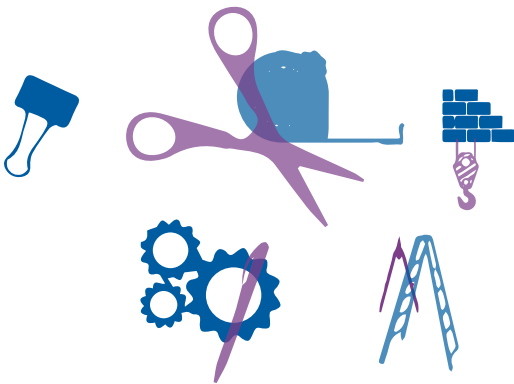


# LABOUR MIGRATION

What's in it for us?



Experiences from Sweden, the UK and Poland

EDITED BY K. ZELANO



Eskil Wadensjö  
Martin Ruhs  
Aleksandra Wójcicka

Edited by Karin Zelano

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2012

## **LABOUR MIGRATION — WHAT'S IN IT FOR US?**

Eskil Wadensjö, Martin Ruhs, Aleksandra Wójcicka

Edited by Karin Zelano

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# About the Publishers

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## **European Liberal Forum**

Founded in the fall of 2007, the European Liberal Forum, asbl (ELF) is the non-profit European political foundation of the liberal family. ELF brings together liberal think tanks, political foundations and institutes from around Europe to observe, analyse and contribute to the debate on European public policy issues and the process of European integration, through education, training, research, and the promotion of active citizenship within the EU.

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# Foreword

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**Migration is obviously an** urgent issue to address for today's liberals. Travel and communications have never been so cheap. Even the poorest of the world can finance a ticket to a more prosperous place. The psychological barrier for leaving is lowered, since it is so easy to stay in touch with relatives and friends using phone, Skype or e-mail. It is also easier than ever to send home remittances.

While there have never been so many willing to migrate, many recipient countries answer by closing their borders. This is the most severe infringement of personal liberty by the democratic countries, leading to a dirty trade of human trafficking and countless dead trying to cross the Mediterranean or the US-Mexico border. It is also a serious barrier to human development, as millions willing to work and send home remittances are held back.

Values, ideology and long-term goals must always be the starting-point for political discussion. But appeals for personal freedom will only take us so far. Dreams may be beautiful, but might not survive in the real world. Political reforms also need a firm basis of knowledge. The four freedoms of the

European Union - the free movement of people, goods, services and capital - are in a way liberal ideals put into practice. The enlargement of EU has been a great natural experiment, where many feared that open borders would lead to all sorts of economic troubles as millions of poor Eastern Europeans moved to the richer member states.

The result of the enlargement, as described in this study, is that liberal dreams can stand the test of reality. But even if free migration inside the EU has worked well, there will still be many opposing it, and even more opposing further reforms. Anti-EU and anti-immigration sentiments have grown strong. There have been fears that populist parties will gain ground as EU is shaken by its worst economic crisis ever. However, there is no reason for defeatism. Two of the most influential parties, Dansk Folkeparti in Denmark and PVV in the Netherlands, have recently lost ground in national elections and in practice lost all their political power.

Studies like the one you are now holding in your hand will aid a sound political debate about migration. If knowledge is combined with strong liberals, willing to combat the European ghosts of nationalism and populism, the free migration within the EU might be the starting-point for even bolder reforms.

**Andreas Bergström**, *Deputy Director at FORES  
and member of the ELF board of directors.*





# Chapter 1. Introduction.

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**Karin Zelano** is the head of FORES migration program, and has an M.A in Political Science from Uppsala University and L'Institut d'Etudes Politiques (IEP), Paris.

The editor is grateful to Ulrika Stavlöt, research director at FORES, for her enthusiastic support and stringent comments, to Eskil Wadensjö for valuable guidance and input, to the authors Martin Ruhs and Aleksandra Wójcicka for their academic effort, and the ELF secretariat for their help with the administrative procedures. The editor also directs a special thank you to Jonas Eriksson at SIEPS for his referee comments that strongly contributed to the high quality of the publication content, to Anna Rehnvall, Eva Stenström, Camilla Öberg at FORES as well as Carl Franks and Nanna Töcksberg Zelano for their hawk-eyed proof reading, and to my inspiring colleagues at FORES.

**“How do we attract** the Karl-Oscar and Kristinas of the 21st century?” The question was posed by European Commissioner Cecilia Malmström when stressing the need for Europe to attract labour migrants to meet the challenges ahead. It refers to the Swedish settlers daring to cross the Atlantic about hundred years ago in hope of a better future. Just like America was then, Europe is now the destination for many migrants harbouring a similar hope for new life prospects.

The statement from Commissioner Malmström follows a line argument that has given labour migration a forefront position as a crucial policy area for the countries of Europe. The on-going economic crisis, the lack of expertise, the demographic challenge and an increased global competition to attract people, were in the same statement singled out as major challenges facing the European Union (EU): we’ll need people to counterweight an ageing population, individuals to fill shortages in labour markets, and bright minds to secure continued innovation and progress in our universities and research centres.<sup>1</sup> In recent years there has been a raising awareness of the need to implement effective policies capable of harnessing the potential of labour migration, both from countries within the union and from elsewhere.

But things are seldom as simple as they seem, maybe even less so when it comes to politics and social change. The issue of labour migration is no exception. In spite of the evident advantages

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1. Malmström (2012)



listed above, labour migration continues to earn its position as a controversial and discussed topic in both national and European debates. And not surprisingly so; the out- and inflow of persons affect nations in more ways than one. Evidently labour migration influences national labour markets, but migration also means demographic change and might raise questions about the organisation of national welfare systems, uncover the inefficiency of border regulations, and trigger processes of cultural change.

This became evident in the wake of the EU enlargements taking place in 2004 and 2007. In both the UK and Sweden, public debate breathed concerns about social tourism and mass immigration when both countries chose to open up for labour migration from the new member states in 2004. In the new member states, the accession created questions about how large outflows of young people were to affect the developing economies and societies.

Since the enlargements, the UK and Sweden has moved in quite different directions. While Sweden have continued to open up its borders, and implemented a liberal, totally demand driven system for labour migration, the UK have moved towards a more restrictive migration policy. In his first major speech on immigration, the current leader of the Labour Party, Ed Miliband, said it was a mistake to open up the UK's labour markets to EU8 workers. In Poland, on the other hand, there is a rising interest in (and worry about) how

the large emigration flows affect the developing Polish economy.

## **What's in it for us?**

Somewhere along the road, bordered by a mish-mash of objections, myths, debates and gesture politics that often accompanies policy proposals or reforms in the field of labour migration, each country or citizen is likely to ask this simple question: What's in it for us?

This, and many other questions remain to be answered about the outcome in terms of economic performance of migrants and effects on national economies. How do immigrants perform in the host country's economy? What impact do immigrants have on the employment opportunities of natives? Which migration policy best benefits host countries and source countries respectively? What are the economic effects of large emigration?

FORES migration program is founded in the belief that policy must be based on empirical evidence in order to be credible, efficient and durable. This time we try to pin down the experiences of labour migration following the enlargements in three EU member states: Sweden, the UK and Poland.<sup>2</sup>

The selection of countries has been made with the specific aim to give a satisfactory overview of the consequences in terms of both economic and

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2. The project forms part of the ELF multi-annual focus »New concepts of migration and integration«

labour market impact, in receiving countries as well as in sending ones. The choice was made with the then debates about the effects of labour migration in mind that made the need for more facts and less myths and stereotypes evident. Sweden was the only country that didn't decide to implement transitional rules to regulate the expected inflow of immigrants from new member states, although the UK (and Ireland) also opened up its borders with some restrictions on the access to social services.

The authors were given free hands to describe their countries' economic and political experiences of the migration flows following the enlargements. A driving force behind this project was to find positive and inspiring examples from different countries, increase the knowledge about how migration of labour affects the countries involved, and to identify "white spots" with need for further research.

Increased knowledge about the dynamics of labour migration within the European Union, taking on the perspective of both sending and destination countries, is necessary in order to understand current political debates, and is also absolutely pivotal in order to articulate relevant and constructive policy, capable of handling the challenges under way for the EU as a common project and for each member state. In addition, EU is likely to face increased challenges when articulating its migration policy. This is not only a declared area where cooperation is to be harmonized and strengthened,

but also an area likely to spur new heated debates, as new candidate countries are about to enter the EU.<sup>3</sup>

## **Labour migration in the context of EU enlargement**

When charting EU:s history, the creation of the European Coal and Steel Community (ECSC) in 1951 is commonly regarded as the starting point for what we know as the EU today. Since then the European project has expanded, both geographically and in terms of content and areas of cooperation. On six different occasions new members have been incorporated in the union, resulting in its expansion from the original members<sup>4</sup> in the 1950's, to the current 27<sup>5</sup>. Although new member states regularly have been added to the union, the accession pace of the last decade was unsurpassed – within a period of four years the number of member states almost doubled: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia entered in

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3. The European Union has at present five candidate countries: Iceland, Turkey, Serbia, FYR of Macedonia and Montenegro. With the exception of Iceland, the incorporation of these new members is likely to generate fears and warning cries about mass immigration similar to the ones activated by the former accessions. Croatia is planned to become a member of the EU in 2013.

4. Italy, France, Germany, Belgium, Netherlands, Luxemburg

5. 1973: Denmark, Ireland and the United Kingdom, 1981: Greece, 1986: Portugal and Spain, 1995: Austria, Finland and Sweden, 2004: Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, 2007: Bulgaria and Romania.

May 2004, and were joined by Romania and Bulgaria in 2007.

The enlargements in 2004 and 2007 differ from previous ones in two important aspects: they involved a larger amount of candidate states than any other occasion, and involved countries economically less developed than the already members.<sup>6</sup> At the time of first enlargement the average GDP per capita of the accession states was only a quarter of the average in the existing EU15.<sup>7</sup>

In the wake of the enlargements there were increasing concerns in the old member states about how the increase in the EU population<sup>8</sup> coupled with higher unemployment and lower incomes in the new member states, would effect national labour markets and future immigration flows.<sup>9</sup> In several policy areas, these concerns translated into demands that so called “transitional rules” were to be imposed on the new member states, in order to control the course of events following the enlargements. One of the most controversial policy areas concerned one of the basic freedoms established by the Treaty of Maastricht in 1993, the free movement of persons.<sup>10</sup>

The resilience to free labour migration after the enlargements resulted in four different regimes

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6. Regeringen, (2003), p. 21

7. Doyle et al. (2006), p. 70

8. By the accessions in 2004 the total EU population increased by 20 per cent. Another 30 million people were added in 2007 when Romania and Bulgaria joined. (EC)

9. Doyle et al. (2006), p.8

10. Regeringen (2003), p.21.

being in place in the already member states - ranging from countries giving citizens from the accessioning states no more rights than non-EEA nationals<sup>11</sup>, to Ireland and the UK allowing unrestricted access to labour markets but restricted access to social benefits, and Sweden, where European Community rules applied immediately and unconditionally. Despite the fact that the UK, Ireland and Sweden decided to welcome labour immigration from the new member states, political forces in all three countries reflected upon the need to implement restrictions of some kind. A declaration made by the then Swedish Prime Minister Göran Persson in 2003 about how “welfare tourism” might become a problem after the enlargement was symptomatic of the rhetorical climate and political debate.<sup>12</sup> Similarly, in the UK the then Prime Minister Tony Blair stated that “we will take whatever measures are necessary to make sure that the ‘pull factor’ which might draw people here is closed off“.<sup>13</sup> On the other hand, while the issue of migration from new accession countries was highly politicized in receiving countries, it sparked relatively little political controversy in the new member states at the time.

Considering the quite alarmist debates and mostly sinister worries of old member states in 2004 and 2007, and the large migration flows triggered in many of the new member countries, there is still

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11. Belgium, Finland, France, Germany, Greece, Luxemburg and Spain.

12. Doyle et al. (2006), p.8

13. Blair (2004), and Doyle et al. (2006) p. 21

a lack of information about the outcome of the enlargements and the developments in recent years.

The three case studies below aim to give a satisfactory overview of the labour migration flows since 2004, and give a clear-cut description of the consequences in both old and new member states. Each chapter describes the situation in one of the three selected countries regarding migration flows before and after the accessions, the labour market and economy, and the national debate on migration policy in general and labour migration in particular.

## **Labour migration—a theoretical entry**

The effects of labour migration on national economies is a contested issue in Economic theory.<sup>14</sup> However, there are some general insights worth mentioning in order to provide the reader with an entry to the subsequent chapters.

The net effects on the public sector from immigration depend on the size of the migration flow, the composition of the new immigrants and the functioning of the economy.<sup>15</sup> In the short-term the impact will depend on national labour market flexibility, efficient labour market institutions and mobility of native workers, hence results could

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14. The scholarly debate on the impact of immigration can be illustrated by a disagreement about the effects of immigration in the US, represented by David Card (University of Berkely) and George Borjas (Harvard). While Borjas claims that immigration lower the wages of native workers, Card finds no negative significant effect on native workers. Recommended further reading: Borjas, G. (2006) and Card, (2005)

15. Doyle et al. (2006), p.10

vary by skill level, sector and location.<sup>16</sup>

In general, immigration increases labour supply, which in turn implies a decline in wages. However, an increased supply of labour may also induce new investments, which may counteract a wage decline. Furthermore, labour is not a homogeneous factor of production: the immigrant work force may be a complement to, rather than a substitute for, the native work force. This would imply an increase in the wages of native workers. Hence it is not possible to determine the sign and size of the wage effect without empirical studies.

There have also been fears of displacement effects, that is, a fear that immigrants might displace native workers. This is however based on the false belief that the number of jobs in each economy is fixed. Instead, the unemployment rate is mainly determined by macroeconomic developments and by economic policy.<sup>17</sup>

To complement the theoretical reasoning above, and illustrate how the labour market impact of immigration cannot be reduced to an oversimplified argumentation about supply and demand, lets turn to a real event. The example has been used extensively by David Card, to make that very point point and stress how local labour markets influence the impact of immigration on wages and employment levels.

In 1980, Fidel Castro suddenly lifted all travel restrictions for Cuban nationals to leave Cuba,

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16. IOM (2010), p. 12

17. Doyle et al. (2006), p.10



and declared that anyone wishing to leave for the US could do so freely from the port of Mariel. About 125,000 Cubans, mostly unskilled workers, chose to seize the opportunity and quite unexpectedly increased Miami's labour force by 7 per cent over night. Analysis of the data indicates that the time-series trend in wages and employment opportunities for Miami's workers, was barely nudged by the Mariel flow. The trend in the wage and unemployment rates of Miami's workers between 1980 and 1985 was similar to that experienced by workers in such cities as Los Angeles, Houston, and Atlanta, that did not experience the Mariel flow. Card especially stresses that Miami's industry structure was well suited to make use of an influx of unskilled labour and that the bilingualism of the region also facilitated the integration of Cuban immigrants.<sup>18</sup> Again, the size of migration flows, the composition of flows (age, competence etcetera), the labour market characteristics and the functioning of the receiving national economy, determine the outcome.

Evidence from various studies suggest that in the long-term, migration does not have substantial negative effects on employment and wages, and that such impact usually is offset by job creation and economies of scale. Migrants contribute to demand for goods and services that they consume and hence further increase the demand for labour. Migrant labour can also decrease the costs of pro-

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18. Card (1990)

duction and thus lower the costs of goods and services in a competitive market.<sup>19</sup> That said, the short term effects should not be neglected; were there no short term effects the subject would probably not be half as controversial.<sup>20</sup>

The publication “Labour migration—what’s in it for us?” aims to move beyond populist warning cries about the Polish plumber<sup>21</sup> or brain drain, and instead provide each member state as well as the EU with policy relevant and constructive input on the most central aspects of labour migration. In the following chapters, the labour market economists Eskil Wadensjö, Martin Ruhs and Aleksandra Wójcicka examine the experience of labour migration in Sweden, the UK and Poland in the wake of the EU enlargements of 2004 and 2007.

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19. IOM (2010), p. 12

20. For a deepened theoretical discussion, see each separate chapter, where the theoretical framework relevant to each national context is presented separately.

21. The »Polish plumber« has become a symbol of cheap migrant labour, notably from Eastern and Central Europe. The expression became a catchphrase of the French »No« camp in the run-up to the 2005 referendum on the EU constitution. Later the Polish Tourist Board »reinvented« the term, and used it in an add to encourage tourism to Poland in France. (see for example: BBC News (2005) or NY Times (2005) )





## **Chapter 2.** EU Enlargement and Labour Immigration: The Swedish Experience

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**Sweden decided to not introduce** transitional rules for labour immigration at the enlargement of the European Union in 2004 and 2007. The migration from the new member states increased after the enlargement but the changes were relatively small compared to the large increase in migration to Ireland and the United Kingdom. Sweden, Ireland and the United Kingdom were the three countries with no or only minor transitional rules regarding migration from the new EU member states. The new immigrants did not enter low-paid jobs to a high extent in Sweden; this differs from the development in the other two countries. The new immigrants got jobs in different parts of the economy and their labour incomes were on par with average income (but the immigrants had higher education than the average population). In this chapter I describe and try to explain this development. The chapter also deals with the effects of immigration on the Swedish economy and the public opinion regarding immigration and immigrants.

## **The Development of the Swedish Immigration Policy<sup>1</sup>**

Sweden has had rules regarding immigration for 500 years. The rules have changed much over time. Political decisions have changed the policy regarding labour immigration on several occasions

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1. See Boguslaw (2012)

during the post-war period. In this section the main policy changes are outlined emphasising the period from 2004 onwards.

### **The long-term development of Swedish immigration policy**

Sweden, as many other European countries, had a liberal immigration policy up to WW1. Immigration was, however, not an issue in this period as Sweden was an emigration country with many people leaving for the US as well as for Canada and for three neighbouring countries – Denmark, Norway and Germany. Sweden was at that time a low-wage country. During WW1 immigration regulations were implemented and work permits were required for foreign citizens. This policy continued during the interwar period. The unemployment was high during the entire period, although lower than in many other countries during the 1930s. Sweden became a net immigration country already in 1930, a result of earlier emigrants to the US escaping the depression there and returning to Sweden.

WW2 led to that many refugees came to Sweden. After the war, the demand for products from the Swedish industry was high and the unemployment low. There were many job vacancies, recruitment of workers abroad started, and many persons also went on their own initiative to Sweden looking for and finding a job. A period of large-scale labour immigration started. A common Nordic labour market was formally established in 1954 and

many arrived from the Nordic countries, especially from Finland.<sup>2</sup> But migrant workers also arrived from the Mediterranean area (especially from Italy, Yugoslavia, Greece, and Turkey). It was easy to get a work permit for somebody who had received a job offer (and those from the other Nordic countries did not need a work permit). In the second half of the 1960s the blue-collar trade unions (LO) became gradually more critical of labour migration and the immigration policy changed.<sup>3</sup> In practice labour immigration from countries other than the Nordic was not allowed, with the exception of some specialists, for example university teachers. Migration from the Nordic countries decreased. The Common Nordic Labour Market was still in place but the other Nordic countries now had more or less the same wage level as Sweden so the incentives to move to Sweden were not as strong as before.

Sweden was still an immigration country from the 1970s on, but those arriving were to a large extent refugees and family members of earlier immigrants or Swedish citizens. Nevertheless, the labour migration started to develop again in the mid-1990s.

### **EU membership and EU enlargement in 2004**

Labour migration from countries other than the Nordic ones became much easier when Sweden became a member of the common labour market

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2. See Pedersen et al. (2008)

3. See Pedersen et al. (2008)



of the EEA/EU in 1994 and the EU in 1995. The migration to Sweden from the EU15 countries (excluding Sweden, Denmark and Finland) increased as a result. The main source countries were Germany, the Netherlands and the UK. This migration was not seen as a problem in Sweden. The unproblematic enlargement in the mid-1990s when Sweden became a member of a common labour market with member states other than the Nordic ones, may have influenced the Swedish debate at the time of the next enlargement of the EU common labour market. It occurred when EU from May 1, 2004 got ten new members, among them eight countries in Central and Eastern Europe.

There were some worries about “social tourism”, but the decision in Parliament was that no transitional rules should be implemented.<sup>4</sup> Sweden was the only country without any special rules for those arriving from the new member states – but Ireland and the UK had only some minor restrictions. The prediction was that the migration flows from the new EU member countries to Sweden would be modest even after the enlargement.<sup>5</sup> This turned out to be largely true even if the migration became slightly higher than predicted, but the immigration was much lower than that to Ireland and the UK.

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4. See Doyle et al. (2006)

5. See Eriksson (2004)

### **Two new EU members in 2007**

The migration from the ten new member states increased from 2004 and on, but not so much as to be considered a problem. And the “social tourists” did not arrive. The new migrants were even under-represented among the recipients in the various income transfer programs.<sup>6</sup> It was in a way what we should have expected. There are qualification periods in the income transfer programs making it more or less impossible to get an income transfer the first year in Sweden. Most of the income transfers are related to labour income and as such, the person has had a job. The perceived success of the enlargement in 2004 led to the decision that no transitional rules should be introduced at the enlargement in 2007. This time decision was taken more or less without a debate. The borders were open for labour migrants from Bulgaria and Romania.

