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# Intra-EU labour migration: flows, effects and policy responses

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Béla Galgóczi  
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**Working Paper 2009.03**

**update spring 2011**

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This working paper is an update of a 2009 *Working Paper* that was itself based on the introductory chapter of the book *EU Labour Migration since Enlargement: Trends, Impacts and Policies*, published by Ashgate in May 2009 and edited by the present authors. A follow-up book publication *Migration and Labour Markets in Troubled Times: Skills Mismatch, Return Migration and Policy Responses*, forthcoming in the second half of 2011, is in preparation. This updated working paper draws on some material that will be published there, as well as on recent employment and population data from the European Labour Force Survey (new section 6).

Brussels, 2011  
©Publisher: ETUI aisbl, Brussels  
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Print: ETUI Printshop, Brussels

ISSN 1994-4446 (print version)  
ISSN 1994-4454 (pdf version)

The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

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# 1. Introduction

The first of May 2004 marked a historical watershed. A decade and a half after the fall of the Berlin Wall the continent of Europe was re-united in democracy, ending over 60 years of political division and hostility with the accession of eight new member states from central and eastern Europe (A8),<sup>1</sup> followed in 2007 by Bulgaria and Romania (A2).

One of the most important consequences of eastern enlargement has been the full or partial opening up of national labour markets to citizens of the other member states, not just within the – relatively homogeneous – 15 ‘old’ member states, but for the entire EU of 25 (subsequently 27) countries. Many workers in the new member states in particular were keen to take advantage of the new opportunities to earn higher wages and broaden their experience, or even to find work at all. In Poland, for example, the number of people ‘temporarily residing’ in another EU country more than doubled between 2004 and 2007, reaching almost 2 million. This increase was reflected in some, but by no means all of the receiving countries: 2005 saw probably the largest inflow of foreign labour ever recorded in the UK, hugely exceeding all prior predictions. However, other ‘sending’ (such as Hungary) and ‘receiving’ (for example, Sweden) countries experienced much less dramatic flows.

In the accession countries, ‘free movement’ was seen unanimously as a fundamental right. In the EU-15 countries, accession was preceded by intensive and at times controversial debates about likely immigration flows and whether countries should immediately open up their labour markets fully, permitting unhindered labour mobility, or whether existing restrictions should be maintained for the foreseen transitional periods. These debates took place against the background of a discussion about the role of migrant labour in advanced economies and societies, in some cases rising populism and xenophobia, and, at least in some countries, still high unemployment. Dire warnings were issued concerning a possible influx of job-seekers – and so-called ‘welfare scroungers’ – and there was considerable uncertainty among large sections of the population already worried about the impact of globalisation and the relocation of workplaces abroad. In some countries – such as the Netherlands and Denmark – such debates led to a reversal of the initial decision not to implement transitional measures (Kvist 2004).

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1. Cyprus and Malta also joined the EU in May 2004, but limitations on the free movement of labour do not apply to them and they are for the most part not considered in this analysis. See also the footnote at the start of Section 6.

The cross-border labour flows – which had occurred also prior to enlargement, but took on a new dynamic and quality after May 2004 – in turn formed a background to wider debates about appropriate labour market rules and institutions for an ever more integrated ‘single market’ in Europe. Social conflicts at national level regarding the validity of national rules and practices led, at European level, to the European Court of Justice being called upon to rule on the legality of existing national labour and industrial relations laws and practices. At the same time, national policy debates in areas such as minimum wage legislation were often conducted with explicit reference to the challenges of intra-European labour mobility. Even more broadly, such mobility interacted with economic and social processes and debates on subjects such as inequality, demography, unemployment and globalisation.

This post-enlargement intra-EU migration – or ‘cross-border labour mobility’, in the preferred official Euro-terminology – is the subject of this paper. It seeks to shed light on its characteristics, its impacts on labour markets, and the attitudes and policy responses of governments and the ‘social partners’ in selected sending (Hungary, Latvia and Poland) and receiving (Austria, Germany, Sweden and the UK) countries. These countries exhibit different magnitudes of migration in- and outflows and varying institutional characteristics and policy approaches.

Among receiving countries the UK, which opened its borders to intra-EU labour mobility in May 2004, has seen the largest influx of migrant workers from eastern Europe against the background of a strong labour market performance. Sweden also immediately opened up its labour market, but inward migration has been quantitatively limited, despite considerable economic growth. Germany imposed transitional measures but has continued to see a large volume of immigration under special programmes and especially seasonal workers from the – neighbouring – A8 countries. Austria’s geographical location and high wage level make it particularly susceptible to cross-border commuting and short-term migration. It also imposed transitional measures but, relative to population size, now has one of the highest proportions of workers who are citizens of another EU state.

Among sending countries, Poland has been the source of by far the largest number of migrant workers from A8 countries. This has had major demographic, economic and social effects in the country. Hungary, by contrast, has seen relatively small numbers of emigrants, against the background of comparatively high wage and welfare levels and, initially, a more favourable labour market situation. Latvia, the poorest A8 country, has experienced substantial population loss to migration, although its economy has been booming and wages rising fast. However, this rapid expansion has now come to an end.

This paper first provides an overview of the debate on intra-EU labour migration, explaining the different options open to and taken by member states regarding freedom of movement. It then considers the drivers of international migration flows and presents relevant data for the EU in the run-up to and since enlargement. Against this background we present and assess syn-

thesised findings from our book “EU Labour Migration since Enlargement: Trends, Impacts and Policies”. Based on its national case studies we discuss empirical patterns and dimensions of labour migration after the 2004 enlargement up until the economic crisis. We examine the associated economic and labour market effects in sending and receiving countries and, finally, the policies adopted in both sets of countries by governments, trade unions and employers’ organisations.<sup>2</sup> In this updated version a new section has been inserted to present newer data covering (as far as possible) the period up to the end of 2010, in order to consider the impact of the financial and economic crisis on migration and employment outcomes (section 6).

### Data limitations

It is important to note a number of problems that arise when comparing migration flows and the characteristics of migrant workers between European countries. The most serious problem is that some migration flows are not picked up by either survey or administrative data. The most obvious example is undocumented work but also commuter migration and other forms of short-term migration, such as seasonal work, are unlikely to appear in survey or administrative data because often migrant workers who stay for only a limited period of time are exempted from registering with the public authorities and are unlikely to be captured by standard survey procedures: survey data on the migrant population are often considered to be of inferior quality because the survey coverage of the foreign-born population is usually poorer than that of locals (Hardarson 2006).

Most data sources distinguish only by nationality. Once people have naturalized they are no longer considered as migrant workers. This is problematic if workers with certain characteristics are more likely than others to naturalize, as seems likely. In addition, there is often no possibility to distinguish between migrants who have been in the country for a long period and those who arrived only recently.

Recent migration flows are recorded by specific obligatory registration schemes such as the Worker Registration Scheme in the UK or the employment registration scheme in Finland that is used for monitoring purposes. However, these schemes often lack enforcement mechanisms (leading to underestimation) while not picking up outward migration flows or return migration (leading to overestimation). As regards sending countries, mirror statistics – administrative records in receiving countries – often have to be used because there are insufficient incentives to deregister and outward migration is thus severely underestimated

More qualitative approaches, such as interviews with specific groups of migrant workers, can solve some of the above problems and allow researchers to obtain more detailed information on the labour market situation of migrant workers. The downside is that the results are not representative.

Such data constraints require cautious interpretation of comparative analyses.

2. We would like to emphasise that the empirical findings at the national level are derived from the chapters to the book; the reader will find an overview of the chapters and authors in the Annex. Responsibility for the synthesis and the assessment lies with the authors of this paper.

## **2. The freedom of movement of labour**

### **2.1 EU-level rules governing the freedom of movement of labour**

The EU accession of the A8 countries in May 2004, and of the A2 countries (Bulgaria and Romania) in January 2007, in principle extended the ‘four freedoms’ – free movement of capital, goods, services and people – throughout the new, enlarged European Union. However, due to fears of mass influxes and negative outcomes for the local labour market, most EU-15 member states initially decided to suspend full access to their labour markets for citizens of the A8 and A2 countries for a transitional period of up to seven years. The seven years are divided into three periods. During the first two years, with a possible extension of another three years – following a non-binding report by the European Commission and review by the Council (European Commission 2006) – countries could opt to apply national law and policy. This essentially means that citizens from new member states still need a work permit to enter the labour market in these countries. The application of transitional measures for another two years – for the A8 this means beyond 1 May 2009 – is possible, but only if the countries in question experience serious disturbances in their labour markets. Full free movement of labour applies after 30 April 2011 for A8 countries, and after 31 December 2013 for A2 countries (European Commission 2008). This date is leading to a renewed debate on labour mobility, particularly in Germany and Austria, in which the transitional measures are only now coming to an end.

Against the background of a relatively favourable economic situation three of the EU-15 countries – Ireland, the UK and Sweden – fully opened their labour markets at the time of the accession of the A8 countries; a decision that was not uncontroversial, at least in Sweden. The UK implemented a mandatory Worker Registration Scheme. All other EU-15 countries maintained their work permit systems, although in some cases with modifications – exemptions for certain sectors or occupations – and sometimes combined with a quota system (for country-specific rules see European Commission 2008). Concern about the labour market situation was usually paramount in such cases.

By June 2009, however, all countries but Germany and Austria had fully opened their labour markets to A8 nationals. Germany and Austria are the only countries that maintain access restrictions to A8 nationals for the final two-year period, to end in May 2011. Germany and Austria also apply restrictions

on the posting of workers in certain – sensitive – services sectors, such as construction and industrial cleaning (see European Commission: Factsheet on Transitional Measures).

