

# 10. Ethnic fractionalization and the demand for redistribution

## – Potential implications for the Nordic model

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### Summary

A distinctive feature of the Nordic model is that economic resources are redistributed between citizens to a high degree. Historically, the Nordic voters have expressed a higher demand for such redistribution than people in other parts of the world. This paper considers the factors that determine individual preferences for redistribution, giving special attention to heterogeneity in the form of ethnic fractionalization. Such heterogeneity is generally linked to reductions in demand for redistribution. The paper takes as its starting point the fact that the populations in all the Nordic countries are, to varying degrees, becoming increasingly heterogeneous. Potential mechanisms for why this may have a negative impact on demand for redistribution, and potential consequences for the Nordic model are discussed.

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## 10.1 Introduction

The Nordic model is a combination of a free market economy and an extensive welfare state, and a system that all the Nordic countries (Denmark, Finland, Norway, Iceland, and Sweden) exhibit. The model is intensely debated, admired by many (e.g. Logue, 1979; Popenoe, 1994; Sachs, 2006; Hilson, 2008; and Brandal *et al.*, 2013), but often also heavily criticized (see Sanandaji, 2015 for an overview). This paper focuses on one particular aspect of the Nordic model: extensive economic redistribution between citizens.

Economic redistribution means that economic resources are reallocated between citizens in such a way that the distribution becomes more equal. Such redistribution can be done through the public sector or through charities (this distinction is discussed in e.g. Alesina and Glaeser, 2004), with many people having strong opinions about which entity is most well suited to conduct the redistribution. The extensive economic redistribution in the Nordic countries is almost exclusively conducted through the public sector.

Basically all countries in the world redistribute resources between citizens to some extent, and policies with redistributive components, such as social security, universal health insurance, and progressive taxation, have increased in importance over time (Alesina *et al.* 2004). The fact that within country inequality has increased in most Western democracies over the last decade(s) is hence primarily reflecting that economic redistribution has not kept up with the pace of the increase in the pre-redistribution inequality, rather than mirroring decreases in public redistribution (Wang *et al.*, 2014).

Historically, the Nordic countries have redistributed resources between citizens to a much larger extent than what is the case in other Western democracies (Alesina and Glaeser, 2004). This is still the case, but there are tendencies of growing inequality also in the Nordic countries (Atkinson and Morelli, 2014; Morelli *et al.*, 2014; and Wang *et al.*, 2014). Not only the implemented redistribution but also the preferences of the population are different in the Nordic countries with Danes, Finns, Norwegians, Icelanders and Swedes being more politically sup-

portive of economic redistribution than people in other parts of Europe or in the US.

Preferences for redistribution are not, however, exogenously given but something that change over time. This paper is discussing how to understand the political support for redistribution in general. As many of the Nordic countries are currently experiencing increasing ethnic heterogeneity, in particular through immigration, the paper specifically focuses on how this may impact demand for redistribution.

The paper continues as follows: Section 1 discusses cross-country differences in demand for redistribution from the empirical perspective and goes on to give an overview of the vast literature on which factors that determine demand for redistribution. Section 2 focuses more narrowly on the research that relates demand for redistribution to heterogeneity and ethnic fractionalization. Section 3 looks specifically at the empirics of immigration in the Nordic countries, and discusses historical and current trends. Section 4 concludes.

## 10.2 The demand for redistribution

### ***10.2.1 Cross-country differences***

To measure exactly how much a country redistributes between its citizens is challenging as systems for taxation and welfare spending look very different in different countries. Direct cross-country comparisons are therefore hard to make. There are also other policies, such as labor market regulations (which also tend to differ a lot in structure between countries), that are designed to benefit lower income groups in particular. Despite these measurement difficulties there is vast agreement on the general patterns of redistribution in the Western world: European countries has much more of it than the US, and in Europe the Nordic countries top the redistribution league.

There are several ways to illustrate this. The gini coefficient is one of the most commonly used measures of how equal incomes are distributed between people in a country (but many other measures exist and using them instead yields very similar results). The gini coefficient

is a measure of statistical dispersion, with 0 indicating perfect equality and 1 indicating perfect inequality. Table shows gini coefficients for primary (pre-redistribution) and disposable (post-redistribution) income, for four Nordic countries (Denmark, Finland, Norway and Sweden), three other European countries (France, Germany, UK) and the United States. By definition, the difference between the gini coefficient for primary and disposable income is a measure of fiscal redistribution. It is important to note, however, that the shape of the welfare state will influence not only post- but also pre-redistribution inequality, so this difference is not the only relevant redistribution measure.

