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Free movement of labor within the EU-27?

The migration debate in the United States has come to dominate much of the domestic political discussion. Are migrant or immigrant workers good or bad for the U.S. economy? Should labor migration be encouraged or thwarted? And what should the U.S. government do about those immigrant (or migrant) workers already in the United States?

The temptation is to view this debate as uniquely American. Nevertheless, a variant of it exists in Europe as well. The free movement of labor is a basic commitment in the process of European integration and is judged to be an essential element of European Union (EU) citizenship. Article 39 of the Rome Treaty (1957) provides for the following related rights: to look for employment in another member state, to work in another member state, to reside there for that purpose, to remain there and to perceive equal treatment in respect of access to employment, working conditions and all other advantages which could help to facilitate the workers' integration in the host member state.

Until the EU enlargements of 2004 and 2007, member states generally regarded the exchange of populations as beneficial for their societies. However, now that the Union is larger and knows that substantial economic differences between the various member states exist, the issues of migration and immigration have taken on new meaning. This brief assesses the policies adopted towards labor migration in the enlarged EU, the expectation these policies were founded on and the actual results that labor migration has brought the EU as a whole.

Member States' Reactions and Restrictions

The Accession Treaties regarding the accession of Malta, Cyprus and ten former USSR satellite states included several transitional arrangements aimed at pre-empting big internal shocks due to large flows of economic immigrants. These arrangements included that for the first two years following actual membership, access to other member states' labor markets was made dependent on national laws and policies, rather than an overarching European framework. After these initial two years, national protective measures can be extended for another three years plus two years, with a prerequisite for the last two years that a state should be able to demonstrate serious disruption to its labor market caused by immigration.

With the 2004 enlargement, only three of the "old" member states (the EU-15) did not resort to protectionism towards their national labor markets: the UK, Ireland and Sweden. All the rest adopted restrictions for inflows of labor from the former communist countries (grouped together as the EU-8). No special measures were

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imposed on the citizens of Cyprus and Malta, although Malta was allowed to protect its small labor market from other EU nationals until 2011. The restrictions meant that immigrants had to go through the time-consuming process of obtaining a work permit. The regimes for granting work permits are not coordinated and immigrant experiences differ from country to country. Some countries also have imposed annual quotas; others use bilateral agreements permitting limited number of workers from EU-8 in certain sectors, such as construction, information technologies or agriculture. In any case, no country could impose rules that would be stricter than the ones already in place before May 2004.

Also, "receiving" member states did not have total freedom to legislate on these issues. It has to be stressed that, for example, no discrimination could be applied once an EU-8 citizen had started legal employment. In other words, as soon as the immigrant receives a work permit he is entitled to the same rights as the nationals of the country of residence. This means equal treatment with respect to remuneration, social and tax advantages.

Furthermore, the old EU-15 members are to give preference to workers from new EU member states over nationals from so-called third countries, those outside the EU. Similarly, there are no restrictions on citizens from Central and East European member states regarding their right to establish businesses in the old EU area. Moreover, only Germany and Austria had permission to restrict access to their service markets, thus limiting the possibilities for the neighboring Polish, Czech, Slovak, Hungarian and Slovenian companies to post their workers temporarily across the old EU border. At the same time, the governments of the joining EU states were allowed to impose reciprocal restrictions on labor flows from the old EU-15; however, only Hungary, Poland and Slovenia did so. It should be noted that all the new EU members opened their labor markets to fellow newcomers.

At the end of 2007, two-thirds of the EU-15 has lifted all barriers for labor from the states that joined in 2004. Of the states that have maintained restrictions, Belgium, France, Denmark and Germany have reduced them in several sectors. In Austria, labor from the former Communist states will have to apply for a work permit at least until 2009, partly legitimized because of Austria's geographical proximity to Eastern European countries. With regard to the 2007 accession of Bulgaria and Romania, ten member states have lifted all barriers to labor market access, but bar Finland and Sweden, these are all member states that joined in 2004. This time, even Ireland and the UK – the markets most open to foreign workers – place limitations on workers from these 26th and 27th EU member states, with a collective population of 30 million. The most important considerations that have led to this policy change have been the relative weakness of Bulgarian and Romanian economies compared to those of the EU-8 in 2004, higher-than-expected levels of migration after the 2004 enlargement – partly because of restrictions in other countries – and, not unimportant, the exacerbation of negative public opinion on labor migration due to excessive media and political attention.

Having said that, all remaining restrictions for access to labor markets are in line with the Accession Treaties, which allow any EU member state to protect its labor market, until 2011 and 2013 respectively, with two interim deadlines that would allow for a review of the situation and a potential lifting of the protective measures.

