Mobility of labour from new EU states to the Nordic Region

– Development trends and consequences

Jon Erik Dølvik & Line Eldring
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TemaNord 2008:537
© Nordic Council of Ministers, Copenhagen 2008
Print: Ekspressen Tryk & Kopicenter

Copies: 100
Printed on environmentally friendly paper
This publication can be ordered on www.norden.org/order. Other Nordic publications are available at www.norden.org/publications

Printed in Denmark

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Preface

This report finalises a three-year cooperation project under the auspices of the Nordic Council of Ministers on labour mobility from the new EU member states to the Nordic countries, following EU enlargement in 2004. In June 2004, the Labour Market Committee under the Council of Ministers established ‘a contact group for monitoring the development of the Nordic labour markets after the enlargement of the EU’. The group concluded its work in the autumn of 2007.

The contact group has met for full-day sessions semi-annually, in which representatives for the labour market authorities of the Nordic countries have exchanged experiences and information on the development of labour and service mobility from the new EU member states to the Nordic countries, and the various measures enacted by the countries in this context. In March 2007 a seminar on Nordic regulations of wages and working conditions for posted workers from the EU/EEA was arranged. Fafo, represented by Jon Erik Dølvik and Line Eldring, has acted as coordinator for the contact group, and has been responsible for elaboration of two previous reports from the project (TemaNord 2005: 566 and TemaNord 2006: 558), as well as several memos and presentations for the Committee of Officials and the Conference of Ministers of Labour.

With a certain amount of circulation over the three years, the following persons have participated in the work of the group: Ole Bondo Christensen, Leif Chr. Hansen, Lisbet Møller Nielsen and Louise de Brass (Denmark), Olli Sorainen, Mirkka Mykkänen and Sinikka Hyyppä (Finland), Gissur Petursson and Egill Heiðar Gíslason (Iceland), Anna Fanebust, Eli Mette Jarbo, Helen Remman and Ola Ribe (Norway), Anna Santesson, Pontus Ringborg and John Pettersson (Sweden), René Høyer Jørgensen and Lars Djernæs (Nordic Council of Ministers), Jon Erik Dølvik and Line Eldring, Fafo (coordinators).

We were requested to include in this final report a section that elucidates the consequences for the labour markets in the main countries of origin. In this context we have commissioned a separate report from Pawel Kaczmarczyk and Marek Okolski at the Centre of Migration Research, the University of Warsaw – ‘Economic Impacts of Migration on Poland and Baltic states’ – which can be downloaded from CMR and Fafo websites (www.fafo.no/oestforum ). We extend our gratitude to Pawel Kaczmarczyk and Marek Okolski at CMR for a rewarding professional collaboration.

An appendix to the report comprises an overview of minimum wage rates and average wage levels in selected industries in the Nordic countries, prepared by Kristin Alsos at Fafo.
At the closure of the project we wish to thank the participants in the contact group and the other collaboration partners in the Nordic Council of Ministers for good cooperation. For us, this joint Nordic effort has been a most informative and rewarding experience. A special word of thanks to René Høyer Jørgensen and Lars Djærmes for their unfailing support. During the work on the previous reports, as well as with this final report, we have drawn on the resources, data and knowledge assembled by Fafo’s Strategic Institute Programme on labour and enterprise mobility following EU enlargement. This programme is mainly financed by the Research Council of Norway, to whom many thanks are due. Thanks also to Erik Hansen, who has translated the report. As usual, the content of the report is the full responsibility of the authors.

Oslo and Boston, November 2007
Jon Erik Dølvik and Line Eldring
Summary

This report summarises the development of labour mobility from the new EU member states to the Nordic countries since the enlargement of the EU in 2004, the consequences for the labour markets in the Nordic countries and in the sending countries, main features of the political measures and adaptive strategies undertaken by the Nordic countries, and discusses the main challenges facing the Nordic countries in this field in the years to come.

1. Western Europe and the Nordic countries have experienced a considerable and increasing labour mobility from the new member states in the period following 1 May 2004. A total of more than 150 000 citizens of the new member states had by July 2007 been granted first-time work permits in the Nordic countries combined, and more than 75 000 permits had been renewed. In addition, there has been a significant influx of service providers and unregistered workers, who in several industries probably account for a number equal to or higher than the individual migrants. After the repeal of the transitional arrangements in Finland and Iceland in 2006, Denmark and Norway are currently the only Nordic countries where such arrangements remain in force, but these are supposed to be repealed before 1 May 2009. There are significant national differences in the proportion of permits granted. In relation to the total population, influx has been strongest to Norway and Iceland, but also Denmark has seen a strong increase over the last year. The differences in influx show little correlation with the presence of transitional arrangements in the countries concerned.

2. After a moderate influx of labour migrants from new member states during the first period, these streams have subsequently increased strongly, and after three years they account for a notable addition to the labour force in the Nordic countries. The increasing supply of labour from the new member states (from Poland and the Baltic countries in particular) partly reflects the fact that the labour markets in the countries of origin for a prolonged period have been characterised by imbalances and a surplus of labour, and partly the fact that migration is demand sensitive and strongly influenced by relative differences in wages and employment opportunities. Growing migration networks, agencies, learning, information and better knowledge of the labour markets and living conditions in the West have all contributed to turning this migration dynamic into a self-reinforcing process.
3. The increasing labour mobility from Poland and the Baltic states has contributed to higher economic growth and slower increases in prices, costs and interest rates than what otherwise would have been possible in a period of sustained economic boom and increasing scarcity of labour in the Nordic countries. Labour migration has contributed to removing bottlenecks, and no significant imbalances in the Nordic labour markets have been registered. On the other hand, migration has entailed a growth in the number of simple low-wage jobs – especially with regard to service mobility (in construction and domestic services) – and has contributed to the establishment of new lines of division in parts of the labour market. Many labour migrants from Poland and the Baltic states have found that the jobs offered were at the bottom of the labour market. So far, social tourism appears not to have been a problem, even if Norwegian figures indicate that an increasing number of migrants make use of welfare rights – for example cash benefits for children.

4. The challenges in the recipient countries have primarily been associated with the growth of service mobility and posting of workers, for which all countries have seen examples of unreasonable low-wage competition and circumvention of regulations with regard to taxes, HES, wage levels, working hours, residential conditions, etc., in particular associated with posting of workers, intermediaries and self-employment. In order to ensure equal treatment, counteract skewed competition and safeguard national labour market models, the Nordic countries are currently developing measures aiming to adapt their regulations and strengthen their ability to exercise control and enforcement. This need is highlighted by the fact that the phasing-out of the transitional arrangements provides a wider legal basis for hiring workers from the new member states at lower wages than what is common in the Nordic labour markets.

5. The Nordic countries have followed different strategies in order to ensure symmetry and equal treatment in the labour market. While Finland, Iceland and to an increasing extent also Norway base their policies on generalisation of collective wage agreements and stricter control by the authorities, Denmark and Sweden rely on the trade unions to ensure that the collective agreements are extended to foreign enterprises and workers, using boycotts and industrial action if necessary. A common challenge consists in formulating arrangements for registration or declaration of posted labour in conformity with EU regulations and in a form that can ensure efficient control. A further challenge is associated with the plethora of subcontractors and manpower suppliers/temporary work agencies, for which several of the Nordic countries currently have reintroduced regulations for registration and authorisation. The adaptation of the national regimes...
for purposes of regulation and control is a demanding task, because such measures are often politically controversial, and also because EU regulations for free movement impose strict limitations on the types of instruments that can be used. At the same time, the EU’s policies and interpretation of these rules are currently under review.

6. Since 2004, the combination of strong outmigration of labour from Poland, Estonia, Latvia and Lithuania, in particular among younger, skilled workers, and rising growth in domestic labour demand, has made shortages in the supply of skills and labour a major obstacle to continued economic development and growth in these countries (World Bank 2007). Following strong growth in employment and rapidly diminishing unemployment – which mainly is structural in character – the number of vacancies has increased strongly, and a large proportion of the enterprises report having problems in obtaining skills and labour. Even if labour force participation has increased considerably, at the highest rate in the Baltic countries and the least in Poland, the main challenge for these countries in the coming years will consist in increasing labour force participation even further. High outmigration and short-term migration represent a barrier in this context, as there are clear indications that better paid temporary and short-term work abroad weakens the incentives for employment, mobility and training in the home country. Following increased wage growth and inflation, the barriers in the labour market – in combination with more restrictive economic policies – may entail a slowing down of economic growth and a slower harmonisation of the living standards of the old and the new EU/EEA member states. The demographic development in these countries will aggravate this problem in the coming years, as the proportion of the population of working age will diminish and the care burden will be doubled within the coming 20-30 years. Unless the Baltic states and Poland succeed in enticing an increasing proportion of the population – the better educated parts in particular – to work in their home countries, they will experience a reduction of the workforce that may easily entail economic stagnation and a stronger outflow of labour and competence. These countries are thereby facing a critical point in their economic and social development.

7. For the Nordic countries, these prospects raise a number of new dilemmas and challenges. First, it is uncertain how real developments will turn out: Will the sending countries succeed in reversing/slowing down these flows, thus decreasing labour migration to the Western countries, or will these flows continue? And how will the repeal of the transitional arrangements and increased demand in continental Europe influence the flows to the Nordic countries? Second, the question remains whether the flows of mobility from the new member states can be influenced through the use of political instruments, and
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if so, in what manner and in what direction? What is politically desirable and responsible in a situation where the sending countries to an increasing extent need this labour and attempt to increase the attractiveness of employment at home for their own citizens?

8. To date, there are no clear signs that the flow of job-seekers from Poland and the Baltic states to the Nordic countries is receding. When, quite to the contrary, these flows are increasing, in spite of better wages and employment opportunities in the home countries, this indicates that this labour migration is strongly influenced by relative differences in wages, living conditions and career opportunities. Cumulative network effects and learning are likely to pull in the same direction. The nominal wage gap between the East and the West is still so substantial that many years, possibly even decades, are likely to pass before the forces that drive this kind of economic migration will recede. This applies to low-skill labour in particular, for which the wage level in the Nordic countries is especially favourable. In this perspective, there are many indications pointing to a continuation of these migration flows – albeit in a weaker form – even in a situation with labour scarcity in the sending countries. The competition for attracting this labour will, however, be sharpened as several of the European countries – including Germany before 2011 – will open their labour markets, causing the demand for migrant labour to rise.

9. Two of the major advantages shared by the Nordic countries with regard to attracting labour are their favourable labour conditions and relatively high wage levels, for low-skilled labour in particular. Strategies based on high standards and efficient measures for prevention of unequal treatment, distortion of competition and the emergence of a secondary labour market for labour migrants could thereby assume an increased importance when it comes to ensuring a sustainable labour mobility from the new member states. Because the strong demand for labour from EU-8+2 is partly conditioned by lower wage costs, such measures are likely to be able to prevent squandering of skills and selective recruitment for low-pay and low-productivity jobs. In order to attract the desired type of labour and suppliers, it is important to develop a symmetrical regime for labour and service mobility in which the enterprises’ adaptations are guided by long-term strategies for development of productivity, competence and competitiveness, and not by a desire to reap short-term, low-cost advantages.

10. A symmetrical strategy of this kind could also contribute to making service mobility appear as a more legitimate strategy for labour mobility. By representing a flexible form of mobility adapted to the market, one which to a lesser extent drains the sending countries of skills, incomes and tax revenues – as the Nordic experience indicates
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11. Labour mobility in the open European market can to a limited extent be regulated by the use of short-term political measures. Facing free movement, the challenge for the countries remains to develop clear, predictable frameworks that can facilitate a sound use of available skills, and can contribute to establishing a viable balance of supply and demand in the labour market. Through increased integration of the labour and service markets in the countries surrounding the Baltic Sea, these can over time develop into an extended Nordic – or Northern European – market in which flows of mobility move back and forth in tune with changing business cycles and demand. The phasing out of the transitional arrangements could support this kind of development by simplifying the movement of workers from the new member states between the Nordic countries. In this perspective, measures to ensure orderly conditions in the domestic labour market and externally oriented measures aiming to facilitate orderly labour mobility could form parts of the same strategy, which is to develop a more sustainable, inclusive and flexible cross-national labour market in Northern Europe. The shortage of skills and labour in the new member states are likely to make active recruitment campaigns less relevant. In order to contribute to a strengthening of the joint/total supply of skills and labour in the region, cooperation with the sending countries on investments in education and training capacity in fields where there is a scarcity of labour could be a useful activity that could support desired exchange of human resources and prevent tension associated with the competition for skills.

12. In the long term, it is nevertheless clear that demographic changes, economic development and growing wages in the new member states will prevent the Nordic countries from covering their need for labour through internal EU/EEA mobility from the East. Within a comprehensive and long-term strategy for increase of the supply of labour to the Nordic countries it will therefore be necessary to develop measures aiming to supplement national labour market mobilisation and internal EU/EEA mobility with increased labour immigration from third countries. Mobility from third countries can be controlled by political means to a higher extent than internal EU/EEA mobility, and immigration legislation in the Nordic countries states that citizens of third countries should have wages and labour conditions similar to those of nationals. If recruitment of third country citizens is to become
attractive for employers, this source of labour has to be competitive in terms of costs in relation to corresponding labour from the new member states. The aim of increasing labour import from third countries thereby support the arguments in favour of developing strategies for labour migration based on high standards and equal conditions for all foreign and domestic labour.

13. Even though a large part of the labour migration from the new member states have been short-term and circular in character, a growing number of labour migrants have moved to the Nordic countries permanently. Persons from Poland and the Baltic states currently constitute the largest group of immigrants in Norway. Many of those who hold temporary jobs also stay in the host country over longer periods, often interspersed with short visits to their home countries. In order to ensure that these groups enjoy favourable opportunities for learning and participation in social life, development of an adequate policy of inclusion for labour migrants will be required. In the absence of such policies there is a risk of emergence of separate parallel societies of foreign workers.

14. A recurrent topic in the three years of work by the contact group has been that Nordic strategies for increased labour mobility must be elaborated in interaction with development of appropriate European frameworks. The conditions for development of a long-term and coherent Nordic policy for labour migration and labour market regulation will be strongly conditioned by the development in other countries and regions in the common European market for labour and services. Both EU/EEA mobility and policies for labour migration from third countries will be strongly influenced by policies in the other EU/EEA countries and at the EU level. This indicates that a strengthening of the labour market cooperation with the new neighbouring countries in the EU/EEA and an active participation in the elaboration of EU policies in these fields will be important issues for the Nordic countries.
1. Introduction

The enlargement of the EU/EEA area on 1 May 2004 to comprise 28 countries – including eight Central and Eastern European countries – was a milestone in terms of European labour market policy. For the population in the new member states this enlargement provided freedom to travel, seek employment and perform services in other countries in the EU/EEA area. For Nordic enterprises the enlargement opened new markets and channels for recruitment of labour and service providers. The opening of the labour and service markets to neighbouring countries with lower wage levels and less generous welfare states was a novel experience for the Nordic countries. To be sure, the Nordic countries have had a common labour market since 1954 – and free movement to and from the ‘old’ member states since 1994 – but the low wage levels and the rampant unemployment in the new member states gave rise to uncertainties with regard to developments to follow in the wake of the new EU enlargement. Predictions of a flood of job seekers and persons claiming welfare benefits gave rise to fears of imbalances in the labour market, strains on the wage levels and labour conditions and increasing welfare expenditures. All the ‘old’ EU/EEA countries – with the exception of Sweden, the United Kingdom and Ireland – therefore introduced transitional restrictions on the free movement of labour from the new member states. Several countries also introduced more rigorous internal regulations and controls in order to prevent exploitation of service providers, who were exempt from the transitional regulations.

Three years after the enlargement we can witness a radical change in the prevailing climate of labour market policy. Economic boom, ageing populations and scarcity of labour have given rise to concerns for the supply of labour to most EU/EEA countries. The countries that have recruited the highest volume of labour from the new member states report overwhelmingly positive effects for the economy and the labour market, while instances of unequal treatment and exploitation of workers mainly have been associated with the free movement of services. A growing number of the old EU/EEA countries, including Finland and Iceland, have therefore repealed the transitional arrangements, and have announced their intention to embark on more offensive strategies to recruit foreign labour. In contrast to the situation in 2004, when most Western European countries sought to restrict the supply of external labour, the present situation is characterised by keener competition for labour in Europe. This also applies to the new member states, where out-migration of labour – in combination with strong economic growth and ageing
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populations – has contributed to scarcity of labour and skills in strategic areas, in Poland and the Baltic states in particular.

The question that the authorities, the employers and the trade unions in the Nordic countries currently are asking themselves is whether the migration of labour from the new member states is likely to abate, and what strategies that can be enacted in order to contribute to the development of a sustainable pattern of mobility that can benefit both the recipient countries and the countries of origin in the Baltic and the Nordic regions. In order to elucidate these questions, in this report we will review the following main points:

- The development of labour mobility from the new EU countries to the Nordic countries in the period following 1 May 2004
- Driving forces and consequences for the labour markets in the recipient countries and in the sending countries
- Political measures and strategies of adaptation in the Nordic countries

Challenges, prospects for the future and conditions for the development of strategies for labour immigration which is sustainable for both recipient and sending countries in the EU/EEA

1.1 Background

This section summarises the most important frameworks for labour mobility from the new member states after EU enlargement. Labour migration across national borders within the EU/EEA area can take many forms, which are subject to varying regulations both nationally and at the European level. Commonly, one can distinguish between:

1. individual workers who apply for employment in a Nordic enterprise
2. workers who are posted abroad in the context of service assignments, tenders, construction projects, etc.
3. employees hired from manpower suppliers, personnel brokers or similar
4. self-employed persons who arrive with the aim of practising their profession or establishing an enterprise

These categories are comprised by different sets of regulations for wage formation, taxation, welfare benefits and conditions of employment (see Dølvik and Eldring 2005, ch. 3) and may serve as alternative channels for labour mobility. Therefore, the development of these forms of mobility should be juxtaposed. Until 1 May 2004, all Nordic countries had fairly restrictive regulations for labour migration from the candidate countries
in Eastern Europe,\(^1\) even if the conditions for seasonal workers and holders of specialised skills had been eased during later years. Accordingly, the transition to the EU regime of free movement of labour and services entailed a significant deregulation of the conditions for labour migration from the new member states.

**EU regulations for movement of workers, services and transitional arrangements**

The EU regime for free movement of labour provides for a right to seek employment in another EU/EEA country at one’s own accord for a period of six months (EOF 1612/68 article 1-6), as well as the right to obtain a residence permit, family reunification and equal access to welfare benefits for those who can find work (cf. Council Regulation (EEC) No 1408/71). Those who find work of a certain volume and duration can claim a residence permit for up to five years, with a right to a prolongation if the employment relationship continues, in the event of involuntary unemployment or enrolment in training which is professionally relevant. Foreign employees are obliged to pay the same taxes and welfare contributions as nationals. Under certain conditions, the residence permit for EU/EEA citizens can be prolonged if the worker has become disabled, is undergoing professional rehabilitation, has retired, or similar. A residence permit is not required for periods of residence and employment lasting for less than 90 days.

The EU enlargement treaty provided an opportunity to introduce transitional arrangements for the free movement of workers, but not for service mobility. Sweden introduced free movement for workers from 1 May 2004, while the other Nordic countries enacted various types of transitional arrangements (TA). These arrangements can be prolonged until 1 May 2009, and further prolongation until 1 May 2011 could be considered if major imbalances in the labour market are observed. Iceland and Finland repealed their respective TAs on 1 May 2006. Denmark and Norway have so far kept their liberal TAs, which provide an opportunity to be a resident for six months to seek employment, and extend a right to obtain a residence permit and access to welfare services to anybody who can find full-time work at the going wage rate or at wage levels set forth by collective agreements. In 2007, Denmark repealed the mandatory requirement for residence permits for persons employed in enterprises bound by collective agreements, as well as for highly skilled labour. The Norwegian and Danish TAs have been made applicable also to Bulgaria and Romania after their accession to the EU in 2007. As opposed to other

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\(^1\) In accordance with the rules for labour immigration from third countries (outside the EU/EEA) all the Nordic countries previously upheld the requirement for a work permit. In addition to the precondition of full-time work at the nationwide prevailing wage level, the issuance of permits has as a rule been subject to an evaluation of the labour market’s needs.
Western European countries, Finland, Iceland and Sweden opted not to introduce temporary restrictions with regard to these countries.

The right to free movement of services is embedded in the EU Treaty (article 49), and implies that foreign suppliers of services of limited duration can freely bring in their own labour in order to fulfil the assignment. In this context, services comprise tenders, assignments and sub-contracts of various kinds, as well as posting of workers and temporary staff recruitment agencies. As a main rule, posted workers are entitled to the same labour conditions as nationally employed staff, but are not comprised by the host country’s welfare benefit schemes (EØF 1408/71, Directive 96/71EC on posting of workers). With the exception of hired workers, they are not obliged to pay welfare contributions, but should as a rule pay income tax to the host country after six months in accordance with national taxation agreements (12 months in the construction industry). Foreign service providers must pay VAT just as domestic enterprises, but are exempt from payroll tax and enterprise tax. According to the Posting of Workers Directive (96/71EC), posted workers should be remunerated in accordance with the rules of the host country, provided that these are embedded in a mandatory minimum wage or generally applied collective agreements.

The right of establishment is authorised by the EU Treaty (article 43), and means that citizens from the new member states have the right to obtain residence for the purpose of establishing and undertaking permanent business in accordance with the laws and regulations of the host country. Enterprises that provide services on a permanent basis in the host country are obligated to establish, and the conditions for registration, taxation, welfare contributions and wage formation are identical to those of enterprises that have national ownership.