Some patterns are immediately obvious from Table 1. First, we see a trend of increasing inequality over time which can be observed in most countries. This is especially pronounced in the distribution of primary income.

Second, compared to the US, the Nordic countries have both a more equal distribution of primary income and a (much) more equal distribution of disposal income. This indicates that, compared to the US (and to some extent the UK), the higher equality in the Nordic countries stems both from structural factors that make pre-redistribution income more equal, and from the fact that the public sector is larger and more redistributive.

Third, if we instead compare the Nordic countries to the three other European countries in the table, France, Germany and the UK (but again, in some regards the UK has more in common with the US than with most European countries), we see a different pattern. The gini coefficient for primary income indicates more equality in the Nordic countries, but it is not immediately obvious that the public sector in other European countries is much smaller or less redistributive than in Denmark, Finland, Norway and Sweden.

Table 2 shows other indicators of the size of the public sector in the form of tax revenue, and public expenses, in percentage of GDP. To some extent this reveals information about the degree of redistribution (since a lot of redistribution is done through taxes and expenses) but there is of course, also significant public spending which is not redistributive (military spending is one, but not the only example). We see, again, the sharp divide between Europe and the US, with both taxes and

public expenses making up a significantly higher share of GDP on the European side of the Atlantic. In terms of taxation, the Nordic countries display a relatively larger public sector than the other European countries, but the difference is not anywhere as large as the difference between Europe and the US. For public expenses, the difference between the Nordic countries and the other European countries in the table is less pronounced.

**Table 1a: Trends in income inequality and redistribution, 1985–2005 (Girni primary income)**

	Girni primary income						
	mid-1970s	mid-1980s	around 1990	mid-1990s	around 2000	mid-2000s	2010
Denmark		0.373	0.396	0.417	0.416	0.416	0.429
Finland		0.387		0.479	0.478	0.483	0.479
Norway		0.351		0.404	0.426	0.447	0.423
Sweden	0.389	0.404	0.408	0.438	0.446	0.432	0.441
France				0.473	0.490	0.485	0.505
Germany		0.439	0.429	0.459	0.471	0.499	0.492
UK	0.378	0.469	0.490	0.507	0.512	0.503	0.523
United States	0.406	0.436	0.450	0.477	0.476	0.486	0.499

Source: Morelli *et al.* (2014). Data from the OECD inequality data base.

**Table 1b: Trends in income inequality and redistribution, 1985–2005 (Gini disposable income)**

	Gini disposable income						
	mid-1970s	mid-1980s	around 1990	mid-1990s	around 2000	mid-2000s	2010
Denmark		0.221	0.226	0.215	0.227	0.232	0.252
Finland		0.209		0.218	0.247	0.254	0.260
Norway		0.222		0.243	0.261	0.276	0.249
Sweden	0.212	0.198	0.209	0.211	0.243	0.234	0.269
France				0.277	0.287	0.288	0.303
Germany		0.251	0.256	0.266	0.264	0.285	0.286
UK	0.269	0.309	0.355	0.337	0.352	0.335	0.341
United States	0.316	0.340	0.349	0.361	0.357	0.380	0.380

Source: Morelli *et al.* (2014). Data from the OECD inequality data base.

**Table 1c: Trends in income inequality and redistribution, 1985–2005 (Redistribution)**

	Redistribution						
	mid-1970s	mid-1980s	around 1990	mid-1990s	around 2000	mid-2000s	2010
Denmark		0.152	0.170	0.202	0.189	0.184	0.177
Finland		0.178		0.261	0.231	0.229	0.219
Norway		0.129		0.161	0.165	0.171	0.174
Sweden	0.177	0.206	0.199	0.227	0.203	0.198	0.172
France				0.196	0.203	0.197	0.202
Germany		0.188	0.173	0.193	0.207	0.214	0.206
UK	0.109	0.160	0.135	0.170	0.160	0.168	0.182
United States	0.090	0.096	0.101	0.116	0.119	0.106	0.119

Source: Morelli *et al.* (2014). Data from the OECD inequality data base.

