Integrating Immigrants into the Nordic Labour Markets

The impact of the COVID-19 pandemic

Nordic Council of Ministers

Contents

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Chapter 3:

Wage Policies and the Integration of Immigrants Revisited

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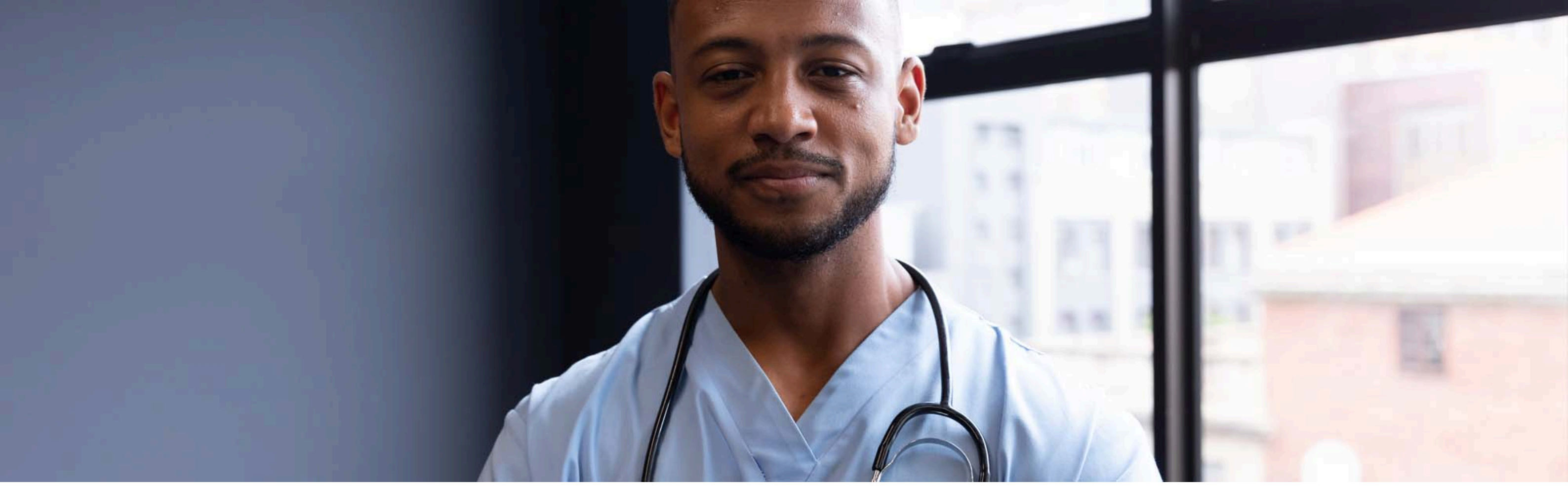

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In Ek and Skedinger (2019a), my co-author Simon Ek and I showed that there are large groups of low-skilled immigrants in the Nordic countries and that labour market integration is problematic for these groups. We also documented relatively high wage floors in industries that employ many low-skilled workers, concluding that the productivity of numerous low-skilled immigrants does not seem to match the wage levels associated with the Nordic labour market models.[14]

Within these circumstances, the findings in the research literature on the employment effects of collectively agreed minimum wages in the Nordic countries, as well as legitimate concerns regarding wage inequality with *across-the-board* minimum wage reductions, we argued that there is a case for *targeted* cuts of minimum rates. These cuts should apply only to newly created permanent jobs for the low skilled, like janitors, receptionists, handymen, caretakers, manual help/assistants in construction and "pick and pack" jobs in warehouses. We also advocated larger differentiation of minimum wages according to experience in *existing* jobs, as this would facilitate entry without necessarily lowering wages in a career perspective. In our opinion, lower minimum wages should preferably be negotiated between unions and employers and not be introduced by legislation, the latter being the common form of wage regulation in non-Nordic countries. Furthermore, we noted that Sweden stood out among the Nordics with the largest number of immigrants born outside the (pre-Brexit) European Union (EU28) relative to the working-age population, the largest employment gap between natives and those born outside the EU28 and the highest minimum wages in the low-wage sectors that we examined. The case for minimum wage cuts therefore appeared to be strongest in this country.

