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Lessons from the EU Eastern Enlargement: Chances and Challenges for Policy Makers[1]

Carlos Vargas-Silva*

Introduction

On 1 May 2004 eight Eastern European countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) joined the European Union (EU). These countries as a group are commonly known as the Accession 8 or simply A8 countries. As members of the EU, citizens of the A8 have the right of mobility within the EU system. However, the accession agreements allowed the 15 pre-existing EU member states to impose restrictions on the employment of citizens from the A8 countries for a maximum of seven years.

In contrast to Cyprus and Malta (two other countries that joined the EU in 2004), the A8 countries had per capita incomes well below EU levels. As a result, there was speculation of large migration movements after accession from the eight new member states to the old member states. It was not surprising, therefore, that most existing members chose to impose restrictions on the movement of these workers. Only Ireland, Sweden and the UK opened their labour markets to workers from the A8 countries immediately upon EU enlargement.

In the UK, A8 workers have been able to take up employment freely and legally since May 2004 as long as they registered with the Worker Registration Scheme (WRS), a relatively simple procedure. The opening of the UK labour market to workers from these countries led to a surge of immigration. During 2004–09, net-migration (inflow minus outflows) of A8 migrants to the UK was about 304,000 and A8 migrants accounted for about 25 percent of all net-migration to the UK during that period.[2]

Poland is the demographic giant among the A8 countries. Hence, as expected, the large majority of the A8 migrants to the UK (around 69 percent) were Polish citizens. In fact, between the year ending December 2003 and the year ending September 2010 the Polish-born population of the UK increased from 75,000 to 521,000.

Migration in the UK has always been a controversial political issue and a large majority of the British public has been opposed to more immigration since at least the 1960s (Blinder 2011). But the surge in immigration after the accession of the Eastern European countries led to migration becoming one of the main political issues during the 2010 general election and to David Cameron becoming prime minister, in part, by promising to control immigration and reducing net-migration from "hundreds of thousands" to "tens of thousands".

The restrictions for movement of A8 workers to other EU countries terminated on 1 May 2011, including any transitional arrangements such as the UK's WRS. At the time of ending the restrictions, only two countries, Germany and Austria, had important restrictions in place. Nowadays, A8 workers have the same rights to mobility as any of the citizens of the 15 pre-existing EU member states. Therefore, this is an ideal time to reflect on the overall experience of enlargement in regards to migration and identify potential lessons for the future. This article draws mainly from the UK experience after the EU enlargement to indentify several lessons from this process. This is ever more relevant because Romania and Bulgaria, two countries with relatively low per capita incomes joined the EU in 2007, and restrictions for the movement of workers from these countries to all EU countries should be lifted by 2014 at the latest. Moreover,

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[2] All figures in this article are based on estimations from data of the UK Office for National Statistics (ONS). The main sources of data are the Labour Force Survey (LFS), the Annual Population Survey (APS) and the Long-Term International Migration (LTIM) estimates from the International Passenger Survey (IPS).

there is already vast speculation about the immigration impact of a possible accession of Turkey to the EU (Home Affairs Committee 2011).

Decisions under uncertainty: the need for caution and gradualism

Before the entrance of the A8 countries to the EU, there was a high level of uncertainty on the future level of immigration from these countries after accession. The UK government had to make a decision about whether to grant A8 workers full rights in the labour market using very limited information. What little information was available came from forecasting (i.e. econometric) exercises predicting the future level of migration from the A8 to the UK and a review of the experiences of previous EU accessions.

The major econometric analysis commissioned by the UK government (e.g., Dustmann et al. 2003) suggested that flows were going to be much smaller than in reality, in the order of 5,000 to 13,000 net-immigrants per year and suggested that "even in the worst case scenario, migration to the UK as a result of eastern enlargement of the EU is not likely to be overly large". Part of the problem with the projections was that due to a lack of historical data on migration from A8 countries to the UK, the projections for post-enlargement immigration were based on a model whose parameters had to be estimated using data from other countries. The Cold War had severely limited immigration from the A8 countries to Western Europe for decades. As a result the model parameters assumed invariance across time and across countries, a very strong assumption. The authors suggested that the estimations should be evaluated with caution given the methodological caveats. However, these technical limitations do not always translate clearly into the political discussion.

It was also not completely clear at the time what other countries were going to do in order to restrict their labour markets to A8 workers. A scenario where some key labour markets, such as Germany, where open to A8 workers was likely to result in minimal immigration from the A8 to the UK (i.e., diversion effect). Meanwhile, a scenario in which just a few countries opened their labour markets to A8 workers could result in major immigration movements.

