Free movement of workers and transitional arrangements: lessons from the 2004 and 2007 enlargements

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Warsaw 2015
This study was financed by the European Commission, DG Employment, Social Affairs and Inclusion (Tender No. VT/2014/095). Responsibility for the information and views expressed are those of the authors and do not necessarily reflect the opinion of the European Commission.
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Summary

1. The free movement of goods, capital, services, and persons represents the very foundation of the European Union. Nonetheless, some of these freedoms are partially or fully restricted. In this respect the mobility of persons presents the most evident case.

2. The Accession Agreements signed in 2003 and 2005 allowed to impose transitional restrictions on the free movement of workers from the New Member States (NMS) for a limited period of time. The logic of TA was that the EU15 were not able to regulate the entry and residence of NMS citizens but could decide on the conditions under which NMS nationals access employment (TA did not apply to those NMS nationals who resided in other MS because of their studies, who worked as posted workers¹, or who established themselves as self-employed). Importantly, once admitted to the labour market, mobile workers from a NMS benefit fully from all rights under the EU law. Similarly, there are no TA for the application of the EU law with regard to coordination of social security schemes.

3. The existence of TA meant that in relation to free movement of workers the accession became a process staged over a number of phases and that it has been selectively adopted by particular Member States. Those phases are of critical importance for the assessment of the economic outcomes of post-enlargement mobility from NMS.

4. The structure of the introduction / relaxation of transitional periods has been quite complex and resulted from a variety of economic, social and political factors, and, importantly, the positions of other member states. The EU debate on the imposition of TA has been led by Germany and Austria. Considering sizeable migrant (usually defined as long-term residents) stocks prior to accession, shared borders, historic and cultural ties both countries have been commonly treated as potentially the main destination countries and strongly supported the idea of TA since the very beginning. The UK (followed by Ireland and Sweden) presents the opposite case and decided to open its labour market already in 2004. It is argued that the British decision not to impose TA resulted from careful economic considerations related to an idea that the EU enlargement could represent an opening of new opportunities for trade and labour market flexibility and created the possibility for the economy to grow without risk of inflationary pressure resulting from insufficient labour supply.

5. The first post-accession years saw a significant increase in labour mobility from the NMS but, importantly, no significant adverse effects on the EU labour market have been noted as the NMS labour force played a predominantly complementary role to the EU15 workforce. On the contrary, those MS which opened their labour markets to newcomers from the NMS recorded positive outcomes of the inflow (particularly the UK and Ireland).

6. In case of the 2007 enlargement round similar transitional rules applied as in 2004, whereas the majority of the EU15 countries opted for the imposition of TA. The case of the UK is of particular importance as it was the only large EU15 member state which opened its labour market in 2004 but subsequently changed its stance and implemented TA with respect to EU2 nationals in 2007.

¹ Germany and Austria were allowed to apply restrictions on the cross-border provision of services involving the temporary posting of workers as defined by the Directive on Posting of Workers in certain sensitive sectors.
7. The years immediately following the 2004 and 2007 EU enlargements saw an unprecedented increase in the scale of mobility from the NMS. EU LFS data shows that within the 10 years following the 2004 EU enlargement the total number of EU12 nationals residing in the ‘old’ member states increased 5.4-fold, from 1.1 million in 2004 to 6.1 million in 2014. This can be translated into a total net inflow of 5 million migrants from Central Europe, that is 500 thousand per year.

8. The increase in 2005 was much higher than in 2008 (i.e. after the second enlargement round). This can be attributed particularly to the fact that, first, the scale of legal changes was more radical in 2004 than in 2007, second, the citizens of Bulgaria and Romania were already present (on a large scale) on the EU labour market prior to enlargement and, third, there have been major changes in the economic situation - unfolding from the end of 2007 the financial crisis led in most European countries to economic stagnation and decrease in the labour demand in certain economic sectors that had a negative effect on flows from the NMS.

9. Importantly, the structural features of mobility from the NMS have changed in effect of the EU accessions as well. Post-accession NMS migrants tend to be male (but mobility from Bulgaria and Romania is to some extent feminized); they are on average much younger than the population of the EU15 and relatively well educated. Regardless of their skills, the NMS workforce is concentrated in medium-skilled occupations though.

10. The large increase in scale of post-enlargement mobility was accompanied by change in the structure of destination countries. While shortly before the 2004 EU enlargement Germany remained the main recipient for the nationals originating in the EU12, 10 years after the enlargement it ranks 3rd and in terms of migrant stocks the UK became the primary country of residence, followed by Italy which hosts a very high number of Romanian citizens. Importantly, geographic directions of NMS citizens’ mobility became very diversified: while in 2003 three destinations (Germany, Spain and the United Kingdom) hosted 73% of all EU12 nationals living within the European Union, by 2014 this share decreased to 58% and mobile inhabitants of NMS started to penetrate destinations which had not previously constituted important host countries for nationals from Central Europe on a large scale, such as Belgium, Denmark, Ireland, or the Netherlands.

11. Considering those changes one of the most critical issues in the debate on post-accession mobility became the ‘diversion effect’. Several authors argue that there were two main consequences of the selective application of the TA in the post-accession period. First, the general scale of mobility from the NMS to the EU was lower than in case of a free mobility regime. Second, there was a significant diversion from ‘traditional’ destinations (with Germany as the most prominent case) to new labour markets (particularly the UK and Ireland).

12. In this report we claim that the ‘diversion effect’ remains a controversial and understudied concept. We argue that what we observe in the post-2004 period is not a diversion per se but rather an increase of migration propensity on the side of a relatively large part of the population which has not seriously considered the migration option before. As a consequence, we further argue that the composition of receiving countries for NMS migrants was primarily determined by the demand for labour and possibly other factors (such as migration networks, socio-cultural factors, including language) at every destination, whereas the fact of introducing or not TA by each EU15 member state seemed to play a less important role.
13. The labour market position of NMS migrants in EU15 countries is relatively favourable (in terms of participation rates, employment rates and unemployment rates). Nonetheless, the economic crisis did create some disturbances in this respect, particularly well visible in case of EU2 nationals.

14. Existing macroeconomic studies conclude that the post-accession outflow lead to a small improvement of the labour market situation in the sending states in the short-run (lower unemployment and increase in wages). The contrary holds for the destination countries but adverse effects were very limited. In the long-run those effects become negligible as a result of the assumption of capital stock adjustments.

15. Estimates assessing the very impact of TA imposition show that introducing a free mobility regime across all EU Member States would generate only very small differences in terms of labour market effects when compared to a scenario in which TA are maintained. Nonetheless, more liberal labour mobility policies would lead to a better allocation of human capital and lower aggregate unemployment (on the EU level – regional/country effects are ambiguous).

16. Post-accession intra-EU mobility generates not only direct labour market effects, but also has impacts on aggregate growth. In this respect existing empirical studies are unanimous and argue that greater freedom of mobility allows for more effective allocations of labour across economies yielding relatively higher growth. This holds for comparisons on both country and aggregate level, though the impact on GDP and GDP per capita at the EU-level was rather moderate in short-run and negligible in the long-run.

17. All in all, most available studies show that, in the long-run, the decision to impose TA was not welfare-enhancing on the aggregate level. The highest gains from post-accession mobility were achieved by the United Kingdom and Ireland, which opened their labour markets for mobile workers from NMS already in 2004.

18. In fiscal terms, the intra-EU immigrants tend to receive less contributory benefits than natives and the scale of their non-contributory benefits is not significantly higher. Available empirical analyses proved that there are no behavioural differences between the two groups (once key variables are controlled for). Nonetheless, there is a significant variation between EU states in terms of the fiscal effects of immigration. On the one hand, NMS migrants in the UK and Ireland have on average very beneficial labour market characteristics which imply a positive impact on the treasury. On the other hand, relatively high unemployment rates and modes of labour market incorporation in some countries (e.g. Germany, the Netherlands) present a possible challenge for the fiscal system.

19. In the context of the recent economic crisis which generated asymmetric shocks for the economies of the EU, it becomes particularly important whether, and to what extent, the post-enlargement mobility flows respond to variability in changes in economic factors, and can serve as a regulating mechanism in times of recession and recovery. In general, the directions of the flows have shifted during and in the post-crisis period. While pre-crisis EU mobility was predominantly East to West, reflecting the income gap between the EU15 and the new member states, the post-crisis mobility may be described as both East-West and South-North, reflecting a migratory response to economic conditions and variability induced by the crisis. In this way, the intra-EU mobility flows seem to react to a changing economic setting. An analysis of the correlation between mobility rates...
and economic variables suggests that, on the one hand, mobility does react to labour market conditions in the host country, such that when the conditions are unfavorable, individuals (both citizens and foreigners) leave the country. On the other hand, these migratory flows are not necessarily directed to the countries where they potentially would be most beneficial. Any labour market constraints (such as restrictions imposed by the TA) in the receiving countries are therefore likely to hinder the potential self-regulating role of migration flows.

20. Available empirical studies show that when conditions in the main receiving countries worsened, migration flows declined and flexibly redirected to other destination countries with more favourable labour market opportunities. This has been the case in particular with a decline in migration to Ireland and Spain and a rise in migration to countries which fared better, such as Austria, Germany or the Nordic countries. During the crisis period the profile of migrants also changed - from the young and university students to the breadwinners.

21. According to the Accession Agreements the freedom of movement of services was generally not subject to the transitory regulations, neither was the freedom of movement for the purpose of residence. Both facts could have led to NMS nationals seeking work opportunities under the guise of posted work, (to some extent bogus) self-employment or could have resulted in the increase of undeclared work performed by NMS nationals.

22. It is difficult to disentangle the impact of TA on changes in the scale of self-employment from other effects (i.e. for example the impact of the financial crisis) and empirical studies provide mixed results. Nonetheless, there is empirical evidence pointing to self-employment as possible way to circumvent restrictions with regard to labour market access. In Germany labour migrants from the EU8 (subject to TA) have been more than twice more prone to run own-account enterprises than it was in case of German nationals. In the UK the self-employment rates among the EU2 nationals (without labour market access) were significantly higher than among EU8 nationals (who were granted labour market access).

23. Due to the fact that social protection is far more restricted for the self-employed than for migrant workers (e.g. conditions governed by collective agreements are not relevant in this case), self-employed persons from NMS can offer their services for very competitive prices. In that sense the TA which were meant to protect the domestic labour markets of EU15 member states had the opposing side-effect.

24. There is no clear evidence showing the impact of TA on the number of postings. The scale of worker posting is highly dependent on the structural characteristics of both the sending and the receiving markets, including skill mismatches, sectoral and seasonal shortages in workforce and increasing internationalization of companies’ activities. Nonetheless, several authors argue that the scale of postings in the EU and its structure may indicate an excessive use of this indirect route into the labour market during the period of transitional restrictions.
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List of abbreviations

AA – Accession Agreements
CEE – Central and Eastern Europe
EU8 – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia
EU2 – Bulgaria and Romania
EU10 – EU-8 and EU-2
EU12 – EU10 and EU2
EU15 – ‘old’ EU member states: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom (UK)
MS – member states of the EU
NMS – new member states of the EU
TA – Transitional Arrangements
Introduction

The last two decades were a time of dynamic political changes within the European continent, symbolized by the fall of the Iron Curtain and the gradual development and deepening of the EU. The latter factor occurred to be a major issue in the process of building a new European migration space, treated both as an institutional regime within the system of EU law and regulations, and as set of mobility patterns in terms of internal and external mobility. Particularly, two recent EU enlargement rounds (2004 and 2007) appeared to be a turning point in the contemporary migratory history of Europe. In fact, after 2004 sizable flows of labour (and other types of immigrants) from the New Member States (NMS) to the ‘old’ countries of the European Community (EU15) became a new and indeed overwhelming tendency. Out of 3.8 million immigrants recorded in 2008 more than one million originated from the former European communist countries. Mobility from the NMS accounted for around 60% of intra-EU population movements and roughly 20% of all inflows (Kaczmarczyk 2013).

The last rounds of EU enlargement that involved ten Central and Eastern European (CEE) countries were unprecedented for a few reasons. First, the differences in income levels and labour market opportunities between ‘old’ and ‘new’ member states were much larger than in case of previous accessions. Second, all of these countries were still in the process of socio-economic transition and their institutional settings were marked by serious deficiencies. Third, at least a few of them had faced serious barriers to mobility in the past and thus had not experienced substantial migration prior to the EU enlargement. Fourth, in selected cases well established mobility patterns to EU15 countries existed (Brücker et al. 2009; Kahanec and Zimmermann 2009). In light of this, in the course of the last two enlargement rounds most of the EU15 countries opted for the introduction of transitional arrangements (TA) with respect to labour market access. Those restrictions – negotiated with eight new Member States from CEE, which joined the EU in May 1 2004 (NMS8), and with the two new Member States (NMS2) which joined the EU January 1, 2007 – aimed to ‘control’ the inflow of the ‘new Europeans’ and to mitigate possible adverse impacts on both sides of future migration streams. The first enlargement round was of particular importance because – to some extent – it paved the way for further developments in this area. In this case, only three out of the EU15 countries (Ireland, Sweden and the United Kingdom) opened their labour markets, although even there access to social welfare was limited. This pattern was repeated when Bulgaria and Romania joined in 2007, when most of the EU15 countries adopted transitional restrictions on the free movement of workers (to some extent relaxed after 2009).

Against this background, the main objective of this report is to answer the question of the extent to which the selective application of TA has influenced the scale and structural features of migratory flows between the NMS and the EU. In particular, the study aims at: (1) assessing the rationale behind the decisions to open or restrict the labour market access to workers from the NMS (Chapter 1); (2) identifying the main drivers of scale and distribution of post-enlargement mobility flows and assessing the role of the legal regime (and TA in particular) in this respect (Chapter 2); (3) analysing the impact of changes in the legal regime on the economic, labour market and social impacts of post-enlargement mobility flows on destination countries (Chapter 3); (4) looking at the potentially self-regulating nature of labour mobility across EU Member States (with a particular emphasis on the economic crisis and its outcomes) (Chapter 4), and (5) identifying the potential side
**effects or circumventions of restrictions** (e.g. increase in irregular migration or bogus self-employment) (Chapter 5).

**Chapter 1. Transitional Arrangements and their rationale**

Migration literature commonly points to tensions between economic or demographic needs and social / political / cultural consequences of movements of persons. These tensions result, among other things, in vivid political debates on migration and political decisions concerning mobility. This explains the sensitivity – both among the public and policy makers – of the NMS migration issue. It has also led to a broad scientific and political debate on future migration prior to the 2004 and 2007 enlargement rounds. Consequently, some states have applied certain legal rules concerning the access of NMS nationals to the EU15 labour market.

Against this background the main aim of this chapter is to disentangle what were the reasons for opting for particular legal solutions with regard to the labour market access for NMS nationals. In order to do so we aim to answer set of relevant questions. First, we would like to show what was the policy background, i.e. what were the problem trends that lead (or not) to imposing transitional arrangements (TA)? Second, what has been the evidence at hand (available forecasts / analyses)? Third, what was the relevant policy content, specifically, to what extent the outcomes of available scientific studies were translated into particular political decisions? Fourth, what were the policy explanations, i.e. what sets of arguments have been presented in case of the two enlargement rounds of 2004 and 2007 and to what extent the political process behind the accession differed in both cases? Fifth, what actors have been involved in the process? And sixth, whether there have been any changes in political attitudes towards restricted / open access to the labour market noted over the period under analysis?

**1.1. Background – the idea and legal implementation of Transitional Arrangements**

It is commonly acknowledged that there are four fundamental freedoms presenting the very foundation of the European Union: the free movement of goods, the free movement of capital, the free movement of services, and the free movement of persons. In all cases the idea is to guarantee an effective functioning of an internal market – an area where people, goods, services and capital can move freely to enhance the social and economic prosperity of the Community. Nonetheless, in some cases freedoms may be restricted. In this respect the mobility of persons, particularly the mobility of workers presents the most evident case.

The Court of Justice of the EU has adopted a narrow approach towards any restrictions of the fundamental freedoms. Nevertheless, transitional restrictions on the free movement of workers (over a limited period of time) can be imposed by Accession Treaties (primary EU law). They are not imposed on mobility in general (Kraleva 2013).

The ‘protectionist stance’ was clearly visible in the European Union Accession Agreements (AA). In fact Title IV of the Agreements did not include any rule concerning the right of entry for workers. According to Jileva (2002) this way of framing of AA was a part of a safeguarding procedure (by the
In practical terms, the TA operated by permitting the EU15 to derogate from Articles 1-6 of Regulation 1612/68 for a maximum period of seven years (Currie 2008: 16). As a consequence, the EU15 was not able to regulate entry and residence but only to decide on conditions under which NMS nationals access employment in the EU.

For the first two years of the transitional arrangements MS were able to manage labour migration from the EU8/EU2 through ‘national measures’, subject to the so-called standstill clause. These could be extended by another three years. Generally, five years after accession all national measures should cease which should mean granting NMS nationals full access to the labour market. But at the same time an option had been given to restrict labour market access for another two years in case of serious economic disturbances or threat thereof. The standstill clause was meant as a protective mechanism for the NMS in the sense that at any point in time their nationals would be granted mobility conditions not worse than at the time of accession. Kraleva (2013) emphasizes that the clause can be used in a reverse way as well: a more liberal regime can be replaced by a stricter one until the minimum conditions set by the standstill clause are reached. Such a clause has been stipulated in Par. 14 of Annexes VI and VII of the Accession Treaty of 2005 (in case of Bulgaria and Romania).3

Additionally, throughout the whole duration of TA those MS who have not used national measures (and opened their labour markets) have been given an option of referring to the ‘safeguard’ clause. The safeguard clause has been included in both the 2004 and 2007 accession treaties (Par. 7 of Annexes V, VI, VII, VIII, IX, X, XI, XII and XIII to the Accession treat of 2003 and Par. 7 of Annexes VI and VII to the Accession Treaty of 2007). It stipulates that a Member State can reintroduce restrictions with regard to the labour market access within the seven years period (even if a liberalization of labour migration had been introduced earlier), in case of serious disturbances to its labour market ("disturbances on its labour market which could seriously threaten the standard of living or level of employment in a given region or occupation")4.

Both cases of the standstill and safeguard clauses are instructive because they show that it is possible to employ available rules in such a way that the movement of workers within the TA period is brought to an absolute minimum (as was the case of the Netherlands and Spain and the EU2), provided that the conditions imposed by the Accession Acts are met.

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2 Theoretically, the TA were to offer two-way protection, i.e. to both old and new member states (even if they were imposed by the old MS). This idea seems interesting considering the very process of accession negotiations. Kraleva (2013) argues that one of the reasons why the transitory provisions did not function properly relates to the fact that the NMS possessed very weak leverages to influence the negotiations and the very shape of TA and, in fact, they just followed rules imposed by the old MS, mostly used by them for domestic political purposes. It is important to note, however, that the post-enlargement situation with regard to intra-EU mobility reflects the relative attractiveness of labour markets within the EU and particularly the low attractiveness of NMS labour markets for EU15 workers.

3 The standstill clause has been implemented in this way by the Dutch government in July 2011 when the Netherlands announced that the work permits for Bulgarians and Romanians will be issued in ‘exceptional cases’ only. In practical terms it meant that even though after 2007 the access of EU2 nationals to the Dutch labour market had been restricted in accordance with the TA (obligatory acquisition of a work permit prior to employment), after the change EU2 nationals were treated rather like third country nationals (return to the 2005 status quo because it is the date of Accession Treaty that matters in this case). Interestingly, while reviewing the case after its announcement in April 2011 the Commission concluded that the Dutch government did not violate the EU law and used a legally available instrument (more on this case – Kraleva 2013; Fernhout et al. 2012).

4 The first country which referred to the safeguard procedure was Spain (July 2011) for Romanian workers (for more details see Kraleva 2013; Chiva and Phinnemore 2014).
Importantly for the idea of implementing TA, it only allows to restrict access to the labour markets of MS to dependant (wage-employed) workers. The TA did not apply to those NMS nationals who resided in other MS because of their studies, who worked as posted workers, or who established themselves as self-employed (also see Chapter 5). Currie (2008) points to the fact that, considering the very construction of AA (and the derogation focus), the distinction between the workers and the self-employed is of utmost importance. This can be problematic as modern patterns of employment often involve a necessity to change status on regular basis (Chalmers et al. 2006; Eichhorst, Marx 2011; Berton, Richiardi, Sacchi 2012). For this reason this solution potentially became a controversial issue. It was foreseen by the regulators: in case of Austria and Germany it was allowed to restrict this right in regions under high risks of labour market disturbance (Currie 2008: 18). In fact this opportunity has been used to protect several branches treated as ‘sensitive’, including construction or cleaning services (Baas and Brücker 2011). The TA also did not apply to NMS nationals and their family members who were already legally residing and employed in the old MS. Importantly, TA only apply to the labour market – once admitted to the labour market, a mobile worker from NMS benefits fully from all rights under the EU law, e.g. there could not have been any discrimination with respect to nationality, neither were host MS entitled to restrict access to the work-related benefits etc. Similarly, there are no TA for the application of the EU law with regard to coordination of social security schemes.

In practical terms, the existence of TA, in both the 2003 and 2005 Treaties of Accession, meant that in the area of free movement the accession became a process staged over a number of phases. In fact the importance of TA is far larger than suggested solely by the issue of (limited) labour market access. As concluded by Currie (2008), during the TA NMS nationals were not granted complete access to rights of free movement and thus their citizenship status differed from that of the EU15 nationals (even if it was not analogous to third-country nationals considering, among others, community preference etc.) (see also Kubal 2009, 2012). As pointed by Currie (2008) the very existence of TA ironically contradicts not the EU’s policy of promoting labour migration but also set of initiatives that have been implemented in the 2000s (e.g. 2006 as the European Year of Workers’ Mobility, mobility schemes).

**1.2. Expected flows - main messages from the studies on migration potential from the NMS**

The two rounds of EU enlargement in 2004 and 2007 which involved ten CEE countries were unprecedented for a few reasons. Firstly, the differences in income levels and labour market opportunities were much larger than in case of previous accessions. Secondly, all of these countries were still in the process of socio-economic transition. Thirdly, at least a few of them had faced serious barriers to mobility in the past and thus had not experienced large migration prior to the EU enlargement (Brücker et al. 2009; Kahanec and Zimmermann 2009). These circumstances explain the sensitivity – both among the public and policy makers – of the CEE migration issue and led to broad scientific and political debate on future migration from the region.

As evidence for future policy-making, including the politics of introducing TA, a large number of studies assessed the future scale and structure of migration from the NMS. Generally, there were three methods used to forecast future migration from the NMS to EU15 countries. The first one, a so-called survey based approach, estimates migratory potential on the basis of the responses of a
representative sample of the population to a set of questions about their propensity to migrate (so-called migration potential) (Wallace 1998; Fassman and Hintermann 1997; Fouarge and Ester 2007). The second method is based on simple extrapolations of previous trends, particularly similar in nature, e.g. previous enlargement rounds (see: Layard et al. 1992; Orłowski and Zienkowski 1998). The third method utilizes complex econometric methodology and links migration processes to a set of socio-economic factors in both countries of origin and destination (Kupiszewski et al. 2001, Kaczmarczyk 2004, Brücker et al. 2009). In a short overview we will focus on the first and third method.