### **New rules for non-EEA labour migrants from December 15, 2008**

The discussion on labour migration in the years following the 2007 enlargement was not that too many labour migrants may have come to Sweden but rather that too few came. The unemployment declined in the 00s, the number of vacancies increased, and there was a general worry about an ageing population and that too few would be of working age in Sweden. The Government in cooperation with one of the opposition parties,

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6. see Gerdes and Wadensjö (2008)

the Green Party, decided to make it easier for labour migrants from outside EEA to get a work permit in Sweden.<sup>7</sup> The decision on the new law was taken by Parliament in November 2008 and became valid from December 15, 2008. If a person gets a job offer with compensation according to a collective agreement or at the same level as the collective agreement in the sector, a work permit should be granted. This is mainly a policy for those getting a job offer when still being in their home country, but the law also gives some possibilities to foreign students after completing their education in Sweden and to asylum seekers whose applications have not been accepted. For both those groups a job offer for at least six months is a necessary condition for getting a work permit. Special rules were introduced for seasonal workers with work permits valid for shorter periods.

### **Policy changes?**

The political discussion in Sweden differs from that in many other countries as the political worry in Sweden is mainly if Sweden will be able to recruit foreign workers in the future and not about introducing hinders for future labour immigration. There is one new political party, Sverigedemokraterna, which is anti immigration and anti immigrants. It is mainly critical of refugee immigration (see also the section “Immigration and public opinion”)

There is however a discussion about some forms

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7. For details of the process leading to the new legislation and the present legal framework, see Quirico (2012).

of labour immigration, mainly different forms of temporary migration. The conditions of seasonal workers are one. The seasonal workers are mainly employed in agriculture, a sector with low union density. There are several examples of unsatisfying work conditions and also on that the wages paid are lower than those agreed according to the information given to the Swedish Migration Board (Migrationsverket). The working conditions of posted workers is another issue discussed and a third is the work conditions of those hired out by temporary employment agencies in another EU-country to employers in Sweden. Both the wages and the work conditions have been up for discussion. The trade unions are, in all the three cases mentioned, very critical of the behaviour of the employers involved. The wages of the migrants are lower than those for natives and work accidents more frequent according to the unions. The statistics is, however, incomplete or missing for those working in these types of jobs, which reveals the need better statistics and more research.

## **Migration and the Conditions of Migrants from the New EU member countries**

The enlargement of the EU led to migration to Sweden from the new member states. This section provides information on the development and composition of the migration flows to and from

Sweden and also on the number of people born in those countries living in Sweden. The section also gives some information on the labour market situation of the migrants arriving from those countries.

### **The migration flows to and from Sweden**

As mentioned in the introduction, Sweden has been a net immigration country since 1930. The only two exceptions are 1972 and 1973; many migrants arrived from Finland in 1970 and 1971 and many of them returned in 1972 and 1973 at the same time as fewer migrated to Sweden due to fewer job vacancies and higher unemployment (even if the unemployment was low compared to the present level).

That Sweden has been a net immigration country for many years has led to that the foreign born share of the Swedish population now is as high as 15 per cent, one of the highest in Europe. The composition of the immigration to Sweden according to countries of origin has changed over time as mentioned above. Labour migration dominated in the period from 1945 to the early 1970s when most migrants arrived from the Nordic countries, but many also arrived from Germany in the 1950s and from Mediterranean countries in the 1960s. This migration was superseded from the 1970s onwards by refugee migration from different parts of the world and by relatives to immigrants and natives living in Sweden. The migration history described means that the foreign born who live in Sweden are from many different countries in different parts

**Table 1.** The ten largest groups of foreign born in Sweden in the end of 2011; individuals.

<b>Country of origin</b>	<b>Women</b>	<b>Men</b>	<b>All</b>
Finland	99 539	67 184	166 723
Iraq	57 648	67 851	125 499
Poland	41 407	31 444	72 851
Yugoslavia	34 616	35 434	70 050
Iran	30 264	33 564	63 828
Bosnia Herzegovina	28 539	27 751	56 290
Germany	25 282	22 518	47 800
Denmark	20 944	24 007	44 951
Turkey	19 727	24 182	43 909
Norway	24 154	18 904	43 058
<b>All</b>	<b>732 481</b>	<b>694 815</b>	<b>1 427 296</b>

Source: Statistics Sweden

of the world. Table 1 shows the top ten countries of origin for migrants living in Sweden in the end of 2011.

Of the countries becoming members of the EU in 2004 or 2007, only Poland appears among the ten. A majority of the foreign born in Sweden are women and this is also the case for those born in Poland. Those born in the Nordic countries have on average been in Sweden longer than those born in other countries and are therefore, on average, older.

It is relatively easy to become a Swedish citizen. The required time of residence in Sweden is two years for citizens from the other Nordic countries and five years for most of the others with foreign citizenships.<sup>8</sup> This explains why the number of foreign citizens is less than half the number of foreign born. Around 7 per cent of those living in Sweden are foreign citizens. Of the foreign citizens about 80 per cent were born in the country of their citizenship, 11 per cent were born in Sweden (mainly children of immigrants) and 9 per cent were born in another country. Table 2 shows the ten largest groups in Sweden with a non-Swedish citizenship. There are four countries that are among the top ten citizenship countries but not among the top ten foreign born countries: Somalia, Thailand, United Kingdom and China. Most migrants from these countries have arrived in Sweden recently. The four countries on the foreign born top list that are missing on the citizenship top ten list are

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8. see Boguslaw (2012)

**Table 2.** The ten largest groups of foreign citizens in Sweden in the end of 2011; individuals.

<b>Country of citizenship</b>	<b>Women</b>	<b>Men</b>	<b>All</b>
Finland	39251	28685	67936
Iraq	25916	29930	55846
Poland	21134	21609	42743
Denmark	17091	23377	40468
Norway	17713	17099	34812
Somalia	16318	16685	33003
Germany	13431	14324	27755
Thailand	15244	3764	19008
United Kingdom	5407	12706	18113
China	8233	7261	15494
<b>All</b>	<b>314802</b>	<b>340298</b>	<b>655100</b>

Source: Statistics Sweden



Yugoslavia, Bosnia-Herzegovina, Iran and Turkey. Many of the migrants from those countries arrived in the period from the 1960s to the 1990s and have acquired Swedish citizenships.

It should be noted that it is legal to have a double citizenship in Sweden and that many have it, but a person with both a Swedish and a foreign citizenship is only included as a Swedish citizen in the statistics. For most citizenship countries, the number of women and men are about the same, but most people with a UK citizenship are men and most with a Thai citizenship are women. That there are more women than men among those with Finnish citizenship is partly explained by the fact that this group is older than the other groups and women live longer than men.

### **Migration from and to the new EU member countries**

We will now turn to migration from and to the new member states. We will cover the period from 2003, the year before the enlargement, to 2011, the last year for which we have statistics available. Hence, we cover a number of years after the enlargements in 2004 and 2007 and also the first four years of the international recession after the outbreak of the financial crisis in 2008.

Table 3 shows the development of immigration from the twelve new member states.<sup>9</sup> Migration

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9. It is possible to present information on the migration flows according to country of birth, country of citizenship or country of arrival and departure.

increased from most EU10 countries from 2004 onwards. The exceptions are the two Mediterranean countries Cyprus and Malta with very low emigration to Sweden both before and after May 1, 2004.

The immigration to Sweden from EU10 is dominated by migration from Poland. It is the EU10 country with the largest population, it is close to Sweden (on the other side of the Baltic Sea) and there were many Polish immigrants in Sweden already before 2004. The Baltic States – Estonia, Latvia, and Lithuania – and Hungary are the other most important countries of origin. Already before 2004 many persons from Estonia and Hungary had migrated to and lived in Sweden, most of them had arrived as refugees in the 1940s and 1950s, respectively. The existence of earlier migrants may have contributed to the fact that many new migrants arrived from those countries, a network effect.

Both men and women migrated. Of those who arrived from Poland before 2004 the majority were women. Now the majority of those arriving from Poland are men. As earlier mentioned most migrants are young.

Even if the migration from the EU10 countries increased from 2004 on, the migration from those countries to Ireland and the UK was much higher. Reasons for that may be that English is the language spoken in the two countries, there was lower unemployment and a higher demand for labour, especially in low-wage sectors. In Sweden, unions have in practice reduced or eliminated traditional

**Table 3.** Immigration to Sweden of people born in the new EU countries 2003-2011; individuals.

<b>Country</b>		<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Cyprus</b>	Men	11	13	9	25	23	31	14	13	24
	Women	7	10	5	11	21	18	9	13	14
<b>Czech R.</b>	Men	50	47	55	85	109	166	101	83	101
	Women	46	52	55	83	98	112	89	80	93
<b>Estonia</b>	Men	76	151	147	173	179	179	285	286	249
	Women	215	246	247	246	262	219	279	226	279
<b>Hungary</b>	Men	75	97	125	255	423	567	470	435	390
	Women	118	149	167	232	361	432	417	345	328
<b>Latvia</b>	Men	48	61	93	149	128	164	423	386	377
	Women	114	136	139	210	198	221	475	373	410
<b>Lithuania</b>	Men	63	177	332	419	470	452	643	747	705
	Women	154	250	327	430	403	411	515	600	621
<b>Malta</b>	Men	3	2	2	7	5	7	8	8	10
	Women	2	4	4	4	2	2	11	7	6
<b>Poland</b>	Men	445	1155	1799	3464	4273	3881	2808	2548	2435
	Women	698	1397	1726	2978	3344	3210	2453	1969	2065
<b>Slovakia</b>	Men	16	37	34	49	90	107	107	138	91
	Women	30	69	58	88	74	94	114	99	62
<b>Slovenia</b>	Men	10	10	15	21	23	39	31	22	37
	Women	10	14	15	24	30	21	18	18	25
<b>Bulgaria</b>	Men	77	56	52	60	662	546	394	339	301
	Women	104	83	62	77	409	323	306	252	254
<b>Romania</b>	Men	142	126	154	172	1511	1441	1004	963	1096
	Women	241	209	261	250	1121	1154	872	817	874

Source: Statistics Sweden

low wage sectors, by implementing a high minimum wage according to collective agreements.

The immigration from Bulgaria and Romania increased as expected between 2006 and 2007, when the two countries became members of the EU, but the increase was not very large. Migration declined in 2008 and 2009 and continued on a lower level than in 2007 in both 2010 and 2011. The drop in migration between 2007 and 2008 is presumably mainly a result of the 2008 economic crisis, but it may also partly be a result of that a number of immigrants who had already been in Sweden for some time, choose to register as living in Sweden in 2007, when they were able to get a permit due to the enlargement of the EU.

In table 4 the corresponding figures for emigration from Sweden are presented. The emigration is much smaller than the immigration. It increases over time, mainly as a result of a larger immigrant population. A problem with this statistics is that many do not register leaving Sweden. One reason may be that they intend to move back to Sweden later and that they try to avoid repeating the registration procedure when returning to Sweden. Another reason may be that they do not know that they have to register that they are emigrating from Sweden. If the emigration is underestimated (or the registration of emigration is delayed), the immigrant population will be overestimated.

Also important to have in mind when studying the statistics, is that a person should only be registered as immigrant if the intention is to stay at

**Table 4.** Emigration from Sweden of people born in the new EU countries 2003-2011; individuals.

<b>Country</b>		<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Cyprus</b>	Men	14	10	12	11	15	6	10	6	12
	Women	8	5	6	7	8	2	2	7	4
<b>Czech R.</b>	Men	18	31	29	27	33	41	20	22	75
	Women	17	23	26	24	32	29	23	29	31
<b>Estonia</b>	Men	36	50	54	49	56	73	49	95	87
	Women	39	58	70	76	95	64	52	82	102
<b>Hungary</b>	Men	66	84	88	93	114	128	115	181	216
	Women	81	81	79	84	100	97	84	151	167
<b>Latvia</b>	Men	21	19	22	29	46	47	46	65	61
	Women	24	23	22	33	63	55	27	79	64
<b>Lithuania</b>	Men	19	26	20	41	63	91	72	102	119
	Women	28	29	16	49	58	60	49	70	96
<b>Malta</b>	Men	4	1	1	4	3	2	2	8	6
	Women	0	0	2	7	1	2	2	2	5
<b>Poland</b>	Men	131	159	182	245	454	637	731	842	946
	Women	200	192	252	322	385	472	482	589	584
<b>Slovakia</b>	Men	5	9	8	14	12	32	33	45	56
	Women	6	10	12	17	26	30	34	37	48
<b>Slovenia</b>	Men	6	3	4	8	4	8	7	10	19
	Women	1	3	7	7	9	7	13	9	6
<b>Bulgaria</b>	Men	32	23	18	32	47	96	100	100	135
	Women	34	24	16	28	48	64	53	70	89
<b>Romania</b>	Men	51	65	59	87	146	225	354	290	388
	Women	69	61	59	89	96	160	251	208	247

Source: Statistics Sweden

least one year in Sweden. This means that those who come as seasonal workers or for shorter work periods are not included in the statistics. The number of people with short work spells is quite high in Sweden. A person who stays in Sweden for less than six months does not have to pay income tax in Sweden but only in the home country, which in most cases has a lower tax rate than Sweden. This is an incentive to make the work spells in Sweden shorter than six months (less than 180 days). A rather common phenomenon is also posted workers. Posted workers work in Sweden but are employed by an employer in another country, often an employer in one of the new EU member countries.<sup>10</sup>

An immigration larger than the emigration leads to an increase of the immigrant population. See table 5 for the development between 2003 and 2011. Already before the EU enlargement in 2004, many immigrants from the new EU-member states lived in Sweden. This was to a large extent a result of earlier refugee flows from Estonia (in the 1940s), Hungary (in the 1950s) and Poland (in the 1960s and the 1980s). Many refugees also arrived from Czechoslovakia in the 1960s, but it has not been possible to divide those immigrants between the Czech Republic and Slovakia. The problems are similar for those born in Slovenia if they immigrated to Sweden when it was a part of Yugoslavia and for those born in the Baltic countries if they

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10. See OECD (2011)

**Table 5.** Foreign born from one of the new EU countries living in Sweden 2003-2011; individuals

<b>Country</b>		<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Cyprus</b>	Men	269	270	267	278	285	309	311	316	326
	Women	174	179	177	181	193	209	216	222	232
<b>Czech R.</b>	Men	217	234	260	317	393	517	578	623	647
	Women	305	335	362	419	487	570	621	651	714
<b>Estonia</b>	Men	4130	4065	4014	3979	3938	3904	4012	4062	4082
	Women	5834	5855	5856	5841	5862	5859	5930	5948	6250
<b>Hungary</b>	Men	6947	6833	6757	6798	6979	7303	7545	7656	7705
	Women	6847	6839	6843	6913	7078	7321	7574	7683	7736
<b>Latvia</b>	Men	933	951	991	1085	1146	1235	1588	1890	2181
	Women	1549	1630	1724	1869	1976	2109	2528	2796	3123
<b>Lithuania</b>	Men	456	600	912	1290	1696	2058	2626	3268	3849
	Women	878	1094	1403	1782	2129	3479	2946	3467	3987
<b>Malta</b>	Men	52	53	54	57	59	64	70	70	74
	Women	44	48	50	47	47	47	56	60	61
<b>Poland</b>	Men	14354	15227	16698	19788	23472	26588	28532	30094	31449
	Women	27254	28245	29505	31955	34708	37234	38986	40159	41416
<b>Slovakia</b>	Men	143	171	197	233	310	384	458	551	587
	Women	231	292	339	411	457	520	600	662	675
<b>Slovenia</b>	Men	393	405	421	438	456	486	505	517	533
	Women	372	387	400	419	439	452	457	466	486
<b>Bulgaria</b>	Men	1794	1817	1838	1860	2466	2915	3209	3447	3597
	Women	2031	2084	2124	2161	2515	2771	3022	3205	4058
<b>Romania</b>	Men	5532	5556	5607	5655	6979	8171	8776	9415	10104
	Women	6811	6980	7141	7255	8235	9181	9756	10326	10912

Source: Statistics Sweden

immigrated to Sweden in the period these countries were republics in the Soviet Union. These migrants are therefore not included in the table. Those who were born in Poland constitute the largest group of foreign born from a EU12-country. Poland is as earlier mentioned the only of the EU12 countries among the top ten countries of origin in Sweden (Poland is number three after Finland and Iraq). Romania is the country from which second most persons have arrived from one of the EU12 countries to Sweden. The number of people living in Sweden who were born in Romania was stable up to 2007, but the number has gradually increased after Romania became member of the EU in 2007.

### **The new migrants in the labour market**

The immigrants from the EU12 countries are young, most of them are between 20 and 30 years. Young people in those countries are, just like in Sweden, more educated than those who belong to the older generations. It also means that the migrants on average are more educated than the original population. See table 6. It is so for all EU12 countries. There are only some minor differences regarding the educational composition between the twelve countries. Note that there are missing values for 9 per cent of those who were born in a EU12 country. For those who study in Sweden, schools and universities report to Statistics Sweden. It is much more complicated for Statistics Sweden to get information regarding studies outside Sweden. Statistics Sweden sends out yearly surveys on



**Table 6.** Distribution of people born in one of the new member states and in Sweden according to education in 2010; per cent; only those employed included

<b>Education</b>	<b>Born in EU12 coun- tries</b>	<b>Born in Sweden</b>
Primary school less than 9 years	2	2
Primary school 9(10) years	4	9
Secondary school	40	51
Higher education less than two years	5	7
Higher education two years or more	37	31
Post-graduate education	2	1
Missing information	9	1
<b>All</b>	<b>100</b>	<b>100</b>

Source: Gerdes and Wadensjö (2009, updated). Information is only available for those who have declared an intention to stay in Sweden at least one year.

the educational record to all immigrants who have arrived during the preceding year, but everyone does not return the survey. Statistics Sweden is supplementing the information from the survey by information from other authorities, such as the Labour Market Administration, but this takes time. It means that information on education is foremost missing for those who have arrived in Sweden in recent years.

The immigrants are compared to citizens born in Sweden working more or less in the same sectors. See table 7. They are slightly overrepresented compared to citizens born in Sweden in construction and health care, and slightly underrepresented in trade and communication, and public administration. If we are studying each country separately we will find some larger differences. Many from Lithuania are, for example, working in agriculture.

The average number of working hours per month is almost the same for those born in EU12 countries as for citizens born in Sweden for men and women, respectively.<sup>11</sup> The average monthly wage is also about the same for the foreign born from those countries and citizens born in Sweden. This differs from Ireland and the UK. When estimating Mincer equations controlling for education, age and gender, we find that the EU-migrants have slightly lower wages. The differences are quite small and are only found for those who have recently immigrated. One likely explanation

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11. See Gerdes and Wadensjö (2009) for the results reported in this section.

**Table 7.** Distribution of people born in one of the new member states and in Sweden according to industry in 2010; per cent.

<b>Industry</b>	<b>Born in EU12 countries</b>	<b>Born in Sweden</b>
Not classified	1	1
Agriculture, forestry, fishing	3	2
Manufacturing, mining	13	14
Public utilities	0	1
Construction	11	7
Trade, communication	15	19
Financial services, business services	18	16
Education	9	11
Health care	19	16
Personal and cultural services	9	7
Public administration	3	6
<b>All</b>	<b>100</b>	<b>100</b>

Source: Gerdes and Wadensjö (2009, updated). Information is only available for those who have declared an intention to stay in Sweden at least one year.

for the small difference is the wage setting system in the Swedish labour market; strong unions and collective wage agreements.

Andersson and Hammarstedt (2011) study the wages and occupational standing of migrants from the EU10 countries (the countries that became members in 2004) compared to migrants from other countries and citizens born in Sweden in 2007. They find that the wages of EU10 migrants, controlling for characteristics as education, age, region and civil status, are lower than for people born in Sweden and migrants from the old EU countries. A quantile regression shows that this is a result of a difference in the upper part of the income distribution. This result is interpreted as the EU10 migrants are often being over-educated and have a relatively low occupational standing given their education.

### **Effects of the 2008 financial crisis**

The crisis that started in 2008 was followed by a decline in immigration from Poland, but the immigration from the three Baltic States increased. Unemployment increased much more in those three countries than in Sweden and there were still many job vacancies in Sweden especially in the Stockholm area. The recession was short in Sweden. GDP declined much in 2009 (minus 5.0 per cent), but increased even more in 2010 (plus 6.6 per cent) and continued to increase in 2011 (plus 3.9 per cent). It means that the effects of the economic crisis on migration were small compared

to the effects in most other European countries and that the migration returned to the earlier level already in 2011. This does not mean that the crisis is over. Exports to other EU countries is a large part of total Swedish exports and a continued crisis in Europe may lead to lower Swedish exports, lower employment in manufacturing, negative employment effects for other parts of the economy as well, and as a result, lower labour immigration.

