



# RESEARCH PAPERS

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**Research Paper no. 10/03**

**Cross-Border Commuting in the EU:  
Obstacles and Barriers**

**Country Report:**

**The Sønderjylland-Schleswig Region**

**Prof. Bent Greve & Maj Rydbjerg**

**Roskilde University, Denmark**

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**Research Papers from the Department of Social Sciences, Roskilde University, Denmark.**

**Working paper series**

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## **Abstract**

This research paper deals with the cross-border mobility between Denmark and Germany. The paper describes the barriers and obstacles to movement across the borders.

It contains a description of the labour market, and, the knowledge on existing barriers for mobility across. These seem to a high degree to be due to differences in labour market conditions, tax-systems, but also cultural and linguistic aspects have an impact on the mobility across the border.

The research paper was part of a preliminary research financed under the EU fifth framework programme on immobility, and, especially perceived barriers for mobility in cross-border regions.

**Keywords: Cross-border, labour market, taxation, commuting**

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# Cross-Border Commuting in the EU: Obstacles and Barriers<sup>1</sup>

## Country Report: The Sønderjylland-Schleswig Region

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<sup>1</sup> This county report was ment as as part of the crobocob projekt

## **Introduction**

This study focuses on immobility, i.e. it is concerned with what factors cause cross-border commuting immobility, with the border as an assumed major influence (Clasen & Erskine, 2003). Border influences can be divided into two categories: firstly, physical factors such as legal and institutional constraints, and secondly, non-physical factors, e.g. values and meanings attributed to cross-border activities as well as perceived differences between the two sides of the border (van der Velde, 2000; Clasen & Erskine, 2003). This study aims to investigate both these factors and it seeks to identify the key factors that contribute to immobility (see Clasen & Erskine, 2003:5).

The Paper seeks to provide background knowledge to the study of immobility in the Sønderjylland-Schleswig Region. The paper sets out by briefly outlining the national characteristics in terms of welfare systems and labour market structures, before it turns to look at the Cross-Border Region. A general introduction to the Sønderjylland-Schleswig Region is given followed by a discussion of the regional labour market and the present employment situation. Following on from that the legal aspects of cross-border commuting is discussed as well as the known movements. Finally, the paper reflects on some of the existing theories about cross-border commuting and present the existing research in the field as an out-set for further research.

## **1. National Characteristics: Denmark - Germany**

### **1.1 Denmark**

Denmark is often characterised as one of the main examples of the social democratic welfare regime, also labelled the universal welfare regime. The universal regime builds on a principle of social citizenship and aims to secure a certain living standard for everyone, which means that benefits are based on individual rights rather than means testing (Esping-Andersen, 1990; 1999). However, the Danish welfare state is not entirely universal, as rights are not only based on social citizenships but also, although to a lesser extent, on assessments of needs, labour market participation as well as membership status. This notwithstanding the Danish welfare state reflects highly universal features and the aim is to secure a certain living standard for everyone.

The Danish unemployment benefit system is a combination of a support principle run by the local municipalities, and a voluntary insurance system run by insurance associations (A-kasse), which are funded by the members, the employers and the State. There is a comprehensive coverage of all the unemployed, with a relatively generous compensation level and duration, and benefits are immediately available in case of unemployment. The high coverage and compensation level is combined with welfare policies for vulnerable groups (social pensions, sick payments etc.), subsidised childcare, family policies, a universal pension scheme and a public health service. The welfare benefits and services are mainly financed via relatively high income taxes. Furthermore, unlike most of the European countries the social security system is also largely funded through general taxes and duties.

The system builds on the promise of full employment, both as a right for the citizens and as a premise for the functioning of the system. Therefore, the regime is characterised by an extensive use of active labour market policies, to help the unemployed to move from benefits back to active labour market participation (Gallie & Paugam 2000:6-7). Hence, Denmark has a long tradition for a combination of relatively high unemployment benefit levels and active measures to support a flexible labour market with little formal regulation (Jørgensen & Pedersen,2000:cp.6).

The active measures have been strengthened through the labour market reforms of the 1990s, which have had a twofold focus on ‘rights and duty’ activation, i.e. on a strengthening of the training aspect on the one hand and the available criteria and job-test aspect on the other hand.

The dual aim of the Danish employment policy is job growth and increased labour market participation. The first aim is facilitated through a range of initiatives that aim to make it more attractive to start-up and run private enterprises and to make it more profitable to invest in research and new developments (Danish NAP,2002). The second aim is pursued through a continuation of the 90s labour market reforms, which among other emphasise a better match between the supply and demand for skills, as well as increasing the incentives to take-up employment by using a “sticks and carrots method”. Furthermore, the Government seeks to raise

the labour market participation rate by increasing the older working population's incentives to stay longer on the labour market and by facilitating ethnic minorities' access to the labour market.

The union density is high in Denmark. In the 90s the trade unions represented as high as 82% of the workforce, and the employers' organisations had representation of 54%. The Danish social partnership approach is characterised by highly organised and disciplined partners, a collective bargaining system that is based on voluntary agreements between the partners, intensive co-ordination, a low level of conflict and the State as a facilitator rather than regulator. However, the State plays an important role, hence apart from being employer, the state is responsible for the public employment services, funds the unemployment and social benefits, initiates and funds much partnership work and generally has a role in mediation, conciliation and arbitration procedures.

Another important set of actors is the local authorities, at regional and municipality level. They play an important role with regard to formulating regional policy strategies as well as implementation in the areas of social- and labour market policy, where as the voluntary organisations play a very limited, but increasing role (Andersen & Mailand, 2001b; Jørgensen & Pedersen, 2000:cp.4).

The employment protection is relatively low in Denmark and the job mobility on the labour market is relatively high, however, according to Madsen (1999) this has not led to a feeling of insecurity as the predominance of SME facilitates mobility between them and because unemployment benefits immediately are available in case of unemployment.

