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Emigration from Latvia: Recent trends and economic impact

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Chapter 4

Emigration from Latvia: Recent trends and economic impact

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This chapter examines the substantial outflows of population from Latvia since 2000, which has major implications for the demography and development of Latvia as well as its social security system. Different statistical sources are described and compared. The chapter examines the characteristics of emigrants relative to the resident population, in terms of education, age, employment experience and income. The chapter examines the relationship between growth and emigration, as well as emigration potential, exploring the role of non-economic factors. The changing characteristics of emigrants from Latvia are discussed. The current and future impact of emigration on the labour market is examined. The chapter concludes by indicating some means for alleviating negative impact.

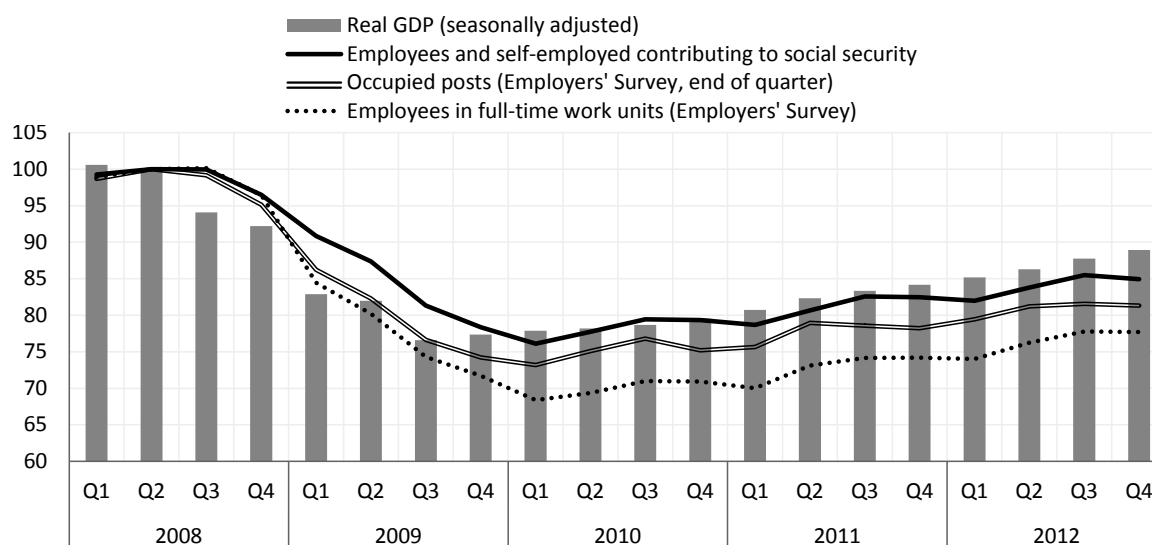
Introduction

Since the beginning of the 21st century, Latvia has lost 9.1% of its population (including almost 14% of its working-age population) in several waves of emigration. Three quarters of adult emigrants are younger than 35 at the time of their departure. Combined with a large negative natural increase, this causes the Latvian population to shrink and to age very quickly, much faster than that of the countries hosting Latvia's emigrants.

The main reasons for emigration, the most popular destinations, as well as the profile of the emigrant population and emigrants' plans, have changed substantially during this relatively short period. The most recent wave of emigration is associated with the economic crisis, which affected Latvia much more than most European countries. Figure 4.1 presents the economic and labour market context of this wave. At the end of 2009, Latvian GDP was 24% lower than the pre-crisis maximum. It took only six months longer for the number of legally employed persons to also shrink by one-fourth, while employment in full-time equivalents fell by almost one third.

Figure 4.1. Latvian real GDP and employment during the economic crisis

2008/Q2 = 100



Source: Author's calculations based on data from Statistics Latvia and the State Social Insurance Agency.

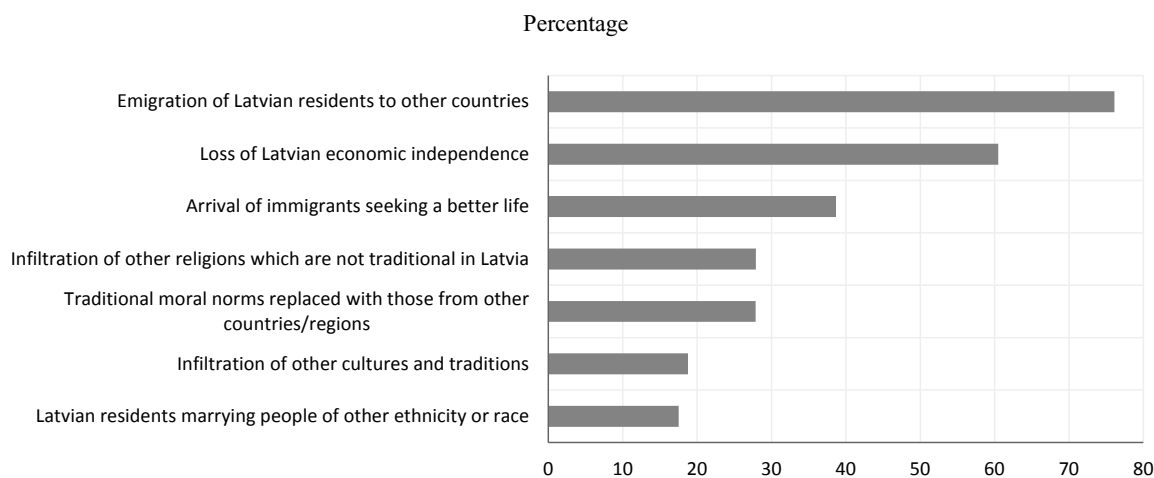
Three years later, only half of the GDP decline and much less than half of the employment loss had been recovered.

Latvian emigration during the crisis stands out in the European Union as the most dramatic response to the crisis. According to the 2011 EU Labour Force Survey (EU-LFS), between 2008 and 2011 the stock of Latvian citizens aged 15-64 who arrived in another EU member state within the last three years increased by 47%. A parallel increase for Hungarian and Estonian citizens was modest (15% and 1%, respectively), while a decrease was recorded for citizens of other CEE countries (ranging from -4% for Bulgaria to -17% for Lithuania and -60% for Poland), see Aujean (2012). Moreover, Latvia is the only country among the EU8+2 for which the estimated impact of recession

on net migration to EU15 countries in 2008-09 was positive (see European Commission, 2012, Chapter 6, Table 9, based on Holland et al., 2011). In terms of overall mobility rate (measured as the percentage of working-age population living in another EU member state) Latvia (6%) is fourth among CEE countries, following Romania (12.5%), Lithuania (8.5%) and Bulgaria (7%) and followed by Poland, Slovakia and Estonia (4% to 5%), as well as Hungary and Slovenia (2% each) and Czech Republic (1.5%), see Aujean (2012); see also European Commission (2012) for similar results based on EU-LFS 2010.

After EU enlargement in 2004, and especially during the crisis years of 2009-11, emigration reached levels that pose a threat to the reproduction of the Latvian population, the country's economic development and the sustainability of its social security system. Thus, some positive side effects notwithstanding, emigration has become a serious obstacle to human development and economic growth in Latvia. According to a recent survey, three quarters of Latvia's population perceive emigration as the single largest threat to the country and its people (Figure 4.2).

Figure 4.2. Share of Latvia's residents aged 18-74 who perceive the processes below as a major threat to Latvia and its people, July 2012



Source: SKDS (2012), *The Popularity of National Ideas in Society Survey*, Marketing and Public Opinion Research Centre (Latvia).

This chapter opens with an updated, revised and extended version of our previous emigration estimates for 2000-11. In this section we also compare Latvian and Estonian emigration in 2000-10. It then discusses whether there is evidence to suggest that emigration is substantially slowing down and will soon return to pre-crisis levels. It then presents a brief description of the history of three recent emigration waves shaped by economic and institutional developments in Latvia and in potential destination countries: i) the pre-accession period (which we have treated as loosely corresponding to 2000-03, although it also included the first four months of 2004); ii) the post-accession period, characterised by economic growth, corresponding to 2004-08 (the crisis hit Latvia in the last quarter of 2008, but its effect on emigration appears only in the data of 2009-11); iii) the crisis period, 2009-11 (data for 2012 are scarce). A number of hypotheses (or stylised facts) regarding the nature of the emigration flows in each of the periods will be put forward. We will then test these hypotheses through a quantitative analysis of migration processes and the migrant population profiles, using administrative and survey

data. The next section explores changes in emigrant population profiles over time and compares emigrants, non-migrants and return migrants along various dimensions. The prospects of return migration are addressed, as are the development of migration networks, and the impact on return migrants of having lived abroad. The chapter then analyses intentions to emigrate in the Latvian population since the onset of the economic crisis. In conclusion, there is a discussion of the economic impact of emigration on Latvia.

How many people left Latvia in 2000-11?

Until late 2011, according to official Latvian statistics, net emigration from Latvia between 2000-10 amounted to 33 000 persons. Hazans (2011a, 2011b) combined destination country (and, in some cases, Latvian) statistics on population and on bilateral migration flows by citizenship and/or country of birth, data on social security number (SSN) allocation in the United Kingdom and Ireland, and estimates of return migration to Latvia based on several population surveys, to arrive at an estimate of net emigration of the Latvian population during 2000-10 of at least 169 000 (the most recent update of this estimate is 194 000, see Table 4.1 below). Estimates are essential due to the inevitable incompleteness of migration data as well as circumstances specific to Latvia: e.g., as of 2005, 20% of the population aged 15-74 were not Latvian citizens, although most of them held Latvian (non-citizen) passports; 14% were foreign-born; moreover, some destination countries classify persons born in Latvia in 1940-91 as born in the Soviet Union. The preferred expert estimate of net emigration during the period in question, as reported in Hazans (2011a, 2011b) was 200 000, while the upper expert estimate (total net emigration of 250 000 persons) accounts for the fact that the 2011 census data yielded only 1 880 000 directly collected records (Statistics Latvia, 2012), or 348 000 less than the population figure previously published on March 31, 2011.

Three months later, Krasnopjorovs (2011) published an independent but very close estimate of the outflow from Latvia (178 000) based on the difference between the numbers of passengers departing and arriving via Riga airport and sea port (this methodology is of course far from perfect, as it ignores migration by land).

Hazans (2011a, 2011b) also presents a breakdown of net emigration by periods as described above as well as a comparison between Estonia and Latvia (Hazans, 2012). Table 4.1 below is based on these results, with updated entries for Latvia (labelled [2] and [3]) (see Tables 4.3 and 4.4 below for details).

In both countries, emigration rates at least doubled after accession to the European Union. Furthermore, during the crisis years (2009-10) the Latvian annual net emigration rate more than doubled again (compared to the post-enlargement period of 2004-08). In Estonia, the increase in the rate of emigration during the crisis was not nearly as sharp as in Latvia, despite a similarly deep recession: in 2009, GDP and employment (in full-time equivalents) in both countries were about 20% below 2007 levels (see Figure 4.1 for Latvia).

However, Estonia, which created a stabilisation fund during the years of economic growth, managed without external help, and experienced more modest wage cuts than Latvia (European Commission, 2011, Graph I.3.1). Moreover, the crisis in Latvia was perceived by the majority of the population as a systemic – rather than merely financial – crisis, which was not the case in Estonia. Table 4.2 illustrates these differences.

Table 4.1. Net emigration from Estonia and Latvia, 2000-10

Sending and receiving country estimates

	Estonia						Latvia							
	Persons			Net migration rate, %			Persons			Net migration rate (%)				
	(thousands)			Annual average		Period total (vs. initial population)		(thousands)			Annual average		Period total (vs. initial population)	
	[1]	[2]	[3]	[2]	[3]	[2]	[3]	[1]	[2]	[3]	[2]	[3]	[2]	[3]
2000-03	7.3	12.2	15	0.22	0.27	0.9	1.1	13.3	[30.0 ; 40.0]	45	0.38	0.48	1.5	1.9
2004-08	9.7	35.1	44	0.54	0.65	2.6	3.2	7.2	[83.6 ; 90.4]	87	0.78	0.78	3.8	3.8
2009-10	3.3	18.5	25	0.72	0.94	1.4	1.9	12.6	[71.4 ; 72.5]	80	1.68	1.89	3.3	3.7
2000-10	20.2	65.8	84	0.46	0.56	4.8	5.9	33.1	194.5	212	0.79	0.88	8.2	8.9

1. Official sending country estimates (as of September 2011).

2. Conservative documented estimates based on receiving countries' population and/or migration statistics by citizenship and/or country of birth (for countries outside the European Union and OECD, sending country statistics was used). Inflows into Ireland and the United Kingdom are estimated using data on the allocation of social security numbers, while data on outflows from the United Kingdom and Ireland have been adjusted upwards (especially for 2004-08) using Latvian and Estonian LFS and other population surveys.

3. Realistic expert estimates based on [2] and accounting for the fact that receiving countries' immigration statistics are incomplete both in general and especially regarding inflows from Latvia and Estonia due to large proportions of non-citizens and foreign-born in these two countries.

Source: Eurostat, OECD, Statistics Latvia, Statistics Estonia, other national statistical offices, Department of Work and Pensions (United Kingdom), Department of Social Protection (Ireland), author's calculation and compilation.

Table 4.2. Public sentiment indicators during the economic crisis

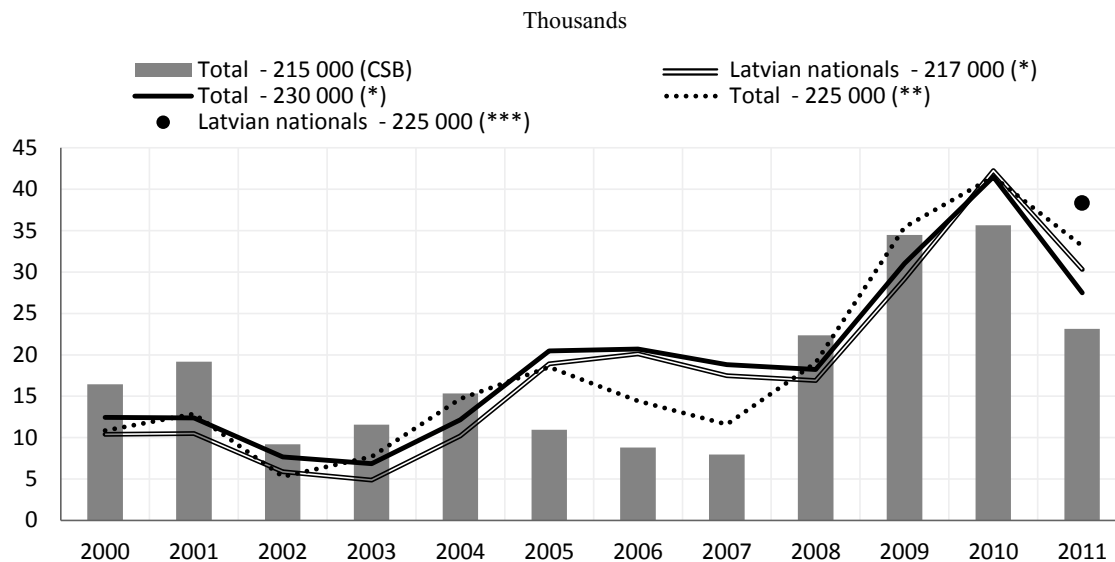
	Estonia	Latvia
	(Nov. 2008 - Feb. 2009)	(Apr. 2009 - Aug. 2009)
Satisfaction with the state of the country's economy	3.53	1.81
Satisfaction with the national government	3.53	1.8
Satisfaction with the state of education	5.86	4.62
Satisfaction with the state of health services	5.07	3.53
Satisfaction with the way democracy works in the country	4.52	3.27
Trust in the country's parliament	3.88	1.95
Sample size	1 661	1 980

Note: Satisfaction and trust are measured at the 0-10 scale. The table reports mean values (excluding non-response). Standard errors in all cases are between 0.04 and 0.06.

Source: Author's calculations based on data from the European Social Survey (2008-09).

