EU Enlargement, Migration from Central and Eastern Europe and Their Effects on Migration Policy in Ireland

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Abstract

This paper uses data from the Quarterly National Household Survey and monthly labour force registrations to document the massive inflow of long-term and short-term immigrants to Ireland from Central and Eastern Europe following EU enlargement in May 2004. It shows that although the scale of these inflows was not expected by employers, trade unions or Government, the labour market was able to absorb them without adverse macroeconomic effects on employment or earnings.

On the face of it this looks like a success story. Nevertheless, the Irish Government has decided not to allow the same labour market access to nationals of Bulgaria and Romania on their accession to the EU as it did to migrants from Central and Eastern Europe. It is argued that the reasons for this change in policy lie in microeconomic effects of immigration on the labour market, the failure of most of the older EU countries to open their labour markets following reviews of their experience since the enlargement in May 2004, and the lack of adequate resources for implementing labour law in Ireland.
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1. 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. 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.

Ireland’s decision to open its labour market was influenced by the needs of the economy, its own long historical experience as a nation of emigrants and a commitment given in the aftermath of the failed first referendum on the Nice Treaty that immigrants from the new EU countries (the EU10) would be given access to the labour market.

This paper outlines the role these factors played in the decision to allow free entry to the Irish labour market. Where necessary it refers to developments in other EU countries, especially the UK, which influenced the Irish government’s decision to restrict access to welfare benefits. Data are presented on migration flows from the EU10 member states before and after enlargement and on the sectors in which migrants who were living outside Ireland one year ago (long-term migrants) are employed. The monthly register of Personal Public Service numbers issued to migrants who have come to look for work in Ireland (mainly short-term migrants) is used to show how the flow of migrants is much larger than the stock. The paper focuses in particular on the labour market position of immigrants from the EU10 in the period up to the fourth quarter of 2006. Finally, consideration is given to a number of policy issues relating to labour displacement, social (benefit) tourism, and the decision to restrict access of nationals of Bulgaria and Romania to the labour market following their accession to the EU in January 2007.

2. Pre-Enlargement Debates

2.1 Pre-Enlargement Estimates of East-West Migration

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 to the EU15 initially, declining to 150,000 per year in a decade. The later study revised the earlier estimates downward. 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 Central and Eastern European 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 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). Barry (2004, p. 845) argued that on the basis of the number of work permits issued to nationals of the Central and Eastern European countries before enlargement “these studies would appear to substantially underestimate the likely immigration flows”. He also 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”.

2.2 The Irish Enlargement Debate

The Nice Treaty had a major influence on the enlargement debate in Ireland as it was the only country that had to ratify the treaty in a referendum. The treaty was initially rejected by the Irish electorate by 54 per cent to 46 per cent in June 2001. This was a very embarrassing defeat for the Irish Government and it decided it should hold another referendum on the treaty to try and get it ratified. In the wake of the “no” vote, it reassured the other member states that it would honour the principle of freedom of movement within the EU following enlargement. This undertaking was criticised by the anti-Nice campaign groups. One of them, the National Platform said:

“This irresponsible commitment by the Government significantly changes the argument about EU enlargement. It means that the Government has agreed to bear the costs of potentially heavy East European migration to Ireland … without any debate in the Dáil [Parliament], consultation with the public, or consultation with the UK government, which could be significantly affected by this Irish Government commitment.” (Irish Times 3/7/2002)

Subsequent to this statement some of the anti-Nice campaigners claimed that EU enlargement would lead to large numbers of Eastern European workers undercutting Irish workers’ wages and to multinational businesses moving to the East where wages were said to be one-third of those in Ireland. These claims were rejected by both the trade unions and the employers. A spokesman for the Services, Industrial and Professional Trade Union (SIPTU), the largest trade union in the country said that unnecessary fears were being raised about Ireland being subject to a “flood” of immigrants from candidate EU member states. A spokeswoman for the Irish Business and Employers Confederation (IBEC), the main employers’ organisation, said fears of large numbers of workers coming from the candidate countries were unfounded. The General Secretary of the Irish Congress of Trade Unions (ICTU) and every major business organisation subsequently endorsed these statements.

