

EMN Norway Occasional Paper
Absorption Capacity as Means for
Assessing Sustainable Immigration

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Abstract – absorption capacity

This paper takes foothold in Alexander Betts' and Paul Collier's model *Sustainable migration – A framework for responding to movements from poor to rich countries*. It aims at operationalizing this grand overarching model on a national level. In which ways can the model guide concrete policy-making, with the nation-state as a frame of reference? What are the limitations and shortcomings of the model when applied in a national context? In our approach, the term *Absorption Capacity* is utilized in order to flesh out more concretely various dimensions, levels of analysis as well as dilemmas and contradictions facing liberal-democratic states in the field of migration. In doing this, we have formulated the following definition of *absorption capacity*:

The inflow of migrants must not exceed a rate and a volume that the nation-state system can manage to include in ways that do not drain public budgets disproportionately and which do not generate substantially increased inequality. Besides, the composition of migrants must be balanced in ways that are perceived as politically legitimate within the democratic constituency.

In the analysis, main emphasis will be placed on the socio-economic aspects. We appreciate both the inherent political dimension of this endeavor as well as the aim of abiding by human ethics. Being a region known for high ambitions both in terms of *national* social citizenship and *international* human rights, Scandinavia will be used as a “strategic case” in the discussion.

Absorption Capacity as Means for Assessing Sustainable Immigration

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The 2015 migration “crisis” in Europe induced an urgent need to rethink policy approaches to immigration and refugees. Governance of migration was pushed to the front line of national and supra-national politics in line with the increasing inflow – apparently out of control. Huge dilemmas confronted authorities in a complex situation with capacity worries, difficult questions of justice, regime competition and human tragedy.

Migration quandaries were not new to European governments, and the divergent effects of different *kinds* of immigration had made EU member states settle with a hybrid policy regime. On the one hand a combined labour migration policy, including both intra EU mobility, subject to supra-national regulation, and third country – demand-driven – labour immigration; on the other hand, refugee protection and policies of family reunification. Migration as such can be beneficial. It brings economic, cultural and social gain to parties involved, if it fulfills certain preconditions. The whole EU labour mobility pillar is based on this assumption. Yet the push-inflicted flows peaking in 2015 were of a different character: the accelerated pace and prospects for a continuing, uncontrolled increase, made the problem-side dominate perceptions among European governments.

The crisis management throughout Europe made national border control part of the short-term solution – bringing the nation-state back into the Schengen territory. Urgently imposed retrenchments in rights extension to asylum seekers, refugees and their families were also installed most places.

The combined measures proved to be quite effective in line with the intentions – at least for the states in Northwestern Europe - thus giving both receiving countries and the EU some breathing space to generate a more lasting and comprehensive approach to handle the major migration charges.

It is in this context Alexander Betts and Paul Collier (Betts and Collier 2018) have presented a timely model in view of these huge challenges, addressing what they label “Sustainable Migration – A Framework for Responding to Movement from Poor to Rich Countries”. The model is ambitious and visionary, addressing one of the most comprehensive and conflict-ridden matters of our time. The idea is that international migration *may* be handled through a global migration system that is beneficial to all parties involved, - the sending and receiving states, the migrants themselves and the societies in which they land. Essentially, they assert, sustainable migration is inherently political and inherently ethical. The global system is concretized through *ten basic principles to guide political leadership – nationally and globally*, and this system should be forged by a new grand consensus – a common language. Their contribution should be seen as a starting point – a new frame of reference – from which more specific policies can be developed within Europe and beyond.

Our contribution through this paper, is to operationalize this grand overarching model on a national level. In which ways can the model guide concrete policy-making, with the nation-state as a frame of reference? What are the limitations and shortcomings of the model when applied in a national context? In our approach, the term *Absorption Capacity* is utilized in order to flesh out more concretely various dimensions, levels of analysis as well as dilemmas and contradictions facing liberal-democratic states in the field of migration. Main emphasis will be placed on the socio-economic aspects. In doing this we appreciate both the inherent political dimension of this endeavor as well as the aim of abiding by human ethics in these kind of states. Being a region known for high ambitions both in terms of *national* social citizenship and *international* human rights, Scandinavia¹ will be used as a “strategic case” in the discussion.

What is meant by *absorption capacity*?

The EU approach to immigration from third countries has been marked by incremental growth of supra-national policy instruments. Despite progress over the years in formulating a common ground for EU policy-making both in relation to labour migration and to refugee protection, basic parameters still belong in the nation state sphere. This is illustrated by the fact that despite relentless efforts to harmonize European asylum policies, there is still

¹ We will use ‘Nordic’ and ‘Scandinavian’ as synonyms, even if ‘Nordic’ formally also includes Iceland and Finland.

substantial variation in approaches to the issue among the member states (Dustman et al 2016). Employment regimes, issues related to social citizenship – benefit schemes with different levels of generosity, economic redistribution – and not least integration measures (extension of rights and services to newcomers) are largely national considerations. This is so, even though the internationalized context has become increasingly important in premising national policymaking; the “semi-sovereign” (Leibfried and Pierson 1995) European states have become gradually more dependent on each other – on EU policy-making as well as on global forces more generally.

Even if the sovereignty of the European welfare states in relation to immigration control has been restrained over the decades, some level of inflow regulation is still essential for the capacity for governance in the nation states. Rate, volume and composition of immigration do influence *absorption capacity*, economically, socially, culturally.

On several occasions over the years, when inflow control is jeopardized - actually and/or psychologically – national protection measures have been set in motion. National *absorption capacity* has been viewed as threatened. *Absorption capacity* is basically an imprecise entity. It is multifaceted, complex, dynamic and political by nature. It fluctuates with business cycle, partisan ventures, policy-making endeavors, cultural sentiments etc. And, besides, it tends to come up as a topic in the public or among policy-makers, when immigration is conceived as a *problem*. If immigrants are productively absorbed in the labour market, and are blending in culturally speaking, the issue will most likely not be addressed. Governments *de facto* decide when restrictions need to be set in, as was abundantly clear during the refugee crises in 2015. Even though one may discuss whether the economic and institutional *absorption capacity* was stretched to the limit in (some of) the receiving states during the crisis, the limit was per definition reached in a political sense. From an opposite point of view, *absorption capacity* can be *expanded* or *refined* through political measures. Integration policies in fact do have this as an underlying ambition.

