

## SOCIAL CAPITAL IN THE MOBILISATION OF HUMAN CAPITAL<sup>1</sup>

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**ABSTRACT:** *It is commonly argued that in ageing OECD economies, labour supply should be increased so that it would meet the demand when the working-age age cohorts decrease. The OECD has argued that foreign immigration would play a key role in increasing the supply. While these approaches seem to be well grounded, foreign immigrants in the OECD countries face persistent labour market deprivation: their labour market status are rarely in line with their education and other forms of human capital, while in the case of natives, the situation is much better. This equals both squandering of human capital and misery, bringing challenges to both economic sustainability/productivity and social cohesion. This article focuses on how different theories seek to explain the problem. Statistical evidence suggests that immigrants' labour market deprivation is not caused by the lack of human capital (e.g. education) but instead the lack of opportunities in using their skills. Certain kinds of social networks (social capital) are suggested to bring more out of these opportunities. These networks seem to be needed to improve immigrants' labour market status in the OECD countries.*

*“Over the next few years OECD countries will be beginning to feel, if they have not done so already, the first consequences on the size of the working-age population of the fall in birth rates following the baby-boom period. The impact this is likely to have on international migration initially is as yet unclear (...) because there exist in every country sources of unutilised labour supply that can be mobilised in response to demand pressures” (OECD 2007, 30).*

*“[W]e are at a loss to understand when predicted results fail to occur, as when blacks are unemployed during high aggregate demand” (Granovetter (1995 [1974], 5)*

<sup>1</sup> The title of this paper follows the title of Coleman's classic article “Social Capital in the Creation of Human Capital” (Coleman 1998) where he argued that social networks would help children gain *education*.

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## INTRODUCTION

This article concerns the need to increase foreign immigration to the OECD countries because ageing of the population is projected to increase the demand for labour. Nonetheless immigrants face severe labour market integration problems, which in return causes similar problems supposed to be cured. Therefore we have to ask how underutilised labour supply could be mobilised in response to changes in the demand for labour. In short: we have to acknowledge the need to make immigrant integration policies more efficient. The ideas related to the mobilisation of migrant labour and presented in this article are close to the integration ideas presented in Kraal, Roosblad and Wrench (2009). The authors apply the point that Granovetter made: people do not integrate into the labour market in the way mainstream economic theory (neo-classical theory) suggests:

“[i]t has long been assumed that the problem of labour market exclusion was one that affected primarily ‘first-generation’ immigrants but young ethnic minorities, even when they are born and educated in EU member states, still do not experience equal employment opportunities.” (Kraal, Wrench, Roosblad et al. 2009, 10).

These fore-mentioned issues can be generalised via formulating two contradictions; ageing versus inefficient use of labour resources and the established belief on how people integrate to the labour market, versus how they do it in fact. In other words; firstly, shrinking working-age populations call for increased labour immigration while at the same time immigrants face persistent problems concerning labour market integration; and secondly, according to statistical data from the OECD countries (OECD 2007, 2008a, 2008b, 2009) this deprivation is not caused by their educational level, unlike it is often thought.

Thus a research question arises: the demographic situation makes it imperative to strengthen immigrants’ labour market integration, i.e. to mobilise their labour resources but since their labour market integration does not seem to depend on their educational background, how could the necessary mobilisation be carried out?

Ageing of the population is expected to decrease the percentage of working age people and creates demand for increased labour immigration. Ageing OECD countries are projected to face shortage of workers starting from 2010–2020 (OECD 2007, 30–32). The shortages are projected to have severe negative impact on the ageing OECD countries because the percentage of the working-age population would shrink, while at the same time the demand for elderly care services would increase (OECD 2007, 30–32; Valtiontilintarkastajat 2006, 76–79). The problem would not be limited to economic issues and the worsen-

ing dependency ratios, but finding enough workers with suitable education will also be challenging (OECD 2007, 20–32). Insufficient labour supply could also make companies invest in other countries, and this loss of foreign direct investment (FDI) would lead to loss of jobs and increasing unemployment rates.

Ageing of the population is projected to peak between 2010 and 2020, when the large baby boom age groups reach retirement age. In most OECD countries, age cohorts that enter working age during that period are remarkably smaller than those that exit. As a consequence, the supply of labour decreases and the exiting age groups become pensioners who consume elderly care services, health care services etc. This results in a demand pressure leading to widespread problems in the ageing societies; unbalanced public economy and labour shortage (Valtiontilintarkastajat 2006, 17). As a result the everyday man would have less opportunity to find a job, and also poorer welfare and unemployment benefits will be provided. In the end the micro level problems may threaten social cohesion in the OECD countries.

National political strategies in these countries seek to minimise the negative consequences of ageing by increasing labour supply in different ways. The ways of increasing labour supply include reintegrating unutilised labour resources that already exist in the domestic labour market, increasing immigration and improving the productivity of work (e.g. Finland: Valtiontilintarkastajat 2006, 31). It is often suggested that these measures would have to be used in parallel (Valtiontilintarkastajat 2006, 31).

Thus the immigration of foreigners alone is unlikely to be a sufficient solution for the problems brought by ageing. All three measures are needed and even when all of them are utilised, they may only minimise the negative effects. This problem is especially apparent in countries where ageing is most advanced.

This leads us to the second part of the contradiction that this article seeks to reinterpret. Mobilising domestic unused labour resources is unlikely to satisfy the needs and thus immigrants have a crucial role in most OECD countries' strategies that seek to increase labour supply during the worst ageing period; *however* their labour resources are particularly poorly mobilised.

Immigrants experience persistent integration problems in the OECD labour markets. The European situation is comparable to the situation in the entire OECD; immigrants' labour market integration problems (mobilisation problems) have four main forms: firstly, getting employed and the unemployment rates (OECD 2008a, 68–92; 2008b, 113–161; 2009, 12–26; Nilsson and Wrench 2009; Zorlu 2002); secondly, getting employed in other than atypical jobs (Kraal, Wrench, Roosblad 2009, 11; Forsander 2002); thirdly, getting employed in jobs that match the person's education (immigrants and women face a

high risk of deskilling)<sup>3</sup> and fourthly, a high risk of getting paid less than people with the same education level do (high risk of getting under-paid work; OECD 2007, 136).<sup>5</sup>

Immigrants' labour market integration problems are not limited only to these dimensions. A considerable proportion of immigrants have retreated from the official labour market altogether. According to OECD statistics, between 2000 and 2006 foreign-born people's labour market participation rate (the employed plus the unemployed) was remarkably lower when compared to the native-born (OECD 2008a, 113–127).

