

Effects of immigration on Sweden's economic development

The extensive immigration of the 2000s has greatly changed Sweden's demographic landscape in a way that has markedly improved the conditions for growth. Bo Malmberg, Thomas Wimark, Jani Turunen and Linn Axelsson come to this conclusion in a Delmi report (2016:8). Their findings are based on an analysis of the role of demographics, particularly age composition and quotas between people of working age and non-working age, on economic growth and housing prices. Their conclusions may seem surprising given the considerable concern today regarding the consequences of immigration for central government finances.

Background

The question of what effects immigration has on Sweden's current and future economic development has received an increasingly prominent place in the public debate. There are already half a million more people living in Sweden than previous forecasts predicted, which has markedly changed the population structure. The previous forecasts pointed to a very big increase in the number of older people as the large number of people born in the 1940s gets older, which in turn would increase the dependency burden on those of working age. This scenario will not

come true; rather immigration has markedly changed the Swedish population structure. Therefore we need more, and more nuanced, knowledge about the actual effects of immigration in order to formulate a policy that can handle the challenges.

Aims and questions

The aim of this report is to analyse the connection between immigration during the 2000s and Sweden's demographic and economic development up to the present time, and the expected effects over the coming decades.

The following three questions are addressed:

- a. How has immigration in the 2000s affected Sweden's population structure, population size and dependency burden?
- b. How does Sweden's demographic development compare in a European perspective, and what is the role of immigration in differences between countries?
- c. What is the correlation between a changed age structure and Sweden's economic growth, the housing market and income distribution?

The starting point of the study is research into the effects of demographics on the economy, which has shown that the age structure of the population is more decisive than previously realised. Growth is high when a large proportion of the population is of working age, but decreases as the number of children and old people increase. These correlations are very clear, not least in Sweden, and they were therefore used for long-term growth forecasts as far back as the end of the 1990s. The study used these models, and previous projections, as well as data that includes the higher rate of immigration to Sweden post 2000. To evaluate the effect of significantly increased immigration, one can compare these updated forecasts with previous forecasts that were based on a lower rate of immigration.

Findings

As a result of the large increase in population that occurred between 2000 and 2014, the demographic future prospects have markedly changed and improved.

Primarily, it is the groups of people between the ages of 20 and 40 that are larger today than could have been expected.

Over time, there is a strong correlation between the size of different age groups, primarily the quotas between the working age population (aged 15–64) and the non-working age population (aged 0–14 and 65+), and economic growth.

The findings show that Sweden's annual growth rate is now half a percentage point higher than it would have been if Statistics Sweden's forecast from 2000 had come true. Moreover, according to estimates, this growth effect will strengthen further in coming years. Uncertainty in the forecast is due to the fact that we do not know whether the people who immigrated to Sweden in the 2000s will follow the same pattern, primarily with regard to activity rate, that previously applied.

The study also indicates that the stronger population growth, as a result of greater immigration, led to a marked rise in house prices in the 2000s, and more rapid price development can also be expected in coming years.

The analysis has been conducted at regional level with regard to the distribution of income.

Here, the analyses show that the effect of immigration on income inequality is very small.

Conclusions and relevance to policy

If the forecasts for the future prove to be incorrect, chosen strategies must be examined and possibly reviewed. As regards Statistics Sweden's population forecast from 2000, it was assumed that net immigration would increase by 15 000 people annually and net births increase slightly. Actual population development in 2000–2015 resulted in approximately 600 000 more inhabitants in Sweden than expected, primarily due to significantly higher net immigration, but also slightly higher net births. This raises the question of how often the more long-term population forecasts are revised – and should be revised – not least in light of the fact that they form the basis of central and local government planning. A growing population and higher house prices change, for example, both the need and incentives for housing construction.

With the new population structure, the generation born in the 1940s will no longer as clearly impact development in Sweden over the coming two decades.

They will require more health and social care as they grow older and their health deteriorates, thus consuming more resources.

But the feared shortage of labour in elderly care and medical care is no longer an immediate threat. A lack of people of working age is thus no longer the problem. Rather, the challenge is organising society so that the large working age population is fully utilised. Experience from previous large waves of immigration shows that it takes time before a large group of new arrivals enter and gain a foothold in the labour market, but after five to ten years most people manage to do so. The activity rate among immigrants is generally lower than among those born in Sweden, not least for women immigrants, which is a large challenge for today's politicians. Thanks to immigration, Sweden has gained a more favourable demographic structure, which means that the conditions for growth have improved. With higher economic growth, both private consumption and society's tax revenues can increase. If the expected possible growth effect is realised, tax revenues in Sweden can be significantly higher in the 2020s than otherwise.

What does this mean for how we act today? One conclusion is that we do not need to view the large expenditure needs over the coming years as a long-term threat to central government finances. Historically, large net immigration has nor-

mally been followed by periods of strong economic growth. One recommendation is therefore to invest in infrastructure, housing, education, security and social measures as soon as possible. This can give new arrivals, former immigrants and those born in Sweden good opportunities to realise their plans for working, raising a family and housing. A proactive approach to investments of this type can provide returns many times over by realising the growth potential of Sweden's favourable demographic situation. This can reduce unemployment among those born in Sweden – and also those born outside Sweden who have lived in Sweden for a long period of time, a situation that historically has contributed to a less negative view of newly arrived immigrants.

For welfare policy, the age correlations that are discussed in the report point to economic growth as a long-term result of people managing to safeguard, and develop, their potential to participate productively in society. Here, there is a similarity with the centralised view that was prevalent when the modern welfare state was built. In a situation where the major challenge is giving immigrants the oppor-

tunity to integrate in the Swedish society it can instead be counterproductive to reduce welfare policy ambitions.

In a wider perspective, the study points to the importance of demographics in being able to predict future migration flows, internally and to Sweden. By studying the demographic curves in the rest of the world – primarily Africa, the Middle East and Asia – we can predict when, and where, an interest in coming to Sweden arises. Historically, we know that countries with large cohorts of young people tend to be placed under pressure on issues related to social reform. The Arab Spring is one example of many. This pressure can lead to growth and strengthened democracy – but also to revolution and civil war, which increase refugee and asylum migration internationally. It is also likely that voluntary migration would increase. Young people who have not yet formed families are more inclined than others to leave and try their luck as labour immigrants. Carefully following the demographic curves in the rest of the world therefore better equips us for meeting future global migration patterns.



Bo Malmberg, Thomas Wimark, Jani Turunen and Linn Axelsson "Effects of immigration on Sweden's economic development" Delmi Report 2016:8
The report is available in its entirety (in Swedish) at www.delmi.se