The distinction between free movement of services and the right of establishment has received renewed attention following the enlargement. A number of foreign enterprises that provide services in the Nordic countries appear to have this as their only activity, and undertake it on a permanent basis without having any activities in the home country. In this case, the enterprise does not come under the rules for free movement of services, but rather under the rules for free establishment, and should therefore register in the host country and be subject to the host country’s laws and regulations as any other enterprise. Similarly, it has appeared that it can be difficult to draw a clear distinction between free movement of workers on the one hand and services on the other with regard to the enterprises. For example, this applies to the hiring of self-employed persons – where the manpower in many cases in reality can be regarded as employed by the commissioning enterprise – or in the case of hired labour, where the employees often have no real employment relationship in the enterprise hiring them out, which acts like a manpower supplier. In both cases, the presentation of the work as being part of a service contract...
could serve as a circumvention of the conditions for free movement of workers, and of the host country’s laws and regulations pertaining to employment. Because these various legal forms of labour mobility are comprised by various regulations for taxation, welfare contributions, wage formation and legal responsibility (see table 1.1 below), both the commissioning enterprise and the contractor will have strong incentives to choose the most profitable way to adapt to the regulations. The weak and vulnerable party within these triangular relationships will often be the individual worker and the community at large.

Table 1.1 Overview of rules for wage formation, taxation and social security contributions for various categories of migrant workers from the new EU member states

<table>
<thead>
<tr>
<th>Recruitment alternatives</th>
<th>Regulations and wage formation</th>
<th>Ordinary wage level</th>
<th>Taxation</th>
<th>Social security contributions</th>
</tr>
</thead>
</table>
| 1. Hire EU-10 workers in the enterprise | EU regulations on free movement and non-discrimination
  a) Countries with free movement: Wages acc. to collective agreement, generalised coll. agreement or personal agreement (non-discriminatory)
  b) Countries with transitional arrangements (TA): National legislation | Free wage formation
  Going national wage rate | Host country taxation rules | Host country |
| 2. Service purchase from EU-10 enterprise with manpower | EU-regulations on posting of workers
  a) if generalised collective agreement (FI, IS, partly N)
  b) if trade union can establish coll. agreement (S, DK )
  c) if no collective agreement established or generalised | National min. wage
  National (min.) wage Free wage formation | VAT in host country
  Other taxes in home country (1/2-1 yr.) | Home country |
| 3. Hire manpower from EU-10 enterprise | As for posted workers | As above | No VAT
  Other taxes in host country | Host country |
| 4. Hire EU-10 manpower from national enterprises | a) Same rules as for other employees
  b) If transitional arrangement - | Free wage formation
  Going national wage rate | Host country | Host country |
| 5. Services purchased from EU-10 self-employed | EU rules on free market for services and free establishment
  a) Foreign enterprise without permanent place of operation in the Nordic countries
  b) Foreign enterprise with permanent place of operation in the Nordic countries | Market price | a) VAT in host country,
  taxes at home
  b) VAT and taxes in host country | Home country
  Host country
The volume of labour migration to the Nordic countries – forecasts made prior to the 2004 enlargement

In the period prior to the EU enlargement in 2004, there was widespread uncertainty with regard to the potential volume of labour migration that could be expected from the new member states. Similar to previous enlargements and after the fall of the Berlin Wall during the early 1990s, there were predictions that vast streams of migrants would arrive. More sober estimates, however, predicted moderate immigration flows. With a population of approximately 70 million in the EU-8, the total population of the EU would increase by around one-fifth, while combined GDP would increase by only five per cent. It was assumed that Poland and the Baltic countries would be the most prominent countries of origin for migrants.

Table 1.2 Population, employment and unemployment in Poland and the Baltic states 2003 (thousands)

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Employment</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>37 637</td>
<td>13 617</td>
<td>3 323 (19.5%)</td>
</tr>
<tr>
<td>Estonia</td>
<td>1 350</td>
<td>592</td>
<td>66 (10.0%)</td>
</tr>
<tr>
<td>Latvia</td>
<td>2 330</td>
<td>997</td>
<td>119 (10.5%)</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3 445</td>
<td>1 430</td>
<td>203 (12.4%)</td>
</tr>
<tr>
<td>Total</td>
<td>44 763</td>
<td>16 636</td>
<td>3 711</td>
</tr>
</tbody>
</table>

Source: Eurostat

While the labour force in the Nordic countries constituted almost 12 million, the labour force in the neighbouring countries of Poland and the Baltic states was in excess of 20 million, whereof nearly four million were registered as unemployed. As the clearly largest country, Poland accounted for a significant part of both the labour force and the unemployed within the region. Many of these were settled in the rural districts where primary industries employed up to 20 per cent of the labour force, which was an indication of significant labour reserves.

In a project undertaken for the Nordic Council of Ministers, Kongshøj Madsen (2003: 5) summarised available research on the conditions that influence labour migration – by ‘pushing’ workers out of their home countries, or ‘pulling’ them to a specific host country – in the following main points:

- Differentials in economic conditions, including wage levels and costs of living, between the home country and the host country
- Employment opportunities in the home country and the host country
- Geographical proximity and transport costs
- Traditions and social networks

2 In comparison, Bulgaria and Romania, which joined the EU in 2007, had 29 million inhabitants (Bulgaria 7.7 million and Romania 21.6 million) and a combined workforce of around 13 million in 2005 (Eurostat 2007).
• Ethnic and political conditions
• Culture and language
• Legal and institutional regulations of labour migration
• Differences in social welfare benefits between the home country and the host country

Several of these points could indicate increasing levels of labour migration from the new EU member states around the Baltic Sea to the Nordic countries. At the prevailing rate of exchange, the wage level in Poland and the Baltic states constituted no more than 10-20 per cent of the Nordic level, and even lower for unskilled work. Average purchasing power constituted 30-40 per cent of the level found in the Nordic countries. Similarly, welfare benefits and employment levels were lower, and unemployment higher than in the Nordic region. The relatively high formal education level in the new EU member states, in particular among the young generation (Barth et al. 2004: 103ff) was also assumed to enhance the interest in working abroad for shorter or longer periods.

During 2001/2002, around 50 000 citizens of the EU-8 were resident in the Nordic countries, but almost 100 000 were registered as born in these countries – whereof a large proportion were women who had married Nordic men. Since the 1990s there had also been a certain number of workers from Poland and the Baltic states who had taken the opportunity to engage in seasonal work, holidays and studies in the Nordic countries. The proportion with an attachment in the Nordic countries could therefore be assumed to be larger than what the size of the immigrant population would suggest (Østby 2003).

Prior to enlargement a number of calculations and estimates of the possible volume of labour migration within the EU-25 were produced. These analyses were based on various principles and approaches.\(^3\) The most widely quoted study was published by Boeri and Brücker (2001, updated 2003), and was commissioned by the EU. Using macro-estimates based on assumptions of differences in wage levels, employment, growth and historical statistics of migration flows between the new and the old EU member states in the period from 1967 to 1998, they arrived at a total net out-migration figure of 3.9 million over a 30 year period. This corresponded to barely four per cent of the population in the EU-8, whereof 40-45 per cent were assumed to be economically active. The analyses

\(^3\) One type of extrapolation uses quantitative macro-economic estimates based on historical migration data, the correlation between migration and a number of causes, of which differences in wages and incomes are crucial, as well as a number of assumptions concerning economic growth, etc. The other type of analyses uses micro-data from surveys, in which people in the new EU member states have been asked whether they hold specific plans to emigrate within a specific time horizon. While the macro-analysts expected a relatively moderate increase in labour mobility, the results of the micro-studies often indicated that 3-4 per cent of the population in the EU-8 wished to seek employment abroad. However, certain studies with less specific questions on plans for emigration gave far higher estimates (up to 18 per cent) (Nordic Council of Ministers 2003, Fassmann & Münz 2002, for an overview, see World Bank 2006).
indicated that the flows would be at their strongest during the initial years (more than 300,000 annual net), and subsequently recede. Transitional arrangements would not influence the total out-migration, but could possibly shift the time schedule. The authors themselves emphasised the uncertainty of their estimates. Historical data from a period with strict regulation of immigration were arguably a disputable basis for estimation of the results of deregulation of the flow of people.

Given a stable distribution of migration flows between the recipient countries, a development in accordance with the estimates made by Boeri and Brückner would imply that immigrant populations from the EU-8 in the Nordic countries would increase from just over 50,000 in 2003 to 230,000 over the subsequent 30 years, meaning a net immigration of just over 10,000 during the initial years followed by gradually declining numbers. This corresponded to a population increase of 0.2 to 0.9 per cent by 2033. Boeri and Brückner (2005) estimated the net inflow to Finland and Denmark to around 3,000, and to Sweden to around 6,000 in the initial years. Even if the gross numbers behind these net figures would be higher, these figures appeared as modest. The uncertainty felt by the public was still considerable, both with regard to the volume of the flows and to the number of persons who would want to settle in the Nordic countries.
2. Development of labour mobility – seen from the recipient countries

2.1 Main trends

Three years after the enlargement we can ascertain a certain pattern in the labour migration from the new member states, although the available data and statistics still remain so unsatisfactory that caution is called for when conclusions on the total volume and patterns of the new labour mobility in Europe are to be drawn (GDISC 2007). Both the recipient countries and the countries of origin have a fairly good overview over total in- and out-migration, but most countries lack reliable data with regard to the flows and groups of persons who are temporary residents in order to work or perform services. The repeal of the transitional arrangements also implies that several countries cease registering short-term residency, while at the same time the influence exerted by these arrangements on the direction of the flows will decrease. It is therefore uncertain whether the geographical mobility patterns that we have observed during the initial years are likely to continue.

Until 2006/2007, the development of individual labour mobility has shown the following main geographical features:

- **Poland and the Baltic states** have emerged as the main countries of origin, and have accounted for more than 80 per cent of labour immigration to the United Kingdom and the Nordic countries.
- The most prominent flows from the new member states have gone to the **United Kingdom and Ireland**, where labour immigration has exceeded all estimates made prior to enlargement. In the summer of 2007, the UK had received 683 000 registered job seekers from the EU-8 in the period since 1 May 2004, whereof 42 per cent were women (Home Office 2007). This corresponds to more than 1.5 per cent of the UK labour force (World Bank 2007). In addition, 252 000

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4 The recipient countries register permits that have been granted, but in many cases these figures on gross flows do not include workers who stay for less than three months, or service providers, while the absence of registration of exits renders the figures on valid permits uncertain. Labour Force Surveys are badly suited to capturing labour migrants, partly because they comprise only persons with more than six months’ residence, partly because of the slow rotation of the sample. Nordic registry data on employers and employees should gradually be able to capture an increasing proportion of the individual labour migrants, but a considerable gap still prevails between the statistics on valid work permits and the number of registered workers from the new member states.
renewals had been granted. Ireland had registered 362 000 residence permits for citizens from the EU-8, corresponding to more than 6 per cent of the national labour force (Hughes 2007, World Bank 2007). The majority has applied for short-term residence, and it is assumed that the resident populations of workers from the EU-8 are considerably smaller than the gross flows (ibid, Gilpin et al. 2006).

- The countries of continental Western Europe, which until recently have upheld restrictive transitional arrangements, the flows of job seekers from the EU-8 have been modest during most of the years that have passed since enlargement. The increase has been strongest in Austria, which received just over 50 000 persons annually during 2004 and 2005, in particular from Slovakia (Tamar and Münz 2006), and workers from the EU-8 accounted for 1.4 per cent of the workforce in 2005 (EU Commission 2006). Further, Spain had a net growth in persons from the EU-8 of around 30 000 during 2003–2005 (GDISC 2007, table 8), while the Netherlands registered an increase in the number of work permits granted from 24 000 in 2004 to 58 000 in 2006 (ibid. table 9). Germany has continued its arrangement of bilateral quotas for seasonal work, which comprises several hundred thousand workers from the EU-8. The other countries on the continent reported minor increases in the number of work permits granted to citizens of the EU-8 until 2006-2007.

- In the Nordic countries, there was a modest inflow to Sweden, Finland and Denmark during the initial years, while a far higher number than foreseen arrived in Norway and Iceland. Since 2006, a pronounced increase has been registered in Denmark. By summer 2007, the Nordic countries as a whole had granted more than 150 000 work permits to citizens from the EU-8 since 1 May 2004, in addition to 75 000 renewals, which was a far higher number than predicted prior to enlargement.

- The flows to the UK, Ireland and the Nordic countries increased during the initial three years, but figures for the first half of 2007 indicate that the flows to the UK are levelling off.

- In spite of the fact that most Western European countries introduced transitional arrangements for Bulgaria and Romania, reports indicate considerable emigration, in particular to Italy and Spain. Recently, the Italian Minister of Internal Affairs claimed that more than 500 000 Romanians had arrived since 1 January 2007, and this inflow has created some unease among the population even if the Prime Minister subsequently has disproved the magnitude of this figure. Following the introduction of visa-free access for Romanians to the EU/EEA in 2002, the workforce in Romania has decreased by 12 per cent, and it is assumed that two million Romanians work abroad.5

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5 Financial Times FT.com 9 Nov. 2007, see also FT, 7 Nov.2007 and New York Times 8 Nov.2007.
tendency can be ascertained in Bulgaria. Since 2005, Spain has recruited Romanian labour under a bilateral system of contract work, in particular in agriculture, and Spanish municipalities had by September 2007 registered more than 506 000 Romanian guest workers (Financial Times 9 Nov. 2007).

Also in the Nordic countries a certain immigration from Romania and Bulgaria has been registered. In Sweden, one-fourth of the permits (registered residence permits) granted to citizens of the EU-10 during the first half of 2007 applied to Romanians and Bulgarians (527 permits). In Norway, a total of 2,025 EEA permits had been granted to workers from Bulgaria and Romania by 1 October 2007, following a steady increase in the volume of the resident populations throughout the year.

It is hard to assess the total labour mobility to Western Europe in relation to the estimates made by Boeri and Brücker of approximately 300 000 annual net immigration without any transitional arrangements – which would correspond to approximately 0.9-1 million over three years. Even though the net figures are uncertain, the UK and Ireland have received more than ten times the foreseen number. On the other hand, as a consequence of the restrictive transitional arrangements, the continental countries had by 2006 received far fewer than estimated. According to data from the UK Labour Force Survey (LFS), the increase in the resident population of workers after 1 May 2004 corresponded to approximately 40 per cent of the registered gross inflow from the EU-8 in the autumn of 2005 (Gilpin et al. 2006). In Ireland, living conditions data indicated that the increase in the resident population of workers from the EU-8 since 1 May 2004 accounted for around one quarter of the gross inflow, and that this population at the beginning of 2007 constituted just over 106 000 persons (Hughes 2007). Both the LFS and the living conditions data are likely to underestimate the population of short-term labour migrants. These figures on resident populations are also uncertain in the Nordic countries, but with more than 50 000 valid permits in Norway alone in the third quarter of 2007, several tens of thousands in the other countries and a considerable number of service providers, these account for a far higher number than the 30-40 000 predicted by Boeri and Brücker for the Nordic countries during the first three years.

What can safely be ascertained is that the countries that from day one opened their borders for free movement of workers – or near-free movement, like Denmark and Norway – jointly have received far more individual job seekers from the EU-8 than assumed. In addition to these come an unknown, but considerable, number of service providers and unregistered workers. With the exception of Sweden, this group of countries has undoubtedly attracted flows of mobility that without any restrictions in other countries might have taken another direction – i.e. a diversion effect.
(Boeri and Brücker 2005). To what extent the repeal of the transitional arrangements will cause the flows to change direction cannot yet be ascertained. Figures from the first half of 2007 could, however, indicate a certain abatement in the gross flows to the UK, Ireland and Iceland, but it remains to be seen whether this is caused by an increase in the number of applicants in other countries, or whether fewer Poles and Balts seek employment in Western Europe. A certain reduction of the gross flows does not necessarily imply that the resident populations of workers from the EU-8 in Western Europe diminish, as this depends on how long the workers from the EU-8 reside in the host country.

In parallel with the growth in registered individual labour mobility, most EU/EEA countries have seen a pronounced increase in labour migration associated with service mobility, which to a large extent remains unregistered. The different regimes for taxation, welfare contributions and wage formation associated with labour and service mobility have – in conjunction with the transitional arrangements – provided economic incentives to organise labour migration in the form of service mobility, which also provides far greater flexibility for the commissioning enterprise. In some industries, this has resulted in distortions from ordinary labour mobility to service mobility, circumventions of laws and regulations associated with ‘fictitious’ posting, hiring out of labour and work undertaken by self-employed persons. Not rarely, the free movement of services is used as an alternative channel for pure labour migration and provision of staff, and in some cases it comprises activities that more properly should fall under the rules governing free establishment. The organisation of the mobility and its legal forms vary strongly between industries, and reflect differences in the traditional labour power strategies of the enterprises and their competitiveness following EU enlargement. Service mobility therefore appears to be most widespread in industries that have a tradition for project work and a high number of subcontractors – the construction industry is a typical example – and in manufacturing industries with mobile products, movable production facilities and strong international competition (Dølvik et al. 2006).

Seen as whole, we can ascertain that labour mobility to the Nordic countries has been far higher than expected prior to enlargement, and that real mobility has been higher than indicated by the registered figures for individual job seekers from the EU-8+2. There are many indications pointing to a blurring of the distinction between labour mobility and service mobility, and these forms of mobility should therefore be seen in conjunction when an assessment of the driving forces and the consequences of the migration flows are undertaken. In the next sections we will, however, first discuss the main trends and effects of these forms of mobility separately, followed by a discussion of appropriate measures and instruments in a joint evaluation.
2.2 Individual labour migration to the Nordic countries

*Volume and development*

As described above, the Nordic countries had granted a total of more than 150,000 work permits to citizens of the new EU member states during the period from May 2004 to August 2007, in addition to more than 75,000 renewals.² Nearly half of all first-time permits in the Nordic countries was issued in Norway, and close to one-fifth was issued in Denmark. Seen in relation to the total population Iceland has issued the most, and Sweden the fewest permits. The figures for resident immigrant populations are lower than the gross flows, but if we assume that the relationship between the flows and the resident populations are similar to what is observed in Norway, we arrive at an estimate of a total of approximately 100,000 individual workers from the new member states residing in the Nordic countries as of August 2007.

Labour immigration to the Nordic countries has increased throughout the period, but with significant variations between the countries (see table 2.1. below). Workers from Poland still predominate, and accounted for approximately 70 per cent of the registered individual labour immigrants in Denmark, Norway and Sweden (as of August). The second largest group comes from Lithuania, whose citizens account for 14, 18 and 10 per cent respectively. Poles also constitute the largest group in Iceland, while in Finland, the majority of the labour immigrants from the new member states come from Estonia.

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² It can be noted that some 30-40,000 additional permits were granted during autumn 2007.
## Table 2.1 Work permits to individual job seekers from the EU-8 (+2) in the period 1 May 2004 – 31 July 2007, by Nordic recipient country

<table>
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<tbody>
<tr>
<td><strong>Denmark</strong></td>
<td>2 097</td>
<td>4 923</td>
<td>10 353</td>
<td>10 367</td>
<td>27 740 (incl. renewals)</td>
</tr>
<tr>
<td>(Issued work and residence permits)</td>
<td></td>
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<tr>
<td><strong>Finland</strong></td>
<td>2 169</td>
<td>2 633</td>
<td>-</td>
<td>(6 273)</td>
<td>-</td>
</tr>
<tr>
<td>(Decision by the Labour Agency)</td>
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<tr>
<td><strong>Iceland</strong></td>
<td>515 (+666 renewals)</td>
<td>2 764 (+844 renewals)</td>
<td>6 004 (+1 496 renewals)</td>
<td>3 091 (+1 136 renewals)</td>
<td>12 374 (+1 142 renewals)</td>
</tr>
<tr>
<td>(Work permits granted/ registration by employer)</td>
<td></td>
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<tr>
<td><strong>Norway</strong></td>
<td>16 975 (+3 558 renewals)</td>
<td>19 301 (+17 902 renewals)</td>
<td>29 275 (+25 510 renewals)</td>
<td>23 879 (+22 230 renewals)</td>
<td>89 430 (+69 200 renewals)</td>
</tr>
<tr>
<td>(EEA permits granted)</td>
<td></td>
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<tr>
<td><strong>Sweden</strong></td>
<td>3 963 (+128 renewals)</td>
<td>4 805 (+2 133 renewals)</td>
<td>5 692 (+289 renewals Jan-April)</td>
<td>2 440</td>
<td>16 900 (+2 550 renewals)</td>
</tr>
<tr>
<td>(Registered new EEA applications, work)</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
<td>25 719 (+4 352 renewals)</td>
<td>34 426 (+20 879 renewals)</td>
<td>51 324 (+27 295 renewals)</td>
<td>39 777 (+23 366 renewals)</td>
<td>151 246 (+75 892 renewals)</td>
</tr>
</tbody>
</table>

**Sources and definitions for the table**

**Denmark:** Directorate of Labour/Immigration Services. No exact figures are available for the number of renewals, but the Immigration Services estimate that 20 per cent of the permits have been issued to persons who previously have held work permits (Pedersen & Andersen 2007).

**Finland:** Ministry of Labour. Work in agriculture of less than three months’ duration has not been registered since 1 May 2004. After the phasing-out of the transitional arrangement on 1 May 2006 fully reliable statistics are no longer available. According to the Directorate of Immigration, a total of 6,273 registrations were made of “right of residence to EU citizens in the category of employee” for periods of residence exceeding three months during the period 1 January – 30 September 2007. Prior to 30 April 2007, there were no sanctions against non-registration, which may have led to underregistration. According to the Ministry of Labour, not all EU citizens may be aware of the obligation to register.

**Iceland:** The Directorate of Labour (Vinnumalastofnun). Following the phasing-out of the transitional arrangement on 1 May 2006 no work permits are issued, but the employers are obligated to register employees from the new member states.