### **1.1.2. The Employment Situation**

Denmark experienced a period with high unemployment in the beginning of the 90s hence unemployment was as high as 12.9% in the middle of 1994 when it peaked. From the mid 90s and onwards unemployment dropped and in May 2002 it was 5% the lowest in 25 years.

Today, Denmark is among the EU countries with the highest labour market participation and lowest unemployment. Hence, in January 2003, the rate of labour market participation was 76.8% (81.8% for men & 71.8% for women) compared to



68.9% EU-2000 (Danish NAP 2002) and the employment rate was 72.7% (78% for men & 67.3% for women) compared to 63.15% EU-2000 (*ibid.*) (Danish Statistics, 2003).

However, the combined effects of the general economic slow down and the political decision to make a tax ceiling, have increased unemployment to 6% in May 2003 (*ibid.*). The new increase in unemployment is especially evident among people with university degrees. In particular, the unemployment among newly university graduates has risen steeply and amounted to 34.1% in July 2003. However, on a general level the distribution of unemployment according to social-economic status and education follows the pattern in the other EU Member States, i.e. blue-collar workers are more likely to become unemployed than white-collar workers, and unemployment is more predominant among Danes with a different ethnic background as well as the immigrant population.

## **1.2. Germany**

Germany is often characterised as an example of the corporatist welfare regime (Esping-Andersen, 1990,1999). Ideologically this regime draws on a conservative promotion of social integration and a guarantee of previous income (Greve,2000).

The welfare system is based on compulsory insurance, supplementary private sector provisions and public provisions. Social insurance is divided into five categories: unemployment, accident at work, health, pension and long-term nursing care. The total contributions in 2001 amounted to 41% of the gross salary divided equally between the employer and the employee.

The unemployment insurance is based on employment record and contributions, accordingly coverage, level and duration depend on previous connection with the labour market (Gallie & Paugam, 2000:6) and in contrast to Denmark, it is compulsory to pay unemployment insurance in Germany.

The unemployment benefit system is combined with a social assistance system, which aims to ensure “that anyone in need can live a decent life” through the provision of benefits in cash and in kind. The social assistance system is based on means testing and as opposed to Denmark where rights largely are connected to the individual the German system takes the family into account. Hence, under family law, direct relatives are liable to provide maintenance for one another so the social

assistance is recovered from relatives (parents, children and spouse) to the extent this is possible (Federal Ministry of Labour and Social Affairs, 2003).

Union coverage is high in Germany a recent empirical study found that in 1995 collective bargaining covered 83.1% of the western German employees and 61.6% of the western German enterprises (EIRO,2003). Recently there has been a tendency towards negotiating wages at enterprise level, which has reduced the trade unions strength; nevertheless the social partners are significant actors with regard to the development of labour market policies.

In recent years there have been increasing emphasis on active labour market policy under the header “welfare to work” and in particular the duties of the unemployed have been in focus. However, the combined effects of the continuous rise in unemployment, which has increased the spending on passive labour market policy and the poor economic performance has led to reductions in the unemployment benefit rights and the availability of active labour market measures.

In comparison to the EU average the wage level is high in Germany. Critiques argue that combined with a high employment protection and a highly regulated labour market the high wages impair job growth.

### **1.2.1 The Employment Situation**

Germany’s employment performance has deteriorated as the economy has lost momentum. Germany has experienced a considerable loss of jobs, in particular the ongoing contraction of the construction sector and a substantial cut in public sector jobs have contributed to the employment crises (German NAP,2002). Hence, the average unemployment rate for registered unemployed in 2002 was 4.1 million or 10.9% (Statistisches Bundesamt Deutschland,2003). In addition, if people in active labour market programs as well as people that are not presently entitled to unemployment benefit are included in the unemployment figure it amounts to approximately 6 million people. However, the German labour market is characterised by significant regional disparities, hence there remains to be a considerable difference in economic performance and unemployment between the parts of the country that belonged to the former DDR and the western part of the country (German NAP,2002). With regard to Schleswig, the German part of the

Border Region, the region is among the least fortunate of the western parts of Germany.

Furthermore, in contrast to Denmark Germany is struggling with a relatively large number of long-term unemployed for whom the prospect of finding employment is limited (*ibid.*).

However, the EU Commission as well as the OECD are forecasting that the German GDP for 2003 will grow in real terms by approximately 2.7%, which will contribute to the gradual recover of the German economy (German NAP,2002:4).

The German labour market participation rate is relatively high in 2002 it was 80.1% for men and 65.3% for women.

## **2. The Sønderjylland-Schleswig Region**

The Danish-German border region consists of Landesteil Schleswig (Flensburg town, Kreis Nordfriesland and Kreis Schleswig-Flensburg) on the German side and Sønderjyllands County on the Danish side. The Region has a surface area of 8.115 km<sup>2</sup> and covers more or less the historical seat of the Count of Schleswig. The area has belonged to first Denmark (up until 1864) and then Germany until 1920 were a referendum divided the area between the two countries. The Sønderjylland-Schleswig Region was politically defined with the launch of the INTEREG I in the end of the 1980s.

The border is a 68km land border that runs across the Jutland peninsula. There are two crossing points with train, one crossing point by motorway and another six crossing points by road.

The Region has a total of 697.161 inhabitants, 442.390 in Schleswig and 253.771 in Sønderjylland. The majority of the population lives on the mainland or islands that are linked by bridges or dams. However, a few of the islands on the German side are only connected to the mainland by ferry or railway (34.115 people have to catch a boat or a train to get to the mainland).

Flensburg that is situated just south of the border is the largest town in the Region (86.000). Other bigger towns include Sønderborg (26.500), the largest beside Flensburg, Haderslev (21.000) on the Danish side. On the German side are Schleswig (26.500) Husum (21.500).

More than two-thirds of the Region's population live in small towns, villages and on farms and the Region is sparsely populated in comparison to the rest of Germany or Denmark and Schleswig-Holstein. The difference in income and wealth gap between the two sides is limited.

