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Exit, Voice, Austerity, and Recuperation

Government and Social Partner Responses to
Emigration: The Case of Latvia

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Abstract

Latvia har hatt problemer med befolkningsnedgang siden landet frigjorde seg fra Sovjet i 1991. Landets tilslutning til den Europeiske Union i 2004 brakte med seg muligheten til å finne arbeid i «gamle» medlemsland hvor tilstanden på arbeidsmarkedet er i arbeidernes favør når det gjelder lønn, skatt, fagforeningers styrke og relasjoner mellom arbeidsgivere og arbeidstakere. En slik utvikling har resultert i økt emigrasjon og videre befolkningsnedgang. Denne avhandlingen tar i bruk Hirschmans teori om exit, voice, og loyalty og både kvantitative og kvalitative verktøy for å undersøke hvorvidt latviske myndigheter og sosiale partnere – fagforeninger og arbeidsgivere – har tatt initiativ til å forbedre tilstanden på arbeidsmarkedet og dermed forhindre fortsatt emigrasjon. Hovedfunnet er at det har funnet sted *noen* forbedringer, men disse er sannsynligvis resultat av den generelle økonomiske tilstanden heller enn emigrasjon. Videre viser undersøkelsen at det er vanskelig for latviske myndigheter og sosiale partnere å respondere på emigrasjon i økonomiske nedgangstider, og innstramminger prioriteres over tiltak for å unngå emigrasjon.

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The idea behind this dissertation was first formed in the fall of 2014, during a class in international political economy. Since then, my interest in migration and its effects has only grown, and my first attempt to research this subject happened one year later, in a course on the political economy of the EU. The road towards a finished master thesis has been both difficult, interesting, exhausting and incredibly educational. I am proud of what I have managed to accomplish, but I could not have done this without the help of certain people.

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1. Introduction

In 2004, eight Central and Eastern European countries (also called the “Accession 8” or “A8” countries) joined the European Union (EU). Their accession to the EU spurred heated debates in the “old” Member States about the possibilities of devastating migration flows from the poorer new Member States and the effects this would have on the labor markets and welfare systems in the old EU countries. These debates led many of the old Members to implement temporary restricted access to their labor markets on citizens from A8 countries (Kahanec et al., 2010). The UK, which did not implement restricted access, recorded unprecedented levels of foreign workers the year after accession (Galgóczi et al., 2009). Still, the expected massive inflows of A8 citizens and negative pressures on the welfare systems in the old Member States turned out to be based on largely unfounded fears.

The literature is rife with studies analyzing European integration in general and the 2004 EU enlargement in particular, but these studies largely focus on how enlargement has affected the old Member States, their labor markets and their welfare systems (see for example Skupnik, 2014; Kvist, 2004; Lammers, 2004). A common thread in this research is the background of the A8 countries; they are all former Soviet republics, or they were closely connected to the Soviet system. Generally, this type of research tends to assume that because of economic differences and difficult transition periods from socialist economies to neoliberal market economies, “welfare seekers” will characterize migration from the A8 countries to the West. Put differently, the assumption is that migration from new to old Member States will have a negative effect on the welfare systems and labor markets in the receiving states. The effect of accession on the A8 countries, however, remains somewhat neglected by the research community. This is rather surprising, as the effects of emigration on developing countries and emerging markets seems to be a growing interest in the literature, and because this type of research is of great importance for the future of the EU.

The aim of this dissertation is to fill the void by investigating how emigration after accession has affected the new Member States. More specifically, the focus is on how emigration after accession has affected the Latvian labor market. Latvia and the other Baltic states have not received much attention from researchers interested in intra-EU migration-flows (McCollum et al., 2013, p. 689). This means that we know fairly little about how membership in the EU affects countries in a transition from socialist economies to (neoliberal) market economies.

Because of the notion of free movement within the Union and its implication for labor, the focus of this investigation will be on the Latvian labor market, and the specific question asked is whether Latvia's 2004 accession to the EU has led to improved conditions in the Latvian labor market. As a popular assumption in so many migration studies is that migration triggers a "race to the bottom" in receiving countries, where welfare benefits are lowered to reduce pull factors, it is reasonable to assume that sending countries will "race to the top" to avoid out-migration of their workers. The main hypothesis in this dissertation is therefore that the Latvian government and social partners (labor unions and employers) have taken and will take action to improve deteriorating or dissatisfying conditions in the labor market. If integration works as hypothesized, I expect to see changes in unemployment levels, labor tax levels, labor union strength, and employer-employee relations. Thus, there are four specific hypotheses connected to the notion of "improved labor market conditions". First, unemployment levels should decrease as labor migration relieves the market of surplus labor. In labor economics, decreasing unemployment levels are one of the main signs of improving labor market conditions. However, labor shortages are becoming a serious concern in some professions (European Commission, 2015), and it is therefore expected that the Latvian government and social partners will try to avoid continued emigration and shortages by lowering the country's heavy taxes on labor. These taxes are significantly higher in Latvia than in other EU Member States, making them an important push factor. Second, I expect the government and social partners to increase wage levels. This expectation originates from the relatively large wage gap between Latvia and the old Member States. Because changes in wage levels normally coincide with the general economic environment, and are therefore usually not a governmental issue, I will only investigate changes in the minimum wage. In Latvia, the government decides changes in the minimum wage, and the social partners are often invited to join wage level negotiations. Third, Latvian labor unions are expected to have gained more power both through increased membership numbers and union voice. This expectation relates to the strengthened position of workers who with accession suddenly had a bargain chip; they could mobilize and voice their concerns, using the threat to emigrate to strengthen their position. Further, worker mobilization is expected to strengthen union voice in tripartite negotiations with the government and the employers' organization, which would also cause a possibility for increased strike activity. Fourth, I expect that employer-employee relations have improved after accession. This is based mainly on the labor shortages that Latvia is experiencing in some occupational areas; the threat of further labor shortages and emigration should force them to increasingly accommodate workers' demands in the workplace.

It is important to note that a major assumption in this dissertation is that the main explanation for changes in the labor market are economic conditions. In economic upturns, productivity rises, it is relatively easy to find work and there is a general improvement in labor market conditions as well as living conditions. Similarly, the situation in the labor market worsens in economic downturns, finding work becomes difficult, and austerity measures that worsen the situation for workers even more might be implemented as part of the recovery process. It is assumed that, in addition to affecting labor market conditions, changes in the economic situation also trigger changes in emigration levels. As Lulle (2009, p. 292) states: “emigration realities are, first, driven by the characteristic of economic development in Latvia since 1991, in its transformation from a former Soviet economy to an independent state with EU membership”. Thus, I am aware that economic conditions might affect the research and make it difficult to claim causal relationships between the variables. This does not mean, however, that emigration cannot be an additional explanatory factor when it comes to labor market conditions. Rather, it is a somewhat *indirect* explanatory variable, as it is expected that the emigration of valuable workers will trigger a response from the government and social partners, who again will implement measures to improve labor market conditions and thus avoid continued emigration.

The dissertation starts with a brief historical overview of migration processes and periods of economic change in Latvia. This overview is necessary because of Latvia’s complex history as “immigration country turned emigration country”, thus serving as a background for developments in population, labor force, and labor market conditions in Latvia around the time of accession. It also provides us with information of the impact of economic conditions on migration patterns, which helps us search for evidence of government and social partner responses after significant emigration waves. The following literature review first addresses relevant migration literature and then narrows the research down to the Latvian case. In the theory chapter, the theoretical framework, the assumptions and expectations are thoroughly described. Four specific hypotheses related to the indicators are presented. Further, the chapter on data and method provides a detailed account of indicator measurements, it addresses the issues of reliability and validity, and it discusses in more detail the problems with omitted variables (economic conditions). The analysis is rather technical, as I have chosen to separate it from the theoretical discussion to avoid too much repetition. It consists of a mix of quantitative and qualitative contributions, and it is structured according to the indicators. The following discussion leads us back to the theoretical framework of the

dissertation, and also addresses the theory’s relevance in light of the omitted variable that is economic conditions. All the findings are summed up in the concluding remarks.

The analysis and discussion will show that while the data reveals *some* improvement in the Latvian labor market, there is little evidence of emigration being the cause. Except for a few statements from the government and social partners expressing concern for emigration, the findings seem to suggest that changes in labor market conditions are affected by the general economic environment and historically conditioned developments rather than emigration. Further, economic downturns – with the 2008 financial crisis as main cause – are draining the government and social partners of the resources necessary to take steps to avoid continued emigration.

2. Historical background

After World War II, migration processes in Latvia can roughly be divided into five periods: the Soviet era (1945-1991), the pre-accession period (1991-2004), the post-accession period (2004-2008), the crisis period (2008-2011) and what might be called “the recovery period” (2011-present). The last three periods is of special significance here, as they signify the time of free and unlimited migration between EU countries. Note that while the financial crisis hit Latvia in late 2008, its full effect on emigration is not visible until 2009. Note also that there are no available data on emigration from Latvia before 1998. The lack of comprehensive data on migration will be further discussed and problematized in the method chapter.

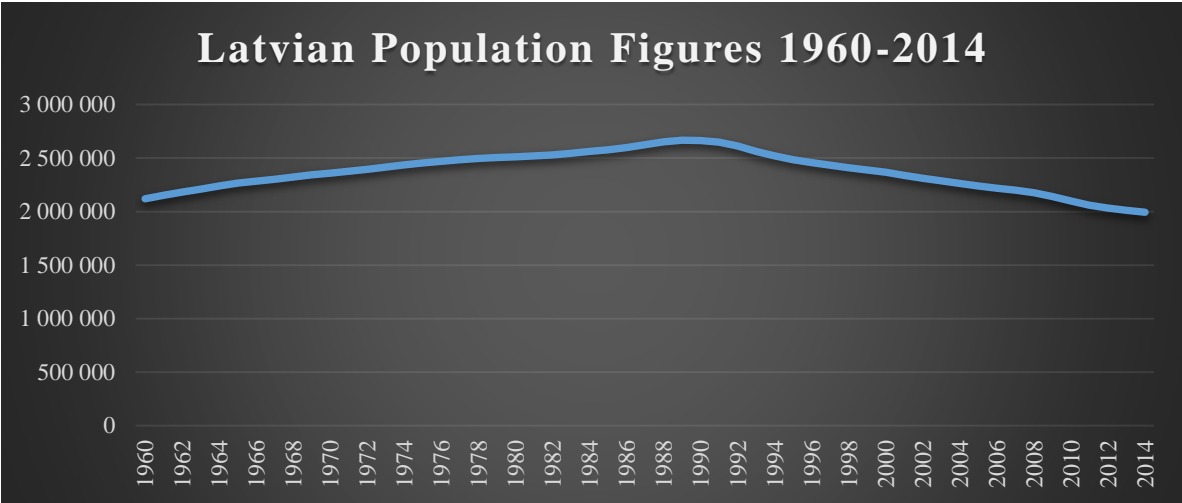


Figure 1: Latvian population figures - average population with usual permanent residence in Latvia. Variable code: *demo_gind*. Source: Eurostat (2014).

After World War II, Latvia came under Soviet rule. During its time as a Soviet republic, Latvia grew to be a great immigration country. Soviet officials, ethnic Russians and people from outside the Soviet Union migrated to Latvia in search of jobs and improved living conditions. These opportunities were created by the Soviet “socialist industrialization”, a project that did not take into consideration the relatively modest labor supply in Latvia. As the industrialization project grew bigger, so did the demand for labor, and increased immigration was a fact (Eglīte and Krišjāne, 2009, p. 269). This development is evident in figure 1, where population figures are rising steadily until around 1990. After Latvia regained its independence in 1991, migration patterns changed radically. Many of the ethnic Russians who entered Latvia during Soviet rule left the country after independence. Eglīte and Krišjāne (2009, p. 271) estimate that around 15 percent of Soviet residents left Latvia in the first years of the 1990s. This change has obviously had a significant impact on the Latvian population, as population figures are decreasing from 1990 and until today. Still, ethnic Latvians tended to remain in Latvia in the pre-accession period. Scholars have explained this mainly by referring to the costs of migrating before the country joined the EU. For example, migrating to other countries was expensive because it required residence permits and work permits (Hazans, 2013, p. 76). The climbing emigration numbers in 2000/2001 in figure 2 are probably a result of spillover from the 1998 Russian financial crisis, which created an economic downturn in Latvia (OECD, 2015). Further, some scholars suggest that many Latvians have left the country after independence because of dissatisfaction with the so-called transition period,

where Latvia changed its system from a socialist Soviet economy to a highly neoliberal approach (Kešāne, 2011).

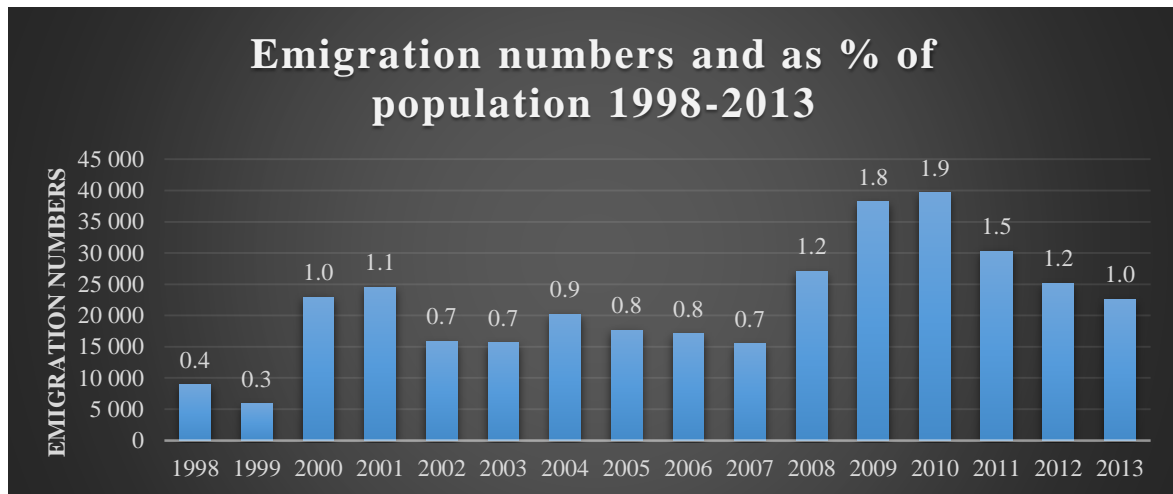


Figure 2: Emigration from Latvia in real numbers and as a percentage of the population. Variable codes: migr_emi2 and demo_gind. Source: Eurostat (2013; 2014).

When Latvia joined the EU in 2004, relatively large numbers of Latvian citizens left the country to find work in other EU Member States. According to Hazans (2013, p. 67), emigration after EU accession “reached levels that pose a threat to the reproduction of the Latvian population, the country’s economic development and the sustainability of its social security system”. With accession came the right to move freely between EU countries, and the costs of migration became much lower. While it has proven difficult to find precise reports of post-accession migration from Latvia, estimates based on several surveys show that it was substantial. Figure 1 also seems to confirm this claim, as the population is dramatically decreasing. Further, it also exacerbated the already pressed situation in Latvia as so many ethnic Russians had left in the early 1990s (Galgóczi et al., 2009, p. 18). As many as 9.1 percent of the Latvian population – including almost 14 percent of the workforce – have left Latvia since the beginning of the 21st century (Hazans, 2013, p. 66). According to Karnite (2006), about 40 000-50 000 Latvians were working abroad in 2006, a number that has caused concern among labor unions and employers, who experience gradual shortages in the Latvian labor force. The main reasons for the elevated migration levels in the early post-accession period are low wages in Latvia and “a sense of hopelessness and lack of future vision” (Karnite, 2006), creating a belief that migrating to another country might bring positive change.

According to figure 2, out-migration from Latvia did not appear to have been too dramatic after accession. Because the country joined the EU on May 1, one would expect to see relatively high emigration numbers in 2004 and at least in 2005 given other expert estimates of the outflow. The reason for the modest emigration numbers may be the fact that many of the old Member States implemented temporary restrictions on immigration from the new Member States, meaning that the out-migration of Latvians happened gradually instead of it being an immediate “outflow”. If this was the case, emigration numbers should continue to rise after 2004, but this is *not* the case in figure 2. A probable explanation is that from 1940 to 1991, Latvians were often recorded as being born in the Soviet Union rather than in Latvia, leaving this group out of the recorded data. Further, one year after accession 20 percent of the Latvian population aged 15 to 74 were not registered as Latvian citizens (ibid., p. 68). Because people in their twenties are the most mobile when it comes to relocating for jobs (Ehrenberg and Smith, 2003, p. 313), the gathered data on the actual number of Latvian citizens who have emigrated may not be comprehensive. It is therefore reasonable to assume that expert estimates provide more detailed information than the statistics presented in the figure above. According to these experts, it is estimated that between 200 000 and 250 000 Latvians left the country between 2000 and 2011 (Hazans, 2013, p. 68). Further, new reports suggest that emigration from Latvia after accession – coupled with a negative natural population growth – is one of the biggest challenges facing Latvia. According to predictions in this report, the Latvian working age population could decrease by 20 percent by 2030 if measures are not taken to address issues connected to the economic environment (European Commission, 2016).

While the emigration numbers are higher in 2005 and 2006 than they were before accession to the EU, they start to increase drastically in 2009, reaching a peak in 2010. These are the crisis years, where Latvia stood out in the world as having one of the most dramatic reactions to the global financial crisis (ibid., p. 66). A large segment of the Latvian population lost their jobs, causing large flows of job seekers from Latvia to other EU countries where unemployment rates remained low. As the benefits of being part of a union where free movement between Member States is an integral part became clearer, even those who had not previously considered emigrating decided to leave (ibid., p. 80). Even though the emigration numbers were still significantly higher in 2013 than they were in 2007 before the crisis, the emigration trend seems to be slowing down.

It seems that Latvia's accession to the EU did not trigger an immediate outflow of Latvian citizens; rather, the *possibility* to emigrate seems to have caused high emigration numbers when conditions have become dissatisfying. Put differently, it seems that Latvians have used the possibility to leave when certain factors are deteriorating. For this reason, the pattern of emigration and periods of economic change will follow us into the first half of the analysis. Because the first two hypotheses address wages and taxes and are therefore directly related to and affected by the economic environment, and because emigration increases in economic downturns, it will be more fruitful to divide these hypotheses into the economic periods presented in this chapter to look for evidence of government and social partners actions.

3. Literature review

As mentioned in the introduction, there has been a lot of research on emigration and its effect on receiving countries, but its effect on sending countries has only recently come into focus. Even though numbers seem to be on the rise, there are not many studies focusing on positive effects of migration. This is nothing new, because as Albert Hirschman (1978, p. 103) states, "we do not investigate whatever seems to be going well no matter how poorly we understand the underlying process". The scholars who have ventured into this field often find evidence to support positive effects, especially on wages, employment and labor experience (see Castles, 2007; Asch, 1994). Because the field of migration studies has developed into a large body of assumptions, angles and opinions, this chapter will be divided into two sections. The first section will provide a short description of the different views on migration and its effects on sending countries, while the second section turns to a more narrow use of migration effects and shows how it has been applied in the Latvian context. I hope to show that, however interesting and useful, previous research has largely neglected to analyze responses to migration issues from relevant actors like governments, employers and labor unions.

3.1 Migration studies: Is migration positive or negative for origin countries?

Scholars of migration studies can roughly be divided into two groups: migration pessimists and migration optimists (Castles et al., 2014). While these groups are internally heterogeneous, there are certain traits that unite them as groups. Migration pessimists believe that labor migration between countries in different stages of development leads to underdevelopment in the sending country. Because of underdevelopment, more workers will emigrate, and the country will experience further underdevelopment (ibid., p. 72). Pessimists are especially interested in "brain drain", meaning that labor emigration leads to labor

shortages in certain professions in the origin country. They have also begun using the term “brain waste”, where professionals accept jobs under their skill level because it pays better than relevant jobs in the workers home country or because the general work conditions are better (see for example Beine et al., 2001; Docquier et al., 2007; Mattoo et al., 2008).

