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Recent Development of Labor Mobility in the EU: Comparative Study on the British and German Cases

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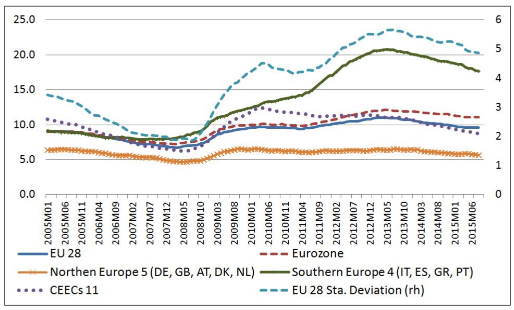
Recent Development of Labor Mobility in the EU

Since the global financial crisis there have been diverging trends in labor market conditions in Europe. The unemployment rate in Southern Europe still remains at its record high, while Northern Europe maintains a relatively stable employment figure. Such diverging labor market conditions have been reflected on the labor movement within the EU. Countries such as Germany and the UK attract more immigrants to their job markets, while southern countries become 'net exporters' of their labor to other parts of Europe. For example, the outflow of migrants from Greece and Portugal increased three times between 2008 and 2012. The two countries lost almost 2% of their population during this period due to this migration. The outflow of migrants from Spain and Italy reached 300,000 during the same period. Spain used to be a migration destination for a long time, but its net migration has been negative since 2012.

Figure 1. Unemployment rate in the EU



Source: Eurostat

These statistics suggest that a new trend of labor mobility has been emerging amid the varying economic conditions among EU members. Labor mobility in the EU is low, particularly compared to the US and other federal states. A number of studies conclude that labor mobility within the EU is determined by income differences between the migrant departing and hosting countries. The distinctive business cycles between countries (i.e. unemployment gaps) are insufficient for explaining the intra-European labor movement. These empirical facts were well spotlighted under the arguments of an optimal currency area (OCA); the lack of labor mobility within the Euro area suggests that it is far from being qualified as an OCA. It was hardly expected that labor mobility would work as an 'absorber' in the face of asymmetric shocks. However, recent observations show that internal migration within the EU has been increasingly affected by the difference in unemployment rates between countries.

Institutional Set-up of Labor Movement in the EU

The Treaty of Rome, or the EC treaty, established in 1957, defined the European community as a common market and provided rights to four economic freedoms: free movement of goods, services, labor and capital.[1] Freedom of movement should be secured within the Community by article 48 and any discrimination on grounds of nationality should be prohibited by article 7 in the Treaty of Rome.

Free movement of labor within the single internal market was strengthened by the institutional arrangements of the Single European Market process since the mid-1980s. Moreover, the Schengen Agreement guaranteed freedom of movement and created favorable conditions for the free movement of labor. The White Paper on the Internal Market published in 1985 pointed out the need for around 300 legal actions for the elimination of non-tariff barriers for the completion of a single European Market. Until 1993, 222 legal actions were put in place. The Schengen Agreement, to which the original signatories were Germany, France and the Benelux countries, secured the right to free physical movement. Since then, the Schengen area gradually expanded to include nearly every member state of the EU, and 26 countries ended up signing the agreement (see Table 2, Figure 7). Although the Schengen Agreement was not an action to protect labor movement but to guarantee the right of movement, due to this Agreement, there is a clear divide between the two sides of the Schengen area's borders. The Agreement also created enabling circumstances for seeking jobs in other Schengen Area countries.

When the EEA (European Economic Area) was established between the EU and EFTA (European Free Trade Agreement) in 1994, the four economic freedom rights which had applied only within EU borders were expanded to cover the EFTA.

