

Draft: Not for Quotation

24 Aug. 07

**EU Enlargement and Labour Market Effects of
Migration to Ireland from Southern, Central and
Eastern Europe**

Gerard Hughes

**School of Business
Trinity College Dublin**

**Paper presented at Second IZA Migration Workshop
EU Enlargement and the Labour Markets
Bonn 7-8 September 2007**

EU Enlargement and Labour Market Effects of Migration to Ireland from Southern,
Central and Eastern Europe

Gerard Hughes
Visiting Professor, Trinity College Dublin

Abstract

This paper uses data from the Quarterly National Household Survey, monthly registrations of migrants related to job search or claims for social benefits, and the Census of Population to document the massive inflow of long-term and short-term immigrants to Ireland from the EU10 Member States following EU enlargement in May 2004. It shows that although the scale of these inflows was unexpected the labour market was able to absorb them without displacing native workers or adversely affecting earnings, employment or unemployment.

Despite the positive benefits of EU10 migration for the labour market, the Irish Government decided before the 2007 enlargement that it would not open the labour market to nationals of Bulgaria and Romania. The reasons for this change in policy are shown to lie in some adverse microeconomic and social effects of EU10 migration, the failure of most of the EU15 countries to open their labour markets following reviews in 2006, the need to protect the Common Travel Area with Britain, and the need to tighten the implementation of labour law and to develop policies for integrating migrants into Irish society.

EU Enlargement and Labour Market Effects of Migration to Ireland from Southern, Central and Eastern Europe¹

Introduction

Before the enlargement of the EU from fifteen (EU15) to twenty five (EU25) countries in May 2004 only Ireland, Sweden and the UK decided that they would apply EU rules allowing nationals of these countries free access to their labour markets.² However, their access to welfare benefits in Ireland and the UK were restricted. All of the remaining EU15 countries invoked EU rules which allowed a transition to the free movement of labour for a maximum of up to seven years following enlargement.

The paper by Doyle, Hughes and Wadensjo (2006) analyses the debates that took place in Ireland and Sweden before enlargement and considers the size of the inflows that occurred up to the end of 2005 following enlargement. This paper presents data on migration flows from the EU10 member states before and after enlargement up to the first quarter of 2007, on the sectors in which migrants from these states who were living outside Ireland one year ago (long-term migrants) are employed, and on the effects of the immigration on wages and unemployment.

The monthly register of Personal Public Service (PPS) numbers issued to migrants who have come to look for work in Ireland (mainly short-term migrants) is used to show that the annual gross flow of migrants from the EU10 is about three times as large as the annual net flow and that the gross inflows are strongly influenced by seasonal factors. A number of policy issues are considered relating to labour displacement, social (benefit) tourism, and the Irish government's decision to restrict access of nationals of Bulgaria and Romania to the labour market following their accession to the EU in January 2007.

How Many Migrants Were Expected from the EU10

A number of studies were undertaken to consider the likely migratory flows from East to West following enlargement. These studies have been summarised in various reports by the European Commission (2000, 2003). The earlier Commission study predicted migration flows of 333,000 per year from Central and Eastern Europe (CEE) initially, declining to 150,000 per year in a decade. The later study revised the earlier estimates downwards. It predicted net immigration of 325,000 per year in the first five years following accession, declining to 60,000 in a decade. In a report for the Economic Policy Panel meeting in Luxembourg in April 2005 Boeri and Brücker (2005) estimated that in the year after enlargement net migration from the CEE accession states would also amount to around 300,000 people and they gave an estimate of how this would be distributed across the EU15 member states *provided all of them observed European Community rules in relation to the free movement of labour*. They estimated that the

¹ The paper by Doyle, Hughes and Wadensjo (2006) considers migration flows to Ireland and Sweden up to the end of 2005. This paper presents information on migration flows to Ireland from the EU 10 countries up to the first quarter of 2007. An earlier draft was presented at a LoWER workshop on East European Labour Migration in the EU in London 20-21 April 2007.

² The ten new countries are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

number of migrants from these states living in Sweden in 2005 would be about 6,700, while the number living in Ireland and the UK would be around 3,400 and 12,600 respectively. Their estimate for the UK was similar to an upper estimate of 12,600 persons per year made for the Home Office by Dustmann *et al.* (2003).

No estimates of the expected size of the inflows from the EU10 were published in Ireland. However, Barry (2004, p. 845) argued that on the basis of the number of work permits issued in Ireland to nationals of the Central and Eastern European countries before enlargement that the EU studies “would appear to substantially underestimate the likely immigration flows”. He pointed out that even before the enlargement immigrants from the CEE countries probably accounted for just under 1 per cent of the Irish population so that the consensus estimate that immigration from these countries would amount to 1 per cent by 2030 “is extremely conservative”.

The Pre-Enlargement Debate on Immigration in Ireland

Due to a growing demand for labour which could not be fully met from domestic sources of supply there was much more concern in Ireland in the approach to enlargement about protecting the welfare system from possible abuses rather than restricting access to the labour market. The decision in the UK to close off welfare benefits to nationals of the EU10 member states for a two year period had important implications for Ireland as it meant that Ireland and Sweden would be the only two countries in Europe offering equal welfare rights to EU10 nationals. An inter-departmental committee, which had been set up by the Department of the Taoiseach in Autumn 2003 to review the implications of the EU enlargement on the Irish State, including housing and social welfare costs, was asked to reassess whether restrictions were necessary in light of the UK decision. During the few months before enlargement, the Government was urged by public lobby groups, such as the Immigration Control Platform (ICP) and the National Platform, to protect Ireland’s social welfare system. On the 23rd of February 2004 the Taoiseach announced that Ireland would have to protect its welfare and social benefits systems from possible abuse in light of EU enlargement (Ahern 2004) and the following day the Minister of Social and Family Affairs announced:

“Because of our common travel area with Britain it is now important that we put in place some conditions... I will be proposing changes to the social welfare code which will be no less robust than those introduced in Britain.” (DFSA Press Release, 24 February 2004).

For visa purposes neither Ireland or Britain are parties to the Schengen Agreement but they operate a Common Travel Area (CTA) between them. This necessitates operating similar arrangements in relation to immigration and the need to protect the Common Travel Area has strongly influenced the Irish government’s decisions on a range of immigration issues.

By the end of February 2004 the Irish government introduced the Habitual Residence Condition (HRC) which meant foreign nationals would have to live in the CTA, comprising Ireland, the UK, the Channel Islands and the Isle of Man, for at least two years, or meet certain other requirements, before being entitled to social assistance or child benefit.

The HRC is an additional requirement which must be met along with the other conditions for entitlement to welfare payments. Other factors, beside the two-year residency requirement, are taken into consideration when determining whether a person meets the HRC. These factors include: length and continuity of stay; length and purpose of absence from Ireland; nature and pattern of the employment; applicant's connection with Ireland; and the future intentions of the applicant (see www.dsfa.ie).

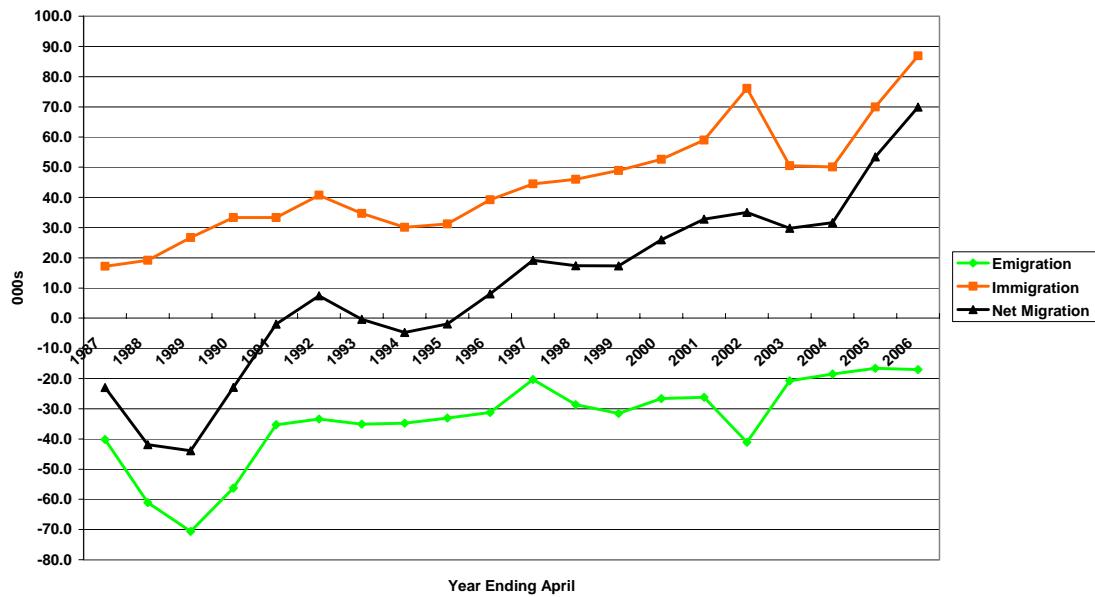
Overview of Ireland's Migration Experience Before and After Enlargement

For centuries migration flows have played an important role in determining the structure of the Irish population and labour market. The Irish experience has shown that migration flows are sensitive to economic conditions in the source and destination countries. The global downturn that occurred in the early 1980s, for example, was accentuated by inappropriate domestic economic policies. These policies resulted in the country languishing in recession until the early part of the 1990s. By 1986 the unemployment rate had reached over 17 per cent. This created a significant divergence in labour market conditions between Ireland and other countries, particularly the United Kingdom, which led to a sharp rise in emigration, as Figure 1 shows. The net outflows were very high at the end of the decade – almost 45,000 in 1988/89, or 1.3 per cent of the population. The economy began to stabilise in the early 1990s. Unemployment decreased and the net migration balance moved close to zero. Unattractive labour market conditions abroad, due to the renewed onset of global recession, meant the emigration option was no longer attractive and many former Irish emigrants began to return home. The resulting pressure on the labour market caused unemployment to rise to nearly 16 per cent in 1993, compared with 13 per cent in 1990.

