

Opening the Danish labour market to citizens of Eastern Europe has been a success

Many Eastern Europeans have now come to Denmark to live and work. They are achieving success in finding employment, and it is likely that they will make a significant contribution to the financing of the future welfare of the country.

These are the principal conclusions of a recent project conducted by the Rockwool Foundation Research Unit on the uptake of Eastern European nationals on the Danish labour market. The project concerns the consequences of the eastward expansion of the EU for the Danish labour market and for the welfare state. Among other things, it has provided the first data on the total number of Eastern European workers in Denmark. It has emerged that after the expansion of the EU in 2004, the number of Eastern European nationals on the Danish labour market tripled – from less than 10,000 in 2003 to almost 30,000 in 2007.

Most of these new immigrants are Poles or nationals of the Baltic countries, and the great majority have found employment with Danish companies.

The research project, entitled *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU), has been carried out in collaboration with the Centre for Economic and Business Research (CEBR) at Copenhagen Business School.

Torben Tranæs, Director of Research at the Rockwool Foundation Research Unit, believes that the new studies have produced many very important findings. “One of the most robust of these findings is that this is precisely the type of immigration that can bring great benefits to Danish society. It is not unrealistic to suggest that in the future, immigration from the new EU member states may make a much-needed contribution of up to four billion Danish kroner annually to state finances,” he states, adding that “without such a contribution, govern-



Note: The figure shows data for wage employed (including commuters from overseas), self-employed, and overseas employees stationed in Denmark, though data for commuters from overseas are only included from 2005 onward.

Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Since the eastward expansion of the EU in 2004, the number of Eastern Europeans on the Danish labour market has tripled.

ment experts are talking of an annual deficit in state finances of about fourteen billion kroner in a few years' time.”

The project has also produced a number of other conclusions. For example, there is evidence that employing a foreign expert in a Danish service company is good for both the company and the other employees. Companies with foreign experts are more productive, and salaries there rise more quickly than in competing firms.

At the same time, however, it has been found that highly-educated immigrants are those who are most likely to remigrate from Denmark after a period in the country: the more education people have, the greater the likelihood that they will leave to apply their talents elsewhere.

Finally, it emerges from the study that people's beliefs about the economic results of immigration play a part in forming their attitudes to it. Those who expect to be adversely affected in their personal finances are more negative towards immigration than others. The study also shows that in general, Danes display no greater antipathy towards immigrants than other Europeans do.

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Eastern Europeans could benefit the Danish welfare state

New calculations by the Rockwool Foundation Research Unit show that immigration can be an advantage for public finances – in any case, when the immigrants in question come from EU member states in Eastern Europe. Immigration from these countries could increase state revenues by up to four billion Danish kroner per year.

Previous studies, including research by the Danish Welfare Commission and the Danish Economic Council, have concluded that in general increased immigration cannot be expected to produce a financial surplus, and that many immigrant groups will produce a public finance deficit.

The reason for the discrepancy in the findings is that the new study focuses exclusively on Eastern Europeans and people from similarly advanced countries who have access to the Danish labour market.

Eastern Europeans are distinct from other immigrant groups, who often come to Denmark because of war in their home countries or for family reunification. The Eastern Europeans typically come to Denmark simply to work; and when they work in Denmark, in most cases they also become liable to Danish taxation.

Eastern European immigrants are different in another way, too. The men often come to Denmark without their families, so that they make relatively little use of state services such as child day-care, schooling and the public health system.

In consequence, they could create a surplus of up to DKK 4 billion per year, according to calculations made using the DREAM model, which has been developed to analyse the long-term consequences of changes in the composition of the population.

A significant contribution

The DKK 4 billion which may accrue annually as a result of the immigration of Eastern Europeans could make a significant contribution to overcoming the future economic problems of the welfare society. The Danish government's own financial estimates in the "2015-Plan" show that in the course of the coming years the annual shortfall in taxation income will reach approximately DKK 14 billion per year, while the Danish Economic Council has previously forecast-

TABLE I
Eastern European immigration to Denmark and the economic challenges of the future

	DKK billions in 2008 prices
Expected fiscal shortfall according to the government's 2015-Plan	14
Net positive contribution from Eastern European immigration	4
Remainder to be covered	10

Source: The DREAM group, on behalf of the Rockwool Foundation Research Unit

Immigrants from the new EU member states may cover more than 25% of the expected fiscal deficit – DKK 4 billion out of a total shortfall of DKK 14 billion

ed a deficit closer to DKK 25 billion. The reason for the forthcoming problems for state finances is that a large proportion of the population will soon retire from the labour market as they grow older.

According to Professor Jan Rose Skaksen of the Centre for Economic and Business Research, which carried out the research in collaboration with the Rockwool Foundation Research Unit, Eastern European labour seems likely to make a very significant contribution towards dealing with the problem. "If we

Immigration of labour from Eastern Europe could cover more than 25% of the Danish government's future fiscal shortfall

JAN ROSE SKAKSEN

take as our basis the DKK 14 billion deficit predicted by the Government's 2015 plan, then immigration of labour from Eastern Europe will take care of more than 25% of the future financing problem," he points out.

It will not take a very high level of immigration from Poland to provide the annual injection of DKK 4 billion. On the contrary, immigration only has to continue at the present rate, and by 2040 there will be 85-95,000 additional members of the Danish population with Eastern European backgrounds.