Finally, we argued that minimum wage reductions should not be seen as a *substitute* to other measures aimed at improving the labour market situation for

14. Another explanation for poor labour market integration could be discrimination. While much research indicates that such discrimination exists in Nordic countries, there is also evidence that foreign born with high literacy skills have employment rates on a par with those of natives with similar skills, as discussed in, e.g., Ek et al. (2020). Lack of human capital, rather than discrimination, thus seems to be the main driver behind low employment rates for foreign born.

immigrants, such as education, training and employment subsidies, but rather as a *complement*, in addition to these measures. The employment effect of each individual measure is uncertain and likely not very large, which, combined with the gravity of the situation, speaks to the necessity of using all available instruments in the policy toolbox.

Since we wrote our chapter in the report, the breakout of the COVID-19 pandemic has had profound effects on the labour markets in the Nordic countries and all over the world. Given that the pandemic is far from over at the time of writing, as well as lags in the availability of data, it is too early to draw definitive conclusions regarding its impact on the labour market for immigrants in the Nordic countries in the short run, let alone in the longer term. With these shortcomings in mind, I will try to assess what recent developments imply for the conclusions we reached regarding the labour market situation for immigrants and for policy analysis.

A first thing to note is that the share of immigrants born outside the (post-Brexit) EU27 in the working-age population has continued to increase in all of the Nordics, also during the pandemic, amounting to 19.6 percent in Sweden, 13.3 percent in Norway, 9.5 percent in Denmark, 5.6 percent in Finland and 5.1 percent in Iceland in 2020, according to Eurostat. While immigration flows have diminished since the start of the pandemic, differences in age structure between natives and foreign-born incumbents, the latter being younger on average, still contribute to increasing the shares of persons born outside the EU27 in working ages. Compared to 2016, the year referred to in Ek and Skedinger (2019a), the most recent figures from 2020 represent increases of the share of immigrants born outside the EU of approximately 3.2 percentage points for Sweden, 3.7 for Norway, 1.4 for Denmark, 1.3 for Finland and 2.1 for Iceland.

Figure 1 displays employment rates for immigrants born outside the EU27 and natives in the Nordic countries as well as other European countries in 2020 (panel a) and 2019 (panel b), updating the figure for 2017 in Ek and Skedinger (2019a). Employment rates for natives remain high in the Nordic countries in international comparison and it is still the case that corresponding rates for immigrants are similar to those in other countries (with the exception of Iceland), implying relatively large employment gaps between natives and immigrants. Compared to 2019, employment rates for both natives and those born outside the EU27 have decreased in most countries, and generally more so for the latter group. This has meant increased employment gaps during the first year of the pandemic in three of the Nordics: Sweden (2.2 percentage points), Iceland (2.1 percentage points) and Norway (1.0 percentage point). Denmark and Finland, however, saw increasing employment rates for immigrants from outside the EU27 (as did the UK), implying that employment gaps narrowed by 1.7 and 1.1 percentage points, respectively. Table 2 in Chapter 1, showing employment rates by gender in 2019 and 2020, suggests that the differential development in employment gaps during the pandemic between Sweden and Norway, on the one hand, and Denmark and Finland, on the other hand, is driven by increases in employment rates for foreign-born females in the latter group of countries.