Migration optimists on the other hand, argues that – in the long run – migration leads to convergence of economic conditions between sending and receiving countries (Castles et al., 2014, p. 71). This convergence will happen because migration secures a more beneficial and lucrative allocation of labor, meaning that labor can move from where it is not needed to where it is. Further, remittances – earned money sent to families and friends by the migrant – can be used to stimulate local and regional economies in the sending country, contributing to a more rapid economic development (see for example Adams and Page, 2005; Brown, 2006). Optimists also believes that migration leads to brain gain rather than brain drain, because the migrant will return with new knowledge and experience which can be used in his home country. This, of course, depends on whether or not the migrant actually returns to his home country; studies show that return migration depends on general labor market differences between host- and origin country (Dustmann, 1997).

An example of studies conducted by migration optimists is the work of Asch (1994). In a comprehensive report, she and her research colleagues investigated the effects of emigration on four traditional sending countries: the Philippines, Ireland, the Dominican Republic and Mexico. The focus is on a wide range of variables, some of them relating to the labor market. Their findings suggest that emigration’s effects on sending countries are positive. For instance, the authors find that emigration leads to increased wages for those who stay behind, and it alleviates unemployment (ibid., p. xvi). The problem with this literature, however, is that its focus is exclusively on economic theory, where the effects of emigration on sending countries’ economy and markets are results of “automatic” effects: when parts of a labor force relocate, unemployment levels will fall. Further, as labor becomes scarce, wages will rise because of supply and demand. To my knowledge, there are very few studies concerning government and social partner responses to migration issues.

3.2 Emigration from Latvia: A study of push-factors

Scholars focusing on emigration from Latvia have generally focused on two things:

“automatic” effects like the examples mentioned above, and the different factors contributing to emigration. The former situation can be found in Hazans’ (2007) investigation of changes in the Latvian labor before and after EU accession, while the latter can be found in the works

of Kešāne (2011) and Krišjāne (2007). Hazans finds that labor shortages following emigration has led to an increase in real wage levels and a decrease in unemployment levels (Hazans, 2007). Further, would-be workers who normally struggle in the labor market increase their chances of finding work in Latvia as a result of out-migration of more “eligible” workers. Hazans also finds that wage growth encourages more people to join the labor force, causing the employment rate to increase. These findings correspond to the findings of Asch (1994) which were presented above.

Other scholars have focused on finding out *why* people have chosen to migrate from Latvia to other countries. In other words, they have tried to identify *push-factors*. Push-factors usually refer to lack of economic, social and personal opportunities, political dissatisfaction, or other dissatisfying conditions, and thus fit them into a model of more or less simplified explanations that trigger migration from one place to another (Castles et al., 2014). Kešāne (2011) has analyzed such push-factors in the context of emigration from Latvia by interviewing Latvians who have migrated to Ireland. Through these interviews, Kešāne identified the economic transition from socialism to a market economy after the fall of the Soviet Union as the main push-factor. The transition triggered emigration from Latvia in several waves after independence, but was exacerbated by EU accession. Whereas employment was guaranteed under Soviet rule, many Latvians experienced unemployment and difficulties obtaining economic help during the transition (Kešāne, 2011, pp. 133-134). Krišjāne (2007) has taken a more detailed approach. She and her colleagues have mapped out several concrete factors that encourage people to leave Latvia, in a comprehensive study called “The Geographical Mobility of the Labour Force”. Amongst a number of interesting findings, they found that 84.7 percent of respondents cited higher wages as the main reason for migrating from Latvia to Ireland, while 30.8 percent cited better working conditions (*ibid.*, pp. 92-93). Further, their return depended on a general and overall improved standard of living in Latvia (*ibid.*, p. 128).

Even though many of the cited authors mention or recommend changes necessary to promote return migration and discourage further emigration, none evaluate whether any of these changes have occurred or have been discussed by relevant actors. However, Lulle (2009) provides us with a review and an analysis of just that; she looks at “the policy responses and practices adopted by government and social partners in Latvia to deal with the challenges posed by migration since EU enlargement” (Lulle, 2009, p. 291). According to Lulle, the government and social partners have listed a number of suggestions to promote return

migration and hinder continued emigration, including job creation, improved relations between employers and employees, and tax-system changes (ibid., p. 297). Her general conclusion is that

(...) initiatives to achieve gradual improvements through economic development policies and so prevent emigration reflect the assumption that uneven development and migration are gradually reducing wage differences between sending and receiving countries. But the Latvian government and other actors would be ill-advised to rely on the long-term prospect of economic growth. The economic slowdown that started in early 2008 indicated that the situation has changed and labor demand has shrunk in Latvia. This could in fact cause a new wave of emigration (ibid., p. 299).

Whereas Lulle separates herself from the other scholars in this review by emphasizing that relying on “automatic” effects might actually worsen the situation, she conducts her research at a time before any of the government action plans, recommendations and suggestions have been approved or initiated. Further research is therefore needed to uncover any changes in rhetoric and action. In this way, my research has the potential of filling a gap: have the government and social partners done anything actively to improve conditions in the Latvian labor market, or are they relying on “long-term prospects of economic growth” like Lulle concluded in 2009?

4. Theory

To answer this and the main question, I use the theoretical framework of Albert Hirschman. His theory was first concerned with the business-firm, but it has later become a widely used theory. In traditional neo-classic economic theory, firms in a competitive market need to operate to their fullest potential at all times, or they will diminish and be replaced by other firms. This is because customers will desert a firm at the first sign of deterioration of a product, leaving the firm with no warnings and no customers. Hence, according to this paradigm, firms do not recuperate from their failings. Albert Hirschman challenges this view of the competitive market in his book *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (1970). He argues that, in the real world, “declines in the fortunes of individual firms are just as likely to be due to random, subjective factors that are reversible or remediable” (Hirschman, 1970, p. 3). Thus, with this argument, Hirschman suggests that rather than suffer cumulative decline at first sign of deterioration, firms and organizations have the opportunity of reversing the decline. Recuperation can happen through

two feedback mechanisms that provide the firm or organization with knowledge and warning of dissatisfaction: exit and voice. If a particular brand associated with a particular firm starts declining in quality, customers who usually buy this brand can alert the management of the firm of its wrongdoings by choosing one of the two mechanisms. When choosing to exit, the customers or members leave the firm or organization in question and enter other alternative but similar firms. When choosing voice, the customers stay with the firm or organization but voice their concern in one form or another to the management or other relevant representatives of the firm or organization in question. Whether these feedback mechanisms leads to recuperation depends on the distribution of alert and inert customers. The number of customers who leave a firm must be large enough to signal to the firm that something is wrong, but small enough to avoid total and sudden loss of revenues (ibid., p. 24). Loyalty, not being a feedback mechanism in itself, has the role of delaying exit and maybe even activate voice. This happens because customers are loyal to the deteriorating brand, making the decision to exit harder and the willingness to try voice first easier (ibid., p. 79).

Hirschman's exit-voice theory has been used extensively to study business-firms and organizations like trade unions and political parties, and he himself has also used his argument in the study of states. In such cases, deterioration can mean a decline in citizen benefits, and exit is the equivalent of leaving the state in question by emigration. As we will see, Hirschman's main body of examples stems from states in some sort of conflict, where the exit option is either limited or controlled. However, the theory can also be applied to empirical examples of free migration, where the voice option can be used without the fear of reprisals from the state, and the exit option does not need to be as straight-forward as it seems in Hirschman's original theory. In this chapter, I will present the theory's application to states in more detail, and account for the two feedback mechanisms in the original theory and their relation to states. Further, I will show how the concept of loyalty comes into play, and how loyalty can alter the costs and benefits of using exit and voice. Lastly, I will elaborate on the theory's relevance in studying EU labor migration and give a detailed account of how Hirschman's theory can be applied to this particular empirical study, by presenting the theoretical expectations of the paper.

4.1 Application to states

As mentioned, the Hirschmanian theory has been applied to states by many scholars since it was first put forward, but Hirschman himself did not address in any detail the workings of exit, voice and loyalty in relation to states in his 1970 book, despite its title. This is a fact he recognizes in his 1978 article “Exit, Voice, and the State”. In this article, Hirschman investigates how exit as a feedback mechanism affects “the modern small welfare state” (Hirschman, 1978, p. 90). He points to the situation in Ireland after its independence from Great Britain in 1922 as an example of the results of exit as emigration and to explain what might (and should) happen to a state when large portions of its population decide to emigrate:

In the case of Ireland, the remedy for exit consisted of improved economic policy and conditions; indeed, countries worrying about exit do well to satisfy the basic economic aspirations of their citizens, particularly of the more mobile among them (...) What is needed in order to avoid excessive emigration and crippling brain drain is for a society to provide its members with *some* “attractions” that will reinforce their normal reluctance to leave (ibid., p. 105, emphasis in original).

According to Hirschman, then, just as dissatisfied customers leave a firm because of a deteriorating product or a member leaves an organization because of unsatisfying agendas or the like, citizens of a state will emigrate if they are not pleased with certain situations. Further, the state will – or should – try to remedy the exit of its citizens by improving the deteriorating conditions responsible for it. Hirschman takes his argument further in a 1986 article, where he addresses exit as “spatial mobility” (Hirschman, 1986). He presents three different migration situations – countryside to city, city to suburbs and international migration – and argues that three different patterns can be derived from these settings (ibid., p. 90-93). First, he argues that those who emigrate also rob the countryside, city or state of important, critical voices. A weakening of the public voice can hinder development and improvement, and it can also lead to further deterioration. However, and this is the second pattern, emigration can also lead to a strengthening of voice, as those who stay behind have the opportunity of using the exit option as leverage. Third, emigration can lead to policy changes and improvement in the countryside, in the city or in the country experiencing out-migration. Of the three migration situations, Hirschman argues that international migration is the situation that best fits his original theory, as he states that “the analogy to the firm is – or should be – most applicable when the geographic entity losing residents is the state, which is after all a highly organized, self-reflective body with considerable means of action” (ibid., p. 93).

The distribution of alert and inert customers (here citizens) is just as important when the object of study is the state as it is for firms and organizations. If only a few citizens emigrate, it is unlikely that the government of the state and its social partners would have the incentive to change a situation or improve certain conditions, and it is also unlikely that the government would have received information of any dissatisfaction. Hirschman also claims that exit of a small part of the population actually can be advantageous for a government, if the ones who leave are active participants in the political sphere and vocal protesters against certain situations. In such cases, emigration can be viewed as a “safety valve”. If too many people emigrate, however, this safety valve can turn into what Hirschman compares to a “life-threatening hemorrhage”, especially if a state loses many members of its labor force and/or falls victim to brain drain (Hirschman, 1993, pp. 180-181). Again, recuperation is dependent on the number of citizens who leave the state. This means that the number needs to be large enough to signal to the government and social partners that something is amiss and provide it with incentive to change, while at the same time the number needs to be small enough to provide them with time and resources to implement the necessary policies for improvement.

While it is easy to grasp that deterioration of a product leads to dissatisfaction and feedback through either exit or voice, just what is deteriorating and needs to be recuperated is not as clear when the state is introduced as the object of study. Jonathon Moses (2005) has provided a clearer description of deterioration in such a context. He applies the Hirschmanian argument to states, and takes it further by envisioning a world of free migration and then proposing potential political effects of such a situation. In his article, Moses refers to deterioration as a decline in the “quality of citizenship” (Moses, 2005: 61). As quality drops, demand for citizenship should do the same, meaning that citizens will choose the exit option and emigrate. “Quality” is here dependent on the benefits that go along with the citizenship, and these benefits compared to benefits in other states (*ibid.*, p. 62).

4.2 Exit

In the original theory, exit means responding to deterioration of a product by leaving the responsible firm and entering another. The exit option is well known in the economic sphere, as it is predicated on the presence of other (competing) firms and therefore a real choice of products (Hirschman, 1986, p. 78). Further, it is the “easy way out” because it is simple, indirect and impersonal (Hirschman, 1970, pp. 15-16). In neo-classic economic thinking, exit would certainly lead to a firm’s demise, as customers leave the firm and the firm’s revenues drop as a result. However, and this is a crucial point for Hirschman, exit can also be a feedback mechanism and trigger improvement, because the firm’s management will be informed of deterioration as customers exit. This argument, as mentioned, hinges on the number of customers who leave the firm in question. For exit to be a viable recuperation mechanism, a mix of inert and alert customers is necessary. The alert customers will exit the firm as the product deteriorates, while the inert customers stay put and provide the firm with the time and resources it needs to pick itself up. If only a small fraction of customers leave, the drop in revenues will be negligible, and the firm will not realize that something is wrong or see the exit as an incentive for improvement. If too many customer leave, the firm will diminish like the neo-classic paradigm predicts. For exit to work as a recuperation mechanism, the number of customers who leave must be large enough to cause a significant drop in revenues and provide the firm with feedback, but small enough to hinder the firm from immediate economic collapse. Only then can the firm react to deterioration and improve the conditions that triggered exit in the first place (ibid., p. 24).

Because exit is “the easy way out”, it is the preferred option of signaling dissatisfaction when both exit and voice are available as feedback mechanisms. For the customer, leaving a firm is a decision that can be taken without consideration of or cooperation with other customers and it is generally costless as it is assumed that similar products can be found somewhere else. For the firm, however, exit of its customers presents it with other problems than just drops in revenues – it also hinders the firms from getting detailed information about the deterioration. This is because the customer who exits renounces the voice option in all ways. For this reason, exit is not always a suitable recuperation mechanism (ibid., pp. 78-79).

Applied to states, the exit option equals emigrating from one’s origin country. The most significant difference between exit in the sense of changing products and exit in the sense of leaving your country of origin is the fact that the cost-benefit analysis of exit and voice changes when the object of the study is the state. The description of exit as the “easy way out”

is no longer a reasonable assumption; whereas Hirschman assumes that exit is simpler and less costly, he also recognizes the problems with this assumption when applying it to “primordial human groupings” such as tribes and states (ibid., p. 76). In most cases, loyalty will play a significant role for a disgruntled citizen, and the decision to emigrate will not be taken without serious consideration of the costs associated with leaving your country of origin.

As mentioned, Hirschman has in some cases compared exit qua emigration to a “safety valve”, meaning that governments can view exit as a tactical move to eliminate critical voices. His prime example of exit as a safety valve for governments is the “lazy monopolies” in Latin America (Hirschman, 1970, p. 60). Hirschman explains that to avoid being challenged and to avoid having to improve quality of citizenship, governments of some Latin American states have encouraged *some* emigration, usually of its political competition or of “rogue” voices. However, exit qua migration can also be dangerous to a state, if the state is drained of its citizen resources. For exit to lead to a “life-threatening hemorrhage”, there needs to be other states involved, meaning that emigration is an actual option; just as deterioration and recuperation of firms are dependent on a competitive environment, emigration as a feedback mechanism is dependent on the option of migration to other states.

4.3 Voice

Customers who choose the voice option stay with the firm in question, but let the firm know of its wrongdoings by articulating their dissatisfaction. Voice belongs to the political realm, as it means reacting to dissatisfaction by “articulating one’s critical opinions” (ibid., p. 16). There are many forms of voice, which roughly can be divided into horizontal voice and vertical voice. The latter is the actual use of voice in complaints to management or in protests and petitions, while the former – being a precondition for vertical voice – is a sort of “murmuring of dissatisfaction” among customers (O’Donnell, 1986; Hirschman, 1986, p. 82). Unlike exit, voice is costly and “messy”, because its effective use is dependent on the real possibility of influence a customer can have on a firm or an organization. Further, the effective use of voice is – like exit – dependent on how it is done. Writing a letter to a firm might not trigger a response or lead to recuperation, and too much voice might lead to a sort of “good riddance-mentality” with the firm. The voice option is complex, as it can be used as either a residual of or an alternative to exit. When voice is a residual of exit, only those who do not exit the firm are candidates for voice. This relates to the exit option as a renunciation of voice – more exit means less voice. This is what Hirschman called a “see-saw relationship” or

a “see-saw pattern” of exit and voice (Hirschman, 1970, p. 34; Hirschman, 1986, p. 91). Just as customers will choose the easier and cheaper option of exit over voice whenever both options are present, voice will be the viable feedback mechanism with a declining possibility to exit. As he writes, “in this view, the role of voice would increase as the opportunities for exit decline, up to the point where, with exit wholly unavailable, voice must carry the entire burden of alerting management to its failings” (Hirschman, 1970, p. 34). When voice is an alternative to exit, the customers will rationally consider whether the voice option will lead to recuperation without being too costly before actually exiting. If a customer believes that articulation of dissatisfaction can be helpful, exit can be postponed. This is related to the exit option as a renunciation of voice, but in this case, the customer has a bargaining chip: while exit eliminates voice, voice can be amplified by the threat to exit (*ibid.*, p. 37).

The nature of voice does not significantly change when applied to states rather than firms or organizations – voice still means articulating one’s critical opinion. What changes is the cost of choosing the voice option. While Hirschman assumed that voice is more costly and time consuming than exit, this relationship changes when the object of study is the state. This relates to the cost-benefit analysis already described above, where exit – originally the easier option – becomes more costly. Because of these changes in the cost of voice, one can assume that voice will be the preferred and “easier” option in the case of decline in quality of citizenship. In other words, citizens will turn to the voice option rather than just exiting the state. In a situation where a certain amount of free migration between states is possible, citizens also have the opportunity of threatening to exit, meaning that they have a bargaining chip whenever there is a decline in the quality of citizenship and it seems that the government and the social partners are not responding properly to voice. Following Moses and his assumption that “quality” depends on the benefits that go along with a person’s citizenship and these benefits compared to benefits in other states (Moses, 2005, p. 62), this bargaining chip should be of even greater value if better conditions can be found in other states. This is because the dissatisfied citizen can use differences in benefits as an argument against the government when voicing his or her concerns.

4.4 Loyalty

In Hirschman's original theory, loyalty has the function of postponing exit and letting voice take the lead in case of deteriorating conditions in firms or organizations. The assumption is that when loyalty is present, customers in a firm or members of an organization will hesitate to leave because they have a strong belief that their voice will be heard or that conditions eventually will improve (Hirschman, 1970, p. 79). Examples of this form of loyalty is the sense of belonging and identification with a political party, long-term emotional investment in a certain product or a decision to choose a certain product because of a particular firm's moral standing. If a political party changes its policies in an unsatisfactory manner, if a product one has used for a long time suddenly deteriorates or if a firm fails to pursue its moral standing, exiting may not be the first response.

Loyalty, then, has the ability of altering or affecting the cost-benefit analysis when it comes to choosing whether to exit or to voice one's concerns. As already explained, exit is seen as the simpler and cheaper alternative when both exit and voice are viable options, but this relationship changes when the concept of loyalty is introduced. Loyal customers in a firm or members of an organization will view exit as the more costly alternative, because of their expectation that they have the ability to reverse the situation of deterioration (*ibid.*). With this logic, it can be argued that loyalty can secure a beneficial mix of alert and inert customers, as it "can serve the socially useful purpose of preventing deterioration from becoming cumulative" (*ibid.*).

While loyalty may postpone exit and provide the deteriorating firm or organization with time and resources to recuperate, the loyal customers or members are not irrational in any way. It is assumed that the loyalist will stay loyal up to a certain point, but a lack of improvement could trigger exit if the loyalist feels that his or her voice is not heard or that conditions are not improving. In other words, the loyalist can use the exit option as a bargaining chip to make sure that the firm or organization will recuperate (*ibid.*, p. 82). The possible outcomes of the loyalty option is difficult to interpret and predict, however straightforward the theoretical basis may seem. This is because loyalty can be interpreted both as an attitude that can alter the cost-benefit analysis of exit and voice, and as a behavior in its own right (Saunders, 1992). This makes the concept of loyalty difficult to conceptualize and measure.