One of the commonly quoted examples of the survey-based approach is the study by Wallace (1998) who surveyed a representative sample of people from 11 Central and Eastern European countries. The estimated migratory potential varied heavily from country to country: between 7% and 26% of respondents in different countries from this region declared their willingness to emigrate permanently, between 18% and 57% wished to go abroad to work for a few years, and between 13% and 68% would go abroad for short-term migration. The highest level of migratory potential was observed in the Federal Republic of Yugoslavia, in Croatia, and in Romania. By far the most preferred destination was Germany (chosen by 36% of potential migrants), however it was favoured mostly for work-related, non-permanent migration. Such high numbers obviously give rise to questions about to what extent they reflect genuine and realistic intentions rather than wishes and vague expectations.

This issue has been addressed by Fassman and Hinterman (1997) who polled a sample of Poles, Czechs, Slovaks and Hungarians and differentiated between potential migration based on unsubstantiated self-declarations (the ‘general migratory potential’) and the migratory potential of those who have made certain steps towards going abroad, which they called the real migratory potential. Their results showed, as can be expected, an immense contrast. The general migratory potential of the four countries was estimated to be 9.5 million persons whereas the real migratory potential was estimated at about 770 thou. persons aged over 14. E.g. in the case of Poland, the general migratory potential was estimated to be 16.6% of the populace (aged over 14), or about 5 million people, whereas the real migratory potential was estimated at 1.33%, or only 400 000 people. A similar study conducted with regard to the NMS2 provided higher numbers, though. The share of persons who intended to work in the EU was estimated at 17% in case of Bulgaria and over 26% in case of Romania which made both countries very sensitive cases in terms of accession negotiations (Krieger 2004). This outcome seems interesting in the context of further considerations on the presence of a ‘diversion effect’. In fact, it remains an open question what are the factors responsible for triggering the general migratory potential and its targeting towards certain destinations.

There was a large number of studies assessing the future migration streams from the NMS based on econometric modelling. Selected outcomes are presented in Table 1.1.
### Table 1.1. Econometric forecasts of future migration from the NMS – selected studies

<table>
<thead>
<tr>
<th>Study</th>
<th>Database</th>
<th>Initial net inflow</th>
<th>Stock in the long-run</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Estimates of potential immigration into Germany (extrapolations to EU-15 in parentheses)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alvarez-Plata et al. (2003)</td>
<td>Panel of migration stocks from 18 sending countries, 1967-2001</td>
<td>0.22% (UE15: 0.33%)</td>
<td>2.33% (UE15: 3.82%)</td>
</tr>
<tr>
<td>Boeri, Brücker et al. (2001)</td>
<td>Panel of migration stocks from 18 sending countries, 1967-1998</td>
<td>0.22% (UE15: 0.34%)</td>
<td>2.53% (UE15: 3.89%)</td>
</tr>
<tr>
<td>Dustmann et al. (2003)</td>
<td>Panel of migration flows from 18 sending countries, 1960-1994</td>
<td>0.02% - 0.2%</td>
<td>-</td>
</tr>
<tr>
<td>Fertig and Schmidt (2001)</td>
<td>Panel of migration flows from 17 sending countries, 1960-1997</td>
<td>0.01% - 0.06%</td>
<td>-</td>
</tr>
<tr>
<td>Sinn et al. (2001)</td>
<td>Panel of migration stocks from 5 sending countries, 1974-1997</td>
<td>0.64%</td>
<td>7.2%</td>
</tr>
<tr>
<td><strong>Estimates of potential immigration into the United Kingdom</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dustmann et al. (2003)</td>
<td>Panel of migration flows from 18 sending countries, 1960-1994</td>
<td>0.004% - 0.01%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Estimates of potential immigration into the EU-15</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alvarez-Plata et al. (2003)</td>
<td>Panel of labour migration stocks from 20 sending and 15 destination countries, 1993-2001</td>
<td>UE15: 0.11% - 0.15% (in relation to labour force)</td>
<td>UE15: 2.2% - 2.7% (in relation to labour force)</td>
</tr>
<tr>
<td>Zaiceva (2006)</td>
<td>Panel of migration flows from 3 sending and 15 receiving countries, 1986-1997</td>
<td>UE15: 0.23% - 0.34%</td>
<td>UE15: 3.5% - 5.0%</td>
</tr>
</tbody>
</table>

Source: Based on Brücker et al. 2009: 60.

According to the studies quoted above, generally a relatively low level of outflow was predicted – in the long run the number of migrating EU10 residents was estimated to reach between 2% and 5% of the sending populations and 1% of the population of the receiving EU15 countries. A few studies,
however, estimated the number of future migrants at a significantly higher level – up to 7% of the sending populations in the long-run (Boeri et al. 2001; Alvarez-Plata et al. 2003). According to model estimated by Franzmeyer and Brücker (1997), the annual outflow from Poland should have achieved a level of about 500 thou. persons annually. Kupiszewski (2001) stressed that this number equals to about half of all Polish migration in the 1980s and one has to remember that the 1980s were a period of mass movements which took place under totally different conditions than in the 2000s (in Poland and in target countries). Moreover, according to the upper scenario of this estimate, one could expect a cumulative outflow of about 10 million people, i.e. one quarter of Poland’s total population. Similar numbers were generated by the model used by Sinn et al. (2000). Based on their data, one could expect a 48-50 times greater annual outflow from Poland than the average for the years 1993-1997 (see: Kaczmarczyk 2004).

Generally, the recalled data and the results of different analyses illustrate the difficulties with estimating the so-called migration potential. The outcomes are very sensitive to the assumptions being made and to the data used for calibration of the econometric models\(^5\). In that sense it is rather problematic that most models published prior to the 2004 enlargement round made use of quite long time-series data for Germany – a country with a very rich immigration history but, more importantly, which has led many immigration-supporting programs as well (e.g. its guest-worker system). Moreover, most of the studies quoted above have not considered transitional arrangements with respect to the labour market access for the ‘new Europeans’.

Given this evidence controlled access to the labour market turned out to be rather a norm than an exception among the EU15. Additionally, the structure of the introduction / relaxation of transitional periods has been quite complex: restrictions with regard to the NMS10 have been lifted between May 2004 (three countries) and May 2011 (two last ones keeping restrictions). In case of the NMS2 the situation was similar, however there was a tendency to prolong the transitional periods as long as possible – see below.

1.3. Political process, its dynamics and outcomes

Generally, the reasons to implement the TA are twofold. First, there is the rationale related to the impact of migration on the host countries in terms of their labour market and the welfare of their nationals. Second, there are arguments resulting from public fears (in fact also somehow related to the first case but seriously fuelled by the political process). The (relative) wealth has been presented as the main variable working both as push and pull factor in case of labour mobility. In fact, wage (wealth) differences combined with (much) higher unemployment rates noted in the NMS created space for fears that a substantial ‘influx’ would occur (e.g. in 2004 differences between salaries in EU15 and EU8 were as high as 4/5:1 and in case of EU2 even up to 15:1). The clearly stated motivation behind TA was to protect the EU labour market against possible disturbances, particularly increased unemployment (Wright 2010). According to many authors the imposition of TA was rather

\(^5\)This is one of the reasons why many studies avoid providing precise numbers and rely rather on qualitative scenarios – see e.g. Rolfe et al. 2013 for EU2 to the UK.
an outcome of set of political concerns including both risk of unemployment, slowing economies as well as anti-immigrant sentiment (van Selm and Tsolakis 2003).

The free movement of persons proved to be one of the most controversial issues during the negotiation process (up to 2003 and the signing of Accession Treaties). In fact since the very beginning of the European Community every enlargement and introduction of free movement of persons has raised similar fears. Nonetheless, till 2004 most of those fears have been proved wrong.

As a point of reference the experience of previous enlargement rounds (Greece 1981 and Portugal/Spain 1986) can be used. In the first case six-year-long TA have been imposed, in the second case TA have been extended by another year. However, as no major inflow occurred, in both cases the TA ended earlier than foreseen (Vaughan-Whitehead 2003). Moreover, all three southern European countries soon transformed themselves into countries of immigration (see, among others: Okólski 2012). Considering this experience there was a large academic discussion on the adequacy of these cases for the assessment of the enlargement rounds in the 2000s. On the one hand, it was stressed that despite certain differences (cultural, societal) the model of the three Southern European countries can be accepted, especially since the NMS have been already supplying large numbers of workers to EU15 destination countries as it was in the case of countries from previous enlargement rounds (Orłowski and Zienkowski 1998). On the other hand, extrapolating from the Greek, Portuguese and Spanish experiences has been considered as misleading because of much larger income differentials between the EU15 and CEE countries, as well as a much higher migration potential (larger number of inhabitants). Last but not least, all the NMS from the 2004 and 2007 enlargement rounds share post-communist status and related weak institutional structures. Kraleva (2013) points to serious institutional differences between the 2004/2007 enlargement rounds and the previous (Mediterranean) enlargement. First, at the time of the Mediterranean enlargement the concept of European citizenship was not yet developed (see also: Currie 2008). Second, the implementation of the internal market was also at a rather incomplete stage.

There is a number of studies looking at the rationale behind introduction and the very pattern of TA in the aftermath of the 2004 and 2007 enlargements. Some of them focused on political strategies related to political fight against right-wing parties (Gajewska 2003), others emphasize the welfare magnet argument and the need to protect national welfare systems (Kvist 2004). Wright (2010) clearly points to the economic rationale as well as complex setting of political arguments related to the so-called diversion effect which is of utmost importance in the context of further considerations (see Chapter 2 and Chapter 3). Below we attempt to briefly summarize the negotiation process with an emphasis on the main actors involved.

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6 This assumption seems controversial due to serious barriers to mobility in the pre-accession period and, additionally, due to the fact that forms of migration from the Central and Eastern Europe significantly differed from those observed in the past in case of the Southern European countries (with a large share of temporary migrants which is partially attributable to barriers to mobility mentioned above).

7 We focus predominantly on those studies considering specifically the labour market access. There is a bulk of research on the general negotiation process, e.g. Brücker, Schröder and Weise (2003) discussed the negotiations concerning TA and the labour market access as a part of the general negotiation strategy on both site of the old MS and accession countries in a broader (and game theoretical) context.
1.3.1. Country responses

An important role in the political process was played by Austria and Germany whose officials strongly supported the very idea of TA since the very beginning and adopted a very strict stance towards the free mobility of labour (in fact till 2011). Already in early 2000 German politicians invoked risks related to the inflow from the future NMS (echoed by a series of studies on migration potential), particularly those related to unemployment risks. An important role was played (particularly in case of Germany) by trade unions lobbying extensively for TA, arguing that liberalizing labour migration would lead to a decrease in wages and increase the risk of unemployment (Jileva 2002). This point seemed to be well taken particularly if both countries managed to persuade the EU that due to set of factors (shared borders, economic, historic and cultural ties) they are to be treated as potentially the main target countries. Prior to the 2004 enlargement Austria accommodated around 7% of the EU8 nationals residing in the EU15 countries and Germany almost 60% of the total (Kvist 2004). The notion of ‘social tourism’ gained a lot of attention on the side of policy makers and general public. Differences in social welfare provisions have been presented as possible ‘migration magnets’ (Kvist 2004; see extensive discussion of the concept in Nannestad 2007). Additionally, Kraleva (2013) argues that in case of both countries one of the used arguments was that a transitional regime would make the whole Eastern enlargement more acceptable for the broader public.

Currie (2008: 22-23) labelled Germany and Austria as the ‘shepherds’ who streamlined the EU debate for years to come. They have been then followed by a large group of MS (Belgium, Denmark, Finland, France, Greece, Italy, Luxembourg, the Netherlands, Portugal and Spain) – the ‘flock’ which did not intend to introduce the TA initially, but changed their stance along with the growing number of ‘restrictive’ MS. The early decision by the Austrian and German governments and their vocal position in the EU may have ‘fuelled fears’ of the rest of the EU15 because of the risk of ‘diversion effect’ – possible diversion of future flows from Austria and Germany to other labour markets. Boeri and Brücker (2005) argued that with this in mind Austria’s and Germany’s decisions were carefully reviewed and accounted for by other member states in their decisions (see also Wright 2010).

Eventually, EU MS took a variety of political and legal actions in the eve of the Eastern Enlargements. Some countries changed their positions to more restrictive: Denmark ‘decided to revise its position in order to prevent “unintended use of social security benefits” and “undue pressure on wages”’ (Wright 2010: 161); the Greek government followed this rule; the Dutch government emphasized

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8 Role of trade unions in the accession process is far from being unequivocal. On the one hand, in majority of countries trade unions voiced concerns about risks related to unemployment or downward wage pressure (particularly in Austria and Germany) or ‘social tourism’ (e.g. Sweden). On the other, trade unions in the UK and Ireland rather supported the free movement (and very soon started to recruit new members among newcomers from the NMS) (Jileva 2002). Galgoczi, Leschke and Watt (2011) pointed that the European Trade Union Confederation (ETUC) already in 2005 clearly expressed its position asking the EC to check all the arguments lying behind the imposition of TA and not to use them as ‘safety’ procedure and thus positioned itself as a proponent of relatively free mobility within the EU.

9 Additionally – according to the threshold set by the Court of Justice the definition of ‘worker’ was set as very broad (including part-time working, etc.) and thus the number of potentially eligible persons was expected to be relatively high (Currie 2008: 13).

10 Interestingly, the most important proponents of the TA (Austria and Germany) were intensively using the NMS labour force through temporary work permits (Austria) or seasonal migration scheme (Germany). It is worth noting that the seasonal migration scheme between Poland and Germany implemented in 1990 created one of the most important migration streams from Poland until the accession in May 2004 with up to 300 thou. persons involved on an annual basis (Kaczmarczyk 2005).
prospective labour market burdens and claimed to introduce a system of work permits and quotas for workers from the NMS. According to Wright (2010) the decision of the Dutch government even prompted the Swedish government to reconsider its previous (liberal) approach. The Swedes tried to change their position (also strongly influenced by the trade unions – Kvist 2004) but the minority government of that time failed to get enough support in the parliament to change the earlier commitment. Ultimately, upon the accession of the EU10 Sweden and Ireland had the most liberal approach towards the immigration of labour from CEE MS. Only a week after the announcement that the Swedish government would try to impose TA, the British Immigration Minister declared that the imposition of restrictions would be necessary if the influx of EU8 workers would pose a real threat to British jobs. This was followed by Blair’s suggestion about possible work permit schemes for EU8 workers (Wright 2010). From the interviews with senior government officials discussed by Wright (2010) it follows that they were perfectly aware that given the restrictive approaches of important MS, the UK would receive more immigrants than expected. Nonetheless, a liberal approach has been maintained mostly because of economic arguments – see below.

It is worth noting that the imposed rules were not universal. Malta and Cyprus which joined the EU in 2004 were accorded full free movement rights. The arguments for doing so were in line with those concerning EU8/EU2: the smaller size in terms of population and migration potential and smaller income gap between Malta/Cyprus and the EU15 posed a minimal threat and were not expected to generate any significant disturbances in the labour markets of the receiving states (Currie 2008). Importantly, Kvist (2004) pointed to the fact that a number of MS adopted particular solutions (mostly restrictive in nature) in reaction to decisions taken by other states (‘strategic interaction’). This thesis could be supported by the timeline of the accession. Terms of accession became more or less known in late 2002 and at that time several countries, including Denmark, Greece, Ireland, the Netherlands, Sweden and the United Kingdom, opted for free movement of workers while the rest suggested to opt for transition measures of varying degrees (Wright 2010).

**Special case – the UK**

According to many authors the British government’s decision not to impose TA resulted from careful economic considerations (Wright 2010; Currie 2008; Consterdine 2014). The idea, expressed among others by David Blunkett (Wright 2010: 165), was that the EU enlargement was seen as an opening of new opportunities for trade and labour market flexibility and as a possibility for the economy to grow without risk of inflationary pressure resulting from insufficient labour supply. This stance was clearly supported by the British Treasury. Consterdine (2014) argued that the decisions of the UK government are to be seen as a part of a broader strategy concerning migration (‘managed migration’). Moreover, the series of reforms labelled as such stemmed from departments other than the Home Office. Specifically, the most influential body for this approach was the Treasury which perceived migration as a part of the economic growth strategy. In fact, due to very good economic prospects at the time of the 2004 EU enlargement, the risks for the UK labour market were perceived as minor when compared to other EU15 countries (serious labour shortages were rather a concern).

According to Wright (2010) while most of the EU15 governments saw potential future migration from the EU8 countries as having an adverse impact on their economies, the Blair government saw the comparative advantage that could result from an increase in legal migration from CEE. This
opposition was clearly visible in official speeches by high ranked government officials: in December 2002 Foreign Secretary Jack Straw pointed that it is in the UK’s interest to attract workers for key sectors; on the other hand German Chancellor Gerhard Schröder emphasized the risks, particularly in bordering areas, related to not being able to accommodate large numbers of newcomers (Wright 2010: 168). These arguments are strongly related to structural factors associated with the labour market. From the economic perspective it is clear that the UK labour market is far more flexible than those of the continental Europe. UK’s welfare system is also less generous than many continental solutions (particularly in Germany or in the Nordic countries). Against this background it is commonly stated that negative attitudes towards immigration and free movement of workers are stronger in countries with more rigid labour markets and more generous social welfare systems (Boeri and Brücker 2005).

Wright (2010) argued that the strong nature of the UK state is the main reason why Blair’s government was able to pursue a positive stance towards the free movement of workers even if it became quite unpopular among other EU governments. This strong nature of the state is expected to be an outcome of the majoritarian nature of the parliamentary democracy in the UK as well as centralized state. According to Gajewska (2003) federal systems tend to be more sensitive with regard to possible regional and local risks related to immigration than unitary states. Additionally, the decision taken by the British government was an outcome of an initiative of the executive body and not and outcome of a deliberation process involving interest groups, particularly trade unions. The dominating stance was that the UK government advocated the EU membership of CEE countries and the free movement of workers is a part of it.

The policy of ‘managed migration’ as promoted by the Blair government provided also additional arguments. Prior to 2004 the favourable labour market conditions combined with a restrictive immigration policy resulted in relative high numbers of illegal migrants, visa overstayers etc. Thus the idea was to create a channel for free and legal immigration to fill the gaps on the UK labour market. As pointed by Wright (2010: 166) ‘if the government imposed restrictions on EU8 nationals in a climate of high demand for labour, it risked undermining its managed migration policy (see also Drew and Sriskandarajah 2007). Apparently the position of the Blair government was strong enough to overcome the public hostility towards immigrants which was common in most of the EU15 countries.

The eventual introduction of restrictions concerning the access to welfare in the UK (access was prohibited during the first twelve months of employment) can be treated as a response to pressure put by tabloids or public opinion in general. Eventually, the UK did not introduce restrictions on access to work but granted labour market access to NMS nationals conditional on their registration in the Workers’ Registration Scheme and, additionally, restricted access to welfare benefits. Importantly, as pointed among others by Currie (2008), Consterdine (2014) and Kubal (2009, 2012) the British approach was not that liberal as it seems and in fact could be described in terms as ‘exploitative’ in nature (limited access to social welfare, high risks of skills’ devaluation, negative impact of opportunities for families’ reunification). This was the reason why the UK was labelled by Currie (2008: 23) ‘wolf in sheep’s clothing’.

1.3.2. TA revisited

As foreseen by the Accession Treaty, in April 2006 a report on the functioning of TA has been
published (EC 2006). It stressed no adverse effects on the EU labour market but also the fact that the lack of uniformity created a complex situation for EU8 nationals in terms of labour migration opportunities. Importantly, the predominantly complementary role of the EU8 labour force has been emphasized (despite common fears of displacement, unemployment risks etc.)\(^\text{11}\). Additionally, no direct link was found between the scale/structure of mobility and whether or not TA had been adopted (Galgoczi, Leschke and Watt 2011). This observation is in line with a commonly quoted conclusion that post-2004 migration has been largely demand-driven while most of migrants were moving to regions with serious labour shortages (see among others Tamas and Münz 2006). This is of utmost importance in the context of TA because if we admit that the ultimate dynamics of migration are shaped by market forces, it would mean that the TA will have rather moderate impact on migration flows. Of course adverse side effects such as bogus self-employment or irregular migration can appear eventually (see Chapter 5). Yet, generally, most of the negative expectations have not materialized (negative labour market impacts, welfare tourism). Instead, those MS which opened their labour markets to newcomers from the NMS recorded positive outcomes of the inflow (particularly well visible in case of the UK and Ireland – see also Chapter 3).

In 2006 the initial two-year phase of TA expired but its structure remained complex. Several countries did not change their positions. This refers to Germany and Austria (closed labour markets) as well as to the UK, Ireland and Sweden (opened since the very beginning). In case of the rest of the EU15 changes have been noted. In early 2006 several governments announced the relaxation of the TA: Greece, Finland, Portugal and Spain. Later that year (July 2006) the Italian government changed its previous restrictive decision and opened the Italian labour market to NMS workers. Though at that stage the rest of the EU15 countries maintained the labour market restrictions they have been lifting them over the next years (with exception of Austria and Germany): Luxembourg and the Netherlands in 2007, France in 2008, Belgium and Denmark in 2009.

1.3.3. The 2007 enlargement

In the light of the discussion presented above it is extremely interesting to analyse the policy responses to the 2007 enlargement round. In this case similar transitional rules applied as used in case of the 2004 enlargement whereas the UK and Ireland changed their previous position and restricted EU2 nationals from free access to the labour market (though relatively low quotas for selected low-skilled sectors have been introduced in the UK).

While discussing the dynamics of the debates on the imposition of TA and their outcomes, the UK case seems particularly interesting. In fact, the UK was the only large EU15 member state which opened its labour market in 2004 but subsequently changed its stance and implemented TA with respect to EU2 nationals. Based on a set of interviews with British policy makers Wright (2010) argued that the main argument for the liberal decision in 2004 was mostly economic in nature. At the time the economic conditions in the UK were more favourable than in other EU15 countries.

\(^{11}\) A number of studies have documented that in case of Ireland and the UK mobile workers from NMS fill gaps on the labour market and due to positions they take on the labour market should not be treated as substitutes with respect to native labour force (Anderson et al. 2006; Fihel and Piętka 2007; Tamas and Münz 2006; Barrett and Duffy 2007).
Nonetheless, the liberal approach was only possible due to institutional strength of the British government which managed to override domestic opposition. An increased role of domestic competition combined with a less favourable economic situation around the time of the 2007 enlargement are to be considered as the main rationale behind the restrictive decision taken with respect to the EU2 workers.

Eventually, only two EU15 countries (Finland and Sweden) and most of the EU8 countries decided to unconditionally open their labour markets for EU2 nationals. The common explanation is that the economies of EU2 countries were much weaker than it was in case of EU8 countries and thus incentives to migrate were perceived as much higher than before. A particularly important role had been played – again – the ‘diversion effect’. Considering the effects of the 2004 enlargement and the substantial inflow recorded in the case of the UK and Ireland, it became clear that no EU15 country wanted to take the risk and open its labour market if a similar scenario to that of EU8 migration to the UK and Ireland was to take place (Drew and Sriskandarajah 2007; Currie 2008).