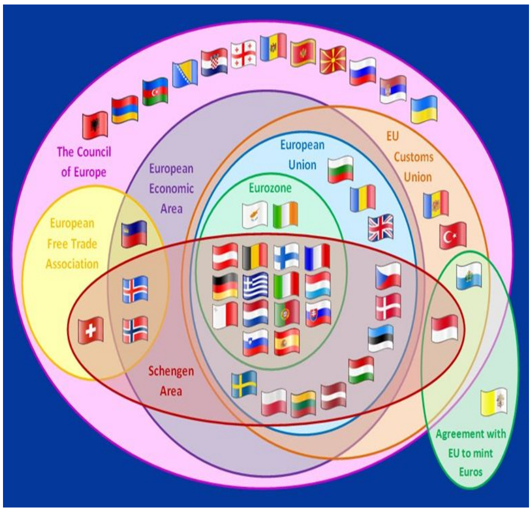
Table 1. Timeline of Schengen implementation

Year	Country
1985	France, Germany, Belgium, Netherlands, Luxemburg
1990	Italy
1991	Portugal
1992	Spain, Greece
1995	Austria
1996	Norway, Iceland, Denmark, Sweden, Finland

[1] EEC (European Economic Community), the predecessor of the EU, was established under the treaty of Rome made in 1957. The Treaty of Rome is often called the EC treaty (Treaty of European Community). As the treaty of Lisbon took effect in 2009, the EC treaty was changed to TFEU (Treaty of the Functioning of the European Union).

2004	Czech Republic, Estonia, Hungary, Latvia, Poland
2004	Slovakia, Slovenia, Lithuania, Malta
2004	Switzerland
2004	Cyprus
2007	Romania
2007	Bulgaria
2008	Liechtenstein

Figure 2. Group of European countries by classification



Source: https://www.quora.com/Customs-Inspections/How-does-the-Schengen-Agreement-work

One of the core policy goals that made progress at the EU community level is free movement of labor within the EU, but there were differences of opinion among the countries in the process of the EU enlargement. More active labor mobility within the EU contributing to efficient labor allocation is viewed as an important policy issue carrying forward the European single market. In particular, it is essential for integrating the service market within the area. Meanwhile, concerns have been also raised on the negative impact on the employment of existing EU members when new members join the EU. The EU's eastern enlargement during the 2004-2007 period has previously highlighted this problem in prominence.

When the EEC (European Economic Community), predecessor of the EU, was launched, the free movement of workers was not a big problem because of the small economic gap between founding members. However, since then, as lower middle income countries began joining the EU, concerns over labor markets in existing EU members grew. Especially during the 2004-2007 period, the accession of Central and Eastern European states to the EU granted the right to work to each person of the 12 new EU members, corresponding to 30% of the population in Western Europe.

Due to such concerns, most countries kept restrictions in place for workers from the newest EU members, and imposed curbs which were maintained for a maximum of seven years. Only a few members allowed all workers from the new member states to get a job without any permit. Britain, Ireland and Sweden were members where free movement of labor was allowed, and Denmark also allowed free movement of labor within the EU under working conditions equivalent to those of permanent employees in the same salary grade and labor conditions. The allowance of free movement of labor within the EU in certain countries can be seen as a reflection of the traditional reciprocal circumstances of migrant labor and own labor demand. On the other hand, most EU members such as Germany and Austria imposed conditions, quotas and transitional periods to restrict the employment of new entrants and these restrictions could be maintained for a maximum of seven years. These measures cover three phases (2+3+2 years)[2] for opening their labor markets sequentially, to prevent labor market confusion in existing member countries.