Applied to states, loyalty can serve as the catalyst behind the cost-benefit analysis of exit and voice. While it is true that customers can be loyal to a certain firm, it can be assumed that this

loyalty will grow in importance when the object of study is the state. This has to do with the sense of belonging as a characteristic of citizenship. As already described, it can be assumed that loyalty plays a significant role for a citizen when deciding which feedback mechanism to use. This means that loyalty to the state – and the citizen’s ties to that state – in many cases will delay exit and activate voice. At the same time, it is possible to claim that loyalty is not necessarily an attitude that can change citizens’ decisions of whether to emigrate or protest. Loyalty can also be a sort of response mechanism. With this interpretation, the loyal citizen will stay put because of a belief in eventual improvement. In other words, loyalty can also be interpreted as a passive response to deterioration or unsatisfying conditions. For the purpose of this paper, loyalty will be interpreted as an attitude that can alter the cost-benefit analysis of exit and voice.

4.5 The relationship between exit and voice

An important point in Hirschman’s theory is that the relationship between exit and voice is complex and that the two feedback mechanisms often arise in different situations and have different purposes. As he states in his book, “the willingness to develop and use the voice mechanism is reduced by exit, but the ability to use voice with effect is increased by it because of the threat to exit” (Hirschman, 1970, p. 83). His first statement – that exit undermines voice – is based on his assumption that exit is the easier and cheaper option, and from his assumption that those who exit are often those who are most concerned with product quality and thus the most vocal. In later writings, Hirschman describes the situation where increased exit possibilities leads to decreased use of voice as a “basic seesaw pattern” of exit and voice (Hirschman, 1986, p. 91) or as a “simple hydraulic model” (Hirschman, 1993, p. 176). His latter statement reflects the threat to exit by the loyalist explained above, where customers in a firm, members of an organization or citizens of a state can increase the value of their voice by using the threat to exit as a bargaining chip.

In his analysis of the collapse of the German Democratic Republic (GDR), Hirschman found that the relationship between exit and voice did not need to be one of exclusion and undermining. Rather, exit and voice could also work in tandem, jointly achieving the downfall of the republic (Hirschman, 1993). In the case of the GDR, periodical opportunities to exit the regime stirred up a sense of choice and empowerment among the affected German people, leading to greater use of voice as a means to seek reform through protests and demonstrations. Further, forced exit of strong voices from the regime did not lead to renunciation of voice, as previously argued by Hirschman. Rather, it strengthened the voice of the remaining citizens

who protested against the forced exit, and it robbed the regime of critical voices that could have saved it from total collapse years later (ibid., pp. 183-185).

4.6 The theory's relevance to labor migration in the EU

An important question to ask in relation to the Hirschmanian theory and its application to states and migration is whether it is relevant in a globalized world where the role of the nation-state is rapidly changing. In Hirschman's theory, states are like containers, and the decision to leave is a sort of final decision; the one who exits leaves the country of origin behind, and enters another country, which then becomes a sort of permanent residence. According to Bert Hoffmann (2010), the Hirschmanian scheme has been challenged and even to a certain degree disproved by what he calls the "migrant transnationalism paradigm". At the same time, he believes that the theory still can be of value with some revisions, and addresses the question of relevance in such cases:

It becomes necessary to rethink the meaning of the categories of exit, voice, and loyalty, making it difficult to establish simple seesaw mechanisms as in Hirschman's original scheme. And yet, the Hirschmanian metaphor can be of significant heuristic value to our understanding of the dynamics of present-day migration and of its social and political implications (Hoffmann, 2010, p. 68).

The migrant transnationalism paradigm claims that modern migrants maintain strong social and political ties to their country of origin while at the same time settling down and creating new ties in the receiving country. This change in sense of belonging occurs because globalization has made travel easier in both time and space, and because technology has made it possible to keep in touch despite long distances (Castles et al., 2014, p. 41). According to Hoffmann, these developments in the world of migration means that the original strict division between exit, voice and loyalty needs revising. In Hirschman's original theory, the recuperation mechanisms were – with some exceptions – mutually exclusive. This is most clear in the basic seesaw pattern – more exit, means less voice, and in the description of exit: you either leave or you do not and if you leave, you renounce the possibility of using the voice option. In the migrant transnationalism paradigm, however, exit can no longer be viewed as a dichotomous variable, as the maintained ties to the origin country both socially and politically secure the continuation of voice and loyalty (Hoffmann, 2010, p. 66).

Hoffmann's argument for the revision of the exit-voice-loyalty theory has some important consequences for the mechanisms. First, as already mentioned exit is no longer as simple and

clear as in Hirschman's original theory. The decision to migrate from one country to another is no longer equivalent to leaving the origin country behind. Second, according to the transnationalism paradigm, the modern migrant has the opportunity of remaining concerned with the development of the origin country through maintained ties, meaning that exit no longer equals the renunciation of voice; the migrant can still have a say in the public affairs of the origin country. In Hoffmann's own words, "exit qua migration can result in an internationalization rather than renunciation of voice" (ibid., p. 59). Lastly, the concept of loyalty is further altered by the continuation of a sense of belonging to the origin country despite having exited via migration. For instance, remittances is an integral part of the economic sphere of migration: migrants send money to their families in the countries of origin, thereby contributing to the local economy.

In a somewhat revised form, then, the Hirschmanian argument is well suited for an empirical investigation of the theory's relevance to labor migration in the EU. European integration, with its policy of free movement of people between Member States, provides an interesting basis for this kind of research, especially after the accession of eight Central and Eastern European states in 2004. This is because the old Member States presented as quite attractive for citizens of the new Member States, for example when it comes to wages and labor rights. According to Hirschman's original theory, disgruntled citizens can let the state know of their dissatisfaction by either exiting or voicing their concerns. The policy of free movement of people would then suggest that citizens would choose exit as this is the easy, impersonal and indirect option, which again would lead to less voice. As we have seen, the original theory also implies that because exit means renunciation of voice, the management – the government and social partners – will not receive detailed information on what exactly created dissatisfaction and triggered exit. This again, means that exit is not always suitable as a feedback mechanism. In its revised form, however, exit is no longer a strictly dichotomous variable, and does not necessarily bring with it a renunciation of voice. If a person decides to find work in another EU country, he or she can migrate without losing contact with the country of origin. The reasons behind the decision to emigrate can therefore still be communicated to the state, making exit a viable feedback mechanism after all. One could even argue that the bargaining chip is even more valuable, as citizens of the EU can move freely and therefore, theoretically, have the option of "bargaining their way back home".

As we have seen, the original theory postulates that the role of voice would increase as the opportunities for exit decline. Following this logic, it can be inferred that increased opportunities for exit would lead to a decline in the role of voice; because the EU provides free movement of people, there should be a radical decline in the use of voice in the EU Member States that has been affected by emigration. However, Hirschman also claimed that exit was unlikely if the objects of study were families or states. In such cases, voice would be the most likely feedback mechanism. Taking these assumptions and the migrant transnationalism paradigm's argument that exit no longer is equivalent with the renunciation of voice into consideration, the use of voice might still be significant in the EU Member States affected by emigration. This is because the citizens who leave will let the origin country's government and social partners know exactly what is deteriorating from the host country, for example through migrant networks.

5. Theoretical expectations

In this chapter, the theoretical expectations for each indicator are presented, leaving us with four specified hypotheses. First, however, it is important to keep in mind that the first part of the Hirschmanian theory – deterioration causes exit and/or voice – is treated as a basic *assumption* in this dissertation. Our interest here is the *expectation* or *prediction* that exit qua migration and the threat to exit have led the Latvian government and social partners to take steps to improve conditions in the labor market. It is important to emphasize this because the independent variable (emigration) and the dependent variable (labor market conditions) are highly intertwined and can affect each other; dissatisfying labor market conditions can trigger emigration (assumption), and emigration can trigger labor market conditions (expectation).

5.1 Unemployment and labor taxes

According to economic theoretical assumptions concerning supply, demand and factor endowments, labor migration causes a fall in unemployment levels in sending countries if those countries are considered labor-abundant. In 2003, the unemployment rate in Latvia exceeded 10 percent (see figure 3). While it is difficult to determine when a labor market is considered loose – meaning that labor abundant and most jobs are filled – Ehrenberg and Smith (2003, p. 28) operate with 7 percent or above. With this in mind, we should expect that unemployment levels have fallen in Latvia after accession, because the abundant labor relocates to Member States where labor is scarce (and where labor markets conditions are

more satisfying). This reallocation of labor should then lead to a tighter market, where jobs are readily available for would-be workers in the labor force.

The assumption is that dissatisfying conditions have triggered emigration of a significant portion of the Latvian population both prior to and after accession to the EU. This relieves the market of surplus labor, causing unemployment levels to fall. Thus, according to modern labor economics, conditions in the labor market are improving. While this may be the case, it does not support the main hypothesis in this dissertation that the Latvian government and social partners have reacted to emigration by taking steps to improve conditions in the labor market. To avoid continued emigration of its labor force and hence more extensive labor shortages, the government and social partners are expected to implement concrete measures to make working in Latvia more attractive. One major obstacle to this is the heavy taxes on labor. Latvia has one of the heaviest labor taxes in the world (Hudson, 2014, p. 54). Thus, while jobs may become readily available in Latvia as unemployment levels fall, poor citizenship quality in the form of high labor taxes could lead to a drop in citizenship demand. Put differently, even though the chances of finding work in Latvia increases as unemployment levels drop, high taxes might work as a disincentive and cause continued movement of labor to markets where taxes are lower.

It is difficult to estimate when we should be able to see the effect of emigration on unemployment levels. The main reason for this is the fact that data on emigration is incomplete. Because observed emigration levels from Latvia seems to suggest a slow but significant emigration pattern, one might expect that developments in unemployment levels should look the same. However, because the data on emigration is incomplete in many respects, yearly migration cannot be estimated with certainty. Thus, annual estimates of emigration's effect on unemployment is difficult to establish. Latvia joined the EU on May 1 2004, and it is possible that a significant decline in unemployment levels can be observed from the year 2005. Further, because the data and expert estimates indicate that emigration from Latvia has happened in stages rather than as outflows after accession, falls in unemployment levels need to coincide with increased emigration levels. Regarding the labor tax, I expect the lag period to be somewhat longer than the approximate one-year lag posited for unemployment. This is because the government and social partners need to *actively* decrease labor tax levels, meaning that we need to take into account negotiations and decision-making processes. Thus, because I expect to see changes in the unemployment rate from the year 2005 (and from there in close relation to emigration levels each year), and

because I assume that the labor tax discourages Latvians from filling available jobs in Latvia, I further expect the government and social partners to receive feedback from emigration rather quickly. Of course, those who do not migrate but threaten to do so will have a strengthened voice, meaning that the government and social partners will receive concrete information of what is amiss from a remaining labor force in a more powerful bargaining position. This situation should be seen as somewhat pressing for the actors involved, and the labor tax level should therefore be decreased by late 2005 or early 2006. Again, because emigration flows from Latvia have happened in stages rather than in one large outflow after accession, the labor tax levels should decrease with (approximately) one-year lags after significant emigration numbers.

Lastly, it is important to note that tax levels can decrease (or increase) for a number of reasons; it may not be an effect of emigration. In other words, changes in tax rates may be related to the general economic environment and have little or nothing to do with a response to emigration or the threat to emigrate. For this reason, it will not be sufficient to observe a decrease in tax levels. Observed tax reduction needs to be backed up by concrete references to emigration in government speeches or writings, tripartite negotiations between the government, the trade unions and the employers or other evidence of a direct link between tax reduction and emigration. It needs to be clear that emigration or the threat of emigration have forced the government and social partners to reduce the labor tax and thereby improve conditions in the labor market. Thus, because it is difficult to estimate when tripartite negotiations will take place, the one-year lag periods are approximate. To sum up, the theoretical expectations for this indicator are as follows:

(H₁) Exit qua migration has led to a fall in unemployment levels, and the Latvian government and social partners have taken steps to reduce the labor tax to avoid further emigration and labor shortages.

5.2 Wage growth

As shown in the literature review above, wage growth is seen as one of the main indicators of changes in labor market conditions by economists. Further, it has traditionally been a main motivator for workers when choosing to find work abroad. Assuming that wage levels are higher in other EU Member States, the exit-model predicts that workers rationally should show their dissatisfaction with low wages in their home country by migrating to a country where wages are higher. That workers' main motivation for emigrating is higher wages was also one of the findings in the study "The Geographic Mobility of the Labour Force" presented in chapter 3 (Krišjāne, 2007, pp. 92-93). Based on this, the expectation of this indicator is that the Latvian government and social partners will react to labor emigration by increasing wage levels. In other words, we should observe wage growth in Latvia after accession.

As with a decrease in labor tax levels, wages are exposed to changes in the general economic environment. It is therefore not sufficient to observe wage growth in the data. Support of the hypothesis can only be found if observed wage growth coincides with clear evidence of emigration as explanation for the growth. This means that it has to be clear that the government and social partners have taken steps to increase wage levels, and that these steps are a direct result of emigration and the issues connected to it. It is difficult to posit decisive lag periods based on government rulings and tripartite discussions, because they seem to be somewhat arbitrary. The expected lag period will therefore be based on a government ruling from 2011 that states that minimum wage levels should be set annually (Karnite, 2013). Although this is not ideal because it makes it difficult to analyze the period prior to 2011, it provides a lag of at least one year after 2011. As the timing of tripartite negotiations prior to the government ruling seems to have been rather arbitrary, it will be even more important to find evidence that emigration is the actual reason for wage growth. The theoretical expectation for this indicator is then:

(H₂) Exit qua migration and the threat to exit have led the Latvian government and social partners to increase wage levels.

5.3 Labor union strength

Labor unions have traditionally been the main channel for workers in their activation of voice. According to the Hirschmanian framework, it can be assumed that workers maintain a sense of loyalty towards their fellow workers, and that they will make use of collective voice in situations where they are dissatisfied. The likelihood of activation of collective voice will therefore increase with a simultaneous increase in worker dissatisfaction. At the same time, while the use of voice remains the most common mechanism in the expression of discontent, the presence and emergence of other viable options may present workers with an “easy way out” (Godard, 1992, p. 163). Following Hirschman, this easy way out is synonymous with the exit option. Because EU accession is treated as an “emergence of other viable options” in this dissertation, it is assumed that dissatisfied workers will turn to exit and therefore find work in a more satisfying labor market in another EU Member State. Further, exit will work in combination with voice in the sense that those who remain will use the threat to exit *through the main channel for the activation of voice*, the labor unions.

The main indicator of labor union strength is membership numbers and density, where the latter is measured as union membership as a proportion of the eligible workforce (Fulton, 2013). This is because the extent to which unions can use their collective voice as a threat to management depends on its size. As Pedersini (2010, p. 2) points out, “the number of members is an important resource in collective negotiations as well as a fundamental element of trade unions bargaining power, since it can lend credibility to its ‘threats’”. Of course, it can be argued that labor union membership figures should decrease after accession because so many workers left Latvia and hence should have cut ties with their respective union. However, as we have seen, the introduction of the transnational paradigm means that exit no longer needs to be viewed as a dichotomous variable. It can therefore be assumed that workers will remain loyal and committed to Latvia, and that workers who emigrate will maintain their membership. Further, workers who have chosen to stay in Latvia should feel that their voices would be more appreciated because they can use the exit option as a threat. Because labor unions are the main channel for the activation of voice, it is expected that union membership should increase after accession.

Observed increase in labor union membership is not sufficient to indicate improved conditions in the labor market. To the contrary, it can signal further deterioration as workers join unions to be protected against dissatisfying conditions in the labor market. Therefore, unions should themselves contribute to increasing union membership by trying to recruit

workers and implement programs to keep workers who are already members. This expectation builds on the assumption that labor unions – as social partner – will respond to emigration by trying to increase its membership base and thereby increasing the chances of achieving improvements in the labor market. After all, labor unions are organizations themselves, and should try to recuperate if conditions are deteriorating. Thus, it is expected that labor unions will have initiated recruitment projects and will have tried to increase their use of voice on behalf of workers in tripartite negotiations with employers and the Latvian government.

Lastly, if collective voice has been facilitated and if workers actually do have empowered voice because of the newfound threat to exit after accession, we should observe an increase in strike activity. This expectation is not only based on the assumption that the exit option might empower voice, but also on the fact that the stronger the unions, the more likely are strikes. In addition, strikes often also involve workers who are not members of any labor union, which only exacerbates the voice mechanism. Further, strikes should be more effective with increased labor union strength. This is because employers will have no choice but to listen to the feedback and improve the deteriorating conditions that sparked the use of collective voice and the strike activity. In other words, increased labor union strength should be observed through an increase in strike activity.

Positing lag periods for increased labor union strength after accession is difficult, because of the number of factors affecting union membership and activity. Further, the financial crisis of 2008 may have disturbed the development of labor unions in Latvia. The unemployment rate reached exceptionally high levels during the crisis, and the unemployed have nearly no rights or benefits through labor unions in Latvia, meaning that many members may have dropped their union memberships during the crisis (Waddington, 2005). For these reasons, the development in labor union strength should be viewed as an ongoing process, and the aim is to analyze these developments through membership statistics, recruitment projects, tripartite negotiations and strike activity. Thus, the theoretical expectation for this indicator is:

(H₃) Exit qua migration and the threat to exit have led to increased labor union strength indicated through increased membership, increased recruitment activity and power in tripartite negotiations, and increased strike activity.

5.4 Employer-employee relations

A basic assumption in this dissertation is that deteriorating or dissatisfying conditions in the labor market trigger labor emigration. The exit of workers from Latvia has had a negative impact on the size of its labor force, meaning that labor might be scarce and jobs hard to fill. This largely affects owners of business, who need labor to run their operations. Owners of business – here the employers – should therefore respond to labor emigration by implementing measures to avoid further emigration.

Because the outflow of workers affects employers in a negative way when it leads to labor shortages, the employers and their unions should address the reasons for exit and worker dissatisfaction by accommodating the needs and demands of their employees. This involves an improvement in employer-employee relations through increased communication, worker participation in the workplace and improved workplace conditions as perceived by employees. Thus, workers who choose not to emigrate should have gained more voice in their daily relations with their employers after accession. This expectation is based on the Hirschmanian assumption that the threat to exit empowers voice. As Farrell and Rusbult (1992, p. 212) concluded in their empirical study of how employees react to job dissatisfaction, “employees with superior job alternatives were consistently more likely to react to job dissatisfaction with active exit or voice reactions”. Assuming that more satisfying labor market conditions abroad can be viewed as a superior job alternative, employers should react to emigration by facilitating voice in the workplace and to a larger degree involving employees in the everyday development and changes in the workplace and its expected progress towards improvement. In other words, we should observe improved communication between employers and employees, and increased employee participation in the day-to-day proceedings in the workplace. This includes not only direct relations between employers and employees, but also actual (positive) changes in workplace conditions as perceived by the employees.

As was the case with labor union strength, it is not easy to posit concrete lag periods for employer-employee relations. There are many factors involved, and the changes observed should therefore be part of an ongoing process. While we may not observe improvement immediately after accession, the reportedly large outflow of the workforce should have triggered a response from the employers at a relatively early stage. Including the employees in the day-to-day proceedings in the workplace should be a relatively feasible task for the employers, meaning that we should see evidence of some change within the first year of

accession. However, evidence of change will also need to follow the periodical elevated emigration levels as observed in figure 2 and as estimated by the experts. To sum up:

(H4) Exit qua migration and the threat to exit have led to improved employer-employee relations indicated through improved communication between employers and employees, increased employee participation in the workplace, and improved workplace conditions as perceived by employees.

