

# SOME SOCIO-ECONOMIC EFFECTS OF 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 migration to developed countries. This phenomenon affects the economic growth both on short and long term. The ascendant trend of migration began by the mid-nineties and continued after 2000. The data between 2002 and 2009 indicate a quasi-slow down tendency. This paper intends to estimate some effects of migration flows over both origin and host countries in an enlarged Europe. Capital, financial and labor flows are the main mechanisms of European integration that should be borne in mind with respect to south-eastern enlargement, implicitly the migration from Romania which represents a sensitive subjects added to the aforementioned. The migration and emigration from and to Romania will have effects on the Romanian economy on short and long term.*

**Keywords:** work force mobility, free movement of labor force, economic impact, brains exodus

**JEL** F02, J6, J21, J60, J61

## Introduction

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 more battlefields, others then the spiritual ones. A day will come when bullets and bombs will be replaced with votes.*" It took over a century for this utopist predictions to become reality.

The enlargement of the European Union, to 25 members - the historic step of May 1st 2004 - made a final reconciliation between history and geography, as suggested by a politician from a member state. Between 2007-2015, the EU should undergo a new enlargement: first were Romania and Bulgaria, countries accessing the European Union on January 1st 2007, and both shall be followed by Turkey and Croatia, after the latter countries will meet some of the criteria.

The enlarged EU belongs to a world in constant and quick-change process, reason for which a new stability is required. Europe is affected by the events form other continents, no matter whether it is the religious extremism of the Islamic world, the diseases form Africa, the totalitarian tendencies of Latin America, the increase of population in Asia or the global tendencies of industrial and professional reorientation. In these circumstances, Europe must focus not only on self-development, but also should/must be a part of the globalization process. Although some remarkable outcomes were obtained in commercial politics, EU has a long road ahead before it may be said that Europe has "only one voice" or that it is a powerful actor in world politics.

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

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

By the Amsterdam Treaty (1999) a political solution was found for continuing the progress towards the free movement area, including here The Schengen Agreement to the EU Treaty.

In "On a Community Immigration Policy" published by the European Commission in November 2000, the pressures were clearly identified about the changes which imposed the revision of immigration policies.

In this context, 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)), posed a set of questions:

- How is the mobility in the countries that joined EU15 and what kinds of geographic expansion can have mobility based on economic interest? ;
- What groups of population had the most increased mobility in the past?;
- How high can be the flows from East to West after joining the EU; which is the composition of this migration flows from the professional viewpoint?;
- What will be the effects of the post-joining migration on the labor market in the EU countries? After the new countries joined EU15, did the danger of unemployment in EU15 increase? The danger of "brains export" will increase or a labor crisis will appear in the new joined countries?

By over a decade ago, Layard and others (1992) predicted that a minimum of 3% of the Central and Eastern European 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 new joined countries. The expectations formed by 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 at 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 mil around the year 2010, to 3.7 mil around 2020 and 3.9 in approximately 30 years as of the introduction of free movement. These values show that on long term, approximately 3% of Central and Eastern countries population will migrate. Each of these scenarios shows that migration can have a major impact on labor force markets in the newly joined countries but also for the EU15.

### **The evolution of migration flows in Central and Eastern Europe**

The fall of communist regimes generated a growth of migration flows from the Central and Eastern countries to western countries, for economic reasons.

An important characteristic of 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 continue to be the source of migration for today and the near future. At the moment, most of Central and Eastern countries are regarded as stable and therefore asylum requests from this countries were rejected, a fact which meant a decrease of people migrating towards Western Europe, but which determined an increase of temporary migrations.

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

For the progressive development of an EU policy in the economic migration area, collaboration was initiated between EU organizations, member states, candidates' countries, and the civil society in order to ensure finding optimal solutions to manage migration flows taking place at EU level. As result of debates and based on the conclusions of the European Council from 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 unique legal framework at EU level in this area, starting from 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 doesn't have to affect the right of the countries to determine the volume of entries on the workforce market of citizens from a third country.

In a first stage were identified the causes that impose a quicker approval, respectively a change, of policies promoted in this field of activity, among which:

- a) The impact of demographic decline and ageing across the economy;
- b) The significant demand of labor force in the EU (satisfying the national economy needs) and the impact of immigration on the entrepreneurs;
- c) The creation of a legal framework for this phenomenon;
- d) The necessity of a legal base for all rights and obligations for all the people working abroad;
- e) Ensuring best practices for managing economic migration;
- f) The realization of the necessary framework to implement the Lisbon strategy.

