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Migration and the Nordic Welfare Model

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Migration and the Nordic welfare model

June 2025

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Abstract

Migration is vividly considered to be a particular challenge for extended welfare states like the Nordics since high taxes and entitlement to the social safety net and provision of welfare services may create both pull and push effects in migration. The financial viability of the model is challenged if immigrants tend to be net beneficiaries and emigrants net contributors to the welfare arrangement. Critical for this issue is the labour market performance of migrants. The experience of the Nordic countries is reviewed, and the possibility of reconciling the welfare model with migration is discussed, focusing in particular on employment and public finances. Policy responses to protect welfare systems by introducing conditionalities in the social safety net based on residency and employment, as well as differentiated and selective immigration rules, are discussed.

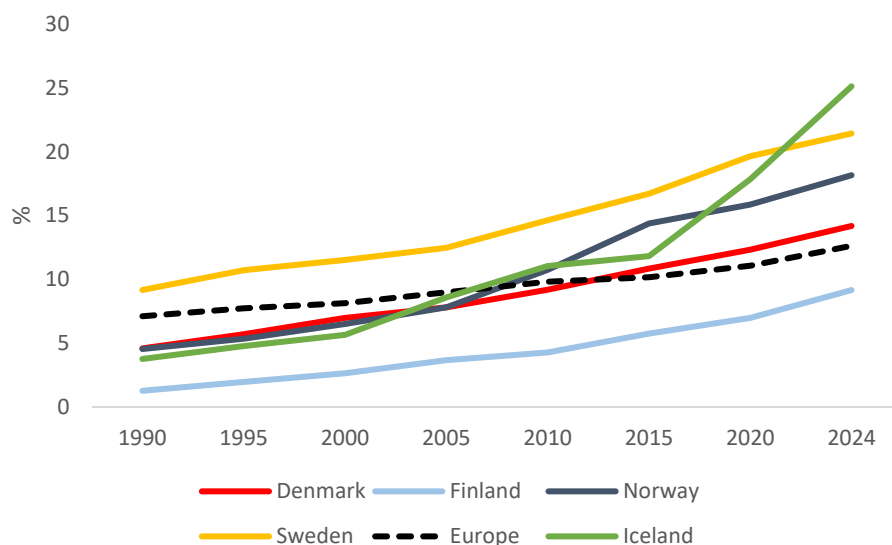
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1. Introduction

Globalization is widely perceived to be a particular threat to the Nordic Welfare Model, as it may challenge the scope for tax-financed universal welfare arrangements. Especially the possibility of reconciling migration with the welfare model has been debated and it is a politically contested issue. The debate is difficult because the Nordic countries historically have taken a humanitarian position with rather liberal immigration rules (they are also among the countries with the highest level of foreign aid). However, the fact that the employment rate for asylum seekers (including those arriving through family reunification) is low has been a source of contention.

The Nordic countries have all experienced a significant increase in their migrant populations in recent years, see Figure 1, driven by migration flows both within and outside the EU-area, see also Brandmann et al. (2012). This trend reflects not only the impacts of wars, conflicts, and natural disasters, but also differences in income and living standards, as well as political developments such as the establishment of the EU single market, which facilitates the free movement of people. The upward trend in the stock of migrants in the Nordic countries follows a trend among high-income countries, see OECD (2023). Sweden has historically had the largest migrant population (mainly migrants from neighbouring countries) and has in recent years experienced a larger increase than most other countries. Worker migration has contributed to a steep increase in the migrant population in Norway and Iceland.

Figure 1: International migrant stock as a percentage of the total population, Nordic countries and Europe, 1990-2024



Data source: International Migrant Stock 2024. United Nations Department of Economic and Social Affairs, Population Division.

Debates on the consequences of migration can be divided into "labour" and "welfare" views. The "labour" view focuses on differences in economic conditions as a trigger of migration flows. If labour migration responds to differences in wages and employment possibilities, worker migration contributes to a more efficient allocation of labour, which also reduces disparities in economic developments across countries. This is a key argument underlying the internal market in the EU, which not only comprises free mobility of

goods and capital but also labour. This adjustment mechanism is particularly important for member countries of the European Monetary Union¹. While there are efficiency or allocative arguments for labour migration, it is also contested due to its distributional consequences. In particular, it may reduce wages or job possibilities for the less skilled segment of the labour market. In recent years, labour migration has been linked to demographic changes as a possible way to mitigate the consequences of a declining (absolute or relative) workforce.

The "welfare" view or concern is that migration flows may adversely affect the financial viability of the welfare state. This may happen if countries with generous welfare arrangements attract— the pull factor— immigrants who benefit from these arrangements, while simultaneously inducing— the push factor— the emigration of individuals who are net contributors. The former issue particularly relates to asylum seekers and family reunification, as these groups tend to have low employment rates and therefore higher welfare dependency rates. If these mechanisms are strong, there are obvious implications for the financial viability of a generous welfare model.

These different perspectives on migration also highlight that migrants are not a homogeneous group, as should be expected given the different migration drivers—education, work, refugees, and family reunification. This, in turn, has implications for the age, education, country of origin (cultural background and norms), and gender distribution within the group of migrants. Hence, it is not possible to make unconditional statements on how migration affects the labour market or public finances; a more disaggregate approach is needed.

This chapter discusses the key channels through which migration affects the Nordic welfare model and the implied policy challenges. Section 2 starts by examining how different groups of immigrants perform in the labour market. This is of importance in its own right, but also crucial for how migration affects public finances, as discussed in Section 3. These issues may be exacerbated by pull and push factors in migration released by the properties of an extended, tax-financed welfare state. Section 4 addresses these issues and explores how both immigration and emigration interact with welfare state entitlements and obligations. In response to immigration, the political responses include changes in both welfare benefit eligibility conditions and immigration rules, which are discussed in Section 5. Section 6 offers a few concluding remarks.

2. Labour market performance

The economic effects of immigration originate in the labour market performance of migrants. Immigration not only affects the size of the potential work force but also its composition, depending on the type of migrants. Worker immigrants may thus have both higher productivity and employment rates than the average level for the native population, and vice versa for immigrants arriving for humanitarian reasons and thus typically from low-income countries. Empirical evidence points to worker immigrants having a positive effect on output² and productivity, while this is not the case for other types of immigrants, see e.g. IMF (2020).

¹ Since monetary policy by definition is common, labour migration is normally considered one of the conditions to ensure an "optimal currency area".

