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The challenge of Labor

Mobility in an enlarged

European Union

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## **The challenge of Labor Mobility in an enlarged European Union**

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Less than two decades after emerging from an ambivalent period of “eurosclerosis”, and after recently adopting a brand new common currency, the European Union is preparing for a decisive transformation. Possibly as early as 2004, the European Union will begin admitting up to 10 new members, mainly originating from the former “eastern” block<sup>1</sup>.

For European “optimists”, the possible acceptance of the “eastern” block will prove that such bold moves are not only possible but also compatible with the current process of deepening at work in the European Union. For others, though, the emergence of such a heterogeneous European Union could generate economic and political disruptions on a scale that may jeopardize the whole process of integration. One question in particular reflects these fears: the capacity of the EU to enforce the central principle of the free movement of people after enlargement. Is it realistic to allow workers from the new members to immediately benefit from the freedom of movement? Or is it necessary to limit this freedom or mitigate its effects, at least in the short-term?

Migration issues are certainly nothing new for many current EU members. After 1945, virtually all countries in Western Europe began to attract significant numbers of workers from abroad. Although the initial migrants were principally from southern Europe, the

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<sup>1</sup> The Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania (the CC8), Cyprus and Malta. Bulgaria and Romania aspire to accede a few years later. In the case of Turkey, the perspective of accession is even more remote.

situation changed in the 1960's with the emergence of massive flows of workers from regions such as northern Africa and Turkey. By the 1980's, on the other hand, countries in southern Europe – Italy, Spain and Portugal, which only a decade before had been sending migrants to wealthier countries in the north, reversed the trend and instead began to import workers from Africa, Asia, and the Middle East.

The collapse of communist regimes and the subsequent political and economic transition that took place in central and eastern Europe (CEE) have already had a tremendous impact on migration trends in the region. Ethnic conflicts as well as more traditional economic motivations have strongly increased cross-border migration. Given all this, the possibility of an eastward enlargement has triggered fears of uncontrolled flows of CEE migrants in many member states. These perceived risks of enlargement have quickly led the EU Commission to adopt a resolution (which was initiated by the German Chancellor) suggesting the establishment of a transition period on the free movement of people following the accession of the CEE countries (CEEC). Beginning of 2002, a compromise was finally reached with the first ten candidate countries in that respect.

Similar transition periods were enforced following the accession of Greece in 1981, and then (although they retrospectively proved largely unnecessary) following the accession of Spain and Portugal in 1986. Still, the current situation is particularly intriguing. The skeptics draw attention to the unparalleled differences in the levels of development between the candidate countries and the current member states to warn of disruptive flows of migration to follow upon accession. However, others wonder whether such fears make sense given the current European demographic trends of declining birth rates and aging populations and call for an open-door policy.

Faced with such diverging perspectives, one needs to take some critical distance and clarify what is at stake in this debate on the transition period. This paper proceeds in three steps. First it starts by setting the economic and demographic stage on which the enlargement process is to take place. Second, it identifies and analyzes the likeliness –and types– of migratory flows within an enlarged Union in the case of a “full” enlargement

option<sup>2</sup>. Third, it assesses the possible impact of such flows on the member states' economies and evaluates the desirability –and alternative forms- of “mitigation” strategies. It concludes by assessing the compromise recently reached in that respect between the European Union and the first ten candidate countries.

## **1 An extraordinary demographic and economic context for enlargement**

Three key factors make this enlargement different from the previous ones. First, this enlargement will take place in a historically unusual demographic context for Europe. Second, the development gap between the candidate countries and the current EU members is larger than in earlier enlargements. Third, the flow of persons between the candidate countries and the EU is currently constrained by strict regulations.

### ***1.1 Gloomy demographic perspectives for both EU members and candidate countries.***

As the UN report on replacement migration shows<sup>3</sup>, developed countries, Europe in particular, are facing an exceptional demographic evolution in the next decades. In Europe (which with a broad definition comprises 38 countries including Iceland in the west and Russia in the East), for example, the population that was 729 million in 2000 according to this estimate is expected to drop to 628 million by 2050. This expected decline in population in Europe is due to low birth rates that do not allow for generational replacement.

This phenomenon is so pronounced that despite an overall increase in life expectancy across most of Europe (Russia being a major exception in the last years), natural population growth in Europe has been negative since 1993. Some EU countries are

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<sup>2</sup> Not that it is the only relevant perspective but rather because it is the way the issue had been phrased and discussed so far, especially as far as the so-called transitional period is concerned.

<sup>3</sup> *Replacement Migration: Is it a Solution to Declining and Ageing Populations?* (New York: United Nations, 2001).

already experiencing an absolute loss of population and the medium-term scenario by the UN suggests that the population of the EU will start to decline in absolute numbers by 2010. In the absence of new migration flows, in 2050, the population will go back to its level of 1965 while the proportion of people aged 65 and above will increase from 16% in 2000 to 29% in 2050. It must also be stressed that these projections are even more pronounced in the non-EU European countries.

Aging in Europe is to a certain extent inescapable as it is for the rest of the world.<sup>4</sup> The UN demographic projections have shown<sup>5</sup> the sheer inability of Europe (Japan and Korea are comparable or worse situations, for instance) to maintain the existing age group structure. In order to keep the population at its present age structure, from 2000 to 2050, the current EU member states would need to accept an estimated 12.7 million people a year (and 700 millions over the time period.) Maintaining the size of the population of working age (15-64) would be somewhat less unrealistic and more desirable but would still (based on the 1995-2050 period) require the EU to increase its net migratory flow from the base projection of 300,000 persons<sup>6</sup> per year to more than 1.4 million persons.

Simply maintaining the current size of the total population, on the other hand, would require increasing the net migratory flow from 300.000 to 860.000 persons per year (which is closer to the current level of immigration, if we include the estimates of illegal immigrants). In sum, this is the demographic backdrop within which the future enlargements will take place.

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<sup>4</sup> Henri Leridon, "Viellissement démographique et migrations: quand les Nations unies veulent remplir le tonneau des Danaïdes..." *INED, Population et Sociétés*, No. 358 (June 2000), pp. 2-7.

<sup>5</sup> *Replacement Migration: Is it a Solution to Declining and Ageing Populations?* (New York: United Nations, 2001).

<sup>6</sup> This is the UN yearly estimate on the 1995-2050 period, knowing that estimates of recent immigration in the EU are around 800.000 persons per year, including 300.000 asylum seekers.

## **1.2 Unparalleled gaps in economic development between the EU members and candidate countries**

At the beginning of the new Millennium, the candidate countries offer an ambivalent face: although quite comparable to the EU average in terms of participation rate<sup>7</sup> and to a lesser extent in terms of unemployment rate, they still show a huge development gap in comparison to the EU countries.

Ten years of transition have brought about drastic changes in the economies and labor markets of the CEE countries. As *Hermine Vidovic*<sup>8</sup> puts it “*In contrast to the pre-transition period, when the centrally planned economies enjoyed full employment coupled with hidden unemployment, labor force has contracted sharply in almost all CEECs since 1989*”. Three trends characterized the transition process: A soaring open unemployment, a massive exit from the labor market and only moderate job creation.

Nowadays, participation rates in CEECs are very comparable with the ones in the European Union (Table 1) and the rates of economic growth (Table 2 and 3) are significant enough not to expect a sharp rise in the proportion of “forced” inactive people. In other words, unlike Northern Africa, for instance, where many immigrants come from, the scenario is not one of an abnormally high proportion of inactive population waiting for the doors of Europe to open in order to get in *en masse*.

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<sup>7</sup> The participation rate refers to the ratio that is calculated when the total amount of labor force is divided by the total population ages 15 to 64.

<sup>8</sup> Hermine Vidovic, “Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries,” in *Migration Policies and EU Enlargement: The Case of Central and Eastern Europe* (Paris, France:OECD Publications, 2001), pp. 13-31.

**Table 1- Participation rates in CEECs and selected EU countries**

	1996	1997	1998
Czech Republic			
Total	73.2	73.1	73.1
Male	82.0	81.8	81.6
Female	64.4	64.4	64.7
Hungary			
Total	58.9	58.1	58.7
Male	67.9	67.0	66.6
Female	50.3	49.5	51.1
Poland			
Total	68.9	68.4	68.0
Male	75.6	75.4	74.9
Female	62.4	61.6	61.4
Slovak Republic			
Total	70.0	69.7	69.8
Male	77.5	77.4	77.8
Female	62.7	62.2	61.8
Bulgaria			
Total	64.0	63.9	63.1
Male	68.6	68.7	68.0
Female	59.5	59.2	58.3
Romania			
Total	70.6	70.6	69.0
Male	77.9	77.6	76.3
Female	63.5	63.6	61.9
Germany			
Total	68.9	68.9	68.2
Male	77.5	69.8	69.3
Female	60.0	60.3	59.9
France			
Total	68.9	68.7	68.8
Male	76.1	75.9	75.7
Female	61.8	61.7	62.1
Great Britain			
Total	76.0	76.2	76.2
Male	84.4	84.4	84.4
Female	67.5	68.0	67.9
Spain			
Total	60.7	61.3	61.8
Male	75.4	75.6	76.1
Female	46.2	47.3	47.9
Portugal			
Total	71.2	72.4	72.6
Male	81.0	82.1	81.7
Female	62.1	63.5	64.0
EU (15)			
Total	67.7	67.8	68.0
Male	78.0	77.9	77.9
Female	57.4	57.8	58.1

Source: Hermine Vidovic, "Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries," p.28.

Although comparable in magnitude, unemployment rates in the candidate countries are higher, on average, than the rates found in the European Union (Table 2 and 3 and Figure 1 and 2). Some major candidate countries, moreover, have experienced negative trends in the last few years (as showed by figure 2). Poland is probably the most worrying case, its unemployment rate reaching 17% in 2001.