[2] First phase: 1 May 2004 – 30 April 2006, Second phase: 1 May 2006 – 30 April 2009, Third phase: 1 May 2009 – 30 April 2011(FAQ: The transitional arrangements for the free movement of workers ended on 30 April 2011

Table 2. Transitional measures taken by EU Member States regarding labor market opening

	1st phase (May 2004-April 2006l)	2nd phase (May 2006-April 2009l
Austria	- labor market access restricted - immigration contingents - provision of services restricted	- labor market access restricted - skilled workers admitted in case of favorable labor market conditions since 1 Jan 2008 - provision of services in certain sectors restricted
Belgium	- labor market access restricted	- labor market access restricted - higher flexibility in granting work permits in regions and sectors with labor shortages
Finland	- labor market access restricted	- EU treaty (Community rules) for free movement applied, registration required
France	- labor market access restricted - work permits grated in limited number of occupations and sectors with labor shortages	- EU treaty for free movement applied since July 2008
Germany	- labor market access restricted - limited number of work permits for seasonal workers and project-tied workers grated - provision of services restricted in specific sectors (construction, cleaning, etc.)	- as in first phase, although no labor market test for certain engineers from 15 Oct 2007
Greece	- labor market access restricted	- EU treaty for free movement applied
Italy	- labor market access restricted - access granted in specific sectors and occupations with labor shortages	- EU treaty for free movement applied since July 2006
Luxemburg	- labor market access restricted	- EU treaty for free movement applied since Nov2007
Netherlands	- labor market access restricted - in specific sectors and occupations privileged access	- EU treaty for free movement applied since May 2007
Portugal	- labor market access restricted - regulation of entry by quotas	- EU treaty for free movement applied
Spain	- labor market access restricted - bilateral agreements on contingents	- EU treaty for free movement applied
UK	- access to labor market granted, but obligation to register for work and residence permits - work permits issued for limited time - safeguard clause applies	- as in first phase
Ireland	- access to labor market granted, but obligation to register for work and residence permits - work permits issued for limited time - safeguard clause applies	- as in first phase
Sweden	- access to labor market granted	- EU treaty for free movement applied
Denmark	- labor market access restricted but granted in case of job offer - work permits limited to one year minimum of 30 weekly working hours required application of collective bargaining agreements required	- as in first phase - Since May 2008 no work permit required for employment covered by a collective agreement

Source: European Commission (2009), "Labor mobility within the EU in the context of enlargement and the functioning of the transitional arrangements." European Integration Consortium (IAB, CMR, fRDB, GEP, WIFO, wiiw), p. 5.

Especially, Germany and Austria, which had accepted many immigrants from middle-east European countries because of their geographical location, imposed more stringent conditions and prohibited job acquisition in certain sectors. The ten new entrants have completely opened their labor markets to other EU member countries since they joined the EU in 2004.

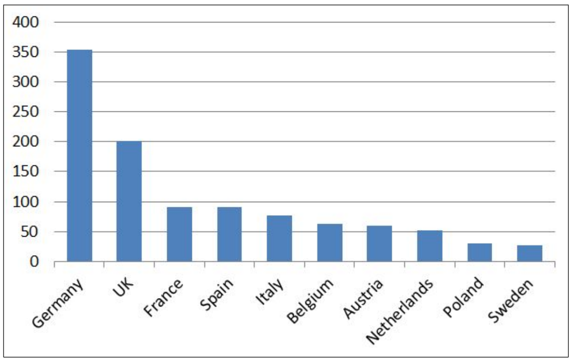
When Bulgaria and Romania joined the European Union on 1 January 2007, only Finland and Sweden completely opened their labor markets to them. Most of the 15 older EU members including the UK and Ireland have put in place restrictions on the free movement of workers from the two new members. Finland, Sweden and eight newer EU members who joined the EU in 2004 permitted immediate accession of workers from Bulgaria and Romania, while other countries like Germany have put restrictions on the free movement of labor from the two new members or delayed the accession of free movement of labor for two to five years. After experiencing the sudden introduction of labor during 2004-2005, the UK and Ireland imposed restrictions, such as quotas, on workers from Bulgaria and Romania for a transitional period of seven years after they joined the EU. The UK and Ireland restrictions have been lifted their restrictions from 2014.