Cyprus, Sweden and Finland, as well as all A8 countries – with the exception of Hungary – have fully opened their labour markets to workers from Bulgaria and Romania. The remaining countries – including the UK and Ireland, which fully opened their labour markets upon the accession of the A8 but had severely underestimated inflows into their labour markets – oblige citizens of Bulgaria and Romania to obtain a work permit.

## **2.2 The positions of European actors towards freedom of movement of labour**

In contrast to many member states, before the accession of the A8 countries European-level political actors were united in their view that free movement of labour should be granted as soon as possible and that transitional measures should thus be applied only if absolutely necessary.

The European Commission had always championed freedom of movement and took the view (European Commission 2006) that migration flows after enlargement have had positive effects on the economies of EU-15 member states: there was no evidence of the crowding out of national workers, but instead A8 nationals helped to alleviate skills bottlenecks, and enlargement has helped to formalise the underground economy. Also, no direct link could be found between the magnitude of mobility flows from A8 member states and the transitional arrangements adopted. The Commission recommended that member states should carefully consider whether to continue applying restrictions (European Commission 2006).

Similarly, in April 2006 the European Parliament explicitly called on the EU-15 countries to abolish the transitional arrangements given that there are no signs of strains from intra-EU labour mobility on receiving-country labour markets, but also that the transitional arrangements may have contributed to higher levels of illicit work and bogus self-employment. At the same time, the European Parliament also called for a systematic monitoring of migration flows within the EU, standardised statistics and strict enforcement of labour law in order to guarantee equal treatment to all workers and prevent social dumping (O.J. 2006 [C 293 E/230]).

The European Trade Union Confederation (ETUC), in its resolution ‘Towards Free Movement of Workers in an Enlarged European Union’ (adopted 5–6 December 2005), clearly voiced its opinion that transitional measures should not remain in place merely to ‘buy time’, and called on the Commission to carefully check the arguments and justifications of those member states that wanted to continue application of the transitional measures after the first phase. At the same time, the ETUC called for the European Commission to develop, together with other European actors, an EU-wide supportive legal

framework with a set of minimum standards, establishment of clear principles of equal treatment in wages and working conditions applying to the place where the work is done, an obligation to respect the host country's industrial relations system, and the setting up of mechanisms and instruments for cross-border monitoring and enforcement of working conditions and labour standards (ETUC 2005).

BUSINESSEUROPE (formerly UNICE), the European-level employers' federation, strongly supported measures to facilitate and improve labour mobility and asserted that free movement from the first day of accession should be the main rule. It has lately urged member states to step up their efforts to remove the remaining administrative and legal obstacles to the free movement of labour. At the same time, it has called for the completion at EU level of the modernisation and simplification of coordination as regards social security schemes as a key priority (BUSINESSEUROPE 2007).

### **3. Migration drivers and European economic and labour market differentials and dynamics**

#### **3.1 Migration drivers**

There is a voluminous literature that seeks to determine the factors driving – and also retarding – international labour migration (examples include Borjas 1989, 1995; Barro and Sala-i-Martin 1991; Layard et al. 1992). Studies typically regress migration flows on a set of possible explanatory factors in an attempt to estimate econometrically the most important factors and to assess the relative strength of their effects.

We can summarise this literature with reference to Alvarez-Plata et al. (2003), who preface their pre-enlargement study of potential migration from central and eastern Europe by noting that ‘almost all models [of migration potential] discussed in the empirical literature explain migration by income and employment opportunities in the respective countries and a set of institutional variables which should capture different migration restrictions, [... and] country-specific effects such as geography, language and culture’ (Alvarez-Plata et al. 2003: ii).

At the macroeconomic level, then, access to the labour market and effective increases in earnings potential are the two key drivers or sets of factors. In a recent study of geographical mobility in the EU, Bonin et al. (2008) discuss, in addition to such macroeconomic factors, important determinants at the microeconomic level, such as skill levels, age, marital status, housing and – both a micro and a macro factor – taxation issues and the portability of welfare entitlements. Along with other studies they note that there may be ‘network effects’ whereby the existence of prior migrants from a source country encourages additional migration from that source by reducing transaction costs, providing information and enhanced job opportunities, offering desired services, and so on. Such network effects can make forecasting migration flows difficult because as drivers of migration they are non-linear in nature.

We now consider the orders of magnitude of the main macroeconomic drivers – wage and income differentials and relative labour market opportunities – in the context of the post-enlargement EU.

### 3.2 Economic and labour market dynamics in the A8 and EU-15 countries before the economic crisis

The diversity within the EU in terms of GDP per capita and wage levels grew enormously with eastern enlargement in 2004. GDP per capita levels measured at PPS<sup>3</sup> ranged from 38.8 per cent (Latvia) to 73.6 per cent (Slovenia) of the EU-15 average in 2003, the year before accession. Due to high growth rates in the CEE countries the dynamic convergence of GDP per capita levels going on since the mid-1990s has continued and even accelerated after enlargement. In 2007, A8 countries had GDP per capita levels at PPS between 49.7 per cent (Poland) and 82.6 per cent (Slovenia) of the EU-15 average (Ameco 2008). However, the gap is much higher if the comparison is made on the basis of market exchange rates. Table 1 provides an overview of the relevant macroeconomic indicators of the A8 countries – covered by this paper – for the year before enlargement and for the latest available year.

The wage gap between accession countries and the EU-15, an important migration driver, as we have seen, was very wide prior to enlargement, especially when calculated at market exchange rates. The average wage in Latvia, the poorest among the A8 countries, was just one eighth of the EU-15 average in 2003; it was statistics such as this that seemed to justify fears of mass migration if free movement of labour was permitted. However, this wage gap had been reduced to a ratio of 1 to 5.5 by 2007, with average wages in Poland and Hungary about one quarter and one third, respectively, of the EU-15 average (Table 1). This rapid convergence between wages was due to the combined effect of high wage dynamics in A8 countries and the appreciation of their national currencies against the euro. Still, current wage gaps – even if much smaller – remain very substantial and continue to function as drivers of migration.

Table 1 Key macroeconomic drivers in the three selected sending countries compared to the EU-15, before and after enlargement and before the economic crisis

	GDP/capita, PPS % of EU15		Wages in EUR at exchange rate, % of EU15		Employment rate (%)		Unemployment rate (%)	
	2003	2007	2003	2007	2003	2007	2003	2007
Hungary	56.7	58.6	29.0	31.1	57.0	57.3	5.9	7.4
Latvia	38.8	52.9	12.9	18.2	61.8	68.3	10.5	6.0
Poland	43.8	49.7	21.5	25.4	51.2	57.0	17.9	9.6
EU 15	100	100	100	100	64.3	67.0	7.9	7.0

Source: Ameco (2008), Eurostat (2008).

3. Purchasing power standards: this corrects for differences in price levels between different countries when converting wage and income levels using exchange rates. Both wage differences measured at exchange rate parity and wage differences at PPS have a role with regard to migration potential. Wage differences at exchange rates are indicative of economic gains in case of remittances (where earnings are spent in or sent to the home country) or in case of cross-border commuting. PPS is relevant for wages spent in the country in which they are earned.

The labour market situation in receiving and sending countries is one of the most important economic factors behind migration decisions. Employment rates were low in most of the CEE countries throughout the transformation process. Pre-accession data from 2003 show employment rates characteristically under 60 per cent for the population aged between 15 and 64 years for most A8 countries (Table 1.). With regard to the sending countries, employment rates ranged from 51.2 per cent in Poland to 61.4 per cent in Latvia, while the corresponding rate for the EU-15 was 64.5 per cent. The unemployment rate was particularly high in Poland (19.7 per cent), but also well above the EU-15 average in Latvia (10.5 per cent). Hungary was an exception, as in 2003 it had the lowest unemployment rate among A8 countries, at 5.9 per cent.

By 2007, however, the situation had shifted substantially. The employment rate in Latvia had jumped by 6.5 percentage points over the EU-15 average (67.0 per cent) to 68.3 per cent. In the case of Poland the very low employment rate had increased substantially to 57.0 per cent, though it remained far below the EU-15 average. In Hungary, the relatively low rate did not change substantially. Unemployment had decreased in most countries. Poland showed the biggest improvement, with the unemployment rate falling by more than half to 9.6 per cent. In Latvia the rate fell by 4.5 percentage points to 6.0 per cent, while in Hungary it increased – from a low level – by 1.5 percentage points, to 7.4 per cent. At the same time, the EU-15 average was 7.2 per cent.

Youth unemployment is a critical problem and can be considered as a separate ‘driver’ given the greater mobility of young people. Especially in Poland, its level – for the age group 15–24 – still stood at 21.4 per cent in 2007, although it had improved a lot compared to previous, very high levels.

The labour market situation thus improved greatly in most of the acceding countries in the period 2003–2007. Especially in the case of Poland and Latvia the favourable changes on the labour market were to a large extent due to job creation at home in a context of rapid economic growth. The improvement of the unemployment rate is a robust phenomenon for all A8 countries (with the exception of Hungary). Tensions have remained also in this respect, however, as unemployment is unequally distributed by skill levels, in some cases by region, and disproportionately affects young people.

