

Immigration to Sweden: Success or Failure?

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How immigration affects the welfare state is often a question in political debate and among the public. Will immigration be a contribution or a burden?

How the welfare system is affected depends mainly on the immigrants age structure and to what extent immigrants are integrated on the labour market. The age structure among immigrants is more favourable than among natives. The immigrants have usually a low proportion old people and a high proportion at ages where you usually are on the labour market. Between 1950 and 1980 immigration made an overall positive contribution to the welfare state, when there was high employment. Since then their labour market position has deteriorated. Therefore their use of public transfers has increased and at the same time their contribution to the tax system has decreased. So, nowadays they are a burden on the welfare system. However, the situation can change. If the employment rate among immigrants can be raised to the same level as natives then the immigrants will again be net contributors to the welfare system.

Introduction

During the post-war years the number of immigrants in Sweden increased rapidly. In 1940 the proportion of foreign-born persons within the total population of the country only amounted to 1 per cent. The corresponding proportion in the beginning of this millennium is nearly 12 per cent that is somewhat more than 1 million individuals. About 50 per cent of the foreign born individuals living in Sweden today have acquired Swedish citizenship. Moreover, there is a growing group of so-called second generation immigrants; that is, children born in Sweden with at least one parent born abroad. This group amounts to more than 800,000 individuals today. Thus, the total number of the first

and the second generation immigrants amounts to nearly 1.9 millions individuals. This is 20 per cent of the total population in Sweden.

Major changes can be seen in immigration patterns. Until the mid-1970s immigration was primarily a matter of labour force immigration mostly from Europe. There were also small groups of refugees from Eastern Europe that arrived at the end of the 1950s and 1960s. A relatively large number of these immigrants found their way to the manufacturing sector as blue-collar workers. The manufacturing sector in Sweden was able to expand during the 1950s and the 1960s with the help of immigrant labour force. According to the 1970 census about 90 per cent of

foreign-born persons living in Sweden were born in Europe. In general, it can be said that from the late 1940s to the mid 1970s there was a strong connection between annual immigration and the labour market. Large number of immigrants arrived when there was a great demand for labour in the Swedish economy and the numbers dropped when the demand decreased, see Ekberg (1983) and Wadensjö (1973).

After 1975 the character of immigration has changed. The proportion of refugees and 'tied movers' (relatives of already admitted immigrants) has increased and the proportion of labour force immigrants has decreased. Immigration of labour force was basically stopped in 1972 for people born outside the Nordic countries. The door was opened to refugees and asylum-seekers from European and non-European countries. The connection between demand for labour in Sweden and immigration weakened. At the same time a great many of the former labour-force immigrants have returned home. Therefore the composition of the immigrant population living in Sweden has changed. In 2000 about 60 per cent of foreign-born persons living in Sweden were born in Europe.

The overall immigration pattern has been about the same in most other immigrant countries in Europe. Up to the mid 70s most of the immigrants were labour force immigrants. Since then the proportion of refugees and relatives has increased and many of them were born outside Europe.

Immigration may affect the income conditions of the native population in

many ways. There may be effects on the markets. Immigration may have impacts on relative prices and on employment opportunities for natives. Native groups which are substitutes to immigrant labour force may lose and native groups which are complements may benefit due to immigration. However estimations from many countries show that these effects probably have been rather negligible see eg Borjas (1994) and Ekberg (1999). Besides there may also be effects through the publicly financed redistribution of incomes. It was during the post-war period that the major components of the Swedish welfare state were developed. An important task for the welfare state is to redistribute income among different groups in the population in order to make incomes and living conditions more even. How public expenditure as part of gross national product (GNP) has changed over time is an approximative measure of the changing importance of the welfare state. In the late 1940s public sector expenditure corresponded to about 25 per cent of GNP. This increased to more than 40 per cent in 1970 and to about 60 per cent in 1990, see Ministry of Finance 1992. Since then the level has stabilized.

The public sector can redistribute incomes between immigrants and natives. The direction of this distribution depends on whether the immigrants make more/less use of the public sector than what they contribute to the system in taxes. If the immigrants contribute more/less in taxes than what they receive from the public sector there are positive/negative income effects for the native

population. Positive income effects for natives mean that their disposable incomes increase. Negative income effects for natives mean that their disposable incomes decrease.