From a Scandinavian perspective the Region is centrally placed as a traffic hub in relation to the European continents big cities. However, from a Danish perspective Sønderjylland is relatively peripheral and the German part of the Border Region is equally peripheral in a German perspective. The difference in income and wealth gap between the two sides is limited.

There is a relatively large difference in the age structure in the two border regions. While the Danish part of the Border Region experiences population growth and accordingly has a larger number of children and teenagers but has an increasing deficit of 20-30 years old, the German side of the Border Region has a relatively bigger proportion of 25-35 years old but fewer 40-55 years old (Hansen & Hinz, 2000)<sup>2</sup>.

### **3. Labour Market Conditions in the Border Region**

#### **3.1. The Industrial Structure**

It is not possible to talk about a fully integrated labour market in the border region. Hence, the two labour markets function separate from each other. Instead the two regions to a high degree follow the general development in Denmark and Germany respectively with regard to economic development, job growth, and unemployment. However, the Border Region also differs from its reference areas in a number of ways, e.g. in a Danish perspective Sønderjylland can be characterised as traditional in relation to the industrial structure and employment. Hence, there are more men than women on the labour market, and short and medium-term education are more common than in the rest of the country (CO-Industri, 2002).

The main industries in the Border Region are manufacture, agriculture and tourism (Region Sønderjylland-Schleswig, 2003). In particular, the traditional manufacturing industry and the primary sector play a significant role in the Region compared to

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<sup>2</sup> Pr. 1. January 1999 in Sønderjylland and 31. December 1998 in Schleswig. Hansen, Christian L. & Hinz, Holger (2000)

the rest of Denmark and Schleswig-Holstein (CO-industri,2002). In contrast, the private sector is smaller compared to the reference areas, whereas trade and communication is of roughly the same size.

Apart from the public sector, which employ 32.2% of the total workforce in Sønderjylland and 27.7% of the workforce in Schleswig, the manufacturing industry employ the most people, 29.7% of the workforce in Sønderjylland and 25.5% of the workforce in Schleswig<sup>3</sup>. Approximately 20% of the workforce on both sides of the border is employed in trade and communication, while 22% of the workforce in Schleswig is employed in the private sector and the similar number for Sønderjylland is 10.7%. The primary sector is the smallest with 7.0% in Sønderjylland and 5.2% in Schleswig, although it relatively employs more people than in the respective reference areas.

The vital driving growth clusters in the Region are the manufacturing industries and the transport sector in the Danish part of the Region and tourism and private business in the German part.

### **3.2. Development in Employment**

In 1995, the total number of employed in the Border Region was approximately 317.000 people with 135.000 on the Danish side and 182.000 on the German side. The unemployment has been higher in Schleswig than in Sønderjylland in recent years and in 2001<sup>4</sup> it was 5% in Sønderjylland compared to 7.6% in Schleswig (EURESKOMPASS, 2002a).

In general, the development in employment in the two border regions has followed the development in the reference regions, although the employment growth in Sønderjylland has been smaller than in the whole of Denmark (1.5% compared to 3.4%) and the negative development in employment has been bigger in Schleswig than in the Schleswig-Holstein (-6.0%. compared to -4.2%) (*ibid.*).

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<sup>3</sup> The statistical definitions are based on the method used by the Regional German Statistic, which operates with five main work areas: the Public Sector, the Private Sector, the Trade and Communication Sector, The Production Sector and the Primary Sector (see Hansen & Hinz,2000).

<sup>4</sup> Comparable unemployment figures for the two regions are limited so the 2001 figures are the latest up-date.

Both regions have experienced a drop in employment in the primary sector. Especially Schleswig, which also has experienced a significant drop in employment in the public sector compared to its reference area (-17.5% compared to -4.5% in Schleswig-Holstein). In contrast public sector employment has increased in Sønderjylland although less than in the whole of Denmark. In general, the manufacturing industry is doing better in the Border Region than in the reference areas, accordingly in Sønderjylland the growth in employment has been more than double of the growth in the whole of Denmark, while the drop in Schleswig has been less than half compared to Schleswig-Holstein. The private sector accounts for the biggest job growth in Schleswig while it is the sector with the smallest growth in Sønderjylland (13.0% in Schleswig compared to 0.7% in Sønderjylland) (*ibid.*).

In 2002, the total workforce potential in the Region accounts for 460.000 people, 166.000 in Sønderjylland and 294.000 in Schleswig<sup>5</sup> (*ibid.*).

#### **4. Cross-Border Co-operation and Initiatives**

Since the early 1990s it has been a political wish to increase mobility across the border in Border Region. In the mid-90s this resulted in the *Agreement on the Establishment of the Region of Sønderjylland-Schleswig* and the creation of a common political framework for the Region.

The political framework consists of a Regional Council, which is the supreme body of the Region. The Council has 42 members, which are appointed equally by the two parties and up to three observers. The Council's composition is supposed to reflect all aspects of the Region so both politicians, representatives of the labour market organisations and of the two national minorities are represented in the Council.

The Regional Council has two chairmen, one from either side of the Region, who are elected among the members of the Board. Every six months the Council meets, alternating between Danish and German meeting places. All meetings are public.

Furthermore, the Region has a Board that represents Sønderjylland-Schleswig externally. The two sides of the Border Region appoint four members each. The two chairmen of the Regional Council are also chairmen of the Board.

The Board meets at six to eight weeks' intervals in order to discuss and promote cross-border co-operation. Apart from the Regional Council and the Board a number of working groups and committees are established to develop proposals for projects of common interest. These members are appointed according to their professional skills, and experience.

The Regional Council has given priority to the following field of activities in 2003: Education and labour market, languages and culture, tourism, environment and agriculture and the special situation for borderline commuters<sup>6</sup>.

Moreover, in co-operation with the EU INTERREG Program a Regional office has been established in the town Bov, which is situated close to the Danish-German border<sup>7</sup>. The office functions as the secretariat for the Sønderjylland-Schleswig Region and as an information office for the Region, as well as carry out data collection on cross-border co-operation.