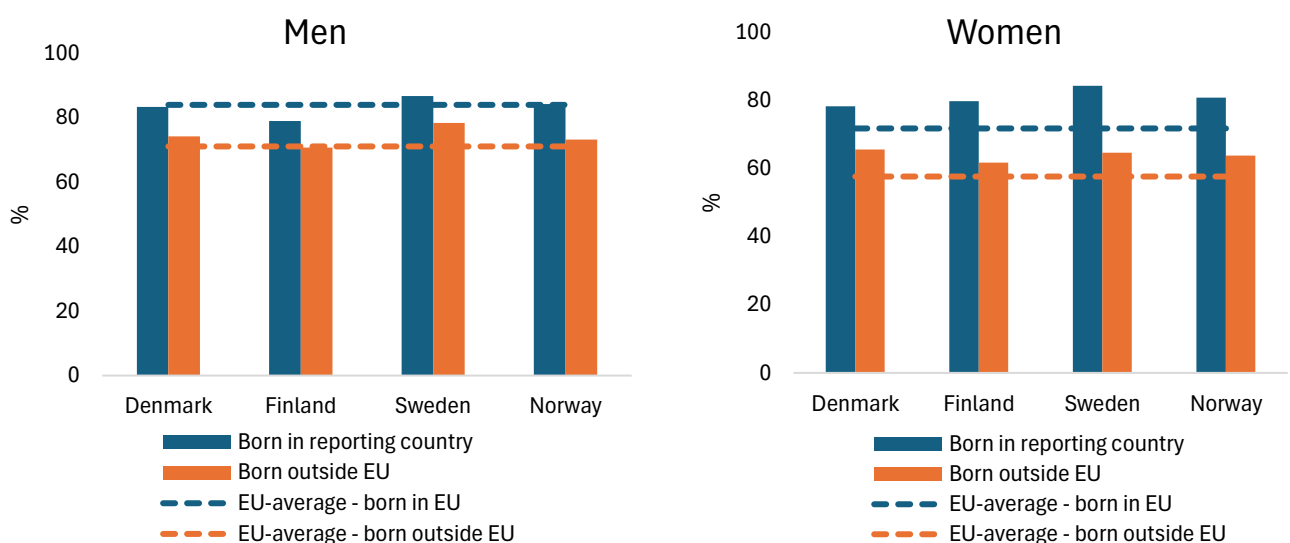
² While immigration tends to increase output measures like GDP, this is not the case for per capita measures unless immigrants have higher wages and/or employment rate than the average person in the population, see the chapter by Karl Walentin.

The labour market performance of immigrants obviously differs depending on the reason for migration - studies, work, asylum, or family unification. Worker immigrants who bring specialized knowledge can enter the labour market directly, while refugees arriving from a different culture have more difficulties in entering the labour market. The heterogeneity implies that the composition of the stock of immigrants is crucial for the economic effects, and it is impossible to make general unconditional statements on the economic effects of immigration.

When considering these issues in a Nordic context, two aspects are particularly important. First, employment rates are generally high for both men and women, reflecting a commitment to gender equality, and welfare arrangements like day care are structured to enable and sustain this balance. Second, the wage structure is relatively compressed, and minimum wages are high, and hence working poor is not an option. Historically, it has been possible to reconcile such a wage structure with high employment rates by focusing on education and skill acquisition to ensure that qualifications match the wage structure. This points to a particular challenge for refugees (including family unification) originating from low-income countries since they typically have low levels of skills and education.

The essence of the labour market challenge of migration is captured by Figure 2, showing (average) employment rates for both men and women for natives and immigrants from outside the EU³. Employment rates for natives are as high or higher (for women) in the Nordic countries than in other EU countries. The labour market performance of immigrants can be compared to other countries or to the native population. The employment rates for immigrants from outside the EU are as high or higher in the Nordic countries than in the EU, and hence from this perspective immigration is not standing out as a labour market problem in the Nordic countries. However, when comparing the employment rates of immigrants to those of the native population, there are large gaps, especially for women. Hence, from this perspective there is a significant challenge.

Figure 2: Employment rates by country of birth – Nordic countries and the EU, men and women (%)



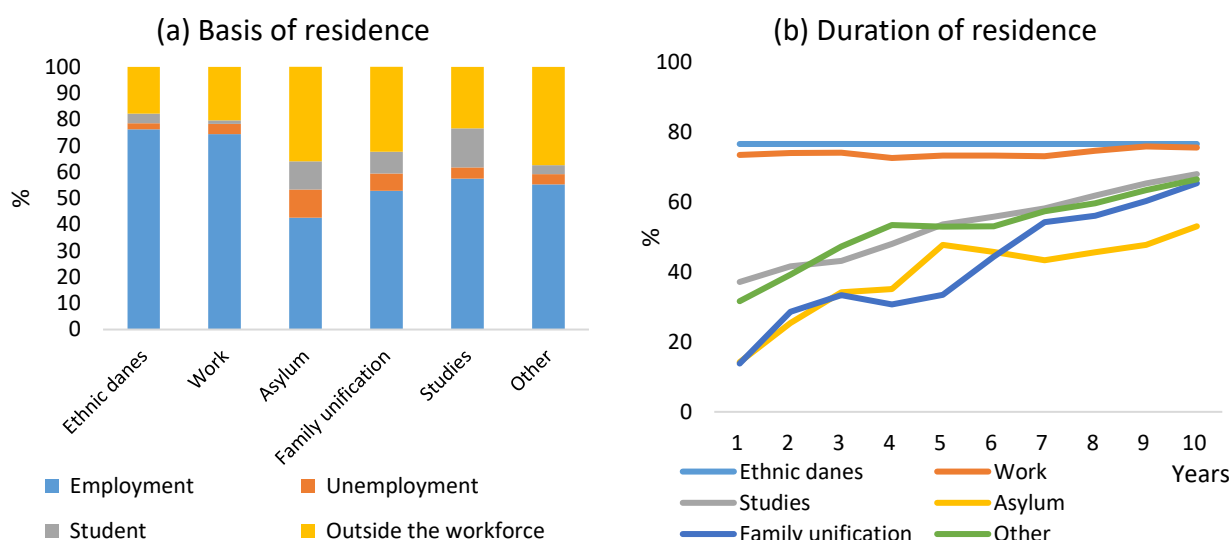
³ Note that this group also includes worker migrants.

Source: Eurostat (2023).

The group of immigrants is heterogenous, and it is to be expected that the reason for admission is important for employment rates, as is illustrated in Figure 3.a using data for Denmark. However, these patterns also hold in the other Nordic countries, see e.g. Nordic Economic Policy Review (2017). This shows that the employment gaps reported in Figure 2 mainly arise due to lower employment rates for refugees and family unification. The employment rates tend to increase with the duration of residence in the country, but they do not reach the level of the incumbent population, see Figure 3.b.

Labour market integration of refugees in Denmark, Norway and Sweden is compared in Hernes et al. (2022). They find that the employment rate after some years of residence peaks around 60% for men and 40–50% for women. Generally, earnings levels are below the average, and only about 35–40% of the men and 15–20% of the women have reached earnings levels close to the median income for the general work force after 10 years of residence. Labour market integration of refugees is relatively similar in Sweden and Norway, while both employment rates and earnings levels are lower in Denmark.

