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Migration effects of Poland's EU membership

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eign workers enjoy the same treatment as indigenous workers. They have access to health insurance on the basis of their employment status.

The Central and Eastern European Countries have thus put comparable migration policies to those of Western European models in place. However, the substantial shadow economy, which also attracts foreigners, remains a major problem. In Western Europe clandestine work is becoming a sensitive policy issue. Controls of work practices and employment conditions are being stepped up as a consequence. Access of illegal residents to social protection systems is becoming more difficult.⁴ Accordingly, in an effort to harmonise legislation across Europe, the EU expects the accession countries to take steps to introduce legislation or to enforce existing laws to prosecute clandestine workers.

However, the question of the efficiency of sanctions remains an open one. Costly monitoring and highly effective control systems may violate human and citizen's rights. On the other hand, the benefits of increased prosecution are hard to measure. The dilemma, especially for countries with such a considerable shadow economy as the CEECs, is that to refrain from effective action against illegal immigration is tantamount to condoning clandestine work.

Similarly, the EU has begun to integrate accession

countries in the coordinated EU employment policy process. This implies not only that labour market and social policy have to be developed so that they are comparable to EU policies, but also that equal opportunity regulations are introduced under which ethnic minorities, in particular Sinti and Roma and migrants from the time of the communist regime (e.g. Vietnamese), are granted equal treatment.

Concluding Observations

In the light of the above considerations, the scope for independent national sovereign migration policies in the EU is becoming more and more restricted. A series of EU regulations regulates cross-border migration. The Schengen agreement (of June 1990) is one pillar of legislation regulating security matters. Another is the adaptation/convergence of asylum procedures, and most recently, the coordination of the prosecution of illegal migration and clandestine work. The accession countries have to a large extent already introduced migration policy measures similar to those of the Western European countries. The preferred model is the guest worker model. Since migration evolves over time and takes on different dimensions, settlement and integration measures can be expected to follow in due course.

⁴ See OECD: Combating the Illegal Employment of Foreign Workers, Paris 2000.

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Migration Effects of Poland's EU Membership

Eastern enlargement is one of the most important and difficult challenges facing the European Union at the beginning of the new century. The coming enlargement is unprecedented in terms of the increase in population: all ten Central and Eastern European countries (CEECs) make up over a quarter of the size of the present EU population - a significant proportion, but in terms of most economic indicators the size of the candidate countries is rather negligible. The trade and capital transfer effects of integration are expected to be significant in the accession countries

and very small in the EU. However, there are concerns in the present member states that the accession of new countries may generate a wave of mass migration and negatively affect Western labour markets.

Poland is the largest of all CEECs in terms of population and GDP level, and thus it has the greatest migration potential. Its per capita GDP at purchasing power parity is only approximately 39% of the EU average. The existing income gap teamed with a high and recently growing unemployment rate (about 16% in May 2001), the short geographical distance between Poland and the EU and the prevailing tradition of emigration in Poland are often pointed out

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as factors which may create considerable migratory pressures once the free mobility of labour has been granted.

EU Membership and Unemployment

Poland's accession to the EU is closely linked with rewards as well as risks. The rewards come in the form of shifts towards higher productivity growth jobs and convergence to the significantly higher income levels enjoyed by EU countries. The risks are mainly related to unemployment.

With respect to *cyclical* unemployment the most likely hypothesis seems to be that Poland's EU entry should not cause any significant rise. It is true that the free flow of goods may cause net exports to decrease but this is expected to be compensated for by the increase in foreign investment. Some increase in cyclical unemployment might then be expected only in the transitory period.

Poland's entering the EU should not significantly affect *frictional* unemployment. In fact, increased flows of the workforce between different labour market states, i.e. employment, unemployment and professional passivity, can be expected since there are such tendencies within the European Union. Moreover, increased workers' mobility connected with changing jobs can be envisaged but this should not greatly affect frictional unemployment due to the improvement in the working of employment agencies.

Poland's entering the EU will probably result in increased *technological* unemployment caused by the following factors. Firstly, Poland's EU membership will imply more intense competition and growing pressure to lower production costs. A consequence of this should be faster technological progress, greater productivity and a fall in the demand for labour. Secondly, a rise in technological unemployment will be caused by the growth in foreign investments which incorporate technological progress. It is true that the process of economic growth should lessen the decrease in manufacturing work, but it is worth noting that the increase in employment accompanying economic growth will not be very high because of the still existent excessive employment in the public sector.

