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Is the EU's Labour Market Threatened by a Wave of Immigration?

As the accession negotiations continue between the European Union and the Central and Eastern European Countries, Germany in particular fears that granting free movement of labour to these countries might generate a wave of new entrants that could overwhelm its labour market. The following article uses migration determinants and draws on previous experience of integrating countries into the EU in an attempt to reach conclusions about migration patterns that may result from the forthcoming eastward enlargement.

The free movement of labour allows a worker from one EU member state to look for employment and to actually work in another member state on the same basis as that country's indigenous population. For the six members of the original European Economic Community (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) this has been a reality since 1968.[1] The rights of freedom of movement also apply by analogy to the self-employed (the law of establishment). When the introduction of freedom of movement was discussed at the beginning of the 1960s there was a fear Germany and France would be inundated with Italian workers. At that time Italy was a classic emigration country. However, the feared wave of immigrants did not materialize. Although the number of Italians working elsewhere in the EC did grow, increases in migration following the introduction of freedom of movement remained below the EC average.[2] Nor did the accession of the United Kingdom, the Republic of Ireland, and Denmark in 1973 create a wave of migration. The same held true when free movement of workers was granted in full to Greece (1987) and to Spain and Portugal (1992) after a transition period of several years. When Austria, Sweden and Finland joined in 1995 they were immediately granted full freedom of movement.

On average less than 2% of the entire workforce in EU countries comes from another member state, although the percentage varies from country to country.[3] This percentage has remained almost constant over the last 15 years. A greater proportion of foreign workers is still made up of third-country nationals (Table 1). That movement between regions should be on such a small scale is all the more surprising as it has always been the European Commission's declared objective to remove any remaining barriers to migration. At the same time as the creation of the single internal market, for example, freedom of movement was extended to include those not in gainful employment, such as students and pensioners, the mutual recognition of professional qualifications was agreed, as was the regulation of the transfer of benefit entitlements acquired in another member state.[4] To allow readers to understand and

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[1] The free movement of labour in the EEC Treaty "shall entail the abolition of any discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and employment" (Treaty Establishing the European Economic Community, Article 48 – now Article 39 of the consolidated EC Treaty).

[2] Experience shows that migration of labour may intensify for some time after the creation of a free trade area or a common economic area. With the lifting of barriers to trade, competition intensifies and the restructuring process is accelerated. Restructuring leads to redundancies. In such a transitional situation workers made redundant may consider migration to work in the economically more developed country. In particular so if the transformation process does not create enough new jobs or creates jobs in industries different from those where the redundancies occur. In migration research this phenomenon is known as the migration paradox or the "migration hump". Cf. Stanton S. Russell, Michael S. Teitelbaum: International Migration and International Trade, World Bank Discussion Papers No. 160, Washington D.C. 1994, p. 33; Philip L. Martin: Trade and Migration: NAFTA and Agriculture, Institute for International Economics, Washington D.C. 1993, p. 27; Philip Martin, Elizabeth Midgley: Immigration to the United States, Population Bulletin, June 1999.

[3] For a more detailed analysis of foreign workers employed in EU countries see Melanie Kiehl, Heinz Werner: The Labour Market Situation of EU and of Third Country Nationals in the European Union, IAB-Topics, No. 32/1998 (original: Melanie Kiehl, Heinz Werner: Die Arbeitsmarktsituation von EU-Bürgern und Angehörigen von Drittstaaten, IAB-Kurzbericht No. 18, 7th Dec. 1998 – both can be downloaded at http://www.iab.de); Heinz Werner: Economic Integration and Migration – The European Case, IAB-Topics No. 12/1994 (can be downloaded at http://www.iab.de).

Table 1
Foreign Citizens Gainfully Employed in the EU as a Whole and in Germany

		EU	D	EU	D	EU	D
		1986 = 100		Percentage of total workforce		Actual total in 1,000s	
Total gainfully empl. foreigners	1983	100	102	5.0	9.0	8,152	3,393
	1998	147	152	4.9	8.6		
From other EU countries	1983	68	69	1.4	2.5	2,917	1,093
	1998	126	135	1.7	2.8		

Sources: Eurostat labour force survey; own calculations.

evaluate patterns of EU migration, some theoretical considerations regarding migration determinants are discussed below.