**Norway:** Directorate of Immigration (UDI). A total of 3,558 renewals were granted in 2004. We do not know how many of these that were granted prior to 1 May, but we have here chosen to assume that they were issued after 1 May. During the period 1 May 2004 – 31 December 2005, 40 per cent of the permits were valid for more than three months. During 2006, a total of 58 per cent of the permits were valid for more than three months. In the period 1 January – 31 July 2007, a total of 62 per cent of the permits were valid for more than three months. About the category ‘renewals’: A renewal does not necessarily imply a continuous prolongation. If a person travels back to the home country for a period of time and thereafter returns to apply for a renewed work permit, this will be registered as a ‘renewal’, similar to if the person had stayed in Norway continuously.

**Sweden:** The Swedish Migration Board. Does not include work of less than three months’ duration after 1 May 2004. The figures for renewals/ prolongations include all groups of applications, but are assumed to mainly pertain to workers and businesses. On 1 May 2006, Sweden introduced the rules in EU directive 38 (the Mobility Directive), and EU citizens no longer require a permit to stay in Sweden for more than three months, but should register for the right to obtain residence. The figures for the period up to 1 May 2006 comprise applications, not permits granted. Approximately 95 per cent of the applications were approved. Persons with open-ended employment or employment for one year or more obtained a five-year permit. Those with employment for less than one year obtained a permit of the same duration as the employment relationship.

**For all countries:** The permits have varying names, but are considered to be comparable. Seasonal work and work of less than three months’ duration are included wherever registration has been done. Differences in registration practices with regard to work of less than three months’ duration may have resulted in some deviation that cannot be controlled for. For all figures, the proviso is made that categories may vary due to the different sources.
Denmark experienced a doubling of the number of permits from 2005 to 2006 (from around 5,000 to 10,000 permits), and the increase continued during 2007. As of 1 September, a total of 10,536 permits issued were registered in 2007, as well as 7,100 reported cases of employment/applications for work permits that were not yet processed (Pedersen & Andersen 2007). It is estimated that 20 per cent of the permits were issued to persons who previously had held work permits. Further increase in the number of permits was expected during the autumn of 2007. As of August 2007, there were somewhat more than 13,000 active/valid permits in Denmark, which represents an increase of 60 per cent over the preceding 12-month period. There is a slight trend towards longer duration of permits, in that a higher number currently receive residence permits for six months or longer. However, figures for the period 2005 to 2007 do not indicate that workers from the new member states stay for longer periods in Denmark (Pedersen and Andersen 2007).

Also Norway has seen a steady increase in the number of permits/registrations during recent years. In total, Norway had registered close to 90,000 first-time permits and 70,000 renewals during the period May 2004-August 2007. In August 2007, there were more than 54,000 valid work permits in Norway, compared to 35,000 one year previously and 17,000 in 2004, i.e. more than a tripling in three years. Even though short-term and seasonal work still account for a major part of the migration to Norway, an increasing proportion of the permits have a longer duration. While 37 per cent of the permits granted during January-August 2007 were for periods of residence shorter than three months, this applied to 47 per cent of the permits for the same period in 2006, and 59 per cent in 2005.

In Sweden (where only periods of residence of more than three months are registered) the registered inflow has been fairly stable throughout the entire period, with a certain decline over the last year. A total of just under 17,000 permits were registered in the period 1 May 2004 – 31 July 2007. The figures for ‘rights and permits for residence’ (which also include students, family reunifications, etc.) as of August 2007 indicate a decline of 27 per cent from the previous year.7

Iceland stood out in the period 2005-2006 with regard to individual labour immigration. In 2006, somewhat over 6,000 permits were granted, which represented a doubling from the previous year. During 2007, the inflow has abated. Immigration in the wake of EU enlargement has entailed a considerable internationalisation of the Icelandic workforce; in 2006, foreign workers accounted for close to ten per cent of the workforce. This is a strong increase in the period since 2004 that is mainly

7 However, figures from the Polish Labour Force Survey indicate that the proportion of Poles who have gone to Sweden to work is higher than the similar proportion in Norway (Kaczmareczk and Okolski 2008, see chapter 3). If this is correct, it would indicate that the unregistered labour migration to Sweden is higher than previously assumed.
caused by migration from the new EU member states (from Poland in particular).

For Finland, no aggregate statistics are available for the period following the phasing-out of the transitional arrangement in May 2006. In the first 18 months following the enlargement figures remained moderate: a total of approximately 4,800 individual work permits were registered (excluding seasonal workers in agriculture). Even though statistics are absent, the labour market authorities in Finland have the impression that individual migration from the new member states remain modest even after the repeal of the transitional arrangements. For the period 1 January to 30 September 2007, the Directorate of Immigration reported that a total of 6,273 “registrations of right to residence for EU citizens in the category of employee” (for periods of residence exceeding three months) were made. In spite of the authorities’ reservations with regard to the quality of available statistics, this indicates that individual labour immigration to Finland is higher than to Sweden. The immigration level is probably closer to the Danish one, where periods of residence shorter than three months are also registered. However, we are unable to arrive at a conclusion regarding development trends in Finland, since comparable figures for previous periods are unavailable.

Characteristics of individual labour immigration
Available statistics provide limited information on the labour migrants and their stay and activities in the recipient countries, but some main trends can be identified:

- **Concentration in specific industries.** Available data indicate that labour immigration has been concentrated in specific industries (like construction, cleaning, agriculture, some manufacturing industries), and to low-wage and unskilled work within these industries. The survey among Polish immigrants in Oslo documented that the majority of them work in a small number of industries and in professions that do not presuppose language skills. For 2007, a total of 24 per cent of all work permits in Norway were given for construction-related work, 22 per cent to agriculture and 12 per cent to manufacturing. A total of 17 per cent of the permits were granted to work in temporary staffing agencies, and the majority of these workers are probably hired by the construction and manufacturing industries (UDI 2007). In Denmark, statistics show that the agricultural sector has recruited the highest number of labour migrants from the EU-10, closely followed by the construction industry. During the first quarter of 2007, a higher number of workers from the EU-10 were for the first time recruited to construction than to agriculture. The service sector has also seen a pronounced increase during 2007. This applies in particular to work in
temporary staffing agencies and in the transport sector, and to a much lesser extent to fields like hotels, restaurants and cleaning (Pedersen & Andersen 2007)

- **Low-skilled labour.** Unskilled or low-skilled labour predominate: In Denmark it was concluded in 2007 that the country had only to a modest extent succeeded in recruiting skilled and academic labour from the new EU member states. Finland has registered an increase in the mobility of health personnel from the EU-8, in particular from Estonia. For example, during the period 1 May 2004 – December 2005, the National Authority for Medicolegal Affairs registered 432 physicians and dentists from the EU-8, which in this context is a considerable number. However, also in the Finnish statistics, professions requiring little or no education predominated. Norwegian data also indicate that most have only a basic education or are unskilled (Dølvik et al. 2006, Friberg and Tyldum 2007).

- **Male dominance.** The majority of the individual labour migrants arriving in the Nordic countries are men. In Norway, barely 20 per cent of the permits have been granted to women, while the proportion of women in the population of valid permits constitute only 10.9 per cent (UDI 2007). Similar patterns appear to be prevailing also in the other Nordic countries. The real proportion of women is probably higher than indicated by the registered numbers. The survey undertaken among Poles in the Oslo region in the autumn of 2006 shows that most women perform cleaning work in private households, while nearly all men work in construction. The majority of the women worked illegally, without residence permits and without paying taxes. Many were also underemployed and worked only part-time. If the Nordic situation is compared to the situation in Ireland and the UK, some interesting differences emerge. First, a higher number of women are recruited to these countries, and second, a far higher number of the migrants work within a wider spectrum of industries, in service provision in particular. A prominent cause of these differences is likely to be that the language barriers – which are crucial in service industries – are lower for immigrants in English-speaking countries, but also that the more open labour market does not impose barriers related to working hours, etc.

- **A tendency towards longer periods of residence.** A large part of the labour migration to the Nordic countries has been of a short-term and circular character, but Norwegian figures in particular point to a clear tendency towards longer periods of residence and a pronounced growth in the numbers who move permanently, as well as

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8 Directorate of Labour (Arbejdsmarkedsstyrelsen), Memo. Appendix to a meeting in the consultative group (forligskredsen) 5 April 2006

9 “The Government’s declaration to Parliament concerning the effects on the act pertaining to the transitional period, including the effects of the free movement of labour and services on the situation on the labour market in various industries.” Finland 2006.
a growing number of family reunifications from the new member states (UDI 2007). In spite of this tendency towards a higher number of permits with longer periods of validity, the registered figures still indicate that most migrants stay only for shorter periods of time. However, the Oslo survey showed that the majority of both individual migrants and posted service providers assumed a fairly long-term time perspective for their stays. Most respondents had a time frame for their stay in Norway of several years – not months. The clear majority could not be categorised as short-term migrants (Friberg and Tyldum 2007). If this finding from Oslo reflects a general situation both in Norway and the Nordic countries, this means that many workers from the new member states are likely to remain in the Nordic labour markets for years to come, independently of the inflow of new migrants. Longer periods of residence will provide opportunities and challenges for the labour migrants as well as the recipient countries. To date, indications are that the language constitutes a major barrier, both in terms of career opportunities and integration in the larger society.

Nordic trends – explanations and effects

Because of varying national registration practices with regard to permits having less than three months’ duration the totals may present a slightly distorted picture, but in our assessment, they still reflect real differences between the countries. There are no plain and unambiguous explanations of the pronounced variation between the Nordic countries. Different choices in terms of transitional arrangements appear to have had little effect, while differences in the demand and need for labour have been clearly more prominent. This is illustrated by the situation in Sweden, where the labour market was opened from the very first day of enlargement, but with a considerably weaker demand for labour during the first years following enlargement than, for example, in Norway. Because the transitional arrangements in Denmark and Norway are comparable in their main features, the causes of the observed differences cannot be found in the criteria for granting permits – these must be found on the demand side, and/or in the execution of the admission controls and the signal effects this has had for the inflow of applicants (Mailand 2007). Another important factor for the recruitment of foreign labour can be found in the wage levels in the countries concerned. In the construction industry, which is the leading sector in terms of recruitment of labour, both the minimum wage level stipulated by collective agreements and the average wage level are higher in Denmark and Norway than in the other Nordic countries. The key motive for labour migrants to travel abroad is found in the prospects for earning more money there than at home (Fri-
berg and Tyldum 2007), and the wage level may therefore influence the choice of destination. On the other hand, the wage level in all Nordic countries is far higher than what is common in the countries of origin – and for unskilled labour far higher than in other recipient countries in Western Europe – making the Nordic countries as a whole an attractive destination in terms of wage conditions. In addition, migration networks and learning effects appear to be powerful driving forces which have contributed to giving the patterns of mobility an apparently self-reinforcing character.

There is widespread agreement that the increased labour mobility from the EU-8+2 has contributed to higher growth, lower interest rates, lower inflation and more latitude for economic policies in the recipient countries than what otherwise would have been possible in a period of sustained economic boom and increasing scarcity of labour. Labour migration has served to remove ‘bottlenecks’ and ‘grease the wheels’ of the labour markets in the recipient countries. No prominent imbalances in the labour markets have been reported. Neither are there any indications that labour immigration has served to displace domestic labour. It appears that rather the labour immigrants have filled in the “bottom” of the labour market, taking jobs to which recruitment of domestic labour has proven difficult. This situation was typical for the agricultural industries even in the years prior to EU enlargement, but has recently become more notable in several other sectors as well. A relevant question in this context, and one our data do not allow us to answer, is whether the increased supply of labour from the EU-10 has rendered it more difficult for other immigrants and vulnerable groups to assert themselves in the struggle for available jobs. Analyses made by Statistics Norway indicate that labour immigration has resulted in a slower wage growth than what could otherwise have been expected in a tight labour market (Bjørnstad/SSB 2007). Analyses undertaken in the UK and Ireland so far do not indicate a reduction in wage growth among domestic employees (Hughes 2007, Gilpin et al. 2006), even if the wage level among most labour immigrants is low; in 2005, most labour immigrants from the EU-8 received hourly wages of GBP 4.5-6.0 in the UK. According to a more recent study, average wages have subsequently risen to GBP 7.30, compared to GBP 11.10 for British nationals (New York Times 18 Oct. 2007). In the Nordic countries, and in those that have received a high number of immigrants in particular, pos-


12 The Norwegian Confederation of Trade Unions has, however, pointed out that unemployment declined slowly during the first years of strong economic growth following enlargement, and has placed this observation in the context of increased supply of labour from the EU-8. In Denmark, a certain increase in unemployment rates among pavers has also been observed.

13 In Norway, unemployment is still higher among third-country immigrants than among Norwegians, but this unemployment has declined considerably during recent years. On the other hand, the proportion of disabled persons who enter the workforce has changed little (Flotten 2007), but this may have completely different and more complex causes.
sible substitution effects are likely to be notable only in the long term. This applies especially to industries that have recruited a large number of immigrants in order to handle large numbers of orders and demand peaks, like the construction industry. An economic recession will entail stronger enterprise competition, and low wage costs could be a more prominent element in competition than currently, which could favour enterprises that employ immigrants at the minimum wage rate.
Use of labour from EU-8 in the household sector in the Nordic countries

In November 2006, Fafo in cooperation with Norstat undertook a survey of use of labour from the EU-8 in the private market/the household sector in the Nordic countries. Nationally representative samples of approximately 1000 households in Denmark, Finland, Norway and Sweden were questioned as to whether they had purchased labour or services from persons from the new EU member states during the previous year. Those who replied in the affirmative received follow-up questions on the type of labour concerned, the form of affiliation of the person performing the work, and the volume of the work in question. The survey showed that the following percentages had purchased such services over the preceding year:

- Norway: 7 per cent
- Finland: 3 per cent
- Sweden: 2 per cent
- Denmark: 1 per cent

The proportion was highest in Norway, which corresponds to the fact that the flow of labour migrants has been higher here than in the other Nordic countries. The majority of the households that had employed labour from the EU-8 had contracted for construction work (68 per cent) or cleaning/housework (31 per cent). The majority of the households reported that this work had been performed by self-employed persons or by persons employed by, or hired from, enterprises in the home country or in the host country. This indicates that much of the work performed in the household sector is undertaken in the form of services, and not by persons who hold residence or work permits in accordance with the regulations pertaining to individual labour migrants. The Danish and Norwegian requirement for full-time employment could serve as a barrier to legal residence for these workers, because legal full-time employment in the private household sector is hard to find. The survey among Poles in the Oslo area in the autumn of 2006 showed that most of the women worked in cleaning private households, and that most of this work was done illegally (Friberg and Tyldum 2006).

The low incidence of users of such services in Denmark, Finland and Sweden complicates further analysis of the data from these countries. In Norway, the data indicate that close to 150 000 households had purchased services or work performed by persons from the EU-8. Such service purchases occur all over the country, but are most widespread in the Oslo area where a total of 9 per cent, or more than 25 000 households had used such services in 2006. On a nationwide scale, the survey shows that shorter assignments prevail: On average, the households had purchased 22 man-days of work. Four of ten households had used less than 10 man-days. On average, the households had paid NOK 900 per man-day. In total, this accounts for considerable sums: Estimates based on data from the survey show that Norwegian households had spent at least NOK 3 billion on purchases of labour or services provided by persons from the EU-8 during 2006.
2.3 Development of service mobility to the Nordic countries

With the Laval/Vaxholm affair as a prominent example, the growth in service mobility – as well as the particular challenges that follow in the wake of this form of labour mobility – has been brought to the forefront of public debate and the efforts undertaken by the political authorities in order to ensure equal conditions for labour from the new member states (cf. previous reports from the Contact Group, Dølvik and Eldring 2005, 2006). While the Nordic labour market regimes have not been geared to handle comprehensive service mobility from low-cost countries, EU regulations impose strict limitations on the measures that can be taken by the recipient countries without violating the inner market’s principles of free movement. This has given rise to a number of challenges for the authorities and the social partners. The Nordic countries have followed different strategies with regard to implementing the host country principle in the EU’s Posting of Workers Directive (96/71EC), and counteract distortion of competition and unequal treatment of posted workers in the context of service mobility.

While Sweden and Denmark have based their strategies on the ability of the trade unions to enter into collective agreements with foreign service enterprises, Finland, Iceland and, to an increasing extent, Norway have made use of legislation and generalisation of collective agreements in order to enforce minimum standards and create opportunities for public control. Irrespective of strategy, it has proven to be a highly demanding task to register, control and enforce compliance with legislation and agreements. In this section, we will first summarise available data on the volume of service mobility and subsequently discuss possible consequences for the enterprises’ labour strategies and the functioning of the labour market.
The Laval/Vaxholm case

The whole thing started with an assignment for the renovation of a school building in the Swedish town of Vaxholm. The renovation was to be completed by a company named L&P Baltic, which hired labour from a Latvian enterprise named Laval un Partneri. The work was to be performed by Latvian construction workers, who were posted to do the job. Laval un Partneri Ltd. hires out labour to enterprises that have assignments in Sweden and has undertaken a number of such assignments in the country since 2002.

The construction workers’ trade union each year undertakes around twenty blockades, and in 2004, a total of 98 agreements were signed with foreign enterprises. At the outset, the matter therefore appeared straightforward. In June 2004, the trade union demanded an agreement with the Latvian enterprise. The agreement should ensure that the workers receive wages in accordance with the Swedish level. Reports indicated that the workers received approximately SEK 80 per hour, while the corresponding figure for a skilled Swedish construction worker was SEK 130-145. During the negotiations, it became clear that Laval un Partneri had entered into a collective agreement with the Latvian construction workers’ union, and therefore claimed that an agreement with the Swedish union was unnecessary. The enterprise also argued that the workers received close to the double of what was common in Latvia, in addition to board, lodging and transport. The negotiation with Laval un Partneri broke down, and the Swedish union initiated a boycott on 2 November 2004. On 23 November the Swedish electricians’ union announced that they would take supportive action, which came into force on 3 December.

The case was subsequently submitted to the Swedish Labour Court. The Latvian enterprise Laval un Partneri demanded that the boycott and the supportive action should be deemed illegal and cease. They claimed that the Swedish practice violated EU regulations on equal treatment and free movement, and that the unions set higher demands than what is allowed by the Posting of Workers Directive (PWD). In addition, the enterprise claimed that the requirement of having a collective agreement violated EU regulations on the free movement of services. Laval un Partneri therefore requested a statement from the court on the legality of the industrial action taken. On 22 December, the labour court issued a preliminary ruling allowing the actions to continue. The matter was submitted for a main hearing in the Labour Court in March 2005. In April the court decided to request a statement from the European Court of Justice (ECJ) in what by now had become known as “the Vaxholm affair”. The court preliminary ruled that the trade union’s blockade was legal, but prior to a final ruling there was a desire to have the ECJ assess whether Swedish legislation violates EU regulations in allowing industrial action to displace a foreign collective agreement in favour of a Swedish one (Lex Britannia). In May 2007, the Attorney General of the ECJ submitted his statement on the matter. It concluded that the trade unions have the right to take industrial action in order to ensure that foreign workers receive wages and labour conditions equal to Swedish workers. It emphasised, however, that this industrial action must be grounded, for example in seeking to counteract social dumping, and it must be proportionate in relation to its objective. In his statement, the Attorney General did not assess whether the blockade in question was proportionate, but recommended to leave this decision to the Swedish Labour Court.

The judgement of the ECJ was given 18 December 2007 (C-341/05). The court ruled that the collective action taken by the trade union in this case must be considered to be a restriction on the freedom to provide services (Article 49 EC). Stating that collective action aimed at protecting workers against social dumping can be a justified restriction, the court found that the collective action taken by the Swedish trade union in this case could not be justified in the light of a public interest objective. The court assessed the situation in relation to article 49 of the Treaty as well as the Posting of Workers Directive and criticised Sweden’s way of implementing the PWD as well as the terms and conditions of employment that the collective action aimed to force Laval to accept. The negotiations on pay that the action intended to force the employer into, formed part of a national context characterised by a lack of provisions which were sufficiently precise and accessible. In the opinion of the court this system therefore made it excessively difficult or impossible for a foreign undertaking to determine the obligations with which it is required to comply as regards minimum pay. This judgment has led the Swedish government to set up a commission including representatives of the social partners that is assigned to examine possible adjustments in the Swedish posting law and the so-called Lex Britannia, aimed at eliminating obstacles hindering application of Swedish collective agreements to foreign companies. In the same vein, the social partners are envisaged to review and clarify the wage provisions in their collective agreements. Given the similarities of the Danish and Swedish posting regimes, Danish actors are following closely how Swedish actors are reconsidering their way of handling problems related to posting of workers and low wage competition.
Volume and development trends

EU regulations limit the opportunity to register foreign service enterprises and their employees. In combination with volatile markets and complex chains of sub-contractors, this has rendered it difficult to assess the volume of service mobility, both in the Nordic countries and in Europe as a whole (EU Commission 2007). The recipient countries have varying practices with regard to the registration of service providers, for example by taxation authorities, business registers and welfare services. Available figures suggest, however, that service mobility has increased and is especially prevalent in the construction and manufacturing industries.

In Finland, the authorities estimated in 2005 that the number of posted workers from the EU-8, mainly from Estonia, exceeded 10 000, and was far higher than the number of registered individual migrants (Dølvik and Eldring 2005). A number of Finnish enterprises established an office address in Estonia, and supplied labour to enterprises in the Helsinki region in cooperation with Estonian businesses. This labour commuted to Finland on a daily basis. The shift towards service mobility was regarded as an explanation of the low rates of individual labour migration to Finland, and was a key reason for repealing the transitional arrangement in 2006, along with the enactment of a number of regulations aiming to prevent tax evasion and exploitation of posted labour. Nevertheless, following strong growth of the Finnish economy and increasing scarcity of labour, service mobility appears to continue growing. In the autumn of 2006, it was consequently reported that more than 10 000 persons were registered with an E-101 form with the Estonian welfare authorities – a scheme which is noted for strong underreporting – on grounds of being engaged in service work in Finland.