Receiving states have over the years implicitly had in mind some kind of *absorption capacity* without using the term directly in immigration policy-making. National measures are put in place to accommodate labor market demand and institutional capabilities. Immigrants can be equipped with the necessary skills to match labour market demand, and they may be provided with language- and cultural courses to ease adjustment. Concretely how this is done will depend on the historical context, in which parameters like labour demand, welfare state sustainability, and political sentiments will play a part. The authorities will have to consider

which means of regulation and policy-making that are available in order to handle the inflow and its consequences. And lastly, more normatively, governments will take the level of policy ambitions into consideration, as to inclusion, integration or assimilation in a cultural sense. Vulnerability as to sustained trust and loyalty as well as tendencies to generate “parallel societies” have impacted on the willingness to welcome immigration.

Institutional *ability* and political *willingness* are thus inevitably related, yet not necessarily in tune. And as concerns all these parameters, *perceptions* of inclusion capacity in relation to immigrants is part of the scenery. Increasingly, worries over capacity for real inclusion – economically and culturally – have induced a more restrictive approach in most European corners. *Political absorption capacity* points in the direction of Betts’ and Collier’s term *political sustainability*. In their model, political *legitimacy* is essential for sustainability. The national democratic constituency will have to endorse any policy that is likely to sustain. If the majority is to accept continuous immigration, it needs to be assured that it takes place in a context of stability, predictability and trust. Cumulative resentment is an inherent danger in pushing policies that lack legitimacy in the longer run. Political sustainability or political *absorption capacity* is volatile – what de facto gets political support in elections – is influenced by a whole series of factors, some of which are beyond the grip of national policy-makers.

Even though politicians themselves may influence sentiments in the population, governments nevertheless need electoral support from their citizens in their approach to handle immigration. Successful economic and social integration can, on the other hand, *enhance* political support for a more liberal access policy.

A problem with the political sustainability approach is that failure to accommodate legitimacy considerations – the political *absorption capacity* - is often realized post-hoc: Policies that were intentionally constructed to take care of economic and welfare state *absorption capacity*, after some years turned out to be perceived as ‘unsustainable’. Consequently, proactive policy-making do indeed often generate unforeseen consequences.

This brief introduction to the complexities of *absorption capacity* serves to underline the unwieldiness of the conceptual terrain. Despite shortcomings in precision, we still believe it can serve as a fruitful heuristic device through the following generic definition:

The inflow must not exceed a rate and a volume that the nation-state system can manage to include in ways that do not drain public budgets disproportionately and

which do not generate substantially increased inequality. Besides, the composition of migrants must be balanced in ways that are perceived as politically legitimate within the democratic constituency.

It goes without saying that the issue does not lend itself easily to any calculation of exact numbers or an accurate ceiling on immigration. Governments can nevertheless choose to apply ceilings or quotas to be on the ‘the right side’ of what they conceive as their capacity limits. Various access regulations over the years have been applied in order to – intentionally – restrict admittance according to some idea of capacity. National *absorption capacity* in the broader sense as discussed in this paper, has however, not been on the agenda in any explicit fashion. In today’s Europe, externalities through global forces and the EU *acquis* also play into the national political scenery in complex ways that will only be sketchily dealt with in this paper.

Varieties of absorption capacities²

As already underscored, *national context* is still significant when dealing with immigration, let alone *inclusion* in today’s integrated Europe. Nevertheless, the following decisive changes have circumscribed national competence in relation to immigration over the last decades: 1) UN Refugee Convention 1951 – gradual development of a global regime for humanitarian migration; 2) 1992 Maastricht Treaty - ‘sans frontier’ – i.e. free movement of capital, goods, services, labour and people; 3) The Schengen Accord (1995) – abolishment of the internal borders combined with common policing of external EU borders; 4) The successive Dublin conventions of the 1990s and 2000s – first country of asylum principle; 5) Establishment of the Monetary Union (1999) – strict rules for public deficits and debt; 6) The EU extension eastward (2004 and 2007) – unprecedented movements of labour within Europe.

This list of events underscore the necessity of addressing the conflicts and dilemmas of the EU/EEA³ states in governing immigration within a multi-level policy regime where national, EU and international regulations have become increasingly interdependent and interlinked. Today there is growing tension between what can be labelled ‘conflicting logics of solidarity’: global solidarity through the human rights regime; regional solidarity through the European Union, and traditional solidarity through the pressed nation-states – the bounded social

² The following section substantially draw on Brochmann and Dølvik 2018

³ EEA ; the European Economic Area, is the international agreement from 1994 that brings the EFTA states Norway, Iceland and Lichtenstein into the EU Single Market with access to the benefits of the free movement of persons, goods, services and capital.

contract. The schism seems to be: ‘globalization and Europeanization versus renationalization of social citizenship’ (Brochmann and Dølvik 2018: 509)

Within the European Union the member states are unequally prepared – institutionally, politically and economically – to handle challenges related to the influx of refugees and the migratory flows within the Union. Most of the richer northern European welfare states endured the euro-crisis without lasting systemic wounds, whereas the Mediterranean states – where the bulk of the migrants arrives - were hit by heavy rollbacks and structural reforms in the wake of the crisis. The same can be said of the Central and Eastern European states (CEE), which also experienced a heavy drain on their human resources caused by mass-emigration to Western Europe.

This comes on top of diversity in national economic development, historical legacies as well as social, institutional and political structures within the EU. Having developed very different welfare and labour market regimes, the member states face different configurations of benefits and challenges related to migration. The states are disposed with different capacities for handling reception and integration of newcomers and the different institutional structures provide authorities with different policy-tools in seeking to limit negative effects of comprehensive migration. The various national welfare models also offer migrants different scales of rights and opportunities, which again influence attraction. EU/EEA states receive unequal volumes and kinds of migrants. Thus, caution is needed as to generalizations on ‘impact of immigration’ and ‘absorption capacity’ even within the European Union.