Expectations

Before the enlargement, numerous studies tried to predict the amount and nature of labor migration to the rich EU from the much poorer Central and Eastern European neighbors, often basing their conclusions on immigration data from the 1990s. According to a study by the European Commission, annual net immigration from the Central and Eastern European countries (CEECs) reached its peak in 1990, with more than 300,000 people moving from Central and Eastern Europe (CEE) to reside in the EU-15. After 1993, net immigration flows from CEECs declined sharply, but the stock of immigrants continued to rise, and by 1998 the number of CEE nationals residing in the EU was estimated at 870,000 persons, constituting a 0.2 percent share of the EU population. The most popular receiving countries were Austria and Germany, due partly to their open policies towards migrant workers and their geographical proximity to Central and Eastern Europe. Data from 2003, just months before the EU enlargement, confirmed the same tendency. By then, around two thirds of the total of 400,000 CEEC nationals residing in EU-15 had chosen to live in Austria and Germany.

Analysts did not expect a dramatic change after the May 2004 enlargement. On the assumption that there would be no restrictions on the EU's labor markers, it was assessed that annual immigration from CEECs would reach 300,000-350,000 people (or 2-4 percent of the source population of the CEECs) in the first years following the big-bang enlargement. Over 15 years, the case expected the absolute net number of migrants to be around 3 million people, or about 1.2 percent of the projected working-age population of the EU-15 in 2020.

Looking at these numbers, public debates on the opening of labor markets to all citizens of the newly enlarged EU focused on zero-sum speculation that nationals from the much poorer CEECs would take away jobs from EU-15 nationals, push wages down and negatively impact on the economies of the EU-15 in a general way. Certainly, the large gaps in per capita income and wages (in combination with geographical proximity and established historical and cultural ties) provided high incentives for East-West mobility. As to income differences, the Economist Intelligence Unit in 2003 calculated that the new EU members would need between 21 and 59 years to reach the average EU-15 living standard. Some of the newcomers, notably Poland and Slovakia, neighboring Germany and Austria, had very high unemployment levels as well (exceeding 18 percent in May 2004).

A large segment of the European public expected that CEECs' nationals would become a burden on the welfare states of the old EU-15. According to a 2002 survey by Eurobarometer (which commissions public opinion surveys in the various member states for the European Commission), half of EU citizens believed that migrants were already abusing the welfare state. This perception ignored the fact that access to social benefits is restricted according to national rules, which are not harmonized in the EU.

Thus, each country may limit access to non-contributory social-welfare payments, and can therefore provide some strong disincentives for economic migrants who are not certain of employment in their newly chosen homes.

Moreover, migration experts predicted that rather than permanent one-way migration, the old EU would see a predominance of short term, circulatory movements backwards and forwards across borders. In other words, a person would make frequent short-duration trips to earn a living in the EU-15 while maintaining a home in the country of origin. This was partly due to the character of work permits available, as most of them were in temporary seasonal work like agriculture, tourism, construction and private household services.

Some analysts suggested that migration from Central and Eastern Europe would lower future wage increases in the EU-15 for low-skilled workers in labor-intensive sectors such as manufacturing and construction. Others suggested that migrants could even reduce employment by lowering wages in the regions where the pool of job seekers is largest. For those who feared wage convergence (with wages in the EU-15 going down rather than wages in the CEECs going up), experts stressed that it was driven by trade, not labor immigration. One has to bear in mind that, with the exception of Poland, the CEEC populations are small and thus could not provide such a sizable amount of workers to influence the market significantly in this way.

On balance, economists agreed that free movement of labor would be beneficial for the EU as a whole. First, CEEC nationals could help many regions that lacked sufficient supply of labor in important sectors, like healthcare, engineering and public services. With EU-15 nationals proving increasingly reluctant to take on jobs that are dirty, difficult, or poorly paid, CEEC nationals could meet the needs of service-based economies demanding flexible workers. Second, and most importantly, every migrant worker not only earns individual income, but also contributes to the growth, including an increase in the per capita income, of his or her host country. After all, every legal employee not only pays taxes but also adds to local consumption (he/she has to rent a place to live, pay living expenses, eat, etc.), thus there would be an increasing demand that would have to be met by increased supply. There were justified concerns about short-term adjustment problems for the labor markets of Austria and Germany, the countries that had attracted most CEEC nationals in the past. As an illustrative example, there was particular concern over a possible commuting route to the Austrian capital Vienna, which is within driving distance from the Slovak and Hungarian capitals. Commuting to Vienna, and also to other Austrian as well as German cities, would allow migrants to combine the high wage levels in Germany and Austria with the low cost of living at their original place of residence.

As a general rule however, experts agreed that limiting the free movement of labor from the new member states in Central and Eastern Europe would lack a strong economic rationale. Instead, any restrictions would only delay the overall movement of workers and, in the meantime, drive labor migration into the black market, depriving member states of tax revenue. Nevertheless – as pointed out at the beginning of this brief – most national governments of the EU-15 disregarded these experts' advice, as in May 2004 only Sweden, Ireland and the UK committed themselves to one of the fundamental principles of the EU: the free movement of labor for all EU citizens, newcomers or not.

Results

On April 30, 2006, the first phase of the transitional arrangements ended, and with it the European Commission issued a report analyzing the situation in the EU-15's labor markets.