**Table 2: Tax revenues and public expenses as % of GDP**

	Tax revenue in % of GDP	Public expenses in % of GDP	Public expenses in % of GDP, excluding military
Denmark	33.4	41.3	39.9
Finland	19.9	39.1	37.7
Iceland	22.2	34.3	34.2
Norway	26.8	33.7	32.3
Sweden	20.7	30.9	29.8
France	21.4	47.0	44.8
Germany	11.5	28.3	27.0
UK	25.3	42.1	39.9
US	10.2	24.0	19.8

Source: The World Bank. Data from 2012.

Lastly, we consider expressed demand for redistribution on behalf of the population. The World Value Survey, a global research project which investigates people’s values and beliefs and how these change over time, ask a question about to what extent the respondent would like incomes in society to be made more equal. Answers are given on a scale between 1 and 10, where 1 is defined as “Incomes should be made more equal” and 10 as “We need larger income differences as incentives for individual effort”. This data is only available for a subset of the countries that we are interested in, and as the World Value Survey is conducted continuously, it can differ quite substantially when the latest da-

ta point for a country is dated. People in the US tend to give a higher answer to this question, on average, with the latest data point being 5.58. For Finland, Sweden, France, Germany and the UK, the corresponding figures are 4.97, 4.88, 5.12, 4.08, 5.36 (World Value Survey, 2015 – data from 2005–2014). Again we see that the Nordic countries are among those who demand most redistribution but that for example Germany is not lagging far behind.

Another way to look at cross country differences in demand for redistribution is to compare political party preferences. Given that the US has never had an influential Social Democratic party, there is a clear difference between the two sides of the Atlantic in this regard. Within Europe, the Nordic countries have historically had stronger Social Democratic parties than many other European countries. This can be seen as an indicator of a strong Nordic demand for redistribution, but it should be noted that party structures are impacted not only by political preferences but also by institutional factors, such as the degree of federalism and whether the country has proportional or majoritarian representation (Alesina and Glaeser, 2004).

### ***10.2.2 Underlying factors that shape demand for redistribution***

The theoretical start of the quest to understand how individual demand for redistribution is shaped started with seminal contributions by Romer (1975), Roberts (1977), and Meltzer and Richard (1981). They present simple models that suggest that a person's relative income or wealth is decisive for her demand for redistribution: since a relatively richer person benefits less, in monetary terms, from redistribution she should demand less of it. A relatively poor person, on the other hand, has more to gain from redistribution and should therefore demand more.

These early theoretical predictions about individuals who are relatively rich, compared to others in society, wanting less redistribution has found empirical support: People with a higher income generally want less redistribution (see, e.g., Pelzman, 1985; Alesina and Giuliano, 2010; Margalit, 2013; Durante *et al.*, 2014; Powdthavee and Oswald, 2014; and Elinder *et al.*, 2015). Other studies utilize the fact that people

often have misperceptions about their own position in the income distribution. Mollerstrom *et al.* (2015) conduct a survey experiment in Sweden and inform a treatment group about their true relative position, thereby exogenously (but truthfully) manipulating perceptions of relative income. They show that this causes changes in individual demand for redistribution and that the direction of these changes indicate that a substantial fraction of people do exhibit the theoretically proposed negative correlation between (perceived) relative income and demand for redistribution (see also Cruces *et al.*, 2013, for evidence corroborating this conclusion).

Income and wealth are not the only individual heterogeneities that generate differences in demand for redistribution and understanding the role that relative income, or the perceptions of relative income, play for the demand for redistribution is made more difficult by the fact that other underlying variables may also cause a correlation between income and political preferences. Mollerstrom and Seim (2014) find, for example, that high-IQ individuals in Sweden favor less redistribution. This could reflect that high ability individuals, who more easily succeed economically, lean toward a more individualistic, right-wing world view. In general, there is ample evidence, however, that also other factors, that have less to do with pure monetary self-interest, matter for a person's demand for redistribution. For example, people are often found to care also about the consumption of others (see e.g. Fehr and Schmidt, 1999; and Bolton and Ockenfels, 2000) and such other regarding preferences tend to be positively correlated with the demand for redistribution (Sears and Funk, 1990; Fong, 2001; and Alesina and Giulino, 2010).

Individual beliefs about the income generating process have also been studied theoretically (Piketty, 1995; and Benabou and Tirole, 2006) with special emphasis put on beliefs about the extent to which individual economic success can be attributed to effort, rather than to luck, and how such beliefs can be self-fulfilling. Empirically, these beliefs have been found to be a stronger determinant of preferences for redistribution than income itself (Fong, 2001) with people who believe that individual economic success can primarily be attributed to individual effort wanting significantly less redistribution in society than those who perceive luck as being the most important underlying factor.



