

# The Long Road From War Into the German Labor Market

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Integrating Low-Skilled Migrants: Austrian, German and US Experience

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# Introduction

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# Why a talk about the integration of refugees?

About 80 percent of the (potential) refugee labor force in Germany have no formal professional degrees albeit schooling levels are more advanced

Labor market integration of refugees is however not only hampered by skill levels, but also by factors related to war and persecution, the refugee migration process and many legal and institutional hurdles to integration

The labor market integration of a refugee with a university degree might therefore last longer and turn-out less successful compared to the integration of an immigrant without a professional degree arriving by a different channel

Given the large public attention, understanding the labor market integration of refugees is of utmost importance for the main destinations of humanitarian migration

# Stylized facts on refugee migration in Germany

Germany has emerged as the **main destination** for refugees among the high income countries in 2015 and the following years:

- **1.6 million asylum applications** have been lodged there from 2015 to 2018, compared to **3.9 millions** in the EU-28 (Eurostat, 2019)
- The total asylum seeker and refugee population numbered **1.78 millions** there by the end of 2018 up from **746,000** by the end of 2014 (DESTATIS, 2019)
- **72 percent** of the refugee population have an **approved protection status**, 17 percent have pending applications, 11 percent have declined applications (DESTATIS, 2019)

Thus, the overwhelming share of the refugee population **will stay in Germany** and has to be integrated into the labor market

# Research questions

1. How have war, persecution and flight affected the skill structure and other socio-economic aspects of the refugee population in Germany and their prerequisites for labor market integration?
2. What do we know so far about the integration of refugees into the German labor market and other areas of society?
3. How do selected policy issues – asylum policies, dispersal policies, language and integration programs – affect integration?

# Database: IAB-BAMF-SOEP Refugee Survey

The IAB-BAMF-SOEP-Refugee Survey is a **longitudinal household survey** of meanwhile some **7,500 refugees** in age 18+, plus some 5,600 children who arrived from 1/2013 to 12/2016. The analysis presented here we use some **5,544 persons** out of the 5,595 persons surveyed in 2017

Survey instruments are translated in key **mother languages**, **audio-instruments** allow surveying illiterates, **face-2-face interviews** (CAPI)

The **personal-biographical-** (450 questions) and the **household questionnaire** (100 questions) cover inter alia the entire migration-, employment- & education biographies, refugee migration motives, flight process, education, cognitive abilities, behavioral characteristics, values & attitudes, health, asylum procedures, language acquisition, human capital acquisition, labor market integration, housing & infrastructure access

# Self-selection

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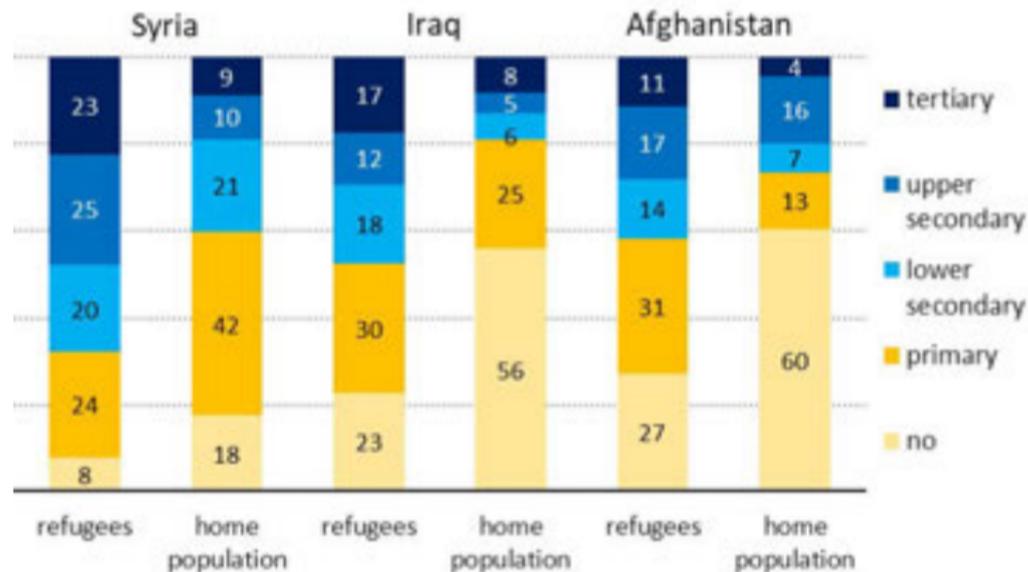
# Dimensions of self-selection

