

**Labor Mobility in the European Union:**

**New Members, New Challenges**

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## **Introduction**

On May 1, 2004, the European Union (EU) expanded eastward to include the eight former Communist satellite states of Central and Eastern Europe. By joining the EU, the citizens of Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary and Slovenia expected to be able – as promised in the union’s founding treaty – to buy, sell and work freely within the EU. Many especially looked forward to gaining access to Western European job markets. But in the months leading up to enlargement, twelve of the EU’s existing fifteen member states closed their borders to Central European workers. Fearing an avalanche of cheap labor, Western European governments placed a moratorium on labor movement until 2011. Only the United Kingdom, Ireland and Sweden gave the new EU members unrestricted access to their labor markets.

In the three years that followed, more than a million Central Europeans moved westward in search of work – the largest influx of immigrants in British, Irish or Swedish history. Though the arrival of these migrants in western job markets did not have the disruptive effect that some analysts expected, there are lingering concerns about the impact the new residents will have on their host – and home – countries. In the UK and Ireland, many people worry that the newcomers will crowd out native workers, drive down wages, and overwhelm government services. In Central Europe, there are concerns that the westward exodus will produce a “brain drain” on home economies, siphoning off the most talented workers and leaving behind gaps in critical sectors of the local workforce.

Until recently, little empirical data has existed with which to judge the validity of these and other concerns. But with more than three years now past since the 2004 enlargement, economists have access to a growing body of official information with which to undertake such a task. The purpose of this study is to use this information to examine the experiences of countries on both sides of the migration divide and draw tentative conclusions about the effects of liberalizing labor markets in European economies. To paint as complete a picture as possible, the authors selected for this project were drawn from two net recipients (the UK and Ireland) and two net contributors (Poland and Lithuania) of labor from the new EU member states.

Participants in the study were asked to examine the impact that opening labor markets has had on the economies and social systems of their home countries. The British contributor, Martin Ruhs from Oxford University, provides a balanced assessment of the net contributions that incoming workers have made to the UK economy and takes stock of government efforts to regulate their activity. The Irish contributor, Nicola Doyle from the Central Bank of Ireland, examines the initial skepticism that existed in her country toward eastern labor, the problems that have arisen in the period since markets were opened, and growing concerns about the treatment of immigrant laborers. The Polish contributors, Justyna Frelak and Piotr Kaźmierkiewicz from the Warsaw-based Institute of Public Affairs, compare the perceptions and realities of Polish migration, both in terms of the Poles who are emigrating to Western Europe and the Eastern European workers who are filling the resulting labor vacuum in Poland. Finally, the Lithuanian contributor, Giedrius Kadziauskas from the Lithuania Free Market Institute, details the leading factors that motivate workers in his country to seek work abroad and identifies strategies that the government can use to retain local talent without limiting freedom of movement.

All of the authors use three key macroeconomic indicators – unemployment, wages and inflation – to show that the movement of labor has contributed to economic growth. The British and Irish authors found that, in their countries, workers from Central Europe fill jobs where the supply of labor is relatively scarce – mostly in basic service and construction industries. This in turn keeps wages (and prices) low and spurs growth. The authors examining the Lithuanian and Polish cases found that outbound workers are able to find better jobs and make more money than they would at home. Unemployment rates in these economies have dropped and workers abroad are sending remittances home, fueling domestic growth.

Taken together, these studies provide key insights into the larger debate about labor mobility. Most importantly, they provide compelling evidence to suggest that both sending and receiving countries benefit from increased labor mobility,

because the migrant and native workforces possess widely divergent educational and vocational skill levels. In countries that are net contributors of labor, Frelak and Kaźmierkiewicz and Kadziauskas found that the detrimental effects of “brain drain” – to the extent it occurs – are outweighed by the dual benefits of reduced unemployment at home and increased remittances from abroad. In countries that are net recipients of labor, Ruhs and Doyle show that there is little reason to fear local worker displacement. In both the UK and Ireland, incoming migrant workers have proven to be complements rather than substitutes to the native workforce. In all of the countries surveyed, the free movement of labor has enabled individuals to improve their standard of living with higher pay, allowed companies to produce a lower-priced product by using cheaper labor, and helped countries solve labor shortages or surpluses while encouraging sustainable growth.

## **Chapter 1**

### **Greasing the Wheels of the Flexible Labor Market: East Central European Labor Immigration in the United Kingdom**

Martin Ruhs\*

#### **Introduction**

Immigration is one of the most contentious and divisive issues of public policy-making in the UK. In August 2006 the government published the latest official figures on the scale and composition of migration to the UK.<sup>1</sup> This included the most recent numbers of EU-8 workers registering for employment since gaining unrestricted access to the UK labor market in May 2004.<sup>2</sup> The data showed a significant increase in overall immigration, mainly as a result of the inflow of an estimated 600,000 EU-8 workers since May 2004 – the “biggest single wave of migration in British history.”<sup>3</sup> This prompted a heated debate about the scale and impacts of immigration and about the consequences of the continuing inflow of workers from the new EU member states.<sup>4</sup>

The government has admitted its failure to predict the additional immigration that EU enlargement in 2004 would generate and the inadequacies of the current official statistics to capture the actual numbers of East European migrants coming to work in the UK.<sup>5</sup> (Official pre-enlargement predictions suggested a net annual addition of only about 13,000 workers.) The government maintains that, “migrant workers from the accession states are benefiting the UK, by filling skills and labor gaps that cannot be met from the UK-born population.”<sup>6</sup> This assessment has

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recently come under scrutiny, with critics suggesting that it fails to consider the potential economic and social costs that large-scale immigration from East Europe might generate.

This paper reviews the available evidence on the scale and economic impacts of – and the policy and research questions arising from – the recent immigration of East European workers in the UK. The analysis begins with an overview of recent migration flows to the UK, and a review of the government’s managed migration policies before and after EU enlargement in 2004. This is followed by a discussion of the impacts of the immigration of EU-8 workers on the UK’s economy and labor market, as well as on public finances and services. The third part of the paper explores some of the key themes in current debates about East European labor immigration in the UK.

### **Managed Migration and EU Enlargement (2004)**

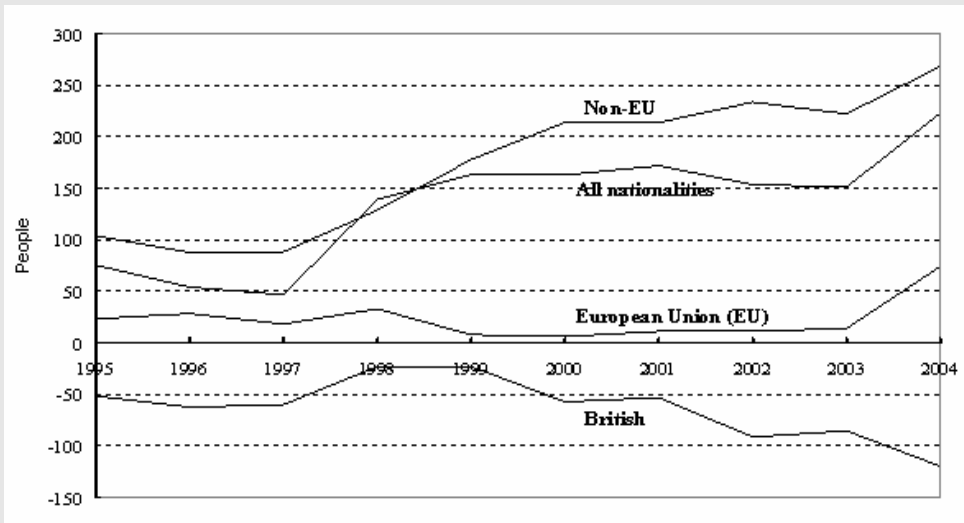
This section discusses how the current government’s managed migration policies have shaped the availability of migrant workers for employment in the UK’s economy before and after EU enlargement in May 2004.

#### *Migration Flows and Major Migration Policies before EU Enlargement*

The number of migrants coming to the UK – both from outside and within the EU – has significantly increased since the mid 1990s.<sup>7</sup> Total migration to the UK increased from 314,000 in 1994 to 582,000 in 2004.<sup>8</sup> Out-migration also increased but at a lower rate – from 238,000 in 1994 to 360,000 in 2004 – thus resulting in a significant rise in net migration to the UK of 76,000 in 1994 to 222,000 in 2004.<sup>9</sup> As shown in Figure 1, until May 2004 the increase in net migration was driven by the immigration of non-EU nationals. Since EU enlargement in May 2004, net migration of EU nationals has grown faster than that of non-EU nationals.

Just before EU enlargement in spring 2004, there were 2.8 million foreign nationals living in the UK, constituting just under 5 percent of the total population. Of these, 1.44 million were working – accounting for approximately 5.2 percent of all people in employment.<sup>10</sup> If one broadens the definition of migrants to consider all those who were foreign-born, including those with UK citizenship, the numbers are significantly higher. According to the 2003/04 “Labor Force Survey ,” 10 percent of the working-age population in Britain was foreign-born. Of these, people born outside what is now the EU-25 constitute the biggest group of immigrants (7 percent of the working-age population), followed by nationals of the EU-15 member states (2 percent).<sup>11</sup> Of course, these figures do not take account of migrant workers who have entered and/or worked in the UK “illegally.”

Figure 1: Net Migration to the UK by Major Nationality Group, 1995-2004 (thousands)



Source: Home Office (August 2005).

As of May 2004 there were more than 80 different routes of entry for non-European Economic Area (EEA) nationals to the UK, each governed by specific rules and regulations.<sup>12</sup> Table 1 shows the number of annual admissions for the most important channels of entry that are associated with a limited or unlimited right to work in the UK's labor market.

The government's managed migration policies are based on the idea that, if managed properly, immigration can generate significant economic benefits for the UK. As the UK's home secretary put it in a recent white paper, the adoption of these policies signified a turning point in the country's approach:

Migration is an inevitable reality of the modern world and it brings significant benefits. But to ensure that we sustain the positive contribution of migration to our social well-being and economic prosperity, we need to manage it properly and build firmer foundations on which integration with diversity can be achieved.<sup>13</sup>

Under its managed migration policies, the government has been relatively liberal with regard to issuing work permits to employers who wish to recruit non-European Economic Area (EEA) migrants for employment in skilled and highly-skilled occupations. Not limited by quota, the number of work permits issued to skilled migrants increased from fewer than 30,000 in the mid-1990s to an annual average of over 80,000 throughout 2001-04.<sup>14</sup> [See the figure for "work permit holders" in Table 1]<sup>15</sup> In addition to the main work permit scheme for skilled

migrants, the government also introduced the Highly Skilled Migrants Program (HSMP) in 2002. This labor immigration program aimed at attracting highly skilled migrants by offering them the opportunity to move to the UK without having a prior job offer. Migrants living and working in the UK on permits issued under the main work permit scheme or the HSMP have the right to apply for permanent residence (“indefinite leave to remain”) after five years in the UK.

<i>Thousands</i>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2000-04</u>
Students <sup>a</sup>	313	339	369	319	294	1,634.00
Dependents <sup>a</sup>	74.2	78	85.4	87.2	94.3	419.1
Work permit holders <sup>a</sup>	67.1	81.1	85.6	81.4	82.7	397.9
Working holidaymakers <sup>a</sup>	38.4	35.8	41.7	46.5	62.4	224.8
Seasonal agricultural workers <sup>a</sup>	10.1	8.4	16.9	20.7	15	71.1
Au-pairs <sup>a</sup>	12.9	12	12.8	15.3	5.6	58.6
Domestic workers <sup>a</sup>	14.3	10.5	10.1	10.6	10.4	55.9
Sector-based scheme workers <sup>b</sup>	..	..	..	7.8	16.9	24.7
Highly Skilled Migrant Program <sup>c</sup>	..	..	1.1	3.6	7.4	12.1

\* The figures include EU-10 nationals until May 2004, and exclude them afterwards.  
 \*\* Immigration channels that are not associated with a right to work (such as ‘asylum seekers’ – 318.8 thousand during 2000-04) are excluded from Table 1.

Sources: <sup>a</sup>Home Office (August 2006a); <sup>b</sup>Salt and Millar (2006), <sup>c</sup>HSMP Services UK (see <http://www.hsmp-services.co.uk/>).

In contrast, the UK’s pre-enlargement policies for the immigration and employment of non-EU-15 migrants in low-skilled occupations were relatively small in scale, sector-specific and much more restrictive of the rights of migrants admitted than the policies toward skilled labor immigration. For example, the low-skilled programs did not grant migrants the right to family reunion or permanent settlement in the UK. As of early 2004, the main programs for admitting migrants for low-skilled employment included:

- the Seasonal Agricultural Worker Scheme (SAWS), which admitted a limited number of non-EU students for temporary employment in agriculture and food processing (the quota was 25,000 in 2004);

## *Labor Mobility in the European Union*

- the “au-pair scheme” – which was officially a cultural exchange rather than a labor immigration program – allowing nationals of certain countries to help in private households for a maximum of 25 hours per week;
- the domestic worker scheme, which was for domestic workers who traveled to the UK with their employers;
- and the Sector-Based Scheme (SBS), which allowed UK employers to recruit a limited number of non-EEA workers for employment in selected low-skilled jobs in the hospitality and food processing sectors (the quota was 20,000 in 2003-04).

Given the relatively small scale of the schemes above, students and working holiday-makers constituted the main pool of non-EEA workers that could be legally employed in medium or low-skilled occupations before EU enlargement. However, both types of immigration status are associated with only a restricted right to work. Students – by far the largest category of admission from outside the EEA in recent years [See Table 1] – are allowed to legally work for a maximum of 20 hours per week during the academic term and full-time during vacations.<sup>16</sup> Under the Working Holidaymaker Scheme, Commonwealth citizens aged 17-30 can visit the UK for an extended holiday of up to two years. During this period, working holidaymakers are allowed to work for up to 12 months.

Some employers also filled their low-skilled vacancies by hiring migrants whose employment may be described as “semi-compliant” or “non-compliant” with the UK’s immigration laws.<sup>17</sup> Semi-compliance indicates a situation where a migrant is legally a resident but working in violation of some or all of the conditions attached to the migrant’s immigration status. Students or working holidaymakers working in excess of the hours legally allowed are cases in point, as are non-EEA nationals admitted as au-pairs but taking up part-time hospitality jobs. A recent study of East European migrants in low-wage employment in the UK concluded that semi-compliance is likely to be a major feature in the UK’s migrant labor market in relation to both students working excessive hours and au-pairs doing part-time work outside their host families.<sup>18</sup>

“Non-compliant” migrants are those without valid leave to remain in the UK. The Home Office released estimates of the number of migrants illegally resident in the UK in 2001.<sup>19</sup> The estimates ranged from 310,000 to 570,000, with a median estimate of 430,000 (which is equivalent to about 0.7 percent of the UK population).<sup>20</sup> Most illegally resident migrants are thought to be working in low-wage jobs in agriculture and food processing, construction, the care services for the elderly, cleaning and in hospitality.

Section 8 of the Asylum and Immigration Act 1996 (as amended by section 147 of the Nationality, Immigration and Asylum Act 2002) makes it a criminal offence to employ an individual over the age of 16 who does not have permission

to be in the UK or whose status precludes him or her from taking employment. However – possibly due to the government’s emphasis on the “flexible” labor market – enforcement against employers who hire migrants illegally has traditionally been very low. Between 1998 and 2003, only nine employers were successfully prosecuted for illegally employing migrants under Section 8.<sup>21</sup>

In the late 1990s, the government considered the promotion of a “flexible labor market with minimum standards” a core element of its overall policies for providing “employment opportunities for all.” This was considered especially important for avoiding the employment fluctuations resulting from the two severe recessions the UK economy faced in the late 20<sup>th</sup> century.<sup>22</sup> Labor market flexibility can be given various meanings but it generally includes flexibility in real wages, working practices (e.g., availability of part-time work and flexible employment arrangements) and recruitment practices (e.g., relative ease for employers to hire and fire staff).<sup>23</sup> International comparisons generally find that the UK’s labor markets are more flexible than those of many other high-income countries.<sup>24</sup> In an effort to avoid labor market flexibility resulting in exploitation of low-wage workers, the government introduced a minimum wage of £3.60 (\$5.97) per hour in 1999.<sup>25</sup> A Low Pay Commission was established to advise the government about the national minimum wage.<sup>26</sup>

### **EU Enlargement: Impact on Labor Immigration and Labor Immigration Policies**

Along with Ireland and Sweden, Britain was in the minority among member states prior to EU-15 enlargement to grant workers from the EU-8 countries free access to their labor market on May 1, 2004. Since that date, EU-8 workers have been free to migrate and take up employment in the UK without requiring work permits. This decision was part of the government’s strategy for migration management to fill vacancies in both skilled and low-waged occupations, where employers found it difficult to legally employ migrants before enlargement. For all the EU-8 workers residing in the UK illegally prior to May 1, 2004, this was, in effect, an amnesty.

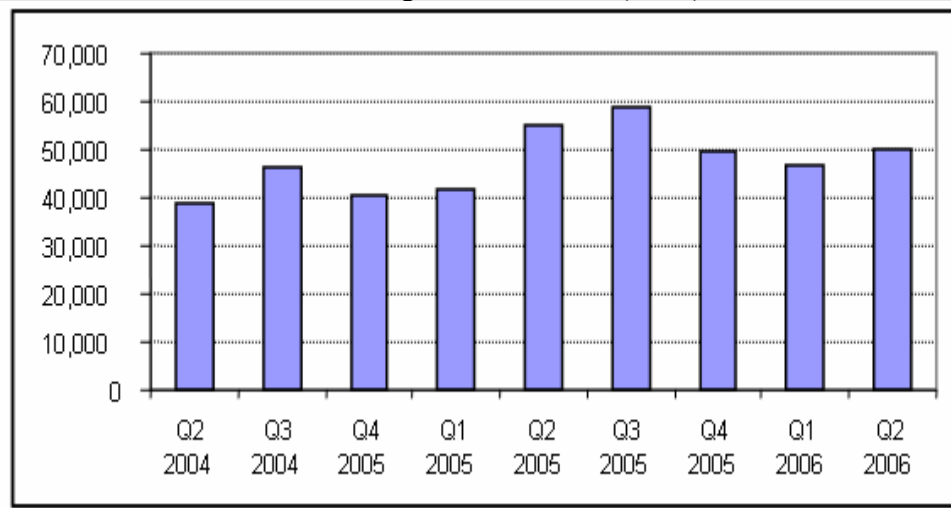
#### *Inflows of EU-8 Workers: Data from the Worker Registration Scheme (WRS)*

In February 2004, a special Workers Registration Scheme (WRS) was put into place for EU-8 workers taking up employment in the UK after May 1, 2004. Unless officially exempted from doing so, EU-8 workers are required to register their employment with the Home Office within one month of beginning employment in the UK.<sup>27</sup> To register, workers must pay a one-time fee, which in May 2004 was £50 (\$91.64) and increased to £70 (\$127.54) in 2006. The WRS is not intended to limit EU-8 nationals’ access to the labor market. Its stated policy objectives are to control EU-8 workers’ access to certain welfare benefits and

services; to encourage participation in the formal economy; and to provide empirical data to facilitate monitoring of inflows and the formulation of evidence-based policy. Arguably, the WRS was a political concession to all those who were concerned before EU enlargement about the prospect of EU-8 migrants flooding Britain to claim benefits rather than to work.

The government publishes quarterly “Accession Monitoring Reports” with data obtained from the registration of EU-8 nationals.<sup>28</sup> According to the August 2006 report, there were 447,000 applications for registration between May 2004 and June 2006.<sup>29</sup> As shown in Figure 2, more than two years after EU enlargement, there is no sign yet of a significant decline in the numbers of workers registering.

Figure 2: Quarterly Numbers of East European Migrants Registering in the Worker Registration Scheme (WRS)



Source: Home Office (2006), Accession Monitoring Report May 2004-June 2006.

There has been significant debate about the extent to which the official registration data reflects the actual number of EU-8 nationals coming to work in the UK. It is clear that the various exemptions from the registration requirements mean that the registration data underestimates the inflow of EU-8 workers. The exemption of self-employed EU-8 nationals is particularly important in this regard. Self-employment is known to be particularly prevalent in the construction sector where a large number of EU-8 nationals work. The government recently estimated that if self-employed EU-8 workers are taken into account, the total figure may be closer to 600,000 rather than the 447,000 suggested by the WRS data. This is still likely to be an underestimate as research has shown that some EU-8 workers fail to register when required.<sup>30</sup>

Whatever the numbers, the scale of labor immigration from the new EU member states since May 2004 has been significantly larger than that predicted by the government. A study commissioned by the Home Office predicted that EU enlargement would lead to an average annual net migration (i.e., inflows minus outflows) of about 13,000 EU-8 nationals for the period up to 2010.<sup>31</sup> There are a number of reasons – most of which result from the methodological limitations of the study and many of which are made explicit in the study itself – that help explain its underestimate. The key reason may have been that, due to a lack of data on migration from EU-8 countries to the UK, the predictions for post-enlargement immigration from these countries were based on a model whose parameters had to be estimated using historical data for a different set of countries. Another explanation for the underestimate was the assumption that all 15 member states of the pre-enlarged EU would open their labor markets to workers from the new EU member states at the same time. In the end, only three countries granted EU-8 workers the unrestricted right to work in May 2004 (the UK, Ireland and Sweden) creating significant diversion effects in the post-enlargement migration flows of EU-8 workers.<sup>32</sup>

Table 2: Top Five Occupation Groups and Occupations of East European Workers Registered in the Worker Registration Scheme (WRS), May 2004 - June 2006

<u>Top five occupation groups</u>		<u>Top five occupations</u>	
Admin., business and management	34%	Process operatives	37%
Hospitality and catering	21%	Warehouse operatives	10%
Agriculture	12%	Packers	9%
Manufacturing	7%	Kitchen and catering assistants	9%
Food, fish and meat processing	5%	Cleaner, domestic staff	8%

Source: Home Office (2006b), Accession Monitoring Report May 2004-June 2006.

However incompletely and inadequately the WRS data reflects the actual scale of inflows, it is still very useful as it enables us to better understand the characteristics and types of employment of EU-8 workers in the UK. The majority of workers who have registered since May 2004 are Polish (62 percent), male (58 percent), young (82 percent aged 18-34) and without dependents in the UK (93 percent).<sup>33</sup> They are employed across all occupations but most are working in relatively low-skilled jobs (Table 2). Importantly, workers from the new EU member states are employed throughout the UK and not just in London. According to the latest data, East Anglia had the greatest number of workers

registering during May 2004-June 2006 (15 percent), followed by London (14 percent) and the Midland regions (12 percent).<sup>34</sup>

*EU-8 Worker Stocks: Data from the Labor Force Survey*

It is important to emphasize that the figures from the WRS are not a measure of the stock of EU-8 workers in the UK. The registration data does not record how long EU-8 workers stay and it is not known how many have already left the UK, as there is no requirement for workers to notify the WRS upon leaving. The existing data is insufficient to assess the extent to which the recent inflows of East European workers will result in their long-term immigration and/or permanent settlement in the UK. However, it is clear that a significant number of registering EU-8 workers have been temporary migrants who came to do time-limited jobs. At the same time, the share of long-term immigrants may not be as low as commonly suggested.

Data taken from the UK's labor force survey suggests that the stock of EU-8 migrants in employment in the UK increased from about 43,000 in the spring of 2003 to 247,000 in the spring of 2006. The increase in the stock of employed EU-8 workers suggested by these figures is low compared to the flow data (estimated at around 600,000 since May 2004). If true, it suggests a relatively high incidence of short-term stays in the UK among EU-8 migrants. Nevertheless, although a significant share of the recent EU-8 immigration is likely to be temporary and short-term, it is important to keep in mind that the labor force figures for EU-8 workers are most likely underestimates due to well known problems with undercounting, which reflect the difficulty of capturing minority groups in labor force surveys.<sup>35</sup>

Table 3: Estimates of EU-8 Migrants Aged 16+ and in Employment, 2003-2006 (April-June)

	<u>EU-8 migrants aged 16+ (thousands)</u>	<u>EU-8 migrants in employment (thousands)</u>	<u>EU-8 migrants' share in total migrant Employment</u>	<u>EU-8 migrants' share in total employment</u>
Apr-Jun 2003	118.4	43.2	1.70%	0.15%
Apr-Jun 2004	133.7	75.1	2.90%	0.27%
Apr-Jun 2005	222.3	150.3	5.40%	0.53%
Apr-Jun 2006	330.9	246.9	7.90%	0.87%

Source: Labor Force Survey, Office for National Statistics (ONS).



*Policy Changes Since EU Enlargement*

At the same time that it opened the labor market to EU-8 workers, the government also introduced measures to strengthen the enforcement of Section 8 of the 1996 Asylum and Immigration Act. On May 1, 2004, the government introduced the Immigration (Restrictions on Employment) Order, which revised the list of specified documents suitable for providing evidence of entitlement to work. Although enforcement efforts in relation to illegal migrant labor increased – according to the Home Office the number of “successful operations” rose from 390 in 2003 to 1,098 in 2004 – prosecution rates and fines imposed on employers following Section 8 convictions remained very low. In 2004-05, 21 employers were successfully prosecuted for illegally employing migrants under Section 8 (compared to a total of three during 2001-03).<sup>36</sup> More than half of Section 8 convictions in 2004-05 resulted in fines of less than £700 (\$1,281), with four employers fined the maximum of £5,000 (\$9,150).<sup>37</sup>

A second and more consequential policy change following EU enlargement was the termination of the Sector-Based Scheme (SBS) for the hospitality sector. This decision came after a review of the SBS which was published in June 2005.<sup>38</sup> The two major reasons for the closure were: (a) the expectation that workers from the new EU member countries are now able and willing to fill all vacancies in low-skill hospitality jobs, thus making the need for non-EEA workers redundant; and (b) concerns about misuse of the SBS in the hospitality sector. The Home Office review of the SBS identified elements of potential misuse including: the selling of SBS permits in migrant workers’ countries of origin, the danger that some SBS workers remain in the UK after their permits expire, and the practices of some third party agencies in facilitating entry into the UK under falsified pretences.

Following EU enlargement, the government also launched a public consultation about reforming the UK’s overall immigration system. In March 2006 they gave details of a new “points-system” framework for managing labor and other types of migration of non-EEA nationals to the UK.<sup>39</sup> Among other things, the new immigration system aims to facilitate and simplify policies regulating the immigration and employment of skilled and highly-skilled non-EEA workers and to strictly limit low-skilled immigration from outside the EEA. Any remaining low-skilled immigration programs would be “quota based, operator-led, and time-limited.”

Finally, the government announced that it would not allow nationals of Romania and Bulgaria free access to the British labor market when their countries join the EU in January 2007.<sup>40</sup> Romanians and Bulgarians will be free to travel to the UK but their employment will continue to be regulated by the UK’s work permit system. Under this system, food processing and agriculture will be the only sectors open to the legal employment of low-skilled workers from Romania and

Bulgaria (with a cap of 20,000 per year). There are two major exceptions: Romanians and Bulgarians will be allowed to legally work in the UK without a work permit if they are self-employed or students working part-time (for a maximum of 20 hours per week during the academic term or vacation periods). Critics point out – and the government has admitted – the significant challenge of enforcing these rules. To encourage compliance, the government has proposed to parliament the introduction of on-the-spot fines for migrants and their employers who break the rules. The government intends to annually review these transitional arrangements for Romanian and Bulgarian migrants. According to the Home Secretary, the opening of the UK labor market to Romanian and Bulgarian workers will be “gradual” and will “take account of the needs of our labor market, the impact of the EU-10 expansion and the positions adopted by other member states.”<sup>41</sup>

The government’s decision to continue to restrict the access of Romanian and Bulgarian workers to the British labor market mainly stems from the significant and larger-than-expected inflow of workers from the ten countries that joined the EU in 2004, and from concerns that free access for Romanians and Bulgarians could further increase the inflow of East European migrants. The Institute for Public Policy Research (IPPR) recently estimated that free access would result in an additional inflow of about 55,000 Romanian and Bulgarian migrants in the first year after the two countries join the EU. However, the migration potential from Romania and Bulgaria could be even higher, mainly because the average wage levels in Romania and Bulgaria are even lower than in most of the ten countries that became EU member states in January 2007.

