Socio-economic Effects of the Labor Force Migration in an Enlarged Europe∗

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Abstract

The enlargement of the European Union and the liberalization of labor force movement to Europe increase greatly the migration towards the developed countries. This phenomenon affects the economic growth both on short and long term.

The ascending trend of migration began in the mid nineties and continued after 2000. The data between 2002 and 2005 indicate a quasi-slowdown tendency. This paper aims to estimate some effects of migration flows on both the origin countries and the host countries in an enlarged Europe.

Having in mind the enlargement, the Romanian out-migration represents a sensitive subject, adding to those of commercial and the capital flows, the main mechanism of European integration. The migration from and to Romania will have an effect on the Romanian economy on short and long term.

Key words: work force mobility, free movement of labor force, economic impact, brain drain.

JEL Classification: F02, J6, J21, J60, J61

In 1849, Victor Hugo said, “A day will come when all nations of this continent, without losing their distinctive features and their glorious individuality, will merge and form the European brotherhood. A day will come when there will be no battlefields other than


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the spiritual ones. A day will come when bullets and bombs will be replaced with votes.” It took over a century for these utopic predictions to become reality.

The enlargement of the Europe Union up to 25 members - the historical step taken on May 1st, 2004, - made a final reconciliation between history and geography, as suggested by a politician from a member state. Between 2007 and 2015, the EU should experience new enlargements, first with Romania and Bulgaria, already achieved on January 1st, 2007, followed by Turkey and Croatia, after some criteria will be fulfilled.

A large EU belongs to a world in constant and quick-change process, which requires a new stability. Europe is affected by events in other continents, whether that it is the religious extremism from the Islamic world, the diseases in Africa, the totalitarian tendencies in Latin America, the increase in population in Asia or the global tendencies of industrial and professional reorientation. In this situation, Europe must focus not only on a self-development, but also must be a part of the globalization process. Although some remarkable results were obtained in commercial policies, EU has a long way to make before one can say it is “only one voice” or it is a powerful actor in world politics.

EU enlargement and, at the same time, free movement of labor force lead to a substantial increase in the migration flows. This phenomenon has an effect on economic growth on long and short term.

After the fall of the communist regimes it was easy to notice a fast growth of labour flows from Central Europe and from the East to West, especially for of economic reasons. The new conditions had permitted the workforce mobility to areas with high wages and small unemployment.

Through the Amsterdam Treaty (1999), a political solution emerged to continue the progress in the free movement area, including The Schengen Agreement in the EU Treaty.

In “On a Community Immigration Policy” published by the European Commission in November 2000, one clearly identifies the pressure towards the changes which impose the revision of immigration policies.

In this context, in the specialized literature (Bauer and Zimmerman (1999), Borjas (1999b), Boeri and Brucker (2000), Fidrmuc (2002), Fidrmuc and Huber (2002), Drinkwater (2002), Kallai (2003), Hazans (2003), Huber (2003)), a series of questions were revealed:

- How is the mobility in the countries that joined EU15 and what kind of geographic expansion can have the mobility based on economic interest? ;
- What groups of population had the most increased mobility in the past? ;
- How large may the flows be in East to West after joining the EU; which is the composition of this migration flows from the professional point of view?;
- What will be the effects of the post-accession migration upon the labor market in the EU countries? After the new countries joined EU15, has the danger of unemployment in the EU15 increased? Will the danger of “brain drain” increase or will a labor crisis appear the new members?
More than a decade ago, Layard and others (1992) predicted that minimum 3% of Central and Eastern countries population will emigrate in the next 15 years after the enlargement. In 1999, Bauer and Zimmerman said that, on long term, the migration rate would be 2-3% of the population of the new members. The expectations of Boeri and Brucker, in 2000, over the dimension of post-enlargement migration flows showed a number of 335000 people per year in the first stages of enlargement, dropping to 150000 in 2010. This will lead to an increase in the number of residents from Central and Eastern countries in EU15, from 850000 in 1998 to 2.9 mill. around the year 2010, to 3.7 mill. around 2020 and to 3.9 in approximately 30 years after the introduction of free movement. These values show that on long term, approximately 3% of the Central and Eastern countries’ population will migrate. Each one of these scenarios shows that migration can have a major impact on the labor force markets in the newly joined countries but also on the EU15.

