

# The impact of refugees on the labour market: a big splash in a small pond?

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## Abstract

What impact will recently arrived refugees have on the labour markets of receiving European countries? As a contribution to the debate, this paper looks at the composition of recent refugee inflows and reviews the relevant characteristics of EU labour markets.

Even in the most affected member states, the number of refugees recognised between 2014 and 2017 is small relative to the total population. The potential impact on *aggregate* wages or on the unemployment rate is therefore not expected to be economically significant. However, many of the recent refugee cohorts in these member states were young low-skilled men. The 2014-17 inflow is thus sizeable relative to the population of this specific group.

The authors of this paper highlight two potential challenges associated with such a concentrated inflow. First, since young low-skilled men are already an economically vulnerable group, higher competition for jobs can further increase this vulnerability and fuel negative (anti-immigrant) sentiment. Second, the labour market sectors relevant for many refugees already face uncertain labour demand due to import competition and continuing technological change.

The authors find that this challenges the medium- and long-term prospects for the integration of refugees. It also calls for attention to be paid to training and upgrading their skills. At the same time, efforts to integrate newcomers should go hand in hand with the better economic inclusion of other vulnerable population groups.

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# The impact of refugees on the labour market: a big splash in a small pond?

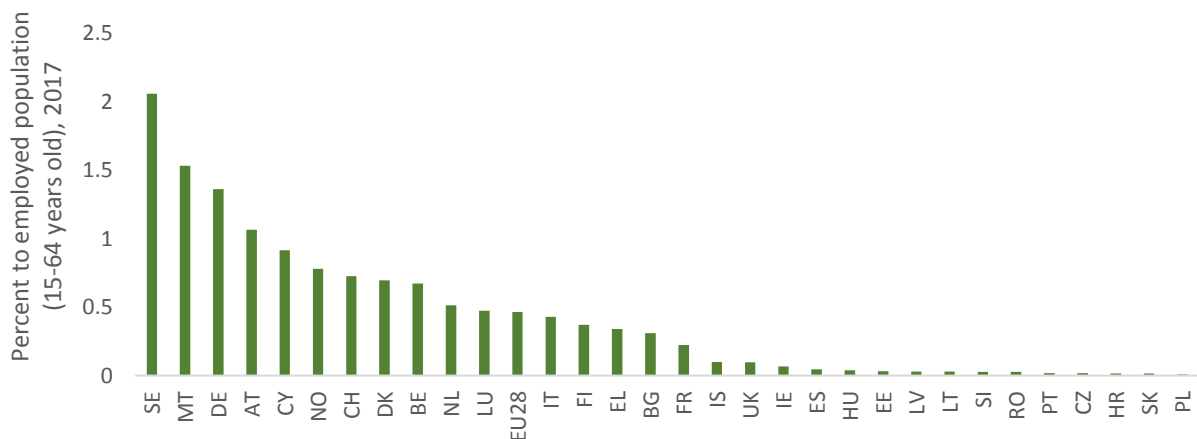
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Over the years 2014-17, 1.6 million refugees had their asylum applications approved and are thus likely to stay in Europe, at least in the short and medium term. More than one million recently recognised refugees are of working age and could potentially enter the labour market. What impact will refugees have on the labour markets of receiving countries?

On the one hand, the recent ‘refugee shock’ relative to each EU member states’ population does not appear so shocking. Even in Sweden, which accepted the largest number of asylum seekers in relative terms during 2014-17, the share of recognised refugees to the employed population is only slightly over 2% (Figure 1). For this reason it is often argued that refugees’ impact on wages or the unemployment rate in the receiving countries will not be economically significant. Similarly, the academic literature tends to find no or only modest labour market effects from previous refugee waves, although there are a few notable exceptions.<sup>1</sup>

Figure 1. Refugees (18-64 years old) recognised over 2014-17 as a share of the employed population (as of 2017) in receiving EU countries



Note: The numbers concern first-instance positive decisions and can be used as a lower-bound estimate for the inflow. Over 2014-17, about 1.1 million asylum applicants (18-64 years old) were rejected. While many appealed, only about 10% of first-instance rejections received a positive decision in the subsequent rounds.