The government has not made any predictions about the likely future immigration flow from Romania and Bulgaria, but concerns about a further significant inflow of East European labor appear to be widespread. The Conservatives, some Labor MPs and even the Confederation of British Industry (CBI) have all argued against free labor market access for Romanians and Bulgarians when their countries join the EU in order to “pause for reflection.”

### **Economic Impacts**

This section reviews the available evidence on the economic impacts of recent labor immigration in the UK by first discussing the effects on the economy and labor market, and then the fiscal impacts and consequences for public services.

#### *Impacts on the Economy and Labor Market*

For most of the past five years, economic growth rates in the UK have been consistently higher than the EU average (see Table 4). Rising levels of immigration have contributed to growth, mainly by expanding total employment

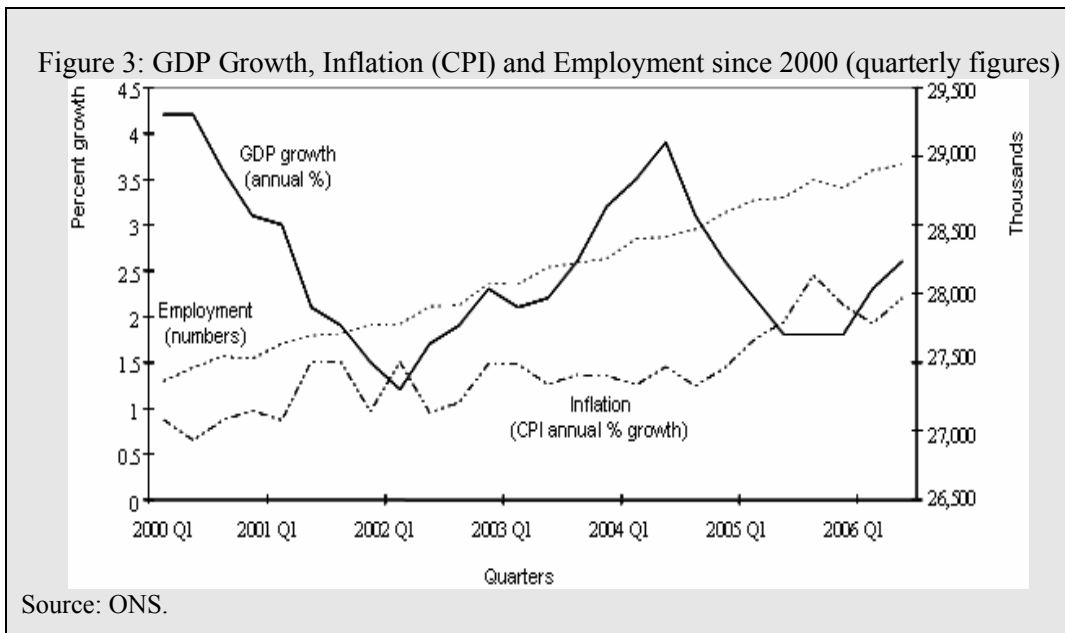
(Figure 3). However, the extent of the contribution of immigration to this growth is unclear.<sup>42</sup> Mervyn King, the governor of the Bank of England, observed in 2005 that immigration benefited the UK economy by lowering wage growth and inflation, and thereby keeping interest rates low.<sup>43</sup> The Ernst & Young ITEM Club estimated that East European immigration kept interest rates 0.5 percent lower than they would otherwise have been.<sup>44</sup>

Table 4: GDP Growth (% change from previous year)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
EU (25 countries)	2	1.2	1.3	2.4	1.7	2.9	2.4	2.4
United Kingdom	2.4	2.1	2.7	3.3	1.9	2.8	2.6	2.4

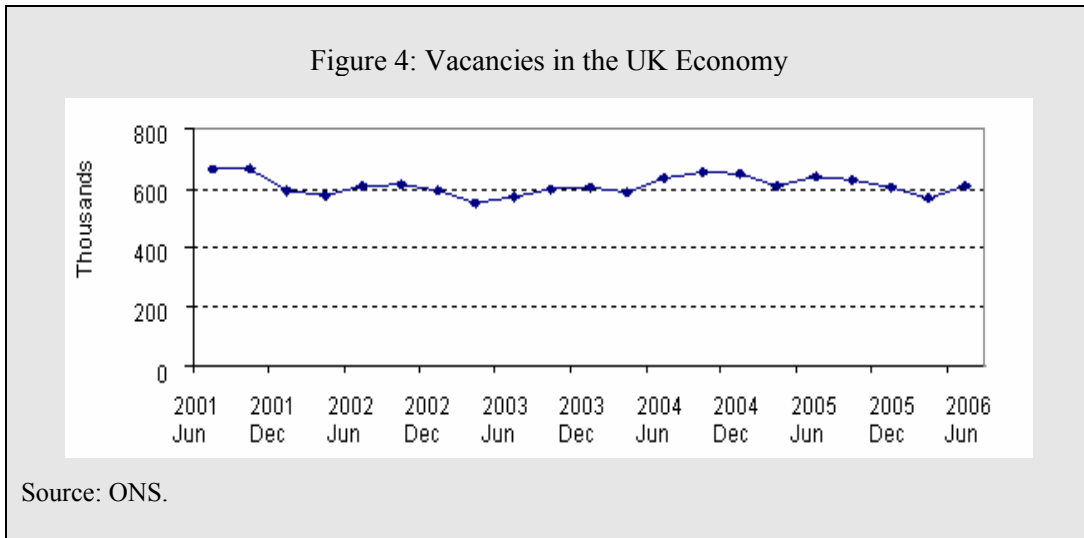
Source: Eurostat.

In theory, immigration can also have some negative effects on the economy. For example, an important but so far unexplored research question is whether and to what extent the increased supply of cheap labor in the UK has discouraged employers from modernizing production processes and led to a situation where inefficient companies and industries remain viable only because they are subsidized by cheap immigrant labor.<sup>45</sup>



Migrant workers have also played an important role in helping to meet shortages across a wide range of occupations at both the high- and low-skill end of the labor market. However, because immigration has expanded the economy and the

number of workforce jobs overall, the total number of vacancies has not significantly declined since 2001, remaining at around 600,000 (Figure 4). The incidence of hard-to-fill vacancies has fallen slightly, from 1.1 percent in 2004 to 0.9 percent in 2005. Vacancies persist throughout the economy, but they are currently highest for elementary occupations, associate professional occupations, sales and customer service occupations.<sup>46</sup> Of course, it is important to keep in mind that these aggregate figures for the overall economy could conceal potentially important regional and sectoral differences.<sup>47</sup>



The biggest beneficiaries from the increase in the availability of migrant labor have been those employers with a demand for low-waged labor. Before EU enlargement, employers had only very limited access to migrant labor that could be legally employed in low-skilled jobs. Since EU enlargement, employers in the UK have had access to an almost unlimited supply of East European migrants willing to take up employment at or close to the minimum wage. Data from the WRS suggests that more than three-quarters of the workers who registered since May 2004 were earning between £4.50 (\$8.01) and £5.99 (\$10.66) per hour.<sup>48</sup> During October 2004-05, the minimum wage was £4.85 (\$8.73) for workers aged 22 or over, and £4.10 (\$7.38) per hour for workers aged 18-21. The corresponding rates for October 2005-06 were £5.05 (\$8.94) and £4.25 (\$7.52), respectively.<sup>49</sup>

The findings in Anderson, et al. that explored the employment experiences of East European migrants working in low-skilled jobs in the UK suggest that in addition to working at low wages, EU-8 workers also tend to work longer hours.<sup>50</sup> Furthermore, many of the more than 500 migrants interviewed in the project were found to be significantly overqualified for the work they were doing in the UK. For example, of the 120 East European interviewees doing basic jobs in the UK's

hospitality sector, more than half had post-secondary education and more than a third had tertiary education.

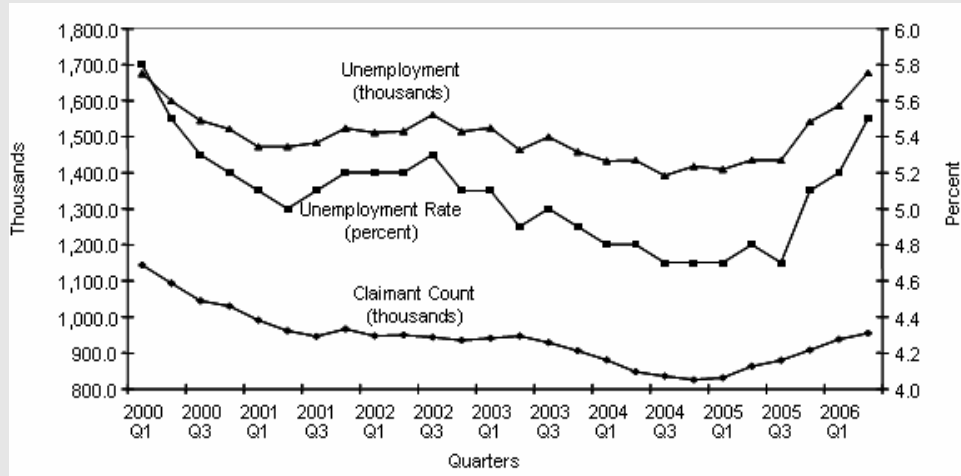
Many of the East European migrants interviewed described their situation in terms of trade-offs. Most suggested they tolerated low-skilled work and poor conditions because the pay was significantly better than pay in their country of origin.<sup>51</sup> But the trade-offs were not just economic; many were motivated by the desire to learn English or gain experience. Regardless of the motivation, East European migrants were typically prepared to put up with poor conditions because they perceived their job as temporary. Most of the migrants interviewed had a clear expectation to eventually move on to better jobs, either in or outside the UK.

The study also surveyed UK employers, who valued and praised EU-8 migrants as “high-quality workers” for low-skilled and low-waged work. Employers repeatedly compared the “work ethic” and reliability of migrants to the negative attitudes of British workers. Employers blamed their difficulties with recruiting British workers on long anti-social hours, high physical demands, low status and low pay of the jobs they were offering. Employers of EU-8 workers were clearly aware of the economic trade-offs that well-qualified migrants were making by taking up low-waged employment in the UK. As one construction employer interviewed in the study said: “I’ve had doctors ... bit of a sad waste really, doing laddering work because it paid better than being a doctor back home.”<sup>52</sup>

The question then arises whether the economic benefits that labor immigration has generated for employers and the economy overall have come at the cost of reduced wage and employment prospects for British workers. A recent assessment of the growth of earnings in the UK labor market by the Office of National Statistics (ONS) concluded that “the overall picture is of steady earnings growth, though any underlying wage pressure in the economy remains subdued.”<sup>53</sup> Figures show a slight decline in the annual growth rate of earnings (including bonuses), which was down from 4.4 percent between February and April 2006 to 4.1 percent between March and May 2006.

Figure 5 shows that following years of relatively steady decline, unemployment and the claimant count (the number of people claiming Jobseeker’s Allowance) have risen since 2004. The claimant count figure increased from 819,000 in February 2005 to 957,000 in July 2006.<sup>54</sup> During the same period the number of unemployed workers rose from about 1.4 million to almost 1.7 million. Analysis by ONS suggests that at least part of the reason for the ongoing increase in unemployment is an increase in labor market participation, rather than a slowdown in the labor market. The inactivity rate of the working-age population fell by about 0.5 percent between January and September 2006, to 20.9 percent.<sup>55</sup>

Figure 5: Unemployment and Claimant Counts, 2000-2006



Source: ONS.

The currently available research does not clearly link immigration and the recent rise in unemployment. There has so far only been one study of the impacts of the recent migration flows from the new EU member states on the UK labor market.<sup>56</sup> Carried out by the Department of Work and Pensions (DWP), this study used statistical analysis to explore the impact of labor immigration of EU-8 workers. It was measured by the number of workers registered in the WRS and on the claimant count rate of citizens, i.e. on the proportion of the working age population receiving Jobseeker’s Allowance. Using data up to November 2005, the DWP study found no statistically significant impact of the inflow of EU-8 workers on claimant unemployment. The study concludes that “the economic impact of migration from the new EU member states has been modest, but broadly positive, reflecting the flexibility and speed of adjustment of the UK labor market.”<sup>57</sup>

The conclusion of the DWP study is in line with the findings of an earlier, pre-enlargement analysis of the local labor market impacts of immigration.<sup>58</sup> Based on labor force survey data, this analysis concluded that immigration had no significant, long-run effects on regional unemployment levels or wage levels in the UK. The analysis argued that the long-run effects of immigration are reflected in a change in the output mix: an increase in the production (or provision) of labor-intensive commodities (or services), which leads to an increase in the demand for labor – rather than in a change in wages or unemployment levels.<sup>59</sup> The more recent DWP study essentially gave the same explanation for its conclusion that immigration has only very minor and insignificant impacts on the labor market. The argument that immigration has increased the demand for labor

– as well as increased its supply – is certainly in line with the economy-wide vacancy figures which have so far shown no sign of declining.

Since they constitute most of the systematic research evidence about the impacts of immigration on the UK labor market to date, the conclusions of the studies discussed above (by DWP and Dustmann et al.) need to be taken seriously. They certainly dispel the popular myth that labor immigration inevitably harms native-born workers. However, it also needs to be acknowledged that studies of the labor market impacts of immigration face a number of methodological difficulties. There is still a debate in the international literature about the best methodological approach to the analysis.<sup>60</sup> For example, a key limitation of the DWP study stems from the poor quality of the data used to measure the number of EU-8 workers. As discussed earlier, the number of workers registering in the WRS is significantly smaller than the actual number of East European migrants taking up employment in the UK since EU enlargement. The two main reasons for this are the exemption of self-employed workers from registration requirements and the failure of some workers from the new EU member states to register.

An important issue that has received relatively little attention is the impact of increased immigration on foreign-born persons already in the UK. A recent study by Manacorda et al. concluded that natives and immigrants are imperfect substitutes which is the main reason why existing studies of the impacts of immigration on the wages of native-born workers failed to find any significant effects. As a result, the study finds that the only sizable effect of increased immigration is on the wages of those immigrants who are already in the UK.<sup>61</sup>

Another issue that requires more attention from researchers is the impact of EU-8 immigration on activity rates, and especially on the labor market participation of certain ethnic minority groups with low participation rates (such as women of Pakistani and Bangladeshi origin). The current government is keen on increasing activity rates throughout the economy, and especially among ethnic minorities whose rates lag behind those of other groups. It is important to find out how the current immigration of EU-8 workers is affecting these efforts.

Given the paucity and limitations of existing research, the labor market impacts of recent immigration flows remain contested. On the one hand, it is clear that the UK's growing economy and flexible labor market have done extremely well in absorbing a large number of migrant workers without a huge rise in unemployment or decline in wage levels as predicted before EU enlargement. On the other hand, the continuing inflow of East European migrants and the recent increase in unemployment (from 4.8 percent in 2005 to 5.3 percent in 2006) suggests the possibility that the impact of immigration on the labor market may not always be as insignificant as most of the existing studies suggest.<sup>62</sup>

### **Impacts on Public Finances and Public Services**

The fiscal impacts of labor immigration in the UK remain disputed. The three existing studies by Gott and Johnston, Coleman and Rowthorn, and Sriskandarajah, et al. on this issue were carried out before EU enlargement and came up with different conclusions. In 2002, the first analysis estimates that the overall net contribution of immigrants to GDP was £2.5 billion (\$3.925 billion) between 1999-2000.<sup>63</sup> A separate study in 2004 argued that this estimate failed to account for a number of important additional items of expenditure, including the costs of administering immigration programs. The revised estimate of the overall net fiscal contribution of immigrants in 1999-2000 was in the range of -£0.4 to +£2.6 billion (-\$.628 to +\$4.082 billion).<sup>64</sup> The most recent study of the fiscal impact of immigration concluded that in 2001-02 the average foreign-born person made a net contribution to the fiscal balance of £331 (\$486.57), compared to £222 (\$326.34) for UK-born persons.<sup>65</sup>

Any assessment of the fiscal impacts of immigration is critically dependent on the underlying methodology, especially on whether the fiscal accounting is static or dynamic. The static approach calculates the fiscal contribution of immigrants as the difference between the taxes they pay and the public expenditure they absorb in a given period. In contrast, the dynamic approach considers the entire stream of future taxes and expenditures associated with the immigrants and their descendants.<sup>66</sup> All of the three studies cited above were based on static approaches.

In theory, the fiscal impacts of labor immigration largely depend on migrants' age, wages and eligibility for and use of government benefits and public services. Migrants with lower-than-average incomes tend to pay lower-than-average taxes and may also be eligible for more government-funded services, especially if they have families with them.<sup>67</sup> At the same time, the majority of EU-8 workers are young and without dependents. Furthermore, EU-8 nationals' access to means-tested benefits, i.e. benefits that accrue only if the recipient's income or capital are below a certain level, is more restricted than that of other EU and British nationals.

Just before EU enlargement, the government changed the law regulating access to means-tested benefits, largely in response to concerns about nationals of the new EU member states burdening the UK welfare system. The Social Security (Habitual Residence) Amendment Regulations 2004 introduced a new requirement that a claimant must be able to demonstrate a 'right to reside' in the UK, in addition to passing the Habitual Residency Test.<sup>68</sup> Under the new rules, EU-8 workers can only have a "right to reside" (for benefit purposes) if they are working and registered under the WRS or if they have already completed a 12 month period of continuous and registered employment. During the first 12 month



of registered employment, EU-8 workers are entitled to child benefits and in-work benefits such as tax credits. Those with a low income may also be entitled to housing benefit, council tax benefit, and become eligible for assistance under homelessness legislation. EU-8 workers who are not registered do not have access to any of these benefits. After 12 months of registration, EU-8 workers gain the right to be treated the same way as other EU nationals.

The quarterly Accession Monitoring reports include information about EU-8 workers' applications for national insurance numbers and employment-related and welfare benefits. (The latest figures suggest that 98.4 percent of National Insurance Numbers for EU-8 workers were allocated for employment purposes.) The numbers of EU-8 nationals applying for tax-funded, income related benefits (including Jobseeker's Allowance, Income Support and State Pension Credit) have been low. There have been 5,943 applications since May 2004. Rejection rates have been high (87 percent), mainly on the basis of the Habitual Residency Test and the Right to Reside requirement. Applications for child benefits are higher (44,995 since May 2004) and rejection rates lower (18 percent).<sup>69</sup> The government argues that these figures show that pre-enlargement concerns about "welfare-shopping" – EU-8 workers coming to the UK in order to claim benefits rather than work – are unfounded.

It has also been suggested that the government's decision to grant EU-8 workers free access to the UK labor market since May 2004 has increased tax revenues by encouraging East European workers who had been working illegally in the UK before May 2004 to register and start paying taxes. This may be likely but by no means a certain effect. Research has shown that one cannot assume a straightforward relationship between immigration status and informal working.<sup>70</sup> Some illegally resident migrants do pay national insurance either by using an expired or somebody else's national insurance number. At the same time, legal residents, including British workers, sometimes work in the informal economy without paying taxes.

There have been recent concerns that the larger-than-anticipated number of EU-8 workers coming to the UK are beginning to make greater demands on public services – including housing, health care and schools – than the government suggests. A recent study found that one in seven people using London homelessness services are from East Europe.<sup>71</sup> The Local Government Association recently wrote to the Home Secretary suggesting that local councils do not get enough money to fund the services for EU-8 nationals because the official figures underestimate the actual levels of immigration.<sup>72</sup>

Based on the available evidence, it is clear that many of the economic effects of the recent labor immigration from East Europe remain poorly understood. Although we can say with confidence that immigration has created some benefits

for the overall economy and individual employers, the impacts on wages and unemployment rates are less clear. The recent rise in unemployment necessitates more research into whether and to what extent this increase is related to immigration. Although workers from the new EU member states are clearly making an important contribution to the UK's flexible labor market, relatively little is known about the actual employment conditions of EU-8 workers and the extent to which the increased competition for low-waged jobs is driving down employment conditions at the low-skill end of the labor market. Finally, although the officially available figures do not suggest that EU-8 workers are creating disproportionate costs for the UK's welfare state, too little is known about the impacts of immigration on public services to draw any firm conclusions.

### **Current Debates**

This section briefly reviews the major themes in the current debate about EU-8 workers in the UK.

#### *Numbers and Impacts*

Much of the current debate about EU-8 workers in the UK has focused on their high numbers and uncertain impacts on the UK economy and society. The government has been criticized for the gross inaccuracy of its pre-enlargement predictions; about the likely number of EU-8 migrants coming to the UK after May 2004; and for the apparent failure of the available official data to adequately measure the true number of East European migrants coming to and working in the UK. There is now widespread agreement that better data is needed urgently and the government has promised major efforts to improve the quality and accuracy of official migration figures.

With regard to the economic impacts of recent labor immigration, the government maintains that labor immigration from the new EU member states has generated significant economic benefits by filling vacancies that cannot be met by UK-born workers. There has been a recent rise in unemployment and complaints by local councils about a lack of money necessary for the provision of public services for EU-8 workers. This has opened up a debate about whether the benefits for individual employers and the UK economy as a whole are generated at the expense of local workers and taxpayers. As previously discussed, there is still very little research evidence on the labor market impacts and fiscal effects of the recent labor immigration from Eastern Europe. As a result, the public debate on these issues is frequently based on anecdotes and opinion rather than systematic evidence.

*Temporary or Permanent?*

A key question emerging in current debates is whether East European migrants are likely to be temporary migrants or permanent settlers. Until recently, the assumption was that the vast majority of EU-8 workers would seek temporary stay and employment in the UK. As the inflow of migrants has remained high, this assumption is now being scrutinized more carefully. The latest data from the WRS suggests that almost half of the workers who registered for employment since May 2004 have taken up temporary jobs. The share of temporary employment is particularly high in agriculture (69 percent) and in administration, business and management (82 percent).<sup>73</sup> The implications of this data for EU-8 nationals' length of stay is unclear. Temporary employment implies a temporary stay, especially in seasonal jobs in agriculture. However, migrants may simply take up a succession of temporary jobs in the UK. This is likely to be the case, for example, for migrants working in the category of administration, business and management.<sup>74</sup>

Although the majority of EU-8 migrants appear to be coming to the UK with the intention of a temporary stay, there are some indications from interviews that some workers' intentions and expectations change over time, resulting in a longer stay than initially anticipated.<sup>75</sup> Given that the differences between wages and unemployment rates in the UK and the new EU member states are still significant (unemployment in Poland is still 13 percent), early return migration may not seem as desirable as some EU-8 migrants may have thought at the time of moving to the UK.

The duration of EU-10 workers' employment and stay in the UK also raises important questions for the UK's overall integration policies. It is clear that migrants who settle permanently raise different integration issues than those coming for a short period. East European migrants have so far been almost completely missing from integration debates in the UK. This is perhaps because of the common assumption that their stay is likely to be temporary. Another reason may be the mistaken assumption that because EU-8 migrants are predominately white, they will not have many difficulties integrating in the UK economy and society. Research from other immigration countries suggests that there is significant diversity in different migrant groups' experiences of upward mobility in the host country's labor market. While some migrants do get better jobs over time, others get stuck in low-wage "poverty traps." It is still too early to assess what share of EU-8 migrants in the UK will stay long-term or permanently, and how well they will integrate in the UK, but it is clear that these questions need to be explored and discussed in a systematic fashion.

*Immigration and the Flexible Labor Market*

The larger-than-anticipated inflow of EU-8 workers since EU enlargement, and their employment in predominantly low-wage occupations, has highlighted the central role of the UK's flexible labor market in shaping both the numbers and impacts of migrant workers. Since the government can no longer control the admission of EU-8 nationals to the UK, the scale and skill composition of the recent East European immigration has been essentially employer-led. Employers' demand for labor depends in part on labor costs, which depend on wages and employment conditions. Clearly, the lower the wages and employment conditions that employers can offer and migrants are willing to accept, the greater employer demand for migrant labor will be. This point is well-illustrated by the experience of Sweden, which has seen very limited inflows of East European migrants despite joining the UK and Ireland in allowing EU-8 workers unrestricted access to the labor market since May 2004. One of the reasons for this is the high level of regulation within Sweden's labor market which makes it almost impossible for employers to hire migrants at conditions that are different from those collectively agreed - and effectively enforced - for all workers.

In Ireland, the large inflow of EU-8 workers has led to widespread agreement on the need for effective enforcement of existing employment laws and regulations. The argument made in Ireland is that – in addition to helping protect the rights of all workers – improved enforcement of minimum standards would also reduce employer demand for migrant labor. Under the latest Social Partnership Agreement 2006, the number of labor inspectors will be tripled in Ireland.<sup>76</sup>

In the UK, the enforcement of minimum labor standards has not yet featured as a major theme in the current debate on immigration. Perhaps this is because the flexible labor market has been at the core of government policy and is often credited with being one of the cornerstones of the recent success of the British economy. There are, however, signs that enforcing minimum standards in a high-immigration environment is beginning to be more widely recognized as important. For example, in its most recent annual report, the Low Pay Commission recommended that the government take action to prioritize targeted enforcement of the minimum wage in those sectors that employ significant numbers of migrant workers.<sup>77</sup> This recommendation stems from growing concerns about some employers taking advantage of the greatly increased supply of workers by offering migrants wages and employment conditions that do not meet minimum standards.<sup>78</sup> In a recent opinion piece on illegal immigration in the UK, the head of the Home Affairs Select Committee, John Denham, argued that “a drive to enforce all employment and tax laws across the tough bottom end of the labor market will benefit millions of low-paid workers. It will also cut the financial premium from illegal labor and reduce the pull on new migration.”<sup>79</sup>

*Reforming Migration Policies toward Non-EEA Nationals*

Another key issue in the UK's current immigration debate concerns the government's plans to reform its overall policy framework for managing the immigration of non-EEA nationals. As discussed earlier in this paper, the points-based system proposed by the government in early 2006 would not admit any non-EEA nationals for the purpose of filling low-skilled vacancies in the UK. This is because the government expects employers to fill, at least in the short-to-medium term, all of their low-skilled vacancies with workers from the new member states. This position was reiterated when the government announced its decisions about continuing restrictions on the labor market access of Romanian and Bulgarian workers.<sup>80</sup>

Some employers in agriculture and the food processing sector have raised concerns that this policy change may make it more difficult for them to recruit and retain workers. Although the new EU nationals are taking up employment in these sectors, some employers have suggested that they find it difficult to retain East European workers. This is mainly because – as EU nationals – migrants are now free to choose their employment in the UK and may prefer to take up jobs in the hospitality sector rather than do hard work on farms. However, given the current debates about high numbers and uncertain impacts of EU-8 workers, it is questionable whether such concerns about retention difficulties after EU enlargement will encourage the government to create new guest worker programs for employing non-EU nationals in low-skilled jobs any time soon.

