

Chapter 1

EU Labour Migration and Labour Markets in Troubled Times¹

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1. Introduction

The accession of eight new central and eastern European countries (EU8) to the EU in May 2004 and the subsequent accession of Romania and Bulgaria in January 2007 (EU2) marked an important step in the history of European integration. It reunited a continent divided since (at least) 1945. An important consequence was the extension of the free movement of capital, goods, services and people to Central and Eastern Europe. European law guarantees these freedoms within the EU – in principle. However, there were fears of a massive influx of workers from the new Central and Eastern European member states (NMS) with expected negative impacts on the receiving countries' labour markets (and welfare systems); in many western European countries the 'Polish plumber' came to symbolise this threat. As a result, all but three countries (the United Kingdom, Ireland and Sweden) made use of so-called transitional measures in 2004. These transitional measures restricted – to varying degrees – the right to work for EU8 citizens in EU15 countries for a period of up to seven years.

EU15 countries successively opened their labour markets over the subsequent years, however, and only Germany and Austria made use of the entire seven-year transition period, fully opening up their labour markets only in May 2011. Workers from Bulgaria and Romania will not have complete freedom of movement until January 2014; currently, 11 Member States still have transitional measures in place with regard to EU2 workers, in several cases with simplified procedures or exceptions for certain groups of workers or certain sectors.² The darkening economic outlook from the summer of 2007 was a major factor here. Interestingly, Spain temporarily

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2 The countries that still had transitional measures in place with regard to Bulgaria and Romania at the end of April 2011 are Belgium, Germany, Ireland, France, Italy,

re-introduced restrictions on Romanian workers in July 2011, a step that was justified with reference to the labour market impact of the crisis. Transitional measures do not apply to those Romanian workers and their families already employed or registered as jobseekers in Spain (European Commission 12 August 2011).

Post-2004 labour mobility constitutes a historically new phenomenon in a number of respects, exhibiting characteristics that distinguish it from its previous forms as a result of EU enlargements. First of all, it is a multifaceted process, with different forms of labour mobility coexisting in a rapidly changing environment, a factor whose importance has more recently has been further accentuated by the economic crisis. This is why a key focus of this book is on different *forms* of cross-border labour mobility, including commuting, short-term, circular and more permanent migration.

It is also new that migrants from low-wage countries have a comparably high educational profile in absolute terms and in relation to nationals in the target countries. Although a number of studies have pointed to a mismatch between immigrant workers' skills and the jobs they are performing, this essential issue has not received enough attention. It is, however, a focus of this study, in which we address such questions as: To what extent are skills transferable across borders? Does the length of stay in the receiving country improve the skills–job match of migrant workers? Do migrant workers experience human capital augmentation (or depreciation) during their time abroad and what does that imply for the jobs they get on their return? Do specific forms of cross-border labour mobility such as cross-border commuting lead to more positive outcomes in terms of skills–job match?

Free labour mobility within a heterogeneous economic and political union has been (progressively) introduced in a rapidly changing environment. The regulatory environment has changed as more and more countries opened their labour markets for intra-EU labour mobility, but the context remains one of different coexisting regulatory frameworks. The economic crisis further changed the environment for cross-border labour mobility, as both source and target countries were affected but with large intra-country differences and in waves that were not completely synchronised. Key questions addressed by this publication include the impact of the economic crisis on migrants' opportunities and perspectives. To what extent has the crisis led to increased return migration? Have those that have stayed been disproportionately affected by employment losses and unemployment? And what have been the policy responses in this context?

