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Publication date:
2006

Document Version
Publisher's PDF, also known as Version of record

[Link to publication from Aalborg University](#)

Citation for published version (APA):
Ekberg, J. (2006). *Immigration to the Welfare State. Is it a Burden of a Contribution? The Case of Sweden*. Akademiet for Migrationsstudier i Danmark, Aalborg Universitet.

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AMID Working Paper Series 48/2006

Immigration to the Welfare State. Is it a Burden or a Contribution? The Case of Sweden

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Introduction

During the post-war years, the number of immigrants in Sweden has increased rapidly. In 1940, the proportion of foreign-born persons of the total population of the country amounted to only 1%. The corresponding proportion had increased to nearly 7% in 1970 and to about 11% at the beginning of this millennium, which is to about 1 million individuals. About 50% 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 about 800,000 individuals today. Thus, the total number of first and second-generation immigrants amounts to about 1.8 million individuals. This is 20 % of the total population in Sweden.

The immigration pattern has changed a great deal. Until the mid 1970s, immigration to Sweden consisted primarily of labour immigration mostly from Europe. This was the first immigration wave. According to the 1970 census, about 60% of foreign-born persons living in Sweden were born in other Nordic countries and more than 90% were born in Europe. After 1975, the character of immigration changed. The proportion of refugees and "tied movers" (relatives of already admitted immigrants) increased and the proportion of labour force immigrants decreased. Many of the new immigrants were born outside Europe. Therefore the composition of the immigrant population living in Sweden has changed. In 2000, the proportions of foreign-born were almost 30% born in the other Nordic countries, about 35% born in the rest of Europe and almost 40% 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 factor prices and on employment opportunities for natives. Native groups, which are substitute to the immigrant labour force, may lose, while native groups, which are complements, may benefit from immigration. However, studies from many countries show that these effects probably have been rather negligible (see e.g. Borjas 1994 and Ekberg 1983, 1999). Besides, the situation may also be affected by the publicly financed redistribution of incomes. 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. How the public sector redistributes incomes between immigrants and natives is often a matter for the political debate and among the public.

There are two factors which are of special interest concerning how the public sector redistributes incomes between the immigrants and the natives. The first is the difference in age distribution between the groups. The other is the employment rate for the immigrants compared to that among the natives.

The public sector in Sweden functions like a “pay as you go system”. The yearly expenditures are financed by taxes and social security fees paid during the same year. A considerable part of the public sector redistributes incomes among different age groups among the population. The distribution primarily takes place from individuals at economically active ages (mostly at ages 20-64) to individuals at economically passive ages (young people and old people).

Heavy public consumption expenditures are directed to young people (child-care and education), and to old people (health-care, service for pensioners and handicapped). Even public transfer payments go largely to old people (pensions). The tax burden is mainly carried by the economically active people. Redistribution also occurs within the group of economically active individuals; for example, from the employed to the unemployed, from the healthy to the sick and from the people with high incomes to the people with low incomes.

The age structure among immigrants is different from that of the native Swedish population. A relative high proportion of immigrants is at economically active ages. This has been the case during the whole post-war period. Therefore it is expected that in an economy with full employment and with not too low incomes for the immigrants, relative to that of the natives, the immigrants’ contribution to the public sector, through taxation, will be bigger than the public funds that have been expended on them. If that is the case, it implies in turn that the disposable income of the native Swedish population will increase. However in the last 25 years, the immigrant labour market situation in Sweden has deteriorated. Therefore, the immigrants use of the public have increased and at the same time their tax-contribution has decreased. These circumstances will counterbalance the effects of the immigrants’ favourable age structure. To what extent this occurs is an empirical question.

How the public sector redistributes incomes between immigrants and natives is often the matter for the political debate and among the public. There is often a fear that the redistribution will reduce the disposable incomes for natives. Poor labour market integration among immigrants and, thereby, negative effects on the public budget may also lead to tensions between natives and immigrants, which may have implications for the political system.

