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**Mobility of Labor and Services across the Baltic Sea
after EU Enlargement: Trends and Consequences**

by

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Abstract

The enlargement of the EU/EEA area on 1 May 2004 to comprise 28 countries – including eight Central and Eastern European countries, in 2007 followed by Bulgaria and Romania – was a milestone. The subsequent opening of the markets for labor and services between countries with gaps in wages and living conditions comparable to those along the U.S./Mexican border has no modern precedent, prompting new patterns of competition, migration and adjustment in national labor market regimes. This paper reviews developments in labor migration after enlargement and the implications for the labor markets in the Baltic states and Poland, which have accounted for a predominant share of the intra-EU/EEA migration flows since 2004. Besides the UK and Ireland, where almost one million EU8 citizens had registered in 2007, the booming Nordic economies have become important destinations, having granted more than 250,000 permits and seen sizeable additional flows of service providers and self-employed from the Baltic states and Poland. In the sending countries, rising demand for labor has, alongside strong outmigration – especially among young and well-educated groups – engendered falling unemployment, soaring wage growth, and made shortages of skills and labor an obstacle to further economic recovery. Yet, while better paid temporary work abroad may weaken the incentives for employment, mobility and training in the home country, aging will lead to shrinking working-age populations in the coming years. Unless the Baltic states and Poland can entice a larger share of the population to work in their home countries – and/or can attract substantial labor migration from third countries – the declining work force may easily entail economic stagnation and reinforce the outflow of human resources. These countries are thereby facing a critical juncture in their economic and social development. In the recipient Nordic countries, the growing labor and service mobility, low cost production, and competition for labor in Europe, as well as emerging lines of division in the labor markets, have, on the other hand, raised new questions as to how the principles of free movement and the egalitarian Nordic models can be made reconcilable in the open European markets.

Preface

This paper is based on a broader report written for the Nordic Council of Ministers together with my colleague Line Eldring. That report summarized a three-year cooperation project focusing on the implications in the recipient Nordic countries of rising labor mobility from the new EU member states following EU enlargement in 2004. As coordinators for a Nordic group of civil servants working on these issues, we had access to ongoing exchanges of information, experiences and policy deliberations, providing invaluable input to the reports from the project (Dølvik and Eldring, TemaNord 2005: 566; 2006: 558, and 2008: 502, which can be found on www.norden.org/publications).

In the final report we also included a section elucidating the consequences for the labor markets in the main countries of origin. In this context we 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 the CMR and Fafo websites (www.fafo.no/oestforum). The excerpts presented in this paper build heavily on that report, and we are deeply grateful to Pawel and Marek for the rewarding professional collaboration over the past years.

We owe several other contributors great thanks for good cooperation: the participants in the contact group and the organizers in the Nordic Council of Ministers; the Research Council of Norway, which has contributed to financing Fafo’s Strategic Institute Program on labor mobility after EU enlargement and offered my Leiv Eriksson grant to visit Harvard this academic year, and not least the Munda de Ginsberg Center for European Studies, which has offered an excellent and inspiring work environment during my stay.

Cambridge, April 2008
Jon Erik Dølvik

1. Introduction

The enlargement of the EU/EEA area on May 1, 2004, to comprise twenty-eight countries – including eight Central and Eastern European countries – was a milestone in European integration. For the population in the new member states, this offered the promise of freedom to travel, seek employment and perform services in other countries in the EU/EEA area. For Western enterprises, new markets and channels for recruitment of labor and service providers were opening. The opening of the labor and service markets to closely neighboring 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 labor market since 1954 – and free movement to and from the “old” member states since 1994 – but as in other “old” EU countries, the huge wage gap and the high unemployment in many of the new member states fueled uncertainty about the social implications of eastward enlargement. When accession came close and the visionary discourse was replaced by Real-Politik, 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 labor 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 enlargement we could witness a radical change in the prevailing climate of labor-market policies in Europe. The past years’ economic boom, aging populations and scarcity of labor had given rise to concerns about the supply of labor in most EU/EEA countries. The countries that have attracted the most labor migrants from the new member states reported positive effects for the economy and the labor market, while instances of unequal treatment and exploitation of workers have mainly been associated with the mobility of services. A growing number of the old EU/EEA countries, including Finland and Iceland, had therefore repealed the transitional arrangements and announced more positive policies to recruit foreign labor. In contrast to the situation in 2004, when most West European countries sought to restrict the supply of external labor, the present situation is marked by growing competition for labor in Europe. This also applies to the new member states, where out-migration of labor – in combination with strong economic growth and aging populations – has contributed to scarcity of labor and skills in strategic areas, in the Baltic states and Poland in particular.

A central question for authorities, employers and trade unions in Europe is thus whether the migration of labor from the new member states is likely to continue or abate, and what strategies can be enacted in order to develop a sustainable pattern of mobility that can benefit both the recipient and the sending countries. Such questions loom large, not least in the region around the Baltic Sea. The purpose of this paper is to provide a brief overview of recent developments in this area, and point to some of the challenges the labor-market actors are facing, especially in Poland and the Baltic states.

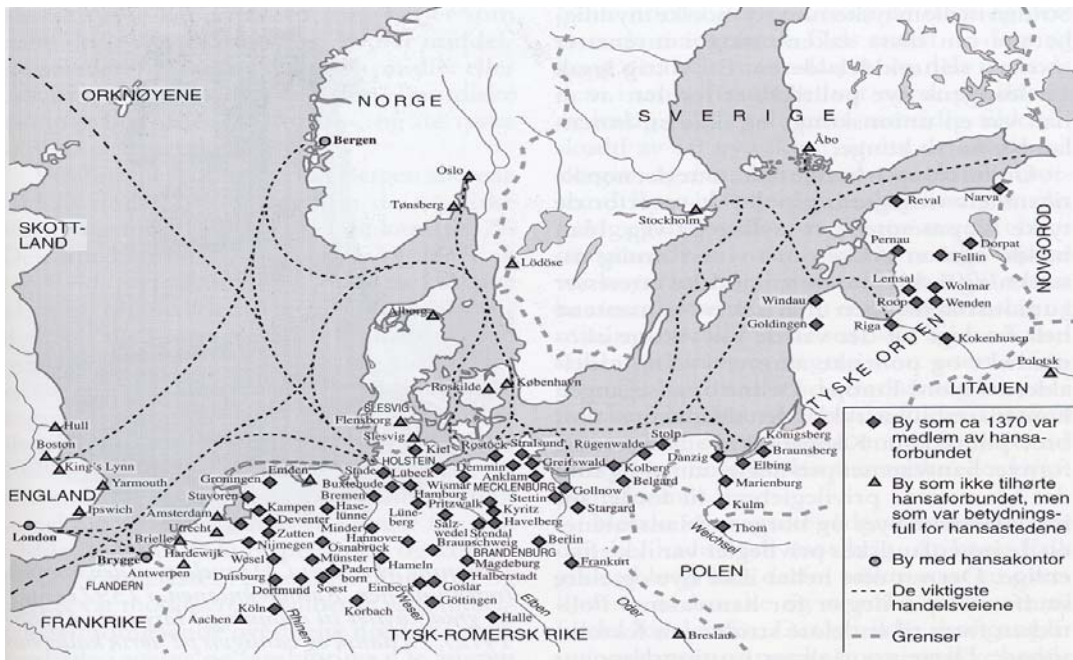
2. From a divided Europe to laboratory of globalization in one continent

Ever since Swedish Vikings commenced the colonization of Finland and the Baltic states (around 550-800 A.C.) and the Danes eventually occupied Estonia (1238), there have been extensive economic movements around and across the Baltic Sea. During the heyday of the Hanseatic League (1300-1600), the Baltic Sea region formed part of a blossoming Northern European trading area with significant movements of goods, people, labor and services (see Figure 1 below).

In a long-term perspective the division of Europe during the Cold War thus represents a relatively short break in more than a thousand-year-long period of extensive exchange of goods,

knowledge, labor and services around and across the Baltic Sea. In recent times, the common Nordic labor market (first formally established in 1954) has served as a counter-cyclical buffer, enabling significant flows of labor among the Nordic countries.¹ Now the labor markets in the Nordic and Baltic area seem to be growing together in new ways as a result of enlargement. Providing an indispensable source of new ideas, skills and technology, migration has – especially in countries on the outskirts of Europe – historically contributed to economic-political development, though sometimes also to social and cultural tension. A central question in the wake of enlargement is how the benefits and burdens will be distributed in this wave of migration among countries with highly unequal economic conditions.