The large-scale immigration that resulted from the A8 entrance to the EU also contrasted with the dynamics of previous EU accessions. The previous enlargement (1 January 1995) saw the accession of Austria, Finland and Sweden to the EU (i.e., fourth enlargement) and resulted in no significant migration movement to the other member states. However, these countries had per capita income levels similar to those of the existing EU members and enjoyed freedom of movement with the EU as members of the European Economic Area (EEA). In order to find a somewhat better comparison it was necessary to look at the third enlargement of the EU that involved the accession of Spain and Portugal to the EU (1 January 1986). Given the considerable existing income per capita (and unemployment) differentials between these two countries and the EU at the time, transitional arrangements were agreed in order to minimise the possibility of mass immigration immediately after accession. Yet, even after the end of the transitional period there were no major immigration movements from these two countries to the rest of the EU, in contrast to the predictions of some academic work at the time (e.g., Straubhaar 1984). As a result, the experience from previous accessions suggested low levels of migration after accession.

The problem is that even in the case of Spain and Portugal, income differentials were small compared to the income differentials between the EU and the A8 countries. Moreover, contrary to the A8 countries, Spain and Portugal had well developed market economies at the time of accession. As a result, the experiences from the previous EU enlargements provided a poor guide to possible immigration patterns after the entrance of the A8 countries to the EU.

The UK government was, therefore, forced to make a decision on A8 immigration restrictions under considerable uncertainty, due to a lack of a pre-accession history of immigration movements and comparable precedents and limited information on the intentions of other key countries. Under situations of uncertainty, it is reasonable for decision makers to adopt a cautious approach, especially, if it is possible to gradually adjust the strategy later on.

For instance, the UK could have adopted a relatively restrictive approach with regards to A8 immigration and then liberalise the restrictions gradually. The transitional arrangements of the accession treaty of 2004 facilitated this process as the restrictions were divided in periods of two, three and two years. For the first two years countries could impose their national laws and policies to A8 immigration. These

restrictions could then be extended for three more years. Finally, those countries whose labour markets were affected by A8 immigration could impose restrictions for two additional years.

Instead of following the cautious approach of imposing serious restrictions for at least the first two years, the UK decided to open labour markets to A8 workers with just a few restrictions in place, resulting in high immigration. It is entirely plausible that this large immigration had a positive effect on the UK economy (see discussion below). However, the speed, size and, overall, unexpected nature of the large immigration flow, resulted in a strong backlash against the UK government. Therefore, a potential first lesson from the EU Eastern Europe enlargement is the need for gradual approaches to immigration policy.

Different types of migrants, different types of issues

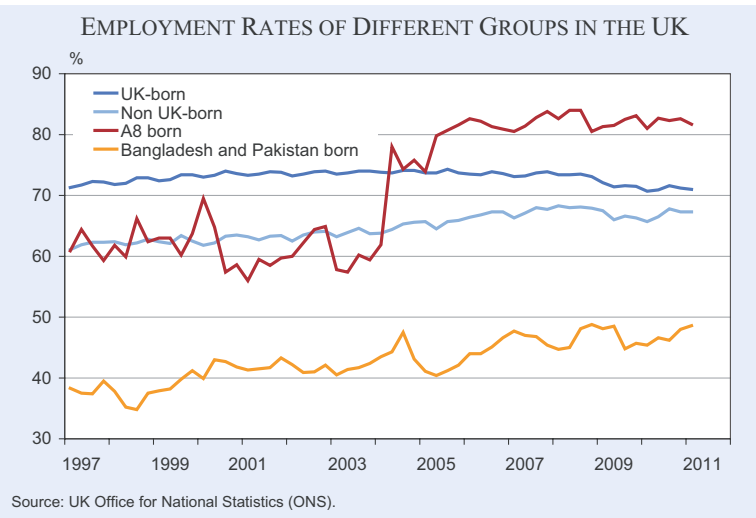
The immigration to the UK that resulted from the A8 countries entrance to the EU was different from previous immigrations to the UK. The A8 workers were mostly labour migrants in search of better work opportunities. A defining characteristic of the A8 migrants in the UK are their high employment rates. Until 2004 those born in the A8 countries working in the UK had employment rates well below those of the UK-born and of those born in the other old EU member states. However, from the second quarter of 2004 onwards (i.e., after accession), the A8 population in the UK becomes the leading group in terms of employment rates (Figure 1). The employment rates for this group (first quarter 2011) stood close to 82 percent (compared to 67 percent for all non-UK born and 71 percent for the UK-born). The unemployment rate among Polish-born people in the UK during the same period was 5.5 percent, compared with a UK unemployment rate of 7.7 percent. These figures suggest that in terms of labour market dynamics, A8 workers migrating to the UK from 2004 onwards are different from previous A8 migrants, from the whole migrant population of the UK and from the UK-born.

Yet, employment rates are not the only difference between A8 workers and other migrants. The evidence also suggests that the geographical dispersion of A8 migrants is very high in comparison to other migrants that tend to concentrate in London and other urban centres (Sumption and Somerville 2010). In fact, it seems that in proportion to the size of the local labour force these workers are concentrated in rural areas (Commission for Rural Communities 2007). For example, in the year ending in September 2010, the Polish were one of the three largest non-UK born population groups in all countries and most regions of the UK.