The issue is complex because there are thus many variables concerned, i.e. thus many indicators: looking at one variable such as unemployment rate does not give a complex image of a person's labour market status. For example, some immigrant nationality groups' employment rate may be high, even higher than that of natives, but this tells nothing about how stable these jobs are and whether they match the concerned people's education. Even more, cross-sectional data aggregate showing a given group's labour market status at one point of time is far from ideal.<sup>6</sup> But here it is sufficient to show that immigrants are in a deprived situation in the OECD countries' labour markets. Immigrants' labour market deprivation is suggested to cause not only the fore-mentioned macro economic problems, but due to already existing conflicts in the integration of immigrants, they may also lead to problems in social cohesion.

The mobilisation strategy promoted in this paper is based on the results of previous research on social mobility (Granovetter 1995 [1974], 1983, 1985; Burt 1992, 2000, 2005; Lin 2000; Portes 1998, 2000; Portes and Sensenbrenner 1993; Massey et al. 2005, 31; Portes and Bach 1985; Rusinovic 2006, 81–108; Ahmad 2005; Behtoui 2006; Kraal, Roosblad and Wrench 2009).<sup>7</sup> The starting point or "hypothesis" is that for the most part immigrants' deprivation in the OECD countries' labour markets is not caused by "human capital mismatch", but instead other factor(s) disturb their labour market integration. Grounds for this hypothesis are delivered in previous research literature and statistics that are provided in this article.

<sup>3</sup> According to OECD statistics, in the years following 2000 employed foreign-born people more often held a job that would have required lesser qualifications than would theoretically have been available to him at his education level (OECD 2008a, 136).

<sup>4</sup> The labour market status by country of birth, country of residence and gender in the OECD is presented as a cross-tabulation in OECD 2008b. Labour force participation rate: OECD 2008a, 118, unemployment rate OECD 2008a, 120

<sup>5</sup> "An individual will be considered over-qualified in terms of wage levels if more than a certain percentage of the persons holding a diploma of the next lowest category earn more than that individual" (OECD 2007, 138).

<sup>6</sup> The shortcomings of cross-sectional and aggregate data are discussed elsewhere.

<sup>7</sup> A good comparative study about the impact of social networks on immigrants' labour market success is also van Nieuwenhuyze 2009.

The article is structured as follows: firstly, population and economic trends in the OECD countries are discussed with a special attention to immigrants,<sup>8</sup> their education and labour market status. Secondly the Finnish situation is presented as an example. Thirdly three rival theories about the causes of immigrants' labour market status are discussed. Weaknesses of these explanations are discussed after which I present a fourth theory. According to it current policy approaches would fail in making full use of immigrants' workforce because they would disregard the impact that social structure, namely social networks, have on social mobility. The fourth explanation suggests that social networks would create inequality of opportunity so that immigrants would have poorer opportunities to find work and career advancement than natives do.

The labour markets I analyse are those of the OECD. The data is based mostly on the OECD's Sopemi and Dioc statistics (OECD 2007, 2008a, 2008b, 2009).<sup>9</sup> I use Finland as an example country, using documents for example by Statistics Finland and the Finnish Government.

## 1. AGEING IN THE OECD COUNTRIES

Ageing of the population made it an imperative to use labour resources more efficiently, to develop immigrant integration policies, and to mobilise both those labour resources that already exist in the country, as well as those that immigrate. For example in its 2007 Sopemi report, the OECD suggests that immigrants' labour market deprivation would be caused mainly by inequality of opportunity (OECD 2007, 68), i.e. not by individuals' competencies like the human capital theory (Becker 1993 [1964]; Borjas 1985; Dustmann and Fabbri

<sup>8</sup> The concept "immigrant" is empirically or statistically invalid. It does not refer to any clear measurable group of people. In this sub-chapter I refer to the country of birth because I apply OECD data (OECD 2007, 2008a, 2008b) which is based on this definition. This group of people is often called first-generation immigrants.

<sup>9</sup> The Sopemi is the OECD's continuous reporting system on migration. Sopemi reports have been published annually since the early 1970s. They are mostly based on data from OECD member states' population registers. Dioc data is taken from a new OECD database founded in 2008. Dioc reports focus more narrowly on the immigrant population.

2003) suggests.<sup>10</sup> The OECD (2007, 68) suggests that “[e]quality of employment rates is an objective which is partly attainable, subject to equality of opportunity”.

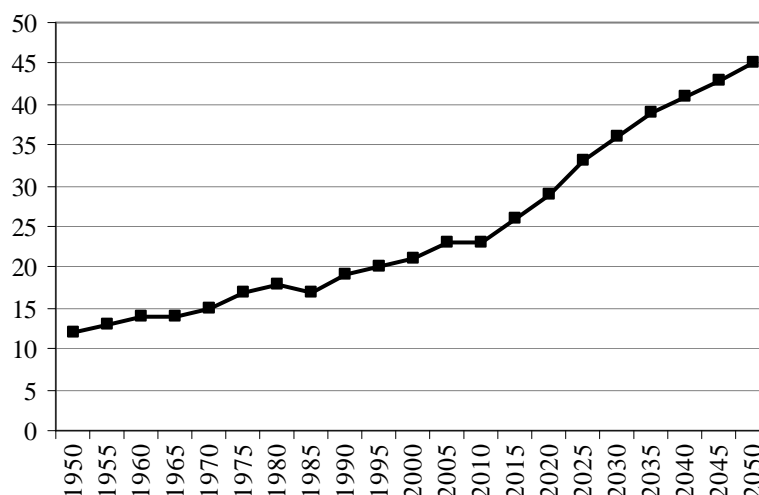
Also recent research suggests that inequality of opportunity would be the main cause of inequality in the labour market (Kraal, Roosblad and Wrench 2009; Ahmad 2005; Behtoui 2006; Makkonen 2010). On basis of existing research literature and statistics it seems rather obvious that certain kinds of social networks could help immigrants to find work. This is why social capital, meaning social networks that mediate employment information, could possibly be used in the mobilisation of human capital.<sup>11</sup>

However first we should look at the ageing problem and its consequences in OECD countries. The ageing problem is already acute in the OECD: as the large baby boom cohorts exit working age while at the same time labour resources are used inefficiently, the percentage of employed people decreases heavily: only the pace and timing varies between the OECD countries (OECD 2007, 30–31). The rate of ageing in the OECD can be seen from the United Nations’ statistics that describe the relative size of the working-age population in countries the UN classifies as “advanced economies”; most of these economies are OECD countries.