Experiences of war and persecution, displacement and the refugee migration costs and risks affect the **forced-** and **self selection** of refugees along different dimensions:

- **skill levels**, other abilities and **socio-economic status** (Aksoy/Poutvaara, 2019; Guichard, 2017)
- **gender** and **demographic selection**
- behavioral characteristics such as **self-confidence**, **risk preferences** and **reciprocity** (Brücker et al., 2016; Kroh & Schupp, 2016)
- **religious affiliations**, **convictions** and **values** (Brücker et al., 2016; Kroh & Schupp, 2016) (not adressed here)

# Education of refugees compared to sending country average

Highest educational degree, share in %

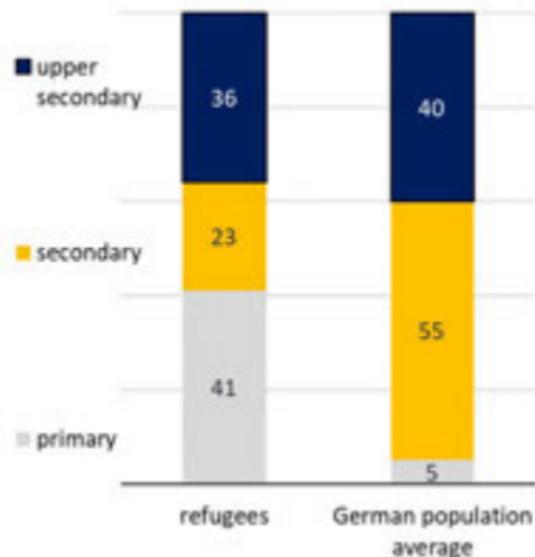


Source: Guichard, 2017.

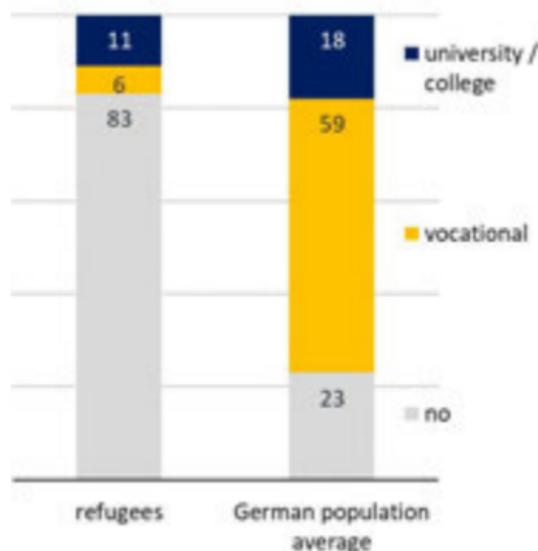
# Education gap to German population

Highest educational degree, shares in %

Schooling degrees



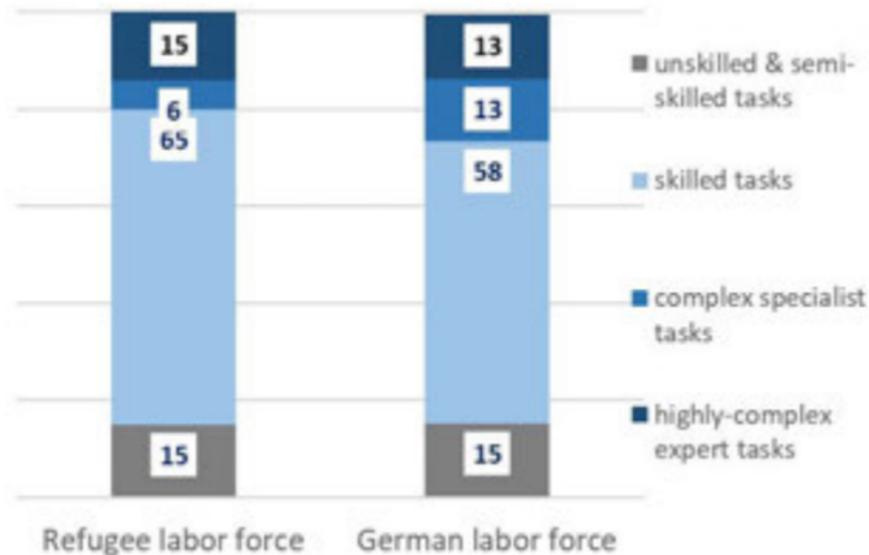
Professional degrees



Sources: IAB-BAMF-SOEP-Survey of Refugees, 2017, weighted, Microcensus, 2018.