Turning to the receiving countries, Germany, Austria and Sweden showed an increase in their employment rates between 2003 and 2007, and the UK maintained its employment rate at a high level. At the time of enlargement unemployment was rather lower than the EU-15 average in Sweden, Austria and the UK; however, in Germany it was substantially higher, at more than 10 per cent. Unemployment developments since enlargement have been mixed: in Germany unemployment fell steadily from high levels whereas in Austria it rose in the initial period. The UK initially saw a continued improvement, followed by an increase, whereas the opposite was true in Sweden.

It can be concluded on the basis of labour market trends that differences in overall labour market performance, initially substantial, have shown remarkable

convergence between A8 and EU-15 countries. The labour market situation was thus initially an important driver, at least for certain countries – among our case-study countries, especially Poland and Latvia – and for certain groups (especially young people), but its effect on migration has weakened over time. Of course, at least to some extent this reflects the equilibrating forces of the migration movements themselves.

Summing up, if we were to ignore geographical, cultural and political factors, one can postulate, on the basis of these macroeconomic drivers alone, a number of hypotheses: a substantial but declining propensity to migrate from the new to the old member states; a higher outward migration propensity in Poland and Latvia than in Hungary; and a greater likelihood – based on unemployment rates, given relatively small national wage differentials – of migrants being attracted to the UK in the early years after enlargement than to the other three receiving countries considered in this paper.<sup>4</sup>

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4. It is hard to establish a clear hypothesis distinguishing between these three, as unemployment levels and the direction of change send an ambiguous 'message' to potential migrants.

## **4. Evaluating the costs and benefits of different types of migration in sending and receiving countries**

The political debate about the benefits of migration is, as we have seen, a controversial one. The imposition of transitional measures by most of the old EU member states in 2004 testifies to this. Standard economic theory sees migration – conceived as the freedom of the factor of production ‘labour’ to seek its highest reward anywhere without hindrance – as unambiguously good, raising the welfare of migrant workers themselves, but also aggregate welfare.

However, there are a number of reasons to reject such a simplistic view. First, even if aggregate welfare effects are unambiguously positive, there are likely to be distributional effects. In particular, those supplying labour on receiving country labour markets – that is, in direct competition with immigrant labour – will tend to lose out, whereas users of immigrant labour (employers, service consumers) will benefit (vice versa in source countries). These distributional effects alone may be sufficient – in political terms – to explain the imposition of restrictions by potential receiving countries.

Beyond such distributional effects, individual migration decisions – which can be assumed to be welfare-enhancing for the individuals making them – can be seen as having negative or positive ‘externalities’; that is, costs and benefits to actors other than the migrants themselves, in both sending and receiving countries (see, for example, Bonin et al. 2008). For example, sending countries can benefit from advantages from outward migration such as an inflow of remittances, improved domestic human capital from returned migrants, lower unemployment and, as a result of reduced labour supply, improved wages and working conditions. On the other hand, they may face costs due to a ‘brain drain’ – the loss of their ‘best’ workers – the loss of returns on public investment in education, and possibly human capital losses (if highly skilled workers perform more menial tasks abroad). One likely manifestation of all this is labour shortages in critical sectors or occupations and a drag on productivity growth.

In receiving countries the additional labour supply will raise potential and actual output, may overcome labour shortages in specific sectors/skill groups, can reduce production costs and thus raise real incomes of consumers, and, by containing wage pressure, may permit more expansionary economic policies. On the other hand, immigration may increase pressure on persons already disadvantaged on the labour market, exacerbating trends to greater inequality, undermine working conditions and wages, and increase unemployment if displaced workers are not reabsorbed.

These varied effects suggest strongly that it is the specific form taken by migration that is important in determining aggregate and distributional effects in any given case. In particular, the skill and age composition of the migrants themselves will be key, along with their former employment/unemployment status. Also decisive will be the state of the labour market in the receiving country and the actual tasks performed by migrants there (in the context of the skills they bring with them). Finally, impacts will vary substantially depending on the duration of migration.

As a very simple normative framework for analysing the likely impact of migration, two extreme migration 'ideal-types' can be proposed that would seem likely to maximise the aggregate external benefits or costs of migration, depending on the respective 'settings'.

1. **Best-case migration:** Aggregate effects will be most positive for both countries when: a worker leaves a country where his or her skills are in excess supply (is unemployed or working at low wages) and takes up work appropriate to those skills at a higher wage in a country with excess demand in that area, remits a proportion of the earned income, and subsequently returns to the source country with higher skills/productivity to a higher-paying job.
2. **Worst-case migration:** Aggregate effects are likely to be most negative where young employed workers with critical skills but low wages leave to take up unskilled – but higher-paying – work in high-unemployment, high-wage economies, adding to pressure on already disadvantaged groups of workers there, while suffering skill erosion themselves, locking them in to unproductive work.

In any real-world situation we would expect migration flows to come between these extremes. They can therefore be used to frame the discussion of the findings from our national case studies, to which we now turn.

## **5. Main findings from the country case studies: the period before the economic crisis**

In this section we present the main findings from the country case studies. We shall not discuss the national findings consecutively, but rather seek to synthesise the results in such a way as to reveal the main trends. We would like to repeat that the findings are derived from the chapters to the above-mentioned book; the reader will find an overview of the chapters and authors in the Annex. Responsibility for the synthesis and the assessment presented here lies with the authors of this paper.

First, we consider the economic drivers of migration and the nature of flows within Europe. We then turn to the effects of such migration on the labour markets of sending and receiving countries. The section concludes with an assessment of the policy measures taken in both sets of countries by governments and social partners.

### **5.1 The nature, direction and drivers of migration**

We can identify the following main findings – developed in more detail below – regarding migration drivers and the nature of flows:

- Migration from new member states to certain countries, notably the UK (and Ireland, not studied here) was far greater than had been forecasted, although in most countries the impact of cross-border flows was less important than expected.
- The presence of transitional measures almost certainly had a considerable diversion effect on quantitative migration flows.
- Labour demand – employment opportunities – played a primary role in determining migration flows, alongside other factors, and interacts with the existence of transitional measures in a complex way.
- The different incidence of labour market restrictions also seems to have had qualitative impacts on migration flows and employment forms.
- While migrants reflect more or less the skill distribution characteristics of the respective sending country, in receiving countries they are overwhelmingly concentrated in low-skill and low-paid jobs, at least initially.

The relative impact of cross-border flows after enlargement was in most countries relatively less important than foreseen.<sup>5</sup> For the EU-15 as a whole the increase in net migration flows was 0.2 percentage points between 2003 and 2005. In fact, the proportion of the working age population of A8/A2 member states within the EU-15 was rather small in 2005, ranging from 0.1 per cent in France and the Netherlands to 1.4 per cent in Austria and 2.0 per cent in Ireland. The majority of countries did not see noticeable increases in these shares between 2003 and 2005 (European Commission 2006).<sup>6</sup> Having said that, migration to certain countries – notably the UK (and Ireland) – was far greater than had been forecasted. The UK government massively underestimated the number of accession country workers who would look for work in the UK. A study commissioned by the UK Home Office (Dustmann et al. 2003) had predicted that flows into the UK would be relatively small, with net annual inflows of A8 migrants between 5,000 and 13,000 up to 2010. These assumptions were based largely on previous flows of A8 nationals to the UK.<sup>7</sup> In fact, more than 700,000 A8 residents have applied for registration since enlargement in 2004 and a considerable additional number have taken up work without registering. The year 2005 may have seen the largest ever labour immigration recorded in the UK, most of it from eastern Europe.

From these findings, and other evidence, it seems clear that the existence of differences in the transitory measures applied by EU-15 countries to A8 citizens has led to a diversion of migration flows after enlargement. Deviating from historical migration patterns and pre-enlargement labour flows, a geographical redirection took place towards countries that opened up their labour markets right after enlargement. This shift can be well documented for the largest A8 country, Poland.

The geographical direction of Polish labour mobility fundamentally changed after EU enlargement. In the period 1999–2003 Germany was the major destination country for labour migration from Poland; almost one in three Polish migrants chose this country, while the share of the UK was below 10 per cent. In the period 2004–2006 the share of Germany fell to 18.9 per cent, while that of the UK jumped to 31.4 per cent and the UK became the principal destination country. The share of the three countries that did not maintain labour market restrictions after enlargement – Ireland, Sweden and the UK – grew from 12.1 per cent to 42.4 per cent of Polish migrants, whereas the share of other EEA destinations decreased from 62.6 per cent to 45.3 per cent.

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5. Several studies estimated migration potential after enlargement using both econometric and survey methodology (for a critical review see Dustmann et al. 2003). Most of these studies estimated a potential migration flow of between 1 and 4 per cent of the total population of the EU-10 within one to two decades after EU-wide freedom of movement (Heinz et al. 2006). Taking into account migrants potentially returning home, the net migration flow estimated in these studies amounted to about 0.4 per cent of the total EU-15 population (Heinz et al. 2006).
  6. These numbers are based on the European labour force survey data, which take into account net inflows and outflows and thus give a realistic picture of actual migrant numbers. Data refer to the first quarter of a given year for all countries except Ireland, where they refer to the second quarter.
  7. For instance, the UK's International Passenger Survey showed that, prior to enlargement, flows from non-EU Europe were very low and in 2001 negative in net terms (Sriskandarajah 2004).

Although much smaller in absolute terms, similar shifts from Germany to the UK and Ireland as destination countries also occurred in the case of Latvian emigrants. Hungarians, with a low migration propensity in general, were less inclined to change their traditional migration destinations – Germany and Austria – in response to the abolition of access restrictions in other EU countries. Given the low weight of Hungary in aggregate A8 labour flows, however, this outcome does not modify the general picture, which is dominated by the destination-country shift on the part of Poles.