Among the MS most of the countries that joined the EU in 2004 allowed immediate labour market access for EU2 workers (the Czech Republic, Poland, Estonia, Latvia, Lithuania, Slovenia). This group was joined by Sweden. In case of Cyprus, Finland and Slovakia access to the labour market has been liberalized conditional on the worker’s registration. The only EU8 country which decided to impose TA was Hungary. A vast majority of EU15 countries decided to take advantage of TA and implemented restrictions as of 1 January 2007 (Denmark, Malta, Greece, France, Italy, Luxembourg, Belgium, Italy, the Netherlands, Spain, Portugal, Ireland, the UK, Austria and Germany) but specific rules varied between national systems. In case of Italy a work permit was not necessary in a number of sectors. France implemented a simplified work permit procedure. In the case of Spain a relatively strict procedure was introduced (job offer necessary, needed to be approved by an employer) apart from the safeguard procedure applied in 2011 (Currie 2008; Kraleva 2013). Full access to the labour market was granted after first stage of TA to EU2 nationals in Denmark, Greece, Spain and Portugal.

Generally, the 2007 decisions are to be interpreted as a clear consequence of previous stances with regard to free mobility of workers. Nonetheless, the policy reversals in the UK and Ireland still demand a careful explanation. In case of the UK it had been announced already in October 2006 that the government did not intend to grant free access to the British labour market to EU2 nationals. Interestingly, while explaining this decision Home Secretary John Reid emphasized the positive effects related to EU8 immigration but also pointed to several infrastructure-related challenges (schools, housing) and local problems with migration pressures. As a consequence access to the British labour market for EU2 nationals was conditional on the possession of a worker authorization card (issued for specific jobs only) and compliance with the national immigration policies (e.g. high- or low-skilled migration schemes) (Currie 2008). While assessing the change from generally positive to generally negative attitude towards newcomers from the accession countries, Drew and Sriskandarajah (2007) pointed to the following factors:

- the number of migrants recorded in the post-2004 period was much higher than expected and this created a common belief that the UK government does not control migration from the NMS (particularly considering the commonly evoked diversion effect); - the 2007 decision was taken under different internal conditions with respect to immigration policy – contrary to 2004, prior to 2007 there was a tendency to show a much tougher stance towards immigration; this position was fuelled
by a set of scandals and ministerial resignations over other immigration issues and the general perception that the UK government had lost control over the inflow of foreigners (Wright 2010);

- there were raising social concerns which somehow hampered the positive estimations of the consequences of post-2004 immigration (particularly labour displacement on the local level, too much pressure placed on public services, hospitals and schools); those issues have been amplified by the opposing Conservative Party and many interest groups including Migrationwatch UK; as a consequence the perception that the economic benefits of the EU8 migration cannot compensate for the social costs associated with the inflow had become more and more dominant;

- Romanians and Bulgarians were generally less favourably perceived than EU8 nationals (with publicly acclaimed inclinations towards organized crime and corruption as one of the main arguments (to some extent confirmed by the EU Commission’s decision to delay the accession date for both countries); Wright (2010) emphasizes that even if these kinds of statements lacked empirical validity they were commonly cited by ministers and civil servants as important factors responsible for the final decision.

The ‘number argument’ seems particularly well taken. The commonly quoted study published in 2003 estimated that the UK would experience inflows of new immigrants ranging from 5 to 13 thou. persons annually. Even though the authors of the study (Dustmann et al. 2003) clearly emphasized the methodological shortcomings of the analysis and general risks associated with forecasting of migratory phenomena there was a common belief that the numbers have been considerably underestimated and that the scale of immigration was unpredictable. After all in 2006 the number of registered EU8 nationals on the UK labour market was already as high as 500 thou. (Wright 2010). Thus for many officials it was clear that there was no other option than to restrict the labour access to EU2 nationals as it was not possible to risk making a mistake again.

According to Wright (2010) the tune of the discussion was set by the Migration Advisory Committee (MAC) established in 2007. It claimed that the main issue with the 2003 estimates was related to the assumption that all the EU15 countries would open their labour markets for EU8 nationals (MAC 2008, 2010, 2012). Germany’s ultimately restrictive approach was perceived as the main actor and factor responsible for so high intakes recorded in the UK. Wright (2010) quotes the MAC report (2008) stating clearly that ‘if migrants’ preferred destinations were fixed irrespective of restrictions, the impacts of other member states’ decisions would be more limited. However, an important lesson from the 2004 accession is that preferences are partially constructed in relation to restrictions and opportunities in different countries’ (MAC 2008: 6.10-6.11). Additionally, in 2006 the economic conditions in the UK were already slightly different from those in 2002-2004 with an increasing scale of unemployment. Moreover, the skill set of Romanian and Bulgarian nationals was perceived as less favourable for the British market than in case of the EU8 nationals (Wright 2010).

Interestingly, even if generally the inflow of Romanian and Bulgarian workers to the majority of the EU15 countries remained restricted, there were certain routes still accessible. The UK decided to offer an unlimited quota for high-skilled workers and around 20 thou. low-skilled workers (in specific sectors). Italy applied a sector-specific migration scheme. In case of Spain it was possible to work if the worker had been contracted prior to arrival (Drew and Sriskandarajah 2007).

* * *
As shown above there was a variation in policy responses of the EU15 countries with respect to the labour market access and imposition of the TA. Wright (2010) argues that those differences can be explained by a combination of domestic political pressures, economic institutional factors and, importantly, positions of other member states. This seems somehow surprising because the set of ‘usual suspects’ is theoretically different and includes differences in migration pressures resulting from historical links, geographical proximity, existing migrant communities or common language.

According to Benton and Petrovic (2013) the recent enlargement rounds can be evaluated in the broader context of free movement. Prior to the 2004/2007 accession rounds most of the intra-European movements were rather small in scale and regional in nature (based mostly on historical ties or bilateral agreements). After 2004 the scale of migration increased significantly (and to large extent unexpectedly). The last period – since the economic crisis – is marked with serious changes in the scale of the dynamics of internal EU mobility: on the one hand, the scale of migration from the NMS is in decline; on the other hand, there appeared movements from countries most seriously hit by the crisis (particularly from southern Europe). Even if some observers would like to see the EU as a kind of ‘laboratory of open borders’ (Benton and Petrovic 2013: 1), the impact of the economic crisis may seriously hinder all attempts to evaluate the EU policy of the freedom of movement – see also Chapter 4.

**Chapter 2. Post-enlargement migration – scale, structure and drivers: the case of the NMS8 and NMS2 countries**

In the EU15 countries restrictions on the free movement of workers remained the main policy measure aiming at postponing – and possibly alleviating – the inflow of migrant workers originating from the NMS countries. The transitory measures that could have been applied by each EU member state individually were valid up to 7 years following the EU enlargement, but most of EU15 countries did not recourse to the maximum length of this period (see Table 2.1). In fact, in case of countries that joined the EU in 2004 only two EU15 member states applied the maximum 7-year period of restrictions; in case of countries that joined the EU in 2007 – nine EU15 member states, in case of Croatia – ten EU15 member states so far.
Table 2.1. Year in which selected EU15 countries granted the open access to their labour markets to the nationals originating in the EU8, EU2 and Croatia.

<table>
<thead>
<tr>
<th>Year</th>
<th>EU8</th>
<th>EU2</th>
<th>Croatia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>IE, SE, UK</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2006</td>
<td>EL, ES, FI, IT, PT</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>2007</td>
<td>LU, NL</td>
<td>FI, SE</td>
<td>n.a.</td>
</tr>
<tr>
<td>2008</td>
<td>FR</td>
<td>-</td>
<td>n.a.</td>
</tr>
<tr>
<td>2009</td>
<td>BE, DK</td>
<td>DK, EL, ES, PT</td>
<td>n.a.</td>
</tr>
<tr>
<td>2011</td>
<td>AT, DE</td>
<td>IT*, IE*</td>
<td>n.a.</td>
</tr>
<tr>
<td>2013</td>
<td>n.a.</td>
<td>AT, BE, DE, FR, LU, NL, UK, DK, FI, IE, PT, SE</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Notes: n.a. – not applicable; * Simplified access to certain economic sectors or under condition that an employer cannot fill the vacant post with another EU25 national. Source: http://ec.europa.eu/social

Against this background the main aim of this chapter is to provide empirical arguments showing to what extent changes in the post-accession period (in terms of scale of migration and its structural features) are attributable to legal rules, including transitional arrangements, and to what extent they are attributable to other factors (networks, linkages, socio-economic differences, etc.). Thus, the hypothesis that the diversion effect (the selective opening of the EU15 labour markets, i.e. the introduction of transitional arrangements) resulted in drastic changes in the regional distribution of immigrants from CEE (with the United Kingdom and Ireland experiencing the greatest increase in the stock of immigrants) as proposed by Brücker et al. (2009) will be verified. In order to do so we will carefully look at the following questions: what changes in terms of scale and dynamics of migration from the NMS8 and NMS2 have been noted in the post-accession period? What changes in the structural features of migration resulted from the EU enlargements? What are the main causal factors shaping the size, dynamics and structure of post-accession migration? What are the main types of migration observed in the post 2004 period? And last but not least, to what extent the observed changes, if any, are attributable to legal regimes, particularly to the transitional arrangements (the diversion effect hypothesis)?

2.1. Post-accession mobility – state of knowledge

From a large bulk of studies it follows that the years immediately following the 2004 and 2007 EU enlargements saw an unprecedented increase in the scale of migration from the NMS, moreover, that those inflows seem important also in the global perspective. According to OECD data, nearly half of migration within the EU15 countries over the last decade is to be ascribed to the NMS8 and NMS2 citizens (around 15% of all immigrants recorded in 2010). From the sending countries’ perspective, the number of migrants from the NMS8 and NMS2 in the EU15 countries increased by around 3.7 million between 2004 and 2010 (2.4-fold increase). As a consequence, as for 2010 the emigration rate for the NMS12 countries was as high as 10% whereas the majority of those migrants (around 70%) resided in the EU15 countries (DIQC database).
It is necessary to note, however, that the reliability of migration data remains a very serious issue in case of the process under examination. Weaknesses of migration data are commonly documented with an emphasis on undocumented border crossings and employment, short-term or commuter-type mobility etc. (see among others Holland et al. 2011; Galgóczi, Leschke and Watt 2011). Nonetheless, those features are amplified in case of migration from Central and Eastern Europe. First, this is due to the transiency of state borders in the 20th century and complex ethnic relations resulting in large scale ethnically-driven mobility which often escaped migration statistics (e.g. large differences in immigration statistics based on country of birth and citizenship criterion – see OECD 2014). Secondly, due to the temporary nature of mobility in many countries of the region, a distinct category of ‘temporary migrants’ is being used also in official statistics, i.e. permanent (de iure) residents of a given country who even if still counted in population registers are staying temporarily abroad or have (de facto) ceased to live in CEE. For these reasons official data on registered migration are seriously deficient for not accounting for sizable groups of persons staying temporarily abroad – this point is particularly well studied in case of Poland due to the fact that the Central Statistical Office of Poland regularly provides estimates of the stock of migrants staying temporarily abroad (while registered as permanent residents of Poland – see among others Kaczmarczyk and Okólski 2005, 2008; Kaczmarczyk 2013).

Considering the abovementioned comments, it is important to pay great attention to the source of data used for particular statistical exercises. In this chapter we will refer to three available data sources. First, we will follow Brücker et al. (2009) who estimated the scale and structural features of migration from the NMS on the basis of EU LFS data (see section 2.2). Second, to provide a broad picture of the post-accession mobility we will discuss results presented by Holland et al. (2011) utilizing Eurostat data (population statistics). Third, we will refer to national LFS data to discuss selected issues related to the possible diversion effect.

As a point of departure we will refer to a study commissioned by the EU and published in 2009. Brücker et al. (2009) indicated that the number of foreign residents from the NMS8 in the EU15 has increased from around 900 thou. persons in 2003 to more than 1.9 million in 2007 (0.5% of the receiving population, as compared to 0.2% in 2003). It meant that there was a significant increase in the scale of annual flows (250 thou.) as compared to the pre-accession period (62 thou. on average in 2000-2003). The biggest incidence of outflow was noted in the case of Slovakia, Lithuania, and Poland. The study covered the period prior to 2007 and thus data on Bulgaria and Romania was presented predominantly in the context of forecasting exercises. Nonetheless, although migration from Bulgaria and Romania was restricted for most of the 2000s, the number of citizens from these two countries in the EU15 increased significantly between 2000 (around 280 thou.) and 2007 (almost 1.9 million or 0.49% of the receiving population).

Below we present selected outcomes of a study commissioned by the EC and prepared by the NIESR team (Holland et al. 2011). We will refer particularly to outcomes based on the Eurostat population statistics. As clearly indicated by the authors, there are key (and obvious) differences between this source of data and the EU LFS utilized in the following section. The LFS data is based on quarterly

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12 In this section we refer only to a small fraction of statistical studies on mobility from the NMS. Particularly we do not discuss a number of reports on the functioning of transitional arrangements officially published by the EC (EC 2006, 2008, 2011).
surveys with limited samples covering between 0.2 and 3.3% of the population which presents serious challenges in case of immigration studies (and particularly in case of those countries with relatively limited number of foreigners – see among others Kaczmarczyk 2011). The Eurostat population statistics are based on a set of complementary sources but only in 2007 all member states were forced to put common definitions in place, which resulted in serious discrepancies in statistical time series for some countries. Holland at al. (2011) decided to refer to the Eurostat population data mostly due to its coverage but also presented a set of interesting comparisons between this data source and the EU LFS. On the one hand, the discrepancies at the EU27 level turned to be very small (the foreign population calculated on the basis of the LFS statistics was merely 1.2% smaller than in case of Eurostat population statistics). On the other hand, however, there were serious differences at the disaggregated level (particularly high in those countries which can rely on relatively efficient register systems, e.g. Denmark, the Netherlands, Sweden – Holland et al. 2011: 38). These comments are important because they suggest to interpret most of the presented outcomes with a certain degree of uncertainty.

Figure 2.1 shows that the first post-accession years saw an immense increase in the scale of international mobility from the NMS (despite the presence of serious restrictions as discussed in Chapter 1). The stock of NMS nationals residing in the EU15 countries tripled between 2003 and 2009 (from around 1.6 million to 4.8 million). These changes have been accompanied by minor scale reverse flows (from the EU15 to the NMS8 and NMS2) and moderate flows between NMS2 and NMS8 (Holland et al. 2011).

Figure 2.1 Stock of NMS8 and NMS2 migrants in the EU15 countries, 2004-2010, in thousands.

![Graph showing stock of NMS8 and NMS2 migrants in the EU15 countries, 2004-2010, in thousands.](image_url)

Note: EU2 refers to Bulgaria and Romania. Source: Holland et al. 2011: 49.

According to the presented data, between 2004 and 2009 (end of year) about 1.8% of the NMS2 population moved to the EU15 countries and as a consequence the host countries population raised by approximately 0.3% (Holland et al. (2011) attributed around 75% of the total solely to the enlargement process). In case of the NMS2 those numbers are even larger: only between 2007 and 2009 around 4.1% of the sending populations moved to EU15 countries raising the populations of the
host countries by 0.3%. To some extent these results may constitute a statistical artefact because already at the beginning of the 2000s the scale of outflow from Romania increased (Rolfe et al. 2013), and the 2007 EU enlargement might have constituted an opportunity for migrants (being already abroad) to acquire regular status (similarly as it was in the case of NMS8 migrants residing in the UK and Ireland prior to 2004). However, this cannot be verified due to the lack of reliable data.

Figure 2.2 shows that changes in terms of stocks of migrants are attributable to increased flows over the whole period considered, however, there are sharp increases directly after the 2004 and 2007 enlargement rounds.

Figure 2.2 Net migration flows from the NMS to EU15 countries, percentages.

![Graph showing net migration flows from the NMS to EU15 countries, percentages.](image)

Note: EU2 refers to Bulgaria and Romania. Source: Holland et al. 2011: 50 (based on the EU LFS data).

Observed migration flows are seriously varying in terms of both countries of origin and destination. First, as shown below – Figure 2.3, the relative outflow over the period 1998-2009 was the highest in case of Romania, Bulgaria and Lithuania. In case of Poland even if the outflow was substantial in absolute terms it still constitutes relatively low share of the total population\(^\text{14}\).

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\(^{13}\) Effects of migration on the sending economies are beyond the scope of this report but note that in case of several countries, particularly Bulgaria, Poland, Romania and the Baltic states, the post-accession outflow will have a significant (and long-run) negative demographic impact (Fihel and Solga 2014; Kaczmarszyk and Okólski 2008; Kaczmarszyk 2005; Holland et al. 2011).

\(^{14}\) Note however that according to the data published by Central Statistical Office of Poland and including ‘temporary migrants’ the stock of those staying temporarily abroad is as high as 2.1 million (as for 2013) which accounts for over 5% of the total population – see Kaczmarszyk 2013.
The structure of destination countries seems to reflect both the dynamics of legal changes in the post-accession period (TA) and long-standing migration patterns (networks, well established migration routes, former and recent recruitment programs, geographical proximity). The complexity of legal rules and drivers of migration has led to serious differences between Ireland and the UK, on the one hand, which host majority of NMS8 migrants; and, on the other hand, the southern European countries, Spain and Italy which became target for the vast majority of Bulgarian and Romanian mobile persons.

Importantly, the structural features of migration from the NMS have changed as well. As shown by available studies:
- NMS migrants tend to be male but particularly migration from Bulgaria and Romania is to some extent feminized (Holland et al. 2011: 55);

- migrants from the NMS are on average much younger than the population of the EU15: over 80% of migrants are persons aged 15-64 (as compared to 65% in case of the EU15); the share of persons in working age is particularly high in case of Bulgaria, Romania and Poland (Holland et al. 2011); additionally, the share of young persons aged below 35 is much higher in case of NMS migrants than in host populations (European Commission 2011c);

- statistical brain drain is observed (over-representation of well-educated migrants): the share of tertiary-educated persons is generally higher among migrants than in the total sending population even if controlled for possible biases resulting from the difference in age structure between migrants and sending societies at large (Brücker et al. 2009);

- the majority of migrants from the NMS move to other EU countries for work purposes and their employment rates are relatively high considering global trends: in 2010 the labour market situation of the NMS8 migrants was on average slightly better than in case of EU15 nationals (with about 75% of employed persons and roughly 18% economically inactive), the situation of NMS2 migrants was less favourable (slightly lower employment rates and higher unemployment rates than in case of EU15 nationals, lower share of economically inactive persons) (European Commission 2011c);

- last but not least, NMS immigrants are concentrated in medium-skilled occupations (55% of the total; considering the educational structure of EU10 migrants it is commonly pointed that their occupational structure does not reflect the skill set possessed and severe over-education is observed (particularly in the UK and Ireland) (Drinkwater et al. 2009; Holland et al. 2011; Brücker et al. 2009; Kaczmarczyk and Tyrowicz 2015).

2.2. Post-accession migration from the NMS according to the EU LFS\textsuperscript{15}

According to the EU LFS data within 10 years following the 2004 EU enlargement the total number of EU12 nationals residing in the ‘old’ member states increased 5.4-fold, from 1.1 million in 2004 to 6.1 million in 2014. This can be translated into a total net inflow of 5 million migrants from Central Europe, that is 500 thou. per year. Not surprisingly, the most relevant annual increases were noted in 2005 (1.75-fold) and 2006 (1.3-fold), shortly after the accession of 10 new member states with Poland representing the most relevant demographic potential in the region. In 2008, after the accession of Bulgaria and Romania the number of EU12 nationals increased by 20% year-over-year.

\textsuperscript{15} Full set of background data related to this chapter includes the Appendix.
It is worth mentioning that the increase in 2005 was much higher than in 2008 (i.e. after the second enlargement round). This can be attributable to a few factors, including following:

- the scale of legal changes was more radical in 2004 than in 2007; as shown in Chapter 1 the experience of 2004 enlargement has led to significant changes (i.e. more open labour markets) in the approaches to internal EU mobility (with the UK and Ireland as the most prominent examples);

- the citizens of Bulgaria and Romania were already present (on a massive scale) on the EU labour market prior to enlargement and thus in terms of the scale of migration the 2007 enlargement meant an evolution rather than a revolution;

- the 2007 enlargement round happened already in the period when the demographic potential of CEE countries started to shrink (and signs of demographic ageing started to be clearly visible): in 2004 the median age of the Bulgarian population was as high as 40.5 years and of the Romanian population it equalled 36.5 years, in 2008 those values were as high as 41.9 and 40.9, respectively; this point seems particularly well taken with respect to the case of Croatia – in 2013 the median age of the Croatian population amounted to 42.4 years, i.e. a level similar to the EU15 average;

- in the end of 2007 the financial crisis led in most European countries to economic stagnation and decrease in labour demand in certain economic sectors; this affected negatively flows from NMS (see chapter 4).

The number of EU12 nationals has been gradually rising in all ‘old’ EU member states, regardless of whether or not transitory restrictions had been introduced for the national labour markets. Nevertheless, while shortly before the 2004 EU enlargement Germany remained the main recipient for the nationals originating in the EU12, 10 years after the enlargement this country was placed at
the 3rd position as long as the number of EU12 residents is concerned. The United Kingdom became the primary country of residence, followed by Italy which registered a very high number of Romanian citizens (329 thou. in 2006 that is before the Romanian accession, 1.2 million in 2014).

**Figure 2.6 Number of EU-12 nationals residing in four EU-15 countries in thousands, 2000-2014*.**

Notes: * the value for 2014 is an average for first three quarters of year. Source: Own elaboration based on the EU LFS data.

Importantly, migration from NMS not only increased in terms of numbers but it also became very diversified in terms of geographic directions of mobility. While in 2003 three destinations (Germany, Spain and the United Kingdom) hosted 73% of all EU12 nationals living within the European Union, by 2014 this share decreased to 58%. Immigrants started to penetrate destinations which had never constituted important destinations for nationals from Central Europe on a large scale, such as Belgium, Denmark, Ireland or the Netherlands.

Moreover, a similar observation can be made also for regions within destination countries, for instance with regard to rural and peripheral regions of the United Kingdom (Fihel and Piętka 2007; Stenning and Dawley 2009). Given this, very high dynamics of migration into selected EU member states, notably small and never penetrated by the EU12 nationals before, should not be surprising. In the period 2004-2014 the number of the EU12 nationals increased almost 10-fold in Denmark, almost 7-fold in Belgium and the Netherlands, more than 5-fold in Luxembourg (Figure 2.7).
Figure 2.7 Increase in number of EU-12 nationals residing in the EU-15 countries, 2014 as compared to 2004 (2004 = 100%).

Notes: * the value for 2014 is an average for first three quarters of year; for Ireland 2014 as compared to 2006 (no data on NMS nationals available for earlier period), for Italy 2014 as compared to 2005. Source: Own elaboration based on the EU LFS data.

As noted in the previous section, NMS migrants are on average young or even very young. Figure 2.8 shows that in case of the most important destination countries the share of those aged 15-34 is higher than 40%. This is particularly well taken in case of the UK: in spite of the 2004 accession and opening of the labour market, the age structure of NMS migrants in this country changed significantly and the share of persons aged 15-34 reached around 70% in 2006 to decline only slightly (to around 55%) since then. On the contrary, Germany (and Austria) attracted relatively older migrants – in this case share of migrants aged 15-34 is lower than 40%.
The share of highly educated persons among migrants from the NMS exceeded 10% in most receiving countries (both in the aftermath of the EU enlargement and in 2014) (Figure 2.9). This is particularly well taken in case of Polish migration commonly described in terms of a ‘brain drain’ (Figure 2.9 – right panel). In some countries belonging to the ‘old 15’, such as France, Luxembourg and Sweden this share was particularly high in both years for which the data is presented. Importantly, some countries were successful in attracting highly educated persons after the EU enlargement, and this concerns both destinations that introduced transitional arrangements (Austria, Luxembourg) and those that did not (Sweden and the United Kingdom). In some countries the share of university graduates decreased in the period 2004-2014, for instance in Denmark, Greece, Netherlands and Portugal which may point to a declining selectivity or migration and/or re-direction of migration flows.