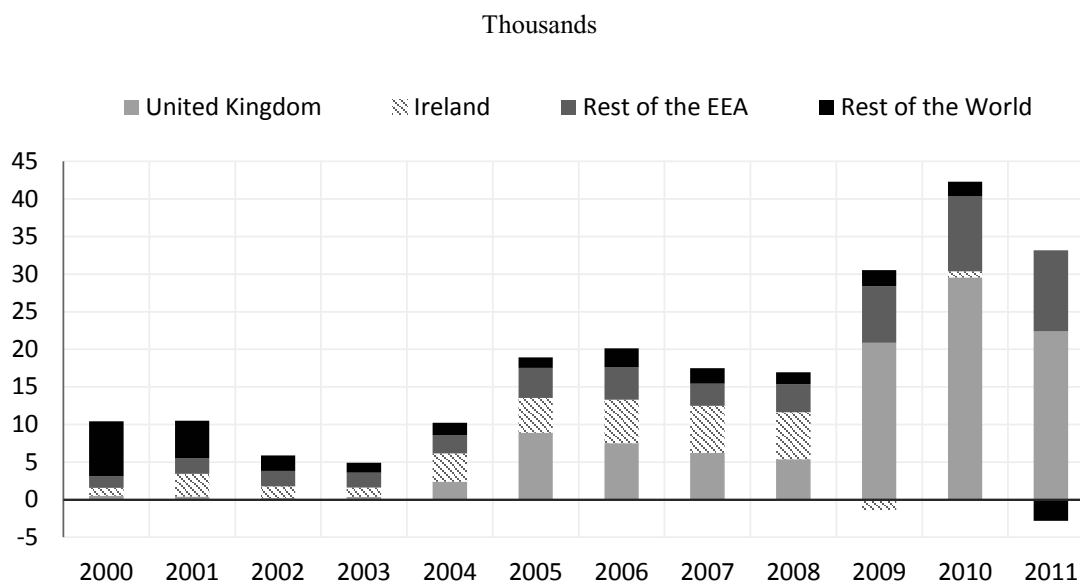
While current (February 2013) official estimates of emigration from Latvia are more realistic than those published a year earlier, the underlying methodology of the 2011 population census suffers from limitations both in terms of data collection and in terms of allocating unregistered outflows to particular years (see Annex 4.A1 for details). Figures 4.3 and 4.4, as well as Tables 4.3 and 4.4, present our alternative estimates, which update, revise and extend those by Hazans (2011a, 2011b) and rely heavily on receiving country data (see Box 4.1 for details).

Figure 4.3. Alternative estimates of net emigration from Latvia, 2000-11



Source: CSB – official data (Statistics Latvia, as of January 2013). (*) Receiving country data compiled by the author and complemented with Latvian data for countries outside the EEA and OECD. (**) Statistics Latvia data corrected by the author. (***) Emigration data as in (*) combined with Statistics Latvia immigration data for 2011.

Figure 4.4. Net emigration of Latvian nationals by destination, 2000-11



Source: Eurostat, OECD, Statistics Latvia, other national statistical offices, Department of Work and Pensions (United Kingdom), Department of Social Protection (Ireland), author’s calculation and compilation and Box 4.1.

Table 4.3. Net emigration of Latvian nationals by destination, 2000-11

Thousands

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Year	United Kingdom	Ireland	Rest of the EEA	Rest of the OECD	Former Soviet Union countries	Rest of World	Total
2000	0.50	1.05	1.58	0.74	2.76	3.77	10.40
2001	0.40	3.02	2.10	0.97	1.12	2.89	10.49
2002	0.21	1.54	2.07	0.90	1.08	0.08	5.88
2003	0.37	1.23	1.97	0.54	0.69	0.07	4.88
2004	2.38	3.76	2.44	0.65	0.95	0.03	10.22
2005	8.88	4.64	4.00	0.76	0.59	0.05	18.91
2006	7.50	5.79	4.34	0.93	1.47	0.08	20.10
2007	6.23	6.22	2.98	0.70	1.32	0.03	17.47
2008	5.38	6.22	3.75	0.40	1.15	0.02	16.91
2009	20.84	-1.39	7.55	0.57	1.44	0.13	29.15
2010	29.56	0.79	10.02	0.64	1.14	0.12	42.26
2011	22.37	-0.03	10.79	0.80	-3.71	0.11	30.33
2000-11	104.61	32.84	53.59	8.50	10.90	7.38	217.00

Note: In columns [6] and [7] we report total net emigration rather than emigration of nationals.

Source: Eurostat, OECD, Statistics Latvia, other national statistical offices, Department of Work and Pensions (United Kingdom), Department of Social Protection (Ireland), author's calculation and compilation.

Table 4.4. Alternative documented estimates of net emigration from Latvia, 2000-11

Thousands

	Latvian nationals ¹	Total ¹	Total ²	Air and sea passengers ³
2000	10.4	12.4	16.4	n.a.
2001	10.5	12.4	19.2	n.a.
2002	5.9	7.7	9.2	5.5
2003	4.9	6.9	11.6	5.5
2004	10.2	12.2	15.3	10.3
2005	18.9	20.5	11.0	7.5
2006	20.1	20.7	8.8	13.1
2007	17.5	18.8	7.9	10.6
2008	16.9	18.2	22.4	23.8
2009	29.1	31.0	34.5	47.5
2010	42.3	41.5	35.6	43.2
2011	30.3	27.5	23.1	27.6
2000-11	217.0	229.7	215.0	194.6 (214.5⁴)

1. Receiving country data compiled by the author and supplemented with Latvian data for countries outside the EEA and OECD.

2. Statistics Latvia data (see Annex 4.A1 for details). The data are as reported in January 2013. Statistics Latvia (2013a) revised the 2011 figure to 20 100, using methodology which is not comparable with previous years and may underestimate both gross and net emigration (Baltic Course, 2013; LETA, 2013).

3. Krasnopjorovs (2012), based on data from Statistics Latvia.

4. Assuming figures from the first column for 2000-01.

Source: Eurostat, OECD, Statistics Latvia and other national statistical offices; Department of Work and Pensions (United Kingdom), Department of Social Protection (Ireland), Krasnopjorovs, O. (2012), "Vai emigrācijas vilnis izsīkst?" (Does emigration slow down?), www.makroekonomika.lv/vai-emigracijas-vilnis-izsikst and author's calculation and compilation.

Box 4.1. Our methodology for estimating net emigration

For every destination country F and every year between 2000 and 2011, we have calculated all available estimates of net emigration (based on Eurostat, OECD and national statistics data):

1) net inflow of Latvian citizens to F based on migration flows; 2) net inflow of Latvian citizens to F based on the population figures by citizenship, and acquisition of citizenship by former Latvian citizens; 3) net inflow of persons born in Latvia into F based on migration flows; 4) net inflow of persons born in Latvia into F based on the population figures by country of birth; 5) total net inflow from Latvia to F based on migration flows by country of previous or next residence.

For each year, the largest of the above estimates (1)-(4) was used as the component of our *first time series*, net outflow of Latvian nationals to F, reported in Table 4.3 and presented in Figure 4.4.

On the other hand, estimate (5) was calculated using all available combinations; the maximum figure was used in each case as the component of our *second time series*, total net emigration from Latvia to F. For countries/years where the component of one of the series was missing, the respective component from the other has been used instead. In most cases, net emigration of “foreigners” was positive, thus the second series gives somewhat higher emigration figures.

Inflows into Ireland and the United Kingdom are estimated using full-coverage data on allocation of social security numbers (SSNs); for the United Kingdom these data are for adults only, so they have been adjusted using the age structure of migration flows from Latvia to other EEA countries for the respective years. SSNs are issued only once, at the first migration, so do not capture exits and subsequent returns. Data on outflows from the United Kingdom and Ireland to Latvia during the post-enlargement period of 2004-08, when migration was predominantly short-term and circulatory, have been adjusted to account for 40% of gross registered inflows from Latvia to these countries during this period (according to estimates from the Latvian LFS, as well as various population surveys, see Hazans and Philips (2010), Hazans (2011b) for details). Note that total outflows from other EEA countries to Latvia in 2004-08 matched the 40% estimate well, and did not require correction. During the crisis years 2009-11, return migration to Latvia was less intensive. We thus applied a 10% return rate to gross inflows into the United Kingdom in these years, while uncorrected migration statistics were used for other countries.

Ireland is a special case which requires more explanations. For 2005-10, net emigration of Latvian nationals to Ireland was much larger when calculated as change in stock (which was actually used) rather than as net flow (even if gross outflows are based on allocation of the Irish social security numbers to Latvia’s nationals); the overall difference, strongly positive in 2007-08 but negative in 2009, amounts to 5 400. Note that substantial outflows of Latvian citizens from Ireland have been recorded in 2009-10, but survey and anecdotal evidence indicate that many left for countries other than Latvia. Yet the estimated *total* (rather than only Latvian citizens) net outflows from Latvia to Ireland in 2008-10 are positive (these alternative data are used in the second time series reported in Table 4.3).

1. The term “foreigners” is not limited to recent immigrants, as it may also include persons born in Latvia or living there for more than 20 years who hold other citizenships (mostly Russian, Ukrainian, Belarusian and of other former Soviet republics) or who are Latvian non-citizens. The latter category appears separately in Latvian statistics, but appears neither separately nor as “recognised non-citizens” or “stateless” in Eurostat data for most years, nor is it accounted for as a sub-category of Latvian citizens.

Figure 4.3 and Table 4.4 present, for each year from 2000 to 2011, two of our net emigration estimates: one refers to Latvian nationals, while the other looks at total migration flows (see Box 4.1 for details). Two of our series are quite close to each other in terms of both size and dynamics and are consistent with the expectation (supported also by evidence from the EU-LFS, see e.g. Brucker et al. (2009), Fic et al. (2011), and the European Commission (2012), that emigration after EU enlargement has been substantially higher than pre-enlargement emigration. An analysis of the dynamics of the net outflow of passengers from Riga airport and Riga port (Krasnopjorovs, 2012a; shown

in Table 4.4) is also consistent with our estimates. Statistics Latvia figures are shown alongside our estimates.

Our estimates imply a slightly higher overall outflow between 2000 and 2011 than the estimates of Statistics Latvia. The important difference, as already mentioned, mainly concerns the dynamics. Data sources for our estimates are predominantly those of destination countries, while Statistics Latvia estimates combine Latvian administrative data with information provided by respondents of the 2011 population census using a mathematical procedure which ignores the difference in selectivity patterns between registered and unregistered emigrants (see Annex 4.A1 for details). Figure 4.3 includes (as the dotted line labelled ** in the legend) another time series which for years 2000-10 is based on the same Latvian data used by Statistics Latvia but different (in our opinion, more realistic) assumptions (see Annex 4.A1 and Figure 4.A1.1, Panel B).

Our methodology (see Box 4.1 for details) is based on two well-known facts: migration is better captured at the receiving rather than at the sending country; most migration estimates are incomplete (in the Latvian case, as mentioned above, there are also special reasons for the latter).

Figure 4.4 breaks down net annual outflows of Latvian nationals by four destinations: the United Kingdom; Ireland; other EEA countries (an area which includes, apart from the EU member states, two important destinations for Latvian emigrants: Norway and Switzerland); and the rest of the world. Underlying statistics are presented in Table 4.3, which further subdivides the destinations outside of the EEA into three groups: OECD countries (here, non-negligible outflows to the United States, Canada, Australia and Israel can be observed), former Soviet republics, and other destinations.

Is emigration slowing down?

Since the beginning of 2011, the above question has been the focus of public debate. Some observers (Krasnopjorovs, 2011, 2012a among others) argued that 2011 was a turning point, and that in 2012, emigration slowed down further. Let us have a careful look both at the question and the data.

Emigration may have slowed down from the 2010 peak, but has it reached pre-crisis levels? The 2008 outflows should serve as the benchmark in this case, while the outflows observed in 2009 indicate the “height” of the crisis-triggered emigration wave. Only when emigration falls well below the 2009 level, one can talk about the turning point; and only when the absolute size of the outflow will become comparable to that observed in 2008, one can say that the “exodus” is more or less over (strictly speaking, one should compare emigration rates, and this test is even harder to pass, as the population size is declining).

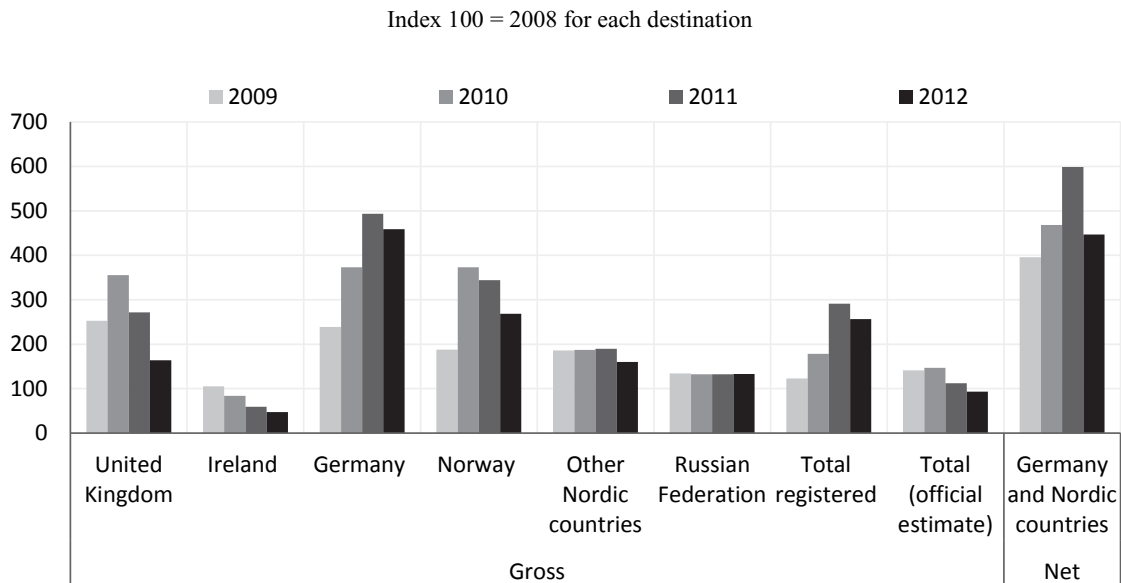
Should one use gross or net outflows to judge emigration trends? While net outflows are, arguably, more important in terms of impact, gross outflows can be measured more accurately, at least when data on SSN allocation are available from the countries of destination (as is the case of the United Kingdom and Ireland).

As far 2011 is concerned, our estimates based on destination country data (the first two columns in Table 4.4; see also lines in Figure 4.3) do not suggest that net emigration returned to levels close to the pre-crisis ones or significantly lower than the ones observed in 2009.¹ Nor does this seem to have happened in 2012. In 2012, gross outflows to the United Kingdom (which exclude children), Germany and the Nordic countries, along with

data for flows to the Russian Federation from Statistics Latvia, sum up to 29 200. This is higher than the official Statistics Latvia (2013a) estimate for emigration to all destinations, 25 200, based on a methodology (Statistics Latvia, 2013b, 2013c) which is not comparable with previous years and may underestimate both gross and net emigration (Baltic Course, 2013; LETA, 2013).

Figure 4.5 presents, across the years 2008-12, reliable information (available as of August 2013) on dynamics of gross outflows to the United Kingdom, Ireland, Germany, the Nordic countries and the Russian Federation, as well as net emigration from Latvia to Germany and the Nordic countries. Registered emigration (to all destinations) as well as the official estimate of total emigration are shown for comparison.

Figure 4.5. Outflows to main destination countries and registered emigration, 2009-12



Note: Total registered emigration data for 2012 is a forecast based on the first nine months.

Source: Author's calculations based on data from the Department of Work and Pensions (the United Kingdom), the Department of Social Protection (Ireland), the national statistical offices of Norway, Sweden, Denmark, Finland and Germany, Statistics Latvia. German data for 2012 as reported by Düll, N. (2013), "Geographical Labour Mobility in the Context of the Crisis: Germany", European Employment Observatory.

With the exception of Ireland (where worsening economic conditions explain the decline), gross outflows to all main destinations in 2012 remain well above the pre-crisis level: the ratio of the 2012 outflow to the 2008 one is 1.6 for the United Kingdom, 4.6 for Germany, 2.7 for Norway, 1.6 for other Nordic countries (taken together) and 2.6 for total registered emigration.² Likewise, net outflow to Germany and all Nordic countries together was 4.5 times higher in 2012 than in 2008. This evidence contradicts the official estimate indicating that the gross outflows in 2012 fell back to 2008 levels.

On the other hand, the data indicate a clear decline of emigration in 2012 as compared to 2011. Gross outflows to Norway declined by 22%, to other Nordic countries by 16%, to Ireland by 20% and to Germany by 9%. Emigration to the United Kingdom fell by 40%.³ Total registered emigration in the first nine months of 2012 fell by 12% against corresponding period of 2011. Net emigration to Germany and Nordic countries declined by 25%, a steeper decline than the fall in gross emigration, indicating a higher level of return.

Emigration from Latvia: Three waves in a decade

According to the human capital model of migration (Sjaastad, 1962; Borjas, 1987, 1999), an individual (or a family) decides whether to move by comparing expected benefits and costs associated with migration. In order to assess [net] benefits, one should account for all factors that can affect the quality of life in the country of origin and in the potential country of destination: job-finding and job-losing probabilities, expected earnings, legal status, career prospects, working and living conditions, generosity of the social security system, social and cultural norms, perceived life prospects for children, etc. These factors can interact with each other in a variety of ways. For instance, the attractiveness of long-term migration is significantly undermined if, in the case of job loss in the country of destination, the immigrant has to apply for a work permit repeatedly. The same is true if employment protection and/or unemployment assistance legislation in the country of destination does not cover the immigrants to the same extent as it does native workers.

