



The Nordic labour market models and European mobility: Challenges and opportunities

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Nordic Contact Group follows the EU enlargement

- **Appointed by the Nordic Council of Ministers, Fafo is coordinating the group**
- **The group is following the development in the Nordic labour markets after the EU enlargement**
- **Second year report published 12th September 2006**
- **The group will continue its work in 2006-2007**

Nordic transitional regimes after 1 May 2006

- During the first 2 years after enlargement, concerns shifted from fear of social tourism to concerns about lack of labour
- Iceland and Finland repealed their transitional arrangements, but introduced special regulations on information and registration
- Denmark and Norway continued their regimes (some amendments in Denmark)
- Sweden – opened for free movement from 1 May 2004
- No possibility for transitional regulations on the free movement of services

Transitional arrangements in EU-15 before and after 1 May 2006

Transitional arrangements	1 May 2004 - 30 April 2006	Since 1 May 2006
1) Restrictive immigration regimes: EU-8 citizens have the same rights as third country citizens; labour demand assessments or quotas	Belgium, Finland , France, Germany, Greece, Iceland , Italy, Luxembourg, Netherlands, Portugal, Spain	Austria, Belgium, France, Germany, Luxembourg, Netherlands. (All but Austria and Germany have signalled a gradual relaxation of restrictions until 2009)
2) Free access, but requirements for wage levels and working hours	Denmark, Norway	Denmark, Norway (until 1 May 2009) (Some revision in Denmark, more flexible procedures, and aims towards a gradually lifting of restrictions).
3) Free access (some limitations in the access to welfare services in the UK and Ireland)	Ireland, Sweden, United Kingdom	Finland , Greece, Iceland , Ireland, Italy, Portugal, Spain, United Kingdom

Rise in registered individual migration from EU-8 to the Nordic countries

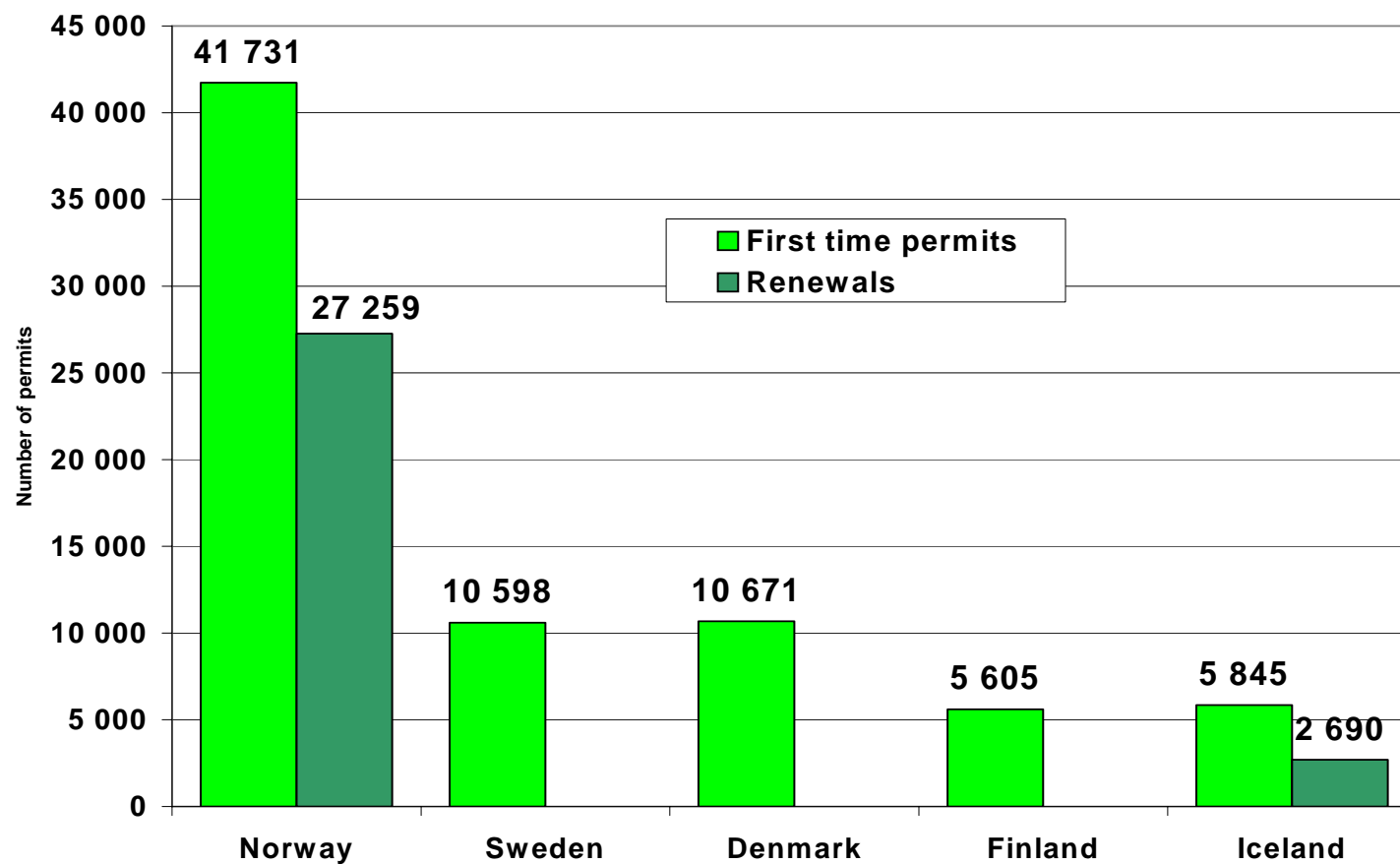
- Surprising Nordic differences in individual migration
- Norway issued most permits
- Strongest growth in Iceland and Norway; high demand for labour
- The transitional regimes have had very different effects, and only cover a small part of the whole picture