However, in the period from 1995 to 2000 the Irish economy experienced a major reversal of fortune. Real annual GNP growth averaged almost 9 per cent and the estimated net jobs created totalled 389,000, or over 5 per cent on an annual average basis. By April 2000 there was virtually full employment with an unemployment rate of 4.3 per cent. The improvement in Irish economic conditions relative to its EU partners in the 1990s reversed the net emigration trend experienced in the 1980s as Ireland began to experience net immigration. As the unprecedented employment growth eventually gave rise to labour shortages, Ireland experienced a rapid increase in the influx of foreign workers which relaxed the constraint on labour supply. The migrants came not only from the EU15 but also from a wide range of other countries, particularly the Baltic states, mainly under the work permits system.

The boom period of the Irish economy peaked around the turn of the century. Nevertheless, annual GNP growth averaged 4 per cent for the period from 2000-2005 and employment continued to increase, albeit at a slower rate. However due to the fall in the unemployment rate in the late 1990s, the potential domestic supply of labour from which employers could draw had also fallen. Hence, Ireland became an attractive location for many immigrants, particularly those from outside the EU15. In the period from 1996 to the year ending April 2004, just before the enlargement, gross immigration increased from around 40,000 per annum to 50,000 while net migration increased from 8,000 per annum to nearly 32,000. Following enlargement in May 2004 gross immigration increased to 86,900 in the year ending in the second quarter of 2006 and net migration continued to increase to reach nearly 70,000.

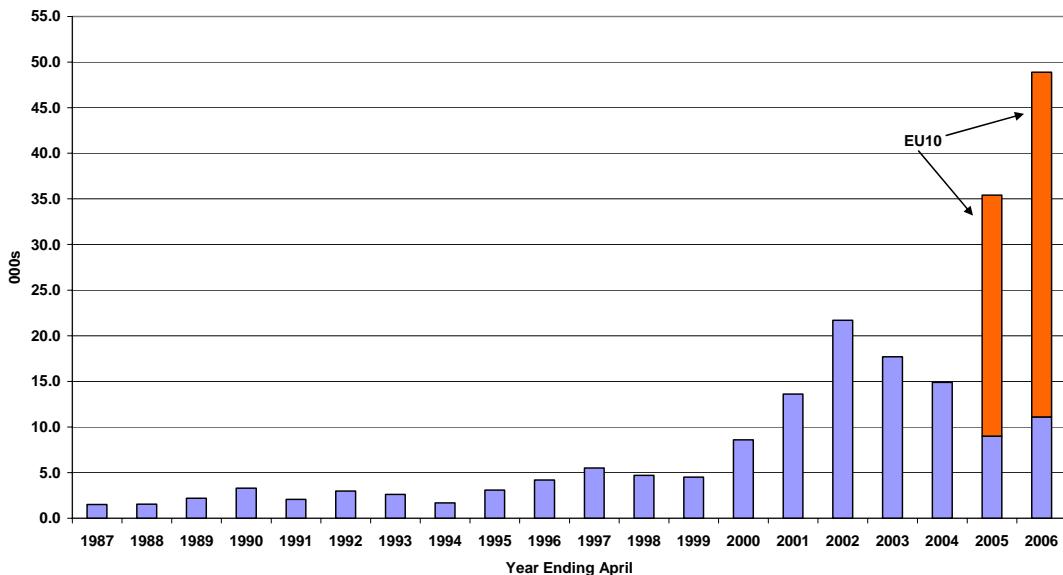
Figure 1: Emigration, Immigration and Net Migration, Ireland 1987-2006



The fall in the number of immigrants from 76,000 in 2002 to 50,000 in 2003 and 2004 was influenced by a change in policy in relation to the issue of work permits. A report by the International Organisation of Migration (2006, p. 30) points out that up to April 2003 “work permit policies were almost entirely ‘employer led’” as employers were essentially able to hire as many non-EEA workers as they wished provided they could satisfy the Department of Enterprise, Trade and Employment that there were no Irish workers available for the jobs they were offering. In April 2003 the government adopted a more managed approach in the Employment Permits Act 2003 which facilitated the policy of sourcing most of the economy’s requirement for migrant workers from within the enlarged EU.

Unfortunately the annual migration statistics only provide information on the stock of EU10 nationals in Ireland from 2005 onwards. In order to get some idea of the stock of EU10 nationals prior to the enlargement it is necessary to examine the category in which they were aggregated before 2005 i.e., the “Rest of the World excluding the EU15 and the USA”. The Central Statistics Office (CSO, 2006) migration estimates in Figure 2 show that from the mid-1990s onwards an increasing number of immigrants came from the Rest of the World including the Central and Eastern European states. It is evident from the data for 2005 and 2006 that immigrants from the EU10 countries accounted for the majority of immigrants from the Rest of the World category. It can be inferred that they accounted for a significant part of total immigration before then, particularly in the years leading up to the enlargement in 2004.

Figure 2: Immigration from "EU10 and Rest of World Excluding EU15 and USA", 1987-2005 Distinguishing Immigration from EU10 in 2005 and 2006

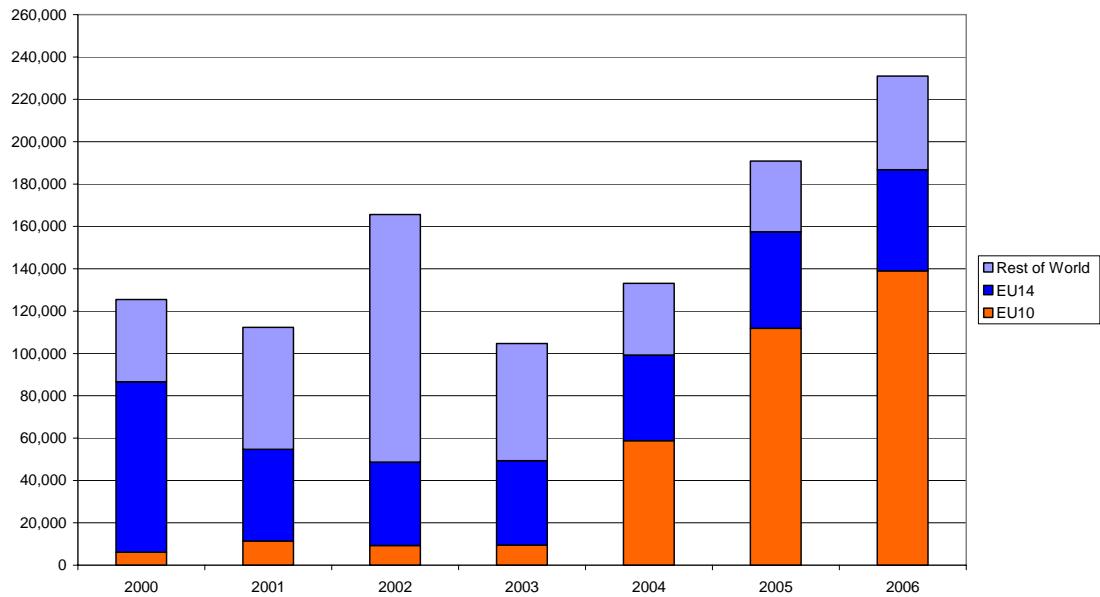


Gross Inflows of EU10 Nationals

There are two sources of data which can be used to indicate the size of the gross inflow of migrants from the new member states – the number of Work Permits issued to employers offering jobs to foreign nationals and the number of Personal Public Service numbers issued to foreign nationals looking for employment or seeking to access public services in Ireland. An individual must be living in Ireland in order to apply for a public service number. As Work Permits were no longer required for EU10 nationals after enlargement the PPS numbers provide a better measure of the magnitude of the gross inflow of migrants from the EU10 countries before and after enlargement. It is important to note that PPS numbers record the monthly gross inflows of migrants from the EU10 countries and not the increase in the stock of migrants. The number of PPSs issued is not therefore a useful indicator of the number of EU10 nationals actually working in Ireland as they include large numbers of EU10 nationals who come to look for work and who subsequently leave either because they cannot find work or there is a downturn in demand in sectors such as hotels and restaurants in which many migrants find seasonal employment.

Figure 3 shows how the number of PPSs issued to EU10 nationals before and after enlargement compares with the number issued to migrants from the rest of the EU excluding Ireland (the EU14) and the Rest of the World. Looking first at the data for the EU10 states it is evident that the annual inflow was relatively small in the period before enlargement. In the years 2000-2003 it averaged around 9,000 per year. In 2004 the annual inflow increased sharply to almost 59,000. About 54,000 of these were issued in the post-accession period (May 2004 to December 2004). In 2005 the number of PPS allocations to EU10 nationals almost doubled to a phenomenal 112,000 and it increased to 139,000 in 2006. The gross inflow of EU10 nationals in 2006 is therefore estimated to

Figure 3: PPS Numbers Issued to Nationals of EU10, EU14 and Rest of World, 2000-2006



have been over 15 times greater than the average annual gross inflow recorded in the period 2000-2003 preceding enlargement. In total 362,172 Personal Public Service numbers have been issued to EU10 nationals following EU enlargement in the period May 2004 to June 2007.

The changes in the gross inflows from the EU10, the EU14 and the Rest of the World before and after enlargement are largely attributable to the Irish government's policy of trying to source most of the economy's need for migrant workers from within the enlarged EU. This is in line with the EU policy of sourcing as much of its labour requirements as possible from within the member states. In the period 2000 to 2003 the inflow of immigrants from the EU14 halved from 80,000 to around 40,000. Following enlargement the inflow from the EU14 member states increased gradually to 41,000 in 2004, 46,000 in 2005 and nearly 48,000 in 2006. In the years 2000 to 2002 there was an increase of 78,000 in the annual inflow from the Rest of the World from 39,000 in 2000 to 117,000 in 2002. In 2003 the gross inflow from the Rest of the World more than halved to 55,000 as a preliminary to implementing the policy of sourcing Ireland's requirement for migrant labour from within the EU member states. This pattern continued after enlargement with the number of PPSs issued to foreign nationals from the Rest of the World falling from 117,000 in 2002 to 44,000 in 2006.