Notes: * High level of education (ISCED level from 5 to 8); ** the value for 2014 is an average for first three quarters of year. Source: Own elaboration based on the EU LFS data.
The data discussed in the previous section showed that in terms of economic activity NMS migrants exhibit similar patterns to those observed for EU15 citizens. Figure 2.10 indicates, however, that there is a significant variation in immigrant activity rates between EU15 countries. In some of them (the UK, Spain, Denmark, Portugal, Ireland) the rates of economic activity of NMS migrants are higher than 80%. The most spectacular rise was noted in case of the UK as a consequence of the 2004 enlargement. Participation rates in Germany (as well as in France, Belgium, Austria and Italy) are lower but still oscillating around 70-75%.

Figure 2.10 Economically active NMS migrants (as the share of the total), age 15 and more, in selected EU15 countries, 2003-2013.

Source: Own elaboration based on the EU LFS data.

It is important to note that even if the education profiles of NMS migrants are relatively favourable (mostly as a consequence of the increase in the average level of education in the sending populations), the share of economically active migrants employed as professionals remains relatively modest and in several cases even declined since the economic crisis (Figure 2.11). This is particularly interesting in case of the UK and Ireland where the skill structure of NMS migrants is especially beneficial (Drinkwater et al. 2009; Kaczmarczyk and Tyrowicz 2015).
Figure 2.11 Share of professionals* among all employed NMS migrants in EU15 countries, 2008, 2011 and 2013.

Notes: * NACE (Nomenclature statistique des Activites economiques dans la Communaute Europeene) codes from K to U (employed in finance, business services, public administration, education, health). Source: Own elaboration based on the EU LFS data.

There is a strong division among EU15 host countries with regard to unemployment rates of NMS migrants – Figure 2.12. While in the majority of cases the level of unemployment remains moderate (even at times of economic crisis and recovery) – the UK, Germany, Austria, France, the Netherlands, in case of the southern European economies situation is far more dramatic. As for 2013 unemployment rates of NMS migrants in Spain, Portugal and Greece were higher than 25%. This does reflect the general labour market performance in those economies, though.

Figure 2.12 Unemployment rates of NMS migrants in selected EU15 countries, 2003-2013.

Source: Own elaboration based on the EU LFS data.
2.3. Role of diversion effect? Discussion

This section aims at exploring whether the scale of migration to main destination countries changed upon the EU accession of NMS in 2004 and 2007 and what was the impact of the selective introduction of TA on migration flows between NMS and EU15 countries. This analysis, due to important data limitations, uses statistical information concerning all categories of migrants, and not only labour migrants or employees. This creates certain limitations for interpretation of the role and functioning of TA.

A simple comparison of the pre- and post-accession migration rates from the NMS shows that in (almost) all cases there was a significant rise in the scale of outflow. At the same time, however, the distribution between receiving EU15 countries changed enormously – Figure 2.13 (see also Figure 2.6). While in the pre-accession period Germany hosted the majority of migrants from the NMS, in the post-accession period the UK overtook its role (closer examination shows that the UK recorded large inflows already in 2002 and 2003, i.e. before the EU enlargement). Similar picture emerges when flows data are considered.

Figure 2.13 Distribution of EU8 citizens in the EU15 in 2003, 2006 and 2009.

The effect described above is commonly labelled as the ‘diversion effect’. It has been projected by Alvarez-Plata et al. (2003) in the form of increased flows to countries without temporary restrictions and smaller flows to countries which imposed labour market restrictions. At that time, however, researchers emphasized that the regional distribution of migrant flows will exhibit persistence over time due to network effects. As Alvarez-Plata et al. note, “a large migration community in one country increases the opportunities for further immigration through channels such as family reunification and illegal migration, even if a restrictive migration policy is pursued” (Alvarez-Plata et al. 2003: 43).

The diversion effect hypothesis has been expressed unequivocally in a set of studies presented by Herbert Brücker and his colleagues (Brücker 2005; Baas and Brücker 2011, 2012; Brücker et al. 2009). Brücker (2005) argues that the scale of migration after the 2004 enlargement was significantly lower, between one third and half of the mobility flows expected in situation of a free mobility regime. He
concludes that the TA have led to losses at the EU level and, possibly, could lead to negative impacts on Germany (due to an unbeficial skill structure of newcomers). Brücker et al. (2009) note that indeed the overall increase in the scale of migration from the NMS8 is consistent with pre-enlargement estimates, but that at the same time the regional distribution of flows is not. Among the reasons for this state of affairs Brücker et al. recognize: the selective application of TA across Member States, varying labour market institutions in potential destination countries, language, culture, declining costs of distance, and even climate. Baas and Brücker (2012: 1) look explicitly at “macroeconomic consequences of the diversion of migration flows away from Germany towards the UK in the course of the EU’s Eastern Enlargement” and show that the effects of the imposition of TA were less favourable for Germany. At the same time the diversion of migration flows might have protected German nationals against negative effects on the labour market (see Chapter 3). Further, they argue that there were two effects of the selective application of the TA in the transition period. First, the general scale of migration from the NMS to the EU was presumably lower than in case of an unlimited free mobility regime. Second, an analysis of the composition of migrants with respect to countries of destination leads to a conclusion that there was a significant diversion from ‘traditional’ destinations (with Germany as the most prominent case) to the new labour markets (particularly the UK and Ireland): in 2003 around 60% of all migrants from the NMS8 residing in the EU15 were registered in Germany and Austria\(^{16}\); in 2007 this share declined to roughly 41% while it increased to 52% in case of Ireland and the UK. In terms of flows – as shown by Baas and Brücker (2012) - in the first four years after the 2004 enlargement round the UK and Ireland received around 70% of the total net inflows while in the pre-accession period this share was as high as 14% (in case of Austria and Germany the share in the post-accession period was as high as 18%) – see also Figure 2.13. Importantly, studies for the UK pointed to the fact that scale of mobility between NMS8 and the UK has increased already in the direct pre-accession period which could be attributable to expectations concerning EU enlargement and labour market opening (see among others Holland et al. 2011).

The need to search for the causes of this situation other than migration regime stem from the fact that not all destinations that have opened their labour markets encountered increased migration flows as the UK or Ireland. For example, neither Sweden, which has enabled full access to its labour market, nor Denmark, which granted partial access, have been affected by this diversion effect. Particularly in Sweden (commonly described as employing the most liberal migration regime with respect to the NMS) the post-accession inflow was not much higher than in case of other EU15 countries. Baas and Brücker (2012) explain this effect in terms of a specific labour market structure (so-called social control) but, importantly, they do not treat this case as a falsification of the diversion effect hypothesis.

Holland et al. (2011) made yet another attempt to quantify the effect of TA on migration flows (and economic outcomes). First, an index of relative restrictions has been calculated: for single countries it varies between -1 (complete closure) and 1 (complete openness) which then has been expressed in relative terms (relative to the EU15 average\(^{17}\)). Second, a panel regression has been run to estimate the impact of TA while controlling for other important variables (stock of migrants present in a given country, population size, relative GDP per capita, relative unemployment rate). Outcomes of the

\(^{16}\) According to Elsner and Zimmermann (2013) in 2000 this share was as high as 80%.

\(^{17}\) In that sense it could be problematic because it implicitly assumes that EU as a whole presents relatively homogenous space in terms of migrants’ preferences.
model can explain around 50% of the total shifts in migration flows after accession. The figure below presents a decomposition of the total change in shares of migrants from the NMS to a given EU15 labour market as explained in terms of population developments, relative GDP per capita, relative unemployment rate and the imposition of TA.

Figure 2.14 Shifts in NMS migrants’ shares in a given EU15 country and their sources, 2003-2009.

On the one hand, in a few cases, including Germany, population developments play a far more important role than the imposition of TA. On the other hand, in countries like the UK, Austria, Portugal or the Netherlands the unexplained variance remains very high. Nonetheless, from the presented data it follows that in case of the two most important ‘players’ – Germany and the UK – TA can explain only around 20% of the shift observed between 2003 and 2009 which presents a very low value considering the very logic of ‘diversion effect’. Additionally, a very small impact of the relative GDP should be noted, particularly if compared with the importance of the relative labour market situation. Holland et al. (2011) conclude that there is some evidence of the diversion effect, i.e. that the TA diverted mobile workers originating in the NMS from their traditional destinations towards those labour markets which were more accessible for them in terms of the migration regime. At the same time, however, they present an empirical analysis proving that the impact of TA should not be overestimated and other factors, including labour market issues and demographic effects, played an important role in the changes as well.

New insights into the mechanics of externalities resulting from the imposition of TA can be drawn from the lessons learned in the aftermath of the 2007 accession of Bulgaria and Romania. Interestingly, the largest shift in migration flows has been noted from Spain towards Italy, despite both countries having initially restricted access to their labour markets for EU2 nationals and Spain lifting them at the beginning of 2009. Holland et al. (2009) claim that this more likely reflects the relatively better condition of the Italian economy in comparison to Spain, especially after the severe recession in 2009. Similarly, the situation after the complete opening of the EU labour market for EU8 countries (in 2011), and under the post-crisis circumstances, has been presented as a possible test of the ‘diversion effect hypothesis’. According to Baas and Brücker (2011) the labour market conditions in Germany and Austria at that time were more favourable than it was prior to 2004, moreover their relative position vis-à-vis other EU15 member states improved significantly while the
UK and Ireland had still not fully recovered from the crisis. Additionally, as southern European countries (Italy and Spain) – traditional destinations for NMS2 nationals – were suffering heavily from the economic downturn, there was a presumption that migrants from Bulgaria and Romania could easily change their routes and target Austria and Germany instead. As shown above (Figure 2.6) these expectations did materialize only to a limited extent. In fact, the pattern of post-2011 NMS migration was similar in case of Germany and the UK. To sum up, currently available evidence shows that indeed the changes in migration flows followed more complex laws of motion than those delimited by the imposition of TA.

Following Tamas and Münz (2006) we argue that migration from the NMS was primarily driven by the demand for labour and possibly other factors (such as migration networks) at every destination, whereas the fact of introducing or not TA by each EU15 member state seemed to play a less important role. To prove this we will refer to two categories of arguments.

First, back-of-the-envelope analysis shows that in 2005 relatively high dynamics in the number of residents originating in the EU12 member states were observed not only in countries with open labour markets, such as United Kingdom (an increase of 130%) or Sweden (30%), but also in countries which adopted TA, notably Germany (50%), Austria and Spain (40%), Belgium and the Netherlands (30%). Only in two ‘old’ member states – France and Luxembourg a decrease in number of migrants was noted at the time, which could be interpreted as a transmigration to other destinations or in case of Luxembourg as a statistical artefact, given a very low number of migrants – Figure 2.15.

Figure 2.15 Annual increase in number of EU-12 nationals residing in the EU-15 countries, 2005/2004 (left) and 2008/2007 (right).

Source: Own elaboration based on the EU LFS data.

In 2008, after Bulgaria and Romania became members of the European Union high dynamics of net inflow were observed in particular with respect to Italy (1.5-fold increase), Belgium, France and
Sweden (1.3-fold increase for each). Only the latter, however, had opened their labour markets to migrants originating in EU10 or EU2 member states by that time. The high inflow to Italy was mostly due to migration from Romania after its accession into the EU and occurred despite the transitory regulations adopted by the Italian government (though it shall be noted that no work permits were required in major sectors). Apparently this stream followed a well-established migration route.

The second part of the argumentation refers to the notion of general and specific migration potential (as introduced by Fassman and Hintermann 1997, see Chapter 1). Studies on migration potential in CEE revealed very high general and relatively limited real migratory potential of their inhabitants (e.g. in case of Poland the first category was as high as 17% of the population, the latter amounted to 1.33%). Analysis presented in this chapter show that the scale of migration in the post-accession period should be located somewhere in between but relatively close to the general migration potential. We argue that what we observe in the post-2004 period is not a diversion effect per se but rather an increase of migration propensity on the side of a relatively large part of the population which has not seriously considered the migration option before. In other words, as suggested by Kaczmarczyk and Okólski (2008) or Kaczmarczyk (2013) the ‘new’ emigration from Poland and other NMS was a consequence of the involvement of completely new groups of people (young, well educated, from urban areas) rather than a reallocation of those formerly present on the EU labour market or considering migration prior to 2004. The observed effect is the outcome of a set of factors responsible particularly for the unfavourable position of younger cohorts on domestic labour markets.

This claim is in line with the migration capabilities approach proposed recently by de Haas (2010). He argues that a migration decision on the individual level can be interpreted in the context of two critical factors: capability to migrate and aspirations to migrate. In a follow-up study Czaika and Vothknecht (2014) conceptualize migration as a function of two capacities: capacity to aspire and capacity to realise. The capacity to aspire can be understood in terms of an aspiration gap, i.e. the difference between individual’s current level of well-being and aspired level of well-being. Life aspirations may be a function of individual personality, socialization process, education, access to information and social capital, individual experience, media etc. The capacity to realize a certain migration project is a function of set of endowments with all possible forms of capitals or capabilities: economic, social, human and political. In most cases the lack of those capacities can severely hinder a migration decision: a person with the capacity to aspire is a potential migrant whose plans can never translate into actual migration if he or she does not have sufficient capacities to realize.

Against this background the EU enlargement can be interpreted as a serious trigger of capabilities (due to the opening of labour markets and related changes in migration status, costs etc.) but also capacities to aspire. In several countries of the region the second part of the process can be explained in terms of low employability of young and (relatively) well educated persons. The question remains whether these aspirations could be translated into general migration plans or plans related to particular countries. We would opt for the second answer particularly if a serious role of the demand factor and very particular climate which accompanied the EU enlargement (e.g. broad media campaigns) is considered.
To test this hypothesis we will refer to two arguments referring to (1) the structural features of migration and (2) the selectivity patterns with respect to particular countries of the EU. As noted above, post-accession migration exhibits significantly different attributes than previous mobility. Particularly, ‘new migrants’ are younger and better educated than those mobile prior to 2004. Figure 2.16 shows, however, that this feature is not universal but refers predominantly to the UK. The change in structural features of migration to the UK started already in 2003 when the EU enlargement was sure to take place, the TA regimes were not established and not defined at the time and other factors driving propensity to mobility started to play a role (see the discussion below).

**Figure 2.16 The share of persons aged 15-34 among EU12 nationals residing in Germany and the United Kingdom, 2000-2013.**

![Graph showing the share of persons aged 15-34 among EU12 nationals residing in Germany and the United Kingdom, 2000-2013.](image)

Source: Own elaboration based on the EU LFS data.

An even clearer picture can be observed for Polish migrants – Figure 2.17. A serious structural break recorded in the case of the UK clearly suggests that there is no clear link between Polish migration to this country before and after the EU-enlargement. Structural differences between persons choosing ‘old’ and ‘new’ destination countries have been documented extensively in case of Poland (see among others Kaczmarczyk and Okólski 2008). Importantly, many studies show that in case of local communities those ‘old’ migration behaviours commonly co-exist with new migration strategies involving migration to the UK or Ireland (Kaczmarczyk 2011, 2013).
Figure 2.17 The share of persons aged 15-34 among the Polish nationals residing in Germany and the United Kingdom, 2000-2013.

Source: Own elaboration based on the EU LFS data.

As shown below those difference go far beyond the educational level of migrants and point to a severe structural gap between the migrants who choose the UK and those migrating to Germany – see Figure 2.18.

Figure 2.18 Socio-demographic profile of Polish post-accession* migrants (aged 15 and more) in the UK and Germany, selected features in %.

Notes: * Persons who have stayed abroad in the years 2004-2006. Source: Own elaboration based on the LFS data.

Most of the available studies point not only to short-term, but also to permanent changes in the structure of migration as a possible outcome of the imposition of TA. However, the analysis of post-
accession migration of Poles reveals a large variety and complexity of migration choices, not necessarily driven by the TA regimes. Both Eurostat data as well as the estimates presented by the Central Statistical Office show that in the post-accession period Polish migrants are present in most of the EU labour markets and in many cases constitute one of the most important immigrant groups (as it is in the case of the UK, Ireland, or the Netherlands). Nonetheless, there is no single migration model observed nor there is there a single explanatory factor at hand. A comparison of migration flows to the UK and Germany could lead to a conclusion that the migratory regime (presence of TA) is an important variable. Differences between stocks of Polish migrants in the UK / Ireland and Sweden would rather point to the importance of socio-cultural factors, with language as the most prominent example. It should be stressed here that the English language became the most prevalent foreign language in Poland, especially among the youngest generations (CBOS 2009). Institutions of the labour market matter a lot as shown by the case of the Netherlands (with an immense role of recruitment agencies) or the case of Sweden (with a critical role of trade unions). Modes of labour market incorporation depend heavily on the structure of receiving labour markets (e.g. the UK versus Italy or the Netherlands). Last but not least, migrant networks still play an important role in shaping the scale and structure of migration (comparison between ‘old’ and ‘new’ destination countries). In this context it is important to note that a legal regime, and TA in particular, presents only a fraction of the mobility puzzle as described in Polish literature (Kaczmarczyk and Okólski 2008; Kaczmarczyk 2013). Nevertheless, many authors claim that the diversion effect in terms of numbers is a fact and that the TA may have more permanent economic consequences for the receiving countries (with Germany and Austria as ‘losers’ and the UK and Ireland as ‘winners’) (Holland et al. 2011; Baas and Brücker 2011; 2012). Baas and Brücker (2012) have made an attempt to compute expected differences in macroeconomic indicators between two migration scenarios. The first one accounts for the status quo, i.e. the fact that Germany and Austria maintained TA while the UK and Ireland open their labour markets as of May 1st 2004. The second one accounts for a hypothetical situation in which all EU-15 countries open their labour markets from the very start. The diversion effect is then estimated as the difference between the outcomes of the two scenarios derived from a general equilibrium model. First, the study indicates that the diversion of flows due to selective introduction of TA which resulted in a large influx of migrants to the UK increased the country’s GDP, employment growth and total factor income of the natives. In light of the conducted simulations Germany is not exposed to the benefits resulting from an increase in labour supply. When the benefits are weighted against the costs, it turns out that the allocation of labour across EU economies induced by the diversion of migration flows due to transitional arrangements results in an aggregate loss. Nonetheless, its distributional effects remains ambiguous. In the cases analysed by Baas and Brucker the UK seems to be just slightly worse off under TA imposed by Germany than in a free mobility scenario. At the same time German workers benefit from the diversion of migration flows to the UK, a development which has protected them from a detrimental impact of immigration from CEE on wages and unemployment.

Holland et al. (2011b) claim that “as the existence of support networks for new migrants is one of the most important factors affecting the location decision, any distortion in the distribution of EU8 citizens across the EU15 that has resulted from the transitional restrictions is likely to prove permanent” (Holland et al. 2011: 16). The authors estimate that lifting restrictions on labour market access will result in higher (by at least 0.1%) potential output levels in Ireland, UK and Sweden. At the
same time the imposition of transitional arrangements by Germany, Austria, Belgium and Denmark is to leave a “permanent scar” on the level of the potential output of these countries of magnitude of at least 0.1%.

Kahanec, Pytlíkova and Zimmermann (2014) apply the difference-in-differences (DD) and triple differences (DDD) estimator to assess the impact of TA on migration flows to the EU. The DD model examines the effect of labour market openings on 22 destination countries (17 EEA countries, as well as Australia, Canada, New Zealand, Switzerland and the US). For the complete model, which includes not only policy dummies but also macroeconomic push and pull factors, physical and linguistic distance and the effect of migrants’ diaspora, the authors find that lifting restrictions on the free movement of labour caused on average 36% higher immigration rates, in comparison with countries which imposed restrictions, for EU8 and EU2 source countries combined. However, this effect varies between the EU8 and EU2 source country groups: the effect for Bulgaria and Romania is much higher than for EU8, and amounts to around 52%, which the authors explain by several factors: the data time span (for EU8 countries, the initial rise was followed by a decline; for EU2 countries the time series is too short to capture the second effect); a larger set of destination countries which initially opened during the studied period for EU8 (which leads to a greater dispersion of flows for EU8 than for EU2, which concentrated mainly in Greece, Portugal and Spain). Authors also run a regression to check if migration from the NMS could have been solely affected by EU entry (as the newcomers could freely reside for more than three months if they proved to be able to support themselves). They find that the labour market opening effect remains positive and statistically significant (28% overall effect on the migration rate from NMS), although considerably lower than in the previously described case where the entry effect is not accounted for (the EU entry effect is positive and significant, leading to an increase in emigration by approx. 33% overall and 80% for EU2). These effects are confirmed by a robustness check in a DDD setting, where an additional control group of similar countries which did not enter the EU or its labour market was added (and was found to differ substantially from EU8 and EU2 in terms of the modelled effects)\textsuperscript{18}.

\textsuperscript{18} Importantly, Kahanec, Pytlíkova and Zimmermann (2014) find that macroeconomic (GDP, unemployment) as well as other pair-specific effects (geographic and linguistic proximity) for particular origin and destination countries are important determinants of the size of migration flows. These effects are absent in the model proposed by Baas and Brücker (2012), where the EU15 market is treated as a whole. This implies that the results obtained by Baas and Brücker (2012) are surely biased (the Authors must assume homogeneity of the characteristics of these countries; meanwhile, the specific characteristics are found to be important). On the other hand, the estimations by Kahanec, Pytlíkova and Zimmerman (2014) do not take into account the fact that in the case of studies on the effects of transitional arrangements on the diversion of migration flows, the irrelevance of independent alternatives property is probably violated: when considering the attractiveness of a specific destination country, migrants are affected by the characteristics of other locations (notably, whether the labor market has been opened); this in turn implies that these estimates too may be biased.
Chapter 3. Impacts of the post-enlargement migration on receiving countries: economic and social effects

The economic impacts of immigration lie in the very centre of scientific debate on migration over the last years. This is not surprising if we consider that during the post-war decades immigrants became a structural component of most EU labour markets, often accounting for at least 10-15% of the total labour force. In a simple economic model the inflow of immigrants presents a supply shock and is expected to have impacts on the labour market, aggregate growth, and fiscal effects. These three aspects, being the main focus of most theoretical and empirical analyses, will also be the focus of this chapter

When it comes to labour market effects immigration impacts the level of wages (in case of a non-regulated labour market) and/or unemployment rates (in the presence of rigidities). However, most economic models dealing with adjustment mechanisms in labour markets question the negative impact of newcomers. Only a very basic model (assuming perfect flexibility, competitiveness and homogeneity of the labour market supply shock - in the form of an additional inflow of foreign labour) projects a decrease in wages (i.e. no unemployment appears and the total effect is absorbed by a change in the wage level). In more advanced approaches, the net outcome of immigration is strongly conditional on such issues as the structure of the labour market, market rigidities (e.g. a state intervention in the form of a minimum wage), and, in particular, complementarity / substitution between the native and the foreign labour force (Bauer and Zimmermann 1999; Kahanec and Zimmermann 2009). Additionally, such effects as the process of job creation driven by the immigrants’ consumption or ethnic economy should be taken into account.