A standard reference within comparative welfare policies is Gösta Esping Andersen’s *The Three worlds of welfare Capitalism* (1990), in which he distinguishes between the Liberal Anglo-Saxon, the Conservative, continental and the Social-democratic, Scandinavian models. Later the Esping-Andersen schema has been supplemented by analyses of hybrid Mediterranean models and less developed, mixed models in the new member states.⁴ Whereas the European states share ambitions of a society that combines sustainable economic growth with a solid basis for social security, they apply very different constellations of labour market- and welfare state tools to achieve this goal. The Anglo-Saxon model is characterized by fairly weak employment protection, a patchy decentralized bargaining system, weak unions and a work-first oriented residual welfare policy. The Conservative, continental model is represented by insurance-based benefits, strict employment protection for labour-market

⁴ Ferrera 1996; Leibfried 1992, referred in Brochmann and Dølvik 2018.

'insiders' and a strong 'male-bread-winner' tradition. And lastly, the Scandinavian model combines high taxes with universal welfare provision, high level of social expenditure, collective bargaining, strong unions, a well-regulated labour market and a compressed wage structure (Jurado et al 2013).

Esping-Andersen did not relate to immigration in his analysis. We have nevertheless found his approach useful as a frame of reference when investigating the divergent immigrant absorption capacities of different welfare/labour market regimes in Europe. In order to assess absorption capacity in receiving states, it is conducive to link Esping-Andersen's model with its interaction between labour market structure and the institutional features of the welfare state to costs and benefits of immigration.

If system maintenance is a premise, the labour markets vary in terms of *absorption capacity* and so do the welfare systems.

Firstly, the *kind* of immigrants that dominate the influx is of importance, of which level of qualifications is central. Typically refugees will have a different impact on the system as compared to (skilled) labour migrants. Although the differential impact will again depend on the rights and benefits they are entitled to in the national context. Secondly (and related to the first), immigration regimes will influence *absorption capacity*; strictness and selectivity in admission play a role despite the limitations on national sovereignty through international law. And, lastly, welfare state structure, according to Esping-Andersen's scheme, has different effects on the cost-benefit-configuration. Systems relying on insurance principles, funded through contributions will typically be less vulnerable towards large-scale immigration than more universalist, redistributive systems financed through taxes.

The *absorption capacity* of the national labour market play a key role for the effect of immigration on the welfare system and besides, on integration more broadly speaking. Labour demand tends to be central for the attraction of a destination country in the first place and it is essential for the prospects of having immigrants become economically self-reliant. The *match* between demand structure and the qualifications of the arriving migrants is of great importance in this respect. Employment and revenue contribution of newcomers vary notably with economic and demographic conditions in the receiving context, and between labour regimes with different working conditions, minimum wages, degree of segmentation etc. Yet not least important, it's affected by the incentive structure formed by the benefit system and the way in which generosity of transfers is related to the wage level of available jobs.

Typically, the Anglo-saxon model with its flexible labour markets with considerable wage inequalities are seen as most easily accessible for newcomers, primarily in low-wage segments. The scanty welfare system based on work-first principle, places the brunt of the financial burden of inactiveness on the migrants themselves.

In the Continental – and Southern – models the labour markets have usually been associated with higher entry barriers to standard employment, stronger insider/outsider schisms as well as lower employment rates as compared to the Anglo-saxon model, with weaker employment opportunities for immigrants as a consequence.⁵ But deregulation over the last decades has driven growth in a secondary low-wage market which has turned out to be attractive for migrant labour. Before the Euro-crisis, the secondary and informal segments of the dualized labour markets in Italy and Spain e.g. attracted a substantial inflow of labour migrants from countries in Central and Eastern Europe and from third countries.⁶ In the unequally developed southern and continental welfare states, the public financial burden of immigrants has been relatively low as compared to the northern states.

The preconditions for the *absorption capacity* of the Scandinavian labour market is different. An important feature of the Scandinavian model is the categories of persons qualifying for welfare programmes: broad strata of the population are included in the same benefit schemes, also including immigrants with legal residence. In spite of higher employment rates generally speaking, the more egalitarian markets of the Scandinavian models have typically been hard to enter for immigrants, because of high productivity and skill requirements induced by high wage floors established through collective bargaining. As a consequence of this, the employment gap between nationals and third country nationals (TCN) is among the highest in Europe. Nevertheless, since 2004 the Scandinavian labour markets – especially the Norwegian – has employed a substantial number of workers and subcontractors from Central and Eastern Europe. Still, the unemployment rates among immigrants are approximately three times as high as in the majority population, and the increase in relative income poverty over the last decade or two, is largely caused by growth in immigration, notably among groups from Asia and Africa. Considering the dependence of the Scandinavian model on high rates of employment and revenues, this development has caused political concern in the region as to the long-term financial consequences for the generous – and expensive – welfare states.

⁵ Gallie 2007 referred in Brochmann and Dølvik 2018.

⁶ Perez and Rhodes 2015 referred in Brochmann and Dølvik 2018.

In the following we will scrutinize the immigration *absorption capacity* of the Scandinavian model more in depth, also taking into account other dimensions of the capacity as spelled out in the introduction.

Immigration as a challenge in the Scandinavian welfare states

We have noted that discussions about *absorption capacity* must be rooted in the institutional context of the country or group of countries in question. In this part of the paper, we present a discussion of the Scandinavian case, with an emphasis on Norway. In the social policy literature, the Scandinavian welfare states, being relatively small and relatively well-off (Norway is uniquely well off) countries are typically regarded as the most advanced, fully mature welfare states. We shall argue that the comprehensive Nordic model is both part of the problem and part of the solution when it comes to the capacity to absorb large numbers of immigrants.

The model as a challenge and an opportunity⁷

The Scandinavian countries are characterised by well-regulated labour markets, comparatively high and universal social benefits, and an active regime for qualification and activation. This constellation creates a set of challenges that may not be unique to Scandinavia, but are likely to be written larger in Scandinavia than elsewhere. A key concern is that the comprehensive Nordic welfare states depend on high employment rates, yet, at the same time have institutional features that makes entry into work difficult for immigrants. Three main mechanisms are highlighted in this respect: labour market exclusion, adverse selection, and perverse incentives.

