Immigration as a challenge to the Danish welfare state?∗

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Abstract

In a universalistic, tax-financed welfare state such as that of Denmark with strong redistribution, gains and losses from migration may be asymmetrically distributed between immigrants and natives. The redistributive welfare state both weakens the incentives of immigrants to enter the labor market and creates barriers to entry to the labor market. As a consequence, immigrants as a group are net beneficiaries of the welfare state even after extended periods of stay in the country. While soaring dependency ratios are expected in the future due to an aging native population, immigration has so far added to rather than ameliorated this problem. The Danish experience would seem to suggest that unchecked immigration and a redistributive welfare state are difficult to reconcile.

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1. Introduction

As is the case in many other western countries, the Danish welfare state will be facing a new challenge in the near future. In a few years time, the war and postwar “baby boom” generation will begin to retire from the labor market. Due to a secular drop in fertility rates that began with this very same generation, the “baby boomers” leaving the labor force will not be fully replaced by the generation of their children. Increased life expectancy, as well as a trend towards earlier retirement,1 tends to exacerbate the situation still further. So

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1 While the official retirement age in Denmark was 67 years in 1998, the average actual retirement age was 61 years (Statistics Denmark, 1999).
does the trend towards later entry into the labor force, due mainly to prolonged education, and the trend towards enjoying more leisure at the expense of working hours. As a consequence, dependency ratios will begin to soar in the near future, putting a squeeze on the Danish welfare state: on the one hand, demands for the benefits and services of the welfare state are bound to increase, due to the increase in the number of the elderly, old and very old. On the other, financing the welfare state will become more burdensome, due to the reduction in the size of the labor force.

In this situation, immigration might seem to suggest itself as a natural remedy. Since immigrants are normally young, and since their fertility rates are normally higher than in the country of destination, immigration will to some extent be able to counteract the aging of the native population and the reduction in the size of the labor force both in the short and in the longer run. At the same time, migrating from a less developed country to Denmark will raise the utility of the migrant by the difference between the net present value of utility in the home country and in Denmark. Since this difference will in most cases be sizeable, recruiting immigrants from nonwestern countries\(^2\) should not pose serious problems. Thus, immigration is sometimes proposed as a partial solution to the demographic problem that Denmark will face in the near future and as a solution that will be beneficial to both native Danes and immigrants (e.g., Rasmussen, 1997; Rasmussen, 2000).

While immigration may indeed contribute to a more balanced age distribution in the Danish population, it will not necessarily decrease dependency ratios or defuse the waiting “pension bomb.” Quite to the contrary: during the last two decades, immigration to Denmark from nonwestern countries has gradually developed into a challenge of its own for the Danish welfare state.

I shall be concerned primarily with migration from nonwestern countries to Denmark. For the last 25 years, this has been the dominant category of immigration. I shall propose that the redistributive policies of the welfare state are the main reason why immigration from nonwestern countries is part of the problem of demographic change posed for the Danish welfare state rather than part of the solution. So far, the Danish welfare state has proven itself to be less than well suited to successfully integrating immigrants from nonwestern countries into the labor force. On the one hand, its redistributive policies tend to weaken immigrants’ economic incentives for labor market participation; on the other, barriers are created to entry of immigrants into the labor market. The redistributive Danish welfare state contributes to a situation where sizeable numbers of immigrants from nonwestern countries over prolonged periods of time do not gain access to the labor market but claim social benefits instead, thus contributing to soaring dependency ratios. While large immigrant groups gain from migration even under these conditions, native Danes do not.\(^3\)

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\(^2\) In the following, western countries are the Nordic countries, EU countries, Switzerland, Iceland, Canada, USA, Australia and New Zealand. All other countries are classified as nonwestern. Furthermore, nonwestern will be considered roughly equivalent to less developed.

\(^3\) For a theoretical analysis of the distribution of welfare gains from migration in a redistributive welfare state, see, for example, Wellisch and Walz (1998) and Hansen (2003).
The discussion will proceed as follows. I shall begin with a short overview of postwar immigration to Denmark and characteristics of the immigration flows during the last two decades. I shall then discuss aspects of the role of the Danish welfare state in relation to labor market integration of immigrants and present some empirical findings on labor market integration of immigrants and on the impact on public finances. I then turn to prospects of second-generation immigrants in the Danish labor market, which links back to the question whether immigration may eventually help solve the problem of the welfare state of rising dependency ratios.