#### **4.1. Cross-Border Labour Market Initiatives**

Two labour market integration initiatives, EURES and the PROGA program, was launched in the mid-90s. EURES is the European Employment Service, which in Sønderjylland-Schleswig is a co-operation between the public employment offices, the trade unions, the employer organisations and the EU Commission. With EURES extra personal has been employed at the national public employment offices in Aabenraa and Flensburg to advice people on cross-border commuting and to raise the awareness of the labour market in the other part of the Border Region. Moreover, in Marts 1996 a special information service - EURESKOMPAS - for cross-border commuters was launched. EURESKOMPAS is a co-operation between the EURES partners and is primarily an information service about working related conditions in the two regions.

The PROGA program<sup>8</sup> is a co-operation between the trade unions in the Region. The aim is to support the structural changes on the labour market, to strengthen

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<sup>5</sup> The workforce reflects the 'workforce potential' which is the age group between 15-65 years.

<sup>6</sup> Region Sønderjylland-Schleswig <http://www.sja.dk>

<sup>7</sup> EU INTERREG II A program

<sup>8</sup> PROGA (Projektbureau for grænseoverskridende arbejdsmarkedspolitiske initiativer) office for cross-border labour market policy initiatives.

the integration of the regional labour markets and to facilitate common active labour market policy initiatives<sup>9</sup>.

## **5. Legal Aspects of Cross-Border Commuting**

Compared to other OECD countries the difference between Denmark and Germany is limited.

However, there exist a number of differences in the way the social security system is funded and function, both with regard to unemployment benefit, pension, sickness benefit and health care. Likewise, there are significant differences between the two countries' tax systems. All these factors may influence both positively and negatively on labour mobility.

Generally speaking tax problems related to cross-border commuting arise when the employees liable for taxation in two countries are taxed in a discerning way in comparison to their colleagues with employment and residence in the same country. One example could be that cross-border commuters cannot always utilise the tax deductions and allowances that employees with residence in the work country are entitled to. The reason for this is that national tax rules are based on the assumption that a person who is limited liable for taxation only earns a smaller part of the total income abroad and therefore use the deduction possibilities in the country of residence.

In order to avoid double taxation and unfavourable taxation for cross-border commuters OECD has laid down a number of international guidelines, which Germany and Denmark has agreed to. According to the OECD Double Taxation Agreement the country of residence has the superior right to taxation of all the incomes of a person, while the employing country has the right to tax the earnings of the person within the other taxes. In principal, cross-border commuters are thus liable to pay tax in both countries. However, the rules are made to avoid double taxation, hence a distinction between limited liability and full liability for taxation is made. Consequently, commuters are overall liable to pay taxes in the residing country and limited liable to pay tax in the employing country, which means that only some well-defined types of incomes can be taxed and only after six months full employment. The OECD guidelines aim to ensure that wage, taxation and

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<sup>9</sup> See <http://www.eures-kompas.org>



social security follow the rules of one country in such a way that the Double Taxation Agreement does not lead to differences in available income for employees at the same workplace.

Table 1. & 2. describe the Danish and the German tax systems and the barriers and incentives the differences between them create. Germany and Denmark share a range of similarities in the way taxation is organised and taxation is progressive in both countries. However, there are a number of important differences, i.e. whereas taxation is based on the individual in Denmark, the German tax system operates with different tax classes, which is connected to marital status and number of dependents. Hence, married couples with children are favored, while single wage earners with no children pay the most. In the past this has caused a number of problems for cross-border commuters living in Denmark, as a range of reductions connected to family conditions was not available for cross-border commuters, which were placed in the most expensive tax class for single wage earners regardless of whether or not they had a family. However, steps has been taken to alter this situation and today employees that earn 90% of their total income in Germany have been afforded most of the deduction rights with regard family conditions as employees living in Germany enjoy.

Table 1: Taxation Commuting to Denmark from Germany

|         | Tax Structure  | Tax Method  | Limited liability /Cross-Border Commuting to Denmark from Germany  |   |
|---------|--|---|--|---|
|         |  |   | Taxation   | Deductions and Allowances   |
| Denmark | <p>Division is made between Government tax, County- and municipal tax and church tax.</p> <p>Taxation is progressive.</p> <p>All employees are entitled to the Individual Tax Allowance.</p> | <p>Tax is paid in advance based on an annual preliminary income assessment and adjusted by the end of the tax year.</p> <p>Taxation is in principle based on own declaration as well as information from employers, banks and public bodies.</p> <p>Both the credit and the exemption method are used.</p> <p><u>Credit method:</u><br/>the Danish tax is reduced by the tax that has been paid to the other country on the foreign income</p> <p>Reductions under the credit method can never exceed the amount of the Danish tax that has been levied on the foreign income</p> <p><u>Exemption method:</u><br/>Under this method, the tax is reduced by the amount of the Danish tax that has been levied on the foreign income. In other words, in this case it is irrelevant how much tax was actually paid in the foreign country</p> | <p>Taxation is regulated by the Danish-German Tax Agreement</p> <p>Government Tax and County- and Municipal Tax. The County and Municipal tax level vary between the different municipalities so Cross-border Commuters pay an average of the County- and municipal tax.</p> <p>Labour Market Contribution (8%) and Special Pensions Saving (1%)<sup>10</sup></p> <p>Total Tax Sealing 59%</p> | <p>If the person has a spouse with no individual tax allowance in Denmark, a special spouse allowance can be granted<sup>11</sup>.</p> <p>Tax allowance transfer between married couple. Same rules apply as with full tax liability and permanent address in Denmark when the majority of the income (75%) is earned in Denmark.</p> <p><i>Tax relief for a number of expenses associated with work (commuting costs, unemployment insurance, trade union fees, pension contributions). Same rules apply as with full tax liability and permanent address in Denmark.</i></p> <p>If the majority (75%) of the total income is earned in Denmark one is entitled to allowances for expenditures incurred in connection with personal/family circumstances (interest income, child maintenance payments, own property purchase etc.) to the same extend as persons subjected to full taxation with their permanent address in Denmark.</p> <p>A married commuter can transfer or get transferred excess individual tax allowance from the person's spouse if 75% of the person's total income is earned in Denmark</p> <p>Payments from Private Pension can be exempted for taxation</p> |

