

# EU Labor Markets after Post-Enlargement Migration

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# Chapter 1:

## Lessons from Migration after EU Enlargement

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## Background

- Migration is an integral part of the European past and present
- EU Enlargement
  - May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia joined the EU (EU10)
  - January 2007: Bulgaria and Romania (EU2)
- The EU eastern enlargements were unprecedented in several ways:
  - CEECs – political and economic transformation
  - In general, no free migration to the West after the WWII until the fall of the Iron Curtain
  - Significant income and unemployment differentials
  - Substantial population size
- This all contributed to the sensitivity of the migration topic in the European public and policy discourse

## Policy reaction: Transitional arrangements

- **Pre-enlargement fears: mass migration, “welfare tourism” and displacement effects in the labor markets**
- **Transitional arrangements on the free movement of workers from CEECs for up to 7 years based on the “2+3+2” formula adopted**
- **2004 Enlargement:**
  - In 2004: only Ireland, the UK and Sweden opened up their LMs
  - Currently: France, Spain, Finland, Greece, Portugal, Italy, the Netherlands, Luxembourg, Belgium and Denmark provide free access to EU8
  - Austria and Germany have simplified the procedures but announced that they will apply transitional measures until 2011.
- **2007 Enlargement:**
  - Only Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Poland, Slovenia, Slovakia, Finland and Sweden have opened up their LMs for EU2
  - Spain, Greece, Hungary and Portugal opened up in the second phase, Denmark followed the suit on May 1, 2009.

## Theory: Should we fear migration?

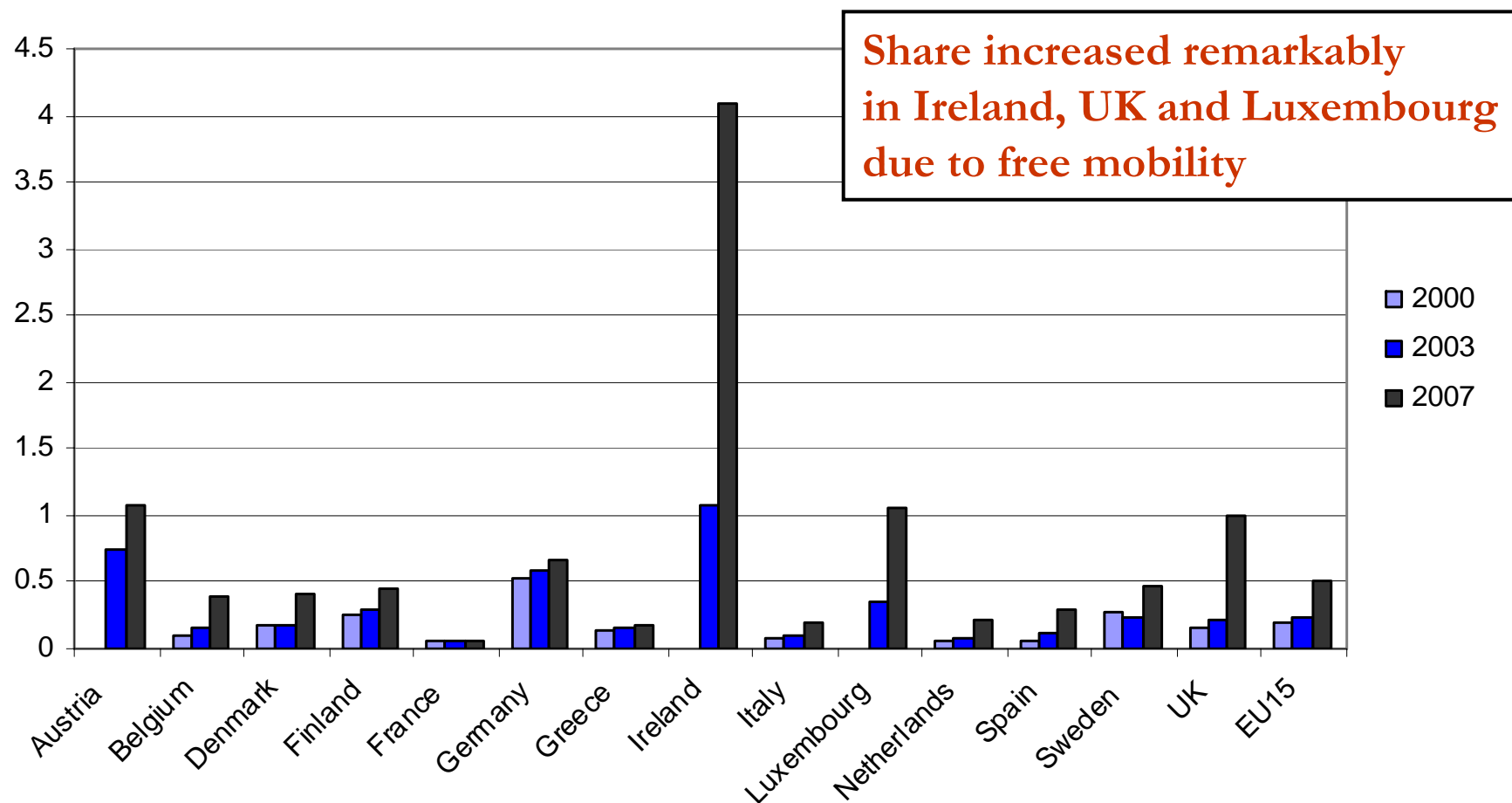
- Migration generally benefits the economy
  - Improves the allocative efficiency of labor markets
  - Brain circulation facilitates international trade, transfer of technologies and knowledge, and eliminates bottlenecks to economic development
- Free movement benefits the migrants themselves
- Redistributive effects
  - Skilled immigration benefits unskilled and may hurt skilled native workers
  - Unskilled immigration hurts unskilled and may benefit skilled native labor
  - Correspondingly for skilled and unskilled *emigration*
  - Skilled immigration reduces inequality
- Effects on public finance