Some critics of the government's immigration policies argue that labor immigration from outside the EU should be even further restricted. For example, the think tank and pressure group Migration Watch, has recently suggested that only highly-skilled workers (defined as those earning more than £27,000 (\$54,831.50) per year) from outside the EEA should be allowed to settle permanently in the UK, and low-skilled non-EEA workers only admitted on a strictly temporary basis.<sup>81</sup> Others called for quotas on non-EU migrants. The government has no plans for quotas, although the Home Secretary has recently proposed the establishment of an independent committee to “advise on the optimum level of immigration.”<sup>82</sup>

### **Conclusion**

The decision to grant nationals of the eight new EU member states in Central and Eastern Europe free access to the UK labor market in May 2004 was an integral part of the government's managed migration policies. The rationale was to provide employers with the migrant workers needed to help fill more than 600,000 vacancies throughout the economy, especially in low-skilled occupations where the opportunities for legally employing migrants had been limited before

EU enlargement. To allay the fears of some parties and part of the public about an imminent flood of East European migrants coming to claim benefits rather than work, the government restricted EU-8 workers' access to means-tested benefits. It also introduced the WRS, which requires most EU-8 migrants to register within a month of taking up employment in the UK. This requirement was meant to help monitor the number of East European workers coming to undertake employment in the UK following EU enlargement.

In the period after EU enlargement, more than 600,000 EU-8 workers came to work in the UK, significantly more than the government had predicted before May 2004. This increase in labor immigration contributed to economic growth and benefited individual employers in the UK. However, it has also raised new questions about the distributional impacts and potential social costs of large-scale immigration. Although there is currently no systematic evidence to link the recent rise in unemployment to the increase in immigration, there is growing concern among the public that labor immigration from East Europe may reduce the employment and wage prospects of some British workers as well as increase the tax burden for UK residents. As a result of the debates about these issues, the government recently announced that Romanian and Bulgarian workers will not be given immediate free access to the UK labor market when their countries join the EU in 2007. Given that Romanians and Bulgarians will be free to travel to the UK and legally work outside the work permit system as self-employed persons or as students, it remains unclear how effective these restrictions will be.

A key issue coming to the fore only very slowly in recent debates about labor immigration in the UK has been the importance of enforcing minimum employment standards. A benign assessment of the role of the UK's flexible labor market would suggest that it has been of critical importance in helping the economy absorb a large number of migrant workers without causing significant unemployment among local workers. A more realistic evaluation would add that in a flexible labor market with weak mechanisms for enforcing minimum standards, employers can easily develop an insatiable demand for migrant workers, especially at the low-skill end of the labor market. Without a stronger commitment to the enforcement of labor laws, the immigration and employment of Central and East European workers in the UK is in danger of becoming an example of the kind of "unmanaged" migration that the government is so keen to avoid.

## **Notes**

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<sup>1</sup> Home Office (August 2006a).

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- <sup>2</sup> Home Office (August 2006b), page 1. The ten states joining the EU in May 2004 include the “EU-8” countries – Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, plus Cyprus and Malta.
- <sup>3</sup> “Second Thoughts,” *The Economist*, August 26, 2006, page 25.
- <sup>4</sup> See for example, *The Independent*, August 23, 2006, front page.
- <sup>5</sup> For linguistic convenience, the paper uses the term “East European migrants” to refer to migrants from the new EU members states in Central and Eastern Europe.
- <sup>6</sup> Home Office Minister Tony McNulty cited in “Latest Immigration and Asylum Figures Published,” Home Office Press Release, August 22, 2006.
- <sup>7</sup> For more comprehensive overviews than given here see, for example, Economic and Social Research Council (ESRC) (2006), Salt (2005) and IPPR (2005).
- <sup>8</sup> Home Office (August 2005). The figures for 2004 reported in this paragraph and in Figure 3 include immigration of EU-10 nationals during May-December 2004.
- <sup>9</sup> ESRC (2006), page 2.
- <sup>10</sup> Salt (2005).
- <sup>11</sup> Labor Force Survey December 2003-February 2004.
- <sup>12</sup> See Home Office (March 2006), page 7. The European Economic Area includes the EU plus Norway, Iceland and Liechtenstein.
- <sup>13</sup> Home Office (2002), foreword, cited in Spencer (2003), page 3.
- <sup>14</sup> Home Office (2006a) and Clarke and Salt (2003).
- <sup>15</sup> For an overview of the UK’s main work permit system, see Clarke and Salt (2003).
- <sup>16</sup> Note that the figures for students in Table 1 include a significant number of English language students many of whom stay in the UK for a few weeks or months only.
- <sup>17</sup> Ruhs and Anderson (2006), page 25.
- <sup>18</sup> See Anderson et al. (2006), page 1.
- <sup>19</sup> See Woodbridge (2005), page 12.
- <sup>20</sup> Woodbridge (2005) discusses issues to do with estimating the number of “unauthorized” migrants in the UK. For an overview of “irregular” migration in the UK, see IPPR (2006).
- <sup>21</sup> See Home Office (June 2005a), page 3.
- <sup>22</sup> See HM Treasury and DWP (1997 and 2003), pages 18-19.
- <sup>23</sup> For a comprehensive discussion and assessment of the flexibility of the UK’s labor market, see HM Treasury (2003).
- <sup>24</sup> See, for example, OECD (2002).
- <sup>25</sup> “1999: Britain Gets First Minimum Wage,” BBC. Available at <[http://news.bbc.co.uk/onthisday/hi/dates/stories/april/1/newsid\\_2465000/2465397.stm](http://news.bbc.co.uk/onthisday/hi/dates/stories/april/1/newsid_2465000/2465397.stm)>.
- <sup>26</sup> For its latest annual report, see Low Pay Commission (2006).
- <sup>27</sup> The groups exempted from the registration requirement include: self-employed people; those working legally in the UK for 12 months or more in the job they held on May 1, 2004; those working legally and remaining in the same job after

May 1, 2004; those working and intending to work for less than one month with a particular employer; and au-pairs.

<sup>28</sup> The reports are available at

<[http://www.ind.homeoffice.gov.uk/ind/en/home/0/reports/accession\\_monitoring.html](http://www.ind.homeoffice.gov.uk/ind/en/home/0/reports/accession_monitoring.html)>.

<sup>29</sup> Home Office (August 2006b), page 1. Up to 30 percent of EU-8 workers who registered between May 2004 and September 2005 were from applicants who had already been in the UK before May 1, 2004. See Gilpin et al. (2006).

<sup>30</sup> See Anderson et al. (2006), pages 106-107.

<sup>31</sup> Dustmann et al. (2003), page 8.

<sup>32</sup> See the discussion in Tamas and Münz (2006).

<sup>33</sup> Home Office (August 2006b), pages 2, 8 and 11.

<sup>34</sup> Home Office 2006b.

<sup>35</sup> See ONS (2003).

<sup>36</sup> Home Office (August 2006a), page 90.

<sup>37</sup> See Home Office (June 2005a), page 3.

<sup>38</sup> See Home Office (June 2005b).

<sup>39</sup> See Home Office (July 2005) and Home Office (March 2006).

<sup>40</sup> See the Home Secretary's statement to parliament on October 24, 2006, <[http://news.bbc.co.uk/1/hi/uk\\_politics/6081042.stm](http://news.bbc.co.uk/1/hi/uk_politics/6081042.stm)>.

<sup>41</sup> Ibid.

<sup>42</sup> Most international studies find that immigration generates only fairly modest economic benefits for the economy of the host country. See, for example, Smith and Edmonston (1997) for the US; and Productivity Commission (2006) for Australia.

<sup>43</sup> King (2005).

<sup>44</sup> Ernst & Young ITEM Club (2006).

<sup>45</sup> Recent research by Lewis (2005, 2004) shows that the growth in less-skilled labor supply has slowed the adoption of automation technology in selected plants in US manufacturing. For another example, see Martin and Olmstead's (1985) discussion of the mechanization controversy in US agriculture.

<sup>46</sup> Learning and Skills Council (2006, 2005), pages 3, 19 and 28.

<sup>47</sup> For example, in the hotels and restaurants sector the number of vacancies has fallen from 59,000 in May 2004 to 47,000 in June 2006, which is a more significant decline than that observed in the aggregate figures for the overall economy during that period (ONS).

<sup>48</sup> Home Office (August 2006b), page 17.

<sup>49</sup> On October 1, 2006, the minimum wage increased to £5.35 for workers aged 22 or over, and £4.45 per hour for workers aged 18-21. See Low Pay Commission <[www.lowpay.gov.uk](http://www.lowpay.gov.uk)>.

<sup>50</sup> Anderson et al. (2006), page 101. Sachdev and Harries (2006) discuss the learning and skills issues arising from the employment of many highly qualified migrants in low skilled jobs in the UK.



- <sup>51</sup> Anderson et al. (2006).
- <sup>52</sup> Anderson et al. (2006), page 70.
- <sup>53</sup> Lindsay (2006), page 247.
- <sup>54</sup> In August 2007, the claimant count fell slightly to 950,000 in August 2007. See ONS (Sep 2006), page 3.
- <sup>55</sup> Goodridge (Sep 2006), page 4.
- <sup>56</sup> See Gilpin et al. (2006).
- <sup>57</sup> Gilpin et al. (2006), page 1.
- <sup>58</sup> See Dustmann et al. (2005b).
- <sup>59</sup> There are several ways in which the receiving country's economy may adjust to immigration, including: for example, through a change in capital accumulation (investment); a change in production technology; a change in the output mix (i.e. in the mix of products produced or services provided); etc.
- <sup>60</sup> For a discussion of these difficulties and alternative approaches to the analysis, see, for example, Borjas (2003), Card (2005) and Dustmann et al. (2005).
- <sup>61</sup> Manacorda et al. (2006), page 3.
- <sup>62</sup> Eurostat.
- <sup>63</sup> Gott and Johnston (2002), page 11.
- <sup>64</sup> Coleman and Rowthorn (2004), page 608.
- <sup>65</sup> Sriskandarajah et al. (2005), page 11.
- <sup>66</sup> See the discussion in Coleman and Rowthorn (2004), page 600.
- <sup>67</sup> Martin (2006), page 83.
- <sup>68</sup> See "The Social Security (Habitual Residence) Amendment Regulations 2004," available at <<http://www.opsi.gov.uk/si/si2004/20041232.htm>>. The term "habitually resident" is not defined in legislation. The most important factors for habitual residence are generally the length, continuity and general nature of actual residence rather than intention.
- <sup>69</sup> Home Office (August 2006b), page 29.
- <sup>70</sup> Anderson et al. (2006).
- <sup>71</sup> Homeless Link (2006).
- <sup>72</sup> See "Council Tax 'Rises for Migrants,'" August 8, 2006 <[http://news.bbc.co.uk/1/hi/uk\\_politics/5255038.stm](http://news.bbc.co.uk/1/hi/uk_politics/5255038.stm)>.
- <sup>73</sup> Home Office (August 2006b), page 17.
- <sup>74</sup> An employment business is a type of employment agency that employs workers directly but sends them out to work for other businesses on a temporary basis.
- <sup>75</sup> Spencer et al. (2007).
- <sup>76</sup> See Department of the Taoiseach (2006), page 75.
- <sup>77</sup> Low Pay Commission (2006), pages 125-126.
- <sup>78</sup> See, for example, Trades Union Congress (2005).
- <sup>79</sup> Denham (2006).
- <sup>80</sup> See the Home Secretary's statement to parliament on October 24, 2006, <[http://news.bbc.co.uk/1/hi/uk\\_politics/6081042.stm](http://news.bbc.co.uk/1/hi/uk_politics/6081042.stm)>.
- <sup>81</sup> Migration Watch (2006).

<sup>82</sup> “Reid calls for migration debate,” see  
<[http://news.bbc.co.uk/1/hi/uk\\_politics/5250396.stm](http://news.bbc.co.uk/1/hi/uk_politics/5250396.stm)>.

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## **Chapter 2**

### **The Effects of Central European Labor Migration on Ireland**

Nicola Doyle\*

#### **Introduction**

In April 2003, the Accession Treaty was signed by the fifteen existing member states of the European Union (EU-15) and the ten new accession states (EU-10). Under the treaty, it was agreed that the new members would join the EU on May 1, 2004. Never in EU history had so many countries or people entered the union at the same time (see Table 1). The relative increase in the EU population post-enlargement was smaller than that experienced when Denmark, Ireland and the United Kingdom (UK) joined in 1973 and represented an increase in the population of the EU of 2.8 percentage points more than the 1986 enlargement involving Spain and Portugal. Nevertheless, the magnitude of the increase in the EU population, coupled with higher unemployment and lower incomes in the EU-10, fuelled fears in the EU-15 of a large influx of migrants from the new member states.

The 2000 Nice Treaty provided transitional arrangements whereby countries could restrict access to their labor markets for a period of up to seven years. Fears of mass migration sparked enlargement debates across Europe. As a result, only three countries – Ireland, Sweden and the UK – opened their labor markets to EU-

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10 workers, and only Sweden provided full access for incoming workers to its social welfare system. This paper examines the impact of enlargement on Ireland's economy. The following section provides an overview of the pre-enlargement debate in Ireland. The third section tracks changes in migration flows from the EU-10 to Ireland in the pre- and post-enlargement periods. Particular attention is paid to the labor market position of migrants in the period up to 2006. A distinction is drawn between the flows and stocks of EU-10 migrants in Ireland, and the composition by nationality is analyzed. The fourth section examines the Irish post-enlargement experience in relation to two key issues that emerged in the enlargement debate: displacement and earnings. The final section concludes. This paper builds on the work of Doyle, Hughes and Wadensjö (2006).

Table 1: Population of Accession Countries Relative to EU Population

<u>Year</u>	<u>Accessing Countries</u>	<u>Population</u>	
		<u>Absolute</u> <u>(1000s)</u>	<u>Relative (%)</u> <u>of EU</u> <u>population)</u>
1973	EU 9 Denmark, Ireland and the UK	64,227.8	30.8
1981	EU 10 Greece	9,700.8	3.5
1986	EU 12 Spain and Portugal	48,498.9	16.7
1995	EU 15 Austria, Finland and Sweden	29,339.3	8.4
2004	EU 25 Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia, Slovenia and Poland	74,100.0	19.5

Source: Kvist (2004)

### **The Irish Enlargement Debate**

The enlargement debate in Ireland began at the time of the 2000 Nice Treaty, the primary purpose of which was to reform the institutional structure of the EU to withstand eastern enlargement. Ireland was the only EU member state that had to ratify the treaty in a referendum. A vote was held in June 2001, and the treaty was rejected by the electorate. This was an embarrassing defeat for the Irish government. In the lead-up to the referendum, the major political parties failed to mount a strong “pro-Nice” campaign, apparently assuming that the treaty would receive the automatic endorsement of the general public. One of the explanations for the rejection of the treaty was that those who supported it did not vote (turnout for the referendum was only 35 percent). The government came under pressure to hold a second referendum.<sup>1</sup> In the aftermath of the 2001 vote, campaigners on both sides of the debate proclaimed that the referendum had nothing to do with eastern enlargement.<sup>2</sup> Results of a survey of public opinion conducted for the European Commission Representation in Ireland showed that attitudes towards



enlargement did not mobilize the electorate to vote.<sup>3</sup> Those campaigning against the referendum had focused on the issues of Ireland's international neutrality, the elimination of veto power from certain EU policy areas, and domestic party politics.<sup>4</sup>

However, if eastern enlargement was not a major feature of the first referendum, it was to take center stage in the second.<sup>5</sup> In the inter-referendum period, the pro-Nice campaigners made enlargement the key issue for the second referendum. The governing parties (Fianna Fail and the Progressive Democrats), opposition pro-Nice parties (Fine Gael and Labor), major trade unions and business organizations ran a vigorous pro-Nice campaign to convince voters that the treaty was about the future of Europe in general (and enlargement in particular), as opposed to neutrality and domestic party politics. The government moved to assuage fears that the treaty effectively turned the EU into a military alliance. The pro-Nice opposition parties sought to remove the issue of domestic party politics from the debate.<sup>6</sup> The campaign – which cost €1.68 million (\$1.51 million) – focused on eastern enlargement and the economic benefits it would bring for Ireland.<sup>7</sup> In addition, enlargement was presented as a moral obligation to demonstrate solidarity with the Central and Eastern European citizens who had been denied access to West European institutions in the post-war period and had worked to meet the Copenhagen criteria.<sup>8</sup> The initial rejection of the treaty had shocked the candidate states, who saw it as a rejection of enlargement, and they sent a clear message through visiting government ministers that Ireland had benefited greatly from Europe and that they should have the opportunity to do the same. The Irish government reassured the candidate and member states that it would honor the principle of freedom of movement within the EU following enlargement. This statement was criticized by the anti-Nice campaign groups.<sup>9</sup> One of these groups – the National Platform – said:

This irresponsible commitment by the government significantly changes the argument about EU enlargement. It means that the government has agreed to bear the costs of potentially heavy East European migration to Ireland ... without any debate in the Dáil [Parliament], consultation with the public, or consultation with the UK government, which could be significantly affected by this Irish government commitment.<sup>10</sup>

Some anti-Nice campaigners claimed that eastern enlargement would damage the Irish labor market by bringing large influxes of Eastern European workers who would undercut wages. In addition, they argued that large multinational corporations would be lured away from Ireland by the prospect of cheaper labor markets in the east. These claims were rejected by employers, trade unions and the government. The Services, Industrial, Professional and Technical Union (SIPTU) – the largest trade union in the country – stated that unnecessary fears were being raised about floods of immigrants from the candidate EU member

states entering the Irish labor market. A spokesman for the Irish Business and Employers Confederation (IBEC) – the main employers’ organization – chimed in, saying that concerns about large numbers of Eastern European laborers were unfounded. The General Secretary of the Irish Congress of Trade Unions (ICTU) and every major business organization subsequently endorsed these statements.

In the second referendum in October 2002, the Irish electorate ratified the Nice Treaty by a vote of 63 percent. Survey results from opinion polls conducted for the European Commission Representation showed that the most important factor driving the pro-treaty vote was support for enlargement, which had increased from 42 percent after the first referendum to 65 percent after the second.<sup>11</sup> After ratification of the treaty, none of the major actors that had participated in the debate over enlargement expressed concerns about any adverse effects of immigration from Central and Eastern Europe on pay and working conditions in Ireland. However, the General Secretary of the ICTU said in a press release on Nov. 3, 2005 that the ICTU had not been consulted on the decision to open the labor market to the EU-10, and that the government had acted at the behest of the business community.<sup>12</sup>

The decision of other member states to close their labor markets to EU-10 nationals in the lead-up to enlargement did not affect the policy stance of the Irish government.<sup>13</sup> At the time of enlargement, the Irish labor market was very strong. In 2003, Ireland enjoyed the highest employment growth (2.0 percent versus an average of 0.5 percent for the EU) and lowest unemployment rate (4.7 percent versus an average of 9.0 percent for the EU) of any country in the EU.<sup>14</sup> In the year prior to enlargement, 48,000 work permits were issued to non-European Economic Area (EEA) nationals. Almost fifty percent of these went to citizens from the new member states.<sup>15</sup> The Irish Department of Enterprise Trade and Employment (DETE) felt that, following enlargement, the accession states would provide the bulk of the employment needs for maintaining economic growth. Echoing this view, Prime Minister Bertie Ahearn stated that “70 to 80 percent” of the work permit jobs could be filled by citizens from the new EU member states.<sup>16</sup>

The enlargement debate in the lead-up to accession was primarily focused on protecting the country’s social welfare system from potential abuse. In light of measures taken by the British government in February 2004 and the ongoing debate in Sweden, Ireland appeared to be the only country poised to offer equal welfare rights to accession state nationals as domestic workers have.<sup>17</sup> An inter-departmental committee, which had been set up by the Department of the Taoiseach in autumn 2003 to assess the implications of enlargement for Ireland, was asked to reassess whether restrictions were necessary in light of the British decision. During the few months before enlargement, the government was urged by public lobby groups – such as the Immigration Control Platform (ICP) and the National Platform – to protect Ireland’s social welfare system. On Feb. 24, 2004

the Prime Minister acquiesced.<sup>18</sup> An immediate concern for the government was to protect the Common Travel Area (CTA) between Ireland and Britain by having similar arrangements for the receipt of social benefits. By the end of February, the Irish government introduced the Habitual Residence Condition (HRC), which meant foreign nationals would have to live in the CTA (comprised of Ireland, the UK, the Channel Islands and the Isle of Man) for at least two years (or meet certain other requirements) before being entitled to social assistance or child benefits.<sup>19</sup>

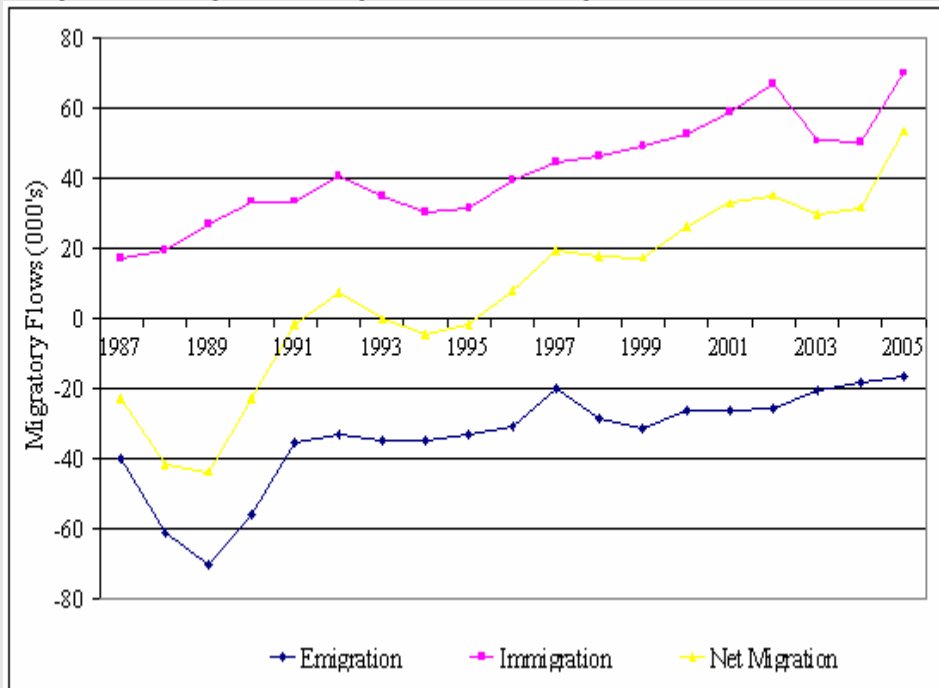
By the time enlargement rolled around (May 1, 2004), Sweden, Ireland and the UK were the only member states that had fully opened their labor markets to EU-10 nationals, and Sweden was the only one to grant EU-10 citizens unrestricted access to its social welfare system.

### **The Development of Immigration to Ireland from the New EU Member States**

As economic theory would suggest, the Irish experience with migratory flows from the 1980s to date has been sensitive to economic conditions in both Ireland and the countries of destination/origin. The global downturn of the late 1980s – coupled with suboptimal domestic economic policies – resulted in the Irish economy languishing in recession until the early part of the 1990s. In 1986, the unemployment rate exceeded 17 percent. The diverging labor market prospects in Ireland and other countries, particularly the UK, led to a sharp increase in emigration (Figure 1). The net outflows were very high at the end of the decade – almost 45,000 in 1988-89 (or 13 per thousand of the population). In the early 1990s, the economy began to stabilize. Unemployment decreased and net migration hovered close to zero. However, beginning in 1993, a global recession brought an increase in immigration as former Irish emigrants returned home. The resulting pressure on the labor market caused unemployment to rise to nearly 16 percent.

However, from 1995 to 2000, the Irish economy experienced a reversal. During this period, real annual GNP growth averaged almost 9 percent and an estimated 389,000 jobs were created. By 2000, the unemployment rate had fallen to 4.3 percent, and Ireland began to experience positive net migration, as labor shortages gave rise to rapid increases in the number of foreign workers entering the Irish labor market.

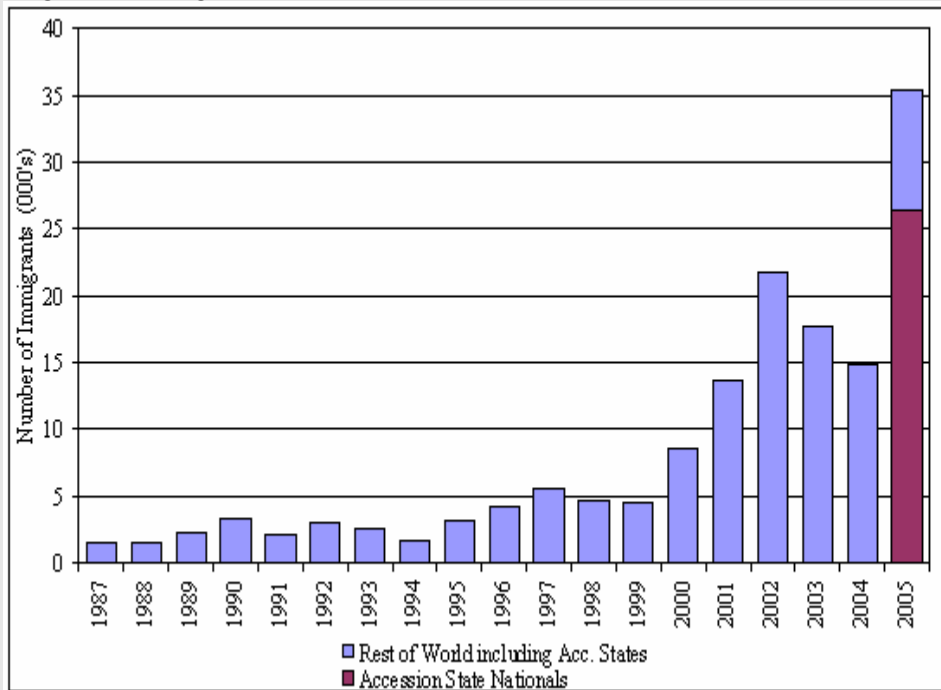
Figure 1: Immigration, Emigration and Net Migration in Ireland, 1987-2005



Source: CSO Population and Migration Estimates, various editions.

The boom period for the Irish economy peaked at the turn of the century. In the five years that followed, GNP growth remained strong (averaging 4 percent for the period 2000-05) and employment levels continued to rise, albeit at a slower pace. The low unemployment levels meant that the pool of labor from which employers could draw had also fallen. Therefore, despite the decline in employment growth, Ireland remained an attractive location for many immigrants, particularly those from outside the EU-15. Net migration continued to increase, reaching 30,000 in 2003 and a record high of 53,400 in 2005. Unfortunately, the Central Statistics Office (CSO) migration estimates prior to 2005 do not distinguish accession state migrants from the Rest of World (ROW) category.<sup>20</sup> The CSO data shows a strong upward trend in the number of migrants from ROW countries from 2000 onwards (Figure 2). The number of ROW immigrants more than doubled in the year after enlargement from 14,900 in April 2004 to 35,400 in April 2005. Immigrants from the EU-10 accounted for almost three quarters of the ROW immigrants in 2005.

Figure 2: Immigration Flows from the Rest of the World to Ireland, 1987-2005



Source: CSO Population and Migration Estimates, various editions.