The exclusion argument emphasises the compressed wage structure in the Nordic countries. Economists Barth and Moene (2016, see also Barth, Moene & Willumsen 2014) convincingly argue that this follows directly from the centralised wage bargaining system, which is a key feature of the Nordic model. Centralised wage bargaining tends to create compressed wage structures, because trade unions coordinate their demands before entering into negotiations with employers, and the demands must be defended faced with members of all the involved unions. Compression happens from both ends of the wage scale: low wages increase compared to countries with decentralised systems, while high wages are kept on a relatively moderate level (Barth, Moene & Willumsen 2016).

⁷ This section is based on Grødem (2016).

Labour markets with high entry-level wages can be difficult to access for persons with low or unknown productivity. This is because, first, high low wages is a plausible driving force for automation: the more expensive manual labour, the higher the incentive to replace workers with technology. Over time, this leads to the erosion of jobs that are available for low-skilled workers. Second, when it is costly to hire low-paid employees, employers want to make sure that the hired people have the skills and productivity to match the pay level. Immigrants may lack the relevant skills (most obviously in terms of language) – and/or they may find it hard to document the skills they have. Labour markets with compressed wages may therefore be harder for low-skilled immigrants to get into, which in turn, creates a challenge for the Nordic welfare states.

Barth and Moene (2016) further argue that the compressed wage structure is only one feature of an *institutional equilibrium*, where the other side is made up of a generous and encompassing welfare state. Wage levels influence benefit levels, so that countries with “high low wages” also have high minimum benefits. The Nordic countries thus emerge as countries with high wages for low-skilled workers, and high benefits for those who are unable to work. These features may exacerbate the problem of low employment rates among immigrants. One potential mechanism in this respect is adverse selection. The welfare magnet-hypothesis (e.g., Borjas 1994) suggests that countries with such features will disproportionately attract low-skilled immigrants, while they will be relatively less attractive to the high-skilled. This hypothesis is controversial and highly dependent on context (Nannestad 2007), yet it cannot be ruled out that such selection is a driving force for the movement of immigrants from the south towards the countries in Northwestern Europe (Brekke, Røed & Schøne, 2017).

The third potential mechanism driving low employment rates among immigrants in countries with high welfare expenditure is perverse incentives (Koopmans 2010). Employment rates of immigrants may be lower as compared to natives, not primarily due to lack of skills or discrimination, but because immigrants feel they can live relatively comfortably on social transfers. There is some support for this hypothesis in Norwegian data. A study that followed early labour migrants over time, looking at men from Pakistan, Turkey, Morocco and India who arrived in Norway in the early 1970s, found that these men were much more likely to receive disability pension around 2000 than low-skilled Norwegian-born men in the same age group (Bratsberg, Raaum & Røed 2010). One partial explanation for this is that immigrants appear to be more vulnerable to job loss during recessions, and find it harder to get back into employment later. The other driving force highlighted in this study is financial incentives: the

study established that male labour migrants who had a home-based spouse and a large family were more likely to make the transition into disability pension than male migrants in different family situations. Disability pension in Norway was paid with additions for dependent spouses and children, implying that recipients with large families would receive substantially higher pensions. In a system where wages are determined by productivity, which is a function of skills, and benefits are determined at least partly by need, low-skilled individuals with large families may gain a higher income as benefit recipients than as workers.⁸ Still, it should be emphasised that a number of factors beside perverse incentives, including labour market discrimination and higher job-related strain, can cause the observed higher use of disability benefits among early labour migrants.

The combination of skills-intensive labour markets and inclusive welfare states implies that some challenges related to migration may be particularly pressing in Scandinavia. The welfare model however also has some unique strengths, most importantly in the traditions for institutionalised qualification and activation. The countries have considerable skills in handling potential workers with employment problems, in order to improve both their qualifications and motivation. One important tool in this respect is the comprehensive education system, mainly free of charge in the Nordic countries. A central aim of this system is to equip the population with the skills they need to compete in the national labour market. Another feature of the system is the tradition for activation in social benefits. It is an increasing trend that benefits are made conditional on participation in some form of activity, be it qualifying courses, work training, or even medical treatment (Johansson and Hvinden 2007). The emphasis on qualification and training is now institutionalised in the *introduction programs*, which exist in all the Nordic countries for newly-arrived refugees and their families.⁹

Besides, the Nordic countries have traditions for integrating newcomers through inclusion in the key institutions: Immigrants are granted social rights, the right to democratic participation and representation, and they are included in the institutions of redistribution. Apart from the political rights, legal immigrants have access to income security and other welfare goods from

⁸ Since the publication of this study, spousal additions in disability pension has been abolished, and the method for calculating additions for dependent children has been changed to avoid unfortunate incentive effects. See Grødem (2017) for details.

⁹ Denmark is in the process of transforming its introduction program into a “self-support and return”-program, following an agreement between the Danish government and the Danish People’s party signed 30. November 2018. It remains to be seen what implications this will have in the context of the overall Danish integration – and return – regime.

day one. The combination of “high low wages” and generous social benefits may create barriers and unfortunate incentives, as we have seen, but the system also implies a buffer against working poverty and social exclusion. At its best, this will promote a sense of social cohesion that includes all residents.

The different features of the Nordic model are linked, and constitute what has been called an institutional equilibrium (cf. Barth & Moene, 2016). This means that future reforms cannot remove one aspect – say, the inclusive welfare state – and expect the education system and the labour market to continue as before. The security offered by social benefits promotes flexibility in the labour market – the so-called flexicurity model – and comprehensive education as well as training services provide the skills-intensive labour market with qualified labour. The generous welfare state is in turn sustained through an efficient labour market and the willingness among both employers and employees to provide funding for redistributive measures and public services through taxation. The high social benefits provide workers with an alternative income, which strengthens their negotiating position (Barth & Moene 2016). At the same time, the high level of low wages make high minimum benefits possible, because even a low-paying job will (typically) provide a better income than the minimum benefit. The limits to the Nordic countries’ *absorption capacity* is reached, we suggest, if institutions in any of these three arenas come under severe pressure because of high immigration. In that situation, the institutional equilibrium is disturbed.