Around the enlargement of the EU in 2004, a tremendous number of workers moved from Central and Eastern Europe into Western Europe. Especially, the inflow of EU migrants into the UK and Ireland, where labor markets was completely open, was growing rapidly. The number of EU migrants from Central and Eastern Europe into the UK was up more than six times in 2007 from 2000. The inflow of EU migrants into Ireland increased more than four-fold during 2004-2007.

British Case

The UK is the second-largest destination of EU immigrants after Germany. The UK's net migration figure has further inflated in recent years.

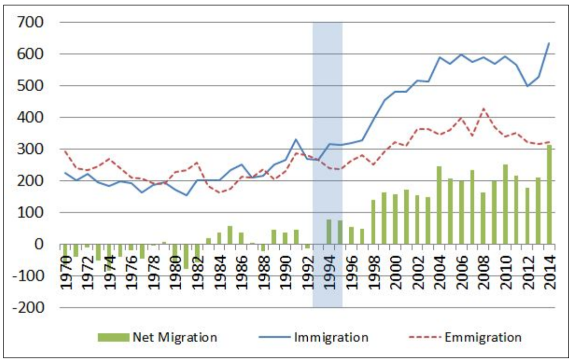
Figure 3. Top 10 countries of EU immigrants



Source: Eurostat

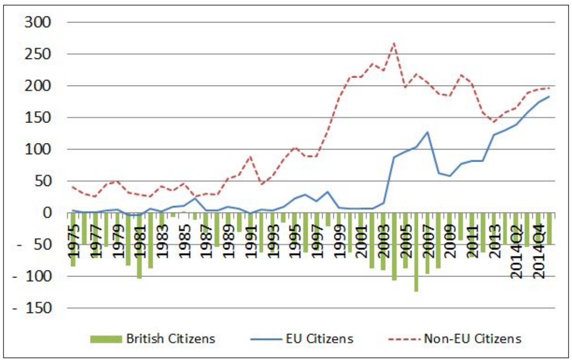
By the mid-1990s, the inflow of persons to the UK was similar to the outflow, and since 1994 the inflow of persons to the UK has been outpacing the outflow. Overall, the net migration difference between immigration and emigration has increased (see Figure 11). Since 1997, the UK's immigration policy was broadened under the labor party and the number of immigrants moving from non-EU countries to the UK has been rising. As a result, during 1997-2006, the net migrant figure, at two million, hit a record high. The influx of immigration from the EU has been soaring rapidly after the eastern enlargement of the EU in 2004, whereas the proportion of EU citizens out of total immigrants to the UK was insignificant before 2000s. As the labor market of the UK was immediately opened to the new EU members in 2004, the EU immigrants to the UK in 2004 was 870 thousand in comparison with 150 thousand in 2003. This is a six-fold increase in EU immigrants to the UK in the span of a year. As of March 2015, net migration reached a peak of 330 thousand, a 94 thousand increase from last year. This figure owes largely to the fact that restrictions on the accession of the UK labor market to Bulgaria and Romania, new EU members since 2007, were lifted in January 2014.

Figure 4. The UK's migration trend



Source: Office of National Statistics

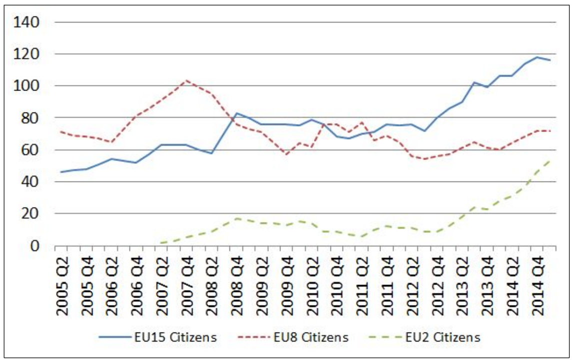
Figure 5. Net migration to the UK by citizenship



