

# Migration Policies and EU Enlargement

*The prospect of a number of East European countries' accession to the EU has given rise to fears that a "trek westwards" will follow, which would place severe economic and political strains on the Western European target countries. EU politicians and some of their voters are therefore demanding transitional periods of several years. But are the expectations of massive East-West migration justified?*

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## East-West Migration: Will It Be a Problem?

The closer the Central and Eastern European countries (CEECs) get towards EU membership, the hotter the issue of East-West migration becomes. The political discussion and the academic debate have gained both momentum and roughness. Economists and econometricians argue about the size and speed of potential East-West migration flows. There are dozens of approaches to guesstimating the East-West migration potential<sup>1</sup> and not surprisingly the results seem to differ according to the methods used or the assumptions made.<sup>2</sup>

### The Double Extrapolation Problem

The main methodological difficulty lies in the fundamental political and institutional change that goes along with the accession to the European Union (EU). Coming in from the cold (war) into the well-established EU is doubtlessly a unique experience in the history of the CEECs. Thus, if there is a case where the famous Lucas-critique is well applied, it is in the case of the EU enlargement and its effects on East-West migration flows.<sup>3</sup> The methodological key questions are: how far can we (1) use experiences in the past to learn something for the future and (2) specu-

late about free migration in an area where there has not yet been any (legal) migration at all?

The Lucas-critique refers to the level of consistency and invariance over time and space. It is about the correctness of an extrapolation from past migration patterns to expected migration behaviour and it is about the possibilities of applying empirical migration experiences from one area (e.g. from Southern Europe) to another (e.g. to Eastern Europe). Some scholars try to overcome this fundamental methodological problem by the inclusion of so-called country-specific effects. In most econometric forecasts

<sup>1</sup> See for example the contributions to OECD: Migration Policies and EU Enlargement, The Case of Central and Eastern Europe, Paris 2001; or the surveys by Peter H u b e r: Migrationspotentiale aus den MOEL und ihre Steuerungsmöglichkeiten: ein Literaturüberblick, Vienna 1999; or Elmar H o n e k o p p: Überblick über Ergebnisse bisher vorliegender Schätzungen zum Migrationspotential im Falle einer Arbeitskräftefreizügigkeit im Rahmen der Osterweiterung der EU, Institut für Arbeitsmarkt- und Berufsforschung (IAB), Nuremberg June 2001 (mimeo).

<sup>2</sup> See for example Tito Boeri und Herbert Brucker: The Impact of Eastern Enlargement on Employment and Labour markets in the EU Member States, European Integration Consortium (DIW et al.), Brussels 2001; Herbert Brucker: Die Folgen der Freizügigkeit für die Ost-West-Migration, Schlussfolgerungen aus einer Zeitreihenanalyse der Migration nach Deutschland, 1967 bis 1998, in: Arbeitsgemeinschaft Deutscher Wirtschaftswissenschaftlicher Forschungsinstitute, ARGE: Migration in Europa, Berlin 2001, Duncker & Humblot, forthcoming; or Gebhard Flaig: Zur Abschätzung der Migrationspotentiale der osteuropäischen EU-Beitrittsländer, in: Arbeitsgemeinschaft Deutscher Wirtschaftswissenschaftlicher Forschungsinstitute, ARGE, ibid.

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the country-specific aspects are captured by a country-specific intercept which remains constant over time. However, it remains more than crucial how the country-specific intercept is defined and applied to the CEECs, which have no historical experience of free migration at all (first, because there was no right to emigrate (legally) for decades, and second because there was no right to immigrate (legally) into the EU in the last ten years!)

### Large Methodological Differences

With the methodological problem of double extrapolation in mind, most guesstimates evaluate more or less carefully the forecasting power of structural East-West migration models. Most of them rely on a migration supply function that has its origin in micro-economic migration theory (i.e. wage theory, human capital theory, job search theory). In a second step, individual migration behaviour is aggregated to one (seldom to several) macroeconomic migration equation(s). For reasons of simplification, and as a consequence of the limited transferability to other times and places and finally due to the lack of data availability the macroeconomic migration specification remains rather ad hoc and poor in most of the models applied to the question of future East-West migration potential.<sup>4</sup>

Some other scholars follow a completely different approach in order to overcome the double extrapolation problem. They rely on opinion polls or surveys.<sup>5</sup> Normally, the result is a rather high migration potential. This outcome should not really surprise us. It is the clear consequence of the fact that the answers to the question whether someone would like to go West can be given without any consequences. There are no costs for saying yes and consequently the yes is not a strong migration commitment. Bauer and Zim-

mermann have tried to overcome the weakness of the non-costly indication of potential willingness to migrate in general surveys by conducting a survey only among "experts" (i.e. 446 academics and administrative employees in the sending countries).<sup>6</sup>

### Small Differences in Results

In comparing all the different approaches, studies and reports that have made some guesstimates of the future East-West migration potential one surprising fact clearly leaps to the eye of an open-minded observer: independent of the variety of assumptions and models that have been used to forecast potential East-West migration flows, the old and simple rule of thumb is strongly confirmed that East-West migration would reach about 3% - 4% of the CEEC population within one or two decades after EU-wide freedom of movement has been granted to CEEC citizens. Taking into account the return migration, the net migration rates are about half as large as the gross migration rates and would lie between 1% and 2%. This means that in the long run about every second East-West migrant will return home (or will leave the EU to go to another country, or will become a citizen of his or her new EU host country, or that some citizens of the host country will go East).