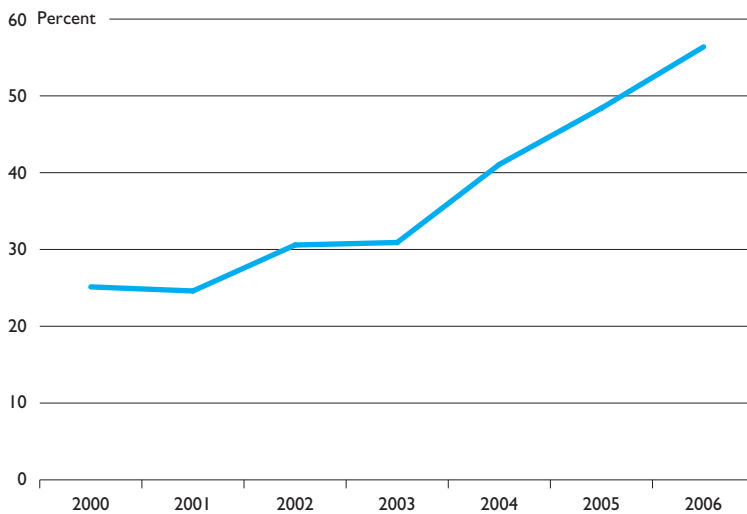
This calculation is based on a net annual immigration of 3,000 people, which is approximately the net level from Eastern Europe seen since the expansion of the EU in May 2004.

Coming to Denmark to work

There are many factors which determine

FIGURE 2

Rate of employment among Eastern European immigrants, one year after arrival



Note: The figure relates to immigrants aged 30-65 years who arrive in Denmark in a given year. Employment rates are calculated in terms of full-time jobs in the year after arrival.

Source: Own calculations based on the IDA database (the Integrated Database for Labour Market Research) at Statistics Denmark.

whether an immigrant contributes to or draws upon public funds.

One important factor is whether an immigrant arrives as an adult, is active on the labour market and pays taxes from the outset, or whether in contrast he or she arrives as an infant and uses public services such as day-care and schooling before first paying taxes many years later.

An Eastern European immigrant who comes to Denmark as an adult and who is in employment makes a much greater contribution to state funds than a new-born Dane, who requires a net outlay from public funds for many years during the first stages of life.

The fact that previous analyses of the significance of immigration have not shown a financial surplus accruing is primarily linked to the level of employment among immigrants.

The rate of employment among immigrants – even those from developed countries – is not as high as that among native Danes, which means that even though many immigrants arrive as adults, the overall effect of immigration from developed countries has been roughly neutral in financial terms.

However, there are firm grounds for optimism with respect to future immi-

gration from the new European member states. Since the expansion of the EU, the pattern of immigration to Denmark has changed; many Eastern Europeans come to the country simply to work. As a result, employment levels one year after arrival have increased dramatically among newly-arrived immigrants from Eastern Europe, from around 25% at the beginning of this century to around 55% in 2006 (for people aged 30-65 years). Employment rates increase quickly during the period after arrival. Given that the rate of employment is as high as 55% after just one year of residence, it is not unrealistic to suppose that future immigrants from Eastern Europe will achieve the same employment levels as native Danes of working age in the long term.

The annual net contribution of DKK 4 billion to the Danish state finances will be reached if future immigrants from Eastern Europe achieve the same rate of employment as native Danes. The calculations are also based on the assumption that the gender mix among the immigrants will remain the same as in 2008, namely 75% men and 25% women. Given that men have a higher rate of employment than women, this assumption is of significance for the calculation of the total surplus.

The economic benefit of immigration will be reduced to under DKK 2 billion per year if the Eastern European immigrants of the future only manage to make up half the current difference in rates of employment between them and native Danes – i.e. if they fail to match the level of employment among Danes. This calculation is also based on a revised assumption with regard to the gender mix, with the proportion of men being reduced to 60% in the future immigration.

In none of the calculations has the estimated future average level of employment been increased to take account of the fact that Eastern European citizens are free to enter and leave Denmark as they wish, depending on whether the employment situation is good or bad in Denmark. All else being equal, this is a factor which can be expected to increase the average level of employment among immigrants, since past experience shows that some unemployed immigrants are likely to return home in periods of high unemployment.

Three times as many Eastern European workers in just a few years

The eastern enlargement of the EU in 2004 has led to a significant increase in the arrival in Denmark of labour from Eastern Europe. In the space of just three years, the number of Eastern European nationals on the Danish labour market tripled.

In 2007 almost 30,000 Eastern Europeans were working in Denmark, while in 2003 and 2004 the figure was only around 10,000.

The increased flow of labour from the east has followed in the wake of the admission in 2004 and 2007 of twelve new member states to the EU, mainly in Eastern Europe. In principle, that gave the people of these Eastern European countries the right to go and work wherever they wished in the EU. But this was only in principle. In most of the “old” EU countries, the free movement of labour was restricted through various transitional ordinances.

In Denmark, a broadly-based majority in the Danish parliament approved the Danish transitional ordinance at the end of 2003; the terms of this have subsequently been revised several times. Under these rules, employees from the new EU member states have to obtain residence and work permits before they can begin work in Denmark.¹ However, this relatively minor limitation clearly has not prevented many more Eastern European workers being employed in Denmark than was the case previously.

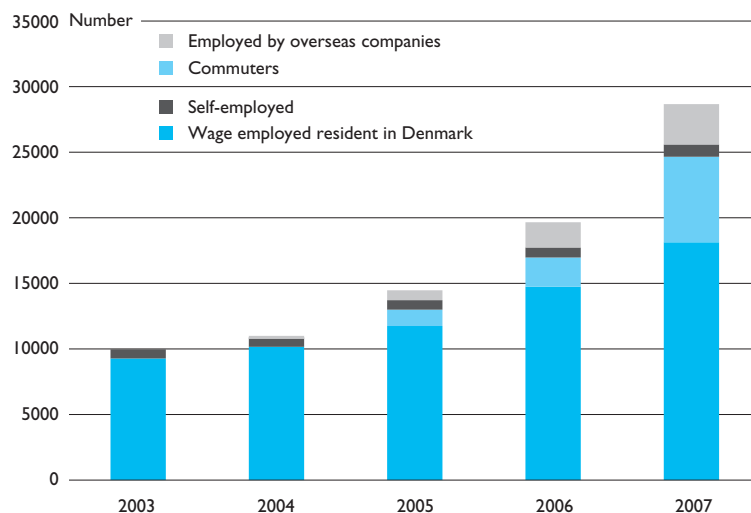
There are three different ways whereby people from the new EU member states can come to Denmark to work: they can be employed by Danish companies, they can establish their own companies in Denmark, or they can be stationed in Denmark by employers based overseas.