The approach taken in this book is primarily comparative, and the majority of chapters make use of quantitative data sources, among them European and national Labour Force Surveys, the *WageIndicator* data and the International Adult Literacy Survey. For more detailed information on these data sources, and their limitations, as well as on common definitions used in this book refer to Annex 1. Beyond the thematic unity, all the chapters take a predominantly 'macro' view, in other words, discussing the position of migrants on (national) labour markets in the aggregate

and, in some cases, by migrant category and sector. The chapters of this book are structured in three parts. The first part looks at the issue of jobs–skills mismatch with regard to migrant workers and cross-border commuters in the post-accession period and especially during the crisis. The second part deals with selectivity in return migration: in other words, what are the characteristics of migrant workers and of those returning to their home countries after a period working abroad. Part III analyses the policy implications of and responses to cross-border labour mobility.

This introduction proceeds as follows. We provide an overview of the existing literature on post-2004 labour mobility and situate the various chapters of this book within that context (2). Taking a birds-eye European perspective, we then present, in Section 3, an overview of relevant empirical developments using the latest ELFS data. We begin with overall population movements, and then turn to employment and unemployment trends, with a focus on the impact of the crisis. Finally, we look in a more disaggregated way at migrant stocks and flows, considering issues of sector, skill levels and types of employment contract. Section 4 presents the structure of this book and reports the main findings from its chapters.

2. Existing Research into the Key Topics of the Book

In this section we discuss the available evidence on the key topics covered in this book and situate its chapters in that context. We first discuss the different forms of labour mobility; second, we consider the as yet sparse evidence in the literature on the impact of the economic crisis on labour mobility, including return migration; and third, we look at the evidence on skills mismatch.

2.1 Different Forms of Labour Mobility Including Return Migration

One simple distinction is between temporary and permanent labour mobility.³ Temporary labour mobility can be either a matter of choice of the migrant worker (leading to voluntary return migration) but it can also be due to limited residence or work permits (contract migration) (see, for example, Dustmann and Weiss 2007). The latter is becoming less important with the successive implementation of free movement of labour in Europe. Temporary migration is sometimes seen as a possibility to limit the brain drain on sending countries (compare, for example, OECD 2009: 155–60; Wickramasekara 2002; see also next section). In this regard, the role of policy measures from sending countries in incentivising return migration is also frequently pointed out (OECD Migration Outlook 2009: 155–60; for specific examples see Galgóczi, Leschke and Watt 2009).

A specific form of temporary labour mobility is circular migration, where migrant workers move back and forth between their home and their host country.

3 As we focus on intra-EU mobility within the post-enlargement context we leave aside topics such as migration for humanitarian reasons (asylum seekers and so on).

The most obvious example is seasonal migration in, for example, agriculture but non-seasonal circular migration may also have become more important in the light of frequent and cheap airline connections. Another form of labour mobility and, in a way, a substitute for full geographic mobility is cross-border commuting. Overall, its quantitative role is limited, but it is of great significance in border areas (see Huber in this book and Huber and Nowotny 2009).⁴

Particularly given the transitional measures applied to workers (which ended for EU8 workers between 2004 and 2011, depending on the destination country, and are still in place for EU2 migrants in the majority of EU15 countries) another important distinction is that between labour mobility and services mobility, including service provision by the self-employed and the posting of workers by foreign firms, as there is evidence that these have been used to circumvent transition measures (for a critical assessment of service mobility in the Nordic countries compare, for example, Dølvik and Eldring 2008: 36–49). Krings (2009) for Germany and Austria and Fellmer and Kolb (2009) for Germany address the relationship between the maintenance of transition measures and the recourse to and abuse of the freedom of services (for example, posting of workers and bogus self-employment) and likely incentives to irregular work as an alternative to regular labour market mobility. We look at this issue in Section 4.3 below.

Several studies on pre-enlargement migration have concluded that return migration of migrants from European countries working in other European countries is substantial (on the United Kingdom, see, for example, Dustmann and Weiss 2007). But the evidence on duration of migration is still very limited and sometimes inconclusive which, besides the abovementioned data deficiencies, also reflects the fact that it is still relatively early to assess this phenomenon comprehensively. Indeed, according to the European Integration Consortium (2009: 159) the existing studies on return migration rather show the methodological difficulties than provide reliable data. This is a notable gap that a number of the contributions to this volume help to fill.