**A priori: NO!**  
**Let's look at the empirics**

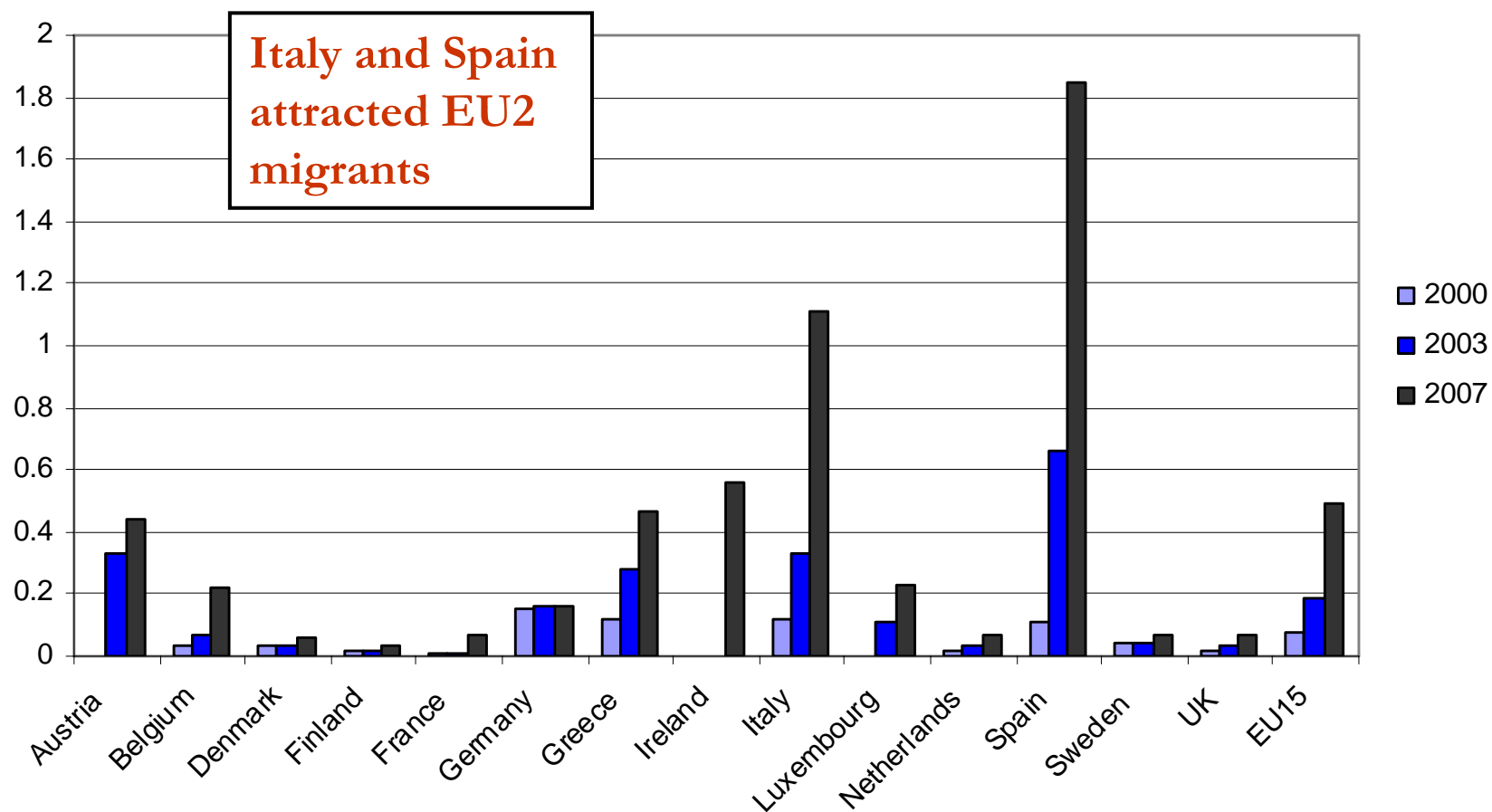
## Post-enlargement migration: The receiving countries