By no means though should this growing technological unemployment be allowed to weaken the dynamic growth of technological progress in industry. The existence and the development of a high tech and highly productive sector of industry is very much in demand in the Polish economy. The problem of

unemployment should be helped by supporting the development of labour intensive sectors. There are many arguments for the case that the service sector should be strengthened. In comparison to EU standards, the Polish service sector is underdeveloped. Speeding up the development of the Polish service sector could ensure that the surplus workforce is absorbed.

Poland's entering the EU will increase *structural* unemployment. The significance of this hypothesis is greater still if the fact of its already growing role in the Polish economy is taken into account. There are tendencies towards a strong differentiation in unemployment rates between workforce segments divided according to region, qualifications and profession as well as structural inconsistencies between labour demand and supply in similar sectors. The increase in structural unemployment which may accompany Poland's joining the EU has a number of causes. First of all, closer integration with other EU countries will force the adjustment of the Polish economic structure to that of the EU. This involves, among other things, the three-sector division of industry i.e. agriculture/manufacturing/services. The processes of re-allocation of the labour force between various industrial sectors and branches cannot be avoided, in particular the flow of the agricultural workforce to manufacturing. Secondly, the free flow of goods and production factors will cause re-allocation of the labour force between various branches and divisions of industry as well as between companies, which is the consequence of the creation effect in trade and the formation of trade structure according to comparative advantage. Thirdly, integration with the EU will enforce the adjustment of job qualifications to modern needs. All these factors require the adjustment of the labour supply structure to the new labour demand structure, which certainly will not follow immediately. Accordingly, an increase in structural unemployment seems highly probable.

Attempts to improve labour mobility play a fundamental role in limiting structural unemployment. These refer mainly to professional and spatial mobility. Greater labour mobility speeds up the processes of adjusting the labour supply structure to the changing structure of labour demand in different sectors. The key to improving labour mobility is the educational system, professional training and in-service development. These play a significant role in all the EU countries. There is a definite need to examine the whole educational system in Poland from the perspective of the labour market requirements. It is particularly important to make sure that the educa-

tional system provides opportunities to gain qualifications which are in demand on the labour market.

Even though the improvement of labour mobility plays a significant role in the reduction of structural unemployment, it may in some cases prove insufficient. This refers mainly to local or regional labour markets which could be described as an out-dated industrial monoculture. If the EU employment structure is treated as a desired model structure for Poland, then the highest surplus employment Polish sectors would be agriculture, the fuel and energy sector and the textile and steel industries. The Polish employment structure certainly does not have to follow the models adopted in the EU countries but changes towards such tendencies are rather unavoidable. This is why in regions dominated by the above sectors more serious structural problems may appear which will not be solved by the improvement of labour mobility alone. Here there is a need for a government policy encouraging or directly supporting the creation of new jobs in these areas (by means of tax and credit preferences or lower insurance premiums).

Because of the scale of re-allocation of the workforce, the most serious structural problems may affect the areas dominated by agriculture. In order to achieve the 1993 EU model of employment in agriculture, the Polish agricultural workforce would have to be reduced by 2.8 million people. The difficulty in solving this problem lies in the fact that it will be accompanied by an increase until 2005 in the labour supply resulting from demographic processes and the very limited ability of the cities to absorb the surplus workforce. The relatively low qualifications of agricultural workers and a sharp housing barrier in

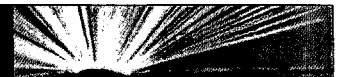
the cities will also make the flow of workers from the country to the cities more problematic. In this situation, it seems necessary to stop the outflow of the workforce from the countryside by placing workers in non-agricultural sectors of industry, in particular in the services market (connected with agricultural services, trade and tourism). It involves creating a significant number of jobs in these sectors, which should be supported by government policy giving tax, insurance and credit preferences to enterprises creating new jobs in the countryside. A significant role could also be played here by various structural and regional EU funds.