The determinants of migration flows are often subdivided into two groups: push factors are related to negative (undesired) circumstances in the country of origin, whereas pull factors are those which make potential destination countries attractive (Lee, 1966). A factor can play both roles either simultaneously (for instance, in 2009-10, high unemployment in Latvia was a push factor, but low unemployment in Norway was a pull factor) or depending on circumstances (for instance, the wage level is a pull factor for professionals who earn LVL 600 (EUR 854) per month in Latvia but can earn three to five times more abroad, while it is a push factor for those whose earnings in Latvia are not sufficient to support their family).

The costs of migration, in turn, include monetary as well as non-monetary costs (e.g., effort) and can be subdivided into the following categories: i) costs related to acquiring the necessary information and job search costs; ii) transportation costs; iii) costs of maintaining contact with the country of origin; iv) psychological costs related to missing people and the environment one has left behind, uncertainty associated with life in the new country, and adaptation to the new reality.

This framework will help us to understand the individuals' migration decisions, as well as the characteristics which drive emigrants' self-selection, in other words, which groups have a higher propensity to emigrate in a specific situation.

The pre-accession wave: Personal initiative and effort

Between 2000 and 2003, Latvia featured rather high unemployment (above 10% according to Latvian Labour Force Survey data), combined with very low wages. Average earnings in the public sector (at purchasing power parity) were well below those of an unskilled worker in the United Kingdom, Germany or the Nordic countries.⁴ Therefore, many people in Latvia were dissatisfied with their material well-being and were considering permanent or temporary emigration as a solution to their problems. According to a survey of the economically active population conducted in 2000 (see Rose, 2000, or Hazans, 2003, Table 3.3), 8% of ethnic Latvians and 25% of their minority counterparts said that they (or some family member) would like to work abroad (at least) for a number of years, when their country enters the European Union. Moreover, 4% of Latvians and 9% of non-Latvians were ready to emigrate permanently. Higher propensity to emigrate among non-Latvians can be explained by the fact that their labour market situation at that time was, on average, worse than that of the ethnic (titular) Latvian population (Hazans, 2010, 2011a), as well as by their relatively weaker sense of

belonging to Latvia (see Zepa and Kļave, 2011). These data imply that in the year 2000, about 15% of the economically active population of Latvia was willing to work abroad, and half of them were considering permanent emigration. According to the same survey, another 25% of the labour force were considering emigration as a possibility. Thus, a sizeable emigration potential existed.

Actual emigration rates were of course much lower (see Table 4.1). Emigration was limited not only by hopes for a better life in Latvia (in 2000-03, unemployment was slowly but steadily decreasing and earnings were growing faster than consumer prices), but also by an institutional environment which was not favourable to economic migration, and by very high migration costs. Both residence and work permits were necessary unless one was ready to take on the risk of illegal immigration and/or employment. In addition, Latvian non-citizens needed visas to enter most EU member states. Looking for a job abroad was much more difficult and expensive than it is now. International phone calls from Latvia were very expensive; internet access was limited, slow, and expensive; air travel was costly. Moreover, there were no convenient extensive sources of information on vacancies and living and working conditions abroad such as the European Employment Services (EURES) portal,⁵ developed after 2004, where this information is available even in Latvian.

The services of private recruitment firms were expensive and often associated with a high risk of fraud. In an online survey conducted in Latvia in 2003, among 2 100 respondents who said that after EU accession they would be ready to work in another EU country, 89% asserted that they would move only with a work contract in hand, and only 20% considered a contract with a licensed Latvian recruitment firm as a sufficient guarantee (Hazans, 2003, Tables A2.12, A2.13).

In brief, rather high *de facto* thresholds having to do with people's own initiative, access to information, and willingness to accept risk limited economic emigration in the pre-accession period. In such a situation, emigration costs would have been relatively lower for potential emigrants with a high level of initiative, professional or at least private contacts in possible destinations, good foreign language and IT skills, and opportunities to use the internet for private purposes at the workplace. Clearly, all these attributes are more often found among university graduates.

Emigrants' choice of destination was also probably affected by cost considerations: while some tried to minimise information and adaptation costs using social networks associated with previous waves of migration to/from the United States, Canada, Australia, Sweden and Germany, as well as the Russian Federation, Ukraine and Belarus, others were oriented towards relatively new directions, mainly the United Kingdom and Ireland (which combined lower language barriers than other EU countries with being much closer than other English-speaking countries), but also to other countries of "Old Europe".

Thus, theoretical considerations suggest that:

(H1) In 2000–2003, economic emigrants from Latvia featured:

- a) a higher than average proportion of people with tertiary education
- b) a higher than average proportion of ethnic minorities
- c) a high degree of geographical diversification.

Note that the latter point is well supported by data presented in Figure 4.4.

Post-accession emigration: Institutional and market factors

During Latvia's first five years within the European Union (before the effect of the crisis on migration patterns became apparent), migration flows were shaped mainly by two factors: i) gradual implementation of free movement of labour within the European Union (see Brucker et al., 2009, Table 2.1); ii) economic growth in Latvia as well as in potential destinations.

Economic growth in Old Europe resulted in an increased demand for labour, thus enhancing expected gains for potential economic emigrants and stimulating migration. On the other hand, due to strong economic growth in Latvia, the unemployment rate was falling while real wages were rising, gradually reducing expected gains from emigration. As a result, motivation to move abroad was falling, whilst motivation to return among recent emigrants was on the rise.⁶

For Latvians, the introduction of free movement of labour within the European Union lowered both the monetary and the non-monetary costs of job search abroad and migration, thus stimulating emigration. By contrast with the relatively slow changes in Latvia's labour market, the institutional changes had an almost immediate effect. Since May 1, 2004, citizens of Latvia and other new member states have been able to compete for jobs in Ireland, the United Kingdom and Sweden on equal terms with local workers.⁷ This reduced the psychological and adaptation costs of migration, as well as the risk of failed labour migration. At the same time, the European Mobility Portal and consultants of the EURES started to work in Latvia (and elsewhere in Europe). EURES consultants provided about 10 000 consultations in 2004-05, followed by 12 000 in 2006-07. This substantially reduced information and job search costs for potential emigrants.

Migration-friendly institutional changes boosted demand for international transportation and telecommunication services. As a result, the lower end of the passenger and cargo transportation market grew significantly across Europe (including Latvia), causing air and land transportation costs, as well as international phone call tariffs to fall. Communication costs were also reduced due to increased coverage and speed of internet connections. This, in turn, further reduced both direct and indirect (e.g., job search) costs of migration. Another side effect of the EU provisions for free movement of labour are the growing Latvian diasporas in Ireland, the United Kingdom, Sweden, Germany and elsewhere in Europe. Rich social infrastructure (including printed and electronic media) within these diasporas (see SKDS, 2006; Hazans and Philips, 2010) also helped to reduce the risk of "failed emigration" as well as the information, job search and psychic costs of migration.

Several factors contributed to a further decline in emigration costs and related risks. First, thanks to ongoing emigration and return migration, potential emigrants could increasingly rely on relatives and friends as a source of information about work abroad (this is known as *social network* or *migrant network* effect). Second, a number of countries (Finland, Greece, Italy, Portugal and Spain; in part also Norway) opened their labour markets in 2006; the Netherlands and Luxembourg followed in 2007 (see Brucker et al., 2009, Table 2.1 for details).

As the result of these developments, the threshold for potential emigrants with respect to personal initiative and risk taking was not as high as before EU accession. Hence, in 2004-08 emigrants' self-selection in terms of human capital was driven not so much by individuals' relative advantage in terms of [falling] migration costs, but mainly by expected gains in terms of income and working conditions. These gains were, on average, greater for

persons with secondary education or less. For instance, in 2005 employees with tertiary education in Latvia earned 54% more than otherwise similar workers with secondary education and 76% more than those with less than secondary education (Hazans, 2007). On the other hand, 40% to 50% of tertiary educated Latvian migrant workers abroad in 2004-07 held jobs which did not require a higher education (Hazans and Philips, 2010) and hence could not earn much more than other emigrants from Latvia.⁸

The effect of ethnicity and citizenship on the propensity to emigrate has also changed. Due to strong economic growth and labour shortages caused by emigration (see, for example, Hazans and Philips, 2010, Section 7 and Figure 12), as well as gradual improvements in language skills among minorities (Hazans, 2010, Figure 3; Hazans, 2011a, Tables 8.8 and 8.9), the labour market position of ethnic minorities in 2004-07 steadily improved. Economic activity and employment rates among non-Latvians were growing faster than among Latvians, thus reducing the ethnic employment gap (which disappeared completely by 2007, see Hazans, 2010, 2011a). In addition, a substantial part of the minority population – those without Latvian citizenship – was not covered by the legal provisions on free movement of labour.⁹

To sum up, theoretical considerations suggest that:

(H2) Between 2004 and 2008, compared to the pre-accession period:

- a) the rate of economic emigration from Latvia substantially increased due to the introduction of free movement of labour within the European Union, decreasing migration costs and social network effect
- b) migration flows redirected, to a large extent, towards the United Kingdom, Ireland and Sweden
- c) the proportion of tertiary-educated persons among emigrants decreased and is now lower than their proportion in the [adult] population of Latvia
- d) the proportion of non-Latvians (especially non-citizens) among emigrants declined

In addition:

- e) in the second half of the period, the intensity of emigration declined due to strong economic growth in Latvia.

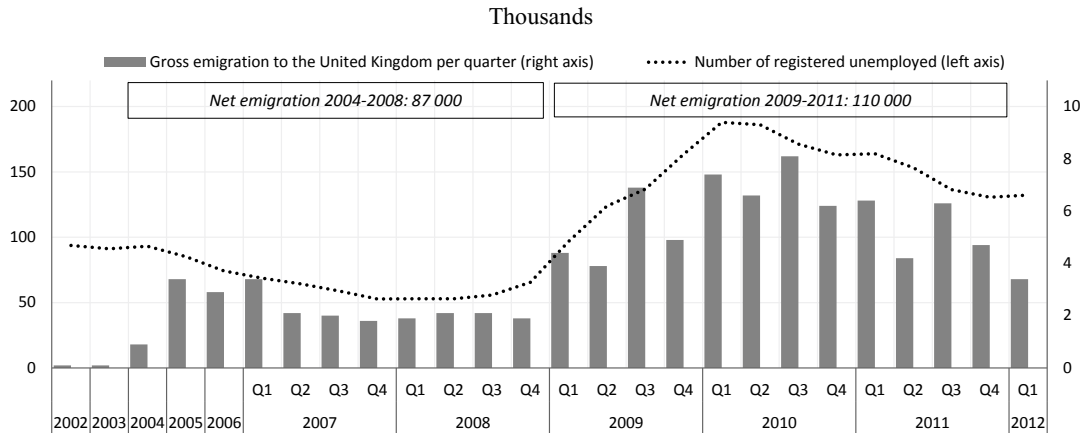
It is worth noting that hypotheses (a), (b) and (e) have been confirmed in previous studies (Hazans, 2009; Hazans and Philips, 2010; Brucker et al., 2009) and are also supported by the data shown in Table 4.3 of this chapter. Hypotheses (c) and (d) have been confirmed earlier (using Latvian LFS data) with respect to guest workers who worked abroad while still being considered as household members in Latvia (Hazans, 2009, pp. 9, 14; Hazans and Philips, 2010, Figures 3 and 11); here we will provide broader evidence. The relative decline in the emigration of tertiary-educated Latvians is reflected also in the decreasing share of Latvian-born university graduates in OECD countries from 42% in 2000 to 40.6% in 2005/06 (OECD, 2012, p. 244).

Another important feature of this emigration wave (which could not be predicted based on theoretical considerations alone) is its mixed nature: while migration was to a large extent short-term and/or cyclical (Krišjāne et al., 2007; Hazans and Philips, 2010), there was a steady growth in the number of Latvians staying long enough abroad to be captured in statistics and considered in expert estimates of diaspora size.

Crisis-driven emigration (2009-11): Lost jobs and lost hopes

The economic crisis which began at the end of 2008, in a short time left a segment of Latvian population jobless (see Figures 4.1 and 4.6 for employment and unemployment developments; Figure 4.6 illustrates emigration response to growing unemployment).

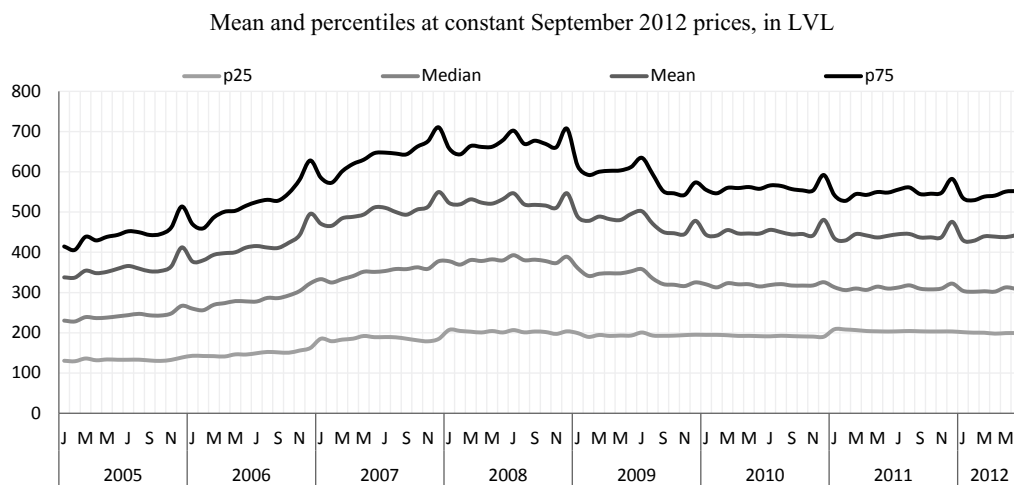
Figure 4.6. Unemployment and emigration developments in Latvia, 2002-12



Source: Department of Work and Pensions (United Kingdom), Latvian State Employment Agency, Eurostat.

In the second quarter of 2008, slightly more than 6% of economically active males and females were jobseekers. A year later, this rate more than tripled among males and more than doubled among females. By the end of 2009, the unemployment rate had reached 25% among males and 16% among females.¹⁰ Only one out of three jobseekers received unemployment benefits. Benefit recipients with less than 20 years of social insurance record (which was the case for most potential emigrants) faced the prospect of benefit reduction to just LVL 40 (EUR 57) per month. Those who were lucky enough to keep their jobs experienced wage cuts: median real earnings from all jobs fell by nearly 25% during 2009 and stayed at this level at least until June of 2012 (Figure 4.7). The psychological shock was no less painful: a large proportion of people of working age (including those who managed to keep their jobs) lost confidence in the future.

Figure 4.7. Total monthly gross earnings from all legal jobs for employed population with non-zero earnings



Source: Author's calculations based on data from the State Social Insurance Agency.

In order to assess the propensity to emigrate by socio-economic group, let us look at the differences in employment and unemployment rates depending on ethnicity, citizenship and education before and during the crisis (Table 4.5). Unemployment, a strong push factor, increased particularly among individuals having no higher education (and even more so among those having no secondary education), as well as for non-Latvians, especially those without Latvian citizenship.

Despite the crisis, finding a job in Western Europe was possible, although not as easy as before (hence, the role of diasporas and informal networks increased). The rate of unemployment was very low (3 to 4%) in Norway, the Netherlands and Austria, and remained modest (about 8%) in the United Kingdom, Germany, Sweden, Denmark and Finland (European Commission, 2010, Table 24). During 2009-10, the job vacancy rate (i.e. the number of vacancies relative to the sum of vacancies and occupied posts) in these countries was five to eight times higher than in Latvia (European Commission, 2010, Chart 6). Moreover, across Old Europe nominal earnings continued to rise, while real earnings did not decline (European Commission, 2011, graphs I.1.8 and III.A3.5). Thus, expected gains from emigration in terms of employment and earnings are higher than they were during the pre-crisis period.

Table 4.5. Employment and unemployment rates in the working-age population, by educational attainment, ethnicity and citizenship, 2008-11

Population aged 15-64

		Educational attainment			Ethnicity and citizenship		
		Tertiary	Secondary	Below secondary	Latvian	Minority (Latvian citizens)	Minority (other)
Employment ¹	2008	86.9	74.5	37.1	68.8	68.3	69.1
	2009	82.3	64.6	29.4	62.4	60.4	57.4
	2010	80.6	61.5	28.4	61.4	57.1	54.7
	2011	83.4	62.4	29.0	63.0	57.0	57.8
Unemployment ²	2008	4.2	7.7	14.6	6.5	8.8	11.3
	2009	8.4	18.7	31.4	15.3	18.2	23.6
	2010	10.5	20.4	32.3	16.2	21.5	26.2
	2011	7.3	18.5	30.0	13.4	20.9	22.1

1. Employment rate is defined as the proportion of the population (in a particular age group) that is employed.

2. Unemployment rate is defined as the proportion of the economically active population (in a particular age group) that is seeking a job.