**Table 2 - GDP and employment, 1990-98 (cumulated growth in %)**

	GDP			Employment			Employment growth, 1000 persons		
	1990-92	1993-98	1990-98	1990-92	1993-98	1990-98	1989-92	1993-98	1990-98
Czech Republic	-13.2	10.2	-4.3	-8.8	-1.1	-9.8	-475.9	-53.7	-529.6
Hungary	-17.6	15.4	-4.9	-21.9	-9.4	-29.3	-1144.5	-385.0	-1529.5
Poland	-15.6	38.6	16.9	-13.7	7.7	-7.1	-2325.2	1123.8	-1201.4
Slovak Republic	-22.1	28.0	-0.3	-13.2	-6.2	-18.5	-329.5	-134.1	-463.6
Bulgaria	-25.6	-10.8	-33.6	-25.0	-5.1	-28.8	-1091.4	-167.5	-1258.9
Romania	-25.0	3.5	-22.4	-4.5	-15.4	-19.2	-487.7	-1615.5	-2103.2

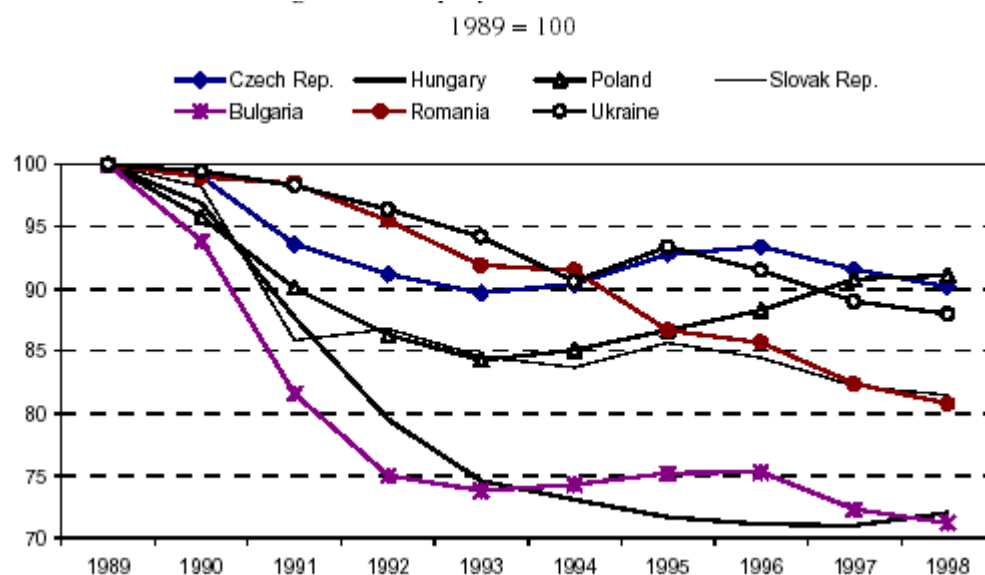
Source: Hermine Vidovic, "Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries," p.28.

**Table 3 - Overview of Developments**

	GDP real change in % against previous year				Consumer prices change in % against previous year				Unemployment rate in %, end of period				Current account in USD million			
	1996	1997	1998	1999	1996	1997	1998	1999	1996	1997	1998	1999	1996	1997	1998	1999
Czech Republic	4.8	-1.0	-2.2	-0.2	8.8	8.5	10.7	2.1	5.5	5.2	7.5	9.4	-7.4	-6.1	-2.4	-2.0
Hungary	1.3	4.6	4.9	4.5	23.6	18.3	14.3	10.0	11.4	11.0	9.6	9.6	-3.7	-2.1	-4.9	-4.3
Poland	6.0	6.8	4.8	4.1	10.9	14.9	11.8	7.3	13.2	10.3	10.4	13.0	-1.0	-3.0	-4.4	-7.5
Slovak Republic	6.6	6.5	4.4	1.9	5.8	6.1	6.7	10.6	12.8	12.0	15.6	19.2	-11.2	-9.9	-10.1	-6.1
Bulgaria	-10.1	-7.0	3.5	2.4	123.0	1082.3	22.3	0.3	12.5	13.7	12.2	10.0	0.2	4.2	-0.5	-5.3
Romania	3.9	-6.9	-5.4	-3.2	38.8	154.8	59.1	45.8	6.6	8.9	10.4	11.5	-7.3	-6.1	-7.2	-3.8
Ukraine	-10.0	-3.0	-1.7	-0.4	80.2	13.9	10.6	32.7	1.3	2.3	3.7	4.3	-2.7	-2.7	-3.1	2.7

Source: Hermine Vidovic, "Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries," p. 26.

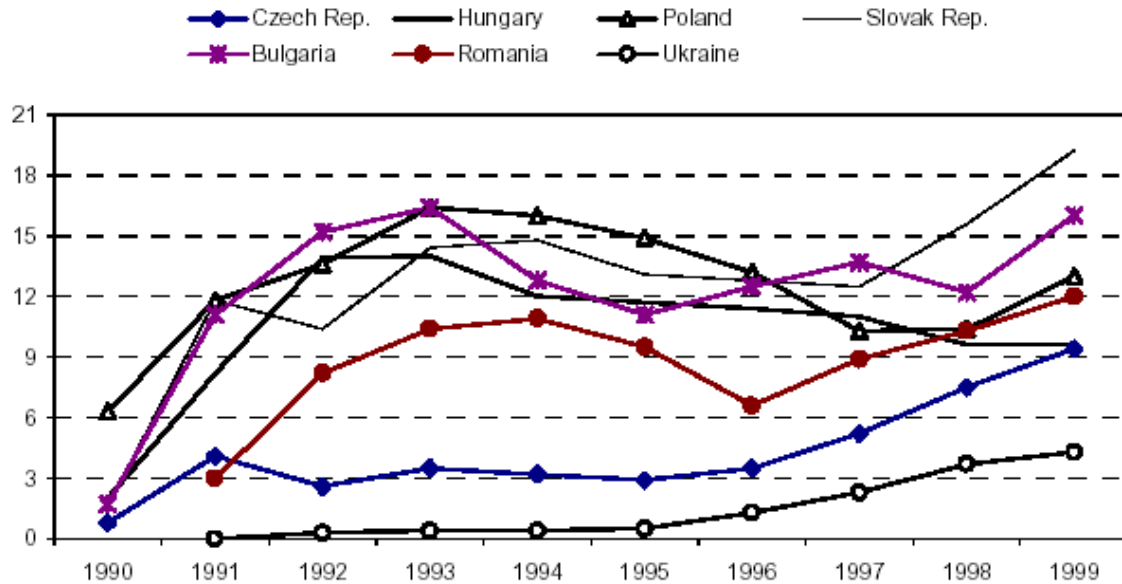
**Figure 1 - Employment trends in CEECs**



Source: Hermine Vidovic, "Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries," p. 30.



**Figure 2- Unemployment rates**



Source: Hermine Vidovic, "Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries," p. 31.

The main and probably most problematic contrast between EU and candidate countries relates to their comparatively low levels of GDP per capita (Table 4). Even with an annual rate of economic growth per capita twice the level of the one in the EU (4% instead of 2%) from 2000 to 2015, not even Slovenia would reach the EU average by 2015. In the same year, the average income per capita in Poland, the biggest of the candidate countries (with 38 millions people), would hardly reach 55% of the EU average.

As a result of this development gap, at the end of the first waves of accessions, (excluding Turkey) the EU population will increase by 25% to 500 million while its total GDP will grow by no more than 5%. Many are concerned that given the size of the countries about to join and the current development gap, disruptive flows of economically motivated labor migration will arise and jeopardize the whole process of European integration.

**Table 4 - GDP per capita at current PPPs (ECU/EUR), from 2000 constant PPPs**

	1990	1993	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
	projection assuming 4% p.a. GDP growth and zero population growth											
Czech Republic	10025	9778	10217	11265	12025	11972	11855	12011	12192	14548	17700	21534
Hungary	7215	7377	7790	8330	8613	9077	9676	10315	10882	13431	16340	19881
Poland	4540	4926	5292	6260	6742	7227	7663	8099	8463	10396	12648	15389
Slovak Republic	7485	6325	6756	7491	8101	8656	9133	9439	9628	11601	14114	17172
Slovenia	10111	9934	10713	11607	12192	12834	13513	14363	14937	18174	22111	26901
Bulgaria	4862	4459	4657	5007	4600	4373	4556	4763	4953	6027	7332	8921
Romania	5339	4850	5164	5768	6113	5730	5498	5413	5413	6395	7781	9467
Croatia	5980	4359	4713	5214	5833	6149	6480	6558	6657	7982	9711	11815
Macedonia	3651	3474	3704	3770	3845	3887	4029	4172	4339	5330	6484	7889
Russia	8417	6901	6166	6164	6074	6171	5955	6286	6537	7877	9583	11660
Ukraine	5870	4563	3626	3337	3080	3023	3030	3088	3119	3759	4573	5564
	projection assuming 2% p.a. GDP growth and zero population growth											
Austria	15789	17780	18553	19587	20359	20910	21931	22369	22817	25192	27814	30708
Germany	14242	17569	18665	19894	19925	20232	21051	21472	21901	24181	26697	29476
Greece	8792	10376	11003	11923	12323	12720	13347	13614	13886	15331	16927	18688
Portugal	9071	10801	11589	12452	12746	13207	14163	14446	14735	16269	17962	19832
Spain	11625	12903	13198	14144	14646	15225	16109	16432	16760	18505	20431	22567
Turkey	4429	5146	4891	5236	5525	5850	6024	6145	6268	6920	7641	8436
Japan	16841	19180	19678	21273	22142	22326	22053	22494	22944	25332	27968	30879
USA	21941	23856	25073	26241	27143	28218	29605	30198	30801	34007	37547	41455
EU(15) average	14593	16219	16981	18093	18501	18968	19816	20212	20617	22763	25132	27747
European Union (15) average = 100												
	1990	1993	1994	1995	1996	1997	1998	1999	2000	2005	2010	2015
Czech Republic	69	60	60	62	65	63	60	59	59	64	70	78
Hungary	49	45	46	46	47	48	49	51	53	59	65	72
Poland	31	30	31	35	36	38	39	40	41	46	50	55
Slovak Republic	51	39	40	41	44	46	46	47	47	51	56	62
Slovenia	69	61	63	64	66	68	68	71	72	80	88	97
Bulgaria	33	27	27	28	25	23	23	24	24	26	29	32
Romania	37	30	30	32	33	30	28	27	26	28	31	34
Croatia	41	27	28	29	32	32	33	32	32	35	39	43
Macedonia	25	21	22	21	21	20	20	21	21	23	26	28
Russia	58	43	36	34	33	33	30	31	32	35	38	42
Ukraine	40	28	21	18	17	16	15	15	15	17	18	20
Austria	108	110	109	108	110	110	111	111	111	111	111	111
Germany	98	108	110	110	108	107	106	106	106	106	106	106
Greece	60	64	65	66	67	67	67	67	67	67	67	67
Portugal	62	67	68	69	69	70	71	71	71	71	71	71
Spain	80	80	78	78	79	80	81	81	81	81	81	81
Turkey	30	32	29	29	30	31	30	30	30	30	30	30
Japan	115	118	116	118	120	118	111	111	111	111	111	111
USA	150	147	148	145	147	149	149	149	149	149	149	149
EU(15) average	100	100	100	100	100	100	100	100	100	100	100	100

Source: Hermine Vidovic, "Synthesis of Recent Labour Market Developments in the Central and Eastern European Countries," p. 27.