Reviewing the existing research in this area, a number of authors present preliminary evidence on the duration of pre-crisis post-enlargement migration. Some (for example, OECD 2009: 5665) have suggested that the importance of temporary relative to permanent migration is greater than in previous migration waves. In this regard emerging labour shortages in sending countries, policies to incite migrants to come back home and changes in the size of the wage gap (also driven by currency appreciation in home countries) are pointed out, as are low travel costs. As an illustration, in 2007 59 per cent of A8 migrant workers reported in the British Workers Registration Scheme questionnaire that they intended to stay in the UK for less than three months and only 8 per cent said they intended to stay more than two years; about a quarter of respondents didn't know yet (Clark

4 Average cross-border mobility rates from new member states to the EU15 are around 0.6 per cent and thereby of a similar magnitude to commuting between EU15 countries (IZA 2008).

and Drinkwater 2008). Of course the period since accession is still relatively short and such *ex ante* expectations on the part of workers embarking on a spell of employment abroad may, but need not, be realised. Pedersen and Pytlikova (2008) look at return migration of EU10 migrants in the five Nordic countries using data from the national statistical offices of the receiving countries up to the year 2007. According to the authors a comparison of flows and stocks suggests that return migration plays a significant role in migration from Hungary, Slovenia, the Czech and Slovak Republics, and Poland (on Poland see also Anacka and Fihel in this volume), whereas they conclude that the figures for EU2 migrants show rather low return migration tendencies. Their results for the Baltic countries are inconclusive. (for more recent results see Hazans in this volume).

Dølvik and Eldring (2008: 31–2) note that a large part of the labour migration to the Nordic countries has been of a short-term and circular character, but that Norwegian data in particular point to a clear tendency towards longer periods of residence and growth in the numbers of those who have moved permanently, including a growing level of family reunification. Register figures still indicate that most migrants stay only for short periods. However, a specific survey of Polish migrants in Oslo showed that most respondents had a time frame for their stay of several years rather than months (Dølvik and Eldring 2008: 31–2). Ivlevs (2008a and 2008b), comparing net immigration to total immigrant flows separately for Sweden and Denmark, concludes that for the period 2003 to 2007 the majority of migrants from the new member states stayed until the end of that period. In general, the proportion of ‘stayers’ was higher in Sweden and in NMS comparison it was highest for Polish, Lithuanian and EU2 migrants. OECD (2009: 60) confirms that EU2 migrants are less likely to return (probably due to the fact that restrictions on movement are still in place in most countries and wage gaps remain high) than, for example, Polish workers.

Studies on return migration point to a range of reasons for return: family and other social bonds in the home country, higher purchasing power of the host country’s currency in the home country; acquisition of human capital and/or financial capital in the host country that may increase earnings in the home country (for example, Dustmann and Weiss 2007: 246). Of course, return migration can also reflect the fact that the migration experience did not live up to the individual’s private expectations (an issue addressed by Anacka and Fihel in this volume). These studies also highlight that the (planned) duration of stay is likely to determine the labour market outcomes in that those migrants that plan to return home within a short period of time may be more willing to accept lower paid and less fitting jobs, considering the purchasing power of their earnings in their home country, and they are less likely to invest in acquiring the specific human capital of the host country, such as the language (Clark and Drinkwater 2008).

2.2 Impact of the Economic Crisis on Cross-border Labour Mobility

Although intra-EU mobility is still relatively low in terms of the share of the non-national EU population in individual member states from a sending country

perspective the magnitude of outward migration has reached high levels already, with around 5 per cent of the Baltic labour force in the United Kingdom (Dølvik and Eldring 2008) and even higher rates for outward migration for Romania (Ambrosini et al. 2011).

