decade. A decline in the number of people in employment appears inevitable, so that the pressure to increase productivity will multiply over the next decades. It is up to Europe's policy makers to cope with these changes in order for the European Union not to fall behind current welfare standards, to cushion as much as possible the impact of the decline in the working-age population on employment, and to encourage and support stronger productivity growth rates.

Given the magnitude of the changes, single policy strands such as activation measures, more open migration or structural policy to foster economic growth (though successful in the past) will reach their structural limits unless part of a broader policy package. Europe 2020 is the framework for such a comprehensive growth strategy. Quantified targets to which member states have committed are not restricted to the employment objective. They also explicitly subscribe to productivity-related objectives: support better education, encourage stronger innovation, invest in research and development, and reduce poverty and social exclusion. Various flagship initiatives help conceptualise the strategy and support member states in their effort to cope with future challenges. However, the analysis shows that our concern should not stop in 2020. Strategies need to be longer term in nature, as the demographic shift will only become more pronounced after 2020.

Notes

1. The employment target is but one of EU2020's core objectives; for the others, see the Communication from the Commission "Europe 2020 – A Strategy for Smart, Sustainable and Inclusive Growth". The EU2020 strategy was adopted by the European Council on 17 June 2010.

2. With some statutory retirement ages shifting beyond 65 years in some member states and governments making an effort to shift to youth employment, a broader definition may be pertinent. However, there is no Europe 2020 employment rate target for age cohorts beyond 20 to 64 years. That is, if the working-age population were defined as, say, between 15 and 69 years, additional assumptions about the employment rate shifts for the age groups 15-19 and 65-69 would be required. Assuming those age groups shifted their employment rate by 6.5 percentage points by 2020 as would the 20-64, this would result in no significant changes compared to what is depicted in Figure 9.1: the imputed annual employment growth for EU27 would be slightly higher between 2010 and 2030 (+0.2 percentage points).

3. However, unlike the European Union's total population, Germany's total population is projected to shrink considerably beginning this decade. In order to be accurate, "satisfactory growth" levels of 2% might be consistent with per capita GDP growth of 2.2% (over the current decade), 2.3% (2020-30) and 2.4% (2030-40), respectively, so that there would be some relief. The notion of "sustainable growth" is used only to show the potential impact of labour force decline on welfare levels. It would not become less arbitrary if applied per capita. A prediction of what will actually be considered "sufficient growth" is impossible in any case.

4. The employment rate of immigrants in the European Union is currently 58%, *i.e.* some 10 percentage points below the overall employment rate for the 20- to 64-year-olds.

5. NUTS: Nomenclature of Statistical Territorial Units; see *http://epp.eurostat.ec.europa.eu/portal/page/portal/nuts_nomenclature/introduction.*

6. ISCED: International Standard Classification of Education; see *http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:ISCED.*

7. The same is being done with the share of people with a low level of education, the medium educated being the residual.

8. See also the frequency plot at the bottom (right) of each chart. The tool distributes all regions across 13 equal quantiles in the initial situation (here, the year 2008) – the frontiers of each class being given by the chart middle-right. Hence, when scrolling through time (having in view the frequencies bottom-right), the user will see the distribution change and can relate these changes to the profile in the initial situation.

Bibliography

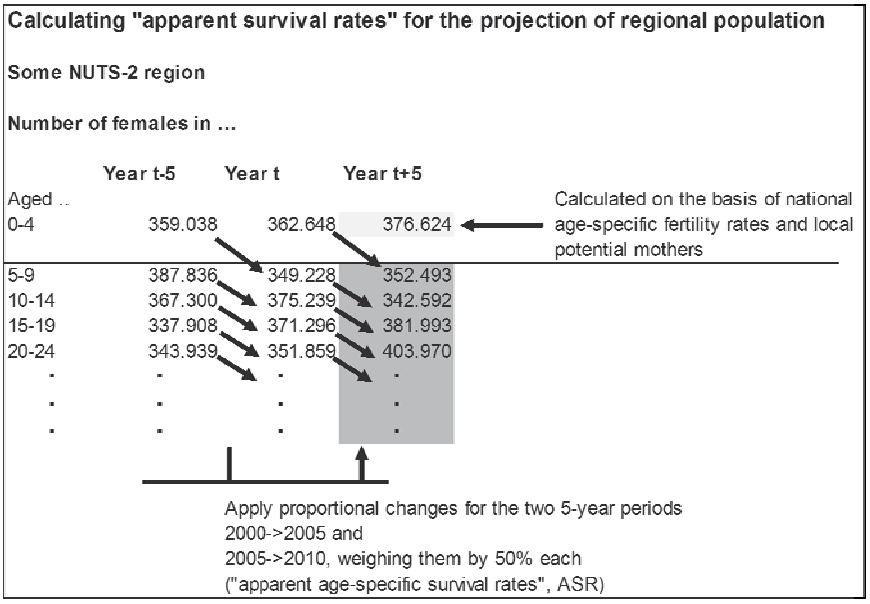
Coomans, G. (2005), *Atlas of Prospective Labour Supply 2005*, GeoLabour.

Gáková, Z. and L. Dijkstra (2008), "Labour Mobility between the Regions of the EU27 and a Comparison with the USA", *Regional Focus 02/2008*, European Commission, DG REGIO.

Annex 9.A1

Main assumptions and methodology

Figure 9.A1.1. DG Employment's regional projection model's "shifting population projection"



Source: Author's calculation based on DG Employment's regional socio-demographic projection, Eurostat regional population data and Eurostat Labour Force Survey.

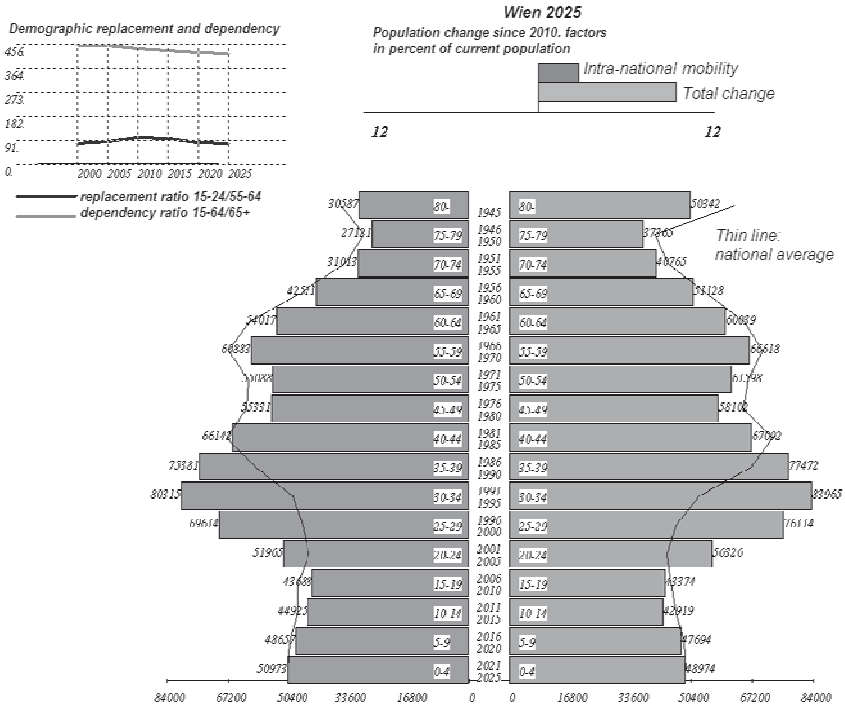
The number of people in the youngest age group (zero to four years) is calculated on the basis of national average age-specific fertility rates and the local number of potential mothers.

The number of people in each five-year age group is calculated using the methodology of "shifting projection" – according to the method first applied by Coomans (2005, p. US8). Taking the example of 100 males in a certain five-year age cohort *x* in 1998, five years later (in 2003) the number of males of age group *x+5* may be 105. The cohort has thus grown by 5% – the apparent survival rate (ASR) for this cohort being 1.05 over the period 1998 to 2003. If 2003 to 2008 resulted in an ASR of 1.02 (resulting from a further 2% increase), this means that for the projection periods an ASR for age cohort *x* equaling:

$$(1.05 + 1.02) /2 = 1.025$$

The software tool will take the ASRs and the age-specific fertility rates as default parameters that can be changed by the user, facilitating sensitivity analyses. On top of that, any region can be projected on the basis of any other region's or the national average assumptions.

Figure 9.A1.2. Intra-national mobility

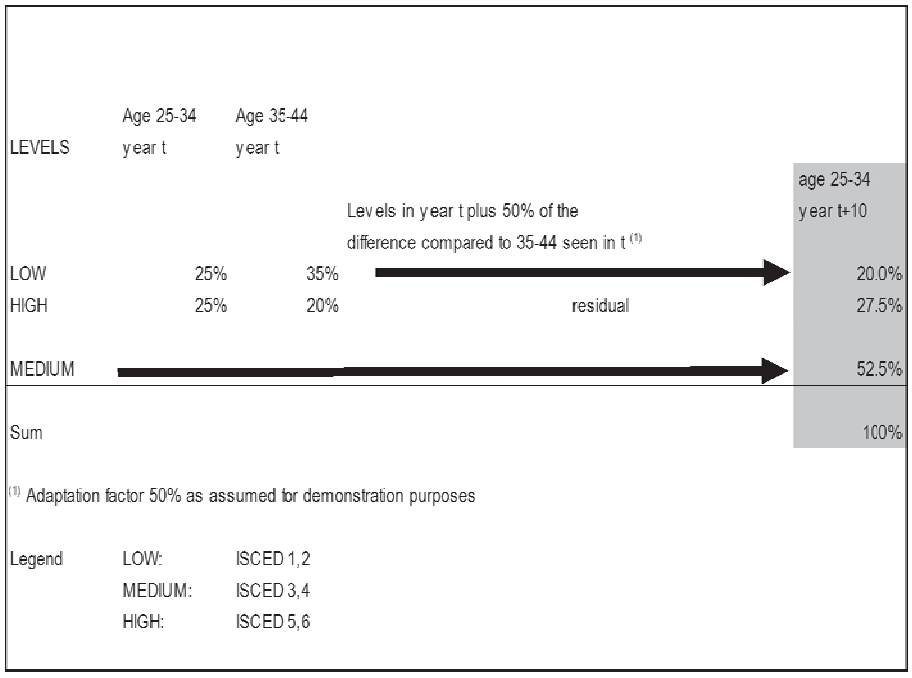


Source: Author's calculation based on DG Employment's regional socio-demographic projection, Eurostat regional population data and Eurostat Labour Force Survey.

If national average (instead of regional) apparent survival rates were applied to a region's 2008 initial regional population, this would result in a projection for that population corresponding to the one indicated by the thin line in the Figure 9.A1.2. In the figure's example, Vienna's total population projected for 2023 (depicted by the tree) that would result from applying the genuine region-specific ASR assumptions would be higher compared to the "fictive" one calculated on national average assumptions. It is obvious that the main reason lies in Vienna's relative attractiveness for the young working-age population, offsetting slightly lower projected populations across the other age groups. Hence, one would conclude that the intra-national mobility balance for the region selected here would be positive. In other words: intra-national mobility's contribution to the region's total population shift would be positive at least over the projection period 2008 to 2023**.**

Figure 9.A1.3. Modelling educational progression

Percentage of people aged 25-34 holding three different educational attainment levels



Source: Eurostat Labour Force Survey: Fraction of people in age group 25-34 holding three different educational attainment levels.

Educational attainment levels are here modelled for ten-year age cohorts. LFS data comprise the educational attainment levels at NUTS-2 geographical level over the period 1997 to 2008. The share of highly educated people (by gender) are modelled explicitly for the youngest workforce (aged 25 to 34 years). Log-linear projection for the share of the highly educated would be possible if there were no gaps in the data over the 12-year time series. However, (numerous) data missing in a number of regions make it impossible to apply this technique for every region considered; consequently, in order to model educational change the same way for all regions, a very simple and static technique is applied. The starting point is the average of the share of highly educated persons over the most recent years where there are data available. Considering this average as the base year t (which currently is 2008), the share of the highly educated in t+10 will be the share in t plus a fraction of the cross-sectional progression in t, *i.e.* the difference between the share of highly educated persons aged 25-34 and the share of highly educated persons aged 35-44. That is, when projecting the number of people by age, gender and educational attainment levels, a certain progress is implicitly assumed. As for pure demographics, all parameters are considered default values by the software tool and will be subject to changes by the user.

Chapter 10

Changing demographic, educational and migration patterns in new EU member countries

by

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This chapter addresses future labour market needs in new European Union member countries, viewed through the prism of recent and projected demographic, educational and migration developments. A comparison is made between developments in the new member states (NMS or EU12) and in the old member states (OMS or EU15). As the demography-education-migration nexus is too complex an issue to be discussed in detail here, the focus is on aggregate trends rather than microeconomic issues. Data used for analysis throughout are secondary, drawn from public EU and OECD databases, with migration and no migration options developed by Eurostat and migration statistics by the OECD. Findings are supplemented by the results of several ad hoc *case studies and observations from new member states on general patterns at the national level.*

Introduction

This chapter addresses future labour market needs in new European Union member countries, viewed through the prism of recent and projected demographic, educational and migration developments. A comparison is made between developments in the new member states (NMS or EU12) and in the old member states (OMS or EU15).[1] As the demography-education-migration nexus is too complex an issue to be discussed in detail here, the focus is on aggregate trends rather than microeconomic issues. Data used for analysis throughout are secondary, drawn from public EU and OECD databases – notably the demographic projections for EU member states, with migration and no migration options developed by Eurostat and migration statistics by the OECD. Findings are supplemented by the results of several *ad hoc* case studies and observations from new member states on general patterns at the national level.

The choice of demography, education and migration as parameters implies a supply-side approach, and indeed labour market needs are here determined from the characteristics of the population (*e.g.* activity rates and educational attainments) rather than from the characteristics of firms (*e.g.* the level of economic activity).[2] Of the three factors, demography has the largest weight. However, its effects cannot be judged in isolation from the other two: there are feedback mechanisms and mutual linkages among the three. That stated, the method here is based on demographic forecasts for EU member states (EU12 and EU15), which are further refined to account for the presence or absence of migration. Education enters into the analysis through several channels, the most important ones being the activity rate of the population and the tertiary educational attainments. It is noteworthy that these parameters are used by the European Union to formulate targets for the Europe 2020 Strategy.

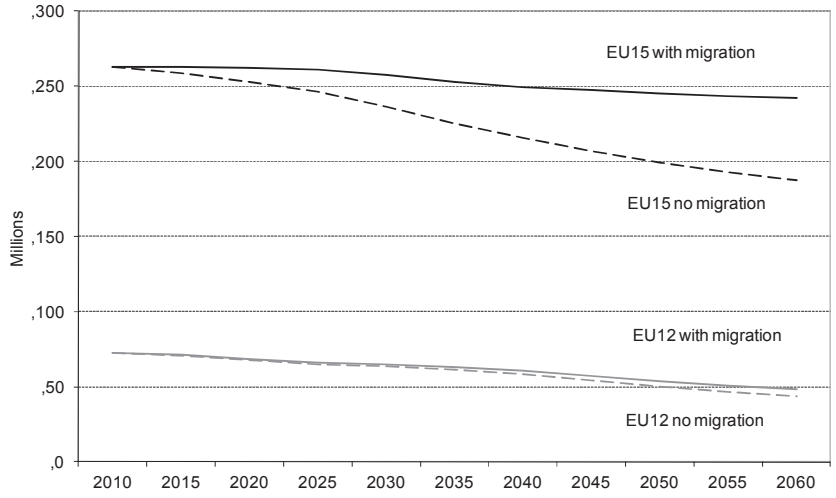
10.1. Changing demographics: the role of migration in maintaining the active age population in the European Union

This section assesses the importance of migration in maintaining the numbers of the active age population in EU12, comparing the situation with the one in EU15. Migration effects are illustrated by comparing two demographic options: future population development with and without migration. Eurostat demographic forecasts are used for EU27 until 2060 with both options. While assumptions about basic demographic parameters, such as fertility rates and gender-specific life expectancy, are the same for both options, the no migration option further assumes zero net migration flows.[3] This implies a situation where the total population change is driven by the natural population change. Figure 10.1 shows the future development of the active age population (15-64) for EU12 and EU15 under migration and no migration options. It is immediately obvious that migration is not an important component of active age population change in EU12, as it is in EU15. While for EU12 the projected population number (even) in the year 2060 does not differ very much between the migration and no migration options, the difference within EU15 is significant.

These differences are plotted separately in Figure 10.2, which implies that by 2060 the option without migration lowers the active age population in EU12 by 4.4 million persons (or about 10% of the active age population), and by almost 55 million persons (or almost 23% of active age population) in EU15. Of course, the absolute figures presented here critically depend on the forecasting method as well as the assumptions regarding characteristics such as fertility and mortality rates, and the forecasting accuracy declines

with the increasing time horizon. However, the methodology and assumptions are uniform for both EU12 and EU15 forecasts. The fact that the same method based on current data delivers such a sizeable difference in the results documents that the relative importance of migration for demographic development is in fact different between the new and old member states, having much lower weight for the former group.

