

Abstract

Immigration, Employment and Economic Effects

During the post-war years the number of immigrants in Sweden has increased rapidly. In 1940 the proportion of foreign-born persons within the total population of the country only amounted to about 1 per cent. The corresponding proportion had increased to nearly 7 per cent in 1970 and to just above 10 per cent in 1994. That is, somewhat to more than 900 000 individuals. Besides, there is a growing group of the so-called second-generation immigrants. That is, children born in Sweden with at least one parent born abroad. This group amounts to nearly 700 000 individuals today. The total number of the first and the second generation immigrants amounts to 1.6 millions individuals. This is 18 per cent of the total population.

Economic research on immigration largely covers three areas:

- 1) Economic causes of immigration. How will the international differences in unemployment and income affect the direction, the size and the composition of the immigrant flow?
- 2) Economic effects on the immigrant country. There are three important issues; namely:
 - a) What is the effect on economic growth?
 - b) How will relative factor-prices and employment be affected?
 - c) How will the public sector redistribute incomes between the immigrant and the indigenous populations? The direction of this redistribution depends on whether the immigrants demand more or less of the public sector than they contribute to the system in taxes. The fact is that the direction depends to a large scale on the employment situation and on the age structure of the immigrants.
- 3) The immigrants adaptation to the host countries' labour markets. How will the immigrants' employment, occupational career and incomes develop over time?

The three areas mentioned here-above are mutually linked. The labour market career obtained by immigrants and the effects of immigration on real capital formation, to a large extent, determine economic and social effects of immigration. Long-term economic effects such as labour supply, production, demand on the public sector etc are to a large extent dependent on the size and distribution by sex, age, education and occupation within the immigrant population. Besides, immigrants' labour market behaviour is supposedly affected by the reasons behind the decision to migrate. Labour immigrants' behaviour on the labour market can be expected to differ from that of refugee immigrants.

Until the mid 1970s immigration to Sweden was primarily labour force immigration. This immigration varied with the labour market situation in Sweden. In general, it can be said that from the late 1940s to the mid-1970s there was a marked connection between annual immigration and the labour market situation. Immigration was large when there was a great demand for labour in Swedish industry and diminished as demand decreased. The notable weakening of this connection, after 1975, is probably due to the changed character of immigration. Since the mid 1970s the proportion of refugees and "tied movers" (relatives of already admitted immigrants) has increased simultaneously with a decrease in labour immigration. The economic motivation for migration can be assumed to be weaker among refugees and tied movers than among the earlier labour immigrants.

There have been great changes in the employment situation for immigrants in the last 15 years. Several studies have showed that the employment situation for immigrants in Sweden was good up to the mid 1970s. The immigrants degree of employment often exceeded that of the native population. As the character of immigration changed, the economic integration of the immigrants became weaker. For example, a great number of refugees who arrived during the 1980s never entered the labour market despite the 1980s boom in Sweden. During the depression in the early 1990s the immigrants' employment rate decreased further.

It might be mentioned that the same observations have been made in many other countries. In countries like the USA, Canada and Australia, entering into the labour market has been considerably more difficult for the immigrants of the 1980s in comparison to earlier immigrants. This development has run parallel with the increasingly distant ethnic backgrounds of the new immigrants. It seems reasonable to work on the hypothesis that the "distant" ethnic and cultural background of these immigrants has contributed to the result that their human capital has been poorly adapted to the labour market of the immigrant country. Besides, this competence gap may be widened if the economy of the immigrant country undergoes structural changes that make higher demands on the skills and knowledge that are specific to the immigrant country.

As regard the question of economic effects of immigration, the general impression is that they are small. Many empirical investigations in USA and Europe show weak relationships between immigration and the natives' wages and employment. This remains the case even when the native labour force is disaggregated. We can probably draw the conclusion that the post-war immigration to Sweden has hardly affected the total employment level for the natives. However, it is possible that the structure of the natives' employment has, to some extent, been affected.

Another issue of concern is the relationship between immigration and the economic growth. It is still a hypothetical question as to whether there is any relationship. The empirical literature cannot give any good answer. It is probable that the answer depends on the immigrants' own human capital.