Figure 3: Employment rates; basis of residence and duration of residence, Denmark, 2019

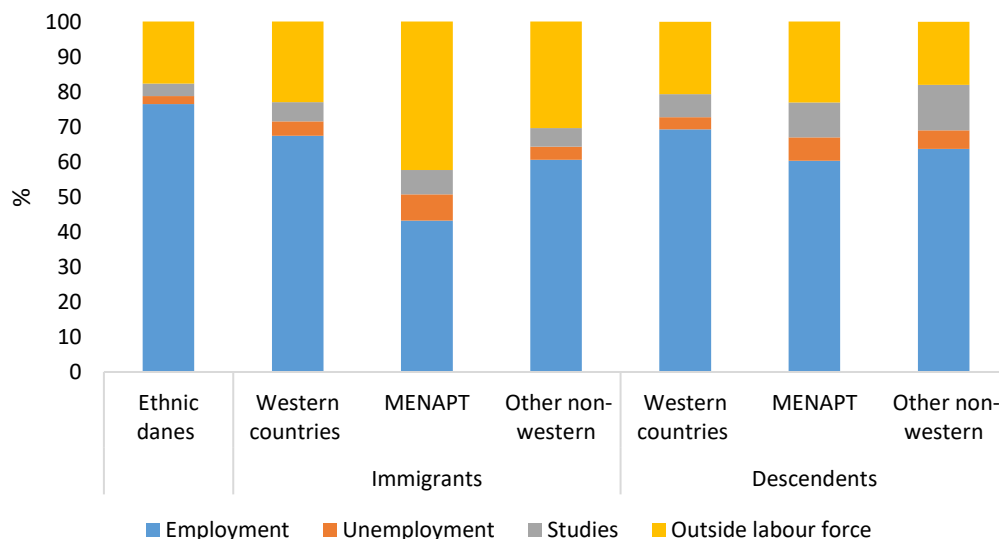


Note: (a) and (b) for age group 25-64.

Source: Ministry of Finance (2024).

There are also systematic differences across countries of origin which correlate with the reason for being admitted into the country, see Figure 4. Employment rates are generally higher for immigrants from Western countries and other non-Western countries (mainly Asia), and lowest for MENAPT countries. Employment rates are higher for descendants than for immigrants, and the same country patterns apply for the descendants.

Figure 4: Employment and country of origin, Denmark 2019



Note: MENAPT countries: Middle East and Northern Africa, Pakistan and Türkiye.

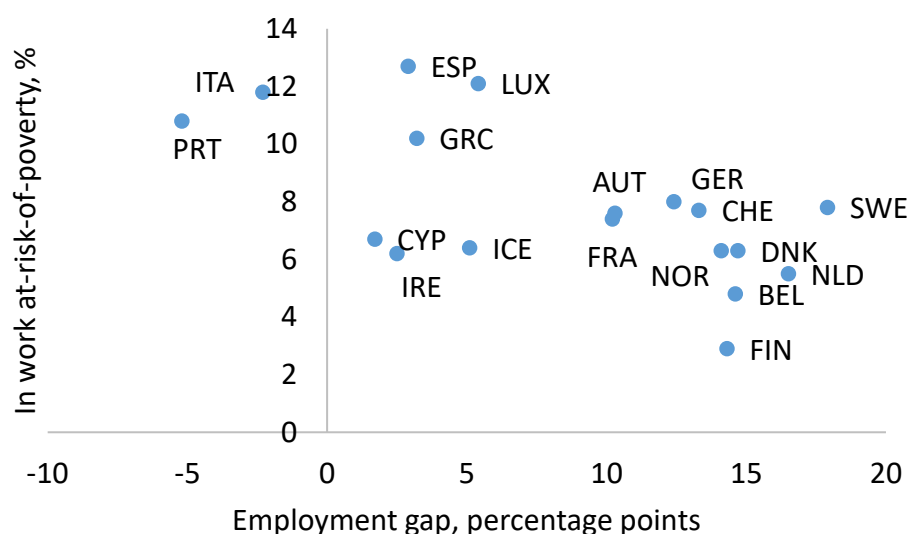
Source: Ministry of Finance (2024).

The large employment gaps for immigrants from non-Western countries can be related to the design of the welfare state through various channels.

First, it is a premise of the Nordic model that working poor is not accepted, and accordingly minimum wages and social transfers are relatively high. To ensure that this is consistent with a high employment level, it is required that the qualifications of the work force are sufficiently high. If so, it is possible to make a compressed wage structure consistent with a high employment level. This is challenged by the immigration of people with low qualifications⁴. This dilemma is also reflected in cross-country evidence showing that countries with a low risk of working poor have higher employment gaps between immigrants and the native population, see Figure 5. To put it differently, high minimum wages prevent working poor but cause a higher employment gap, pointing to a trade-off between employment and inequality.

⁴ Such barriers may be overcome as self-employed. Immigrants from non-western countries are overrepresented among the self-employed in both Denmark and Sweden (see e.g. Andersson and Wadensjö (2004), and while their reported incomes are relatively low. These figures may not fully capture their actual earnings due to possible underreporting, see Andersson and Lindberg (2025).

Figure 5: In work at-risk-of-poverty and employment gap, immigrants



Note: In work at-risk-of-poverty is measured as the fraction of full-time employed with an income below 60% of the median income. The employment gap is measured as the difference between the employment rate of individuals from EU-27 countries and immigrants from outside EU-27, 2019.

Second, a generous social safety net may diminish economic incentives to work. This is a general problem, but the problem is largest for individuals with a low potential wage. Since immigrants from low-income countries are overrepresented in this group, it follows that the incentive problem may be more binding for this segment of the labour market. For this group, this problem may be strengthened if their reference point is a comparison of the living standard offered by the social safety net and the one in their country of origin. Whether immigrants are more dependent on the social safety net when controlling for their socioeconomic status (education, health etc.) is an open question⁵.

Thirdly, norms and traditions may contribute to explain high employment rates in the Nordic countries for both men and women, see e.g. Blau (2015), Blau and Kahn (2015), and Neuman (2018). This is related to gender role attitudes and the division of labour within the family in relation to "bread winner" roles, child-care, etc. In the Nordic countries, institutions and policies (e.g. child-care) have developed to support a high labour force participation of both sexes. These factors may, in particular, play a role in accounting for the large gaps in employment rates for immigrant women. Different work norms and culture may mute the responses to economic incentives.

Finally, the labour market position of immigrants may be affected by discrimination. While there is some indication that this is a problem, it is not clear whether this problem is larger in the Nordic countries than in other countries.

A wide set of policies have been implemented to target or mitigate the aforementioned barriers. Policy measures can be divided into those addressing supply-side issues related to work incentives, demand-side

⁵ Bratsberg et al. (2020) analyse how disability benefits affect work incentives. Higher benefits reduce employment and earnings, and this effect is larger for immigrants. However, this gap is largely explained by differences in earnings prospects, family structure, and job opportunities.

issues related to the demand for labour, and qualification gaps and other barriers that reduce matching possibilities. Policies addressing the supply side include benefit reductions (eligibility conditions) and various activation requirements attached to benefits (also conditions for residency). On the demand side wage subsidies induce employers to hire immigrants even if their productivity is below the going wage. This is also considered an investment providing on-the-job training, including knowledge about workplace practices and norms, which improve future job prospects on normal terms. Policies targeting qualification gaps include integration and language programmes, participation in ordinary education or labour market-oriented programmes (e.g. job training), and counselling. Across these policies, settlement policies may contribute to allocating immigrants (refugees) based on job and housing possibilities, but also to prevent segregation.