### Modest East-West Potential

Table 1 illustrates that in absolute numbers the 3% - 4% rule of thumb leads to the assumption of a gross East-West migration potential of about 3 million people and a net migration potential of about 1.5 million people for all 10 CEEC candidate countries together (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia). If we exclude the two least developed CEECs (i.e. Romania and Bulgaria), that most probably will not belong to the first wave of EU eastward enlargement, the East-West migration potential for the remaining CEEC-8 might not reach more than 2 to 2½ million people gross and 1 to ½ million people net.

<sup>3</sup> The Lucas-critique is "that any change in policy will systematically alter the structure of econometric models. ... (This conclusion, T.S.) is fundamental; for it implies that comparisons of the effects of alternative policy rules using current macroeconomic models are invalid regardless of the performance of these models over the sample period or in ex ante short-term forecasting". Robert E. Lucas: *Econometric Policy Evaluation: A Critique*, in: Karl Brunner and Allan H. Meltzer (eds.): *Carnegie-Rochester Conference Series on Public Policy*, Vol. 1, 1976, p. 41.

<sup>4</sup> "Imposing more and more *structure* on the estimation of the determinants of aggregate migration flows typically reduces uncertainty *within* the sample but may not necessarily lead to better forecasts." Michael Fertig and Christoph M. Schmidt: *Aggregate-Level Migration Studies As a Tool for Forecasting Future Migration Streams*, University of Heidelberg, Department of Economics, Discussion Paper Series No. 324 (2000), p. ii. To my knowledge, the Fertig-Schmidt paper is the only exception that uses a non-structural model to get some insights into the potential East-West migration patterns. In their approach the migration rate is determined by a random country-specific component that is persistent over time and a period-specific component that is invariant to all countries.

<sup>5</sup> For example see Heinz Fassmann, Christiane Hintermann: *Migrationspotential Ostmitteleuropa. Struktur und Motivation potentieller Migranten aus Polen, der Slowakei, Tschechien und Ungarn*. ISR-Forschungsberichte, Institut für Stadt- und Regionalforschung, No. 15, Verlag der Österreichischen Akademie der Wissenschaften, Vienna 1997 or IOM (International Organization for Migration): *Migration Potential in Central and Eastern Europe*, Geneva 1998.

<sup>6</sup> Thomas Bauer and Klaus F. Zimmermann: *Assessment of possible migration pressure and its labour market impact following EU enlargement to Central and Eastern Europe*, Study for the UK Department for Education and Employment, IZA (Bonn), CEPR (London), July 1999.

**Table 1**  
**The 3% - 4% Rule of Thumb**

Assumed share of population willing to migrate	East-West Migration Potential (in millions)	
	CEEC-10 (Population 105 m.)	CEEC-8 (Population 74 m.)
Gross emigration		
3%	3.2	2.2
4%	4.2	3.0
Net migration (including return migration)		
1.5%	1.6	1.1
2%	2.1	1.5

CEEC - 8 is: Slovenia, the Czech and Slovak Republics, Hungary, Poland, Estonia, Lithuania, Latvia.

CEEC - 10 is: CEEC - 8 plus Bulgaria and Romania.

Source: own calculations.

Looked at from the opposite side, this is about 0.8% of the total EU population (gross) or 0.4% of the total EU population (net, including return migration). Therefore, fears of "mass migration" seem highly exaggerated. Furthermore, against the background of the decline in the EU population and the ageing of society the expected East-West migration potential does not look dramatic at all.

### How Valid is the 3% - 4% Rule of Thumb?

Of course it is, and remains, speculation as to how far the 3% - 4% rule of thumb will really be relevant to EU eastern enlargement. One basic criticism is that the rule is based on the experience of the Southern European countries (SEC) and it clearly remains an open question whether the SECs can serve as an analogy for the CEECs. There are many important differences which can be found when comparing these two groups of countries. Most important might be that the level of development and the average real per capita income in the CEECs is much lower than it was in the case of Greece, Portugal and Spain. At the time of entering the EU in the early 1980s the SECs reached about 2/3 of the average EU per capita income. The CEECs are far below this level. If we take the average of all ten CEEC candidates, we get a real per capita income that reaches about 1/3 of the EU average (Table 2). And even if we exclude the two least developed CEECs (i.e. Romania and Bulgaria), the remaining CEEC-8 reach not more than about 40%. This is a quite substantial difference compared to the SECs. And the relatively large income gap will

last - even if the CEECs grow faster than the EU. Table 2 assumes that year for year the growth rate of per capita income in the CEECs exceeds that in the EU-15 by 2%. But still it takes the CEEC-8 about 10 years to bridge the income gap on average by about 10 percentage points and four to five decades to catch up with the EU-15 average!<sup>7</sup>

The larger income gap is relevant because individual migration decisions do not follow a linear function, but rather, a logistic one. This means that the individual migration elasticity is stronger in the case of larger income gaps but becomes weaker in the case of smaller income gaps. Individual migration elasticity might even approach a saturation border that will reduce incentives to migrate long before an equalisation of incomes is achieved. Thus, it makes a difference whether the income gap is 1/3 (as was the case with the SECs) or 2/3 (as is the case with the CEECs).

