

# THE CHANGE FACE OF ICELAND: THE NEW IMMIGRATION AND EMIGRATION

Örn Bodvarsson

There are three things I'd like to touch upon this evening:

1. Iceland has not been a popular destination for immigrants through most of its history;
2. There was a surge of immigration that started 4-5 years ago: Who were the new immigrants and why did they come?
3. What are the likely effects of the recent financial tsunami hitting Iceland on the immigration picture?

## 1. ICELAND HAS NOT BEEN A POPULAR DESTINATION FOR IMMIGRANTS THROUGH MOST OF ITS HISTORY

Immigration to Iceland has historically been very low, compared to most other countries. In the USA, according to the last decennial Census in 2000, about 10% of the U.S. population is foreign-born. About 8% of Denmark's population is foreign-born. For most years since 1950, when Statistics Iceland, the government's data gathering agency, first began to track immigration, the percentage of Iceland's population that is foreign-born has hovered at just below 2%. Note that this is one percentage point below the fraction of the World's population that does not reside in the country of birth. So, proportionally Iceland has almost always been one of the lowest recipients of immigrants. Furthermore, Iceland for most of its modern history has tended to be a *net sender* of its own citizens. For 80% of the years between 1961 and 2007, more Icelandic citizens left the country than returned. For example, in 1964 203 more Icelandic citizens left than returned. Five

people who left that year included members of my family, who moved to Oregon. Only one of us returned, my oldest sister Gudrun, a mathematician who returned in 1991 and now lives in Reykjavik.

In the famous 2002 Icelandic film, “Reykjavik 101,” the main character Hlynur Bjorn, the thirty-something loner still living on social security in the protected environment of his mother’s flat in downtown Reykjavik, says to Lolla, a recent Spanish immigrant to Iceland and the second main character, “The only reason for living here is if you’re from here.” Why?

Research, including research I have done, tells us that the primary factors influencing movements of people between countries are the following:

1. *differences in economic opportunities* between the sending and receiving countries (this is the most powerful determinant)
2. *the costs of migrating*, which are a function of geographic distance, whether the sending and receiving countries are landlocked, the type of transportation needed to make the trip, the costs of securing a visa (which depend upon how restrictive the destination country is in letting immigrants), etc;
3. *the costs of assimilation*; these include the costs of learning a new language, perhaps getting relicensed, recertified or reschooled in your occupation, learning new rules, regulations and ways of doing things, the psychological costs of leaving family and friends behind and the stresses of adjusting to life in a new country and culture;
4. *the size of the community of migrants hailing from your country that live in the destination*;

5. *whether or not English is spoken in the origin;*
5. *whether there has there been civil strife in the origin country;*
7. *amenities (climate, quality of life, crime rate, quality of public schools, etc.)*

Most of these factors help a lot in explaining why Iceland has not been a big draw of immigrants.

Consider:

1. *The long term health of the Icelandic economy.* For most of its modern history, Iceland's economy has ranged from being a laggard to, quite frankly, an economist's nightmare. In fact, for many years following Independence in 1944, Iceland was the least healthy economically of the Nordic countries and one of the least healthy countries in Western Europe. It's not accurate to say that Iceland was poor, but it's economy was not vibrant for most of its modern history. While unemployment has never been a problem in Iceland, inflation was a very serious one for a long time. Most of the time the inflation rate, the growth rate in the general level of prices, ran in double digits and at its worst point the monthly figure was over 100 percent. Wages, adjusted for inflation, have been low and they have also been compressed across the economy, meaning that wage differences across occupations are much lower than in other countries such as the USA. Thus, the returns to acquiring additional education and skills in Iceland has been lower than in other countries, which I think is attributable to the dominance of unions and the large percentage of public sector jobs. It was simply hard to make a living in Iceland for many years, hard to run a profitable business, income

2. *The costs of migrating.* It's much cheaper to move from Mexico to the U.S. than it is from Denmark to Iceland, or from the U.S. to Iceland. The cost of shipping things to Iceland has always been expensive and since the 1960s, the only way of transporting your family to Iceland is by air. Migration to Iceland has been more expensive, relative to most other destination countries and this has likely deterred immigration.
  