The ageing situation in the advanced economies is illustrated in Figure 1. The decreasing number of the working-age people in relation to the elderly increases the dependency ratios. According to United Nations’ projections the overall dependency ratios would not increase much, but the size of the elderly age cohorts would. The number of the elderly in relation to other age groups would be more than three times higher in 2050 than it was in 1950.

<sup>10</sup> The definition of “human capital” has broadened since the concept was coined in the 1960s (by Becker 1993 [1964]). The original definition included three main components (education, work experience and health) but later several slightly subjective components have been added that try to fit labour market discrimination in the theory. Becker tried this himself in the 1950s (Becker 1996 [1957]) and later the including of language skill in the definition and concepts such as “country-specific human capital” have taken the concept rather close to the established theories of employment discrimination and some branches of the social capital theory.

<sup>11</sup> The same goes with natives but this paper focuses on immigrants.



Source: United Nations 2008. The exact numbers are available on-line at <http://esa.un.org/unpp/><sup>12</sup>

*Figure 1*  
*Old-age dependency ratio, advanced economies*

The problem is acute: OECD statistics and projections (OECD 2007, 31) suggest that the working-age population has already started to decrease in several OECD countries such as Japan, Czech Republic and Italy and will reach almost all other OECD countries in the period 2010–2015, starting with countries such as Germany, Hungary and Finland.

According to the OECD (2007, 30–31) this increase is rapid, but would not be a problem in itself to the OECD countries; they have previously experienced such increases. The increase of the old-age dependency ratio is problematic when combined with the high consumption levels of the elderly (OECD 2007, 30–31) in terms of pensions and care services. The shrinking working-age population is not expected to be able to satisfy the demand in the OECD area (OECD 2007, 30–31).

As a result of ageing, public finance in the OECD countries may show deficit and consequently, the core of the welfare state – public services and income transfers – could be in danger. There are some exceptions, for example, Turkey, where the fertility rate is still high (United Nations 2008).

<sup>12</sup> For more analysis see Salmenhaara 2008.

The problems that the decreasing percentage of working-age people is likely to cause could be made even worse because of globalisation. Globalisation has liberated the international movement of both economic capital and labour. It is widely claimed that the third core pillar of the welfare state – employment – could also suffer. A shrinking and costly working-age population is likely to lead to labour shortages and would probably lead private companies to move their production to other countries, where the demanded labour is available (Florida 2005, 16; Sassen 1998). Ageing of the population may thus lead to increasing off-shoring of production and loss of foreign direct investment, leading to decreasing number of jobs and increasing unemployment rate (Florida 2005).<sup>13</sup> In sum: while ageing could increase the general unemployment rate, the public sector's capacity to give out unemployment benefits could be insufficient.

#### *Migration and labour in OECD countries*

Apart from the problems that the status quo causes to the individuals concerned, the deprivation is likely to cause macro level problems, namely problems to the OECD countries' political strategies against ageing. The root of the macro level problems is that ageing is projected to create a demand pressure of labour (i.e. labour shortage), immigration is designed to be one of the key means against the demand pressure but immigration does not increase the supply of labour in the designed way if immigrants do not end up in jobs that match their education.

<sup>13</sup> The economic scientist Borjas (1985) has studied the impact of globalisation on the international movement of economic capital and labour. In his influential article he notes that whereas in the 20<sup>th</sup> century labour markets and capital markets were usually national with strict national limits, in the globalised world national boundaries have become lower, which has liberated the international movement of capital and labour. The main consequence of the free movement of capital is that companies are rather free to move their production facilities to whichever country they have the best preconditions for production; such as the demanded kinds of labour (quantity and quality, price), infrastructure that supports the production, etc. Ageing of the population threatens the availability of labour and may thus make companies off-shore their production – and jobs. Like Florida (2005, 16) puts it: “[Companies] have always sought to attract the best talent; the difference today is that instead of bringing that talent to their existing locations companies are setting up facilities where that talent already exists” (Florida 2005, 16). A report by the International Labour Organisation (Stalker 2000) stresses that the freedom of companies to operate offshore has grown from the early 1990s (Stalker 2000, esp. 8–9) because the countries themselves have deliberately chosen to retreat from political control over many sectors of the economy. In practice this means privatisation of state-owned companies and promoting free trade (Stalker 2000, 9).



A significant percentage of immigrants face difficulty in integrating into the labour market<sup>14</sup> and unlike it is often thought these integration problems are usually not caused by human capital deficit of these individual immigrants (Kraal, Wrench, Roosblad et al. 2009, 11–12). To be sure: immigrants' education and other human capital ("ability" like Burt 2000 puts it) does not cause all of their labour market integration problems. Thus the problems are in integration policies.

This ineffective use of labour concerns also people who already are in the labour market. This underlines the need to focus not only on increasing demand-matching labour supply through skill-selective immigration (labour immigration) but to mobilise these unused resources.

In the OECD the problem of ineffective use of labour may be expected to become acute also around 2010–2020 (United Nations 2008; OECD 2007, 30–32). Public finance, public services and employment will be threatened if the OECD countries fail to attract immigrants and integrate them to the labour market. Currently, advanced economies need demand-meeting labour immigration to sustain them. The world's countries compete over workers (Florida 2005), on the whole, both those with the highest and lowest level of education (Stalker 2000, 135). The situation is somewhat similar to the period between the 1950s and the 1970s in Europe, where wealthier European countries used Turkey and Northern African countries as their "labour reservoir" (Castles and Miller 2003, 123–128), with two key differences. Today, the demand exceeds supply across the OECD in highly skilled work and the "reservoir" is the entire world instead of only a few countries in Africa and adjacent to Europe (Stalker 2000).

The percentage of foreign-born residents in the OECD and Europe has increased rapidly since the 1970s. In Europe, since 1988 immigration has been responsible for a greater share of population growth than natural increase (births minus deaths). In the year 2000, foreign-born people represented nine percent of the population over 15 (OECD 2008a, 16). This approximate average figure includes much variation between countries and areas; for example in Finland the percentage was below three, while in several countries such as Switzerland, the percentage was ten times higher (OECD 2008b, 69). Immigrants tend to concentrate in urban areas, which residential pattern affects their labour market trajectories and conditions of labour market integration. In some European cities some fifty percent of residents were either foreign-born or children of a foreign-born parent (or parents) (Penninx 2006, 8).

These figures show that foreign-born people represent a large stock of moderately well educated workers. They also show that currently immigrants' labour force is least efficiently used in the OECD countries. Ageing OECD coun-

<sup>14</sup> (EU-27: Kraal, Wrench, Roosblad et al. 2009, 10: aggregate data from the OECD: see below).