These concerns are reinforced by two elements. The current worsening of unemployment in major candidate countries on the one hand – the Czech Republic and Poland in particular - and by the apparent effectiveness of the restrictions currently in place, on the other hand. Would the removal of these legal barriers open the floodgate to migrants from the CEECs?

### **1.3 A currently limited flow of geographically focused labor mobility between candidate countries and the EU**

Europe, a traditional source of net emigration, (without underestimating the complexity of intra-European movements of population) has after WWII become a pole of net immigration from poorer parts of the world.

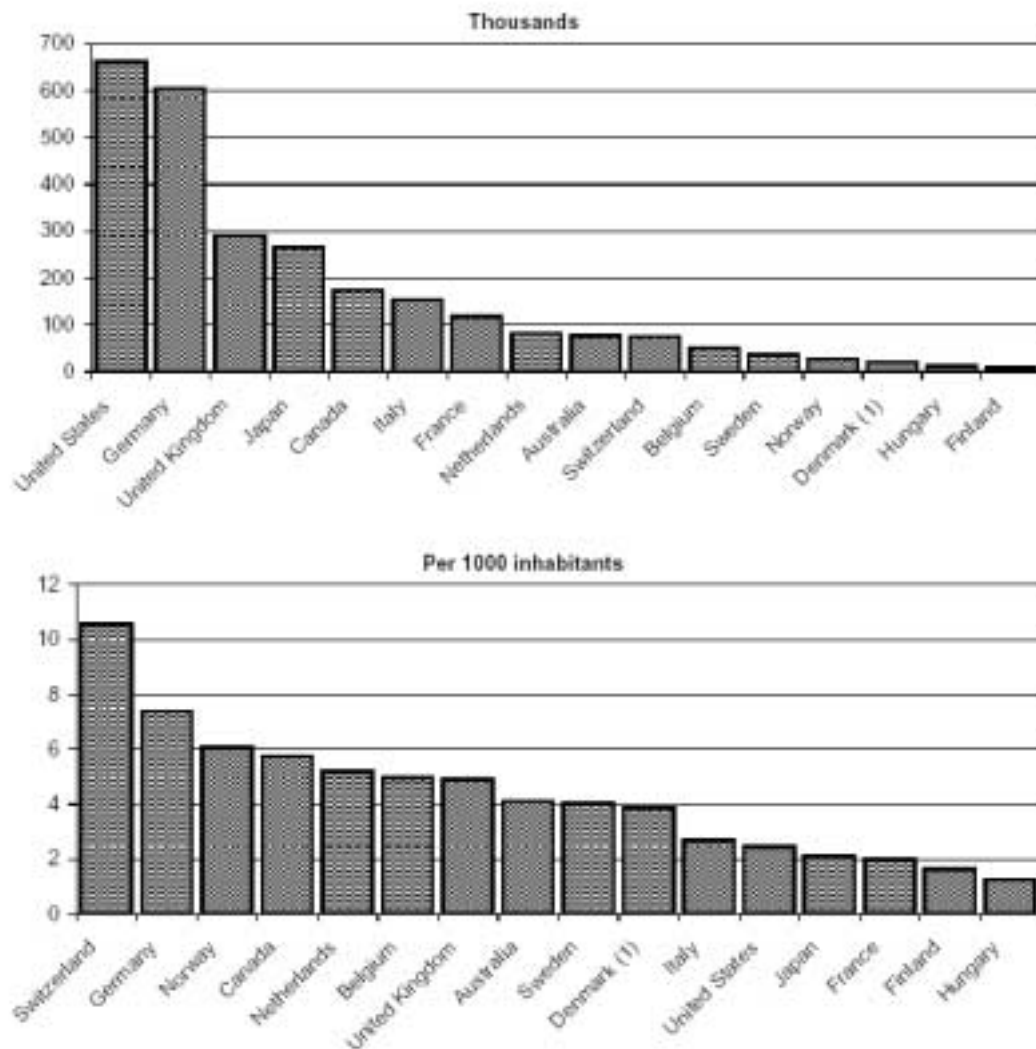
The size and patterns of immigration have changed markedly in recent decades and vary widely among the OECD Countries<sup>9</sup>. Most European countries have switched away from being emigration nations and, as a result, in most years over the past decades, the European Union as a whole has been receiving a net inflow of migrants.

Many studies have shown that as far as the socio-economic level and geographical origin of the migrants are concerned, due to a combination of historical, geographical and other factors, flows of international migrants usually follow very specific rather than homogeneous patterns. In some cases, the colonial past may play a crucial role (the Netherlands, the United Kingdom or France); in other cases, the geographical location (Germany and Austria after the collapse of the Communist block) or a proactive immigration policy has played a role (humanitarian or linguistic reasons in Scandinavia, an economically motivated approach in Germany with the *Gastarbeiter* system).

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<sup>9</sup> Jonathan Coppel et al., *Trends in Immigration and Economic Consequences* (Paris, France: OECD Economics Department Working Papers, 2001).

**Figure 3 - Arrival of the foreigners into OECD countries in 1998**

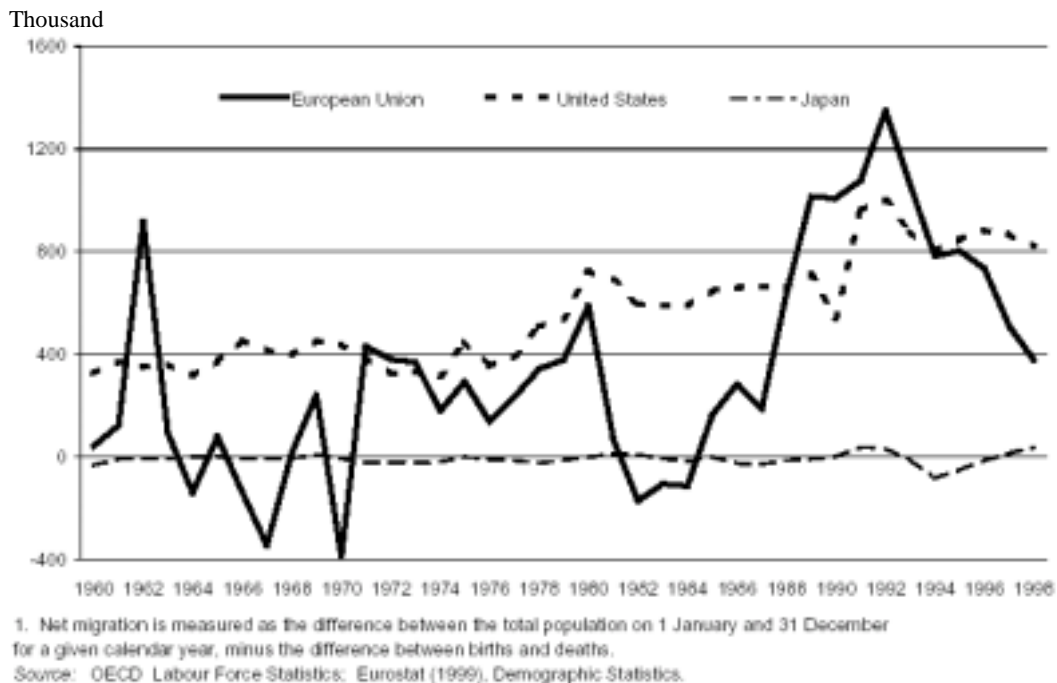


1. Data for Denmark refer to 1997.

Source: Jonathan Coppel et al., *Trends in Immigration and Economic Consequences*, p. 7.

Net flows of migrants rose through the 1980's and peaked in the early 1990's (Figure 4) and affect very unequally the host countries (Figure 3). The fall of the "iron curtain" and the sparking of a number of civil wars and ethnic conflicts essentially drove these net flows. These conflicts have led in particular to an increased number of asylum seekers, especially in Germany, the Netherlands, the Nordic countries and the United Kingdom. Tighter controls and changes in the domestic laws governing asylum seekers, however, have since led to a decline in legal arrivals

**Figure 4 - Net migration in major OECD areas**



In the case of CEE countries, the movement of workers - and services - towards the EU remains restricted whereas Europe agreements have largely removed the barriers on the movement of goods and capital with the EU. Currently, the nationals of the candidate countries do not have open access to work in the EU. Since the signature of the Europe agreements, it has been up to each individual member state to maintain or introduce, on a bilateral basis, specific programs aimed at labor mobility and these programs, as a consequence, do not follow harmonized patterns across the EU. Some agreements signed (e.g. with Slovenia, Bulgaria and Poland) provide that the spouse and the children of a legally employed worker may also work in that country during the period of the worker's authorized stay. Most member states as a rule do not permit labor immigration except if the employer can prove that a position cannot otherwise be filled.

One common exception operated by many EU countries consists in the temporary worker schemes, such as for seasonal work<sup>10</sup>. On the other hand, all Europe agreements have,

<sup>10</sup> European Commission, *The Free Movement of Workers in the Context of Enlargement* accessed via internet at [http://europa.eu.int/comm/enlargement/docs/pdf/migration\\_enl.pdf](http://europa.eu.int/comm/enlargement/docs/pdf/migration_enl.pdf).

from the start, granted the right of establishment to candidate country companies, branches and agencies. This includes small service companies, even sole proprietorships, and in nearly all cases it also includes the establishment of self-employed persons. However establishment does not automatically grant the right of movement, as companies may only expatriate “key personnel”.

In such a restrictive context, it is then not surprising to find that the flow of labor towards the EU has remained very limited since the signature of the Europe agreements, once formerly liberal asylum seeker regulations were tightened in countries such as Germany. In 2000, the EU’s own figures indicated that nearly 300.000 persons from the candidate countries were legally employed in the EU, accounting for 0.2% of the EU workforce, representing only 6% of a total of almost 5.3 millions non-EU foreign workers. It should also be noted that 70% of them are employed in only two EU countries and “only” represent 10% of the non-EU workers there: Germany (where they represent 0.4% of the total work force) and Austria (where they represent 1.2% of the total work force). Estimates of undocumented workers and migrants from the candidate countries –around 600.000- can be added to these numbers although most of them are thought not to reside in the EU but rather come for short periods of work and then go back home.<sup>11</sup>

When adding the number of legal non-active persons to the number of legal workers from the ten CEE countries (Table 5), one clearly sees the geographical patterns of westward migration. Poland is by far the major country of emigration, before Romania and it is also one of those expected to join the EU in the first enlargement wave.

**Table 5 - Approximate numbers by origin and share of total from CC10**

Bulgaria:	55,000 (7%)	Czech Republic:	35,000 (4%)
Slovakia:	20,000 (2%)	Hungary:	77,000 (9%)
Poland:	435,000 (53%)	Romania:	155,000 (19%)
Estonia:	15,000 (2%)	Latvia:	7,500 (1%)
Lithuania:	8,000 (1%)	Slovenia:	20,000 (2%)

Source: European Commission, *The Free Movement of Workers in the Context of Enlargement*, p. 30.