Figure 1: The Hanseatic League area around 1370 – main cities and trading routes



Source: Norsk Innvandringshistorie, Kjelstadli (ed.) 2003

The enlargement of the EC/EU with 8+2 underdeveloped former communist countries – eventually Romania and Bulgaria entered in 2007 – represents a unique political and social experiment. Neither in NAFTA nor in any other international trade agreement have affluent Western countries considered opening up for free movement not only goods and capital, but also labor and services, from neighboring developing countries with wages and welfare standards at a fraction (one-seventh to one-tenth) of those in the West. No wonder such a leap into a laboratory of globalization in one continent was associated with uncertainty among citizens in the “old” member states. While the gap in wages and welfare could be expected to provide strong push- and-pull incentives for individual migration, Western companies would benefit from new sources of (cheap) labor and could be expected to recast investment and manpower strategies. Further, vast differences in national and European regulations as well as in labor costs for different kinds of labor migrants – individual job seekers, posted workers and self-employed service providers – were likely to create ample opportunities for regime-shopping and fierce cost competition. The

¹In recent years, the Nordic cycles have become more in sync, however. Combined with demographic changes, this suggests that the Nordic countries will have to look beyond their closest neighbors to mobilize labor.

politicians' grand vision of the accession was to bridge the social cleavage between East and West in Europe, but there was nonetheless fear – not least among workers and trade unions – that the price for this convergence could be erosion and withering of the advanced regimes of social and worker protection in many of the old member states.

Official rhetoric during the pre-accession phase, though, was that free movement was a freedom of fundamental importance that, especially for citizens from behind the former Iron Curtain, should be heeded from "day one." Besides, it was suggested that migration was a "win-win" game contributing to growth, brain-gain and brain-circulation, and that migration, in view of the generally low mobility in the EU and limited net flows during the former Southern enlargement in the 1980s, most likely would be modest anyway. Yet, as accession came closer, uncertainty arose and the Copenhagen Accession Accord (2002) granted the right to impose transitional arrangements (TA) for labor mobility from EU8 for a period of 2+3+2 years (i.e., until 2009, or 2011 in the case of major labor-market imbalances). Such restrictions were not allowed for cross-border mobility associated with the provision of services, except in the bordering countries Germany and Austria, which had historically received the vast majority of migrants from EU8.

Reinforced by the economic downturn after 9/11, a political "domino effect" came into play, whereby spreading fear about social tourism, floods of job seekers and the risk of becoming one of the few free havens serving as magnets for potential migrants, all led to the erection of transitional arrangements (TAs) in most of the "old" member states. The TAs varied significantly, though, from being based on strict quotas and labor-market tests in many continental countries (Boeri & Brücker 2005) to basically free movement, provided that equal pay, full-time work and a residence permit had been granted in, e.g., Denmark and Norway. The postponement of free movement caused frustration in the new member states, which indeed felt treated like secondary Europeans. Besides causing confusion among potential job seekers, the variety of national rules and conditions governing access to the labor market was likely to create diversion and spillover effects. Together with the diverse national and European regulations regarding wage determination, social security premiums and taxation for different categories of migrant labor – i.e., individual employees, posted/seconded workers, temp agency workers, and the self-employed – these developments contributed to a conundrum of regimes, rules, channels and conditions that opened for strategic adjustment (circumvention), distortion of competition among companies and workers, and perplexity among the public authorities responsible for monitoring and control (see Dølvik and Eldring 2005, 2006b).

Due to low inflows, diversion effects, rises in bogus service mobility and distortions of competition, several countries chose to repeal their TAs as early as 2006 (see Chart 1), paving the way for a fairly swift, differentiated transition to free movement for workers from EU8. With the booming economies of recent years and the prospects for growing shortages of skills and labor, political agendas in Europe had evidently shifted. Rising concern about the future supply of human capital and growing competition over skilled labor led both old and new member states to rethink their options and develop strategies to attract more labor immigration. But not unconditionally: when Bulgaria and Romania, with almost thirty million inhabitants, entered the EU in 2007, nearly all "old"² (and even some "new") member states introduced transitional arrangements, partly enabling them to control the selection of people and skills allowed in.

²Finland and Sweden are the only "old" member states without transitional regimes vis-à-vis Bulgaria and Romania.

Chart 1: Phases in the transition to free movement for labor from the EU8 (+2)

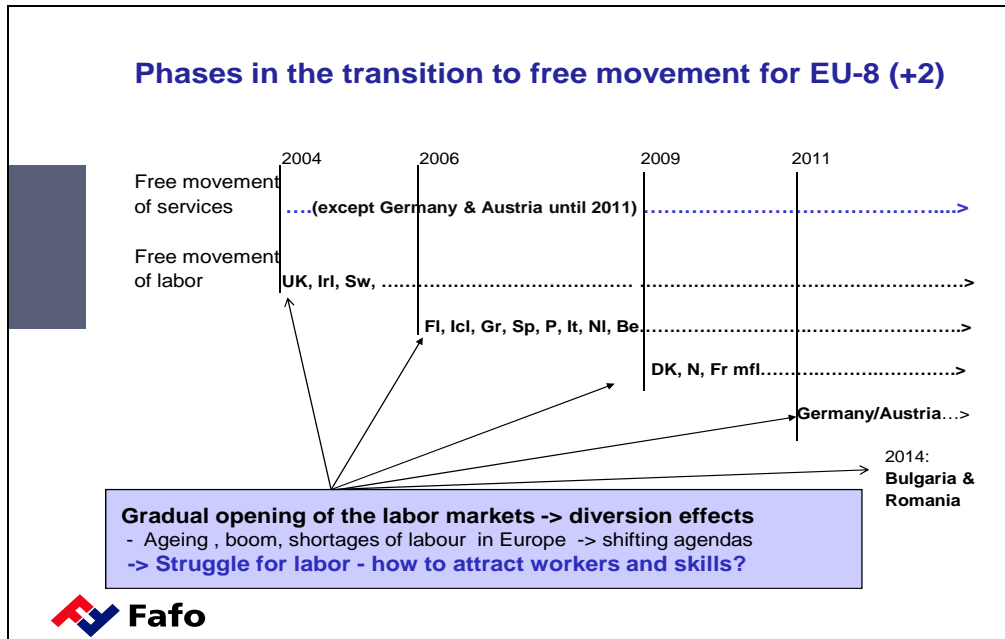
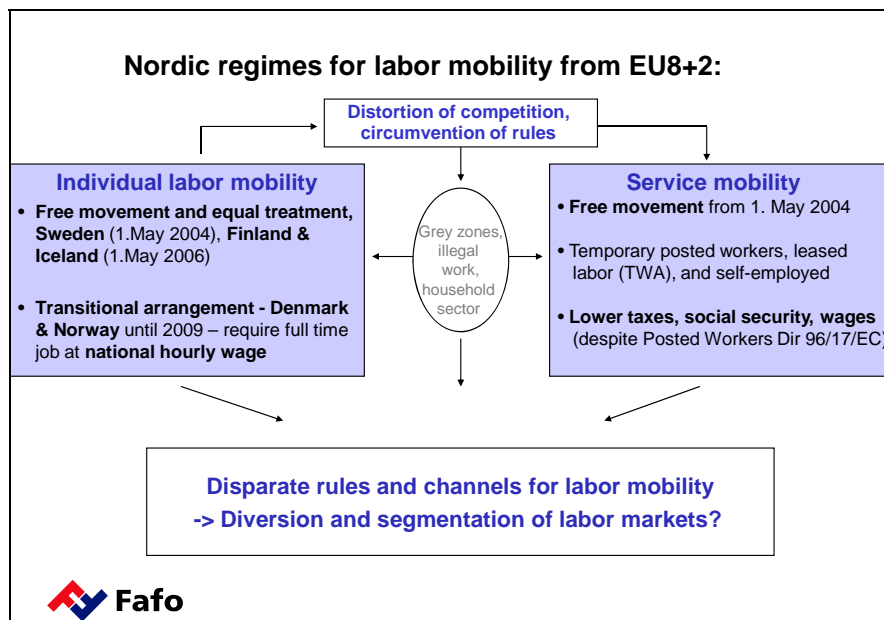


Chart 2: Main rules and channels for labor mobility from EU8+2 to Nordic countries



Forecasts made before accession

With a population of roughly 100 million in the EU8+2, the total population of the EU increased by almost one-quarter in 2004-2007, while combined GDP would increase by only 5-7 percent. Prior to the 2004 enlargement a number of calculations and estimates of the possible volume of labor migration within the EU-25 were produced. 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, they arrived at a total net migration figure of 3.9 million over a thirty-year period. This corresponded to 3-4 percent of the population in the EU8, whereof 40-45 percent were assumed to be economically active. The analyses indicated that the flows would be 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 strongly emphasized the uncertainty of their estimates.

Given a stable distribution of migration flows between the recipient countries, a scenario in accordance with the estimates made by Boeri and Brücker would imply that immigrant populations from the EU8 in the Nordic countries would increase from roughly 50,000 in 2003 to 230,000 over the subsequent thirty years. This would mean a net immigration of just over 10,000 during the initial years, followed by gradually declining numbers. This corresponded to a modest population increase of 0.2 to 0.9 percent by 2033. Boeri and Brücker (2005) estimated the net inflow to Sweden at around 6,000, and to Finland and Denmark to around 3,000 in the initial years. Poland and the Baltic countries were expected to be the predominant sending countries in the North European region.