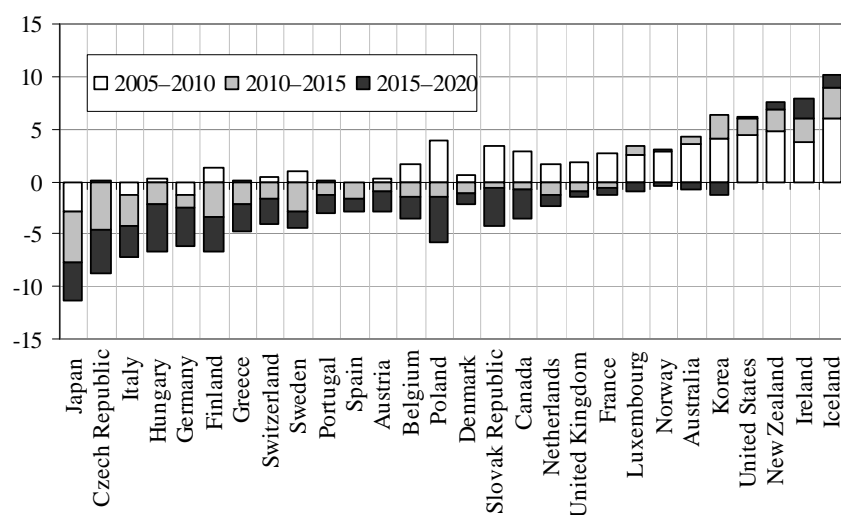
tries should both increase the productivity of work and the supply of labour and the realisation of these aims depends largely on foreign immigration. However, if qualified immigrants face labour market integration problems like this also in the future, then OECD countries' political strategies against ageing are in trouble. In some countries and areas, the percentage of foreign-born people is substantial, leading to heavy local effects of the squandered resources.

In societies where political strategies against ageing are largely based on immigration and the efficient use of labour, squandering labour resources in this way is a problem. Foreign-born people's labour market deprivation is a problem to the OECD countries not only because immigrants play a critical role in their anti-ageing strategies but also because immigrants represent a large and a growing share of the OECD's population and labour force. In 2006, the share of the 15+ OECD population that was foreign-born stood at nine percent and 21 percent of them had tertiary education. (OECD 2008b, 16).

The native population's age structures are not the only problem; Florida (2005, 7–16) argues that even without ageing, countries can hardly afford inefficient use of labour in their labour market. The good educational profile of immigrant populations in the OECD countries shows that already currently the OECD countries manage to attract the required type of workers who are well educated. However, for some reason this large pool of labour often does not end up in labour market positions that would match their education. There is insufficient much time to argue over the reasons for this, nevertheless, immigrant workers have to be used efficiently before ageing hits the OECD countries with its full force. Now let us look at the case of Finland.

## 2. FINLAND'S POLITICAL STRATEGIES CONCERNING AGEING AND MIGRATION

According to population projections, by 2030 the Finnish population will age more rapidly than in any other EU member state and the percentage of working-age people will start to decrease in the year 2010 (Valtiontilintarkastajat 2006, 14). This aging will also happen slightly ahead of other EU countries: in 2030, the old-age dependency ratio is projected to be the worst in the EU, whereas in 2050 the ratio is projected to be under the EU average (Valtiontilintarkastajat 2006, 17). Aside from this, ageing in Finland causes roughly the same political challenges as in the other OECD countries. The timing of ageing is described in the OECD projection below; the working-age population shrinks slightly at different pace in different OECD countries.



Source: OECD 2007, 31; 2008a, 56.

Figure 2  
*Expected net change in the percentage of working-age population  
 in selected OECD countries, 2005–2020*

The official Finnish Government Institute for Economic Research (VATT)<sup>15</sup> has calculated possible macro economic impacts of aging in Finland; these consequences are roughly speaking the same in all OECD countries (OECD 2007, 30–31). The VATT has created three alternative scenarios, a positive, a neutral and a negative one. It is suggested that ageing will result in a public finance deficit, except in the “positive scenario” where global economic development is ideal until 2030 (Valtiontilintarkastajat 2006, 20–31). Without such positive development, the tax rate was predicted to increase to about 50 per cent, i.e. the level of Sweden (Valtiontilintarkastajat 2006, 20–31). In addition, the state is expected to have to utilise foreign loans (Valtiontilintarkastajat 2006, 20–31). It is also to be noted that even by now labour shortages exist in some areas and are expected to hit caring, nursing and the construction business especially hard when the large age cohorts retire (Valtiontilintarkastajat 2006, 90–91).

Concerning the employment situation and ageing there are two main differences between Finland and the other OECD countries: Firstly, unlike in the

<sup>15</sup> <http://www.vatt.fi/en/> (July 10, 2010).

OECD in general, Japan and many Southern European countries, most of the unused labour resources are not women but the elderly. In Finland as in other Scandinavian countries, the employment rate of women is practically the same as that of men, whereas the general retirement age of about 60 years is often considered to be rather low.

The second Finnish peculiarity is that even though the aging trend and related macro economic and socio-political problems were common knowledge at least from the 1980s onwards the political reaction was postponed even up to 2006; only then the government stated that ageing poses societal challenges that should be addressed at governmental level (Hallituksen... 2006; Salmenhaara 2008). Early ageing and late political reaction mean there is little time to increase labour supply sufficiently. This is the reason for the rather heavy handed methods used. How these methods are to be realised politically remains to be seen: in early 2009 the government suggested that the general retirement age should be increased to 63 years of age, which caused a domestic political furore that was headline news for almost a week and made the labour union movement threaten a general strike.<sup>16</sup>

#### *Unused labour in Finland and ageing*

Among these peculiarities let us elaborate the first: much unused labour exists in the elderly age groups but rather little among women, and that the early and heavy ageing is likely to find a rather poorly prepared Finland. In Finland, women's employment rate is almost equal to that of men (Tilastokeskus 2009).<sup>17</sup> Concerning several other aspects of labour market status gender inequality in the labour market has prevailed for decades but concerning employment it has almost disappeared. One reason for this has been the building-up of the universal welfare state since the 1950s: the established public services have employed mostly women in caring and nursing jobs (Karisto, Takala and Haapola 1998, 171–178). While women entered the labour force their traditional role in the family changed. Thus, the welfare state was an important factor in increasing women's employment rate (Karisto, Takala and Haapola 1998, 171–178).

However, women's increased employment rate did not amount to "emancipation" because the economic sectors where women typically were employed

<sup>16</sup> News of the Finnish Broadcasting Company (in Finnish): [http://yle.fi/uutiset/talous\\_ja\\_politiikka/2009/03/vanhanen\\_ja\\_ay-johtajat\\_jatkavat\\_elakekiistan\\_puintia\\_ensi\\_viikolla\\_589749.html](http://yle.fi/uutiset/talous_ja_politiikka/2009/03/vanhanen_ja_ay-johtajat_jatkavat_elakekiistan_puintia_ensi_viikolla_589749.html) (July 10, 2010).