### What Would Be the Alternatives?

Of course, there are good reasons to be cautious with regard to the guesstimates that forecast only a relatively small East-West potential. But what would be the alternatives? Would the East-West migration potential be smaller if the EU denied or delayed free movement of persons for CEEC citizens? What we have learnt from the EU experience in the past is that if labour has the legal right to move freely, this makes people (especially in border areas) more mobile internationally, but it does not in itself induce mass migration from one country to another. People's social and cultural ties to their local environment are an important obstacle to migration which has commonly been underestimated from the perspective of theoretical economics and has not been taken into account seriously enough in the structural migration (forecasting) models.

### Value of Immobility

In the common labour market of the EU, labour has been extremely immobile internationally. The free movement of persons is still the least used freedom in the EU Single Market. Less than 2% of EU citizens presently live in another EU country. Remember: this is about the size forecast by the 3% - 4% rule of thumb for the expected gross East-West migration potential in the future. What we might learn from the European empirical evidence is that immobility has a

<sup>7</sup> It is self-evident that it would take a longer (shorter) period if the CEECs grow less (more) than 2% faster per year than the EU-15.

**Table 2**  
**How Long for Catching Up?**

Country	Population in millions Year 2000	GPD per capita at PPP1 Year 2000	Average EU-15 = 100 Year 2000	When is the income gap ...			
				60%	50%	40%	0%
(Assumption is that year for year CEECs grow 2% faster than EU-15)							
EU-15	375,3	22500	100%				
CEEC-10	104,7	8011	36%	2006	2017	2026	2052
Slovenia	2,0	15000	67%	—	—	—	2020
Czech Republic	10,3	12500	56%	—	—	2004	2029
Hungary	10,1	10700	48%	—	2003	2012	2037
Slovak Republic	5,4	10300	46%	—	2004	2014	2039
Poland	38,7	7800	35%	2007	2018	2028	2053
Estonia	1,4	7700	34%	2008	2019	2028	2054
Lithuania	3,7	6200	28%	2019	2030	2039	2065
Latvia	2,4	5800	26%	2022	2033	2043	2068
Romania	22,5	5700	25%	2023	2034	2043	2069
Bulgaria	8,2	4700	21%	2033	2044	2053	2079
CEEC-8 (without Romania and Bulgaria)	74,0	9080	40%		2011	2020	2046

<sup>1</sup> purchasing power parities.

Source: Own Calculations with data from the European Commission.

certain positive economic value.<sup>8</sup> It allows people to use their specifically local know-how for earning an income (i.e. mainly on the labour market) and for spending that income (consumption decisions). This specifically local know-how cannot be transferred. It would be lost in the case of migration and would have to be acquired once more at the new place of residence. Precisely this value of immobility explains why most people prefer to stay even if "to go" seems to be an attractive alternative at first glance. For most people, however, the second glance clearly shows that the value of immobility is higher than the expected net present value of a move abroad. Consequently, it is a very rational individual behaviour to stay. Why should this empirically significant pattern not be confirmed in the case of East-West migration?

The *large majority* of people want to live, work and stay immobile where they have their roots. People prefer the status quo to an unfamiliar or insecure change. The simple abolishment of legal impediments to migration is usually insufficient to overcome individual (microeconomic, social and cultural) obstacles to migration and to overshoot the value of immobility. Contrary to what one might expect at first from the theory of international economic integration, European labour has reacted little to the opportunity of free movement within a common labour market.

European workers might even prefer to stay unemployed at a certain location. They can afford this strategy due to the relatively generous social nets that tend to discriminate against mobility and reward immobility. The development of systems of social security and welfare allows for immobility even under conditions of long-term unemployment. The provision of increasingly comprehensive social security in the EU is one of the most important factors explaining the preference of immobility.

### Enlargement the Best Anti-migration Policy

On the *macroeconomic* level international labour migration has proved to be mainly *demand-determined*: it usually depends to a major extent on the needs and employment opportunities in the *immigration* countries. In the EU, trade has reacted much faster and more elastically to economic integration than labour. The removal of formal and informal protectionist impediments led to a strong increase in intra-community trade. The equalisation of goods and factor prices expected on the basis of neoclassical Heckscher-Ohlin-Samuelson international economic theory thus materialised through trade rather than through the increased mobility of labour. To an important degree, *trade has replaced the economic demand for migration* in the EU. In brief: having the option to migrate within a common labour market has turned out to be the most effective anti-migration policy!

<sup>8</sup> For an extensive treatment of the economics of immobility see Peter Fischer: On the Economics of Immobility, Bern 1999, Haupt.

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## Increasing Coordination of Migration Policies

As the EU moves beyond a common market towards a common European social and labour area, not only social and labour market policy are being coordinated but also migration policy. The challenge for migration policy is to strike a balance between economic efficiency and equity, between social and humanitarian objectives and political stability. The EU, by coordinating migration policy, seeks to impose liberal democratic values to reinforce economic, social and political stability across the EU. In the case of eastern enlargement, the accession states are required to implement a migration system in accordance with accepted "EU practice".

In order to outline the pillars of migration policy in Western Europe, we shall first examine the regulations in place in the EU, before turning to the accession countries.

### Current Models of Migration Policy in Western Europe

Within Western Europe at least three systems, with different focal points of migration policy, can be discerned. Each has preserved its basic structure and orientation, even though a certain convergence in policies has taken place over time, at least since the 1980s.

