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EU8

## LABOR MIGRATION FROM THE NEW EU MEMBER STATES

### A. Introduction

Until the late 1980s, EU8 labor markets shared a number of features with unemployment practically non-existent due to over-employment in the state-controlled economies. The situation changed dramatically in the 1990s when the socio-economic transition revealed serious market disequilibria and triggered significant outward migration. The intensified post-transition labor mobility from the EU8 was part of a natural process of integration and factor mobility. In the search of higher returns, capital started to flow east while for the same reasons labor moved west. While the mobility of factors within and between countries should lead to a more efficient allocation of resources, the gains may not be evenly distributed across territories and the resulting income distribution may not be desirable. This provides for a potential role for regional policy.

This study focuses on the intensified labor mobility in the new EU member countries spurred by EU accession and the opening of selected EU15 labor markets for EU8 nationals. Evidence from the receiving countries indicates that fears of massive inflows of workers and devastating impacts on receiving labor markets were unfounded, since inflows of foreign workers have generally supplemented rather than replaced domestic labor and helped sustain solid economic growth, while at the same time keeping local wages stable. Although this phenomenon has led to skills shortages and bottlenecks in several sectors in the main sending countries and increased wage pressures, sending countries are benefiting from increased remittances from workers abroad who may also return with additional human capital.

Governments would be well-advised to manage labor migration more proactively. Further measures are needed to stimulate labor force participation and employment, including reducing high labor taxes and in some cases social benefits. EU8 countries should also consider phasing in—in tandem with capacity development for screening needed labor—a more liberal regime for importing labor from countries further east. In the fiscal sphere, EU8 governments need to make room for additional spending on wages in sectors where public workers are in short supply (notably the health sector) and investment where private labor is becoming more expensive (notably construction). Governments in the region may also need to rely more on user fees in the health sector. In the education sector, greater reliance should be placed on private financing where returns are mostly private, including tertiary education, but potentially also vocational education to the extent workers tend to seek employment abroad.

The study is organized as follows: section B looks at labor mobility in the period from before transition to EU accession; section C looks at post-accession flows; section D takes a closer look at recent migration from Poland; section E discusses key drivers of post-accession labor flows; section F looks at the impact on both receiving and sending countries; and section G concludes and derives some policy implications.

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<sup>1</sup> Draws on a background paper commissioned from the Centre of Migration Research, Faculty of Economic Research, Warsaw University (prepared by Agnieszka Fihel, Pawel Kaczmarczyk and Marek Okólski).

## B. Pre-transition and pre-accession labor mobility

In the pre-transition period, migration was severely limited in all countries of the region, with international migration principally contained within the CEE region and tightly controlled by governments. Only limited-scale settlement migration connected mainly with family reunion<sup>2</sup> or “repatriation” of ethnic minorities and movements of workers (strictly controlled) were recorded. Emigration, both for political (the 1956 Revolution in Hungary, the 1968 Prague Spring as well as the rise of Solidarity in 1980 and the introduction of martial law in December 1981) and economic reasons, took place mainly illegally or under the pretext of tourist trips.<sup>3</sup> The movements of residents of the present Baltic states were practically limited to the territory of the former Soviet Union; in 1985-1989, despite tough administrative entry and exit restrictions, these countries experienced substantial outflows (and some inflows) of other ex-Soviet nationals.

Movements of people from Slovakia to the Czech Republic, from former Yugoslav republics to Slovenia and between what are now the Baltic States and CIS countries were initiated well before the collapse of communism. In first half of the 1950s, as many as 33,000 persons left Slovakia for the Czech lands annually (Drbohlav, 2004). While this migration flow diminished after 1989, it remained the most important both for the Czech Republic and Slovakia.<sup>4</sup>

### *Post-transition labor flows*

From the early 1990s, the situation changed dramatically, with a large increase in population movements and a shift towards short-term mobility rather than permanent emigration from the EU8 countries. From the early 1990s, the intensity of population movements increased (Box 1), and the region witnessed a huge increase in the complexity of migration forms - from labor mobility through transit migration to forced migration of asylum seekers and refugees.<sup>5</sup> However, the lifting of the Iron Curtain and the opening of state boundaries at the beginning of the 1990s were not accompanied by mass permanent emigration from EU8 countries, contrary to what had been expected. When the three independent Baltic States were established, strong outflows from those countries were recorded, but these were dominated by return migration of Russians, Ukrainians and Byelorussians. Most of the migration took the form of intra-EU8 or temporary mobility, very often cyclical in nature. This particular feature of contemporary migration, facilitated by the global lowering of transport cost, makes measuring and analyzing migration trends difficult.

#### **Box 1. Migration after 1989: misleading official statistics**

Assessment of migration trends in the EU8 countries has been difficult since the pre-transition times when a uniform and specific migration registration system had been introduced linked to permanent residency in a given country. Thus, an emigrant was a person who cancelled her/his permanent

<sup>2</sup> The outflow of ethnic Germans as a means of family reunion was a typical loophole within the system of strictly controlled boundaries of the European communist states. It is estimated that in the communist period as many as 500,000-600,000 people left Czechoslovakia (Kučera, 1994), with some 20% accepted as ethnic Germans in FRG. In turn, in just a three-year span (1956-1958), Poland permitted 232,000 of its citizens (almost 80% of all documented emigrants) to leave the country only to be instantly recognized as ethnic Germans and become citizens of FRG, and during 1980-1989 more than one million Poles emigrated permanently (approximately 50% were given the status of ethnic Germans) (Okólski, 1994).

<sup>3</sup> After the 1956 Revolution, 194,000 Hungarians, in great part professionals and students, almost immediately left the country (Juhasz, 1999). In the years 1967-1969, 82,000 citizens of Czechoslovakia fled (Pavlik and Maresova, 1994). Around 100,000 Poles were granted political asylum or temporary protection in various Western countries in the aftermath of martial law declaration.

<sup>4</sup> In 1998-2004, every third Slovak emigrant went to the Czech Republic (Lubyova, 2005).

<sup>5</sup> The Czech Republic, Hungary and Slovenia became destination for moderate numbers of regular long-term migrants, while Poland received a substantial flow of returning Poles and seasonal workers. Furthermore, the Czech Republic, Poland, Slovakia, Slovenia and Hungary were destination for many refugees and asylum seekers. Origins of a great majority of coming migrants were former communist countries and a handful of other (mainly Asiatic) countries.

residence and declared an intention to leave for another country. In turn, an immigrant was defined as a person who was registered as a permanent resident (in case of foreigners, special permission was required) and whose previous residence was in another country. The concept of migrant in no way related to the duration (neither actual nor declared) of stay in the destination country, which made migration statistics in EU8 countries incompatible with the respective statistics in a large majority of other countries (Okólski, 1997).

Thanks to restrictive entry and exit rules and efficient border control, the system provided for reasonably accurate statistics in the pre-transition period. With the liberalization of migration policy, the system ceased to be a source of reliable statistics, especially with regard to emigration. Due to the shift towards short-term labor mobility, the majority of movements not only escape registration but also do not match the definition of migration.

Official migration data point to a marginal scale of emigration from the EU8 countries during the transition period and a positive migration balance (with Poland being the sole exception). Official data for Poland indicate that the number of departures in the 1990s (20,000-25,000 annually) was lower than in the 1980s.<sup>6</sup> The most recent data, for 2004, indicate that 19,000 people emigrated from Poland which is the lowest level since the mid-1980s. The Czech data indicate the outflow of merely 1,000 citizens annually in the years 2001-2004, while almost 2,000 returned to the home country (OECD, 2005). In the years 1998-2005, the number of emigrants from Slovakia did not exceed 2,000 persons (regardless of their citizenship) annually and it was three times lower than the number of immigrants (Lubyova, 2005). In the period 1997-2001, less than 1,500 Slovene citizens emigrated each year, which was almost equal to the number of immigrants (Zavratnic Zimic, 2003). In the second half of 1990s, fewer than 400 Lithuanian nationals left their mother country annually (Sipaviciene, 2003) compared to 800 returning Lithuanians. This picture, however, drastically changes when other sources of information are used, especially the statistics on temporary inflows and immigration from EU8 countries compiled in the West.

Over the 1990s, EU8 countries developed various alternative sources of data related to international migration. Those sources, however, are hardly uniform, and they generate statistics of various scope, coverage and quality:

- The population censuses (carried out, depending on country, in 2000-2002) provide more reliable data. According to the 2002 Population Census in Poland, as many as 786,100 Polish citizens were staying abroad for longer than 2 months (1.8% of the population). The official emigration figures for 1989-2000 should have been at least tripled to arrive at plausible estimates. The number of migrants who went abroad in 1989-1990 (according to census data) averaged 50,000, dropped to 20,000-25,000 in 1993-1996, and started to rise again in 1997. In 2000, the annual number of emigrants reached 61,000, and, in 2001, 80,000 (Kępińska, 2006).

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<sup>6</sup> The data from the Central Population Registers reveal that Polish migrants were highly concentrated: over 60% of all permanent migrants originated from three (of sixteen) Polish provinces, namely Upper Silesia (33%), Opole Silesia (20%) and Lower Silesia (8%) (Kępińska, 2006). All those provinces are marked by significant connections to Germany, including extensive migration traditions and migrant networks.

<sup>7</sup> This data pertains only to adult persons who at the time of the survey had been abroad for longer than two months and, at the same time, had at least one household member still living in Poland.

<sup>8</sup> Polish workers are allowed to take up legal jobs in selected sectors (agriculture, construction and exhibitions) according to a series of bilateral agreement concluded in 1990 between the governments of Germany and Poland. In 1993, due to the German labor market conditions, construction was excluded from the sectors available for the Polish seasonal workers. Soon after the bilateral agreements on labor migration came into force, the flow of seasonal migrants from Poland increased rapidly. Already in 1991, approximately 78,600 seasonal Polish labor migrants worked in Germany, the number doubled the following year and reached over 320,000 in 2005.

<sup>9</sup> In the late 1990s, various studies estimated the scale of irregular employment of Polish migrants in Western host countries at a minimum of 150,000-200,000.

- Another useful source is the quarterly Labor Force Surveys (LFS) which provide data on labor market activity of the population, including nationals staying abroad. In Poland, LFS data indicate that 130,000-290,000 adult persons stayed abroad longer than 2 months during each year between 1994 and 2005.<sup>7</sup> Migration increased from mid-2001 due to the worsening Polish labor market, and again from mid-2003 under the impact of accession expectations. Even though the LFS is often used when analyzing post-accession labor flows, it was designed primarily for labor market analysis and does not provide representative migration statistics. Therefore, it should serve as a proxy of the trend rather than of the size of migration. Nevertheless, it is the only data set showing the dynamics of Poles' international mobility prior to and following EU accession.
- Migration figures should also include short-term seasonal workers, who each year find legal employment abroad on the basis of bilateral international agreements and usually stay abroad shorter than 2 months (thus are not captured in the LFS statistics). In Poland, an overwhelming majority of the 300,000-350,000 people working abroad each year are seasonal workers employed in Germany.<sup>8</sup> The flow of seasonal workers to Germany constitutes probably the most significant form of migration from Poland.
- Thus, the analysis of recent post-accession migration flows from EU8 needs by necessity to resort to data on inflows collected by destination countries. This may, however, hamper the analysis due to international differences in the ways immigrants are defined and migration facts recorded. A key criterion in case of the population registers is the intention to reside for longer than a specific length of time, and this varies from country to country. In effect, an aggregation of inflows from EU8 recorded in various destination countries may bring about seriously biased estimates (ILO, 2000). Following EU enlargement and opening of some labor markets for EU8 workers, there are also administrative data from the workers' registration systems, which, however, have their own caveats (for more details see the section on post-accession labor flows below).

This short overview indicates that it is very difficult to draw a comprehensive and reliable picture of contemporary migration as all quoted data sources are marked by serious shortcomings. Moreover, a significant part of migration flows constitute illegal migration.<sup>9</sup> Taking all this into consideration, the analysis of migrant flows (and stocks) from EU8 is based on scattered and not very reliable information. Nevertheless, by looking at diversified data sources and using them with due caution, we hope to provide a realistic picture.

Temporariness of residence in a destination country has been the main feature of migration from the EU8 countries since the very onset of political and economic transition.<sup>10</sup> The most prominent kind of migration flows resulted from seasonal demand for labor in the agriculture and construction sectors in Western countries, mainly Germany, France, Spain and the U.K., with a predominant proportion of these movements regulated by respective bilateral agreements. Germany received by far the largest numbers of seasonal workers - in 2004 over 330,000 persons from Eastern Europe were temporarily (up to 3 months) employed, of whom over 90% from the EU8 (Table 1).<sup>11</sup> Moreover, at the borders between Western and East European countries, there were intensive labor movements. In the beginning of the 1990s, the number of Czechs commuting to Germany, and employed mainly as temporary workers, was as high as 50,000 persons. Due to restrictions introduced by Germany, this number dropped to 30,000-35,000 in 1995 (Drbohlav, 2004). Similar cross-border movements took place between Slovenia and Austria/Italy.<sup>12</sup> Further, temporary labor

<sup>10</sup> This is in line with findings for the broader group of European and Central Asian transition countries (World Bank, 2006a).

<sup>11</sup> While the number of seasonal workers has been increasing since 1993, the structure of migrants has remained broadly unchanged with Poles constituting the vast majority (83% to 91%).

<sup>12</sup> In 2000, the number of Slovenians crossing borders to work on a daily commuter basis has been estimated at almost 13,000 (Zavratnic Zimic 2003). Most of them take up jobs in tourism, agriculture and forestry. Two close

flows have flourished under 3-month tourist visa-free regime introduced for EU8 nationals by many western European states. Many undocumented temporary workers from EU8, predominantly from Poland, commuted cyclically under the guise of tourism to Berlin, Brussels, London, Rome and Vienna. Surveys conducted in Poland in the mid-1990s revealed a widespread existence of micro-regions (as a rule of peripheral location) where from one-third to more than a half of households lived on incomes earned by “commuter-tourists” (Jazwinska and Okólski, 2001).