<sup>17</sup> These statistics refer to the period before the worst impact of the global economic downturn ("crisis"). The relation has however not changed much until when this was written (May 2010).

became generally poorly paid (Karisto, Takala and Haapola 1998, 171–178). From a critical perspective it can thus be said that the Finnish welfare state was – and is – partly based on cheap labour provided by women. This issue is not of primary importance in this article but interestingly parallels the feminist critique of the welfare state (Pierson 1998, 66–76). In relation to ageing it is worth noting that the ageing of the population is expected to increase the demand for labour in the same branches (Valtiontilintarkastajat 2006, 90–91).

When it comes to mobilisation needs, women's poor salaries are not the main issue, rather it is that in Finland there exist few unused labour resources among women but many among the elderly. One of its reasons is that the average retirement age is low when compared to some other countries.

Population projections suggest ageing will hit Finland a few years earlier than other European countries because its baby boom generations were born slightly earlier. Whereas in Italy and Austria baby boomers were born in the early 1950s, in Finland they were born immediately following the war: the peak years were 1949 and 1950 (Karisto, Takala and Haapola 1998, 58). Also the size of the baby boom cohorts was larger in relation to the cohorts after them. This means that ageing will not only hit Finland a few years before most other European countries but that the impact will also be greater. Age cohorts that leave the working age are exceptionally large by international standards (Karisto, Takala and Haapola 1998, 58).

The impact will be even more extreme as during previous decades Finland has not installed any political measures that would have balanced out the population's distorted age structure. These could have included: increasing the birth rate instead of letting it decrease for fifty years from the 1950s to 2009; increasing immigration. Immigration decreases the average age of the population because foreign-born people's age structure is usually younger than that of the native-born (OECD 2008a, 64). In addition Finland experienced large-scale emigration to Sweden around 1960–1970. In the peak years of 1989 and 1970 over 80 000 people migrated (Koskinen et al. 2007, 257). In addition during the war some 170 000 people, mostly war invalids and children, were sent to Sweden (Koskinen et al. 2007, 257). Most of these people belong to the baby-boom generation themselves and therefore do not decrease the average age.<sup>18</sup>

<sup>18</sup> Many have re-migrated from Sweden to Finland but in 2005 it was estimated that the number of Finnish-born people and their descendants in Sweden was over 500 000 people (Koskinen et al. 2007, 257).

*The late political reaction*

Now let us consider the second peculiarity of Finland: the very late political reaction. The demographic trend of ageing could already be seen from population projections soon after the baby boomers as birth rates started to decrease. In the 1990s, general discussion of labour shortages was concerned merely with shortages caused by economic fluctuations (Paananen 1999). At approximately the same time the demographer Parkkinen (1998) wrote about the coming “century of the elderly”. Like Paananen, statistics authorities of Statistics Finland were aware that ageing would cause labour shortages and that the general discussion had lost its focus on the long-term population trend.

Successive Finnish governments of the right-wing, the Centre Party and the Social Democrats did nothing about the issue from the 1950s to 2006 even though the demographic trend was well known especially after 1980. From a political scientist’s viewpoint, it is difficult to understand why the political reaction was delayed even though the demographic trend and the likely macro economic and socio-political impacts were well known. In its 2003 immigration political programme the government continued to ignore the fact that labour immigration would be needed in order to maintain Finnish public finance, employment and the economy.

A few years later the subsequent government’s political programme stressed that immigration was important for precisely the reasons that were curiously ignored in the 2003 programme. The 2006 programme marked a drastic change in the history of Finnish immigration policy. This change in policies was even more mystifying given that the governments that produced both the 2003 and 2006 programmes contained almost the same parties, most of the same ministers and the same Prime Minister. The demographic trend was certainly known in 2003 but policy was not grounded in the requirements of the labour market. But now let us see what problems might arise if immigrants are seen as a major source of labour supply but their employment problems are ignored?

### 3. APPROACHES TO IMMIGRANTS’ LABOUR MARKET DEPRIVATION

In this section I present four alternative theories about the causes of immigrants’ labour market deprivation. These are ideal types, i.e. “pure types” that exist nowhere in reality (Giddens 1997, 591). In reality different explanations of immigrants’ labour market deprivation include elements from two or more of these four theories.

The approaches are 1) the human capital theory; 2) a claim according to which recognising immigrants’ educational credentials would be thus difficult and this leads to their deprivation; 3) the dual labour market theory, which

stresses the impact of social structure on immigrants' labour market success; and 4) the social capital theory that suggests that the inequality of opportunity would cause much of the deprivation. This paper leans on this fourth theory because the other theories have weaknesses discussed below.

### 3.1. *The human capital theory*

Immigrants' labour market integration problems have persisted for decades; in Western Europe for example, immigrants' labour market status has been deprived since the 1960s when the so-called "guest worker strategies" brought masses of low-skilled immigrant labour to fill in gaps in domestic labour supply in the wealthier European countries (Castles and Miller 2003, 123–128; Sassen 1999, 102–104; Stalker 2000, 38–39; Penninx and Roosblad 2000, 5–7). At the time, levels of education could explain some of the deprivation: for example Zorlu (2002, 1) argues that in the late 1970s, the general up-grading of skill requirements in European labour markets would have caused employment problems to immigrants, many of whom were relatively low skilled back then (Castles and Miller 2003, 123–128).