Why do Workers Leave?

In economic theory there are two hypotheses regarding the movement of workers within integrated markets. According to integration theory[5] the creation of a common market leads to increased economic welfare when workers are allowed to move to an area where their productivity is greatest and the wages they can earn are hence also highest. This assumes a movement away from the less productive to the more productive workplaces in the integration area. This process lasts until marginal productivity and, at the same time, wages (for the same work) have reached equilibrium throughout the area. The underlying assumptions are, of course, that the workforce is mobile, that information about available employment is easily accessible to all, and that there are no obstacles in the way of migration such as legal barriers (work permit, residence permit), non-recognition of qualifications, or cultural and language differences.

By contrast, classical foreign trade theory starts from the premise that a workforce does not move between countries. Given that they have different endowments of production factors (natural resources, capital, the state of technology, labour) a balance between countries and an increase in prosperity is achieved through trade between them. Each country concentrates on producing the goods that give it a comparative advantage in that it can produce them more cost-effectively than other countries (the Heckscher-Ohlin theorem). Foreign trade then brings about a division of labour which corresponds to these comparative cost advantages. The countries engaging in this trade grow more prosperous as a result. According to this theory worker migration is unnecessary. Foreign trade is seen as a substitute for migration. Quite apart from this, capital is as a rule seen to be more mobile than workers.

Reasons for migrating can be divided into so-called pull-factors and push-factors. The former come into play when the level of income that can be earned in the potential immigration country is high and there are also employment opportunities there. The latter consist of factors such as a lack of employment opportunities, or unemployment, or low earnings in the home country. When both sets of factors exist in two countries there is in principle a corresponding migratory push or pull between them. For migration to actually take place the situation must be fully transparent for the workers concerned, the immigration itself must be legally permissible (leaving aside illegal migration) and there must not be any other barriers such as language, cultural differences, or a great geographical distance.

Migration theory also highlights the importance of networks. Networks pass on information about the country to which people wish to migrate. Such knowledge can come from previous connections with the country, or from migrants who already live there and who can make it easier for their compatriots to immigrate. Most importantly, the existence of networks is determined by the direction of migratory flows, but can also intensify existing movements, such as those of Algerians to France (colonial history) or Turks to Germany (joining one's family). Cultural and geographical proximity are likewise important. For Germany's neighbour Poland (although this scarcely applies to another neighbour, the Czech Republic) such considerations are certainly significant: in 1998 there were 69,000 Poles working in Germany. This accounts for almost two-thirds of all Polish workers in the EU.[6]

This theoretical summary clearly shows that there are three particular aspects to economically motivat-

[4] A high-ranking commission of experts chaired by Simone Veil investigated barriers still in existence and published a report: Simone Veil (Chairperson): Report of the High Level Group on Freedom of Movement. Presented to the Commission on 18th March 1997. On the basis of this report the European Commission drew up an "Action plan for free movement of workers" Brussels, 12th Nov. 1997, COM(97) 586 fin., which has since been taken up in a proposal for (EC) regulations by the European Parliament and the Council to amend (EEC) Council Regulation 1612 on the free movement of workers and their families within the Community.

[5] Peter Robson: The Economics of International Migration, London 1987, p. 65; George Borjas: Economic Theory and International Migration, in: International Migration Review, No. 3/1989, pp. 1, 457 ff.; Willem Molle: The Economics of European Integration, Aldershot 1994, p. 205.

ed migration: trading relations, income differentials, and the labour market situation. These are illustrated below against the background of European integration.[7]

Trade between the member states of the EU has grown enormously. They now conduct 60% of their trade within the EU.[8] Of this foreign trade more has taken place within branches of industry and product groups, i.e. as intra-industrial trade, rather than as inter-industrial trade. This points to increased product diversification within industries and less to a division of labour achieved by relocating production facilities. The latter would have created more problems of adjustment and redundancies, which in turn would have led to more international migration.