There are two factors that are of special interest concerning how the public sector redistributes incomes between immigrants and natives. The first is the difference in age structure between the groups. The other is the employment situation for immigrants compared to natives. The age structure among immigrants differs from natives. Immigrants have a higher proportion in economic active ages (age 20-60) and a low proportion old people. This has been the case during the whole postwar period. Heavy public expenditures are directed to old people (pensions, healthcare, service for pensioners and handicapped). Large public expenditures are also directed to unemployed and individuals with a weak position on the labour market. The expenditures during one year are financed by taxes the same year. The tax burden is mainly carried by employed people. In what direction the public sector redistributes incomes between immigrants and natives is mainly a combined effect of the immigrants age composition and their position on the labour market relative to that of the natives.

The age structure in the immigrant group changes very slow over time. However, there have been great changes over time in the immigrants position on the labour market. During the last 25 years the immigrants labour market situation in Sweden has deteriorated. As a consequence their use of the public

welfare system has increased and their contribution to the tax system has decreased. In political debate and among the public there is today a fear that this will reduce the disposable incomes for natives. Weak labour market integration among immigrants and thereby negative effects for the public budget probably also creates tensions between natives and immigrants which have implications for the political system.

Immigrants in the labour market

There have been great changes in the employment situation for immigrants during the postwar period. The conclusion from many studies, eg Wadensjö (1973), Ohlsson (1975), Ekberg (1983), Scott (1999), Bevelander (2000) and Hammarstedt (2001) is that the employment situation for immigrants in Sweden was good up to the mid-1970s. There was full employment for both natives and immigrants. During long periods the immigrants' degree of employment (their employment rate)¹ even exceeded that of the natives. This was especially the case for immigrant women. Moreover, a large number of employed immigrant women worked full time, while most of the employed native Swedish women worked part time. Therefore, the annual work income per capita was high among the immigrants. The occupational mobility among these early immigrants was also about the same as among natives, see Ekberg (1990 and 1996).

At the end of the 1970s, the labour market integration among the new immigrants began to deteriorate and since then the tendency has been strengt-

hened. A great number of refugees that arrived during the 1980s never entered the labour market. This occurred despite the boom in the Swedish economy in the 1980s, despite the fact that the new immigrants were well educated and

despite the goal for the Swedish immigration policy to integrate immigrants (also refugees) to about the same extent as natives in the labour market. This goal has not been achieved. We do not know all the reasons for this development.

Table 1 Index for employment rate at the age 16-64 years. Standardised for age. Foreign born living in Sweden. Index for native born is 100.*

	Men	Women	Both sexes	Index for work income per capita age 16-64***
1950	_-***	_-***	120	_-***
1960	100	110	105	_-***
1967	_-***	_-***	110	122
1978	95	101	98	99
1987	90	88	89	_-***
1991	84	83	83	75
1994	77	74	75	62
1999	78	75	76	64
2003	80	76	78	_-***

Sources: Ekberg 1983, processed data from 1950, 1960 Swedish census and from 1987, 1991, 1994, 1999 and 2001. Data from the income register in 1991, 1994, and 1999.

*) The interpretation of the index can be expressed as follows: In 1960 the index was 105. That means that the employment rate among the foreign born was 5% higher than the employment rate among the natives. In 1994 the employment rate among the foreign born was 25% lower than among the natives.

For the years 1950, 1960 and 1967 the figures refer to foreign citizens. Most of the foreign born living in Sweden in these years had foreign citizenship.

**) Even including individuals at the age 16-64 with zero work income. There is not enough information to standardise for age and for work income.

***) No information.

It is to be noted that the tendency has been the same in many other immigrant countries. However there are large differences between the countries in the immigrants labour market situations. Investigations for the OECD-countries show that especially Netherlands,

Sweden and Denmark have very high unemployment rate among immigrants. In countries like United States, Australia and Canada the unemployment rate among immigrants is about the same as for natives, see OECD 1999, 2001.

The reasons may be discrimination, changes in the Swedish economy with increased demand for 'Sweden specific' knowledge (eg the Swedish language) to succeed on the labour market or mistakes in the Swedish integration policy. During the 1980s and up to 1991 there was still full employment in the native population. During the recession from 1992 onwards the immigrants' labour market situation, relative to that of natives, deteriorated even further. However, it seems as if at the end of the 1990s there was also a small improvement of the immigrants labour market situation. A summary of the development is given in *Table 1*. Changes in work income per capita among immigrants follow the changes in their employment rate.

