



## THE EU LABOR MARKET: SECOND-CLASS STATUS FOR NEW MEMBER STATES?

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*May 1, 2006 marked the end of the first phase of the transition period on restricting the free movement of labor from the new EU countries of Eastern Europe (CEE) to the old EU member states. This occasion offers a good opportunity to overview: first, the “open door” experiences of the past two years; second, the labor market policies of the old EU member states for the next phase; and third, the employment prospects of citizens from the candidate countries, such as Bulgaria and Romania. Currently, only seven countries out of the EU 15 allow new CEE member states to take up employment without restrictions.*

When the eight Central and East European (CEE) countries joined the European Union on May 1, 2004, most old member states decided whether to limit access to their labor markets through so-called “transitional” arrangements that prohibited “new” citizens from taking jobs in the western part of the EU for up to seven years. The transitional arrangements did not include Malta and Cyprus from the new EU 10, which were automatically granted full access to all EU labor markets. Only the CEE countries — Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary and Slovenia — received discriminatory treatment.

The transitional period is divided into three phases. According to a 2+3+2 year formula, different conditions apply during each phase. At the end of the first phase, which concluded on 1 May, 2006, member states had to notify the EU Commission whether they intended to apply restrictions in the second phase. Theoretically, each member state should lift the restrictions by the end of the second phase in 2009. However, if there are serious disturbances in the labor market, they can prolong national measures for a further two years.

### THE OPEN MARKET EXPERIENCE : UK, IRELAND AND SWEDEN

The free movement of labor is one of the four basic principles of the free market. Nevertheless, only the United Kingdom, Ireland, and Sweden agreed with this principle in practice since May 1, 2004 when they EU enlarged to include ten new states. The UK, Ireland, and Sweden canceled their work permit regimes, allowing CEE citizens to seek jobs in the labor market as their own nationals. (There is a

small variance in the United Kingdom where migrant workers are obliged to register under the Worker Register Scheme.)

About 300,000 CEE citizens were employed in the United Kingdom from May 1, 2004 until the end of 2005. According to a survey carried out for Manpower by NOP, CEE laborers are working in low-qualified positions. Physical demands, long and unpredictable hours, low pay, and low status make it difficult to recruit UK nationals, whereas the work ethic and reliability of migrant workers encourages employers to hire them. In sectors such as agriculture, mining, transport and manufacturing, the percentage of companies that are employing migrant workers from the new EU member states has doubled since accession.

A survey published by the Joseph Rowntree Foundation disclosed why British employers prefer migrant workers. According to the estimates of the British government, migrant workers are contributing about 715 million euro (approximately USD 913 million) a year to the economy. Despite the economic gains, the public is less enthusiastic about these foreigners. A survey conducted by Migration Watch revealed that roughly 70 percent of UK citizens are concerned that Britain is losing its own culture. Moreover, about 75 percent favor an annual limit on the number of immigrants allowed to enter the country.

In Ireland, during the first year of enlargement, 85,000 migrant workers from the new EU member states were registered by the Department of Family and Social Affairs as people requesting social security numbers. This number makes up two percent of Ireland’s population of four million. The influx of CEE migrants started in 1999 when agencies began to recruit workers from CEE due to a labor shortage in Ireland. Ireland’s real GDP growth rate, the highest among the EU-15 for several years running, illustrates the need for migrant workers. Nevertheless, the population remains concerned about the influx of foreign workers. An Irish Times survey, showed that 78 percent of the respondents believed that a work-permit system should be reintroduced for migrants from Central and Eastern Europe.

Sweden is the only EU-15 country that guarantees migrants equal access to its welfare system. Residence permits issued in 2005 indicated that the number of jobseekers from CEE was less than 20,000. According to Eurobarometer 65, only 7 percent of the Swedish population considers migration as a significant issue facing the country.

## THE NEXT PHASE: REGULATIONS IN THE 2006-2009 PERIOD

The 15 older EU member states had to make a decision by 1 May 2006 whether or not to change labor market regulations with respect to the new CEE members. Greece, Finland, Portugal, and Spain canceled all restrictions thus joining Ireland, Sweden, and the UK. Other countries, such as Belgium, Denmark, Luxembourg, and France decided to open up their labor markets gradually, easing restrictions in certain sectors or occupations according to the need for new labor. These countries plan to phase out restrictions over the next three years. Austria, Germany, Italy and the Netherlands kept their doors closed to the eight new CEE member states.