In their comparative study, Hernes et al. (2022) conclude that Denmark has had a greater focus on employment measures, particularly unpaid job training; Norway has increased the focus on ordinary education in recent years, mainly at lower levels; Sweden has a substantially greater share enrolled in education at minimum high school levels and a higher share receiving subsidized employment, compared to Denmark and Norway.

Arendt et al. (2022) summarize the effects of 40 years of different immigration and integration policies on the labour market outcomes of refugees in Denmark, and supplement with evidence from the other Nordic countries. The general findings are that integration/language programmes, settlement policies, and employment-oriented policies (in particular private sector job training programmes) have a positive employment effect. Reducing social benefits to strengthen work incentives also has an effect - stronger for men than women - but it comes at the costs of increasing inequality and risk of poverty among the non-employed. In a recent study Arendt (2024) also finds that benefit reductions have positive employment effects for men but not for women refugees. Although men succeed in finding a job, the effect is not large enough to prevent a decrease in disposable income (20%) for this group. This has adverse effects, primarily for women, who more often seek health care, are more often hospitalized, and are more often charged with property crimes. Hence, these policies may contribute to reduce employment gaps, but not to eliminate them, and hence they are associated with widening income gaps.

Whether these employment effects are large or small is open for discussion. First, the moderate responses may be taken to reflect that labour market possibilities for this group are more constrained by insufficient qualifications in the broad sense rather than work incentives. Second, the findings highlight that benefit reductions involve a trade-off between the gains to those finding a job and the costs to the rest ending up with lower benefits and thus living standards. This may also be associated with dynamic effects, which could be positive for children growing up in families where the parents are in work, and negative for those children growing up in families close to or below the poverty line. Jakobsen et al. (2017) consider the effect of benefit reductions on educational outcomes of the children, and do not find any effect. Moreover, children of refugees affected by benefit decreases do not work more in their youth to compensate for lower family income. However, Dustman et al. (2024) find that the benefit reductions in Denmark (for details see Section 5 below) had adverse effects on children during their preschool and school years. These children showed poorer school performance, reduced well-being, and lower overall educational attainment. As adults, they experienced lower employment and earnings, as well as higher rates of criminal activity.

Immigration also raises distributional issues for the incumbent population since it may reinforce the race between technology and education by increasing the supply of labour with low levels of education. This may exert a downward pressure on wages or employment in the lower end of the income distribution.

Hence social tensions may arise if low-wage groups face a deterioration in their labour market prospects⁶. At the same time high-income groups may benefit from a larger supply of unskilled labour reducing the price of some services. Minimum wages – set either by law or via collective agreements – imply that the downward pressure on wages is muted. However, this does not rule out that migrant workers can underbid national labour standards. Even though, in principle, migrant workers must be offered the same conditions as domestic workers, there are various ways to circumvent this. This may happen via so-called posted workers who temporarily work in another EU member country, and work under conditions determined in their home country. In a meta-analysis of the empirical literature, Nedoncelle (2024) finds that the effect of immigration on native wages is generally small or zero, except for the US. Foged et al. (2022) show that institutions play an important role and may shield the wage effects.

Distributional issues may arise in another dimension if there is locational segregation between immigrants and ethnic minorities and the native population, see Tunström and Wang (2019). This is most pronounced in Sweden, but it is also an issue in Denmark. In Norway it is an increasing problem, while it is less of an issue in Finland. A potential important effect of geographical segregation arises if it affects the educational options and performance of the children. This issue has been discussed in relation to a reform in Sweden in the early 1990s allowing for more flexibility in the choice of school. Böhlmark et al. (2015) show that school segregation between immigrants and natives, and between children of high- and low-educated parents, has increased in regions where school choice has become more prevalent. However, the effect is quantitatively small, and Sweden still ranks as a country with a low-to-medium segregated school system. The Nordic tradition of unified compulsory schooling can be seen as a way to minimize the consequences of segregation and reduce impediments to equality of opportunity. However, parental background remains of strong importance for children's performance in education, but there is no indication that this effect has become stronger in light of schooling reforms; see Holmlund (2016) for references and discussion.

3. Public Finances

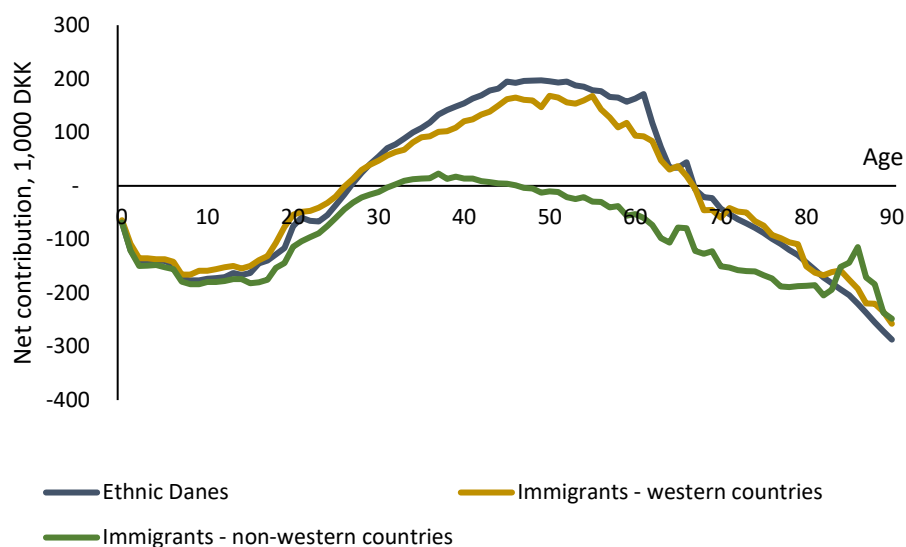
The Nordic welfare model builds on universal principles aiming at ensuring equal access to the social safety net and welfare services based on needs rather than the ability to pay. The financial basis of the model rests on various sources of taxes, of which the direct and indirect taxation of earned income accounts for more than 80% of all tax revenue, see e.g. Andersen (2015). It is a defining property that entitlements are generally unrelated to contributions, and this is essential for how the model provides insurance and redistributes. It is implied that changes in the share of the population being in employment have large budget effects since the non-employed are generally entitled to income support and contribute less tax payments. Hence, a transition from non-employment to employment has a double budget effect by reducing social expenditures and increasing tax revenue, and vice versa in the case of job loss. Since the welfare state is extended, this effect is much stronger than in countries with leaner welfare states. It is implied that a large employment gap for immigrants (refugees/family unification) has a significant financial effect for the welfare state.