3. *The costs of assimilation.* There are several things to consider here. First, although most, if not nearly all, Icelanders speak very good English, one cannot assimilate very well into Icelandic society without making an investment in learning the language. This is not just an issue of being able to do business, communicate properly at work, communicate properly as a consumer, etc., but also an issue of cultural and social acceptance. My mother, who was born in Copenhagen, realized this immediately upon arrival with my father in Iceland in 1944. The Icelandic language is difficult and, while Icelanders are very appreciative of efforts that foreign-born persons living in Iceland make to learning the language, foreigners living there (including those living there for a long time have) told me that they didn't feel fully accepted socially until their competence in Icelandic had reached a certain level. Learning the destination country's language is perhaps the most costly component to assimilation and it's likely that the prospect of having

to learn the language may have, at least in the past, been a deterrent to immigrants choosing Iceland as a destination. There are other forms of assimilation we need to think about too. Iceland has until quite recently been, compared to most other countries, a very culturally homogeneous society. Most Icelanders fit the stereotype characterized in Garrison Keillor's *Prairie Home Companion*: Fair skinned, Lutheran and stoic. For an Asian, or an African, brought up in a completely different culture, both socially and religiously, immigrating to Iceland prior to the 1990s would probably have presented some real challenges. So, Iceland is one of those countries where assimilation is likely to have been more of a costly undertaking than in other countries.

4. *The size of the community of migrants hailing from your country that live in the destination.* Having a large community of persons from your country already living in the destination can be a very powerful draw for a would-be immigrant. Not only is a large community of compatriots comforting, as they offer one the opportunity to converse in one's native language, to reminisce about the old country, to share customs and traditions from back home, and form the kinds of friendships one is accustomed to back home, a large migrant community also makes the process of economic assimilation more efficient. Countrymen already in the destination that you know can tell you about job opportunities, help you find a home and a good school for your kids, provide you a place to stay when you first arrive, etc. These advantages help to reduce the costs of adjusting to the new country. Because Iceland has historically had very small migrant communities, except for countries like Denmark (which always had strong ties

due to Iceland's colony status for centuries), newcomers have had little in the way of a migrant community to tap into both before and at the time of arrival. This is likely to have been a strong deterrent to migration to Iceland.

5. *Amenities.* Those of us that are of Icelandic descent of course appreciate the many amenities of the homeland. These include great food and libations, the stark volcanic landscape that has inspired many artists to produce great work and the fiercely patriotic and stoic Icelandic character. But, not everyone finds these sort of amenities appealing. Iceland has other things that nowadays are getting scarcer to find -- clean air and water, cheap energy, virtually no crime and lots of light during the Summer. Furthermore, Iceland shares with very few countries one distinct amenity – it is considered one of the freest societies on earth, as well as a democracy that does one of the best jobs nurturing and maintaining strong human rights. However, many foreigners who come to Iceland complain about the gray, rainy climate, the long, dark Winters, perceived risk of earthquakes and volcanic eruptions, not to mention lack of foliage. What may be very attractive amenities to a loyal few may not be unattractive or neutral to many. Simply put, many other countries offer certain kinds of amenities that are in high demand by a much larger percentage of the World's population. We know how we feel about Iceland's amenities, but talk to people that have no ethnic connection to the country, that come from warm parts of the World and are from completely different social, cultural and religious systems.

## II. THE IMMIGRATION PICTURE CHANGED BEGINNING IN THE MID 90S.

The data tell the story. In 1996, there were 5,357 foreign-born persons living in Iceland, or approximately 2% of the population. This was right about the long run average percentage of foreign-born population since the government started to report immigration statistics. In 2000, there were 8,425 foreigners living in Iceland, just a whisker over 3% of population, while in 2004, there were 12,061 foreign-born persons, which amounted to 4.15% of population. In 2008, there were **25,265** foreign-born residents of Iceland, 8.06% of the population. So, as a proportion of the population, the number of immigrants living in Iceland tripled over about a decade. This exponential increase in immigrant population is very unusual compared to most other countries. Only three countries come to mind that rival this dramatic increase in immigration. The first case is Israel, which experienced during the 1990s a mass influx of over one million Russian Jews, significantly increasing not only the foreign-born proportion of the population, but the percentage of population born in a particular country or region. The second case is the United Arab Emirates in recent years, where over 90% of the labor force is comprised of foreign-born temporary workers. The third case is the Mariel Boatlift to Miami, where approximately 120,000 Cuban refugees sailed on a flotilla of boats from the port of Mariel, Cuba, to Miami, increasing Miami's labor force by 7% within the space of just a few months.

I also want to mention that during the 1996-2008 period, the number of foreign-born Icelandic citizens returning to their home countries fell. This is evidenced by the fact that during this entire period, always more foreigners arrived than repatriated. In 1995, net immigration (number of people arriving less number of leaving) was 219 persons,

whereas in 2007 it was 3352 and as of September, 2008, it was 4948. Furthermore, while during most years of this period more Icelanders left than returned home, the net outflow of Icelanders got smaller and smaller.