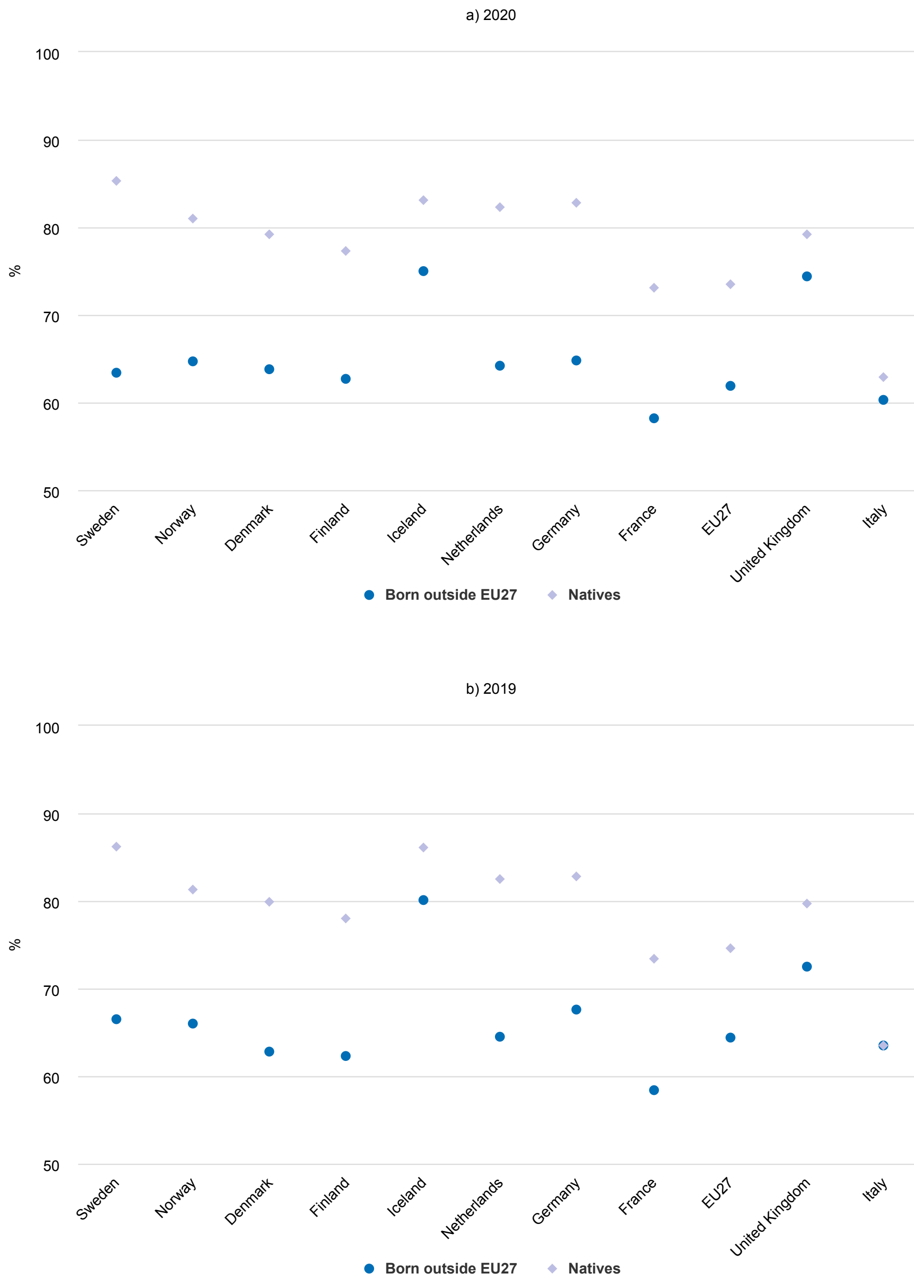


Figure 1. Employment rates for natives and immigrants born outside the EU27, 20-64 years, percent of population group.

Note: The data for the UK in 2020 refer to first to third quarters only. The countries within each group are ordered in both panels by the 2020 difference in employment rates between natives and immigrants born outside the EU27.

Source: Eurostat.