The literature also points out some other characteristics of the A8 migrants. These migrants seem to be relatively young and well educated (Blanchflower and Lawton 2008), although they tend to find work in low-paying jobs (Drinkwater et al. 2006). Moreover, it seems that they get the lowest earnings returns on their education, probably because of their lack of fluency in English (Clark and Drinkwater 2008).

As a result, the UK not only had to deal with a large immigration flow, but with immigration of a different type. While some previous migrant groups in the UK tend to be characterised by low employment rates (i.e., the employment rate of those born in Pakistan and Bangladesh was about 49 percent during the first quarter of 2011) and low educational levels, this was not the case of the average A8 worker. These workers were clearly looking for job opportunities and these opportunities, are often found outside the locations were migrants typically concentrate and in which labour markets are extremely crowded. Consequently, these workers are geographically dispersed around the UK.

Figure 1



A consequence of this geographic dispersion is that regions in which international immigration was historically very low, experience a significant relative increase in its migrant population. This resulted in a demand for "migrant-related" services, such as translation services in medical facilities and school teachers with specialisation in teaching children whose first language is not English, for which many local governments were not prepared.

Accordingly, the second important lesson from A8 migration to the UK is that policy planning with regards to migration is not just about the absolute number of migrants coming into the country, but also about migrants' characteristics and their potential geographic distribution.

Fiscal impacts: high employment rates, low welfare participation and low wages

The UK imposed restrictions on selected benefit claims by A8 citizens and only those who had worked continuously in the UK for a full year could claim certain means-tested income-related social security benefits (Vargas-Silva 2011a). However, the evidence suggests that even after working in the UK for a full year, A8 workers tended to have very low levels of participation in welfare programs (i.e., claiming benefits or tax credits) compared to natives (Dustmann et al. 2010). This low level of participation in welfare programs after meeting the residency requirement does not make the benefit restriction on A8 workers insignificant. Given that the restriction asked for one year of uninterrupted work, it discourages immigration from those simply seeking benefits and avoids claims from those workers that cannot hold a job for a full year. This may have resulted in an important migrant-selection process.

The characteristics of A8 migrants, especially in regards to having high employment rates and low welfare participation, have resulted in these migrants making a positive contribution to UK public finances in every year between 2004 and 2009 (Dustmann et al. 2010). This is a remarkable result given that A8 workers tend to concentrate in the low wage sector. Therefore, the third important lesson is that with the right policies in place and adequate incentives for immigration, it is possible for migrants to make a positive contribution to public finances even if they are employed in the low wage sector.

A large income gap + free mobility = immigration flow

In the second quarter of 2009 there were an estimated 518,000 A8 workers in employment in the UK (Vargas-Silva 2011b). Yet, the number of A8 workers in employment in the UK decreased consecutively during the last two quarters of 2009, reaching 478,000 by the fourth quarter (the employment rate of A8 workers increased during this period). Two explanations were put forward in the popular press and academic circles for this decline. First, that the global financial crisis had damaged job prospects in the UK and that A8 migrants were just going back home to weather the storm. The second idea was that five years after joining the EU, A8 migration to the UK was finally stabilising. However, as shown in Figure 2, A8 immigration has picked up again and the latest number of A8 workers on employment in the UK stands at around 629,000 (first quarter of 2011).

Figure 2

Immigration flows may go up and down, yet if there is a permanent income gap between the countries and free movement of workers, immigration is likely to continue in the long-term. The income per capita of the A8 countries is still well below UK levels, and it is likely to stay there for the foreseeable future. Therefore, the last lesson from the EU enlargement is that income gaps can take a very long time to close even with free trade and free mobility of labour. As such a long-term

perspective of the possible scenarios must be adopted while making decisions on immigration policy.

Conclusions

There is a lot that countries may learn from the experience of the EU Eastern European enlargement. By focusing on the experience of the UK, this article has identified four possible lessons:

- Under situations of high uncertainty, it is reasonable, and potentially preferable, for decision makers to adopt a cautious approach, especially, if it is possible to gradually adjust the strategy later on. The lesson on the need for a cautious approach to immigration policy was learned by other countries and the UK labour government. After the accession of Bulgaria and Romania to the EU on 1 January 2007, the UK labour government was quick to impose transitional restrictions on the movement of workers from these countries.
- Immigration is not just about the absolute number of people entering the country, but also about the characteristics of those entering and their geographical location within the country. Having detailed information on the potential geographical dispersion of migrants (especially those that do not need a visa and are "harder" to track) and how their characteristics (i.e. language skills, types of employment, employment rates, etc.) affect that dispersion will help the planning and efficient delivery of public services.
- The right incentives for migration can result in migrants making a positive contribution to public finances even if working in the low wage sector. In theory, migrants who are young, skilled and doing high-paid jobs are likely to make a more positive net fiscal contribution than those with low skills, low wages and low labour market participation rates. However, high employment rates can offset the effect of lower wages.
- The migration scenarios to take into account while making immigration policy decisions need to keep a long-term perspective. Immigration policy decisions are hard to reverse and macroeconomic convergence can be very slow even with free trade and free mobility, as such economic gaps between may take a long time to disappear.

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