6. Method

The research design employed in this thesis is a case study of the Latvian labor market, and the method is used to investigate whether conditions in said market have improved after Latvia joined the EU. The independent variable is emigration, and the dependent variable is labor market conditions. Four indicators define the latter variable: unemployment and labor taxes; wage growth; labor union strength and employer-employee relations. The methodology includes descriptive statistics, secondary sources, and government statements, rulings and plans.

In this chapter, I will describe, problematize and defend the methodological choices I have made throughout the dissertation. The first section deals with the choices and selection of case, variables and indicator measurement. It describes the reasoning behind selecting Latvia as case, it further problematizes the difficulty of measuring emigration from Latvia and finding details about Latvian emigrants, and it accounts for the four particular indicators of labor market conditions and how they have been measured. The second section provides a short but concise defense of the case study as opposed to other research methods, and it touches upon the issues of using “theory-confirming” case studies when the theory belongs to the somewhat simplifying rational choice tradition. The third and last section addresses limits and challenges with validity and reliability. Of special significance in this section are the problems of claiming causality when the analysis consists of only one explanatory variable and the problems of generalization when there is only one case. Please note that even though there are several recognized indicators of labor market conditions, none of them has been used in a context similar to this, and it is therefore difficult to follow the logic and reasoning of previous research where these indicators have been employed. For this reason, the measurements and contextual definitions of the indicators may be somewhat different from the usual application.

6.1 Choice of case and variables

6.1.1 Latvia as case

In all, ten states joined the EU in the 2004 enlargement. Eight of these states – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia – are often grouped together and called “A8 countries”, separating them from the other two new Members Cyprus and Malta. The reason for this separation is the low income-levels in the A8 countries relative to the old Member States, a fact that has spurred discussions of migration-flows from the new to the old Member States (BBC, 2005). The pull of higher wages in “old Europe” and the accompanying push from low income-levels in the A8 countries make these particular states suitable for the theoretical framework in this thesis. Of these new Members, Latvia is the poorest. It is also one of the smallest countries in the Union with its two million inhabitants (Eldring, 2005, p. 11). Latvia did not experience the largest outflow of workers among the countries in this round of enlargement, but the opportunity to exit only worsened an already difficult situation of emigration from the country since the early 1990s (Galgóczi et al., 2009, p. 18). However, the effect of this opportunity to exit on economic developments in Latvia has not been thoroughly investigated. This is largely because of the lack of satisfying migration statistics in Latvian records (Eglīte and Krišjāne, 2009, p. 286). Given the lack of research on how migration affects Latvia and the continued population loss after accession, I believe Latvia is an interesting choice of case. Further, Latvia has undergone and still goes through significant changes from a “strict orthodox communist rule” (Pridham, 2008, p. 368) to a modern democracy fit for membership in the EU. Thus, an investigation of government and social partner reactions to emigration and citizen voice can provide an unusual insight to both economic, social and political changes and developments in a former Soviet republic.

6.1.2 Emigration: Measuring the independent variable

A main assumption in this thesis is that unsatisfying conditions in the Latvian labor market triggered emigration to EU labor markets with more satisfying conditions after accession. For this form of exit to work as a recuperation mechanism, the number of citizens who leave the state must be large enough to signal to the government that something is amiss and provide it with incentive to change. Further, the number also needs to be small enough to provide the government with time and resources to implement the necessary policies for improvement. To be able to test the theoretical predictions and expectations drawn from these assumptions, it is necessary to collect migration data that shows that the number of Latvian workers who have left after accession is sufficient as both feedback mechanism and recuperation mechanism. This

has proven to be somewhat difficult, as available Latvian statistics on migration is and has been relatively insufficient.

In addition to the reasons already mentioned in chapter 2, one of the reasons for the difficulty of assessing the impact of emigration on Latvia is that governmental institutions traditionally have not recorded information on why Latvian citizens emigrate or how long they stay away. Latvians also rarely change their place of residence in official records, making the data on size, duration and forms of emigration difficult to record properly (Eglīte and Krišjāne, 2009, p. 271). In Eurostat's statistics, emigration "denotes the action by which a person, having previously been usually resident in the territory of a Member State, ceases to have his or her usual residence in that Member State for a period that is, or is expected to be, of at least 12 months" (Eurostat, 2013). This means that an emigrant who travels to another EU Member State for work (or for some other reason) will not be part of the Latvian and EU statistics if he or she is gone less than a year and/or chooses to not change place of residence in the official records. In other words, many cases of labor migration from Latvia will probably be excluded from the official statistics, making data on actual labor force mobility largely unavailable for research. Further, one must consider the possibility that the statistics on emigration also might include Latvians who already were living in another EU Member State at the time of accession, but who only changed place of residence in official records when free movement between EU countries became legal. For these reasons, documented statistics have been supplemented by expert estimates of emigration from Latvia (Hazans, 2013) and other sources who have translated Latvian statistics and research into English.

6.1.3 Labor market conditions: Indicators of the dependent variable

The first indicator of labor market conditions is the unemployment rate. The unemployment rate is the most widely used measure of labor market conditions, as it reflects changes in utilization and underutilization of the labor force (Ehrenberg and Smith, 2003; Chung et al., 2014). However, with the main hypothesis that the possibility of exit qua migration forced the Latvian government and social partners to improve conditions in the labor market in mind, it can be argued that this indicator is not particularly relevant in this thesis; the unemployment rate may reflect general changes in the economic environment rather than emigration. Further, it is not surprising that unemployment rates decline when unemployed workers have the option of emigrating to find work. However, the argument behind the unemployment rate and its importance as an indicator of labor market conditions relates to labor being "the most abundant factor of production", meaning that "any country's well-being in the long run

depends heavily on the willingness of its people to work” (Ehrenberg and Smith, 2003, p. 167). This is where Latvia’s heavy taxes on labor comes in. As we have seen, falling unemployment rates may be a sign of improving conditions in the labor market, but it can also deteriorate into labor shortages. Labor taxes in Latvia are high, and research shows that high taxes on labor discourages would-be workers from finding work (Vörk et al., 2007). In other words, the unemployment rate is coupled with the labor tax rate to analyze whether the government and social partners react to labor emigration by making employment in Latvia more attractive through a decrease in the tax level.

The unemployment rate is the number of unemployed persons expressed as a percentage of the total labor force, meaning the total number of employed and unemployed (Eurostat, 2015a). I have chosen to include all persons 15-74 years of age in the Eurostat database rather than the options “less than 25 years” or “from 25 to 74 years” because the labor force usually includes all persons over the age of 16 (Ehrenberg and Smith, 2003, p. 27). Further, research has shown that people are most mobile (here referring to labor mobility) during the ages 20-24 (ibid., p. 313). This choice then reflects the necessity of gathering comprehensive information on the unemployed, and relating it to the possibility of migrating as closely as possible. Further, I have not distinguished between males and females, for the simple reason that this distinction is not relevant in this particular context. It can be argued that males have larger propensity to move for jobs than females, but this falls outside of the aims of this dissertation.

The Latvian flat tax rate, which falls heavily on labor, is one of the highest among the new Member States, and it is certainly higher than in the old Member States. According to Hudson (2008, p. 76), “Latvia’s effective flat tax on wages exceeds 60 percent – a straight 25 percent on wages, a 24 percent social-service tax paid by employers and another 11 percent paid by wage earners”. Analyzing this labor tax has proven difficult, because the Eurostat database does not contain statistics combining all the elements of it. The tax rate that comes closest to the Latvian is the rate referring to “income tax on gross wage earnings plus the employee’s social security contribution less universal cash benefits” (Eurostat, 2015b). While these data might cover much of the labor tax, they do not take into consideration the fact that there has been several tax reforms in Latvia. As Šņucins and Kodoliņa-Miglāne (2015, p. 389) state, “the main labour tax changes were implemented recently, and the reforms are not yet completely finished. This makes evaluation of the results less efficient and suggests the need for further research in the future”. However, the Eurostat data is all we have and, coupled with

actual government statements and writings, they do provide sufficient information for our purposes. Further, I have chosen to focus on single people without children who earn 100 percent of the average worker when in work. This is because young people with few commitments are more mobile than older people with children, and because young, educated people – who make up a significant part of labor-export statistics – are more likely to earn as much as the average worker (Hudson, 2008). Others who have studied changes in labor tax levels in Baltic countries have focused on people who earn *less* than the average worker (see for example Šņucins and Kodoliņa-Miglāne, 2015), but my calculations show few differences in developments in tax levels based on which average is chosen (see attachment 1 in appendix).

The second indicator of labor market conditions is wage growth. The analysis will refer to wages rather than earnings (wages multiplied by number of hours) or income (accumulated resources per family per year) both for reasons of convenience and because characteristics like hours spent working and family resources are of limited relevance and interest for our purpose. It is very convenient to make use of the term *wages* in this context because it refers to “payment received by workers who are paid on a salaried basis” (Ehrenberg and Smith, 2003, p. 33). This means that other non-relevant factors for increases and decreases like changes in hours worked or investment differences between families are largely eliminated, making the analysis less complicated and prone to “causation pitfalls”. Still, wage levels are largely dependent on the business cycle; changes in supply and demand related to the general economic environment will to a large degree influence wage growth. To correct for this, I refer to minimum wages when analyzing and discussing wage growth. The minimum wage laws are so-called “nonmarket forces”, meaning that increases and decreases in the minimum wage level are dependent on government decisions combined with social partner input rather than general economic changes in the market (ibid., p. 47). Further, the minimum wage recorded in Eurostat’s database refers to employees in all sectors (Eurostat, 2016), meaning that we do not risk measuring wages only for workers who normally do not emigrate. Note that the analysis will touch upon other “types” of wages as well, especially when analyzing the employers’ view on wage increases as an instrument to avoid emigration.

The third indicator of labor market conditions is labor union strength. “Strength” is difficult to measure in this context because labor unions work in several different areas and may use different strategies for the utilization of its influence. Changes in union membership is certainly an important indicator, but because the situation is so complex there is a certain

possibility that labor unions have gained a more strengthened position without it being visible in the sheer membership figures. I have tried to correct for this complexity by including several indicators of labor union strength (membership, participation in tripartite negotiations with the government and the employers' unions, and strike activity). By covering a number of areas where signs of "strength" can be recognized, the chances of making a type II error decreases. Further, the complex situation becomes a little less complicated in the case of Latvia because of the structure of its labor unions. The majority of unions are gathered under the Free Trade Union Confederation (LBAS), and the relevant information on union influence is therefore possible to locate in one single place. The issue is the fact that most of the data are only published in Latvian, making access to it difficult. I will therefore have to rely on secondary sources to gather membership data, information on recruitment projects and tripartite discussions. Unfortunately, the same goes for information on strike activity, as such statistics are not collected in Latvia (Karnite, 2010). When looking at union membership, I refer to both union membership rate and union density. According to Fulton (2013), union density is defined as union membership as a proportion of the eligible workforce, but in most studies of developments and changes of union strength, little or no distinction is made between union density and union membership. For this reason, both of them will signify the same thing.

The fourth and final indicator of labor market conditions is employer-employee relations. Measuring this indicator involves investigating to what degree employees feel that their voice is heard in the workplace and whether conditions such as working time, health-related issues and communication are being seriously considered as important by their employer. I will base my investigation on a qualitative project conducted by the European Commission, where Latvians were contacted by phone and asked to express their opinion on whether their workplace conditions were satisfying.

One issue in this dissertation is whether it is reasonable to weight the importance of all four hypotheses equally. As an example, it is possible that the effect of emigration is more important on wage growth than on employer-employee relations. Still, I have made the decision to treat all four hypotheses as equally important. The reason for this is that the question whether emigration affects factors differently according to (for example) economic considerations falls outside the aim of this dissertation. It is however, a very interesting question both theoretically and empirically, and should be remembered in future research.

6.2 The case study: Strength and weaknesses

The main reason for selecting the case study as method is the inherent complexity of labor markets. When studying the labor market, there will almost certainly be a number of possible explanatory variables to choose from, and they will almost certainly be highly intertwined. This fact might call for statistics modeling such as regression analysis, where several explanatory variables can be tested simultaneously, and where a computer will do its math and estimate the explanatory force of each variable. In this case, however, I have decided that qualitative and quantitative elements are equally important. For instance, an increase in the minimum wage level tells us that there has been an increase in the minimum wage level, but not why and not if it has anything to do with our hypothesis. By incorporating qualitative elements like document analysis and analyses of government and social partner statements, one might be able to find the “smoking gun” that relates labor market changes to emigration.

While the case study might lead us closer to establishing causality, it can have certain issues when its “mission” is to test one single theory. This is especially valid for this case, as it has a somewhat “theory-confirming” or “fitting” characteristic (see Moses and Knutsen, 2012, p. 137). Trying to confirm the explanatory power of a theory when it belongs to the rational choice tradition is problematic because a major critique of this tradition relates to its assumptions not being realistic. This problem, then, coupled with the complexity of labor markets mentioned above, is why so much place has been devoted to describing and explaining the theoretical *assumptions* and their relationship to the theoretical *expectations* or *predictions*. As Ehrenberg and Smith (2003, p. 4) put it:

The reason we need to make assumptions and create a relatively simple theory of behavior is that the actual workings of the labor market are almost unconceivably complex (...) What we need to discover are general principles that provide useful insights into the labor market.

6.3 Limits and challenges: Omitted variables, generalization and secondary sources

Internal validity has to do with whether the results of my analysis can be explained by my hypotheses. Is the independent variable the sole explanation of changes in the dependent variable? Are there other plausible explanations? These questions are particularly important in this thesis because of the complexity of the labor market and the fact that we operate with only two variables – emigration and labor market conditions. A common problem with univariate modeling such as this is omitted variables; there are probably other important

explanatory variables that have been left out of the analysis, leading to the possibility of type I errors: finding support for a hypothesis when other explanations are the reasons for the result. I have tried to avoid such “false positives” by being careful about claiming causality in situations where no smoking gun can confirm that the analysis points to more than covariance between emigration and changes in labor market conditions. The “correlation-not-causation mantra” has been and will continue to be central throughout this dissertation. Further, I have tried to avoid omitted variable bias by controlling for the most likely competing explanations of any change in the dependent variable. Even though the complexity of the labor market leads to a range of different explanations, omitted variables are no threat unless they have an effect on the dependent variable *and* is correlated with the independent variable (Ehrenberg and Smith, 2003, p. 23). This leaves, as mentioned, one significant omitted variable: economic conditions. For example, the financial crisis may have a strong impact on labor market conditions because it influences the business cycle, leading to changes in the labor force and wage levels. At the same time, the crisis might trigger emigration to Member States less affected by it. Similarly, the “neoliberalist turn” may have a significant impact on how the government and social partners view dissatisfying conditions in the labor market; individuals are more responsible for their own personal gain, and any form of “socialist help” might be improbable from the government and social partners. Further, this new economic attitude might lead to continued emigration. Again, I will control for these variables by trying to identify proof that my hypotheses are correct. Where no such proof can be found, we will have to settle for covariance. I have also tried to incorporate the variables in the short empirical analysis of Latvia’s migration history presented above. By doing this I hope to show that while the omitted variable may affect the results, they can also be analyzed as integral parts of the “bigger picture”: they can both work as push-factors that trigger emigration, making government and social partner reactions even more likely – especially after accession providing an opportunity to leave for Latvian workers.

If it can be said that results of the analysis can be explained by my hypotheses wherever I can find “qualitative proof”, we are left with quite interesting findings. The value of these findings nevertheless depends on whether or not they are valid for other countries as well. The question is then whether my findings can be generalized to other cases. Do they have external validity? Certainly, it would be a stretch to argue that my findings are valid for all cases where free movement of people between countries is a possibility. This is first and foremost because similar cases to the EU are *internal* cases, meaning that there is free movement of

people between states *within a country*. The US or India are good examples of such internal cases. The main problem is that, when comparing these cases, we would have to take into account the distinction between local and federal government, making changes in the labor market even more complex. For example, we would have to make sure that the *local* government is responsible for setting wage levels within an American state for it to be comparable to the Latvian case. For this reason, the discussion of whether my thesis is externally valid will concentrate on the other seven new Member States from 2004.

The results of the analysis in this thesis can to a certain degree be generalized to the other A8 countries, but at least two characteristics are important to keep in mind when transferring any findings to other cases. First, even though the new Member States do share a similar historical background, only the Baltic States (Estonia, Latvia and Lithuania) are actual post-Soviet states. While the other new Members certainly were under Soviet control, their historical background did differ somewhat from the Latvian background and this led among other things to the development of different social, economic and political policies, making outcomes of labor market performances different from state to state (Vörk et al., 2007, p. 8). Second, not all of the new Member States experienced any significant outflow of their labor force after accession. Hungary, for example, saw very few of its workers emigrate when the opportunity came around (Galgóczi et al., 2009, p. 1). The Members who did not experience any large outflows are examples of “insignificant exit”, meaning that the government and social partners would either not realize that something is amiss or not have the incentive to do something about it because the loss has little effect on revenues.

Despite these differences, I do argue that the results of an analysis of emigration’s effect on the Latvian labor market can be generalized to the other new Member States. The main reason for this argument is their common transformation from centrally planned, socialist economies to more market-based, liberal economies after the fall of the Soviet Union. It is true, as mentioned above, that they developed different social, economic and political policies after this historical event, but they all share a common “ideological reaction” to their economic past. As Hudson (2008, p. 75) states:

Reaction against the Soviet occupation has played a key role in the post-Soviet move to the opposite end of the political and ideological spectrum. It has shaped the post-Soviet fiscal, financial, and social policies into a unique economic system, as different both from most Western social democracies as it is from the old Soviet Union.

In other words, I argue that results from the case of Latvia can be generalized to the other new Member States that have experienced similar outflows of workers after accession, because they are proximally similar to each other. This means that even though there are some notable differences between the A8 countries, they do share traits that make them suitable for comparison.

A final challenge in this thesis is whether I have studied what I actually intended to study. In other words, are my findings reliable? As already mentioned, one limit to the data collection and measurement has been the fact that others before me have measured the indicators with quite different intentions; labor market indicators are often “straightforwardly” measured because the intention is to observe how they change with the business cycle. This is not the case in this dissertation, as the intention here is to observe how the labor market indicators change *because of emigration and after government and social partner reactions to emigration*. This leaves me with no real examples of how to measure the indicators in such a way that I can be confident they measure what I intend to measure. However, I am highly aware of this limit and have been meticulous when deciding how to best measure the indicators. One example is the minimum wage, which was chosen because I am confident that increases and decreases in this particular wage level are the result of “nonmarket forces”, meaning that the government and social partners are responsible for any changes.

The data collection and correct measurement have also been somewhat limited by the fact that much of the information is only available in Latvian or through secondary sources that have translated the information to English. The problem with these limits is that the translations of statements, action plans and the like might be colored by the author’s point of view or intentions and that numbers and figures provided by the secondary sources are incorrect. Despite these challenges, I do believe that the empirical evidence collected from the secondary sources in this dissertation is trustworthy, as it is collected from academic sources that themselves are transparent.

7. Analysis

In this chapter, the hypotheses and the findings related to them are presented and discussed. The first two hypotheses presented in this dissertation concern unemployment, labor taxes and wages. As we discovered in the presentation of Latvia's historical background, it seems that Latvian citizens have used the exit option when economic conditions are deteriorating, which means that the economic environment is a major push factor. Because the first two hypotheses are directly related to and affected by the economic environment, they are analyzed in light of the four latest historical periods: the pre-accession period (1991-2004), the post-accession period (2004-2008), the crisis-period (2008-2011) and the recovery period (2011-present). The Soviet era is left out of the analysis because of lack of data and because of its limited relevance for the research question. The pre-accession period, which is also of limited relevance for our purpose, is included because of its significance for labor market developments in Latvia leading up to accession.

