Integrating Refugees by Addressing Labor Shortages

Mette Foged, Janis Kreuder and Giovanni Peri

November 3, 2020

1 Motivation and Research Question

Refugees are the most disadvantaged migrants, even when they arrive in developed host countries. Evidence from OECD countries shows that their employment rates and wages lag significantly behind those of other migrants, long after arrival. (Fasani, Frattini, and Minale, 2018; Brell, Dustmann, and Preston, 2020). Even 10 years after arrival, Schultz-Nielsen (2017) finds refugee-native employment differences of 22% in Denmark.

The same high income (OECD) countries that are struggling with the integration of refugees, however, are also struggling with demographic decline and aging, leading to substantial shortages of labour. Larger inflows of refugees, if integrated in the labor markets, could contribute to maintaining age-balanced, well-functioning labor markets (European Migration Network, 2015; OECD and European Union, 2014). The important but elusive goal is to bridge the need for workers in sectors such as care of the elderly, health care and other services and industries with a substantial number of refugees, struggling to find a job. We test the potentials of such type of approach by analyzing the economic impact of a policy implemented in multiple Danish municipalities in recent years. In a program, called "Branchepakker" (BP) (meaning "industry package"), newly-arrived refugees were matched and trained specifically for jobs in local sectors that were experiencing shortages of labour. These locally defined target industries ranged from health care support to construction or logistics. A formal evaluation of this program has never been performed.[1] **The main objective of this project is to determine if this "matching and training" program for refugees was effective in increasing their employment outcomes and other socio-economic outcomes?**

2 Background and Literature

Evidence on programs that integrate refugees in developed countries is limited. Recent studies (Arendt, Bolvig, Foged, Hasager, and Peri, 2020; Sarvimäki and Hämäläinen, 2016) find that early language training is effective in improving employment opportunities. These programs, however, may take some years to bear fruit. Active labour market programs (ALMP) helping refugees to find jobs have been shown to be effective in the short run. Denmark has been studied specifically as it has tried several different policy approaches. Starting in 2016, refugees in Denmark were required to actively search for jobs upon arrival, while participating in job training. Arendt (2019) finds that the reform significantly increased employment for male refugees in their first year, although the effect faded in year two. Early labor market participation seems a key ingredient in the integration of refugees and some studies have analyzed how to achieve that. Butschek and Walter (2014), in a meta-analysis of 33 studies, find that wage subsidies in the private sectors are an effective tool to reduce the time to first employment. Clausen,

---

[1]For a descriptive non-evaluative analysis of the program see Simic et al. (2018), Martin et al. (2016) and Thomassen (2019). Thuesen, Rotger, and Jakobsen (2020) evaluate a closely related, but smaller and more recent concept labelled "branche-orienteret tilgang" (BOT). They observe program participants and match them to the controls using matching on observables within the municipalities, assuming that somehow there is some randomness in who is assigned to the program. BOT participants have been in the country for longer (average 4.5 years) than BP participants.

Heinesen, Hummelgaard, Husted, and Rosholm (2009) finds positive employment effects of ALMP on recently arrived immigrants and Heinesen, Husted, and Rosholm (2013) extends these findings to immigrants already in the country for some time.[2] The new contribution of this paper is to evaluate the effectiveness of a refugee integration program driven by labor market demand needs in the host country.

3   Identification Strategy and Data Sources

We identify 31 different Danish municipalities that implemented BP between 2013 and 2018. We then apply an "event study" (or staggered difference-in-difference) approach as the policy was rolled out at different times in different municipalities. We estimate how the employment, earning and occupation outcomes of refugees differ between the cohorts of refugees arriving before and after the implementation of the program, while accounting for time trends and time-invariant municipality effects. By combining the roll-out dates and detailed data on the individual refugees we can identify refugees who are treated (arrived after program implementation), partially treated (arrived shortly before) or not treated in their first year. Such difference in the early experience of cohorts of refugees allows us to identify the causal intend to treat effect of the policy.[3] As refugees had no influence to manipulate when and where they would be settled in Denmark, and as the implementation of the policy was not determined by any local condition, the distribution of the treatment should be as good as random. We will check these conditions and the validity of the identification strategy through a variety of test, including "placebo tests" with Eastern European immigrants and natives, with comparable educational attainment to refugees.