In what follows, we discuss how this institutional equilibrium is challenged by high rates of immigration. Unlike Betts and Collier (2018), who focus solely on third country immigration, we also include intra-EU labour mobility in the analysis, in order to show how the two different kinds of inflow interact.

[Intra-EU-migration: altering the dynamics of the labour market](#)

All the Nordic countries are net recipients of labour migrants from the EEA (Heleniak 2018), and in periods, the number of labour migrants has been very high, particularly in Norway. Labour immigration to Norway reached its peak in 2011-2012. There has been a drop in the number arriving since, but the overall population of Norway has continued to rise, notably due to immigration from the EU. There are presently around 200 000 persons with immigrant backgrounds from new EU countries in Norway, and they account for almost the entire employment growth in Norway since 2008. Approximately 15 per cent of those employed in Norway today are immigrants.

High levels of labour migration may challenge the institutional equilibrium through the labour market. It will be difficult to maintain the compressed wage structure, with high low wages, when the supply of labour is comprehensive in several niches of the labour market, typically building and construction, shipyard and fishing, transport, agriculture, cleaning and the service industry.

There are a number of studies showing how high levels of labour migration has affected the relevant sectors (see Friberg 2016 for a review). Recent research has uncovered displacement and distributional effects, new social divisions and increased pressure on labour institutions in exposed sectors. It has also been noted that increased unemployment and marginalisation can create an increased burden on the welfare state in the long term (NOU 2017:2). A common finding is that the growth in wages is slower (Bratsberg & Raaum 2012), and that income inequality increases. Negative effects on wages have been most significant for domestic workers who have not completed upper secondary education and for immigrants who arrived earlier (Bjørnstad & al. 2015, Friberg 2015, Hoen et al 2018). One study found that immigration to Norway from other Nordic countries negatively affects wages and incomes among Norwegian-born workers with similar skills. Immigration from Central- and Eastern Europe affects domestic labour less, but may have a negative effect on already established immigrants (typically from countries outside the EU) (Bratsberg, Raaum, Schøne & Røed 2014). When looking at immigrants from Sweden in particular, researchers find both substitution effects and wage effects for the youngest domestic workers (Bratsberg & Raaum 2013). In addition, young people in Norway have for a while tended to shy away from the sectors where labour migrants have dominated: the number of applicants to training positions in the construction sector fell markedly in the period 1995–2008 (Røed & Schøne 2013). This sector appeared in essence to have been “taken over” by labour migrants.

The most recent study of these issues looked at inter-generational mobility (Hoen & al., 2018). It exploited variation in immigration patterns over time across commuting zones in Norway, and differentiated between immigrants from high-income and low-income countries, where low-income countries include less developed countries and countries in Central and Eastern Europe. The analysis showed that exposure to immigration from low-income countries steepens the social gradient with regard to both earnings rank, earnings share and employment. In other words, immigration from low-income countries benefits higher-class natives (as defined by their parents’ income), while it does not have the same effect for lower-class natives. The opposite pattern occurs for immigration from high-income countries, but as

the authors point out, immigration from low-income countries has for decades been much higher than immigration from high-income countries. In regions where rates of immigration from low-income countries is high, lower-class natives obtain lower wages, and they are more likely to be pushed out of the labour market (Hoen & al. 2018).

Competition for low wage jobs as a consequence of the EU mobility can hamper the move of marginalised groups from benefits to work, and may counteract the goal of the authorities to increase labour market participation. Extensions of collective agreements (*Allmenngjøring*) (i.e. making them generally applicable by statute) deals with this tendency to some extent, but there are weaknesses even in the application of this measure (Bjørnstad & al. 2015). Norway has strong institutions aiming at hindering low-wage competition and the undermining of labour standards, yet they have proven insufficient under the current circumstances (Arbeidstilsynet, NAV, Politiet og skattetaten, 2018). The trade union movement has mainly supported the EEA agreement since 1994, but in late 2018, sections of The Norwegian United Federation of Trade Unions (*Fellesforbundet*, the dominant union in the construction- and industrial sectors) passed motions to withdraw from the agreement. The background was that the trade unions had lost an important case in the EFTA court regarding the rights to compensation for posted workers. This suggests that frustration with the handling of EU migration has reached new levels among organised domestic workers.

Thought-provokingly, the case of labour migration indicates that the institutional equilibrium can be turned against itself, so that race-to-the-bottom-dynamics in the labour market are galvanised by the high and universal social benefits. Workers can be tempted to accept low wages if these wages are supplemented by generous social benefits (NOU 2011:7). For the individual, the combination can supply an acceptable income, but this undermines both the well-regulated labour market and the financial sustainability of the welfare state.

Immigration from third countries: high welfare dependency

With refugees and their families, challenges are different. The main issue with regard to this group is the low level of employment. In the latest figures from Statistics Norway, 77 per cent of native men and 73 per cent of native women were employed for at least one hour per week.¹⁰ The same was true for, for example, 64/43 per cent if immigrants from Turkey (men and women respectively), 49/43 per cent of immigrants from Eritrea, 53/42 per cent of immigrants from Iraq, and 48/29 per cent of immigrants from Somalia (Statistics Norway

¹⁰ Registry data from 2017. "Native" is defined as born in Norway to two Norwegian-born parents, unless all four grandparents are born in other countries

2018). Some political circles have been convinced that migration would be the solution to the problems associated with “ageing Europe” – healthy young workers from other parts of the world would supplement the ageing work force. Now analyses suggest that in some countries at least, it appears that low-skilled migration exacerbates the financial challenges associated with population ageing.¹¹ It should however be noted that the opposite effect is dominant with regard to (presumably high-skilled) immigrants from high-income countries, who participate actively in the Norwegian labour market and thus strengthen public finances.

