

**Conspicuous by their absence:  
Why are there so few foreign workers in Finland?**

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## **Abstract**

Migration scholars commonly assume that employment of low-wage foreign workers is a universal feature of labour markets in wealthy countries. However, several wealthy countries have very few foreign workers (as a percentage of the labour force). Existing theories of international labour migration are not well equipped to explain these anomalies. This paper summarises the challenge presented by ‘negative cases’ of labour migration and explores an explanation for the minimal presence of foreign workers in Finland, where they amount to less than one per cent of the labour force. Most western governments prefer not to allow employers to import low-level workers, but many do not succeed in transforming this preference into actual policy. Finland is able to do so because of an activist economic policy that results in a reduced prevalence of low-level jobs. This policy is supported by a mode of governance that constrains opportunities for employers to play a dominant role in policy-making. Another supporting condition is the presence of a highly organised labour movement.

Keywords: foreign workers, Finland, economic policy, state structure

Many migration scholars believe that wealthy capitalist countries must inevitably import low-level foreign workers. The Finnish case shows that this assertion is overstated, if not simply wrong. In Finland, a very wealthy country, only a very small proportion – less than one per cent – of the employed labour force can be described as low-level foreign workers.

Finland thereby poses significant challenges to certain scholarly perspectives about migration. Migration scholars have produced explanations for migration that invoke factors that characterise not only receiving countries but also countries with few foreign workers such as Finland. Scholars have generally studied migration by investigating cases where many immigrants are present and have not given systematic attention to ‘negative cases’ of migration. Consideration of such cases is necessary: if we want to understand why some countries receive many foreign workers, we also need to know why other countries receive very few – especially when existing arguments make that latter outcome counterintuitive. Once it is accepted that explanations should cover countries with few foreign workers – in other words, that they should account for variation in the dependent variable – we must conclude that revisions to existing explanations are in order. In other words, the value of considering Finland as a negative case is that it constitutes an anomaly that promises to give us significant insight into the limitations of existing arguments.

I first present data on stocks of foreign workers in Finland to show that, properly conceived, foreign workers have only a minimal presence in the labour force there. I then discuss the implications of this fact for various schools of thought on labour migration. The third section offers an explanation for Finland’s ability to resist employers’ pressures for access to low-wage foreign labour (while still maintaining a successful economy).

This explanation focuses on the capacity of the Finnish state for coherent economic governance, in which decision makers consider the general welfare of the population, not just employers’ interests, and take a long-term perspective that transcends electoral cycles. The

earlier European experience with guestworkers, though profitable for employers, is widely perceived as carrying significant costs for the society more generally. In more recent years, then, when policy makers allow employers to import workers they typically do so because of a perception that there is no alternative solution for labour shortages. The Finnish case shows that there is indeed an alternative. But this alternative is only achievable in the presence of a particular type of state, which we may identify as ‘developmentalist’, where authority for policy making lies more with professional civil servants than with politicians. This alternative path involves the continuous upgrading of jobs typically held by foreigners (such as construction): improving labour productivity and increasing mechanization, which enables employers to pay the wages that will convince citizens to accept the jobs.

### **Foreign workers in Finland**

In some European countries, foreign workers (as defined here – see below) constitute almost ten per cent of the labour force. By contrast, in Finland the figure is less than one per cent. It is possible to discuss the presence of foreign workers in Finland. But given these numbers it makes more sense to investigate instead the relative *absence* of foreign workers in Finland.

Before presenting data, a brief discussion of definitions is required. It is common for migration researchers to report data that draw on standard sources such as SOPEMI; one can easily find figures on stocks of foreign workers this way. Implicit in those data is a particular conception of what a foreign worker is – but is it the right conception? I contend that in some cases it is not. These data include anyone who is not a citizen of the country in which he or she is employed. While such a definition accords with common sense in some regards, it violates common sense in others.

What, then, is a foreign worker? The paradigm of the term – the image it likely evokes for most people – is a Turkish guestworker in Germany, or perhaps a Moroccan

worker in France. Scholarly and public interest in foreign workers of this type is rooted in the fact that their presence constitutes a social problem of some sort. For some, the problem is that they don't 'belong' there; we may conclude that the problem is thus a crude xenophobia that has nothing to do with the workers themselves, but it is a political problem nonetheless. For others, the problem is that the receiving society has failed to integrate the workers properly, so that they have become a settled marginalised minority: they live in ghettos, their children receive an inferior education, they are not part of the democratic process, etc. In either case, the problem is one of significant public and scholarly interest.