Issued work permits to individual labour migrants from EU-8 to Nordic countries 1 May 2004 – 30 April 2006

	2004 (May-December)	2005 (All year)	2006 (January-April)	Total 1 May 2004- 30 April 2006
Denmark	2 097	4 923	3 651	10 761
Finland	2 169	2 633	803	5 605
Iceland	515 (+666 renewals)	2 764 (+844 renewals)	2 566 (+1 180 renewals)	5 845 (+ 2690 renewals)
Norway	16 975 (+3 558 renewals)	19 301 (+17 902 renewals)	5 455 (+5 799 renewals)	41 731 (+27 259 renewals)
Sweden	3 963	4 805	1 830	10 598
Total	25 719 (+4 224 renewals)	34 426 (+renewals	14 305 (+6 979 renewals)	74 450 (+29 949 renewals)

Issued work permits to individual labour migrants from EU-8 to Nordic countries 1 May 2004 – 30 April 2006



The monitoring challenge

Poor statistics on volume, especially on mobility of services

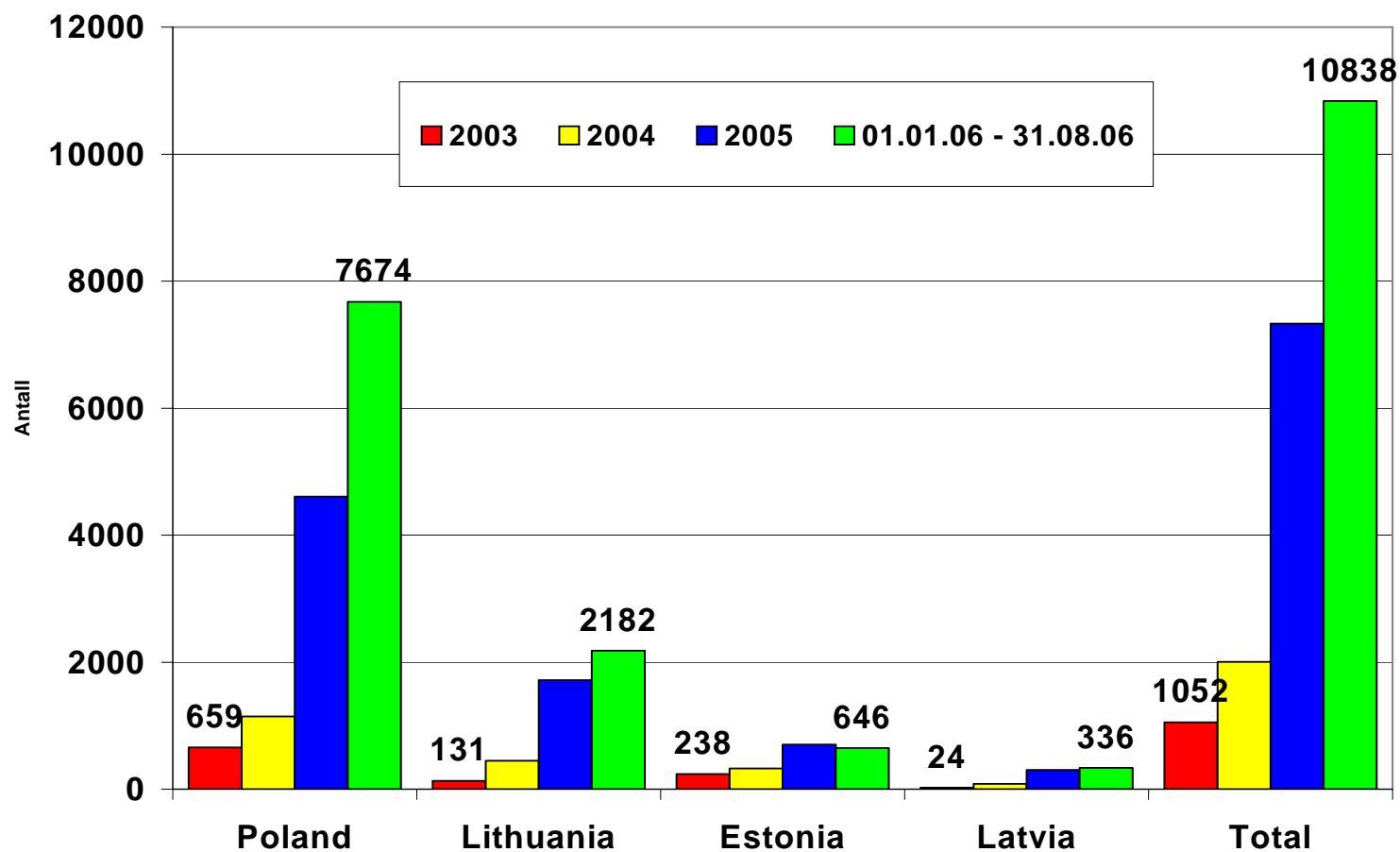
"I think there can be as many as 120 000-130 000 Poles in Norway". (Szostak, Embassy of Poland)

"We do not know the number of labour migrants to Norway". (Norwegian authorities)



(Aftenposten 3. September 2006)