The chapter is structured as follows. The hypotheses all have they own little "mini-analysis". The findings and the discussions in this chapter are rather technical and empirical, because I have chosen to keep the theoretical discussion separate. To repeat, the analysis and discussion will show that while there are some improvements in the Latvian labor market after accession to the EU, there is little evidence that emigration is the main explanation for these improvements or even an important explanation. Further, we will see that the government and social partners periodically do express concern for emigration, but it seems that these concerns and the steps taken in order to improve (or change) conditions in the labor market are more connected to the general economic environment. Thus, the expectation that emigration is an additional explanatory factor when it comes to changes in labor market conditions is largely weakened by the analysis.

7.1 Unemployment and labor taxes

H₁: Exit qua migration has led to a fall in unemployment levels, and the Latvian government and social partners have taken steps to reduce the labor tax to avoid further emigration and labor shortages.

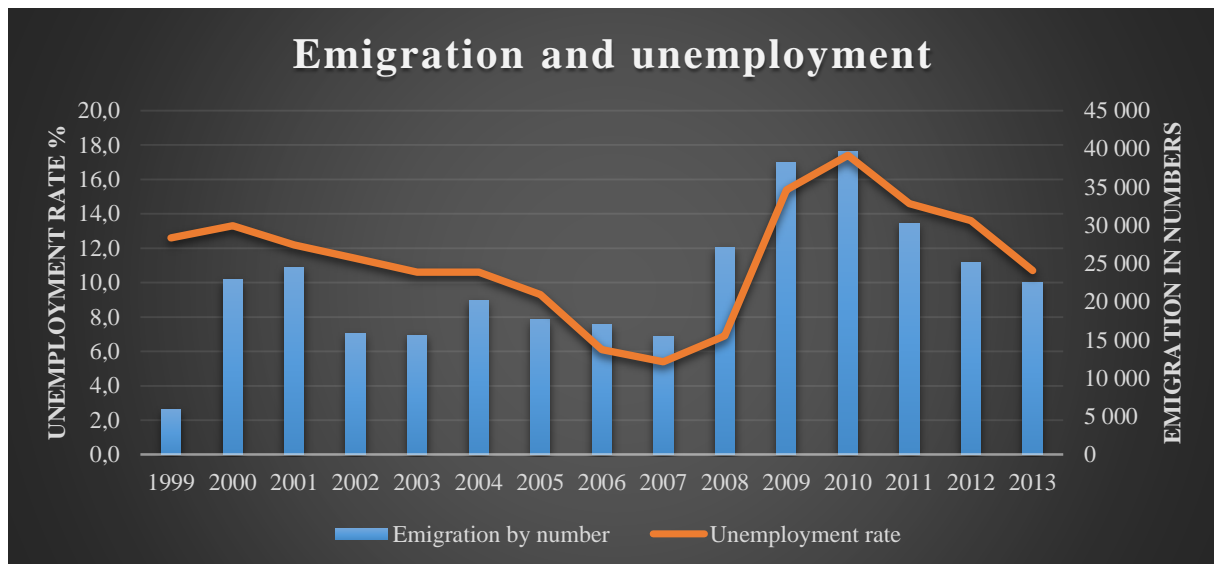


Figure 3: Emigration and unemployment 1999-2013. Variable codes: migr_emi2 and une_rt_a. Source: Eurostat (2013; 2015a).

According to the theoretical predictions, increased emigration should be followed by declining unemployment levels, a pattern which according to other sources has created labor shortages in certain professions (European Commission, 2015; Karnite, 2006; Hazans, 2007). Further, labor shortages should trigger a response from the Latvian government and social partners in the form of a lowering of labor tax levels. This is not what the data in figure 3 shows. To the contrary, it seems that emigration and unemployment are tracking one another. Thus, while we expected an inverse correlation, we actually observe a strong positive correlation (R-squared is almost 0.37 – see attachment 2 in appendix). The reason for this result is probably the issue discussed previously; economic conditions are driving both variables. This is because more people migrate in economic downturns, and workers lose their jobs because demand for labor shrinks. Further, there is no empirical proof in the literature of causality between migration and unemployment or of an “unemployment export hypothesis” as Kaczmarczyk (2012) calls it. As he points out in his research of the Polish labor market after Poland’s accession to the EU, changes in the employment/unemployment rates are largely a result of economic cycles, and are not necessarily directly linked to emigration. Hazans and Philips (2010) reached the same conclusion in the case of the Latvian labor market; they argued that migration is not the only or even the main reason for falling

unemployment. They found that structural funds from the EU through EU Cohesion Policy, trade, and other factors were equally important. Nevertheless, other researchers have found that emigration after accession has caused and is causing outflow of the Latvian labor force, and that there are labor shortages in certain professions (Eglīte and Krišjāne, 2009, p. 287). A detailed analysis of emigration and unemployment in relation to the historical periods follows below.

In the pre-accession period, elevated emigration levels can be observed in 2000-01. As we have already seen, this development was probably caused by the Russian financial crisis in 1998. According to Vörk et al. (2007), unemployment levels were on the rise in the period immediately *before* these elevated emigration levels, also as a result of the Russian crisis. This is barely visible in figure 3, where we can observe a slight increase in unemployment from 1999 to 2000. After the “migration peak” in 2001, both emigration levels and unemployment levels are declining. This development is probably linked to a period of economic growth in Latvia immediately before and after accession. In this period, there was an increasing demand for labor in the country, and favorable economic conditions encouraged workers to stay. Further, policies to encourage labor force participation – like a raise in the legal retirement age in 2003 – led to an increase in employment levels and a decrease in unemployment levels (Hazans, 2007).

The pre-accession period may contradict the expectation that elevated levels of emigration cause a decline in unemployment, but it has to be taken into account that the discussed developments happened *before* accession, meaning that movement across borders was restricted. The period of economic growth continues after accession in 2004, but emigration levels are somewhat higher in 2004-06 than they were in the economically favorable period before accession. Beginning in 2004 and rapidly progressing until 2007, unemployment levels decrease significantly. While the unemployment rate was just above 10 percent in 2004, it decreased to just under 6 percent in 2007. If we look at this period separate from the overall picture, this development can give partial support to the hypothesis. This is because emigration levels did increase after accession while unemployment levels decreased. Further support is found in Hazans’ comment that the decline in unemployment in this period is closely connected to the outflow of the Latvian labor force after accession to the EU (Hazans, 2007). Further, the dramatic decline in unemployment did lead to labor shortages in certain professions, and it also raised concerns that these shortages would spread to other professions (European Commission, 2015). However, the start of a significant increase in emigration

levels *and* unemployment levels from 2007 lends little credence to the hypothesis, as both reach unprecedented levels during the crisis.

During the financial crisis, which hit Latvia with full force in 2008, economic activity slowed significantly and demand for labor decreased. Many lost their jobs. Even though the whole of the EU was affected by the crisis, some Member States were less affected than others were, and it was still possible to find work abroad. According to figure 3, a record number of almost 40 000 Latvian citizens emigrated in 2010, while unemployment levels increased and reached nearly 18 percent in that same year. From 2010, the economic situation has slowly improved, and growth has resumed. With this gradual improvement, labor market conditions have also improved as unemployment levels slowly but surely start to decrease (*ibid.*). In 2011, both emigration levels and unemployment levels are still high, but the decrease in both levels is significant.

The emigration levels in the recovery period are still significantly higher than they were before the crisis hit. The same goes for the unemployment level, which seems to be rapidly declining. According to the European Commission (2015), unemployment levels reached 8.5 percent in August 2015, meaning that an economically favorable environment has played a significant role in improving this indicator of labor market conditions. However, the economic upturn began to stall in 2014, and the situation is currently worsening (*ibid.*). One factor contributing to this economic development is the geopolitical situation; sanctions imposed on Russia by the EU inhibits Latvia from continuing lucrative trade agreements with Russia. In light of this development, the Commission states that “further improvement of the labour market situation will be very gradual, and no rapid increase in employment is expected” (*ibid.*).

The Latvian Ministry of Economics seems to have a somewhat more positive outlook on the current economic situation, as it states that the country has witnessed an increase in economic activity and hence a decrease in unemployment levels in 2015 (Ministry of Economics of the Republic of Latvia, 2015). At the same time, the Ministry addresses the possible dangers of emigration, as it also states that periods of unfavorable economic conditions have caused increased emigration, and that the geopolitical situation probably will hinder continued economic growth and hence spur even more emigration. Thus, the Ministry expresses concern that continued emigration could lead to labor shortages, and it calls for change of policy to avoid further migration and encourage return migration:

(...) the national migration policy will be of great importance to ensure that the economic development goals are reached; the policy has to focus on *encouraging the repatriation of the Latvian nationals and developing selective immigration mechanisms, which would provide for a quick and efficient elimination of labour market drawbacks in the long-term* (Ministry of Economics of the Republic of Latvia, 2015, pp. 46-47, emphasis added).

This call for policy change can be read as a sort of realization that change is needed to secure a viable supply of labor in the future, although it is unclear just how change should come about and what it should entail exactly. Reading between the lines, “repatriation of the Latvian nationals” entails changing policy so that emigrants find it beneficial to move back to Latvia. This leads us to the labor tax, which many regard as an obstacle to finding work in Latvia. Have the Latvian government and social partners reacted to emigration by improving labor market conditions, as the Ministry of Economics seems to suggest? In the following section, developments and changes in the labor tax will be analyzed in relation to emigration.

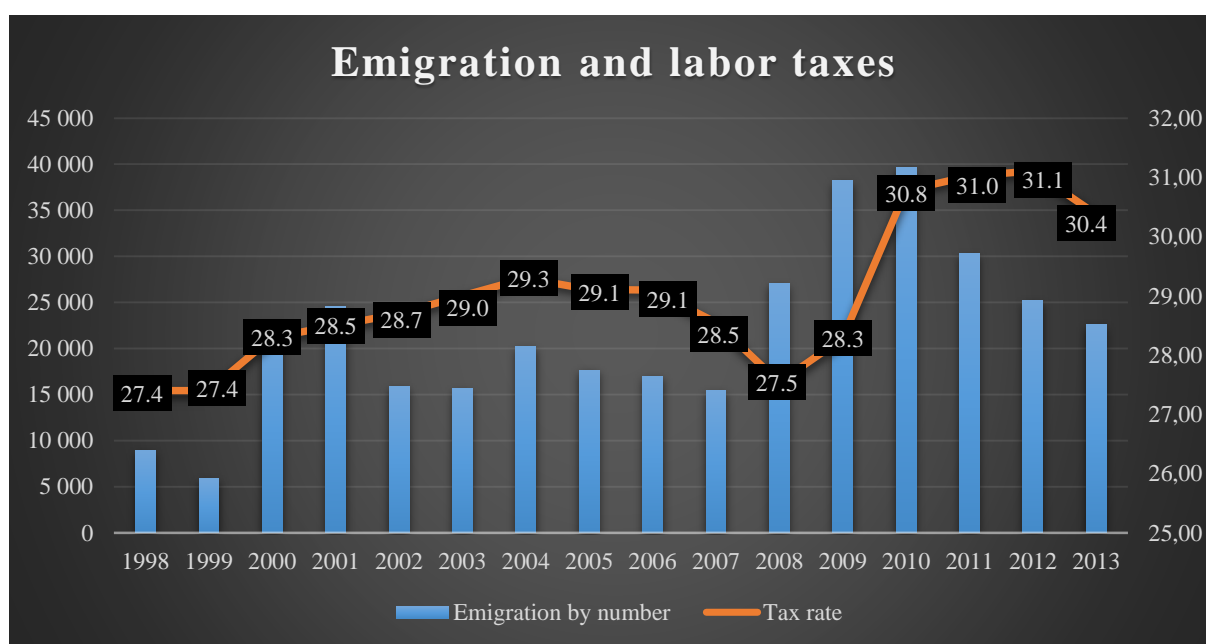


Figure 4: Emigration and labor tax rates 1998-2013. Variable codes: migr_emi2 and earn_nt_taxrate. Source: Eurostat (2013; 2015b).

According to the theoretical predictions, elevated numbers of emigration should be followed by decreasing tax levels, with one-year lags or longer after accession in 2004. More specifically, we predict that changes in the labor tax should be visible in the data from late 2005 or early 2006. As we have already seen, the data shows some signs of elevated emigration levels in 2004, and the labor tax rate this year is 29.3 percent. Because of elevated

levels of emigration compared to the previous years, it is expected that labor taxes should decline in late 2005 or early 2006, which is only partly supported in figure 4. The tax rate has declined from 2004, but the decline is very small. Further, there is no change in tax levels from 2005 to 2006.

The hypothesis gains some credence if we focus on the development between 2006 and 2008, as it could be argued that elevated levels of emigration after accession have caused a delayed decline in the labor tax. However, this initial support is interrupted by a simultaneous rise in both emigration and tax levels between 2008 and 2010, a small increase in tax levels and decrease in emigration levels in 2011 and 2012, and a simultaneous decrease in both from 2012 to 2013. To sum up, there is little initial support for the hypothesis that exit qua migration has led to a reduction in labor tax levels. It is not clear, however, whether the Latvian government and social partners have recognized emigration as a feedback mechanism, and its effect on the labor force as a continued deterioration of the labor market. Have these actors taken steps to reduce the labor tax to avoid further emigration and labor shortages?

As we can see, there is no change in the labor tax level between 1998 and 1999, but there is a slight increase in both the labor tax and emigration levels in 2000 and 2001. The increase in labor taxes continues steadily toward 2004, while emigration levels decrease. A continued rise in labor taxes might be connected to Latvia's increasingly neoliberal policies, as "social justice" takes a backseat to the importance of individual responsibility. A turn away from social dependence to a more responsibility-based policy system might then reflect Latvia's turn away from its socialist past. However, as Vörk et al. (2007) explain: "Relatively high share of labour taxes is partly inherited from the socialist systems and also due to low taxes on capital in order to attract foreign investment". This directly contradicts the notion of a responsibility-based reason for the tax burden and makes an explanation based on competition more plausible. Thus, another possible explanation for the tax level in the pre-accession period is that a heavy tax burden on labor relieves tax burdens on capital and real estate, a tax distribution that might make the Latvian market more competitive and hence be one step closer to joining the EU. According to the European Commission, through a written opinion on Latvia's application for membership in the EU, "accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions" (European Commission, 1998). The document further states that these conditions involve "a functioning market economy" and a readiness to participate in

competition within the Union (ibid.). Thus, it is possible that labor taxes are kept high to avoid budget deficits, and taxes on capital and real estate are kept low to attract foreign investment.

The post-accession period does to some degree support the hypothesis that emigration leads to a decline in labor tax levels. Elevated levels of emigration (which, as we have seen, are probably significantly higher than reflected in the available data) are followed by a slight decrease in the labor tax from 29.3 to 29.1 percent, and there is no further decline between 2005 and 2006. The observed decrease is so small that it would be a long stretch to claim correlation between emigration and changes in tax levels. A little more support can be found through the years 2006-2008, if we are willing to posit somewhat longer lag periods. The effect is exaggerated in the figure, which shows a seemingly dramatic decline in tax levels, but there is a decrease in the labor tax from 29.1 to 27.5 in this period. Thus, with a little goodwill, we can claim some support for a part of the hypothesis. Still, an observed change in the labor tax does not lend support to the whole hypothesis, as it needs to be clear that the government and, where it is relevant, the social partners have taken steps to reduce the labor tax to avoid further emigration and labor shortages.

There are some indications that the Latvian government did initiate a fiscal and economic change immediately after accession, and that part of the reason for this development is a “government realization” that – as part of the Union – Latvia had to face several socio-economic challenges. Upon accession, the Latvian Ministry of Finances wrote a document called “Convergence Programme”. According to this document, the objective of the government was to “ensure compliance of the fiscal policy with the Maastricht criteria and to become a full-fledged member state of the European Economic and Monetary Union” (Ministry of Finance of the Republic of Latvia, 2004, p. 2). Thus, one possible explanation to why there is a slight decrease in labor tax levels in the post-accession period is that Latvia was “in the spotlight” as new Member State and therefore had to introduce several fiscal and economic reforms. Further, the Ministry states that the “economic and budgetary strategy of the government sets a goal to ensure *an improvement of the welfare of the population* by achieving convergence with the average EU level” (ibid., emphasis added). As Hudson (2008) states, Latvia has become one of the worst places to work in Europe as a result of the heavy tax on labor, meaning that an “improvement of the welfare of the population” certainly could include a decline in labor taxes. It is clear that this actually was an issue upon accession, as

the Ministry of Finance mentioned “friendly tax policies” as necessary to promote economic development (Ministry of Finance of the Republic of Latvia, 2004, p. 14).

This finding might indicate that certain aspects of the Latvian labor market have improved after EU accession, and that the government has taken steps to reduce labor taxes. But, it does not indicate that exit qua migration is the *reason* for the improvement; there is no mention of labor migration in the Convergence Programme, and no mention of possible effects of accession on the Latvian population in relation to free movement. Put differently, the rhetoric around the time of accession seems to have more to do with cohesion and convergence as necessary instruments for accession rather than concerns of population loss and deterioration. In the crisis-period, however, feedback and reaction might be more visible, as the economic crisis spurs further deterioration and emigration.

To repeat, figure 4 shows a simultaneous rise in both emigration numbers and labor tax levels between 2008 and 2010 and a small increase in tax levels and a decrease in emigration numbers in 2011. Emigration reaches its peak in 2010, with a record number of almost 40.000 emigrants (but, again, these numbers might be even higher). The developments in tax levels change from a small but continued decrease in the post-accession period to a sharp increase from 27.5 percent in 2008 to 31.0 percent in 2011. The simultaneous increase in both emigration numbers and tax levels directly contradicts the hypothesis, as elevated levels of emigration are expected to cause a decline in tax levels. The economic turmoil that characterizes this period makes the search for any indications of “fear” of continued emigration or government response to this “fear” difficult, and it is more plausible to believe that any tax policy changes during the crisis are implemented to cope with the entire economic downturn rather than emigration specifically. As De Agostini et al. (2014, p. 5) point out, changes in tax systems during this period were initiated to keep it in line with changes in wage levels and prices. Further, Latvia – as one of the Member States that were the hardest hit – implemented strict and heavy austerity measures to cope with the crisis (Lulle, 2012, p. 1). These measures entailed increases in income tax rates and reductions in non-taxable minimum income in 2009, causing even more emigration (Sommers, 2014, p. 27).

The high levels of emigration slow down in 2011, as the crisis nears its end and we pass over into the recovery period. The labor tax reaches its peak (31.1 percent) in 2012 before slowing down from 2012 to 2013. There seem to be no immediate (theoretical) connection between emigration and the labor tax in this period, as they decrease simultaneously. Still, if we once again take into account lag periods, we can find some support for the hypothesis. First,

emigration levels are still significantly higher than they were before the crisis; it can therefore be assumed that workers are still providing the government with feedback by emigrating even though the crisis is over. Based on this, it can be expected that the government will recognize the issues connected to continued emigration, and thus respond to dissatisfaction by reducing the labor tax. Indeed, there are some evidence that support this expectation. From 2011 to 2013, the Latvian government – in cooperation with the employers' union LDDK – developed major labor tax reforms. According to Šņucins and Kodoliņa-Miglāne (2015, p. 372), these reforms were developed “with the goal of overcoming negative effects on the labour market caused by the deep economic crisis in 2008-2010 as well as of coping with an increase in labour tax burdens during consolidation”. Does this entail a recognition of the problems of exit qua migration?