Some of the people counted as foreign workers in SOPEMI, however, cannot be said to embody either type of problem. This is particularly true for workers who move within a common labour market framework such as the European Union or the Nordic Common Labour Market. The data on stocks include Norwegians working in Sweden – but this group has little in common with Turks in Germany. Indeed Norwegians in Sweden have much more in common with Swedes in Sweden. Although the former are foreign workers in some formal sense, counting them as such – which implies that they are essentially the same as Turks in Germany – is counterintuitive. The same conclusion applies to workers from other wealthy countries even when there is no common labour market framework: an American working in, say, Canada or Finland is indeed a foreigner but not exactly a 'foreign worker,' given the connotation that term carries, as described above. Such people have been described as 'invisible' (Böhning 1991; see also Castles and Miller 2003), and I suggest it makes sense to exclude them from the category and thus from the data as well.

The adjustment has some significant consequences for the picture we see of the presence of foreign workers in various wealthy countries (Table 1). The fourth column lists the foreign percentage of the labour force using unadjusted SOPEMI data. The next two columns list the number of people who fall into the categories I propose excluding – mainly,

those who move within the EU. The final column lists the adjusted percentage, after those exclusions. Comparing the two percentage columns, we see a significant decline resulting from the adjustment for some countries. The gross percentage for Belgium is almost nine per cent, but two-thirds of the foreigners employed in Belgium are nationals of other EU countries; many of these workers are probably associated with EU institutions. There is an even greater decline for Ireland, from 3.4 per cent to 0.6 per cent; without the adjustment, Ireland appears to be a significant destination for foreign workers, but most of these people are from elsewhere in the EU (mainly the UK). Foreign workers of the paradigmatic type are quite rare in Ireland (though apparently increasing).

**Table 1: Foreign Workers, 2000 (Thousands)**

	Labour Force	Total Foreign Workers	Per cent Foreign Workers	Common Market	Other elite <sup>a</sup>	Maximum Low-end Foreign	Maximum per cent Low-end Foreign
Austria	3,882	242.2	6.2			242.2	6.2
Belgium <sup>b</sup>	4,330	386.2	8.9	261.3		124.9	2.9
Denmark	2,824	96.8	3.4	30.5		66.3	2.3
Finland <sup>b</sup>	2,548	37.2	1.5	6.5	0.8	29.9	1.2
France <sup>c</sup>	26,624	1,617.6	6.1	608.4		1,009.2	3.8
Germany	39,303	3,546.0	9.0	1,027.0		2,519.0	6.4
Greece <sup>d</sup>	4,482	585.0	13.1		5.3	597.7	12.9
Ireland	1,739	59.9	3.4	47.5	2.8	9.6	0.6
Israel <sup>e</sup>	2,655	220.0	8.3			220.0	8.3
Italy	23,369	759.7	3.3			759.7	3.3
Japan	67,660	710.0	1.0		50.2	659.8	1.0
Luxemburg	267	152.7	57.3	141.7		11.0	4.1
Netherlands <sup>d</sup>	7,761	235.0	3.0	116.0		119.0	1.5
Norway	2,327	111.2	4.8	40.4		70.8	3.0
Spain <sup>b</sup>	17,220	310.2	1.8	110.4		119.8	1.2
Sweden	4,418	222.0	5.0	90.0		132.0	3.0
Switzerland	4,196	873.3	20.8		625.8	247.5	5.9
UK <sup>c</sup>	29,372	1,229.0	4.2	483.0	145.0	601.0	2.0

Sources: Labour force: Datastream; other figures from SOPEMI except where noted.

<sup>a</sup> 'Other elite' workers includes workers from wealthy countries (Western Europe, the US, Japan, Canada, Australia, New Zealand) even when there is no common labour market arrangement.

<sup>b</sup> 1999

<sup>c</sup> 2001

<sup>d</sup> 1998

<sup>e</sup> Source: Israel Central Bureau of Statistics

For Finland, the adjustment is only moderately consequential: subtracting EU, other Nordic, and American workers reduces the percentage from 1.5 per cent to 1.2 per cent. But the presence of low-level foreigners in the labour force is not even quite what it appears from these numbers. The figures include unemployed foreigners – and rates of unemployment for people from poor countries are very high (Kauranen and Tuori 2002), more than 70 per cent for Iraqis and Somalis, for example (Heikkilä & Peltonen 2002). ‘The immigrants who have succeeded in finding work in Finland are usually college-educated Westerners, while those who have not succeeded usually come from third-world countries, possess little education and working experience’ (Heikkilä & Järvinen 2003: 11). Some people counted as foreign workers in official statistics originally came to Finland as refugees and have often not found employment. These immigrants encounter significant barriers to labour market entry (Valtonen 2001), which may or may not include labour market rigidity resulting from a strong welfare state (for a critique of the rigidity thesis, see Baker et al. 2005). Finland has never sought to bring large numbers of ‘guestworkers’ in the way Germany did in the 1960s. It therefore seems reasonable to conclude that the proportion of employed low-level foreigners in the Finnish labour force is well under one per cent.