Interestingly, the report concluded that immigration after the 2004 enlargement had been lower than had been foreseen. With the exception of Austria and Ireland, in all EU-15 countries nationals from the new member states still represented less than 1 percent of their working age population. Based on official statistics for 2005, in Ireland, which received the highest number of newcomers, 3.8 percent of its working age population were citizens from the ten new EU countries. In Austria the figure was 1.4 percent, even though it was one of the countries that had not opened its labor market. Therefore, the report revealed that the restrictions did not keep EU-8 workers out of the so-called “closed” EU-15 countries. In other words, the restrictions did not have direct effect on controlling labor migration from the new EU members. Instead, mobility flows were driven by factors related to supply and demand conditions. Second, the report concluded that the effects of east-west labor migration on the EU-15 were less pronounced than had been foreseen, given the relatively small numbers of workers from the new member states residing in the EU-15.

The European Commission's report said that Ireland, Sweden and the UK had experienced positive effects from this population shift including general high levels of growth and a drop in unemployment. There was no evidence of welfare tourism (although it is clear that the threat of such abuses has been bandied about in the media). At the same time the report suggested that the EU countries that had restricted access to their labor markets were facing the undesirable side-effects of higher illegal employment numbers and bogus, declared self-employed work. In other words, many citizens from the new member states had used alternative employment channels that gave the host country less or no income tax revenues.

Regarding the nationality of the workers from the new member states that chose to try their economic luck in the EU-15, around two thirds came from Poland (according to the Polish Ministry of Labor, over 400,000 moved into the EU-15 in the first year after EU enlargement). The other third is mainly composed of Lithuanians, Latvians and Slovaks, with the GDP per capita of all four of these countries at about 50 percent of the EU-25 level. In addition, Poland and Slovakia have very high levels of unemployment and large agricultural sectors, consequently providing for a large pool of low skilled workers eager to take up jobs in the EU-15 that may be unattractive to the indigenous population.

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Reservations

Following the report, Vladimír Špidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, recommended that the restrictions on the movement of workers from Central and Eastern Europe to other EU-15 countries should be reconsidered. As pointed out, only five EU member states continue to ignore the analysis and evidence that easing labor migration restrictions provides benefits to them in terms of direct and indirect tax revenues. Moreover, these five governments have not heeded the lesson that restricting labor mobility does not stop it, but instead provides incentives for illegal employment, which results in foregone tax revenues and flourishing black market, with associated levels of criminality attached.

The main reason for these decisions is thus likely not to be purely economic, but mostly based on an exaggerated sensitivity towards public opinion. Following the rejection of the European Constitutional Treaty in the Netherlands and France by popular referendum, cabinets all over western Europe are striving to reflect more closely the views of their publics rather than to stir electoral sensibilities.

The general public fears uncertainty about the future as a result of globalization and the necessary adaptation to the problems of the old continent with regard to an aging population and economic difficulties. This background gives strength to trade union allegations about massive job losses to CEEC nationals, while the benefits of EU enlargement to their economies are largely ignored. As a result, politicians wary of losing short-term political capital have not shown much courage in explaining the necessity and advantages of opening up local labor markets. Next to that, public opinion tends to be more sensitive to social costs attributed to labor migration. Scandals such as ill-treatment and underpayment of migrant workers or expulsion of Romanians by the Italian authorities have negatively influenced the perceptions about the cost and benefits of labor migration. These incidents have given a blow to the EU idea that freedom of labor movement means that citizens of new EU countries (like anyone from the old EU) can look for jobs and go to work without facing any discrimination.

Future

As wage levels in the EU-8 and the EU-15 countries start approaching the same levels, even the marginal migration potential from the member states that joined in May 2004 will decline. For the states that joined in 2007, Bulgaria and Romania, this will eventually happen as well, but is bound to have a longer trajectory.

The costs of east-west migration are likely to outweigh the benefits before EU-8 wage levels equalize with the EU-15. Therefore, Central and Eastern Europe might soon become recipients of labor migration. Furthermore, debates about outflow of human capital are high on the political agenda. Findings that workers from the EU-8 are over-qualified for the jobs they have taken in the EU-15 – for example, a bank clerk picking strawberries in Ireland – is slowly forcing national governments to think of incentives to retain their citizens in Eastern Europe.

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Regarding Turkey's possible EU membership, there have been announcements that Istanbul might face permanent restrictions on its workers. However, this is a medium term problem, because the accession negotiations that started in autumn 2005 will still take several years to complete. It is therefore far too soon to tell what measures could be taken to regulate immigration from Turkey, a country with approximately 70 million inhabitants and large pre-existing expatriate communities in Western-Europe in general, and in Germany and Austria in particular.

Like the United States, the European Union faces an important debate over migration and immigration. That debate will intensify as long as the process of EU enlargement continues. American politicians may be able to contemplate a time when immigration slips out of the public debate. The free movement of peoples is woven into the fabric of European integration, therefore European politicians cannot.

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