Integration and Convergence

The simple neo-classical trade theory based on the Heckscher-Ohlin-Samuelson model (H-O-S) predicts that in a two country, two goods and two factors of production world, each country will export the good whose production relies intensively on its factor of abundance. The process of specialisation continues until factor prices in the two regions equalise (the factor price equalisation theorem). Applying this model to Poland's accession into the EU we expect that the EU, which is relatively abundant in capital, is likely to specialise in capital intensive production, and Poland, which is richly endowed in labour, will increase labour intensive production and exports. According to the H-O-S model the removal of barriers to trade would be expected to have the following consequences in Poland's economy:

- a fall in the price of the capital intensive good relative to the price of the labour intensive good,
- an increase in the production of the labour intensive good and a decrease in the production of the capital intensive good,

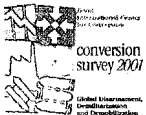
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- a rise in wages relative to the price of capital, which will continue until factor prices in Poland and the present EU have equalised,
- a movement of labour from the capital intensive sector to the labour intensive sector, and a decline in labour intensity in both sectors, since the price of labour has risen,
- a constant total employment of labour, since the effects of the rising production of the labour intensive good and the decreasing ratio of labour to capital in both sectors cancel one another out completely.

In the H-O-S framework, trade, international capital flows and the migration of workers are substitutes. There is no need for capital and labour flows between Poland and the present EU countries if there is sufficient trade volume.

The H-O-S model is based on a set of restrictive assumptions: homogeneous technologies in both regions, constant returns to scale in production functions, factors of production which are perfectly mobile and markets which clear and reach an equilibrium. If we allow for different technologies and increasing returns to scale, factor prices do not equalise in the long run and trade does not substitute for capital and labour movements. The EU is technologically more advanced than Poland and, the existence of increasing returns to scale may make the development gap persist over a long time. Trade will promote the further expansion of sectors with comparative advantages, increasing their productivity through lowering unit costs. Physical and human capital will make for more profitable opportunities in Western economies, which will eventually widen the gap between the poorer and the richer regions. In economic theory this phenomenon is known as the core-periphery effect. In this framework, trade and migration might become complementary (increased trade volume causes a rise in migration and vice versa).

Neither economic theory nor empirical evidence is able to provide any unequivocal conclusions as to whether per capita GDPs in developing countries inevitably tend to converge with those in developed nations in the long run. Research results point out that open economies with strong trade links, such as those of the EU or OECD countries, were prone to converge in the past. If we assume that the growth patterns of Poland and the EU will be similar to those in post-war Western Europe, the income gap will narrow over time. However, the catching-up process is likely to take decades rather than years. Poland has

a good chance of reaching income levels close to Greek or Portuguese averages relatively quickly if it continues to grow at the same high rate as in the 1990s. Poland's GDP grew between 1991 -the end of transition recession - and 2000 by approximately 54%, while the joint GDP of EU-15 countries grew by 20% during the same period. Although one decade is too little time to decide whether the observed process of convergence is only a temporary phenomenon, or if it is permanent and will continue in the years to come, it certainly bodes well for the nearest future.

Concerning the dynamics of output growth, Poland is undoubtedly the most successful economy among all the candidate countries. Higher income and a good economic outlook should result in decreasing incentives for Polish workers to emigrate. Another factor that influences migration decisions is certainly "the level and the dynamics of the average wage. With regard to that measure, Poland's performance was, by far, even more impressive: the average gross monthly wage in the industrial sector in euro/ECU between 1992 and mid-2001 increased by around 250% and was at the level of approximately € 580 in June 2001. Moreover, it is to be expected, according to the price equalisation theorem, that EU membership will create further upward pressure on Polish wages.

Migration Potential

When Greece, Spain and Portugal joined the EU, some restrictions to labour mobility were introduced to prevent the widely anticipated mass immigration from those countries. The transitional periods were initially designed to last seven years, but were eventually shortened to six, since no substantial migratory pressures were observed in the first years of membership. One of the most controversial dimensions of the future EU enlargement is, as it was in the 1980s, the scale of the future migration from the accession countries and its impact on labour markets in the present member states.