Compared to 2017, in Ek and Skedinger (2019a), Figure 1 in this chapter shows that the large gaps in the Nordics have increased even further in Sweden (from 19.3 in 2017 to 21.9 percent in 2020) and Norway (from 15.0 to 16.3 percent). As discussed previously, these countries have also seen the largest increases in the share of immigrants during the period. The earlier conclusion that Iceland does not have a serious integration problem remains, although the country experienced the largest increase in the employment gap among the Nordics since 2017, from 2.9 to 8.1 percent.

We showed in Ek and Skedinger (2019a) that the collectively agreed minimum wages in 2016 for low-skilled workers in the hotels and restaurants industry and retail – two major low-wage sectors – were relatively high in the Nordics compared to other countries, and especially so in Sweden.[15] In absolute terms and expressed in common currency, however, minimum wages in Norway and Denmark exceeded those in Sweden.

How have minimum wages in the Nordics developed since then? Table 1 reports hourly minimum wages in national currencies from 2017 up to the latest available year. Lags in data availability preclude relating the rates to recent information on median wages in the economy as a whole, but data for 2018 show that relative minimum wages in Sweden, ranging between 67 and 69 percent of median wages, are higher than in the other Nordic countries. Increases in the absolute level of minimum wages in Sweden during 2017–2021 – 7.2 percent in hotels and restaurants and 8.5 percent in retail – were either similar to or higher than those in the other Nordics. The hotels and restaurants industry is also one of the sectors that have been hardest hit in terms of job losses during the COVID-19 crisis.

In response to the COVID-19 pandemic, minimum wages in the industries examined in Table 1 were frozen during 2020 to some extent in all of the Nordics, except Denmark. This was a consequence of postponement of some collective agreements – from April to November in Sweden and from May to October for hotels and restaurants in Finland (although the latter rate was unchanged also for several years prior to 2020). At least as far as Sweden is concerned, for which I have the longest time series of minimum wage data, such freezes are very unusual and did not occur for adult workers even during the deep recessions in the early 1990s and 2008–2009.[16] The postponement of collective agreements and the economic downturn have also affected average wage growth in the economy. Sweden experienced a palpable reduction of wage growth in 2020, since a majority of wage earners were subject to postponed agreements.[17]

15. Minimum wages in cleaning, another important low-wage sector, are regulated in a large number of different collective agreements.
16. Annual inflation rates in Sweden were considerably higher during 1990–1993 than in 2020 and somewhat higher during 2008–2009, so a minimum wage freeze would have resulted in larger declines in the real minimum wage in the two earlier crises.
17. See National Mediation Office (2020) for more details.

a) Hotels and restaurants

	Denmark (DKK)	Finland (Euro)	Norway (NOK)	Sweden (SEK)
2017	120.74	10.06	157.18	121.63
2018	122.74	10.06	161.87	124.17
2019	124.74	10.06		126.76
2020	127.24	10.06	169.62	126.76
2021	129.74	10.15		130.33
2022	132.24			
Percent of median wage, 2018	60.8	57.5	64.5	66.6
Percent increase of minimum wage, 2017-2021	7.5	0.9	7.9[a]	7.2

[a] 2017-2020

b) Retail

	Denmark (DKK)	Finland (Euro)	Norway (NOK)	Sweden (SEK)
2017	114.42	10.67	142.33	125.02
2018	116.42	10.84	147.77	128.19
2019	118.42	11.01		131.41
2020	120.93	11.23	147.77	131.41
2021	123.43	11.38		135.61
2022	125.93			138.75
Percent of median wage, 2018	57.7	62.0	58.9	68.8
Percent increase of minimum wage, 2017-2021	7.9	6.7	3.8[a]	8.5

[a] 2017-2020

Note: The minimum rates are in nominal terms, refer to May each year and apply to low-skilled non-trainee manual workers (except cleaners, if covered by collective agreement) without experience and at least 20 years of age. If the hourly minimum wage is not stated in the collective agreement, it has been converted from the monthly minimum using the explicit formulas in the agreements. Minimum wages for Norway are not specified beyond the first contract year but may be adjusted based on the economic situation as well price and wage developments. Median wages are included here for the latest available year and refer to industry, construction and services (except public administration, defence and compulsory social security).

