

The assimilation of immigrants in the labour market—an introduction

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Economic, social and cultural assimilation of immigrants to the milieu of the receiving country is high on the agenda in the public debate in Sweden as well as many other European countries. In particular, high and persistent unemployment among immigrants raises the issue of how quickly immigrants assimilate into the labour market. Meanwhile, policy-makers are highly interested in whether policy measures can facilitate the process of assimilation and, if so, what kind of measures would be most effective. In May, 2000, the Economic Council of Sweden organised a conference devoted to these questions. This issue of the *Swedish Economic Policy Review* contains the proceedings of the conference.

Current policies in countries that accept immigrants give priority to particular groups of people. Although these preferences may vary considerably across the major receiving countries, immigration policies appear to be fairly similar among European countries. During the post war period, far-reaching changes have occurred, not only in the patterns of migration to Europe but also in European migration policies. After World War II, Europe experienced several major waves of migration. The first occurred in the aftermath of the war. The second wave, which began in the early 1950s, was motivated predominantly by economic considerations. This second surge ended abruptly in 1973/74, coinciding with the turning point of rapid economic development in Northern Europe. Since the late 1980s, a third wave of migration has been characterised by family reunification of former labour migrants and by asylum migration. East-west migration and an inflow of asylum seekers and/or refugees now dominate immigration to Western Europe. It is evident that both the underlying motives and the regions of origin have changed markedly, with political refugees

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from distant countries accounting for an increasing share of the inflow.

In economics, the literature on immigration focuses on economic immigrants and hence on pecuniary rather than political motives for migration. In a simple static framework, explanations for the decision to migrate are associated with differences in the return to human capital. Individual decisions are based on a comparison between the expected and discounted future flow of earnings in the host country and the future flow of earnings in the home country minus the cost of migration. Once they have entered the host country, most migrants are unlikely to have the same productivity as native workers with similar educational attainment and age, since skills are not easily transferable from one economy to another. The extent of human capital transferability depends on the type of skills an individual has acquired, as well as (dis)similarity of the home and host countries with regard to language, culture, labour market structure, institutional settings, etc. As the time of residence in the host country increases, migrants invest in country-specific human capital of that country and adapt their stock of human capital acquired in the country of origin. As migrants' human capital stock grows relative to the human capital of natives, immigrant earnings approach—but may not reach—those of natives.

Migration may affect the distribution of income in the host country, thereby possibly affecting the sentiments of the natives towards immigrants. In the long run, the distributional effects of increased immigration are straightforward. As long as migrants arrive without any capital, native capital owners will gain from migration. Groups of natives who are gross substitutes for immigrants will suffer and those who are gross complements will benefit from immigration.

In the short run, however, matters depend on the rate at which immigrants are assimilated into the labour market of the host country. Analyses of this process are not straightforward. When estimating assimilation equations, for example, several methodological problems arise. Regressions based on cross-section data may lead to incorrect estimates due to changes in the human capital composition of incoming cohorts. Variations in the human capital of migrant cohorts is not the only source of bias when estimating assimilation profiles. Measures of immigrant assimilation may be distorted if a significant fraction of immigrants re-emigrate to their home countries or to a third country. These main sources of bias are discussed in the conference presentations.

The papers collected here differ in their focus and methodology. Bauer, Lofstrom and Zimmerman offer a broad overview of the literature as well as an empirical analysis of the sentiments of natives towards immigrants. Wadensjö reports on the extent of transfers from the public sector to immigrants in Denmark. Weiss analyses the Israeli experience, i.e. the natural experiment that occurred when three-quarter of a million highly skilled Russian Jews moved to Israel. Borjas compares the success of immigrants who work in ethnic enclaves with those who work in the mainstream economy. In estimates for Sweden, the study by Edin, LaLonde and Åslund examines earnings assimilation and the effects of re-emigration. Dustmann focuses mainly on methodological issues. Each of the papers is briefly summarised below.

The study by *Bauer, Lofstrom and Zimmerman* is based on four components: predictions from economic theory, descriptive statistics from 12 countries, a review of earlier research and a survey on attitudes towards immigration in 12 countries. Empirical results that have emerged from a large number of studies reviewed here suggest that country of origin is one of the main explanatory factors in the labour market assimilation of immigrants. However, such assimilation can only be observed in those countries that select their migrants according to labour market characteristics. Accordingly, the authors argue that the international transferability of skills appears to be more important than the skills *per se*. They also observe that nearly all of the countries under study recently experienced a decline in the so-called quality of immigrants, as measured by the on-arrival immigrant wage gap. In all cases this is due to a significant change in the country-of-origin mix of the immigrants.