<sup>10</sup> The obligation to pay labour market contribution and the special Pension Saving is connected to the EU rules about social insurance, which states that an employee is covered

Table 2: Taxation Commuting to Germany from Denmark

|         | Tax Structure  | Tax Method  | Limited liability /Cross-Border Commuting to Germany from Denmark  |   |   |
|---------|--|---|--|---|---|
|         |  |   | Taxation   | Deductions and Allowances   | Barriers related to Taxation  |
| Germany | <p>Six different tax classes depending on marital status and number of children, Married Couples with children are favoured, i.e. single wage earners with no children pay the most.</p> <p>Taxation is progressive.</p> | <p>Tax is paid in advance based on an annual preliminary income assessment and adjusted by the end of the tax year.</p> <p>The exemption method is primarily used.</p> <p>Exemption method: Under this method, the tax is reduced by the amount of the Danish tax that has been levied on the foreign income. In other words, in this case it is irrelevant how much tax was actually paid in the foreign country</p> | <p>Taxation is regulated by the Danish-German Tax Agreement.</p> <p>Employees with no permanent address in Germany are liable for limited taxation.</p> <p>Employees with no permanent address in Germany are in general placed within the Tax Class I. for unmarried employees without children regardless of their family situation, however a number of deductions and allowances are introduced to compensate for this (see deductions and allowances)</p> | <p>Employees that earn at least 90% of their total income in Germany have the same rights as residents to deduct allowances related to spouse and children and expenses to divorced spouses</p> | <p>Lack of information regarding tax and social security.</p> <p>A numbers of reductions connected to family conditions are not available (e.g. the number of maintained children, the advantage of splitting scale where the spouse income is added and fictionally divided between them whereupon the tax is calculated)<sup>12</sup>.</p> <p>No allowance for expenses to professional further education</p> |

by the social insurance of his or hers work country, accordingly a person who is insured in another country than Denmark does not have to pay the contributions.

<sup>11</sup> An individual tax allowance is given in relation to wage/salary, unemployment benefits and Pension and will be offset against the income before the tax is calculated. In 2003 both the individual allowance and the special spouse allowance are 35.600 or 1/12 of the salary.

<sup>12</sup> This is especially significant if there is a big wage gap between the married couples wages or if the spouse is unemployed.

As described in Chapter 1. there exist a number of differences in the way the social security system is funded and function, both with regard to unemployment benefit, pension, sickness benefit and health care.

As EU Member States Germany and Denmark follow the EU rules on social security, which stipulates that social security is connected to the work country accordingly contributions must be paid there<sup>13</sup>. However, while in Denmark social security contributions mainly rest upon the employees that pay them via taxes, in Germany the contributions are paid evenly by the employers and employees. According, to Narhstedt (2000), this has caused imbalances as employees commuting to Denmark pay the high social contribution in Denmark, but receive the less comprehensive social security in Germany in case of full time unemployment<sup>14</sup>. Moreover, according to EURES (2002) there still exist a number of statutory allowances that are conditioned upon residence in both countries, which resultantly are not available for cross-border commuters.

Moreover, problems arise when people work in both countries both with regard to social security and taxation. With regard to the first issue, the problem concerns determining which of the countries that are responsible for social security. The rules are generally clear, but they are complex, hence the work country is not obliged to insure people that are insured elsewhere and as soon as an employee carries out work in the country of residence the responsibility is transferred here. Resultantly, there are difficulties related to occasional work from home, having assignments in both countries or a job in each country. With regard to the latter, the problems are mainly related to the complexity of and lack of transparency of the tax rules, which makes it difficult to estimate the available income as deduction rights varies with the share of the income earned in the respective countries.

Table 3. & 4. describe the unemployment benefit systems, the social security systems and the pension systems and the barriers and incentives that are related to the difference between them.

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<sup>13</sup> EC-1408/71

<sup>14</sup> In case of part time unemployment the employee is covered by the Danish system, whereas in case of full time unemployment the employee is covered by the German system.

Table 3: Social Security Commuting to Germany from Denmark

| Cross-Border Commuting to Germany from Denmark |   |  |  |   |
|--|---|--|--|---|
|  | Social Insurance  | Unemployment Benefit   | Pension  | Barriers Related to Social Insurance Unemployment Benefit or Pension  |
| Germany  | <p>In general social insurance is divided into five categories: unemployment, accidents at work, health, pension and long-term nursing care.</p> <p>In general, people are covered by the social insurance of the working country regardless of where they live.</p> <p>Social Insurance contribution is paid in the country where people are covered.</p> <p>Social Insurance is financed via contributions that a split equally between the employee and the employer (41% of the gross salary).</p> <p>Sick-benefit association:<br/>Compulsory contributions<br/>Covers the Commuter and the person's family.</p> | <p>Unemployment Insurance is compulsory.</p> <p>Unemployment insurance is based on employment record and contributions.</p> <p>The Unemployment benefit system is combined with a social assistance system, which aim to ensure a decent life for everybody.</p> | <p>Combination of State pension and private pension funds.</p> <p>The State Pensions are financed via a range of compulsory contribution .</p> <p>Upon payment pension is taxable in the country where the contributions have been made.</p> | <p>Condition of residence regarding certain statutory allowances.</p> |