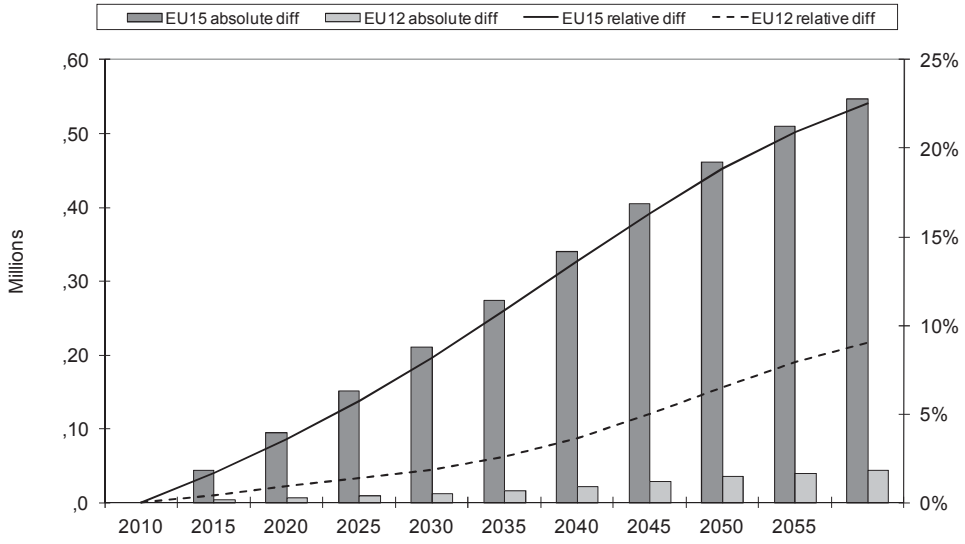
Figure 10.1. Working-age population projections for EU12 and EU15 with presence or absence of migration



Note: No migration option assumes zero net migration flows, *i.e.* population change is due to natural change only.

Source: Author's calculation based on population forecast by Eurostat.

Figure 10.2. Differences in population aged 15-64 with migration and no migration options



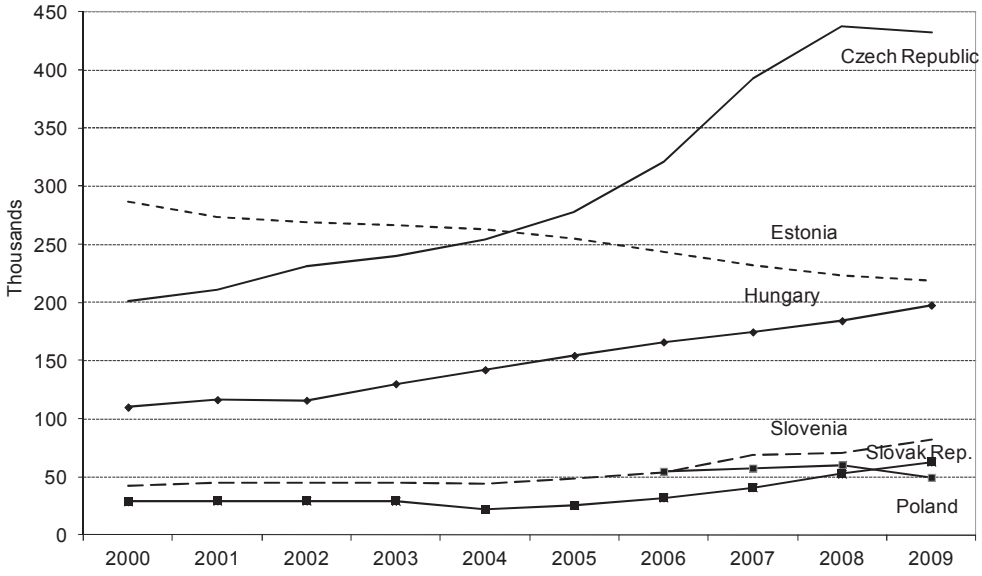
Note: The left axis shows absolute difference in millions of persons; the right axis shows relative difference in percentage of the active age population between the migration and no migration option.

Source: Author's calculation based on population forecast by Eurostat.

10.2. Structural considerations – ageing and foreign populations

It was expected that after joining the European Union the new member states would attract larger inflows of migrants than before – and indeed, following the EU accession, migration dynamics in many EU12 countries have intensified. However, this process has not so far yielded sizeable increases in foreign population numbers. Figure 10.3 shows foreign population development in selected EU12 countries over the previous decade, according to the *OECD International Migration Database*. It can be seen that the only country with a more sizeable increase of foreign population stock during the period was the Czech Republic. In some of the countries shown the stocks of foreigners have even declined following EU accession, for several reasons. First, while migration flows in most of the new member states have increased substantially in relative terms, the overall change was low in absolute terms as well as in proportion to the population. Secondly, it seems that the established networks and immigration patterns in the EU15 countries are deeply rooted and persistent; migrants from third countries continue to be attracted to these traditional destination countries, reacting little to the fact that new countries have joined the European Union. Finally, for those emigrating from EU countries, the migration regime and monitoring of movements is less strict; their movements can go unrecorded in the data. There are large shares of such privileged migrants in many EU12 countries.

Figure 10.3. Development of foreign population stocks in selected new member states



Note: Data refer to total stocks of foreign population.

Source: OECD International Migration Database.

With respect to the nationality of migrants, EU12 countries on average exhibit higher shares of migrants of European origin (both EU nationals and third country nationals). According to Eurostat (2011), in 2010 EU nationals formed a majority of foreigners in Cyprus,[4] the Slovak Republic and Hungary. The nationality composition of migrants in several EU12 countries is thus substantially different from that in the EU15, which has implications for the integration of migrants – including their labour market integration. Another distinctive feature of many NMS is the massive out-migration of their own

nationals that took place during the two decades of economic transition and led to tangible losses in terms of population and labour force.[5] For example, in Bulgaria it is estimated that the emigration of the past two decades led to the loss of 6.1% of the population and 10.1% of the labour force. Expert estimates for Romania suggest that the recent loss through emigration amounted to about 10% of its total population. In some of these countries the long-term emigration stream is already subsiding; in Poland for example, registered emigration has been decreasing and immigration increasing since 2006, and in Romania the 2010 outflow was lower than that in 2006 by 44%. However, in other NMS with a tradition of emigration, emigration again gained momentum. Lithuania, for example, originally had massive emigration mainly to CIS countries; recently, outflows have been picking up again with a new orientation towards the EU countries (the United Kingdom and Ireland received more than 65% of the 2010 outflow). Thus the emigration of nationals remains a serious concern for the new member states.

Examination of the age structure confirms that European Union's population as a whole is indeed ageing. Major breaks come however, with different timing for the new and existing member states. Currently the EU12 exhibit on average lower dependency ratios than the EU15, with the lowest values recorded by Eurostat in 2010 in the Slovak Republic (38%) and Poland (40.4%) as compared to the highest ratios in France (53%) and Sweden (52.5%). Therefore, the age pyramids are in general thicker at the younger end in the EU12 than in the EU15 and *vice versa*. However, trends in fertility and mortality rates in the EU12 countries imply that these countries are also set to have an overall ageing of population; there will still be major swaps between older and younger population cohorts ahead as the more numerous younger cohorts gradually make their way through the demographic age pyramid. However, as several old member states are grappling with issues of migrant integration – including second generation migrants, xenophobic moods, etc. – and most new member states have not been exposed to and thus have little experience with these agendas, migration should not be perceived as a "mechanical solution" to population ageing in the European Union, nor to skills shortages. Rather, solutions should be found in better utilisation of the existing potential and smarter education and skill management processes.

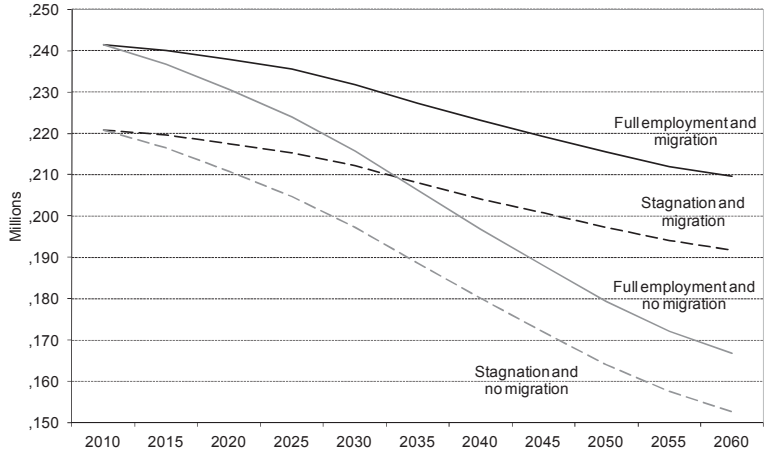
10.3. The labour market needs implied

This section discusses how future demographic developments in the EU12 countries are likely to influence the numbers of jobs needed to keep certain levels of economic activity in their populations. These projections of labour market needs are based on the above-discussed population forecasts by Eurostat, and a comparison is made with the likely situation in EU15. The author works with two levels of activity rate for the predicted period: the first is fixed at the *actual employment rate achieved in 2010*; the second is fixed at the *actual economic activity rate achieved in 2010*. The difference between these is that while the employment rate measures the proportion of the population in a certain age group that is employed (thus successful in terms of getting jobs), the activity rate measures the proportion of the population in a certain age group that is economically active (*i.e.* either employed *or* unemployed, thus only partial successful in getting jobs).

The prediction concerns the number of jobs that will be needed in EU12 for the population aged 15-64 in order to: a) keep the employment rate at its 2010 level (a stagnation scenario), and b) raise the employment rate to the level of the 2010 activity rate (a full employment scenario).

Case (a) can be considered a stagnation scenario in the sense that it keeps fixed the proportion of active age population that was able to get into employment in 2010. Case (b) can be considered a full employment scenario as it fixes the employment rate at the level where all persons economically active in 2010 would be in employment (and no one would be unemployed). The latter case is an optimistic one and can be viewed as an upper-bound for the number of jobs needed if the activity rate achieved in 2010 is fixed for the entire period. Figure 10.4 shows the desired number of jobs under the two scenarios with options "with" and "without migration". To reduce the complexity, the situation for the whole EU27 is presented first; Figures 10.5 and 10.6 then show the job needs under the two scenarios separately for EU12 and EU15.

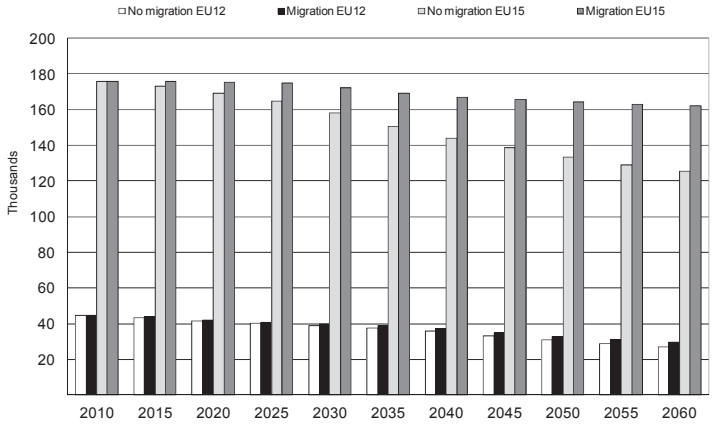
Figure 10.4. Jobs needed in EU27 to maintain 2010 activity levels of the population aged 15-64 (with migration and no migration options)



Note: The stagnation scenario maintains the 2010 employment rate; the full employment scenario maintains the employment rate at the level of the 2010 economic activity rate. The no migration option assumes zero migration balance.

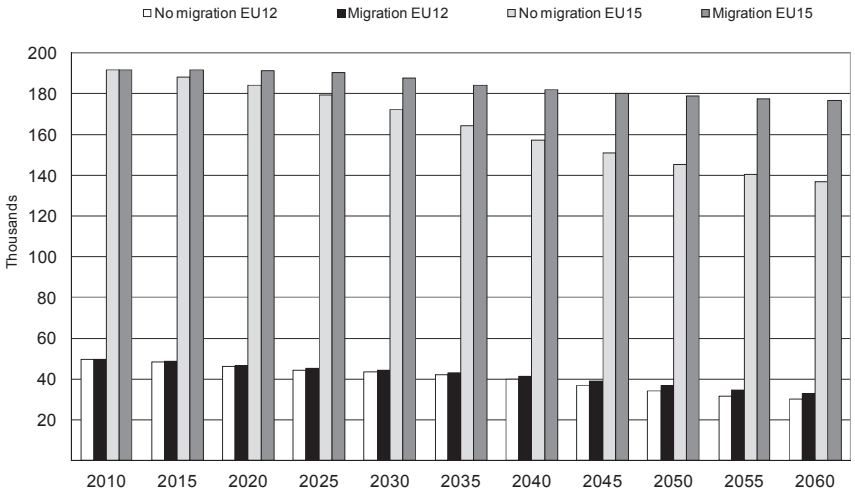
Source: Author's calculation based on population forecast by Eurostat.

Figure 10.5. Stagnation scenario – Jobs needed to maintain the 2010 employment rate in EU12 and EU15 (with migration and no migration options)



Source: Author's calculation based on population forecast by Eurostat.

Figure 10.6. Full employment scenario – Jobs needed to maintain the employment rate at the level of the 2010 economic activity rate in EU12 and EU15 (with migration and no migration options)

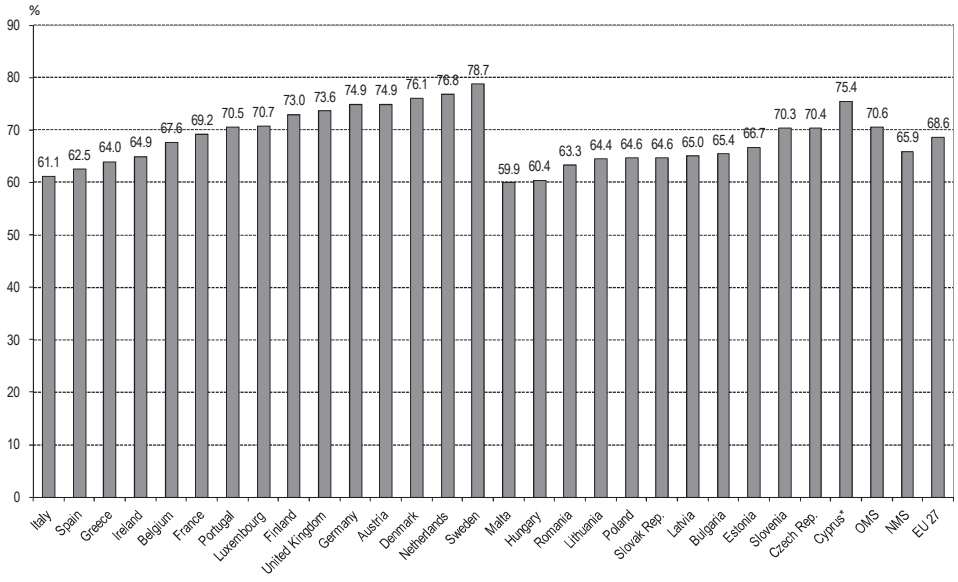


Note: The no migration option assumes zero migration balance.

Source: Author's calculation based on population forecast by Eurostat.

Assumptions about activity rates used in this simulation are crucial in determining future job needs. Special attention should be paid to the employment rate, which was selected as a "success indicator" among the Europe 2020 targets. The previous target of a 70% employment rate for the population aged 15-64 has not been achieved by 2010 by the European Union globally. Here, one must note that EU12 on average exhibits lower employment rates than EU15. Simultaneously, aspiration towards higher educational attainment of the labour force implies that young age cohorts should be more involved in the educational process, which would in turn lower their activity in the labour market. A new target for Europe 2020 was set at a 75% employment rate of the population aged 20-64. Figure 10.7 shows that in 2010, among the EU12 countries only Cyprus (see note 4) achieved the target level; some countries (Malta, Hungary) begin from a relatively low level of about 60%. Among EU15, five countries were at or above the margin (Germany, Austria, Denmark, the Netherlands and Sweden). This implies that the "employment gap" in EU12 is quite substantial and these countries will have to activate their population, to fill the gap in terms of activity rates but also to meet the job creation challenge for the active people to be able to become employed.

Figure 10.7. Employment rates of the population aged 20 to 64 in EU member states (EU27)



Note: The Europe 2020 target is set at a 75% employment rate for the population aged 20-64.

* Notes on Cyprus:

Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

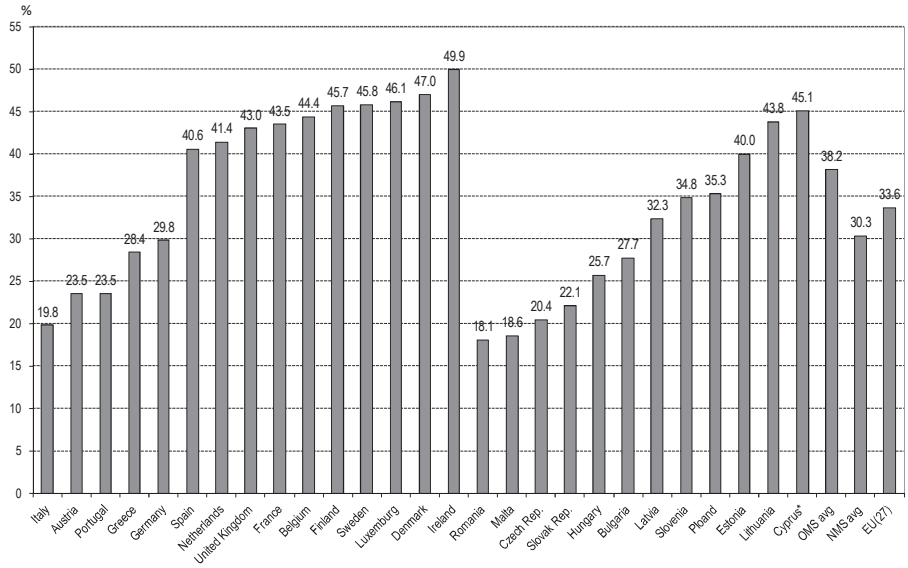
Note by all the European Union member states of the OECD and the European Commission: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Eurostat Labour Force Survey.