Sources: Eurostat tables *migr\_asydcfstq* (first-instance positive decisions on asylum applications, individuals between 18-64 years old, over 2014-17), *lfsa\_egaed* (employed population, 15-64 years old, as of 2017).

<sup>1</sup> See Clemens and Hunt (2017) for a survey of existing studies. Borjas (2017) and Borjas and Monras (2017) are two of the few studies finding quantitatively significant labour market effects.

On the other hand, the recent refugee cohorts have been largely homogenous: young low-skilled men account for more than a third of all arrivals over 2014-17 in the EU.<sup>2</sup> At least according to the evidence from Germany, many young male refugees from the recent cohorts have become already active in the labour market: about 55% of those who arrived in 2014 report being employed or actively seeking work as of 2016.<sup>3</sup>

If labour markets are segmented and refugees compete for jobs, mainly with workers of the same gender, age group and education, the impact in the sectors relevant for young low-skilled men could be substantial. This comes on top of the uncertainty over future employment prospects for low-skilled individuals in general due to import competition from low-wage countries and continuing technological change. Ignorance about group-specific labour market effects can lead policymakers to overlook existing vulnerabilities, which could, on the one hand, lead to alienation of refugees and, on the other hand, increase feelings of disaffection and fuel negative sentiment towards immigrants among the native population.

### Concentrated inflow

According to the German IAB-BAMF-SOEP survey,<sup>4</sup> low-skilled men and women account for over 55% of recently arrived refugees in Germany of active labour market age (18-64 years old). The largest group comprises low-skilled men aged between 18 and 34 years, who alone represent over 30% of all arrivals in 2014-17. The skill composition of refugees in other top recipient countries is similar (see OECD, 2018 and Konle-Seidl, 2018). In Sweden, for instance, low-skilled young men make up about 26% of all recently recognised refugees between 18 and 64 years old.<sup>5</sup>

Thus, the 'refugee shock' is mainly concentrated in one population group: in Sweden the number of low-skilled young men who were recognised as refugees in 2014-17 constitutes close to 20% of the employed (as of 2017) in the same gender, education and age group (Figure 2). The number for Germany is about 12%. Furthermore, these figures represent the lower bound estimates of the number of refugees seeking employment as low-skilled workers. Some medium- and high-skilled refugees might downgrade due to language barriers and their qualifications not being recognised.<sup>6</sup>

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<sup>2</sup> OECD (2018).

<sup>3</sup> Source: IAB-BAMF-SOEP survey, 2016. We consider men between 18 and 34 years old. The rate of labour force participation increases to 70% if we add refugees reporting to be in need of job search assistance. For young women the numbers are lower, with only 14% reporting to be employed or actively looking for a job, or 37% if we add female refugees reporting to be in need of job search assistance.

<sup>4</sup> Detailed information on the survey is available at:

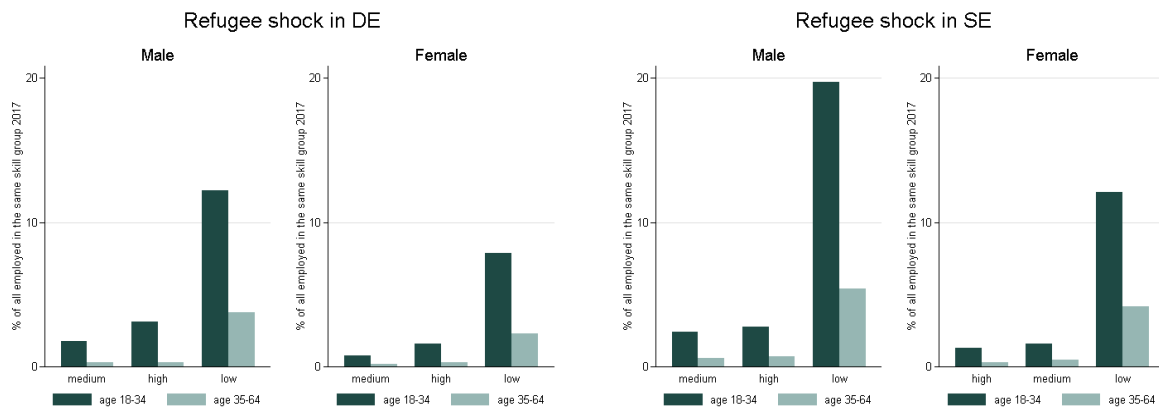
[https://www.diw.de/en/diw\\_01.c.538695.en/research\\_advice/iab\\_bamf\\_soep\\_survey\\_of\\_refugees\\_in\\_germany.html](https://www.diw.de/en/diw_01.c.538695.en/research_advice/iab_bamf_soep_survey_of_refugees_in_germany.html).