The next stage was substantiating the main principle about managing economic migration, in relationship with:

- a) Drawing up legislation that settles some common definitions, criteria and procedures, by leaving up to the member states to answer the specific needs of their markets against setting up a quick set of common rules to allow migrants with some jobs and skills, in order to avoid competition between the member states in connection to recruiting some working categories;
- b) The employment of workers from third party countries based upon the evidence that the vacant job was not taken by any worker from the internal workforce market against the employment based on 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 a lack of workforce;
- c) Choosing the national labor force market against EU labor force market;
- d) Systems of admission based on existing vacant workplaces against flexible systems (green card) which allow to fill the demand on the national market on medium and long term – economic demands, the existence of a specific job – and also of a unique selection system at EU level (organizing some work fairs based on EURES services);
- e) Procedures of hiring on its own, promoting some sectors of activity or establishing some accessing conditions;
- f) Solving the request for work and living permit with one nation wide application which allows for combining the residency and work permits against the possibility of hand in one requests for work permits and residency in accordance 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 live and work against the clear difference of right in connection with the time duration of live and work;
- h) Administrating the migration phenomenon on the integration segment or the return to the origin country by cooperation between the departure and destination country of migrating workers and also the cooperation with third party countries in order to ease the legal migration.

Regarding the free movement of workforce, 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 joining regarding the right to work of citizens from the new member state*. This period of time can be extended with another 3 years – depending on previous evaluation – and yet with another 2 years in case of severe deviations on 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.

May 1<sup>st</sup> 2004, the moment when 10 new members from Central and Eastern Europe accessed EU, generated fears among the EU15, who 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 into EU 15 member states. Nevertheless, despite the rise, the relative impact is quite limited if measured by the number of work permits issued in comparison with the population able to work from host countries. 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 Netherlands, 1.4% in Austria and 2% in Ireland.

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

The restrictive measures lead to reactions from the New Member States, which see one of their fundamental rights affected, one that came by joining the union. The New Member States aimed for complete and immediate opening of movement for workforce into EU, but a step by step mechanism was established. The member states attempted to establish bilateral relations in order to obtain advantages 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 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 of active population looking for a workplace in more developed countries. It should be expected that the status of EU member will generate a migration flow from undeveloped countries to our country and not only. The experience of all the countries that accessed the EU in 2004 and 2007, showed that there were high values of migrating workers from Eastern Europe.

### **Socio-political impact of migration**

Mobility/ people movement and especially of workforce movement can influence in different ways the quality of the 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 in the host country is a complex process which implies knowing both the costs and benefits at individual, local, national and international level for migration and to analyze the world conjuncture in which this process takes place.

For the origin country, “*the negative effect of migration/movement phenomenon*” has different dimensions and structures according to age, sex, and professional level:

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

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

- a) reducing the unemployment rate and decreasing the pressure on work force market and social spending from the budget;

- b) money transfers of migrations. These became an external source for financing the budget - it's a known fact that money or goods transfers of migrants shipped through various ways into origin countries can have various implications on the evolution of the host country. Many studies show that money transfers are used in the origin country for households' spending, for new houses

constructions and consumption. These transfers have an impact both at the micro level - households – and the macroeconomic one, affecting the macroeconomic management, workforce involvement, education and health, income distribution etc.

c) creating connections between Diasporas and the origin country. Communities outside the origin country can represent an important source and facilitating factor for research and innovation, for technology transfer and growth. To involve the diasporas in the economic growth of origin countries can be achieved by some agreements in order to allow for technology, new knowledge and know-how transfer between firms owned or managed by the diasporas in host countries and firms from the origin countries, by direct investments, the creation of scientific or professional exchanges to disseminate new research results from 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 on the workforce market by replacement with workforce from other areas. Hence, new workplaces can be created, for instance, in constructions, in the cleaning services' sector, in catering, which otherwise could be left vacant. Highly trained workers from the New Member States can contribute to generate business and economic growth on long term, through the accumulation of human capital.

For Member States statistical and significant information is available for the main indicator - employment rate. This indicator shows the fact that citizens' from 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's citizens (in Ireland, the citizens from EU10 have a higher employment rate than the locals). So, we can say that the citizens of New Member States have an important contribution in each Member State at improving the performance on the workforce market, at the sustained economic growth and the structure of public finances.

