

Lift the Ban? Initial Employment Restrictions and Refugee Labor Market Outcomes

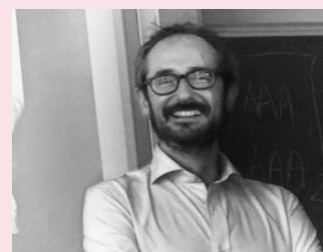
- Tommaso FRATTINI, *University of Milan, Italy*

on “*Limitations to employment of asylum seekers and refugees’ labor market integration*”

Refugee migration has recently occupied the central stage in the European migration policy debate. Indeed, the number of first-time asylum applications in EU countries has rapidly increased over the last decade, relative to previous years, and reached a peak during the so-called “refugee crisis” of 2015. Between 2012 and 2020, 6.1 million asylum applications have been filed in EU countries (including the UK), and the number of those with recognized refugee status has risen from 1.3 to 2.8 million over that period. These remarkable numbers necessarily raise the question of how to effectively and smoothly integrate such a large refugee population into host countries’ labor markets and societies. Little is known, however, about the crucial role that asylum policy design plays in shaping this process. Determining which specific features of asylum legislation can accelerate or hinder refugee integration lies at the core of the current policy debate. Evidence from past waves of forced migration in Europe (Fasani et al. 2021, Brell et al. 2020) suggests that refugees face significant hurdles to integrate in the labor market relative to both comparable natives and non-forced migrants. It would be thus reasonable to expect that asylum policies should aim to minimize those hurdles, rather than adding new ones.

Yet, one shared feature of asylum legislation in many western countries is temporary employment bans that prevent asylum seekers from working during the application process. Unless the duration is statutorily limited, these bans are often lifted only after the applicant is granted refugee status. While employment ban policies in Europe have become less strict over time, most countries still implement some form of temporary ban for all asylum seekers. In 2015, at the peak of the European refugee crisis, only four European countries (Greece, Norway, Portugal, and Sweden) allowed asylum seekers immediate access to their labor markets, with most other countries imposing bans of between 2 and 12 months or even an indefinite restriction in the case of Ireland and Lithuania.

Such bans may appeal to governments as means to reduce the number of asylum applications, discourage economic migrants’ improper exploitation of the humanitarian channel, simplify the removal of rejected asylum seekers, and alleviate natives’ concerns about labor market competition. At the same time, they may imply potentially large costs for both affected refugees and hosting societies: not only do they mechanically prevent asylum seekers from accessing



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the formal labor market for the entire ban duration, but they can also have long-lasting negative consequences on refugee outcomes, such as employment status, labor market participation, job quality, and welfare reliance.

In a recent paper with Francesco Fasani and Luigi Minale we assess the medium to long-term effects of employment bans on the labor market outcomes of refugees in Europe.

The empirical setting: variations in asylum policy within and across EU countries

For our analysis, we gather almost 30 years of data on the presence and length of employment bans across 19 EU countries and combine it with repeated cross-sectional information on refugees who arrived in Europe since 1985 onwards from the European Labor Force Survey. Our empirical approach exploits the geographical and temporal variation in employment bans generated by their staggered introduction or removal, together with frequent changes in the bans' durations. These policy changes bring variation in ban exposure both across refugees arriving to the same destination in different years as well as across refugees arriving at the same time but to different destination countries. Using this empirical approach, we derive three major findings.

Temporary employment bans have long-term consequences on refugees' labor market integration