Austria and Germany have insisted on the work permit system and have continued to apply certain quotas for CEE nationals through bilateral agreements. Although Italy doubled its quota for foreign workers from 75,000 to 150,000, statistics show that not even the original quota was reached. The Dutch government initially proposed to open its labor market from 1 January 2007 but ardent resistance from the Parliament forced a revision of the proposal. The new decision is expected by the end of 2006.

From 2009 only those countries that are able to prove that there is a real threat to their labor market stability can keep their markets closed. Most likely, Germany and Austria will take advantage of the two-year prolongation.

### EXPECTATIONS CONCERNING THE NEXT ENLARGEMENT WAVE

The latest EUROBAROMETER survey of the European Commission ("The Future of Europe") pointed out that 63 percent of EU-25 citizens agree that further EU enlargement would increase problems in their own national job markets. Sixty-six percent of the Irish and 64 percent of the British population associated themselves with this statement, whereas Sweden was below the EU average. Cyprus, Germany, and Austria were at the top of the list. According to the Institute for Public Policy Research (IPPR), roughly 41,000 Romanian and 15,000 Bulgarian workers are expected to arrive in the UK in the first year of accession. The calculation is derived from comparison with the migrant population of the eight CEE countries into the UK. The IPPR report also concludes that these workers will be "young, flexible and short-term migrants who will return home with financial and knowledge

capital which will, in part, improve their native economies and reduce the incentive to migrate." However, a Migration Watch survey made different predictions. Based on the correlation of GDP per capita in the home countries and migration numbers, the study predicted that altogether 300,000 new migrants will arrive in the UK in the first 20 months of accession.

Despite the positive evaluation of the UK Department of Work and Pensions regarding past experience, former UK Home Secretary Charles Clarke has indicated that the British government might apply some restrictions on the newcomers. Similarly, Irish Prime Minister Bertie Ahern hinted at a change of policy: Ireland plans to introduce a work-permit system for the citizens of Bulgaria and Romania. The two countries scheduled to join the EU in January 2007.

FACING THE NEW EU MEMBER STATES: LABOR MARKET MEASURES BETWEEN 2006-2009	
<b>Austria</b>	<b>Full restrictions</b>
<b>Belgium</b>	<b>Restrictions gradually lifted</b>
<b>Denmark</b>	<b>Restrictions gradually lifted</b>
<b>Finland</b>	<b>No restrictions</b>
<b>France</b>	<b>Restrictions gradually lifted</b>
<b>Germany</b>	<b>Full restrictions</b>
<b>Greece</b>	<b>No restrictions</b>
<b>Ireland</b>	<b>No restrictions</b>
<b>Italy</b>	<b>Full restrictions</b>
<b>Luxembourg</b>	<b>Easing restrictions</b>
<b>Netherlands</b>	<b>Full restrictions (at least until January 2007)</b>
<b>Portugal</b>	<b>No restrictions</b>
<b>Spain</b>	<b>No restrictions</b>
<b>Sweden</b>	<b>No restrictions</b>
<b>United Kingdom</b>	<b>No restrictions</b>

Source: European Commission, MEMO/06/176

### CONCLUSION

Although studies have demonstrated that the UK and Irish economies have benefited from migrant labor, popular opinion has favored a higher level of control of the labor market. Local populations fear that CEE migrants will take jobs and indigenous salaries will be reduced as a result of the influx of cheaper labor. These fears are wide-spread.

However, empirical studies, such as the Working Paper No. 29 from the UK Department of Work and Pensions, show that public concerns regarding higher unemployment rates are unwarranted. Migrant workers primarily work in sectors with significant labor shortages, such as agriculture, construction, and the hotel industry. Surveys verify that migrant workers take hard-to-fill jobs that are unpopular among nationals. For example, in France there are four mil-

lion persons registered as unemployed, but at the same time there are 250,000 job vacancies.

Governments must take into consideration the positive consequences originating from the presence of migrant workers, including filling unwanted or unattractive jobs and boosting GDP growth. Migrant workers from the CEE also offer a solution to the complex problems of the aging West European populations.

With regard to the free movement of labor within the EU, it seems that EU-15 governments prioritize their decision-making based on short-term political gains and popularity rather than long-term economic growth. If Ireland and the United Kingdom, two countries with high productivity rates, abandon their open door policies ahead of the next round of enlargement, how can we expect other EU member states to introduce a more flexible approach.