If *income differentials* are measured in terms of per capita national product of the EU member states (at purchasing-power parity) there is a discernible levelling trend.[9] This has effectively reduced an important motive for migration. However, the figures for national averages disguise considerable regional differences within individual EU countries. On the one hand, even in the poorer countries there are agglomerations where the "regional product" per capita reaches the EU average. On the other, the potentially vast differentials[10] are well illustrated by the fact that, in 1995, "regional product" per capita in Northern Italy (Lombardy) exceeded the EU average by 33%, whereas in Calabria it was 40% below it. Similar discrepancies exist in other countries, including Spain and indeed Germany too.[11] Such income differences have changed little over time. If, for example, one compares the 25 poorest regions of the EU with the 25 richest over a longer period of time, the "regional product" differentials remain largely the same.[12] What these major regional differences mean for migration flows is that a worker made redundant in a low-earning region has the option of moving to a higher-earning one within his/her home country, so this tends to reduce the economic pressure to emigrate.

If the development of *the EU's labour market* is compared with other large industrial economies such as the USA and Japan, employment in the Union can be seen to have risen much more slowly than in the latter two. Unemployment in the EU as a whole is also considerably higher, even allowing for recent substantial differences between EU countries. The weak state of the labour market in most EU countries has produced only slight pull-effects, as employment opportunities have remained limited. Even though unemployment has been high in places, it has not created any pressure to migrate worthy of mention: for one thing, state benefits paid to compensate the unemployed in all EU countries at least ensure they are spared from destitution, and for another, unskilled or low-skilled workers, who make up a large portion of the unemployed, are scarcely in demand in other countries.[13]

Why do Workers Stay?

The literature on migration has focussed almost exclusively on the question of why people migrate, even though the vast majority do not do so. It is only recently that increased attention has been paid to why it can also pay to stay put.[14] The following reasons are highlighted:

☐ Some knowledge, skills, and experience are not transferable, as they only apply at their place of origin. Examples of this are work-related preferences (business philosophy, a company-specific range of products or production processes, knowledge of customer behaviour etc.) or leisure-related advantages (social environment, friends, shopping facilities, housing market etc.)

☐ Most people are risk-averse. If they move to another country, they expose themselves to incalculable risks, as they do not possess all the relevant information they need and cannot assess their own ability to adapt.

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[6] The data match those of Eurostat: Labour market survey 1998. For more detail, cf. Elmar Hönekopp, Melanie Kiehl: Zentral- und Osteuropäer in den Mitgliedsstaaten der Europäischen Union – Migration, Bevölkerung, Beschäftigung, in: ibv, No. 25, 23rd June 1999.

[7] See the extensive treatment in: Alexander Tassinopoulos, Heinz Werner (1998): Mobility and migration of labour in the European Union, in: European Centre for the Development of Vocational Training: Mobility and migration of labour in the European Union and their specific implications for young people, Luxembourg 1998, pp. 5 ff.

[8] European Commission: Broad Economic Policy Guidelines, European Economy No. 66, Brussels 1998, pp. 160 f.

[9] European Commission: First Cohesion Report, Brussels and Luxembourg 1996.

[10] Cf. European Commission: First Cohesion Report, op. cit., p. 21; and Eurostat: Regions, Statistical Yearbook, various years; or Eurostat: Statistics in Focus – Regions, No. 1, 1998.

[11] Cf. also: "Was verdient man wo in Deutschland?" ("What do you earn where in Germany") in: IAB-Materialien, No. 2/1999, p. 6.

[12] See footnote 9.

[13] Today's employment situation differs from the time of the great worker migrations of the 1960s and early '70s in as far as there was still a demand for great numbers of unskilled or semi-skilled workers for industrial production at that time.

[14] For a more detailed account see Peter A. Fischer, Reiner Martin, Thomas Straubhaar: Should I stay or should I go? In: Tomas Hammar et al. (eds.): International migration, immobility and development, Oxford, New York 1997.

☐ There is a danger of covert or overt discrimination. As a rule the danger is greater the more the immigrant differs from the indigenous population – by language, appearance, qualifications or income. EU nationals however can assume that they have less discrimination to fear than other foreign workers since they have assured residence status.