# Pre-migration task structure of refugee labor force compared to German labor force

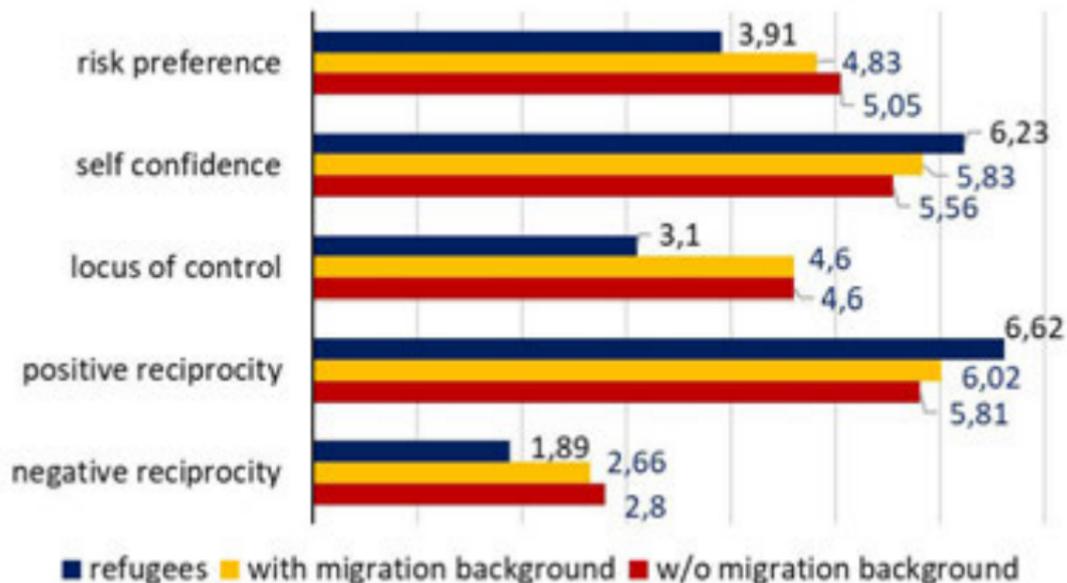
shares of task level in %



Sources: IAB-BAMF-SOEP Refugee Survey, 2017, weighted; BA Employment Statistics, 2019.

# Behavioral characteristics I

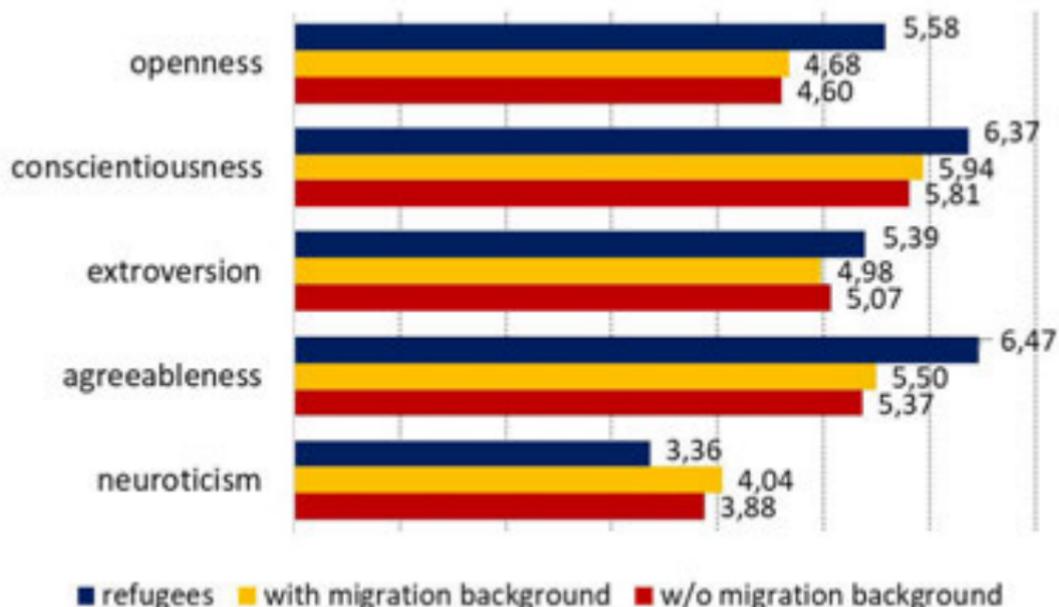
Identification with behavioral item on a scale from 0 to 10



Sources: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted; SOEP.