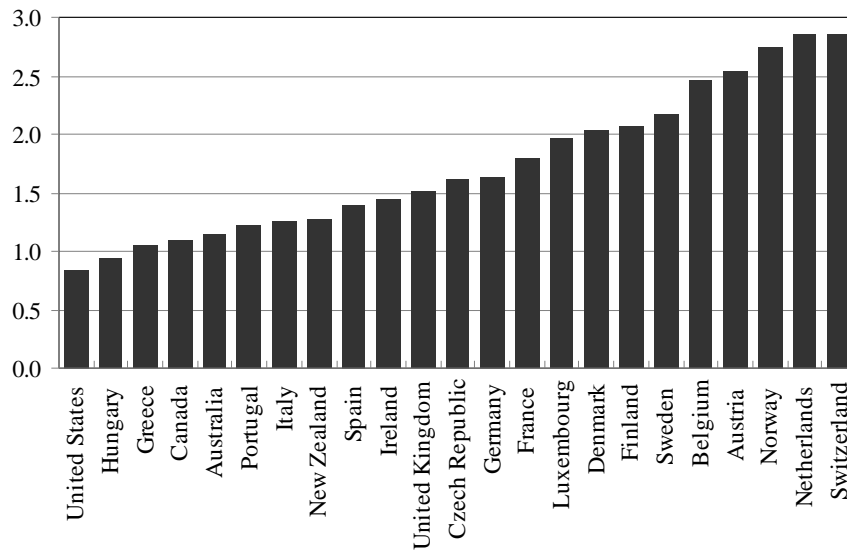
However, it is doubtful whether lower education could account for all aspects of deprivation. This can be seen when immigrants' and natives' labour market status are compared with reference to education. As mentioned above an immigrant groups' labour market status can – and should – be measured with several different variables. However only one is taken into account when human capital theory is utilised: unemployment rate. The human capital theory suggests that people's unemployment rate should become lower when their education level becomes higher (i.e. a negative correlation). OECD data from the year 2006 shows that this correlation depended on the country of birth: according to this aggregate data, the native-born people benefited more from education than the foreign-born. As the below table shows in 2006 the formal education of the foreign-born was slightly higher than that of the native-born (OECD 2008b, 82).

Table 1  
*Official education levels of the native-born versus foreign-born populations, percent; Unweighted OECD average*

Education	Native-born	Foreign-born
Primary	35,8	33,1
Secondary	47,3	44,8
Tertiary	17,0	22,1

Source Database of Immigrants in OECD Countries (DIOC), (OECD 2008b, 82).

These education levels had little to do with the labour market statuses of these groups. Immigrants' unemployment rates were significantly higher than those of natives in most of the OECD countries with the exception of Hungary and the United States.



*Sources:* European countries: European Union Labour Force Survey (data provided by Eurostat); Australia: Labour Force Survey; Canada: Census of population, 2006; United States: Current Population Survey, March supplement.

Figure 3  
*Unemployment rate of immigrants relative to the native-born, percentage, 2006*

Immigrants were thus not deprived in the labour market because of their educational level. On the basis of their educational level their unemployment rate would have been lower than those of the resident locals. Taking a more detailed view on the issue we can look at each educational level separately. At each educational level, the unemployment rate of foreign-born people was higher than that of the native-born (OECD 2007, 89–90). In addition once immigrants got employed they more often ended up in jobs that did not match



their education; i.e. their over-qualification rate<sup>19</sup> was significantly higher than that of the native-born (OECD 2007, 89–90).

Obviously then, the cause should be other than their educational background. However, one of the alternatives, favoured by many human capital theorists is exactly this: that immigrants' individual characteristics or "ability" (Becker 1993 [1964]) such as education would more or less cause their labour market status (Becker 1993 [1964], 15–26). As shown above this suggestion did not hold in the OECD between 2000 and 2010. There is empirical proof of a positive correlation between education and labour market position among both immigrants and among natives (i.e. Borjas 1985) but from the perspective of human capital approach there was no evidence that the one would cause the other, i.e. that properties of individuals would determine their labour market status.

### 3.2. "Recognition of foreign education"

Another suggestion is that it is difficult for immigrants to gain the recognition of their foreign education. Difficulty in recognising foreign education would explain why foreign-born people often work in jobs that do not match their education. This suggested reason is interesting since comparing education obtained in different countries has been possible since the early 1970s through the ISCED classification that was developed by UNESCO.<sup>20</sup> The ISCED classification compares degrees between countries and thus acts as a guide. The classification is not simple because in one country it may take more time to gain a given degree than in others (OECD 2007, 145–136). It is possible that the recruiters of workers are not aware of the ISCED system nor how to compare the degrees in other ways but this "unawareness" may also be an excuse for recruitment discrimination.

So behind this explanation we have to take into account that migrants are discriminated via not recognising their educational levels, or in other words the local labour markets are protected via deskilling. Public authorities and employers are interested in maintaining a gap between educational level and the actual job of the migrant.

<sup>19</sup> Technically speaking this means that employed foreign-born people more often held a job that would have required lesser qualifications than would theoretically have been available to him at his education level (OECD 2008a, 136).

<sup>20</sup> More information about the standard:  
[http://www.unesco.org/education/information/nfsunesco/doc/isced\\_1997.htm](http://www.unesco.org/education/information/nfsunesco/doc/isced_1997.htm) (April 30, 2010)

### *3.3. The dual labour market*

The dual labour market theory suggests that in advanced industrial economies, the labour market have two segments. The primary segment is characterised by stable, skilled jobs, and capital-intensive production (Massey et al. 2005, 30). In the primary segment, it would be productive for employers to invest into workers, “leading to the accumulation of firm-specific human capital” (Massey et al. 2005, 30). Because of these investments, labour would be a highly valuable factor of production for employers and firing employees would be costly (Massey et al. 2005, 30).

The secondary segment would be labour-intensive and would show the opposite characteristics. Production would depend less on workers’ skills and thus employers would have to invest less into workers’ human capital (Massey et al. 2005, 30). As a result, it would be less costly to fire employees, leading to less stable jobs (Massey et al. 2005, 30). The same dualism would also show in salaries: more skilled workers in the primary segment would have higher salary and both their salary and jobs would depend less on economic fluctuations (Massey et al. 2005, 30).

Without going further into details the dual labour market theory is rather similar to the segmented labour market theory (Massey et al. 2005, 28–30). Immigrants however do not fully fit into the theories, as they tend to form a third segment that has characteristics of both the first and the second segment (Massey et al. 2005, 31; Portes and Bach 1985). Portes and Bach (Portes and Bach 1985; also Portes and Sensenbrenner 1993) noticed this when conducting an empirical study of the Cuban community in Miami. The third segment is comprised of “ethnic enclaves” that affect immigrants’ labour market trajectories. In ethnic enclaves, individuals’ human capital would not determine their labour market status as strongly as in the first and second segment. Especially large (urban) concentrations of co-ethnics would create a demand for cultural products and make individuals’ labour market status depend more on their social contacts within the enclave (Portes and Bach 1985; Wilson and Portes 1980; Portes and Sensenbrenner 1993). Newly arrived immigrants’ labour market trajectories would thus depend to a large extent on these individuals’ social connections (i.e. social, cultural and network capital); this would detach the correlation between human capital and labour market status. Thus, the human capital explanation would be weakened.

Both the human capital theory and the dual labour market theory have problems in explaining immigrants’ labour market status. In ethnic enclaves, the correlation between human capital and labour market status becomes less obvious than either of human capital theory or the dual/segmented labour market theory suggest.