Source: Office of National Statistics

The number of EU immigrants to the UK has risen sharply since 2004. The main reasons for this were: the enlargement of the EU and the economic gap between members.[3] As mid-eastern European countries entered the EU as new members in May 2004, the labor from these countries has moved significantly. The UK, Ireland and Sweden accepted a number of immigrants including workforce and students from new EU members who joined in 2004, without any restrictions like transitional periods. In the UK, unrestricted access was also implemented to address critical low-skilled labor shortages at a time of low unemployment, in doing so to reduce the demand for illegal workers.[4] In 2005, the immigrants from new members flowing into the UK were between 70 thousand and 100 thousand per year between the years 2005 and 2007. Due to the large number of immigrants from new member countries since 2004, the UK and other countries that opened their labor market to them in 2004 reversed their policies on EU immigration, from liberal in 2004 to restrictive in 2007 when Bulgaria and Romania joined the EU. Indeed, the UK imposed a transitional period on the two new members for seven years and since then opened up the labor market in January 2014.

Figure 6. EU Immigration to the UK



Source: Office of National Statistics

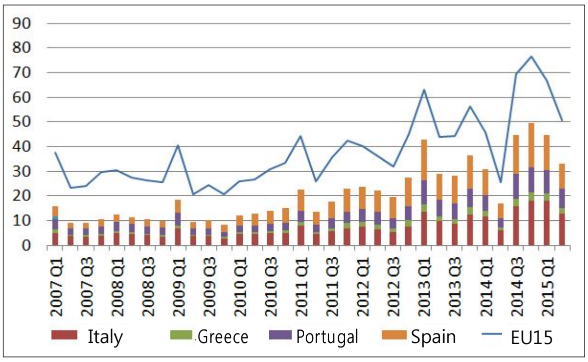
Sinces the occurrence of the global financial crisis in 2008 and the European financial crisis, the inflow of immigrants from older EU members among the EU15 as well as immigrants from newer EU members has increased remarkably. In particular, labor from Southern European countries like Greece, Spain, Italy

[3] The EU is classified into three groups in this paper. ① EU15: Austria, Belgium, Denmark, Finland, France, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden, UK ② EU8: Republic of Czechs, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia ③ EU2: Bulgaria, Romania.

[4] MP I(2007), "EU Enlargement in 2007: No Warm Welcome for Labor Migrants," http://www.migrationpolicy.org/article/eu-enlargement-2007-no-warm-welcome-labor-migrants (Accessed 2015. 11. 26).

and Portugal, where unemployment rates are among the highest in the EU15, moved into the UK, where the unemployment rate is relatively lower than other countries. According to trends in National Insurance Number (NINo) registration, the number of persons from Southern European countries registering NINo was 53 thousand in 2010, but soon jumped to 140 thousand in 2014, displaying a three-fold increase. The proportion of the four Southern European countries was 39% in 2010, and this rose to 65% in the second quarter of 2015. The most important motive for this inflow from the EU15 is job seeking. The inflow of EU15 immigrants seeking jobs has grown rapidly since 2012. Figures have doubled since 2012, and recorded 70 thousand in the first quarter of 2015.

Figure 7. NINo allocations to adult overseas nationals entering the UK from the EU



Note: NINo (National Insurance Number)
Source: Office of National Statistics

The UK's conservative government is looking for ways to downscale the inflow of immigrants from the EU, as well as from non-EU countries. Although the free mobility of labor within the EU is a fundamental right defined in the EU treaty, there are concerns that the swiftly growing number of immigrants from EU members into the UK may stretch welfare expenditure and employment. Migrants from member states are not affected by immigration law and it is possible for them to freely search for work freely and receive welfare. As a result, this system may actually exert a bad effect on labor markets and government expenditure. However, it is difficult to find statistical grounds that would support concerns about the negative impact on employment and fiscal spending in the UK.[5]