**What accounted for this dramatic spike in immigration and the reduction in the net emigration of Icelandic citizens?**

The answer is simple: For the first time in its history, Iceland became a really healthy economy. It placed itself on a twelve year trajectory of considerable prosperity. The factors that account for this turn of events are the following:

1. Broad global economic and political forces including:
  - *Prosperity in the USA beginning in the mid to late 1980s*, which many attribute to the “Supply Side Economics” policies, deregulation and massive defense spending during the Reagan administration, as well as stimulative monetary policies of the U.S. Federal Reserve under the leadership of former chairman Allen Greenspan. The prosperity that was experienced in the USA spilled over to the rest of the World.
  - *Large reductions in trade barriers between countries dating back to the 1980s*, which encouraged more vigorous trade. Iceland is an export-driven economy. Reductions in trade barriers, coupled with greater demand, made the relatively large export sector of Iceland very profitable;
  - *the technological revolution of the 1990s*

- *The collapse of the Soviet Union and Iron Curtain bloc, coupled with the massive reforms taking place in China.*

**Within Iceland, big changes were taking place during this period:**

It started in 1991, when David Oddsson, leader of the Independence Party, formed a coalition government with the Social Democrats. This government set in motion a large-scale program of deregulation, where a number of small and large companies, including banks, were privatized. At the same, the Central Bank for the first time in a very long time began implementing sensible monetary policies. These policies, designed to both ensure liquidity in the system as well as breaking inflationary expectations, were fashioned after the policies adopted by Federal Reserve chairman Paul Volcker.

Economic stability increased and the long term chronic inflation, which had become such an albatross in the Icelandic economy for so many years, was broken. Furthermore, Iceland became a member of the European Economic Area in 1994, which opened up new trade opportunities.

The reforms introduced by Oddsson's government were scaled up in 1995, when his party formed a coalition government with the Progressive Party. This government continued the free market policies, privatizing two commercial banks and the state telephone company. Corporate income taxes were cut drastically from 50% to 18%, inheritance taxes were greatly reduced and the net wealth tax abolished. Furthermore, the fishing industry underwent a major reform – a system of tradeable quotas in Icelandic

fisheries was put in place. This encouraged greater competition and led to greater profitability in the fishing industry.

Iceland is an export-driven economy. As World prosperity increased, the demand for Icelandic exports rose, which made export industries particularly profitable. Tourism to Iceland increased and companies such as Icelandair became very profitable. The result of all these internal and external developments was a level of growth never seen before – about 4% per year on average starting in 1994. Inflation was drastically reduced, corporate profits and the Icelandic stock market soared. While income inequality increased, as they say “a rising tide lifts all boats” – average household income and wealth increased. Measured by real GDP per capita (output of the nation per person), Iceland became of the wealthiest countries in the World.

The new Nordic Tiger needed labor, particularly in certain industries. Like many export-driven countries with shortages of domestic labor, particularly in certain industries, there was a strong increase in the demand for immigrant labor. This ultimately explains the surge in immigration to Iceland starting in the mid 1990s.

Economists studying immigration distinguish between “supply-push” and “demand-pull” immigration. Supply-push immigration is immigration that results from either weakening economic conditions in the sending country or non-economic factors. For example, surges of illegal Mexican migration to the USA have occurred in the past because the Mexican economy has gone into recession. Many refugees coming from Somalia to the

USA during the period of civil strife in Somalia did not come because the U.S. labor market was stronger than Somalia's, but because they were fleeing Somalia to protect life and limb. We use the term "supply push" because immigrants are pushing their supply on to the destination's labor market, regardless of whether the destination can absorb them. The result of supply-push immigration is usually that wages in the destination country fall. When we see wages fall in response to an influx of immigrants, that indicates supply-push immigration.

Demand-pull immigration is where people move to a country because of a surge in demand for labor in that country. Immigration is the effect, not the cause. As labor demand rises in the destination, there may not be enough domestic workers to fill the need. The shortage of domestic labor pushes up wages, which lures or "pulls" in immigrant workers. When we see immigration to a country coincide with rising wages, that is a sign of demand-pull immigration. Demand-pull immigration is "good immigration" in the sense that it is a response to growth in the destination and the need to satisfy a shortage of labor.

The surge in immigration experienced since the mid 90s in Iceland has been almost entirely demand-pull. Foreign workers were pulled in to accommodate the rising demand for labor. This explains why during these periods of large scale migration to Iceland, wages in immigrant-receiving industries did not fall, nor did unemployment rates rise. The immigrants shared in the prosperity with the natives and the increase in the supply of

immigrant labor to Iceland added to the gains enjoyed by the natives from Iceland's overall prosperity.

### **Where did these new immigrants come from?**

Let's go back ten years prior. Between 1986 and 1995, the top 5 source countries for immigrants to Iceland were

1. Denmark, which sent an average of 824 persons each year;
2. Sweden, 638 persons;
3. Norway, 382 persons;
4. USA, 293 persons;
5. UK, 130 persons.