Table 1: Population, employment and unemployment in Poland and the Baltic states 2003 (thousands) ³

<i>Country</i>	<i>Population</i>	<i>Employment</i>		<i>Unemployment</i>
Poland	37,637	13,617	51.2%	3,323 (19.5%)
Estonia	1,350	592	62.9%	66 (10.0%)
Latvia	2,330	997	61.8%	119 (10.5%)
Lithuania	3,445	1,430	61.0%	203 (12.4%)
Total	44,763	16,636		3,711

Source: Eurostat

As seen, the total labor force in Poland and the Baltic states was around twenty million, whereof nearly four million were registered as unemployed, compared to a labor force in the Nordic countries of under twelve million. As the largest country, Poland accounted for a significant part of both the labor force and the unemployed within the region. Many of these were settled in rural districts where agriculture/primary industries employed up to 20 percent of the workforce, indicating significant surpluses of labor.

³In 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 thirteen million in 2005 (Eurostat 2007).

3. Main trends in labor migration from the new member states since 2004

Three years after the 2004 accession a certain pattern in labor migration from the new member states can be ascertained, although the available data and statistics still remain poor. Caution is therefore called for when assessing the total volume and patterns of the new labor mobility in Europe (GDISC 2007). Both the recipient and sending countries have a fairly good overview over total in- and out-migration, but most countries lack reliable data regarding the flows of persons who are temporarily residing in another country to work or perform services.⁴ The repeal of the transitional arrangements also implies that several countries have ceased registering short-term residency, whereas the impact of these arrangements on the direction of flows will decrease. It is therefore uncertain whether the geographical pattern of mobility that has been observed during the initial years is likely to continue.

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

- *Poland and the Baltic states* have emerged as the main sending countries, and have accounted for more than 80 percent of labor 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 labor 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 EU8 in the period since May 1, 2004, whereof 42 percent were women (Home Office 2007). This corresponded to more than 1.5 percent of the UK labor force (World Bank 2007). In addition, 252,000 renewals had been granted. Ireland had registered 362,000 residence permits for citizens from the EU8, corresponding to more than 6 percent of the national labor 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 EU8 are considerably smaller than the gross flows (ibid., Gilpin et al. 2006).
- In 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 EU8 accounted for 1.4 percent of the workforce in 2005 (EU Commission 2006). Further, Spain had a net growth in persons from the EU8 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 EU8. 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 ar-

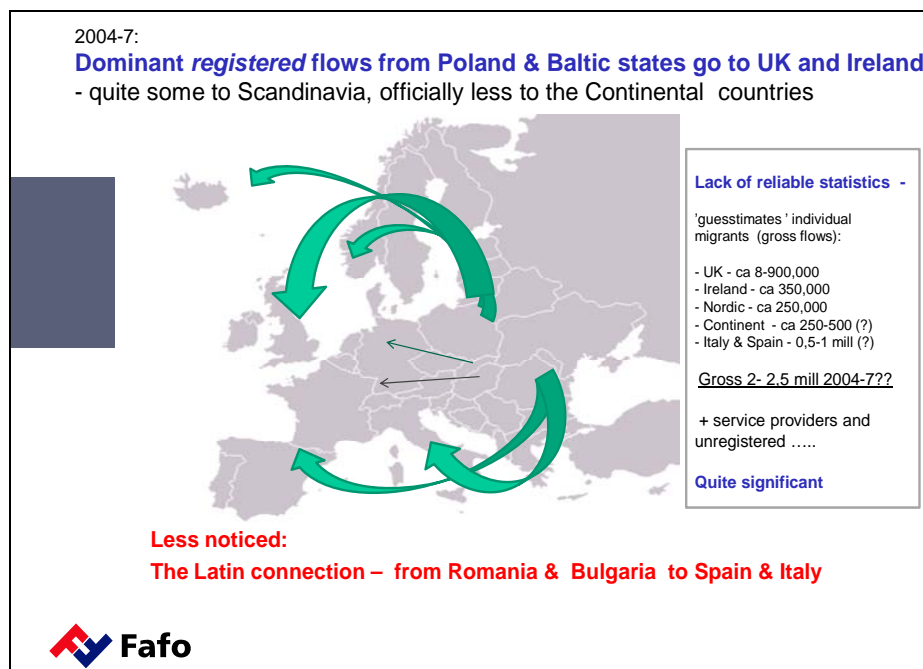
⁴The recipient countries register permits that have been granted, but in many cases these figures on gross flows do not include workers who stay for less than three months, or service providers, while the absence of registration of exits renders the figures on valid permits uncertain. Labor Force Surveys are poorly suited to capturing labor migrants, partly because they comprise only persons with more than six months' residence, partly because of the slow rotation of the sample.

rived in Norway and Iceland (see Appendix, Table 1). 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 EU8 since May 1, 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 2007 show that the inflows to the UK have dropped by 10 percent (*Financial Times*, February 27, 2008).

- 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. Last fall, the Italian Minister of Internal Affairs claimed that more than 500,000 Romanians had arrived since January 1, 2007, an inflow that 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 percent, and it is assumed that two million Romanians work abroad.⁵ The same tendency can be ascertained in Bulgaria. Since 2005, Spain has recruited Romanian labor 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*, November 9, 2007).

Chart 3: Overview of main European flows of labor migrants 2004-2007



- Also in the Nordic countries some immigration from Romania and Bulgaria has been registered. In Sweden, one-fourth of the permits (registered residence permits) granted to citizens of the EU8+2 during the first half of 2007 applied to Romanians and Bulgarians (527 permits). In Norway, a total of 2,025 EEA permits had been

⁵*Financial Times* FT.com Nov. 9, 2007, see also *FT*, November 7, 2007, and *New York Times*, November 8, 2007.

granted to workers from Bulgaria and Romania by October 1, 2007, following a steady increase in the volume of the resident populations throughout the year.

It is hard to assess the total volume of labor 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 national number. On the other hand, as a consequence of restrictive transitional arrangements, the continental countries had by 2006 registered far fewer than estimated. According to data from the UK Labour Force Survey (LFS), the increase in the resident population of workers after May 1, 2004, corresponded to approximately 40 percent of the registered gross inflow from the EU8 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 EU8 since May 1, 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 labor migrants. These figures on resident populations are also uncertain in the Nordic countries. Yet with a stock of more than 50,000 valid work permits in Norway alone through 2007, several tens of thousands in the other countries and a comparable number of service providers, these account for a far higher number than the net 30,000-40,000 forecast 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 EU8 than assumed. In addition to these have 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 other 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 remains to be seen, but it seems evident that opening the German and Austrian labor markets from 2011 at the latest will influence the picture. Figures from 2007 could 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.

In parallel with the growth in registered individual labor mobility, most EU/EEA countries have seen a *pronounced increase in labor migration associated with service mobility*, which to a large extent remains unregistered. The different regimes for taxation, welfare contributions and wage formation associated with labor and service mobility have – in conjunction with the transitional arrangements – provided economic incentives to organize labor 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 labor mobility to service mobility, circumventions of laws and regulations associated with “fictitious” posting, hiring out of labor and work undertaken by self-employed persons. Not rarely, the free movement of services is used as an alternative channel for pure labor migration and provision of staff, and in some cases it comprises activities that more properly should fall under the rules governing free establishment. The organization of mobility and its legal forms vary strongly among industries, and reflect differences in the traditional manpower strategies of the user enterprises and their competitive situation in the product markets following EU enlargement. Service mobility therefore appears to be most widespread in industries that have a tradition of project work and a high number of subcontractors – the construction industry being a typical example – and in manufacturing

industries with mobile products, movable production facilities and strong international competition (Dølvik et al. 2006).

Seen as whole, there is no doubt that the *mobility of labor* from EU8 to the Nordic countries has been far higher than expected prior to enlargement, and that real mobility has been much higher than indicated by the registered figures for individual job seekers. Besides the flows of informal migration, the distinction between labor mobility and service mobility has become blurred. These forms of mobility should therefore be seen in conjunction when assessing the driving forces and the consequences of the new migration flows.