☐ It can be worth "waiting to see" (the option value of waiting), if by doing so uncertainties are alleviated and information gaps are reduced. In the meantime the situation in the home country may improve. Or, one may come to terms with the fact that a bird in the hand is worth two in the bush. The decision to migrate is postponed and ultimately abandoned.

☐ To complete the picture two further reasons should be given here, although they are no longer relevant within the context of the EU freedom of movement regulations: border controls, legal barriers (residence and work permits), differences in the social benefits systems.

In summary it can be said that the pressure to migrate has decreased the more Europe has become integrated. Increased trade between member states and transfers from the European structural funds have brought about a convergence in living standards. Trade and capital transfers (direct investment) serve as a substitute for worker migration. Neoclassical foreign trade theory has proved to be correct. Migration is ultimately a matter for the individual. Macroeconomic migration determinants may establish the potential pressure to migrate, but the individual's decision also depends on the "advantages of staying". Furthermore, decisions to migrate are not only influenced by absolute differences in income between the home country and the country which is the migration target, but also by the relative level of income in the home country: if, for example, one has a "socially acceptable" income in the home country, the income differential relative to the country which is the migration target must be considerably greater to induce a person to move. The outlook is of course different if one's earnings are on the poverty line. However, a "socially acceptable" income has now been achieved extensively throughout the EU.

Expected Migration within the Current EU Area

No spectacular labour migration, then, is likely in the foreseeable future within the current EU area. The European Commission's efforts to further reduce any remaining barriers to mobility (e.g. by the mutual recognition of educational qualifications) may help some individuals, but on the whole they are scarcely likely to create a new momentum for migration. The differences between EU countries are no longer so great that massive migratory movements could be triggered off. This does not mean, however, that

Table 2
Citizens of Central and Eastern European Countries in EU Member States, 1998

	BE	DE[1]	DK	ES	FI	GR	IT[2]	NL[1]	PO	SE	UK[2]
Total population[3]	10,192,300	82,012,200	5,294,900	39,347,900	5,147,300	10,507,600	57,563,400	15,654,200	9,957,300	8,847,600	58,901,900
Estonia	–	2,881	384	22	9,689	36	55	86	2	1,124	–
Former Czechoslovakia[4]	824	56,108	184	512	139	1,079	3,227	797	29	495	5,000
Poland	6,034	283,356	5,457	5,496	684	5,185	12,812	5,642	186	15,842	27,000
Slovenia	–	17,772	32	56	5	30	1,326	102	4	516	–
Hungary	966	55,706	366	298	454	623	2,153	1,164	91	2,925	2,000
6 applicant countries	**7,824**	**415,823**	**6,423**	**6,384**	**10,971**	**6,953**	**19,573**	**7,791**	**312**	**20,902**	**34,000**
Bulgaria	799	36,046	341	1,673	320	6,936	2,882	469	311	1,331	2,000
Latvia	–	5,328	449	32	134	73	107	88	1	387	–
Lithuania	–	5,868	555	65	163	109	127	185	10	358	–
Romania	2,150	100,696	1,095	2,385	397	6,060	11,801	1,073	147	3,213	3,000
10 applicant countries	**10,773**	**563,761**	**8,863**	**10,539**	**11,985**	**20,131**	**34,490**	**9,606**	**781**	**26,191**	**39,000**
Percentage of total Population	0.1	0.7	0.2	0.0	0.2	0.2	0.1	0.1	0.0	0.3	0.1
Former USSR (total)	2,863	215,256	–	2,506	30,145	22,439	5,726	5,064	457	6,740	20,000
Percentage of total Population	0.0	0.3		0.0	0.6	0.2	0.0	0.0	0.0	0.1	0.0

[1] 1997. [2] 1996. [3] As of 1st Jan. of each year. [4] The Czech Republic and Slovakian Republic (figures inseparable for historical reasons).

Note: Data separated by immigrants' nationalities in this way are available only for the EU member states recorded here.