10.4. Education and skills for the new member states' labour markets

One of the Europe 2020 targets stipulates that at least 40% of the population aged 30-34 should have tertiary education attainment by 2020. New member states are significantly more distant from this target than the OMS. If we take as a baseline the situation in 2010 as shown in Figure 10.8, we see that in the latter group 10 out of 15 countries have already achieved or surpassed the target level, while among the NMS only three countries [Estonia, Lithuania and Cyprus (see note 4)] out of twelve have already reached the target level. The NMS thus have a much larger gap to close within the current decade in terms of increasing the share of young people with tertiary education attainment. Increasing attainment in the future translates into increasing tertiary education enrolment rates at present, resulting in dampening effects for the activity rates of the younger age cohorts of population.

Figure 10.8. Tertiary education attainment of the population aged 30-34 in EU member states (EU27) as of 2010



Note: The Europe 2020 target is set at 40% tertiary education attainment for the population aged 30-34.

* Notes on Cyprus:

Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

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Source: Eurostat Labour Force Survey.

Educational development in the new member states during the previous decade was characterised by a rapid expansion of tertiary education institutions and increasing tertiary education enrolment rates. On the one hand, this development can be viewed as a positive phenomenon contributing towards fulfilment of the tertiary education attainment target stipulated by the Europe 2020 Strategy. On the other hand, the rapid expansion of tertiary educational institutions often came at the expense of the vocational education training (VET) system. The decreasing prestige of vocational professions, combined with the expansion of tertiary schools – and in the near future, decreasing total numbers of entries to the secondary schools – may bring about an unprecedented decay of the VET system in NMS. This would also undermine the possibilities for lifelong learning in the VET segment.

Expansion of tertiary education possibilities can lead to a situation where existing jobs are occupied by overqualified workers. This phenomenon can be captured by an index indicator, defined as the ratio of workers with tertiary educational attainment working in occupations that do not require tertiary education (classified as ISCO 4 to ISCO 9 categories) to the overall number of the economically active population with

tertiary education attainment. Such a phenomenon of overqualified workers is often observed among foreign workers, who presumably face larger challenges in terms of labour market integration; however, it increasingly seems to be the case among the national labour force in several EU countries also.[6]

Simultaneously, the quality of education provided by the tertiary education system in the NMS is often compromised by its rapid expansion when new educational capacities are created that are not able to maintain or increase the quality of educational system. Financing based on per capita rules further exacerbates competitive pressures among educational institutions in some countries. Many schools follow marketing strategies aimed at maximising enrolment, their main aim being sustaining the school rather than providing a skilled workforce for the future or even current labour markets. The system does not reward the schools for quality indicators such as placement rates of their graduates: these are not even systematically monitored for the schools in general. The result is an increasing number of generalists lacking job-specific skills. Numerous generalists with unclear potential for applied activities make screening more demanding on the employers' side, and eventually shift more of the burden in terms of providing job-specific skills and lifelong learning to the employers.

It seems that education and skills policy, rather than migration, is the crucial key to balancing labour demand and supply in the new member states. The cardinal question is thus not posed in terms of the numbers of workers needed but rather in terms of skill and qualification needs in light of technological progress, innovations, technology transfers, and building knowledge-based societies in the new member states. The future labour supply is usually modelled on the basis of demographic scenarios along with assumptions about education enrolment rates and economic activity rates. The future labour demand can be broken down into expansion demand (new jobs and new activities) and replacement demand (replacement of workers who leave the existing jobs because of retirement or moving to another job or out of labour force (Cedefop, 2010) the latter a major factor behind future labour demand. However, we currently do not know a great deal about the behaviour of replacement demand as there are insufficient data on the related job-specific and sector-specific transitions, or individual transitions among various labour market states.

Lack of detailed data is in fact the reason that the current state of the art does not allow for more detailed forecasting of future labour market needs in terms of the skill content of future jobs. The data lacking concern not only transitions, but also the skill content of current jobs – the latter partly due to difficulties matching occupational data with educational data (in particular to establish requisite educational characteristics beyond the formal levels measured by ISCED categories).

At the same time, several new member states are experiencing labour shortages in some occupations that do not require tertiary educational attainment, such as health personnel (strategically important for future care of the elderly population), or qualified workers in industry. There are industrial sectors in NMS where demand for qualified workers continues to be high or even to expand, either because of domestic demand (*e.g.* in the construction sector, as several NMS are still catching up with the more developed economies in terms of housing and infrastructure), or because of inflows of foreign investment through privatisation or export-driven demand (*e.g.* in the automobile industry).[7] While these labour shortages in NMS are not primarily migration-driven, there are instances where some NMS countries lose qualified personnel to OMS, such as health personnel.

Student mobility is also an important aspect of the education-labour market nexus in the European Union. Enlargement brought new opportunities for students from NMS to pursue their studies in OMS. The Slovak Republic and Cyprus (see note 4) are among the largest suppliers of foreign students relative to their population. Findings by Balaz (2010) based on analysis of data from the *OECD International Migration Database* on bilateral student flows among 20 OECD countries confirm a substantial concentration of foreign students in few OMS countries. Three in particular – the United Kingdom, Germany and France – accounted for two-thirds of intra-European student inflows. According to the analysis, the flows were governed by factors such as cultural similarity or language proximity, and followed similar patterns such as flows of trade and knowledge (the latter proxied by international patents and licences). The analysis by Balaz also implies that quality of the education system is a much more important determinant of technological progress than the quantity of people in tertiary education.

The educational content required for future jobs in light of technological change and the building of knowledge societies is of particular importance for the European Union, which is on a long-term path of demographic decline (with or without migration), and thus will have to adopt smart strategies to maintain its economic weight and competitiveness. Furthermore, as a global leader the European Union has set various progressive agendas – such as environmental sustainability and energy sustainability – that may have labour market implications in terms of the structure of jobs and the related labour costs.

10.5. Conclusions

Findings show that there are substantial differences with respect to several important aspects of demographic, migration and educational patterns between the new and old member states of the European Union. Notably, migration dependence for maintaining the size of the active age population in the long run is less important in the new member states than in the old. Likewise, population ageing and old-age dependency are currently less urgent issues for the new member states, although in the long run these countries are also set to experience overall population ageing. Several NMS lost a sizeable proportion of population through emigration over the past two decades, but further loss of population or skilled labour force through emigration remains a concern for the NMS as a whole. In terms of the goals of activating the population and increasing tertiary education attainment towards the Europe 2020 targets, the gap of the new member states is currently on average larger, implying a sizeable unused potential (although there is substantial internal variability within the EU12 countries).

The chapter's attempts to analyse the patterns mentioned above are severely limited by the demands of brevity; however, the brief compendium of facts presented here for the NMS seems to imply that the European Union is on a dual track in terms of demographic and migration developments, as well as in terms of other important agendas, such as the knowledge-based societies and technological progress, that condition the ability of countries to tap into the potential advantages provided by being members of the Union.

The Heterogeneity of the European Union member states with regard to the demographic situation, migration, and labour market developments should be further explored and accounted for in the EU'sinternal governance processes, in the interest of the Union's further cohesion and growth.

Notes

1. Old member states (OMS or EU15) correspond to the 15 countries already members of the European Union by 2004. New member states (NMS or EU12) correspond to the 12 countries that entered the European Union from 2004 onwards.

2. The actual measurement of future labour market needs is another, rather complex area *that cannot be* discussed in detail in this chapter. Moreover, there are currently many limitations hampering determination of labour market needs, in terms of the available data and information but also in terms of establishing its practical use for migration policy purposes. See, for example, Cedefop (2010) for forecasting skill needs and the works by IOM LINET, n.d. for a discussion of solving labour and skill shortages through migration policies in selected EU and OECD countries.

3. Available at *http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/en/proj_10c_esms.htm,* the EUROPOP 2010 (2010 Eurostat Population Projections) convergence scenario contains national-level statistical information on the projected 1 January population by gender and five-year age group, and by five-year time interval. The main assumption underlying the methodology of the Eurostat population projections is that socioeconomic differences between member states of the European Union and the countries of EFTA will fade out in the very long run. Values of major demographic indicators are thus set so as to converge across countries in the very long run. These major demographic indicators are total fertility rate, life expectancy at birth, and net migration (the difference between the number of immigrants and the number of emigrants). In the no migration option the net migration flows are assumed to be nil for the entire forecasted period. EUROPOP 2010 is a long-term vision; it does not aim to exactly predict short-term populations.

4. Notes on Cyprus:

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5. Data on emigration from NMS quoted in this paragraph originate from OECD (2010), *International Migration Outlook* for Bulgaria, Romania, Lithuania and Poland.

6. Such an indicator can be calculated from individual data cross-tabulations of ISCO (International Standard Classification of Occupations) and ISCED (International Standard Classification on Education). Stefanik's (2010) findings based on the 2001 census data show that the situation in NMS is rather polarised: the highest values of the overqualification index among 23 EU member states were achieved by Cyprus

(see note 4), Estonia, Ireland and Lithuania and the lowest values by the Slovak Republic, the Czech Republic, Romania, Italy and Hungary.

7. For example, the automobile industry in the Slovak Republic has recently expanded to attain an annual output of about 600 000 cars, with the prospect of producing up to 1 million cars per year in the near future. According to the relevant employers' associations, these future levels would require some 40 000 jobs involving specific technical skills. With the lack of qualified workers among nationals, the demand is met through employing workers from other NMS, such as Romania.

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Part IV

Regional experiences beyond the European Union

Chapter 11

Migration and bilateral agreements in the Commonwealth of Independent States

by

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The Commonwealth of Independent States (CIS) currently comprises 11 states with different demographic and migration trends, as well as economic situations. The historical period preceding its establishment, which began with the breakup of the former Soviet Union at the end of 1991, saw migration flows in practically all of these countries – and even at that time, these flows varied tremendously in terms of reasons, volumes and directions.

This chapter provides a description of the scale and characteristics of migration, focusing on labour mobility. It also gives a general picture of the co-operation among CIS states in the field of migration, and describes the main limitations on the free mobility of people and labour force in the region.

Introduction

The Commonwealth of Independent States (CIS[1]) currently comprises 11 states with different demographic and migration trends, as well as economic situations. The historical period preceding its establishment, which began with the breakup of the former Soviet Union at the end of 1991, saw migration flows in practically all of these countries – and even at that time, these flows varied tremendously in terms of reasons, volumes and directions.

The development of institutes responsible for migration management and legislation as well as intergovernmental co-operation has also been fluctuating, in response to changing migration issues that the countries have experienced following the breakup of the former Soviet Union. During the first years, new rules of partnership were established among the former Soviet Union Republics, including in the field of migration. Chapter 19 of the CIS Charter (1994) stipulates that member states should co-operate in the economic and social spheres in order to establish a common economic space based on a market relationship and the free movement of goods, services, capital and labour.

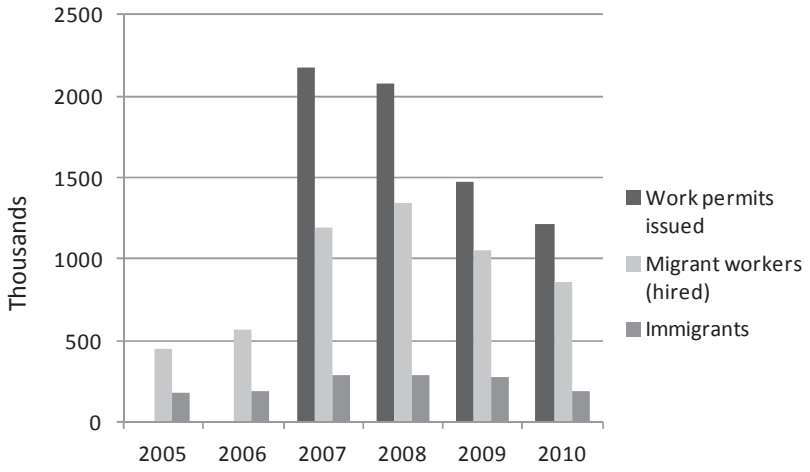
The chapter provides a description of the scale and characteristics of migration in the CIS countries, focusing on labour mobility.[2] In addition, it gives a general picture of the co-operation among CIS states in the field of migration, and describes the main limitations on the free mobility of people and labour force in the region.

11.1. Overview of the situation in the CIS

Currently the situation in the CIS is characterised by a modest level of intraregional relocation significant volumes of temporary migration. The latter in some states is many times higher than the volume of permanent migration, which has tended to fall over the past decade (Figure 12.1). For example, the annual number of immigrants who arrived in the Russian Federation in 2007-09 was not more than 300 000 persons per year (in 2010 this number fell to 192 000), while the number of legal temporary labour migrants reached 2 million or more, in the pre-crisis period.

Although in Kazakhstan the size of registered labour migrant inflows may appear comparable to immigration (both are around 30 000-40 000 per year), most inflows of migrant workers are not recorded (Shokamanov, 2008). According to expert estimations, the average stock may be around 200 000-400 000 (Szalus, 2010), thus far exceeding migration for permanent residence. The scale of temporary out-migration from sending countries is also much larger than that of permanent emigration,[3] although a considerable number of labour out-migrants in fact stay abroad for a long period of time, often exceeding the time formally allowed by their temporary permits.

Figure 11.1. Immigration and temporary labour migration in the Russian Federation, 2005-10



Source: Federal State Statistics Service and Federal Migration Service of the Russian Federation.

Such a state of affairs became typical only at the end of the 1990s. The first years following the breakup of the former Soviet Union were associated with a wave of massive forced migrations,[4] mostly of Russian-speaking people from Central Asia and Transcaucasia to the European CIS countries**,** as well as recurrent outflow of representatives of different ethnic groups to the republics of the former Soviet Union where these goups were in the majority. Ethnic migration became massive and uncontrolled following the breakup of the former Soviet Union. In the 1990s the situation was complicated by armed conflict or wars in Abkhazia, Tajikistan, Transnistria and Chechnya, all of which also caused an increase in the flow of refugees and internally displaced persons.[5]

The breakup of the former Soviet Union and the subsequent geopolitical and economic changes have drastically affected the causes of migration and its volume. Emigration to the western countries – especially Germany, the United States, and Israel[6] – has increased dramatically.[7] Many scholars, from the west as well as from the Russian Federation, were anticipating a massive wave of emigration from the former Soviet Republics to the western countries, but that wave never came. The main area of migration flows in the region has for the most part remained unchanged.

The migration system established by the former Soviet Union continued to exist in the new CIS, and the Russian Federation became it focal point. By the early 2000s a migration *sub*system, with its centre in Kazakhstan, had formed in the region (Ivakhnyuk, 2008) and became very attractive as a destination for the flows of long-term and temporary labour migration from the neighbouring countries of Central Asia. Kazakhstan's development could indeed make this country a future competitor of the Russian Federation for migrants from other CIS countries – in particular from the Republics of Central Asia. Economic growth also gives Azerbaijan the potential to increase labour migration. Nevertheless, the volume of migratory movements, and primarily labour migration to the Russian Federation, is several times bigger than the flows to the new centres of attraction for migrants in the CIS region.

Given their respective economic conditions and demographic characteristics, the countries of this region began to play different roles in the migration process, mainly in

terms of temporary labour migration. The countries of Central Asia, namely Moldova, Ukraine and Armenia are considered suppliers of migrants; the Russian Federation and Kazakhstan meanwhile are receiving countries. In the 1990s Azerbaijan was a sending state, with almost all of its migrants – both temporary and permanent – moving to the Russian Federation;[8] now it is actively positioning itself as a recipient country.

CIS countries can differ significantly in natural increase and migration trends. Table 11.1 shows the long-term population changes by component. Between 1991 and 2009, population growth was observed in only five countries in Transcaucasia and Central Asia. The population of the European part of the CIS was shrinking. Despite the positive demographic trends of recent years, Kazakhstan has not yet compensated its migration loss of the 1990s. On average, for a period of almost 20 years, the Russian Federation has been the only country to benefit from the migration exchange with other countries. This compensated for almost half the natural decrease in population.

Table 11.1. Population dynamics and components in the CIS countries

	Population change 1991-2009 (beginning of the year)	Natural increase /decrease 1991-2008	Estimated net migration 1991-2008	Population dynamics 2011 to 1991 (%)
	Millions			
Azerbaijan	1.659	1.741	-0.08	125.7
Armenia	-0.412	0.365	-0.78	91.4
Belarus	-0.75	-0.638	-0.11	92.7
Kazakhstan	-1.058	2.419	-3.48	97.3
Kyrgyzstan	0.847	1.477	-0.63	124
Moldova	-0.763	0.041	-0.8	82.5
Russia	-6.724	-12.899	6.18	96.2
Turkmenistan	1.27			134.7
Tajikistan	1.935	2.731	-0.8	139.1
Uzbekistan	6.542	8.793	-2.25	134.6
Ukraine	-6.001	-5.318	-0.68	87.7

1. The demographic situation in Armenia differs from that in the other countries of this group. The percentage of population 65+ is relatively high (13.5% in Armenia compared to 4.1% in Tajikistan and 7.8% in Kazakhstan). The country's total fertility rate (TFR) (1.6 in 2009) is decreasing and is close to the TFR values in the Russian Federation (1.5), Belarus (1.4), Ukraine (1.5) and Moldova (1.3). In the other CIS countries it is high: 2.3 in Azerbaijan, 2.7 in Kazakhstan, 2.8 in Kyrgyzstan, 2.6 in Uzbekistan and 3.3 in Tajikistan. *Source*: *Demographic Yearbook of the Russian Federation 2010*, Moscow, 2011.