## Behavioral characteristics II: "Big Five"

Identification with behavioral item on a scale from 0 to 10



Sources: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted; SOEP.

# Implications for labor market integration

Although refugees have **higher education** on average compared to the **sending country population**, there is a substantial **educational gap** with respect to the host country population

But: 70 percent of the male refugees and 37 percent of the females have **work experience**. The complexity of tasks performed by the refugee labor force prior to migration **resembles** largely that of the German labor force

The **behavioral characteristics** distinguish the refugee population considerably in comparison to other population groups in Germany. Most of these behavioral characteristics of the refugee population are positively correlated with **professional status** and **wages** (Brenzel & Laible, 2017; Barrick & Mount, 1991; Salgado, 1997)

# State of labor market integration

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# Labor market disadvantages of refugees

Labor market integration of refugees takes longer than that of other immigrant groups – if employment rates converge at all (Brücker et al., 2015; Fasani & Frattini, 2016)

This is caused by various factors:

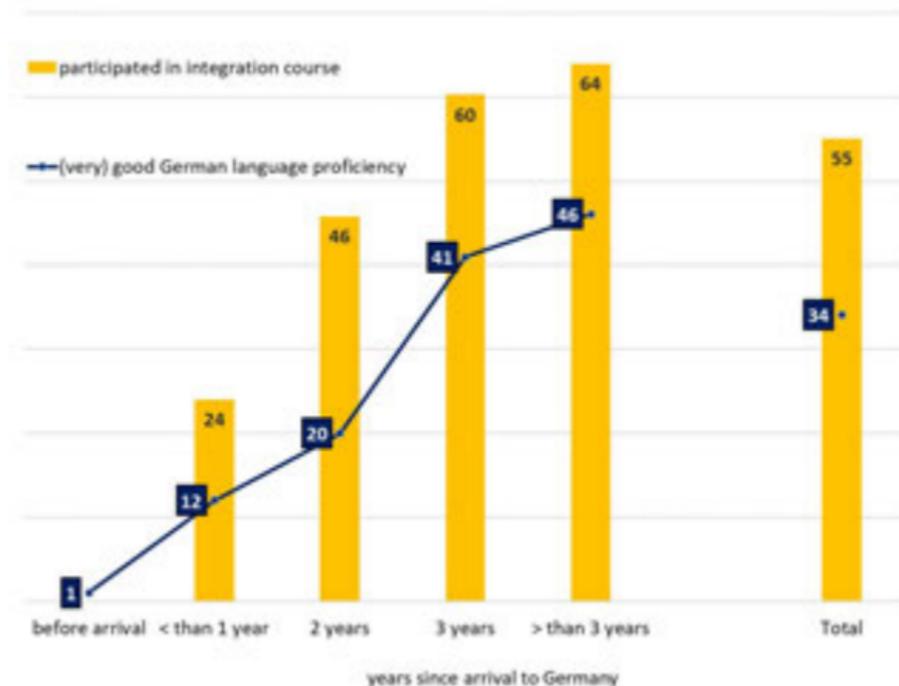
- **mismatch** between skills and abilities of refugees and labor demand in destination countries
- **poor preparation** of forced migrants
- **legal uncertainty** caused by asylum procedures and legal status
- **institutional hurdles**, employment bans and constrained labor mobility
- and many others ....