The impact of migration on aggregate growth is expected to result from the reallocation of resources is such a way, that their use becomes more productive (Brücker et al. 2009). The freedom of mobility across labour markets should thus reduce the inefficiencies resulting from the international division of labour and result in an increase of global output (Docquier, Machado and Sekkat 2014). It is even hypothesized that the liberalization of labour flows could bring more benefits to the global economy than the liberalization of trade (Hamilton 1984; Clemens 2013). This effect, though positive on a global scale, must not be as obvious on the regional or country level. Depending on the sectoral structure of the home and host economies and on the scale and scope of existing inefficiencies therein, the gain and/or losses may significantly differ.

In terms of fiscal effects, immigrants are commonly blamed for relying on public welfare and social services, and being a burden for state budgets. Moreover, this kind of belief in “welfare magnetism” (Borjas 1999) is often implicit in migration policies (see case of Ireland or the United Kingdom in the post-2004 period). Notwithstanding, there are large differences between EU countries in terms of immigrants’ welfare dependency. In case of the EU there are two clusters of countries easily identifiable: the first group includes Germany, Greece, Portugal, Spain and the UK, and in this case the welfare dependency rates are similar for natives and for migrants; the second group includes the

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19 Due to the fact that we are focusing predominantly on the receiving end of migration process the analysis does not consider brain drain/brain gain debate.
Nordic countries, Austria, Belgium, France and the Netherlands, where the welfare receipt among immigrants is significantly higher than for natives (OECD 2013; Kaczmarczyk 2013).

Against this background this chapter aims to analyse the impact of post-EU enlargement labour mobility on wages, employment/unemployment, GDP, and fiscal balance from the perspective of the destination and sending countries, and particularly to assess to what extent those effects are attributable to differences in legal migration regimes (transitional arrangements). It will particularly focus on direct consequences while the socio-economic side-effects will be considered in Chapter 5. Within this chapter we attempt to address following questions: What are the modes of labour market incorporation of recent immigrants from the NMS? What was the impact of post enlargement migration on wages and unemployment rates? Are there displacement effects (with respect to the native population) identifiable? What was the impact of immigration from the NMS on human capital formation (productivity)? What was the aggregate impact of the post enlargement migration in terms of GDP growth? What are the fiscal impacts of recent migration from the NMS? what is the net fiscal position of immigrants vis a vis native population and what are its determinants? And last but not least, to what extent demographic, economic and social impacts of migration from the NMS are attributable to transitional periods (particularly on the macro level)?

The only possibility of estimating the macroeconomic effects of intra-EU mobility and the potential consequences of imposing or lifting transitional arrangements lies in estimating general equilibrium models. This class of econometric models allows to simultaneously account for the interdependencies between various factors of production in the economy. In terms of economic effects of immigration the two EU enlargement rounds in 2004 and 2007 may serve as a kind of ‘natural experiment’. By means of general equilibrium models it is them possible to predict how the experienced shock on the supply of labour (immigration or emigration) affected various macroeconomic parameters. Two studies which have employed this approach in the recent years are those of Brücker et al. (2009) and of Holland et al. (2011).

3.1. Migration and the labour market

Data presented in Chapter 2 prove that the labour market position of NMS migrants is relatively favourable (in terms of participation rates, employment rates and unemployment rates). The economic crisis did create some disturbances in this respect. These were mostly visible in the case of EU2 nationals in Spain. In general, though, existing macroeconomic studies of the labour market effects of the mobility of workers from the NMS to EU15 conclude that for the sending states an improvement of the situation is expected in the short-run, i.e. lower unemployment and increase in wages (Figure 3.1). The contrary holds for the destination countries.

In the long-run, though, the effects on the unemployment rates, be it positive or negative, become negligible, and the effect on wages disappears as a result of the assumption of capital stock adjustments.
Figure 3.1 The labour market impact of migration from the NMS8, 2004-2007.

In the case of NMS2 the patterns of short-term and long-term effects of migration on wages and unemployment are similar. Their magnitude is larger, though, than in the case of NMS8. That said the research by Brücker et al. (2009) indicates, that the effects of emigration on unemployment in the NMS2 and EU15 will persist to a relatively large extent, as compared to the effects of EU8 migration, also in the long-run (Figure 3.2). This is possibly due to much larger scale of the outflow and difficulties with adjustment of the capital stock.

Figure 3.2 The labour market impact of migration from the NMS2, 2004-2007.
These findings are in line with the findings of Holland et al. (2011). According to their estimations the unemployment rate in the EU15 dropped just slightly as a result of migration from the EU8 and increased as much as a result of migration from EU2 (Figure 3.3.). The effect on wages was estimated to be more straightforward with a decrease in real wages in EU15 in the aftermath of both EU8 and EU2 migration.

Figure 3.3 Changes in labour market indicators in EU15 due to migration from EU8 and EU2.


The abovementioned estimates are derived from models concerning the expected effects of migration on the labour markets of sending and receiving states under the migration regimes which were actually in place. When it comes to comparing these estimates to a counterfactual scenario in which TA are lifted Brücker et al. (2009) discover that introducing a free mobility regime across all EU Member States would generate only very small differences in terms of labour market effects when compared to a scenario in which TA are maintained (Figure 3.4). A (maximum) 2-year prolongation of TA for NMS8 (for the period 2009-2011) and a 5-year prolongation for NMS2 (2009-2014) were considered. In case of NMS8 and the introduction of free mobility, the destination countries which would be mainly affected were Germany and Austria, the last two countries to maintain TA.
Brücker et al. (2009) found that immigration from NMS-8 would result in decreased wages and increased unemployment. The effects were very small, though. The UK and Ireland which were expected to receive fewer migrants under the free mobility scenario (as compared to the case in which Germany and Austria maintain TA and generate a diversion effect to the Isles) were expected to experience the opposite effects – relatively lower unemployment and relatively higher wages. In this case too, though, the magnitude of the effects was very small. For the NMS2 the results were similar, though related to a different set of destination countries. While Germany should have expected an increase in immigration from the NMS2 in case of lifting TA, Spain would experience a decrease in the number of immigrants. Italy, the second recipient of NMS2 migrants after Spain would gain in terms of the number of NMS2 nationals, though only slightly. The labour market effects were found to be quite intuitive, i.e. relatively lower wages and higher unemployment in those countries which experience an increased inflow of immigrants in case TA are lifted and the opposite holding for those countries which would receive relatively fewer immigrants. Taking these results to the EU level, Brücker et al. (2009) observe that more liberal labour mobility policies would in fact lead to a better allocation of human capital and lower aggregate unemployment (despite regional/country effects being ambiguous). These outcomes were not of great magnitude, though, as capital stock and trade were expected to mitigate the labour market effects of migration.

Noticeably, the labour market effects for countries like Italy or Spain are close to zero regardless of whether transitional arrangements are maintained or lifted for NMS8 nationals. The contrary is true for the ‘old’ (pre-accession) and ‘new’ (post-accession) migration destinations. In case the transitional arrangements were lifted in Austria and Germany for NMS8 as of 2009, these two destinations would experience a relative (in comparison to a scenario in which TA are maintained) increase in unemployment and decrease in wages. The opposite is foreseen for the UK and Ireland, for which the hypothesized re-diversion of migration flows would ease the pressure on the labour market relatively decreasing unemployment and pushing the wages up. In case of migration from NMS2, liberalizing migration across all EU Member States would definitely take the pressure off Spain, the main destination for Bulgarians and Romanians.
From the sending countries’ perspective, greater liberalization of migration flows creates rather unambiguous effects (Figure 3.5).

**Figure 3.5 Short-term effects of introducing free mobility vs maintain transitional arrangements for sending states.**

Lifting transitional arrangements would lead to relatively higher wages and lower unemployment due to the possibility of a more complete realization of the countries’ migration potential. Among the outliers there is Poland with no effect on unemployment and Slovakia (unreported in Figure 3.5) with a potential increase in unemployment (0.04 pp) and decrease in wages (-0.03%). This can be attributed to the fact that scale of migration turned out to be relatively large despite imposition of TA.

These regularities have been confirmed also in a subsequent study by Baas and Brücker (2012). They extrapolate from the scale of the hypothesized diversion effect in the aftermath of the 2004 enlargement to conclude that the diversion of migration flows from Germany to the UK yields higher employment growth and total factor income of the native population in the UK, while Germany experiences higher wages and lower unemployment levels, in comparison to the UK. The authors explain these differences by the fact that industries with low wages are stimulated to increase their activity more than proportionally in Germany, while industries with wages above the average benefit in the UK. Overall, Bass and Brücker conclude that workers in Germany have benefited from the diversion of migration flows during the transitional periods, as in the free movement scenario wages would be expected to decline and unemployment increase slightly. DeVeaux (2014) confirms that in the past decade immigration to Germany lead to a reduction of annual wages and weeks worked. This effect has been found strongest between new-coming and incumbent immigrants, though. Among the natives the skill group that has been mostly affected were the relatively highly-skilled (DeVeaux 2014). At least partly, however, the author attributes this effect to wage dumping which allows immigrants to be competitive on the labour market. If this is the actual story behind the data, the magnitude of the substitution effect may hold even though Germany has introduced a minimum
wage, as the highly skilled workers will be affected by it only indirectly. Baas and Brücker (2012) also find that the TA impacted not only the level, but also the distribution of income, since the productivity gains from the enlargement, in combination with an increase in trade, lead to an increase of income of capital owners in the UK (and not only of workers).

Importantly, the interpretation of above-mentioned results heavily relies on accepting the diversion effect hypothesis. If in fact, as argued in Chapter 2, it is not a diversion (but rather an endogenous difference in the migration mechanisms which pertain to mobility to various EU15 destinations) that resulted in the observed post-accession flows from EU8 and EU2 countries, then the estimated counterfactual scenarios (free mobility regime) may be significantly biased in their predictions.

A similar issue arises with a study by Felbermayr, Geis, and Kohler (2010). The authors have modelled the effects of immigration on the German labour market based on data from 1984-2005 (for the baseline scenario) and on data from the UK LFS of 2003 and 2006 (for the counterfactual scenario). The comparison of obtained results shows that, in the long-run, the decision to impose transitional arrangements was not welfare-enhancing on the aggregate level. Their conclusion is based on the assumption, tough, that the skill composition of Eastern European workers who would have immigrated to Germany if not for the TA would be alike the one exhibited by the immigrants to the UK. As mentioned above, when accounting for the diverse drivers of migration into the UK and Germany, the resulting selectivity process of migration to these two countries would most probably not lead to this assumption being satisfied.

3.2. Migration and growth

The process of immigrants’ labour market integration in the destination countries generates not only direct labour market effects, but also has impacts on aggregate growth. In this respect existing empirical studies seems to be quite unanimous – greater freedom of mobility allows for more effective allocations of labour across economies yielding relatively higher growth. This holds for comparisons on both country and aggregate level. The studies which are most capable of providing evidence for policy-making in this respect and which will be most carefully examined here are again those by Brücker et al. (2009), Holland et al. (2011), and Baas and Brücker (2012). All of them provide insights form general equilibrium models which enable determining the net effect of transitional arrangements on growth, i.e. they enable looking at the effects on growth not only as a singled out measure of economic performance, but on growth as an outcome interdependent from wages or unemployment (as analysed in the previous section).

Brücker et al. (2009) analysed the impact of EU8 migration between 2004 and 2007 and concluded that the receiving countries gained from the massive post-accession migration flows. The impact was negative or neutral, however, for the sending countries. All in all on the EU-level, the impact on GDP and GDP per capita was rather moderate (in the short-run) and negligible in the long-run, both in case of the sending as well as receiving countries (Figure 3.6).
A similar pattern holds for the impacts of emigration from NMS2. Though in case of Bulgaria and Romania the impacts are of a much larger magnitude (Figure 3.7).

In case of GDP both the short-term and long-term impacts of emigration from the NMS8 and NMS2 lower the output in the respective sending states in the short-run, yet for the NMS2 the impact is by nearly 2.5 pp larger than in the case of NMS8. This is persistent also in the long-run, when a 1.1% decrease in GDP is expected in NMS8 and a 4.07% is expected in NMS2. Due to the large scale of emigration the effects of post-accession migration on GDP per capita are not as striking and in the short-run are even positive. In the long-run, though, the NMS2 in general and countries like Poland within the group of NMS8 should have experienced the negative effects of the emigration of workers and be relatively worse off in term of GDP per capita.
In their recent study covering the period 2004-2009 (and thus including the recession phase in the aftermath of the global financial crisis), Holland et al. (2011) are able to control for the fact that post-accession migrants are predominantly in working age, and hence would have a larger contribution to increase (decrease) of output in the receiving (sending) states than in a scenario in which the age of migrants is not controlled for (Figure 3.8).

**Figure 3.8 Differences in age-adjusted and unadjusted estimated of the long-run effects of migration on growth.**


In case of the EU15 receiving states the effects of both EU8 and EU2 migration are slightly more positive than in the unadjusted scenario. For the sending countries, though, migration is to a greater extent detrimental to GDP.

Based on their models Holland et al. (2011) show that Ireland and the United Kingdom, which opened their labour markets for newcomers from Central and Eastern Europe, achieved the highest gains from post-accession migration (3% and 1.2%, respectively). The gains for the EU15 economy were moderate but also positive (see Figure 3.9.).
In case of EU2 migration, gains shifted towards the main destination for Bulgarians and Romanians, i.e. Italy and Spain, who barely benefited from EU8 migration.

The results reported heretofore in this section have accounted only for the status quo situation, i.e. the case in which TA are being selectively adopted in various EU Member States. If we consider a free mobility scenario being introduced across all EU countries, the results confirm the logic of a more efficient allocation of labour. In case of the receiving states (Figure 3.10) GDP in countries which would have opened their labour markets would increase, such as in the case of Austria and Germany and larger migration from the NMS8. The countries which initially opened their labour markets would slightly loose due to the re-diversion of flows to those economies which would have lifted TA (Ireland and UK in case of NMS8 and Spain in case of NMS2). As a consequence of the redirection of migration flows away from the UK and Ireland their GDP would decline by 0.11% and 0.17%, respectively. Comparable or higher increases would be experienced by Germany and Austria, 0.11% and 0.24%, respectively. Due to the smaller number of immigrants from NMS in the main destination countries in case of a re-diversion effect, the impact in terms of GDP per capita is beneficial to the currently main receiving states, nonetheless.
Figure 3.10 Short-term effects of introducing free mobility vs maintain transitional arrangements for receiving states.

For the sending countries the results of Brücker et al. (2009) are less ambiguous. Due to the possibility of allocating more labour across a wider variety of destinations if TA were lifted, the GDP of the sending countries would be relatively smaller, but in per capita terms the home countries would be in a relatively better-off position than if TA are maintained (Figure 3.11).

Figure 3.11 Short-term effects of introducing free mobility vs. maintain transitional arrangements for sending states.

Figure 3.11 presents an interesting comparison of the effects of lifting TA for the NMS8 and NMS2 countries. The NMS8 had only a 2 year period of TA left at the time of the study by Brücker et al. The
NMS8 would gain 5 years of free mobility if TA were lifted ahead of the ultimate deadline in 2014. Clearly, the 2-year period made no significant difference for the NMS8. For the NMS2 the 5-year period of free mobility would bring significant gains, though.

In their analysis, Holland et al. (2011) confirm that the estimated effect of TA on output was small. Due to the hypothesized diversion of flows from Belgium, Denmark, Finland, France, Germany and Austria to Ireland and the UK the largest impact was estimated for the UK with a 0.15% increase in GDP in case of TA being in place in other EU countries (Figure 3.12).

**Figure 3.12 Long-run impact of transitional arrangements in the aftermath of the 2004 EU Enlargement on GDP (change in %).**

![Figure 3.12](image)

Source: own elaboration based on data from Holland et al. 2011: 95.

In one of the latest studies, which focuses specifically on the UK and Germany, Baas and Brücker (2012) further confirm that the diversion of migration flows from Germany to the UK yields a higher GDP growth in the latter country. In particular, they estimate that under the transitional arrangements, the GDP gain in the UK was 2.24% per cent, compared to 1.08% in the case of the EU-wide free movement scenario. Meanwhile, in Germany, the GDP would be expected to increase from 0.64% as per the transitional arrangement scenario to 1.59%, had the free movement been implemented. Overall, Baas and Brücker estimate that the TA have led to a reduction of the joint GDP gain of Germany and the UK by 0.11%, due to a decrease of total migration flows and migration diversion.

The considered results are, once again, heavily dependent on the assumption of a diversion (re-diversion) effect being in place in case of imposing (lifting) TA in selected destination countries leading to an overestimation of the reported point effects.
3.3. Migration and fiscal effects

The fiscal impacts of immigration lie in the very centre of recent debate on migration as a challenge or solution for contemporary welfare states. Outcomes of available empirical studies provided only mixed results (the net direct fiscal position tends to vary between destination countries) but generally in most cases the net fiscal position of immigrants is positive. This holds true not only for traditional immigration countries, but also for welfare states like Iceland and Norway. Moreover, even if estimates of the fiscal position of immigrants vary, these estimates tend to be small in terms of GDP and the impact is rarely larger than 1% of GDP per year (see Nannestad 2007; Kaczmarczyk 2013; OECD 2013). The comparison of the fiscal effects of the inflow in such countries as the United Kingdom and the Scandinavian countries suggests that the net impact depends on a complex set of factors including the structure of immigration, the efficiency of migrant integration in the labour market and, most importantly, the welfare regime itself (e.g. the generosity of the system which may lead to welfare dependency).

Most of the available studies show a relatively efficient market matching process within the EU whereby temporary workers from labour-rich NMS are absorbed by the labour markets in the EU15 states with their permanent and strong demand for labour (especially for less skilled workers). As shown in Chapter 2, post-accession migrants tend to have higher labour market participation rates, higher employment rates and lower unemployment rates than the native labour force (as well as the labour force in the sending countries) (Kahanec and Zimmermann 2009). At the same time immigrants tend to have lower wages leading to lower fiscal contributions and higher eligibility when it comes to means-tested benefits (Elsner, Zimmermann 2013; Bogdanov et al. 2014). Thus, the labour market position of NMS immigrants presents a critical issue in terms of the fiscal impacts of recent intra-EU mobility.

The number of studies looking specifically at the fiscal impacts of post-accession migration to EU15 countries is very limited which is partially attributable to serious data deficiencies. Brücker et al. (2009) attempted to avoid these limitations through estimation of welfare impacts of EU25 immigrants residing in the EU countries. Their results show that intra-EU immigrants tend to receive less contributory benefits than natives and their scale of non-contributory benefits is not significantly higher. Moreover, the conducted econometric analyses proved that there are no behavioural differences between the two groups (once key variables were controlled for). Importantly, findings from country studies presented in Brücker et al. (2009) point to significant variation between EU states. On the one hand, NMS migrants in the UK and Ireland have on average very beneficial labour market characteristics (high labour market participation rates, low unemployment) which imply rather positive impact on the treasury. On the other hand, relatively high unemployment rates in some countries (e.g. Germany) presents as a possible challenge for the fiscal system. The variety of net fiscal effects of intra-EU mobility has also been noted by Bogdanov et al. (2014) who confirm the positive effect for the UK, but also find a positive effect for Germany and Austria, while a negative effect for the Netherlands in the 2007-2013 period.

The most comprehensive analysis of the NMS migration impacts on the state budget has been presented by Dustmann, Frattini and Halls (2010) for the UK. Their findings show that EU8 immigrants made a positive fiscal contribution to UK public finances over the years 2005-2009 (irrespective of the way that the net fiscal contribution or immigrants were defined). It was possible predominantly due to very high participation rates and employment rates and relatively higher contribution via indirect taxes. In 2007-2008 NMS immigrants constituted 0.87% of the total UK
population and their participation in the total government revenues amounted to 0.81% (in 2008-2009 the numbers were 0.91% and 0.96%, respectively). At the same time the immigrants’ share in government spending was lower than their share in the population. On the basis of individual data the authors show that even those migrants who resided in the UK for over one year (and thus were eligible for welfare benefits) were 59% less likely than natives to receive state benefits or tax credits and 57% less likely to claim social housing. Those differences decrease (to 13% and 29%) but not disappear when accounting for socio-demographic characteristics. Additionally, NMS immigrants were less likely to claim welfare benefits irrespective of the time spent in the UK. In a further study Dustman and Frattini (2013) confirm the net positive effect of post-2000 immigrants from EEA to the UK, estimating that they are over 50% less likely to receive state benefits or tax credits when compared to the natives (Dustmann, Frattini 2013). The result of positive net fiscal contributions holds for the recession period as well (for a discussion of the results see Rowthorn 2014).

These outcomes are in line with other studies conducted in the UK, however it is worth noting that most of the analysis presented for the UK did not consider dynamic effects, i.e. the fact that immigrants will retire in the future (Vargas-Silva 2013).

Ruist (2014) provides further evidence for a positive net fiscal impact of immigration based on a study of Romanian and Bulgarian migration to Sweden after the 2007 EU enlargement (at which time Sweden already provided unrestricted access to its labour market for the citizens of EU2). Following further liberalizations of labor market access across the EU, the author suggests that the United Kingdom and Ireland stand out as two countries which may expect even more positive fiscal effects upon lifting TA for EU2 immigrants.

Interestingly for the debate on the fiscal impacts of immigration, though, Skupnik (2013) finds that the potential welfare benefits play a minor role as a determinant of migration decisions (for more evidence see Giulietti 2014). Moreover, he estimates that TA completely neutralized the potential “magnetism” of the welfare state in the destination countries.

No study explicitly measures the fiscal effects of TA. Despite their lack of counterfactual scenarios, several inferences can be drawn from existing studies though: first, a net neutral or even positive fiscal effect of intra-EU immigration is observed in most countries; second, the pattern of receiving countries which are net winners and net losers does not necessarily reflect the pattern of countries which have or have not imposed TA; and third, it is not the welfare that drives people to emigrate to certain destination countries.

Based on these inferences we can conclude that the fiscal effects of TA are to a great extent a derivative of the arrangements’ influence on the selectivity patterns of migration, both in terms of scale and scope of migration. A potentially lower scale of immigration due to TA would be a welcome feature only in those few countries, in which immigrants redeem more than they contribute to the system. When it comes to the scope of migration, the balance between the contribution to the fiscal system and the reception of benefits is a derivative of the selectivity of migration. Hence, migrants are found to be rather the recipients of unemployment- and family-related benefits rather than e.g. old-age payments and sickness and disability support (Zimmermann et al. 2011). In terms of unemployment benefits internal EU migrants are not much different from the natives in their respective receiving countries, and when it comes to family-related benefits they are less likely to receive them (Medgyesi, Poloskei 2014). All in all, the evidence of welfare benefits acting as migrant-magnets is inconclusive at best. Though higher immigration is related to higher unemployment
benefit spending, it is rather the greater vulnerability and under-payment of migrants’ jobs than their expectation of increased income from these benefits that lies behind this effect (Zimmermann et al. 2011).

* * *

‘The natural experiment’ of the EU enlargement shows that ‘mobile Europe’ is more than a hazy concept. Hundreds of thousands of ‘new Europeans’ embarked on their migration journeys in search of better jobs and living conditions. This process of intra-European migration has largely been demand-driven. Immigrants are filing gaps in highly fragmented labour markets in destination countries which appear to have benefited relatively more from this process than the sending countries.