- Generally, an increase in migrant inflows from EU10 and EU2
- In 2003, each EU10 and EU2 about 0.2% of the EU15 population. In 2007 about 0.5%. Compare to 1.7% of other EU15 in EU15, or 4.5% of non-EU nationals
- EU10: Diversion away from Austria and Germany to Ireland and the UK
- EU2: Continued migration mostly to Italy and Spain

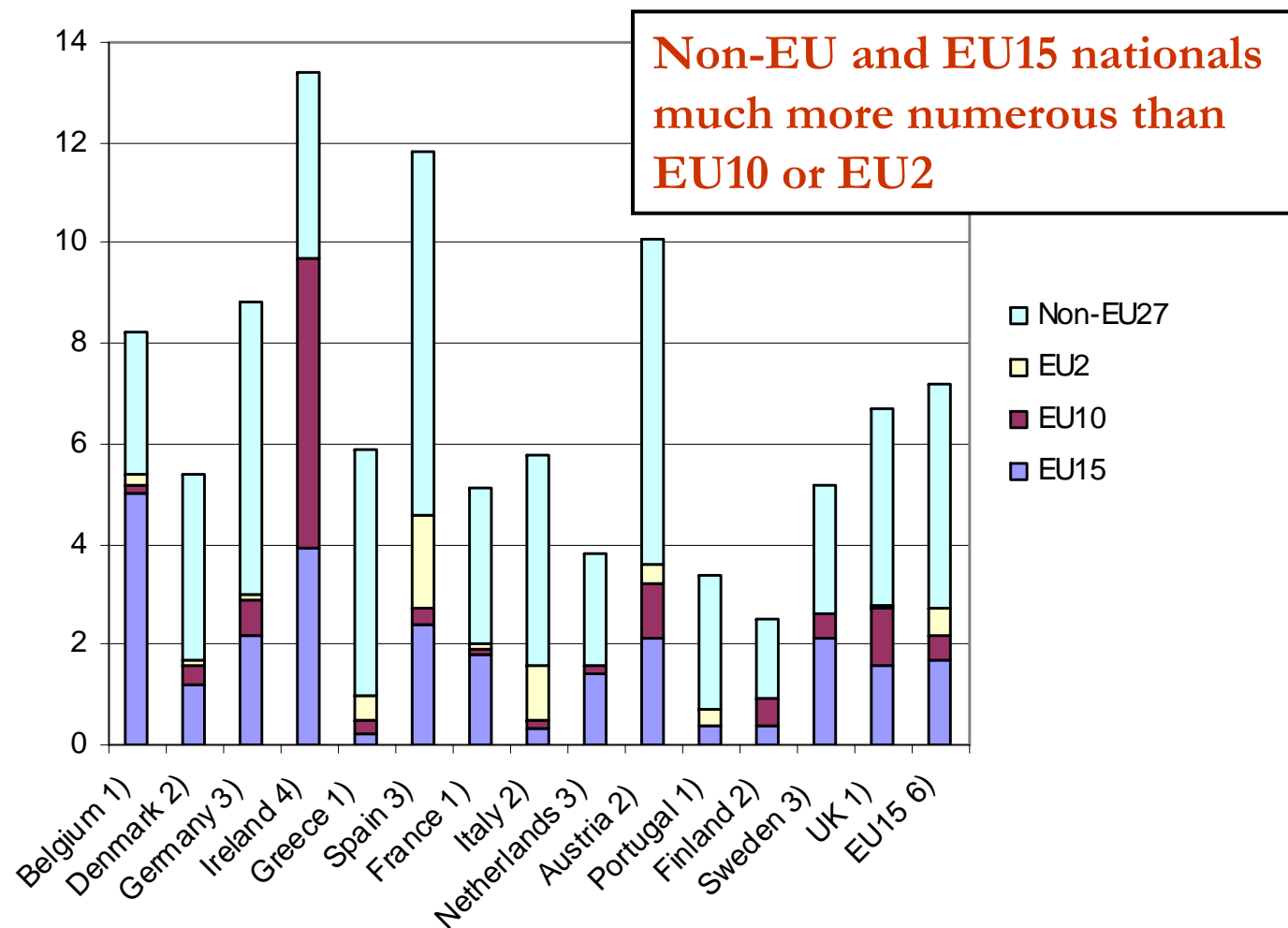
## The distribution of EU8 nationals in the EU15