The evidence from studies conducted by our national experts of four receiving countries confirms the decisive role of employment opportunities in driving migration flows and that the mere existence or absence of formal transitional measures is not a good guide to the magnitude of migration flows. Both the UK and Sweden opened up their labour markets fully from day one. But migration flows substantially exceeded expectations in the former, while remaining rather limited in the latter. While linguistic and other factors undoubtedly also played a role, the fact that up to that point the UK had enjoyed ten years of uninterrupted economic expansion, and at the time of enlargement was in a veritable – and, as it turned out, unsustainable – boom was clearly a major factor. From around 5 per cent in both countries at the start of the decade the (standardised Eurostat) unemployment rate in the UK declined further to 4.7 per cent and 4.8 per cent in 2004 and 2005, respectively, whereas in Sweden unemployment rose sharply from 5.3 per cent in 2004 to 7.4 per cent in 2005, before falling back to the previous level in 2007.

In contrast, wage levels – at the bottom of the labour market – are not substantially different in the two countries and any such differences, given the large East–West gaps, are unlikely to have been a decisive factor for those choosing between these destination countries. Confirmation that cultural or linguistic factors were unlikely to have been what held back A8/A2 migrants from going to Sweden is provided by the fact that Norway, culturally and linguistically very similar to Sweden, but with a booming labour market – and also high wages – attracted a disproportionately large number of such migrants.

While the UK (and Ireland) attracted large numbers of migrants post-2004, inflows into Austria and Germany, countries with complex transitional measures, substantially exceeded those into Sweden in terms of the relative additional labour supply. In Germany at least, unemployment was high and initially rising. Germany also saw the second most sluggish employment growth of the EU-15 countries between 2003 and 2006. However, the two countries' geographical position, relatively high wage levels and also cultural and linguistic factors constitute important pull factors. These attracted eastern European migrants already before enlargement and thus may well have given rise to network effects.

Labour demand and earnings opportunities are of course not the only reasons for migration. The sending-country case studies discuss a whole range of individual motivations (push factors). Some are clearly labour-market related,

such as dissatisfaction with working conditions and labour relations in the home country. But ‘push’ factors can be broader, including dissatisfaction with social and living standards more generally. Conversely, social welfare provisions, linked to residence, can act as a magnet encouraging potential migrants to stay. This seems to have been the case in Hungary, which did not see substantial outward migration, even if a considerable wage gap in relation to EU-15 countries remained and economic prospects have not been promising in the last couple of years either. Massive wage increases between 2002 and 2006, accompanied by sustained social welfare benefits, might have acted as retarding factors. Welfare spending in Hungary, although lower than in EU-15 countries, is among the highest among the new member states when measured as a percentage of GDP. In this regard family allowances and support for home ownership in particular are high by international comparison. In Hungary the majority of the population are home owners and, given the substantial price differences within the country and the limited liquidity of the housing market in certain regions, even internal mobility within national borders is limited.

The expert studies provide some evidence for the quantitatively most important sending country, Poland, that freer access to the formal labour market permitted by a number of countries after enlargement has also led to qualitative shifts over time in the characteristics of migrants workers. This is apparent in terms of the skills mix of Polish emigrants. First, there was an increase by about 5 percentage points in the share of graduates amongst pre-compared with post-accession Polish migrants. Moreover, after accession 27 per cent of Polish migrants to the UK and Ireland had a university degree, whereas the same share for Polish migrants to other EU and EEA destinations was only 12 per cent. Regarding the age structure the picture is somewhat fragmented. Looking at the evidence from various country chapters we see that Polish migrants to the UK and Ireland are on average younger than those to Germany. It is not clear how generalisable this finding is, but information on smaller A8 countries shows that their immigrants to Germany are younger than those from Poland and Hungary, although there are fewer of them.

There are thus some tentative indications that an absence of transitional measures may have helped countries attract younger and more highly skilled workers. However, more comparative research and data over a longer period would be necessary to corroborate this thesis. In particular, the observed differences may reflect other factors, notably differences in labour demand.

It seems plausible that restrictive labour market access – due to transitional measures – would also result in qualitative changes in migration patterns, such as a higher incidence of seasonal work, posted workers and bogus self-employment. Due to severe data limitations in this regard<sup>8</sup> we cannot present any conclusive findings on this point. Problems with posted workers and bogus

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**8.** There are hardly any reliable data on bogus self-employment and posted workers. Data on seasonal workers are usually recorded in countries where they have access to the labour market through a specific programme (Germany, for instance) whereas they do not appear as a specific category in data sources of countries without access restrictions.

self-employment were reported not only in Germany and Austria but also in Sweden and the UK, where no formal restrictions on labour market access exist. Here too, further research would be necessary to corroborate this hypothesis.

Of particular concern in terms of a normative assessment of the aggregate impact of intra-EU migration is the type of work performed by workers from the accession countries, in terms of their professional characteristics. Accession-country migrants tend to be young; in many cases they are well qualified. The sending-country analyses suggest that, on the whole, skill levels are at least as high, if not higher than those of the sending-country labour force as a whole. However, a consistent finding emerging from the book chapters is that the great majority of A8/2 workers on receiving-country labour markets perform routine manual work requiring little training and skills; they are correspondingly on the lowest pay scale or the minimum wage, but this is still attractive given that a considerable proportion of earnings may be spent in the country of origin. In many cases they are overqualified for the work they do, and/or are working in an entirely different sector from that implied by their previous professional and educational background. There is evidence, however, that, after an adjustment period in which language and other broad skills can be improved and job information ‘on the ground’ accessed, some migrants do manage subsequently to shift to employment closer to their qualifications.

## **5.2 Labour market impacts in sending countries**

The substantial loss of working age population is well documented in the case of Poland, where outward labour migration in the post-accession periods represented 2.8 per cent of the total resident population and 4 per cent of the working age population – defined as 15–59 years of age – and has led to deep social and economic changes. The 2004 EU enlargement was the most important emigration stimulus in Poland’s contemporary history. The number of Polish nationals temporarily residing in other EU countries increased within three years from under 1 million to more than 2 million.

In the case of Latvia the effect of post-accession labour migration on the loss of population could not be reported precisely, but survey-based estimates indicate that it was very substantial; one feature of this country is that such migration to EU countries came after a quantitatively more important exodus of ethnic Russians in the early 1990s, following Latvia’s independence. Thus the post-accession outflow exacerbated an already serious demographic shock. In Hungary, however, no such ‘enlargement effect’ emerged: outward migration flows remained relatively low and, moreover, were counterbalanced by inward migration from countries to the East.

Given the high share of young age groups in the case of Polish and Latvian migrants after enlargement, the impact of a ‘youth drain’ induced by the liberalisation of labour market access by a number of EU-15 countries is of major concern, particularly if such migration proves to be long-term. As noted in the previous section, in receiving countries migrants of all skill levels largely

perform routine, rather unskilled tasks, leading to doubts concerning the often posited beneficial effects of mobility on the human capital of (returning) migrants. In Latvia returned migrants have not subsequently outperformed those who had remained in the country, according to surveys, although this may reflect the fact that successful migrants have remained abroad.

In Section 3.2 we showed that the general labour market situation, very unfavourable prior to enlargement, has improved in most A8 countries. The improvement was particularly strong in the countries experiencing the highest relative labour outflows (Poland, Latvia and Lithuania, the latter not covered by our research). On the face of it, this might indicate a considerable unemployment-reducing effect of outward migration. However, domestic job creation due to economic growth had been an important phenomenon in two of the sending countries involved in our research. In Poland 1.6 million jobs were created between 2003 and 2007 – an increase of 12.5 per cent – broadly in the period when mass outward migration took place. Latvia also witnessed an increase of employment – 9.5 per cent – at the time of massive outward migration. In Hungary there was no job creation but no substantial outward migration either.

The unemployment–migration link in sending countries is clearly complex. To some extent outward migration undoubtedly had a partial effect – in the context of high unemployment – of reducing surplus supply on the labour market. However, our studies provide mixed findings regarding the propensity to emigrate on the part of the unemployed or those from high unemployment regions. The coincidence of substantial emigration and high job creation at home with large falls in unemployment indicate that as time went on labour emigration from many sending countries increasingly led to structural tensions and skills shortages on their labour markets. In Latvia, soon after its accession to the EU the previously high level of unemployment was replaced by labour shortages in various professions. Employers have been forced to raise salaries at a dynamic pace often surpassing productivity increases and rapidly increasing unit labour costs. Dynamic wage increases were also reported in Poland, which had witnessed prolonged wage moderation in the first half of the 2000s. Discussions also took place on the role of minimum wages in limiting emigration (see also Wallusch 2008).

At the same time, the so-called ‘sending’ countries are also experiencing inward migration. This is most apparent in the case of Hungary, where inward migration from Romania and, to a lesser extent, from Slovakia has counterbalanced – limited – outward migration in qualitative terms, although structural labour market mismatches have caused problems, especially on regional labour markets. Exact information on inward migration to Poland and Latvia was not available, but there was anecdotal evidence of inward migrants taking low-skill jobs and filling labour market bottlenecks in both countries, but also of controversial social debates, especially in Latvia.

Remittances have had a positive effect of the economic situation in sending countries, at both macroeconomic and microeconomic level. These have a balancing effect on external finances, create additional consumer demand and

contribute to investment activity in the SME sector. In Poland, remittances in 2007 were 60 per cent higher than in 2003, while in Latvia remittances were nearly three times the level of 2003, suggesting a considerable economic impulse from this source. Still, data coverage here remains limited.