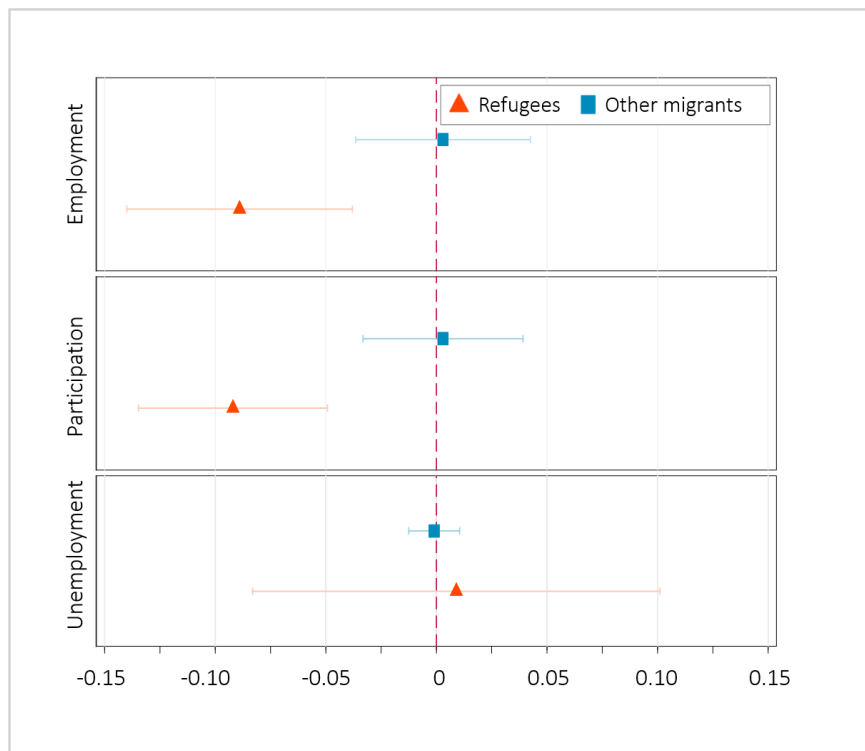
Main effects of employment bans

Our first result is that being banned from employment at arrival reduces the probability that refugees have a job a few years later by 8.9 percentage points (i.e., a 15.2 percent decrease). This effect is quantitatively large, equivalent to delay in the integration process of about four years. The drop in employment is explained primarily by a 9.2 percentage point lower labor market participation rather than by a higher probability of being unemployed. Since our sample excludes refugees who may still be subject to employment restrictions, this effect is by no means a mechanical one. To make sure that the presence of bans does not pick up other features of the host country that could slow down refugees' integration, we also conduct a falsification analysis on a sample of migrants that closely resemble refugees (i.e., arrived at the same time to the same country) but who were not subject to employment bans. Reassuringly, this analysis finds no effects of the employment ban of refugees on other migrants. These results are summarized in Figure 1.

While longer bans have more detrimental effects, even short ones have a sizeable impact

Figure 1: Effect of employment bans at arrival on later labor market outcomes

Note: the figure reports estimated coefficients (and associated 95% confidence intervals) from Difference-in-Difference regressions of current labor market outcomes of refugees (red triangles) and other migrants (blue squares) on an employment ban dummy (which takes value one if an employment ban was in place in the destination country at the time of arrival), individual controls and fixed effects. Source: based on data from Fasani, Frattini, and Minale (2021b).



Duration of the bans

Our second finding is that exposure to longer bans has a larger negative effect than exposure to shorter ones. Yet, the marginal effect of ban length is decreasing, implying that the most detrimental effects are likely to materialize during the first months of the ban. While a negative effect of bans on employment and participation is already visible with short bans (those up to 3 months), estimates become more precise and larger in size when we consider gradually longer employment bans. The estimated size of the effect increases with the ban duration up to 13.5 months. In other words, an employment ban of about a year has the same detrimental effects as longer bans. These results are consistent with

the idea that immigrants' experience upon arrival is a key determinant of their future integration paths, affecting their investments in skills, motivation to engage in the labor market, and welfare reliance (see also Åslund and Rooth, 2007; Azlor et al., 2020).

The negative effects of temporary bans are highly persistent and take about a decade to vanish out

Persistence of the effects

The third result is that the negative effects of employment bans are highly persistent, with negative effects remaining sizeable up to 10 years post arrival despite fading out over time. We illustrate this finding in Figure 2, which displays the effect of the ban on employment, participation, and unemployment probability by years since arrival. The ban has a 24-percentage point negative effect on employment probability in the first 2-4 years post entry, which decreases to 19 p.p. after 5-7 years, and further to 8 p.p. after 8-10 years in the country (Panel A). This latter coefficient, like those for refugees with more than 10 years in the host country, is not statistically different from zero. The effects on participation (Panel B) follow a very similar pattern (decreasing over time and becoming

insignificant after 8-10 years, whereas the effect on unemployment (Panel C) is short-lived: it is relatively large and marginally significant during the first years (2-4 years) but quickly converges to zero. The results for employment and participation underscore the high persistency of the effects of even relatively short employment bans, which, consistent with Marbach et al. (2018) and the literature on labor market entrance during a recession (Oreopoulos et al., 2012; Altonji et al., 2016), may leave scars that last for up to a decade.