There are relatively few empirical studies of how the public sector redistributes incomes between immigrants and the natives. The different studies give ambiguous results. This is probably due to some basic circumstances such as that in most studies only some budget items are included. The outcome depends on the selection of items. Secondly, the quality of data varies strongly from one country to the other. Different kinds of estimates often have to be made. The results may depend on the premises on which the estimates are based. The third reason is that the studies cover different periods. In many countries the structure of immigration and the immigrants' integration into the labour market have changed over time, which affects the outcome. The fourth reason may be that the 'immigrant' concept is defined in different ways. Some studies refer to foreign citizens as 'immigrants' and others to those born abroad.

Three studies of this kind have been made in Sweden. The first was conducted by Wadensjö (1973). He studied the effects of the 'marginal immigration' that occurred in 1969. By 'marginal' in this context it is meant that it is so insignificant that it does not, and it is not supposed to, affect some public expenses such as certain kinds of public services and indivisibilities. Examples of such expenses include public and foreign administration costs, research and the rural road system costs. Wadensjö found that immigration had positive income effects for the native population. The second was made by Ekberg (1983) who studied the redistribution effects in the years 1970 and 1976 for the entire immigrant population that had developed during the post-war period up to the mentioned years. This immigrant population is so large that it can reasonably be regarded as not being marginal and it can therefore be expected to affect the public expenses mentioned above. Ekberg also found positive income effects for the native population. In 1970 the public sector redistributed SEK 4-6 billion, in today's price level, from the immigrant population to the native population. In 1976 the income effects were somewhat smaller. The third study was conducted by Gustavsson

(1990) covering the years 1980-85. The study only covered foreign citizens and it was only concerned with some parts of the public sector.

Gustavsson found that the income effects were neutral. We can probably draw the conclusion that in the post-war period up to the late 1970s, the native Swedish population obtained annual additional incomes through the public sector because of the immigrants. During that period we had full employment both for the native Swedes and the immigrant population. Newly arrived immigrants quickly entered the labour market. At the same time the age structure of the immigrant population was favourable.

During the boom of the 1980s the native Swedish population was still fully employed, whereas immigrants, especially those who had recently arrived, were hit by large unemployment. This had the effects that immigrants started using the public welfare system to a much larger extent than before. In chapter 4-6 it is shown that at the beginning of the 1990s the public sector transferred incomes from the native population to immigrants. The main explanation is the high unemployment among the 1980s immigrants. Despite the boom of the 1980s many of these immigrants never entered the Swedish labour market. The negative income effect for the native Swedish population, for the year 1991, can be estimated to SEK 5-10 billion. During the recession of 1992-1994 immigration into Sweden continued. It primarily consisted of refugees from the former Yugoslavia. Immigration during these years can be described as immigration to unemployment. The negative income effect for the Swedish population thus increased and can be estimated to nearly SEK 20 billion for the year 1995.

Even if SEK 20 billion per year is a huge amount in absolute terms, it is small in relation to that part of Sweden's yearly GDP produced by the native Swedish population. The negative income effect in 1995 is only about 1.5 per cent of that part of GNP. The corresponding positive income effect in 1970 was only 0.5-0.7 per cent. In both cases it is less than one year's normal growth of the Swedish GDP.

The fact that large groups of immigrants did not enter the labour market during the 1980s' boom is probably an indication that their human capital was not adapted to the Swedish labour market. This implies that it will probably be necessary to invest in new human capital for the new immigrants. The 1980s immigrants were ethnically and culturally more distant than the previous ones. Besides, structural changes have taken place in the Swedish economy. One example of such a change is the transition from industrial production to service production. This transition has probably increased the demand for specific knowledge about Sweden.

There are, of course, many other aspects of immigration. For an example, for the last 15 years immigration into Sweden has partly been refugee immigration. This immigration has been allowed for humanitarian reasons. But still the economic aspects of this immigration are of interest.

From a strict economic point of view we can draw the conclusion that immigration into Sweden up to approximately the mid 70s was economically positive for the native population while immigration that occurred after that has hitherto been economically negative for the native population. However, the positive and the negative income effects have been small.

What will happen during the next 10–20 years in Sweden depends to a large extent on the development of the employment situation of the immigrants. At that time the age structure of immigrant population will still be favourable.