Working for Danish companies

The first route to immigration – employment by a Danish company – is by far the predominant one. For example, a Polish carpenter can take up employment in Denmark, provided only that the rules are ob-

¹ This was the case in April 2009, when this Newsletter was published in Danish. In May 2009 the transitional ordinance expired, and was not renewed. Since then, citizens of the new EU member states have been able to live and work in Denmark on the same terms as other EU citizens.

FIGURE 3
Eastern European labour in Denmark, 2003-7



Note: The figure covers wage employed (including commuters from overseas), self-employed, and overseas employees stationed in Denmark. Data for commuters from overseas are only included from 2005 onward. The figures for wage employed and self-employed living in Denmark are based on the total number of immigrants in 2007 divided according to the proportions of wage employed and self-employed registered in 2006.

Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Nine out of ten Eastern European citizens who work in Denmark are ordinary employees of Danish companies. The greater proportion of them are resident in Denmark, but some commute between their homes abroad and their work in Denmark. Recently, however, the number of commuters has increased significantly.

served: he must be employed on normal Danish terms, at a standard wage rate (e.g. the rate fixed under the relevant collective bargaining agreement). If these conditions are satisfied, residence and work permits will be issued.

Our analysis is the first to present a complete picture of the extent of the immigration of labour to Denmark from Eastern Europe.

NIKOLAJ MALCHOW-MØLLER

As Figure 3 shows, in 2007 almost nine out of every ten Eastern European nationals on the Danish labour market were employed by Danish companies. The great majority of these – three out of every four – resided in Denmark; the remainder commuted from their home countries.

Another way of working in Denmark is to establish a company in the country. The same Polish carpenter, then, could opt to move to Denmark and be self-employed: the transitional ordinance places no restrictions on this right. However, accord-

ing to Nikolaj Malchow-Møller, Research Director at CEBR, this is the least frequent choice: of the nearly 30,000 East European nationals working in Denmark in 2007, fewer than 1,000 were self-employed.

Our carpenter has a third means of working in Denmark. He can remain in the employ of a Polish company, but a company which carries out work in Denmark. According to the transitional ordinance, the only restriction is that an employee of a firm in a new EU member state who is stationed in Denmark should be a permanent employee of the company, and should obtain residence and work permits if the period spent in Denmark is to exceed three months.

Naturally, there is a substantial element of uncertainty in calculating the number of people working in Denmark on this basis. The estimates suggest, however, that there has been a dramatic growth in this type of work over the past few years – from just over 100 employees in 2004 to more than 3,000 in 2007. Nevertheless, the total number of people working in Denmark but employed by companies overseas still accounts for just one tenth of the Eastern European nationals working in Denmark.

Poles dominate

Among the Eastern European immigrants living and working in Denmark, Poles are clearly the dominant group. They make up

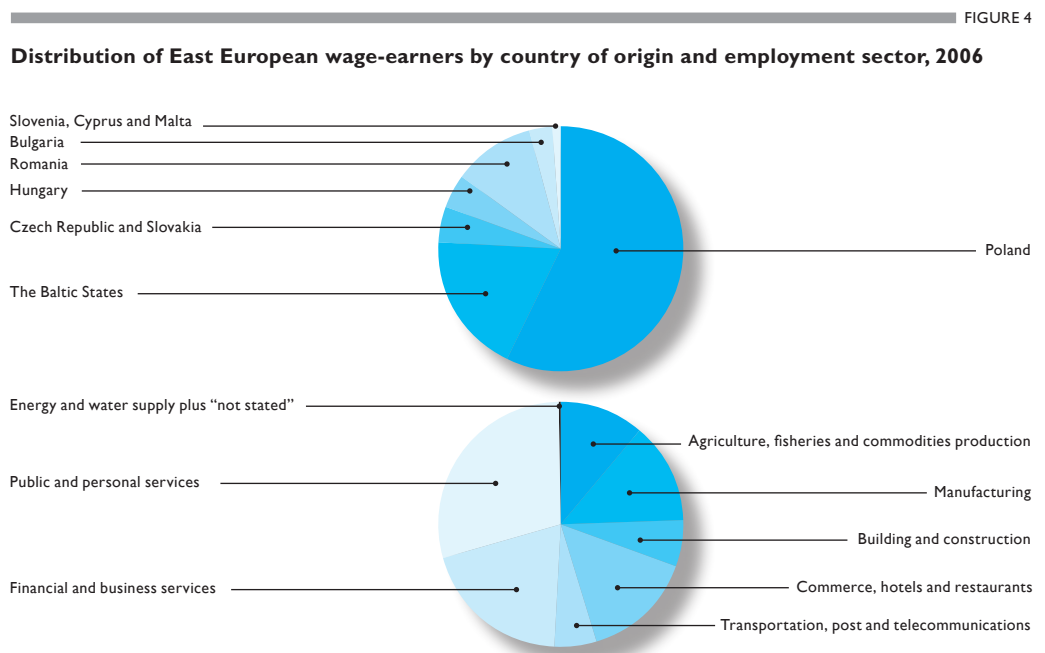
nearly 60% of the Eastern European employees working in Denmark, as Figure 4 shows.

Nationals of the Baltic states also make up a substantial group of immigrants. Nearly 20% of the Eastern European employees in Denmark come from Estonia, Latvia or Lithuania.

Contrary to popular belief in Denmark, Eastern Europeans are not disproportionately employed in the building and construction sector. They are in fact employed in many different sectors; the one in which the most Eastern European immigrants to Denmark are employed is the very broad public and personal services sector, which covers places of employment from hospitals to hairdressers, and includes the entire state educational system.