The European Integration Consortium has estimated that the stock of migrants from the EU8 in the EU15 could increase from 1.9 million in 2007 to 3.8 million in 2020 under the present institutional conditions, and to 4.4 million when the free movement is eventually introduced by all EU15 member states; for Bulgaria and Romania the stock is estimated to increase from almost 1.9 million in 2007 to 3.9 million in 2020 under current immigration conditions, and to slightly more than 4.0 million if the free movement of workers is introduced (European Integration Consortium, final report 2009: 40–53). Beyond the more general uncertainty surrounding such forecasts, these estimates may be affected by the economic crisis, as the authors also mention.

Severe recessions have historically had a negative impact on net migration flows, and particularly labour migration flows; on the other hand, they have not usually affected long-term migration trends (OECD 2009: 63). With regard to the recent economic crisis, the literature is still sparse and, at the time of writing, inconclusive.

Already in 2009, the European Integration Consortium (2009: 53) suggested that the current financial crisis may reduce short-term migration substantially as migration is largely determined by employment opportunities in destination countries and foreign workers are disproportionately affected by dismissals in an economic downturn. This was based on the view, which was in line with our findings in Galgóczi, Leschke and Watt (2009), that labour demand in the destination countries plays the predominant role as a driver. Simulations by Ahearne et al. (2009: 34–9) focus on the labour market situation in *sending* countries, as a push factor. Overall, they find that the crisis does affect net migration flows from new to old member states but the effects are relatively small, while pointing to some important country-specific differences. In the four countries that have been less affected by the crisis – namely Czech Republic, Poland, Slovakia and Slovenia – migration outflows are projected to be lower than if the crisis had not hit. By contrast, hard-hit countries like the Baltic states were expected to experience, after a brief decline in emigration as an immediate result of the crisis, a rapid expansion of emigration due to the worsening of their position relative to the EU15.

An important study by the OECD (2010) provides an overview of quantitative developments in the first period of the crisis (see also some of the chapters in Kahanec and Zimmermann 2010). Labour migration within the EU appeared to be particularly sensitive to economic changes. Migration from EU8 countries, especially Poland, has slackened significantly (see Section 3.1 for more detail). Heavy impacts were also evident on temporary migration as is manifest in the Spanish seasonal work programme (OECD 2010: 32).

Immigrant labour is particularly vulnerable to economic shocks. Migrant workers are usually concentrated in sectors such as manufacturing, construction,

hotels and restaurants which are more sensitive to business cycle fluctuation, and they often have less secure contractual arrangements; migrant workers are often overrepresented in temporary (fixed-term) employment which was hard hit particularly in the first phase of the crisis. They have on average lower job tenure⁵ and may be subject to discrimination in hiring and lay-offs (on these issues compare OECD 2009: 19–25; OECD 2010: 97–101).

We take up these issues in Section 4 below and they are treated in a number of chapters, including Heyes and Hyland, Bettin and Hazans.

2.3 Skills Mismatch: Brain Drain, Brain Gain and Brain Waste

While migrant labour is often discussed with regard to skills and education, the debate depends fundamentally on one's perspective. From a sending country perspective, the literature is often concerned with the brain drain which occurs when highly qualified people or workers with specific skills needed in the local labour market leave the country in disproportionately large numbers. A field that has received particular attention in this regard is the health sector (for example, Fihel et al. 2007; OECD 2007).

An important 'stylised fact' is that EU10 countries have significantly *higher* shares of medium and high skilled persons in their working age population than the EU15 countries. The share of persons having completed at least upper secondary education is almost 20 percentage points higher in the EU10 than in the EU15. Moreover, young migrants, who on average have higher education levels, have dominated post-accession cross-border movements. This implies that post-2004 migration is qualitatively different from previous migration waves (European Integration Consortium 2009 and 4.2 below).

In light of increasing human capital investment in the vast majority of EU10 countries, as evident for example in the increasing trend in enrolled tertiary education students, the brain drain hypothesis has been challenged for some NMS countries and it has been suggested that it should be interpreted rather in terms of a brain overflow: in other words, a lack of employment opportunities commensurate with the high skills that young people, in particular, have to offer (on this see, for example, Fihel et al. 2007; Kaczmarczyk and Okólski 2008).