The first one is the Nordic model. It was introduced as early as 1954 and granted free mobility of labour within Scandinavia. The general understanding was that maximum economic benefit can be obtained from regional integration by not limiting the liberalisation of trade flows and by allowing free mobility of factors of production, not only of capital, but also of labour.

In contrast, the second model, that of the EFTA countries, limited economic interconnections to the liberalising of trade flows. Although some of the EFTA countries, in particular Switzerland and Austria, allowed a larger inflow of labour from abroad than any of the Nordic countries, they limited the social integration of the foreign workforce by a restrictive

legal system which did not allow equal access to the labour market, to social assistance and housing and to political participation.

The third model, that of the European Community, followed yet another route of integration. While free trade was on the agenda from the very beginning, free mobility of labour between the six founding countries (France, Germany, Italy, Belgium, Netherlands and Luxembourg) was phased in from 1958 onwards. Since 1968, free mobility of labour was in principle possible in the private and public sector. Only public sector jobs which concerned the protection of internal and external security, were, and still are, excluded from free mobility of labour. Even though periods of transition were spelt out for certain industrial sectors within which they were to dismantle barriers to the mobility of labour, e.g. banking, insurance, transport industries and certain liberal professions until 1970, it was not until the introduction of the Single Market in 1992 that many remaining impediments to labour mobility within the EU were removed. In the past, labour mobility was hampered by the incomplete integration of capital markets and by differing skill requirements between countries to perform specific jobs. By now capital markets are more or less fully integrated within the EU. This is not yet the case with labour markets.

Over time, the migration systems converged and became more complex. Traditional immigration countries, for example France, introduced instruments to allow and control short-term labour migration by granting work permits to seasonal and temporary foreign workers; whereas more recent labour migration countries, for example Germany, reacted towards the settlement tendency of migrants by introducing integration measures. As a result, the traditional distinctions between the two types of immigration, settlement versus short-term residence, has become blurred since the 1970s.

Currently migration is increasingly seen in Europe as an instrument to alleviate the problem of labour shortages arising from population ageing; by striving to attract, above all, highly skilled people from abroad; and by using this instrument not just to in-

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crease labour supply but also to speed up the re-skilling process of the European workforce towards a knowledge society in an information age. So far Germany, the UK and Austria have given a clear indication that they wish to introduce a points system along the lines of the Australian or Canadian model. This would be a new feature of European migration policy. So far the majority of migrants in Europe has been unskilled and semi-skilled. The migration policy reorientation raises fears in Europe that education and training may not receive the attention warranted in a society driven by technological change and innovation. In order to counter those fears, the EU has given continued high priority to a coordinated employment and education policy and to investment in the development of the Learning Society.

### **Empirical Outcomes of the Different Migration Models**

Within the EU, the mutual penetration of labour markets, measured by the share of EU citizens in total employment, is very limited. The average came to some 2% of total employment in 1998. Apart from Luxembourg, the differences between the "old" EU-member states were relatively small (e.g. France 2.5%, Germany 2.8%, United Kingdom 1.6%, Denmark 1%). The new member countries of 1995 had a smaller share of EU citizens in total employment, except for Sweden, which corresponds to the EU average. Southern European EU member states also have a very low share of EU citizens in total employment: They were the major source of foreign workers in the North during the 1950s, 1960s and 1970s.<sup>1</sup> Their economic catching-up resulted in a decrease of migration flows from South to North. When barriers to the mobility of labour were finally dismantled in the 1980s and early 1990s, no marked increase of South-North migration occurred.

Looking at the case of the Nordic countries, which had allowed free mobility of labour from the outset, the mutual integration of labour markets does not appear to be more pronounced than between EU countries. Sweden has been the major attractor of labour from other Scandinavian countries during the 1970s and early 1980s and Finland was the major supplier of labour. As Finland began to catch up with Sweden in terms of factor prices and productivity, net outmigration to Sweden ceased. Today, some 90,000 citizens of other Scandinavian countries work in Sweden, i.e. 2.2% of the total workforce (of whom two thirds are from Finland). In Norway the share of other Scandinavians in their workforce is 0.9%, in Denmark 0.4% and in Finland 0.3%.

In the case of Switzerland, in contrast, the share of EU citizens in total employment is 16%, of which almost one quarter are cross-border workers, i.e. from EU countries bordering Switzerland. This goes to show that the regional integration of EU labour markets has affected Switzerland more than any other region of Western Europe, in spite of strict Swiss migration control measures and barriers to labour mobility.

Unskilled labour migration of EU citizens has declined and even stopped in some cases, while the mobility of people with high and specialised skills, in particular in the information-communication technology field, has increased. But this does not mean that unskilled labour migration into Western Europe has come to a halt. It is still the major group of migrants in Western Europe. However, with advances in human resource and economic development in the EU, the source countries of unskilled and semi-skilled migrants changed; the supply of these migrants from the less developed regions of the EU countries dried out. The new source is from non-EU countries, the majority of the migrants today coming from the Mediterranean Basin (Turkey, former Yugoslavia, Algeria, Morocco) and also from areas which were linked to Europe through former colonial ties, or as a result of refugee intake.