A third factor which has been studied theoretically in order to understand how individual demand for redistribution is shaped is risk aversion. The provision of insurance against future negative economic shocks have been suggested to be part of the attraction of redistribution. Harsanyi (1953) was one of the first to illustrate how the insurance motive links the demand for redistribution to risk aversion: in his model, individuals are asked to state their preferences for redistributive policy behind a veil of ignorance, before their position in the income distribution is determined by a lottery. In such a situation, demand for redistribution should be increasing in a person's degree of risk aversion. Benabou and Ok (2001) extends and enriches a version of the Meltzer and Richards (1981) model and show that when individuals care not only about their current position in the income or wealth distribution, but also about their future position, insurance motives, and hence risk aversion, play a role for demand for redistribution. Empirically, the proposed positive relation between individual risk aversion and demand for redistribution has been shown to hold (see, e.g., Rainer and Siedler, 2008; Gaertner *et al.*, 2015).<sup>2</sup>

In addition to theoretically founded discussions between demand for redistribution and its correlates there is also evidence that other factors matter. There is, for example, consistent, cross-country evidence that women want more redistribution than men, that those who are unemployed want more redistribution than the employed, that married people prefer less redistribution than singles and that having more education is negatively correlated with demand for redistribution (Alesina and Guiliano, 2010). In the US context, blacks have been shown to want more redistribution than whites (Alesina and Guiliano, 2010).

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<sup>2</sup> The question of risk exposure and the size of the welfare state has mostly been analyzed from the perspective of individuals, but Rodrik (1998) discusses this also from an institutional perspective.

### 10.3 Ethnic heterogeneity and preferences for redistribution

In their seminal work seeking to understand why European countries exhibit much more extensive redistribution than the United States, Alesina and Glaeser (2004, see also Alesina *et al.*, 2001) argue that two factors are key to understanding the difference across the Atlantic: political institutions and ethnic heterogeneity.

Regarding political institutions, Alesina and Glaeser argue that the fact that almost all European countries (with the notable exceptions of the UK and France) have proportional representation systems have contributed strongly to the redistributive differences between the US and Europe. According to them, this system facilitated the growth of communist and social democratic parties that support increased redistribution and a large welfare state. The majoritarian American system, on the other hand, made it difficult for such parties (which at the beginning were very small) to get any representatives elected. The American federalism and decentralization, which is stronger than what all European countries except Switzerland display, may also have contributed. Alesina and Glaeser (2004) conclude that institutional differences can explain about half of the difference in social spending between Europe and the US.

The main explanatory factor for the remaining half of the difference in redistribution between Europe and the US is, according to Alesina and Glaeser (2004), differences in racial and ethnic fractionalization. The US has historically been a much more racially and ethnically fragmented society than European countries. Such fractionalization appears, in turn, to make people demand less redistribution, especially when poverty is concentrated to minority groups. Given the changes in the direction of more ethnic fractionalization that the Nordic countries (to a varying degree) are experiencing, it is important to understand what impact this may have on the Nordic model with its extensive redistribution.

### **10.3.1 Ingroup/outgroup bias**

A person's social identity is often partly defined as the sense of self that she derives from perceived membership in a social group. The seminal work of Billig and Tajfel (1973, see also Tajfel 1982 and Tajfel *et al.*, 1971) was the starting point for the empirical research on intergroup behavior in laboratory settings. They showed that people have a tendency to put both themselves and others into categories and that this categorization gives rise to favorable treatment of the people in the same social group as oneself (the ingroup) compared to those in other groups (the outgroup), i.e. people exhibit an ingroup bias. The way the groups are created has been shown to matter for the strength of the ingroup bias, but also completely random formation of groups give rise to the effect (Billig and Tajfel, 1973; and Locksley *et al.*, 1980).

The first experiments investigating the ingroup/outgroup-effect were done with participants dividing a valuable asset (usually money or lottery tickets) between another member of the ingroup and a member of the outgroup, i.e. they could not allocate anything to themselves (see Tajfel and Turner, 1986; and MacDermott, 2009 for surveys). Experimental economists have also considered situations, both in laboratory and in field settings, where the individual herself has money at stake in the decision, for example in the form of a dictator game or a prisoners' dilemma. Bernard *et al.* (2006), Goette *et al.* (2006) and Chen and Li (2009) show that an ingroup bias arises in such situations as well, with people behaving more altruistically and cooperatively towards people in their ingroup (see also Mollerstrom, 2015).