Table 4: Social Security Commuting to Denmark from Germany

| Cross-Border Commuting to Denmark from Germany |  |  |  |  |
|--|--|--|--|--|
|  | Social Insurance   | Unemployment Benefit   | Pension  | Barriers related to Social Insurance, Unemployment Benefit or Pension  |
| Denmark  | <p>In general social insurance covers unemployment benefit, sickness benefit, social pensions, health services, children allowances etc.</p> <p>Entitled to Maternity leave according to the same rules as for people with residence in Denmark, however cross-border commuter are not entitled to a range of other leave schemes available to people with residence in Denmark (sabbatical leave, educational leave)</p> <p>In general, people are covered by the social insurance of the working country regardless of where they live.</p> <p>Social Insurance contribution is paid in the country where people are covered.</p> <p>Social services are kept in the country of residence.</p> | <p>The Danish unemployment benefit system is a combination of a support principle for the uninsured and an Unemployment Insurance System, which is voluntary, work related and mainly funded by the State.</p> | <p>Mix of State and Private Pensions.</p> <p>The State Pensions are financed via a range of compulsory contributions and the general taxes.</p> <p>Cross-Border Commuters are entitled to the same pensions as residences.</p> <p>State Pension (Folkepension) is universal and in principle related to citizenship rather than work, however Cross-Border Commuters are entitled to State Pension according to the number of years they have worked in Denmark.</p> <p>Upon payment pension is taxable in the country where the contributions have been made.</p> | <p>Condition of residence regarding certain statutory allowances:</p> <p>There is no unemployment benefit for apprentices/students who come from the cross-border district in Germany.</p> <p>Problems claiming early retirement</p> <p>Problems claiming Invalidity rights</p> <p>No right for parental leave</p> |

## **6. Cross-Border Commuting – known movements**

The most recent study of cross-border commuting in Region Sønderjylland-Schleswig is from 1997. The study was carried out by Hansen & Schack from the Danish Institute for Border Studies on the initiative of EURES. The aim of the study was to analyse cross-border commuting in the Border Region with special attention to the existing barriers for an integration of the labour markets (Hansen & Schack,1997:11). However, as opposed to the present research study Hansen & Schack look at mobility rather than immobility.

The research study is based on a questionnaire that was distributed to 1.320 randomly chosen cross-border commuters from both parts of the Border Region. The study is representative of the commuters as 776 people out of the 1.320 answered the questionnaire. People with residence in the German part of the Region are slightly underrepresented, as they did not return the questionnaire as often as the people living in the Danish part. However, with the size of the population it can be assumed that all groups of commuters (gender, age, education, and workplace) are represented, although it is possible that the balance between the groups is incorrect. The questionnaire was distributed both in Danish and German to everybody as it could not a forehand be assumed whether German or Danish would be the preferred language. Around 60% filled in the Danish questionnaire and 40% the German.

Based on the research study Hansen & Schack among other conclude that the number of cross-border commuters has remained stable from the end of the 1980s to the mid-90s, and that there are slightly more people that commutes from Sønderjylland to Schleswig than the other way. Hence, according to the study 1.300 people commuted from Sønderjylland to Schleswig and 1.000 people commuted from Schleswig to Sønderjylland in 1995. The number is low considering that the total number of employed in the Border Region is 317.000 people and there are no indications that Denmark's entrance to the Schengen Agreement has increased the number of cross-border commuters notably<sup>15</sup>.

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<sup>15</sup> [www.eures-kompas.dk](http://www.eures-kompas.dk)

In 1990 the Institute of border studies compared the commuting around the German town Flensburg to the commuting around the Danish town Aalborg and the conclusion was that the cross-border commuting in the Sønderjylland-Schleswig Region was about 10% of what could be expected given there was no border<sup>16</sup>. According to Hansen & Schack (1997), this picture has not changed, hence the level of cross-border commuting is so limited that it does not influence the labour markets in Sønderjylland and Schleswig.

Although, cross-border commuting does not impact on the overall situation on the labour market some areas of the Region are more affected than others. With regard to the Danish part of the Region, cross-border commuting has most significance for the four border municipalities. Hence, half of the commuters from Sønderjylland to Schleswig live in the municipality Bov, which is just north of Flensburg on the Danish side of the border. Hence, more than 10% of the people in employment living in Bov municipality work south of the border and more than half of the people that commute from Schleswig commute to Bov, resultantly cross-border commuters are employed in about 10% of the workplaces. The second biggest commuting destination and departure point is Tønder (in 2.5% out 1%). Together, the four border municipalities account for 60% of the cross-border commuting from Sønderjylland to Schleswig and 80% of the commuting from Schleswig to Sønderjylland (Hansen & Schack,1997).

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<sup>16</sup> In 1990/91 Institute for cross-border studies carried out a similar study of the cross-border commuting and the conclusion was that approximately 2.000 people commuted across the border. (Hansen & Schack,1997:19).



**Cross-Border Commuter Profile:**

- 57% of the cross-border commuters are men.
- The average age is 42 years old and most of the commuters are between 30-50 years old.
- Approximately 85% of the commuters are married or co-habiting, which is a significantly higher share compared to the total population.
- 60% of the commuters do not have children under 14 years old.
- For the majority of the respondents' cross-border commuting is not a temporary phenomenon, but a long-term situation and a majority of 80% cross the border to work every day.
- Most of the commuters have higher education and the majority has been educated in the country of their workplace.
- On average the cross-border commuter do not spend more time travelling to and from work than people that commute within the countries.

Source: Hansen & Schack (1997)

**7. Known Causes of Cross-Border Immobility - Mobility**

This section sets out by discussing a range of the theories about cross-border immobility and mobility before it turns to discuss the conclusions drawn by Hansen & Schack' as well as the barriers identified by EURESKOMPAS.

According to Velde & Houtum the explanation for low mobility is often derived from theories that with reference to the market explains mobility as a function of wage differences (2002:5). Hence, low mobility can than be explained with reference to a small wage gap between border regions and high mobility with a large wage gap. Although, the difference in wage level and disposable income probably is one of the reasons why more people commute from Germany to Denmark than the other way a round, it cannot fully explain the cross-border movements. This point is underpinned by Hansen & Schack who argue that since cross-border commuting means that two central aspects of life –workplace and place of living - is place within two different social and cultural settings labour market related differences cannot be the only factors, which influence the volume of cross-border commuting (1997).