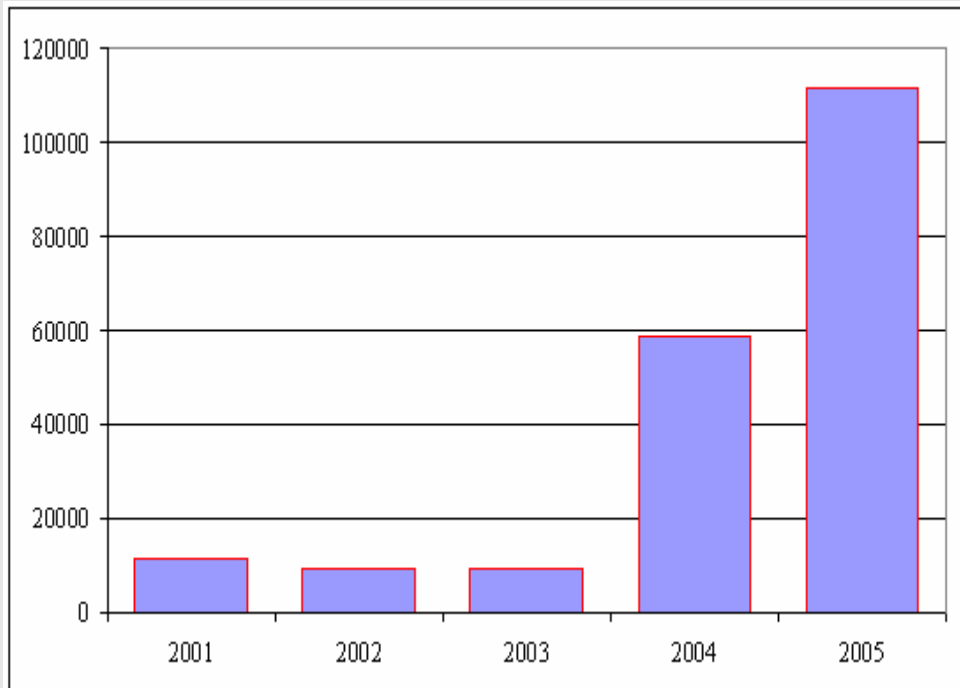
### **Flows of EU-10 Nationals into Ireland**

Data on the number of Personal Public Service Numbers (PPSNs) issued to EU-10 nationals provide a good indication of the short-term trends in migration to Ireland from the EU-10 countries. PPSNs are individual identifiers required to gain employment in Ireland or to access state benefits and public services. An individual must be living in Ireland in order to apply for a PPSN. It is important to note that PPSNs record the monthly gross inflows of migrants from the accession states who are predominantly looking for employment and not the increase in the total stock of migrants. The amount of PPSNs issued is likely to overstate the stock of accession state nationals, as they will also include those EU-10 migrants who work in Ireland for a short period of time and then return home.

Figure 3 shows that the level of PPSNs issued to accession state nationals increased dramatically over the past five years and underwent a noticeable increase following EU enlargement. From 2001 to 2003, between 9,000 and 11,000 PPSNs were issued annually. In 2004, the figure increased fivefold to 59,000, all but 5,000 of which were issued in the months following enlargement (May to December 2004). In 2005, the figure doubled to an unprecedented

112,000, an 830 percent increase over 2003. Altogether in the post-enlargement period (May 2004 to April 2006), over 207,000 PPSNs were issued to citizens of the enlarged EU. This compares with a figure of approximately 35,000 between January 1, 2001 and April 30, 2004. Despite this massive increase, less than 1,000 of the accession state nationals were signing the unemployment register in March 2006.<sup>21</sup> Therefore little evidence exists to support the claim that citizens from the EU-10 are coming to Ireland for “welfare tourism” – that is, migrating for the express purpose of drawing on the country’s comparatively generous welfare benefits. Rather, as the data shows, the newcomers are coming to work.

Figure 3: Personal Public Service Numbers Issued to EU-10 Nationals, 2001 to 2005

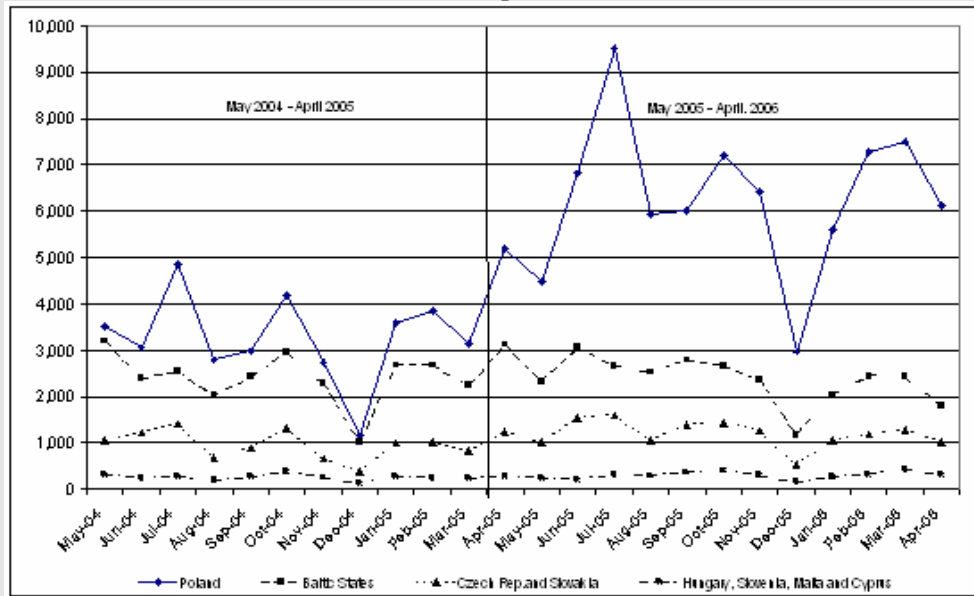


Source: Department of Social and Family Affairs.

The number of PPSNs issued monthly since May 2004 to nationals from Poland; the Baltic States; the Czech Republic and Slovakia; and Hungary, Slovenia, Cyprus and Malta are shown in Figure 4. Although there are significant fluctuations in the monthly figures due to seasonal effects, a positive trend is evident. An upward swing is discernable in the Polish and, to a lesser extent, Czech and Slovakian figures. Dividing the data into two time periods provides a clearer picture. In the period from May 2004 to April 2005 the monthly average of PPSNs issued was 7,093. In the period from May 2005 to April 2006 the equivalent figure was 10,161.

Over 56 percent of the PPSNs issued to EU-10 nationals in the post-enlargement period were allocated to Polish citizens (Figure 5). The data shows a steady increase: from 3,800 in 2003 to about 65,000 in 2005. This is not surprising, given that Poland – with a population of almost 40 million – is the largest of the new member states. Prior to accession, Lithuanian and Latvian nationals represented a significant proportion of the PPSNs issued to EU-10 citizens. In the period since, their numbers have increased almost nine-fold. In 2003, 2,400 Lithuanians and 1,200 Latvians were allocated PPSNs. By 2005, the numbers had grown to 18,700 and 9,400 respectively.

Figure 4: Personal Public Service Numbers Issued to Nationals of the EU-10 States, May 2004 to April 2006

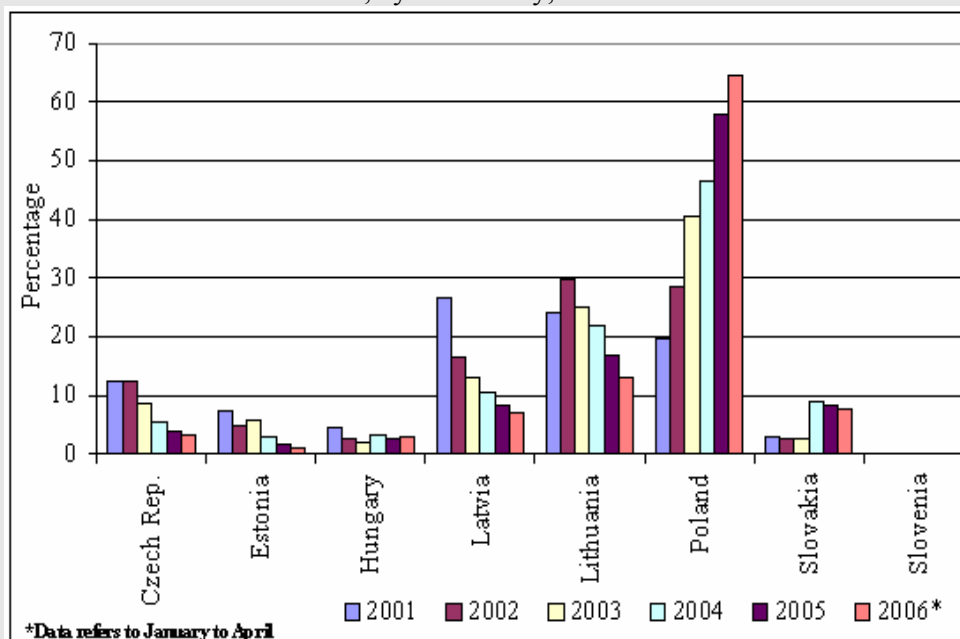


Source: Department of Social and Family Affairs.

Although Polish nationals accounted for the majority of PPSNs issued to EU-10 nationals in the post-enlargement period, Table 2 shows that the Lithuanians and Latvians have the greatest propensity to migrate to Ireland. This is not surprising considering that these countries are experiencing poor economic conditions with low per capita GDP (\$15,400 and \$15,100 in 2006, respectively).<sup>22</sup>

The fact that 207,000 PPSNs have been issued to EU-10 citizens in the post-enlargement period (May 2004 to April 2006) does not mean that all these migrants found a job or remained in Ireland. Cross-referencing with income tax

Figure 5: Percentage of Personal Public Service Numbers Issued to EU-10 Nationals, by Nationality, 2001 to 2006\*



Source: Department of Social and Family Affairs.

Table 2: PPSNs issued May 2004 to April 2006 as a proportion of country of origin population.

Country of Origin	<u>PPSN issued to nationals as percentage of home country population in 2004</u>	<u>GDP per head in country of origin (Euros per inhabitant at 1995 exchange rates and prices)</u>	<u>Unemployment rate in country of origin 2004</u>
Lithuania	1.034	2,500	11.4
Latvia	0.717	3,100	10.4
Slovakia	0.317	4,200	18.2
Poland	0.306	4,200	19
Estonia	0.3	4,000	9.7
Czech Republic	0.087	5,200	8.3
Hungary	0.059	5,000	6.1
Slovenia	0.008	11,400	6.3

Source: Department of Social and Family Affairs, Eurostat.



records indicates that approximately 70 percent of those with PPSNs subsequently took up employment.

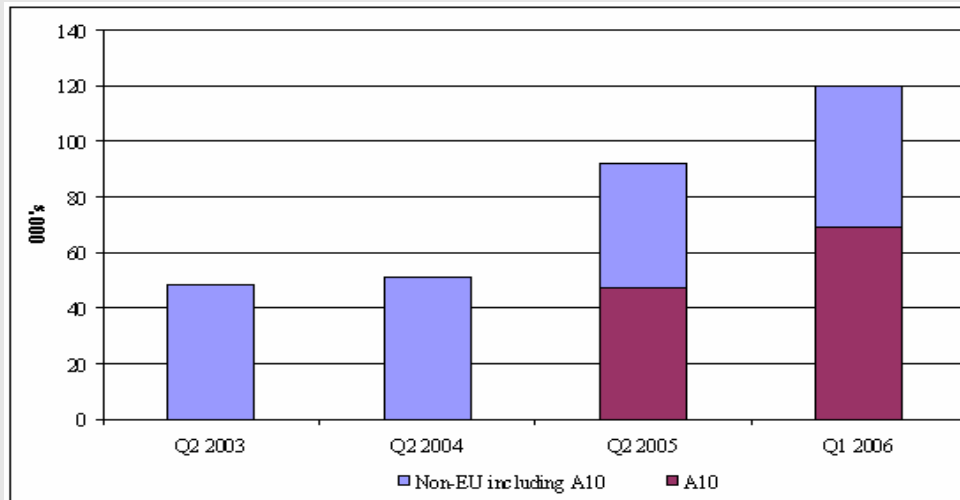
### **Stock of Accession State Workers in Ireland**

Data from the CSO's Quarterly National Household Survey (QNHS) provides detailed information on the stock of EU-10 workers in Ireland. Unfortunately, the QNHS does not provide information on the stock of accession state nationals employed in Ireland prior to the third quarter (Q3) of 2004.<sup>23</sup> As a result, there is no information available on the number of EU-10 nationals in Ireland before enlargement. It is also important to note that the labor force estimates by nationality provided by the CSO are tentative. The large migratory flows into Ireland in recent years have presented a significant measurement challenge for a general purpose household survey such as the QNHS.

To get an idea of the stock of EU-10 nationals employed in Ireland prior to accession, it is necessary to examine the Rest of World (ROW) category in which they were aggregated (Figure 6). The stock of the ROW category increased consistently in the post-enlargement period. In Q2 2004, prior to enlargement, the stock of workers from ROW countries was 51,000. As of the first quarter (Q1) of 2006, this figure more than doubled to 120,000. Of the ROW workers employed in Ireland in the first quarter of 2006, almost 70,000 were from the new member states. This compares with a figure of 42,000 for the previous year. The latest QNHS publication for the first quarter of 2006 estimates the stock of accession state nationals (aged 15 and over) in Ireland at 82,000.

Accession state nationals have a much higher rate of labor force participation than Irish nationals: 90 percent compared to 62 percent. The data indicates that the number of EU-10 nationals employed in Ireland has increased fourfold in the post-enlargement period from 19,500 in Q3 2004 to 69,000 in Q1 2006 (Figure 7). This means that EU-10 nationals accounted for almost half of the employment increase in Ireland in the post-enlargement period. The average quarterly employment growth rate of EU-10 nationals is 26 percent for the post-enlargement period. This compares with 0.35 percent for Irish nationals and 3 percent for EU-15 nationals. However, it should be noted that the unemployment rate for Irish nationals has been extremely low and stable throughout the post-accession period at approximately 4.3 percent. The unemployment rate for accession state nationals has been slightly higher at around 5.3 percent. Although the number of economically inactive EU-10 nationals has been increasing over the post-enlargement period, this category represents a decreasing proportion of the total number of EU-10 nationals aged 15 and over.<sup>24</sup>

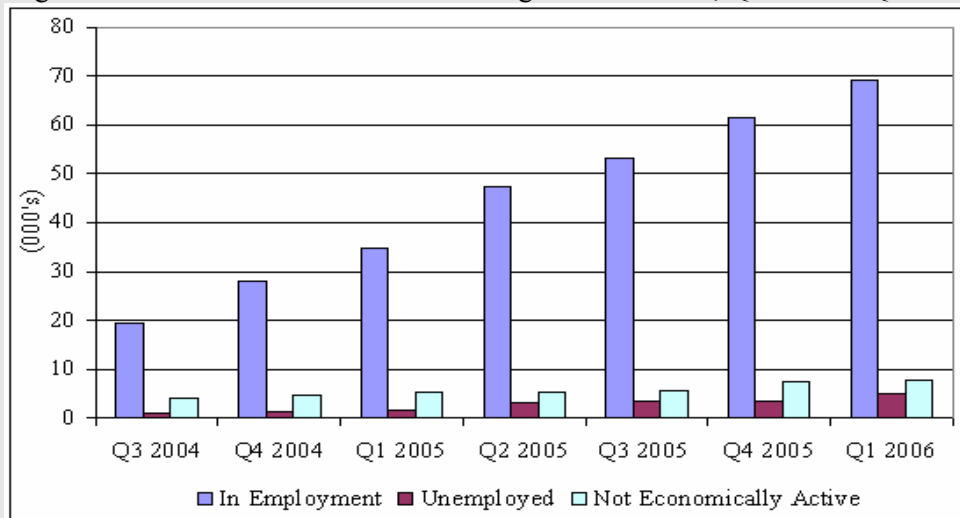
Figure 6: Number of ROW Nationals Employed Pre- and Post- Accession



Source: CSO Special Tabulation of Quarterly National Household Survey. (A10 refers to the accession 10.)

Figure 8 shows the employment of EU-10 workers in Ireland by broad economic sector in Q3 2004 and Q1 2006. These figures show that the majority gained employment in the construction and manufacturing (“other production industries”) sectors. However, the construction and manufacturing industries are

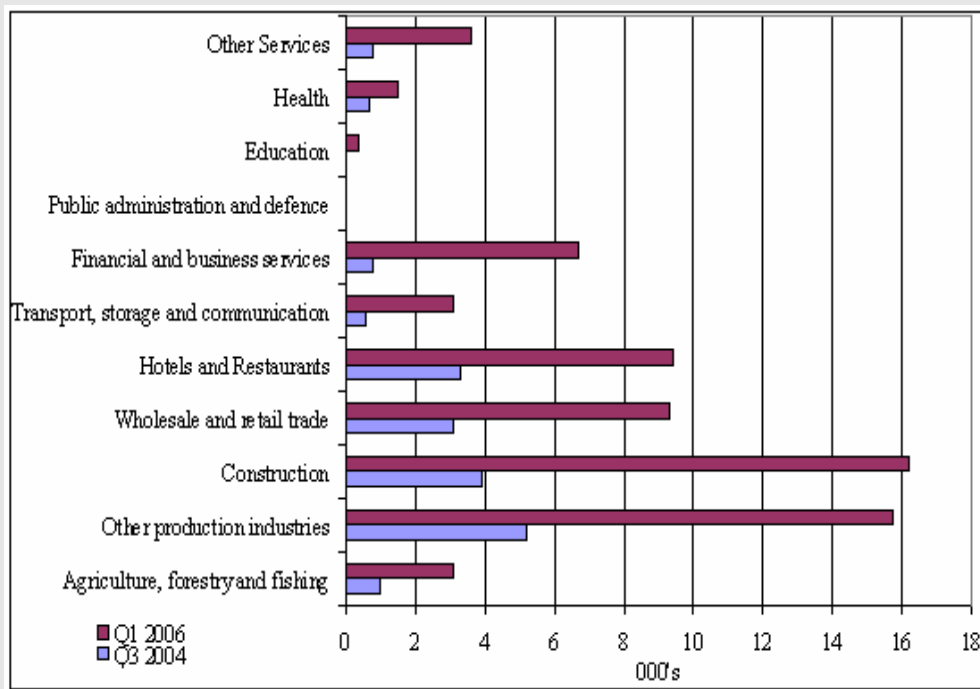
Figure 7: ILO Status of EU-10 Nationals Aged 15 and Over, Q3 2004 to Q1 2006



Source: CSO Quarterly National Household Surveys

large employers of the total Irish workforce. As is evident from Figure 9, EU-10 nationals accounted for only 6.4 percent of the total construction workforce and 5.5 percent of total industrial workers in Q1 2006. The sector with the highest proportion of EU-10 workers is the hotels and restaurants sector, which employed 9,400 accession state workers in Q1 2006 – 8.3 percent of its total workforce.

Figure 8: Employment of EU-10 Nationals by NACE Sector, Q3 2004 and Q1 2006

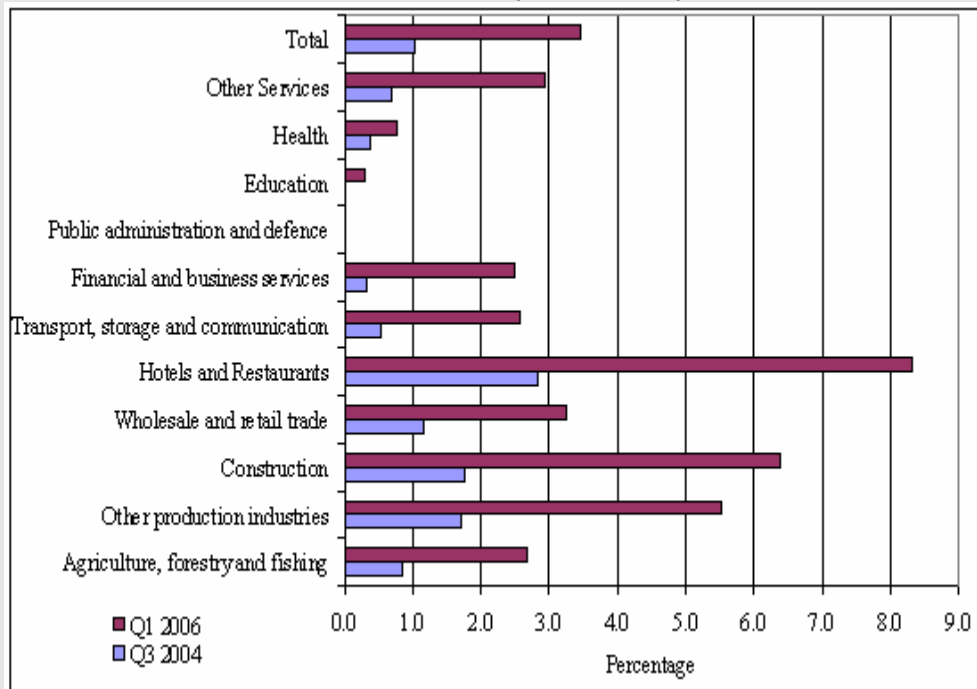


Source: CSO Quarterly National Household Survey Q1 2006

During the post-enlargement period, all sectors of the Irish economy experienced increases in the number of EU-10 nationals employed. The construction sector experienced the largest increase from 3,900 in Q3 2004 to 15,700 in Q1 2006. In the industrial sector, the number of EU-10 workers tripled from 5,200 in Q3 2004 to 15,700 in Q1 2006.

Figure 9 shows employment levels in the Irish economy as a whole by NACE sectors.<sup>25</sup> It is evident from this that overall employment in the Irish labor market also increased during the period from the Q3 2004 to the Q1 2006. All of the labor market sectors experienced increases in employment except for the industrial (“other production industries”) sector.

Figure 9: Employment of EU-10 Nationals by NACE Sector as a Proportion of the Total Workforce in Ireland, Q3 2004 and Q1 2006

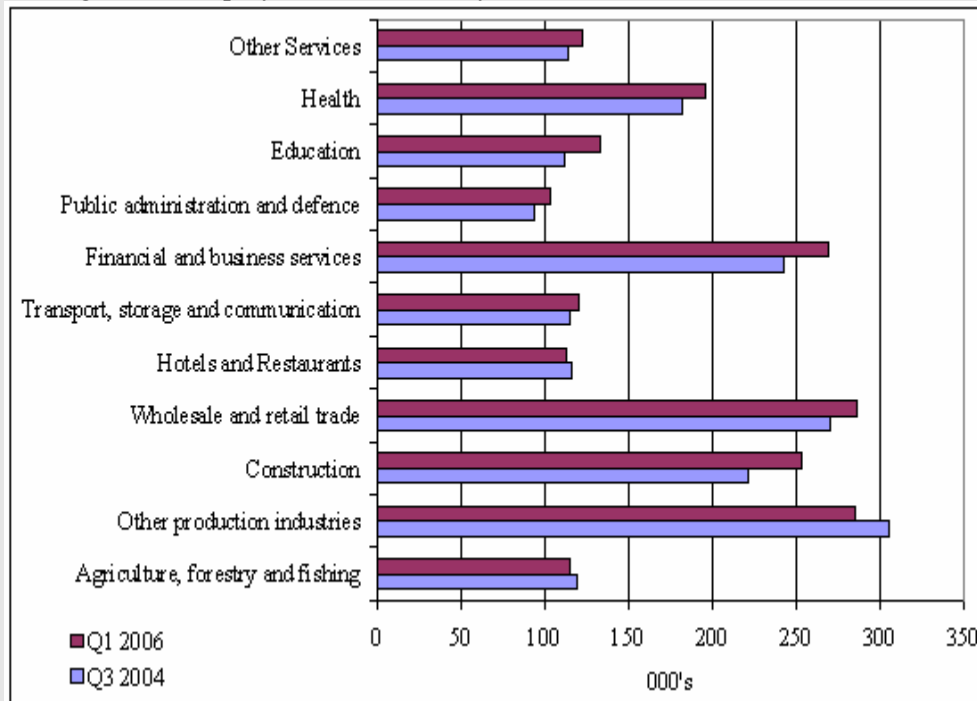


Source: CSO Quarterly National Household Survey Q1 2006

### **Displacement and Earnings**

During the Irish pre-enlargement debate, one oft-repeated claim was that the influx of migrant workers would displace portions of the native workforce. In the post-enlargement period, the displacement issue was brought to national prominence by the Gama and Irish Ferries cases (Boxes 1 and 2). A number of examples similar to the Gama case have subsequently been cited by different trade unions as evidence of foreign companies employing their nationals at a lower wage than the legally- recognized rates of pay.<sup>26</sup> The Irish Congress of Trade Unions (ICTU) regarded these cases as breaches of the terms of social partnership arrangements between the trade unions, the employers and the government. The ICTU deferred attending further pay discussions with the government, pending confirmation that issues relating to employment standards, displacement, inspection and enforcement would be discussed under a new national agreement. The Irish Ferries and Gama cases were cited by the trade unions as examples of the failure of the regulatory regime to respond effectively to the exploitation of foreign workers and displacement of Irish workers in pursuit of greater profits by the business community.

Figure 10: Employment in Ireland by NACE Sector, Q3 2004 and Q1 2006



Source: CSO Quarterly National Household Survey Q1 2006

The leader of the opposing Labor Party, Pat Rabbitte, raised the question of displacement and its implications for the free movement of labor. In an interview with *The Irish Times* on January 3, 2006, he states:

Displacement is going on in the meat factories and it is going on in the hospitality industry and it is going on in the building industry. The time may be coming when we will have to sit down and examine whether we would have to look at whether a works permit regime ought to be implemented in terms of some of this non-national labor, even for countries in the EU. We didn't require any such regime at the time of accession. The time may be coming when we have to examine it because we need to know more about what is going on. What Irish Ferries has done has lanced the boil and we need to know more about the numbers coming here, the kind of work they are engaged in, the displacement effect, if any, on other sectors. We need to look at that because there is anecdotal evidence about it happening in meat factories and happening in the hospitality industry.<sup>27</sup>

**Box 1: The Gama Case**

On 8 February 2005 the Socialist T.D. Mr. Joe Higgins alleged in the Irish Parliament that Gama Construction Ireland, which employed approximately 2,000 construction workers on public works projects, paid its unskilled workers between €2 (\$2.55) and €3 (\$3.81) per hour and its skilled workers somewhere over €3 per hour. Gama Construction Ireland operates under the umbrella of Gama International B.V. (established in the Netherlands in 2003) and Gama Group, the parent company in Turkey.

Mr. Higgins pointed out that the minimum wage in Ireland is €7 (\$8.93) per hour and that the registered employment agreement for the lowest paid operative in construction is €12.96 (\$16.54) per hour. The Taoiseach (Prime Minister) said that the matter would be investigated by the labor inspectorate of the Department of Enterprise, Trade and Employment.

On 23 March 2005 Mr. Higgins said that Gama had paid up to €40 million (\$51.04 million) into bank accounts in Finansbank in Amsterdam in the names of their Turkish employees'. He said the money was probably 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 said the form they signed was in English, which they did not understand, and that they learned of the existence of the bank accounts only after the investigation into the company began.

Gama Construction Ireland rejected the allegation about underpayment of its Turkish workers. It said that its Turkish employees received some of their wages in Ireland subject to Irish taxation, a portion in Turkey subject to Turkish taxation and that a portion was paid into a Dutch bank on a remittance basis of taxation allowed by the Irish government. Under the remittance basis earnings paid to foreign nationals working in Ireland were only liable for tax on the portion or earnings required for living expenses in Ireland. The taxation of earnings on a remittance basis is no longer allowed in Ireland.

The Minister for Enterprise, Trade and Employment said in a statement on 12 April 2005 that he had received the report of the Labor Inspectorate into alleged breaches of Employment Rights but was prevented from publishing it following proceedings initiated in the courts by Gama. Although the report was never published a report in *The Examiner* newspaper in April 2005 indicated that it had failed to clear the company.

Source: Doyle, Hughes and Wadensjö (2006)

These remarks were criticized by the parties in government but welcomed by the trade unions. However, the Minister for Enterprise, Trade and Employment said the government had no plans to review its decision to allow workers from the EU-10 states free access to the labor market without requiring a work permit.