4. Dynamics and consequences in the labor markets in the sending countries

The development of labor migration from the EU8+2 must be seen in light of the dramatic changes that have marked these countries since the collapse of communism in the early 1990s. With their rigid employment structures, “work for all” and minimal labor mobility, a number of sectors, agriculture in particular, had accumulated large surpluses of labor. Restructuring the economy entailed large amounts of redundant labor, a drastic fall in the rate of employment and major imbalances in the labor markets. In spite of increasing direct investments from the West and a certain rise in migration to Western Europe – much in the form of seasonal work – the situation in the labor markets at the time of accession to the EU was still characterized by slow employment growth, low internal mobility and high 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 labor, it came as no surprise that EU enlargement spurred a wave of labor 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 increased throughout the first years following EU enlargement, and has—in conjunction with accelerating growth in the domestic labor markets – led to concern that scarcity of skills and labor is becoming a barrier to further economic growth in the sending countries (Kaczmarczyk and Okolski 2008, World Bank 2007). Based on a brief summary of labor emigration from Poland and the Baltic states, this section will provide an overview of the main developments in the labor markets in these countries and discuss the consequences of the increased out-migration of labor.⁶

4.1 Main features of labor emigration from Poland and the Baltic states

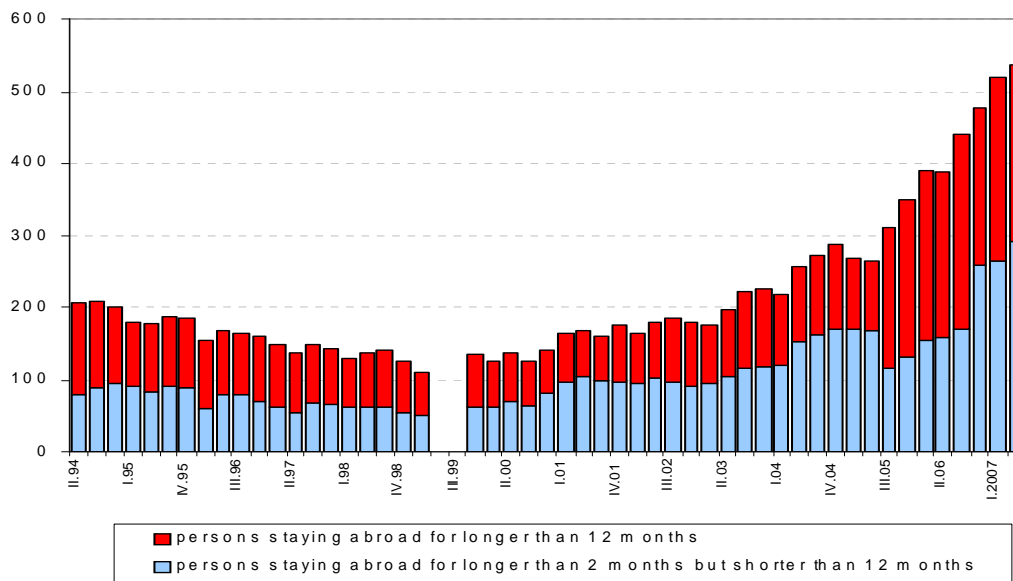
No reliable statistical or data sources are available for an assessment of the volume of labor emigration from the new EU member states. With the free movement of workers, services and persons within (large parts of) the EU/EEA, the countries of origin have no complete regis-

⁶This section 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 World Bank on labor migration from the EU8 and on the situation within the labor markets in the EU8+2 (World Bank 2006, 2007). In addition, we have interviewed representatives for the labor-market authorities in the relevant countries, participated in several seminars on this topic and had conversations with a number of researchers and experts from the region

tries of labor migration. The countries maintain statistics of persons who register as having moved to another country, but there are no reliable sources of information on short-term labor mobility and service mobility.⁷ In practice, most analyses of labor 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 Labor 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 percent 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 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 labor, 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.*).

Chart 4: The number of Polish workers who have worked abroad for at least two months, by quarter 1994-2007, according to Labor Force Survey data. Source: Kaczmarczyk and Okolski 2008.



According to Kaczmarczyk and Okolski (2008), data from the Polish labor force surveys reveal the following main features of the labor migration:

⁷In 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 attempts to use this information to gain an overview of labor migration have shown that these registries are severely deficient.

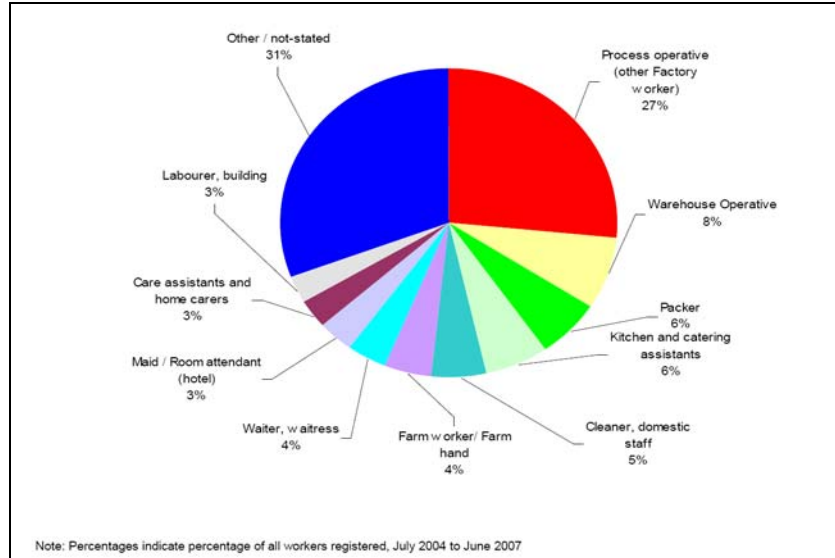
- More than 80 percent of the migrants travel to work – economic motivations predominate.
- The share of younger migrants has increased strongly; the age group below 39 years accounts for close to 80 percent of migrants from Poland, and the age group 25-34 years accounts for 40 percent.
- Women constitute a significant proportion of the migrants – more than 40 percent of the Poles working in the UK, and 35 percent of all Polish labor migrants are women.
- A considerable part of the migration is short-term: 60-70 percent stayed abroad for less than twelve months. However, the proportion of long-term migrants is increasing.
- Young, well-educated people tend to be overrepresented among the migrants. In the age group 25-29 years, a total of 33 percent had completed higher education.
- The majority of the migrants have a job in the home country, but a considerable minority (43 percent) 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 labor mobility.
- At the same time, an increasing number of young people from urban areas leave the country after having completed education, and before having started a career at home.
- Polish labor migrants are often overqualified for the jobs they are offered abroad, and can often be found in simple, subordinate jobs within secondary “migrant labor markets.” (Kaczmarczyk and Lukowski 2004, see Chart 5, p. 13 below, Home Office 2007)

According to Kaczmarczyk and Okolski (2008), the total picture of labor migration from Poland is polarized. On the one hand, migration comprises persons from peripheral regions, with few qualifications and low labor force participation; on the other hand there is an increasing and overrepresented share 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 labor 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 percent of the labor force. As a considerable share of the migrants is younger and better educated than the average, this indicates that emigration has entailed significant consequences for the domestic supply of labor and skills.

The Baltic states – *Estonia, Latvia and Lithuania* – have experienced higher rates of labor 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 labor 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, Belorussian 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.

Chart 5: Top 10 professions in the UK among registered labor migrants from the EU-8. Percentages. May 2004 – first six months 2007 (Home Office, Accession Report Chart 6).

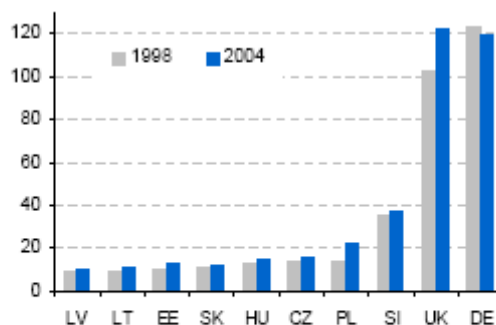


For those who previously were unable to travel, EU enlargement in 2004 appeared as a new opportunity, and labor migration increased rapidly – mainly to the UK and Ireland, where many women found jobs as mushroom pickers or other agricultural work. The Baltic states also have no reliable data on the volume of labor 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 5 percent of the workforce of their home countries.⁸ While official figures from Lithuania and Latvia indicate that a total of 3.3 percent and 2.1 percent of the workforce left these countries during 2004-2005, respectively (World Bank 2006: 22, University of Latvia 2007), recent studies suggest that almost 10 percent of the labor force has left the countries since 2004 (LO Ugebrev, February 4, 2008).

All available studies of labor 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 labor markets in the home countries has functioned as a “push” factor, and the strong demand for labor, higher wages and better working conditions in the recipient countries has functioned as a “pull” factor. At the time of enlargement, average nominal wage levels in Western Europe were six to seven 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*, Oct. 10, 2007). The opportunity to convert incomes from temporary work in the West to consumption/investments in the home country, where prices are far lower, has nevertheless provided strong incentives to short-term, circular migration in particular.

⁸In comparison, a total of 12,567 Lithuanians and Latvians were granted work permits in Norway in 2006.

Chart 6: Average annual gross wages for full-time employed workers in the most important countries of origin and recipient countries, 2004. (World Bank 2006; Chart 15)



Notes: Earnings of full-time employees in enterprises with 10 or more employees.
Source: Eurostat.

The net gains are lower in the case of permanent migration, where 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 percent stated that their main motive was “higher wages,” while 15 percent stated “better working conditions,” and another 15 percent 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 income opportunities and a desire to save money for purposes at home constituted key motivational factors (Friberg and Tyldum 2007).

4.2 Labor-market developments in the sending countries

The introduction of market economies has entailed major changes in the institutional frameworks of the labor markets in the Baltic states and Poland. Employers’ associations and trade unions have few members (15-20 percent), and only a small minority of the enterprises and employees are covered by collective agreements, which are found almost exclusively 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 labor market, and these have been further expanded in the context of accession to the EU. Nevertheless, a number of studies have shown that the labor markets in these countries have been characterized 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 labor markets have been characterized 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 percent in Poland, 61.8 percent in Latvia, 61.1 percent in Lithuania and 62.9 percent in Estonia – while unemployment varied from 10 percent in Estonia to almost 20 percent in Poland (European Commission 2006).