UK Prime Minister David Cameron came up with a plan that aims to reduce the number of net immigrants by 100 thousand. He argued that immigration will be controlled through cuts in welfare benefits for immigrants within the EU. This promise to reduce the pull factor for EU migrants, committed at the election last May, has already been achieved. EU migrants looking for a job will not be able to claim Universal Credit. Also, those coming from the EU will be required to leave the UK if they have not found a job within six months. These actions will have an effect on EU migrants. In addition, Cameron has also put forward measures to exclude people coming to the UK from the EU from welfare benefits such as social housing and work benefits for the first four years, in a letter to the President of the European Council last November, 2015. However, these suggestions are expected to cause controversy over the possibility of violating the EU treaty. Therefore, the change of views on EU migrants within the UK government and among EU member states will be also noteworthy.

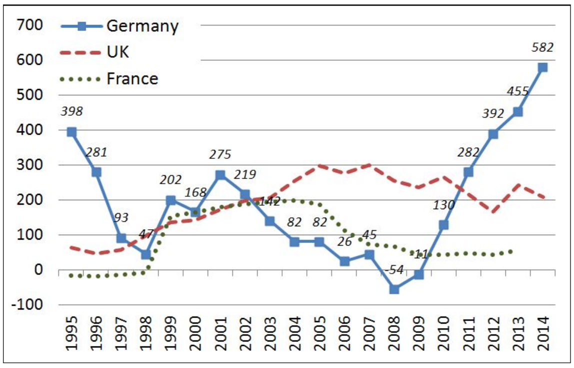
German Case

Germany has been the most favored country

[5] Dr Carlos Vargas-Silva (2015), "BRIEFING-The Fiscal Impact of Immigration in the UK," The Migration Observatory, 3rd revision. 2015. 3. 27; Ciaran Devlin et al. (2014), "Impact of migration on UK native employment: An analytical review of the evidence," Home Office.

for labor migration, and the number of migrants to Germany has been increasing since 2010. It recorded more than half a million net migrants, which outpaced the UK as the most preferred destination for migration. As a result, EU citizens residing in Germany increased from 2.5 million before the crisis to 3.37 billion in 2013.

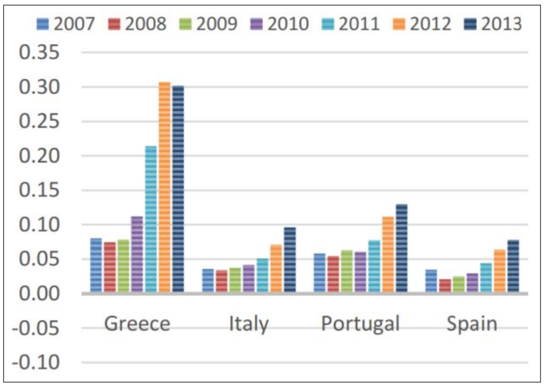
Figure 8. Net inflow of migrants (thousand)



Source: Eurostat

Migration from Central and Eastern European Countries (CEECs) to Germany has been continuously high since EU's enlargement to Eastern Europe. For example, migration from Romania and Bulgaria doubled between 2010 and 2013. This channel of 'From East to West' is well explained by the conventional migratory flow in search for higher wages. However, the notable change is that migration from Southern Europe has been on an upward trend since 2010, as illustrated in Figure 9.

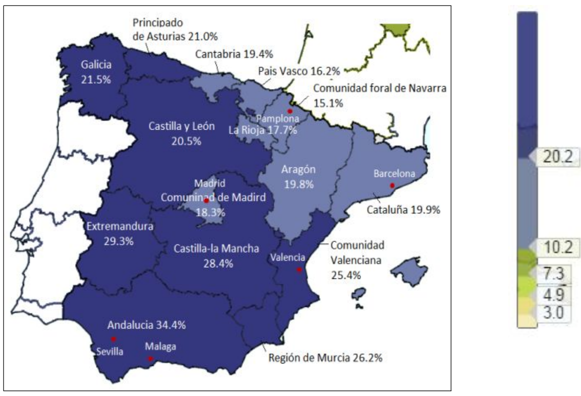
Figure 9. Immigration to Germany (as % of reporting country's population)