The impact of inflows from the EU10 states relative to the inflows from the Rest of the EU and the Rest of the World is assessed in Figure 4 in terms of changes in each category's share of total immigration over the period 2000–2006. The share of PPS numbers issued to EU10 nationals increased dramatically from less than 5 per cent in 2000 to 9 per cent just before enlargement and to 60 per cent in 2006 two years after enlargement. The share of immigrants coming from the EU14 fell sharply from 64 per cent in 2000 to 38 per cent in 2003 and to 21 per cent in 2006. The share of immigrants coming from the Rest of the World increased from 31 per cent in 2000 to 53 per cent in 2003 and then fell sharply to 25 per cent in 2004 and to 19 per cent in 2006.

Figure 4: EU10, EU14 and Rest of World Shares of Total PPS Numbers issued to Non-Irish Nationals, 2000 - 2006



The expectation before enlargement that there would be relatively small inflows from countries with which Ireland had weak economic relationships has not, therefore, been realised. In addition, the surveys of migration intentions carried out in the source countries before enlargement have proven to be an unreliable indicator of people's actual behaviour.³ The unexpected size of the inflows from the EU10 following enlargement had some influence on the Irish government's decision to restrict access to the labour market of Bulgarian and Romanian nationals when their countries joined the EU in 2007, as we shall see.

Monthly data on the number of Personal Public Service numbers issued to EU10 nationals are available only since May 2004. The three month moving average of the number of PPSs issued from May 2004 to June 2007 to EU10 nationals from (a) Poland, (b) the Baltic states, and (c) the Rest of the EU10 are shown in Figure 5. There has been a strong upward trend in the monthly inflows from the EU10 member states since enlargement. This trend is most evident from the figures for Poland and to a lesser extent for the Baltic states. The upward trend is very clear from the monthly averages. The monthly average number of PPS numbers issued was 7,042 in 2004, 9,129 in 2005 and 11,533 in 2006. However, a comparison of the latest monthly data available for the first six months of 2007 with data for the same period in 2005 and 2006 suggest that the monthly inflows are beginning to slow down. In the first half of 2005 and 2006 the average monthly inflows amounted to 8,528 and 11,135 respectively while the average for the first half of 2007 amounted to 9,487. Figure 5 also suggests that there is a strong seasonal effect with migration increasing in the Summer and decreasing in the Winter. The seasonal pattern of migration from the Central and Eastern European states to Ireland

³ This is not surprising as opinion polls on migration intentions are focused on the supply side, rather than the demand side, of the labour market. They do not provide any information on the capacity of the labour market to absorb migrant workers, as Boeri et. al., (2002, p.25) point out.

Figure 5: Three Month Moving Average of Personal Public Service Numbers Issued to EU 10 Nationals, May 2004 to June 2007

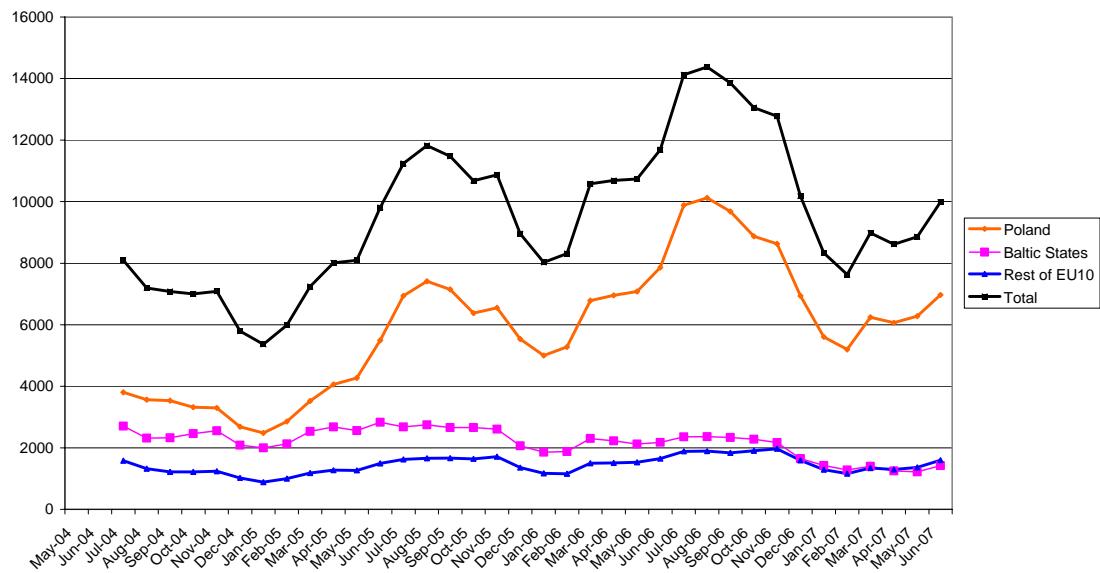
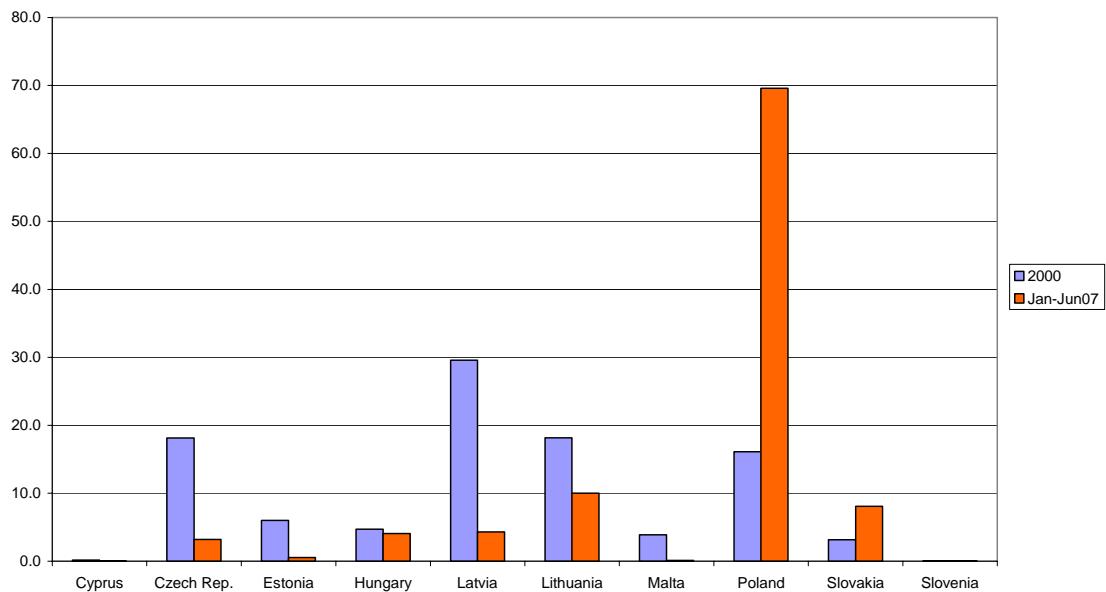


Figure 6: Shares of PPS Numbers Issued to EU10 Nationals, 2000 & Jan-June 2007



is similar to the seasonal pattern of migration from Poland to Germany and it would be interesting to know if the factors underlying it are the same. Stark and Fan (2007) show that seasonal migration arises as a response to differences in costs of living in the origin and destination countries, the costs of separation from the family in the origin country and returns to work in the two countries.

Figure 6 shows how the share of PPS numbers issued to EU10 nationals changed from favouring the Czech Republic, Latvia and Lithuania before enlargement to being dominated by Poland after enlargement. Poland's share changed from 16 per cent in 2000 to nearly 70 per cent in the first half of 2007. The huge widening of the gap in the shares between Poland and the other EU10 countries is indicative of the strength of the links which now exist between the labour markets in Ireland and Poland.

The fact that over 362,000 PPS numbers were issued to EU10 nationals between May 2004 and June 2007 does not necessarily mean that all of these migrants were looking for employment as the PPS number is also required for other purposes such as access to State services. However, an internal cross matching of PPS numbers by the Department of Social and Family Affairs with income tax records indicates that around 70 per cent of those with a PPS number subsequently took up employment. However, most of the immigrants looking for work in Ireland appear to be temporary. A comparison of the PPS data on the gross inflows of EU10 nationals between October 2004 and January 2007 (277,366) with the QNHS data on the change in the number of EU10 nationals in the labour force over the period from the last quarter of 2004 to the first quarter of 2007 (72,000) shows that somewhat over a quarter of those who had come looking for work remained in the Irish labour force at the end of that period.

Although the Poles have received the largest number of PPSs, it is the Lithuanians and Latvians who have the greatest propensity to enter the Irish labour market. These countries are experiencing poor economic conditions with low GDP per head and high unemployment rates. Table 2 and Figure 7 present data on GDP per head in the EU10 member states in 2005 relative to GDP per head in Ireland and the propensity to migrate measured by the number of PPSs issued per 1,000 population in the source country. The correlation between the propensity to migrate and GDP per capita relative to GDP per capita in Ireland is 0.79. Nearly 62 per cent, therefore, of the variance in the propensity to migrate to Ireland from the EU10 member states can be explained by differences between living standards in the EU10 countries and Ireland.