The subject in the following is to describe and analyse the changed employment situation among immigrants during the post-war period. What are the reasons for developments? For instance, are there faults in the integration policy? How is the situation in Sweden compared to other countries? What are the effects on immigrant use of the public welfare system in Sweden and, consequently, the effects on the natives disposable incomes?

Immigrants in the labour market

There have been great changes over a period of time in the immigrants labour market situation. The employment situation was good up to the mid 1970s, see for instance (Wadensjö 1973, Ekberg 1983, Scott 1999, Bevelander 2000 and Ekberg & Hammarstedt 2002). Both natives and immigrants enjoyed full employment. During long periods, the employment rate among immigrants 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 women worked part time. Therefore, the annual work income per capita was high among immigrants. The occupational mobility among these early immigrants was also about the same as that among natives (see Ekberg 1990 and 1996).

Since the beginning of the 80s, the immigrant labour market situation in Sweden has worsened. This has occurred despite the boom in the Swedish economy in the 1980s, despite the goal for the Swedish integration policy to integrate immigrants (also refugees) to about the same extent as natives in the labour market and despite the good educational level among the immigrants who arrived after 1980. These new immigrants have about the same educational level (the same number of years in school) as the native population and were better educated than former immigrants. A great number of refugees that arrived during the 1980s never entered the labour market.

During the depression in the beginning of the 1990s the employment situation deteriorated even further. In the late 1990s the Swedish economy recovered and there was some improvement in these immigrants' employment situation compared to natives. However, in the last years there are no further improvements and we are still in a situation with a very low employment rate and a very high unemployment rate especially for immigrants born outside Europe. 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.

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**Table 1. Index for employment rate at ages 16-64 years.
Standardised for age. Foreign born. Index for native born is 100 *).**

Year	Index for employment rate			Index for work income per capita at the age 16-64***)
	Men	Women	Both sexes	
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
2001	82	77	79	****)
2002	81	77	79	****)

*) The index can be interpreted as follows: In 1960, the index was 105. This means that the employment rate among foreign born was 5% higher than the employment rate among natives. In 1994, the employment rate among foreign born was 25% lower than that among 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 concerning work income per capita.

***) No information.

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

There are large differences in employment situation between immigrants born in Europe and born outside Europe. In table 2 we have calculated the index for the period 1991-2002. The index is low during the whole period and especially for immigrants born outside Europe. During the depression in the beginning of the 1990s the employment situation deteriorated even further and rapidly for those born outside Europe. In late 1990s the Swedish economy recovered and there was some improvement in these immigrants employment situation compared to natives. However in the last years there are no further improvements and we are still in a situation with very low employment rate and very high unemployment rate especially for immigrants born outside Europe.

Table 2. Index for employment rate at ages 16-64 years. Foreign born. Standardised for age. Index for natives is 100.

Year	Index for employment rate*)					
	Born in Europe			Born outside Europe		
	Men	Women	Both sexes	Men	Women	Both sexes
1991	90	90	90	72	64	68
1994	87	86	86	62	49	55
1999	83	83	83	71	61	66
2001	86	85	86	74	68	70
2002	87	84	85	74	66	70

*) The interpretation of the index is the same as in table 1.

Sources: Labour force surveys

It is to be noted that the tendency has been the same in many other immigrant countries. However, there are large differences between countries concerning the immigrant labour market. Investigations for the OECD countries show that the Netherlands, Sweden and Denmark have particularly high unemployment rates among immigrants compared to that of natives (see OECD 1999, 2001). In countries like the United States, Australia and Canada the unemployment rate among immigrants is about the same as for natives.

Explanations

There are probably many reasons for the worsening labour market position among immigrants. In Swedish research, the following main explanations have been put forward.