Since 2004, a notable turn has taken place in labor-market development. Following a decline in employment rates in these countries until 2000, when figures stabilized, there has been strong growth in employment and marked decline in unemployment since 2004. 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 2 percent in the period before 2000 to a 3.7 percent increase in the years 2005-2006, and even higher in 2007 (World Bank 2007). Correspondingly, employment development in Poland changed from a 1 percent decline during 1997-2004 to 2.8 percent annual growth in 2005-2006. Latvian employment rates grew from 1.7 percent annually in 2001-2004 to 3.2 percent during 2005-2006, and Lithuanian rates grew from 0.5 percent annually in 2001-2004 to 2.8 during 2005-2006 (World Bank 2007, Chart 1). The change from jobless growth in the years 1998-2003 to more employment-intensive growth reflects in particular increased growth and labor demand in the construction and service industries in recent years, while the changes are minor in manufacturing and agriculture.

The turnaround in the labor market has resulted in a strong decline in unemployment – from approximately 15 percent in the EU8 in the period around the turn of the millennium to less than 10 percent in most countries in 2006 (ibid.). The most dramatic decline has taken place in the Baltic states – for example Lithuania has seen a reduction of eleven percentage points in six years – but even Poland seemed to be heading for less than 10 percent unemployment during 2007, compared to almost 20 percent in 2003.

Table 2: Employment rates and unemployment in the Baltic states and Poland, 2000-2006.

Year	Employment, 15-64 years				Unemployment, 15-64 years			
	Est	Lat	Lit	PI	Est	Lat	Lit	PI
2000	60.4	57.5	59.1	55.0	12.8	13.7	16.4	16.1
2001	61.0	58.6	57.5	53.4	12.4	12.9	16.5	18.2
2002	62.0	60.4	59.9	51.5	10.3	12.2	13.5	19.9
2003	62.9	61.8	61.1	51.2	10.0	10.5	12.4	19.6
2004	63.0	62.3	61.2	51.7	9.7	10.4	11.4	19.0
2005	64.4	63.3	62.6	52.8	7.9	8.9	8.3	17.7
2006	68.1	66.3	63.6	54.5	5.9	6.8	5.6	13.8

Source: World Bank 2007, Statistical Annex.

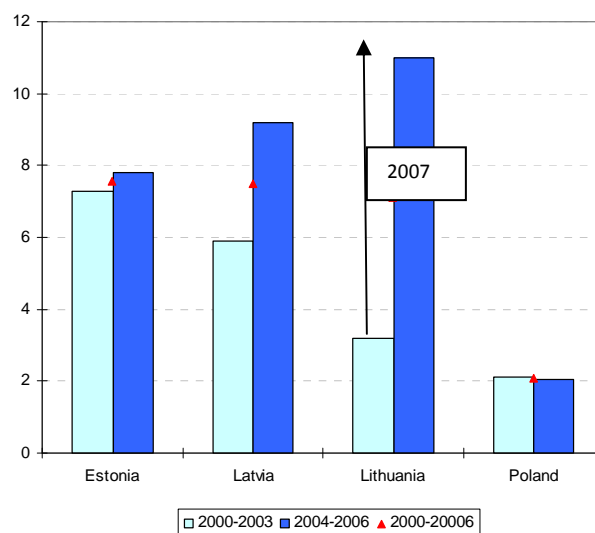
At the beginning of the third quarter of 2007, unemployment in the Baltic states had declined further, and constituted 5 percent in Estonia, 5.4 percent in Latvia and 2.8 percent in Lithuania.⁹ Labor force participation has also increased, in the Baltic states in particular, where the employment rate (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 neighboring Baltic states, and more than twenty percentage points lower than in the Nordic countries.

According to the World Bank (2007), the positive turnaround in the labor markets in these countries cannot be explained in terms of increasing flexibility, deregulation or active labor-market policies, because none of these countries have enacted significant changes to their regulatory regimes and labor-market policies during this period. The World Bank hence concludes that the increased employment intensity has been demand-driven and a result of benefits derived from enterprise restructuring. A growing number of enterprises have gone from a phase of productivity-oriented rationalization to a period of offensive development and renewal of their activities, resulting in increasing demand for labor and skills.

⁹Source: EURES in Estonia, Latvia and Lithuania, October 2007.

This rising demand for labor has been reflected in growth in the vacancy rate of more than 60 percent, and skyrocketing wage growth, not least because “high rates of emigration have reduced the supply of labor and entailed increasing wage pressure” (World Bank 2007: 10). In Lithuania, wage growth increased from 2.5 percent in 2002-2003 to 11 percent in 2004-2006, in Latvia from 6 percent to 9 percent, while annual wage growth in Estonia has exceeded 11 percent since 2000. In Poland, wage growth remained approximately 2 percent during 2004-2006, but has risen steeply and was expected to approach 10 percent during 2007 (World Bank 2007, Chart 6). Reports of wage increases of up to 30 percent for skilled labor have mushroomed over the past year (LO Ugebrev, February 4, 2008).

Chart 7: Average annual wage growth in Poland and the Baltic states
(Source: Kaczmarczyk and Okolski 2008).



Source: Authors' calculations based on World Bank (2007: 6)

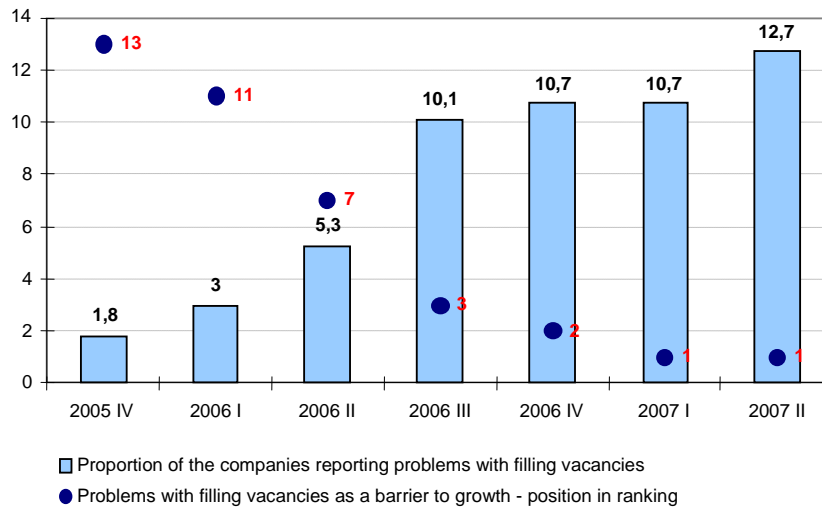
Labor migration has usually been regarded as a favorable mechanism for “curbing existing tensions in the labor market and reducing excess supply of labor” in the new member states but, according to the World Bank, the result has been to “contribute to skill shortages and associated wage pressures in most sending countries” (World Bank 2007: 10).

As regards their potential for mobilizing further labor reserves, many of the new EU countries still have relatively low employment rates. Low rates of participation are mainly found among young people, who are undergoing training, and among the elderly, who have left the labor force and often lack relevant skills in the current labor market. In Poland and Lithuania, the employment rates in the 15-24 bracket are only 24 percent, and in Latvia and Estonia approximately 30 percent, which is considerably lower than in the EU-15. This reflects the fact that combining education/training and work has not been common. In the 55-64 bracket the employment rate in the EU8+2 is 42 percent, which is slightly lower than the EU average (45 percent), and far below the Nordic level (60-70 percent). In combination with a high proportion of long-term unemployment – 55 percent in Poland and more than 40 percent in the EU8+2 – these figures indicate, according to the World Bank, that much of the remaining unemployment is structural in character and reflects lack of relevant skills (World Bank 2007). A certain pool of underutilized labor can still be found in the primary industries – in Poland in particular, where close to 20 percent are employed in agriculture – but this reserve mainly consists of elderly, unskilled labor.

Against this background, the World Bank concludes that the supply of labor has currently become a barrier to economic growth and employment in the sending countries: "It is the labor supply side that has become a constraint" (World Bank 2007: 14). While the growth in domestic demand has resulted in increasing shortages of labor and skills in the EU8+2, labor migration to the EU15 has exacerbated such shortages and contributed to increasing wage pressures (ibid.: 20).

Shortage of labor has consequently become the main concern for trade and industry, and is regarded as the most important obstacle to further growth, in the construction industry in particular but also in manufacturing and other sectors. As mentioned above, the share of vacancies has been 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: 20). This is especially pronounced in Latvia, Lithuania and Poland, but is also reported from Romania, the Czech Republic and Hungary, the latter two of which in fact have experienced only limited out-migration (Kaczmarczyk and Okolski 2008). 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 percent), but also to manufacturing (15 percent) and retail trade (7 percent) (World Bank 2007, see Chart 8 below). At the same time, many enterprises report difficulties in retaining labor. The shortage of labor in Poland is especially acute among skilled personnel, and 61 percent of the construction enterprises, 36 percent of the manufacturing enterprises and 30 percent of the service enterprises report having difficulties in recruiting qualified and skilled labor (World Bank 2007, Chart B2.4).