Natives' sentiments towards immigrants vary substantially across countries. In countries where immigrants are selected according to their labour market characteristics, natives are inclined to believe that immigrants are generally good for the country. Socioeconomic characteristics of the respondents such as education, gender and employment do not seem to explain much of the differences in opinion; those who are relatively more educated have a more positive view of immigrants, however. Bauer et al. conclude that economic performance as well as a government's popularity would gain from a change in immigration policy, i. e. from accepting mainly refugees to accepting mainly economic migrants. In her comment on the paper,

Schröder challenges this highly controversial message and argues that the conclusions are not convincingly supported by empirical evidence.

Wadensjö addresses the effects of an influx of immigrants on the native population in terms of public-sector income and expenditure. The basic idea in the paper is that if public-sector revenue rises more than expenditure, then resources will be redistributed in favour of the existing population, while the opposite holds if expenditure rises more than revenue. There are two major determinants of immigrants' net contribution to the public sector: their age composition and their employment situation. When attempting to relate taxes to various individuals, however, it is not always clear who actually pays which taxes. In particular, corporate income taxes are difficult to allocate to specific individuals. *Wadensjö* chose to allocate indirect taxes from the demand side and social security from the supply side.

Wadensjö reports results from a study on the fiscal effects of immigration in Denmark. Adopting a static approach, his findings confirm the main result from recent studies conducted in different countries: there is redistribution of resources to immigrants via the public sector. This holds especially for immigrants from countries that differ from the host country the most in terms of economic conditions. Fiscal transfers to migrants from non-western countries are relatively large, due to a large extent to the lack of employment opportunities for these immigrants. Labour market participation is particularly low among immigrants from less-developed countries. On the other hand, there is a net transfer from immigrants from western countries. This pattern appears to have been stable throughout the 1990s, although net transfers to immigrants from non-western countries increased during the period 1991-1996.

Wage growth experienced by immigrants in the US differs across groups according to national origin. Large ethnic enclaves are prominent characteristics of major American cities. *Boytas* argues that this type of ethnic clustering is likely to affect the rate of economic assimilation experienced by immigrants. Economic theory suggests that residential segregation may either benefit or harm the immigrants population. On the one hand, clustering may effectively prevent a move to better-paying jobs by providing a self-contained labour market for immigrants, thereby reducing the immigrants' incentives to learn and adopt the culture and language of the American labour market. Immigrants who live and work in an ethnic enclave may thus become the victims of a monopsony of a "one-company" town. On

the other hand, an enclave may provide a welcoming atmosphere by offering economic and social opportunities that allow immigrant entrepreneurs to flourish and hire their compatriots. This permits immigrants to escape the labour market discrimination they may otherwise experience in the mainstream economy.

The empirical evidence reported by Borjas suggests that immigrants who belonged to a particular ethnic group and resided in a metropolitan area with a large ethnic enclave experienced significantly slower wage growth than immigrants who belonged to the same ethnic group but had little contact with their compatriots. Borjas points out, however, that the lower rate of wage growth experienced by those living in ethnic enclaves may be outweighed by the value immigrants attach to residing in areas where they can share a common language and culture.

The paper by *Weiss* draws some lessons from the recent mass migration to Israel. These immigrants, most of whom were highly skilled, received free language classes on arrival. Subsidised training programs were also provided. While the language programs were quite effective, the training programs had only limited success. Instead, immigrants found a low-paid job and then—after a while—moved up the job ladder. Allowing immigrants to settle anywhere and still receive housing subsidies facilitated entry into the labour market. Weiss highlights the main conclusions from the Israeli experience. The absorption of high-skilled immigrants takes a long time, extends throughout their lifetime and involves a substantial loss of their skills. Natives do not seem to have suffered a loss, even though migration was large. This was a consequence of two related trends: the entry of additional capital and the gradual entry into high-skill occupations which, combined, kept the aggregate capital/labour ratio constant. Weiss observes that the large windfall of human capital that Israel received is somewhat rare, but that it may be an option for other developed countries to receive more skilled workers from abroad. Whether a policy of depriving poor countries of their primary resource, human capital, would be defensible on moral grounds is quite another matter, however.