### **5.3 Labour market impacts in receiving countries**

One of the key questions in the economics literature on migration, and central to the debate about the justification of measures to restrict immigration, is, of course, the impact on native workers' pay, conditions and employment opportunities. The evidence reviewed in our four country case studies on the dimensions and impacts of migration in the receiving countries is, overall, *not* supportive of the claim that the inflow of labour from the A8 and A2 countries has seriously depressed the wages or harmed the employment opportunities of substantial numbers of domestic workers. Of course, we can never be entirely sure what would have been the situation in the absence of immigration flows (counterfactual). But most of the econometric and case studies discussed in the relevant chapters of our book seem to point to rather small effects.

As regards employment, the rise in labour supply appears largely to have been matched by higher aggregate output and labour demand. While we lack a counterfactual, the overall unemployment trend in three receiving countries – Austria, Germany and Sweden – is inconsistent with the idea of post-accession immigration pushing up unemployment: it rose slowly until 2005 and subsequently fell. However, the unemployment trend in the UK, the country with the largest relative influx, does appear at first sight consistent with the idea of unemployment-creating immigration: the jobless rate bottomed out in 2004 and has been slowly but inexorably rising ever since. Intra-EU migration may have played some part in this, as employment continued to grow quite strongly until 2007. In the context of a generally strong labour market, then, there may have been some displacement effects among relatively disadvantaged 'domestic' workers, which, some studies suggest, may in particular mean previous non-European migrant and ethnic minority workers.

In terms of wage impacts there is mixed evidence, with some sectoral studies suggesting an effect – larger wage declines or smaller wage rises in sectors in which immigrants are concentrated – but others not. Overall, the four studies suggest the key importance of wage-setting institutions, especially at the bottom of the labour market. In the UK the existence of an effectively enforced national minimum wage sets a floor in the labour market – at least for legal migrants in the official economy – and prevents already low 'native' wages being forced down further. Moreover, during the post-enlargement period the national minimum wage has been raised more quickly than the rate of growth of median wages. A corollary of this is that the national minimum wage is in many sectors at the same time also the wage ceiling for migrants, who overwhelmingly perform relatively unskilled jobs. In Sweden and Austria the widespread coverage of collective agreements makes it difficult,

except in very small enterprises, for migrants to work below the going rate. Nevertheless, reports from Sweden and the UK suggest that in some instances migrants were being paid less than native workers, although it is hard to tell how widespread a phenomenon this is. A number of studies indicate that, to the extent that existing workers are coming under competitive pressure from A8 and A2 immigrant workers it is primarily former immigrant communities that are affected.

Such wage floors apply only to dependent wage-earners, however. Perhaps for this reason the activities of ‘posted’ workers and new member state ‘service providers’ have proved controversial in many countries and have led to instances of serious social and industrial conflict, notably in the Scandinavian countries and also Ireland. As we noted earlier, this has led to a series of rulings by the European Court of Justice in an attempt to determine what industrial relations and labour legislation applies to such companies and their workers. It seems plausible that such employment forms are likely to substitute for regular employment in the context of transitional measures restricting labour market access. Our results for the most part focus on dependent workers, however, and so we were not able to corroborate this supposition.

The one country in our sample of receiving countries lacking an effective wage floor for dependent workers, especially in the context of high unemployment, is Germany: there is no minimum wage and collectively agreed wage rates are increasingly being undercut or simply ignored (Schulten and Watt 2007). Here actual cases of and fears about wage undercutting led to intense, top-level political debate about extensions of the posted workers’ directive and sectoral and even national minimum wages.

Turning to the employment and working conditions of the migrant workers themselves, the picture is mixed. There is no evidence to suggest that, as a group, migrant workers from the accession countries have formed an exploited sub-class on western European labour markets, although they are certainly concentrated in low-skill and low-pay employment. Clearly, some groups of workers, particularly the low-skilled and those lacking language skills, are vulnerable: examples of migrants working long hours, facing arbitrary and seemingly excessive deductions in pay, and so on, are provided, but it is not possible to quantify such conditions. Trade unions appear to have had some, but generally only limited success in recruiting migrant workers as members. It would be surprising if unskilled workers lacking language skills, uncertain about their rights and lacking trade union protection were not suffering worse pay and conditions than ‘native’ workers. To prevent this, statutory rules and standards must be effectively enforced and at a reasonably high level.

Migrants tend to be highly concentrated sectorally. In all countries hotels and catering and construction tend to be favoured sectors; in some countries personal services and also manufacturing recruit relatively large numbers of migrants. Especially in the UK, it seems that in regional terms, by contrast, CEE migrants are less concentrated than previous waves of immigrant workers. This may reflect greater cultural affinities with the native population

and/or the more temporary nature of recent migration, which lessens the importance of local networks.

## **5.4 Government and social partner policies**

The type of measures adopted by governments and social partners, their extent and the interaction between social partners and governments in setting and implementing policies in this area all vary considerably between the seven countries examined. The first important distinction is of course between sending and receiving countries. While governments and social partners in receiving countries had to deal with issues such as integration of the new migrants, protection of their working conditions and wages, and upholding the working conditions and wages of indigenous workers, governments and social partners in sending countries with large emigration flows were dealing with a very different set of issues: the most important are linked to rising skills deficits or bottlenecks in certain sectors, which resulted in strategies such as retraining of existing workers, recruitment of migrant workers from neighbouring countries and initiatives to convince emigrant workers to return home.

With regard to the type of measures adopted in receiving countries the imposition of transitional measures was clearly the most important. Against the background of the adoption of transitional measures, governments in Germany and Austria had to negotiate and implement various exceptions for certain sectors and occupational groups – mostly high-skill professions or, conversely, areas with unattractive pay and conditions and difficulties in recruiting domestic workers – in order to react to emerging skill deficits and ensure a continued supply of seasonal labour. They also had to react – by way of tighter controls – to an increase in irregular migration (bogus self-employment, illegal work and the like) which was used to circumvent the transitional measures in place and resulted in a loss of social contribution and tax revenues. (Such phenomena and corresponding policy initiatives were also found in the countries with free labour market access, however.)

In both Germany and Austria – in contrast to the UK and Sweden – trade unions and to some extent also employers' organisations were in favour of the transitional measures. Trade unions – at least in Germany – were also eager to influence the migration agenda by lobbying the government on certain issues and laws, instituting some cross-border cooperation (both sometimes in unison with the employers) and by informing migrant workers about their rights.

It should be noted that although both Germany and Austria argued that transitional measures would allow them to gradually adapt to free movement of labour, neither of the two countries has developed a general policy framework with regard to the obligatory lifting of transitional measures (at the latest) by 2011.

The UK and Sweden – together with Ireland – lifted restrictions on the free movement of labour fully upon the accession of the A8 countries. Here the extent of inflows of migrant workers was the decisive determinant of the type and extent of actions taken by governments and social partners. As a reaction to the sheer number of migrant workers – which far surpassed that initially predicted – the UK government, in close consultation with the social partners, put into place a number of services for migrant workers but also strengthened the control mechanisms in order to prevent illegal employment and exploitation of migrant workers. Indeed, ‘social partnership’ is not a concept often used in the UK, but dealing with post-accession migration was one area in which governments, unions and employers did engage in formal and ongoing consultations and sought to find common solutions.

Trade unions in all four countries, sometimes in close cooperation with partner organisations in sending countries – especially with Poland – and in other cases in cooperation with employers, are actively setting up advisory services (going beyond working conditions) and training measures (primarily language training) for migrant workers and thereby also trying to win migrant workers as new members. In areas of Germany and Austria bordering on A8 countries a number of regional cooperation initiatives – especially Interregional Trade Union Councils – have been established to promote the exchange of information and provide a mechanism for promoting regional integration. Sweden, not being faced with large migration inflows, reacted more slowly and less comprehensively. In accordance with the Swedish model of industrial relations the government was much less active in these initiatives than in the UK. The main trade union confederations put forward a number of proposals on how to make sure that the working conditions of migrants are in line with collective agreements and on how to prevent bogus self-employment, in short to ensure an ‘orderly’ labour market. Only a few of those have led to legislative action, however.

At the beginning of the post-enlargement period, the awareness of governments and social partners in sending countries regarding the challenges caused by outward migration was rather low. This was due not only to a consensus that freedom of movement of labour within the EU should be a general right, but also to the expectation that outward migration would improve the labour market situation, which was characterised by comparatively high unemployment. Subsequently, the reactions of governments and social partners in the countries looked at here differed considerably depending on the importance of migration and the extent of emerging bottlenecks in some sectors. A general feature is that the debate on the right to free movement has, although to differing extents, given way to one on a potential brain drain due, in particular, to the migration of relatively young and educated groups.

As we have shown, outflows of workers and corresponding impacts on the local labour market following EU accession were very large in Poland and Latvia, while Hungary saw much smaller outflows. Accordingly, policy reactions by both government and social partners were considerably more pronounced in Poland than in Hungary. In Latvia outflows were also considerable, and

came on top of earlier emigration by ethnic Russians, but government activities amounted to little more than programmatic statements. In contrast, civil society groups have been fairly active. But the relationship between the pressure on the authorities to act and the number of concrete policy initiatives is not always simple.