<sup>5</sup> To obtain the number for Sweden, we assumed the same skill composition among refugees within age and gender group as in Germany.

<sup>6</sup> As argued, for instance, by Dustmann et al. (2016).

Figure 2. ‘Refugee shock’ within a population group (by age, gender, and education) in Germany and Sweden

[Explore data for other Member States using the interactive graphs available at: <https://www.ceps.eu/publications/impact-refugees-labour-market-big-splash-small-pond>]



Note: Recognised refugees in Germany/Sweden over 2014-17 as a percentage of the employed population (as of 2017) in the same population group. A population group is defined by gender, education level and age group. Low-skilled – Isced 0-2 (up to secondary school); medium-skilled – Isced 3-4 (vocational degree); high-skilled – Isced 5-6 (university). Due to data availability, the employed population (in denominator) is between 15 and 34 years old. For other countries in the EU, we assume that the education composition is the same as for Germany (within age and gender group).

Source: IAB-BAMF-SOEP Survey, 2016 refugee sample, Eurostat.

## High unemployment for low-skilled men and segmented labour markets

Young low-skilled men face high unemployment rates in the EU: in 2017, the unemployment rate for this population group constituted 18.9% vs. 7.8% on average for all individuals aged between 15 and 64 years. Even in Germany, with a headline unemployment rate of 3.8%, young low-skilled men faced an unemployment rate of 13.1%.<sup>7</sup>

Moreover, as *Figure 3* shows, there is gender segmentation in the labour market for low-skilled workers. Predominantly ‘male’ industries – such as manufacturing, construction, and transportation, with a share of over 70% male employees – account for about 50% of total young low-skilled male employment in Germany and for over 40% in Sweden. If, in addition, there is labour market segmentation along age and experience,<sup>8</sup> the competition for jobs between young low-skilled men is likely to become more intense as a result of the refugee inflow. Consequently, this segment of the population may experience a noticeable impact on their labour market outcomes.<sup>9</sup>

<sup>7</sup> The unemployment rate of young low-skilled women is 22.1%. The data come from Eurostat, *lfsa\_urgaed*. Due to data availability, we use unemployment rates of individuals between 15 and 39 years old.

<sup>8</sup> As argued in Borjas (2003); Aydemir and Borjas (2007), for instance.

<sup>9</sup> Without age segmentation, the shock for low-skilled men is 10.6% in Sweden and 7.8% in Germany.

Figure 3. Employment of low-skilled young men in Germany and Sweden by industry sector [Explore data for other Member States using the interactive graphs available at: <https://www.ceps.eu/publications/impact-refugees-labour-market-big-splash-small-pond>]



Note: We consider low-skilled young men between 15 and 34 years old. The circles are proportional to the number of employed low-skilled young men in each industry.

Source: Eurostat, LFS 2016.