From a receiving country perspective the discussion is about brain gain versus a brain waste. A brain gain occurs when migrant workers are recruited to fill gaps in the high skilled segment (for example, doctors) or in specific occupations experiencing shortages (for example, nurses or IT experts). Policy measures and initiatives of receiving countries are often geared to attracting high-skilled migrants (for example, points-based systems for managing labour immigration or programmes to retain international students, discussed by Korpi in this volume).

5 In 2008 in Ireland more than one-fourth and in Spain one-third of migrant workers had been recruited in the previous 12 months compared with less than 15 per cent of native born workers (OECD 2010: 99f).

However, as soon as free movement of labour applies most of these activities are no longer relevant for EU migrants. Specific programmes to attract high skilled labour and retain graduates from EU10 countries have been important, however, in for example Germany and Austria as part of their transitional measures (OECD 2010: 42–58). The same is true in several countries with regard to highly skilled EU2 migrants (for Italy, see Bettin in this volume). A form of brain gain can also apply from a sending country perspective if the migrant workers return to their home country with improved skills and qualifications (for example, language).

Over-qualification (sometimes termed ‘brain waste’) describes a situation in which migrant workers are employed in jobs that are substantially below their skill level. This was a key finding of our earlier study (Galgóczi, Leschke and Watt 2009). From a global perspective this risks misallocating scarce human capital and, on the individual level, challenges the hypothesis that returning migrant workers really have improved their human capital.

A number of studies find that Polish post-accession migrants to Germany have on average a lower educational attainment than the source population, whereas those who went to the United Kingdom have a higher average educational attainment (termed, respectively, negative and positive selection with regard to education) (Fihel and Okólski 2009; Kaczmarczyk and Okólski 2008). This might be due to the application of transitional measures in Germany, or may reflect differences between migration networks in different destination countries.⁶

In contrast to the United Kingdom, as Dølvik and Eldring (2008: 30–35) point out, in the Nordic countries unskilled or low skilled post-accession labour migration has predominated. They also point to the fact that Finland has gained considerably from the mobility of medical staff from the EU8, particularly from Estonia, which points to the importance of language bonds (see also Korpi in this volume)

Language is clearly one of the main barriers to achieving a good match between skills and occupation in the receiving country. According to Clark and Drinkwater (2008: 513) almost one-third of recent EU8 migrants to the United Kingdom who did not speak English at home reported that they had experienced language difficulties in finding or keeping a job. Other barriers mentioned in the literature are discrimination by employers, pressure to find work quickly, formalised recruitment procedures and a lack of recognition of qualifications (see Hardy 2010; IZA 2008: 111–13 and Tjidsens and Klaveren in this volume).

A common finding is that post-2004 migrants from the new member states are employed well below their skill levels and thus that the returns to education are very low (‘brain waste’). The European Integration Consortium (2009: 97–103) illustrates this convincingly for the United Kingdom, as do the chapters in

6 McKenzie and Rapoport (2008) as cited in European Integration Consortium provide theoretical and empirical evidence on the link between negative self-selection and size of migration networks.

Kahanec and Zimmermann (2010) and in Galgóczi, Leschke and Watt (2009) for a range of receiving countries. This point is taken up by Bettin in this volume.

The analysis also shows that post-2004 migrants fare considerably worse than pre-2004 migrants from the NMS, both as concerns occupation–skills match and wages (see, for example, Drinkwater, Eade and Garapich 2009). A simple explanation might be the fact that the amount of time spent abroad (learning languages, acquiring contacts and so on) is a crucial factor in facilitating the transferability of skills. The ‘brain waste’ hypothesis is also confirmed by Dølvik and Eldring (2008: 76–7) for Baltic and Polish migrants in the Nordic countries. Skills–occupation mismatch is one of the explanations of large wage gaps as identified with recent EU10 migrants, who earn on average 42.5 per cent less than natives (European Integration Consortium 2009: 101). The issue of wage gaps and the regulation of wages for migrant workers is a focus of the chapter by Eldring and Schulten in this volume.