# Stylized facts on the state of integration in Germany

- 80 percent of the refugees participated in **language programs**, 50 percent in **integration courses** (Brücker et al., 2019)
- the **German language proficiency** tends to increase continuously starting from very low levels
- the **completion** of **language-** and **labor market programs** is positively correlated with employment probabilities
- the **employment rates** tend to increase **faster** compared to previous refugee immigration episodes in Germany: about **40 percent** of the working-age refugees who arrived since begin of 2015 were employed in October 2019 (BA-Statistik)
- there is a substantial **gender-gap** in employment rates

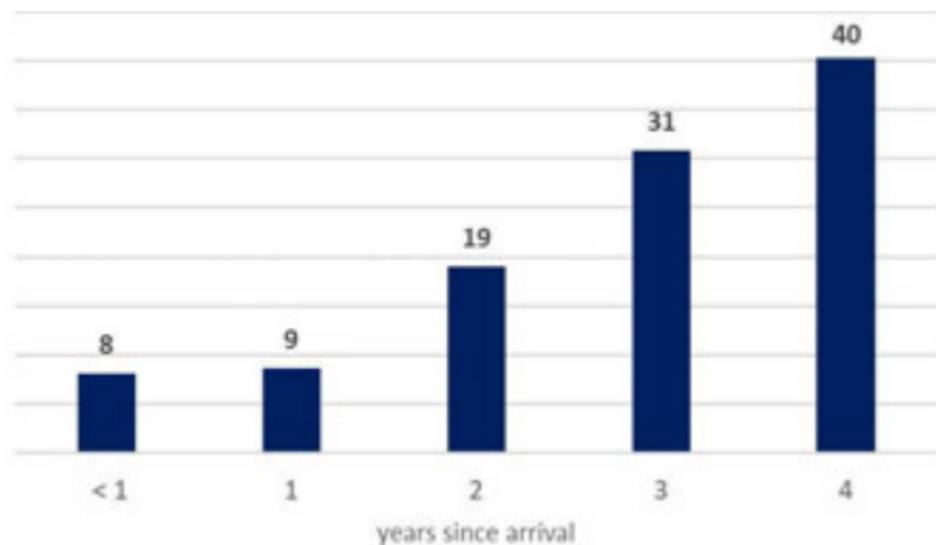
# Integration course participation and language proficiency

Shares with completed integration course and (very) good German language proficiency in %



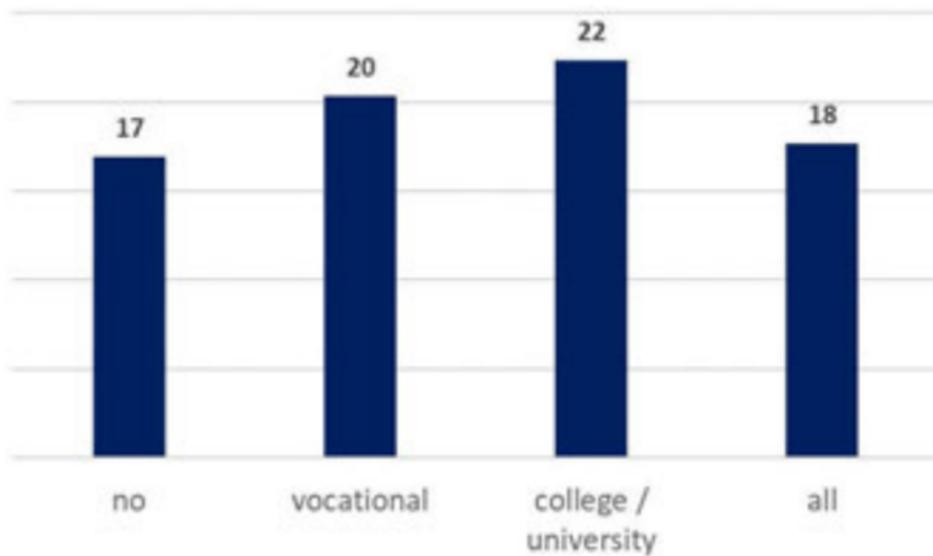
Source: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted.

## Employment rates by year since arrival, 2<sup>nd</sup> half-year 2017



Source: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted.