2. Postwar immigration to Denmark

During the early post-World War II period, there was net emigration of Danish citizens, mainly to Canada and Australia. Until the late 1950s, unemployment stood at fairly high levels in Denmark compared to most other western European countries, making emigration attractive. Immigration to Denmark was limited and originated mainly from other Nordic and western European countries. Since 1954, there has been free labor mobility between the Nordic countries.\footnote{Since 1954, there has been free labor mobility between the Nordic countries.}

During the 1960s and until 1974, Denmark experienced a period of full employment bordering on excess demand for labor. While this kept net migration of Danes at a low level, a minor guest worker scheme was introduced to relieve labor shortages in certain sectors of the economy. Guest workers were recruited mainly from Turkey, Yugoslavia and Pakistan. The numbers were very modest. Between 1965 and 1967, the number of foreign citizens from Turkey and Yugoslavia was below 500 for each group. In 1974, there were 6779 citizens from Yugoslavia, 8138 from Turkey and 3733 from Pakistan in Denmark. These were outnumbered by citizens from the Nordic countries, USA and the EU (50,669). Citizens from these western countries made up about 56% of the total number of foreign citizens in Denmark in 1974 (Larsen and Matthiessen, 2002).\footnote{This immigration stop remains formally in effect. It never applied to citizens from other Nordic countries and from the EU, however.}

In the wake of the first oil price crisis, the recruitment of guest workers ceased in 1973 as part of a general stop to immigration. However, guest workers already in the country were allowed to stay and were given the option to apply for permission to bring in close family. Thus, family reunification became one of the ways around the formal Danish immigration stop. The other way of immigrating was to claim asylum in accordance with the Geneva Convention. In neither case was the right of abode contingent on secured employment.

Family reunification was initially the most important access route to Denmark for would-be immigrants. However, from the early 1980s, asylum became an important vehicle of immigration as well. Yearly statistics for the period 1988–2001 show that between 15% and 27% of the total number of resident permits to foreigners were given to asylum seekers, while between 25 and 33% were due to family reunification.\footnote{In 1995, the percentage was 53.7%. This was due to a large number of refugees from ex-Yugoslavia who had initially been given a special temporary protection status, which in 1995 was converted to regular asylum status (Larsen and Matthiessen, 2002).}
From 1980 to 2001 the number of immigrants and descendants\(^7\) in Denmark rose from 152,958 to 415,331 persons, or from 3.0% to 7.7% of the total population (Fig. 1). While the number of immigrants and descendants from western countries has remained almost constant at about 100,000 persons, the number of immigrants and descendants from nonwestern countries has increased strongly. The five largest ethnic groups in Denmark today are—in order—immigrants and descendants from Turkey, ex-Yugoslavia, Iraq, Lebanon (Palestinians), Pakistan and Somalia.

The group of immigrants and descendants from nonwestern countries differs quite markedly from the native Danish population with respect to their age distribution. The proportion younger than 45 years is somewhat higher in the population of nonwestern immigrants and their descendants than in the native Danish population, while a higher proportion in the native Danish population than in the immigrant population is above 50 years of age. Nevertheless, the impact of the immigrants and their descendants on the age distribution of the whole population in Denmark has remained marginal. Unsurprisingly, immigration in the orders of magnitude experienced during the last 20 years is still far below the levels that would be needed in order to decisively counteract the aging of the native Danish population.

More importantly, the group of immigrants and descendants from nonwestern countries also differs markedly from the native Danish population with respect to educational

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\(^7\) Statistics Denmark classifies a person as an immigrant if (s)he was born outside Denmark to parents none of whom were Danish citizens and born in Denmark. A person is classified as descendant if (s)he was born in Denmark to parents none of whom were Danish citizens and born in Denmark (Larsen and Matthiessen, 2002, p. 28).
achievement levels and skills. In a survey in 1999, 11% of immigrants and descendants in the age group 16–70 years from Turkey reported having completed or being enrolled in vocational education or a theoretical education program beyond the secondary level. The corresponding figures were 10% for immigrants and descendants from Pakistan, 21% for immigrants and descendants from Lebanon and 18% for immigrants and descendants from Somalia. In comparison, 54% of the native Danish population aged 16–70 years had completed or were enrolled in a vocational education or a theoretical education program beyond the secondary level (Larsen, 2000). In an increasingly knowledge-based economy, the market value of immigrants with weak educational backgrounds will tend to be low.