**Table 1. Seasonal workers in Germany by nationality, 1993-2004**

Year	Total		Poland		former Czechoslovakia		Hungary		Slovenia		Bulgaria, Romania, Croatia	
	ths	%	ths	%	ths	%	ths	%	ths	%	ths	%
1993	174,053	100.0	143,861	82.7	19,808	11.4	5,346	3.1	1,114	0.6	3,924	2.3
1994	149,394	100.0	136,659	91.5	7,404	5.0	2,458	1.6	601	0.4	2,272	1.5
1995	187,192	100.0	170,576	91.1	9,165	4.9	2,841	1.5	600	0.3	4,010	2.1
1996	215,162	100.0	196,278	91.2	9,646	4.5	3,516	1.6	559	0.3	5,163	2.4
1997	220,112	100.0	202,198	91.9	8,712	4.0	3,572	1.6	466	0.2	5,164	2.3
1998	203,981	100.0	187,690	92.0	6,987	3.4	2,878	1.4	342	0.2	6,084	3.0
1999	225,244	100.0	205,439	91.2	8,187	3.6	3,485	1.5	302	0.1	7,831	3.5
2000	258,062	100.0	229,135	88.8	11,810	4.6	4,139	1.6	311	0.1	12,667	4.9
2001	280,783	100.0	243,405	86.7	12,967	4.6	4,783	1.7	264	0.1	19,364	6.9
2002	301,269	100.0	259,615	86.2	13,445	4.5	4,227	1.4	257	0.1	19,364	6.4
2003	318,549	100.0	271,907	85.4	11,813	3.7	3,504	1.1	223	0.1	31,102	9.8
2004	333,690	100.0	286,623	85.9	10,969	3.3	2,784	0.8	195	0.1	33,119	9.9

Source: Dietz and Kaczmarczyk 2006; Bundesamt für Migration und Flüchtlinge 2005.

Labor flows observed in the 1990s were to a large extent driven by serious labor market disequilibria related to the ongoing socio-economic transition but were also encouraged by structural features of recipient economies. Demand for cheap labor to fill low-paid, low-skill jobs seems to be a structural feature of labor markets in advanced economies, at least in case of some sectors like agriculture in Germany. When pre-enlargement debates on the impact of free movement of workers took place, thousands of Czechs, Slovaks and Poles were already working in many of the EU15 countries. Nevertheless, the idea of their unlimited access to EU15 labor markets caused much concern in the old member states with large unemployment and income disparities fuelling fears of mass migration and “welfare tourism.” As a result, the majority of EU15 countries decided to apply transitional arrangements in opening their labor markets for EU8 workers and only Ireland, Sweden and U.K. decided to lift all restrictions from the outset (Box 2).

### Box 2. Free movement of workers within the EU - transitional arrangements

Free movement of persons is one of the fundamental freedoms within the European Union, guaranteed by Community Law. EU Member States are not allowed to discriminate directly or indirectly against migrant workers on the basis of their nationality. Equal treatment concerns not only labor affairs but also social assistance, fiscal advantages and public housing. Nevertheless according to the Accession Treaty of 2003, old member states could voluntarily introduce some transitional arrangements on the free movement of workers from the new member states (excluding Malta and Cyprus). The restrictions could be applied only to migrant workers and not to any other categories of EU citizens.

The transitional period on free movements of workers was divided into three phases through April 2011. In the first phase, which expired in April 2006, some countries (Ireland, the U.K. and Sweden) decided to open their labor markets for EU8 nationals. Remaining EU15 Member States maintained a work permit regime, in some cases combined with quotas.

As far as the second phase (until April 2009) of transition arrangements is concerned, four more

by tourist centers alone (Graz in Austria and Triest in Italy) employ daily over 4,000 Slovenians. Slovenians migrated temporarily as guest workers to Austria and Germany already in the second half of the 1960s, but at present the scale of temporary migration, especially to Germany, is negligible.

EU15 countries (Greece, Spain, Portugal and Finland) have decided to lift restrictions from May 2006. Moreover several Member States (Belgium, Denmark, France, Luxembourg and the Netherlands) have announced simplifications of their existing national access regimes. In Belgium, the remaining restrictions could be lifted before the formal end of the second phase if certain conditions (notably enforcement measures) are met. In the Netherlands, for the period May 2006-December 2007, the access to certain sectors/professions will be facilitated (work permit without labor market test). The Dutch Parliament will review the transitional arrangements again in November 2006, following which a decision could be taken to completely liberalize access to the Dutch labor market from January 2007. In Italy, the new centre-left government in July decided to entirely give up temporary restrictions, bringing the number of countries with free labor market access for EU8 nationals to eight.<sup>13</sup>

All national restrictions on labor market access should be abolished by the end of the second phase. Nevertheless, in case of serious disturbances in the labor market, restrictions can be upheld until the end of the third phase in April 2011.

In all EU15 countries, access to social welfare schemes has been much more restricted than to the labor market itself. In most countries, in order to claim social assistance, EU8 nationals must be legally resident and hold a residence permit, which in turn requires legal employment and in most cases a work permit. Even in Ireland, which offered EU8 nationals the same access as EU15 citizens, they must be declared habitually resident, i.e. have lived in the Common Travel Area for two years or meet other requirements. The same holds in the U.K.

### C. Post-accession labor flows

Following the opening of labor markets for EU8 nationals, Ireland, the U.K. and Sweden recorded increased inflows of labor. To some (unknown) extent this reflected the legalization of already existing employment. As already mentioned, thousands of EU8 nationals were already working in these countries prior to accession and the opening of labor markets was only a way to legalize their employment.<sup>14</sup> In line with expectations, flows have been concentrated to countries with unrestricted access and highly absorptive labor markets such as Ireland and the U.K. While the magnitude of inflows significantly exceeded some official estimates, they have not been out of line with forecasts in academic studies (although these provide a wide range of estimates) (Box 3).<sup>15</sup>

#### Box 3. Pre-accession migration projections

A number of academic and government studies were undertaken to estimate the magnitude of post-accession labor flows from the CEE candidate countries and assess their likely impact on EU15 labor markets. The majority of these projections were derived from a model-based, neo-classical approach (for a theoretical overview refer to Annex 1) and estimated the scale of future migratory streams from the analysis of factors influencing current migration trends (mainly incomes or incomes differentials). Table 2 provides an overview of selected studies. As it was shown in a relatively recent study (Alvarez-Plata et al., 2003), most migration forecasts of future migrants from the CEE countries were significantly overestimated.

<sup>13</sup> This decision came one week after the discovery by the Italian police of a camp in the country's southern Puglia region, where 113 Polish nationals were being kept in slave-like conditions, working up to 15 hours a day and being guarded by armed "kapos" and dogs.

<sup>14</sup> In the U.K., in May 2004 only one in four of almost 6,000 applications to the Worker Registration Scheme was filed by newly arrived EU8 citizens (Portes and French, 2005). Two months later, however, newly arrived migrants dominated the group of applicants.

<sup>15</sup> According to the Labor Force Survey (LFS) carried out in the U.K., before accession (2003) as many as 21,000 immigrants from the Czech Republic and Slovakia and 34,000 from Poland lived in the country, and the trend was clearly rising, especially in case of Poland. The number of residents from other EU8 countries was too low to be mentioned in official statistics (Salt, 2005). However, these magnitudes were undoubtedly underestimated as only those residents were counted as migrants who one year before the survey date had been living abroad.

**Table 2. Selected estimates of East-West migration**

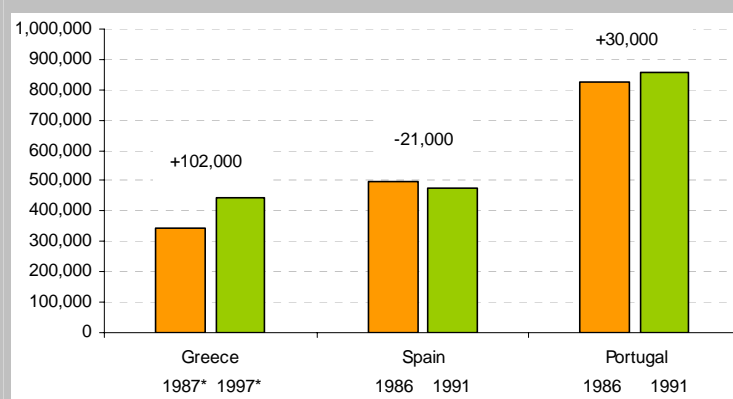
Study	Sending countries	Destination countries	Estimated number of migrants
Layard et al. 1992	10 CEE countries*	EU-15	Potential: 3,000,000
Franzmeyer and Brücker 1997	10 CEE countries*	EU-15	Yearly: 590,000-1,180,000
Orłowski 2000	10 CEE countries*	EU-15	Potential: 1,800,000-3,500,000
Boeri and Brücker 2001	10 CEE countries*	EU-15	Yearly: 335,000 down to 100,000 by 2030
Alvarez-Plata et al. 2003	10 CEE countries*	EU-15	Yearly: 367,000 down to 0 by 2030
Fassman and Hintermann 1997	PL, CZ, HU, SK	EU-15	Potential: 770,000-9,560,000
Lundborg 1998	PL, EE, LT, LV	EU-15	Potential: 1,900,000
Bauer and Zimmermann 1999	PL, RO, BG, CZ, SK, SE	EU-15	Total in 15 years: 3,000,000
Salt et al. 1999	PL, CZ, EE, HU, SE	EU-15	Potential : 500,000
Fertig 1999	PL, CZ, EE, HU, SE	Germany	Potential : 400,000
Fertig and Schmidt 2000	PL, CZ, EE, HU	Germany	Total in 20 years: 300,000-1,200,000
Sinn et al. 2001	PL, RO, CZ, HU, SK	Germany	Yearly: 250-270,000 down to 60-150,000 by 2020
Walterkirschen and Dietz 1998	PL, CZ, HU, SI, SK	EU15	Yearly: 220,000 people
Dustmann et al. 2003 (comissioned by Home Ofiice, U.K.)	10 CEE countries	U.K.	Yearly: 5,000-13,000 people up to 2010
European Commission ECFIN 2001	PL, CZ, EE, HU, SK, SI, LT, LV	EU15	Potential: 2.5% of EU08 population within 15 years

Notes: \* BG, CZ, EE, HU, LT, LV, PL, RO, SE, SK.

Source: Bijak et al. (2004); extended by World Bank staff.

Concerns of massive inflows of cheap labor had also been raised before the accession of Greece, Spain and Portugal to the EU. These concerns were similarly fueled by considerable income differentials, high unemployment rates and propensity to migrate along with the geographical proximity. On the basis of unemployment figures, for instance, it was predicted that between 1.5 and 1.6 million people from Spain and Portugal would emigrate to the rest of the EU after the transition period (Straubhaar, 1984). In case of the Southern enlargement, income differentials to the old EC members were, however, somewhat lower than in the case of the Eastern enlargement. As a result, transition periods were imposed - six years for Greece and seven years for Spain and Portugal. However, fears of massive migration flows did not materialize and the stock of Spanish nationals in other EC countries even diminished during the transition period (Chart 1). As a result, Member States lifted temporary restrictions before the transition periods ended.

**Chart 1. Changes in migrant stocks from Greece, Portugal and Spain in their transition periods\***



\*Data on Greek migration to the EC-9 during its transition period is not available.

Source: The Impact of EU Enlargement on Migration Flows, Home Office Online Report, 25/03.

The experience from the Southern accession countries showed that predictions of future migration flows based only on relative differences in economic variables could be seriously biased. As Annex 1

demonstrates, the variety and complexity of migration makes forecasting migration trends extremely difficult. The range of results, and especially the official estimates of the U.K.,<sup>16</sup> further illustrate the numerous difficulties in estimating migration potential as the outcomes are very sensitive to the assumptions made and to the data used for calibration of econometric models. The major problems arise from:

- the quality of migration data, which are scarce and of questionable value. In EU8 countries, time series are usually too short to estimate an econometric model. Often models are based on data on migration to Western countries (e.g. to Germany) which took place under completely different conditions;<sup>17</sup>
- the quality of other data, incl. data on wages or salaries. It is problematic to use official data on earnings in destination countries as migrants are frequently employed in the shadow economy;
- forecast of independent variables, incl. labor market indicators and GDP growth, are equally or even more difficult to predict than labor mobility;
- heterogeneity of migration processes, in terms of legal status, time horizon and profile of migrants, with different groups responding to different structural factors;
- the focus on permanent migration and use of official data on documented migration, which fail to reflect contemporary migration patterns; and
- the theoretical framework applied. Migration is predominantly analyzed in the context of neo-classical economic approach and is perceived mainly as a response to wage differentials. In this approach, demographic, sociological (related to migrant networks) or political variables are usually omitted.

An alternative approach to estimating migratory potential is based on surveys, designed to measure intentions (or even declarations) to migrate. However, there is usually a huge gap between declarations/intentions and actual action to go abroad (Fassman and Hinterman, 1997, introduced the concept of “real” and “general” migratory potential).

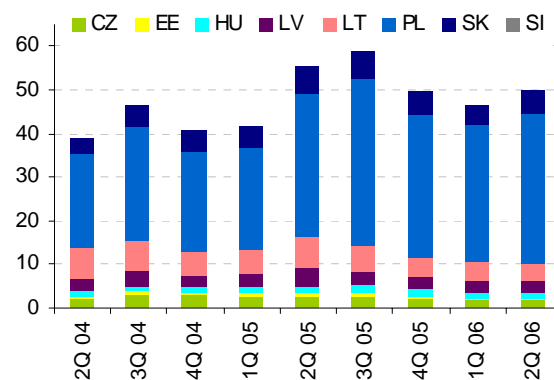
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<sup>16</sup> Prior to the decision on labor market opening, the U.K. Home Office estimated the potential post-enlargement labor flows from all accession countries to 5,000-13,000 which constitutes less than 10% of recorded registrations to the WRS. This difference is partly due to methodological problems but the major reason is the fact that only three countries decided to open their labor markets for citizens of the NMS.

<sup>17</sup> It is problematic that most models made use of quite long time-series data for Germany - a country with a very rich immigration history but, more importantly, which has had many immigration-supporting programs as well (e.g. its guest-worker system). There is also a question, whether an accurate, predictive model based on past German immigration experience should be treated as plausible under current conditions.

The inflow of EU8 workers registered in March 2004-June 2006 accounted for 1.1% of the U.K. working age population in 2004. In the U.K., migrants from the EU8 are required to register with the Worker Registration Scheme (WRS) to take up legal employment. The system set up on May 1, 2004 in order to provide at least basic information on post-accession migration flows is far from perfect as a source of migration data, but allows for tracing broad migration trends.<sup>18</sup> From May 1, 2004 to June 30, 2006 as many as 427,095 applications were approved by the WRS (Chart 2) with Poles constituting the vast majority of applicants (62%). Other significant migrant groups originated from Lithuania (12%) and Slovakia (10%); those two countries, though less populated, have sent many more migrants than the Czech Republic or Hungary. As far as Slovenians are concerned, they seemed to show no reaction to the opening of the U.K. labor market and their movements have remained limited to the neighboring areas.

Chart 2. Inflow of EU8 labor to the U.K. - applicants to Worker Registration Scheme, ths.



Source: Accession Monitoring Report (2006).

EU accession has also intensified visits of EU8 nationals in the U.K.. The ONS International Passenger Survey, which records visits of foreign nationals to the U.K., shows that the number of visits of EU8 nationals in 2003-2005 tripled following accession (to 2 million) while that of EU15 residents remained broadly stable (Table 3). Over 1.1 million Poles visited the U.K. in 2005 only (as compared to less than 300 thousand in 2003). It is also important to note that according to IPS data, 47% of EU8 citizens who visited the U.K. from February to April 2006 came for non-leisure purposes (work or study) and 90% of them did not intend to stay longer than three months. This indicates intentionally short-lasting (temporary) and non-residential flows to those EU15 countries that have opened their labor markets to EU8 nationals.