After the EU enlargement, the employment rate of the New Member States in the EU15 grew, in certain cases, even substantially, a fact explained by:

- the EU enlargement contributed to bringing to surface a part of the black economy, made by undeclared work by workers from new members. This means, also, intensifying the movement of workforce **within the EU**, because EU enlargement can be, in reality, smaller than the data shows;
- after EU enlargement a real improvement took place for the citizens of new member countries, due to employers and their attitudes, to more opportunities for private business, a better information system and settlement.

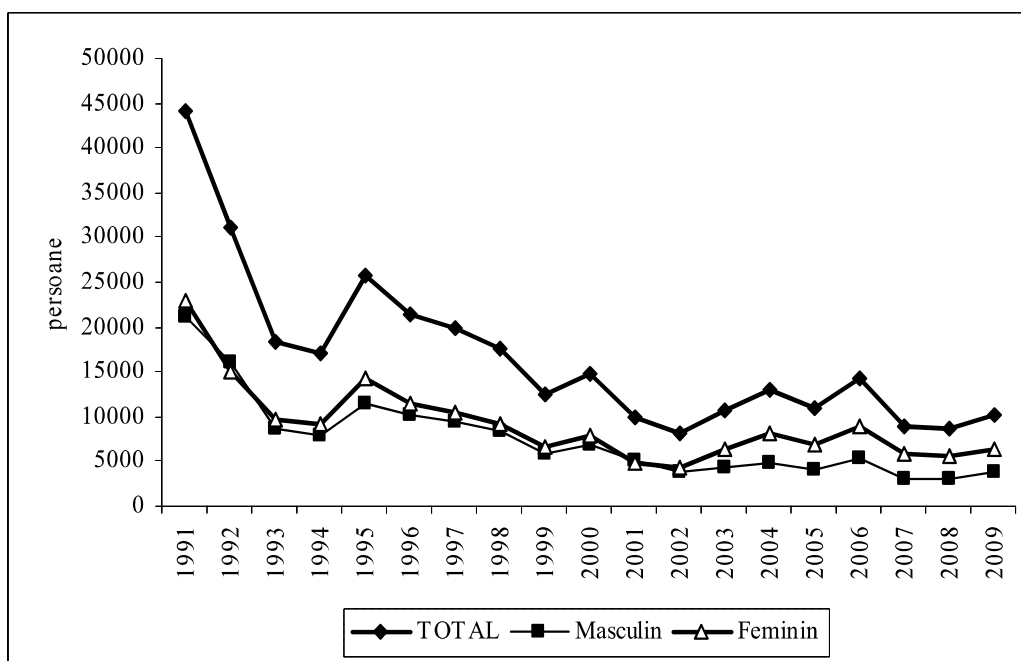
For **Romania**, the evolution of employment in different activities was conflicting, because a lot of work resources were directed to sectors with little efficiency – agriculture and industry. The most important issues regarding the workforce structure in Romania compared to EU15 or EU25 are: i) the high yet slightly decreasing employment of the population in agriculture starting with the year 2000; ii) the high but nevertheless slightly decreasing employment of the population in services, including here for agriculture (approximately half of the ones employed in this sector at EU level); iii) the decrease of population employed in industry, but still above the EU average 18.1% iv) weak movement of workforce from agriculture and industry towards the services' sector.

In Romania, the "low workforce cost" influences the position of intensive activities in their use of this production factor. The low level of high-tech within the Romanian economy leads to low work productivity for all new members, which affects some of the advantages of low wages.

The analysis of statistical data regarding the population migration from Romania shows a difficult situation. If at the beginning of 1990 the Romanian population was of 23 mil people, in the last 20 years the number dropped dramatically. The most recent statistical data shows that the number of Romanians has decreased to 21.47 millions by July 1<sup>st</sup> 2009. Between the years 2002-2009, according to NIS (Statistical Yearbook of Romanian 2010), the Romanian population dropped by approximately 211015 persons.

After the migration flow boom from 1990 the number of emigrants dropped bit by bit until it became insignificant (14197 persons in 2006 – 3 time less then 1991 – then the trend became descendant again, in 2007, 8830 persons, and ascendant until 2009- 10211 persons (figure 1)).