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<sup>11</sup> European Commission, *The Free Movement of Workers in the Context of Enlargement*, p. 29. These kinds of workers are called “working tourist.”

In conclusion, the flow of migrants from candidate countries towards the EU has so far been both very restricted in number (even when illegal immigrants are included) and geographically very specific both for the source and the host countries. What does this tell us for the post-enlargement period? Would the removal of the current restrictions open a floodgate that will lead large masses of migrants not only towards Germany and Austria but beyond? Assessing the potential flows of migration is all but easy. We address this question in the following section.

## **2 Post-enlargement labor mobility: a strong potential limited by contextual factors**

Assessing the potential for increased migrations originating from candidate countries upon enlargement is a complex matter. It requires an explanatory framework of labor mobility and its application to the specific situation highlighted above.

International migration theories show an unparalleled potential for Westward migrations in an enlarged European Union, mainly on economic grounds. Powerful limiting factors could however bind such movements at least in the short and medium run.

### ***2.1 Migration theory and enlargement: a strong potential for labor mobility***

Despite a growing literature, the answer to the question of why some people migrate remains weak. A broad consensus however exists to locate economic rationales at the core of most migratory flows. Although migratory flows may follow very specific and “path dependent” patterns at the micro/regional levels, migration specialists can identify two interconnected categories of economic factors at the macro level. *Push*, or supply side factors affecting the interest and willingness to emigrate on the one hand and *Pull*, or demand side factors that affect the demand for immigrants in the destination country on the other hand.

Based on that analytical framework, most analysts conclude that the coming wave of enlargement has the potential -although with a high degree of uncertainty- to generate substantial levels of “East-West” labor mobility.

### **The potentially unparalleled influence of the *Push* factors**

The push factor is traditionally looked at from a broad -although progressively amended- theoretical perspective of neoclassical economics. This theory focuses on the level of individual rational actors who make decisions to migrate based upon a cost-benefit calculation that indicates a net positive return to movement.

In this approach all elements that reduce the opportunity cost of immigration (economic crisis in the source country, cheaper transportation, reduced costs of migration when it becomes legal, etc) and increase the expected benefits (access to legal jobs with better wages and benefits for instance) will lead to increased migration. Along these lines, the relative income gap between host and source countries is usually thought to be a crucial predictor of migrations.

A very approximate verification of this hypothesis can be done by comparing the average per capita income between source and host countries - even though doing so one has to ignore important factors such as internal distribution of income, probability to find a job or not, etc.

As Table 6 shows, all OECD host countries, including all the major European countries for which the data is available enjoy a much higher level of GDP per capita than the countries where migrants originate.



**Table 6 - Per capita income in source relative to host countries in current PPP \$, 1997**

Host country	Average number of immigrants <sup>a</sup> (thousands)	Per cent of total immigrants included in calculation	Weighted source country GDP per capita in 1997, PPP\$	Ratio of source country GDP per capita to host country GDP per capita in 1997
Australia	87.4	66.6	12 265	60.7
Belgium	51.2	74.1	17 688	77.7
Canada	207.3	48.6	9 900	44.0
Denmark <sup>b</sup>	26.1	33.4	16 679	70.4
Finland	7.8	61.2	8 744	43.4
France	77.5	55.3	6 231	28.3
Germany	679.3	49.9	10 016	47.1
Italy <sup>c</sup>	111.0	67.4	8 279	40.8
Japan	243.9	67.3	10 387	43.2
Netherlands	75.6	43.2	15 497	73.4
Norway	18.0	61.7	17 565	71.8
Sweden	33.6	32.6	17 835	90.1
Switzerland	77.5	50.4	19 262	76.3
United Kingdom <sup>b</sup>	219.8	89.4	14 832	71.5
United States	773.8	77.8	6 371	22.0

Source: Jonathan Coppel et al., Trends in Immigration and Economic Consequences, p. 13.

The importance of the development gap between candidate and EU countries (Table 4) would therefore lead us to expect an important flow of workers from the newly EU member states towards the more developed parts of the Union.

In the case of CEEC, the perspective adopted by the “New Economics” of migration underlines an additional Push factor: migration as a way to skirt the home market and government failures. When local economies suffer from higher unemployment than the host countries, when source countries lack a system of insurance for crops, lack a social safety net or a good credit system, many, especially among the poor, may suffer from income loss and asymmetric power relationships due to these failures. Besides the difference in average income between two countries, the uneven levels of exposure to risk may then push individuals to migrate on their own or/and push families -seen here as decision makers- to send some of their members abroad in order to insure against risks.

Only ten years after the regime changeover, there is no doubt that the CEEC economies suffer (although at different levels) from such market failures in a much higher proportion than EU countries.

A final Push factor highlighted in the “New Economics” literature concerns the role of domestic income gaps in shaping income expectations. As transition countries are usually experiencing an increasing level of domestic economic disparity, the latter may fuel some increasing desires of economic wealth among the poorer, for which migration can become a solution.

In summary, from the “supply side” perspective, powerful Push factors were identified that affect the interest and willingness of CEEC nationals to migrate towards the EU. In such a context, the full application of the *acquis* on free movement of labor would have a double impact. It would first drastically lower the opportunity cost of immigration for those who had already been thinking of migrating, suppressing in particular the additional costs associated to illegal immigration -risk and costs of smuggling through borders, psychological cost of family separation, risk of ending up in prison, etc. Second, free movement of labor upon enlargement would expand the pool of possible migrants for whom the cost-benefit comparison becomes positive in this new context.

The case of German reunification offers an almost ideal scenario for *Push*-motivated migration. The economic costs of migrating were low, the opportunity costs even lower, with the massive unemployment that arose in the former Eastern Germany just after reunification. At the same time, there was no linguistic barrier and a comparatively very limited cultural barrier. This resulted in a very fast and massive flow of migration westward, representing up to 7% of the source population over 10 years, and 2.8% of the source population during the first 6 months.

It is easy to understand how extrapolations for countries like Poland or Romania, based on the East German case, have led many to fear a real westward “wave” of migrants once CEEC candidates join.

### **A progressively redefined and strengthened *Pull* factor**

Many European countries have traditionally filled positions in the service sector as well as in import-competing industries with the help of foreign labor. This was especially the case in Western Europe during the post-war reconstruction and until the beginning of the 1970s, when economic growth slowed down at the same time that the bulk of the baby boom generation had arrived on the job market. During that initial period, the strength of the *Pull* factor led a number of EU countries, France, Germany and the United Kingdom in particular, to clearly promote immigration, especially in favor of unskilled manpower.

This situation drastically changed in the mid 1970s when rising unemployment rates led to the implementation of restrictive migration policies. Moreover, the end of the post-war “Fordist growth” meant that -all things being equal- European economies did not “need” so many of these uneducated immigrants for their industries.

While this tends to currently limit the pull effect for unskilled workers in industries, it is also true that the current demographic situation in Western Europe, together with the new developments in the service sector may soon counterbalance this earlier evolution and underpin a more open approach to immigration from CEE. Three main trends support that thesis:

- First of all, it must be stressed that the dual labor market that pulled immigrants towards the less prestigious branches of the job market has now spread to countries such as Spain, Portugal and Italy, where migrants from poorer regions -North Africa in particular- are currently occupying many of these jobs. This continued need for relatively less qualified labor is now supported by the strong development of new services (new services to persons, in particular, such as support to elderly people, catering, etc). The mere availability of such jobs may be sufficient to trigger additional flows of immigrants, even

when income differentials between countries are not important<sup>12</sup>. In other words, the existence of a dual labor market (in which certain categories of jobs are not taken by local people) would pull unemployed worker from candidate countries towards the EU. The increasing flexibility of the job market in most European countries (short term contracts, etc) certainly reinforces this trend, widely opening up the “lower” part of the job market to migrants ready to take less “protected” jobs.

- Second, current demographic trends in the EU will directly or indirectly (through public policies) strengthen the Pull factors towards the candidate countries. Directly, the demographic decline in the EU will create unparalleled job opportunities to CEEC citizens at all levels of qualification. Indirectly, the dire demographic situation (simply maintaining the population of working age would require the current EU member states to almost double their current level of immigration from around 800.000<sup>13</sup> to 1.4 million persons per year) makes it very likely that sooner or later governments of the wealthier EU countries will design policies to attract immigrants, such as suggested by a 1999 communication<sup>14</sup> by the European Commission. Figure 5 illustrates this probable pressure in favor of active immigration policies. Faced with declining demographic trends, EU members have indeed only three ways of maintaining a sufficient labor force and a sustainable dependency ratio: reduce the unemployment rate, increase the participation rate, or “import” labor through migration. Assuming that spontaneous net migration remains stable (at around 600.000 persons a year<sup>15</sup>), the two first mechanisms will be exhausted rather quickly, calling for a proactive immigration policy.

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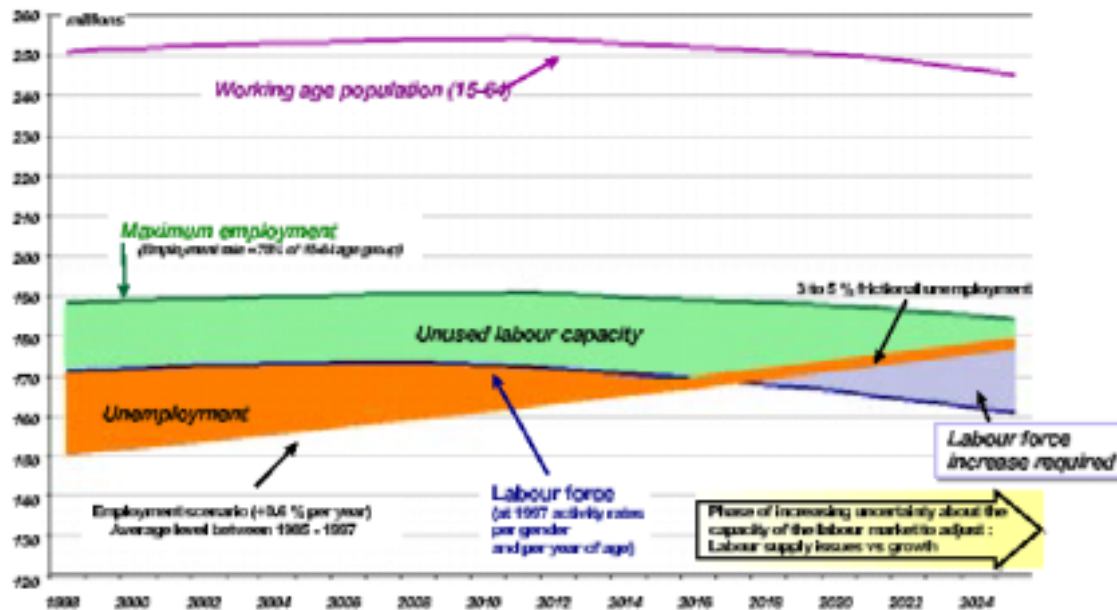
<sup>12</sup> Sharon Stanton Russell, “International Migration: Implications for the World Bank,” accessed via internet at [http://www.worldbank.org/html/extdr/hnp/hddflash/workp/wp\\_00054.html](http://www.worldbank.org/html/extdr/hnp/hddflash/workp/wp_00054.html) on 10 October 2001.