The essence of the welfare model is captured by considering the age dependency in the net contributions to the welfare state, see Figure 6. The net contributions are computed as the tax payments less transfers and use of welfare entitlements for an average person of a given age. As a child and young adult, the average individual is a net beneficiary (child-care and education). In their 20s, after completing education, the average person becomes a net contributor, and then again becomes a net beneficiary when in the age

⁶ It is also possible that some groups may benefit if there is a complementarity between the skills possessed by native workers and those of worker migrants, see e.g. Foged and Peri (2016).

group 65+ (primarily via more use of health care and pension benefits). This is a social or intergenerational compact interlinking individuals in different phases of the lifecycle; the working age population ensures via tax payments the financial basis for the young and the old. Figure 5 also shows the age-dependent net contributions for immigrants. While the difference between ethnic Danes and immigrants from Western countries is marginal, there is a significant difference for immigrants from non-Western countries. These differences are closely correlated with the differences in employment rates, see e.g. OECD (2013) and Hansen et al. (2016).

Figure 6: Age-dependent net contributions, Denmark, 2017

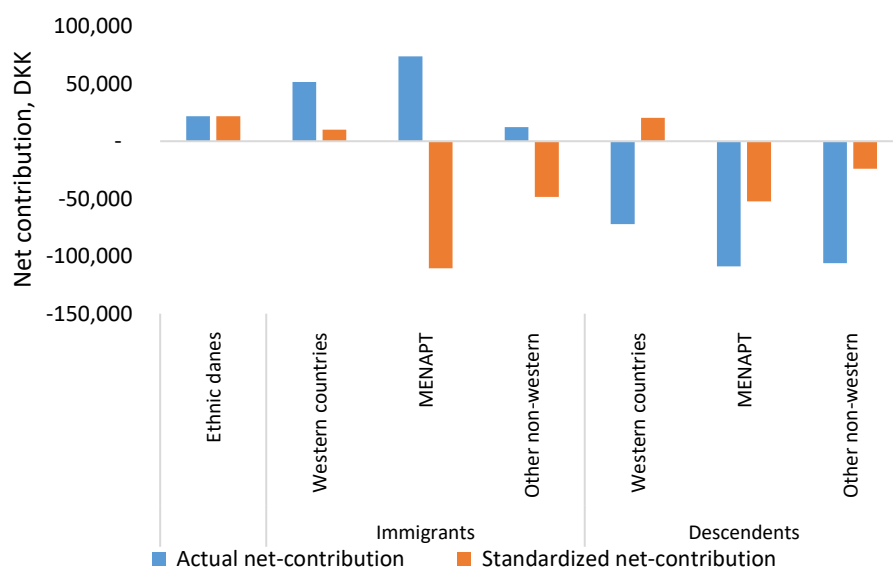


Source: Finansministeriet (2020).

The Danish Ministry of Finance regularly publishes reports assessing the implications of immigration for public finances⁷. Figure 7 shows the average annual net contribution for native Danes, immigrants and descendants from non-Western countries. Immigrants have a different age distribution (being younger) than the population in general, and it is also changing over time to the large variations in the inflow of immigrants. To take account of this, the figure reports both the actual and standardized net contributions, where the latter assumes an age distribution as for the population at large. Since the average immigrant is in the working-age group, the average annual net contributions for immigrants are positive, also for immigrants from MENAPT countries, and it is even higher than for native Danes. For descendants the opposite holds, reflecting that these groups at present are dominated by relatively young individuals. Due to the difference in the age distribution, the snapshot based on the current composition of the groups is thus not informative on the long-run or structural effects. Considering the standardized net contributions (allowing the age distribution to converge), it is seen that only immigrants and descendants from Western countries have positive net contributions, and they are lower than for ethnic Danes.

⁷ For similar analyses for Sweden see Konjunkturinstitutet (2025).

Figure 7. Net contributions for immigrants and descendants, Denmark, 2019



Note: Standardized net contributions are computed assuming the same age distribution as for ethnic Danes.
Source: Finansministeriet (2023).

When interpreting these findings, it should be noted that there are also large differences in net contributions within the group of ethnic Danes, and it is possible to identify groups that have both positive and negative net contributions. This is the consequence of the built-in insurance and redistributive mechanisms in the welfare model. They imply that, e.g., individuals with a strong employment record (e.g. healthy and well-educated) are net contributors, and individuals with a more marginal attachment to the labour market due to, e.g., health problems (disability pension) are net beneficiaries. In this perspective, it is not surprising that refugees and their families admitted on humanitarian grounds are net beneficiaries. However, this still raises the question of whether it is possible to improve the ability of these groups to be self-supporting and less dependent on welfare systems. Additionally, it prompts a discussion on the capacity and political willingness to admit refugees (and family unification).

4. Pull and push effects of the welfare state

The welfare state is an implicit social contract which, via its universal traits, ensures that the individual has access to welfare services and economic support depending on events which may happen during the life course. Contributions are depending on earnings (when it is earned or spent). As any insurance contract, it is vulnerable to adverse selection mechanisms. They may arise via migration in two ways. One channel is through immigration if the model attracts – the pull factor - immigrants who tend to be net beneficiaries of the welfare arrangement, also known as a “magnet” effect, see Borjas (1999). The other channel arises from emigration if some net contributors choose to opt out – the push factor - of the implicit contract by emigrating. Either selection mechanism challenges the financial viability of the welfare model, see e.g. Andersen (2008). Importantly, the welfare state is not only affected by migration, it may also release pull and push effects that influence migration flows. The concern is whether these forces are so strong as to significantly challenge the financial viability of the welfare model, which in turn may release a race-to-the-bottom mechanism that forces a retrenchment of the welfare state and makes it less redistributive.

To discuss these issues, consider first immigration where it is a fact that refugees (and family unification) have lower employment rates and therefore have a higher welfare dependency than the population in general, see above. However, these effects can be interpreted both from an *ex ante* and an *ex post* perspective. *Ex post* irrespective of the drivers underlying immigration, asylum seekers may have an average employment rate below the average due to, e.g., lack of qualifications or reduced work capabilities. *Ex ante*, the question is whether migration flows are influenced by welfare generosity. This may appear in an unconditional and conditional form, where the former refers to the case where the migration decision is determined by welfare generosity, and the latter to the case where an individual given a migration decision chooses the potential host country depending on welfare generosity. Early evidence did not find strong empirical support for a magnet effect, see e.g. Pedersen et al. (2008) and Giulietti et al. (2013), and it points to network effects as important for the choice of destination country. However, among refugees there is some indication that the better educated seek towards countries with high returns to qualifications, and the less educated towards countries with more lean migration procedures and generous welfare arrangements, see Alcidi and Gros (2019). A recent study by Agersnap et al. (2020) exploits changes in benefit generosity specifically targeted immigrants in Denmark in a quasi-experimental set-up, and they find that benefit generosity has a positive effect on immigration flows (asylum and family unification). This finding should be interpreted as an effect on the choice of host country given migration.