Edin, LaLonde and Åslund examine how measures directed towards immigrant assimilation in Sweden are affected by re-emigration. The key hypothesis in the paper is that re-emigration is related to earnings in the host country. Economic immigrants to Sweden—especially those from relatively developed countries—have a high rate of re-

emigration. Similarly, those who have immigrated for political reasons and from less developed countries are much less likely to re-emigrate, and tend to remain in Sweden. The economic immigrants who eventually leave Sweden tend to have been less successful labour force participants. Edin et al. argue that due to this fact, conventionally measured rates of economic assimilation have an upward bias for OECD immigrants. Since it appears to be the less successful who leave, measures of assimilation that do not account for re-emigration will overstate the true degree of earnings convergence that occurs after immigration.

Re-emigration is, by comparison, not very common among immigrants from non-OECD countries. Hence, there is little distortion in the assessment of assimilation for this group. During the last 30 years, the earnings of immigrants to Sweden relative to natives have declined. This decline is primarily due to a change in composition of new immigrant cohorts, away from economic migrants from the Nordic countries and towards migrants from non-OECD countries. Immigrants from these latter countries earn less, are less likely to be employed on arrival, and receive more social assistance. Their earnings converge more rapidly during their first five years in Sweden, although there is a ten-year disparity which may be seen as permanent since, beyond this point, there is little evidence of continued convergence.

In his comment on the paper, Arai challenges the conclusion that those who stay are more attached to the labour market than those who move. He claims that the hypothesis whereby the “movers” are not different from the “stayers” with respect to earnings is not rejected because of a lack of evidence for an age-independent and unambiguous relation between earnings and emigration. Arai’s re-estimation indicates that movers from the OECD countries, including the Nordic countries, are younger and have lower earnings. Hence earnings assimilation should not be adjusted for re-emigration.

Dustmann takes a more profound methodological view of modelling the behaviour of immigrant workers. He focuses on the implications of the temporary nature of immigration and finds several different explanations for return migration. Migrants return when the present discounted value of earnings in the host country is less than that in the home or source country. If individuals prefer consumption (including non-market time) at home, immigrants will return when their savings are sufficiently high. Variations in assimilation profiles be-

tween migrants can be observed when migration is non-permanent. Temporary migrants cannot be expected to invest equally much in acquiring skills that are specific to the host country. This circumstance also has consequences for the way empirical models should be specified. The simultaneous character of decision-making with regard to the acquisition of skills and the timing of return migration leads to a simultaneity bias. Dustman also reports a number of empirical findings that are compatible with the hypothesis that temporary intentions indeed have effects on the behaviour of immigrants.

We began this introduction by pointing out that the assimilation of immigrants is high on the political agenda. What kind of policy conclusions can then be extracted from the papers in this volume? At first sight, the conclusions are fairly gloomy. The country of origin and the migration motive are among the most important determinants of the labour-market success of migrants. International transferability of skills between countries that differ considerably with respect to the level of development, schooling system, language and culture is limited. Immigrants from non-OECD countries have a low rate of participation in the labour force of the host country, and they comprise by far the highest percentage of individuals who receive social assistance. These findings may be of concern to policy-makers since the composition of Swedish as well as European immigration has shifted towards immigrants from these countries.

With the exception of the paper by Weiss, which indicates that subsidised training programs might be unsuccessful, none of the papers addressed the issue of whether assimilation can be affected by policy measures in the host country—except for changes in immigration policy. The implication for Sweden and other countries which mainly accept political immigrants is that it is more costly to admit refugees from countries whose ethnic dimensions differ more widely from their own than from countries with a more similar population.

The only example of successful assimilation is found in the Israeli case. Hence, the question then is whether the Israeli experience has any implications for Sweden. This issue is addressed by Gustafsson, who comments on the Weiss paper and makes a comparison with Bosnian immigrants to Sweden. The distribution of income in Sweden is fairly equal. There are also relatively generous transfer programmes for recent immigrants. As a consequence, there are few low-paid jobs in Sweden. New immigrants are thus often unemployed and enrolled in various publicly financed integration projects. In Israel,

immigrants instead found low-paid jobs and then gradually moved up the job ladder. However, slow income assimilation of immigrants in Sweden may be due to the macroeconomic climate in the 1990s, and to the high level of skill. Hence, Gustafsson argues that it is far from clear what has caused this difference in immigrant assimilation, thus making it difficult to draw any clear policy conclusions. An in-depth comparison with the Israeli case may still be worthwhile, however. Available evidence seems to indicate that even during the 1980s, when macroeconomic conditions were much better, immigrant assimilation in Sweden was slow.