There is therefore no difficulty concluding that Finland is a negative case of labour migration: it has not imported labour on the scale of most other wealthy countries. This conclusion is reinforced by consideration of Finland’s impressive economic performance over the last several decades (with the partial exception of the 1990s). As Uusitalo notes, in the 1980s ‘Finland was frequently referred to as Europe’s Japan’ (1996: 1). The comparison is particularly apt insofar as Japan was also noteworthy for not using foreign labour in significant quantities. In any event it is the contrast between Finland and much of Europe that deserves our attention.

## Theoretical Challenges

The contrast is important because existing theories intended to explain labour migration would lead us to predict that Finland *would* import workers on the same scale as other wealthy receiving countries. With a basic neo-classical economics perspective, for example, we would expect that the large economic differences between Finland and many poorer countries (such as Russia) would imply a process tending to equilibrium: workers from poor countries would want Finnish wages, and Finnish employers would welcome the prospect of getting workers happy to accept wages well below the Finnish norm. There is no mystery here: borders and restrictive policies get in the way of this process. The problem is simply that this fact cannot be theorised in a neo-classical perspective.

Finland poses a similar challenge to dual labour market theory (Piore 1979), which explains labour migration with reference to the way the business cycle (specifically, the inevitability of recessions) leads employers to want to employ foreigners for jobs in a secondary labour market: citizens strongly prefer high levels of job security, but employers are reluctant to offer such security to all their workers and therefore rely on foreigners to serve as a 'disposable' labour force. But the description of capitalism (and of status) underlying this theory would seem to apply to all capitalist economies; it is not clear why Finland would be exempt from the dynamics Piore describes.

World-systems theory (e.g. Sassen 1988) asserts that labour migration is driven by the ties that develop between core and peripheral countries, especially as the latter are drawn into the world-system. At first glance the Finnish case might not appear to undermine this perspective: Finland has never held colonies and does not have the kind of dominating presence in Eastern Europe that the US has in Latin America, for example. Still, one wonders, starting with this perspective, why the historical and economic ties between Finland on the one hand and Russia and Estonia on the other have not produced more of a labour

migration flow than actually exists. To be sure, of the foreign workers Finland has, Russians and Estonians form significant proportions. However, the base of those proportions is very small, and an extrapolation of world-systems theory would suggest that the potential is much greater than the actuality.

In each case, the difficulties seem to arise from the fact that the theories do not countenance the possibility of wealthy capitalist countries having few foreign workers. It is then no great surprise that the existence of such countries leads to searching questions about those theories. Finland constitutes a significant anomaly. The factors in those theories that are understood to lead to labour migration exist also in Finland – without the development of labour migration flows to Finland. These theories, then, are not suitable (at least not without modification) for explaining *variation* in the presence of foreign workers in (potential) receiving countries. Again, this is no surprise: not having considered the possibility of negative cases, they have not phrased the question in terms of variation. Putting the question this way, then, would seem to carry some promise for a significant advance in our understanding of international labour migration. In the first instance, the point is to ask, why has Finland not imported workers, despite a reasonable prediction on theoretical grounds that it would do so? This question then has more general implications: how might we have to revise our theories to account for the Finnish case (as well as Japan and perhaps Ireland)?

Before proceeding, it is useful to note potential explanations for the Finnish anomaly that do not actually succeed in accounting for the different path the country has taken. It might be imagined that climate and geography are significant: perhaps Finland is simply too cold and remote to be considered a likely destination. But distance is not an obstacle: foreign workers travel across the globe to get jobs with relatively good wages. The tens of thousands of Thai workers in Israel are an example (Rosenhek 2003, Bartram 2005). Moreover, Finland is not at all distant from some significant potential sending countries – Russia most of all.

Another possible explanation is culture and language: perhaps Finnish is simply too difficult and the Finns too inscrutable. Here, too, we can point to other examples to show that these are not obstacles in practice: Thais in Israel, Filipinas in Saudi Arabia, etc. And while Finnish might be difficult for English-speaking researchers, it is reasonably close to Estonian – and in any event English is widely used.