Table 3. Number of visits to the U.K. by the nationals of the selected EU 15 and EU8 countries, 2003-2005 (1000)

	2003	2004	2005	Change 2003-2005, %
FR	2,845	3,149	3,224	113.3
DE	2,490	2,573	2,674	107.4
IE	2,206	2,147	2,388	108.3
ES	855	1,047	1,163	136.0
EU15	13,346	14,522	14,996	112.4
CZ	185	212	249	134.6
EE	17	30	44	258.8
HU	87	169	213	244.8
LV	14	53	72	514.3
LT	34	70	133	391.2
PL	278	646	1,127	405.4
SK	34	106	189	555.9
SI	27	47	45	166.7
EU8	677	1,334	2,071	305.9

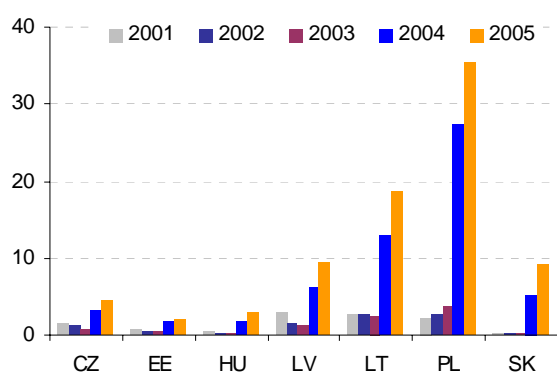
Source: IPS data.

<sup>18</sup> The system records the applications filed and does not provide a measure of net migration to the U.K. but rather a gross (cumulative) figure for the number of workers applying to the WRS. The figures are not current - an individual who leaves employment is not required to de-register, so some of those counted will have left the employment for which they registered and indeed some are likely to have left the U.K. Workers who are self-employed do not need to register and are not included in the WRS statistics. Moreover, an application costs 50 pounds, which might be a disincentive to register.

The German Economic Institute (DIW) made an evaluation of the WRS data and concluded that in the period May 2004 - April 2005 only 50,000 instead 175,000 migrations were recorded. The difference is due to the fact that each registration represents one job and not necessary one migrant and that according to the estimates of the Home Office more than 40% of registered migrants were present in the U.K. prior to accession and just used the opportunity to legalize their stay abroad (Traser, 2005). However, based on Labor Force survey data, Portes and French (2005) showed that the WRS depicts the migration phenomenon quite precisely although they suggest that many of the newcomers left the country after a few months.

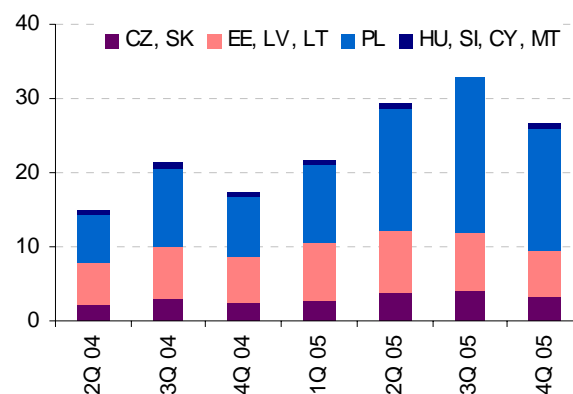
Post accession inflows were even higher (relatively) in Ireland, accounting for 6% of Ireland's working age population in 2004. The scale of immigration to Ireland is reflected in the Personal Public Service (PPS) numbers issued to every legal migrant worker. Ireland was relatively open to inflows from the EU8 already from 2001 - the total of PPS numbers increased from 11,000 in 2001 to 111,000 in 2005 (a total of 200,000 were issued in 2001-2005, Chart 3). In 2001, the shares of migrant workers from Poland, Lithuania and Latvia were almost equal - 27% in case of each group, but in the following years the relative amount of Polish migrants was rapidly increasing reaching 57% in 2005. From May 2004 to December 2005, a total of 165,000 PPS numbers were issued to EU8 nationals (Chart 4) of which 55% to Poles followed by Lithuanians (18%), Latvians (9%) and Slovaks (8%).

**Chart 3. Inflow of EU8 labor to Ireland - Personal Public Service Numbers issued, 2001-2005 (1000)**



Source: Doyle et al. (2006).

**Chart 4. Inflow of EU8 labor to Ireland - Personal Public Service Numbers issued, (1000)**



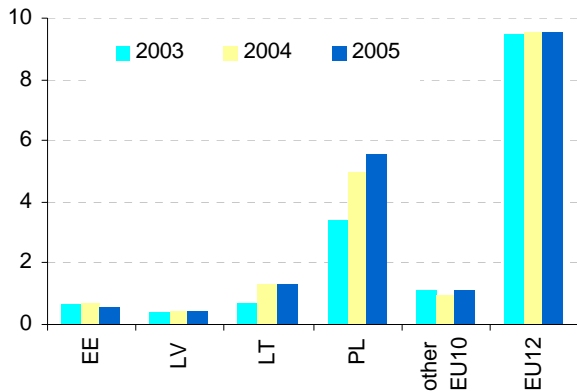
Source: Doyle et al. (2006).

In Sweden, the inflow was of a smaller scale than in the U.K. and Ireland (0.3% of working age population in 2004).<sup>19</sup> The number of residence permits - according to the EEA agreement<sup>20</sup> - issued to EU8 nationals increased substantially in 2004 and somewhat less in 2005. The increase was large in the categories of employees, but also for students and to relatives of people living in Sweden. Similar to the U.K. and Ireland experience, about 60% of all permits were issued to Poles, who were followed by Lithuanians (15%), Estonians (7.7%) and Latvians (5.4%).

<sup>19</sup> Possible explanations include: few job vacancies available (low job growth); the Nordic countries did not rank high on the list of preferred destination according to pre-enlargement surveys; easier access to the U.K. and Irish labor markets; and last but not least because English is the vernacular language of these two countries. Surprisingly, the inflow of EU8 workers was much higher in Norway - 36,276 EEA permits were issued in May 2004-December 2005 (OECD, 2006). This suggests that demand factors play a key role: Norway had high demand for low-skilled, short-term employees, higher wages for low-skilled workers than in Sweden (the generalized minimum wage rate in the Norwegian construction sector is approximately equal to the average wage level for corresponding work in Sweden - see Dolvik and Eldring, 2006), and stronger "network effects" as Norway over a number of years has seen a more marked inflow of EU8 nationals (Brochmann, 2005).

<sup>20</sup> Necessary for those who wish to stay more than 3 months.

**Table 4. Residence permits in Sweden according to the EEA agreement, 2003-2005 (1000)**



Source: Doyle et al. (2006).

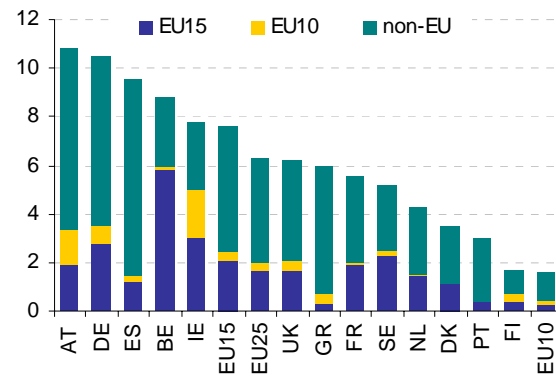
As a result of these migratory flows, the stock of migrants from the EU8 countries in the old member states increased significantly following accession. The stock of migrants from the EU8 countries doubled in 2003-2005 (Table 5), but in most EU15 countries the share of foreign nationals from non-EU countries is significantly higher than that of EU8 nationals (Chart 5). In 2005, in the two countries with the highest share of non-nationals in the working age population (Austria and Germany with over 10%), only a small part (1.4% and 0.7%, respectively) come from the New Member States compared to 7% non-EU nationals. The largest share of EU10 nationals is in Ireland - 2% out of 8% of total non-nationals. These figures are much lower than suggested by administrative data on inflows as many of the registered workers do not have resident status and flow statistics may be biased due to the circulatory character of movements.

**Table 5. Resident working age population by nationality, 2003-2005, % of working age population**

	EU15			EU10		
	2003	2004	2005	2003	2004	2005
AT	1.7	1.8	1.9	0.7	0.8	1.4
BE	5.4	5.8	5.8	0.2	0.2	0.2
DE	2.7	2.6	2.8	-	-	0.7
DK	1.0	1.1	1.1	-	-	-
ES	1.1	1.2	1.2	0.2	0.2	0.2
FI	0.3	0.3	0.4	0.3	0.3	0.3
FR	1.9	2.1	1.9	0.1	0.1	0.1
GR	0.2	0.4	0.3	0.3	0.4	0.4
IE	3.4	3.3	3.0	-	-	2.0
NL	1.5	1.5	1.4	0.1	0.1	0.1
PT	0.3	0.4	0.4	-	-	-
SE	2.2	2.2	2.3	0.2	0.2	0.2
UK	1.8	1.8	1.7	0.2	0.3	0.4
EU15	2.0	2.1	2.1	0.2	-	0.4
EU10	-	0.2	0.2	-	-	0.2
EU25	1.9	1.7	1.7	0.1	-	0.3

Notes: LFS Q1-2005; Ireland Q2-2005.  
Source: European Commission (2006).

**Chart 5. Resident working age population by nationality, 2005, % of working age population**

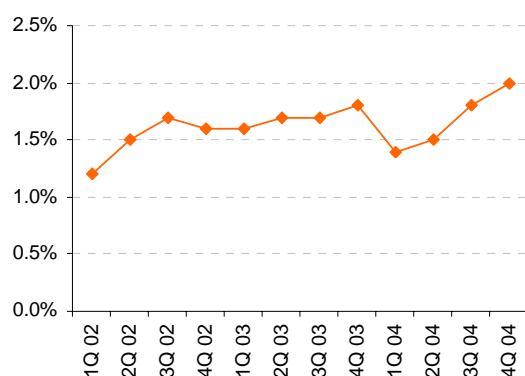


Notes: LFS Q1-2005; Ireland Q2-2005.  
Source: European Commission (2006).

At present, the most numerous diasporas of the EU8 nationalities are located in Germany. The country is inhabited by over 291,000 citizens of Poland, 53,000 of Hungary, 20,000 each of the Czech Republic and Slovenia, more than 12,000 of Slovakia, and almost 20,000 citizens of the Baltic States. Still, to compare, several other minorities in Germany are much larger in numbers: 2 millions Turks, over 600,000 former Yugoslav nationals, 600,000 Italians and 360,000 Greeks (Fröhlich, 2003). With regard to other EU15 countries, important diasporas of EU8 nationals are: Poles in France (33,700), U.K. (27,900), Italy (24,700), Austria (22,500) and Sweden (16,300); Hungarians in Austria (13,000); and Estonians in Finland (14,000).

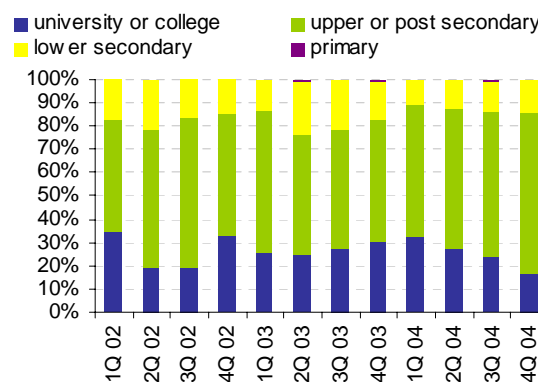
The increasing number of migrating workers is confirmed from the sending country perspective. According to the Labor Force Survey (LFS), in 2002-2004 the labor migration of Lithuanians oscillated around 1.6% of the economically active population (Chart 6), with a clear upward tendency from 2Q 2004. Moreover, in 2004 directions of migration changed drastically. Germany, Estonia, Russia, Ireland and the U.S., the main destination countries in 2002, became dominated in 2004 by the U.K. and Germany (of course, these are not necessarily the same people that migrated elsewhere before). Migrants are young (on average 10 years younger than non-migrants) and well-educated, though the percentage of those who have finished university or college fluctuates from 17% to 35% (Chart 7).

**Chart 6. Labor migration in Lithuania, percentage of economically active population**



Source: LFS data.

**Chart 7. Education structure of international labor migrants in Lithuania, 2002-2004**

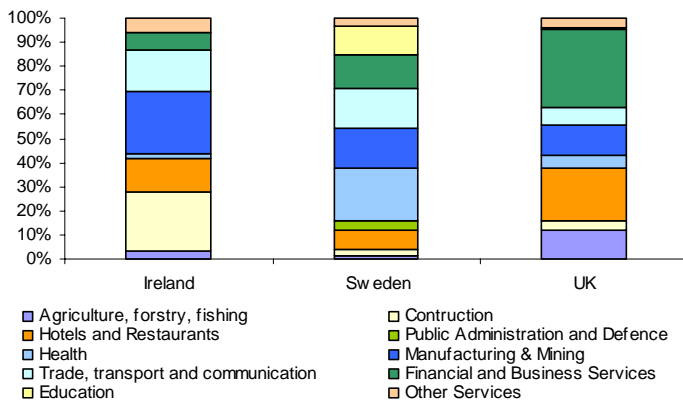


Source: LFS data.

There are some differences in the concentration of EU8 workers across sectors (Chart 8). In the U.K., the vast majority of EU8 nationals are employed as low-skilled workers in manufacturing, agriculture, hospitality and catering (Accession Monitoring Report, 2006).<sup>21</sup> In Ireland, migrant workers from the EU8 are employed in considerable proportions both in low-skilled sectors (construction industry, tourism, agriculture and food processing) and high-skilled sectors (financial, information and communication technology, healthcare). By contrast, in Sweden, EU8 nationals are distributed across sectors in similar proportions to Swedish workers, except for an overrepresentation in the health sector (22%).

<sup>21</sup> To illustrate, the top 5 occupations are: factory process operative (70,500), packer (18,700), kitchen and catering assistant (18,200), warehouse operative (17,400), and cleaner and domestic staff (14,400). On the other hand, the outflow of high-skilled workers from Poland (notably physicians, scientists and students) has become an important phenomenon. According to the Polish population census of 2002 and the LFS data, the U.K. more than other destination countries tends to attract highly educated migrants from Poland (Kaczmarczyk and Okólski, 2005). To a significant degree, the human capital of migrants from the EU8 seems presently misused in the U.K.