In Iceland, the authorities reported a strong growth in service mobility during the initial years. This growth was mainly associated with the construction of several major power plants and aluminium factories in Eastern Iceland – in Karahnjukar and Reydarfjordur - where foreign service providers according to the Icelandic labour market authorities posted several thousands workers. While Iceland maintained a restrictive transitional arrangement, and the Icelandic labour market, with its 150 000 employed persons was approaching zero unemployment, this traffic was associated with disorderly and confusing conditions and was difficult to control. The explosion of service mobility and the need for increased regular labour immigration induced Iceland to repeal its transitional arrangement in 2006, and to introduce a number of strict legal regulations for registration and control of service providers (see below). There are indications that these measures, in combination with the culmination of the large construction projects, have established more orderly conditions and stabilised service mobility in the period after 2006.

In Sweden, the volume of service mobility has attracted scant attention, and the exact volume of this growth is unclear. On the other hand,
questions of wage dumping, equal treatment and the preconditions for taking industrial action in relation to foreign enterprises have dominated labour policy debate in the aftermath of the Laval/Vaxholm affair (see text box), both in Sweden and in Europe as a whole. As regards the volume, the Swedish Confederation of Trade Unions estimated in 2006 the total number of posted workers from the EU-8 to around 20 000 in the construction industry alone, which was a far more than the number of registered individual immigrants.

In Norway, all employers are obligated to register the use of foreign sub-contractors and their employees with the Central Office for Foreign Tax Affairs (SFU). According to the SFU’s statistics, the number of registered posted workers from Poland and the Baltic states more than tripled from 2004 to 2006 (from 2 000 to more than 7 000), and doubled again in 2006 (to more than 15 000 persons). During 2007 the number has grown even further – as of October to 21 000 (including Romanians and Bulgarians). The number of registered posted workers from Poland and the Baltic states has increased tenfold since 2004. According to SFU, there has been, and probably still is a fair amount of underreporting to the registry. Even though part of this growth reflects increased reporting, there are indications that the increasing figures reflect a real growth.

![Figure 2.1: Registered posted workers from Poland, Lithuania, Latvia, Estonia, Romania and Bulgaria employed in foreign enterprises with assignments in Norway, 2003 - October 2007 (Source: The Central Office for Foreign Tax Affairs)](image)

Figures from Denmark present a similar impression, with a strong increase in the number of enterprises from Central and Eastern Europe in the tax authorities’ registry. During the first half of 2006, a total of 740 such enterprises were registered, which represents more than a doubling since 2005 (Hansen & Andersen 2007). Corresponding figures for Norway were 1 700 enterprises as of August 2007. In the autumn of 2007 it was estimated that around 17 000 persons from the EU-8+2 were working in the Danish construction industry, and that 11 000 of these were posted workers. In addition, there is an unknown number of illegal work-
ers (Hansen & Andersen 2007). The Danish Confederation of Trade Unions has characterised the situation in the construction sector as chaotic and complex, and has reported of huge problems related to low wage competition and non-unionised labour (www.ugebrevetA4.dk/2007/43).

Other sources that can be used to estimate the volume of service mobility can be found among the enterprises that use labour from the new member states, as well as the immigrants themselves. A survey among Norwegian enterprises in the spring of 2006 showed that among companies in the construction and manufacturing sectors it was far more common to use labour from the EU-8 in the form of service purchases (hiring, sub-contracts, self-employed persons) than in the form of direct hiring. As mentioned above, these enterprises employ a relatively major proportion of the individual immigrants, which is an indication that the number of workers who arrive by way of service provision is considerable, and in key industries probably higher than the number of regular labour migrants (Dølvik et al. 2006). In parts of the Norwegian shipbuilding industry it is not uncommon for the enterprises to have several hundred Polish workers on the payroll, who are paid at rates that differ from domestic labour. Approximately one third of the Polish workers interviewed during the survey undertaken in the Oslo area was employed by Norwegian construction enterprises. Another third was hired out from Norwegian manpower suppliers, while almost four of ten were employed by foreign enterprises or was self-employed.

In summary, available documentation indicates that the volume of service mobility is considerable, and that it has increased over the initial three years. In the construction industries, and in some countries also in manufacturing, the number of workers who have arrived by way of service provision can be assumed to exceed the number of individual labour migrants.

Driving forces and consequences

In recent years, service mobility has been emphasised as an attractive win-win alternative for increased labour mobility and economic exchange between poor countries and rich countries. The International Organisation for Migration (IOM), the UN Global Commission for Migration, OECD and WTO have all recommended service mobility as a flexible, efficient instrument for promotion of employment, growth and income transfers from rich to poor countries. Similarly, the EU’s Service Directive was launched as an instrument for stimulation of increased growth and em-

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14 Later Norwegian studies indicate that the proportion of enterprises that use service providers and employees from the EU-8 grew strongly during 2006, particularly in manufacturing industries, where a "take-off" was reported in the autumn of 2006 (Seip 2007)

15 In an article in The New York Times (28 Aug. 2007) on the crisis at the Lenin Shipyard in Gdansk, a representative for the workers reports that many of his former, skilled colleagues have disappeared to Norway.
Employment in Europe, particularly for the new member states. As a channel for labour mobility, the advantage of service mobility resides in its ability to increase employment, income (tax revenues, welfare contributions, remittances) and skills in the home country, while at the same time contributing in the form of needed labour, lower costs and minimal expenditure to welfare and inclusion efforts in the host country. If these conditions are met, this is a recipe for market-adapted labour mobility which can be beneficial for both the home country and the host country. Long-standing Nordic experience indicates that this kind of mobility – in the construction industry in particular – can constitute a flexible contribution to increased employment and production and can also form a buffer for up- and downturns of the business cycle in the labour markets. However, the consequences of service mobility depend on the conditions under which it takes place.

There can be little doubt that the increasing service mobility from the new member states has formed an important contribution to increasing production capacity, dampening cost inflation and removing bottlenecks in the labour markets. This applies to the construction industries in particular, where the Nordic countries have experienced a prolonged and parallel ‘bonanza’. At the same time, certain aspects of this mobility have produced less fortunate effects. This has served to place a focus on the preconditions that need to be fulfilled in order for service mobility to function according to the purposes of all parties, and the measures that must be enacted in order to establish the appropriate preconditions.

Actors and motivations

The specific nature of service mobility is found in its reliance on a triangular relationship between the assigning party who purchases the service, the assignee who will deliver the service, and the employed, posted worker.16 The worker is the weakest and most vulnerable party in such triangular relationships, and may easily end up as the loser in the game over the distribution of profits, costs and risks.

The assigning enterprises have complex motives for hiring service providers from the EU-8+2. According to a study undertaken among Norwegian enterprises using such services in the spring of 2006, the most prominent and clearly most widespread motive is to obtain labour. Further, close to half of the enterprises stated that a desire for more flexibility with regard to working hours and/or wage costs played a role (Dølvik et al. 2006). Lower wage costs have been given more emphasis in manufacturing industries that compete internationally – for example in Norwegian shipbuilding industry,17 where moving production abroad is an option – than in the construction industry where the wage levels for posted workers mainly influence competitive strength in the domestic market.

16 Self-employed persons who provide services constitute an exception.
17 In contrast, Finland and Denmark have established the rule that posted/hired labour in the shipyards should receive the same wages as nationals.
No studies are available of the motivations held by the assignees – the sub-contractors and the manpower suppliers from the EU-8+2. In addition to profitability and incomes, it is reasonable to assume that a desire to win market shares, contracts and networks could have constituted an important driving force. The gap between Nordic market prices and Central and Eastern European production costs, in particular for labour-intensive services with few demands for formal and language skills, has provided an opportunity for considerable windfall gains. Even though such gains usually will be divided between the assigning enterprise, the assignee and the employees, there could be major first-mover advantages to be reaped. In combination with low costs of establishment, this could have enticed a number of entrepreneurs to try their luck. As assigning enterprises, assignees and employees over time gain more experience and competence in assessing prices/costs, quality requirements, legislation and rights, it is reasonable to assume that the potential for windfall gains decline, that the conflicts over distribution of profits harden, and the latitude to be exploited by adventurers shrinks. Regulation and control of wage levels and labour conditions will have a decisive influence on the relative bargaining positions and distribution of gains between the parties involved. However, as long as labour remains an increasingly scarce commodity – and the costs incurred by assigning enterprises in the case of delays and overexpenditure of tenders are major – it is reasonable to assume that the willingness to pay remains considerable. This creates incentives for new actors to enter the market, and provides an incentive for established actors to intensify the recruitment of labour in the countries of origin.

This type of supply and demand dynamics appears to be the driving force behind the rapid expansion of service mobility. The transnational market for labour force services has established a basis for a growing plethora of organised actors, agents, intermediaries and networks, whose economic rationale is associated with the recruitment and supply of labour. For example, it is reported that in Lithuania a growing transit trade is observed, in that Lithuanian enterprises employ third-country citizens who are subsequently hired out to enterprises in the Nordic and other countries.\(^{18}\) New channels of communication, like the Internet, have contributed to a rapid spread of information and efficient dissemination networks. In the countries of origin, this has resulted in an efficient cleaning out of the labour market for construction workers (Eldring and Trevena 2007), and emergence of heavy-handed methods for ensuring that workers remain loyal to their agents. In the recipient countries, the battle over assignments and profits has in some cases entailed circumvention of laws and regulations, underpayment of

\(^{18}\) Information from an interview with a representative of the Lithuanian labour market services.
workers, and forms of discipline with regard to employees that border on trafficking.

In a non-transparent market where competition is tough, payment conditions for intermediaries often are strict, and the opportunities for control by authorities are limited, the temptation to evade taxes and welfare contributions can be strong, as can be the incentive to pay the employees less than what is foreseen by regulations and contracts with assigning enterprises.\footnote{During inspections undertaken by the Norwegian Labour Inspection Authority, it has been discovered that it is not uncommon to have three sets of work contracts: one to be shown to the tax authorities in the home country (with the lowest possible wages), one to be shown to the monitoring authority in Norway (with wages according to generalised collective agreements), and a real contract with wages that often constitute approximately half of the generalised minimum wages (see also the trade union weekly ‘Magasinet’ \url{www.magasinet.no}).} Other methods that can be used to enhance profits can be to register the employees as self-employed, or to circumvent regulations on working hours or HES rules, thereby speeding up completion so that the labour can be hired out to different or to parallel assignments. To the extent that the assigning enterprise and the assignee have a common interest in reducing costs and ensuring speedy completion, the employee will have few opportunities to resist. In many cases the employee will also be interested in maximising the number of hours worked in order to earn higher wages. In other words, in a cross-border market where the core of the service product consists in supply of labour – often with few particular qualifications – and the employees are at the mercy of the agent in order to be assured an income and future assignments, the incentives to exploit the workers and circumvent regulations may be disproportionately strong.

We have no knowledge of any studies of the motivations among foreign service providers for selecting a particular host country for their activities. Based on simple economic reasoning, it is likely that if other factors remain equal, they will choose the countries with the highest level of prices and wages, the strongest demand for the types of services labour that they can offer, and the least efficient regulation of wage levels and working conditions, taxation and other conditions associated with posting/supply of labour. In addition, established contacts, networks, language, transport costs and familiarity with the business culture will all play a role, as illustrated by the service mobility from Estonia to Finland. The strong growth observed in the Nordic countries during recent years has contributed to making these countries emerge as attractive destinations in comparison to a number of continental countries, where the cost level is lower and the supply of foreign labour is wider. Furthermore, the neighbouring countries of Germany and Austria, traditionally the largest recipients of labour from the EU-8, have been closed until 2011 as a result of the transitional arrangements with regard to service mobility granted to these countries in the enlargement treaty.
In nominal currency value, the wage level is significantly higher (30-40 per cent) in the construction industry in Denmark and Norway than in the other Nordic countries (see appendix). This could be one element of an explanation of why the volume of service mobility, ‘fictitious’ posting and ‘arm-and-leg’ enterprises have received the most attention in Denmark and Norway. In 2005, Denmark decided that temporary staffing enterprises and manpower suppliers with an address in the EU-8 should be comprised by the transitional arrangement and its concomitant regulations of wages and working hours. Even though this was a controversial move with regard to EU regulations, this has also limited the opportunities for national enterprises to supply the domestic market with hired labour from post-box companies in the new member states, examples of which have been observed in Norway.

The strong growth in service mobility cannot be explained without including the motivations, interests and conditions of the employees. What possible reason can account for why so many workers from the EU-8+2 choose to work for a service enterprise or a manpower supplier from their home country rather than seek employment with a host country enterprise, that usually would offer better wages and labour conditions?

First, difficulties with information, language and costs associated with seeking work abroad may make employment with a service provider or manpower supplier from the home country appear as a simpler, safer and more efficient option. By having a better overview of the market and knowledge of the language, rules, transport and other practical aspects, these enterprises could fill an important role as intermediaries and brokers in relation to foreign assigning enterprises. Recruitment to such intermediaries is often based on local contacts and networks, and they will often be able to offer an organised, collective framework for this mobility, in which the community with fellow workers from the home country contributes to reducing the uncertainty associated with working abroad. Compared to having to make all arrangements privately, this kind of package deal may constitute not only an attractive alternative but for many even a necessary precondition for migration in the first place.

Second, in spite of strong demand for labour, foreign workers may encounter difficulties in obtaining employment with a host country enterprise at the ordinary wage level. Uncertainty with regard to the applicants’ competence, language skills and productivity make many employers reluctant to hire foreigners. A desire to reduce risk in employment decisions could give rise to statistical discrimination (Rogstad 2001), putting new categories of job seekers at the back of the queue. To the extent that doubts can be raised with regard to the productivity of job seekers from the new member states compared to the remaining workforce, for example because of language difficulties, the requirement for equal wages may serve to limit employment opportunities. Such exclusion mechanisms are not least likely if an alternative offer to hire labour
from the EU-8+2 is available from a service provider, an option which for the assigning enterprise is associated with less responsibility, risk and transaction costs, more flexibility, and usually lower wage costs. In addition to the weak position faced by job seekers from the EU-8+2, the new opportunities for choice may induce a number of employers not to hire workers from the EU-8+2 directly, but rather rent them from a service provider. Such mechanisms can be observed in parts of the construction industry in Norway. In other words: For some categories of workers from the EU-8+2, the choice of service provision as a channel for mobility is probably their only viable method of finding work in a Nordic country.

Third, a temporary job as a posted service provider may form part of a strategy for combining a continued career, family, attachments and status in the home country on the one hand with opportunities for earning higher wages abroad on the other. Service mobility may constitute a rational and cost-efficient method for organising work abroad without having to sever ties to a workplace and other contacts at home. The worker is also freed from the investments and social re-adaptation needed in order to become established as an employee in a foreign country. According to Kaczmarczyk and Okolski (2005), such adaptations, which have become increasingly widespread in the new member states, also constitute a method for handling the double challenges to identity and loyalties involved in cross-border labour mobility (Stark 1991, World Bank 2006). Furthermore, taxes and welfare contributions will be lower, and the cost of living during the stay abroad will be less than in the case of self-organised mobility.

In practice, variants – and often, combinations – of all these motivations and purposes can be found. While the threshold for taking up employment abroad is lower when this is done through a domestic enterprise, there are indications that experience gained from service mobility forms part of wider processes of learning and decision-making that over time may result in long-term migration. The study undertaken among Poles in Oslo showed that a number of Polish workers had initially arrived as service providers, but that they gradually had accumulated competence, contacts and experience enabling them to enter into regular employment (Friberg and Tyldum 2007). Work as a posted service provider may thereby for some serve as a ‘port of entry’ to the regular labour market, and many of the posted workers assumed a long-term view of their stay. However, the study also showed that for many of the Poles, work as a posted construction worker had turned into a long-term adaptation to low income and poor social conditions, that were not combined with work at home, nor with prospects for a better job in Norway, in spite of a large demand for labour in Norwegian enterprises. In the absence of more exhaustive information we can only speculate on the reasons for this apparent paradox: For some, the opportunities for assignments in the service market may be so favourable that a low nominal hourly wage level may
be compensated through many assignments and long working hours, whereas for others, the opportunities to earn unregistered incomes may be a contributing factor. In addition, after all, some may feel sufficiently comfortable within the shared community of countrymen abroad – ‘Polonia in Oslo’ – that the change into a more regimented and foreign-language working environment appears less attractive. Some of the service enterprises from the EU-8+2 have also evidently developed forms of loyalty, internal discipline and sanctions that render it difficult to seek employment with other employers.20

Consequences for the actors and for the functioning of the labour market

For the assigning enterprises, the increased use of service providers and manpower suppliers from the EU-8+2 appears to have entailed mainly positive consequences: lower costs, increased production capacity and flexibility. At the same time, competition in the domestic market has intensified, and increased occurrence of low-cost competition and dishonest dealings has been reported as a problem among a number of Nordic sub-contracting enterprises. All countries report that service mobility mainly has comprised labour with limited skills, mostly in the form of unskilled or semi-skilled workers. This is confirmed by a study undertaken among Norwegian enterprises, half of which denied that the labour from the new member states was better qualified than comparable Norwegian labour (Dølvik et al. 2006). Even though a high degree of willingness to work and few days taken off as sick leave were emphasised as advantages, the use of service providers from the EU-8 was not described as entirely without problems. More than two thirds of the enterprises stated that the use of labour from the EU-8 created language problems in the workplace, and a similar proportion reported that workers from the EU-8 had little knowledge of HES issues. In a study of the construction industry, a total of 35 per cent reported that the use of subcontractors from the EU-8 had contributed to workplace hazards and had complicated HES efforts (Ødegård et al. 2007). Studies in the shipbuilding industry have pointed out challenges related to coordination, management and training, and that the increased use of service providers and manpower suppliers from the EU-8 could entail negative consequences for the development of quality and productivity (Aslesen 2005).

20 In several cases that have been reported in Norwegian media, and where subsequent action has been taken by the police and the prosecution, it has emerged that some service providers/manpower suppliers have established contractual provisions that bar the workers from going to other employers, joining a trade union, or revealing their wage levels, labour conditions and contractual relations to others. In some cases these provisions have been supported by threats of deductions of fees and deposits paid, withheld wages and sanctions against family members and friends in the home country if the workers breach the pledge of loyalty (see http://www.fifo.no/Oestforum/nyheter/Nyhetsarkiv/nyhetsarkiv.htm). During Fafo’s survey in the Oslo area, a number of posted workers reported to have experienced violence and threats (Friberg and Tyldum 2007).
Little information is available on the situation of posted workers in the Nordic countries. The study among Poles in Oslo showed that construction workers who were employed by service providers and manpower suppliers had lower net hourly wages and longer working hours than those of their compatriots who were employed by domestic enterprises. A significant proportion had wages and working hours that violated national minimum rates (Friberg and Tyldum 2007). In this group, there was also a higher proportion who had experienced poor residential conditions, unregistered work, unpaid wages, hazardous work, uncertainty, coercion and threats, lack of access to health services, etc. Most of them also reported that they had little contact with Norwegians and mainly worked alongside their own compatriots. Ødegaard et al. (2007) further found that employees of EU-8 construction enterprises often were used to perform especially strenuous or hazardous work that domestic enterprises/workers were reluctant to accept. To the extent that the labour inspection authorities and the media in the Nordic countries have reported on exploitation and poor conditions among EU8+2 workers, this has mainly pertained to posted workers. Even though the authorities and the social partners in the Nordic countries have intensified their efforts to prevent violations and social dumpling it appears as evident that this category of migrant workers is more vulnerable and exposed to abuse and exploitation than other groups.

For domestic workers, the consequences of increased use of service providers from the EU-8+2 will vary between different groups. For enterprises and employers who perform the same kind of work as the foreign service providers, the use of such sub-contractors may entail a pressure on prices and wage levels and reduced rates of employment. So far, it appears as if market growth has mainly counteracted this type of effects, while the increased supply of services has contributed to increasing the overall level of activity and thereby also the demand for domestic labour. However, this could change following a downturn of the business cycle. International research indicates that competing, substitutable domestic labour – usually in the low-pay and least skill-intensive segments of the labour market – risks losing from increased import of labour (Borjas 2003, Freeman 2007). On the other hand, enterprises and employees who have a competence which is complementary to the tasks performed by the foreign labour will normally experience increasing demand and profitability. The Norwegian shipyards constitute a typical example, where increased production capacity and profitability resulting from import of low-cost, labour-intensive services have strengthened employment and wage development among the permanently employed staff (Dølvik et al. 2006). Results from international studies showing that the effects of

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21 During inspections undertaken by the Norwegian Labour Inspection Authority during 2006, a number of irregularities were discovered with regard to working environment issues, HES, wages and work contracts in a considerable proportion of the enterprises that employed posted labour (The Labour Inspection Authority 2006).
labour immigration with regard to rates of employment, wages and labour conditions for host country workers are negligible – even though the immigrants receive far lower pay – indicate that foreign labour is hired to perform tasks other than those undertaken by domestic labour, and that direct competition therefore is rare. Increased labour import often triggers reorganisation of the work processes, resulting in a more differentiated distribution of work and tasks throughout enterprises and industries (Piore 1986, Freeman 2007). While the foreign enterprises and their employees are hired to perform certain tasks, the permanent employees are redeployed to other tasks that often are more productive and better paid. Irrespective of whether such processes are based on assessments of differences in skills, ability to communicate or the level of costs, or are due to (statistical) discrimination, such adaptations by the enterprises may result in new forms of stratification within the workforce.