The share of foreigners in the total workforce is the lowest in the Nordic countries with the exception of Sweden, where, at 5.5% in 1998, it was somewhat higher than the EU average of 4.5%. The highest foreign worker shares, apart from Luxembourg (55%, the majority from the EU), are to be found in Switzerland (25%), followed by Austria (9.7%) and Germany (9.1%); France has a somewhat lower share (6.1%), followed at some distance by the United Kingdom (4.4%), Italy (3.8%), the Netherlands (3.5%) and Denmark (3.1%).

However, these figures do not provide a proper insight into the relative inflow of foreigners into the workforce or society. They are a legal artefact to the extent that they are the result of different immigration systems and of different rules pertaining to the eligibility to citizenship. In France for example, as in other traditional immigration countries, a person born on French territory is a French citizen, while in Germany,<sup>2</sup> Austria and Switzerland citizenship is passed on

<sup>1</sup> Which is well documented in literature, see for example S. Collinson: *Europe and International Migration*, Royal Institute of International Affairs, London, New York 1993, Pinter Publ.

<sup>2</sup> In January 2000 Germany granted citizenship to children born to foreigners (with a permanent residence status) on German territory.

through the parents only. Naturalisation is more or less difficult or costly depending on the country, but it usually also entails some discretionary elements. Of all the Western European countries, Switzerland has the lowest naturalisation rate. As a consequence, about half the foreign population in Switzerland are shown to have been born there. In contrast, Sweden and Austria are at the upper end of naturalisation rates.

The scale of the inflow of foreigners can, therefore, be judged better by comparing the proportion of foreign born in the population. Sweden and Austria have a share of somewhat more than 10%, as does France, which compares rather favourably with Switzerland. The inflow of foreigners relative to the resident population has thus been similar in these three countries over recent decades, but the degree and type of integration were quite different.

### International Transferability of Skills

In order to clarify the role of migration in economic development and globalisation, it is helpful to distinguish skills according to their transferability across countries. A distinction, analogous to that between tradeable and non-tradeable goods, may be made between "global skills", which are transferable internationally, and "local skills", which are not mobile and cannot be expected to satisfy global needs.

The current massive increase in international competition for information-communication-technology skills is an example of the global spreading of information technology. Computer skills are internationally transferable, independently of language and culture. This is so because the technology (production mode) is to a large extent internationally standardised and so are the skills required. They are "global skills" and they take on the character of a global product which can be consumed anywhere, independently of the cultural environment, like Coca Cola. Education systems can act as facilitators of the globalisation of skills, e.g. generally recognised university degrees in engineering and natural sciences, the medical profession, and, to a lesser extent, social sciences. Such skills become internationally recognised and are internationally transferable. There are, however, also certain medium skills, which may be regarded as global in character; they are traditional craft skills, e.g. sewing, tailoring, leather processing. And, of course, relatively low skills also have a high degree of transferability.

As a result, migrants tend to have a bipolar skill structure, i.e. the majority is unskilled, but the share of

highly skilled workers tends to be larger in the migrant population than in the indigenous population. To the extent that migrants are employed in the medium skill bracket, they are concentrated in industries which are in need of traditional craft skills, e.g. textiles, clothing and leather industries.

At the other end of the mobility spectrum are "local skills" many of which satisfy local needs and which are built around local, cultural and socio-economic structures.

It is clear that the EU has reached a level of economic and technological development such that it no longer needs large numbers of unskilled workers. An increase in the supply of unskilled migrants may, by widening earnings differentials between the unskilled and the higher skilled workers, jeopardise social stability.

This is the setting which shapes the EU approach to migration between the EU and the accession states in the case of eastern enlargement of the EU.

### Migration Policy in the Accession Countries

Empirical research shows that the accession countries are not only potential suppliers of labour to Western Europe but they themselves have become the centre of attraction for migrants, particularly for their Eastern European neighbours. Migration in these countries has become increasingly dynamic since the early 1990s such that the level of legal migration compares favourably with Southern European countries.

In order to stem the tide of immigration, they have introduced regulatory mechanisms along the lines of the foreign worker model of Switzerland, Germany and Austria.<sup>3</sup> The migration policies have, however, become increasingly complex as economic restructuring and catching-up processes gained momentum. Foreign investment companies, for example, may transfer highly skilled employees without much bureaucratic ado into CEECs.

In Hungary as well as Poland, there is a clear emphasis on facilitation of entry of highly skilled foreigners. In the Czech Republic and Poland migration policy targets the inflow of certain occupational skills, in particular construction workers and assembly-line workers in the metal industries. The Czech Republic has also introduced a seasonal worker programme (for less than 30 days a year). Legally employed for-

<sup>3</sup> M. Lubyova: Status of Foreign Residents and Foreign Workers in Selected Central and Eastern European Countries, in: OECD (ed.): Migration Policies and EU Enlargement: The Case of Central and Eastern Europe, Paris 2001.

eign workers enjoy the same treatment as indigenous workers. They have access to health insurance on the basis of their employment status.

The Central and Eastern European Countries have thus put comparable migration policies to those of Western European models in place. However, the substantial shadow economy, which also attracts foreigners, remains a major problem. In Western Europe clandestine work is becoming a sensitive policy issue. Controls of work practices and employment conditions are being stepped up as a consequence. Access of illegal residents to social protection systems is becoming more difficult.<sup>4</sup> Accordingly, in an effort to harmonise legislation across Europe, the EU expects the accession countries to take steps to introduce legislation or to enforce existing laws to prosecute clandestine workers.