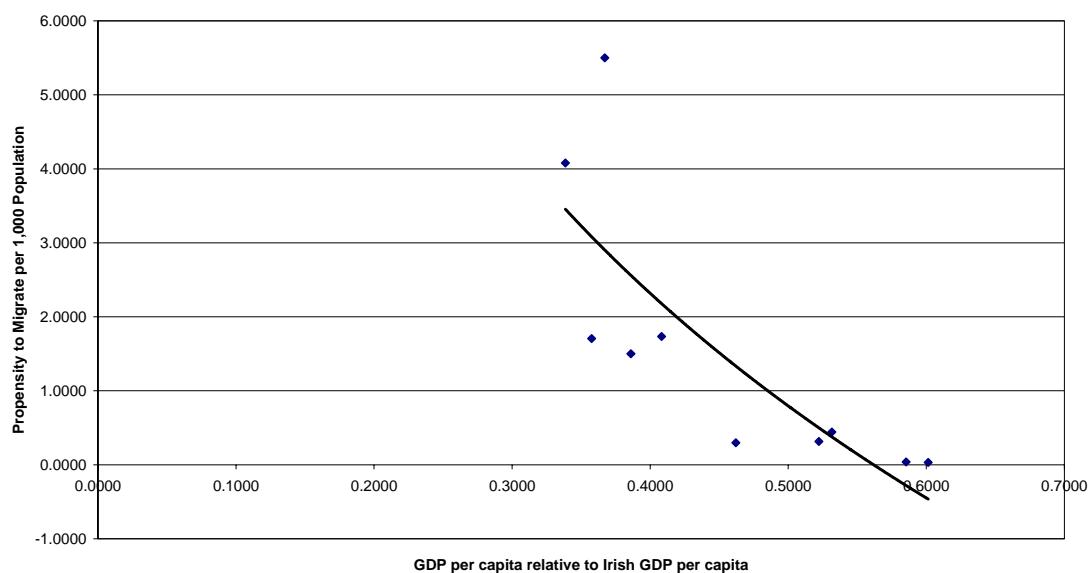
This relationship can be used to estimate how many nationals of Bulgaria and Romania might have emigrated to Ireland in 2005 if they had free access to the Irish labour market. On the basis of differences in living standards between Ireland, Bulgaria and Romania the number of PPSs issued to their nationals would have been around 65,000 in 2005. This compares with the actual figure for PPS numbers issued to Bulgarians and Romanians of around 1,000 in 2005. This difference indicates the potential for large scale migration flows from Bulgaria and Romania to Ireland.

Although Bulgarian and Romanian nationals were not given free access to the Irish labour market when they joined the EU in January 2007 they are free to come to Ireland for a period of up to three months or longer if they can support themselves or to work in Ireland if they can get a work permit. In 2006 3,336 PPS numbers were issued to Romanians and 267 to Bulgarians while in the period January to June 2007 9,061 PPSs were issued to Romanians and 524 to Bulgarians. Despite the restrictions on access to the

Table 2: PPSs issued in 2005 as a Proportion of Country of Origin Population and GDP per capita in Country of Origin Relative to Irish GDP per capita

	PPS per 1,000 Pop. 2005	GDP Per Capita Relative to Irish GDP Per Capita 2005
Poland	1.7053	0.3576
Lithuania	5.4988	0.3671
Latvia	4.0795	0.3386
Slovakia	1.7328	0.4082
Czech Republic	0.4438	0.5316
Hungary	0.2978	0.4620
Estonia	1.4998	0.3861
Slovenia	0.0380	0.5854
Malta	0.3154	0.5222
Cyprus	0.0334	0.6013
Memorandum Items		
Bulgaria		0.2373
Romania		0.2405

Figure 7: Relationship Between Propensity to Migrate from EU10 Countries and GDP Per Capita Relative to Ireland's GDP Per Capita, 2005



Irish labour market significant numbers of Romanian nationals are, therefore, migrating to Ireland although the number is less than about one-third of the projected inflow if the labour market had been opened to them as it was for nationals of the EU10.

Employment of EU10 Nationals in Ireland

At the time of enlargement the Irish economy was in a strong position. GDP growth was the highest in Europe, at 4.5 per cent, and unemployment, at 4.4 per cent, was the lowest. Since accession, the Irish labour market has continued to perform strongly. Employment growth was 4.7 per cent in 2005 and 4.3 per cent in 2006, the highest rates since 2000, and unemployment averaged 4.3 per cent in both 2005 and 2006. Open access to the labour market coupled with a continuing strong demand for labour have, therefore, attracted large and growing numbers of immigrants from the EU10 states to Ireland.

Data on the stock of EU10 workers in Ireland is sourced from the Quarterly National Household Survey (QNHS). Unfortunately the QNHS data only identify employment of EU10 nationals from the fourth quarter of 2004 onwards. As in the case of the data on gross immigration we will use data on the employment of non-Irish nationals and, where applicable, EU10 nationals to examine trends in employment of immigrants. The QNHS data show that the magnitude of immigration to Ireland since enlargement has resulted in a big increase in the employment of non-Irish nationals. In the first quarter of 2007 there were 229,400 non-Irish nationals aged 15 and over in employment and they accounted for 11 per cent of total employment. Of these 106,300 were EU10 nationals so over 46 per cent of all non-Irish nationals at work in Ireland were immigrants from the EU10 member states.

The EU10 category has increased throughout the post-accession period. Figure 8 shows that in the year before enlargement (Q2 2003), the stock of workers from the EU10 was around 16,000. Nearly three years after enlargement in Q1 2007 this figure had increased more than six times to 106,300. There was a net increase, therefore, of 90,100 in the number of EU10 nationals employed in Ireland before enlargement and the first quarter of 2007. EU10 national had a much higher labour force participation rate, 91 per cent (see Figure 9), than Irish nationals, 62 per cent at the beginning of 2007 and EU10 nationals have accounted for around 40 per cent of the jobs created in Ireland since enlargement.

The average Irish unemployment rate has been low and stable at around 4.4 per cent during the post-enlargement period Q3 2004 to Q1 2007. The unemployment rate of EU10 nationals has been somewhat higher at 5.7 per cent on average during the same period. Although the number of EU10 nationals who describe themselves as economically inactive has increased from 4,100 in Q3 2004 to 11,700 in Q1 2007 the percentage who are not in the labour force has almost halved from 16.7 per cent to 9.4 per cent.

**Figure 8: Employment of Nationals from the Rest of World Excluding EU15 and USA
Distinguishing EU10 Nationals, Q2 2003 - Q1 2007**