Finland's relatively high unemployment rate (around nine per cent) might also suggest that the problem of labour shortages does not actually arise, such that there is no mystery in relation to the absence of foreign workers. However, it is not at all uncommon for countries with high unemployment to host foreign workers. The problem of unemployment is not necessarily lack of jobs but rather lack of jobs that workers actually want. Much depends on the benefits available to the unemployed, and in Finland those benefits are extensive and do not carry a high degree of conditionality. The crux of the matter is simply that employers in Finland have adopted the view that sufficient labour is not available and have turned to the government with requests to be allowed to import workers. Having been placed on the political agenda, foreign workers in Finland is an appropriate item for the scholarly agenda as well.

### **Explaining the Anomaly**

Most Western European countries imported large numbers of low-level foreign workers from the 1960s onwards. The countries that imported larger numbers were, on the whole, better economic performers in the 1960s, as foreign workers were said to foster greater flexibility in the labour market and thus a more productive atmosphere for investment (Kindleberger 1967). Britain, in particular, was said to suffer from its disinclination to import workers, especially subsequent to the 1962 Commonwealth Immigration Act.

However, there are good reasons for policy makers to take the view that importing low-level foreign workers is a counterproductive response to labour shortages, given what is known about migration dynamics. It is obvious that employers benefit from the expanded supply of labour. But employment of foreign workers – at least in the guestworker mode – carries significant costs that end up being borne by the society as a whole, rather than the employers or the buyers of their goods and services. The labour itself is cheap for the employers, but there are significant externalised costs. These costs arise because of the inevitable (though unanticipated and usually unwanted) permanent settlement of the workers. Foreign workers are usually imported under the assumption that they will leave when their labour is no longer desired and/or their visas expire. Employers, however, continue to want to employ them, and the workers themselves often do not want to return ‘home’ – and governments in liberal countries typically find it very difficult to force them to leave (Freeman 1995).<sup>1</sup> The workers therefore become immigrants rather than temporary workers – but because the country did not want immigrants in the first place, their settlement is unplanned and they end up as a poorly integrated and economically marginal minority. Their situation in this respect is typically exacerbated by the fact of ethnic and/or racial difference from the host country population. Conditions include ghetto housing, inferior schools and life chances for the second generation, etc. These conditions might be addressed by the receiving country – but only at substantial cost, borne by taxpayers. If the conditions are not addressed, then there are costs as well: they are borne mainly by the immigrants themselves, but at some point it becomes necessary to think about the immigrants as part of the receiving society. In either case, that society incurs costs. These dynamics are well known from the earlier experience of countries such as Germany and Holland, and so policy makers in

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<sup>1</sup> Consider Philip Martin’s well-known formulation: there is ‘an iron law of labor immigration: there is nothing more permanent than temporary workers’ (1994: 86).

countries facing labour shortages in more recent years have good reason to doubt the utility of allowing employers to import workers in this mode.<sup>2</sup>

Knowing that a particular policy is unwise, however, does not mean that a government will be able to avoid adopting it, especially when powerful private interests exert political pressure to get it. The point can be phrased another way: alternative responses to labour shortages might be desirable, at least from some points of view, but that does not in itself mean they will be achievable.

Again, the Finnish case demonstrates that it is indeed possible to have a highly successful and dynamic economy without foreign workers (a lesson one can also draw from Japan – see Bartram 2000). The point has recently been recognised by Finnish researchers: ‘in contrast to what happened in Western Europe, the economic growth of the country was not based on migrant labour even in the last decades of the century, but on an improved efficiency in the utilisation of the native labour force’ (Lehti & Aromaa 2002: 33). Labour shortages arose in the late 1980s (Korkiasaari and Söderling 2004) and then (once the deep recession of the early 1990s began to ease) recurred in the late 1990s, in particular in construction (Heikkilä and Korhonen 2002). To explain Finland’s non-use of foreign labour despite these shortages, the possibility of achieving improved efficiency (productivity) in use of native workers is an obvious place to start. The discussion here will focus on the construction sector, since construction is usually one of the principal sectors of employment for foreign workers in most wealthy countries, where construction work is typically viewed as undesirable. The goal will be to account for Finland’s ability to maintain a successful construction sector that employs mainly Finnish workers, instead of foreigners. The question we will need to answer is: under what conditions can policy makers help (or require) employers resolve labour shortages without resorting to foreign workers?