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3 The anti-Nice groups included No to Nice (led by an anti-abortion campaigner), the National Platform, the Alliance against Nice (a broadly left grouping including the Socialist Workers Party, Sinn Fein and the Green Party).
The allegations about “floods” of immigrants eventually divided the anti-Nice campaigners when the Socialist Workers Party, the Green Party and Sinn Fein all said that they were opposed to the introduction of immigration as an issue in the debate on the Nice Treaty. Campaigners for the Nice Treaty strongly rejected the argument that there would be “floods” of immigrants and went too far in suggesting that the flows would be minimal. For example, the Minister of State with responsibility for European Affairs and the government’s spokesman on the Nice Treaty, Mr. Roche, said that:

“Existing surveys on migration patterns in Europe show that the claims are false. Ireland barely registers as a location in these surveys. The most recent research in Hungary and Poland shows no interest whatsoever in Ireland as a work location.” (Irish Times 22/8/2002)

In the second referendum in October 2002 the electorate ratified the Nice Treaty by 63 per cent to 37 per cent. After ratification of the Nice Treaty, none of the major actors in the economic debate about enlargement expressed concerns about any adverse effects of immigration from Central and Eastern Europe on pay and working conditions in Ireland. However, the General Secretary of the ICTU said in a Press Release on the 3rd of November 2005 that the ICTU had not been consulted on the decision to open the labour market to the EU10 member states and that the government had acted at the behest of the business community.

In the months preceding enlargement the decisions of other EU Governments to restrict access to their labour markets did not affect the policy stance of the Irish Government. Employment growth in Ireland was 2.6 per cent in 2003 and the unemployment rate was 4.5 per cent so there was very nearly full employment. The Department of Enterprise, Trade and Employment argued, in line with government policy, that nationals of the EU10 and other EU member states would provide the bulk of Ireland’s employment needs to maintain economic growth. In the year prior to enlargement Ireland processed over 47,500 work permits, almost fifty per cent of which went to nationals of the CEE states. The Taoiseach (Prime Minister) stated that he believed “70 to 80” per cent of the work permit jobs could be filled in the future by citizens from the new EU states (Ahern, 2004).

Given the economic conditions in Ireland the EU enlargement debate was much more focused around protecting the welfare system from possible abuse rather than around labour market issues. The decision by Britain to close off welfare benefits to accession state workers for a two year period, therefore, had important consequences for Ireland. The decision by the British government to impose restrictions in relation to benefits meant that Ireland would be one of 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 24th 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). An immediate concern for the government was to protect the Common Travel Area (CTA) between Ireland and Britain by having similar
arrangements for the receipt of social benefits. On the 24th of February 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).

By the end of February 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](http://www.dsfa.ie)).

3. The Development of Immigration to Ireland from the EU10 Member States

3.1 Migration Flows in Aggregate and from the EU10 States

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 13.0 per thousand of the population. The economy began to stabilise in the early 1990s. Unemployment decreased and the net migration balance hovered 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 in 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 for the period. 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.

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

Figure 3 shows the share of net inward migration accounted for by immigrants from the Rest of the World excluding the EU15 and the USA, and it also distinguishes the share of total immigration coming from the EU10 in 2005 and 2006. The Rest of the World proportion of total immigration increased from 16.3 per cent in 2000 to 35 per cent by 2003. It fell back to 30 per cent in 2004 before increasing sharply to 51 per cent in 2005 and to 56 per cent in 2006.

3.2 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 total 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 1996 has resulted in a big increase in the employment of non-Irish nationals. In the fourth quarter of 2006 there were 215,500 non-Irish nationals aged 15 and over in employment and they accounted for 10.4 per cent of total employment. Of these 88,600 were EU10 nationals. Hence, 41 per cent of all non-Irish nationals at work in Ireland came from the EU10 member states. In terms of the total population the Census data show that immigrants’ share of the population increased from 3.2 per cent in 1996 to 9.2 per cent in 2006.