<sup>13</sup> This is already a high point of departure corresponding to the average level in the 1990s, much higher than the UN long-term baseline of 300.000 on the 1995-2050 period.

<sup>14</sup> European Commission, *Towards a Europe for All Ages: Promoting Prosperity and Intergenerational Solidarity*, accessed via internet at [http://europa.eu.int/comm/employment\\_social/soc-prot/ageing/com99-221/com221\\_en.pdf](http://europa.eu.int/comm/employment_social/soc-prot/ageing/com99-221/com221_en.pdf) on 19 February 2002.

<sup>15</sup> The base flow here is higher than the long-term one selected by the UN simulation but slightly lower than the current level of immigration in the EU (around 800.000 persons per year).

**Figure 5 - Interaction between demographic trends, employment and growth in EU15 (1998-2015)**



Source: European Commission, *The Free Movement of Workers in the Context of Enlargement*, p. 35.

- Finally, it is now clear that this pressure in favor of immigration will this time offer a wider scope, well beyond the traditionally lower ladders of the job market. The shortage of skilled workers in Europe in a series of sectors -technicians and engineers in the information, communication and technology producing and using industries, in particular<sup>16</sup>- has already boosted the Pull factor in the middle and high segments of the job market. These shortages have led several European leaders to argue in favor of an active but focused immigration policy in terms of desirable skills, such as reflected in the immigration bill currently being discussed in the German Parliament<sup>17</sup>.

In conclusion, the economic analysis of migrations (Push and Pull factors) suggests the likeliness of massive westward labor mobility towards the EU upon enlargement, were the principle of free movement of people fully enforced. Most studies (Table 7) however conclude on a much more prudent stance, stressing the existence of limiting factors to this mainly economically fueled migratory pressure.

<sup>16</sup> Jonathan Coppel et al., *Trends in Immigration and Economic Consequences* (Paris, France: OECD Economics Department Working Papers, 2001).

<sup>17</sup> The lower house of the Parliament adopted the immigration bill on March 1<sup>st</sup>.

## **2.2 A potential for labor mobility limited by contextual limiting factors**

Although migration theories conclude on the likeliness of massive westward migration upon accession, underpinning fears of massive migrations, four limiting factors need to be acknowledged, particularly in the short and medium term context.

From the Push factor perspective, three limiting factors need to be accounted for.

-First, most current EU countries still suffer at different degrees from unemployment and will need at least a few more years to reach their “structural” level of unemployment (Figure 5). Migrating towards the European Union therefore presents a high degree of risk that makes the comparison of wages/income between CEE countries and EU countries less relevant when it comes to weight the expected costs and benefits of migration.

-Second, given the important role migrants’ networks play in fostering further migration by reducing the cost and uncertainty associated with it, it can be argued that the currently very limited stock of CEEC migrants in the EU (around 300.000 persons) is likely to limit westward migrations in the short and medium term (the term of a possible transition period).

-Finally and perhaps most importantly, the existence of cultural and linguistic barriers combined with a strong demographic decline in the CEE countries seem likely to both limit the overall flow of westward migration and canalize migrants towards specific regions of the EU.

From the Pull factors perspective, a comparable degree of uncertainty exists as far as the social and political acceptability of new migratory flows is concerned.

- As long as many European countries will continue to suffer from massive –and currently rising, such as in Germany and France- unemployment, one can doubt the spontaneous acceptability of additional migratory flows, limiting the pull effect on CEEC migrants.

- The same reasons could limit the will of many European Union governments to design active immigration policies<sup>18</sup>. Until unemployment in the European Union gets closer to its structural level (Figure 5), within 10 years or so, it is therefore realistic to downplay the strength of the Pull factor.

## 2.3 Prudent estimates for post enlargement migrations

**Table 7 - Estimates of potential migrations in the EU 15 from the candidate countries under conditions of free movement**

	CC8 <sup>62</sup> migrants		CC10 migrants	
	Stock	Flow/year over first 10 years	Stock	Flow/year over first 10 years
<b>Brücker (DIW) and Boeri (2000)</b> <i>(only workers!)</i>	860,000 (after 10 y.)	70,000 declining to 30,000	1.4 million (after 10 years)	120,000 declining to 50,000
<b>Brücker (DIW) and Boeri (2000)</b> <i>(all migrants!)</i>	1.8 million (after 10 y.)	200,000 declining to 85,000	2.9 million (after 10 years)	335,000 declining to 145,000
<b>Sinn (ifo) et al. (2001)</b> <sup>63</sup>	2.7 million (after 15 y.)	240,000 declining to 125,000	4.2 million (after 15 years)	380,000 declining to 200,000
<b>Walterskirchen (WIFO) and Dietz (1998)</b> <sup>64</sup> <i>(exc. commuters)</i>		160,000 declining to 110,000		
<b>Bauer and Zimmermann (IZA) (1999)</b> <sup>65</sup>	2.5 million (after 15 y.)			200,000
<b>Fassmann and Hintermann (1997)</b> <sup>66</sup>	720,000 long-term migration			
<b>Hille and Straubhaar (2000)</b>				270,000 to 790,000
<b>Salt et al. (1999)</b> <sup>67</sup>	2.25 million (3% of pop.) (after 15 y.)	140,000		

Source: European Commission, The Free Movement of Workers in the Context of Enlargement, p. 34.

61/ Some figures are extrapolations, for the sake of comparability in terms of time span and geographical coverage

62/ CC8 includes the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, and Lithuania

63/ Excluding Bulgaria, Slovenia and the Baltic States. For the sake of comparability, figures are extrapolated to the whole EU from research for Germany, assuming the present distribution of migrants among the EU 15 remains the same.

64/ For the sake of comparability, figures are extrapolated to the whole EU from research results for Austria, assuming the present distribution of migrants among the EU 15 remains the same.

65/ Excluding Slovakia and Baltic States

66/ Excluding Slovenia and Baltic States

<sup>18</sup> If successful, the initiative of the German Chancellor to use foreign workers to fill Germany's urgent skills shortages, while at the same time controlling the flow of immigration, could set a precedent.

Numerous studies have tried (summarized in Table 7), using different assumptions and methodologies to estimate the post-enlargement flows of migrants. Without entering into the details of these studies, three conclusions can be drawn that are relevant for our discussion.

- First, the forecasts vary considerably from study to study.
- Second, the long term stock of CEEC nationals in the rest of the European Union are by no means close to what one could have anticipated from the German reunification experience. The higher forecast (including workers and their families) represents 4.2 million people after 15 years, slightly above 1% of the host population (and slightly under 4% of the source population) when the 10 candidate countries are considered.
- Third, the initial annual flows represent (if we systematically adjust for family members) from 150.000 to 790.000 persons with an average closer to 250.000 persons, not even one tenth of one percent of the host population.

In this context, does the EU really need a transition period before fully enforcing the freedom of movement of people within the then enlarged single market?

### **3 What transition period for which purpose?**

One thing is to estimate the probable flows of immigrants once CEE countries join the EU, and another one is to anticipate the impact of such flows on the receiving economies and societies. The debate around the transition period combines these two dimensions.

As mentioned above, most studies conclude that spontaneous labor mobility will be limited (less than 1% of the host countries population after 15 years). To what extent such increased flows could generate economic disruptions in the receiving countries needs to be assessed in order to conclude on the relevance of any transitional scheme. To the extent that the transition period by nature does not focus on the long-term effects - positive or negative- of immigration, we will limit our own assessment to these short and



medium term impacts (less than 10 years). To the extent that these schemes also ignore the effects on the source countries, we will also leave that facet of the question aside.

### **3.1 *The macroeconomic consequences of migration: region and sector specific risks and opportunities***

At the European level and from a long-term perspective, we saw that the current EU member states did not need to fear any inflow of foreign population from the candidate countries. On the contrary, the overall strength of the *Pull* factor, progressively reinforced by the declining demography in EU 15 should allow CEEC potential immigrants to be easily absorbed by their host economies.

The short and medium term consequences of labor mobility on the host countries are more ambivalent. Concerns expressed by several European countries have led the European Union to suggest the establishment of a 7 years transition period on labor mobility upon accession. This proposed scheme is an answer to many individuals and political figures that see CEE immigrants mainly as potential competitors for jobs, and to a lesser degree as net benefactors of public goods and common pool resources (such as social benefits, education, etc). These perceptions tend to shade the complex macroeconomic effects of immigration on receiving countries. As soon as one leaves the partial equilibrium paradigm applied to the native job market, it actually becomes extremely adventurous to predict the final economic effects of migrations.

Most recent studies, backed by the retrospective analysis of previous waves of enlargement conclude with a neither/nor answer. As far as unemployment and income distribution are concerned, even in the short term, enlargement would neither generate very high benefits for the receiving countries nor impose heavy burdens on them. In such a context, transitional schemes would be advisable only to handle possible regional economic disruptions associated with labor mobility. In no case would there be an economic rationale for a global freeze on labor mobility from new members states.

### 3.1.1 Labor migration and unemployment: limited and targeted risks

Although trade and investment have already been largely liberalized and have flourished between EU 15 and candidate countries, cross-border macroeconomic convergence<sup>19</sup> is far from complete, leaving a potential for westward flows of labor if free movement of labor were enforced immediately. Although we concluded that their level would be very limited as a proportion of the EU population, it is likely however that some specific member states or border regions will witness sizeable increases in migration. Should they fear any major economic disruptions?

Leaving aside the complex impact of migration on relative prices and economic welfare and focusing on the short and medium term quantitative maladjustments on the job market, one first needs to distinguish between sectors/regions suffering from labor shortages from the ones suffering from surpluses. To the extent that the EU countries already affected by quantitative maladjustments on the labor market, one should wonder whether migration has the potential to worsen them at least in the short and medium term. Economic sectors currently suffering from shortages of labor (computing industry, farming for seasonal workers, etc) would benefit from the inflow of migrants offering these skills. The concern naturally focuses more on the other sectors of the economy, when some particular skills are already overabundant either nationally or at the regional level.