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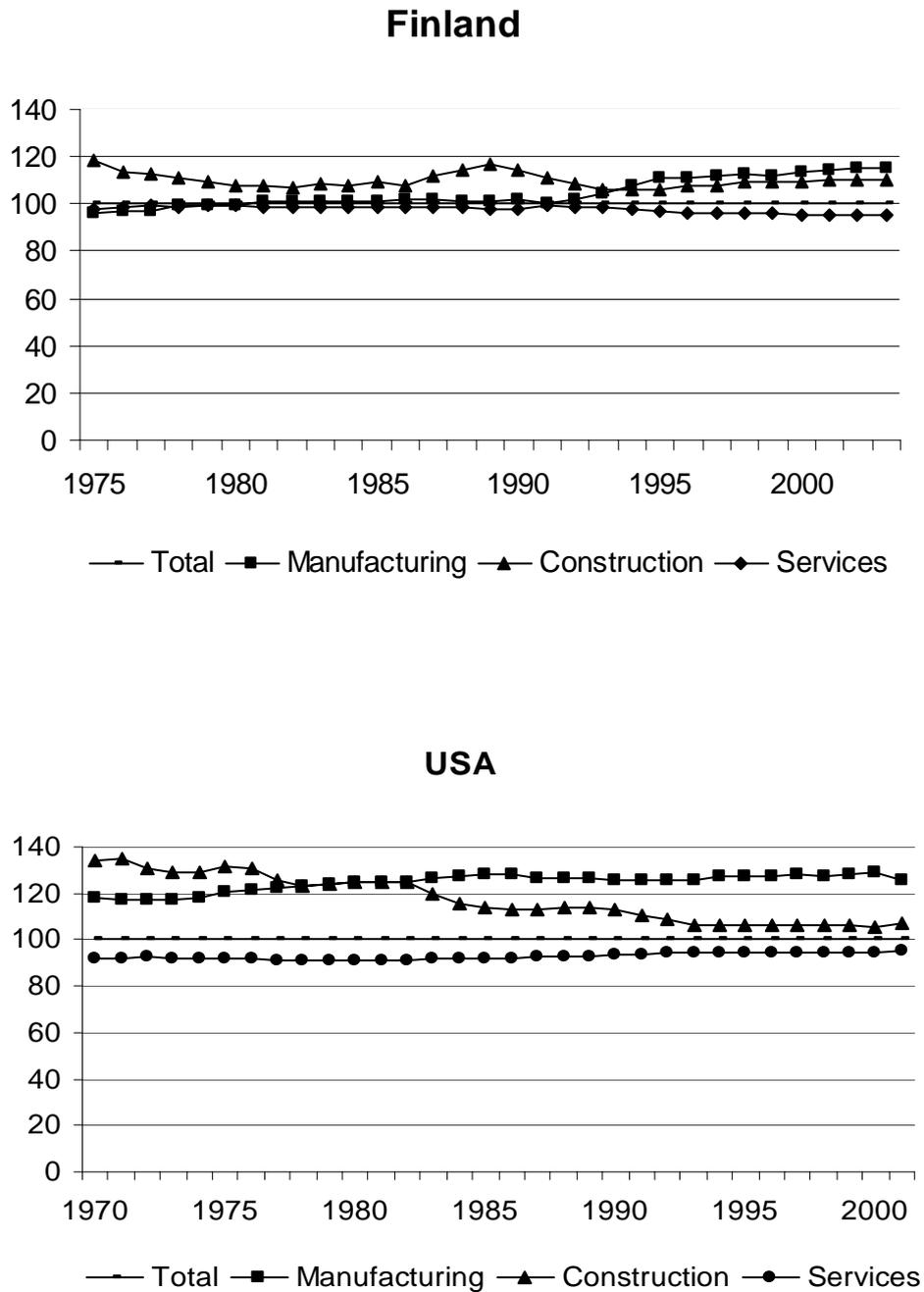
<sup>2</sup> The point is carefully constructed in relation to foreign workers imported in a guestworker mode; there is no judgment here about the utility of immigration more generally.

We begin with the assumption that the fundamental condition for attracting citizen workers to jobs considered undesirable is high and/or rising wages. Considerations such as status, job security, and whether the work itself is unpleasant undoubtedly play a role, as suggested in dual labour market theory. But these factors can be considered to influence the value at which the commodity of labour power will be traded; *ceteris paribus*, the low status of a job raises the market clearing wage for that job, rather than preventing the operation of the labour market altogether (as dual labour market theory might be read to suggest in relation to citizen workers). What this means in practice is that wages in construction must rise to keep pace with increases in other sectors, especially when other factors such as status make jobs in other sectors (such as high-level services and the professions) increasingly attractive. Additionally, a high wage is itself endogenous with respect to the evolution of status (of the person, if not the occupation itself).