Refugees and their families are, however, not given residence permits *in order to* contribute to the economy, i.e. economic *absorption capacity* is not supposed to be the premise for policy-making. It is important to maintain that there are principal differences between labour immigration and refugee immigration. *Absorption capacity* consequently needs to be evaluated differently as compared to labour immigration. Sometimes it is necessary to accept a higher number than what institutional and economic parameters suggest, for humanitarian reasons. However, it is of equal importance that those who will actually remain are integrated as best as possible into working life and society in general. This has proven important in order not to overstretch other societal and political *absorption capacities* as well.

Distinct challenges that interact

The point we are making, then, is that labour migration and humanitarian migration are two distinct phenomena, driven by different factors and facing different institutional barriers. When the two converge in a small nation state, however, they can set in motion processes that are at least partly interlinked, and that drive developments that the native population are unlikely to be happy about. It *does* drain public budgets disproportionately and generate increased inequality and low wage competition – in other words, challenge the *absorption capacity* of the welfare model. A large part of the problem is that labour migrants and refugees compete for the same jobs. For this reason alone, high levels of labour migration makes the inclusion of refugees and their families more difficult. Also, the accessibility of EU labour by and large satisfies the extra labour demand in the Scandinavian economies, thus in practice reduces the attractiveness of opening other legal channels for immigration from the global South.

¹¹ See Holmøy & Strøm 2017 for an analysis of the Norwegian context.

Political aspects of *absorption capacity*

Adding to these concerns for the functioning of the labour market and the financial sustainability of the welfare state, are the question of the *political* sustainability of the welfare state. As we noted above, institutional ability and political willingness are related, but not necessarily in tune. There is a large, and rapidly growing, literature on the links between immigration and support for redistribution. Much of this literature is inspired by Alesina & Glaser (2004), who set out to explain discrepancy between the US and Europe in welfare spending, and linked this to the higher ethnic and religious diversity in the US. The question then is; as Europe becomes more like the US in terms diversity, will it also become more “American” in terms of welfare spending? Will political support for redistribution wither as Europe becomes more diverse?

According to the literature, the jury is still out on this question (for a review, see van der Meer & Tolsma 2014). Many studies find no links, or weak and inconsistent links, between the level of immigration to a country and the native population’s preferences for welfare spending (e.g. Mau & Burkhardt, 2009; Senik, Stihnoth & van der Straeten, 2009; Hooghe, Reeskens, Stolle & Trappers, 2009), or indeed on actual welfare spending (Banting, 2005). Other studies find partial links, for instance that support for welfare spending is lower in districts or counties hosting many immigrants. (Eger, 2010; Stichnoth, 2010). This was found in Sweden (Eger, 2010), although not in Norway (Hellevik, Hellevik & Bay, 2007). Another study found that a strong *increase* in the proportion of migrants in an area lowered support for welfare spending, but only in countries where inequality was high in the first place (Steele, 2016).

There are however also by now a number of studies indicating that higher rates of immigration *increases* support for welfare spending (Brady & Finnigan, 2014; Burgoon & al., 2012, Finseraas, 2008). This is plausible because increased immigration heightens the competition for scarce goods, including jobs and housing. Feeling the uncertainty, more people demand more social security, not less.

Interestingly, there is some evidence suggesting that intra-EU migration also potentially undermines support for welfare spending (Bay, Finseraas & Pedersen, 2016; Hjort, 2016; Cappelen & Peters, 2018). Cappelen & Peters suggest that “welfare chauvinism” can deflect negative reactions to third county nationals’ use of national welfare arrangements. Because EU regulations grant EU migrants access to benefits on equal terms as natives, welfare gate keeping is not a legal option. The only route left, then, is wholesale retrenchment (Cappelen & Peters 2018:1340). The lack of national manoeuvring space can exacerbate nativist

resentment, and so can benefit export. In a survey experiment, Bay et al. (2016) asked a representative sample whether they thought the universal child benefit should be increased. In the follow-up question, half the sample was reminded that an increase would also benefit “labour migrants from EU countries”, and that the benefit in such cases could be exported to the migrants’ county of origin. The other half was reminded that an increase would benefit “newly arrived immigrants”, with no mention of export. The former group was much less likely to support the increase in the benefit after being provided with the extra information. EU migrants have a much lower uptake of benefits than immigrants from countries outside the EU, and there is much less debate on their access to welfare arrangements – yet these studies suggest that this group can also potentially trigger resentment.

For the Nordic countries, it is worth noting that the link between welfare attitudes and immigration appears in many studies to be contextual, and weaker in countries with developed welfare institutions. The study by Steele (2016), for instance, only found that increased immigration lowered support in countries with high levels of inequality – in other words, not in Scandinavia. A key argument is that countries characterized by inclusive institutions (Kumlin & Rothstein, 2005; Crepaz, 2008), and good governance (Rothstein, 2017) are more resilient. In such countries, natives trust that the newcomers will be met in a fair and consistent way – as they themselves are. Immigrants may have dubious morals, the native may think, but that is of little concern as our institutions are incorruptible and will not be manipulated. In countries where natives generally regard institutions as corrupt and unpredictable, fears that immigrants will exploit the system is likely to run higher. Empirical findings (Crepaz, 2008; Rothstein, 2017) indicate that Scandinavia is resilient, but not immune, to weakened social trust in the face of increased diversity.

[Welfare chauvinism – the future for the Nordic model?](#)

A high influx of low-skilled migrants over time will, in all likelihood, require reforms of the generous Nordic welfare states. Taxes can be raised, and probably will be, but there are limits to this approach. Taxes are already seen as quite high in Scandinavia, and a further increase may easily trigger a backlash. It will also be necessary to lower expenses. Important political debates will arise over how costs, and hence services and benefits, should be cut. Besides, should benefits be reduced for all, or just for some? This “dualization-question” is controversial, indeed. So far the Nordic countries have entered divergent paths in this respect. (Grødem, 2017; Hernes 2018).