Kahanec (2013) stresses that based on existing fragmentary research, one may state that the countries delaying the liberalization of their labour markets disproportionally lost skilled and young migrants, who chose countries such as Ireland and the UK. As far as other possibly negative effects are concerned, one may argument that that imposing restrictions led to spurious self-employment as a strategy to circumvent them (Kahanec 2013; Constant 2013).

It must be kept in mind that the reported results of some of the macroeconomic models suffer from significant biases. Among the far-reaching assumptions which surely affect the estimates are that of homogeneity across EU15 countries or that of the independence of irrelevant alternatives. The former does not allow to properly account for the distribution of EU8 and EU2 migrants across EU15 destinations. Kahanec, Pytlíkova and Zimmermann (2014) found that macroeconomic (GDP, unemployment) as well as other pair-specific effects (geographic and linguistic proximity) for particular origin and destination countries are important determinants of the size of migration flows. In case of violating the latter assumption the applied analytical technique fails to account for the actual variety of choices migrants face. Actually, when considering the attractiveness of a specific destination country, migrants are affected not only by a pair-wise comparison of that destination and the country of origin, but also by the characteristics of other locations (notably, whether the labour market has been opened).

Despite these drawbacks, the most telling general equilibrium models (Brücker et al. 2009, Holland et al. 2011) conclude that the EU generally gained from the eastern enlargements of 2004 and 2007. Brücker et al. found that the re-allocation of labour which occurred within EU25 raised the GDP of the enlarged EU (i.e. EU15 and NMS8) by about 0.11% in the short-run and by about 0.2% in the long-run (EUR24 billion) during the 2004-2007 period. Their analyses indicate that lifting transitional arrangements would yield even higher gains in terms of aggregate output when compared to a prolongation of the TA. Baas and Brücker (2012) estimate that the joint loss for Germany and the UK resulting from the imposition of TA by the former could reach 0.11%. The diversion of migration towards the UK was also estimated to increase the growth of investment, private consumption, governmental consumption and trade by about 1.2% for the transitional arrangement scenario in comparison to the free movement scenario; in Germany it is reduced by a similar amount (Baas and Brücker 2012). The study by Holland et al. (2011) suggests that these figures might still be underestimated due to the bias of migrants from the NMS8 and NMS2 towards the working age,
what implies further productivity gains (losses) for the receiving (sending) countries. Nonetheless, in an overview of the outcomes of the German economy nearly 10 years after the 2004 EU Enlargement Elsner and Zimmermann (2013) reassess the net effect of the TA given their expectedly beneficial effect on the labour market but detrimental effect on aggregate growth. In conclusion they argue that, overall, “Germany would have been better off, had it immediately opened its labor market” (Elsner, Zimmermann 2013: 13).

Chapter 4. Migration and crisis – is migration a self-regulating process?

The economic and financial crisis, which started in 2008, has not equally affected the EU member states. Some have experienced mere slowdowns, without negative growth (Poland), some countries experienced short periods of moderate negative growth with a quick recovery (Germany, UK), some experienced sharp declines of GDP, but also recovered quickly (Latvia, Lithuania, Estonia); there are also countries, which until the 2014 have not yet recovered (Greece, Spain) or have briefly recovered but then fallen again (Italy, Portugal). Overall, the financial crisis has introduced significant intra-European variability in the way the economies fare.

A commonly used measure of variability is the standard deviation; this statistic, however, is inappropriate for comparing variation of datasets with different average values. This is precisely the case of macroeconomic indicators compared at different times during the crisis – the EU average values are shifting. We will therefore illustrate intra-EU variability with the use of a coefficient of variation\(^{21}\): while for the countries now forming the EU, the coefficient of variation for the level of GDP growth oscillated around 0.6 for 2001-2007, since 2008 it has risen (in absolute terms) significantly, with a maximum of 12.26 in 2012 (Table 4.1). What should be noted, however, is that the economic crisis does not introduce similar variability in all aspects; for example, in the case of unemployment levels, the EU economies exhibit similar trends, with the crisis which started in 2008 increasing intra-EU variability\(^{22}\), but not by as much as in the case of the GDP growth.\(^{23}\)

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\(^{20}\) In general, the countries most affected by the crisis are Greece, Portugal, Italy, Spain and Ireland. In some recent studies, these countries are referred to as the economic “periphery” of the EU, or at least EU15 (Holland, Paluchowski 2013).

\(^{21}\) The coefficient of variation is defined as the ratio of the standard deviation to the mean.

\(^{22}\) Holland and Paluchowski (2013) show that the distribution of unemployment rates within the EU has widened and become more skewed, as depicted by density estimates.

\(^{23}\) The differences in variability of various economic indicators are especially interesting in view of the fact that economic studies do not provide a clear argument for which factors have the greatest influence on migration flows: whether it is the wage differential (which may be approximated by GDP), the unemployment levels etc. For some discussion of the particular variables see for example Kahanec, Pytlíkova, Zimmermann (2014)
Table 4.1 GDP annual growth and unemployment rates for the EU, 2001-2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth, in %</th>
<th>Unemployment level, in %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU-28 Mean</td>
<td>EU-28 Standard Deviation</td>
</tr>
<tr>
<td></td>
<td>2.9</td>
<td>1.69</td>
</tr>
<tr>
<td>2002</td>
<td>2.9</td>
<td>1.98</td>
</tr>
<tr>
<td></td>
<td>3.0</td>
<td>2.50</td>
</tr>
<tr>
<td>2003</td>
<td>4.1</td>
<td>2.03</td>
</tr>
<tr>
<td>2004</td>
<td>3.8</td>
<td>2.41</td>
</tr>
<tr>
<td>2005</td>
<td>5.1</td>
<td>2.47</td>
</tr>
<tr>
<td>2006</td>
<td>5.0</td>
<td>2.76</td>
</tr>
<tr>
<td>2007</td>
<td>1.3</td>
<td>3.80</td>
</tr>
<tr>
<td>2008</td>
<td>-5.7</td>
<td>2.39</td>
</tr>
<tr>
<td>2009</td>
<td>1.6</td>
<td>2.94</td>
</tr>
<tr>
<td>2010</td>
<td>1.8</td>
<td>2.45</td>
</tr>
<tr>
<td>2011</td>
<td>-0.2</td>
<td>2.11</td>
</tr>
<tr>
<td>2012</td>
<td>0.3</td>
<td>2.00</td>
</tr>
<tr>
<td>2013</td>
<td>1.6</td>
<td>1.52</td>
</tr>
<tr>
<td></td>
<td>10.1</td>
<td>1.60</td>
</tr>
<tr>
<td></td>
<td>10.8</td>
<td>-12.26</td>
</tr>
<tr>
<td></td>
<td>11.1</td>
<td>7.47</td>
</tr>
<tr>
<td></td>
<td>5.98</td>
<td>4.36</td>
</tr>
<tr>
<td></td>
<td>5.58</td>
<td>3.55</td>
</tr>
</tbody>
</table>

Source: Own calculations based on Eurostat.

The emergence of asymmetric shocks leads to the obvious problem of methods of reactions. One of the regulating mechanisms for economies in crisis is the monetary policy of various states, or fiscal transfers – but in the Eurozone this is not always a tool which may be used. The theory of optimum currency areas underlines the importance of geographic labor mobility in stabilizing inflation and unemployment across countries, apart from capital mobility (Mundell 1961). A mobile labour force should be able to act as a partial cushion against economic disparities, since workers are expected to relocate from areas with excess labour supply to areas where there are more job opportunities, where they are most productive (Kahanec, Pytlikova, Zimmermann 2014; Elsner and Zimmermann 2013; Holland, Paluchowski 2013; Krause, Rinne, Zimmermann 2014). In this context, migration is expected to be a self-regulating process, i.e. to respond to the changing conditions (especially economic) in the sending and receiving countries.

However, the effectiveness of the labour flows and their reactions depends obviously on the existence of barriers for mobility between the labour markets of the EU member states, and on the (lack of) harmonization of labour market institutions, regulatory frameworks and welfare systems (including pensions). Additionally, linguistic and cultural barriers, problems with qualification recognition and disparate education systems, barriers to the transferability of skills, as well as differences among social rights, health insurance, healthcare provisions and consumer rights are all expected to hinder intra-EU mobility, increasing migration costs above simple monetary costs (Kahanec, Pytlikova, Zimmermann 2014; Kahanec 2013; Krause, Rinne, Zimmermann 2014). One also should not overlook the possible preference to stay in the country of current residence despite unfavourable economic conditions (Elsner, Zimmermann 2013).

Therefore, in the context of the recent asymmetric crisis shocks for the economies of the EU, it becomes particularly important whether, and to what extent, the labour market within the EU is to be described in terms of a common labour market. Do the post-enlargement migration flows respond to variability in changes in economic factors, and can they serve to increase adjustment capabilities of the particular labour markets? What is the relationship between the economic performance of specific countries during the crisis, and the migratory flows? May migration under a free mobility regime serve as a regulating mechanism in times of recession and recovery?
4.1. Theoretical considerations: Migration as a buffer

First of all, from the perspective of a sending country, the theoretical predictions seem clear. In response to an unfavourable economic condition, citizens who have the possibility of employment abroad (being subject to free movement arrangements), may be expected to be ready to leave their home country in search for better opportunities. In this context, it is not surprising that survey results signal increasing mobility intentions among nationals of countries which have experienced the effects of the economic crisis the most (such as Italy or Spain), especially among young people (European Commission 2011b; 2013; 2014a; Holland, Paluchowski 2013). Decreasing intentions among nationals of countries faring better, such as Poland or Latvia (and Germany, Sweden, Finland or Denmark among receiving countries) are also visible. In order for migration to occur, however, we need two countries: both the origin and the destination.

In case of a widespread crisis, affecting also the potential receiving countries, the realization of migration intentions becomes much more complicated. It may depend, inter alia, on the relative situation among sending and receiving countries: it is possible that, even affected by the crisis, the situation at destination is still better than the situation at an unaffected country of origin. Therefore, it is not evident if, in view of changes of the strength of potential pull factors at destination, migration should be expected to increase or decrease, overall.

On the receiving end, the common expectation is that, first of all, in times of crisis, new immigrants are not welcome. Second, existing migrants are going to be the first to lose their jobs (Beets, Willekens 2011; Papademetriou et al. 2009; Martin 2009). This is due to the fact that the crisis does not affect different sectors of the economies in the same manner: migrants are often unskilled workers, employed in sectors which are the first to be affected by the economic downturn, such as construction, light manufacturing, financial or travel-related services (Martin 2009). Since migrants might not have the right to welfare benefits or strong ties with the host country, and their position is often temporary, they may be prone to leave (Papademetriou et al. 2009). These conditions are often met by irregular migrants – this is why irregular migration is particularly sensitive to labour market demand in destination countries, and thus a drop in irregular migration rates may be expected (Castles and Miller 2010; Frontex 2009). Other authors suggest, however, that an increase in irregular migration may be observed – not as a result of new irregular inflows, though, but rather due to existing migrants overstaying their visas or permits or shifts to work in the grey economy (Koehler et al. 2010). In case of migrants who are not exposed to mobility restrictions, and therefore do not have such incentives to overstay, the lack of benefits and ties should constitute a strong push factor.

However, the loss of a job is not necessarily equivalent to the migrant returning to the home country. First of all, the migrant may have incurred large migration costs, in which case he or she will not be willing to give up on the investment too quickly (Sward and Skeldon 2009). In many cases, the migrant may also have obligations (remittance sending) for family members in the home country, in which case he or she will also not be willing to give up easily (Castles, Miller 2010). Second, contemporary migrants are often young, single, and endowed with good language skills, which means that they may be able to find another job relatively easily. Those who have integrated into the
host society are also less likely to return. Even in the most vulnerable sectors, such as services, it is also not evident that a diminishing demand will lead to employment reduction; some authors suggest that the effect may only be a reduction of wages (Martin 2009; Beets and Willekens 2011). Third, migrants may have acquired social benefit rights, such as unemployment benefits; their level may even surpass expected wages in the country of origin, in which case return is strongly discouraged (Benton and Petovic 2013; Bratsberg, Raaum, Roed 2014). Finally, migrants may also take into account the possibility of re-employment once employment prospects pick up, in which case even those who are irregular will not have incentives to return home, given the increased possibility of not being admitted into the host country again (Papademetriou et al. 2009; Castles and Miller 2010; Frontex 2009). This is why some research suggests that re-emigration rates are expected to increase for a brief period only, when those who always planned to leave do so, with the others largely unaffected (Dobson, Latham, Salt 2009). Dobson, Latham and Salt also point out that immigration indeed tends to fall when unemployment in the host country rises, but only for a limited period, after which it picks up again, even before a visible improvement may be observed. These authors therefore expect that migration will not constitute a good buffer for the economy.

One should also bear in mind that given the global nature of the observed recession, migrants cannot easily shift to alternative destinations, although moving to a different host country could be preferable for some migrants to a return home (Duvell 2009). In particular, since the employment prospects at home may be limited, migrants will not be pulled back by their home country. Due to uncertainty (in both the sending and receiving countries), migrants may also postpone their stay/return decisions, which introduces additional “lags” to the observed migration flows (Duvell 2009). On the other hand, migrants currently residing in a country are expected to advise potential newcomers not to migrate if the probability of finding a job is low, which, given the prevalence of social networks in job searching, means that the migrant flows are expected to diminish and the migrant stocks should rise at a slower pace than before the crisis (Martin 2009; Papademetriou et al. 2009).

Not only labour migration may be affected by the crisis, though; also the number of foreign students, pensioners residing in foreign residences (nationals of such countries such as the UK, Germany or the Netherlands) or asylum seekers are expected to diminish (Duvell 2009; Papademetriou et al. 2009; Castles and Miller 2010). For example, crisis-led changes in housing and currency values may reduce the ability of retirees to pay for moving and establishing themselves in retirement destinations, which will affect retirement migration. Therefore, the crisis may be expected to have significant impact on most categories of migration flows. What should not be overlooked, however, is that

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24 A confirmation of this mechanism may be found in Dheret et al. (2013), discussed further on.

25 On the other hand, some argue that a large part of migratory flows in the EU, namely – migration for family reasons, being the largest single entry category for immigrants, especially in OECD countries – should not be overly affected by the crisis, due to the fact that family reunion usually takes place after a migrant is well settled in the host country, and is subject to significant time lags (Castles and Miller 2010). This observation may be confirmed by analysis of data on (first) residence permits issued by reason, throughout the crisis. The EU-27 overall number of permits issued for family reasons remained relatively stable during the 2008-2013 period, oscillating around 700 thousand yearly, while the number of permits issued for remunerated activities reasons dropped from approximately 790 thousand in 2008 to 530 thousand in 2013.
what may be “an individual crisis for migrants and their families at home”, 26 will not necessarily be a “migration crisis” on the aggregate level (Duvell 2009: 5).

4.2. Empirical evidence

Do the actual figures differ from the theoretical predictions? Permanent migration flows to the EU have, in aggregate, indeed fallen significantly since 2007, and have only rebound just recently (2013), but with levels still not reaching those of the pre-crisis period (OECD 2014). The rebound in permanent migration is driven mainly by a rise in free-movement migration (with a rebound observed in 2010, in 2012 such movements equalled permanent inflow into the EU from third countries). Temporary migration flows have behaved similarly, with significant falls since 2007 rebound only recently (2012-2013), and total figures significantly below the 2007 peak levels (European Commission 2014). Labour migration has continuously declined during the post-crisis period, with a fall of almost 40% for European OECD countries between 2007 and 2012 (mainly due to reduced inflows to Spain and Italy). What should be noted, however, is that the 2007 peak levels reflect not only the pre-crisis general trends, but also the effects of the 2007 accession of Bulgaria and Romania, which greatly “inflated” the figures in some countries, for example Italy (OECD 2014, European Commission 2014). In order to abstract from changes in mobility flows related to the EU enlargements of 2004 and 2007, Holland and Paluchowski (2013) provide an analysis of intra-EU15 mobility. They find a sharp rise in aggregate intra-EU15 mobility in 2008, followed by a sharp fall in 2010, and an increase in 2011, which they consider inconclusive.

Dheret et al. (2013) show that the recent crisis comprised two phases, with distinct mobility patterns. During the first phase, until 2010, migration flows fall, due to the deterioration of pull factors (notably income differentials) and a rise in the significance of push factors (unemployment). During the second phase, since 2010, mobility is on the rise again, which Dheret et al. (2013) explain by the simultaneous process of the emergence of push factors in Southern Europe (mainly unemployment) 27 and the economic recovery in other countries, such as Germany. Bertoli, Brücker and Fernandez-Huertas Moraga (2013) underline the fact that this is different to previous intra-EU mobility flows in that until the crisis, local unemployment was not the main driver of emigration.

It is worth mentioning that the general directions of the flows have shifted. While pre-crisis EU migration was predominantly East to West, reflecting the historically-based varying economic conditions between the EU15 and the new member states, the post-crisis migration may be described as South-North, reflecting a migratory response to economic conditions and variability induced by the crisis (Canetta et al. 2014; Dheret et al. 2013; European Commission 2014). When comparing immigration flows from 2012 to 2008, one can observe sharp falls of inflows to countries most hit by the crisis (Portugal and Slovenia with a drop by 51%, Spain with a fall of 49%, and Ireland and Italy with falls of 34%), and a rise in immigration flows to countries with a decreasing or low

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26 We will not discuss the individual, micro-level effects of the 2008 crisis on immigrants. The literature is quite vast and in general suggests that migrants are among the most vulnerable categories of employees, all the more so during uncertain times.

27 One should bear in mind, however, that the effect of developments in Southern European countries on mobility is limited, as the majority of mobility is still the domain of Eastern European nationals (European Commission 2014).
unemployment rate, such as Germany (increase of 71%) or Austria (24%) (European Commission 2014). One can also observe an increase of immigration flows to such countries as Lithuania (increase of 113%), Romania (20%) and Poland (15%), which at least partially may be attributed to an increasing number of return migrants (European Commission 2014). In this context, the intra-EU mobility flows in general do seem to react to a changing economic setting.

The analysis of correlation coefficients between the levels of inflows and outflows on the one hand, and unemployment levels and GDP levels for the EU countries on the other hand sheds some more light on the reactive nature of the flows (Table 4.2). As far as GDP growth levels (for 2012) or changes in GDP growth for the periods 2008-2012 or 2011-2012 are concerned, neither the emigration nor the immigration flows (long-term migrants) seem to be affected (the Pearson correlation coefficients are close to zero, the Spearman’s correlation coefficients are also not significant).\(^{28}\) There exists, however, a highly significant correlation between the changes of unemployment levels and the changes of emigration flows: the higher the observed increase in unemployment, the higher the emigration from a given EU country. What may be surprising, however, is that a similar relationship does not necessarily hold for immigration: only recently, i.e. during the 2011-2012 period we can observe that a decrease in immigration flows significantly coincides with an increase of unemployment levels.\(^{29}\) This may suggest that, on the one hand, migration does react to labour market conditions in the host country, such that when the conditions are unfavourable, individuals (both citizens and foreigners) leave the country; on the other hand, these migratory flows are not necessarily directed to the countries where they potentially would have been the most welcome. Any labour market constraints (such as restrictions imposed by the TA) in the receiving countries are therefore likely to hinder the potential self-regulating role of migration flows (additionally to other migration barriers discussed above).

\(^{28}\) The Spearman’s correlation coefficient seems to be better suited to describe the relationship between migration flows and other variables than Pearson’s correlation coefficient, since the first is much more robust to measurement errors – migration data are always vulnerable.

\(^{29}\) Pearson correlation rates may be indicative of a moderate negative relationship, but Spearman’s correlation rates are in most cases not significant, and as we have noted above, Pearson’s correlation coefficient may be affected by measurement errors.
Table 4.2 Correlation coefficients between immigration, emigration (long-term), unemployment and GDP growth.

<table>
<thead>
<tr>
<th></th>
<th>Emigration</th>
<th></th>
<th>Immigration</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>change</td>
<td>change</td>
<td>change</td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.25</td>
<td>-0.1</td>
<td>0.56</td>
<td>-0.26</td>
</tr>
<tr>
<td>GDP growth 2012</td>
<td>-0.11</td>
<td>-0.06</td>
<td>0.07</td>
<td>-0.21</td>
</tr>
</tbody>
</table>

Pearson’s correlation coefficient

<table>
<thead>
<tr>
<th></th>
<th>Spearman’s correlation coefficient (significance level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>0.00 (0.99)</td>
</tr>
<tr>
<td>GDP growth 2012</td>
<td>-0.13 (0.51)</td>
</tr>
</tbody>
</table>

Note: For Poland and Germany data for 2009 instead of 2008 is used, because of breaks in time series.

Source: Own calculations based on Eurostat [migr_emi1ctz].

Some more evidence concerning the self-regulating character of mobility flows may be found when one considers only changes among the workforce, and the occupational or sectoral allocation of intra-EU movers. The first aspect of recent flows that should be noted is the fact that migrants tend to be overall better educated, which coincides with crisis-led shifts of job structure and demand for educational level (as well as an overall increase in educational attainment among the EU workforce, European Commission 2014). What should also be noted in this context is that the proportion of intra-EU movers working in high-skilled occupations (ISCO 1-3) increased from 26 % to 34 % between 2008 and 2013, and this increase was accompanied by a decline in the over-qualification effect (the share of highly educated individuals employed in low or medium-skilled occupations decreased).

In terms of sectors, in recent years there are fewer migrants working in construction and manufacturing and domestic workers, while the share of the service sectors and professional end educational employees has increased. These shifts are in line with trends in the EU economies at the times of the crisis, and changes for migrants are more pronounced in percentage terms, which is another indication that labour mobility has acted as a buffer for the economies of destination countries (European Commission 2014).

4.2.1. Overall labour market effects

Brauninger and Majkowski (2011) studied the relationship between migration flows and the economic performance of countries in the Eurozone, and concluded that labour mobility is only relieving a fraction of the pressure on the respective job markets. They find that without the rise in emigration and drop in immigration, the imbalances of labour markets of such countries as Ireland or Spain would be even more bothersome; for example, they estimated the unemployment levels in

30 This decrease may be attributed to a decline in the share of highly-skilled under-employed EU2 movers, mostly due to the decrease in migration rates from these countries to Spain.
these countries would be 3.5 and 1.7 pp higher, respectively, if the migration flows hadn’t reacted. They also stressed, however, that the observed adjustment mechanisms were driven primarily by altered migration patterns by non-EU nationals, rather than intra-EU movements. Jauer et al. (2014) arrive at a similar conclusion, namely that labour market adjustments in Europe during the crisis were driven primarily by immigrants from outside the Eurozone, such as the recent EU accession countries or non-EU-27/EFTA countries, and not by within-Eurozone migration.