Source: Author's calculations based on data from the Latvian Labour Force Survey.

The issue of social protection, previously neglected by the middle class, has gained importance. In contrast with the United Kingdom, Ireland, the Nordic countries, Germany and the Netherlands – where a worker with a sufficient contribution record and earnings between 67% and 100% of the average, receives (in benefits) about 70% of previous net earnings even in the case of long-term unemployment – in Latvia, after only nine months of unemployment (or even six, depending on contribution record – and, indirectly, age), the income replacement rate is about 40% even once social assistance and housing benefits, if any, are accounted for (European Commission, 2011, graph II.2.4). Moreover, Latvian child benefits (LVL 8, or EUR 11.5 per month) are negligible in comparison with

those paid, for every child younger than 16 years, in Old Europe (e.g. EUR 140 per month in Ireland and GBP 20.3/GBP 13.4 per week for the first/next child in the United Kingdom).¹¹

The above factors converged to make emigration a real option in the minds of Latvian residents, even those who had not considered such a possibility before. This category consists of two groups: i) individuals who are inherently not very mobile but did not see another way out of trouble; and ii) persons who were not satisfied with the developments in Latvia and with their own prospects here. In the latter group, one can expect to find a higher-than-average proportion of university graduates, because people who have opted to invest in higher education are usually future-oriented. As far as the propensity to emigrate among persons with less than secondary education is concerned, the direction of change is theoretically ambiguous *a priori*. On the one hand, representatives of this group suffered more than others from crisis-related unemployment (see Table 4.5); on the other hand, in times of crisis, it would have been difficult for them to compete with secondary school graduates for jobs abroad (one of the reasons being poor language skills).

There are two reasons why one should expect ethnic non-Latvians to be overrepresented among the post-crisis emigrants (in fact, among both of the above mentioned groups). First, the proportion of workers who lost their jobs during the crisis was higher among non-Latvians (Hazans, 2010, Table 1), resulting in the re-emergence of a significant ethnic employment gap, especially wide among university graduates (Hazans, 2010, Figures 6 and 7; see also Table 3.5 above). Second, in July 2009 (despite objections by employers' associations), the government adopted new regulations on state language proficiency requirements, which substantially expanded the list of occupations (both in private and public sectors), which require certified intermediate or advanced Latvian language skills. Given that the previous regulations were perceived by most workers (Latvians and non-Latvians alike) as adequate or in some cases even too strict (Hazans, 2010, pp. 151-153), non-Latvians saw this as a measure undermining the labour market position of minority workers and, in a wider context, signalling the radicalisation of language policies. Such a signal of course works as an additional push factor increasing the inclination to emigrate among non-Latvians. Taking into account that the EU provisions for free mobility of labour do not apply to those who are not citizens, one should expect the largest increase in the propensity to emigrate among non-Latvians holding Latvian citizenship.

To sum up, in the beginning of 2009 one could expect (as formulated in Hazans, 2009) an intensification of emigration, as well as changes in both reasons for emigration and migrant population profile:

(H3) In 2009–2010, compared to the pre-crisis period:

- a) the intensity of emigration from Latvia increased
- b) migration flows have further diversified; with a decline in the share of Ireland, heavily hit by the crisis, and an increase in the shares of other (also non-European) destinations
- c) the role of push factors in shaping migration flows increased (especially unemployment and wage cuts, but also lack of prospects, loss of hope and uncertainty of Latvia's development path); among pull factors, the role of destination countries' social protection systems increased

- d) migrants are much more oriented towards long-term or permanent emigration and are more likely to move as entire families
- e) the proportion of tertiary-educated individuals among emigrants increased significantly, exceeding the corresponding proportion among those who stayed
- f) the proportion of individuals oriented towards self-employment or opening their own business among emigrants increased
- g) the proportion of ethnic minorities (especially those holding Latvian citizenship) among emigrants increased.

Note that evidence supporting points (a) and (b) is presented in Figure 4.4. Point (d) and the part of (c) related to social security are supported by an interesting account of the changes in the profile of potential emigrants from Latvia (EURES clients) based on the daily records of EURES consultants summarised by Žanna Ribakova, former EURES manager in Latvia, and presented in Table 4.6.

Table 4.6. Changes in the profile of EURES clients in Latvia, 2004-10

2004-07	2008-10
Planning to move alone	Planning to move with family
Looking for temporary, low-skilled job	Looking for permanent, skilled job
Minimal knowledge of foreign languages	Better knowledge of foreign languages, higher qualifications
Planning to return	Interested in legal employment and social security

Source: Ribakova, Z. (2009), “EURES – An Instrument for Facilitating Free Movement of Labour with 15 Years of Experience in European Employment Services”, Presentation at the State Employment Agency conference.

Changes in the emigrant population profile, 2000-10

Table 4.7 presents the statistical portrait of adult emigrants at the end of 2010. The portrait is based on data from a representative population survey – the National Identity: Place, Capability, Migration (NIPCM) survey – in which Latvian residents were asked about their family members and close relatives who left Latvia in 2000-10 (and were living abroad during the survey). The population of emigrants is divided into three groups by period of departure.

For the sake of comparison, Table 4.7 presents two additional population profiles – the profile of a non-migrant – a Latvian resident (as at March 2011), as derived from the 2011 population census, and the profile of a return migrant (a person who, during the past decade, lived abroad for three or more months at a time). Data for the latter profile is based on the NIPCM survey. According to the same survey, return migrants accounted for about 10% of the population aged 18-74. While our definition of return migrant also includes individuals who have not spent a sufficiently long time abroad to be included in partner countries’ population or migration statistics, the same three-month threshold has been used for identifying return migrants in many surveys, including the Eurobarometer (March-April 2010). Note also that while in the literature the term “non-migrant” or “stayer” often excludes return migrants (see e.g. Hazans, 2011b), column “All” in Table 4.7 refers to the entire resident population.

Table 4.7. Emigrant and general population profiles

	Emigrants (by year of departure)				Latvian population, March 2011		
	% distribution ¹				% distribution ²		
	2000-03	2004-08	2009-10	2000-10	All		Return migrants ³
Age-adjusted ⁴					Aged 18-74		
Males	46.5	45.2	39.9	42.8	49.1	46.5	61.3
Females	53.5	54.9	60.1	57.2	50.8	53.5	38.7
Age							
18-24	6.9	23.4	32.7	22.6	22.6	13.7	20
25-34	54.3	48.1	38.8	44.9	44.9	18.3	37.6
35-44	29.7	18.3	17.9	19.6	19.6	18.3	22.8
45-54	7.2	8.3	9.3	8.5	8.5	19.5	12.8
Educational attainment							
Below secondary	5.3	5.4	4.6	6.0	21.0	21.0	11.6
Secondary	53.8	70.6	59.9	61.8	51.9	54.2	70.2
Tertiary	32	21.5	27	24.2	27.1	24.8	18.1
Unknown	8.9	2.5	8.6	8	0	0	0
Main occupation							
Wage earner	55.2	84.8	79.9	78.3	54.5	47.7	59.4
Self-employed or employer	0.0	1.8	3.6	2.1	6.0	5.9	6.2
Student	1.7	6.2	5.7	5.0	10.3	5.6	6.6
Unemployed	0.0	0.6	1.5	0.9	14.7	12.4	16.9
Other or n.a. ⁵	43.1	6.7	9.3	13.7	14.5	28.4	10.9
Number of observations	57	215	144	471	1 880 000		89

1. The distribution of emigrants is based on information provided by their close relatives in Latvia in the framework of the NIPCM survey commissioned by the Faculty of Social Sciences, University of Latvia and conducted between December 2010 and January 2011 by the SKDS public opinion research centre. For 12% of emigrants, year of departure is unknown; these emigrants have been included in the 2000-10 column, and are not shown separately.

2. Population census results (Statistics Latvia, 2012c) and author's calculations.

3. Return migrants – persons who, between 2000 and 2010, spent three months or more abroad at a time but were living in Latvia during the survey. Their profile is derived from the NIPCM survey (see Note 1 above).

4. Using the emigrant population (2000-10) as standard.

5. "Other" include housekeepers, pensioners and other economically inactive persons; "n.a." refers only to emigrants.

Source: Author's calculations based on NIPCM survey and Statistics Latvia.

Gender and age structure

According to the NIPCM survey (Table 4.7), women accounted for 57% of adult emigrants who left Latvia during the first decade of the 21st century, as compared to 51% among similarly aged non-migrants and only 39% among returnees. Similarly, according to demographic data from other EU countries, the proportion of females among Latvian citizens residing abroad is 57%. Foreign data also confirm that the share of females among those returning to Latvia is smaller than among those leaving Latvia for these countries. This suggests that male emigrants are more likely to return than their female counterparts. The gender imbalance among emigrants puts the reproductive potential of the Latvian population at risk. A much greater risk for Latvia's demographic prospects

however, is associated with the age structure of the emigrant population. By the end of 2010, two thirds of emigrants were younger than 35 (at departure, this proportion is at least three quarters). This is more than twice as high as the share of this age-group among non-migrants. Persons aged 35-44 are proportionally represented among emigrants, while just one out of ten emigrants is older than 54 years. Return migrants are, on average, slightly older than emigrants but much younger than non-migrants.

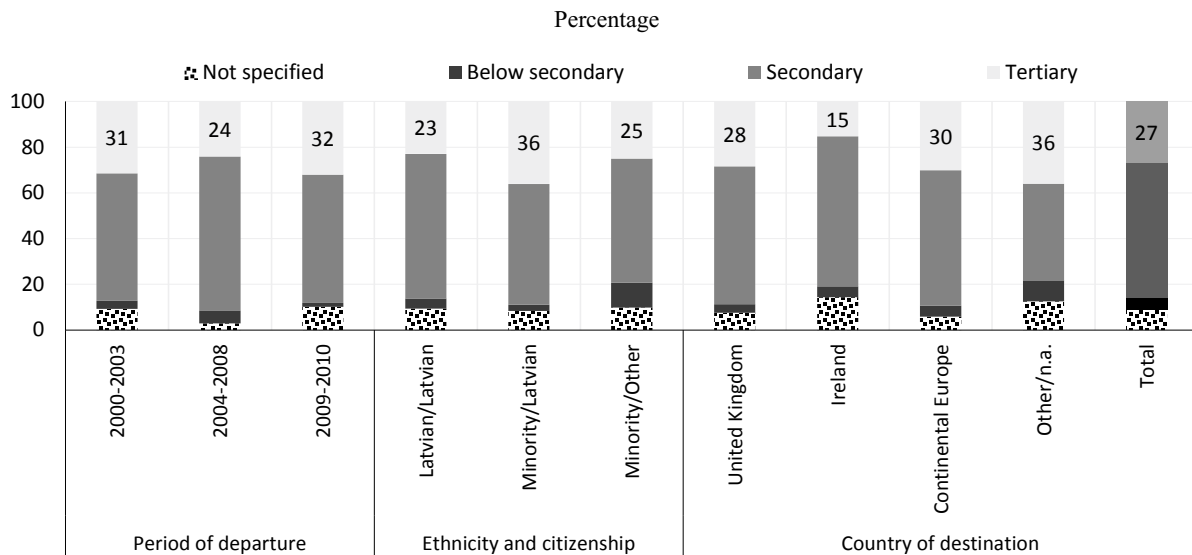
Educational attainment

By the end of 2010, 24% of emigrants were university graduates; this was similar to the proportion among residents aged 18-74 (25%) but somewhat lower than among residents of the same age distribution as emigrants (27%). Among emigrants who left during the crisis, however, 27% have higher education. The share of university-educated individuals among economically active post-enlargement working-age emigrants (24%) is slightly higher than the corresponding figure among all EU10 emigrants in EU countries (22%, see European Commission, 2012, p. 272), but the difference is not statistically significant. The proportion of individuals with a low level of education among emigrants is between 6% and 14%, and is probably closer to the latter, since those 8% of emigrants whose relatives were unaware of their educational attainment, are less likely to have had a high level of education. Given that 21% of the resident population lacks secondary education, emigrants, especially the most recent ones, appear to be better educated. Among return migrants, both the lower-educated and the university graduates are under-represented in comparison with the general population, while 70% hold secondary education. The share of university graduates among returnees (18%) is lower than among emigrants, suggesting that emigrants with higher education are less likely to return; Hazans (2012, Figure 5) supports this hypothesis using Latvian LFS data.

When the share of university graduates is compared across the three waves of emigration, a U-shaped curve emerges (32% – 21% – 27%), which is consistent with hypotheses (H1)-(a), (H2)-(c) and (H3)-(e) above, regarding the propensity to emigrate among tertiary-educated residents of Latvia. This becomes even more obvious when only emigrants aged 22 or older are considered (note that this group includes all but two tertiary-educated emigrants in our sample): among pre-accession emigrants, the proportion of university graduates is 31%, in the post-accession period this proportion falls to 24%, but then rises again to reach 32% among those who left Latvia in 2009-10 (Figure 4.8).

Figure 4.8 also presents differences between the educational profiles of emigrants depending on their ethnicity, citizenship and the country of destination. The largest proportion of university graduates is found among non-Latvians holding Latvian citizenship. This is well in line with two already mentioned circumstances: a relatively low employment rate among tertiary-educated non-Latvians and restrictions faced by Latvian non-citizens in EU labour markets. When emigrants in different destination countries are compared, the lowest proportion of university graduates is found in Ireland.

Figure 4.8. Educational attainment among emigrants from Latvia aged 22 and over by period of departure, ethnicity, citizenship and destination



Note: Educational attainment – the highest level of education completed by the end of 2010; Ethnicity and citizenship are proxied by attributes of the emigrant’s relative who provided the information.

Source: Author’s calculations based on data from NIPCM.

Labour market status and occupation

A striking feature of the emigrants’ situation in the host countries’ labour markets is an extremely high employment rate: at least 87% among those who left Latvia in 2004–08 and at least 84% among crisis-period emigrants.¹² For the sake of comparison, only 54% of non-migrants aged 18–74 were employed in March of 2011, while the age-adjusted rate of employment for non-migrants was 61%. Unfortunately, the rate of employment among emigrants who left Latvia before 2004 could not be calculated with any degree of certainty due to the high percentage of missing values (43%), but it is surely higher than among non-migrants. Note that return migrants in Latvia also feature a higher employment rate (about 66%) than stayers. On the other hand, they also feature a higher unemployment rate, but this might be because they can afford to search longer due to savings from earnings abroad (Hazans, 2008).

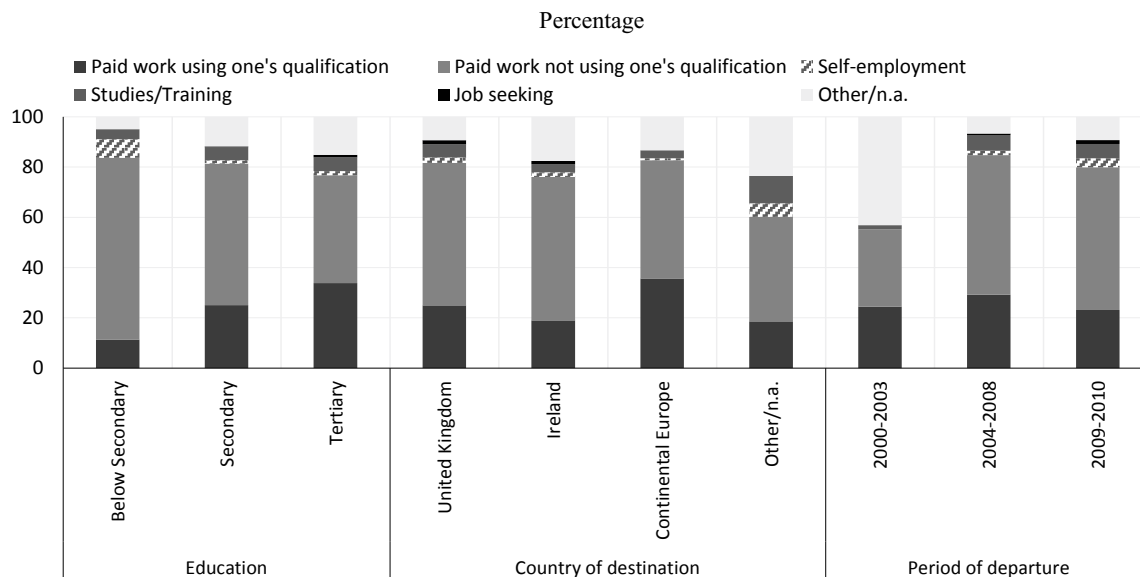
The proportion of self-employed and entrepreneurs among crisis-period emigrants doubled in comparison with the previous period, confirming hypothesis (H3)-(f).