Registered posted workers from Poland and the Baltic states in Norway, 2003-2006

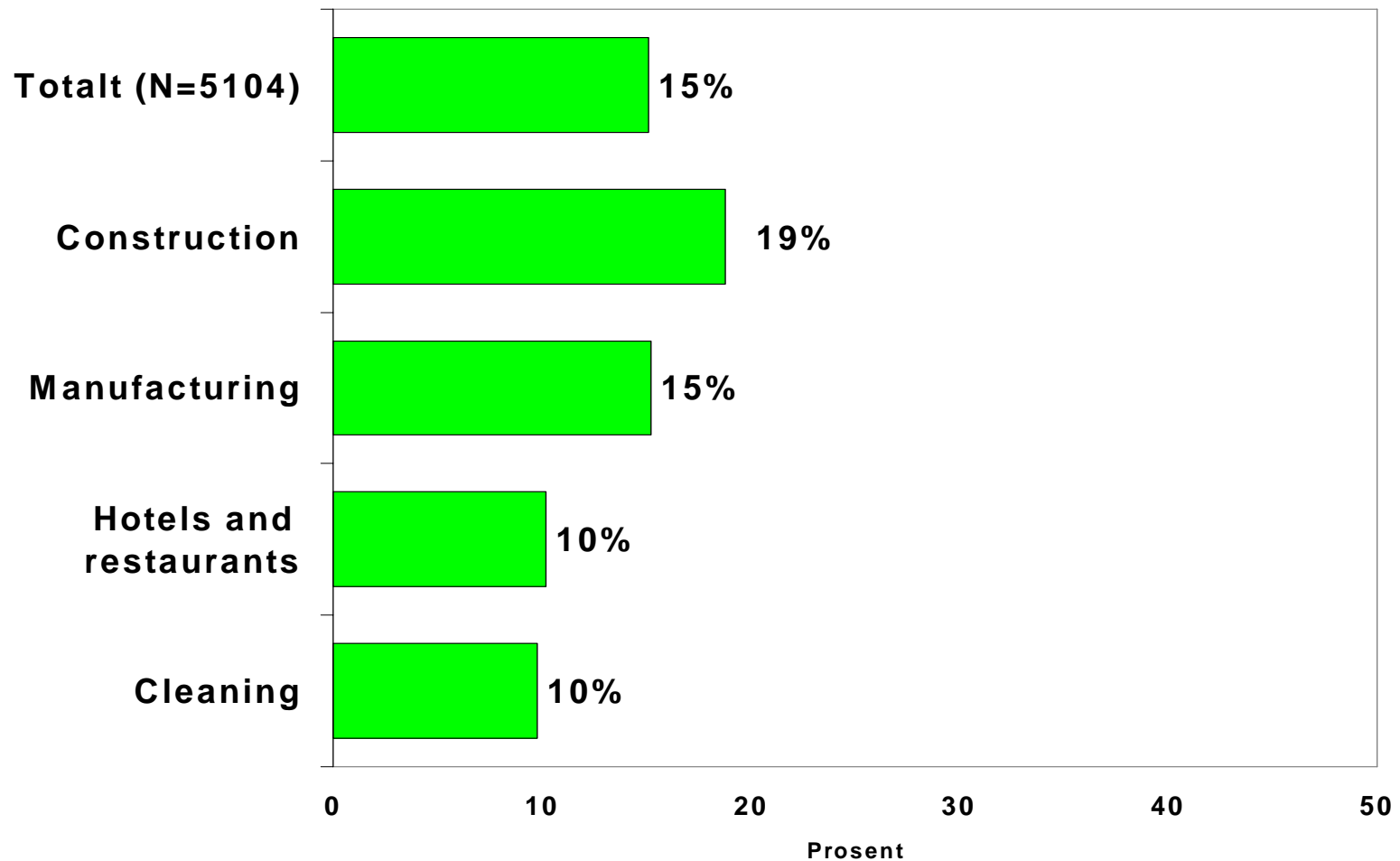


Labour supply: Employers' new strategic choices

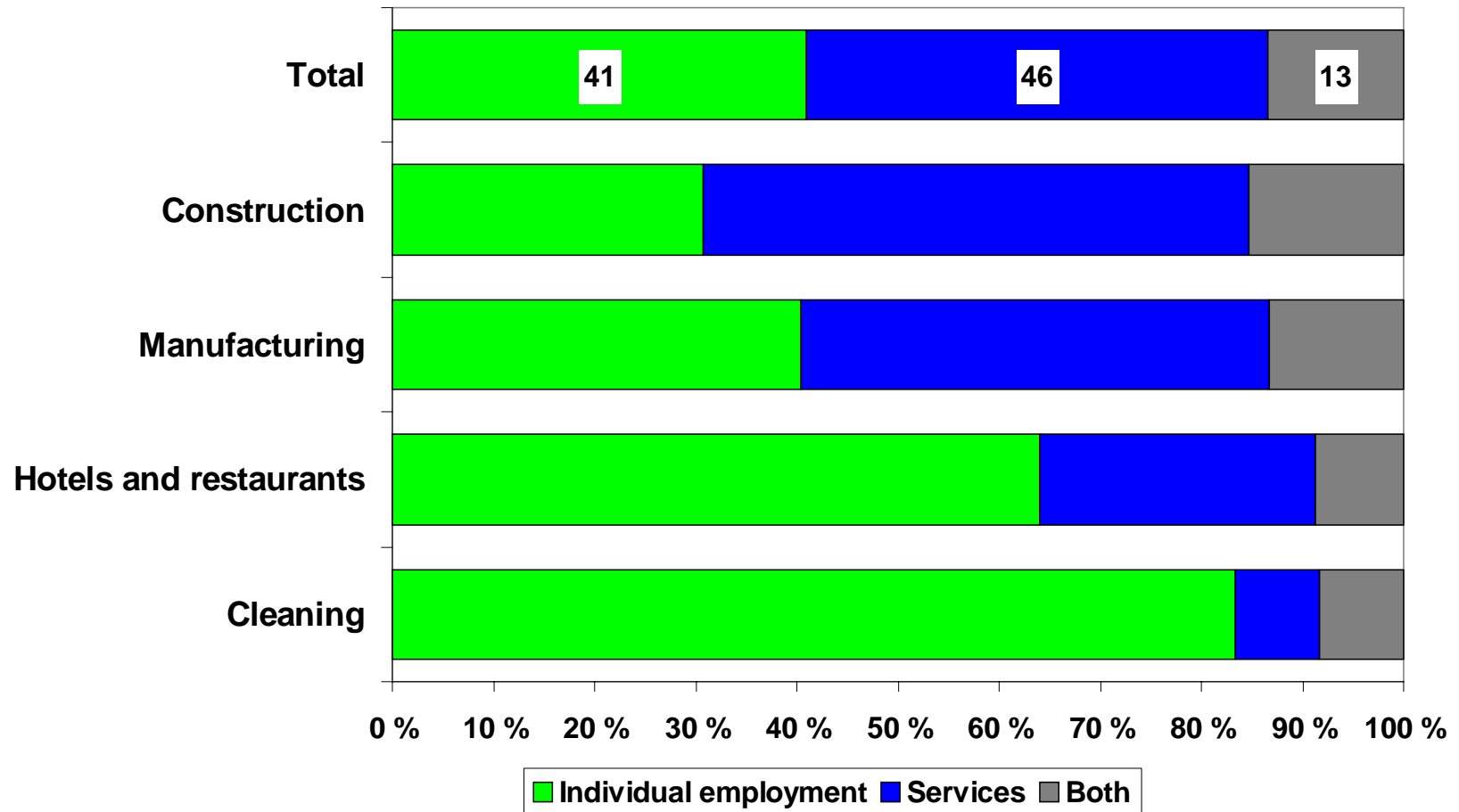
- (1) Hiring individual job-seekers looking for employment in a Nordic firm;
- (2) Hiring temporary service providers or contractors with posted workers;
- (3) Hiring employees from temporary work agencies;
- (4) Hiring independent single-person firms offering temporary services;
- (5) Direct foreign investment, outsourcing and leasing production in EU-8