Chart 8: Labor 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 is shown by a Fafo study of the construction industry in Poland (Eldring and Trevena 2007), the combination of increased domestic demand and emigration of labor has spurred accelerating wage growth in several of the sending countries. According to the World Bank, the resulting "labor shortages are also translating into mounting wage pressures, with wages growing in excess of productivity gains" (World Bank 2007: 24). This has driven up labor unit costs which, according to our informants, have increased by more than 20 percent in the construction industries in Latvia and Estonia and are following suit in Poland. Such rising costs could, in combination with increasing inflation, weaken competitiveness and destabilize 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 labor-market services in the three Baltic states in fall 2007, major concerns were voiced with regard to the consequences of labor scarcity, which to a great extent was blamed for the slowing down of economic growth and rising inflation. Besides shortages in the construction and metalworking industries, problems were reported in the service sector and in high-skill professions – not least in the health sector, where physicians and nurses were in short supply. According to our informants in Estonia, there was also a shortage of unskilled labor. A positive tendency was found in construction, though, where workers to a larger extent appeared to be returning home due to the soaring wage level (with pay increases around 25 percent over the past year). The authorities in all countries were concerned with facilitating return migration; for example, representatives from Lithuania had visited Ireland in order to inform their compatriots of improving job opportunities at home. In Latvia, the Ministry of Integration had elaborated a separate strategic plan with a view to facilitating the situation for returning migrants. As in Poland, political debates focus on labor imports, liberalization and opening borders to third countries, which apparently is regarded as the only opportunity for redressing labor shortages in the short term. Among the Baltic states this is a particularly sensitive and volatile issue in Estonia, where the presence of a large Russian minority implies that the fear of upsetting the balance between ethnic Estonians and other nationalities is more pronounced.

Example: The development of the Polish construction industry after EU enlargement

In 2007, the Polish construction industry saw 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 dropped by more than 300,000 persons during this period, but is currently on the increase again. The sector is still characterized by considerable unregistered work, self-employed workers and temporary work contracts. Enterprises were optimistic with regard to new orders. The majority believed that the market would improve further, as a result of increasing investment and inflow of EU funds for major infrastructure projects. The scarcity of labor was therefore the greatest concern for enterprises. The demand for labor was assumed to be far higher than the current supply, even though a total of 152,000 construction workers were 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 percent compared to the previous year. However, the wage level still remained 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. Employers in the construction industry wish to deregulate immigration in order to insure the supply of labor, but the building boom and high wage levels prevailing in Russia render this migration potential uncertain. Employers were also concerned that vocational training for construction work suffers from declining popularity, and the training provided was 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 may seem obvious that the potential for migration of construction workers to the West will decline in the coming years. – *Source: Eldring and Trevena 2007*

5. Summary and discussion

A key assumption in the debate on labor migration from the new EU member states has been that this migration has been beneficial for the sending countries. In addition to increased employment opportunities and income – through remittances and savings to be used for consumption and investment in the home country – it has been assumed that labor emigration has contributed to reduce surplus of labor, redress structural imbalances and strengthen mobility and adaptation in the domestic labor market. Debates on global labor migration have emphasized that economic modernization 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 reestablishing the balance in the labor 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 labor within the EU/EEA would contribute to a similar restructuring of the labor markets in the EU8+2 (Okolski 2007). It has further been pointed out that migration – in particular the short-term and circular varieties – provides opportunities for learning and development of skills that will benefit the labor market in the countries of origin. Rather than “brain-drain,” migration could spur “brain-gain.” With reference to India and other countries that have seen widespread emigration of skilled labor, it has been pointed out that migration of skilled labor strengthens the incentives for investment in education in the sending country, which over time will increase the supply of skilled labor and strengthen innovation and competitiveness in the sending country (Stark 1991, 2007). The strong desire among the new EU member states to remove restrictions on labor mobility westward has probably been based on – and served to underpin – such assumptions.

5.1 Main points

We have had no basis for assessing these overriding issues in our study, or drawing conclusions with regard to the total effects of labor migration in the period covered. The rising mobility from the Baltic states and Poland has clearly contributed to improving the balance in the respective labor markets during a transitional period, but there are currently strong indications that this phase is over and that detrimental consequences are emerging in the labor markets. Yet, for individual workers and their households, labor migration will remain an attractive option. The exit opportunity has also strengthened workers’ individual bargaining power, and made employers and authorities more aware of the necessity of improving labor and living conditions in order to retain labor and encourage the return of migrants (Meardie 2007). For the future development of the economy, labor markets and social conditions in the sending countries, however, the ambiguous aspects of continued high out-emigration have indeed come to the fore. There are also signs that the governments in the countries concerned have come to share such a view, for several reasons.

Table 3: Changes in Population in the Baltic States and Poland 1989-2008

Country	Population/thousand			% change
	1989	2004	2007	1989-2007
Estonia	1,566	1,351	1,342	-14.3%
Latvia	2,667	2,319	2,281	-14.5%
Lithuania	3,675	3,446	3,385	-7.9%
Poland	37,885	38,191	38,125	+0.01%

Supply of labor – a barrier to growth and development

As seen above, emigration has contributed to turning scarcity of labor 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 been an important driving force for domestic growth. The remaining labor reserves are limited and difficult to mobilize – because of age and lacking or 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 labor market – 80 percent 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-term work in Germany, shows similar results (Jonczy 2005). The proportion of the population of working age who regularly work abroad constitutes more than 50 percent, and is particularly high in the 18-25-year age group. According to this study, labor migration to other countries has had a strong negative impact on the labor market in the area, with increasing unemployment and declining participation in training and in the local labor market. 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 labor 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 labor at home – and in key professions to the extent of causing serious risks – there are few indications that the westward labor migration so far has contributed to development of skills (“brain-gain”). As described above, the major part of the labor migrants from the Baltic states and Poland has found work in simple, low-skill jobs that are difficult to fill in Western Europe. As a significant share 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 entails “brain-waste,” contributing to a less than optimal utilization of scarce labor resources and weakened development of productivity, not only in 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 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 labor like there is in the EU/EEA. For some groups of professions, for example in 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.

Lack 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 Riemsdijk 2006), emigration has resulted in a scarcity of personnel in some professions in the health sector.¹⁰ In Poland, there have been reports of several cases of serious injury caused by a lack of personnel with relevant skills, and in the past year there were strikes and unrest among physicians and nurses threatening a “mass exodus” if major wage hikes were not granted (Kaczmarczyk and Okolski 2008). Loss of health personnel also concerns subordinate positions in the meagerly paid nursing and care professions in EU8+2, which therefore cannot compete with jobs as cleaning assistants and mushroom pickers in the West in terms of wages for recruitment of younger labor.

Wage pressure and inflation may prompt a tightening of economic policies

Labor emigration has given rise to wage pressures and rapidly increasing wage levels in a number of industries and professions. This can of course be viewed as beneficial in terms of bridging the wage gap, but wages that persistently rise faster than productivity are likely to have detrimental effects for competitiveness, growth, employment and inward investment in the sending countries. Even though a wage hike may be beneficial for the individual worker in the short term, 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. Increased inflation is already a problem for many EU8+2 countries, and growing consumption based on incomes earned in the West that are not offset by increased domestic production capacity will pull in the same direction.¹¹ Increasing price growth will usually also entail wider social inequalities because the in-

¹⁰According to Kaczmarczyk and Okolski (2008), a total of 3.4 percent of all Polish physicians (3,074) obtained certificates for working abroad during the period 2004-2007, which usually indicate specific plans for such mobility. Among anaesthetists and plastic surgeons the proportion constituted approximately 15 percent, and 6-7 percent among general surgeons, orthopaedists, internists and radiologists. In Estonia, the proportion is far higher (8.9 percent), and many physicians have left for the Scandinavian countries, and to Finland in particular, where active recruitment programs for Estonian physicians have been launched. According to *The New York Times* (November 9, 2007), Romania has enacted provisions for compulsory service periods for trained physicians, following a survey showing that 50 percent 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.

