

**Labour mobility within the EU -
The impact of enlargement and the functioning
of the transitional arrangements**

EXECUTIVE SUMMARY

**Dawn Holland¹, Tatiana Fic, Ana Rincon-Aznar, Lucy Stokes, Pawel
Paluchowski**

National Institute of Economic and Social Research
2 Dean Trench Street
Smith Square
London SW1P 3HE
United Kingdom

This study has been carried out on behalf of the Employment, Social Affairs and Inclusion Directorate General of the European Commission (contract VC/2010/1159). The views and opinions expressed in this publication are those of the authors and do not necessarily represent those of the European Commission.

July 2011

¹ d.holland@niesr.ac.uk

Project Summary

Background

The main focus of this study is an assessment of the macro-economic impact on both host and home countries of the increased labour mobility that has resulted from the two recent EU enlargements. We first look at the macro-economic impact of the total population flows from the EU-8 and EU-2 to the EU-15 economies between 2004 and 2009. The aggregate population flows to the EU-15 are adjusted to reflect the age structure and education level of the mobile population. We also consider the impact of remittances. We then attempt to quantify the share of population movements that have occurred since 2004 and 2007 that can be attributed to the enlargement process itself, and the share that is likely to have occurred even in the absence of EU expansion. We finally look at the impact that transitional restrictions on the free mobility of labour have had on the distribution of EU-8 and EU-2 citizens across the EU-15 countries.

The results obtained from these analyses are then applied to the period from 2008-2009, to assess the impact of the global financial crisis on the distribution of population flows across the EU-15. The macro analysis section concludes with estimates of potential migration flows from the EU-8 and EU-2 to the EU-15 over the next several years. As a supplement to this analysis, we have undertaken six country case studies, to provide a more detailed overview of the scale and impact of population flows from the EU-2 to the EU-15 economies. We also produce a very preliminary assessment of potential migration flows from six candidate and pre-candidate countries: Croatia, FYR Macedonia, Albania, Bosnia and Herzegovina, Montenegro and Serbia

Key Findings

Our estimates to end-2009 suggest that:

- Since the 2004 enlargement, about **1.8 per cent of the EU-8 population has moved to the EU-15**, raising the host country population by 0.3 per cent. Of this, approximately 75 per cent can be attributed to the enlargement process itself.
- Since 2007, about **4.1 per cent of the EU-2 population has moved to the EU-15**, raising the host country population by a further 0.3 per cent. Of this, just over 50 per cent can be attributed to the enlargement process itself.
- The potential level of output in **Bulgaria, Romania and Lithuania** may be permanently reduced by 5-10 per cent as a result of the population shifts towards the EU-15 since 2004. **Latvia and Estonia** can also expect a permanent scar of at least 3 per cent on the potential level of output in their economies.

- While **remittances can partially offset the negative effects** on growth in sending countries in the short- to medium-term, they cannot fully address the loss of labour input on capacity output in the longer-term.
- The **impact on GDP per capita is much smaller** than the impact on total GDP, but also tends to be negative in the sending countries, especially given the age structure of migrants, who are predominantly of working age.
- As for the **receiving countries**, the macro-economic impact of the population shifts from the EU-8 and EU-2 to the EU-15 since 2004 is expected to be small, possibly raising the long-run level of potential output by about ½ per cent. The impact on **Ireland** is expected to be more significant, perhaps raising the potential level of GDP by 3 per cent in the long-run. The **UK** may also benefit from a rise in potential output of just over 1 per cent.
- The long-run **impact on GDP per capita is expected to be negligible in the EU-15**, but may be slightly positive, depending on the productive capacity of inward migrants. Outflows of **remittances** are expected to have only a marginal negative effect on host countries.
- There is clear evidence that the pattern of **transitional restrictions** in place at the beginning of the **2004 enlargement** diverted mobile workers away from traditional destinations – namely Germany – and towards the more easily accessed labour markets in the UK and Ireland.
- However, we should not over-emphasize the magnitude of this impact, as **macro-economic developments and demographics** have also played a role in the location decision, and in many cases appear to have played the dominant role.
- **Transitional restrictions** may have also played a certain role for the **EU-2** economies, although the rise in the unemployment rate in **Spain** can explain about half of the nearly 10 percentage point loss of EU-2 migrant stock share between 2006 and 2009.
- As of June 2011, workers from the **EU-2 still face some restrictions** on access to labour markets in Belgium, Germany, Ireland, France, Italy, Luxembourg, the Netherlands, Austria, the UK and Malta. The second phase of the transitional arrangements for the 2007 enlargement will come to an end on 31 December 2011, at which point the governments in these countries will have to decide whether or not to extend the restrictions for a further two years.
- Our findings suggest that, due to network effects, **transitional arrangements can have permanent effects** on the pattern of migration. This may be of particular importance in host countries where the working age share of the population is in decline. Countries that retain restrictions are expected to have a lower level of potential output in the long-run as a result. Allowing full labour market access has not been found to have significant adverse effects on the host economy.