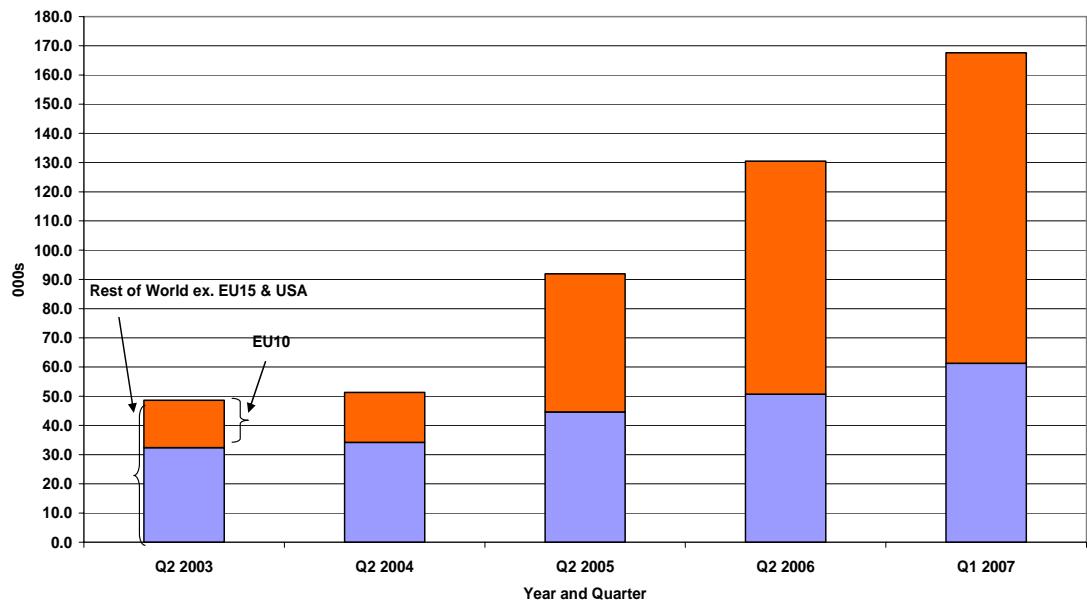


Figure 9: ILO Employment Status of EU10 Nationals, Q3 2004 to Q1 2007

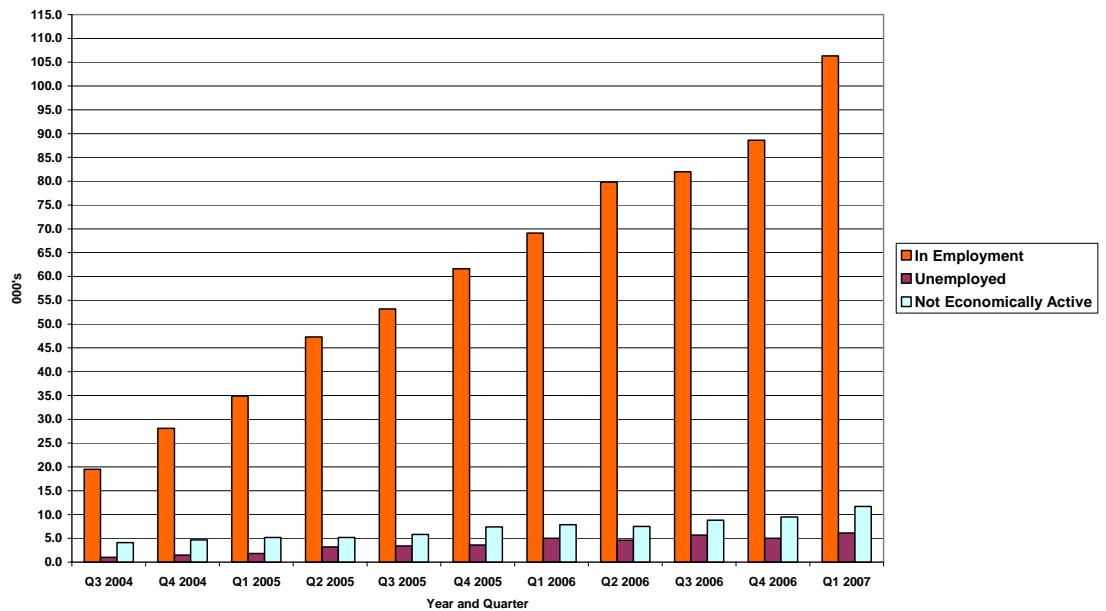


Figure 10 shows the employment of workers from the EU10 states by NACE sector in Q4 2004 and Q1 2007. The data show that at the end of 2004 the employment of EU10 nationals in hotels and restaurants, wholesale and retail, construction and manufacturing was about the same, 5,000, in each sector. By the beginning of 2007 the number employed in all four sectors had increased dramatically but especially in the construction and other production (manufacturing) sectors. The number employed in hotels and restaurants and in wholesale and retail trade more than tripled to 18,100 and 15,300 respectively whereas the number employed in the construction sector more than quadrupled to nearly 26,000 and the number employed in manufacturing more than tripled to 23,400. These four sectors now employ nearly 78 per cent of EU10 nationals at work in Ireland.

Figure 11 shows that EU10 nationals accounted for over 9 per cent of total construction workers and 8 per cent of workers in manufacturing in the first quarter of 2007. The sector with the highest proportion of EU10 workers is the hotels and restaurants sector. In Q1 2007 this sector employed 18,100 EU10 nationals, or over 15 per cent of all those employed in the sector.

Effects of EU10 Migration on Employment, Unemployment and Wages

The inflows of immigrants from the EU10 member states in the post-enlargement period have been much larger than expected, mainly because of continuing strong labour demand and the opportunities available in Ireland to migrants from Central and Eastern Europe who would normally have chosen Austria, Germany, or Italy if those countries' labour markets had been fully open to them. While Ireland has largely benefited from migration from the EU10 the scale of it has increased the price of renting and buying accommodation, and increased congestion on transport and other infrastructure (see Duffy, 2007). In addition, there have been some reports that Irish workers in a few firms are being displaced by immigrants who are being paid less than the collectively agreed rates of pay.

The displacement issue was first brought to public attention by the Gama and the Irish Ferries cases. In the Gama case a Turkish construction company operating in Ireland in 2005 was paying its Turkish workers less than half the minimum wage and less than a quarter the registered employment agreement hourly rate for the lowest paid operative in the construction sector. The Minister for Enterprise, Trade and Employment appointed an inspector to investigate this case but was prevented by legal action taken by the company from publishing the results of the report which were reported to be unfavourable to the company. In the Irish Ferries case over 500, mainly Irish, seafarers were replaced in 2005 by foreign workers, mainly Latvian, whom it was proposed to pay less than half of the minimum wage. As this was done under international maritime law the Irish government was unable to use domestic labour law to prevent the replacement of the Irish work force. The frustration which this engendered was heightened by the government's obligation under the terms of the Redundancy Payments Act to give Irish

Figure 10: Employment of EU 10 Nationals in Ireland by NACE Sector, Q4 2004 and Q1 2007

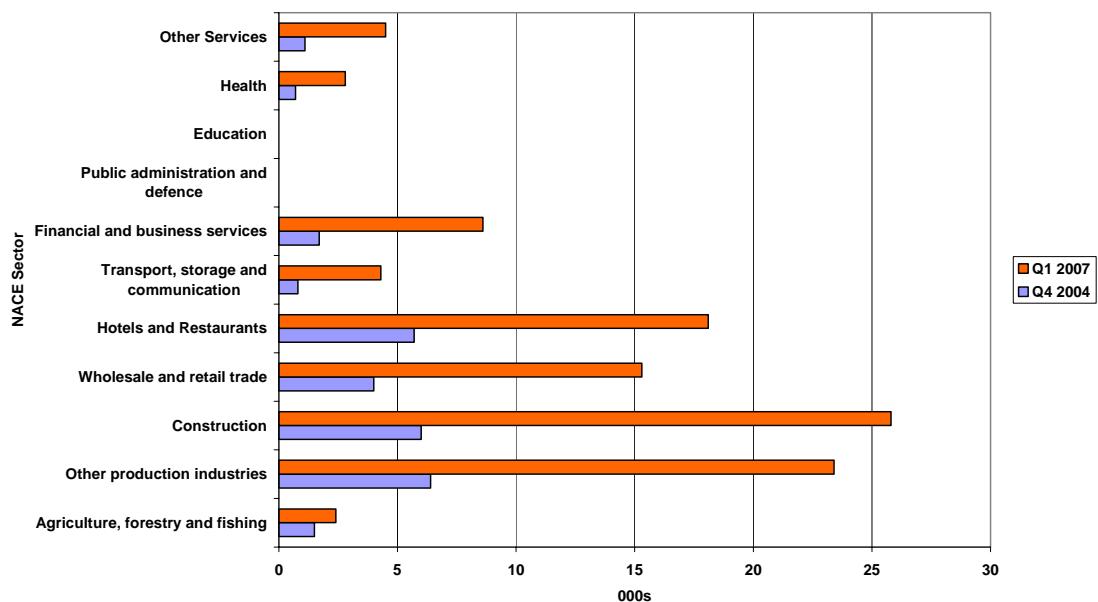


Figure 11: EU10 Nationals Share of Employment in Ireland by NACE Sector, Q4 2004 and Q1 2007

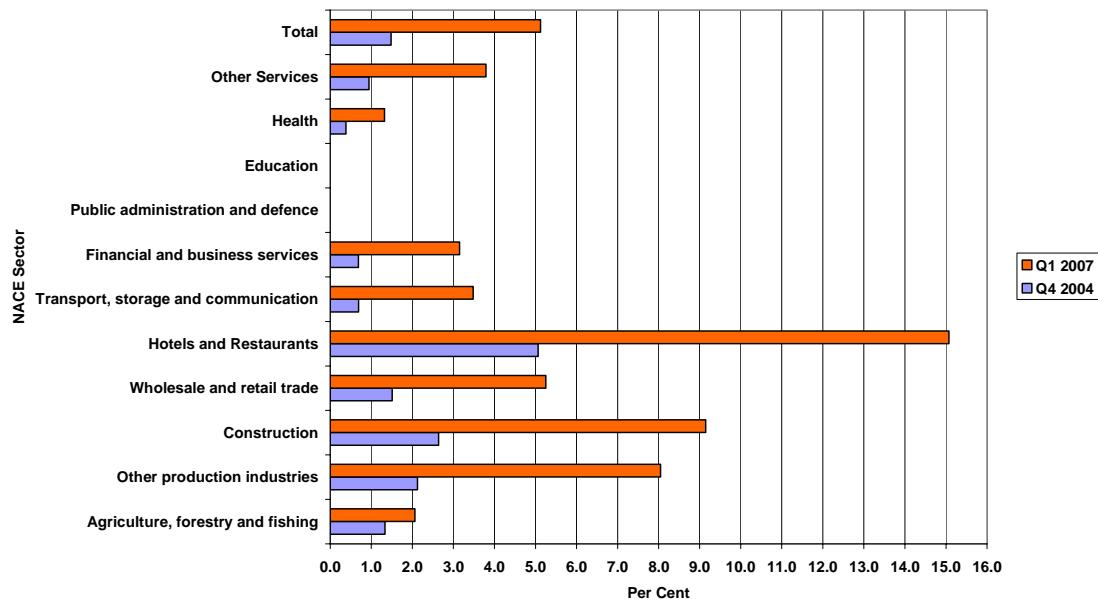
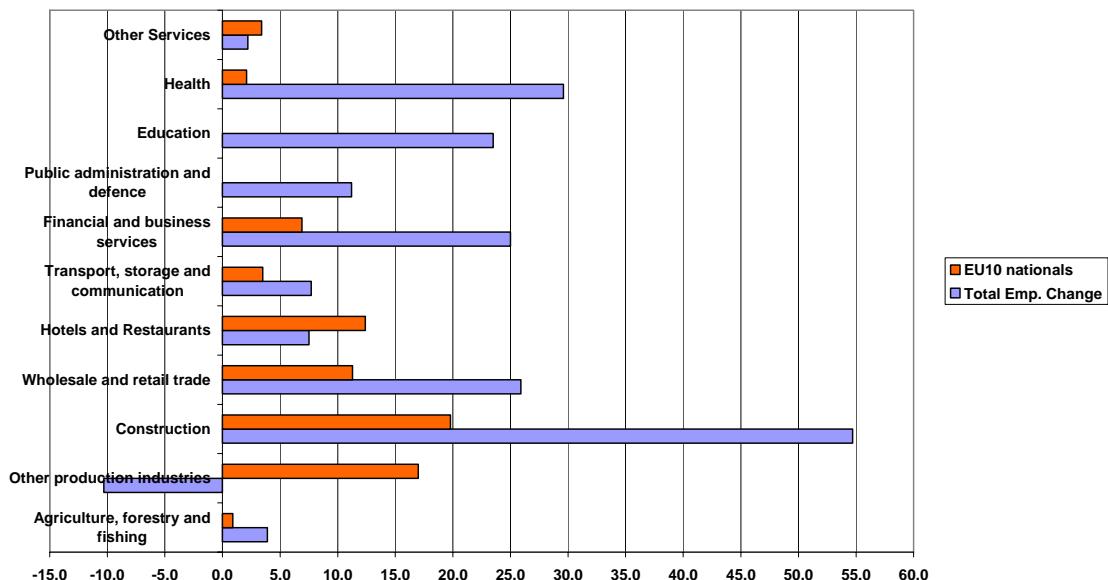