- 1) The risk of discrimination on the labour market has increased since the immigration pattern changed from immigration from Europe to immigration from countries outside Europe. Studies about this issue are for instance Aria, Regner & Schröder 1999, Aria & Vilhelmsson 2002, leGrand & Szulkin 1999 and Ahmed 2004.
- 2) Structural changes in the Swedish economy make it difficult for immigrants to enter the labour market. Changes from an industrialised to a post-industrial economy place greater demands on skills and know-how that are specific for the immigrant country, which in turn reduces immigrant opportunities on the labour market. This development has run in parallel with the increasingly distant ethnic and cultural 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 an increasingly distant ethnic and cultural background among immigrants contributes to their difficulties on the labour market. Studies about this issue are for instance Scott 1999, and Bevelander 2000.

Integration policy

There are also mistakes in the Swedish integration policy of immigrants. Let us in the following concentrate on this issue. In recent years, there has been an intensive public debate about this policy (see e.g. Ekberg, Södersten, Hammarstedt & Rooth 2002, Behrenz & Delander 2002 and Lundh, Bennich-Björkman, Ohlsson, Pedersen & Rooth 2002a). There was a parliamentary election in Sweden in September 2002. The issue of labour market integration of refugees was one of the largest issues in the political debate before the election.

Let us look at some components of 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. The third one is labour market policy programmes for immigrants.

Responsibility for receiving refugees changed hands from AMS (Swedish National Labour Market Administration) to the Swedish Migration Board in the middle of the 1980s. With AMS in charge, the main focus was on employment. The Migration Board, however, had another philosophy. In practice, a greater emphasis was placed on the social integration of refugees in Sweden and the demand that refugees must first pass a specific training program 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 early contact with the labour market is not only important for refugees in the short term, but also in their long term efforts to succeed on the labour market. The Rooth's study stresses the importance of rapid contact with the labour market rather than participation in Swedish training programmes. In many respects, the most effective way to acquire "Sweden specific" knowledge is probably to participate in the labour market.

Some countries, eg Denmark and the Netherlands, have used special settlement policies for refugees. The aim is to disperse refugees across the country. This method has been used also in Sweden. In the middle of the 1980s, the so-called "Whole Sweden" strategy was introduced. This strategy was, above all, in place from the middle of the 1980s to the beginning of the 1990s, but was in practise partly applied for some time after this period. The aim of this strategy was to relocate newly arrived refugees across the entire country. By avoiding concentration, immigrants were expected to have a better opportunity of learning the Swedish language, which in turn should improve their chances of gaining employment. However the reality was another. Refugees were often allocated to different municipalities based on availability of accommodation and not on opportunities to find employment. This can be seen as having a negative influence on their opportunities for gaining employment. Studies, as

outlined below, indicate this as being the case. In regions with no jobs, there was plenty of accommodation to choose from, because natives had moved out of these regions. Edin, Fredriksson & Åslund (2000) found that earnings and employment levels among refugees had worsened as a result of this strategy.

A longitudinal study of Bosnians that arrived in 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. The group of refugees arriving from Bosnia in 1993 and 1994 was very large and were relocated to about 250 of the total of 289 municipalities in Sweden.

Of course, it is not possible for us here to describe the labour market integration of Bosnians in all these municipalities. However, let us take some examples to show the extremely diverse regional employment situation for the group. One example is the so-called small business district consisting of the municipalities Gnosjö, Gislaved, Vaggeryd and Värnamo in the western part of Småland. There are almost 100 000 inhabitants in these four municipalities. The economy in the area is, to a great extent, based on small-scale industry. The rate of unemployment in the area is usually low. Another area is Malmö municipality, which has about 250 000 inhabitants. The economy in Malmö has undergone structural changes during the last 20 years resulting in high unemployment. Both these areas received many Bosnians. Let us look at the situation in 1997 and 1999. By 1999, the Bosnian group has lived 5-6 years in Sweden.

The employment rate in the 20-59 age group for the years 1997 and 1999 is shown in table 3. Already in 1997, the employment rate for Bosnian men in the small business district exceeded 75 percent. This was about the same level as for native men on average in Sweden. Bosnian women in this area have also achieved a good labour market position. However, the situation in Malmö was very gloomy. The employment rate for Bosnian men was less than 15 percent and for women the situation was even worse. For Bosnian men on average in Sweden, the employment rate was about 30 percent. 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 the small business district, the employment rate for Bosnians has now reached levels which are probably closer to the theoretical maximum. More than 90 percent of men and more than 80 percent of women were employed on the labour market. This was much higher than the average for natives in Sweden.