Note: Bundesagentur füur Arbeit (2014); Barslund and Busse (2014), p. 13

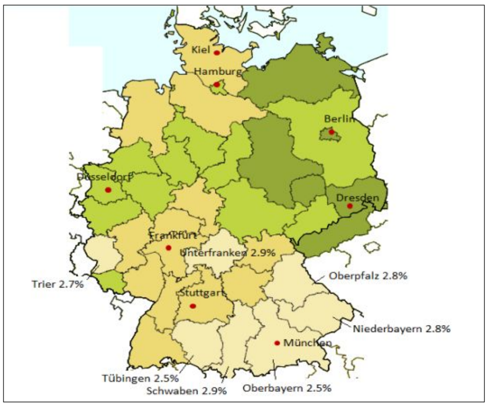
The reason for this change is highly related to the difference in labor market conditions. For example, the unemployment rate in Spain rose to a historically high level and remained at 25%, despite a recent fall since mid-2013. In most Spanish regions, the youth unemployment rate is more than 50%. In contrast, Germany has very low unemployment rate, less than 5%. In southern regions of Germany, such as South and North Bayern, the unemployment rate is under 3%, which suggests that the regional economies have almost reached full employment status. In light of these contrasting figures from different labor markets, it is obvious that the labor movement from Spain to Germany is a natural solution in finding an equilibrium in labor markets.

Figure 10. Unemployment rate in Spain



Source: Eurostat

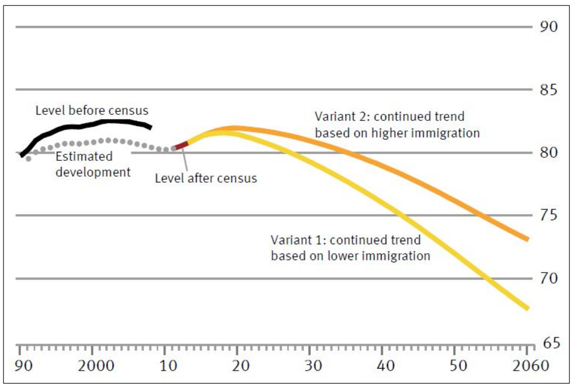
Figure 11. Unemployment rate in Germany



Source: Eurostat

Germany is favorable to the recent arrival of Southern Europeans to its labor market, while Britain is struggling to contain the inflow of immigrants. The German government designed a number of programs and financial support schemes to attract relatively young and skillful workers to its private sectors. The main reason for this is the fact that Germany will experience a decline in its active population due to low birth rates and an ageing population. In order to meet labor demand and achieve a sustainable growth rate, it is inevitable for Germany to attract young and skillful workers from abroad. Many of the new migrants from Southern Europe are engineers and IT specialists that the German economy is in need of.

Figure 12. Germany's population projection



Source: Federal Statistical Office of Germany (2015)

Conclusion

The changes in intra-European labor movement since the global financial crisis can be summarized into two findings. First, the 'East to West' channel has been working, as restrictions on new members' access to labor markets of existing EU members have been withdrawn. Intra-European migrants flocked into Western Europe - countries like Germany and the UK - where better wages and employment opportunities were guaranteed. Second, a new channel moving from 'South to North' has emerged, as the unemployment gap between the South and North has been widening severely. From a certain point of view under the arguments of the OCA, this new trend can be welcomed, because for the first time labor mobility in the EU started to respond to the difference in business cycles in a significant way. However, it is too early to assert that intra-European labor mobility has been increasingly determined by the unemployment gap. This new trend in labor movement is a natural response to the diverging unemployment rates at the inter-country level, and is not related to structural changes toward a 'single' European labor market. When labor markets in Southern Europe start to recover, it is likely that labor movement from the South to North will reach a limit and decline. KIEP