### **10.3.2 Evidence on the importance of racial/ethnic heterogeneity for demand for redistribution**

There is significant evidence that feelings of altruism and willingness to redistribute in general weaken across racial and ethnic lines. Especially when those with lower income consist disproportionately of people of racial or ethnical minorities, the majority prefers less redistribution (Alesina and Giuliano, 2010). We may not like it, but it is widely observed that individuals are more generous towards others who are

similar to themselves racially, ethnically and linguistically (see also Alesina *et al.*, 1999; Alesina *et al.*, 2004; Luttmer, 2001; and Fong and Luttmer, 2011).

The data in Table 3 come from Alesina and Glaeser (2004) and show evidence on racial, ethnic, linguistic and religious fractionalization across Europe and the US. Fractionalization is measured on a range between 0 and 1, and a lower value indicates more homogeneity. For all measures, except linguistic fractionalization, the US exhibits significantly more fractionalization than what the European countries included in the table do on average. The three Nordic countries included in the table, Denmark, Norway and Sweden, are even less fractionalized.<sup>3</sup>

Alesina and Glaeser (2004, see also Alesina *et al.*, 2001) go on to show that the correlation between racial fractionalization and social spending as a share of GDP is statistically significant and strongly negative for a global sample of 52 countries. This indicates that the more fractionalized a country is, the smaller is the share of GDP that is allocated to social welfare spending. The results is equally strong and statistically significant if only high-income countries are included. Racial fractionalization is the best predictor of social welfare spending, but the results for other types of fractionalization are similar. Alesina and Glaeser (2004) also present similar results regarding the relation between fractionalization and social spending from the 52 US states.<sup>4</sup>

The evidence presented above is to a large extent correlational (with the exception of the laboratory studies which show a causal relation between heterogeneity and demand for redistribution). There are, however, also field studies that attempt to study the causal relation between ethnic fractionalization and preferences for redistribution. One influential study, conducted in Sweden, is Dahlberg *et al.* (2012). They use a Sweden-wide program for placing refugees in municipalities to

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<sup>3</sup> As discussed below, these patterns are changing. More recent data for the Nordic countries are considered in Table 5.

<sup>4</sup> Lindqvist and Östling (2010) have in a related paper showed that there is a negative correlation between size of government and political polarization. Their paper does not study ethnic fractionalization directly, but the results are of interest to this context as there is a positive relation between ethnic fractionalization and political polarization.

generate the exogenous variation needed to study the relationship between increased immigration and demand for redistribution.

**Table 3: Fractionalization indices**

	Racial fractionalization	Ethnic fractionalization	linguistic fractionalization	Religious fractionalization
Austria	0.03	0.11	0.15	0.41
Belgium	0.05	0.56	0.54	0.21
Denmark	0.02	0.08	0.10	0.23
France	0.10	0.10	0.12	0.40
Germany	0.06	0.17	0.16	0.66
Italy	0.02	0.11	0.11	0.30
Netherlands	0.11	0.11	0.51	0.72
Norway	0.06	0.06	0.07	0.20
Portugal	0.05	0.05	0.02	0.14
Spain	0.03	0.42	0.41	0.45
Sweden	0.05	0.06	0.20	0.23
Switzerland	0.05	0.53	0.54	0.61
United Kingdom	0.10	0.12	0.05	0.69
Average:	0.06	0.19	0.23	0.40
United States	0.49	0.49	0.25	0.82

Source: Alesina and Glaeser (2004). Data from 1990–2000.

The starting point of Dahlberg *et al.* (2012) is the fact that immigration of workers and refugees to European countries in general (and some of the Nordic countries in particular) have increased substantially over time. They ask how this affects native citizens' views on redistribution and the size of the welfare state. The main contribution of their paper is that they, in contrast to the (predominantly negative) correlational evidence that several other studies have documented between immigration and demand for redistribution (in addition to Alesina *et al.*, 2001 and Alesina and Glaeser, 2004, see also Shayo, 2009; Stichnoth and Van der Straeten, 2013; Harmon, 2014),<sup>5</sup> claim to be able to study the causal relationship.