In light of emerging bottlenecks in some sectors, in Poland – and to a much more limited degree in Hungary – besides initiatives to maintain cultural and linguistic links, the government put in place a number of measures to attract emigrant workers back home. They include improvements in tax regulations to prevent those returning home from being penalised for doing so, and incentive programmes geared to specific groups of emigrant workers. Latvia has debated initiatives in similar areas, but to little concrete effect. Furthermore, immigration from neighbouring countries is also being facilitated, although this is controversial.

For social partners in sending countries, migration is not a focal topic for policy action, but rather a background condition against which other policies are set. Nevertheless, in some instances trade unions from sending countries have cooperated with their partner organisations in receiving countries in order to try to improve the labour market situation of workers abroad. They have played a role in a number of cross-border industrial disputes that have made the news, such as the Latvian union confederation in the Irish Ferries dispute. In Hungary trade union activities for the most part comprise programmes dealing with migration in border regions. Unions have in some instances also been involved in reviewing current migration policies. With regard to the increased numbers of immigrants – in Poland in particular this is a new phenomenon – the trade unions in the sending countries looked at here do not yet have a general strategy and also do not see it as uncontroversial; in Latvia the Trade Union Confederation came out against the application of free movement of workers on the accession of Bulgaria and Romania and instead suggested quotas for highly qualified workers or those with specific qualifications lacking in the domestic labour market. One of their lines of argument was that inflows of unqualified labour may cause severe social and ethnic problems.

As to employers, besides calling for the easing of restrictions on inward migration, in light of emerging labour shortages they have been under pressure to improve working conditions and wages to retain their workers and attract new ones. As the Latvian example shows, employers are not always in favour of steps to promote return migration because they fear that returning migrants' wage demands might be excessive.

## **6. Major trends in cross-border EU labour mobility since enlargement and the impact of the economic crisis**

Now we focus our attention to the main trends of intra EU labour mobility since enlargement and particularly during the period of the crisis using available European Labour Force Survey data (LFS).

The broad developments of East-West labour mobility since enlargement in 2004 show a marked increase of the A8<sup>9</sup> migrant population in the two receiving countries (UK and Ireland) that opened their labour market from the beginning, as figure 1 shows. Sweden (not included in this graph), the only other country that granted free access to A8 migrants right from the start, did not experience any significant increase, demonstrating that labour demand is also a necessary condition for attracting labour migrants and that language can act as a barrier (cf. Galgóczi, Leschke, Watt: 2009). On the other hand, Germany a traditional destination country for CEE migrants but which maintained restrictions until May 2011 although not featuring a spectacular increase still shows a steady but moderate growth of the A8 population without a visible effect of the crisis. The impact of the crisis is however visible in the two receiving countries that absorbed a large number of A8 labour after enlargement.

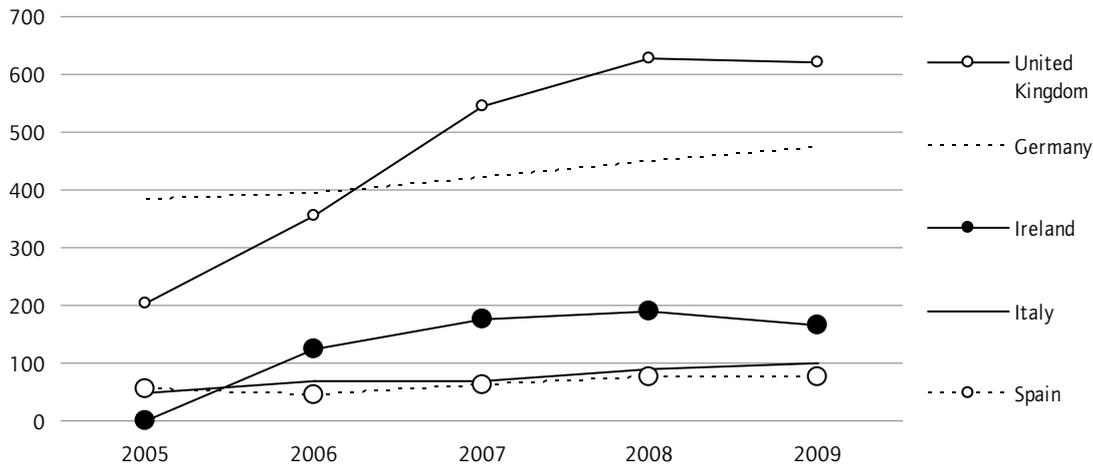
The UK labour market shows signs of saturation from the crisis year of 2008, while Ireland experienced a significant drop of A8 population (cf Heyes and Hyland in Galgóczi et al, forthcoming). The crisis in the UK meant that the previous dynamic growth of A8 population came to a halt in 2008 and started to decline slightly. Indeed, by the end of 2007 net migration flow to the UK from A8 countries reached its peak at 85 thousand persons, then fell down to zero by the end of 2009 (ONS, 2010). More detailed data show that a restructuring within the A8 migrant group took place in the background. While total A8 population in the UK stagnated, a massive wave of return migration of Polish citizens started to emerge from 2007. Polish data show that the number of Polish residents in the UK had decreased by 135 thousand between the end of 2007 and the end of 2009 (cf. Anacka and Fihel in Galgóczi et al, forthcoming). At the same time the inflow of A2 migrants to the UK has grown despite restrictions and resulted in a net increase of all A10 nationals on the UK labour market (Figure 2).

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9. In this new section we continue to use A8, A10 and A12 to ensure consistency with the rest of the working paper. However, the reader is advised that in this section, which uses ELFS data, the figures include Cyprus and Malta. The absolute numbers involved are so small that the differences can be ignored.

Ireland experienced a radical reversal of migration trends during the crisis. The number of A8 nationals that peaked in 2008 at 8% of the Irish labour force had decreased by 25% by the end of 2010.

Figure 1 A8 population in major EU15 receiving countries: 2005-2009 (stocks)



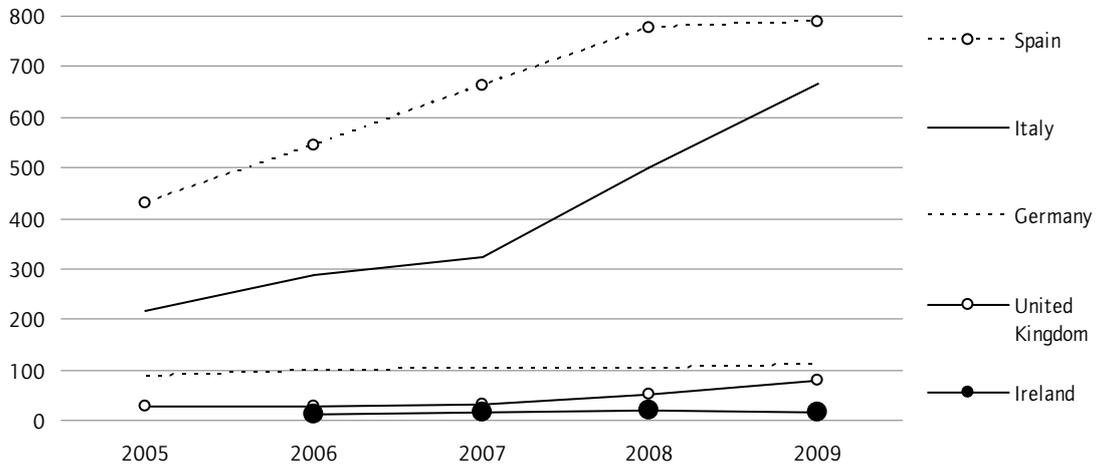
Data source : European Labour Force Survey.  
 Note: Migration status defined by nationality.

The effect of pull factors in terms of existing labour market access, labour demand, as well as cultural and linguistic proximity and network effects is demonstrated by the case of A2 (Bulgaria and Romania) migrants, as figure 2 shows. Spain and Italy have seen a spectacular increase of their A2 population in the last couple of years (altogether 1.45 million migrants by 2009 not much falling short of the 1.68 million A8 migrants in the entire EU15 in the same year). The number of A2 migrants was topping out in Spain from 2008 which can be explained by the severe impact of the economic crisis, particularly but not exclusively on the construction sector, with important shares of migrant workers. In contrast, the effect of the economic crisis on cross-border labour mobility from A2 countries is not visible in Italy where the A2 population continued to grow dynamically.

The number of A2 migrants remained at a very low level in Ireland and the UK, showing, among other, the effect of the transition measures for workers that, in contrast to the first round of accession in 2004, were put in place when Romania and Bulgaria joined the EU in 2007. The same is true for Germany in the context of A2 migrants.

Whereas the number A2 migrants reached very high levels in Spain and Italy, A8 migrants did not use the opportunity of the free access to the labour markets of these two countries which had lifted restrictions in mid-2006. Both Spain and Italy show consistently low levels of A8 population for the entire period (figure 1) which, particularly for the pre-crisis period can be explained by the much more favourable labour market conditions, in particular the UK and Ireland as well as the language effect and network effects.