Cappelen & Peters (2018) start from the assumption that limiting benefits to insiders only would be the preferred option for many natives in developed welfare states. Opinion surveys support this notion to some extent. In the European Social Survey, for instance, only 16 per cent say that immigrants should have immediate and unconditional access to all the welfare arrangements in a country (Reeskens & van Oorschot, 2012). 41 per cent say they should get access after residing in the country, working and paying taxes for at least one year, while 35 per cent says they should only get access once they become naturalised citizens. 7 per cent say immigrants should never get access. The idea that newcomers should contribute (through working and paying taxes), or display belonging to the country (through becoming citizens) before they access welfare benefits, is thus popular. Respondents in the Nordic countries however appear to be less restrictive in this sense than respondents in many other countries. For instance, the most liberal view – that immigrants should gain immediate and unconditional access, was most popular in Sweden (36 per cent), Denmark (30 per cent) and Norway (26 per cent) (quoted in OECD, 2010).

Still, Denmark has introduced residence criteria in several social benefits, including the traditionally universal child benefit and the last-resort benefit social assistance. In order to receive the full amount of these benefits, the recipient must have resided in Denmark for more than a minimum period. Most notable is the new integration benefit (*integrationsydelse*), introduced in September 2015. This replaces social assistance (at a lower level), for persons who have not been residents for at least seven out of the last eight years. For other recipients, a benefit ceiling (*kontanthjælpsloft*) reduces social assistance if total benefits (social assistance plus housing and child allowances) exceed a certain amount. In addition, a new work requirement has been introduced: benefit recipients must work at least 225 hours/year in order to remain entitled to the integration benefit or social assistance (Kvist, 2018). In addition, the child benefit in Denmark is now phased in over time. In order to receive the full amount, the recipient must have resided in Denmark for at least 6 out of the last 10 years.

Norway has gone down a similar path with the cash-for-care allowance-. This benefit is paid to parents with children between one and two years, given that they do not use publicly sponsored child-care. Since 2017, this benefit is only payable to families where both parents have resided in Norway for five years or more prior to the claim. The Solberg government has also explored the idea of indexing benefits that are paid to recipients in countries with lower living costs, but has been forced to put the issue aside after receiving a firm ‘no’ from the EFTA court (Meld. St. 40 (2016–2017)). The logic of these cuts seems to be that if

immigrants' access to the territory cannot be controlled, they can at least be excluded from (parts of the) national welfare arrangements. Under the EEA/EU laws on free movement and anti-discrimination, such limitations can however not legally be applied to EU citizens. This fact has in turn induced legitimacy concerns – and new opposition to the Norwegian EEA-agreement.

Ideal typical responses to the challenges¹²

We can imagine three ideal-typical routes to inclusion of immigrants. The ideal-types clarify the connections between the basic premises, methods and possible outcomes in integration endeavours. None of the ideal-types should be understood as direct policy recommendations, as future policies will have to combine elements from all three models. The three models emphasize various aspects of market-based welfare societies:

- The rights-based universalism-approach emphasizes social welfare rights, income maintenance and social equality;
- The market-based liberalism-approach emphasises inclusion through the labour market, processes for wage formation and labour market flexibility;
- The social investment-approach emphasises investments in skills, qualifications and social capital.

Below, we describe the three ideal-types and point out their strengths and limitations.

Rights-based universalism can be said to be the approach traditionally favoured by the political left: the main aim is to ensure a high standard of living for all, and the main method is generous social benefits for those who cannot make a living through the labour market. Conditionality of benefits is used only to the extent it is assumed to improve the recipients' level of living or social capital. In the labour market, wage equality and anti-discrimination is key. The labour market is, however, seen merely as one of many arenas for social participation. Other arenas include the family, the local community, and civil society organisations. Welfare benefits will be the same for all legal residents, with mild requirements for previous contributions and no waiting periods.

There are a number of in-built challenges associated with this model. The most obvious one is fiscal. It is unlikely that such generous, rights-based policies can be funded over time, and the model will in any case demand very high levels of taxation. It is also unlikely to be politically

¹² This section is based on NOU 2017:2, chapter 11. Both authors were involved in writing this chapter.

sustainable, as resistance to “welfare tourism” and “unproductive immigrants” mount. For immigrants residing in a country devoted to this model, isolation and “parallel communities” are a real risk. The payment of generous benefits, with no conditions or activity requirements attached, may very well lead to “subsidised isolation” in segregated communities. For long-term integration, this is a detrimental development. The rights-approach *may* entail social and cultural absorption in the receiving society, yet lack of economic self-sufficiency, may in the longer run challenge political *absorption capacity*.

The second stylised approach is “*market-based liberalism*”, where the emphasis is on integration through the labour market. The overall aim will be full employment in an efficient labour market, and key measures include labour market flexibility, market-driven wage differential, and low taxation. Welfare benefits are low and conditional, with strong emphasis on the activation of recipients. The labour market is not just one arena for participation, it is *the* arena. Social integration happens through labour market participation, and through the pride of economic self-sufficiency and hard work.

This approach, when taken to the full, will imply high levels of inequality. A segregated labour market will develop, where the wages in the lowest-paying jobs are likely to be below subsistence level. Solidarity between groups is likely to be weak, which can lead to declining social cohesion and an increased risk of conflict. Newcomers to such a system are likely to be over-represented in unattractive, low-paying jobs, with little prospect for advancement. This is a poor basis for integration in the social and political sense, and may lead to segregation, where the only contact point with the larger community is a workplace that may very well be dominated by other immigrants. Thus, immigrants may well be absorbed in the labour market, yet may risk remaining “unabsorbed” in a social, cultural and political sense.

If the rights-oriented approach is the vision of the traditional left, and the market-oriented approach is the vision of the traditional right, the third ideal-typical approach – *social investment* – represents the third way. The overall aim of this approach will be to have a well-qualified work force with high levels of employment, and with significant social mobility. Key measures include education, qualification and early investment. The labour market is central, but prompt employment in itself is not a main goal: *stable* employment and life-long learning are given priority. Welfare benefits are tweaked to encourage qualification and participation, with the possibility of economic sanctions for those who do not comply. Both the carrot and the stick are used.