From the facts that there are few foreign workers in Finnish construction and that most construction workers in Finland are Finnish, we may infer that the wages on offer are sufficient to attract Finns. The important points here are the structure and trajectory of sectoral wages relative to the overall wage. Two different patterns are depicted in Figure 1. In Finland construction wages in the early 1970s were high relative to the general wage level and remained close to 110 per cent of the average, rising through the 1990s as the labour market tightened after the recession. The small relative decline over the period (i.e., comparing 1975 to 2003) is the consequence of faster real increases in other sectors rather than of any absolute decline in construction wages; indeed, in real terms those wages increased, mostly in step with wages in other sectors. Again, employers will find it easier to continue employing citizens in problem sectors when they can offer high and/or rising wages, relative to average wages. In the US, where immigrants have become a larger part of the construction labour force, construction wages have fallen relative to average wages at a

greater rate, to the point that the gap between construction and manufacturing wages is greater in the US than in Finland.

**Figure 1: sectoral wages as per cent of average wage**



Source: computed from OECD STAN Database.

Why then are construction wages in Finland so high – high enough to continue attracting Finnish workers while construction employers in other countries appear to be unable to do so? There are two answers worth exploring – one quite simple and the other a bit more complex. One reason wages are high is simply that Finland has refrained from importing foreign workers. The expansion of the labour supply – especially via the addition of workers who would be happy to receive wages below the level prevailing in Finland – would have exerted significant downward pressure on wages. Wage levels in Finland are not determined directly by markets alone, but even the robust collective bargaining mechanisms probably would not have been able to resist downward movement if faced with a significantly expanded supply of workers. So the simple absence of a government decision to allow employers to import workers is a key factor accounting for maintenance of wages sufficient to attract Finnish workers. Employers who claim that they cannot find citizen workers (and therefore need foreigners) help create the conditions under which that claim becomes true, once their demands for foreign workers are met and wages begin to decline. The very strong Finnish trade union movement itself is a key factor accounting for the persistence of a government policy inhibiting the large-scale importation of foreign labour (INT-Huovila, Sorainen; see appendix for interview codes). Employers have lobbied the government for access to low-level foreign workers, but with little success (INT-Pinomaa, Tolonen). To the extent that the issue does not have a more prominent place on the political agenda, this is probably because employers know that it is an issue on which they are most unlikely to win.

But the coin has another side – and it helps break the apparent circularity of the point in the previous paragraph. Wage increases must be supported by increasing productivity if they are to be more than merely inflationary.<sup>3</sup> So the question then becomes, what were the conditions in the construction sector itself that led to increasing productivity? There is no

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<sup>3</sup> There is another possibility: wages can rise without productivity increases if income shares are transferred from one sector to another. This latter outcome is consistent with the argument developed here.

doubt that construction has been a very dynamic sector in Finland, advancing in ways that often do not characterise countries that can rely on cheap imported labour. One informant, a professor of construction economics at Helsinki University of Technology (INT-Kiiras), spoke of his early days as a construction labourer in the 1950s, when he carried bricks and mortar on his back. Since then, there has been a tremendous movement towards prefabrication (INT-Koskela, Tolonen, Huovila): a very significant portion of the final construction product is actually produced in factories and thus counted as part of the manufacturing sector. One indication of how far this process has gone: internal walls for houses are often prefabricated to the point that they arrive on site already painted (INT-Kiiras).

The extensive use of prefabrication, as well as other modes that can be described as technologically advanced, is necessarily the result of a great deal of investment: private firms as well as the Finnish government have invested very significant sums in this transformation (INT-Koski, Pinomaa, Tolonen). Government money in particular has gone into supporting the research and development activities of institutions such as VTT (the Technical Research Center), which maintains significant programs in construction-related fields such as Structures and Building Services, and Materials and Products. Finland spends approximately three per cent of its national income on R&D generally, a figure exceeded only by Sweden and Japan (Sengenberger 2002). These efforts feed generally into what has been described as the 'National Innovation System' (Schienstock and Hämäläinen 2005), in which a 'shared systemic vision' embracing the 'knowledge society' underlies the actions of leading figures in the public and private spheres. Crucially, this vision is not limited to sectors commonly perceived as 'high-tech' such as electronics and biotechnology but extends throughout the economy to include 'traditional' sectors such as construction. Investment by private firms goes more directly into physical capital: the machines and processes that enable workers to be

more productive – and thus to ‘justify’ the higher wages that keep them employed in the sector.