#### 4. DEPRIVATION AND INEQUALITY OF OPPORTUNITY

When the entire OECD is considered between 2003 and 2006 formal education does not account for foreign-born people's labour market status very well. During this period foreign-born people's labour market status in the receiving country was not only deprived when compared to the native-born, but even more so when the level of education was taken into account. In the words of the OECD (2007, 68), "[e]quality of employment rates is an objective which is partly attainable, subject to equality of opportunity"

This approach explains immigrants' labour market deprivation with inequality of opportunities. As argued above historically human capital could explain deprivation, but nowadays the situation is different and reasons for immigrants' labour market deprivation in ageing OECD countries may not be the same as they were in the 1970s. Also the difficulty in recognising foreign degrees and deficit in language skill (Dustmann and Fabbri 2003) may be to blame to some extent but not fully. Statistics show that human capital factors do not fully explain why immigrants are deprived in the labour market. For example in Finland, Paananen's analysis showed that recruiters based their recruitment decisions partly on the basis of classifications of ethnic groups and different nationalities (Paananen 1999, 58–67, sections 5 and 6). Instead of only education and other individual abilities some other factor(s) obviously pull down immigrants' labour market status (Kraal, Roosblad, Wrench et al. 2009). Inequality of opportunity, including discrimination, is the somewhat only remaining causing factor. The importance of language skill is generally exaggerated by employers (Paananen 1999) and thus some researchers have coined the term "norm deficit" to explain immigrants' employment difficulties (Knocke 2008). "Norm deficit" is already closer to discrimination and inequality of opportunity than the human capital explanations.

Abandoning the human capital explanation of immigrants' deprivation has a crucial effect on designing integration policy and mobilisation strategy. Designing and implementing immigration and economic policy on basis of the human capital theory simply does not seem to work. In the words of Granovetter (1995 [1974], 5) "we are at a loss to understand when predicted results fail to occur, as when blacks are unemployed during high aggregate demand". Just place "immigrants" in the place of "blacks" and we can pose the same question.

For the most part immigrants' labour market deprivation in the OECD countries is caused by other factors than human capital deficit. On the contrary actually their human capital is wasted and this waste should be minimised before ageing begins to meet the OECD countries with its full force between 2010 and 2020. There are thus evident reasons to develop the OECD countries' immigration policies. On basis of previous research it seems immigrant integration poli-

cies would be based on faulty assumption of what makes immigrants integrate into the labour market, e.g. how their labour force could be mobilised in response to the demand pressures of the ageing OECD countries.

OECD (2007, 96–115) divides its member states' immigration policies into three phases that exemplify this issue well. The first phase is called "attracting", and the last is "integrating". Florida (2005, 3) even goes as far as concluding that "[e]very key dimension of international economic leadership, from manufacturing excellence to scientific and technological advancement will depend on this ability": to attract and mobilise successfully in order to get the right workers to the right jobs in the labour market (Florida speaks of the USA, therefore "leadership" equals competitive edge in relation to other countries).

The projected development of the dependency ratios shows that during ageing this competitiveness is not a question of how to better other countries. Instead it is merely a question of how national economies could survive – i.e. to minimise the potentially disastrous effects of population ageing. Integration and mobilisation seem to be the actual challenge that ageing societies face. As was shown above, the OECD countries manage to attract well educated immigrants but for some reason fail in labour market integration, i.e. in using their abilities efficiently.

For reframing integration issues and policies we should look for social capital and network theory. The observation related to the importance of networks was made in the early 1970s by Granovetter (1995 [1974]). This original finding is important both theoretically and empirically because it propped the way for a whole research genre of sociological study of the economy (the development is described well i.e. in Portes 1998). Granovetter conducted an empirical study about individuals' career patterns. The research showed that the studied job seekers' social contacts had a crucial impact on how their labour market careers developed. Granovetter sought to find out how individuals had ended up in the job they currently held. His data included about three hundred non-self-employed persons who lived in Newton, Massachusetts in 1961 (Granovetter 1995 [1974], 185). Granovetter simply asked them a bunch of background variables and how they had ended up in their current job. The results showed that in sixty percent of cases, the studied job seekers had got information about their current job from their social contacts (Granovetter 1995 [1974], 41–50). This finding has later been repeated in several studies that have used the same kind of interview data. Several studies were done instantly after 1974 and are listed in Granovetter 1983; a great number of studies have more or less repeated the same interview in different settings, ending up with the same kinds of results (i.e. Ahmad 2005; Behtoui 2006). Granovetter concluded that job seekers' career patterns would follow information about employment opportunities (Granovetter 1995 [1974], 41–50). He stressed that the impact of social connections in getting a job should not be ignored: "behaviour and insti-

tutions ... are so constrained by ongoing social relations that to construe them as independent [like the neoclassical theory does] is a grievous misunderstanding” Granovetter (1985, 482). Results of his 1974 study showed this, and the result has been confirmed repeatedly. Classic studies about social embeddedness in the sense of Granovetter are the fore-mentioned Portes’ studies about ethnic enclaves (i.e. Massey et al. 2005, 31; Portes and Bach 1985; Portes and Sensenbrenner 1993).

From the late 1980s, most of the empirical evidence about the impact of social networks on individuals’ labour market trajectories has come from immigration studies. This is because immigrants are one of the most obvious examples of the impact that social structure has on individual action (Portes and Sensenbrenner 1993). Stripped from their previous social ties in the country of origin they depend heavily on social networks in the country of immigration (Portes and Sensenbrenner 1993; Massey et al. 2005, 30; Portes and Bach 1985). The impact is shown by time series data.

Borjas used statistical econometric data to describe how immigration cohorts’ wages in the US increased between the 1960s and 1980s. The data shows that immigrants’ salaries became closer to natives’ wages when the duration of stay in the country of immigration increased: for example, people who immigrated in the 1960s got much lower wages than natives in the same jobs but gradually (Figure 4) immigrants’ wage levels improved. The same kind of development has shown to happen also in the labour market status in general (i.e. other working conditions and stability of employment). This effect is shown in empirical longitudinal studies for example in the cases of Hungary (Gödri 2008)<sup>21</sup> and Finland (Forsander 2002;<sup>22</sup> Linnanmäki 2007).<sup>23</sup> The figure below shows the principle.

<sup>21</sup> Empirical details: interview data, 2001–2006. “The study examines the factors influencing the labour market integration of immigrants from the neighbouring countries in Hungary as revealed by a longitudinal survey. The first wave of data collection was carried out in summer 2002, on a representative sample of 1015 persons who had gained immigrant status in 2001. The second wave took place between December 2005 and February 2006 when 690 members of the previous sample were questioned.” (Gödri 2008, 563).