Only one Eastern European immigrant in twenty is employed in the building and construction sector. This distribution of employment, however, owes much to the fact that few of the Eastern European immigrants living in Denmark before the expansion of the EU were employed in this sector. It is in fact the building sector which has seen the greatest relative growth since the admission of the new member states. In 2001 only 174 Eastern European immigrants were employed in the building and construction sector; in 2007 the figure was 1,122 people – a rise of a full 600 percent.

Poles make up the largest group among Eastern European employees in Denmark. Six out of ten come from Poland. It is far from true, as popularly imagined in Denmark, that all East European immigrants are employed as bricklayers, carpenters and painters in the building and construction sector. The sector that employs the greatest proportion of Eastern Europeans is in fact public and personal services – which includes hospitals and the education system.



Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Private households do not (yet) employ foreigners very often – and when they do, it is usually on a formal basis

When a private household in Denmark needs a window replaced, the house cleaned or a tree in the garden cut down, he or she typically employs Danes to do these jobs. And if the work is sometimes done by a foreigner, it is usually all above-board, with a proper invoice. It does sometimes happen that foreigners are paid “under the table”, but it is more common for the work to be undeclared when native Danish labour is employed.

The explanation is probably simply that people do not contact a Polish building company to have a single window replaced. A Polish building firm might come into the picture for a large-scale project – and such projects are normally properly invoiced. If, for example, a household wants to have a new roof, renovate the facade of the house and have all the windows painted, then in most cases he or she will be reluctant to use moonlighters for the job.

In 2007 and 2008, the Rockwool Foundation Research Unit asked almost 14,000 people aged between twenty and seventy-two whether their household had employed foreign labour within the previous twelve months. “Foreign labour” was defined in this case as workers who were commuters from their home countries or living temporarily in Denmark. The responses indicated a variety of trends.

First, the survey showed that very few Danes had employed foreign labour privately – only just over 1% of those asked said that they had done so. Extrapolating this figure to cover the whole population, this would suggest that around 38,000 Danes employed foreign labour privately over a twelve-month period.

The survey also revealed that when foreign labour is used by private households, it is primarily for work in one of just three areas. By far the greatest number of instances are concerned with building projects, but cleaning and gardening are also represented. The third conclusion from the survey is that the jobs for which foreign workers are employed are significantly larger in

scale than those for which Danish labour is used. The respondents were asked to estimate the number of hours used for each job. Foreign workers were used for tasks that were on average three times larger than the jobs for which Danes were hired.

The fourth and final conclusion concerned the proportion of work done which was not fully legal and above-board. The respondents were asked whether they thought that the people who carried out the work did not have work permits, or were not planning to declare the income for tax. Estimates based on the responses suggest that this was the case for 16% of the work done by foreigners in Denmark.

The figure of 16% must, however, be regarded as very uncertain, in part because respondents may have been reluctant to state that they had used foreign labour, especially if they thought the workers were employed illegally or were not declaring the income.

Previous studies by the Rockwool Foundation Research Unit have indicated that payments for approximately half of all the hours worked on the maintenance and repair of Danish homes are undeclared. When foreigners are employed, it seems that this is the case for only 16% of the hours worked, or just over one hour in six. There is strong evidence, then, that the demand from Danish households for undeclared work carried out by foreigners is less than the demand for such work done by Danes.

Despite this, non-declaration of work income may be proportionally just as great a problem among the foreign population as it is among Danes. This is because Danes are employed in a wide range of occupations, including sectors where there is virtually no opportunity for undeclared work. Foreigners, in contrast, are employed in a much narrower range of occupations, and typically in sectors where much undeclared work goes on.

Companies employing foreign experts are more productive and pay higher salaries

When a private Danish service company appoints a foreign expert, it's good news – both for the company and for its Danish employees.

Private companies in the services sector which have appointed foreign experts to their staff have enjoyed greater success than their competitors in recent years.

Their productivity has increased more rapidly; in the period 1999-2005 these firms saw an increase in their productivity of seven percent above that of other companies. "Productivity" in this context is an expression of the amount that can be produced per hour with a given quantity of staff, machinery, buildings, etc.

According to Jakob Roland Munch of the Centre for Economic and Business Research (CEBR), Copenhagen Business School, who carried out the analyses in cooperation with the Rockwool Foundation Research Unit, the increased productivity has had a carry-over effect on the salaries paid to staff. "Wages increased by an additional three percent over the period 1999-2005 in those service companies that employed foreign experts," he states. The same tendency was visible in other business sectors, but the effect found was not as statistically robust. The analysis was based on Danish register data concerning all foreign experts working in Denmark.

Our analyses show that service industries that employ foreign experts are more successful – both in terms of their productivity and the wages they pay.

JAKOB ROLAND MUNCH

The fact that wages increased along with productivity is hardly surprising. Each individual employee was more productive, and could therefore demand higher pay.

Several possible explanations

The results of the study do not necessarily mean that every company owner should seek to employ foreigners in the hope that they will contribute to increased earnings.

It is not proven that the companies' productivity increased because of the foreign experts. The explanation could, in fact, be the reverse: companies that were more productive and progressive than others had for that very reason difficulty in finding a sufficient number of qualified Danish employees, and employed foreigners because of their greater need for staff.

However, even if the latter is the true explanation, it can still be concluded that foreign experts are important for the companies and thus for the Danish economy. One consequence of foreign experts making themselves available for employment in Denmark is that highly productive companies can remain based in the country despite the fact that there are not enough qualified employees available on the domestic labour market.

Thus, at the very least, foreign experts play an important role in retaining productive or valuable companies in Denmark. However, several theories suggest that foreign experts actually have an even greater significance, and that they do make companies more productive.

One theory is that when a company begins to employ foreign experts, this gives the company access to a global labour market, thus allowing greater opportunities for finding employees with precisely the skills needed by the company.