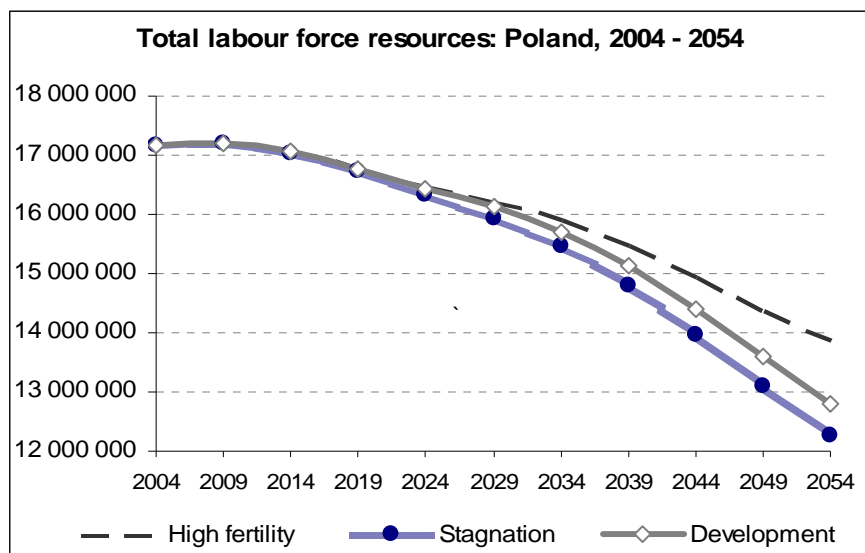
¹¹In addition, inflation impacts exchange rates and interest rates, and may require macroeconomic austerity measures that are likely to further slow down production and employment growth. Many of the EU8+2 countries have problems related to budget deficits in the public sector, and these are likely to increase, which in turn may entail service cutbacks if the countries are forced to give considerable wage hikes to key personnel in order to retain labor. While the international credit crisis appears to have negative impacts on several of the new EU countries, wage-driven inflation caused by continued labor emigration could thereby contribute to delaying 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.

comes of welfare recipients and persons in occupations for which there is less demand will tend to lag behind.

Aging and shrinking of the labor force

Even though labor emigration following EU enlargement to date probably has had a number of positive effects – not least for many of the labor migrants and their families – it would probably be beneficial for the domestic economic and social development if more people chose to work in their home country rather than abroad in the coming years. This view is substantiated by demographic development in the Baltic states and Poland, which are characterized by greater aging than most West European countries and Scandinavia in particular. This will cause a decline in the working-age population, a rising care burden and, all other factors being equal, aggravated labor shortages.

Chart 9: Labor-force development in Poland: forecast, 2004-2054



Source: Bijak 2007: 12

Unless the countries are able to mobilize a larger share of the domestic labor reserves, reduce labor emigration and/or increase return migration, shortages of labor and skills are therefore likely to represent a growing barrier to the equalization of living conditions between Western and Central-Eastern Europe. Several of the sending countries are therefore attempting to induce labor migrants to return home, for example by using tax relief, improvement of labor 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.

5.2 Prospects: Towards a critical juncture

The forceful dynamics of labor migration from the Baltic states and Poland during the post-enlargement years caution against making predictions of future developments.

First, many structural factors could, as described above, indicate a scenario for declining labor mobility to the West in the coming years. In addition to the shrinking labor surplus, shortages of

many types of labor and skills, better wages and employment opportunities at home, and the aging of the populations will gradually serve to reduce the supply of labor. The “push” factors in the sending countries might therefore become weaker. Moreover, it is plausible 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. Since a substantial part of the migration has been of a temporary, circular character, it would also be plausible to expect that more of the early movers will now turn homewards, especially if it is true that many overqualified migrants are getting fed up with subordination and doing inferior work. It might also appear as if political attitudes to labor migration are gradually turning, possibly making it less legitimate to go abroad than before. Yet it is still too early to assess whether the decline in new registrations in the UK and Ireland during 2007 is a signal of such a turning point.

Second, several factors could, on the other hand, indicate a *scenario of continued high labor migration*. There is no automatic connection between the needs of society and individual behavior. Even though the changes in the domestic labor markets might 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 working conditions, career prospects and living conditions are strong driving forces. Flourishing compatriot communities in the recipient countries may reinforce such dynamics. The majority of those who to date have left for the West have not been unemployed, most of them have left a job at home in favor of a better paid job in the West, indicating that the relative differences in wages and employment opportunities have been decisive. With prospects of growing labor shortages also in Western Europe, lifting of the transitional arrangements and stronger competition for labor, it is not unlikely that the relative income and employment opportunities for migrants in Western Europe will improve in the years to come.

That is, even though the “push” factors in the sending countries might abate, stronger “pull” forces in the destination countries could maintain or even increase the gains of going abroad, for example through rising *willingness to pay* among employers or widening access to better jobs in the West. Barriers associated with language, culture and transport might also decrease, not least when *Germany* and *Austria* gradually open their labor markets. The self-reinforcing dynamics found in migration networks might pull in the same direction, through sprawling migrant routes and contacts in the west.¹² The agents and recruitment agencies that have been mushrooming during the initial period will also have a vested interest in intensifying their recruitment efforts in order to counteract declining revenues. Historical and international experiences with temporary labour immigration indicate that established migration networks and flows rarely cease altogether, even if they vary with changing economic climates and labor-market prospects. A study Fafo did among Polish workers in Oslo in 2006 hence indicated that a considerable proportion had a fairly long-term perspective on their stay (73 per cent), and some had no intention of returning home (21 per cent) (Friberg and Tyldum 2007).

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 and/or return to work at home, there is a risk that economic growth will stagnate, and

¹²In a recent interview, a Latvian researcher, Dace Akule from Centre for Public Policy, argued strongly along similar lines, suggesting that a second and third wave of out-migration among family members, partners and friends of the early movers now were underway. Accordingly, in his view, the “bloodletting” was likely to continue, while it would be optimistic to assume that more than 30-40 percent of the migrants would return home. In the same vein, the Lithuanian Parliament recently took the original step of adopting a resolution stating that emigration currently was the greatest non-military threat to Lithuanian society (LO Ugebrevet, February 4, 2008).

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 longer-term economic and demographic stagnation.¹³ On the other hand, if the countries are able to turn or reduce the flows to the extent that the main shortages in the labor markets can be overcome, the positive development observed over recent years could indicate that many of the countries stand at the threshold of an economic take-off, which in turn could induce growing numbers of workers to return home. In this perspective, it can be argued that the countries are approaching a *critical juncture* in their socioeconomic transformation, where the ability to influence the migration flows may have a decisive effect on future economic and social developments.

5.3 Challenges for the recipient countries

For the receiving Nordic countries, the development in labor migration from EU8+2 is raising delicate dilemmas. *First*, like in other “old” member states, employers and consumers in the Nordic countries have during the recent bonanza become accustomed to, if not dependent on, an external and often cheap supply of labor and services from the new member states. Accounting for a notable supplement to the Nordic labor force and removing bottlenecks in the labor markets, the inflow across the Baltic Sea has contributed to higher economic growth, rising employment, and slower increases in prices, costs and interest rates than otherwise would have been possible.

Second, with aging populations and expected shortages of labor and skills, the Nordic countries have developed national interest or stakes in the European labor market that are competing, if not directly conflicting, with those of the neighbor countries across the Baltic Sea. With the emerging struggle over scarce human capital resources in Europe, nice discourses about brain-gain and win-win scenarios may hence soon be disturbed by reemerging discourses about neocolonialism and unequal/asymmetric exchange. In such a scenario the praised principle of free movement risks becoming an euphemism for the freedom of the more wealthy companies and countries in the West to buy up the scarce human capital of their poorer neighbors in the growing Eastern hinterlands. For Nordic governments, which have vested strong interests in strengthening the Northern Dimension of the EU and developing the Baltic Sea Region into a powerhouse in the new European economy, such a scenario indeed fits badly with their self-perception as international “do-gooders,” as well as with their attempts to include Poland and the Baltic states in Nordic networks of policy cooperation, and with their economic self-interest in making the new member states bridge the welfare gap as soon as possible. The question is thus whether the two sides can find ways to cooperate in developing sustainable patterns of two-way migration and investing in increasing the common supply of skills and human capital in the Baltic Sea area.

Third, the opening of markets for labor and services from EU8+2 has been accompanied by increased low-wage competition. Instances of social dumping and exploitation of foreign labor

¹³According to the report *The European Human Capital Index: The Challenge of Central and Eastern Europe*, The Lisbon Council (Ederer et al. 2007), the prospects are really grim: “[...] 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 aging and decline. [...] What is at stake is the question whether these countries will be prosperous, sustainable and socially-cohesive (...) or whether they will condemn further generations to economic and social stagnation, resulting in an even lower standard of living that will continue falling relative to the rest of the world.”

through circumvention of regulations with regard to taxes, HES, wages, working hours and residential conditions have been growing, in particular associated with posting of workers, intermediaries and self-employment. The number of simple, low-paid jobs has proliferated – mainly in sectors such as construction, manufacturing, agriculture and domestic services – and has contributed to the development of new lines of division and polarization in parts of the labor markets. The enhanced opportunities for company regime-shopping and circumventing norms of equal treatment – even at the site, as often seen in construction – have prompted initiatives of national re-regulation and tightening of enforcement and control regimes in the Nordic countries. This has been a challenging task, since EU regulations restrain the measures that can be taken without violating the Single Market’s principles of free movement and the Nordic labor-market regimes were not geared to handle large-scale labor mobility from low-cost countries.

The countries chose different strategies to comply with the host country principle in the EU’s Posting of Workers Directive (96/71EC), which was aimed at preventing distortion of competition and unequal treatment of posted workers in the context of service mobility. Irrespective of strategy, it has proven to be a demanding task to register, control and enforce compliance with legislation and agreements in such fluid transnational markets. Finland, Iceland and, to an increasing extent, Norway have – in line with continental tradition – made use of legislation and generalization of collective agreements in order to enforce minimum standards and create opportunities for public control.