The evolution of migration flows in Central and Eastern Europe

The fall of communist regimes generated a growth in the migration flows from the Central and Eastern countries to the Western countries, for economic reasons. An important characteristic of the Central and Eastern countries’ migration is the repatriation of ethnic minorities. The most important ethnic move was that of Germans from Poland, Hungary and of those from former Soviet areas to Germany. The ethnic conflicts from various regions continued to be the source of migration today and in the near future. At the moment, most of the Central and Eastern countries are considered stable and for that reason the asylum requests from these countries were rejected, which meant a decrease in the people migrating towards Western Europe, but determined an increase in the temporary migrations.

The Central and Eastern countries modified their national codes in order to allow the former citizens to return to their native country. The research shows that this type of migration takes place at a regional level. The migration flows from Hungary, Kazakhstan, and Siberia to Poland; from the Baltic States to Russia; from Russia and Estonia to Finland, can be described as “ethnic return”.

For a progressive development of an EU policy in the economic migration area, collaboration was started between the EU organizations, member states, candidate countries, and the civil society in order to ensure finding optimal solutions to administrate the migration flows that take place at the EU level. As a result of the debates and conclusions of the European Council of June 2003, the European Commission adopted, in January 2005, the Green Book regarding the administration of economic migration to EU. With this document, a first step was made towards a single legal framework at EU level in this area, starting with two new European constructions:

i) The Union will develop a common immigration policy, having in mind the purpose of an efficient management of migration flows at every level.

ii) Defining a common immigration policy must not affect the right of the countries to determine the volume of entries on labor market of citizens from a third country.
In a first stage they identified the causes that impose a quicker approval and a change in the policies promoted in this field of activity, among which we find:

a) The impact of demographic decline and population ageing all over the economy;

b) The important demand for labor force in EU (satisfying the national economy needs) and the impact of immigration upon the entrepreneur;

c) The creation of a legal framework for this phenomenon;

d) The necessity of a legal base for all the rights and obligations of all the people working abroad;

e) Ensuring the best practices to manage the economic migration;

f) The achievement of the necessary framework to implement the Lisbon strategy.

The next stage was the counting of the main principles regarding the administration of economic migration, in connection with:

a) The adoption of a legislation that settles some common definitions, criteria and procedures, letting the member states satisfy the specific needs of their markets instead of quickly formulating set of common rules to allow migrants with some jobs and skills, in order to avoid the competition between the member states in connection to recruiting some working categories;

b) The employment of workers from other countries based upon the evidence that the vacant job was not taken by any worker from the internal workforce market as against the employment upon quick procedure (the green card) in the case of workers with high levels of qualifications from a certain area or field where there is already workforce shortage;

c) Choosing the national labor force market instead of EU labor force market;

d) Systems of admission based on existing vacant workplace against flexible systems (green card) which allows to fill the demand on the national market on medium and long term – economic demands, the existences of a specific job – and also the existence of a single selection system at the EU level (organizing some work fairs based on EURES services);

e) Procedures of hiring on its own, promoting some sectors of activities or establishing some access conditions;

f) Solving the request for work and living permits with one nation-wide application which allows combining the residency and work permit against the possibility of handing one request for work permit and residency in concordance with national rules;

g) Clarifying the legal situation of every migrating worker, ensuring the equality of treatment between them and the EU citizens right before obtaining the right to long staying;

h) Administrating the migration phenomenon on integration segment or returning to the origin country by cooperation between the departure and destination country of migrating workers and also the cooperation with third countries in order to ease the legal migration.

Regarding the free movement of workforce, the EU requested all candidate countries, including Romania, a transition period of 2-7 years, after entering the union, offering in exchange: the member states will continue to apply the national measure for a 2 year period after the accession joining regarding the right to work of citizens from the new
member state. This period of time can be extended by another 3 years – depending on a previous evaluation – and by another 2 years in case of severe deviations on the local market of the new member.