These investments are productive in this sense in large part because of the environment in which they are made. That environment needs further elaboration. The Finnish economy is regulated by a highly interventionist state (Vartiainen 1997). The mode of governance can be described as a ‘developmental state’ (Johnson 1982, Evans 1995). The point is best appreciated by contrasting this mode to the more familiar neo-liberal form of regulation, described by Wright (1996) as a ‘bourgeois-clientelist state’, where politicians hold primary authority for policy-making and often adopt policies that employers lobby for. Those policies are naturally designed primarily to satisfy the short-term interest in profits for individual firms, particularly those beholden to shareholders with expectations of good performance measured at quarterly intervals. Politicians also necessarily take a short-term view that emphasises consequences of policy in relation to their chances for survival in the next election. Politicians depend significantly on corporate political campaign contributions; they are also ‘reachable’ to a greater extent by the more organised interests such as employers, as against larger segments that are harder to organise, such as labour (Cohen and Rogers 1983, Freeman 1995).

In some ways, this description seems merely like politics as we know it – but it is not universal. In a developmental state, in contrast, policy-making authority rests with the professional civil servants to a greater degree, and they are better insulated from the political pressures that employers attempt to exert over politicians. Politicians might face the same incentives for the same behaviour, but their ability to dominate the policy making process is less extensive. The civil servants can take a longer-term perspective that considers the desirability of different policies in a more general way. In this mode there are greater possibilities for states to pursue policies that are not fully compatible with the short term

profit interests of corporations. These possibilities are not entirely absent in a clientelist state, but there are nonetheless important differences that add up to what can be described as a distinct mode of governance (Hollingsworth, Schmitter and Streeck 1994).

This distinction (which in reality describes two ends of a continuum rather than a dichotomy) helps explain both the decision to exclude low-level foreign workers and the success of alternative means of addressing employers' concerns about labour shortages. In the USA, for example, elected politicians carry a great deal of authority, and it is no surprise to find foreign worker policies that are very friendly to the interests (profits) of employers. In Finland, on the other hand, employers do not have the same ability to translate their natural desire for cheap labour into policy, in part because elected politicians are not as powerful. As argued above, the simple fact of denying employers access to low-level foreign workers acts as a powerful incentive for employers to invest in a labour-saving mode of addressing labour shortages. This decision is easier to achieve in a developmentalist state, where it is possible for policy makers to consider the long-term consequences of importing workers and to resist employers' pressures.

This mode of governance supports that type of response in other ways as well. As noted above, Finnish construction firms have invested large sums in modernizing their production processes, thereby increasing the productivity of their workers. Decisions on this type of investment are influenced by the environment in which they are made. Investment of this sort is more likely to occur when firms can be confident that the direction of economic policy is reasonably stable. Any individual firm would be very hesitant about buying expensive machinery if seemed likely that policy on foreign workers might soon change (say, with a new government) and a competitor would be able to lower his or her labour costs and then undercut others' bids at tender. A similar point would hold with respect to other policy areas: if companies believe that import restrictions on certain items might soon be eased,

investment in production relating to such items is less likely to occur. If possibilities of this sort are considered to be off the table, significant investment (especially where the returns are achieved only in the medium term) makes more sense. The investment environment in Finland is also reinforced by the government's own spending on research and development – for example via the VTT.

Perhaps the most significant illustration of the point in Finland is given in the existence of long-term contracts and financing arrangements between local/regional governments and construction firms, relating to public housing and infrastructure (INT-Kiiras, Nykanen). These mechanisms provide stability of demand, enabling firms to be confident that it is sensible to invest in modernization of production processes. The arrangements are an example of the more general phenomenon in Finland wherein the state helps direct investment according to priorities set with general goals in mind – rather than simply allowing individual firms to pursue their own interest in a Smithian hope that the general welfare is enhanced. Mechanisms employed have included credit rationing with favourable terms for preferred sectors, price and wage controls, and state ownership of key industries. These mechanisms are intended to 'persuad[e] the industrialists to undertake large investment programmes at the expense of short-term profitability' (Vartiainen 1997: 227).

Capitalist economies vary significantly in terms of the degree to which states 'govern the market' (Wade 1990). A developmentalist state is characterised by greater reluctance to let unadulterated market forces alone determine economic (and therefore social) outcomes. In Finland, intervention in the market rises to full-fledged corporatism, with tripartite negotiation on wage levels and other issues (Vartiainen 1997). Moreover, there are no ideological barriers to industrial (or sectoral) policy, as in the US. This mode of governance, then, is more conducive to attempts to resolve labour shortages without resorting to foreign workers. In a liberal or bourgeois-clientelist mode we do not encounter the same conditions

that make such solutions feasible; indeed, restrictions on immigration and employment of foreigners are sometimes seen as an unwarranted interference with the normal operation of the market.

