

Summary⁴

Many western economies are facing a demographic development that will put considerable pressure on their public finances. This is also true of Sweden. A relevant question is whether migration can be a means of helping to provide for an ageing population in the future. This is a valid line of enquiry based on the experience that the age structure of migrant populations tends to be favourable with a low proportion of older people and a high percentage of people of working age. This seems to be the case in all migration countries regardless of whether it is a question of workforce migration or the migration of refugees and their relatives. Given that migrants and native-born individuals have approximately the same employment rate, migration can be expected to be economically beneficial for native-born individuals in the sense that the entire public sector redistributes income from migrants to native-born individuals.

The primary aim of this report is to study the fiscal significance of changes in migration. Based on simulations with a detailed model of public sector economics, the effects of changes in migration and the significance of the integration of migrants into the labour market are quantified. The analysis relates both to the redistribution that occurred during one particular year (2006) and the redistribution up until 2050 based on population forecasts produced by Sweden's national statistics office, Statistics Sweden. It is important to underline that the calculations only relate to redistribution via the public sector. Other economic effects of migration, such as the impact on economic growth, have not been calculated and are only discussed in passing. Even though this report focuses on the economic effects of migration, it is obvious

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that there are other important, non-economic reasons for it. By signing a number of international treaties and conventions, for example, Sweden has undertaken to provide sanctuary for refugees and others in need of protection.

The fiscal significance of migration has varied considerably over time

Very considerable changes have taken place over time regarding the employment rate and wage earnings of foreign-born individuals. During the 1950s, 1960s and for most of the 1970s, the employment rate among foreign-born individuals of working age in Sweden was the same or periodically higher than among native-born individuals. The picture changed towards the end of the 1970s, however. A marked economic downturn in Swedish industry (where many migrants worked) coincided with the start of a transition from workforce migration to the migration of refugees and relatives. After that, the employment situation for foreign-born individuals continued to deteriorate despite the prolonged economic boom and the labour shortage of the 1980s and despite the political aim of integrating migrants into the labour market. This downward trend was further exacerbated during the economic recession of the early 1990s. Especially for migrants from non-European countries, the labour market in the 1990s was without doubt extremely tough. Things recovered from the end of the 1990s onwards, a recovery that has continued during the 2000s, but the employment rate is still significantly lower and unemployment much higher among foreign-born individuals than among native Swedes. There are major differences, however, in the employment rate between various foreign-born groups.

Over the next ten years, an increasing number of native-born individuals with migrant backgrounds will reach working age. Many of these have parents who migrated from non-European countries in the 1980s and 1990s. Previous studies have shown that the group comprising native-born individuals with a non-European background has difficulties on the labour market. How the public sector will in the future redistribute income between the migrant population that is already in the country and the native-born

population depends very much on how these new groups will be integrated into the labour market.

There are a number of studies in Sweden on how the public sector has redistributed income between migrants and native-born individuals during different periods. In brief, the results of these studies show that the public sector redistributed income from migrants to native-born individuals every year until about 1980. During this period, immigrants enjoyed a healthy employment situation and had, from this perspective, a favourable age structure. Annual net revenue seems to have culminated at the beginning of the 1970s, when it amounted to about 1 percent of the gross domestic product (GDP). As the employment situation for immigrants deteriorated, annual revenue decreased and reached a zero-point in the mid to late 1980s. During the 1990s, the net revenue became a net cost, i.e. income was redistributed from native-born individuals to migrants. In the mid to late 1990s, the net annual costs for native-born individuals amounted to 1.5 to 2 percent of GDP.

Relatively minor redistribution via the public sector today

The calculation in this report shows an annual redistribution from native-born individuals to the migrant population of 1.5 to 2 percent of GDP for 2006. The redistribution has therefore not changed much since the 1990s, which may seem surprising bearing in mind the increase in the migrant population since then. The explanation is that the labour market situation for migrants has improved, even though it is still clearly worse than for the native-born population.

According to Statistics Sweden's 2006 employment statistics, the proportion of persons gainfully employed was in the age 20 to 64 years 57 percent among the foreign-born population compared to 80 percent among native-born individuals. To reach a zero-point where there is no redistribution, the proportion of gainfully employed persons among the foreign-born population must be 72 percent, according to the model calculations. The explanation for why the zero-point occurs at a lower employment rate than for native-born individuals is the migrant population's, in this perspective, favourable age structure. Further improvement in the

employment rate among the migrant population will tip the balance of income redistribution over to revenue for the native-born population.

Changes in migration in the future have little effect on demography and public finances

To study the future fiscal effect of an increase or decrease in migration volume, a migration forecast is needed. This report uses a Statistics Sweden population forecast that stretches until 2050. Statistics Sweden calculates the size and structure of the future population based on two assumptions: one alternative with low migration and one with high migration. The low migration alternative is the one we use in this study as a basis for calculating the effect of increased migration. It is the difference in population development between the two alternatives that gives us the size and age structure of the additional population caused by increased migration.⁵

This additional population therefore also includes the increased number of people born in Sweden as a result of more migration. The subsequent ageing process among those who have migrated is more or less counterbalanced by the fact that more people are born in Sweden. The additional population retains a favourable age structure during the entire period.⁶ Despite this, the impact on the age structure of the total population is relatively minor, since the migrant population does not manage to grow large enough before it too starts to age. In the calculations, future migration cannot prevent the population growing increasingly older. It can only delay this development. To have a major effect on the ageing of the aggregated population, migration on an entirely different level to today is required.