Source: Estimations based on CISstat data for Turkmenistan – UNDESA database.

- Another aspect of changing migration patterns in the CIS region is a refocusing of Moldovan and Ukrainian labour migrants from destinations in the Russian Federation to Western and Central Europe. Nowadays the countries of the region could be divided into categories characterised by:
- Natural population increase combined with migration loss: Tajikistan, Kyrgyzstan, Uzbekistan, Turkm enistan and Armenia;
- Natural population decrease combined with migration gain: the Russian Federation, Ukraine, Belarus;9
- Natural population increase combined with migration gain: Kazakhstan and Azerbaijan;
- Natural population decrease combined with net emigration: Moldova.

Some countries have a rather young and growing population, while others already face population ageing and oncoming shortages in labour force availability. For the latter countries immigration appears to be the only way to smooth over negative trends in population dynamics. Some migrant sending countries have expressed their intention to reduce emigration (Strategy of the Demographic Policy of the Republic of Armenia, 2009), while others view emigration as a solution to internal demographic and economic problems.[10]

By the end of the past decade almost all countries experienced a decrease in the volume of in- and out-migration for residence (with the exception of Kyrgyzstan, characterised by growing emigration registered by national statistics – see Figure 11.2). Some countries reported net immigration (Kazakhstan, Ukraine and Azerbaijan) after years of migration losses. However, analysis of the recent trends in flows of permanent migration is hampered by the low quality of statistics. While Azerbaijan and Ukraine reported net immigration in exchange with the Russian Federation, Russian statistics also demonstrated net immigration from these countries.

Between 2000 and 2010, about 4 million immigrants (in total) arrived in different CIS countries for permanent residence; 91% of migrants came from other CIS countries and only 9% came from other states.[11] The percentage of immigrants from the CIS countries in certain states of the Commonwealth mostly ranges from 67% (Armenia) to 97% (Tajikistan). The lowest percentage of arrivals from CIS as opposed to elsewhere was observed in Moldova, but most likely that was connected with inadequate registration.

Table 11.2. Proportion of migration within the CIS and with countries outside the CIS

Percentages

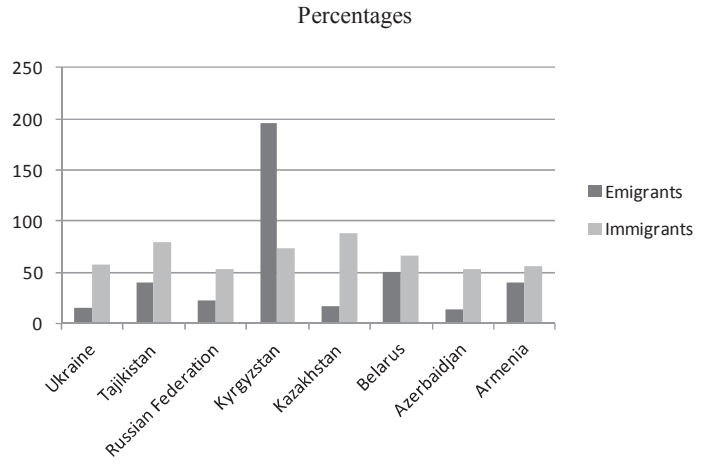
	Immigrants (arrived from)				Emigrants (moved to)				
	Total share of immigrants from CIS	From the Russian Federation	From countries outside CIS	Total immigrants (column 2+4)	Total share of emigrants to CIS	To the Russian Federation	To the countries outside CIS	Total emigrants (column 6+8)	Reference period
1	2	3	4	5	6	7	8	9	10
Armenia	67.9	36.2 [1]	32.1	100	77.6	65.9 [1]	22.4	100	2000-2009
Azerbaijan	96	62.1	4	100	96.8	83.7	3.2	100	2000-2009
Belarus	86.6	55.6	13.4	100	65.4	55	34.6	100	2000-2010
Georgia	88.4	67.1	11.6	100					Census 2002
Kazakhstan	86.3	50.5	13.7	100	77	72.4	23	100	2000-2010
Kyrgyzstan	97.8	44.1	2.2	100	95.7	82.6	4.3	100	2000-2010
Moldova [2]	52.2	28.2	47.8	100	70.4	42.5	29.6	100	2000-2006
Russian Fed.	95.1	-	4.9	100	54.7	-	45.3	100	2000-2010
Tajikistan	99.4	61.4	0.6	100	99.7	78	0.3	100	2000-2010
Ukraine	83	65.2	17	100	61.5	54.3	38.5	100	2000-2010
Uzbekistan	97.3	43.7	2.7	100	90.3	49.5	9.7	100	2000-2006

1. Information on migration from/to the Russian Federation relates to 2000-08, because data for 2009 could not be disaggregated by individual country.

2. National Bureau of Statistics data published on the website are different, as they include information on one more category of immigrants – "repatriates". From 2002 to 2009, 51% of immigrants were from the Russian Federation, and 29% from Ukraine. The percentage of immigrants from other countries amounted to only 14%. This chapter utilises information collected by UNECE, an approach approved by Statistics Moldova.

Source: Estimated on the basis of data from the national statistical offices.

Figure 11.2. Migration flows in selected CIS countries in 2010 as a percentage of flow size in 2000



Source: Based on data from the national statistical offices.

Emigration from the CIS countries in 2000-10 was characterised by a relatively large percentage of departures for non-CIS countries: an average of 25%. Emigration to non-CIS countries comprised about half the flow from the Russian Federation and almost 40% from Belarus and Ukraine. The main destination countries for such emigrants are still Israel (see note 6), Germany and the United States, although the number of departures to those countries has been steadily declining. In recent years, there have been changes in migration directions: from Moldova less to the Russian Federation and more to Ukraine,[12] and from Uzbekistan increasingly to Kazakhstan.[13] By 2010 registered emigration had decreased by several times the volume of 2000. In the past decade there has been a trend in the CIS towards lower migration in general except emigration from Kyrgyzstan; the figure there almost doubled from 2000 to 2010, probably because of political instability in the country (Figure 11.2).

11.2. Labour migration in the CIS countries

Flows of economic migration began to form in the CIS countries almost simultaneously with the flows of forced migration, but they became dominant by the mid-1990s.[14] This was caused by a deep economic crisis and a sharp drop in living standards for all sectors of society. In the countries of Central Asia the situation was exacerbated by the relative overpopulation in rural areas and unemployment among the growing youth population.

Currently, maintenance of economic stability in the sending countries and the dynamics of economic growth in recipient countries of the CIS region depend on temporary labour migration. Tajikistan, Moldova and Kyrgyzstan are among the countries with the highest volume of remittances in relation to gross domestic product (35%, 23% and 15% in 2009, respectively[15]).

In turn, the Russian Federation ranked fourth (after Switzerland and before Germany) among the countries with the largest remittance outflows, amounting to USD 18.9 billion in 2009. Among the CIS countries, apart from the Russian Federation only Kazakhstan is listed among the leading source countries of remittances: USD 3.1 billion in 2009 (World Bank, 2008, 2011).

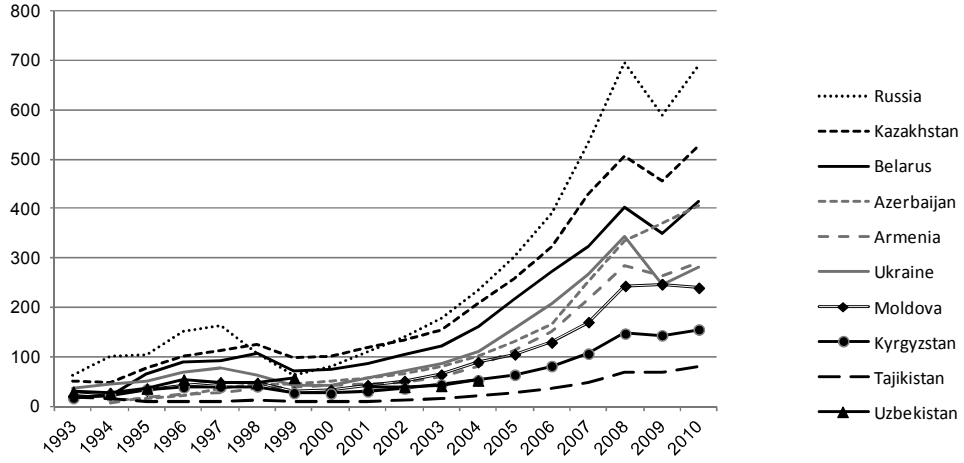
Temporary forms of labour (economic) migration in the CIS countries have been developing spontaneously, but acquiring certain organisational features over time (Pirozhkov and Malinovskaya, 2009); this has resulted in the formation of new diasporas and migration networks. The governments of the Commonwealth countries had no real means of controlling migration or ability to target it in a sensible fashion. In the late 1990s that led to the formation of large numbers of illegally employed migrants and widespread corruption in immigration control; migrants' human rights in the destination countries were virtually unprotected. Sending countries, unable to influence the situation and help their citizens leaving for work, mostly adopted a hands-off attitude.

Currently, the preferred destination for labour emigration appears to be the Russian Federation, with shares ranging from 50% (migrants from Moldova and Ukraine) to 99% (from Tajikistan). Russia's attractiveness for labour migrants looks set to continue, since even in times of crisis it enjoys a more favourable economic situation among CIS countries. Comparative wage levels and gross domestic product per capita are key factors here (Figures 11.3 and 11.4). Except for a brief period of crisis caused by the default of 1998, wages in the Russian Federation were much higher than in other CIS countries, including Kazakhstan, during the entire observation period. Besides, the salary received by migrants in the Russian Federation is often competitive with the salaries in some western countries.[16] Higher salaries are crucial for most migrants, even given the vacancies in the sending country (ILO, 2009).

Experts believe that future trends in the CIS sending and receiving countries will depend on the development of the Russian Federation. There will be still considerable differences in living standards and wages between that country and the migrant sending states. And the Russian Federation will offer more and more vacant jobs and higher salaries because of the forthcoming rapid decline of the working-age population and high demand for labour. The country may itself broaden the area of migrants' origin (Denisenko, 2010).

Figure 11.3. Average nominal monthly wages in CIS countries

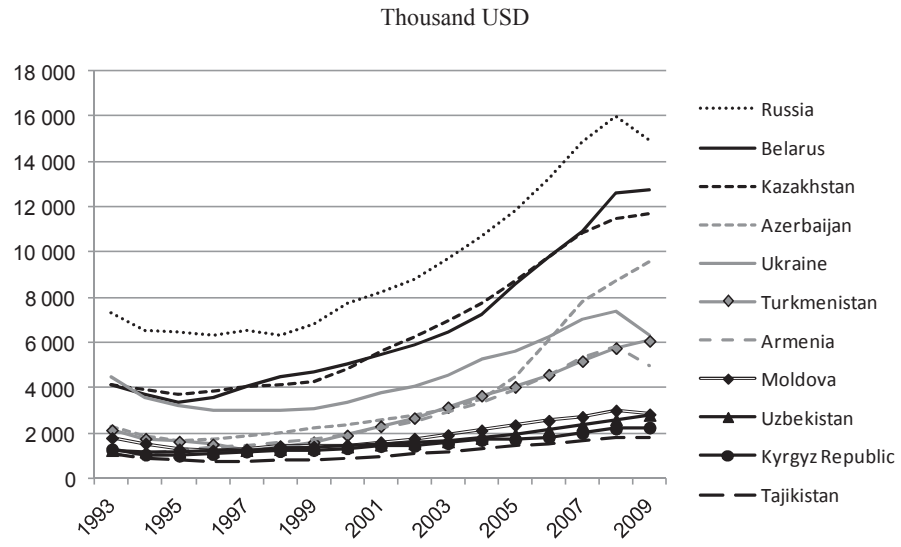
In USD



Note: Counted at average year courses of national currencies to the Russian rouble.

Source: Based on CIS Interstate Statistical Committee Data (information on Uzbekistan is available only for 1993-99 and 2001-04).

Figure 11.4. Gross domestic product based on purchase power parity per capita GDP, 1993-2009



Source: Based on International Monetary Fund (2010), *World Economic Outlook Database*, October, Salaries and remittances.

The scale of labour out-migration in the CIS area is difficult to estimate, as the measurements made by the countries are based on different definitions, criteria and sources. What estimates there are differ from the national survey data results, but often appear to be too high (they show that a significant portion of the working-age population of sending countries is working abroad – that is, from 11% in Ukraine up to 40% in Moldova (Abazov, 2009). The Russian Federation alone annually receives about one million legal labour migrants: the number of work permits issued in 2010 was 1.2 million and the number of employed was 863 000; the number of migrants employed illegally can be three to five times higher (nearly 4 to 5 million). Assuming that the Russian Federation may concentrate at least 70% of all labour out-migrants from CIS, its total stock may be over 7 million persons.

If not to the Russian Federation, labour migrants from Ukraine and Moldova move to EU member states (29% and over 40% of total out-migrants respectively, according to national surveys); and almost half of migrant workers from Uzbekistan choose Kazakhstan.

Comparison of data on temporary labour migrants from the sending countries to statistics on legally employed foreign workers from recipient countries furnishes approximate estimates of the proportion of illegal employment of migrants. Cross-country comparisons are a complex business due to the different definitions of a migrant used in national surveys or censuses. Some countries set time frames for absence;[17] others register all those who, according to respondents remaining in the sending country, planned to return (regardless of period of absence). The survey data for the absent population are usually considered to be understated, not least because of missing households. But even these incomplete figures are several times bigger than the number of foreign workers registered by the migration service of the Russian Federation in the corresponding (to the survey) years: more than triple for Moldova (LFS, 2006-10) and Kyrgyzstan (LFS, 2006-08, census 2009), and more than double for Armenia (LFS, 2008).

Table 11.3. Stock of labour out-migrants from selected CIS countries

	Resident population in million (CIS Stat. 2011)	Total absent at the moment of survey/census (because of work)	In Russia	Source
Armenia	3.1	127 200 [1]	92%	Integrated Living Standards Survey (LSS) 2008
Azerbaijan	9.1	1-3.5 million	85%	Estimates[2], IOM 2008[3]
Belarus	9.5	41 800	90%	Census 2009[4]
Kyrgyzstan	5.5	222 400-500 000	89%	Census 2009 and estimates[5]
Moldova	3.6	300 000	60%	LFS 2009-10[6]
Tajikistan	7.6	430-700 000	99%	LSS 2008 and estimates[7]
Uzbekistan	28.5	Up to 1 million	50%	Estimates of national experts[8]
Ukraine	45.6	1 476 000 (2005-08)	48%	National Survey of External Labour Migration[9]

1. According to experts, in the early 2000s the total number of migrants from Armenia, both short and long term, was estimated at about 500 000, with 280 000 working in the Russian Federation (Mukomel, 2005, p. 328).

2. Aliyeva (2009) and Sudyin (2008).

3. Aliyev (2008).

4. Estimates by Belarus national experts of the volume of labour migration from the country differ considerably (Shakhotko, 2011).

5. In the pre-crisis period, estimates reached 500 000 (see ILO, 2008).

6. Labour force survey data showed dynamics in the stock of migrant workers from Moldova staying abroad (thousands): 2006, 310.1; 2007, 335.6; 2008, 309.7; 2009, 294.9 (*Source*: Statistical Bureau of Moldova).

7. Kuddusov (2010).

8. *www.fergananews.com/article.php?id=5206* and Maksakova (2009).

9. Ukrainian External Labour Migration (2009).

In the CIS countries, there is also a system through which foreign workers are hired abroad prior to their departure through licensed organisations. However, data from reports based on this source cannot be used, because these workers represent a small percentage of the total flow. In 2008-09, about 2% of citizens of Ukraine and Kazakhstan and 6-8% of citizens of Tajikistan in the Russian Federation were employed through these channels.[18] The Federation also keeps record of its citizens who have departed to work abroad through licensed recruiting agencies: their annual number is around 70 000 persons. But this is a highly specialised channel of employment. Eighty per cent of these labour migrants are employed on ships under foreign flags, and the other twenty per cent are mainly students working during the holidays. The actual number of Russians working abroad can only be assessed using the statistics of destination countries.

From the perspective of recipient countries, the main problems in labour migration are currently related to the large proportion of migrants with irregular status or working without permits, relatively poor housing conditions, a relatively high level of dangerous infections; and other risks associated with the lack of a social security system. So far, migrant workers are not allowed to join destination country trade unions that could protect their rights.

Table 11.4. Inflows of foreign workers into the Russian Federation, 2006-10

Thousands

Country of citizenship	2006	2007	2008	2009	2010
Azerbaijan	16.9	41.6	38.8	28	19.1
Armenia	22.6	52.2	51	37.3	30.7
Georgia	2.6	2.1	2.1	1.1	0.9
Kazakhstan	2.9	4.9	6.1	5.6	4.2
Kyrgyzstan	21.5	90.1	105.5	71.8	58.5
Moldova	28.8	65.6	60.5	48.1	34.9
Tajikistan	60.4	196.1	213	171.2	134.6
Turkmenistan	0.5	1.7	1.5	1.2	0.7
Uzbekistan	68.6	281	390.3	320.7	289.7
Ukraine	81.2	137.5	117.8	101.6	86.8
Total CIS countries (Georgia incl.)	306	872.8	986.5	786.5	660.3
Vietnam	37.9	40.4	48.7	44.2	17.8
China	109.9	131.9	168.8	128.8	117.8
North Korea	16.6	17.8	17.7	18.6	19.8
Turkey	59.6	78.5	67.1	30.8	25.1
Other (than CIS and selected four countries, and stateless)	40.1	52.4	54.8	43.4	22.2
Other countries total	264.1	321.1	357	265.8	202.7
Total foreign workers	**570.1**	**1 194.00**	**1 343.60**	**1 052.30**	**863**

Source: Federal Migration Service of the Russian Federation (FMS).

