

Economic impact of migration flows following the 2004 EU enlargement process – A model based analysis –

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One of the big unknowns for policy makers surrounding the May 2004 EU enlargement process was the effect it would have on East-West migration flows, both in terms of the actual numbers moving across borders as well as the economic impact of those flows on the sending (EU10) and receiving (EU15) Member States. At the time of enlargement, and indeed in subsequent years, this migration question was the focus of a significant body of economic research since the free movement of workers constituted the principal change in economic integration after accession, as barriers to trade, FDI and other capital movements had already been largely removed in the run up to enlargement.

Many commentators feared that large and dislocating movements of EU10 workers into EU15 labour markets were inevitable given the sizeable income differentials which existed in the pre-enlargement period. These fears led to many EU15 countries imposing temporary restrictions on the flow of EU10 workers into their countries, with just three Member States (i.e. the UK, Ireland and Sweden) fully opening their labour markets in May 2004.

In standard migration models, migration is predicted to yield gains, at the aggregate level, due to a more efficient allocation of labour resources and by facilitating the matching of workers' skills with the available job vacancies in an expanded labour market. However, according to the literature, these benefits may not be evenly distributed between the receiving and sending countries, or between different groups of citizens within the individual economies.

Against this backdrop, the present paper examines the reality regarding EU10 / EU15 migration flows over recent years and assesses whether the initial economic predictions, including those of standard migration models, have been confirmed or confounded by actual events. The Quest model is used to provide a tentative, quantitative, assessment of the economic implications of the officially recorded flows on the economies of the EU15, EU10 and EU25 country groupings as well as on their constituent Member States.

The exact size of post-enlargement mobility flows is of course difficult to determine due both to several shortcomings in the existing data and to the largely open borders which exist between Member States. However, the available population statistics, as well as data from the EU's Labour Force Survey, suggest that since 2004 the stock of EU10 citizens resident in the EU15 has essentially doubled over the period to 2007 from roughly 1 to 2 million. While these numbers are significant in absolute terms, they represent – with the notable exception of Ireland - a relatively small share of the working-age population of the host countries. In fact, in almost all of the EU15 Member States the number of recent arrivals from countries outside the EU25 substantially exceeds the numbers arriving from the EU10 Member States.

Moreover, in most of the EU15 countries, the inflow of other EU15 nationals has also been larger than the number of recent arrivals from the EU10.

Overall, these mobility flows have clearly contributed to growth. Our results suggest that the GDP effect on the EU25 as a whole of recent intra-EU mobility has been substantial and positive at about 0.3% of GDP. This is equivalent to an income gain of around €30 billion for the enlarged EU. Thus, a migration shock of this magnitude is in fact much more potent, in economic terms, than a 1 percentage point increase in the EU25's investment to GDP ratio. This positive effect from cross-border mobility within the EU25 is in keeping with the view that migration increases the productive use of human resources within the enlarged area and hence adds to GDP as well as boosting productivity and GDP per capita. Moreover, in line with other studies and the recent Communication from the European Commission on the impact of the free movement of workers in the context of EU enlargement, it can be concluded that post-enlargement intra-EU mobility flows have not led - and are unlikely to lead - to serious labour market disturbances at the total economy level, with respect to both real wages and unemployment trends. Finally, the present paper suggests that the balance of payments and public finance implications of the post-2004 migration flows are generally negligible, at least with respect to migration flows of a more permanent nature.

However, whilst positive for the EU25 as a whole, the analysis also shows that migration has potentially less clear-cut effects for the receiving (EU15) and sending (EU10) groups of countries. For example, whilst the receiving countries are expected to gain in GDP terms, the effects on GDP per capita, real wages and the employment rate are more ambiguous, with gains dependent on the time horizon chosen for the simulations and the assumptions regarding both the skill characteristics of migrant and native labour as well as for the overall speed of adjustment of economies. For the sending countries, the simulation results point to the possibility of some negative effects on total GDP which must be balanced against capital deepening induced gains for real wages, productivity and GDP per capita. Moreover, it suggests that whilst labour mobility from the new Member States has helped to reduce inflationary pressures in most receiving countries, it has also contributed to emerging labour shortages and a (temporary) increase in inflation in some of the main sending countries.

Despite the caveats raised in the preceding paragraph, it is certainly fair to conclude from the present paper that the overall impact of post-enlargement mobility flows has been positive, with any negative effects for individual countries or for specific skill groups generally being both small in magnitude and time limited. The results of the paper also support the view that migration has a key role to play in realising the full benefits of an integrated economic area in the EU as a whole. In this respect, it is necessary to stress that a commitment to the free movement of workers remains perhaps the most symbolic and important of the four fundamental freedoms of the EU's internal market programme.