In sum, the last 20 years’ migration from nonwestern countries to Denmark has consisted mainly of (i) younger and (ii) less well-educated immigrants, compared to the native Danish population. In the next section, we shall look at some consequences for the Danish welfare state of this development.

3. Immigrants between the welfare state and the labor market

The Danish welfare state belongs to the group of universalistic welfare states (Esping-Andersen, 1990). Most social rights (access to welfare services and social transfers) depend only on legal residence in the country, not, for example, on labor market participation or citizenship. Benefits are mostly tax financed. There are few contributory schemes. As a consequence, legal immigrants become a financial liability on the welfare state, unless they are integrated into the labor market at once and thus are able to provide for themselves. This was typically the case with the immigrants who arrived during the few years of the Danish guest worker scheme in the 1960s and early 1970s.

In addition to broad coverage, transfer payments in the Danish welfare state are also quite generous relative to minimum wages in the labor market. Thus, the welfare state weakens economic incentives for labor market participation, especially for low-skilled, low-paid individuals. While the net present value of social benefits may be a little lower than the net present value of earnings from labor even for unskilled immigrant workers in Denmark, the difference to the net present value of earnings in their homelands will normally still be large. Due to their relatively low educational achievement levels, this applies to a rather large proportion of the population of immigrants and descendants from nonwestern countries in Denmark. Through the same mechanism, the welfare state may also weaken immigrants’ incentives to invest in acquiring the necessary preconditions for labor market participation, such as minimum levels of language and social skills.

Besides weakening economic incentives, the welfare state also contributes to creating barriers for the entry of (especially) low-skilled immigrants into the labor market. High levels of social transfer payments exert upward pressures on minimum wages. In turn, a high minimum wage tends to reduce the number of low-skilled jobs and to price low-

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8 Figures for immigrants and descendants are standardized so as to make the respective groups equal to the native Danish population with respect to gender and age distributions.

9 One of these is unemployment benefits. However, even with this scheme, contributions cover only a minor fraction of total expenditures. The remaining part is tax financed.
skilled, low-productive immigrants out of the labor market, since immigrants cannot compensate for lack of skills and low productivity by accepting wages below the going minimum rate.\textsuperscript{10} By a similar logic, the welfare state contributes to the exclusionary effects of discrimination by employers against nonwestern immigrants and their descendants.\textsuperscript{11}

Further, a welfare state like that of Denmark necessitates high taxes.\textsuperscript{12} Since most government revenue in Denmark is raised by means of taxes on income and on consumption, a considerable tax wedge is created that adversely affects private demand for various kinds of domestic services, thus closing still another potential labor market access route for low-skilled immigrants.

Finally, the combination of generous welfare provisions and a high tax pressure that characterizes the Danish welfare state may lead to an adverse selection problem in the case of immigration. While immigrants as a whole are probably favorably self-selected (Chiswick, 2000), the Danish welfare state may be most attractive to immigrants with a relatively low market value.\textsuperscript{13}

\begin{table}
\centering
\caption{Labor market participation rates among immigrants and descendants 16–66 years old, as well as among native Danes, 2001\textsuperscript{a}}
\begin{tabular}{ll}
\hline
\textbf{Country of origin} & \textbf{Labor market participation rate (%)} \\
\hline
Ex-Yugoslavia & 48 \\
Iran & 47 \\
Lebanon (Palestinians) & 26 \\
Pakistan & 47 \\
Poland & 60 \\
Somalia & 14 \\
Turkey & 50 \\
Vietnam & 56 \\
Other nonwestern countries & 46 \\
Nonwestern, total & 46 \\
Native Danes & 76 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{a} Source: Schultz-Nielsen (2002a, p. 87).

Minimum wages in Denmark are not fixed by law, but by collective agreements in the labor market. That does not make them less binding, however.

Discriminatory hiring practices certainly do occur, although they are hardly the most important barrier facing nonwestern immigrants and their descendants in the Danish labor market (Schultz-Nielsen, 2002b, pp. 118–124). From an economic point of view, employers using discriminatory hiring practices impose a negative externality on the groups discriminated against. If left to themselves, discriminating employers and discriminated-against groups could solve the problem by having the discriminated-against groups pay the employers to discontinue using discriminatory hiring practices. That would normally mean accepting lower wages. This solution will in most cases be prevented by the high Danish minimum wage. Thus, discrimination will result in exclusion from the labor market instead. The role played by the high Danish minimum wages and thus—indirectly—by the Danish welfare state in bringing about this effect does not of course make discrimination any more acceptable from a moral point of view.