Figure 12: Change in Total Employment and in Employment of EU10 Nationals, Q4 2004 - Q1 2007



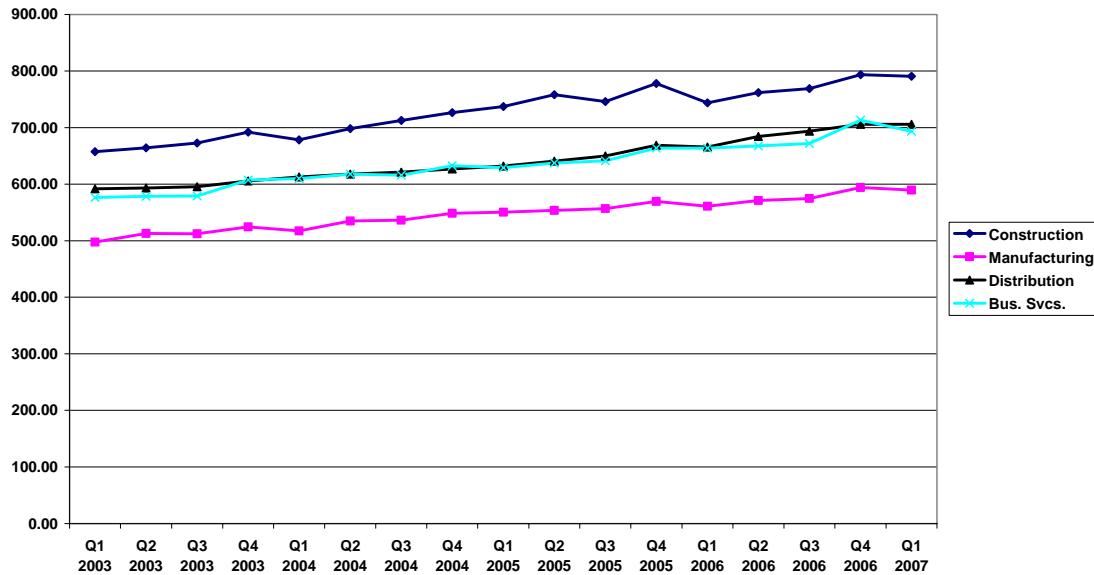
Ferries €4.3 million towards the cost of statutory redundancy payments for the staff who were replaced. Eventually a compromise settlement was reached with the company under which it agreed to pay its foreign workers the Irish minimum wage. A number of similar cases have been cited by different trade unions as evidence of foreign companies employing their nationals at lower than the legally recognised rates of pay for the job⁴.

While there have been cases of some firms using immigrants to replace Irish workers there is little evidence to show that this has been happening on a scale that is affecting employment, unemployment and wage rates. Figure 12 shows that the increase in total employment in all sectors in the period since enlargement has significantly exceeded the increase in the employment of immigrants from the EU10 states with the exception of the manufacturing and hotels and restaurants sectors. A dynamic reallocation of labour appears to be underway with immigrants finding employment in sectors being left by Irish workers who are moving into more highly skilled jobs in financial and business sectors, health, education and other public services.

The average weekly earnings data in Figure 13 for the construction, manufacturing, distribution and business services sectors, in which EU10 immigrants are concentrated, show that there has been no break in the strong upward trend in earnings following enlargement. The inflow of immigrants into these sectors may have restrained the growth in earnings but it has not resulted in a reduction of earnings which would have

⁴ These examples include claims of Polish workers being underpaid at the Electricity Supply Board power station at Moneypoint, Hungarian workers being underpaid at the Spencer Dock construction site, and Serbian workers being underpaid by a Belgrade based sub-contractor involved in the renewal of the electricity network. All of these claims have been contested by the main contractors responsible for the projects.

Figure 13: Average Weekly Earnings in Construction, Manufacturing, Distribution and Business Services,
Q1 2003 - Q1 2007 (€)



been expected to occur if immigrants were significantly undercutting the rates negotiated in collective wage agreements

Neither is there any evidence of immigration from the EU10 states resulting in higher local unemployment rates. Following Gilpin et.al (2006) Figure 14 uses data from the Census of Population and the Live Register of Unemployment by county to investigate the correlation between the change in the local unemployment rate over the period May 2004 to April 2006 and the stock of EU10 migrants in each county in April 2006. A relationship between the concentration of migrants in each county and increases in the local unemployment rate would be expected to result in a significant coefficient on the migration variable. While the regression line has an upward slope the migration coefficient is not significantly different from zero. Consequently, the inflow of migrants into local labour markets since enlargement has had no noticeable impact on local unemployment rates.

It is possible that the expected relationship is not apparent because of the endogenous effect of migrants moving to areas with low local unemployment rates. If migrants have a greater propensity to go to areas with low unemployment rates there should be a negative correlation between the unemployment rate and the stock of migrants. Figure 15 shows that there is a weak negative relationship but that the coefficient on the unemployment variable is not significantly different from zero. The destinations of EU10 migrants within Ireland do not, therefore, appear to have been influenced by high or low local unemployment rates. Consequently, the finding in Figure 14 that EU10 migration has not changed local unemployment rates is unlikely to have been influenced by migrants favouring areas of high labour demand.

Figure 14: Percentage Point Changes in Unemployment Rate Two Years After Enlargement and EU10 Migrants as a Proportion of the Population by County

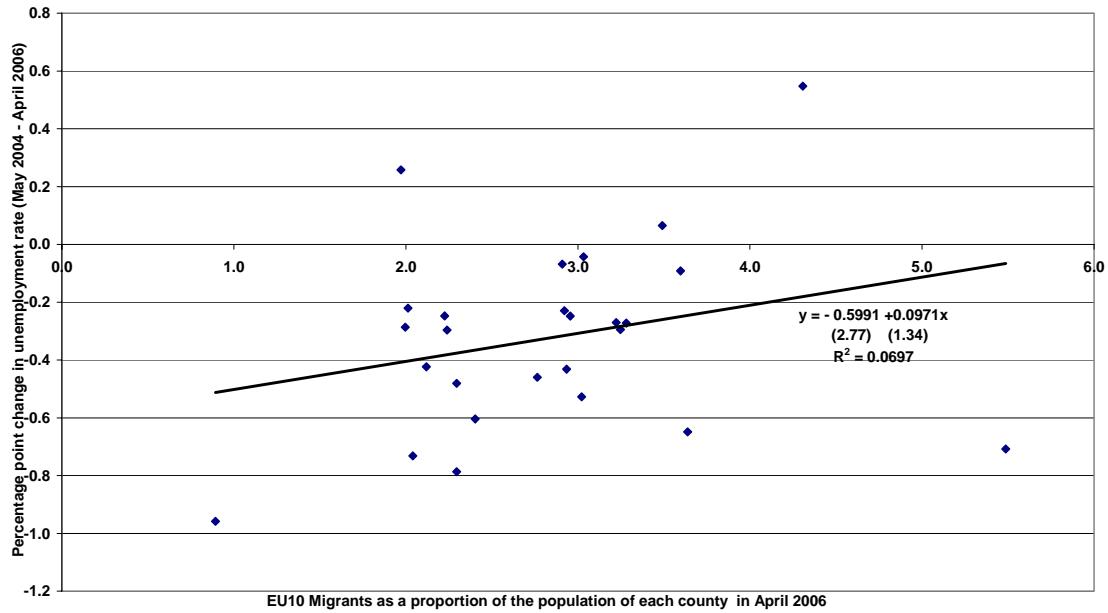
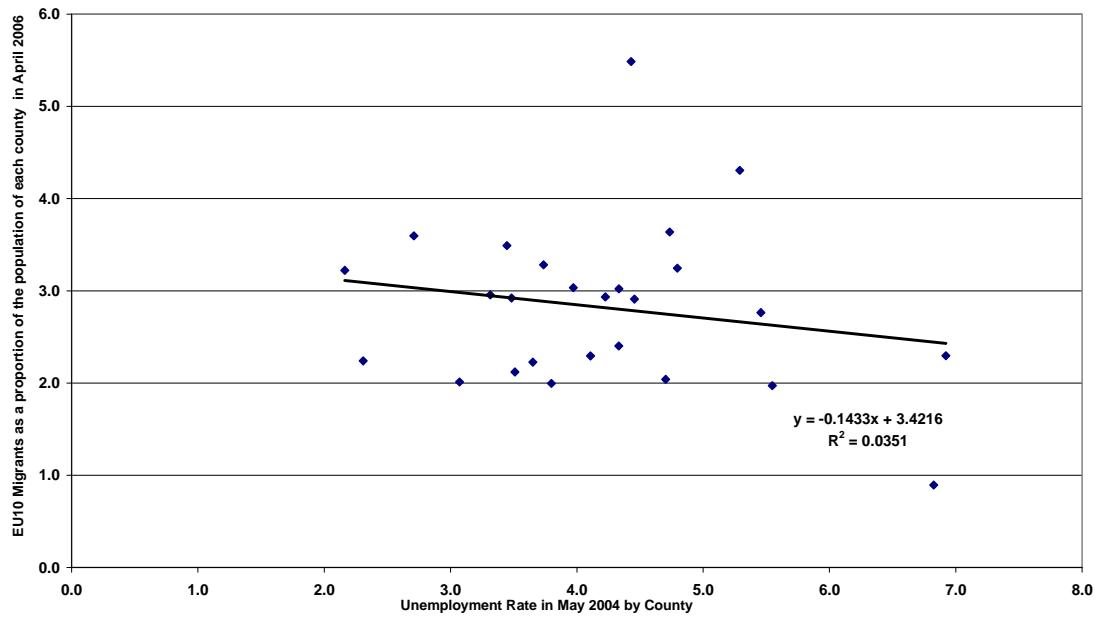


Figure 15: Correlation Between the Unemployment Rate by County and Inflows of Migrants from EU10, May 2004 - April 2006



The only statistical evidence which has been used to support the argument about foreign workers displacing Irish workers was given in a newspaper article in the Irish Times in January 2006 by the Head of Research at the Services, Industrial and Professional Trade Union (SIPTU), the country's largest trade union (see O'Riordan 2006). He used earnings and employment data for the manufacturing sector to argue that "unregulated immigration and unscrupulous hiring practices are undermining wages and conditions". This view was based on the fact that earnings growth fell in the manufacturing sector from 4.7 per cent in the year ending March 2005 to 2.1 per cent in the year ending September 2005 while the number of foreign workers in the sector increased by 8,000 and the number of Irish workers decreased by 19,400 between September 2004 and September 2005. In a comment on the displacement argument Doyle, Hughes and Wadensjo (2006) used a longer time series of earnings in manufacturing to show that there had been decreases in earnings growth in manufacturing before enlargement in the periods March-September 2002 and March-September 2003. As these decreases may have been caused by seasonal factors it cannot be concluded that the decrease in earnings in 2005 was due to immigration. A detailed econometric analysis of the determinants of earnings in manufacturing and other sectors would be required to try and isolate the influence of EU10 migration on earnings growth to see if there is a displacement effect..