Explanations

There are probably many reasons for the worse labour market position of immigrants. In Swedish research mainly the following explanations have been mentioned.

1) The risk of discrimination on the labour market has increased when the immigration pattern changed from an immigration from Europe to an immigration from countries outside Europe.

2) Structural changes in the Swedish economy made difficulties for immigrants to enter the labour market. Changes from an industrialised to a post industrial economy made higher demands on skills and knowledge that are specific for the immigrant country which in turn reduce the immigrants opportunities on the labour market. This development has run parallel with the increasingly distant ethnic and cul-

tural background of these immigrants which may contribute to the result that their human capital has been poorly adapted to the Swedish labour market. It seems to be a reasonable hypothesis that a combination of structural changes in the Swedish economy and increasingly distant ethnic and cultural background among the immigrants contribute to their difficulties on the labour market.

3) Mistakes in the Swedish integration policy on immigrants.

Integration policy

Let us in the following concentrate on the Swedish integration policy on immigrants. In the last year there has been an intensive public debate about this policy. The issue of labour market integration of refugees was one of the largest questions in the political debate before the Swedish Parliamentary election in 2002. Let us look at some components in the integration policy. The first one is institutional changes in the integration policy. The second one is a strategy to relocate refugees to different regions in Sweden.

In the middle of the 1980s the responsibility for receiving refugees was changed from AMS (Swedish National Labour Policy Board) to the Swedish Migration Board. When AMS had the responsibility the focus was on labour market integration of refugees. The Migration Board however had another philosophy once they took over. Greater emphasis was placed on social integration and that refugees first must pass special educational programs in Sweden before they were allowed to enter the

labour market. The time between arrival to Sweden and the possibility to enter the labour market was increased. Rooth (1999) showed that this waiting time had a strong negative effects on the refugees long run opportunities on the labour market.

The results stress the importance of rapid contact with the labour market rather than participate in Swedish educational programmes. In many respects the most effective way to acquire 'Sweden specific' knowledges is probably to participate in the labour market.

Moreover a new strategy of relocation of refugees was introduced in the middle of the 1980s, the so-called 'Whole Sweden strategy'. The strategy was, above all, in place from the middle of the 1980s to the middle of the 1990s but was in practice to some extent also after this period. The aim of the strategy was to relocate newly arrived refugees over the entire country.

By avoiding demographic concentration, immigrants were expected to have better opportunity of learning the Swedish language which in turn was expected to improve their chances of gaining employment. However in practice the strategy worked in another way. Refugees were often allocated to different regions based on availability of accommodation and not on opportunities to find employment. In regions with no jobs there were plenty of accommodations because of natives had moved out from these regions. Edin, Fredriksson & Åslund (2000) found that that earnings and employment level among refugees had worsened as a result of this strategy.

A longitudinal study of Bosnians

that arrived to Sweden in 1993 and 1994, carried out at Växjö university revealed that the level of integration in the labour market, varied immensely dependent on where they were relocated see Ekberg (2004). The group of refugees arriving from Bosnia in 1993 and 1994 was very large and were relocated to about 250 of in total 289 municipalities in Sweden.

Let us look at some examples which show the extremely uneven regional employment labour market situation for the group. One example is the so called small business area consisting of the municipalities Gnosjö, Gislaved, Vaggeryd and Värnamo in the west part of the county Småland. There are almost 100,000 inhabitants in these four municipalities. The economy in the area is to great extent based on small-scale industry. The unemployment in the area is usually low. Another area is Malmö municipality with about 250,000 inhabitants. The economy has undergone structural changes during the last 20 years with high unemployment. Both these areas received many Bosnians. Let us look at the situation in 1997 and 1999. In 1999 the Bosnian group has lived 5-6 years in Sweden.

The employment rate for the years 1997 and 1999 is shown in table 2. Already in 1997 the employment rate for Bosnian men in the small business area exceeded 75 per cent in the age 20-59. This was about the same level as for native men in average in Sweden. Also Bosnian women in this area has a good labour market position. However the situation in Malmö was very gloomy. The employment rate for Bosnian

men was less than 15 per cent and for women the situation was even worse. For Bosnian men in average in Sweden the employment rate was about 30 per cent. Between 1997 and 1999 the labour market situation for Bosnians gradually improved. However the regional differences remained and in Malmö the situation was still very gloomy. In contrast in the small business area the employment rate for Bosnians now has reached levels which is probably closed to theoretical maximum. More than 90 per cent of men and more than 80 per cent of women were employed on the labour market. This was much more higher than for natives on the average in Sweden.