On January 13, 2006, the Head of Research at SIPTU used statistical data to support the argument that displacement is occurring.<sup>28</sup> Earnings and employment data for the manufacturing sector were used to argue that, "unregulated immigration and unscrupulous hiring practices are undermining wages and conditions."<sup>29</sup> The evidence produced showed that earnings growth in the manufacturing sector fell from 4.7 percent in the year ending in March 2005 to 2.1 percent in the year ending in September 2005.<sup>30</sup> The case was supported by data on employment which showed an increase in the number of foreign workers in the sector and a simultaneous decrease in the number of Irish workers employed. However, this evidence is circumstantial. It infers that earnings growth

fell in manufacturing because foreign workers took lower wages in some sub-sectors and displaced Irish workers. However, this decrease in earnings growth could be due to other factors such as seasonal changes in employment. A comprehensive earnings series developed by the Environmental Sowel Research Institute shows that in the category “other production industries,” a similar displacement trend was observed between March 2002 and September 2002 and March 2003 and September 2003 before the increase in immigration from the accession states occurred.<sup>31</sup>

**Box 2: The Irish Ferries Case**

In September 2005 the management of a company operating services between Ireland, the UK 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 (\$4.43) 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.

The government condemned the company’s action but said it could not prevent it from re-registering in Cyprus to avoid Ireland’s employment laws. Many of the seafarers accepted the redundancy offer but some members of the trade union SIPTU reacted in November by occupying one of the company’s ships while it was docked in Wales. There was considerable public support in Ireland, the UK and France for the seafarers. It culminated in December 2005 in the biggest national demonstration seen in Ireland in almost thirty years. In addition to supporting the seafarers, many of those participating in the demonstration demanded that foreign nationals employed in Ireland should be paid the collectively agreed rate of pay for the job. Irish Ferries eventually entered into negotiations with SIPTU. A compromise settlement was reached under which the 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 (\$9.41) per hour.

The European Trade Union Confederation believes that the core issues raised by the Irish Ferries case are similar to the Vaxholm case in Sweden.

Source: Doyle, Hughes and Wadensjö (2006)

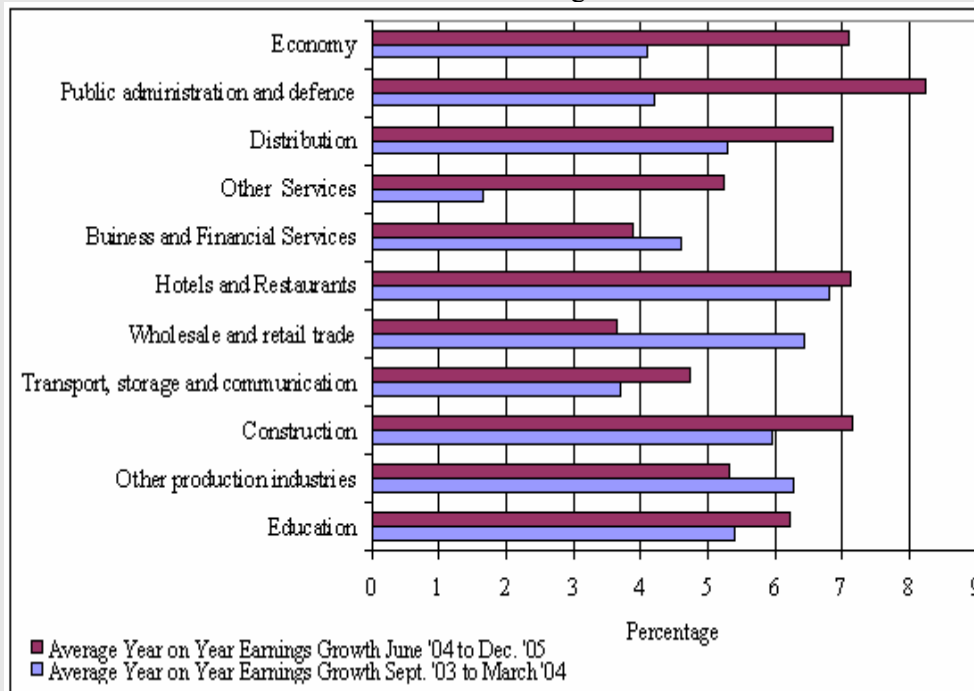
Figure 11 shows the average year-on-year growth rates in earnings for the six quarters preceding enlargement and the six quarters following enlargement by economic sector. The evidence shows that economy-wide earnings growth was stronger in the post-enlargement period. The average year-on-year growth rate for the six quarters following enlargement was 7.1 percent, compared to 4.1 percent for the six quarters preceding enlargement.<sup>32</sup> It is interesting to examine the earnings data for Ireland in the context of the employment data for EU-10 nationals. The construction sector – which experienced the largest increase in EU-10 employment levels – experienced stronger earnings growth in the six quarters following enlargement than in the six preceding enlargement. The industrial sector, which saw the numbers of its EU-10 workforce increase threefold and its

native workforce decline, experienced a slight dip in earnings growth following enlargement.

Average year-on-year earnings growth for the sector was 5.3 percent in the post-enlargement period, compared with 6.3 percent in the pre-enlargement period. The earnings data shows there has been no decline in the aggregate level of earnings in the industrial sector since enlargement. 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 paid sectors. The hotels and restaurants sector, which has the highest proportion of EU-10 workers, experienced marginally higher earnings growth in the six quarters following enlargement – 7.1 percent compared to 6.8 percent.

If displacement is indeed occurring on a significant scale, one would expect to see evidence in the form of falling vacancies and rising unemployment. However, the data shows this has not been the case. At the onset of enlargement in May 2004, the percentage of firms in all sectors reporting vacancies was 10.6 percent; in May 2005, the figure was the same and by May 2006 it had risen to 16 percent. In May

Figure 11: Average Year-on-Year Earnings Growth by Sector, Average of Six Quarters Pre- and Post- Enlargement



Source: Doyle (2006) ESRI earnings series created from CSO earnings publications.



2004, 18.9 percent of firms in the manufacturing sector reported vacancies. In May 2005, 19.5 percent reported vacancies and 23 percent reported vacancies in May 2006. The vacancies data suggests that the demand for labor remained strong after enlargement and provides no evidence of a substantial reduction in the number of jobs available in the Irish economy.

Similarly, there is no evidence from the unemployment data that displacement of Irish workers has resulted in an increase in the unemployment rate. In an article in *The Irish Times* on Jan. 14, 2006, former Taoiseach Dr. Garret FitzGerald noted that since the Irish labor market had been opened to Central and Eastern European nationals, the unemployment rate had actually fallen. As he points out:

... if there has been significant displacement of Irish workers by immigrants in some sectors, the unemployment data suggest they must have been re-employed elsewhere. And, insofar as there is a difference between Irish and immigrant workers, part at least of this phenomenon could be accounted for by Irish workers moving to better-paid jobs, and being replaced by lower-paid immigrants in their old positions.<sup>33</sup>

The statistical data that has been used to address the displacement issue is open to varying interpretations and further research is needed to disentangle the different arguments. In the evidence available to date, displacement does not appear to be a source of disturbance in the labor market at the macroeconomic level. However, cases have occurred in which workers from within the EU who are earning lower rates of pay have replaced Irish workers. This has the potential to become a bigger political issue: providing information in Central and Eastern European languages on workers' rights; coordinated campaigns by social partners to extend collective agreements to foreign enterprises bringing in their own workers; and strengthening labor inspectors to implement existing legislation on pay and conditions of employment.

In response to trade union concerns about the exploitation of migrant workers and job displacement an outline agreement has been reached on a range of measures. First, the number of labor inspectors is to be tripled to 90. Second, a new statutory body entitled the Office of the Director for Employment Rights Compliance is to be established to police employment legislation. Third, a special panel will be established to examine whether redundancies in a particular situation amount to displacement of jobs and will then advise the Minister of Enterprise, Trade and Employment. Finally, there is to be a dramatic increase in penalties for those employers who breach the labor laws.<sup>34</sup>

## **Conclusion**

On May 1, 2004, ten new member states joined the EU and gained full access to the Irish labor market and social welfare system. This paper has provided an overview of the Irish enlargement debate and analyzed the impact of the 2004 enlargement on Ireland. Two years is a short period in which to assess the impact of such a structural shift. However, the information presented here aims to contribute to a better knowledge of the possible effects of the deregulation of migration from the accession states.

Ireland experienced larger migratory flows than what was predicted prior to enlargement. This was in part due to the restrictions placed by other member states in relation to labor market access for EU-10 workers, but predominantly due to the strength and flexibility of the Irish labor market in the post-enlargement period. From Q3 2004 to Q1 2006, 104,000 jobs were created in the Irish economy, half of which went to EU-10 nationals.<sup>35</sup> The data indicates that the large influx of EU-10 workers has been absorbed relatively easily into the Irish labor market. At 5.3 percent, the unemployment rate of EU-10 nationals is low. Unemployment figures for March 2006 show that less than 1,000 accession state nationals were receiving unemployment benefits. One issue raised in the pre-enlargement debate in Ireland was “welfare tourism” – the idea that EU-10 nationals would use the Irish social welfare system to support themselves and their families. However, there is no evidence that EU-10 nationals are overrepresented in welfare schemes.<sup>36</sup>

Another issue raised in the pre-enlargement debate was that of displacement. The evidence to date suggests that displacement has not been a serious source of disturbance in the Irish labor market. Throughout the post-enlargement period the unemployment rate in Ireland has been low (averaging 4.4 percent) and earnings growth has been strong. There is evidence in certain sectors of declines in the native workforce coinciding with increases in the EU-10 workforce. This form of substitution appears to be a form of labor turnover as Irish workers take advantage of a growing labor market to move to higher paid jobs. However, it is important to note that there have been documented cases of Irish workers being replaced by lower paid EU-10 workers. In response to trade union concerns, new measures have been agreed upon that aim at preventing the exploitation of foreign workers and the displacement of native workers. These measures include: increasing the labor inspectorate; establishing a statutory body to police employment; establishing a special panel to investigate and advise the Minister for Enterprise, Trade and Employment on cases of displacement; and increasing the penalties for employers in breach of labor law.

## Notes

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<sup>1</sup> John Garry, Michael Marsh and Richard Sinnott, “‘Second Order’ Versus ‘Issue Voting’ Effects in EU Referendums: Evidence from the Irish Nice Treaty,” *European Union Politics*, Vol. 6, 2005, pages 201-221.

<sup>2</sup> John O’Brennan, “Ireland Returns to Normal Voting Patterns on EU Issues: the 2002 Nice Treaty Referendum,” *European Political Science*, Vol. 12, No. 2, 2003. Available at <http://www.essex.ac.uk/ECPR/publications/eps/onlineissues/spring2003/feature.htm>.

<sup>3</sup> Richard Sinnott, *Attitudes and Behaviour of the Irish Electorate in the Referendum on the Treaty of Nice*, 2002, 17. Available at <http://www.ucd.ie/dempart/workingpapers/nice1.pdf>.

<sup>4</sup> Opponents of the Nice Treaty, John Rogers (former Attorney General) and Anthony Coughlin argued that the treaty deepened power differentials in the EU through the removal of veto from another thirty areas of policy. Anthony Coughlin, the leader of anti-EU group the National Platform, argued that provisions in the Nice Treaty such as: the loss of a commissioner; the re-weighting of votes in the Council; the removal of the veto from thirty-odd areas of policy; and an advance in the power of large states at the expense of the smaller ones, added to the democratic deficit associated with EU membership. A number of political parties had united on the issue of neutrality arguing that Ireland’s neutrality in international relations would be compromised by the Nice Treaty. See John O’Brennan, “Ireland Returns to Normal Voting Patterns on EU Issues: the 2002 Nice Treaty Referendum,” *European Political Science*, Vol. 12, No. 2, 2003. Available at <http://www.essex.ac.uk/ECPR/publications/eps/onlineissues/spring2003/feature.htm>.

<sup>5</sup> Ibid.

<sup>6</sup> The Labor Party used the slogan “Hold Your Fire. FF (Fianna Fail) can wait. Europe can not. Vote Yes.”

<sup>7</sup> Karin Gilland, *Referendum Briefing No.1 Ireland’s Second Referendum on the Treaty of Nice*, Opposing Europe Research Network, Sussex European Institute, October 2002, page 4.

<sup>8</sup> Ibid, page 4. and John O’Brennan, “Ireland Returns to Normal Voting Patterns on EU Issues: the 2002 Nice Treaty Referendum,” *European Political Science*, Vol. 12, No. 2, 2003. Available at <http://www.essex.ac.uk/ECPR/publications/eps/onlineissues/spring2003/feature.htm>.

<sup>9</sup> Anti-Nice campaign groups included No to Nice, the National Platform, the Green Party, Sinn Fein, Equal in Europe and the Pro-Life Alliance.

<sup>10</sup> *Irish Times*, March 7, 2002. Referenced in Nicola Doyle, Gerald Hughes and Eskil Wadensjö, *Freedom of Movement for Workers from Central and Eastern Europe: Experiences in Ireland and Sweden*, Stockholm, SIEPs, May 2006.

<sup>11</sup> Richard Sinnott, *Attitudes and Behaviour of the Irish Electorate in the Second Referendum on the Treaty of Nice*, 2003, page 8. Available at <http://www.ucd.ie/dempart/workingpapers/nice2.pdf>.

<sup>12</sup> “Displacement of Jobs in the Irish Economy,” Statement from Congress General Secretary David Begg, on Irish Ferries demonstration, Dublin 1.30pm, November 3, 2005. Available at <http://www.ictu.ie/html/news/releases/p031105.htm>.

<sup>13</sup> Those countries that did not open their labor markets include: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Spain and Portugal.

<sup>14</sup> Eurostat.

<sup>15</sup> Department of Enterprise, Trade and Employment, available at [www.entemp.ie](http://www.entemp.ie).

<sup>16</sup> Bertie Ahern, “Ahern Speaks of Possible Impact of Enlargement on Irish Labor Market,” Press Release, February, 23 2004. Available at <http://www.eu2004.ie>.

<sup>17</sup> The Home Office announced measures aimed at protecting the British labor market and ensuring that people could not come to the UK simply to claim benefits. One of the measures was the introduction of a Worker Registration Scheme (WRS) whereby EU-10 citizens would have to register their details with the Home Office upon gaining employment in the UK. To ensure that the British social welfare system was protected EU-10 workers must be working in the UK continuously for a period of at least 12 months before they acquire full Treaty rights, including access to benefits. Those who were economically inactive would receive no benefits.

<sup>18</sup> Bertie Ahern, “Ahern Speaks of Possible Impact of Enlargement on Irish Labor Market,” Press Release, February, 23 2004. Available at <http://www.eu2004.ie>.

<sup>19</sup> The HRC is an additional condition which must be satisfied along with the other conditions for entitlement to welfare payments. Besides the two-year residency requirement, other factors are taken into consideration when determining whether a person meets the HRC. These factors include: length and continuity of stay; length and purpose of absence from Ireland; nature and pattern of the employment; applicants connection with Ireland; and the future intentions of the applicant. See <http://www.dsfa.ie>.

<sup>20</sup> The Rest of World (ROW) category includes immigrants from all countries excluding nationals of the EU-15 and the U.S.

<sup>21</sup> FÁS, Training and Employment Agency, 2006.

<sup>22</sup> CIA World Factbook.

<sup>23</sup> The first quarter (Q1) refers to the period December to February, the second quarter (Q2) refers to March to May, the third quarter (Q3) refers to June to August and the fourth quarter (Q4) refers to September to November.

<sup>24</sup> CSO Quarterly National Household Surveys.

<sup>25</sup> NACE is the general industrial classification of economic activities within the European Communities.

<sup>26</sup> These 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 sub-contractor involved in the renewal of the electricity network. All of these claims have been contested by the main contractors responsible for the projects.

<sup>27</sup> “Power All the Impels Rabbitte,” *Irish Times*, January 3, 2006. Available at <<http://www.ireland.com>>.

<sup>28</sup> Manus O’Riordan, “Driving Down Cost of Labor by Manipulating Foreign Workers,” *Irish Times*, January 13, 2006. Available at <<http://www.ireland.com>>.

<sup>29</sup> Ibid.

<sup>30</sup> CSO Industrial Earnings and Hours Worked Employment data: CSO Quarterly National Household Survey.

<sup>31</sup> Nicola Doyle, Earnings Series in ESRI *Quarterly Economic Commentary*, Summer 2006.

<sup>32</sup> Earnings series tabulated by Doyle for ESRI Quarterly Economic Commentary.

<sup>33</sup> Garrett FitzGerald, “Some Facts on ‘Displacement’ of Irish Workers,” *Irish Times*, January 14, 2006. Available at <<http://www.ireland.com>>.

<sup>34</sup> “Progress on Worker Protections Allows Pay Talks to Start” *Irish Times*, Thursday, April 27, 2006.

<sup>35</sup> Quarterly National Household Survey.

<sup>36</sup> Nicola Doyle, Gerald Hughes and Eskil Wadensjö, *Freedom of Movement for Workers from Central and Eastern Europe: Experiences in Ireland and Sweden*, Stockholm, SIEPs, May 2006.

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## **Chapter 3**

### **Labor Mobility: The Case of Poland**

Justyna Frelak and Piotr Kaźmierkiewicz\*

#### **Introduction**

Poland stands out among EU member states as the country where emigration still far exceeds immigration. Although the official data fails to capture the extent of the imbalance, data compiled by the Central Statistical Office from the Central Population Register for 2005 shows that 22,200 people emigrated from Poland, while 9,300 people immigrated to Poland in 2005 (net outflow of 12,900 people, up by 37 percent compared to the year before).<sup>1</sup> Due to the lack of information about return migration and so-called “shuttle” migration, it is impossible to obtain a precise estimate of the number of Poles who decided to stay in another member state.<sup>2</sup>

Two important points about Polish migration need to be made. First, when some EU countries opened labor markets to Polish workers, it did not result in uncontrolled, mass migration. Secondly, the number of people immigrating to

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Poland has been growing steadily. The data presented by Poland's Main Statistical Office shows that in 2004 immigration (9,495 people) was the highest since 1960 (28,000 people).<sup>3</sup> However, the stock of immigrants is still very low—the 2002 census revealed the number of long-term immigrants to be under 50,000, and the estimates of unregistered foreign labor do not exceed 300,000.<sup>4</sup> Of course, the number of immigrants in Poland – although growing –remains very small, especially when compared to other European countries (i.e., in 2004, immigration totaled 518,097 in the UK and 780,175 in Germany).<sup>5</sup> Even in comparison to other CEE countries such as the Czech Republic (52,453 in 2004) or Hungary (21,327 in 2003), this number appears relatively low.<sup>6</sup>

The Polish debate on migration has been dominated by the topic of the outflow of a significant number of workers, particularly graduates and young people, and by the impact of the emigration on certain sectors of the domestic economy. Although both the economic and social effects of migration can be beneficial in the long-term for both outflow and inflow countries, the short-term effects can be painful. In some regions of Poland, the lack of a labor force – together with weakened social cohesion due to emigration – have become acute problems for local communities.

### **Labor Market Regulation in Poland**

Poland's accession to the EU created a demand for the liberalization of labor markets throughout the Union. The rules on the flow of workers between the EU-15 and the new EU member states were laid down in the various accession treaties, signed by both the EU and acceding states. The adoption of EU regulations established the legal framework for treating EU nationals on favorable terms in Poland, and paved the way for Poles to seek legal employment in other EU member states.

However, full freedom of labor movement has not yet been realized and will not be for several years. The transitional arrangements outlined in the Polish Accession Treaty of 2003 allow temporary restrictions on freedom of employment that must be eliminated no later than April 30, 2011. This transitional period is broken into three parts, prescribing the allowable restrictions on labor mobility into an initial two-year period, a middle three-year period, and a final two-year period. In the first period (May 1, 2004-April 30, 2006), only three of the EU-15 countries opened their labor market to Poles and citizens of the other new EU member states from Central and Eastern Europe.<sup>7</sup> Effective May 1, 2004, Sweden and Ireland decided not to open their labor markets, while the UK modified the initially-unrestricted access with a "Workers Registration Scheme." In response to the restrictions in the EU-15, Poland (along with Slovenia and Hungary) introduced reciprocal restrictions for nationals of those EU-15 member states that

had restricted the entry of workers from new members. Polish workers have full access to the labor markets of their fellow new EU member states.

According to the terms of Poland's Accession Treaty, EU member states may reconsider extending labor mobility restrictions after a two-year transition period. In April 2006 (the beginning of the second period), Finland, Greece, Spain, Portugal and Iceland – followed by Italy and The Netherlands later the same year – announced the liberalization of their labor markets. Belgium, Denmark, France and Luxembourg will follow suit in 2009 (which corresponds to the beginning of the final two-year period). Germany and Austria have expressed their intent to postpone liberalization of their labor markets until 2011.<sup>8</sup>

The impact of the remaining restrictions is somewhat alleviated by the fact that Poland signed a number of bilateral agreements and other treaties concerning the regulation of employment mobility for Polish citizens. The agreements were made with Germany, France, Russia, Ukraine, and Spain, among others. Since the 1990s, the agreement with Germany has been particularly important, as Germany received 292,109 Polish migrants in 2005.<sup>9</sup>

As of November 2006, Polish workers may legally seek employment in the countries of the European Economic Area under three types of legal framework, each specifying particular employment conditions:

- Countries where Poles can be legally employed based on the EU law regulating free labor movement. These include: the Czech Republic, Cyprus, Estonia, Finland, Greece, Hungary, Iceland, Italy (since July 30, 2006), Lithuania, Latvia, Malta, The Netherlands (since May 1, 2007), Portugal, Slovakia, Slovenia and Sweden. Poles may be employed in the UK and Ireland, however with some limitations on social security rights;
- Countries that partially liberalized labor market access (e.g., through a quota system) but where Polish emigration is restricted by Polish law. These include: Liechtenstein, Denmark, France and Norway;
- Countries where Poles may only be legally employed after meeting conditions specified by national legislation. These include: Austria, Belgium, Germany and Luxembourg.<sup>10</sup>

### **Economic Impact of Migration**

#### *Poles Abroad*

Although the available statistical information is slim, some migration patterns of Polish emigrants can be identified. The top destinations of Polish emigrants include Germany (292,109 in 2005), UK (76,748 in 2004), Ireland (22,900 in 2006), Italy (50,794 in 2005), The Netherlands (10,968 in 2005), Spain (32,843 in

2005), Austria (22,537 in 2004), the Czech Republic (16,265 in 2005), and Sweden (14,664 in 2005).<sup>11</sup> In general, two main post-accession emigration patterns from Poland can be ascertained, while the remaining migrants are spread more evenly around the EU-15.

One direction of emigration is the relatively new flow from Poland to the UK, Ireland and Sweden. The most visible of these is the influx of Poles to Ireland. In 2002, 7.8 percent of all work permit holders in Ireland were Polish.<sup>12</sup> A noteworthy recent demographic change compared to earlier migration patterns is the increasing number of young people choosing to go abroad to seek employment. For example, in 2003, the mean age of a Polish work permit holder was 29.3 years. The other major labor migration pattern is the more traditional influx of seasonal workers to Germany.<sup>13</sup> This pattern has not changed significantly and continues to attract older—approximately 30 percent of workers in 2004 were between 25 and 34 years of age—and less educated Poles, many of whom have inadequate foreign language training.<sup>14</sup>

Table 1: Polish Emigrants by Recipient Country, 2003-2005

<u>Recipient Country</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Austria	:	22,537	:
Czech Republic	15,836	:	16,265
Denmark	5,689	5,854	6,199
Finland	768	802	810
Germany	317,603	326,882	292,109
Hungary	1,945	2,196	2,178
Iceland	1,810	:	:
Italy	:	:	50,794
Latvia	168	222	:
Lithuania	:	:	423
Netherlands	6,912	7,431	10,968
Norway	2,619	2,741	3,936
Portugal	284	:	:
Romania	:	58	59
Slovakia	:	2,373	2,477
Slovenia	59	57	43
Spain	:	25,255	32,843
Sweden	13,878	13,412	14,664
Switzerland	4,710	4,884	5,084
United Kingdom	43,225	76,748	:

Source: Eurostat.

The UK and Ireland have absorbed large inflows of Polish emigrants since 2004. According to some reports, there are between 100,000 and 150,000 Polish citizens legally employed in Great Britain.<sup>15</sup> Between May 2004 and June 2006, 264,000 Poles (representing nearly 62 percent of all immigrants from the new EU member states) registered under the British Workers Registration Scheme. Between May 2004 and February 2006, Polish citizens obtained approximately 105,000 Irish tax ID numbers, one of the conditions of legal employment.<sup>16</sup>

Despite the increasing number of Poles moving to Great Britain, Germany still receives the largest overall number of Polish emigrants. According to the information released by the Polish Ministry of Labor and Social Policy, Poles obtained 411,000 German work permits in 2004 and approximately 322,000 in 2005.<sup>17</sup> The work most readily available to Poles in Germany is largely seasonal, rarely exceeding two months in duration. In 2004, approximately 300,000 Poles found seasonal jobs in Germany.<sup>18</sup>

Despite these obvious patterns, other EU countries attract Polish workers as well. In 2005, almost 10,000 Poles found mostly seasonal work in France, representing a modest increase of only several hundred workers versus the previous year.<sup>19</sup> In Spain, Poles obtained 14,500 work permits in 2004 and 11,600 in 2005. As of December 31, 2005, 35,000 Polish citizens were employed in Spain.<sup>20</sup> In Austria, work permits were issued to almost 20,000 Polish citizens in 2005, a 17 percent increase over the same period in 2004.<sup>21</sup> Poles have also obtained employment in Scandinavia, albeit in smaller numbers. Between May 2004 and December 2005, 8,000 Poles found work in Norway, 1,700 in Denmark, 1,020 in Iceland and 180 in Finland.<sup>22</sup>

It is worth noting that the liberalization of the labor market is not the only factor influencing where Poles decide to migrate. One factor is physical proximity to Poland—particularly for emigrants to Germany, Austria and the Czech Republic. Another factor is convenient transportation – for example, the UK, Germany and The Netherlands can be easily reached from Poland by plane, bus or train. More remote countries attract Poles in search of work due to favorable labor market conditions (i.e., low unemployment). Such countries include Norway, Ireland and Austria. Moreover, some Poles choose their destination based on active recruitment of Polish workers, as is the case in Iceland and Norway.<sup>23</sup>

The economic migration of Poles, which presently totals a net loss of about 4,000 people per year, is expected to continue in the short- to medium-term.<sup>24</sup> However, after migration numbers stabilize in the next three to five years the scale of emigration is expected to decrease. By 2012, net migration for Poland is projected to be 35,759.<sup>25</sup> Factors encouraging further emigration include the wide gap in per capita GDP between Poland and other EU member states (see Table 2), an inflexible labor market in Poland with persistently high unemployment

(see Table 3), and continued political instability. On the other hand, factors encouraging the return of diaspora Poles back to Poland include difficulties assimilating into Western European labor markets and the relatively higher costs of living in the destination countries. The decision to return is made more attractive as the Polish labor market offers increasing opportunities due to the slowly-but-steadily declining unemployment rate (see Table 3), increasing wages (see Table 4), and the reinvigorated pace of hiring by Polish employers.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>European Monetary Union</u>						
GDP per capita, PPP (constant 2000 international \$)	24,860	25,233	25,334	25,376	25,743	25,944
<u>Poland</u>						
GDP per capita, PPP (constant 2000 international \$)	10,548	10,723	10,879	11,307	11,913	12,319
Source: World Bank Development Indicators						

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Unemployment	17.5	20	20	19	17.6
Source: EBRD Structural Indicators					

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
National currency (including 'euro fixed' series for euro area countries)	25910.7	26909.5	27816	28944.4
Purchasing Power Parities	11217.1	11733.5	11850.6	12198.2
*All NACE branches except agriculture, fishing, private households with employed persons				
Source: Eurostat				

*Foreign Labor Market in Poland*

Currently, regulations concerning the employment of foreigners in Poland are primarily aimed at protecting the domestic labor force. The legal basis for the employment of immigrants is found in the Act on Promotion of Employment and Institutions of the Labor Market.<sup>26</sup> This legislation describes the procedure of obtaining a work permit and defines groups of foreigners that are allowed access to the Polish labor market.<sup>27</sup> On May 1, 2004 (the date of the EU accession), restrictions on foreign labor in Poland were partially lifted.<sup>28</sup> The changes affected citizens of those EU member states that had opened their labor markets to the Poles, foreigners who are family members of Polish citizens, holders of long-term settlement permits, and certain classes of refugees.<sup>29</sup>

Although the system is far more liberal compared to the early 1990s, the process of obtaining a work permit is complicated and time-consuming, revealing a clear intention to protect the domestic labor market which faces nominally high unemployment—hovering around 12.5 percent during the 1990s.<sup>30</sup> The procedure places the responsibility on Polish employers to submit all the necessary documentation and pay high application fees (equal to one month's minimum wage). Another issue often raised by employers is the lengthy review period for the application, making the procedure inadequate for the seasonal employment of low-skilled workers.<sup>31</sup>

The current restrictive system is seen by experts and some officials as increasingly inadequate for the needs of the Polish market. Being a post-Communist transition economy with an inflexible labor market and relatively low wages, Poland is an inherently unattractive labor immigration destination.