## **The Effects of Migration on the Swedish Economy and the Public Opinion**

Labour migration means an increased labour supply. An increased labour supply may have effects on the labour market as well as on other parts of the economy, for example public sector finances and economic growth. In this section the economic effects of migration are discussed and also the effects on public opinion on migration.

### **Labour market impacts**

There are many studies on the effects of immigration on wages and unemployment of citizens born in Sweden regarding many countries. The main result is that effects are small and go in both directions. This is somewhat surprising as an increase in supply is usually related to a decrease in price of the product supplied or in this case the factor of price of production supplied.

One explanation for these results is that there is more than one type of labour in the economy and

that migrants and citizens born in Sweden are not substitutes but complements in the production.<sup>12</sup> In such a case, an increase of the number of migrant workers leads to an increase in the demand for labour among natives and higher wages. Another explanation is that immigration leads to an increase in investment, as such, so that not only the supply of labour but also the supply of capital increases. There are historical examples of simultaneous migration of labour and capital, for example to the United States in the period of mass immigration in the late 19th century.<sup>13</sup>

In some studies negative wage effects are found. The examples are mainly from cases when migrants are close substitutes to a specific group in the country of destination, for example that the arrival of new migrants from Mexico in the US leads to lower wages for earlier migrants from Mexico living in the US. This leads us to believe that if we find wage (and employment) effects they are most likely found if many immigrants are arriving in specific sectors and occupations and that their arrival does not lead to increased demand due to induced investments. Examples may be found for medical doctors (more than half of new medical doctors on the Swedish labour market have their exams from other countries; many of them from Poland); another example could be in the construc-

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12. For meta studies on the effects of immigration on wages and unemployment see Longhi et al. (2005a) and Longhi et al. (2005b), respectively. See also Pekkala Kerr and Kerr (2011).

13. See Thomas (1973) for an analysis of the parallel migration and capital export from Britain to the US in the 19th century.

tion sector where many of those entering are from EU12 countries. A third example could be seasonal workers in agriculture. There are, however, no published studies yet on the effects of migration on such specific labour markets in Sweden.

### **Effects for public sector finances**

Migration affects the public sector. Migrants pay taxes and they receive income transfers and take part in public consumption, for example health care and education. Of special interest is the net effect on the public sector. Is the increase in tax proceeds larger or smaller than the additional costs for the public sector?

To be able to discuss this question it is important to look at the main forms of redistribution in countries like Sweden. The redistribution goes 1) from those of active age to the young (child care, education) and the old (pension, medical care, old-age care), 2) from those of active age who are employed to those of active age who are not employed, and 3) from those of active age who are employed and have high incomes to those of active age who are employed and have low incomes. The migrants from the EU12 countries are to a large extent of active age, are to a large extent employed and have, when they are employed, incomes at about the same level as natives. This means that we could expect labour immigration leading to redistribution from the migrants to the rest of the pop-

ulation. A number of studies regarding Sweden<sup>14</sup> as well as those regarding other similar countries get such results.<sup>15</sup> Other types of migration have other effects. Refugees are for example not arriving due to receiving a job offer but due to that they are fleeing from war or persecution. It often takes a long time before refugees get a job in the country they have arrived to. Gerdes et al. (2011) compare the fiscal effects in Denmark for Western immigrants, non-refugee non-Western immigrants and refugee non-Western immigrants and find as expected large differences between the three groups.

It is important to note that the effects may differ between different parts of the public sector; for example between the state and the municipalities, which may lead to political conflicts between different levels in the political system. Wadensjö (2007) studies the fiscal effects of different part of the public sector in Denmark. For immigration from non-Western countries the fiscal effect is positive for the state but negative for the municipalities. For the regional (amt) level the fiscal effect is close to zero.

### **Other effects: housing, education**

An important topic in the integration debate is the segregation in housing; that different groups of foreign born or the foreign born taken together as

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14. See Wadensjö (1973), Ekberg (1983), Storesletten (1998), Ekberg (1999), Gustafsson and Österberg (2001) and Ekberg (2009) for studies covering different parts of the Swedish migration history.

15. Chapter 3 in Wadensjö and Orrje (2001) contains a survey of such studies for different countries.



a group are highly concentrated to specific areas. This has not yet become an issue regarding those coming from EU12 countries. The groups coming from specific EU12 countries are small (except for those coming from Poland) and they are not concentrated to certain housing areas.

Another topic in the debate regarding integration is education. The migrants from EU12 countries are, with very few exceptions not Swedish speaking at arrival, (one exception is medical doctors and nurses who have got Swedish lessons in Poland as a part of the recruitment process). It means that for most immigrants from the EU12 countries, Swedish lessons after arrival are very important if they intend to stay in Sweden for a prolonged period. For their children it is not only important with an education in Swedish but also in their mother tongue. It may be relatively easy to organize such education for children with parents from Poland as the group is relatively large, but much more difficult for those with parents from one of the other eleven countries. The migrants from those countries are few and they are not concentrated to some housing areas and school districts.

### **Immigration and Public Opinion**

Compared to other European countries, Sweden has a relative ambitious integration policy and the attitudes towards immigrants are less negative than in most other countries.<sup>16</sup> The SOM institute at

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16. See Banting and Kymlicka (2012) and Huddleston et al. (2011)

Gothenburg University regularly conducts surveys on attitudes among the population in Sweden.<sup>17</sup> One question in the survey is on accepting refugees. The question is “It is good idea to accept fewer refugees into Sweden?” The share of people thinking it is a good idea is declining over time and the share thinking it is a bad idea is increasing (as is the share being indifferent). But the share wanting fewer refugees to be accepted is still higher than the share wanting more refugees to be accepted.

That the public opinion is developing in the direction of being more positive to refugees does not mean that there are not individuals who are opposed to immigration and immigrants. A political party, which is anti-immigrant and anti-immigration, *Sverigedemokraterna*, got seats in the parliamentary election in 2010 and has received strong support in some municipal elections, especially in the southern part of Sweden.

Several studies have also shown discriminatory behaviour towards different groups of immigrants. The groups studied have, however, not been those who have arrived from EU12 countries, but those with Arabic or African sounding names. It is likely that those coming from EU12 countries are not particularly discriminated in Sweden. We have a first study on discrimination of immigrants from Europe.<sup>18</sup> According to that study those arriving from other countries than the Nordic ones are not discriminated compared to

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17. see Weibull et al. (2012)

18. Eriksson et al. (2012)

those arriving from Nordic countries (who are most likely not discriminated). More studies are needed, however.

## **The Future Development of the Immigration Policy in Sweden<sup>19</sup>**

The debate in Sweden regarding labour immigration is at present mainly about the possibilities of recruiting qualified workers to Sweden in the future. The ageing population is the focus for that debate. It also means that there are, in practice, no worries for major migration from other European Union countries. It is therefore not likely that Sweden will decide to introduce transitional restrictions when Croatia becomes a member of the European Union. Most likely only a few migrants will come from Croatia to Sweden. Austria and Germany will probably receive the major part of the Croatian immigrants. The European Union has at present five candidate countries: Iceland, Turkey, Serbia, FYR of Macedonia and Montenegro. Iceland is member of the Common Nordic Labour Market, which means that a EU membership will not lead to any change regarding access to the Swedish labour market. It is not very likely that Sweden will introduce transitional rules if any of the former Yugoslavian republics becomes member of the EU. Sweden is actively supporting the membership application of Turkey and it is therefore not very

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19. See SCB (2012) and Wadensjö (2012) on the future development of immigration to Sweden.

likely that Sweden would introduce transitional rules for migration from Turkey. Levin (2011) analyses the long history of the EU-Turkey relations. The migration to Sweden from the European Union is in practice regulated by the high minimum wages set in collective agreements and not by transitional restrictions.

The issues regarding labour migration in the public debate in Sweden are mainly regarding different forms of temporary labour migration and the working conditions for those recruited to such jobs: seasonal work, posted workers, and work in temporary employment agencies where the agency is placed outside Sweden but the employees are hired out to employers in Sweden.





## Chapter 3. EU Enlargement and Labour Immigration: The UK Experience.

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**Along with Sweden and Ireland**, the UK was in a minority among the “old” EU15 member states to grant workers from the EU8 countries<sup>1</sup> free access to their labour markets immediately upon EU enlargement on 1st May 2004. Since this policy decision, the UK has seen very large migration flows of EU8 workers to and from the UK. Estimates suggest that over half a million EU8 migrants with the intention to stay for at least one year moved to the UK during 2004–2010, and that just under half of them left again during this period.<sup>2</sup>

The rapid increase in the immigration and employment of EU8 workers generated heated debates about the scale and effects of immigration in the UK. It also had important effects on public attitudes to immigration and was one of the key reasons why the UK decided to impose transitional employment restrictions on Bulgarians and Romanians (the EU2 nationals) when their countries joined the EU in January 2007. East European immigration since 2004 has also been an important factor shaping the UK’s recent reforms of policies for regulating the immigration and employment of non-EU nationals.

This chapter analyses the UK’s experience with East European (i.e. EU8 and EU2) labour immigration since 2004. More specifically, the chapter reviews and critically discusses: the *determinants of*

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1. The ten states joining the European Union in May 2004 included the »EU8« countries (also known as the »A8 countries«) – Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia – plus Cyprus and Malta.

2. Office for National Statistics (2012)



*UK policies* toward EU8 and EU2 migration; the *scale and characteristics* of East European immigration and employment since 2004; the *effects* of East European immigration on the labour market, public finance, and public services; and the overall *implications* of the experiences with East European immigration for public and policy debates about migration in the UK. Since the UK's experience with East European immigration cannot be fully understood without discussing immigration from outside the EU, each section in this chapter discusses East European immigration in the context of overall immigration policy, immigration flows and impacts in the UK.

As will be shown in this chapter, the research evidence on the effects of EU8 immigration on the UK remains characterised by important gaps and limitations, which means that it is impossible to draw firm conclusions about the “overall effects” of EU8 migrants on the UK. For example, the available research has found little systematic evidence of adverse effects of East European immigration on wages and unemployment in the UK's labour market as a whole,<sup>3</sup> but there may well have been effects on particular low-waged labour markets in certain occupations, sectors and areas not explicitly addressed by the available studies. Similarly, research on the fiscal impacts of EU8 immigration has found positive effects (partly because of EU8 migrants' very high employment rates, see Dustmann et al 2010) but the available research has been

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3. see Migration Advisory Committee (2012)

limited by very limited data on the effects of EU8 (and other) migrants on public services.

Anecdotal evidence – reported extensively in parts of the media since 2004 – suggests that EU8 immigration may have adversely affected workers in specific low-wage occupations as well as put pressure, at least in the short run, on some public services that had not been adequately prepared and funded for the large inflow of EU8 migrants. Qualitative research on the recruitment decisions and practises of employers suggests that employers in some sectors, in particular low-waged sectors, have developed an active preference for recruiting EU8 workers over British workers.<sup>4</sup> These issues are very important areas for future research.

In public debate and discourse in the UK, East European immigration has very much become synonymous with “low-skilled immigration” that is “out of control”. Although EU8 workers are in fact better-educated and better-skilled, on average, than British workers, most East European migrants have taken up employment in low-skilled jobs in the UK. Opinions polls suggest that low-skilled workers are among the least popular category of migrants. In a poll conducted by the Migration Observatory in late 2011, almost two-thirds of respondents among the British public said that they wanted low-skilled labour immigration reduced, compared to only a third who said that they want skilled labour immigration reduced.<sup>5</sup>

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4. Ruhs and Anderson (2010)

5. Blinder et al (2011a)

Politically, East European immigration has become a major issue and policy challenge. The two biggest parties in the UK (the Conservatives and Labour) now officially agree that the previous Labour government's decision to open the UK's labour markets to EU8 nationals in May 2004 was a "mistake". While the Conservatives have long criticised the Labour government's "mass immigration policy", Ed Miliband, the current leader of the Labour Party, suggested in his first speech on immigration in June 2012 that Labour was "wrong" to fully open its labour markets to East Europeans in 2004. Calling for a new approach to immigration, Miliband argued that "the public were ahead of us in seeing some of the problems caused by the rapid pace of migration, especially from the expanded EU".<sup>6</sup> Both parties are currently discussing changes in a wide range of public policies (besides immigration) that could help reduce Britain's growing reliance on East European migrant workers. These include changes in the benefits system (which the current government has already introduced), better training policies and more regulation of recruitment agencies (which the Labour party has begun to openly discuss).

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6. Miliband (2012)

## **The UK's labour immigration policies since the early 2000s**

This section provides a brief overview of key elements of the UK's overall labour immigration policies over the past decade, including policies for regulating the immigration and employment of workers from within and outside the EU.

### **Managed Migration policies before EU enlargement in 2004**

The Labour government that came into power in 1997 drastically increased labour immigration from outside the EU. Introduced in the early 2000s, the Labour government's *Managed Migration* policies were based on the idea that, if managed properly, immigration could generate significant economic benefits for the UK. As the UK's Home Secretary put it in the White Paper that signified a turning point in the country's approach:

*“Migration is an inevitable reality of the modern world and it brings significant benefits. But to ensure that we sustain the positive contribution of migration to our social well-being and economic prosperity, we need to manage it properly and build firmer foundations on which integration with diversity can be achieved”.<sup>7</sup>*

Under its *Managed Migration* policies, the government was relatively liberal with regard to issuing

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7. Home Office 2002 cited in Spencer (2003)

work permits to employers who wished to recruit non-EEA migrants for employment in skilled and highly skilled occupations. Not limited by a quota, the number of work permits issued to skilled migrants increased from fewer than 30,000 in the mid 1990s to an annual average of over 80,000 throughout 2001-04. In addition to the main work permit scheme for skilled migrants from outside the EU, the government also introduced the Highly Skilled Migrants Programme (HSMP) in 2002. This points-based labour immigration programme aimed to attract highly skilled non-EU migrants by offering them the opportunity to move to the UK without having a job offer. Migrants living and working in the UK on permits issued under the main work permit scheme or the HSMP had the right to apply for permanent residence (“indefinite leave to remain”) after five years of residence in the UK.

In contrast, the UK’s pre-2004 enlargement policies for the immigration and employment of non-EU15 migrants in low-skilled occupations were relatively small in scale, sector-specific, and much more restrictive in terms of the rights of migrants admitted than the policies toward skilled labour immigration. The low-skilled programmes did not, for example, grant migrants the right to family reunion or the right to permanent settlement in the UK. As of early 2004, the main programmes for admitting migrants for low-skilled employment included:

- the “Seasonal Agricultural Worker Scheme” (SAWS) which admitted a limited number of non-EU students for temporary employment in agriculture and food processing (the quota was 25,000 in 2004);
- the “au-pair scheme” which was officially a cultural exchange scheme rather than a labour immigration programme, allowing nationals of certain countries to help in private households for a maximum of 25 hours per week;
- the domestic worker scheme, which was for domestic workers who travel to the UK with their employers
- and the Sector Based Scheme (SBS) which allowed UK employers to recruit a limited number of non-EEA workers for employment in selected low-skilled jobs in the hospitality and food processing sectors (the quota was 20,000 in 2003/04).

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

Some employers also filled their low-skilled vacancies by hiring migrants who were illegally

residing and/or illegally working in the UK. The illegally resident population in 2001 was estimated to range from 310,000 at the lower end to 570,000 at the higher end, with a median estimate of 430,000 (Woodbridge 2005). Most illegally resident migrants were thought to be working in low-wage jobs in agriculture and food processing, construction, the care sector, cleaning and in hospitality.

### **EU enlargement in May 2004: No restrictions on employment of EU8 workers**

Along with Ireland and Sweden, Britain was in a minority among the member states of the pre-enlarged EU (EU15) to grant workers from the EU8 countries free access to their labour market immediately upon EU enlargement on 1 May 2004. Since that date EU8 workers have been free to migrate and take up employment in the UK without requiring work permits.

The decision to fully open the UK's labour market to EU8 nationals in May 2004 was clearly part of the government's strategy for migration management, expanding migration to fill vacancies in skilled and especially in low-skilled occupations, where employers found it difficult to legally employ migrants before EU enlargement.

In the run-up to May 2004, the government, business groups and others argued that more migrants were needed to fill labour and skills shortages in the UK, and to "do the jobs that British workers often cannot or will not do". The Prime

Minister, Tony Blair, expressed this view in a speech to the Confederation of British Industry (CBI) on 27 April 2004, i.e. just a few days before EU enlargement:

*“There are half a million vacancies in our job market and our strong and growing economy needs migration to fill these vacancies ... some [of which] are for unskilled jobs which people living here are not prepared to do ... [moreover] a quarter of all health professionals are overseas born ... 23 per cent of staff in our higher education institutions are non-UK nationals ... our public services would be close to collapse without their contribution”.*<sup>8</sup>

A study commissioned by the Home Office predicted that EU enlargement would lead to an average annual net migration of 5,000–13,000 EU8 nationals for the period up to 2010.<sup>9</sup> The government used these predictions to argue that giving EU8 workers free access to the British labour market would not lead to very large migration flows to the UK. Large parts of the media and public were sceptical. In the months leading up to May 2004, British newspapers were filled with stories about the imminent “flood” of East Europeans coming for benefits rather than work. The government responded to these concerns by establishing, in April 2004, a special “Workers Registration

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8. Blair (2004)

9. Dustmann et al (2003)



Scheme” (WRS) for EU8 workers taking up employment in the UK after 1 May 2004. Unless officially exempted from doing so, EU8 workers were required to register their employment with the Home Office within one month of taking up employment in the UK. To register, workers had to pay a one-off fee which in May 2004 was £50 (and subsequently increased to £70). Importantly, the WRS was not intended to limit EU8 nationals’ access to the labour market. Its stated policy objectives were to control EU8 workers’ access to certain welfare benefits and services; to encourage their participation in the formal economy; and to provide empirical data to facilitate monitoring of inflows and the formulation of evidence based policy.<sup>10</sup>

A year after opening the labour market to EU8 workers, the government began to implement policy changes that started a much more restrictive approach to low-skilled labour immigration from outside the EU. In 2005, the government closed the Sector Based Scheme for employing low-skilled non-EU workers in the hospitality sector. The main rationale for this decision was the expectation that workers from the new EU member countries were now able and willing to fill all vacancies in low-skilled hospitality jobs, thus making the need for non-EEA workers redundant. A second reason was concern, following a review of the system (Home Office 2005), about misuse of the SBS in the hospitality sector.

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10. see Home Office (2009)

## **EU enlargement in May 2004: Restrictions on employment of EU2 workers**

When Romania and Bulgaria – the EU2 countries – joined the EU in January 2007, the UK government decided to impose transitional restrictions on the employment of EU2 nationals in the UK. The restrictions were confirmed and continued following reviews in 2009 and 2011. Under the accession treaties, they have to be lifted by January 2014.

Under the UK's transitional restrictions, the employment of EU2 workers in the UK has been regulated by the rules of the UK's work permit system in operation in early 2007. Under this system, food processing and agriculture have been the only sectors open to the legal employment of low-skilled workers from Romania and Bulgaria (with a cap of 20,000 per year). There have, however, been two major exceptions: Romanians and Bulgarians have been allowed to legally work in the UK without a work permit if they are self-employed or students working part-time (for a maximum of 20 hours per week during term time, and full-time during vacations). Critics have pointed out – and the government has admitted – the significant challenge of enforcing these rules in practice.<sup>11</sup>

The reasons for the government's decision to continue to restrict the access of Romanian and Bulgarian workers to the British labour mar-

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11. There has been considerable anecdotal evidence of »bogus self-employment« of EU2 workers in the UK. See, for example, a recent Newsnight programme discussing the exploitation of self-employed EU2 workers in the UK, at <http://www.bbc.co.uk/news/business-19756137>

ket mainly stem from the significant and larger-than-expected inflow of workers from the ten countries that joined the EU in 2004. As shown in the next section of this chapter, the immigration of EU8 workers since May 2004 has been much larger than was expected by the government. There was significant public and political concern that free access for Romanians and Bulgarians could further increase the inflow of East European migrants. The Institute for Public Policy Research (IPPR), a leading left-leaning think-tank, estimated that free access would result in an additional inflow of about 55,000 Romanian and Bulgarian migrants in the first year after the two countries joined the EU.<sup>12</sup> However, others, such as the pressure group Migration Watch<sup>13</sup>, put the migration potential from Romania and Bulgaria much higher, mainly because the average wage levels in Romania and Bulgaria were even lower than those prevailing in most of the ten countries that became EU member states in 2004.