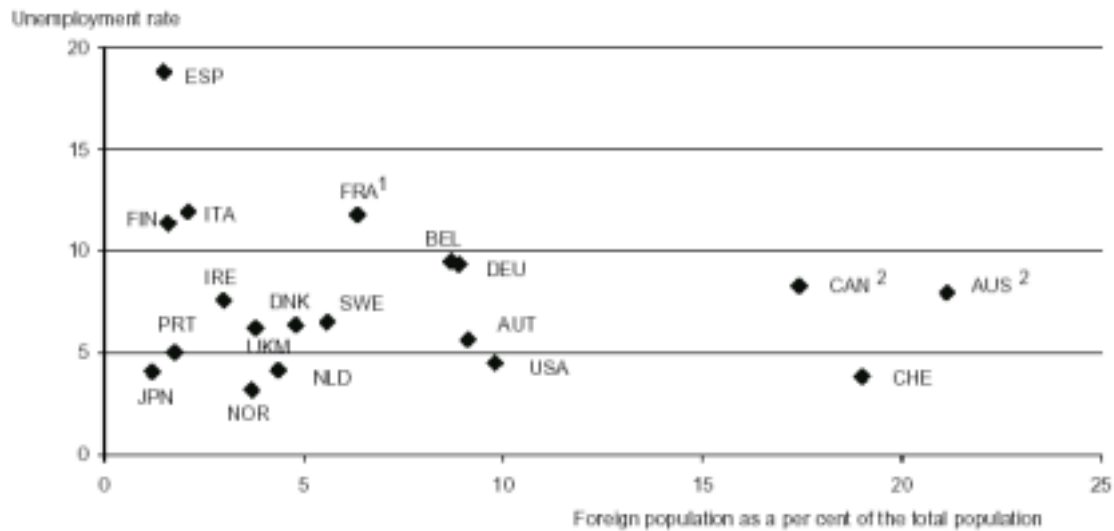
Past experiences as well as most studies<sup>20</sup> suggest that previous episodes of immigration in Europe have had no serious impact on native unemployment and may even have been beneficial for the economy since, in the long term, it acts as a source of flexibility. Neither is there any obvious link in OECD countries between the proportion of the foreign population and the level of unemployment (Figure 6).

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<sup>19</sup> Assuming, in the very optimistic neoclassical (H-O-S) way, that free movement of goods, services and capital progressively trigger economic convergence across the borders. As we know, “New regionalism” approaches do not necessarily share this view. However, whether or not convergence occurs, whether or not trade and migration end up as complements or substitutes does not change our conclusions in the short term: the absence of convergence leaves a strong potential for labor mobility. Cf for instance OECD 2001, chap 6 Landesman p 108.

<sup>20</sup> Jonathan Coppel et al., *Trends in Immigration and Economic Consequences*, p.1.

**Figure 6 - Immigration and unemployment rates in OECD countries, 1998**



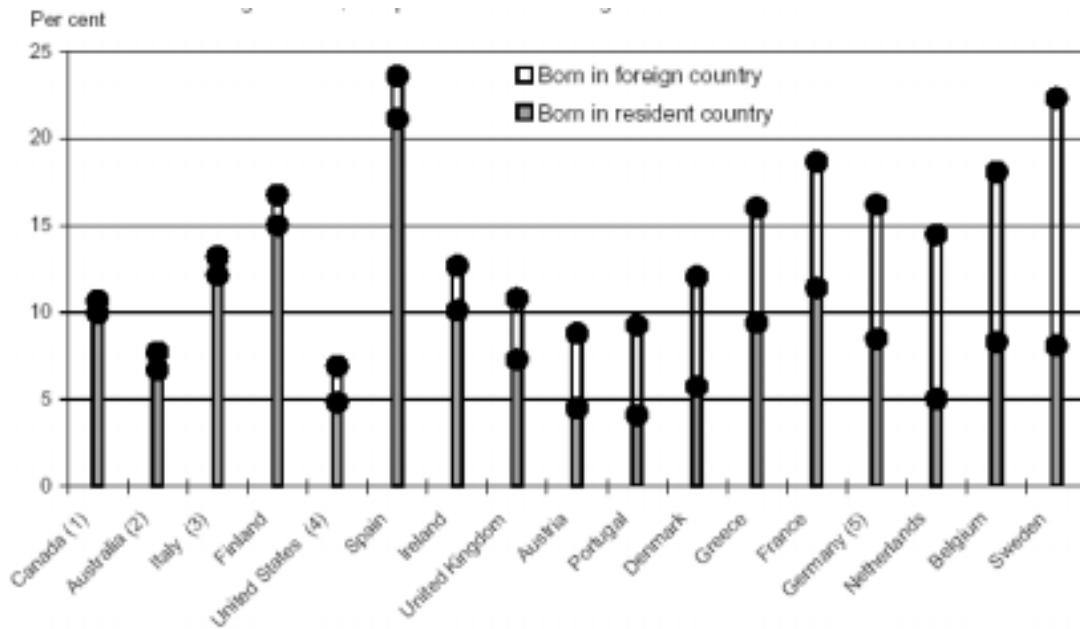
Source: Jonathan Coppel et al., Trends in Immigration and Economic Consequences, p. 15.

Moreover, the declining demographic trends in the European Union will progressively create a scarcity of labor, making these fears of migration-based economic disruptions unfounded.

Although this may be true, it is also clear that such positive effects may be delayed whereas short term quantitative unbalances on the labor market may occur, providing some political legitimacy to the supporters of immigration control.

The fact that native unemployment does not seem to be strongly affected by the inflow of migrants does not mean that migrants would not find themselves unemployed in a higher proportion than the native population, at least in the short term, pulling the average unemployment rate of the host country up. If this were the case, at least in a first stage, the effects on the welfare systems and on the overall GDP per-capita would clearly be detrimental to the host countries. Such fears appear to be supported by simple static comparisons of the levels of unemployment between nationals and foreign-born in the host country. Clear evidence indeed shows that in all European Union countries (and OECD countries in general) the unemployment rates are generally much higher for foreign-born than for natives (Figure 7).

**Figure 7 - Foreign born and native unemployment rates (Average 1995 as percent of the foreign born and native labor forces)**



Source: Jonathan Coppel et al., Trends in Immigration and Economic Consequences, p.17.

1/ Data refer to 1996

2/ Data refer to 1998

3/ Data refer to 1995-97

4/ Data refer to 1997

5/ Data refer to foreigners and nationals instead of foreign-born and native

Although with time the differences progressively disappear for each cohort of migrants, short term increases in the average rate of unemployment in Western Europe could not be excluded in the event of a substantial East-West migration.

A worsening of regional quantitative imbalances on the labor market is therefore likely in the short and medium run, especially in the border regions migrants may be more likely to head towards. This could be politically difficult especially in countries/regions that have recently seen a substantial rise in their level of foreign-born populations, as former cohorts of migrants may still be in the process of converging towards the native standards as far as unemployment rates are concerned.

**Table 8 - Foreign and foreign-born population in selected OECD countries**

	Thousands		Per cent of total population	
	1988 <sup>b</sup>	1998 <sup>c</sup>	1988 <sup>b</sup>	1998 <sup>c</sup>
Australia <sup>a</sup>	3 753	3 908	22.3	21.1
Austria	344	737	4.5	9.1
Belgium	869	892	8.8	8.7
Canada <sup>a</sup>	4 343	4 971	16.1	17.4
Denmark	142	256	2.8	4.8
Finland	19	85	0.4	1.6
France	3 714	3 597	6.8	6.3
Germany	4 489	7 320	7.3	8.9
Ireland	82	111	2.4	3.0
Italy	645	1 250	1.1	2.1
Japan	941	1 512	0.8	1.2
Netherlands	624	662	4.2	4.4
Norway	136	165	3.2	3.7
Portugal	95	178	1.0	1.8
Spain	360	720	0.9	1.5
Sweden	421	500	5.0	5.6
Switzerland	1 007	1 348	15.2	19.0
United Kingdom	1 821	2 207	3.2	3.8
United States <sup>a</sup>	19 767	26 300	7.9	9.8
Total <sup>d</sup>	43 571	56 719	5.7	6.9

Source: Jonathan Coppel et al., Trends in Immigration and Economic Consequences, p.10.

Germany, Denmark, and even more clearly, Austria, face such a situation. With a massive increase in the presence of foreign-born workers, on the one hand (Table 8), and a sizeable difference in unemployment rates between foreign born and native workers, on the other hand (Figure 7), it is no wonder that the strongest opposition to full enlargement options comes from these 3 countries.

The case of Poles in Germany is interesting in this respect. Statistics for 1997 and 1998 for instance show that the Poles had already become the main group of immigrants, and represent more than 10% of the total flow<sup>21</sup>, although they still represented only 3.8% of the stock of foreigners in Germany. How many more of them would migrate to Germany if free movement of persons was enforced?

<sup>21</sup> Jonathan Coppel et al., *Trends in Immigration and Economic Consequences*, p. 9.