The EU political-social agenda bears in mind more favorable conditions for migrating workers, the European Commission talking about modifying the actual transition periods settled by the UE15 for the new members.

The 1st of May, 2004, the moment when 10 new members from Central and Eastern Europe joined the EU, generated fears among the EU15 countries, which saw a threat in a workforce exodus from these new countries. As a result, the member states announced restrictions on workforce migration from the new member states.

Since the EU enlargement, a rise was registered in connection with the numbers of workers from new countries to the EU 15 member states. Although, despite this rise, the relative impact, measured through the number of work permit issued as compared to the population able to work from host countries is quite limited. In the first quarter of 2005, the average population able to work from the new member states in EU15 was low, only 0.1% in France and the Netherlands, 1.4% in Austria and 2% in Ireland.

For Austria, Germany, the Netherlands, Italy, France the statistics show the fact that a significant percentage of work permit is given for short periods of time (6 month – 1 year).

The restrictive measures lead to reaction from the new member states, which see their one fundamental right affected, one that came by joining the union. The new member states wished a complete and immediate opening of movement of workforce in the EU, but a step by step mechanism was established. The member states tried to establish a bilateral relation in order to obtain an advantage over this mechanism.

Romania is interested in continuing the bilateral agreements regarding the movement of workforce. Imposing a transition period to the new member states could be an extra barrier for the EU investors who desire to come to Romania. The EU enlargement will probably lead, at least in the first years after the accession to an increase in the active population, who will be looking for a workplace in more developed countries. It is expected that the EU member status would produce a migration flow from undeveloped countries to our country and not only. The experience of all the countries that joined the EU in 2004 showed that there were high values of migrating workers from Eastern Europe. It is possible to increase the interest of foreign investors in Romania, which will determine many opportunities on the workforce market, having as a result a low unemployment.

Socio-political impact of migration

Mobility/people movement and, especially workforce movement, can influence in a different way the quality of human capital of the origin country/region, but also of the destination country.

Measuring the socio-political impact of migration in the country of origin and that of host country is a complex process which implies knowing both the costs and benefits at individual level, local, national and international level of migration and the analyzing the world conjuncture in which this process takes place.
For the origin country, “the negative effect of migration/movement” has different dimensions and structures according to age, gender, professional level:

i) losing the investments made in education and training for migration and emigration;
ii) losing the state contribution represented by taxes that these categories must pay;
iii) a decrease in the highly trained personnel and, as a result, the increase in the medium and low trained personal, which is not leading to a strong base for a country’s growth.

Regarding the “positive effects” of migration on the origin country, these could be:

i) reducing the unemployment rate and a decrease in pressure on workforce market and social spending from the budget;
ii) money transfers of migrants. These became an external source for financing the budget – it is known the fact that money transfer or goods of migrations shipped through various ways into origin countries can have various implications over the evolution of the host country. Many studies show that the money transfers are used in the origin country for households spending, for construction of new houses and for consumption. These transfers have an impact both on a micro and macroeconomic level, affecting the macroeconomic management, workforce involvement, education and health, income distribution, etc.
iii) keeping the link between diaspora and the origin country. Communities outside the origin country can represent an important source and a facilitating factor for research and innovation, for technology transfer and growth. To involve the diasporas in the economic growth of origin countries can be done by some agreements in order to allow technology transfer and new knowledge and know-how between firms owned or managed by the diaspora in the host countries and firms from the origin countries, by direct investments, the creation of scientific or professional receipt to transmit the new results of researches from the host countries to the origin countries, mainly through a definitive return of workers in the origin countries, etc.

The movement between the new member states and EU15 can have positive effects over the workforce market using a replacement with workforce from other areas. Can be created new workplaces, for instance, in construction, in cleaning services sector, in catering, which otherwise might be left vacant. Highly trained workers form the new member states can contribute to produce business and economic growth on long term, trough the accumulation of human capital.