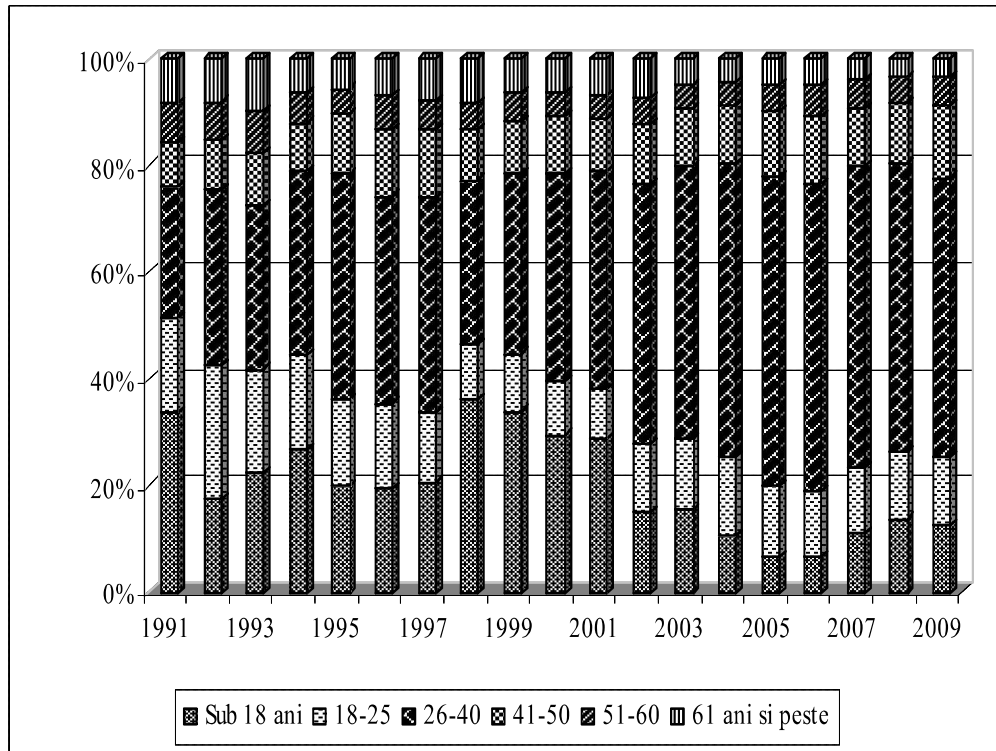
Figure 1 *The evolution of emigrants' number according to sex*



Data source: *Romanian Statistical Yearbook*, 1997-2010, (NIS)

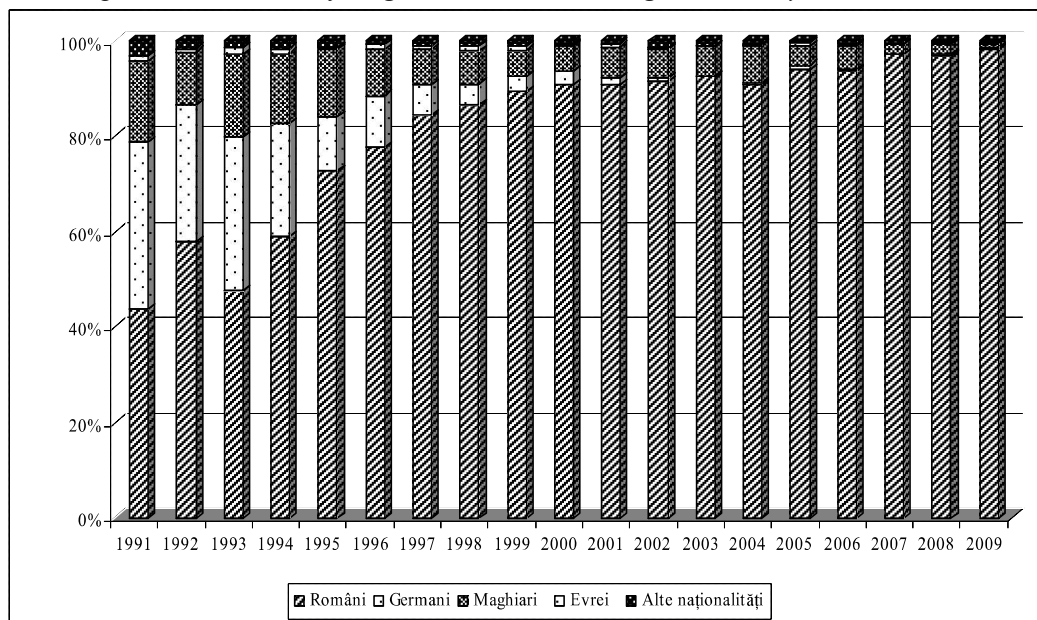
Most of the persons that emigrated are from the able to work category, mostly young and young families, and migrations in this period had and continue to have economic motivation (figure 2).