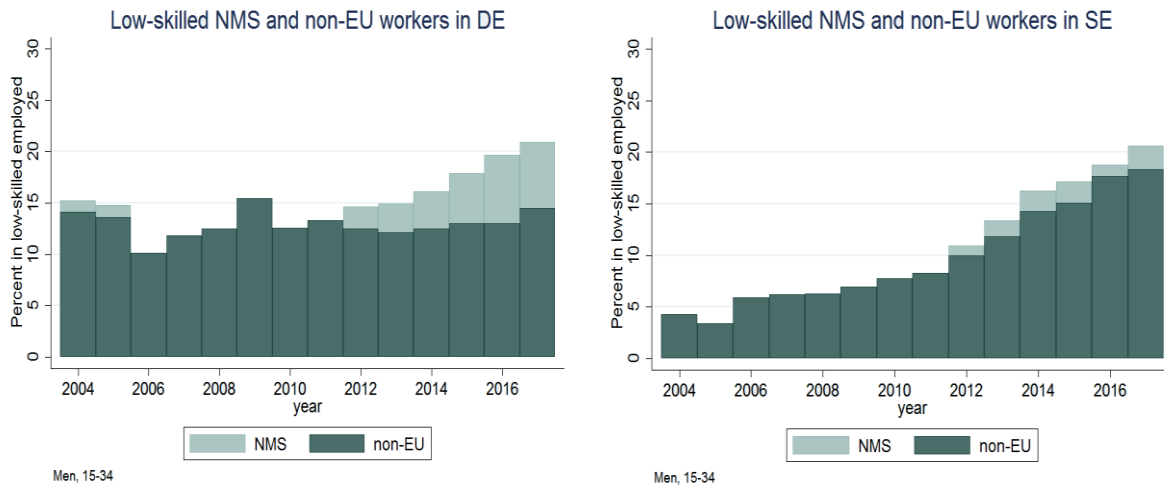
Over time, companies can adjust to the higher supply of low-skilled labour and create more jobs. Yet, one way the economy changes to absorb more low-skilled workers is by adjusting – in the long run – relative wages between low-skilled and workers of other skill groups. Hence, low-skilled workers will – over time – earn less *relative* to other workers. This wage effect is permanent because the composition of the work force is altered permanently (unless there are further investments in education and training).

Those affected by the arrival of low-skilled young men are likely to be ‘yesterday’s’ immigrants themselves. For instance, in Sweden, close to 20% of employed young low-skilled men are foreign nationals, and the number has been increasing fast in recent years, even before the refugee inflow (Figure 4). The same pattern is observed in many other EU countries, with part of the increase being due to higher intra-EU mobility. Similar trends were seen in the United States in the 1990s after the increase in arrivals from Mexico. Low-skilled immigrants outperformed the native population of the same cohort in employment rates and progressively took the most menial occupations among the low-skilled segment of the economy.<sup>10</sup> Indeed, in 1994, low-skilled immigrants in the US were overrepresented in occupations such as farm work, clothing, private household service, and food services.

<sup>10</sup> Enchautegu (1998).

Figure 4. Low-skilled male workers from NMS (new member states) and non-EU countries in Germany and Sweden (15-34 years old).

[Explore data for other Member States using the interactive graphs available at: <https://www.ceps.eu/publications/impact-refugees-labour-market-big-splash-small-pond>]



Note: Numerator: low-skilled male workers (15-34 years old) – nationals of NMS (Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Romania and Bulgaria) or non-EU countries. Denominator – all low-skilled employed men (15-34 years old) in Germany/Sweden.

Source: Eurostat.