In the 1980s and 1990s, the Malmö-Landskrona region in the western part of the county of Skåne had a very depressed labour market. Many natives moved out of the region because of difficulties in gaining employment. This led to an increase in the number of vacant dwellings. Instead refugees were allocated to this area to fill these dwellings. This was, for instance, the case of refugees from the Middle East in the 1980s and from Bosnia in the 1990s. Of course, many of these individuals found it difficult to enter the labour market. Many of them have remained in constant unemployment, which consequently led to heavy use of the public welfare system. The

situation probably causes tensions between natives and immigrants. It is noticeable that in municipal elections in 2002, the extreme right parties in the Malmö-Landskrona region were successful in exploiting this issue.

Table 3. Employment rate in percent in the 20-59 age group. Bosnians arrived in Sweden in 1993 and 1994

<u>Bosnians in:</u>	1997			1999		
	Men	Women	Both sexes	Men	Women	Both sexes
Small business area (Municipalities in Gnosjö, Gislaved, Vaggeryd and Värnamo)	76.8	51.5	64.7	90.3	80.2	85.7
Stockholm	34.9	20.9	28.3	61.6	53.6	57.8
Gothenburg	19.7	12.8	16.4	44.7	34.5	39.8
Malmö	14.4	8.6	11.4	36.7	28.0	32.4
Bosnians in Sweden	30.1	17.2	23.8	58.5	45.6	52.2
All foreign born in Sweden	59.4	53.7	56.2	64.9	58.2	61.4
Natives in Sweden	77.6	74.2	75.8	80.4	77.0	78.6

Sources: SCB. Employment register. Working up from the Swedish population register and employment register.

Regional differences in the general demand for labour are, of course, important for the regional differences in the labour market integration of Bosnians. This is however not the full picture. There are a number of other explanations to take into consideration. The labour market situation in the Stockholm area has, for instance, been good. However, Bosnians in Stockholm have had much greater difficulties in gaining employment compared to their counterparts in the small business district. Another significant factor could be the structure of the economy in the region. The small business district distinguished itself through small-scale industrial production, while the Stockholm region has a high knowledge-intensive production. It can be assumed that "Sweden specific" knowledge is a more important requirement for those trying to find work in the Stockholm region compared to the small business district. An econometric study carried out by Ekberg & Olsson (2000) shows that the labour

market demands structure of the local economy plays a role, but this does not paint the entire picture. There are obviously other circumstances that are of significance in promoting the labour market integration of Bosnians and other immigrants in the small business district. Effective labour market procedures also play a role, i.e. the market's ability to quickly match job searchers with suitable vacancies. Investigations into corporate culture, social networks and distribution of information in the small business district suggest short decision procedures that often take place in informal networks (see Johannisson & Gustavsson 1984). These networks also offer a direct link to public authorities such as the employment offices and the commercial sector. Job seeking procedures in the labour market may often mean using personal contacts, which may result in the formation of closer relationships between job searchers and employers. If the employer is already informed of the job searcher, he can quickly access his or her qualifications, while the job searcher can quickly make a decision on the suitability of the position in question. If the job searcher does not fill the vacancy this time, he or she can still turn to his or her personal network for assistance in finding employment. Companies, within the network, are usually well aware of each other's needs for different forms of labour. The network and the close collaboration between the public and commercial sectors are more than likely to improve the process on how refugees are received locally and their introduction into the labour market.

It is likely that another form of allocation of refugees would have better integrated refugees on the Swedish labour market in the 1980s and the 1990s.

We have, at present, very uneven levels of regional labour market integration of immigrants in Sweden. In this respect, large changes have occurred over time. The regional labour market irregularities seem to have arisen during the last 15 years. Ekberg (1983) concludes that there were only minor discrepancies in levels of employment among immigrants living in different regions in Sweden up to the end of the 1970s. Immigrants arriving in 1950s, 1960s and 1970s moved to regions in Sweden that offered employment (see e.g. Wadensjö 1973 and Ekberg 1995).