Huge gaps in labour costs; 10-20 % in EU-8 compared to Nordic level

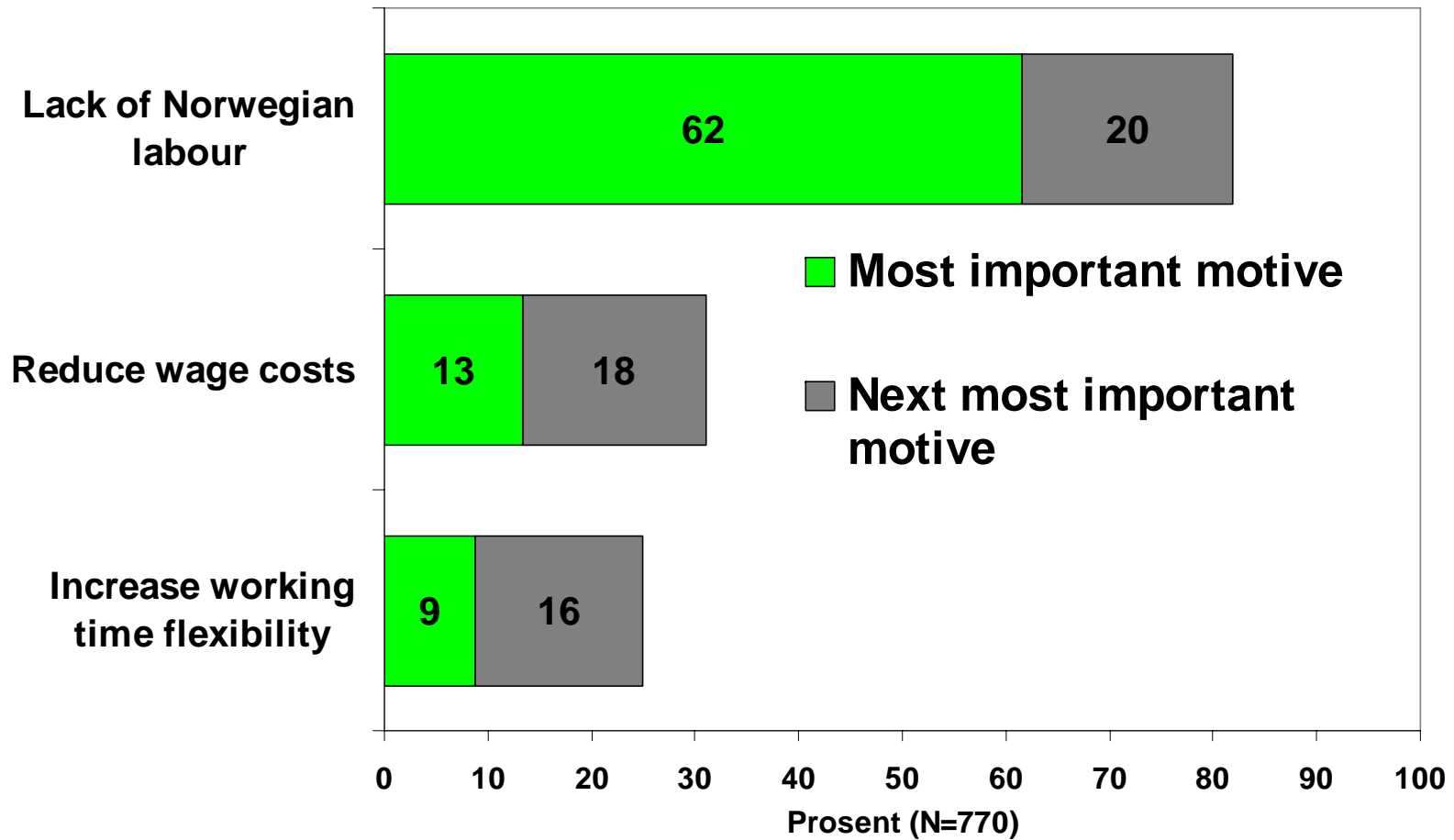
Norwegian companies' use of labour from EU-8



Employment, hire or subcontracting?



Company's motives for using labour from EU-8



Enhanced mobility: Potential benefits

- Access to Nordic jobs, income, experience and training for EU-8 workers create individual opportunities for crossing the welfare gap – ***'climbing the ladder'***
- Access to EU-8 labour and skills bolsters the conditions for growth among Nordic companies – ***'widening the skill pool'***
- Increased supply flexibility and skill matching can improve labour market functioning on all sides – ***'brain gain - greasing the wheels'***
- ***'Narrowing the wage gap'*** - migration can curb Nordic wage growth and accelerate wage growth in the East - ***'learning & market dynamics'***

Enhanced mobility: Potential risks

- Nordic companies 'skimming the milk' of the EU-8 labour markets – **drain of brain, youth and labour can restrain EU-8 growth?**
- **Surging wages** pre-empt the competitive advantage of the new member states and **further restrain the EU-8 catch-up?**
- **National wage structures** in a **European labour market**. Recipe for under-utilisation of European human capital?
 - **Skilled EU-8 labour preferring less qualifying but better paid jobs in the Nordic area causes 'brain waste'?**
- **Employer 'regime-shopping'** poses pressures on wages and industrial relations in both ends – propelling influx of labour from further East?
- How can we share the benefits and minimise the risks?