The welfare state may also affect worker migration. East-west migration patterns within the EU have mainly been affected by income differences, and more recent south-north migration patterns by unemployment, see Alcidi and Gros (2019). The reservation wage of potential worker migrants may be lower when migrating to a country with generous welfare and social insurance entitlements due to the option value of gaining entitlement to these arrangements, see Bratsberg et al. (2020). Post migration when entitlements have been gained, reservation wages increase, and this gives employers an incentive to replace the worker with a new migrant willing to accept the lower pay. As a consequence, there is excess churning of labour, and firms shift some of their costs to the public budget. Bratsberg et al. (2020) show, based on Norwegian data, that there are high excess churn rates in firms with many workers from the new EU member states.

Welfare generosity may also affect return migration in case of job loss. Labour mobility in response to economic developments implies that labour should flow in when the labour market is tight, and flow out when it is slack. However, if benefits are high relative to alternative wages (e.g. in the country of origin), this mechanism may work asymmetrically, attracting worker migrants when unemployment rates are low but not releasing a similar return migration when unemployment rates are high. A study for Norway by Bratsberg et al. (2014) finds that the financial crisis disproportionately affected migrant workers. Although the negative labour market shock increased return migration, the majority of labour migrants remained in Norway claiming unemployment benefits. Andersson and Wadensjö (2025) find that among worker immigrants there is a higher return-migration propensity among the more successful immigrants (highly educated, high income) than the less successful.

Turning to emigration, policy debates often focus on taxes as the most important push factor for emigration. The potential effects of taxes are different than the standard discussion of tax distortions on labour supply, since emigration is not a marginal but an extensive margin response. An emigrant opts out of the entire welfare “package”; that is, not only tax contributions, but also of access to the social safety net and publicly provided services. Even though emigration affects entitlement to the entire package, it can be made *ex post* conditional on whether one is a net beneficiary or contributor to the system. Specifically, emigration can be decided when tax-financed education has been completed, and the labour market value of the acquired human capital is known. It is even possible to return at a higher age and thus re-enter the package as a net

beneficiary. Emigration has two drivers, namely escaping the tax payment which is an implicit repayment of the education subsidies received when young, and potentially settling in a country where wage skill premiums are larger since individuals largely finance education privately. Potentially this form of selection would have large effects for the welfare state, but it is not at present a large problem. Empirical evidence shows that the young have a higher emigration propensity (especially men). However, this is more a brain circulation than a brain drain effect since many return to their country of origin at some point. There are exceptions to this since the UK and US are net-winners in the competition over talent, having attracted more highly educated individuals. More generally, empirical studies find that worker migration is not driven by wage gaps only, but also by structural factors, including general life satisfaction, opportunities for children, quality/trust in national institutions, and urban amenities; see EBRD (2018) and Atoyan et al. (2016). This also stresses the point that the entire “package” is determining migration incentives, and a better work-life balance in the Nordic countries may mute the push effect or even release a pull effect attracting highly educated individuals.

There may also be an element of tax competition in relation to attracting highly educated and high-income groups. Several EU countries offer preferential tax schemes to foreigners, in some cases targeting high-income groups. Recent microstudies of how migration responds to taxes are surveyed by Kleven et al. (2019). For high-income groups (top 1% of the income distribution), the elasticity of the stock of foreigners to the average net of tax rate (one minus the average tax) is about 1.6. However, this high elasticity pertains to a rather selective group with little location-specific human capital and ties to specific firms, like star scientists, entrepreneurs and professionals in sports, and can thus not be taken to apply to wider groups in the labour market.

Additional aspects arise in relation to the right and duties of migrants - an issue also arising in relation to migration between EU countries⁸. While the single market allows for worker migration, issues arise in relation to the rights (access to welfare arrangements) and duties (tax payments) of migrants. Heterogeneity in rules may be an impediment to a well-functioning single market but also leaves issues on coverage and the possibility of exploiting differences in welfare systems⁹. The EU system for coordination of social security systems lays down the principles to protect the social rights of people moving within the EU; see e.g. EEAG (2020). Although the principles are clear in the sense of ensuring that migrant workers have social coverage, a number of issues arise in practice. In the interpretation of the principles, the European Court of Justice also generally gives mobility precedence over welfare.

Problems arise because free mobility of labour interacts with different welfare arrangements across the EU countries. As an example, consider unemployment insurance; if within the EU migrant workers are entitled to unemployment benefits in the home country, it follows that they are entitled to join the unemployment benefit system in the destination country (provided eventual membership fees or the equivalent are paid). Even in the hypothetical case where replacement rates are the same in the two countries, the real value (in PPP-terms) is not generally the same. It follows that the benefit level in a high-income country (as in the

⁸ EU citizens can reside freely in another country for up to three months, and can reside longer if they are workers, self-employed or if they have enough resources to support themselves and their families. Even if an EU citizen is no longer in work or self-employed the status of worker/self-employed is retained under some conditions. However, non-worker migrants will not automatically obtain entitlements to welfare benefits. After five years of residence, citizens obtain rights to permanent residence and to be treated in all ways as nationals of the member state in question.

⁹ It should also be noted that the principles work well in some areas. Pension rights are typically acquired via residence or employment. Pensions are exportable under an aggregation principle and the so-called pro-rata principle such that the total pension for a migrant is made up of pensions from different countries in proportion to the part of work-life spent in the respective countries.

Nordic countries) may exceed the average wage in the home country. It follows that unemployment is not a serious income risk for the migrant worker, since the income remains as high or higher than in the migrant worker's home country. Even for students, there are issues since entitlement to study grants can be obtained by a brief employment period in a country with generous study grants (as is the case e.g. for Denmark and the Netherlands), and once the entitlement has been gained, the student may even export this grant if choosing to study in another country.

These problems arise because the design of the social safety net reflects views on social inclusion, implying that benefit levels should provide a decent living standard seen in a social context. Therefore, benefit levels stand in proportion to the general level of incomes. To reconcile relatively generous benefit levels with a high employment rate, benefit entitlement is associated with eligibility conditions in the form of, e.g., active labour market programmes. Exportability of benefits challenges both of these principles. First, if benefits are exported to a country with a lower wage level, the real value of the benefits are high¹⁰. An example is child benefits. They are paid by the destination country of worker migrants to their children even if their residence remains in the source country (e.g. one parent moves to work in another country, and the other parent stays in the source country with the children). Although this problem is not large in quantitative terms, it has received quite some political attention and has become a symbol that the "labour" view has taken prominence over the "welfare" view in EU policies. Another example is pensioners - so-called "snowbirds" - bringing their pension from e.g. Northern Europe to the warmer climate in Southern Europe, which also offers more lenient taxation. Still, the snowbirds have the option of returning home to tax-financed healthcare if serious health problems arise. This problem also arises for other benefits, e.g. emigration by individuals receiving disability pensions. To reduce this problem, it has been proposed to index the benefits to the living conditions in the country in which the benefits are received¹¹. This ensures that benefit levels are not disproportionately high in the country of residence, and that they do not distort the migration decision (anecdotal evidence suggests that employers have used such access to child benefits as a recruitment argument). The argument for such a proposal is that it reduces distortions and unintended consequences while maintaining the protection in the social context where individuals are residing. Against this is the argument that it can be seen as discrimination depending on location choice.