In 2002, Danish taxes were 49.2% of GNP (Ministry of Finance, 2003).

Borjas (1998) shows how the interstate dispersion in welfare benefits in the US affects the geographical clustering of immigrants with immigrant welfare recipients more heavily concentrated in states offering high benefits than states that offer less welfare benefits.
The combined effects of the Danish welfare state on labor market integration of nonwestern immigrants must therefore be expected to be negative, at least in the short run. Empirical evidence suggests that this is the case. Table 1 shows labor market participation rates for nonwestern immigrants (including descendants) and for native Danes in 2001.

Two patterns stand out clearly. In the first place, labor market participation rates among nonwestern immigrants and descendants are considerably lower than in the native Danish population. Secondly, these rates also vary significantly among ethnic groups in the nonwestern immigrant population. In particular, Somalians and Palestinians exhibit very low levels of labor market activity. However, even the groups with the highest levels of labor market participation rates—the Poles and the Vietnamese—do not reach the rates in the native Danish population.

Table 1 does not tell the whole story, however. Unemployment rates also differ markedly between native Danes and nonwestern immigrants and their descendants, as shown in Fig. 2. Combining Table 1 and Fig. 2, it turns out that not only were 54% of nonwestern immigrants and descendants outside the labor force in 2001, but an annual average of 14.2% of those actually in the labor force were unemployed (as against 4.6% among native Danes in the labor force) and hence on social benefits. While the time trends in unemployment rates are approximately the same for both native Danes and nonwestern immigrants and descendants, representing primarily the impact of the business cycle on unemployment in both groups, it appears that the economic boom since the second half of the 1990s led to a somewhat steeper decline in the unemployment rates of nonwestern immigrants and their descendants than in the rates of native Danes. Nevertheless, the unemployment rate among nonwestern immigrants

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and their descendants still remains about three times the unemployment rate among native Danes in the labor force.

The financial and distributional consequences of the generally poor labor market integration of nonwestern immigrants and descendants can be seen in Table 2. This table shows static estimates of the size of net transfers per person to the public sector from native Danes and nonwestern immigrants and their descendants, respectively, for selected years in the 1990s.

As can be seen, the average net transfer from nonwestern immigrants and descendants to the Danish public sector is negative for all years included in the analysis. During the 1990s, immigrants from nonwestern countries and their descendants as a group were net beneficiaries of the welfare state, while native Danes were net contributors. 15 Total net transfers from the public sector to immigrants from nonwestern countries and their descendants varied between 0.54% and 0.91% of GDP (Wadensjö and Orrje, 2002, p. 75). There was thus a sizeable redistribution from native Danes to nonwestern immigrants and their descendants in all the years analyzed.

The slight decline in the size of negative transfers from nonwestern immigrants and descendants to the public sector in 1997 and 1998 as compared to earlier years primarily reflects a decline in their unemployment rates as shown in Fig. 2. Much the same is true for the increase in the size of positive net transfers to the public sector from native Danes.

One of the reasons for the rather high cost of immigrants from nonwestern countries and their descendants to the Danish public sector in the past could be that large-scale immigration from nonwestern countries to Denmark is a relatively recent phenomenon. It may be argued that with increasing length of stay, nonwestern immigrants will turn from net beneficiaries of the welfare state to net contributors as the integration process, especially in the labor market, progresses. Thus, the high costs of immigrants from nonwestern countries may be a transient phenomenon. However, results reported by Wadensjö and Orrje (2002, pp. 73–74) indicate that for immigrants from nonwestern countries with up to 10 years of stay in Denmark, differences in the size of their (negative) net transfers to the public sector per person are actually fairly small. In addition, even though (negative) net transfers to the public sector from those with 10 or more years of stay in Denmark tend to become smaller, they are still negative and quite substantial. Thus,

<table>
<thead>
<tr>
<th>Year</th>
<th>Native Danes</th>
<th>Immigrants and descendants from nonwestern countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>14.900</td>
<td>-48.000</td>
</tr>
<tr>
<td>1995</td>
<td>16.500</td>
<td>-62.600</td>
</tr>
<tr>
<td>1996</td>
<td>19.000</td>
<td>-63.700</td>
</tr>
<tr>
<td>1997</td>
<td>22.700</td>
<td>-58.200</td>
</tr>
<tr>
<td>1998</td>
<td>24.500</td>
<td>-50.500</td>
</tr>
</tbody>
</table>

15 These differences persist even when controlled for the impact of age, gender and family status. Differences in distributions over these variables do not explain differences in the size and direction of net transfers to the public sector per person between the groups of native Danes and of nonwestern immigrants and descendants (Wadensjö and Orrje, 2002, p. 80).
even after 10 years (or even longer) of stay in Denmark, immigrants from nonwestern
countries and their descendants as a group have so far remained net beneficiaries of the
welfare state.