During the years 1985 to 1994, a refugee placement program was in place in Sweden to achieve a more even distribution of refugees over

<sup>5</sup> Note that even though the majority of studies find a negative correlation between immigration and the demand for redistribution, there are some paper which find no correlation (e.g. Gerdes and Wadensjö, 2008; Brady and Finnigan, 2013) or a conditional negative one (e.g. that the negative correlation only holds when immigrants are overrepresented among those with lower income, e.g. Finseraas, 2012).

the country. 277 out of the 286 Swedish municipalities participated, neither the refugees nor the municipalities could affect the placement and the total arrival of refugees in the relevant years exceed 200,000. Given these circumstances the identifying assumption of Dahlberg *et al.* (2012), that the placement of refugees was exogenous with respect to the inhabitants of the municipalities' preferences for redistribution, seem justified.

The authors match the municipal-level data on refugee placements, immigration shares, and other municipal covariates, with individual level survey information. The survey data come from the Swedish National Election Studies Program which is a rotating panel. The measure of individual preferences for redistribution was extracted from a survey question regarding if a person would be "in favor of decreasing the level of social benefits."

Using the refugee placement program as an instrument for the share of immigrants living a particular municipality, Dahlberg *et al.* (2012) show that there is a negative and statistically significant relation between increasing the share of immigrants in a municipality and how much social benefits people in that municipality prefer to see. Moreover, the effect is especially pronounced among white-collar, high-income earners, meaning that the respondents who contribute more extensively to the redistribution scheme are those whose support for redistribution is reduced as the group of potential recipients become more ethnically diverse (Dahlberg *et al.*, 2012, p. 69).<sup>6</sup>

### **10.3.3 Potential underlying mechanisms**

Having concluded that most research indicates that there is a negative correlation between the increased ethnic fractionalization caused by immigration and support for redistributive policies, and that this relation may well be causal, the question arises what the underlying mecha-

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<sup>6</sup> It should be noted that the results of Dahlberg *et al.* (2012) have also invoked criticism. See e.g. Nekby and Pettersson-Lidbom (forthcoming), who claim that the measure of demand for redistribution used in Dahlberg *et al.* (2012) is suboptimal, that the results are not generalizable to the full Swedish population, and that the measurement of the refugee placement program is flawed.

nisms are. Existing research suggests a number of potential mechanisms, but very few studies have attempted to disentangle them. Here we will discuss three potential mechanisms.

First, it may be the case that altruism is lower when directed towards people of different race or ethnicity as compared to when it is directed to people who are more similar to the person offering the help. This is suggested and confirmed in, for example, Fong and Luttmer (2011), where it is shown, in a setting with charitable giving, that people perceive those who are more similar to themselves as more worthy of help.

A second hypothesis is that it is not altruism, but rather trust and reciprocity that is impacted by ethnic fractionalization. Trust and reciprocity are both positively related to willingness to redistribute. The former because you need to trust that people are not taking unfair advantage of the redistributive system in order to demand extensive redistribution, and the latter because you have to be convinced that if you were the one in need of help, others would provide you with it, just as you would if you are in the position to help. In general, differences between people, both ethnic, racial and other, seem to generate distrust (see e.g. Glaeser *et al.*, 2000; Zak and Knack, 2001; Alesina and La Ferrara, 2002; Knack and Zak, 2002, Dienesen and Sønderskov, 2015. The work of Alesina and Zhuravskaya (2011) is also related although it has a slightly different focus). Gustavsson and Jordahl (2008) consider this in a Nordic setting (Sweden) and find a similar negative association between proportion of people born in a foreign country on the one hand and trust and reciprocity on the other hand.

Third, it is also possible that larger interpersonal differences, for example in the form of ethnic or racial difference, impacts how people view themselves and the likelihood that they may be on the receiving end of the redistributive system in the future. As concluded by Benabou and Ok (2001), people generally do not care only about their current position in the income distribution when their demand for redistribution is formed – their beliefs about their future position also matters. Finseraas (2012) find evidence that it is especially the people with a higher income who demand less redistribution when fractionalization is high. He presents evidence that suggests that this does not happen because of a decrease in altruism or in trust. Instead, people with a higher

income are less concerned with downward income mobility, and believe that the likelihood that this will happen to them, is lower when ethnic fractionalization is higher.