Another theory is that foreign experts bring new knowledge to the company. For example, they may come from a different research environment, or they may bring with them experience of a different management tradition. They may also have special knowledge of overseas markets, which can be very useful in connection with ex-

TABLE 2

The effect of foreign experts on productivity and on the wages of Danish employees in Danish service industries

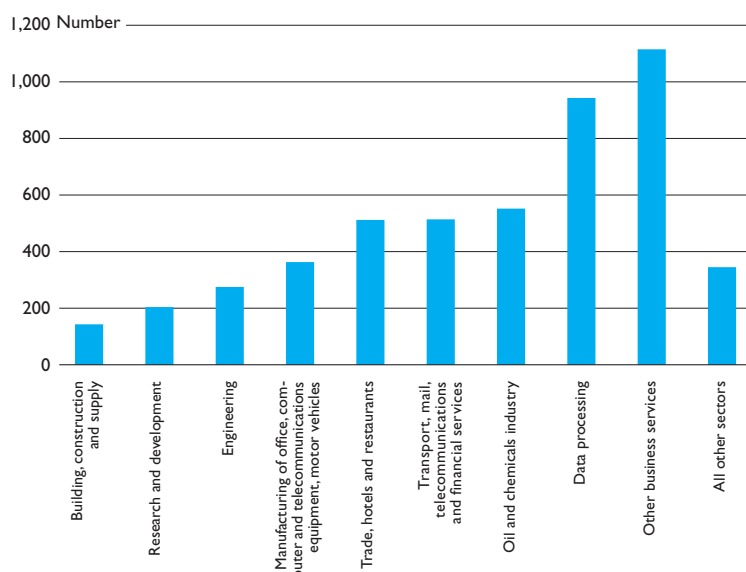
	Productivity	Wages
Extra increase 1999-2005	7%	3%

Note: Only companies with at least 10 employees are included in the analysis. State organisations are not included, since there are major methodological problems in measuring their productivity.

Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Private companies in the services sector which employ foreign experts have seen larger increases in productivity and wages than other service companies.

Number of foreign experts employed in different sectors in 2005



Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Foreign experts are often employed in sectors where competition is international, and where production is based on scientific knowledge. Five sectors account for almost 75% of the nearly 5,000 foreign experts working in the private sector in Denmark.

and “Transport, mail, telecommunications and financial services” sectors also make use of a number of foreign experts. Together these five sectors account for the employment of almost 75% of all foreign experts in the private sector.

ports and imports. An Estonian engineer not only has knowledge of Estonia but also has a network there, and that can be invaluable for a company that wishes to sell or buy products on that market. The expert can help the company to negotiate local regulations successfully, find the most appropriate distribution channels, and so on.

Foreign experts are particularly important in the IT and medical industries

Although there may be many advantages to using foreign expertise, there can also be costs involved. For example, the use of a foreign language in internal communications may create problems, and there can be additional staff recruitment costs. Consequently, it will not be to the advantage of all companies to use overseas experts.

In addition, foreign experts are very unevenly distributed across business sectors. In many sectors there is no use for either Danish or foreign experts. This is true of, for example, domestic service industries such as hairdressing, construction, etc.

Experts are typically employed in knowledge-intensive or internationalised industries. These include in particular “Oil and chemicals” (which includes pharmaceutical companies), “Data processing”, and “Other business services”, which includes consultancy work of various types. The “Commerce, hotels and restaurants”

How companies are compared

The analysis was based on a study of private companies with at least ten employees and which employed no foreign experts in 1999.

The productivity of companies which began to use foreign experts during the period 2001-2003 was compared with the productivity of companies which did not begin to employ foreign experts during that period.

Foreign experts are defined as people that are classified by Statistics Denmark as working with expertise and skill at the highest level in their field, and who originate from countries other than Denmark.

There are other factors that can affect produc-

tivity besides starting to employ foreign experts. One possibility is that an increase in overall use of experts of all origins, both Danish and foreign, can increase productivity. A correction was therefore made in the analysis for the significance of increased use of Danish experts.

Another possibility is that foreign experts may be used particularly in companies that export their production. There are many analyses which suggest that exporting companies are more productive than others. A correction was therefore also made in the analysis for companies' levels of export sales.

Highly-educated immigrants leave the country again

Highly-educated immigrants leave Denmark more often than other immigrants.

This is the finding from a study of register information on all immigrants who arrived in Denmark during the period 1986-2005, and who were resident in Denmark at the turn of at least one calendar year.

The significance of income with regard to whether immigrants leave Denmark again is perhaps a little surprising, in that it is both the highest and the lowest paid who remigrate most frequently. "So from this perspective it looks as though there is something in the idea that the Danish welfare state appeals to people in the middle income bracket," suggests Professor Jan

Rose Skaksen of CEBR. The picture is very complex, however, with respect to the significance of attachment to the labour market. On the one hand, people who are not part of the workforce are very likely to remigrate. On the other hand, people who are receiving social security benefit payments are less likely to leave the country than other immigrants.

To be expected

The fact that the highly-educated and the highly-paid are more mobile than others is not very surprising. The more education people have, and the higher their earning potential, the better the chances they have of obtaining permission to immigrate to other places in the world, and to succeed there, if Denmark fails to measure up to their expectations.

The high frequency of remigration of those at the other end of the income scale – the low-paid and those without jobs – seems rather less predictable. On the one hand, one might expect that such people would be so disappointed with the lack of opportunities they have found in Denmark that they would have reason to leave. On the other hand, however, the social welfare benefits available in Denmark are more favourable for the unemployed who previously had low-waged jobs, and for people outside the labour market, than they are in most other places in the world, and this might induce people to stay. The effects found suggest that both these factors apply.

In addition to financial factors, there may be sociological reasons why some immigrants have a greater propensity to remigrate than others. These factors are also analysed in the study.