Source: Own compilation from various collective agreements for minimum wages. For details on the collective agreements included, see Ek and Skedinger (2019b). Eurostat for median wages and exchange rates.

Table 1. Hourly minimum wages in the Nordic countries, national currencies.

Note: The minimum rates are in nominal terms, refer to May each year and apply to low-skilled non-trainee manual workers (except cleaners, if covered by collective agreement) without experience and at least 20 years of age. If the hourly minimum wage is not stated in the collective agreement, it has been converted from the monthly minimum using the explicit formulas in the agreements. Minimum wages for Norway are not specified beyond the first contract year but may be adjusted based on the economic situation as well price and wage developments. Median wages are included here for the latest available year and refer to industry, construction and services (except public administration, defence and compulsory social security).

Source: Own compilation from various collective agreements for minimum wages. For details on the collective agreements included, see Ek and Skedinger (2019b). Eurostat for median wages and exchange rates.

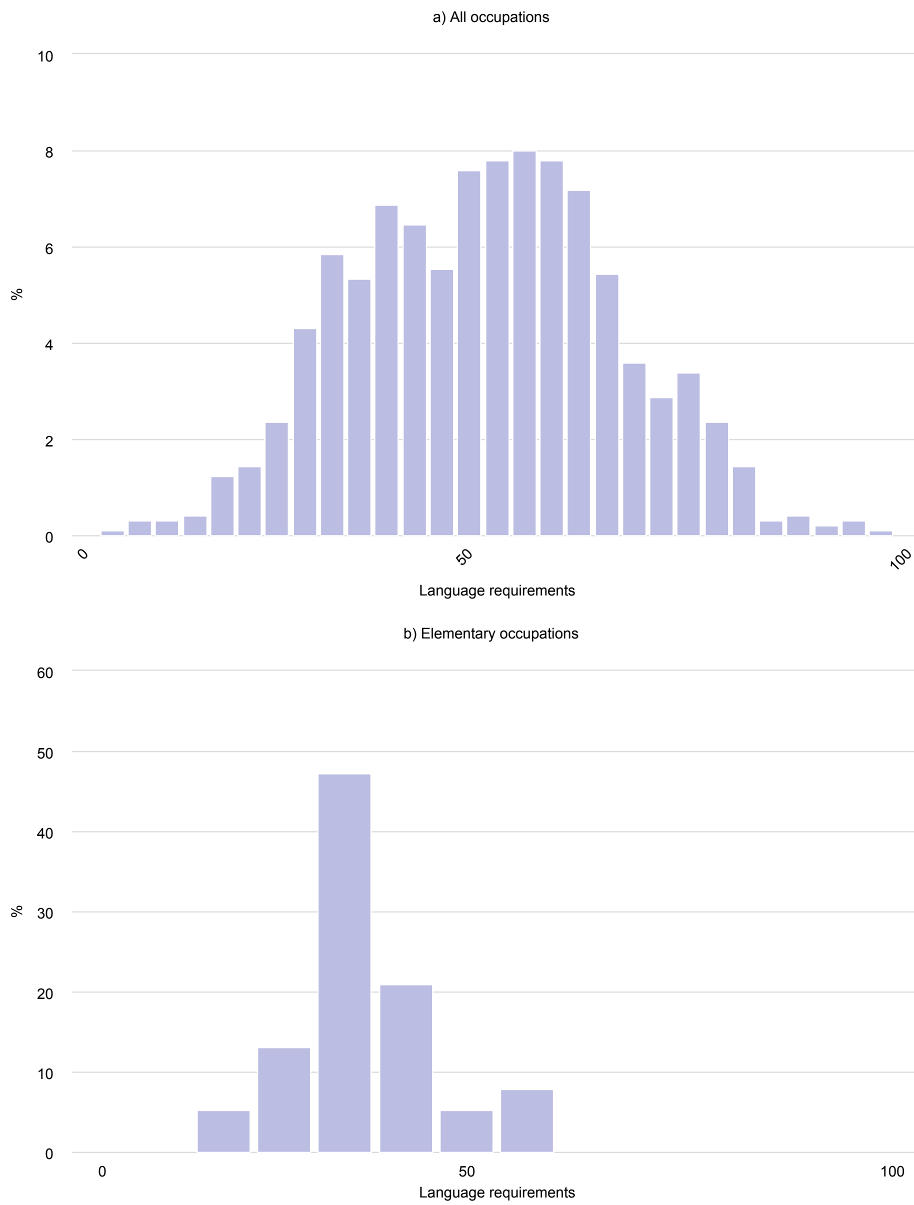
To sum up, the conclusion in Ek and Skedinger (2019a) that Sweden stands out among the Nordics in a way that makes the integration problem more severe is supported also by later developments, up to the first year of the pandemic. If anything, the situation has become even more pressing, due to a larger increase in the share of immigrants born outside the EU27 than in the other Nordics (except Norway) as well as a larger increase in the employment gap between natives and immigrants (except Iceland). This is not to say that Sweden is performing decidedly worse than the other Nordic countries when it comes to integration, but the larger size of the immigrant population also makes the integration problem larger. Because of this, I will focus on Sweden in the policy discussion below, but many arguments are also applicable to the other Nordic countries.