These structural and institutional issues also result in the majority of labor immigrants who choose to work in Poland being forced to accept illegal employment. The restrictive procedure to obtain legal employment, relatively easy access to the Polish territory, lax enforcement, and social acceptance of the shadow economy all allow for a flourishing illegal immigrant sector.

Gaps in the domestic labor market have appeared as new opportunities for legal employment abroad have pushed a considerable number of Poles to migrate for work, mainly to Western Europe (243,598 between 2000 and 2004), the United States (466,740 aggregately, as of 2000), and Canada (14,853 permanent residents between 1995 and 2004).<sup>32</sup> This new situation served as a catalyst for the limited liberalization of some sectors of the Polish labor market. On September 30, 2006, the Ministry of Labor and Social Policy introduced a regulation allowing foreigners (including Ukrainians, Russians, Belarussians and Germans, among others) to work without obtaining permits for seasonal employment in Poland's agriculture sector.

The Polish government has not had a consistent voice on issues of emigration and immigration, calling for the removal of obstacles to Polish employment abroad while maintaining its own restrictions on the access to the Polish market for the non-EU workforce. While some other new member states have already introduced policies of active recruitment of labor from outside the EU, the Polish authorities have been unwilling to follow suit. The initiatives to open the Polish labor market for Ukrainians, which constitute the largest group of potential foreign workers, have so far been limited to seasonal work in agriculture, and have failed to attract any significant numbers of laborers. Recently, however, the Ministry of Labor has shown a newfound willingness to acknowledge the pleas of the construction lobby, which is suffering from labor shortages as a result of emigration to the EU

Table 5: Immigration to Poland by Country of Origin, 2003

<u>Continents and countries</u>	<u>Temporary Settlement Permits</u>	<u>Permanent Settlement Permits</u>	<u>Total</u>
Total	28,767	1,805	30,572
(EU-15)	-5,359	-138	-5,497
(former USSR)	-13,565	-943	-14,508
Europe	20,345	1,067	21,412
Albania	83	3	86
Austria	199	9	208
Belarus	2,382	125	2,507
Belgium	196	6	202
Bulgaria	338	39	377
Croatia	70	6	76
Cyprus	19	2	21
Czech Republic	235	16	251
Denmark	2	2	4
Estonia	25	2	27
F.Y.R. Macedonia	55	6	61
Finland	84	1	85
France	1,022	15	1,037
Germany	1,453	43	1,496
Greece	47	4	51
Hungary	95	6	101
Ireland	101	3	104
Italy	466	18	484
Latvia	70	1	71
Lithuania	297	17	314
Malta	4	..	4
Moldova	1	10	11
Netherlands	335	13	348

*Labor Mobility in the European Union*

Table 5: Continued			
Norway	169	2	171
Portugal	64	1	65
Romania	175	6	181
Russian Federation	1,912	169	2,081
Serbia and Montenegro	192	20	212
Slovak Republic	178	6	184
Slovenia	36	1	37
Spain	179	2	181
Sweden	329	8	337
Turkey	577	22	599
Ukraine	8,000	456	8,456
United Kingdom	879	12	891
Other	76	15	91
Asia	5,356	573	5,929
Armenia	899	119	1,018
China	396	49	445
Georgia	87	9	96
India	595	32	627
Japan	280	4	284
Jordan	74	8	82
Kazakhstan	409	23	432
Korea	340	2	342
Mongolia	..	21	21
Philippines	87	3	90
Syria	165	11	176
Vietnam	1,080	236	1,316
Yemen	56	6	62
Other	807	49	856
Africa	1,185	77	1,262
Egypt	79	7	86
Kenya	64	4	68
Libya	206	3	209
Nigeria	122	3	125
Tunisia	74	15	89
Other	640	45	685
America	1,717	62	1,779
Brazil	82	7	89
Canada	210	4	214
United States	969	29	998
Other	456	22	478
Australia	72	3	75
New Zealand	30	..	30
Stateless	59	22	81
Unknown	3	1	4

Adapted from "Country Profile: Poland," Migration Information Source, Table 2.



countries. In early 2007, the Ministry tentatively announced its intention to liberalize the system of admitting cheaper labor from countries in Eastern Europe and even Southeast Asia.<sup>33</sup>

Immigration from non-EU countries has the potential to become a more problematic issue than mobility within EU. This is already apparent in Poland where protection of the Polish market results in undocumented seasonal workers. Some of the new member states (e.g., the Czech Republic) have already introduced active policies regarding the employment of citizens from selected countries. The initiatives leading to the partial liberalization of the Polish labor market for Ukrainians proved largely ineffective as it only allowed seasonal work in Poland. Recently, the construction industry began lobbying for a liberalized policy on the inflow of cheap workers from non-EU Eastern Europe. However, there have been no changes, with movement toward a more flexible labor policy hampered by concerns over chronically high unemployment.

The employment of immigrants practically did not exist before 1989.<sup>34</sup> Currently, there are over 30,000 foreign citizens residing in Poland. The growing number of immigrants active in the Polish labor market proves that, despite draconian bureaucratic procedures, there is a demand for immigrant workers. This stems in part from the economic recovery following the recession of 2001-02 (when GDP growth rate stood at 1-1.4 percent). Growth accelerated in 2006 to 6.1 percent compared to 3.5 percent in 2005 and is predicted to grow to 6.4 percent in 2007.<sup>35</sup>

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Agriculture, value added (% of GDP)	5	5	5	4	5	5
Industry, value added (% of GDP)	32	29	29	30	31	31
Merchandise trade (% of GDP)	47	45	49	56	65	63

Source: World Bank Development Indicators

The Polish labor market for immigrants can be divided into primary and secondary markets. The primary market consists of professionals and experts (e.g., financial services, insurance or real estate agencies, investment or commercial banks, big industrial plants and supermarkets) and is characterized by high salaries and upward mobility.<sup>36</sup>

The secondary market consists of workers performing manual labor, petty trade, and simple services – activities that are not particularly attractive to Poles – and is characterized by lower pay and no requirement for special knowledge or skills (e.g., retail and wholesale trade, fast food, seasonal work in agriculture, night-bar

entertainment, household services and builder or refurbishing jobs).<sup>37</sup> In Poland, these jobs are typically filled by immigrants, generally from Eastern European countries, who work without the required permits.

Legally employed foreigners represent a minority of the total labor immigration to Poland. Approximately 40,000 foreign people legally reside in the country. Between January and August 2006, approximately 27,700 permits were issued, representing an 8 percent rise compared to the corresponding period of 2005.<sup>38</sup> The distribution of work permits reveals the emergence of some longer-term trends: the top nationalities have been consistently the Ukrainians and the Vietnamese, and specialization by profession is becoming visible in the legal employment sector. For instance, it has been observed that Ukrainians are increasingly drawn to jobs in public education, replacing emigrating Poles dissatisfied with low salaries and declining professional prestige. However, since January 2007, statistics on work permits are decreasingly reliable indicators of the extent and structure of employment. This is due to the fact that all EU nationals have been exempted from the work permit application requirement before accepting employment in Poland.<sup>39</sup>

The scale of illegal foreign employment is far larger than current estimates show. Some analysts claim the number of illegally employed workers ranges from 50,000 to 300,000.<sup>40</sup> One study identifies three types of illegal foreign labor in Poland: seasonal workers from Ukraine (and, to a lesser extent, Belarus and Russia) who dominate the agriculture and construction sectors; shuttle migrants (also generally from the Ukraine and Belarus) who perform domestic tasks such as cleaning and caring for children and the elderly; and finally employees of legally established Polish businesses who are either unregistered or whose employment contracts are not properly formalized.<sup>41</sup>

Illegal employment is found not only in sectors traditionally occupied by foreigners (e.g., building industry and agriculture), but also in professions that require specific qualifications (e.g., drivers, teachers and IT specialists). A poll conducted by the Public Opinion Research Centre (Warsaw) estimates that, out of the total number of Polish householders employing housekeepers, 10 percent hired foreigners.<sup>42</sup> Current regulations provide no incentives to legalize their employment. Following the necessary procedures, which include the payment of social-security charges, would remove the competitive advantage foreign housekeepers have over their Polish counterparts.

However, the recent migration of Polish workers has created a need for foreign workers in Poland. Business people, private entrepreneurs and the Ministry of Labor are essentially in unanimous agreement on this issue. For example, according to the construction industry, there is a shortage of 200,000 workers due to the loss of Polish labor to other EU countries.<sup>43</sup> Almost a third of the

respondents in the CBOS poll indicated the all-too-common scenario of an employer needing an extra employee but being unable to find anyone with adequate qualifications.<sup>44</sup>

Furthermore, the poll showed that Poles were not afraid of competition, even in sectors currently dominated by foreign workers.<sup>45</sup> Research conducted by the Institute of Public Affairs shows that other serious arguments for legalizing foreign employment include the lack of interest in some jobs by Polish workers, and the subsequent comparative advantage of foreign workers who are frequently more mobile and willing to work on less favorable terms.<sup>46</sup>

Gaps in the current labor market are being filled by foreigners, mostly from the European part of the former Soviet Union. Out of the approximately 2,507 Belarussians, 2,081 Russians, and 8,456 Ukrainians, the vast majority work illegally. There are clear advantages for the Polish state and economy from legalizing their employment. Not only would easier access to the Polish labor market reduce illegal employment, it would also render migration control easier.

## **Impact of Migration**

### *Receiving Countries*

A report issued in February 2006 by the European Commission stated that the flow of labor from the new member states since May 1, 2004 was too small to “affect the EU labor markets in general.”<sup>47</sup> Moreover, the increase of labor immigrants may be lower than indicated by the official statistics, as many undocumented workers legalized their work prior to enlargement. Concluding that supply and demand determined the volume and composition of migration flows, the report questioned the usefulness of transitional arrangements. The influx of the workers from the new member states was said to complement the native workforce, filling existing gaps in the labor markets of the migrant-receiving countries.<sup>48</sup>

Remittances are another important effect of emigration, accounting for 3 percent of all world money transfers in 2005. Remittances were 60 percent higher compared with the same period in 2004. Poles working in Britain alone sent £4 billion (\$7.9 billion) per year back to Poland, or 2 percent of Polish GDP.<sup>49</sup> Money transfers from abroad are a significant source of external financing for developing countries in the world, second only to direct foreign investment. Poland, among a group of about ten countries, is one of the biggest beneficiaries of such transfers. Between 1993 and 2003, approximately \$1 billion arrived per year by money transfer to Poland.<sup>50</sup>

While brain drain has been negligible, some sectors already suffer from a lack of specialists – from low-skilled construction workers to nurses and doctors. The lack of workers in industries such as food processing, shipbuilding, and construction has become a problem for many employers, as indicated by the increasing salaries offered to employees in these fields. However, the impact has been uneven across sectors. In this context, it is worthwhile to note recent data concerning the migration of physicians and nurses. According to information released by the Polish Health Ministry in June 2006, approximately 4.3 percent of physicians were not only interested in working abroad, but had the requisite certifications.<sup>51</sup> At the same time, the scale of migration is uneven across various specializations in the medical field. Specialists most interested in migration are anesthetists (15.6 percent) and cardiovascular surgeons (12.8 percent).<sup>52</sup>

The facts about the migration of high-qualified workers do not merit alarming prognoses and commentary. On an individual level, the biggest downside about emigrating to Western European job markets is that it usually entails taking work below one's qualifications.<sup>53</sup> Polish workers, some of them well-educated, do not leave Poland to search for experience in their qualified field, but to avoid unemployment. They are concentrated in the low-skill sector because of the demand for these kinds of jobs.

The attitudes toward migration and the discourse surrounding it differ when it comes to the analysis of migratory inflows and outflows. Although the migration flows to Poland are relatively recent, they are beginning to be discussed at the public level. For example, the issue of introducing visa requirements for Ukrainians, Russians and Belarussians was discussed during the pre-EU accession debates. Nevertheless, with the total stock of immigrants standing at less than 1 percent of the population and a relatively small number of problematic issues related to immigrants and immigration, it is difficult to talk about a comprehensive debate in Poland that would be comparable to the discourse found in Western European countries. Where such discussions are taking place, they tend to be focused on national minorities and significant neighboring cultures.<sup>54</sup> Furthermore, the development of Polish migration policy was not a problem that attracted strong public attention, so it was not of interest to the country's political parties.

The need to implement the *acquis communautaire* in a relatively short time as part of the preparations for EU accession made the debate on migration a function of the accession process.<sup>55</sup> The issue of migration is getting more visible in the Polish public discourse, since the media (especially daily newspapers) have acknowledged the growing importance of immigrants, and started to present it as a crucial topic for Poles to understand.

In public opinion surveys administered at the beginning of the 1990s, Poles showed signs of relatively strong xenophobic sentiments.<sup>56</sup> More intensive contact with foreign citizens (including seasonal migrations, petty trade and general trade exchange personnel) has reduced these negative attitudes and stereotypes. Opinion poll surveys from 1999 and 2004 show that Polish society tends to see the presence in Poland of people from the developed countries of the West (including Czechs and, to a lesser extent, Lithuanians) as beneficial.<sup>57</sup> A significant part of the public considers the presence of citizens of the former USSR, Vietnam, Turkey, and Arabic and African countries as detrimental to the country.<sup>58</sup>

This trend is confirmed by the analysis of references to foreigners in the Polish press, which reveals that over time positive associations were made with the issue of immigration.<sup>59</sup> Also, according to press analysis, foreigners are perceived as less of a threat today than they were in the 1990s. More attention is paid to their economic activity and life in Poland than to crime and other illegal activities.<sup>60</sup>

### **Assessment of Current Policies**

#### *Immigration*

From the foregoing analysis, there appears to be a need for a comprehensive Polish migration policy in which the current mechanisms that discriminate against immigrants are eliminated. The policy of the state should allow more immigrants who are already working in Poland to legalize their status and create a clear and flexible system for their employment.

The existing policies are inadequate and reflect the fact that the problem of migration is still new to Poland. It needs to be acknowledged that, in a country of significant emigration and a growing economy, foreign labor is not only beneficial, it is necessary. In particular, the influx of foreign workers is needed to correct the sectoral imbalances that are already apparent in the Polish economy (most notably in agriculture, construction and health care). At the same time, any measures must be adopted after careful analysis of labor demand and must be constantly monitored to prevent the slippage of workers' protection or illegal employment. Considering the diversity of needs in the Polish economy, policies toward skilled labor should be differentiated from those for the low-skill sectors.

Recent solutions aimed at filling the gaps in the labor market – particularly in the seasonal work sector – will not resolve the problems created by an overall lack of labor in the agriculture sector or illegal foreign employment in general. First of all, current regulations apply only to the agriculture sector and ignore other sectors where there is a need for foreign work (like the construction and housekeeping industries). Secondly, these regulations will bring benefits only for

big farms such as orchards and fruit plantations and ignore the family-owned subsistence farms that constitute the bulk of the Polish agricultural sector.

However, more than technical amendments need to be introduced: the key barrier to legal change has been the absence of an overall government strategy for the place of migrants in the domestic labor market. The main aim of migration management should be to facilitate the recruitment of potential migrants whose qualifications may fill vacancies in the labor market. To achieve this, a gradual liberalization of the labor market should be introduced, coupled with efforts to incentivize legal employment and make illegal employment less attractive.

### *Emigration*

The current direction of Polish policy concerning the emigration of Polish citizens, which stresses the primacy of free movement, has been beneficial. However, lobbying to shorten the transition periods should be accompanied by more active measures to legalize work abroad through the conclusion of relevant bilateral agreements. Given the significant wage differential and continued high level of unemployment (so far Poland has been the country with the top rate of unemployment in the EU), emigration remains an attractive alternative, especially for those groups that are at the highest risk of being unemployed—the youth and small-town and rural populations.

At the same time, initiatives are needed to attract labor into several sectors that have been affected by the most significant outflows of labor. Though there has been little discussion about the across-the-board opening of the Polish economy to foreign labor, initiatives are in fact being seriously contemplated that would allow the entry of foreigners into selected sectors. The introduction of a seasonal work scheme targeting Poland's eastern neighbors heralds a change in the policy framework that until recently was very conservative.

### **Conclusion**

As the single largest exporter of workers to other EU states, Poland faces a unique set of circumstances. Officials worry about unequal treatment for Poles working abroad and actively lobby to have barriers to movement removed. The benefits that accrue to the Polish economy from the activities of these citizens include expanding professional networks and remittances – both of which add significantly to Polish GDP and spur continued economic growth.

However, the outflow of Polish labor that makes these benefits possible also creates a demand for workers at home, especially in low-skill professions. Current Polish regulations erect administrative barriers to legal employment and make foreign labor too costly. In the days ahead, a sustained effort on the part of the

Polish government to remove these burdens will be necessary if Poland is to maintain the high growth rate that it needs to bridge the wealth gap with the West.

## Notes

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<sup>1</sup> Main Statistical Office statistics, available at:

<[http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL\\_struktura\\_ludnosci\\_02\\_tablica2.xls](http://www.stat.gov.pl/cps/rde/xbcr/gus/PUBL_struktura_ludnosci_02_tablica2.xls)>.

<sup>2</sup> Maciej Duszczyk and Jakub Wiśniewski, "Emigrować i wracać" *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006, page 3.

<sup>3</sup> Biuletyn Migracyjny, Vol. 2, 2005, page 1. Available at <<http://www.migration-news.uw.edu.pl/BiuletynMigracyjny2.pdf>>; and Krystyna Iglicka, "Country Profile: Poland," Migration International Source, April 2005, Table: 1. Available at <<http://www.migrationinformation.org/Feature/display.cfm?id=302>>.

<sup>4</sup> Aleksandra Grzymała-Kazłowska and Marek Okólski, "Influx and Integration of Migrants in Poland in the Early XXI Century," Institute of Social Affairs, Warsaw University, Working Papers, No. 50, 2003.

<<http://www.migracje.uw.edu.pl/obm/pix/050.pdf>>, page 16.

<sup>5</sup> Eurostat.

<sup>6</sup> Ibid and Aleksandra Grzymała-Kazłowska and Marek Okólski, "Influx and Integration of Migrants in Poland in the Early XXI Century," Institute of Social Affairs, Warsaw University, Working Papers, No. 50, 2003, page 16.

<sup>7</sup> European Commission, "Report on the Functioning of the Transitional Arrangements Set Out in the 2003 Accession Treaty (Period 1 May 2004-30 April 2006)." Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, Belgium, 2006.

<sup>8</sup> "The Netherlands Opens Up Labor Market to Recent EU Members" *Deutsche Welle*, March 3, 2007. Available at <<http://www.dw-world.de/dw/article/0,2144,2371435,00.html>>.

<sup>9</sup> "Experience of Poland after 1989 as a country of entry and exit." Labor Migration: Lesson for Ukraine, Kyiv, 2005. See also Eurostat.

<sup>10</sup> Maciej Duszczyk and Jakub Wiśniewski, "Emigrować i wracać," *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006.

<sup>11</sup> Data for Germany, UK, Italy, Netherlands, Spain, Austria, Czech Republic and Sweden from Eurostat, Irish data from "Population and Migration Estimates," Central Statistics Office, 2006.

<sup>12</sup> Martin Ruhs, "Emerging Trends and Patterns in the Immigration and Employment of Non-EU Nationals in Ireland: What the Data Reveal," The Policy Institute, Trinity College, Dublin, October 28, 2003, page 16. Available at

<[http://www.policyinstitute.tcd.ie/working\\_papers/PIWP06%20-%20Martin\\_Ruhs.pdf](http://www.policyinstitute.tcd.ie/working_papers/PIWP06%20-%20Martin_Ruhs.pdf)>.

<sup>13</sup> Ibid, page 55; and “Germany was the primary destination country for communist-era Polish migrants. Although they entered the country illegally, it was fairly easy for them to stay because any document confirming German (*Aussiedler*) ancestry was accepted. Germany's lenient policy for those claiming German ethnicity lasted until 1991. Since then, the procedure for obtaining *Aussiedler* status has become stricter, and there are several new requirements applicants must fulfill.” Kyrstyna Iglicka. “EU Membership Highlights Poland's Migration Challenges,” Migration Information Source. Available at <<http://www.migrationinformation.org/Profiles/display.cfm?ID=302>>.

<sup>14</sup> Eurostat.

<sup>15</sup> Maciej Duszczyk and Jakub Wiśniewski, “Emigrować i wracać” *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006, page 13.

<sup>16</sup> *Informacja w sprawie zatrudnienia obywateli polskich w innych państwach Europejskiego Obszaru Gospodarczego oraz Szwajcarii oraz obywateli państw EOG w Polsce*, Ministerstwo Pracy i Polityki Społecznej, Warszawa, 2006.

<sup>17</sup> Ibid.

<sup>18</sup> “Eastern European Migrants in France: the Polish Example,” Prol-Position, December 2005, quoting Polish Ministry of Labor. Available at <[http://www.prol-position.net/nl/2005/04/polish\\_f](http://www.prol-position.net/nl/2005/04/polish_f)>.

<sup>19</sup> *Informacja w sprawie zatrudnienia obywateli polskich w innych państwach Europejskiego Obszaru Gospodarczego oraz Szwajcarii oraz obywateli państw EOG w Polsce*, Ministerstwo Pracy i Polityki Społecznej, Warszawa, 2006.

<sup>20</sup> Ibid.

<sup>21</sup> Maciej Duszczyk and Jakub Wiśniewski, “Emigrować i wracać” *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006, page 14.

<sup>22</sup> “Biuletyn Migracyjny,” nr 6 z czerwca 2006 roku.

<sup>23</sup> Maciej Duszczyk and Jakub Wiśniewski, “Emigrować i wracać” *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006.

<sup>24</sup> Estimate based on net migration in 2004. Piotr Korys and Agnieszka Weinar. “Immigration as a Labor Market Strategy – European and North American Perspectives: Poland,” Migration Policy Group, June 2005, page 5; and Maciej Duszczyk and Jakub Wiśniewski, “Emigrować i wracać” *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006, page 4.

<sup>25</sup> Piotr Korys and Agnieszka Weinar. “Immigration as a Labor Market Strategy – European and North American Perspectives: Poland,” Migration Policy Group, June 2005, page 16.



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<sup>26</sup> Act on Promotion of Employment and Labor Market Institutions of August 20, 2004, *Journal of Laws* 2004, No. 99, Item 1001, page 2. Available at <<http://isip.sejm.gov.pl/servlet/Search?todo=open&id=WDU20040991001>>.

<sup>27</sup> Other legal documents also classify foreigners that do not need to obtain work permits.

<sup>28</sup> Ewa Kępińska, “Recent Trends in International Migration, The 2004 SOPEMI Report for Poland,” Institute of Social Affairs, Warsaw University, Working Papers, No. 56, 2004, pages 9-13.

<sup>29</sup> Roporządzenie w sprawie wykonywania pracy przez cudzoziemców bez konieczności uzyskania zezwolenia na pracę from February 9, 2004, *Journal of Laws*, 2004, No. 27, Item 238.

<sup>30</sup> Piotr Koryś and Agnieszka Weiner, “Immigration as a Labor Market Strategy – European and North American Perspectives,” Migration Policy Group, Brussels, 2005, page 2. See also OECD Statistics database. Average unemployment rate has been calculated from the unemployment rates from 1992-1999.

<sup>31</sup> Mirosław Bieniecki and Justyna Frelak, “Non-Poles on the Polish Labor Market – Problems and Challenges,” Gliwice, 2006, page 9.

<sup>32</sup> Eurostat; United States Census Bureau, Table FBP-1. Profile of Selected Demographic and Social Characteristics: 2000. Available at <<http://www.census.gov/population/cen2000/stp-159/STP-159-Poland.xls>>; “Facts and Figures: Immigration Overview: Permanent and Temporary Residents,” Citizenship and Immigration Canada, 2004, page 36. Available at <<http://www.cic.gc.ca/EnGLIsh/pdf/pub/facts2004.pdf>>.

<sup>33</sup> Zbigniew Lentowicz, “Rząd zaprasza cudzoziemców do pracy,” *Rzeczpospolita*, 27 April 2007.

<sup>34</sup> Krystyna Iglicka, O. Olszewska, and A. Stachurski, J. Żurawska, “Dylematy polityki migracyjnej Polski,” ISS, UW, Working Papers, 2004, page 14.

<sup>35</sup> As calculated and forecast by the Polish Main Statistical Office. See <<http://www.stat.gov.pl/>>.

<sup>36</sup> Piotr Koryś and Agnieszka Weiner. “Immigration as a Labor Market Strategy – European and North American Perspectives: Poland,” Migration Policy Group, June 2005, page 11; and Maciej Duszczyc and J. Korczyńska, “Zapotrzebowanie na pracę cudzoziemców w Polsce,” Institute of Public Affairs, Warsaw, 2005, page 6.

<sup>37</sup> Krystyna Iglicka, “Ethnic Division on Emerging Foreign Labor Markets in Poland during the Transition Period, in: *Europe-Asia Studies*,” Vol. 52, No. 7, 2000, page 1237. See also Maciej Duszczyc And J. Korczyńska, “Zapotrzebowanie na pracę cudzoziemców w Polsce,” Institute of Public Affairs, Warsaw, 2005; and Piotr Koryś and Agnieszka Weiner. “Immigration as a Labor Market Strategy – European and North American Perspectives: Poland,” Migration Policy Group, June 2005, page 11.

<sup>38</sup> Ewa Kępińska, “Recent Trends in International Migration. The 2006 SOPEMI Report for Poland,” CMR Working Papers, UW, Warsaw, 2006 page 17.

<sup>39</sup> J. Ćwiek: *Polska szuka za granicą budowlańców i lekarzy*, *Gazeta Wyborcza*, January 11, 2007, <[www.gazeta.pl](http://www.gazeta.pl)>.

<sup>40</sup> S. Golinowska, *Popyt na pracę cudzoziemców. Polska i sąsiedzi*, Institute of Labor and Social Studies, Warsaw 2004.