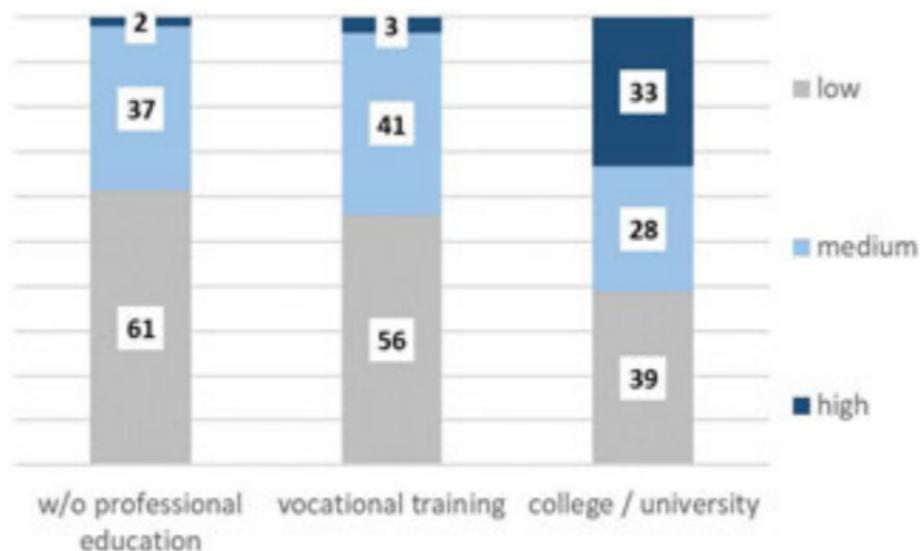
## Employment rates by skill level, 2<sup>nd</sup> half-year 2017



Source: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted.

# Skill mismatch I: education and educational requirements

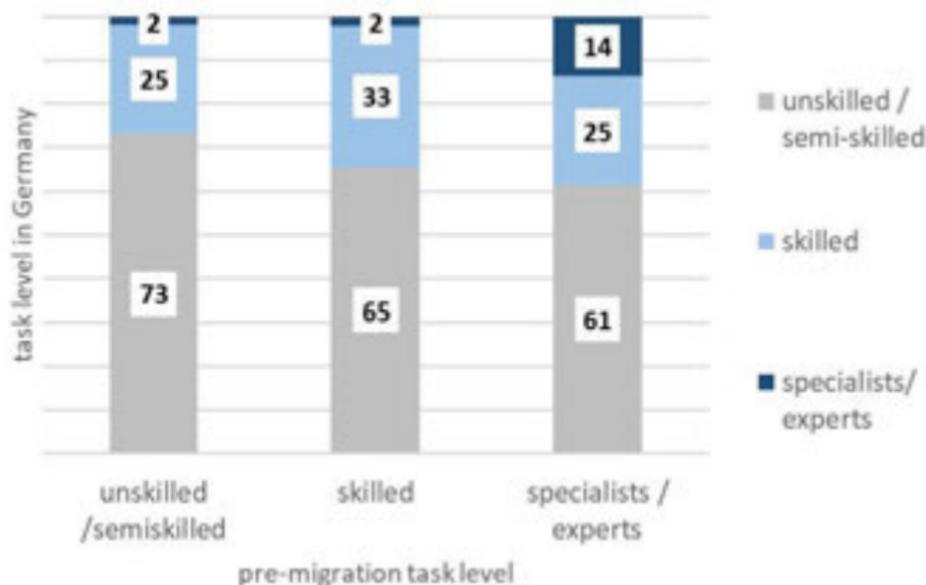
Education requirements of current job by education groups, shares in %



Source: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted.

# Skill mismatch II: current and pre-migration tasks performed

Tasks performed in current job by pre-migration task groups, shares in %



Source: IAB-BAMF-SOEP-Refugee Survey, 2017, weighted.

## Asylum policies

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Outcome and duration of asylum procedure determine ...

- ... staying prospects
- ... economic & social integration (legal restrictions & incentives).
  - e.g. devaluation of human capital, depress in working aspirations

Scant empirical evidence

- **lengthy asylum procedures** reduce employment probability (Hainmueller, Hangartner, Lawrence, 2016)
  - BUT: only approved refugees long time since arrival

# Institutional setting

BAMF "*integrated refugee management*": **three country clusters**

1. **good prospects to remain** (SYR, IRQ, IRN, ERI, SOM)
2. **safe country of origin** (West Balkan countries, GHA, SEN)
3. **others** (Dublin cases, complex cases)

Labor market access

- unlimited for approved refugees
- work permit for asylum-seekers and tolerated refugees after blocking period of 3 months

Language program access

- unlimited for approved refugees
- asylum-seekers with good prospects to remain and tolerated refugees may apply for publicly funded programs

Survival models for **transition rate to first job** and **transition rate to first (any) language program**

Sample

- labor market: 86,740 person-month observations (3,605 persons)
- language programs: 53,802 person-month observations (3,471 persons)

Explanatory variables of interest

- monthly status of asylum application (pending/ approved/ rejected)
- months in asylum procedure