Even under the most radical (and unlikely) assumption that all emigrants with an “unknown” employment status were in fact unemployed, emigrants of the last two waves feature a much lower unemployment level than the one observed in Latvia during the crisis. To sum up, emigrants’ labour market outcomes are significantly better than those of non-migrants.

Figure 4.9 provides a more detailed breakdown of Latvian emigrants’ main activities abroad (by education, destination country and period of departure from Latvia). On average, only 26% of emigrants held a paid job in which they used their qualifications (education). This proportion is higher (and the incidence of brain waste smaller) in continental EU15 countries, where it reaches 36%, than in other countries of destination.

The lowest rate (19%) is found among emigrants living in Ireland and in countries outside Old Europe (United States, Canada, the Russian Federation, Ukraine, etc.). Tertiary-educated emigrants are more likely to use their qualification than those with a secondary education or less. Those who emigrated during the crisis were less choosy with respect to their job abroad: only 23% of them use their qualification, whereas this is the case for 29% of emigrants who left Latvia during the previous two waves of migration (the difference is statistically significant).

Figure 4.9. Emigrants' main activity abroad at the end of 2010, by educational attainment, destination and period of departure from Latvia



Note: "Continental Europe" refers to the EU15 (without the United Kingdom and Ireland), Norway and Switzerland.

Source: Author's calculations based on data from NIPCM.

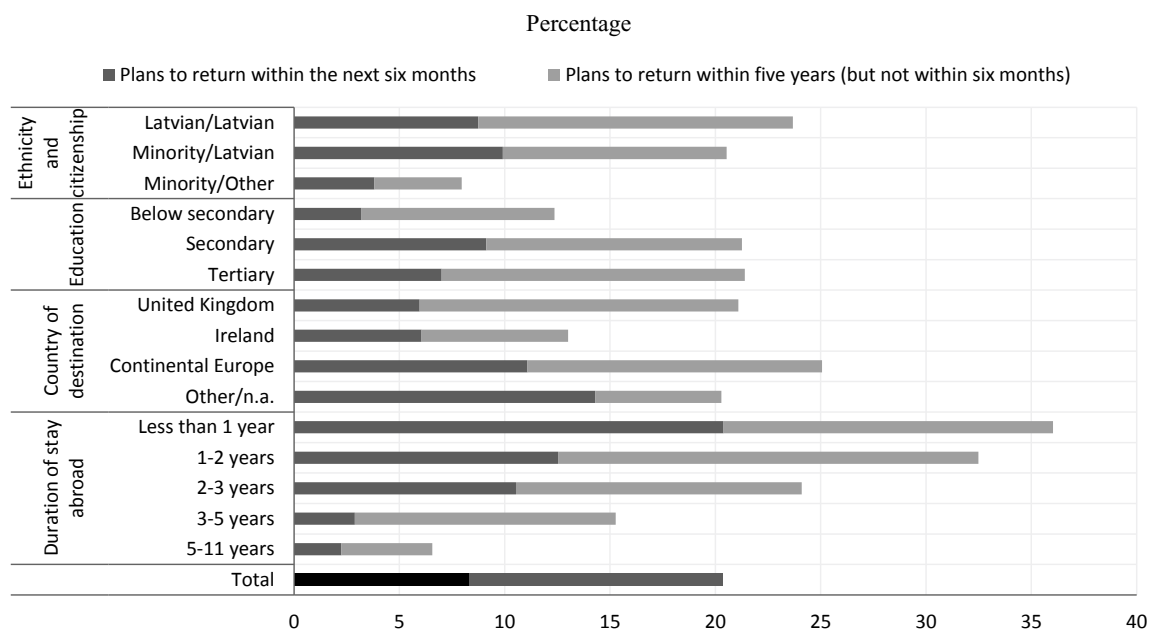
Will the emigrants ever come back?

Given Latvia's deteriorating demographic situation, the possible return of emigrants can be extremely important. Figure 4.10 summarises information on Latvian emigrants' intentions to return, as reported in the NIPCM survey. On average, 8% of emigrants intend to (or would like to) return within six months, while about 20% of emigrants entertain the possibility of returning within five years. A more recent survey of users of the Latvian social network Draugiem.lv residing in the United Kingdom, Ireland, Germany, Norway and Sweden produced a similar result: only 23% of respondents plan to return to Latvia within the next five years, 65% plan to stay abroad longer than five years, and 12% plan to move to another country (Krišjāne et al., 2012). These findings are in striking contrast with the situation observed in 2005-06, when two-thirds of emigrants having left Latvia in 2004-05 were planning to return within two years, most of them (almost half of all emigrants) even within one year (Hazans and Philips, 2010, Figure 9). In fact, in 2002-07, more than half of Latvian guest-workers¹³ returned home within one year, according to the Latvian LFS (Hazans, 2009, p. 19; Hazans and Philips, 2010, Figure 10). These data support hypothesis (H3)-(d) namely that Latvian emigrants who left during the crisis are to a much larger extent oriented towards long-term or permanent emigration.

Ethnicity and citizenship are also associated with intentions to return, with non-Latvians having no Latvian citizenship show the lowest propensity to return: only 8% within five years (Figure 4.10). Tertiary- and secondary-educated Latvian emigrants are more likely to return than their counterparts who do not have a secondary education. When different destination countries are compared, it appears that Latvian emigrants in Ireland have the lowest propensity to return within five years (Figure 4.10).

The proportion of emigrants intending to return sharply declines as the duration of stay abroad increases. Thus, among those who left Latvia less than a year ago, one-fifth plan to return within six months, and more than one-third contemplate return within five years. By comparison, these proportions fall to 3% and 15%, respectively, among emigrants who stayed abroad between three and five years.

Figure 4.10. Intentions to return within six months and within five years, among emigrants from Latvia, by ethnicity and citizenship, educational attainment, destination and duration of stay abroad, 2010-11



Source: Author's calculations based on data from NIPCM, December 2010 to January 2011.

Migration networks and the experience of return migrants

As shown in Hazans (2011b, Box 2.25), among those aged 18-65, the proportion of individuals who had some relative or friend with foreign work experience reached 75% as early as the end of 2005 and increased to 82% by the beginning of 2011. Both at the end of 2006 and in the middle of 2008, 15% of working-age individuals were able to obtain information about work abroad from recent (of the last two years) experience, either their own or that of a close relative. Moreover, at the end of 2010, 28% of respondents indicated that some of their close relatives were working abroad (i.e., during the survey), and 10% had personal foreign work experience (including 9% during the last five years).

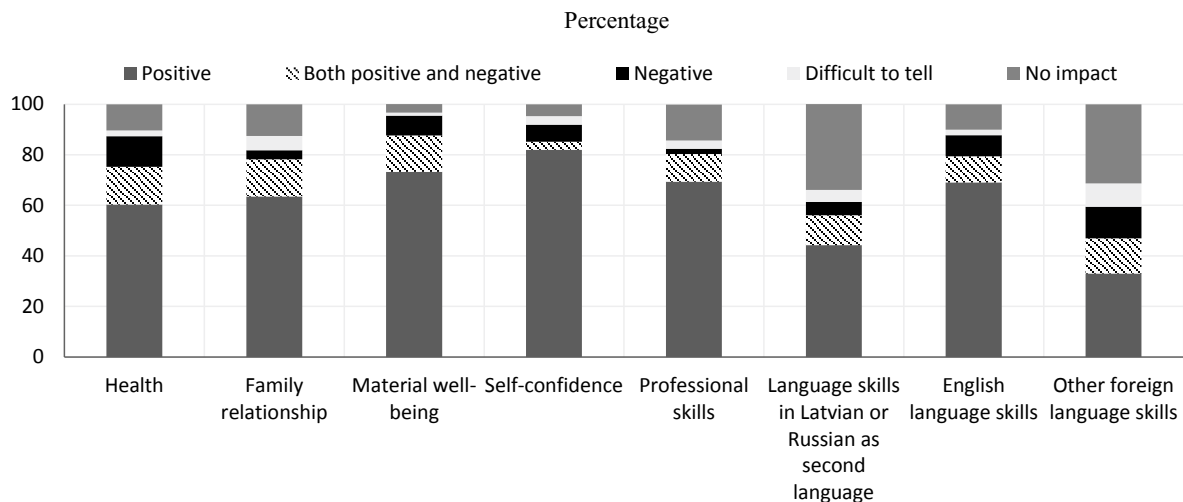
These data confirm the emergence of powerful migration networks. This, as noted above, significantly reduces information and job search costs, as well as psychic and adaptation costs for potential emigrants. Another (possibly, even more important)

conclusion from these data is that in recent years, work abroad has become an integral part of Latvian national identity.

Let us now look at how return migrants assess their experience abroad. The NIPCM survey (December 2010-January 2011) identified 89 respondents who spent at least three months abroad (in a single visit) during the last ten years, but have returned to Latvia. Figure 4.11 presents information on the impact of this experience on various aspects of their lives (health, family, etc.), according to their own assessment. Generally speaking, migrants seem to view their experience abroad as having affected their lives favourably.

A majority of respondents were of the opinion that the time spent outside of Latvia had a positive effect on their lives in terms of health (60%), relationships with family members (82%), material well-being (73%; only 8% reported a negative impact) and self-confidence (82%).

Figure 4.11. Return migrants' assessment of the impact of their time spent abroad on various aspects of their lives



Source: Author's calculations based on data from NIPCM.

Respondents were also asked to assess the effect of their stay outside of Latvia on their professional skills. Again, most (69%) considered the experience to have affected their lives positively in this respect (Figure 4.11). The effect of time spent abroad on language skills in Latvian or Russian as second language is less pronounced but very interesting. 44% of respondents reported a positive effect, one-third noticed no effect, while a negative assessment was very rare (Figure 4.11). As could be expected, most respondents (69%) felt that their English language skills had improved.

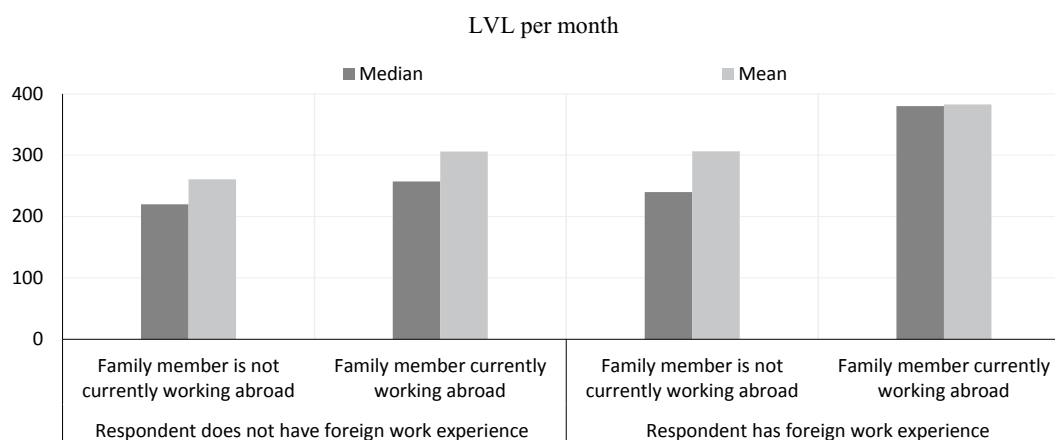
With respect to other foreign languages, a perceived negative effect of time spent abroad is more common (13%) than in the case of English, yet a perceived positive effect prevails (33%).

Return migrants have higher employment levels than people without a migration background. An econometric analysis (omitted here), however, showed that this association can be accounted for by differences in the age and gender distributions of the two groups.

Figure 4.12 sheds some light on the question of whether foreign work experience helps to earn more in Latvia. For this purpose, we look at the personal net income of individuals employed in Latvia in the second half of 2010, depending on their (and their family members’) post-accession foreign work experience. Among those respondents who did not have family members working abroad during the survey, those who had personal work experience abroad have, on average, an 18% higher income than those without such experience (LVL 306 vs. LVL 261 per month). On the other hand, among respondents who did have a family member working abroad during the survey (and, therefore, were likely to receive remittances), return migrants’ average income exceeds the average income of individuals without recent foreign work experience by 25% (LVL 383 vs. LVL 306 per month). Comparing median rather than average income of these groups does not change the results qualitatively. Econometric analysis (details omitted) confirms that even after controlling for educational attainment, age, gender, region and family members working abroad, employed return migrants collect a 13% higher income than their employed counterparts without post-accession foreign work experience. Moreover, this difference is due to experience abroad rather than to differences in productivity between return migrants and other workers. A study based on 2007 data yielded similar results (Hazans, 2008).

To sum up, both the respondents’ opinions and their labour market outcomes suggest that the effect of foreign work experience on various aspects of the lives of return migrants has been largely positive.

Figure 4.12. Personal net income of individuals employed in Latvia in the second half of 2010, by their own and their family members’ foreign work experience



Source: Author’s calculations based on data from NIPCM.

Intentions to emigrate

This section explores emigration intentions of Latvian residents aged 18-65 in the period between December 2010 and February 2011, after more than two years of recession, accompanied by a powerful wave of emigration. The results, based on two surveys, are broken down by respondents’ level of education, main occupation (status), ethnicity, citizenship, region, type of settlement and a background of migration.

The NIPCM survey asks whether the respondent plans to move from Latvia in the near future in order to improve material well-being for themselves or their families.

Those who answered “Yes” or “I do not exclude such a possibility” are categorised as potential emigrants; the former group is further referred to as having concrete plans.

To analyse reasons for emigration, we used the “DnB NORD Latvian Barometer survey No. 35” conducted in February 2011 (DnB NORD), which sampled from the same reference group (Latvian residents aged 18-75) as the NIPCM survey. The DnB NORD survey asked “Do you plan to live and work abroad?”, followed, in the case of a positive answer, by a multiple choice question in which the respondent was asked to specify one or more reasons from a given list. We divided potential emigrants into two categories. The first one includes those who mention one of the following *economic reasons* (no jobs available in Latvia; no possibility to earn a living in Latvia; elsewhere one can earn much more; better social protection abroad), possibly together with one or more other (non-economic) reasons. The second category includes those who did not mention any of the economic reasons, but plan emigration *only for non-economic reasons* – namely, one or more of the following: an opportunity to see the world, to get new impressions, to meet new friends; education and career possibilities; no future in Latvia; does not like what is going on in Latvia; does not like the political environment; wants to live in a stable country; influence of other people.

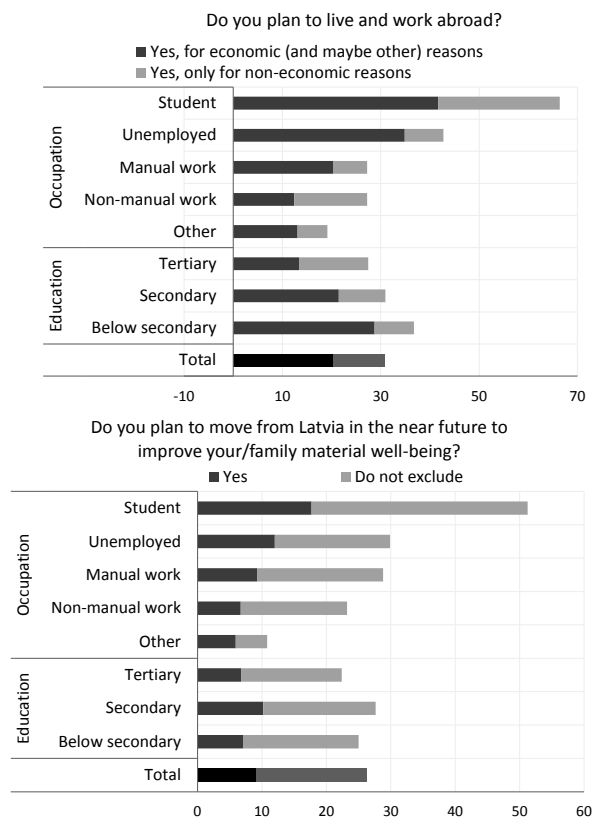
Overall, in December 2010-January 2011, 9% of the population aged 18 to 65 planned to leave Latvia in the near future to improve their material well-being and another 17% did not exclude such a possibility. Potential emigrants (both groups) thus constituted 26% of the population. In February 2011, in the framework of the DnB NORD survey, 20% of respondents reported plans to emigrate for economic reasons, and another 10% only for non-economic reasons, thus raising the proportion of potential movers to about 30% (note however, that in this case, plans do not necessarily refer to the near future and are not restricted to emigration for economic reasons).

According to the NIPCM survey, the highest propensity to emigrate in the near future is found among those with a secondary education: 28% of them are potential movers, including 10% with concrete plans. The other two groups are not far behind, however: 25% of those with less than secondary education and 22% of the tertiary-educated are potential emigrants, in both cases including 7% with concrete plans (Figure 4.13, top).