How labour market policies are formulated is also of importance when it comes to the integration of immigrants into the labour market. Labour market policies have a number of objectives, where a significant one is to prevent segregation and the permanent marginalisation of individuals from the labour market. According to the Swedish government proposal, 1995/1996:222, priority is given to those groups that experience high levels of unemployment, especially immigrant groups, by implementing a series of active labour market policies. It is surprising to find that only a few evaluations of labour market programmes for immigrants have been carried out, considering the difficulties experienced by these individuals in gaining employment. One such evaluation was carried out by Ekberg & Rooth (2001) on behalf of The Parliamentary Auditors. It showed that the immigrant groups, who were in most need of support, were included only to some extent by the programmes initiated. As an example, immigrants from the Middle East, who experienced great difficulty in finding work, were hardly included in the active labour market programmes provided. However, Bosnian immigrants were, to a large extent, given access to these

programmes. There are, quite clearly, major differences in how different immigrant groups have been dealt with in relation to various active labour market policies, despite similar high levels of unemployment in each group.

Immigrants in the welfare system

One effect of the deterioration of the employment situation for immigrants is that they nowadays use the social welfare system to a much larger extent than before. At the same time their contributions to the tax system have decreased. This process started as far back as in the 1980s. Nowadays immigrants are heavily overrepresented in especially social allowances, housing allowances, and early retirement pension and labour market policy measures (see for example Ekberg 2004). In the 80s and up to the beginning of the 90s it was possible to receive early retirement pension if an individual found it difficult to find a job. The immigrants are less clearly overrepresented as regards unemployment benefits. The reason for this is that many unemployed immigrants have never had a job and are therefore not qualified to receive unemployment benefit. Instead they are entitled to social allowances.

It can be expected that in a situation where immigrants are well integrated in the labour market and also have a favourable age structure, they contribute more to the public sector, through taxation, compared to what they receive from this sector. The revenue gained is allocated to the natives. This happened in the 1950s, 1960s and the 1970s and gave rise to a positive income effect for natives (see Wadensjö 1973 and Ekberg 1983). At the beginning of the post-war period the positive income effect for the natives was probably very small. At that time both the immigrant population and the public sector were small. The ability for the public sector to redistribute incomes between different parts of the population was low. In the following years both the public sector and the immigrant population increased. The yearly positive income effect for the native population culminated in the beginning of the 70s and was at that time about 1 percent of the gross national product. The situation changed when the employment situation for the immigrants deteriorated. At the end of the 80s, the yearly positive income effect had disappeared (see Gustafsson 1990). Nowadays, there is a negative income effect for natives, i.e. immigrants contribute less to the tax system compared to what they receive from the public sector. At present, the yearly negative income effect is nearly 2 percent of the gross national product (see Ekberg 1999), i.e. approximately SEK 30-40 billions. This negative income effect would disappear if the immigrant employment rate increased by 15 percentage units that is to say to about 95 in table 1. The immigrant population still has a more favourable age structure than the native population.

How the immigrants will participate in the public welfare system and consequently how the public sector will redistribute revenue between immigrants and natives in the future depends to a large extent on the development of the employment situation for immigrants. In the very long run the outcome will also depend on how the age structure of the immigrant population will change in relation to that of the native population. To what extent this will happen is a question of the size and the age

structure of the future immigration, return migration and age specific fertility rates and death rates among immigrants compared to that of the native population.