**Chart 8. Employment of EU8 nationals by sector**



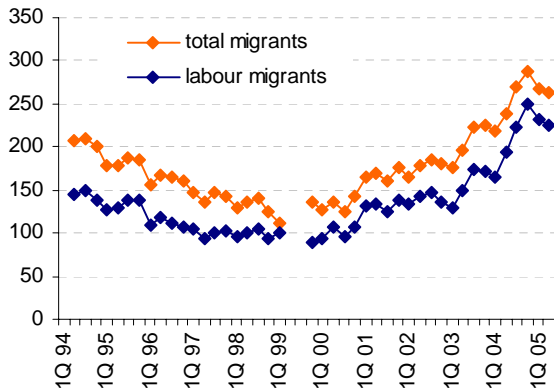
Notes: Ireland: CSO Quarterly National Household Survey 4Q 05; Sweden: as of September 2004; U.K.: WRS data May 2004-December 2005.

Source: Accession Monitoring Report (2006); Doyle et al. (2006).

#### D. Post-accession flows from Poland

Data from Poland, the main sending country in the region, provides further useful insight into post-accession labor mobility. LFS data indicate that migration increased substantially from mid-2003 (Chart 9), under the impact of accession expectations. The upward trend gathered pace after Poland's accession to the EU. In 2004, according to LFS data (see Box 1) on average 250,000 Poles stayed abroad for at least two months - 20% more than in 2003.

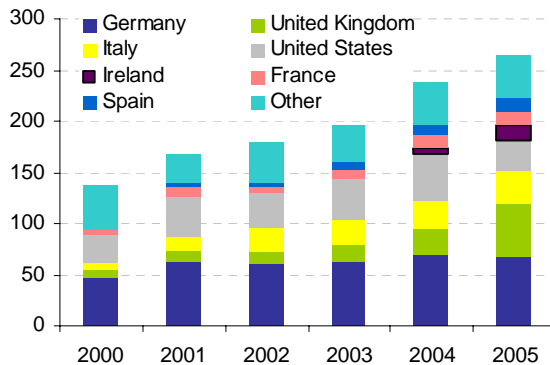
**Chart 9. Polish migrants staying abroad for longer than 2 months, 1994-2005 (1000)**



Notes: 2nd quarter.

Source: LFS.

**Chart 10. Polish migrants by country of destination, 2000-2005 (1000)**



Notes: 2nd quarter.

Source: LFS.

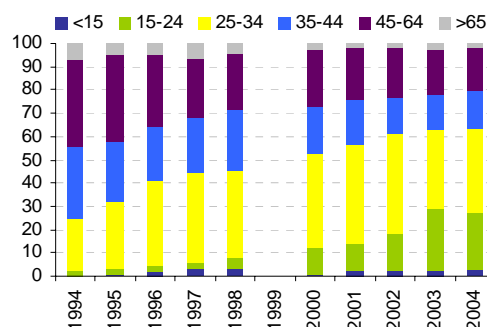
Ireland and the U.K. have become more important destinations for Polish migrants. While Germany remains the most important destination country, in particular if one includes seasonal workers (Chart 10), the share has been gradually decreasing (from 35% in 2000 to 25% in 2005) as U.K. and Ireland have gained importance with the opening of their labour markets (the number of migrants to the U.K. and Ireland was up by 221% and 150%, respectively, in the second quarter of 2005 compared to the year before). As a result, the share of migrants to the U.K. reached 20% (from 4% in 2000) and to Ireland 6% (from 0% in 2000).

Most of the migrants work during their stay abroad, and the share has been increasing in line with a growing number of young migrants. LFS data indicate that 70-80% of migrants work during their stay abroad, and this share and even increased to over 80% after EU accession. The evidence suggests that economic motivation is by far the most important driver of migration from Poland. This seems to be confirmed by a changing age structure of migrants, with an increasing share of those aged 15-34 (Chart 11).

Migration from Poland is predominantly short term. A significant part of all temporary migrants (60-70%) stayed abroad for shorter than 12 months (Chart 12). The share of short-term migrants amounted to 60% in 2004 compared to 53% in 2003 and 48% in 1995 - the increase in outflow volume after 2000 was almost exclusively the result of higher short-term mobility: the number of those staying abroad for shorter than 12 months more than doubled between 2000 and 2005. At the same time, the number of persons staying abroad for longer than 12 months remained relatively stable. Taking into account the fact that LFS data do not include seasonal workers who usually stay abroad for less than two months, the short-term nature of contemporary Polish migration becomes even clearer.

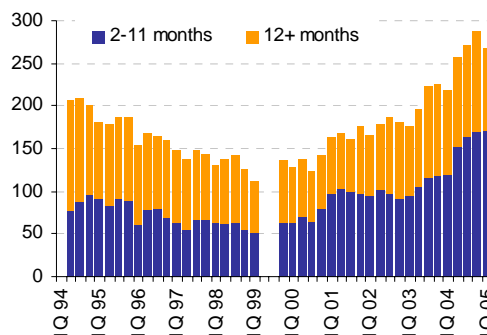
Migration processes are far from homogeneous and differ significantly with respect to causal factors and migration mechanisms. As discussed above, migration to the U.K. and Ireland (as well as Italy and Spain) accelerated after Poland's accession to the EU while migration to Germany remained stable as it maintained a "closed door" policy after EU enlargement (Chart 13). Migration to Germany is driven by relatively mature processes, with the most important role played by the ethnically-oriented flows of mainly low-skilled labor, mostly from the regions which have strong historical links to Germany (Silesia and Mazury - East Prussia). Seasonal migration has a long tradition and has been deeply entrenched in at least a few Polish regions. On the other hand, migration to the U.K. is marked by a relatively high share of young and well educated people who originate from a rich mosaic of regions and legal backgrounds. This reflects the situation in the Polish labour market with a persistent large number of low-skilled residents of stagnant small towns and villages, for whom Poland alone can offer limited if any income prospects, as well as limited employment opportunities or unattractive income prospects for the young and well-educated (consistent with the exceptionally high share of tertiary education graduates among Polish migrants to the U.K., Chart 14).

Chart 11. Polish migrants by age brackets, 1994-2004 (%)



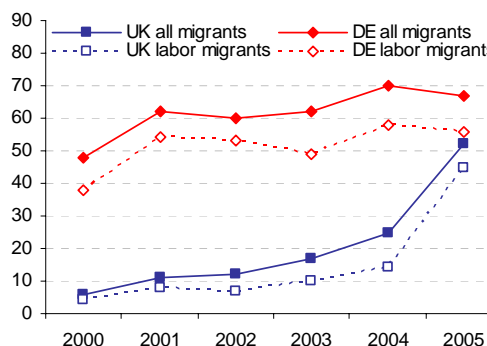
Source: LFS.

Chart 12. Polish migrants by length of their stay abroad, 2000-2005\* (1000)



Source: LFS.

Chart 13. Polish migrants in Germany and the U.K., 2000-2005 (1000)

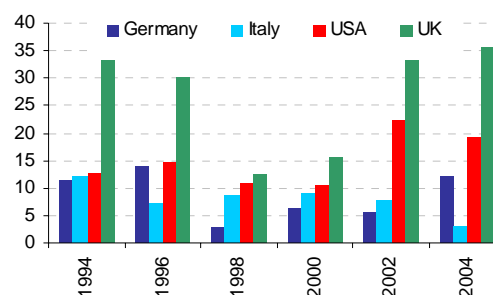


Source: LFS.

Polish emigrants are relatively well-educated. Traditionally, Poles emigrants had been relatively well educated,<sup>22</sup> but during the post-transition period, the share of individuals with the highest level of education declined while that of individuals with the lowest level of education increased (Kaczmarczyk, 2005; Korczyńska, 2003). Still, according to the 2002 Population Census, the educational structure of people staying abroad for more than two months was better than that of the general population (aged 15+): the percentage of migrants with a scientific degree was twice as high, with professional MA (or equivalent) 36% higher, and with another type of higher degree (engineers etc.) 26% higher. Among the migrants who left for the U.K. after 1997 (aged 15+), the share of university graduates amounted to 25%.

Polish immigrants are generally over-qualified for the jobs they perform abroad. Polish immigrants are concentrated predominantly in the secondary “typical” migrant sectors of the receiving economies such as construction, agriculture, cleaning, restaurants, and hotels (Kaczmarczyk, 2001; Grzymała-Kazłowska, 2001; Kaczmarczyk and Łukowski, 2004). According to U.K. data, migrants tend to concentrate in a few sectors only, notably administration, business and management (32%), hospitality and catering (21%), agriculture (12%), manufacturing (7%) and food processing (5%).<sup>23</sup> The biggest group of workers performed simple jobs and was classified as process operatives (other factory worker) (36%), followed by catering assistants (10%) and packers (9%) (Accession Monitoring Report, 2006).

**Chart 14. Share of migrants staying temporarily abroad (for longer than 2 months) with tertiary education in most important receiving countries, 1994-2004 (%)**



Notes: 3rd quarter.

Source: LFS.

### E. Explaining the trends - drivers of post-accession migration

A number of theoretical approaches can be applied in the analysis of post-accession labor mobility (for an overview refer to Annex 1). The characteristics of EU8 labor flows suggest that they can only partially be described in terms of the neo-classical framework, i.e. to reflect income and wage differentials. Temporary or circular mobility can be better explained by the New Economics of Labor Migration (NELM). The latter postulates that people migrate not only to maximize expected incomes but also to minimize risk and to overcome various kinds of market failure. Short-term labor mobility is an effective way to improve the economic (and social) position within the sending society while permanent relocation would result in legalization of employment and all associated costs (taxes, medical and social insurance, etc.) which could seriously limit expected gains from migration.<sup>24</sup> Moreover, in the case of major destination countries, migrants face a more or less unlimited demand for (mostly unskilled) labor. Thus, pull factors may also play important role. In practice, it is likely to be the interaction of the various drivers that matters (e.g. Estonians go to Finland both because of its geographical and cultural proximity and because of higher wages).

<sup>22</sup> Of the almost 700,000 emigrants who left Poland during the period 1981-88, 15% had a higher degree and a further 31% had completed secondary school (Sakson, 2002). At the same time, the share of people holding a university degree in the total population was only 7%.

<sup>23</sup> Due to the nature of the work, the employment in agriculture is strictly seasonal - during the summer time the share of immigrant employment in this sector was higher than 20%.

<sup>24</sup> Another explanation for temporary mobility can be found in the so-called insider-advantage approach (Fischer, Martin and Straubhaar, 1999). It is assumed that an important part of human capital is location-specific. Part of this capital can be obtained within a location-specific learning process but it requires time, information and at least temporary immobility. In this context, temporary migration does not necessarily require acquiring new location-specific abilities or assets and, at the same time, does not lead to depreciation of already possessed capital. This may be particularly important for EU8 countries that experienced a fundamental social and economic change which required people to be present in order to participate in the process of transition. Temporary migration provides an opportunity to benefit from mobility without abandoning the social or economic system related to the country of origin.

## Supply factors

A common perspective, rooted in neo-classical economics, views existing labor market disequilibria, wage disparities and employment opportunities as major factors behind migratory flows.

- The income level is expected to be major factor in the migration decision-making process. In terms of GDP per capita, all EU8 countries are lagging far behind the major destination countries. In particular, in Poland, Slovakia and the Baltic States, GDP per capita is only about one half of the EU25 average and these countries experienced significant labor outflows. On the other hand, all EU8 countries experienced impressive economic growth which - including because of expectations concerning future economic prospects - decreased the migration potential of the region. At the same time, however, rising incomes may create additional migration streams as more potential migrants are able to bear entry costs (a liquidity determined migration hump).

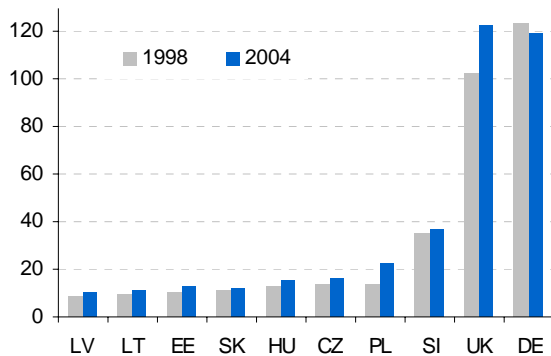
**Table 6. GDP per capita and real growth in the EU15 and EU8 countries**

	GDP per capita, PPS, EU25=100				GDP real growth			
	1996	2000	2004	2005	1996	2000	2004	2005
EU25	100.0	100.0	100.0	100.0	1.8	3.9	2.4	1.6
EU15	109.6	110.0	108.6	108.4	1.7	3.9	2.3	1.5
FR	112.9	113.6	109.5	108.8	1.1	4.0	2.3	1.9
DE	118.1	112.0	108.4	109.7	1.0	3.2	1.6	1.0
IE	102.3	126.2	136.7	136.9	8.3	9.2	4.5	4.7
ES	87.0	92.4	97.3	98.5	2.4	5.0	3.1	3.4
UK	109.1	112.1	117.1	116.6	2.8	3.8	3.3	1.9
CZ	70.0	63.7	70.1	72.9	4.2	3.9	4.2	6.1
EE	34.8	41.0	51.1	57.3	4.4	7.9	7.8	9.8
HU	48.5	53.0	60.0	60.8	1.3	5.2	5.2	4.1
LV	30.2	35.4	42.7	47.0	3.8	8.4	8.5	10.2
LT	34.7	38.2	47.7	52.0	4.7	3.9	7.0	7.5
PL	42.1	46.8	48.7	49.8	6.2	4.2	5.3	3.4
SK	45.5	47.5	52.9	55.0	6.1	2.0	5.4	6.1
SI	69.0	72.9	78.9	79.8	3.7	4.1	4.2	3.9

Source: Eurostat.

- A key pro-migratory factor is wage differentials. Data on average gross earnings in industry and services (Chart 15) and the monthly minimum wage (Chart 16) point to remaining large earnings differentials - in the case of the most important sending countries in the region (Poland, Slovakia, and Baltic countries), earnings abroad are six-seven times higher. These differences may be somewhat lower as migrants are often employed in the secondary and/or informal sectors and may not receive the minimum wage (for some evidence see Box 4). On the other hand, they could be even higher in the case of particular professional groups (e.g. the average annual earnings of doctors in Poland amounts to about 4,500 GBP; in the U.K. and Germany, they can earn as much as 50,000 GBP per year. Similarly, the average wage in the construction sector in Finland, where one half of Estonians working in Finland are occupied, is three times higher than in Estonia. While wage differentials matter for short-term migration, net wage differentials (adjusted for cost of living differences) should matter more for permanent migration.

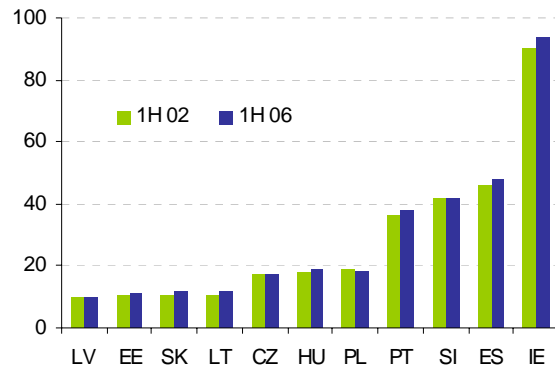
**Chart 15. Average gross annual earnings in industry and services in the EU8 countries and major destination countries, EU15=100**



Notes: Earnings of full-time employees in enterprises with 10 or more employees.