Sources: European Council: Recent Demographic Trends; German Federal Statistical Office (for certain German figures); the table is from E. Hönekopp, M. Kiehl: Zentral- und Osteuropäer in den Mitgliedstaaten der Europäischen Union – Migration, Bevölkerung, Beschäftigung, in: ibv, No. 25, 23rd June 1999.

Table 3
Key Statistics on the Candidate Countries[1]

Country	Total population (thousands)	Percentage of employable age	Persons gainfully empl. (thousands)	Unempl. rate[2]	GDP per capita (US$)[3] at market exchg. rates	at PPP[4]	Real GDP growth[5] 1996	1997	1998
Poland	38,667	67.2[3]	15,361	10.6	3,590	6,380	6.0	6.8	4.8
Czech Rep.	10,291	69.2	4,866	6.5	5,200	11,380	3.9	1.0	-2.7
Slovakian Rep.	5,388[3]	67.7[3]	2,167	11.9	3,700	7,850	6.6	6.5	4.4
Hungary	10,092	68.1[3]	3,698	7.8	4,430	7,000	1.3	4.4	5.1
Slovenia	1,982	69.8[3]	901	7.9	9,680	12,520	3.5	4.6	3.9
Estonia	1,445	67.0	648[3]	9.7[3]	3,330	5,010	4.0	11.4	4.2
For comparison: Germany	82,012	55,968	35,859	10.9	28,260	21,300	0.8	1.8	2.3

[1] 1998, unless otherwise specified. [2] Labour force survey. [3] 1997. [4] Purchasing-power parity. [5] Percentage year-on-year

Sources: ECE; Eurostat: Central European countries' employment and labour market review, No.1/1999; OECD; German Federal Statistical Office; WIIW.

movement between countries will come to a standstill. Indeed, in some fields of employment worker migration might actually increase:[15]

☐ Among skilled and highly qualified labour. Specialists, managers, technicians, personnel with special qualifications and executives are in demand everywhere. This includes intra-company transfers, such as when multinational businesses send specialists and executives to another member state for a fixed term.

☐ In border regions of EU countries, working in the neighbouring country while living in the home country – or vice-versa – is being more readily taken for granted.

☐ Short periods of residence for work experience, business trips, consultations, training etc. are on the increase.

☐ The number of outsourcing "employees" may rise when a company from one EU country operates in another – for example to carry out construction work.

Migration Following Eastward Enlargement

As was stated in the discussion of migration determinants the pressure to migrate depends to a considerable extent on differences in income and employment opportunities. In this respect fears of a large wave of immigration from the Central and Eastern European countries, should they be granted freedom of movement immediately or soon after accession, cannot simply be dismissed. The economic differences are, after all, still considerable, and a fairly large number of people from these countries are already resident in the EU (Tables 2 and 3). For example, although the GNP per capita (at purchasing-power parity = PPP) in the Czech Republic and Slovenia in 1998 lay substantially above half the EU average (60% and 68% respectively), in Poland it reached only 39% and in Hungary just under 50% of the EU average.[16] In its most recent report on employment the European Commission states that bringing such factors into line with the levels of the current EU member states must be regarded as a long-term objective.[17]

The problems of migration will be briefly discussed taking Poland as a test case, since it is the largest country currently seeking accession and it has a common border with Germany. We shall concentrate on the same three macroeconomic indicators that were discussed in connection with European integration to date, that is to say: foreign trade, per capita GNP, and the labour market situation.

Since the beginning of the transition process there has been a considerable re-orientation of Poland's trade relations. By as early as 1996 Poland was conducting more than two thirds of its foreign trade with the EU. The country was also beginning to attract foreign investment: between 1994 and 1997 the influx of direct investment doubled and in 1997 reached no less than $5 billion.

[15] For a more detailed account see A. Tassinopoulos, H. Werner, op. cit.

[16] European Commission: Regular report from the Commission on progress towards accession by each of the candidate countries, composite paper, 13th October 1999 (http://europa.eu.int/comm/enlargement/report_10_99/composite/x2.htm).