These hypotheses are not necessarily exclusive and all three mechanisms may be at play when the negative relation between immigration and demand for redistribution arises. For those interested in affecting this relation, the policy implications of the various mechanisms are however very different. Hence, research is most likely going to continue to try to disentangle these and other underlying mechanisms in order to gain a better understanding of exactly why we observe a negative relation between immigration and ethnic fractionalization, and demand for redistribution.

## 10.4 The Nordic countries: moving towards more heterogeneity

Up until World War II, Denmark, Finland, Norway and Sweden were all very ethnically homogenous in comparison with most other European nations. Since then, the paths have been diverging. The differentiation began during the war, when Sweden took in a substantial number of refugees. After World War II, immigration was to a large extent intra-Nordic, but at the beginning of the 1960s demand for labor increased in Sweden, Norway and Denmark which led to substantial immigration from other parts of Europe. Finland also delivered a substantial number of emigrants to Denmark, Norway and Finland (Yousfi, 2010; Kouvo and Lockmer, 2012).

Thereafter, immigration to Sweden, Norway and Denmark has consisted of refugee migration and family reunification. After the fall of the Soviet Union, and after joining the European Union, migration flows to Finland have increased rapidly with migrants predominantly coming from the former Soviet area. (Kouvo and Lockmer, 2012.)

Regarding regulations, the Nordic countries also exhibit considerable differences. Sweden has been, by far the most permissive whereas Finland and Norway, and especially Denmark, are more regulated. Taking more types of policies into account, including the allowance of dual



citizen-ships and the funding of ethnic group organizations or activities, Kymlicka and Banting (2006) classify 21 OECD countries according to their multiculturalism. Sweden is the only Nordic country having modest multiculturalism policies, whereas Denmark, Finland and Norway are categorized as having weak multiculturalism policies.

The Nordic countries are also different in the sense that the anti-immigration political movement grew strong earlier in Denmark and Norway as compared to Finland and Sweden (Kouvo and Lockmer, 2012). Currently, there is substantial anti-immigration sentiment in all four countries, however, and this is currently gaining more strength. Despite recent tightenings, Sweden still has the most generous policies on immigration. Considering recent trends, all Nordic countries are experiencing a rise in the inflow of immigrants in general and refugees in particular and the trend for the proportion of the population that is foreign, or foreign-born, is positive in most of the countries. These trends are illustrated in Table 4 below.

**Table 4: Recent trends in immigration for the Nordic countries**

	2005	2010	2012	2013
<b>A. Immigration, per 1,000 citizens</b>				
Denmark	3.7	6.0	6.3	7.5
Finland	2.4	3.4	4.3	4.4
Norway	6.8	13.3	13.9	13.8
Sweden	5.7	8.4	8.7	9.9
<b>B. Inflow of asylum seekers, per 1,000 citizens</b>				
Denmark	0.4	0.9	1.1	1.4
Finland	0.7	0.7	0.5	0.6
Norway	1.2	2.1	1.9	2.4
Sweden	1.9	3.4	4.6	5.6
<b>C. Foreign-born, percentage of population</b>				
Denmark	6.5	7.7	8.2	8.6
Finland	3.4	4.6	5.3	5.6
Norway	8.2	11.6	13.2	14.5
Sweden	12.5	14.8	15.5	16.0
<b>D. Foreign, percentage of population</b>				
Denmark	5.0	6.2	6.7	7.2
Finland	2.2	3.1	3.6	3.8
Norway	4.8	7.6	8.9	10.0
Sweden	5.3	6.8	7.0	7.2

Source: OCED (2015).

As panel A of Table 4 shows, Norway has the highest immigration among the four Nordic countries. However, this consists to a large extent of temporary workers, often from the other Nordic countries. Panels A and B together paints the picture of significantly more asylum seekers in Sweden than in any of the other Nordic countries. All countries except Finland are experiencing a rising trend, however.

As for the stock of immigrants, the percentage of foreign-born (panel C) is highest in Sweden, followed by Norway. The trend is positive in all four countries. The fact that Sweden is more generous regarding naturalization as compared the other three countries is evident from the data in panel D in relation to panel C: fewer people remain foreign in Sweden as it is easier to eventually become a citizen. Again, the trend is that of a rising share of foreign population in all the four countries.