On the member states there is statistical information available and significant for the main indicator - employment rate. This shows that the citizens of the new member states tend to have the same employment rate as the citizens of the respective country. Sometimes, these are higher than those of the respective country citizens (in Ireland, the citizens from EU10 have higher employment rate than the locals). Thus, we can say that the citizens of the new member states made an important contribution in every member state in improving the performance or workforce market, at sustained economic growth and the structure of public finances.

After the EU enlargement, the employment rate from new member states of the EU15 grew, in certain cases, even substantially, a fact explained by:
i) The EU enlargement contributed to bringing to surface a part of the black economy, made from not declared work of workers from new members. This means, also, that intensifying the movement of workforce from EU, because EU enlargement can be, in reality, smaller than the data shows.

ii) After EU enlargement, a real improvement took place for the citizens of the new member states, because of the employers and their attitudes, more opportunities for a private business, a better information system and settlement.

For Romania, the evolution of different activities employment was conflicting, because a lot of labour resources were directed to sectors with little efficiency – agriculture and industry. The most important problems regarding the workforce structure in Romania as compared to the EU15 or EU25 are: i) The high but slightly decreasing employment of the population in agriculture starting in 2000 (31.6% in 2004, more than eight times the EU average); ii) The high but slightly decreasing employment of the population in services (approximately half of the employed in this sector in EU); iii) The decrease in the population employed in industry, but it is above the EU average, namely 18.1% iv) Weak movement of workforce form agriculture and industry towards the service sector.

In Romania there is a “low workforce cost”, which influences the place of intensive activities in using this production factor (Figure 1). Low level of high tech of the Romanian economy leads to a low labour productivity for the new members, which affects some of the advantage of low wages.

The relative levels of workforce hourly costs

(EU15=100, (%))


The analysis of statistical data regarding the population migration in Romania shows a difficult situation. If at the beginning of 1990 the Romania’s population amounted to 23
mill. people, in the last 17 years the number dropped dramatically. The most recent statistical data show that the number of Romanians decreased to 21.62 mill. on July 1st, 2005. Between 2002 and 2005, according to the NIS (Statistical Yearbook of Romanian 2005 and Romania in Figures-2006), the Romanian population dropped by approximately 170944 persons.

After the burst of migration flow from the 1990's, the number of emigrants dropped bit by bit until it became insignificant (6154 persons in 2002 – 6 time less than in 1991 – then the trend became ascendant once more, in 2004, 13082 persons (Figure 2)).

The evolution of the emigrants' number according to gender

The evolution of the emigrants' number according to age

Most of the persons that emigrated were from the category able to work, mostly young people and young families, migrations in this period having an economic motivation (Figure 3). Also, it is important the number of ethnic minorities who left the country in this period (Germans 16.13%, of which 0.85% in 2005 and Hungarians 11.13%, of which 4.2% in 2005), see Figure 4.

**Figure 4**

The evolution of the emigrants' number according to nationality

![Graph showing the evolution of the emigrants' number according to nationality from 1991 to 2005.](image)


According to the WIO, a characteristic of the Romanian is the fact that they have, on short term, a high tendency to travel in order to find a workplace. Also, the Romanian have the highest tendency to migrate for medium and long periods of time (a few years) as compared to other countries from Central and Eastern Europe. But, this thing has repercussions over some national economy sectors, in which the lack of workforce is felt. For example, in constructions, one of the most affected by the labour migration and by the lack of trained personal, like carpenters, reinforced steel-concrete workers; the data from NIS show that the value of constructions increases year by year, and an important part is held by the new constructions. Furthermore, in January 2006 (in principal a no activity season in constructions), the value of urban equipment rose by almost 20% in comparison to the same month of 2005. These figures prove the constructions growth, but also the request for a specific workforce. Around 200,000 Romanian construction workers found a comfortable workplace in Spain and Italy, paid with 800-1000 euros, several times more than in Romania. In 2006, the number of persons working abroad legally, was above 2 mill., or more than
half of the workforce still in Romania – around 4.5 mill. persons. This number is higher if one adds the illegal workers, exceeding 1 mill. Among them, 30% are working in constructions and forestry and 40% in textiles and clothing industries.