The government did not, at that time, make any predictions about the likely future immigration flow from Romania and Bulgaria but concerns about a further significant inflow of East European labour were widespread. The Conservatives, some Labour MPs and, interestingly, even the CBI all argued against free labour market access for Romanians and Bulgarians when their countries join the EU in order to “pause for reflection”. Richard

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12. IPPR (2006)

13. See <http://www.migrationwatch.co.uk/pressArticle/20>

Lambert, Head of the CBI argued in a speech in September 2006 that British business had benefited from EU enlargement in 2004 but that, given the large inflows during 2004–06, opening Britain’s labour markets to two more East European countries could have adverse impacts on social cohesion in the UK.<sup>14</sup>

### **The Points-based system: Since 2008**

In 2008, the UK introduced a points-based system, which comprised of three tiers for migrant workers from outside the EEA.<sup>15</sup> The UK Home Office described and differentiated these tiers based on skills and the perceived economic contribution to Britain:

- Tier 1: Highly skilled individuals to contribute to growth and productivity
- Tier 2: Skilled workers with a job offer to fill gaps in the UK labour force
- Tier 3: Limited numbers of low skilled workers needed to fill specific temporary labour shortages

The UK’s points based system was designed to make policy simpler and more “rational”. Increased selection and regulation of admission by skill, with higher skilled migrants facing fewer restrictions than lower skilled migrants, was at the heart of the new

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14. Lambert 2006

15. The UK’s points-based system has a total of five Tiers. Tiers 1-3 are for migrant workers, Tier 4 is for students and Tier 5 is for a range of temporary migrants, some of whom are given permission to work part-time.

policy. Aimed at “attracting the best and brightest” in the global race for talent, Tier 1 does not require a job offer in the UK. In contrast, Tier 2 is much more restricted with admission requiring a firm job offer, a successful resident labour market test (unless the job is on a shortage occupation list recommend by the Migration Advisory Committee (MAC), a panel of independent labour market experts) and a minimum threshold of points awarded based on prospective earnings and education (the education criterion was dropped in 2011). Tier 3 for low-skilled migrants from outside the EU has never been opened, partly because of the availability of workers from other EU countries, especially since EU enlargement in May 2004.

### **A net migration target and cap on skilled non-EU workers: 2010 onwards**

After coming into power in May 2010, the Conservative-Liberal Democrat Coalition government essentially maintained the structure of the points-based system but introduced an overall limit (cap) on the annual number of non-EU workers admitted to the UK. The cap on non-EU labour immigration is part of an overall policy goal of reducing overall net migration from over 200,000 to the “tens of thousands” by 2015. Other important policy changes included the raising of the skills threshold for Tier 2, which resulted in even greater selectivity by skill. Tier 1 for highly skilled workers was reduced from 15,000 to only 1,000 annually due to concerns about abuse rather than a policy

of not wanting to attract highly skilled workers. As Damian Green, the Immigration Minister, explained at the launch of the new policies: “We are sending out a clear message — the UK remains open for business and we want those who have the most to offer to come and settle here”.<sup>16</sup> So the emphasis on attracting the most highly skilled migrants remains, albeit based on a much stricter definition of what the current government calls “exceptional talent”.

## **Migration and migrants in the UK: What difference did EU enlargement make?**

This section first provides an overview of the changes in migration flows and stocks in the UK since the early 1990s, and then discusses key features of East European immigration and employment since EU enlargement in May 2004. The scale of EU8 immigration since 2004 has been significantly greater than that of EU2 immigration since 2007. Consequently, the available data about EU8 migrants is much better than the statistics about EU2 migrants. The discussion of East European migrants in this section thus focuses on EU8 migration, with a brief section toward the end discussing what we know about immigration of EU2 workers.

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16. Damian Green quoted in Home Office Press Release, Wed 16 March 2011, see <http://www.homeoffice.gov.uk/media-centre/press-releases/entrepreneurs-investors-uk>

Before presenting the data, a general caveat is in order. The data informing official migration statistics in the UK is characterised by important limitations and gaps. While many people disagree about the effects of immigration and the best policy response, there is widespread agreement that the available migration data is not good enough and needs to be improved. The government has in recent years invested in a Migration Statistics Improvement Programme but important limitations remain. For example, data on immigration and especially emigration flows is limited as it is based on a relatively small sample survey of passengers, which generates estimates with considerable margins of error.<sup>17</sup>

## **Immigration, net migration and migrants in the UK**

### ***Annual immigration doubled between the mid-1990s and late 2000s***

Immigration in the UK increased very rapidly over the past twenty years (see Figure 1). According to Long-Term International Migration (LTIM) estimates, which measure the migration of people with the intention to migrate for at least one year, total immigration increased from about 300,000 per year in the early and mid-1990s to close to 600,000 per year in the mid and late 2000s. While the increase

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17. for a recent overview of the top ten problems with the data, see Blinder et al (2011b).

in overall immigration in the late 1990s and early 2000s was caused by a rise in non-EU immigration (with immigration of British and other EU nationals remaining flat during that period), the rise in the mid-2000s was caused by a sharp increase in immigration of EU nationals. Over the past few years, EU (excluding British) immigration (around 200,000) accounted for about a third of all immigration (around 600,000).

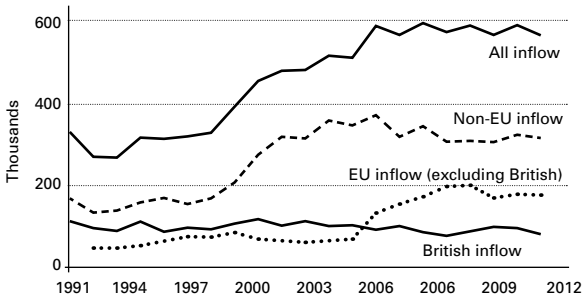
***Annual net migration peaked in 2004 and 2010 at around 250,000***

The great majority of migrants coming to the UK do not settle here permanently. Most leave again after a few years. Figure 2 shows the changes in net migration, defined as the difference between immigration (i.e. people moving to the UK for more than one year) and emigration (i.e. people leaving the UK for more than one year). Overall net migration increased from well under 100,000 in the 1990s, to around 150,000s in the early 2000s, and over 200,000 for most of the period since 2004. Net migration reached historic peaks in 2004 (the year of EU enlargement) and 2010.

***Overall net-migration is dominated by net-migration of non-EU nationals***

It is important to highlight the very considerable differences between net-migration of British nationals, other EU nationals and non-EU nation-



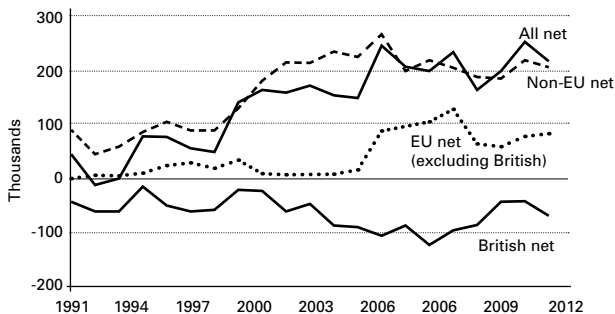
**Figure 1. Immigration by citizenship: 1991-2011**

Source: ONS, Long-Term International Migration estimates. December 2011 value still provisional

als. For the past eight years the negative net migration of British nationals (i.e. more British nationals leaving than arriving in the UK) has roughly offset the positive net migration of other (i.e. non-British) EU citizens. As shown in Figure 2, in most years since the mid-2000s, the magnitude of positive net migration of non-British EU nationals has been very similar to the magnitude of negative net migration of British nationals.

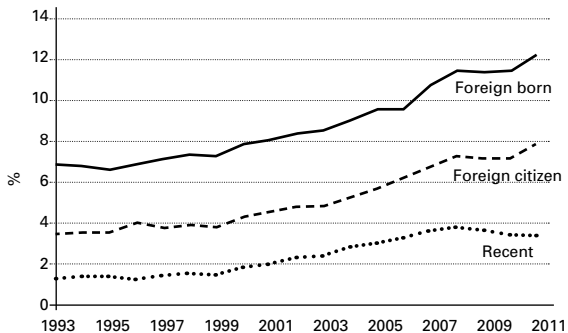
During 2004-2011, total net migration of EU citizens (i.e. combining net migration of British and other EU nationals) was 34,000 (i.e. the difference between  $-660,000$  British net migration and  $+694,000$  other EU net migration). Overall, net migration of non-EU nationals constituted 95 per cent of total net migration to the UK in 2011 (205,000).

**Figure 2. Net-migration by citizenship: 1991– 2011.**



Source: ONS, Long-Term International Migration estimates. December 2011 value still provisional

**Figure 3. Share of migrants in the population 1993- 2011.**



Source: Labour Force Survey. Quarter 4

***Foreign-born persons are now over 12 per cent of the population, up from less than 7 per cent in 1993***

As a result of the large increase in net migration, the number of migrants in the UK has grown considerably since the early 1990s. Data from the UK's Labour Force Survey (LFS) suggest that between 1993 and 2011, the foreign-born population in the UK almost doubled from 3.8 million (7 per cent of the population) to around 7.0 million (12.3 per cent). During the same period, the number of foreign citizens increased from nearly 2 million (3.6 per cent of the population) to 4.5 million (8 per cent). Figure 3 shows the population shares of foreign-born, foreign nationals and recent migrants, defined as foreign-born migrants who arrived in the UK less than five years ago, since 1993.

***Poland is now the top country of citizenship among foreign nationals in the UK***

India, Poland, Ireland and Pakistan are currently the top four countries of birth for the foreign-born (see Table 1) accounting respectively for 10 per cent, 8.5 per cent and 5.5 per cent of the total, followed by Germany and Bangladesh. Poland has in recent years become the top country of citizenship of foreign citizens, accounting for about 15.2 per cent of the total.<sup>18</sup>

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18. also see the chapter on Polish emigration in this book.

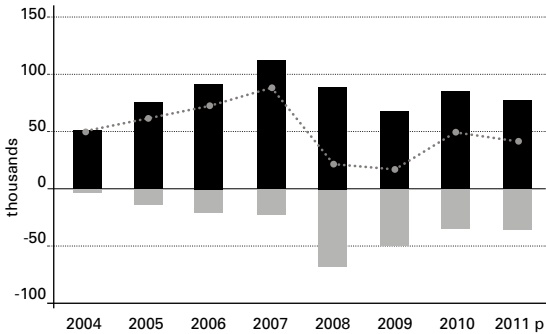
**Table 1.** Top ten sender countries of migrants in the UK, by country of birth and citizenship, UK 2011

<b>Country of birth</b>	<b>Share of all foreign born</b>	<b>Country of citizenship</b>	<b>Share of all foreign citizens</b>
India	10.0	Poland	15.2
Poland	8.5	India	7.5
Ireland	5.5	Pakistan	3.8
Pakistan	5.5	United States	3.4
Germany	4.2	Germany	2.9
Bangladesh	2.8	Lithuania	2.9
United States	2.7	Italy	2.7
South Africa	2.6	Portugal	2.6
Nigeria	2.5	France	2.5
Jamaica	1.9	Nigeria	2.4

Source: UK Labour Force Survey

Before EU enlargement in 2004, immigration from the EU8 countries was less than 20,000 per year. As shown in Figure 4, after EU enlargement EU8 immigration increased significantly to over 100,000 during 2004-2007 before slightly declining and stabilising at around 75,000 per year in 2010 and 2011. There has also been substantial emigration suggesting that a considerable share of EU8 migrants coming to the UK are short-term

**Figure 4.** Inflows, outflows and net-flows of A8 migrants.



Source: ONS, Long-Term International Migration estimates

migrants staying for only a few years. The LTIM data in Figure 4 suggest that just under half of all EU8 migrants entering the UK during 2004–2011 have left again. Emigration peaked in 2008, the year of the start of the economic downturn.

***EU8 migration flows since 2004 have been much larger than predicted ...***

The scale of labour immigration from the new EU member states since May 2004 has been significantly larger than that predicted by the government before EU enlargement. A study commissioned by the Home Office predicted that EU enlargement would lead to an average annual net migration of

5,000–13,000 EU8 nationals for the period up to 2010.<sup>19</sup> In practice, average annual net migration of EU8 nationals moving for more than one year was over 50,000 in that period.<sup>20</sup> There are a number of reasons to do with the methodological limitations of the study – many of which were explicitly mentioned in the study itself – that help explain its gross underestimate. The key reason, however, may have been the fact that, due to a lack of data on migration from EU8 countries to the UK, the predictions for post-enlargement immigration from the EU8 countries were based on a model whose parameters had to be estimated using historical data for a different set of countries. Another explanation for the gross underestimate of most official predictions was the assumption that all 15 member states of the pre-enlarged EU would open their labour markets to workers from the new EU member states at the same time. In the end, only three countries granted EU8 workers the unrestricted right to work in May 2004 (the UK, Ireland and Sweden) creating ‘diversion effects’ in the post-enlargement migration flows of EU8 workers

***...but they still constitute less than a fifth of all inflows***

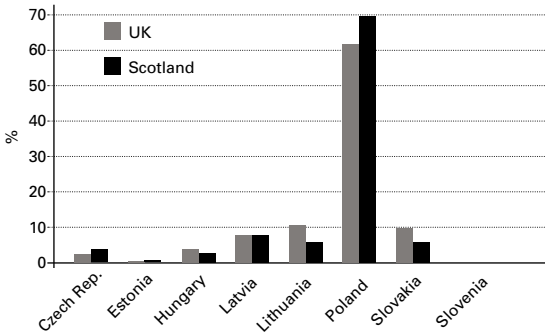
Although the inflows of EU8 workers have been large in terms of absolute numbers, they do not – as has sometimes been suggested in public and media

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19. Dustmann et al (2003)

20. ONS (2012)

**Figure 5.** Nationalities of WRS registered EU8 migrants  
May 2004 – April 2011, UK and Scotland



Source: McCollum et al 2012, based on WRS data

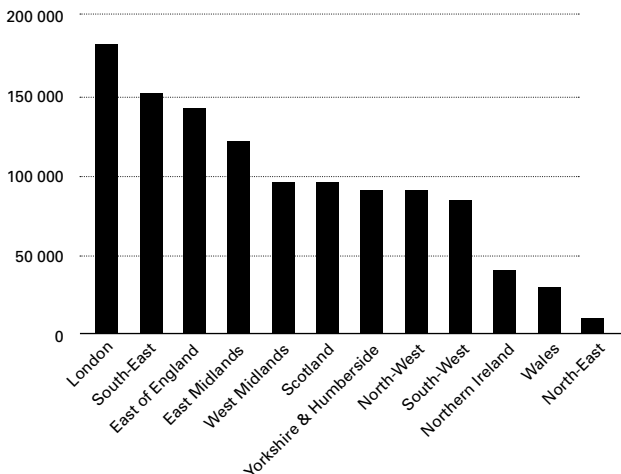
debates – constitute the majority of migration flows to the UK. EU8 immigration has constituted less than a fifth of all immigration flows and only about half of all EU inflows since 2004.

### ***The Polish dominate***

About two-thirds of EU8 citizens migrating to the UK since 2004 have been Polish citizens. The number of Polish-born migrants in the UK increased from fewer than 100,000 in the early 2000s to over half a million in 2010.<sup>21</sup>

21. ONS (2011)

**Figure 6.** WRS registrations May 2004 – April 2011 by Government Office Region



Source: McCollum et al 2012, based on WRS data

Figure 5 shows the nationalities of WRS registered migrants during May 2004 to April 2011 (when the WRS was in operation). The biggest sending countries after Poland are Lithuania, Latvia and Slovakia.

***EU8 migrants have been going to all parts of the UK***

A key feature of EU8 migration to the UK is its geographical dispersion across the UK. While



London has seen most registrations, EU8 workers have taken up employment across a wide range of different regions in the UK (see Figure 6).

***EU8 migrants are substantially younger and better educated than UK-born workers***

EU8 migrants are substantially younger and better educated than UK-born workers. Using data from the LFS, analysis by Dustmann, Frattini and Halls (2010) shows that male EU8 immigrants in the UK during 2004–2008 were, on average, 26.5 years of age, compared to 37.7 years among male UK-born workers. The corresponding figures for female EU8 and UK-born workers are 25.1 and 39.8 years, respectively.

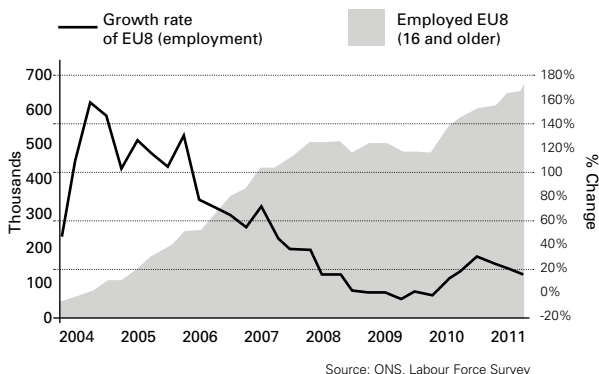
Dustmann, Frattini and Halls also show that 11.9 per cent of male EU8 immigrants have “low education” (defined as having left full-time education at 16 or younger), compared to 58.3 per cent among UK-born men. At the same time 32 per cent of male EU8 immigrants have high education (defined as having left full-time education at 21 or older), compared to 17.6 per cent among UK-born men. The differences for women are quite similar.

**EU8 migrants in the labour market**

The employment of EU8 migrants increased by a factor of six since 2004

The employment of EU8 nationals increased from less than 100,000 in 2004 to over 600,000 in 2011 (see Figure 7). EU8 employment increased

**Figure 7.** EU8 citizens level of employment in the UK (16 and older).

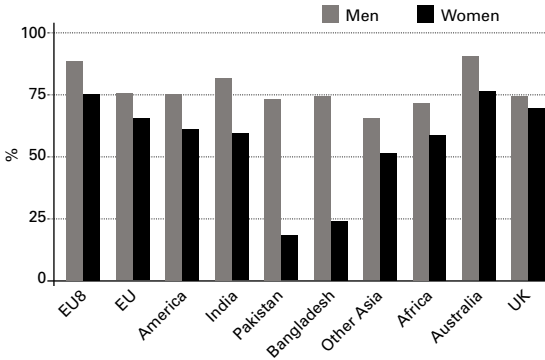


rapidly during 2004-07, stabilized during 2008-09 (the onset of the economic downturn) and then continued to increase in 2010 and 2011.

### **EU8 workers have among the highest employment rates in the UK**

The employment rate measures the share of employed persons in the total working-age population. As shown in Figure 8, there is considerable variation in the employment rates of workers born in different countries. The employment rates of male and female EU8 migrants in the UK are

**Figure 8.** Employment rate by country and region of birth, 2011.



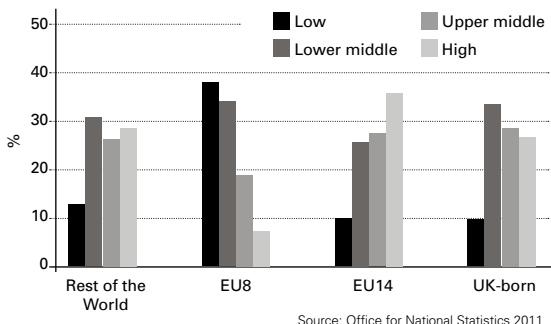
Source: Labour Force Survey

significantly higher than those of UK-born people and most other migrants.

***Most EU8 workers are employed in low-skilled occupations***

One of the most important features of EU8 migrants in the UK labour market is their concentration in low-skilled jobs. As shown in Figure 9, almost 40 per cent of EU8 workers are employed in low-skilled occupations compared to 10–14 per cent among workers born in the UK, the “old EU member states” (before EU enlargement in 2004) and non-EU countries. Less than 10 per cent of

**Figure 9.** Percentage of workers in each job-skill level by country-of-birth groups, Q1 2011.



EU8 workers are employed in high-skilled occupations compared to over a quarter among UK-born workers.

The fact that EU8 migrants are on average better educated than British workers but are at the same time more likely to be employed in low-skilled occupations means that many EU8 workers are employed in jobs that do not correspond to their skills.<sup>22</sup>

The employment of EU8 migrants in low-skilled occupations has been the main factor driving the rapid rise in the share of foreign-born workers in low-skilled employment in the UK. Labour Force

22. also see Clark and Drinkwater 2008

Survey data show that in early 2002, 9 per cent of workers in low-skilled occupations were non-UK born. This more than doubled to 20.6 per cent by early 2011. During this period there was almost no change in the total number of workers employed in these occupations (about 3.2 million), but the number of UK-born workers declined from 3.04 million to 2.56 million and the number of non-UK born workers increased from 298,000 to 666,000. The rise in the employment of EU8 workers accounted for the majority of this increase.<sup>23</sup>

***On average, EU8 migrants are among the lowest earners in the UK***

Partly as a consequence of being concentrated in low-skilled occupations, EU8 workers are among the lowest wage earners in the UK labour market. Table 2 shows that the average hourly earnings for both men and women from EU8 countries are considerably lower than those of workers born in Britain, the EU as a whole and many other low-income regions and countries.

