Integration of refugees in the Swedish labor market - policies and neighborhoods

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Outline

• Some facts about Sweden
• The role of policy
• The role of initial labor market conditions
  – ”Do when and where matter? Initial labor market conditions and immigrant earnings”, Åslund & Rooth, (EJ, forthcoming)
• The role of peers
• Concluding remarks
Some facts about Sweden

• 9 million residents
• 12 percent foreign-born
• Largest immigrant groups:
  Finland    190,000
  Yugoslavia 75,000
  Iraq       68,000
  Bosnia     54,000
  Iran       53,000
### Employment and earnings in 2002

<table>
<thead>
<tr>
<th>Region of birth</th>
<th>Empl.</th>
<th>Annual earn.</th>
<th>Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>76.8</td>
<td>190,700</td>
<td>22,200</td>
</tr>
<tr>
<td>EU/EEC</td>
<td>69.3</td>
<td>171,800</td>
<td>22,200</td>
</tr>
<tr>
<td>Other Europe</td>
<td>59.7</td>
<td>125,100</td>
<td>19,700</td>
</tr>
<tr>
<td>Outside Europe</td>
<td>53.5</td>
<td>100,400</td>
<td>19,000</td>
</tr>
</tbody>
</table>
Refugee inflow and national unemployment
The Swedish refugee dispersal policy

• 1985-1991 (formally until 1994)
• Responsibility transferred to the Immigration Board
• Municipal placement – reaction to geographic concentration
• Introduction period – 18 months
• Goals:
  – Increase geographic dispersion
  – Facilitate economic and social integration
• In practice: Housing determined placement
The role of policy

• How did the reform affect earnings, employment, and welfare dependence among refugees?
  – Total effect?
  – Effect of placement vs. “common component”?

• Study the outcomes of 1987-89 refugee cohorts
  – Compare to 1981-83 refugees + business cycle effect
  – Use dispersal policy as a quasi-experiment to get exogenous variation in individual locations
Results - outcomes 8 years after immigration

• Substantial total long-term effects of the policy:
  – 25% lower earnings
  – 6-8 percentage points lower employment
  – 40% higher welfare dependence

• Large part of the effect not due to geographic placement
  – Would have been larger if people had not relocated

• Interpretation of “common component”?
  – Policy not focused on labor market entry
  – Distancing of refugee issues from labor market policies
The role of initial labor market conditions

• Possible mechanisms:
  – State dependence – scarring
    • Signaling, preferences, HC depreciation
  – Geographic lock-in

• Odd results in some previous studies
  – Facing poor conditions ⇒ lower unemployment risk, better earnings development.
  – Selective migration?
Our strategy – national and local levels

• Study refugees arriving before-during economic crisis of the 1990s
  – Unexpected magnitude of the recession
  – Made decision to migrate before the crisis

• Study the long-term impact of initial local unemployment rates
  – Exploit refugee placement policy
Refugee earnings (relative to natives)
The effects of local unemployment

• Significant impact on earnings and employment for at least ten years
  – Earnings elasticity (year 7): -0.2
  – Employment elasticity (year 7): -0.09

• Mechanisms?
  – Scarring: Local conditions $\Rightarrow$ initial outcomes $\Rightarrow$ subsequent outcomes
  – Geographic immobility: those who entered in poor locations continue to face poor conditions
The role of peers

• Immigrant concentration to major cities
• Big debate on the effects of segregation
• Does living among ethnic peers affect labor market outcomes?
  – Residential sorting – central methodological problem
    • Use dispersal policy
  – 1987-89 refugee cohorts, earnings 8 years after immigration
Results – peer effects on earnings

• "Doubling of the size of the local ethnic group”
  – "Simple correlation”: -6%
  – Controlling for sorting: 0
  – Low-educated: +19%

• Positive impact bigger when peers are successful
  – High average earnings
  – High self-employment rate

• Qualitative results confirmed in study of welfare dependence
  – "Quality” of peers more important than the number of peers.
Concluding remarks

• Sweden – large number of refugees, frequent problems in the labor market

• Some policies have not facilitated labor market integration

• Early labor market entry important
  – Reception policies matter
  – Labor market conditions matter
  – Peers may matter