The EU10 category has increased throughout the post-accession period. Figure 4 shows that in Q2 2004, prior to enlargement, the stock of workers from outside the EU and the USA was 51,000. More than two years after enlargement in Q4 2006 this figure had tripled to 152,900. Of the Rest of the World excluding the EU15 and USA workers employed in Ireland in the second quarter of 2006, 88,600, or 58 per cent, were EU10 nationals. This compares with a figure of 28,100 or 55 per cent in the fourth quarter of 2004. There was an increase, therefore, of 60,500 in the number of EU10 nationals employed in Ireland between the end of 2004 and the end of 2006. EU10 nationals have a much higher labour force participation rate, 91 per cent, than Irish nationals, 62 per cent at the
end of 2006. Since the enlargement date the number of EU10 nationals in employment in Ireland has more than quadrupled from 19,500 in Q3 2004 to 88,600 in Q4 2006 (see Figure 5).

This means that EU10 nationals have accounted for around 40 per cent of the jobs created in Ireland since enlargement. The Irish unemployment rate has been low and stable at around 4.3 per cent throughout the post-accession period. The unemployment rate of EU10 nationals has been a little higher at around 5.1 per cent on average since the third quarter of 2004. Although the number of EU10 nationals who describe themselves as economically inactive has increased from 4,100 in Q3 2004 to 9,500 in Q4 2006 the percentage who are not in the labour force has almost halved from 16.7 per cent in the third quarter of 2004 to 9.2 per cent in the fourth quarter of 2006.

Figure 6 shows the employment of EU10 State workers in Ireland by NACE sector in Q4 2004 and Q4 2006. 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 end of 2006 the number employed in all four sectors had increased dramatically but especially in the construction and manufacturing sectors. The number employed in hotels and restaurants and in wholesale and retail trade more than doubled to 14,800 and 12,200 respectively whereas the number employed in the construction sector quadrupled to nearly 24,000 and the number employed in manufacturing (other production industries) tripled to 19,200. These four sectors now employ nearly 80 per cent of EU10 nationals at work in Ireland.

Figure 7 shows that EU10 nationals accounted for over 8 per cent of total construction workers and somewhat under 7 per cent of total industrial workers in Q4 2006. The sector with the highest proportion of EU10 workers is the hotels and restaurants sector. In Q4 2006 this sector employed 14,800 EU10 nationals, or nearly 13 per cent of all those employed in the sector.

Figure 8 shows employment levels in the Irish economy by NACE sectors. It is evident that overall employment in the Irish labour market also continued to increase strongly during the period from the fourth quarter of 2004 to the fourth quarter of 2006. All of the broad labour market sectors experienced increases except for manufacturing (other production industries).
Figure 6: Employment of EU 10 Nationals in Ireland by NACE Sector, Q4 2004 and Q4 2006

Figure 7: EU10 Nationals Share of Employment in Ireland by NACE Sector, Q4 2004 and Q4 2006
3.3 Flows of EU10 Nationals into Ireland

The employment data discussed in the last section focused on the growth in the stock of EU10 nationals working in Ireland. They show, therefore, the impact of migration from the EU10 states on the labour market at different points in time since May 2004. In order to assess the impact over time it is necessary to consider the inflows of migrants between different points of time. There are two sources of data which can be used for this purpose – the number of Work Permits issued to employers offering jobs to foreign nationals and the number of Personal Public Service (PPS) 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 are 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 temporary employment.

Figure 9 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 be over 15 times greater than the average annual gross inflow recorded in the period 2000-2003 preceding enlargement.
The contrast between the gross inflows from the EU10, the EU14 and the Rest of the World before and after enlargement reinforces the point already made using the stock data that the Irish government is 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 10 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.

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. 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.