Source: Eurostat.

**Chart 16. Monthly minimum wage in EU8 countries and selected destination countries, U.K.=100**

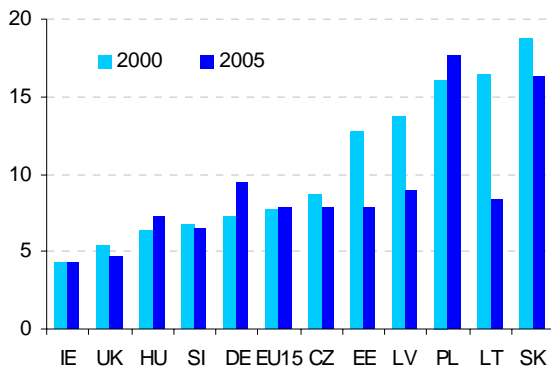


Notes: CZ and SI H2-2002.

Source: Eurostat.

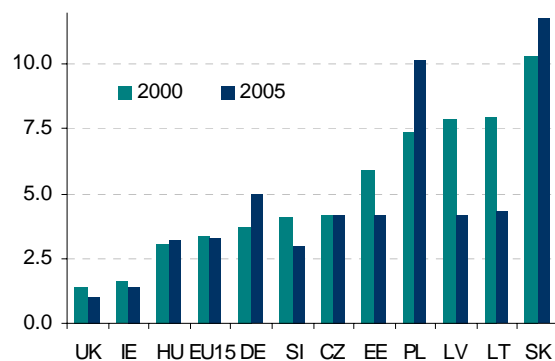
- One of major push factors is the overall situation in the labor market, in particular the unemployment rate (Chart 17). The economic transition was associated with a worsening in the labor markets with the most serious disequilibria observed in Poland, Slovakia and the Baltic States. Moreover, a large part of the unemployed constitute long-term unemployed (Chart 18), suggesting serious structural skills mismatches. Moreover, in a few EU8 countries (notably Poland and Slovakia), the situation in the labor market worsened significantly in the late 1990s. This was reflected in increased short-term outflows from the region, predominantly of labor.

**Chart 17. Unemployment rates in the EU8 countries and major destination countries**



Source: Eurostat.

**Chart 18. Long-term unemployed (12 months and more) as a percentage of the total active population in the EU8 countries and major destination countries**



Source: Eurostat.

- The migration propensity may also depend on the structure of employment, notably the scale of employment in agriculture and heavy industry with the latter undergoing privatization and restructuring since 1990 (Bijak et al., 2004). Both sectors were technologically backward and marked with very high employment rates (for European standards). The restructuring process led to high unemployment which may have inflated

the migratory potential. Similarly, countries with a higher share of agriculture employment are characterized by relatively high rates of migration.<sup>25</sup> These push factors are operating in the same direction as pull factors from the receiving countries - strong structural demand for foreign labor in agriculture.

### *Demand factors*

Strong demand for certain types of labor in the receiving countries has also played a role in attracting foreign workers. In the pre-transition period (1950-1988), many Western countries occasionally opened "side doors" for immigration from CEE although they did it for specifically defined and exclusive groups of migrants. Thus, the situation in the receiving labor market is as important a factor influencing the scale and form of migration (Orlowski, 2000). This is consistent with a number of studies showing that demand for foreign labor is a structural feature of most Western labor markets.<sup>26</sup>

In Germany, one of the most important receiving countries, this was reflected in the guest working system developed in the 1950s and 1960s. In 1990, a new era was initiated, with a limited opening of the German labor market subordinated to a series of bilateral agreement with EU8 countries on seasonal employment, project-tied employment, on-the-job training and guest work.<sup>27</sup> These programs adopted liberal exit rules which enabled migrants to come and go at any time and as often as they wished.<sup>28</sup> Foreigners are concentrated in the secondary segment of the German labor market, and they follow career/occupational mobility patterns different from those of the native population. Data collected through nationally representative surveys of Polish seasonal workers and through qualitative research among German employers show the very special place this migrant group occupies in the German labor market (Kaczmarczyk and Lukowski, 2004; Dietz, 2004). Polish seasonal workers are concentrated in a few sectors of the German economy (particularly in agriculture - over 90%) and perform very simple jobs that do not demand any qualifications. They constitute a crucial factor for the functioning of agriculture in a few German regions (Dietz, 2004; Kaczmarczyk, 2006).

Similarly in Ireland and the U.K., the inflow of foreign workers supplemented domestic labor during economic upturns. The decision to open labor markets was taken at a time of outstanding economic performance and was influenced by a perceived labor gap - in the U.K. estimated at more than half a million vacant jobs (Rushton, 2004). The opening up of the labor market to migrants from EU8, and the significant inflow of people from those countries that followed, did not affect the unemployment level in the U.K. and probably helped the economy to continue its rapid growth (Accession Monitoring Report, 2005). EU10 nationals have accounted for approximately one half of the jobs created in Ireland since accession (Doyle, 2006), but at the same time, the Irish unemployment rate has remained low and stable at 4.4% (with the unemployment rate among EU10 nationals even lower at 2.4%) (Chart 18).

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<sup>25</sup> The share of those employed in agriculture in 2004 equaled 18 percent in Poland, 16 percent in Lithuania, and 13 percent in Latvia, while at the other end of the spectrum it was only 4 percent in the Czech Republic and 5 percent in Hungary.

<sup>26</sup> The heterogeneous structure of the contemporary labor markets has been demonstrated through analyses conducted for the U.S. and Canada (Rivera-Batiz, 1998; Borjas, 1994; Card, 1990; Grossman, 1982) as well as for the Western European countries (Fassman et al., 1995; Velling, 1997; Werner, 1996; Fassman, Münz and Seifert, 1997; Biffl, 2002).

<sup>27</sup> This opening of the labor market was regulated in a very restrictive and precisely defined way - workers could only be recruited for up to three months if no German or foreigner residing in Germany was available for the respective job. Many of these rules were reminiscent of the guest-worker system from the 1950s and 1960s.

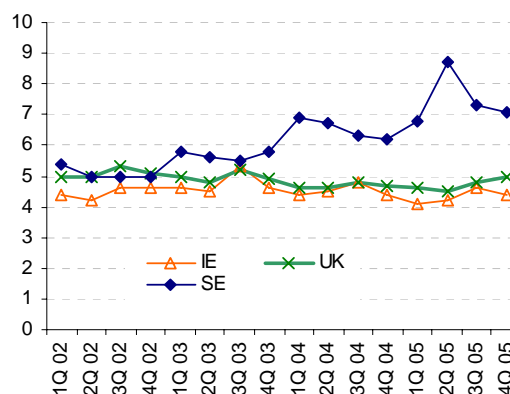
<sup>28</sup> Moreover, with a shift towards temporary labor migration, a deep change in the migration-related cost-benefit ratio took place. With the dramatically rising cost of permanent migration (removal of institutional protection of migrants, increased risk of deportation, etc.) and the lack of any significant rise in benefits, movements involving shorter distances and relatively shorter stays abroad became more profitable.

## F. Impact of migration

### Destination countries

The inflow of migrant workers did not weaken the absorptive capacity of the receiving labor markets and there is continued strong demand for labor as evidenced by the number of vacancies. The number of vacancies in the U.K. did not shrink as a result of the post-accession flows (Chart 20) - in 2004, the average number of vacancies was even higher than in 2003 and dropped only slightly in 2005. Similar tendencies were observed in sectors with large inflows of EU8 migrants: manufacturing, hotels and restaurants, real estate, and renting and business activities. The recent decline may result from the fact that employment in the U.K. has been on the rise for a few years now which may have finally translated into a lower number of available jobs. Obviously, other factors may influence the number of vacancies. In Ireland, the percentage of firms in all sectors reporting vacancies rose from 10.6% in May 2004 to 16.7% by February 2006. The vacancies data suggest that the demand for labor remained strong after enlargement and they provide no evidence of a substantial reduction in the number of jobs available in the economy.

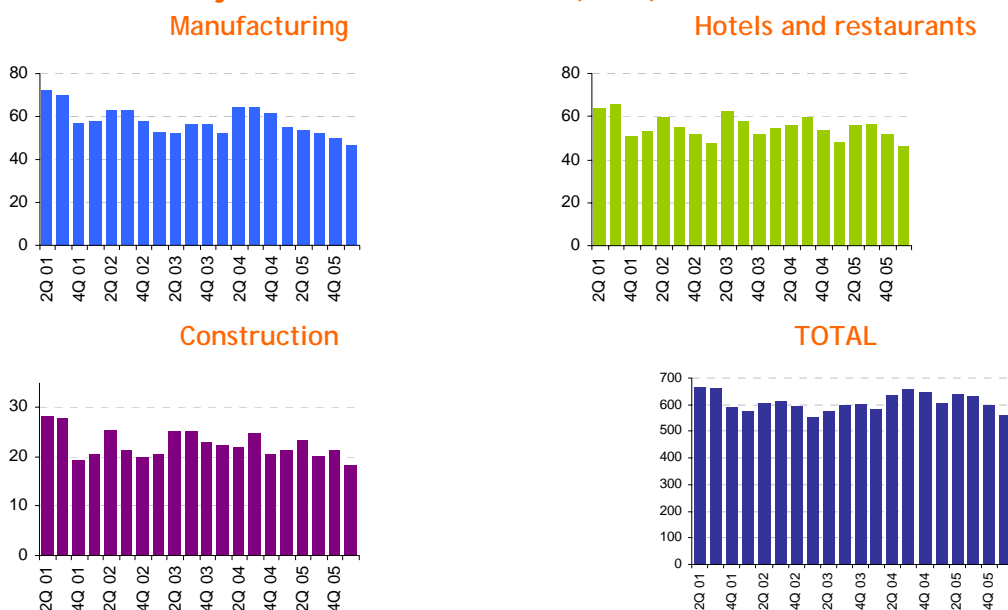
Chart 19. Unemployment rate, LFS



Note: The significant increase in the unemployment rate in Sweden in Q2-2005 reflects methodological changes to the Labor Force Survey.

Source: Eurostat.

Chart 20. Number of job vacancies in the U.K. (1000)



Source: Eurostat.

Concerns have been expressed regarding job displacement of the local labor force by foreign workers who are being paid less than collectively agreed rates. These issues were first raised in the context of the Vaxholm case in Sweden and later in Ireland by the Gama and Irish Ferries cases (Box 4). These were followed by a number of similar cases cited by different trade unions as evidence of foreign companies employing their nationals at lower than legally recognized rates.<sup>29</sup>

<sup>29</sup> Examples include claims of Polish workers being underpaid at the Electricity Supply Board power station at Moneypoint, Hungarian workers being underpaid at the Spencer Dock construction site, and Serbian workers being underpaid by a Belgrade based subcontractor involved in the renewal of the electricity network (Doyle,

The Quarterly Household Survey employment data for the period Q4-2004 to Q4-2005 indicate that the number of migrants in manufacturing and in hotels and restaurants increased while the number of Irish workers in these sectors decreased. In the remaining sectors, employment of Irish and foreign workers both increased. The substitution of migrant workers for Irish workers in some sectors is the kind of labor turnover one would expect as Irish workers take advantage of a growing labor market to move into higher paying jobs and migrants fill the resulting vacancies (Doyle et al., 2006). Moreover there is no discernible statistical evidence to support the view that the inflow of EU8 migrants is contributing to increases in unemployment claims in the U.K. (Gilpin et al., 2006).

#### Box 4. Job displacement disputes in Sweden and Ireland

##### The Vaxholm case, Sweden

In the autumn of 2004, a conflict arose in the municipality of Vaxholm north of Stockholm. In May, L&P Baltic AB, a subsidiary of the Latvian company Laval un Partneri, had won a contract to refurbish a school. In June 2004, the company, employing Latvian workers posted in Sweden, was requested by the Swedish Building Workers' Union (Byggnads) to sign a collective agreement. In September, the parties failed to reach an agreement regarding wages as Byggnads demanded that the Latvian company pay their workers the average hourly wage in the Stockholm area (€16) and the Latvian company would only agree to pay €12. In early November, Byggnads took industrial action and launched a blockade, and sympathy actions were also taken in December by the Swedish Electricians' Union (Elektrikerförbundet). Later that month, L&P Baltic AB asked the Swedish Labor Court for an interim decision prohibiting the conflict actions, but this was rejected. L&P Baltic AB sued the concerned Swedish trade unions before the Labor Court, arguing that the conflict actions were in breach of EU law. In April 2005, the Swedish Labor Court asked the European Court of Justice for a preliminary ruling as to whether the Swedish unions had violated articles 12 and 49 of the EC Treaty and/or the Posting of Workers Directive. The European Court of Justice is not expected to give a final judgment before 2007. Meanwhile, L&P Baltic AB filed a petition for bankruptcy in Latvia in early 2005.

##### The Gama case, Ireland

In February 2005, Gama Construction Ireland was accused in the Irish Parliament of underpayment of its Turkish workers. The company, which employed approximately 2000 construction workers on public works projects, paid its workers EUR 2-3 per hour, while the minimum wage in Ireland is EUR 7 and the registered employment agreement for the lowest paid operative in construction is EUR 13. Furthermore, in March 2005, Gama had allegedly paid up to EUR 40 million into bank accounts in Finansbank in Amsterdam in the names of their Turkish employees - the money was claimed to be the difference between what the employees were paid in Turkey and the agreed trade union rate in Ireland. While the Turkish workers had signed documents authorizing the creation of these bank accounts, they claimed having learned of their existence only after the investigation into the company began (the form they signed was in English, which they did not understand). Gama rejected the allegation about any underpayment of its Turkish workers and initiated proceedings in the courts. This prevented publishing of the Labor Inspectorate report investigating alleged breaches of Employment Rights, but an article in the Examiner newspaper in April 2005 indicated that the report had failed to clear the company.