Regulation of wage levels and labour conditions for workers from the EU-8 in the Nordic countries

	Denmark	Finland	Iceland	Norway	Sweden
Wages, individual labour migrants from EU-8	77 % coverage of agreements in the private sector <u>Until 2009:</u> Transitional arrangement; "Danish conditions"	90% coverage of agreements (publ/priv) Widespread extension of collective agreements	90 % coverage of agreements (publ/priv) Legislation ensures min. wage in coll. agreements as a minimum	53 % coverage of agreements private sector <u>Until 2009:</u> Transitional arrangement; "Norwegian conditions" Extension of agreements	90 % coverage private sector
Wages, posted workers from EU/EEA	Accession agreements with local negotiations, or entry into employers' org., making coll. agreement mandatory	Extension of coll. agreements Tariff wages required by the Posting of Workers Act	Extension of coll. agreements Tariff wages required by the Posting of Workers Act	Home country conditions unless generalised (mainly in construction)	Accession agreements Lex Britannia

Regulation of wage levels and labour conditions for workers from the EU-8 in the Nordic countries

- Finland – *statutory generalisation of collective agreements*, supplementary statutory regulation of wages as well as rules on notification, liability, 'ombudsmann' etc
- Island – *statutory generalisation of minimum wages*, new rules on hiring firms
- Denmark – *autonomous social partner regulation of wages* implemented by trade unions (if necessary by boycott / sympathy action)
- Sweden – *similar regime - challenged in the Vaxholm/Laval-case* (ECJ)
 - New framework agreement between social partners -> labour peace, Swedish conditions, and insight in subcontractors' wages – resolving the Vaxholm 'knot'?
- Norway: *So far a 'free haven'* but conflicts over social dumping has led to increasing statutory extension of collective agreements

External liberalisation of the labour and service markets has prompted stricter internal approaches to regulation and control of labour market practices

Control challenges

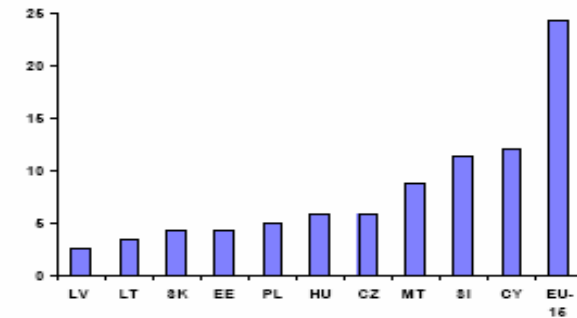
- Large control problems in all Nordic countries, regardless of level of regulations
- Numerous stories on social dumping and low wage competition
- Labour inspectorates, tax authorities, police and trade unions all experience major capacity problems
- Unsolved problems related to efficient sanctions

Host or home country wages?

Does free movement of labour imply free wage competition?

- The employment contract is a social relation – very different from trading commodities
- The Nordic insistence on host country standards - pure protectionism?
 - > Principle of equal pay for equal work - non-discrimination
 - > Paying EU-8 workers in the Nordic countries home wages would undermine the competitive advantage of EU-8 and conversely reduce their inflow of investment
 - > Different national systems and standards is a precondition for sound 'regime competition' and upward convergence in the single market
- The alternative would unleash a negative domino effect – cf Ukrainian wages in Poland – prompting a shift to the 'low road' where the 'high-road' is called for

Graph 29: EU-10 and EU-15: Average hourly labour costs in euro, 2004



Source: Eurostat

Are the Nordic models still viable in open labour markets – and how accessible are they for outsiders?

- The Nordic models of 'high-trust' cooperative labour market governance were developed to cope with global competition in small open economies
- The models still work quite well, but the new low-cost competition faces the social actors with demanding monitoring and complicity challenges
 - > Creating need for a stronger helping hand from the state?
- The legacy of equality, high wages and decent treatment of workers makes the Nordic labour markets attractive for foreign labour and
- Face the actors with delicate balancing acts between protection of acquired standards and integration of new-comers with different norms & customs

Globalisation in miniature?

- Gaps in wage-setting, taxation and social security alter the terms of labour market competition both *within* and *across* countries
- Nordic countries have seen modest labour immigration but a drift towards outsourcing, subcontracting and posting of workers after enlargement
- Opening of the EU/EEA-market has triggered (illegal) migration from 3.countries
 - > growing transit - and chain migration raises a two-front challenge for national labour market governance in EU-8
- How to enhance mobility AND equal opportunities?

More information:

Nordic Council of Ministers' Report:

<http://www.norden.org/pub/velfaerd/arbetsmarknad/sk/TN2006558.pdf>

Fafo's Forum on EU Enlargement:

<http://www.fafo.no/Oestforum>

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