We use high quality longitudinal Danish administrative data, covering the entire Danish population each year. Individual identifiers enables us to merge all registers and follow individuals over time, including all refugees and their arrival, location and outcomes. Our identification strategy is only possible with rich micro data, that identify refugees and their municipality and time of settlement, hence their treatment status (early participation in the program).

4   Policy Relevance and Academic Potential

The BP policy has several advantages relative to existing approaches. The BP policy specifically addresses the host country's economic and demographic issues, shifting the focus to the demands of the host economy. By giving refugees more direct ways to gain employment valuable both to them and to the host, the policy provides a powerful counterargument to narratives of refugees being reliant on welfare and taking jobs that natives need. This in turn could lead to higher acceptance of refugees within the host society, as Bansak, Hainmueller, and Hangartner (2016); Böhm, Theelen, Rusch, and Van Lange (2018) show that the willingness to accept refugees is strongly connected to the perception of their ability to contribute economically.

The findings from this integration program carry relevance across many high income host countries, who experience both difficulties with refugee integration into the labour market and local labour shortages, simultaneously. The empirical approach is novel to the literature where causal estimates of effective policies are rare. The project should have a chance in a top economic or top top interdisciplinary

---

[2]Joona and Nekby (2012) provide quasi-experimental evidence from Sweden suggesting that more intensive counselling increase employment effects one year after assignment.

[3]Such an identification strategy is similar to Hoynes, Schanzenbach, and Almond (2016) who estimate the impact of access to the Food Stamp Program in the US using variation in birth cohorts and county of birth.

journal with interest in societal challenges such as refugee integration.

5 Expenses

We have collected all data on implementation of the program in each municipality, including program start dates. We have all the registers we need and data are cleaned and ready for analysis. We need research assistance and time to allocate to the project.

6 Project Participants

Mette Foged, Assistant Professor, University of Copenhagen.
Janis Kreuder, Research Assistant, University of Copenhagen.
Giovanni Peri, Professor, University of California, Davis.

Mette Foged is assistant professor at University of Copenhagen and a research fellow of IZA Institute of Labor Economics i Bonn and Centre for Research and Analysis of Migration at University College London. She she is one of Denmark's leading experts on immigration and refugee integration and the PI of the Economic Assimilation Research Network (EARN), a 5-year research project dedicated to evaluating integration efforts targeted towards refugees in Denmark (2017-2021).

Janis Kreuder has a Master in Global Development from University of Copenhagen and an Economics BA from Bonn. He wrote his thesis about the BP concept using a mix of qualitative and quantitative methods and has since then worked full time as research assistant on EARN. He knows all the relevant register data and the BP concept very well and has the programming and econometric skills needed for the project. As an RA on EARN he has programmed SAS, Stata abd Python and always been very efficient and fast.

Giovanni Peri is a professor at the University of California, Davis, and a leading expert on immigration. His research focuses on the impact of international migrations on labor markets and productivity of the receiving countries and on the determinants of international migrations. He has published in top several academic journals, and belongs to the top 1% most cited economists at IDEAS/RePEc. He is the Founder and Director of the UC Davis Global Migration Center, an interdisciplinary research group focusing on international migrations, and an editor of Journal of the European Economic Association.

References

Arendt, Jacob Nielsen. 2019. "Employment Effects of a Job-First Policy for Refugees." Study Paper No. 139, The Rockwool Foundation's Research Unit.

Arendt, Jacob Nielsen, Iben Bolvig, Mette Foged, Linea Hasager, and Giovanni Peri. 2020. "Integrating Refugees: Language Training or Work-First Incentives?" *NBER Working Paper* No. 26834.