**EU2 immigration and employment**

As discussed in the section “The UK’s labour immigration policies since the early 2000s”, unlike EU8 migrants, EU2 migrants were not granted unrestricted access to the UK labour markets when their countries joined the EU in January 2007. Data

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23. ONS (2011)

**Table 2.** Average hourly earnings (£) by country of birth and gender, 2011.

<b>Country</b>	<b>Men</b>	<b>Women</b>
EU8	9,01	8,1
EU	16,4	13,64
America	16,04	13,76
India	14,35	12,48
Pakistan	11,6	11,79
Bangladesh	10,05	9,84
Other Asia	13,54	12,03
Africa	14,64	11,89
Australia	23,74	19,83
UK	13,9	11,32

Source: Rienzo (2012), using data from the LFS. All figures are based on both part-time and full-time workers.

about EU2 migration to the UK is very limited. The sample of the International Passenger Survey (IPS) is too small to provide reliable estimates of EU2 inflows and outflows as the numbers have been much smaller compared to those involved in EU8 migration.

**Table 3.** Estimated Bulgarian and Romanian population resident in the United Kingdom, by country of birth

Year	Estimated population (000s)	
	Bulgaria	Romania
2004	<14	14
2005	15	18
2006	<17	17
2007	<20	23
2008	33	41
2009	37	56
2010	52	79
Year to July 2011	52	82

**Notes:** Estimates are based on the Annual Population Survey (APS) which is the Labour Force Survey plus the various sample boosts.

Source: Migration Advisory Committee (2011, A2 report)

***The number of EU2 migrants in the UK increased from fewer than 40,000 in 2006 to over 130,000 in 2011***

Table 3 uses data from the Annual Population Survey (APS) to show estimates of the number

of Bulgarian and Romanian migrants in the UK. Both Romanian and Bulgarian migrants started from a similar low base (around 15,000) in 2004. The number of both groups increased considerably during 2004–2011, but the growth was faster among Romanian migrants (estimated 82,000 in 2011) than Bulgarian migrants (52,000). These are official statistics based on a sample survey with considerable margins of errors.

***Like EU8 workers, EU2 workers are younger, better educated, and more likely to be employed in low-skilled occupations than British-born workers***

The characteristics of EU2 workers are quite similar to those of EU8 workers, especially when compared to the characteristics of UK-born workers. Labour Force Survey data (reported in MAC 2011) suggest that:

- EU2 workers are on an average younger than UK-born workers. In 2010–2011, the median age of Bulgarian-born and Romanian-born workers in the UK (31 and 28 respectively) was considerably lower than the median age of UK-born workers (40).
- EU2 workers are better educated than UK-born workers. In 2010–2011, 20 per cent of working-age UK-born individuals recorded in the LFS left school aged 21 or above, compared to 49 per cent of Bulgarian-born and 35 per cent of Romanian-born.



- EU2 workers are more likely to be employed in low-skilled occupations than UK-born workers. In 2010-11, about a quarter of Romanian migrants and about a third of Bulgarian migrants in the UK were employed in elementary occupations, compared to 10 per cent of UK-born workers.

### **Effects of the economic downturn**

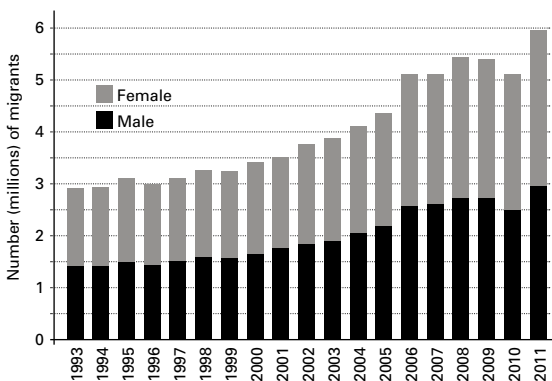
How has the economic downturn that started in 2008 affected the number of migrants in general, and EU8 workers in particular? And what do we know about the vulnerability of migrant workers during the current recession?

As the economic downturn was global, affecting most countries to varying degrees, it is difficult to predict how migration flows to the UK would be affected (i.e. if economic conditions in receiving and ending countries deteriorate at similar rates, the economic incentives to migrate between these two countries may not be vastly changed). It is also important to keep in mind that the economic downturn can be expected to have different impacts on different types of migration, i.e. labour migration can be expected to be more affected than migration for the purpose of family reunion and study.

***The economic downturn was not accompanied by a sustained reduction in the stock of migrants in the UK***

Data from the LFS suggest that the total foreign-born population in the UK stabilised in 2008-

**Figure 10.** Total number of foreign-born working-age people in the UK



Source: Labour Force Survey, Q4

09, declined in 2010 and increased again in 2011 (see Figure 10). There is no evidence of a large and sustained reduction in the number of foreign-born persons during the recession.

The recession saw a temporary stabilisation of the employment of EU8 workers in 2008-09, but the growth in EU8 employment continued in 2010.

As previously shown in Figure 7, following continuous increases since 2004 the number of employed EU8 workers stabilised in 2008 and 2009 but started to increase again in 2010. This trend is confirmed by flow data. Following continuous increases since 2004, the net migration of EU8

national declined in 2008 (when there was a considerable drop in inflows and a rise in outflows) and 2009, and increased again in 2010 (see Figure 4).

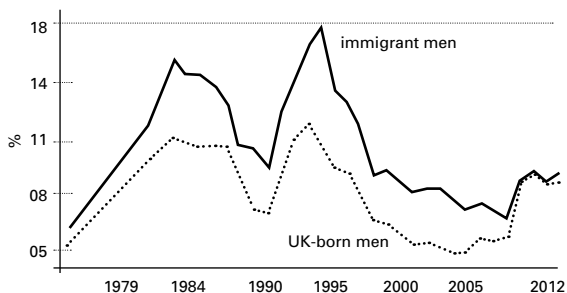
***There are indications that migrant workers may have become less vulnerable during a recession than British-born workers***

Historically, immigrants used to be more vulnerable during recessions than UK-born workers, e.g. unemployment rates for immigrants have typically risen faster and further in a recession.<sup>24</sup> But there are indications that this may not have been the case in the current downturn. Figure 11, taken from Wadsworth 2012, shows that unemployment rates of foreign-born men increased much faster than the unemployment rates of UK-born men during the recessions in the early 1980s and early 1990s. However, this has not been the case in the latest recession which began in 2008. In 2008-09 the unemployment rates of UK-born male workers increased much faster than those of immigrant men, leading to convergence of the rates. While the reasons for the reduced vulnerability of migrants during a recession still need to be better studied, Wadsworth (2012) suggests that one of the reasons may relate to the skill levels of migrants compared to UK-born workers. During the past recessions migrants were, on average, less skilled than British workers, whereas today's migrants are, on average,

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24. Wadsworth (2012)

**Figure 11.** Unemployment for immigrant men and UK-born men.



Source: Wadsworth 2012, based on data from LFS

better skilled. The greater relative skill level may make migrant workers less vulnerable – or at least no longer more vulnerable – than British workers during the current downturn.

## **The effects of EU8 workers and other migrants on the UK: What do we know?**

This section discusses the effects of immigration in general, and East European immigration in particular, on the UK. Immigration generates a wide range of consequences for individuals, communities and the country as a whole. Impacts differ in the short

run and long run and across different sectors, occupations and regions of the UK. Rather than aiming for a comprehensive discussion, the focus is on discussing the available evidence on selected effects that have received the most attention in public debates. These include impacts on the labour market, public finances, and public services (including social housing). For each of these impacts, I briefly discuss relevant theory, the evidence on impacts of all immigration and the available evidence on the specific effects of East European immigration.

## **Impacts on the labour market**

It is clear that employers have greatly benefited from the large inflow of EU8 workers and other migrant workers over the past decade. But have these benefits been generated at the expense of British workers?

### **Theoretical considerations**

In a simple theoretical model of the labour market, the impacts of immigration on the labour market critically depend on the skills of migrants, the skills of existing workers, and the characteristics of the host economy.<sup>25</sup> They also differ between the short and long run when the economy and labour demand can adjust to the increase in labour supply. The immediate short run effects of immigration on the wages and employment of existing workers

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25. e.g. Dustmann, Glitz and Frattini (2008)

critically depend on the extent to which migrants have skills that are substitutes or complements to those of existing workers.<sup>26</sup> If the skills of migrants and existing workers are substitutes, immigration can be expected to increase competition in the labour market and drive down wages in the short run. The closer the substitute, the greater the adverse wage effects will be. Whether and to what extent declining wages increase unemployment or inactivity among existing workers depends on workers' willingness to accept the new lower wages. If, on the other hand, the skills of migrants are complementary to those of existing workers, all workers experience increased productivity, which can be expected to lead to a rise in the wages of existing workers.

In addition to expanding labour supply, immigration can also increase the demand for labour.<sup>27</sup> Migrants expand consumer demand for goods and services. In the medium to long run, immigration can be expected to lead to more investment. Both effects result in greater demand for labour and thus increased wages and employment in the economy. In other words, the number of jobs in an economy is not fixed ("the lump of labour fallacy"). Immigration can increase competition for existing jobs but it can also create new jobs. The extent to which investment and labour demand respond to immigration depends on the characteristics of the

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26. e.g. Borjas (1995)

27. see, for example, the discussion in MAC (2012)

economy.<sup>28</sup> During an economic downturn labour demand may respond more slowly than during times of economic growth.<sup>29</sup>

A key insight from these theoretical considerations is that the impact of immigration on the wages and employment opportunities of existing workers is always specific to time and place. This means that the results of empirical research (discussed below) always only apply to the time and place under consideration.

## **Empirical evidence on wage effects**

Empirical research on the labour market effects of immigration in the UK suggests that immigration has a relatively small effect on average wages but a more significant effect on wage distribution, i.e. on low, medium and high paid workers.

Focusing on the period 1997–2005 when the UK experienced significant labour immigration, Dustmann, Frattini and Preston (2008) find that an increase in the number of migrants corresponding to 1 per cent of the UK-born working-age population resulted in an increase in average wages of 0.2 to 0.3 per cent. Another study, for the period 2000–2007, found that a one percentage point increase in the share of migrants in the UK's working-age population lowers the average wage by 0.3 per cent.<sup>30</sup> These studies, which relate to different

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28. e.g. Ruhs (2008)

29. MAC (2012)

30. Reed and Latorre (2009)

time periods, thus reach opposing conclusions but they agree that the effects of immigration on average wages are relatively small.

The effects of immigration on workers within specific wage ranges or in specific occupations are more significant. The greatest wage effects are found for low-waged workers. Dustmann, Frattini and Preston (2008) find that each 1 per cent increase in the share of migrants in the UK-born working-age population leads to a 0.6 per cent decline in the wages of the 5 per cent lowest paid workers and to an increase in the wages of higher paid workers. Similarly, another study focusing on wage effects at the occupational level during 1992 and 2006 found that, in the unskilled and semi-skilled service sector, a one percentage point rise in the share of migrants reduced average wages in that occupation by 0.5 per cent.<sup>31</sup>

The available research further shows that any adverse wage effects of immigration are likely to be greatest for resident workers who are themselves migrants. This is because the skills of new migrants are likely to be closer substitutes for the skills of migrants already employed in the UK than for those of UK-born workers. Manacorda, Manning and Wadsworth (2007) analyse data from 1975–2005 and conclude that the main impact of increased immigration is on the wages of migrants already in the UK.

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31. Nickell and Salaheen (2008)



### **Empirical evidence on employment effects**

Does immigration create greater unemployment or greater inactivity among existing workers? The first systematic study of this issue used data for 1983–2000 to analyse how changes in the share of migrants impact on employment, labour market participation and unemployment of existing workers.<sup>32</sup> It concluded that immigration had no statistically significant effect on the overall employment outcomes of UK-born workers. The study did, however, find statistically significant effects on specific educational groups of UK-born workers: immigration was found to have adverse effects on employment, labour market participation and unemployment of UK-born with intermediate education (defined as O level and equivalent) and a positive impact on employment outcomes of UK-born workers with advanced education (A-levels or university degrees).

A separate study carried out by researchers at the Department of Work and Pensions (DWP) analysed the impact of labour immigration of EU8 workers on claimant unemployment during May 2004–November 2005.<sup>33</sup> The study found little evidence of an adverse effect. There is some evidence to suggest that, just like the impact on wages, the effects of immigration on unemployment differ between the short and long run. An OECD study of the impact of immigration on the unemployment of domestic workers in OECD countries

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32. Dustmann, Fabbri and Preston (2005)

33. Lemos and Portes (2008)

(including the UK) during 1984–2003 found that an increase in the share of migrants in the labour force increases unemployment in the short to medium term (over a period of 5–10 years) but has no significant impact in the long run.<sup>34</sup>

Two recent studies have provided additional insights on the impact of immigration on employment in the UK using a time period which includes the latest recession. Lucchino, Rosazza-Bondibene and Portes (2012) used National Insurance Number (NINO) registrations data from 2002 to 2011 to explore the impact of immigration on claimant count rates (i.e. a proxy for unemployment) in 379 local authorities in England. The results suggest that there is no impact of immigration on the claimant count rate. This result holds even during periods of low economic growth or recession.

Research by the MAC studied the impact of migrants on the employment of UK-born people using data from the LFS for 1975–2010.<sup>35</sup> The study suggests that, overall, migrants have no impact on UK-born employment. However, the MAC also analysed the specific impacts of EU and non-EU migrants and also distinguished between two sub-periods: 1975–1994 and 1995–2010. It found that non-EU immigration was associated with a reduction in the employment of UK-born workers during 1995–2010. No statistically significant effects were found for EU immigration.

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34. Jean and Jimenez (2007)

35. MAC (2012)

### **Limitations and remaining questions**

Studies of the impacts of immigration on the labour market face a number of methodological challenges<sup>36</sup>, so the findings from the existing empirical literature in the UK cannot be taken as presenting clear and firm conclusions. Importantly, none of the available research evidence in the UK has explicitly focused on the labour market effects of immigration during the current economic downturn. As the impacts of immigration critically depend on time and place, it is possible that the effects on wages and employment of existing workers during the current economic crisis are different from those found in the available studies (there is some tentative evidence of this in the MAC 2012 study). In particular, there has been no systematic study of the effects of immigration on youth unemployment during the downturn, which was 20 per cent in early 2011.

There is a growing research literature exploring the characteristics and determinants of employer demand for migrant labour including the drivers of recruitment decisions. This research has found that in some sectors, especially but not only in low-waged sectors such as agriculture, food processing, hospitality and social care, employers have a clear preference for employing migrant over British workers.<sup>37</sup> A key question for further research is how this finding can be reconciled with the finding of the research on labour market effects of immi-

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36. see the discussion in Ruhs and Vargas-Silva (2012)

37. see, for example, Anderson and Ruhs (2010), Anderson et al (2006)

gration (reviewed above), that East European and other immigration does not generate large adverse employment effects for British workers. It is of course possible that the increasing employment of migrant workers generated greater output and labour demand overall which may have created new jobs for British workers but whether and to what extent this has happened in practice is an important question for future empirical research.

## **Fiscal effects**

### **Theoretical considerations**

The net fiscal impact of immigration is the difference between the taxes and other contributions migrants make to public finances and the public benefits and services they receive.

The net fiscal impact of immigration is determined by a large number of different factors, which makes it hard to measure in practice.<sup>38</sup> A key set of factors relates to migrants' characteristics such as their skill levels, age distribution, family composition, health status, fertility patterns, and the temporary versus permanent nature of immigration. Among these characteristics, the skill level of migrants (and its correlation with the other characteristics) is likely to be one of the main determinants of their fiscal impacts in the short run. High-skilled migrants working in highly paid jobs can be expected to pay more taxes than low-skilled migrants in low-wage

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38. see, for example, the discussion in Rowthorn (2008)

jobs. At the same time, the participation in welfare programmes tends to decrease with skill level, i.e. higher skilled migrants are less likely to be eligible for means tested welfare transfers than low-skilled migrants.

There are two key assumptions and caveats. First, not all skilled migrants are doing skilled work in the UK. Second, as is the case in other countries with high levels of immigration rates, some migrants are explicitly excluded from full access to certain types of benefits in the UK. For instance, many non-EU nationals with permission to reside in the UK have “no recourse to public funds”. As such, they are not able to claim most state pay benefits, tax credits or housing assistance. In 2004, the UK also imposed restrictions on selected benefit claims by EU8 nationals; only those who have worked in the UK for a full year (consecutively) can claim certain means-tested income-related social security benefits.

The fiscal impacts of immigration also depend on the effects of migrants on the labour market, especially whether and to what extent the employment of migrants creates more unemployment among domestic workers.

## **Empirical evidence for the fiscal effects of immigration**

Carried out for the Home Office in 2002, the first systematic study of the fiscal effects of migrants (defined as foreign-born persons) concluded that

migrants generated a net fiscal contribution of + £2.5 billion in 1999/2000.<sup>39</sup> This study was updated and slightly modified by the Institute for Public Policy Research in 2005.<sup>40</sup> The IPPR study concluded that, in the tax year 2003-04, the net fiscal impact of migrants was -£0.4 billion.

Rowthorn (2008) argued that the IPPR study required a number of adjustments as it failed to take account of a number of items including items that are “disfavourable” to the net-fiscal impact of immigrants (such as the costs associated with asylum support, ethnic relations support, and some medical costs); and items that are “favourable” to migrants (such as the “public good” nature of defence and the fact that in 2003/4 the government had a fiscal deficit and even the non-migrant population paid less in taxes than they received in government expenditure). Rowthorn (2008) showed that, depending on which adjustments are included, the net fiscal contribution of migrants ranges between -£7.3 billion and +£7.5 billion in 2003-04. Including all adjustments that he discusses, Rowthorn’s own estimate of the net fiscal impact of immigration was £+0.6 billion for the fiscal year 2003-04. Rowthorn also emphasises that the overall fiscal effects of immigration, whether positive or negative, are likely to be very small in the context of overall GDP.

The most negative estimates of the net fiscal

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39. Gott and Johnson (2002)

40. Sriskandarajah et al (2005)

effects of immigration in the UK have been provided by a 2006 study by MigrationWatch, a pressure group campaigning for reduced immigration (-£5.0 billion in 2003-04). MigrationWatch have more recently argued, in line with the Rowthorn (2008) study, that “any impacts, positive or negative, are likely to be very small.”<sup>41</sup>

An obvious but important point to take away from the existing literature is that any estimate of the fiscal impacts of immigrants critically depends on how migrants are defined (e.g. all foreign born or foreign nationals only?), how migrants’ children are treated (e.g. do the children born to migrants in the host country count as migrants? How should children born to one migrant parent and one non-migrant parent be treated?), and exactly what items are included under “expenditure” and “contributions” in the assessment. So, as always, the assumptions made in these studies can play an important role in driving the results.

## **Evidence for the fiscal effects of EU8 migration**

A study evaluating the fiscal impact of immigration from the EU8 countries found that in the four fiscal years after 2004 (i.e. 2005-2006, 2006-2007, 2007-2008 and 2008-2009), EU8 migrants made a positive contribution to public finances.<sup>42</sup> As previously shown in the section “Migration and migrants in

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41. MigrationWatch (2012)

42. Dustmann, Frattini and Halls (2010)

the UK: What difference did the EU enlargement make?”, EU8 migrants work mostly in the lower waged sectors but they have higher employment rates than most other workers, which helps explain why the fiscal effects is positive despite their low wages.

The study by Dustmann, Frattini and Halls (2010) also finds that even if EU8 migrants had the same characteristics as UK-born individuals they would still be less likely to receive government benefits and social housing than UK-born workers. Until 2011, EU8 nationals faced limitations on benefits claims as only those who have worked in the UK for a full year (consecutively) can claim certain benefits. The study addressed this problem by only including in the analysis EU8 migrants who had stayed over a year in the UK. However, the study does not take into account the possible displacement of UK-born workers by migrants.

### **Impacts on public services and social housing**

There is no specific research evidence on the impact of EU8 migrants on public services, so the discussion below focuses on research about the effects of immigration as a whole. Much of the available evidence is discussed in the MAC (2012).

### **Public services**

Immigration affects both the *consumption* of public services (e.g. migrants make use of education, health, and social care services) as well as the



*provision* of public services (e.g. many migrants are employed in public sector occupations that help provide public services, such as the NHS). Research evidence in this area is generally very limited, partly due to considerable gaps and limitations in the data. Importantly, a key challenge for the analysis of consumption of public services is that, for many public services, when the service is delivered there is no systematic collection of data about the user's migration status and nationality.

Given that migrants tend to be, on average, young, healthy, relatively well educated, skilled and in employment, they can be expected to consume below-average levels of health and social care services relative to the average existing UK resident, at least in the short term. There is some empirical support that this hypothesis applies in practice (although the data and research are limited and based on various assumptions). Recent empirical research by the National Institute for Economic and Social Research (2011) found that, in 2009-10, the per capita consumption of education, health and social care services of migrants who arrived less than five years ago was lower than that of the UK-born population. Comparing all migrants with the UK-born population, the study found that migrants' per-capita consumption of health and social care services was slightly lower but consumption of education services was higher than that of the UK born.