Larger differences are observed with respect to reasons for emigration (Figure 4.13, bottom). The proportion of those who plan to move abroad for economic (and possibly other) reasons decreases with educational attainment: from 29% among respondents with a basic education to 13% among university graduates. By contrast, the proportion of those who plan emigration only for non-economic reasons increases from 8% among respondents with less than secondary education to 14% among respondents with tertiary education.

From an occupational perspective, the highest propensity to emigrate in the near future is found among students: more than half of them are potential emigrants, including 18% with concrete plans (Figure 4.13, top). A lower, yet significant propensity to emigrate is found among the unemployed, manual workers and non-manual workers, with between 23% and 30% potential emigrants, including 7% to 12% with concrete plans (Figure 4.13, top). On average, one-third of potential movers mention only non-economic reasons for emigration. The only occupational group in which most potential movers do not mention any economic reasons for their plans, is that of non-manual workers (Figure 4.13, bottom).

Figure 4.13. Intentions to emigrate among Latvian residents aged 18-65, by educational attainment and main occupation, December 2010 to February 2011



Source: Author's calculations based on survey data: top – "DnB NORD Latvian Barometer", No. 35; bottom – NIPCM.

Noteworthy is the very high propensity to emigrate (37% overall, including almost 9% with concrete plans) among persons who did not complete their higher education and who are not students (this result is not shown in Figure 4.13).

The unemployed are more often inclined to leave Latvia due to economic, or a combination of economic and non-economic reasons (this is the case for 35% of all jobseekers), than for non-economic reasons alone (8%). A similar situation is found among manual workers (20% and 7%, respectively). Among non-manual workers, on the other hand, 15% plan to leave Latvia only for non-economic reasons, while 12% mention economic reasons. Interestingly, total emigration potential is equally large (27%) among both manual and non-manual workers (Figure 4.13, bottom).

In order to gain a more in-depth understanding of the motivations and concreteness of intentions to emigrate in various population groups, we used an econometric model, which evaluates the impact on the individual's emigration plans, of each of the following variables: gender, age, family status, educational attainment, ethnicity and citizenship, main occupation, region and degree of urbanisation, while holding all other variables constant. The main results of this analysis – presented as the mathematical difference, in percentage points, between the adjusted proportion of potential emigrants in each category and that in the reference category – are summarised in Table 4.8.

Other things being equal, females and males without under-age children do not differ much in terms of propensity to emigrate, although the probability of an emigration plan in the near future is 2.6 percentage points higher for a female than for an otherwise similar male. By contrast, when a woman with children is compared to an otherwise similar man with children, the probability for the woman to plan emigration in the near future or in general is 5.5 to 6 percentage points lower, and her probability to plan emigration for economic reasons 9 percentage points lower, while probability to plan emigration due to non-economic reasons alone is 3 percentage points higher.¹⁴

The presence of children in the family significantly increases males' propensity to emigrate due to economic reasons, while for females this effect is negative with respect to plans for the near future but is not significant with respect to emigration in general or due only to non-economic reasons (note that for females, the effect of the presence of children in each of the five columns of Table 4.8 can be obtained by summing the rows "Lives with children" and "Female with children"). This supports hypothesis (H3)-(d) namely, that since the onset of the economic crisis, potential emigrants are oriented towards long-term or permanent emigration and tend to move as entire families.

While intentions to emigrate vary significantly by age group, it is worth noting that the 25-34 year-olds have practically as strong a propensity to emigrate as those aged 18 to 24. For both groups, the probability of a plan to emigrate in the near future is 23 percentage points higher than for 55-65 year-olds, the probability of a more general plan to emigrate (without specifying the time) 30 to 35 percentage points higher, and the probability of a plan to emigrate due to economic reasons 26 to 34 percentage points higher. For population aged 35 to 44 years, all the above probabilities are 6 to 11 percentage points lower than for the 25-34 year-olds, but for those aged 45-54 years, another 6 to 10 percentage points lower. When the average probability for each model is taken into account (see row "Proportion of positive answers" in Table 4.8), it appears that the strongest age effects, which exceed the average prevalence of emigration plans by a factor of two-and-a-half, are related to concrete plans to move abroad in the near future.

It is worth noting, that the highest propensity to emigrate due to non-economic reasons alone, is found in 25-44 year-olds.

When other factors are controlled for, the difference between persons with secondary and tertiary education with respect to propensity to emigrate becomes insignificant, with the exception of emigration due only to non-economic reasons. In the latter case, university graduates feature a 4.3 percentage points higher probability of contemplating emigration. These findings once again support our hypothesis (H3)-(e) regarding a significant increase in the proportion of individuals with higher education among emigrants during the crisis. On the other hand, for a person whose education is below secondary, the probability of a plan for [economic] emigration in the near future is 6 to 7 percentage points lower than for an otherwise similar person having completed secondary education. This is despite the fact that people of low educational attainment suffered more than others from recession-related lay-offs (see Table 4.5).

Table 4.8. Impact of demographic and occupational factors on emigration plans, population aged 18-65, December 2010-February 2011¹

Mathematical difference between proportions of potential emigrants as compared to reference category, in percentage points

		Do you plan to move from Latvia in the near future to improve your/family material well-being?		Do you plan to live and work abroad?		
		Yes	Yes or do not exclude	Yes	Yes	Yes
				for any reason	for economic (and possibly also other) reasons	for non-economic reasons alone
Proportion of positive answers		9%	26%	31%	20%	10%
Factors^{1,2}						
Gender and family						
	Male without children	Ref.	Ref.	Ref.	Ref.	Ref.
	Female	2.6**	-3	-1.2	0.7	-1.5
	Married or lives with a partner	1.3	-7.0***	-2.6	-0.7	-2.9
	Lives with children	3.6**	8.0***	4.6	7.8***	-3.6
	Female with children	-8.1***	-6.4*	-5.1*	-9.6***	4.9**
Age						
	18-24	22.9***	33.0***	34.5***	33.4***	2.2
	25-34	23.0***	32.4***	30.4***	25.6***	8.0**
	35-44	17.0***	20.9***	22.8***	19.2***	6.3**
	45-54	11.4***	14.1***	13.2***	13.2***	2.6
	55-65	Ref.	Ref.	Ref.	Ref.	Ref.
Education						
	Below secondary	-6.0***	-7.1**	-3.4	-1.9	-1.9
	Secondary	Ref.	Ref.	Ref.	Ref.	Ref.
	Tertiary	-2.7	-2.5	2.3	-3	4.3***
Ethnicity & citizenship						
	Latvian	Ref.	Ref.	Ref.	Ref.	Ref.
	Non-Latvian, Latvia citizen	-2	7.3***	7.4***	8.3***	-0.5
	Non-Latvian, non-citizen	2.6*	2.4	0.9	6.7**	-6.4***
Main occupation						
	Wage earners	Ref.	Ref.	Ref.	Ref.	Ref.
	Unemployed	4.8***	6.0**	14.9***	14.3***	-1.1
	Student	1.7	6.8	19.4***	6.3	11.1***
	Other	1.1	-10.7***	1.4	2	-0.8
Monthly household income per capita, LVL						
	Up to 80	5.4**	-1.9	-2.3	-5.1*	3.2
	81-120	4.3**	1.8	1.5	-4.5	8.0***
	121-160	Ref.	Ref.	Ref.	Ref.	Ref.
	161-200	3.3	1.8	-1.1	-8.8***	9.3***
	>200	1.3	-3.3	-4.4	-7.8**	5.2**
	Unspecified	4.3*	-0.3	0.5	-9.3***	11.2***
Other controls (region and urbanisation level)		5 regions and 3 urbanisation levels (indicator variables)				
Number of observations		869	869	868	868	868

Note: *, **, *** – estimates significantly different from zero at the 10%, 5%, 1% levels, respectively.

1. Factors and reference categories are given in bold. Cells report the mathematical difference, in percentage points, between the adjusted proportion of potential emigrants in each category and that in the reference category.

Source: Author's calculations based on survey data: the first two columns are based on "DnB NORD Latvian Barometer", No. 35; the last three columns, on the NIPCM 2010 survey.

After controlling for the above variables, Non-Latvians with Latvian citizenship are 7 to 8 percentage points more likely than ethnic Latvians, to plan or consider moving abroad ("in the near future", "in general" and "for economic reasons"). On the other hand, non-Latvians without Latvian citizenship are not significantly different from ethnic Latvians with respect to the first two of the above-mentioned probabilities (i.e., "in the near future" and "overall"). The probability of planning emigration due to economic reasons among non-citizens, however, is 7 percentage points higher than among ethnic Latvians. This, in turn, is partly offset by a 6 percentage points lower probability of planning emigration due to non-economic reasons alone. Finally, among non-Latvians

with Latvian citizenship the propensity to move abroad due to non-economic reasons alone is the same as among ethnic Latvians.

While findings reported in the previous paragraph suggest that non-citizens are less inclined to emigrate than non-Latvians with Latvian citizenship, results from the first column of Table 4.8 are slightly different: holding other variables constant, the probability of planning economic emigration in the near future for non-citizens is, on average, 2.5 percentage points higher than for Latvians and 4.5 percentage points higher than for minority citizens. In all likelihood, this is attributable to the difficult labour market situation of non-citizens (see Table 4.5). Overall, the results of the econometric analysis support hypothesis (H3)-(g) above, regarding changes in the role of ethnicity after the onset of the economic crisis: the propensity to emigrate among minority individuals – especially among those holding Latvian citizenship – appears to be higher than among Latvians. Official data on ethnic composition of emigrants in 2011-12 (Statistics Latvia, 2013a) also support this conclusion: estimated proportion of ethnic Latvians among emigrants is below 50%, while their share in general population is about 61%.

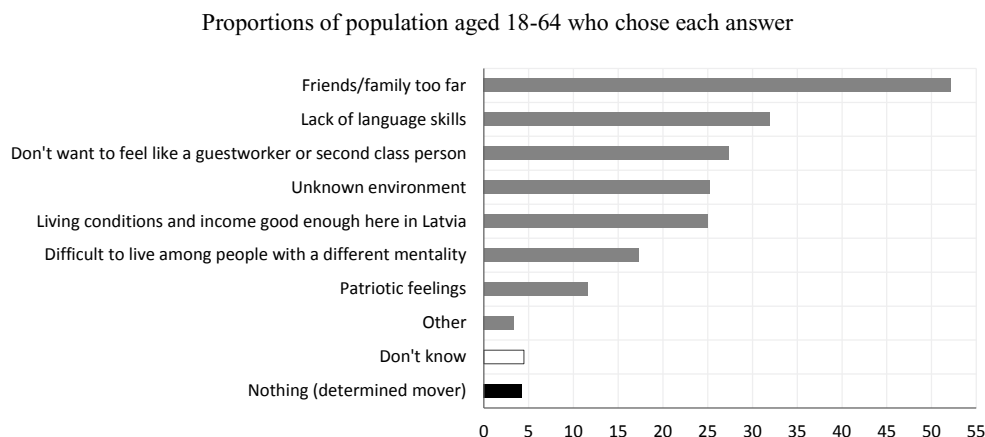
As can be expected, the unemployed are much more likely than the employed, to plan emigration (“in the near future”, “in general”, “for economic reasons”). The impressive size of this effect is demonstrated by the fact that the difference in probabilities between the unemployed and employed (respectively, 5, 15 and 14 percentage points), is very large relative to the average proportion of potential emigrants of the given kind (respectively, 9%, 31% and 20%) in population aged 18-65. If those who do not exclude the possibility of moving abroad in the near future are also considered potential emigrants (along with those having specific plans), then the likelihood to belong to this group for an unemployed person is 6 percentage points higher than for an employed person. By contrast, with respect to plans to move abroad only for non-economic reasons, an unemployed person does not differ significantly from an employed individual.

Finally, students are much more oriented towards emigration for non-economic reasons alone, than those whose main activity is work: the difference in probabilities is 11 percentage points, which is a very large effect given that overall just 10% of population falls into this category.

Results reported so far refer to early 2011. Figure 4.14 provides evidence from a more recent (August 2012) survey, in which respondents were asked to choose from a list (or to suggest) three main reasons that would cause them to reject an offer to live and work outside Latvia for a long time.

According to this survey, 4% of respondents aged 18-64 are “determined movers” – people who, while ready to move under certain conditions, could not think of a reason which would stop them.

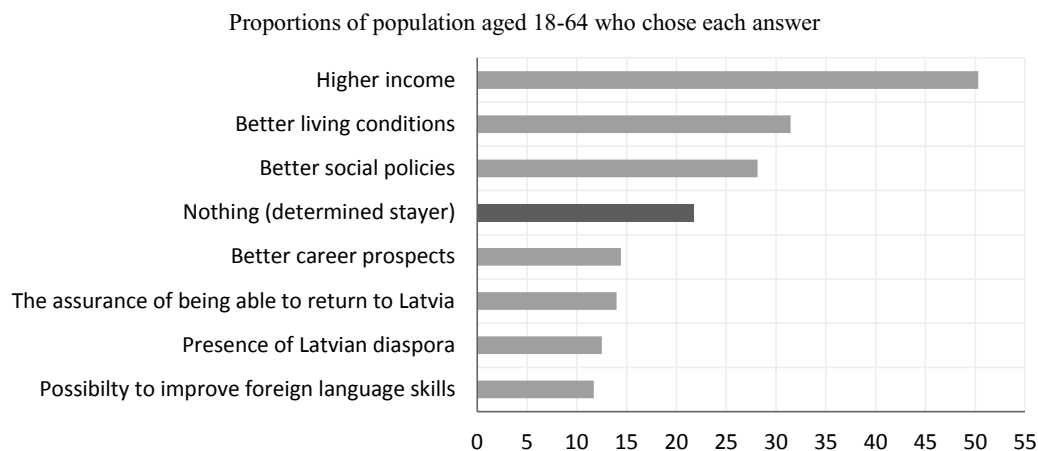
In the same survey, respondents were asked about the main conditions that would need to be met for them to accept an offer to live and work outside Latvia for a long time. Figure 4.15 ranks the most frequent answers. Higher income, better living conditions and (notably) better social policies in the potential country of destination lead the list. Just one out of eight respondents mentioned warranted possibility to return as a precondition.

Figure 4.14. Main reasons to reject an offer to live and work outside of Latvia for a long time

Source: Author's calculations based on data from the "DnB NORD Latvian Barometer", No. 51 (August 2012).

Only 22% of respondents are "determined non-migrants" – under no conditions would they move abroad.

Questions similar to those reported in Figures 4.14 and 4.15 were asked in another survey conducted by the same agency early in 2010. Figure 4.16 compares the results regarding determined non-migrants (as defined above) and potential emigrants – those who would accept an offer to work and live abroad, at least under certain conditions.¹⁵ The lists of conditions differed somewhat across years, but in both surveys there was an open-ended option to list "Other conditions". Thus, the results are comparable (although not perfectly). In two and a half years, the share of potential emigrants increased from 54% to 68% at the expense of the proportion of determined non-migrants, while the share of the undecided remained at 10%. This suggests that emigration potential has increased – despite the intensive emigration that took place in the period between the two surveys (see Table 4.4), restored economic growth (5.7% in the first three quarters of 2012 vs. – 2.4% in the same period of 2010) and declining (yet high) unemployment (14.2% in the third quarter of 2012 vs. 20.5% in the first quarter of 2010, seasonally adjusted).

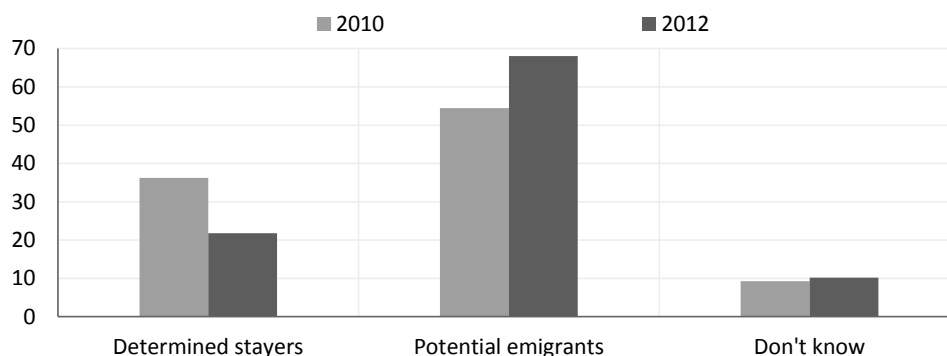
Figure 4.15. Main reasons to accept an offer to live and work outside of Latvia for a long time

Note: The five least popular answers are not shown.

Source: Author's calculations based on data from the "DnB NORD Latvian Barometer", No. 51 (August 2012).

Figure 4.16. Determined stayers and potential emigrants in population aged 18-64

August 2012 vs. February 2010



Source: Author's calculations based on data from the "DnB NORD Latvian Barometer", No. 22 and No. 51.