By reviewing the main reasons for tax reform as they are summarized by Šņucins and Kodoliņa-Miglāne, it is quite clear that emigration of the workforce was a government and social partner concern. Along with high unemployment and increasing income inequality, “emigration of discouraged jobseekers” was listed as a main reason for the necessity of the reform (ibid., p. 381). Following the reform in 2011, the personal income tax (PIT) rate was reduced from 26 percent to 25 percent. From 2012, the reform entailed a gradual decrease in the PIT rate from 25 percent to 24 percent in 2013, to 22 percent in 2014 and 20 percent in 2015 (ibid., p. 383). While these planned reductions – together with a recognition that dissatisfied workers emigrated partly as a result of high labor taxes – do lend support to the hypothesis that the government and social partners have taken steps to reduce the labor tax to avoid further emigration and labor shortages, actual government actions in the wake of these plans do not. Although not visible in the presented data, there was no reduction in labor taxes in 2014, and further planned reductions in 2015 and 2016 were less ambitious than they were in the original reforms (ibid., p. 388). For example, the PIT rate was reduced to 23 percent rather than 20 percent in 2015. An impression of limited government effort to improve labor market conditions in the recovery period can also be found in a Commission staff working document concerning Latvia's economic growth (European Commission, 2016). According to this working document, Latvia has made limited progress in shifting the tax burden from labor to more “growth-friendly” areas such as environment, consumption and real estate (ibid., pp. 1-2). Although it seems that the Latvian government has included further income tax reductions in the 2016 budget, the tax burden is shifted from low-wage earners to high-wage earners rather than to what the working document calls growth-friendly areas. This is evident

in that revenue loss in the budget is compensated for by increasing social security contributions for high-wage earners (Šņucins and Kodoliņa-Miglāne, 2015). To sum up, it seems that tax reforms – even though they contain measures to reduce labor taxes – are still focused on maintaining a rather large tax burden on labor. However, this does not mean that the (central) government is not concerned with exit qua migration, as there are several obstacles to tax shifts when it comes to labor:

Reducing personal income tax, as a measure to reduce labour taxation, is a political challenge for the *local* authorities. 80% of personal income tax revenue is received by local governments and it forms some 56% of their revenue. Initiatives to reduce the tax burden on labour face local political opposition, requesting compensatory measures for municipalities. In the context of other political constraints, this leads to a piecemeal approach in reforming the labour taxation system, taking small revenue-neutral measures or finding limited compensatory measures from other sources (European Commission, 2016, p. 20, emphasis added).

In other words, it is difficult for the central government to implement labor tax reductions when local governments are protesting. Thus, political opposition rather than a lack of understanding that workers are reacting to deterioration might explain continued high labor taxation and a seeming unwillingness by the central government to shift the tax burden from labor to other areas like environment, consumption and real estate.

7.2 Wage growth

H₂: Exit qua migration and the threat to exit have led the Latvian government and social partners to increase wage levels.

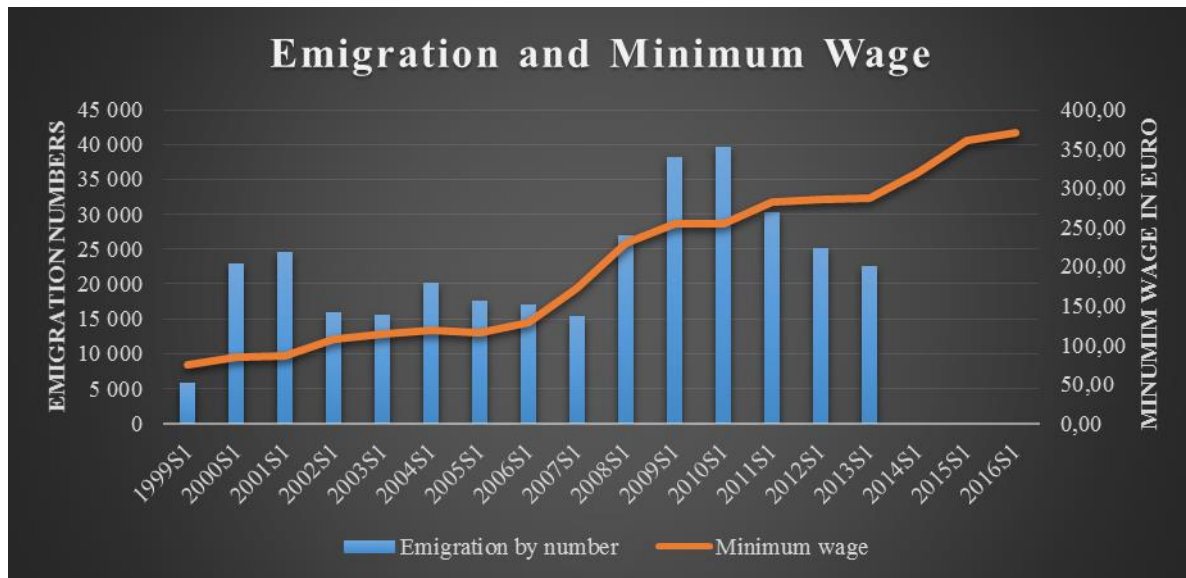


Figure 5: Emigration and minimum wage 1999-2013(2016). Data on minimum wages are originally bi-annual, but only 1 January (S1) is included. Variable codes: migr_emi2 and earn_mw_cur. Source: Eurostat (2013; 2016).

According to the theoretical predictions, we should observe wage growth after accession. More precisely, elevated levels of emigration should be followed by an increase in the national minimum wage. Because changes in the minimum wage usually are discussed in tripartite negotiations between the government, the employers and the labor unions, and because it seems these negotiations have taken place quite randomly prior to 2011, it is difficult to posit any lag periods. A government ruling from 2011, stating that wage levels should be set annually, provides us with an approximate lag of one year from 2011. Further, it is not sufficient to find correlations between emigration and wage growth in the data. To find support for the hypothesis, any correlation must be backed by evidence that emigration is the actual cause for wage growth. This means that it has to be clear that the government and social partners have taken steps to increase wage levels, and that these steps are direct results of emigration and issues connected to it.

Again, a brief analysis of the pre-accession period is included as it serves as a background for wage developments in Latvia. The increase in emigration numbers in the years 2000/2001 are followed by a modest “jump” in the minimum wage between 2001 and 2002. Further, emigration numbers slow down again in 2002 and 2003, and the wage growth is close to stagnation from this point and into 2004. Little information exists regarding the motivations

for changing the minimum wage level in this period, partly because the definition of minimum wage has changed during the pre-accession years (Karnite, 2003). Still, there is some information available on wage discussions from 2003. In this year, the Latvian government proclaimed that the minimum wage would be doubled over the next seven years – but only if the economic environment would allow it (ibid.). The social partners reacted to the government's step towards wage growth very differently. While the labor unions applauded the proclamation, the employer unions argued that a raise in minimum wages would weaken the competition between business firms or force employers to cut down on employees or working hours (ibid.).

As we know, the economic environment in Latvia has changed radically since the pre-accession period, meaning that the government might have dropped parts of the plan for growth in the minimum wage. After accession and between 2004 and 2005, there is actually a small decrease in the minimum wage, but it starts to increase again between 2005 and 2006. There is then a sharp increase in wage levels from 2006 and into 2008. At first glance, this increase might seem quite impressive, and – assuming that the 2006 increase represents the end of a lag period where the government and social partners are reacting to emigration and hence are discussing wage levels – lend support to the hypothesis. However, it is more likely that the minimum wage growth follows a coinciding and simultaneous growth in “regular” wages (Masso et al., 2012, p. 105). Still, this does not mean that there is no connection between emigration and wage growth. In a 2005 interview, the (then) prime minister in Latvia Aigars Kalvītis was asked about the low wage levels in Latvia compared to the other Baltic countries, and he was confronted with the realities of emigration in relation to wage levels. According to Kalvītis, the Latvian budget system presents a challenge when it comes to implementing increases in the minimum wage. This is because employee wages in government institutions are closely linked to the minimum wage. As an example, he mentions teachers, who in this system are guaranteed no less than the equal of two minimum wages (Latvian prime minister: Latvia's problem is low self-confidence, 2005). Thus, even though he admits that raising the minimum wage is of great importance and needs to be done, he also points out that it would lead to pressure on the budget. When the interviewer comments that wage growth is “a particularly important issue, because 100.000 people have already left Latvia”, the prime minister counter by stating that 50.000 have left. While it might seem that an answer like this points to a lack of realization that emigration is a problem and that raising

wage levels might hinder further emigration, there are signs that the prime minister is willing to admit that a reaction is necessary:

There is just one instrument to keep people from leaving Latvia. We must reach the level of salaries which encourages people not to look for work abroad, and we must do this as quickly as possible. You must remember, however, that the government did everything possible to open up the European Union's labour market for our citizens, but now a lack of labour is starting to threaten our economic development (ibid.).

In other words, the prime minister has realized that Latvia's accession to the EU has caused a drain of labor, and the only "instrument" to avoid further labor emigration is to increase wage levels. He also points out that not only the government is responsible for securing wage growth, when he states that employers also has a responsibility to keep the Latvian labor force in Latvia by increasing wages.

Any possible planned implementation of minimum wage growth is interrupted by the crisis period, however. There is a continued rise into 2009, but then the wage level stagnates between 2009 and 2010. From 2010, it starts to increase again. This development is corresponding to government and social partners' actions during this period. According to Karnite (2014), any changes in wage levels during the crisis depended on the general economic situation, which in this period can be characterized as poor, and the most important issue for the government and the social partners was to avoid a situation where wages would outpace economic growth. This perception of wage setting during the crisis is confirmed by Karnitis (2012), who states that "harmonisation of wages and productivity was taken as the ultimate goal". Thus, as part of a strict austerity project, the government chose to freeze the minimum wage at 256 euros in 2009 and 2010, at 285 euros between 2011 and 2013, before increasing it to 320 euros in 2014 (Karnite, 2014).

The employers' union (LDDK) and the labor unions (represented by LBAS) participated in wage level negotiations with the government during the crisis. The social partners agreed that wages levels needed to reflect the economic situation, and accepted the freeze, but they did not agree on the measures to deal with the crisis. While the employers expressed a wish to keep social indicators – including the minimum wage – low, the labor unions wanted to increase wages. Thus, social partner influence on the minimum wage during this period was miniscule. As Karnite (2014) states, "social partners did not have large impact on implemented austerity measures. Austerity agreement was finally agreed between social

partners only because of understanding and tolerance from the side of trade unions and employers organisation [sic]”.

Figure 5 clearly shows that the planned freeze in the minimum wage between 2011 and 2013 was implemented. There is then a steep increase in wage levels from 2013 and into 2015, and it continues to rise – albeit more modestly – into 2016. According to Karnite (2013), the government and the social partners argued over the minimum wage during the freeze from 2011 to 2013, despite the fact that they already had agreed on the planned wage developments. The government blocked any union demands for increased wages, while the employers worked to keep wages at a stable level. At the same time, it seems that the employers did recognize that stagnation or decreases in the minimum wage would cause continued emigration (Stinessen, 2015, p. 12). As Karnite (2013) states, “employers understand and feel the effects of inordinately low salaries in Latvia. They realise that poverty encourages migration from the country. Migration means a decrease in the workforce, creating more tension in the labour market over wage levels”. Such statements do suggest that there is some truth to the hypothesis, but other statements contradict it; in an interview with an official from the LDDK, Lulle (2009) found that there was a general unwillingness among employers to respond to Latvia’s emigration issues with increases in wage levels. According to this official, “return migrants might ask for unrealistically high wages, similar to those they had become used to earning in Western countries” (ibid.). Instead of encouraging return migration and avoid continued emigration of the Latvian labor force, the employers have suggested a system of balanced immigration from third-world countries as a solution to emigration issues, because third-country nationals often will accept lower wages than both those who have already left and those who are still part of the Latvian labor force (ibid).

To repeat, emigration numbers are decreasing in the recovery period. Unfortunately, because they decrease at the same time as the freeze in the minimum wage and because we do not have data on emigration after 2013, it is difficult to analyze whether this development supports the hypothesis to any degree. According to the IMF (2015) and the European Commission (2015; 2016), however, government and expert rhetoric during these later recovery years has more to do with wages in relation to productivity growth, competition and the struggle against the shadow economy than with emigration or the threat of emigration. For instance, there seems to be a continued worry that increases in the minimum wage will outpace economic growth (IMF, 2015). Further, the government has taken the shadow economy – and especially the widespread use of ‘envelope wages’ as a measure to avoid taxes

– very seriously. Because increases in the minimum wage have proven to move some of this shadow economy into official statistics (European Commission, 2016), it is likely that observed wage growth in this period is due to relaxation of austerity measures and increased economic transparency rather than fear of emigration.

7.3 Labor union strength

H₃: Exit qua migration and the threat to exit have led to increased labor union strength indicated through increased membership, increased recruitment activity and power in tripartite negotiations, and increased strike activity.

As argued in the theory section, increased dissatisfaction with labor market conditions in Latvia compared to other Member States also increases the likelihood of activation of voice. Because the effect of voice depends on the number of people willing to use it, it is expected that workers will join labor unions, where the use of collective voice is easier to organize. Thus, Latvian labor unions should have experienced increased membership after accession.

By reviewing the available membership rates, it becomes clear that the trend is the opposite of the expected development. Waddington (2005) reports a membership rate of 20 percent in 2002, Lulle (2009) puts it at 16 percent in 2009, and Fulton (2013) puts it at 13 percent in 2013. Similarly, Carley (2009) reports a decline in labor union membership from 179.614 members in 2003 to 151.222 members in 2008 – a negative change in membership of 15.8 percent. Lastly, according to Eldring (2015, p. 16), LBAS reported to have around 100.000 members in 2013. These numbers show that a decline in union membership is an ongoing trend since before accession. In fact, this development is part of a trend that has been recorded in Latvia since 1993 (Carley, 2009), and the majority of EU Member States – especially the Central and Eastern European countries – have experienced the same development (Fulton, 2013; Stinessen, 2015).

Why are union membership levels decreasing despite the fact that workers can use the unions as an arena for collective voice and the threat to exit? Two explanations dominate; the “reorganization of large privatized industrial enterprises” and the fact that the Soviet background has led Latvian labor unions in other ideological directions than their counterparts in more developed European countries (Karnite and Curkina, 2010; Masso et al., 2012). As a result, the Latvian labor market is weakly unionized, and employees have few rights compared to employers, who have done a better job unionizing. Despite the fact that employees might enjoy more rights as members of a union, the decline in labor union

membership is not a prioritized topic in Latvia, and it is hardly ever discussed (Pedersini, 2010, p. 19). One reason for this is that labor unions actually are important actors in the Latvian labor market, despite declining membership. As social partner, LBAS holds an important position in negotiations, and there are some indications that union members have higher wages than non-members, although it cannot with certainty be established that union membership is the main explanatory factor for the difference (Masso et al., 2012, p. 108). Further, the importance of labor unions grows in economic downturns, because workers face declining wages and even unemployment. Similarly, labor unions become less important when the economy is improving, because labor becomes a sought after commodity (Karnite and Curkina, 2010). No matter the economic environment, the labor unions continue working for higher minimum wages, lower taxes and other issues. As Karnite and Curkina (ibid.) argue, whether this effort pays off or not largely depends on membership, and labor unions need to increase the numbers of members in order to accomplish their goals.

LBAS recognizes that emigration is a problem in Latvia, but it also realizes that it is not strong enough to successfully bargain for workers in tripartite negotiations and thus prevent further migration. LBAS is therefore acknowledging that it needs to increase its membership base and financial stance to be able to negotiate improved labor market conditions (Lulle, 2009, p. 302). There are some examples of projects initiated in this regard in Latvia after accession. To repeat, when Latvia joined the EU, Latvian workers gained the opportunity to protest against dissatisfying conditions in the labor market by migrating to Member States with better conditions. Because the role of labor unions is to advocate for workers and demand better working conditions, they should try to strengthen their position by recruiting new members and reaffirm their place in tripartite negotiations. According to Karnite and Curkina (ibid.), a project called “The Strengthening of the Latvian Free Trade Union Confederation administrative capacity” was initiated with these issues in mind. The project, which was sponsored by the European Social Fund (ESF), was divided into two periods, 2004-2006 and 2009-2015, and the main aim was to “enhance the social dialogue” between employees and employers and between social partners and the government, and to attract new members through campaigns, seminars and courses. The effect of this project has not been evaluated, and it is therefore unknown whether LBAS managed to attract new members and whether labor unions have strengthened their positions in negotiations with employers’ unions and the government. The project did however result in a series of publications addressing and explaining labor laws, collective agreements and social dialogue, however. Thus, the project

has provided workers with access to information on their rights in the workplace and on the workings of the participants in tripartite dialogues and negotiations. This might have strengthened workers' position and might have encouraged some to join a labor union, but so far, existing labor union membership figures do not support this suggestion. However, it is plausible that the theoretical expectation that unions are trying to increase their strength in tripartite negotiations as a reaction to emigration have some credibility. As mentioned, LBAS sees increasing their membership base as a main aim, so that labor unions gain more strength in tripartite negotiations and have a chance of avoiding further emigration of the Latvian workforce. The problem with this logic is that we do not know if LBAS would have initiated this kind of project if it had not been sponsored by the ESF. Thus, it would be more accurate to conclude that EU accession *directly* led to improved conditions in the Latvian labor market through financial support from the EU, rather than *indirectly* through a government and social partner realization of and reaction to exit qua migration. Still, it is possible to analyze the process and results of these and similar projects in order to get a better impression of government and social partner ambitions and perceptions after accession.

One example of labor union initiative to gain more members and to secure improved labor market conditions for their members is the 2007 cooperation agreement between The Latvian Builders' Trade Union (LCA) and the Norwegian Fellesforbundet. According to Eldring (2015, pp. 19-20), the aims of Fellesforbundet when searching for a collaboration partner was to better the relationships between European labor unions that were indirectly connected through labor migration, and to "exercise solidarity in practice" by spurring a positive development in Eastern European labor unions. More precisely, Fellesforbundet envisaged that this cooperation agreement would strengthen labor union movements in the cooperation country. The search turned out to be highly disappointing, as most of the Polish and Baltic labor unions Fellesforbundet reached out to were too weak to join such an agreement or was interested in financial support and little more (ibid., p. 20). LCA, however, responded positively to the suggested cooperation, and an agreement was signed in 2007. Two important decisions in this agreement were that standard Norwegian wage levels and working conditions should apply for Latvian workers posted or hired in Norway, and that "efforts should be made" by both unions to unionize Latvians abroad in LCA (ibid., p. 21). In 2012, the latter decision was revised, and it now stated that Latvian builders working in Norway should be unionized in either LCA or *Fellesforbundet*. This revision had to do with the fact that it was not always clear which union Latvian workers should join. The most plausible scenario was

that posted workers would join LCA, while Latvians hired in Norway by Norwegian companies should join Fellesforbundet (ibid., p. 27).

It is not clear whether the cooperation agreement between LCA and Fellesforbundet reflects a social partner reaction to emigration or whether it reflects an opening up of a realm of financial and educational possibilities after accession and, in this case, the enlargement of free movement with the Schengen-area. It certainly reflected a desire on the part of LCA to increase its membership figures and to strengthen its position on behalf of its members. There is no evidence that LBAS or any other unions have learned from LCA's experience and initiated similar projects, however. As Eldring (p. 33) states, the LCA agreement is little known beyond its immediate actors, and it therefore seems to have been of less importance for the unionization of Latvians in general.