However, the question of the efficiency of sanctions remains an open one. Costly monitoring and highly effective control systems may violate human and citizen's rights. On the other hand, the benefits of increased prosecution are hard to measure. The dilemma, especially for countries with such a considerable shadow economy as the CEECs, is that to refrain from effective action against illegal immigration is tantamount to condoning clandestine work.

Similarly, the EU has begun to integrate accession

countries in the coordinated EU employment policy process. This implies, not only that labour market and social policy have to be developed so that they are comparable to EU policies, but also that equal opportunity regulations are introduced under which ethnic minorities, in particular Sinti and Roma and migrants from the time of the communist regime (e.g. Vietnamese), are granted equal treatment.

### Concluding Observations

In the light of the above considerations, the scope for independent national sovereign migration policies in the EU is becoming more and more restricted. A series of EU regulations regulates cross-border migration. The Schengen agreement (of June 1990) is one pillar of legislation regulating security matters. Another is the adaptation/convergence of asylum procedures, and most recently, the coordination of the prosecution of illegal migration and clandestine work. The accession countries have to a large extent already introduced migration policy measures similar to those of the Western European countries. The preferred model is the guest worker model. Since migration evolves over time and takes on different dimensions, settlement and integration measures can be expected to follow in due course.

<sup>4</sup> See OECD: *Combating the Illegal Employment of Foreign Workers*, Paris 2000.

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## Migration Effects of Poland's EU Membership

**E**astern enlargement is one of the most important and difficult challenges facing the European Union at the beginning of the new century. The coming enlargement is unprecedented in terms of the increase in population: all ten Central and Eastern European countries (CEECs) make up over a quarter of the size of the present EU population - a significant proportion, but in terms of most economic indicators the size of the candidate countries is rather negligible. The trade and capital transfer effects of integration are expected to be significant in the accession countries

and very small in the EU. However, there are concerns in the present member states that the accession of new countries may generate a wave of mass migration and negatively affect Western labour markets.

Poland is the largest of all CEECs in terms of population and GDP level, and thus it has the greatest migration potential. Its per capita GDP at purchasing power parity is only approximately 39% of the EU average. The existing income gap teamed with a high and recently growing unemployment rate (about 16% in May 2001), the short geographical distance between Poland and the EU and the prevailing tradition of emigration in Poland are often pointed out

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as factors which may create considerable migratory pressures once the free mobility of labour has been granted.

### EU Membership and Unemployment

Poland's accession to the EU is closely linked with rewards as well as risks. The rewards come in the form of shifts towards higher productivity growth jobs and convergence to the significantly higher income levels enjoyed by EU countries. The risks are mainly related to unemployment.

With respect to *cyclical* unemployment the most likely hypothesis seems to be that Poland's EU entry should not cause any significant rise. It is true that the free flow of goods may cause net exports to decrease but this is expected to be compensated for by the increase in foreign investment. Some increase in cyclical unemployment might then be expected only in the transitory period.

Poland's entering the EU should not significantly affect *frictional* unemployment. In fact, increased flows of the workforce between different labour market states, i.e. employment, unemployment and professional passivity, can be expected since there are such tendencies within the European Union. Moreover, increased workers' mobility connected with changing jobs can be envisaged but this should not greatly affect frictional unemployment due to the improvement in the working of employment agencies.

Poland's entering the EU will probably result in increased *technological* unemployment caused by the following factors. Firstly, Poland's EU membership will imply more intense competition and growing pressure to lower production costs. A consequence of this should be faster technological progress, greater productivity and a fall in the demand for labour. Secondly, a rise in technological unemployment will be caused by the growth in foreign investments which incorporate technological progress. It is true that the process of economic growth should lessen the decrease in manufacturing work, but it is worth noting that the increase in employment accompanying economic growth will not be very high because of the still existent excessive employment in the public sector.

By no means though should this growing technological unemployment be allowed to weaken the dynamic growth of technological progress in industry. The existence and the development of a high tech and highly productive sector of industry is very much in demand in the Polish economy. The problem of

unemployment should be helped by supporting the development of labour intensive sectors. There are many arguments for the case that the service sector should be strengthened. In comparison to EU standards, the Polish service sector is underdeveloped. Speeding up the development of the Polish service sector could ensure that the surplus workforce is absorbed.

Poland's entering the EU will increase *structural* unemployment. The significance of this hypothesis is greater still if the fact of its already growing role in the Polish economy is taken into account. There are tendencies towards a strong differentiation in unemployment rates between workforce segments divided according to region, qualifications and profession as well as structural inconsistencies between labour demand and supply in similar sectors. The increase in structural unemployment which may accompany Poland's joining the EU has a number of causes. First of all, closer integration with other EU countries will force the adjustment of the Polish economic structure to that of the EU. This involves, among other things, the three-sector division of industry i.e. agriculture/manufacturing/services. The processes of re-allocation of the labour force between various industrial sectors and branches cannot be avoided, in particular the flow of the agricultural workforce to manufacturing. Secondly, the free flow of goods and production factors will cause re-allocation of the labour force between various branches and divisions of industry as well as between companies, which is the consequence of the creation effect in trade and the formation of trade structure according to comparative advantage. Thirdly, integration with the EU will enforce the adjustment of job qualifications to modern needs. All these factors require the adjustment of the labour supply structure to the new labour demand structure, which certainly will not follow immediately. Accordingly, an increase in structural unemployment seems highly probable.