This result is consistent with the increasing importance of non-economic reasons for emigration, or reasons that are economic in nature but rooted in the past rather than linked to current economic trends, such as credit liabilities. Indeed, Krišjāne et al. (2012), based on a survey among users of a Latvian social network residing outside of Latvia, found that debt repayment was the most popular main reason for emigration (22% of respondents), followed by uncertainty about one's future (19%), difficulties in finding a job (17%) and insufficient career prospects (15%).

The economic impact of emigration on Latvia

Emigration may affect the sending country's labour market in a number of ways. First, it tends to reduce unemployment below the levels expected under a zero-emigration scenario, because actual or potential unemployed, and economically inactive individuals move abroad or fill the vacancies left behind by previously employed emigrants. Table 4.9 (based on LFS data) indicates that in 2003-10 one-fifth to one-third of Latvian guestworkers experienced unemployment or economic inactivity in Latvia during the year prior to their departure.

Table 4.9. Unemployment or spells of economic inactivity in Latvia during the year prior to departure, among Latvian guestworkers,¹ 2003-10

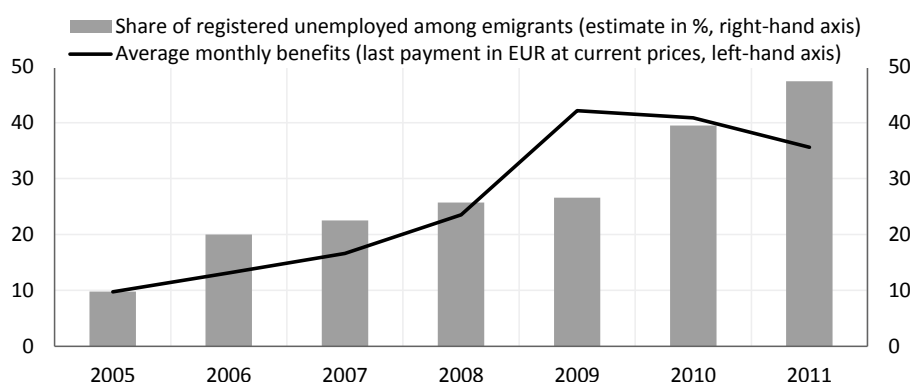
	Percentage							
	2003	2004	2005	2006	2007 ²	2008 ²	2009	2010 ³
Unemployed	11.9	16.0	19.9	25.5	10.3	10.0	18.7	19.0
Inactive	9.9	14.3	10.0	12.8	9.2	7.4	6.8	4.0
Total	20.8	30.4	29.0	33.4	19.5	16.5	24.0	23.0

1. Guestworkers here are labour emigrants still considered household members back home.
2. For 2007-08, the results are not comparable with the other years due to a change in LFS design in 2007.
3. Data for 2010 refer to "one year ago" rather than "during the previous year" and hence should be seen as lower bounds.

Source: Author's calculations based on data from the Latvian Labour Force Survey.

Moreover, among all emigrants with legal work or registered unemployment experience in Latvia, the share of those whose last registered activity before leaving was unemployment, rose from 10% in 2005 to 48% in 2011 (Figure 4.17).

Figure 4.17. Estimated share of registered unemployed among emigrants with registered labour market experience, and average last monthly amount received in benefits by emigrants before departure, 2005-11



Note: Emigrants' age structure is used for assigning weights to individuals (excluding retirees) permanently leaving both SSIA and SEA datasets in between January 2005 and August 2011 (to allow one year abroad for those who left most recently).

Source: Author's calculations based on data from the State Social Insurance Agency (SSIA) and the State Employment Agency (SEA).

These data suggest that, were it not for emigration, there would have been fewer vacancies, and unemployment would have been much higher, at least in 2009-12, a period in which vacancies were scarce (Figure 4.18). Moreover, emigration led to significant fiscal savings on state and social benefits (Figure 4.17). Note that whether, during a period of intensive emigration, unemployment actually falls and job vacancy rate grows depends on the business cycle. Unemployment was falling in 2004-07, then growing until the first quarter of 2010 and then again falling (Figure 4.6); job vacancy rate "predicted" the coming recession earlier than did unemployment, and resumed growth later (Figure 4.18).

As discussed in detail in Hazans and Philips (2010), during the growth period, emigration was not the only cause for the decline of unemployment. Increase in job vacancy rate (especially in manufacturing and construction, as well as for semi-skilled manual workers) outpaced emigration in 2005-07 (even more so in 2005-06), see Figure 4.18. By contrast, during the jobless recovery of 2010-11, job vacancy rate was either roughly constant at a very low level or growing at a much slower pace than emigration. Moreover, the fastest growth in job vacancy rate refers to high-skilled non-manual jobs (Figure 4.18). This is consistent with an increasing share of university graduates among the emigrants.

Several studies have used large macro-econometric models to estimate the effect of emigration on the rate of unemployment in sending countries, including Latvia; see Holland et al. (2011) and European Commission (2012, pp. 275-276) for a summary. In particular, Barrel et al. (2007, Tables 3 and 4) estimate that migration contributed to reduce the rate of unemployment in Latvia by 2.4 percentage points over the four-year period of 2005-08. Holland et al. (2011), however, find a much smaller effect. Zasova (2012) developed a model which sets the estimated contribution of emigration to the decline in the non-accelerating inflation rate of unemployment (NAIRU) after EU enlargement, at 0.4 points (applying our emigration estimates).

Figure 4.18. Net emigration and job vacancy rate, 2005Q1 to 2012Q3

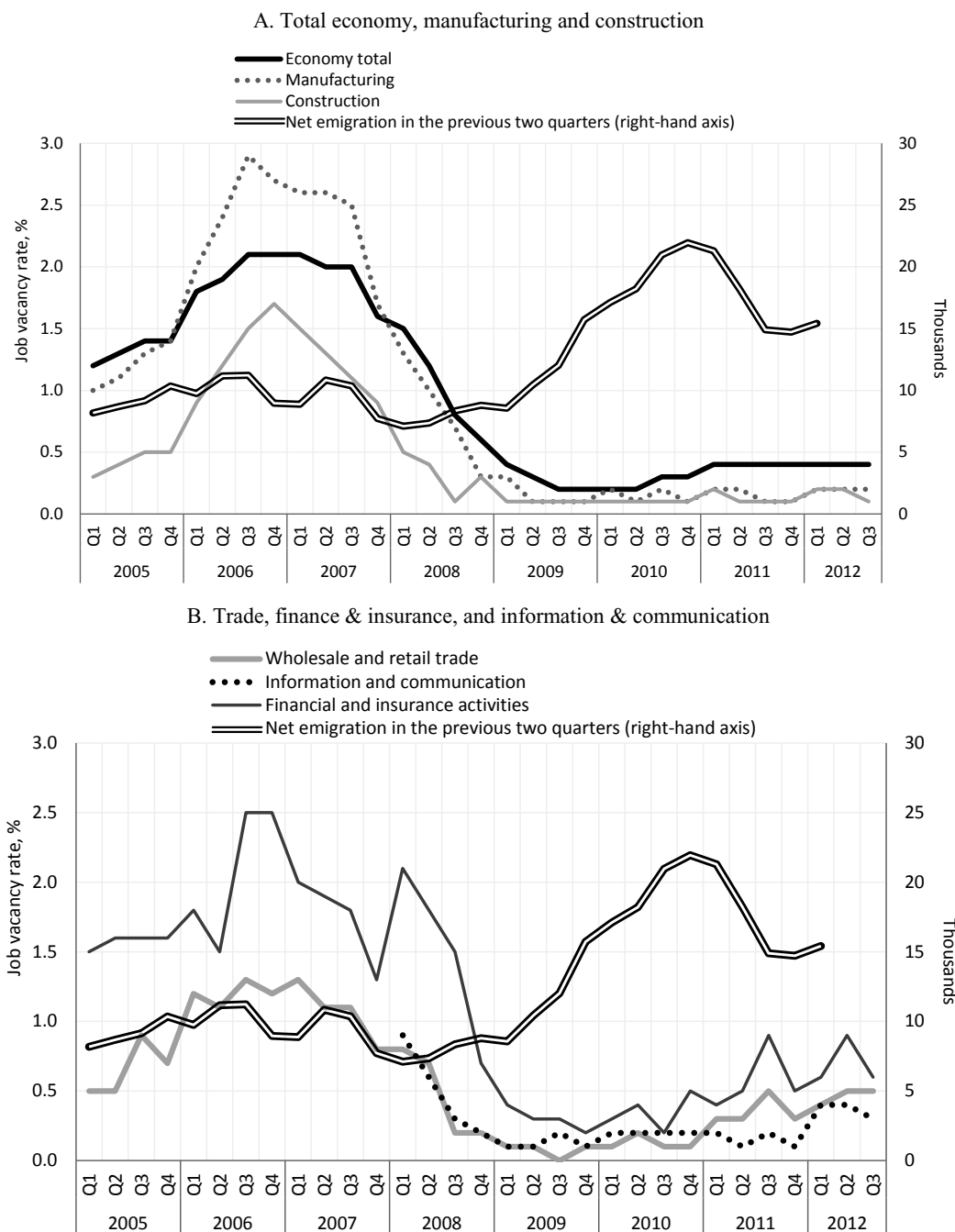
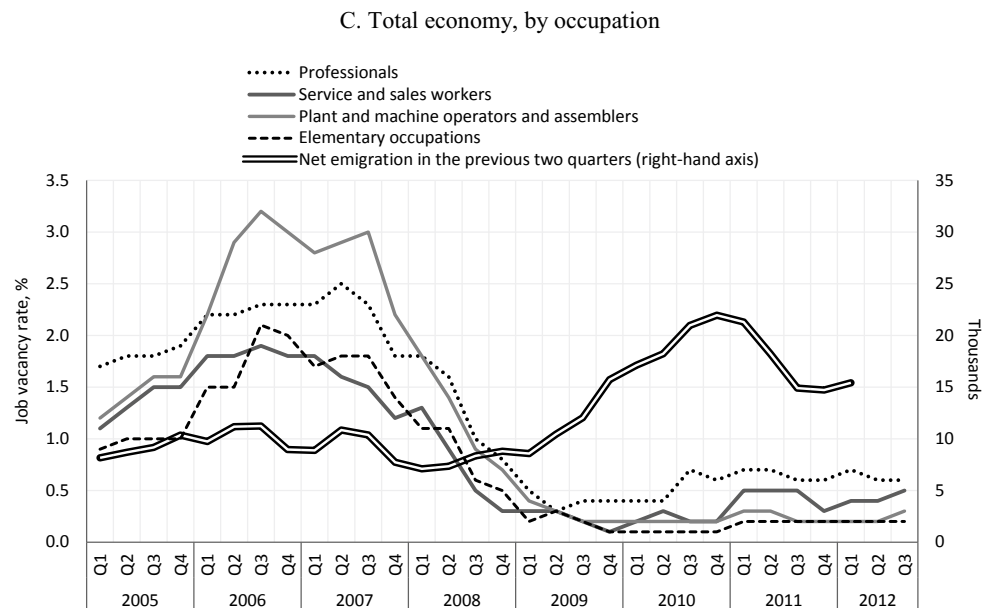


Figure 4.18. Net emigration and job vacancy rate, 2005Q1 to 2012Q3 (cont.)

Note: Annual outflows are transformed into quarterly ones assuming the dynamics of social security numbers (NINOs) in the United Kingdom.

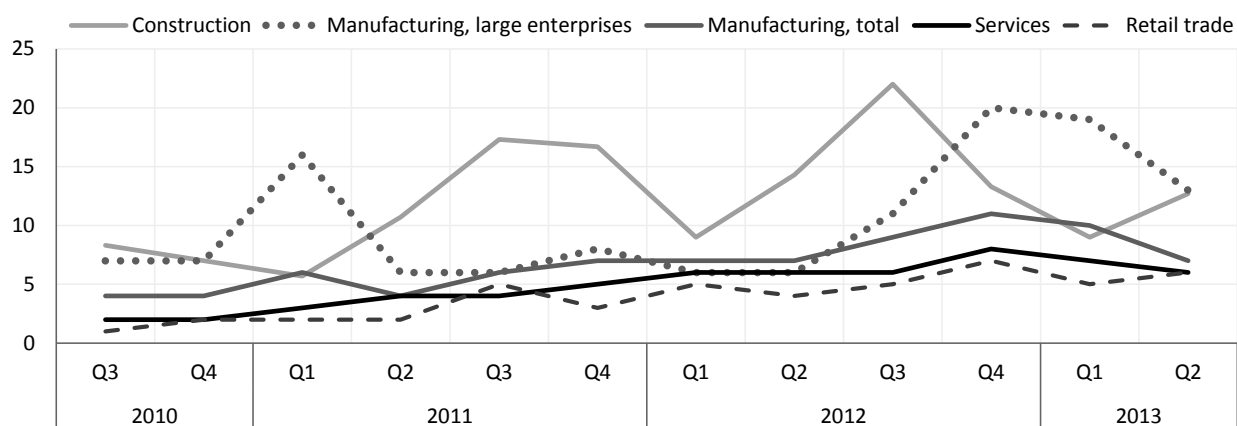
Source: Vacancy rates from Eurostat and immigration data from Eurostat, OECD, Statistics Latvia, other national statistical offices, Department of Work and Pensions (United Kingdom), Department of Social Protection (Ireland), author's calculation and compilation.

A major focus of public debate in Latvia is the question whether emigration has already led to labour shortages, as it had in 2005-07 (see Hazans and Philips, 2010; and Rutkowski, 2007 for discussion and evidence). Employers and potential investors complain that despite high unemployment they cannot find qualified workers, suggesting that unemployment in Latvia is largely structural. Survey data, however, provide only limited support for these claims. The highest proportion of enterprises reporting labour shortages is found in the construction sector and among large manufacturing firms, but even there it peaks at about 20% in late 2012, and at any rate remains below 10% in trade and services (Figure 4.19). A more detailed analysis by Anosova et al. (2012) and Hazans (2013a, 2013b) also seems to refute the hypothesis that Latvian unemployment is structural (i.e. that available unemployed are not suited for most of the vacancies offered). Difficulties in finding relevant employees concern only a small share of businesses and a small proportion of available vacancies. Nevertheless, labour shortages will inevitably become a serious challenge in the near future, seeing that the cohorts of labour market entrants are expected to be smaller than those of leavers (a situation exacerbated by emigration, but that would have occurred in any case).

Increased propensity to emigrate tends to reduce labour supply and make it more elastic, thus increasing real wages and narrowing the gap between the marginal productivity of labour and pay, but also forcing employers to lower hiring standards (for a discussion of the latter point, see Hazans and Philips, 2010). Through real wages, emigration also contributes to increases in consumer prices. At the same time, however, through falling domestic demand, it also exerts influence in the opposite direction. Holland et al. (2011) do not provide estimates for emigration impact on real wage growth in Latvia, while Barrel et al. (2007, Tables 3, 4) estimate that over the four-year period of 2005-08 emigration contributed 0.8 percentage points of inflation in Latvia and Lithuania,

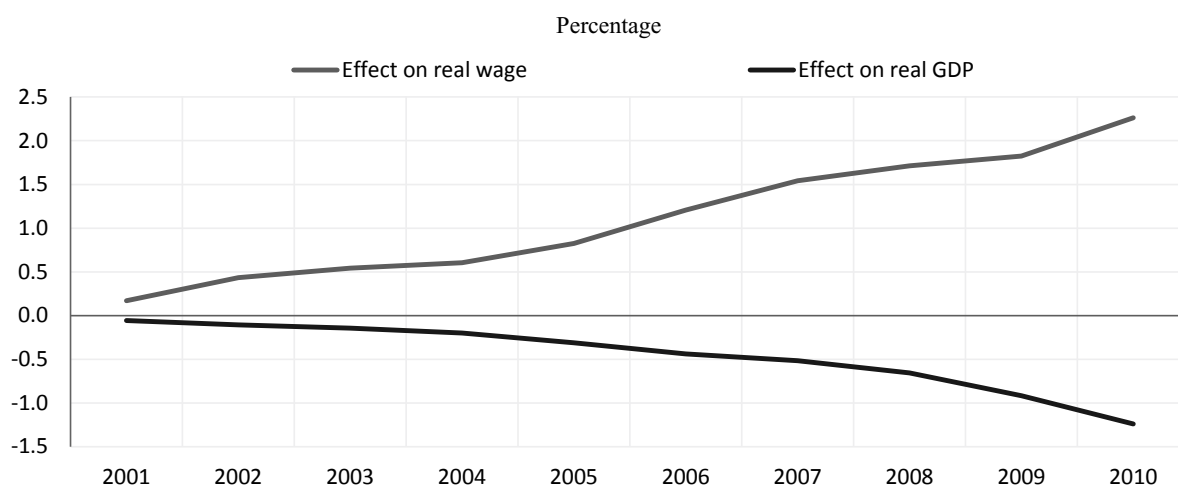
and 0.2 points in Estonia. Figure 4.20 presents estimates of the effect of emigration on real wages in Latvia for the period 2001-10, based on a macro-econometric model developed by Zasova (2012). By 2010, the estimated cumulative effect is an increase of real wages by 2.5% (compared to a zero-emigration scenario). These estimates seem quite low. The European Commission (2012, p. 276) notes that this might be due to aggregation bias and that the effects for specific skill groups, occupations or sectors might be significantly larger. Hazans and Philips (2010) discuss other reasons why macro-models might underestimate the effect of emigration on real wages: macro-models do not account for the monopsonistic structure of the labour market, in particular the threat of a substantial fall in labour productivity when a firm loses not just a marginal worker but, say, half of its workforce. Scale effect, work organisation problems, and the inability to compete for publicly financed projects can all be underlying factors.