Another project facilitated by Norway through Innovation Norway is titled "To Strengthen Trade Union capacity in Tripartite dialogue". It ran over two years, from 2012 to 2014 and, as the title suggests, aims to strengthen LBAS' impact in tripartite dialogue and negotiations (LBAS, 2013). The background for the project was the unsatisfactory nature of the National Tripartite Cooperation Council (NTCC), where dialogue between the government, the labor unions and the employers' unions takes place. According to LBAS, labor unions' requests and demands are often ignored, and the government are often deciding on issues behind closed doors (ibid.). The project included analyzing LBAS' past performance, and it became clear that labor union movement entered a new phase when Latvia joined the EU, and that the financial crisis led the movement in yet another new direction. According to Karnite and Kelemen (2015), financial assistance through EU structural funds made it possible to implement projects and campaigns aimed at increasing membership bases and strengthen union voice in tripartite negotiations. During the first years, economic stimulation spurred the development of more labor unions, meaning that unions and their position in the labor market grew stronger. This all changed with the financial crisis, however, when unemployment levels skyrocketed and people turned away from their union memberships. One of the reasons why Latvian labor unions suffered a loss of members during this time, despite the fact that unions usually experience an increase in membership during economic downturns, is the fact that it bowed down to the government's harsh austerity measures. As we will see below, LBAS' failure to avoid wage freezes and the difficulty of organizing strikes and demonstrations turned out to result in a general belief in the government that workers accepted the austerity measures.

While analysis of labor union participation and role in negotiations after accession and during the crisis may show that their level of strength depend on the economic environment, there are some signs that politicians matter for the chances of labor union success. Liene Liekna (2016), who was LBAS' manager in this project, states that findings in the project suggest that

Tripartite relation very much depends on politicians' personal attitude to social partners and not so much on political position. We [LBAS] can see that after the last elections of our government, some of ministers have been changed and that also influenced tripartite relations on a good matter [sic].

In other words, it might be the case that the perceived importance of labor unions, workers and emigration changes with each politician, and that labor union strength in tripartite negotiations highly depends on government willingness to involve them in the decision making-process. Further, through this project and its strategies to strengthen the role of labor unions in the labor market, it became clear that it is possible to do so. During the project years, LBAS managed to negotiate changes in the labor union law in 2014, which had not been revised since 1991. These changes secured the right to start labor unions and to join them. Another highpoint for LBAS was the massive amendments to the labor law. According to Liekna, the amendments secured several working condition points in favor of employees, and it also secured a raise in the minimum wage.

Again, it is difficult to evaluate whether these projects would have been implemented if it were not for structural funds from the EU or cooperation with other countries in the Schengen-area, or if they are actually linked to the threat of labor emigration. On the one hand, the first two projects analyzed – The Strengthening of the Latvian Free Trade Union Confederation administrative capacity – were initiated because LBAS recognized that Latvian labor unions needed to become stronger in order to avoid continued labor migration. On the other hand, the other projects implemented makes no mention of emigration and seems to more reflect *other countries'* efforts to improve labor market conditions for Latvians both at home and abroad. In other words, it seems that the hypothesis that exit qua migration and the threat to exit have led to increased labor union strength indicated through increased membership and increased recruitment activity and power in tripartite negotiations will not hold up, but it is still not clear whether there has been any increase in strike activity in Latvia after accession.

Project	Main aim(s)	Results
<p>The Strengthening of the Latvian Free Trade Union Confederation administrative capacity (Two projects: 2004-2006 and 2009-2015). Financed by the European Social Fund (ESF).</p>	<p>Increase/strengthen the capacity for social dialogue between employers/employees and between social partners and the government. The main goal of the first project was to attract new members through seminars, courses, campaigns etc.</p>	<p>Publications with information on labor laws, social dialogue and collective agreements are made available to the public. Initiated several campaigns with discussions on minimum wage, social security etc. These campaigns are expected to indirectly attract new members.</p> <p>Effects on membership and social dialogue have not been evaluated.</p>
<p>Cooperation agreement between The Latvian Builders' Trade Union (LCA) and The Norwegian United Federation of Trade Unions (Fellesforbundet). Financed by the Norwegian Confederation of Trade Unions (LO). 2007.</p>	<p>Avoid social dumping of migrants through unionization, influence and revive Latvian labor unions – develop 'labor union skills' that can be used to benefit Latvian unions. Overall objective was to strengthen the labor union movement in Latvia by increasing membership.</p>	<p>202 new members to LCA, but the financial crisis obscures the development as many became unemployed and left their union. More resolved cases (often wage demands) because of union cooperation. Easier to inform workers of their rights abroad. A more positive view on Latvian labor union movement. Many chose to join Fellesforbundet rather than LCA.</p>
<p>To Strengthen Trade Union capacity in Tripartite dialogue (in cooperation with LO). Financed by Norway Grants/Innovation Norway. 2012.</p>	<p>Strengthen LBAS impact in National Tripartite Dialogue.</p>	<p>Unknown.</p>

Table 1: Initiated projects to recruit new members and/or gain strength in tripartite dialogue.

To repeat, one of the theoretical expectations in this dissertation is that the availability of exit, combined with a sense of loyalty, could increase the likelihood of workers using the voice option more frequently. Further, increased labor union strength through membership and/or recruitment activity and power in tripartite negotiations could mean an increased possibility of strike activity. Thus, the last part of this third hypothesis is that exit qua migration and the threat to exit have led to increased strike activity. It must be admitted that, as we have just seen, it does seem unlikely that labor unions have gained any of their post-accession strength because of emigration or the threat to emigrate in itself. The main explanation for the initiated recruitment projects and increased participation in negotiation seem to be the availability of financial support from EU and its affiliates and cooperation partners. This does not mean that the hypothesis will not hold for increased occurrence of strike activity. Actually, despite the fact that there are several restrictions on the right to strike in Latvia and that strikes, demonstrations and protest are not usual in Latvia (Karnite and Kelemen, 2015, p. 32; Innovation Norway, 2012), there are some examples of strikes after accession that might lend some credibility to the hypothesis.

The largest labor unions in Latvia represent workers in education and healthcare. This is also where the first recorded strike activity is recorded in Latvia after accession, in 2007. According to Karnite (2009), several strikes were organized by LBAS as a protest against low wages in the health and educational sectors, and as a protest against the lack of social dialogue with the government. In this instance, LBAS was successful in obtaining higher wages for these sectors. The threat to strike did occur again in 2008, however, as the same sectors wanted another wage increase. Several warnings about strikes were issued, but it did not lead anywhere this time.

It is interesting to note that the two largest labor unions in Latvia are also the two unions threatening with strikes. Of course, the health and educational sectors are also highly important sectors, and strikes will therefore affect the society greatly. Still, the unions were not successful in their second attempt to increase their wages. Karnite (2008) explains this with a government strategy to “drive wedges between healthcare workers by improving funding for one group of workers in the sector and not another”, hence making it difficult to reach union consensus and support for strikes and demonstrations.

The Latvian view on strikes and demonstrations did change somewhat in the beginning of the crisis. The then prime minister of Latvia Ivars Godmanis, who apparently was well informed of the increasing risk of a recession, waited until the last minute before implementing harsh

staff and wage cuts in the public sector. Again, the health sector mobilized through LBAS and initiated a large strike. This time, the Latvian government stood its ground and implemented even more austerity measures. The whole situation culminated in the largest social uproar since independence, when civil organizations and the labor unions initiated a large protest against austerity in early 2009 (Innovation Norway, 2012).

While the delayed and consequently harsh reaction of the Latvian government in the beginning of the crisis might have spurred an increase in strike activity, the tense situation between the government and labor unions calmed down in the start of 2010. According to Sommers (2014, p. 20), “mass resignation” set in among Latvian workers and their unions as the harsh reality of the economic situation became clear. As we have seen, LBAS agreed to a freeze in wage levels in tripartite negotiations, and thus appeared largely powerless. Another explanation for why strikes and demonstrations subsided after a while is the fact that there is many restrictions on strike activity in Latvia. In many professions, strikes are not allowed, and all strikes can be challenged in court. If they are, no strikes can be organized until the court decides the outcome. Further, sympathy strikes are not allowed unless they are initiated because of a breach of a general agreement (Innovation Norway, 2012).

It seems that the government was highly ignorant of worker voice during the crisis. The Latvian prime minister of Latvia in 2009, Valdis Dombrovskis, has claimed that the Latvian people have been largely accepting of austerity measures, “since there were no protests, demonstrations or collective disorder of any size”. (Innovation Norway, 2012). He also stated that his re-election in 2010 confirmed the acceptance of the austerity measures (ibid.). However, researchers analyzing social dialogue and strike activity in Latvia points out that the lack of worker voice – or the dwindling of it as austerity measures continued – was related to migration rather than acceptance (Karnite, 2009; Innovation Norway, 2012). As stated in a report on social dialogue in Latvia during the crisis:

(...) in reality, social protest has taken a more unusual, somewhat hidden, route in the form of emigration for economic reasons and the grey economy. As the unemployed in Latvia have emigrated to other countries, the Latvian state has been able to stop worrying about them (Innovation Norway, 2012).

7.4 Employer-employee relations

H4: Exit qua migration and the threat to exit have led to improved employer-employee relations indicated through improved communication between employers and employees, increased employee participation in the workplace, and improved workplace conditions as perceived by employees.

As argued in the section presenting theoretical expectations, employees with more than one job alternative – where some of the alternatives are superior to the employees' current workplace – will react to job dissatisfaction with active exit or active voice reactions (Farrell and Rusbult, 1992, p. 212). Assuming that jobs in other EU Member States represent superior job alternatives in forms of wage levels and workplace conditions in general, Latvian employers should react to emigration and labor shortages by facilitating voice in the workplace and more frequently involve employees in the everyday development in issues involving the workplace. Thus, we should observe improved communication between employers and employees and increased employee participation in the workplace, and workplace conditions, as perceived by employees, should have improved.

In 2005, the Latvian law addressing employee representation in the workplace was amended. The reason for the amendment was the incorporation of the EU directive on information and consultation, which was a necessary step for Latvia to take as new Member State. While the EU directive is meant to secure employee representation in the workplace, it has had little impact on the structure of the workplace in Latvia. In fact, most workplaces have no employee representation at all (Fulton, 2013). There are two related explanations for the lack of employee representation in Latvia. First, the country has no culture of information flow between employers and employees, especially pertaining wage issues, working conditions and employment. Second, there is a general reluctance among Latvian employees to elect workplace representatives, often because they are afraid to represent the interests of other workers, and often because the employers have a negative attitude towards employee organization in the workplace (ibid.; Calvo et al., 2008, p. 13).

Already here we see that there are major problems with parts of the hypothesis. While the expectation is that the relationship between employers and employees has improved after accession, it seems that nothing has changed. Further, the adoption of EU directives to secure a somewhat improved employee position has not seemed to better the situation. As we have also seen in the analysis of wage levels, the employers and the LDDK do recognize that

emigration and labor shortages present real problems. Despite this, they are more willing to import cheap by implementing controlled immigration from non-EU countries than improving conditions in the Latvian labor market (Lulle, 2009, p. 301). The suggestion that employers seem unwilling to create better communication and relationships with employees is also supported by other research. Woolfson et al. (2008, p. 326) found that many Latvian employees did want to be incorporated in decisions and developments in health and safety related issues in the workplace. At the same time, employers reflected the opposite view; less than 9 percent of Latvian employers included in this research “would consider inviting the workforce to elect a workforce representative on safety and health”. Thus, so far nothing in the relationship (or lack thereof) between employers and employees after accession seems to support the theoretical expectation that employer-employee relations have improved as indicated through improved communication and/or employee participation. However, as Woolfson et al. (2008, p. 330) also state,

In the Baltic region, labour migration has introduced a new dynamic into the ‘voice’/‘exit’ dialectic. Faced with acute labour shortages, employers are competing to hold on their existing labour force (in particular the more skilled employees) and/or attempting to poach workers from rival employers by offering improved wages and working conditions.

In other words, while research seems to show that employer-employee relations have not improved in Latvia, there is some evidence that other working conditions may have improved. The last part of the hypothesis, that Latvian employees perceive their workplace conditions as improved, may therefore still hold.

Working conditions in Latvian workplaces today (2014)

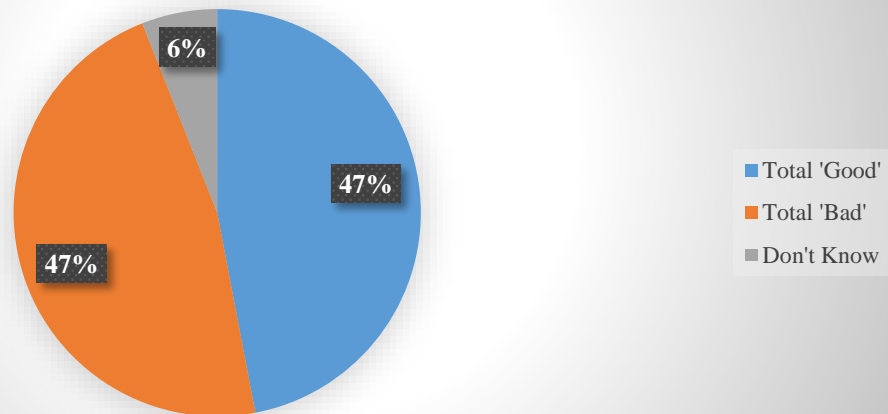


Figure 6: Working conditions today. Source: European Commission (2014). Modified by author.

Looking first at workers' view on current (2014) workplace conditions in Latvia, it seems that they are somewhat divided on the situation. "Working conditions" are here defined as "working time, work organisation, health and safety at work, employee representation and relation with the employer" (European Commission, 2014). As we can see, 47 percent of the respondents answered that they believed current working conditions were "good", while just as many answered "bad". The fact that almost half of the respondent did consider conditions like employee representation and health and safety at work as good is somewhat surprising if we consider the findings of the first part of the hypothesis in the analysis. This showed that employee representation in the workplace in Latvia is almost non-existent and that employers are dismissing worker voice in health and safety issues. At the same time, almost half of the respondents considered the same conditions to be bad, making it difficult to find any clear evidence of perceived improvements in workplace conditions. It may therefore be more informative to see whether workers believe that the same conditions have improved over the last five years (2009-2014) or not. This is presented in figure 7.

Changes in working conditions last 5 years (2009-2014)

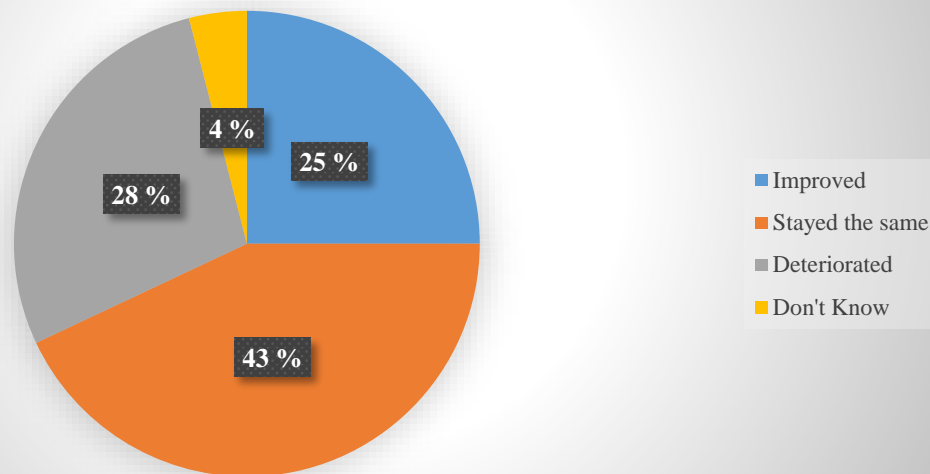


Figure 7: Working conditions over the last 5 years (2009-2014). Source: European Commission (2014). Modified by author.

This figure provides a more nuanced picture of the situation. What is interesting is that the period in question covers the financial crisis, austerity and economic recovery. The first years of this period was characterized by high unemployment, wage freezes and weak unions. As we have seen throughout the analysis, these conditions seem to slowly be improving. Coupled with the prediction that employers should react to emigration and the threat to emigrate by improving workplace conditions, it should be expected that employees believe that said conditions have improved. This is not what we see, however. Actually, the percentage of Latvians who believe that conditions have deteriorated is higher than those who believe they have improved (28 percent and 25 percent, respectively). Further, the majority of respondents (43 percent) answered that working conditions in Latvia have stayed the same over the last five years.

While it is no surprise – given other findings in this part of the analysis – that Latvians do not feel that workplace conditions have improved, it is difficult to find an explanation to why they do nothing about it. Throughout the analysis, we have seen that unemployment levels generally have been high in Latvia, and that they are still higher than before the crisis. We have seen that Latvian wage levels are considerably lower than in old Member States and that the government and the employers seem to be somewhat ignorant of it – or simply just uninterested. We have seen that labor unions are weak and that, despite EU and labor union efforts to empower them, they continue to suffer from low membership rates and weak positions in tripartite negotiations. Lastly, we have seen that employees do not feel that

working conditions in Latvia are improving, and employers do not want to facilitate employee representation or participation. Put together, there is very little in the analysis that supports the four hypotheses proposed in this dissertation. A theoretical discussion of these findings and their relationship (or lack thereof) to the hypotheses is the theme of the next chapter.

8. Theoretical discussion

A main finding in the analysis is that the dominant explanation for changes in labor market conditions is economic conditions, and that emigration seems to be far down on the list of additional explanations. In this chapter, the findings from the analysis are discussed in light of the theoretical framework. I argue that the main reason why emigration fails to cause improvements in the Latvian labor market is that the mix of emigration and economic downturns has caused a Hirschmanian “life-threatening hemorrhage”. Put differently, how can the Latvian government and social partners take steps to improve conditions in the labor market without the resources to do so?

The first hypothesis in this dissertation is that exit qua migration causes unemployment levels in Latvia to fall, which again causes labor shortages. The government and social partners should respond to emigration of the Latvian labor force by lowering labor taxes, which are a major push factor for workers. The analysis shows that the relationship between emigration and unemployment are not as expected. The expectation is that we will observe a negative correlation between the variables (an increase in emigration is followed by a fall in unemployment), but the result is a positive correlation, meaning that increased emigration covariates with increased unemployment and vice versa. The reason for this is probably the interference of changing economic conditions, which is affecting both variables. However, we do find some support for the first hypothesis in the post-accession period. In this period, which was characterized by economic growth in Latvia, emigration numbers did increase (between 2004 and 2006), and the unemployment rate fell from 10 percent in 2004 to 6 percent in 2007.

One initial issue with this periodical support for the first part of the hypothesis is the fact that the period in question was characterized by economic growth. According to the theoretical framework, workers should emigrate because they are dissatisfied with conditions in the labor market. Should not economic growth mean that conditions are *not* deteriorating, and that workers should *not* react with exit? This logic might be true in many cases, but one important point in the original theory is that business-firms are competing with other business-firms to

take on customers. The analysis does show that despite periodical economic growth in Latvia, conditions are still better in other Member States, especially regarding labor taxes and wage levels. Further, the financial crisis did spur even more emigration, leading to the conclusion that dissatisfying and deteriorating conditions in the Latvian labor market has led to exit.

The analysis also shows that the government and the social partners realize that workers are emigrating and recognize that this development is threatening. However, no causal relationship is found between the expressed concern for emigration and lowering of labor taxes. To the contrary, it seems that the government and social partners are more interested in lowering labor taxes to achieve convergence with EU standards. This means that exit as a feedback mechanism is not working in the case of labor taxes, even though “emigration of disgruntled workers” was mentioned as one of the reasons for Latvian tax reform. One possible explanation for this theoretical “failure” is that the government has been concerned with first portraying a will to converge and then changes in the economic environment. If that is the case, the Latvian government is either ignorant of the needs of their citizens, or it does not know that labor taxes cause emigration. Theoretically, the latter possibility makes sense. This is because, as we have seen, exit is not always suitable as a feedback mechanism. Thus, when workers exit, they also renounce the voice option, and they fail to inform the government and social partners of *why* they are emigrating.