Attempts to improve labour mobility play a fundamental role in limiting structural unemployment. These refer mainly to professional and spatial mobility. Greater labour mobility speeds up the processes of adjusting the labour supply structure to the changing structure of labour demand in different sectors. The key to improving labour mobility is the educational system, professional training and in-service development. These play a significant role in all the EU countries. There is a definite need to examine the whole educational system in Poland from the perspective of the labour market requirements. It is particularly important to make sure that the educa-

tional system provides opportunities to gain qualifications which are in demand on the labour market.

Even though the improvement of labour mobility plays a significant role in the reduction of structural unemployment, it may in some cases prove insufficient. This refers mainly to local or regional labour markets which could be described as an out-dated industrial monoculture. If the EU employment structure is treated as a desired model structure for Poland, then the highest surplus employment Polish sectors would be agriculture, the fuel and energy sector and the textile and steel industries. The Polish employment structure certainly does not have to follow the models adopted in the EU countries but changes towards such tendencies are rather unavoidable. This is why in regions dominated by the above sectors more serious structural problems may appear which will not be solved by the improvement of labour mobility alone. Here there is a need for a government policy encouraging or directly supporting the creation of new jobs in these areas (by means of tax and credit preferences or lower insurance premiums).

Because of the scale of re-allocation of the workforce, the most serious structural problems may affect the areas dominated by agriculture. In order to achieve the 1993 EU model of employment in agriculture, the Polish agricultural workforce would have to be reduced by 2.8 million people. The difficulty in solving this problem lies in the fact that it will be accompanied by an increase until 2005 in the labour supply resulting from demographic processes and the very limited ability of the cities to absorb the surplus workforce. The relatively low qualifications of agricultural workers and a sharp housing barrier in

the cities will also make the flow of workers from the country to the cities more problematic. In this situation, it seems necessary to stop the outflow of the workforce from the countryside by placing workers in non-agricultural sectors of industry, in particular in the services market (connected with agricultural services, trade and tourism). It involves creating a significant number of jobs in these sectors, which should be supported by government policy giving tax, insurance and credit preferences to enterprises creating new jobs in the countryside. A significant role could also be played here by various structural and regional EU funds.

### Integration and Convergence

The simple neo-classical trade theory based on the Heckscher-Ohlin-Samuelson model (H-O-S) predicts that in a two country, two goods and two factors of production world, each country will export the good whose production relies intensively on its factor of abundance. The process of specialisation continues until factor prices in the two regions equalise (the factor price equalisation theorem). Applying this model to Poland's accession into the EU we expect that the EU, which is relatively abundant in capital, is likely to specialise in capital intensive production, and Poland, which is richly endowed in labour, will increase labour intensive production and exports. According to the H-O-S model the removal of barriers to trade would be expected to have the following consequences in Poland's economy:

- a fall in the price of the capital intensive good relative to the price of the labour intensive good,
- an increase in the production of the labour intensive good and a decrease in the production of the capital intensive good,

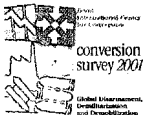
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- a rise in wages relative to the price of capital, which will continue until factor prices in Poland and the present EU have equalised,
- a movement of labour from the capital intensive sector to the labour intensive sector, and a decline in labour intensity in both sectors, since the price of labour has risen,
- a constant total employment of labour, since the effects of the rising production of the labour intensive good and the decreasing ratio of labour to capital in both sectors cancel one another out completely.

In the H-O-S framework, trade, international capital flows and the migration of workers are substitutes. There is no need for capital and labour flows between Poland and the present EU countries if there is sufficient trade volume.

The H-O-S model is based on a set of restrictive assumptions: homogeneous technologies in both regions, constant returns to scale in production functions, factors of production which are perfectly mobile and markets which clear and reach an equilibrium. If we allow for different technologies and increasing returns to scale, factor prices do not equalise in the long run and trade does not substitute for capital and labour movements. The EU is technologically more advanced than Poland and, the existence of increasing returns to scale may make the development gap persist over a long time. Trade will promote the further expansion of sectors with comparative advantages, increasing their productivity through lowering unit costs. Physical and human capital will make for more profitable opportunities in Western economies, which will eventually widen the gap between the poorer and the richer regions. In economic theory this phenomenon is known as the core-periphery effect. In this framework, trade and migration might become complementary (increased trade volume causes a rise in migration and vice versa).

Neither economic theory nor empirical evidence is able to provide any unequivocal conclusions as to whether per capita GDPs in developing countries inevitably tend to converge with those in developed nations in the long run. Research results point out that open economies with strong trade links, such as those of the EU or OECD countries, were prone to converge in the past. If we assume that the growth patterns of Poland and the EU will be similar to those in post-war Western Europe, the income gap will narrow over time. However, the catching-up process is likely to take decades rather than years. Poland has

a good chance of reaching income levels close to Greek or Portuguese averages relatively quickly if it continues to grow at the same high rate as in the 1990s. Poland's GDP grew between 1991 -the end of transition recession - and 2000 by approximately 54%, while the joint GDP of EU-15 countries grew by 20% during the same period. Although one decade is too little time to decide whether the observed process of convergence is only a temporary phenomenon, or if it is permanent and will continue in the years to come, it certainly bodes well for the nearest future.