Taken together, these data support the view of Sweden as the most immigration-friendly Nordic country, in particular when it comes to immigrants with a different ethnic background (which is more common among refugees than among other types of immigrants in general). All four Nordic countries are experiencing an increase in immigration and the population is becoming more diverse. This ethnic fractionalization is most and least manifest in Sweden and Finland, respectively.

## 10.5 Concluding remarks

What the Nordic model, with its extensive redistribution of economic resources between citizens, will look like in the future depends on the preferences of the voters in the Nordic countries. Historically, they have demanded more redistribution than voters in almost all other parts of the world. Preferences for redistribution are not fixed however but change over time.

The academic quest for understanding how individual demand for redistribution is shaped has provided ample insights. We know that more inequality in itself generally leads to a higher demand for redistribution, that women want more redistribution than men, that people with higher income, more education and higher cognitive ability tend to

demand less redistribution and that a person who is very risk-averse is generally going to want more redistribution than a person who is more willing to take on risks.

We also know that the heterogeneity of a country's population matter for how much redistributions its citizens want to see. More heterogeneous groups have been shown to be less generous and cooperative in laboratory settings – also when the heterogeneity is artificially created. This holds empirically also when considering political preferences within countries. More racial, ethnic and literacy fractionalization, for example due to historical factors and to immigration, is generally found to be negatively associated with demand for redistribution, and there are reasons to believe that this relation is causal.

The Nordic countries are, to varying degrees, experiencing a rise in ethnic heterogeneity. This may lead the Nordic model to change in the direction of less redistribution, simply because citizens are likely to demand less of it. The underlying mechanism is not clear, but it is probable that feelings of altruism, trust and reciprocity are involved. It is also likely that especially the part of the native population with a higher income regard it as more unlikely that they will be on the receiving end of the redistributive system and hence demand less economic redistribution.

A striking example (which in itself is, of course, only illustrative and does not provide a proof in any way) is the fact that at the same time as Denmark has employed restrictive immigration policies it has overtaken Sweden as the Nordic country with the highest taxes. Sweden, on the other hand, which has a very generous immigration policy, has witnessed a more pronounced trend towards lower taxes and a less extensive welfare state.

Needless to say, there are also other trends that are impacting demand for redistribution in the Nordic countries. For example, income inequality in general is increasing which in itself may lead to higher demand for redistribution and thus a mitigation of the effect discussed above. Also, as immigrants become eligible to vote, it is unclear in which direction this will impact demand for redistribution. What the net effect will be is hence impossible to say. Given the rise in anti-immigration sentiment in the Nordic countries, we can however conclude that it is a cur-

rently an extremely salient topic; the likelihood that it has a substantial impact on preferences for redistribution is therefore likely to be high.

We may not like that more heterogeneity reduces the willingness to redistribute – but this is what is observed empirically. Some would like to see a situation where substantial heterogeneity is combined with extensive redistribution, and there are of course many individuals who hold those preferences. But research indicates that the majority of people behave differently. And hence the question that Alesina and Glaeser (2004, p. 181) is more topical than ever: “We shall see whether the generous [Nordic] welfare state can really survive in a heterogeneous society.” If current trends continue, it is, in light of the research presented here, unlikely that the exceptionally high levels of redistribution that have historically been demanded in the Nordic countries will persist.

To what extent these changes in demand for redistribution are perceived as problematic depend, of course, on individual views on the optimal size of the welfare state. For a person who is generally positive to immigration and at the same time wishes to see a smaller welfare state, the negative relation between ethnic heterogeneity and demand for redistribution does not necessarily pose a problem.

On the other hand, for a person who is likewise positive to immigration but wants the welfare state to remain large, there is a challenge. Importantly and as discussed above, research tells us that the negative correlation between immigration and redistributive preferences is especially pronounced when ethnic minorities are overrepresented among those who are dependent on the welfare state. This implies that the integration of immigrants is crucial as it, as is making it possible for them to be successful in the labor market. Doing this successfully may weaken the negative link between ethnic heterogeneity and demand for redistribution, and could hence make it easier to successfully combine generous immigration policies with a continued high demand for an extensive welfare state.<sup>7</sup>

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<sup>7</sup> Unfortunately the experiences of immigrants on the Nordic labor markets is not particularly positive, something which is further discussed by Bratsberg and Røed (2015) in this volume. They present facts regarding labor market participation and welfare dependency for immigrants to the Nordic countries, and discuss policy changes that could make the welfare state more robust to handling extensive immigration.

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