This had been a very steady pattern for many years. Denmark was # 1 every year for decades and the other two Nordic countries # 2 and 3 as well. In fact, these five countries tended to make up nearly all of the 2% average of foreign persons living in Iceland.

Between 1996 and 2008, not only did the level of immigration increase rapidly, but so did the composition. In 2007, the top ten countries sending persons to Iceland were, starting the smallest sender, were

10. Czech Republic, 120 persons
9. Latvia, 200
8. Portugal, 246
7. Norway, 299
6. Germany, 395
5. USA, 428
4. Lithuania, 577
3. Sweden, 610
2. Denmark, 1,673
1. Poland, 5,653 (or 1.84% of the entire Icelandic population).

The overwhelming majority of Icelandic immigrants over the last twelve years have come from the EU and they have come almost entirely to seek employment opportunities. The

most astonishing finding is that the lion share of the immigration over the last few years has come from one country -- Poland. In fact, in 2007 and 2008 Poland comprised about 1/3 of the total immigrant population in Iceland. Unofficial estimates put the size of the Polish population last year at 17,000 or 5.5% of the population. There are various communities in Iceland, such as Flateyri and Sureyri that are now dominated by Polish immigrants.

### **Why Poland?**

Two historical factors:

1. Poland was part of the first group of former Iron Curtain countries that joined the EU in 2004. These countries had serious economic problems when they joined and Poland was one of those countries in really bad shape; high unemployment, low wages and productivity, high inflation, and corruption. These conditions triggered a huge wave of emigration, estimated to have been 800,000 since 2004. These Polish emigrants fanned out over Western Europe;
2. There was a small community of Polish migrants in Iceland dating back to the late 1970s. At that time, a number of Polish people began working in Iceland. Icelandic fishing companies had ships built in shipyards in Poland, which led to Icelandic crews and captains forming friendships and business relations with Polish shipyard workers and directors. There was a shortage of skilled blacksmiths in Iceland, so groups of Polish blacksmiths came to Iceland to work on specific projects on a seasonal basis. The connection with Polish shipyards generated an increase in the number of Polish immigrants working in the Icelandic fishing industry. The Polish migrant community had

enough critical mass that when prosperity hit Iceland in the 1990s, the relatively well developed Polish migrant network was much better able to facilitate a large influx of Polish migrants, compared to most other sending countries. There were enough Poles already there to make new Polish migrants feel comfortable, to help them find jobs, housing, etc. So, the preexisting migrant community made it much easier for Poles to come to Iceland than for immigrants to come from other non-Nordic countries. Furthermore, residents of the UK, USA, Denmark and Sweden would not have been so interested in coming to Iceland because their economies were doing very well.

**SO, WHAT MAKES THE TOPIC OF IMMIGRATION TO ICELAND SO INTERESTING THEN IS:**

1. Iceland experienced very little to no immigration for most of its history up to the mid 1990s;
2. The burst of immigration that occurred starting in the 1990s was driven by internal and external global prosperity, meaning that the immigration was demand-pull;
3. The immigration is heavily concentrated in one particular country – Poland -- a country that has minimal ethnic, linguistic and cultural ties to Iceland.
4. The wave of Polish immigration to Iceland resembles in many ways the large waves of Hispanic migration to small Midwestern communities. The migrants come in response to surging local demand for labor and add to, not take away from, the community's prosperity.

### III. WHAT THEN IS THE FUTURE OF ICELANDIC IMMIGRATION?

1. Demand-pull immigration has a downside. Demand-pull migrants tend to be transient workers – they get pulled in by strong local labor market conditions, but they tend not to settle in for the long haul. If the economic winds blow the other way, they leave. That is exactly what is happening in Iceland now as a result of the crisis. Poles are leaving in the hundreds each month, driven out by layoffs, falling real wages and rising final inflation thanks to the plummeting currency. The current crisis has the potential to drive away many of the migrants who came to Iceland starting in the mid 90s. They will search for relatively better opportunities in other European countries or even in more remote parts of the World. Outside of having children born in Iceland who are turning into Icelanders, or other sorts of special circumstances, these migrants are indeed likely to leave.

My prediction therefore is that if the economic crisis in Iceland is not abated in both an effective and timely manner, Iceland's foreign-born population could return to the long run average of 2%, which appears to be something of an historical equilibrium. The question that Icelanders must ask themselves is: Do they want to become more of an ethnically diverse society for the long run, which can only come about by putting in place policies that encourage immigrants to stay for the long haul, or will they allow the recent surge of immigration to be a flash in the pan, triggered by an amazing temporary upturn in the business cycle likely not be repeated for a very long time? The next 1-2 years will tell.