More recent earnings and employment data for 2006 show that foreign workers continued to replace Irish workers in the manufacturing sector but that earnings growth increased rather than decreased. Thus, earnings growth increased from 3.1 per cent in the year ending March 2006 to 3.7 per cent in the year ending September 2006 while the number of foreign workers in the sector increased by 4,400 and the number of Irish workers fell by 2,400 between September 2005 and September 2006

O'Riordan (2006) also used earnings data to argue that migration had resulted in "wage degradation" in some sub-sectors of manufacturing such as food products, office machinery and computers, and electrical machinery because the *level* of hourly earnings fell between March and September 2005. However, he did not present any data to show that these decreases occurred in sectors in which foreign workers replaced Irish workers. Subsequent earnings data show that by December 2006 the level of hourly earnings in all three sub-sectors exceeded the level recorded in March 2005 by 2 per cent in food products, by 0.3 per cent in office machinery and computers, and by 20 per cent in electrical machinery and equipment. If there was "wage degradation" following enlargement it could have been for only a very short period as earnings growth has now resumed in these sectors..

The influence of factors other than immigration on earnings growth makes it difficult to test the displacement hypothesis and no econometric study has yet been done to try and identify the effect of different factors before and after EU enlargement. However, the data on earnings and employment has also been examined by FÁS (2006), the Training and Employment Authority, to try and establish if there is any relationship between the reduction in the number of Irish workers in the sectors in which foreign workers are being employed and a slow down in earnings growth. Such an association would be consistent with displacement although it would not prove the hypothesis. Within manufacturing the only sectors in which foreign workers are replacing Irish workers and wage growth is moderating are food processing and chemicals and chemical

products. Within services foreign workers were found to be replacing Irish workers in the hotel and restaurant and retail sectors but earnings growth was found to be stronger than before EU enlargement. On the basis of the evidence available, FÁS (2006, p. 43) concluded that:

“while definitive conclusions could not be drawn from the data, the statistics would suggest that displacement is not a major or widespread issue in the current circumstances of the Irish economy. The two overriding reasons for this conclusion are the continued low levels of unemployment and the continued rise in wage levels across all the main sectors of the economy.”

If there is displacement on a significant scale, one would also expect to see some evidence of it in falling vacancies and rising unemployment. At the beginning of the enlargement in May 2004 the percentage of firms in all sectors reporting vacancies was 10.6 per cent, in May 2005 the figure was the same, in May 2006 it had risen to 16 per cent and by March 2007 it had fallen back a little to 15 per cent. The vacancies data suggest that the demand for labour remained strong after enlargement and they provide no evidence of a substantial reduction in the number of jobs available in the economy.

Similarly there is no evidence from the unemployment data that displacement of Irish workers has resulted in an increase in the unemployment rate. In an article on the displacement issue, FitzGerald (2006) noted that since the Irish labour market was opened to CEE nationals the unemployment rate had actually fallen to 4.1 per cent by December 2005. As the unemployment rate in the first quarter of 2007 was 4.2 per cent there has been little change since then. Over three years after EU enlargement the unemployment rate is little different from what it was before enlargement. As FitzGerald points out:

“...if there has been significant displacement of Irish workers by immigrants in some sectors, the unemployment data suggest they must have been re-employed elsewhere. And, in so far as there is a difference between Irish and immigrant workers, part at least of this phenomenon could be accounted for by Irish workers moving to better-paid jobs, and being replaced by lower-paid immigrants in their old positions.”

The substitution of migrant workers for Irish workers in some sectors is the kind of labour turnover one would expect as Irish workers take advantage of a growing labour market to move into higher paying jobs and migrants fill the resulting vacancies.

Effects of EU10 Migration on Public Policy

On the evidence available to date, displacement of Irish workers by EU10 workers has not been a source of disturbance in the labour market at the macroeconomic level. Nevertheless, the Irish Ferries, Gama and other cases were regarded by the Irish Congress of Trade Unions (ICTU) as sufficiently serious breaches of the terms of the social partnership arrangement between the trade unions, the employers and the government to warrant particular attention in the negotiations on pay and conditions of employment which were due to commence following the expiry of the previous national wage agreement at the end of 2005. The government issued an invitation to the social partners to participate in a new agreement in October 2005. The ICTU deferred accepting this invitation pending clarification from the government that issues relating to employment

standards, displacement, inspection and enforcement would be discussed before commencing negotiations on rates of pay under a new national agreement. The Irish Ferries and Gama cases were cited by the trade unions as examples of the failure of the regulatory regime to respond effectively to the exploitation of foreign workers and displacement of Irish workers in the pursuit of greater profits by the business community. They secured agreement from the employers and the government before negotiations on a new social partnership agreement began in February 2006 that the initial items on the agenda would be how to implement and strengthen the range of labour legislation intended to preserve established labour standards including employment rights, health and safety, non-discrimination and equal rights of both Irish nationals and migrants.

The negotiation of the social partnership agreement in the early part of 2006 was much more protracted than usual because of the difficulty of securing agreement on how employment rights could be protected. The document which eventually emerged “Towards 2016” sets out a ten year agreement between the social partners with an initial 27 month pay phase and a package of measures designed to increase public confidence in the system for securing compliance with employment rights and labour standards (see Department of the Taoiseach, 2006). The most important of these measures include the establishment of a statutory Office of the Director for Employment Rights Compliance (ODERC), an increase in the number of labour inspectors from 31 to 90 by the end of 2007, legislation to strengthen the powers of the Minister for Employment, Trade and Enterprise to investigate and publish the results of inquiries into suspected cases of breaches of employment rights, and the establishment of a Redundancy Panel to address exceptional cases of compulsory collective redundancy where the staff are to be replaced by new employees on materially reduced terms and conditions of employment. The purpose of these measures is to try to ensure that there is no repetition of the Gama or Irish Ferries cases by tightening the implementation of labour standards which have been agreed by employers, trade unions and government.

Influence of EU10 Migration on Transitional Arrangements for Bulgaria and Romania

Although the economic effects of migration from the EU10 were generally favourable for Ireland’s economy and labour market, the government decided in October 2006, in relation to the 2007 EU enlargement, that it would not open the labour market for Bulgaria and Romania in the same way as it had for the EU10 countries. There were a number of non-economic factors underlying this decision. These included some unfavourable social developments following EU10 migration, concerns about Ireland’s capacity to continue absorbing inflows of migrants on the scale experienced following the enlargement in 2004, and the need to protect the Common Travel Area with the UK.

There were concerns about the strains which the inflow of immigrants is placing on infrastructural, educational and other resources, about the difficulties which non-English speaking immigrants are encountering in finding employment appropriate to their level of qualifications and the downward pressure which their bumping down into lower skill jobs may be exerting on wages for unskilled workers,⁵ and about the emergence of

⁵ Research in progress by Barrett and Duffy (2007) shows that the gap between qualifications and occupation for non-English speaking migrants is lower for those who arrived before 2000. This pattern is

job discrimination against migrants (see ESRI, 2006). The tripling of Ireland's foreign-born population from around 3 per cent to 10 per cent in the ten year period 1996-2006 raised questions about its capacity to continue absorbing migrants at that rate in the future, particularly when it took the UK and the USA at least 40 years to double their immigrant populations in the last century. These and other issues influenced recommendations that the labour market should not be opened to Bulgarian and Romanian nationals by the main labour market actors, IBEC (see Smyth, 2006) and the ICTU (2006), and influential organisations like the Economic and Social Research Institute (2006) and the National Economic and Social Council (2006).

Migration policies within other EU countries also influenced the Irish government's decision. It pointed out that following the two year review by the Commission of the European Communities (2006) of the transitional arrangements for the EU10 states there was only a partial relaxation of the restrictions on EU10 nationals' access to the labour markets of France, Belgium, Luxembourg and Italy and no lifting of the restrictions in Austria, Germany and Denmark. The concern about continuing restrictions in these countries led to a collective decision by Ireland and Britain not to open their labour markets to Bulgarian or Romanian nationals as the Minister for Justice, Equality and Law Reform, Mr. McDowell, told a meeting of the National Forum on Europe (2006) when he noted that:

“... in relation to Romania and Bulgaria the governments, Ireland and Britain made a decision collectively that by virtue of the common travel area and that by virtue of the radical divergence between per capita income in Romania and Bulgaria compared to the rest of Europe, that as long as the other Member States were not adopting an open door policy, it would be folly for Ireland to risk a further wave of migration because it would, in fact, have the potential to seriously destabilise our labour market and that in turn would lead to blue collar racism in Ireland.