While this explanation might be the more sensible theoretically, it is unlikely that the Latvian government and social partners are unaware that high labor taxes work as a push factor. If we also incorporate the transnationalism paradigm, it becomes even more unlikely. In modern times, exit is no longer a dichotomous variable; workers who exit can still raise their voice from afar. Thus, the explanation above does not seem plausible. The more probable explanation both theoretically and empirically is that the government is “killing two birds with one stone”. Put differently, convergence means that Latvia is attempting to realize the same standard as other (old) Member States. Achieving this would necessarily also mean improvement in labor market conditions such as a more labor-friendly tax system. Thus, it can be argued that the government (and to some degree the social partners) are aware that lowering of labor taxes is important to avoid continued migration, but prioritize the “larger picture” of EU membership, which eventually will lead to tax reform.

Lastly, it is possible that rather than being ignorant or unaware of the needs of its citizens, the Latvian government simply do not see the necessity of improving conditions for workers. The reason for this is relies on the power structure between workers and employers; political

survival relies on the support of business. In that case, neither exit nor voice will work as a feedback mechanism; the government can make up for lost labor by allowing controlled immigration of labor from other countries, and thereby keeping business happy.

The second hypothesis in this dissertation is that exit qua migration and the threat to exit have led the Latvian government and social partners to increase wage levels. The analysis showed that the prime minister at the time of accession did realize that wage levels needed to be raised to a level that would discourage workers to emigrate, and it showed that the labor unions agreed that such measures were necessary. It also showed, however, that the employers seem generally reluctant to increase wages. Their solution to emigration and labor shortages is not to increase wages and avoid continued emigration. Rather, they advocate importing labor from countries where wages are even lower than in Latvia. This means that the government and labor unions are reacting to exit qua migration and realize that conditions in the labor market needs to be improved to avoid continued exit, and it means that employers are reacting to it by seeking alternative solutions. The analysis also showed that despite evidence that emigration is recognized as a feedback mechanism, wages have not been significantly increased. The reason for this is again the financial crisis, which led to an agreement between the government and social partners to freeze the minimum wage.

In the case of the second hypothesis, it is clear that exit qua migration did work as a feedback mechanism. The government, the labor unions and the employers do recognize that a main reason for the outflow of its workers after accession has to do with wage levels in Latvia compared to other Member States. The initial intention from the government and labor unions was to raise the minimum wage to a level more in line with the general wage level in other EU countries. Thus, exit worked as feedback, and the government and labor unions intended to recuperate. However, the crisis hindered them from initiating this recuperation, and led to even further deterioration. How can this development be explained in a theoretical framework?

First, the Hirschmanian business-firm will react to exit by recuperating, thus avoiding continued exit. This is probably what initially happened in Latvia after accession when the prime minister admitted that wage levels needed to be increased to avoid emigration. Second, a business-firm will not recuperate if it does not have the resources to do so, a situation that will lead to even further deterioration and exit. In the case of Latvia, an economically favorable period at the time of accession made it possible to plan measures to improve labor market conditions and thereby achieve conditions similar to those in “old” Member States.

When the crisis hit, it affected Latvia especially hard, and measures to improve conditions were turned into austerity measures to avoid total economic disaster. In a Hirschmanian sense, austerity is a sign of further deterioration, spurring even more exit. It can therefore be argued that the financial crisis did not only hinder recuperation, it turned the situation into Hirschman's "life-threatening hemorrhage"; emigration threatens the economic development in Latvia, and the economic development in Latvia leads to emigration. The findings in the analysis support this argument to some degree. During the crisis period and most of the recovery period – where harsh austerity measures were implemented – emigration numbers are much higher than they were in the post-accession period. Thus, the Latvian government and social partners are not only left with a crisis-ridden country in a strictly monetary sense; the country is also drained of its labor force, making it even harder to take steps to improve conditions in the labor market.

In the third hypothesis, the focus changes from government as main actor to labor unions. In addition, voice as feedback mechanism is introduced as just as important as exit. In the first two hypotheses, the theoretical expectation has been that conditions in the labor market will be improved because of exit, and the role played by voice in this matter has been largely left out of the discussion. Here, however, voice takes the lead. To repeat, dissatisfaction with conditions in the labor market triggers feedback through exit and/or voice. Because the effect of voice depends on the strength of it, it is expected that workers will join labor unions, where the use of collective voice is easier to organize. This should also lead to increased labor union power in tripartite negotiations with the government and employers. Further, because labor unions themselves can be thought of as Hirschmanian organizations, they should take steps to increase their membership base through increased recruitment activity. And lastly, the organization of collective voice through labor unions should lead to increased strike activity.

The analysis show that membership numbers are decreasing rather than increasing in Latvia. Theoretically, a number of factors can explain this development. On the one hand, it could mean that Latvian workers do not believe that voice is an effective feedback mechanism. Thus, they will react to dissatisfaction by emigrating rather than voicing to the government and social partners that something is amiss. In the original theory, one objection to this explanation is the role of loyalty. When the business-firm is replaced by the state, loyalty should delay exit and maybe even activate voice. However, if we take into account Hoffmann's (2010) theoretical contribution and accept that exit no longer is a dichotomous variable, exit does not mean loss of loyalty. In that case, the argument that Latvian workers

have no faith in voice as an effective mechanism is plausible. On the other hand, the difficulty of increasing union membership could reflect the Hirschmanian seesaw pattern; increased possibilities to exit leads to decreased possibilities to use voice. Because Hirschman believes that those who care most about quality and are hence the most vocal are also the first to exit, voice is no longer an effective mechanism among those who have stayed behind. Put differently, the government and social partners do not have to listen to those who try to voice their dissatisfaction, because those who care the most and who are most vocal have already left. This is then the “good riddance-mentality” discussed in the theory chapter.

There are some indications that this latter argument has truth to it. First, as shown in the analysis, Latvian workers have emigrated rather than raised their voice through protests and demonstrations, leading to a situation where the government has been able to “stop worrying about them” (Innovation Norway, 2012). In that case, emigration becomes a “safety valve” rather than a “life-threatening hemorrhage”. Second, the Latvian prime minister in 2009, Valdis Dombrovskis, claimed that Latvian citizens were generally accepting and understanding of austerity measures, because of the lack of protests. While it is true that social uproar in Latvia was almost non-existent during the crisis and the time of austerity, it is probably not true that the reason for this is acceptance and understanding. Rather, the government seems to have avoided protests and demonstrations by sabotaging any possibility to organize collective voice. What may have started out as horizontal voice – a murmuring among dissatisfied workers – never got the chance to develop into vertical (Hirschmanian) voice, because the government divided the strongest labor unions providing some of their members with benefits and not others. Thus, the government succeeded in getting rid of strong voices and forced the remaining union members to realize that their voices is not strong enough to function as feedback.

The statement from the 2009-prime minister in Latvia might also be an example of how exit might not be suitable as feedback mechanism. It is possible that the Latvian government actually believed that their citizens were accepting of the harsh austerity measures, because many chose to emigrate rather than voice their dissatisfaction. To repeat, exit can also mean renunciation of voice. How can the government and social partners know that Latvian citizens are dissatisfied with austerity if the citizens leave rather than let them know that austerity is a problem? Of course, it is highly unlikely that the government and social partners thought that Latvians would see wage freezes, tax increases and unemployment as positive measures. Still, “silent protest” in the form of exit may have contributed to understating the dissatisfaction

and hindered the government from realizing that emigration was turning into a “life-threatening hemorrhage” rather than the exit of some of the more “annoying” voices.

One last aspect of the third hypothesis is increased recruitment activity. The analysis showed that (probably) very few of the recruitment projects analyzed would have been implemented if it were not for EU structural funds and cooperation partners from the Schengen area. This finding again points to the suspicion that the Latvian government and social partners cannot improve conditions in the labor market without the resources to do so. Further, it seems that the projects have not led to any significant increases in labor union membership. As shown in the analysis, it seems that Latvian workers are joining labor unions in the country they have migrated to rather than joining their Latvian counterparts. This might mean that workers do not feel that Latvian labor unions can secure strong collective voice. This argument is strengthened by the fact that Latvian labor unions have been largely unable to fight austerity measures. To the contrary, the unions “surrendered” and eventually agreed to wage freezes. Thus, labor unions are just as prone to the Hirschmanian exit-model as the state; if they cannot satisfy its members, the members will join unions that can.

The fourth and last hypothesis involves the other social partner – the employers. Because labor emigration affects business in a negative way when it leads to labor shortages, the employers and their unions should address the reasons for exit and worker dissatisfaction by accommodating the needs and demands of their employees. This accommodation should happen through improved relations between employers and employees. Specifically, workers who have not emigrated should have gained more voice in their daily relations with their employers. In a theoretical sense, this means that rather than being a residual to exit, where more exit means less voice, voice has become an alternative to exit. In this case, the threat to exit can be used as a bargaining chip by disgruntled workers who want to achieve recuperation. Are there any findings in the analysis to support this last hypothesis?

The one initiative to improve workplace conditions found in the analysis was the 2005 amendment of the law addressing employee representation in the workplace. It was not the employers, however, who initiated this amendment in an effort to improve workplace conditions and facilitate employee voice. Rather, the change happened because of necessary convergence with EU directives, and it did not in any significant way affect employee representation in Latvia. The findings in the analysis seem to show that even though workers might want to have increased voice in the workplace, they are not fighting for it because there is no culture for voice in the workplace in Latvia. Further, employers seem to be creating an

environment meant to deter any attempts to use voice as a bargaining chip. Again, it seems that Latvian workers are choosing to silently resist rather than speak up. Even though the theoretical framework suggests that loyalty delays exit and triggers voice, the transnationalism paradigm has made it easier to exit while actually maintaining a sense of loyalty. Thus, if workers feel that the voice option is useless, exit will not be as difficult as the original theory postulates.

Another important example that seems to suggest that Latvian employers have not facilitated voice in the workplace is the already mentioned fact that rather than increasing wages, employers want to import labor from countries where wages are even lower than in Latvia. This might mean that employers view the exit of Latvian workers as a safety valve, and that they view the possibility of importing labor from other countries as a guarantee that this exit will not turn into a life-threatening hemorrhage.

9. Conclusions

In this last part of the dissertation, a short sum-up of the four hypotheses and the main empirical and theoretical findings are presented. The sum-up is followed by a conclusion and suggestions for further research.

9.1 Summary of findings

The first expectation in this dissertation is that emigration causes a drop in unemployment levels, which again leads to labor shortages in some professions. This means that the Latvian government and social partners experience a situation where they need to recuperate to avoid further emigration. One major setback for this hypothesis is that economic conditions are driving both emigration and unemployment. It turns out that there is a strong positive correlation between the two variables, meaning that when one of them decreases, the other also decreases and vice versa. Thus, we are faced with a situation where economic conditions are causing deterioration in the labor market – including employment – and thereby spurring even more emigration. This continued deterioration has also affected the last part of the first hypothesis, which is that one necessary part of the labor market that needs to be improved is the heavy tax on labor. The analysis shows that the government and social partners are aware that labor taxes need to be lowered to avoid continued emigration and to promote return migration, but no significant steps have been taken in this direction. The theoretical discussion suggests that the main explanation for the lack of action is that economic downturns – and especially the 2008 financial crisis – have created a situation where austerity needs to be

prioritized over Hirschmanian recuperation. In other words, the government and social partners lack the resources necessary to recuperate.

The fate of the second hypothesis is quite similar to the first. The analysis shows some anecdotal evidence of government and social partner awareness of the feedback situations, and government statements and planned actions in the period immediately following accession do support the hypothesis. However, the financial crisis hinders any wage growth. To the contrary, the government and social partners agree to a wage freeze. One possible theoretical explanation for this lack of improvement is that high levels of emigration and an economic crisis created a life-threatening hemorrhage, again creating a situation where the government and social partners fails to improve labor market conditions because they lack the necessary resources to do so. Further, the eventual wage growth in the period following recovery is, according to the analysis, due to relaxation of austerity measures and increased economic transparency rather than emigration and the threat to emigrate.

The third hypothesis stands out from the first two because voice and the labor unions are introduced as focus. One important finding in the analysis is that union membership is actually decreasing. Theoretically, this development has to do with how workers view the effectiveness of voice. Because the government drives wedges between workers within unions to hinder horizontal voice from developing into vertical voice and views the exit of strong voices as a safety valve, and because employers seek alternative solutions like imported labor rather than improving conditions, workers might feel that voice is a too costly feedback mechanism. This theoretical argument is strengthened by the fact that labor union projects to recruit workers have in some instances led to recruitment of workers in labor unions in receiving countries rather than in Latvia, reflecting the view that labor union cannot promote worker voice. Further, while there have been quite a few projects to recruit workers, it is unlikely that the majority of these would have been initiated without the economic assistance of EU and Schengen countries. Thus, we once again find evidence that the government and social partners lack the necessary resources to improve conditions in the labor market.

The fourth and final hypothesis addresses employers and their reaction to exit and voice as feedback mechanisms. The analysis show that rather than addressing the reasons for exit and worker dissatisfaction by accommodating the needs and demands of their employees, Latvian employers seek to import labor from countries where labor market conditions are even worse. Theoretically, this means that in addition to being “victims” of the Hirschmanian exit-model, Latvian employers take advantage of it. Further, one important finding is that there is no real

culture for voice in the workplace in Latvia, and employers are reluctant to facilitate it. Indirectly, the unwillingness to listen to workers' threat to exit means that employers view emigration as a safety valve; if disgruntled workers know that the use of voice will not be facilitated, they do not use it and exit instead. The employers also know that the possibility of immigration hinders the safety valve from turning into a life-threatening hemorrhage.

9.2 Conclusion

This summary of the hypotheses and the main empirical and theoretical findings related to them show that the state of affairs in Latvia are not as they theoretically are expected to be. It seems that in some instances, the Latvian government and social partners view emigration as a safety valve, where the exit of inconvenient and bothersome voices are welcomed, while in other it seems that the mix of emigration and economic downturns create a life-threatening hemorrhage where the actors involved want to recuperate but must prioritize damage control. In any case, despite anecdotal evidence that emigration is a threat, the Latvian government and social partners have not taken any significant steps to improve conditions in the labor market in order to avoid continued emigration, probably because they have been unable to do so for economic reasons. At the time of writing, Latvia's 2004 accession to the European Union has not led to improved conditions in the labor market.

9.3 Further research

Would the outcome of this research be different if the financial crisis did not happen? Would the government and social partners have reacted to emigration and the threat to emigrate by taking steps to improve labor market conditions if the economic conditions allowed it? These are very interesting questions, and it is quite possible that we would have found more support for the theoretical expectations in a situation where the Latvian government and social partners had the resources to recuperate. At the time of writing, Latvia is experiencing economic recovery, and it seems that the rhetoric of tax distribution and wage growth is changing with it. Further research should focus on the case of emigration from Latvia and the responses to it in economic upturns, and investigate whether Latvians return home as a result. It would also be interesting to research whether Latvian employers are using labor from non-EU countries, and if this has affected wage levels. In this type of research, the question whether the effect of emigration should be considered equally important for all four hypotheses. Does the economic importance of supply and demand and the fact that employers can ignore worker voice and import labor from non-EU countries make emigration's effect on wage growth more important than employer-employee relations? Lastly, it would be

interesting to see a more comprehensive project on how the Soviet past is affecting the Latvian labor market, government and social partner rhetoric and worker perceptions of labor market conditions, and how and if this past is shaping Latvia's current position as EU Member State.

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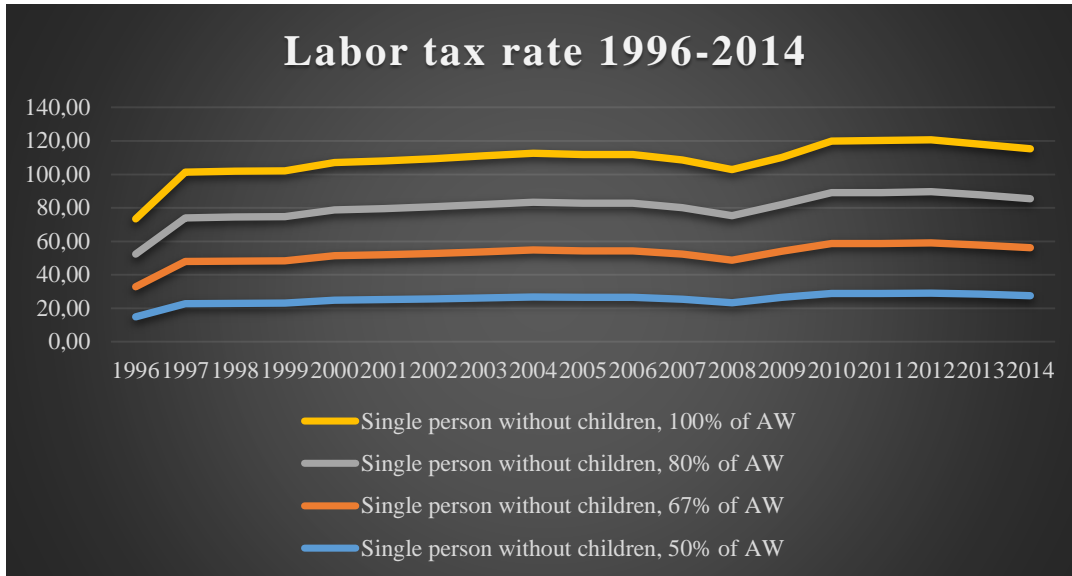
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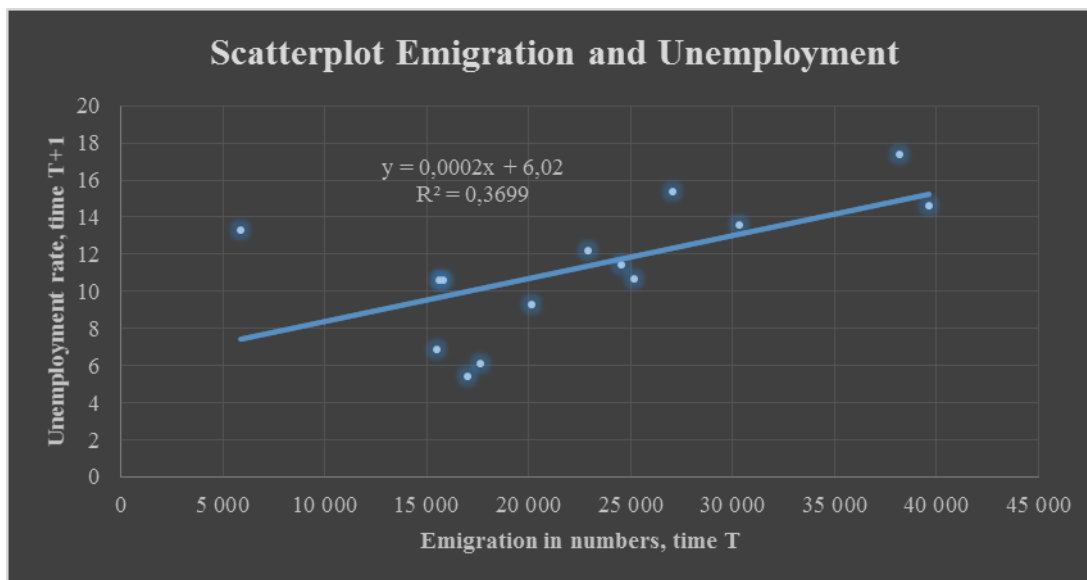
Appendix

Attachment 1: Labor tax levels per average



Attachment 1: tax rate per average, percentage of average wage. Variable code: *earn_nt_taxrate*. Source: Eurostat (2015b).

Attachment 2: Scatter plot of emigration and unemployment



Attachment 2: Scatter plot emigration and unemployment. Variable codes: *migr_emi2* and *une_rt_a*. Source: Eurostat (2013; 2015a).