Inflows of labour migration into the Russian Federation and other CIS countries differ not only in scale, but also in structure (Table 11.4). Before 2006, the share of CIS citizens in the flow of labour migrants to the Russian Federation was about 55%. In 2007 changes in the Russian legislation simplified access of CIS[19] citizens to the Russian labour market. They were able to obtain work permits independently, without the support of the employer or the availability of a contract. This measure allowed a huge number of migrants who had been "in the shadow" to legalise their status. A system of quotas for the number of work permits was introduced, although it was not initially a barrier to obtaining work permits. In the first year the quota was 6 million, which could hardly be considered a limitation. Compared with 2006, the number of migrants more than doubled to about more than 2 million persons. Included in that increase: the number of citizens of Uzbekistan and Kyrgyzstan quadrupled, tripled for Tajikistan, and increased by 2.5 times for Azerbaijan. The share of CIS citizens in the flow of labour migrants to the Russian Federation rose to 75%. This fact demonstrated the power of national legislation that eliminated barriers and facilitated access to the labour market for foreigners.

Introduction of the "patents" system in July 2010 further expanded this free access to the Russian labour market for citizens of CIS countries. Purchase of a patent for work in private households is not limited by quotas and costs the migrant RUB 1 000 (currently less than EUR 25). With a monthly bank payment of the same amount (it is actually a type of tax), the migrant acquires the right to legally reside and work in the Russian Federation. A bank receipt is the confirmation of a legal status. In 2010, more than 150 000 citizens of the CIS purchased patents, and over 400 000 did so in the first half of 2011. Clearly, this channel of admission to the Russian labour market is attracting more

and more migrants. By comparison, 1.2 million work permits were issued in the Russian Federation in 2010 and more than 700 000 for the first six months of 2011.

Another category of foreigners to have received preferential treatment in the Russian Federation is that of highly qualified specialists. The main criterion is currently an annual salary level of not less than RUB 2 million (about EUR 50 000). This amount is halved for teachers and researchers. These persons receive a special residence permit (for three years) immediately, and can bring their families. At present, over 90% of the Russian Federation's highly qualified specialists are citizens of other countries who have followed this visa entry procedure.[20] In 2010 (July to year-end), such work permits were received by over 3 000 persons, and by over 5 000[21] more in the first half of 2011. Including all categories of foreign workers with ordinary work permits (excluding patent holders and highly qualified specialists), the main nationalities in 2010 were citizens of Central Asia – Uzbekistan (34%) and Tajikistan (16%). The flow of labour migrants from China is also significant (14%).

The economic crisis has caused the Russian government to drastically reduce work permit quotas for foreigners. The number of permits issued fell by 22% from 2008 to 2009 and by a further 18% between 2009 and 2010. The overall inflow of migrant workers was reduced by approximately the same percentages regardless of the availability of work permits. While free access of foreign workers to the Russian labour market provides advantages, during the crisis its shortcomings became more apparent. Lack of job security and lack of information for migrants regarding existing vacancies create a situation of uncertainty for both migrants and the recipient country. In order to avoid mass unemployment, in 2009 the Russian Federation changed the rules of work permit issuance. CIS citizens can obtain a work permit only for three months, and renewal is possible only if there is a job offer and a contract. To some extent, these changes also serve the interests of migrants, because they have a guarantee of legal employment on previously agreed terms; that is important in times of economic crisis.

According to data from the CIS Interstate Statistical Committee, the percentage of migrant workers from CIS in 2009 did not exceed 9% in Kazakhstan and Tajikistan, 22% in Moldova, 31% in Ukraine and 40% in Belarus. (Belarus' share has been gradually declining since 2006.) Most often, migrant workers come from China and Turkey. Kazakhstan also accepts a substantial amount of workers from India; Ukraine from Vietnam; and Azerbaijan from the United Kingdom.

11.3. Bilateral agreements on migration in the CIS

The establishment of migration regulation mechanisms and institutions in the CIS countries began almost immediately after the collapse of the former Soviet Union, taking place practically simultaneously in all of them. Massive forced migration necessitated a response (or at least attempts at one) to new and poorly controlled conditions, in the countries of origin but also and to a greater extent in the receiving countries. The first migration services were created specifically for the management of these flows, and the first national legislation focused on refugees and internally displaced persons. At the same time, the matters of crossing the border had to be solved (often there were no state borders between the CIS countries, or border crossing points were not equipped). In the second half of the 1990s, in light of national security considerations and the threat of terrorism, priority was accorded issues of illegal migration, due to its significant and uncontrollable volumes. The increase in the volume of labour migration (temporary forms) and the absence of mechanisms for its regulation have forced many

states to revise substantially the legal framework regarding the status of foreign citizens, external migration and population registration.

The new legislation was also necessary to resolve the status of thousands of migrants who had moved in the 1990s and were living either with old Soviet passports or with no documents whatever. This period was characterised by increasing interaction among the CIS countries in the area of labour migration, resulting in an increasing number of interstate bilateral agreements on social protection for migrant workers. Today, all the states have developed the legal framework in the form of laws, regulations, concepts and agreements at bilateral and multilateral levels. Since the breakup of the former Soviet Union, over 200 agreements in the field of migration were signed in the Russian Federation alone. Of course, these agreements apply to non-CIS countries as well.

Although bilateral agreements are not a comprehensive solution to the existing problems, experts consider them an effective measure when framework agreements concluded at a higher level cannot solve the problem, or do not regulate specific bilateral relations issues (Zayonchkovskaya, 2009). Multilateral and collective standard agreements in the CIS are in fact often excessively formal. The handful of documents signed "mostly provide for the common objectives not accompanied by the development of implementation mechanisms. This does not contribute to co-ordinated migration policy in the CIS" (Khabrieva, 2008). Some authors emphasise that collective agreements signed by a CIS country are not always ratified, and ratification is not always followed by execution (Mukomel, 2005). Very often the collective decision-making process is very slow; it is difficult to achieve consensus in discussion, as collective acts may often appear to contradict national legislation.

In fact international (bilateral and collective) agreements on migration among the countries of the CIS do not generally provide for significant liberalisation of the rules of stay or admission to the labour market. The restrictive nature of the CIS migration regime is indirectly linked to the desire to control migration as a potential source of danger. Among the documents signed by the Russian Federation, agreements on combating crime, including illegal migration (32 out of 212), take second place after agreements on mutual trips (53 out of 212), and are followed by agreements on labour migration (25 out of 212). In recent years, attention has focused on readmission matters: almost half of the agreements signed by the Russian Federation in 2005-11 deal with this subject.

CIS countries began to gain experience with bilateral co-operation in the first half of 1990s, when the lack of compliance with CIS-level documents became evident. This has become the main form of co-operation over time. Currently, 178 out of 212 agreements on migration signed by the Russian Federation are bilateral (with certain states – see Table 11.5). Forty-five of these are agreements with the CIS countries. Bilateral and collective agreements on migration regulate related issues, short-term movements and migration for permanent residence.

Permanent migration is directly and indirectly supported and regulated by the agreements (and national legislation) on a) citizenship matters, b) direct assistance with immigration and repatriation, and c) protection of the rights of foreign citizens residing in the states that are parties to such agreements. In creating a system of agreements granting preference with regard to obtaining citizenship, the country stimulates immigration. The process of nation building in several countries is accompanied by efforts to stimulate the repatriation of people belonging to the majority ethnic group of the destination country, or people having common cultural and linguistic roots with the majority population of this state. Social guarantees for foreigners living in another country can stimulate their

decision towards the acquisition of nationality. The Russian Federation is currently considering simplifying procedures for issuing residence permits, which is a step towards liberalisation of immigration rules, a measure that can eventually be reflected in agreements with other states.

Table 11.5. International agreements of the Russian Federation on migration, July 2011

Agreement type	Total	Bilateral	Multilateral
International agreements on mutual trips	53	50	3
International agreements on coping with crime including illegal migration	32	27	5
International agreements on labour migration	25	21	4
International agreements on readmission	25	24	1
International agreements on visa concerns	18	18	0
International agreements on border crossing points at the state border of the Russian Federation	13	12	1
International agreements on regulations of the voluntary resettlement process	11	11	0
International documents on human rights and basic freedoms in the area of migration	10	0	10
International agreements on citizenship matters	7	3	4
International agreements on legal status of foreigners residing in the Russian Federation (and Russian citizens residing in partner country)	6	6	0
International agreements on refugees and displaced persons protection	4	0	4
International agreements between different agencies on co-operation in the area of migration	4	4	0
International agreements on co-operation with international organisations	4	4	0
Total	**212**	**180**	**32**

Source: Information provided by the Federal Migration Service of the Russian Federation.

Agreements addressing visa concerns are an important part of bilateral co-operation between CIS countries. In 1992, the Agreement on the Visa-free Movement of Citizens of the Commonwealth of Independent States within the Territory of its Members was signed by the CIS countries in Bishkek (Kyrgyzstan). Article 1 of the agreement provided for the member states citizens' right to enter, exit and move through the territory of the Parties without visas if they are able to present documents proving their identity or their citizenship. Azerbaijan did not sign this agreement, and Georgia acceded only in 1995.

The establishment of bilateral agreements on visa issuance began in 1997, when the Russian-Ukrainian intergovernmental Agreement on Visa-free Travels of Citizens was signed in Moscow. On 3 July 1997 a similar Russian-Azerbaijani intergovernmental agreement was signed. In 2000, Uzbekistan signed an agreement on introduction of a visa regime with Tajikistan[22] and Kyrgyzstan, but in 2007 a new agreement on visa-free travels with Kyrgyzstan was concluded. After the Nagorno-Karabakh conflict Azerbaijan introduced a visa regime with Armenia.[23]

In 1999, Turkmenistan withdrew from the agreement signed in Bishkek, followed by the Russian Federation in 2000. In fact, this meant that the agreement was no longer in force. The main reason for the Russian Federation's withdrawal was that other CIS states had little control over the entry into their territory of third-country citizens. These people could then move freely to the Russian Federation, a situation that ran counter to the interests of the country's national security (Kozlov, 2000). In February 2000, Kazakhstan decided to suspend the agreement temporarily and passed on to the system of bilateral agreements with CIS countries.

Table 11.6. Bilateral agreements in the field of labour migration and protection of labour migrants' rights

	Azerbaijan	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Moldova	Russian Fed.	Tajikistan	Uzbekistan	Ukraine
Azerbaijan		X	X	X		X	X			X
Armenia			X				X			X
Belarus	X	X		X		X	X			X
Kazakhstan	X		X		X			X	X	
Kyrgyzstan				X			X	X		
Moldova	X		X				X			
Russian Fed.	X	X	X		X	X		X	X	X
Tajikistan				X	X		X			X
Uzbekistan				X			X			
Ukraine	X	X	X			X	X			

The Russian Federation has so far signed 53 agreements on mutual trips and visa issues. A visa-free regime was stipulated by its bilateral agreements with Azerbaijan, Armenia, Moldova, Uzbekistan and Ukraine (years of signing: 1997-2000) and the collective agreement between the Russian Federation, Belarus, Kazakhstan, the Kyrgyz Republic and Tajikistan. Of all the CIS countries, only Turkmenistan introduced a visa regime with all other countries, but certain categories of foreigners may travel without a visa if they have a passport of a special type.

Bilateral agreements on labour migration are mostly related to social protection of labour migrants. At present, almost all CIS countries have agreements on labour migration with other CIS countries (Table 11.6). These agreements are similar in nature and mainly address the following:

- Mutual recognition of rights and freedoms, including social and welfare rights;
- Admission to the social security system;
- Provision of equal rights like those of local workers in the sphere of payment for labour, working conditions, labour protection, working regime and other labour issues;
- Prevention of supplementary or double taxation;
- Mutual recognition of employment experience, experience in the same occupation, qualification degree, documents confirming education;
- Creation of conditions for informing labour migrants on the issues of labour migration;
- Exchange of information between the parties to the agreements.

These agreements do *not* provide for simplified access to the labour market; admission is provided in accordance with national legislation. It should be noted that these norms are applied only to legal migrant workers – those with a work permit and a

job contract. The remaining (majority of) migrants are not covered by the agreements. Unfortunately, many experts in CIS countries note that these agreements are being poorly implemented and are paper agreements only. Increasingly, CIS countries are conducting negotiations for regulating labour migration with countries outside the CIS. Armenia is in talks with Qatar, and Moldova is already in agreement with Italy, Belarus with Lithuania, Poland and Slovenia, Kazakhstan with Vietnam, the Russian Federation with North Korea, and Tajikistan with Kuwait. The agreement between Uzbekistan and South Korea works efficiently, but is limited to organised recruitment of labour migrants from Uzbekistan. In fact, organised recruitment is now considered to be a very promising basis for co-operation, because it allows for more effective labour migration from the perspective of both sending and recipient countries.

Bilateral agreements are currently part of the overall "big" policy of the CIS countries. Western-oriented Ukraine and Moldova are more interested in developing treaties with the countries receiving their labour migrants. For now, the countries of Central Asia and Armenia are attracted by the Russian Federation and Kazakhstan. Azerbaijan pursues a policy of strengthening its independence from CIS neighbours.

CIS states associate further activities in the sphere of labour migration with the development of the necessary infrastructure – including for example networks of consultative centres, governmental and non-governmental recruiting agencies, bilateral agreements and international co-operation in the region.[24] The Russian Federation and the main sending countries are now actively discussing implementation of an organised recruiting system. As mentioned above, this will allow a closer interrelation to be established between the estimated demand in the recruitment of foreign workers and their actual engagement, in this case foreign citizens arriving in the Russian Federation under visa-free terms.

On 1 October 2009, the Council of Heads of Migration Authorities of the CIS member states approved the General Principles and Mechanisms of Organised Recruitment of Migrant Workers for Employment in CIS member states. Currently the Federal Migration Service of the Russian Federation is working on improving the legal framework for such co-operation. The specific terms of organised recruitment are worked out in bilateral international agreements on external labour migration. Plans for implementation of these agreements on employment and civil rights protection are discussed in workshops; currently discussions are under way between the Russian Federation and the Republic of Tajikistan, the Republic of Uzbekistan, the Kyrgyz Republic and the Republic of Armenia.

Agreements on citizenship matters

One of the major incentives for the majority of migrants from the CIS to move to the Russian Federation (or Kazakhstan) is the simplified procedure for receiving citizenship, which removes all restrictions related to work and stay in the country. The most actively used channel in the Russian Federation now is acquisition of citizenship under the international agreement between Belarus, Kazakhstan and the Russian Federation (1999) and the bilateral agreement between Kyrgyzstan and the Russian Federation (1996). Following the change in legislation on citizenship in 2009, these agreements became the fastest and surest path to naturalisation.[25] In 2010, 54% of the 110 000 applicants received citizenship under international agreements, while in the previous years (2007-09) the figure was about 25%.[26] A similar agreement exists between Kyrgyzstan and Tajikistan

(on a simplified citizenship withdrawal procedure for citizens of the Republic of Tajikistan residing in the Kyrgyz Republic) and several other states.

Agreements on the permanent migration of certain categories of migrants and on repatriation

These agreements were concluded mostly in the 1990s and applied at the beginning of the 2000s, in fact to facilitate the repatriation flows of migrants who had moved from one country of the former Soviet Union to another. In addition, some CIS countries have attempted to encourage the repatriation of nationals of the majority ethnic group. Kazakhstan has had the most successful experience in implementing such a programme; officially begun in 1997, it established a system of privileges and preferences for ethnic Kazakhs who returned to their homeland. In 2008 a new programme for 2009-11, "Nurly-Kosh" was adopted by the government.[27] During the term of the programme, about 800 000 persons – "oralmans" (returnees) – have moved back to Kazakhstan.[28] Repatriation to Kazakhstan is based on bilateral agreements with the relevant country: Mongolia, China, Iran, etc.[29] Similar programmes have been developed by some of the other CIS countries, although (for the time being) without agreements with potential sending countries. In 2006 the Russian Federation began a programme to facilitate the voluntary return of its citizens[30] Kyrgyzstan has developed a programme to support the return of ethnic Kyrgyz – the "kayrylmans".[31] Armenia introduced a "Back to Armenia" project that furnished information for representatives of the Armenian diaspora interested in returning.[32]

Agreements on the legal status of citizens of one country permanently residing in another country

This is a common form of agreement, which mainly contains rules granting citizens the constitutional rights to own property, to work and to have social security, and that provide for recognition of education and qualification documents, etc.[33] The Russian Federation has such agreements with Armenia, Georgia, Kazakhstan and Turkmenistan. A special relationship with the Republic of Belarus is regulated by the Treaty between the Republic of Belarus and the Russian Federation on Equal Rights for their Citizens. Most of such agreements were entered into during the second half of the 1990s.