Seen as a whole, service mobility has probably entailed positive consequences for adaptation of the labour market. None of the Nordic countries has reported significant problems associated with displacement, exclusion or reduced wage levels for the national labour. This is probably due to the mechanisms described above and the strong demand for labour. At the same time, in some industries trade in services and labour has been associated with far lower prices and wage levels than what has been common in the Nordic markets (‘social dumping’). Such low-cost competition may have unintentional consequences for the functioning of the labour market, and may hinder recruitment of ordinary labour migrants from the EU-8+2.

In many cases, the trade in low-cost services and labour is associated with circumvention of laws and regulations pertaining to taxation, duties, wages, HES, residential conditions and other issues. In addition to the direct effects for the individual worker, the assigning enterprise and society as a whole – in the form of accidents, loss of tax revenues, economic crime, etc. – entails unreasonable distortions of competition and erosion of the respect for the law in parts of the labour market. However, in Norway, Denmark and Sweden such trade in low-cost services and labour may be perfectly legal, because the relevant enterprises are not bound by a signed or generalised collective agreement.22 On the other hand, there are indications that service providers who pay wages that are very low in the host-country context often belong to the category of dishonest enterprises that operate on the borderline of legality, also with regard to tax rules and other regulations.

22 In all the Nordic countries, the lower costs related to taxes and welfare contributions, as well as the fact that the minimum wage levels defined by the collective agreements are lower than the actual domestic wage level, will contribute to making service labour from the EU-8+2 usually somewhat less costly than domestic labour. However, these differences are mostly minor, and will usually be offset by differences in productivity. In our discussion we will exclude minor differences of this kind, and concentrate on the hiring of service labour with markedly lower wage costs than the domestic labour market, i.e. what we in this context have chosen to refer to as ‘low-cost services’ and ‘low-wage labour’.
In industries where the trade in low-cost services and labour from the EU-8+2 is growing into a considerable volume, this might entail undesirable changes in the functioning and structure of the labour market. Even though domestic enterprises and their employees may benefit from this in the short term, it could entail a restructuring of parts of the labour market, resulting in increased segmentation and stratification along ethnic/national lines of division. Simple, routine tasks are commissioned to EU-8+2 enterprises, whereas more skill-intensive tasks are retained for the national enterprises and employees. Such processes of selection may entail unintentional consequences for recruitment, competence development, quality and productivity in the enterprises in the long term. For example, if a growing number of simple tasks usually performed by labour market novices are left to foreign low-cost enterprises, traditional channels for recruitment may dry out, domestic labour scarcity may increase, and the need for labour import may become self-reinforcing. This will entail consequences for the competitive strength of ordinary job seekers from the EU-8+2, and may render it difficult for vulnerable groups to shift from social benefits to employment. A more rigid division of labour in the production process may also serve to restrain production flows, information exchange and knowledge transfer, and be a hindrance for development of more skill-intensive production of high-quality commodities. A growth in the number of enterprises that are dependent on labour-intensive, low-cost production may in addition serve to restrain national labour from mobility and adaptation to more productive activities, which is likely to be undesirable in a situation of increasing scarcity of labour.

In addition, tendencies towards segmentation and stratification along national lines of division will serve as a basis for social inequalities that may turn out to be difficult to overcome. Experience from a number of countries indicates that secondary labour markets dominated by foreign guest workers are usually characterised by systematically slower wage growth and poorer labour conditions than the other parts of the labour market, and often form the basis for development of long-term living standard problems, parallel societies and deficient social inclusion (McGovern 2007). The key instruments for counteracting this kind of development is to develop regulations and enforcement mechanisms that can ensure that service labour from the EU-8+2 is offered equal conditions to those of other employees in the Nordic labour markets.
2.4 Political measures - regulations, control and enforcement

As we have seen, the limits between labour and service mobility are blurred, even though these to a large extent emerge as alternative channels for labour migration. Nevertheless, the regulation regimes for these two forms of mobility are based on different logics and mechanisms. Labour migration by means of services was given free rein from 1 May 2004, while the transitional arrangements for individual labour entailed limitations in the freedom of movement. In 2006, the unintended consequences and distortions that resulted from this asymmetry induced Finland and Iceland to follow Sweden’s example to introduce free movement. Denmark has also loosened her transitional arrangement, and Norway is considering similar moves.23 Regardless of this, because the transitional arrangements must be repealed by 1 May 2009 – and by 2013 for Romania and Bulgaria – the Nordic countries will soon have an open market for labour and services in common with the countries around the Baltic Sea. The change to free movement in the markets for both labour and services gives rise to new challenges pertaining to the formulation of new regimes for regulation, control, enforcement and registration which are able to ensure symmetry and equal treatment of various categories of workers, migrants and enterprises. In this section, we will briefly summarise some of the key measures enacted and the experiences made in the Nordic countries this far, and discuss major challenges for the coming years.

23 Denmark has adjusted its transitional arrangement and revised the previously signed East Agreement, first in June 2006, and subsequently in June 2007. The purpose was to ensure a more flexible recruitment of required labour, while keeping the demand for employment conditions on par with collective agreements. According to the East Agreement, all enterprises that can document a collective agreement have been freed from the requirements for residence and work permits, and can thereby freely hire workers from the EU-8+2 (without prior approval). This also applies to experts and highly skilled labour. Norwegian authorities have opted to continue the transitional arrangement, which is assumed to ensure orderly conditions in the labour market, and have based their position on the view that stricter rules and measures to counteract social dumping (read: some form of minimum wage regulation) must be enacted before the arrangement can be repealed.
The Nordic transitional arrangements entailed an *ad hoc* introduction of legal regimes aimed at ensuring that individual labour migrants received wages in accordance with collective agreements in the relevant sectors. The phasing-out of the transitional arrangements entails a cessation of the legally stipulated minimum requirements for wages and working hours (as conditions for granting a residence permit), meaning that the employers – within the limits defined by applicable laws, collective agreements and EU demands for equal treatment – can freely hire workers from the new member states on wages conditions to be agreed between them. In addition to the removal of administrative barriers, this can be expected to entail an increased demand and a wider supply of labour from the new member states. This is likely to entail a larger variation in the wage levels and labour conditions among migrants, while parts of the work that previously were undertaken illegally will be rendered visible.

While the authorities and the social partners in the Nordic countries in the initial period mainly focused on measures that aimed to ensure orderly conditions for posted service workers, the phasing-out of the transitional arrangements in Finland and Iceland has emphasised the need for an integrated and unified strategy for regulation and control of the wage and working conditions among different categories of labour migrants. These in turn affect the terms of competition in the product markets. Establishing and enforcing symmetric regimes for two (formally) separate channels for labour mobility is a demanding task, not least because these are subject to very different sets of EU-level regulations, and the workers

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24 In order to ensure orderly and equal conditions for posted labour, the countries have chosen different strategies for their implementation of the EU Posting of Workers Directive (96/71 EC). The directive is based on the so-called host country principle, meaning that treatment of posted workers should be equal to nationals with regard to a core group of labour conditions. These include wages, provided that the country in question has enacted a statutory minimum wage, extended collective agreements (erga omnes) or agreements that are generally valid.
to a large extent compete in the same labour- and product markets in the recipient countries. The efforts to clear out illegal grey zones and non-transparent competitive situations between the different types of affiliation therefore concern not only development of adequate regulations, but to an equal extent also development of an interlinked chain of measures involving cooperation between relevant actors at different levels, in compliance with applicable EU regulations. In the light of the following scheme we will here summarise features of current developments pertaining to regulation (with regard to wage levels), and then review issues pertaining to control, enforcement and registration.

![Figure 2.3 Governing labour mobility - actors and elements of a coherent approach](image)

**Regulatory mechanisms for wage levels**

In the Nordic countries, wage formation is to a large extent based on negotiations and collective agreements between the social partners, while *Finland, Iceland* and *Norway* in addition make use of legislative instruments for ensuring a minimum wage level on par with rates defined by collective agreements. This kind of generalisation of collective agreements or statutory minimum wage rates also applies to posted workers, and thereby constitutes symmetric regulatory instruments that define a general wage floor in the labour market. This also establishes equal competitive conditions for the enterprises irrespective of their nationality, and provides a legal basis for the authorities (The Labour Inspection Authority) to control and enforce wage levels.

In *Sweden* and *Denmark*, neither the social partners, nor the authorities desire a statutory minimum wage or generalisation of collective agreements. Legislation on matters of wages is seen as a threat to the system of agreements, and in the longer term as eroding the position of
the unions. Instead, there is a wish to continue the tradition of having the unions sign collective agreements with foreign service providers, if necessary by taking industrial action, as demonstrated by the Laval/Vaxholm conflict. In Sweden, the largest trade unions and employers’ organisations have signed framework agreements, based on the assumption that foreign service providers will be offered membership in the relevant employers’ association and sign an adapted version of the collective agreement for the industry concerned. This will ensure industrial appeasement, while the trade unions are granted a right to monitor the service providers’ wage levels and labour conditions. The Swedish and Danish models contribute to mobilisation of responsibility among the actors in the labour market, but also place a heavy burden on the trade unions that, in the absence of public monitoring of wage levels, must assume the strenuous task of establishing and enforcing collective agreements with foreign service providers. In contrast to their colleagues in the other Nordic countries, the trade unions cannot call on the public authorities for help in their efforts to ensure that individual labour migrants are offered equal wage conditions. As will be described in more detail below, the control regime in Sweden and Denmark stipulates special requirements for the registration and representation of foreign firms, and these are controversial in the EU context.

Since the early 1980s, Iceland has enacted legislation enforcing the principle that all employed persons should receive wages that are at least equal to the minimum wage rates in a relevant collective agreement. Since the early 1970s, Finland has had legislation pertaining to generalisation of nationally valid collective agreements, and in 2006 a provision was added to the Posting of Workers Act aiming to ensure that workers who are not comprised by a generalised agreement receive wages on par with the most relevant collective agreement. In other words, both countries have a statutory system in conformity with EU regulations in which the minimum wage rates in the collective agreements define a wage floor in the labour market. The system appears to be uncontentious among the social partners and in principle provides protection against undesirable distortions of competition in the labour markets.

Among the Nordic countries, Norway occupies a middle position. Lower organisation rates and less widespread coverage of collective agreements, as well as barriers to industrial action defined by legislation

25 The European Court of Justice’s ruling in the Laval case has triggered debate on the possible needs for adjustments in Sweden’s implementation of the Posted Workers Directive. According to the court’s ruling it was especially the lack of provisions for minimum wages in the collective agreement in question that led to the trade union’s actions being judged as not motivated by the wish to protect the foreign workers against social dumping and in conflict with the Posted Workers Directive. In addition, the different preconditions for collective actions against Swedish and foreign companies with collective agreements were considered discriminatory. The immediate responses in Sweden indicated that a revision of Lex Britannia (The Minister of Labour) or a specification of the Law for Posted Workers (The Swedish Confederation of Trade Unions), as well as the introduction of minimum wage provisions in the collective agreements, were seen as likely measures to bring the Swedish model in accordance with EU law.
and agreements, render Swedish/Danish strategies less relevant. At the same time, most parties are sceptical of governmental regulation of issues pertaining to wage levels, and thereby also to generalisations of collective agreements. On the whole, it has therefore been completely legal and common practice to hire subcontractors from the new member states, including workers who are being paid far less than what is common in the Norwegian context. In the wake of EU enlargement, Norway has for the first time made use of the 1994 act on generalisation of collective agreements. In contrast to most other European countries with a tradition for legal extension of collective agreements, the purpose of the Norwegian Act is to protect foreign workers against unequal treatment, and not primarily to increase the coverage of collective agreements in the labour market as such. From 1 January 2007, parts of the collective agreement for the construction industries were made generally applicable, meaning that construction workers currently have a statutory minimum wage. In the autumn of 2007, the Norwegian Confederation of Trade Unions demanded such generalisation in the shipbuilding industry as well, and is likely to gain support for this claim in the governmentally appointed Collective Agreement Board (Stokke 2007).

Figure 2.3: Regulation of wage levels and labour conditions for workers from the EU-8+2 in the Nordic countries (Collective agreements=CA)

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wages, individual labour migrants from the EU-8+2</strong></td>
<td>77 per cent coverage of CA in the private sector Until 2009: Transitional arr.; &quot;Danish conditions&quot;</td>
<td>90 per cent coverage of CA Extension of CA</td>
<td>90 per cent coverage of CA Extension of CA</td>
<td>53 per cent coverage of CA in private sector Until 2009: Transitional arr.; &quot;Norw. conditions&quot; Extension of CA (mostly construc.)</td>
<td>90 percent coverage of CA in private sector</td>
</tr>
<tr>
<td><strong>Wages, posted workers from the EU/EEA</strong></td>
<td>Accession agreements with local negotiations, or entry into an employers assoc. with binding agreement Extension of CA Posting of Workers Act, requirement of CA wages</td>
<td>Extension of CA Posting of Workers Act, req. for CA wages</td>
<td>Free wage formation unless extended CA (mostly constr. ind.)</td>
<td>Pending agreements 'Lex Britannia'</td>
<td></td>
</tr>
</tbody>
</table>

Even though the Laval judgement will require certain adjustments in Swedish legislation and collective agreements, the Nordic countries are in the process of developing regulatory regimes for wage and working conditions that in principle appear effective in plugging loopholes and reducing the opportunities for circumvention by service providers (Dølvik and

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Mobility of labour from new EU states to the Nordic Region (Eldring 2005, 2006). The main challenge with regard to service mobility currently appears to be found in the context of control, registration and monitoring, an issue we will return to below.

**Phasing-out of the transitional arrangements – new approaches to labour market regulation?**

According to Swedish authorities, the moderate volume of individual labour migration has not given rise to a noticeable growth in the number of circumventions of legislation and regulations in the labour market. With 90 per cent coverage of collective agreements in the labour market, most are assumed to be hired on equal terms in enterprises that have signed collective agreements. The phasing-out of the transitional arrangements by Finland and Iceland has also created few problems or imbalances in the respective labour markets. These countries’ schemes for generalisation of collective agreements ensure a minimum wage level for most employed persons, while the countries (in the context of implementation of the new mobility directive for third country citizens, EC 2004/38) have introduced schemes for registration of individual labour migrants. Iceland nevertheless reports that there is a certain tendency wherein wage differences are increasing, because many workers from the new member states are offered wages in accordance with the minimum rates defined by collective agreements, which in general are lower than the actual wage level for similar work.

In Denmark and Norway, the phasing-out/repeal of the transitional arrangements within May 2009 will entail more prominent challenges in terms of ensuring equal treatment. This is because the coverage of collective agreements is lower than in the other Nordic countries, while generalisation of collective agreements appears to be out of the question in Denmark and so far has only been used in selected industries in Norway. As mentioned above, an increase in individual labour migration is likely in some industries – particularly in industries where female labour predominates, or in enterprises employing many workers on a part-time basis and/or pay less than the going rates. These enterprises will from now on have the opportunity to hire labour from EU-8+2.\(^{27}\) In order to circumvent the requirement for equal treatment within the same enterprise, a certain growth in ‘ethnic’ enterprises is likely, offering low-priced products on the basis of low-cost labour. A wider spread between industries and a wider variation in wage levels and labour conditions (including part-time work) indicate that efforts to ensure equal conditions and an

\(^{27}\) To what extent this will entail a legalisation of migration that already has occurred in illegal forms – for example in the cleaning industry, cf. Fafo’s report Polonia in Oslo (Friberg and Tyldum 2007) – or will trigger further migration is uncertain. There is still reason to assume that the barriers against recruitment of part-time employees from the new member states defined by the transitional arrangement have caused many enterprises to refrain from hiring immigrants from these countries, in particular in female-dominated industries.
income that can provide a basis for full participation and integration in the host country for all workers are rendered more complicated. Therefore, Denmark has announced the introduction of a new monitoring system (see below) involving more stringent controls for ensuring that labour migrants who stay in the country for more than three months are registered with the authorities. In Norway, there is widespread agreement that the introduction of a minimum wage regime will be required in the relevant industries – through legislative acts, generalisation of collective agreements or a combination of the two – particularly because statutory regulation is a precondition for continuing the monitoring of wage levels by the Labour Inspection Authority. The social partners disagree, however, over the choice of instruments and the foreseen level of such minimum wages.

This notwithstanding, because individual labour migrants mainly are employed in domestic enterprises, which are bound by the prohibition of national discrimination and usually have a collective agreement, there is little reason to assume that the repeal of the transitional arrangements is likely to engender any problems in the labour market in addition to those that already exist. These, however, could intensify, and represent an opportunity to redress previous omissions. All the Nordic countries to a varying extent have occupations, enterprises and industries that chiefly employ immigrants, often at poor wage levels and labour conditions. An increased supply of labour that is willing to work for less than the going rate will contribute to enhanced competition for the lowest-paid jobs, and could weaken the relative wage development among those who are limited to taking such jobs. A growth in the number of labour migrants with low incomes may also serve to increase the challenges associated with the social inclusion of these groups, and result in an increased demand for social benefits (IMDI 2007, Friberg and Tyldum 2007). The phasing-out of the transitional arrangements will therefore establish new requirements not only on regulation, but also on the scope and efficiency of the control mechanisms in the labour market.

Registration – a precondition for effective monitoring and statistics

The opportunities and capacities for enforcement and monitoring are critical factors for establishing equal conditions for all categories of labour migrants. This is a demanding task in volatile service markets with long and non-transparent chains of subcontractors, but also in relation to individual labour migrants after the repeal of the ad hoc legislation repre-

28 This is not a new problem – at least not in Norway – where it is a familiar occurrence in industries with a high proportion of immigrant labour, like cleaning, hotels and catering, taxi services and retail trade.

29 The Federation of Norwegian Commercial and Service Enterprises recently proposed a statutory minimum wage in Norway, but the trade unions appear to be opposed to this move. http://www.fako.no/Oestforum/141107/foiler.htm
sented by the transitional arrangements. Experience has shown that in certain sectors, particularly in the construction industry, there are a number of problems associated with working environment, safety and dishonest practices in enterprises that hire workers from the EU-8+2. These groups are often more vulnerable than nationals, because of language problems and because they more often are employed in enterprises that operate on the fringes of legality. Many women who work in private households have also been exposed to exploitation, and this problem can be expected to spread to other industries as well following the introduction of free movement.

Knowing where the vulnerable groups of labour immigrants can be found is a key precondition for the exercise of effective monitoring and enforcement. This has turned the question of registration into a core issue in the debate over the preconditions for undertaking effective control measures that are in accordance with EU law. The opportunities for monitoring of, for example, wage levels, tax payments or whether a specific posting in fact is legal depend on the opportunities for registration or declaration of incoming service providers and their employees. Here, barriers raised by EU rules, imposing strict conditions and limitations on the opportunities to registration of foreign enterprises, are soon encountered. Similar barriers apply in relation to individual workers. Any registration must be based on a general statutory purpose, which must be made applicable on equal terms with domestic enterprises and workers, and an imposition of an obligation to report must not function as a disproportionate hindrance for the free movement. This challenge has become accentuated after the EU Commission in 2007 issued its guidelines for posting, in which it was stated that any advance registration was disproportionate, and that infringement procedures would be initiated against countries maintaining such registries (EU Commission 2007). The Commission has also raised doubts as to whether the demand imposed by Nordic countries on foreign service providers who have a local representative is commensurate with EU regulations. Having this kind of representation is crucial for Swedish and Danish trade unions in order to have a real opportunity to establish a collective agreement with foreign service providers, as demonstrated by the Laval affair. Registries associated with tax collection – which has been established by all the Nordic countries – are unproblematic, but these cannot be used for purposes of monitoring wage levels or working conditions, which are not regulated by legislation. In the context of the implementation of the directive on free movement of third country citizens – which allows for certain types of registration – several Nordic countries have considered introduction of registration of foreign labour for purposes of statistics and information. In countries that have statutory regulations of wages and working conditions, such registries may possibly assist in the monitoring efforts undertaken by authorities.
In the context of the revision of the East Agreement in 2007, Denmark has decided that the Labour Market Service will introduce a new monitoring system in order to collect information on the supply of foreign labour to the Danish labour market. All foreign workers will be obligated to register after three months. The system will be based on information from the registries of the government administration and the immigration authorities. The scheme also involves a joint registry of all foreign and posted workers in the country, to be developed in cooperation between the Ministry of Taxes, the Ministry of Industry and the Ministry of Labour. Its purpose is to ensure a common database for labour market statistics and follow-up of payment of taxes and VAT, working environment issues and illegal work (Ministry of Labour, 29 June 2007)

Finland is in the process of introducing similar schemes, while Iceland enacted an amendment to the Aliens Act in 2006, in the context of phasing-out the transitional arrangement. Icelandic enterprises that hire workers from the new member states must register information on the enterprise and its employees with the Directorate of Labour, and submit a copy of the work contract. The authorities are obligated to submit a copy of the work contract to the relevant trade union on request. The Icelandic act on rights and obligations for foreign enterprises was revised in the spring of 2007 to require that information on the enterprise and any posted workers is submitted prior to start-up of operations. The enterprise can only start working after written confirmation of receipt of this information has been given by the Directorate of Labour. The service provider is obligated to submit this confirmation to union officials on request, and the Directorate of Labour is obligated to submit copies of work contracts to the trade unions concerned if they so require. Violations of these provisions may entail temporary shut-down of operations.

Monitoring and enforcement – the weak link in the chain?

All the Nordic countries have taken steps to strengthen the cooperation between units of the tax authorities, the police, immigration authorities, the labour inspections and other relevant parties, including the social partners. These initiatives comprise measures for formulation of handbooks describing the complex, parallel sets of regulations, expanded registration of foreign enterprises and employees, introduction of ID cards to be worn on construction sites, rules for right of inspection by union officials, establishment of separate police units to combat criminal activities related to the labour market, local cooperation between administrative units, the police and the social partners, as well as new monitoring efforts to be undertaken by the labour inspections of foreign employees and service providers.