Another explanation of the level of mobility is the 'insider-advantage approach' developed by Fischer et al.(1997,2000). This approach argues that people have a

range of location specific assets and abilities, which makes them stay. Fischer et al. distinguish between work-oriented and leisure-oriented advantages. With regard to the first category it includes among other social relations, which gives opportunity and career advantages, where as the latter includes the benefits of being integrated and accepted in certain groups. According to the inside-advantage approach, immobility is,

*“...a utility maximizing strategy to a majority of people because loss of location specific assets and abilities induced by migration would be too severe and because it is immobility which allows individuals to accumulate insider-advantages.”* (Fischer et al.,1997).

In addition to these ‘inside-advantages’ Tassinopoulos & Werner (1999) argue that more traditional explanations for decisions to stay such as risk-aversion, discrimination against immigrants, losing social benefits and legal barriers and border control adds to the value of immobility.

Against this background, Velde & Houtum argue that to the traditional ‘push and pull’ factors, which emphasise the ‘go’ factors should be added the active decision not to become mobile, i.e. what they call ‘stay’ factors (2002). These stay-factors include both keep-factors like the ones introduced by the insider-advantage approach and repel-factors, understood as factors connected to the destination region, which prevents people from taking up employment or immigrating there. However, all the above explanations for the mobility level presume actors that are actively involved in a decision-making process based on a cost-benefit analysis weighing the difference. According to Velde & Houtum, these approaches fail to sufficiently explain what they see as the dominant reason for immobility, the non-action, the mental passiveness of people (2002:7).

Therefore, Velde & Houtum introduce the concept of ‘indifference’ to the explanation of labour market immobility. It is argued that with that concept people that are not actively involved in a decision-making process about mobility are included.

Velde and Houtum draw on an understanding of borders that argue that borders should not only be understood as a physical phenomenon but also as a socially constructed demarcation line between ‘them and us’. Consequently, the labour market on the other side of the border may be physically near, but “...is perceived as distant and interpreted as there, not here, ‘the other side.’” (2002:8), therefore people are

indifferent towards it. Hence, the concept of indifference aims to explain why most people do not even consider commuting across borders.

The concept of indifference is supported by a range of studies that show that people in border regions mainly orientates themselves inwards - often described as the centripetal effect – even when it means that they have to commute further from their homes<sup>17</sup>.

These observations are interesting because it is commonly agreed among the actors involved in cross-border region building and highlighted by the EU, that transparency will facilitate cross-border movements, however, with a view to the work of Velde & Houtum, transparency on the labour market is not sufficient to change the attitude on cross-border mobility.

### **7.1. Cross-Border Commuting Research Studies**

As mentioned above Hansen & Schack look at mobility rather than immobility, resultantly their conclusions first and foremost concerns the incentives to commute, however their finding suggests that there exist a number of barriers related to the difference in social- and tax system.

According to Hansen & Schack's study the three factors that are most influential with regard to the decision to become a cross-border commuter are: the labour market, the housing market, and the family<sup>(1997:12)</sup>.

The two most common reasons to become a cross-border commuter are change of job or change of residence. The main incentives are the opportunity to have a better house or apartment on the other side of the border, or family reasons.

The overrepresentation of married and co-habiting cross-border commuters highlights that incentives for cross-border commuting should be seen in a family perspective.

The box 1. below sums-up the study's conclusions as to why people commute.

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<sup>17</sup> See among other Velde (1999): Searching for Jobs in a Border Area – The Influence of Borders in a Dutch Euregion.

## Box 1: Why People commute across the Border

The commuters in the study can be divided into four groups:

- 1) The largest group of commuters consists of people that have moved from Schleswig to Sønderjylland, but kept their job in Schleswig. The majority of this group has German as their mother tongue and is educated from Germany. More favourable housing prices in Sønderjylland and marriage are the most common reasons for the commuting among this group.
- 2) Another large group consists of people that have Danish as their mother tongue, which have moved to Schleswig, but kept their job in Sønderjylland.

Approx. 50% become commuters because they move across the border.

- 3) & 4) the other half is commuting because they got a job in either Sønderjylland or Schleswig.

Secondarily, other incentives play a role, such as: a) having a job instead of being unemployment, b) the opportunity to use once education/improve carer opportunities, c) higher wage, d) greater job security, and e) a better work environment.

Hansen & Schack,1997

The findings of the study do not suggest that issues concerning better social security and lower taxation play a significant role as *incentives*, which probably can be explained by the fact that the difference between Denmark and Germany is relatively speaking small with regard to these factors. This view is supported by Pedersen & Toft (in Hansen & Nahrsted,2000) that argue that there are few tax incentives to commute between Denmark and Germany for the individual worker. However, the study cannot conclude whether or not these factors work as disincentives for people that do not commute.

Hansen & Schack (1997:25) argues that the fact that the number of people that commute from each side of the border region is similar suggests that the benefits and drawbacks connected to cross-border commuting are equally shared between the two parts.

The low number of commuters suggests, however, that there exist a number of barriers to cross-border commuting and according to Hansen & Schack's study, the respondents in particular see the areas of taxation, pension and unemployment benefit as problems. The empirical study does not identify what the cross-border commuters find problematic in relation to these areas, but table 1-4 above outline a

number of the existing differences between the systems that might work as barriers or incentives to cross-border commuting.

Moreover, formalities in connection to work- and residence permit as well as problems in connection to the physical crossing of the border are also identified as obstacles by the respondents. This observation is supported by EURES (EURES,2002).

As noted above the cross-border commuters does not on average spend more time travelling to and from work than people that commute within the countries, so the length of transport is not in itself a barrier. However, there is a lack of cross-border public transport and according to EURES there are few agreements over adjustments of the transport systems to accommodate cross-border workers. Resultantly, transport may be perceived as an obstacle for cross-border commuting.