EU citizens return home

The composition of the immigrant population as a whole is quite complex. At one end of the spectrum are immigrants from Denmark's neighbouring countries who have planned a temporary stay in the country in connection with education, an overseas posting, or the like, and who are very likely to remigrate. At the other end of spectrum are people from the poor countries of the world who have fled to Den-

TABLE 3

Factors that affect remigration

Higher education	Increases remigration
High income compared to the average	Increases remigration
Low income compared to the average	Increases remigration
Out of the labour force (compared to wage earners)	Increases remigration
Unemployed (compared to wage earners)	Slight tendency to increase remigration
Receiving social security benefits	Reduces remigration
Self-employed (compared to wage earners)	Slight tendency to reduce remigration
Origin EU Eastern Europe (compared to "old" EU countries)	Reduces remigration
Origin other developed countries (compared to "old" EU countries)	Reduces remigration
Origin less developed countries (compared to "old" EU countries)	Reduces remigration
Married/cohabiting	Reduces remigration
Married to/cohabiting with a Dane	Reduces remigration
Has children	Slight tendency to reduce remigration
High proportion of immigrants of same nationality in municipality	Reduces remigration
High proportion of immigrants in the municipality	Increases remigration

Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Financial and sociological factors that influence whether or not immigrants decide to remigrate.

mark because of war and its consequences in their home countries and have no realistic chance of returning.

The study by the Rockwool Foundation Research Unit shows that immigrants from the “old” EU countries leave Denmark more often than immigrants from developing countries. Furthermore, the EU nationals who leave Denmark generally return to their home countries. The opposite applies to immigrants from developing countries; in this case, the majority migrate to a third country if they leave Denmark.

These differences have been taken into account in the statistical analyses. It can thus be seen that it is not because they come from the “old” EU countries that highly-educated immigrants frequently leave Denmark. The analysis has been de-

signed to separate out the effects of each factor. The results show that highly-educated immigrants leave Denmark more often than others all else being equal.

Local networks

Another factor that is found to have relevance for remigration is the number of other people of the same nationality that are living in the same municipality: the more there are, the fewer immigrants leave. This may be an indication that a strong network of fellow-countrymen contributes to immigrants staying in the country.

The opposite effect is also evident, which is slightly surprising; if there are many immigrants of other ethnic origins in the municipality, there is a greater tendency for immigrants to leave.

Have Eastern Europeans contributed to evening out the effects of the economic cycle?

Wages in Denmark have been less sensitive to the economic cycle in recent years than they once were. The once-prevalent relationship between low levels of unemployment and wage increases has become weaker, and at times disappeared altogether.

The explanation might be found in globalisation, in that Poles, for example, will come to Denmark to work if there is a shortage of labour in a given sector, or that abattoirs can send pig carcasses to Germany to be cut up (outsourcing) if the wage costs in Denmark are too high.

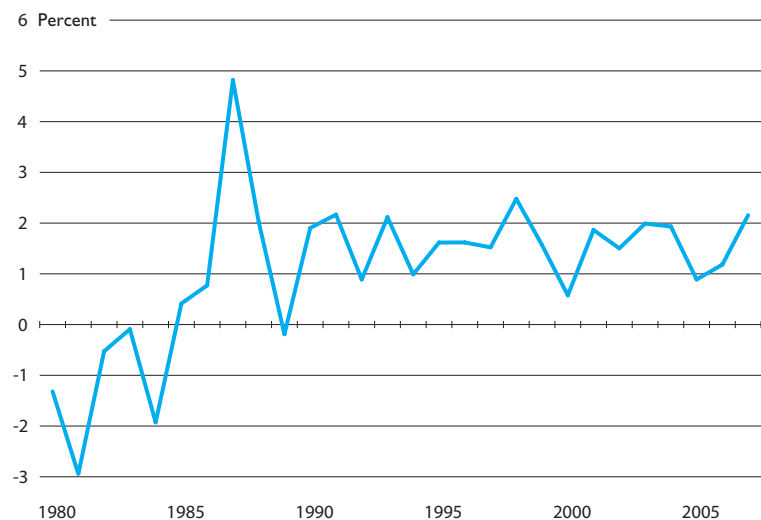
New research shows, however, that it is not possible to demonstrate a connection between the low sensitivity of Danish wages to the economic cycle and globalisation.

The study investigated whether a large number of immigrant workers or a high level of outsourcing in given sectors resulted in wages in these sectors being less sensitive to the economic cycle.

The conclusion was that no, it is not possible to detect such a relationship.

It is true that Danish wages have risen only moderately despite the low levels of unemployment seen in recent years. But there is no evidence that the weak relationship in Denmark between unemployment and wage increases can be attributed to the

FIGURE 6
Increases in real wages in Denmark, 1980-2007



Source: The Danish Economic Council.

Previously, real wage increases oscillated violently from year to year. In recent years they have been stable.

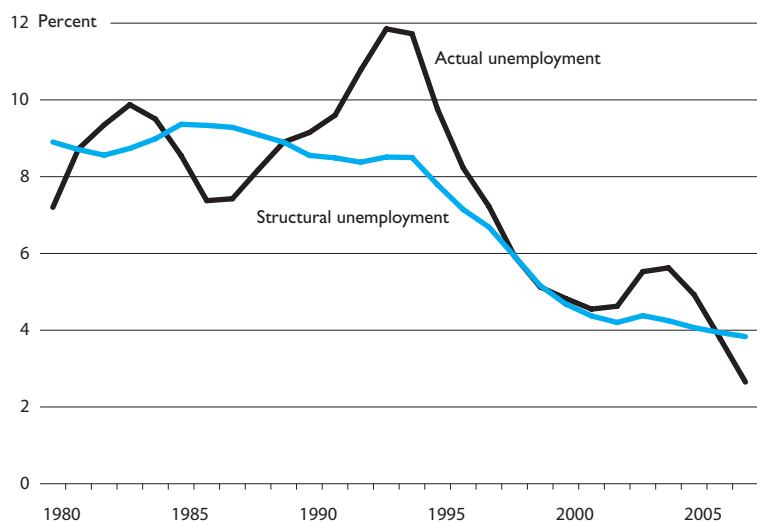
influx of large numbers of Polish workers or to outsourcing abroad.