Concerning the dynamics of output growth, Poland is undoubtedly the most successful economy among all the candidate countries. Higher income and a good economic outlook should result in decreasing incentives for Polish workers to emigrate. Another factor that influences migration decisions is certainly "the level and the dynamics of the average wage. With regard to that measure, Poland's performance was, by far, even more impressive: the average gross monthly wage in the industrial sector in euro/ECU between 1992 and mid-2001 increased by around 250% and was at the level of approximately € 580 in June 2001. Moreover, it is to be expected, according to the price equalisation theorem, that EU membership will create further upward pressure on Polish wages.

### Migration Potential

When Greece, Spain and Portugal joined the EU, some restrictions to labour mobility were introduced to prevent the widely anticipated mass immigration from those countries. The transitional periods were initially designed to last seven years, but were eventually shortened to six, since no substantial migratory pressures were observed in the first years of membership. One of the most controversial dimensions of the future EU enlargement is, as it was in the 1980s, the scale of the future migration from the accession countries and its impact on labour markets in the present member states.

Numerous forecasts of the scale of labour migration from the CEECs have been made so far, but they vary considerably depending on the underlying assumptions, methodologies and data used. Forecasts range from over one million immigrants from all candidate countries to 140,000 - 200,000 annually; most of them, however, predict rather limited migration, which will only slightly affect Western labour markets. The European Integration Consortium predicts net immigration of some 335,000 residents per. year following an assumed removal of barriers to migration

in 2002, of which about 35% will be workers (in previous accession experiences this proportion of all immigrants were employees; the rest were their dependants). Within a decade the number of migrants is expected to fall to below 150,000.

Poland has been an emigration country for decades. In the 1980s, the level of registered emigration was 271,000 persons, of which about 70% moved to Germany. However, there are estimates that around one million people left the country during that period. After the restrictions on the movement of people had been lifted in 1989 and the possibility of visa-free travel to many West European countries had been introduced, there was a considerable growth in temporary, economically motivated migration. At the same time a drop in permanent emigration comparing to the 1980s could be observed - in the period 1990-1997, 173,000 people left Poland and settled abroad. From that number, again, about 70% (approximately 121,000) chose Germany as their destination country. Since 1993, net emigration from Poland to the EU was negligible as a result of increasing restrictions in the member states. Another characteristic change in migration patterns in Poland after the fall of communism has been a large increase in permanent (and temporary) immigration. 54,000 people settled in Poland between 1989 and 1997. About half that number were returning Poles. Approximately 25% of all permanent immigrants in the mid-1990s came from Germany and another 25% were from some other European country.

The Research Centre for Economic and Statistical Studies (RECESS) in Warsaw in 1998 estimated potential migration flows from Poland to the EU after accession. The econometric model was based on data concerning migration from Spain, Greece and Portugal during the period 1983-95. It was assumed that the behaviour of Poles in future will be similar to that of South Europeans in the past. This is a risky assumption taking into consideration all the social, cultural and economic differences between the nations concerned. However, many other researchers take a similar approach to modelling migratory pressures from the CEECs, merely because there is little other reliable data available. The RECESS study found a statistically significant relationship between the scale of migration (dependent variable), and the gap in GDP per capita between the countries and the absorption capacity of the receiving country measured by its population (explanatory variables).

The authors concluded that the most likely level of emigration from Poland is approximately 400,000-

800,000 persons during the period of 10-12 years after accession. These numbers were obtained by making two assumptions: the real GDP growth rate will be at the level of 4-7%, and the rate of real appreciation of the currency 3-5% per annum. At the time when the study was carried out these assumptions seemed reasonable, but three years later it is obvious that the growth rate in 2001 will be well below the lower threshold chosen for calculating the forecast. It can be as low as 2%, after 4.1% in 2000 (3.3% in the EU) and 4.1% in 1999 (2.5% in the EU) - a substantial slowdown from 7%, 6.0% and 6.8% in 1995, 1996 and 1997 respectively. The RECESS Institute predicted the scale of migration for a scenario of permanent small growth of below 2-3% at the level of 1.47 million people during 10-12 years after the accession.

Only growth rates well above those in the EU will enable the Polish economy to catch up and will reduce migratory pressures. The economic slowdown experienced recently is certainly a result of the very restrictive monetary policy imposed by the Polish Monetary Policy Council in 2000 (the other reason is a slowdown in the EU, mainly Germany - Poland's main trading partner). Very high real interest rates helped to curb inflation and narrow the current account deficit, but they also contributed to decreasing investment rates in the economy, lower output and employment. The investment rate has dropped from a healthy 17.3% at the beginning of 1998 to 2.6% at the end of 2000. Continuation of this trend would further harm future output growth and the employment level. Some estimates for the Polish economy indicate that a GDP growth rate of 6% is required in order to prevent the rise in unemployment and in a case of no economic growth, the demand for labour would drop by 3.6% annually.

It seems that the only situation which could substantially increase the migration potential from Poland is an economic crisis, with its characteristic symptoms: recession, steep devaluation of the currency, rising unemployment and a general sentiment of bleak prospects for a quick recovery. However, there is currently hardly any threat of a crisis in Poland. The present slowdown is a natural phenomenon accompanied by a restrictive anti-inflationary monetary policy. The mid-term and long-term forecasts for the Polish economy are optimistic and future EU membership also contributes to that positive outlook. Thus, concerns about a large wave of immigration from Poland will most probably prove unfounded, as was the case at the time of past enlargements.