Figure 4.19. Proportion of enterprises reporting a shortage of labour as a limiting factor, by sector, 2010 Q3 to 2013 Q2



Source: Author's calculations based on surveys of economic sentiment provided by Statistics Latvia.

Figure 4.20. The estimated effect of emigration on real GDP and real wages, 2001-10

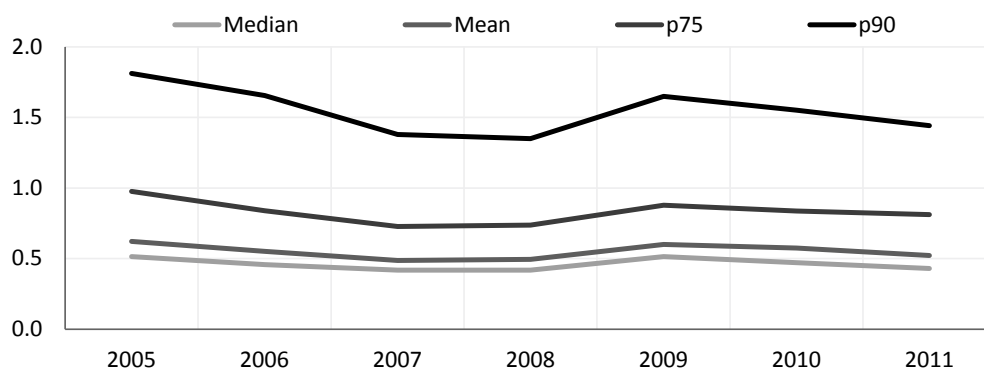


Source: Author's calculations based on macro-econometric model by Zasova, A. (2012), "Econometric Assessment of Performance of Latvian Labour Market", PhD Thesis, University of Latvia, Riga.

The overall economic impact of emigration results mainly from a reduction of the labour force. This effect might be reinforced if emigrants are on average more skilled than non-migrants or mitigated if they are less skilled. Emigrants' remittances, on the other hand, can partly or fully compensate the loss of output, but this is unlikely to last forever, especially when emigration becomes increasingly permanent, as in the case of Latvia. For the period of 2004-09, Holland et al. (2011), assuming a net outflow of only 2.5% of the population (this study focused on outflows to EU15) estimated the long-term effect on Latvian real GDP to be -3.3% ; only half of which has been compensated by remittances during the same period (European Commission, 2012, p. 278). Clearly, the overall long-term effect of losing 9% of a country's population (and 14% of its labour force) would be much larger, but estimating it using the same model is beyond the scope of this chapter. A simpler model by Zasova (2012) produced a smaller impact of -1.5% (Figure 4.20). On the other hand, introducing the loss of 14% of the labour force into the production function with the share of labour being 0.64 (as in Krasnopjorovs, 2012b; a number of previous studies arrived to similar estimates), one gets a permanent reduction of 9 percentage points in potential output.¹⁶

Figure 4.21 suggests that the latter estimate is too high since domestic productivity of at least three quarters of emigrants was below median productivity of all legally employed persons in Latvia. At the same time Figure 4.21 provides strong evidence to support to the hypothesis that during the crisis the emigrants (especially the top half) are relatively much more productive than before, and the brain drain risk is increasing.

Figure 4.21. Estimated mean and percentiles of emigrants' last earnings from all jobs as a proportion of median earnings of all legally employed persons in the same month, 2005-11



Source: Author's calculations based on data from the State Social Insurance Agency (SSIA) and the State Employment Agency (SEA). Annual ratios shown in the figure are obtained as averages of respective monthly ratios. Emigrants' age structure is used for assigning weights to individuals (excluding retirees) permanently leaving both SSIA and SEA datasets in between January 2005 and August 2011 (to allow one year abroad for those who left most recently).

As noted above, return migrants are on average more productive than non-migrants, but as long as their number is small, this will not be sufficient to compensate for brain drain.

Due to space constraints, we are unable to cover all aspects of the economic impact of migration at length, but let us briefly mention a number of factors not addressed here.

By reducing population and hence domestic market size, emigration discourages investment – both foreign and domestic. This is reinforced by the threat of labour shortages (Kugler and Rapoport, 2005; Javorcik et al., 2011; Gormsen and Pytlikova,

2012). While theoretical considerations suggest that investment from and trade with countries hosting large numbers of recent emigrants from Latvia should substantially increase, this is yet to happen. Should Latvian diasporas in the United Kingdom, Ireland, Germany, Norway, Sweden, etc. be considered as potential trade partners and foreign direct investment sources?

Conclusion

The negative demographic effects of emigration on the Latvian economy (and especially on the sustainability of its social security system) suggest the need for measures which would address both causes and consequences of emigration. Direct job creation measures, as well as tax policies stimulating labour demand would address lack of jobs. Given that most emigrants come from the lower part of the distribution of earnings, raising non-taxable income thresholds and allowances for dependents, increasing the role of targeted rather than universal benefits and other ways of promoting progressivity seem to be the right direction in further development of the tax and benefit system. Given a high proportion of former registered unemployed among emigrants, investments in training programmes for the unemployed are welcome. Latvia should avoid policy changes – and discard existing policies – which increase motivation to emigrate among large groups of population, especially in such fields as education, employment, health care, taxation and benefits. State and local governments should actively foster diaspora engagement in economic and social development and expand Latvia’s “virtual borders”. At the EU level, Latvia (together with other new member states) should actively promote creation of a mechanism to compensate the countries of origin of migrants for the loss of human capital, labour force and reproductive potential.

Notes

1. The fact that the net outflow of air and sea passengers in 2011 fell below the 2009 level (see Table 4.4) can be explained by reasons other than an actual decline in total emigration such as a reduction in the number of Air Baltic flights, or a shift in preferences towards land transport following the complete opening of the German labour market and a growing share of families among the emigrants.
2. Outflow to the Russian Federation remains stable, although at a level 30% higher than in 2008.
3. For the period between 2012Q2 and 2013Q1, however, the issuance of new SSNs fell just 27%. By this measure, migration to the United Kingdom from Estonia and Lithuania in 2012 was 30% lower than in 2011, while emigration from Poland declined by less than 5% (Department for Work and Pensions, 2013).
4. Hazans (2003, Tables A4.1-A4.4) provides a detailed comparison of earnings.
5. EURES – The European Job Mobility Portal, available at <http://ec.europa.eu/eures/>
6. See Hazans and Philips (2010, Section 7) for a detailed discussion of the impact of emigration on Latvia's labour market and economy in 2004-07.
7. In Ireland and in the United Kingdom, the citizens of new member states need to register to obtain living and working permits, but if the documents are in order, permits are guaranteed without any specific prerequisites (Brucker et al., 2009, Table 2.1).
8. Brucker et al. (2009, Tables 6.7 and 6.8) showed that in 2004-07 returns to schooling for post-accession immigrants from new member states in the United Kingdom were quite low: just 2% per year of schooling. Moreover, 82% of tertiary-educated representatives of this group worked in medium- or low-skilled jobs.
9. Indirectly – via spouses holding Latvian citizenship, as well as via social networks – new migration possibilities emerged also for non-citizens. Nevertheless, their position in terms of mobility options worsened compared to that of citizens.
10. Latvian Labour Force Survey data, 2009/Q4 and 2010/Q1 average.
11. See www.citizensinformation.ie/en/social_welfare/social_welfare_payments/; www.hmrc.gov.uk/childbenefit/, accessed on 15 August 2011 and refer to year 2011.
12. The actual level could be even higher given that information on labour market status is missing for 7-9% of emigrants in these two waves.
13. Guestworkers include also short-term and seasonal migrant workers. On the other hand, in the context mentioned here (due to LFS design) guestworkers are still considered as household members back home (those who moved as entire families are therefore not guestworkers).
14. These results are obtained by summing the effects from the rows “Female” and “Female with children”.

15. The concept of potential emigrants here is somewhat broader than the one used earlier in this section. Here, it refers to accepting a hypothetical offer rather than planning emigration.
16. The effect of emigration on total labour force participation is theoretically ambiguous. Changes in the age structure caused by emigration suggest a negative effect, while higher real wages and lower hiring standards tend to increase the participation rate, especially among disadvantaged groups (Hazans and Philips, 2010; Hazans, 2011a). In fact, the activity rate of the Latvian working-age population was much higher in 2011-12 than in the pre-accession period, but it could have been even higher in absence of emigration.

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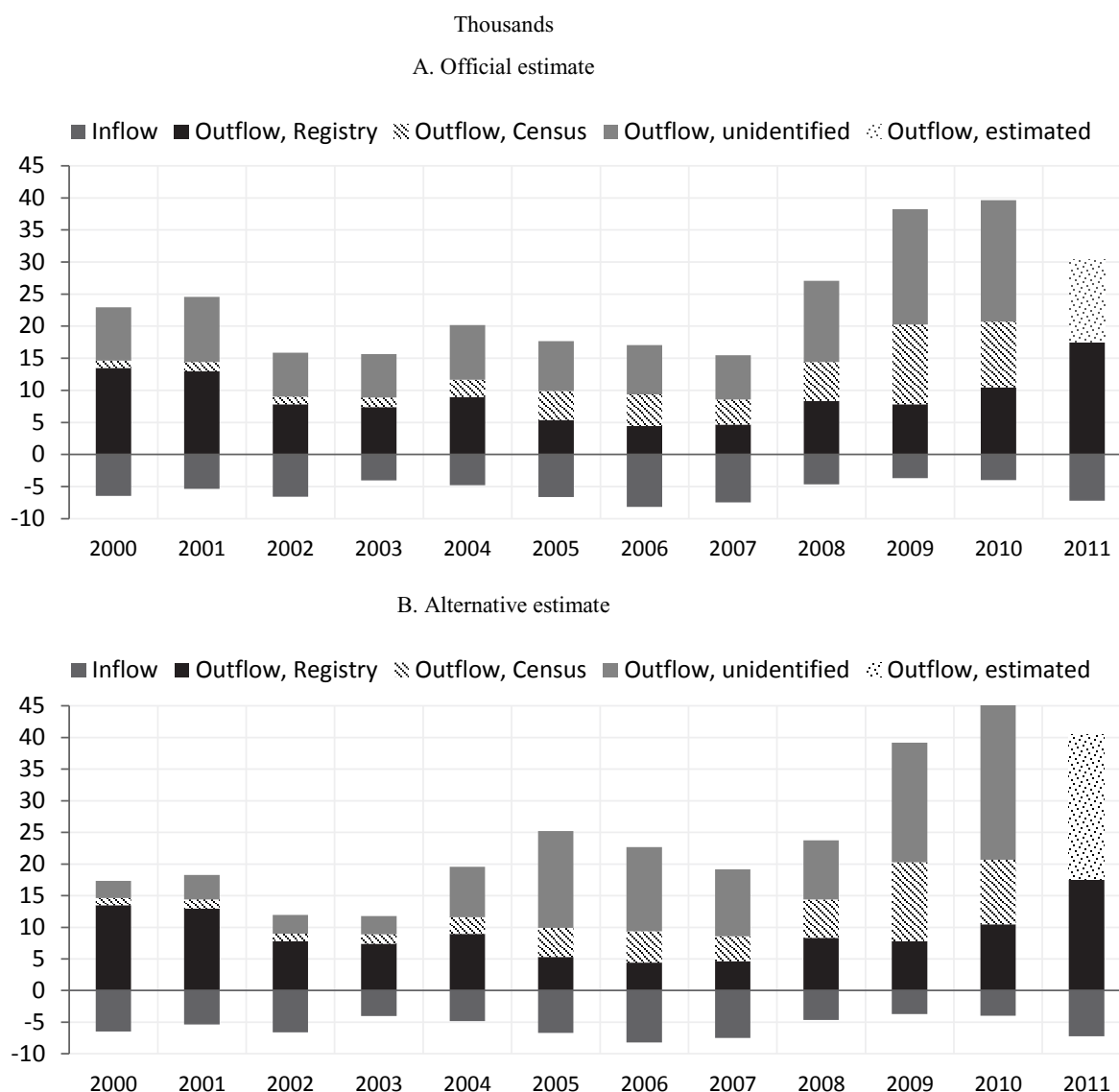
Annex 4.A1

Emigration accounting based on Latvian Population Census and Population Registry

Preliminary results of the Latvian Population Census (Statistics Latvia, 2012a, 2012c) report net emigration of 189 000 persons between the censuses of 2000 and 2011. While this estimate is very close to independent estimates (Hazans, 2011a, 2011b; Krasnopjorovs, 2011, 2012a), the underlying methodology suffers from a number of shortcomings. First, since a significant part of the information was collected online, the physical presence of the respondent in Latvia was not always verified. Second, the census questionnaire asked about living abroad after 1989 (rather than after 2000). By covering such a long period, respondents may have been reluctant to answer this question and thus emigration may have been underreported. Third, 188 000 persons have been recognised as present in the country (and 160 000, absent) based solely on their appearance (or lack thereof) in the State Social Insurance Agency data, Health Payment Centre data, local government data or data of the Ministry of Education and Science during the 12 months before the census.

Finally, the estimate in question was obtained by summing three components: i) “official” emigration based on Population Registry data (treating the difference between identified change in population and natural increase as net migration rather than, as it was done before, accounting only for declared emigration); ii) emigration of family members, as reported by the census respondents; iii) persons recognised as emigrants based on lack of information. The exact year of departure for these people remains unknown. While the latter component accounts for the majority of emigrants, however, Statistics Latvia (2012b, 2012c) applied the dynamics of registered and reported emigration (driven mainly by the former) on this unregistered/undeclared emigration, thus overestimating pre-enlargement emigration at the expense of post-enlargement emigration and emigration during the crisis (see Figure 4.3, as well as Figure 4.A1.1).

In Figure 4.A1.1, Panel B, we construct an alternative time series (for years 2000-10), based on the same data used by Statistics Latvia under a different assumption, namely that, between 2000 and 2010, the [gross] outflow of emigrants for whom the year of departure is unknown, followed the same pattern as our estimated [gross] outflows of Latvian nationals to EEA countries. The latter have been obtained by summing inflows to the United Kingdom and Ireland as measured by allocated social security numbers, and inflows to other EEA countries estimated by the statistical authorities of these countries; see Box 4.1 for details. The resulting dynamics of net emigration is similar to that derived from our estimates completely based on receiving countries’ statistics but suggests somewhat smaller outflows in 2006-07 and larger ones in 2009 and 2011.

Figure 4.A1.1. Population outflows from and inflows to Latvia based on Latvian data sources, 2000-11

Note: “Outflow, Registry” and “Outflow, Census” refer to emigrants identified from Population Registry and Population Census 2011 records, respectively. “Outflow, unidentified” stands for the number of persons recognised as emigrants, but for whom the exact year of their departure is unknown. In the official estimate (Panel A), the latter component is assumed to have followed the weighted dynamics of “Outflow, Registry” and “Outflow, Census”. In the alternative estimate (Panel B), we assumed unregistered emigrants to follow the same pattern as gross outflows to EEA countries, estimated on the basis of receiving country statistics (see Box 4.1 for details). “Outflow, estimated” is the difference between estimated gross outflow and registered emigration in 2011. Our estimate of gross outflow (in Panel B) is larger than the official one (in Panel A) mainly because we take into account United Kingdom data on the allocation of National Insurance numbers. Inflows for all years are as reported by Statistics Latvia.

Source: Author’s calculations based on data from Statistics Latvia and receiving countries.

Coping with Emigration in Baltic and East European Countries

The Baltic countries have experienced sustained emigration over the past decade, contributing to population decline and a loss of working-age population. The impact of this emigration is felt strongly in the labour market, the general economy and in social developments. How can countries deal with the impact of high levels of emigration? How to attract back emigrants? How best to benefit from the financial, social and human capital developed abroad? The Baltic countries are not alone in addressing these challenges, and this volume brings together the recent experience of Poland and Romania, as well as a wide range of OECD countries, in developing new policies to cope with emigration.

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