The government's decision to implement transitional arrangements for citizens of Bulgaria and Romania was supported by both of the main opposition parties. It is intended to provide a breathing space in which to monitor compliance with the new arrangements for implementing labour law following the EU10 migration and to allow time to develop policies for the integration of migrants into Irish society and to strengthen existing policies to combat discrimination and xenophobia which is one of the government's main concerns.

5. Conclusions

The number of immigrants from the Southern, Central and Eastern European states was much larger than expected in the pre-enlargement period. In the year 2004/05 the annual inflow of long-term immigrants from the EU10 states amounted to 26,400 while in 2005/06 it increased to 37,800. These inflows compare with an annual inflow of 3,400 projected before enlargement. The long-term flows were only about 30 per cent of the short-term flows. In the years 2004/05 and 2005/06 85,378 and 121,927 EU10 nationals registered as seeking employment and around 70 per cent of them found jobs. In the year 2006/07 the number of short-term migrants from the EU10 states increased to

consistent with an assimilation story but the researchers point out that they cannot reach a definitive conclusion in the absence of panel data on migration.

132,361. The seasonal nature of much of the EU10 migration to Ireland is similar to much of the migration from Poland to Germany and it merits further investigation to establish the importance of differences in living standards, returns to work and family ties in the source and destination countries which are highlighted in the family oriented migration model developed by Stark and Fan (2007).

Economic and institutional factors appear to have influenced the size of the short-term flows. Economic theory indicates that people tend to migrate from countries with low-income levels to countries with high-income levels. Common sense suggests that the flow from the EU10 to Ireland would have been much larger than expected on theoretical grounds because access to the labour markets of other countries is restricted during the transitional period. At the time of enlargement the average GDP per capita in the EU10 countries was less than half of GDP per capita in Ireland. It was to be expected, therefore, that the propensity to migrate in the post-enlargement period would have been greater from the poorer EU10 states than for the richer states. Although Polish nationals comprise the majority of the immigrants from the EU10 countries it has been shown that Latvians and Lithuanians have the highest propensity to migrate to Ireland. Relative to their populations Lithuanians, for example, are more than three times as likely to migrate to Ireland as Poles. The strength and flexibility of the Irish labour market ensured that most of those who came seeking work were successful in finding employment. A corollary of the relationship between per capita income and migration is that as living standards between Ireland and the EU10 countries converge over time, as they have within the EU15 countries, the propensity to migrate from the EU10 states is likely to fall over time.

Ireland's policy makers have responded very effectively to the EU policy of sourcing most of the European Community's requirement for labour from within the EU. They managed to increase the number of immigrants from the EU10 states from 10 per cent of the total in the year before enlargement to 60 per cent in the period after enlargement.

A lot of emphasis was put on the possibility of 'welfare tourism' in the debate preceding enlargement. However, there is no evidence from the Irish experience that EU10 nationals are in any way over-represented in welfare state schemes. Despite the magnitude of the inflow from the EU10 states, less than 1,000 of their nationals were signing on the unemployment register in March 2006 (FÁS, 2006). An analysis of data for 2004 from the EU Survey of Income and Living Conditions by Barrett and McCarthy (2006) of claims for unemployment benefits or assistance and disability benefits or assistance showed that immigrants were half as likely as Irish nationals to have been in receipt of benefits from any of these four welfare schemes in the year preceding the survey. Immigrants including EU10 nationals were, therefore, likely to make even less demands on the welfare system than Irish nationals. This outcome could of course have been influenced by the Habitual Residence Condition. Nevertheless, taking the gross inflow data in conjunction with the data on the employment status of the migrants from the EU10 countries strongly suggests that their nationals are not coming to Ireland for the purposes of "welfare tourism".

Concerns emerged following enlargement about the displacement in some sectors of Irish workers by foreign workers. However, the data on employment, unemployment and earnings show no breaks following enlargement that could be attributed to

displacement and there is no convincing evidence to suggest that displacement of Irish workers by lower paid immigrants is a source of disturbance in the labour market. There is some evidence of Irish workers being replaced by immigrants in some sectors such as manufacturing but this reflects the normal dynamics of the labour market in which domestic workers move to better-paid jobs and are replaced by immigrants.

Ireland's experience of immigration since the enlargement has been generally favourable. Employment and earnings have continued to rise across all of the main sectors and unemployment has fallen. The inflow of migrants from the EU10 states has made a significant contribution to these favourable labour market outcomes as they have filled 40 per cent of all the jobs created since enlargement.

For the immigrants themselves the experience appears to have been largely favourable. Immigrants from English speaking countries were able to successfully compete with Irish workers for jobs appropriate to their level of education and qualifications. Immigrants from non-English speaking countries were successful in finding employment although the jobs were in occupations at a lower level than they were qualified for. Consequently, after controlling for factors such as education and work experience they had lower earnings than Irish workers. However, the occupation and earnings gaps narrowed the longer the non-English speaking immigrants had been in the country either because they improved their English language skills or those who could not do so returned home.

Despite the positive benefits that Ireland has gained from the increase in its labour supply due to immigration from the EU10, the government, the social partners and other actors concluded before the 2007 enlargement that the labour market should not be opened to nationals of Bulgaria and Romania in the same way as it had been for the EU10 countries. There were mainly social reasons for this decision including concerns about most of the EU15 states continuing to restrict access of EU10 nationals to their labour markets following the two year review of the transitional arrangements for the European Commission and about the majority of the EU25 states deciding to apply transitional arrangements following the EU enlargement in 2007. The failure of other EU Member States not to adopt an open door policy and the desire of the Irish and British governments to protect their Common Travel Area led to a collective decision by Ireland and Britain not to open their labour markets to Bulgarian and Romanian nationals.

The need for better implementation and strengthening of labour law to maintain employment standards and to protect the rights of both Irish and migrant workers was highlighted by the Irish Ferries, Gama and other cases. The government has, therefore, taken steps to address these issues and it has decided to use the transitional period before the labour market has to be opened to nationals of Bulgaria and Romania to see how effective the new arrangements for implementing labour law are and to develop policies to integrate migrants and their dependants into Irish society.

References

- Ahern, B. (2004), *Ahern Speaks of Possible Impact of Enlargement on Irish Labour Market*, Press Release 23rd of February; www.eu2004.ie.
- Barrett, A., and D. Duffy (2007). "Immigrants, Year of Arrival and Occupational Attainment: Looking for Evidence of Assimilation in Ireland". Dublin: The Economic and Social Research Institute (mimeo).
- Barry, F. (2004) "Prospects for Ireland in an Enlarged EU", *The World Economy*, Vol. 27, Issue 6.
- Boeri, T., G. Bertola, H. Brucker, F. Coricelli, J. Dolado, J. FitzGerald, A. de la Fuente, P. Garibaldi, G. Hanson, J. Jimeno, R. Portes, G. Saint-Paul, A. Spilimbergo, 2002. *Who's Afraid of the Big Enlargement?* London: Centre for Economic Policy Research.
- Boeri. T., and H. Brücker (2005), "Migration, Co-ordination Failures and EU Enlargement", IZA DP No. 1600.
- Central Statistics Office (2006), *Population and Migration Estimates April 2006*. Dublin: Central Statistics Office bulletin.
- Commission of the European Communities (2006), "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 to the Council, The European Parliament, The European Economic and Social Committee and the Committee of the Regions.
- Department of the Taoiseach (2006) *Towards 2016: Ten-Year Framework Social Partnership Agreement 2006-2016*. Dublin: Stationery Office.
- Doyle, Nicola, Gerard Hughes and Eskil Wadensjö (2006), *Freedom of Movement for Workers from Central and Eastern Europe: Experiences in Ireland and Sweden*, Stockholm: Swedish Institute for European Policy Studies.
- Duffy, D., (2007). "The Housing Tenure of Immigrants in Ireland: Some Preliminary Analysis." Dublin: Economic and Social Research Institute Working Paper No. 188.
- Dustmann, C., M. Casanova, M. Fertig, I. Preston and C.M. Schmidt (2003), *The Impact of EU Enlargement on Migration Flows*, Home Office Online Report 25/03, <http://www.homeoffice.gov.uk/rds/pdfs2/drsolr2503.pdf>
- European Commission (2000), *The Impact of Eastern Enlargement on Employment and Labour Markets in the EU Member States*.

European Commission (2003), *Potential Migration from Central and Eastern Europe into the EU15 – an update*.

FÁS (2006). *The Irish Labour Market Review 2006*. Dublin: FÁS the Training and Employment Authority.

FitzGerald, G. (2006), “Some facts on ‘displacement’ of Irish workers”, *Irish Times*, January 14, 2006.

National Forum on Europe (2006). “Seventy-Second Plenary Session of the National Forum on Europe, The Westin Hotel, College Green, Dublin.” www.forumeurope.ie

Gilpin, N., M. Henty, S. Lemos, J. Portes and C. Bullen (2006), “The Impact of Free Movement of Workers from Central and Eastern Europe on the UK Labour Market”, Department for Work and Pensions, Working Paper No. 29.

International Organization of Migration (2006). *Managing Migration in Ireland: A Social and Economic Analysis*. Dublin: National Economic and Social Council, Report No. 116.

Irish Congress of Trade Unions (2006), “Observations and Recommendations on the Application of Transitional Measures on the Accession of Bulgaria and Romania to the EU on 1st January 2007.” www.ictu.ie

National Economic and Social Council (2006). *Migration Policy*. Dublin: National Economic and Social Development Office.

O’Riordan, M. (2006), “Driving down cost of labour by manipulating foreign workers”, *Irish Times*, January 13, 2006

Smyth, J., (2006) ”Work Permit Restrictions Urged by IBEC”, *Irish Times* 21 October 2006.

Stark, O., and C. S. Fan (2007). ”The Analytics of Seasonal Migration”, *Economics Letters* 94.