There is very little empirical research into the effects of immigration on the provision of public

services.<sup>43</sup> In theory, the employment of migrant workers may affect the cost of service provision (e.g. by lowering or slowing down the growth of wages in these occupations) and/or impact on the quality and scope of service provision. These issues are very complex and data is extremely limited, which is why there is a large gap in the empirical evidence base.

## **Social Housing**

Data from the LFS suggest that UK-born and foreign-born persons have very similar rates of taking up social housing in the UK. Foreign-born persons have significantly lower ownership rates than the UK-born. On the other hand, foreign-born individuals are three times as likely to be in the private rental sector, compared to the UK-born.<sup>44</sup>

Dustmann, Frattini and Halls (2010) show that EU8 migrants are much less likely to take up social housing than other migrants and UK-born people. During 2004–2008, 6.5 per cent of male EU8 immigrants (and 7.7 per cent of female EU8 immigrants) were in social housing, compared to 15.9 per cent among UK-born men (and 18.3 per cent among UK-born women).

The Centre for Economic Performance (2010) estimates that migrants are 5 per cent less likely than the UK-born to be in social housing on arrival

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43. see, however, Dustmann and Frattini (2011) who analyse the contribution of immigration to employment in public sector occupations

44. Vargas-Silva (2011b)

after controlling for migrant's characteristics. They also find that the probability of migrants using social housing benefits increases by 0.08 percentage points per year in the UK.

While there are no major differences in the use of social housing between the foreign-born and the UK-born populations, there have been claims in the popular press that migrants often receive priority status in the allocation of social housing. Several studies have failed to find evidence supporting this claim.<sup>45</sup> However, social housing allocation policies vary somewhat by location, making it difficult to generalise these findings.

## **Limitations of the evidence**

As emphasised above, there are very considerable gaps and limitations in the available evidence base on the effects of immigration on public services (a little less so on social housing). Many issues have been inadequately analysed, mainly due to poor data. The rapid rise in the inflows of East European migrants has been accompanied by a lot of anecdotal evidence about some public services “not coping” with the pace of the increase. This includes, for example: some schools saying they had not been prepared and adequately funded to quickly adjust to the need to teach many more children with English language difficulties; some hospitals saying that migrants sometimes turn up at

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45. e.g. Rutter and Latorre (2009), Robinson (2010)

A+ E services when they should have gone to their GPs; and many councils complaining that they are underfunded to deal with the rapidly increasing population in their area. There is very little research to systematically assess the hard evidence base for these alleged impacts and for the effects of immigration on the consumption and provision of public services more generally. All these issues remain important areas for future research (assuming the current data limitations can be improved).

## **Implications for public and policy debates**

Few people dispute that East European immigration in the UK has greatly benefited employers and migrants themselves. There remains significant public debate, however, about the impacts of EU8 immigration on the labour market. The available research evidence has found little to no evidence of negative effects of EU8 immigration on the wages and employment rates of British workers. However, existing studies have not yet analysed in any detail the effects of EU8 immigration on workers in *specific* low-waged occupations and/or sectors. There is also the important question of whether and how we can reconcile the findings from the econometric research that EU8 immigration has had no significant adverse effects on the employment of British workers, with more qualitative research on the recruitment practises of employers suggesting that many employers in low-waged

sectors have developed a preference for recruiting EU8 (and other) migrant workers over British workers. Further research of these issues is needed.

Politically, the decision to give EU8 workers unrestricted access to the labour market immediately upon EU enlargement in May 2004 turned out to be a very heavy liability for the Labour party. Largely but not only because of the scale of East European immigration, the previous Labour Government is widely perceived to have “failed” the country on immigration. This is why, in his first major speech on immigration, the current leader of the Labour Party, Ed Miliband, felt compelled to give what was in effect a public apology for the Labour Party’s decision to open the UK’s labour markets to EU8 workers in 2004.

In the context of the current economic downturn, a key policy priority, agreed by both major parties (Conservatives and Labour), is to reduce the rapid growth in the reliance on migrant (including especially EU8) workers in low-skilled occupations in the UK. The political difficulty is that since most low-skilled labour immigration comes from the EU8 countries, it cannot be stopped at the border (because of free movement within the EU).

A key insight of the increasing body of research on employer demand for migrant labour<sup>46</sup> is that the UK’s rapidly growing reliance on migrant workers is not simply the result of “lax immigration controls”. Neither can it be reduced to slogans such

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46. e.g. Anderson and Ruhs (2010)

as “exploitative employers”, “lazy Britons won’t do the work”, or “migrants are needed for economic recovery”. The UK’s increasing demand for migrant workers arises from a broad range of institutions, public policies and social relations. Public policies have often incentivised – and in some cases left little choice for – employers in some sectors and occupations to respond to shortages through the employment of migrant workers. The UK has long prided itself on its labour market flexibility and its relatively low levels of labour regulation. Together with a range of policies from training to housing, this stance has contributed to creating a growing demand for migrant workers.

For example, in the construction sector, where many East European workers find employment, the difficulty of finding suitably skilled British workers is critically related to low levels of labour market regulation and the absence of a comprehensive vocational education and training system.<sup>47</sup> The industry is highly fragmented. It relies on temporary, project-based labour, informal recruitment and casualised employment. These practices may have proved profitable in the short term, but they have eroded employers’ incentive to invest in long-term training. As a consequence, vocational education provisions are inadequate for the sector. By contrast, many other European states have well-developed training and apprenticeship programmes, producing workers with a wide range

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47. Chan, Clarke and Dainty (2010)

of transferable skills. It is often these workers who are doing jobs in Britain, such as groundwork, or foundation-building, which is low-paid and which has no formal training requirement, despite years of lobbying by contractors.

The policy implication is that reducing or at least slowing down the growth in the UK's reliance on migrant workers, especially in low-skilled occupations – a policy goal of the current government – will not happen without fundamental changes to the policies and institutions that create the demand. These changes include more labour market regulation in some sectors, more investment in education and training, better wages and conditions in some low-waged public sector jobs, improved job status and career tracks, more regulation of employment agencies and a decline in low-waged agency work.

The role of labour market regulation in reducing employer incentives for recruiting migrant workers is perhaps best illustrated by the Swedish experience with EU8 immigration. As discussed in the chapter on Sweden in this book, like the UK and Ireland, Sweden decided not to impose any transitional restrictions on the employment of EU8 migrants when the EU8 countries joined the EU in 2004. Compared to Ireland and the UK and controlling for population size, Sweden experienced much lower inflows of EU8 workers. Why? A key reason lies with Sweden's extensive labour market regulation. Sweden's labour market structures and regulations meant that any East European workers employed in Sweden needed to be offered exactly

the same wages and employment rights as Swedish workers. Most wages and benefits in Sweden are set via collective bargaining and, with most workers in unions, wages and benefits adhere to industry-wide standards. At the time of EU enlargement in 2004, Sweden introduced a number of measures aimed at preventing immigration from undermining the effectiveness of existing labour market regulations and collective bargaining structures. The requirement of equal rights in Sweden's highly regulated labour market effectively meant that, from the employers' view, migrant workers were as expensive as Swedish workers. This explains, to a considerable degree, why Sweden has experienced relatively low levels of labour immigration of EU8 nationals (just over 50,000 EU workers during 2005-2011). The insistence of equal labour rights in practice made Sweden's policies towards admitting and employing EU8 workers much more restrictive than suggested by its formal decision to grant EU8 nationals immediate access to the labour market. Of course, there have been other factors at work as well, including differences in language (English vs. Swedish) and economic conditions. I am arguing that the differences in labour market regulation in the UK and Sweden played an important but not the only role in explaining differences in the scale of EU8 immigration in the two countries.







## Chapter 4. EU Enlargement and Labour Migration: The Polish Experience.

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**A large increase in the scale** of migration after the 2004 EU enlargement has affected the economies of both sending and receiving countries. According to one estimate as many as 2.6 per cent of the population from EU8 had moved to EU15 by the end of 2007.<sup>1</sup>

The main aim of this chapter is to discuss the economic consequences of migration for the main sending country in the EU, namely Poland. Contrary to a large number of studies examining the impact of migration on receiving countries, empirical literature focusing on sending economies, although growing, is still modest. This study will specifically look at the impact of recent emigration from Poland on GDP, wages, unemployment, skill shortages as well as the effect of remittances and high-skilled migration. The reasons for the selection of these variables include their importance and the availability of research.

## **Theoretical background**

This discussion begins with outlining basic theoretical underpinnings related to the economic consequences of migration for sending countries with emphasis on labour market effects. Due to a relatively small scope of this study, only selected aspects will be discussed.

According to the classical economic theory the direct effect of the outflow of labour is a decline

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1. Baas et al. (2009)

in aggregate output. Owing to a lower supply of workers in the country, capital becomes more abundant in the short run. As a result, productivity and GDP per capita are expected to rise. In the long run, capital adjusts to changes in labour supply, which makes capital-labour ratio return to its pre-emigration level. This may further dampen positive effects for sending countries. However, as will be shown in the later part of this study, emigration may lead even to an increase in GDP when remittances and migration-induced human capital accumulation are taken into consideration.

Similarly, as indicated by the theory, a negative labour supply shock triggered by migration results in an increase in wages of workers who remain in the source country, at least in the short run. In the long run the effect of migration on wages is likely to wear off as the economy adjusts to lower labour supply. The wage effect is, however, not clear-cut. A few factors should be considered. Firstly, the magnitude of the wage effect is determined by the size of the outflow as well as the educational composition of migrants compared to non-migrants. Emigration may affect skill groups to a different extent and thus change the distribution skills in the source country. Workers whose skills are in short supply due to emigration enjoy wage gains, whereas others may even lose. Aydemir and Borjas (2005) showed empirically that immigration reduced wage inequality in Canada due to the fact that immigrants in Canada tend to be positively selected with respect to education, while it reinforced wage inequality

in the US because immigrants in this country are more likely to be low skilled. Secondly, the wage effect also depends on the degree of complementarity and substitutability between workers in the source country. Workers whose skills are complementary to those of emigrants may experience negative effect on wages. Conversely, workers with skills comparable to those of emigrants may gain in terms of wages. Thirdly, the adjustment process to a labour supply shock differs between countries. Some economies may respond with the changes in the structure of the industry. Wages may even decrease in certain sectors if the decline in labour demand surpasses labour supply shock.

What then will be the impact of emigration on employment levels? A standard textbook model assumes that in an economy with classical unemployment, small-scale emigration will result in increased employment levels. This is due to the fact that emigrating workers could be replaced by the previously unemployed without a rise in wages. When a significant share of workforce emigrates and remits large sums of money to their country of origin, which generates additional aggregate demand, the effect on employment could be negative. This situation arises in the absence of qualified workers in the country, for example, due to structural mismatches between labour demand and supply giving rise to wage pressure. The excess demand can then be met by the import of immigrant labour.

Additionally, emigration may significantly improve the situation on the labour market of the

sending country in a direct way, that is, when emigrants are recruited from among the unemployed. However, research carried out in receiving countries has shown that immigrants may be positively selected with respect to education and intangible qualities such as ambition or entrepreneurship.<sup>2</sup>

Emigration also affects growth and employment in source countries through remittances. There are two opposing effects of money transfers on labour markets of migrant sending economies. Recipients of remittances may reduce their participation rates due to the income effect. If recipients consider money transfers a sort of welfare payment, unemployment can increase<sup>3</sup>. Other detrimental effects include lower job search intensity and reduced working hours.

The second channel through which remittances affect sending countries is consumption and investment. Money transfers increase the disposable income of non-migrating family members generating a demand for goods and services and, hence, the demand for labour. Furthermore, remittances can be used for investment – in both physical and human capital in the environments with liquidity constraints. In countries with a less developed financial sector, firms may face credit constraints, which reduce the level of investment. Remittances can ease these constraints and thus reduce the unemployment rate.

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2. Chiswick (1999)

3. Drinkwater et al. (2003)

One of the most often raised issues in the debate about the economic consequences of migration for sending countries is the outflow of high-skilled workers, often referred to as brain drain. The early literature in the 1960s emphasized negative effects of high-skilled emigration. Grubel and Scott (1966) asserted that the outflow of workers with high educational attainment brings about short-run effects primarily associated with production losses. Another argument put forward by brain drain proponents was that, since social return to education exceeds private return and education is often, at least partially, publicly financed, it imposes a fiscal loss on the remaining population.<sup>4</sup> Another theory focused on scale effects in advanced education.<sup>5</sup> As the number of educated individuals is increasing in an economy, so is the income of high-skilled professionals. Thus, skilled migration widens the income gap between sending and receiving countries; increasing returns to education them the latter and depressing it in the former.

The other strand of literature has questioned the concept of brain drain and assumed positive consequences for countries of origin. It focuses on the impact that migration has on prospects of human capital formation in source countries. In an economy open to migration higher returns to skills in a destination country encourage human capital accumulation at home. And since eventually, only some of the highly skilled emigrate, the country ends up

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4. Bhagwati and Hamada (1974)

5. Miyagiwa (1991)



with an extended pool of human capital, which stimulates economic growth.<sup>6</sup>

The simple theoretical analysis presented above indicates that no unambiguous answer as to the effects of emigration can be inferred from economic theory. How a labour market will respond to the emigration of workers will be determined by a range of variables, including for example, the size of the outflow, the skill composition of migrants and the structure of the economy.

## **Labour market trends in Poland**

### **Employment, unemployment and GDP**

Poland has experienced massive improvements in labour market conditions since its accession to the EU. After 1989, which marked the beginning of Poland's transition from centrally planned to market economy, strong GDP growth was accompanied by a decreasing employment rate. Long-term and hidden unemployment remained high throughout the transition period. Table 1 shows that in 2003 on the eve of the accession to the EU Poland faced unemployment rate of 20 per cent, which among those younger than 25 hit nearly 42 per cent, and employment rate of only slightly

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6. Mountford (1997), 'Can a Brain Drain be Good for Growth in the Source Country?' *Journal of Development Economics*, Vol. 53, No. 2, pp. 287–303; Stark O., C. Helmenstein and A. Prskawetz (1998), 'Human Capital Depletion, Human Capital Formation, and Migration: a Blessing or a »Curse«?', *Economic Letters*, Vol. 60, No. 3, pp. 363–367; Vidal J. P. (1998), 'The Effect of Emigration on Human Capital Formation', *Journal of Population Economics* Vol. 11, No. 4, pp. 589–600.

more than 51 per cent despite real GDP growth of almost 4 per cent. The jobless growth of the 1990s gave place to steadily rising employment rate and a massive reduction in unemployment following the EU accession. Between 2005 and 2011 real GDP grew on average by 4.5 per cent annually. The unemployment rate declined by more than 10 percentage points during the first four years after the accession. Structural unemployment has, however, remained a problem on the Polish labour market. Another feature is a growing polarization of the Polish economy with significant differences in terms of GDP per capita and unemployment rates between regions in Poland.

**Table 1.** Selected macroeconomic indicators for Poland, 2002–2011.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth	1,4	3,9	5,3	3,6	6,2	6,8	5,1	1,6	3,9	4,3
Unemployment rate	20,0	19,7	19,0	17,8	13,9	9,6	7,1	8,2	0,6	9,7
Youth unemployment rate (15-24)	42,5	41,9	39,6	36,9	29,8	21,7	17,3	20,6	23,7	25,8
Employment rate (15-64)	51,5	51,2	51,7	52,8	54,5	57	59,2	59,3	59,3	59,7
GDP per capita in PPS (EU27=100)	48	49	51	51	52	54	56	61	63	65

Source: CSO, Eurostat 2012

### **Labour force composition**

The composition of the labour force by educational attainment has changed fundamentally since the onset of the transition. Only in the decade after 2000 labour force with primary education decreased twofold from 16 per cent to 8 per cent. At the same time the share of tertiary educated more than doubled from 12 per cent to 26 per cent. Labour force with middle educational attainment shrank by 6 percentage points from 72 per cent to 66 per cent.<sup>7</sup>

### **Demand for labour**

An important development on the Polish labour market since the EU accession has been growth in labour demand, which has given rise to skills shortages. Rutkowski (2007) attributes this phenomenon to two factors: very favourable global market conditions as well as a rise in the labour content of the growth brought about by successful firm restructuring in Poland. The number of vacancies grew rapidly between 2004 and 2007. In 2008 the job vacancy rate amounted to 1.5 per cent.<sup>8</sup> Although it may not seem high, skill shortages became acute in certain sectors including construction and manufacturing and were cited among firms' major concerns. Skill shortages have resulted in a moderate wage pressure. After a period of a slight increase in the first year after the accession, net wages rose by around 6 per cent in 2007 and 2008 followed by a

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7. World Bank (2012)

8. World Bank (2012)

more modest average growth of 1.6 per cent annually between 2009 and 2011.<sup>9</sup> Although wages and output per worker have been converging rapidly with EU15 in the post-accession period, GDP per capita still constituted only 65 per cent of the value for EU27 in 2011 (Table 1).

## **Development of emigration**

### *Outflow from Poland up to 2004*

Poland has traditionally been a net emigration country. In the last one hundred and fifty years it has experienced a few waves of mass emigration. Large-scale movements from Poland for economic reasons (“for bread” migration) occurred from the 1880’s until the First World War. The majority of migrants headed for the USA and other European countries. Emigration intensified again in the inter-war period. After the establishment of the Iron Curtain the communist regime imposed policies of isolation and strictly controlled external mobility. As a result, with only a few exceptions, the outflow from Poland decreased to a few thousand migrants a year. In two decades after 1960 legal migration remained limited. The main destination countries were West Germany, the USA as well as Canada. At that time the majority of temporary migrants were false tourists. Officially, they went abroad for tourist purposes or a family visit, but worked or traded instead.

The important political events at the beginning of the 1980s including the declaration of Martial

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9. CS0 (2012)

Law in 1981 marked a major point in the history of emigration from Poland. As restrictions on foreign travel lessened, over one million people emigrated to the West (for more than a year) and another million were short-term migrants. Huge differences in earnings between Poland and Western countries resulted in many of those migrants undertaking employment abroad. Overall, during the communist rule in Poland, despite restrictive exit policies, over two million people emigrated from the country.<sup>10</sup>

Paradoxically, after the fall of the Iron Curtain in 1989 emigration from Poland decreased. Due to the liberalization of cross-border movements permanent migration started to lose its importance and to give place to other forms of mobility such as circular and seasonal migration. Migrants who engaged in circular mobility had low levels of education, came from rural areas and small towns, and undertook illegal employment abroad. Seasonal migration was a result of the implementation of bilateral agreements between Poland and Germany at the beginning of the 1990s. The number of Polish seasonal migrants had been generally growing until 2004. After Poland joined the EU, seasonal migration to Germany gradually declined.

### *Post-accession emigration*

When Poland joined the EU on 1st May 2004 only three out of EU15 countries gave Polish workers full access to their labour markets. Other

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10. Stola (2010)

countries decided to impose transitional arrangements.<sup>11</sup> Labour market restrictions, however, did not apply to all workers, which gave migrants an opportunity to undertake legal employment in these countries despite the transitional arrangements. Workers exempted in Germany included, for instance, self-employed, seasonal workers, some other temporary workers, IT specialists and other high-skilled workers on special contracts. The fact that most EU15 countries decided to impose transitional rules has, to some extent, resulted in the diversion of migrant flows towards those countries which allowed migrant workers access to their labour markets on day one.

Poland's accession to the EU brought about a substantial change in the scale of emigration from Poland. Preliminary results of the latest Polish Census indicate that in March 2011 2,017,000 permanent residents of Poland<sup>12</sup> stayed abroad for more than 3 months<sup>13</sup> i.e. approximately 1,231,000 more than at the time of the previous Census in 2002. This means a loss of 5.3 per cent of the Polish population, the vast majority of which emigrated following Poland's EU accession. Roughly 1,500,000 are long-term migrants i.e. they have stayed abroad

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11. Finland, Greece, Spain, Portugal and Italy lifted labour market restrictions for Polish migrants in 2006, the Netherlands and Luxembourg in 2007, France in 2008, Belgium and Denmark in 2009. Germany and Austria did not allow Polish workers full access to their labour markets until the end of the transition period in 2011.

12. Permanent residents are people who have not deregistered from the population register, although they may have been living abroad for a long time.

13. The criterion of three months was introduced in 2006; prior to that time a period of two months applied.

**Table 2.** Stock of Polish emigrants (in per cent) by top destination countries.

2002		2011	
Germany	37.4	United Kingdom	29,7
USA	20.1	Germany	21,6
Italy	5.0	USA	11,4
Canada	3.7	Ireland	6,5
United Kingdom	3.0	Netherlands	4,6

Source: Own calculations based on the Polish Census 2002, 2011

for more than a year. The Census data shows an important change in the main destination countries for Polish migrants (Table 2). In 2002 37.4 per cent of the Polish migrant stock was reported to have moved to Germany followed by the USA. The 2011 Census indicates a substantial redirection of flows away from non-European destinations towards EU15, mostly the English-speaking countries. It is important to note that Germany, which was a main destination country for Polish migrants for more than a century, has lost its leading position to the United Kingdom after the 2004 EU enlargement.