<sup>22</sup> Empirical details: see footnote 23 (Linnanmäki 2007). Linnanmäki’s study basically continues the same time series, although Forsander’s data also included interviews and statistical data from the labour administration. Forsander studied the years 1989–1993 and used triangulation to integrate the different types of data with each other.

<sup>23</sup> Empirical details: “The data was collected from Statistics Finland’s different individual-level longitudinal statistics. The data includes a 33 percent sample of people who immigrated to Finland between the years 1989–1993 and who were in working age (15–64) when they immigrated. The data concerns the year of immigration and the years 1996, 1997, 2000, 2001 and 2004. The sample consists of every third case of the target population. The target population includes immigration cohorts from the years between 1989 and 1993.” (Linnanmäki 2007, 36, free translation from Finnish by myself).

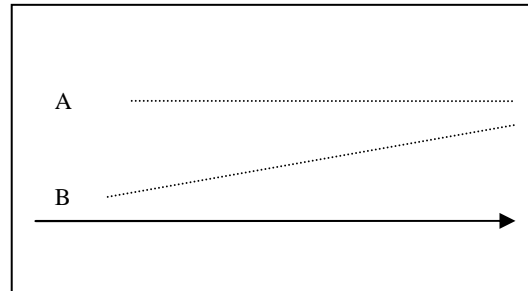


Figure 4

*Immigrants' salaries improve as the duration of stay in the country of immigration increases. A = natives' wages, B = immigrants' wages*

Even though Borjas does not use the social capital theory to explain this increase, a great number of research results suggest that the development of social ties would explain it. For instance Gödri (2008) focused especially on how the development of immigrants' social networks has improved their labour market status in Hungary between 2001–2006.<sup>24</sup> More data and evidence about the impact of social networks is provided by and listed for example in Rusinovic 2006, 81–108 and in van Nieuwenhuyze 2009. In their comparative study about West African immigrants' labour market trajectories in Spain and Belgium, van Nieuwenhuyze (2009) shows that individuals' job opportunities are largely affected by their social contacts and contact networks, especially in the case of newly arrived immigrants.

The research genre that Granovetter started, termed as “new economic sociology” (Granovetter 1995 [1974]) also has an additional vital theoretical insight. The theory is based on Granovetter's finding that contacts between individuals could be divided in two kinds that would differ in how efficiently they deliver job information. This is actually the key to understanding how ethnic enclaves are built and how they work. Granovetter expands this theoretical issue in his 1985 article but in short, there would be strong ties, based on social acquaintances (family, friends, free-time activities etc.) and weak ties, based on work. Strong ties would form tightly-knit “clumps” of people, who all would be connected to each other (Granovetter 1985; Burt 1992, 25–27).<sup>25</sup> Thus employment information that enters this clump would spread efficiently inside the group and since individuals' career patterns follow this employment informa-

<sup>24</sup> See footnote no. 23.

<sup>25</sup> In these few brilliant pages, Burt abstracts Granovetter's theory and the strong/weak tie argument. In Burt 2000, he abstracts the human/social capital arguments just as well.

tion, their labour market trajectories easily end up circulating inside the group (Granovetter 1985; Burt 1992). This is basically the core of an ethnic enclave (Portes and Bach 1985). They help individuals to find work within the enclave.

However, finding work in the labour market outside the enclave would call for weak ties that bridge these tightly-knit clumps of friends, relatives etc. Weak ties are crucial in bringing information about employment opportunities elsewhere into the group (Granovetter 1985; Burt 1992; Portes and Sensenbrenner 1993). As individuals' career patterns follow employment information, it is precisely weak ties that guide them out from an enclave, towards better employment opportunities and the mainstream labour market.

The separation between the human capital theory and the social capital theory has a crucial policy impact. When ageing societies seek to give individuals jobs that match their education it is crucial to notice the following: individuals do not end up in the right jobs automatically as predicted by neoclassical economics and the human capital theory. Increasing immigration of the demanded kinds of workers to the labour market does not necessarily add to the number of workers, but it can increase the number of people who face employment problems.

##### 5. CONCLUSION: THE LABOUR MARKET INTEGRATION CHALLENGE – HOW TO MOBILISE UNUSED LABOUR RESOURCES?

Ageing of the population in almost all OECD countries causes a need for immigrant labour but when they come they are likely to face serious problems in the labour market – they did in the past, they currently do and if obstacles to immigrants' labour market integration are not decreased, immigrants are likely to face similar problems in the future as well. Deprivation results in the squandering of immigrants' human capital, which has negative effects both on the individual immigrants as well as on the macro level of the economy, the labour market and the society.

The human capital theory itself cannot fully explain these integration problems and therefore we should look for alternative explanations. In other words, supply-side explanations of immigrants' labour market disintegration seem invalid: immigrants' educational profiles are far from their labour market statuses.

The situation of immigrants in the OECD countries has changed substantially from the 1970s to 2009. Immigrants' labour market status was deprived when compared to natives but the reasons for this were different. In the 1970s their deprivation to a large extent may have been caused by individuals' properties (Becker 1993 [1964]) such as education (Zorlu 2002). However, in the beginning of the 21<sup>st</sup> century they still experience deprivation even though their education is closer to the level of natives and even the second generation ex-

periences similar problems. OECD data (OECD 2007, 2008a, 2008b) shows that at the start of the 21<sup>st</sup> century, immigrants' labour market status depended only partly on their education and was heavily affected by both gender and country of birth. Both the human capital theory and the segmented labour market theory face some problems in explaining the issue. Instead Granovetter's network theory (Granovetter 1973, 1983, 1985, (1995 [1974]; 2005) can offer an explanation.

Labour market integration, however crucial in this article, is only one of the many different factors effecting the way in which natives and immigrants alike integrate into society. Immigrant integration has many different aspects; cultural, social, economic, etc. All these different aspects should be taken into account even if the analysis focuses only on labour market integration (Sassen 1991; Wacquant 2008; van Nieuwenhuyze 2009, 14–15, 25). Transforming research findings into policy calls for strengthening the connection between research and policy-making (Kraal, Roosblad, Wrench et al. 2009). This may turn the ideal of equal opportunities into reality. Immigrants' social networks should be better connected to the networks of the mainstream population. In practice this would mean that during the integration process education and training should be more focused on seeking jobs and less courses that intend to increase immigrants' human capital. Statistics suggest that for the most part, immigrants would be deprived merely because the lack of proper connections to the labour market and discrimination than because of lack of human capital (Kraal, Wrench, Roosblad et al. 2009; OECD 2008a, 2008b, 2009). Research provides these tools but it is eventually up to the politicians to use them.

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