4. As time goes by . . .

At present, immigrants and descendants from nonwestern countries as a group are an
economic liability on the Danish welfare state and have been so for more than a decade at
least. The question is whether they will also remain a liability in the future. Must they be
expected to add to the upcoming challenges to the welfare state due to the aging of the
native Danish population, or can they be expected to contribute to alleviating this problem
by boosting the size of the labor force?

According to an optimistic scenario, cherished mainly in some political and media
circles, things are going to straighten out by themselves. As time goes by and the
group of first-generation immigrants dies out, so a popular argument runs, it will be
replaced by second- and third-generation immigrants. These subsequent immigrant
generations are born and raised in Denmark and will hence have largely adapted to the
behavior of native Danes, especially with respect to educational choices and labor
market participation.

This optimistic scenario is premised on two assumptions. The first is that the initial
generation of immigrants is going to die away with the passing of time. The second is that
second-generation immigrants will become like native Danes with respect to educational
background, skills and labor market participation rates. The validity of both assumptions
can be doubted.

The idea that the group of first-generation immigrants will gradually die away seems to
be based on a fallacious analogy between biological and immigrant generations. Biological
generations do inevitably die away with time. In contrast, the group of first-generation
immigrants in Denmark will die away only if there is a total stop to all immigration. In the
absence of such a total stop, the pool of first-generation immigrants can renew and
replenish itself indefinitely through ongoing immigration instead of dying away, even
though the earliest first-generation immigrants (the guest workers of the 1960s) eventually
must die away.

In this context, certain behavioral patterns among second-generation immigrants may
become crucial. If large proportions of second-generation immigrants from nonwestern
countries prefer to find their spouses in their parents’ country of origin and to bring them
to Denmark under the rules for family reunification, second-generation immigrants will
contribute to maintaining the numbers of first-generation immigrants in Denmark.

Available data indicate a strong tendency to find spouses in the parents’ country of
origin among second-generation immigrants from nonwestern countries and among
immigrants from nonwestern countries who have come to Denmark as children and
have grown up in this country. 16 In 1998, 79% of the married males and 69% of the

16 Third-generation immigrants from nonwestern countries living in Denmark have not yet reached marriage
age.
married females in these groups were married to a person from their or their parents’
country of origin. Among Turks, the figures were 89% for married males and 81% for
married females. It can also be seen that about 30% of all married males and close to
50% of all married females among immigrants from nonwestern countries have come
to Denmark by means of marriage to and family (re)unification with (normally) a
person from the same country already living in Denmark (Larsen and Matthiessen,

There is thus little empirical evidence to suggest that one should expect to see the group
of (poorly integrated) first-generation immigrants from nonwestern countries being
gradually replaced by (much better integrated) second- and third-generation immigrants.
Unless the patterns of marital choice change rather dramatically, second-generation
immigrants from nonwestern countries will contribute to continuously replenishing the
pool of first-generation immigrants from nonwestern countries in Denmark.17 This, in turn,
may have a negative impact on the integration of third-generation nonwestern immigrants
through intergenerational transmission mechanisms.

The other crucial assumption in the optimistic scenario is that second-generation
immigrants from nonwestern countries will on average come to approach the labor market
performance of native Danes. This is equivalent to assuming that there is no (negative)
intergenerational transmission from first-generation immigrant parents to their second-
generation immigrant offspring.

A large-scale study of the transition from school to work among second-generation
immigrants in Denmark aged 18–35 years (Nielsen et al., 2001) demonstrates strong
intergenerational transmission effects. It is demonstrated, for example, that the parents’
attachment to the labor market has an effect on the descendants’ probability of
obtaining a qualifying education and a stable position in the labor market. The study
concludes that assimilation of second-generation immigrants is not a process that is
guaranteed to take place over time under all circumstances. It “...is also dependent on
the employment success of the parent generation, and if the parents are not
successfully integrated into the labor market, this result may carry over to the
children” (Nielsen et al., 2001, p. 30), and as has been noted, immigrant parents
from nonwestern countries are as a group not at all successfully integrated into the
Danish labor market.