## Results (relative hazard ratio)

Transition into ...	First job	First language course
<i>Duration (in months) of asylum procedure</i>	0.98***	0.98***
<i>Outcome of asylum application (Ref.: Pending)</i>		
Approved	1.27**	1.75***
Rejected	0.96	1.77***
<i>Country group of origin (Ref.: Good perspectives to remain)</i>		
Safe countries of origin	3.82***	0.61*
Other countries of origin	1.40***	0.93
<i>Language course in Germany (Ref.: Not (yet) enrolled)</i>		
Currently enrolled	0.81*	
Course completed	1.98***	
Course completed and enrolled in the next course	1.19	
<i>Entered first job</i>		0.67***
Control variables	Yes	Yes
Unobserved heterogeneity	Yes	Yes
Person observations	3,605	3,471

Significance level \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$  (two-tailed test).

# Conclusion

Lengthy asylum procedures impede *both* refugees' entry into employment & language programs

Approval of application accelerates labor market entry; decision on application accelerates language program entry

Refugees from safe countries of origin prioritize fast labor market entry

- improve staying prospects, earn money in time left

Refugees with good prospects to remain wait longer and select in better jobs

- less pressure to earn money, invest in human capital and wait for better paid jobs (can't see in regressions)

## **Dispersal policies**

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Public debate: concerns about ...

- ... ethnic ghettos & parallel societies
- ... displacement effects on labor and housing markets  
(Kürschner & Kvasnicka, 2018)

Empirical evidence: dispersal policies may harm labor market integration  
(Edin et al. 2003, 2004; Damm, 2009; Fasani et al., 2018)

- ↑ job search costs, ↓ job matching efficiency
- ↑ spatial mismatch (Aslund, Östh, Zenou, 2010)
- ↓ spatial concentration/clustering of refugees
  - valuable resources through co-ethnic networks
  - less investment in language proficiency and other country-specific human and social capital

# Institutional setting

**Initial placement policies** for asylum-seekers: *Königsteiner Schlüssel*

- annually updated, tax- and population based regional distribution

Asylum-seekers & those rejected face very **strict residency obligation** incl. travel ban ("*Residenzpflicht*", §56 Residence Act)

**Free choice of residency** after asylum approval **before Integration Act** of Aug-6-2016, but thereafter:

- **residency obligation for further 3 years even after approval**
- in several Federal States: more restrictive place-obligation even at the district- (county-) & municipality level
- exceptions for employees with at least 15 weekly working hours and 700 EUROS monthly income

Survival models for **transition rate to the first job**

Sample

- refugees approved since Jan-2015: 66,102 person-month observations (2,964 persons)

Treatment

- **geographical & temporal variation** in implementation of the law
- approval in **restrictive treatment state after reform** or up to 6 months before due to retrorespective application of obligation

## Results (relative hazard ratio)

	Model 1	Model 2	Model 3
<i>Treatment: Approved in treatment state after reform or up to 6 months before</i>	0.715**	1.046	0.560***
<i>Approved</i>	1.080	1.065	1.079
<i>Local unemployment rate (Ref.: &lt; 20th percentile)</i>			
20th – 80th percentile		0.790	
X Treatment		0.686	
> 80th percentile		0.720	
X Treatment		0.403**	
<i>Local population size (Ref.: ≤ 50th percentile)</i>			
> 50th percentile			1.044
X Treatment			1.658*
Control variables	Yes	Yes	Yes
FE for time, region, approval-date	Yes	Yes	Yes
Person-observations	2,964	2,964	2,964

Significance level \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$  (two-tailed test).

**Adverse labor market effects** of the "restrictive" small-scale, i.e., local implementation of the residency obligation for approved refugees

Evidence for perpetuation of a **spatial mismatch**. Particularly negative effects for regions (counties / municipalities) with unfavorable labor market conditions in terms of

- small labor markets (low population density) and
- high unemployment rates.