<sup>41</sup> Besides their niche character, some other factors that explain a large share of immigrants from neighboring Eastern countries in these sectors include: geographical proximity, easy access to the country (cheap or free as in the case of Ukrainians, multiple entry visas), well developed migratory networks, etc. See also: Mirosław Bieniecki, H. Bojar, Justyna Frelak, A. Gąsior-Niemiec, J. Kurczewska, and M. Pawlak, *Regulacja migracji zarobkowej – wyzwania dla Ukrainy w kontekście polskich doświadczeń. Raport z badań socjologicznych przeprowadzonych wśród migrantów ekonomicznych z Ukrainy w Warszawie i okolicach [Regulation of Labor Migration: Challenges for Ukraine In Light of the Polish Experience. Report from Sociological Research Conducted Among Economic Migrants from Ukraine In Warsaw and Surroundings]*, Warsaw: Institute of Public Affairs, 2005. See also Parkhomenko N., *Ukrainian Labor Migration in the Enlarged Europe*, Kyiv, CPCFPU/IPA, 2005. See also Duszczyk M. and J. Korczyńska, “Zapotrzebowanie na pracę cudzoziemców w Polsce,” Institute of Public Affairs, Warsaw, 2005.

<sup>42</sup> Communiqué: *Obcokrajowcy pracujący w Polsce*, Public Opinion Research Centre, Warsaw, October 2006, <[www.cbos.pl](http://www.cbos.pl)>.

<sup>43</sup> Będzie łatwiej zatrudnić cudzoziemca na budowie? March 8, 2007, <<http://finanse.wp.pl>>.

<sup>44</sup> Communiqué: *Obcokrajowcy pracujący w Polsce*, Public Opinion Research Centre, Warsaw, October 2006, <[www.cbos.pl](http://www.cbos.pl)>.

<sup>45</sup> Public Opinion Research Centre, Report from October 12, 2006.

<sup>46</sup> H. Bojar, A. Gąsior-Niemiec, Mirosław Bieniecki, M. Pawlak, *Migranci na rynku pracy w Polsce*, Wyniki badań przeprowadzonych wśród migrantów ekonomicznych i pracowników polskich, Institute of Public Affairs, Warsaw 2005, page 71.

<sup>47</sup> European Commission, “Report on the Functioning of the Transitional Arrangements Set Out in the 2003 Accession Treaty (Period 1 May 2004-30 April 2006).” Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, Brussels, Belgium, 2006, page 13.

<sup>48</sup> *Ibid*, page 14.

<sup>49</sup> “Britain’s banks join attempts to ride wave of Polish Immigration,” *Financial Times*, April 24, 2007.

<sup>50</sup> Maciej Duszczyk and Jakub Wiśniewski, “Emigrować i wracać” *Migracje zarobkowe Polaków po 1 maja 2004 r.* Instytut Spraw Publicznych, Warszawa, 2006.

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- <sup>51</sup> “Monitorowanie migracji polskich lekarzy, pielęgniarek i położnych po przystąpieniu Polski do Unii Europejskiej”. Report of the Polish Ministry of Health, June 2006, available at: <<http://www.mz.gov.pl>>.
- <sup>52</sup> “Biuletyn Migracyjny”, Vol 8, 2006, page 4.
- <sup>53</sup> Mateusz Szczurek, “Emigranci i imigranci,” *Rzeczpospolita*, April 13, 2006.
- <sup>54</sup> H. Bojar, “New Political Elites and the Issue of National Minorities in Poland,” in Joanna Kurczewska et al., “Socio-political Developments and Impacts,” *The European Dilemma: Institutional Patterns and Politics of ‘Racial’ Discrimination*, Institute of Public Affairs, Warsaw, 2005 (unpublished), page 2.
- <sup>55</sup> Krystyna Iglicka, Piotr Kaźmierkiewicz, and Agnieszka Weiner, “Current Immigration Debates in Europe: Poland,” Migration Policy Group, Brussels, 2005.
- <sup>56</sup> Agnieszka Weiner, Tak daleko stąd, tak blisko – europeizacja a integracja legalnych imigrantów, uchodźców i repatriantów in: Krystyna Iglicka (ed.) *Integracja czy dyskryminacja? Polskie wyzwania i dylematy na progu wielokulturowości*, Institute of Public Affairs, Warsaw, 2003, page 137.
- <sup>57</sup> Michał Wenzel, “Societal Attitudes Towards Foreigners Living in Poland,” in: Joanna Kurczewska, et al., “Socio-political Developments and Impacts,” *The European Dilemma: Institutional Patterns and Politics of ‘Racial’ Discrimination*, Institute of Public Affairs, Warsaw, 2005 (unpublished), page 14.
- <sup>58</sup> Communiqué: *Obcokrajowcy w Polsce*, Public Opinion Research Centre, Warsaw, August 2004, page 3. Available at <[www.cbos.pl](http://www.cbos.pl)>.
- <sup>59</sup> Michał Wenzel, “Societal Attitudes Towards Foreigners Living in Poland,” in: Joanna Kurczewska, et al., “Socio-political Developments and Impacts,” *The European Dilemma: Institutional Patterns and Politics of ‘Racial’ Discrimination*, Institute of Public Affairs, Warsaw, 2005 (unpublished), page 12.
- <sup>60</sup> Maciej Mrozowski: *Obrazy cudzoziemców i imigrantów w Polsce w prasie polskiej*, in: Krystyna Iglicka (ed) *Integracja czy dyskryminacja? Polskie wyzwania i dylematy na progu wielokulturowości*, ISP, Warszawa, 2003.

## **Chapter 4**

### **Lithuanian Migration: Causes, Impacts and Policy Guidelines<sup>1</sup>**

Giedrius Kadziauskas\*

#### **Introduction**

On May 1, 2004, eight Central and Eastern European states joined the European Union (EU), within whose borders they subsequently enjoyed the right (at least theoretically) to the free movement of capital, goods, services and persons. In Lithuania, fears surfaced in the months leading up to enlargement about the impact that the fourth of these freedoms – the movement of labor – might have in producing massive migration flows, which in turn could have negative consequences for the country's economic development. In response, various public policy solutions have been contemplated to control emigration. This study provides an overview of recent Lithuanian migration, its causes, and the types of policies that are needed at the national level to maximize the benefits and minimize the costs of liberalized labor markets in the EU.

#### **Data on Lithuanian Emigration**

Before 1990, some 6,000 to 8,000 Russians relocated to Lithuania every year.<sup>2</sup> After the restoration of independence, emigration from Lithuania was primarily characterized by the departure of ethnic Russians, Ukrainians and Belorussians back to their countries of origin. The year 1992 witnessed the largest of such departures, which was prompted largely by the withdrawal of the Soviet army from Lithuania.<sup>3</sup>

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Table 1: Emigration from the Baltic States to the Russian Federation, 1989 –1996  
(in thousands)

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Baltic States	4	13	14	57	54	42	24	7

Source: Okolski, Marek, “New Migration Trends in Central and Eastern Europe in the 1990s,” *Prace Migracyjne*, no 4, Warsaw, Institute for Social Studies, University of Warsaw, 1997.

Even before EU enlargement, Lithuanians were emigrating westward. The official statistics bureau, the Lithuanian Statistics Department, estimates that more than 20,000 people emigrated from Lithuania each year between 1990 and 2000.

Table 2: Lithuanian Migration, 1990-2005 (in thousands)

	<u>Immigration</u>	<u>Emigration</u>	<u>Net Migration</u>
1990	14.7	23.5	-8.8
1991	11.8	22.7	-10.8
1992	6.6	31.1	-24.5
1993	2.8	26.8	-23.9
1994	1.6	25.8	-24.1
1995	2	25.6	-23.6
1996	3	26.3	-23.3
1997	2.5	24.9	-22.4
1998	2.7	24.8	-22.1
1999	2.6	23.4	-20.7
2000	1.5	21.8	-20.3
2001*	4.6	7.2	-2.5
2002	5.1	7	-1.9
2003	4.7	11	-6.3
2004	5.5	15.1	-9.6
2005	6.7	15.5	-8.7

\*Data on immigration and emigration after 2000 is based only on registered migration, whereas the calculation of previous years was adjusted according to population census data. The drop in 2001 is attributable to a change in the methodology. From 2001 on statistics are no longer based census data but only on registered emigration.

Source: Statistics Lithuania. *Lietuvos Gyventoju Tarptautine Migracija*, Vilnius, Lithuania 2006.

*Labor Mobility in the European Union*

Researchers point out the following distinctive features of migration from East Central Europe at that time:

- The majority of trips were short-term (over 80 percent lasted no longer than one month);
- These short-term trips were primarily undertaken by petty-traders to obtain goods in the West to resell in Lithuania. These movements comprised 35.6 percent of all overseas trips from 1992 through 1995;
- Short-term labor trips for manufacturing and construction jobs abroad were also beginning to take root during these years. Such migration accounted for 25.5 percent of all trips from Lithuania;
- All of these flows were illegal or semi-legal.<sup>4</sup>

Between 1998 and 2002, Lithuanian emigrants went to Poland (19.1 percent), Germany (17 percent) the United States (11.7 percent), the United Kingdom (8.7 percent), Denmark, (6.2 percent) and Sweden (5.6 percent). The total number of

Table 3: Lithuanian Emigration by Country of Destination  
(Share of Total Flow as a percentage)\*

	<u>2003</u>	<u>2004</u>
Great Britain	12.9	26.2
United States	30.5	21.7
Germany	15	12.2
Ireland	3.4	7.8
Spain	5.4	5.5
Russia	7.3	4.9
Belarus	4.3	3.2
Sweden	2	2.2
Italy	2.1	1.9
Norway	2.2	1.6
Denmark	1.5	1.2
France	1.4	1.2
Netherlands	1.3	0.9
Ukraine	1.3	0.8
Latvia	1.2	0.8

\*Calculations are based on emigrants by country of destination according to registered migration. This source notes total emigration of 10,725 for 2003 and 13,249 for 2004. Percentages are calculated by the authors of this study.

Source: "Migration Annual 2004," Migration Department, Ministry of Interior of the Republic of Lithuania, 2005, pages 23-24.

Lithuanian citizens working abroad in 2003 was estimated to be around 195,000.<sup>5</sup>

Table 3 presents the percentage of emigrants by country of destination before (2003) and after (2004) EU accession. According to a study by the Civil Society Institute, the total pool of Lithuanian emigrants residing abroad in 2004 was between 200,000 and 250,000, of which 50,000 settled in the United States and the UK each, another 30,000 in Ireland and Spain each, 10,000 in Germany, and 5,000 in Norway.<sup>6</sup> However, the estimates vary by source and method of calculation.<sup>7</sup>

According to Lithuanian Statistics Department estimates, around 15,000 Lithuanians emigrated in 2004 and 15,600 emigrated in 2005.<sup>8</sup> However, this figure is clearly an underestimate of the actual scale of migration flows, as these official calculations were based, not on census surveys, but on registered migration data (i.e., the number of people who reported their migration). Although Lithuanian law obliges emigrants to report on their movements, they often ignore this obligation (Lithuanian citizens can move freely within the EU). Analysts who adjust for this deficiency come up with much higher estimates of Lithuanian migration. For instance, according to those who draw on alternative data, around 50,000 people migrated from Lithuania in 2004.<sup>9</sup> Thus the scale of actual migration – including illegal and non-registered emigrants – may be three times larger than official statistics indicate.<sup>10</sup>

Emigrants are mostly young people of working age. According to Lithuanian Statistics Department data for 2005, people aged 25 to 29 accounted for 20 percent; ages 20 to 24 for 16.3 percent; ages 30 to 34 for 12.9 percent; and ages 35 to 39 for 8.8 percent of total emigration. People aged 60 and above made up a mere 2.9 percent of total emigration flows.<sup>11</sup> This equals about 1.9 per cent of the working age population of Lithuania.<sup>12</sup> It is interesting to compare this data to studies conducted in countries that are major hosts for Lithuanian migrants. For instance, British authorities estimate that, as of 2004, more than 80 percent of immigrants to the UK were young (18 to 34 years old) and unmarried. Poles and Lithuanians were the largest contributors to this inflow of young workers, providing 204,895 and 44,715 respectively.<sup>13</sup>

### **Key Economic Factors Affecting Migration**

This section analyzes major factors that affect migration which fall inside the realm of governmental influence. As a number of studies have indicated, relative employment levels and wage differentials are generally the most important factors that have an impact on migration in Europe.<sup>14</sup> This section presents an overview of how these factors – as well as educational services, tolerance of illegal migration, and pro-active employment policies in the countries of destination – are affecting migration in Lithuania following EU enlargement.

*Salary/Wage Differentials*

Differences in the standard of living in Lithuania and Western Europe are significant. In 2004, Lithuania's GDP per capita at purchasing power parity constituted 44.03 percent of the EU-15 and 47.8 percent of the EU-25.<sup>15</sup> When asked why they seek employment opportunities abroad, the vast majority of Lithuanians cited low salaries at home as the greatest incentive. According to a

Table 4: Differences in Average Salaries and Minimum Wages in European Countries (2004)<sup>16</sup>

	<u>Salary (LT (\$))</u>		<u>Comparison of Average Salaries in Terms of Magnitude of Difference*</u>
	<u>Minimum Salary</u>	<u>Average Salary</u>	
Luxembourg	5,065.3 (1,933.30)	11,860.4 (4,526.90)	9.05
Netherlands	4,367.8 (1,667.10)	11,860.4 (4,526.90)	9.05
United Kingdom	4,233.1 (1,615.70)	11,860.4 (4,526.90)	9.05
France	3,984.5 (1,520.80)	11,860.4 (4,526.90)	9.05
Belgium	4,550.8 (1,736.90)	8,314.3 (3,173.40)	6.34
Ireland	4,188.2 (1,598.50)	8,314.3 (3,173.40)	6.34
Cyprus	2,106.2 (803.90)	5,061.8 (1,931.90)	3.86
Spain	1,771.3 (676.10)	4,492.1 (1,714.50)	3.43
Malta	1,923.2 (734.00)	3,829.2 (1,461.50)	2.92
Slovenia	1,671.2 (637.90)	3,742.8 (1,428.50)	2.86
Greece	1,933.6 (738.00)	3,552.90 (1,356.00)	2.71
Czech Republic	821.8 (313.60)	1,985.4 (757.80)	1.52
Poland	718.2 (274.10)	1,871.4 (714.30)	1.43
Estonia	593.9 (227.50)	1,543.4 (591.30)	1.17
Hungary	801.0 (306.80)	1,522.7 (583.40)	1.16
<b>Lithuania</b>	<b>500.0 (191.60)</b>	<b>1,310.1 (501.90)</b>	<b>1</b>
Slovakia	562.8 (215.60)	1,101.4 (421.90)	0.84
Latvia	417.8 (160.00)	1,060.0 (406.10)	0.81

\*author's calculation

Source: Eurostat, Presented by Marius Greičius of Ministry of Social Security and Labor at October 14, presentation at European Information Center.



survey conducted by RAIT, a Lithuanian market research company, 90 percent of the population shares this opinion.<sup>17</sup> This is in accordance with the conclusions of general studies on migration conducted by the World Bank.<sup>18</sup>

There are great differences in absolute wages between Lithuania and other EU member states. In 2004, Lithuania's minimum wage was LTL 550 (\$210) per month. About 18 percent of all wage earners and 10 percent of full-time employees are paid at or below the minimum wage.<sup>19</sup> Furthermore, the majority of minimum wage earners are believed not to have supplemented their income with unofficial earnings. In the Lithuanian Free Market Institute's survey of market participants in 2005, private sector CEOs reported that only about 40 percent of their employees received "envelope" (off-the-books) wages on top of their regular earnings.<sup>20</sup> Even if average wages in Lithuania have been underestimated, the differences compared with Western Europe are still enormous. In 2005, Lithuania's mandatory minimum wage of €145 (\$191) per month was about eight times lower than that of Ireland at €1,183 (\$1,472), the UK and France at €1,197 (\$1,490), and Belgium at €1,210 (\$1,506).<sup>21</sup>

Table 4 shows Lithuania's minimum wage and average salary levels in 2004 compared to a number of other EU countries.<sup>22</sup> The countries are ranked greatest to least in terms of average salary.

The aggregate comparison of wage differentials across countries disregards some important factors: differences in the costs of living, changes in needs caused by resettlement (such as additional communication and transportation expenditures), income derived from the shadow economy in Lithuania (which is estimated to account for about 20 percent of GDP) and stability of employment and working conditions.<sup>23</sup> In public debates, wage comparisons disregard taxation rates including personal income taxes and social security contributions, rather than comparing disposable income. It is difficult to conclusively estimate whether in aggregate these additional factors encourage or discourage migration. However, given that the overwhelming majority of Lithuanians seek employment abroad due to differences in salaries, this data does demonstrate a reality, if only nominal.

### *Unemployment*

As RAIT's public opinion survey states, Lithuanians believe that a high rate of unemployment is the second most important reason driving labor migration.<sup>24</sup> Until recently, Lithuania's registered unemployment rate was one of the highest in the EU. According to the Lithuanian Labor Exchange Office, there were 204,900 unemployed individuals registered in 2000 — about 10.2 percent of total work force.<sup>25</sup> In 2006, the Lithuanian Statistics Office registered 89,300 jobless people, a reduction in 115,600 individuals.<sup>26</sup>

The recent dramatic fall in unemployment (from a high of 16.5 percent in 2001 to 5.6 percent in 2006) would suggest that – although it might have played a significant role in causing Lithuanians to migrate in the past – unemployment is no longer a serious motivator of emigration.<sup>27</sup> However, the decline in the jobless rate did not eliminate structural unemployment and did not resolve the discouraged worker phenomenon (i.e., those who are not counted as unemployed but have lost motivation to seek professional opportunities). At the end of 2005 there were around 12,000 unfilled vacancies (labor shortages were particularly acute in manufacturing, defense, social insurance, trade industries and public administration).<sup>28</sup>

Unfortunately, Lithuania's unemployed lack the requisite skills to fill these shortages: about 80 percent of those who are registered in regional employment offices do not match labor market requirements. Every third person among those registered as unemployed in 2006 did not have any professional qualification, every third person had lost qualifications due to long term unemployment (more than 2 years), and every tenth person did not have any work experience.<sup>29</sup> Furthermore, a 10 percent increase in the minimum wage was mandated in July 2005, reducing the domestic demand for unskilled labor, which constitutes half of the unemployed work force.<sup>30</sup> Unemployment among unskilled workers is therefore likely to continue to induce migratory flows from Lithuania to Western Europe – especially Germany, where there is no standard minimum wage and where individuals may find seasonal jobs in agriculture.

#### *Flaws in the Education System*

As mentioned above, Lithuania's structural unemployment, which encourages migration, is due partly to deficiencies in the skills of Lithuanian workers and the lack of incentives and opportunities for retraining. In turn, this deficiency can be attributed to deep-seated shortcomings in Lithuania's public education system, which fails to adequately respond to the changing needs of the market.<sup>31</sup> In many regards it still suffers from the communist legacy: it is overly centralized and its rigid curricula do not encourage critical skills and flexibility among students, while its funding mechanisms are hardly contingent on dynamic developments in Lithuania's labor market. Universities are funded by students' (mainly extramural) payments and government subsidies that depend on the number of students admitted. Universities tend to have many students but the least funding per student in the EU.<sup>32</sup>

Though Lithuania ranks as one of the countries with the highest proportion of university-educated population in Europe, domestic employers are not satisfied.<sup>33</sup> According to a World Bank study on textile industries, there is a higher ratio of workers with higher-education diplomas in low-skilled occupations in Lithuania

than there are in India, China or Poland.<sup>34</sup> Thus, even those Lithuanians who officially count among the employed are likely to leave Lithuania – for reasons beyond salary differentials – and seek professional opportunities in Western Europe.

Furthermore, the country's poorly-designed university system motivates the best Lithuanian students to seek educational opportunities abroad, where they can get a higher quality education for time and money spent. More often than not, these students find at least part-time employment in host countries in order to support themselves through their educational endeavors, thus accounting for some of the outflow of Lithuanian workers.

#### *Labor Recruitment and Programs Aimed at Facilitating Labor Mobility*

Labor shortages force some Western European countries to actively seek out employees in Central Europe (in areas such as healthcare and information technologies) and therefore stimulate the migration of Lithuanian workers.<sup>35</sup> Norway, the Netherlands and Denmark even organize language courses for qualified professionals (especially doctors and nurses) to fill vacancies in their labor markets.<sup>36</sup>

The European Commission promotes free movement of labor in the EU by sponsoring a network of nationally-based employment centers, professional unions and employers through the European Employment Services (EURES). EURES provides information and advice to potential labor migrants about job opportunities as well as living and working conditions in the European economic zone, and offers assistance for employers seeking to hire immigrant labor. The EURES website lists around 900,000 job postings from across the EU.<sup>37</sup>

Apart from national and EU labor mobility promotion programs, labor migration has been stimulated above all by active labor recruitment on the part of private industry. According to the Lithuanian Labor Exchange Office, 61 firms had licenses to provide recruitment for foreign vacancies in September 2006.<sup>38</sup>

#### *Shadow Economies and Tolerance of Illegal Migration in Western Europe*

The countries of Western Europe tend to recognize the value of Central European migration and often *de facto* allow illegal immigration. In Spain, for example, a public campaign has been launched to legalize the country's resident illegal immigrants.<sup>39</sup> Such policies send a clear message to potential migrants that illegal worker status is tolerated, and can even assist an individual in eventually obtaining legal status. The phenomenon of illegal migration is further instigated by the fact that the informal sector accounts for a sizeable share in Western European economies (even in countries that have not officially opened up their

labor markets to Central European workers). For instance, the shadow economy makes up 9.5 percent of economic activity in Switzerland, 28.3 percent in Greece, 12.3 percent in the UK and 16.8 percent in Germany.<sup>40</sup> Illegal immigrants are active participants in this sector. For example, in 2003 in Germany there were around 9.42 million illegal national workers, compared to 1.225 million illegal immigrant laborers.<sup>41</sup>

In short, labor migration from Lithuania is driven by higher salaries abroad and labor demand in Western European countries with growing economies. Commercial recruitment companies, informal recruitment networks, national government programs and EU labor mobility promotion programs aim to meet this demand. Receiving countries recognize the value of immigration for their national economies and tend to tolerate illegal immigrants.

### **The Economic Impacts of Migration on Lithuania**

Assessing the impacts of labor migration on the Lithuanian economy is not an easy task. Nonetheless, a number of areas can be distinguished where the relationship between the migration phenomenon and economic outcomes is undeniable.

#### *Increasing Salaries*

Apart from minimum wages, salaries in Lithuania are not regulated. The country's average monthly wage rose from LTL1,149 (\$438) in the fourth quarter of 2004 to LTL1,453 (\$555) in the fourth quarter of 2005. This can be attributed to both labor market shortages and employers' efforts to prevent the departure of

Table 5: Lithuanian Migration's Effect on the Economy (% difference from base)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2015</u>
GDP	-0.19	-0.33	-0.41	-0.48	-0.56	-0.82
Inflation	0.11	0.26	0.29	0.17	0.08	-0.01
Unemployment	-0.65	-0.94	-0.81	-0.73	-0.68	-0.56
Current Account	0.21	0.32	0.29	0.21	0.15	0.05
Productivity	0.18	0.46	0.66	0.67	0.64	0.54
GDP Per capita	0.53	0.88	0.91	0.83	0.77	0.54

Based on data from "EU enlargement and migration: Assessing the macroeconomic impacts," Tables 2-7.

workers.<sup>42</sup> In an attempt to prevent their employees from leaving, companies have begun to offer workers increasingly competitive wages and non-monetary benefits (e.g., organizing transportation from home to work, additional health insurance, partial coverage of lunch expenses, etc).<sup>43</sup>

Employers have at times been forced to offset rising wages by lowering costs and hiring immigrant workers. Unfortunately, increasing labor costs have also reduced the attractiveness of Lithuania’s cheap labor and therefore may have negatively impacted the growth of foreign direct investments.<sup>44</sup>

*Declining Unemployment*

Unemployment in Lithuania declined by 31 percent in the first year after EU enlargement.<sup>45</sup> The withdrawal of Lithuanian workers from the domestic labor market has coincided with – and seems to have had a decisive impact upon – this decline in unemployment. In 2001, the Labor Exchange registered 223,500 unemployed persons, while in 2005 this number dropped to 100,800. The accession year itself witnessed a decrease in unemployment from 167,000 in 2003 to 142,500 in 2004.

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Unemployed	226.7	249	273.7	284	224.4	203.9	184.4	132.9
Registered Unemployed	113.7	148.7	204.9	223.5	198.4	167	142.5	100.8
Employed Individuals	1,489	1,456	1,397	1,351	1,405	1,438	1,436	1,473

Source: The Department of Statistics, Labor Exchange.

The Lithuanian Labor Exchange further reports that the number of permanently unemployed individuals fell from 44,000 to 28,000 in 2005.<sup>46</sup> It is worth stressing that only part of this decline in unemployment figures can be attributed to the rise of employment in Lithuania. This is evident by looking at employment growth statistics after EU enlargement: whereas between 2004 and 2005 unemployment in the country dropped by 41,700 to 51,500, employment increased by only 37,600.<sup>47</sup>

The salutary effects of labor migration on Lithuania’s positive employment trends are unmistakable. The excess supply of labor has moved to areas of greater

demand in other areas of the EU (i.e., reducing the competition for jobs, increasing the chances of an individual who stays in Lithuania of finding a job, and reducing the number of people on unemployment benefits).

*Demographic Decline and an Aging Society*

Emigration has a considerable effect on the demographic situation in Lithuania. One of the dominant problems of European society today is a rapidly-aging population (a by-product of declining fertility rates and longer life expectancy). Lithuania is no exception in this regard.<sup>48</sup> However, in Lithuania this demographic problem has been further aggravated by the fact that outbound workers are disproportionately young. As some analysts have pointed out, the decline of the working-age population in Lithuania is among the most acute in Europe.<sup>49</sup> Kotowska and Shoenmaekers argue that, by 2030, the supply of labor in “Bulgaria, Estonia, Latvia, Lithuania, Switzerland, Italy and Slovenia will decline by at least 20 percent as compared to 2000.”<sup>50</sup> Currently, individuals of working age account for 67.3 percent of the total population. This proportion will drop to 65.7 percent by 2025 and 59.6 percent by 2050.<sup>51</sup>

One effect of the emigration of the working-age population is that Lithuania’s social security system is being deprived of these workers’ contributions. Thus the number of dependents per employed person grows, creating a greater burden for those who choose to stay in Lithuania. In 2004, the elderly dependency ratio was 22.3 percent. By 2050 the elderly dependency ratio will more than double to 44.9 percent.<sup>52</sup> If the demographics continue to change as projected, the social security system will not be able to keep up with demand. Without fundamental changes (e.g., adjustments in benefit levels, the age of eligibility or massive immigration) the social security system will either fail entirely or continue to limp along, adding to government debt and slowing economic growth.

Table 7. Remittances to Lithuania 2003-2005 (in millions of Euros)

<u>Year</u>	<u>Total</u>	<u>Percentage of GDP*</u>
2003	29.25	0.177
2004	129.74	0.715
2005	251.06	1.21

\* Author’s calculation.

Source: Bank of Lithuania for Remittances and Eurostat for GDP (current prices).