The three month moving average number of PPSs issued monthly from May 2004 to March 2007 to EU10 nationals from (a) Poland, (b) the Baltic states, and (c) the Rest of the EU10 are shown in Figure 11. There has been a strong upward trend in the inflows from the EU10 member states since enlargement and also a strong seasonal effect with migration increasing in the Summer and decreasing in the Winter. These trends are 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.

Figure 12 shows how the share of PPS numbers issued to EU10 nationals changed from favouring the Czech Republic, Latvia and Lithuania before enlargement to being completely dominated by Poland after enlargement. Poland’s share changed form 16 per cent in 2000 to nearly 70 per cent in 2006. 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.

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4 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.
The fact that 332,000 PPS numbers were issued to EU10 nationals between May 2004 and March 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 April 2005 and October 2006 (213,260) with the QNHS data on the change in the number of EU10 nationals in the labour force over the period from the second quarter of 2005 to the fourth quarter of 2006 (64,000) shows that somewhat over a third 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 13 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.

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

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

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 January and February 2007 5,291 PPSs were issued to Romanians and 213 to Bulgarians. Despite the restrictions on access to the Irish labour market significant numbers of Romanian nationals are, therefore, migrating to Ireland. If applications from Bulgarian and Romanian nationals continue to be ratified at the rates recorded in the first two months of 2007, the number of applications for PPS numbers in 2007 would amount to around 65,000. This is about the same number projected on the basis of the relationship between their GDP per head and Ireland’s GDP per head.

4. Job Displacement and Concerns About Migration from Bulgaria and Romania

4.1 Job Displacement at the Macroeconomic Level

The inflows of immigrants from the EU10 member states in the post-accession period have been much larger than expected mainly because of continuing strong labour demand and probably because of re-direction of migration from countries which imposed transitional rules on access to their labour markets. The scale of the inflows has put increased pressure in Ireland on the price of renting and buying accommodation, on transport and other infrastructure. In addition there have been some developments that led to concern that Irish workers in certain sectors are being displaced by foreign workers.
who are being paid less than the collectively agreed rates of pay. These issues were first brought to national prominence 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. 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 government could not use Irish employment law to prevent it. It was also obliged under the terms of the Redundancy Payments Act to give Irish 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 job.

The only statistical data which have been used to support the argument about displacement were cited in an article in the Irish Times on 13 January 2006 by the Head of Research at 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. It would be necessary, therefore, to include seasonal and other factors in an econometric analysis of the displacement hypothesis to isolate the influence of the EU10 migration on earnings growth.

More recent earnings and employment 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

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5 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.
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 would have been for 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, a detailed analysis of the data on earnings and employment has been carried out by FÁS (2006) 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. The data on unemployment in the fourth quarter of 2006 show that there has been no change since then. Nearly two years after EU enlargement the unemployment rate is, therefore, marginally lower than 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.

4.2 Job Displacement at the Microeconomic Level

On the evidence available to date, displacement does not appear to be a source of disturbance in the labour market at the macroeconomic level. Nevertheless, at the microeconomic level the Irish Ferries, Gama and other cases are regarded by the Irish Congress of Trade Unions (ICTU) as breaching the terms of the social partnership arrangement between the trade unions, the employers and the Government. The last national agreement expired at the end of 2005 and 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 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). 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;
- greater co-ordination between organisations concerned with employment rights compliance;
- legislation to allow Authorised Officers of the Department of Enterprise, Trade and Employment and ODERC to work in the Joint Investigative Units operated by the Department of Social and Family Affairs and the Revenue Commissioners to address evidence suggesting non-compliance exists;
- improvement in record keeping to protect workers’ employment rights;
- legislation to strengthen the powers of the Minister for Employment, Trade and Enterprise to order investigation of suspected cases of breaches.
of employment rights and compliance and empowerment of the Minister to publish the results of these investigations;

• commitment of more resources for compliance enforcement, adjudication and redress;

• increased penalties for non-compliance with employment law;

• legislation to amend the Protection of Employment Act 1977 to establish 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;

• support for employment standards by empowering public contracting authorities to seek certification from contractors of public works of compliance with employment rights at suitable intervals;

The thrust of these measures is to try to ensure that there is no repetition of the Gama or Irish Ferries cases and that a new regime of implementing agreed labour standards is initiated.