# Language programs

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**Language acquisition** is a crucial first step in successful integration of refugees

- refugees often arrive without host country's language proficiency
- early investments in language courses for refugees are necessary
- significant future economic benefits for the host society (tax contributions and lower welfare expenditures)

**Empirical evidence** suggests strong link between language skills and migrants' labor market opportunities (e.g., Bleakly and Chin, 2004; Chiswick, 1978)

- scant empirical evidence for refugees

## BAMF Integration courses

- pre-existing language training program offered by the federal office for Migration and Refugees (BAMF)
- 600 hours of instructions (general integration course), standardized curriculum
- estimated costs: 2.9 Euros per participant per hour

## BA language training program

- temporary, ad-hoc language training program administered by the federal Employment Agency (BA) to meet demand during the 2015 crisis
- 320 hours of instructions, no standardized curriculum, rapid roll-out
- estimated costs: 4.8 EUROS per participant per hour (in total 400 million EUROS)

# Empirical method

Database: **Integrated Employment Biography (IEB)**

- administrative data for all asylum-seekers arrived between Jun-2015 and Jun-2016
- male refugees, aged 18-35 at arrival

## Analysis of BA program

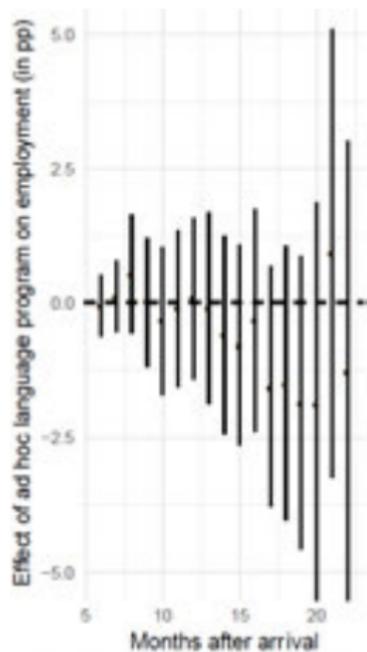
- regression discontinuity design (RDD) on employment probability
  - comparison of refugees around the cut-off date of program eligibility
- treatment = refugees from SYR, IRN, IRQ, ERI registered on or before December 31, 2015 (intention-to-treat effect)

## Analysis of BAMF program

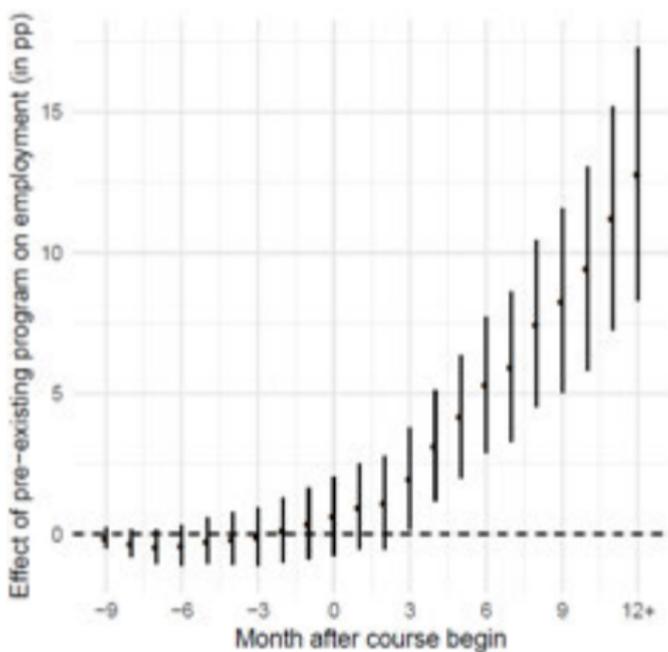
- interactive fixed-effect regression (Bai, 2009) on employment probability
- comparison of refugees enrolled into courses at different points in time

# Results: change in probability of employment in %-points

BA language program



Integration courses



**Sizable gains** in terms of higher employment rates for refugees participated in the pre-existing **comprehensive language program** ("Integration course")

**No discernible gains** for refugees eligible for the **ad hoc language program** (BA language training program)

- ad hoc program may have lacked quality and quantity of instructions necessary for sufficient German proficiency
- selection into preexisting program is more positive

# Conclusions

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# Conclusions

Overwhelming share of 1.8 million refugees has **legitim reasons for protection** → will stay in Germany

Although refugee population is **favorably selected** according to skills, socio-economic status and behavioral characteristics relative to home country population, **missing professional degrees** hamper integration into German labor market which is heavily structured by professional certificates

Nevertheless, refugee population partially is able to **transfer human capital acquired on the job** into German labor market

**Faster asylum procedures** and **secure protection status** facilitate labor market integration, same is true for **language programs** if carried out properly

In contrast, **placement restrictions** seem to **aggravate spatial mismatch** and **hinder** labor market integration