This burden on social security may be offset by falling unemployment and remittances. Evidence of increasing flows can be noted by observing the data for

the last three years. The total remittances for 2005 are more than 8 times larger than in 2003. This substantial increase coincides with Lithuania's EU accession. Thus, remittances may increasingly serve as important development capital and FDI as return-migrants invest their newly-earned income back into the Lithuanian economy.<sup>53</sup>

### *"Brain Drain"*

Research shows that, "every year Lithuania loses tens or even hundreds of talented scholars, doctors, engineers and other highly skilled specialists."<sup>54</sup> However this is only a small share of the educated labor force in Lithuania. The supposedly detrimental "brain drain" phenomenon may even have some positive effects on the Lithuanian economy. Moving abroad is an opportunity for one to improve his/her knowledge of a subject area and develop or strengthen links with foreign scientific and educational organizations. Those who leave often bring enhanced skills back to Lithuania, which may then be passed along to colleagues, thereby supplementing the under-performing Lithuanian educational system.<sup>55</sup>

### *Labor Market Shortages*

Labor market shortages increasingly sap the Lithuanian economy. As workers migrate and employers lose qualified labor, they are forced to seek replacements. Labor force turnover requires additional investments and training and, consequently, transitional periods. In 2005 there were 7,900 job openings and in 2006 there were 19,500 – a 0.7 and 1.5 job vacancy rate, respectively.<sup>56</sup> To some degree, this has been offset by worker migration to Lithuania (mostly from non-EU states).

Lithuania's labor market is open to citizens of EU member states, and their terms of employment are subject to the same rules that apply to Lithuanians. However, Vilnius has enacted stringent administrative procedures regulating immigrants from non-EU countries. These rules are stipulated in the Law on the Legal Status of Foreigners. Companies are allowed to hire foreign (non-EU) workers only in sectors that experience domestic labor shortages. The Lithuanian government lacks the resolve to amend this policy and thus administrative barriers continue to hamper immigration growth. For example, in order to hire non-EU workers, Lithuanian employers are obliged to demonstrate that they cannot fill the position with domestic specialists. However, finding Lithuanian specialists on average takes about six months, which impedes business operation and profitability. These prohibitive policies have a negative impact on the country's economy and should be revoked. At a minimum, the time it takes to issue work permits should be shortened.

Despite these restrictions, Lithuanian companies have been able to hire foreign workers – both skilled and unskilled – from Belarus, Russia and Ukraine.

Table 8: Number of Aliens Residing in the Republic of Lithuania from January 2006, by Nationality

<u>Nationality</u>	<u>Total</u>
European states, including:	24,511
EU Member States, including:	2,263
Denmark	123
Latvia	391
Poland	541
France	110
Germany	398
European Free Trade Association	111
Norway	80
Other European states including:	22,137
Armenia	322
Belarus	4,020
Georgia	136
Russia	14,676
Ukraine	2,539
North American states including:	435
USA	402
Central & South American states	57
Australian & Oceania states	19
Asian states including:	1,502
Israel	323
Kazakhstan	290
China	218
Lebanon	156
African states	58
Stateless persons	8,708
Total	35,290

Adapted from the Migration Yearbook 2005, Ministry of the Interior, Republic of Lithuania, 14. Available at [http://www.migracija.lt/MDEN/Metrastis\\_2005\\_EN.pdf](http://www.migracija.lt/MDEN/Metrastis_2005_EN.pdf).

Lithuania is an attractive market for these workers as it offers a cultural setting proximate to their home country, but with higher salaries. According to the Statistics Department, immigration into Lithuania totaled 6,789 people in 2005.<sup>57</sup> In the same year, the Lithuanian Labor Exchange issued 313 work permits (down



from 609 in 2003).<sup>58</sup> Most immigrant workers have settled in Vilnius (14,556), Klaipeda (5,198) and Kaunas (4,109).<sup>59</sup>

In most cases, these workers have filled shortages in the Lithuanian labor market (some domestic construction and repair businesses are even wholly dependent on the special qualifications of immigrant labor). “The majority of foreign workers,” one source notes, “are employed in education (39.5 percent), trade (10.8 percent), transport (9.6 percent) and manufacturing (6.8 percent).”<sup>60</sup>

If emigration-incited labor shortages cannot be filled with new workers (whether from among the unemployed or by immigrants) or amended by technological improvements, the related decline in the labor force is likely to inhibit economic growth. In recent years substantial economic growth has been recorded in labor-intensive sectors such as manufacturing, which grew by 8.7 percent in 2006, and retail trade, which grew by 21.7 percent.<sup>61</sup> Labor shortages in this area would have a disastrous effect on the growth of the Lithuanian economy.

### **Prescriptions for Government Policy**

Governments assume that the phenomena associated with international migration are relatively predictable and thus manageable. The assumption appears to be that the policy environment is relatively stable and that states possess the policy tools that enable them to manage and regulate this migration. Yet more often than not, migration policy muddles along in the face of unpredictable migration pressures within institutional settings that do not always facilitate the translation of policy objectives into policy outcomes.<sup>62</sup>

Both the economic reality (labor market shortages) and political calculation (public opinion) affect the Lithuanian government’s proactive attempts to limit migration flows and promote return-migration. However, the free movement of labor within the EU remains a primary goal of the current administration. However, this reduces the Lithuanian government’s ability to manage their citizen’s westward migration.

Public policies can affect only some of the general factors influencing migration. Policymakers should move cautiously to avoid creating distortions in the labor market. The study “Research on Measures to Promote Return Migration,” commissioned by the Lithuanian Ministry of Social Security and Labor, notes that:

Long-term public policy should be oriented towards the improvement of the quality of human capital, the creation of a favorable business environment and the achievement of

macroeconomic stability. The accomplishment of these goals will provide the best incentive for return-migration in the long-term.<sup>63</sup>

If migratory decisions are understood as purposeful choices by an individual to change his/her current situation into a more satisfactory one, free market policy implications will follow. Because the same external conditions and factors can lead individuals to take different actions, it is not possible to identify a finite list of motivating factors behind migration or create policies aimed at altering their decisions.

From the public policy perspective, the government will take action in the fields where its policies can affect people's decisions. Since economic factors have primary causal influence in the migration of Lithuanians and economic conditions can be altered by government intervention, policymakers should focus on creating sound policies that create many options from which a citizen may choose.

Proactive migration control techniques – including arrival and departure restrictions, quotas and restrictions on monetary flows – only increase the costs of emigration and heighten its concomitant risks (e.g., human trafficking).

Government policies to reduce migratory pressures should take note of the following:

- The government should not forcibly restrict migration. Choices about migration should be treated as an expression of individual freedom.
- The government will have to loosen business and employment rigidities, as well as lower taxes.<sup>64</sup> Although the personal income tax rate will be lowered to 24 percent by 2007, the countries with which Lithuania is competing for investments (e.g., Latvia and Slovakia) already have lower taxes on labor or are planning sizeable tax cuts.
- The government should create conditions for employers and employees to reach individual – not collective – agreements regarding terms of employment. It should also reduce the regulatory burden by limiting the powers of controlling agencies and reducing the number of mandatory business licenses and permits.

Finally, and perhaps most importantly, the government should seek to create conditions for people to earn higher incomes through the availability of better education. By doing so, it would eliminate one of the major causes of migration. As one of the most significant institutions affecting the labor market, the education system should not be funded institutionally, but financed by consumers. It is crucial not to discriminate

against private education. The aim should be to create a system in which recipients of public education services “know and pay” the genuine price for the services (in terms of tax rates and in the usefulness of their education in finding a job). The financing of education should be based on the principle of the student’s wants and not managed on an institutional basis.

### **Conclusion**

In recent years, an increasing number of Lithuanians have migrated to Western Europe – most in search of higher wages and a better standard of living. Back home, this shift in labor supply has reduced unemployment (and those receiving unemployment benefits) and even created a demand for unskilled labor which is forcing many companies to look outside of Lithuania to find employees. Unfortunately, regulations within Lithuania hinder the ability to fill these jobs, which, if not remedied, will eventually lead to a slowdown in economic growth.

On the positive side, salaries are higher in Lithuania as employers compete for remaining workers, reducing the difference in the standard of living between Lithuania and the rest of the EU. Extra income from work abroad is being returned to Lithuania as remittances, helping those who remain behind and generally boosting the economy.

The major deficiency in current Lithuanian policies affecting labor supply is in the area of education. Though many Lithuanians are college-educated, few are adequately qualified for available jobs – victims of an education system that is little changed from Soviet times. The key to economic growth therefore lies in reforming this outmoded system to reflect modern ideas and technology. Only when this has been accomplished will future workers possess the skills that are necessary to meet market demand.

### **Notes**

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<sup>1</sup> This study is based on the experience of the Lithuanian Free Market Institute (LFMI) in analyzing employment and general economic regulation. The research was carried out by LFMI’s analysts. LFMI wishes to thank Laura Thaut, an intern at LFMI and a Fulbright scholarship fellow in Lithuania, whose study “Lithuania’s EU Accession and Emigration: Causes, Consequences, and Policy Conundrum” was used in this research.

<sup>2</sup> Julda Kielyte, “Migration Movement in the Baltic States: Determinants and Consequences,” Paper for presentation at WIDER Conference on Poverty, International Migration and Asylum, Helsinki, September 27-28, 2002, page 4.

<sup>3</sup> Audra Sipaviciene and Vida Kanopiene, “Foreign Labor in Lithuania: Immigration, Employment and Illegal Work,” *International Migration Papers, Informal Network on Foreign Labor in Central and Eastern Europe*, April 23, 2006, page 3-4. Available at <http://www.ilo.org/public/english/protection/migrant/download/imp/imp31.pdf>.

<sup>4</sup> Krystyna Romaniszyn, “Current Migration in Central and Eastern Europe: Peculiar or Integrating into European Migration System?” *Institute for Social Studies, University of Warsaw*, 1997, page 14.

<sup>5</sup> Boguslavas Gruzevskis, “Labor Migration in Lithuania,” April 23, 2006. Available at <http://www.cenpo.ro/files/05%20Migration.pdf>.

<sup>6</sup> “Lietuvių emigracija: problema ir galimi sprendimo būdai,” *Civil Society Institute, Vilnius*, 2005.

<sup>7</sup> *Ibid.* For example, the Ministry of National Minorities contends that the Spanish province of Andalusia alone hosts as many as around 35,000 Lithuanians. Estimate by Vida Bagdonaviciene, Department of National Minorities and Lithuanians Living Abroad.

<sup>8</sup> “Lithuania has Highest Emigration Rate in EU: Report,” *EUBusiness*, March 15, 2006. Available at [http://www.eubusiness.com/East\\_Europe/060315095149.nmgx6gyo](http://www.eubusiness.com/East_Europe/060315095149.nmgx6gyo).

<sup>9</sup> Interview with Rimantas Rudzkis by Laura Thaut, intern at LFMI, December 6, 2005. See also Mantas Adomenas, Paper for presentation at a conference “Lithuanian Emigration: Situation, Problems, Possible Solutions,” March 17, 2006, Conference material available at <http://www3.lrs.lt/docs2/WXBUZDAW.DOC>.

<sup>10</sup> Due to these well-known accounting difficulties, one may never arrive at a precise estimate of the scale of Lithuanian emigration. Whatever the actual number may be, it is clear that since EU enlargement the level of emigration has been, by all calculations, unprecedented.

<sup>11</sup> Delfi portal, “Lietuva pagal emigracijos mastus – pirmoji Europos Sajungoje,” Available at [www.DELFI.lt](http://www.DELFI.lt).

<sup>12</sup> Ray Barrell, John FitzGerald and Rebecca Riley “EU Enlargement and Migration: Assessing the Macroeconomic Impacts,” *NIESR Discussion Paper, National Institute of Economic and Social Research, London and Economic and Social Research Institute, Dublin*, page 6.

<sup>13</sup> *EU Workers Continue to Make a Valuable Contribution to the UK Economy*, Available at [http://www.ind.homeoffice.gov.uk/ind/en/home/news/press\\_releases/eu\\_workers\\_continue.html](http://www.ind.homeoffice.gov.uk/ind/en/home/news/press_releases/eu_workers_continue.html). See also “The Accession Monitoring Report: May 2004-March 2005,” May 26, 2005. Available at [http://www.ind.homeoffice.gov.uk/ind/en/home/about\\_us/reports/accession\\_monitoring.Maincontent.0015.file.tmp/Accession%20Monitoring%20Report4.pdf](http://www.ind.homeoffice.gov.uk/ind/en/home/about_us/reports/accession_monitoring.Maincontent.0015.file.tmp/Accession%20Monitoring%20Report4.pdf).

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<sup>14</sup> “Migration Trends in an Enlarged Europe, European Foundation for the Improvement of Living and Working Conditions,” European Foundation for the Improvement of Living and Working Conditions, 2004, page 40. See also Boguslavas Gruzevskis, “Labor Migration in Lithuania,” <http://www.cenpo.ro/files/05%20Migration.pdf>.

<sup>15</sup> Eurostat, Yearbook, 2005. Available at [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=1334,49092079,1334\\_49092702&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1334,49092079,1334_49092702&_dad=portal&_schema=PORTAL).

<sup>16</sup> Eurostat, Presented by Marius Greičius of Ministry of Social Security and Labor at October 14, presentation at European Information Center.

<sup>17</sup> “Emigration is Mainly Forced by Low Salaries,” *Lietuvos Rytas*, September 29, 2005.

<sup>18</sup> Ibid., World Bank, publication Frédéric Docquier and Abdeslam Marfouk, “International Migration by Education Attainment, 1990-2000,” *International Migration, Remittances, and the Brain Drain*, Caglar Ozden and Maurice Schiff, (ed.) New York, 2006, page 153. As the study indicates, “...principal cause of south-north migration is, in most cases, the difference in (the present value of) expected real wages, adjusted for migration costs.”

<sup>19</sup> “Minimum Wage Increase Suspended” October 4, 2004, Eiroonline, European Industrial Relations on-line. Available at <http://www.eurofound.europa.eu/eiro/2004/10/inbrief/lt0410101n.html>.

<sup>20</sup> Lithuanian Free Market Institute, “A Survey of the Lithuanian Economy: 2004/2005 (2).” Available at [www.lrinka.lt](http://www.lrinka.lt).

<sup>21</sup> The annual growth rate of the country’s average salary has been about 10 percent for the past three years. See Eurostat, “Minimum Wages: Major Differences Between EU Member States,” August 18, 2005. Available at <http://www.eurofound.europa.eu/eiro/2005/07/study/tn0507101s.html>.

<sup>22</sup> The size of the minimum wage is presented for the purpose of comparison only. This comparison does not contain any policy implications for increasing the minimum wage.

<sup>23</sup> Lithuanian Free Market Institute, The 17th Survey of the Lithuanian Economy 2005/2006 (2). Available at [http://www.freema.org/index.php/research/the\\_17th\\_survey\\_of\\_the\\_lithuanian\\_economy\\_20052006\\_2/3294](http://www.freema.org/index.php/research/the_17th_survey_of_the_lithuanian_economy_20052006_2/3294).

<sup>24</sup> Lietuvos žinios, “Gyventojų emigraciją skatina maži atlyginimai [Low Wages Foster Emigration],” September 24, 2005. Available at <http://www.bernardinai.lt/index.php?url=articles/34648>.

<sup>25</sup> 2004 Report of the Lithuanian Labor Exchange, Available at [http://www.ldb.lt/LDB\\_Site/index.htm](http://www.ldb.lt/LDB_Site/index.htm).

<sup>26</sup> Lithuanian Statistics Department. Available at <http://www.stat.gov.lt/en/pages/view/?id=1414>.

<sup>27</sup> Eurostat.

<sup>28</sup> “Labor Shortages are the Most Acute in Manufacturing and Trade,” Baltic News Service February 27, 2006.

<sup>29</sup> Lietuvos darbo biržos veikla 2006 [Activities of Lithuanian labor exchange 2006], page 7. Available at <[http://www.ldb.lt/ldb\\_admin/pub\\_docs/ataskaita\\_2006.pdf](http://www.ldb.lt/ldb_admin/pub_docs/ataskaita_2006.pdf)>.

<sup>30</sup> Unskilled persons account for a half of the unemployed according to a labor force survey carried out by the Statistics Department. Lithuanian Labor Exchange activities report 2005, page 6.

<[http://www.ldb.lt/ldb\\_admin/pub\\_docs/ataskaita2005.pdf](http://www.ldb.lt/ldb_admin/pub_docs/ataskaita2005.pdf)>.

<sup>31</sup> A study “Assessment of the Status of the Development of Human Resources in Lithuania,” commissioned by the Ministry of Social Security and Labor and the training Service of the Lithuanian Labor Market and carried out by the Centre of Social Analysis and Consulting (CSAC) in 2003, concludes that 46 percent of Lithuania’s working population have university-level diplomas, about 70 percent of university graduates have never worked in the field of their education, and the actual demand for specialists with university-level qualifications is around 25 percent. See also “Veidas,” July 29, 2004, pages 31-32.

<sup>32</sup> European Education Foundation. Primary source of this data is Eurostat <<http://epp.eurostat.ec.europa.eu/>>.

<sup>33</sup> Ibid.

<sup>34</sup> The World Bank, “Lithuania: Investment Climate Assessment,” December 2004, 39. See also “Quantity-Oriented Higher Education Policy Boosts Emigration,” Available at <[www.delfi.lt](http://www.delfi.lt)>.

<sup>35</sup> Frédéric Docquier and Abdeslam Marfouk, “International Migration by Education Attainment, 1990-2000,” *International Migration, Remittances, and the Brain Drain*, Caglar Ozden and Maurice Schiff, (ed.) New York, 2006, page 153.

<sup>36</sup> A common project between Oslo municipality and Vilnius municipality entailed recruiting nurses from Vilnius hospitals, teaching them Norwegian and employing them in Oslo hospitals and homes for the elderly. “Į Oslą dirbti slaugytojais” [Nurses moving to Oslo].

<[http://www.nlbendrija.org/index\\_files/IOsladirbtislaugytojais.htm](http://www.nlbendrija.org/index_files/IOsladirbtislaugytojais.htm)>.

<sup>37</sup> The European Job Mobility Portal. Available at <<http://europa.eu.int/eures>>.

<sup>38</sup> Lithuanian Labor Exchange Office, Report on the recruitment activities, September 2006. Available at <[http://www.ldb.lt/ldb\\_site/index.aspx?cmp=joblist&id=38](http://www.ldb.lt/ldb_site/index.aspx?cmp=joblist&id=38)>.

<sup>39</sup> Between February and April 2005, immigrants who had lived in Spain since August 2004 and had a job offer could apply to live in Spain for one year and for a work permit. “Alarm over Spanish Plan to Legalise More than a Million Migrant Workers; The Immigration Debate,” *The Independent* (London), February 7, 2005, First Edition; NEWS, pages 4-5.

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<sup>40</sup> Horst Entorf and Jochen Möbert, “The Demand for Illegal Migration and Market Outcomes,” Darmstadt Discussion Papers in Economics No. 130, January 8, 2004.

<sup>41</sup> Ibid.

<sup>42</sup> Lithuanian Free Market Institute, “A Survey of the Lithuanian Economy: 2004/2005 (2).” Available at <[www.lrinka.lt](http://www.lrinka.lt)>.

<sup>43</sup> As some employers note, in order to keep employees, it is not necessary to offer them such wages as they would expect to earn abroad. In most cases a considerable improvement in employees’ material conditions is sufficient to reduce temporarily motivations to seek job opportunities abroad.

<sup>44</sup> Net foreign direct investment inflows as a percent of GDP fell from a high of 8 percent in 1998 to 4 percent in 2005 according to the World Bank Development Indicators.

<sup>45</sup> EBRD, Selected Economic Indicators. Available at <<http://www.ebrd.org/country/sector/econo/stats/index.htm>>.

<sup>46</sup> The Department of Statistics, Labor Exchange.

<sup>47</sup> Ibid.

<sup>48</sup> Council of Europe, “Demographic Yearbook 2004: Executive Summary and Introduction,” Available at <[http://www.coe.int/t/e/social\\_cohesion/population/demographic\\_year\\_book/2004\\_Edition/Default.asp#TopOfPage](http://www.coe.int/t/e/social_cohesion/population/demographic_year_book/2004_Edition/Default.asp#TopOfPage)>.

<sup>49</sup> Kotowska, Irena and Ronald Shoenmaekers, “Population Study No. 5: Population Aging and its Challenges to Social Policy,” Study Prepared for the European Population Conference 2005, Council of Europe Publishing, page 127. Available at <[http://www.coe.int/t/e/social\\_cohesion/population/N%B050\\_Active\\_Ageing.pdf](http://www.coe.int/t/e/social_cohesion/population/N%B050_Active_Ageing.pdf)>.

<sup>50</sup> Ibid.

<sup>51</sup> “Population Projections 2004 – 2050: EU25 Population Rises until 2025, then Falls,” Eurostat News Release, 48/2005 – April 8, 2005. Available at <[http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP\\_PRD\\_CAT\\_PREREL/PGE\\_CAT\\_PREREL\\_YEAR\\_2005/PGE\\_CAT\\_PREREL\\_YEAR\\_2005\\_MONTH\\_04/3-08042005-EN-AP.PDF](http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_04/3-08042005-EN-AP.PDF)>.

<sup>52</sup> Ibid.

<sup>53</sup> Whether or not remittances make up for the loss of other types of foreign direct investment (i.e., outsourcing) remains to be seen.

<sup>54</sup> Civil Society Institute, “Lietuvių emigracija: problema ir galimi sprendimo būdai [Lithuanian Emigration: Problem and Possible Solutions],” Vilnius, 2005, page 20.

<sup>55</sup> There are few numbers on scientists returnees; however there are some helpful indications. Funding project by Telia Sonera “Kryptis – namo” [Destination

home] for young scientists returnees attracted only 20 Applications in 2007. Available at <[http://www.omnitel.lt/?m3\\_lt\\$212535\\_382652](http://www.omnitel.lt/?m3_lt$212535_382652)>.

<sup>56</sup> Statistical Office <<http://www.stat.gov.lt/en/pages/view/?id=2114>>.

<sup>57</sup> Available at <<http://www.stat.gov.lt/en/pages/view/?id=1912>>.

<sup>58</sup> Available at <[http://www.migracija.lt/MDEN/Metrastis\\_2005\\_EN.pdf](http://www.migracija.lt/MDEN/Metrastis_2005_EN.pdf). <http://popin.sti.lt/migration.pdf>, page 35>.

<sup>59</sup> “Number of Aliens According to the Municipalities as of the Beginning of 2006,” page 15. Available at <[http://www.migracija.lt/MDEN/Metrastis\\_2005\\_EN.pdf](http://www.migracija.lt/MDEN/Metrastis_2005_EN.pdf)>.

<sup>60</sup> “Foreign labor in Lithuania: Immigration, Employment and Illegal Work,” page 16.

<sup>61</sup> April 2007 County Report on Lithuania, EIU.

<sup>62</sup> Andrew Geddes, *The Politics of Migration and Immigration in Europe*, London, Sage, 2003, page 8.

<sup>63</sup> The research was carried out by the Public Policy and Management Institute.

<sup>64</sup> Lithuania’s labor taxation is among the most burdensome in Europe. It consists of a 33 percent personal income tax and a 33 percent social security contribution.



## **Conclusion**

The previous chapters have examined the movement of labor within the EU from the perspective of four representative countries. The United Kingdom and Ireland were two of only three countries to open their labor markets to the 2004 accession countries and are large net recipients of Central and Eastern European labor. Among the new member states, Poland and Lithuania are the largest net suppliers of this labor. Together, these four cases provide key insights into the larger global debate on labor migration.

All four of the authors identified challenges that have arisen as a result of freer labor markets for countries on both sides of the labor migration divide. As Martin Ruhs and Nicola Doyle pointed out, states that are the receiving end of large numbers of Central European workers must cope with increased demands on their national welfare and unemployment systems. Similarly, Justyna Frelak, Piotr Kaźmierkiewicz and Giedrius Kadziauskas found that states that are contributing these workers find themselves at a disadvantage in coping with their own looming demographic crises and are subject to increased immigration from further east.

However, despite these problems, all four authors concluded that labor market liberalization had brought net benefits to their respective countries. For net recipients of labor, the large inflow of workers has helped meet the growing, and largely unmet, demand for labor, while for net contributors, it has helped to alleviate high unemployment. As a result, both sets of countries have experienced improved economic growth rates. Since 2004, the UK economy has grown at an average rate of 2.5 percent annually. The rates for Ireland, Poland and Lithuania are even more encouraging at 5 percent, 4 percent and 7 percent, respectively.<sup>1</sup>

Unemployment has remained low in the UK and Ireland (5.3 percent and 4.4 percent, respectively) and decreased in Poland and Lithuania (by 3.9 percent and 2.7 percent in 2006, respectively).<sup>2</sup> Despite numerous studies on labor market displacement, none have conclusively shown that foreign workers are hired at the expense of the domestic work force. Ruhs cautions, however, that employers may be taking advantage of the cheap labor provided by labor migrants instead of investing in capital – a practice which has the potential to harm growth in the long-term.

Fears regarding brain drain and welfare tourism have also been put to rest. Neither Frelak and Kaźmierkiewicz nor Kadziauskas found evidence to support the claim that educated and highly-skilled Central European workers are leaving their home countries permanently. In fact, Kadziauskas found that short-term, work-related visits to other countries have the unforeseen benefit of creating professional networks and fostering trans-national cooperation.

This is good news to those who are concerned about long-term immigration and welfare tourism. Both Ruhs and Doyle conclude that, while eastern immigrants may not be net contributors to the state, they are not relocating simply for a bigger welfare check. While Doyle enthusiastically endorses immigrant labor, Ruhs warns that immigration is not a free ticket to growth. In addition to the benefits of cheaper labor, he reminds us that the influx of foreign laborers can also result in increased demand for state services, such as schools and homeless shelters.

Ruhs and Doyle also raise concerns about the treatment of incoming foreign workers in the UK and Ireland. Recent court cases involving employers who pay Central European immigrants less than the minimum wage have resulted in few prosecutions with minimal fines. However, well-publicized and high profile cases have caught the attention of both the media and the public in Ireland.

Migration policies in Poland and Lithuania are still developing. Poland currently has policies in place that mirror those of their Western European counterparts. As a result, immigrants from EU member states that restrict or limit access to their labor market face similar restrictions in Poland. The problematic issue of immigration into Poland and Lithuania is relatively new. Despite having limited access to the Polish and Lithuanian labor markets, workers from Eastern Europe, Asia and the Middle East continue to illegally enter in large numbers, triggering discrimination and xenophobia.

Generally speaking, the authors reached similar conclusions. All claim that the current data and monitoring of migrants is insufficient for any detailed work on the impact of migration and urge their respective governments to make this task a priority. Doyle, Frelak and Kaźmierkiewicz, and Kadziauskas push for further liberalization of the labor markets within the EU so that all Europeans may

benefit from the economic benefits of increased mobility. In addition, Kadziauskas proposes that the education system in Lithuania be overhauled so that workers may be adequately trained in order to more effectively compete in the EU labor market.

Some general lessons may be drawn from these experiences. People want to work where they can make a better life for themselves. This means finding higher wages for a higher standard of living. Despite claims about the unwillingness of Europeans to move for work, many are doing just that—and reaping the rewards. Lower unemployment means a better chance of finding a job and higher salaries provide more disposable income—some of which may be sent back home, encouraging growth there. Trends from the available data suggest that the benefits of labor mobility far outweigh the costs, both at the individual level and for the economy as a whole.

### **Notes**

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<sup>1</sup> World Bank Development Indicators.

<sup>2</sup> Eurostat.

## About CEPA

Founded in 2005, the Center for European Policy Analysis (CEPA) is a Washington, D.C.-based foreign policy research institute dedicated to the study of Central Europe. CEPA provides a forum for scholarly research, writing and debate on key issues affecting Central European countries, including their membership in the European Union and their relationship with the United States.

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