Figure 2 A2 population in receiving country: 2005-2009 (stocks)

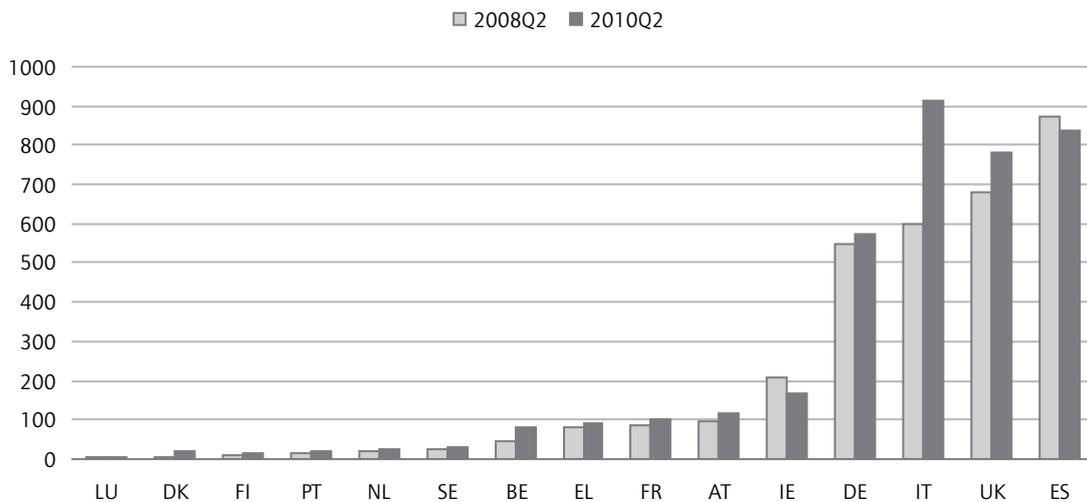


Data source : European Labour Force Survey.  
 Note: Migration status defined by nationality.

## 6.1 Impact of the crisis on A10 migrants on receiving country labour markets

Comparing second quarter LFS data from 2008 and 2010, we now examine how the A10 migrant population was effected by the crisis in the receiving EU15 countries compared to the local population.

Figure 3 Impact of the crisis on stocks of A10 nationals in EU15 countries, working age population (1000s)



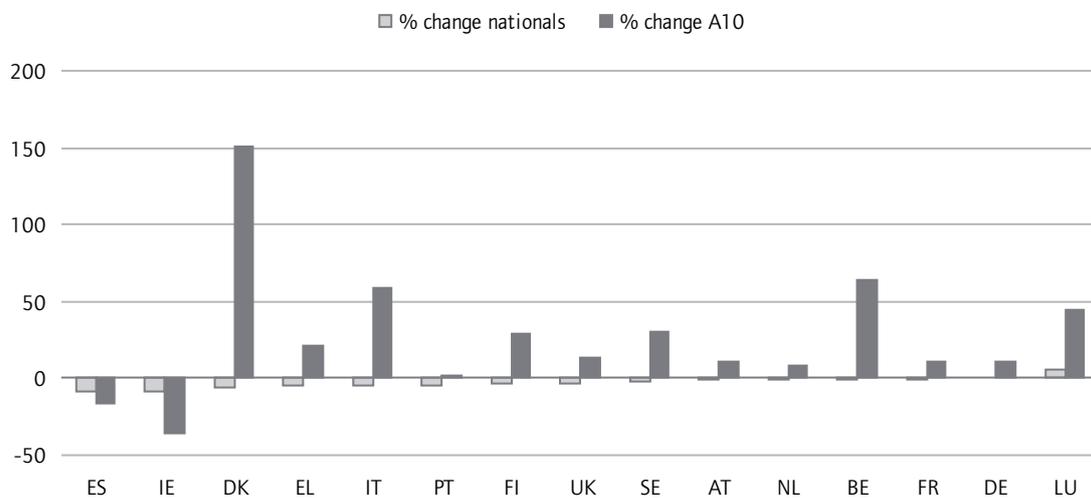
Data source : European Labour Force Survey.  
 Note: Migration status defined by nationality.

Figure 3 shows that only two receiving countries, Spain and Ireland, saw a decrease of the A10 working age population during the most intensive period of the crisis. This can be largely explained by the large impact of the crisis on their labour markets as regards rising unemployment and declining employment (see Leschke and Watt: 2010). All other EU15 countries witnessed an increase with a spectacular increase of over 300 thousand A10 (overwhelmingly A2) citizens in Italy.

As regards A10 countries, their working age population (nationals) did not show significant changes, only Poland had a substantial increase. Between 2008Q2 and 2010Q2 the working age population rose by 342000, of which a substantial proportion represents net return migration (European Labour Force Survey, not shown).

As net A10 inflows in EU15 receiving countries have remained the major trend of labour mobility also during the crisis, an important question is how A10 migrants were affected by the economic crisis. Were they hit to a higher or lesser extent by decreasing employment and increasing unemployment than the local population?

Figure 4 Employment changes among nationals and A10 citizens in receiving countries between 2008Q2 and 2010Q2, percentage change



Data source: European Labour Force Survey.  
 Note: Migration status defined by nationality.

While the number of employed nationals showed a decrease in all receiving countries during the crisis, except Germany and Luxemburg, the number of A10 employed grew in all countries but Spain and Ireland (Figure 4). It must be borne in mind that the figures are percentage changes in order to make the countries comparable. In absolute terms the change in native employment is much larger than that of foreign-national employment.

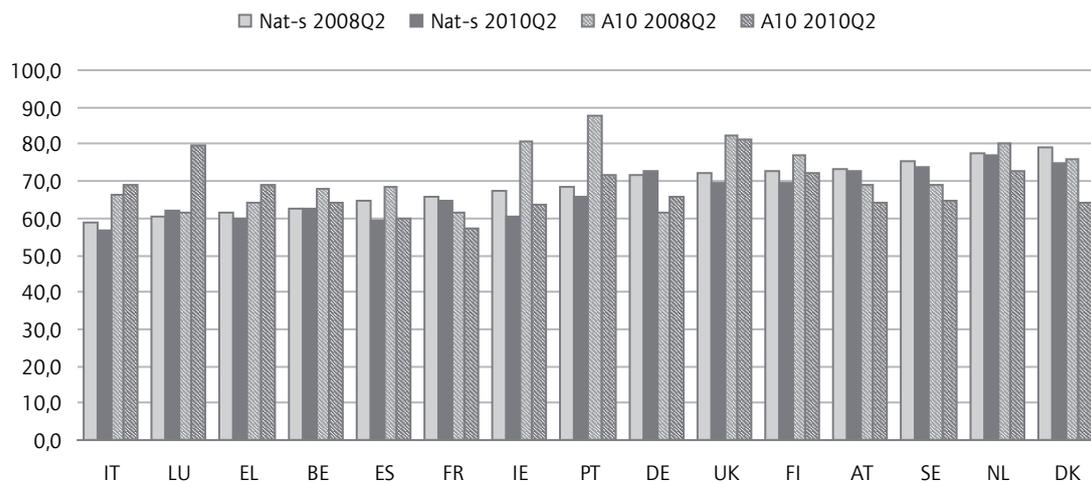
In the two receiving countries however where A10 employment fell in absolute terms, migrants were more affected than natives, who suffered a smaller setback in employment.

From considering absolute numbers of working age migrant populations and employees, we now turn our attention to the *proportions* of these populations in employment and unemployment in the receiving countries.

Figure 5 shows how the employment rate of nationals and A10 migrants developed on receiving country labour markets during the crisis. Prior to the crisis A10 migrant workers had higher employment rates than nationals in most receiving countries. Exceptions in this regard are France, Germany, Austria, Sweden and Denmark.

In the course of the crisis the relations between the employment rates of native and A10 workers changed in the different countries.

Figure 5 Employment rate of nationals and of A10 citizens before and after the crisis (in %)



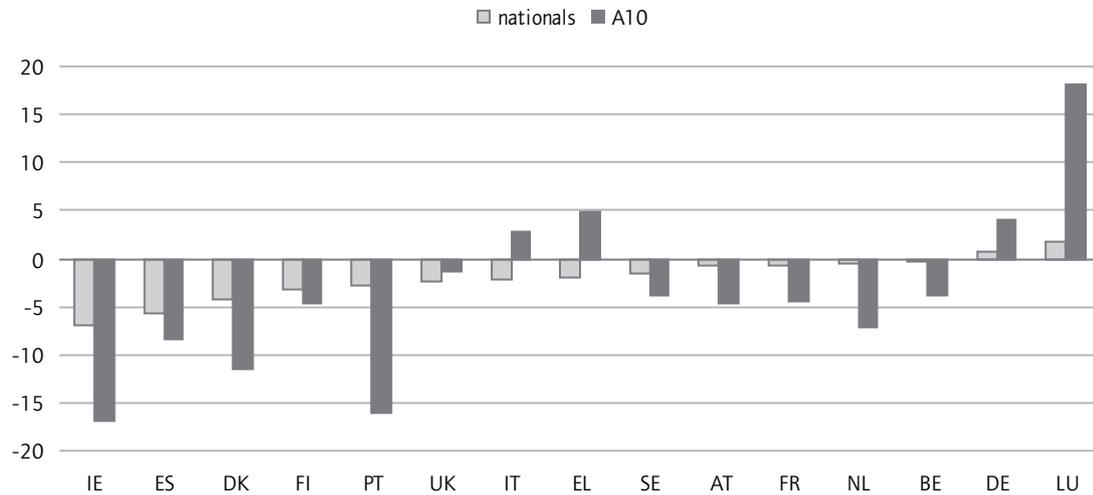
Data source: European Labour Force Survey.

Note: Migration status defined by nationality.

To illustrate the dynamics of employment rates during the crisis for nationals and migrants in receiving countries more clearly, figure 6 shows the percentage point changes between 2008Q2 and 2010Q2.