Finally, in the Nordic welfare model incentives and insurance are balanced by offering relatively generous social benefits but also making them conditional on, e.g., active job search, participation in job-training programmes etc. (so-called workfare requirements). In principle, these conditions apply even if the benefit is exported via emigration, but they are difficult to implement if the destination country does not have the same entitlement conditionalities. Hence, emigration may also challenge core principles underlying the welfare state.

5. Political economy responses

The political economy literature suggests that a homogeneous population is crucial for garnering political support for an extended universal welfare state, see e.g. Alesina and Glaeser (2004) and Alesina et al. (2021). The argument is that homogeneity implies a broad and common interest in the welfare arrangements and the implicit insurance they provide. This suggests that political support for the welfare

¹⁰ These problems may become larger because the Nordic countries follow a gross principle where all benefits are taxable income and therefore the before-tax level is higher.

¹¹ Austria has introduced such a scheme, but has been overruled by the European Court of Justice, which finds that the scheme "constitutes indirect discrimination on grounds of nationality which, in any event, is not justified," see <https://www.dw.com/en/eu-court-rules-against-austria-on-migrants-child-benefits/a-62162160>

state may be declining, and it may lead to retrenchment if migration flows make the population less homogeneous. This is particularly relevant when considering differences in employment rates and welfare dependencies.

It has also been argued that populist trends have grown as a backlash to the failure to compensate the losers from the consequences of globalization - both trade and migration. Docquier and Rappoport (2025) find that immigration of low-skilled tends to increase support for right-wing populism, and this in turn can have a negative effect on immigrants of high-skilled. Dustmann et al. (2019) use dispersal policies to analyse the political responses to an increase in the population share of refugees and find that it increases the vote share for right-leaning parties with an anti-immigration agenda. However, the effect is the opposite in the largest and urban municipalities. Regional differences can lead to fragmentation and populism, see Gould og Hijzen (2016) and Protzer (2021).

Taking a broader perspective, there are no signs of declining support or retrenchment of welfare arrangements in the Nordic countries. The reason may be that the migration-retrenchment view overlooks other possible political responses to address challenges caused by migration. Two important response channels are entitlement conditions and immigration rules. However, adjustment along those lines raise dilemmas as seen in the different routes taken in the past by Denmark and Sweden. Sweden adopted an approach with more liberal immigration rules and relied more on the general design and conditionalities built into the social safety net to support high employment rates for immigrants. In contrast, Denmark has for a number of years followed a different path tightening immigration rules and changing entitlement conditions in the social safety net. The following considers in more detail these responses considering eligibility rules for the social safety net and immigration rules.

Benefit levels and eligibility conditions

Among the Nordic countries, Denmark has made the most fundamental changes in the social safety net in response to welfare dependency among immigrants. To avoid differentiating eligibility based on e.g. nationality, general eligibility rules depending on residency have been introduced, but they effectively target immigrants. The rules apply to the social assistance scheme (*kontanthjælp*), the bedrock of the social safety net in Denmark providing a floor for economic support to all those unable to support themselves and their family. These rules have been introduced both to affect immigration flows (reduce the pull effect) and to strengthen incentives for education and work. Although these conditionalities do not achieve a complete targeting of immigrants, since they also affect Danes returning after extended periods abroad, they do have the largest effect on groups of immigrants with a low employment rate and thus a high propensity to receive social assistance. These reforms constitute a qualitative change in the model by departing from the universalistic principles of equal right for all to social protection independent of past history (employment, tax payments etc.). There have been frequent policy changes and divided political views in this area. However, the trend in recent years has been towards a tightening of the both immigration rules and eligibility conditions in the social safety net, and these changes have broad political support in parliament. It should be noted that the universalistic principles still apply to welfare services.

The social safety net in Denmark now has a residence requirement¹² stipulating that eligibility for social assistance for non-EU/EØS citizens requires residence in Denmark for 9 of the last 10 years. If this condition

¹² A residency requirement for public tax-financed pensions is applied in most countries, including the Nordic countries, see above.

is not met, the individual is entitled to “integration-benefits”, which constitutes about 50-80% (depending on family situation) of the social assistance benefit. When this condition was introduced¹³ in 2002, the requirement was 7 out of the last 8 years. This requirement was abolished in 2012, reintroduced in 2015, and in 2019 changed to 9 out of the last 10 years (this requirement applies to all – except- EU/EUS citizens – who have had at least 12 months of uninterrupted stay outside Denmark). The latest reform takes effect in 2025 and also streamlines the benefit structure.

Moreover, there is an employment conditionality for social assistance benefits requiring at least 225 (non-subsidized) hours worked within the last 12 months to receive full benefits, otherwise benefits are reduced or lost¹⁴. This requirement was introduced in 2006, abolished in 2012, reintroduced in 2015, and changed again in 2025. In addition (from 2019) there is a requirement of having worked at least 2 ½ years within the last 10 years. From 2025 there is a “work-duty” for those who do not meet the residency and employment criteria. The municipality decides the specific activity requirement to remain qualified for support.

There is also an upper cap on the total amount of support for a family/person applying to the sum of social assistance/education cash benefits, housing supplements, and special allowances (this requirement was introduced in 2016).

While the abovementioned changes are general and therefore apply to all, they affect immigrants more due to their larger dependency on social assistance. In 2024, slightly more than 22% of the recipients of social assistance were immigrants from non-Western countries, while their share of the population was about 7%. In 2021 24% of immigrants from non-Western countries were below the relative poverty threshold, while they only constituted about 6% of the population (Statistics Denmark (2023)). Similar conclusions are found when considering living standards and deprivation, see Benjaminsen et al. (2016). This may have negative effects in terms of crime, but also less social inclusion, which may have detrimental effects on integration, possible also on the children, see evidence discussed in Section 2.

The evidence reported in Section 2 also shows that while these policies have had some positive effects on employment (especially for men), they have also resulted in widening income gaps. Social policies are generally designed to balance incentives (efficiency) and inequality (equity). However, the reform shows that in this area, more inequality is accepted to strengthen work incentives and to deter immigration. In short, a different trade-off between efficiency and equity is accepted for immigrants than the incumbent

¹³ The scheme has a predecessor in a scheme introduced in 1999, the “introduction benefit”, targeted all immigrants, but it was abolished in 2000 as it was found discriminatory. When introduced in 2002, there was a distinction between introduction benefits and start aid, the former being available the first three months after arrival conditional on participation in an introduction programme, after which start aid was available. The level of benefits was basically the same in the two schemes.