##### The Irish Ferries case, Ireland

In September 2005, the management of a company operating services between Ireland, the U.K. and France, Irish Ferries, announced that it planned to offer redundancy terms to 543 seafarers and to replace them with agency workers, mainly from Latvia, who would be paid €3.60 an hour, less than half the minimum wage. The company planned to re-register its vessels in Cyprus and justified its action on the grounds that most of its competitors were using hired-in agency crews rather than directly employed seafarers. Many of the seafarers accepted the redundancy offer but the case raised protests from the trade unions and gained considerable public support in Ireland, the U.K. and France, which culminated in December 2005 in the biggest national demonstration seen in Ireland in almost thirty years. A compromise settlement was reached under which the

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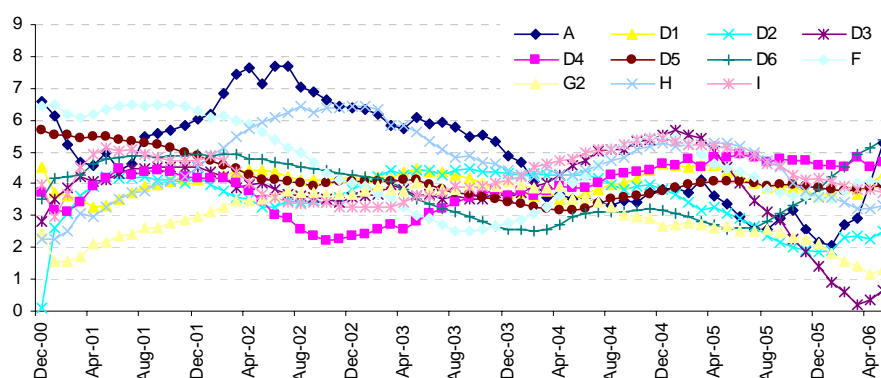
et. al, 2006). In Ireland, there were allegations of displacement taking place in meat factories and in the hospital and building industries.

company could proceed with its plan to re-register its vessels in Cyprus but agreed to pay its agency workers the minimum wage of €7.65 per hour.

Source: Doyle et al. (2006).

There appears, however, to be little evidence of any impact of foreign workers on wages in the main receiving countries. According to the Annual Survey of Hours and Earnings, over 80 percent of the EU8 nationals who have registered with the WRS in the U.K. are earning GBP4.5-6.0 an hour, 47-63 percent of the average U.K. hourly earnings (Gilpin et al., 2006). However, the Average Earnings Index in the U.K. (Chart 21) provides little evidence of a fall in nominal wage growth in the whole economy and across the main sectors. It can be argued that the impact on wages is marginal as compared to the impact from globalization and competition from Asia, as suggested by wage developments in the sector of chemicals and man-made fibers. Similarly, in Ireland, there has been no decline in the aggregate level of earnings growth since enlargement in neither the industrial nor the hotels and restaurants sectors nor indeed in any of the remaining sectors (Doyle et al., 2006).

Chart 21. Growth in average earnings by sector in the U.K.\*



\*12M moving average.

A - agriculture and forestry, D1 - Food products, beverages and tobacco, D2 - Textiles, leather and clothing, D3 - Chemicals and man-made fibres, D4 - Basic metals and metal products, D5 - Engineering and allied industries, D6 - Other manufacturing, F - construction, G2 - Retail Trade and Repairs, H - Hotels and Restaurants, I - Transport, storage and communication.

Source: Average Earnings Index (Office for National Statistics, U.K.).

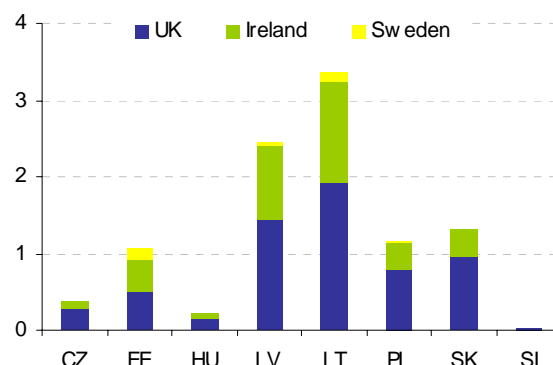
Migrants are attracted by labor market opportunities and not by social welfare systems. In the U.K., out of a total of 404,453 National Insurance Numbers allocated in May 2004-June 2006 to EU8 nationals, over 98 percent were allocated for employment purposes. There were only 5,943 applications filed for tax funded, income related benefits, of which 30 percent for income support, 69 percent for income-based jobseeker's allowance and a mere 1 percent for state pension credit. So far only 12.9 percent of applications have been allowed to proceed for further consideration (Accession Monitoring Report, 2006). Similarly, EU8 nationals are not overrepresented in the welfare schemes in Ireland or Sweden (Doyle et al., 2006). Although this evidence should be treated cautiously as EU8 nationals working in the U.K. and Ireland are not immediately entitled to social benefits, there are no such restrictions in Sweden.

### Sending countries

Even though post-accession labor flows from the EU8 have been absorbed with little evidence of any negative impact in the receiving economies, they did have a significant impact on the sending countries. This is certainly the case for the Baltic States, notably Lithuania and Latvia, that registered an outflow of over 3.3% and 2.4% of their working age populations, respectively. In Slovakia, Poland and Estonia, the scale of outflow was somewhat smaller - about 1% (Chart 22). Moreover, the evidence from both the sending and receiving countries confirm that migrants are young, work-oriented and with a relatively high educational profile.

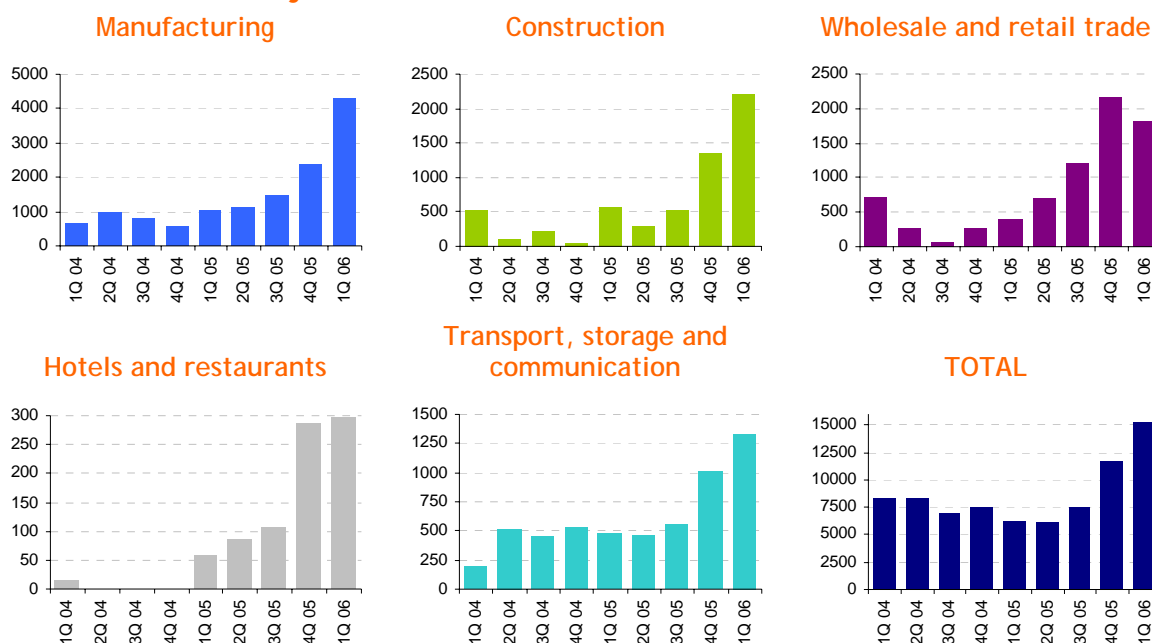
Massive outflows of workers may lead to labor shortages, signs of which are already visible in the Baltic States and Poland. As a result, the main sending countries may be themselves forced to import labor. The outflow of workers has already a visible impact on these economies and could slow growth in the medium term. Moreover, shrinking work forces will face greater burden caring for their nations' rapidly ageing populations. Labor shortages are evidenced by increasing number of job vacancies in Lithuania (Chart 23), Latvia and Estonia. In Lithuania, a significant increase in job vacancies were recorded in a number of sectors: retail sales, hotels and restaurants, and construction. A first warning signal for the Lithuanian labor market was already observed in May 2004, when for the first time the national labor office registered more vacancies (16,500) than unemployed individuals (15,700) (Aidis, Krupickaitė, and Blinstrubaitė, 2005). There is also anecdotal evidence of labor shortages in the tourism and hospitality sectors in Poland, which has recently decided to ease work requirements for foreign nationals in certain sectors.

Chart 22. Outflow of labor from the EU8, May 2004-Dec 2005 (% of working age population of the sending country)



Notes: U.K.: Applicants to WRS; Ireland: PPS numbers issued; Sweden: Residence permits.  
Source: Accession Monitoring Report (2006); Doyle et al. (2006); and staff calculations.

Chart 23. Number of job vacancies in Lithuania



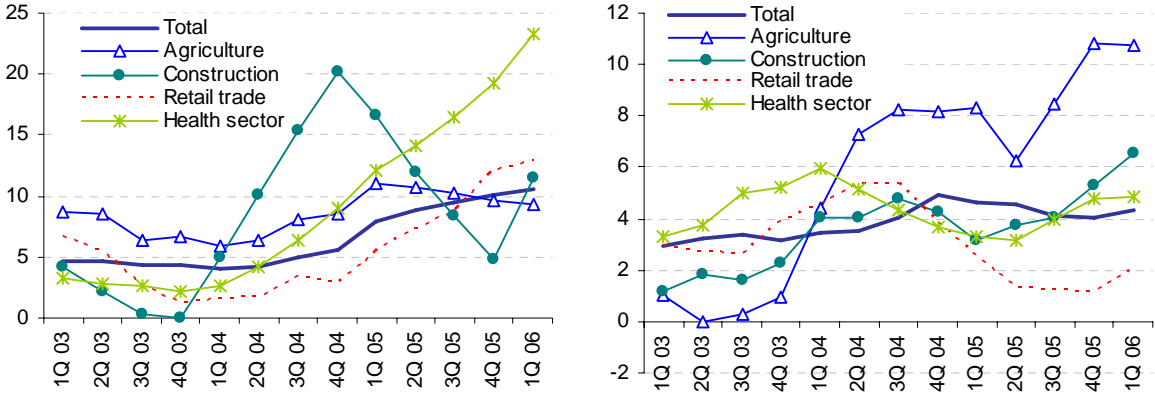
Source: Eurostat.

Emigration is exacerbating persistent structural weaknesses in national labor markets. For example, in Estonia there are acute shortages of highly qualified specialists in engineering, steel

construction and electronics industries (not taught in Estonia) as well as in the energy and shale industry and shipyards. Estonian universities are also not able to meet the need for first class programmers of a leading IT company - Skype.

The outflow of labor from some sectors has already been reflected in accelerating wage growth. In a number of sectors in the Baltic States and Poland, an increasing number of available jobs and lack of people willing to fill these have translated into a substantial increase in wage growth. These tendencies could be observed in construction, health care, retail sales and - in Poland - agriculture. In Lithuania, wages in construction jumped in 2004 by an average of 20 percent and with a clear upward trend in recent quarters after some moderation in 2005. In the Baltic States, increasing wage pressures are reinforcing inflationary pressures and complicating euro adoption plans.

**Chart 24. Growth of average gross monthly wage in selected sectors**  
**Lithuania** **Poland**



Note: 4Q average.  
 Source: CSOs; and staff calculations.

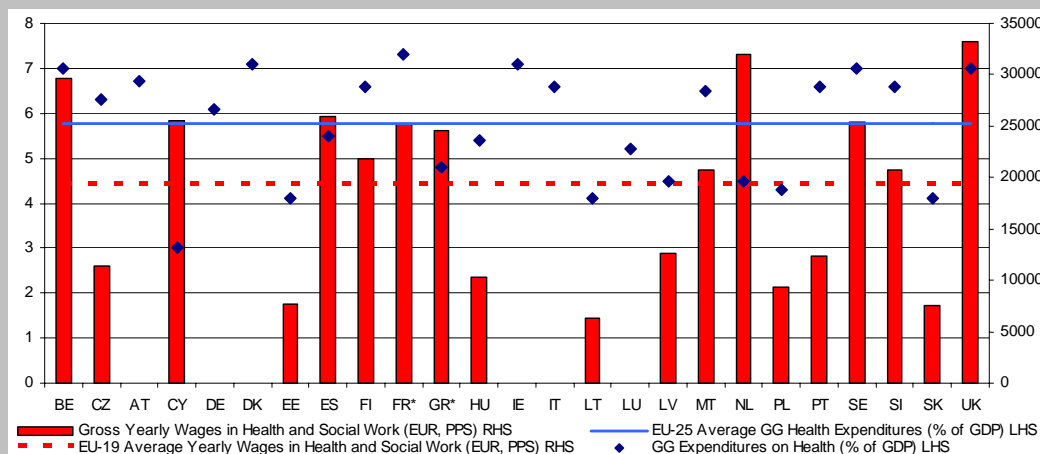
An increased outflow of highly-qualified labor, particularly from the health sector, can be observed in some regions, but there is little evidence of a massive “brain drain.” With large wage differentials and better professional prospects abroad, there had been concerns of a massive outflow of high-skilled workers, in particular health care professionals, from the EU8 countries. According to the Polish Chamber of Physicians and Dentists, by June 2006, almost 5% of health care professionals had applied for a certificate to work abroad. There were large regional differences, with the share notably higher in Western regions (9.5 percent in Szczecin). Most keen on going abroad were anesthesiologists (7.7% of all employed filed for a certificate), followed by plastic (7.2%) and thoracic surgeons (7.1%). The estimates of the Ministry of Health indicate that approximately 50% of health care professionals having certificate left Poland. The shortage of anesthesiologists and surgeons is already visible in some regions and health care units. Similarly, migration flows from Estonia to Finland did not consist of minority ethnic groups only, but also of Estonian labor migrants recruited by Finnish companies (Box 5).<sup>30</sup> Several recruitment programs, especially among high-skilled workers such as physicians and nurses (Vörk, Kallaste, and Priinits, 2004) have been conducted by Finnish, Swedish and Norwegian companies. The authorities in Lithuania have already taken steps to reverse this trend and approved a plan to increase the salaries of health staff by 20 percent a year in the coming years (salaries of physicians have already been increased substantially in the last three years, e.g. 20-30 percent in 2005).

**Box 5. Migration from the Estonian health care sector**  
 The free movement of labor, mutual recognition of qualifications and large salary disparities have

<sup>30</sup> In 1995-2004, over 9,000 Estonians permanently moved to this neighboring country and the Estonian diaspora is estimated at some 14,000 persons, constituting 1% of the Estonian population (Vilkama, Keskinen, and Sorainen, 2005).

created a strong migratory potential among highly skilled workers, especially health care professionals. These incentives were further fueled by the prospect of better working conditions abroad, which could be proxied crudely by public healthcare outlays (Chart 25).<sup>31</sup>

**Chart 25. Average gross yearly wages in EUR PPS in Health Care and Social Work and General Government Expenditure on Health (%GDP), 2004**



Data on wages for France and Greece is for 2003

Source: Eurostat.

According to a study conducted on the eve of EU accession, about 56% of Estonian healthcare professionals wanted to leave the country and 5% had a definite plan to go abroad. The majority (44%) of those wishing to work abroad wanted to go for a few years, while only 6% wanted to leave permanently. This was despite the fact that in the last few years salary increases in the healthcare sector had been well above the national average, although the level remained at only 81% of the average in the whole economy.

By April 2006, 4.4% of total health care professionals had applied for a certificate enabling working in a foreign country - 61% of those were physicians (Table 7). The share of those applying for certificates was particularly high in some few specialties, reaching 30% for plastic and reconstructive surgeons and 20% for physicians employed in thoracic surgery, cardio-vascular surgery and general medicine (Chart 26).