## Conclusion

Factors identified in the literature on international labour migration are significant in setting the conditions under which employers in wealthy countries would want to get access to low-wage foreign workers (and vice versa). Differences in levels of development create the conditions under which workers would want to move from poor countries to wealthy ones. In a segmented labour market, citizen workers are reluctant to take certain kinds of jobs (a reluctance aggravated by status issues: no one wants to be at the bottom), leading employers to turn to foreigners. Links ('bridges') between core and peripheral countries help explain why receiving countries turn to particular source countries for workers. But these factors give insufficient attention to government policies in the receiving countries – a significant mediating factor that helps determine whether employers' demands for foreign workers are actually met (cf. Hollifield 2000). In some countries, that demand is not in fact met – which suggests that explaining variation in *policy* must be a central goal of scholarship on this aspect of international migration.

The argument here is that a significant component of the explanation for varying policies is the structure of the state in relation to the policy making process, regarding not only immigration decisions but economic governance more generally. This argument is an extension of Freeman's analysis (1995) of immigration policy making in liberal democratic countries: to take account of negative cases, we need to look beyond immigration policy per se to broader issues relating to economic policy-making.

Finland's economic history, in which the country has achieved a very high standard of living without relying on cheap imported labour, will stand as a notable achievement no matter what happens in the future. In other words, even if Finland ends up importing workers down the road, this would not alter the fact that its economic trajectory was, for a significant period of time, different from that of many other wealthy countries. That experience undermines assertions to the effect that use of foreign labour is an inevitable or structural component of capitalist societies.

Some observers believe that Finland will have no choice but to import workers over the next decade. The demographic profile of the construction labour force, in particular, is such that severe labour shortages are seen as inevitable (INT-Tolonen, Sihto). I believe this perspective does not give sufficient weight to the possibilities, amply demonstrated in the Finnish experience to this point, for alternative solutions. It seems entirely possible that the trajectory described in this paper can continue into the future. It is hasty, at the very least, to conclude that use of foreign workers is inevitable – in particular if there is a persisting view that use of foreign workers (especially in the guestworker mode) is undesirable. There is currently discussion in the Finnish government of pursuing an active labour immigration policy, but it is not yet possible to write, in empirical terms, about a substantial shift in policy or numbers.

Even if Finnish employers import large numbers of foreign workers in the future, the outcome seems likely to differ in significant ways from the experience of traditional labour importers such as Germany. The main reason is expansion of the European Union, in particular to include Estonia and the other Baltic countries. Once the labour mobility provisions of the expansion agreement come into force, workers from these countries will have free access to Finland – or, to put the point another way, Finnish employers will have free access to workers from those countries. (Indeed, there has already been an increase of

Estonian workers in Finland, though it is much too soon to know the implications of that fact for the argument advanced here; it is worth remembering that Estonia's entry is also facilitating Finnish investment and job creation in Estonia.) If we return to the discussion of definitions above, we can conclude that these workers will not be 'foreign' in quite the way Turks in Germany have been foreign workers. This point is reinforced by the likelihood that such workers would be integrated into Finnish trade unions, with strong guarantees of equal wages and working conditions. The degradation of the labour force that followed the large-scale importation of workers in countries like the US seems a very unlikely outcome for Finland, in construction or any other sector.

The possibilities for drawing lessons for other countries, however, would appear to be quite limited. As argued above, a strong case can be made for the position that resolving labour shortages by importing guestworkers is a counterproductive approach. But the argument developed here – the explanation for Finland's ability to pursue a different solution – is structural in nature. Where a country's policy making process is dominated by politicians (as opposed to civil servants), that solution will likely not be achievable. The unavoidable problem is that, by definition, structures are not easily altered: one cannot transform a clientelist state into a developmental state overnight.

### **Appendix: Interviews**

Huovila	Pekka Huovila, VTT, Espoo, 13 May 2003
Kiiras	Juhani Kiiras, Department of Construction Economics, Helsinki University of Technology, Espoo, 16 May 2003
Koskela	Lauri Koskela, VTT Espoo, 13 May 2003
Koski	Hannu Koski, VTT Tampere, 19 May 2003
Nykanen	Veijo Nykanen, VTT Tampere, 19 May 2003

Pinomaa	Simo Pinomaa, Confederation of Finnish Industries, Helsinki, 15 May 2003
Sorainen	Olli Sorainen, Ministry of Labour, Helsinki, 15 May 2003
Sihto	Matti Sihto, Ministry of Labour, Helsinki, 15 May 2003
Tolonen	Tuevo Tolonen, VTT Tampere, 19 May 2003

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