The tendency, over time, has probably been similar in other immigrant countries where the employment situation among immigrants has been worse. A German study (Ulrich 1994) reports that there was a positive income effect for natives in West Germany through the public sector in the 60s. Since then the positive income effect has diminished because of the worsened employment situation for the immigrants relative to that of the natives in Germany. Ulrich's conclusion is that: "If the juvenile age structure loses its impact, foreigners might become a net burden for Germany's public purse in the future." Another study is Wadensjö and Gerdes (2004). In both countries there is today a negative income effect for the natives, that is the public sector redistributes from the natives to the immigrants. The main reason is the immigrants' bad labour market situation. For Denmark the negative income effect was 0.8 percent of gross national product in 1996 and 0.6 percent in 1998. This is in line with the result for Sweden but at a lower level. The immigrant population as a part of the total population is smaller in Denmark than in Sweden (only about half of that in Sweden). The investigation for Germany is based on only five immigrant groups and therefore there is no information on the total income effect.

Sum-up and final comments

For a long time, during the post-war period, there was full employment for both immigrants and natives. Up to the mid 1970s, immigrants were well established in the labour market. This was the case not only for labour 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 end of the 1970s, the first signs of a worsening labour market situation among immigrants appeared and since then it has been intensified up to the mid 1990s. Since then the situation has stabilised at a very low employment level and a very high unemployment rate for immigrants. A great number of refugees that arrived during the 1980s never entered the labour market. This occurred despite the 1980s boom in the Swedish economy, despite the fact that 1980s immigrants were better educated than former immigrants and despite the government policy goal to integrate immigrants (also refugees) as much as natives in the labour market. In the beginning of the 1990s the tendency strengthened even more. In an international comparison, immigrants in Sweden nowadays experience a very high unemployment rate. Besides, immigrant labour market integration differs a lot between different immigrant groups and between different regions in Sweden.

There are probably many explanations for these developments. Among other things, there is evidence that mistakes have been made in the Swedish integration policy. The situation also creates tensions between natives and immigrants, which have implications for the political system. In regions with extremely low labour market integration among immigrants, extreme right political parties were successful in the 2002 municipality elections.

A very important issue for the future is to what extent the labour market position for the immigrants is transferred to their children born in Sweden that is so-called second-generation immigrants. In recent years, certain studies relating to this matter have been conducted in Sweden (see e.g. Ekberg 1997, Österberg 2000 and Vilhelmsson 2002). The studies show that second-generation immigrants, born before 1970, have about the same employment rate and about the same work income as natives in the same ages and with both parents born in Sweden. These second-generation immigrants are children of the first immigration wave, that is to those who immigrated in the 1950s and the 1960s and who were well integrated in the labour market. The pattern is about the same for their children. However, the situation is probably more pessimistic for subsequent immigration waves. We know that especially non-European 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 Rooth & Ekberg 2003 and Lundh, Bennich-Björkman, Ohlsson, Pedersen & Rooth 2002b). The studies also show that parent composition has a clear effect on the probability of being unemployed. Second-generation immigrants with one native parent have a lower probability of being unemployed than when both parents are born within the same ethnic group.

Second-generation immigrants with a non-European background and of working age are at present a rather small group. This is due to the late start for immigration from these countries. However, there are large numbers of second generation immigrants with a non-European background who are at younger ages. Over the next 10-20 years a large number of second generation immigrants with a non-European background will try to enter the labour market in Sweden. The chances for success for this group will, to a large extent, depend on how well their parents are integrated on the labour market and whether they themselves succeed in the Swedish school system. This is a real challenge facing the integration policy and the school system in Sweden.

In the last years there has also been a debate in Sweden and in many other countries if future labour force immigration will make it easier for the welfare state to finance increased expenditures due to an ageing population. There may be such effects especially in the case of a guest-worker system. However, it is not in line with the Swedish immigration policy or in line with EU-rules to have a guest-worker system. The family may also follow. Hitherto experiences as well as estimations for the future in Sweden show rather small effects for the financing of the welfare state, (see Ekberg & Löfmark 2002 and Statistics Sweden 2002).

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© Jan Ekberg & AMID

ISSN 1601-5967

Published by:

AMID

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The Academy for Migration Studies in Denmark, AMID, is a consortium consisting of researchers at research centers representing three institutions of higher education and two research institutes. AMID is supported by the Danish Research Councils of the Humanities and the Social Sciences.

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