11.4. Obstacles to development of free zones for labour force circulation in the CIS

In terms of expanding the free movement areas between the CIS countries, the main problems are currently the numerous and not always justified limitations that hinder the formation of a common labour market. These measures often fail to provide real control or management of migration processes, protection of the rights of permanent residents, etc. As noted, mutual access to national labour markets is, in fact, only simplified for citizens of the Russian Federation, Belarus and Kazakhstan (since January 2012), under the Customs Union. In this regard, bilateral and multilateral co-operation between states can improve the situation by gradually removing the existing barriers. Only in this way will citizens of countries in the region obtain preferential treatment. The main constraints for enlarging free mobility zones are as follows:

- To be eligible to work in the territory of another CIS country, citizens of partner countries must have a work permit. Only the Russian Federation introduced a new migration channel for owners of patents, in 2010. The number of work permits is

limited by quotas, which apply to all foreigners wishing to work in the CIS countries.[34]

- In some countries there are restrictions on the movement of labour across the country, as quotas are distributed by regions. For example, if a foreigner in the Russian Federation wants to move to another region, he/she must obtain a new work permit. The same applies to the choice of an occupation, also stated on the permit.
- An employment ban is in effect, including occupations and sectors unrelated to elected positions or national security. In the Russian Federation, since 2007 foreigners have been prohibited from working as vendors in the retail trade in open markets, and from selling medicine and alcohol.[35] Kyrgyzstan immediately introduced the same limitations and also fixed the percentage of foreign entrepreneurs in shops and shopping malls (not more than 10%).[36]

For long-term or permanent residence in any CIS country, foreigners need to obtain a residence permit, a task often fraught with complex and opaque bureaucratic procedures. In some CIS countries foreigners are faced with restrictions on where they can reside, temporarily or long term. In the Russian Federation, a foreign citizen with a temporary residence permit may not change place of residence within that region of the Russian Federation, or indeed choose his/her place of residence. Such restrictions are in fact at variance with the national constitution (Zaraeva *et al*., 2010).

11.5. Conclusions

The information on migration stocks and flows in the CIS countries, combined with information on bilateral co-operation, demonstrates the importance of migration for both receiving countries and countries which supply migrants. Migration policy priorities obviously differ among countries, in relation to different demographic trends and economic interests.

Some countries are making efforts to encourage repatriation from other countries/stipulating the conditions for permanent residence of foreigners/creating preferences for naturalisation. Some states are trying to agree on guarantees of minimum social support and observance of rights of their citizens residing abroad as temporary labour migrants.

Temporary forms of migration are increasing in the CIS region; greater attention is being paid to this migration segment in order to reduce social and economic costs, especially in times of crisis. Sending and recipient countries are gradually reaching a consensus as to the need for organised forms of foreign labour recruitment. However, this process has not been elaborated in detail, the participants have not been determined, and their roles have not been distributed. Creating such programmes could take several years.

At present, despite the large number of bilateral and collective agreements on migration issues between CIS countries, it is still too early to talk about the formation of a common labour market and free movement between the countries. The CIS countries are using a whole system of tools designed just to restrict this freedom, which is not always justified by considerations of economic or other security. Given the ineffective control, restrictions only support the large scale of illegal employment of foreign workers in the CIS countries. The only really effective legal acts are those that remove bureaucratic barriers for certain categories of foreign citizens. The most striking example is the

Customs Union between the Russian Federation, Belarus and Kazakhstan, and arrangements within the Union State of the Russian Federation and Belarus. However, the workforce flows provided by the citizens of these countries are relatively small, and cannot fundamentally change the picture of the migration regime in the region.

There is some sign of change in the field of co-operation between sending and receiving countries as well as in their attitude towards migration in the CIS area. Receiving states have begun thinking about the benefits of migration rather than its threats, and are trying to better manage labour migration in a sensible manner. The sending countries have become more socially responsible, trying to obtain certain guarantees for their nationals moving or staying abroad and not just thinking about the remittances they bring home. This is a good basis for further negotiations and mutual efforts.

Notes

1. The Commonwealth of Independent States was formed in 1991 through an international treaty without supranational jurisdiction or immediate establishment of a common market of labour, goods, etc. Later, some countries of the region created other multinational entities, including those of political and economic nature. In 1996 the Russian Federation and Belarus formed the Union State, thereby immediately eliminating all restrictions on the presence of citizens of either country in a united labour market. In 2000 the Eurasian Economic Community (EurAsEC) was formed, which comprised Russia, Kazakhstan, Kyrgyzstan, Belarus and Tajikistan, as well as several countries and international organisations having the status of observers. The Common Economic Space (CES) covering Russia, Belarus and Kazakhstan was formed in 2003. Beginning in 2012, it will be linked to the Customs Union (established in 2007), which currently includes the same three countries. It should be stressed that the CES is most closely connected with the same intention of a common labour market for citizens of member states among all the regional unions.

2. Without detailed treatment of push and pull factors.

3. Direct comparisons appear problematic because data on labour out-migrants collected through surveys and censuses present stocks, while annual official statistics of emigration provide measures of flows.

4. It should be noted that for the first time the population of the multi-ethnic USSR Republics experienced a surge of ethnic conflicts followed by the first waves of massive forced migration in the late 1980s – in 1988 in Fergana (Uzbekistan), in 1989 in Sumgait (Azerbaijan) and in 1990 in Osh (Kyrgyzstan).

5. The maximum number of forced migrants registered in the Russian Federation was 323 000 persons in 1993, and in early 1998 the maximum cumulative number of forced migrants recorded was 1.192 million. After that, the number of displaced persons and refugees started to decrease due to the fact that the number of those newly registered each year was less than the number of people who lost their status.

6. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

7. For instance, outflow to the top three emigration countries – Germany, Israel and the United States – solely from the Russian Federation in 1991-2000 totalled 850 000 persons, while in 1981-90 it totalled only 179 000 and in 2001-10 about 250 000 (*Source*: Federal Statistics Service of the Russian Federation – Rosstat).

8. The economic and migratory relationship between Azerbaijan and the Russian Federation was developed during the Soviet period, when the Azerbaijani in the former Soviet Union developed areas of employment in trade (see Yunusov, 1999).

9. There is a certain amount of doubt as to migration gain in Belarus, Ukraine and Azerbaijan, because in all likelihood most emigration is not registered in these countries. However

national experts believe that these countries do actually have migration gain (see for instance BMP, 2011).

10. There is a widespread opinion that it would be a benefit for Azerbaijan rather than an evil if a portion of the Azerbaijani population left the country to reside elsewhere (see Ali, 2011).

11. Calculations were based on data for ten CIS countries. Data for Georgia were available only on the basis of the census 2002. Statistical Committee of Turkmenistan did not provide any information. But this fact can not affect the overall figures significantly.

12. The proportion of migrants to the Russian Federation in the emigration flow from Moldova fell from 44% to 28% in the years 2002-09, and the proportion of migrants to Ukraine increased from 23% to 44%.

13. The proportion of migrants to Kazakhstan in the emigration flow from Uzbekistan rose from 10% to 53% in the years 2000-06, while the flow to the Russian Federation fell from 63% to 35%.

14. Economic migration took place in Tajikistan a little later, after the end of the civil war (1992-97) (see Olimova, 2009).

15. Based on "Migration and Remittances Fact Book 2011".

16. In the mid-2000s, the salary of migrants in the Russian Federation from Moldova was not much lower than it was in the European countries of Italy, Portugal and Greece. The Russian Federation also boasted the advantages of familiar environment and language and low travelling costs (Chesnokova, 2006).

17. For instance, the census of Kyrgyzstan (2009) applied a three-year threshold of absence, while in Tajikistan (2010) that threshold was only 12 months.

18. Calculated according to the data of the Migration Service of the Russian Federation on the number of citizens of those states legally employed in the Russian Federation, and the data of the CIS Interstate Statistical Committee.

19. This applies to countries with the right of visa-free entry for its citizens into Russia.

20. This channel was used extensively by western companies wanting to transfer their employees to Moscow.

21. At the beginning of October 2011, the number of highly qualified specialists with a work permit is estimated at 10 000 persons.

22. This was also done for security reasons; see Gerasimov (2000).

23. Armenia in turn does not require visas from citizens of Azerbaijan, although there is no bilateral agreement on this issue between the two countries. Diplomatic relations between the countries were ruptured by the conflict in Nagorno-Karabakh.

24. Further details available on the website of the Executive Committee of the CIS, *www.cis.minsk.by/page.php?id=13764* (in Russian).

25 The citizens of these countries do not need to pre-apply for a residence permit and can reside in the country several years before obtaining citizenship. The application can be filed immediately upon arrival in the destination country, and the decision is made within a few months.

26. Since 1991, more than 7 million persons have obtained Russian citizenship, including 5.4 million through the Federal Migration Service and 2.1 million through the Ministry of Foreign Affairs and its consular offices. Twenty-nine per cent were previously citizens of

Kazakhstan, nineteen per cent citizens of Ukraine, and eleven per cent citizens of Uzbekistan. An increase is expected in the number of applications for Russian Federation citizenship, because migrant workers have seen that being a citizen means being less vulnerable to economic crisis (see Umarov, 2010).

27. For details, go to the government *website www.enbek.gov.kz/node/777* (in Russian).

28. This figure is confirmed by the migration police of the Ministry of the Interior, Republic of Kazakhstan: *www.zakon.kz/201063-posobija-i-lgoty-dlja-oralmanov-budut.html* (in Russian).

29. For example, one of the first intergovernmental agreements in the region was entered into between the Republic of Kazakhstan and Mongolia on the co-operation in attracting the citizens of Mongolia to work in Kazakhstan under the employment agreement of 2 December 1994.

30. The Federal Migration Service of the Russian Federation reported that since 2007 and until the middle of 2011, about 44 200 persons returned to the Russian Federation on the basis of this programme (Monitoring of Execution of the Federal Programme, 2011, *www.fms.gov.ru/programs/fmsuds/files/Monitoring%20za%202%20kvartal%202011%20goda.pdf)*.

31. Some programmes are rather nominal. For instance, Kyrgyzstan cannot offer the financial support to these migrants that would encourage them to return to their countries of previous residence (mainly Tajikistan), *www.centralasiaonline.com/ru/articles/caii/features/2009/01/29/feature-02*.

32. This programme for repatriation to Armenia was introduced with financial assistance from the European Union, *www.backtoarmenia.com/?l=eng*.

33. See for example the Agreement between the Russian Federation and the Republic of Armenia on the Legal Status of Citizens, 1997.

34. The application of restrictive measures is sometimes *stipulated* in the bilateral agreements between countries, which seems a kind of paradox. For example, the agreement on labour activity and protection of the rights of labour migrants between Uzbekistan and the Russian Federation specifies that "Parties shall take measures to manage migration flows by setting quotas and other restrictions provided by the law" (Agreement between the Government of the Russian Federation and the Government of the Republic of Uzbekistan, 2007).

35. According to the Federal State Statistics Service, five months after the adoption of this resolution, up to 50% of positions in the markets were vacated. Migrants and entrepreneurs subsequently adapted to the situation: the market owners changed their legal status (reissued documents and converted open markets to shopping malls), and the migrants themselves received formal positions not as sellers, but as porters and other support staff. The measure was considered unfair and inefficient (Mikhailova and Tiuriukanova, 2009).

36. For more information go to *www.zakon.kz/kazakhstan/80892-kyrgyzstan-s-1-aprelja-zapretit.html* (in Russian).

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Chapter 12

Governing migration: public goods and private partnerships

by

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International migration, like trade, is a fundamental feature of the postwar liberal order. As states and societies become more liberal and more open, migration increased. Will this increase in migration be a virtuous or a vicious cycle? Much will depend on how migration is managed by the more powerful liberal states, because they will set the trend for the rest of the globe. This chapter discusses the need for the rights of migrants to be respected and for states to co-operate in building an international migration regime in order to avoid a domestic political backlash against immigration. It also presents the asymmetry of interests, particularly between the developed and the developing world, and underlines the implications for international co-ordination and co-operation.

Introduction

To understand the impact of international migration on world politics we must know how states shape and control migration for strategic gains. Since 1945 immigration in the advanced industrial democracies has been increasing, although it has fallen off slightly in the wake of the 2008-09 financial crisis and ensuing recession. Immigration into member states of the OECD was down about 7% in 2009. Nevertheless, the overall rise in immigration in the last half of the 20th century is a function of market forces (demand-pull and supply-push) and kinship networks, which reduce the transaction costs of moving from one society to another. These economic and sociological forces are the necessary conditions for migration to occur, but the sufficient conditions are legal and political. The OECD states, with highly developed industrial and service-based economies, reap enormous economic gains from migration – new sources of human capital and manpower, more flexible labour markets, lower levels of inflation in periods of high growth. But to get the benefits of migration, these states must be willing to accept certain costs – principally the short-term social and political instability and the fiscal burden of concentrated immigrant populations in regions and localities. Liberal states also must confront the issue of rights (legal status) for migrants. Economic needs for openness are pitted against powerful political and legal pressures for closure – what is called elsewhere in the chapter the "liberal paradox".

It is not enough to look just at the receiving (OECD) countries of the industrialised north. Migration also has important costs (brain drain) and benefits (remittances and brain gain) for less developed countries (LDCs) in the south. International trade is a well-established determinant for income and growth. In addition to the classic gains from trade for all trading partners, international economic relations often provide access to technological know-how and thus give developing countries a chance to reduce the development gap at a faster pace. The impact of international migration on the welfare of both source and recipient countries is less well understood. Recipient countries benefit, *inter alia*, from the availability of the immigrant workers, both skilled and unskilled. Source countries benefit, *inter alia*, from the remittances sent back home by migrant workers, an important source of foreign exchange in many LDCs. While international trade and migration are often looked at in isolation in terms of their impact on development, it is critical to understand the relationship between trade, foreign direct investment (FDI), and migration to get a complete picture of globalisation.

Alongside trade and FDI, migration is a defining feature of the international political economy, and states struggle to govern and regulate migration and mobility. This chapter argues that rights are essential to migration governance, as modern states strive to fulfil three key functions: maintaining security, building trade and investment regimes, and regulating migration. Migration and mobility raise a host of security concerns for states in the north and the south. The Garrison State was linked with the trading state in the 18th and 19th centuries. The 20th and 21th centuries have seen the emergence of the migration state, where regulation of international migration is as important as providing for the security of the state and the economic well-being of the population.

12.1. Global migration and mobility

International migration has been steadily increasing in every region of the globe since the end of the Second World War. At the beginning of the 21st century well over 200 million people reside outside of their country of birth and over the past half century

individual mobility has increased exponentially. Tens of millions of people cross borders on a daily basis, which adds up to roughly two billion annually. International mobility is part of a broader trend of globalisation, which includes trade in goods and services, investments and capital flows, greater ease of travel, and a veritable explosion of information. While trade and capital flows are seen as the twin pillars of globalisation migration often is overlooked, especially among scholars of international relations (Hollifield, 2008; 2010).

Yet migration is a defining feature of the global era in which we live; and, although it is connected in many ways to trade and investment, it is profoundly different. Some clever person once observed that "people are not shirts", which is another way of saying that labour is not a pure commodity. Unlike goods and capital, individuals can become actors on the international stage, whether through peaceful transnational communities or violent terrorist/criminal networks. Migration and mobility can be a threat to the security of states, as we have been reminded daily since the terrorist attacks of 11 September 2001. Immigrants bring new ideas and cultures to their host societies and they often come with a basic package of (human) rights that enables them to become members of society, if not citizens, of their adoptive countries. Conversely they may return to their countries of origin where they can have a dramatic effect on economic and political development (Hollifield *et al.,* 2007). And lest we forget, not all migration is voluntary – in any given year millions of people move to escape political violence, hunger, and deprivation, becoming refugees, asylum seekers, or internally displaced persons. In 2007 UN estimates put the global refugee population at 11.4 million – down considerably from the turbulent decade of the 1990s but trending upward. The total population of concern to UN High Commission for Refugees, including internally displaced persons, stood at almost 33 million. Because it is so complex and multi-faceted, migration poses an enormous regulatory challenge for states and the international community (Martin and Widgren, 1996; Gibney, 2004; Martin *et al.*, 2006).

Migration, like globalisation, is not a new phenomenon Migration, like globalisation, is not a new phenomenon (Hatton and Williamson, 1998; Williamson, 2006). Throughout history, the movement of populations has been the norm. Only with the advent of the nation-state in the 16th- and 17th-century Europe did the notion of legally tying populations to territorial units (states) and to specific forms of government become commonplace (Moch, 1992). State-building in Europe entailed consolidating territory, centralising authority, controlling the nobility, imposing taxes and waging warfare (Tilly, 1975; Sassen, 2006; Castles and Miller, 2009). The institutions of nationality and citizenship, which would become the hallmarks of the modern nation-state, did not develop fully until the 19th and 20th centuries (Koslowski, 2000). The reason for these developments in Europe was closely related to warfare, conscription and taxation. In the 19th century warfare pitted one people against another and political leaders cultivated among their populations a sense of nationalism (Kohn, 1962; Brubaker, 1992). The expansion of the European system of nation-states through conquest, colonisation, and decolonisation spread the ideals of sovereignty and nationality to the four corners of the globe (Krasner, 1999).

In the 20th century passport and visa systems developed and borders were increasingly closed to non-nationals (Torpey, 2000). Almost every dimension of human existence – social-psychological, demographic, economic and political – was reshaped to conform to the dictates of the nation-state (Kohn, 1962; Hobsbawm, 1990). The migration "crises" of the late 20th century pale by comparison with the upheavals associated with the industrial revolution, the two world wars and decolonisation, which resulted in

genocide, irredentism, the displacement of massive numbers of people and the radical redrawing of national boundaries, not only in Europe, but around the globe. This process was repeated with the end of the Cold War and the breakup of the Soviet Empire (Brubaker, 1996).