On the basis of their practice of generalising collective agreements, Finland and Iceland have emphasised strengthening the ability of the
inspection authorities and the trade unions to monitor and enforce minimum standards defined by the collective agreements, for example through a requirement for registration of foreign service providers and their employees, including manpower suppliers. Finland has established a scheme involving an ombudsman who will be able to submit information on the time of arrival for posted workers, their wage levels and working conditions, etc. On Iceland, service providers who undertake assignments of more than four weeks' duration are obligated to have a local representative. Finland has enacted regulations on the responsibility of assigning enterprises, requiring that the assigning enterprise is accountable for submitting information documenting that the service provider operates legally in the home country and has paid taxes, social insurance contributions, etc. Iceland has also made the purchaser of services responsible for payment of taxes, while Finland has introduced tax liability for labour hired from manpower suppliers from day one.

Norway has moved in the same direction as Finland and Iceland, using a combination of new statutory regulations and general application of collective agreements. The Labour Inspection Authority has been granted extended powers to sanction enterprises that violate the provisions of generalised collective agreements. A number of new provisions and schemes are in the process of being enacted/implemented. These apply to, among others, approval of manpower suppliers and temporary staff agencies, a tightening of the rules for hiring of labour between manufacturing enterprises, rules defining the responsibility of assigning enterprises to ensure that subcontractors adhere to the provisions of generalised collective agreements, and for ensuring that manpower suppliers have been registered. The Government has proposed that trade unions in enterprises comprised by a generalised collective agreement should have the right to inspection of wage levels and labour conditions, under professional confidentiality. In contrast to Finland and Iceland, the generalised minimum wage regime has to date been made applicable only to the construction industry. The social partners disagree over whether this instrument should be expanded to comprise other industries, for example shipbuilding, where the trade unions in autumn 2007 submitted a claim for generalisation of minimum standards. Doubts have been raised as to whether extension is an appropriate instrument for use in industries with weak unions and low coverage of collective agreements (Stokke 2007). As mentioned above, several employers’ unions have argued in favour of introducing statutory minimum wages.

In other words, the increased labour mobility observed after EU enlargement has given rise to various strategies for regulation and monitoring in the Nordic countries. However, common actions are found in the implementation of ILO Convention No. 94, on social clauses in public tender contracts and in the introduction of ID cards in the construction industry in several Nordic countries. It is still to early to tell whether
these strategies have been successful, but there are indications that these measures have served to develop norms that have contributed to more orderly conditions in (parts of) the service markets. The countries still report reoccurring irregularities in some industries, especially parts of the construction industry, but also in parts of the manufacturing sector, agriculture and private households. While the social partners in the countries have established cooperation to ensure honest and orderly relations, the service market in private households appears to be lagging behind. In certain wealthy regions in Norway it appears as if the use of illegal, low-cost labour from the EU-8+2 has almost turned into a generally accepted practice.

While legislative strategies in Finland and Iceland, as well as in Norway within the areas comprised by generalised collective agreements, place the Labour Inspection Authority in a key position in terms of monitoring, the main responsibility for controlling wage conditions in Sweden and Denmark rests with the trade unions. Even though several employers assist in these efforts, this task has represented a major burden on the trade unions, and placed them in a challenging double role. In the late autumn of 2007, the trade unions within construction signalled that the situation had become extremely challenging (A4 Ugebrev fra LO, 10.12.2007), and just afterwards the judgement of the European Court of Justice in the Laval-case signalled that the Swedish unions must clarify which minimum requirements they demand from foreign service providers, while the authorities must ensure equal treatment when it comes to collective action against domestic and foreign companies. The trade unions are partly responsible for ensuring orderly wage levels and employment conditions by the signing of accession agreements (the role of ‘wage police’), in part they are supposed to monitor the legality of the posting and adherence to working environment regulations (the role of ‘gatekeeper’), and in part they are supposed to protect and support foreign workers against exploitation and possible expulsion/loss of work (the role of ‘solidarity’). This situation has given rise to significant problems of legitimacy and acceptance by foreign enterprises, workers, authorities and the domestic public opinion, who are not directly aware that the trade unions in fact exercise (European implementation) roles that de

30 Even in these countries, the trade unions with their presence and opportunities to take industrial action have a key role in monitoring and enforcement. In Norway, the trade unions have been given the opportunity to initiate ‘enforcement boycotts’ in relation to enterprises comprised by generalised collective agreements, and are about to get a statutory right to inspection of the wage conditions among subcontractors when a collective agreement is made generally applicable.

31 In the article, that says that the number of foreign companies operating in the sector has doubled since 2006, a union representative states that: “It is a total chaos. People are wandering about at the construction sites, hardly knowing who has employed them. The foreigners lack work contracts and pay checks, and they work very long hours and terribly poor accommodation. (…) In this chaos we try as trade unions to provide some order. But we are doomed to fail, if we don’t get active support from other parties.” (our translation) (http://www.ugebrevet4.dk/2007/43/Baggrundsanalyse-OestarbejdereSkaberKaos.aspx)
facto have been granted to them by national politicians who have taken a firm stand on this issue at the EU level.

**Conclusion**

The Nordic countries are facing demanding tasks with regard to development of appropriate and symmetric regulations of labour and service mobility in accordance with EU regulations. Because EU policies and interpretations in this field are constantly under review – cf. the Service Directive, the Laval case and the Commission’s guidelines for posting of workers – this is likely to require active Nordic efforts at the European level. Collective action motivated by the aim of protecting workers against social dumping is accepted by EU law according to the judgement of the European Court of Justice in the Laval case, but if the trade union demands go significantly further than the minimum conditions the country has defined through the legal transposition of the posting directive, such actions can according to the Court be regarded as an in-proportionate restriction on the freedom to provide services. Extension of minimum standards in the collective agreements in these areas and collective action in this regard, which is practice in Finland, Iceland and Norway, appear unproblematic, however, insofar as the measures are not in-proportionate in view of the purpose.

Furthermore, it appears evident that administrative cooperation with the authorities in the sending countries needs to be strengthened. This is needed in order to ensure sufficient and rapid access to information required for monitoring whether foreign service providers operate legally in the home country, and whether their posting of workers to the Nordic countries adheres to the rules for such activities. Often, such cooperation will also be decisive for upholding common goals related to social insurance, taxation and the social rights of the labour migrants.

In the sequence of measures required to ensure orderly and equal conditions for all workers, the major challenge still consists of changing attitudes and mobilising responsibility. This applies not only to the social partners, enterprises, employees and authorities, but to an equal extent also the attitudes towards foreign workers among consumers, households and the public opinion in general.

Development of symmetric regimes for monitoring and enforcement pertaining to labour and service mobility is important, not only for reasons of maintaining orderly relations, preventing distortions of competition and counteracting the emergence of a divided labour market. It is also important with a view to facilitating economically sound recruitment strategies in the enterprises and establishing predictable conditions for labour mobility that can contribute to making the Nordic countries an attractive destination for international job seekers.
3. Consequences for the labour markets in the countries of origin

3.1 Introduction

The development of labour migration from the EU-8+2 must be seen in light of the dramatic processes of change that have characterised these countries since the collapse of Communism in the early 1990s. With their rigid employment structures, ‘work for all’ and minimal labour mobility, a number of sectors, with agriculture in particular, had accumulated a large surplus of labour. Restructuring the economy entailed large amounts of redundant labour, a drastic fall in the rate of employment and major imbalances in the labour markets. In spite of increasing volumes of direct investments from the West and a certain increase in emigration to Western Europe – most in the form of seasonal work – the situation in the labour markets at the time of accession to the EU was still characterised by slow employment growth, little internal mobility and high rates of unemployment (Kaczmarczyk and Okolski 2008).

EU enlargement in 2004 was therefore hailed as a milestone, which would provide a historically new freedom to travel abroad to work, provide services, study and go on holiday. Wage levels in the new member states were still a fraction of the Western European level, and most studies indicated that decades would pass before this gap could be closed. In the face of this large, accumulated surplus of labour, it came as no surprise that EU enlargement spurred a powerful wave of labour emigration from Poland and the Baltic states. The seasonal migration that had taken place throughout the 1990s had resulted in contacts and networks in Western Europe, and in addition, a social infrastructure comprising low-price flights, agents and brokers had appeared, and was available through the Internet. Emigration has increased throughout the first three years following EU enlargement, and has – in conjunction with accelerating growth in the domestic labour markets – given rise to concerns that scarcity of labour and competence will constitute a barrier to further economic growth in the countries of origin (Kaczmarczyk and Okolski 2008, World Bank 2007). Based on a brief summary of labour emigration from Poland and the Baltic states, this chapter will provide an overview of the main development features of the labour markets in these countries and discuss the consequences of the increased out-migration of labour.32

32 This chapter draws heavily on the sub-project ‘Economic Impacts of Migration on Poland and Baltic States’, which has been written for the project by Pawel Kaczmarczyk and Marek Okolski (2008) at the Centre for Migration Research, University of Warsaw, as well as two reports from the...
3.2 Main features of labour emigration from Poland and the Baltic states

No reliable statistical or data sources are available for an assessment of the volume of labour emigration from the new EU member states. With the free movement of workers, services and persons within (large parts of) the EU/EEA, the countries of origin have no complete registries of labour migration. The countries maintain statistics of persons who register as moved to another country, but there are no reliable sources of information on short-term labour mobility and service mobility. In practice, most analyses of labour emigration are therefore based on a count of the persons registered in various recipient countries. As shown above, such statistics are also prone to error and uncertainty.

In Poland, the Labour Force Surveys (LFS) have included questions giving information on persons who have worked abroad for at least two months during the preceding year. This figure increased by 20 per cent from 2003 to 2004, and rose strongly until the first half of 2007, when approximately 540 000 Poles worked abroad – a tripling since 2004. In terms of resident populations, this corresponded to more than 400 000 in

World Bank on labour migration from the EU-8 and on the situation within the labour markets in the EU-8+2 (World Bank 2006, 2007). In addition, we have interviewed representatives for the labour market authorities in the relevant countries, participated in several seminars on this topic and had valuable conversations with a number of researchers and experts from the region.

33 In principle, all those who work in another EU/EEA country should possess an E-101 form documenting that the bearer is entitled to social insurance in the home country, but Nordic attempts to use this information to gain an overview of labour migration have shown that these registries are severely deficient.
2007 (Kaczmarczyk and Okolski 2008). However, this kind of survey tends to underestimate the volume of emigration, because it fails to capture those who have moved abroad permanently, those who are engaged in short-term seasonal work (for less than two months), and all those who leave without telling anyone (ibid.). The LFS data still provide an indication of changes to the migration flows, destinations and characteristics of the migration. Germany still remains the main recipient of Polish labour, but the LFS figures show that since 2004 a growing number have gone to the UK and Ireland. According to British statistics, the number of Poles registered in the UK rose by 11 200 in 2003-2004, 62 500 in 2004-2005, 171 400 in 2005-2006, and 222 800 in 2006-2007 – a quadrupling of the gross flow during the three years following EU enlargement (ibid.). According to Kaczmarczyk and Okolski (2008), data from the Polish labour force surveys reveal the following main features of the labour migration:

- More than 80 per cent of the migrants travel to work – economic motivations predominate.
- The share of younger migrants has increased strongly; the age group below 39 years accounts for close to 80 per cent of migrants from Poland, and the age group 25-34 years accounts for 40 per cent.
- Women constitute a significant proportion of the migrants – more than 40 per cent of the Poles working in the UK, and 35 per cent of all Polish labour migrants are women.
- A considerable part of the migration is short-term: 60-70 per cent stayed abroad for less than 12 months. However, the proportion of long-term migrants is increasing.
- Young, well-educated people are overrepresented among the migrants. In the age group 25-29 years, a total of 33 per cent had completed higher education.
- The majority of the migrants have a job in the home country, but a considerable minority (43 per cent) are not employed (living from other incomes, unemployment benefit, early retirement pension, etc.)
- Persons from rural areas with few employment opportunities are overrepresented to a certain extent, and in these areas migration appears to function as an alternative to internal labour mobility.
- At the same time, an increasing number of young people from urban areas leave the country after having completed their training, and before they have started a career in the home country.
- Polish labour migrants are often overqualified for the jobs they are offered abroad, and can often be found in simple, subordinate jobs within secondary ‘migrant labour markets’. (Kaczmarczyk and Lukowski 2004, see figure 3.2 below, Home Office 2007).
According to Kaczmarczyk and Okolski (2008), the total picture of labour migration from Poland is polarised. On the one hand, migration comprises persons from peripheral regions, with few qualifications and low labour force participation, on the other hand there is an increasing and overrepresented proportion recruited from ‘aspiring elites’. The latter category appears not to travel to the Nordic countries to any considerable extent. In Poland, uncertainty has prevailed with regard to the volume of labour emigration. Using various sources and estimates, the Polish government in 2006 calculated that at least 900 000 Poles were working abroad within the EU/EEA area (Eldring and Trevena 2007). If service mobility and informal mobility are included, there is reason to assume that the real figure is higher. If we assume that approximately one million Poles work in the EU/EEA area annually, this will account for 5-6 per cent of the labour force. Because a considerable proportion of the migrants are younger and better educated than the average, this indicates that emigration has entailed major consequences for the domestic supply of labour and skills.

The Baltic states – Estonia, Latvia and Lithuania – have experienced higher rates of labour migration than Poland, seen in relation to the total population. The Baltic states have small populations just over 1.3 million in Estonia, 2.3 million in Latvia and 3.4 million in Lithuania. Countries with small labour markets are more vulnerable to high emigration than larger countries, because the absolute number of workers available to replace the emigrants will fall rapidly below a critical mass in key industries. Latvia and Lithuania in particular have been exposed to high rates of emigration after the fall of Communism. In addition to the many who travelled to the West after this became legal, parts of the Russian, Belo-
russian and Ukrainian minorities also left for their home countries. At the time of EU enlargement, a considerable part of the population – and the young and well-educated in particular – had already left these countries.

For those who previously were unable to travel, EU enlargement in 2004 appeared as a new opportunity, and labour migration increased rapidly – mainly to the UK and Ireland, where many women found jobs as mushroom pickers or other agricultural work. The Baltic states also have no reliable data on the volume of labour migration, but the 90 000 Lithuanians and 48 000 Latvians who were registered as workers in the UK and Ireland in the period 2004-2007 alone accounted for approximately five per cent of the workforce of their home countries. 34 According to official figures from Lithuania and Latvia, a total of 3.3 per cent and 2.1 per cent of the workforce left these countries during 2004-2005, respectively (World Bank 2006: 22, University of Latvia 2007).

All available studies of labour migration from Poland and the Baltic states indicate that economic motivations constitute the main driving force (Kaczmarczyk and Okolski 2008, World Bank 2007). The difficult situation in the labour markets in the home countries has functioned as a ‘push’ factor, and the strong demand for labour, higher wages and better working conditions in the recipient countries have functioned as ‘pull’ factors.

At the time of enlargement, average nominal wage levels in Western Europe were 6-7 times higher than in the countries of origin, even though for most migrants the difference was narrower. For example, data from the UK show that eight of ten workers from the EU-8 did not receive more than GBP 4.5-6.0 in hourly wages during the first years Gilpin et al. 2006) – i.e. lower than the official minimum wage rate – but average wages have since risen to GBP 7.30 (New York Times, 10 Oct. 2007). The

34 In comparison, a total of 12 567 Lithuanians and Latvians were granted work permits in Norway in 2006.
opportunity to convert incomes from temporary work in the West to consumption/investments in the home country, where prices are far lower, have nevertheless provided strong incentives, to short-term, circular migration in particular. The net gains are lower in the case of permanent migration, where a part of the higher incomes will be consumed by higher costs of living and higher taxes. Average effective purchasing power in the West is still more than double the level in the countries of origin, while better working conditions and living conditions also constitute motivational factors. In a study among health workers in Estonia, showing that nearly half of those interviewed wished to leave the country, a total of 27 per cent stated that their main motive was ‘higher wages’, while 15 per cent stated ‘better working conditions’ and another 15 per cent stated ‘better quality of life’ as motivations (CPS, Tallinn 2004, World Bank 2007: 27). Fafo’s study among Poles in Oslo also showed that better opportunities for earning an income and a desire to save money for purposes at home constituted key motivational factors (Friberg and Tyldum 2007).

3.3 Labour market development in the sending countries

The introduction of market economies has entailed major changes in the institutional frameworks of the labour markets in the Baltic states and Poland. Employers’ associations and trade unions have few members (15-20 per cent), and only a small minority of the enterprises and employees are comprised by collective agreements, which almost exclusively are found at the enterprise level (Meardie 2007, Van Gyes et al. 2007). On the other hand, the countries have developed quite comprehensive statutory regulations of rights and obligations in the labour market, and these have been further expanded in the context of accession to the EU. Nevertheless, a number of studies have shown that the labour markets in the countries have been characterised by a large number of self-employed persons, strong growth in short-term employment, and widespread occurrence of unstable and poor working conditions (Dublin Foundation 2007, Woolfson 2006). Mobility has remained low, and the labour markets have been characterised by structural and age-related imbalances and skill mismatches (World Bank 2007). In the period prior to accession to the EU, employment rates remained low – 51.7 per cent in Poland, 61.8 per cent in Latvia, 61.1 per cent in Lithuania and 62.9 per cent in Estonia – while unemployed varied from 10 per cent in Estonia to almost 20 per cent in Poland (EU Commission 2006).

Since 2004, a notable turn has taken place in labour market development. Following a decline in employment rates in these countries until

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35 This section draws heavily on the report ‘Labor Markets in EU8+2: From the Shortage of Jobs to the Shortage of Skilled Labor’ (World Bank EU8+2, Regular Economic Report, Part II: Special report, 2007).
2000, when figures stabilised, the period starting in 2004 has seen strong growth in employment and declining unemployment. This development is partly due to economic growth, but according to the World Bank (2007), the main cause is that growth has become more employment intensive. This has triggered a major shift, in the Baltic countries in particular. In Estonia, for example, employment growth rates changed from an annual decline of two per cent in the period before 2000 to a 3.7 per cent increase in the years 2005-2006, and even far higher in 2007 (World Bank 2007). Correspondingly, employment development in Poland changed from a one per cent decline during 1997-2004 to 2.8 per cent annual growth in 2005-2006. Latvian employment rates grew from 1.7 per cent annually in 2001-2004 to 3.2 per cent during 2005-2006, and Lithuanian rates grew from 0.5 per cent annually in 2001-2004 to 2.8 during 2005-2006. (World Bank 2007, Chart 1).

The change from jobless growth in the years 1998-2002/3 to a situation where a one per cent growth in GDP has resulted in an increase in employment of 0.2-0.25 per cent in the Baltic states and 0.5 per cent in Poland (ibid., table 1), reflects in particular increased employment intensity in the construction and service industries, while the changes are minor in manufacturing and agriculture.

The turnaround in the labour market has resulted in a strong decline of unemployment – from approximately 15 per cent in the EU-8 in the period around the turn of the millennium to less than ten per cent in most countries in 2006 (ibid.). The most dramatic decline has taken place in the Baltic states – for example where Lithuania has seen a reduction of 11 percentage points in six years – but even Poland appears to be heading for less than ten per cent unemployment during 2007, compared to almost 20 per cent in 2003. At the beginning of the third quarter of 2007, unemployment in the Baltic states had declined further, and constituted 5 per cent in Estonia, 5.4 per cent in Latvia and 2.8 per cent in Lithuania.36

Labour force participation has also increased, in the Baltic states in particular, where the employment rate (15-64 years) has increased by nine percentage points over the previous six years, and is currently higher than the EU-15 average. In Poland, however, employment rates remain low, nearly ten percentage points lower than in the neighbouring Baltic states, and more than 20 percentage points lower than in the Nordic countries.

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Table 3.1: Employment rates and unemployment in the Baltic states and Poland, 2000-2006.

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment, 15-64 years</th>
<th>Unemployment, 15-64 years</th>
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<td>Est Lat Lit Pł</td>
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<tr>
<td>2000</td>
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<tr>
<td>2001</td>
<td>61.0 58.6 57.5 53.4 12.4 12.9 16.5 18.2</td>
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<td>2002</td>
<td>62.0 60.4 59.9 51.5 10.3 12.2 13.5 19.9</td>
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<td>2003</td>
<td>62.9 61.8 61.1 51.2 10.0 10.5 12.4 19.6</td>
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<td>2004</td>
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<td>2005</td>
<td>64.4 63.3 62.6 52.8 7.9 8.9 8.3 17.7</td>
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<tr>
<td>2006</td>
<td>68.1 66.3 63.6 54.5 5.9 6.8 5.6 13.8</td>
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According to the World Bank (2007), the positive turnaround in the labour markets in these countries cannot be explained in terms of increasing flexibility and deregulation, because none of these countries have enacted significant changes to their regulatory regimes during this period, or in terms of active labour market policies having resulted in better adaptation of the labour market. The World Bank concludes that the increased employment intensity is demand-driven and a result of benefits derived from enterprise restructuring. A growing number of enterprises have replaced the phase of productivity-oriented rationalisation with an offensive effort to develop and renew their activities, which has resulted in higher demand for labour and skills.

This growth in demand for labour is reflected in an increase in the vacancy rate of more than 60 per cent, and wage growth has skyrocketed, not least because “high rates of emigration have reduced the supply of labour and entailed increasing wage pressure” (World Bank 2007: p.10). In Lithuania, wage growth has increased from 2.5 per cent in 2002-2003 to 11 per cent in 2004-2006, in Latvia from 6 per cent to 9 per cent, while annual wage growth in Estonia has exceeded 11 per cent since 2000. In Poland, wage growth remained approximately two per cent during 2004-2006, but has risen steeply and is expected to approach ten per cent in 2007 (World Bank 2007, Chart 6).
Labour migration has usually been regarded as a favourable regulatory mechanism for ‘curbing existing tensions in the labour market and reducing excess supply of labour’ in the new member states, but according to the World Bank, the result has been to ‘contribute to skill shortages and associated wage pressures in most sending countries’ (World Bank 2007: p.10).

