

Wage policies and the integration of immigrants

This policy brief is an excerpt from the report
Integrating Immigrants into the Nordic Labour Markets



Summary

Most Nordic countries struggle to integrate low-skilled immigrants. High wage floors increase the risk of adverse employment effects for this group, as employers may not find it profitable to hire them. Reductions to the minimum wage could improve labour market prospects for low-skilled immigrants, but in order to have discernible effects such cuts would need to be significant in scale. Targeted reductions in the minimum wage for new, previously non-existing jobs, along with increased differentiation of minimum wages, may provide an appropriate balance between the conflicting goals of high employment and low wage inequality.

Simon Ek, PhD Student, Department of Economics, Uppsala University, and Research Institute of Industrial Economics (IFN), simon.ek@nek.uu.se

Per Skedinger, Research Institute of Industrial Economics (IFN) and Centre for Discrimination and Integration Studies, Linnaeus University Växjö, per.skedinger@ifn.se

Background

The Nordic labour markets are characterised by low wage disparity and high minimum wages based on collective agreements. Theoretically, high wage floors increase the risk of adverse employment effects, as they reduce demand for low-skilled workers. As such, there are relatively few low-skilled jobs available for the substantial number of immigrants in the Nordic countries who have little education and poor language skills. Labour market integration is therefore particularly problematic for this group, but much less so for immigrants with higher skills. Most empirical studies in this area suggest that the

relatively high minimum wages in the Nordic countries have negative effects on employment, as they are at a level that is not commensurate with the productivity of many low-skilled immigrants.

The Nordic welfare models are dependent on high levels of employment. Arguably, this makes successful integration of immigrants especially important in the Nordic region. Improving labour market integration is therefore crucial for achieving better economic outcomes, both for individuals and society as a whole.



Lower minimum wages for new types of jobs

Could reductions in minimum wages improve employment prospects for low-skilled immigrants? We think so, but any such cuts would probably need to be significant. This therefore implies a trade-off between higher rates of employment and greater wage inequality, which should be taken seriously.

Global minimum wage reductions, pertaining to the whole labour market, are likely to result in higher employment but also wider wage disparities, since many people in jobs – both those on minimum wages and some who would be indirectly affected through spillover effects – could see their wages decline. Some form of targeted minimum wage reductions could achieve a better balance between the two conflicting goals of high employment and wage equality.

We propose that minimum wage reductions should apply only to new types of permanent low-skilled jobs. Workers in these jobs might include people who do odd jobs, caretakers, manual labourers (e.g. in construction), “pickers and packers” (in warehouses), etc. – in other words, roles that provide various types of assistance to more skilled workers. If the new workers complement the existing work force, and therefore help to increase its productivity, then wage spillover effects could be positive rather than negative.

It is preferable that such minimum wage cuts are negotiated between employers and unions, rather than introduced through legislation. Political involvement in wage setting is not only alien to the traditional Nordic labour market models, but in the longer term also increases the risk of opportunistic election promises from politicians.

Targeted minimum wage reductions could be combined with other changes in the minimum wage

systems in the Nordic countries. The differentiation of minimum wages within agreements is currently quite modest and could be made wider. For example, greater differentiation based on experience should reduce the risk of low-wage persistence for workers in entry-level jobs.

Generous training and education opportunities could also further reduce the risk of workers being trapped in low-wage jobs. Even so, it is expected that workers without the necessary skills required by current minimum wage levels will receive lower wages in the future than people already in low-wage jobs. This speaks to the usefulness of targeting earned income tax credits at new workers in these types of jobs, in order to reduce net-of-tax wage inequality and stimulate the labour supply.

The low take-up rates of subsidised employment are sometimes raised as an argument against the efficacy of minimum wage cuts. We disagree with this line of reasoning. Employers cite a multitude of reasons for not using such subsidies, e.g. the belief that eligible unemployed people do not have the appropriate skills, a lack of knowledge about the subsidies, the demands of maintaining contact with the authorities, the need for mentoring and so forth.

Policy complementarity

Discussions on labour market integration have suffered from a tendency to regard minimum wage reductions as a substitute for other policies, such as adult education and employment subsidies. However, it is more constructive to see them as complementary. Taken in isolation, minimum wage reductions, adult education and employment subsidies cannot be expected to provide a strong boost to employment, but as part of a wider policy package, the combined effects on the integration of immigrants into the labour market could be substantial.

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