## The distribution of EU2 nationals in the EU15



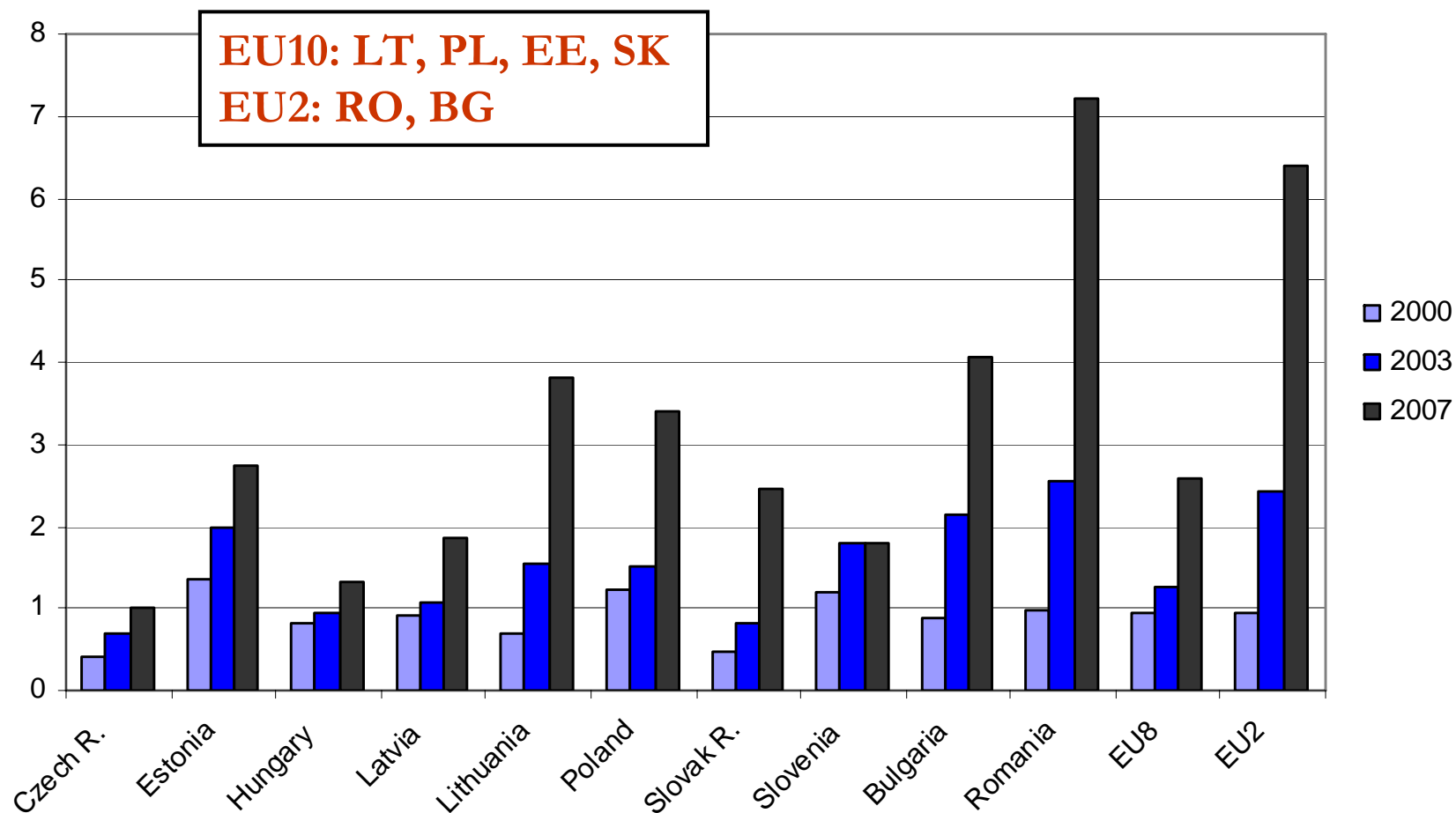
## The distribution of foreigners in the EU15



## Post-enlargement migration: The sending countries

- Increase in emigration between 2000 and 2007 in all EU8 and EU2
- Emigration rates
  - Highest: Romania, Bulgaria, Lithuania, Poland, Estonia, Slovakia, Latvia
  - Lowest: Czech Republic and Hungary
- Poland
  - Increased emigration, relative shift from Germany to the UK
  - The number of Poles who stayed abroad for at least two months has tripled since early 2004 till early 2007 from around 180,000 to around 540,000
  - Emergence of two distinct emigrant groups – low-skilled individuals from the periphery and highly-skilled ones from the cores

## Post-enlargement migration: The sending countries



## How do the post-enlargement migrants fare? (I)

- **Greater labor market participation and higher employment rates than the populations in either the sending or receiving countries**
  - **Exceptions: recent EU8 immigrants in Germany exhibit lower employment and participation rates**
- **After enlargement among EU8 migrants**
  - **Higher employment rate**
  - **Lower unemployment and inactivity rates**
  - **Exception: Germany**
- **Self-employment rate**
  - **Low among recent EU10 immigrants in the UK**
  - **High among EU2 immigrants in the UK (50%) and among recent EU10 migrants in Germany (40%)**
  - **=> self-employment a way to circumvent transitional arrangements!**