As regards the opportunities for mobilising further labour reserves, many of the new EU countries still have relatively low employment rates. Low rates of labour force participation are mainly found among young people who are undergoing training and the elderly who have left the labour force and often lack skills that are relevant in the current labour market. In Poland, the employment rate in the age group 15-24 years constitutes only 24 per cent, in Lithuania 23.7 per cent and in Latvia and Estonia approximately 30 per cent, which is considerably lower than in the EU-15. This reflects the fact that combining education/training and work has not been common. The employment rate in the age group 55-64 years constitutes 42 per cent in the EU-8+2, which is slightly lower than the EU average (45 per cent), and far below the Nordic level (60-70 per cent). In combination with a high proportion of long-term unemployment – 55 per cent in Poland and more than 40 per cent in the EU-8+2 – the World Bank claims that this indicates that the remaining unemployment is structural in character and is caused by a lack of relevant skills (World Bank 2007). A certain reserve of underutilised labour (hidden unemployment) can still be found in the primary industries – in Poland in particular, where close to 20 per cent are employed in agriculture – but this reserve mainly consists of elderly, unskilled labour.
Against this background, the World Bank concludes that the supply of labour has currently become a barrier to economic growth and employ-ment in the sending countries. ("It is the labour supply side that has become a constraint", World Bank 2007: p.14). While the domestic demand growth has resulted in increasing scarcity of labour and skills in the EU-8+2, labour migration to the EU-15 has exacerbated this scarcity and contributed to increasing wage pressure (ibid.: p. 20).

Shortage of labour has consequently become the main concern for trade and industry, and is regarded as the most prominent obstacle to further growth, in the construction industry in particular, but also in manufacturing and other sectors. As mentioned above, the proportion of vacancies is growing rapidly, and has tripled in Lithuania and Latvia since 2005. Both in the Baltic states and Poland, more than one third of the enterprises report that ‘worker skills’ have become a major obstacle to expansion of activities and growth (World Bank 2007, Chart 21, p. 20). This is especially pronounced in Latvia, Lithuania and Poland, but is also reported from the Czech Republic, Romania and Hungary. In Poland, difficulties in recruiting workers with relevant skills have jumped from the thirteenth to the first position on the enterprises’ ranking list of obstacles to further development. Again, this applies to the construction industries in particular (34 per cent), but also to manufacturing (15 per cent) and retail trade (7 per cent) (World Bank 2007, see figure 3.6 below). At the same time, many enterprises report difficulties in retaining labour. The scarcity of labour in Poland is especially prevalent among qualified personnel, and 61 per cent of the construction enterprises, 36 per cent of the manufacturing enterprises and 30 per cent of the service enterprises report having difficulties in recruiting qualified and skilled labour (World Bank 2007, Chart B2.4).

Figure 3.6: Labour shortages as an important barrier to growth of Polish companies: Proportion of companies who reported hiring difficulties and rank of the obstacles. Source: Kaczmarczyk and Okolski 2008.
As shown by a study of the construction industry in Poland (Eldring and Trevena 2007), the combination of increased domestic demand and emigration of labour has spurred an accelerating wage growth in several of the sending countries. According to the World Bank, the resulting scarcity of labour has not only triggered increasing wage pressure, but also caused wage increases that are far higher than the growth in productivity (World Bank 2007: p.24) (“Labor shortages are also translating into mounting wage pressures, with wages growing in excess of productivity gains.”). This has given rise to increasing labour unit costs, which according to our informants have increased by more than 20 per cent in the construction industries in Latvia and Estonia, and by more than five per cent in Poland. Such rising costs could, in combination with increasing inflation and declining competitiveness, influence currency exchange rates and the conditions for macroeconomic policy. In conjunction, these factors could negatively affect the economic development of the countries concerned.

In interviews with representatives of the labour market services in the three Baltic states in the autumn of 2007, major concerns were voiced with regard to the consequences of labour scarcity, which to a great extent is blamed for the slowing down of economic growth and rising inflation. In addition to labour shortages in the construction and metalworking industries, problems are reported from the service sector and high-skill professions – not least in the health sector where physicians and nurses are in short supply. According to our informants in Estonia, there is also a shortage of unskilled labour. A positive trend is found in that construction workers to a larger extent currently appear to be returning home due to the higher wage level (wage growth in the construction industry has constituted 25 per cent over the previous year). The authorities in all countries are concerned with facilitation of return migration, for example, representatives from Lithuania have visited Ireland in order to inform their compatriots of the improving job opportunities at home. In Latvia, the Ministry of Integration has elaborated a separate strategic plan with a view to facilitating the situation for returning migrants. As in Poland, political debates focus on labour imports, liberalisation, and opening borders to third countries, and it appears as if this is regarded as the only opportunity to redress labour shortages in the short term. Among the Baltic states, this is a particularly volatile issue in Estonia, which has a larger Russian minority than the other states, and where the fear of upsetting the balance between ethnic Estonians and other nationalities is more pronounced.
The development of the Polish construction industry after EU enlargement

In 2007, the Polish construction industry has seen a powerful growth and a building boom, in strong contrast to the situation prevailing at the time of Poland’s accession to the EU in 2004. In the period 1998 to 2004, employment and the number of construction enterprises declined dramatically. Total employment declined by more than 300,000 persons during this period, but is currently on the increase again. The sector is still characterised by considerable unregistered work, self-employed workers and temporary work contracts. The enterprises are optimistic with regard to new orders. The majority believes that the market will improve further, as a result of increasing investment and inflow of EU funds for major infrastructure projects. The scarcity of labour is therefore the greatest concern for the enterprises. The demand for labour is assumed to be far higher than the current supply, even though a total of 152,000 construction workers are registered as unemployed. According to local information, many of these work illegally, have poor qualifications or have other problems complicating their return to employment. In January 2007 it was estimated that more than 250,000 construction workers had found jobs in the West following EU enlargement. By August 2007, wages had increased by 17.7 per cent compared to the previous year. However, the wage level still remains too low to compete with wages in the West. There is a certain immigration of workers from countries outside the EU/EEA, from Belarus and Ukraine in particular, but the illegal nature of this immigration renders estimates of volumes difficult. The employers in the construction industry wish to deregulate immigration in order to ensure supply of labour, but the building boom and high wage levels prevailing in Russia render this migration potential uncertain. Employers are also concerned that vocational training for construction work suffers from declining popularity, and the training provided is described by many as far poorer than previously. Even though there are no signs as yet of a wave of construction workers returning to Poland, it seems obvious that the potential for migration of construction workers to the West will decline in the coming years.

Source: Eldring & Trevena 2007

3.4 Summary discussion of consequences and prospects

In the debate on labour immigration from the new EU member states a key assumption has consisted of the view that this migration has been beneficial for the sending countries. In addition to increased employment opportunities and incomes – through remittances and savings to be used for consumption and investment in the home country – it has been assumed that labour emigration has provided opportunities to reduce the surplus of labour, redress structural imbalances and to strengthen mobility and adaptation in the domestic labour market. Debates on global labour migration have emphasised that economic modernisation in most Western countries has been associated with large migration flows – like
those experienced by the Nordic countries during emigration to America – and that these constituted a precondition for re-establishing the balance in the labour market during the transition from agricultural to industrial societies (Moses 2006). Because this structural adaptation never took place in the era of planned economies in Central and Eastern Europe, it has been assumed that the introduction of free movement of labour within the EU/EEA would contribute to a similar restructuring of the labour markets in the EU-8+2 (Okolski 2007). It has further been pointed out that migration – in particular the short-term and circular varieties – provide opportunities for learning and development of skills that will benefit the labour market in the countries of origin. Rather than ‘brain-drain’, migration could provide a basis for ‘brain-gain’. With reference to India and other countries that have seen widespread emigration of skilled labour, it has also been pointed out that migration of skilled labour strengthens the incentives for education in the sending country, and over time this will increase the supply of skilled labour and increase innovation and competitiveness in the sending country (Stark 1991, 2007). The strong desire among the new EU member states to remove restrictions on labour mobility westward has probably been based on – and served to substantiate – such assumptions.

We have no basis for assessing these overriding issues in this report, or drawing conclusions with regard to the total effects of labour emigration in the period covered. Even if the increased labour mobility from the Baltic states and Poland have contributed to improve the balance in the respective labour markets during a transitional period, there are currently strong indications that this phase has ended and that the consequences for the labour markets are gradually becoming dire. For the individual workers and their households, labour migration will remain attractive. The opportunity to leave has also strengthened the workers’ individual bargaining power, and made employers and authorities more aware of the necessity of improving labour conditions and quality of life in order to retain labour and encourage the return of migrants (Meardie 2007). On the other hand, for the development of the economy, the labour markets and the welfare in the sending countries, the negative aspects of high labour emigration appear to prevail. There are also indications that the authorities in the countries concerned tend to share this view, for several reasons.

Supply of labour – a barrier to growth and development

As seen above, emigration of labour has contributed to turning scarcity of labour and skills into a barrier to growth and development in many enterprises and key industries. This may serve to make these countries less attractive for direct foreign investments, which to date have constituted an important driving force for domestic growth. The remaining labour
reserves are limited and difficult to mobilise – because of age and lacking/outdated skills – while internal mobility remains low. In comparison with domestic job opportunities, mobility to other countries has appeared as a more attractive alternative, wherein the opportunity to provide increased, short-term income to the household may have contributed to preserve existing patterns of employment and settlement. In a family household, short-term migration will often be preconditioned by a traditional ‘breadwinner model’, in which remaining spouses are left to take a larger responsibility for the home (the ‘lock-in effect’), and thereby encounter higher barriers to seeking employment or training.

Weaker incentives for work and training – locking in effects

Several studies of Polish regions that have experienced widespread short-term and seasonal mobility to Western Europe appear to substantiate such effects, according to Kaczmarczyk and Okolski (2008). In a study of long-term seasonal migration to Germany it is pointed out that this provides an individual the opportunity to escape from unemployment, but does not entail any changes in adaptation to the labour market – 80 per cent were unemployed both prior to and after migration – and the proportion that found work was lower among migrants than in the population in the region at large (Fivel 2004). Another study from the Opole region, where a large proportion of the population has both Polish and German citizenship and freely could take short-time work in Germany, shows similar results (Jonczy 2005). The proportion of the population of working age who regularly work abroad constitutes more than 50 per cent, and is particularly high in the age group 18-25 years. According to this study, labour migration to other countries has had a strong negative impact on the labour market in the area, with increasing unemployment, declining local labour force participation and lower inclination to participate in training. Because of remittances, income levels are high, but the general conclusion of the study is that migration has resulted in a ‘depreciation of human capital’, increased imports, inflation and slower economic development, because massive migration has supplanted local economic activities (‘crowding out local economic activity’) (Jonczy 2007, in Kaczmarczyk and Okolski 2008). These studies thereby indicate that the opportunity to earn good money from unskilled labour abroad may serve as a powerful disincentive to investment in training, retraining, relocation or other long-term adaptations aimed at increasing incomes in the domestic context.

Brain-gain, brain-drain or brain-waste?

While emigration reduces the supply of skilled labour at home – and in key professions to the extent of causing real problems – there are few
indications that labour migration so far has contributed to any considerable degree to development of skills (‘brain-gain’). As described above, the major part of the labour migrants from the Baltic states and Poland has found work in low-skill, simple jobs, recruitment for which is difficult in Western Europe. Because a significant proportion of the migrants are skilled, and not rarely highly educated employees – who exchange their qualified jobs at home for a better paid, but subordinate position in the West – many of the migrants are overqualified for the jobs they are offered (Kaczmarczyk and Okolski 2008). Rather than ‘brain-gain’ this will entail ‘brain-waste’, which contributes to a less than optimal utilisation of scarce labour reserves and weakened development of productivity, not only in the context of the home country, but also for the European economy as a whole. To the extent that migrants end up in jobs where they have little use for their education, there is nothing to indicate that this will strengthen incentives to invest in training. The parallel to the Indian engineers in Silicon Valley is therefore less apt, because for these groups higher education is a required admission ticket to the West, since there is no free movement of labour like there is in the EU/EEA. For some groups of professions, for example in the health services, it still remains clear that education may serve as a stepping stone to jobs abroad that have better career opportunities and wages than in the home country.

Increasing scarcity of key personnel in the health sector

Even though skilled persons have migrated to the Nordic countries only to a limited extent, for example due to language problems (Van Rijmdiijk 2006), emigration has resulted in a scarcity of personnel in some professions in the health sector. In Poland, there have recently been reports of several cases of serious injury caused by a lack of personnel with relevant skills, and in the recent months there has been unrest and.

37 On the basis of official figures for net migration from Poland of 360 000 persons during 2004-2007, Kaczmarczyk and Okolski (2008) estimate that 16.5 per cent had tertiary/higher education, corresponding to a net flow of 60 000 persons. This corresponds to somewhat less than two percent of the total population in this group, but according to the authors, this still represents a considerable impact at the local and regional levels, not least because young and recently graduated persons are overrepresented. According to the LFS, the proportion of persons with higher education is far higher among short-term migrants during the period 2004-2007, and constitutes approximately 30 per cent in the age group 25-34 years (ibid.).

38 According to Kaczmarczyk and Okolski, a total of 3.4 per cent of all Polish physicians (3 074) obtained certificates for working abroad during the period 2004-2007, which usually indicates specific plans for such mobility. Among anaesthetists and plastic surgeons the proportion constituted approximately 15 per cent, and 6-7 per cent among general surgeons, orthopaedists, internists and radiologists. In Estonia, the proportion is far higher (8.9 per cent), and many physicians have left for the Scandinavian countries, and to Finland in particular, where active recruitment programmes for Estonian physicians have been launched. According to The New York Times (9 Nov 2007), Romania has enacted provisions for compulsory service periods for trained physicians, following a survey showing that 50 per cent of all younger physicians planned to seek better paid jobs abroad. According to the plan, the physicians will be required to work in the home country for a period equal to twice the number of years spent on medical training before a certificate allowing for work abroad can be granted.
strikes among physicians and nurses threatening a ‘mass exodus’ if major wage hikes are not granted (Kaczmarczyk and Okolski 2008). Loss of health personnel could also concern subordinate positions in the nursing and care professions, which receive very meagre wages in the EU-8+2, and which cannot compete with jobs as cleaning assistants and mushroom pickers in the West in terms of wages for recruitment of younger labour.

Increased temptations for dishonest practices

As seen above, the strong demand for labour in the West has created an environment conducive to dishonest operators who speculate in the supply of low-cost labour from the EU-8+2. This shift towards economic activity on the borderline of legality has not only given rise to unfortunate effects in the recipient countries, but is also reflected in a growing illegal economy and loss of tax revenues, social insurance contributions and other related problems in the sending countries. Several of the new EU member states have struggled with organised economic crime, and there are indications that the market for labour in the West has become an important source of income, a recruitment channel and a gateway to expansion of such activities into new fields. Wage pressure and inflation may require a tightening of economic policies.

Labour emigration has given rise to wage pressures and rapidly increasing wage levels in a number of industries and professions. In the Nordic context, this has been pointed out as beneficial, even from the side of the employers, although the employers will be the first to realise that wages that rise faster than productivity gains may have detrimental effects for competitiveness, economic growth and employment in the sending countries. It could also serve to reduce the flow of direct foreign investment. Even though a wage hike may be beneficial for the individual worker in the short term, there is still reason to assume that accelerating demand-driven wage growth is likely to slow down the closing of the wage gap between the new and old member states, rather than the opposite. As pointed out above, increased wage inflation will entail rising costs and consumer price inflation, which is already a problem for many EU-8+2 countries. Increased consumption based on incomes earned in the West, and which is not offset by increased domestic production capacity will pull in the same direction. Increasing price growth will usually also entail wider social inequalities because the incomes of welfare recipients and persons in professions for which there is less demand will tend to lag behind. In addition, inflation impacts currency exchange rates and interest rates, and is likely to necessitate austerity measures in economic policy, which in turn will entail declining production and employment. Many of the EU-8+2 countries have problems related to budget deficits in the public sector, and these are likely to increase, which in turn may entail service cutbacks if the countries are forced to give consider-
able wage hikes to key personnel in order to retain labour. While the international credit crisis appears to have negative impacts on several of the new EU countries, a wage-driven inflation caused by continued labour emigration could thereby contribute to delay attainment of the countries’ goals of qualifying for the EMU and transition to the euro. Excessive inflation and budget deficits that violate the Stability Pact have recently caused applications by the Baltic countries to join the EMU to be rejected.

Ageing and shrinking of the labour force

Even though labour emigration following EU enlargement to date probably has had a number of positive effects – not least for many of the labour migrants and their families – it nevertheless appears as though it would be more beneficial for the economic and social development in the home countries if more people choose to work in their home country rather than abroad in the coming years. This view is further substantiated by demographic development in the Baltic states and Poland, which are characterised by far stronger ageing than the Nordic countries. This will cause a decline in the working-age population, an increase of the care burden, and all other factors equal, to a worsening of the labour scarcity.

![Figure 3.8: Labour force development in Poland: forecast, 2004-2054](source: Bijak 2007: 12)

Unless the countries are able to mobilise a larger proportion of the domestic labour reserves, reduce labour emigration and increase return migration – of which the two latter factors may constitute a necessary precondition for achieving sufficiently high growth to ensure increased labour force participation among the economically inactive – it is likely that scarcity of labour and skills will constitute a growing barrier to the
equalisation of income levels and living conditions in the East and the West. Several of the sending countries therefore attempt to induce labour migrants to return home, for example by using tax relief, improvement of labour conditions and increased wages for some professions. Several of the countries have enacted additional measures with the aim of increasing immigration from third countries, for example Ukraine, Belarus and Russia. New rules for free movement of third-country citizens could in the longer term contribute to increased chain migration to Western Europe.

**Prospects: Towards a critical crossroad**

The pronounced dynamics observed in labour migration from the Baltic states and Poland during the initial three years provide grounds for caution in relation to predictions of developments to be expected in the years to come.

As described above, many structural factors could indicate a scenario for declining labour mobility to the West in the near future. In addition to the declining labour surplus, scarcity of many types of labour and skills, and better wages and employment opportunities at home, the ageing of the populations will gradually serve to reduce the supply of labour. The ‘push’ factors in the sending countries will therefore become weaker. Moreover, it is not unreasonable to assume that many of those who have had the greatest interest in, and opportunity to, travel to the West to work already have done so, and that the supply of new potential migrants therefore will recede (and/or consist of persons who have higher barriers to working abroad, or have higher demands regarding wages and labour conditions). Furthermore, it could appear as if political attitudes to labour migration are gradually turning, which could make it less legitimate to go abroad than previously. It is still too early to assess whether the slight decline in new registrations observed in the UK and Ireland during the first half of 2007 is a signal of such a turning point.

On the other hand, several factors could indicate a scenario involving continued labour migration, though on a somewhat smaller scale. First, there is no automatic connection between the needs of society and individual behaviour. Even though scarcity of labour at home and improving wages and employment prospects at home will weaken the ‘push’ factors, many ‘pull’ factors will continue to make it attractive to find work in Western Europe: In addition to the wide gap in wage levels, which will take decades to be closed for many occupational groups, better labour conditions, career prospects and living conditions could be a prominent driving force. The bulk of those who to date have left for the West have not been unemployed, most of them have left a job at home in favour of a better paid job in the West, which indicates that the relative differences in wage levels and employment opportunities have been decisive. With prospects of increasing scarcity of labour in Western Europe, repeal of
the transitional arrangements and stronger competition for recruitment of labour, there are many indications that the relative wages and employment opportunities in Western Europe will improve in the years to come. Even though the 'push' factors in the sending countries will abate, stronger 'pull' forces in the recipient countries could thereby contribute to maintaining or even increasing the relative gains of going abroad, for example through an increasing willingness to pay among employers, or through widening the access to better jobs in the West. Furthermore, the barriers associated with language, culture and transport costs could decrease, not least when Germany and Austria gradually open their labour markets. Accordingly, and theoretically speaking, there are no major hindrances to continued labour migration, in spite of the shortages of labour in the home countries. The self-reinforcing dynamics found in migration networks could pull in the same direction, through an increasing number of contacts and acquaintances in the West. The agents and recruitment agencies that have been established during the initial growth period will also have a vested interest in intensifying their recruitment efforts in order to counteract declining revenues.

For the authorities in the sending countries, the situation may appear as a collective action problem, i.e. a formidable coordination task. Unless they are able to induce more people to work at home or return home, there is a risk that economic growth will stagnate, and that the incentives to leave will become even more pronounced. In this case, migration may become a self-reinforcing process, and the countries may drift into a longer-term economic and demographic stagnation. On the other hand, if the countries are able to turn or reduce the flows to the extent that the most prominent shortages in the labour markets can be overcome, the positive development observed over recent years could indicate that many of the countries stand at the threshold of a strong economic take-off, which in turn may induce growing numbers of the workers to return home. In this perspective, it can be claimed that the countries stand at a critical crossroads, where the ability to influence the migration flows may have a decisive effect on future economic and social development.

