



Briefing #7

POLISH PLUMBERS WELCOME

It is not often that Britain is hailed as one of the good boys of Europe. Yet when the EU was enlarged in May 2004 to take in eight former Communist countries, the UK was one of only three existing Member States¹ to give the new EU citizens the freedom to come and work. A report from the Commission² now shows that we have been economic winners as a result.

Background

The free movement of "goods, persons, services and capital" is a founding principle of the European Union. Of these "four freedoms", removing barriers to the movement of goods and capital has made slow, but relatively uncontroversial progress. By contrast, the free movement of persons and services has often aroused deep popular anxiety.

In the debates over possible UK membership of the Community in the 1960s, for example, opponents prophesied an influx of Italians, who would undermine British jobs and British social security. There were similar fears at the time of Spanish and Portuguese accession. Most recently, a large majority of existing Member States have been reluctant to accept the free movement principle as applied to workers from central Europe. The defeat of the draft EU constitution in the French referendum has even been attributed, in part, to a fear of "Polish plumbers".

As a result, the 2003 Treaty of Accession deferred full free movement from the new Member States³ by up to seven years. During an initial two-year phase (May 2004 to April 2006) the fifteen old Member States could opt to defer; and twelve decided to do so. Following a Commission report, (now published, see Footnote 2), there could be a further deferral for another three years, on notification. Full free movement would apply, whatever, on 1 May 2011.

What is the "free movement of persons"?

The Foreign Secretary in the 1945-51 Labour Governments, Ernie Bevin, famously described free movement as the ability "to take a ticket at Victoria station and go anywhere I damn well please". The EU Treaty definition is somewhat more complicated.

Free movement as applied to persons is covered in two Chapters: "the free movement of workers"; and the "right of establishment". Under the first, nationals of Member States have the right to move freely within the EU to take up "offers of employment actually made" and to stay once employed. As formulated, this seems pretty

¹ The other two were Ireland and Sweden.

² Report on the Functioning of the Transitional Arrangements set out in the 2003 Accession Treaty (period 1 May 2004-30 April 2006), *Communication from the Commission* (COM(2006)).

³ But not from the other two countries joining at the same time, Cyprus and Malta.

restrictive, particularly as it is "subject to limitations justified on grounds of public policy, public security or public health". In practice, subsequent implementing provisions have also established the right of free movement in order to *seek work*, and of workers' families.

Under the second chapter, nationals of Member States have the right to move freely "in order to take up and pursue activities as self-employed persons and to set up and manage undertakings..." As far as the right of movement is concerned, this has been largely implemented – it has even applied, without deferral, to all the new Member States as from May 2004. On the other hand, the right to provide professional and other services freely, once movement has taken place, has been left pending in pending in most sectors.

The so-called "Bolkestein directive", providing for a general opening up the services sector, has now been adopted by the European Parliament, in a heavily amended form. It *does* cover plumbers; but generally applies the regulations (and pay conditions) of host countries rather than the originally-intended principle of home country control.

These provisions appear to leave out people not in the labour force: tourists, students, pensioners, the idle rich, etc.. In practice, free movement for these groups has generally been accepted, though often restricted by other factors: for example, the limitations on the money British tourists could take abroad until the abolition of exchange controls in 1980.

Resistance to the free movement of persons has overwhelmingly related to the labour market: the fear of "social dumping" and of increased unemployment. More precisely, those living in countries with a relatively high standard of living and high wage rates have resisted free movement from those with lower standards and rates. There was, by contrast, remarkably little resistance to the free movement of workers from Sweden, Finland and Austria when those countries joined the EU in 1995.

In the UK, it is true, there has also been a paradoxical fear of people moving into the country in order *not* to work – i.e. to take advantage of a free-at-the-point-of-consumption NHS, and social security payments. For the most part, however, this has not been in relation to movements from other EU countries; and, in the particular case of those coming from the new Member States, the evidence is clear that they have come to work, not to sponge (though, just to be sure, the UK has operated a registration system). Indeed, the Commission notes that, in Ireland and the UK, new Member State migrants of working age have a higher employment rate than Irish or British nationals⁴.

The Economic Issues

In the perspective of overall economic welfare, the fear of labour mobility is thoroughly irrational. By moving from low-wage, low-productivity employment into more productive, higher-paid jobs, workers increase aggregate production and aggregate demand. Moreover, labour naturally moves into areas where the demand for labour is relatively high: more particularly, it helps relieve skill shortages and bottlenecks in the recipient economy, or carries out jobs the natives are unwilling to do themselves.

⁴ The statistics provided by EUROSTAT (see Table), however, may not be strictly comparable between countries. It seems odd that in Ireland, Spain and the UK, 85%, 78% and 75% of workers from central European Member States should be in employment, but in Greece, Germany, and both Belgium and Finland only 47%, 51% and 55%. Though the UK and Ireland have low unemployment compared to the rest, Spanish unemployment is higher than in either Belgium or Finland, and close to the rate in Germany.