Social investment enjoyed widespread popularity in the social policy literature in the early 2000s (Morel, Palier & Palme 2012). Still, the approach is not without downsides. It demands considerable resources, both in terms of human capital – all the teachers and councillors that will carry the strategy – and in terms of money. When it fails to deliver on its high ideals, frustration and marginalization may follow. Also, because the emphasis is on qualification, many potential workers will at any time be outside regular employment while upgrading their qualifications. For immigrants it carries certain risks to be treated as ‘investment objects’. The emphasis on qualifications, which in many cases implies turning illiterate adults into productive workers in a knowledge-intensive economy, carries the risk of failure and subsequent withdrawal. For those who do not succeed, and are unable to obtain the desired qualifications, the approach carries no real benefits. Those who remain reliant on social benefits will however face a series of demands to turn up to meetings with the benefit office, participate in courses and training, accept temporary, subsidised employment etc. This is likely to cause frustration and resistance, and ultimately it must be asked if this is efficient use of public funding. In terms of *absorption capacity*, this strategy is directed towards creating *increased* capacity in a wide sense: empowering immigrants economically through training and education for employment; investing in their social capital in order to have them participate in civil society and thus being ‘absorbed’ socially and culturally. The risk factor here is the political *absorption capacity* in the longer run, if the strategy does not bear fruit.

The Nordic welfare model has traditionally balanced elements from all three ideal-types. High employment rates – work for all – is a cornerstone of the model, and this has arguably become more important the last 20 years, as the commitment to activation in social policy has increased. The other cornerstone is high and inclusive social benefits, and a third, the commitment to social investment. If the Nordic countries face a long period with high inflow of low-skilled migrants, combined with an ageing population and weaker public finances, it seems likely that the balance of the three elements will alter. The *absorption capacity* of the existing institutional configuration will be exhausted, and new constellations will appear. How the new constellation will look, will depend at least partly on which political parties are in control in a given situation. The weakest link, in the short term, is probably the capacity of the education and qualification system. Instead of tailor-made qualification processes for the individual, educators may have to resort to standardised courses with uncertain outcomes. There is also a risk that activities in the unregulated, “grey” labour market increases, that rates of inequality grows, and that the demand for public benefits increases to the point the welfare

state can no longer be funded without severe tax increases. A situation such as this will lead to calls for policy innovations, which may or may not be in tune with the traditional values of the inclusive welfare states.

Absorption capacity in the Nordic countries

We have discussed the usefulness of the concept ‘absorption capacity’ as a spin-off of Betts’ and Collier’s *Sustainable Migration Framework*. We have wanted to draw attention to some of the challenges and contradictions that confront their approach when operationalized on a *national* level, using the Nordic Model as a strategic case.

The Nordic welfare model is, as we have seen, vulnerable to large inflows of persons with low qualifications. The public cost of low skilled immigration will be higher in Scandinavia than in countries with less ambitious welfare models, and people in the lower strata in the labour market pay the major price. Low skilled immigration reduces social mobility and increases social inequality (Hoen & al., 2018). In this respect, the *absorption capacity* of the Nordic Model is a vulnerable entity.

On the other hand, the model is also a resource for promoting long-term integration. Low economic inequality and solid educational institutions contribute to long-term inclusion. This duality of the model – representing both a problem and a comparative advantage – is reflected by the fact that many descendants of immigrants are successful in important areas of society, like education and the labour market. In addition, studies indicate that descendants of immigrants largely adapt to a range of the majority’s norms and values (Friberg, 2016). The key institutions of the model appear to form a good basis for integration of both children who arrive early and descendants of immigrants. The major challenge is the capacity to absorb the first generation – which is also by far the most numerous category.

Absorption capacities in the Scandinavian countries (and in other nation-states) will be contingent on developments in a series of societal and institutional spheres: within law-making, business, industrial relations, science and politics, to mention a few. And the widening or shrinking of the capacity will be premised and shaped by multi-layered dynamics, from local structures to supranational bodies.

The Nordic welfare model has historically been premised on immigration control. The universalistically oriented welfare system was from the outset not taking supply-driven immigration into account. The Nordic model, based on the interplay between a generous and

rights-extending welfare state and a well-regulated labour market, does not tolerate substantial sections of the population being marginalized. New members of society must be included in the social and economic structure; otherwise the model runs the risk of being undermined in the longer run.

In a Nordic context, *absorption capacity* – as we have defined it – must be systemically premised on the aim of including people as equals. This implies that citizens must have the same structural opportunities, and the institutional backing that allows them to achieve at par with the majority population in the longer run.

The *rate* of immigration is a pertinent factor. In order to equip low skilled newcomers with the required qualifications to meet labour market demand, institutional capacity in terms of basic education and skill formation is a central concern. Besides, large inflows within a short time span tend to cause - and reinforce - social segmentation and residential segregation. This again tends to reduce contact across residential and social dividing lines, which may, in the longer run, bolster mutual distrust and weaken social cohesion. Segregation is also most likely a trigger for weaker *political absorption capacity*.

Cultural absorption capacity is the most elusive and incoherent item in our context. In Scandinavia, culture, trust structures and effective and generous welfare institutions have been closely connected through the generation of the welfare model. Yet the culture itself changes along with increasing immigration and with a series of other factors. Newcomers contribute in a constant redefinition process through voting in local and general elections and as participants in civil society. *Politically*, this means that the basis for legitimacy of the immigration- and integration-policies, also changes with time.

Absorption capacity will be strongly related to adjustment capability in the years to come. There is a need for institutional innovation which will involve new combinations and emphases of the available policy tools. The success of the innovations will again impact on the willingness of the population to welcome new migrants.

Finally, we want to reemphasise that the concept *absorption capacity* is not a rigorous analytical instrument. It cannot be used to set up a formula and present a general calculation of ‘number of immigrants per capita’ a country or a region can accept without risk. The capacity of a given state to absorb immigrants with diverse characteristics varies with several known and unknown factors, and depends on a number of feedback loops that we cannot predict. *Absorption capacity* is, however, a concept that takes seriously that there *is* a limit to

how many newcomers receiving countries can 'absorb' without risking institutional overload and political backlash. It is a heuristic tool that – hopefully – opens up for a better discussion about the factors that influence the context of different receiving countries, with their different national institutions, political traditions and history/culture. These discussions must be concrete in terms of time, place and the nature of the ongoing immigration challenge.

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