Joining the EU implies for Romania that most of the commercial barriers, direct foreign investments and other forms of capital movement are eliminated. Because free movement of workers is one of the four fundamental freedoms (movement of goods, services, capital and workforce) stipulated in juridical EU papers, joining the EU will lead to a fundamental transformation of the migration regime of the Romanian citizens to EU members states (freedom of work, right of residences, equal treatment).

The analysis of the migration flows effects on Romania in the context of EU enlargement means to have all the economic dimensions of an EU member and that should be done in an analysis about general equilibrium, which contains the freedom of trade, workforce and capital flows.

In the context of the enlargement, the migration from Romania represents a sensitive subject, being, next to trade and capital, the most important mechanism of the European integration.

Migration/emigration from Romania will have effects on national economy both on short, medium and long term:

- **On short and medium term**, the emigration will affect:
  
i) the availability of workforce and thus will influence the wages and employment;
  
ii) the workforce market through the modification of distribution at regional and sector level of workforce and the relativity of production distribution;
  
iii) the money transfers of the Romanian migrants towards the country will influence their origin regions;
  
iv) the decrease in the financial contributions, because of the decrease in the number of persons from a community and the existence of some effects at the public transfer level;
  
v) possible modification in population structure and the alteration of exchange terms because of workforce availability in Romania.

- **On long term** the emigration effects on the Romanian economy are difficult to anticipate: from a neo-classical point of view, the migration can be considered just to be an instrument which contributes to a convergence of the integrated economies. On the other hand, migration can be considered as a phenomenon which leads to an increase in development and growth among countries, in the way that the less developed location will lose many production factors.

If the EU countries continue to attract human capital from Romania, then their economies will evolve faster, and the Romanian economy will lag behind. As a conclusion, on long term the EU’s and the Romania’s economic growth will have different configuration.

The economic growth of Romania in post-integration phase and receiving the title of “UE member” will be influenced by migration flows through exits of human capital, due to the emigration of the highly trained people (brain migration) and returning financial
flow associated with migration, which means the amounts sent in Romania by the emigrants.

Regarding the brain migration, the analysis, conducted on the basis of data from the European Inquiry on Labor Force and Eurostat, indicates the existence of this phenomenon, but at a small level – less than 0.6%. In the context of the Romanian accession to the EU and of free movement, it is possible that the dimension of migration flows increase. Taking into account the paper of Robert E. Luca (1998), where education is considered as a determinant factor of the economic growth on long term, the emigration of highly professional skilled persons – brain migration – has a negative impact on the origin country.

In the post-accession period it is expected that the number of people working abroad will increase, with the condition that EU states to promote an openness policy. The most member countries had promoted or would promote, probably, a selective policy, favorable to two categories of labor force: specialists, with highly qualifications and workers who would accept uncomely jobs, already refused by local labor force.

Due to the brain migration, it is not excluded that the professional level of the local labor force become inferior to the expected one. This situation caused the diminution in creative and productive potential at the national level. Thus, the Romanian capacity to reduce the productivity, competitiveness and income lag as against EU countries is negatively influenced. The external labor migration has a positive effect on destination country, both directly (through the contribution of foreign workers) and indirectly (through the income taxes paid to the host country). Also, this determines a decrease in the national production in the origin country. In Van der Putten (2002) paper is shown that, in the context of Romania’s accession to the European structures, the production decrease might be higher than 3%.

At the 5th Congress of the General Association of Romanian Economists (AGER), on 2nd July, 2006, it had been pointed out that the percentage of the Romanian public expenditures regarding education was 3.9% of GDP, a level smaller than the average of 5.4% in the EU27 countries. The migration of Romanian brains, where the wages are 50% higher, generates high risks for performance and competitiveness. A special attention should be paid to intellectuals with high education, who benefit in western countries of more opportunities for professional success (researchers, physicians, professors, etc.) Their international experience could be a major opportunity for Romania’s economic-social development, only if this productive and creative potential is used for the country’s benefit. Otherwise, Romania loses the investment in the people’s education who immigrate, and destination countries benefit of human resource already qualified and competent.
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