However, the economic gains from labour mobility are not necessarily shared evenly. Economies as a whole gain, as do the mobile workers themselves. Potential losers – at least in the short term – are groups which have been able to maintain relatively high levels of wages and/or employment as a result of previous restrictions. Another group of potential losers are those whose skills are in direct competition with those of the incomers, or who work in particular sectors of the economy favoured by incomers. French plumbers might conceivably have been in this position, for example, had large numbers of highly-skilled Polish plumbers been poised to enter the country – and had there not actually been in France, as in the UK, a shortage of plumbers.

The Results of Enlargement

What has actually occurred since the new Member States joined the EU in May 2004? The Commission report contains two important findings:

- First, the labour force coming from central Europe has generally been complementary to, rather than competitive with, the existing labour force. As a result, the economic effects have been almost wholly beneficial.
- Secondly, restrictions on the free movement of workers applied by twelve Member States have been widely circumvented – those from central Europe have come anyway, as self-employed or posted by firms to fill particular vacancies.

In other words, market forces have operated.

The report notes that it is not possible to give totally accurate figures on the numbers moving from the new Member States into the old, since “the phenomenon of undeclared work is not fully captured by official statistics”. These statistics *do* show an increase since enlargement; but some was probably due to the registration of many who had jumped the gun and moved, unregistered, before May 2004.

In fact, according to official statistics, the only countries showing any marked increase in migrant workers from central Europe since enlargement are Austria, Ireland and the UK. In the case of the UK the percentage of the working age population coming from the central European countries rose from 0.2% in 2003 to 0.4% in 2005. Some 290,000 EU citizens from central Europe have registered for work here since May 2004 – though, of course, many have come and gone, and few intend to stay permanently.

The official statistics also show that labour mobility has had, if anything, a positive effect on employment in the recipient countries. Between May 2004 and the third quarter of 2005, the overall rate of unemployment in EU15 fell from 8.1% to 7.7%. In the “open” country with the largest proportional number of incomers, Ireland, unemployment fell from 4.6% to 4.3%. In the UK the rate remained the same, at 4.7%. At the same time, the overall employment rate in EU15 rose from 64.7% to 65.1%, and in Ireland from 65.5% to 67.1%, with the UK steady on 71.5%.

There is also evidence that workers from the new Member States have boosted the host economies by alleviating skill shortages. Overall, the migrants have a higher level of education than host-country nationals, and the gap is particularly large in the case of upper-secondary and vocational qualifications: 57% of migrants have them as opposed to only 46% of host nationals. In recent survey by the Chartered Institute of People Development, UK employers gave their main reason for recruiting abroad as shortage of candidates with the necessary experience (59%) or the required skills (56%)⁵. Migrant workers have been particularly important for the construction industry.

⁵ Simon Howard, writer of the Sunday Times Jobfile Column, in *The Grocer* on 4 June 2005

The Future

The conclusion reached by the Commission, therefore, is that restrictions on the free movement of workers from central Europe are largely futile; and, where effective, are economically damaging. Ideally, full labour mobility should be achieved on 1 May this year. There are, indeed, indications that Finland, Greece, Portugal and Spain will then end restrictions, with Belgium, Denmark, Luxembourg and the Netherlands thinking about it⁶. Only two countries, Austria and Germany, which border the new Member States and which consequently have a high number of incoming workers, seem determined to keep restrictions for another five years.

In any case, the supply of labour from the central European Member States may soon start to dry up. All have higher economic growth rates than EU15, and the skilled workers now coming to fill job vacancies in the UK and elsewhere are likely to be needed back home within a few years. The Commission report notes that the figures for resident and work permits issued "overestimates the actual number of EU10 nationals that have settled in the host country, because it does not take into account people returning to their countries of origin..." The figures indicate, for example, that about half those registered in the UK have only stayed temporarily.

At the beginning of 2007, Romania and Bulgaria are due to join the EU, and workers from those countries may also take the new opportunity to work abroad. In the light of both economic theory and practical experience, we should make them welcome.

Table: Employment rates in the host countries

Host country	% of resident working age population from new Member States (EU10)	% of working age population in employment	
		Nationals	from EU10
Belgium	0.2	62	55
Denmark	-	67	-
Germany	0.7	60	51
Greece	0.4	60	47
Spain	0.2	62	78
France	0.1	64	62
Ireland	2.0	67	85
Italy	-	58	-
Luxembourg	0.3	62	-
Netherlands	0.1	74	64
Austria	1.4	69	66
Portugal	-	68	-
Finland	0.3	69	55
Sweden	0.2	74	62
UK	0.4	72	75
EU15	0.4	67	62

Source: EUROSTAT. In the cases of Denmark, Luxembourg and Portugal, figures of EU10 workers not available due to small sample size. In the case of Italy, figures not available.

⁶ See *The Economist* of 11 February, 2006.