In 10 out of 15 receiving countries the employment rate of A10 citizens suffered greater decreases than that of nationals during the crisis. This is especially true for Spain, Ireland and Portugal. In the UK however, the employment rate of A10 workers fell less than that of locals, while in Greece and in Italy the employment rate of A10 nationals grew while the employment rate for nationals decreased. In Germany and Luxembourg the employment rate of A10 citizens increased more than that of nationals during the crisis (Figure 6).

Figure 6 **Employment rate changes of nationals and of A10 citizens on EU15 labour markets during the crisis: 2008Q2 –2010Q2 (in %-points)**



Data source: European Labour Force Survey.

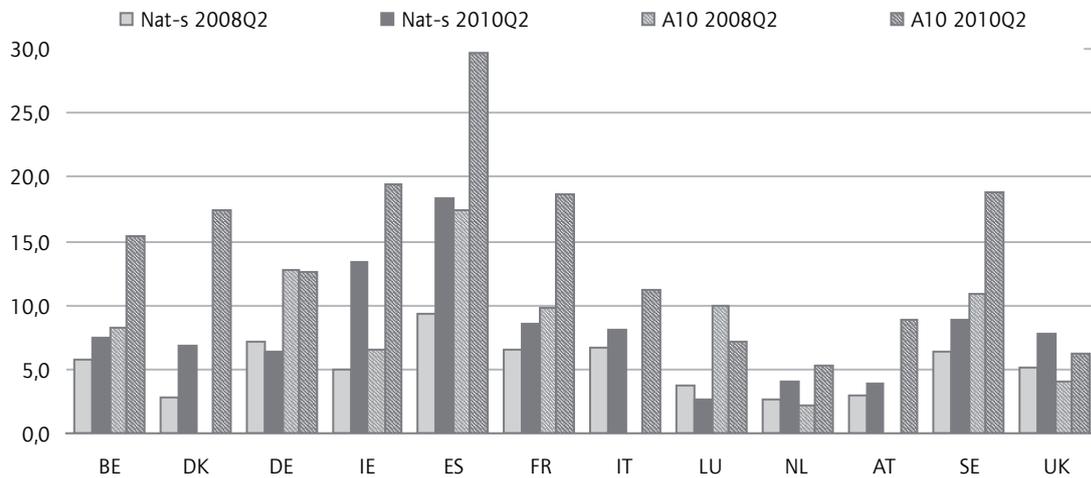
Note: Migration status defined by nationality.

Prior to the crisis, unemployment rates of A10 migrants were higher than that of nationals in all receiving countries for which we have data except the UK and the Netherlands. Figure 7 shows how unemployment rates of A10 migrants changed in receiving countries during the crisis, compared to nationals. The unemployment rates of migrants increased to a greater extent than for nationals during the crisis in Belgium, Ireland, Spain, France, the Netherlands and Sweden, whereas in Germany and Luxembourg, the only EU15 countries with a strong labour market performance during the crisis, unemployment was declining in line with the developments among nationals. The UK showed similar increases in unemployment among nationals and migrant workers. Several countries have incomplete data.

The most typical pattern therefore is larger increase of unemployment from a higher initial level.

The increase and the levels of A10 unemployment are particularly high in Spain and Ireland where these rates substantially exceed the national average unemployment rates.

Figure 7 Unemployment rate of nationals and of A10 citizens on EU15 labour markets during the crisis (in %)



Data source: European Labour Force Survey.

Note: Migration status defined by nationality. Data missing for EL, FI, PT.

## 6.2 Summary of the main trends of intra-EU labour mobility during the crisis

The main trends of intra-EU labour mobility during the crisis feature complex processes in a rapidly changing environment. The main drivers of the changes were the effects of the crisis on the labour markets of receiving and sending countries and also the changing policy framework as different countries applied or lifted various transitional measures at different times (see section 2).

The main trends can be summarised as follows:

- A continued net inflow of A10 population to EU15 (with the exception of Ireland and Spain), but at a reduced rate (with the notable exception of Italy).
- These net flows conceal changes in sending country composition such as return migration to Poland and partial substitution from other sending countries.
- While the number of employed nationals declined in all receiving countries except Germany and Luxembourg, the number of A-10 employed grew in all countries except Spain and Ireland.
- At the same time employment *rates* of A-10 migrants tended to decrease more than that of nationals.
- The unemployment rates of A-10 nationals generally increased to a greater extent than those of nationals.

Generally, the employment levels of migrant workers reacted more sensitively to labour market shocks than domestic labour. To some degree migrant work has functioned as a labour market buffer in most receiving countries. At the same time, against the background of continued net working age population inflow, there was a reduced degree of utilisation of migrant labour in receiving countries during the crisis, as reflected in higher inactivity and unemployment rates of A10 nationals.

## 7. Assessment and outlook

Our country case studies provide a wealth of information and analysis on migration and labour market developments in key sending and receiving countries in the enlarged European Union for the post-2004 period. In this working paper we have sought to synthesise these results and identify similarities, differences and contrasts. We have also made a provisional assessment of the impacts of the economic crisis on migration flows and employment outcomes. Looking forward, what lessons can we draw? How can intra-EU labour mobility experience since 2004 be evaluated and what are the questions we will need to address in coming years? What are the lessons that can be drawn from the crisis?

First, we should note that there are several key questions that could not be answered yet. For example, it is still too early to determine how long migrants on average will stay in the receiving country, and whether this pattern will differ from the migration flows Europe experienced after the accession of the Southern European countries. It is nowadays considerably cheaper and easier to travel between home and destination country, which may well promote 'circular' and shorter-term migration. In light of the ongoing economic convergence, not to mention the impact of the current severe economic crisis, there are signs of return migration, also promoted by sending countries trying to attract emigrants back to the local labour market. Both point towards a situation in which, on average, a shorter length of stay can be expected. However, we also know that statements of intent on arrival or in response to surveys are unreliable guides to future behaviour. As communities and families are built abroad, some will stay in their new 'home', creating networks that may serve as a basis for continued – and more permanent – immigration. However, the extent of this phenomenon is unclear at present.

We still know too little about politically sensitive phenomena such as the extent and characteristics of posted workers, bogus self-employment and, of course, illegal and undocumented work among migrant workers.

Overall, we were able to draw a relatively favourable picture of the impacts of greater labour mobility across an enlarged Europe in the years between enlargement and the onset of economic crisis. Many of the fears expressed prior to enlargement did not materialise. The approach of encouraging opening while permitting countries to impose continued limitations on freedom of movement for a transitional period appears to have been fundamentally

sound. At the same time, numerous problems were identified, on which both researchers and policymakers should focus their attention.

Referring back to our ideal-types of ‘most beneficial’ and ‘most negative’ forms of migration we see a mixed picture. Labour flows have largely been from high unemployment to lower unemployment countries and from low paid to better paid work. Remittances have promoted development and many migrant workers have returned after a period of time abroad with additional experiences and skills, not least languages. Although subject to methodological difficulties, we have found little evidence of substantial, broad-based negative effects on competing domestic workers in receiving countries. At the same time, we have seen substantial evidence of a brain drain and a ‘youth drain’, with emerging skills bottlenecks damaging the development prospects of the new member states but also promoting return migration. The most serious cause for concern, however, clearly relates to the sorts of work performed by most migrants in receiving countries.

While migration from the new member states clearly consists of much more than ‘surgeons picking mushrooms’ and ‘teachers plastering walls’, the evident serious mismatch between immigrant workers’ skills and the jobs they actually perform in the receiving countries strongly suggests that naïve views about labour flows and ‘factor equalisation’ are not adequate to the real world and that migrant flows do need to be channelled if welfare gains are to be maximised. In this regard it will be interesting to see whether, over time, migrant workers will be more successful in gaining employment closer to their initial skill profiles and/or gaining additional knowledge and qualifications.

Equally important will be the extent to which sending countries will succeed in re-attracting migrant workers to the home labour market and whether returning migrants will be able to make use of their work experience abroad. Similarly, an important topic to address in future research will be how so-called ‘sending’ countries’ governments and social partners will deal with *immigration*, which for many is a new phenomenon

Another key question is how the final lifting of the transitional measures in 2011 and in 2014 will affect migration flows. Will we see a redirection of flows towards Germany and Austria, for instance, which have many important ‘pull’ factors and have already, despite the transitional measures in place, attracted large numbers of workers from new member states?

We have shown that labour demand and wage differentials – as mediated by current exchange rates – are key migration drivers. It can therefore be expected that changing economic and labour market outcomes in the countries looked at here, and in the new and old member states more generally, will affect migration outcomes substantially. There has been impressive economic convergence across the enlarged EU in recent years, and labour flows have played a part in that process.

The economies of both new and old member states have been hit hard, but to varying extents by the financial and economic crisis (see e.g. Watt 2008, Leschke and Watt 2010). Our analysis for the crisis period up to the second quarter 2010 showed that on the overall level a continued net inflow of A10 population to EU15 took place, albeit at a reduced rate. These net flows however conceal changes in sending country composition such as return migration to Poland and partial substitution from other sending countries.

At the same time the employment levels of migrant workers reacted more sensitively to labour market shocks than domestic labour which indicates that in most receiving countries to some degree migrant work has functioned as a labour market buffer. Thus, against the background of continued net working age population inflow, there was a reduced degree of utilisation of migrant labour in receiving countries during the crisis, as reflected in higher inactivity and unemployment rates of A10 nationals. In such hard economic times, against a background of increasing nationalism and protectionism, policy makers and social partners face tough challenges.

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## **Annex**

*EU labour migration since enlargement: trends, impacts and policies*, edited by Béla Galgóczi, Janine Leschke and Andrew Watt, Ashgate 2009

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