Better structures

Levels of real wage increases in Denmark – i.e. wage increases adjusted for inflation

FIGURE 7

Actual and structural unemployment, 1980-2007



Source: The Danish Economic Council.

Structural unemployment in Denmark has been in decline since the 1980s because of improved labour market structures. Actual unemployment varies around the structural level in step with the economic cycle.

– used to oscillate wildly 20-30 years ago. Over the past 15 years, however, wage increases have remained stable at around 1-2% annually, despite unemployment falling to record lows.

The low level of unemployment has been connected with the successful economic policies which Denmark has operated over recent decades, and which have improved the labour market structures.

Since the 1980s, the level of structural unemployment has been halved by improving flexibility in the labour market. (Structural unemployment is the level of unemployment that will prevail when economic conditions are “normal”.) This means that today it is possible to have a higher rate of employment and a lower level of unemployment than previously, without the economy overheating and wages rising out of control.

The economic cycle no longer affects wages either

Even allowing for the fact that structural unemployment has fallen, and only considering cyclical unemployment (unemployment connected with the economic cycle), we still find that the link between unemployment and wage increases has become progressively weaker in Denmark.

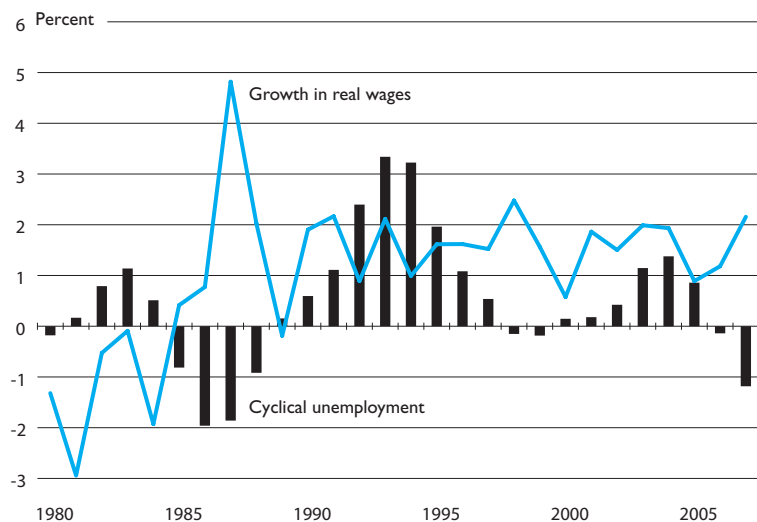
The level of cyclical unemployment – the difference between the prevailing level of unemployment and structural unemployment – is an indication of either shortage of labour or shortage of work. If the cyclical unemployment figure is positive, this means that there is labour available. In contrast, the cyclical unemployment level is negative when there is a shortage of labour.

Economic theory would suggest that when cyclical unemployment is negative, the consequence will be high wage increases, and that a positive level of cyclical unemployment will result in low wage increases. Historically, this has indeed been the case in Denmark, for example in the 1980s, where the first half of the decade was marked by an economic recession and low, or even negative, increases in real wages. In the middle of the decade there was a shortage of labour, and this resulted in higher real wage increases.

But subsequently, the link has disappeared. Since 1990 Denmark has experi-

FIGURE 8

The relationship between wage increases and cyclical unemployment, 1980-2007



Source: The Danish Economic Council.

From 1980 to 1989, there was a clear link between cyclical unemployment and wage increases. From 1980 to 1984 there was negative growth in real wages, while at the same time actual unemployment was higher than structural unemployment. From 1985 to 1989 there was a rapid rise in real wages, at the same time as actual unemployment lay below the structural level. Since 1990 there has only been a limited connection between the two measures.

enced steady and reasonable real wage increases, regardless of whether or not labour was in short supply.

There may be many reasons for this dissociation between wage increases and the employment situation. One possible explanation is that as a result of globalisation, wage earners can no longer take advantage of low levels of unemployment to negotiate better pay deals.

Making higher wage demands, the theory goes, would only result in companies importing foreign labour or outsourcing production and other work overseas.

Such an effect can in principle be demonstrated most clearly by focusing on those business sectors which have attracted a particularly large volume of foreign labour or have moved production overseas. The sectors involved in the case of Denmark include the building and construction sector and the meat industry. If it were possible to demonstrate a connection between

the use of foreign labour or outsourcing on the one hand and wage increases that were less sensitive to the economic cycle on the other, then this would lend support to the idea that foreign labour smooths out the effects of the business cycle. However, this proves not to be the case.

The fact that no connection can be shown to exist does not necessarily mean that there is no such connection. It may be that the effect is difficult to separate out from the effects of other changes, such as more stable expectations regarding inflation.

Finally, it may be that it is only when unemployment rises, and the competition for jobs increases, that the effects of globalisation – i.e. the effects of a part of the competition for jobs coming from companies and individuals that are not among our domestic organisations – become apparent.

The Philips curve – the link between unemployment and wage increases

The link between unemployment and wage increases was first described in 1958, in an article by the New Zealand economist A.W. Philips. On the basis of data from the United Kingdom, Philips calculated that there was a link between low unemployment and high wage increases – and a corresponding link between high unemployment and low pay rises. This relationship is known as the Philips curve.

Philips believed that a low level of unemployment reflects a period with a high level of demand for labour, when employers attempt to attract workers to their companies by increasing wages.

Since Philips published his article, there has been much research and debate on various aspects of the Philips curve, but economic advice and prognoses are frequently still closely based on it.

Danes are more optimistic about the economic consequences of immigration than other Europeans

It is not true that Danes have a more negative attitude towards immigrants than prevails in the neighbouring countries. The Danish population is neither more nor less opposed to immigrants than Europeans in general.

This is demonstrated by an analysis of data from the European Social Survey, which uses questionnaires to study attitudes, beliefs and behaviour among the citizens of Europe.