It is assumed that GDP and the future public sector will develop in accordance with the most recent official government Long-Term Survey of the Swedish Economy (SOU 2008:105). Even with the far-reaching assumption that the migrant population of working age has the same employment rate and average annual wage earnings per gainfully employed person as native-born individuals of the same age, the annual income redistribution from migrants to native-born individuals will be less than one percent of GDP. More precisely, the annual amount will be 0.1 percent in 2015, 0.4 percent in 2025, 0.6 percent in 2035 and 0.7 percent in 2050. The results will be approximately the same even if we make alternative

⁵ The number of individuals in this additional population will be about 164 000 in 2015, 480 000 in 2025, 830 000 in 2035 and just under 1.4 million in 2050.

⁶ The proportion of the additional population who are 65 or older will be 2.8 percent in 2015, 3.9 percent in 2025, 5.7 percent in 2035 and 10.2 percent in 2050.

assumptions about the development of the public sector. However, if the migrant population's employment rate and annual labour earnings per gainfully employed person (relative to native-born individuals) are the same as for foreign-born individuals currently resident in Sweden, the redistribution will go in the opposite direction but the annual amount will still be relatively small, in general less than one percent of GDP.

As a comparison, it is worth mentioning that Rowthorn (2008) reviewed a large number of studies from countries in Europe and America on the fiscal impact of migration. The study found that the fiscal impact was in general quite small and in most countries was within the range of plus/minus one percent of GDP. Based on these results, Rowthorn concluded that there was in general no strong fiscal case for or against sustained migration.

Migration has only minor demonstrable effects on economic growth, employment and pay

The issue of income redistribution through the public sector is only one of the economic effects of migration. Another effect can be the impact on the pay and employment of native-born individuals. Generally speaking it can be expected that some will gain and others will lose. For example, it can be shown using theoretical models that a native workforce that substitutes a migrant workforce loses, whereas a native workforce that complements a migrant workforce benefits. A large number of empirical studies from various migration countries show, however, that the sum of these effects is very small or even non-existent. There is hence not much support for the belief that post-war migration into Sweden hampered the labour market opportunities for the native-born workforce as a whole. On the other hand, migration may to a certain extent have changed the distribution of the native workforce among different professions and industries.

It is also feasible that migration affects growth in per capita GDP and thereby the average income levels for native-born individuals. The issue is however complicated and the area is so far mostly subject to hypothesis. A positive effect can occur if the

majority of migrants are of working age. Provided that they do enter the labour market, there will be an increase in per capita GDP. Otherwise, it seems that the effects of migration on

economic growth are dependent on the human capital of the migrants and whether they are more mobile on the labour market than the rest of the population. As regards human capital, a recurrent thesis of the international research literature is that the migration of highly skilled individuals is considered to have a positive effect on economic growth. Conversely, the migration of unskilled persons leads to weaker growth. Unskilled migrants work in low-income industries, which can have an inhibiting effect on the production structure of these industries and therefore hamper growth. Growth-promoting structural change requires a dynamic labour market. Migrants as a group are normally younger than the native-born population. Younger people are more mobile both geographically and professionally than older people, which suggests that migration (especially workforce migration) can impact positively on structural change. It is for example easier to introduce new and more efficient production technology during periods of rapid structural change.

The conclusion is that the effects of migration on economic growth can be both positive and negative. It is also difficult to study the issue empirically. The existing empirical research has produced diverse results and more research is needed.

The state of empirical knowledge as regards how the public sector redistributes income between migrants and native-born individuals is hence considerably better than as regards the effects of migrations on economic growth. The two issues are naturally connected. If migration leads both to lower growth and a redistribution of income from native-born individuals to migrants, both these effects will contribute to a reduction in the native-born population's income. On the other hand, if migration accelerates economic growth at the same time as income is redistributed from migrants to native-born individuals, the converse is true.

Changes in migration are not a solution to the future demographic problem

The demographically beneficial effect of increased future migration may help to provide for an ageing population as long as

the migrants are better integrated into the labour market than is currently the case for those who already reside in the country. Migration can, however, hardly be seen as a solution to the future

demographic problem bearing in mind its, according to the calculations, rather limited effect. The limited nature of this effect depends on the fact that migration adds to the country's population, which in turn increases expenditure for public consumption and transfers. Tax revenue does increase but the net fiscal effect will be small. These results are well in line with the results from studies in other countries.

Even a modest increase in the employment rate among the population that already resides in the country will have a greater positive fiscal effect than large-scale migration. The population will not increase but there will be no public transfers at the same time as public sector revenue will increase from taxes and social security contributions.

Even though greater migration cannot be expected to improve public finances to any great extent in the future, there are of course gains to be made if migrants can be better integrated into the labour market than currently is the case. Otherwise, greater migration in the future risks instead having a negative impact on public finances, even if this effect is, as already alluded to, relatively small.