Table 9 - Border-Region in the European Union and the candidate countries

BORDER-REGIONS IN THE EUROPEAN UNION AND THE CANDIDATE COUNTRIES									
	EU Member States					Candidate Countries			
	GDP/head EU15=100	UR	ER	% Agriculture Total employment		GDP/head EU15=100	UR	ER	% Agriculture Total employment
DEUTSCHLAND NORDRHEIN-WESTFALEN	107.7	8.9	65.4	2.9	POLSKA	36.1	12.3	57.5	18.1
MEDLENBURG-VORPOMERN	70.7	17.5	61.3	6.8	ZACHODNOPOMORSKIE	35.2	14.9	53.8	11.4
BRANDENBURG (BERLIN)	70.6 102.2	16.0 13.7	63.0 60.7	5.4 0.8	ZACHODNOPOMORSKIE	*	*	*	*
DRESDEN	74.1	N.A.	N.A.	N.A.	LUBUSKIE	32.9	15.3	51.9	7.1
					LUBUSKIE	*	*	*	*
					DOUGLASKIE	36.0	13.8	56.1	9.6
					ČESKÁ REPUBLIKA	60.3	8.5	65.6	5.3
					SEVEROZÁPAD*	52.7	7.3	66.3	6.5
CHEMNITZ	63.2	N.A.	N.A.	N.A.	SEVEROZÁPAD	52.9	12.6	61.7	4.0
RAJONS	122.9	5.0	71.2	4.1	SEVEROZÁPAD	*	*	*	*
CHEFFANKEN	104.2	6.5	69.7	3.0	SEVEROZÁPAD	*	*	*	*
CHEFFALZ	94.1	5.4	70.6	6.5	SEVEROZÁPAD	*	*	*	*
NIEDERSACHSEN	98.3	4.8	71.1	6.8	JIHOZÁPAD	57.4	6.4	67.6	7.8
ÖSTERREICH	111.7	4.0	68.8	6.2	JIHOZÁPAD	*	*	*	*
BERGÖSTERREICH	104.9	2.7	69.2	8.3	JIHOZÁPAD	*	*	*	*
NIEDERÖSTERREICH (NIEB)	91.4 162.8	3.1 5.9	69.1 69.6	10.1 0.8	JIHOZÁPAD	53.4	8.8	65.4	8.2
BURGENLAND	68.8	3.3	67.9	6.3	JIHOVÝCHOD	48.6	16.4	60.8	8.1
					SLOVENSÁ REPUBLIKA	44.3	15.1	61.5	9.1
					ČRÁDINE SLOVENSÁ*	99.4	5.9	71.9	3.4
					BRATISLAVSKÝ KRAJ	49.0	6.9	55.4	7.0
KÄRNTEN	91.6	4.7	65.7	7.8	MAGYARORSZÁG	54.1	4.4	63.0	6.5
STEEHMARK	90.1	4.1	67.6	8.5	MUGATOUNHATUL	68.8	7.3	62.5	10.8
ITALIA	101.1	11.7	53.4	5.4	SLOVENIJA	*	*	*	*
PIEMONTE-VALLE D'AOSTA	113.5	5.6	59.7	4.8	SLOVENIJA	*	*	*	*
					SLOVENIJA	*	*	*	*
ELLADA	66.0	11.7	56.9	17.8	BALGARIA	22.3	17.0	54.1	24.4
ANATOLINIMAKEDONIA, THRACE	55.4	12.8	60.0	38.4	YUZHNA BALGARIA	22.3	16.5	N.A.	25.4
KENTRIKI MAKEDONIA	67.6	11.7	55.5	19.1	YUZHNA BALGARIA	*	*	*	*
Source: Córdelia Report					* There is a significantly smaller part of the region bordering the EU				

Source: Cohesion Report

\* There is a significantly smaller part of the region bordering the EU

(note): GDP/head EU15=100 → Gross domestic product per inhabitant as percentage of the EU15 average in 1999

UR → Total unemployment rate in 1999

ER → Employment rate as percentage of the population aged 15-64 in 1999

% Agriculture Total employment → Share of employment in agriculture in total employment in 1999

Source: Based on European Commission (2001) (Second Cohesion Report)

Source: European Commission, The Free Movement of Workers in the Context of Enlargement, p. 37.

As Table 9 shows, a close look at the border regions in the European Union and the candidate countries reveals indeed the vulnerability of some specific regions (mainly in Germany and Austria but also in Italy and in Greece, although in this last case Bulgaria

will certainly not be part of the first wave of accession) to westward migration. This vulnerability is largely due to the strength of the Push factor, with clear differences in GDP per capita across the borders as well as, in many cases, a higher rate of unemployment in the border regions of the candidate countries.

In the case of some Polish and Bulgarian border regions, an additional factor may play a role as Table 9 indicates. The existence of a relatively lower employment rate (in other words, a lower participation rate) in these regions, suggesting a level of underemployment superior to what could be concluded from the sole unemployment rates.

Border regions of Germany and Austria are particularly vulnerable due to the fact that in the last 10 years migrant networks were created, which could play a role in making new migrations (and commuting) easier and quicker. Politically, such an evolution would particularly be problematic in Austria where the stock of foreign-born population already skyrocketed from 4.5% in 1988 to 9.1% in 1998. It must also be stressed that effects of enlargement on the job market of border regions are likely to be linked to “commuters<sup>22</sup>” as well as real migrants. The few studies available<sup>23</sup> in the case of Germany and Austria indicate that the sole share of commuters in the labor force of the border regions could range from 1% to 8%, with a stronger impact in the urban areas.

### **3.1.2 The impact on income distribution**

As Hubertus Hille and Thomas Straubhaar concluded in another study: *“Free migration proves to be a typical allocation phenomenon without any major threat for any of the two European regions. Merely EU’s blue collar workers might get nervous in view of potentially falling wages and could oppose the idea of free labour mobility”*<sup>24</sup>

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<sup>22</sup> Daily commuters as well as weekly/monthly commuters.

<sup>23</sup> European Commission, *The Free Movement of Workers in the Context of Enlargement*, P 37

<sup>24</sup> Hubertus Hille and Thomas Straubhaar, “The Impact of the EU-Enlargement on Migration Movements and Economic Integration: Results of Recent Studies,” in *Migration Policies and EU Enlargement: The Case of Central and Eastern Europe* (Paris, France:OECD Publications, 2001), pp. 79-100.

Although traditional factorial approaches conclude that migrations are a positive sum game, it is also true that the costs and benefits are not necessarily evenly distributed. The impact of labor mobility on income distribution is actually very difficult to spell out with certainty and differs from case to case. It largely depends on the transformations in factor intensities triggered by the number and nature (nature of the skills, etc) of the immigrants in a given situation. It also depends on the complementary or substitutable nature of this new labor force relative to preexisting one. The size of wage effects from migration is also a function of very imperfectly known (and perhaps changing as a result of migration, as some researchers suggest<sup>25</sup>) wage elasticity of labor demand and native labor supply.

Studies of reference in the case of the USA, Germany and France,<sup>26</sup> for instance, show that high flows of migration had very little impact on wages. In the case of the US, for example, Friedberg and Hunt estimate that a 10% increase in the fraction of immigrants in the population reduces native wages by at most 1 per cent.<sup>27</sup> At a more disaggregated level however, the same study in the USA and a study on Germany by De New and Zimmerman in 1994<sup>28</sup> indicate that the impact on wages may be stronger: positive for highly qualified native workers, negative for low skilled native workers.

Precisely, different studies show to what extent the characteristics of the foreign population differ in terms of level of education. This is the case in all major OECD countries, including major EU member states, as table 10 shows.

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<sup>25</sup> Dani Rodrik, "Globalisation and labour, or: if globalisation is a bowl of cherries, why are there so many glum faces around the table?" in Richard Baldwin et al., ed., *Market Integration, Regionalism and the Global Economy* (Cambridge, UK: Cambridge University Press, 1999), pp 117-152.

<sup>26</sup> Jonathan Coppel et al., *Trends in Immigration and Economic Consequences*, pp. 15-16.

<sup>27</sup> Friedberg and Hunt quoted in Jonathan Coppel et al., *Trends in Immigration and Economic Consequences*, p.15.

<sup>28</sup> Referred to by Jonathan Coppel et al., *Trends in Immigration and Economic Consequences*, p.15.



**Table 10 - Foreign and national adult populations classified by level of education in selected OECD countries**

1995-98 average, percentages

	Lower secondary		Upper secondary		Third level	
	Foreigners	Nationals	Foreigners	Nationals	Foreigners	Nationals
United States <sup>b</sup>	35.0	15.7	24.1	35.0	40.9	49.3
Germany	48.5	13.2	37.0	62.2	14.4	24.6
France	63.3	33.4	22.9	45.4	13.8	21.1
Italy	47.1	56.3	38.3	34.3	14.6	9.3
United Kingdom	65.1	43.9	14.7	32.5	20.2	23.7
Canada <sup>c</sup>	22.2	23.1	54.9	60.3	22.9	16.6
Sweden	30.8	20.4	41.5	50.3	27.7	29.3

Source: Jonathan Coppel et al., Trends in Immigration and Economic Consequences, p. 11.

It is therefore likely that labor mobility from CEE countries could affect specific groups of workers in specific regions of the receiving countries, mainly in the less skilled niches of the industry and service sectors. As far as wages are concerned, however, the existence of fairly stringent regulations in most European countries, Germany and Austria included, sets the lower limit of the distributional impact of migration.

The most probable consequence of migration is the increase in the proportion of people working at or around the minimum wage, enlarging the gap between the average income of qualified people and the one of the non or less qualified and pushing the European Union a little closer to the Anglo-Saxon economies in that respect <sup>29</sup>

At the less disaggregated level of industry division, available evidence (Table 11) on the employment of foreigners and nationals confirms the strong and often overrepresentation of foreign-born workers in the industry sector<sup>30</sup>, especially in Germany and Austria, the two potentially major recipients of CEEC migrants. It is therefore very likely that industry workers will be the primary victims of the inflow of CEE migrants, as far as their wages are concerned.

<sup>29</sup> Dani Rodrik, "Globalisation and labour, or: if globalisation is a bowl of cherries, why are there so many glum faces around the table?" p. 120.

<sup>30</sup> Data at a more disaggregated level would allow for a more precise analysis.

**Table 11 - Employment of foreigners and nationals by industry division (Proportion of. total employment of foreigners and nationals 1995-1998 average)**

	Agriculture		Industry		Services	
	Foreigners	Nationals	Foreigners	Nationals	Foreigners	Nationals
Australia	2.2	5.8	26.7	20.7	71.1	73.4
Austria	1.3	7.6	42.0	29.2	56.7	63.2
Belgium	1.1	2.7	35.9	27.1	63.0	70.3
Canada <sup>b</sup>	2.4	4.7	24.6	19.6	73.0	75.7
Denmark	4.4	3.9	22.9	26.6	72.7	69.5
Finland	3.6	7.7	23.5	27.6	72.9	64.7
France	3.2	4.8	38.2	26.0	58.7	69.3
Germany	1.4	3.1	46.3	34.1	52.3	62.8
Greece	3.9	19.9	41.3	22.5	54.7	57.6
Ireland	3.7	11.0	25.2	28.3	71.2	60.8
Italy	6.8	6.6	34.9	32.2	58.3	61.2
Japan <sup>c</sup>	0.3	5.5	64.1	61.6	35.6	33.0
Luxembourg	1.6	3.8	28.3	20.0	70.1	76.2
Netherlands	2.1	3.8	28.3	22.9	69.7	73.4
Portugal	1.9	12.8	38.8	32.5	59.3	54.7
Spain	7.5	8.5	20.7	30.1	71.8	61.4
Sweden	1.5	3.3	27.2	25.7	71.3	71.0
United Kingdom	0.7	1.9	20.2	27.4	79.1	70.7
United States <sup>d</sup>	4.2	2.4	26.2	22.6	69.5	75.0
Total <sup>e</sup>	3.3	4.3	29.2	27.4	67.5	68.4

Source: Jonathan Coppel et al., Trends in Immigration and Economic Consequences, p. 12.

### **3.2 What kind of transition period, if any?**

As seen above, the debate around the transition period essentially revolves around two major concerns: falling wages for non/less skilled workers on the one hand, and regional surges in unemployment on the other hand. Faced with these very specific and targeted risks, what kind of transition period would be appropriate, if any? This debate has come to an end beginning of 2002 when the separate negotiations with the ten countries set to join the European Union by 2004 concluded. Negotiations have not yet ended with Bulgaria and Romania, though. To understand the compromise that was recently reached,

we need to take one step back and look into the options that were available with their pros and cons, and draw the lessons of earlier transitional arrangements.