Myron Weiner (1995) argued that the increase in international migration in the post-war period posed a threat to international stability and security, especially in those areas of the globe where nation-states are most fragile – theBalkans, Transcaucasia, the Middle East, the great lakes region of Africa, or Southern Africa. Weiner extended his argument to the western democracies, pointing out that the rise in xenophobic and nationalist politics in Western Europe showed that even the most advanced and tolerant democracies risk being destabilised politically by an influx of unwanted immigrants. Weiner postulated that there are limits on how many foreigners a society can absorb. Samuel Huntington of the "clash of civilisations" fame argued that failure to control American borders is the single biggest threat to the national security of the United States (Huntington, 1996; 2004). Weiner and Huntington echo the sentiments of Arthur Schlesinger Jr. (1992) and others (Brimelow, 1995), who fear that immigration and multiculturalism will lead to the "disuniting of America". In this line of reasoning, nation-states are threatened by globalisation from above and multiculturalism from below.

At the heart of the migration crisis are concerns about sovereignty, citizenship, national security and identity. The ability or inability of a state to control its borders and hence its population is the *sine qua non* of sovereignty (Freeman, 1998; Guiraudon and Lahav, 2000; Hollifield, 2005). With some notable exceptions – such as the international refugee regime created by the 1950 Geneva Convention in the aftermath of World War II (Goodwin-Gill, 1996; Gibney, 2004) – the right of a state to control entry and exit of persons to and from its territory is an undisputed principle of international law (Shaw, 1997). But this political and legal principle immediately raises several questions: why are some states willing to accept rather high levels of immigration when it would seem not to be in their interest to do so (Hollifield, 1992a; Freeman, 1995, 1998; Cornelius *et al.,* 1994; Joppke, 1998b)? Does this influx pose a threat to the institutions of sovereignty and citizenship (Joppke, 1998a; Freeman, 1998; Guiraudon and Lahav, 2000) and should we view migration primarily as an issue of national and/or international security (Rudolph, 2006; Adamson, 2006)?

It might be tempting to argue, as some have, that international migration is simply a function of the inexorable process of globalisation (Sassen, 1996). Demand for labour – both skilled and unskilled – is high in the principal receiving countries of North America, Europe, and Australia, and the supply of workers in Asia, Latin America and Africa, willing to fill this demand is virtually unlimited. Demand-pull and supply-push forces seem to account rather well for the surge in international migration. Yet we know that individuals are risk averse and migration is fraught with risks – the transaction costs alone should be enough to deter most people from moving, and indeed this is the case. 200 million immigrants represent less than 3% of the world's population. Despite efforts to restrict immigration, people are moving in increasing numbers, and there is a sense of crisis and loss of control. Sociologists and anthropologists have helped us to understand how individuals reduce the risks associated with migration (Massey *et al.,* 2002). Individuals are more likely to migrate if they have friends or relatives in the destination country willing to help and ease the process of transition. Social networks lower the transaction costs associated with emigration, making it less risky and connecting supply and demand, like two poles of a battery.

Is this the end of the story? If so there would appear to be no room for the state in managing migration. Policy, some say (Sassen, 1996), may be irrelevant, playing at best only a marginal role in the migration process, and the institutions of sovereignty and citizenship are increasingly outdated (Soysal, 1994). According to this logic, we are entering a post-national era and migration is redefining the international state system. However, we can argue that it is a mistake to eliminate the state from our analysis. *The necessary conditions for migration to occur may be social and economic, but the sufficient conditions are political and legal.* States must be willing to open their borders to the movement of people, and as people move they can acquire rights. Immigration has profound political implications, and states are critical in shaping migration outcomes.

12.2. A public goods approach to migration

Because migrants have agency – that is they are not inanimate commodities subject to strict regulation – it is difficult for states to regulate flows of people in the same way they can regulate the movement of goods, services, and capital. As with trade and FDI, however, there are great obstacles to co-operation in migration governance. One state's policies to control or regulate migration inevitably affect another state's, and externalities in migration governance abound. If anything, interdependence with respect to migration is even greater than with trade and investment, making unilateral or bilateral approaches to regulation extremely difficult. Short of autarky (the North Korean example comes to mind), states have little choice but to co-operate in migration governance, even though a truly multilateral migration regime has proven elusive.

Following the work of John Ruggie (1993, pp. 3-47), we can identify three tenets of multilateralism. The first is *indivisibility*, which is another way of saying that multilateral regulation should take the form of a public good (the benefits of an international migration regime would have to be non-excludable and non-rivalrous). A single state or even a small group of states cannot provide migration governance for the international community. The costs and benefits of governance and its provision must be shared relatively equally among states. The second tenet is *principles,* or *norms of conduct*, which can alter the behavior of states. The fewer principles or norms there are, the greater the likelihood that states will adhere to them and change their behavior. The most difficult problem in any multilateral regime is to find a single compelling principle (or at least a very small number of interrelated norms or principles) "around which actor expectations can converge". Third, Ruggie points to *diffuse reciprocity*, meaning that states must be convinced that everyone will respect the rules of the game, making it possible for governments to persuade a skeptical or even hostile public to accept the short-term political and economic costs of establishing the regime in order to reap the long-term gains.

Using this liberal/public goods framework, we can ask: What are the possibilities of building an effective international migration regime? What would be the incentives to participate in such a regime? Can states overcome their misgivings, which may include loss of sovereignty, threats to national security and identity, and changes in the composition of the citizenry (Joppke, 1998a)?

On the first point, indivisibility, we must ask if migration can be defined as an international public good. As noted earlier, this is problematic, especially if we compare migration and trade. During the post-war period, a consensus emerged – based on American leadership and the doctrine of comparative advantage– that an open trading regime would promote global welfare and advance the cause of peace. The motto of the immediate post-war period was "peace through trade". The General Agreement on Tariffs

and Trade (GATT) system was created to ensure that the costs and benefits of free trade would be shared equally, and this allowed the leading liberal states (especially the United States) gradually to overcome the hostility and skepticism of weaker developing states. Free trade would lead not only to specialisation in production, increased output, and pareto-optimal economic outcomes it also would promote interdependence and a more peaceful world.

This type of economic reasoning, however, does not work well in the area of migration because the asymmetry between developed and developing countries is too great. It is only at certain points in time (such as the turn of the century in America, the period of reconstruction in Europe after World War II, or the period of very high growth in Asia in the 1970s and 80s) that the interests of developing and developed states converge. Developing states almost always have an incentive to export surplus populations, whereas developed states only periodically have an interest in admitting large numbers of foreign workers. The history of south-to-north migration has tended to be one of fits and starts, of peaks and valleys that tended to follow the business cycle. But there is strong evidence that this dynamic may have been broken in the post-war period, at least for certain "core" liberal states in America and Europe (Hollifield *et al.,* 2008; Hollifield and Wilson, 2011). We can see this in the rates of world migration, which have been rising continuously since 1945.

So, if migration does not mirror the business cycle, what is driving it? The answer, in a word, is rights. As the world becomes more open, more democratic, and more liberal, people are freer to move than ever before. This has placed great strains on liberal states, especially on the institution of citizenship. Liberal states are caught on the horns of a dilemma or, what we have called a liberal paradox (Hollifield, 1992a; Weiner, 1995). In liberal political and economic systems, there is constant tension between markets and rights, or liberty and equality. Rules of the market require openness and factor mobility, whereas rules of the liberal polity, especially citizenship, require some degree of closure, mainly to have a clear definition of citizenry and to protect the sanctity of the social contract – the legal cornerstone of every liberal polity. Equal protection and due process cannot be extended to everyone without undermining the legitimacy of the liberal state itself. How can states solve this dilemma and escape from the paradox? Constructing an international migration regime, as European Union members have done, is one way.

One way out of the dilemma is to build an international migration regime, thus defining global migration governance as a public good. But, assuming such a regime could meet the criteria of non-excludability and non-rivalry – where the benefits of governance could not be denied to any state, all could benefit equally, and all would share the costs – such a regime could not be defined purely in economic terms, even though mobility of productive factors is recognised to be Pareto optimal. To regulate migration on a unilateral basis, liberal states must adopt draconian (illiberal) policies that may threaten the foundations of the liberal state itself. It is not efficient or desirable in a liberal state to close or seal borders. This would be the ultimate strategy for external control (Freeman, 1995). Likewise, strategies for internal control, including heavy regulation of labour markets, limiting civil rights and liberties for foreigners and citizens, and tampering with founding myths (for example, weakening birthright citizenship in the United States) also threaten the liberal state (Hollifield, 1999). Such measures can fan the flames of racism and xenophobia by further stigmatising foreigners. Establishing a multilateral process for regulating and controlling immigration offers one way out of this dilemma, but to accomplish this, control must be redefined on a multilateral basis as the "orderly movement of people" (Ghosh, 2000). Orderly movements imply respect for the rule of law and state sovereignty, which are fundamental principles in every liberal state (Hollifield, 2005).

The problem remains of how to set up generalised principles of conduct in the area of migration. Various conventions exist, many put forward by the United Nations and its agencies (UNHCR, ILO) to safeguard the rights of refugees, migrant workers and their families. Likewise, Mode 4 of the General Agreement on Trade in Services (GATS) includes provisions for migration (Bhagwati, 1998; Ghosh, 2000). But none of these agreements has achieved the status of a full-blown international migration regime capable of altering the behavior of states. Moreover, economic migration, whether low-skilled or high-skilled, is a private (not a public) good and states have the option of competing in a relatively open marketplace for basic labour (manpower) and human capital. It is only with asylum and refugees that a quasi-effective international regime, which approximates a global public good, has emerged in the post-war period, with a single guiding norm/principle – a well-founded fear of persecution. The freedom-of-movement clauses of the various European Union treaties have resulted in the construction of a regional migration regime for EU member states, and the Schengen group has developed rules for dealing with the migration of third-country nationals, specifically asylum seekers (Uçarer, 1997).

In such a regional context, where the asymmetry is less pronounced than in the international system, it is easier to solve the problems of reciprocity and collective action, and pursue a migration regime that more closely approximates a club good (with benefits limited to a small group of states and costs equally shared) than a true public good. In the European Union, for example, rules can be adopted and formalised through already established institutional procedures that discourage free riding. At the international level, what we have seen instead is a proliferation of very weak rules, norms, and procedures, resulting in a kind of fragmented and ineffective regime (Ghosh, 2000), and the proliferation of bilateral agreements for migration control has resulted in what trade experts would call a "spaghetti bowl" effect. Moreover, the primary concern of the most powerful liberal states is not to facilitate the orderly movement of people (even paying tourists) or promote international factor mobility. Rather, the concern is for control *tout court*, which has as many different meanings as there are states (Cornelius *et al.,* 1994, 2004). The challenge for any state or organisation attempting to construct an international migration regime will be to define control in such a way that it is indivisible, can serve as a generalised norm or principle of conduct, and can lead to diffuse reciprocity. This is no mean feat because, heretofore, international migration has been regulated almost exclusively on a bilateral basis, if not through some type of imperial hierarchy – the Eureopean Union is a notable exception. In fact, we still see both regulatory systems at work today. It is only among the OECD states that freedom of movement (but not settlement) has been more or less achieved, especially for the highly-skilled. Between the core liberal states in the international system and the less developed countries, movement of populations is still governed by a system of imperial hierarchy, which is in many ways more one-sided today than it was during the colonial era.

To better understand the difficulties of international co-operation to regulate migration, we have constructed a simple typology of international regimes. This typology, depicted in Figure 12.1, points to a clear distinction between the regulation of capital, goods, and services on one hand and migrant labour or refugees (people) on the other. When it comes to regulating trade and capital flows – an essential function of the international political economy – multilateralism (on the y axis) is strongest and most heavily institutionalised in the area of finance. Even though the institutions dealing with international finance are far from perfect, the IMF and World Bank have become the bulwarks of stable exchange rates, without which international trade and investment

would be difficult and extremely risky. The GATT/WTO regime for trade also is heavily institutionalised, but the multilateral basis of this regime is, we would argue, weaker than that for finance. The need for strong currencies and stable exchange rates is felt much more acutely by states than the need for free trade. Nonetheless, both of these institutions have evolved together in the post-war period. Powerful market incentives, as well as formal enforcement mechanisms in the case of WTO, compel states to "play by the rules" (Goldstein, 1993, pp. 201-232).

Figure 12.1. A typology of international regimes

		Institutions	
		STRONG	WEAK
Multilateralism	STRONG	Refugees and political asylum (UNHCR)	Finance (IMF and World Bank)
	WEAK	International Labour Migration (ILO and IOM)	Trade (GATT or WTO)

Of the two "regimes" dealing with migration, one for labour migrants and the other for refugees, clearly the refugee regime, which is institutionalised through the UNHCR, is the more effective and comes closer to a global public good, for reasons we have spelled out. The term *regimes* is put in quotes because the labour regime is quite ineffective. The rules for entry and exit of economic migrants are controlled by nation-states, not by international organisations like the United Nations, the International Organization for Migration or the International Labour Organization (Joppke, 1998a); and labour migration constitutes a private, not a public good. Again, the major exception is the European Union, but the EU regime for international labour migration functions only for nationals of the member states (it is a club good), not (or at least not yet) for third-country nationals (Guiraudon, 1998). Even for the Schengen states – referred to in the British press derisively as Schengenland – third-country nationals do not have freedom of movement. Only Schengen nationals have this right. Schengen does, however, function as a multilateral regime for asylum and is designed to help member states restrict refugee migration and prevent "asylum shopping" (Thielemann, 2003). Refugees have the right to request asylum in the first Schengen state in which they arrive – consistent with the Geneva Convention– but if they transit through a "safe" third country, they can be *refoulés* (sent back to that third country). The result has been to forge a more or less common asylum policy in Schengen and turn all adjoining states into buffer states. The important point is that these Western European states, together with the United States and other liberal democracies, are respecting the letter, if not the spirit, of international refugee law. Although the principles of the refugee regime are widely recognised, the UNHCR as an institution remains weak and heavily dependent on a few "client states", especially Sweden, the Netherlands, and other small European social democracies (Loescher *et al.,* 2008; Gibney, 2004). The Japanese contribute a lot of money to the UNHCR, and the Americans support it and use it as a tool for managing refugee crises around the world, especially when American national interests are involved.

The regime for international labour migration is weakly institutionalised (depicted on the x axis) with no central norm, and its principal organs, ILO and IOM, based in Geneva, have little regulatory or institutional capacity. For developed states in particular, the costs of participating in a regime for international labour migration outweigh the benefits, and a short-term strategy of unilateral or bilateral regulation of migration is preferred to a long-term, multilateral strategy. This is less true for the refugee regime because the more powerful liberal states need this regime for situational exigencies – to manage massive refugee flows that can destabilise governments and, in some cases, entire regions. When such crises strike close to home, as in the 1999 Balkan war, the utility of the refugee regime goes up exponentially. But when the crisis is past, it drops again.

To date, unwanted labour migrations might be considered more of a nuisance, especially from a political and security standpoint. They are not fundamentally threatening and, therefore, can be handled unilaterally and on an *ad hoc* basis. The payoff from international co-operation in the area of unwanted labour migration is negative, and opportunities for defection are numerous. The possibilities for monitoring, enforcing, or developing some principle of non-discrimination are minimal at this point. That brings us back to the domestic level in our search for an explanation of why states risk migration. The three factors driving migration policies – cultural and ideational, economic interests, and rights – must be studied on a case-by-case basis.

Yet an international market for labour exists and is growing. If the first rule of political economy is that markets beget regulation, some type of a stronger regime is likely to develop. What will be the parameters of such a regime, and how will it evolve? International relations theory, especially liberal/rationalist arguments, offers some clues.

12.3. Suasion and regional migration regimes

One of the principal effects of economic interdependence is to compel states to co-operate (Keohane and Nye, 1977; Milner, 1988). Increasing international migration is one indicator of interdependence, and it shows no signs of abating. As the international market for skilled and unskilled labour grows in the coming decades, pressures to create an international regime will increase. Following the work of Lisa Martin (1993, pp. 91-121) we can identify two ways in which states can overcome co-ordination problems in the absence of trust and reciprocity (developed states do not trust less developed states to help control borders and deter irregular migration): 1) through the centralisation of regulatory power and pooling of sovereignty, and 2) suasion or, as Lisa Martin (1993, p. 104) puts it, "tactical issue linkage".

We already have seen an example of the first strategy at the regional level in Europe. The European Union and, to a lesser extent, the Schengen regimes were built through processes of centralisation and pooling of sovereignty. But, as pointed out, this was fairly easy to do in the European context because of the symmetry (of interests and power) within this region and the existence of an institutional framework (the European Union). It would be much more difficult to centralise control of migration in the Americas or Asia, where the asymmetry (of interest and power) is much greater, and levels of political and economic development vary tremendously from one state to another (Fields, 1994; Sadiq, 2009). It is unlikely that regional trade regimes like the North American Free Trade Agreement (NAFTA) or Asia-Pacific Economic Co-operation (APEC) will lead quickly to co-operation in the area of migration. But the beginnings of collaborative arrangements are there, just as they were with the European Coal and Steel Community (ECSC) in the early 1950s. The regional option – multilateralism for a

relevant group of states where migration governance can be defined as a club good – is one way to overcome collective-action problems and to begin a process of centralisation. Most international regimes have had a long gestation period, beginning as bilateral or regional agreements. It is unlikely, however, that an international migration regime could be built following the example of the International Trade Organization/GATT/WTO. It is too difficult to fulfill the prerequisites of multilateralism: indivisibility, generalised principles of conduct, and diffuse reciprocity. The norm of non-discrimination (equivalent of most-favoured nation – MFN) does not exist, and there are no mechanisms for punishing free riders and no way of resolving disputes. In short, as depicted in Figure 12.1, the basis for multilateralism is weak, and the institutional framework is very weak.