Numerous forecasts of the scale of labour migration from the CEECs have been made so far, but they vary considerably depending on the underlying assumptions, methodologies and data used. Forecasts range from over one million immigrants from all candidate countries to 140,000 - 200,000 annually; most of them, however, predict rather limited migration, which will only slightly affect Western labour markets. The European Integration Consortium predicts net immigration of some 335,000 residents per. year following an assumed removal of barriers to migration

in 2002, of which about 35% will be workers (in previous accession experiences this proportion of all immigrants were employees; the rest were their dependants). Within a decade the number of migrants is expected to fall to below 150,000.

Poland has been an emigration country for decades. In the 1980s, the level of registered emigration was 271,000 persons, of which about 70% moved to Germany. However, there are estimates that around one million people left the country during that period. After the restrictions on the movement of people had been lifted in 1989 and the possibility of visa-free travel to many West European countries had been introduced, there was a considerable growth in temporary, economically motivated migration. At the same time a drop in permanent emigration comparing to the 1980s could be observed - in the period 1990-1997, 173,000 people left Poland and settled abroad. From that number, again, about 70% (approximately 121,000) chose Germany as their destination country. Since 1993, net emigration from Poland to the EU was negligible as a result of increasing restrictions in the member states. Another characteristic change in migration patterns in Poland after the fall of communism has been a large increase in permanent (and temporary) immigration. 54,000 people settled in Poland between 1989 and 1997. About half that number were returning Poles. Approximately 25% of all permanent immigrants in the mid-1990s came from Germany and another 25% were from some other European country.

The Research Centre for Economic and Statistical Studies (RECESS) in Warsaw in 1998 estimated potential migration flows from Poland to the EU after accession. The econometric model was based on data concerning migration from Spain, Greece and Portugal during the period 1983-95. It was assumed that the behaviour of Poles in future will be similar to that of South Europeans in the past. This is a risky assumption taking into consideration all the social, cultural and economic differences between the nations concerned. However, many other researchers take a similar approach to modelling migratory pressures from the CEECs, merely because there is little other reliable data available. The RECESS study found a statistically significant relationship between the scale of migration (dependent variable), and the gap in GDP per capita between the countries and the absorption capacity of the receiving country measured by its population (explanatory variables).

The authors concluded that the most likely level of emigration from Poland is approximately 400,000-

800,000 persons during the period of 10-12 years after accession. These numbers were obtained by making two assumptions: the real GDP growth rate will be at the level of 4-7%, and the rate of real appreciation of the currency 3-5% per annum. At the time when the study was carried out these assumptions seemed reasonable, but three years later it is obvious that the growth rate in 2001 will be well below the lower threshold chosen for calculating the forecast. It can be as low as 2%, after 4.1% in 2000 (3.3% in the EU) and 4.1% in 1999 (2.5% in the EU) - a substantial slowdown from 7%, 6.0% and 6.8% in 1995, 1996 and 1997 respectively. The RECESS Institute predicted the scale of migration for a scenario of permanent small growth of below 2-3% at the level of 1.47 million people during 10-12 years after the accession.

Only growth rates well above those in the EU will enable the Polish economy to catch up and will reduce migratory pressures. The economic slowdown experienced recently is certainly a result of the very restrictive monetary policy imposed by the Polish Monetary Policy Council in 2000 (the other reason is a slowdown in the EU, mainly Germany - Poland's main trading partner). Very high real interest rates helped to curb inflation and narrow the current account deficit, but they also contributed to decreasing investment rates in the economy, lower output and employment. The investment rate has dropped from a healthy 17.3% at the beginning of 1998 to 2.6% at the end of 2000. Continuation of this trend would further harm future output growth and the employment level. Some estimates for the Polish economy indicate that a GDP growth rate of 6% is required in order to prevent the rise in unemployment and in a case of no economic growth, the demand for labour would drop by 3.6% annually.

It seems that the only situation which could substantially increase the migration potential from Poland is an economic crisis, with its characteristic symptoms: recession, steep devaluation of the currency, rising unemployment and a general sentiment of bleak prospects for a quick recovery. However, there is currently hardly any threat of a crisis in Poland. The present slowdown is a natural phenomenon accompanied by a restrictive anti-inflationary monetary policy. The mid-term and long-term forecasts for the Polish economy are optimistic and future EU membership also contributes to that positive outlook. Thus, concerns about a large wave of immigration from Poland will most probably prove unfounded, as was the case at the time of past enlargements.