### Longer term remedies: will there be enough low-skilled jobs?

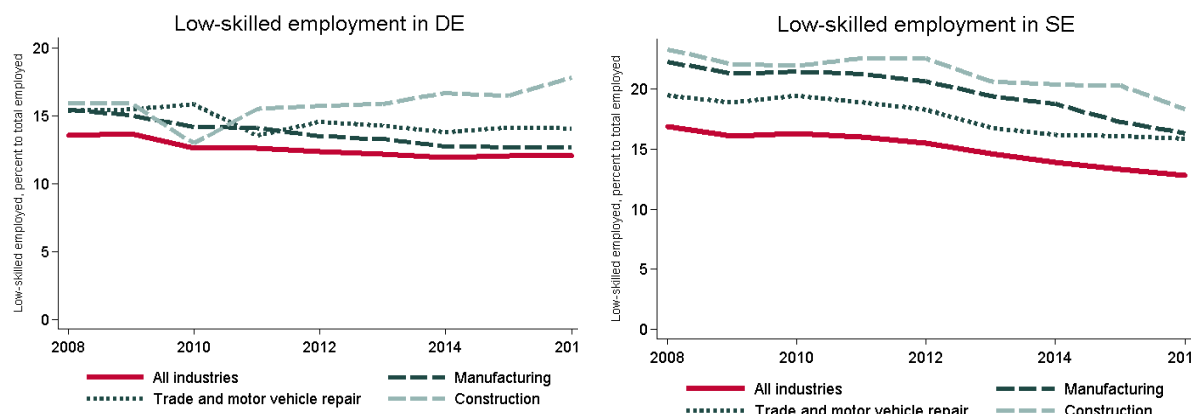
Higher shares of immigrants in low-skilled employment can also indicate that the former take low-skilled (and low-paid) jobs, which could not have been filled by or are no longer attractive for native workers. In this case, one can argue that recently arrived refugees can fill certain labour needs and contribute to the upward occupational mobility of native workers.<sup>11</sup> At the same time, many low-skilled jobs in the EU are currently at risk due to competition with low-wage developing countries (who specialise in labour-intensive products) and continuing technological change and automation.<sup>12</sup> In recent years, the number of low-skilled jobs relative to the total employment in the EU has indeed decreased (Figure 5). In particular, low-skilled employment declined in manufacturing – an important potential employer of young low-skilled refugees. While this trend could be also consistent with the decrease in supply of, rather than the demand for low-skilled workers, the data show that in the EU15 the employment rate of low-skilled workers has decreased at the same time. Germany is a notable exception to the overall trend, whereas in Sweden the employment rate of low-skilled has declined by about 10 percentage points in the last 15 years, particularly for younger workers.

<sup>11</sup> Peri and Sparber (2009), Cattaneo et al. (2015) and Fogedand and Peri (2016).

<sup>12</sup> Autor et al. (2016) and Nedelkoska and Quintini (2018).

Figure 5. Dynamics of low-skilled jobs relative to the total

[Explore data for other Member States through the interactive graphs available at: <https://www.ceps.eu/publications/impact-refugees-labour-market-big-splash-small-pond>]



Note: For manufacturing, trade, and construction, the figures show shares of low-skilled employment to the total number of employed in these industries.

Source: Eurostat, LFS 2015.

Another risk is that refugees will be stuck in low-skilled, low-paid occupations with unstable prospects. If low-skilled work is increasingly done by foreigners, it may widen the socio-economic gap between them and the native population, and thus increase the risk of alienation on both sides and weaken the support for a redistributive welfare state.

### Focus on known remedies: further education and vocational training

It is important to raise awareness of the potential challenges related to the labour market impact of recently arrived refugees, many of whom are young and low-skilled. Recognised refugees will stay in the EU, at least in the medium term. Recent findings show that third country nationals are more likely to be employed in occupations with high automation potential. They are also less likely to access professional training and are more likely to be employed under fixed-term contracts, which increases the risk of contracts not being renewed in the event of economic and technological shocks (Biagi et al. 2018). Upgrading their education and skills therefore appears to be the obvious way forward. Moreover, many refugees themselves have high aspirations to continue their education: for instance, according to the IAM-BAMF-SOEP survey for Germany, almost 70% of young refugees strive for a professional non-academic or academic degree. Training and skill upgrading – as well as fostering recognition of existing skills – is a well-known standard policy prescription that is the focus of integration policies in many countries. Yet, it is important to be realistic about the time needed for the acquisition of new skills and hence successful integration.

These same policy prescriptions – training and skill upgrading – apply to other low-skilled immigrants as well as to the low-skilled native population. Our analysis points to a particularly vulnerable population group, that of young low-skilled men in EU member states. Over the next few years, they may face more direct labour market competition than is revealed by average



country-wide statistics, given the composition of the recent refugee inflow on the one side, and their current struggle for a foothold in the labour market. Even though this group represents a small minority in the electorate, not catering to or acknowledging their concerns risks fermenting discontent and giving room to anti-immigrant sentiment. A drive for better inclusion of this population group into the economy should go hand in hand with efforts to integrate newcomers.

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