With the asymmetry of interests and power between developed (migration receiving) and less developed (migration sending) countries, *suasion* may be the only viable strategy for overcoming collective-action problems, whether at the regional or international level. Lisa Martin (1993) points to a number of ways in which suasion can help to solve co-ordination problems.

Step one is to develop a *dominant strategy*, which can be accomplished only by the most powerful states, using international organisations to persuade or coerce smaller and weaker states. From the standpoint of receiving countries, the orderly movement of people, defined in terms of rule of law and respect for state sovereignty, would be the principal objective of hegemonic, liberal states. From the standpoint of the sending countries, migration for development, taking advantage of remittances and return (brain gain) or circular migration, would be the principle upon which an international regime could be based (Russell, 1986; Faini, 2007; Ratha, 2007).

Circular migration encompasses a wide range of migrants: low-skilled seasonal workers, medium and high-skilled professionals, students, researchers and entrepreneurs. Several countries in Europe have experimented with circular migration on the assumption that it will stimulate trade, enterprise networks and investments by diaspora. These agreements have taken the form of "Mobility Partnership Pacts". For example, Cape Verde has adopted a mobility partnership programme focused on better visa policy and border control. India has initiated discussions with the European Union to negotiate new labour mobility agreements. These agreements are biased towards exporting high-skilled professionals in the health care sectors, information technology, biotechnology, hospitality. They are quite different than those that Spain has signed with Ecuador, Senegal and Mauritania. Nonetheless these mobility partnership pacts point to the fact that states are interested in promoting international labour mobility in specific sectors and geographical regions.

Little analysis of these labour mobility agreements has been done with the exception of Sweden. In July 2009, the Swedish Government appointed an independent Parliamentary Committee to examine the connection between circular migration and development. Proposals and impact assessments will be presented in a final report in March 2011. Sweden has set new rules for labour migration in December 2008. Under the new rules, an employer who is not able to meet his or her labour needs through recruitment in Sweden or in other EU/EEA countries is able to recruit labour form a third country. The migrant first gets a temporary permit for the duration of the employment or for a maximum of two years, renewable for two additional years, at which time a permanent residence permit can be issued.

Step two is to persuade other states to accept the dominant strategy. This will necessitate *tactical issue linkage*, which involves identifying issues and interests not necessarily related to migration (such as MFN, for example) and using these as leverage to compel or coerce states to accept the dominant strategy. This is, in effect, an "international logroll". Such tactics will have only the appearance of multilateralism, at least initially. Tactical issue linkage was considered in negotiations between the United States and Mexico over the NAFTA agreement, and migration issues have figured prominently in negotiations between the European Union and prospective EU members in east central Europe. At the EU summit in Seville in 2002, for example, the British and Spanish attempted to link official development aid (ODA) and trade concessions for African states to migration control, but this initiative was blocked by the French and the Swedes.

In such instances, reciprocity is specific rather than diffuse. Individual states may be rewarded for their co-operation in controlling migration. Again, we have seen many bilateral examples of this type of strategic interaction between the states of Western and Eastern Europe. The post-unification German Governments have cut a number of deals with Eastern Central European states to gain their co-operation in the fight against irregular migration. In the case of Poland, this has involved investments and debt relief as well as greater freedom of movement for Polish nationals in Germany. But liberal-democratic states may face a problem of credibility in pursuing these types of strategies. They need international organisations to give them greater credibility (cover) and facilitate these logrolls.

The third step for hegemonic states is to move from what is an essentially one-sided, manipulative game to a multilateral process, and eventually to *institutionalise this process*. The long-term benefits of such a strategy for receiving states are obvious. It will be less costly to build an international regime than to fight every step of the way with every sending state, relying only on unilateral or bilateral agreements. This may entail some short-term loss of control (such as larger numbers of visas, or higher quotas for the sending states) in exchange for long-term stability and more orderly/regular migration. The ultimate payoff for liberal states is the establishment of a liberal world order based upon rule of law, respect for state sovereignty, ease of travel, and the smoother functioning of international labour markets. The payoff for sending states is greater freedom of movement for their nationals, greater foreign reserves and a more favourable balance of payments (thanks to remittances), increased prospects for return (brain gain) migration, and increases in cultural and economic exchange, including technology transfers – potentially a "win-win-win" for sending and receiving states, as well as the migrants themselves (Russell, 1986; Hollifield *et al.*, 2007, specifically Faini, 2007).

However, changes in the international system with the end of the Cold War have altered this game in several ways. First, it has made defection easier. Since 1990, states have been more likely to pursue beggar-thy-neighbor policies by closing their borders and not co-operating with neighboring states in the making of migration and refugee policies. The Schengen process itself is a kind of beggar-thy-neighbor policy on a regional scale. Second, the new post-Cold War configurations of interests and power, both at the international and domestic levels, make it more difficult to pursue a multilateral strategy for controlling international migration. Rights-markets coalitions have been breaking apart in the dominant liberal states, increasing polarisation and politicisation over immigration and refugee issues. Yet liberalisation and democratisation in formerly authoritarian states to the east and south have dramatically reduced the transaction costs for emigration (Hollifield and Jillson, 1998; Geddes, 2003; Koslowski, 2005). Initially, this caused panic in Western Europe, where there was a fear of mass migrations from east to west. Headlines screamed "The Russians

are coming!". Even though these massive flows did not materialise, western states began to hunker down and search for ways to reduce or stop immigration. The time horizons of almost all western democracies suddenly were much shorter because of these changes in domestic and international politics. Migration and mobility came to be perceived as greater threats to national security, especially in the post-9/11 strategic environment (Huntington, 2004).

If the United States were to defect from the liberal refugee and migration "regimes", such as they are, it could mean the collapse of these regimes. In game theoretic terms, such a defection would fundamentally alter the equilibrium outcome, and it would be potentially costly to all states and the international community. At least as far as migration is concerned, the process of globalisation of exchange could be quickly and dramatically reversed. To prevent the collapse of liberal migration and refugee regimes the United States and other liberal states must pursue an aggressive strategy of multilateralism, taking the short-term political heat for long-term political stability and economic gain. This happened in the areas of international finance, with the collapse of the Bretton Woods system in the early 1970s, and trade, with the Latin debt crisis of the 1980s and Asian crisis of the 1990s. Without the kind of leadership exhibited in international trade and finance, irregular migrations will increase and become ever more threatening, leading more states to close their borders.

12.4. The emerging "migration state"

International migration is likely to increase in coming decades, unless there is some cataclysmic international event, like war or economic depression. Despite the 9/11 terrorist attack on the United States the liberal democracies have remained relatively open to international migration. Global economic inequalities mean that supply-push forces remain strong, while at the same time demand-pull forces are intensifying (Martin *et al.*, 2006). The growing demand for highly-skilled workers and the demographic decline in the industrial democracies create economic opportunities for migrants in the industrial democracies. Transnational networks have become more dense and efficient, linking the sending and receiving societies. These networks help to lower the costs and the risks of migration, making it easier for people to move across borders and over long distances. Moreover, when legal migration is not an option, migrants have increasingly turned to professional smugglers, and a global industry of migrant smuggling – often with the involvement of organised crime – has sprung up, especially in the last decade of the 20th century (Sadiq, 2009). Hardly a week passes without some news of a tragic loss of life associated with migrant smuggling (Kyle and Koslowski, 2000).

But migration, like any type of transnational economic activity (such as trade and foreign investment), cannot and does not take place in a legal or institutional void. As we have seen, states have been and still are deeply involved in organising and regulating migration and the extension of rights to non-nationals has been an extremely important part of the story of international migration in the post-World War II period. For the most part, rights that accrue to migrants come from the legal and constitutional protections guaranteed to all "members" of society (Layton-Henry, 1990; Hollifield, 1992a, 1999; Joppke, 2001). Thus if an individual migrant is able to establish some claim to residence on the territory of a liberal state, his or her chances of being able to remain and settle will increase. At the same time, developments in international human rights law have helped to solidify the position of individuals vis-à-vis the nation-state, to the point that individuals (and certain groups) have acquired a sort of international legal personality, leading some analysts to speculate that we are entering a post-national era, characterised

by "universal personhood" (Soysal, 1994), the expansion of "rights across borders" (Jacobson, 1996), and even "transnational citizenship" (Bauböck, 1994).

Others have argued that migrants have become transnational, because so many no longer reside exclusively on the territory of one state (Glick-Schiller, 1999; Levitt, 2001), opting to shuttle between a place of origin and destination. This line of argument gives priority to agency as a defining feature of contemporary migrations; but it ignores the extent to which state policies have shaped the choices that migrants make. The migration state is almost by definition a liberal state, inasmuch as it creates a legal and regulatory environment in which migrants can pursue individual strategies of accumulation.

But regulating international migration requires liberal states to be attentive to the (human or civil) rights of the individual; because if rights are ignored or trampled upon the *liberal* state risks undermining its own legitimacy and *raison d'être* (Hollifield, 1999). As international migration and transnationalism increase, pressures build upon liberal states to find new and creative ways to co-operate, to manage flows. The definition of the national interest and *raison d'état* have to take this reality into account, as rights become more and more a central feature of domestic and foreign policy. New international regimes will be necessary if states are to risk more openness, and rights-based (international) politics will be the order of the day (Hollifield, 1992b, 1994b, 2000b, 2000c; Cornelius *et al.,* 1994).

Some politicians and policy makers, as well as international organisations, continue to hope for market-based/economic solutions to the problem of regulating international migration. Trade and foreign direct investment – bringing capital and jobs to people, either through private investment or official development assistance – it is hoped, will substitute for migration, alleviating both supply-push and demand-pull factors (Bhagwati, 1983; Martin *et al.,* 2006). Even though trade can lead to factor-price equalisation in the long term, as we have seen in the case of the European Union (Straubhaar, 1988), in the short and medium term exposing LDCs to market forces often results in increased (rather than decreased) migration, as is evident with NAFTA and the US-Mexican relationship (Martin, 1993; Massey *et al.*, 2002; Hollifield and Osang, 2005; Rosenblum, 2006). Likewise, trade in services can stimulate more "high end" migration, because these types of products often cannot be produced or sold without the movement of the individuals who make and market them (Bhagwati, 1998; Ghosh, 2000).

In short, the global integration of markets for goods, services and capital entails higher levels of international migration; therefore, if states want to promote freer trade and investment, they must be prepared to manage higher levels of migration. Many states (like Canada, Australia, and Germany) are willing, if not eager, to sponsor high-end migration, because the numbers are manageable, and there is likely to be less political resistance to the importation of highly-skilled individuals. However, mass migration of unskilled and less educated workers is likely to meet with greater political resistance, even in situations and in sectors, like construction or health care, where there is high demand for this type of labour. In these instances, the tendency is for governments to go back to the old guest worker models, in hopes of bringing in just enough temporary workers to fill gaps in the labour market, but with strict contracts between foreign workers and their employers that limit the length of stay and prohibit settlement or family reunification (Miller and Martin, 1982; Rogers, 1985). The alternative is illegal immigration and a growing black market for labour – a Hobson's choice.

The 19th and 20th centuries saw the rise of what Richard Rosecrance (1986) has labelled the *trading state*. The latter half of the 20th century has given rise to the *migration state*. In fact, from a strategic, economic and demographic standpoint, trade and

migration go hand in hand; because the wealth, power and stability of the state is now more than ever dependent on its willingness *to risk both trade and migration* (Lusztig, 1996; Hollifield, 1998, 2004; Hatton and Williamson, 1998). In launching a new "blue card" programme to attractive highly-skilled foreign workers, the European Union is clearly seeking to emulate the United States and Canada, on the premise that global competitiveness, power, and economic security are closely related to a willingness to accept immigrants. Europeans are somewhat reluctantly following the American and Canadian examples in order to enhance their material power and wealth. But, in one important respect, Europe has an advantage over the United States, and Canada or Australia. Europe is a regional economic enterprise, which is not only creating a free trade zone, but also a free migration area.

Now more than ever, *international security and stability are dependent on the capacity of states to manage migration*. It is extremely difficult, if not impossible, for states to manage or control migration either unilaterally or bilaterally. Some type of multilateral/regional regime is required, similar to what the European Union has constructed for nationals of the member states. The EU model, as it has evolved from Rome to Maastricht to Amsterdam and beyond, points the way to future migration regimes, because it is not based purely on *homo economicus*, but incorporates rights for individual migrants and even a rudimentary citizenship, which continues to evolve (Geddes, 2003; Lahav, 2004). The problem, of course, in this type of regional migration regime is how to deal with third country nationals (TCNs). As the European Union expands and borders are relaxed, the issue of third-country nationals (TCNs), immigrants, and ethnic minorities becomes ever more pressing, and new institutions, laws and regulations must be created to deal with them (Guiraudon, 1998).

In the end, the European Union, by creating a regional migration regime and a kind of supra-national authority to deal with migration and refugee issues, allows the member states to finesse, if not escape, the liberal paradox (Geddes, 2003). Playing the good cop/bad cop routine and using symbolic politics and policies to maintain the illusion of border control help governments fend off the forces of closure, at least in the short run (Rudolph, 2006). In the end, however, it is the nature of the liberal state itself and the degree to which openness is institutionalised and (constitutionally) protected from the "majority of the moment", that will determine whether states will continue to risk trade and migration (Hollifield, 2000a, 2008; Hollifield *et al.,* 2008).

Regional integration reinforces the trading state and acts as a mid-wife for the migration state. In the European Union, migrants are gradually acquiring the rights that they need in order to live and work on the territory of the member states (Layton-Henry, 1990; Groenendijk *et al.*, 2000; Geddes, 2003; Hollifield, 1992b, 2000b). Regional integration blurs the lines of territoriality, lessening problems of integration and national identity. The fact that there is an increasing disjuncture between people and place – which in the past might have provoked a crisis of national identity and undermined the legitimacy of the nation-state – is less of a problem when the state is tied to a regional regime, like the European Union. This does not mean, of course, that there will be no resistance to freer trade and migration. Protests against globalisation and nativist or xenophobic reactions against immigration have been on the rise throughout the OECD world (Bhagwati, 2004). Nonetheless, regional integration – especially when it has a long history and is deeply institutionalised as it is in Europe – makes it easier for states to risk trade and migration and for governments to construct the kinds of political coalitions that will be necessary to support and institutionalise greater openness.

Mexican leaders, like former Presidents Raul Salinas de Gortari and Vicente Fox, looked to Europe as a model for how to solve problems of regional integration, especially the very delicate political issue of illegal Mexican immigration to the United States. Their argument is that freer migration and a more open (normalised) border are logical extensions of the North American Free Trade Agreement (NAFTA). The government of Ernesto Zedillo moved to grant dual nationality to Mexican nationals living north of the border, thereby taking a big step towards consolidating and extending the rights of Mexicans in the United States. But, the US Government under George W. Bush was reluctant to move so fast with economic and political integration, especially after the attack of 11 September 2001, preferring instead to create new guest worker programmes, or to continue with the current system, which tolerates high levels of unauthorised migration from Mexico (Massey *et al*., 2002; Fitzgerald, 2009). Clearly, however, North America is the region that is closest to taking steps towards an EU-style regional migration regime, and the United States is facing the prospect of another amnesty comparable to the one carried out as part of the 1986 Immigration Reform and Control Act. In the long run, it is difficult for liberal states, like the United States, to sustain a large, illegal population. For this reason, amnesties, legalisations, or regularisations have become a common feature of the migration state.

Even though there are large numbers of economic migrants in Asia, this region remains divided into relatively closed and often authoritarian societies, with little prospect of granting rights to migrants and guest workers (Fields, 1994; Sadiq, 2009). The more liberal and democratic states, like Japan, Taiwan and South Korea, are the exceptions; but they have only just begun to grapple with the problem of immigration, on a relatively small scale (Cornelius *et al.,* 2004). In Africa and the Middle East which have high numbers of forced migrants and refugees, there is a great deal of instability as a result of civil wars, diasporas abound, and states are fluid with little institutional or legal capacity for dealing with international migration (Lischer, 2005; Adamson, 2006; Salehyan, 2009; Betts, 2009a).

12.5. Conclusions

Migration is both a cause and a consequence of political and economic change. International migration, like trade, is a fundamental feature of the post-war liberal order. But, as states and societies become more liberal and more open, migration has increased. Will this increase in migration be a virtuous or a vicious cycle? Will it be destabilising, leading the international system into greater anarchy, disorder and war; or will it lead to greater openness, wealth and human development? Much will depend on how migration is managed by the more powerful liberal states, because they will set the trend for the rest of the globe. To avoid a domestic political backlash against immigration, the rights of migrants must be respected and states must co-operate in building an international migration regime. We have argued that the first, halting steps towards such a regime have been taken in Europe, and that North America is likely to follow (Hollifield, 1997b; 2004). As liberal states come together to manage this extraordinarily complex phenomenon, it may be possible to construct a truly international regime, under the auspices of the United Nations. But we are not sanguine about this possibility, because the asymmetry of interests, particularly between the developed and the developing world, is too great to permit states to overcome problems of co-ordination and co-operation. Even as states become more dependent on trade and migration, they are likely to remain trapped in a liberal paradox, needing to be economically open and politically closed, for decades to come.

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