The policy discussion in Ek and Skedinger (2019a) emphasised the importance of education and training in lowering the risk that workers get stuck in low-wage jobs. We also argued for the introduction of financial study support given directly to individuals and targeted earned income tax credits to reduce net-of-tax wage inequality and stimulate labour supply to such jobs. Basic education, like language training, is essential for enhancing the possibilities for immigrants to enter the labour market in the first place. The fact that linguistic distance, in terms of vocabulary, grammar, pronunciation and in some cases also alphabet, is high for immigrants from Asia and Africa in the Nordic countries underscores the potential importance of language training. According to studies from many countries, including the Nordics, there is a positive association between immigrants' language proficiency and employment and wages.[18] Causal relationships between language training for immigrants and labour market integration have been established in two recent studies, by Arendt et al. (2020) for Denmark and Lochmann et al. (2019) for France.

Language requirements are, on average, lower in low-skilled jobs than in other jobs. Figure 2 shows the distribution of language requirements, as reported by employees in the United States, in all occupations (panel a) and in jobs roughly corresponding to those requiring primary education at the most (panel b), according to the Swedish

18. See Ek et al. (2020) for a recent survey.

Standard Classification of Occupations (SSYK).[19] The creation of more low-skilled jobs could lower the language-related thresholds to the labour market for immigrants. If such jobs are created as part of our previously proposed scheme with targeted minimum wage cuts, negative spillover effects on the wages of other workers in these sectors would be minimised.



19. It is not obvious that tasks in the elementary jobs in SSYK are identical to those in their US counterparts, which may imply differences also in language requirements. However, the fact that there is a strong positive correlation in the US data between occupation-level language requirements and individual wages (see Handel, 2016), together with the observation that the elementary occupations in SSYK are relatively low paid (see Ek et al., 2020), is consistent with lower language requirements on average in these jobs also in the Nordic labour markets.

Figure 2. Distribution of language requirements (scale 0–100) across occupations, percent.

Note: The vertical axes indicate percent and the horizontal axes score values. The data refer to the average of 968 occupations in panel a) and 39 occupations in panel b) where workers in the United States answered the question "What level of English language is required to perform your current job?". Elementary occupations roughly correspond to those that require at most primary education according to the Swedish Standard Classification of Occupations (SSYK). The data have been standardised to a score scale of 1–100. Mean values: panel a) 53.7, panel b) 38.7.