The same study also shows that there is still a huge gap in educational levels between
native Danes and second-generation immigrants. Among native Danes aged 18–35 years
in 1997, 65% of the males and 62% of the females had completed a formal education;
among second-generation immigrants, the corresponding figures were 33% for males and
35% for females (Nielsen et al., 2001, p. 34).18 While part of this difference may be

17 Since considerable social and cultural as well as material interests are invested in these patterns of marital
choice, change is unlikely to be allowed quickly. With regard to material aspects, Wikan (2002, p. 216) relates
that young marriageable Muslim girls are colloquially referred to as “visa” or “gilded paper” in some immigrant
circles in Norway.

18 In a study of the educational attainment of the children of the Danish guest worker immigrants Jakobsen
and Smith (2003) find similar results when looking at second-generation immigrants from Turkey, Pakistan and
ex-Yugoslavia. It turns out that the problems are most severe with second-generation immigrants from Turkey.
Immigrants from Turkey and their descendants make up the largest group of nonwestern immigrants in Denmark.
attributable to differences in the age distributions in the two groups, other studies show the same picture. Already in primary school, the achievement levels are lower for children with immigrant background than for native Danish children (Nannestad, 2003). Even worse, the achievement levels of second-generation immigrant children in Danish and mathematics are not better than the achievement levels of first-generation immigrant children (Ministry of Education, 2003). Among the pupils who finished primary school in 1995, 40% of those with a nonwestern immigrant background had not completed and were not enrolled in a qualifying educational program 6 years later, while the corresponding figure was 10% among native Danish pupils (Dansk Arbejdsgiverforening, 2003). Against this backdrop, the future prospects of a sizeable proportion of second-generation immigrants from nonwestern countries in the Danish labor market look bleak indeed.

It thus does not seem very likely that with the mere passing of time immigrants from nonwestern countries and their descendants in Denmark will as a group cease to be net beneficiaries of the welfare state and turn into net contributors instead. If this holds true, rather than assisting to resolve the problems, immigration will in fact be contributing to the challenges that the welfare state will be facing in the next decades due to an aging population of native Danes.

5. Conclusion

In the world described by the long-run neoclassical trade theory of the Heckscher–Ohlin type, consequences of trade and migration between countries with different factor endowments are in general equivalent. However, when the institutions of a universalistic, tax-financed welfare state with strongly redistributive goals are superimposed, asymmetrically distributed gains and losses from migration can arise. While migrants from poor countries will still reap benefits from migration, the native population in the receiving country will experience a loss (Wellisch and Walz, 1998; Hansen, 2003). The Danish welfare state exhibits that pattern with respect to immigration from nonwestern countries. The type of immigration that has been dominant since the early 1980s has resulted in the buildup in Denmark of a pool of immigrants from nonwestern countries and descendants of immigrants, characterized by being younger and less well educated than the rest of the population.

Immigrants from nonwestern countries and their descendants have been net beneficiaries of the Danish welfare state for a long period due, primarily, to lower labor market participation rates and higher unemployment rates compared to both immigrants from western countries and native Danes. While this may in principle change with the passing of time, as of now, there is little evidence to suggest that immigrants from nonwestern countries and their descendants will approach a position in the labor market that is comparable to the position of immigrants from western countries and native Danes. Typically, immigrants from nonwestern countries are still net beneficiaries of the welfare state even after more than 10 years of stay in the country. The educational achievements of second-generation immigrants from nonwestern countries suggest that a considerable part will end up in the group of unskilled workers that faces ever decreasing demand in the Danish labor market.
The institutions of the Danish welfare state may well contribute to creating and perpetuating problems with the position of nonwestern immigrants and their descendants in the Danish labor market. The influence of the welfare-state institutions is felt both on the supply and the demand sides. On the supply side, generous social benefits and small differences between the level of social benefits and minimum wages weaken economic incentives for labor market participation, especially among low-skilled low-wage labor. On the demand side, generous social benefit levels exert upward pressure on minimum wages, thus reducing demand for low-skilled, low-productive labor, and a sizeable tax wedge all but eliminates private demand for domestic services.

Thus, due not least to the redistributive welfare state, immigration from nonwestern countries to Denmark has so far not been advantageous to the native Danish population from an economic point of view, and there is not much to suggest that this picture is going to change in the foreseeable future.

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