4.2 Concerns about the Enlargement in 2007

Despite the positive effects of EU enlargement for Ireland’s economy and labour market the government decided in October 2006 that it would not allow nationals from Bulgaria and Romania free access to the Irish labour market when they join the EU in 2007. The announcement of the Irish government’s decision came within minutes of a similar decision by the UK. It was reported by Reid (2006) in the Irish Times on 19 October 2006 that there were consultations between the two countries about this issue and that “there is an acknowledgement among senior officials that in practical terms, the regime in Ireland in relation to workers has to be very similar to that operating in Britain, because of the common travel area between both countries.”

The decision not to allow Bulgarian and Romanian nationals free access to the Irish labour market was in line with recommendations made by both IBEC (see Irish Times 21 October 2006) and the ICTU (2006), the representative organisations of the employers and the trade unions, the Economic and Social Research Institute in its Quarterly Economic Commentary Autumn 2006 and by the National Economic and Social Council (2006). The decision was also supported by both of the main opposition parties.

Two factors appear to have had a particularly important influence on the government’s decision. The first is 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 second is that when the decision was announced in October 2006 only Finland and Slovakia had told the European Commission that it would allow free access of Bulgarian and Romanian nationals to its labour market.

Other factors which may have influenced the decision are:

• the strains which the inflow of immigrants is placing on infrastructural and other resources;
• the fact that Ireland’s foreign-born population almost tripled from 3.2 per cent in 1996 to 10 per cent in 2006 whereas it took the UK and the USA at least 40 years to double their immigrant populations in the last century;
• the desire of the trade unions and the employers to monitor how the new arrangements for compliance with employment law are working;
• the view of the government that there is a sufficient supply of migrant workers from within the EU25 to meet the economy’s needs;
• the difficulties which non-English speaking migrants encounter in finding employment appropriate to their level of qualifications and the downward pressure which they put on wages at the lower end of the earnings distribution by taking employment in lower skilled jobs⁶;
• the results of a survey by the ESRI (2006) showing that although immigrants appear to experience less discrimination in Ireland than in other EU countries with a longer history of migration, one-fifth of immigrants entitled to work in Ireland say they have been discriminated against when looking for a job;
• the results of an opinion survey in the Irish Times on 23 January 2006 showing that a large majority of respondents favour the use of a work permit scheme to regulate labour migration;

The Irish government’s decision to implement transitional arrangements for citizens of Bulgaria and Romania is intended to provide a breathing space in which to monitor compliance with the new arrangements for implementing labour law. It may also allow time for the development of policies for the integration of migrants into Irish society and to strengthen existing policies to combat discrimination and xenophobia which many of the actors involved regard as an immediate priority.

5. Conclusions

In December 2003 the Accession Treaty was signed by the existing member states of the European Union and the ten accession states (EU10). It was therefore agreed that ten new member states would join the European Union on the 1st of May 2004. The Treaty provided for transitional arrangements whereby countries could restrict access to their labour markets for a period of up to seven years. Fears of mass immigration and welfare tourism fuelled enlargement debates across Europe which resulted in only three countries, Ireland, Sweden and the UK, opening their labour markets to citizens from the EU10 states from the 1st of May 2004. However, both Ireland and the UK restricted EU10 nationals access to social assistance benefits.

The period since EU enlargement is a relatively short one and this poses some difficulties in evaluating the effects on the labour market. Ireland has labour market data for the EU10 states mainly for the period Q4 2004 to Q4 2006 so that it is difficult to make comparisons of their migrants’ labour market position before and after enlargement. As it takes time to react to new circumstances we cannot expect the full

⁶ 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 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.
effect of the change to have taken place in such a short period. However, the information for this short period does contribute to better knowledge of the effects of the opening of the Irish labour market to migrants from the EU10 countries.