### **3.2.1 A typology of the options available**

In 2001, the European Commission identified five possible options<sup>31</sup> for the seven years transition period.

#### **Option 1: Full and immediate application of the *acquis***

Among the pros, it is clearly consistent with the general principle of adopting the *acquis* by the date of accession, it allows the normal interplay of the four freedoms, safeguards the geographic unity of the single market and avoids complex additional negotiations. However, this option may ignore the sensitivity of public opinion and may be politically dangerous for the stability of the Union in the short term. When faced with such challenges in the past (for instance when Spain and Portugal joined), the Community chose a prudent approach and this time, once again, the full and immediate application of the *acquis* does not seem realistic.

#### **Option 2: Safeguard clauses**

Here the general principle of the application of the *acquis* is respected but some flexibility is built in as safeguard clauses allow member states to impose temporary restrictions when and where labor markets become disrupted, during the 7 years period.

One possibility is to have safeguard clauses triggered by an ad hoc assessment of the labor market situation in a given country/region. The difficulty obviously derives from the political sensitivity of the criteria or/and indicators used in such an assessment, each stakeholder (region, country, Commission) being tempted to chose different ones if allowed to.

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<sup>31</sup> European Commission, *The Free Movement of Workers in the Context of Enlargement*, p. 18.

In order to avoid such conflicts, the implementation/continued application of such clauses may be subject to a Commission recommendation or authorization.

Alternatively, criteria and indicators can be predefined on a more objective basis, less subject to interpretation. The safeguard clauses could for instance be triggered when a specific predefined threshold is reached, such as a percentage of migrant workers in the local/regional workforce, or when a specific rate of unemployment is reached, etc. Clauses may also be tailored so as to target specific regions of origin.

Although less “democratic”, the strength of this option lays in its predictable and almost automatic nature. The criteria and procedures set in the *Maastricht* Treaty relating to the European Monetary Union can offer a useful inspiration in this respect. Moreover, safeguard clauses have been used many times in the history of the European Union, making them well known and well-accepted tools.

### **Option 3: flexible system of transitional arrangements**

Instead of allowing countries to implement safeguard clauses in case of disruptions, this option allows broad restrictions to freedom of movement to be enforced from the beginning, then allowing each country to lower and remove them at a different pace (and possibly at a different time in different regions of a country). This system needs to be well coordinated by the Commission since overcomplicated non-coordinated “a la carte” solutions (such as the current bilateral agreements between EU member states and candidate countries) could end up being technically and politically unmanageable.

A way to limit the multiplication of uncoordinated national/regional transitional arrangements could be to strictly define the kind of initial restrictions to be authorized and have them be automatically reviewed after a pre-defined short period of time (or upon request of some member states). This institutionalized scrutiny would allow for the transitional period to be shortened where possible, and for restrictions to be weakened in a coordinated way, while still allowing member states that can justify it to use a predefined set of restrictive measures until the end of the transition period.

A slightly different solution would be to combine a EU wide review mechanism with the obligation for all countries to downgrade their restrictions, if any, at the same time. The main advantage is to limit the complication of the system by preventing countries to implement different sets of safeguard clauses; the main risk would be to allow one country to block the downgrading of restrictions to labor mobility until the initially agreed upon final deadline.

It is also conceivable to combine options 2 and 3 in a mixed system, limited in time, allowing for each individual member state to “*opt for the application of the freedom of movement with a safeguard clause from the date of accession or for a transition period which is subject to review*”.<sup>32</sup>

#### **Option 4: establishment of a fixed quota system**

In theory, the principal advantage of quotas and quantitative restrictions is that they “*give a sense of security and predictability on both sides of the border. They can also be modulated to take account of vulnerable sects and/or regions, and to take into account needs in some sectors and regions for additional labour*”<sup>33</sup> However, discriminating against or in favor of some categories of population may not only be at odds with the political culture of most EU countries -few EU countries have experience with this system- but it could also create serious difficulties upstream during the negotiation process with the candidate countries. Moreover, as quotas are inflexible by nature (although some adjustments are possible), they need to be wisely defined and targeted from the beginning and thus, may be difficult and cumbersome to enforce.

#### **Option 5: general non-application of the *acquis* for a limited period of time**

The status quo is the last conceivable option and would simply extend the current situation for another 7 years: non-application of the *acquis* would remain the rule while bilateral agreements between Member States and candidate countries would allow for

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<sup>32</sup> European Commission, *The Free Movement of Workers in the Context of Enlargement*, p. 23.

<sup>33</sup> European Commission, *The Free Movement of Workers in the Context of Enlargement*, p. 23.

some marginal movements of population. This system would fully reassure populations in member states but would clearly be politically unacceptable as contrary to the very spirit of European integration.

The status quo would also be economically inefficient, preventing the normal interplay of the four freedoms of the single market. Some countries could, however, benefit from such a system if they managed through bilateral agreements to attract the type and quantity of labor necessary to their respective economies. The status quo could then turn into a competition between Member States to attract the “right” CEECs workers, enhancing the negotiation position of the CEECs and triggering conflicts of interests between EU countries. Under such rules of the game, CEECs and EU Member States could progressively find themselves in an intriguing situation of bilateral oligopoly on the “market” for CEECs workers, with unpredictable results.

### **3.2.2 The lessons of past experiences**

Freedom of movement of labor was progressively introduced in the EU and it was only in 1968 that it became a reality (at least from a legal perspective) for all workers. In the most recent enlargement to include Austria, Sweden and Finland, the rules on free movement of workers were already applicable before accession under the European Economic Area agreements. Movement of workers never became a concern to other EU members, all the more that these three countries enjoyed a relatively higher level of GDP/head and had a small population.

The case of German reunification was a special case and although we saw above how powerful the flow of worker was (more than 7% of the source population over 10 years and 2.8% of the East German population during the first 6 months), this experience cannot be simply transposed to the current candidate countries for obvious reasons.

The most relevant reference models for the next enlargement are the accessions of Greece, Spain and Portugal. In those cases, significant concerns existed in relation to

expected labor migration based on considerations such as income differentials, high propensity to migrate and geographical proximity. Spain and Portugal in particular had a long tradition of emigration towards Western Europe and the development gap remained important at the time of accession, although much inferior to the current one with CEEC.

In this context, member states agreed to impose a seven-year transition period during which bilateral agreements would basically govern the hiring of Spanish and Portuguese nationals (through the issuance of work permits). Members of the family of a legal worker would gain the right to work either immediately if they had already been staying with the worker at the time of the accession treaty, or progressively otherwise. In any case, member states were not allowed to impose new restrictions to the entry and hiring of Spanish and Portuguese nationals.

During the transition period, only 1000 Spanish and 6000 Portuguese nationals would apply for such work permits and the expiry of the transition period did not produce a break in the trend. The number of migrants from Portugal increased somewhat in the following years while the flow of Spanish ones did not. Family members included, the yearly net flow from both countries never passed 30.000 and then started to decline (partially due to increasing reverse migration). In other words, the transition period had been useless and in 1991, at the planned 5 years review of the transitional regime, following the advice of the Commission report, member states agreed to cut the transition period from 7 to 6 years.

## **Conclusion**

The current state of integration between the CEE countries and the EU is characterized by limited labor flows, but strong trade integration and increasing capital market integration. Although labor flows may increase after accession and potentially disrupt specific regions and economic sectors of the member states, the effects will remain very limited from a macroeconomic perspective. This predominance of trade and capital integration on labor market integration will most likely develop after accession just as it characterizes the state of integration between the current EU member states.

In this context, the full application of the *acquis* regarding labor mobility (option 1) seems realistic just a few years after accession and option 5 (the non application of the *acquis* for 7 more years) is clearly inappropriate. Transitional arrangements are however necessary not to tackle potential EU wide disruptions but rather to allow specific regions and economic sectors to smoothly adapt to the new deal. To the extent that migration flows will be limited and probably very region specific, the transitional arrangements will need as much flexibility as possible both in the nature of the measures and in their timing, excluding option 4 (establishment of a fixed quota system). At the same time, the need to keep a high level of homogeneity, transparency and predictability in the workings of the European Union invites rejection of overcomplicated “a la carte” national measures and rather suggest a “menu” approach that would give the European Commission a strong coordinating role.

In that respect, the compromise finally reached beginning of 2002<sup>34</sup> with the ten countries set to join the Union by 2004 is quite satisfactory for two crucial reasons. First it essentially consists in a combination of safeguard clauses (option 2) and flexible system of transitional arrangements/national measures (option 3). Second, it sets a clear calendar with automatic reviews and gives the Commission a strong coordinating role even though it leaves the final decisions in the hand of member states as far as phasing out transitional arrangements/national measures and implementing safeguard measures are concerned. The essential components of the transition arrangement with the eight CEE countries are as follows<sup>35</sup>:

A two year period during which national measures will be applied by current Member States to new Member States. Depending on how liberal these national measures are, they may result in full labor market access. Following this period, reviews will be held, one automatic review before the end of the second year and a further review at the request of

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<sup>34</sup> It has been provisionally closed for Cyprus, Hungary, Latvia, Malta and Slovakia during the Swedish Presidency and for the Czech Republic, Lithuania, Poland and Slovenia during the Belgian Presidency. The chapter has been provisionally closed for Estonia during the Spanish Presidency.

<http://europa.eu.int/comm/enlargement/negotiations/chapters/chap2/index.htm> accessed April 25th 2002.

<sup>35</sup> For obvious reason, the EU has not requested a transition period in relation to Malta and Cyprus.



the new Member State. The procedure includes a report by the Commission, but essentially leaves the decision on whether to apply the *acquis* up to the Member States. The transition period should come to an end after five years, but it may be prolonged for a further two years in those Member States where there are serious disturbances of the labor market or a threat of such disruption. Finally, safeguards may be applied by Member States up to the end of the seventh year.

The transition arrangement also includes a number of other important aspects, such as a standstill clause, whereby current Member State labor markets cannot be more restricted than that prevailing at the time of the signature of the Accession Treaty. Also current Member States must from the beginning give preference to candidate country nationals over non-EU labor. A declaration will also be attached to the Accession Treaty stating that current Member States shall endeavor to grant increased labor market access under national law, with a view to speeding up the approximation to the *acquis* and even an encouragement to improve access before accession.

Finally, due their particular vulnerability, Austria and Germany have the right to apply flanking national measures to address serious disturbances or the threat thereof, in specific sensitive service sectors on their labor markets, which could arise in certain regions from cross-border provision of services.

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