Some other studies (Ziółkowski 2014; Broyer et al. 2011) also suggest that, on the one hand, the levels of migration flows within the EU are insufficient to alleviate the negative effects of the crisis and substantially reduce the asymmetry, especially in comparison to internal flows in the US economy. But, on the other hand, Beine et al. (2013) show that labour mobility becomes more and more reactive to asymmetric shocks (their period of analysis covers the years 1980-2010). Jauer et al. (2014) also find that while the response to labour market shocks was stronger in the US than in Europe prior to the crisis, recent developments suggest a stronger reaction in European mobility than in the US. Jauer et al. (2014) suggest that the recent increase in labour mobility in Europe, and in consequence the increased adjustment capacity of labour markets to cope with asymmetric shocks, is linked to the EU enlargements of 2004 and 2007. However, the authors conclude that it is also possible that the observed mechanism changes may have also been the result of a threshold effect: that intra-European mobility has grown rapidly only when the labour market disparities reached a certain level. They have found that unemployment disparities widened more with the crisis in Europe than in the United States, reaching values twice as large in the former in comparison to the latter.

Krause, Rinne and Zimmermann (2014) state that mobility within Europe is not high enough to fully induce the related benefits, thus signifying that the goal of establishing a single European labour market is far from being achieved. This literature-based statement is confirmed by opinions from an expert survey. On a side note, Dheret et al. (2013) show that for some migrants (in particular from Greece, Ireland, Portugal and Spain) the EU market has become less attractive than other locations – they have been choosing destination countries outside of Europe more often since 2010. What should be noted, however, is that in the case of Ireland and Portugal it is the nationals from these countries that leave the EU, while in the case of Spain, it is mostly foreigners who leave these countries and the EU as a whole (European Commission 2014).

Zaiceva and Zimmerman (2012) describe an overall positive effect of migration, in a slightly different context, discussing specific characteristics of migration flows. First of all, they show that rather than brain drain, it is brain circulation which best describes the migration flows from several NMS states to the EU15 countries, due to the fact that migrants engage in multiple migration episodes. Furthermore, the authors show that the commonly observed types of mobility, namely repeat and circular migration, are expected to alleviate the potential negative impacts of the crisis particularly well, as they lead to a more efficient allocation of labour within the EU. What is worth noting in this context is that in general, recent research suggests that the relative incidence of part-time work has increased significantly in most countries over the crisis period (European Commission 2014a), and this trend is more visible among migrants than among the domestic population. Data from destination countries may be complemented by data from source countries in this respect. For example, quarterly data on temporary emigration from Poland obtained from the Polish LFS reveal that seasonal frictions in migrant stocks are more clearly visible during the crisis than they were.
before (Anacka, Fihel, Kaczmarczyk 2015). This observation lends credit to the hypothesis that migration flows indeed react to the shocks in the receiving countries’ economies.

A different aspect of the migration flows is underlined by Bertoli et al. (2013). In this study, the authors model not only bilateral factors shaping migration decisions, but also take into consideration the changing conditions in other potential destinations, putting emphasis on the diversion effect. For example, an increase in the unemployment rate in Spain is expected not only to induce emigration of Spanish residents, but also influence the location-decision choices of other country nationals, who might have considered Spain as one of the possible destinations but, in view of the economic situation in Spain, will chose a country with better economic prospects instead. In particular, the authors find that the rapid increase in immigration rates to Germany should be attributed mainly to deteriorating conditions in alternative destinations (typically: Italy, Spain and the UK), as the crisis increased its relative attractiveness as compared to these other potential destinations, rather than developments in the sending countries (such as Romania). In this context, Bertoli et al. (2013) underline the role of migration-diversion effects in explaining changes in post-crisis migration flows – for example, according to the authors, it is precisely this effect which accounts for the sharp increase in immigration rates for Romanian and Bulgarian nationals to Germany between 2007-2012 (in this period, there were no changes in labour market access for these nationals). The existence of such a migration-diversion effect in this context, where mobility is reactive to the economic conditions in the set of potential receiving countries, would be indicative of migration being self-regulating in nature.

However, the observed changes in migration flows differ greatly by country. Thus, in following sections we look carefully at selected case studies prominent in the context of post-accession migration.

4.2.2. Germany

Several recent studies have researched the impact of the crisis on mobility in Europe. Germany is a common case study, given the size and importance of the economy, as well as fairly good economic performance (apart from a negative GDP growth rate in 2009). Migration to Germany records consecutive years of double-digit increases, while net migration to Ireland has remained negative (OECD 2014). Also, while aggregate migration flows may have relatively quickly reverted to the pre-crisis levels, the destinations have been changed. In the pre-crisis period, Spain, Italy and Ireland experienced high net immigration rates; this changed abruptly with the crisis, with flows shifting to countries which fared better, such as Germany (Holland and Paluchowski 2013). Also, while declines in net migration rates for the “peripheral” EU countries may be attributed both to a rise in emigration and a decline of immigration, in the better faring countries the observed patterns may be attributed mainly to immigration increase (as in the case of Germany), as emigration rates remain stable.31 We therefore return to the question of the “buffering” role of migration during the crisis.

31 What should be noted is that a decline in the net migration level experienced by a country can stem from either a decline of immigration to this country, a rise in emigration from this country, or a combination of the two. It is also an outcome reflecting in- and outflows of nationals of a given country, as well as flows of other EU members and non-EU nationals.
Elsner and Zimmerman (2013), based on a descriptive analysis of migration flows, find that the aggregate flows to Germany confirm that migration flows respond to asymmetric shocks. During the post-crisis period, migration from the EU8 countries to Germany increased significantly, which may be attributed both to the alleviation of employment restrictions in 2011, as well as unfavourable conditions in main destination countries (UK and Ireland), which suffered a deeper recession. However, during the crisis also net flows from Southern European countries, which have been allowed free movement also before the crisis, have increased significantly – in response to unfavourable conditions of these economies. This underlines the importance of macroeconomic fundamentals rather than institutional restrictions in shaping migration flows, and would suggest that migration indeed provides an adequate adjustment mechanism to asymmetric shocks. Nonetheless, Elsner and Zimmerman (2013) conclude that the actual magnitude of the flows to Germany from the countries affected by the crisis remains too low to significantly reduce the labour market pressure in these countries.

4.2.3. The UK

The UK constitutes quite a different case to that of Germany. Contrary to Germany, the UK experienced rapid growth in immigration levels, especially following the EU enlargement of 2004. Also contrary to Germany, which recovered quickly from the 2009 GDP reduction, the UK faced a prolonging decline in output growth during the 2008 crisis. Nevertheless, the results of empirical studies for the UK confirm the findings for Germany as far as the crisis mechanisms are concerned. Clark, Drinkwater and Robinson (2014) show that a visible slowdown in post-crisis inflows of immigrants to the UK may be attributed to the recession, although this effect has not been very sharp. Immigration from the EU remains relatively high, although there have been significant changes as far as the countries of origin of migrants are concerned. In particular, immigration from countries most affected by the crisis (such as Spain and Italy) has partly substituted migration from the NMS8 countries (such as Poland), where the effects of the crisis were less severe (Clark, Drinkwater, Robinson 2014).

4.2.4. Ireland

Ireland is a clear case of a country where migration was driven by restrictions (or rather lack thereof): although an economic boom occurred as early as in the 1990s, inward migration picked up only in 2004, after the opening of the labour market to the NMS8 countries. The effect of immigration was overly positive: immigrants were found to have had a positive effect on economic growth, did not hinder wage growth of the natives, and were less likely to receive welfare support than the natives. The economic crisis has led to a reversal of migration trends, with both the immigrant and native population experiencing out-migration, with the rates particularly high for immigrants from the NMS. Immigrant employment contracted sharply over the recession period. Barrett et al. (2014) conclude that Ireland seemed to benefit from a relatively mobile labour force, which flowed inwards during the boom and is flowing outwards during the downturn. This would not have been possible, if not for the abandoning of labour market restrictions, and thus Ireland seems to be a vivid example of the
profitability of free movement in the process of adjustment to economic shocks. However, also other factors may have been in play: first, many immigrants arrived in Ireland in the years leading up to the downturn and might not have had time to become rooted in Ireland; second, restrictions of welfare benefits for immigrants might have reduced the incentive to stay during the crisis period (Barrett et al. 2014).

4.2.5. Southern Europe

As far as the peripheral EU-15 countries are concerned, the situation greatly differs by country. Nearly all outflows from Portugal were of Portuguese nationals (94% in 2011), while only a small minority (12.3% in 2011) of emigrants from Spain are reported to have been nationals of this country. Holland and Paluchowski (2013) attribute these differences to differences in the national propensity to migrate. This, in turn, signifies that the extent to which migration may play a “buffering” role in asymmetric shocks is greatly affected by population characteristics, and will differ from country to country.

An interesting case is the Italian one, where an unexpected property may be observed: during the crisis, native employment has declined considerably, while foreign employment has continued to grow (albeit at a slower pace than before the crisis – Pastore and Villoso 2012, and with increasing levels of the unemployment rate). This may be explained by the fact that in Italy, it was the manufacturing sector, large firms in the industrial sector (employing natives) which were most affected by the crisis, and not the construction sector, as in other countries. Also, the demand for old-age care, which constitutes a very important sector of immigrant employment, remained stable during the crisis, although in 2011 the recession also limited the demand for family services, given that some native women lost their jobs and became available as care providers (Del Boca and Venturini 2014).

The efficiency of the adjustment mechanism may also be affected by the composition of the immigrant workforce, and in particular by the disparity of unemployment rates between country nationals and foreigners. On the one hand, for example in Spain foreigners were overrepresented in sectors most affected by the crisis, such as the construction sector. If 53 % of job losses between 2008 and 2012 are estimated to have been focused on the construction sector, and during this period 70% of jobs held by foreign nationals in this sector were lost, the crisis adjustment mechanism clearly “throws out” foreign nationals first (Holland and Paluchowski 2013). Similar bias has been observed in Ireland or Greece. On the other hand, a rise in foreign employment in the construction sector in France has been observed since 2008, suggesting a temporary reallocation from the most severely affected economies (Holland and Paluchowski 2013). Overall, Holland and Paluchowski (2013) conclude that free movement of workers within the EU did not seem to constitute an adjustment mechanism for the asymmetric crisis shocks.

Ireland was also one of the countries which did not impose restrictions on the employment of Croatian nationals during the Croatian accession in July 2013, although at the time the GDP growth in Ireland was still negative or oscillating around zero.
4.2.6. NMS – the sending countries

The effectiveness of the adjustment mechanism for typical EU sending countries is also not evident. For example, research results suggest that a large share of emigrants from Poland, who were “caught” abroad by the crisis in the UK or Ireland, do not intend to return home and try to find their way abroad. This is especially visible in the UK, but also in other countries, with migrants strategy favouring “survival” or reallocation to a different foreign country rather than a return home (Iglicka 2009; Krigs et al. 2009; Kaczmarczyk 2011; Bratsberg, Raam and Roed 2014; Eurofound 2014; Anacka, Fihel and Kaczmarczyk 2015), although there are also some indications of accelerating returns that were planned anyway (Eurofound 2014). The same may be said for recent migration from Romania: on the one hand, large-scale migration reduces the pressure on the Romanian labour market, but on the other, most migrants prefer to develop adjustment strategies in their destination countries (Andren and Roman 2014, Eurofound 2014), as well as Bulgarians (Markova 2009).

The above-described mechanism may (if the initial outflow was not excessive) allow for structural changes in the sending country, but due to migrant “rigidity” does not necessarily lead to an optimal allocation of labour (see also Kaczmarczyk and Okólski 2008). Different studies suggest, however, that the business cycle of the destination country matters more to migration flows than economic shocks at origin for the new EU member states (Kahanec, Pytlíkova and Zimmermann 2014). This result may signify that there exists in the NMS a group of mobile workers who initially migrated for reasons other than the economic crisis in their home countries, and who will respond to economic conditions in competing destinations, but will not necessarily return to their respective home countries even if the situation there becomes more favourable.

Some authors also raise the concern that crisis-led emigration from some countries, such as Portugal or Spain, may be indicative of a brain drain mechanism, which, in the long run, may lead to further aggravating differences between countries by hindering growth in the ones that were “drained”, rather than providing an equalizing mechanism (Holland and Paluchowski 2013; Izquierdo, Jimeno and Lacuesta 2014).

Recent evidence from Slovakia suggests, however, that labour mobility has served as an important adjustment mechanism, both for Slovakia and the EU labour market in general (Kahanec and Kurekova 2014). The authors find that during the period of accession to the EU, the emigrant profiles saw several shifts, corresponding to economic asymmetries, including the crisis of 2008. In particular, Kahanec and Kurekova (2014) find that when conditions in the main receiving countries worsened, migration flows declined and flexibly redirected to other destination countries with more favourable labour market opportunities. This has been the case in particular with a decline in migration to Ireland and the UK and a rise in migration to countries which fared better, such as Austria. During the crisis period, also the migrant profile changed, from young and university students to a breadwinner profile. It is worth stressing, however, that the migrant profile strictly corresponds to the country of destination, which is a signal of the self-regulating nature of the migratory flows.

A different aspect of crisis-led migratory flows is the intensification of circulation strategies, among EU15 and EU10 countries (Eurofound 2014). Return migrants are found to re-emigrate (often to the country of first emigration), and a circular pattern of migration supposedly arises as a result of the
rise in “global” uncertainty. Such an adjustment mechanism in the character of the flows indicates that recent migrations seem to be responsive to economic conditions.

Studies for the Baltic countries, all of which suffered relevant out-migration and extremely severe negative crisis effects immediately after the outburst, and more moderate outflows since the recovery, show different patterns (Lulle 2011). According to Lithuanian estimates, approximately a third of the population who emigrated in 2001-2009 returned to the home country, so the crisis and its aftermath may be seen as a defining feature of stabilization. As far as Latvians are concerned, Lulle (2011) states that the majority are reported to have no intentions of return to their home country, expressing a distrust to government actions. Other studies also suggest that while the initial waves of post-enlargement migration may have returned in 2006-2007, the recent post-crisis migration is more likely to become permanent (Eurofound 2014). Estonians, on the other hand, have experienced mostly short-term emigration to Finland; in some cases, due to proximity and frequency of commuting, those circulating to work in Finland were not even considered migrants (Lulle 2011). Other research suggests that the Baltic states, and also Slovakia and Poland, are the countries with the largest proportions of returnees (Zaiceva and Zimmermann 2012).

4.3. Did the introduction of transitional arrangements hinder the adjustment capacity of migration flows?

In the previous chapters we discussed the hypothesis that TA would have influenced the migration flows within the EU in a significant way: flows were smaller than expected in scenarios without any labour flow restrictions, they were diverted to other destinations, and labour market effects (in terms of wages or unemployment levels) have been identified. This signifies that, in view of the research suggesting that the levels of migration flows within the EU are still too meagre to effectively reduce the crisis-induced asymmetries, imposing TA which lower migration flows and redirect them should have an adverse effect on the stabilizing properties of labour mobility. However, proving the hindering role of transitional arrangements in this case is very difficult. On the one hand, this is due to the fact that research is not equivocal in determining whether migration flows did have a buffering role for all actors considered, in the first place. On the other hand, during the studied period a range of factors other than labour market restrictions may have also affected the outcome, and it is hard to disentangle the TA effect (for example, in the case of recent migration from Poland to Germany, it is very hard to determine to what extent the observed increase in migration flows has been driven by lifting restrictions, and to what extent by favourable economic conditions as compared to the UK, the leading migration destination).

In a recent cross-country study, Kahanec, Pytlíková and Zimmermann (2014) show that overall, east-west migration flows in the EU responded positively to the EU entry and economic opportunities in receiving labour markets during the crisis. They find that post-enlargement migration was responding mainly to the economic conditions in the receiving rather than sending member states, and thus the destination country’s business cycle was a significant driver, while the economic shocks at origin did not have a significant effect on migration from the new EU member states. The authors suggest that this is indicative of the emergence of a stratum of mobile workers, seeking job opportunities abroad for reasons beyond the current shock to the home economy and who respond rather to the current economic conditions in competing destinations, which signals that these flows may indeed play a
buffering role (findings confirmed also by Zaiceva and Zimmermann in an earlier study in 2012). Kahanec, Pytlikova and Zimmermann (2014) stress that the adjustment effect could have potentially been better, if not for TA, which negatively affected the flows of east-west migrants. They also underline that the free movement of workers is a necessary condition for the migration flows to fully play the role of a shock buffer between EU member states. Zaiceva and Zimmermann (2012) went even further and suggested that keeping transitional arrangements for the EU2 migrants during the initial periods of the crisis may have had an adverse effect, since these migrants may have chosen to remain in the host country after becoming unemployed.

Most authors, however, do not try to disentangle the effects of transitional arrangements from the economic shocks. Some partial evidence of the hindering effect of imposing labour market restrictions may be found in research dealing with the effect of imperfect market solutions and employment protection. Transitional arrangements may be regarded as both, as they introduce constraints to the labour market functioning and affect the way in which wages respond to labour supply shocks, and, hence, may influence the labour market effects of immigration. D’Amuri and Peri (2014) studied the process of immigration-triggered reallocation of native workers in the receiving labour markets. They found that immigrants, by taking up manual-routine type of occupations, pushed natives towards more complex, and higher-rewarded jobs. They found that this reallocation effect was stronger during the pre-crisis period than during the slowdown, but what is more important, they concluded that the positive reallocation is more intense in countries with low employment protection. This suggests that the reallocation processes in the EU labour markets during the crisis may have been slowed down by restrictions in the form of TA.

We will illustrate the above-mentioned doubts with recent EU-LFS data. Figure 4.1a presents the stocks of NMS8 migrants in selected destination countries (top six EU15 destinations and Norway, as of the third quarter 2014), and figure 4.1b – NMS2 migrants in selected destination countries (top four destination countries, as of third quarter 2014).
Figure 4.1 The stock of NMS8 (top) and NMS2 (bottom) in selected destination countries, 2008-2014.

a. NMS8

b. NMS2

Source: Own elaboration based on EU LFS

The data presented in Figures 4.1a and 4.1b cannot provide a clear answer as to the effect of transitional arrangements on the effectiveness of labour market flows. In the case of the NMS2 countries, flows both to Germany (with a good economic condition) and the UK (with adverse economic developments) have been on the rise since the outburst of the crisis, even though both countries imposed restrictions; the trend did not turn after the restrictions were lifted. The stock of migrants in Spain has decreased slightly, but without visible effect of the 2011 reintroduction of
restrictions. As far as the NMS8 countries are concerned, the inflow to Germany picked up after the restrictions were alleviated, but inflow to the UK (without restrictions during the whole period) increases faster, although economic conditions are worse. Furthermore, the migrant stock in Ireland remains almost unaffected, even though Ireland experienced severe economic downturn.

Further insight may be gained by looking at the fractions of employed and unemployed NMS migrants in the total migrant population. Figure 4.2a and 4.2b present the situation among NMS8 nationals, while figures 4.3a and 4.3b – among NMS2 natives.

Figure 4.2 The fraction of employed (top (a)) and unemployed (bottom (b)) among migrants from NMS8 in selected destination countries, 2008-2014.

a) Fraction of employed

b) Fraction of unemployed

Source: Own elaboration based on EU LFS
Data depicted in Figure 4.2 do not permit far-fetched conclusions. The shares of employed migrants differ by country of destination, but remain relatively stable with a small downward (UK) or upward (Germany) trend throughout the crisis, with the exception of a deteriorating employment level in the case of Ireland during the first period of the crisis, where also unemployment rose abruptly during the same period. In the case of NMS2 nationals, the situation is somewhat different (Figure 4.3). Significant downward trends are visible throughout the whole period for employment levels, and moderate (with the exception of Spain, where it is significant) upward trends for unemployment.

**Figure 4.3** The fraction of employed (top) and unemployed (bottom) among migrants from NMS2 in selected destination countries, 2008-2014.

a) Fraction of employed

![Fraction of employed](image)

b) Fraction of unemployed

![Fraction of unemployed](image)

*Source: Own elaboration based on EU LFS*
Chapter 5. Side effects of restricted access to the labour market

Imposing unequal restrictions on the free movement of workers influenced in a relevant way the flow of labour migrants from the NMS; one major consequence, as already argued in the WP2, was geographical redirection and diversification of flows, as well as increasing selectivity of migrants choosing different destination countries within EU15. In this section we will focus on other consequences which led to the channelling of labour mobility from NMS into other forms of employment. In fact, restricted access to EU15 labour markets concerned only migrants looking for regular wage employment, who were forced to apply for (and obtain) a work permit in a given destination country. The freedom of movement of services, however, was generally not subject to the transitory regulations (with exception of Austria and Germany that did introduce some restrictions to posting of workers in some sectors). Neither was the freedom of movement for the purpose of residence. The former exemption from the applicability of transitional arrangements could have led to NMS nationals seeking work opportunities under the guise of posted work or (to some extent bogus) self-employment. The latter exemption could have resulted in the increase of undeclared work performed by the labour migrants from the NMS. Hence, this section discusses self-employment, worker postings, and undeclared work as possible side-effects of transitional arrangements. The downsides of increased irregular employment are quite straightforward. Self-employment and worker postings have also generated unwanted externalities, though. Despite that both forms of employment have been subject to EU regulations, such as the Posting of Workers Directive and Council Regulations imposing minimum labour and work protections granted in the receiving country, such a circumvention of restrictions on the free movement of workers within EU15 led to some abusive work relations.

5.1. Self-employment

In each country the level of self-employment depends on general economic conditions, such as global and domestic economic situation, labour market segmentation, socio-demographic structure of workforce, industrial relations and others. In recent decades the scale of self-employment has been decreasing in most OECD countries, with important exceptions of Canada, the United Kingdom and the United States (OECD 2011). What is important in the context of the EU enlargements and

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labour mobility from the NMS is that immigrants, as a rule, are more prone to undertake small-scale entrepreneurship leading to self-employment than native workers. Several explanations were provided for this phenomenon. Bonacich (1973) framed immigrants’ self-employment activity in terms of “middleman minority” entrepreneurship. The key feature which enables immigrants to gain comparative advantage over natives in light of this theory is the temporary character of their stay and the propensity to make significant sacrifices (self-exploitation) in terms of social status and individual well-being. By the nature of their stay, middleman immigrant entrepreneurs become involved in occupations and businesses which do not tie up significant capital, are easily transferable and liquidated. Due to the vision of more or less prompt return, middleman minorities also maintain high intra-group solidarity and choose not to integrate with the host society. The notion of intra-group solidarity has been found a critical condition for the development of immigrant entrepreneurship also in the ethnic enclave hypothesis (Wilson and Portes 1980). The concept positions immigrant self-employment as a third alternative to the secondary and primary labour markets (Doeringer and Piore 1971, Piore 1979), and while the former leaves migrants in an underprivileged position, the latter remains greatly inaccessible.

The European LFS provides in-detail data on self-employment within the EU member states by nationality of entrepreneurs. However, it is extremely difficult to disentangle the impact of the transitory measures on changes in the scale of self-employment from the effects of other factors, especially the financial crisis of 2007. Also, the quantitative data fails to provide the important distinction between the genuinely self-employed migrants and those who formally maintain a self-employment status but are actually subcontractors (so called bogus self-employment)\(^\text{35}\). While the former take advantage of niches in which there is structural viability for small-scale entrepreneurship (Kloosterman and Rath 2001), i.e. where there is demand for group-specific, nearly tailor-made products and services, the latter should be wage-employed but are restricted by regulations of receiving country. In light of existing theories of entrepreneurship it would be still worthwhile asking to what extent the firms set up by NMS nationals are realizations of opportunity entrepreneurship (Naude 2013), which is usually considered a socially and economically beneficial strategy, or realizations of necessity entrepreneurship, which may be merely a second-best choice for those who may not become wage-employed otherwise. As such, bogus self-employment results solely in limited worker protections and may generate a number of market distortions such as e.g. wage depression and abuse of workers’ rights. Last, but not least, the scale of self-employment is highly dependent on actual labour market structural features specific to each country, such as unsatisfied labour demand, skill mismatches and existing economic niches. Bearing these methodological limitations in mind, we compare the self-employment rates in the EU member states that imposed and did not impose the transitory measures towards labour migrants from the NMS.