It is likely that another form of allocation of refugees together with a system to transfer knowledge to different regions how to receive refugees to achieve rapid contact with the labour market would have better integrated refugees on the Swedish labour market in the 1980s and the 1990s.

Conclusions

For a long time during the postwar period there was full employment for both immigrants and natives. Up to mid 1970s immigrants were well established on the labour market. This was the case not only for labour force immigrants but also for refugees who arrived in Sweden at the end of the war, at the end of 1950s and at the end of the 1960s.

At the the end of the 1970s there were the first signs of a worse labour market situation among immigrants and since then the tendency has been strengthened. A great number of refu-

gees that arrived during the 1980s never entered the labour market. This has occurred despite the 1980s boom in the Swedish economy, despite that 1980s immigrants were better educated than former immigrants and despite the government's goal for the integration policy to integrate immigrants (also refugees) to about the same extent as natives in the labour market. In the 1990s the tendency strengthened even more and for many immigrant groups the labour market situation nowadays is desperate.

In an international comparison the immigrants in Sweden has nowadays a very high unemployment rate. Besides the immigrants labour market integration differs a lot between different immigrant groups and between different geographical areas in Sweden.

There are probably many explanations for the development. Among others there are many evidences that there have been mistakes in the Swedish integration policy. Bad labour market integration among immigrants probably also creates tensions between natives and immigrants which have implications for the political system.

The effects of the deterioration of the employment situation of the immigrants are that they nowadays use the public welfare system to a much larger extent than before. How the public sector redistributes incomes between immigrants and natives is often the matter in the political debate and among the public. There is often a fear that immigrants heavy use of the welfare system may reduce the disposable incomes for natives. In this respect the situa-

tion has changed a lot over time. We showed in table 1 that up to mid 1970's the immigrants employment rate was the same or in some periods even higher than in the native population. The immigrant population also had a favourable age composition (a smaller fraction of old age people than natives). It can be expected that in a situation where the immigrants both have a good labour market situation and a favourable age structure the immigrants contribute more to the public sector, through the tax system, than what they receive from this sector. The difference is allocated to the natives. This happened in the 1950s, 1960s and the 1970s and gave rise a positive income effect for natives see Wadensjö (1973) and Ekberg (1983). In the beginning of the postwar period it is likely that the positive income effect was very small. The public sector was small at that time and its ability to redistribute incomes between different parts of the population was small. When the public sector expanded its redistribution ability increased. In the beginning of the 1970s the yearly positive income effect probably amounted to 1-2 per cent of the Swedish GNP. The situation changed when the employment situation for the immigrants deteriorated. At the end of the 80s the yearly positive income effect disappeared, see Gustafsson (1990). Nowadays there is a negative income for natives that is to say that the immigrants contribute less to the tax system than what they receive from the public sector. At present the yearly negative income effect is 1-2 per cent of the gross national product that is to say approximately 30-40 SEK billions see Ekberg (1999).

We can say that the present price for the bad labour market integration of immigrants is about 30-40 SEK billions per year. So, it is important also for natives that immigrants are better integrated into the labour market.

A very important issue for the future is the labour market position for the second generation immigrants. In the last years some investigations have been conducted in Sweden, see eg. Ekberg (1997), Vilhelmsson (2000) and Österberg (2000). These studies show that second generation immigrants who are born before 1970 have about the same employment rate and about the same work income as natives in the same age groups and with both parents born in Sweden. These second generation immigrants are children to those who immigrated in the 1950s and the 1960s and who were well integrated into the labour market. The pattern seems to be the same for their children. However the situation is probably more pessimistic for later immigration waves. Many immigrants in these waves were not integrated in the labour market. Recent studies indicate that the same pattern exists for their children born in Sweden see Ekberg & Rooth (2003).

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Notes

- ¹ The degree of employment in a population-group is usually measured as the employment rate in the age 16-64 or sometimes in the age 20-59. The employment rate is the part in percent in an age class which is on the labour market.