

The Effects of Immigration on the Labour Market

Lessons from international literature and Swedish results

Sweden is one of the countries in the European Union with the fastest population growth. This can partly be explained by extensive immigration to Sweden. Today, knowledge about the migrant population's establishment on the labour market is relatively good. However, we know much less about the effects of immigration on the Swedish-born population in the labour market. This issue is studied in the Delmi report "The Effects of Immigration on the Labour Market" by Mattias Engdahl. Engdahl holds a Ph. D. from the Department of Economics at Uppsala University.

The aim of the study

The aim of this report is threefold. The first aim is to clarify how immigration may affect the receiving labour markets from a theoretical perspective. The report's second aim is to discuss the most common methodological approaches for investigating whether immigration has an impact on the labour markets in recipient countries, and to summarise what we can learn from the existing research literature. A third and final aim is to try to answer the question on whether immigration to Sweden has affected the labour

market outcomes of the already existing population. In other words, the report presents both a summary of the state of research in the field and new empirical analyses.

The theoretical effects of immigration on the labour market

Among other things, immigration contributes to more people being on the labour market. It can affect employment and wages for the existing population, because the supply of labour increases. The downward adjustment

of employment and wage levels among the Swedish-born population is thus a possible effect of increased immigration. As a way to meet increased competition on the labour market, it is also possible that parts of the Swedish-born population choose to move to less competitive labour market regions, undergo further training, or specialise in their professions. If immigration affects the composition of the population in terms of education or other skills, it can also affect how companies organise their production.

Immigration may even lead to increased productivity. In part, this may take place because migrant workers can act as additional workers in the production of goods and services - effects that can be strengthened if parts of the existing population undergo further training or specialise in their professions. In part, migration may also increase productivity because immigration can lead to increased innovation, since a more heterogeneous population may mean that more new ideas and innovations enter the knowledge economy. Immigration can also lead to increased trade with other countries.

Knowledge from international research

This report describes the most common methods to determine whether and how immigration affects labour markets in recipient countries, and provides a summary of the empirical research literature in the field. The question has received considerable

attention in recent decades, and today there are many international studies addressing the question. However, until now there have been no studies based on Swedish data.

Research on the effects of immigration on the labour market has yielded mixed results. There are studies that show that immigration has limited effects, but there are also studies that indicate that the impact of immigration is negative and significant. A partial explanation for the mixed results is that different methods give different results, and the review shows that the scientific debate on how the effect of immigration on labour markets should be measured is still ongoing. A recurrent conclusion is that labour market effects of migration tend to be more negative for labour market groups that have characteristics similar to those of migrant workers – for example, workers who were previously immigrants themselves, as well as the low-skilled.

The effects of immigration on the Swedish labour market

The report also examines the effects that immigration to Sweden has had on employment levels and wages among the Swedish-born population. The analysis is based on Swedish registry data and this is the first Swedish study that tries to answer the question of migration's effects on the native-born labour force, perhaps because it is difficult to answer from a purely

methodological standpoint. The results indicate that the development of employment and wages among groups where immigration has been relatively extensive has been weaker than for groups that have been less exposed to immigration.

Immigration to Sweden thus appears to have contributed to a slightly lower relative level of employment and average wages for Swedish-born workers in the short term than would otherwise have been the case. The effect seems to be driven by increased competition through immigration from Sweden's Nordic neighbours. This makes sense because immigrants from neighbouring Nordic countries are likely to be closer substitutes for the Swedish-born labour force than what other immigrant groups are. It is therefore not refugee and family migration that seems to cause the estimated effects. The effects also appear to be somewhat greater for groups with a relatively weak position on the labour market, such as low-skilled and low-income workers. The effects resulting from immigration in the long term or with other outcomes have not been studied.

Lessons for policy design

For several reasons, it is difficult to draw conclusions about how labour market and migration policies should be designed or redesigned based on the results of this study. An important reason for this is

that immigration may have effects on society and the economy in a variety of ways, beyond those which have been in focus for this study. The long-term effects of immigration may also be different from the short-term effects. Effects are studied in the short term here.

An important contribution to research knowledge is that immigration to Sweden during the period studied appears to have had a relatively limited effect on the Swedish-born population's labour market situation, a result that is consistent with many international studies. The study shows that the effects of immigration on the Swedish labour market seem to be affected by the type of immigration in question. The results indicate that it is the immigration from the Nordic countries, rather than refugee and family migration, that has had a negative impact on employment and wages for the Swedish-born population. This result makes sense, because it often takes a long time for refugees and their families to establish themselves on the labour market. These groups' potential impact on competition is therefore likely to be lower than that of the Scandinavian-born immigrants in the short term. This implies that it is free movement of persons in the Nordic region, but probably also within the EU, which should be of interest in discussions on the effect of immigration on the labour market, rather than, for example, refugee and family migration. Or, at least, that should be the focus if one is interested in how the Swedish-born population's labour market situation is affected by immigration to Sweden.

The study also shows that immigration to Sweden seems to have affected different groups of the Swedish-born population in different ways: groups with a weaker position on the labour market, such as low-skilled and low-income workers, seem to have been more affected by competition from those who have immigrated. For example, the study shows that the estimated wage and employment effects seem to be more significant for unskilled workers than for highly-skilled workers, and that immigration seems to have had a somewhat negative impact on individuals with low earnings. The estimated effects should be considered as limited even for these groups.

The time dimension is also important. Even if immigration in the short term seems to have had a certain negative effect on wages and employment for groups on the labour market that are more exposed to competition from immigrant labour, this does not necessarily mean that this effect persists in the longer term. In the longer term, the Swedish economy is probably far more dynamic.

Increased labour supply can be absorbed by companies expanding their production, changing the mix of goods and services they produce or by adapting the production process. Groups who are exposed to a higher level of competition can also respond by undergoing further training or specialising in their professions, which in turn can lead to increased productivity in the economy.

A more mixed population could also lead to increased productivity through an increased rate of innovation, because immigration means that the existing population is exposed to new thoughts and ideas. Immigration could possibly even lead to increased trade with other countries. However, whether immigration to Sweden in the long term has a positive impact on the Swedish-born population's labour market situation is still an open empirical question. At present, we do not know whether the possible positive effects in the long term outweigh the competitive impact which immigration can cause in the shorter term.



Mattias Engdahl, "The Effects of Immigration on the Labour Market"

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The full report is available on www.delmi.se



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