The scale of self-employment, as expressed by the self-employment rates, has been different for the EU8 and EU2 nationals residing in selected EU15 countries (Figures 5.1-5.2). In Germany labour migrants from the EU8 member states have been more than twice more prone to run own-account enterprises than the German nationals. For the EU2 nationals residing in Germany an important increase in self-employment rates took place, which we interpret as a result of very intensive inflow

\(^{35}\) This problem could be partially resolved by excluding self-employed persons running companies with employees from the analysis. However, such detailed data distinguishing EU8 and EU2 nationals, as well as self-employed persons with and without employees residing in selected EU15 member states are hardly accessible.
of labour migrants from these two countries after 2010. Self-employment was probably the easiest way of finding employment for very rapidly increasing group of the EU2 nationals. The impact of TA is also visible in Belgium where the excessive self-employment of NMS nationals was even more pronounced. Importantly, while the scale of self-employment has been decreasing for the EU8 nationals since 2009 when the labour restrictions were lifted, for the EU2 nationals it remained at the same, elevated level. On the contrary, in Italy the scale of self-employment for NMS nationals has been significantly lower than for Italian nationals, which is due to specific labour market conditions in this country (and other countries in Southern Europe), especially relatively high level of self-employment in the agriculture (EC 2010). In Spain, for which scarce data are available, the scale of self-employment has been marginal for EU2 nationals and much lower than for the EU15 nationals (Figure 5.2).

In the EU15 countries that had opened their labour markets we would expect comparable levels of self-employment for the nationals and the immigrants from NMS. This is the case of the EU8 nationals residing in the United Kingdom, but not of the EU2 nationals for whom excessive, more than 2-fold self-employment rates are registered. This phenomenon has been proved in other studies as well (see Figure 5.2, EC 2012). For instance, Holland et al. (2011: 33) recall a study by Kausar (2011) who shows that 46% of Bulgarian and Romanian migrants in the UK were self-employed in the 2004-2009 period, while at the same time the self-employment rates for EU8 migrants, other migrants, and the UK-born were 11%, 15%, and 13%, respectively.
Figure 5.1 Self-employment rates for nationals, EU8 and EU2 nationals residing in selected EU15 countries (aged 15 and more), 2008-2013.

Source: Own elaboration based on the LFS data.
The causation running from the labour market restrictions to increased levels of self-employment has been confirmed even before the EU enlargement. In a dedicated study conducted among over a thousand workers and employers in the UK Anderson et al. (2006) found that 39% of respondents who were on self-employment visas in April 2004 had actually switched to self-employed status after initially entering the UK as tourists. The report identified this strategy as a relatively easy means of “self-legalisation” for immigrants, rather than a distinctive career choice. Moreover, 30% of all respondents who were on self-employed visas in April 2004 described their employment status in their primary job as that of an employee. Apparently, this practice of bogus self-employment specifically pertained to the construction sector (Anderson et al. 2006: 41).

Also, Elsner and Zimmermann (2013) compared the self-employment rates for EU8 nationals arriving before the EU enlargement (2001-2003) and afterwards, but still under the restricted access to the German labour market (2008-2009). In the case of the former 6% remained self-employed as compared to 28% of the latter and 11% of German nationals in both periods. The comparison of age and education structure of migrants moving to Germany and the UK led the authors to the conclusion that Germany “missed out on an inflow of young and well-educated workers who went to the UK and Ireland instead” (Elsner and Zimmermann 2013: 17).
Apart from partially contradicting the efficiency of transitory measures, the increase in the bogus self-employment had its relevant social and economic consequences. Galgoczi and Leschke (forth.) stressed that in most EU countries “social protection is more restricted for self-employed workers than for dependent employed workers and certain working conditions, for example those governed by collective arrangements, do not apply to them”. For Germany, Fellmer and Kobb (2009) observed that “since self-employed persons are not obliged to pay social security contributions for unemployment insurance and old-age insurance, they could offer their services at unbeatable rates” (Fellmer and Kobb 2009: 135). According to the authors, in this sense TA, which were to protect the domestic labour markets of given Member States, had the opposing effect. A similar mechanism became effective in case of worker posting.

5.2. Worker posting

Worker posting is regulated by the EU Posting of Workers Directive (PWD) 1996/71/EC, as well as a new enforcement Directive adopted in 2014. The directive aims at reconciling the fundamental freedom of firms to provide their service on the common EU market with the protections for workers who are temporarily posted abroad. The PWD defines the terms and conditions of employment to a posted worker hired and sent by: a) company that sends abroad their own employees to provide services directly to their customers, possibly on-site (Article 1.3(a)); b) company that posts employees to their foreign branches or subsidiaries (Article 1.3(b)); and c) temporary work agency that provides workers to foreign-user companies to work on their premises (Article 1.3(c)). Hence, next to self-employment, the PWD provides another channel for legal employment in EU Member States which have not opened their labour markets to migrants from the NMS.

Statistical data on worker postings are very limited; at the European level the only source of reliable, cross-country information is based on the A1 (formerly: E101) social security forms issued to posted workers in the sending country, while other administrative or survey-based data sources are not representative or adapted to track the phenomenon of worker posting (European Commission 2009). However, the European social security data has its limitations, too. Most of all, it provides the information on number of postings which is not equal to the number of posted persons, as depending on the duration of contract one worker may obtain several A1 certificates per year. Also, it may underestimate the true number of postings, as in case of very short-term contracts companies may be willing to avoid administrative procedures necessary for obtaining the A1 certificate. Last but not least, this source of data fails to distinguish between the “true” delegation of employees abroad and the bogus employment of workers who due to labour market restrictions cannot be hired by entrepreneurs originating in the receiving country. In case of the former, the phenomenon of worker posting is stimulated by internationalization of companies and as such indicates rather the employer’s strategy than the employee’s (European Commission 2009). In case of the latter, though no hard evidence can be provided due to lack of appropriate data, an excessive (or even abusive) work posting takes place in cross-border regions, selected skill groups, industry, temporary agency sector and worker schemes (Holland et al. 2009).

A report of the European Commission on the economic and social effects of posting workers in the EU (European Commission 2009) suggests that the scale of posting is rather significant and concerns,
on average, 18.5% of foreign EU workers, though this figure has been calculated as a simple ratio between the number of E101 forms issued and the number of EU mobile workers in the EU. Considerable disproportions between European countries were observed as far as the number of postings provided and received is concerned. The NMS countries sent in 2013 42% (in 2007 almost 1/3) of all posted workers in the EU and EFTA countries, but received less than 6% (in 2007 – less than 7% of all postings), which may indicate the excessive use of the posting strategy by employers from the NMS (European Commission 2009; Pacolet, de Wispelaere 2014). Around half (51%) of all work postings provided by the NMS nationals in 2013 was recorded in Germany, and 9% in Austria and France each, two countries that maintained the transitory restrictions after the 2004 enlargement.

According to the European Commission (2009), no broad evidence can be found concerning the impact of transitional measures on the number of postings because the scale of worker posting is highly dependent on the structural characteristics of both the sending and the potentially receiving markets, including skill mismatches, sectoral and seasonal shortages in workforce and increasing internationalization of companies’ activities. The importance of factors other than labour market regulations has been proved by the example of Sweden and Norway, in which almost the same number of worker postings has been registered in the period 2007-2010. However, in case of all NMS – those that gained the access to the EU in 2004 and 2007 – the number of provided posted workers increased significantly after the enlargement, for instance for Romania from 9 thou. to 52 thou. in the period 2007-2013 (Pacolet, de Wispelaere 2014). Moreover, the scale of worker posting provided by Polish nationals in France diminished considerably once this country lifted the TA measures in 2008. This could be interpreted both in accordance with and against the hypothesis on substitution for the free movement of workers, as at the same time the economic situation worsened in France and ameliorated in Poland, which created certain labour shortages in the Polish construction sector and provided economic incentives to keep workers in the domestic labour market. But it must be stressed that at the same time the scale of worker posting of the EU2 nationals in France increased (Pacolet, de Wispelaere 2014), which proves that there is a demand for foreign labour force in this country and it may be alleviated on the basis of PWD. Finally, 91% of worker postings provided by Croatian nationals in 2013 were sent to EU15 countries, mostly to Germany, Austria and Italy, three countries with relatively high labour demand and, at the same time, with TA applied towards this most recent member state (Pacolet, de Wispelaere 2014).

To conclude, statistical data provides mixed evidence on the role of work postings in the context of the side-effects of transitory measures in EU15 countries. Research does not present any unequivocal conclusion on this, either. On the one hand, since the EU enlargement there has been a large increased in the scale of worker posting from the NMS. Holland et al. (2011) suggested that the scale of postings in the EU may indicate an excessive use of this indirect route into the labour market during the period of transitional restrictions but the authors do not specify what is the level of postings which allows to identify the current scale as “excessive”. On the other hand, the authors of European Commission report (2009) avoided concluding on the role of TA in affecting the scale of worker posting from the NMS and indicated other economic factors, notably internationalization of companies’ activities, global economic situation and structural difficulties in the labour markets of receiving countries. This argument goes in line with mechanisms driving the labour mobility between the same-language countries, such as Belgium and France, and – in general – between neighbouring
EU15 countries. However, the mobility of posted workers from several NMS (the Baltic States, Bulgaria, Cyprus, Malta, Romania) goes beyond the local level, while the flow to a neighbouring country remains marginal (less than 10% of all postings in 2013, see Pacolet, de Wispelaere 2014).

Importantly, regardless of the primary intention of providing posted workers the mechanism may lead to social dumping, i.e. a situation in which posted workers are faced with financial and labour conditions that are substantially inferior to those of national workers. Precarious situations were observed for workers originating in Bulgaria and Poland (European Commission 2009), the latter becoming recently the country that provides the highest number of posted workers from all European countries. Worker posting in case of the NMS concerns mostly low-skilled persons who do not speak the language of the receiving country and may not understand the security procedures, and therefore might be particularly vulnerable to worse financial and work conditions (European Commission 2009).

Among the cases of how the posting of workers may undermine social cohesion and labour and/or industrial relations there are those of the so-called “Laval quartet” (the Laval-case, the Rüffert-case, the Commission vs. Luxembourg, and the Viking-case; Malmberg 2010). In all these instances the freedom of establishment (and worker posting under home country regulations) has been challenged by host country institutions under the accusation of social dumping. The rulings in these cases have drawn a fine line between the right of collective action and the liberties of the EU common market. Among the most critical implication of these cases, was the interpretation of the PWD as a maximum, rather than a minimum directive, i.e. one which does not allow host countries to force foreign employers to increase the level of social protection of their posted workers beyond what is set as mandatory in the Directive (Bucker and Warnek 2010).

It has been argued that worker postings should not be treated as a side effect of imposing TA as they are not a feasible alternative to wage-employment. Given the considerable scale of postings from some NMS this seems like a far-leading generalization though, because from the employee’s perspective the phenomenon of worker posting opens the access to otherwise inaccessible markets.

What should be stressed here is that it is not the labour market activity of posted workers that generates negative social and economic externalities, but rather the industrial relations in which their employers engage at the destination, such as social dumping or application of minimum economic conditions and work protections. Low-skilled posted workers, who represent a large share of posted workers from the NMS, are particularly vulnerable to such unjust arrangements.

5.3. Undeclared work

The 2008 and 2011 reports from the EU Commission to the Council on the functioning of TA (European Commission 2007, 2008, 2011) have both stressed the issue of undeclared work as a possible side effect of limiting access to the labour markets of Member States. In case of the UK this argument has been explicitly used by the proponents of opening the British labour market to NMS nationals (Wright 2010, see also Chapter 1). Specifically, the reports consider the possibility that due to restricted labour market access incidence of undeclared work may increase, “leading to undesired social consequences both for undeclared workers and the regular labour force” (European Commission 2008).
The intuition behind this proposition is that under the circumstances of free mobility the NMS nationals may be drawn to all EU countries, those that expanded and did not expand the possibility of free movement of labour, without having a job at hand. Such labour migrants may be more prone to end up with an informal job, especially at the beginning of their stay abroad. Therefore, in 2007 the European Commission (2007: 11) called on the MS’s governments to review the TA (versus the EU8 and EU2 nationals) as soon as possible.

The market mechanism which underlies the supposition that TA exacerbate the scale of undeclared work is that labour mobility is to a great extent driven by the laws of supply and demand and not fully subordinate to legal restrictions. Hence, irregular work could appear in local labour markets where demand exists and can be satisfied by migrant workers who are unable to undertake the work legally (European Commission 2006). The source of demand for and supply of irregular work may lay in the structural characteristics of the receiving labour market, with the most intuitive indicator being a high share of jobs related to precarious work such as household services, round-the-clock care, etc.

Statistical data give very mixed evidence in this regard, in particular because the scale of undeclared work is difficult to estimate and to compare between countries, nationalities and social groups (including persons with immigrant background or with irregular status). In its communication the European Commission (2006) shows that as compared to 2004, the employment rates of immigrants from EU10 countries in 2005 increased in Austria, France, the Netherlands, Spain and the UK. This rise was interpreted as a result of the EU enlargement that “may have contributed to bringing to the surface part of the underground economy constituted by previously undeclared workers from the EU10” (CEC 2006 : 11). On the contrary, on the basis of European Social Survey data for 2004-2009 Hazans (2011) proves that in the Southern and Western Europe immigrants from Central and Eastern Europe and from former Soviet Union have higher rates of undeclared work (defined as work without a contract) than nationals. The comparison of immigrants bounded and not bounded by TA shows that in the South (Greece, Spain and Portugal) workers not covered by the labour market restrictions are more prone to undertake undeclared work than workers not concerned by TA, whereas the opposite takes place in Western and Nordic Europe (possibly because immigrants bounded with TA were not sufficiently captured in the survey). After controlling for socio-demographic characteristics of immigrants and economic sector of employment, the only statistically significant informality rate relates to all immigrants (from EU and non-EU countries) working in Portugal and Spain, and immigrants concerned with restricted movement of labour in Austria, Cyprus, Greece, Ireland, Italy, the Netherlands and the UK. No significant effect was detected for immigrants for whom the right of free movement of labour applies.

The risk of ending up with undeclared work differs from one country to another, depending on economic, social, cultural and institutional factors. According to the 2013 Eurobarometer survey the second most frequent reason for undertaking work without a contract is impossibility to find a regular job (European Commission 2014a). Although not proven by ‘hard’ statistical evidences, this may in particular apply to NMS nationals for whom the right of free movement of labour was not granted straight after the EU enlargement. In fact, other studies suggest that labour migration regimes are only partly responsible for migrants’ choices of destination (Tamas and Münz 2006). The laws of supply and demand, migration networks, language competences may just as well play a critical role in the decision process.
This section reviewed existing evidence on three possible side-effects of TA introduced in a number of EU Members States: increased incidence of self-employment (including bogus self-employment), increased incidence of posting workers, and increased incidence of undeclared work. These effects pertain to labour market strategies of immigrants and of companies and, on top of one’s labour market status, may be additionally associated with taxation and legal status in the destination country.

Self-employment and posting of workers can be used in some cases to circumvent the restrictions on employment induced by the TA. As they respond to political rather than market mechanisms, they are not optimal choices in terms of increasing the gains from mobility for both the host economies and the migrants themselves, entailing important socio-economic costs. Nonetheless, the phenomenon of self-employment can be partially considered a substitute to wage-employment under transitional arrangements, whereas the worker posting does not exhibit this property as it may be subject to the process of internalization of firms, rather than solely labour market choices of workers. Finally, when it comes to undeclared work it seems that the laws of labour supply and demand may dominate over the regulations imposed by EU15 member states. Though this intuition is supported by anecdotal evidence of undeclared work performed by nationals of NMS in the member states which have applied TA, hard quantitative evidence of this side-effect is, by its nature, unavailable.

Concluding remarks

The main aim of this report was to discuss the process of the imposition and the outcomes of Transitional Arrangements as introduced in the aftermath of the 2004 and 2007 EU enlargement rounds. The discussion on the implementation of TA was one of the most controversial points during the negotiations of Accession Treaties. As shown in Chapter 1, the variation in the imposition of the TA can be explained by a combination of domestic political pressures, economic institutional factors and, importantly, positions of other member states. The latter factor seems to be of utmost importance. Particularly in the case of the 2007 enlargement round, EU15 MS explicitly referred to the ‘diversion effect’ as the main outcome of the selective imposition of TA. Diverse approaches towards the freedom of movement of workers are clearly visible when comparing the case of Germany and the UK – two major economies in the EU. The German government – as the most EU15 governments – saw potential future mobility from the NMS countries as most probably having an adverse impact on the German economy. The British government emphasized the comparative advantage that could result from an increase in immigration from CEE.

Both enlargement rounds discussed in this report brought a radical change in scale of intra-EU mobility. According to the EU LFS data, between 2004 and 2014 the total number of EU12 nationals residing in the EU15 countries increased from 1.1 million to 6.1 million, i.e. 5.4-fold. Structural features of mobility changed as well. In structural terms, migrants from the NMS are on average much younger and better educated than immigrants from previous cohorts. Nonetheless, there are serious differences noted between particular EU15 countries, to some extent attributable to the imposition of legal restrictions.
An analysis of the ‘diversion effect’, as postulated in many studies on post-accession mobility and explicitly used during the political process of accession’s negotiations, demands careful examination. In case of most known studies the presence of the diversion effect is taken for granted and was not subject to methodological tests. We argue that what we observed in the post-accession period was not a re-direction of (existing) flows but rather an amplification of the real migratory potential (defined as share of population with precise migration plans). Due to a complex set of factors, including labour shortages and labour demand, low transportation costs, language, etc., this potential turned to be ‘bound’ to certain EU destinations only (with the UK and Ireland as the most prominent examples). Moreover, we claim that the process of intra-European mobility has largely been demand-driven. Immigrants are filing gaps in highly fragmented labour markets in destination countries which appear to have benefited relatively more from this process than the sending countries.

Most of available studies show that the EU generally gained from the eastern enlargements of 2004 and 2007. Nonetheless, lifting Transitional Arrangements would yield even higher gains in terms of aggregate output when compared to a prolongation of the TA. Available empirical evidence points out that the countries delaying the liberalization of their labour markets disproportionately ‘lost’ skilled and young migrants, who chose countries such as Ireland and the UK. This conclusion (and the very idea of ‘losses’) is however conditional on the diversion effect and an assumption that post-accession migrants might have wished to move to countries which adopted TA. We argue that the relative effects of the imposition of TA for the UK and Germany are more limited in size than previously claimed and this is due to other factors than only the legal regime (e.g. labour market structure and demand for labour, socio-cultural factors responsible for mobility patterns noted in the post-accession period).

Estimating the macroeconomic effects of the selective imposition of TA has been problematic also due to financial crisis. Migration is commonly acclaimed as playing the role of a safety valve, particularly in the recession phases. Nonetheless, conclusions on the self-regulating role of intra-EU mobility during and aftermath the economic crisis are ambiguous. On the one hand, the importance of macroeconomic fundamentals rather than institutional restrictions in shaping migration flows is emphasized and this would suggest that mobility indeed provides an adequate adjustment mechanism to asymmetric shocks. On the other hand, several studies stress that the free movement of workers within the EU did not seem to constitute an adjustment mechanism. This is attributable particularly to the fact that the actual magnitude of intra-EU flows remains too low to significantly reduce labour market shocks. This seems to be a critical argument in the debate on the free vs. restricted labour market access with the former being a necessary condition for mobility flows to fulfill the role of a shock buffer between EU member states.

Similarly to the role of mobility as self-regulating process, there are serious controversies around possible side effects of TA. Empirical evidence shows that the imposition of TA might have led to spurious self-employment and an increase in worker posting as a strategies to circumvent them. Importantly, both processes had their relevant social and economic consequences. In effect, one can claim that TA which were to protect the domestic labour markets, had the opposing effect (and could lead to social dumping). This leads us to conclude that as TA resulted from political rather than market mechanisms, they are not optimal choices in terms of increasing the gains from mobility for both the host economies and the migrants themselves, entailing important socio-economic costs.
References


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Migration Advisory Committee (2011), Transitional restrictions on access of Bulgarian and Romanian nationals to the UK labour market. London: MAC.

Migration Advisory Committee (2012), Analysis of the impacts of migration. London: MAC.


Table A1. The number of EU-12 nationals (all ages) residing in the EU-15 countries in thousands, 2000-2014*.

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Notes: n.a. – not available; * value for 2014 is the average for the 3 first quarters of year. Source: EU LFS data.
Table A2. Increase in number of EU-12 nationals residing in the EU-15 countries, 2014* as compared to 2004 in % (2004 = 100%)

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Notes: n.a. – not available; * value for 2014 is the average for the 3 first quarters of year; for Ireland 2014 as compared to 2006 (no data on NMS nationals available for earlier period), for Italy 2014 as compared to 2005. Source: EU LFS data.
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</tbody>
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Notes: n.a. – not available.

Source: EU LFS data.
Table A4. Percentage of University graduates* among the EU10 nationals residing in selected EU-15 countries, 2004 and 2014**

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<th>Country</th>
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<tr>
<td>DE</td>
<td>18.7%</td>
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</tr>
<tr>
<td>ES</td>
<td>21.9%</td>
<td>18.5%</td>
</tr>
<tr>
<td>FR</td>
<td>29.0%</td>
<td>26.9%</td>
</tr>
<tr>
<td>GR</td>
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</tr>
<tr>
<td>UK</td>
<td>7.6%</td>
<td>24.9%</td>
</tr>
</tbody>
</table>

Notes: * High level of education (ISCED level from 5 to 8); ** the value for 2014 is an average for first three quarters of year.

Source: the EU LFS data.

Table A5. Percentage of University graduates* among the Polish nationals residing in selected EU-15 countries, 2004 and 2014**

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<td>UK</td>
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</tbody>
</table>

Notes: * High level of education (ISCED level from 5 to 8); ** the value for 2014 is an average for first three quarters of year.

Source: the EU LFS data.
Table A6. Economically active EU12 nationals (as the share of the total), age 15 and more, in selected EU15 countries, 2003-2013

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<tr>
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<td>81.1%</td>
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Notes: n.a. – not available.

Source: EU LFS data.
Table A7. The share of professionals* among all employed EU12 nationals residing in EU15 countries, 2008-2013

<table>
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<tr>
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Notes: * NACE (Nomenclature statistique des Activites economiques dans la Communaute Europeene) codes from K to U (employed in finance, business services, public administration, education, health). Source: EU LFS data.
Table A8. Unemployment rates of EU12 nationals residing in EU15 countries, 2003-2013

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Notes: n.a. – not available. Source: EU LFS data.
Table A9. Annual increase in the number of EU-12 nationals residing in EU-15 countries, 2005/2004 and 2008/2007 (preceding year = 100%)

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Notes: n.a. – not available. Source: EU LFS data.
Table A10. The share of persons aged 15-34 among the Polish nationals residing in EU15 countries, 2000-2013.

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Notes: n.a. – not available.

Source: EU LFS data.