**Table 7. Estonian health care professionals with a certificate to work abroad, April 2006**

	No of professionals working in Estonia	Those who have applied for a certificate for working abroad	%
Nurses & Midwives	10587	228	2.2%
Physicians	5208	465	8.9%
Dentists	1351	64	4.7%
Total	17146	757	4.4%

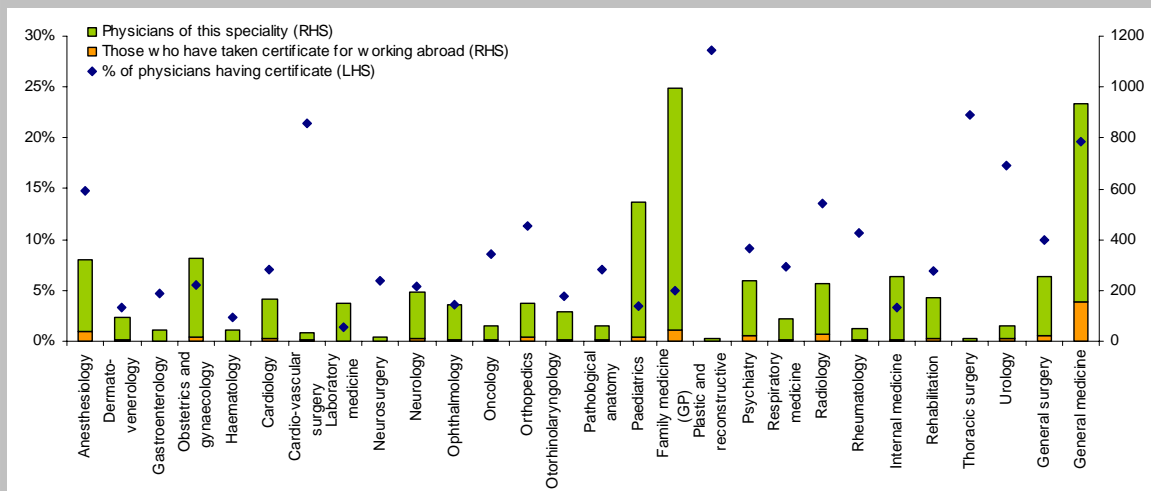
Source: Estonian Health Care Board.

Applying for a certificate does not necessarily translate into leaving the country, but there are no hard data on those who actually left Estonia. The Estonian Health Care Board estimated that 44% of those who had applied for a certificate left Estonia through June 2005, with the majority going to Finland (65

<sup>31</sup> 27% of those wanting to work abroad named “better pay” as the main reason, followed by “better working conditions” (15%) and “better quality of life” (15%) (Migration of Healthcare Workers from Estonia: the potential extent of migration, its influence on the needs of healthcare workers and political choices, Praxis Centre for Policy Studies, Tallinn 2004).

<sup>32</sup> [http://www.sm.ee/eng/HtmlPages/THTuuring\\_ingl/\\$file/THTuuring\\_ingl.pdf](http://www.sm.ee/eng/HtmlPages/THTuuring_ingl/$file/THTuuring_ingl.pdf)

Chart 26. Migration of Estonian health care workers (February 2004-March 2006)



Source: Estonian Health Care Board.

percent) followed by the U.K. (12 percent) and Sweden (9 percent).

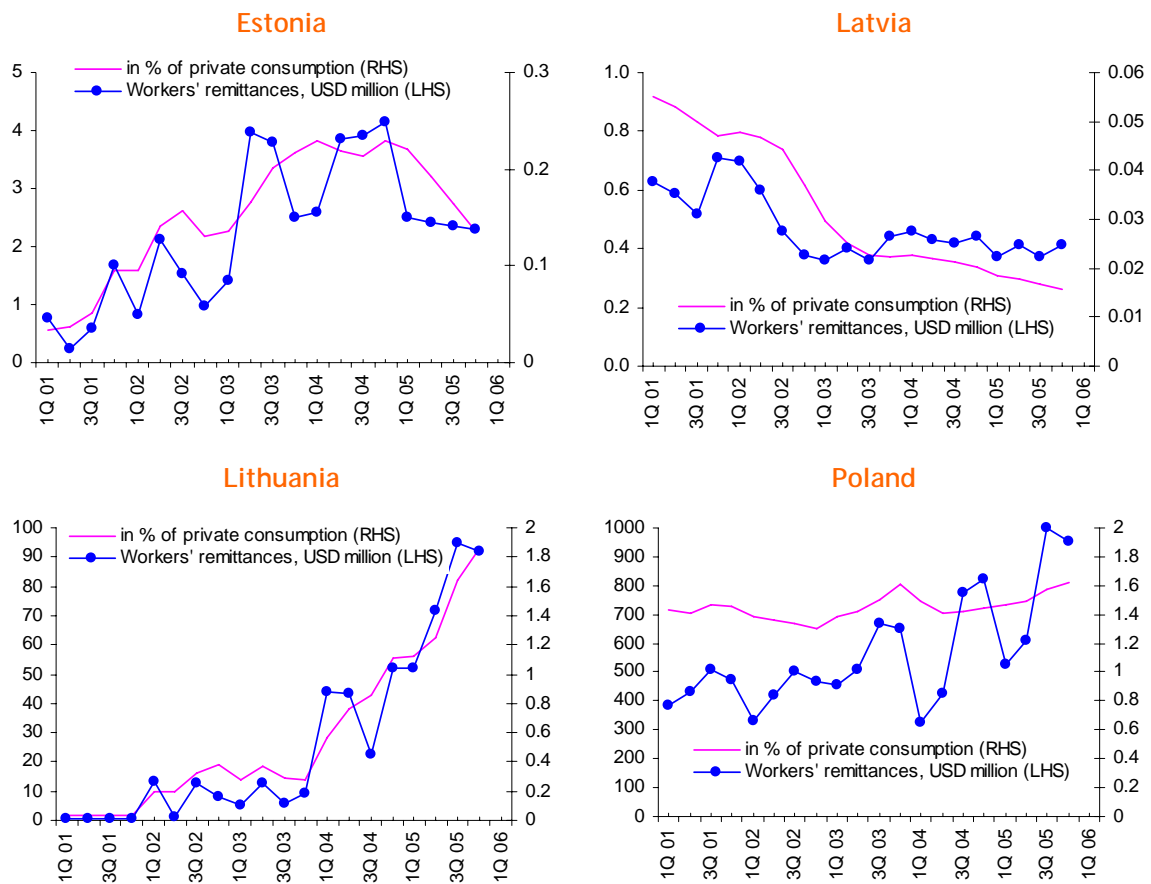
This is confirmed by employment figures in the health and social work sector, as the number of employed decreased by 7 percent in 2005 (LFS statistics). At the same time, the total number of vacancies in the health care and social care systems together in 2005 was 660, i.e. 2% of the positions were unmanned which is comparable to other sectors and the economy average of 3%. Presently (January 2006), there are 3.2 doctors and 6.15 nursing employees per 1,000 residents, for physicians similar to other countries but for nurses significantly lower. The official target for Estonia set by the Ministry of Social Affairs is to have 3 doctors and 8 nurses per 1,000 people. Meeting those targets in view of the increasing outflow of health care professionals combined with an unfavorable age structure in the sector and long educational cycle of doctors is going to be a major challenge which can only be met by providing salary incentives or by recruiting foreign personnel (Praxis report "Migration of Healthcare Workers from Estonia").<sup>32</sup> At present, the share of immigrant health care professionals is marginal due to strict language requirements introduced in 2002-2004.

Source: Estonian Migration Foundation, *Managed Migration and Labor Market - the Health Sector*, April 2006.

The main EU8 sending countries have registered an increase in migrant remittances following EU accession.<sup>33</sup> The upward trend is clearly visible in Lithuania and Poland (where remittances have a seasonal character) (Chart 27). In Estonia and Latvia, there was no evidence of increased workers' remittances, but only official transfers through the banking system are recorded. Migrant money transferred to EU8 countries is largely used to augment household consumption and the impact on the economic development of sending micro-regions is (with rare exceptions) very limited. Migrants tend to remit a substantial part of their earnings in-kind (e.g. second-hand cars) and their households tend to spend most of the remitted money on current consumption and purchase of a car or an apartment. More recently, there has been an increasing tendency to invest in the human capital of household members, especially in tertiary education (Jazwinska and Okólski, 2001; Kaczmarczyk and Lukowski, 2004).

<sup>33</sup> Remittances are by no means evenly distributed across the EU8 territory and its sub-regions. In Poland, by far the most successful area is the Opole sub-region where approximately one-third of the population hold double German and Polish citizenship and thus benefit from unlimited access to EU labor markets. This was reflected in the income status of the region: in 2000, the disposable monthly income per capita stood at PLN 630, but after allowing for remittances it increased by one third to PLN 840 and its relative income position changed from 2 percent below to 30 percent above the national average (Jonczy, 2003).

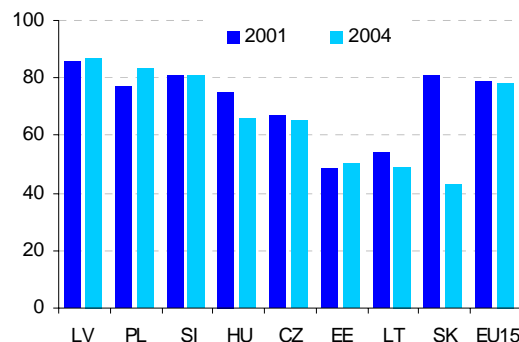
Chart 27. Workers remittances in selected EU8 countries



Source: IMF BoP statistics.

In some EU8 countries, a relatively high propensity for foreign migration is accompanied by low internal mobility, suggesting that the two may be viewed as alternatives. Research on internal labor mobility has shown that it is relatively low in Poland (which has a relatively high degree of external mobility) and somewhat higher although still low in Slovakia, the Czech Republic and Hungary (which have relatively low rates of external mobility) (Box 6) suggesting there could be a negative correlation between the two types of labor movements. This seems to be confirmed by the fact that after 1989, all EU8 countries saw a rapidly declining incidence of internal movements of people. In Poland, large numbers of low-skilled, commuting workers from underdeveloped regions, after being confronted with soaring unemployment, resorted to job-seeking in Western European countries. This shift could result from a number of factors including larger external than internal wage disparities, greater flexibility of foreign labor markets and more recently lower global transport costs. Furthermore employment abroad may be more attractive given high tax and social insurance contributions at home (Chart 28).<sup>34</sup> In Latvia, Poland and Slovenia, the effective tax rate for an unemployed person returning to work is still around 80 percent of gross earnings. Slovakia halved taxation rates through its aggressive reform program, reducing the combined effects to the lowest in the region at 43 percent. In this context, employment abroad may be an attractive alternative as foreign income is probably in at least some part not registered and thus not taxed.

**Chart 28. Unemployment trap in the EU8 and EU15 in 2001 and 2004**



*Notes: The unemployment trap measures the percentage of gross earnings which is taxed away through tax and social security contributions and the withdrawal of unemployment and other benefits when an unemployed person returns to employment. This indicator is calculated for single persons without children earning 67% of the average public wage (APW) when in work.*

*Source: Eurostat*

### Box 6. Internal labor mobility

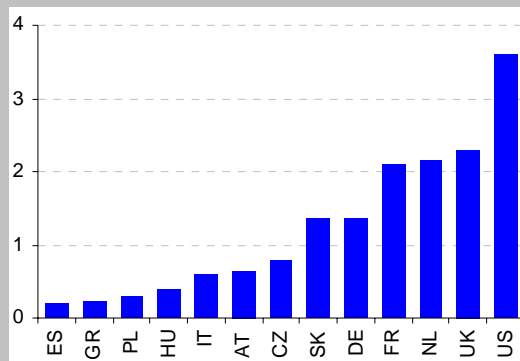
Since the mid-1990s, EU8 countries have successfully been catching up to average EU income levels. However, the process of economic liberalization and external convergence was accompanied by growing regional labor market and income disparities.

Wage adjustments, labor and capital flows and government action have not been effective in reducing these disparities. Existing mechanisms for minimum wage setting along with high labor taxes in the EU8 have tended to dampen wage flexibility. Investment tends to be concentrated in the most dynamic regions owing to agglomeration effects. Similarly, while labor flows should be an important mechanism of adjustment with unemployed or low-skilled workers moving in search of better income opportunities, these may exacerbate regional income differences to the extent it is mainly the employed and higher paid people who move. Government investment and transfers may also play a dual role by enhancing income opportunities but at the same time potentially discouraging the market-driven reallocation of production factors.

A distinct feature of migration in the pre-transition period was a strong internal (rural-to-urban or inter-regional) mobility of people. After 1989, however, all EU8 countries saw a rapidly declining incidence of internal mobility and many of those countries a shift from internal to international mobility. As a result, internal labor mobility became even less pronounced than in the EU and other advanced economies (Chart 29), although commuting rates tended to be increasing and in some cases higher to fairly high levels (Chart 30).

<sup>34</sup> An unemployed worker may still be able to collect unemployment benefits at home while working abroad. For an employed worker, the relative tax wedge at home and abroad is what matters, and this is consistently higher in the EU8 than in the EU15.

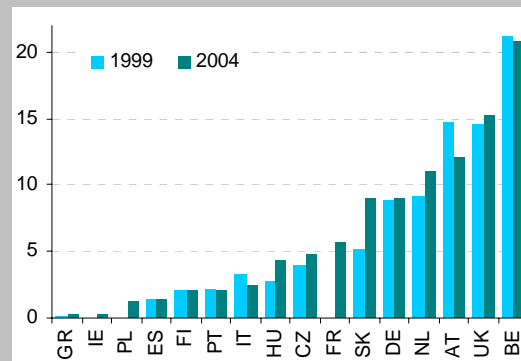
**Chart 29. Internal migration rates (NUTS2), 2004 or most recent (gross regional outflow in % of working age population)**



*Note: current region of residence is different from region of residence the year before.*

*Source: World Bank, 2006b.*

**Chart 30. Average regional commuting rates (NUTS2), 1999 and 2004 (% of employed workers)**



*Note: place of work and place of residence are located in two different regions.*

*Source: World Bank, 2006b.*

Internal mobility tends to increase with education or skill level and decrease with age. Empirical analysis based on LFS data suggests that the probabilities of both commuting and migrating are highest among men, younger workers, single or separated/widowed workers and among workers that are relatively more educated (World Bank, 2006). Surprisingly, internal mobility does not seem to be strongly responsive to employment and wage differentials between regions. This may be due to skills mismatches, differences in the cost of living (including housing), social transfers, high transportation costs, and the existence of important liquidity constraints.