¹⁴ The employment criterion introduced in 2006 required 2½ years of employment within a seven-year period. It was introduced on 12 July 2006 and abolished on 1 January 2012, and hence did not really take effect. In 2003 a condition was introduced for couples such that social assistance was reduced (by 500 DKK per month) if one of the partners had been receiving social assistance for more than six months. This rule was abolished in 2012. In 2006 an “hour rule” was introduced for couples, where one of the partners would lose social assistance if a) the couple had received social assistance in the last two years, and b) one of the partners had not been in regular work for at least 300 hours within the last two years. In 2011 the requirement was changed to 450 hours of ordinary work. This rule was abolished in 2012.

population. Arguments in the political debate have been that it is necessary to create a clearer incentive structure for this group and to reduce the number of immigrants, and also that lower benefits may be justified if the push individuals to obtain education and find jobs which improve future income prospects. The deviations from the universalistic principle may on the one hand be seen as a qualitative change of the welfare model, but on the other hand as a step to avoid general retrenchments and thus preserving the welfare model for the permanent residents.

Immigration rules

Immigration flows can be affected via national rules and regulations. As EU members, the Nordic countries are part of the European Single Market (Norway as an EEA: European Economic Area agreement), and hence free mobility of labour applies within the EU. National regulation of immigration flows relates to immigrants from outside the EU-area, and thus primarily asylum seekers and family unification. There is a multilayer structure of migration rules and regulations, including UN conventions, the European Social Charter (ESC) and the European Convention on Human Rights (ECHR) for the 47 member states of the Council of Europe (including all 27 EU countries), EU law for the EU Member states, and finally national law; see e.g. EEAG (2017) for details.

Rules for individuals wanting to enter a country for humanitarian reasons are very complex, but the overarching principles are clear and shared by most countries. Conventions define a right to apply for asylum, but not an obligation of a state to offer protection to anyone who claims it. This leaves room for differences in the interpretation and implementation of the rules.

Countries interpret admission criteria for asylum seekers in different ways, including the criteria for granting temporary protection and permanent asylum. The precise operationalization has changed across countries and time, also for specific groups or circumstances as was the case with e.g. refugees from Ukraine which in both Denmark and Norway obtained a special status. Specifically, countries have different interpretations of “safe origin countries” and “third safe countries”, and different waiting time, rules for family unification etc.; see e.g. European Union Agency for Fundamental Rights (2016).

In determining migration rules, there is a conflict between the ethical and humanitarian obligation to help individuals in difficult situations and the right of citizens in recipient states to determine who enters their territory. The latter may become a significant issue if large-scale immigration challenges a society economically or culturally.

To deter asylum seekers, a country may adopt a slow and uncertain procedure for handling applications, granting family unification etc. At the same time, it is well-established that long and uncertain decision times are a deterrent to later integration in society, also with respect to the labour market, OECD (2016). There is, thus, a trade-off between deterring entry and promoting integration of those granted asylum.

In addition, it is not always easy to make a sharp distinction between a refugee and a worker migrant, since there are multiple reasons for migration, and informational asymmetries exist between an applicant and asylum administrators. In designing migration policies, one also faces the dilemma that those making it to the border (in case of long-distance conflicts) are selected among the displaced people and seldom include the weakest segment of the population. Retaining refugees in asylum centres is contested since it may worsen the situation for refugees coming from e.g. war zones. A further problem is that even when asylum applications are declined, it may not always be straightforward to return migrants. The proposal of establishing so-called return hubs outside the EU is controversial but is planned by both Denmark and the United Kingdom.

While the Nordic countries have historically adopted rather flexible rules for asylum seekers and family unification, there have been significant changes over time, and policies in this area are controversial. Denmark adopted a stricter policy already in the late 1990s and 2000s, while Sweden until 2022 adopted a much more inclusive approach. Norway has also in 2023 shifted to a more restrictive policy.

An example of a policy initiative is the so-called 24-year rule implemented in Denmark in 2002. For family reunification, it requires that both partners in a married (or registered) couple are at least 24 years old. The couple's overall connection to Denmark must be stronger than to any other country. The partner residing in Denmark must have a sufficiently large income and not have received social transfers in the last three years. Additionally, the couple must have adequate accommodation. The motivation for this rule was to prevent early family related weddings and to restrain immigrations.

Admitted refugees are typically granted a temporary residence permit (which can be extended if the reason for residence is still considered valid) and are supposed to return to the country of origin when the situation permits. Often the duration of the stay turns out to be long, and this raises difficult dilemmas. While in the country, there are good reasons to focus on the acquisition of skills and labour market participation both to be self-supporting and, from a societal perspective, to reduce the fiscal implications of immigration. Moreover, when returning to the country of origin, the refugees (and their families) will bring human capital, which is valuable not only to the individual but also to the development in the home country. However, the better the integration, the less inclined the refugee may be to return (e.g. if children are well integrated). Enforcing a return also seems paradoxical if there is, at the same time, a policy in place to attract working migrants, and such cases often attract media attention.

All countries have rules regulating entry for worker immigrants from outside the EU. Typically, such entry is restricted to highly qualified individuals, and entry criteria can be determined by a “job-list” or income threshold. There is thus a clear selection criterion in immigration rules to ensure “positive” rather than “negative” selection among immigrants; that is, a race to the top for the best qualified. Need for specialized qualifications (e.g. IT qualifications) have been a driver. Demographic changes have directed focus on the potential to counteracting an ageing population by immigration. Such immigration is considered as a way to reduce recruitment problems also within the public sector (care and health sector).

6. Conclusion

Migration flows affect, but are also influenced by, the welfare state. The generosity of the welfare state may be a pull factor attracting migrants who are net beneficiaries of the scheme, while it may be a push factor for those who are net contributors to the scheme. While the strength of these pull and push factors remains an open question, it is nonetheless the case that especially immigration may influence the viability of the welfare model both economically and politically.

The labour market performance of immigrants is crucial, and it is a fact that employment rates and earnings levels of immigrants who arrive as refugees (and the associated family unification) are below those of the incumbent population, especially for women. While this has many explanations – qualifications relative to wages, norms and culture – this translates into a negative effect on public finances. This raises questions on humanitarian concerns on the one hand and the possibility of reconciling such immigrants both with underlying principles of the welfare model and its financial viability.

Numerous policy initiatives have been taken to improve the labour market performance of non-worker immigrants, and although some policies have shown positive effects, experience shows that it is difficult to bring employment and earnings up to the average of the incumbent population.

This raises issues not only in relation to immigration rules, but also the design of welfare systems, in particular whether the universalistic principle should also apply to “newcomers” or whether there should be a waiting period to require full entitlement. Residence requirements of the type introduced in Denmark are an example of this. However, it does not escape a trade-off, as it entails accepting greater inequality for this group compared to the incumbent population. At the same time, it can be viewed as a way to safeguarding the welfare model and avoid a more general retrenchment of the welfare state.

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