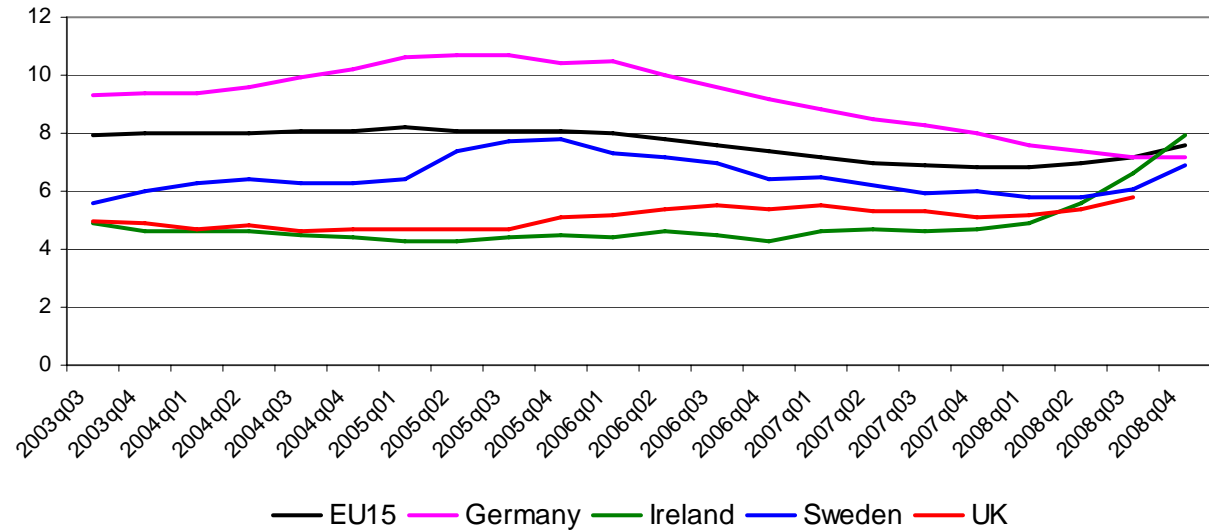
## How do the post-enlargement migrants fare? (II)

- NMS immigrants overrepresented in low and medium-skilled sectors and occupations
- But relatively educated
  - Almost a quarter of EU8 immigrants high education, majority medium
  - EU2 immigrants less educated than EU8 immigrants
  - The proportion of highly educated migrants from the EU8 is lower for post-enlargement arrivals; but also the share of the less-skilled has declined. Improvement on average
- Transitional arrangements imply negative selection
  - In the UK post-enlargement EU8 immigrants MORE educated
  - In Germany post-enlargement EU8 immigrants LESS educated
- Predominantly temporary (self-reported), males (but females in Germany), young

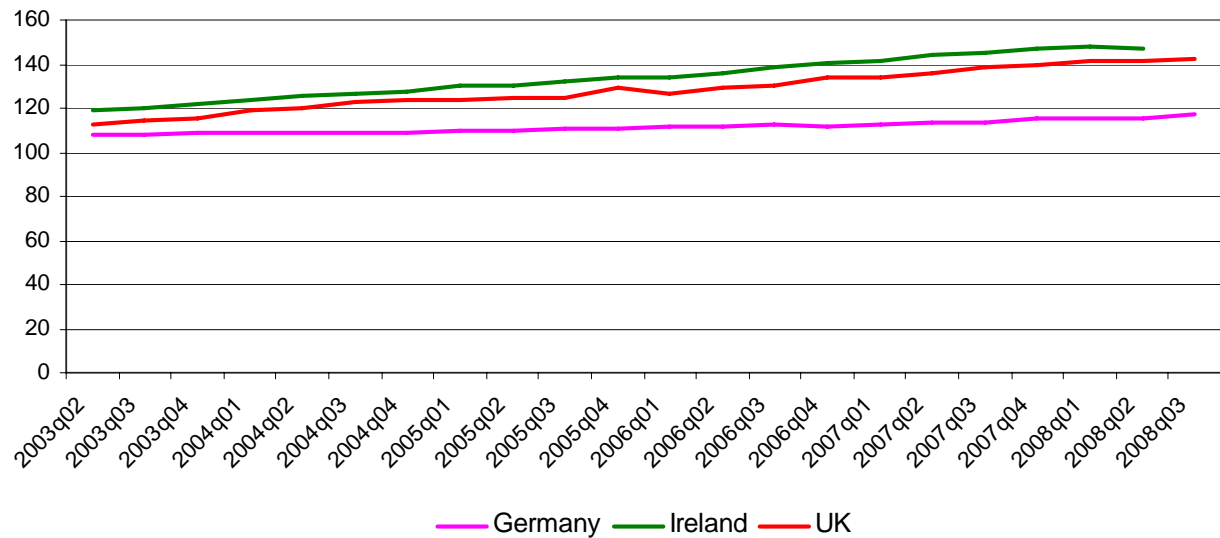
**Doing well, but “downskilling”**

# The effects of migration: Any disruptions in EU15?

- Unemployment rates:



- Labor cost index:



**No disruptions**

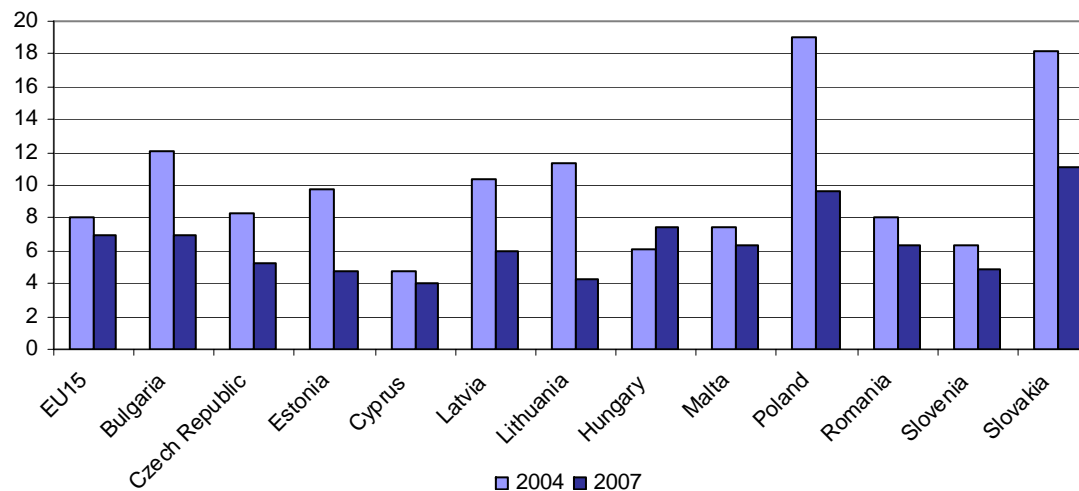
## The effects of migration: Any negative effects in EU15?

- In general, no negative impact on receiving countries' wages, unemployment or employment, or the welfare systems
- The UK
  - No impact on the UK unemployment rate or wages, even after controlling for potential observable and unobservable confounding factors in an econometric analysis
  - Perhaps some negative effect on the relative wages of the least skilled
  - It is rather the “fear of unemployment” that has risen in response to immigration from the new member states and that may suppress inflationary pressures
  - The number of EU8 nationals applying for UK social benefits is low, and child benefits constitute the largest category.
  - Immigrants generally fill in gaps in labor supply
- Ireland
  - Similarly no negative effects, no “welfare tourism”, even if displacement took place in some sectors, since no rise in aggregate unemployment, “upgrade” jobs for nationals