All this suggests that the decision to emigrate is driven by absolute differences in wage levels across countries rather than by the relative returns to skills: migrants, particularly those who are planning to return at some point in time, are willing to take up jobs below their skill level as long as this allows them to accumulate savings (that can later be invested in the home country) or sent as remittances (see next section).

A conclusion from the existing literature would be that in most cases neither the ‘brain drain’ nor the ‘brain gain’ will have a strong overall impact on labour markets and the economies of the sending and receiving countries. However, for small countries with large outflows and in certain sectors (for example, medical staff) it may be a cause for concern. Various chapters in this book contribute additional evidence to this debate.

Regarding the question of whether migration develops or rather destroys human capital, there is as yet little evidence on how immigrants fare on returning to their home country. Hazans (2008), controlling for a range of characteristics states that return migrants to Latvia earn wages that are on average about 15 per cent higher than those of other Latvian workers; the earnings premium is higher for men than for women. Considering the low returns to education in the host country this finding points to the importance of the acquisition of other forms of human capital, such as language skills. These issues are a focus of Hazans’s contributions to this volume.

2.4 Conclusions from the Literature

To conclude, we may identify three important aspects addressed by the literature with regard to post-enlargement labour mobility in the EU. A variety of different forms of labour mobility were identified (temporary, circular, return migration) with the additional channel of the self-employed. Changing environments in terms of the effect of transitional measures and the economic crisis resulted in subsequent shifts within these forms of mobility.

Three major factors have had an impact on migration flows during the crisis: labour market demand and characteristics of jobs by migrants in the target country (impact of the crisis on particular sectors, job security); labour market situation and welfare provision in the source country (as possible push factors) and finally, changing migration policy in target countries (with the accession of EU2 countries in 2007 under the services directive access became possible for the self-employed to EU15 labour markets, and countries are gradually opening their labour markets either fully or partially).

When examining the skills characteristics of EU10 migrant workers in the EU15, it has been emphasised that the educational attainment of the EU10 migrant population tends to be significantly higher than in previous migration waves. Debates have addressed the issue of brain drain, brain overflow and brain waste from the point of view of sending countries. One conclusion seemed to crystallise: post-enlargement East-West labour mobility has not contributed to better human capital allocation due to large-scale skills–occupation mismatches affecting EU10 migrants on EU15 labour markets.

3. A Birds-eye View of Intra-EU Migration Trends During the Crisis

In this section we turn our attention to the main trends of intra-EU labour mobility since enlargement and particularly during the period of the crisis. The analysis draws on the most recent European Labour Force Survey data (LFS) Against the background of divergent labour market developments in source and target countries during the crisis, we highlight how EU10 migrant workers have been affected by the crisis in various countries, not least in comparison to native workers (3.1). Using a special extraction of the LFS data we are also able to present disaggregated results by sector, skill level and employment contract, which shed additional light on some of the still unresolved research questions mentioned in the previous section (3.2).

3.1 Major Trends in Cross-border EU Labour Mobility since Enlargement and the Impact of the Economic Crisis

Population Stocks and Flows

The broad developments of East–West labour mobility since enlargement in 2004 and up to the crisis show a marked increase of the EU8⁷ migrant population in the two receiving countries (United Kingdom and Ireland) that opened their labour market from the beginning, as Figure 1.1 shows. In interpreting the figure it should be recalled that the Irish population is only about one-fifteenth that of the United Kingdom. Sweden (not included in this figure), the only other

7 In this section, which uses ELFS data, the EU8 and EU10 figures include Cyprus and Malta. The absolute numbers involved are so small that the differences can be ignored.