According to EURES the insufficient linguistic and cultural knowledge of the other part of the border region is a barrier to cross-border commuting (2002a). Hence, good knowledge of the German language is a precondition for getting a job in the German part of the region. EURES also points out that there is a lack of knowledge of the German-Danish laws and regulations relevant to cross-border commuters among the civil servants and front line officials, which in the past has meant that people was given incorrect or insufficient advices and information (*ibid.*).

Furthermore, job requirements are not always compatible between the two parts and according to Hansen & Narhstedt (2002), on a practical level the German public sector is largely closed for Danish employees. Resultantly it is perceived as very difficult to find a job for people that are educated in areas such as the care sector.

Finally, the definition of a cross-border commuter creates problems in relation to taxation and social contribution as the definition involves that the work takes place at a specific location. This problem affects people in the transport industry, the building sector and employees that regularly work from home or in both countries, or are employed on both side of the border.

## **8. Preliminary Conclusion**

The Paper identifies a range of differences with regard to the tax-, the social security-, the pension-, and unemployment benefit systems in the two countries, which creates practical barriers for cross-border commuting. However, with regard to the differences in welfare systems it seems that the largest barrier is the uncertainty that stems from the lack of transparent rules and lack of knowledge in the Administration, which mean that the consequences of different choices are difficult to calculate.

In general, the labour market, the housing market and the family are the key factors in relation to the decision to commute in geographical space, while additional factors such availability of public transport, incompatibility of job requirements, and language barriers also are seen as obstacles.

Location specific assets and satisfaction with current situation equally seem to be important factors for cross-border commuting.

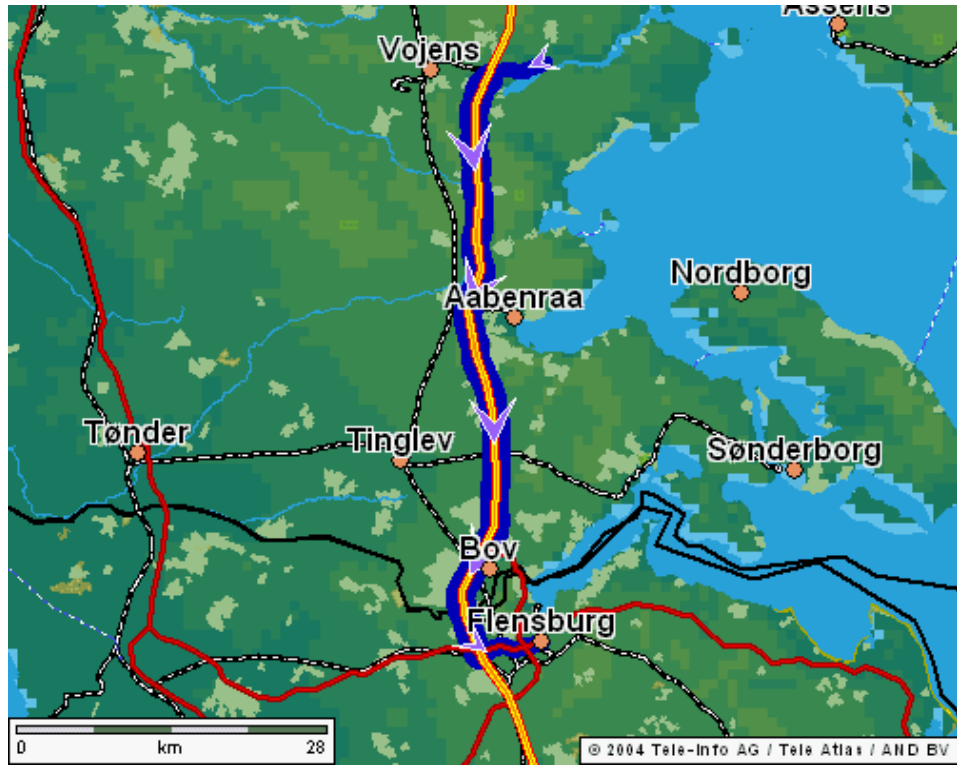
The majority of the cross-border commuter has begun to commute either because they got a job in the other part of the border region or because they moved there. Factors related to family relations plays a significant factor in the decision to commute.

Table 5. describes the range of incentives and barriers that influence the volume and character of cross-border commuting.

Table 5: Incentives and Barriers for Cross-Border Commuting

|                         |  |  |  |  |   |  |   |
|-------------------------|--|--|--|--|---|--|---|
|                         | Commuting in geographical space  |  |  | Economic, legal, and other formal structures connected to commuting across borders   |   |  | Personal and Cultural factors   |
| Incentives to commuting | Labour market:<br><br>Demand for labour<br><br>Wage difference<br><br>Working conditions   | Housing Market:<br><br>Supply of houses<br><br>Price difference<br><br>Accesses to services<br><br>Amenities | Personal Relationships:<br><br>Single<br><br>co-habiting<br><br>Married<br><br>Children<br><br>Family ties | The Welfare State<br><br>Taxation<br><br>Social Security<br><br>Unemployment benefits<br><br>Pension<br><br>Welfare services | Career<br><br>- Possibility of using acquired education<br><br>- Developing human capital | Adventurousness<br><br>Learning new cultures<br><br>Knowledge and Experience of the Neighbouring Country<br><br>Personal Network in the Neighbouring Country |   |
| Barriers to commuting   | Transport<br><br>Distance/time<br><br>Cost<br><br>Transport Options (infrastructure: car, train, ferry etc.)<br><br>Perception of commuting time |  |  |  |   |  | Legal system:<br><br>Work Permit<br><br>Residence Permit<br><br>Time spend on inquiries |
| Result                  | Volume and Character of cross-border commuting   |  |  |  |   |  |   |

Based on Hansen & Nahrstedt (2000)





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