Economic theory proposes income as an important factor influencing migration. People tend to migrate from countries with low-income levels to countries with high-income levels. 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, 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. It follows from this result 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 will fall.

The flows from the EU10 states to Ireland were much larger than expected in the pre-enlargement period. In the two years after enlargement, the gross inflows of immigrants to Ireland reached the highest levels recorded since annual estimates began in 1987. In 2004/05 the annual inflow amounted to 70,000 and in 2005/06 it amounted to 86,900. These inflows compare with an annual inflow of 3,400 forecasted before enlargement. Over forty per cent of these immigrants came from the EU10 countries, with approximately twenty per cent from Poland and ten per cent from Lithuania.

Higher incomes alone are not the only factor influencing migration, as people generally won’t migrate if there are no jobs available. Hence, the labour market situations in the home and host countries are also important factors influencing a person’s decision to migrate. At the time of enlargement, unemployment levels in the EU10 states were relatively high compared with Ireland. The Irish labour market was in a very strong position at the time of enlargement. Employment growth in 2003 was 2.8 per cent and the unemployment rate was 4.5 per cent. Employment growth has been even stronger since then averaging 4.3 per cent per year for the period 2004-2006 and the unemployment rate has fallen to 4.1 per cent.

In the year prior to enlargement nearly 105,000 Personal Public Service Numbers were issued to non-Irish nationals with 55,000 going to migrants from the Rest of the World, 40,000 going to nationals of the EU14 and nearly 9,500 going to EU10 nationals. In 2006, two years after enlargement, the number of Personal Public Service Numbers issued to nationals of the Rest of the World had fallen to 44,000, the number issued to EU14 nationals had risen to nearly 48,000 and the number issued to EU10 nationals had rocketed to almost 140,000.

In the period from the second quarter of 2005 to the second quarter of 2006 two-thirds of the increase in employment of foreign nationals was accounted for by EU10 nationals and over 83 per cent were accounted for by EU25 nationals. In the third quarter of 2004 19,500 EU10 nationals were employed in Ireland. This figure reached nearly 80,000 in the second quarter of 2006 and 89,000 in the fourth quarter of 2006. The policy of sourcing most of the Irish economy’s need for migrant workers from within the EU has, therefore, been very successful in a relatively short period. The strength and
flexibility of the Irish labour market appears to have been the main factor explaining why the migratory inflows from the EU10 states were much larger than expected.

In relation to the ‘welfare tourism’ debate 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”.

In relation to the displacement issue, the evidence suggests that displacement of Irish workers by lower paid immigrants is not a source of disturbance in the labour market. To the extent that there has been displacement in some sectors it could be accounted for by the normal dynamics of the labour market in which Irish workers move to better-paid jobs and are replaced by immigrants.

Nevertheless, as most of the EU15 states continued to restrict access of EU 10 nationals to their labour markets following the two year review of the transitional arrangements for the European Commission and as the majority of the EU25 states decided to apply transitional arrangements for the enlargement in 2007, the government, the social partners and others concluded there is potential for a disturbance to the Irish labour market if nationals of Bulgaria and Romania were allowed free access. Accordingly, the government decided that it would not grant free access to nationals of Bulgaria and Romania when these countries joined the EU in 2007.

Ireland’s experience of immigration since the enlargement has been largely favourable. Employment and earnings have continued to rise across all of the main sectors and unemployment has fallen. Significant labour shortages have been avoided with half of all the jobs created since enlargement being filled by immigrants. For the immigrants themselves the experience also 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.

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 has been highlighted by the Irish Ferries, Gama and other cases. The government has taken steps to address these issues and it has an opportunity to use the transitional period before
the labour market has to be opened to nationals of Bulgaria and Romania to see how effective they are and to develop policies to integrate migrants and their dependants into Irish society.

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