Chart 10: Challenges to the Nordic Labor-Market Models Associated with Enlargement

Enlargement – moment of truth for Nordic models?

- Open markets for labor & services have put Nordic models under pressure
- Wage gap, closeness, and demand -> rising labor mobility from EU8+2
 - ex. 4-5% of the Norwegian labor force, gross flow into Nordic area passed 250,000 in 2007
- Low cost suppliers erode the wage floor in vulnerable sectors
 - dual labour market & shift towards labor intensive / low-productive activities
- Re-regulation & contested deliberation of minimum wage regimes
 - Statutory extension in Finland, Iceland and Norway, while Sweden & Danmark fiercely against
- The Laval-case (ECJ) has challenged Nordic legacy of autonomous bargaining
- **Defining moment for Nordic labour in Europe**
 - **'Back to the trenches' or Europeanisation of the struggle?**

 **Fafo**

In Denmark and Sweden the social partners have been strongly opposed to state interference in wage issues. The task of insuring equal pay at the workplace has thus been left to the trade unions, if necessary by means of boycott and sympathy action, as in the labor dispute in Vaxholm outside Stockholm in 2005, where the Latvian firm Laval became subject to industrial action because it paid the workers significantly below Swedish wages. Laval claimed that this constituted a breach of the freedom to provide services in the EU and brought the case to the Labor Court, which sent it to the European Court of Justice (ECJ) where Laval recently won a con-

spicuous victory.¹⁴ The decision in the Laval case (December 18, 2007) deemed the actions of the Swedish building unions unlawful and criticized Sweden's way of implementing the Posting of Workers Directive. The court decision has caused consternation in the Nordic countries and concern also in the European circuits of labor-market policies. Pitting east against west and the principles of free movement against fundamental rights enshrined in the EU Charter – such as the right to strike – the Laval case has not only become a contentious issue in the process of integration across the Baltic Sea but also a defining moment in the struggle for a social dimension to the single European market.

Chart 11: Elements in a Strategy to Prevent Growth in Secondary Labor Markets After Enlargement

HOW TO COUNTER THE RISK OF A TWO-TIERED EUROPE - within and across boundaries?

- Joint efforts/investments to increase the [supply of skills & human capital](#)
- Equality & high standard approach – curb demand in recipient countries
- Realise that transborder poaching is no solution to European labour shortages
 - [Facilitate return-migration](#), a.o. through joint investment in social infrastructure
 - Prepare for more [3. country labour migration](#)
- Strengthen [national regulation and control regimes](#) – requires more flexible EU approach to control and enforcement rules...
- **Inclusion of labour migrants - prevention of guestworker ghettos**



¹⁴See box on the Laval case in the appendix.

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Appendix

*Table A1: Work permits to individual job seekers from the EU8 +2, May 1, 2004 – July 31, 2007,
by Nordic recipient country*

	2004 (May 1 – Dec. 31)	2005 All year	2006 All year	2007 Jan. 1 – July 31	TOTAL May 1, 2004 – July 31, 2007 (excl. Finland)
Denmark (Issued work and residence permits)	2,097	4,923	10,353	10,367	27,740 (incl. renewals)
Finland (Decision by the Labour Agency)	2,169	2,633	-	(6,273)	-
Iceland (Work permits granted/ registration by employer)	515 (+666 renewals)	2,764 (+844 renewals)	6,004 (+1,496 renewals)	3,091 (+1,136 renewals)	12,374 (+4,142 renewals)
Norway (EEA permits granted)	16,975 (+3,558 renewals)	19,301 (+17,902 renewals)	29,275 (+25,510 renewals)	23,879 ¹⁵ (+22,230 renewals) (not incl. Bul- garia and Romania)	89,430 (+69,200 renewals)
Sweden (Registered new EEA applica- tions, work)	3,963 (+128 renewals)	4,805 (+2,133 renewals)	5,692 (+289 renewals Jan-April)	2,440	16,900 (+2,550 renewals)
Total	25,719 (+4,352 renewals)	34,426 (+20,879 renewals)	51,324 (+27,295 renewals)	39,777 (+23,366 renewals)	151,246 (+75,892 renewals)

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 percent 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 May 1, 2004. After the phasing-out of the transitional arrangement on May 1, 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 January 1 – September 30, 2007. Prior to April 30, 2007, there were no sanctions against non-registration, which

¹⁵In Norway there were in 2007 as a whole granted 74,736 individual (work) permits of which 39,736 were first time permits (www.udi.no/statistics), and figures for the first quarter of 2008 indicate that the rising trend is continuing.

may have led to underregistration. According to the Ministry of Labour, not all EU citizens may be aware of the obligation to register.

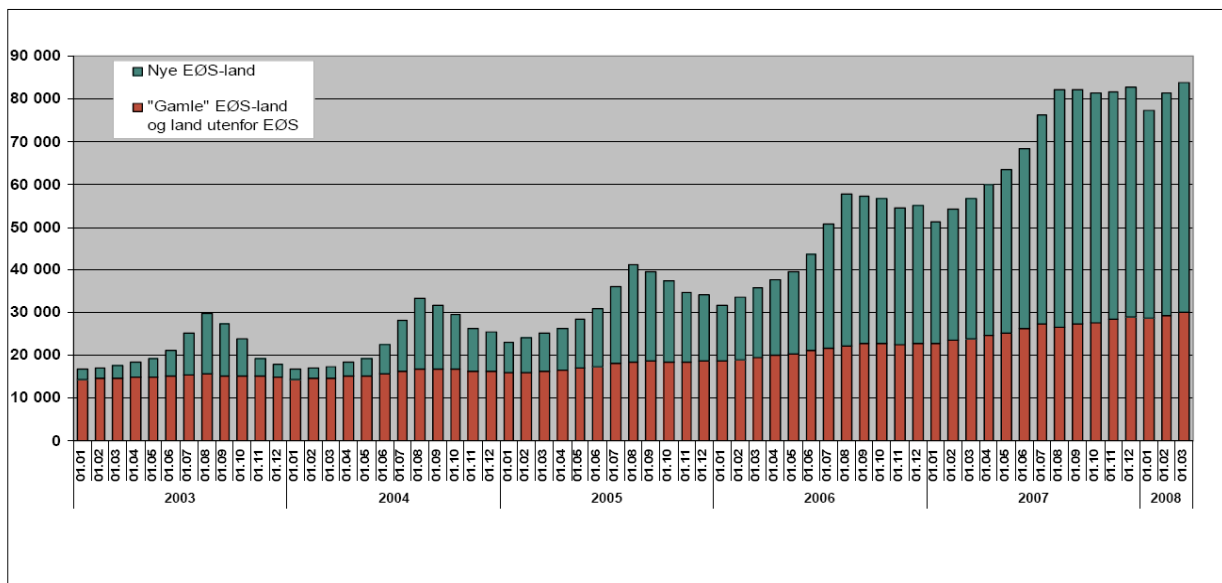
Iceland: The Directorate of Labour (Vinnumalastofnun). Following the phasing-out of the transitional arrangement on May 1, 2006 no work permits are issued, but the employers are obligated to register employees from the new member states.

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 May 1, but we have here chosen to assume that they were issued after May 1. During the period May 1, 2004 – December 31, 2005, 40 percent of the permits were valid for more than three months. During 2006, a total of 58 percent of the permits were valid for more than three months. In the period January 1 – July 31, 2007, a total of 62 percent 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,” as if the person had stayed in Norway continuously.

Sweden: The Swedish Migration Board. Does not include work of less than three months’ duration after May 1, 2004. The figures for renewals/ prolongations include all groups of applications, but are assumed to mainly pertain to workers and businesses. On May 1, 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 May 1, 2006 comprise applications, not permits granted. Approximately 95 percent 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.

Chart A1: Stock of valid work permits in Norway, 1003-2007 – Citizens from EU8+2 above (in green), from other countries below (in red) – mostly EU15



Source: www.udi.no/statistics

The Laval/Vaxholm case

The whole affair began 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 labor 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 labor 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 ninety-eight 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 double 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 November 2, 2004. On November 23 the Swedish electricians' union announced that they would take supportive action, which came into force on December 3.

The case was subsequently submitted to the Swedish Labour Court. The Latvian enterprise Laval un Partneri demanded that the boycott and the supportive

action 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 under 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 December 22, the labor 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 preliminarily 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 favor 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 labor conditions equal to Swedish workers. It emphasized, 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 leaving this decision to the Swedish Labour Court.

The judgment of the ECJ was given on December 18, 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 criticized Sweden's method 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 into which the action intended to force the employer formed part of a national context characterized 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, which 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.¹⁶ Given the similarities of the Danish and Swedish posting regimes, Danish actors are watching closely how the Swedish actors are reconsidering their way of handling problems related to posting of workers and low wage competition.

¹⁶See <http://www.lag-avtal.se/art/7366> and www.lo.se – Nyheter: 28.1.2008.