[17] European Commission: Employment in Europe, Brussels 1998; similarly also, H. Brücker, F. Franzmeyer: Europäische Union: Osterweiterung und Arbeitskräftemigration, DIW Wochenbericht 5/97, p. 93.

In 1998 the GNP per capita (at PPP) was barely 40% of the EU average; compared with Germany the difference is even greater (see Table 3). In this respect, a considerable gap has yet to be bridged. Nevertheless, since 1993 the country has had an economic growth rate of between 5% and 6%, which is well above the EU average (Table 3). After a drop in 1999, the OECD again forecasts above-average increases. Even at the recent high growth rate, however, it will still take many years to reach the EU level.

Employment fell abruptly at the start of the 1990s but has risen again in the last few years, although it has still to reach its previous level.[18] Despite the considerable economic growth being achieved, it is doubtful whether it will be enough to create sufficient new jobs in Poland. After all, the processes of restructuring – away from agriculture, heavy industry, mining, and obsolete trades – and of rationalization are still continuing. Were Poland to join the EU these processes would be pursued even more vigorously as more and more barriers disappeared. In 1994 unemployment reached a peak of 15%. Since then it has slowly fallen to its current level of about 11%. There are, however, large regional differences.

Economic adjustment takes time. The labour market in Poland will remain under pressure for the time being because of the problems of restructuring: the agricultural sector, where 19% of the country's workforce is currently still employed, will see large-scale redundancies.[19] The service sector is as yet underdeveloped. In spite of high levels of direct investment and of economic growth, there has so far only been a comparatively moderate rise in employment. A lot of direct investment has been for rationalization purposes, or it has gone into modern sectors of the economy. This may thus increase the value-added per employee, but the initial effect is that the same amount, or even more, can then be produced using fewer employees.

Poland's full integration into the EU in the near future is hence likely to involve considerable difficulties.

Summary and Conclusions

Economically motivated migration depends to a large extent on differences in the level of prosperity between countries. As Europe has become more integrated such differences have become less marked. This fundamental reason for migration has thus declined in importance in the present EU. However, there are still considerable differences between the Central and Eastern European countries and the EU, as our example of Poland shows. In addition to this, countries such as Poland are still grappling with big restructuring problems (agriculture, mining, heavy industry), which result in redundancies. Such factors might encourage a decision to migrate; if you have to look for a new job in any case, you are more likely to consider a job abroad as well.

Future expectations also play a significant part in an individual's decision to migrate. If you are expecting improvements in your home country, you are more likely to postpone emigration or ultimately to abandon the idea. In migratory movements an important distinction should be made between temporary and permanent immigrants. From today's perspective this is an important point for Poland in particular, as Germany's neighbour.[20] Wages in Germany are substantially higher, and so too is the purchasing power of income transferred from Germany to the home country. It is therefore an advantage to work only for a short time in an EU country like Germany, and to spend the earnings in Poland. If this model is followed, it is not necessary to move one's place of residence permanently and be joined by one's family, thereby incurring Germany's high cost of living (e.g. rent).

In the meantime there are already signs that Poland is bringing itself into line with the EU, similarly to the way that the Mediterranean countries did at the time of the southward enlargement: an intensive expansion of trade with EU countries (and Germany in particular), comparatively high economic growth with an increase in per capita GNP, and an improved employment situation. Fears of a massive wave of immigration proved unfounded at the time of past EU enlargements, and in this respect are also without foundation for the forthcoming eastward enlargement in a few years' time. Nevertheless, because of the large differences in income and wages which currently exist between the accession countries and the EU, it can be assumed that it will not be possible to grant full freedom of movement until after a transition period of several years after accession – as was the case with the southward enlargement.

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[18] For greater detail see: Elmar Hönekopp: Economic and labour market development in selected reform countries in Central and Eastern Europe, in: E. Hönekopp, S. Golinowska, M. Horálek (eds.): Economic/Labour Market Development and International Migration – Czech Republic, Poland, Germany, Beiträge zur Arbeitsmarkt- und Berufsforschung (BeitrAB), 1999.

[19] See footnote 14.

[20] This naturally also applies to the Czech Republic. However, unlike the latter, Poland has a tradition of emigration.