Bansak, Kirk, Jens Hainmueller, and Dominik Hangartner. 2016. "How Economic, Humanitarian, and Religious Concerns Shape European Attitudes Toward Asylum Seekers." *Science* 354 (6309):217–222.

Böhm, Robert, Maik Theelen, Hannes Rusch, and Paul Van Lange. 2018. "Costs, needs, and integration efforts shape helping behavior toward refugees." *Proceedings of the National Academy of Sciences* 115 (28):7284–7289.

Brell, Courtney, Christian Dustmann, and Ian Preston. 2020. "The Labor Market Integration of Refugee Migrants in High-Income Countries." *CEPR Discussion Paper* 14296.

Butschek, Sebastian and Thomas Walter. 2014. "What active labour market programmes work for immigrants in Europe? A meta-analysis of the evaluation literature." *IZA Journal of Migration* 3 (48).

Clausen, Jens, Eskil Heinesen, Hans Hummelgaard, Leif Husted, and Michael Rosholm. 2009. "The Effect of Integration Policies on the Time Until Regular Employment of Newly Arrived Immigrants: Evidence from Denmark." *Labour Economics* 16 (4):409–417.

European Migration Network. 2015. "Determining labour shortages and the need for labour migration from third countries in the EU." Synthesis Report.

Fasani, Francesco, Tommaso Frattini, and Luigi Minale. 2018. "(The Struggle for) Refugee Integration into the Labour Market: Evidence from Europe." *IZA Discussion Paper* (11333).

Heinesen, Eskil, Leif Husted, and Michael Rosholm. 2013. "The Effects of Active Labour Market Policies for Immigrants Receiving Social Assistance in Denmark." *IZA Journal of Migration* 2 (15):1–22.

Hoynes, Hilary, Diane Whitmore Schanzenbach, and Douglas Almond. 2016. "Long-run impacts of childhood access to the safety net." *American Economic Review* 106 (4):903–34.

Joona, Pernilla Andersson and Lena Nekby. 2012. "Intensive Coaching of New Immigrants: An Evaluation Based on Random Program Assignment." *The Scandinavian Journal of Economics* 114 (2):575–600.

Martin, Iván, Albert Arcarons, Jutta Aumüller, Pieter Bevelander, Henrik Emilsson, Sona Kalantaryan, Alastair MacIver, Isilda Mara, Giulia Scalettaris, Alessandra Venturini, Hermine Vidovic, Ingo van der Welle, Michael Windish, Rebecca Wolffberg, and Aslan Zorlu. 2016. "From Refugees to Workers: Mapping Labour Market Integration Support Measures for Asylum-seekers and Refugees in EU Member States: Volume II: Literature review and country case studies." Bertelsmann Stiftung, Migration Policy Centre.

OECD and European Union. 2014. "Matching Economic Migration with Labour Market Needs." Policy Brief.

Sarvimäki, Matti and Kari Hämäläinen. 2016. "Integrating Immigrants: The Impact of Restructuring Active Labor Market Programs." *Journal of Labor Economics* 34 (2):479–508.

Schultz-Nielsen, Marie Louise. 2017. "Labor Market Integration of Refugees in Denmark." *Nordic Economic Policy Review* :55 – 90.

Simic, Nino, Kristin Marklund, Ann Jönsson, Helena Lagercrantz, Caroline Lagercrantz, David Erichsen, Joan Rask, Jeanette Björkqvist, Bjørn Kvaal, and Annska Ólafsdóttir. 2018. "New in the Nordic Countries: Labour Market Inclusion of Migrants." Nordic Council of Ministers.

Thomassen, Henrik. 2019. "The integration of refugees in Denmark." European Parliament: Policy Department for Economic, Scientific and Quality of Life Policies.

Thuesen, Frederik, Gabriel Pons Rotger, and Vibeke Jakobsen. 2020. "En brancheorienteret tilgang til at få flygtninge og indvandrere i job." *VIVE Rapport* .