We have not sufficient empirical knowledge about the decisive motivations behind the migratory decisions to speculate on which of these two opposing forces will be the stronger, what measures the authorities in the sending countries should take, and which scenario will consequently be the most realistic one. Intuitively it is still close at hand to believe that improved employment prospects at home and active stimulation could contribute to reducing the flows and make it harder for Western enterprises to recruit labour from Poland and the Baltic states. In Romania and Bulgaria however, the situation appears to be different, at least with regard to the Southern European recipient countries. Even if a larger number of persons might find it attractive to work at home, there is little reason to assume that the flows will cease suddenly
and that ‘the Poles will go home’, as many in for example the Norwegian construction industry have feared (Elidring 2007). As mentioned above, a substantial part of the migration observed to date has been of a short-term, circular character. This type of migration is not irreconcilable with a working career or training at home, and this could indicate that parts of the flows will continue even if the total volume declines. This applies equally to labour migration in the context of service mobility. The study of Polish workers in Oslo showed that a considerable proportion had a long-term perspective on their stay (73 per cent), and some had no intention of returning home (21 per cent) (Friberg and Tyldum 2007). Historical and international experiences with temporary labour immigration also indicate that established migration networks and flows rarely cease altogether, even if they vary with changing economic climates and labour market prospects.

For the Nordic countries, the difficult situation in the labour markets of the sending countries represents both uncertainty and some dilemmas with regard to policies for future labour immigration. The free movement of labour and service providers is clearly here to stay. This raises, first, the question of whether, and if so, how fast the flows of labour from Poland and the Baltic states will abate, which would have major implications for the situation in the labour market and for policies for labour mobilisation and immigration of third country citizens in several of the Nordic countries. Second, there is the question of whether it is possible or ethically/politically right and proper to influence this development through the use of recruitment instruments or working life policy. We will discuss this further in the following and final chapter.

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39 For example in the Nordic countries, it has been common that young people take one year off to travel abroad, see new places, work and gather experience before making the transition from education to a working career and establishment of a family. In the light of the large number of young Eastern Europeans who have made use of similar opportunities through labour migration to the West, it would not be surprising if a similar pattern becomes established in the new EU member states. Even though this job experience may not be directly relevant for their education, it could still represent an investment in language skills, familiarity with other cultures, international experience and networks, which could all become useful in a later working career. Second, there is reason to assume that the opportunities for taking a temporary job abroad in order to save money for investments in housing, education or other needs could provide favourable conditions for corresponding short-term migration in future years.
4. Summary and final assessments

After three years of less restricted labour mobility from the new EU member states certain patterns have emerged that in spite of non-transparent flows and flimsy data can be used as a basis for assessing past experience and future prospects. In contrast to the concerns that an initial flood of job seekers from the new member states would give rise to imbalances in the Nordic labour markets and subsequently recede, the situation has rather been the opposite. The flows of job seekers from new member states were moderate during the first year, but increased in the following period, and after three years they constitute a considerable addition to the labour force in the Nordic countries. The increasing supply of labour from the new member states partly reflects the fact that the labour markets in the sending countries for a prolonged period have been characterised by imbalances and a surplus of labour, and partly that migration is demand-sensitive and strongly influenced by relative differences in wage levels and employment opportunities. As a consequence of growing migration networks, agencies, learning, access to information and improved familiarity with the labour market and living conditions in the West, the migration dynamics have apparently become self-reinforcing. This has contributed to enhanced growth and lower inflation, interest rates and wage growth in the Nordic countries than otherwise could have been expected. On the other hand, migration has also entailed growth in the number of simple, low-wage jobs, and has established new lines of division in parts of the labour market. For many job seekers from Poland and the Baltic states, the jobs offered have been found at the bottom or on the fringes of the labour market.

The question today is whether the development that has been observed during the initial three years is likely to continue. Demographic trends, business cycles and labour market development have given rise to prospects for increasing scarcity of labour in the Nordic countries, and the debate over labour immigration has been turned on its head: In 2004, political concerns focused on whether the labour market could absorb the arriving labour migrants, but today, the issue is whether a sufficient number will arrive to meet the demands of the labour market. This issue has been accentuated by the changes in labour market development in Europe. Both the old and the new member states face prospects for increasing scarcity of labour and skills, ageing of the population and a growing care burden. The following points summarise the main findings and conclusions of the report:
In Western Europe the transitional arrangements are being dismantled, and most countries seek to attract more job seekers from the EU/EEA area and beyond. The same applies to Poland and the Baltic sending countries, where the combination of high labour emigration and strong domestic demand growth in the past three years, has turned the supply of skills and labour into a barrier to continued growth and development (World Bank 2007, Kaczmarczyk and Okolski 2008). With accelerating wage growth and inflation, this could result in a slower equalisation of living conditions in the old and the new EU/EEA member states. Demographic trends in the new member states will exacerbate this problem in the future, as the proportion of the population of working age will start to decline within a few years, and the care burden will double over the coming 20 years. Unless Poland and the Baltic states succeed in inciting an increasing proportion of the population and its better educated parts in particular to work at home, they will face a reduction of the labour force that may easily result in economic stagnation and further outflow of labour and skills. On the other hand, if they succeed in increasing the domestic supply of labour, the growth in GDP and employment rates observed during recent years could indicate that these countries are entering a phase of catching up that could make it attractive for migrants to return home. The countries are thereby at a critical crossroads in their economic and social development.

For the Nordic countries, these prospects give rise to new dilemmas and challenges. First, it is uncertain how development will turn out: Will the sending countries succeed in reversing/reducing the flows, causing labour migration to Western Europe to abate, or will the flows continue? In what manner will the repeal of the transitional arrangements influence the flows to the Nordic countries? Second, it is uncertain whether the migration flows from the new member states can be influenced by the use of political instruments, and if so, in what manner and in what direction. What is politically desirable and defensible in a situation where the sending countries to an increasing extent need this labour for their own ends, and attempt to make it attractive for their own citizens to seek jobs at home?

To date, there are no evident signs indicating that the flows of job seekers from Poland and the Baltic states will recede. When the flows, quite to the contrary, continue increasing in spite of improving employment opportunities and wage levels in the home countries, this

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40 In a recently published report from The Lisbon Council this is expressed in even stronger terms: "[..], adverse demographic developments and under-utilisation of human capital, as well as a persistent brain-drain and inadequate investment in education and skills, are starting to threaten the prospects of the region. [...] There is a very real risk that in coming decades Central and Eastern Europe could become a sparsely populated area with a declining workforce that will have to shoulder the burden of a population set to experience unprecedented levels of ageing and decline." (Ederer et al. 2007: 2)
indicates that labour migration is strongly influenced by relative wage differences, welfare levels and career opportunities. Cumulative learning effects and networks probably pull in the same direction. For some groups, income from short-term and seasonal migration has become an alternative to labour income over the rest of the year, which weakens the incentives to labour force participation, acquisition of skills and mobility in the home country (Kaczmarczyk and Okolski 2008). This type of wage-driven dynamic is especially powerful with regard to short-term/circular migration – which constitutes a considerable proportion of the total migration volume – because savings based on Western wages can be converted into consumption and investments in the home country where prices are far lower. With regard to permanent emigration, which has constituted a growing proportion of labour mobility during recent years, factors like labour conditions, quality of life, welfare benefits and language are given relatively more prominence. Even though the wage levels in the sending countries have increased rapidly in recent years, the nominal wage differences are still significant, and many years, or even decades are likely to pass before the forces that drive this type of economically motivated migration will recede in importance. This applies to unskilled and low-skilled labour in particular, for which wage growth in the sending countries is slower and the wage levels in the Nordic countries especially favourable. In this perspective, there are many indications that labour mobility from the new member states will continue – although on a smaller scale – even in the face of considerable scarcity of labour in the sending countries. Accordingly, there is little reason to assume that the westward flows suddenly will turn or cease.

• The competition for attracting this labour is likely to be intensified as several continental European countries will open their labour markets and experience increasing demand for labour. There is nothing to indicate that the Nordic countries will be able to retain their relatively large share of the inflow (in relation to the total population), especially when Germany opens its labour market in 2011. The importance of relative wage differences and established migration networks and recruitment channels still indicates that the Nordic countries will be able to attract labour migrants from Poland and the Baltic states. One of the key Nordic advantages in this context is found in the relatively high wage levels, especially for low-skilled labour, and the favourable working conditions in the Nordic countries.

• Efforts to ensure equal treatment, favourable wage levels and labour conditions, and prevention of exploitation and emergence of a secondary labour market for persons from new member states will therefore in our opinion assume an increasing importance in Nordic strategies for facilitation of desirable and sustainable labour mobility.
from the new member states. In this perspective, efforts to preserve the Nordic labour market models through establishment of orderly conditions, as well as efforts to promote the Nordic countries as destinations for labour migration could serve as two sides of the same coin. The difficulties prevailing with regard to labour in Poland and the Baltic states are likely to render active Nordic recruitment campaigns less relevant, while efforts to facilitate mutually desirable two-way mobility probably should be considered in close cooperation with the sending countries.

- In this perspective, intensified efforts to counteract unequal treatment of labour migrants could serve to restrain the recruitment of low-wage labour, prevent distortions of competition and counteract the emergence of secondary labour markets. Because the strong demand for labour from the EU-10 in parts of the Nordic labour markets to some extent is conditioned by lower labour costs, more effective measures to prevent circumvention of regulations and ensure equal treatment could contribute towards prevention of brain-waste and selective recruitment from the EU-10 to low-wage and low-productivity jobs. Such strategies are particularly relevant in the context of the repeal of the transitional arrangements, which both in Denmark and Norway will provide new opportunities for legal recruitment of low-wage labour from the EU-10. As pointed out in chapter 2, there is a correlation between the wage level, the kind of jobs offered and the type of skills that are recruited. The long-term response to the increasing scarcity of labour and skills in high-cost countries like the Nordic ones is unlikely to be found in increasing imports of low-skilled foreign labour.

- This kind of strategy based on ‘high standards’ is in our opinion equally relevant with regard to service mobility as to ordinary labour migration, in terms of both the concerns for equal treatment and the goal of attracting desired types of labour and suppliers. If service mobility appears as a channel for import of low-cost, low-skilled labour, this could serve to shift the enterprises’ demand for labour in a direction that weakens employment opportunities for job seekers from both the new and the old member states (as well as domestic job seekers) who wish to find regular employment in the Nordic countries. There is also reason to assume that service providers who are able to compete under host country conditions in general are more honest, competent and productive than those who seek short-term gains by providing low-wage labour. In other words, ensuring equal conditions for posted workers is important for the development of a symmetric regime for labour mobility in which the enterprises’ choice of adaptation is determined by long-term and sound strategies for
development of productivity, competence and competitiveness, and not based on a desire to reap short-term, low-cost gains.\textsuperscript{41} 

- An optimally symmetric regime for labour mobility, in which both labour migrants and service providers are offered equal and orderly terms, is also likely to make service mobility appear as a more legitimate and attractive channel for labour mobility, which in the context of increasing scarcity of labour in Northern Europe is likely to assume a growing importance. By representing a flexible form of mobility which is adapted to the market and which to a lesser extent drains the sending country of skills, income and tax revenues – as Nordic experience indicates – a strengthening of real service mobility within an orderly framework could contribute to development of forms of labour mobility that are better adapted to the needs in both the sending and the recipient countries. In this manner, this could serve to reduce the Nordic countries’ dilemmas associated with recruitment of labour from neighbouring countries that need this labour even more than themselves, and the labour mobility could to a greater extent become a source of mutual advantages. At the same time, it is obvious that stricter rules and enforcement of the conditions for service mobility will entail a restructuring of the ‘industry’, meaning that a number of actors will withdraw from the Nordic markets, and that the supply of such manpower services will be reduced.

- Labour mobility in the open European markets for labour and services can only to a limited extent be regulated through short-term political measures. In the context of free movement, the strategic challenge facing the countries consists of developing transparent and predictable frameworks that can facilitate rational use of skills and contribute to striking an optimal balance between supply and demand in the labour market, as seen in the common Nordic labour market. Through increasing integration between the labour and service markets around the Baltic Sea, it can be envisioned that these in the longer term will develop into an extended Nordic, or Northern European, market, where flows of mobility move back and forth in tune with changing business cycles and needs. The phasing-out of the transitional arrangements could support this kind of development by easing the movement of workers from new member states between the Nordic countries. In this perspective, measures to ensure orderly conditions in the domestic labour market and externally oriented measures for providing information and \textit{bona fide} labour mobility could constitute different elements of the same strategy, aimed at establishing a more

\textsuperscript{41} In a situation with scarcity of labour, production that is dependent on low-paid labour could contribute to economically sub-optimal occupation of domestic labour and resources, which could have been utilised in more productive activities in the recipient countries. Similarly, recruitment of foreign labour for less productive, but better paid jobs in the recipient country could replace employment in more skill-intensive and productive jobs in the home country.
sustainable, inclusive and flexible cross-national labour market in Northern Europe. In order to appear as an attractive destination for skilled labour within this region, the key instrument for the Nordic countries is likely to be found in development of a labour market with high standards and favourable wage levels for all.

- In order to strengthen the total supply of skills and labour in the region, cooperation with the sending countries on investments in improved capacity for training and education in professional fields where scarcity of labour prevails is likely to be a valuable effort that could support the desired exchange of human resources and prevent tension associated with competition for skills.

- Even though a major proportion of the migration from the new member states to date has been short-term and circular in character, an increasing number of labour migrants have relocated to the Nordic countries on a permanent basis. In Norway, net immigration from the new member states have multiplied during recent years, and Poles currently constitute the largest group of immigrants to the country. Many of those who hold temporary jobs also stay in the host country for prolonged periods, often interrupted by short visits to the home country. In order to ensure favourable opportunities for learning and social participation for these groups – with regard to things like language skills, housing, bank accounts, access to leisure time activities or schooling for the children – the development of an adequate integration policy for labour migrants will be required. In the absence of such policies, there is a risk that parallel societies of guest workers emerge, as alluded to by the title of the book Polonia in Oslo (Friberg and Tyldum 2007).

Increased labour imports from third countries?

- In the longer term, it is at any rate obvious that demographic changes, enhanced growth and higher wages in the new member states will prevent the Nordic countries from solving their labour shortages through internal EU/EEA mobility from the EU-10. The new EU member states will continue to play a role by contributing to higher mobility and adaptability in the Northern European labour markets, but in view of the fact that all these countries will experience a stagnation or decline of their labour forces during the decades to come, it is evident that this kind of internal EU/EEA mobility will be insufficient to maintain the total labour force in the Nordic region.

- As part of a long-term and unified strategy for increasing the supply of labour to the Nordic countries it appears to be necessary to develop precautionary measures for supplementing domestic labour force mobilisation and internal EU/EEA mobility with labour immigration from third countries. A paradox in this context is found in the
circumstance that political means can more easily be used to influence migration from third countries than in the case of internal EU/EEA mobility. Several of the new member states are also in the process of facilitating increased imports of labour from third countries. In the longer term, this may possibly contribute to chain migration to Northern Europe.

- For the Nordic countries, this raises the issue of to what extent they should leave the ‘resupplying’ of labour in the region to other countries, and to what extent they should develop capacity and instruments for influencing mobility from third countries through direct recruitment guided by their own needs for skills and labour. In practice, a combination would probably be most likely, partly because EU labour immigration policies are based on the principle that such measures should be enacted only when demand cannot be covered from within the EU/EEA area, and partly because the flows from new member states are likely to continue, though on a smaller scale. In addition, several Nordic countries during recent years have seen a certain increase in labour immigration from Western Europe.

- According to immigration regulations in the Nordic countries, labour and service mobility from third countries presupposes that third country citizens should have wages and labour conditions equal to those of nationals. If recruitment of third country citizens is to be attractive for employers, this labour segment needs to be competitive in terms of costs in relation to similar labour from new EU member states. If pushed to the extreme: Why hire a Ukrainian at Nordic wage terms if you can call an agent who will supply a Pole at a fraction of the cost? Goals of being able to increase labour imports from third countries thereby support the arguments in favour of establishing strategies for labour mobility based on high standards, according to which all foreign workers and service providers are ensured terms that are equal to those of domestic labour.

- A recurring issue during the contact group’s work has been that Nordic strategies for labour mobility have to be shaped in interplay with development of appropriate European framework conditions. As pointed out in this chapter, the conditions for developing a coherent and long-term Nordic policy for labour migration and labour market regulation will depend on the development within other countries and regions in the common European market for labour and services. Both internal EU/EEA mobility and policies for labour migration from third countries will be strongly influenced by policy developments in other EU/EEA countries and at the EU level. This indicates that the Nordic countries will need to strengthen the cooperation with their new neighbours in the EU/EEA, and participate actively in the shaping of policies in these fields at the EU level.
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Appendix: Minimum wage rates and average wage levels in selected industries in the Nordic countries

In the following you will find an overview of wage levels in selected industries in the Nordic countries. We have selected industries in which the volume of labour and service immigration from the EU-8+2 is assumed to be most prominent, i.e. metalworking, the food industry, construction, electrical installation, hotels/catering and agriculture. The overview comprises the minimum rates defined by collective agreements or the minimum agreed rates in the industries specified. To the extent that the collective agreements distinguish between skilled and unskilled labour, both categories are included. In addition, we have collected information on the average wage levels within the same industries. While the minimum agreed rates provide an indication of the lowest payable wages in the individual countries, the average wage level provides an impression of the wages that are payable in order to remain competitive in terms of wages.

The figures show the relationship between the minimum wage and the average wage level in each country, and the relationship between the different countries. None of the Nordic countries has a statutory minimum wage, and employers will to a varying extent be obligated to pay wages according to the rates defined by collective agreements. In practice, agreed wages could therefore also be lower than these rates. General application of collective agreements is common practice in Finland and Iceland. Further, according to Finnish legislation, in areas where there is no generally valid collective agreement, wages should be normal and fair. In Norway, the minimum wage rates defined by the collective agreement for the construction industry have been made generally applicable nationwide. In addition, the minimum wage rates for the electrical professions and the manufacturing industries have been made generally applicable to some extent. In Norway, collective agreements have a coverage of 53 per cent in the private sector. Denmark and Sweden have not made collective agreements generally applicable, but have a high degree of coverage in the private sector (Denmark 77 per

42 This overview was elaborated by Kristin Alsos, Fafo.
cent and Sweden 90 per cent\(^4^3\)). Denmark and Norway maintain transitional arrangements aiming to ensure tariff wages to labour immigrants.

The lowest agreed rates in the overview have been calculated on the basis of tariff agreements and information provided by trade unions and employers’ associations. Average rates have been taken from the official statistics of the various countries. No figures are currently available for 2006 for the majority of the countries. Figures for average wage rates are therefore based on statistics for 2005. The category minimum wage comprises only basic wages, and does not include supplements for shift work, nuisance bonuses and similar. Some workers may also be paid piecework rates, but this has not been taken into account. Average wages include agreed payment for ordinary working hours, and include regular, but not variable, supplements.

The figures show that on the whole, Norway has the highest minimum wage rates, with regard to both skilled and unskilled labour. Denmark has somewhat lower minimum wage rates than Norway, but the average wages are higher. This applies to all the industries in the sample.\(^4^4\) While Denmark and Norway have the highest minimum wage rates, there are no clear tendencies in the relationship between Finland, Iceland and Sweden. Icelandic minimum wage rates are higher than the Finnish and Swedish ones in the metalworking industry, the food industry and hotels/catering. On the other hand, average wages in the metalworking industry and food industry\(^4^5\) are higher in both Finland and Sweden compared to Iceland. In the construction industry, Sweden is approximately on par with Denmark in terms of the minimum agreed rates for skilled personnel, and constitute just over EUR 300 per month more than on Iceland. Finnish minimum rates in the construction industry constitute over EUR 1000 less than the Norwegian level. In the metalworking industry, the distance between Norway and Finland constitutes EUR 550, and in the electrical professions the minimum agreed rates in Norway are close to EUR 1450 higher than in Sweden.

The distance between the minimum agreed rates for skilled personnel and average wage levels vary between the different industries and between the different countries. In the metalworking industry, the difference constitutes EUR 500-600 in Finland, Norway and Sweden. In Iceland the difference is minor (EUR 167), while the largest difference is found in Denmark, with EUR 1180. Moreover, in the food industry the Danish average wages are far higher than the agreed minimum rates, and also

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\(^4^3\) Lismaøn (2006)

\(^4^4\) No figures are available for electrical professions in Denmark.

\(^4^5\) No figures are available for minimum agreed wages in Sweden for this industry.
higher than in the other countries. In the other countries we can observe only minor differences between the minimum rates and the average level in this industry. For employees in hotels/catering and the construction industry, average levels are on the whole somewhat higher than the agreed minimum rates. Denmark stands out with regard to the construction industry, with a difference of EUR 1131 between the minimum rate and the average level for a skilled worker. In the electrical professions, the difference is more varied, and Sweden stands out with the clearly largest difference, of just over EUR 990.\textsuperscript{46}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{metalworking.png}
\caption{Overview of minimum wage rates/lowest rates (monthly wages) in the metalworking industry in the Nordic countries in spring 2006 (euros), and average wage for the same industry, autumn 2005.}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{foodprocessing.png}
\caption{Overview of minimum wage rates/lowest rates (monthly wages) in the food processing industry in the Nordic countries in spring 2006 (euros), and average wage for the same industry, autumn 2005.}
\end{figure}

\textsuperscript{46}Figures for average wages in Denmark are not available.
Figure 3: Overview of minimum wage rates/lowest rates (monthly wages) in the construction industry in the Nordic countries in spring 2006 (euros), and average wage for the same industry, autumn 2005.

Figure 4: Overview of minimum wage rates/lowest rates (monthly wages) in the electrical professions in the Nordic countries in spring 2006 (euros), and average wage for the same industry, autumn 2005.
Figure 5: Overview of minimum wage rates/lowest rates (monthly wages) in hotels/catering in the Nordic countries in spring 2006 (euros), and average wage for the same industry, autumn 2005.

Figure 6: Overview of minimum wage rates/lowest rates (monthly wages) in agriculture in the Nordic countries in spring 2006 (euros), and average wage for the same industry, autumn 2005.