Figure 2 The evolution of emigrants' number according to age



Data source: *Romanian Statistical Yearbook*, 1997-2009, (NIS)

Also the numbers of ethnic minorities who left the county are significant for this period (Germans 13.5%, of which 0.015% in 2009 and Hungarians 9.8% of which 1.0% in 2009), figure 3.

Figure 3 *The evolution of emigrants' number according to nationality*

Data source: *Romanian Statistical Yearbook, 1997-20099, (NIS)*

According to WIO, a characteristic of Romanians is the fact that they have, on short term, a high tendency to travel in order to find a work place. Also the Romanians have the highest tendency to migrate for medium and long periods of time (a few years) compared to the other countries from Central and Eastern Europe. But this fact has repercussions for some national economy sectors, in which the lack of workforce is felt. For instance, in constructions, one of the most affected sectors because of work migration, the lack of trained personal, like carpenters, reinforced steel-concrete workers is worrisome; the data from NIS show that the value of constructions increases year by year, and an important part is held by new constructions. These figures prove the construction rate but also the demand for a specific workforce. Around 200,000 Romanian construction workers found a comfortable workplace in Spain and Italy, paid with 800-1000 euro, several times more than in Romania. For instance, in 2006 the number of persons working abroad, with legal forms, was above 2 mil, or more than half of workforce still in Romania – around 4.5 mil persons. This number is bigger if you add the workers without legal forms, in numbers of over 1 mil. Out of these 30% are working in constructions and forestry and 40% in textiles and confections.

Joining the EU implied for Romania the elimination of most commercial barriers, but also direct foreign investments and other forms of capital movement. Because free movement of workers is one of the four fundamental freedoms (movement of goods, services, capital and work force) stipulated in legal EU documents, joining the EU has as outcome a fundamental change of the migration regime for Romanian citizens to EU Members States (freedom of work, right of residence, equal treatment).

**The analysis of migration flows' effects from Romanian in the context of EU enlargement** means acquiring all economic dimensions of an EU member and that should be done by gaining the general equilibrium which contains the freedom of commercial, workforce, and capital flows.



In the context of enlargement the migration from Romania represents a sensitive subject, as it is, next to commercial and capital flows one of the most important mechanisms of European integration.

Migration/emigration from Romania will have effects on the national economy 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 *wedges/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) money transfers of Romanian migrants in the country will influence the emigration regions,
- iv) the decrease of financial contributions because of the decreasing number of persons from the respective community and the existence of some effects at public transfer level,
- v) possible modification in the population structure and the alteration of the exchange terms because of workforce availability in Romania.

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

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

The economic growth of Romania in the post-integration stage and the title of "EU member" will be influenced by migration flows through exits of human capital because the highly trained are the ones leaving (*brain migration*), and the backwards financial flows associated with migration, that is 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 then 0.6%. Under the conditions of Romania's accession to the EU and of free movement, it is possible that the dimension of migration flows shall increase. Taking into account the paper of Robert E. Luca (1998), where education is considered as a determinant factor of economic growth on long run, the emigration of highly skilled persons – brain migration – has a negative impact on the origin country.

In the post-accession period it should be expected that the number of people working abroad will increase, provided that EU states shall promote an openness policy. Most member countries have promoted or would promote, probably, a selective policy, favorable to two categories of labor force: specialists/experts, with high qualifications and workers who would accept uncomely jobs, already refused by the local labor force.

Under the conditions of brain migration, it is not excluded that the professional level of the local labor force shall become inferior to the expected ones. This situation might trigger the diminishment of the creative and productive potential at national level. Thus, the Romanian capacity to overcome productivity, competitiveness and income lags against EU countries is subjected to negative influences. The external labor migration has a positive effect on the destination country, both directly (through the contribution of foreign workers) and indirectly (through the income taxes paid to host country). Also, this is one of the underlying reasons that determine a decrease of national production in the origin country. In the paper of Van der Putten (2002) it is shown that, in the context of Romania's accession to the European structures, the production decrease might by higher than 3%.

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