Not only has the scale, but also the dynamics of post-accession migration assumed large propor-

tions in the post-accession period. The estimates provided by the CSO<sup>14</sup> and included in Table 3 indicate that emigration increased rapidly after 2004 reaching a peak in 2007, when 2,270,000 temporary migrants<sup>15</sup> stayed abroad. In all EU15 countries the number of Polish migrants grew until 2007 with the largest percentage increase observed for Ireland, the UK and the Netherlands. After 2007 the stock of temporary migrants declined markedly, which reflects the economic downturn in major destination countries. In other countries including Belgium, Italy, France, Norway and Sweden the number of Polish migrants has grown steadily since 2004. After 2010 emigration to most EU15 destinations has picked up again with the exception of countries most affected by the recession.

Abundant evidence suggests that the post-accession outflow from Poland is predominantly labour migration. The literature in receiving countries has documented high labour market participation rates of migrants from EU10. These findings have been confirmed by the results of the 2011 Census in Poland, which indicate that three quarters of migrants stayed abroad for job-related reasons. The share of labour migrants differed between countries. For example, in the Netherlands it amounted to as many as 90 per cent.

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14. The estimates are prepared on the basis of LFS data, register data as well as data from destination countries.

15. CSO classifies migrants who have stayed abroad for more than 3 months and are included in Polish population register as temporary migrants. Registered emigration from Poland for permanent residence is not very significant. It amounted to 27,000 in 2000, 30,000 in 2008 and almost 20,000 in 2011 (Statistical Yearbook 2012, CSO).



**Table 3.** Temporary emigration from Poland in the years 2004–2011 (end-of-the-year data). Emigrants in thousands.

Destination country	2002*	2004	2005	2006	2007	2008	2009	2010	2011	% Change 2004-2007	% Change 2007-2010	% Change 2010-2011
	786	1000	1450	1950	2270	2210	2100	2000	2060			
Total	451	750	1170	1550	1860	1820	1690	1607	1670	148	-14	4
EU27	11	15	25	34	39	40	36	29	25	160	-26	-14
Austria	14	13	21	28	31	33	34	45	47	138	45	4
Belgium	-	-	-	-	17	19	20	19	21	-	12	11
Denmark	21	30	44	49	55	56	60	60	62	83	9	3
France	294	385	430	450	490	490	465	440	470	27	-10	7
Germany	2	15	76	120	200	180	140	133	120	1233	-33	-10
Ireland	39	59	70	85	87	88	88	92	94	47	6	2
Italy	10	23	43	55	98	108	98	92	95	326	-6	3
Netherlands	-	-	-	-	36	38	45	50	56	-	39	12
Norway	14	26	37	44	80	83	84	48	40	208	-40	-17
Spain	6	11	17	25	27	29	31	33	36	145	22	9
Sweden	24	150	340	580	690	650	596	580	625	360	-16	8
United Kingdom												

## Migrant selectivity patterns

As mentioned above, the theory underlines the importance of migrant characteristics for the effects of the outflow on sending economies. The available evidence suggests that post-2004 emigration from Poland has been more masculinized than in the pre-accession period. The share of men, however, differs substantially between destination countries, which might be a result of the demand for different skills. The average age of migrants has declined after the accession and amounted to 32.4 years.<sup>16</sup> Perhaps not surprisingly, emigrants are strongly overrepresented in the most mobile age group 20–29 years.

As regards the skill composition, the share of emigrants with a university degree grew considerably from nearly 15 per cent before the EU enlargement to 20 per cent after the accession. It should be noted, however, that Poland has experienced an education boom in recent years, which also naturally translates into a higher share of tertiary educated migrants. Other overrepresented skill groups compared to the Polish population include migrants with vocational training (31 per cent) and secondary education (42 per cent). The most underrepresented are migrants with the lowest educational attainment (7 per cent). It should also be emphasized that university degree holders usually emigrate immediately after graduation i.e. aged 24, while those without higher education are more prone to engage in international

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16. Fihel and Kaczmarczyk (2009)

mobility in their early thirties. Educational profile of emigrants also differs by destination country. Roughly a quarter of post-accession migrants heading for English-speaking countries i.e. Ireland and the UK hold a university degree compared to slightly over 6 per cent of those choosing Germany or Italy as their destinations.

In terms of regional distribution of migrants, over 40 per cent originate from rural areas. Migrants coming from middle-size towns are also overrepresented compared to the total population. Underrepresented are, however, inhabitants of big cities, although they constitute nearly a quarter of the outflow from Poland.<sup>17</sup>

It is also important to examine labour market status of migrants before the departure. Budnik (2011) analysed migration propensities of groups with various employment statuses on the Polish labour market between 1994 and 2009. She found that the non-employed and unemployed are around two times more likely to emigrate than those who are gainfully employed. Migration propensity is however lower for the long-term unemployed. The results also show that it is not only the employment status *per se* that determines migration propensity, but also job security and job status. Employees on permanent contracts are significantly less likely to emigrate than those on temporary contracts. In fact migration propensity of employees on temporary contracts is only slightly lower than that of the

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17. Grabowska-Lusinska and Okólski (2009)

unemployed or non-employed.<sup>18</sup> Unsurprisingly, high-status positions have a negative bearing on willingness to migrate.

## **Economic impacts of emigration**

### **Impact on GDP**

Most studies on the impact of post-enlargement migration have shown small macroeconomic effects for receiving countries. There is considerably less research dealing with the impact of migration on source economies. One of the reasons is that keeping track of emigration is more problematic than of immigration, especially after barriers to movement within the EU have been lifted, and the existing data in source countries is often incomplete or lacking. No studies examining the impact of emigration on GDP have been done in Poland. The estimates of the effects of post-enlargement migration on basic economic aggregates in both receiving and source countries, including Poland, have been made by Barrell et al. (2010). Using a large model of world economy (NiGEM) they simulate the impacts of the change in the stock of EU10 migrants resident in seven receiving countries in the period from May 2004 up to the third quarter of 2006. The number of Polish migrants residing in the receiving countries due to enlargement at the

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18. The share of employees on temporary contracts in Poland is one of the highest in EU 27. In 2010 1 in 4 employees worked on this kind of contract (Eurostat), which may have contributed to the scale of emigration.

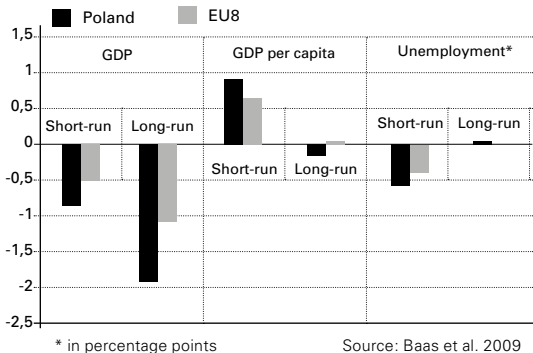
end of 2006 is estimated at 314,000 i.e. 1.2 per cent of the Polish population of working age. Simulation results show that this population loss reduces Poland's GDP permanently by 1 per cent. Poland initially gains in terms of GDP per capita, but ten years after the EU enlargement it decreases by 0.22 per cent. The decline in GDP is offset by a rise in productivity, which stands at 0.34 per cent in 2015 relative to the average of 0.21 per cent for all the new member states examined. Moreover, when Barrell et al. correct for the fact that the majority of EU10 migrants are concentrated in low skilled jobs and relax the assumption that migrants are as productive as natives, the simulation shows a reduced loss for Poland in terms of its GDP.

Baas et al. (2009) find considerably larger effects of post-enlargement migration for sending countries. Similar to Barrell et al. they consider two scenarios; one in which migration stands at pre-enlargement level against actual migration flows. However, their data comprises a wider set of receiving countries<sup>19</sup> and spans over a period between 2004 and 2007, i.e. when migration from Poland was at its highest. Baas et al. show that emigration triggered by EU enlargement reduces labour supply in Poland by 1.8 per cent. As shown in Figure 1 this emigration shock results in Poland's GDP loss of 0.88 per cent in the short run and 1.94 per cent in the long run, which is the largest decrease of all EU8. Post-enlargement emigration reduces EU8' GDP on average by 0.52

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19. All EU15 except Portugal.

**Figure 1.** Impact of emigration from Poland and EU8 on GDP and unemployment.



per cent and 1.1 per cent, respectively. However, it also exerts a positive impact on GDP per capita in the short term, which in the case of Poland amounts to an increase of 0.9 per cent. In the long term the effect on GDP per capita is neutral for most new member states, while for Poland it is negative, -0.18 per cent.

## Impact on wages and unemployment

Positive impact of emigration on wages has been confirmed in a number of recent studies.<sup>20</sup> For instance in Lithuania, which next to Poland and Slovakia has lost the highest share of its labour following the 2004 EU enlargement, wages have increased for non-migrant men.<sup>21</sup> No wage gain was found for women.

The literature examining the impact of the out-flow from Poland has found moderate wage effects. Based on the Polish Labour Force Survey (PLFS) data from 1998 to 2007, Dustmann et al. (2012) estimated the impact of emigration on the wages of non-migrants using the variations in emigration rates between different regions of Poland. The data allowed them to determine migration-induced wage effects for workers with different skill levels. The results show that migration did have a positive impact on the wages of non-migrants. An increase of one percentage point in the ratio of emigrants to the total population resulted in 1 per cent growth in average real wages.<sup>22</sup> Dustmann et al. suggest that

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20. Bouton L., P. Saumik and E. Tiongson (2011), 'The Impact of Emigration on Source Country Wages: Evidence from the Republic of Moldova', mimeo, World Bank; Hanson G. (2007), 'Emigration, Labour Supply and Earnings in Mexico' in George J. Borjas (ed.) *Mexican Immigration to the United States*, Chicago: University of Chicago Press; Mishra P. (2007), 'Emigration and Wages in Source Countries: Evidence from Mexico', *Journal of Development Economics*, Vol. 82, No. 1, pp. 180–199. For negative impact of emigration on wages see Docquier F., G. Özden and G. Peri (2011), 'The Wage Effects of Immigration and Emigration', NBER Working Paper No. 16646.

21. Elsner (2012)

22. According to the authors these results should be interpreted as lower bounds.

migration might have accounted for 13 per cent of overall wage growth in Poland over the studied period. Regarding skill distribution they found that workers with intermediate education gained most in terms of wages as they were affected by the largest negative labour supply shock. The coefficient for this group is 1.4, which implies that one percentage point increase in the ratio of emigrants to the total population led to 1.4 per cent increase in real wages. A positive, though smaller, effect on wages was also found for the highly educated group. Low skilled workers, however, did not gain from emigration, and even might have lost as this was the group, which migrated the least.

Interestingly the results of Dustmann et al. contrast with those obtained by Baas et al. (2009). Although both studies have found moderate impact of emigration on wages in Poland, they show that skill groups have been affected in different ways. According to Baas et al., the wages of high skilled workers increased most, i.e. by 0.51 per cent in the short run. Low skilled and medium skilled workers in the source country gained almost equally from migration; 0.41 per cent and 0.39 per cent respectively. There are a few possible explanations for the differences in the results obtained in the two studies. Firstly, Baas et al. used destination countries data on immigrant population, whereas Dustmann et al. employed source country data. Although Dustmann et al. corrected for the fact that PLFS does not comprise the whole emigrant population; their data may still underestimate some groups of emi-



grants. Secondly, different methods were applied in the two studies. Dustmann et al. used regional and skill variations to examine the wage effect, whereas Baas et al. employed a general equilibrium model with wage rigidities. Last but not least, Dustmann et al.'s study also includes pre-enlargement emigration, while Baas et al. focus on the consequences of post-accession migration. As indicated above, migrant selectivity patterns with regard to education differed in the pre- and post-accession periods.

Using the same database as Dustmann et al., but spanning a shorter period, 2004–2009, Kowalska (2012) estimated the elasticity of wages with respect to emigration from Poland. The study shows that a 10 per cent decrease in the labour force due to emigration brought about a 2–4 per cent increase in wages. These results are similar to those found for other emigration countries including Mexico and Moldova. The study also reveals important differences in how wages respond to the outflow with respect to gender, age and employment sector. Positive elasticity was found for men, workers under 30 and persons employed in the private sector. Part of the explanation may be that these groups migrate more often than others.

The above-presented findings lend support to the hypothesis that migration leads to the convergence of wages between sending and receiving countries. They also show that not all groups gain equally from migration. In the case of Poland and some other EU10, emigration might have contributed to widening of the wage gap between different groups on

the labour market such as men and women as well as high-skilled and low-skilled workers. It should be emphasized, however, that an overall wage effect is relatively small and not likely to have a very important effect on the labour market.

The most often raised issue in the public discourse on the consequences of the EU enlargement on labour markets of sending countries is a drop in unemployment. Many observers attribute the sharp decline in the numbers of the unemployed in EU10 in the years following the EU accession to migration. There is, however, little econometric evidence, which would directly quantify this effect. The research done in receiving countries has found small or negligible influence of immigration on the level of unemployment.

An attempt to examine correlation between emigration and unemployment was made by Budnik (2007). She introduced migration flows into a labour market flows analysis. Using PLFS data merged with a household survey, Budnik explored transition probabilities between four states: temporary emigration, employment, unemployment and non-participation within the steady-state framework. The results have shown that the emigration transition probability increased substantially from 0.1 per cent prior to the EU enlargement to 0.3 per cent in 2006. Between 1994 and 2006 the transition probability from unemployment to emigration was five times higher than the transition probability from employment or non-participation. Budnik also considered two scenarios: one with migration

and the other without migration. The analysis shows that while migration flows were included in the steady-state solution, the unemployment rate was higher in the period after the accession. The bias was, however, not very significant and in 2005 and 2006 amounted to 0.4 percentage points on average.

Other studies have also found a limited impact of emigration on unemployment. Baas et al.'s simulation shows that emigration reduces unemployment rate in Poland by 0.59 percentage points in the short run. Long-run effect on unemployment is negligible. According to Kaczmarczyk et al. (2009) the massive reduction in unemployment after May 1st 2004 should be primarily attributed to business cycle and very favourable economic conditions in Poland brought about by inter alia the EU accession rather than migration. It should be emphasized, however, that Kaczmarczyk et al.'s study does not establish a causal relationship between emigration and unemployment. They support their hypothesis by analysing unemployment, employment and migration trends as well as referring to other studies, which examine labour market situation in Poland.

### **Skill shortages and the inflow of immigrants**

The literature in Poland and other new member states has argued that emigration has led to skill shortages on labour markets of new accession countries.<sup>23</sup> The results of the surveys conducted

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23. Kaczmarczyk et al. (2009), Rutkowski (2007), Silasi G. and O. L. Simina (2007), Thaut (2009)

biannually on representative samples of employers show that emigration was considered a serious obstacle to filling vacancies on the Polish labour market, although its importance has declined dramatically in recent years. For instance, in mid-2007 as many as 16.4 per cent of respondents stated that they could not find suitable workers as a result of emigration in contrast to only 1.2 per cent of employers in November 2010.<sup>24</sup> It should be noted that the largest skill shortages have occurred in the case of workers with vocational education.

Economic theory assumes that immigrant workers can meet the demand for labour in the absence of native workers. Indeed, the number of immigrants has increased significantly in Poland in the post-accession period, although their share in the Polish population still remains very low even compared to other EU10.<sup>25</sup> The study done by Grabowska-Lusinska (2008) indicates that only 1 per cent of Polish companies employ foreign workers. The empirical link between emigration and immigration to Poland has not been subject to econometric analysis, wherefore the effect cannot be quantified. The hypothesis may partially be justified by the fact that the jobs performed by some immigrant workers bear close similarity to the qualifications of emigrants. These include predominantly professions in construction and industry<sup>26</sup>, i.e. those that were

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24. Gumuła et al. (2011)

25. At the time of the 2002 Census, there were 40,661 foreigners in Poland staying permanently and 24,078 staying temporarily. Out of them 29,748 and 23,032, respectively, were born abroad.

26. Jonczy (2010a)

affected by the largest skill shortages after the 2004 EU enlargement. Other studies in Poland have also shown that foreign workers are complementary to native labour. They fill the gaps on the Polish labour market resulting from the lack of required skills, but also native workers' unwillingness to undertake employment in lower sectors of the economy.<sup>27</sup> This, in turn, indicates that emigration may not be a very significant factor explaining the inflow of immigrants to Poland.

### **Remittances**

In many countries of emigration, mostly developing ones, the inflow of remittances significantly raises GDP and contributes to development. In top remittance-receiving countries money transfers from abroad constitute as much as over 15 per cent of GDP. Poland's EU accession has had a profound impact on the amount of money remitted to Poland. According to the World Bank, the absolute value of remittances to Poland grew from 1.7 billion US dollars in 2002 to 10.5 billion in 2007. However, measured as a percentage of GDP, the value and growth of remittances are less spectacular. They amounted to almost 1 per cent of GDP in 2002, 2.5 per cent in 2007 and 1.6 per cent in

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27. Zyllicz (2008)

2010. Moreover, real remittances<sup>28</sup> calculated on the basis of the data from the National Bank of Poland are around 25–33 per cent lower. Between 2004 and 2007 foreign direct investment surpassed remittances on average by 122 per cent annually. However, between 2008 and 2010 the importance of remittances compared to foreign direct investment (FDI) grew substantially. In that period FDI was on average only 41 per cent larger than remittances.<sup>29</sup> This indicates that at the time of the crisis, remittances have provided a steady flow of money into the Polish economy, while funds from other sources have considerably declined.

On a macro level remittances have positively influenced investment and consumption in the country. Leon-Ledesma and Piracha (2004) studied the impact of remittances on eleven transition economies including Poland in the years 1990–1999. They found a statistically significant positive relationship between money transfers and aggregate investment. Through investment and other channels migration exerted a positive influence on productivity and employment in the CEE region. The impact of remittances on consumption was examined by Barbone et al. (2012). Using a model of the

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28. In NBP balance of payments statistics remittances include compensation of employees and private transfers. Compensation of employees minus estimated value of taxes and expenditures plus private transfers are real transfers. (Barbone L. K. Pietka-Kosinska and I. Topinska (2012), *Wpływ przekazów pieniężnych na polską gospodarkę w latach 1992–2012 – raport Western Union* (Impact of remittances on the Polish economy in the years 1992–2012 Western Union report), Warsaw: Centre for Social and Economic Research.

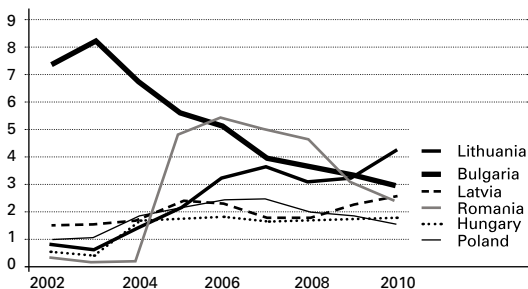
29. World Bank (2012)

Polish economy they constructed a counterfactual scenario without the flow of remittances for the period from 1994 to 2010. The simulation shows that the average annual growth of real disposable income would have been 0.2 percentage points lower in the absence of remittances, i.e. 2.7 per cent instead of 2.9 per cent. This in turn would have translated into 0.1 percentage point lower average annual rate of growth in household consumption (4.1 per cent instead of 4.2 per cent).

Although the relative value of officially recorded remittances is not very large – smaller than relative transfers to some other new member states such as Lithuania – and their macro effect is moderate, they nevertheless play a significant role at regional and household levels. Using the data from 2008 Household Budget Survey Barbone et al. (2012) calculated that 2.5 per cent of Polish households received remittances.<sup>30</sup> These money transfers constituted as much as 62 per cent of income for remittance-receiving households. As the recipient households had on average lower income, remittances have contributed to a slight decrease in income inequality in Poland. Jonczy (2010b) found that in the case of the Opole district, a region in southern Poland with a long-standing emigration tradition, remittances have raised the average disposable income of rural population by 78 per cent. As a result, the region has moved to the top position in the country

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30. Remittances here are defined as all sorts of foreign income including, among other things, compensation of employees, social transfers, private transfers, etc.

**Figure 2.** Remittances as a share of GDP in selected CEE countries.

Source: World Bank 2012

in terms of disposable income and quality of life. Although money transfers are mostly allocated for non-investment purposes and, only to a small extent to education, they greatly stimulate the demand for good and services in the region.

### Brain drain from Poland

The outflow of high-skilled workers, or brain drain, is often considered one of the most negative consequences of migration for sending countries. The reason is that human capital forms a basis of knowledge-based economy and plays a vital role in the economic development of a country. A 20 per cent share of university degree holders among post-accession migrants from Poland has sparked



off a public and academic discussion about its possible impacts on the Polish society.