*Source: Ek et al. (2020), based on data from O*NET.*

In Ek and Skedinger (2019a), we argued that high wage floors constitute impediments for integration of low-skilled immigrants. High minimum wages do not only price many low-skilled jobs out of the labour market but could also lead to excessive requirements regarding language proficiency and other qualifications in the jobs that remain. With an increasing supply of workers to low-skilled jobs following a minimum wage hike, employers may raise standards to reduce the number of applicants.[20] Such adjustments from employers are likely to be more harmful to immigrants than to natives.

The COVID-19 crisis has shown that it is unlikely that collectively agreed minimum wages in Sweden's low-wage industries will be adjusted in a way that facilitates integration even in the face of an extremely deep recession, without external pressure on unions and employer organisations to do so. The so-called establishment jobs, a government initiative before the COVID-19 crisis to subsidise low-skilled jobs, targeted on newly arrived immigrants and the long-term unemployed, have so far failed to materialise, adding to the seriousness of the situation.[21] The reasons for the tardiness are not entirely clear, but a contributing factor could be that the focus during the COVID-19 crisis has shifted to protecting existing jobs, and away from creating new employment opportunities.

There are good reasons to be skeptical towards government intervention in wage formation, or other matters subject to collective agreement. This is primarily because of the superior information of unions and employers and the fact that collective agreements are more conducive to stable long-term solutions than legislation, which may be changed for opportunistic reasons in connection with, for example, election campaigns. Even so, *threats* of legislation seem to have worked in other contexts in Sweden, when nothing else has convinced the negotiating parties about the necessity to reach an agreement. The Saltsjöbaden Agreement in 1938, regulating negotiation procedures, and the Industrial Agreement in 1997, establishing that the negotiated wage increase in the manufacturing sector should not be exceeded in other sectors, are two important examples from the previous century. A recent example is the agreement on reformation of employment protection, following an official report from the Swedish government, after a decades-long

20. Analysing job postings in the United States, Clemens et al. (2020) find that employers are more likely to require a high school diploma when minimum wages increase. Language requirements were not investigated.
21. See Calmfors et al. (2018) and Swedish Trade Union Confederation (2017) for a discussion of the establishment jobs.

deadlock in negotiations.[22] Setting up a government commission with directives to propose the creation of permanent, new jobs with lower, legally mandated minimum wages, unless unions and employers agree on other solutions, could prove effective also for improving integration.

What will the future look like for the integration of immigrants in the Nordic countries, after the COVID-19 crisis? On the positive side, and as argued in Forslund (2020), many industries that suffered large job losses and employ many immigrants, such as hotels and restaurants and other providers of personal services, are not in structural decline and should be able to recuperate in due course (even though some firms in these sectors will not survive). On the negative side, there is evidence that exposure to high unemployment rates have detrimental, long-run effects on the labour market prospects for new entrants.[23] As the economy recovers, a large number of low-skilled refugee immigrants will attempt to gain a foothold on the labour market, at the same times as many young natives, who have the advantage of fluency in Swedish, will be looking for entry-level jobs. Consequently, competition for such jobs may turn out to be fierce. Even before the pandemic, the Swedish Public Employment Service forecasted an increase in excess supply of labour for several elementary occupations for the period up to 2024.[24]

Should the positive side prevail, with a return to a "normal" situation in the Nordic labour markets, the conclusions in Ek and Skedinger (2019a) still remain valid. Under the more negative scenario, the case for a multi-pronged approach, including minimum wage cuts and other measures to improve the integration of immigrants, is strengthened even further.

22. See SOU (2020) and Confederation of Swedish Enterprise (2020).
23. See, for example, Åslund and Rooth (2007) for Sweden and Raaum and Røed (2006) for Norway.
24. See Swedish Public Employment Service (2019), which is the most recent detailed forecast.