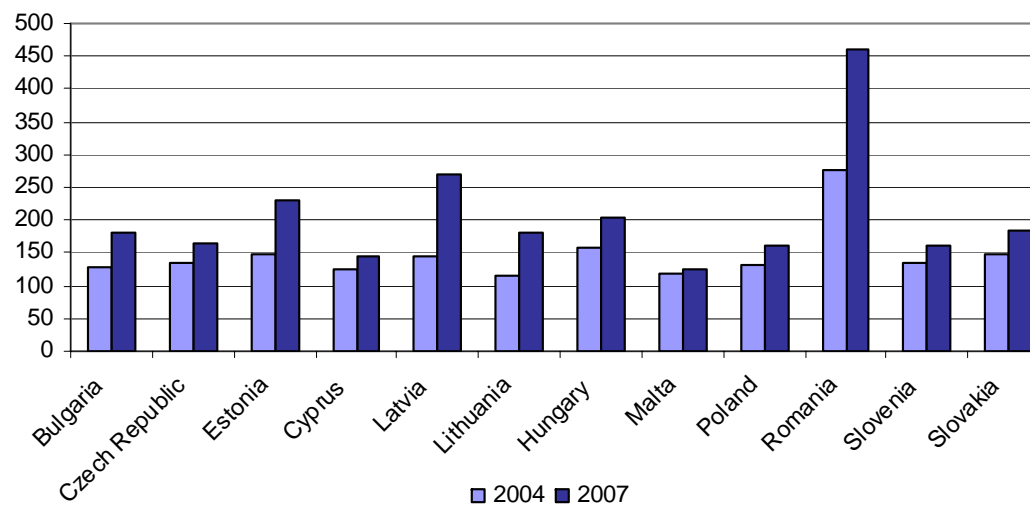
**Generally, NO negative effects**

# The effects of migration: Any disruptions in NMS?

- Unemployment rates:



- Labor cost index:



**No disruptions**

## The effects of migration: Any negative effects in NMS?

- Generally, aggregate data document decreasing unemployment, increasing number of vacancies, and employment growth, as well as increasing wages in the post-enlargement period
- Outflow of skilled migrants generates shortages and may put strain on social security
- There was no incidence of massive “brain-drain” from the new member states, although in some sectors (such as health care) the emigration of highly skilled specialists was relatively large. Brain circulation expected in the long run

**Some risks, but positive developments and outlook**

## The effects of migration: Calibrations using models

- EU as a whole
  - Substantial positive effects in terms of GDP, GDP per capita, productivity and wages; and a somewhat smaller effect for employment in the long run
  - GDP (and GDP per capita) will increase by about 0.1 percent in the short run and by about 0.2 percent in the long run
  - Long-run impact corresponds to a sum of 24 billion Euros = 28,571 Euros per post enlargement migrant!
- EU15
  - A decline in wages by 0.08-0.09 percent and an increase in unemployment by 0.04-0.06 percent in the EU15 in the short run, but no significant effects in the long run
  - increase in GDP and a small positive effect on employment, but GDP per capita decreases
- EU8 (EU2)
  - GDP declines (people leave), but there are gains for real wages, productivity and GDP per capita as well as a decrease in employment

## Remittances

- **Remittances constitute a significant part in Bulgaria' and Romania's GDPs and are also important in the Baltic States.**
- **Mostly of seasonal nature in Poland and the Baltic states**
- **Largely used for household consumption and purchase of durable goods with a recent tendency to invest in human capital, particularly tertiary education (World Bank 2006; Kaczmarczyk and Okólski, 2008)**
- **The impact of these remittances on the economic development so far is rather limited (WB, 2006; Kaczmarczyk and Okolski, 2008)**

## Concluding remarks: Receiving countries

- Migration from the new member states to the old EU15 has increased after the 2004 and 2007 enlargements
- “Migration diversion” effect into countries that opened their labor markets (UK, IRL, ES, IT). But “closed” economies also experienced increased immigration after the enlargement (AT, DE). Some evidence that migration diversion occurred through migrants’ characteristics.
- No evidence on negative impact on the receiving countries’ labor markets in terms of wages, employment, or unemployment
- No evidence on negative impact of post-enlargement migration on public budgets or “welfare tourism”

**Generally non-negative effects,  
transitional arrangements backfire**

## Concluding remarks: Sending countries

- In the long-run:
  - Large outflows of young and skilled individuals may have negative impacts on countries' economic growth, demographic situation and public budget
  - However, the temporary nature of these flows implies brain-circulation and thus positive effects overall
- In the short-run:
  - Decreased unemployment
  - Labor shortages and increasing number of vacancies (mismatch between vacancies and workers)
  - Employment growth
  - Upward pressure on wages
  - Remittances large but their effect so far limited

**Some risks, but positive  
developments and outlook**

## Future challenges

- Will many more people decide to leave new member states for the old ones, or will the numbers stabilize at much lower figures than current?
- What will the composition of migration flows be like?
- What will be the timing, duration and frequency of migrants' stays abroad?
- How the transitory arrangements have affected the post-enlargement migration flows and their repercussions?
- How to ensure that free mobility in the EU it is upheld in all aspects, that it contributes to economic prosperity as well as the well-being of the individual and the society, and that it helps to alleviate economic and financial disturbances such as the ongoing economic crisis, is a major policy task for the present and future

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