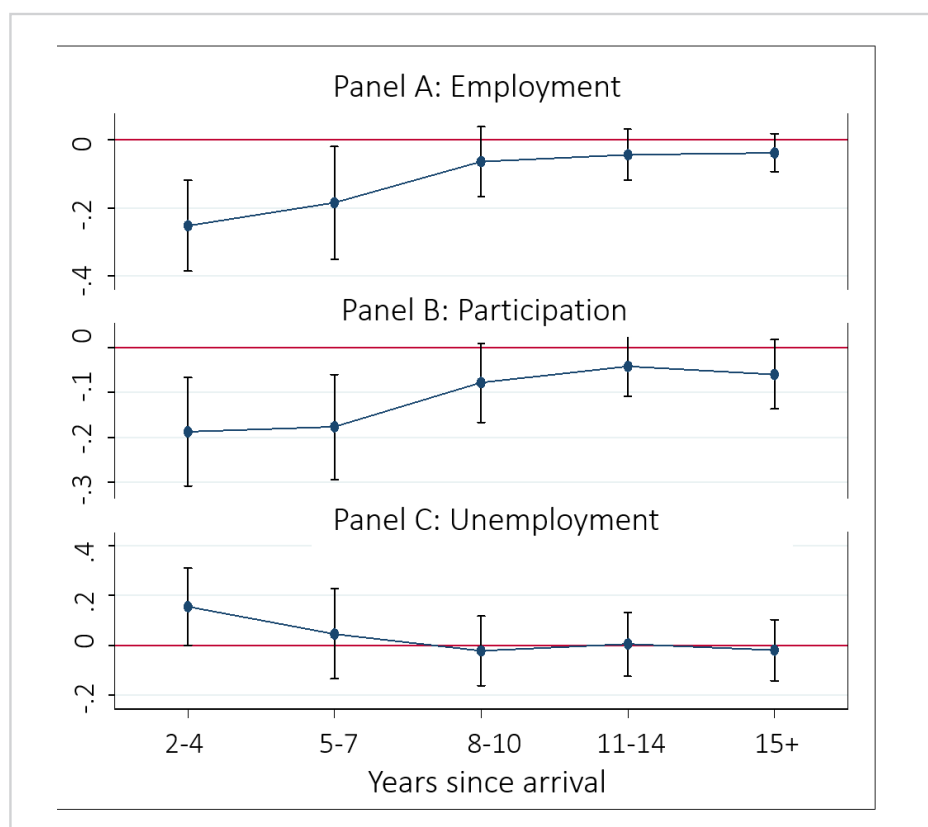


Figure 2: Effects of bans on refugees' labor market outcomes by years since arrival

Note: the figure plots estimates and 95% confidence intervals by years since arrival from a linear regression of employment (Panel A), participation (Panel B), and unemployment (Panel C) dummies on the Employment Ban indicator and other controls (destination country by observation year fixed effects, cohort of entry by source area fixed effects and dummies for male, five-year age groups and educational level). Standard errors are clustered by destination country. Source: Fasani, Frattini, and Minale (2021b).

Mechanisms

The adverse effects of employment bans are mostly concentrated among the less educated refugees, which suggests that restrictions to employment are especially harmful for those asylum seekers who are already less easily employable in the host countries. Additionally, banned refugees also experience lower job quality (i.e., lower likelihood of being employed in a high skilled occupation and higher probability to have a temporary job), are more likely to report lower proficiency in the host country language, and have more health issues, and a greater likelihood of receiving social benefits. We also assess whether part of the effects can be explained by asylum-related policies, potentially introduced or modified simultaneously with the employment bans. We find that, although other asylum policies implemented at arrival seem to affect refugees' future outcomes, the estimated impacts of bans remain the same after accounting for these factors. Finally, we use aggregate data from Eurostat on asylum seekers and refugees to assess whether employment bans influence refugee flows and find no evidence to support this conjecture.

Conclusions

Employment bans on asylum seekers, even when they are meant to be temporary, have long-lasting effects on the labor market integration of refugees. This is not only problematic for refugees' own welfare, but it also translates into a sizable economic loss for host countries. Using our estimates of ban-induced employment gaps, we can quantify the cost of imposing employment bans on asylum seekers in terms of both potential output loss and forgone earnings for the asylum

seekers who remained as refugees. Our estimates suggest that the ban imposed on the over 1 million new refugees arriving in Europe during 2015-2016 may have resulted in an overall output loss of EUR 37.6 billion over a 8-year period, equivalent to about EUR 4,100 per banned refugee per year.

Not surprisingly, employment bans for asylum seekers have become an increasingly contentious issue over recent years, as activists and policymakers become more aware of their potential negative effects. Yet, the later changes introduced in the EU, which imposed 12-month, and 9-month caps (Directives 2003/9/EC and 2013/33/EU, respectively), may have a very limited effect. According to our findings, although the length of the ban matters, the most important factor seems to be whether or not asylum seekers are granted immediate access to the host country labor market. Not only do most detrimental ban effects develop in the first few months after arrival, but simply shortening the ban duration may not be effective in increasing refugee labor market integration if their right to work is not actively enforced after ban expiration. In fact, several countries still restrict the access of refugees to specific job types, employment sectors, and contract durations, making their labor market integration extremely difficult. Allowing refugees to enter the labor market promptly is an easily implementable and financially costless policy that can effectively accelerate refugees' integration.

Based on

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