### G. Conclusions and policy implications

Labor mobility from the EU8 following accession has intensified as part of the natural process of integration. The opening of selected EU15 labor markets for EU8 nationals has intensified the post-transition mobility trends. These developments were fueled both by existing labor market disequilibria in the sending countries and demand for relatively cheap foreign labor in the receiving economies. In the search for higher returns, capital tends to flow east while for the same reasons labor should migrate west, in what seems a positive and inevitable process of integration. However economically justified, flows of production factors (whether within or between countries) may not be equally favorable for all regions and may have undesirable distributional consequences. This gives a potential role for regional policy.

Evidence from receiving countries argues in favor of lifting restrictions on labor migration as inflows of foreign workers help to supplement the domestic labor force and support economic growth. Post-accession migration from the EU8 is dominated by labor flows, with migrants attracted by labor market opportunities abroad rather than by better social welfare systems. The economic impact of these movements has been moderate but positive as foreign workers have tended to supplement rather than replace domestic labor that have been able to take advantage of a growing labor market to move into higher paying jobs. It should be also noted that the increased inflow of EU8 nationals recorded after accession reflects in part the registration/legalization of existing informal employment in the EU15 countries. Moreover, the majority of flows are of a short-term nature with no visible fiscal implications for the receiving countries in terms of “welfare tourism.” All in all, the experience of the U.K., Ireland and Sweden suggests that restrictions to free movement of workers is a political rather than an economic issue.

From the sending countries’ perspective, outflows of labor are a mixed blessing. To the extent emigrants are unemployed or form part of an abundant low-skilled labor force, labor mobility is generally a win-win situation. This would include flows of seasonal agricultural workers as well as certain other migrants such as bus-drivers or unskilled plumbers. However, following accession, a large number of emigrants have tended to be younger and relatively well-educated people, already working in their home countries or with good employment prospects. This has led to skills shortages

and bottlenecks in several sectors in the main sending countries, especially the smaller Baltic States where labor outflows have been relatively large. The health sector, where domestic wages tend to be particularly low compared to earnings opportunities abroad, is under considerable pressure, but there are also increasing problems finding qualified labor in construction and various technical professions. This is leading to increasing wage pressures, which—especially in the Baltic States—is reinforcing already strong inflationary pressures and complicating euro adoption plans. It may also gradually slow output growth and place a greater burden on domestic workers in caring for their nations' rapidly aging populations. While remittances and likely return of labor—hopefully with a higher level of human capital—as domestic employment and income prospects improve offer some compensation, it may not be enough.

Governments need to manage this process more proactively. So far, the response of governments has been limited and largely focused on raising wages where most needed to stop the outflow of workers from the public sector. Further efforts are needed to stimulate labor force participation and employment, including reducing high labor taxes and in some cases social benefits (which should also take into account any income earned abroad) as well as facilitating internal labor mobility. In the fiscal sphere, governments need to make room for additional spending on wages in sectors where public workers are becoming in short supply (notably the health sector) and on investment where private labor is becoming more expensive (notably construction). There may also be a need to rely more on user fees given the tight budget constraints and the need to control inflationary pressures. Further, in the education sector greater reliance should be placed on private financing where returns are mostly private, including tertiary education but potentially also vocational education to the extent workers tend to seek employment abroad. Finally, EU8 countries should make it easier for foreign nationals to work there, including phasing in—in tandem with developing the capacity needed to screen desired workers—a more liberal regime for importing labor from countries further east. This would help address the dilemma of strong upward pressure on wages arising from emigration and the need to control fiscal balances and inflation.

Looking ahead, there is no reason to expect a further surge in migration from the New Member States. As mentioned, part of the substantial flows since EU enlargement in 2004 reflect legalization of already residing workers, and part of the new flows is likely to be a stock adjustment. Further, with more EU15 countries now having opened their labor markets and others to follow, the impact of additional flows will be spread more evenly.

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## Annex 1. Migration theories

Although migration is a widespread socio-economic phenomenon, there is no single theory generally accepted capable of explaining the complex issue. Rather, there is a fragmented set of theories which have been developed to a large extent in isolation from one another, usually separated by disciplinary boundaries and aimed at explaining a given aspect of migration only (Massey, 1999; for an overview see Chart 31). However, the existing concepts and theories are complementary rather than contradictory.

### *Neo-classical approach*

The most influential approach to labor migration analysis is rooted in neo-classical economic theory. Within this approach, migration is perceived as a consequence of wage differentials and as a means of equalizing inequalities in wages and living conditions (Hicks, 1932). These assumptions were incorporated into one of the most influential economic models of international labor migration, the Heckscher-Ohlin-Samuelson model (Ohlin, 1933; Heckscher, 1949; Samuelson 1948 and 1949). In its basic version, the model explains the mobility of goods and factors of production between countries engaged in international trade. Migration is perceived as a means to even out differences and imbalances in the labor market through convergence of real wages. The model is very simple and provides a purely mechanistic approach to migration.<sup>35 36</sup> Nevertheless it was used for a range of forecasts of migration following EU enlargement (Box 3).

### *Structural approaches*

The world systems theory has its intellectual roots in Marxist political economy (Wallerstein, 1997). Contrary to the neo-classical approach, international migration in this theory has little to do with wage differentials between countries but rather follows from the dynamics of market creation and the political structure of the global economy. In general, the world systems theory argues that the penetration of capitalist economic relations into non-capitalist or pre-capitalist societies creates a mobile population that is prone to migrate. The world systems theory stresses that international migration is a natural consequence of the spread of capitalism, particularly in the developing world.

The dual labor market theory (Piore, 1979 and 1986) argues that migration is a function of structural and/or demographic factors in the destination country, rather than the country of origin, and that wage differentials are neither a necessary nor a sufficient condition for labor migration to occur. The theory suggests that international migration is caused by a permanent demand for immigrant labour inherent in the economic structure of developed economies as they are characterized by dual labour markets: a primary sector (secure employment conditions, comparatively high wages and social security standards) and a secondary sector (low wages, little security and difficult working conditions). Nationals rarely accept the positions offered by the secondary sector, which can be attractive to immigrants.

### *Neoclassical microeconomic approach*

Within this framework migration is perceived from a purely microeconomic perspective as a decision to maximize the return on human capital (Sjaastad, 1962). According to this so-called human capital approach, every potential migrant compares costs and benefits related to mobility. The potential migrant takes into consideration such factors as existing and prospective employment possibilities, earnings differentials, migration costs, and potential learning, and calculates the expected net present value of the moving compared to staying put. The microeconomic model is very attractive from the formal point of view but provides largely intuitive conclusions. Moreover,

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<sup>35</sup> The neo-classical approach presumes that people are basically mobile which neglects historical, cultural and structural factors. Moreover, it is assumed that mobility only takes the form of permanent migration, while in many less developed regions temporary mobility is an important part of the economic and social life (Kaczmarczyk, 2005; Malmberg, 1997; Chapman and Prothero, 1985).

<sup>36</sup> Interestingly, more recent international trade theory (e.g. the modified H-O model, the specific factors model, and the “new trade” theory) calls into questions its conclusions (Faini et al., 1999).

quantification of this approach is severely complicated by the need to estimate utility functions. Further, the assumptions of homogenous labor, optimality of migration decisions (given information costs and constraints), and neglect of any social context are problematic (Fischer, Martin and Straubhaar, 1997).

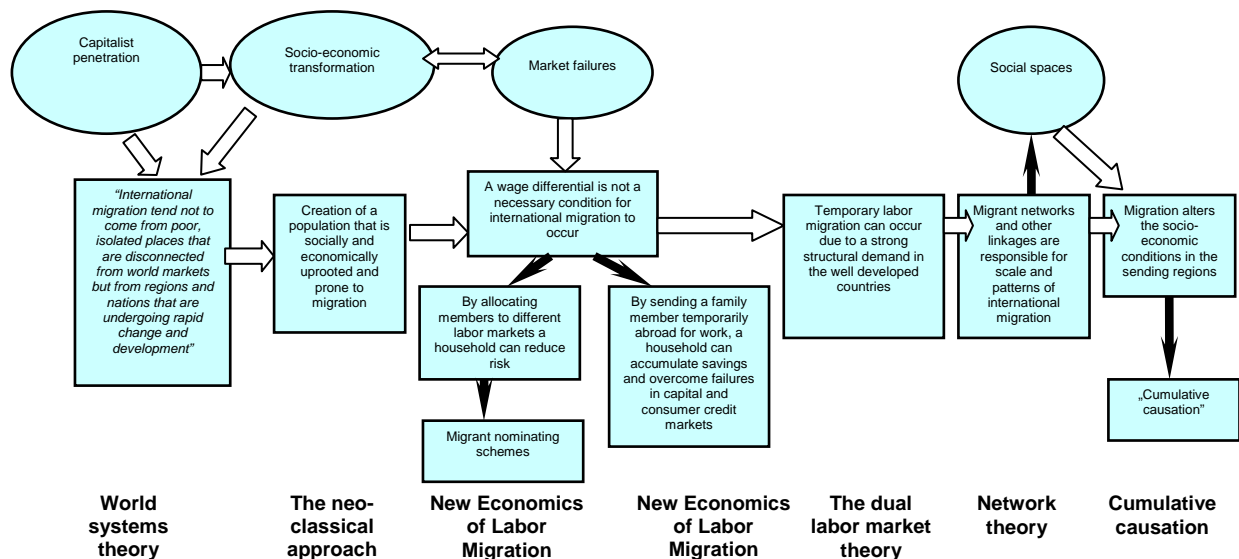
### New Economics of Labor Migration

The new economics of labor migration (Stark, 1991; Stark and Bloom, 1985) constitutes a relatively coherent and powerful theoretical framework which argues that migration is a complex social process. Contrary to the neoclassical approach, within NELM it is assumed that mobility of labor entails many social and psychological costs and that these costs (as well as benefits) are shared with family members, relatives or friends. In such a framework, people can act collectively not only to maximize expected income but also to minimize risk and to address various kinds of market failures. Moreover, relations evolve over time due to the development of migration networks. The framework also allows for temporary movements which may allow a migrant to improve his or her position without change of reference group. One of the major contributions of the NELM is that it creates a framework for analysis of labour migration from less developed countries where economies are characterized by significant market failures and a high level of risk (Massey et al., 1999).

### Network theory

Network theory is based on the concept of social capital. People gain access to social capital through membership in networks and social institutions and then convert it into other forms of capital to improve or maintain their position in society<sup>37</sup> (Gurak and Cases, 1992; Bourdieu, 1986). Networks make international migration attractive as a strategy for risk diversification or utility maximization by allowing for a reduction of migration costs and, perhaps more importantly, risks. Theories based on the concept of social capital or migrant networks can explain the perpetuation of migration even in the absence of large wage differentials.

Chart 31. A synthesis of migration theories (Douglass Massey, 1999)



Source: Based on Massey, 1999.

<sup>37</sup> In this context, “migrant networks are sets of interpersonal ties that connect migrants, former migrants, and non-migrants in origin and destination areas through ties of kinship, friendship and shared community origin” (Faist, 1997).

**Table 8. Major migration theories: assumptions and conclusions**

Theory / approach	Level of analysis	Key assumptions	Main conclusions
The neo-classical approach	Macro	<ul style="list-style-type: none"> <li>People tend to maximize their utility</li> <li>Potential migrant is an autonomic individual</li> <li>People are mobile</li> <li>Migration occurs without costs</li> <li>Potential migrant behaves in a rational way</li> <li>No risk or uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>International migration is caused by differences in wages between countries</li> <li>Mobility of labor leads to equalization of imbalances on the global scale</li> <li>International trade and flows of capital are substitutes for migration</li> <li>International labor flows are influenced primarily by labor market mechanisms</li> </ul>
World system theory	Macro	<ul style="list-style-type: none"> <li>Socio-economic context of migration matters</li> <li>Political and economic power is unequally distributed across nations</li> <li>World system may be described in centre/periphery framework</li> </ul>	<ul style="list-style-type: none"> <li>International migration is a consequence of capitalist market formation in the developing world</li> <li>Penetration of capitalism into non-capitalist or pre-capitalist societies creates a mobile population that is prone to migrate</li> <li>The international flow of labor follows international flows of goods and capital (but in the opposite direction)</li> <li>International migration has little to do with wage differentials between countries; it reflects unequal distribution of political and economic power</li> </ul>
Dual labor market theory	Macro	<ul style="list-style-type: none"> <li>Labor market is not homogeneous</li> <li>Jobs in specific sectors differ with respect to such wages, working conditions, prospects of mobility and rules</li> <li>Institutions of labor market matter</li> </ul>	<ul style="list-style-type: none"> <li>International labor migration is largely demand-based</li> <li>Employment in secondary sectors can be attractive for immigrants because they (usually) perceive their stay in the destination country as temporary</li> <li>International labor migration is usually initiated through recruitment (by employers or governments)</li> <li>Once recruited, migrants become a structural part of the labor market</li> <li>International wage differentials are neither a necessary nor a sufficient condition for migration</li> </ul>
Human capital approach	Micro	<ul style="list-style-type: none"> <li>Individuals tend to maximize their utility</li> <li>Individuals behave in a rational way</li> <li>Migration decision is taken individually, social context is neglected</li> <li>Individuals have costless access to perfect information</li> <li>Migration has a temporal dimension - preferences regarding time and risk are important</li> </ul>	<ul style="list-style-type: none"> <li>People migrate due to international income or wage differentials, but also due to differences in employment rates (employment chances)</li> <li>Migration/mobility is an investment</li> <li>Migration does not occur in the absence of differences in earnings and/or employment rates</li> <li>Migration stems from disequilibria between labor markets</li> <li>Individual human capital characteristics that increase the probability of employment in the destination country (education, experience, training, language skills) will increase the likelihood of international movement, other things being equal</li> </ul>
New Economics of Labor Migration	Micro, meso	<ul style="list-style-type: none"> <li>Labor is a specific factor of production</li> <li>Individuals are acting in a social context</li> <li>Migration is a complex social phenomenon</li> <li>Migration does not have to be permanent - temporary migration is a common behavior</li> </ul>	<ul style="list-style-type: none"> <li>The appropriate unit of analysis of migration is families/households</li> <li>Wage differentials are not a necessary condition for international migration to occur - households may have strong incentives to diversify risk through migration even in the absence of wage differentials</li> <li>Incentives for migration are to a large extent the consequence of market failures</li> <li>The same expected gain in income may not have the same effect on the probability of migration - relative effects are important</li> <li>There is no trade-off between mobility and activities in the country/region of origin</li> </ul>
Network theory	Meso	<ul style="list-style-type: none"> <li>Social capital matters</li> <li>Social capital can be translated into financial and/or cultural capital</li> <li>People gain access to social capital through participation in networks and/or social institutions</li> </ul>	<ul style="list-style-type: none"> <li>Networks allow for reduction of costs and risks associated with migration and thus make international migration relatively easy and attractive</li> <li>Networks influence to a large extent migration choices</li> <li>Migrant networks are consequence of migration</li> <li>Thanks to networks migration becomes a self-perpetuating phenomenon (even in the absence of large wage differentials)</li> </ul>