In three survey rounds – in 2002/3, in 2004/5 and again in 2006/7 – approximately 2,000 people in each of the participating countries were asked to what extent they thought that people from poorer countries outside Europe should have the right to immigrate to their country. There were four possible responses: “We should allow many/some/a few/none to come and live here”.

As can be seen from Figure 9, the proportion of Danes who were opposed to immigration was a little higher than in the

rest of the EU-15 (the “old” EU countries) in the earlier surveys, but about the same in the most recent survey. However, this result conceals the fact that the proportion of the population who were most strongly opposed to such immigration – “none should be allowed to come and live here” – was significantly higher in the other EU countries than in Denmark.

Danes used to be more opposed to immigration than others, then, but the difference had largely disappeared by 2006/7. There is much to suggest increasing opposition to immigration from poorer countries in other EU member states – and this trend is not present in Denmark. In particular, the number of people expressing the strongest level of opposition in 2006/7 had increased in Europe as a whole since 2004, but fallen in Denmark.

Danish assessments more positive

Danes are more positive than other nationalities with respect to accepting immigrants from rich countries such as the neighbouring European nations. Only 29% of Danes feel that they should allow only “a few” or “none” of such people to come into the country, while the corresponding figure for the populations of the EU-15 countries as a whole is 39%.

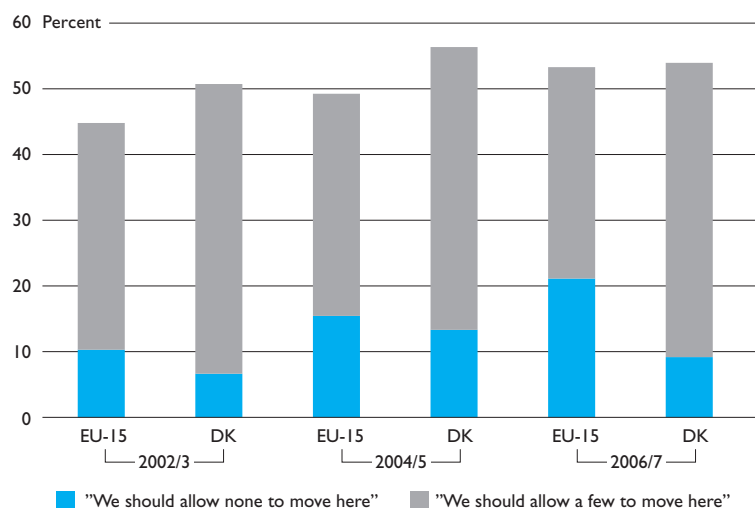
Danes are also more positive than other nationalities in their assessment of how immigration affects their domestic economy.

In the 2002/3 survey a number of questions were asked concerning how respondents saw the economic consequences of immigration. Respondents were asked to agree or disagree with the statements that average wages and salaries are generally brought down by immigration, that immigrants take jobs away from workers in their country, that immigrants generally harm the economic prospects of the poor more than the rich, that immigrants take out more from the welfare system than they pay in taxes, and finally that immigrants help to fill jobs in sectors where there are shortages of labour.

As Table 4 shows, Danes were much more positive than other EU citizens in

FIGURE 9

Proportion of respondents with negative attitudes to immigration from poorer countries outside Europe



Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Over half of all Danes had a negative attitude to immigration in 2006/7, which corresponds to the proportions in other EU countries. However, the proportion who thought that no immigration should be allowed – “We should allow none to move here” – was significantly lower in Denmark than in the other “old” EU countries.

their beliefs about the economic consequences of immigration.

Fewer Danes expected that immigration would result in lower wages, that immigrants would take their jobs, and that immigration would harm the poor rather than the rich. Only with respect to public finances were Danes more pessimistic than other Europeans; a larger proportion expected that immigrants would take more money out of the system than they put in through taxes.

Danish mistrust unexplained

The relatively positive views held by Danes on the economic consequences of immigration leave a question to be answered.

On the one hand, it seems that Danes are less fearful of the economic consequences of immigration than are other people in the EU. On the other hand, as Figure 9 shows, Danes are in general just as negative in their attitudes to immigration as the rest of the EU-15, and it therefore seems natural to ask – why should this be so?

It appears that in general there is a close connection between people's beliefs regarding the economic effects of immigration and their attitudes to immigrants. In particular, personal financial motives play a role in shaping attitudes to immigration, as shown by one of the analyses carried out by the researchers from CEBR and presented in the book *Det danske arbejdsmarked og EU-udvidelsen mod øst (The Danish labour market and the eastward expansion of the EU)*.

When Danes state that they expect fewer negative consequences from immigra-

TABLE 4
Expectations regarding the economic consequences of immigration

Statement	Percentage in Denmark agreeing	Percentage in EU-15 countries agreeing
Immigrants pull down the average wage	20	38
Immigrants take jobs from people in the country	14	39
Immigrants harm the poor more than the rich	35	50
Immigrants take out more than they contribute to the public purse	53	46
Immigrants fill jobs where there is a shortage of labour	67	64

Source: *Det danske arbejdsmarked og EU-udvidelsen mod øst* (The Danish labour market and the eastward expansion of the EU) (Gyldendal, 2009).

Danes are generally more positive about the economic consequences of immigration than people in the other "old" EU countries. For example, only 20% of Danes think that immigrants pull down wages, whereas the average percentage in the other EU-15 countries is 38%. Danes are a little more negative than others in their views on one single point, namely with respect to whether they believe immigrants take out more from the welfare system than they contribute in taxes. This may be connected to the fact that in Denmark it is relatively easy to gain the right to state welfare benefits.

tion than the rest of the EU-15 countries, but at the same time are just as negative towards immigrants as everyone else, it means that a large part of the Danes' negative attitudes are unexplained, as the CEBR analysis also shows.

Exactly what forms the basis for the unexplained part of the negative attitudes remains an open question.

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