In the Polish literature the term *brain drain* has often been replaced by *brain waste* and *brain overflow* to describe the consequences of post-accession high-skilled migration. The first term implies ineffective utilization of human capital in a destination country and subsequently deskilling, due to the fact that migrants undertake employment below their qualifications. A number of studies have shown that the majority of Polish university degree holders do low-skilled jobs in secondary sectors of receiving countries.<sup>31</sup> The second term refers to the outflow of surplus human capital, which in turn, is underutilized in a source country. In the Polish setting this situation arises because of a persistent mismatch of skills and the structure of the demand in the economy. Therefore, emigration may be perceived as a way of relieving pressure on a labour market with no detrimental effects for a sending country. The issue, however, remains highly controversial, especially in the light of very unfavourable demographic trends in Poland.

Very few studies have attempted to examine empirically the effects of the outflow of high-skilled workers on the Polish economy after the 2004 EU enlargement. Most of the available research has focused on the health sector. In the early post-accession period a considerable concern arose about the emigration of Polish health workers and its impact

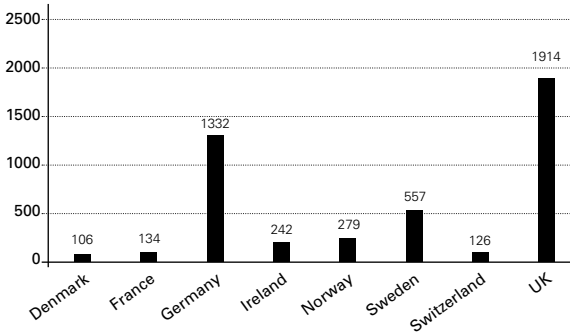
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31. e.g. Drinkwater et al. (2009)

on the health sector. Large differences in earnings of health workers between Poland and “old” EU member states were at its basis. Additionally, the fears were magnified by an active recruitment of Polish medical doctors on the part of destination countries. The studies examining the outflow of Polish medical doctors have been severely restricted by a lack of quantitative data. No institution monitors the mobility of health workers in Poland and, hence, no administrative data exists to document this phenomenon. Some insight into the willingness to migrate can be obtained from the certificates that confirm professional qualifications issued to doctors by the Polish Chamber of Physicians and Dentists. Until the end of 2010 over 8,000 certificates were requested by Polish doctors. This indicates a substantial interest in emigration. It is important to note that the numbers of requests differ greatly by specialty. The share of certificates to the total number of doctors of a given specialty amounted to 19 per cent in the case of anaesthesiology, 17 per cent in the case of plastic surgery and 16 per cent in the case of thoracic surgery, but only 0.2 per cent in the case of clinical oncology. This indicates that emigration is selective with regard to specialty and may cause serious imbalances on the labour market of the health sector.

A study by Murdoch (2011) deserves a mention. She estimated the scale of emigration of medical doctors from Poland based on the data obtained from major destination countries. Figure 2 shows the results of the survey.

**Figure 3.** The stock of Polish medical doctors in destination countries according to the survey conducted in January – March 2010.



Source: Murdoch (2011)

Assuming that 5,000 medical doctors emigrated from Poland, Murdoch calculated the fiscal loss for the Polish society. According to her estimates the cost of educating migrant doctors amounted to 1.37 billion Polish zloty. If the doctors do not return, the cost to the Polish society will be comparable to the loss of over two cohorts of doctors. Murdoch also compared the returns to investment in education in Poland and OECD countries. The rate of return to education and training in Poland amounts to 12 per cent, whereas the average rate of return for medical doctors in OECD countries equals 20 per cent. Although a number of caveats can be raised about the quality of the data used by Murdoch, her study

nevertheless provides the first attempt to measure the effects of high-skilled emigration on the Polish society.

Qualitative research on the mobility of Polish health workers has shown that a significant number of medical doctors registered to practise in major receiving countries, actually work in Poland, and undertake employment abroad on a temporary basis or regularly circulating between two countries.<sup>32</sup> This has been made possible by *inter alia* a substantial reduction in travelling costs brought about by an expansion of low-budget airlines. Circular mobility, however, is likely to have different effects on sending countries than permanent or even temporary migration. A well-known benefit of circular migration for sending countries is the transfer of know-how and technology. However, circular migration may also serve as an important tool for a more efficient allocation of scarce labour. Moreover, in times of an economic downturn circular migrants may act as a buffer and provide employers with a flexible labour.<sup>33</sup>

## Conclusions

The aim of this study has been to discuss economic consequences of recent emigration from Poland with a focus on labour market effects. As the economic theory cannot provide an answer to the

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32. This practice is especially popular among migrant doctors in the United Kingdom and Ireland.

33. More on the effects of circular migration for sending countries see Constant et al. (2012).

magnitude or even the direction of changes triggered by emigration, it has been necessary to refer to empirical studies.

Emigration from Poland has intensified greatly after the 2004 EU enlargement. The number of Polish migrants grew rapidly in all EU15 countries until 2007, followed by an overall drop in Polish residents staying abroad; a drop caused by the economic downturn in Western Europe. There has been a shift in the direction of migrant flows towards EU English-speaking countries, which stems from the fact that those countries allowed workers from EU10 access to their labour markets already in 2004. Another reason is that migrants are overrepresented in high-skilled groups, which prefer English-speaking destinations. The analysis indicates that labour market status does play a role in migration decisions. Short-term unemployed and the employed on temporary contracts have higher propensity to migrate than the employed on permanent contracts.

The study shows that emigration lowers Poland's GDP quite significantly. That is, however, offset by the inflow of remittances. Money transfers stimulate investment and consumption, and indirectly, employment in the country. Additionally, they are an important source of income for 2.5 per cent of Polish households. Available evidence suggests that the impact of emigration on unemployment has not been strong. Wages have only moderately increased as a result of the emigration, although analyses show different results on how it has affected skill groups.

Studies suggest that the outflow of high-skilled workers from Poland has not adversely affected the Polish economy as it is the result of an oversupply of certain skills and structural mismatches between demand and supply on the Polish labour market. However, emigration of some professional groups, whose skills are in high demand internationally, such as medical doctors, may have caused serious imbalances on the labour market of the health sector and it may have affected the availability of medical services in Poland.

It is important to note that this study has only discussed selected aspects related to the labour market effects of emigration from Poland. There are other issues worth examining, which have not been raised in this study. For instance, high rate of return migration caused by worsening economic opportunities in EU15 countries is also likely to have affected the situation on the Polish labour market.

Last but not least, the analysis presented above has focused on short-term and medium-term consequences of emigration. The outflow of a large group of young people is likely to have long-term negative demographic effects. However, migration may improve the allocation of labour on the Polish labour market. These issues, however, deserve additional research.







## **Chapter 5. Concluding remarks and prospective comments...**

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**Any assessment of the economic impact** of migration requires an understanding of many factors, e.g. what motivates people in the source countries to emigrate, migrant characteristics, the size of remittances, and sector specific variations in wage setting and regulations. This insight, together with an awareness of the political dimension, the need for politicians to gain and maintain voter support, seems like a suitable point of departure for concluding remarks by the authors and the editor.

### **...by Eskil Wadensjö**

One important lesson is the difficulty of estimating in advance the extent of the migration that is a result of an extension of a common labour market. It is particularly difficult to make good forecasts when some countries fully open their labour markets, whilst others don't and instead apply transitional rules. Another important lesson is that there are other factors beyond differences in income levels, unemployment and the degree of geographical proximity are important for migration flow levels. Language, labour market regulation and the structure of the labour market are other crucial factors. Britain has taught us an important lesson, where despite extensive immigration, it has not been possible to find any clear negative effects on unemployment and wages. The economy is very adaptable. However, compared to Sweden, wages in the UK differ greatly between those who were born in the country and those who immi-

grated from EU member countries. Those who arrive in Sweden have higher wages but it may be more difficult to find a job. A lesson from Poland is that emigration can increase fast in the short run and that this outflow may lead to an inflow from other countries. A general observation is that those who move are young and, on average, have a good education but do not always get jobs that correspond to their education. It is important to explore the remittances further and the fate of those who re-emigrate. Important is also to monitor the progress of those who stay for prolonged periods in the destination country.

### **...by Martin Ruhs**

The Swedish and UK experiences with EU8 labour immigration show how labour market regulation can play an important role in controlling the scale of labour immigration to a country. Both Sweden and the UK decided not to impose any transitional restrictions on the employment of EU8 migrants when the EU8 countries joined the EU in 2004. Compared to Ireland and the UK and controlling for population size, Sweden experienced much lower inflows of EU8 workers. Why?

A key reason lies with Sweden's extensive labour market regulation. Sweden's labour market structures and regulations meant that any East European workers employed in Sweden needed to be offered exactly the same wages and employment rights as Swedish workers. Most wages and bene-

fits in Sweden are set via collective bargaining and, with most workers in unions, wages and benefits adhere to industry-wide standards. At the time of EU enlargement in 2004, Sweden introduced a number of measures aimed at preventing immigration from undermining the effectiveness of existing labour market regulations and collective bargaining structures.

The requirement of equal rights in Sweden's highly regulated labour market effectively meant that, from the employers' view, migrant workers were as expensive as Swedish workers. This explains, to a considerable degree, why Sweden has experienced relatively low levels of labour immigration of EU8 nationals (just over 50,000 EU workers during 2005–2011). The insistence of equal labour rights in practice made Sweden's policies towards admitting and employing EU8 workers much more restrictive than suggested by its formal decision to grant EU8 nationals immediate access to the labour market. Of course, there have been other factors at work as well, including differences in language (English vs. Swedish) and economic conditions. The differences in labour market regulation in the UK and Sweden played an important but not the only role in explaining differences in the scale of EU8 immigration in the two countries.

So the Swedish experience offers a key insight for debates about labour immigration in other high-income countries, including the UK: where there is limited control over the admission of migrant workers (e.g. EU labour immigration in

the UK), changes to labour market regulations and other public policies can play an important role in changing the scale and skills composition of labour immigration. Whether countries with flexible market economies such as the UK are able or willing to change their labour market regulations and other public policies in exchange for fewer new migrant workers is another question.

### **...by Aleksandra Wójcicka**

The 2004 and 2007 EU enlargements brought about a large outflow of labour migrants from new to old member states. The fact that most EU15 countries decided to impose transitional rules has, to some extent, resulted in the diversion of migrant flows towards those countries that allowed migrant workers access to their labour markets on day one. However, as Sweden's experience shows liberalising access to the labour market may not lead to a mass inflow of migrants. Sweden, despite its liberal attitude towards workers from EU12 has received fewer migrants than some countries, which applied transitional rules. This means that other factors including labour market regulations, structure of the demand for labour, language and migrant networks may also be important.

Emigration and immigration have both positive and negative consequences for the economies concerned. The economic theory itself cannot give an answer on what the effects of migration will be for sending and receiving countries. The research in the

UK and Poland shows that the effects of immigration and emigration on basic economic aggregates such as employment, wages, etc. are relatively small. Migration, however, affects certain groups of workers such as skill, occupational or wage groups and certain sectors and regions to a larger extent. Moreover, as Poland's experience indicates, negative effects of migration are largely mitigated by positive ones such as decreased unemployment, inflow of remittances as well as transfer of know-how.

What is important to note is that migration is an effective tool in improving the allocation of labour in the EU. Prior to the enlargements a significant reservoir of unutilized labour supply existed in EU12, which was reflected in very high unemployment rates, low employment, etc. Migration from new to old member states has allowed for matching labour demand and labour supply more effectively.

Finally, short-term and medium-term consequences of migration for sending countries may turn out to be less significant than long-term effects. In the long term, migration may contribute to the modernization of the Polish economy. This may result in the transformation of Poland from a net emigration to a net immigration country.

### **...by the editor**

The two EU accessions of 2004 and 2007 were preceded by worries in the old member states about mass immigration and social tourism. Almost a decade later, the fears seem to have been exaggerated.

Surely, a large increase in the scale of migration after the 2004 EU enlargement has affected the economies of both sending and receiving countries.

In Poland, labour migration is synonymous with an outflow of labour, and remittances sent back from Poles working abroad, in turn used for consumption and investments. In the receiving countries UK and Sweden, labour migration instead means an influx of labour and an increased domestic demand for services and goods, including public services. In other words, and as each chapter makes evident: Migration flows tend to vary and generate both costs and benefits for host *and* source countries. Among the lines of argument and clarifying evidence presented in this publication, there are points worth extra mentioning.

### **Labour migration is here to stay**

Labour migration, just like migration in general, is the result of push and pull factors combined with strife for a new life. This makes migration an inherent feature of human nature. Individuals will continue to cross borders and try to provide for themselves in their new home countries. Thus, instead of asking if labour migration is desirable or not, EU states must begin to ask how it can be regulated to best fit the needs of each and every member state as well as the single migrant.

Little evidence suggests that labour migration has had an unambiguous effect on countries of origin or countries of destination. Nevertheless, migration flows affect national economies in a number of

ways. While costs often are raised as an argument against labour migration, the benefits tend to be given a far more remote position (apart from more symbolic statements like the one quoted in the introduction).<sup>1</sup> However, the structure of modern welfare systems is such that labour immigration leads to redistribution from the migrants to the rest of the population. This is true since migrants from the EU12 countries are to a large extent of active age, to a large extent employed and have when they are employed labour incomes at about the same level as natives who are employed.

The case study on Poland shows that emigration lowers Poland's GDP quite significantly, but the decrease, however, is offset by the inflow of remittances. Worth mentioning is the case of the Opole district where remittances raised the average disposable income of the rural population by almost 80 per cent and moved the region to the top position in the country in terms of disposable income and quality of life.

Nevertheless, it should be kept in mind that not all groups gain equally from migration, emigration might increase wage differences within countries of origin. The overall wage effect is relatively small and not likely to have a substantial impact on the labour market.

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1. Malmstrom, C, Inaugural Seminar on 'Europe's labour migration policy: The Swedish solution' hosted by the Permanent Representation of Sweden to Belgium. SPEECH/12/167



### **National contexts matter**

The three case studies presented in this publication show that the impact of migration on any national labour market depends on the features and structure of that specific market. National governments must be aware of this, that labour market structure, wage setting mechanisms, the structure of the demand for labour and legislation, influence the effects of labour migration. In addition, language and migrant networks, alongside with public attitudes also matter.

When it comes to the distribution of labour between sectors, the interesting difference between the UK and Sweden can be partly explained by differences in labour market structure. Although EU8 workers in the UK are better educated and better skilled, on average, than British workers, most East European migrants have taken up employment in low-skilled jobs in the UK. In Sweden the new immigrants did not enter low-paid jobs to the same extent, but got jobs in different parts of the economy and their labour incomes were on par with average incomes for Swedish born.

Each study also makes evident that migration flows have implications for national political debates, although in different ways and to a different degree. In destination countries, this is partly due to the fact that the short term effects of increased flows might strike asymmetrically and affect certain sectors or professions more than others. This calls for political responsibility and consistency, especially in times of economic hardship

when xenophobic and protectionist attitudes might be more easily triggered than normal. Politicians on both European and national level must resist the temptation of exploiting such situations to attract voter support. If they fail, the long term benefits of labour immigration will be lost.

In source countries, emigration has not been a very politicised issue so far, although there are raising concerns about *brain waste*, i.e. the outflow of educated and skilled workers to jobs they are over-qualified for. Furthermore, since emigration tends to concentrate to certain sectors and professions, for example impacts on the provision of health care, it is likely to become a growing concern for source countries. In resemblance to destination countries, source countries must find ways to stress the long term benefits and counterbalance possible short term sector specific losses.

Public opinion in favour of migration is necessary in order for the European project to survive and national economies to adapt to the conditions of a globalized world. The alternative—increased regulation and anti immigration rhetoric would not only affect national economies negatively in the long run, but also be detrimental for the solidarity and unity of the EU as such.

### **A union of both source countries and destination states**

Contrary to a large number of studies examining the impact of migration on receiving countries, empirical literature focusing on sending economies

is still modest although growing. This reflects an outdated approach from the times of the EU before the enlargements that will not do in the future. If the EU is really to meet the challenges of global competition, skill shortages and demographic decline, the migration policies of member states must take the dual perspective of labour migration into consideration – both sending countries and receiving countries need to be consulted and considered.

### **Further research**

The studies point out important aspects of labour migration and its affects on national economies, in particular possible labour market impacts. Beside the interesting findings and new data, the publication also has the merit of revealing the need for further research. There is a general lack of knowledge about how migration effect sending countries, e.g. about how remittances affect their economies and labour markets. There is also a need to look further into the labour market performance of those who re emigrate, i.e. return to their home country after some years of working abroad. It would also be interesting to get a more nuanced picture of eventual differences in economic performance within migrant groups; is there a difference between those who emigrate for a short period of time and those who stay away for many years, or for good? There is also a lack of information about the effects of migration on specific sectors or professional groups.

### **Final reflections**

As editor of this publication, I am pleased that it provides a wealth of useful data that cast a new light on several aspects of migration between the CEES countries. It also gives valuable insight into the characteristics of the three economies and narrates well both theories and empirical experiences.

It is obvious that the complexity of labour migration flows makes it hard, and even inexpedient, to single out one aspect of labour migration as being more crucial than another. Instead, each country must make an assessment over which regulations and rules are favourable for their particular situation and context.

An important insight from both scholarly debates and the preceding studies is that migration has a far reaching and long-lasting impact, to some extent impossible to foresee. Combined with the acknowledgement that migration is an inherent phenomenon in the EU of today, and the target of political and social disputes on as widely differing issues as labour market organisation, economic redistribution and social welfare, the need for further research and increased knowledge cannot be stressed enough. This is as true for sending countries as for receiving ones.

Labour migration has every opportunity of becoming a win-win, i.e. to benefit national economies as well as the individual migrants. But in order for this to be achieved, each government must be aware of the costs and gains of particular migration policies, something not likely to be the

case without empirical evidence and scientific analysis aiming to answer the remaining questions.

Labour migration is an inevitable component of the European project, and the EU must act accordingly: Perform the research necessary to articulate efficient policies, inspire national governments and political leaders to communicate the long-term gains of labour migration, even, and especially, in times of economic hardship and calls for protectionism. If Europe fails the cost is going to be high, but if it succeeds, the gains are more than likely to strengthen both the union, its' member states and citizens.



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## Abbreviations and nomenclature

<b>amt</b>	administrative unit in Denmark
<b>APS</b>	Annual Population Survey
<b>CBI</b>	the Confederation of British Industry
<b>CEE</b>	Central and Eastern Europe
<b>CSO</b>	Central Statistical Office, Poland
<b>DWP</b>	Department of Work and Pensions
<b>ECSC</b>	European Coal and Steel Community
<b>EEA</b>	European Economic Area
<b>EES</b>	European Employment Strategy
<b>EU</b>	European Union
<b>EU2</b>	Bulgaria and Romania
<b>EU8</b>	countries becoming members 1 May 2004 (with the exception of Cyprus and Malta)
<b>EU10</b>	countries becoming members May 1, 2004
<b>EU12</b>	countries that joined EU on 1 May 2004 or January 1, 2007
<b>EU15</b>	(members prior to 1 May 2004)
<b>FDI</b>	Foreign Direct Investment
<b>FYR</b>	Former Yugoslav Republic
<b>GDP</b>	Gross Domestic Product
<b>HSMP</b>	Highly skilled migrant programme
<b>IPPR</b>	The Institute for Public Policy Research
<b>IPS</b>	International Passenger Survey
<b>LFS</b>	Labour Force Survey
<b>LO</b>	Swedish blue-collar unions (in translation: Landsorganisationen)
<b>LTIM</b>	Long-Term International Migration
<b>MAC</b>	the Migration Advisory Committee
<b>NHS</b>	National Health Service

<b>NIN</b>	National Insurance Number
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONS</b>	Office for National Statistics, The UK
<b>PLFS</b>	Polish Labour Force Survey
<b>SOM</b>	institute- Research institute at Gothenburg University focusing on Society, Opinions and Mass media
<b>SAWS</b>	Seasonal Agricultural Worker Scheme
<b>SCB</b>	Statistics Sweden
<b>SBS</b>	Sector Based Scheme
<b>UK</b>	United Kingdom
<b>WRS</b>	Workers Registration Scheme
<b>WW1</b>	World War one (1914-1918)
<b>WW2</b>	World War two (1939- 1945)



### **ESKIL WADENSJÖ: THE SWEDISH EXPERIENCE**

After the enlargement in 2004, the immigration from the new member states to Sweden increased, but the changes were relatively small compared to Ireland and the UK. This chapter tries to explain why, and describes the effects of immigration on the Swedish economy and the public opinion regarding immigration and immigrants.

### **MARTIN RUHS: THE BRITISH EXPERIENCE**

Since 2004 the UK has seen very large migration flows of EU8 workers, and the rapid increase have led to heated debates about the scale and economic effects of immigration in the UK. This chapter analyses the UK's experience with East European (i.e. EU8 and EU2) labour immigration since 2004.

### **ALEKSANDRA WÓJCICKA: THE POLISH EXPERIENCE**

Although growing, empirical literature focusing on sending economies, is still modest. This study will specifically look at the impact of recent emigration from Poland on GDP, wages, unemployment, skills shortages as well as the effect of remittances and high skilled migration.

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